BANK AL MAGHRIB

MONETARY POLICY REPORT

N° 11 / 2009

Document prepared for
the Bank Board
June16, 2009

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بنك المغرب

LIST OF ABBREVIATIONS

BAM	:	Bank Al-Maghrib
CFG	:	Casablanca Finance Group
CNSS	:	Caisse nationale de sécurité sociale (National Social Security Fund)
CPI	:	Consumer Price Index
CUR	:	Capacity utilization rate
DH	:	Dirham
ECB	:	European Central Bank
FDI	:	Foreign direct investments
GDP	:	Gross domestic product
HCP	:	High Commission for Planning
IMF	:	International Monetary Fund
IPI	:	Import price index
IPPI	:	Industrial producer price index
MASI	:	Moroccan All Shares Index
MPR	:	Monetary Policy Report
OCP	:	Office chérifien des phosphates (Morroccan Phosphates Office)
OECD	:	Organization for Economic Cooperation and Development
ONE	:	Office national d'électricité (National Electricity Office)
OPEC	:	Organization of the Petroleum Exporting Countries
PER	:	Price Earning Ratio
SMIG	:	Salaire Minimum Interprofessionnel Garanti (minimum wage)
UCITS	:	Undertakings for collective investment in transferable securities
VA	:	Value added

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PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

Rabat, June 16, 2009

1. The Board of Bank Al-Maghrib held its quarterly meeting on Tuesday June 16, 2009.

2. At this meeting, the Board considered and approved the 2008 Annual Report on Morocco's economic, monetary and financial situation as well as on the Bank's activities in the financial year 2008, which will be presented to His Majesty the King.

3. The Board also examined recent economic, monetary and financial trends, and inflation forecasts up to the third quarter of 2010.

4. The slowdown in the growth rate of inflation continued in April, in line with the analysis and forecasts presented in the Monetary Policy Report of March 24, 2009. Indeed, year-on-year headline inflation stood at 2.6 percent in April, down from 3.6 percent in March, 3.8 percent in February and 4 percent in January. This trend is more strongly reflected by the core inflation indicator that excludes highly volatile fresh food, which reached -0.1 percent in April after a 0.2 percent increase in March.

5. The recent inflation trend shows the continued easing of world commodity prices, the decline in foreign demand for Moroccan exports in connection with the economic deterioration of our major partner countries, and to a lesser degree the slowdown in the growth rate of domestic demand. The decline in inflationary pressures, particularly those arising from import prices, also affects industrial producer prices, which fell by 17.8 percent in April, compared with 18.5 percent in March and 6.5 percent in February, after registering exceptionally high growth rates in 2008.

6. The impact of the unfavorable international economic situation is passing through to the national economy via the real transmission channels, mostly exports of goods and services, and remittances of Moroccans living abroad. The results of Bank Al-Maghrib's business survey in the industry for April confirm the downturn in demand, particularly foreign demand, which reflects the low level of the output capacity utilization rate. Against this backdrop, nonagricultural growth registered a break with the trend of the past four years, falling to 1.9 percent in the fourth quarter of 2008. It is forecasted that this growth would not exceed 2 percent in the first half of the year and would be lower than 3 percent for the whole year 2009, as against 4.2 percent in 2008 and 6.5 percent in 2007. Overall growth, according to the latest data available on the crop year, would be between 5 percent and 6 percent in 2009, a level similar to that of 2008. Nonagricultural output gap, which is more relevant for the assessment of inflationary risks, is expected to be negative for the whole year.

7. Concerning monetary conditions, the data available as of the end of April confirm the persistent deceleration in money creation. In fact, M3 aggregate grew at an annual rate of 9.2 percent, down from 10.5 percent in the last couple of quarters. The slowdown led to the continued contraction in nonfinancial agents' monetary surplus. Year-on-year growth rate of credit however remains elevated, with an 18 percent increase in April, although it has been on a decelerating trend since the third quarter of 2008.

8. Altogether, the central forecast of headline inflation and core inflation for the six coming quarters was slightly revised downwards from the previous forecast of the Monetary Policy Report of March. This mostly results from the slowdown in domestic growth, the drop in world commodity prices, and the decline of economy activity and inflation in Morocco's key partner countries. Therefore, headline inflation would remain below 3 percent over the forecast horizon. In the third quarter of 2010, it is projected to hover around 2.6 percent. Core inflation would remain moderate, at a rate below 2 percent over the forecast horizon.

9. The different risk factors suggest a significant moderation in inflationary pressures in the coming quarters, largely because of the fall in pressures coming from demand, which can subside further in the context of a stronger-than-expected deterioration of activity, and the persisting uncertainties surrounding global growth prospects. Against this background, the transmission of the decline in world prices to domestic prices is projected to continue, as the volatility of commodity prices, particularly oil, constitutes a source of uncertainty.

10. In this context marked by a downward trend in the balance of risks and an inflation forecast in line with the objective of price stability, the Board decided to keep the key rate unchanged at 3.25 percent, a level it considers appropriate in light of all data available.

11. Noting the scope and sustained nature of liquidity shortage on the money market, and taking into consideration the projections of change in liquidity factors, the Board decided to reduce the required reserve ratio by 2 percentage points, bringing it to 10 percent as of July 1, 2009.

12. The Board also examined the draft business continuity plan of the Bank, the priority actions carried out in this regard, and the schedule of the future actions.

OVERVIEW

In line with Bank Al-Maghrib's analyses and projections published in its Monetary Policy Report of the first quarter of 2009, the decline in headline inflation and more markedly in core inflation continued in the first months of the year, primarily following the continued easing of pressures from international commodity prices and the contraction in demand, especially from abroad.

Headline inflation in April slowed down to 2.6 percent, on a year-to-year basis, down from 4 percent, 3.8 percent and 3.6 percent in January, February and March, respectively. The fall in inflation is much more reflected in the core inflation indicator which fell in April to -0.1 percent for the first time in nearly twenty years, following a more sizeable decline in food staple prices. This trend is largely attributable to the drop in tradables' inflation. At the same time, industrial producer prices fell 17.8 percent in April, compared with 18.5 percent and 7.8 percent in March and February, respectively.

Internationally, the massive capital injections and central banks' historically low policy rates helped to restore stability to financial markets. This stabilization is reflected in the gaps between interbank rates and swap rates on money markets, as well as in risk premiums on private debt and CDS of emerging markets sovereign debt. However, credit markets in the main developed countries remain tight, particularly because of the persistent strains linked to banks' balance sheets and the slackened demand. At the same time, the global economy continued to shrink, as the stressed financing conditions for businesses and the declining demand continued to drag down industrial and trade activity, in both the developed countries and the emerging and developing ones. Economic recovery, which remains surrounded by many uncertainties, will mostly depend on the efficiency of monetary policy measures and a quick and high-quality implementation of the fiscal stimulus plans announced in the major countries, as well as on the normalization of credit markets.

These unfavorable international conditions passed through to the national economy through the real transmission channels, mostly exports of goods and services, and remittances of Moroccans living abroad. Against this backdrop, nonagricultural growth registered a break with the trend of the past four years, falling to 1.9 percent in the fourth quarter of 2008. It would not exceed 2 percent in the first half-year and would be between 2 percent and 3 percent for the whole year 2009, compared with 4.1 percent in 2008 and 6 percent in 2007. Overall growth forecasts, outlined in the Monetary Policy Report of March 2009, were slightly revised downward, in light of the latest data available on the crop year. On the back of a cereal production that is expected to reach nearly 100 million quintals, according to the bank's latest estimates, the agricultural value added would grow by about 20 percent, from 16 percent in 2008. As a consequence, GDP would expand between 5 percent and 6 percent in 2009, a rate similar to that registered in 2008. Against this background, the overall output gap remains positive and would continue to trend upward. Nonagricultural output gap, which is more relevant for the assessment of inflationary risks, is expected to be negative for the whole year.

The results of Bank Al-Maghrib's business survey in the industry for April also show the weakening of demand, particularly foreign demand, which is reflected in the low output capacity utilization rate, despite the slight rebound expressed by corporate managers. First-quarter employment data indicate stabilization in the unemployment rate, contrary to the past trends in which there was a negative correlation between the urban unemployment rate and nonagricultural GDP growth.

Concerning monetary conditions, the latest figures available confirm the persistent deceleration in money creation. M3 aggregate grew at annual rate of 9.2 percent in April, down from 12.4 percent in the third quarter of 2008 and 10.5 percent in the last couple of quarters. The slowdown led to the continued contraction in nonfinancial agents' monetary surplus. However, the growth rate of bank loans remains elevated, at 18 percent in April on a year-to-year basis. As to lending rates, the findings of BAM survey for the first quarter of 2009 show an increase in the weighted average rate, mainly driven by cash advances.

Altogether, the analysis of the different risk factors confirms the appreciable moderation of inflationary pressures in the coming quarters. The central forecast of both headline inflation and core inflation for the six coming quarters was slightly revised downward compared with the MPR of March 2009. This is largely attributable to the slowdown in economic activity, the decline of international commodity prices and the fall of inflation in Morocco's major partner countries. Therefore, headline inflation would remain below 3 percent over the forecast horizon, with a central forecast of about 2.4 percent. At the end of the forecast horizon (the third quarter of 2010), it is expected to hover around 2.6 percent. For the whole year 2009, headline inflation would average 2.8 percent, instead of the 2.6 percent rate published in the previous MPR, which represents a gap of 0.2 percent due to the temporary increase in fresh food prices in the first quarter. Core inflation would remain moderate, at a rate below 2 percent over the forecast horizon.

Risks to the central forecast remain tilted to the downside. Externally, the important and successive downward revisions of global growth outlook and the still persisting considerable uncertainties would maintain downside risks longer than expected. The current transmission of the fall in international prices to domestic prices would continue, as indicated by the forecast trend of import prices, industrial producer prices and tradables' prices. On the longer run, the volatility of commodity prices, particularly oil, and the risks associated with speculation on these markets constitute a significant source of uncertainty. Internal risk factors are also skewed to the downside, mainly because of the fall in demand-driven pressure which may subside further in the context of a worse-than-expected economic deterioration.

1. AGGREGATE SUPPLY AND DEMAND

In the fourth quarter of 2008, economic growth sharply slowed down to 3.1 percent, mainly owing to the deceleration in nonagricultural activity, the growth of which did not exceed 1.9 percent compared with an average of 5.5 percent in the first three quarters of the year. In 2009, economic growth is projected to be between 5 percent and 6 percent, a trend similar to that of 2008. This expansion is attributable to the pickup in the agricultural activity, on the back of exceptional rainfall, which grew by more than 20 percent, compared with 16 percent the year before. However, nonagricultural activity would expand between 2 percent to 3 percent, a rate considerably below the average of the 2004-2008 period, which mainly reflects the real repercussions of the global crisis, particularly on the sectors most dependent on foreign demand. Domestic demand, the main engine of growth, would remain bolstered by investment and household final consumption which is expected to slow down somewhat. The contribution of foreign demand would be negative for the third year in a row, albeit at a lesser degree following the decline in imports.

1.1 Output

In an international economic context marked by large-scale effects of the crisis, national growth in 2009 would stand at nearly 5.6 percent owing to an increase by more than 20 percent in the agricultural value added, whereas that of the nonagricultural value added would grow by a mere 2.3 percent, a record low in the past six years.

The growth rate in the nonagricultural value added did not exceed 1.9 percent[1] in the fourth quarter of 2008, compared with an average 5.5 percent over the first three quarters. The contraction in the secondary sector and the moderate growth in tertiary activities would continue in the first half of 2009, owing to increasingly deteriorating international economic conditions (see section 3), dragging down the average growth in the nonagricultural value added to 1.7 percent.

In the agricultural sector, the 2008-2009 crop year was marked by exceptional weather conditions which resulted in a rainfall surplus in all farming regions. Cultivated areas for all crops expanded compared with the previous year, except for sugar beet which declined as the heavy rains made it difficult to access the fields during the planting period. Against this background, fall cereal production is at record high, seemingly up 96 percent from the previous crop year. According to the estimates of Bank Al-Maghrib, cereal production is projected to reach 100 million quintals (see Box 1.1). Cereal sales from June 2008 to April 2009 totaled 13.7 million quintals, up 163 percent from the same period of the previous

Table 1.1: Year-on-year growth of quarterly GDP at 1998 chained prices per major activity sectors

	2008			2009		
Activity sectors	QII	QIII	QIV	QI	QII(P)	QIII(P)
Agriculture	10.9	11.2	10.4	11.9	19.9	25.7
Nonagricultural value added	**6.5**	**5.8**	**4.3**	**1.9**	**1.6**	**1.7**
Fishing	44.7	-16.5	17.4	29.8	-12.3	-3.8
Mining industry	2.6	-1.8	-2.9	-17.9	-19.8	-15.2
Industry (excluding oil (refining	5.3	4.3	2.7	-4.1	-3.1	-2.5
Oil refining and other energy products	23.1	-0.4	-7.7	-4.2	-6.3	-6.1
Electricity and water	6.6	6.3	-0.1	0.4	-1.1	-1.2
Building and public works	10.3	10.6	9.4	4.8	4.6	4.8
Trade	5.1	5.3	2.9	0.0	1.0	1.4
Hotels and restaurants	-1.8	-1.7	-3.3	-3.9	-4.8	-3.4
Transportation	6.2	4.2	3.6	1.4	2.3	2.8
Post and telecommunications	11.0	13.6	9.0	5.0	5.6	5.9
Financial activities and insurance	20.2	19.4	17.6	15.8	14.6	14.7
Services to businesses and private individuals	6.8	6.2	5.1	3.3	4.2	4.0
General government and social security	5.7	6.3	5.4	4.1	3.9	4.0
Education, health and social action	4.5	5.3	4.3	8.5	8.4	7.1
VA at basis price	**7.1**	**6.6**	**5.1**	**2.7**	**4.2**	**5.2**
Taxes on products net of subsidies	6.6	4.9	5.9	3.7	2.3	2.5
Gross domestic product	**7.0**	**6.5**	**5.4**	**3.1**	**4.7**	**5.9**

Sources: HCP, and BAM forecasts

1 Growth rates presented in this chapter are calculated on a year-to-year basis, unless otherwise indicated.

harvest year, which occasioned an 18 percent contraction in imports that were about 52 million quintals. The other vegetable productions would also increase in volume. Vegetational cover, which is advantageous for the breeding activity, is in a good condition on the back of the abundant and regular rainfalls that helped to improve vegetation in non-irrigated areas.

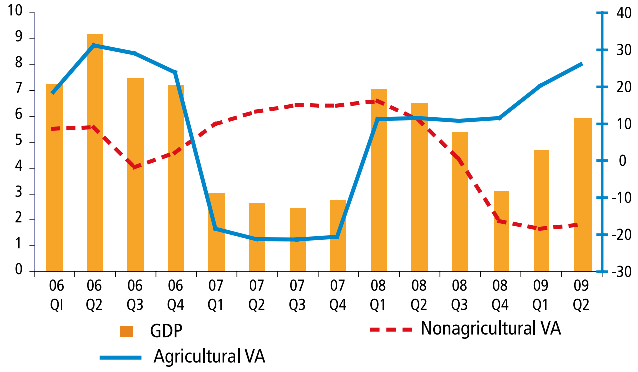
Marine fisheries activity was impacted by the weakness of inshore and artisanal fish catches, which recorded as at end of April 2009 a 9 percent decline in volume. It also lost 23 percent in value, due to a drop by almost 40 percent in the price of octopus, which represents more than 30 percent of the total value.

In the fourth quarter of 2008, the contribution of the secondary sector to the growth in the overall value added was negative, a trend that would continue through the first half of 2009. The sector's value added is expected to decline by 2.8 percent and 2 percent in the first and second quarters of 2009, respectively, after a 3.1 percent drop in the fourth quarter of 2008.

The contraction in the extractive activity, which began in the second quarter of 2008, is projected to continue during the first and second quarters of 2009. This trend is evidenced by the 84 percent decline in the saleable output of the OCP as at end of February, as well as by the fall in the volume of phosphates and phosphoric acid exports by 66.1 percent and 28.9 percent, respectively, as at end April.

Following a gradual deceleration in the first three quarters of 2008, growth in the value added of the processing industry fell by 4.1 percent in the fourth quarter, and is expected to decline by 3.1 percent and 2.5 percent in the first and second quarters of 2009, respectively. The findings of BAM business survey of April reveal that industrial output recorded a drop, after increasing in March, and that the orders remained unusually low, whereas the stocks of finished products were above their usual levels. Under the moderating effect of the rise in domestic sales, overall sales increased in all subsectors, with the exception of textile and leather industries as well as electrical and electronic industries, which are more reliant on the change in foreign demand.

Chart 1.1: Year-on-year quarterly percent change in gross domestic product, and in agricultural and nonagricultural value added, in %



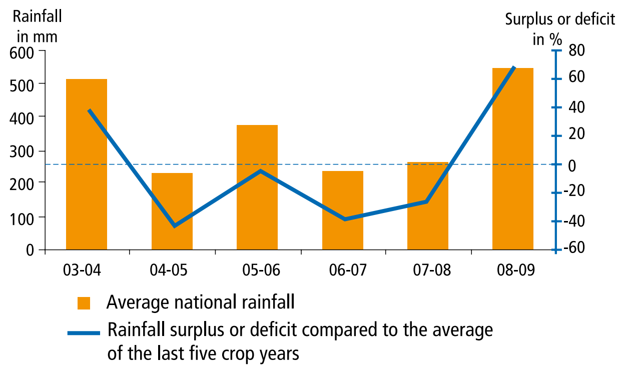
Sources: HCP, BAM forecasts

Table 1.2 : Preliminary results of the 2008-2009 crop year

	Crop year 2007-2008			Crop year 2008-2009		
	Surface (1,000,000 q)	Output (1,00q)	Yield q / ha	Surface (1,000,000 q)	Output (1,00q)	Surface q / ha
Main fall cereals	5.0	51.2	10.2	5.1	102.0	20
Soft wheat	1.9	25.3	13.1	2.0	45.0	22.5
Durum wheat	0.9	12.4	13.4	1.0	20.0	20.8
Barley	2.2	13.5	6.2	2.2	37.0	16.8

Source: Ministry of Agriculture, Rural Development and Marine Fisheries

Chart 1.2: Change in rainfall from September 1st 2008 to end of May 2009



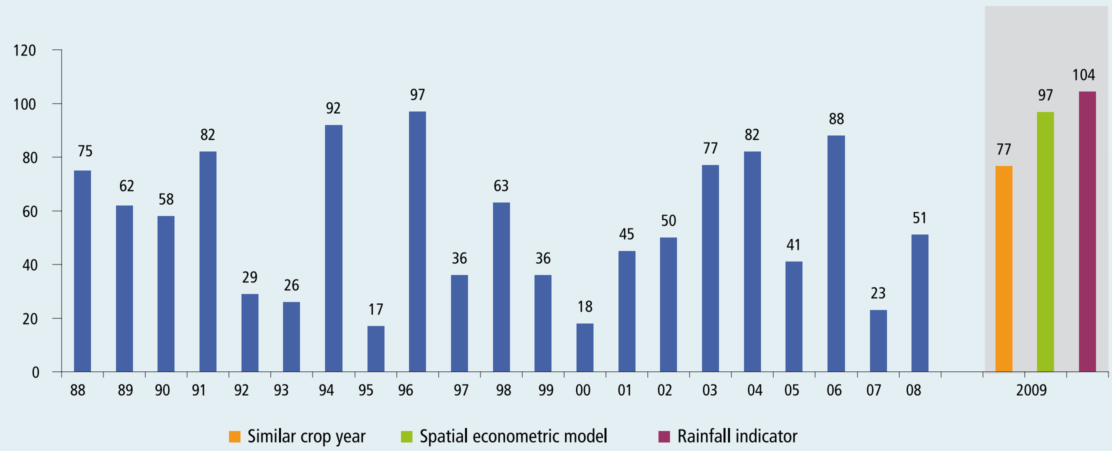
Source: Ministry of Agriculture, Rural Development and Marine Fisheries, and BAM calculations

Box 1.1: Cereal production forecast

As part of the efforts exerted to improve the framework of growth forecasting, Bank Al-Maghrib has put in place a mechanism for projecting cereal production that consists of three tools: an econometric spatial model, a model of detecting similar crop years, and a method based on a rainfall indicator (see MPR of March 2009).

The application of these instruments to rainfall data recorded as at the end of May 2009 shows an estimated production of 77 million quintals for the similar crop-year detection method, 97 million quintals for the econometric spatial model, and 104 million quintals for the rainfall indicator model. Given the exceptional performance of the current crop year, the application of the first method runs into the problem of finding similar years, particularly in some regions.

Chart B 1.1: Cereal production trend and forecasts (in millions of quintals)



Sources: Ministry of Agriculture, Rural Development and Marine Fisheries, and BAM forecasts

In fact, crop years considered as similar are detected as such based on monthly rainfall distribution but are substantially different from the current crop year in terms of quantities recorded. The integration of observations relating to April and May suggested the exclusion of the scenario resulting from the similar crop-year method, as these observations confirmed the exceptional nature of the current year.

On the basis of the consensus built between the conclusions of the spatial econometric model and the rainfall indicator, cereal production would reach 100 million quintals, up 97 percent from the previous crop year and 76 percent from the average of the past five years.

By type of cereal, soft wheat, durum wheat and barley harvests are expected to grow by 77 percent, 66 percent and 134 percent, respectively, compared with the previous year, and 66 percent, 51 percent and 86 percent from the average of the past five years.

All cereal-producing regions are projected to record strong growth rates in the production of the three cereals according to the results of the forecast system.

In the first half of 2009, the growth rate of the value added of energy-related sectors would fall by 1.3 percent, dragged down by a decrease in the value added of the oil refining industry and the "electricity and water" industry. Both trends are respectively evidenced in the decline, during the first quarter, by 32 percent in the SAMIR production and 1.2 percent in the overall sale of the National Electricity Office (ONE).

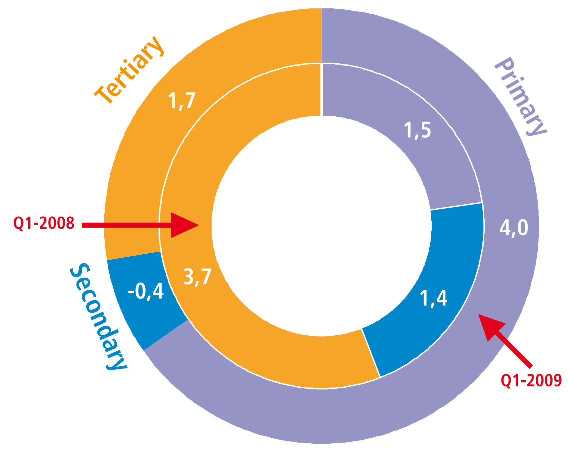
The value added of the building and public works sector slowed down markedly in the fourth quarter of 2008 and would grow by a mere 4.7 percent in the first half of 2009, down from 10.4 percent a year earlier. Cement sales, totaling about 1,332 thousand tons in April 2009, increased by 8.8 percent from March, but remain almost stable compared with the previous year. Due to the abundant rainfalls in the first four quarters of the year and truckers' one-week strike in April, year-to-date sales of cement decreased by 1.7 percent to 4,769 thousand tons.

The tertiary sector is expected to continue to grow at a moderate pace during the first half of 2009 compared with the trend recorded in the past year, with a 3.7 percent increase from 6.4 percent. The contraction in market services, in particular, is attributable to the negative performance of the "hotel and restaurant" sector, as well as to the slowdown in the sectors of post and telecommunication, trade, and transportation.

Notwithstanding the 10 percent increase in the tourist flow as at end April 2009, the other indicators of the sector were down. Overnight stays in classified hotels fell by 3 percent compared with 7 percent a year earlier. This reflects both a 5 percent drop in nonresidents' overnight stays and a 5 percent increase in overnight stays by Moroccans. Also, the occupancy rate fell from 44 percent to 41 percent. As a consequence, travel receipts reached 13.3 billion dirhams, down from 16.3 billion in 2007.

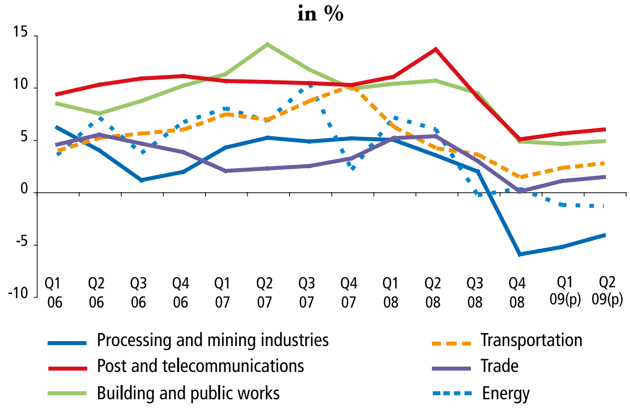
The transportation sector is also projected to slow down in the first half of the year. Air transportation has registered a decline of 2.8 percent in the total number of passengers at the end of first quarter. Overall, the value added of the sector would grow by 2.3 percent in the first quarter. In the second

Chart 1.3: Contribution of primary, secondary and tertiary sectors to overall VA growth, in percentage points



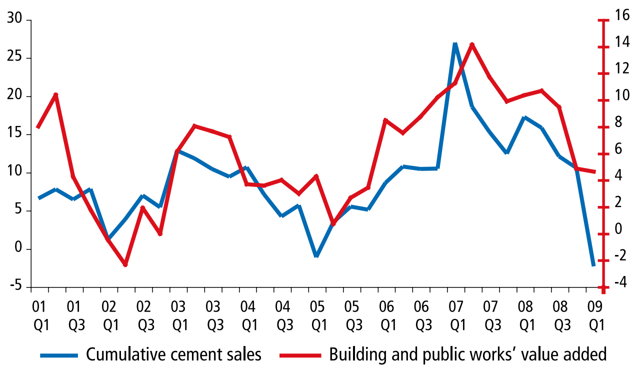
Sources: HCP, BAM forecasts and calculations

Chart 1.4: Year-on-year percent change in value added, in %



Sources: HCP, BAM forecasts

Chart 1.5: Year-on-year change in building and public works' value added and in cumulative quarterly cement sales (in %)

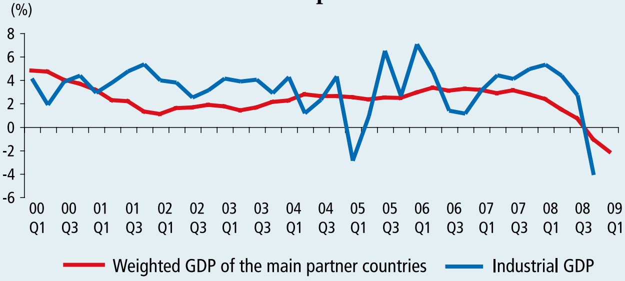


Sources: HCP, BAM forecasts

Box 1.2: Change in the main industrial sectors hit by the crisis

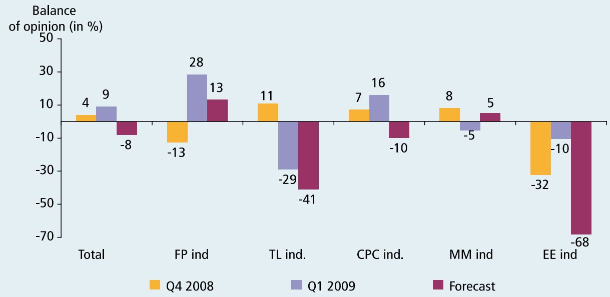
The industrial sector evolves in a global context marked by an economic recession that has hit most industrialized countries, particularly Morocco's main partners. As a consequence, the domestic industrial activity deteriorated substantially in the fourth quarter, following the slump in foreign demand. This trend reversal mainly results from the downturn in the textile and leather industry and the automobile industry. This contraction continued through April 2009, according to the findings of the last monthly business survey of Bank Al-Maghrib.

Chart B 2.1: Change in industrial GDP and the weighted GDP of the main partner countries



Sources: HCP, Eurostat, and BAM calculations

Chart B 2.2: Past and projected sectoral production



Ind.: Industries, FP: food-processing, TL: textile and leather, CPC: chemical and para-chemical,MM: mechanical and metal, EE: Electrical and electronic.
Source: BAM business survey.

Textile and leather industries

The textile and leather sector, which contributes 10 percent to the industrial production and 44 percent to the total industrial employment, is the sector that has most suffered from recession, as it exports 47 percent of its production. As at end April 2009, its exports fell 3 percent compared with the same period of last year, following the rebound recorded in April. This downward trend is expected to continue against the backdrop of deteriorated global economic conditions.

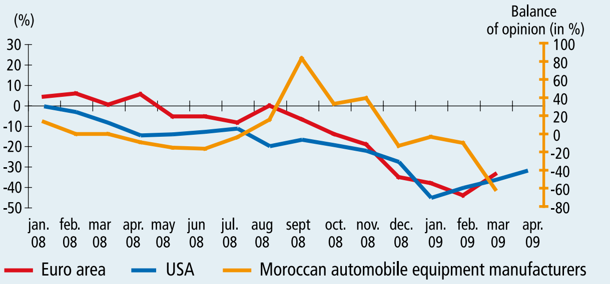
Chart B 2.3: Opinion of Moroccan corporate managers in textile, leather and clothing industry

Sources: INSEE, and BAM business survey

Automobile industries

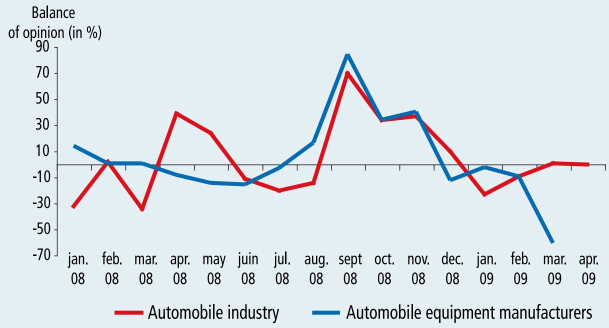
The decline in production, the factory shutdowns, and the significant layoffs announced by most car manufacturers in the world negatively impacted the production and exportation of automobile components manufactured in Morocco. In fact, domestic automobile equipment manufacturers adapted to this situation by reducing work time and/or the number of employees. However, the activity of Moroccan automobile equipment manufacturers intended for the domestic market holds up well, as sales of domestically manufactured vehicles grew by 11.5 percent compared with 2007.

Chart B 2.4: Opinion of Moroccan automobile equipment manufacturers on output and the change in the automobile industry index in Europe and the United States



Sources: Datastream, and BAM business survey.

Chart B 2.5: Industrial output capacity utilization rate



Sources: BAM business survey.

quarter, it would increase by 2.8 percent, pushed up by the positive trend in agricultural activities despite the truckers' strike in April.

Activity in the post and telecommunication sector would continue on the downward trend that began in the third quarter of 2008, with a 5.6 growth in the first quarter of 2009, down from 11 percent a year earlier. The number of mobile and fixed-line subscribers rose 14.1 percent in the first quarter of 2009, whereas that of internet subscribers increased 43.4 percent to 834,643.

1.2 Consumption

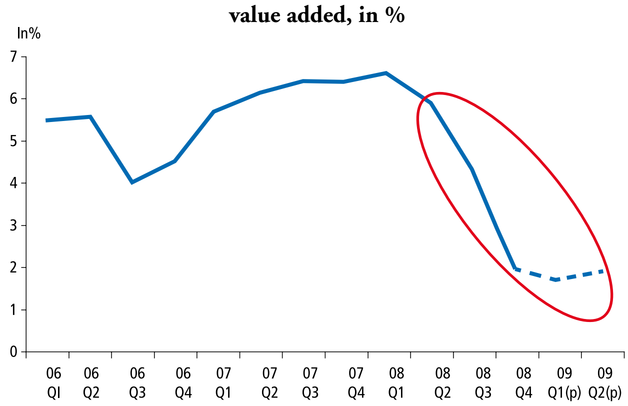
Domestic final consumption was the engine of overall growth at the end of 2008. Its contribution to growth was about 6.4 percentage points, mostly because of the increase of 14.9 percent in household final consumption and 5.4 percent in general government final consumption. In real terms, they grew by 9.4 percent and 4.8 percent, respectively.

Moreover, data of 2009 first quarter suggest that household consumption continued on the deceleration that began in the third quarter of 2008, largely due to the contraction in transfers by Moroccans living abroad and tourist revenues. This trend is evidenced by the stagnation, as at end April, in the imports of finished consumer goods, after a 16.1 percent increase in the year before.

General government consumption registered during the first four months of the year a 9.8 percent increase in operating expenditures, owing to a rise by 8.6 percent in personnel expenditures and 11.8 percent in other expenses of goods and services.

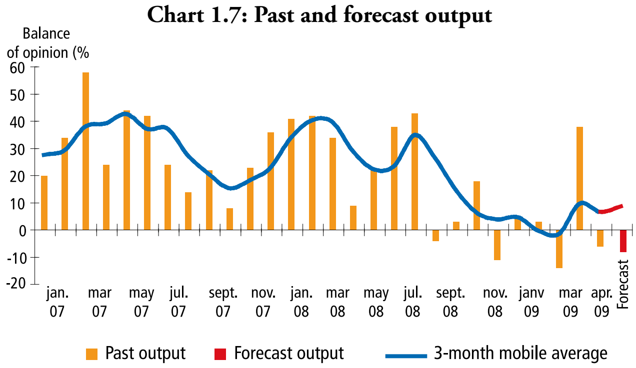
Altogether, growth in domestic final consumption would slow down to about 8.3 percent in 2009 in nominal terms. However, it would continue to stimulate overall growth. Notwithstanding an unfavorable economic environment, household final consumption is projected to increase 9.1 percent, on the back of higher revenues from agricultural activities and the efforts exerted by the Government to preserve the purchasing power, by reducing income tax and increasing

Chart 1.6: Year-on-year change in quarterly nonagricultural value added, in %



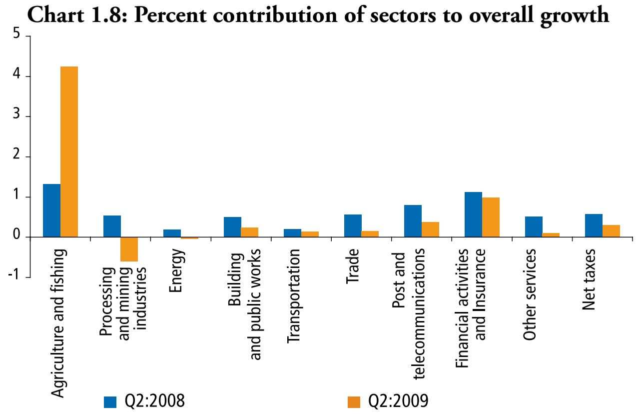
Sources: HCP, and BAM forecasts

Chart 1.7: Past and forecast output



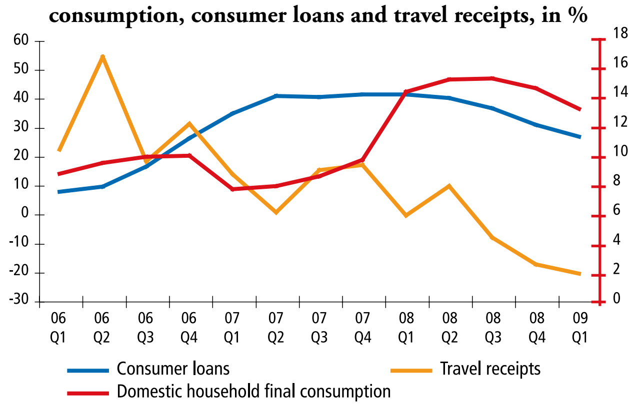
Sources: BAM monthly business survey in the industry

Chart 1.8: Percent contribution of sectors to overall growth



Sources: HCP, BAM calculations and estimates

Chart 1.9: Year-on-year quarterly growth of household final consumption, consumer loans and travel receipts, in %



Sources: HCP, Foreign Exchange Office, and BAM calculations and forecasts wages. General government final consumption would increase by nearly 5.5 percent.

1.3 Investment

In 2008, investment increased appreciably due to public and private investments. In nominal terms, it would grow by 25 percent.

In 2009, this growth rate is expected to subside, at the same time as the deceleration in private investment. Nominal gross fixed capital formation would increase by 11.5 percent, compared with 18.3 percent a year earlier. The slowdown in investment is evidenced by the stagnation in the imports of finished capital goods.

BAM business survey of the first quarter of 2009 shows an unfavorable perception of business climate. Indeed, investment edged down in all sectors, except the food-processing industries and the electrical and electronic industries, the managers of which revealed a growth and a stability in investments, respectively. On the short run, they expect this downtrend to continue.

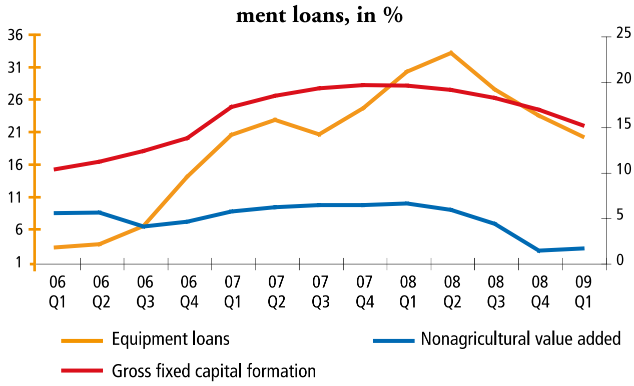
Concerning foreign direct investments (FDI), preliminary figures of the balance of payments for 2008 show a decline of 28.7 percent. The most hit sectors are tourism, energy and mining, and industry. However, foreign investments in the real estate sector grew by 17.6 percent. The latest data available as at end April 2009 show a 26.3 percent decrease in FDI.

In the public sector, Treasury capital expenditure inched up to 19.1 billion dirhams as at end April, up 20.3 percent compared with the same period of last year. These expenses may increase following the reallocation of subsidization expenditures which were executed only up to 6.4 percent of the total amount allocated to the whole year.

1.4 Foreign trade

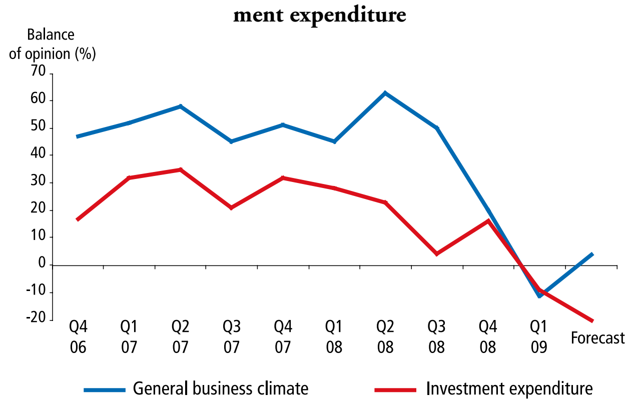
In 2008, the contribution of foreign trade to overall growth was negative for the second year in a row, at 5.3 percentage points. This trend is expected to continue in 2009, albeit at a lesser pace.

Chart 1.10: Year-on-year quarterly growth of gross fixed capital formation, nonagricultural value added, and equipment loans, in %



Sources: HCP, Foreign Exchange Office, and BAM forecasts and calculations

Chart 1.11: Change in the general business climate and investment expenditure



Source: BAM business survey in the industry

At the end of the first four months of the year, trade balance turned negative at 46.7 billion dirhams, narrowing by 6.5 percent compared with a 38.1 percent widening in the same period of last year. This trend is attributable to a 30.7 percent decline in the value of exports, compared with a mere 18.8 percent drop in imports. As a consequence, coverage ratio fell from 51.2 percent to 43.7 percent.

The contraction in exports is due to the decrease in sales of phosphates and derivatives by 61.6 percent in value and volume. It also reflects a 19.7 percent decline in non-phosphate exports, which were impacted by the slump in foreign demand. Accordingly, exports of electrical and electronic equipment, especially electricity wires and cables, fell markedly. Similarly, foreign sales of textile and leather products were down, though at a lesser rate than previous months as exports of ready-made garments improved in April.

At the same time, figures of the Independent Authority for Export Control and Coordination, as at May 24, 2009, show that exports of citrus fruit, which have trended downward since November 2008, totaled 469,145 tons, down 15 percent, whereas those of early vegetables stabilized at 700,582 tons.

As the slowdown in world economy is expected to lessen as of the second half of 2009, the decrease in foreign demand for Moroccan exports would be less rapid and thus slow down the pace of decline in exports.

At the same time, the drop in imports is mostly attributable to the fall in purchases of energy products and food products, particularly wheat.

The reduction of the energy bill by 36.4 percent largely reflects a decline of 64 percent in the value of oil imports and 27.9 percent in their volume. The price of the imported ton averaged 2642 dirhams a ton in the first four months of the year, down from 5292 dirhams a ton in the same period of last year. Other imports fell 14.1 percent, because of the decline in purchases of semifinished products as a result of the contraction in industrial activity. Purchases of food products were also down mainly because of the deceleration in wheat imports as a result of the good performance of the 2008-2009 harvest year. Similarly, imports of crude products decreased due to the fall in purchases of sulfur in connection with the decline in the domestic production of phosphate derivatives.

Table 1.3 : Year-on-year growth of the trade balance between January and April 2009

	J-A	J-A *	Change	
(In millions of dirhams)	2008	2009	Amount	%
Total exports	**52 370.1**	**36 314.7**	**-16 055.4**	**-30.7**
Phosphate and derivatives' exports	13 705.2	5 263.7	-8 441.5	-61.6
Exports excluding phosphates and derivatives	**38 664.9**	**31 051.0**	**-7 613.9**	**-19.7**
Ready-made garments	6 711.0	6 788.6	+77.6	+1.2
Hosiery items	2 326.5	2 300.4	-26.1	-1.1
Citrus fruit	1 733.9	1 236.0	-497.9	-28.7
Total imports	**102 349.9**	**83 063.9**	**-19 286.0**	**-18.8**
Energy products' imports	21 623.6	13 746.1	-7 877.5	-36.4
Non-energy products' imports	80 726.3	69 317.8	-11 408.5	-14.1
Food products	12 287.1	9 164.1	-3 123.0	-25.4
Wheat	6 084.5	2 725.0	-3 359.5	-55.2
Capital goods	22 720.3	22 674.8	-45.5	-0.2
Consumer goods	16 752.7	16 719.0	-33.7	-0.2
Trade balance	**-49 979.8**	**-46 749.2**	**+3 230.6**	**+6.5**

** Provisional data*
Source: Foreign Exchange Office

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

According to BAM estimates, the overall output gap was positive in the first quarter of 2009, on the back of a better harvest from one year to the next. Nonetheless, the nonagricultural output gap, more correlated with inflation, has been negative since the fourth quarter of 2008, dragged down by the contraction in demand, particularly from our main trade partners. Output capacity utilization rate stood at the average level observed since the start of the monthly business survey of Bank Al-Maghrib, despite a slight rebound in April. In the labor market, the national unemployment rate remained stable in the first quarter of 2009, compared with the same period of previous year. However, urban unemployment rate decreased by 0.6 percentage point in the first quarter of 2009, thus reversing with the trend that was negatively correlated with the slowdown in nonagricultural activity. Rural unemployment rate recorded an upward trend despite the improvement in agricultural activity. The sectors of building and public works and services remain the major job suppliers, while the industrial sector observed net job losses, due to exports' contraction. Available wage indicators point to a decrease in real private sector wages over the first and second quarters of 2009. Altogether, all these indicators suggest the continued moderation of demand-driven pressure on prices in the coming quarters.

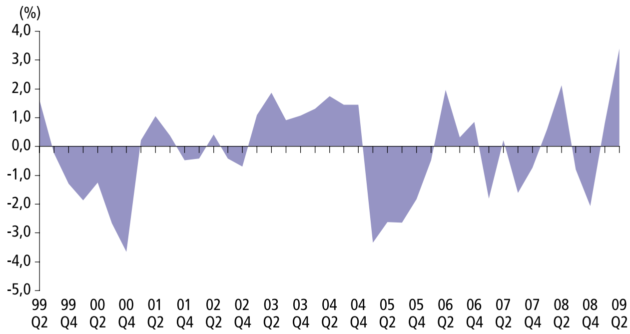
2.1 Pressures on output capacity

Reflecting the effects of the good crop year 2008/2009, the overall output gap, which was positive in the first quarter of 2009, is expected, according to the last BAM forecasts (see Chapter 1), to increase further in the second and third quarters of 2009.

As a result of the recession observed in the main European partner countries, the nonagricultural output gap has been generally negative since the fourth quarter of 2008, while being well below the level registered in the same quarters of the previous year. Weighted output gap of the main trade partners, which seems to considerably impact the national economic conditions (chart 2.2), is expected to remain negative during the next quarters (see chapters 1 and 3), thus indicating the continuing deceleration of the national nonagricultural economic activity.

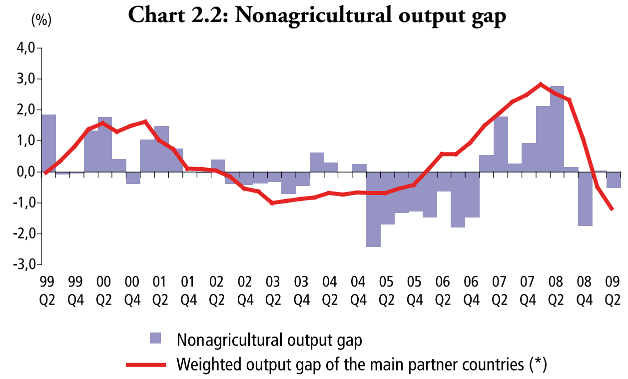
The results of BAM monthly business survey in the industry show a decline in the output capacity utilization rate by three percentage points at the first quarter of 2009, to stand at 65 percent, its lowest level ever. This rate rose by one percentage point in April, compared to March, while remaining largely below its trend observed since the start of BAM monthly business survey. At the sectoral level, output capacity utilization rate dropped by 2 percentage points in textile and leather industries and in electric and electronic ones, and by one percentage point in mechanical and metallurgical industries, mainly as a result of the exports' contraction. However, the CUR stagnated in the food

Chart 2.1: Overall output gap



Sources: HCP, BAM estimates

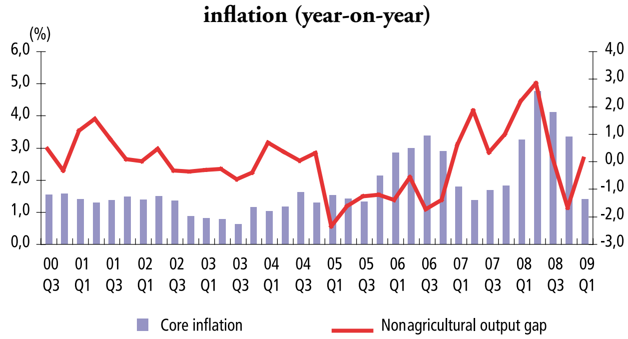
Chart 2.2: Nonagricultural output gap



Sources: HCP, BAM estimates

(1) Calculated on the basis of the GDP of Morocco's first five partners weighted by their respective shares in Morocco's overall exports (see Chapter 6)

Chart 2.3: Nonagricultural output gap and core inflation (year-on-year)



Sources: HCP, BAM estimates

processing industries and increased in chemical and parachemical industries, compared with March 2009.

Apparent labor productivity in nonagricultural activities registered a decline in the first quarter of 2009, to reach 111.4. This trend is attributable to the rise in urban employment, at a faster pace than that of nonagricultural GDP estimated by BAM for the first quarter of 2009.

Based on the results of BAM business survey, the unit production cost increased in the first quarter of 2009 compared to the previous quarter, with a positive balance of opinion at 7 percent. In terms of components, energy and financial costs rose with a balance of opinion of 39 percent and 29 percent respectively, followed by wages and costs of non-energy commodities, whose balance of opinion reached 16 percent and 12 percent, respectively.

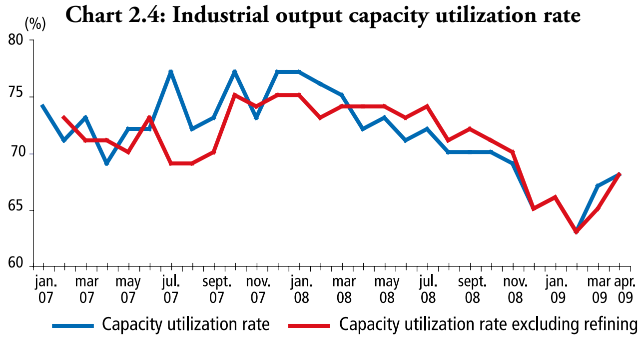
At the sectoral level, financial and energy costs constituted the main sources of increase in the unit production costs, especially in textile and leather industries and in chemical, parachemical, mechanical and metallurgical industries. In the electric and electronic industries, the level of wages and energy costs were the two key factors.

2.2 Pressures on labor market

In the first quarter of 2009, labor force numbered around 11.32 million persons, increasing slightly from the same period of 2008, both in the urban and rural areas. This trend led to a decrease in labor force participation rate by around 0.7 percentage point on a year-to-year basis to reach 50.3 percent.

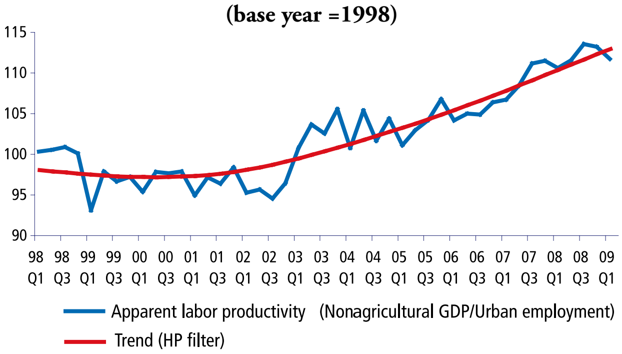
In the first quarter of 2009, employed labor force rose by 0.3 percent to about 10.23 million persons. In contrast, the employment rate dropped by 0.7 percentage point to 45.4 percent, as the growth rate in jobs was slightly below that of labor force aged 15 years and over. Per place of residence, employment rate decreased in both urban and rural areas.

Chart 2.4: Industrial output capacity utilization rate



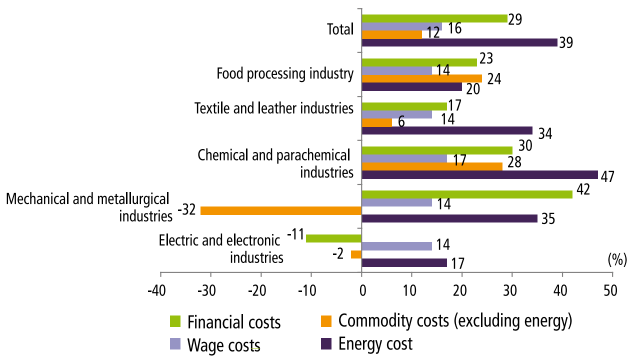
Source: BAM monthly business survey

Chart 2.5: Apparent labor productivity (base year =1998)



Sources : HCP, and BAM estimates

Chart 2.6: Change in unit production cost components per sector(balances of opinion in %, in Q 1 of 2009)



Source: BAM monthly business survey

Against this background, the first quarter of 2009 was marked by a stabilization of the overall unemployment rate at 9.6 percent. Nonetheless, and despite the slowdown in nonagricultural activity, urban unemployment rate declined from 14.7 percent to 14.1 percent, thus breaking its correlation with nonagricultural growth. Rural unemployment rate grew substantially from 4 percent to 4.7 percent notwithstanding the improvement in agricultural activity.

Per age group, urban unemployment rate dropped in the 25-34 age group (-1.2 percentage point), the 35-44 age group (-0.7 percentage point) and over 44 age group (-0.1 percentage point). In contrast, unemployment rate increased in the 15-24 age group from 30.3 percent to 32 percent in the first quarter of 2009.

At the sectoral level, job creation concerned exclusively the services sector with 113,000 new jobs (+5.9 percent) and the building and public works sector with 53,000 jobs (+7.4 percent). However, the nonagricultural activity slowdown impacted employment in the industrial sector which observed a net loss of 60,000 jobs. The sector of "agriculture, forestry and fisheries" registed a net loss of 60,000 jobs, while the number of the employed labor force remained higher than in the same quarter of last year. It is projected that the rainfall recorded in the crop year 2008/2009 would push up job creation as of the second quarter of 2009.

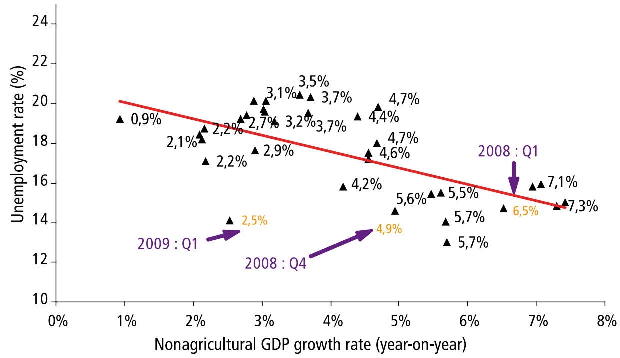
The impact of the negative trend of nonagricultural activity on employment is also reflected though the results of BAM business survey for the first quarter of 2009. The industrial labor force declined from one quarter to the next, with a negative balance of opinion of 7 percent. At the sectoral level, all the industries registered a drop in staff, except for chemical and parachemical industries, where the number of employed persons remained unchanged. In the short term, business managers expect the number of their staff to remain generally stable, although with trends different from one sector to another.

Table 2.1: Activity and unemployment quarterly indicators per place of residence(1)

In millions	Q1 - 2008 Urban	Q1 - 2008 Rural	Q1 - 2008 Total	Q1 - 2009 Urban	Q1 - 2009 Rural	Q1 - 2009 Total
Labor force and employment						
Labor force (2)	5.88	5.39	**11.27**	5.93	5.39	**11.32**
Labor force participation rate (%)	45.2	59.2	**51**	44.5	58.6	**50.3**
Employed labor force	5.02	5.17	**10.19**	5.09	5.13	**10.23**
Employment rate3	38.6	56.8	**46.1**	38.2	55.8	**45.4**
Unemployment						
Unemployed labor force	0.86	0.21	**1.07**	0.83	0.2	**1.09**
Unemployment rate (in %)	14.7	4	**9.6**	14.1	4.7	**9.6**
By degree						
. Non-graduates	8.3	2.5	**4.7**	8.3	3.1	**5**
. Graduates	20.4	12.8	**18.9**	18.8	13.7	**17.8**

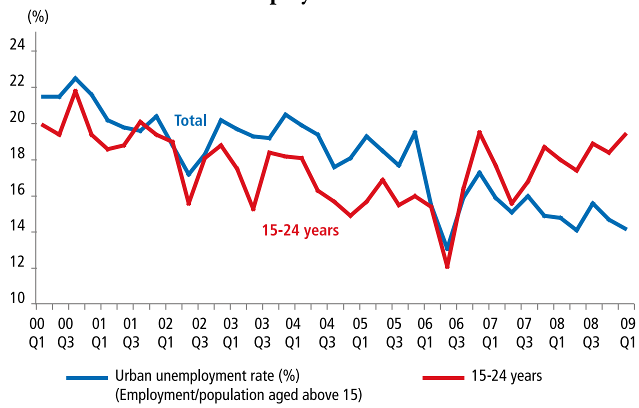
(1) Data adjusted according to the new population forecasts
(2) Population aged 15 years and over (in millions of persons)
(3) Occupied labor force/total population aged 15 years and over.
Source: HCP

Chart 2.7: Nonagricultural DGP and urban unemployment Q1 2000- Q4 2008



Source: HCP

Chart 2.8: Unemployment rate in urban areas



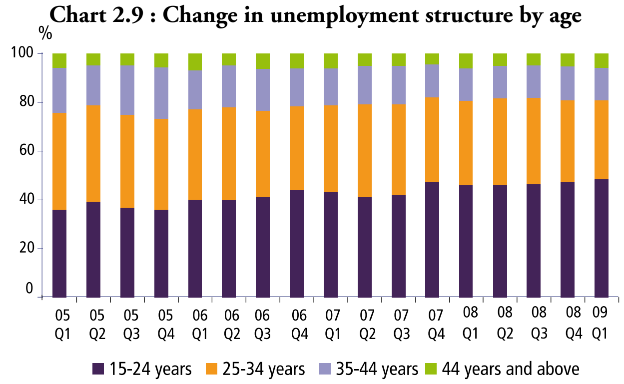
Source: HCP

Regarding wages, the results of BAM business survey in the industry for the fourth quarter of 2008 show an increase in the wage level (+16 percent). The Quarterly Average Wage Index, calculated by the HCP on the basis of the CNSS data, registered a year-on-year increase of 6.6 percent during the fourth quarter of 2008. In real terms, this index grew by 2.6 percent compared with the same quarter of last year.

Moreover, the SMIG showed a slight decline in real terms in the first and second quarters of 2009, as it dropped, respectively, from 5.42 dirhams to 5.41 and to 5.36 dirhams. Nonetheless, the second phase of minimum wage and public sector wages readjustment should take effect as of July 2009. Thus, the minimum hourly wage of workers and employees in industry, trade and liberal professions is expected to increase by 5 percent starting from the third quarter of 2009 to rise from 10.14 to 10.64 dirhams.

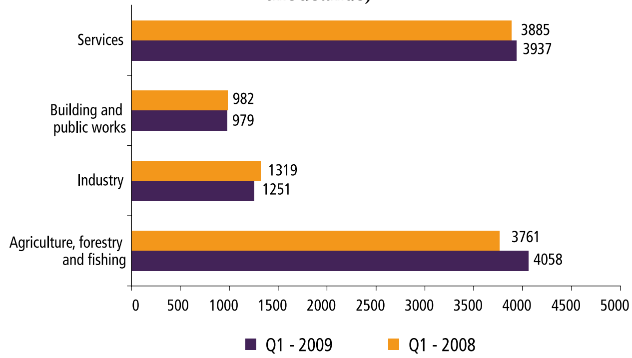
Altogether, all these developments suggest the continued moderation of demand-driven pressure on prices in the coming quarters.

Chart 2.9 : Change in unemployment structure by age



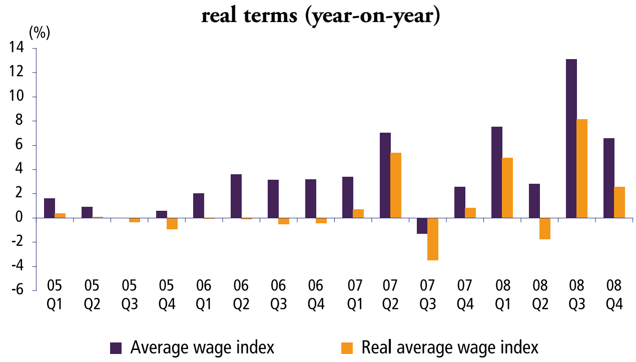
Source: HCP

Chart 2.10 : Change in employment by sector (labor force in thousands)



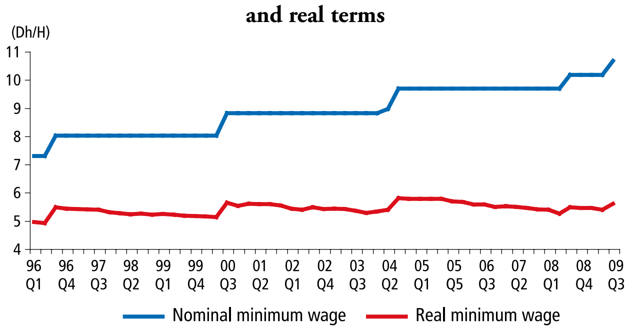
Sources: HCP, and BAM estimates

Chart 2.11 : Private sector average wage index in nominal and real terms (year-on-year)



Sources: HCP, and BAM estimates

Chart 2.12 : Quarterly minimum wage in nominal and real terms



Source: Ministry of Labor, and BAM calculations

3. INTERNATIONAL ENVIRONMENT AND IMPORT PRICES

International environment remains marked by a sharp contraction in activity in most developed and emerging economies, as well as by substancial volatility of commodity prices which increased of late, though at a far lower level than the peaks reached in 2008. In this context, inflation in the main developed and emerging countries dropped again in April 2009. This disinflationary trend is expected to continue in the coming quarters. Regarding financial conditions, the international context is still marked by markets' instability despite the recovery that began in recent months owing to the conventional and unconventional measures taken by the main central banks. Notwithstanding these measures, the contraction of the economic activity, mainly in industrialized countries, should continue through the year 2009, before a slight upturn in 2010. The output gap of Morocco's main trading partner countries should consequently remain negative during this period, which points to a possible ongoing decline in foreign demand for Moroccan exports. Import prices, which constitute an important channel of transmission of external shocks to the national economy, rose by 3.6 percent in April compared to the previous month. However, their average of the first four months remains 9.2 percent lower than the levels recorded in the same period of the previous year. Altogether, the various indicators of the international environment suggest continued easing of external inflationary pressures in the coming quarters. Still, the upward trend of some commodity prices, which began in the last months, represents a risk factor.

3.1 Global financial conditions and economic activity

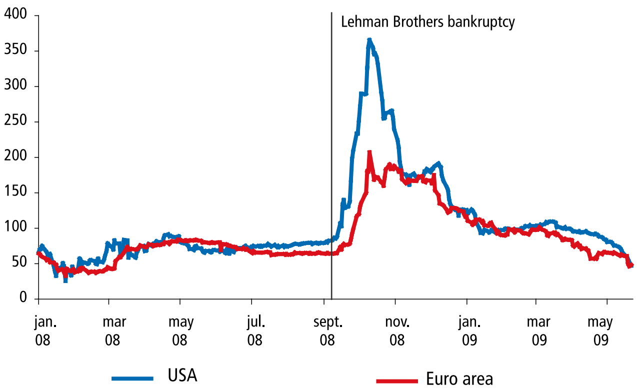
Financial conditions show the first signs of stabilization, foreshadowing a possible economic recovery. Nonetheless, the latest data available and the short term outlook indicate that the global economic conditions are still marked by the recessionary effects of the crisis.

3.1.1 Financial conditions

In the interbank market, the massive monetary easing undertaken allowed moderation, in the USA and in the Euro area, of the spread between the three-month interbank rate and the three-month indexed swap rate (OIS-LIBOR spread). This spread dropped from its 200 basis points record of October 2008, to about 100 basis points, but remains largely beyond its average of 10 basis points registered in 2006.

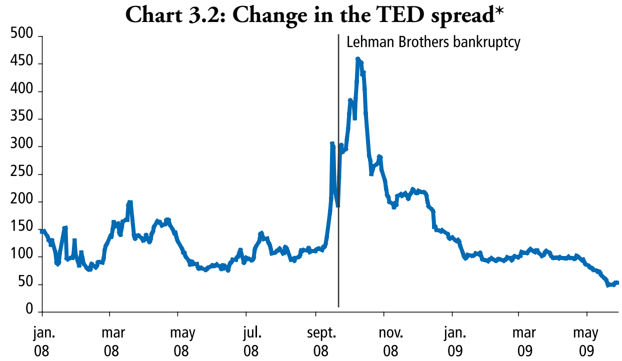
The same trend was observed in the debt markets as spreads narrowed considerably as a result of the drop in yields on short-term government bonds. The latter decreased substantially due to central banks' rate cuts and programs of government securities purchase. However, this trend did not concern for all maturities, as long-term bonds continued their upward trend.

Chart 3.1: Change in the OIS-LIBOR spread*



**Spread between the three-month interbank rate (Libor) and the three-month overnight index swap rate (OIS).*
Source: Datastream

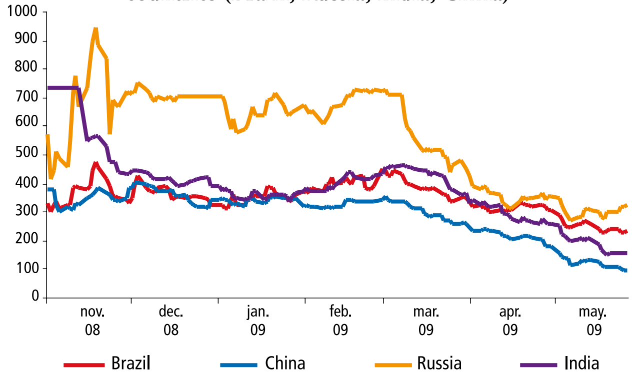
Chart 3.2: Change in the TED spread*



**Difference between the interest rate on three-month US Treasury bills and the three-month Libor rate*
Source: Datastream

Financing conditions in the emerging economies also improved. After they soared at the end of 2008, risk premiums on sovereign CDS (Credit Default Swaps) decreased sizably, as a result of investors' improved confidence.

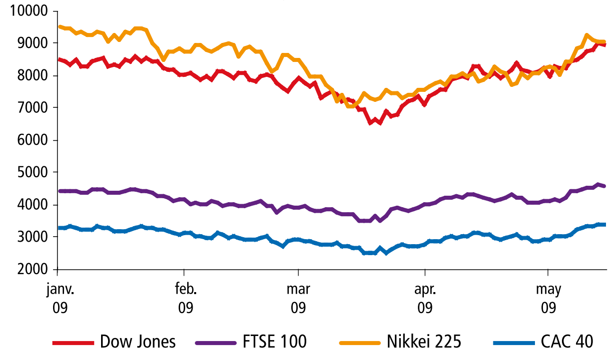
Chart 3.3: Change in Credit Default Swaps in emerging countries (Brazil, Russia, India, China)



Source: Datastream

Also, stock markets registered the same recovery. Hence, a noticeable upward trend started in the last two months, as market indexes of developed economies grew at a monthly rate of 3 to 16 percent while those of emerging economies increased by 13 percent. However, some uncertainty remains as to the strong volatility of prices in the very short term as well as to the risks surrounding the expected improvement of economic fundamentals.

Chart 3.4: Change in the main stock market indexes in advanced economies

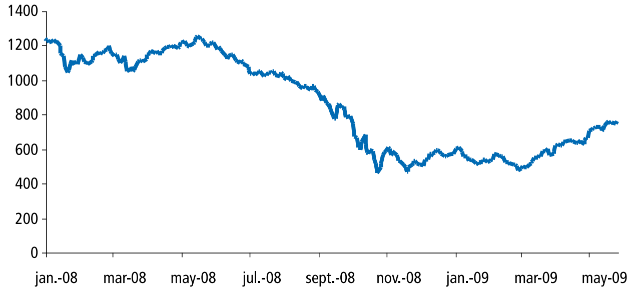


Source: Datastream

Credit markets have not registered a major recovery since the beginning of the year. This was particularly the case in the United States where the growth rate of consumer loans was below 1 percent over the first four months, compared with the 5.5 percent average recorded during the same months of the previous year. In the Euro area, loans increased by an average of 4.7 percent in the same period compared with 11 percent one year earlier. This trend reflects both supply and demand factors. In fact, the difficulties faced by the banking system posed constraints on credit supply, as banks are first aiming at stabilizing their balance sheets. Moreover, the slow growth of loans is also attributed to the slump of demand against the backdrop of the weakening economy.

3.1.2 Global economic activity

Chart 3.5: Change in the MSCI EM index*



Source: Datastream

** The MSCI EM Index is designed to measure equity market performance of Central Europe, Middle East and Africa (Czech Republic, Hungary, Poland, Russia, Turkey, Israel, Jordan, Egypt, Morocco, and South Africa).*

In 2009, the world economy is expected to continue its downward trend in most of the industrialized and emerging countries. This was confirmed anew by IMF April 2009 forecasts, which suggest a contraction of the global GDP by 1.3 percent in 2009, instead of the 0.5 percent increase projected last January. Nonetheless, global GDP is expected to grow again in 2010 as economic contraction would subside in the second quarter of 2009. However, this recovery depends on the efforts deployed towards maintaining a sound financial sector and on macroeconomic policies supportive of economic activity, especially in advanced countries.

In the euro area, GDP is expected to decrease by 4.2 percent in 2009, and then by 0.4 percent in 2010, with a 3 percent contraction in the French GDP followed by a slight increase of 0.4 percent. In emerging countries, particularly in China and India, the growth rate is expected to reach 6.5 percent and 4.5 percent in 2009, and 7.5 percent and 5.6 percent in 2010, respectively. As for Brazil and Russia, their growth rate should drop in 2009, and then reach a moderate level in 2010.

According to the last OECD's Economic Outlook Intermediary Report, global economic growth is expected to decrease by 2.8 percent in 2009, instead of the 1.1 percent rise expected last November by the same organization. This contraction remains markedly more important compared to the rates expected respectively by the IMF and the World Bank, namely 1.3 percent and 1.7 percent.

In order to ensure a better monitoring of the impact of the international economic conditions on the Moroccan economy, Bank Al-Maghrib prepared a foreign demand indicator, in the form of a weighted index of our main trade partners' output gap. According to the latest available data, this indicator should remain negative in the coming quarters.

3.2 World inflation

In an international context of continued recession, world inflation slowed down further. The preliminary data published by Eurostat revealed that the Euro area observed, in May 2009, a marked decrease of inflation, which reached a zero level after the 0.6 percent recorded the previous month.

However, the April 2009 data show that, except for Germany, where inflation reached 0.8 percent, compared to 0.4 percent the previous month, the downward trend in inflationary pressures, which began last August, continued in the major developed and emerging countries, particularly in China (see table 3.2).

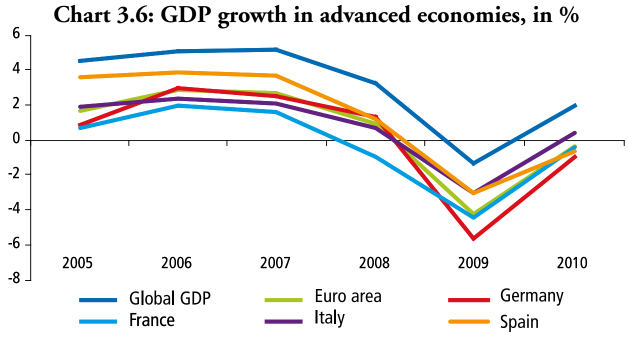
This decline in inflationary pressures resulted from the substantial fall in world commodity

Table 3.1 : Global growth forecast

	IMF			World Bank		OECD	
	2008	2009	2010	2009	2010	2009	2010
Global GDP	3.2	-1.3	1.9	-1.7	2.3	-2.8	-
United States	1.1	-2.8	0.0	-2.4	2.0	-4.0	0.0
Euro area	0.9	-4.2	-0.4	-2.7	0.9	-4.1	-0.3
Germany	1.3	-5.6	-1.0	-	-	-5.3	0.2
France	0.7	-3.0	0.4	-	-	-3.3	-0.1
Italy	-1.0	-4.4	-0.4	-	-	-4.3	-0.4
Spain	1.2	-3.0	-0.7	-	-	3.7	1.2
United Kingdom	0.7	-4.1	-0.4	-	-	-3.7	-0.2
China	9.0	6.5	7.5	6.5	7.5	6.3	8.5
India	7.3	4.5	5.6	4.0	7.0	4.3	5.8
Brazil	5.1	-1.3	2.2	0.5	3.2	-0.3	3.8
Russia	5.6	-6.0	0.5	-4.5	0.0	-5.6	0.7

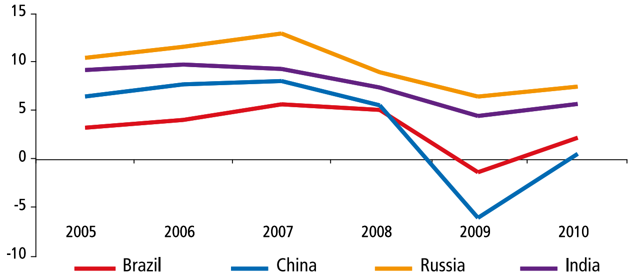
Sources : IMF, World Bank and OECD

Chart 3.6: GDP growth in advanced economies, in %



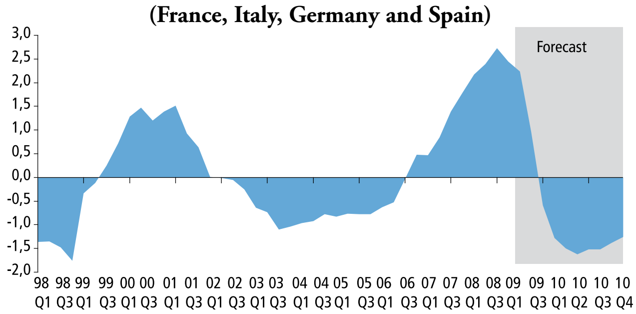
Source: IMF

Chart 3.7: GDP growth in emerging economies (Brazil, Russia, India and China), in %



Source: IMF

Chart 3.8: Output gap of the main partner countries, in % (France, Italy, Germany and Spain)



Source: European Commission, and BAM calculations prices, especially oil, either on a year-to-year basis or in comparison with the peaks reached in the middle of 2008. This trend is also attributable to the recession which led to a significant decrease in the demand of many categories of goods and services.

According to IMF April 2009 forecasts, inflation is expected to observe some moderation in upward pressures both in advanced countries and in emerging and developing countries (see table 3.2).

At a longer term, there remain some uncertainties as to the inflationary effects of the accommodating monetary policies and the fiscal stimulus measures undertaken in most industrialized and emerging countries.

3.3 Oil prices

In May 2009, oil prices rose again to reach $58.2 a barrel instead of $50.3 in April. This rise is due to the weakening of the US dollar, the growing Chinese demand for oil, the drop in crude oil inventories in the United States, and the increase of purchases by hedge funds as a result of the recovery signs observed on the stock market.

On average, over the first five months of 2009, oil prices reached $48.1 a barrel, compared with $103.5 during the same period of last year; thus decreasing by more than a half.

According to the latest IMF projections of April 2009, the average oil price for the year 2009 was revised upwards to $52 a barrel from the $50 expected in January.

In 2010, oil prices are expected to stand at $62.5 a barrel instead of the $60 expected in January, according to the same IMF April 2009 projections.

According to the predictions established by the International Energy Agency, oil prices in 2009 would average $53 a barrel. On the futures market, they would reach $67.1 a barrel in 2009 and $77.5 in 2010 (see table 3.3).

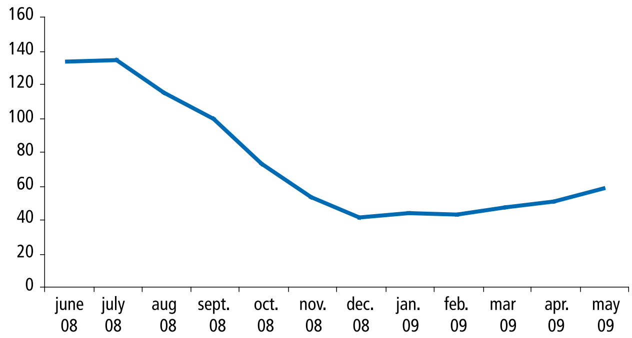
Table 3.2: Recent trend in inflation in the world, on a year-on-year basis

	2008 april	2009 march	2009 april	Forecast 2009	Forecast 2010
United States	4.0	-0.4	-0.7	-0.9	-0.1
Euro area*	3.3	0.6	0.6	0.4	0.6
Germany	3.0	0.4	0.8	0.1	-0.4
France	3.2	0.4	0.1	0.5	1.0
Spain	4.4	-0.1	-0.2	0.0	0.9
Italy	1.1	1.1	1.1	0.7	0.6
Japan	1.0	-0.3	-	-1.0	-0.6
China	0.8	-1.2	-1.5	0.1	0.7

(*) Harmonized indexes

Sources : IMF, Eurostat

Chart 3.9: World price of the Brent, in dollars



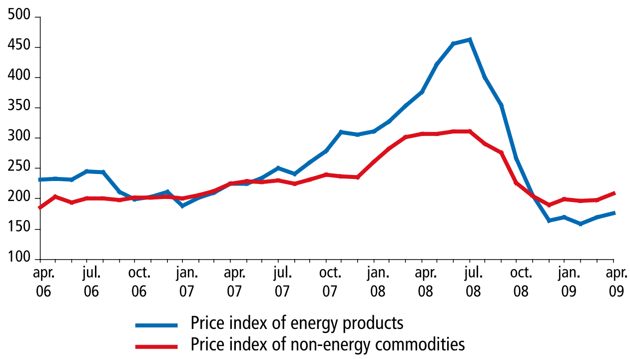
Source: Datastream

Table 3.3 : Brent price in the futures market (in US dollars)

Q2 2009	Q3 2009	Q4 2009	Q1 2010	Year 2009	Year 2010
56.9	73.5	74.4	75.9	67.1	77.5

Source : Bloomberg

Chart 3.10: Price index of energy products and non-energy commodities (2000=100)



Source: World Bank

Overall, growth forecasts of the global oil market depend on the future developments of the global economic and financial conditions and on their impact on energy products consumption. Uncertainties surrounding these projections also concern the volatility of the dollar, the effects of speculative transactions, as well as the expectations regarding the upturn in demand.

3.4 Commodity prices

In May, non-energy commodity prices continued their upward trend that began in March 2009. This development is due to investors' renewed risk-taking, particularly hedge funds, on these products, thus anticipating the recovery of world demand and the depreciation of the dollar against the other major currencies.

Non-energy commodity price index[1] increased by 4.6 percent in May, compared with the previous month. However, it decreased by 30 percent, compared to the same period of 2008.

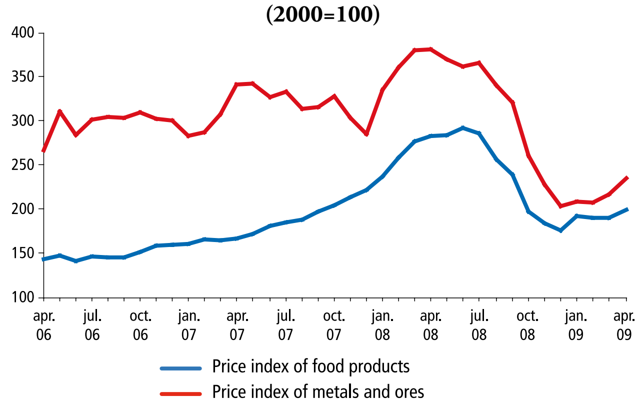
The rise observed in May concerned the food price index which was up 8 percent. This is mainly due to the rise in investments in agricultural commodity market and to the bad weather conditions which affected the main productive regions since the start of the year. Accordingly, corn and wheat prices grew at a monthly rate of 6.8 and 12 percent, respectively. Similarly, sugar price increased by 17.5 percent.

The index of mining products' prices recorded a 2.9 percent rise. Such an increase is mainly related to China's massive purchases of base metals, with the aim of rebuilding its non ferrous metal stocks, and to the cutting back in the production of these metals by the main world suppliers. Hence, the prices of copper, zinc, and lead rose respectively by 3.7, 7.6, and 4.1 percent in May compared to the previous month.

Overall, non-energy commodity prices in 2009 are projected to decrease between 23 and 29 percent, and to move up by 7 percent starting from 2010.

1 Index calculated by the World Bank based on commodity prices in the developing countries.

Chart 3.11: Index of food, metal and ore prices (2000=100)



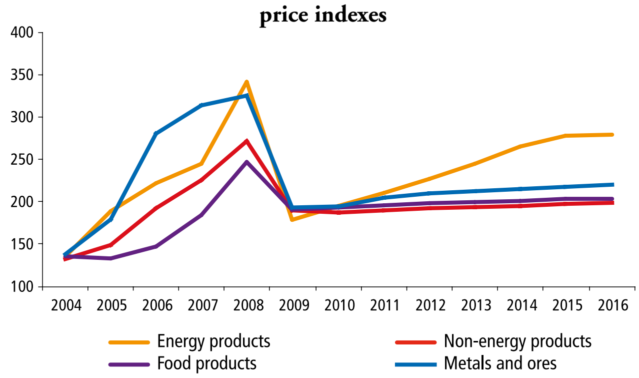
Source: World Bank

Table 3.4 : Change in wheat futures and forecasts

Wheat (USc/ bushel)	Q2 2009	Q3 2009	Q4 2009	Q1 2010	2009
Futures	566.6	651.84	684.00	677.25	555.95
Forecasts	590.00	602.50	650.00	721.28	612.00

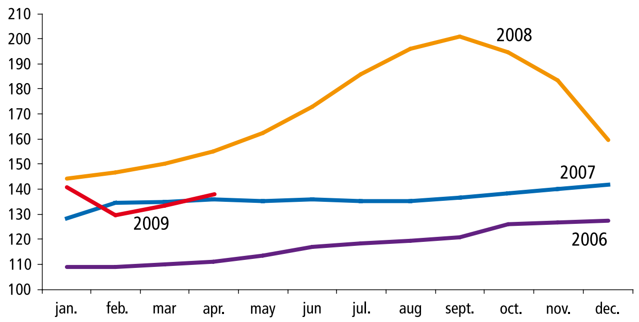
Source : Bloomberg

Chart 3.12: Forecast change* in commodity price indexes



**Updated on May 15, 2009*
Source: World Bank

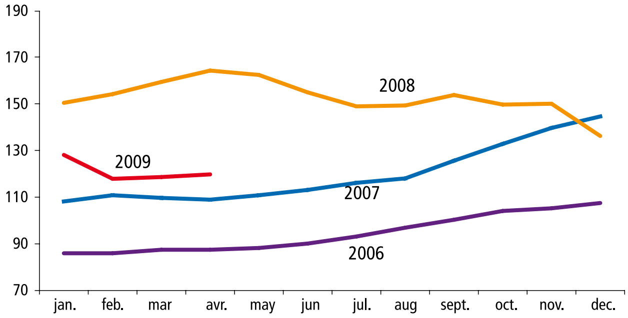
Chart 3.13: Non-energy import price index (1995=100)



Sources: Foreign Exchange Office, and BAM calculations

However, it is expected that the tightening of the supply conditions of some products, particularly food products, would exert upward pressures on prices during the rest of the year 2009. Therefore, food prices would be mainly impacted by the continuing decrease in world production which would result in further weakening stocks for the coming months. The upward trend expected for the prices of wheat as well as for the remaining cereals is confirmed by the evolution of wheat futures market (table 3.4) during the coming quarters.

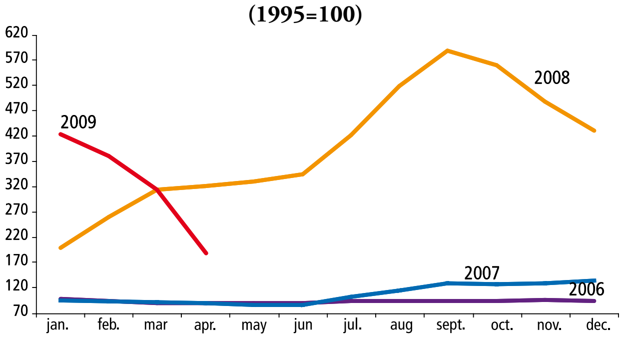
Chart 3.14: Food import price index (1995=100)



Sources: Foreign Exchange Office, and BAM calculations

Metals prices trend would be marked by a considerable volatility and would highly depend on the global economic conditions. However, the level of metal supplies is expected to decrease considerably in the next months, as prices are well below the marginal production costs. Also, the continuing tightening of financing conditions would encourage producers to continue reducing both production and investments.

Chart 3.15: Import price index of mining commodities (1995=100)



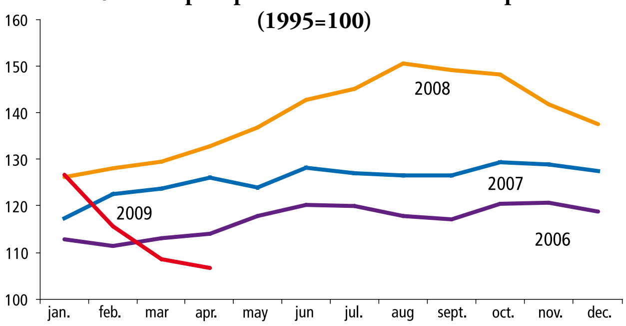
Sources: Foreign Exchange Office, and BAM calculations

3.5 Morocco's import unit value index

Alongside the developments observed in the global markets, the latest available data show a monthly rise of non-energy import price index, by 3.6 percent after the 2.7 percent increase recorded last March. This trend reflects an increase in food products' import price Index and a decrease in the IPI of mining and semifinished products. However, the IPI, excluding energy, remains 11.1 percent lower than the level recorded in April 2008.

Food products' IPI registered a monthly rise of 1 percent in April 2009, as a result of the moderate growth of wheat import prices, which increased on the global commodity markets (see section 3.3). Also, butter import prices recorded a sizable increase during the same month.

Chart 3.16: Import price index of semifinished products (1995=100)



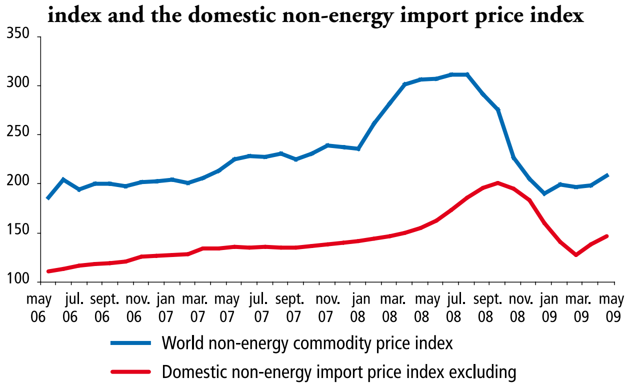
Sources: Foreign Exchange Office, and BAM calculations

Conversely, mining products' IPI contracted at a monthly rate of 39.6 percent in April 2009, higher than the 17.5 percent drop in March. This change is closely linked to the strong decline in sulphur import prices, whose demand particularly depends on the production of phosphate derivatives. Also, copper and iron import prices registered significant increases from one month to the next.

Semifinished products' IPI decreased by 1.5 percent in April compared with the previous month. This deceleration is attributable to the decline in industrial activity, mainly in processing industries, major source of demand for these products.

At the end of April, the change in the import price index, excluding energy, seems to reflect the increase of non-energy commodity world prices. Considering the expected development of international commodity prices, the import price index, excluding energy, would record new increases while remaining below the levels of 2008.

Chart 3.17: Change in the world non-energy commodity price index and the domestic non-energy import price index



Sources: World Bank, Foreign Exchange Office, and BAM calculations

4. MONETARY CONDITIONS AND ASSET PRICES

The latest available data on monetary conditions at the end of April show positive developments both in terms of inflationary risks as well as the performance of domestic money and financial markets. Concerning money creation, the slowdown in its growth pace was confirmed in April, as M3 aggregate grew at an annual rate of 9.2 percent, after reaching 12.4 percent in the third quarter of 2008 and stabilizing at around 10.5 percent over the last two quarters. The money market continues to operate in a normal way with an average volume of operations at 2.7 billions over the first five months, up by 4 percent compared to the last quarter of 2008. In turn, credit growth, which stood at 18 percent in April, remained dynamic despite the gradual deceleration observed since the third quarter of 2008. As to deposit rates, BAM quarterly survey related to the first quarter of 2009 shows a rise in the weighted average rate, mostly driven by higher rates on cash advances. Regarding creditor rates, the decrease observed in the first quarter of 2009 became more pronounced in conjunction with the decline in the interbank rate, itself affected partially by the reduction in the key rate as decided by the Bank Board during its meeting of March 24, 2009. Stock market indices, for their part, dropped by the end of the first quarter 2009 before rising as of May 22, while real-estate asset prices continued their downward trend. The dirham remained virtually stable against the euro and slightly depreciated against the US dollar.

4.1 Monetary conditions

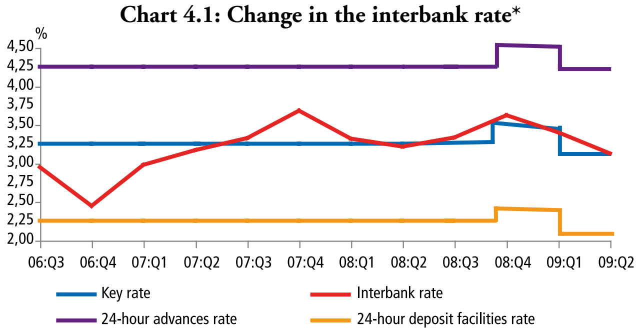
4.1.1 Interest rates

The Board of Bank Al-Maghrib decided, during its last meeting of March 24, 2009, to cut the key rate by 25 basis points to 3.25 percent. Following this decision, the corridor delimiting the fluctuations of the interbank rate was modified in a symmetrical way; the permanent advance and facility deposit rates now stand at 4.25 percent and 2.25 percent respectively.

Against this background, interbank rate fell to 3.40 percent during the first quarter of 2009, after reaching 3.53 percent at the end of 2008. In addition, during April and May, it witnessed a new drop owing to the decrease in the key rate, standing on average at 3.17 percent.

Concurrently, short term T-bill rates on the primary market, the most correlated with interbank rate, continued their downward trend observed since the beginning of the year, with a marked drop in April and May. Similarly, medium term rates have globally decreased after the improvement recorded in the previous quarter. The same development occurred on the secondary market concerning medium and long term maturities. In this compartment, the fall in yields, which started at the beginning of the year, was more noticeable in April and May, as interest rates on this maturities stood at lower levels compared with the last quarter of 2008.

Chart 4.1: Change in the interbank rate*

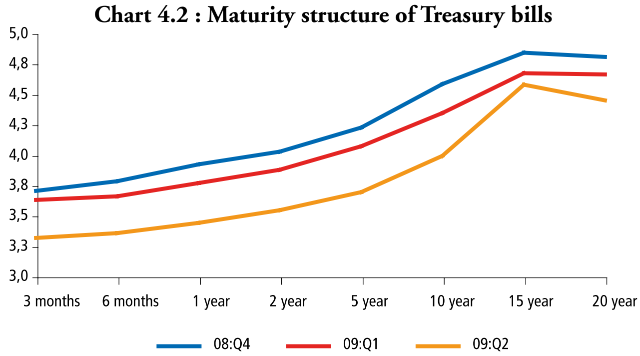


** Observation of the second quarter corresponds to the daily average of the period from April 1 to May 31, 2009.*

Table 4.1: Change in yield rates of short-term Treasury bills on the primary market

	2007	2008				2009	
	Q4	Q1	Q2	Q3	Q4	Q1	April
13 weeks	3.63	3.58	3.41	3.42	3.69	-	-
26 weeks	3.58	3.59	-	-	3.77	3.65	3.29
52 weeks	3.55	3.62	3.53	3.51	3.84	3.75	3.34
2 years	3.58	3.68	-	-	-	3.9	-
5 years	4	3.85	-	3.75	3.99	4.05	3.76

Chart 4.2 : Maturity structure of Treasury bills



Overall, the recent changes in interest rates seem to indicate an improvement in the transmission of monetary policy decisions, in particular due to the absorption since 2007 of liquidity surplus which persisted during a long period in the money market.

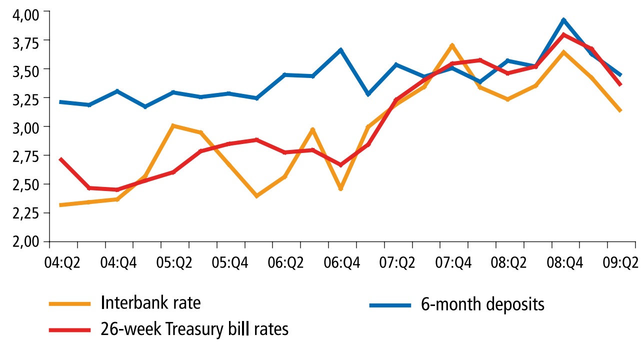
This result was particularly confirmed by the recent developments in time deposit rates with banks. In fact, the weighted average rate of 6-month and 12-month deposits fell in the first quarter of 2009 and in April, after the upward trend observed during 2008. This covers a decline in 6-month and one-month deposit rates, less sensitive in the very short term to the interbank rate variations, which stood at the same level registered in the preceding quarter.

Table 4.2: Deposit rates * (time deposits)

	2007	2008				2009	
	Q4	Q1	Q2	Q3	Q4	Q1	april
6 months	3.49	3.37	3.55	3.5	3.9	3.61	3.43
12 months	3.71	3.71	3.82	3.89	4.23	3.91	3.91
Weighted average	3.62	3.56	3.72	3.77	4.13	3.78	3.72

** Quarterly data are simple averages of monthly data.*

Chart 4.3 : Change in 6-month deposit rates and 26-week Treasury bill rates (in %)



Box 4.1: Liquidity and implementation of monetary policy

Over the first quarter of the year 2009, banks' liquidity shortage was partially lessened owing to the decision taken by the Bank Board on December 23, 2008, to reduce the ratio of the reserve requirement by 3 percentage points, which led to an injection of liquidity amounting to 10.4 billion dirhams (7.5 billion in December 21, 2008 and 2.9 billion in January 21, 2009). As a consequence, banks' average liquidity shortage narrowed from 17.5 billion dirhams in the fourth quarter of 2008 to 11.4 billion in the first quarter of 2009.

Nonetheless, the restrictive effect of autonomous factors during the first quarter of 2009 has partially compensated the impact of the reduction in reserve requirements. In fact, Treasury operations led to a liquidity drain of 8.3 billion dirhams, mostly attributable to purchases of T-bills at auctions as well as the collection of a part of the first down-payment on corporate tax for the year 2009.

Chart B 4.1.1: Change in the liquidity position (in millions of dirhams) and in the weighted average rate (%) in quarterly average

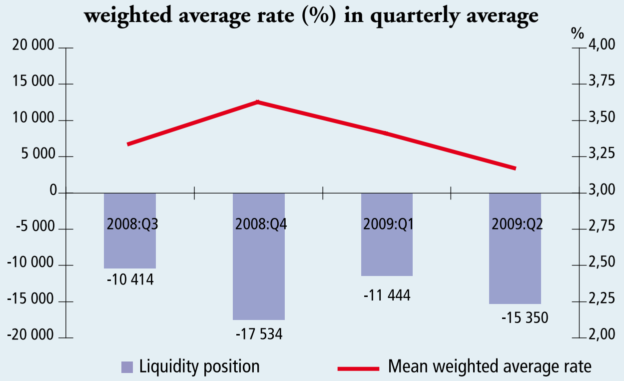
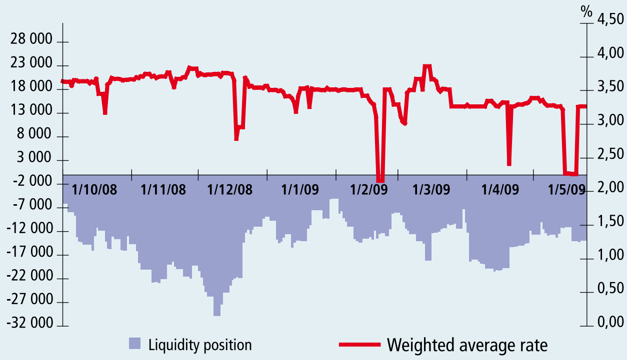


Chart B 4.1.2: Liquidity position (in millions of dirhams) and weighted average rate of the interbank money market



However, foreign asset transactions lead to an injection of liquidity amounting to 2.7 billion dirhams. Foreign currency purchases by commercial banks, which were substantially lower compared to the previous quarter, stood at 3.1 billion dirhams, while foreign banknote sales reached 5.8 billion dirhams. The decline in currency in circulation, following the significant withdrawals during the celebrations of the New Year and the religious feasts, reached 2.1 billion dirhams.

Overall, autonomous factors exerted a restrictive effect of 3.5 billion dirhams on banks' liquidity.

During the second quarter of 2009, the average shortage in banks' liquidity increased from 11.4 billions in Q1 2009 to 15.4 billion in Q2 2009, due primarily to the restrictive effect of autonomous factors. The increase in the minimum required reserves, by an overall amount of 395 millions, had little impact on banks' liquidity during that quarter.

Foreign assets transactions led to a liquidity drain of 5.9 billion dirhams, primarily because of the speed-up in foreign currency purchases totaling 9.8 billion dirhams, in a context of highly volatile world markets and taking into account imports hedging and dividend conversion operations. On the other hand, sales of foreign banknotes reached 3.9 billion dirhams.

Chart B 4.1.3: Change in reserve requirements (in millions of dirhams)

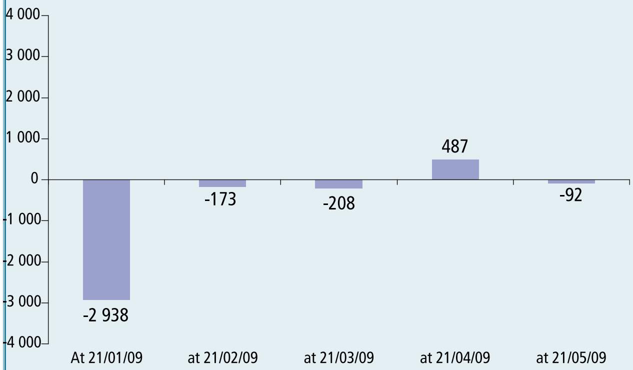
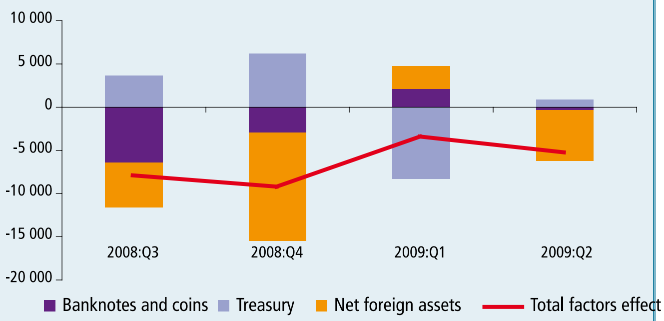


Chart B 4.1.4: Change in liquidity factors' effect (in millions of dirhams)



During this quarter, currency circulation had a restrictive effect of 332 million dirhams on banks' liquidity, mainly as a result of school and public holidays.

In contrast, Treasury operations led to an injection of liquidity amounting to 894 billion dirhams, due in particular to the accelerated pace of capital expenditure and withdrawals by the Treasury's customers.

Treasury expenditure rose to 45 billion dirhams, 13.5 billions of which represent repayments of domestic debt to the banking system, nearly 2 billion as a result of the Treasury clients' withdrawals and 1.5 billion in the form of subsidization costs. Treasury assets totaled 44.1 billion dirhams, 7.4 billion of which account for banks' subscriptions to T-bills.

Overall, autonomous factors exerted a restrictive effect of 5.3 billion dirhams on banks' liquidity.

To ease banks' liquidity shortage, which averaged 15.4 billion dirhams during this quarter, Bank Al-Maghrib intervened exclusively through 7-day advances, providing an average daily amount of 15.5 billion dirhams.

Chart B 4.1.5: Bank Al-Maghrib's interventions on the money market (in millions of dirhams)

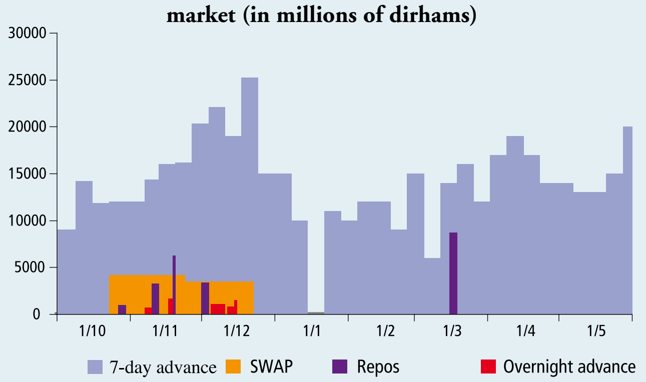
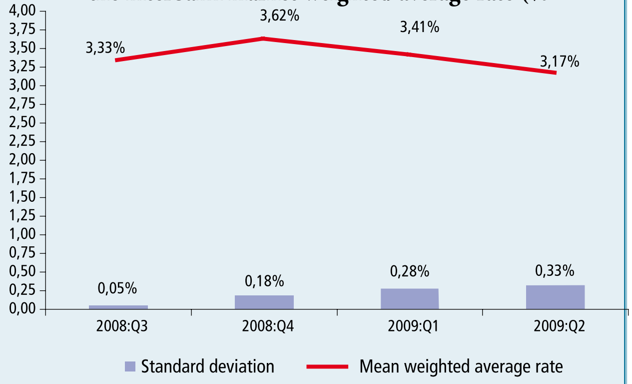


Chart B 4.1.6: Change in the mean and standard deviation of the interbank market weighted average rate (%



During the second quarter of 2009[1], the weighted average rate stood at 3.17 percent, down 24 basis points compared with the previous quarter, on account of the following factors:

- The decision taken by the Board of Bank Al-Maghrib during its meeting of March 24, 2009, to cut the key rate by 25 basis points.

- The temporary liquidity surplus in the market during the last week of the reserve period upending May 20, 2009, due mainly to higher-than-expected Treasury expenditure as well as market operators anticipations concerning the changes in bank liquidity.

In this context, the volatility of the weighted average rate rose by 5 basis points, standing at 0.33 percent compared to 0.28 percent previously.

1 Data as at the end of May 2009.

As concerns lending rates, the findings of Bank Al-Maghrib quarterly survey with banks suggest a rise in the loans weighted average rate, from 6.33 percent in the fourth quarter 2008 to 6.73 percent in the first quarter 2009. By loan categories, rates on cash advances, the main element in the changes to the overall weighted average rate, rose by 49 basis points to reach 6.78 percent. Equipment loans, more volatile and strongly influenced by economic activity and the maturity of issued loans, recorded a rise, passing from 7.63 percent to 7.85 percent in the first quarter 2009. In turn, real-estate loan rates increased by 39 basis points to reach 5.75 percent, after nearly stabilizing over the last three quarters, while consumer loans rates registered a new increase, reaching 7.38 percent after the downward trend observed during the first three quarters of 2008.

Chart 4.4: Change in lending rates

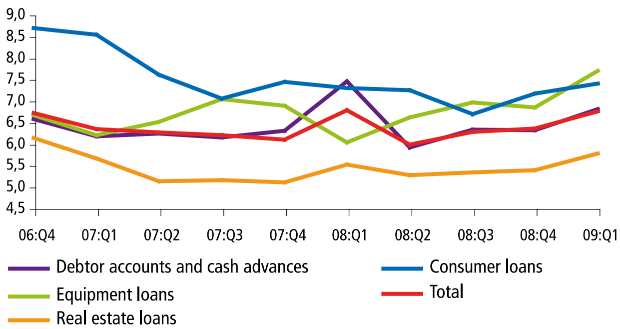
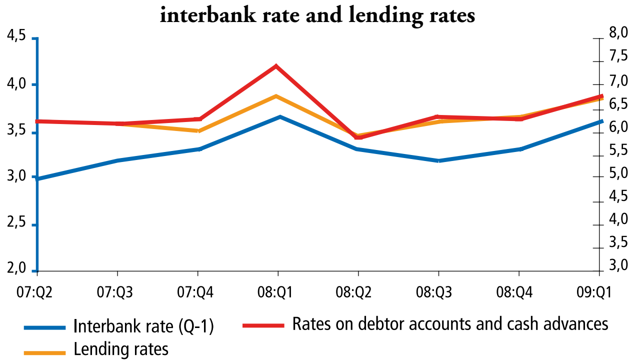


Chart 4.5: Correlation between the interbank rate and lending rates



4.1.2 Money, credit and liquid investments

M3 growth

The slowdown in money creation continued in the first quarter as well as in April 2009. Thus, after reaching 12.5 percent on average in 2008 and stabilizing at around 10.4 percent during the first quarter 2009, M3 aggregate grew by 9.2 percent year-on-year in April. In addition to the downward adjustment, following many quarters of higher growth than the long term trend, this change seems to result from the combined effect of several factors, notably the negative shocks on net external assets, an important source of money creation, as well as the slowdown in nonagricultural activity, which represents the main determinant for money demand.

Analysis of M3 components confirms these developments, as the deceleration is attributable to the decrease in demand deposits, especially those of non financial businesses. Indeed, the latter's demand deposits once again decreased in April 2009, after the decline observed in the first quarter of 2009 and in December 2008. This development was attributable mainly to the drop in sales by industrial businesses[1], as well as to the slowdown in tertiary activity.

Concerning private individuals demand accounts, they continued their downward trend observed for several months, in parallel with the constitution of interest-bearing deposits, mainly with banks and, secondarily in UCITS securities.

In fact, time deposits have registered an annual growth of 27.2 percent in the first quarter of 2009 and 22 percent in April, reflecting mainly a rise in investments by private individuals.

It should be noted that despite the decline in their money transfers, Moroccans living abroad have not reduced their deposits with banks, keeping them respectively, for demand deposits and time deposits, at a level higher by 2.2 percent and 3.9 percent compared with the average registered in 2008.

Chart 4.6: M3 annual growth and its trend (in %)

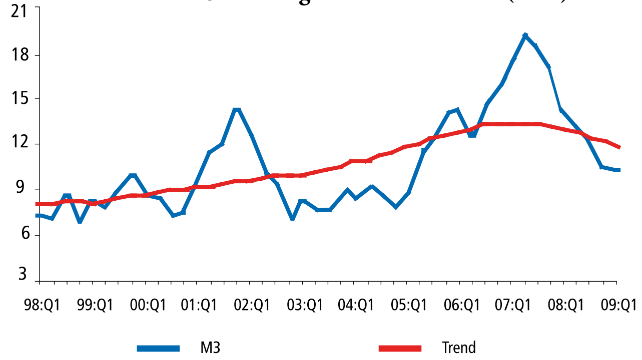


Chart 4.7: Money surplus (in percentage of M3 and M1 equilibrium outstanding amount in real terms)

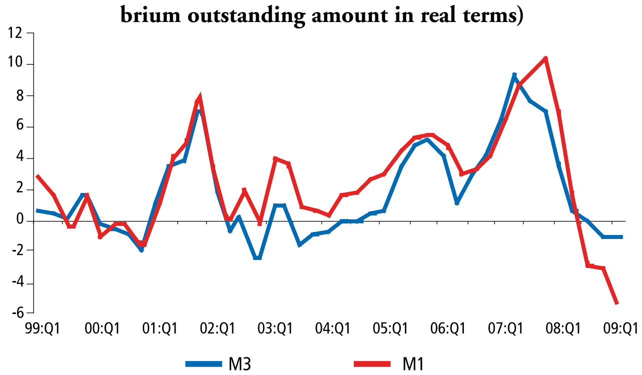


Chart 4.8: Annual growth of money supply and of nonagricultural GDP (mobile average over three quarters, in %)

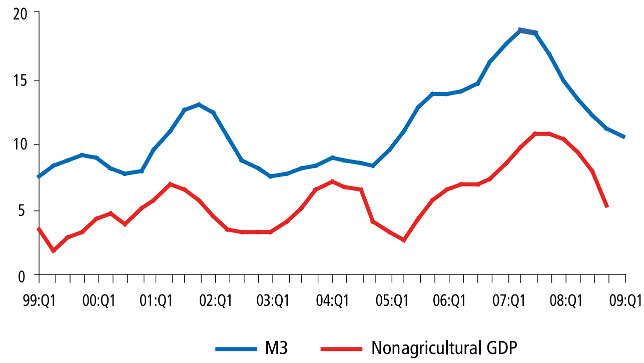
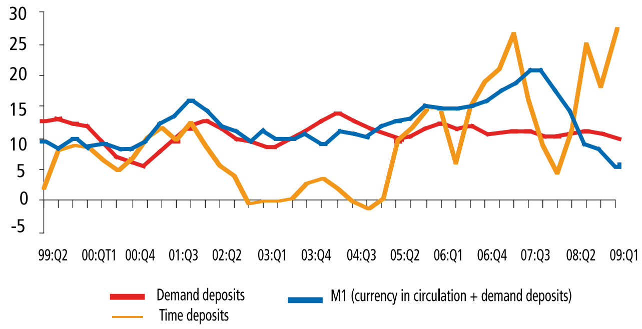


Chart 4.9: Annual growth of M3 components (in %)



1 Based on the findings of the quarterly survey of Bank Al-Maghrib with industrial businesses.

Bank loans

In the second quarter of 2008, bank credit continued its gradual slowdown started in the second quarter of 2008. Its annual growth stood at 18 percent compared to 20.5 percent in the preceding quarter, while remaining largely higher than economic growth rate. This development is consistent with bank loans forecasts, as indicated in the half-year survey conducted last December by BAM among the banking system.

The deceleration in bank loans concerned all economic agents and was more noticeable for businesses, especially those operating in the financial, building and public works and energy sectors; that is to say, the sectors which have benefited most from the strong expansion in bank loans over the last two years. In turn, loans allotted by private individuals slowed down somewhat, standing at 24.6 percent on a year-to-year basis in the first quarter 2009 instead of 25.7 percent a quarter earlier.

By economic purpose, real-estate loans increased in the first quarter 2009 and in April respectively by 25.3 percent and 21.7 percent compared to 40 percent on average in 2008. Similarly, consumer loans rose by 25.7 percent in April instead of 26.5 percent during the first three months of 2009 and 37 percent on average last year. As concerns equipment loans, they registered a rise by 23.5 percent in April compared with 20.4 percent in the first quarter.

Other sources of money creation

In April 2009, net external assets continued their downward trend observed since the fourth quarter of 2008. Their outstanding amount shrank by 8 percent, on a year-to-year basis, compared to 5.5 percent in the preceding quarter. This development is linked to the drop in revenues from private foreign investments and loans as well as in travel receipts and remittances from Moroccans living abroad, the trade deficit standing at the same level recorded in the last quarter.

In contrast, net claims on the Government, which were on a downward trend over the last four quarters, registered a rise in April 2009 due to the drop in the net position of the Treasury with Bank Al-Maghrib.

Chart 4.10: Bank loans' annual growth and trend (in %)

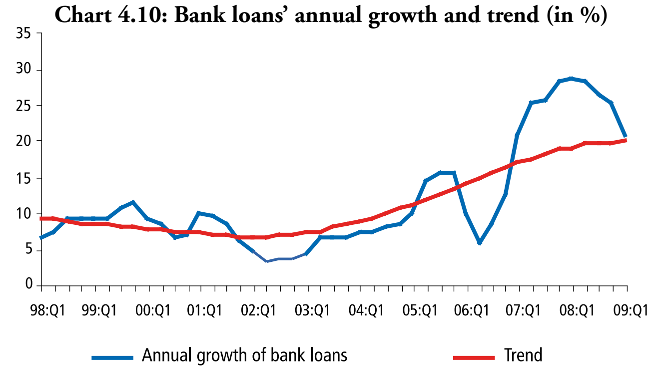


Chart 4.11: Loans structure by economic agent (in %)

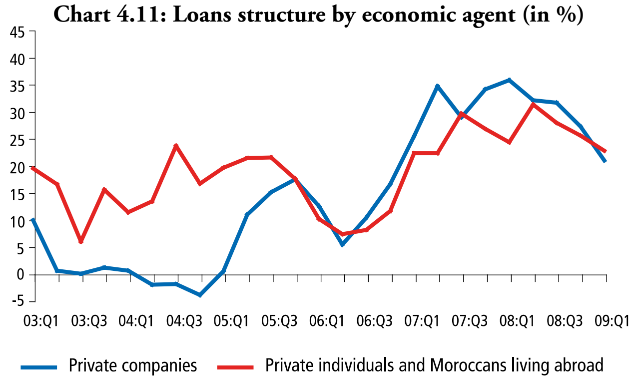


Chart 4.12: Change in loans by sector (in %)

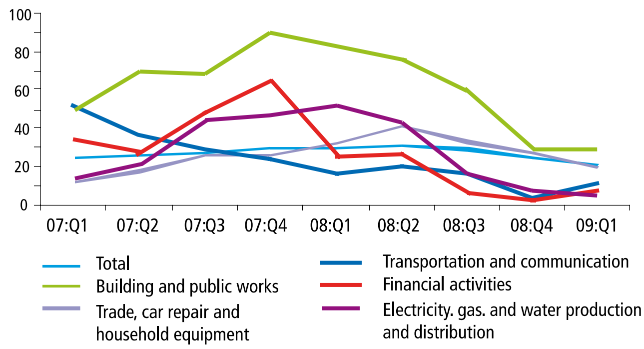
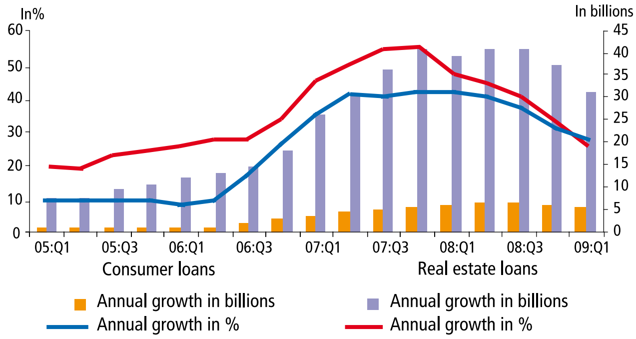


Chart 4.13: Annual change in real estate loans and consumer loans (in million dirhams and in %)



Liquid investments

At the end of the first quarter of 2009, liquid investments rose by 3.8 percent from a quarter to the next. Their outstanding amounts remain however lower by 7.9 percent from the same period of last year.

The quarterly growth of this aggregate reflects mainly the appreciation in the value of bond UCITS as well as the increasing subscription to money market UCITS. In contrast, equity and diversified UCITS registered a new drop due to the slump in Casablanca stock market prices, which had an impact both on their values as well as on the interest shown by investors.

By category of holders, the quarterly increase in liquid investment aggregates securities is due to the rise in securities held by nonfinancial businesses, the latter having benefited best from the value effect of bond UCITS, given the importance of their share therein. In contrast, private individuals' portfolio diminished, likely to the benefit of time deposits and demand deposits.

4.1.3 Exchange rates

At the end of the first quarter of 2009 and compared with the previous quarter, the dirham on average rose 8.65 percent against the pound sterling, and remained virtually stable against the euro. Meanwhile, it depreciated 2.93 percent against the Japanese yen, 1.48 percent against the Swiss franc and 0.65 percent against the dollar.

By the end of April and May 2009, the dirham on average appreciated 2.5 percent against the dollar and depreciated 0.5 percent against the euro.

The dirham's nominal effective exchange rate, based on bilateral exchange rates with Morocco's major partners, decreased by 1.04 percent compared to the fourth quarter of 2008. The depreciation of the dirham is less noticeable in real terms, standing at 0.8 percent, due to the slightly unfavorable trend in the inflation differential, mainly with regard to the euro zone which continues to experience a disinflationary trend.

Chart 4.14: Annual growth of net foreign assets (in %)

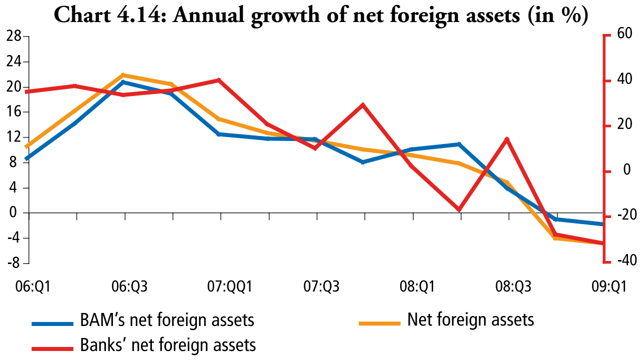


Chart 4.15: Quarterly change in net claims on the Government (outstanding amount in billion dirhams)

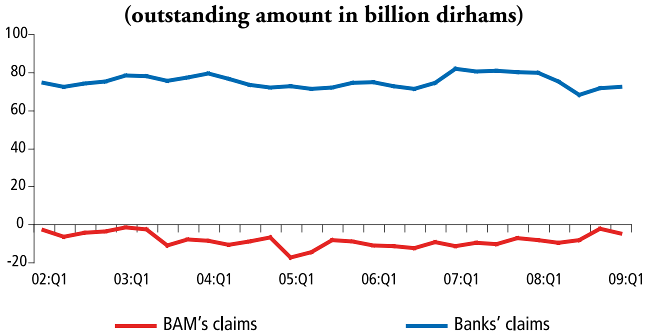


Chart 4.16: Contribution of main counterparties to money supply growth (in %)

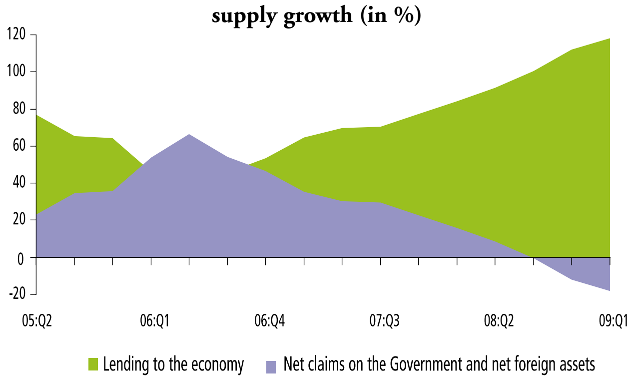
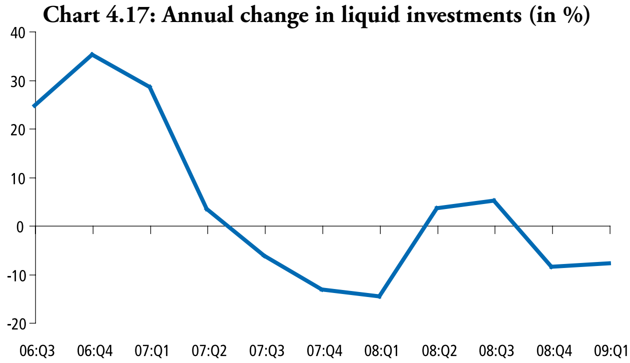


Chart 4.17: Annual change in liquid investments (in %)



**Provisional data*

Source: IMF, and BAM calculations

4.2. Asset prices

At the end of the first quarter of 2009, the MASI index continued its downward trend, dropping by 5.3 percent compared with the last quarter of 2008, and 29.2 percent on a year-to-year basis. In contrast, the index improved during the months of April and May, rising 5.2 percent and 0.8 percent respectively. Parallel to this, the real-estate sector index dropped by 3.3 percent between the last quarter of 2008 and the first quarter of 2009, before rising to 6.8 percent at the end of May 2009.

The PER of the Casablanca stock market fell from 17.4 to 15 from one quarter to the next, but generally remains well above the levels seen in emerging countries.

In turn, the volume of transactions fell markedly, standing at 46.1 billion dirhams in the first quarter of 2009, compared to 91.5 billions at the end of the last quarter of 2008, which was characterized by important portfolio adjustment operations carried out at the end of the year in the

Chart 4.18: Change in money market and bond UCITS securities (in million dirhams)

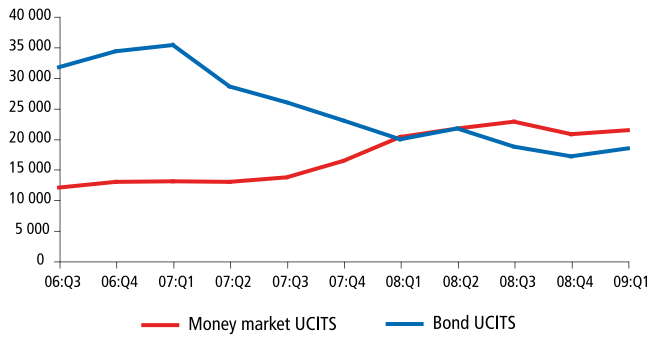


Chart 4.19: LI4 and MASI (year-on-year in %)

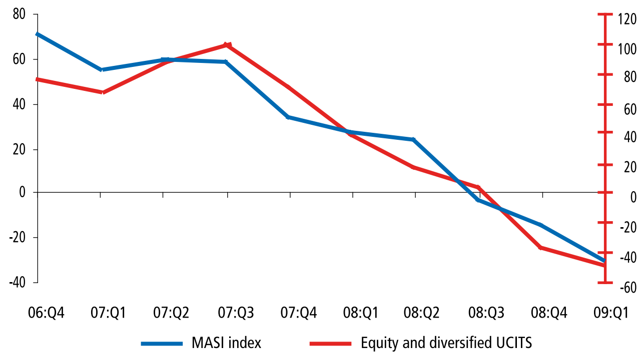
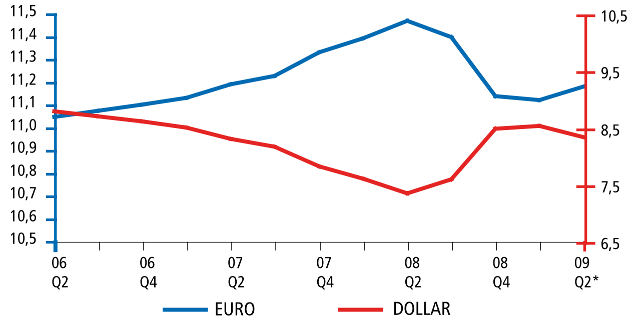
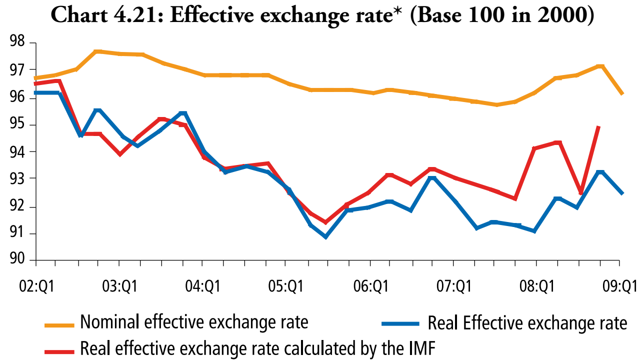


Chart 4.20: Exchange rate of the dirham (monthly averages)



** The second quarter of 2009 corresponds to the arithmetic average of April and May data.*

Chart 4.21: Effective exchange rate* (Base 100 in 2000)



**Provisional data*

Sources: IMF, and BAM calculations

block market.

Stock market capitalization declined by 4.4 percent from one quarter to the next, to stand at 508.5 billion dirhams. Yet, end-May data show a net improvement of market capitalization which reached 526.4 billion dirhams, rising by 3.5 percent compared to the preceding quarter.

At the end of the first quarter of 2009, sectoral indexes fared differently compared with the previous quarter. Transport, chemical and beverage indexes have witnessed the highest growth rates, respectively 25.6 percent, 22.4 percent and 21.8 percent, while the most severely hit sectors were the holdings, insurance and building and construction equipments which dropped 14.3 percent, 11 percent and 10.3 percent respectively.

As to real-estate assets, the available data suggest a continuation of the slowdown in this activity, observed since the last quarter of 2008, through to the end of the first quarter of 2009, especially with respect to luxury homes.

Chart 4.22: Stock market indexes

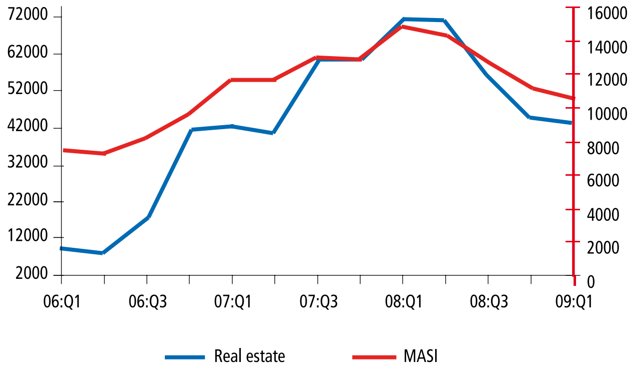
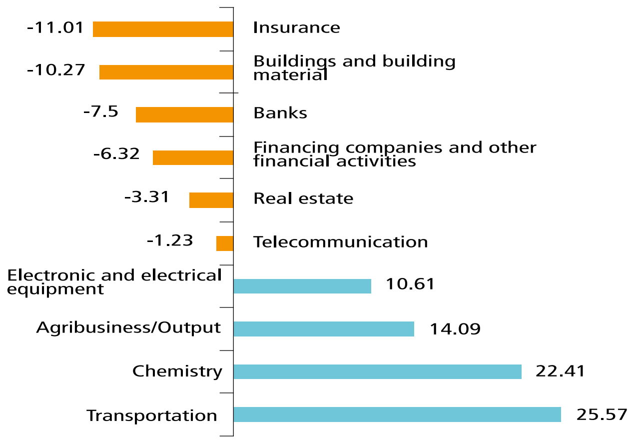


Table 4.3: Equity markets' PER

PER*	08 :Q1	08 :Q2	08 :Q3	08:Q4	09:Q1
South Africa	12.71	13.36	9.76	3.48	10.60
Argentina	2.58	2.61	8.94	5.68	6.24
Egypt	15.87	14.70	13.28	7.41	5.84
Euro stoxx 50	10.50	11.14	9.45	9.21	13.02
Hungary	10.36	9.13	7.510	4.55	4.77
Morocco	**21.20**	**20.10**	**17.70**	**17.40**	**15.00**
Taiwan	18.36	12.91	9.58	11.46	17.62
Turkey	8.36	6.89	6.96	5.23	12.14

** PER : Price Earnings Ratio*
Sources : Bloomberg and CFG (PER Morocco)

Chart 4.23: Quarterly change in sectoral indexes, Q1 2009/Q4 2008 in %



5. RECENT INFLATION TRENDS

The latest available data at the end of April 2009 confirm the quarterly forecasts of Bank Al-Maghrib published in the previous MPR, which projected a slowdown in both headline and core inflation. The recent trend in price indicators shows a continued easing of world commodity prices, a decline in foreign demand for Moroccan exports in connection with the economic deterioration in our major partner countries, and to a lesser degree the slowdown in domestic demand. Against this background, year-on-year headline inflation stood at 2.6 percent in April 2009, down from 3.6 percent in March, 3.8 percent in February and 4 percent in January. The decline in inflationary pressures is more pronounced at the level of core inflation which stood at -0.1 percent instead of 0.2 percent in March, 1.3 percent in February and 1.8 percent in January. Similarly, the easing of inflationary pressures is highly perceptible at the level of industrial producer prices which fell 17.8 percent in April, compared with 18.5 percent in March and 6.5 percent in February, after registering exceptionally high growth rates in 2008.

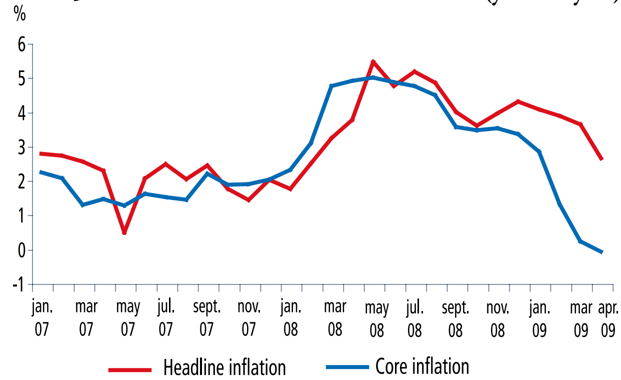
5.1 Inflation trends

In April, year-on-year headline inflation stood at 2.6 percent instead of 3.6 percent, 3.8 percent and 4 percent registered respectively over the previous three months, thus confirming the on-gowing downward trend as forecast in the PMR of March 2009.This decline is more noticeable at the level of core inflation which dropped 0.1 percent for the first time in the last two decades.

The analysis of inflation trends by major product categories shows that the decline in the inflation rate, which started last January, is mostly due to the drop in the staple food index. The latter has in fact decreased by 1 percent, 5.4 percent and 6.3 percent respectively, over the last three months, mainly as a result of the decline in world prices.

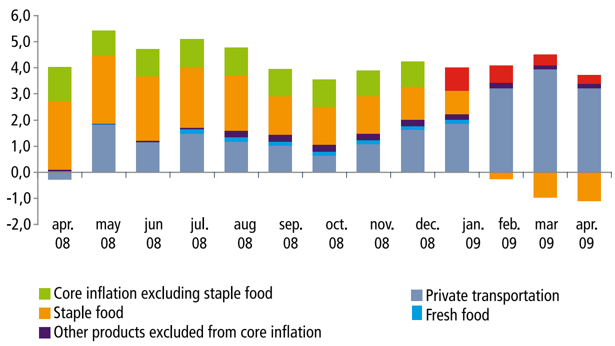
The impact of the drop in staple food prices was noticeable more at the level of core inflation than headline inflation, due to the increase in fresh produce prices. Indeed, the growth pace of the latter accelerated considerably since last January, moving from 8.9 percent in January to 15.7 percent in February and 19.2 percent in March, before relatively dropping to 15.4 percent in April. These double-digit growth rates of fresh food prices have therefore widened the gap between headline inflation and core inflation, bringing it to 2.6 percentage points in February, 3.4 percentage points in March and 2.7 points in April.

Chart 5.1: Headline inflation and core inflation (year-on-year)



Sources: HCP, and BAM calculations

Chart 5.2: Contribution of the main components to year-on year headline inflation (in percentage points)



Sources: HCP, and BAM calculations

Private transportation prices registered a sharp decline between January and April, moving from 6.4 percent to 1 percent. In fact, as from February 16, 2009, the domestic prices of some types of fuel have witnessed downward adjustments. It should be noted that the drop in the 50 PPM diesel which took place in April was not reflected at the level of the CPI. The price of this new product was almost brought in line with the diesel which was withdrawn from the market over the same month.

Moreover, prices of the majority of big non-food items have declined between February and April, especially capital goods, "Leisure and culture" and "other goods and services".

5.2 Goods and services

Inflation trends by category of products shows a continued downtrend in prices of processed goods, which decreased from 2.8 percent in January to 1.2 percent in April. This is mainly attributable to the 10.3 percent drop in April of cereal prices compared to a 7.7 percent increase in January, and the decrease by 5.1 percent of fats prices compared with a 4.9 percent rise, as well as the contraction from 4.6 percent to 2.9 percent of milk product prices, from 2.5 percent to 1.8 percent of household appliances and from 12.3 percent to 6.5 percent of jewellery and watches prices.

However, prices of "unprocessed goods and others" have markedly increased in February and March, by 10.1 percent and 10.8 percent respectively, largely due to the surge in fresh food prices. An easing was nonetheless recorded in the prices of "unprocessed goods and others" in April, as their growth rate fell to 8.1 percent year-on-year. Againt this background, prices of processed and unprocessed goods have jointly contributed to headline inflation 3.4 percentage points in February, 3.3 percentage points in March and 2.6 percentage points in April.

Table 5.1 : Inflation and its components

	Monthly change (%) (%)			Year-on-year (%)		
	feb. 09	mar 09	apr. 09	feb. 09	mar 09	apr. 09
Headline inflation	**0.4**	**0.7**	**0.3**	**3.8**	**3.6**	**2.6**
- Fresh food	6.1	4.5	1.5	15.7	19.2	15.4
- Private transportation	-5.0	0.1	0.0	1.0	1.0	1.0
- Other products excluded from core inflation	0.0	0.0	0.0	4.4	3.9	3.9
Core inflation *Including:*	**-0.7**	**-0.2**	**0.1**	**1.3**	**0.2**	**-0.1**
- Staple food	-3.7	-1.0	-0.3	-1.0	-5.4	-6.3
- Other food products	-0.4	-0.2	0.2	3.9	3.6	3.9
- Clothing	0.1	0.0	0.2	1.3	1.2	1.2
- Housing	0.1	0.1	-0.1	0.9	0.9	0.7
- Equipment	0.1	0.0	0.1	2.5	2.3	1.8
- Medical care	0.0	0.0	0.1	0.9	0.9	1.0
- Public transportation and communication	0.0	0.0	0.0	1.3	1.3	1.4
- Leisure activities and culture	0.6	0.0	0.0	2.3	1.8	1.8
- Other goods and services	0.3	0.2	0.2	2.8	2.4	2.2

Sources : HCP, BAM calculations

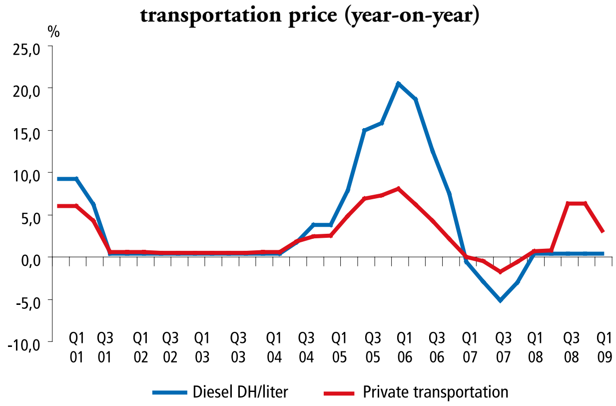
Table 5.2 : Domestic selling prices of oil products

Products (Dh/Liter)	apr. 2008	jul. 2008	sept. 2008	dec. 2008	feb. 2009	apr. 2009
Premium gasoline	10.25	11.25	11.25	11.25	10.25	10.25
Diesel fuel	7.22	7.22	7.22	7.22	7.22	-
Diesel 350/50 *	9.13	10.13	10.13	10.13	7.50	7.15
Industrial fuel(Dh/Ton)	2874	3374	3374	3374	3074	3074

(*) The Diesel 50PPM replaced the diesel 350 in February 2009 and the ordinary diesel in April 2009.

Source: Ministry of Energy and Mining

Chart 5.3: Diesel pump price and transportation price (year-on-year)



Sources: HCP, and the Ministry of Energy and Mining

In parallel, there was a drop in the prices of services, excluding private transport over the last two months of the year, with growth rates standing at 1.6 percent in March and 1.5 percent in April, after reaching 1.7 percent in January and 1.8 percent in February.

The contraction in services inflation is mainly due to the decline, as from March, in prices of "restaurants, cafés and hotels" ," Healthcare and articles of personal use", "Maintenance and repairs" and "Leisure". As a result, prices of services, including private transport contributed to headline inflation 0.4 percentage point in February, 0.3 point in March and 0.2 point in April.

5.3 Tradable and nontradable goods

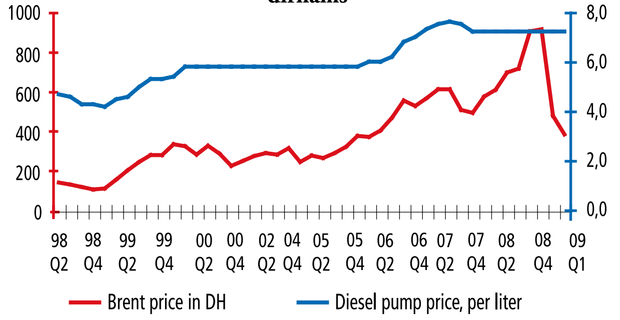
Tradable goods inflation stood at 6.1 percent in April compared to 8.1 percent in March, 7.6 percent in February and 6.9 percent in January. Despite the slowdown in the price rise of these products, their contribution to headline inflation remains important, standing at 2.2 percentage points. The breakdown by sub-categories shows that the relative drop in April is due, on the one hand, to the continued downtrend in staple food prices, and on the other, to the fall in fresh food prices as well as in fish and vegetables prices.

The deceleration in the prices of cereals and fats was mostly noticeable in April compared to March. This also is the result of the drop, for the first time since the beginning of 2009, in the price rise of vegetables and the important decrease in fresh fruits prices.

Similarly, the slowdown in the price rise of staple food reflects the preceding drop in world food prices which registered, later on, some stability during the first four months of the year 2009.

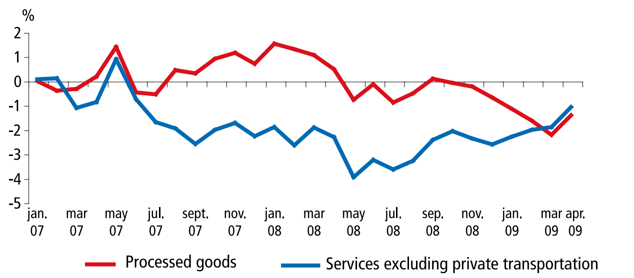
Concurrently, the rise in the price index of nontradable goods again slowed down from 1.9 percent, to 1.7 percent, thereby contributing 0.4 percentage

Chart 5.4: World oil price and pump price in Morocco, in dirhams



Source: IMF; Ministry of Energy and Mining

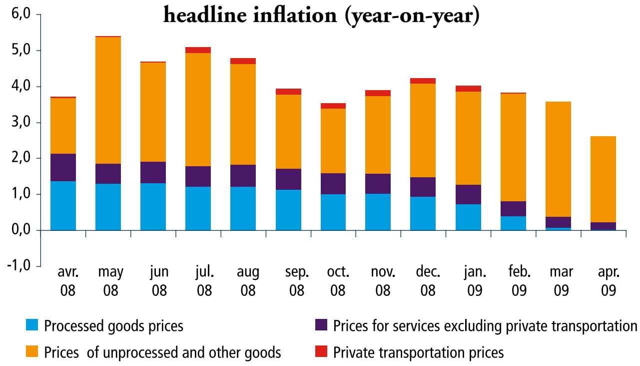
Chart 5.5: Relative prices of processed goods and services excluding private transportation compared with headline inflation (year-on-year)*



(*) Gap between the inflation rate of processed goods and services excluding private transportation and the headline inflation rate.

Sources: HCP, and BAM calculations

Chart 5.6: Contribution of goods and services prices to headline inflation (year-on-year)



Sources: HCP, and BAM calculations

Table 5.3: Price indexes for goods and services

	Monthly change (%)			Year-on-year change (%)		
	feb. 09	mar 09	apr. 09	feb. 09	mar 09	apr. 09
Processed goods	-0.3	-0.4	0.1	2.2	1.3	1.2
Unprocessed goods and others	2.8	3.1	1.0	10.1	10.8	8.1
Services excluding private transportation	0.1	0.0	0.0	1.8	1.6	1.5
Private transportation	-5.0	0.1	0.0	1.0	1.0	1.0

Sources : HCP, and BAM calculations

point only to headline inflation. The contraction is mainly due to the decline in prices of meat and some other services, especially "Maintenance and repairs" and "restaurants, cafés and hotels" items. Furthermore, the drop in the price of 50 PPM diesel during April had no effect on the prices of the item "Private transport", as the sale price of the 50 PPM diesel, which replaced ordinary diesel, was relatively the same, 7.15 dirhams a liter, excluding the transport differential.

5.4 Industrial producer price index

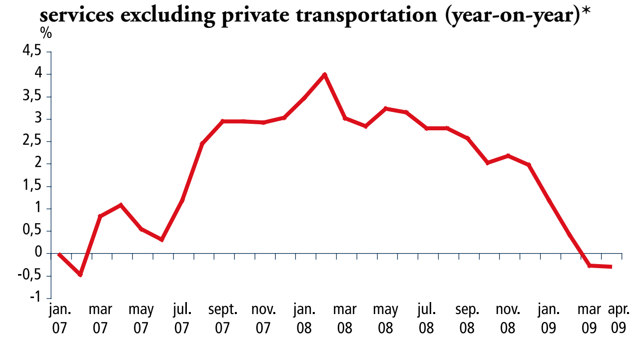
April data related to the industrial producer prices show a continued drop in production costs in the main industrial sectors, and suggest an easing of pressures on domestic prices. Indeed, the price index for manufacturing industries, calculated on the basis of ex-works prices excluding taxes and subsidies, registered a drop by 17.8 percent compared to 18.5 percent in the previous month.

Such a development takes place in an international context characterized by a marked contraction in world economic activity, together with a slight rebound in commodity prices excluding energy and oil prices during April. It results, in a large part, from the decrease by 40.3 percent in the coking and refining prices, instead of 45.3 percent in March, thereby negatively contributing by up to 11.8 percentage points to the decline in the overall index.

Excluding refining and coking, manufacturing producer prices registered an 8.5 percent decrease compared with 7.4 percent a month earlier, thereby reflecting the preceding marked drop in world commodity prices excluding energy.

This change is largely due to the decrease by 35.1 percent in the production costs of the chemical sector and 12.5 percent in the metallurgical sectors, and to a lesser degree, to the drop by 1.3 percent in the textile industry prices, suffering from an unfavorable international situation. This fall is also due to the 5.2 percent drop in the production

Chart 5.7: Gap in inflation rates between processed goods and services excluding private transportation (year-on-year)*



(*) The gag between the inflation rate of processed goods and services excluding private transportation

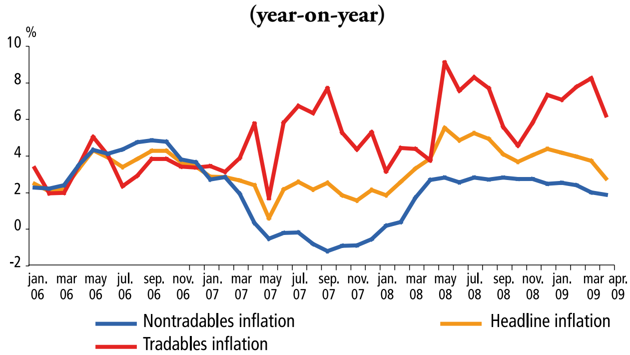
Sources: HCP, and BAM calculations

Table 5.4: Change in the price indexes of tradables and nontradables

	Monthly change (%)			Year-to-year change (%)		
	feb. 09	mar 09	apr. 09	feb. 09	mar 09	apr. 09
Tradables	1.6	1.9	0.6	7.6	8.1	6.1
Nontradables	0.1	0.2	0.2	2.3	1.9	1.7

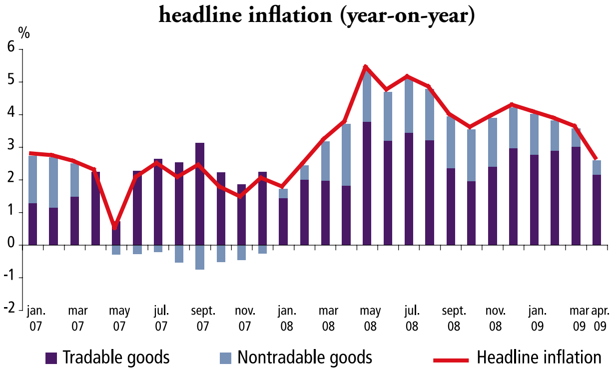
Sources : HCP, and BAM calculations

Chart 5.8: Price indexes of tradables and nontradables (year-on-year)



Sources: HCP, and BAM calculations

Chart 5.9: Contribution of tradables and nontradables to headline inflation (year-on-year)

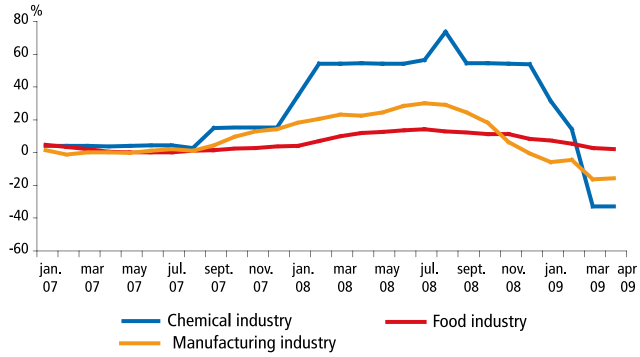


Sources: HCP, and BAM calculations

costs of the "metal working" industry, which rose 0.7 percent in the preceding month.

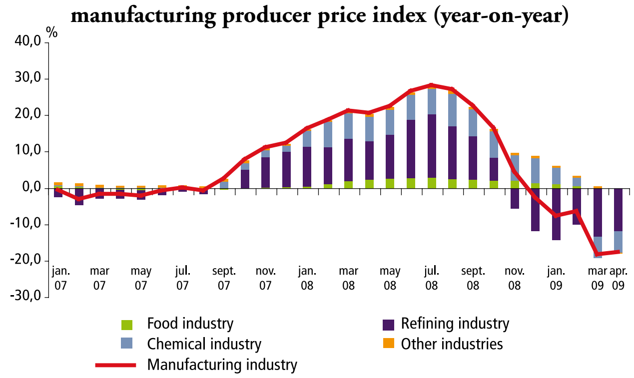
Similarly, the recent findings of BAM business survey for April related to corporate managers assessment indicate a continuation in the downtrend of finished goods prices, at the level of some industries especially food, textiles and leather industries.

Chart 5.10: Industrial producer price indexes (year-on-year)



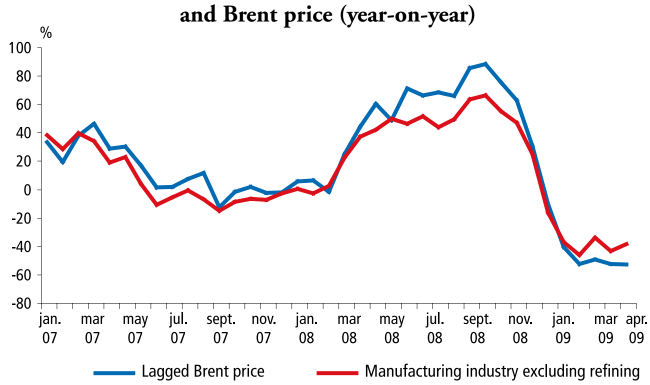
Sources: HCP, and BAM calculations

Chart 5.11 : Contribution of the main headings to manufacturing producer price index (year-on-year)



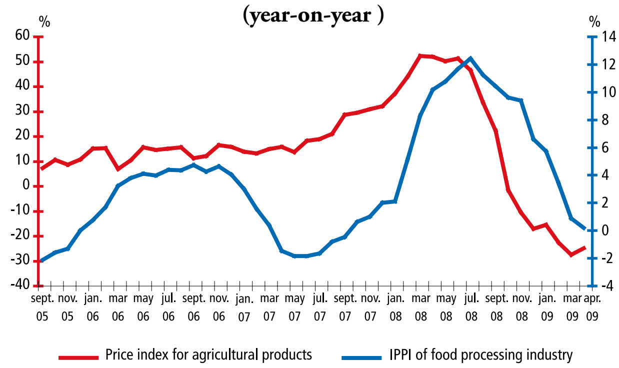
Sources: HCP, and BAM calculations

Chart 5.12: Refining indutry index and Brent price (year-on-year)



Sources: IMF and BAM calculations

Chart 5.13: Change in domestic and international food prices (year-on-year)



Sources: IMF, HCP, and BAM calculations

6. INFLATION OUTLOOK

This section outlines the inflation trend deemed to be the most probable (central forecast) over the next four quarters and examines the major risks associated thereto (balance of risks). The central forecast scenario is therefore dependent on the assumptions and trends envisaged for a series of variables affecting economic activity and inflation. Assuming the non-occurrence of the major risk factors identified, the inflation trend over the coming six quarters remains in line with the price stability objective, with an average forecast of about 2.4 percent. During the year 2009, inflation is expected to reach 2.8 percent, slightly above the forecast rate outlined in the last MPR (2.6 percent). Over the horizon of the next six quarters, the central forecast for inflation (2.4 percent) remains in line with the price stability objective. Nevertheless, for the second quarter of 2009, we project an inflation rate of about 2.6 percent, lower than the first quarter owing to easing fresh produce prices. It is expected that this inflation rate would drop in the third quarter (2.3 percent), then, remain stable at around 2.4 percent in the fourth quarter 2009 and first quarter 2010. Compared to the previous Report, inflation forecast was slightly revised downwards over the forecast horizon. The risks surrounding the central inflation forecast are generally skewed to the downside, particularly because of the expected developments in the world economic situation. However, the volatility of commodity prices represents a source of uncertainty.

6.1 Baseline scenario assumptions

6.1.1 International environment

The analyses made by international financial institutions regarding the economic outlook in the main partner countries of Morocco in the euro zone, namely France, Germany, Italy and Spain, agree on the persistent nature of the crisis until the end of 2010 (with different impacts from one institution to the other). Accordingly, the European Commission published the most optimistic figures as it expects a drop by 4 percent for the whole euro zone in 2009 and 0.1 percent in 2010, while IMF forecasts point to a contraction of GDP by 4.2 percent in 2009 and 0.1 percent in 2010, representing the worst-case scenario. In turn, the OECD adopts a median stance by forecasting a GDP growth by -4.1 percent in 2009 and -0.1 percent in 2010.

This expected rebound in 2010, characterized by a net decrease in the contraction pace of economic activity, woud largely be the result of the emergency measures taken by governments and central banks. The global economic outlook remains, however, still uncertain. On the one hand, there is the inherent risk of a greater impact of the financial crisis on the real sector as well as a more pronounced drop in world trade; on the other hand, more important positive effects on the economic recovery stemming from the contraction in world commodity prices may lessen the impact of the drop in economic activity.

On this basis, we assume in our central forecast a growth rate in our major partner countries of -3.4 percent in 2009 and -0.3 percent in 2010. This rate is considerably lower than the one reported in the Report on Monetary Policy of March 2009. It should be mentioned that this growth rate is calculated on the basis of an average rate weighted according to the respective shares of these countries in our external trade.

According to the latest updating of the IMF forecasts in April, the inflation outlook in the 16 countries of the euro zone highlights a marked drop in inflation in 2009 which is expected to hover around -0.9 percent. This downward trend is due to the easing of inflationary pressures induced by previous high commodity and oil prices, but also to the deteriorating labor market and to increasingly non-utilized output capacities. For 2010, we expect inflation to stand at around -0.1 percent.

Given the sustainable nature of recession in the euro zone during our 6-quarter forecast horizon as well as the easing of inflationary pressures due to lower commodity prices, we expect for this new forecast exercise that the ECB will keep its key rate unchanged for the whole of the year 2009 and 2010. This would correspond to a 3-month Euribor constant rate of 1.4 percent, contrarily to the precedent MPR where a 2.5 percent was anticipated up to the end of June 2010.

After reaching a peak during the third quarter of 2008, import unitary value indexes began a downward trend phase which may last until the end of 2010. In fact, the analysis of the change in the different indexes related to import unitary values, elaborated by Bank Al-Maghrib, and the results of the forecast models suggest a marked deterioration in the growth pace of import prices, with expected rates at -6 percent for 2009 and -17 percent for 2010. In the absence of quick recovery signals from the main energy and commodity consumer countries, the presented forecasts seem in line with market anticipations regarding basic products prices.

6.1.2 National environment

Despite this unfavorable global context, economic growth is expected to hover around 5.6 percent in 2009. This performance, however, is mostly attributable to agricultural activity. Bank Al-Maghrib estimates project an exceptional crop year of 98 million quintals, representing an added value of 20 percent compared with 2008. Furthermore, the effects of this year's exceptional rainfall will also be beneficial during the next crop year for which an average output of 60 million quintals is projected. These developments are likely to ease inflationary pressures, notably in the context of upside pressures induced by agricultural commodity world prices, as was highlighted in Chapter 3.

In contrast, given the drop in foreign demand, nonagricultural added value in Morocco is expected to grow only by a moderate 2.3 percent in 2009, registering a break with the trend observed over the last few years. In addition, many uncertainties weigh on its future growth, given the international developments mentioned in the first part of this chapter. In the assumption that the crisis will come to an end by next year, economic growth may stabilize or even resume its long term trend, especially that the national economy has many resilience factors. In fact, growth is mainly driven by domestic demand (consumption and public investment) without forgetting that sound public finances may allow for real room for manoeuvre to actively support growth.

The impacts of these developments on the labor market are differing. The latest available data (Q1, 2009) show a stabilization of the unemployment rate at 9.6 percent. This figure masks a disparity between rural and urban areas. Rural unemployment rate rose from 4 percent to 4.47 percent while urban unemployment rate reached 14.1 percent compared with 14.7 percent a quarter earlier. The impact of the crisis on the job market is, however, becoming more noticeable. Indeed, according to the statements of the Minister of Employment and Professional Training, there is a drop in the number of registered employees in the textile-clothing, car-equipment and electronic sectors. Conversely, other sectors continue to resist the crisis.

The number of registered employees increased in the aeronautics, off-shoring, call centers and building and public works sectors. In light of the slowdown in economic activity, it is likely that the situation of urban labor market would deteriorate in the second quarter, while the rural labor market would improve as a result of the good performance of the sector. The Quarterly Average Wage Index, calculated by the HCP, registered an increase by 6.6 percent year-on-year, or 2.6 percent in real terms during the fourth quarter 2008.

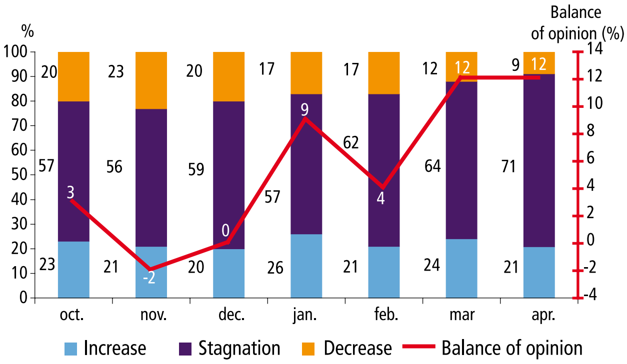
However, in view of the likely deterioration of the labor market, the forecast scenario adopts just one readjustment of the minimum wage by 5 percent, which was scheduled for July 2009.

World oil prices went up.Thus, the OPEC basket price stood at 66.35 dollars in June 1, while the average for May stood at 58.6 dollars.

This increase remains still below the prices of 2008. In fact, the average price for the first four months of 2009 settled at 45.6 dollars a barrel instead of 98.7 dollars over the same period a year earlier.According to IMF forecasts, the barrel price is expected to stand at 52 dollars for 2009 and 62.5 dollars for 2010. Compared with the projection of 100 dollars in the Finance Act, this level remains sustainable. Therefore, the forecast scenario adopted for prices at the pump is 7.22 dirhams per liter over the forecast horizon.

The results of Bank Al-Maghrib's business survey in the industrial sector for April show that the percentage of corporate managers which anticipate a stagnation of inflation over the next three months is higher than the one observed in March. Similarly, the percentage of those predicting a rise in inflation is edging downwards.

Chart 6.1: Corporate managers' perception of inflation for the next three months



Source: BAM monthly business survey

6.2 Inflation outlook and balance of risks

Assuming the non-occurrence of the main risks, the central forecast for the next six quarters remains consistent with the objective of price stability. It is expected to be slightly lower compared with the last MPR (2.4 percent instead of 2.6 percent). The Inflation forecast for the year 2009 shows, however, a headline inflation rate of approximately 2.8 percent. This forecast was readjusted upwards because of the inflation level in the first quarter. The latter was stronger than expected (3.8 percent compared to 3.4 percent) due to transporters' strikes and weather conditions, which pushed up prices of fresh produce.

Starting from the third quarter 2009, all inflation projections were adjusted downwards compared with the last MPR, except for the fourth quarter 2009 where inflation is expected to remain stable. Thus, inflation forecast for the third quarter 2009 dropped from 2.5 percent in the last MPR to 2.3 percent in the present MPR, rose from 2.3 percent to 2.4 percent in the fourth quarter 2009, fell from 2.5 percent to 2.4 percent for the first quarter 2010 and from 2.6 percent to 2.1 percent for the second quarter 2010.

These projections were developed based on assumptions considered as being the most probable. However, there are still many sources of uncertainty stemming from future trends in exogenous variables as well as from the forecasting models, which may impact the projected inflation rate either upwards or downwards. Analysis of the balance of risks shows an asymmetric forecast range represented in the form of a fan chart. This is a probabilistic evaluation of uncertainty zones surrounding the central forecast (see chart 6.1).

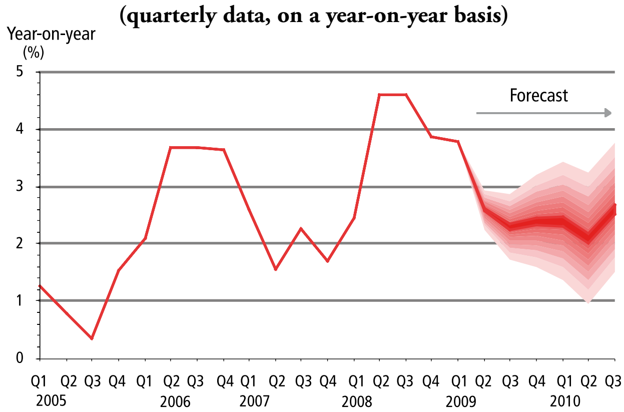
The fan chart of this forecast exercise suggests a very slight asymmetry denoting the existence of equivalent probabilities of rise and drop of headline inflation compared to the central forecast.This asymmetry stems from the wide-varied orientation of risks related, on the one hand, to uncertainties surrounding the developments of the international economic situation (persistent deterioration of economic activity in the main trading partners of Morocco and uncertainties surrounding the efficiency of recovery plans in the short and medium term, drop in commodities prices) and, on the other hand, domestic developments (uncertainties related to potential surge in oil prices which may impact diesel prices in Morocco during the second half 2010, in connection with a likely economic recovery in the biggest energy-consuming countries such as China, probable pressures on the wages' level resulting from the scheduled rise in the SMIG). The materialization of one or more of these risks could lead to a deviation of the inflation rate from the central forecast, which would stand, with a probability of 90 percent, within the forecast range represented on the fan chart.

Table 6.1: Inflation forecast for 2009 Q2-2010 Q3

Year-on-year

	2009			2010			Average 2009	Forecast horizon
	2nd quarter	3rd quarter	4th quarter.	1st quarter	2nd quarter	3rd quarter		
Central forecast (%)	2.6	2.3	2.4	2.4	2.1	2.6	2.8	2.4

Chart 6.2: Inflation forecast fan chart, 2009 Q2- 2010-Q3 (quarterly data, on a year-on-year basis)



(*) This chart represents the confidence interval relative to inflation projection derived from the baseline scenario (dark red) ; Confidence intervals from 10 percent to 90 percent are also reported. Each addition of intervals of the same color, on both sides of the central forecast, increases by 10 percent the probability that headline inflation would fall within the range delimited by these intervals. Therefore, if we consider the range delimited by the fifth interval around the central forecast, this means that we have a 50 percent chance that headline inflation would fall within this range in the future.

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