



◆ Monetary Policy Report ◆

Document prepared for  
the Bank Board  
June 17<sup>th</sup>, 2008





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## LIST OF ABBREVIATIONS

BAM	:	Bank Al-Maghrib
BoE	:	Bank of England
CFG	:	Casablanca Finance Group
CLI	:	Cost of living Index
CNSS	:	Caisse nationale de sécurité sociale (National Social Security Fund)
DF	:	Deposit facility
ECB	:	European Central Bank
GDP	:	Gross domestic product
HCP	:	High Commission for Planning
HP	:	Hodrick-Prescott
IMF	:	International Monetary Fund
LW	:	Liquidity withdrawal
MASI	:	Morocco All Shares Index
MHUPSD:		Ministry of Housing, Urban Planning and Space Development
MPR	:	Monetary Policy Report
NEER	:	Nominal effective exchange rate
OCP	:	Office chérifien des phosphates
OECD	:	Organization for Economic Cooperation and Development
REER	:	Real effective exchange rate
UCITS	:	Undertakings for collective investment in transferable securities
VAT	:	Value added tax

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## PRESS RELEASE

### BANK AL-MAGHRIB BOARD MEETING

1. The Board of Bank Al-Maghrib held its quarterly meeting on June 17, 2008.
2. The Board analyzed and approved the Annual Report on Morocco's economic, monetary and financial situation as well as on the Bank's activities for the year 2007, to be submitted to His Majesty the King.
3. The Board examined the development of the economic, monetary and financial situation since its last meeting held on March 25, 2008, as well as the forecasts prepared by the Bank up to the first quarter of 2009.
4. Year-to-year headline inflation stood at 3.7% in April, after reaching 3.2% in March and 2.4% in February. Core inflation remained at a high level, 4.8% in April against 4.7% in March. The recent price rise is basically driven by the uptrend in international staple food prices, which has also started to affect other goods and services. The hike in import prices is also passed on to industrial producer prices as shown by the sharp rise of this index in April.
5. Under the assumption of the non-materialization of the main risk factors, the central forecast for inflation up to the first quarter of 2009 stands at 2.7% on average, a level higher than that published in the Monetary Policy Report of March 2008 which was 2.2% on average over the forecast horizon. In the second quarter of the year, the central forecast is about 3.4% year-to-year, essentially due to the jump in food prices compared to the same period of the previous year, and then stands at about 2.4% in the three remaining quarters of the forecast horizon.
6. Relating to external and internal factors, the risks surrounding the central forecast yet continue to trend upwards. Externally, they concern the uncertain development of the prices of hydrocarbons and primary products. Internally, the main sources of uncertainty are linked to the impact of world prices on the subsidization system, particularly for oil products, with a greater-than-expected effect of rising income on inflation and with credit growth rate.
7. Against this background, the Board decided to keep the key rate unchanged at 3.25% while increasing the level of vigilance with regard to the development of inflation and risk factors over the forthcoming months.

*Rabat, June 17, 2008*

## OVERVIEW

In April, headline inflation stood at 3.7% on a year-to-year basis, against 3.2% in March and 2.4% in February. Core inflation remained at high levels, 4.8% in April compared to 4.7% in March. The recent price development has basically been influenced by the uptrend in international prices of staple food. In fact, import prices for most of these items maintained their upward trend, thus impacting inflation. The rise in import prices has also been passed on to industrial output prices, the which index increased sharply in April, particularly in the chemical, metallurgical and agri-food industries.

Against this backdrop, April prices for tradable goods continued to experience high growth rates, even though slower than those of March, 3.6% against 4.2%. At the same time, since March, the price index for non-tradable goods has kept on an upward trend after a period of uninterrupted fall between September 2007 and February 2008. This tends to reveal the existence of certain diffusion effects between the two categories of goods that could also intensify through wage adjustments.

The expected speed-up in the growth rate of national economic activity is getting confirmed, especially under the effect of improving agricultural output and household consumption, as well as continued solid performance in investment. The latest forecasts for cereal output indicate that production will be reached around 50 million quintals, a level below that of an average crop year. The output gap estimates show that production should therefore go beyond its potential, as of the second quarter of 2008. The non-agricultural output gap is expected to show positive figures during the first semester, with a slight rise compared to the level registered over the same period of 2007. Overall, the analysis of these risk factors for prices indicates the existence of a moderate pressure.

Furthermore, monetary analysis shows a dynamic development in demand for loans, especially for consumer, equipment and real-estate ones. On a year-to-year basis, the M3 aggregate grew by 13.4% in April, against 14.1% in Q1 of 2008 and 15.1% in Q4 of 2007. Concurrently, analysis of the bank credit structure per economic agent reveals an increased allocation to corporate lending that could strengthen the economy's supply and output capacities.

The recent decision to raise the minimum wage (SMIG), in July 2008 and 2009, will have a significant and long-lasting effect on average wages and on inflation. According to our estimates, the impact of a 5% rise in the minimum wage on inflation is of about 1 percentage point after four quarters and 1.1 percentage points approximately after eight quarters.

Assuming the major identified risk factors do not materialize, and in comparison with the forecasts published in the Monetary Policy Report of March 2008, the central forecast for 2008 as a whole is at a considerably higher level, moving from 2.2% to 2.7% on average. Headline inflation should

jump to 3.4% at the end of the second quarter of the current year, before it stabilizes at around 2.4% as of the third quarter of 2008 and over the three remaining quarters of the forecast horizon. Over this period, the forecast hovers around 2.7%. Core inflation forecasts for 2008 also indicate an upward trend, 3.6% instead of 1.7% one year earlier. Inflationary pressures weighing on price evolution might ease slightly starting from the third quarter. In fact, the analyses and data available indicate an easing of pressures on world prices of staple food during the second half of the year.

The risk balance continues to trend upwards as shown on the fan chart of inflation forecasts. The potential pressures on inflation are relating to internal and external factors, some of which have already materialized as foreseen in the previous Monetary Policy Report. Externally, they have to do with the scale of the rise in hydrocarbon and primary product prices. Internally, the main grounds for uncertainty concern the impact of higher international prices on the budget sustainability of the subsidization systems, in particular for oil products, a greater-than-expected effect of wage increases on inflation, and the growth rate of credit.



## 1. SUPPLY AND OVERALL DEMAND TREND

*In an international context marked by a slowdown in the economies of our partners mainly affecting the development of the tourist sector and export performances mainly, the Moroccan economy is expected to grow by 6.4% and 6%, respectively, during the first and second quarters of 2008. Growth is projected to be positively impacted by the improved performances of the agricultural sector, the consolidated growth of non-agricultural activities and the strength of consumption and investment. On the other hand, the contribution of foreign trade to growth remains negative, the import coverage, as at late April, having declined from 53% to nearly 49% in one year.*

### 1.1 Output

In a context marked by a slowdown in European growth, economic activity growth is thought to be of 6.4% in the first quarter of 2008, primarily in connection with higher output in the agricultural sector and the continued dynamism of non-agricultural activities.

The 2007-2008 crop year benefited from relatively positive weather conditions, characterized mainly by good rainfalls, even though lower than in the last five years. Nevertheless, the adequate spread over time of the rains during this year largely contributed to mitigating the negative combined impact of water shortage and the heat wave which appeared in early April 2008.

In these conditions, autumn wheat yields and surface areas seem to have declined by nearly 18% and 2%, respectively, compared to the results of the past five crop years. Therefore, estimated at 50 million quintals, cereal output more than doubled compared to the previous year, but remains slightly below that of an average crop year.

Moreover, the state of vegetation of leguminous plants, forage and spring crops was generally satisfactory and industrial crop output, market gardening produce, as well fruit tree production appear to be up compared to the previous year. As to breeding, spring rains widely contributed to improving the crop cover of pastures and, therefore, made it possible to reconstitute the livestock, thanks to the availability of cattle feed.

Similarly, coastal fish catches grew by more than three fifths at the end of the first four months of 2008, further to the efforts deployed in the framework of the Coast Development and Near-shore Fishing Modernization Program. In

**Table 1.1 : Year-on-year evolution of quarterly GDB at 1998 chained prices per major activity branches**

Branches (*)	2007				2008	
	QI	QII	QIII	QIV	QI(E)	QII(E)
Agriculture	-18.0	-20.9	-17.5	-19.4	10.0	9.5
Non-agricultural added value	4.7	5.5	5.7	6.0	5.5	5.2
Fishing	-5.0	6.7	-4.6	2.6	3.8	3.5
Mining	5.3	6.9	2.0	-4.0	-1.5	-1.2
Industry (excluding oil refining)	4.1	4.7	3.9	4.7	4.4	4.0
Oil refining and other energy products	-11.6	2.9	4.3	-1.6	2.0	-4.0
Electricity and water	6.2	3.9	7.7	-0.3	2.7	2.3
Building and public works	9.3	12.0	9.8	8.0	8.2	7.0
Trade	4.3	4.8	5.3	6.0	5.2	5.3
Hotels and restaurants	8.1	3.0	5.8	4.3	5.3	4.0
Transportation	4.4	4.1	4.0	6.9	6.4	5.3
Post and telecommunications	6.5	9.5	12.2	14.4	12.4	11.5
Financial activities and insurance	13.0	13.9	14.1	18.6	13.3	13.0
Services to business and private individuals	5.3	5.8	6.4	7.4	5.6	5.7
General government and social security	2.5	3.3	3.7	4.9	4.1	4.1
Education, health and social action	3.8	4.4	4.4	4.9	4.4	4.5
Taxes on products net of subsidies	10.5	10.8	6.7	8.6	7.8	7.0
<b>Gross domestic product</b>	<b>1.9</b>	<b>1.7</b>	<b>2.1</b>	<b>2.1</b>	<b>6.4</b>	<b>6.0</b>

(\*) The quarterly national accounts are henceforth established according to the new national accounting system of 1993 at chained prices; base 1998

Sources: HCP and BAM forecasts

addition, upgrading of fish product processing industries and extension of their distribution and marketing network will have a positive effect on the enhancement of the sector's potentialities.

In turn, the added value of non-agricultural activities should consolidate and grow by 5.2% in the second quarter of 2008 after the 5.6% reported in the first quarter.

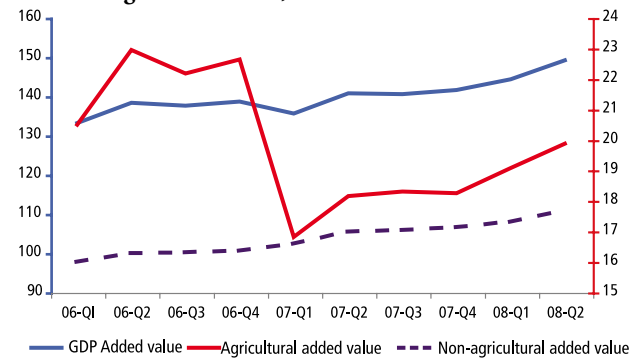
The added value of mining activities should be down by 1.5% and 1.2% respectively at the end of the first and second quarters of 2008. Similarly, the quantity of exported phosphates and derivatives declined, at the end of April, by 6.9%, while their value increased more than twofold.

As for energy activities, electricity output grew by 7.6%, at the end of March, thanks to the nearly 9% increase in thermal output. Concurrently, the added value of the «refining and other energy products» is expected to appreciate by 2% in the first quarter of 2008, further to the 6.7% jump in refining output. On the other hand, the added value of the sector is expected to drop by 4% in the second quarter, due to the 15.3% fallback of refining output in April.

Industrial activity excluding oil refining should maintain the pace registered over the last five quarters, growing at around 4% in the second quarter of 2008. This development is attributable to the good trend in agri-food industry in connection with the favorable growth outlook for agricultural, mechanical, metallurgical and electrical activities and for the «textiles and leather craft» sector. Concurrently, the volume of exports of finished capital goods rose by 19.6% in the first quarter of 2008. Likewise, the findings of the April 2008 economic survey conducted by Bank Al-Maghrib in industry show an improvement in sales and general orders, as well as an appreciation of price levels. In addition, excluding refining, the output capacity utilization rate is on the same trend as in early 2008.

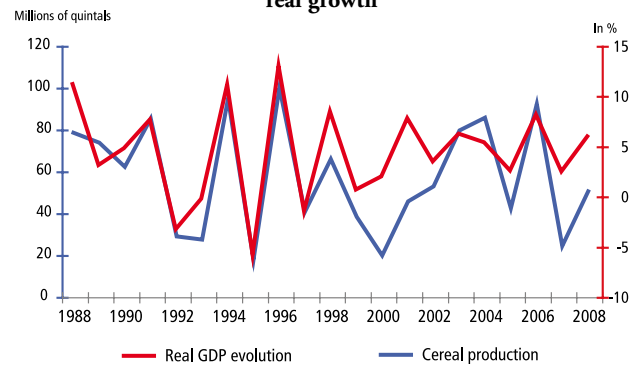
Although the building and public works sector was upheld by the strength in demand for new housing, its added value should slowdown slightly, growing by 7% in Q2 of 2008. In this context,

Chart 1.1: Quarterly growth of overall agricultural and non-agricultural GDP, in billions of dirhams



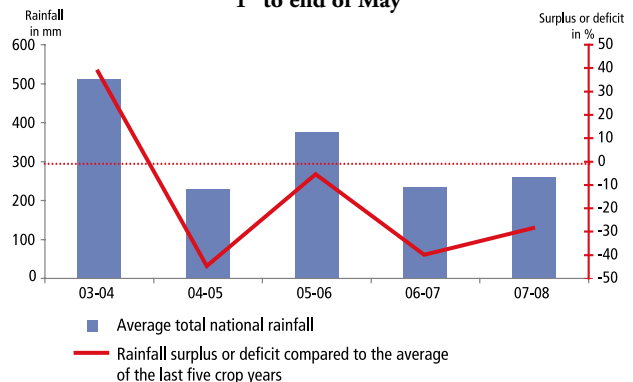
Sources : HCP and BAM forecasts

Chart 1.2 : Yearly evolution of cereal production and real growth



Sources : Ministry of Agriculture and Marine Fisheries, HCP

Chart 1.3 : Rainfall evolution from September 1<sup>st</sup> to end of May



Sources : Ministry of Agriculture and Marine Fisheries

cement sales continue to rise at a steady rate of 17.3% in April against 36.7% in January 2008. Moreover, real estate loans grew on a year-to-year basis by 42.7% at the end of April 2008.

The increase in the added value of the «hotel and restaurant» branch is forecast to reach 4% in Q2 of 2008 against 5.3% in Q1. The 14.3% growth in the flow of tourists went hand in hand with a decrease of 3.5% and 4%, respectively, in travel receipts and overnight stays registered in classified hotels.

The added value of the transport sector is expected to rise by 5.3% in the second quarter, after increasing by 6.4% at late March 2008, in connection with the 13.7% hike in air passenger traffic.

The post and telecommunications sector is expected to record a sustained growth estimated at nearly 12% in the second quarter of 2008, thanks to the vitality of fixed and mobile phone markets as well as the Internet whose subscribers' number grew in the first quarter by 68%, 20% and 34%, respectively.

Altogether, economic growth should stand at 6% in the second quarter of 2008, thanks to the rebound of agricultural activity and the good trend of the secondary and tertiary sectors.

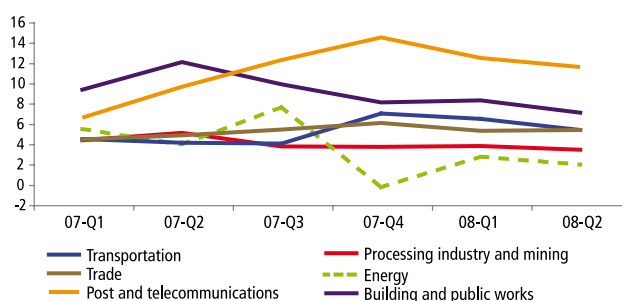
## 1.2 Consumption

Bolstered by the recovery of domestic growth, national final consumption is expected to grow at a sustained pace in 2008.

Household consumption should benefit from the 3.6% rise, at the end of April 2008, in remittance from Moroccans residing abroad and from the 41% expansion in consumer loans. Along the same lines, the 16.1% growth in finished consumer product imports at the end of April and the 17.5% rise in new car purchases at the end of February confirm the good trend in household consumption.

In addition, rural household consumption benefited from the improvement of incomes, further to the recovery of agricultural activities and the 7% rise in paid jobs.

Chart 1.4: Year-on-year evolution of the added value of some activity branches, in %



Sources : HCP and BAM forecasts

However, the slowdown in travel receipts since the beginning of the year should cause a deceleration in the growth rate of non-resident household consumption.

As to the general government's consumption, it was marked, at the end of April, by a rise of 8.9% in operating expenses, under the effect of a respective rise of 11% in the wage bill and of 5.8% in other goods and services' expenditure.

Finally, national final consumption is expected to move up in 2008 by 9%, under the influence of the 8.5% increase in household final consumption and the 10.3% rise in the general government's consumption.

### 1.3 Investment

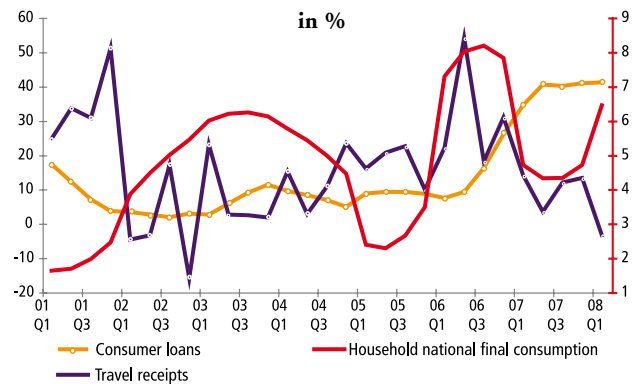
In 2008, the gross fixed capital formation is expected to be up by 12.8%, thus bringing the gross investment rate up to 33.8% of GDP.

Consequently, at 21.4 billion dirhams, imports of finished capital goods, increased by 11.7% at the end of the first four months of this year, more than one fifth of overall imports. Similarly, equipment loans rose by 35.7% during this period on a year-to-year basis.

Receipts from private foreign investments and loans amounted to 11.7 billion dirhams at the end of April, an increase of 10.2% on a year-on-year basis and an expansion of 68.9% compared to the average receipts of the same period over the past five years. Out of this total amount, foreign direct investments moved forward by 39.8%, to 9.7 billion dirhams.

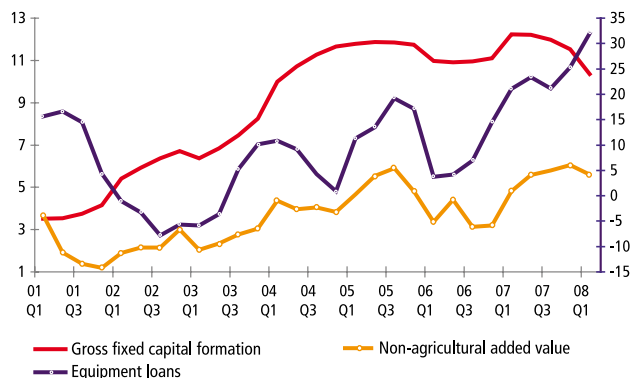
Based on the findings of the April 2008 industry survey conducted by Bank Al-Maghrib, company managers' projections point to an improvement in the business climate. This also applies to incorporation certificate issues, up by 5% at the end of March 2008, compared to the same month of the previous year. Overall, these business launching intentions concern services, trade, building and public works sectors with 51%, 23% and 14%, respectively.

Chart 1.5: Year-on-year quarterly evolution of household final consumption, consumer loans, and travel receipts, in %



Sources : HCP, Foreign Exchange Control Office and BAM forecasts

Chart 1.6: Year-on-year quarterly evolution of gross fixed capital formation, non-agricultural added value, and equipment loans, in %



Sources : HCP and BAM forecasts

Furthermore, at the end of April 2008, the Treasury's capital expenditure came to nearly 15.5 billion dirhams, with an increase of 67.6% compared to 2007.

## 1.4 Foreign trade

At the end of the first four months of 2008, the trade balance posted a deficit up by 40.5% on a year-to-year basis. This evolution is due to imports having increased (+29.3%) more rapidly than exports (+19.4%).

The rise in exports is basically attributable to phosphate and derivatives sales expanding more than twofold on a year-to-year basis. Sales of these products were positively affected by the doubling of their average export prices, even though the quantities declined. As to the other exports, they registered a limited increase of 1.8%, mainly attributable to the rise in the exports of crustaceans, mollusks and shellfish, canned fish and citrus fruits. However, the rise in sales abroad was mitigated by the decline in the exports of ready-made clothing, hosiery items and fresh agricultural produce.

The expansion of imports is primarily due to rising purchases of food and energy products. This evolution is mainly attributable to growing wheat imports which almost quadrupled. Similarly, the purchases of semi finished products and capital goods went up substantially, reflecting the dynamism of the processing industries' sector and the importance of public and private investments. Imports of consumer goods went up, further to rising acquisition of passenger cars, medicines and spare parts. As to the energy bill, it was affected by soaring oil product prices further to skyrocketing prices on the international markets (see Section 3.2).

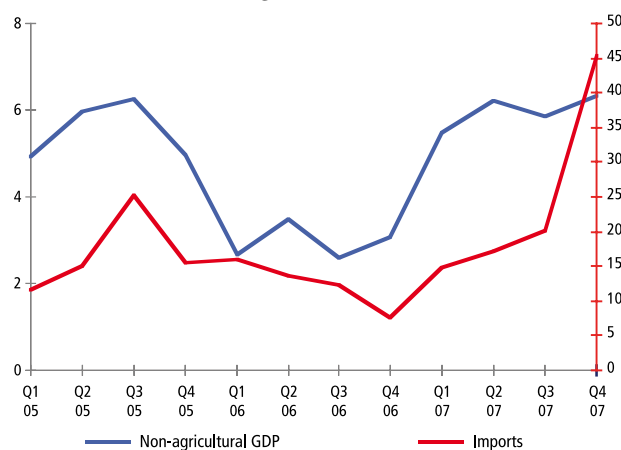
Economic growth forecasts for the eurozone, our primary trading partner, still trend downwards in the second quarter of 2008, which could lead to a fall in Moroccan exports, excluding phosphates and derivatives. At the same time, the cost of imports may increase over the forthcoming months under the effect of soaring primary product prices (see Section 3.3).

**Table 1.2 : Year-to-year evolution of the trade balance between January and April**

<i>(In millions of Dhs)</i>	J-A		Change	
	2007	2008	Amount	%
<b>Total exports</b>	40 785	48 693	+7 908	+19.4
Phosphates and derivatives' exports	6 210	13 499	+7 289	+117.4
Exports excluding phosphates and derivatives	34 575	35 194	+ 619	+1.8
Ready-made clothes	6 713	6 483	-230	-3.4
Hosiery items	2 506	2 311	-195	-7.8
Citrus fruit	1 192	1 514	+322	+27.0
Fishing product	4 116	4 789	+673	+16.4
<b>Total imports</b>	76 981	99 537	+22 556	+29.3
Imports of energy products	13 823	20 625	+6 802	+49.2
Wheat	1 555	6 040	+4 485	+288.4
Capital goods	19 197	21 444	+2 247	+11.7
Consumer goods	14 236	16 534	+2 298	+16.1
<b>Trade deficit</b>	<b>- 36 196</b>	<b>- 50 844</b>	<b>+11 816</b>	<b>+40.5</b>

Source : Foreign Exchange Control Office

**Chart 1.7: Year-on-year evolution of imports and non-agricultural GDP, in %**



Sources : HCP, Foreign Exchange Control Office

## 2. PRESSURES ON OUTPUT CAPACITIES AND LABOR MARKET

The rise in the cost of production factors continues to be fueled by the uninterrupted increase in commodity prices. On the basis of the forecasts for the first and second quarters of 2008, the non-agricultural output gap should post positive values with a slight hike compared to the level reported in the same period of 2007. The output capacity utilization rate in the industrial sector, excluding refining, remained along the same lines as the trend prevailing since the beginning of 2008. As to the available wage indicators, they point to a real-term rise in private wages during the first quarter of 2008. Overall, analysis of these risk factors on prices indicates moderate upward pressures, which will be gradually intensified by the expected raise of the minimum wage (SMIG) scheduled for July 2008 and the diffusion effect on other categories of wages that could result from it.

### 2.1 Pressures on output capacity

The effects of the poor crop year 2007 were felt on growth, with the output gap showing negative values in 2007. The non-agricultural output gap was almost nil during the second quarter of 2007.

According to the latest forecasts of Bank Al-Maghrib, growth is expected to strengthen in the second quarter of 2008 as compared to the previous year, under the effect of the rebound in agriculture and the continued sustained growth in non-agricultural sectors. Against this background, the global output gap will be positive as of the second quarter of 2008 and the non-agricultural output gap will post positive values in the first half of 2008, accelerating in the second quarter.

Given the lagged effect of the non-agricultural output gap on inflation, pressures of demand on prices should come to the fore as of the second half of 2008.

According to the data of the survey conducted by Bank Al-Maghrib in industry for the month of April 2008, the output capacity utilization rate maintained its downtrend and reached about 72%, mainly in connection with the drop in refining output. Excluding refining, this rate remains close to its trend recorded since the beginning of the year. At the sectoral level, the capacity utilization rate was down by one percentage point, compared to the previous month, in the electrical and electronic industries as well as in textile and leather craft industries, finally standing at 78% and 66%, respectively.

Chart 2.1: Overall output gap

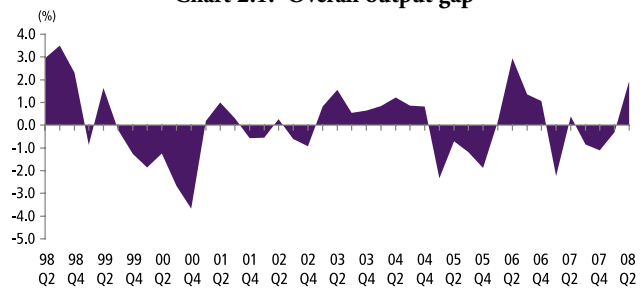


Chart 2.2 : Non-agricultural output gap

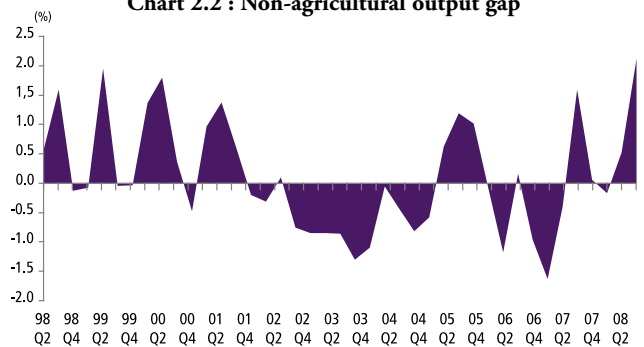
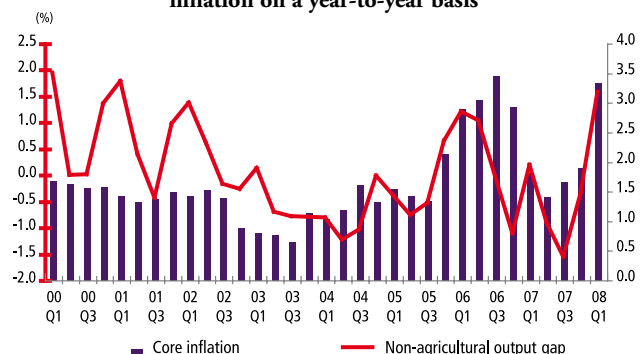


Chart 2.3 : Lagging non-agricultural output gap and core inflation on a year-to-year basis



As to the chemical and para-chemical industries, their output capacity utilization rate reached 73%, down by 7 percentage points.

The apparent labor productivity<sup>1</sup> of non-agricultural activities dropped in the first quarter of 2008, due to the rise in urban employment which exceeded that of non-agricultural GDP<sup>2</sup>.

According to the results of the Bank Al-Maghrib industry survey, the cost of non-energy commodities went up in the first quarter of 2008, with a positive opinion balance of 67%, followed by labor costs, energy costs and financial costs. At the sectoral level, commodity costs constituted the principal source of increase in unit production costs in all sectors, especially in food-processing, chemical, para-chemical, electrical and electronic industries.

## 2.2 Pressures on labor market

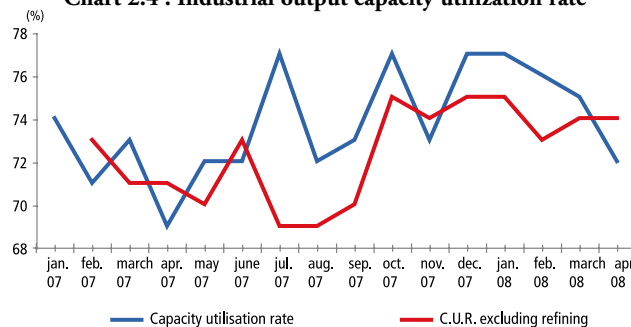
In the first quarter of 2008, the workforce was of approximately 11.3 million people, slightly up compared to the same period of 2007, covering increases in both rural and urban areas (2.8% and 3.1%, respectively). This evolution in the workforce led to a drop in the labor force participation rate by almost 1 point, to 51% on a year-to-year basis.

With regard to employment, the occupied workforce increased by 0.7%, to about 10.2 million persons in the first quarter of 2008. The number of net jobs created reached 74,000, resulting from the creation of 134,000 jobs in urban areas and the loss of 60,000 jobs in rural areas, and basically concerned the sectors of building and public works, industry and services. This situation is confirmed by the findings of Bank Al-Maghrib survey on industry which reveals an increase, from one quarter to another, in the workforce employed in the chemical and para-chemical industries, the mechanical and metallurgical industries and the electrical and electronic industries. This trend is expected to continue over the next quarter according to the company managers participating in the survey.

<sup>1</sup> The apparent labor productivity is measured by the ratio between output and employed workforce. This indicator must be interpreted with precaution because it does not take into account the efficiency with which labor force is used in production.

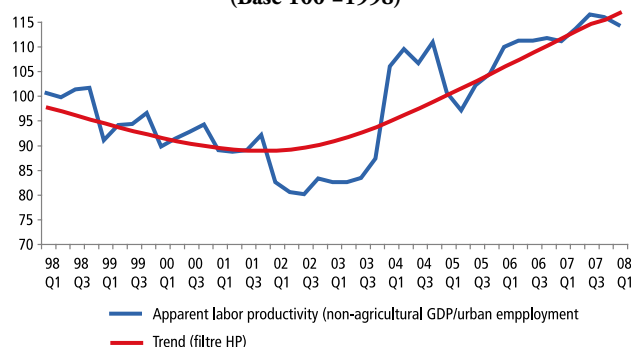
<sup>2</sup> BAM estimate for the non-agricultural GDP of 2008 Q1.

Chart 2.4 : Industrial output capacity utilization rate



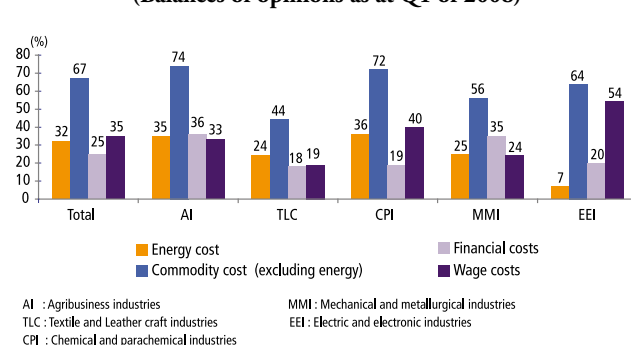
Source: BAM's monthly Economic Survey

Chart 2.5: Apparent labor productivity (Base 100 =1998)



Source : HCP and BAM estimates

Chart 2.6: Evolution of the unit cost per component (Balances of opinions as at Q1 of 2008)



Source: BAM's monthly economic survey

Against this backdrop, the national unemployment rate reached 9.6% as opposed to 10.1% one year earlier. This decline is basically attributable to the decrease of urban unemployment rate in connection with the consolidated growth in non-agricultural activities. With regard to the outlook, the rainfall recorded at the beginning of the 2007/2008 crop year is expected to give impetus to the primary sector and associated activities which, in turn, should stimulate job creation starting from the second quarter of 2008.

The quarterly average salary index<sup>1</sup>, calculated by the HCP on the basis of data provided by the CNSS and with reference to the year 2004 average wage, registered a year-to-year rise of 2.5% against a 1.3% drop compared to the previous quarter. In real terms, the said index grew by 1% instead of the 3.5% fall reported in the previous quarter. This rise is corroborated by the results of BAM survey indicating an increase in the wage costs during the first quarter of 2008, with an opinion balance of 35%, up by 12 points, in particular for the electrical and electronic industries.

In turn, the minimum wage remained stable in nominal terms and depreciated slightly in real ones. During recent the negotiations with labor unions, the Government decided a 10% rise in the minimum wage spread out over 2 years as of July 1st, 2008.

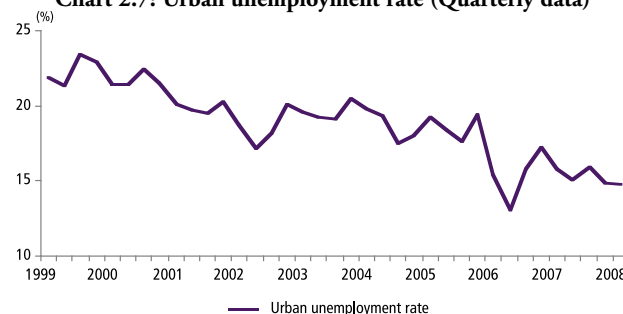
On the basis of the new models developed by the Bank, this adjustment is expected to have a diffusion effect on the other wage categories, with an upward impact on inflation starting from the fourth quarter of 2008 (see Box 2.1). The cumulated effect the minimum wage adjustment is expected to have on the average wage is estimated at 4.6 percentage points, on average, after four quarters and at about 6 points after eight quarters. This rise in the average wage should then be passed on to inflation, with an average cumulative effect of 1 point after four quarters and 1.1 points after eight quarters, this effect on inflation being due to dissipate after an average period of eight quarters.

**Table 2.1 : Activity and unemployment quarterly indicators per place of residence, year-to-year<sup>(1)</sup>**

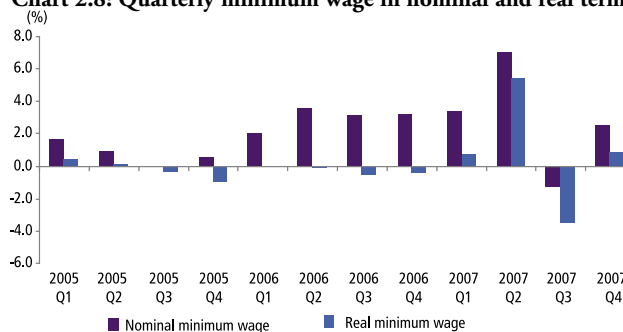
In millions	Q1 - 2007			Q1 - 2008		
	Urban	Rural	All	Urban	Rural	All
<b>Workforce and employment</b>						
Workforce <sup>(1)</sup>	5.8	5.4	11.25	5.88	5.39	11.27
Labor force participation rate (in %)	45.8	60.5	51.9	45.2	59.2	51
Occupied workforce	4.88	5.23	10.12	5.02	5.17	10.19
Employment rate (in %) <sup>(2)</sup>	38.6	58.1	46.7	38.6	56.8	46.1
<b>Unemployment</b>						
Unemployed workforce	0.92	0.21	1.13	0.86	0.21	1.07
Unemployment rate (in %)	15.9	3.9	10.1	14.7	4	9.6
<b>By degree</b>						
. Without degree	9.7	2.6	5.2	8.3	2.5	4.7
. With degree	21.5	12.5	19.7	20.4	12.8	18.9

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

**Chart 2.7: Urban unemployment rate (Quarterly data)**

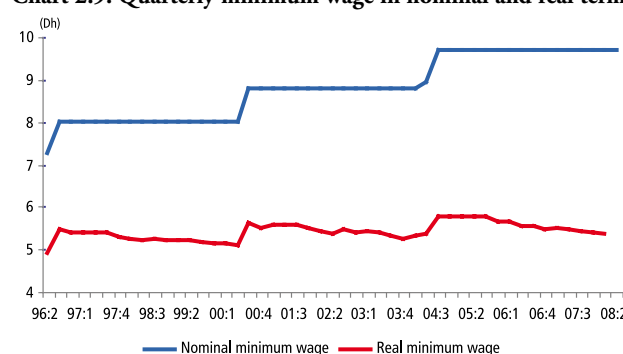


**Chart 2.8: Quarterly minimum wage in nominal and real terms**



Source: HCP and BAM estimates

**Chart 2.9: Quarterly minimum wage in nominal and real terms**



Source: Ministry of Employment

<sup>1</sup> The quarterly average wage index must be interpreted with precaution as it refers to an average wage rather than an index and only covers a fraction of the occupied workforce. In addition, the frequency and scope of the revisions can introduce bias into the analysis.



### Box 2.1 : Impact of a minimum wage increase on the average wage and inflation

In its attempt to deepen its analyses, Bank Al-Maghrib has tried to analyze the effects of a rise in the minimum wage on average salaries and inflation. To this aim, several econometric models have been developed to quantify the diffusion effects of a rise in the minimum wage on the average wage calculated on the basis of CNSS data, which constitutes a good indicator of wages in the formal private sector, and to evaluate the impacts on inflation. The approaches used are: a simultaneous equations model, a price-wage loop on the basis of an error correction model and a VAR-X model.

From a theoretical standpoint, the relationship between wages and inflation, often referred to as the price-wage loop, assumes that a wage increase, considered as being a rise in the production cost, is passed on to consumer prices, everything being equal elsewhere. As this price rise affects the purchasing power of households, it will push them to demand new wage adjustments the occurrence of which depends on the unemployment level. In fact, the lower the unemployment rate, the higher the probability of satisfying wage raise demands. This wage hike will, in turn, affect prices and so on. These transmission effects can, however, be partially impacted by a compensatory reduction in the other production costs, particularly input prices, electricity and energy charges, the rates of profit, customs duties and taxes, etc.

To be noted is that the materialization of the price-wage spiral can vary depending on the sector, as the price of non-tradable goods are more affected by wage increases, given a generally limited labor productivity in these sectors. As to the price of tradable goods, there exists a constraint relating to the market structure and increasing competition could cause producers to reduce their profit margins in order to preserve their market shares and therefore their cost-competitiveness. Due to the existence of a substantial informal labor market, companies manage to find a workforce which accepts salaries below the minimum wage. These different factors may thus modulate the impact of wage adjustments on prices.

As far as Morocco is concerned, the results of model simulations tend to indicate that the minimum wage affects both the average wage and inflation. On the basis of the models and available data, the estimates show that the cumulated impact on the average wage of a 5% raise of the minimum wage (in quarter Q0) varies between 2.32 percentage points and 5.98 points after four quarters and between 3.04 and 8.32 points after eight quarters. The impact on average wages dissipates after a period of 8 to 13 quarters. The diffusion of the 5% hike in the minimum wage to the average wage is in turn expected to generate a cumulative effect on inflation ranging from 0.5 point to 1.23 point after four quarters and from 0.8 to 1.33 points after eight quarters. This effect should gradually dissipate after an average period of 8 quarters.

**Cumulative impact of a 5% minimum wage increase on the average wage and inflation (in percentage points)**

Models	Impact after one quarter		Cumulative impact after 4 quarters		Cumulative impact after 8 quarters		Period of shock dissipation in quarters	
	Wage	Inflation	Wage	Inflation	Wage	Inflation	Wage	Inflation
Simultaneous equations	1.88%	0.28%	5.46%	1.23%	8.32%	1.33%	13	8
Error correction	1.28%	0.14%	5.98%	1.21%	6.51%	1.25%	8	8
VAR-X	0.48%	0.00%	2.32%	0.55%	3.04%	0.82%	9	8
Average	1.21%	0.14%	4.59%	1.00%	5.96%	1.13%	10	8

### 3. IMPORT PRICES

In a climate of uncertainty linked to the economic slowdown and the rise in the international prices of commodities and agricultural products, inflation in the major industrialized countries speeded up at the end of April 2008 on a year-to-year basis. In Morocco, the import price index excluding energy, up in 2007, followed the same trend during the first quarter of 2008, under the effect of the soaring prices for agricultural produce. With respect to oil products, their import prices continued to increase, in connection with strengthening world demand, fears of supply shortages, dollar's weakness and the persistence of geopolitical tensions. Although the inflationary effect in Morocco continued to be partially mitigated through the subsidization fund, these factors should continue to exert significant pressures on inflation over the forthcoming quarters.

#### 3.1 World inflation

In a context of economic slowdown and spread of the financial crisis internationally, inflation in the majority of industrial countries accelerated at the end of April 2008 compared to the same month in the previous year. This trend results, on one hand, from rising world energy prices, especially those of oil which reached much higher levels in the first quarter of 2008 compared to the same period in 2007, and on the other hand, from the soaring food prices further to the general rise in agricultural commodity prices.

In the eurozone, inflation rose in April 2008, settling at 3.3% compared to 1.9% one year earlier. In Germany, France, Spain and Italy, it grew to 2.6%, 3.4%, 4.2% and 3.6%, as opposed to 1.9%, 1.3%, 2.4% and 1.5%, respectively.

According to the majority of analysts, pressures on the prices of energy and agricultural commodities at the international level should continue in the medium term and entail considerable inflationary pressures for the remainder of 2008.

#### 3.2 Oil prices

The upward swing in oil prices continued in the first quarter of 2008, when the barrel price climbed on average to 95.3 dollars as opposed to 57.2 dollars in the first quarter of 2007, up by 67% on a year-to-year basis.

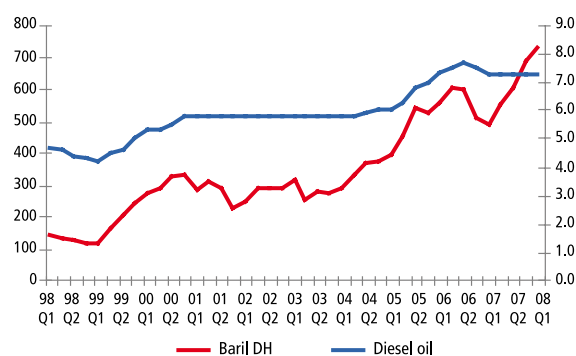
The upward trend in crude prices continued in May 2008, when the average price climbed to 123 dollars per barrel, after 109 dollars in April, up by 12.8% from one month to the other.

**Table 3.1 : Recent evolution of world inflation (on a year-to-year basis)**

	2007	2008	2008	Forecasts	
	April	March	April	2008	2009
United States	2.6	4.0	3.9	3.0	2.0
Eurozone	1.9	3.6	3.3	2.8	1.9
Germany	1.9	3.3	2.6	2.5	1.6
France	1.3	3.5	3.4	2.5	1.7
Spain	2.4	4.6	4.2	4.0	3.0
Italy	1.5	3.6	3.6	2.5	1.9

Sources : IMF and Eurostat

**Chart 3.1: World oil price and pump price in Morocco**



Sources : IMF and Ministry of Energy and Mining

In Morocco, prices at the pump, remained stable, due to the intervention of the subsidization fund.

According to the recent anticipations by world oil market operators, forecasts of price development remain upwards, primarily due to the high demand of emerging and developing countries, particularly China, India and Brazil.

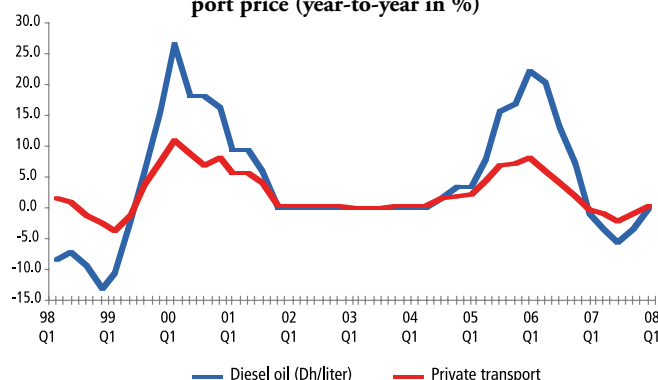
In addition, fears of supply shortfall in connection with disturbances in production areas in the world, the drop in world crude stocks, particularly in the United States, in a context of an increasing oil demand at the onset of the summer high season, the dollar's persistent weakness and the ongoing high geopolitical tensions, are all factors that will continue to exert pressures on oil prices in the medium term, in spite of the world economic slowdown.

According to the forecasts announced in April 2008 by the International Monetary Fund, the average oil price is expected to reach 95.5 dollars per barrel in 2008. These projections were revised upwards in May 2008, to 112 dollars per barrel. The recent forecasts of the US Energy Information Agency (EIA) show an average price of 110 dollars per barrel for this year. On the futures market, in 2008 the price of oil is expected to reach 120.2 dollars on average.

### 3.3 Commodity prices

Over the first five months of 2008, commodity prices on the world market posted an almost general rise, as the commodity price index excluding energy increased by 5.3% on a year-to-year basis. This trend involved agricultural commodity prices, in particular wheat, corn and barley. The hike is mainly explainable by the high demand from the US and the European Union as well as by the rise in fertilizer prices internationally. Wheat price reached a peak of 440 dollars per ton in March, but it gradually declined afterwards, reaching on average 329 dollars per ton in May, in connection with the projections of a good world harvest during the on-going year. However, the average price of wheat over the first five months of 2008 was up by 51% compared to the average

Chart 3.2: Fuel pump price and transport price (year-to-year in %)



Sources : HCP and Ministry of Energy and Mining

Table 3.2 Forecasts of current oil price (Brent) on the futures market (in US dollars)

Q2 2008	Q3 2008	Q4 2008	Q1 2009	Year 2008
116.8	130.8	130.8	120.2	120.2

Source : Bloomberg

Table 3.3: Domestic selling price of petroleum products

Products (Dh/Liter)	Jul. 2007	Oct. 2007	Dec. 2007	Feb. 2008	May 2008	June 2008
Premium gasoline	10.25	10.25	10.25	10.25	10.25	10.25
Diesel oil	7.22	7.22	7.22	7.22	7.22	7.22
Diesel 350	9.13	9.13	9.13	9.13	9.13	9.13
Industrial fuel (Dh/Ton)	2874	2874	2874	2874	2874	2874

Source: Ministry of Energy and Mining

of 2007. This was behind the increasing imports of Morocco’s cereal bill, in particular for wheat (see Section 1.4).

Metal prices showed signs of relaxation with the metal price index down by 1% in April compared to the previous month. This trend above all concerned zinc and lead, the prices of which continued to fall in April and May. Copper prices, which significantly rose in February, in connection with strikes in the mines of Chile, afterwards moved slightly down.

The forecasts of most international organizations suggest that the average prices of food staples in the medium term will remain slightly above the level reported in 2007.

Metal prices will tend to go gradually down throughout the current year, according to the recent trends on the futures market.

### 3.4 Import price indexes

The most recent figures available (March 2008) for the import price index excluding energy<sup>1</sup> suggest a continued price rise reflecting, somewhat belatedly owing to late deliveries, the developments on the international markets. Therefore, the index grew on average during the first quarter of 2008 by 30% year-to-year. This rise results from the combined effect of food and metal prices.

Import food price index rose on average by 40% year-to-year. The wheat index registered a 59% growth during the first quarter, in connection with world price developments last year (170% rise between June 2007 and February 2008). During the next quarter (the third), the index should be down given the lower world prices which have lost 40% of their worth since mid March. Vegetable oil and butter, both non-subsidized products that have fueled inflation over the past few months, registered rises of 38% and 85%, respectively. The easing of vegetable oil prices, especially those of palm, rapeseed and soybean seed, cannot yet be envisaged due to the rise in the price of oleaginous products now being increasingly converted into biofuels.

On the other hand, sugar is one of the very

Chart 3.3: Price index of food commodities and wheat

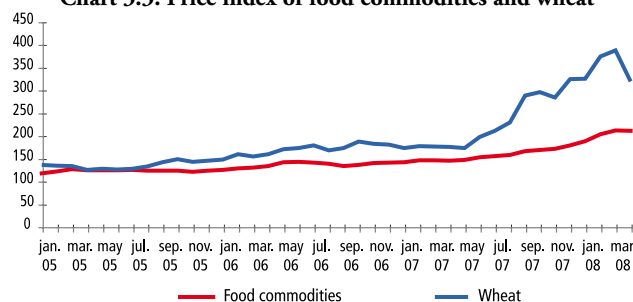
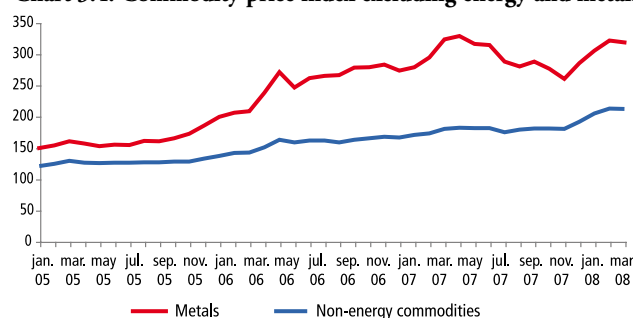


Chart 3.4: Commodity price index excluding energy and metals



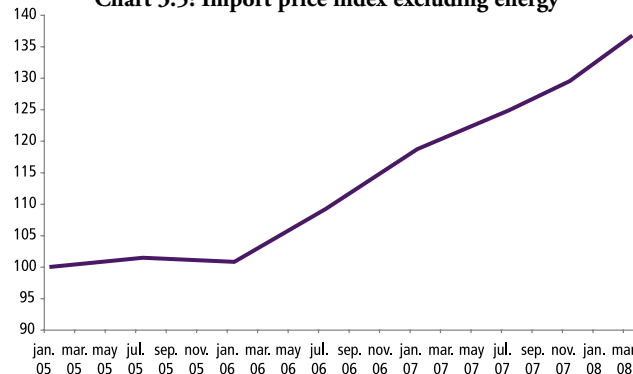
Source: IMF

Table 3.4 Evolution of wheat futures and forecasts per quarter

Wheat (Ct./bushel)*	Q2 2008	Q3 2008	Q4 2008	Year 2008
Futures	836.15	769.67	815.00	950.04
Forecasts	907.3	887.5	852.5	894.4

Source: Bloomberg

Chart 3.5: Import price index excluding energy



<sup>1</sup> The index is calculated on the basis of Customs data as issued by the Foreign Exchange Control Office

few food products that saw a price drop (-2%), though without impact on the CLI, due to customs protection. This drop is expected to continue in the third quarter of 2008, as world prices have fallen by 36% over the past three months, a level corresponding to their lowest since 2002.

Import price index of mining products grew very substantially in the first quarter of 2008, once again driven in particular by sulfur, whose index in the first quarter registered an exceptional average rise of 530% on a year-to-year basis. This trend is indicative of the upward thrust of world prices which multiplied by seven in 2007. Importers' futures contracts and late deliveries delayed the impact on the index until the first quarter of 2008. However, this ore being an input of an industry essentially geared to exports, its impact on the CLI is weak. Iron was in a situation of virtual stagnation at 1% on a year-to-year basis, while international over-the-counter prices<sup>1</sup> were up from 60% to 71% in early 2008. Moroccan import prices should reflect this increase in the very short term.

Inflationary pressures linked to import prices therefore remain very high and are not expected to recede over the forthcoming quarter. To a great extent under control thanks to the subsidization system, and fiscal expenses rising rapidly, price increases might occur on certain prices.

Chart 3.6: Food import price index

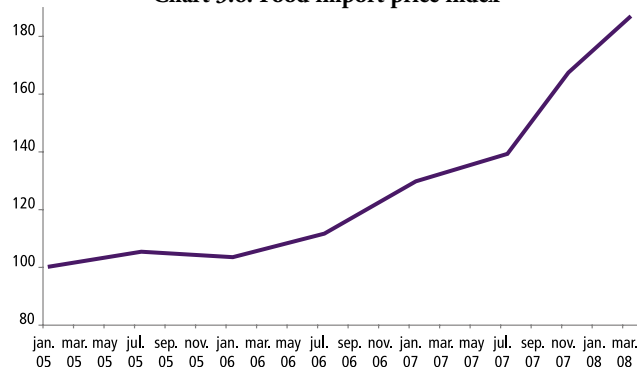
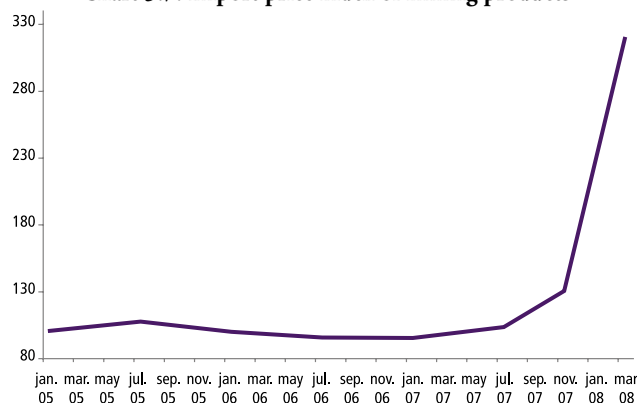


Chart 3.7: Import price index of mining products



<sup>1</sup> Iron is not quoted on international stock markets and the large companies of the sector negotiate a price serving as a reference for the rest of the market

## 4. MONETARY CONDITIONS AND ASSET PRICES

Data for the first quarter of 2008 and for April both indicate a slowdown in M3 growth pace and a continuation of credit dynamism. M3 growth on a year-to-year basis was of 13.4% in April, after having registered 14.1% in the first quarter of 2008 and 15.1% in the fourth quarter of 2007. Paper money was down, while bank money marked a slowdown in favor of time deposits and securities of monetary UCITS. Although to a lesser extent, the money surplus resulting from money creation remains a risk factor, in case of transformation of cash holdings into expenses. Credit dynamism continued and the growth of claims on the private sector was primarily fueled by loans granted to businesses and private individuals in the form of overdrafts, equipment loans and real estate loans. The development of consumer loans remains characterized by the persistence of a growth rate hovering around 40% both in April and the first quarter of 2008. Credit distribution shows that the dynamic of loans to businesses remains sustained, which tends to strengthen supply and output capacities. For lending rates, the outcome of the Bank Al-Maghrib survey shows a rise of 69 basis points in the overall weighted average rate during the first quarter of 2008. Prices of stock market assets substantially appreciated at the end of the first quarter of 2008, before undergoing downward adjustments in April and May, while real-estate asset prices, in light of available data, seem to have followed their upward trend.

### 4.1 Monetary conditions

#### 4.1.1 Interest rates

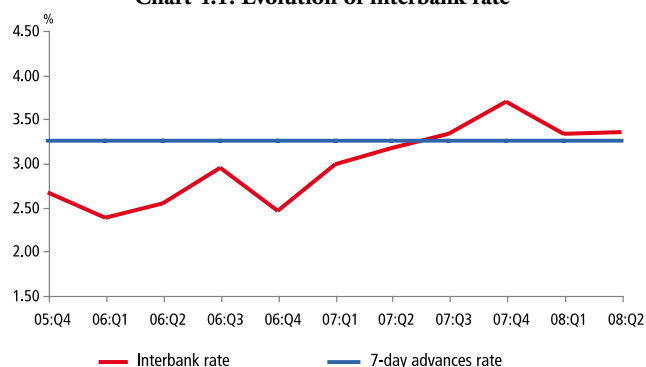
At its meeting on March 25<sup>th</sup>, 2008, Bank Al-Maghrib Board decided to keep the key rate unchanged at 3.25%. In April and May, the weighted average rate on the interbank market was similar to the key rate, after having reached on average 3.32% during the first quarter.

In this context, the rates for short-term Treasury bills issued by auction continued, in April and May 2008, their downward trend registered in the first quarter. This trend was also observed on the secondary market, where the yields for the same maturities remained near those of the primary compartment.

In the absence of Treasury issues in the second quarter of 2008, the reference for remuneration on medium and long-term bills remains the secondary market. In this compartment, yields were also down between April and May.

For time deposits' remuneration, the weighted average rate for 6 and 12-month deposits grew by 14 basis points in April 2008, after a slight drop in the first quarter.

Chart 4.1: Evolution of interbank rate\*



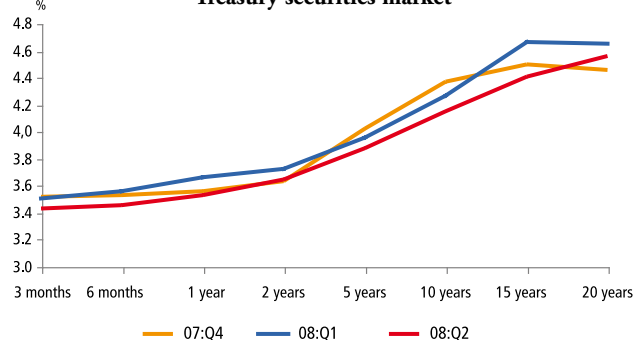
\*The observation of 2008 second quarter is in line with the daily average of the period from April 1<sup>st</sup> to May 31<sup>st</sup> 2008.

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

	2007				2008	
	Q1	Q2	Q3	Q4	Q1	Q2*
13 weeks	2.73	3.30	3.29	3.63	3.58	3.42
26 weeks	2.85	3.34	3.32	3.58	3.59	-
52 weeks	2.97	2.88	3.40	3.55	3.62	3.53

\*Data of the second quarter of 2008 correspond to the average of April and May

Chart 4.2: Evolution of interest rates structure per term on the Treasury securities market



Lending rates are indicative of both interbank rate variations, which represent the operational target of monetary policy, and the trend of economic agents' cost of financing consumption and investment expenditure.

**Table 4.2: Borrowing rates\* (time deposits)**

	2007				2008	
	Q1	Q2	Q3	Q4	Q1	April
6 months	3.26	3.52	3.41	3.49	3.37	3.43
12 months	3.65	3.63	3.69	3.71	3.71	3.78
Weighted average	3.49	3.58	3.60	3.62	3.56	3.69

\* Quarterly data are simple averages of monthly data

**Box 4.1 : Liquidity and implementation of monetary policy**

**Liquidity**

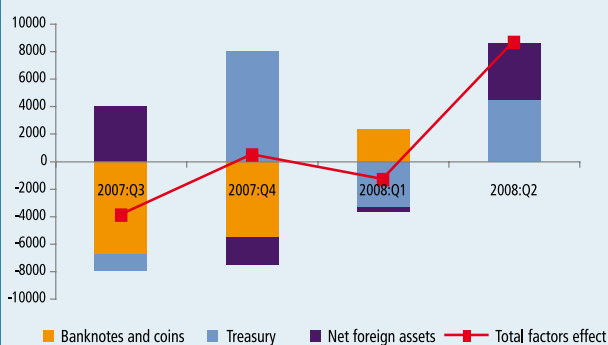
Banks' liquidity deficit fell on average from 11.4 billion dirhams in the fourth quarter of 2007 to 9 billion in the first quarter of 2008. Throughout this period, Treasury transactions led to a drawing down of liquidity amounting to 3.3 billion dirhams, mainly attributable to the high tax receipts and increased level of deposits with the Treasury. On the other hand, the reflow of notes and coins in circulation, further to the periods of Aid Al Adha (Feast of the Sacrifice) and the New Year, amounted to 2.3 billion dirhams, while external asset transactions affected banks' cash holdings only marginally.

In April and May, the autonomous factors had globally exerted an expansionary effect of 8.6 billion dirhams on banks' cash holdings, resulting from the difference between their expansionary impact of 11.2 billion registered in May and their restrictive effect of 2.6 billion dirhams in April 2008.

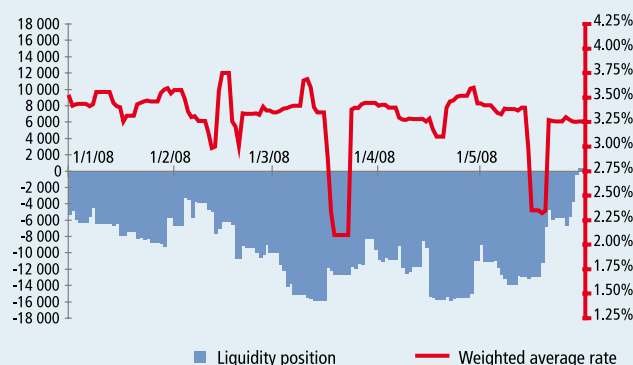
Actually, the collection of the first downpayment of corporate tax first soaked up bank liquidities in April 2008, during which the public treasury withdrew 4.7 billion dirhams from the banking system. The restrictive effect of the Treasury was partially offset by the positive impact of currency transactions which amounted to 2.1 billion dirhams while notes and coins in circulation had practically no effect on banks' cash holdings in the same month.

In May 2008, the restrictive trend of the autonomous factors reversed, mainly under the effect of massive withdrawals on the part of the principal depositors with the Treasury, in particular Barid Al-Maghrib which made two withdrawals from its deposit account with the Treasury, totaling 6.2 billion dirhams on May 20 and 21. Treasury transactions were behind the liquidity injection of 2.2 billion dirhams to banks cash, due to defeasance of the Treasury, the same as external asset transactions that entailed a liquidity injection of 2 billion dirhams. Notes and coins in circulation remained almost without effect on banks' cash holdings.

**Chart B.4.1: Evaluation of liquidity factors effect in millions of dirhams**



**Chart B.4.2: Liquidity position (millions of dirhams) and weighted average rate of the interbank money market**



**Bank Al-Maghrib interventions and interbank rate growth**

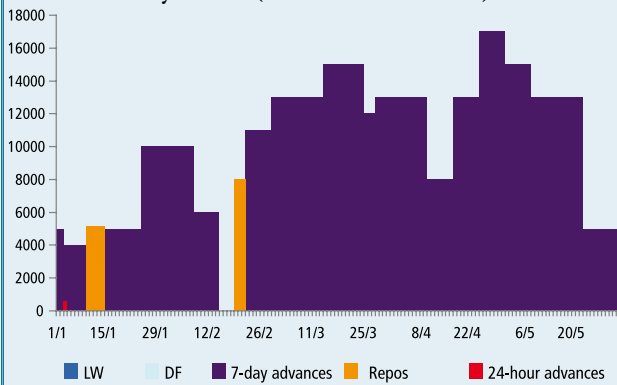
In April and May 2008, Bank Al-Maghrib intervened exclusively through 7-day advances at an average daily amount of 11.8 billion dirhams.

As of May 22, and taking account of the liquidity injections mainly resulting from Barid Al-Maghrib withdrawals from the Treasury on May 20 and 21, the Bank reduced the volume of its main operations from 13 to 5 billion dirhams.

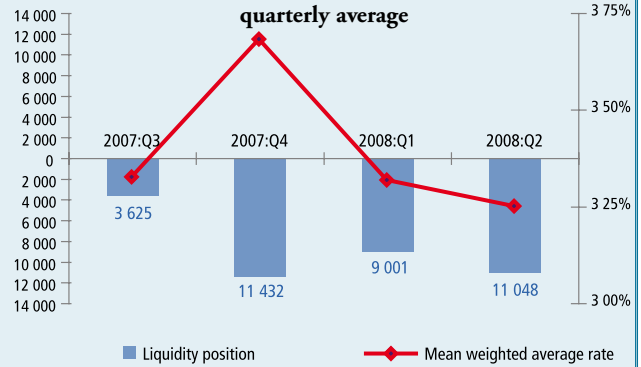
Therefore, the weighted average rate stood at 3.25% during this quarter, registering a drop of 7 basis points compared to the previous quarter.

In turn, interbank rate volatility, measured by its standard deviation, marked a drop of 5 basis points, falling from 0.35% in the first quarter of 2008 to 0.30% between April and May 2008.

**Chart B 4.3: Bank Al-Maghrib interventions on the money market (in millions of dirhams)**



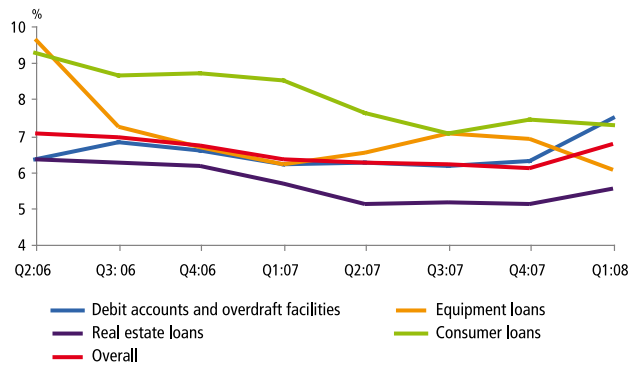
**Chart B 4.4 : Evolution of liquidity position in millions of dirhams and of the weighted average rate (in %) in quarterly average**



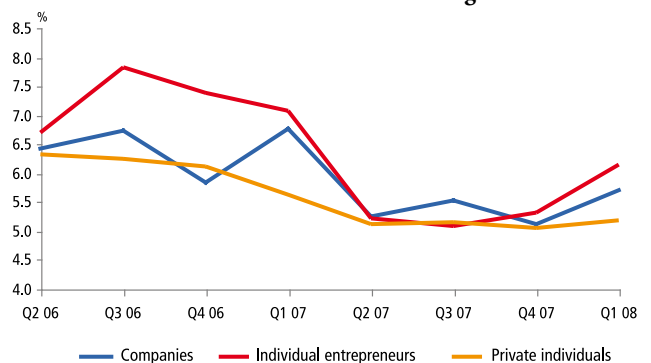
The data of the Bank Al-Maghrib survey show a rise of 69 basis points in the weighted average rate. This increase was basically driven by the interest rates on overdrafts that could be related in particular to the rising demand, considering the increase in subsidization fund arrears and the price rise of imported commodities, particularly agricultural ones.

First quarter data also show a reduction in the difference between the rates applied to the various credit categories. Indeed, rates for real estate loans, historically lower than other rates, grew from one quarter to the next, partially due to the rise in Treasury bill rates during the last quarters. On the other hand, rates on consumer and equipment loans, which previously far exceeded the average lending rate, fell back for the second consecutive quarter.

**Chart 4.3: Lending rates**



**Chart 4.4: Real estate loans' lending rates**





### 4.1.2 Money, credit and liquid investments

#### M3 growth

After having registered historically high growth rates in the last two years, bringing its outstanding amount to a level higher than its equilibrium value<sup>1</sup>, the growth of M3 aggregate has fallen back to relatively moderate paces since the last quarter of 2007.

M3 aggregate thus rose by 13.4% in April, after 14.1% in the first quarter of 2008. This trend gave rise to greater mitigation of the scope of the money surplus accumulated by non-banking agents.

The slowdown in the pace of money creation is more clearly discernable through short-term variations. The rise in M3, over the first four months of 2008, was indeed limited to 1.7%, against 4.1% in 2007 and 2.5% in 2006. As indicated by the evolution of money gap, this increase may foreshadow a moderation of inflationary pressures in the longer term.

At the same time, the slowdown in M3 growth concurred with a movement of portfolio switching by non-banking agents. The data show a drop in the stock of paper money over the first four months, along with a higher increase in time deposits in April to the detriment of demand deposits.

As part of the ongoing moderation observed since the end of 2006, the growth of notes and coins in circulation was indeed limited to 9.5% on a year-to-year basis in April. Time deposits posted a year-to-year growth rate largely below that of M3.

As regards bank money, the situation of which largely determines that of money supply, its growth rate remains high, though down to levels close to those observed before the strong expansion of 2007. This observation is particularly noticeable in non-financial agents' demand deposits, whose year-to-year growth was limited to 18.1% in the first quarter and to 15.9% in April.

<sup>1</sup> In practice, it is considered that an evolution stationary around a weak value is compatible with price stability

Chart 4.5: M3 annual growth and its trend in %

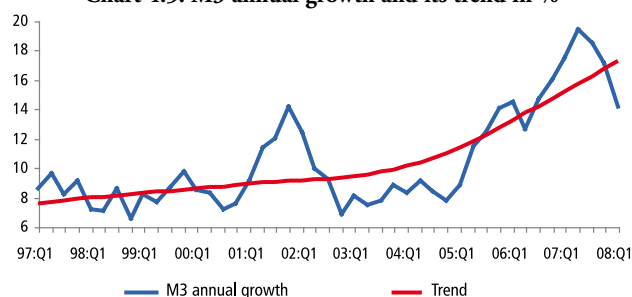


Chart 4.6: Money surplus (in percentage of M3 and M1 equilibrium outstanding amount in real terms)

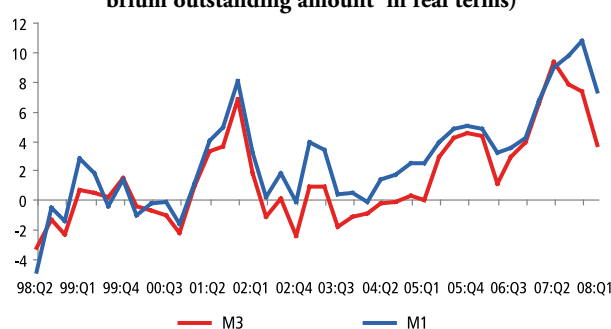


Chart 4.7: Yearly growth of M3 components (in %)

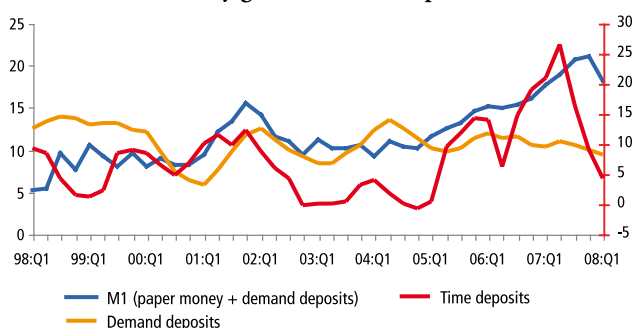
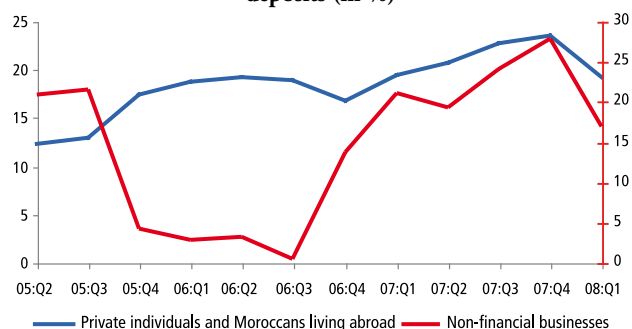


Chart 4.8: Yearly growth of non-financial agents' demand deposits (in %)



In the absence of new financial operations, the slowdown in bank money growth, which has as a corollary the strengthening of time deposits and monetary UCITS, is expected to continue in the short term. This trend could further reduce the gap between M1 and M3 growth pace, thereby improving the readability of the signals transmitted by monetary trends and their impact on the future evolution of overall expenditure and prices.

**Bank loans**

In the first quarter of 2008, bank loans saw an annual growth rate of 28.6%, almost identical to the one observed in the fourth quarter of 2007. This pace, standing at 28% in April, remains above the historical averages observed prior to the sharp expansion registered in 2007.

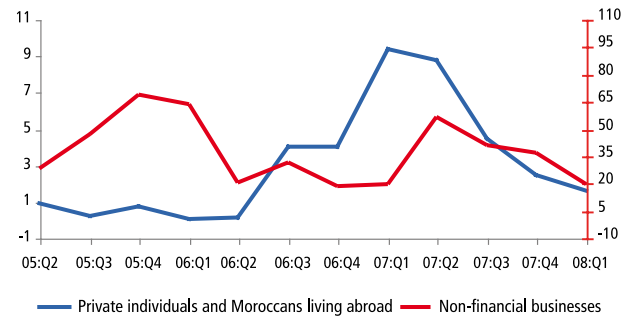
Analysis of loans' structure per economic agent confirms the continued development of loan granting to businesses.

Indeed, overdrafts, mainly granted to corporate entities, kept a rapid pace of growth. This trend, encouraged by the favorable economic situation, is also explainable by the rise in cash requirements of some large businesses, in particular those working in the production and distribution of petroleum products and cereals, further to the State's accumulation of arrears to them.

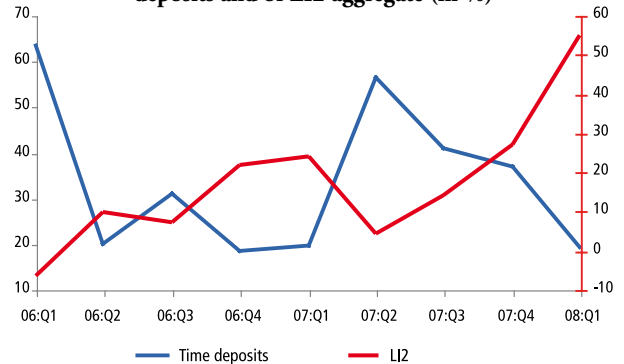
Equipment loans, also largely intended for non-financial businesses, grew by 35.7% at the end of April on a year-to-year basis. This rise reflects the good condition of investment, primarily in the industrial and services sectors which on average accounted for 70% of equipment loans over the last four quarters.

In turn, the structure of real estate loans remains dominated by claims on households up to 62%, resulting from the relaxation of credit conditions over the past two years, in particular with the drop in interest rates, the diversification of offer and the development of low-cost housing projects. However, the increase in the volume of this credit category, which reached 43.5% in the first quarter and 42.7% in April 2008, appears to increasingly benefit businesses, the share of which rose in one year from 13% to 21.6%.

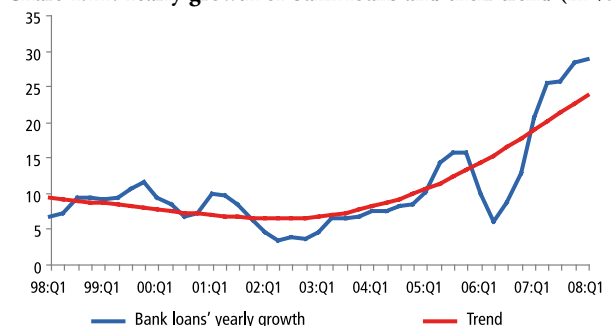
**Chart 4.9: Yearly growth of non-financial agents' time deposits (in %)**



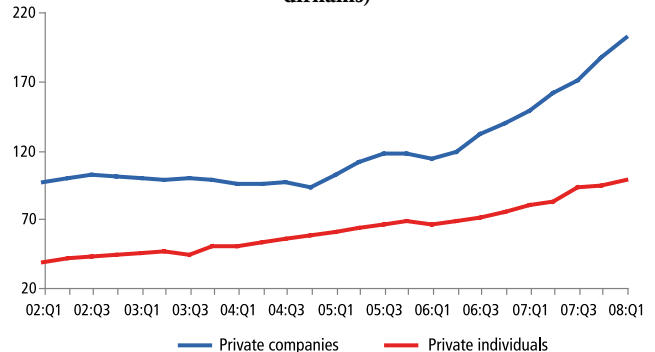
**Chart 4.10: Yearly growth of non-financial agents' time deposits and of LI2 aggregate (in %)**



**Chart 4.11: Yearly growth of bank loans and their trend (in %)**



**Chart 4.12: Loans structure per economic agent (in billions of dirhams)**



Advances to finance companies and consumer loans directly allocated to households were up respectively by 41.3% and 40.7% in April, after 42.7% and 41% in the first quarter. However consumer loans outstanding remains relatively low.

### Other sources of money creation

Net claims on the Government and net foreign assets contributed little to money creation over the first four months of the year, in favor of bank loans.

Net foreign assets grew, on a year-to-year basis, by 7.3% in April 2008, after 10% in the first quarter. This trend is mainly explainable by the extensive currency outflows in connection with the higher import expenses. This is also attributable to the slowdown in travel receipts and financial operations' revenues.

Net claims on the Government at the end of April 2008 showed a 5% drop on a year-to-year basis, after a 1.6% growth in the first quarter. This decline is explainable by the Treasury's low recourse to the auction market as well as by the allocation of an increasingly large share of bank assets to credit, as is indicated by the drop in banks' share in the total amount outstanding of Treasury bills since the second quarter of 2007.

### Liquid investments

Liquid investment aggregates are close substitutes to money. In addition to the assessment of total amount outstanding of the economy's liquidities, their growth makes it possible to assess portfolio switching operations conducted by economic agents from one period to the next.

Overall, data of the first quarter 2008 and of April confirms the apparent lack of interest by non-financial agents in UCITS securities, except for monetary funds. The latter, up by 54.9% on a year-to-year basis at the end of April, proved to be the interest-bearing investments most favored by non-financial agents for their surpluses pending assignment accumulated in 2007. Bond

Chart 4.13: Yearly growth of bank loans' main categories (in %)

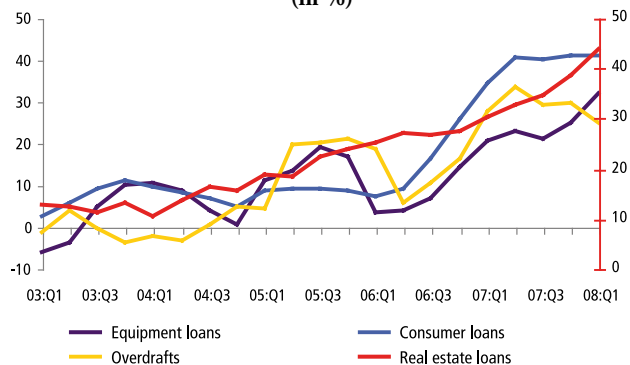


Table 4.3: Breakdown of real estate loans granted to non-financial agents (in %)

	Businesses	Private individuals	Moroccans living abroad
Average 2001-2005	2.0	87.8	10.1
Average 2006	9.0	81.8	9.2
2007 Q1	12.8	77.3	9.9
2007 Q2	14.8	75.3	9.9
2007 Q3	16.2	73.8	10.0
2007 Q4	17.0	72.6	10.4
2008 Q1	21.7	68.3	10.0

Chart 4.14: Evolution of overdraft facilities and non-agricultural GDP (Year-on-year in %-moving average of three quarters)

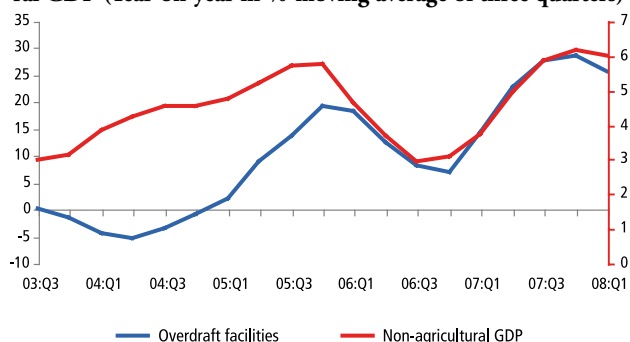
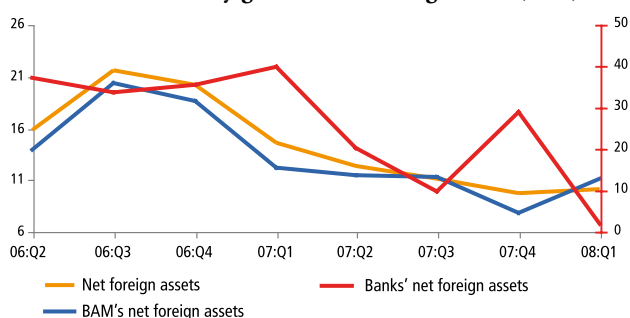


Chart 4.15: Yearly growth of net foreign assets (in %)



UCITS dropped in April by 46.7% on a year-to-year basis, after 40.7% in the first quarter. Equity and diversified UCITS reported a year-to-year rise of 25.2%, below the MASI performance across the same period.

### 4.1.3 Exchange rates

At the end of the first quarter of 2008 and compared to the previous quarter, the national currency appreciated on average by 6.29% against the sterling and 2.80% against the dollar. On the other hand, it depreciated by 4.30% against the Japanese yen, by 4.15% against the Swiss franc and by 0.55% against the euro.

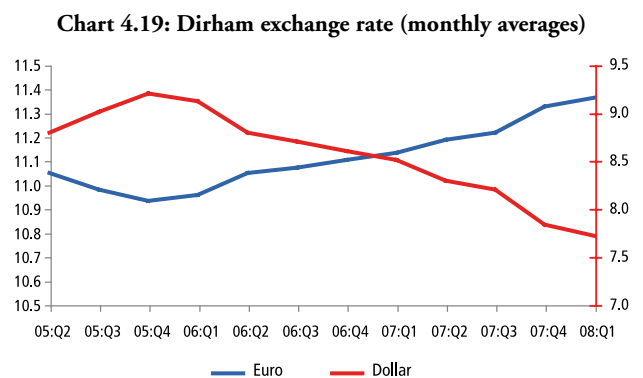
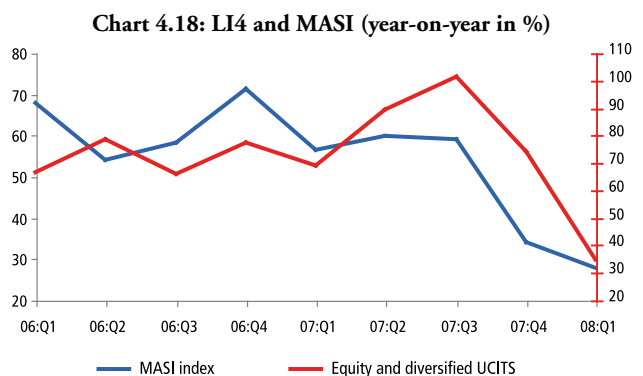
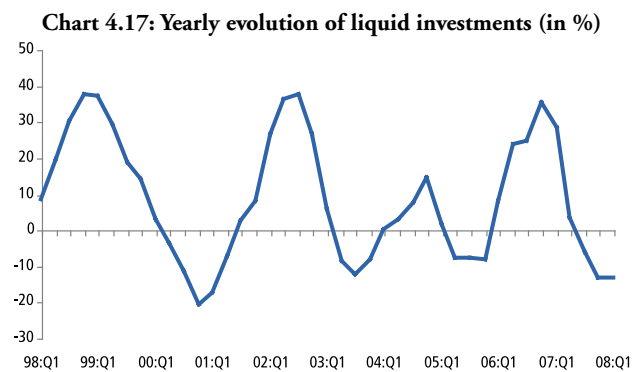
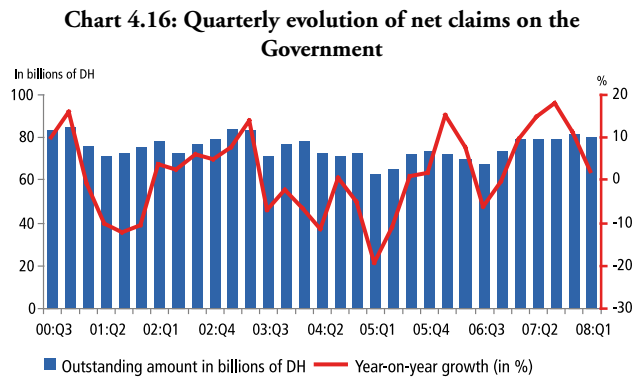
This trend continued in April and May. The dirham on average was up by 3.70% against the dollar and fell by 0.69% against the euro.

In terms of nominal effective exchange rates, the dirham appreciated by 0.43% compared to its level of the previous quarter. In real terms, the dirham's effective exchange rate depreciated from one quarter to another by 0.64%, due to the lower level of inflation reported in Morocco in comparison to its trading partners.

### 4.2. Asset prices

The good performance levels registered by the MASI index in the first quarter of 2008 did not continue at the same pace in April and May. Up by 15.7% at the end of the first quarter, the MASI index ultimately went down by 1.1% at the end of May. The real-estate sector index, which grew by 18.3% from one quarter to the next, registered a slight drop at the end of May.

The volume of transactions clearly declined, settling at 67.7 billion dirhams, against 187.9 billion dirhams in December 2007, a month that saw portfolio revaluation transactions on the block market. At the end of the first two months of the second quarter 2008, stock market turnover remained limited at 28.6 billion dirhams.



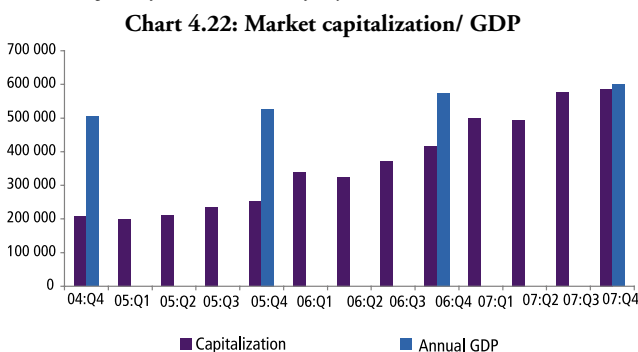
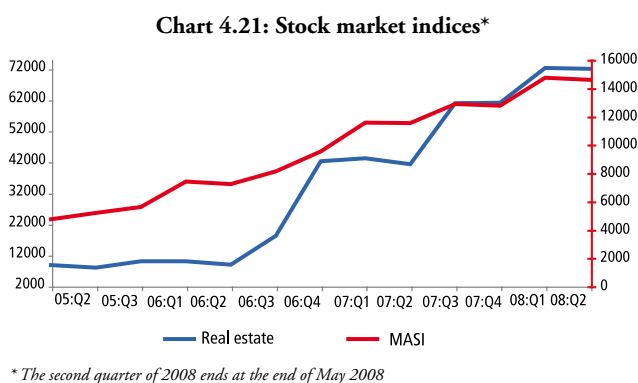
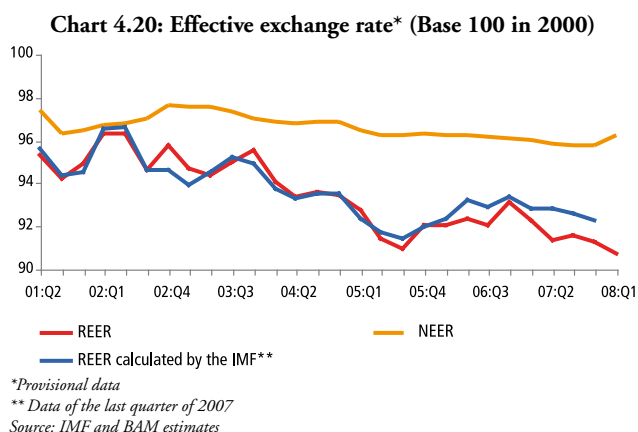
\*The second quarter of 2008 corresponds to the arithmetic average of April and May data

Stock market capitalization rose by 15.9% from one quarter to the next, reaching 679.3 billion dirhams. This trend is essentially related to the listing of two new companies, thus bringing the number of listed securities to 75. By the end of May, stock market capitalization slightly decreased, standing at 677.9 billion dirhams.

The Casablanca Stock Exchange PER dropped from 22.2 to 21.2 from one quarter to the next, a level that yet remains high, in connection with the appreciation of stock market prices.

On the basis of available data, it appears that the prices of real estate assets continued their expansion over the first months of the year. The persistence of high levels of demand and the relaxation in the conditions of real-estate loans granting to households constituted the major factors underlying this trend. The rapid implementation of the action plan announced in May by the public authorities and designed to regulate the real estate market should contribute to mitigating the rise in real estate asset prices (see Box 4.2).

In this context, a recent study on the “current situation of the real estate sector”, conducted by the Ministry of Housing, Urban Planning and Space Development (MHUPSD), highlights the considerable rise in real estate prices over the period 2003-2007. The study shows, with discrepancies from one city to another, that the prices of the various categories of real estate property saw significant rises. Accordingly, apartment square meter price increased almost twofold in Marrakesh, while that of built-up land multiplied 1.5 times in Rabat and the price of unbuilt land in Agadir rose by 358% in Agadir. According to the study, the price rise recorded by the real estate sector over the past few years is related to several factors, including operators’ upside speculation, scarcity of improved land, demand pressures, real estate hoarding as a store of value.



**Table 4.4: Market valuation (PER)**

	07 :Q1	07 :Q2	07 :Q3	07 :Q4	08 :Q1
Casablanca Stock Exchange	21.8	20.5	22.9	22.2	21.2
Euro stoxx 50	13	13.6	12.9	12.5	10.5

PER : Price Earnings Ratio  
Sources: Bloomberg and CFG

**Table 4.5 : Square-meter price rise per city between 2003 and 2007**

City	Apartment	Built-up land	Unbuilt land
Casablanca	43%	50%	88%
Rabat/Temara	45%	146%	234%
Marrakesh	92%	78%	119%
Tangier/Tetuan	35%	80%	217%
Agadir	17%	25%	358%

Source : National Agency of Real Estate Conservation, Cadastre and Mapping (ANCFCC) «Real estate sector current situation»-MHUPSD

**Box 4.2 : Measures jointly announced in May 2008 by the Finance and Housing Departments to regulate the real estate market**

The Ministry of Economy and Finance and the Ministry of Housing, Urban Planning and Space Development worked together to devise an action plan for 2008-2012 with a view to promoting home ownership through price stabilization. This action plan consists of twelve measures the purpose of which is to regulate the real estate market and rule out speculation. The said measures involve:

- Mobilization of waste land inside and outside urban boundaries through the reinstatement of taxation on non-built up land and the widening and increase of its base ;
- Enforcement of the pre-emption right granted to the Registration Service for fighting against tax fraud and off -the-book operations;
- Adherence to the completion deadlines of real estate projects ;
- Implementation of procedures for the utilization of vacant real estate holdings by the application of a tax on vacant housing ;
- Doubling the pace of production by the Groupe Al Omrane in the period between 2008-2012, compared to 2003-2007 ;
- Opening of new urbanized areas, through urban planning documents (reaching 100 development plans per year) ;
- Activation of urban planning law approval and implementation of the expected structural reforms ;
- Efficient application of the law on low-cost housing marketing and the fight against speculation to the benefit of initially targeted households ;
- Combining State efforts and directing them to the most underprivileged social categories (housing at 140,000 dirhams) ;
- Closer attention to the concerns of the middle class so as to avoid pressure on demand for low-cost housing reserved to the most needy ;
- Providing a more dynamic role to the rental sector, in such a way as to make the real estate market more fluid ;
- Activation of the establishment of minimum housing standards in the low-cost category.

## 5. RECENT INFLATION TRENDS

In an international economic environment characterized by continuous rises in the price of most staple food and metals and skyrocketing oil prices, headline inflation reached 3.7% in April 2008 on a year-to-year basis against 3.2% in March and 2.4% in February. This trend has also been observed in core inflation which stayed at high levels, reaching 4.8% in April compared to 4.7% in March. The transmission of the rise in commodity prices to inflation is reflected in the import unit values which maintained their uptrend, impacting, in turn, industrial production costs. In fact, prices in most industries, particularly the chemical, metallurgy and agri-food sectors, increased considerably in April. Also observed are certain diffusion effects of tradable goods prices on those of non-tradable goods, particularly services. The latter's trend reversed as they rose in March and April, after the successive drops they had posted between September 2007 and February 2008. This effect is expected to intensify as of the fourth quarter of 2008, as a result of the impact of the minimum wage adjustment due in July 2008. The increase in the minimum wage will probably have a knock-on effect on other wage categories and could consequently affect prices, especially in the sectors that are less exposed to competition and labor-intensive ones. The impact of wages on prices yet remains dependent on the behavior of the producer margin, the evolution of labor productivity as well as on the availability of low-cost workforce on the informal labor market.

### 5.1 Inflation trends

Started at the outset of the year, the increase of headline inflation continued in April, with the rise in the cost of living index standing at 3.7%, on a year-to-year basis, as opposed to 3.2% in March. Staple food, which represent 15.2% of the cost of living index basket and 35% of the tradable goods price index, contributed the 2.5 percentage points to headline inflation. Core inflation, which is calculated by Bank Al-Maghrib, reached 4.8%, a high level which is yet very close to the 4.7% level recorded in the previous month.

Core inflation rate remained above that of headline inflation with, however, a narrowing of the gap between the two indices from 1.5 points in March to 1.1 points in April, further to the decrease, from (-2.9%) to (-1.7%), in the scope of the drop in fresh produce prices.

Meat prices went up by 6.3% instead of 3.2% and contributed 0.8 percentage point to headline inflation. The fall in fresh fish prices decreased from (-2.7%) to (-2.1%) while fresh fruit prices grew by 35.2% as opposed to 14.6%.

The highest rises concerned staple food. In particular, cereal prices increased on a year-to-year basis by 23.3% compared to 22.5% in March, while those of fats were up 24.9% compared to 24.2%.

Some headings such as « maintenance and repairs», « kitchen equipment and items», « goods and services for house maintenance » and « other goods and

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

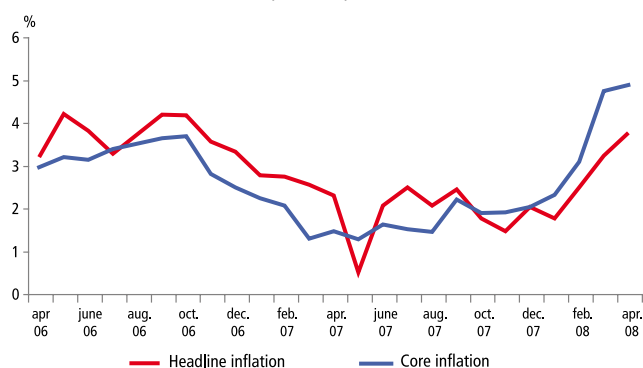
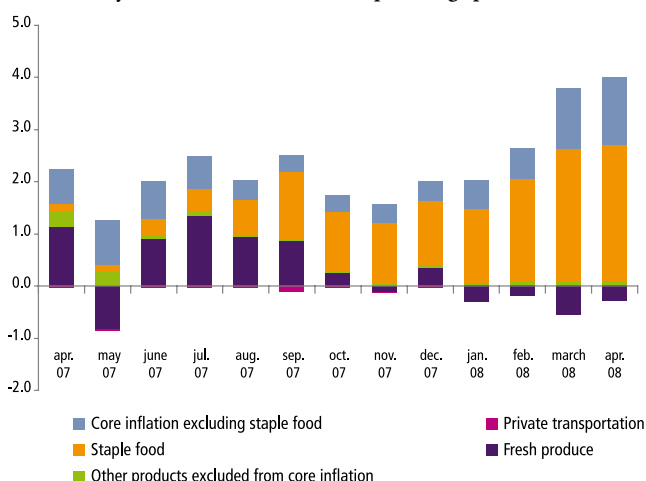


Chart 5.2: Contribution of the main components to year-on-year headline inflation (in percentage points)



services » saw slight price increases of 3.4%, 2.3%, 3.8% and 2.4% as compared to 2.3%, 1.4%, 2.7% and 2.2%, respectively. They therefore contributed to headline inflation, even though to a lesser degree.

As to private transport prices, which are largely influenced by fuel pump prices, their year-to-year variation remained stable compared to that of March in the absence of indexation to international levels. However, the sustainability of the Government's commitment to maintain the freeze on the indexation mechanism constitutes a potential risk factor, especially as oil prices have exceeded the 130-dollar mark, which represents a twofold rise compared to the level forecasted in the 2008 Finance Act.

## 5.2 Goods and services

The breakdown of headline inflation per type of products, goods and services shows that the year-to-year increase of the price for processed goods, continued at the same pace as in the previous month, at 4.2%. This development includes divergent trends with a rise in the price of the headings "fats", "furniture and fixed accessories", "kitchen equipment and items" on the hand, and a deceleration in the prices of "dairy products" and "vegetable preserves", on the other hand.

Moreover, the price of services excluding private transport went up for the second month running, from 1.2% in March to 1.4% in April. This evolution is essentially due to the increase in the prices of the "maintenance and repairs" services which come under the heading "housing" (+3.4%), "care and personal effects" (+3.2%) and "restaurants, cafés and hotels" (+2.2%) instead of (+2.3%), (+2.9%) and (+1.6%), respectively.

The rebound in the prices of services made it possible to reduce their relative deviation in relation to processed goods. It was of 3.9 percentage points in February before falling to 3 points in March and 2.8 points in April 2008. This deviation may further narrow towards the year end under the effect of the wage adjustments whose effect on services is greater than on goods.

The overall contribution of processed and non-processed goods to headline inflation on a year-to-year

**Table 5.1 : Headline inflation and components**

	Monthly change (%)			year-to-year (%)		
	feb. 08	march 08	Apr. 08	feb. 08	march 08	Apr. 08
<b>Headline inflation</b>	<b>0.6</b>	<b>0.9</b>	<b>1.3</b>	<b>2.4</b>	<b>3.2</b>	<b>3.7</b>
- Fresh produce	-0.1	1.4	4.8	-1.3	-2.9	-1.7
- Private transport	0.1	0.1	0.0	0.4	0.4	0.4
- Other products excluded from core inflation	0.1	0.4	0.0	0.4	0.8	0.8
<b>Core inflation</b>	<b>0.8</b>	<b>0.9</b>	<b>0.3</b>	<b>3.0</b>	<b>4.7</b>	<b>4.8</b>
:Including						
- Staple food	3.5	3.6	0.8	14.3	18.6	18.9
- Other food products	0.1	0.1	0.0	2.2	2.5	1.8
- Clothing	0.1	0.1	0.2	1.5	1.6	1.6
- Housing	0.1	0.0	0.2	0.6	0.6	0.7
- Equipment	0.1	0.1	0.6	2.3	2.3	2.9
- Medical care	0.0	0.0	0.0	0.4	0.4	0.4
- Public transport and communications	0.1	0.0	0.0	-6.4	1.9	1.9
- Leisure activities and culture	0.1	0.5	0.0	1.4	2.0	2.0
- Other goods and services	0.3	0.6	0.3	1.7	2.2	2.4

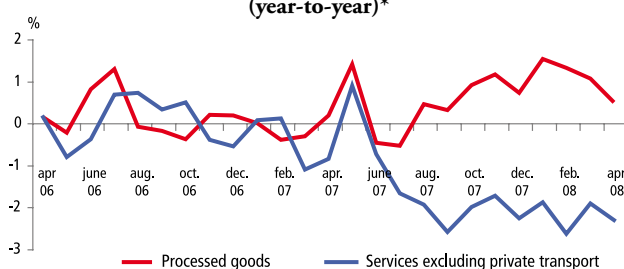
Sources: HCP and BAM estimates

**Table 5.2: Price indices for goods and services**

	Year-to-year quarterly change (%)				Year-to-year monthly change (%)		
	2007 Quarters				Feb. 08	march 08	apr. 08
	I	II	III	IV			
Processed goods	2.4	1.9	2.3	2.6	3.7	4.2	4.2
Services excluding private transport	2.3	1.3	0.2	-0.3	-0.2	1.2	1.4

Source: BAM estimates

**Chart 5.3: Relative prices of processed goods and services excluding private transport in comparison to headline inflation (year-to-year)\***



(\*) Gap between the inflation rate of processed goods and of services excluding private transport and the overall inflation rate



basis reached 2.5 points in March and 2.9 points in April. As to services, including private transport, they contributed to headline inflation with 0.6 point in March and 0.8 point in April.

### 5.3 Tradable and non tradable goods

The price of tradable goods continued along their uptrend, but at a relatively slower pace. The tradable goods price index moved up by 3.6% compared to 4.2%, thus contributing 1.8 percentage points to headline inflation. This rise is the result of the sharp drop in fresh vegetables prices, on the one hand, and the rise in the prices of fresh fruit and staple food, cereals, dairy products and fats, on the other hand.

The jump in inflation is also largely due to the non-tradable goods sector whose prices rose by 2.5% compared to 1.6% in the previous year, thereby contributing 1.9 percentage points to headline inflation. It is worth noting that, since the last four months, price rises in the non-tradable goods sector have begun to spread to all consumer prices. Considerable increases were recorded in the heading "meat", "maintenance and repairs", "goods and services for home maintenance", "care and personal effects", as well as "restaurants, cafés and hotels".

These recent inflation trends show that the non-tradable goods sector is beginning to undergo the effect of skyrocketing prices and therefore gives rise to concerns about the hike in prices of goods and services of local origin.

In addition, the tradable goods sector is still confronted with the risks surrounding the international economic situation, due principally to high pressure on oil prices and staple food.

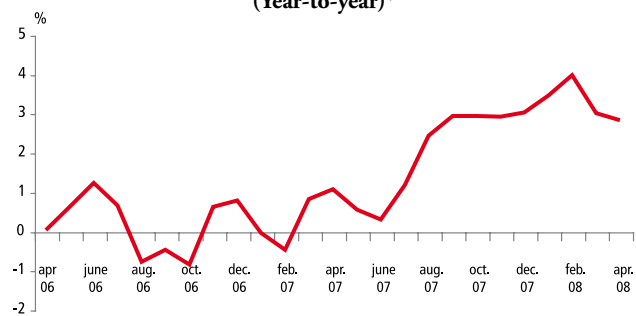
### 5.4 Industrial producer price index

In April 2008, the manufacturing industries price indices, calculated on the basis of ex-works prices excluding taxes and subsidies, rose by 20.5% against 21.2% in the previous month, under the effect of soaring commodity prices on international markets

Chart 5.4: Contribution of goods and services prices to headline inflation (Year-to-year)



Chart 5.5: Inflation rates gap between processed goods and services excluding private transport (Year-to-year)\*



(\* Gap between the inflation rate of processed goods and that of services excluding private transport

Chart 5.6: Evolution of tradable and nontradable goods' indices (Year-to-year)

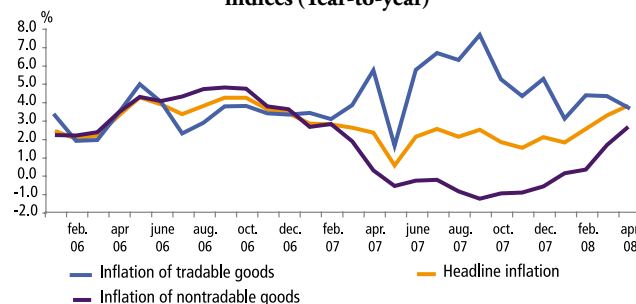
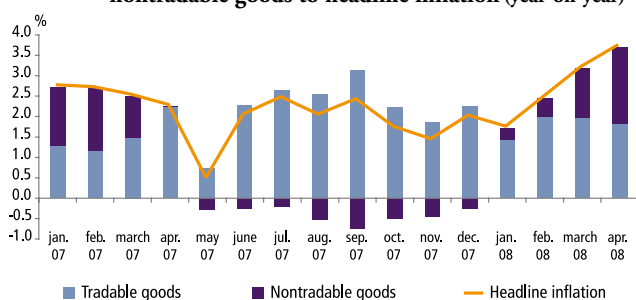


Chart 5.7: Evolution of the contribution of tradable and nontradable goods to headline inflation (year-on-year)



### Box 5.1 : Inflation persistence in Morocco

Inflation persistence refers to the speed at which inflation converges to its long-term average after an exogenous shock. The greater this speed, the lower the inflation persistence and therefore less time is needed before it reaches its long-term equilibrium value. In a context of inflation-targeting, this notion of persistence is of paramount importance for the Central Bank. Knowing this delay enables the monetary authority to evaluate the type and scale of its interventions following exogenous shocks. With respect to economic agents, this means that inflationary expectations become precise and the Central Bank's measures with respect to monetary policy more credible.

We estimate the degree of inflation persistence for six countries including Morocco, on the basis of the methodology of a nonparametric approach developed by Marques (2004)\*, which is very widespread in economic literature. Intuitively, the idea is as follows: inflation persistence will tend to lower so long as it randomly fluctuates around its average level. This approach has two advantages. Firstly, this non-parametric measure is resistant to structural breaks that could characterize the inflation series. Secondly, it allows remedying any possible consequence in connection with an erroneous specification of econometric models capturing inflationary dynamics over time. The results of the estimates are given in the table below based on monthly inflation data calculated on a year-to-year basis.

Estimate of inflation persistence (1990:01 2008:04)

	Inflation persistence	Test statistics N(0.1) [Value -P]	Average period before inflation converges with its long-term average (in months)
<b>Morocco</b>	<b>0.8116</b>	<b>8.9661</b> <b>[0.0000]</b>	<b>5.07</b>
<b>Egypt</b>	0.8883	11.1477 [0.0000]	9.63
<b>Tunisia</b>	0.8738	10.7297 [0.0000]	8.57
<b>Turkey</b>	0.9078	11.7051 [0.0000]	9.82
<b>China</b>	0.9366	12.5019 [0.0000]	16.00
<b>France</b>	0.7961	8.5001 [0.0000]	4.82

The results of the estimates show that inflation persistence is statistically significant at the 5% threshold for all countries covered by the study. Also, we realize that the degree of inflation persistence in Morocco is relatively moderate compared to the other countries in our sampling, with the exception of France. In fact, compared to Morocco, the average period for the return of inflation to its long-term average after an exogenous shock is almost one and a half times longer for Tunisia, twice for Turkey and Egypt and three times for China. To be noted is that, over a long period, inflation in Morocco has remained relatively stable and lower than in other emerging countries. Over forty years, it is very near the average of industrialized countries.

(\*) Marques, C.R. (2004) « Inflation persistence: Facts, or Artefacts? » ECB Working paper series, no.371/June 2004.

which gradually spread to production costs in the various industries, the prices of oil and the majority of metals having hit their record high since the beginning of the 80's.

Against this backdrop, the rise in the index of the "coking and refining" branch reached 41.9% compared to 49.4% in March, under the influence of skyrocketing prices for oil on the international market, thus contributing more than 10 percentage points to the increase of the overall index. Generally based on commodity prices on forward markets, forecasts seem to point to the permanent nature of the currently high level of oil price.

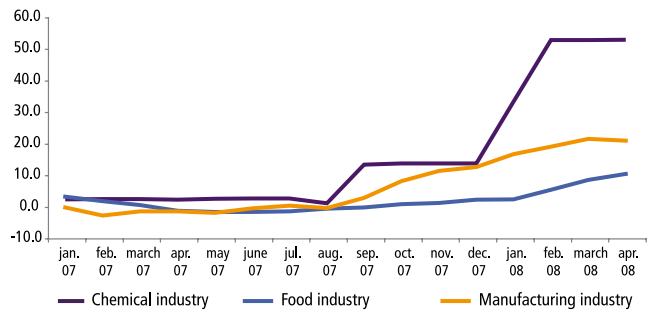
Concurrently, the rise in the price of chemical inputs and oil since the last month of 2007 was strongly felt in the chemical branch where prices rose by 52.5%, contributing approximately 7 percentage points to the rise of the reference index.

Similarly, whereas before December 2007, the contribution of food industry prices was negative or low, it continued to rise substantially to reach about 3 percentage points in April, as this branch's index was 10% up compared to 8.1% in the previous month.

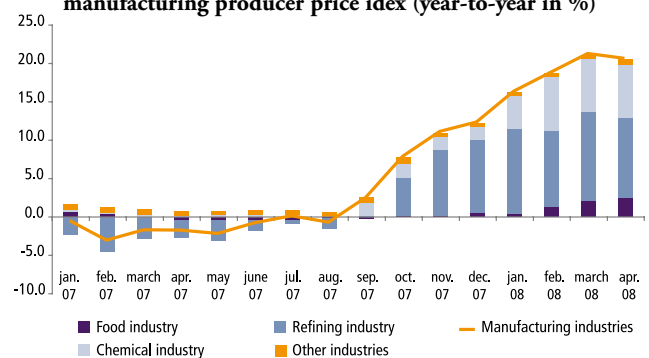
This trend is the result of skyrocketing world prices of agricultural primary products which impacted the rise in ex-works prices. The recent developments on the international market of agricultural produce indicate an easing during the second half of 2008.

In addition, production costs for the metallurgical and metalworking branches saw respective growth rates of 7.5% and 8.7% as opposed to 4.2% and 3.1%. The evolution of these indices has been primarily driven by the surge in aluminum and copper prices. Some other metals such as zinc, registered price rises and also contributed, although to a lesser extent, to soaring prices in these branches. Forward quotations of some important metals (aluminum, copper and zinc) point to a drop in prices in the short term. Contraction in demand due to the registered price rises and the expansion of supply further to investments could push prices down.

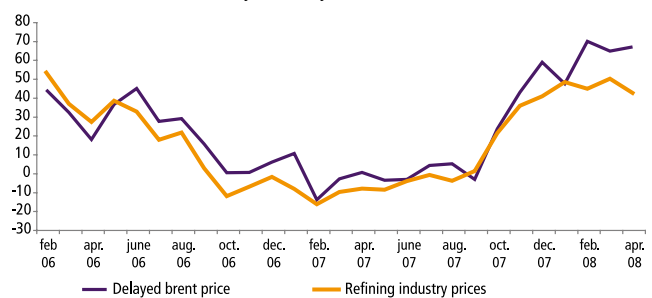
**Chart 5.8: Evolution of industrial producer price indices (year-to-year in %)**



**Chart 5.9 : Evolution of contributions of main headings to manufacturing producer price index (year-to-year in %)**



**Chart 5.10: Refining industry index and Brent price (year-to-year in %)**



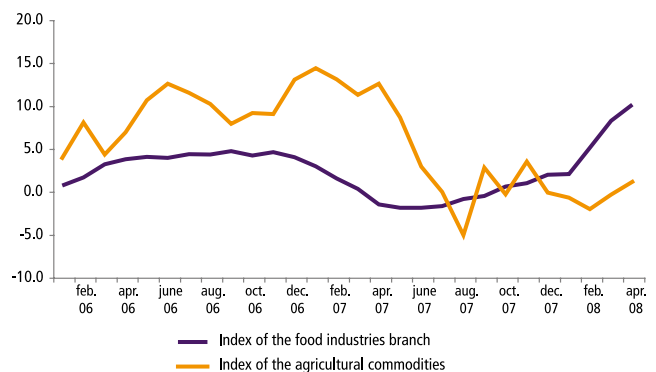
Sources : IMF, HCP

Confronted by rising commodity prices, firms are beginning to adapt to this situation by passing on these increases to the selling prices of finished products, at the risk of fueling inflationary pressures.

It is worth mentioning that, in the textile's sector, companies reduced their producer prices by 0.7% under the influence of fierce competition from imported products.

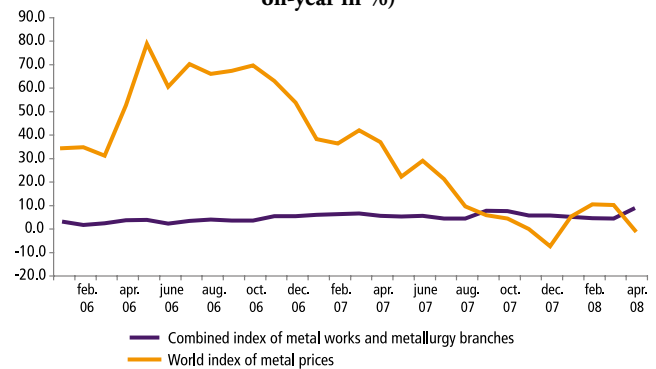
Confirming the current trend in industrial production costs, Bank Al-Maghrib's monthly economic survey shows that, for the forthcoming months, according to industrialists' expectations, prices may rise in all industrial sectors, except the chemical and para-chemical industries where they may remain more or less stable.

**Chart 5.11: Indices of food and agricultural producer prices and world prices (Year-on-year in %)**



Sources : IMF, HCP

**Chart 5.12 : Metal out put price index and world prices (year-on-year in %)**



Sources : IMF, HCP

## 6. INFLATION OUTLOOK

*This section presents the inflation evolution deemed to be the most probable (central forecast) over the forthcoming four quarters, and analyzes the major risks in connection therewith (balance of risks). The central forecast scenario is therefore dependent on the assumptions and developments envisaged for a series of variables affecting economic activity and inflation. Under the assumption of non-occurrence of the main risk factors identified, headline inflation over the next four quarters is expected to stand at approximately 2.7% on average. At the end of 2008, headline inflation should reach 2.7%, a level considerably above the forecast presented in the last Monetary Policy Report (2.2%). For the second quarter 2008, we expect a headline inflation rate of about 3.4%, essentially driven by the rise in food prices. As of the third quarter 2008, headline inflation should fall back to 2.5% and stabilize around this level over the forecast horizon. Compared to the previous Report, inflation forecasts were revised upwards. The risks and uncertainties surrounding the central inflation forecast remain on an upward trend. Externally, these risks are related to mounting uncertainties surrounding the future evolution of hydrocarbon prices and those of agricultural products and commodities. Internally, they are linked to uncertainties about the viability of the current subsidization system, in particular with regard to petroleum products' subsidies, credit growth pace as well as the expected effect of the rise in the minimum wage on salaries.*

### 6.1 Baseline scenario assumptions

#### 6.1.1 International environment

The international environment and its outlook have again deteriorated since the last Monetary Policy Report (MPR). The new downward revisions in growth prospects for OECD countries, announced at the beginning of this month, confirm the slowdown of economic growth in our main eurozone partners. In view of the current economic situation, this slowdown in activity is expected to persist. Therefore, average growth of all our eurozone trading partners, compared to the one presented in the previous MPR, is projected to fall from 2.3% to 1.7% for 2008, to finally stand at 1.4% at the end of 2009. Several factors explain this slowdown: the impact of the recent financial market crisis, the high commodity prices, the tightening of credit conditions further to difficulties on the real estate market, and euro's high level that penalizes European exports. On the basis of these developments, we assume in our central scenario a growth rate in the main partner countries (Germany, Spain, France and Italy) of approximately 1.6% for 2008 and 1.3% for 2009, levels below those announced in the March 2008 MPR. It is worth noting that this growth rate is calculated on the basis of a weighted average by the respective shares of these countries in Morocco's foreign trade.

The eurozone inflation outlook was once again revised upwards, considering the persistence of soaring prices of primary products and hydrocarbons. Hence, the inflation forecast for the 13 eurozone countries for 2008 rose from 2.9% to 3.4%, settling in 2009 at 2.4%. It therefore appears that various wage control measures, the appreciation of the European currency and the tightening of credit conditions will not make it possible to significantly reduce inflationary pressures arising from the price rises of food and oil products. The status quo adopted by the ECB may no longer be sustainable in face of the inflation outlook for this year. For this forecast exercise, we assume in our baseline scenario a 0.25% rise in eurozone interest rates by the third quarter of this year in reaction to the potential risks likely to affect price stability.

The pressures stemming from import prices and energy prices have been on the rise. Analysis of the evolution of the various import unit value indices, which are developed by Bank Al-Maghrib, suggests for the year 2008 an increase in the growth pace of import prices to a level higher than that reported in the last MPR. Therefore, all the indices, except that of sugar, reflect the strong increase in world commodity prices. However, we anticipate an easing of these pressures as of the second quarter of this year.

### 6.1.2 National environment

The rebound in the agricultural sector's activity would be, according to the estimates of the Ministry of Agriculture, weaker than that anticipated in the last two MPRs. Therefore, the 2007-2008 cereal harvest could be near to 50 million quintals, a yield below the deemed average level of 60 million quintals. The agricultural added value is thus expected to grow by 10% and then 9.5% in the first and second quarters of this year. However, the rise in agricultural supply at this stage is not yet enough to cause any significant decline in our commodity imports. For the 2008-2009 crop year, the adopted scenario is of an average cereal output of 60 million quintals, corresponding to a rise in agricultural GDP by about 8%. The agricultural output gap in these conditions is expected to remain negative in the first quarter before becoming slightly positive in the last three quarters of 2008. Finally, in our scenario we project a continued dynamism in non-agricultural sectors, on a trend identical to that registered over the past quarters.

The negative effect of the poor 2007 crop year continues to affect the job market in rural areas with a loss of 60,000 jobs registered in the first quarter 2008. This negative performance is, however, mitigated by job creation in urban areas, primarily due to the good performance in the building and public works sector and services sector. At the national level, unemployment rate fell to 9.6%, against 9.7% a quarter earlier. Labor supply will most certainly be strengthened by the agricultural sector's rebound, thus suggesting a better outlook for the remainder of 2008 and beginning of 2009 (as regards rural employment). The Quarterly Wage Index, calculated by the HCP, foresees a rise in real wages of around 1% in the first quarter of this year, after a considerable drop of 3.5% registered in the fourth quarter of 2007. The future outlook tends towards a considerable rise in wages, reinforced by the Government's decision to raise the minimum wage by 10% in two phases spread out over 2 years. The impact of this re-adjustment on headline inflation as well as on the overall wage level is a priori significant, as is demonstrated by a study on this issue (See Box 2,1). Therefore, we take as an assumption, for this fo-

recast exercise, a 5% rise in the minimum wage to take place this July.

Since the end of summer 2007, oil markets have experienced unprecedented pressure, leading to soaring oil prices that reached record levels. After having gone beyond \$135 a barrel in May, barrel prices henceforth seem to run along an ascending curve. This phenomenon is taking on proportions all the more alarming that its duration and potential impact on the global economy are not yet correctly estimated. Even though some analyses suggest the transient nature of this rise, given the historical cyclical trend of demand and the financial crisis which sharpened speculation on the commodity market, fears are still prevalent with regard to the persistence of pressures. As a result, an analysis of world supply and demand for oil products over the last 6 years shows the structural deficiencies in the sector. The decline in supply growth rate compared to demand, coupled with a gradual decrease in the gaps between offer and supply, gives credence to the idea of urgent additional investments in the oil sector. The majority of specialized international institutions have accordingly raised their price projections, compared to those published at the beginning of the year. They no longer foresee a relaxation for 2009, but rather a continuation of price increase. Indeed, the IMF henceforth expects an average price per barrel (basket) of about \$112 in 2008 and \$116.25 in 2009.

In Morocco, the freeze on the indexation mechanism has so far made it possible to preserve the domestic market against the effect of these rises on prices at the pump. Hence, the costs of oil products' subsidization are substantially up, as they grew by 21% in 2007, reaching 10.3 billion dirhams, against 12% in 2006. In the framework of the Finance Act of 2008, an overall sum of 8.7 billion dirhams, excluding arrears, should be assigned to cover these costs, on the basis of an optimistic scenario of \$75 per barrel, which represents a 50% rise compared to the Finance Act of 2007. The budget allocated to subsidization, for oil products only, has since been re-adjusted to 30 billion dirhams, a level more compatible with current oil prices.

The current price level on the international market, above \$75, should therefore lead to a rise in domestic diesel fuel prices, if the indexation mechanism is fully enforced. However, we anticipate that this mechanism will be kept in place for the remainder of the year. The central forecast suggests stagnation of diesel oil price at the pump in 2008 at 7.22 dirhams per liter.

## 6.2 Inflation outlook and balance of risks

Under the assumption of the non-occurrence of the main risks outlined above, the central forecast over the next four quarters should very probably settle at a level considerably above that of 2007, growing from 2.1% to 2.7%. Compared to the forecasts given in the last MPR, average headline inflation for the last three quarters of the current year was revised upwards from 2.1% to 2.7%, as well as the annual forecast for 2008, which was increased from 2.2% to 2.7%. For the entire forecast horizon, inflation forecast was revised upwards from 2.2% to 2.7%.

Consequently, headline inflation should rise significantly during the current quarter to reach 3.4%, basically driven by the continuation of the progressive repercussion on consumers of price variations in the main foodstuff. For the two forthcoming quarters of this year, we expect a headline inflation rate of approximately 2.5% and then 2.4%, due to a mitigation of pressures caused by world foodstuff prices and by a favorable basic effect, (the increase of prices began only in the third quarter of 2007). Afterwards, this rate should remain during the first quarter of 2009 unchanged at 2.4% (see Table 6.1). Compared to the forecasts published in March 2008 MPR, inflation forecast for the remaining three quarters of this year was revised upwards, respectively from 2.3% to 3.4%, from 1.9% to 2.5% and from 2.2% to 2.4%.

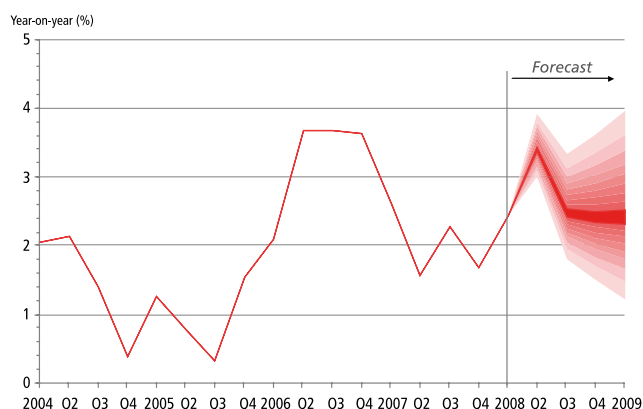
**Table 6.1 : Inflation central forecast**

Year-on-year (%)	2008		2009		Average	
	Q2	Q3	Q4	Q1	2008	Forecast horizon
<b>central forecast</b>	3.4	2.5	2.4	2.4	2.7	2.7

These projections have been developed taking as

a basis the assumptions deemed to be the most probable. However, there are many sources of uncertainty, arising from the future development of exogenous variables and from the models used in the forecasting, which could impact upwards or downwards the projected inflation level. The 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 uncertainly zones surrounding the central forecast (see Chart 6.1). The fan chart of this forecast exercise suggests a slight upward asymmetry implying the existence of a probable rise in headline inflation compared to the central forecast. This asymmetry stems on the one hand from the risks related to the uncertainties surrounding the development of international economic situation (growing uncertainties about the future evolution of hydrocarbon prices and of agricultural product and commodity prices and a higher headline inflation in our main trading partners) and on the other hand from the risks related to the domestic environment (uncertainties on the viability of the current subsidization system, the rapid growth of credit, as well as the expected inflationary effects brought on by the rise in the minimum wage). The materialization of one or more of these risks could lead to a headline inflation rate above the central forecast, at a value included (with a probability of 90%) within the forecast range represented on the fan chart.

**Chart 6.1: Inflation forecast, 2008 Q2 – 2009 Q1**  
(Quarterly data)



(\*) The chart represents the confidence interval relative to inflation projections derived from the baseline scenario (dark red). Confidence intervals from 10% to 90% are also reported. Each addition of intervals of the same color, on both sides of the central forecast, increases by 10% 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% chance that inflation will fall within this range in the future.

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