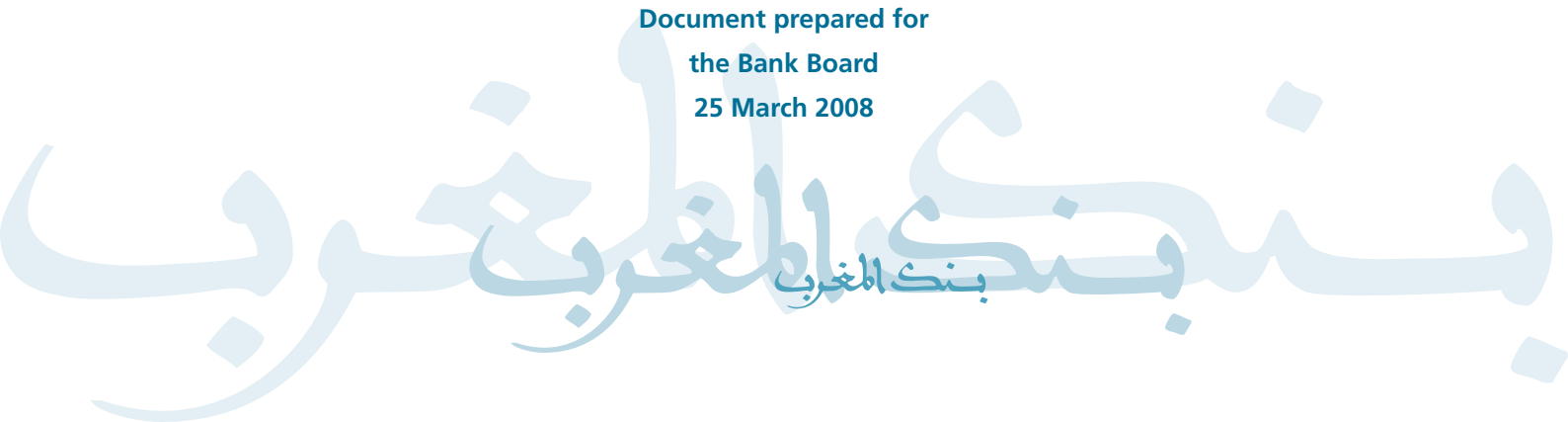




Monetary Policy Report

Document prepared for
the Bank Board
25 March 2008



بنك المغرب
بنك المغرب

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) |
| ECB | : | European Central Bank |
| GDP | : | Gross Domestic Product |
| HCP | : | High Commission for Planning |
| HP | : | Hodrick-Prescott |
| IMF | : | International Monetary Fund |
| MASI | : | Morocco All Shares Index |
| OCP | : | Office chérifien des phosphates |
| OECD | : | Organization for Economic Cooperation and Development |
| UCITS | : | Undertakings for collective investment in transferable securities |
| VAT | : | Value Added Tax |

TABLE OF CONTENTS

| | |
|---|-----------|
| Press Release | 5 |
| Overview | 6 |
| 1. Supply and overall demand trend | 8 |
| 1.1 Output | 8 |
| 1.2 Consumption | 10 |
| 1.3 Investment | 12 |
| 1.4 Foreign trade | 12 |
| 2. Pressures on output capacity and labor market | 14 |
| 2.1 Pressures on output capacity | 14 |
| 2.2 Pressures on labor market | 15 |
| 3. Import prices | 17 |
| 3.1 World inflation | 17 |
| 3.2 Oil prices | 17 |
| 3.3 Commodity prices | 18 |
| 3.4 Import prices indices | 18 |
| 4. Monetary conditions and asset prices | 21 |
| 4.1 Monetary conditions | 21 |
| 4.2 Asset prices | 27 |
| 5. Recent inflationary trends | 29 |
| 5.1 Inflationary trends | 29 |
| 5.2 Goods and services | 31 |
| 5.3 Tradable and non-tradable goods | 32 |
| 5.4 Industrial producer prices index | 33 |
| 6. Inflation outlook | 35 |
| 6.1 Baseline scenario assumptions | 35 |
| 6.2 Inflation forecast and balance of risks | 37 |

PRESS RELEASE

BANK AL-MAGHRIB BOARD MEETING

1. The Board of Bank Al-Maghrib held its quarterly meeting on 25 March 2008.
2. The Board examined the monetary and financial economic trends observed since its meeting of 25 December 2007, as well as the forecasts put forth by the Bank up to the fourth quarter of 2008.
3. Year-to-year inflation stood at 2.4% in February 2008, against 1.7% in January. This rise is primarily explainable by higher prices for staple food products. Basically impacted by the price levels for these products, underlying inflation continued its upward swing which had begun in late 2007. This indicator shifted from 2% in December 2007, to 2.3% in January and 3% in February.
4. By the fourth quarter of 2008, and under the assumption of non-materialization of major risk factors, it is expected that inflation will remain in line with the objective of price stability with a forecast of approximately 2.2% for the entire year.
5. Externally, the risks are in connection with continuing pressures on the price of hydrocarbons and commodities, in particular agricultural ones, and the reappearance of inflationary pressures among our principal partner countries. Internally, the risks concern the uncertainties linked to maintaining the freeze of the price indexation mechanism for petroleum products, to latent pressures on incomes, to the mass of cash holdings accumulated by economic operators, as well to the acceleration in the growth of bank loans.
6. In this environment characterized by the persistence of the upward risk to prices, the Board decided to keep unchanged at 3.25% the key rate and will, however, remain extremely vigilant with regard to the evolution of these risk factors over the forthcoming months.
7. Further, the Board analyzed and approved the Bank's accounts and the allocation of the year 2007 income.
8. The Board also examined the internal audit program for 2008.

Rabat, 25 March 2008

OVERVIEW

Inflation on a year-to-year basis settled at 2.4% in February 2008, against 1.7% in January. This hike is mainly explainable by higher prices for staple food products. The evolution of these prices considerably impacted underlying inflation which continued its upward trend begun since last November. This indicator rose from 2% in December 2007, to 2.3% in January and 3% in February. Overall, it is noticed that the dynamism of inflation is more the result of the tradable goods' sector than that of non-tradable goods. Likewise, the analysis shows that the contribution of goods, rather than services, explains the recent inflationary trends. Industrial producer prices suggest that pressures on inputs and consumer prices remain high.

With regard to imported inflation, the continued rise in the import prices of staple food products, and more generally in non-energy import prices indicate the persistence of inflationary pressures for the remainder of 2008. The fuel pump prices remained sheltered from the situation on the international oil market due to the continued freeze of the indexation mechanism.

With regard to economic activity, in spite of a sluggish international environment characterized by a showdown among our principal trading partners; the latest data available suggest that 2008 will be marked by an acceleration in the pace of growth of domestic demand due to the rebound in resident household consumption and the steady dynamism of private and public investment. For the year 2008 as a whole, on the assumption of an average cereal harvest of 60 million quintals now appearing to be the case, the added value of the primary sector should pick up by about 13%. In this context, the various estimates of the output gap tend to indicate that, in the last quarter of 2007 and first quarter of 2008, output is expected to settle more or less at its potential level. This has been corroborated by the findings of Bank Al-Maghrib's survey showing the maintaining of the output capacity utilization rate in the industrial sector at a relatively high level. Taken together, the analysis of these risk factors on prices indicates moderate upward pressure with, yet, substantial uncertainty arising from an increase in the legal minimum wage.

With regard to monetary conditions, recent data confirm the continuation of dynamism in monetary growth and credit. Even though it has slowed down in January 2008, growth in the M3 aggregate is continuing at the rapid pace of 15.1%, year-on-year, compared to 17.1% in the fourth quarter of 2007. In January 2008, bank credit remained on its uptrend with an increase of 29.9%, year-to-year, compared to 28.2% in the fourth quarter of 2007. Concurrent with the strong growth in loans to private individuals, analysis of the banking loan structure per economic agent shows increasing allocation to businesses, which will tend to strengthen supply and the economy's output capacity.

Altogether, the analysis comes in confirmation of the persistence of rising risks to future inflationary trends. The fan chart of quarterly forecasts therefore shows an asymmetry to the upside. Externally, these risks are linked to the high volatility in hydrocarbon prices on international markets, as well as in those of imported commodities, particularly agricultural ones. Internally, the high pace of growth in money supply and bank loans, the uncertainties surrounding the maintaining of the freeze of the price indexation mechanism for petroleum products and certain foodstuffs, as well as future trends in revenue may have upward effects on inflation.

Against this background and in line with the forecasts of the Monetary Policy Report of December 2007, inflation should adjust upwards over the forthcoming months to be in line with the underlying inflation's trend. On the basis of the non-materialization of these main risk factors, inflation over the four forthcoming quarters (first to fourth quarters of 2008) is expected to remain in line with the forecasts presented in the December 2007 Monetary Policy Report and with the Central Bank's objective of price stability, with an average forecast of 2.2%.

1. SUPPLY AND OVERALL DEMAND TREND

In spite of an unfavorable international environment, economic activity in 2008 should be boosted by the dynamism of private and public investment and national final consumption. Under the effect of the steady evolution of secondary and tertiary activities, and despite a poor agricultural performance, growth of the national economy is expected to increase by 2.4% in the fourth quarter of 2007 thereby bringing annual growth up to 2.3% according to the data available during the preparation of the Monetary Policy Report. Growth should accelerate in 2008 on the assumption of an average cereal harvest of 60 million quintals which the total rainfall recorded up to late February tends to confirm, and should settle at 6.4% in the first quarter of 2008.

1.1 Output

In the fourth quarter of 2007, economic activity was affected by the poor agricultural performance. Slightly mitigated by healthy performance levels in non-agricultural activities, the quarterly growth rate is forecast to stand at 2.4% year to year.

The 2007-2008 crop year looks promising on the basis of the so-far favorable weather conditions. On this basis, in the first quarter of 2008, the quarterly growth rate might reach 6.4%; in spite of an international environment marked by a slowdown in the economic activity of our main trading partners. The agricultural added value should, therefore, show a rebound of 13.5% in the first quarter of 2008; after a 16.5% contraction in the fourth quarter of 2007. However, this result is still dependent on a balanced distribution of rainfall in March and April which could have a positive impact on the growth of all crops, in particular with regard to cereal harvest, estimated at 60 million quintals.

Likewise, breeding should see an improvement due to the increase in availability of cattle feed the prices of which are partially subsidized. Fishing is expected to pick up in the first quarter of 2008, thanks to the extension in 2007 of the biological dormancy period, potentially allowing the reconstitution of resources, particularly with regard to pelagic fish.

Concurrently, the dynamism of non-agricultural activities should continue in 2008. Given the taxes on products nets of subsidies, the non-agricultural added value, is expected to show a rise of 5.4% in the first quarter, as opposed to 6.1% in the fourth quarter of 2007.

Mining should maintain its pace of growth with a slight improvement hovering around 2.5%

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

| Branches | 2007 (*) | | | | A*** | 2008 QI(F) |
|--|------------|------------|------------|------------|------------|---------------|
| | Q I | Q II | Q III | Q IV(E) | | |
| Agriculture | -18.0 | -20.9 | -17.5 | -16.5 | -18.2 | 13.5 |
| Fishing | -5.0 | 6.7 | -4.6 | 2.5 | -0.1 | 3.0 |
| Non-agricultural GDP (**) | 5.5 | 6.2 | 5.8 | 6.1 | 5.9 | 5.4 |
| Extractive industry | 5.3 | 6.9 | 2.0 | 2.2 | 4.1 | 2.5 |
| Industry (excluding oil refining) | 4.1 | 4.7 | 3.9 | 4.0 | 4.2 | 4.1 |
| Oil refining and other energy products | -11.6 | 2.9 | 4.3 | 2.5 | -0.5 | 2.6 |
| Electricity and water | 6.2 | 3.9 | 7.7 | 4.5 | 5.6 | 3.9 |
| Building and public works | 9.3 | 12.0 | 9.8 | 10.5 | 10.4 | 10.7 |
| Trade | 4.3 | 4.8 | 5.3 | 5.5 | 5.0 | 4.9 |
| Hotels and restaurants | 8.1 | 3.0 | 5.8 | 6.5 | 5.8 | 4.0 |
| Transportation | 4.4 | 4.1 | 4.0 | 5.5 | 4.5 | 5.0 |
| Post and telecommunications | 6.5 | 9.5 | 12.2 | 11.0 | 9.8 | 11.7 |
| Financial and insurance activities | 13.0 | 13.9 | 14.1 | 12.0 | 13.2 | 11.2 |
| Business and personal services | 5.3 | 5.8 | 6.4 | 4.7 | 5.5 | 5.0 |
| General government and social security | 2.5 | 3.3 | 3.7 | 3.5 | 3.2 | 4.0 |
| Education, health and social action | 3.8 | 4.4 | 4.4 | 4.7 | 4.3 | 4.1 |
| Taxes on products net of subsidies | 10.5 | 10.8 | 6.7 | 10.7 | 9.7 | 6.5 |
| Gross domestic product | 1.9 | 1.7 | 2.1 | 2.4 | 2.3 | 6.4 |

Sources: HCP and BAM forecasts

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

(**) Including fishing and Taxes on products net of subsidies

(***) Adjusted average

in the first quarter of 2008, upheld by higher world prices for phosphates and derivatives, the imposition of a tax on Chinese fertilizer exports which is expected to reduce world supply, and the continuous dynamism of demand for Moroccan phosphate products. Altogether, exports are expected to benefit from growth in external demand and extension of the output capacity of OCP enabling a positive response thereto.

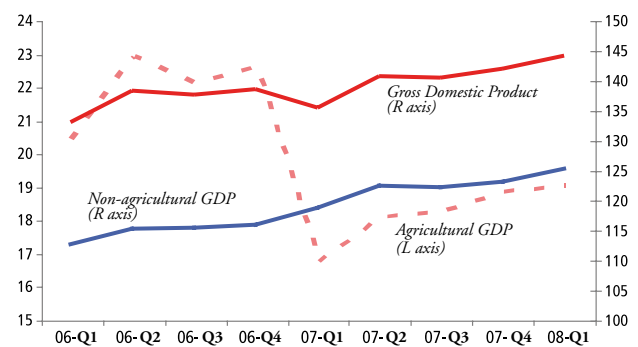
At the same time, industrial activity, excluding oil refining should maintain its average growth rate recorded over the last four quarters, settling at around 4.1% in the first quarter of 2008. This performance level should be in connection with the rebound in the agri-food business favorably impacted by revived agricultural activity. The impact on the textile sector of the abolition in January 2008 of European quotas on Chinese textiles for the time being remains uncertain.

Global orders placed for the industrial sector consolidated the upward trend as indicated by the outcome of the economic situation survey conducted by Bank Al-Maghrib in January 2008. The said survey shows an improved flow of orders in all branches of activity, in particular with regard to chemicals and para chemicals. The dynamism of the industrial sector should also be sustained in 2008 by the expected development of certain activities promoted by the Plan Emergence.

As in 2007, the building and public works sector is expected to register fast growth in the first quarter of 2008. The added value thereof should indeed increase by 10.7% on a year-to-year basis, benefiting from public investment in infrastructures, the dynamism shown by the tourism sector, the extension of the program for the fight against shantytowns, and the buoyancy of demand for new housing. This forecast is mainly corroborated by the 36.7% growth reported in late January 2008 in cement sales and the expansion of housing loans, the outstanding amount of which was up 6% at the end of January 2008 compared to December 2007, and 44.8% on a year-to-year basis.

The added value of the hotel and restaurant sector should show a slight decline but should remain up by 4% in the first quarter of 2008, as opposed to 6.5% in the fourth quarter of 2007. As a matter

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



Source: HCP and BAM forecasts

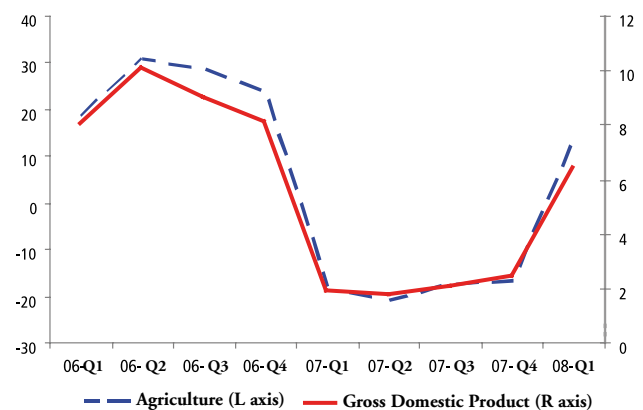
Table 1.2: Status of the crop year 07/08 as at 8 February 2008

| | 06-07 (I) | 07-08 (II) | A (1) CY (III) | Chan. % (II) / (III) | Chan. % (II) / (I) |
|---|--------------|---------------|-------------------|-------------------------|-----------------------|
| Planted areas (in thousands of hectares) | | | | | |
| Fall cereals | 4 579 | 4 900 | 5 100 | -4 | +7 |
| Leguminous plants | 222 | 235 | 250 | -6 | +6 |
| Fodder crops | 359 | 409 | 406 | 1 | +14 |
| Sugar beets | 51 | 58 | 59 | -2 | +13 |
| Sugar cane | 3 | 3 | 3 | -7 | -13 |
| Cultivable areas (in thousands of hectares) | | | | | |
| Sugar cane | 14 | 14 | 14 | -- | -- |
| Production (2) (in thousands of tons) | | | | | |
| Sugar cane | 934 | 956 | 895 | +7 | +2 |
| Agricultural inputs sales (in thousands of quintals) | | | | | |
| Certified cereal seeds | 799 | 611 | 645 | -5 | -24 |
| Fertilizers | 4 531 | 3 670 | 4 705 | -22 | -19 |
| Export crops (in thousands of tons) | | | | | |
| Early fruits and vegetables | 280 | 362 | 190 | +91 | +29 |
| Citrus fruit | 377 | 330 | 304 | +8 | -12 |

(1) Average over five crop years

(2) Forecasts of the Ministry of Agriculture and Sea Fisheries

Chart 1.2: Growth of the volume of GDP and agricultural added value, in %



Source: HCP and BAM forecasts

of fact, currency earnings generated by tourism were down by 11.8% in January 2008 compared to the same period of the previous year, in spite of the 11% rise in tourist arrivals. In 2008, activity in this sector should, however, see the same growth pattern as in the past four years, boosted by two new projects added to «Vision 2010», namely, « BILADI » and « Mada'In », aiming, respectively, at promoting domestic tourism and repositioning some tourist destinations.

As to the transport sector, the recovery reported in the fourth quarter of 2007 should continue along the same lines but at a less rapid pace. In fact, in the first quarter of 2008, added value in this sector is expected to hover around 5%. In the fourth quarter of 2007, growth is expected to have reached 5.5% on a year-to-year basis, boosted by growth in railway traffic by 11% and air traffic by 16% in December 2007. In 2008, the transport sector should be stimulated by the expansion of trading activities, as well as by road, maritime and railway transport. Concurrently, air traffic is expected to continue to increase at a quicker pace, especially thanks to the «Open sky» agreement with Europe and Tunisia.

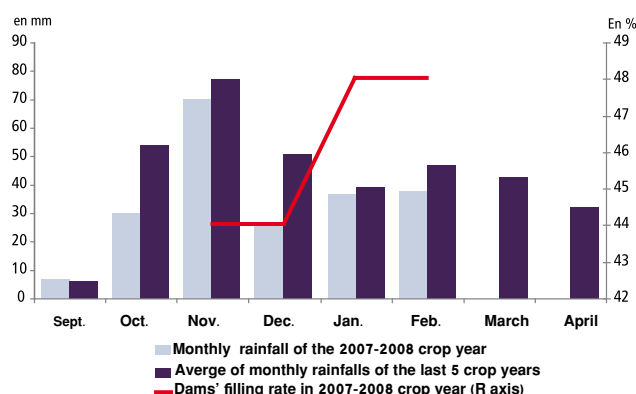
The added value of the post and telecommunications sector should continue its increasing pace in the fourth quarter of 2007 and first quarter 2008 with a growth rate nearing 11%. The intensity of competition marked by the multiplication of offers and the diversification of services provided are behind the excellent performance of this sector.

Altogether, growth in 2007 should be of 2.3%. It should pick up in 2008 to 6% driven by the expected good performance of the agricultural sector where added value is forecast to rebound by 13%. Non-agricultural activities should continue their dynamism and should see a rise in added value of approximately 5.8%, taking into account taxes on products net of subsidies.

1.2 Consumption

In spite of an unsustained performance of the national economy in 2007, domestic demand has positively contributed to economic growth. Therefore, national final consumption should

Chart 1.3 : Main rainfall indicators



Sources : Ministry of Agriculture and Sea Fisheries

Box 1.1: Lower volatility in national economic growth

Analysis of Morocco's economic growth since the 1980s shows strong dependency on the agricultural sector, itself dependent on climate changes. In spite of its relatively low contribution to the structure of global added value (13.4%), the agricultural sector remains a determining factor of overall growth owing to the high rate of output fluctuation from year to year. The secondary and tertiary sectors, representing 25.3% and 61.3% respectively of the global added value over the past few years have seen sustained growth dynamics. The per sector volatility in added value over the three phases of growth 1980-89, 1990-99 and 2000-2007, saw a downward trend in all sectors of activity, resulting from continued decline in the volatility of agricultural growth. Overall volatility has thus fallen from 6.3% in 1980-89, to less than 2.9% in 2000-2007.

Volatility in added value per sector of activity in % (*)

| | Global added value | Primary sector | Secondary sector | Tertiary sector |
|-----------|--------------------|----------------|------------------|-----------------|
| 1980-1989 | 6.3 | 23.3 | 5.3 | 4.0 |
| 1990-1999 | 5.8 | 27.9 | 2.7 | 2.6 |
| 2000-2007 | 2.9 | 18.4 | 2.8 | 1.5 |

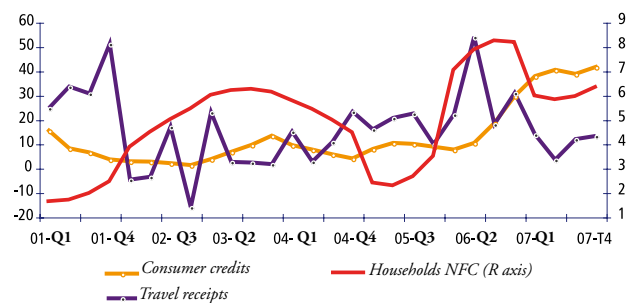
(*)Volatility measured by the standard deviation of series

rise by 7% according to the forecasts of Bank Al-Maghrib, i.e. at a pace equivalent to that registered in the previous year. Final household consumption should register a rise of approximately 6%, in spite of the drop in agricultural income. This trend was the result of the improvement of income, generated by non-agricultural activities and income from abroad, the growth rate of which was 20.1% in 2007 against 12.6% in 2006. The good trend in household consumption had been boosted by the improvement in the labor market and the 15.1% growth in remittances from Moroccans living abroad at the end of December 2007, or more than 43% compared to average remittances received from 2002 to 2006. To this, is added the impact of expanding consumer loans and the fact that inflation has been kept under control at approximately 2%. Along the same lines, food, beverage and tobacco imports in 2007 were up by 147.8% in terms of value (139.3% in volume), and finished consumer products by 26.2% (32.1% in volume) at the end of December 2007. In 2007 travel receipts were up by 12.7%, thereby indicating robust growth in non-resident household final consumption. In addition, the final consumption of public administrations is expected to maintain its uptrend, in connection with the 4.6% rise in operating expenditure.

In 2008, national final consumption is expected to grow by 9% in connection with the projected improvement in household consumption, forecast to increase by about 8.5%. This trend is forecast to be favorably influenced by the positive effect of the agricultural campaign on residents' income, the improvement on the labor market, particularly in rural areas, and the expected growth in income from abroad. Remittances from Moroccans living abroad at the end of January 2008, amounted to 4.2 billion dirhams, up by 1.7% on a year-to-year basis. Non-resident household consumption is projected to continue the dynamism observed over the past few years in connection with the strengthening of travel receipts which, in spite of the year-to-year 11.8% drop in January 2008, remain up by 23.8% compared to the average earnings of January for the period 2003 to 2007.

The consumption of general government should rise by 10.3%, boosted by the 6.7% growth in operating expenditures and 4% increase in wages as expected in the Finance Law of 2008.

Chart 1.4 : Year-on-year quarterly growth of household final consumption, consumer credits and travel receipts, in %



Sources : HCP and BAM forecasts

1.3 Investment

At the end of 2007, gross fixed capital formation is projected to have risen by 12.5% bringing the gross investment rate to 33.1% of GDP. At the end of December 2007, this expansion would have benefited from the 30% hike in equipment loans, the 26.2% increase in value (32.1% in volume) of finished equipment products and the 21% rise in the number of new trade register entries. Likewise, receipts from foreign private loans and investments in 2007 rose by approximately 25%, to an overall amount of 37 billion dirhams, representing 6.1% of GDP.

The Investment Committee data indicate that this trend should continue in 2008. In fact, out of a total of 160 projects submitted, the Investment Commission approved 72 projects in 2007, involving an overall amount of 71.3 billion dirhams. These projects, basically addressing the tourism and processing industry sectors, should lead to the creation of 40,023 direct jobs.

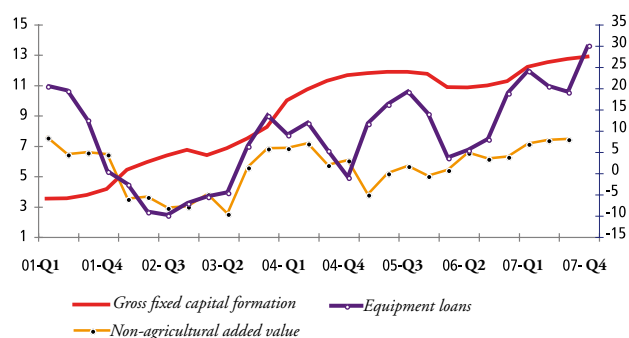
In 2008, the gross fixed capital formation should grow by 12.8% bringing the gross investment rate to 33.8% of GDP, a dynamism that should benefit from the expansion of public investments and the strong confidence of national and foreign economic operators. In addition, the 39.6% growth, at the end of January 2008, in receipts of foreign private investment and loans, up by 17.4% compared to the average earnings registered over the past five years, and the granting, in April 2007, of the «Investment Grade» to Morocco by Fitch Ratings agency are proofs of this renewed confidence.

1.4 Foreign trade

Exports were up by 13.7% in the fourth quarter of 2007 on a year-to-year basis, while imports registered a growth rate of 43%, thereby worsening the trade deficit by 78.8%.

The growth in exports is essentially due to the increase in the sales of phosphates and derivatives, sustained by higher prices on the world market as well as by stronger external demand for these products. Concurrently, substantial growth was

Chart 1.5 : Year-on-year quarterly growth of gross fixed capital formation, non-agricultural added value and equipment loans, in %



Sources : HCP, Foreign Exchange Office and BAM forecasts

Table 1.3: Foreign trade growth in the fourth quarter of 2007 (year-on-year basis)

| (In millions of Dhs) | Q4 | Q4 | Change | |
|---|---------------|---------------|----------------|--------------|
| | 2006 | 2007 | Amount | % |
| Total exports | 28 934 | 32 899 | +3 965 | +13.7 |
| Phosphates and derivatives ³ exports | 4 543 | 6 581 | +2 038 | +44.8 |
| Exports excluding phosphates and derivatives | 24 391 | 26 318 | +1 927 | +7.9 |
| Ready-made clothes | 5 508 | 5 278 | -230 | -4.8 |
| Hosiery items | 1 968 | 2 001 | +33 | +1.7 |
| Citrus fruit | 1 260 | 905 | -355 | -28.1 |
| Total imports | 52 592 | 75 189 | +22 597 | +43 |
| Imports of energy products | 10 584 | 15 194 | +4 610 | +43.6 |
| Wheat | 685 | 3 906 | +3 221 | +469.9 |
| Capital goods | 11 623 | 15 957 | +4 334 | +37.3 |
| Consumer goods | 10 842 | 13 679 | +2 837 | +26.2 |

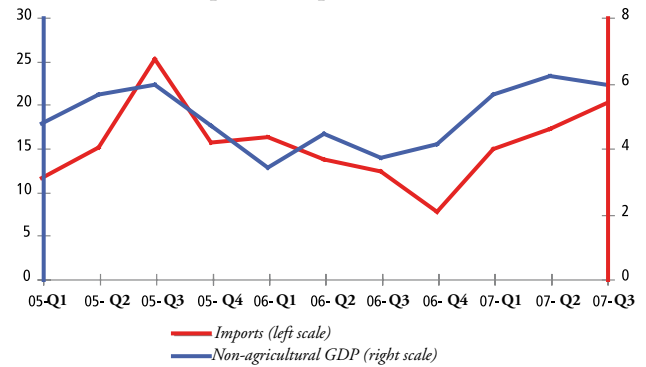
Source : Foreign Exchange Office

reported in the sales of electrical wires and cables, crustaceans, mollusks and shellfish, and fruits and canned vegetables. However, the rise in exports was subdued by considerable drops in the export of citrus fruits and ready-made clothes by 28% and 4.1%, respectively.

Furthermore, soaring oil and food prices throughout the world contributed to the higher bills for cereals and oil, whose contribution to the growth in imports amounted to 23.9% and 9.1% respectively. Imports of capital goods and semi-processed products, and consumer goods contributing to this growth by 36.3% and 12.6% respectively.

In 2008, the slowdown of activity in the Eurozone could lead to lower-than-expected rise in Moroccan exports. The growth rate in imports should slow down in the first quarter of 2008, on the assumption of a better crop year.

Chart 1.6 : Imports and growth in Morocco
(On a quarter-to-quarter basis, in %)



Sources : HCP and Foreign Exchange Office

2. PRESSURES ON OUTPUT CAPACITY AND LABOR MARKET

In 2008, overall growth should hover around its potential level after 2007, which was characterized by contraction in demand. The various measurements of the non-agricultural output gap show positive values, like in the last quarters, while output capacity utilization rate in the industrial sector stabilized in January at almost the same level as in the recent quarters. The available indicators of wages point to a rise in real terms of private wages in the fourth quarter of 2007. Overall, analysis of these risk factors on prices suggests a moderate upward pressure with, yet, substantial uncertainty with regard to a potential rise in the legal minimum wage.

2.1 Pressures on output capacity

Affected by a lackluster year, the agricultural output gap showed negative values in the first three quarters of 2007. The contraction of agricultural supply caused fluctuations in the prices of cereals and fresh produce during the year. Starting from the second quarter of 2008, this indicator should see a reversal of the trend, with positive figures due to a better crop year as compared to the previous year.

On the other hand, the non-agricultural output gap posted positive figures during the first three quarters of 2007, in connection with the steady growth in non-agricultural GDP during that year. Given the delayed impact of the non-agricultural output on inflation, the moderate pressures on demand that appeared in early 2007 are expected to continue in the first two quarters of 2008.

Concurrently, in January 2008 the output capacity utilization rate was maintained at 77%, a similar level to December 2007. From a sectoral standpoint, the highest rates were registered in the electrical and electronic sector (84%), the chemical and para chemical industry (81%) as well as the textile and leather industry (72%).

The apparent labor productivity in non-agricultural activities showed a drop in the fourth quarter of 2007, attributable to the rise in urban employment that was higher than that of non-agricultural GDP¹.

The evolution of these indicators points to moderate pressures on prices over the forthcoming quarters.

Chart 2.1 : Agricultural output gap in %

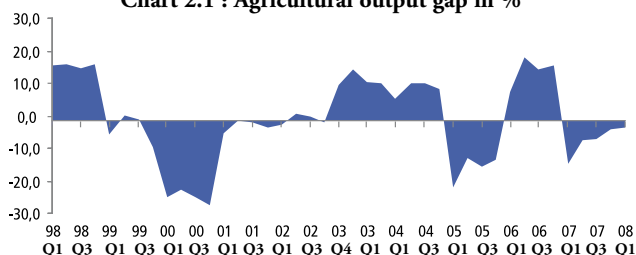


Chart 2.2 : Non-agricultural output gap in %

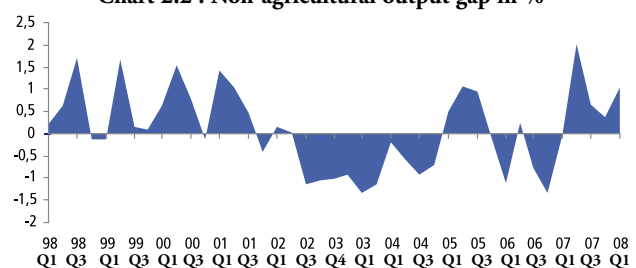


Chart 2.3 : Non-agricultural output gap and underlying inflation on a year-to-year basis in %

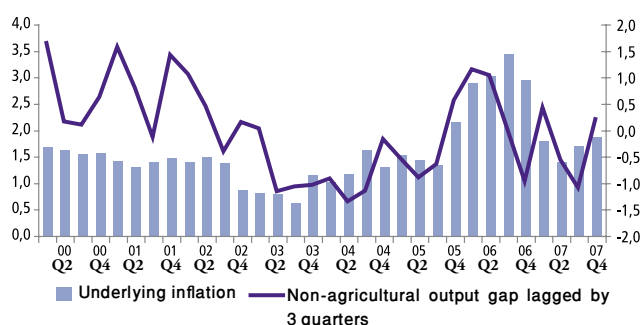
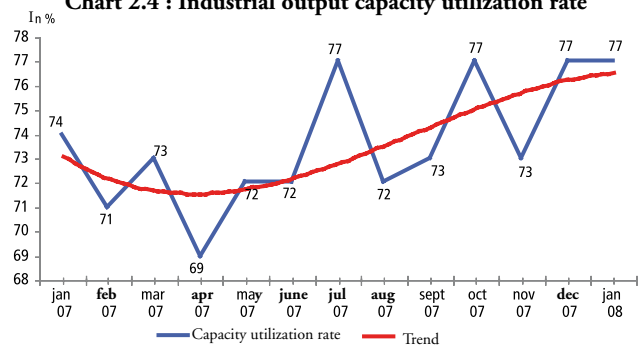


Chart 2.4 : Industrial output capacity utilization rate



¹ BAM estimate for non-agricultural GDP in the fourth quarter 2007

2.2 Pressures on labor market

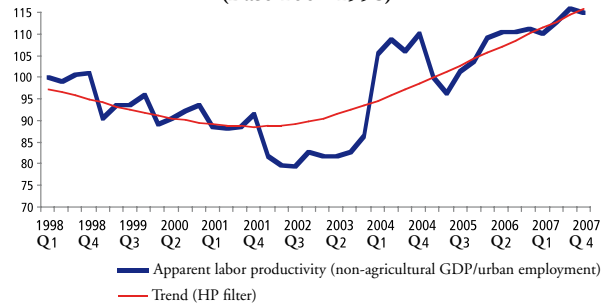
In the fourth quarter of 2007, the workforce registered a drop of 1.7% in connection with that reported in urban (-0.2%) and rural (-3.5%) areas. Likewise, the occupied workforce fell by 0.3% on a year-to-year basis, further to diminishing of unpaid employment whose share dropped by 3.8 points. This backward movement led to an employment rate down by 1 point, to 45%.

Under these conditions, the situation on the labor market in the fourth quarter was characterized by a drop of 13% in the unemployed workforce in comparison to the same period of 2006 or 157,000 people. Therefore, the unemployment rate at the national level was of 9.7% as opposed to 10.9% in the previous year. This decrease is essentially attributable to that of urban unemployment rate, in connection with the consolidation of growth in non-agricultural activities. With regard to the outlook, the rainfall reported for the 2007/2008 agricultural season should help bolster the primary sector and associated activities, which should stimulate job creation as of the second quarter of 2008.

The quarterly average wage index, calculated by the HCP on the basis of the CNSS data, saw a year-to-year rise of 6.4% in the third quarter of 2007 against 0.9% a year earlier. In real terms, this index grew by 4% as opposed to the last year's 2.7% drop. However, this indicator should be interpreted with precaution, because it refers to an average wage rather than an index, and covers only a fraction of the occupied workforce. In addition, the frequency and size of the wage adjustment could inject some bias into this analysis.

The minimum wage remained stable in nominal terms and slightly depreciated in real terms. Ongoing negotiations between the Government and social partners could, however, result in an increase in the minimum wage. Based on models and the data available, our estimates suggest that a rise in the minimum wage tends to affect prices gradually. Everything being equal elsewhere, it is estimated that the impact effect, in the first year, of a 10% rise in the minimum

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



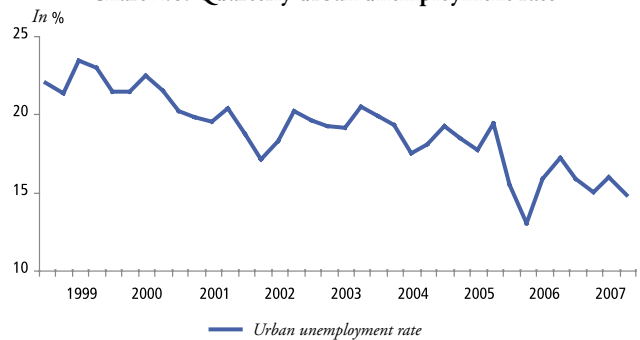
Source : HCP and BAM estimates

Table 2.1 Labor market indicators

| In millions | Q4 - 2006 | | | Q4 - 2007 | | |
|---------------------------------------|-----------|------|-------|-----------|------|-------|
| | Urb | Rur | Total | Urb | Rur | Total |
| Workforce and employment | | | | | | |
| Workforce ⁽¹⁾ | 5.73 | 5.42 | 11.15 | 5.72 | 5.23 | 10.96 |
| Activity rate (in %) | 45.5 | 60.3 | 51.7 | 44.3 | 57.6 | 49.8 |
| Occupied workforce | 4.74 | 5.18 | 9.93 | 4.87 | 5.02 | 9.89 |
| Employment rate (in %) ⁽²⁾ | 37.7 | 57.7 | 46 | 37.7 | 55.3 | 45 |
| Unemployment | | | | | | |
| Unemployed workforce | 0.98 | 0.24 | 1.2 | 0.85 | 0.21 | 1.06 |
| Unemployment rate (in %) | 17.2 | 4.4 | 10.9 | 14.8 | 4.1 | 9.7 |
| By degree | | | | | | |
| . Without degree | 10.1 | 2.9 | 5.5 | 7.8 | 2.7 | 4.6 |
| . With degree | 23 | 13.2 | 21.1 | 20.4 | 12 | 18.8 |

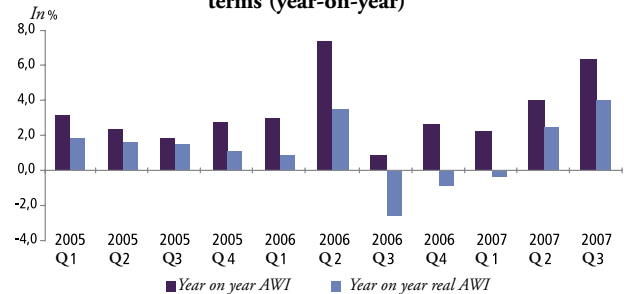
(1) Population aged 15 years and above (in millions of people)
 (2) Occupied workforce/ total population aged 15 years and above
 Source: HCP

Chart 2.6: Quarterly urban unemployment rate



Source: HCP

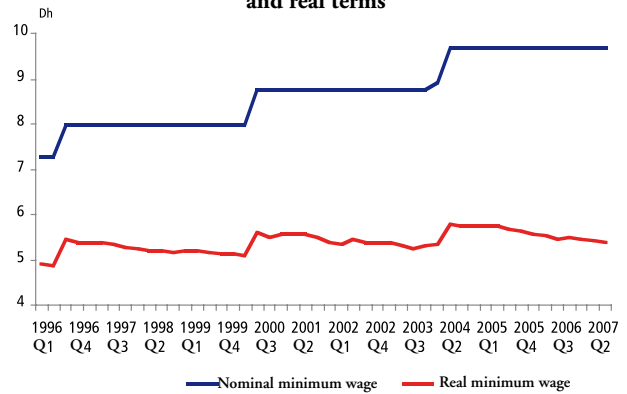
Chart 2.7: Private sector Average wage index in nominal terms (year-on-year)



Source: HCP

wage leads to a rise in the inflation rate of approximately 0.5%. In three years' time, the joint effect is of about 2% while in 5 years, the joint rise is of approximately 4%. These effects are therefore significant and long-lasting. From the standpoint of monetary policy, it is therefore of prime importance to remain vigilant about the potential inflationary impact of any adjustment of the minimum wage.

Chart 2.8: Quarterly minimum wage in nominal and real terms



Source: Ministry of Employment

3. IMPORT PRICES

In a context of monetary policy easing in connection with the international economic slowdown, inflation in the majority of industrialized countries picked up in late February 2008. Moreover, reflexive of international price trends, the index of non-energy import prices in Morocco continued its rise throughout 2007, in particular under the effect of soaring world food prices. Petroleum product import prices saw similar trends explainable by fears about dwindling world supplies, the weakness of the dollar and the consequences of geopolitical instability. The inflationary effect of the price of these products continues to be mitigated by the freeze of the indexation mechanism. The future trends of these risk factors indicate the persistence of strong inflationary pressures in the remainder of the current year.

3.1 World inflation

In a context of monetary policy easing in connection with the international economic slowdown, in most industrialized country, inflation accelerated in late February 2008, compared to one year earlier. This trend is attributable to the marked rise in basic commodities and oil prices, soaring to higher levels in 2007 than 2006.

In the Eurozone, our principal partner, inflation remained stable in February 2008 at the high level of 3.3% on a year-to-year basis. The same trend was observed in France, Spain and Italy where the inflation rates remained unchanged at 2.8%, 4.4% and 3.1% respectively, from one month to the next. Further, the recent rise in the cost of energy and other commodities at the international level, might lead in the short term to an upward modification in the inflation forecasts for these countries.

3.2 Oil prices

Oil prices remained on the rise in January 2008. The average cost of crude oil reached \$90.7 per barrel, up by 1.2%, after a drop of 2% last December. In 2007, the average annual barrel price was of \$71.1 as opposed to the \$64.2 dollars a year ago, i.e. a rise of 10.7%.

In Morocco, prices at the pump, indexed to world oil prices, underwent no change due to the intervention of the subsidization fund. Hence, domestic prices remained stable from one month to the next.

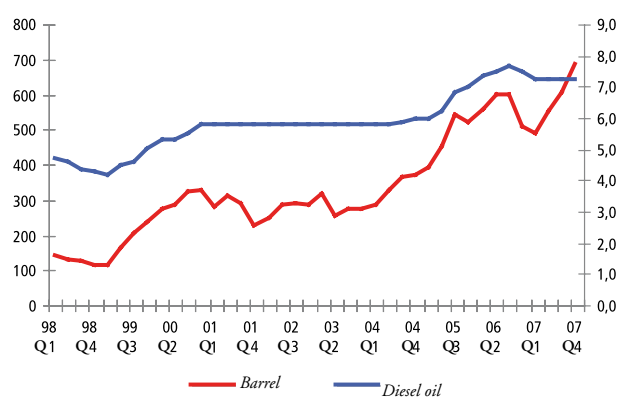
According to the forecasts of world oil market operators, fears of insufficient supplies, the weak

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

| | 2007 | 2008 | 2008 | Forecasts |
|---------------|------|------|------|-----------|
| | feb | jan. | feb. | 2008 |
| United States | 2.4 | 4.3 | 4.0 | 2.3 |
| Eurozone | 1.8 | 3.2 | 3.3 | 2.9 |
| Germany | 1.6 | 2.9 | 2.9 | 1.8 |
| France | 1.1 | 3.2 | 2.8 | 1.8 |
| Spain | 2.4 | 4.4 | 4.4 | 2.8 |
| Italy | 1.8 | 3.1 | 3.1 | 1.9 |

Sources: ECB, Eurostat and IMF

**Chart 3.1: World oil prices and pump price in Morocco
(in dirhams)**



Sources : IMF, Ministry of Energy and Mining

dollar, the sustained demand for crude oil and the persistence of geopolitical instability, are all factors that continue to put pressure on medium term oil prices, in spite of the international economic slowdown. Therefore on the futures market, the average price of a barrel should reach about \$95.2 in 2008. However, in contrast with the prices on the futures market, which reveals great uncertainty, the consensus among central banks puts the average oil price at \$75 per barrel in 2008.

3.3 Commodity Prices

In 2007, the world commodity market was marked by surging prices for staple agricultural products. Indeed, this sharp rise was for almost all agricultural commodities, in particular for wheat, whose average price soared in December 2007 to 369 dollars per ton, up by 88% compared to January 2007. This trend is attributable to strong world demand and lower world stocks for the 2007/2008 crop year. Therefore, the value of imported cereals increased more than twofold in one year.

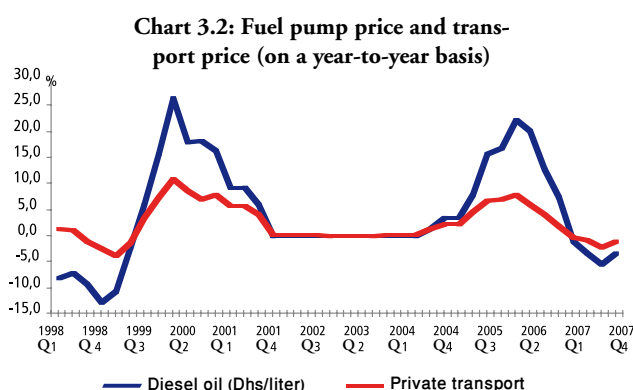
Prices for metals, in particular lead, copper and zinc reversed trend in the second quarter of 2007, mainly in connection with the risk of a recession in the American economy.

In the first two months of 2008, agricultural commodity prices continued to climb, registering a new average hike of 22.8% compared to 2007. At the same time, metals prices rose by 11.7% compared to the previous year. This recovery is explainable by the drop in supply and stocks of the principal basic metals at the world level.

Soaring agricultural commodity prices, in particular for wheat, and the recovery of metals prices are expected to continue over the forthcoming quarters of 2008, under the effect of high demand from hedge funds for these products, fostered by the weak dollar and the instability of stock exchange markets across the world.

3.4 Import prices indices

Reflecting the trends in international prices mentioned in the above section, the index of non-energy import prices of Morocco continued its



Source: Ministry of Energy and Mining

Table 3.2: Domestic selling price of petroleum products

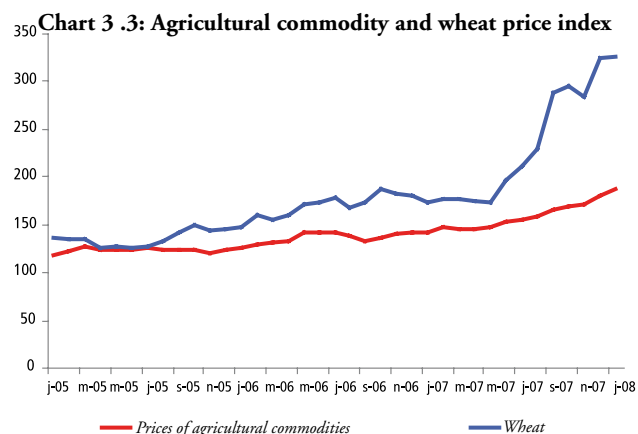
| Products (Dh/Liter) | Sept. | Oct. | Jan. | June | Dec. | Jan. |
|--------------------------|-------|------|-------|-------|-------|-------|
| | 2006 | 2006 | 2007 | 2007 | 2007 | 2008 |
| Premium gasoline | 11.07 | 10.5 | 10.25 | 10.25 | 10.25 | 10.25 |
| Diesel oil | 7.98 | 7.47 | 7.22 | 7.22 | 7.22 | 7.22 |
| Diesel 350 | 9.93 | 9.38 | 9.13 | 9.13 | 9.13 | 9.13 |
| Industrial fuel (Dh/Ton) | 3374 | 3174 | 2874 | 2874 | 2874 | 2874 |

Source: Ministry of Energy and Mining

Table 3.3 Oil prices on the futures market (Brent, in US \$)

| Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Year 2008 |
|---------|---------|---------|---------|-----------|
| 95.2 | 105.6 | 104.5 | 103.3 | 95.2 |

Source : Bloomberg

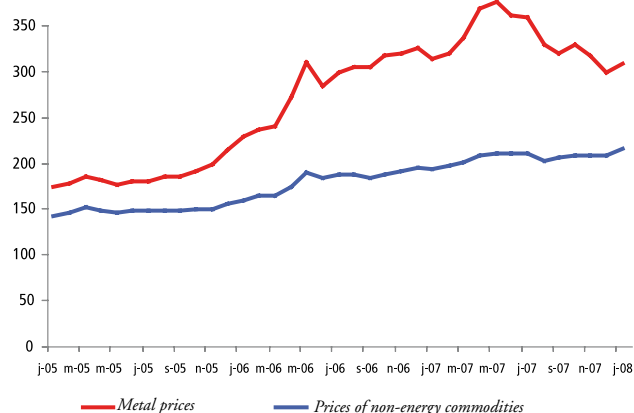


Source: IMF

uptrend throughout 2007, in particular under the effect of the rise in world food commodity prices. This trend accounts partly for the 22% rise in the value of imports during the year. This upward trend, the pace of which has however slightly slowed down since June with easing of prices for metals and semi-finished products, appears to be continuing in 2008 based on January data.

The big gap between quotations for futures and forecasts for wheat prices on the international market bears witness to the prevailing uncertainty on this market. The internal impact should, however, be mitigated by the expected drop in the pace of growth in cereal imports due to the rebound in domestic output.

Chart 3.4: Non-energy commodity and metal price index



Source: IMF

Table 3.4 Trends in futures and wheat forecasts per quarter

| Wheat (Cts/ bushel)* | Q1 :08 | Q2 :08 | Q3 :08 | Q4 :08 | 2008 |
|----------------------|--------|--------|--------|--------|--------|
| Futures | 1021 | 1176 | 1181 | 1186 | 1021 |
| Forecasts | 922.50 | 878.27 | 777.44 | 742.44 | 773.06 |

* Bushel : 27.21 Kg
Source : Bloomberg

Chart 3.5: Non-energy import prices index

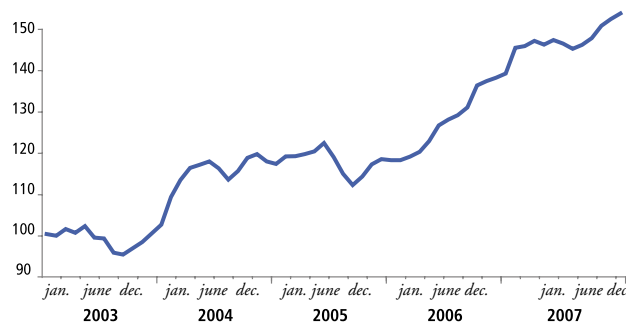
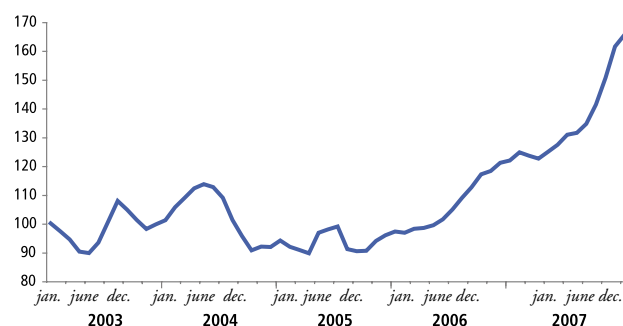


Chart 3.6: Food product import prices index



Box 3.1 Calculation of import price indices

These indices are not import prices in the strict meaning but rather unit value indices reflecting the evolution of the value/price ratio, with respect to a reference date (January 2003). For different reasons, the trends in unitary value indices can differ from those of import prices. Modifications can occur in the structure of the exchanged flows. Other changes are connected to the heterogeneity of the Customs Nomenclature. However, they are less important for commodities.

Due to the aforementioned difficulties, import price indices, in this case, are calculated based on a representative sample consisting of the least volatile value units (change coefficients below 25%).

The products and/or groups of products taken into account in the calculation of unit value indices are the following:

- Food items: butter, wheat, cheese, corn, milk, sugar, tea, crude vegetable oils, and coffee;
- Agri-food items: cotton, wool thread, rubber, leather and skins, paper pulp, wool and coat, crude and worked timber, cotton thread for weaving;
- Minerals and metals: Copper, steel and iron, crude sulfur, crude zinc;
- Finished consumer products: hosiery items, bicycles and motorbikes, lamps and electronic tubes, drugs, household hardware, home refrigerators, ready-made clothes, cotton fabrics, passenger cars.

4. MONETARY CONDITIONS AND ASSET PRICES

Recent data confirm the continuation of the dynamism of monetary and credit growth. In spite of the slowdown registered in January 2008, the M3 aggregate developed at a fast pace on a year-to-year basis, up by 15.1%, compared to 17.1% in the fourth quarter of 2007. Overall, the monetary surplus arising from these developments constitutes a risk factor for prices if it turns into a high increase of goods and service consumer spending. In January 2008, bank loans remained up, rising by 29.9% on a year-to-year basis, compared to 28.2% in the fourth quarter of 2007. Parallel to the strong growth in loans to private individuals, the structure of bank loans per economic agent reveals increasing allocation to the strengthening of supply and production capacity in the economy, in a context where lending conditions showed quasi stability between the third and fourth quarters of 2007.

4.1 Monetary conditions

4.1.1 Interest rates

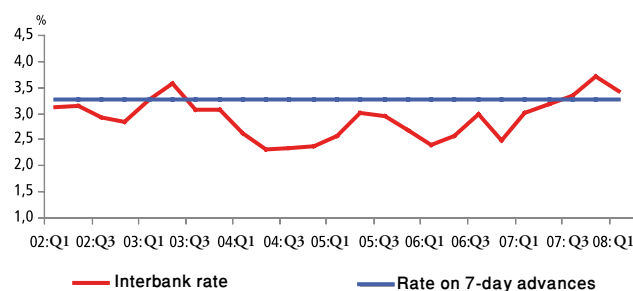
At its last meeting of 25 December 2007, the Bank Al-Maghrib Board decided to keep the key rate at 3.25%. In January and February 2008, the average weighted rate on the interbank market came to 3.40% on average.

Rates on very short-term Treasury bills were significantly adjusted downwards in January. The yields on the secondary market which constituted the reference with regard to the weak borrowing of the Treasury on the primary market, evolved in the same way. In fact, the regular rise observed in year 2007 gave way to a sharp drop in short- and medium term rates, except for the 52-week rates. Nevertheless, the rise in yield of long-term bonds continued at the beginning of the current year, albeit at a slower pace.

In this context, for borrowing rates, the average weighted rate of 6 and 12-month deposits, which rose in the last quarter of 2007, fell back in January 2008, in connection with the contraction of the rate on 6-month deposits.

With regard to lending conditions, the results for the last quarter of 2007 of the Bank Al-Maghrib survey with banks confirm the continuation of the slowdown in the fall of the average weighted rate. Sorted out by economic purpose, only rates on equipment loans gave evidence to a significant drop, while those on consumer loans rose following a downward trend observed since the beginning of 2007. Overdraft facilities rates saw a smaller rise and rates on real estate loans, the level of which is lower compared to other loan

Chart 4.1: Evolution of interbank rate*



* The observation of the first quarter 2008 is in line with the daily average of 1 January through 29 February 2008 period.

Chart 4.2: Evolution of the structure of interest rates on the Treasury bond market sorted out by term

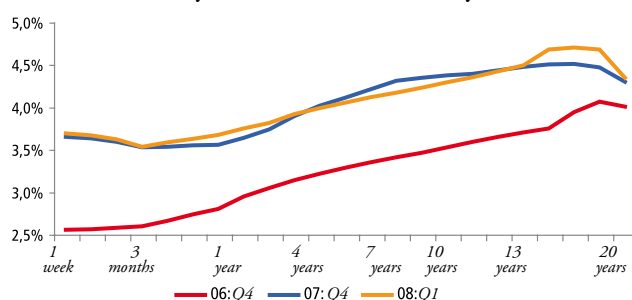


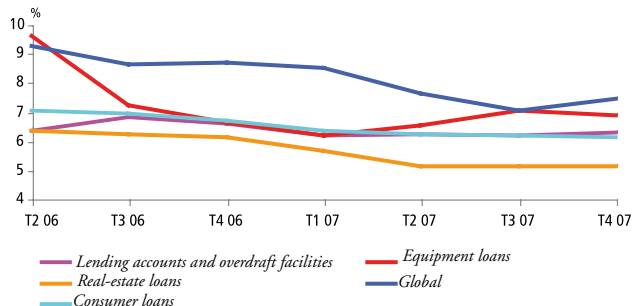
Table 4.1: Borrowing rates* (time investments)

| | 2007 | | | | 2008 |
|------------------|------|------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | jan. |
| 6 months | 3.26 | 3.52 | 3.41 | 3.49 | 3.27 |
| 12 months | 3.65 | 3.63 | 3.69 | 3.71 | 3.74 |
| Weighted average | 3.49 | 3.58 | 3.60 | 3.62 | 3.58 |

* Quarterly data are simple averages of monthly data

categories, were trending downwards. However, the very rapid drop registered earlier slowed down considerably over the last quarters.

Chart 4.3: Lending rates



Box 4.1: Liquidity and implementation of monetary policy

Liquidity

In the last quarter of 2007, bank cash holdings firstly contracted in October under the effect of currency purchase operations and the increase in reserve requirements. As of November, the restrictive trend of the autonomous factors reversed following the drop in currency purchases, the Treasury's debt reduction and the acceleration in the pace of execution of the Finance Law at the year-end. However, the expansive impact of the autonomous factors only marginally mitigated the liquidity shortage in bank cash holdings, maintained at around 11 billion dirhams in the last quarter of 2007.

Given the persistence of the liquidity shortage, the Bank Al-Maghrib Board at its meeting of 25 December 2007, decided to lower, as of 1 January 2008, the rate of the reserve requirements from 16.5% to 15%.

Chart B 4.1 : Quarterly evaluation of the liquidity position (millions of DH) and of the weighted average rate

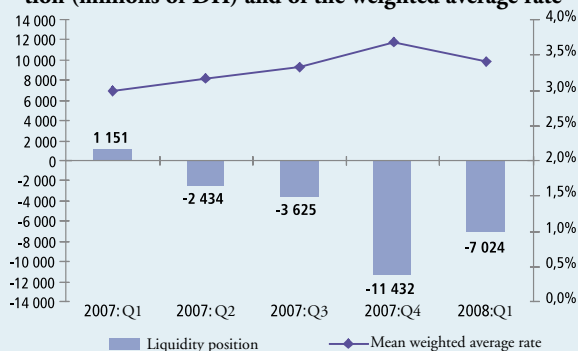
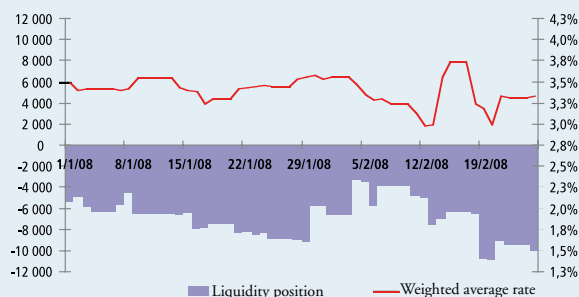


Chart B 4.2 : liquidity position (millions of DH) and interbank money market weighted average rate



The lowering of the reserve requirement ratio made it possible to absorb a part of the liquidity shortage in bank cash holdings which moved from an average of 11.4 billion in the fourth quarter of 2007 to 7 billion in the first quarter of 2008, in spite of the restrictive impact of autonomous factors, particularly pronounced in late February 2008, whose effect on bank liquidity slightly started at the end of the period.

Chart B 4.3: Change in reserve requirements (in millions of Dhs)

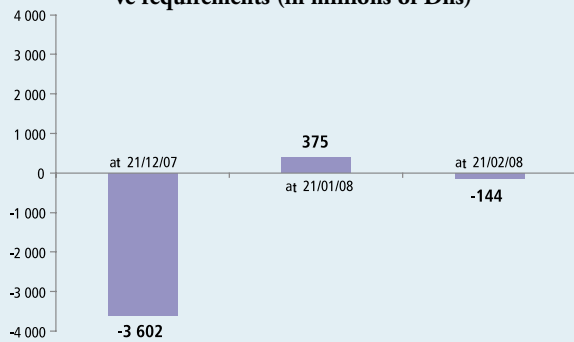
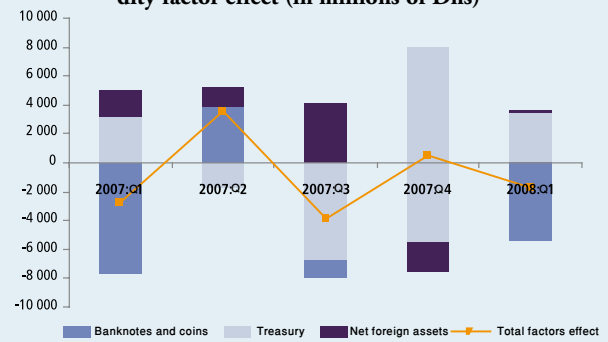


Chart B 4.4: Evolution of liquidity factor effect (in millions of Dhs)



In fact, although foreign asset transactions remained almost without effect on bank cash holdings, Treasury operations were behind the withdrawal of 5.4 billion dirhams, in particular due to the good behavior of tax receipts, the increase in deposits with the Treasury and the reduction of its debt. On the other hand, the return of notes and coins following the period of religious feasts (Aïd Al Adha) and the New Year amounted to 3.5 billion dirhams in January and February 2008. On the whole, autonomous factors had a restrictive effect of 1.8 billion dirhams on bank cash holdings in January and February 2008.

Bank Al-Maghrif interventions and evolution of interbank rate

Bank Al-Maghrif intervened primarily through 7-day advances, while having recourse to fine-tuning operations in the form of Treasury bond repurchase agreements with a view to containing upward pressure temporarily underwent by the average weighted rate of the interbank money market. Overall, Central Bank liquidity injections, which were above market equilibrium allocation in order to bring the interbank rate close to 3.25%, amounted to an average of 7.2 billion dirhams in January and February 2008, including 88% by means of principal operations and 12% through fine-tuning operations. The average weighted rate settled at 3.40% on average, thereby registering a drop of 28 basis points compared to the previous quarter. In turn, interbank rate volatility, measured by its standard deviation, recorded a drop of 23 basis points, moving from 0.40% in the fourth quarter to 0.17% in the first quarter of 2008.

Chart B 4.5: Bank Al-Maghrif interventions on the money market (in millions of dirhams)

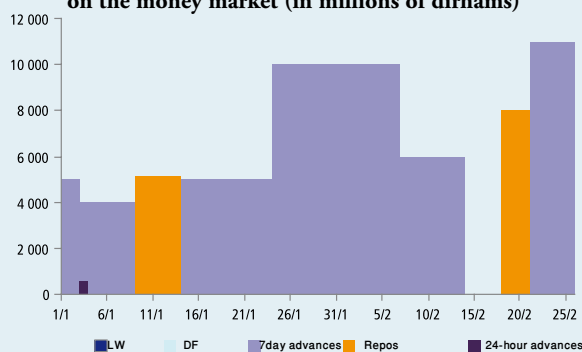
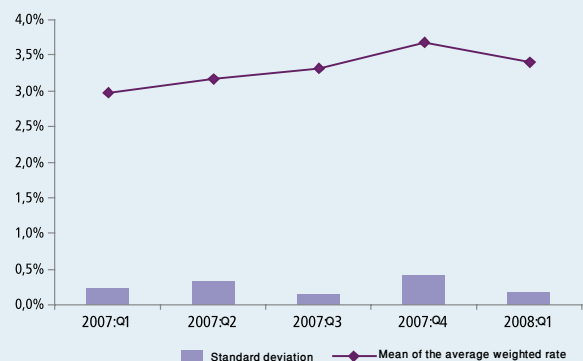


Chart B 4.6: Evolution of the average and standard deviation of the interbank market average weighted rate



4.1.2 Currency, credit and liquid investments

M3 growth

Money creation remained at a high growth pace, with yet a slight slowdown over recent months, in spite of the good behavior of economic activity indicators, particularly with regard to the non-agricultural sector. This growth brought the monetary surplus up to values above the equilibrium value¹. The annual growth rate of M3 has seen only a slight drop, settling at 17.1% in the fourth quarter of 2007 and 15.1% in January 2008. This monetary surplus could lead to pressures on prices if it turns into a high increase in consumer spending.

In turn, time investments ostensibly underwent the effect of substitution exerted by interest-bearing instruments not included in M3. In the fourth quarter of 2007, their annual growth slowed down markedly settling at 8.9%. It is worth-mentioning that the exceptionally high level in the fourth quarter 2006 created a base effect which partially explains this high apparent deceleration.

Per economic agent, the structure of deposits shows expansion of sight deposits from private individuals and businesses as well as from all non-financial agents. Bank money held by resident private individuals and Moroccans living abroad grew by 23.5% in one year, while the demand deposits of businesses rose by 27.5%, a considerable rise compared to the last quarters.

On the other hand, the slowdown in the pace of growth of time investments is largely explainable by the behavior of private individuals and Moroccans living abroad who saw their share drop considerably with regard to the constitution of interest-bearing investment with banks. This trend bears witness to the extent of transfers made toward cashless payment means and portfolio readjustments in favor of instruments not included in M3.

Chart 4.4: Annual growth of M3 and its trend (in %)

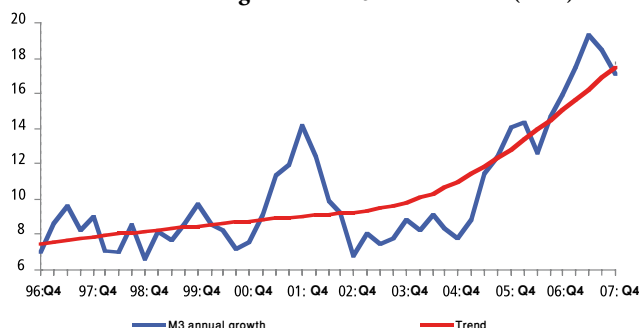


Chart 4.5: Monetary surplus (as a percentage of the equilibrium outstanding of real M3)

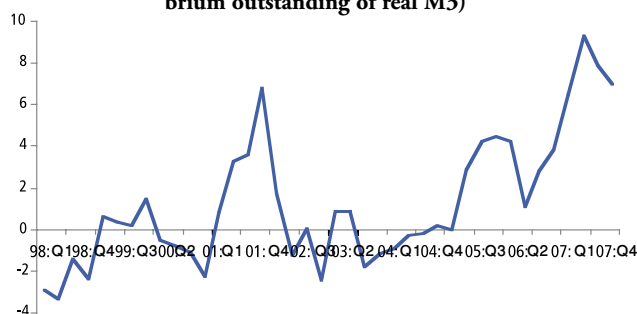
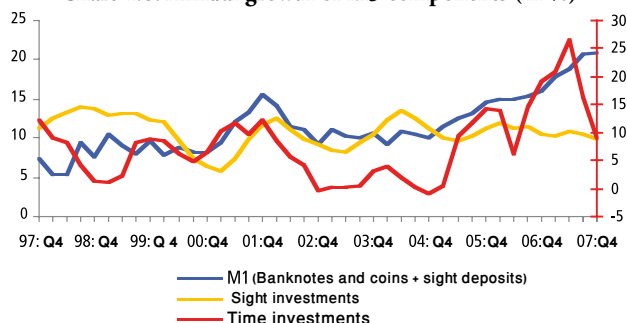


Chart 4.6: Annual growth of M3 components (in %)



¹ In practice, it is considered that a steady growth around a low value is in line with price stability

Bank loans

As an extension to the movement begun in 2006, bank loans expanded greatly in the fourth quarter of 2007, i.e. 28.2% on a year-to-year basis. In January 2008, its growth accelerated to 29.9%, representing the fastest pace over several years. At the same time, analysis of the bank loan structure per economic agent shows increased allocation to the strengthening of supply and output capacity in the economy. A retrospective analysis in this respect tends to indicate that loans to businesses are apparently in a recovery cycle after the drop observed in 2000-2004, followed by a very limited rise up to the end of 2005. Further, loans to private parties rose sharply.

Analysis according to economic purpose shows that equipment loans, granted in their majority to businesses, grew by 25.9% in the fourth quarter of 2007, continuing their recovery which could contribute to strengthening output capacity, in particular in the secondary and tertiary sectors. Trends in real estate loans also point to an uptrend in the share of businesses, in particular with regard to building and public works.

Overdraft facilities show a growth pattern compatible with the dynamics of economic activity. In the fourth quarter, they expanded by 30.4% on a year-to-year basis. In January 2008, their growth rate dropped, settling at 24.8%.

Other sources of money creation

Data for the fourth quarter of 2007 and January 2008 confirm the continuous contraction of the contribution of net foreign assets and net claims on the Government to money creation. Due to the worsening trade deficit, the increase in net foreign assets was of only 9.7% on a year-to-year basis in the fourth quarter of 2007, prior to reaching 11.9% in January. Net claims on the Government were up but only to a limited extent, given the fallback in the outstanding of Treasury bonds held by banks, which limited their year-to-year growth to 10.6% in the fourth quarter of 2007 and only 3.1% in January 2008.

Moreover, recent data confirmed the reversal of the trend of certain counterparts that traditionally have had a positive or neutral effect on M3. This

Chart 4.7: Annual growth of bank loans and its trend (in %)

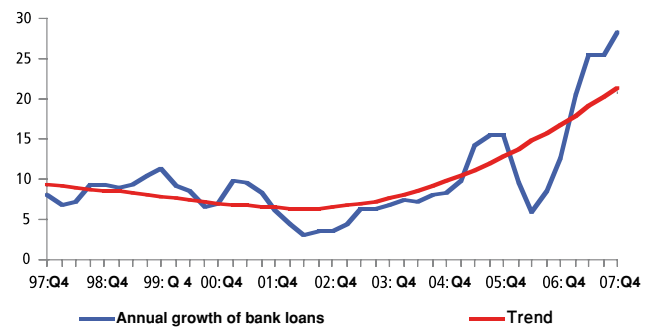


Chart 4.8: Loans' structure by economic agent

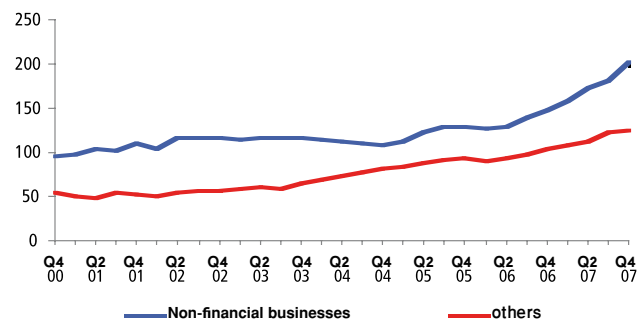
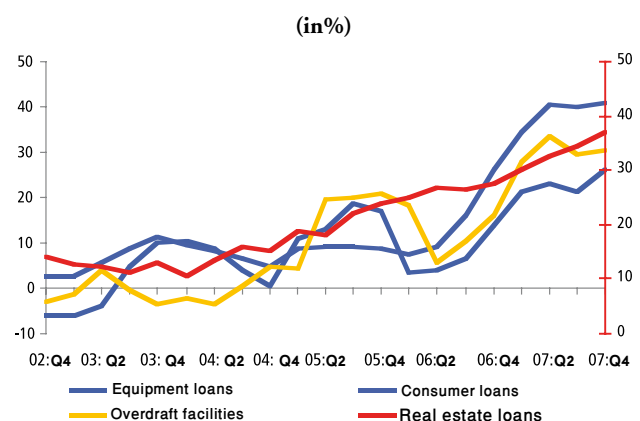


Chart 4.9: Annual growth of the main bank loan categories (in%)



refers to borrowing by banks from non-banking agents and other bank liabilities, in particular the excess of revenues over expenses, whose negative impact on the annual increase in the money supply is estimated on average to about 2%.

In fact, given the high pace of loan distribution, bonds and certificates of deposit issued by banks saw a remarkable development over recent quarters, leading to withdrawal of cash holdings from the monetary circuit. At the same time, the improvement in the profitability of Moroccan banks led to a provisional liquidity withdrawal likely to limit growth in M3 over the period between the making of profits and their possible payment to non banking agents.

Liquid investments

The evolution of liquid investments was negatively impacted by the rise in rates on Treasury bonds in the fourth quarter of 2007, which led to a drop in the liquidation values of bond and monetary UCITS and modifications in the portfolio choices made by certain non-financial agents. In fact, non-financial businesses largely favored time deposits with banks in 2007, to the detriment of UCITS shares. In turn, private individuals globally showed a preference for highly liquid cash holdings in the form of demand accounts with banks, which led to a reduction in their interest-bearing investments with banks and in UCITS shares.

Thus, at the end of the fourth quarter of 2007, and after the slowdown observed since the first quarter of the year, liquid investments marked a fallback of 13.5% on a year-to-year basis.

The LI4 aggregate, gathering the securities of share and diversified UCITS, was the only one to see a rise in the fourth quarter of 2007, primarily due to the value effect attributable to the good performance of stock exchange indices.

4.1.3 Exchange rates

At the end of the fourth quarter of 2007 and in comparison to the previous quarter, the national currency was, on average, up by 4.48%

Table 4.2: 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 |

Chart 4.10: Evolution of overdraft facilities and non-agricultural GDP (year-to-year in % - moving average over three quarters)

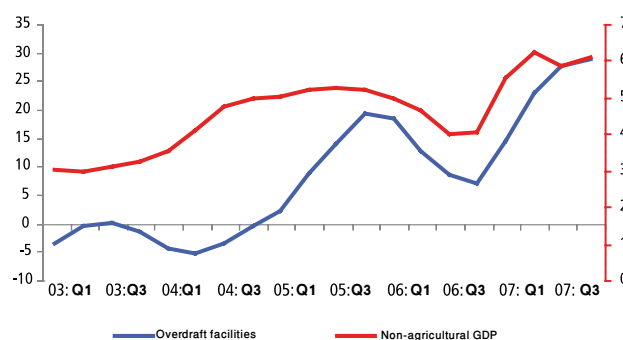


Chart 4.11: Annual growth of net foreign assets (in %)

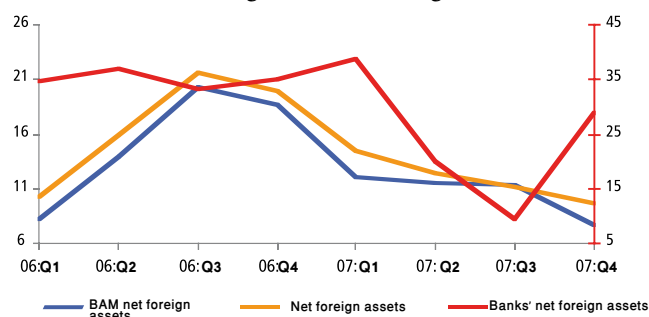
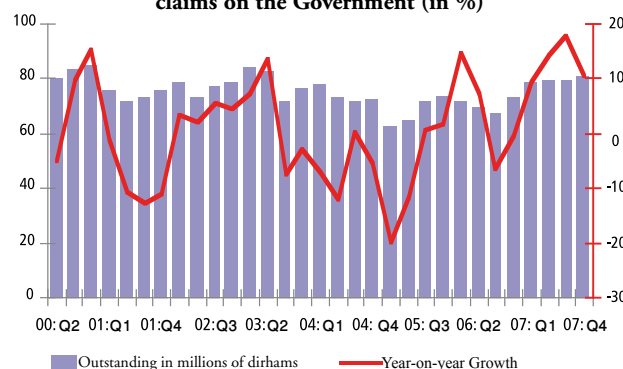


Chart 4.12: Quarterly growth of net claims on the Government (in %)



against the dollar, 3.24% against the pound sterling and 0.21% against the Japanese Yen. On the other hand, it depreciated by 0.90% against the Euro, and 0.24% versus the Swiss franc. This trend continued in January and February but at a less steady pace. The dirham thus appreciated by 1.31% against the dollar and fell by 0.26% against the Euro.

The nominal effective exchange rate of the dirham, calculated on the basis of the bilateral exchange rates against Morocco's principal partners, appreciated by 0.05% as opposed to its level in the previous quarter. The real effective exchange rate remained almost stable from one quarter to the next. As is indicated by the converging trends in the indices calculated by Bank Al-Maghrib and the IMF, depreciation in the real effective exchange rate observed during 2001-2007 shows that the inflation differential compared to Morocco's principal trading partners was in Morocco's favor.

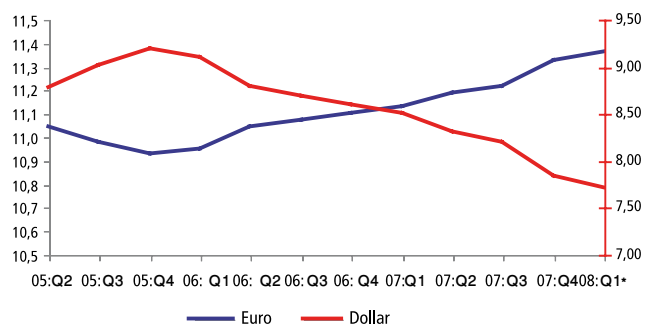
4.2. Asset Prices

At the end of the last quarter of 2007, the MASI index registered a drop of 0.97% compared to the previous quarter, bringing the annual index performance to about 34%. The real estate sector index experienced an explosive growth of 45% since the beginning of 2007. At the end of the first two months of the year, the MASI and the real estate sector index continued to report very significant performance levels, settling respectively at 14.1% and 16.5%.

Trading rose by nearly 160% compared to the previous quarter, reaching 188 billion dirhams at the end of December 2007. This trend is attributable to the portfolio revaluation operations conducted on the block market in December, as well as to the impact of new tax measures announced for 2008. The first two months of 2008 registered a moderate trading of approximately 47 billion dirhams.

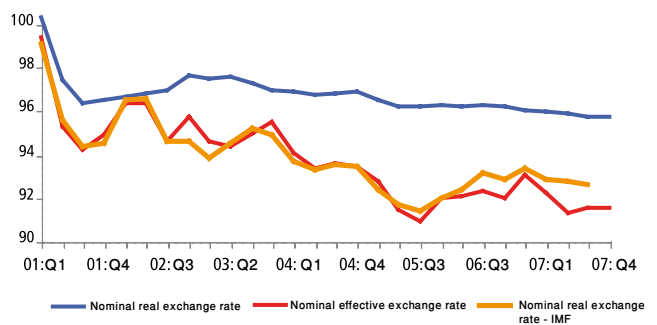
The annual performance of 41% is essentially due to the steady growth of stock prices and the large number of new stock exchange listings, the number of listed companies having grown from 63 to 73 since the beginning of 2007. In

Chart 4.13 : Exchange rate of the dirham (monthly average)



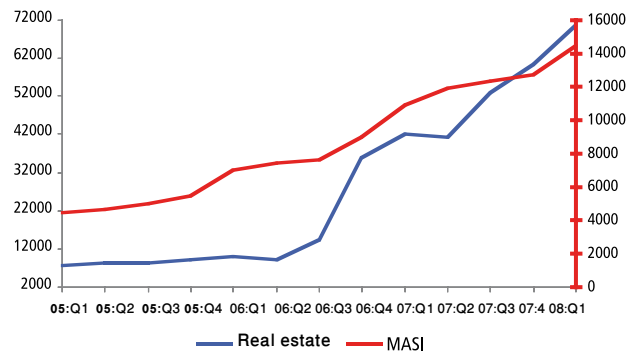
*The first quarter 2008 corresponds to the arithmetic mean of January and February data

Chart 4.14: Effective exchange rate* (Base 100 in 2000)



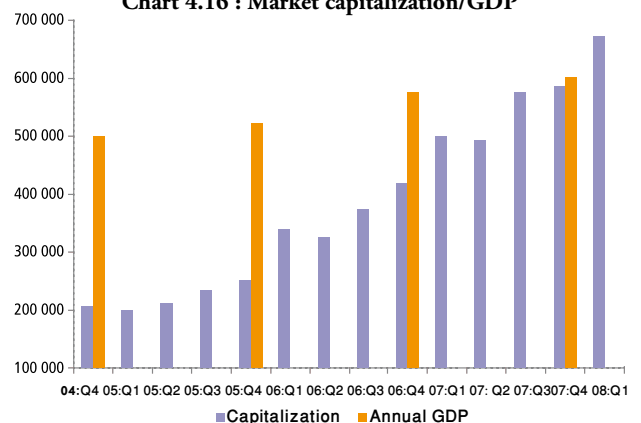
* Provisional data
Source: BAM estimates

Chart 4.15: Stock market indices *(monthly averages)



* The first quarter of 2008 corresponds to the arithmetic mean of January and February data

Chart 4.16 : Market capitalization/GDP



this context, market capitalization grew by 1.9% between September and December 2007, to 586 billion dirhams. Stock Exchange capitalization represented approximately 97% of GDP in 2007 compared to 72% in 2006. At the end of the first two months of 2008, it grew again by 14.5%, reaching 671 billion dirhams. The PER moved from 22.9 to 22.2 from one quarter to the next, a rather high level.

On the basis of the available fragmented information, the rapid rise in the price of real estate assets continued in 2007. The rapid increase of the price of real estate assets constitutes a risk which, in case of a market downturn, could negatively affect economic activity.

Table 4.3: Market Valuation (PER)

| | 06 :Q4 | 07 :Q1 | 07 :Q2 | 07 :Q3 | 07 :Q4 |
|---------------------------|--------|--------|--------|--------|--------|
| Casablanca Stock Exchange | 20.7 | 21.8 | 20.5 | 22.9 | 22.2 |
| Euro stoxx 50 | 12.4 | 13 | 13.6 | 12.9 | 12.5 |

*PER: Price Earnings Ratio
Sources: Bloomberg and CFG*

5. RECENT INFLATIONARY TRENDS

In February 2008, inflation accelerated on a year-to-year basis, compared to January, rising from 1.7% to 2.4%. The transitory nature of the January drop is confirmed by the development of underlying inflation which continued the uptrend begun last November. This indicator rose from 2% in December to 2.3% in January and then to 3% in February. This change is primarily explainable by the pressure made by staple food products, in particular, cereals and food oils. Overall, it is observed that the inflationary dynamics results more from the tradable goods sector than from non-tradables. Likewise, the analysis shows that the contribution of goods, rather than services, is behind the recent inflationary movement. Trends for industrial producer prices also show that pressure on inputs and consumer prices remain high.

5.1 Inflationary Trends

After posting a slowdown on a year-to-year basis from 2% in December 2007 to 1.7% in January 2008, overall inflation in February amounted to 2.4%. Underlying inflation continued on its uptrend in January settling at 2.3% as opposed to 2% in December, before picking up again to 3% in February 2008.

The drop in overall inflation in January is mainly attributable to a fall in the price of fresh produce, especially vegetables. Further, the rise from one month to the next in communications prices in January 2008 and the unfavorable base effect created by the contraction of pump prices in January 2007 had no significant effect on inflationary trends. The overall inflation slowdown in January was only transitory as is borne out by its uptrend reversal in February 2008 and the ascending trend observed in underlying inflation since last December.

Acceleration of both overall and underlying inflation in February is basically attributable to high prices for staple food products, in particular, cereals and fats further to the successive increases in the price of salad oil at the end of 2007 and beginning of 2008.

In addition, the overall inflation rate in January and February was lower than that of underlying inflation, due to fresh produce price changes. The gap between these two indices was maintained at 0.6 percentage point in the last two months. Indeed, the substantial drop in the price of fresh vegetables and the lower prices for fresh fruit mitigated the effect of staple food product prices at the level of overall inflation and more than offset the higher prices of fresh fish resulting from the strike that hit the maritime fishing sector.

When inflation is monitored on the basis of year-to-year rates, the price trend observed is due to price

Chart 5.1 : Inflation and underlying inflation (year-on-year)

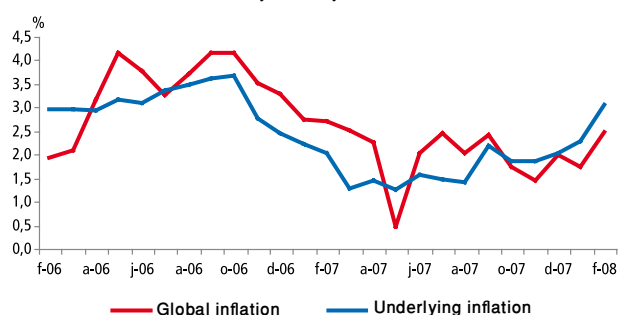
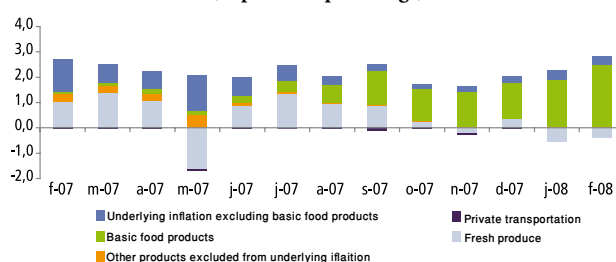


Chart 5.2 : Contributions to year-on-year inflation (in points of percentage)



variations both in the current year and a year ago, generally referred to as «base effects». For this reason a distinction should be made between the events of the ongoing year which actually contributed to current inflation, on the one hand, and the base effects that are likely to give erroneous signals on recent inflationary trends. Given certain specific price variations in 2007, we could expect some base effects during the current year. The main potential effects identified at this stage are firstly, the expected impact of lower communications prices that occurred last March and which may lead to higher prices of this heading in March 2008. Likewise, the increase of the prices for staple food products last September could eventually lead to a deceleration in the prices of these products on a year-to-year basis, in September 2008.

Table 5.1: Inflation and its components

| | Monthly change (%) | | | Year-to- year (%) | | |
|---|--------------------|-------------|------------|-------------------|------------|------------|
| | dec 07 | jan 08 | feb 08 | dec 07 | jan 08 | feb 08 |
| Overall inflation | 0.0 | -0.3 | 0.6 | 2.0 | 1.7 | 2.4 |
| - Fresh produce | -0.4 | -3.4 | -0.1 | 1.3 | -1.8 | -1.3 |
| - Private transport | 0.0 | 0.0 | 0.1 | -1.0 | 0.3 | 0.4 |
| - Other products excluded from underlying inflation | 0.0 | 0.0 | 0.1 | 0.4 | 0.4 | 0.4 |
| Underlying inflation | 0.2 | 0.4 | 0.8 | 2.0 | 2.3 | 3.0 |
| Including: | | | | | | |
| - Staple food products | 0.4 | 0.9 | 3.5 | 9.0 | 10.1 | 14.3 |
| - Other food products | 0.5 | 0.4 | 0.1 | 2.8 | 2.9 | 2.2 |
| - Clothing | 0.2 | 0.2 | 0.1 | 1.5 | 1.6 | 1.5 |
| - Housing | 0.1 | 0.0 | 0.1 | 0.9 | 0.6 | 0.6 |
| - Equipment | 0.1 | 0.1 | 0.1 | 2.2 | 2.2 | 2.3 |
| - Medical care | 0.0 | 0.1 | 0.0 | 0.5 | 0.4 | 0.4 |
| - Public transport and communications | 0.0 | 1.6 | 0.1 | -7.9 | -6.4 | -6.4 |
| - Leisure activities and culture | 0.1 | 0.0 | 0.1 | 1.5 | 1.5 | 1.4 |
| - Sundry goods and services | 0.0 | 0.2 | 0.3 | 1.4 | 1.5 | 1.7 |

Sources: HCP and BAM estimates

Box 5.1: Inflation in 2007

In 2007, inflation was of 2% as opposed to 3.3% in the previous year and underlying inflation fell from 3.1% to 1.7%. This downward movement from one year to the next is attributable to several factors. The first one has to do with the slowdown in the cost of certain services, in particular communications, due to competition and transport after the fall of January 2007. In addition, slowing prices in 2007 benefited from the favorable base effect of VAT readjustment that came into force in early 2006. Measures dealing with subsidization and trade policy also made it possible to avoid fully passing the skyrocketing price of oil and staple food products on to fuel domestic pump prices and cereal prices.

Moreover, several factors fueled inflationary pressures which appeared throughout 2007. Apart from the price of hydrocarbons and cereals which gave rise to subsidization measures, the international rise of other food commodities affected those of some staples at the level of the cost of living index, in particular fats and dairy products, in spite of the reduction of import duties on these products.

Moreover, tariffs for certain services increased in 2007. These primarily concerned «maintenance and repairs» prices, as well as the tariff for the heading «heating, lighting and water». The latter were up in 2007 further to the level effect of the rises of July and August 2006 the impact of which was felt in the first seven months of 2007.

For fresh produce, the cost of meat went down due to increased rate of slaughtering further to the higher cost of cattle feed and limited pastures. On the other hand, other fresh food products, hit by the poor crop year, contributed to rising overall inflation registering substantial increases in 2007.

In spite of the inflationary pressures felt in 2007, inflation and underlying inflation remain very close to their average levels over the past five years, at 1.9% and 1.6%, respectively.

5.2 Goods and services

The breakdown of inflation per type of product (goods and services) turns out to be important for price monitoring and analysis. This exercise makes it possible to evaluate the gap between the price of goods and services and to proceed to stringent and detailed monitoring of the inflation dynamics. (See Box 5.2)

This analysis shows that the upward trend in the price of processed goods continued at a year-to-year growth rate which shifted from 2.7% in December 2007 to 3.2% in January 2008, and 3.7% in February. Dairy products and fats contributed the most to this acceleration. The price of services, apart from private transport, continued to show negative rates by moving from (-0.3%) in December to (-0.2%) in January and February 2008.

The gap in relative prices between processed goods and services excluding private transport, which was of 3 percentage points in December, rose to 3.4 points in January and 3.9 points in February. The acceleration of this gap is attributable to the fact that, in January, the rise in the price of the communications heading (services) remained less than that of processed staple food prices (fats and dairy products). Concerning the origin of this gap, it is not a structural and long-lasting change but rather, a provisional modification in price trends for goods and services, largely attributable to the supply shock relative to imported staple food.

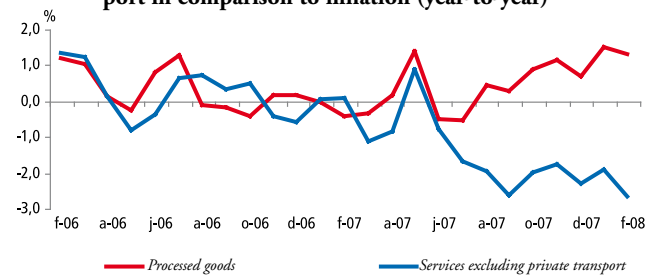
The overall contribution of processed and non-processed goods to overall inflation was of 1.8 point in January and 2.5 points in February. As to services, including private transport, they contributed to overall inflation by (-0.1) point in January and February.

Table 5.2: Price indices for goods and services

| | Year-to-year quarterly change (%) | | | | Year-to-year monthly change (%) | | |
|--------------------------------------|-----------------------------------|-----|-----|------|---------------------------------|---------|---------|
| | 2007 Quarters | | | | Feb. 07 | Jan. 08 | Feb. 08 |
| | I | II | III | IV | Feb. 06 | Jan. 07 | Feb. 07 |
| Processed goods | 2.4 | 1.9 | 2.3 | 2.6 | 2.3 | 3.7 | 3.7 |
| Services excluding private transport | 2.3 | 1.3 | 0.2 | -0.3 | 2.8 | -0.2 | -0.2 |

Source: BAM estimates

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



(*) This is the gap between inflation rate for processed goods and services excluding private transport and overall inflation rate

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

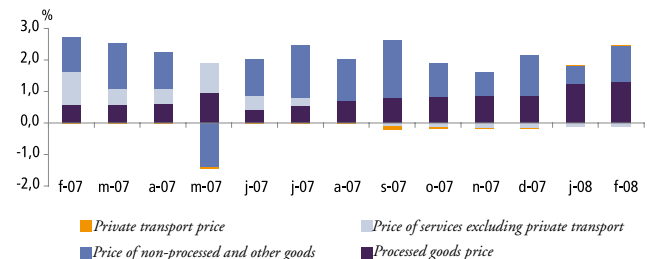
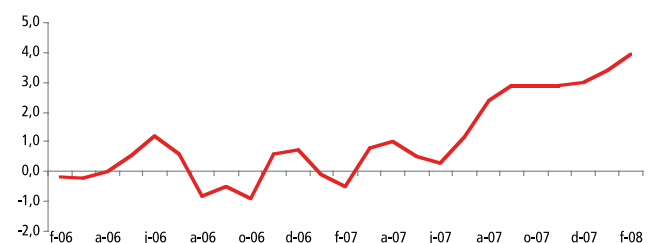


Chart 5.5: Inflation rates gap between processed goods and services excluding private transport (Year-to-year)*



(*) This is the gap between the inflation rate of processed goods and that of services excluding private transport

Box 5.2: Calculation of price indices for goods and services

The breakdown of goods and services made it possible to extract the principal components of the cost of living index.

- Processed goods including all food and non-food products manufactured by different industrial branches (cans, fats, clothing, household equipment items, etc.)
- Non-processed and other goods include fresh produce, and certain food products (processed/non-processed) the nature of which remains unclear due to the unavailability of more detailed data on these categories.
- Services excluding private transport including categories such as heating, lighting and water, rent, hospitalization, etc.
- and private transport.

Share of goods and services in the cost of living index

| | |
|--------------------------------------|--------------|
| Goods | 61.3% |
| Processed | 30.9% |
| Non processed and others | 30.4% |
| Services | 38.6% |
| Services excluding private transport | 35.9% |
| Private transport | 2.7% |

5.3 Tradable and non-tradable goods

The analysis of inflation is conducted as well by breaking down the cost of living index into an indicator of the price of tradable and non-tradable goods, the weightings of which represent 43% and 57%, respectively, of the overall index. The importance of this breakdown for the Bank resides in that it makes it possible to distinguish items influencing prices according to their internal or external origin, thus allowing a strict and meticulous follow-up of inflation dynamics over time.

Against this backdrop, the inflation gap observed between tradables and non-tradables reached a maximum level in September 2007 due to the rise in basic products prices and the drop in the tariffs of private transport and communications. However, the downward trend registered in fresh vegetables and the increasingly lower decrease of meat prices pushed the inflation differential between tradables and non-tradables down.

In February 2008, the rise in the cost of living index was mainly due to the inflation of tradables which contributed 2.0 percentage points, or a year-to-year rise of 4.3%. The higher price of tradable goods is the result of soaring prices for certain

Chart 5.6: Evolution of tradable and non-tradable goods' prices

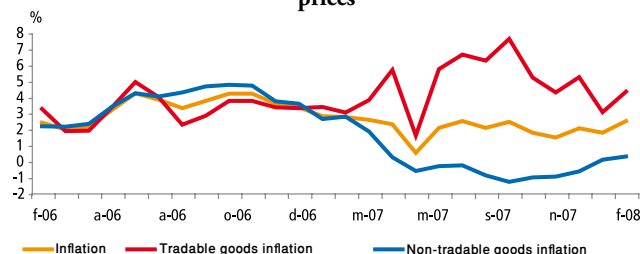
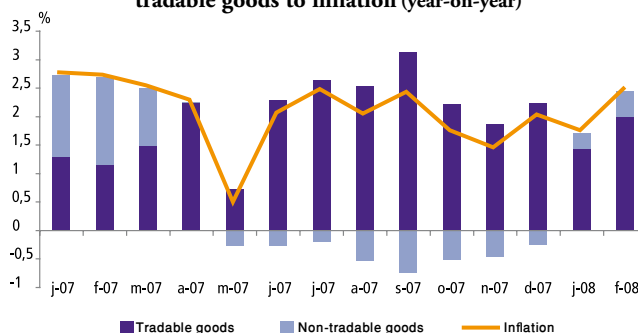


Chart 5.7: Evolution of the contribution of tradable and non-tradable goods to inflation (year-on-year)



agricultural commodities, such as wheat, crude oil and milk on the international market causing upward pressures on inflation. Thus, cereals, fats, and dairy products together contributed 4.6 percentage points to the development of tradable inflation with increases of 16.0%, 20.8% and 4.6%, respectively.

In the same month, prices for non-tradable goods rose by 0.2% on a year-to-year basis, contributing 0.4 percent to overall inflation. Except for communications which contributed negatively by 0.7 point to non tradable goods inflation, the prices of the other goods and services belonging to this sector, meat, education and catering, among others, saw rises that more than offset the drop in communications tariffs.

5.4 Industrial producer price index

In February 2008, the manufacturing industry price index, calculated on the basis of ex-works prices, excluding taxes and subsidies, went 18.7% up, under the effect of price rises in the food and chemical branches, as well as the significant cost hike in the refining industry. In fact, the price index for refining saw its growth rate settle at 44.2% as opposed to 47.7% in January, primarily impacted by the rise in oil prices on the international market. The contribution of the refining price index to the growth rate of the manufacturing industry price index reached 10 percentage points. Concurrently, the higher prices of chemical and para chemical inputs and oil prices, as of September 2007, was felt at the level of chemical industry prices which were up by 52.4 %, contributing 7.0 percentage points to the rise in the reference index. Additionally, there was a 5.0% increase in food prices which contributed 1.3 percentage points, following the rise in agricultural commodity prices. In the light of the current developments on the world market for agricultural products, these upward trends are expected to continue. To be noted is that, in the textile industry, businesses have cut production costs by 0.7%, due to the sharp competition from imported items. To deal with this rise in commodity costs, businesses could adapt to it by passing them on to finished products' selling price, thereby feeding inflationary pressures.

Box 5.3: Calculation of price indices for tradables or non-tradables

These two indices are formulated by a breakdown of the cost of living index, according to the following method:

- Services were classified in the category of non-tradables (rent, hospitalization, heating and electricity, etc.).
- Products on the list of principal products imported or exported by Morocco are considered as tradables (Wheat, vegetables, clothing, etc.).
- After these two steps, there remains a list of goods not included in the trade balance or the imported or exported volume of which is very low. These goods are classified as non-tradable goods.

In addition, the indices excluding or including regulated prices have been developed.

Share of tradables and non-tradables in the cost of living index

| | |
|---|------------|
| Tradables | 43% |
| Non-administred tradables | 26% |
| Non-administred, non-food tradables | 8% |
| Non -tradables | 57% |
| Non-administred non-tradables | 42% |
| Non-administred, non-food non-tradables | 29% |

Chart 5.8: Industrial producer price indices (year-to-year in %)

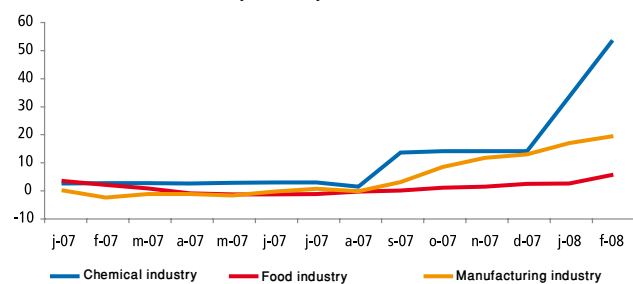
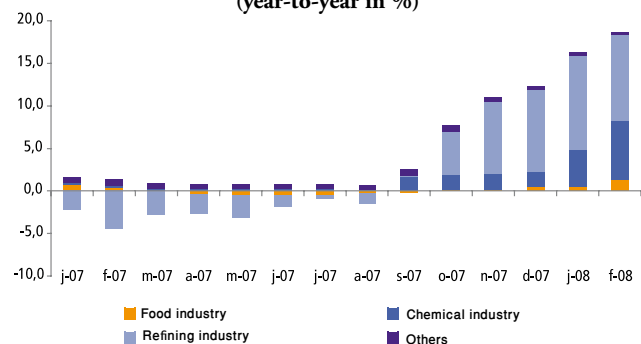
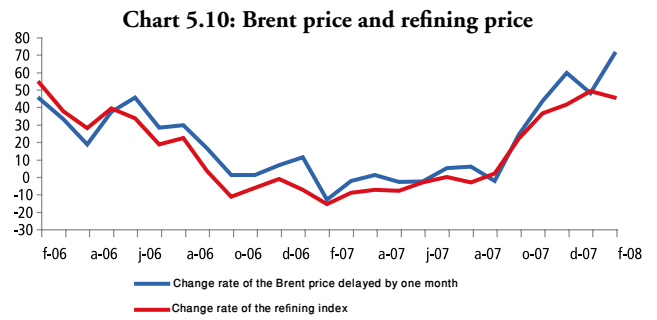


Chart 5.9 : Evolution of contributions to IPPI (year-to-year in %)



Corroborating the current trend in industrial producer prices, the monthly business survey of Bank Al-Maghrib revealed in February that all industrial activities increased their output as well as their sales which moved markedly up, following the rise in local and foreign orders. For the three forthcoming months, industrialists bank on a price rise, particularly in the chemical and para chemical industries.



6. INFLATION OUTLOOK

This section outlines the inflationary trend deemed to be the most probable (central forecast) over the next four quarters, and examines the principal associated risks (balance of risks). The central forecast scenario therefore depends on the assumptions and developments envisaged for a series of variables affecting activity and inflation. Under the assumption of non-occurrence of the main risk factors identified, the evolution of inflation over the next four quarters remains in line with the objective of price stability, the average forecast being of 2.2%. After the first three quarters of 2008, inflation should reach around 2.2%, in line with the forecast mentioned in the last Monetary Policy Report. The risks surrounding the central inflation forecast are getting confirmed and are still trending upwards. Externally, these risks are linked to the growing uncertainties surrounding the future evolution of the prices of hydrocarbons and commodities, especially agricultural ones. Internally, they are linked to the uncertainties about maintaining the freeze of the price indexation mechanism for petroleum products, the rapid development of the M3 aggregate and bank loans, as well as latent pressures on wages.

6.1 Baseline scenario assumptions

6.1.1 International environment

In line with the assumptions presented in the preceding Monetary Policy Report, confirmation of the downward revision of growth forecasts in OECD countries indicates a slowdown in economic growth in our main partner countries in the Euro zone. This is a phenomenon that could last until the third quarter of 2008. Average growth in all our principal trading partners should shift from 2.7% to 2.3% in 2008. The causes behind this slowdown are mainly attributable to the recent financial turbulence on the U.S. subprime market and the drop in consumption and investment in connection with the credit crunch. Nevertheless, the medium term outlook remains favorable due to the long period of world expansion, strong business balance sheets, as well as the rapidity of action by the main central banks (Federal Reserve, ECB and BoE). On the basis of these developments, the assumption in our scenario is a growth rate in our main trading partners (Germany, Spain, France and Italy) of 1.8%, a level equal to the one mentioned in the Monetary policy Report of December 2007. It should be noted that this growth rate is calculated on the basis of an average weighted by the respective shares of these countries in Morocco's foreign trade.

The outlook for inflation in the Eurozone was revised upwards due to the persistence of higher prices of basic products and hydrocarbons. Hence, the inflation forecast for the 13 countries of the Eurozone rose from 2.4% to 2.9%. In the Euro zone, the underlying inflation rates increased in a gra-

dual but constant manner over the past two years and overall inflation is strongly rising, settling at 3.2% in January of the current year. Nevertheless, the up-to-now controlled wage rise, the strong appreciation of the Euro and the tightening of credit conditions tend to mitigate inflationary pressures stemming from price rises for petroleum and food products. Unless there is a slowdown in economic growth in the Euro zone, for this new forecast exercise, we predict the maintaining of the status quo by the ECB throughout 2008, in opposition to the previous Monetary Policy Report where we expected a drop of 0.25% in interest rate in the Eurozone by the second quarter of the current year.

Analysis of the evolution of the different price import indices developed by Bank Al-Maghrib shows a contraction in the pace of growth for import prices which, however, are expected to remain at a relatively sustained rate as of the second half of 2007. This trend could continue during the current year given the slowdown in activity as reflected by the drop in the indicator concerning semi-finished products. However, the impact of the drop in the growth rate of the import prices could be attenuated by the behavior of speculators henceforth using certain commodities in order to diversify their portfolios.

6.1.2 Domestic Environment

A direct consequence of the poor crop year of 2006-2007, growth of the domestic economy was negatively impacted in the fourth quarter of 2007, reaching only 2.4%, with -16.5% for agricultural

added value over the same period. This situation led to the acceleration of cereal and milk imports whose prices, given the soaring prices of commodities on world market, significantly rose on the local market at the end of 2007 and at beginning of this year. This rise was however mitigated by the various tariff measures taken by the Government. However, the current agricultural campaign points to a pick up in the agricultural sector, due to rainfall levels which are so far sufficient and well distributed over all provinces of the Kingdom. This favorable trend comes in confirmation of the assumption of a 60-million quintal cereal production for the 2007-2008 crop year as indicated in the December 2007 Monetary Policy Report. The scenario for 2008 therefore deals with an average cereal production of 60 million quintals, corresponding to a rise in agricultural GDP of 22%. Under these conditions, the agricultural output gap is expected to remain negative during the first quarter, before becoming slightly positive in the last three quarters of 2008. The performance of non-agricultural sectors is expected to continue along the same lines as in 2007. Overall, these trends indicate a moderate upward pressure on prices.

Hit by the poor crop year of 2007 and the drop in activity resulting therefrom in rural areas, the job market registered a drop in the occupied workforce of 1.7% in the fourth quarter of 2007, compared to the previous quarter, primarily caused by a fall in non remunerated rural jobs (-3.8%). However, the unemployment rate declined on a year-to-year basis, with a drop in the unemployed workforce of about 13% compared to the same period in the previous year, representing 157,000 fewer unemployed persons, thereby reducing the national unemployment rate to 9.7%. With regard to the quarterly wage index calculated by the HCP, it shows a rise in real wages of approximately 4% in the third quarter against -2.7% registered for the same period in 2006. For 2008, future outlook seems to suggest a recovery of growth in employment due to revived activity in the agricultural sector. However, inflationary pressure could occur further to readjustment of the minimum wage in the framework of negotiations between the government and labor unions. The central forecast is based on a stagnation of the minimum wage for 2008; nevertheless this inflationary risk is included in our balance of risks.

After a drop of 2% in December 2007, principally due to the anticipated slowdown in world demand for hydrocarbons, the price of a barrel of oil on world markets resumed its uptrend. Thus, fears regarding a significant weakening of growth in OECD countries are thought to have been offset by steady demand from Asian countries, thereby contributing to the overheating seen on international markets. However, various analyses seem to indicate that this upward fluctuation is only transitory given the historical cycle of demand, with peaks usually registered during the winter period. Therefore, trends in oil prices for 2008 are expected to be down, the average being \$75 as announced by the IMF for the year as a whole. This price level, even though shared by a series of international institutions and banks, contradicts trends on the futures market where prices of \$99 per barrel of Brent are predicted (July deliveries).

In Morocco, the freeze of the indexation mechanism has so far made it possible to avoid the repercussions of the said rises having an effect on the domestic market. Thus, subsidization costs for oil products are seeing strong growth as they grew by 21% in 2007, reaching 10.3 billion dirhams, compared to 12% in 2006. In the framework of the Finance Law 2008, there are plans to assign a global amount of 8.7 billion dirhams, excluding arrears, on the basis of a rather optimistic scenario of \$75 per barrel, i.e. a rise of 50% compared to the 2007 Finance Law. If the indexation mechanism is fully exercised, a price level of more than \$75 on the international market should lead to a rise in the domestic price of diesel oil.

Given the problem of sustainability of the subsidization system due to the fiscal charges resulting therefrom (representing 50% of the investment budget if the price of the barrel remains at the level indicated in the 2008 Finance Law), and also the fact that the expected market expectations indicate a price level well above the reference price of the Finance Law, we project the rise in oil prices will be handed over to the consumer. The central forecast therefore assumes a rise in the price of diesel oil at the pump of 5% in August of this year, i.e. a price of 7.58 dirhams per liter.

6.2 Inflation forecasts and balance of risks

On the assumption of non-occurrence of the main risks outlined hereafter, the central forecast for the next four quarters remains in line with the objective of price stability. At the end of 2008, inflation should most likely be at a level slightly higher than that of 2007, up from 2.1% to 2.2%. Compared to the forecasts presented in the last Monetary Policy Report, average inflation for the first three quarters of the current year was slightly revised downwards from 2.3% to 2.2%.

For the first two quarters of the current year, we expect a moderate inflation rate of 2.3%, basically influenced by the rise in commodity prices, especially agricultural ones. This rate should see a slight drop as of the third quarter of 2008 (1.9%), and afterwards go up to about 2.2% at the end of the fourth quarter. Compared to the forecasts published in the Monetary Policy Report of 25 September, the inflation forecasts for the first and second quarters of 2008 were slightly revised downwards, from 2.5% to 2.3% and from 2.4% to 2.3%, respectively.

These forecasts have been developed taking as a basis the assumptions deemed to be the most likely. However, there are several causes for uncertainty due to the future development of exogenous variables and from the models used for forecasting that could impact upwards or downwards the projected inflation level.

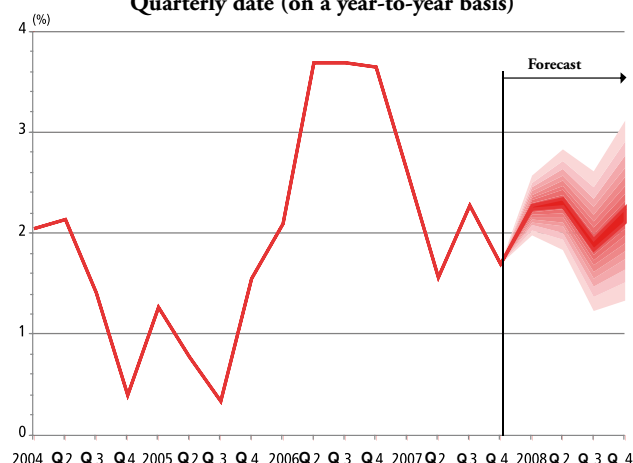
Table 6.1: Inflation forecast

| Year-to-year | 2008 | | | | Average in 2008 |
|------------------------|------|-----|-----|-----|-----------------|
| | Q1 | Q2 | Q3 | Q4 | |
| Inflation forecast (%) | 2.3 | 2.3 | 1.9 | 2.2 | 2.2 |

The analysis of the balance of risks makes it possible to draw up an asymmetric forecast range represented in the form of a fan chart. It is a probabilistic evaluation of the uncertainty zones surrounding the central forecast. The fan chart of this forecast exercise suggests a slight upward asymmetry im-

plying the existence of a probable rise in inflation, compared to the central forecast. This asymmetry stems from the risks relating to the uncertainties surrounding the international economic situation (growing uncertainties with regard to the future evolution of the hydrocarbon and commodity prices, especially in agriculture), and, risks in connection with the domestic environment (uncertainties about maintaining the freeze of the petroleum product price indexation mechanism, the rapid growth of M3 aggregate, bank loans and wage pressures). The materialization of one or more of these risks could lead to inflation rates above the central forecast, at a value (with probability of 90%) within the forecast range represented on the fan chart.

Chart 6.1: CLI projections for 2008 Q1 - 2008 Q4
Quarterly date (on a year-to-year basis)



(*) The chart represents the confidence interval relative to inflation projections derived from the basic scenario (dark red); the confidence intervals from 10% to 90% are also given. Each addition of intervals of the same color, on both sides of the central prediction, increases the probability that inflation falls within the area delimited by these 10% intervals. Considering the area delimited by the fifth interval around the central forecast, this means that there is a 50% chance that this will be achieved in the future.

بنك المغرب
بنك المغرب

بنك المغرب
بنك المغرب

Legal Deposit : 2007/0033

ISSN : *underway*

BANK AL-MAGHRIB

Administration Centrale

277, Avenue Mohammed V - B.P. 445 - Rabat

Phone. : (212) 37 70 26 26

Fax : (212) 37 20 67 76

www.bkam.ma

بنك المغرب