Monetary Policy Report

Document prepared for
The Bank Board
25 September 2007

بنك المغرب

LIST OF ABBREVIATIONS

AWI	:	Average Wage Index
BAM	:	Bank Al-Maghrib
CGI	:	Compagnie générale immobilière (General Real Estate Company)
CLI	:	Cost of Living Index
CNSS	:	Caisse nationale de sécurité sociale (National Social Security Fund)
ECB	:	European Central Bank
TIC	:	Taxe intérieure de consommation (Domestic Consumer Tax)
GFCF	:	Gross Fixed Capital Formation
GDP	:	Gross Domestic Product
HCP	:	High Commission for Planning
HP	:	Hodrick-Prescott
IMF	:	International Monetary Fund
INAC	:	Institut national d'analyse et de conjoncture (National Institute for Analysis and Economic Condition)
MASI	:	Morocco All Shares Index
NAIRU	:	Non-accelerating inflation rate of unemployment
OMPIC	:	Moroccan Industrial and Commercial Property Office
SME	:	Small and Medium-sized Enterprises
UCITS	:	Undertakings for Collective Investment in Transferable Securities
VAT	:	Value Added Tax

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OVERVIEW

In line with the trend suggested in the Monetary Policy Report of 19 June, price indicators at the end of August showed slowing inflation compared to the previous year, but a relatively speedier rise in the overall index due to higher food prices. Indeed, the rise in the cost of living index on a year-to-year basis was of 2% while that of the underlying inflation index was limited to 1.4%, as opposed to respectively 3.7% and 3.5% a year earlier.

Other indicators globally suggest moderate pressures on demand. Given the contraction in the agricultural sector's added value, economic growth for 2007 is expected to settle at around 2%, in connection with the continuation of buoyant activity in other sectors, indicating a still negative overall output. Furthermore, the rate of output capacity utilization in the industrial sector, as shown in the business survey conducted by Bank Al-Maghrib in July, settled at 77%, following an upward trend which could lead to pressure on industrial prices if this situation continues over forthcoming quarters.

As regards import prices, excluding oil, they eased somewhat. However, recent trends in oil prices as well as the surge of agricultural prices on the international market might affect domestic prices.

Monetary data show that the quickening pace of money supply growth, reaching 19.8% at the end of July on a year-to-year basis, could weigh on future price trends, especially as this situation is primarily attributable to wide expansion of credit coupled with a considerable rise in real-estate asset prices. In addition, liquidities tightened, the effect of which was contained thanks to the Bank's interventions enabling interbank rates to remain near the key rate.

In the absence of the occurrence of the main risks identified, the central forecast over the next four quarters suggests, as in the previous Report, that inflation trajectory would continue to hover around 2%, in line with the objective of price stability. That being said, the risks and uncertainty related to the central inflation forecast remain on the upside. Inflation thus is expected to settle at around 2.1% in 2007 and at nearly 2% over the forecast horizon (from Q3 2007 to Q2 2008). Compared to the previous report, inflation projections are slightly lower for the last two quarters of 2007.

1. OVERALL DEMAND TREND

Growth of the domestic economy slowed in the first half of 2007 due to contraction in agricultural added value and a relatively less buoyant international environment. Gross domestic product growth pace would slow down to settle at around 1.9% in the third quarter. Final domestic consumption is expected to grow at a lower pace compared to the previous year, due to a slowdown in resident household consumption following the fall of rural household income. In addition, except for the primary sector, investment has entered into a cycle of sustained growth that would extend to all other sectors of activity and should be boosted in 2007 by the ongoing major infrastructure and low-cost housing projects as well as by the good turn taken by foreign direct investments.

1.1 Output

Marked by a less favorable international context and a poor agricultural campaign, economic growth over the second and third quarters of 2007 is expected to be of 1.7% and 1.9%, respectively.

Agricultural GDP is expected to drop by 20.9% over the same period. Cereal production would be limited to about 20 million quintals, against 90 millions during the previous campaign.

Non-agricultural GDP reinforced its good performance levels registered in the first quarter (+5.6%) and is expected to register a growth of approximately 6.0% over the second and third quarters of 2007.

Thanks to rising international prices and supported in part by the 16.4% increase in the exports of raw phosphates and derivatives as at the end of July 2007, the added value of the extractive industry should see an upward trend at a rate of 6.9% and 4% during the second and third quarters respectively, as opposed to 5.3% in the first quarter of 2007.

After a 5.4% growth in the first quarter of 2007, energy activity in the second and third quarters is expected to develop in an international context marked by rising oil prices ($70.1/barrel in August 2007). The added value would grow by nearly 3.9% in the second quarter of 2007. This slowdown could continue, particularly at the level of oil production.

In spite of an increasingly sharp foreign competition and the rise of raw material world prices, the industrial sector's growth, apart from oil refining, has strengthened over the second and third quarters, reaching 4.7% and 3.9% respectively after having increased by 4.1% in the third quarter. Moreover, with a rate of output capacity utilization of 77% as at the end of July 2007, the outlook for industrial activity suggested by the July monthly business survey on the industrial sector remains favorable for the forthcoming three months.

Table 1.1: Year-on-year quarterly GDP growth by branch of activity

	2007 (*)		
Branches	Q I	Q II	Q III(f)
Agriculture	-18.0	-20.9	-17.0
Fishing	-5.0	6.7	-5.0
Non-agricultural GDP (**)	5.6	6.2	5.6
Extractive industry	5.3	6.9	4.0
Industry (excluding oil refining)	4.1	4.7	3.9
Oil refining and other energy products	-11.6	2.9	-10.0
Electricity and water	6.2	3.9	6.4
Building and public works	9.3	12	8.0
Trade	4.6	4.8	5.2
Hotels and restaurants	8.1	3	3.0
Transportation	4.4	4.1	5.5
Post and telecommunications	6.5	9.5	6.7
Financial and insurance activities	13.0	13.9	8.0
Business and personal services	5.3	5.8	4.6
General government and social security	2.5	3.3	3.6
Education, health and social action	3.8	4.4	5.4
Taxes on products net of subsidies	10.5	10.8	10.0
Gross domestic product	**1.9**	**1.7**	**1.9**

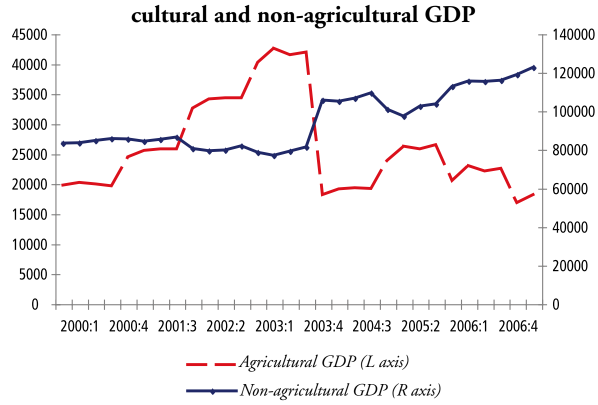
Sources: INAC. and BAM calculations.

(*) The national quarterly accounts are henceforth established according to the national accounting system of 1993 at chained prices, on 1998 basis.

(**) including fishing and taxes on products net of subsidies.

The continued growth in industrial activities is thought to be attributable to the dynamism shown by the garment industry (1.2% in the second quarter against 0.4% in the first quarter) under the effect of the build-up in orders from Europe. Also, this may also be attributable to the sustained pace in the growth of mechanical, metallurgical, electrical and electronic industries (4.9% compared to 4.1%) under the effect of mounting foreign demand for car, electronic and metallurgical industries. With regard to agri-food industries, this would show sustained growth over the second quarter of 2007 (3.6% instead of 3.2%) due to the improvement in external demand for fruit, vegetable and fish preserves.

Chart 1.1 : Quarterly evolution of agricultural and non-agricultural GDP

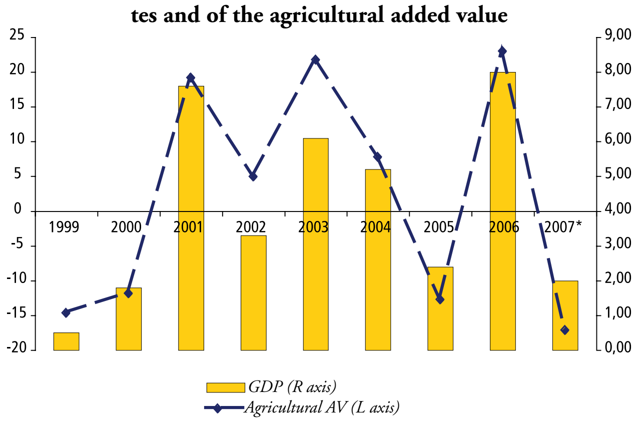


Source : HCP and BAM estimates

Building and public works activity is expected to see steady growth of approximately 12% in the second quarter and to maintain the same trend over the rest of the year in connection with the considerable public investments as part of expanding basic infrastructures and developing tourist areas and urban centers. Bolstered by household investment, the building industry continued its growth, with real estate loans up by 34.2% as at the end of July 2007 on a year-to-year basis.

With regard to the services sector, the number of foreign tourists rose by 13% on an annual variation basis. In addition, the growth in the added value of hotel and restaurant sector is expected to fall from 8.1% in the first quarter to 3% in the second quarter. Likewise, transportation and telecommunication activities would continue their upward trend, with growth rates hovering around 4.1% and 9.5% respectively in the second quarter of 2007.

Chart 1.2 : Evolution of GDP growth rates and of the agricultural added value



Source : HCP and BAM estimates

For the entire year, growth will be hit by the lackluster agricultural campaign. In fact, the agricultural sector's added value would drop by nearly 20.9%, whereas secondary activities and services are forecast to go up by 5% overall. Altogether, GDP is expected to grow by 2% against 8% in 2006.

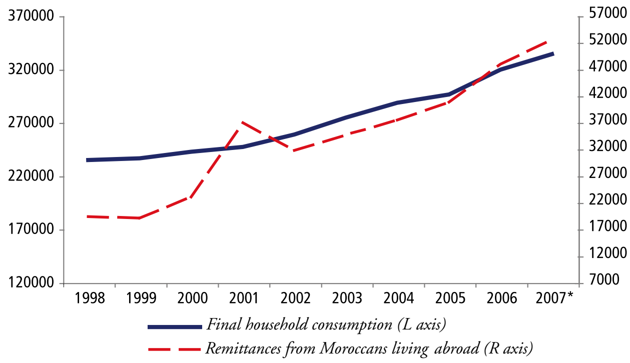
1.2 Consumption

After a 7.8% growth in 2006, household consumption in 2007 would be marked by a mild growth of about 4.8% in connection with the drop in agricultural income.

Household consumption would be bolstered by improvement on the job market (unemployment rate of 9.4% in the second quarter of 2007 against 10% in the first quarter), the modified income tax rate, as well as the upward trend in remittances from Moroccans living abroad which increased by 15.4% as at the end of July, compared to the same period of the previous year. Furthermore, the jump in consumer loans (+41.4% as at the end of July 2007 on a year-to-year basis) and the drop in debtor rates on consumer loans are expected to foster a rise in resident household spending.

Besides, general government consumption is forecast to register a growth of more than 9.4% compared to the 4.6% in 2006, given the expected rise in operating costs (+10.3% as at the end of July 2007).

Chart 1.3 : Evolution of final household consumption and remittances from Moroccans living abroad



Source : HCP and Foreign exchange office

1.3 Investment

In 2007, gross fixed capital formation is expected to grow at a steady pace, with a rate of about 11.8%. Investment occurs in a steady growth cycle, in particular in the sectors of industry, building and public works and services. This expansion is largely attributable to the continued implementation of infrastructure, housing, tourism, and industry projects as well as to the actions undertaken by the State to improve the business environment. The easing of interest rates for real-estate loans as well as loan guarantees granted in the framework of FOGARIM should accelerate the growth dynamics in the real estate and housing sector. As at the end of July 2007, real-estate loans actually rose by 34.2% on a year-to-year basis.

Private investment therefore has consolidated its growth dynamics as is testified by the rise in equipment loans, which increased by 24.4% as at the end of July, as well as the pace of business creation. Indeed, the number of incorporation certificates issued by the OMPIC rose by 18% as at the end of May 2007. Moreover, the investment commission from January to August 2007 adopted nearly 57 investment projects worth 64 billion dirhams.

The betterment of Morocco's attractiveness with regard to foreign investments led to greater foreign direct investments reaching nearly 19 billion dirhams in July 2007 (including private loans), i.e. a 32.3% hike compared to the same period in 2006. In comparison to the average level of receipts over the first half of 2002 to 2006 (8.2 billion dirhams), these receipts have increased almost twofold (+7.8 billion dirhams).

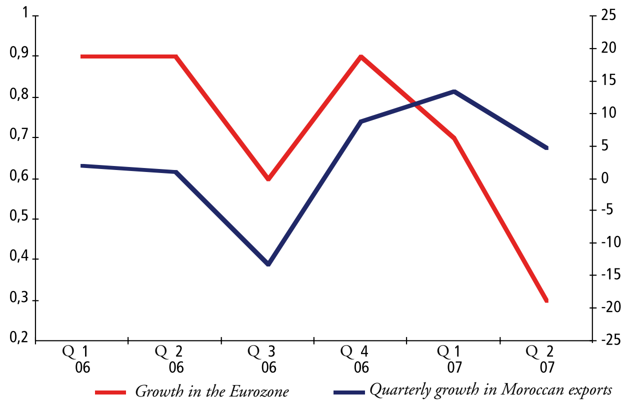
1.4 Foreign Trade

Over the second quarter of 2007, growth in the eurozone, our main trading partner, slowed by 0.3% as opposed to the 0.7% reported in the previous quarter. In this context, total value of exports grew at a slower pace than imports. The trade deficit thus worsened by 28.4% and the rate of coverage shifted from 52.8% to 49.2%, from one quarter to the next.

Indeed, from one quarter to another, exports grew by 11.2% representing 3.2 billion dirhams, basically under the impact of sale of electronic components, electrical wires and cables, fruit and vegetables and energy products. On the other hand, deliveries of phosphate derivatives, garment items and fish products slid clearly down.

Import spending rose by nearly one fifth or 10.3 billion dirhams in the second quarter. This trend is largely due to the 34% rise in the oil bill as well as to the dynamism in productive activities and the growth in consumption, which engendered substantial purchases of semi-finished products, electricity wires and cables, private cars, telecommunications equipment and fabrics. Likewise, cereal bill has soared, especially due to the price rises for wheat and barley on the world market.

Chart 1.4 : Moroccan exports and growth in the Eurozone



Source : HCP and Foreign exchange office

2. PRESSURES ON OUTPUT CAPACITY

Bank Al-Maghrib estimates on the overall output gap, which measures the difference between actual and potential output, showed negative values for the first two quarters of 2007 due to poor agricultural figures. On the other hand, the non-agricultural output gap in the second quarter of 2007 registered a positive value higher than that of the previous year. Moreover, the industrial sector's output capacity utilization rate is following an upward trend that could weigh on the prices of industrial products, should it continue over forthcoming quarters. Overall, this situation foreshadows a moderation of pressure on prices.

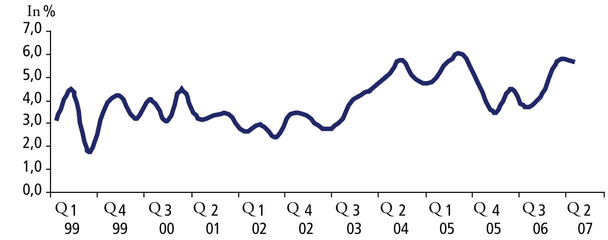
2.1 Pressures on capacity

Given the economic growth of 1.9% in the first quarter of 2007, as opposed to the 6.7% one year earlier, i.e. a rate below the potential growth of the national economy, the overall output gap, as estimated by Bank Al-Maghrib, settled at (-3.2%). Likewise, in the second quarter overall GDP grew by 1.7% instead of 7.9%, showing a negative output gap of -2.1%.

Conversely, GDP growth, excluding agriculture, rose rapidly to stand at 6.2% and 5.6% in the first and second quarters 2007, as opposed to 3.4% and 4.4% respectively over the same periods of 2006. Resultantly, the non-agricultural output gap in the second quarter of 2007 was estimated at 1.9%, i.e. 0.5 point higher than in the second quarter of the previous year. This rise in the non-agricultural output gap is forecast to cause greater demand pressure on prices over the two forthcoming quarters.

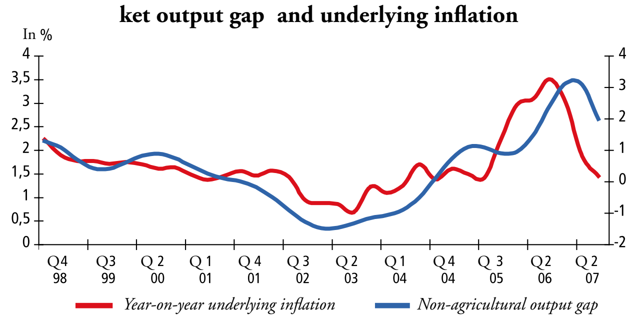
In the industrial sector, according to the latest figures of Bank Al-Maghrib monthly business survey, the industrial output capacity utilization rate remained in the growth line registered since May 2007, reaching 77% in July 2007. This trend marked all industrial branches covered by the survey. The highest rates were registered in the electrical and electronics industry (81%), the chemical and para-chemical industry (80%) and the textile and garment industry (75%). If this upward swing continues, it could cause stronger demand pressure on industrial commodity prices over the forthcoming quarters.

Chart 2.1 : Year-on-year growth of non-agricultural GDP



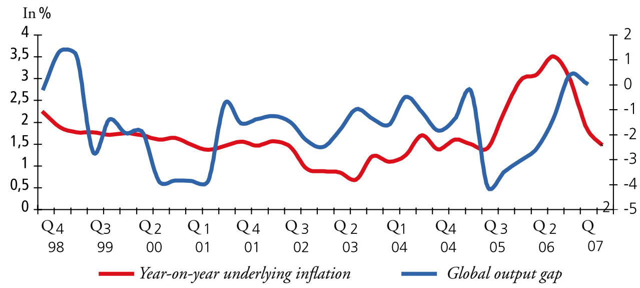
Source : HCP

Chart 2.2 : Non-agricultural market output gap and underlying inflation



Source : HCP, BAM estimates

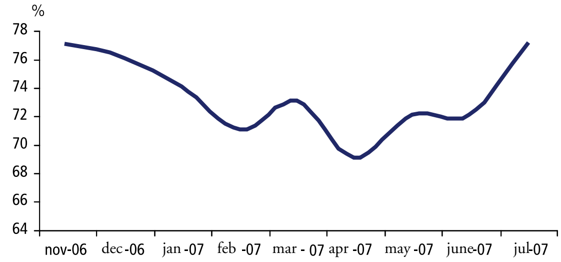
Chart 2.3 : Underlying inflation and three-quarters lagged output gap



Source : HCP, BAM estimates

The trend in apparent labor productivity, measured here as the ratio between non-agricultural GDP and urban employment, also sheds light on the pressures that may be exerted on prices. The upward trend of apparent labor productivity in the non-agricultural sector saw a slight slowdown in the third and fourth quarters of 2006, and rallied in the first and second quarters of 2007, under the effect of the fast expansion of the non-agricultural GDP in relation to urban employment during the first half of the year.

Chart 2.4 : Rate of output capacityutilization in the industrial sector



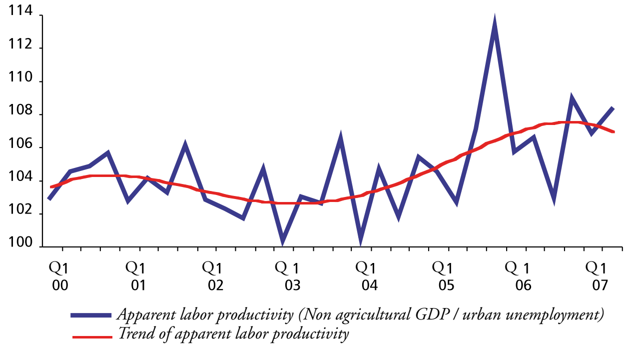
Source : HCP, BAM estimates

2.2 Pressures on the labor market

In the second quarter of 2007, the labor market was characterized by a net job creation which amounted to 95,000 jobs against 268,000 over the same period of the previous year. This negative performance is the result of a net job creation of 188,000 positions in urban areas and a net loss of 93,000 in rural areas. At the sectoral level, only agriculture has seen job losses estimated at 201,000 due to the poor agricultural campaign which began to be felt starting the second quarter of 2007. On the other hand, the other sectors saw a net job creation totaling 296,000, including 160,000 positions in the services sector, 79,000 in industry and 54,000 in building and public works.

The trend in the labor force (+2.7%) was faster than that of net job creation (+0.9%), which led to a jump in the unemployment rate from 7.8% to 9.4% between the second quarters of 2006 and 2007. This trend was observed in both urban areas where unemployment rate rose from 13.3% to 15% and in rural areas from 2.4% to 3.4%.

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



Source : HCP, BAM estimates

Table 2.1: Job market indicators

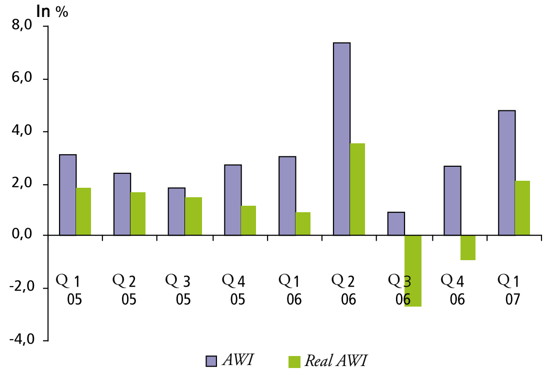
	2004	2005	2006	2007
Rate in %	Q2	Q2	Q2	Q2
National workforce[1]	1.3	1.5	- 1.0	2.7
Urban workforce[1]	2.9	3.3	- 2.6	6.1
National employed workforce[1]	0.8	1.5	2.7	0.9
Urban employed workforce[1]	2.7	4.5	3.6	4.0
National employment rate	46.8	46.6	47.7	47.2
Urban employment rate	36.2	36.9	38.1	38.6
National unemployment rate	11.1	11.1	7.8	9.4
Urban unemployment rate	19.3	18.4	13.3	15.0
National activity rate	52.7	52.4	51.7	52.1
Urban activity rate	44.9	45.3	43.9	45.4

Source: HCP

(1) Variations on a year-to-year basis

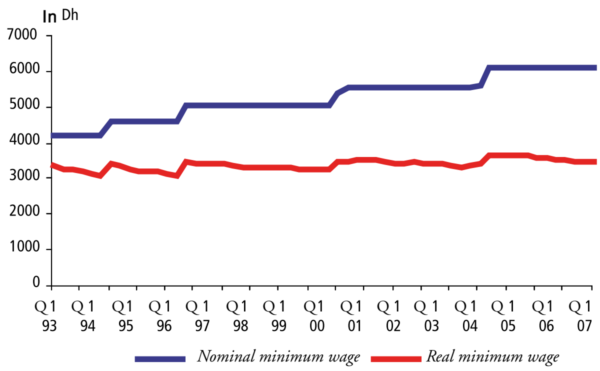
The quarterly wage index, calculated by HCP on the basis of CNSS data, showed a 4.8% rise in the first quarter of 2007 against 3% in the previous year. In real terms, this rise amounted to 2.1% instead of 0.9% from one year to another. The trend in real wages was faster than that for apparent labor productivity that rose by 1.3% between the two quarters under consideration, which foreshadows a rise in the unit labor cost in real terms.

Chart 2.6 : Average wage index in the private sector in nominal and real terms



Source : HCP, CNSS

Chart 2.7 : Quarterly minimum wage in nominal and real terms



Source : Ministry of employment

3. IMPORT PRICES

The tightened monetary policies put in place by the main central banks, the expected fall-off of world growth, the lower levels of oil prices than the previous year and the slowdown of import prices for finished consumer products and food are all factors that suggest lighter external inflationary pressures for the remainder of 2007. However, trends on international markets of oil and agricultural products foreshadow pressures on prices.

3.1 World inflation

The restrictive monetary policies followed by central banks have made it possible to contain inflation, which slowed in major industrial countries in July 2007 (Table 3.1).

For 2007 as a whole, inflationary pressures are projected to be moderate given that oil prices are expected to remain below the levels of 2006. This trend, that seems to be fueled by the slowdown in world growth, could be influenced by pressure on oil prices.

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

	2005	2006	2007	Forecast	
	July	July	July	2006	2007
United States	3.2	4.1	2.4	3.2	1.9
Eurozone	2.2	2.4	1.8	2.2	2.0
France	1.8	2.2	1.1	1.9	1.7
Spain	3.3	4.0	2.2	3.6	2.6
Japan	-0.3	0.3	-	0.2	0.3

Sources: International Monetary Fund and Eurostat

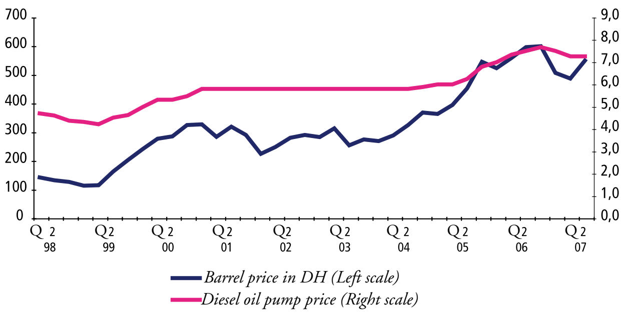
3.2 Oil Prices

Average oil prices will continue to rise but at a pace below that observed in the previous year. Average crude price dropped by 4.8%, settling at 70.1 dollars in August 2007. At the end of the first eight months, the average barrel price was 64.2 dollars, representing a 3.5% drop compared to the same period of 2006.

The slowdown of the world economy over the second quarter of 2007 as well as the sufficient level of crude oil stocks in industrial countries are all factors that could cut down on demand over the remainder of the current year. However, the geopolitical tensions prevailing in the Middle East and the rebound of the U.S. economy observed over the second quarter of 2007 could bring pressure on oil price. According to the IMF forecasts as yet unchanged, the average annual price of crude is expected to stand at $63.75/barrel throughout 2007, a level slightly below that reported in 2006.

Since the drop occurring in January 2007, prices at the pump in Morocco, indexed on international oil prices, remained unchanged.

Chart 3.1 : World oil prices and pump price in Morocco



Source : HCP, Ministry of Energy and Minining

Table 3.2: Oil products selling price on the domestic market

Products (dh per liter)	Aug. 2005	Feb. 2006	April 2006	Sept. 2006	Oct. 2006	Jan. 2007	Apr. 2007	July 2007
Premium gasoline	10.35	10.51	10.51	11.07	10.5	10.25	10.25	10.25
Regular gasoline	9.45	-	-	-	-	-	-	-
Lamp oil	6.96	7.46	7.46	-	-	-	-	-
Diesel fuel	6.96	7.46	7.46	7.98	7.47	7.22	7.22	7.22
Diesel fuel 350	8.2	9.34	9.34	9.93	9.38	9.13	9.13	9.13
Industrial fuel (Dh/Ton)	2881	3307	3307	3374	3174	2874	2874	2874

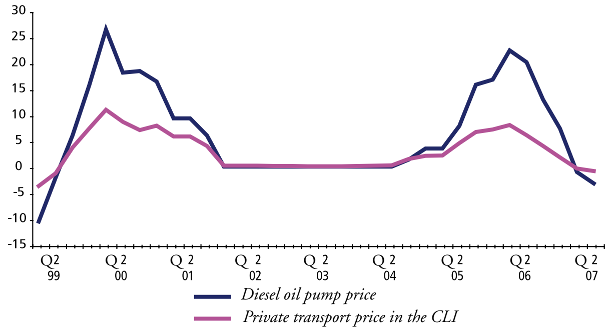
Source: Ministry of Energy and Mining

3.3 Import Prices

The first five months of 2007 were marked by a slowdown in the pace of import prices of finished consumer products.

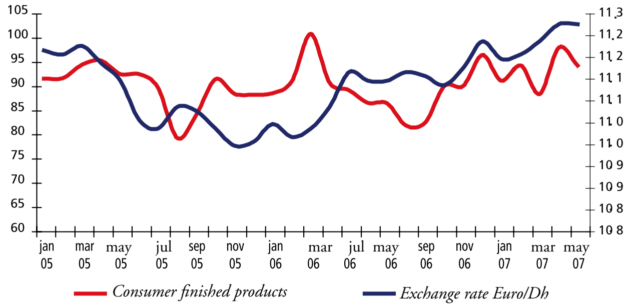
The import prices index of food products has generally been on an upward trend since November 2005, due to the dirham's depreciation against the euro and the higher prices of some food commodities on the international market. However, a slowdown in the rise of this index was observed over the first five months of 2007.

Chart 3.2 : Fuel pump price and transportation price (Year-on-year in %)



Sources : HCP, Ministry of energy and mining

Chart 3.3 : Evolution of Import price index of consumer finished products



Sources : Import prices index calculated based on fisher method (Bas eyear = 2004)
Nominal effective exchange rate according to the IMF

4. MONETARY CONDITIONS AND ASSET PRICES

At its meeting of 19 June 2007, the Board decided to keep the Bank>s intervention rates unchanged.

In the second quarter of 2007 and in July and August monetary conditions saw divergent trends. Continued tightening of cash in banks caused upside pressures on the interbank rate, which were contained by the Bank>s interventions. The interbank rate was held to a level near to that of 7-day advances. At the same time, interest rates on other capital market compartments were globally up. Further, the development of monetary aggregates continues to be marked by quickening growth in M3 fuelled by the strong expansion of bank loans. As a result, the already substantial monetary surplus in the first quarter rose again in the second quarter. This increase could slow over the forthcoming quarters, in case of portfolios> allocation to liquid investments. The level of monetary holdings remains high and could, all other things being equal, cause risks on price stability in the event of assignment of these holdings to spending on consumption and investments. As for the external value of the national currency, the dirham once again appreciated against the dollar and slightly depreciated against the euro in the second and third quarters.

4.1 Monetary Conditions

4.1.1 Liquidity and implementation of monetary policy

In the second quarter of 2007, the interbank market stayed in a situation of insufficiency, in spite of the globally expansionary impact of autonomous factors and given the pressure exerted by the rise in reserve requirements. However, at the end of June there was a temporary transition toward a situation of equilibrium in bank cash holdings, favored by the fallback in currency sale operations as well as the acceleration of Treasury spending.

Hence, after having exerted a liquidity drain of 543 million dirhams in April and May 2007, autonomous factors increased bank cash holdings by 4.2 billion dirhams in June alone, including 3 billions accounted for by net buy-backs of foreign bank notes and 2.3 billions attributable to net Treasury uses. On the other hand, money circulation saw a jump of 1.1 billion dirhams in the same month.

Altogether, the expansionary effect of 3.7 billion dirhams exerted by the autonomous factors in the second quarter of 2007 was largely offset by the 2.6 billion dirhams increase registered by reserve requirements in the same period.

Chart 4.1 : Evolution of the liquidity position (millions of DH) and of the WAR (%) in quarterly average

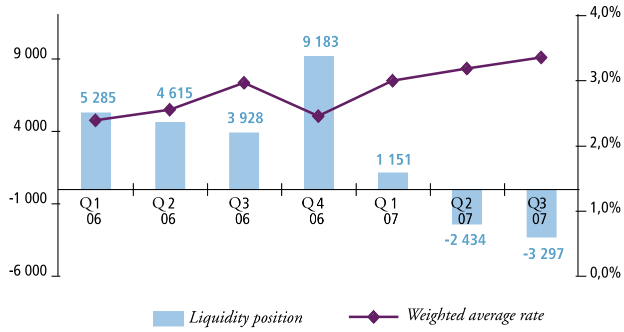


Chart 4.2 : Liquidity position (millions of DH) and weighted average rate of the interbak money market

Therefore, the interbank market overall remained in a «bank market» situation in the second quarter of 2007, as the market's average liquidity position1 registered a deficit of 2.4 billion dirhams.

In the third quarter of 2007, and despite the expansionary trend of autonomous factors, market liquidity position worsened once again further to the pressure exerted by reserve requirements increase. In particular, the minimum reserve requirements increased by 7.3 billion dirhams on 21 August 2007, including 6.2 billions attributable to the subjecting of the Crédit Agricole du Maroc and Crédit Immobilier and Hôtelier to the reserve requirements rule.

Also, in July and August 2007, reserve requirements increased by 8.4 billion dirhams, totally offsetting the expansionary trend of 4.7 billion caused by autonomous factors.

This expansionary trend is primarily the result of transactions on foreign holdings that induced a 14.1 billion dirhams increase in banks' cash holdings in the third quarter of 2007. Indeed, net buy backs of foreign banknotes by Bank Al-Maghrib amounted to 15.9 billion dirhams, while currency sale transactions reached 1.8 billion dirhams.

On the other hand, currency in circulation showed an increase of 8.3 billion dirhams during the summer period and the Treasury operations engendered a net drain of 1.1 billion on bank liquidities.

Indeed, Treasury resources reached 39.6 billion dirhams, including 4.6 billions accounted for by the privatization of 4% of the capital of Maroc Telecom, with half this amount allocated to the Hassan II Fund for Economic and Social Development. Due to the good situation of Treasury receipts, the funds raised on the auction market concerned an amount of only 170 million dirhams for July and August 2007.

Chart 4.3 : Increase of reserve requirements (in millions of DH)

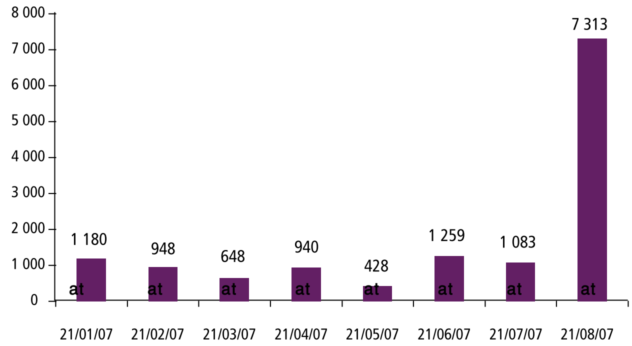
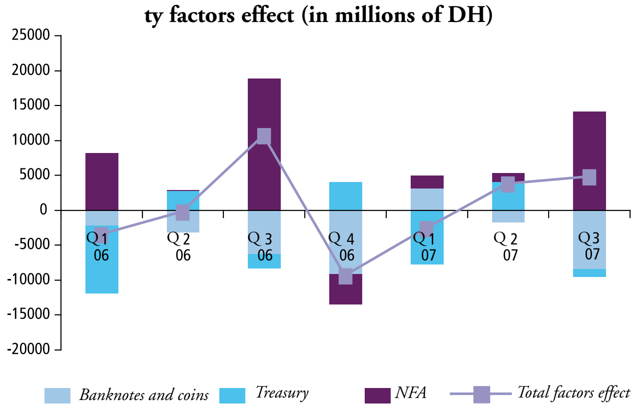


Chart 4.4 : Evolution of liquidity factors effect (in millions of DH)



1 Liquidity position = Banks' accounts with Bank Al-Maghrib - Reserve requirements +/- Bank Al-Maghrib's interventions

Treasury expenses totaled 35.8 billion dirhams, including 9.4 billions for domestic debt payment.

Due to the tightening of liquidities in the third quarter of 2007, Bank Al-Maghrib primarily intervened by 7-day advances through auctions at 3.25%. The average daily amount of these interventions stood at 3.3 billion dirhams against 2.4 billions in the previous quarter.

With a view to containing the temporary upside pressures on the interbank rate, Bank Al-Maghrib also made use of fine-tuning operations, through Treasury bonds repurchase operations. The average daily amount of these operations amounted to 473 million dirhams against 284 millions in the previous quarter.

Despite the Bank's intervention, money rate on the interbank money market was 9 basis points higher than the 7-day advances rate, settling on average at 3.34% against 3.17% previously, due in particular to the activity slowdown that is normally observed on the interbank market in August. Indeed, the average volume on this market changed from 2.4 billions in the second quarter of 2007 to 1.1 billion in the third quarter of the same year.

The volatility of the interbank rate, measured by the standard deviation, registered a drop of 17 basis points, falling from 0.32% in the second quarter to 0.15% in the third quarter.

Chart 4.5 : Bank Al-Maghrib's interventions in the money market

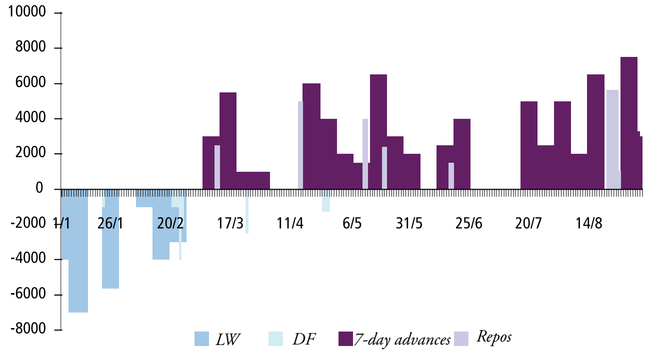
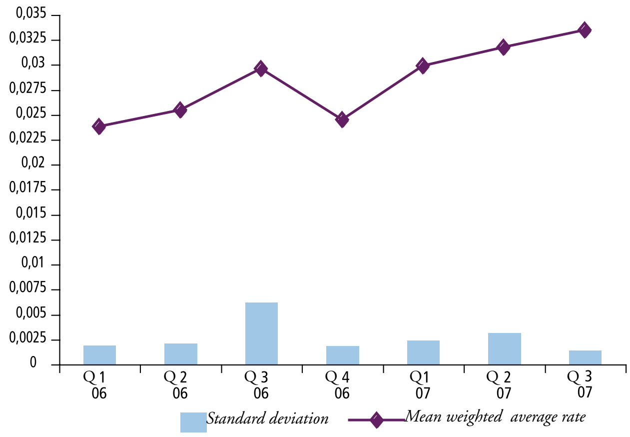


Chart 4.6 : Evolution of the average and standard deviation of the interbank market average weighted rate



4.1.2 Interest Rates

Due to the increased demand for liquidity on the interbank money market, in connection with the considerable rise in the amount of reserve requirements, the average weighted rate of overnight operations on this compartment as well as the repurchase rate were up at the end of the second and third quarters of 2007.

At the same time, the rates of short-term Treasury bills continued their upward trend observed since the first quarter, except those of 52-week bills which dropped in the second quarter, though at a very low volume compared to those of the other maturities.

The rates of July and early September issues remained practically unchanged compared to those of June for 13 and 26-week maturities and were higher for 52-week bills.

In the absence of Treasury issues in the second quarter, the only reference in terms of medium and long-term rates remains the secondary Treasury bond market. On this market, the rates of the various maturities were up, except for 30-year bills which remained almost stable between December 2006 and July 2007.

During the third quarter, an issue of two-year bonds occurred at the end of August, at a clearly higher rate than that of the last issues of March.

With regard to the average weighted rate of 6 to 12-month deposits, it increased once again in the second quarter of 2007 after the short fallback observed in the first quarter. Conversely, it dropped to 3.54% in July against 3.64% in the previous month due to the sharp fall in 6-month deposit rates.

It is worth mentioning that short-term variations of borrowing rates are largely dependent on the type of depositors (households or businesses, small or large businesses, etc.) as well as on the commercial constraints and banks' short-term liquidity. Resultantly, they cannot explain the underlying trend of time deposit interest rate, which is contingent on the overall monetary conditions in the economy and, in particular, the structural position of banks' liquidity and monetary policy orientation.

Similarly to Treasury bond rates, the development of lending rates on overdraft facilities and equipment loans mainly reflects the tightening observed on the interbank money market.

On the other hand, rates on loan categories that see increasing competition among banks, in particular real-estate and consumer loans, continued to ease, as already observed in the first quarter of 2007.

Chart 4.7 : Evolution of the interbank rate

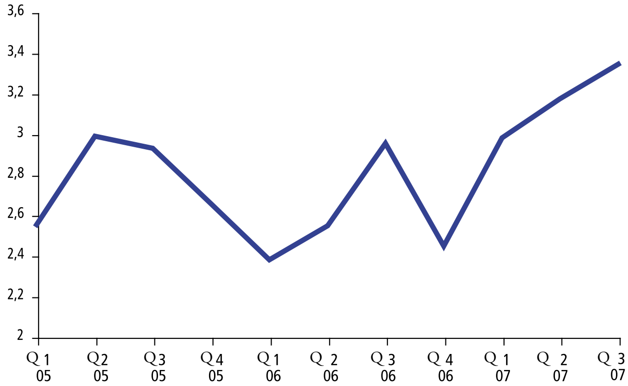


Table 4.1: Short-term Treasury bill rates*

	2006				2007		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
13 weeks	2.65	2.62	-	2.52	2.73	3.3	3.29
26 weeks	-	2.78	-	2.62	2.85	3.34	3.32
52 weeks	3.06	3.00	-	-	2.97	2.88	3.40

Table 4.2: Medium and long-term Treasury bill rates*

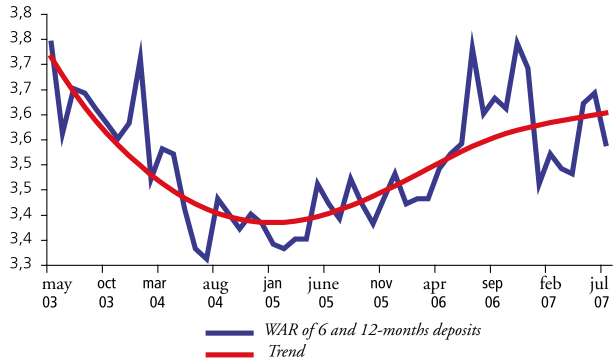
	2006				2007		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
2 years	3.29	3.24	3.16	2.99	2.96	-	3.49
5 years	3.91	3.75	3.56	3.23	3.14	-	
10 years	4.51	4.26	4.11	3.52	3.4	-	
15 years	5.2	4.71	-	3.72	3.65	-	

Table 4.3: Borrowing rates*
(Time deposits)

	2006				2007		
	Q1	Q2	Q3	Q4	Q1	Q2	July
6 months	3.22	3.43	3.42	3.64	3.26	3.52	3.28
12 month	3.59	3.62	3.76	3.70	3.65	3.63	3.69
Weighted average	**3.43**	**3.52**	**3.65**	**3.68**	**3.49**	**3.58**	**3.54**

* The quarterly data represent simple averages of monthly data

Chart 4.8 : Trend and fluctuations of the borrowing rate (monthly data)



4.1.3 Currency, credit and liquid investments

M3 growth

In parallel to credit expansion, the annual pace of M3 growth continued to increase rapidly, reaching 19.4% in the second quarter and 19.8% in July 2007. The same trend was seen in short-term variations, in particular with a monthly rise of 3% in July against 1.5% in June and 2.6% in July 2006.

Consequently, the monetary surplus, estimated through the gap between money supply growth rate and GDP growth, increased considerably in spite of the continued rise in interest rates. This increase sheds light on two main facts regarding the link with money demand factors and its consequences on the real economy.

In terms of demand, the rise in the monetary surplus is thought to be partly attributable to arbitrations in favor of monetary cash to the detriment of liquid investments, whose outstanding amount registered a 13.1% drop between December 2006 and June 2007. It is also due to the substantial liquidity mobilized in conjunction with stock market listing operations[1].

With regard to the risks that this rise may pose to price stability, they depend on the use of monetary cash accumulated by the non-financial agents. In the event of the assignment of a large share of cash to consumption and investment spending, the said surplus would be tantamount to an early indication of inflationary pressures.

Bank Loans

On a year-to-year basis, bank loans increased by 25.5% in the second quarter of 2007 and by 25.4% in July, which is a net increase compared to the first quarter.

1 The largest one was the sale of CGI shares, involving 3.5 billion dirhams and mobilizing large amounts especially as the listing operation was subscribed 143 times.

Table 4.4: Lending rates*

Average weighted rate	dec.06**	march07**	june 07
Debit and creditor cash facilities	6.49	6.45	6.54
Equipment loans	6.60	6.68	7.49
Real estate loans	6.25	5.85	5.51
Consumer loans	8.66	8.33	7.55

* Data of the quarterly survey on interest rates
**Revised figures

Table 4.5: Growth in M3 money supply

	Quarterly data (%)			
	06 :Q3	06 :Q4	07 :Q1	07:Q2
Quarterly variation	5.7	4.5	4.4	3.6
Year-to-year	14.7	15.9	17.5	19.4
	Monthly data (%)			
	July-06	May-07	June-07	July-07
Monthly variation	2.6	1.1	1.5	3.0

Chart 4.9 : Growth gap between the money supply and the non-agricultural GDP (in real terms)

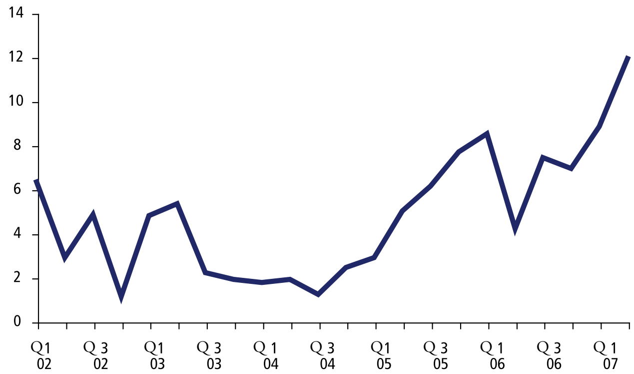
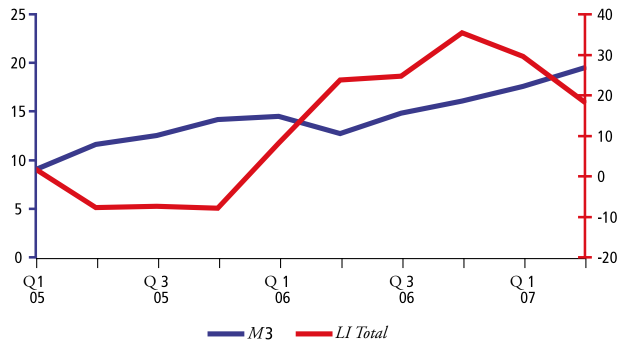


Chart 4.10 : M3 growth and liquid investment aggregates (year-on-year in %)



Credit development remains linked to the expansion of overdraft facilities and, more generally, to that of banks' facilities to businesses, in spite of interest rate increase.

Indeed, overdraft facilities contributed to the annual rise in loans by 39.2% in the second quarter of 2007, compared to 27.7% and 17.2% for real estate and equipment loans. Concurrently, loans granted to businesses contributed by 66.6% to the yearly growth in loans to non-financial agents, as opposed to 22.5% to private individuals.

The continued recovery of overdraft facilities and of loans to non-financial businesses could a priori give rise to uncertainties with regard to the inflation outlook, given that loans growth pace far exceeds that of economic growth.

However, put in a historical perspective, this recovery is further to the quasi-stagnation over the 2000-2004 period which led to a sharp fall in the overdraft facilities and loans to non-financial businesses/GDP ratios. The current growth in loans granted to businesses could therefore partially reflect a return to the previous level of financing production activity through bank loans.

With regard to the other categories of loan, they also were up during the second quarter of 2007 and July. Accordingly, the upward trend of real estate and equipment loans continued in parallel with the sustained dynamics in the real state sector and the scope of investment spending, whereas the expansion of consumer loans reached historical levels, as shows its annual pace that exceeded 40% in the second quarter of 2007 and 41% as at the end of July.

Other sources of money creation

In the second quarter of 2007, the annual rise in net foreign assets slowed down, standing at 12.3% against 14.4% in the previous quarter. Thus, their contribution to the M3 growth came to 22% instead of 43.4% over the same period in 2006.

Chart 4.11 : Evolution of bank loans (Quarterly data on a year-on-year basis)

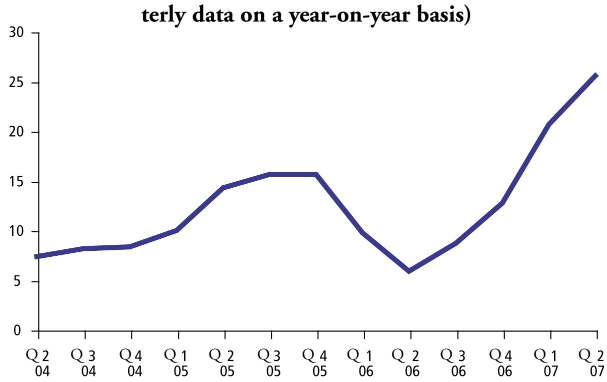


Chart 4.12 : Impact of the growth of overdraft facilities and lending non-financial enterprises on bank loans

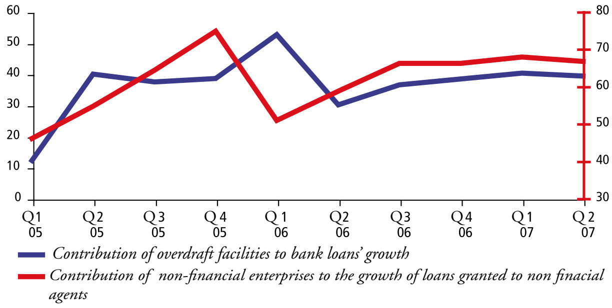


Chart 4.13 : Rate of cash facilities and lendings to enterprises in the GDP (in %)

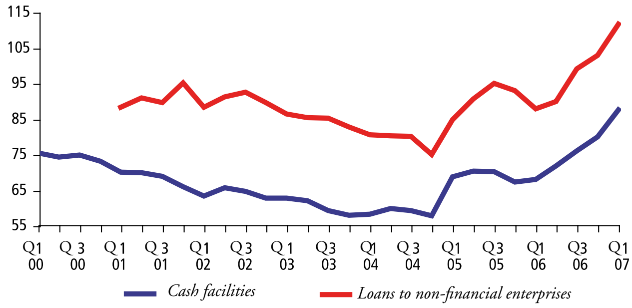
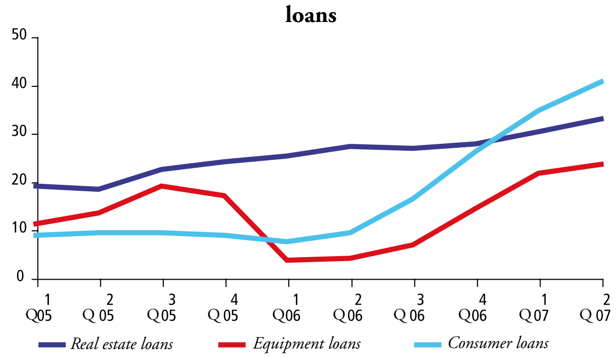


Chart 4.14 : Yearly variations of the main categories of bank loans



In July, these assets grew by nearly 15% on a year-to-year basis against 19% in July 2006.

As for net claims on the Government, the annual growth thereof was of 14.5% in the second quarter of 2007, up in comparison with the first quarter. In July, they rose by 18.6% compared to the same month in 2006.

Overall, the contribution of the other sources of money creation to the growth in M3, in particular for net foreign assets, tends to weaken to the advantage of bank loans.

This development seems to be in line with that of the structure of economic activity financing. By way of illustration, the data of the survey conducted by BAM in the industrial sector show that bank loans currently finance 30% of investment spending. This rate was estimated to be of nearly 25% in 2004 and 20% in 2000, as reported by some World Bank studies.

Liquid investments

The annual growth pace in liquid investments continued the slowdown observed in the first quarter, settling at 18.1% instead of 29.3% and 35.1%, respectively in the first quarter of 2007 and the last quarter of 2006. This deceleration is primarily attributed to the fallback in demand by non-financial businesses, whose UCITS securities portfolio, taking all categories together, registered a 7.9 billion drop between December 2006 and June 2007, against a rise of 10.9 billion in time deposits with banks.

This development is also the result of the rise in Treasury bill rates since the beginning of the year, which negatively impacts the liquidation value of bond UCITS.

As regards the securities of share and diversified UCITS, they grew by more than 84% in the second quarter of 2007 compared to the same period of 2006. In view of the considerable drop in demand by non-financial businesses, this expansion is exclusively attributable to the performance of prices on the Casablanca Stock Exchange.

Chart 4.15 : Yearly growth of net foreign assets

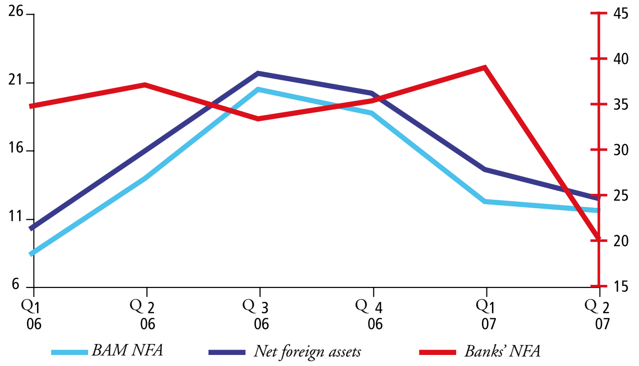


Chart 4.16 : Annual growth of net claims on the Government

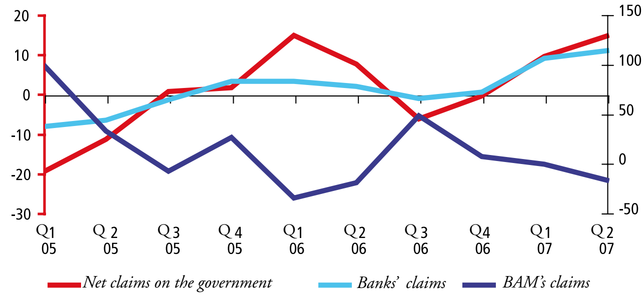
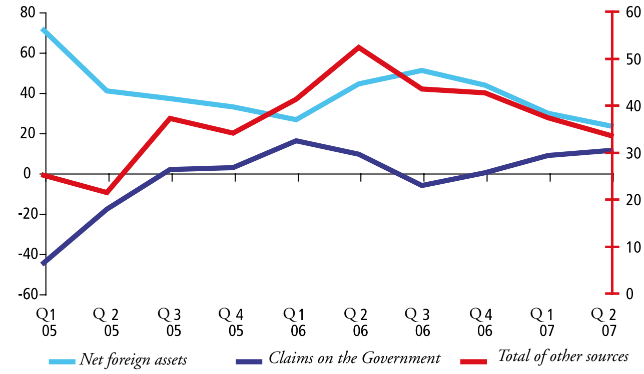


Chart 4.17 : Contribution of other sources of creation to M3 annual growth (in %)



4.1.4 Exchange Rates

As at the end of the second quarter of 2007, the dirham appreciated on average by 2.35% against the dollar, compared to the previous quarter, and dropped by 0.54% against the euro. This trend continued in July and August 2007, insofar as the dirham appreciated by 1.22% against the dollar and inversely depreciated by 0.27% against the euro.

4.2 Asset Prices

As at the end of the second quarter of 2007, stock exchange prices remained almost stagnant. Indeed, the MASI index was at 11469.93 points against 11497.87 points at the end of March 2007 and market capitalization dropped by 1.2% settling at 494.4 billion dirhams. On the other hand, the trading volume grew by 6.3% compared to the first quarter of the year, reaching 51.3 billion dirhams.

Stock exchange indicators improved at the end of July and August. The MASI index hence registered a 10.1% growth compared to the end of June 2007, and market capitalization rose by 75.7 billions, reaching 570 billion dirhams.

As for real estate asset prices, they continued their upward swing in conjunction with a soaring demand. The trend, particularly strong in big towns, is also due to land scarcity and the development of speculative operations.

Chart 4.18 : Yearly evolution of liquid investments of non-financial agents

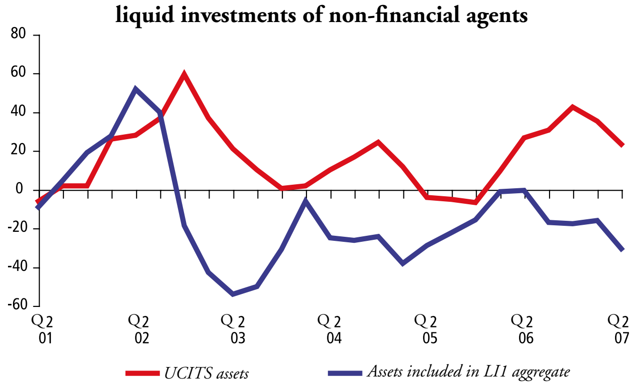


Chart 4.19 : UCITS assets and time investments of non-financial enterprises (Year-on-year in %)

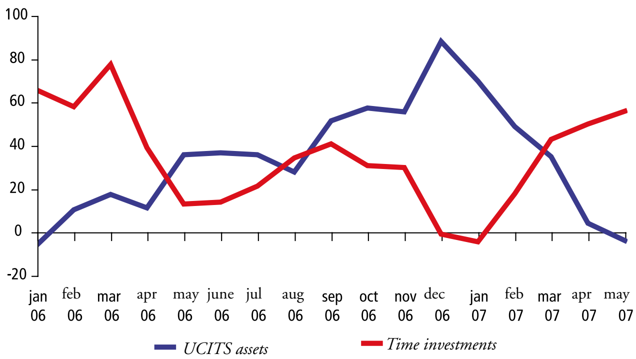


Chart 4.20 : Exchange rate of the DH (monthly averages)

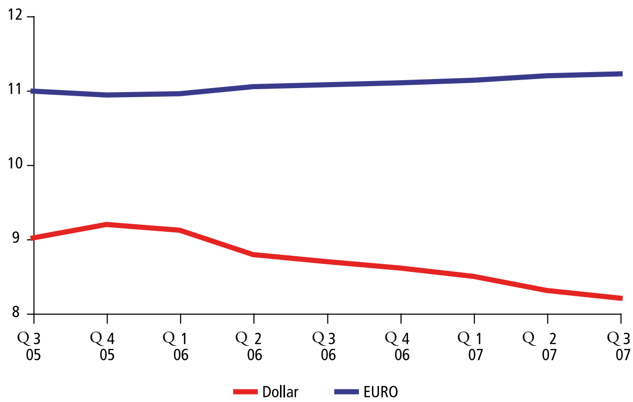
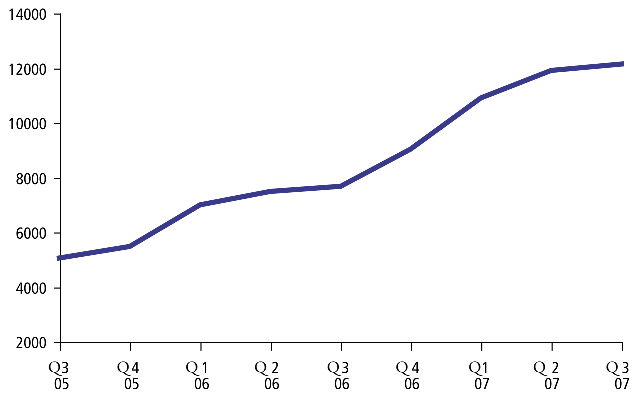


Chart 4.21 : MASI indexes (monthly averages)



5. RECENT INFLATIONARY TRENDS

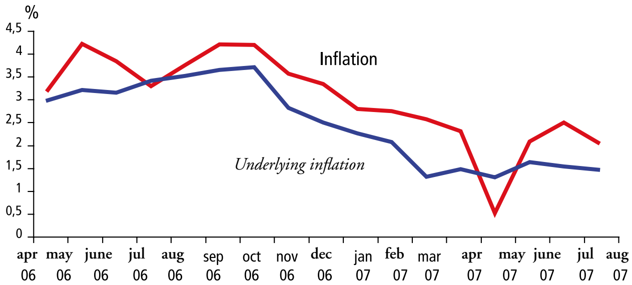
The rise in the cost of living index as at the end of August 2007 stood at 2% on a year-to-year basis, against 3.7% in 2006, basically under the effect of the drop in meat prices and the lower transport and communication costs. Besides, underlying inflation slowed from 3.5% to 1.4% further to the drop in the price rise of «communications», «heating, lighting and water» and «public transport». Indeed, in spite of the price rises of some commodities, the higher unit labor cost, the drop in income tax and its impact on demand, as well as the delayed effect of the rise of the non-agricultural output gap in 2006, the fundamental trend of prices remained below that of the previous year, due in particular to price competition in the telecommunications sector, lower customs duties for certain imported commodities and the absence of upside effects of oil barrel price on prices at the pump since the drop in January.

Situation as at the end of August 2007

Consumer Prices

On a year-to-year basis, the cost of living index registered a rise of 2.0% as opposed to 3.7% in the previous year. This deceleration is attributable to «transport and communications» heading, the index of which fell by 3.5% as opposed to the 8.1% rise in the previous year, and to meat prices, which fell by 5% as compared to a hike of 6.9%. On the other hand, the prices of some fresh produce, mainly vegetables, fruit and fish, saw rises of 10.4%, 34.1% and 20% respectively, linked to the poor agricultural campaign and the drop in coastline fishing in the first half of the year.

Chart 5.1 : Year-on-year inflation and underlying inflation



Source : HCP/ BAM

Underlying inflation fell from 3.5% to 1.4%. This evolution is attributable to the 16.3% drop in the prices of «communications» heading as opposed to the 21.9% rise one year earlier, following a 50% price cut by Maroc Telecom in late February in telephone calls from telephone shops and payphones. It also resulted from a slowdown in the price increase pace of public transport from 5.4% to 3.5% and of «heating, lighting and water» from 5.5% to 1.3% due to the dissipation of the basic effect of price rises in water and electricity in August 2006. The behavior of these headings' prices mitigated the impact of the increase in the price of some basic commodities.

Actually, prices of cereals and wheat-based agri-food products such as couscous and pasta saw rises in connection with the weakness in domestic agricultural output and high wheat prices on the international market. The prices of «cereals and cereal-based products» heading thus rose from 0.4% to 3.5% on a year-to-year basis. Prices of «milk and dairy products» also marked an increase of

6% as opposed to the drop of 0.1% a year earlier, under the effect of the rise in international prices, in particular those of UHT milk and powdered milk. Likewise, «fats» rose by 7.6% further to the appreciation in the prices of quality oils as well as of oil and butter on the international market. However, this rise remains below that of the previous year (17.9%), after the dissipation of the basic effect of VAT reduction for some fats in 2006.

Producer prices

In July 2007, the index of industrial producer prices was up by 1% as opposed to 0.6% last June, basically further to the «coking and refining» branch, whose production costs grew by 4% instead of 2.2% in the previous month. As to the index of producer prices, except oil refining, it declined by 0.1% after having risen by 0.1% in June. The main branches contributing to this drop were the agri-food industries (-0.1%) and the textile industry (-0.5%).

On a year-to-year basis, producer prices index, apart from oil refining, registered in July 2007 a decline from 1.6% to 0.6% compared to the same period of the previous year. This drop is primarily due to agri-food industry prices which dropped by 1.8% after a rise of 4.2% one year earlier, to metallurgical industry costs which fell from 4.5% to 3.6% as well as to the fallback in the costs of footwear and leather branch by 0.8% as opposed to an increase of 2.5%.

With regard to future development of finished industrial products' prices, the results of the monthly business survey conducted by Bank Al-Maghrib among industrial sector businesses globally suggests a probable rise in prices over the next three months. Indeed, though businesses stocks, in general, seem to exceed demand, stocks of some sectors, in particular the agri-food, electric and electronic industries, are lower than the normal levels. This situation, coupled with an increase in orders received and an output capacity utilization rate of 77%, above the average of the 6 previous months, are all indicators foreshadowing that finished products price rise could continue over the forthcoming three months.

Table 5.1 : Inflation and underlying inflation

	Quarterly evolution year-on-year						Monthly evolution year-on-year	
	Quarters 2006				Quarters 2007		August 2006	August 2007
	I	II	III	IV	I	II	August 2005	August 2006
Inflation	2.1	3.7	3.7	3.6	2.6	1.6	3.7	2.0
Underlying inflation(E)	2.9	3.0	3.4	2.9	1.8	1.4	3.5	1.4

(E) : BAM estimates based on HCP data

Box: Measures taken by the Government to mitigate pressures on basic commodity prices

'The inflationary effect of the rise in basic commodities> international prices and of the domestic scarcity caused by drought might be mitigated by a number of measures taken by the Government. Accordingly, to reduce the impact of international prices and to ensure normal supply to the domestic market, especially during the month of Ramadan, the Government adopted the following measures:

- Cutting customs duties on durum wheat from 95% to 55% starting July 2007.
- Cutting customs duties on soft wheat from 60% to 30% since 29 June 2007 and elimination of the compensation bonus on wheat imports from the European Union and the USA.
- Reducing import duties on UHT milk from 102% to 2.5% from 15 August to 15 October 2007.
- Reducing import duties from 60% to 35% on powdered milk between 28 June and 31 December 2007.
- Agreement with the national trade union of bakers and pastry cooks to keep the selling price of bread unchanged despite the rise in production costs, by proposing to them by way of compensation a drop in the cost of some inputs, mainly water, electricity and diesel gasoline. Therefore, the latest rises in the price of bread have been cancelled out.

6. INFLATION OUTLOOK

This section outlines the inflation evolution deemed to be the most probable (central forecast) over the subsequent four quarters and examines the main risks linked thereto (risk balance). The central forecast scenario is therefore determined by the assumptions and evolutions considered for a series of variables affecting activity and inflation. In the non-occurrence of the major risks identified, the central forecast over the next four quarters suggests, as in the previous Report, that inflation trajectory would continue around 2%, in line with the price stability objective. Hence, inflation should hover around 2.1% in 2007 and 2% over the forecast period (from the 3rd quarter 2007 to the 2nd quarter 2008). Compared to the previous Report, inflation forecast is slightly lower for the last two quarters of 2007. However, the risks and uncertainties surrounding inflation central forecast remain on the upside. Externally, these risks are linked to the prices of oil and of agricultural products and raw materials on international markets. Internally, they are connected to potentially increasing pressures on the job market and to the continuation of an excessive growth pace in monetary aggregates, particularly credit.

6.1 Basic scenario assumptions

6.1.1 International environment

The originally expected acceleration of growth in Morocco's main partner countries (France, Spain, Germany and Italy) might be affected by recent pressures on financial markets, a direct consequence of the current crisis on the U.S. subprime market. However, a gradual decline of the said pressures is expected and activity in 2008 should remain relatively buoyant. In this context, and in comparison to the June 2007 Report, the average growth of our major partner countries, weighted by their respective shares in Morocco's foreign trade, has therefore been slightly revised downward for 2007 and 2008. Overall, economic growth in these countries should continue at a relatively steady pace, which should positively affect activity in Morocco, in particular with regard to foreign investments and exports to these markets.

The overall conditions of financial markets in the partner countries are captured by the interest rate in the eurozone. The current disturbances in international financial markets should lead the ECB to postpone the originally expected increase of its key rate, at least to the end of 2007. For 2008, we expect a rise in this rate during the first quarter, once pressures on financial markets have eased.

6.1.2 National environment

The contraction in activity for the ongoing year is becoming increasingly evident. This slowdown, imputable to the poor performance of the agricultural sector, should however be partially offset by the rapid growth of non-agricultural sectors. Private and public investment should remain very buoyant. In this context, the overall output gap would be negative over the last two quarters of 2007. Later, the forecasts show that it would gradually increase to settle at a level close to balance in early 2008.

As stated in the June Report, the cereal campaign of 2007 will be lackluster. It is expected to be of around 20 million quintals. Attributable to a substantial rainfall deficit, this drop is expected to reduce the agricultural added value by about 18%. For 2008 and in the absence of any plausible assumption about rainfall, we expect a rebound in output on the basis of the historical cycle of cereal campaigns, while maintaining the profile of a medium year with an output of some 65 million quintals, i.e. a rise of about 23% of the primary sector's real added value.

Job-market-based inflationary pressures tend to increase slightly as outlined in Section 2 and anticipated in the previous Report. In spite of the agricultural campaign's negative effects on the job market, the latter remains relatively buoyant in the non-agricultural sector. As for wages, the available information seem to indicate that the increase in real terms continued in the first quarter of 2007. Job-market-based inflationary pressures should, however, remain relatively subdued while no readjustment of the minimum wage is in view during the forecast horizon. Nonetheless, any increase in the minimum wage in the second quarter of 2008, on the basis of the historical profile of minimum wage rises, would increase wage pressures.[1]

The considerable geopolitical tensions in some oil producing areas give rise to a large degree of uncertainty about the development of energy prices. Taking into consideration the weather hazards in the Gulf of Mexico, the geopolitical tensions in the Middle East and Nigeria, the stock levels in the United States and the high demand, the upward trend of oil prices is likely to continue. In fact, OPEC's latest data show a constant rise in the average price of the Brent barrel during the current year, reaching $65.79 in July 2007. Persistent tensions and international markets volatility tend to indicate that oil price will remain high in the medium term. This development was indeed anticipated in the scenarios outlined in the March and June 2007 Reports. Oil price forecasts for 2007 presented in the last two Monetary Policy Reports, with an average price of $65, thus seem to come true. At this average price, it is expected that diesel domestic price at the pump will remain stable for the remainder of the year at 7.22 dirhams/liter. However, an international barrel price above $55 should, if the indexation mechanism is fully applied, lead to an increase in diesel domestic price. The assumption of no repercussion of the rise in international prices on the domestic price, the cost of which is absorbed by the budget up to $65 according to the 2007 Finance Law, has yet been held.

With regard to the evolution of oil price in the first two quarters of 2008, and with a price expectation of $65 a barrel and a base price set by the Finance Law equivalent to that of 2007 ($65 a barrel), we still expect that diesel price at the pump over this period will remain at its current level.

World inflation slowed in the first semester of 2007. In the short-medium term, the outlook is rather moderate, especially in the major partner countries. For Morocco, the evolution of import prices, excluding oil products, is expected to continue rising in 2007 and 2008. However, the pace should be clearly slower than in 2006, a year of high rise in import prices. This evolution is basically the result of the sustained strength in the price of agricultural products and agricultural raw materials on international markets. Altogether, if pressures on inflation resulting from import prices, excluding oil products, should remain generally contained, new sustained rises in international prices of agricultural products and raw materials could considerably impact inflation.

6.2 Inflation forecast and balance of risks

In the absence of the materialization of the main risks outlined hereafter, the central forecast over the next four quarters remains in line with the price stability objective. It shows in fact a year-to-year price rise in the third quarter 2007 of about 2.1% compared to the same period in the previous year (see Table 6.1). For the following three quarters, inflation, on a year-to-year basis, is projected to hover around 2%. Compared to the outlook published in the Monetary Policy Report of June 2007, the inflation forecast for the third and fourth quarters of 2007 was revised downwards, from 2.4% to 2.1% and from 2.2% to 2% respectively. The average for the year 2007 was lowered from 2.3% to 2.1%.

Table 6.1: Inflation central forecast for 2007 and the first two quarters of 2008

On a year-to-year basis

	2007		2008		Average 2007
	3rd quarter	4th quarter	1st quarter	2nd quarter	
Inflation forecast	2.1	2.0	2.2	2.0	**2.1**

For the whole of 2007, inflation would very probably stand at around 2.1%, against 3.3% in 2006. This moderate level is also attributable to the base effect linked to the exceptional upside

1 Our estimates, based on the models and the available data show that a rise in the minimum wage tends to affect prices gradually. All other things being equal, it is estimated that the impact effect -in the first year- of a 10% rise in the minimum wage leads to an increase in the inflation rate by 0.5%. After a three-year period, the aggregate effect is around 2%, against nearly 4% after five years. Hence, these effects are significant and long lasting. From the monetary policy perspective, it is therefore crucial to remain vigilant on the potential inflationary impact of a minimum wage rise.

factors which occurred in 2006: VAT upward adjustment for some goods and services and tariff increase for telecommunications and basic services (water and electricity).

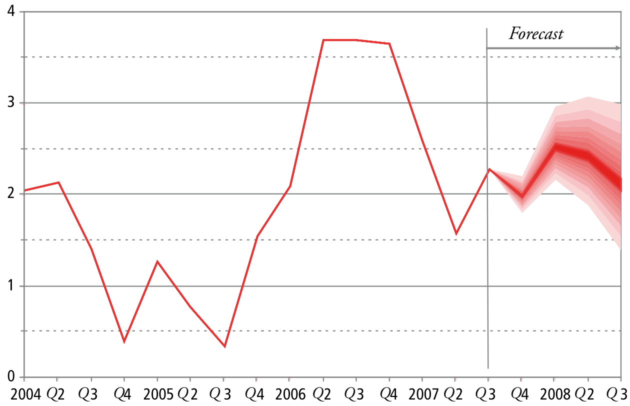
These forecasts are developed on the basis of assumptions considered the most probable. However, there are many sources of uncertainty and risk, originating from the assumptions as well as from the forecast models, which may impact to the upside or to the downside the projected inflation level.

Analysis of the balance of risks makes it possible to identify an asymmetrical forecast range represented in the form of a fan chart (see Graph 6.1). This is a probabilistic evaluation of the uncertainty regions surrounding the central forecast (see box 6.1 of the June 2007 MPR for detailed description).

The opinion resulting from this analysis is that the risks are rather on the upside. The upward asymmetry of the fan chart then foreshadows a high degree of probability of inflation rise compared to the central forecast. This asymmetry ensues, on the one hand, from the risks linked to the uncertainties surrounding the development of the international economic situation (price of oil and of agricultural products and raw materials) and, on the other hand, from risks linked to the national environment (excessive growth of monetary aggregates, loans in particular, and potentially increasing pressures on the labor market). Should any of these risks materialize, inflation may exceed the central forecast, with a value falling within the forecast range depicted on the fan chart (with a 90% probability).

Chart 6.1 : Inflation (CLI) projections for the remainder of the year 2007 and the first two quarters of 2008

Quarterly data, on a year-to-year basis



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

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