

PRESS RELEASE

Fifth meeting of the Coordination and Systemic Risk Monitoring Committee

Rabat, June 23, 2017

The Coordination and Systemic Risk Monitoring Committee, entrusted by Law No. 103-12 on Credit Institutions and Similar Bodies to assess systemic risks for the financial sector, held on June 23 its fifth meeting at the headquarters of Bank Al-Maghrib in Rabat.

During this meeting, the Committee approved the Financial Stability Report for the year 2016, analyzed the risk mapping of the financial system and reviewed the state of progress in the inter-authority roadmap for strengthening financial stability for the period 2016-2018.

The analysis of the financial system situation in light of economic and financial developments, both observed and expected, enabled the Committee to identify the following key findings:

- Macroeconomic risks overall stood at a moderate level. Indeed, external risks remain limited as net foreign exchange reserves cover more than six months of goods and services' imports. Domestically, the economy was affected in 2016 by the poor performance of the agricultural sector and the persisting sluggishness of nonagricultural activities.

The macroeconomic outlook is positive in view of the expected strengthening of the global economy and acceleration in 2017 of domestic growth benefitting, mainly, from a rebound in the agricultural sector and a gradual recovery in nonagricultural output. At the same time, the current account deficit and the budget deficit are expected to decrease by the year 2018.

- Bank lending to nonfinancial businesses returned to growth after a contraction in 2015. However, the ratio of nonperforming loans rose again, linked to some sectors in difficulty.
- Based on a survey conducted by Bank Al-Maghrib among a sample of nearly 14,000 private and public nonfinancial corporations, the payment deadlines of intercompany receivables again extended, in particular for VSMSEs and some activity sectors. The rapid implementation of the reform of the legal and regulatory framework on payment deadlines, finalized in the second half of 2016, should contribute to tackling this issue.
- Banks' balance sheets were affected by the national economic situation. Banks recorded a decrease in their interest income combined with a further credit risk increase on their operations in Morocco. Their banking activities abroad performed well. Overall, banks continue to have a good level of capitalization. In addition, the prudential framework is being strengthened to support the sector's resilience.

- The insurance sector continues to provide a capital adequacy margin, well above the regulatory minimum, to cover the underwriting risk. Considering the future move towards the risk-based capital adequacy regime, margin surpluses should probably be reduced significantly. In addition, unrealized gains that may be generated by the asset portfolios increased due to the performance of the stock market.
- The parametric reform of the civil pension scheme allowed an improvement of its financial situation by balancing the pricing of this scheme for future entitlements of its members, but without resorbing its major commitments under past entitlements.
- Regarding the stock market, liquidity followed an upward trend, but is still insufficient, mainly due to the low floating capital. Volatility remains moderate and has decreased in the first four months of 2017 after two years of successive increases. In spite of a price correction at the beginning of the year, the valuation of the Casablanca Stock Exchange is still high, driven by investors looking for profitability in a context of falling interest rates.
- In the private debt market, despite the difficulties encountered by some issuers, credit risk is generally moderate. The market saw the issuance of new subordinated perpetual bonds (contingent convertible bonds), presenting a different risk profile. However, the overall volume of such issues remains limited.

The Committee also discussed the implementation of the roadmap for the contribution of the Moroccan financial sector to promoting sustainable development. It also examined the challenges of digital finance and the risks related to cybercrime.

Press contact:

Nouaim SQALLI

Phone: 06.66.208.246

E-mail: n.sqalli@bkam.ma