PRESS RELEASE

Ninth meeting of the Coordination and Systemic Risk Monitoring Committee

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Rabat, July 2, 2019

The Coordination and Systemic Risk Monitoring Committee held, on July 2, its 9th meeting at the headquarters of Bank Al-Maghrib in Rabat.

During this meeting, the Committee approved the Financial Stability Report for the year 2018, analysed the mapping of systemic risks on the financial system, and reviewed the state of progress of the financial stability inter-authority roadmap for the period 2019-2021.

Analysis of the financial system in light of the observed and expected economic and financial developments enabled the Committee to identify the following key findings:

- Macroeconomic risks remain generally moderate, in a context calling for vigilance, both nationally and internationally. At the international level, the situation remains unfavourable, particularly due to the persisting commercial and geopolitical tensions, the uncertainties surrounding the Brexit and to the higher volatility of the financial markets. Concerning external accounts, the current account deficit deteriorated in 2018, with improvement prospects in 2019 and 2020. On the other hand, net international reserves reached 230.7 billion dirhams in 2017, covering slightly over 5 months of imports of goods and services. According to BAM forecasts, this coverage will be maintained throughout the forecast horizon. Domestically, national growth decelerated to 3 percent, reflecting the limited increase of nonagricultural activities to 2.6 percent and the rise of agricultural value added to 4 percent, as against 15.2 percent in 2017. In 2019, it is expected to slow down to 2.8 percent then rise up to 4 percent in 2020, mainly owing to the marked recovery of nonagricultural activities. With regard to public finances, fiscal deficit increased to 3.7 percent of GDP in 2018 and is forecasted to widen to 4.1 percent in 2019, and decrease to 3.8 percent in 2020. Besides, the Treasury's indebtedness rate is expected to trend downward as of 2020, despite it slight rise.

- In a context of weak economic conditions, bank financing granted to nonfinancial companies continued to decline, particularly for private ones. The default rate of these companies is still high, despite its minor decrease.

- The annual study carried out by Bank Al-Maghrib since 2013 on inter-company payment deadlines, has concerned a sample of around 74,400 private and public nonfinancial companies whose data have been made more reliable. According to this study, such payment deadlines continue to show worrying levels, especially for VSEs and in some sectors of activity. In order to alleviate this problem in the coming years, public authorities are called to continue their efforts and the economic fabric, particularly the private sector, is requested to mobilize collectively.

- In a context of high cost of credit risk, the banking sector has managed to maintain its profitability and consolidate its financial soundness, particularly owing to the sectoral and geographical diversification of its activities. Banks continue to record solvency ratios above the regulatory minima and have shown resilience in the stress tests simulating a severe deterioration of macroeconomic conditions. Risks of large debtors' concentration and of interest rates, to which banks are exposed, continue to be monitored closely. Particular attention is also granted to emerging risks, namely cyber risks.

- The insurance sector still shows signs of soundness, despite the rising claims which have generated lower technical results. Overall premium volume was up by 6 percent to 43.1 billion dirhams. Despite the declining net income, Return on Equity (ROE) remains significant, at 9.4 percent. On the other hand, unrealized capital gains were down 20.1 percent, mainly due to the poor performance of the stock market in 2018, combined with a slight decline of the bond compartment. At the prudential level, rates of technical liabilities' coverage by investments of insurance and reinsurance companies stood above regulatory thresholds. In addition, the sector's solvency margin, covering the underwriting risk, continues to stand well above the required regulatory minimum. These margin surpluses, which only cover the underwriting risk, are forecasted to decrease significantly with the transition to a prudential risk-based solvency regime.

- With regard to pension schemes, the under-pricing of rights acquired within the long-term branch of the Social security fund (CNSS) and of the general system of the Collective Retirement Benefit Scheme (RCAR) generates a strong accumulation of implicit debts (liabilities not covered) in both schemes. Launched in 2016, the parametric reform of the civil pension system, managed by the Moroccan Retirement Fund (CMR), allowed balancing its pricing of the rights acquired after 2017. However, the significant liabilities of the scheme, with respect to the rights acquired before the reform, threaten its short-term sustainability, as reserves are projected to become depleted in 2027/2028.

- The capital market continues to grow while remaining relatively stable in the first half of 2019, despite the moderately higher volatility of the stock and bond market in the long terms. The overall valuation level of the stock market still remains high with a PER of 19.7x. Moroccan institutional investors' exposure to the stock market has been strengthened after the accumulation of net buying positions all through 2018 and the first quarter of 2019. The private debt market was characterized by a 7.6 percent increase in year-on-year issues at end-May 2019. Only 19.6 percent of these are made by nonfinancial issuers. Besides, we are now considering the setup of an appropriate regulatory framework to govern the private debt market, which would promote its secure development, mainly among non-financial issuers. Net assets of mutual funds at end-May 2019 were up 4.45 percent year-on-year. A trend towards risk aversion has been noted among Mutual funds subscribers who have moved to the "Bond" categories.

- In order to encourage the use of credit ratings and thus increase transparency for investors, particularly for mutual funds, the latter were recently authorized to hold up to 15 percent of their assets (instead of 10 percent) in debt securities if the issuer is rated. Besides, the transparency and governance rules of issuers were strengthened, namely by new quarterly financial indicators and an annual ESG (Environment, Social, Governance) report, in addition to the obligation of listed companies to have independent directors and to establish an audit committee.

The Committee also reviewed the implementation of the recommendations of GAFIMOAN by the financial sector as concerns the fight against money laundering and financing terrorism.

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