PRESS RELEASE

Tenth meeting of the Coordination and Systemic Risk Monitoring Committee

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Rabat, December 24, 2019

The Coordination and Systemic Risk Monitoring Committee held, on December 24, its 10th meeting at the headquarters of Bank Al-Maghrib in Rabat.

The Committee reviewed the progress of the financial stability inter-authority roadmap for the period 2019-2021 and analysed the mapping of systemic risks weighing on the financial system.

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 an international context surrounded by uncertainties mainly due to the persisting commercial conflicts and geopolitical tensions which continue to weigh on the world growth. Regarding external accounts, the current account deficit, which widened to 5.5 percent of GDP in 2018, is expected to ease to 4.6 percent in 2019 and to continue improving over the next two years. Net international reserves would continue through the forecast horizon to cover around 5 months of imports of goods and services. National growth is expected to slow down in 2019 to 2.6 percent after 3 percent in 2018, due to the decline in agricultural value added. On the other hand, nonagricultural value added would improve with a growth rate rising from 2.6 percent in 2018 to 3.3 percent in 2019, 3.5 percent in 2020 and 3.7 percent in 2021. With regard to public finances, fiscal deficit, excluding privatization, is forecasted to increase to 4.1 percent of GDP in 2019 after 3.7 percent in 2018. However, fiscal consolidation will continue over the next two years and the deficit would decrease to 3.8 percent of GDP in 2020 and 3.5 percent in 2021.

- In a context of nonagricultural strengthening, bank credit recorded a slight recovery, particularly benefiting private companies. The rate of non-performing loans to non-financial companies stabilized at around 10 percent and it rose, for households, from 7.4 percent in 2018 to 7.9 percent.

- In this environment and despite their interest margin slowdown, banks managed to maintain their profitability in the first half of 2019, mainly due to the higher results of market activities, combined with a downtrend of risk cost. In terms of capitalization, it continues to generate solvency ratios above the regulatory minima. The concentration risk on large debtors to which the banking sector is exposed continues to be subject to close monitoring. Besides, particular attention is still attached to cyber risks management, in a context of increased digitalization of banking services.

- Overall, the insurance sector continues to demonstrate strength and growth, both in life and non-life insurance. Its solvency margin, generated to cover the underwriting risk, is well above the regulatory minimum. Nevertheless, the margin surpluses are expected to drop significantly further to the transition to a risk-based solvency regime. Besides, in a context of low interest rates, the sector must cope with the deterioration of claims in the non-life branch and the drop of asset yields.

- 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 2029.

- The capital market remains stable with low volatility of the stock and bond market. Market capitalization stood at 609 billion dirhams at the end of November 2019, rising by 6 percent year-on-year. This change is mainly driven by a sharp increase in the level of issuance on the stock market, compared to the last six years. Stock market liquidity, albeit weak, improved slightly in the second half of the year. The valuation level of the stock market, on the other hand, stands close to its historic average recorded in the last five years, which remains high with a PER of 19.3x. Private debt market issues increased significantly in 2019 reaching more than 77 billion dirhams against 70 billion in 2018 and its outstanding amount grew at end-November by nearly 13 percent year-on-year. Net assets of mutual funds increased by 4 percent year-on-year, reaching 457.5 billion dirhams at end-October, with inflows trending towards the medium- and long-term bonds. On the other hand, the operational risk of market companies (Casablanca Stock Exchange and Maroclear) remains under control with few technical incidents and a very low rate of pending transactions.

The Committee also reviewed the progress made in implementing the recommendations of GAFIMOAN by the financial sector with regard to the fight against money laundering and financing terrorism. In this context, the financial regulators contributed to overhauling the legal framework and completing the related National Risk Assessment in conjunction with the other authorities concerned. They also strengthened the regulatory corpus and issued guides for financial players, while stepping up awareness-raising and supervision activities.