PRESS RELEASE

Twelfth meeting of the Coordination and Systemic Risk Monitoring Committee

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Rabat, December 29, 2020

The Coordination and Systemic Risk Monitoring Committee held, on December 29, its 12th meeting at the headquarters of Bank Al-Maghrib in Rabat.

During this meeting, the Committee reviewed the progress of the financial stability inter-authority roadmap for the period 2019-2021 and analysed the mapping of systemic risks on the financial system amidst the health crisis. As such, it reviewed the concluding remarks of the weekly meetings of the Committee's representatives held since the outbreak of this crisis as well as the monitoring indicators. The latter continue to show, overall and so far, a resilience of the Moroccan financial sector, despite the persistence of the pandemic and its economic fallouts.

Amidst this still highly uncertain context with regard to the evolution of the Covid-19 pandemic, analysis of the financial system with regard to both actual and expected economic and financial trends, brought the Committee to note the following main findings:

- Internationally, recovery of the global economy observed in the third quarter of 2020 is reported to have slowed in the fourth quarter after the resurgence of infections, and still depends, in the medium term, on the widespread availability of Covid-19 vaccines. On the other hand, according to Bank Al-Maghrib's projections, national economy is expected to contract by 6.6 percent in 2020 under the combined effect of the pandemic and adverse weather conditions. As regards external accounts, the current account deficit is expected to almost stabilise at around 4.2 percent of GDP before settling at 3.3 percent in 2021 and 3.9 percent in 2022, mainly owing to the expected recovery of exports, the projected strengthening of transfers of Moroccan expatriates, and the gradual upturn in travel receipts. Against this background and taking into account the actual and projected Treasury issues abroad, official reserve assets would rise to 321.9 billion Dirhams at the end of 2020 and remain around this level over the forecast horizon, thus allowing coverage of a little more than 7 months of imports of goods and services. With regard to public finance, the budget deficit is expected to widen to 7.7 percent of GDP in 2020 before decreasing to 6.5 percent and 6.4 percent in 2021 and 2022, respectively. Meanwhile, debt of the Treasury is expected to increase from 65 percent in 2019 to 76 percent of GDP in 2020, then to 77.5 percent in 2021 and 79.3 percent in 2022.

- Despite the sharp economic recession, bank credit to the non-financial sector is expected to grow by 4.3 percent at the end of 2020, mainly driven by fiscal and monetary policy support measures. It is expected to maintain the same pace in 2021 and 2022 with a growth rate of 4.3 percent and 4.5 percent respectively. This recovery particularly benefits private companies, where bank loans increased by nearly 7 percent year-on-year at end-October 2020.

- Amidst this risky environment, banks managed to preserve their solvency and liquidity fundamentals in the first half of 2020. On an individual basis, they recorded, at end-June 2020, an average solvency ratio of 15.5 percent and an average Tier 1 capital ratio of 11.4 percent, above the regulatory minima. The liquidity buffer stood at 176 percent at the end of October, well below the regulatory minimum of 100 percent. In terms of profitability, net profit of the banking sector dropped by 47 percent at end-June 2020, mainly due to the significant surge in the cost of credit risk and to the contribution to the Covid-19 fund. In this respect, the rate of non-performing loans worsened at end-October to 10.8 percent for non-financial companies and 9.2 percent for households as against 10.1 percent and 8 percent respectively at end-2019.

- Notwithstanding an expected increase in credit risk, the impact assessment and the macro stress test conducted in the fourth quarter of 2020 still highlight, on this date, resilience of the banks to the shock induced by the health crisis.

- Financial Markets Infrastructures have demonstrated strong financial and operational resilience despite the Covid-19 crisis and continues to present a low level of risk to financial stability.

- Despite the context of the Covid-19 crisis, the insurance sector as a whole continues to be solid and growing both in life and non-life sectors. Technically speaking, over the first ten months of 2020, turnover grew by 2.7 percent year-on-year, with a 1.4 percent increase for the Life branch and 3.7 percent for the Non-life one. The claims ratio is expected to decline, mainly due to the economic slowdown observed during the lockdown period. Financially, investments of insurance companies increased by 4.4 percent to reach 192.4 billion Dirhams whilst unrealized capital gains continue to improve along with the recovery of the stock market. As for the net result of insurance companies, it recorded a 25.2 percent drop at the end of June 2020, mainly impacted by the counter-performance of financial activities during the first half of the year. In addition, the sector continues to generate a solvency margin, covering underwriting risk, well above the regulatory minimum. However, these excess margins are expected to decline significantly with the transition to risk-based solvency.

- 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 Scheme of the Collective Retirement Benefit Scheme (RCAR) generates a strong accumulation of implicit debts (uncovered commitments) of both schemes. Regarding the civil pension scheme managed by the Moroccan retirement Fund (CMR), its parametric reform implemented in 2016 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.

- Capital market was globally stable during the second half of the year, after the tensions recorded during the first half of 2020 due to the uncertainties related to the Covid-19 pandemic. The Casablanca Stock Exchange even resumed an upward trend as from the fourth quarter of 2020, with an average volatility limited to 8.6 percent, which brought the counter performance of the MASI index to -7.6 percent as of December 25, against -17.1 percent on June 29, 2020 and -26.15 percent on March 18, 2020. Overall valuation of the Casablanca Stock Exchange, calculated on the basis of the 2019 listed companies profit mass, reached, on December 25, a relatively high level of 18.2x, slightly exceeding its historical average of the past 5 years. Stock market liquidity fell again to 8.8 percent in the end of November after it improved to 11.5 percent in May 2020. As for the volume of issues on the stock market, it reached 3 billion dirhams, down by nearly 70% compared to the year 2019. The outstanding private debt at end-November 2020 reached 233 billion Dirhams, up by 6.9 percent year-on-year. 63.4 percent of this outstanding used to finance credit institutions. Capital market issuers were overall impacted by the current crisis and a slight upward trend can be noted in the indebtedness of non-financial issuers, which nevertheless remains globally under control. As for the operational risk of market operators, namely the Casablanca Stock Exchange and the Central Depository (Maroclear), the number of incidents and the rate of pending stock market transactions remain low and declining, owing to generally effective risk control systems.

The Mutual Funds industry proved to be resilient in the face of the current crisis. Net assets of mutual funds reached 500.6 billion Dirhams at end-November, up by 9 percent year-on-year, with net subscriptions mainly allocated to the "Medium- and Long-Term Bond" category up to 48,6 percent, as against 23,5 percent for the "Money-Market" category. A second stress test, conducted by Mutual Fund management companies, revealed that the liquidity and credit risk were under control, and showed a significant ability to honour repurchase requests received, as a result of globally prudent investment strategies and conservative exposures. Concerning the recently launched activity of real estate investment funds (OPCI), its outstanding amount rose from 1.25 billion Dirhams with two funds created at the end of 2019 to 3.55 billion Dirhams with 4 funds created at the end of September 2020.

The Committee also reviewed the progress made in the actions outlined in the sectoral roadmap relative to implementing the MENAFATF recommendations with regard to the fight against money laundering and financing terrorism in the financial sector. It inquired about the achievements made in 2020 and noted the adoption, in November, by the plenary session of the MENFATF, of Morocco's follow-up report endorsing the upward revision of the rating of several recommendations. The Committee recommends speeding up finalization of the legal and regulatory framework governing AML/CFT in order to address the remaining remarks in Morocco's mutual evaluation report.

The Committee will continue to monitor developments closely and decided, to this end, to maintain regular meetings of its representatives.

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