PRESS RELEASE

Thirteenth Meeting of the Coordination and Systemic Risk Monitoring Committee

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Rabat, July 7, 2021

The Coordination and Systemic Risk Monitoring Committee, composed of representatives of Bank Al-Maghrib, the Moroccan Capital Market Authority, the Supervisory Authority of Insurance and Social Welfare and the Treasury and External Finance Department, held on Tuesday, July 6, its 13th meeting at the headquarters of Bank Al-Maghrib in Rabat.

It approved the Financial Stability Report for the fiscal year 2020 and reviewed the progress of the Financial Stability Roadmap for the period 2019-2021. It inquired in particular about projects undertaken by financial regulators to monitor emerging risks, notably those related to cyber-risk and climate change.

It also reviewed the evolution of the risks affecting the national financial sector and, in this context, reviewed the summary of the regular meetings of the Committee representatives held since the beginning of the health crisis. Monitoring indicators to date continue to point to proven resilience in the banking, insurance, financial market infrastructures and capital market sectors.

Following the assessment of the financial sector in light of observed and expected economic and financial trends, the Committee noted the following:

- While signs of improvement in the macroeconomic outlook are beginning to emerge at both domestic and international levels, the associated risks nevertheless require alertness due to the persistence of uncertainties surrounding the future control of the pandemic (appearance of new virus variants, effectiveness of vaccines and their generalization).
- After the unprecedented recession of 2020, the outlook for the global economy is for a recovery in activity to 6.6 percent in 2021 and 4 percent in 2022. At the national level and according to Bank Al-Maghrib's forecasts, the economy is expected to rebound to 5.3 percent this year followed by a consolidation to 3.3 percent in 2022, benefiting from fiscal and monetary support measures, the easing of health restrictions and the recovery in partner countries. Regarding the external position, the current account deficit is expected to widen to 3.8 percent of GDP before narrowing to 2.6 percent in 2022, mainly as a result of the recovery in foreign trade flows. Under these conditions and considering the Treasury's external drawings and the allocation of SDRs planned by the IMF, official reserve assets would amount to 328.5 billion DH in 2021 and 338.6 billion DH in 2022, thus making it possible to cover more than 7 months of imports of goods and services. In terms of public finances, the fiscal deficit is expected to decrease gradually to 7.1 percent of GDP in 2021 and then to 6.6 percent in 2022, while the Treasury's debt will continue to rise to 77.8 percent of GDP in 2021 and 80 percent in 2022.
- Despite the difficult economic situation, bank lending to the non-financial sector continues to grow, albeit at a slow pace, driven in particular by government-guaranteed cash facilities to non-financial enterprises and by the Central Bank's continued accommodating monetary policy.

After standing at 3.9 percent in 2020, it should amount to 3.5 percent in 2021 and 3.8 percent in 2022 given the economic outlook.

- The crisis has had an impact on the profitability and asset quality of the banking sector. For the year 2020, the aggregate net income of the banks, on a social basis, decreased by nearly 43 percent to 6.8 billion DH, mainly due to the significant rise in the cost of credit risk and the contribution to the Covid-19 fund. As such, the rate of non-performing loans rose to 10.8 percent for non-financial companies and 9.3 percent for households against 10.1 percent and 8 percent respectively at the end of 2019. Nevertheless, the banking sector continues to display solid fundamentals in terms of solvency and liquidity. Ratios, on a parent company basis, remain stable with an average solvency ratio of 15.7 percent and an average Tier 1 capital ratio of 11.4 percent at the end of 2020, both of which are above the regulatory minimum. On a consolidated basis, these ratios are 13.6 percent and 10.5 percent respectively. The liquidity buffer stood at 191 percent at the end of March 2021, well above the regulatory minimum of 100 percent. Concentration risk on large debtors continues to be closely monitored.
- The macro stress test exercise carried out by Bank Al-Maghrib on the basis of economic projections of June 2021 continues to demonstrate at this date the capacity of banks to face the shock induced by the Covid-19 crisis and to maintain the respect of regulatory requirements, thanks in particular to the capital buffers they have built up in recent years and the implementation by the banking sector of the recommendation of Bank Al-Maghrib against the distribution of dividends.
- Financial Market Infrastructures continue to show strong resilience both financially and operationally and still present a low level of risk to financial stability.
- Despite the difficult context linked to the health crisis, the insurance sector has shown, on the whole, its resilience and the strength of its technical fundamentals. The issued premiums showed a growth of 1 percent to reach 45.1 billion DH, thanks in particular to the entry into force of the compulsory plan of coverage of the consequences of catastrophic events which generated a volume of premiums of 476.7 million DH.

  Conversely, the sector's financial activity was severely hit by the contraction of the stock market. The assets of insurance companies remain heavily exposed to the "equity" portfolio, resulting in a decline in the financial balance. Thus, despite the good performance of the operating margin, the net income dropped by 21 percent to stand at 2.9 billion DH. In the same vein, the return on equity (ROE) fell in 2020 to 7.3 percent.

  At the prudential level, the solvency margin also declined, but remains at levels well above the regulatory threshold. As it only covers the underwriting risk at this stage, the margin surplus is expected to drop significantly with the transition to the risk-based prudential solvency regime, which will cover a wider range of risks faced by the insurance sector.

  In addition, the stress tests undertaken show that insurance companies are well resilient to shocks to the equity and real estate portfolios as well as to unfavorable macroeconomic and technical conditions.

  With regard to the pension sector, the main regimes are in a difficult financial situation marked overall by the importance of their implicit debts and by the depletion of their reserves at various horizons. Systemic pension reform, where a study on the technical design of scenarios proposed as part of a two-pole system (public and private) is at an advanced stage, will allow to establish a balanced pricing but also to absorb, in significant proportions, previous uncovered commitments, and therefore to restore financial balances in the future.

- The capital market recovered in the first half of 2021 to its pre-crisis level, following the decrease in pressures that had marked it during the first half of 2020. The Casablanca Stock Exchange continued during the first half of 2021 the upward trend which started at the fourth quarter of 2020, with an average volatility limited to 7.18 percent. Indeed, the MASI index posted on June 30, 2021 an increase of 9.94 percent compared to the end of 2020, thus erasing the decrease of 7.27 percent posted in the previous year. Nevertheless, the overall valuation of the Stock Exchange remains at a relatively high level and its liquidity went down at end-May by 7.3 percent as against 8.8 percent at end-2020 and 9.7 percent at end-2019. Treasury Bill rates continued their downward trend over the first half of 2021 with a low level of volatility, close to all-time lows. The outstanding amount of private debt at end-April 2021 stood at 240 billion DH, up 7.1 percent year-on-year. Two-thirds of it is used to finance credit institutions. The payment of the maturities of private debt securities did not post any default during the period. As to the net debt of non-financial issuers, it was overall under control and fell slightly to 80 percent of equity in 2020 as against 81 percent in 2019. The mutual fund industry continues to grow with net total assets amounting to 574.2 billion DH by end-May 2021, up 9.75 percent since the beginning of the year. As regards securitization, its total outstanding amount is almost unchanged at 9.6 billion DH, after seven years of steady growth. The OPCI (Real-estate mutual funds) activity knows, for its part, a good start with the approval of nine management companies and eight funds whose total net assets at end-March 2021 amount to 6.5 billion DH.

  As to the operational risk of market infrastructures, the number of incidents and the pending rate of stock exchange transactions remain at very low levels, thanks to generally effective risk management mechanisms.

The Committee also reviewed the state of play in the actions included in the sectoral roadmap relating to the implementation of the FATF and MENAFATF recommendations on the fight against money laundering and terrorist financing (AML/CFT) in the financial sector. It inquired about the progress made in the first half of 2021, particularly with regard to the action plan of the FATF' Joint Group of the ICRG (The International Co-operation Review Group). During its meeting with the Moroccan authorities on May 17, 2021, the Group, while highlighting Morocco's firm commitment to finalizing the action plan as well as the measures taken during the difficult times of the pandemic, encouraged the authorities to press ahead with these efforts so as to fully implement this plan within the set deadlines.

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