

PRESS RELEASE

Fifteenth Meeting of the Coordination and Systemic Risk Monitoring Committee

Rabat, July 14, 2022

The Coordination and Systemic Risk Monitoring Committee held its 15th meeting on Thursday, July 14, at the headquarters of Bank Al-Maghrib in Rabat.

It examined and approved the Financial Stability Report for the year 2021 and reviewed the progress made in the financial stability roadmap covering the period 2022-2024.

It also analyzed the summary of the monthly work of its representatives undertaken since the outset of the health crisis. The reviewed monitoring indicators continue to show, so far, the resilience of the financial sector to the fallouts of the crisis.

The Committee examined the developments in the financial system's situation in view of the economic and financial trends and highlighted the following key points:

- Despite the strong rebound in domestic economic activity in 2021, the vulnerabilities relating to the consequences of the crisis in Ukraine, the rise in inflationary pressures and the poor conditions of the agricultural crop year would surely weigh on the economic outlook. In this unfavorable context and according to Bank Al-Maghrib projections, economic growth would slow down to 1 percent in 2022 before accelerating to 4 percent in 2023. In terms of external accounts, the current account deficit is expected to increase to 4.9 percent of GDP in 2022 before dropping to 3.8 percent in 2023, while official reserve assets, including the Treasury's external borrowing projections, will cover around six months of imports of goods and services. As for public finances, fiscal deficit should increase to 6.3 percent of GDP in 2022 before decreasing to 5.6 percent in 2023, while the Treasury's indebtedness would stand at 70.1 percent of GDP in 2022 and 70.7 percent in 2023.
- In such a difficult context, bank credit to the non-financial sector grew at a moderate pace. The increase in non-performing continued to ease in the first four months of 2022 and the loss ratio stabilized at end-April 2022 at 11.2 percent for loans to non-financial companies and 9.8 percent for loans to households. This resulted in a non-performing loans rate in the banking sector of 8.7 percent. The coverage rate of these loans by provisions remained at around 68 percent.
- The banking sector remains solid and resilient in terms of profitability, liquidity and solvency. After a contraction in 2020, the cumulative net income of banks rebounded by 76.4 percent for the year 2021. The short-term liquidity ratio stands at comfortable levels. In terms of capitalization, solvency and Tier 1 capital ratios stand, at end-2021, at 15.8 percent and 12 percent, on an individual basis, for regulatory minimums of 12 percent and 9 percent. On a consolidated basis, these ratios stand at 13.9 percent and 11.2 percent respectively. The macro solvency stress test exercise carried out by Bank Al-Maghrib in June 2022 shows the resilience of the banking sector to scenarios simulating the deterioration of macroeconomic conditions.

- Concerning financial market infrastructures, they continue to show strong financial and operational resilience and to represent a low risk to financial stability.
- As for the insurance sector, its key indicators show, overall, a return to the pre-crisis situation. Thus, it was able to regain good momentum to raise its turnover by 9.9 percent in 2021, compared to 1 percent a year earlier. The financial result rebounded by 64.7 percent, benefiting from the good performance of the stock market, while the operating margin registered a drop, due in particular to the increase in the claims ratio which returned to its pre-crisis level. The sector therefore saw its net income rise by 35 percent and its return on equity (ROE) grow to 9.5 percent. For its part, the ratio of unrealized capital gains on investments improved from 13 percent in 2020 to 15.5 percent in 2021. From a prudential point of view, the sector continues to generate a comfortable solvency margin with respect to the regulatory minimum. This margin, which to date only covers the underwriting risk, could be reduced with the entry into force of the Risk-Based Solvency framework. In addition, the stress tests carried out show that insurance companies are quite resilient to shocks to the equity and real estate portfolio and to unfavorable macroeconomic and technical conditions.
- With respect to pension schemes, the integration of contractual teachers from the AREF (Regional Academies of Education and Training) into the civil pension scheme managed by the Moroccan Pension Fund should mitigate the accumulated deficits in the long term. However, because of the very limited viability horizon of this scheme, this operation will not have a significant impact on its sustainability in the short term. The parametric reform that the RCAR general scheme underwent improved its sustainability horizons without making it possible to establish a balanced pricing of future rights. The shrinking margins of maneuver from one year to the next require the acceleration of the implementation of systemic reform of the pension schemes.
- After a significant rise in capital market indicators in 2021, the market was relatively impacted by the repercussions of the international situation. The MASI index of the Casablanca Stock Exchange registered a drop by 10.1 percent on June 30, 2022, after an 18.35 percent increase in 2021. The average volatility of the index is on the rise but remains moderate at 10.8 percent as against 7.2 percent in the first half of 2021. The overall valuation of the Stock Exchange remains at a relatively high level with a P/E of 21.7x. The liquidity ratio improved to 9.53 percent at end-May 2022 as against 7.3 percent a year earlier.
- Bond rates on the secondary market at end-June 2022 are slightly higher compared to end-2021, up by 25 bp for 2-year TBs and 15 bp for 10-year TBs, with a level of volatility that remains limited, although slightly higher than in 2021. Outstanding private debt at end-April 2022 amounts to 250 billion dirhams, up 4.17 percent year-on-year. This outstanding amount is dominated by the credit institutions' issues with a share of 61.3 percent. The payment of maturities of private debt securities did not register any default during the period. As regards non-financial issuers, their net debt at end-2021 is overall under control and decreasing to 68 percent as against 86 percent at end-2020.
- Overall net assets of UCITS as at June 24, 2022 amounted to 569 billion dirhams, down 4 percent compared to the end of 2021. This decrease is mainly due to a redemptions trend at the level of medium- and long-term bond funds as well as to a decrease in the valuation of the assets following the decline of the stock market and the higher rates on the bond market. Real-estate investment funds (OPCI) reached a net asset volume of 23.6 billion dirhams at end-May 2022, up 9.3 percent since the beginning of the year. During the same period, net assets of

capital investment funds (OPCC) rose by 43 percent to nearly 2 billion dirhams. In turn, the outstanding amount of securitization funds increased by 17.2 percent in 2021 to 11.6 billion dirhams.

In addition, the committee reviewed the progress of the action plan concerning the implementation of the FATF and MENAFATF recommendations on the fight against money laundering and the financing of terrorism and took note of the progress made while recommending continuing to mobilize for its finalization within the set deadlines.

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