PRESS RELEASE

Seventeenth meeting of the Coordination and Systemic Risk Monitoring Committee

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Rabat, July 4, 2023

The Coordination and Systemic Risk Monitoring Committee held its seventeenth meeting on Tuesday, July 4, at the headquarters of Bank Al-Maghrib in Rabat.

The Committee examined and approved the report on financial stability for the year 2022 and reviewed the progress made in the financial stability roadmap covering the period 2022-2024.

It also analyzed the summary of its monthly sub-committee work and noted that the monitoring indicators examined continue to show the soundness and resilience of the Moroccan financial sector.

Analysis of the financial system's situation in relation to economic and financial trends enabled the Committee to identify the following key findings:

- Macroeconomic risks stemming from external and internal environment (the crisis stalemate in Ukraine, hike of interest rates, persistently high levels of inflation, etc.), although easing overall, call for vigilance against a backdrop of strong uncertainties about the outlook for the global economy. According to Bank Al-Maghrib projections, after a deceleration to 1.3 percent in 2022, national economic growth would rise to 2.4 percent in 2023, before consolidating at 3.3 percent in 2024. In terms of external accounts, the current account deficit would narrow to around 2.5 percent of GDP in 2023 and 2024, while official reserve assets, including the Treasury's external borrowing forecasts, will cover around five months and half of imports of goods and services. In terms of public finances, the fiscal deficit would continue to narrow to stand at 5 percent of GDP in 2023, then at 4.3 percent in 2024. Treasury debt would stand at 69.7 percent of GDP in 2023, then at 68.5 percent in 2024.
- In such a difficult context, bank credit to the non-financial sector increased at an accelerated pace in 2022 before slowing down during the first four months of 2023. Given the increase in non-performing loans, the banking sector's loss ratio stood at 8.4% at the end of 2022 then at 8.9% at end-April 2023. The coverage rate of these loans by provisions remained at around 68 percent.
- The banking sector continues to display solid fundamentals. In terms of capitalization, at the end of 2022, on an individual basis, banks had an average solvency ratio of 15.7 percent and an average Tier 1 capital ratio of 12.4 percent, above the regulatory minimums of 12 percent and 9 percent. On a consolidated basis, these ratios stand at 13.4 percent and 11.2 percent respectively. The macro solvency stress test exercise continues to demonstrate the banking sector's resilience to scenarios simulating the deterioration of macroeconomic conditions. In terms of profitability, on the other hand, banks' aggregate earnings on an individual basis fell by almost 13 percent after the 76.4 percent rise in 2021. This change is mainly due to the contraction of 52 percent in income from market operations as a result

of the rise in money-market and bond rates. The short-term liquidity ratio remains comfortably above the regulatory threshold of 100 percent.

- Concerning Financial Market Infrastructure, they continue to demonstrate strong financial and operational resilience and to represent a low risk to financial stability.
- The insurance sector continued to grow and demonstrate resilience, despite a difficult economic climate marked by a sharp slowdown in national economic growth in 2022 and by the rise in rates in a context of increasing inflationary pressures. With a business volume of 53.8 billion dirhams in 2022, the sector was able to maintain its good growth momentum (+8.5 percent) in both life (+10.7 percent) and non-life (+6.6 percent) branches. This growth, combined with an improvement in the non-life claims ratio, led to a 36.6 percent increase in the operating margin. Yet, the sector was impacted by unfavorable financial market conditions. Unrealized capital gains fell by 53.8 percent and the financial balance depreciated by 23.8 percent. Despite this investments' underperformance, the insurance sector posted positive earnings of 4 billion dirhams (+1.8 percent) in 2022, i.e a return on equity (ROE) of 9.4 percent, down 10 basis points in 2021.
- Furthermore, the decline in unrealized capital gains had a direct impact on the sector's solvency margin, which fell to 312.7 percent against 370.4 percent a year earlier. This margin, calculated under the current prudential regime, remains above the regulatory threshold but covers at this stage only underwriting risk. With regard to stress test exercises, they highlight the overall resilience of insurance companies to unfavorable macroeconomic and technical conditions.
- With respect to pension sector, the main basic schemes continue to experience a difficult financial situation, marked overall by the size of their implicit debts and the depletion of their reserves at various horizons. The systemic reform of this sector through the establishment of two poles (public and private), currently under discussion between the government and economic and social partners, aims to establish a balanced pricing of pension schemes and to absorb a large part of their uncovered past commitments.
- On the stock market, the MASI index has shown a positive trend since the beginning of May 2023, posting a gain of 7.6 percent in June 23 compared with the beginning of the year. Against this background, the average volatility of the MASI index was moderate at 12.6 percent, against 10.1 percent in the second half of 2022 and 10.8 percent in the first half of 2022. Overall market valuation remains relatively high at 21.2x. The stock market liquidity ratio at the end of May 2023 stood at 8.7 percent, against 9.5 percent a year earlier.
- On the bond market, TBs rates continued to rise at the beginning of the year, with a significant increase in January 2023. Rate volatility reached historically high levels. From March onwards, TBs rates stabilized and began to fall slightly in May, with relatively moderate levels of volatility. Outstanding private debt at the end of April 2023 stood at 254 billion dirhams, up 1.86 percent year-on-year. In addition, there were no defaults on private debt maturities during the period. For non-financial issuers making public offerings, their net debt remains under control, standing at 50 percent of equity in 2022 for listed issuers and 75 percent for private debt issuers.
- The asset management sector is returning to growth and confirming its resilience after a beginning of the year affected by the corrections observed on the markets. The global net assets of mutual funds rose by 6.8 percent to 535.2 billion dirhams on June 16, 2023, following the 15.5 percent decline recorded in 2022. Subscriptions were mainly in the money market (+21.1 billion dirhams) and short-term bonds (+19.8 billion dirhams) categories. Other collective investment schemes continued to show a growth marked with

assets under management up 5.7 percent at the end of March 2023, driven mainly by real estate funds, whose net assets reached 61.3 billion dirhams at this date.

The Committee, while welcoming the efforts that enabled Morocco's removal from the FATF grey list in February 2023 and from that of the European Union in May 2023, inquired about the remaining actions aimed at further strengthening the national system to fight against money laundering and terrorism financing.

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