PRESS RELEASE

Nineteenth meeting of the Coordination and Systemic Risk Monitoring Committee

Rabat, July 2, 2024

The Coordination and Systemic Risk Monitoring Committee (CCSRS) held its nineteenth meeting on Tuesday July 2 at the headquarters of Bank Al-Maghrib (BAM) in Rabat.

The Committee examined and approved the financial stability report for 2023 and assessed progress on the financial stability roadmap covering the period 2022-2024.

It also reviewed the work of its monthly sub-committee as well as the results of the systemic risk assessment and noted that the monitoring indicators analyzed continue to highlight the soundness and resilience of the Moroccan financial sector.

The review of the situation of the financial system in the light of observed and expected economic and financial trends, led the Committee to highlight the following key findings:

- Despite the monetary tightening, geopolitical tensions and conflicts in Ukraine and the Middle East, the global economy showed considerable resilience in 2023, with a tangible easing of inflationary pressures. However, it's outlook is slowing, mainly because of the high level of uncertainty surrounding it. Against this backdrop, the national economy has seen a marked improvement in growth, with its rate rising from 1.5 percent in 2022 to 3.4 percent in 2023. Given the weak agricultural production, this rate would return, according to Bank Al-Maghrib's projections, to 2.8 percent this year before accelerating to 4.5 percent in 2025, driven by the continued strengthening of non-agricultural activities. On the external accounts front, the current account deficit eased to 0.6 percent of GDP in 2023 and would remain contained at 1.7 percent of GDP in 2024 and to 2.7 percent in 2025. Under these conditions, Bank Al-Maghrib's official reserve assets would continue to strengthen to cover almost 5 and a half months of imports of goods and services. As regards public finances, the fiscal deficit is expected to continue its post-covid decline, stabilizing at 4.4 percent of GDP in 2024 before easing to 4.1 percent in 2025, while Treasury debt is expected to rise slightly to 70.1 percent of GDP in 2024 before easing to 68.5 percent in 2025.
- In this situation, and following an increase of 2.7 percent in 2023, bank credit to the non-financial sector is expected to accelerate to 4.4 percent at the end of this year and to 5.2 percent in 2025. Given the increase in non-performing loans, the loss ratio in the banking sector stood at 8.5 percent at the end of 2023 and 8.8 percent at the end of May 2024. The coverage rate of these receivables by provisions remained at around 68 percent.
- The banking sector continues to display solid fundamentals. In terms of profitability, banks' aggregate earnings at the end of 2023 rebounded by 20.4 percent following a 13 percent contraction in 2022, mainly as a result of the marked recovery in income from market trading. In terms of solvency, on an individual basis, the banks achieved an average solvency ratio of 15.5 percent and an average tier 1 capital ratio of 12.9 percent, above the regulatory minimums of 12 percent and 9 percent respectively. On a consolidated basis, these ratios

were 13.5 percent and 11.6 percent respectively. In addition, the macro-stress test of solvency continues to demonstrate the banking sector's resilience under scenarios simulating worsening macro-economic conditions. The short-term liquidity ratio stands at a comfortable level, above the regulatory threshold of 100 percent.

- As for Financial Market Infrastructures, they continue to demonstrate a strong financial and operational resilience and still present a low level of risk to financial stability.

- Despite the rise in interest rates, the insurance sector managed to maintain its growth, albeit at a slower pace. It's turnover reached 55.9 billion dirhams at the end of 2023, up slightly by 3.9 percent, driven mainly by a 5.8 percent rise in the non-life branch. Growth in life insurance, which was held back by the savings segment in particular, significantly slowed to 1.8 percent compared with an average of 11.9 percent over the last ten years.

  Regarding profitability, the sector posted net income of 4.2 billion dirhams, up 6.2 percent, thus bringing the rate of return on equity (ROE) to 9.6 percent.

  The ratio of unrealized capital gains improved to 9.3 percent, in a context of stock market recovery, which had a positive impact on the sector's solvency margin, that rose to 330.4 percent from 312.7 percent a year earlier. This margin, calculated under the current prudential regime, remains above the regulatory threshold, but covers at this stage only the underwriting risk.

  Furthermore, the stress tests conducted point to the overall resilience of insurance companies to unfavorable macroeconomic and technical conditions.

- With respect to pension sector, the main basic schemes continue to be in a difficult financial condition. Implementation of the last salary-related resolutions adopted within the framework of the social dialogue (April 29th, 2024) would slightly extend the timeframes for depletion of the CMR-RPC and RCAR schemes' reserves, yet without ensuring their long-term viability. Regarding the National Social Security Fund (CNSS) general scheme, lowering the minimum contribution period giving eligibility for pension from 3240 to 1320 days will bring forward by a few years, the appearance of the scheme's overall deficit and the depletion of its reserves. Thus, it becomes necessary to implement a systemic reform of this sector, through the introduction of the two-pole system, one public and the other private, whose strategic guidelines were also fixed in the aforementioned social dialogue agreement. This reform would allow the introduction of a pricing system for pension schemes capable to reduce a large proportion of their uncovered past commitments.

- On the stock market, the MASI index has been on an uptrend, gaining 10 percent since the start of the year, with volatility falling to an average of 6.87 percent in the first half of 2024 from 9.4 percent in the second half of 2023. The overall valuation of the market is relatively high, with an estimated P/E of 20.7x, close to the average of the last five years. The market's liquidity ratio improved to 11.53 percent at the end of May, compared with 8.7 percent a year earlier.

- On the bond market, Treasury Bonds rates remained broadly stable in the first half of 2024, but fell significantly compared with the first half of 2023. Outstanding private debt at the end of April 2024 rose by 3.54 percent year-on-year to 262.9 billion dirhams, 80 percent of which was issued by financial institutions and public companies. The net debt of non-financial issuers through public offerings remains under control overall, despite a slight increase in 2023. It stands at 53 percent of equity for listed issuers and 80 percent for unlisted issuers.

- The total net assets of UCITS amounted to 609.7 billion dirhams on May 31, 2024, up 8.9 percent compared with the end of 2023. Net subscriptions since the outset of the year amounted to 34.6 billion dirhams, 54 percent of which was invested in medium- and long-term bonds. As regards the other categories of Undertakings for Collective Investment (OPC), the total net assets of Real estate investment funds (OPCI) amounted to 87.4 billion dirhams at the end of March 2024, up by 42.6 percent year-on-year. Outstanding securitization funds increased by 24.7 percent year-on-year at end-March 2024, with total securitized assets of 17.4 billion dirhams. Total net assets of Capital Investment Funds (OPCCs) reached 2.55 billion dirhams at end-March 2024, an increase of 3.3 percent year-on-year.

Moreover, the Committee commended the efforts expended to bring the national anti-money laundering and combating the financing of terrorism system into compliance with the FATF recommendations. This compliance was endorsed by the MENAFATF at its plenary meeting held in Manama on May 2024.

Press contact:

Nouaim SQALLI
Phone: 06.66.208.246
E-mail: n.sqalli@bkam.ma