

## PRESS RELEASE

### *Fourteenth meeting of the Coordination and Systemic Risk Monitoring Committee*

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**Rabat, December 28, 2021**

The Coordination and Systemic Risk Monitoring Committee held, this Tuesday December 28, its fourteenth meeting at the headquarters of Bank Al-Maghrib in Rabat.

After the three-year review of the 2019-2021 period, the committee examined and approved the new inter-authority financial stability roadmap covering the period 2022-2024. It also analysed the risks and vulnerabilities weighing on the national financial system, in a context marked by the persistence of the health crisis. In this regard, it reviewed the conclusions of regular meetings of its representatives held since the outbreak of this crisis and the evolution of monitoring indicators. These indicators continue to show, so far, a resilience of the Moroccan financial sector facing Covid-19 crisis spill overs.

After reviewing the state of play of the financial system in the light of observed and expected economic and financial trends, the Committee noted the following:

- Albeit still a concern, macroeconomic risks to financial stability have broadly decreased with a rebound in national growth in 2021 and its expected consolidation in 2022 and 2023. With regards to the external position, the current account deficit is expected, according to Bank Al-Maghrib forecasts, to widen to 5.3 percent of GDP in 2022 before narrowing to 4.9 percent in 2023, while the level of official reserve assets would allow, taking into account in particular the projections of the Treasury's external financing, to cover more than 6 months and 20 days of imports of goods and services. In relation to public finances, fiscal deficit is expected to ease gradually to 6.3 percent of GDP in 2022 and then to 5.8 percent in 2023, but the level of debt would remain high. Yet, these analyses remain surrounded by uncertainties related to the development of the national and international health situation. The strong resurgence of Covid-19 cases in several partner countries of Morocco and the resulting restrictions exacerbate these uncertainties.
- In this context and taking into account the ending of the phase of state-guaranteed loans developed in response to the crisis, the growth of bank credit to the non-financial sector is expected to remain moderate at 3.7 percent in 2021 and 3.4 percent in 2022 before recovering to 4.4 percent in 2023. At the same time, the non-performing loans rate increased in October 2021 to 11 percent for non-financial companies and 9.9 percent for households.
- Nonetheless, the banking sector continues to demonstrate solid fundamentals in terms of profitability, solvency and liquidity. In fact, banks' net income registered an upturn in the first half of 2021 after the contraction observed in 2020, benefiting mainly from a relative decline in the risk cost and the base effect induced by the banking sector's contribution to the Covid-19 fund in 2020. In terms of capitalization, the banks' capital buffers were strengthened at the end of June 2021, with average solvency and Tier 1 capital ratios reaching, on a parent company basis, 16 percent and 11.9 percent respectively. On a consolidated basis, these ratios stand at

13.8 percent and 10.9 percent. The liquidity ratio continues to be well above the regulatory minimum of 100 percent.

The macro stress test exercise carried out by Bank Al-Maghrib based on December 2021 economic forecasts continues to highlight at this date the resilience of banks to the shock scenarios simulating the deterioration of health and economic conditions.

- Financial Market Infrastructures continue to show strong resilience both financially and operationally and still present a low level of risk to financial stability
- Despite a context marked by the Covid-19-linked health situation, the insurance sector maintained its solidity while regaining a steady growth momentum. On the technical side, revenues at the end of October 2021 increased by 9.3 percent compared with the same period a year earlier. This increase benefited both the '*Life Insurance*' branch (+13.5 percent) and the '*Non-life insurance*' branch (+6.1 percent). For its part, the loss ratio is increasing and is now standing at its pre-crisis level.
- At the financial level, insurance companies' investments appreciated by 6 percent since the beginning of the year, to reach 206.9 billion dirhams at the end of October. As for unrealized capital gains, they improved and recorded a 45.6 percent growth to reach 36.9 billion dirhams at the end of October, thanks to the good performance of the stock market.
- Regarding profitability, the net result of insurance companies recorded at the end of June 2021 an increase of 21.3 percent due to the good performance of the financial activity. At the prudential level, the sector continues to generate a comfortable solvency margin compared to the regulatory minimum. This margin, which to date covers only the underwriting risk, is likely to decline with the entry into force of the risk-based solvency prudential framework.
- With regard to the pension sector, the main regimes are experiencing a difficult financial situation, marked overall by the importance of their implicit debts and by the depletion of their reserves over various horizons. Systemic pension reform is at an advanced stage of its phase 2 of the study related to the technical design of scenarios proposed within the framework of a two-pole system (public and private). This reform will allow to establish a balanced pricing but also to absorb, in significant proportions, the uncovered past liabilities, thus restoring financial balances in the future.
- The capital market remained generally stable in the second half of 2021. The Casablanca Stock Exchange maintained an upward trend with an average volatility limited to 7.28 percent and a very low rate of suspended transactions. Indeed, the MASI index reached on December 22, 2021 a 17.04 percent increase, against 9.94 percent on June 30, 2021 and -7.27 percent recorded in 2020. The Stock Exchange global valuation stands, at the same date, at a relatively high level, i.e. 23.1x. Regarding the liquidity of the stock market, it registers a slight improvement to 9.80 percent at the end of November 2021 against 8.83 percent in 2020, yet, it remains weak in comparison with the markets of the "*Frontier*" category. The issuance volume on the stock market amounts to 3 billion dirhams on December 28, 2021, remaining at the same level as last year.
- Bond rates on the primary and secondary markets remain low and not very volatile during the second half of 2021 and keep an overall downward trend, for short-term maturities in particular. The outstanding private debt at the end of September 2021 amounted 246 billion dirhams, up by 4.2 percent year-on-year. It is used for the financing of credit institutions up to 62 percent. The payment of the maturities of private debt securities did not post any default

during the period. The net debt of issuers at the end of June 2021 was generally under control and recording a slight downward to 84 percent against 86 percent in 2020.

- Asset management activity is experiencing good momentum. The global net assets of mutual funds at the end of November 2021 amounted to 606.5 billion dirhams, increasing by 21 percent year-on-year. The other types of mutual funds record, for their part, a significant growth of the global net assets, namely real-estate mutual funds (OPCIs) which reached 12.3 billion dirhams at the end of November, recording a 101 percent increase compared to the end of the year 2020.

The Committee reviewed the progress of the plan related to the implementation of the FATF and MENAFATF recommendations on the fight against money laundering and terrorism financing (AML/CFT). It also noted the achievements of the said plan, namely in terms of legal and regulatory reforms, and recommends the continuation of the implementation of the remaining actions within the set deadlines.

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