

PRESS RELEASE

Seventh meeting of the Coordination and Systemic Risk Monitoring Committee

Rabat, July 05, 2018

The Coordination and Systemic Risk Monitoring Committee held, on July 05, its 7th meeting at the headquarters of Bank Al-Maghrib in Rabat.

During this meeting, the Committee approved the Financial Stability Report for the year 2017, analyzed the mapping of systemic risks and reviewed the state of progress in the inter-authorities roadmap for strengthening financial stability for the period 2016-2018.

The analysis of the financial system situation in light of observed and expected economic and financial developments enabled the Committee to identify the following key findings :

- Macroeconomic risks remain broadly moderate amid stronger global economic activity. In terms of external conditions, the current account deficit narrowed in 2017, mainly due to easing trade deficit and higher travel receipts and transfers from Moroccans living abroad. Under these conditions, net international reserves reached 240.9 billion dirhams in 2017, providing coverage for 5 months and 21 days of imports of goods and services. Domestically, national growth accelerated in 2017 to 4.1 percent from 1.1 percent in 2016, reflecting the rebound in agricultural value added and the recovery, albeit at a slow pace, in nonagricultural activities. At the same time, fiscal adjustment resumed after a halt in 2016. The rate of Treasury's debt, although slightly up in 2017, should trend downward as of 2018.
Looking ahead, the trend in global growth would be generally favorable, although surrounded by certain risks mostly related to the escalation of geopolitical tensions, the rise of protectionism and the political difficulties of some European countries. National GDP would grow less rapidly, by 3.6 percent in 2018 and 3.1 percent in 2019.
- In a context of slow nonagricultural recovery, bank lending to nonfinancial corporations (NFC) slightly decelerated, covering in particular a slowdown in credit to public corporations and a moderate increase in loans to private corporations. The rate of NFCs' nonperforming loans declined somewhat but remains high.
- A study by Bank Al-Maghrib on a sample of around 72,000 private and public nonfinancial corporations whose data were made reliable shows that the payment deadlines of inter-company receivables continue to be high, especially for SMEs and certain economic sectors. This situation, observed in recent years, puts additional pressure on corporate treasuries and, once again, calls for the effective implementation of the reform of the legislative and regulatory framework relating to payment deadlines.

- Despite a still-risky environment, the banking sector consolidated its financial position. In terms of profitability, banks' cumulative profit improved compared to the normative income of 2016, owing to lower credit risk cost and a good performance abroad. In terms of capitalization, the sector generated an average tier 1 capital ratio of 11 percent and an average capital adequacy ratio of 13.9 percent as against minima of 9 percent and 12 percent respectively. Banks' liquidity tightened, as their foreign currency position increased. The stress tests conducted revealed banks' resilience to different stress scenarios, including those simulating worsening macroeconomic conditions; however, they remain vulnerable to shocks arising from largest exposures. In a context of low interest rates, banks are also exposed to increased interest rate risk due to the lengthening of their loan portfolio's maturity and the predominance of fixed interest rates, particularly for home loans.
- The insurance sector continues to be strong. Return on equity rose to 10.6 percent in 2017 as against 9.4 percent in 2016. Unrealized gains which may be generated by the asset portfolios of insurance and reinsurance companies increased anew due to the good performance of the stock market in 2017. At the prudential level, insurance and reinsurance companies' coverage ratio for technical liabilities are above regulatory minima.

In addition, the sector's solvency margin, covering the underwriting risk, continues to be well above the regulatory minimum. Nevertheless, considering the transition to the risk-based solvency regime, in implementation of the last amendment of the Insurance Act, the margin surpluses would probably be significantly reduced.

- With regard to pension schemes, the parametric reform of the civil pension scheme, run by *Caisse Marocaine de Retraite* (Moroccan Pension Fund), which was carried out in 2016 allowed balancing future pension rights for affiliates but did not redress the overall balance of this scheme which has entered into structural deficit since 2015. The dates of pension reserves' depletion did not change markedly from the projections of 2016 and continue to be closely monitored.
- In the stock market, activity in the primary market remains weak, as the raised capital since early 2018 reached 501 million dirhams, but a new company was listed. The draft General Regulation of the Stock Market, currently in the process of adoption, is expected to encourage financing through the stock market by establishing adapted compartments and creating an alternative market to meet to the needs of medium and small businesses. The secondary market showed contrasting trends in the first half of 2018. Benefitting from low interest rates, the valuation of listed stocks as on March 9, 2018 was generally high with a PER of 21.1x. This valuation was later adjusted significantly following a trend reversal that dragged the MASI from +7.2 percent down to -4.12 percent as at end-June 2018. The volatility of this index declined considerably from 10.66 percent in 2017 to 5.43 percent in the first half of 2018, after an upward trend that began in 2014. Liquidity remains low mainly due to a limited floating capital and has declined slightly to 9.76 percent. Mutual funds lead the market with a 39 percent share of the trading volume and record a net buying position of around one billion dirhams. The rate of pending transactions in the stock market remains marginal, thus minimizing the counterparty risk.

- The amount of private debt issuances fell by 28 percent as at end-May 2018, compared to the same period of 2017. Credit institutions remain the main beneficiaries, with more than two-thirds of issuances. The private debt market has seen the introduction of new instruments intended exclusively for qualified investors.
- Asset management activity continues to grow, as managed net assets rose 4 percent as at end-May 2018 and net subscriptions are trending towards medium and long-term bond mutual funds. Also, a slight outflow from money market funds has been observed since 2015.
- Concerning securities lending operations, their outstanding amount stood at 20.9 billion dirhams as at end-March 2018 as against 15 billion at the end of 2017. Their legislative framework is being amended to promote the development of this activity, while reinforcing requirements for counterparty risk hedging.

The Committee also discussed and approved the roadmap for monitoring cyber risks in the Moroccan financial system.