PRESS RELEASE

Sixteen Meeting of the Coordination and Systemic Risk Monitoring Committee

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Rabat, December 22, 2022

The Coordination and Systemic Risk Monitoring Committee, composed of representatives of Bank Al-Maghrib, the Moroccan Capital Market Authority (AMMC), the Supervisory Authority of Insurance and Social Welfare (ACAPS), and the Department of Treasury and External Finance (DTFE), held its 16th meeting on Thursday, December 22, 2022 at the headquarters of Bank Al-Maghrib in Rabat.

The Committee reviewed the progress of the inter-authority's roadmap for financial stability covering the period 2022-2024 and examined the draft joint circular of the financial sector supervisory authorities on financial conglomerates.

The Committee also analyzed the mapping of the systemic risks weighing on the national financial system, in a context still surrounded by strong uncertainties. In this regard, the Committee reviewed the conclusions of the monthly meetings of its representatives held since the onset of the health crisis as well as the evolution of monitoring indicators. These indicators continue to demonstrate the strength and resilience of the Moroccan financial sector.

At the end of inspecting the financial system's situation with regard to the economic and financial observed and expected trends, the Committee noted the following:

- The evolution of macroeconomic conditions has not so far revealed any major risks to financial stability, but the vulnerabilities arising from the external and internal environment (repercussions of the war in Ukraine, drought, aftermath of the pandemic, inflationary pressures, etc.) urge vigilance and continue to be under close monitoring. According to Bank Al-Maghrib's projections, the growth of the national economy would slow down to 1.1 percent in 2022 before accelerating to 3 percent in 2023 and 3.2 percent in 2024. As for inflation, after a sharp acceleration to 6.6 percent in 2022, it is expected to moderate yet remaining at a high level of around 4 percent on average in 2023 and 2024. With regard to the external position, the current account deficit is expected to narrow to around 2 percent over the next two years, while official reserve assets would stand at 362.9 billion in 2023 and 371 billion in 2024, i.e the equivalent to nearly six months of imports of goods and services. Regarding public finances, the budget deficit would gradually narrow from 5.3 percent of GDP in 2022 to 4.6 percent in 2023 and 4 percent in 2024. As for the Treasury's debt it would fall to 67.7 percent of GDP in 2023 and to 66.1 percent in 2024.

- Despite the difficult environment, bank credit to the non-financial sector would accelerate to 5.1 percent in 2022, mainly driven by liquidity facilities granted to private companies. It is expected to drop to 3.3 percent in 2023 before recovering to 5.5 percent in 2024. The rate of nonperforming loans has stabilized at 8.7 percent for a provisioning rate of 67 percent at the end of October 2022.

- At the end of the first half of 2022, the banking sector demonstrated good intermediation results and a decline in the cost of risk. The interest rates hike has nevertheless impacted results on market activities, leading to a 7.5 percent drop in the banks' accrued results. The banking sector is solid with average solvency and Tier 1 capital ratios on an individual basis of 15.3 percent and 11.8 percent respectively, compared with regulatory minimums of 12 percent and 9 percent. On a consolidated basis, these ratios are 13.3 percent and 10.8 percent. Furthermore, banks have liquidity buffers above the regulatory minimum. The macro stress test exercise carried out by Bank Al-Maghrib based on the economic projections of December 2022 continues to show, up to that date, the resilience of the banks to shock scenarios simulating a severe deterioration of the economic conditions.

- Regarding Financial Market Infrastructures, they continue to evince a strong resilience - both financially and operationally- and still present a low level of risk for financial stability.

- The insurance sector continued to post solid fundamentals and to demonstrate its resilience despite the difficult international environment marked by strong uncertainties. On the technical level, the sector has maintained at the end of the first three quarters of this year a substantial growth rate of 7.7 percent compared to the same period of the previous year, to reach 42.4 billion dirhams. This development was supported by both the life (+9.5%) and non-life (+6.1%) branches. On the financial front, the investments of insurance companies have increased by 3 percent since the beginning of the year to reach 216.7 billion dirhams at the end of September. Nonetheless, unrealized capital gains fell by 40.6 percent to 19.3 billion, mainly due to the decline in the stock market and the rise in secondary market rates. In terms of profitability, net income at the end of June improved by 11.3 percent year-on-year. Concerning solvency, the sector continues to generate an average margin of more than three times the minimum regulatory requirement.

- In the pension sector, the main basic schemes are experiencing a difficult financial situation, marked overall by their large implicit debts and by the exhaustion of their reserves over various time horizons. The systemic reform of the pension system should allow for a balanced pricing system, but also for a significant reduction in the uncovered past liabilities, thus restoring financial balances in the future.

- On the Casablanca Stock Exchange, the MASI index posted from the start of the year a 15.73 percent drop on December 9, 2022, compared with a rise of 18.35 percent in 2021. Average volatility was down to 9.4 percent from 10.8 percent in the first half of 2022. Against this background, the overall valuation of the stock market is down significantly to 17.2x compared to 19.8x on average for the five years prior to the Covid 19 crisis. The volume of issues on the stock market in mid-December 2022 is almost stable year-on-year, with 2.35 billion dirhams. Additionally, the stock market liquidity ratio at the end of November stood at 8.51 percent, down 13.2 percent year-on-year.

- On the bond market, rates picked up in 2022, particularly on the secondary market. This rise in rates was accompanied by an increase in volatility, which reached high levels. The outstanding private debt at the end of October 2022 amounted to 254 billion dirhams, up 4.1 percent year-on-year. As regards non-financial issuers, their net debt at the end of June

2022 is generally under control and down to 66 percent of equity compared to 68 percent at the end of 2021 and 86 percent at the end of 2020.

- Asset management underwent contrasting developments during 2022. The UCITS sector was thus impacted by the decline in the stock market and by the upward pressure on the interest rate market and suffered outflows in the medium and long term bond UCITS, short term Bonds and Equities categories. The global net assets of mutual funds amounted to 536.5 billion dirhams as of December 9, 2022, down by 9.5 percent compared to the beginning of the year. The other asset management segments are showing growth in line with that observed in previous years, with stabilization of assets under management for securitization funds and double and triple digit growth for capital investment funds (OPCC) and Real-estate investment funds (OPCI) respectively. The net assets of OPCIs thus reached 49 billion dirhams at the end of October 2022, up 127 percent since the start of the year, with a preponderance of funds reserved for qualified investors.

The Committee also reviewed the preparatory work for the onsite visit of the FATF assessors, under the coordination of the National Financial Intelligence Authority (ANRF). It recommends maintaining the efforts of all stakeholders for the success of this visit.

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