PRESS RELEASE

Eleventh meeting of the Coordination and Systemic Risk Monitoring Committee

Rabat, July 6, 2020

The Coordination and Systemic Risk Monitoring Committee held, on July 6, its 11th meeting at the headquarters of Bank Al-Maghrib in Rabat.

During this meeting, the Committee approved the Financial Stability Report for the year 2019, as well as its supplement which provides a preliminary analysis of the impact of the Covid-19 crisis on the national financial sector. It also examined the systemic risks on the financial system in the current context, discussed the progress of the financial stability inter-authority roadmap for the 2019-2021 period, and reviewed the conclusions of Committee representatives' weekly consultation meetings held since the beginning of the health crisis, as well as the monitoring indicators which have not, so far, revealed any particular concern on financial stability.

That being said, the scope of the economic recession resulting from the Covid-19 pandemic both at the national and international level will undoubtedly impact the performance of the Moroccan financial system. In this exceptional context surrounded by strong uncertainties, analysis of the financial system, in light of observed and expected economic and financial developments, enabled the Committee to identify the following key findings:

- Despite the overall moderate developments in 2019, macroeconomic risks are expected to worsen in 2020 as a result of the pandemic shock, the repercussions of which will undeniably deteriorate macroeconomic conditions in 2020 before gradually recovering from 2021 onwards. At the international level, the economic activity, already weakened in 2019 by stunted global growth, will be shaken in 2020 by an unprecedented recession and a weakening of the financial and fiscal situation in the main developed and emerging economies. National growth, doubly weakened in 2020 by the drought and by the total or partial shutdown of activity in several sectors due to the pandemic, is expected to shrink to -5.2 percent, considering a V-shaped recovery scenario. Regarding the external accounts, the current account deficit, which strengthened by 1.2 points of GDP in 2019, is expected to widen significantly in 2020 to 10.3 percent of GDP before partially improving to 5.8 percent in 2021, owing in particular to external financing mobilisation and to the rapid recovery expected in 2021. Official Reserve Assets, which improved in 2019 to 253.4 billion DH to provide coverage for 6 months and 8 days of imports of goods and services, are expected to decline over the forecast horizon. Still, their level would allow to cover around 5 months of imports in both 2020 and 2021. With regard to public finances, the budget deficit is expected to widen to 7.6 percent in 2020 before easing to 5 percent in 2021 and result in higher Treasury debt, that would reach 75.3 percent of GDP and 75.4 percent in 2020 and 2021 respectively.
- Bank lending to non-financial companies (NFC) resumed in 2019 with a 5.4 percent rise, after a 1.2 percent slowdown in 2018, driven mainly by private companies whose lending accelerated

further to around 10 percent at end-April 2020. NFC’s default rate stood at around 10 percent, an already high level which is likely to worsen due to the increasing risks linked to pandemic.

- Despite an obvious activity slowdown expected in 2020, loans to the non-financial sector should remain positive, rising by 1.9 percent in 2020 and 2.6 percent in 2021, owing to the various measures taken in support of the economic recovery and to the central bank's easing measures. Monetary policy wise, Bank Al-Maghrib particularly reduced the key rate twice, from 2.25 percent to 2 percent in March then to 1.5 percent in June 2020; it also fully liberated the reserve account in favour of banks. At the same time, the Bank strengthened its specific refinancing program for the benefit of VSMEs, by including cash loans besides investment loans, and by increasing the frequency of refinancing operations. At the prudential level and in order to further increase the banks' capacity to finance the economy, Bank Al-Maghrib temporarily eased some of the requirements in force.

- The annual study carried out by Bank Al-Maghrib since 2013 on inter-company payment deadlines, has covered around 70,800 nonfinancial companies whose available data for fiscal year 2018 have been made more reliable. It highlights that payment periods for inter-company receivables have significantly extended, particularly for VSEs, with customer payment deadlines increasing for this category year-on-year from 107 days of sales to 157 days on average, as well as for some sectors of activity. This situation is likely to be further aggravated due to the pandemic crisis. Today more than ever, public authorities and the private sector are called upon to capitalise on the measures already taken and to make greater efforts dealing with this issue.

- Amid a risky environment, banks have maintained strong fundamentals with regard to liquidity, profitability and capital adequacy indicators and ratios. The banking sector posted therefore, on individual basis, an average capital adequacy ratio of 15.6 percent and an average Tier 1 capital ratio of 11.5 percent in 2019, well above the regulatory minima of 12 percent and 9 percent respectively. The risk of concentration on large debtors to which banks are exposed continues to be closely monitored in the context of the current health crisis.

  The macro stress test conducted by Bank Al-Maghrib in June 2020 highlights on this date, banks' resilience to the shock induced by the Covid-19 crisis.

- Overall, both life and non-life insurance continue to show signs of strength. The overall volume of premiums reached in 2019 44.9 billion DH, up by 8.5 percent. Net results increased by 6 percent due to improved operating margin and financial balance. Return on equity (ROE) remained positive at 9.6 percent. Unrealised capital gains grew by 24.2 percent, mainly due to the stock market performance combined with lower interest rates. From a prudential standpoint, the regulatory requirements for covering technical provisions by investments were met. In addition, the sector continues to generate a solvency margin well above the regulatory minimum required. These excess margins, which cover only underwriting risk, are expected to decline as the industry moves to a prudential risk-based solvency regime.

  Finally, the stress tests conducted in March 2020 highlighted, on this date, insurance companies’ resilience to shocks on equity and real estate portfolios as well as those resulting from unfavourable macroeconomic and technical conditions, particularly those related to the Covid-19 pandemic.

- As regards pension schemes, the under-pricing of rights acquired under the long-term branch of the Social Security Fund (CNSS) and the general scheme of the Collective Retirement Allowance Plan (RCAR) leads to a significant accumulation of implicit liabilities (uncovered commitments) of both schemes. As for the civil pension scheme managed by the Moroccan Pension Fund (CMR), its 2016 parametric reform allowed to balance its pricing with regard to rights acquired after 2017. However, the significant accumulation of the scheme's commitments with regard to the rights acquired before the reform threatens its sustainability.

- Along with international stock markets, capital markets were marked during this first half of the year by the tensions on the stock market caused by the effects of the Covid-19 pandemic. Indeed, the Casablanca Stock Exchange fell by 28.14 percent between February 21 and March 18, 2020, accompanied by high volatility and significant volume. However, a partial recovery followed, bringing the annual underperformance down to -16.9 percent in June 26, 2020, against -26.15 percent in March 18, 2020. Despite its decline, the overall valuation of the stock market remains high at 19.7x. Against this backdrop, liquidity increased by 11.5 percent in May 2020 against 7.3 percent in May 2019. On the other hand, outstanding private debt, which was up by 11 percent in 2018 and 15 percent in 2019, recorded a slight drop by 2.6 percent at end-April 2020 to 224 billion DH. Sixty-six percent of this debt is used to finance credit institutions. Moreover, the mutual funds industry proved resilient in the face of the current crisis. In fact, net assets of mutual funds at end-May 2020 maintained the same level as end-2019 and stood at 471 billion DH, despite the repurchase operations caused by the unfavourable evolution of the stock market, investors' concerns as to the prospects of the national economy, and the institutional investors' mobilization of the liquidities necessary for their contributions to the Covid-19 solidarity fund. Besides, the operational risk of market enterprises (Casablanca Stock Exchange and Maroclear), particularly during the confinement period, was well controlled owing to the successful deployment of business continuity plans.

- In order to better identify the risks to which the mutual funds are exposed and anticipate future events likely to impact them, the management companies carried out an initial stress test exercise that mainly focused on assessing the funds' ability to honour repurchase requests received in a context of stress, taking into account the liquidity of the funds' assets. The results of this first stress test, carried out in May 2020, revealed that liquidity and credit risk are under control, and that the funds have a significant ability to honour repurchase requests received, as a result of globally prudent investment strategies and conservative exposures.

The Committee also examined and approved the new financial sector's AML/CFT roadmap. This roadmap aims to consolidate all the actions particularly recommended by the FATF and to ensure that they are implemented within the set deadlines.

The Committee will continue to monitor the evolving situation and therefore decided to maintain weekly meetings of its representatives.

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