FINANCIAL SECTOR ASSESSMENT

MOROCCO

FEBRUARY 2016

FINANCE & MARKETS GLOBAL PRACTICE

MIDDLE EAST AND NORTH AFRICA REGIONAL VICE PRESIDENCY

A joint IMF-World Bank mission[1] visited Rabat and Casablanca during April 16-30 and September 28-30, 2015, to assess the soundness and resilience of the banking system, the state of play in financial inclusion and infrastructure, the oversight frameworks for banking, capital markets and financial market infrastructures, and crisis preparedness, and update the findings of the Financial Sector Assessment Program (FSAP) conducted in 2007. This report summarizes the main findings of the mission, identifies key financial sector vulnerabilities, and provides policy recommendations. This report should be read in conjunction with the Financial Sector Stability Assessment of the IMF available at https://www.imf.org/external/country/mar/index.htm.

[1] The team was led by Gabriel Sensenbrenner, World Bank, and Jianping Zhou, IMF, and included Kay Chung, Didier Debals, Dale Gray, Pilar Garcia Martinez, Sanaa Nadeem, Onenne Partsch, and Cyril Pouvelle (IMF); and Ines Gonzalez del Mazo, Philippe Aguera, Teymour Abdel Aziz, Sarah Fatallah, Jonathan Katz, Maria do Ceu Pereira, Eddy Rodriguez, and Gynedi Srinivas (World Bank).

GLOSSARY

ACAPS	Autorité de contrôle des assurances et de la prévoyance sociale
AMMC	Autorité marocaine du marché des capitaux
BAM	Bank Al-Maghrib
BCP	Basel Core Principles for Effective Banking Supervision
CAR	Capital Adequacy Ratio
CCG	Caisse Centrale de Garantie
CCSRS	Comité de Coordination et de Surveillance des Risques Systemiques
CDG	Caisse de Dépôt et de Gestion
CFC	Casablanca Finance City
CPMI	Committee on Payment and Market Infrastructures
DGF	Deposit Guarantee Fund
DH	Dirham
ELA	Emergency Liquidity Assistance
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
Maroclear	Central Custodian and Securities Clearing Corporation
MEF	Ministry of Economy and Finance
NPL	Non-Performing Loan
ROA	Return on Assets
ROE	Return on equity
SME	Small and Medium Sized Enterprises
SRBM	Systeme de reglement brut du Maroc (real-time gross settlement system—RTGS)
SSA	Sub-Saharan Africa
WB	World Bank

CONTENTS

I. Executive Summary

Macro-Financial Context

1. **Since the FSAP Update of 2007, weaker growth in Europe has affected the financial sector with various lags.** Macroeconomic fundamentals have steadily improved since 2013 but the possibility of sluggish growth creates headwinds. Morocco's financial system has performed well in mobilizing saving for the formation of capital, but it should play a stronger role to produce an allocation of capital that delivers higher growth and private sector job creation.

2. **The financial system has grown in size and complexity.** Banking (139% of GDP) is concentrated and the systemically important financial conglomerates expand into Africa. A new banking law was adopted in 2014. Insurance (8% of GDP) is interconnected with banking and asset management. Pension saving is a high 25% of GDP. The authorities are in the midst of a wholesale upgrade of the legal, regulatory, and oversight framework for capital markets, insurance and pension funds, with independent regulators. A new banking law was also passed in 2014.

Financial Inclusion and Infrastructure

3. **The increased size and depth of the financial sector has been accompanied by noticeable gains in inclusion**. Gains reflect the authorities' strong ownership of this agenda—BAM is a member of the Alliance for Financial inclusion. Morocco is therefore well-placed to tackle more difficult areas of financial exclusion. For this, the public stakeholders would be well-served to agree the governance of financial inclusion and develop a national strategy.

4. **Successful inclusion strategies have three elements:** (a) strengthening the enabling environment, such as more differentiated lending rates; (b) developing the infrastructure (electronic payments; data integrity and coverage of the credit bureau; secured transaction framework); (c) monitoring of policies targeting difficult segments—housing and SME lending—to evaluate effectiveness, additionality, and fiscal affordability.

Soundness and Resilience of Banks

5. **Sustaining Morocco's gains in financial inclusion rests on sound and resilient banks.** Solvency, profitability and liquidity were tested using an array of tools that suggest a system resilient to large shocks. Concentration risk remains an issue and BAM plans to tighten its regulation of large exposures. As the system gets more complex, the Systemic Risk Council (CCSRS) will have to monitor interconnectedness more closely.

Oversight Frameworks

6. **Oversight frameworks establish rules within which financial institutions, instruments and markets operate and develop. BAM's bank supervision is effective and improving**. The risk-based approach meets good standards and, in 2015, the banking supervision department was refocused on microprudential and resolution. Regulations that implement the 2014 banking law are being put in place

and the authorities intend to review national solo loan classification and provisioning rules with a view to better aligning them with IFRS.

7. **There was good progress since the last FSAP in implementing the IOSCO Principles and Objectives of Securities Regulation**. Remaining gaps include: ensuring that AMMC regulates and supervises all entities engaging in securities market activities, including banks; strengthening enforcement and introduce administrative sanctions/fines on individuals; improving the valuation of key instruments; enhancing the quality of investor information. AMMC is developing a capacity for surveillance of systemic risk in capital markets.

8. **The authorities have designated financial market infrastructures (FMIs) that are systemic**. BAM's RTGS (SRBM) broadly observes the relevant CPMI/IOSCO Principles on Financial Market Infrastructures (PFMIs). Maroclear's custody role is well-established in law. The authorities should however close a legal gap in the netting and settlement chain for delivery versus payment of securities.

Crisis Preparedness, Bank Resolution and Depositor Protection

9. **Good progress is also evident since 2007 on crisis preparedness and the financial safety net**. The 2014 banking law provides that BAM and the Deposit Guarantee Fund (DGF) may both extend liquidity support (under exigent circumstances in the case of DGF); this may create confusion. The authorities should use the planned revision of the law governing BAM to formalize ELA, with a clear separation between liquidity and solvency support. Among the regulators, only BAM has exceptional powers for early intervention. This could complicate crisis management in the case of financial conglomerates with insurance and capital market arms.

10. **The legal basis for bank resolution should be strengthened especially in the case of systemic groups**. The law must set forth: the objectives of resolution; the hierarchy of creditors applicable in resolution; special "bail-in" powers; protecting the resolution authority in the discharge of such exceptional powers; clear designation of authority in charge of resolution. Financial stability considerations suggest more should be done to safeguard the deposit guarantee fund given the funding model of Moroccan banks.

Table 1. Key Recommendations of the 2015 FSAP Update	
Recommendations	**Priority**[2]
Banking Regulation and Oversight	
Address banking supervisor's capacity constraints; strengthen on-site supervision capacity.	I
Periodic review of asset quality for large banks; advance recovery and resolution plans.	I/NT
Review loan classification and provisioning rules on a solo basis; conduct an impact study for implementing the relevant IFRS in coordination with tax authorities.	NT
Macroprudential Oversight	
Clarify the powers, instruments and voting arrangements of the CCSRS.	I
Amend laws governing ACAPS and AMMC to include financial stability objective.	I/NT
Prioritize the implementation of countercyclical buffer; expand data coverage for the risk map; expand sectoral instruments.	NT
Emergency Liquidity Assistance	
Separate BAM's ELA function clearly from government solvency support.	I
Strengthen BAM's recapitalization process; review its profit distribution mechanism.	NT
Early Intervention/Bank Resolution Framework	
Define the objectives of banking resolution; incorporate "least-cost principle."	I
Formalize the hierarchy of creditors' claims; introduce bail-in powers.	I/NT
Designate an explicit bank resolution authority; limit its legal liabilities in this mandate.	I/NT
Deposit Insurance	
Remove any type of open bank assistance via the deposit guarantee fund (DGF).	NT
Grant DGF a priority over uninsured depositors and general creditors.	NT
Financial Market Infrastructures	
Implement guarantee scheme and default handling procedures for securities transactions.	I
Strengthen BAM's oversight of the payment systems.	NT
Publish all policies applicable to FMIs and the disclosure framework of the SRBM.	NT
Securities Market Regulation and Oversight	
Apply consistent regulations and supervision to all participants in securities markets.	NT
Strengthen enforcement in sanctions and fines imposed on individuals.	NT
Improve valuation of government securities and review valuation rules of mutual funds.	NT
Financial Inclusion	
Establish a well-resourced governance and a robust monitoring and evaluation framework.	I
Improve credit bureau data quality; expand data providers to non-financial institutions.	I/NT
Review blanket ceiling on lending rates.	NT

[2] I-Immediate" is within one year; "NT-near-term" is one to three years; "MT-medium-term" is three to five years.

II. Macro-Financial Context

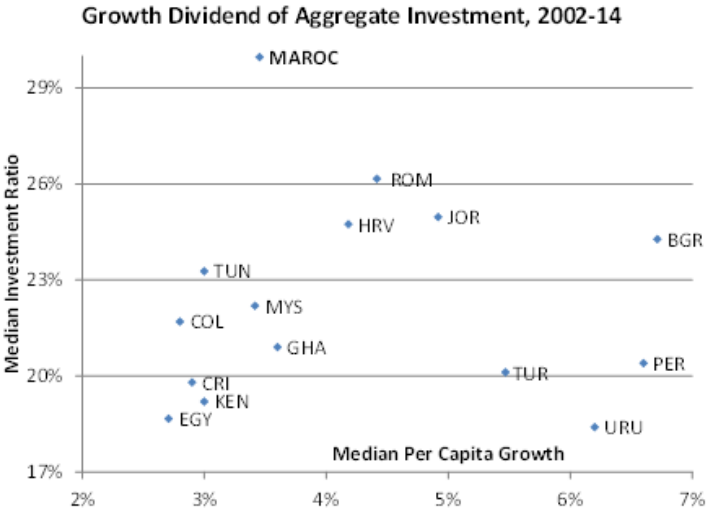
11. **Morocco's economy faced a succession of external shocks since the last FSAP Update in 2007**, including energy price hikes during 2008-13 and the intensification of the European crisis during 2010-12. Dependence on petroleum imports and close links with Europe led to large fiscal and external imbalances: government debt increased from less than 50% of GDP before the crisis to 65% currently. Policy actions, the emergence of new export sectors, and the decline in oil prices have helped lower these imbalances (Table 1). The authorities aim to go further, including through reforms of subsidies and pensions. Unemployment of around 10% is concentrated among the youth (21%).

12. **Macroeconomic fundamentals have improved over 2014-15 but the possibility of sluggish growth creates headwinds.** BAM cut its policy rate twice in 2014 and took other measures to support the provision of credit to the economy, especially small and medium-sized enterprises (SMEs). Long-standing capital controls on residents have helped preserve space for monetary policy. The fiscal stance is however constrained by ongoing consolidation efforts. Morocco is beginning to diversify its exports and their destinations, as well as reducing dependence on oil for electricity production. Moroccan companies and the financial sector are increasingly looking to Africa as another growth engine.

13. **The financial sector weathered well the direct impact of the global financial crisis but weak growth in Europe has affected it with various lags.** The financial system had limited linkages to global financial markets and low foreign funding. After 2010 however, the system has been hit through real channels due to close trade, tourism, remittances and FDI links with Europe. The managed exchange rate led to reserve losses and curtailed the liquidity of the banking system. After reaching a trough in 2012, NPLs have increased though banks continue to provision prudently, in part reflecting supervisory action.

14. **Since the 2007 FSAP Update, the financial system has grown in size and complexity**, with increased links between the banking and insurance sectors and a significant expansion into sub-Saharan Africa (SSA). A new banking law introduced in December 2014 aims to strengthen consolidated supervision and improve bank resolution. The forthcoming central bank law further enhances central bank independence and expands its role to include, inter alia, contributions to financial stability and the oversight of financial market infrastructures.

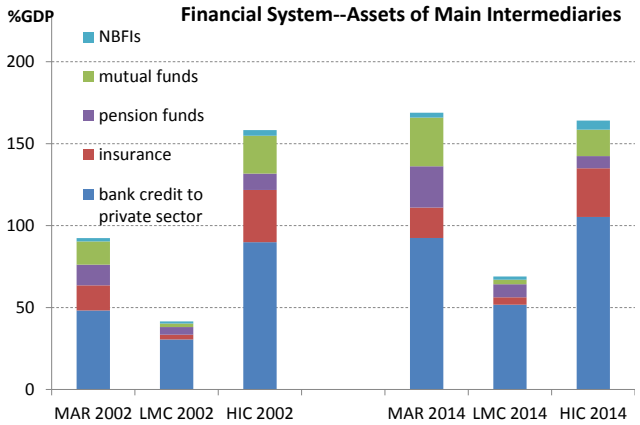
15. **The financial system should deliver an allocation of capital that yields higher growth.** Morocco's system has performed well in mobilizing saving for the formation of capital. The economy has invested 30% of GDP per year for many years, yet investment has so far delivered disappointing growth. The financial system plays a role in improving the allocation and monitoring of capital, to yield more growth per unit of investment; greater discipline in the selection and monitoring of projects; stronger corporate governance, new approaches for financing high growth firms; diversification of



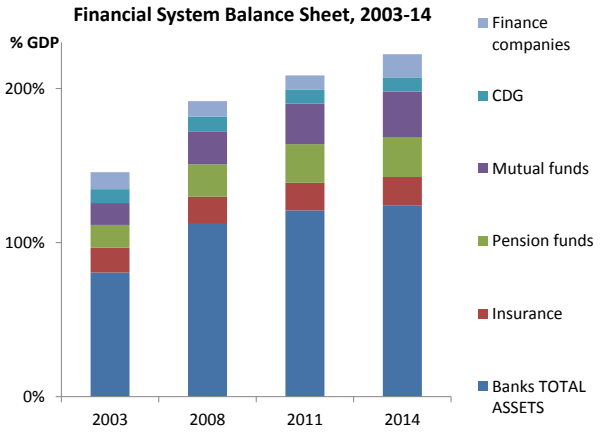
investors.

III. Structure of the Financial System

16. **Morocco has built a fairly diversified financial system that grew rapidly since the 2007 FSAP.** System assets (banking, insurance, pension funds, asset management) have reached levels comparable to high income countries. The banking system is among the largest in the region, with assets exceeding 130 percent of GDP. It comprises 19 banks, of which 5 are public. By 2014, foreign (mainly French) banks controlled seven banks and nine finance companies. Government ownership has dropped to 10 percent in 2014 (40 percent in 2002), as the government sold its remaining stake in the third largest bank. Microcredit associations and finance companies have assets of 10½ percent of GDP. As noted, both size and diversity of financial intermediation contrast with the subdued growth outcomes of aggregate investment.

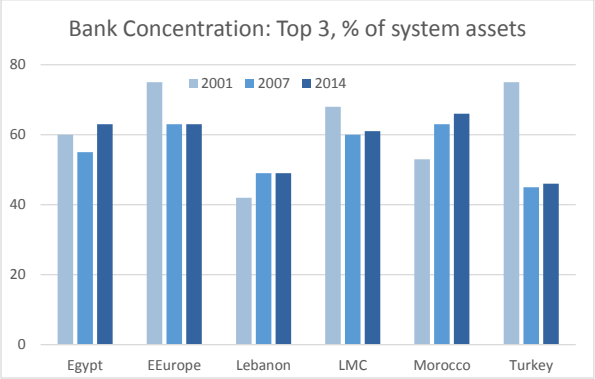


MAR = Morocco; LMC = lower middle income countries; HIC = high income countries.



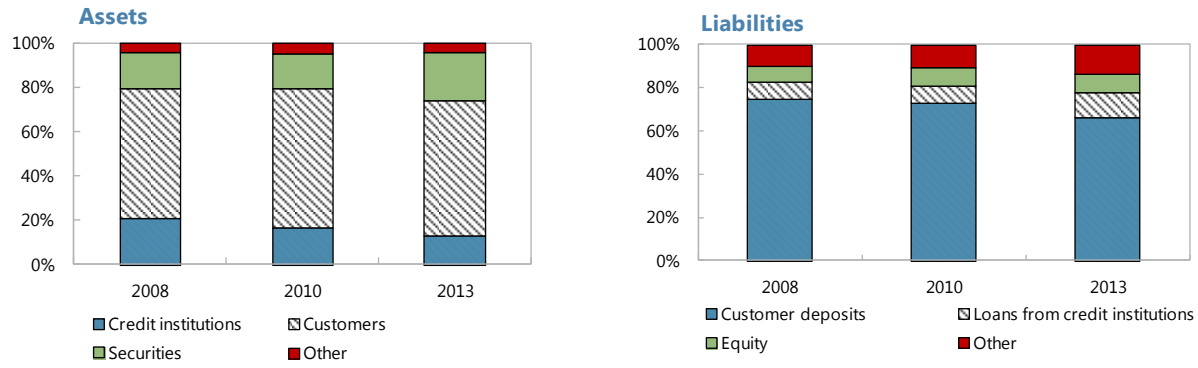
Sources: Finstats and Moroccan authorities.

17. **The banking system is concentrated**. Concentration has grown over the past decade in contrast to many countries at similar levels of development. The top three banks (67% of system assets, all private domestic banks) belong to broader financial groups that comprise insurance, asset management, and other financial services. Some are controlled by holdings whose interests extend to non-financial activities. The three groups have been designated as systemic. A fourth large group is the government-owned conglomerate, the Caisse de Dépôt et de Gestion (CDG), with assets (on- and off-balance sheet) of 25 percent of GDP. CDG combines asset management (for pension funds and the postal bank), with investment banking: it invests in flagship development projects alongside both foreign (mostly official) and domestic institutional investors. CDG also owns a mortgage bank.

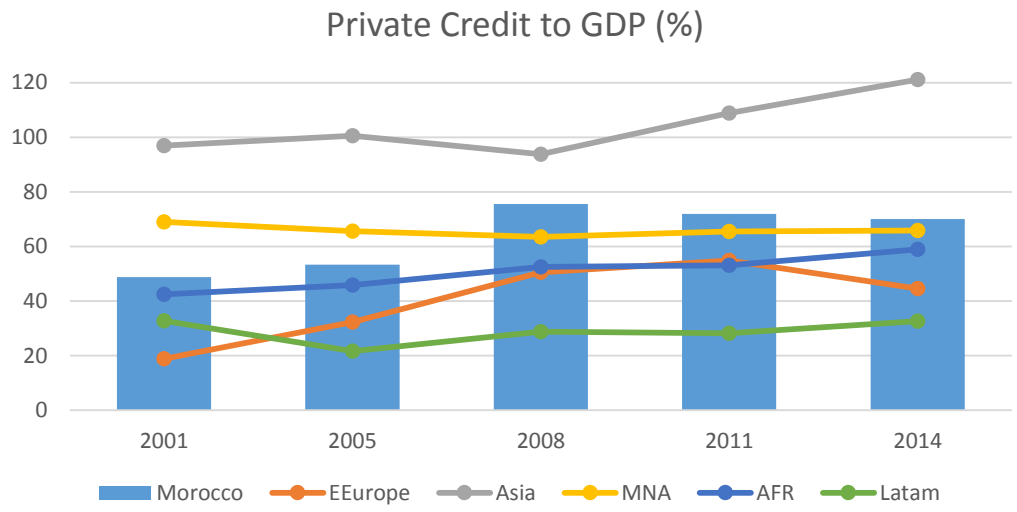


18. **The business model remains traditional:** mainly customer loans funded by deposits, including from Moroccans living aboard.

Composition of Bank Balance Sheets



Source: Bank Al-Maghrib.



Source: Finstats and staff calculations.

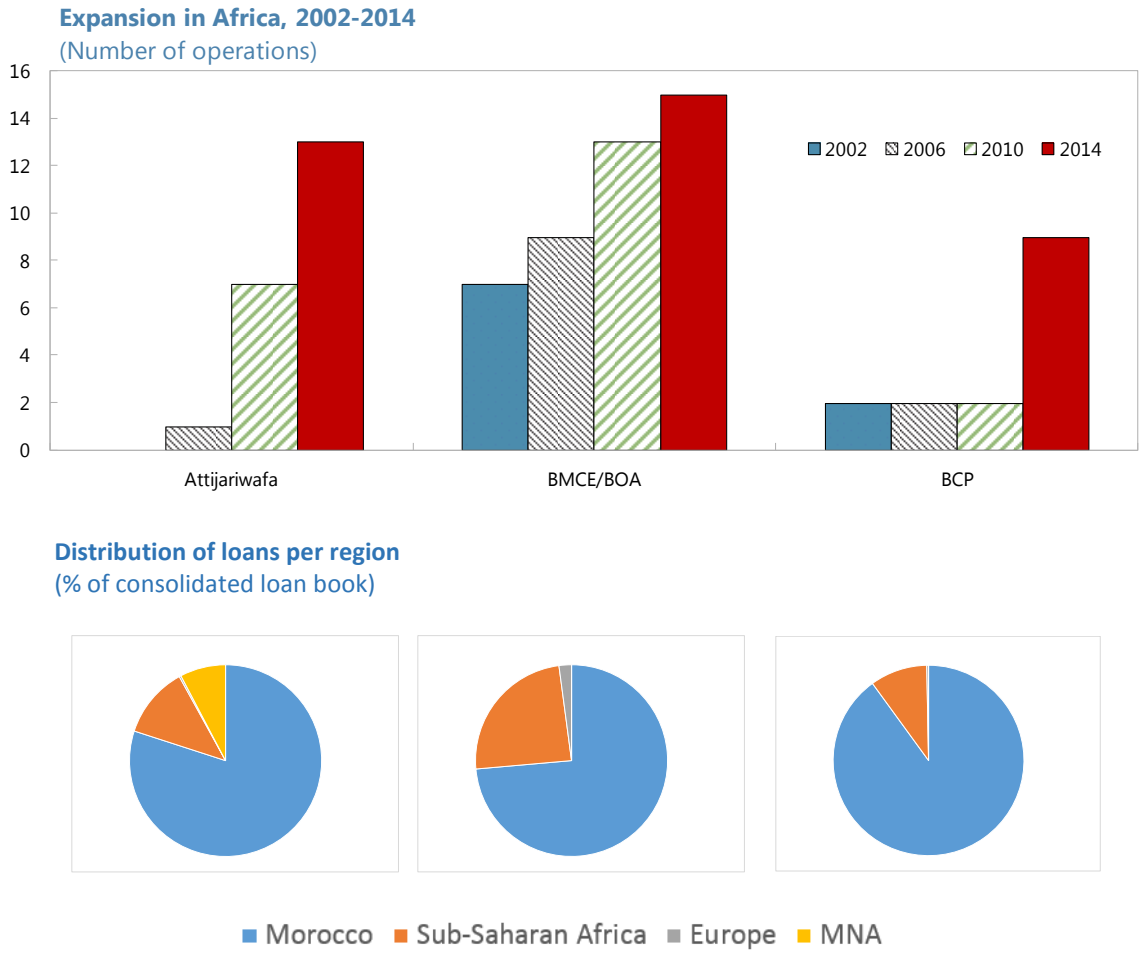
19. **The largest groups have expanded both domestically and into Africa.**

- Banks have significantly widened the range of services and products, which, together with more intensive use of mobile technology, has led to increased bank penetration (68 percent of adult population had a bank account in 2015 from 43 percent in 2008) and banking density (branches per 10,000 residents has increased by 50 percent since 2008);

- Financial service opportunities associated with increasing trade integration with Africa has led to a significant presence of the three largest Moroccan banks in the region (see Figure 3).

- Tax and legal incentives have been provided to support the development of the Casablanca Finance City (CFC) to become a regional financial services hub for Africa.

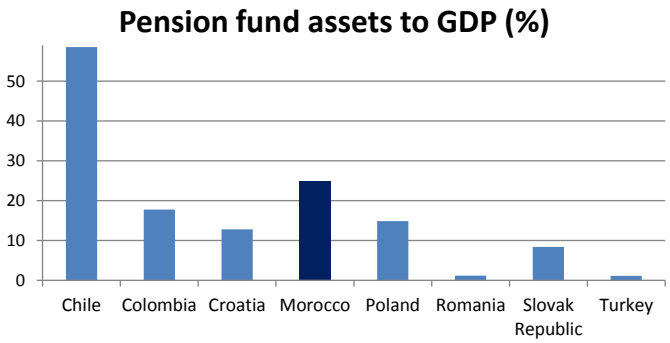
Moroccan Banking Groups in Africa



Sources: Bank websites and Annual Reports.

20. **The insurance sector (8% of GDP) also expanded in recent years and is interconnected with banking and asset management**. The insurance market is among the largest and fastest growing in Africa, with premiums of 3.1 percent of GDP (2.6 percent in 2006), mainly life and auto. The sector comprises 18 companies, of which 17 are privately-owned and four are foreign. The five largest insurers account for three-quarters of total premiums. The bancassurance model has helped increase insurance penetration and deepened links with banks in holding company structures. The top insurers also expand in Africa.

21. **Pension savings is a very high 25% of GDP.** Current pension promises are large by international standards, both high accrual and wage replacement rates. Schemes are thus unsustainable to varying degrees, with rising dependency ratios of retirees to contributors. Without reform, long-term saving could lose an important anchor, with implications for the development of local capital markets given the size of the pension industry and its holdings of T-bills. The government launched a comprehensive reform in 2015.



Source: Global Financial Development database, as of 11/2015.

22. **The authorities are in the midst of a wholesale upgrade of the legal, regulatory, and oversight framework for capital markets.** The aim is to diversify the channels and practices for financing the economy, as global standards become more constraining for banking, companies expanding into Africa require a greater range of risk management and financing solutions, and Morocco's expertise in banking is replicated in other financial services. The authorities aim in particular to revive the Casablanca Stock Exchange (CSE). Market capitalization has fallen to 70 percent of GDP from almost 100 percent in 2007. Of some 75 listings, ten in finance, telecommunication, and construction account for 70 percent of total capitalization (30% for the three largest banks). Poor liquidity and shallow float prompted a reclassification of the CSE from emerging to frontier market in 2013.

IV. Financial Inclusion and Infrastructure[3]

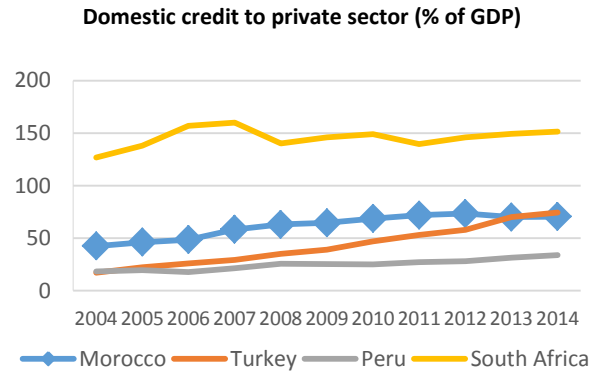
23. **The increased size and depth of the financial sector has been accompanied by noticeable gains in financial inclusion since the 2007 FSAP** (Figure A, Table 2). The financial sector has become one of the most inclusive in the region. Private credit to GDP (73 percent) and household credit to GDP (31 percent) are both above income group averages. The share of SMEs with a loan or line of credit has doubled since 2007[4], and an estimated 41 percent[5] of Moroccan adults use a formal financial product or service, also above both regional and income group averages.

24. **Gains reflect the authorities' strong commitment and ownership of the financial inclusion agenda.** Both the Ministry of Economy and Finance (MEF) and the Central Bank (Bank Al-Maghrib, BAM) have pursued multi-year strategies to foster financial inclusion. Highlights include the transformation of Morocco Post into a commercial bank that has opened six million accounts between 2009 and 2014. The launch of the first private credit bureau in 2009 enhanced the quality and availability of credit information. MEF's guarantee programs have given low-income households access to affordable financing for housing and enhanced SME access to bank loans. Policies on consumer protection and financial literacy helped ensure the sustainability of financial inclusion gains. BAM is a member of the Alliance for Financial Inclusion and committed under the Maya Declaration.

[3] This section summarizes a companion technical note on financial inclusion and infrastructure.
[4] Source: WB Enterprise Surveys.
[5] Estimate from the WB's Financial Inclusion and Capability Survey (2013), based on a representative survey of households.

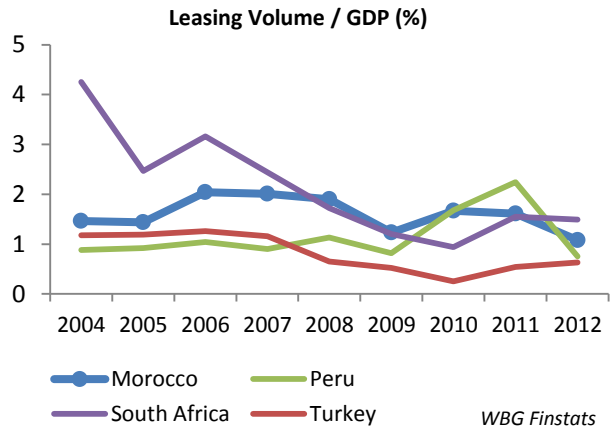
Figure A. Financial Inclusion: Achievements

Steady growth in credit to the private sector …



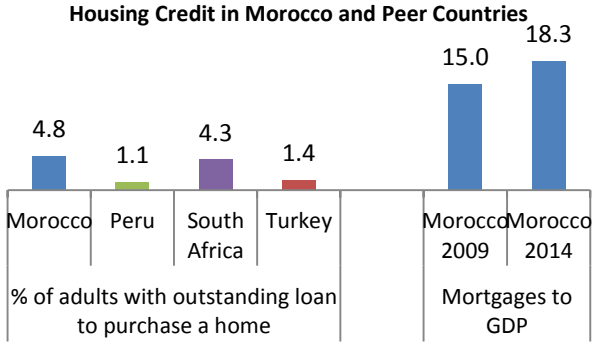
Source: WB World Development Indicators

… alternative financing such as leasing also ranking well.



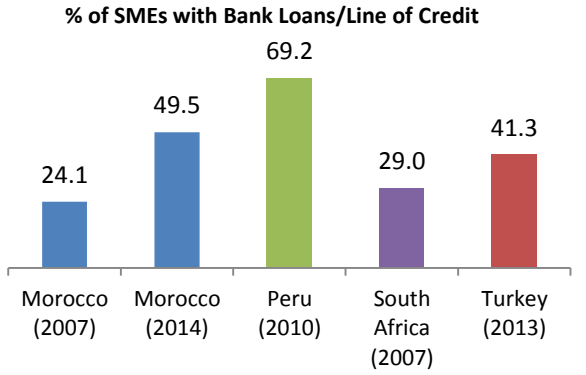
WBG Finstats

Access to housing finance compares favorably to peers …



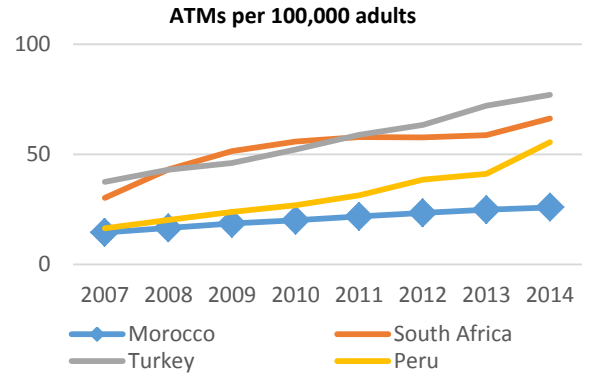
2011 WB Global Findex, Bank Al Maghrib

… while SMEs report having increasingly access to bank credit.



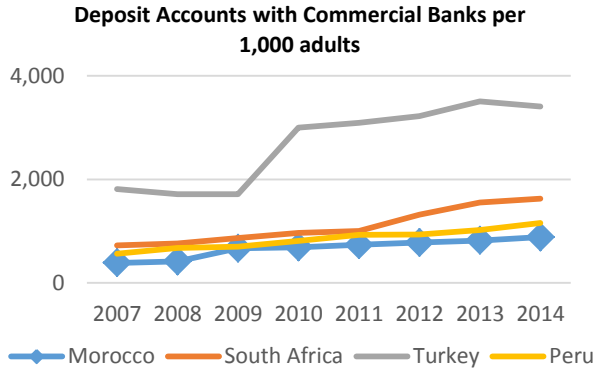
WB Enterprise Surveys

Expansion of financial access points …



Source: IMF Financial Access Survey

… higher density of deposit accounts, though not as much progress as peers.



Source: IMF Financial Access Survey

25. **The authorities delivered steadfast reforms in the legal, regulatory and supervisory framework.** Leasing and factoring have emerged as a key source of enterprise financing thanks to such reforms. The microcredit sector is back on a growth path following a serious crisis in 2008, with major improvements in the governance and oversight of microcredit associations. A new banking law enacted in 2015 includes a legal mandate for consumer protection and introduces licensing and supervision of new

entities that will foster inclusion: (i) participative ("Islamic") banks; (ii) non-bank providers of payment and transaction account services.

26. **Morocco is well-placed to build on these achievements to tackle more difficult aspects of financial exclusion** (Figure B, Table 2). Important segments of the population remain financially excluded and are disproportionately female, poor, and living in rural areas. More can also be done for small firms; new firms; female owned; or innovative firms, which are all less likely to get financing due to higher risks and/or costs. More generally, difficulties in the use, registration and enforcement of collateral rights limit SMEs' ability to sustain and attract new external financing.

27. **Morocco's challenge lies in further expanding access in an increasingly mature financial system: the institutional governance of financial inclusion has become key.** Notwithstanding strong commitment and ownership over the years, policies tended to be fragmented across sectors and institutions. The contemplated National Financial Inclusion Strategy (NFIS) has the potential to unify the agenda. Success stories from other countries show that a strategy requires dedicated financial and human resources, a representative governance to decide on goals and oversee implementation, and a robust monitoring and evaluation framework to track progress toward commonly agreed goals.

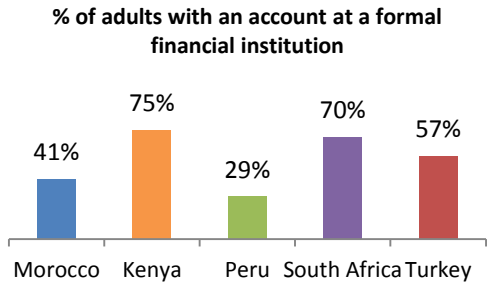
28. **Successful inclusion strategies have had three elements:** (i) strengthening the enabling environment, (ii) financial infrastructure and (iii) policy instruments that support the achievement of specific targets. The authorities are already pursuing several initiatives that will support a national strategy.

29. **Enabling environment:** The strategy should identify obstacles that prevent financial institutions from targeting underserved segments. One obstacle is the blanket cap on lending rates that applies to all lending by banks and finance companies: the cap (around 14%) is too low to cover the costs and risks in these segments, and the authorities intend to examine the possibility of differentiated caps. Proportionality in regulation can be accomplished, for example, by setting different requirements correlated with the differing levels and types of risk involved indifferent activities. Thought should also be given to reviewing the legal, regulatory and supervisory framework for microfinance in line with Basel Committee guidance. Larger, more sophisticated MFIs that fully meet BAM's requirements should be allowed to "graduate" to a broader range of financial services, including savings accounts.

30. **Financial infrastructure:** The strategy should aim to lower costs in payment and money transfer chains, and incentivize the use of electronic payments, starting with payments to and from entities in the public sector. Morocco's credit reporting system would benefit from higher data integrity and greater coverage beyond financial institutions, as well as governance and oversight that deliver on agreed targets. The planned, major reform of the legal and operational framework for secured transactions holds great promises for enabling more bank lending to SMEs. The draft law should uphold the principle of no hidden interest by mandating the registration and low-cost verification all interests. It should consider granting absolute priority ranking for new financing. Both would lead to more credit by enhancing creditor certainty and increasing competition in the provision of credit.

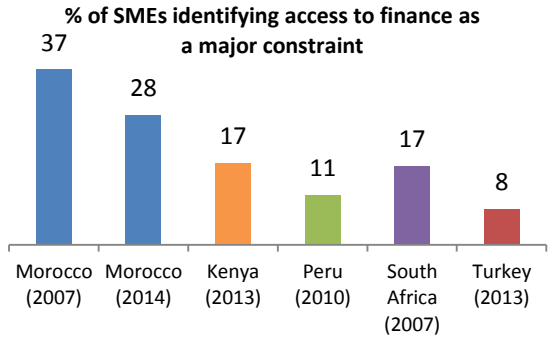
Figure B. Financial Inclusion: Challenges

Large segments of the population remain excluded ...



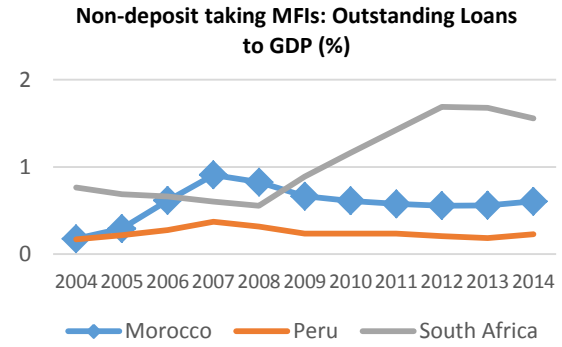
Sources: 2014 WB Financial Capability Survey (Morocco), 2014 Global Findex (Kenya, Peru, South Africa, Turkey)

... and a significant proportion of SMEs still identify access to finance as a barrier.



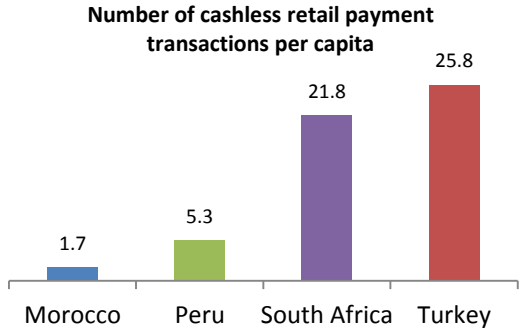
Source: WB Enterprise Surveys

Microfinance stagnation since the 2008 crisis



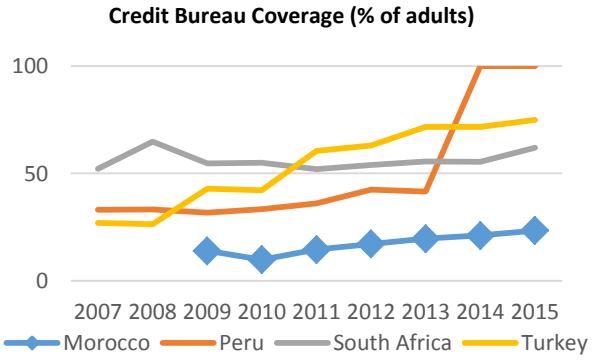
Source: IMF Financial Access Survey

Use of electronic payment instruments remains low



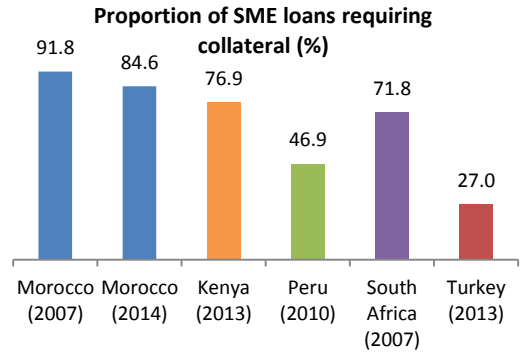
Source: WB Global Payment Systems Survey (2010)

Coverage of the credit information system lags peers significantly ...



Source: WB Doing Business Database

... while collateral requirements to access financing remain high for SME



Source: WB Enterprise Surveys

31. **Support instruments:** MEF's various guarantee programs for affordable housing and SME loans have demonstrated impact. MEF aims to complete in 2016 a major diagnostic exercise of effectiveness, additionality, and fiscal affordability. The facilities that BAM put in place in 2013 to support lending by banks to VSME should be integrated in a comprehensive strategy to maximize impact at least cost.

Table 2: Selected Indicators of Access and Usage of Financial Services

	Morocco	Peru	South Africa	Turkey	MENA	Lower middle income
Account ownership						
Number of bank deposit accounts per 100 adults	**72.6***	100**	160**	360**	N/A	N/A
Share of adults with account at a financial institution (total, %)	**39.1**	20.5	53.6	57.6	10.9	28.7
female (%)	**26.7**	17.6	51.0	32.7	7.2	23.1
poorest 40% (%)	**27.3**	5.2	38.8	46.8	5.3	20.0
Saving (over past year)						
Saved any money (%)	**30.5**	29.1	31.5	9.6	13.6	27.5
Saved at a financial institution (%)	**12.2**	8.6	22.1	4.2	2.7	11.1
Borrowing (over past year)						
Borrowed from family or friends (%)	**40.9**	14.5	34.3	43.0	31.2	26.4
Borrowed from fin. institution (%)	**4.3**	12.7	8.9	4.6	4.4	7.3
Payment instruments						
Automated teller machines (ATMs) (per 100,000 adults)	**21.5**	28.9	59.1	58.8	12.3	13.2
Credit card (% age 15+)	**4.5**	10.0	7.8	45.1	1.8	2.1
Debit card (% age 15+)	**22.4**	14.1	45.3	56.6	5.5	10.1
Used checks to make payments	**12.7**	0.5	2.9	1.5	1.5	4.8
Used e-payments	**7.4**	1.9	13.1	11.1	0.8	2.2

Source: WB Global Findex Database 2011, BAM (*), IMF (**), all data for adult population (% age 15+)

V. Soundness and Resilience of Banks

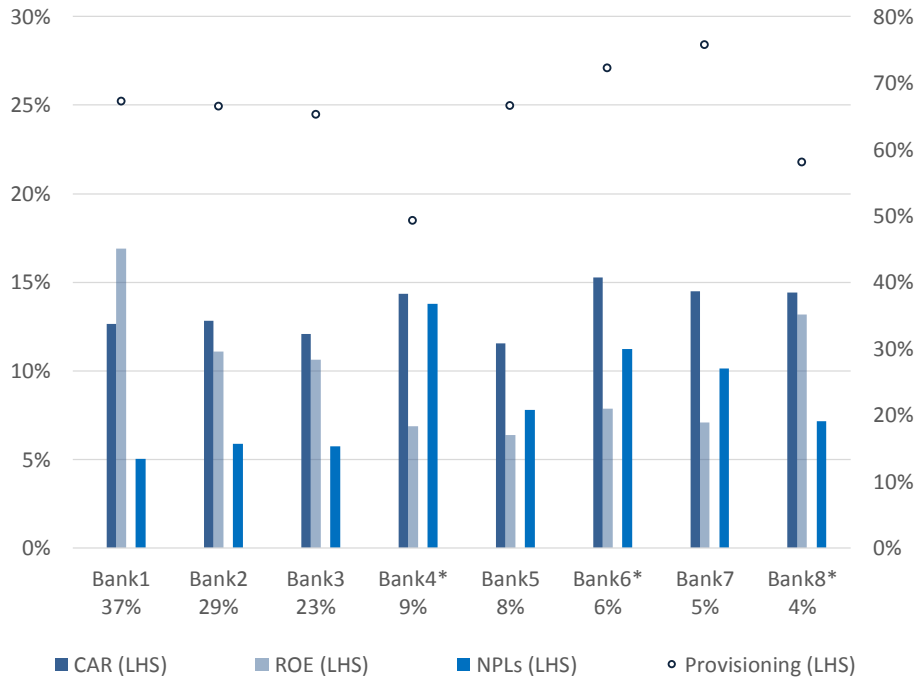
32. **Sustaining Morocco's gains in financial inclusion and access rests on sound and resilient banks.** Financial instability or outright crises undermine the continuity of financial services essential to the inclusion agenda. They also lead banks and financial institutions to cut back lending indiscriminately while repairing balance sheets. Sound and resilient banks help minimize the probability and impact of system-wide instability and facilitate the deployment of financial inclusion policies.

33. **Banks are adequately capitalized and profitable, with stable funding**. Nonperforming loans (NPLs) have risen above 7% due to weak activity in sectors such as construction and real estate development, although they are well provisioned. While these strains are unlikely to affect financial stability at present, close monitoring of risky loans should be strengthened..

34. **An array of stress tests for banks comprising 90% of system assets suggest that the system is resilient to severe shocks** associated with prolonged weakness in Europe and global market volatility. In a scenario with a sharp downturn that leads to sustained output losses, only one small bank would see its capital ratio fall below the regulatory minimum, with a capital shortfall estimated at 0.2 percent of GDP. In a very low probability event of large deposit losses, all eight banks would maintain liquidity

coverage ratios (LCRs) above the current 60 percent regulatory threshold, although two banks' LCRs would be below 100 percent, the regulatory threshold that banks should meet in 2019.

Morocco: Dispersion of Selected Financial Soundness Indicators at end-2014



Notes:

- *"*": foreign-owned bank;*
- *Horizontal axis: percentages are assets relative to GDP.*
- *Capital Adequacy Ratio (CAR): regulatory capital as percent of risk-weighted assets;*
- *Return on Equity (ROE);*
- *Loans classified as nonperforming (NPLs): sum of impaired, doubtful and loss as % of gross loans;*
- *Provisioning: specific provision as percent of NPLs (excluding provisions on watch list loans).*

35. **Interconnectedness in the financial system should be monitored.** A network analysis of direct exposures found that insurers are vulnerable to failures of large banks, mainly due to their holdings of bank equity, with little contagion from insurers to banks. Similarly, stress tests suggest severe distress in SSA subsidiaries would affect parent banks to a very limited extent (about 1 percent of regulatory capital on average for the three concerned groups). Stronger home-host cooperation is needed to address remaining regulatory and supervisory gaps, especially in regards to resolution.

36. **Liquidity risks appear manageable but large exposures deserve close attention.** Stress tests confirm that most banks in the system would be able to handle large deposit withdrawals, with every bank meeting the LCR implementation timetable of the Basel Committee and only one bank below 100 percent. Sensitivity test shows that credit concentration remains a core risk in the banking system: the

default of the three largest exposures of each bank causing undercapitalization in every bank and implying a capital shortfall of 3 percent of GDP.

37. **BAM intends to tighten its regulation of large exposures.** Banks already have to report all exposures above 5% of regulatory capital. At end-2014, the sum of those exposures were 340% of regulatory capital system-wide. Basel Committee guidance is to require reporting of exposures exceeding 10% of regulatory capital. If BAM followed Basel guidance, the sum would be 200% of regulatory capital. BAM intends to revise its regulation and introduce a 15% limit for counterparties related to the bank or group of connected obligors that fail to provide consolidated accounts (Table 3).

VI. Financial Sector Oversight Frameworks

38. **Financial sector oversight frameworks establish rules within which institutions, instruments and markets operate and develop.** Oversight frameworks balance the objectives of financial stability, market development and financial inclusion. Legal, regulatory and supervisory frameworks that follow best practice and are enforced effectively promote market development, financial innovation and competition. On the other hand, they subject financial institutions and infrastructure to prudential regulation and rules of conduct that protect depositors, investors and consumers of financial services.

A. Oversight of Banking[6]

39. **Bank supervision in Morocco is effective and improving.** BAM supervises all banks, bank groups, finance companies and microcredit associations institutions, as well as the government financing arms, the Caisse de Dépôt et de Gestion (CDG) and Caisse Centrale de Garantie (CCG). BAM is operationally independent in making decisions on supervision, and has adequate tools for early intervention. The Governor can appoint a temporary administrator in a problem bank, and decide whether to withdraw its license and proceed with liquidation. Regulations on governance and internal controls are in line with new Basel standards. BAM is reviewing its internal bank rating system to better capture cross-border issues and the supervision of financial groups. A formal assessment of observance of the Basel Core Principles for Effective Banking Supervision would be undertaken once there is enough evidence on the implementation of the provisions of the new banking law.[7]

[6] See World Bank/IMF technical note on banking supervision.

[7] The last assessment was last conducted in 2007 based on the 2006 banking law whose provisions still applied at the time of this FSAP. Areas for improvement identified in 2007 related to authorizing major acquisitions by banks, cross-border supervision, country risk, and abuse of financial services.

Table 3. Comparison of BCBS guidelines with BAM requirements

	BCBS 2014 1/	Morocco 2013	Morocco 2016-17
Perimeter of large exposures	Single counterparties or groups of connected counterparties	Single counterparties or groups of connected counterparties	No change.
Denominator	Total capital until 2019, then tier 1 capital 2/	Total capital	Tier 1.
Numerator			
• ***Net of***	"Accounting method." In the case of loans, exposures net of specific provisions.	Same as BCBS	No change.
• ***Risk mitigation***	List of eligible credit risk mitigations	Same, e.g., gross exposures reduced by explicit security interests.	No change.
• ***OBS conversion***	Same as standardized approach to RWA	Same as BCBS	No change.
Limits			
• ***Reporting***	Above 10%	Above 5%	No change.
• ***Prudential***	25% of numerator, 15% for G-SIB exposures to other G-SIBs	20% of numerator	15% for counterparties related to the bank or any group of connected obligors that fail to provide consolidated accounts.
• ***Exemptions***	• Sovereigns and public entities treated as sovereigns. • Any portion of an exposure secured by financial instruments issued by sovereigns, or explicitly guaranteed by sovereigns. • Banks.	• Only government of Morocco; foreign sovereigns not exempt. • Banks only exempt for 1 day interbank exposures.	No change.
Penalties	"Breaches of the limit, which must remain the exception, must be communicated immediately to the supervisor and rapidly rectified."	• Exposures over limit deducted from total capital. • Reduce regulatory total solvency ratio.	No change.
Implementation	Transition period to January 2019	N/A	Transition period for denominator and new 15% threshold.

1/ Will supersede the BCBS guidelines of 1991 in 2019.
2/ Total capital in BCBS 1991.

40. **The regulations to implement the new banking law are being put in place.** The law was adopted in December 2014 and promulgated in 2015. It sets up a supervision framework that would meet the new Basel standards. New regulations on the surveillance of financial conglomerates and recovery plans for SIFIs should be in place by end-2016. The new banking law grants BAM exceptional powers to resolve banks and extends its regulatory and supervisory power to financial conglomerates that control credit institutions. It also aims to further improve cross-border supervision and tighten rules for risk management on a consolidated basis. BAM has identified three systemically important banks (SIBs), for

which supervisory colleges have been set up with host country supervisors. BAM is implementing Basel III according to the timetable set by the Basel Committee.

41. **The risk-based supervisory approach meets good standards.** The supervisor monitors all institutions closely, with on-going supervision of all types of risk and of internal control and governance. It communicates its annual assessment to bank managers and has developed a follow-up process for implementing remedial actions. However, off-site tools and on-site practices need to be reassessed in order to better capture emerging risks in the system. In particular, comprehensive inspections should be more frequent, at least every three years for systemic banks.

42. **BAM has relieved the pressures under which the Banking Supervision Direction (DSB) was working at the time of the FSAP**. DSB's capacity (number of staff, experts, and resources) was under pressure to discharge the expanded scope of BAM responsibilities under the new banking law (Islamic banking, financial inclusion, resolution, macroprudential) and evolving risk profiles associated with cross-border expansion and increased interconnectedness. In December 2015, BAM created a separate macroprudential direction as well as a separate direction tasked with payment system oversight and financial inclusion. DSB itself remains accountable for licensing, microprudential and resolution matters.

43. **The authorities intend to review national solo loan classification and provisioning standards.** Current national standards (solo basis) do not systematically capture instances of loan impairment that banks report under IFRS (consolidated basis). BAM and the tax authorities intend to conduct a study quantifying the impact on banks' accounting from changes in national standards that would allow loan classification and provisioning more aligned with IFRS rules.

B. Oversight of Securities Markets[8]

44. **Morocco has made good progress in implementing the IOSCO Principles and Objectives of Securities Regulation since the 2007 FSAP assessment.** Morocco has become a MMoU signatory and a Capital Markets Code was adopted, which closed regulatory gaps in several areas. The progressive implementation of the 2013 law that established AMMC ("*autorité marocaine du marché des capitaux*") will strengthen the independence of the regulator and its capacity to develop circulars to implement policy. It will also clarify the perimeter of regulation, in particular in connection with the licensing of individuals. However, material deficiencies remain and should be tackled according to the following priority.

45. **First, ensure that AMMC regulates and supervises all entities engaging in securities market activities, including banks**. Banks play a large role as intermediaries in the capital markets. It is common for employees of bank branches to provide a range of services to retail clients, securities firms or asset managers. The capacity of AMMC to enforce its rules (including business conduct and sales practices) on bank employees engaged in securities business suffers from lack of clarity in the law. The authorities also intend to examine closely whether AMMC has effective jurisdiction over investment advisers that are bank employees. If not, the forthcoming adoption of the new law on the stock exchange could close this gap, though legal reform may also be needed to close gaps on distribution ("marketing") of securities by

[8] See companion World Bank report for background on capital market activities and assessment of observance of IOSCO Objectives and Principles of Securities Regulation.

banks. Legal reforms should be followed with the implementation of a strong risk-based supervisory program for all entities, including banks.

46. **Second, strengthen enforcement**. Effective enforcement implies several changes to the current approach. The legal framework should be strengthened to deter unfair trading practices: making insider trading and market manipulation an administrative infraction; mandating timelier communication to the market of holdings by substantial holders and insiders. The law must also allow AMMC to impose fines at levels commensurate with breaches, and to fine and sanction individuals. AMMC should enhance its supervisory tools, in particular more automated market surveillance. Finally, AMMC should act firmly when it detects breaches of law and regulations: it started to do so more systematically in 2015 in connection with timely disclosure of material events, such as profit warnings.

47. **Third, improve the valuation of key instruments.** Government securities are a key market instrument, yet the fully OTC nature of this market and anomalies in calculating the government yield curve reduce the valuation accuracy of fixed-income instruments. Poor liquidity also results in the use of stale prices for the valuation of some illiquid securities. This combination of inaccuracy in some prices and stale prices for other securities coupled with the exclusive reliance on market prices to calculate portfolio values may in turn translate into uncertain valuation of mutual funds. The authorities should therefore give priority to the full implementation of the E-Bond platform for government securities. In tandem the authorities should review the valuation rules of collective investment schemes (CIS).

48. **Finally, improve the quality of investor information. U**neven practices in applying Moroccan accounting and auditing standards and the lack of strong audit committees for some listed companies translate into uneven quality of financial information. A full assessment of accounting and auditing standards against international benchmarks would allow the authorities to gauge the materiality of differences between national standards and IFRS and devise an action plan for convergence with IFRS. Strengthening the oversight framework for auditors should also be considered, as well as stronger requirements for audit committees of listed companies. On the CIS side, money market mutual funds need fuller disclosure of credit and liquidity risks.

49. **The authorities should continue to develop their capacity for surveillance of risk in capital markets.** Fuller disclosure of credit and liquidity risks by CIS and revisions to pricing methodology should reduce the potential for disorderly selling of CIS shares. Monitoring trading between related parties (e.g., lending securities without collateral, trading merely to achieve regulatory compliance) is another area of potential systemic risk. The current gap in the protection of client assets held by bank custodians should also be closed. Finally, Maroclear should enhance its registry of securities for the faster determination of true beneficial ownership: the project on Legal Entity Identifier is a key tool in this regard.

50. **No individual measure will improve by itself the liquidity of the stock exchange.** For example, a measure to mandate higher float would be counteracted by the steady demand of buy and hold investors. Some reduction in institutional demand may require consolidating (at the level of the fund manager) the 10% of assets that each fund is authorized to invest abroad. Consolidation would eliminate the cost for each fund to research foreign markets, and help investors wishing to diversify Morocco risk. Liquidity could also be helped by developing exchange traded funds and index based products: both need

fewer changes in trading and clearing infrastructure than derivatives (see the discussion of the CCP below).

C. Oversight of Financial Market Infrastructures (FMIs)9

51. **The authorities have designated FMIs that are systemic:** the SRBM (the real time gross settlement system); Maroclear (the central depository and settlement system for securities); SIMT (retail payment infrastructure); the stock exchange. BAM and AMMC regulate and supervise FMIs based on their respective laws, complemented by a Multilateral Agreement between BAM, the systemic infrastructures, and CMI (e-payment system). The Agreement reflects the FMIs' voluntary acceptance of BAM oversight.

52. **The BAM-operated SRBM broadly observes the relevant CPMI/IOSCO Principles on Financial Market Infrastructures (PFMIs).** It settles in central bank money interbank transfers, and net balances from Maroclear, SIMT and CMI. Governance and risk management have sound queuing algorithms while BAM intra-day liquidity ensures high security and availability. The legal framework should however establish clearly the moment of finality and incorporate the oversight provisions of the Multilateral Agreement. Transparency could be improved by publishing the internationally-agreed disclosure framework applicable to real time gross settlement system. The authorities intend to consider these points in the planned revision of the central bank law.

53. **The assessment of Maroclear against the PFMIs found a missing link in the netting and settlement chain for securities DvP.** Maroclear's custody function has a sound legal basis. The authorities should however develop rules and procedures to (a) avoid partial unwind due to shortfalls of securities or funds; (b) orderly handling of outright participant default. To overcome shortfalls of securities, a mechanism for lending/borrowing securities is needed. To overcome shortfalls of funds, BAM's intra-day liquidity should extend to the SRBM sub-account linked to Maroclear. A guarantee mechanism is needed to ensure final settlement on the value date with resources sufficient to cover the largest exposure. The authorities intend to tackle these issues in the planned revision of the laws governing Maroclear.

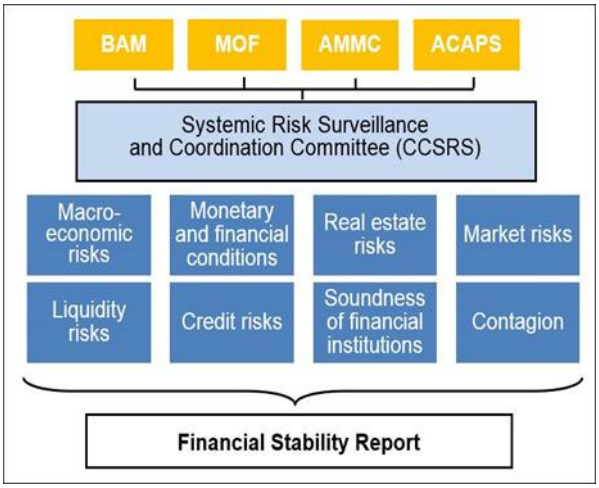
54. **As mandated by the 2013 derivatives law, the authorities intend to set up a Central Clearing Counterparty (CCP)**. A CCP is needed for safe and efficient clearing and settlement of derivatives and related trades. The CCP would be a systemically important infrastructure by concentrating counterparty credit risk. International standards for CCPs have become notably stricter since the 2013 law was passed. The new issues include:

- Legal basis: establish with utmost certainty that there is no legal risk in enforceability of netting, settlement finality, collateral protection in the event of insolvency of a participant, liquidation of the assets of a defaulting participant in the CCP;
- Objective: the CCP should have the explicit objective of financial stability;

[9] See companion World Bank report for background on financial market infrastructures and assessment of observance of CPMI/IOSCO Principles for Financial Market Infrastructures.

- Financial risks: the CCP should fully cover current and potential future exposures, using initial and variation margins, intraday margins if needed, supplemental resources to cover the default of a participant and its affiliate that would potentially cause the largest credit exposure. The adequacy of resources available under the planned "waterfall" should be stress tested;
- Collateral: eligibility and haircuts should reflect "wrong way risk," i.e., when the exposure of the CCP to a participant automatically increases as the participant's credit quality worsens;
- Handling of participant default: the legal framework should support segregation and portability arrangements of customer positions and collateral in the event of a participant default. The CCP should continue functioning even in the event of a participant default.

VII. Crisis Preparedness, Bank Resolution and Depositor Protection



55. **Significant progress is evident since 2007 on crisis preparedness and the financial safety net.** The 2014 banking law establishes the Systemic Risk Surveillance and Coordination Committee (CCSRS) of MEF, BAM, AMMC and the insurance and pension fund supervisor (ACAPS). The law creates special powers for resolving banks and sets forth criteria for designating systemically important institutions and enhancing their supervision. Agreements are in place with foreign supervisors to exchange information in normal times, and the law empowers BAM to enter agreements for cross-border resolutions. Crisis simulation exercises were conducted in 2009 and in 2014. The former led to the special resolution regime as well as an MOU between MEF and supervisory agencies on crisis management. The 2014 exercise tested the behavior of CCSRS members under the new arrangements, especially communication behaviors in crisis times.

A. Emergency Liquidity Assistance (ELA)

56. **The 2014 banking law provides that BAM and the Deposit Guarantee Fund (DGF) may both extend ELA.** Although ELA has not yet been used, this choice could be problematic in a crisis, since there is no clear order of priority and it is BAM that would set the conditions for DGF ELA. Asking DGF to provide ELA would create a conflict of interest since DGF's overarching objective is protecting depositors.

57. **The planned revision of the law governing BAM should formalize ELA and establish a clear separation between liquidity and solvency support.** The terms and conditions for ELA should be in the new central bank law rather than in internal guidelines: (a) ELA is only for banks that BAM deems solvent; (b) access is at punitive interest rate and against collateral acceptable to BAM, and (c) BAM is sole judge of whether an illiquid bank is solvent. For banks judged insolvent, the fiscal authorities may choose to provide temporary support if not doing so risks a system-wide crisis and if no private sector

solution is feasible, but they should do so with a clear exit plan ("temporary support"). In extreme cases when fiscal support is not immediately available or insufficient, BAM may extend credit with a government guarantee such that any losses arising from such credit is automatically replaced by a claim on the government in BAM's balance sheet. Indeed, the Organic Budget Law (OBG) of 2014 provides that the government may spend beyond the budget under exceptional circumstances without Parliament approval. Crisis preparedness would also require boosting BAM's balance sheet by improving the framework governing (a) any needed recapitalization and (b) the rules for distributing its profits.

B. Early Intervention

58. **The new banking law grants BAM exceptional powers for early intervention.** Besides the standard administrative steps of warning, injunction, order, sanction, suspension and withdrawal of license, the law introduces a range of additional measures, including (a) systemic banks must prepare recovery plans reviewed by BAM; (b) systemic banks are subject to stricter prudential rules for; (c) capital injection from shareholders with stakes above 5 percent; (d) injunction that the bank remedies its financial situation or internal control deficiencies; and (e) bypassing administrative steps for faster appointment of a temporary administrator (which may be the DGF) to resolve a bank; and (f) prohibition or limitation of dividends.

59. **The supervisory agencies for insurance, pension funds and capital markets lack comparable exceptional powers.** They may (i) suspend any payment of purchase values or payment of advances in respect of contracts stipulating such advances; (ii) require a financing program be drawn up to fund additional solvency; (iii) prohibit the subscription of new agreements; and (iv) require a recovery plan. They may only appoint a temporary administrator after all administrative steps are taken.

C. Bank Resolution

60. **The legal basis for bank resolution must be strengthened to ensure the effectiveness of the new regime.** BAM has drafted internal guidelines on the operational aspects of the special regime, including triggers, methodology for assessing viability, resolution steps, and decision tree. However, the new law focuses more on mechanisms than on objectives of resolution. To ensure effectiveness, the legal framework must set forth:

- the objectives of resolution. The courts need a transparent yardstick to assess the adequacy of decisions that the resolution authority may take with the objectives pursued (minimizing risk to financial stability from contagion to other banks; ensuring the continuity of essential financial services; avoiding bail-out by the taxpayer; recovering from the industry any taxpayer losses);
- the hierarchy of creditors applicable in the special regime of bank resolution, with exhaustive references to privileges, dissociation of the ranks of secured, unsecured and subordinated creditors (including depositors) as well as shareholders;
- special "bail-in" powers such that the resolution authority can write down equity, unsecured and uninsured creditors' claims without their consent, and/or convert so-called "bail-in-able" claims into equity as needed;
- the protection of the resolution authority in the discharge of such exceptional powers.

61. **The law should clearly appoint a resolution authority.** Despite numerous references to the active involvement of BAM (or its Governor) as well as DGF in bank resolution, the law does not formally appoint a resolution authority. This creates confusion on the status and governance of BAM and DGF when acting in the context of resolution, including the allocation of powers within BAM itself between the Governor, Management Committee and Board. While other options might be envisaged (including a stand-alone resolution authority or the new corporation managing the DGF), the complementarities between prompt corrective action and early intervention under BAM's supervisory mandate would be arguments in favor of BAM as resolution authority, with DGF as a possible service provider. In this configuration, BAM needs resources: staff and experts qualified in this complex area will be key to discharge this new mandate and BAM's legal liabilities when acting as resolution authority should be limited. Conflicts of interest between BAM's monetary policy, supervision and resolution mandates could be handled through separate, independent decision-making bodies within BAM.

D. Depositor Protection

62. **DGF was created in 1993 and is funded.** The fund covers about 2 percent of eligible deposits and banks pay each year 0.20 percent of their total deposits into the fund. The maximum coverage is currently DH 80,000 per depositor per bank. If there is a need to replenish the fund after a pay-out, DGF may issue debt in the market or collect temporary surcharges (above 0.20 percent) from banks.

63. **Financial stability considerations suggest more should be done given the funding model of Moroccan banks**. The objective of deposit insurance is protecting small depositors and reimbursing them promptly to avoid depositor panic. The new banking law allows DGF in exceptional, systemic cases to extend liquidity or solvency support. This is not anymore recommended, as experience suggests that such situations can entail greater cost and risk for the DGF than anticipated. In addition, all claims of depositors toward a failed bank rank *pari passu* with general creditors. To replenish itself faster after a pay-out, DGF should have priority ranking over general creditors and uninsured depositors. Finally, depositors should rank above other general creditors for amounts over DH 80,000.

ANNEX 1: Selected Economic Indicators, 2011-19[10]

Selected Economic Indicators, 2011–19

	2011	2012	2013	2014	2015	Proj. 2016	2017	2018	2019
				(Annual percentage change)					
Output and Prices									
Real GDP	5.0	2.7	4.4	2.9	4.4	5.0	5.3	5.4	5.4
Real agriculture GDP	5.6	-8.9	19.0	-1.3	3.9	4.3	4.7	5.2	5.5
Real non-agriculture GDP	4.9	4.4	2.3	3.6	4.4	5.1	5.3	5.4	5.4
Consumer prices (end of period)	0.9	2.6	0.4	1.0	1.5	2.0	2.0	2.0	2.0
Consumer prices (period average)	0.9	1.3	1.9	0.4	1.5	2.0	2.0	2.0	2.0
				(In percent of GDP)					
Investment and Saving									
Gross capital formation	36.0	35.3	34.2	34.0	34.3	34.7	35.2	35.7	35.9
Of which: Nongovernment	30.6	29.7	28.9	29.4	29.7	29.6	29.3	29.4	29.4
Gross national savings	27.9	25.5	26.6	28.2	30.6	31.2	32.1	32.6	33.1
Of which: Nongovernment	27.5	25.9	24.9	26.8	28.8	27.6	27.2	27.1	27.2
				(In percent of GDP)					
Public Finances									
Revenue	27.8	28.7	28.7	27.9	27.0	27.5	28.1	27.9	27.9
Expenditure	34.5	36.1	33.9	32.8	31.4	31.1	31.1	30.8	30.6
Budget balance	-6.7	-7.4	-5.2	-4.9	-4.3	-3.5	-3.0	-2.9	-2.7
Primary balance (excluding grants)	-4.6	-5.0	-3.3	-3.3	-3.1	-1.7	-1.4	-0.6	-0.1
Cyclically-adjusted primary balance (excl. grants)	-4.7	-5.1	-2.9	-3.7	-3.0	-1.6	-1.3	-0.5	-0.1
Total government debt	53.7	59.7	63.5	66.4	67.7	67.0	65.9	64.6	63.1
				(Annual percentage change; unless otherwise indicated)					
Monetary Sector									
Credit to the private sector 1/	9.8	4.8	3.8	4.3	5.3	5.6	5.9	6.1	6.1
Broad money	6.4	4.5	3.1	4.9	5.5	5.5	5.5	6.0	6.0
Velocity of broad money	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Three-month treasury bill rate (period average, in percent)	3.4	3.4	3.4	...	...	...	...	...	...
				(In percent of GDP; unless otherwise indicated)					
External Sector									
Exports of goods (in U.S. dollars, percentage change)	17.1	-2.6	1.5	4.9	1.6	8.5	8.3	9.1	8.5
Imports of goods (in U.S. dollars, percentage change)	23.4	-0.2	1.1	0.8	-4.3	7.4	6.8	7.1	7.3
Merchandise trade balance	-19.4	-20.9	-19.6	-17.6	-14.7	-15.0	-14.8	-14.5	-14.1
Current account excluding official transfers	-8.4	-10.0	-8.3	-7.5	-5.1	-4.5	-3.9	-3.3	-2.9
Current account including official transfers	-8.0	-9.7	-7.6	-5.8	-3.7	-3.5	-3.1	-3.1	-2.8
Foreign direct investment	2.4	2.4	2.9	2.9	2.7	2.7	2.9	2.9	2.9
Total external debt	25.1	29.8	31.1	30.6	33.0	33.0	32.3	32.0	31.6
Gross reserves (in billions of U.S. dollars)	20.6	17.5	19.3	20.8	23.7	26.1	28.3	31.2	34.1
In months of next year imports of goods and services	5.0	4.2	4.6	5.2	5.5	5.7	5.8	5.9	6.0
In percent of Fund reserve adequacy metric	108.5	86.5	89.5	94.9	103.9	109.2	113.9	119.7	123.8
Memorandum Items:									
Nominal GDP (in billions of U.S. dollars)	99.2	95.9	103.8	109.3	110.5	118.7	127.2	136.6	146.7
Unemployment rate (in percent)	8.9	9.0	9.2	...	...	...	...	...	...
Population (millions)	32.2	32.5	32.9	33.2	33.5	33.8	34.2	34.5	34.8
Net imports of energy products (in billions of U.S. dollars)	-11.2	-12.3	-12.1	-11.2	-8.5	-9.5	-10.3	-11.2	-12.1
Local currency per U.S. dollar (period average)	8.1	8.6	8.4	...	...	...	...	...	...
Real effective exchange rate (annual average, percentage change)	-1.7	-1.1	0.2	...	...	...	...	...	...

Sources: Moroccan authorities; and IMF staff estimates.

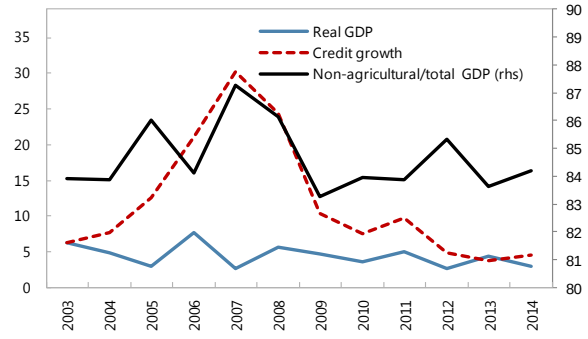
1/ Includes credit to public enterprises.

[10] Projections for 2016-2019 in this table were last updated in October 2015 during the period of FSAP preparation.

ANNEX 2: Recent Macro-Financial Developments

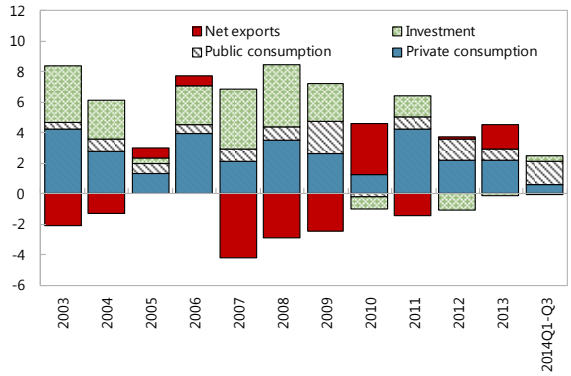
Real GDP growth has been relatively stable, while credit has been more volatile in line with non-agricultural growth.

GDP Growth



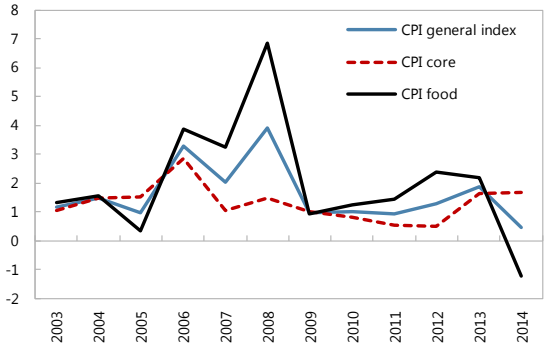
Growth, until recently, has been mainly supported by domestic demand.

Contributions to GDP Growth (In percent)



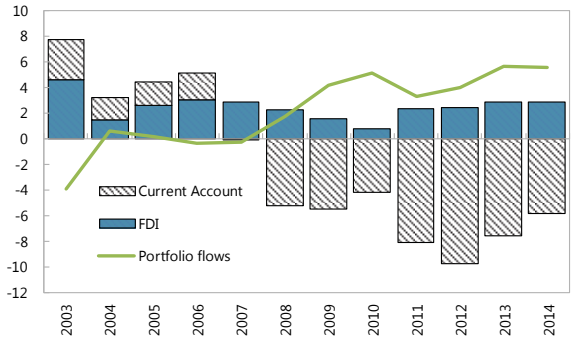
Inflation has remained low.

Inflation (In percent change, y-o-y)



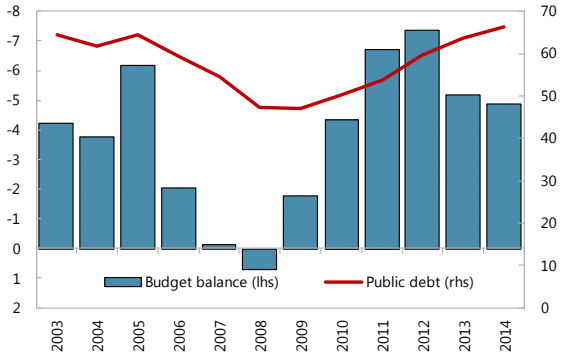
The current account deficit has been offset by FDI inflows which remained strong.

Current Account and FDI (In percent of GDP)



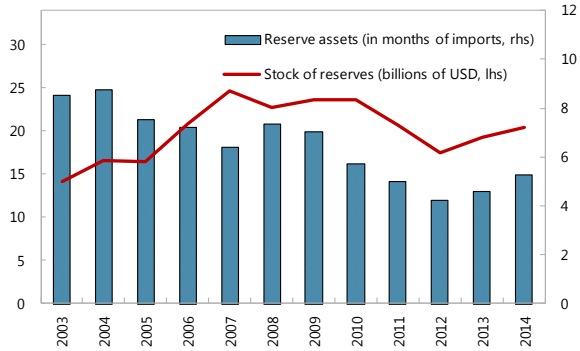
The fiscal deficit decreased after peaking in 2012.

Fiscal Deficit (In percent of GDP)



Lower fiscal and current account deficits have helped support reserves recently.

Reserves



Sources: Moroccan authorities; and staff estimates.

ANNEX 3: Financial Soundness Indicators, 2009-15

Financial Soundness Indicators, 2009–15
(In percent, unless otherwise noted)

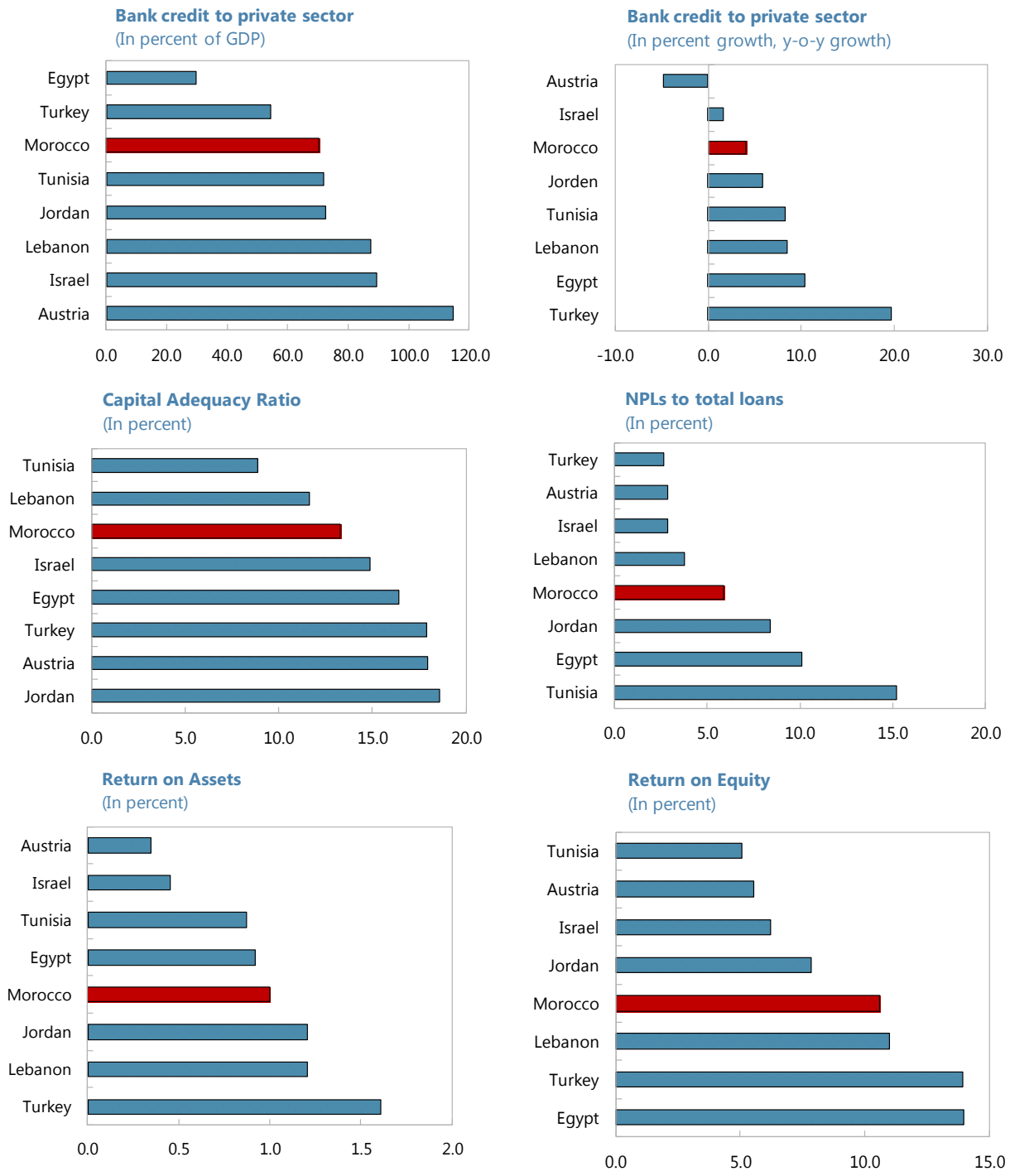
	2009	2010	2011	2012	2013	2014	June 2015
Regulatory capital 1/							
Regulatory capital to risk-weighted assets	11.7	12.3	11.7	12.3	13.3	13.8	13.9
Tier 1 capital to risk weighted assets	9.2	9.7	9.6	10.2	11.1	11.6	11.5
Capital to assets	7.2	8.3	8.1	8.5	8.6	8.8	9.0
Asset quality							
Sectoral distribution of loans to total loans							
Industry	18.3	18.4	18.6	18.4	18.6	19.3	19.0
Of which : agro-business	3.6	3.8	3.4	3.2	3.6	3.5	3.7
Of which : textile	1.9	1.4	1.3	1.2	1.0	0.9	0.9
Of which : gas and electricity	2.9	3.9	4.5	4.8	4.7	6.1	6.3
Agriculture	3.4	4.1	4.2	4.1	4.1	3.9	4.1
Commerce	7.0	6.7	6.6	6.7	6.2	6.6	6.4
Construction	14.1	13.3	13.9	12.6	12.4	12.2	11.8
Tourism	3.2	2.9	2.8	2.9	2.4	2.4	2.2
Finance	12.5	12.1	11.9	11.0	12.7	11.6	11.8
Public administration	4.3	5.0	4.8	5.0	5.0	4.7	4.4
Transportation and communication	4.2	4.0	4.1	4.0	3.8	3.7	4.3
Households	27.6	28.1	27.6	28.9	29.7	31.4	32.0
Other	5.4	5.4	5.5	6.4	5.1	4.2	4.0
FX-loans to total loans	2.5	2.5	3.5	2.9	2.7	3.9	2.9
Credit to the private sector to total loans	91.0	91.0	92.0	91.0	91.0	91.0	91.0
Nonperforming Loans (NPLs) to total loans	5.5	4.8	4.8	5.0	5.9	6.9	7.2
Specific provisions to NPLs	74.1	70.1	68.7	67.8	64.0	65.0	66.0
NPLs, net of provisions, to Tier 1 capital	12.7	12.2	12.9	13.6	16.8	19.2	18.6
Large exposures to Tier 1 capital	376.0	336.0	354.0	347.0	327.0	341.0	304.0
Loans to subsidiaries to total loans	6.7	6.1	6.3	5.4	7.2	6.8	6.2
Loans to shareholders to total loans	1.0	0.8	1.2	1.0	1.3	1.4	1.3
Specific provisions to total loans	4.0	3.4	3.5	3.3	3.8	4.5	4.8
General provisions to total loans	0.1	0.2	0.3	0.7	0.7	0.8	0.8
Profitability							
Return on assets (ROA)	1.2	1.2	1.1	1.0	1.0	0.9	1.0
Return on equity (ROE)	15.2	14.2	13.4	11.8	10.6	10.2	10.6
Interest rate average spread (b/w loans and deposits)	4.3	4.2	4.2	4.2	4.0	4.1	4.1
Interest return on credit	5.8	5.7	5.7	5.6	5.5	5.5	5.4
Cost of risk as a percent of credit	0.5	0.5	0.5	0.8	0.9	1.0	1.4
Net interest margin to net banking product (NPB) 2/	76.7	76.3	75.8	76.5	74.0	68.9	73.1
Operating expenses to NPB	47.5	46.4	47.9	47.5	47.7	46.1	44.5
Operating expenses to total assets	1.7	1.8	1.9	1.8	1.8	1.9	1.9
Personnel expenses to noninterest expenses	49.7	49.1	49.4	49.2	48.4	47.6	...
Trading and other noninterest income to NPB	23.3	23.7	24.2	23.4	26.0	30.8	26.9
Liquidity							
Liquid assets to total assets	17.3	12.0	11.4	10.5	12.5	13.3	14.4
Liquid assets to short-term liabilities	23.0	16.0	16.1	14.7	17.4	17.7	14.0
Deposits to loans	108.0	104.0	99.0	96.1	96.2	100.8	102.5
Deposits of state-owned enterprises to total deposits	4.8	5.2	2.9	3.4	2.0	2.5	2.7
Sensitivity to market risk							
FX net open position to Tier 1 Capital	13.5	10.3	7.3	7.4	11.3	9.0	9.8

Source: Bank Al-Maghrib.

1/ Financial Soundness Indicators (FSIs) are calculated according to guidelines of the IMF FSIs compilation guide, 2004.
2/ Net Banking Product (NPB)=net interest margin-commissions paid+commissions received.
* Provisional figures calculated according to Basel III definition and transitional provisions

ANNEX 4: International Benchmarking of Morocco's Banking Sector

(As of end 2014 or latest available)



Sources: Country Authorities and staff Calculations.

ANNEX 5: Key Recommendations of 2007 FSAP and Follow-Up by the Authorities

Recommendation	Government Counterparts	Suggested Timing	Status of Implementation
Banking Sector Soundness and Vulnerability			
Carry out more regular multi-factor, and more extreme stress tests; base risk hypotheses on relevant macroeconomic scenarios	BAM	Short-term	Largely Implemented. BAM now conducts stress tests based on two macroeconomic scenarios using a credit risk model and is further strengthening its stress tests through the collaboration with the FSAP team and the ongoing IMF TAs.
Continue to closely monitor banks' on and off balance sheet foreign exchange (FX) risk, counterparty risk, as well as compliance with exposure limits, hedging and other risk management techniques.		Short-term	Implemented. BAM monitors the on and off-balance sheet FX exposures of commercial banks on a daily basis, including their positions on FX forward contracts, currency swaps and options.
Capital Account Liberalization, Monetary Policy, and Liquidity Management			
Maintain transparency and disclosure of capital account liberalization, as well as exchange rate and interest rate policy reforms and their sequencing, to enable financial institutions to prepare adequately.	BAM	Medium-term	Ongoing. BAM publishes on its website regulations and circulars detailing the modalities of its intervention and has strengthened its policy communication framework. In 2011, BAM expanded the range of eligible collaterals and introduced longer-term repo operations. BAM is working with the Ministry of Finance for the transition to a more flexible exchange rate regime.
Insurance Sector			
Consider review of the by-laws of the insurance supervisor by designating it an independent authority or entity analogous to an independent public entity, in order to increase its independence.	MEF	Medium-term	Implemented. A new insurance and pension authority (ACAPS) was established in 2015 and will become fully functional upon the appointment of its president and the board of directors. The new by-laws should strengthen the supervisor's independence.
Access to Finance			
Ensure open entry to the financial sector, to deepen financial intermediation and stimulate competition.	BAM/MEF	On-going	Ongoing.
Include clients of non-bank financial institutions and utilities in Credit Bureau	BAM	Medium-term	Ongoing. Work underway, with assistance from the IFC to integrate non-financial data providers (telecoms, water

Recommendation	Government Counterparts	Suggested Timing	Status of Implementation
coverage.			and electricity), and appoint a second credit bureau.
Through household and enterprise surveys, identify unserved segments of the population to better target and monitor financial access programs.	BAM/MEF	Short- to medium-term	Ongoing. Work underway to set up a reporting system on indicators of financial inclusion. A survey of financial services to households was conducted, with the World Bank, and the results were released in 2014.
Banking Supervision			
Continue to improve knowledge levels of off-site and on-site supervision staff, to match growing sophistication of the regulatory and operational environment (e.g., Basel II, IFRS, market risk).	BAM	On-going	Ongoing. An annual training plan is adopted to improve staff's knowledge levels.
Issue a new regulation on country and transfer risks and ensure that banks have country and transfer risk management tools	BAM	Short-term	Implemented. A 2008 Directive on the country risk defined the minimum standards to be observed by banks in the management of cross-border risks. Thematic audits are planned in 2015 to assess banks' cross-border risk management framework.
Continue to monitor closely and reduce NPL levels in former public banks	BAM	Short-term	Implemented. Public banks NPL declined from 21.2 percent in 2007 to 6.5 percent in 2014 (CIH, CAM, FEC, CDG Capital and Al Barid bank). Close monitoring by BAM continues.
Monitor banks' management of exchange risk and interest rate risk	BAM	Short-term	Implemented. BAM monitors banks' FX exposures daily; a reporting system on interest rate risk was set up in 2008.