



MOROCCO

TECHNICAL ASSISTANCE REPORT—REPORT ON THE MONETARY AND FINANCIAL STATISTICS MISSION (JULY 17-28, 2017)

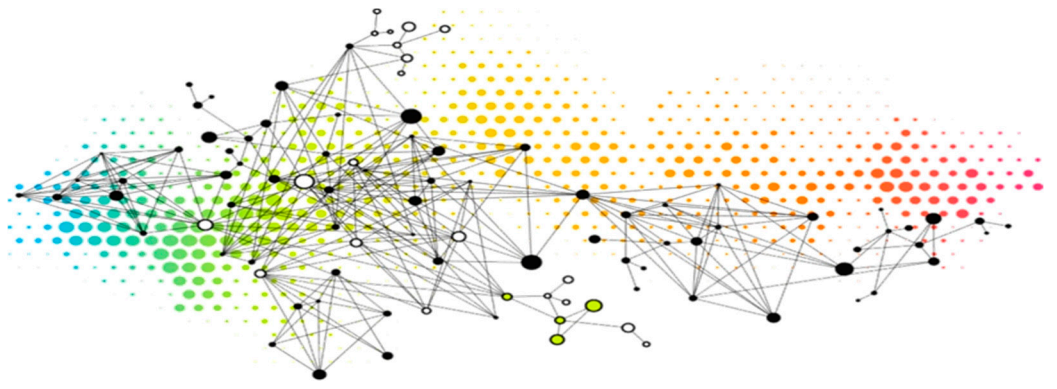
March 2019

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MOROCCO

JUNE 2018

REPORT ON THE MONETARY AND FINANCIAL STATISTICS MISSION (JULY 17–28, 2017)

Prepared by André Mialou and Samah Torchani

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Acronyms

| | |
|-------|--|
| ACAPS | Insurance and Social Security Supervisory Authority |
| BAM | Bank Al-Maghrib – central bank |
| CDG | Caisse de dépôts et de gestion |
| CIMR | Caisse interprofessionnelle marocaine des retraites – Pension Fund |
| CNRA | Caisse nationale de retraite et d'assurance - Pension Fund |
| IMD | Integrated monetary database – IMF |
| IMF | International Monetary Fund |
| FAS | Financial Access Survey – IMF survey |
| FPCT | Securitization funds |
| FSI | Financial soundness indicators |
| IC | Insurance corporation |
| IFS | <i>International Financial Statistics</i> – IMF publication |
| MCD | Middle East and Central Asia Department – IMF |
| MCMA | Moroccan Capital Markets Authority |
| NMMF | Non-money market investment funds |
| ODC | Other depository corporations (depository corporations other than the central bank) |
| OFC | Other financial corporations (financial corporations other than depository corporations) |
| ONEE | National Electricity and Water Board |
| OPCVM | Collective investment units |
| SRF | Standardized report form (for the reporting of monetary statistics to the IMF) |
| SSM | Monetary Statistics Unit |
| STA | Statistics Department – IMF |

SUMMARY OF MISSION OUTCOMES AND PRIORITY RECOMMENDATIONS

1. **The Statistics Department (STA) of the International Monetary Fund (IMF) has been working with Bank Al-Maghrib (BAM) over the last 10 years on establishing standardized report forms (SRFs)-based monetary and financial statistics (MFS) for Morocco.** Under the SRF framework, MFS are presented in a standardized format. Standardization makes the statistics comparable across countries/territories, permitting international and regional analysis by minimizing the use of different terminologies, concepts, and definitions.
2. **Adoption of SRFs by IMF member countries ensures better data quality for analysis through adherence to international methodology for monetary statistics.** The SRFs fully reflect the methodology of the IMF's *Monetary and Financial Statistics Manual and Compilation Guide*.¹ In the process of establishing SRF reporting, a thorough review of underlying data is conducted by STA to ensure acceptable data quality and adherence to international standards, especially with respect to the classification and valuation of financial assets. Any remaining departures are carefully recorded and described in the metadata.
3. **Two technical assistance (TA) missions on monetary and financial statistics conducted by STA to Morocco in 2008 and 2010, respectively, assisted the authorities with the development of SRFs for the central bank and other depository corporations (ODCs).** Following the completion of these two TA missions, Morocco became an SRF reporter with the publication of SRFs for the central bank (1SR) and ODCs (2SR) in the June 2010 Issue of *International Financial Statistics (IFS)*. Since then, Morocco has continuously transmitted SRF 1SR and SRF 2SR to STA for publication in *IFS* and for use by the IMF's Middle East and Central Asia Department (MCD) for surveillance and program monitoring purposes.
4. **In 2011, another STA's mission provided TA on other financial corporations (OFCs).** This mission initiated the preparatory work for expanding the coverage of Morocco's MFS to include the data of financial corporations other than depository corporations.
5. **The main objective of the current mission was to finalize the development of SRFs for OFCs.** The Moroccan OFC sector represents some 40 percent of the total balance sheet of financial corporations (excluding the central bank). This makes it a strategic sector for economic analysis and justifies the additional efforts by BAM to integrate it into its monetary statistics.
6. **The mission validated Morocco's SRF data for OFCs and concluded that the data is adequate for publication in IFS and for use in policy analysis.** The Monetary Statistics Unit

¹ An electronic version of the new combined edition of the Manual and Compilation Guide was published in February 2016 and can be downloaded at:
<http://www.imf.org/en/~media/BA1EEFCA3BAD47F291BBFDFA8D99F05D.ashx>.

(SSM) of the Economic Research Directorate developed a provisional set of SRF 4SR for OFCs prior to the mission's arrival in Rabat. The mission developed flexible bridge tables for OFCs to facilitate the review of the data. Following a thorough review of the data and the identification and correction of issues pertaining to the sectoring and classification of financial assets, the mission determined that the quality of the revised data was sufficient for their inclusion in *IFS* and for their use in surveillance.

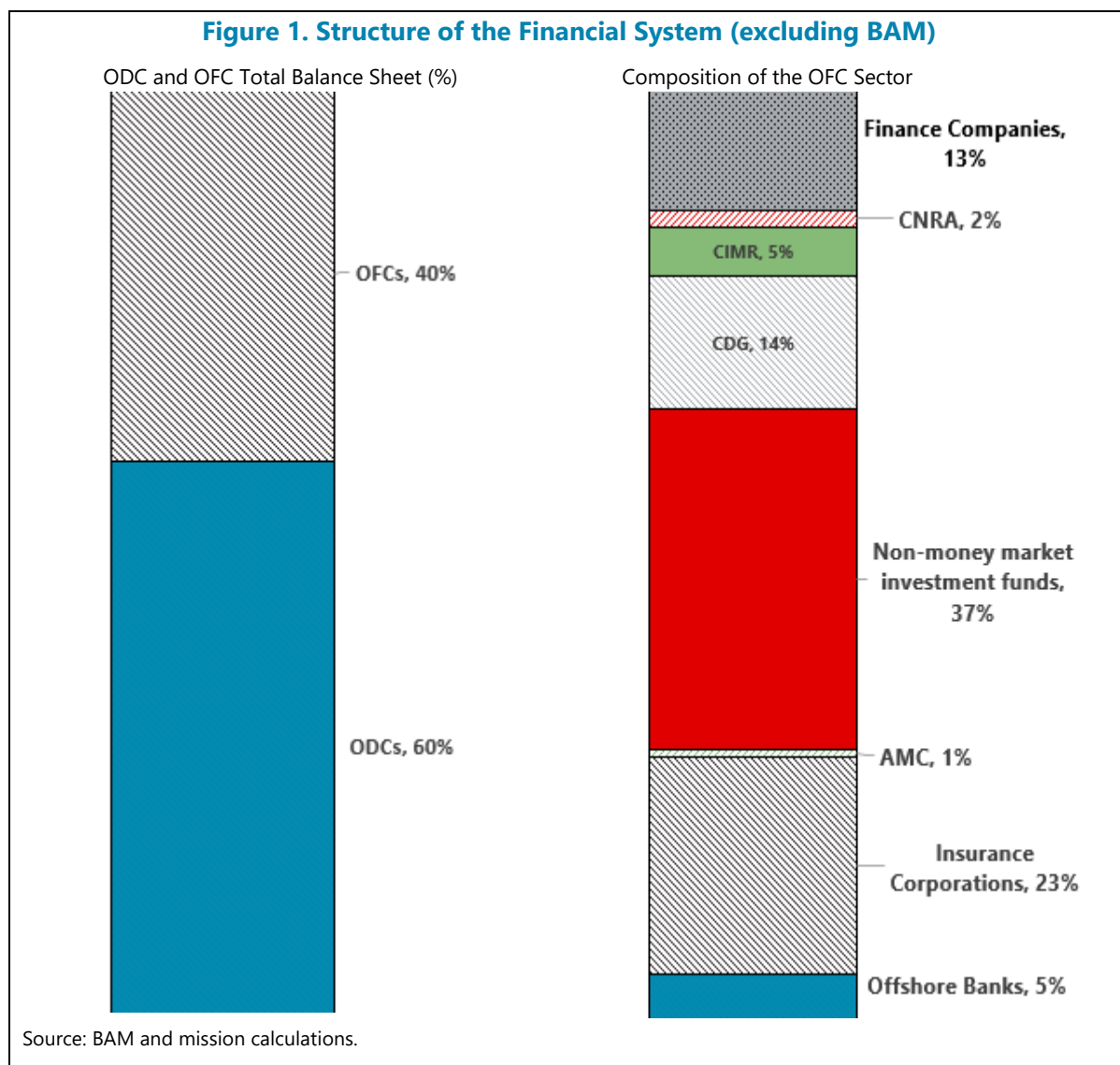
7. The mission held constructive discussions with BAM staff on various other aspects of the compilation of MFS aimed at improving the quality of the data. These discussions led to the preparation of a detailed action plan with the following priority recommendations carrying particular weight to make headway in improving MFS.

| Table 1. Priority Recommendations | | |
|-----------------------------------|---|--|
| Target Date | Priority Recommendation | Responsible Institutions |
| December 2018 | <i>Develop a bank reporting form providing information on securities valued at market prices or fair value.</i> | Economic Research Department – BAM Banking Supervision Department – BAM |
| December 2018 | <i>Develop reporting forms for finance companies with breakdown of items by institutional sectors.</i> | Economic Research Department – BAM Banking Supervision Department – BAM |
| December 2018 | <i>Develop a reporting form for offshore banks providing information on their transactions with other financial institutions.</i> | Economic Research Department – BAM Banking Supervision Department – BAM |

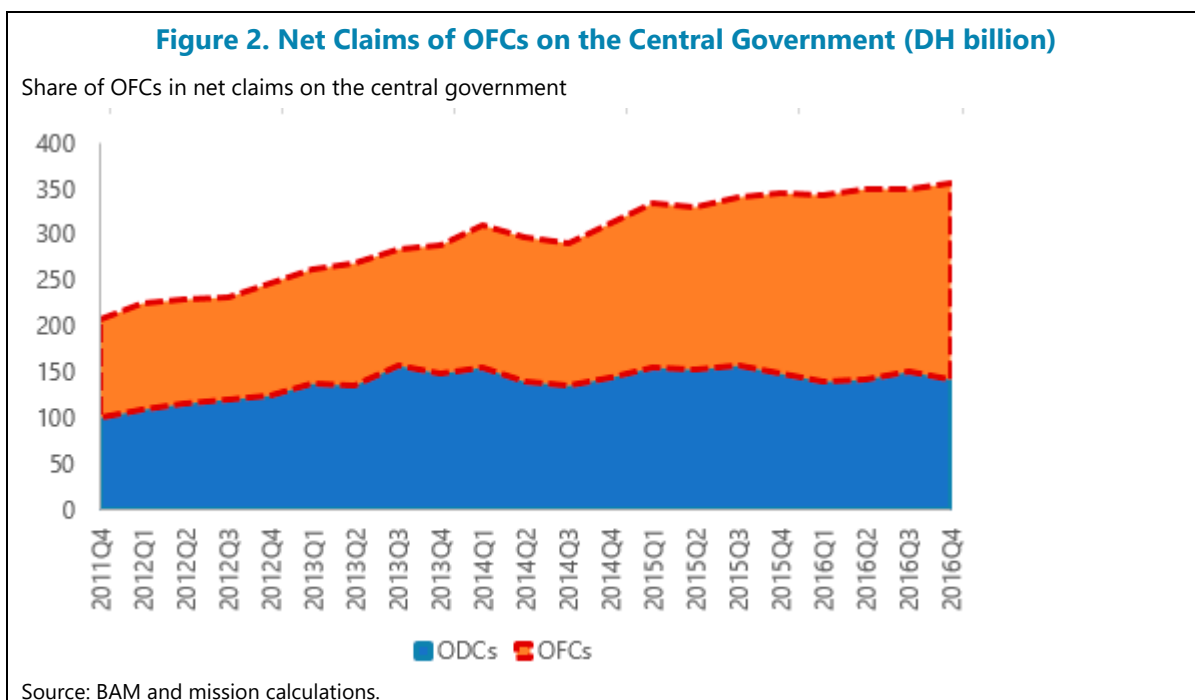
8. Further details on the priority recommendations and the related actions/milestones can be found in the action plan under *Detailed Technical Assessment and Recommendations*.

IMPORTANCE OF OTHER FINANCIAL CORPORATIONS IN MOROCCO

9. Since the last technical assistance mission in 2011, Morocco's financial system has expanded significantly. Although the financial system is bank-dominated, the growing development of the OFC sector justifies the inclusion of OFCs in monetary statistics. The ratio of OFCs' assets to total financial system assets (excluding BAM) rose from 36 percent in December 2009 to 40 percent in December 2016. Non-money market investment funds (NMMFs) and insurance corporations represent 60 percent of the OFC sector.

Figure 1. Structure of the Financial System (excluding BAM)

10. A preliminary analysis of the indicators derived from OFCs' SRFs provides useful analytical insights, justifying the additional efforts of the authorities to extend the coverage of the monetary statistics to the OFCs. One striking implication of the data is the magnitude of the statistical bias arising from the non-inclusion of OFCs in monetary statistics. This is especially the case for the net claims on the central government aggregate. More than half of the statistical information contained in this aggregate is lost when the institutional coverage is limited to banks and money market funds only (Figure 2). A significant share of OFCs' claims on the central government is government bonds held by NMMFs.



11. Similarly, a significant portion of consumer loans and loans to microenterprises is channeled through finance companies. These operations are expected to grow in future, as financial inclusion accelerates. According to the most recent IMF Financial Access Survey (FAS) the number of households per 1,000 adults with a deposit account in a commercial bank stood at around 800 in 2015, up from 291 in 2004.²

A. Non-money Market Investment Funds

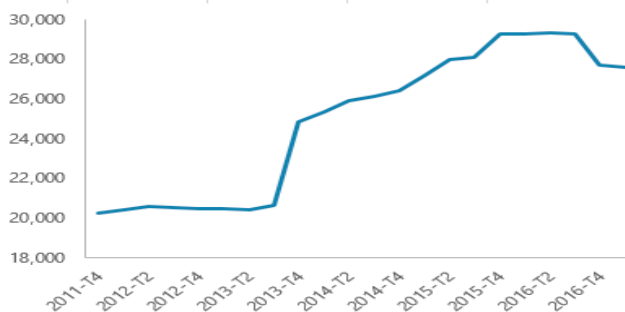
12. The NMMF sector has grown significantly in recent years and has become an important part of the Moroccan financial system, representing around 36 percent of the total balance sheets of OFCs and 31 percent of GDP in 2016. The total balance sheet of these NMMFs doubled between December 2011 and June 2017. In Morocco, this sector includes NMMFs that invest mainly in shares (at least 60 percent of their assets), those that invest mainly in bonds (at least 90 percent of their investments must be in bonds), contractual NMMFs, and the so-called diversified NMMFs. The NMMF subsector is largely dominated by bond-investment NMMFs, which represent over 80 percent of the total balance sheet of the sector.

² The FAS data are available at: <http://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C>.

B. Insurance Corporations

13. Morocco's insurance corporations (ICs) sector is an important part of the financial system. The IC sector comprises 18 insurance and reinsurance corporations, some of which have begun to expand internationally, particularly in Sub-Saharan Africa. ICs' technical reserves consist mainly of net equity of households in life insurance (47 percent), reflecting the continuous growth of the life insurance subsector. The data suggests strong links between banks and insurance corporations, with ICs' holding of banks' shares amounting to MAD27.7 billion in 2017 up from MAD17 billion in 2009. These shares represent approximately 14 percent of total assets of the IC sector.

Figure 3. Participation of Insurance in the Capital of Banks



Source: BAM and mission calculations

14. ICs data were reviewed during the mission and are broadly adequate for analytical purposes. The mission nevertheless recommended that BAM staff contact the Insurance and Social Security Supervisory Authority to review the interpolation method used to produce quarterly estimates of source data.

C. Pension Funds

15. Morocco's OFC sector also includes two pension funds. These pension funds are the Caisse interprofessionnelle marocaine des retraites, which operates on the basis of a hybrid defined benefit and defined contribution plans, and the Caisse nationale de retraite et d'assurance (CNRA), which operates exclusively as a defined benefit plan. Under a defined benefit plan, the future retirement benefits are determined by an actuarial formula related to participants' lengths of service and salaries, expected retirement ages, mortality rates, etc. under a defined contribution plan, the benefits to be received by a participant are based on the participant's contributions to the pension fund and the investment performance of the fund.

D. Other Entities of the Other Financial Intermediary's Subsector

16. Thirty-four finance companies and several non-deposit-taking microcredit associations are also part of the OFC sector in Morocco. The total combined assets of finance companies represented approximately 11 percent of GDP in 2016, and loans granted by finance companies represented 11 percent of the loans granted by all financial corporations. Other entities in the OFC sector are offshore banks and the Caisse de dépôts et de gestion.

17. The developments described above underscore the benefits of collecting reliable statistical data on the OFC sector for analysis purposes and to facilitate decision-making.

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

| Priority | Action/ Milestone | Hypothetical Risks/ Verifiable Indicators | Target Completion Date | Actual Completion Date | Progress |
|---|---|--|------------------------------|------------------------------|----------|
| Outcome 1: Data are compiled and disseminated using the coverage and scope of the latest Monetary and Financial Statistics Manual/Compilation Guide | | | | | |
| High | The institutional coverage used to produce the SRF for other financial corporations is fully in line with the institutional coverage recommended by the international statistics standards. | 1/ Explore the possibility for obtaining source data for the Fonds de Placement Commun en Titrisation (FPCT) from the Moroccan Capital Markets Authority (MCMA). | June 2018 | | |
| | | 2/ If MCMA accepts to share source data, begin regular collection of source data for the compilation SRF 4SR for the FPCTs. | December 2018 | | |
| Outcome 2: Data are compiled and disseminated using the appropriate basis of recording consistent with the latest version of the Monetary and Financial Statistics Manual/ Compilation Guide | | | | | |
| High | Preparation of the SRF for other depository corporations is | 3/ Develop a reporting form for banks providing | June 2018 | | |

| Priority | Action/ Milestone | Hypothetical Risks/ Verifiable Indicators | Target Completion Date | Actual Completion Date | Progress |
|--|---|--|------------------------------|------------------------------|----------|
| | fully in line with the recording basis established by the international statistics standards. | information on securities valued at market prices or fair value. | | | |
| | | 4/ Begin regular collection of bank data on securities valued at market prices. | June 2019 | | |
| Outcome 3: The primary data are adequate for the production of monetary and financial statistics. | | | | | |
| | The primary data provide an adequate basis for the production of the SRF for the other financial corporations sector. | 5/ Develop a reporting form providing a breakdown by institutional sector of the operations of finance companies with other financial institutions, as well as their financial leasing operations with nonfinancial corporations and households. | June 2018 | | |
| | | 6/ Seek further feedback from finance companies on the draft reporting template providing a breakdown by institutional | June 2018 | | |

| Priority | Action/ Milestone | Hypothetical Risks/ Verifiable Indicators | Target Completion Date | Actual Completion Date | Progress |
|----------|----------------------|--|------------------------------|------------------------------|----------|
| | | sector of their transactions with other financial institutions and their financial leasing operations with nonfinancial corporations and households. | | | |
| | | 7/ Incorporate feedback from finance companies and finalize the reporting template providing a breakdown by institutional sector of their transactions with other financial institutions and their financial leasing operations with nonfinancial corporations and households. | December 2018 | | |
| | | 8/ Begin regular collection of finance companies' source data using the reporting template and update of their | June 2019 | | |

| Priority | Action/ Milestone | Hypothetical Risks/ Verifiable Indicators | Target Completion Date | Actual Completion Date | Progress |
|---|--|---|------------------------------|------------------------------|----------|
| | | SRF 4SR. accordingly. | | | |
| | | 9/ Begin regular collection of source data providing a breakdown by counterparty of the operations of offshore banks with other financial institutions and update of the SRF 4SR accordingly. | December 2018 | | |
| | | 10/ Initiate discussions with offshore banks with a view to refining the sectoring of their accounts and ensuring clear delineation between resident and nonresident counterparties. | June 2018 | | |
| Outcome 4: Data are produced more frequently | | | | | |
| | The primary data for other financial corporations are produced at least quarterly. | 11/ Explain, in the metadata, the interpolation techniques used to convert insurance corporations' source data to quarterly data. | June 2018 | | |

A. Implementation of the Recommendations of the 2011 Mission

18. The mission reviewed the recommendations made by the March-April 2011 MFS mission and found that BAM has made significant progress. In particular, BAM has reduced the human resources constraints that had slowed the efforts of the SSM to ensure full migration of Morocco's monetary statistics to the SRFs. Considering the additional workload resulting from the expansion of institutional coverage to include OFCs, the 2011 mission recommended the recruitment of one additional economist-statistician in the SSM. This recommendation was successfully implemented. The SSM received three officials with the recommended statistical background, thus doubling its staff and bringing greater flexibility in the division.

19. Similarly, all actions identified as benchmarks during the 2011 mission were fully implemented. This is particularly the case for the new bank report forms, which were deployed in June 2012.

B. In-depth Analysis of the OFC Data

20. All criteria used to assess the quality of monetary statistics were applied in the review of the SRF 4SR produced by the SSM.³ The discussions between the mission and BAM staff covered the institutional sectoring of accounts, classification of financial assets, valuation of securities, accrual basis accounting, and the timeliness of collecting source data. Based on these criteria, the mission considers the SRFs 4SR produced by BAM to be broadly adequate for inclusion in the IMD and for use in surveillance and program monitoring. Areas for improvement identified in the action plan include: (i) improvement of institutional coverage, especially the inclusion FPCTs in the coverage of MFS; (ii) collection of data on securities held by banks and valued at market prices or fair value; (iii) refinement of the sectoring of accounts; and (iv) improvement of the frequency of the source data for insurance corporations.

21. The mission encouraged BAM staff to continue the discussions with the Moroccan Capital Markets Authority with a view to begin the collection of source data of FPCT and incorporate this entity in SRF 4SR. According to the SSM, the FPCT was created by the National Electricity and Water Board (ONEE). The funds raised by the FPCT through the securitization of ONEE's future revenues are systematically made available to the ONEE to cover its cash flow needs. The mission, therefore, recommended that these advances be recorded as claims of the FPCT on ONEE under the heading "Trade Credits/Advances - Nonfinancial Public Corporations."

22. The mission supported BAM's proposal to develop a reporting form for the collection of bank source data on securities valuation. Depending on the results of the discussions between BAM and the banking profession on the existence of additional data that

³ Data Quality Assessment Framework (DQAF) and the IMF's new results-based project management system (RBM).

could facilitate the revaluation at market prices, BAM staff could begin to collect this information on a regular basis in 2019.

23. The mission made recommendations to improve the sectoring of the financial statements of finance companies and offshore banks. Unlike ODCs, finance companies and offshore banks' report forms do not provide any breakdowns of items by counterparties. The SSM uses various assumptions to estimate the allocation of finance companies and offshore banks' accounts by financial counterparties. Information about financial counterparties is mainly estimated using banks and money market funds' data. Loans to households are estimated by considering the total loans of finance companies that specialize in consumer loans, and loans to private nonfinancial corporations are considered to be the total loans of leasing and factoring companies. Although these assumptions seem plausible and do not significantly affect the quality of the data produced, consideration should be given in the future to the collection of this information directly from finance companies and offshore banks. This will help minimize the possibility of transferring any errors from banks and money market funds' financial statements to the SRF 4SR. Additionally, although a large portion of financial leasing operations take place with private nonfinancial corporations, some of these operations could also involve households. In the specific case of offshore banks, the mission recommended that discussions be initiated with these institutions to ensure the accuracy of the sectoring of accounts by residence.

24. Semi-annual source data for insurance corporations are converted to a quarterly frequency by the Insurance and Social Security Supervisory Authority (ACAPS) who transmits the data to BAM, but the SSM is not aware of the specific interpolation techniques used. To ensure the quality of the 4SR, the mission recommended that BAM obtain a methodological note explaining the method used by ACAPS for the conversion of the data to a quarterly basis.

C. Islamic Banks

25. The mission held constructive discussions with the staff of the Banking Supervision Department on the classification in the monetary statistics of the financial products offered by Islamic banks. Morocco recently granted licenses to Islamic banks and these institutions are expected to become operational in the coming months. The consolidated legislative framework proposed for conventional banks and Islamic banks facilitates the inclusion of the latter in the monetary statistics. The assistance of the mission was requested for the classification of the financial products of Islamic banks in the SRFs, while taking into consideration the specific characteristics of these products.

The financial products of Islamic banks must comply with the precepts of Sharia law according to which:

- interest-bearing loans are prohibited;
- excessive risk-taking is prohibited (*Al Gharar*);
- financial assets must be backed by real assets;

- the lending institutions must participate in the profits and losses associated with the projects; and
- goods may only be sold by their owners.

26. The mission and BAM staff agreed on the general principles for the classification of the products concerned (Ijara, Murabaha, Musharakah, Mudaraba, Salam). The discussions will continue as these banks become operational and the collection and analysis of their source data by the SSM begins.

D. Financial Soundness Indicators

27. The mission held another working session with representatives from the Financial Stability Department and the Banking Supervision Department, on the possibility for BAM to begin regular transmission of Morocco's financial soundness indicators (FSIs) to STA. The purpose of this working session was to review the sources and methods used in compiling the FSI and their use in macroprudential analyses. The discussions were also meant to identify the necessary steps for BAM to begin regular reporting of Morocco's FSIs to STA, including the scheduling of a technical assistance mission on the FSIs.

28. The principle of an STA technical assistant mission to Morocco in 2018 was agreed during these discussions. STA's Financial Institutions Division will contact the Financial Stability Directorate teams in 2018 to schedule the mission.

E. Interest Rates

29. The discussions on interest rates were aimed at identifying BAM's main monetary policy rate. The SSM will provide STA with the data on the policy rate. STA will create a code for the new series to allow the SSM to transmit these data using the SRF 6SR reporting form.

Appendix I. List of Officials Met During the Mission

| Name | Institution |
|-------------------------------|--|
| Mr. Mohamed Taamouti | Director, Economic Research Directorate |
| Mrs. Dounia Tahiri | Statistics Department |
| Mrs. Asmaa Hajar Essaid | Monetary Statistics Unit |
| Mrs. Ouissaal Mourad | Monetary Statistics Unit |
| Mr. Mohamed El khaoua | Monetary Statistics Unit |
| Mrs. Nada Mahrach | Monetary Statistics Unit |
| Mr. Halim Jadi | Macroprudential Surveillance Department (DSM) |
| Mr. Abderrahim Nassiri | Banking Supervision Directorate |
| Mrs. Laila Drissi Bourhanbour | Macrofinancial and Sectoral Risk Unit |
| Mrs. Hajar Bezza | Macroprudential Modelling and Macro Stress Test Unit (DSM) |
| Mr. Anas Nassim Belkhadir | Islamic Finance Regulation Department |