The Impact of Liberalizing International Trade of Banking Services in Morocco

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Introduction

The purpose of this paper is to assess welfare effects of regulating the banking sector in Morocco along the European Union lines. The agreement between the EU and Morocco, signed in February 1996 and came into force in March 2000, provides for the gradual establishment of an industrial free-trade zone by 2012 and progressive liberalization of trade in agriculture. The agreement between Morocco and the EU foresees, in addition to that, to start negotiations for a free trade area in services. The agreement contains, however, no binding commitments. But Morocco is expected to deepen further its relationships with Europe within the framework of the *Neighboring Policy*. The relevance of the issue of banking services' liberalization goes beyond Morocco's agreement with the EU. On the one hand, Morocco's free trade agreement with the US encompasses services, more specifically financial services, in addition to manufactured goods, agricultural products, intellectual property rights, and government procurement. This agreement is expected to come into force in 2006. On the other hand, under GATS, Morocco is projected to increase its commitments and opens up further its banking sector to foreign competition. The last commitments made by Morocco in Uruguay Round were mainly under commercial presence (mode 3) as compared to cross-border supply (mode 1) and consumption abroad (mode 2). Except lending to finance investment in Morocco or commercial transactions with Morocco allowed under the mode 1, no commitment has been made in other items (Achy 2002). Hence, there is a real need to understand opportunities and challenges of liberalizing banking services on the Moroccan economy.

So far, the potential impact of liberalizing trade in goods on the Moroccan economy has received much more academic attention (Rutherford and Tarr (1997), Chater and Hamdouch (2001), Achy and Milgram (2003) and Chater (2004)). In contrast, the potential impact of liberalizing trade in services in general, and banking services more specifically, has not received comparable interest. The main objective of this research is to filling this gap in the literature. The potential impact of liberalizing banking services goes beyond the banking sector itself since these services are cost components in other activities. Liberalization is expected to lead to more competition, lower interest rates margins, better quality and higher access to banking services.

Theoretically, an efficient financial market is assumed to contribute to economic growth by collecting more funds and allocating them to those projects with the highest returns, by providing liquidity and reducing the need for precautionary savings, and dealing with adverse selection, moral hazard and transaction costs issues. The link between financial sector development and economic growth has been widely documented in the literature. Evidence supports that the extent of financial intermediation in an economy is crucial for its growth (Bencivenga and Smith (1991), Levine (1997), Levine & Zervos (1998)).

In Morocco, banking sector dominates financial landscape. Bank assets and loans represent respectively, about 96 and 56 percent of GDP by the end of 2004. Banks also control about 80 percent of the leasing companies, manage 70 percent of mutual fund assets, own 10 of the 15 securities firms, and listed bank shares account for about 30 percent of the Casablanca stock exchange (Word Bank 2000). For these reasons, our focus is on the banking services and the potential impact of their liberalization on the rest of the economy.

The rest of this paper is organized as follows. The first section presents the major developments in the banking sector in Morocco. Section two examines the Moroccan regulations as well as institutions in charge of monitoring banking sector activity. Section three computes the degree of restrictiveness of this sector in Morocco with respect to that of the European Union. Section four provides a first approximation of the potential welfare effects of harmonizing Moroccan regulations in the banking sector with those of the EU. Finally, section five concludes.

1. Major developments in the banking sector in Morocco

a. Brief historical overview

During the pre-adjustment period (before 1983), the allocation of financial resources were highly distorted by the government interventions. This allocation was largely driven by non-market mechanisms such as ceiling of refinancing by the central bank, credit rationing, mandatory holding of government securities by banks, and administratively set interest rates. These constraints limited the scope for competition and innovative practices among banks and leads to an excessive risk-averse banking sector. The weight of mandatory holding (35% of banking sector assets) limited the ability of banks to manage their resources, and prevented them from allocating sufficient resources to acquiring and processing information on the private sector. During the pre-adjustment era, the primary task of the banking sector was to provide cheap finance to cover government deficit, and "priority sectors" needs through mandatory holding of government securities, and bonds issued by the development or specialized banks.

By mid-1983 Morocco adopted a comprehensive structural adjustment program. In addition to the financial sector reform, different reforms took place during the adjustment period such as trade liberalization, exchange control liberalization, tax reform, and public enterprises reform and privatization. The Moroccan banking sector experienced substantial steps towards market oriented system from mid eighties and particularly in the nineties. Interest rate subsidies to priority sectors were reduced or eliminated. The monetary authorities started to manage liquidity through a more active use of reserve requirements and a more market-based allocation of refinancing. The share of refinancing of banks through the central bank intervention on the money market grew from 2.6 percent in 1985 to 27.4 percent in 1994.

The process of liberalizing interest rates was gradual. Roughly, two periods can be distinguished. During the first period, monetary authorities continued to set minimum rates of return on deposits, and maximum rates for credits. While stimulating competition among banks in saving collection and credit extension, these measures allowed the authorities to prevent interest rates volatility and protect savers and borrowers from banks' potential abuse. During the second period, a quasi liberalization of interest rates on deposits took place. Interest rates on credits were set on the basis of a "reference rate". Initially, "*interest rates on government bonds*" were taken as reference. Interest rates on credits to the private sector could not exceed the reference rate by more than one third. In 1991, the *weighted average of returns on 6 months and one year deposits* became the reference rate. This mode of determination of interest rates allowed overcoming the weaknesses of the former mode. The maximum rate on credits amounted to 15.6 percent in 1992 and 15.8 percent in 1993. These high levels can be justified neither by inflation rates, nor by the cost of the banking resources. A new reference rate, "*the banking basis rate*", took place in April 1994. This rate is based on the average cost of all banking deposits. The maximum rate should not exceed by more than three points the reference rate for credits extended for less than seven years, and four points for more than seven years. The maximum rates ranged between 12 and 13 percent.

Regarding the monetary policy, the government priority was to reduce inflation and external deficit by controlling monetary aggregates. M2 was set as an intermediate target and monetary authorities succeeded to a large extent to keep money supply under control except in 1990 and 1991 due to the effect of abolishing credit ceiling system implemented in 1990. Monetary authorities increased their use of indirect instruments to manage money supply. The central bank intervention to provide banking sector with liquidity relied on auctions and advances on the money market, open market operations, and the minimum reserve requirements. Since 1995, the control of money supply is done through the interest rate on the money market.

During the adjustment era, the banking sector started to play more effectively its role in providing funds for private agents. Credits to the private sector experienced higher growth rate compared to those allocated to the government sector. The share of private credits in GDP increased from 31.5 percent in 1983 to 41.9 percent in 1992. At the same, banks began to allocate more funds to medium and long term credits. Their share in total credits doubled over the adjustment decade rising from 11.2 percent in 1983 to 22.7 percent in 1992.

A new banking law was adopted in 1993. This legal framework unified the banking system and abolished sectoral specialization. Prudential regulation in line with international standards was implemented and was extended to other credit institutions such as leasing and consumer finance companies. The Stock market legislation was updated in 1993. The Casablanca Stock Exchange (CSE) was privatized and its management was transferred to the association of brokerage house.

The Central Bank has been gradually acquiring its independence from the executive authority, and the monetary policy has been more driven by liquidity conditions than by the government's requirement to finance its fiscal deficit. Moreover, the government has been meeting its financial needs through the market. An ambitious program of public debt management has taken place, and seems to have already produced a sensitive effect on the cost of the public debt by substantially reducing its burden on the economy.

Morocco reformed its foreign exchange system in the late 1980s and early 1990s by, gradually, unifying and liberalizing foreign exchange markets. It has established current account convertibility since 1993, but still imposes restrictions on capital account movements and most of these restrictions are imposed on outflows. Only non residents are permitted to hold accounts in foreign currencies.

b. Recent developments

The Moroccan banking sector is made of the Central Bank (Bank Al Maghrib) and seventeen banks after the Banque Commerciale du Maroc (BCM) took over Wafabank, which leads to the creation of the largest private bank in Morocco, *Attijariwafa Bank*; and the absorption of BNDE by CNCA[1]. The State's presence in the banking sector, although has relatively decreased, remains important. Some estimates indicate that public banks control 46 percent of banking sector assets in 2001 (Commission of the European Communities 2004). Foreign capital is gradually representing a significant share of the Moroccan banks' equity. A number of international banks have increased their ownership in the major Moroccan banks. French banks became the main shareholder in a number of Moroccan banks: 53 percent of BMCI is owned by *Banque Nationale de Paris,* BNP Paribas, 51 percent of *Crédit du Maroc* is controlled by *Crédit Lyonnais*, and 52 percent of SGMB belongs to *Société générale of France*. In addition, there are two direct foreign subsidiaries: Citibank, owned by the US Citibank, and Arab Bank Morocco, which is controlled by the Jordanian Group. Foreign capital is also present in private-Moroccan owned banks such as Attijariwafa Bank and BMCE.

Banking sector concentration increased tremendously over the last few years. The three largest banks own 63.7 percent of the banking sector cumulated net wealth in 2004 compared to 52.8 percent in 2003 and 46.8 percent in 2000. In the meantime, the share of the nine smallest banks does net exceed 5 percent of the banking sector cumulated net

[1] BNDE (Banque Nationale de Development Economique) and CNCA (Caisse Nationale de Crédit Agricole) are both public banks and former specialized banks.

wealth in 2004 compared to roughly 7 percent in 2000. The high degree of concentration in the banking sector, and banking dominance over the other compartments of financial services are often seen as signal of limited market opportunities (Oxford Business Group 2004).

The branch banking network has developed rapidly over the last years as the number of branches rose from 976 in 1990 to 1 356 at the end of 1998 and 2043 by the end of 2004. However, most branches are located in urban areas more specifically in the largest cities. Overall, the density of the banking network in Morocco remains low, with nearly 15,000 inhabitants per branch by the end of 2004. Moreover, estimates indicate that less than 20 percent of the Moroccan population have bank accounts, and a large share of small and medium enterprises continue to rank "access to finance" as one of the most important difficulties they suffer from in their business (ICA[2] survey 2004). The under banking situation of the Moroccan economy suggest also the existence of substantial room for banking services demand in the coming years. The international experience shows that further liberalization of banking services increases competition and pushes banks as well as other financial institutions to explore new segments of the market. Hence, liberalization is expected to generate a *price effect* by pushing down interest rates and reducing margins; but also a *quantity effect* through higher market coverage.

Table 1 presents the balance sheet of the banking sector in Morocco from 1997 to 2004. On the asset side, banks allocate roughly 60 percent of their balance sheets to lending to customers and invest around 20 percent in the government fixed-income securities (treasury bills). Regarding the liability side, the table shows that almost three quarter of banking resources comes from deposit and saving accounts. Deposit accounts are not remunerated which reduces the cost of funds for banks and increases their margins. Moreover, the share of unremunerated deposits represented less than 33 percent in 1997 and attained almost 44 percent in 2004. Finally, provisions for bad loans represent 8 percent in 2004 compared to 5.2 percent in 1997.

Insert table 1 about here

The banking system has a relatively adequate capital base. On the basis of the data provided by the central bank, the capital adequacy ratio of the banking system at end-June 2004 was 10.2 percent, higher than the minimum capital adequacy of 8 percent set by prudential regulation. However, this comfortable average dissimulates large variations among banks. In particular, former specialized public banks are well below the prudential threshold despite that some of them have already benefited from recapitalization operations in 2000-2001 (IMF 2003). State-owned specialized banks continue to operate in exemption of key prudential rules, and their risk is only contained by the government support. Clearly, it does

[2] ICA. : Investment Climate Assessment.

seem from the precarious situation of state-owned specialized banks that they are prepared to face liberalization challenges.

Insert table 2 about here

The level of non-performing loans (NPLs), in the banking system is relatively high but unevenly distributed among banks. It amounts to 19.4 percent of bank loans at the end of 2004 compared to 12.6 percent at the end of 1998. This is mainly due to the former specialized public banks (CIH, BNDE, CNCA)[3] for which the share of NPLs stands at 36.4 percent in 2002 (IMF 2003). The recent increase of their share reflects the tightening of the classification rules, which banks were required to comply with. In fact, the average age of non-performing loans is estimated to more than five years.

Insert table 3 about here

Available data on the composition of NPLs indicate that much of credit risk borne by banks is due to large customers, rather than small and medium-sized businesses. According to the World Bank (2000), loans larger than DH 500,000 accounted for 90 percent of the total of NPLs in arrears in 1998. Nearly 60 percent of their total value is accounted for by 394 loans larger than DH 10 million. On the sectoral front, a high concentration of non-performing loans is found in textiles, garment and leather, in commercial activities and in the construction sector (Bank Al Maghrib report 2004). There are two issues that need to be addressed to overcome the problem of bad loans in the future. First, a significant effort has to be done to improve "credit scoring system" of individuals as well as corporate sector in Morocco. Second, the capacity of legal and judiciary system in recovering loans needs to be strengthened. In particular, legal provisions on bankruptcy and creditors' rights have to be reformed.

Payments in Morocco are predominantly settled in cash. However, the use of non-cash instruments has made a dramatic progress over the last years. Various indicators confirm this trend. The number of bankcards increased by more than 20 percent in 2004 and stood at 2.2 millions. The number of ATM machines, which did not exceed 1071 units in 2002, reached 1839 units by the end of 2004. The total amount settled by cards increased by 41% in 2004.

Clearance and settlement operations are being modernized in order to reduce settlement lags for inter-cities transactions and meet international standards. Two major projects have

[3] CIH: Crédit Immobilier et Hôtelier, BNDE: Banque Nationale de Développement Économique, CNCA : Caisse Nationale de Crédit Agricole.

been implemented over the last few years. The first is the *Moroccan Interbank Teleclearing System* (SIMT[4]), which started in Casablanca in May 2002, extended to other large cities in 2003 and, in principle, has been generalized to all other parts of the national territory since September 2004. In spite of that, clearance of checks between different cities continues to take time and can last as much as one week. The second project is the *interbank electronic banking center* (CMI[5]), which has been effective since February 2004.

Regarding profitability, there are wide differences between commercial and state owned specialized banks as shown in table 4. Average return on assets in the banking sector declined from 1 percent in 1997 to 0.7 percent in 2002. This downward trend is entirely attributed to a significant deterioration of profitability in specialized banks with an average ROA of (-1) percent in 2002. Moroccan banks are achieving relatively high levels of ROE although they are declining. In 1997, average ROE stood at 11 percent compared to 7.8 percent by the end of 2002. But while profitability is very comfortable in commercial banks, its level in specialized banks is very worrying and might threaten the overall stability of the banking sector.

Insert table 4 about here

Banking spread, defined as the interest rate charged by banks on loans to customers minus the interest rate paid on deposits, is on a downward trend since mid 1990s. However, its level continues to be relatively high by international standards. In 2002, the average spread recorded is 4.8 percent. This is particularly high given that more than one 40 percent of bank resources are obtained for free. Various factors can explain this situation such as insufficient competition among banks, high reserve requirements by the central Bank (16.5 percent of deposits), and high proportion of non performing loans. A stronger competition is expected to lead banks to further decrease their lending rates, and offer better opportunities for customers' deposits. International experience shows that such an amount of free resources cannot be sustained in the long term as the financial system deepens, and a broader variety of competing financial assets becomes available (IMF 2003).

As far as exchange rate risk is concerned, prudential regulations limit open positions to 10 percent of capital any one currency, and to 20 percent for all currencies combined. Current positions are far below these limits (between 2 and 3 percent) and don't expose the Moroccan banks to exchange risk.

2. Regulatory framework analysis

The banking sector in Morocco is governed by the banking law of July 1993, which replaced the Royal Decree of April 1967 enacting the law concerning the banking

[4] SIMT stands for "Système interbancaire marocain de télécompensation".
[5] CMI stands for : "Centre monétique interbancaire".

profession and credit. The 1993's law has unified between commercial banks and specialized financial institutions (specialized banks) and created a unified body of legal provisions applicable to all credit institutions. This law has also extended the powers of the monetary authorities and created new bodies for dialogue with the profession and economic agents.

Under the terms of the 1993 *banking law*, the concept of *credit institution* encompasses banks and financing companies. Banks are institutions with a universal function, while financing companies engage only in the activities for which they have been approved (consumer credit, leasing, real estate credit, factoring, provision of warrants, or management of means of payment). In addition, only banks are permitted to collect demand deposits or deposits at up to two years.

2.1. Supervisory and advisory bodies

The *supervisory authorities* (monetary authorities) in Morocco consist of the Minister of Finance and the Governor of Bank Al-Maghrib.

The Minister of Finance has important decision-making powers with regard to regulation of the activity of banks and to monetary policy. He is authorized to issue the approval to exercise the profession of banking and to fix the minimum amount of the capital or endowment of banks, after the *Credit Institutions Committee* has expressed its opinion. It can also establish the conditions and procedures for the granting of credits, as well as the minimum or maximum prudential ratios which have to be respected. The Minister of Finance, on the proposal of the Governor of Bank Al-Maghrib and based on the opinion of of the *Disciplinary Commission*, may also impose penalties, which can go as far as withdrawal of the license to exercise.

The Governor of Bank Al-Maghrib is in charge of the implementing procedures of the banking law provisions. He is also in charge of surveillance of the activity of banks through conducting on-the-site and documentary verifications. The Bank Al-Maghrib is also in charge of managing a Risk Centralization Service and Payment Incidents Centralization Service. It can create or manages any other common-interest service at the request of banks' representatives.

The Moroccan banking law has created two *advisory bodies*: the National Money and Saving Council (CNME[6]) and the Credit Institution committee (CEC[7]).

The *CNME* is consulted by the monetary authorities on all issues relating to monetary and credit policies and the means of their implementation. It provides its opinion on the general conditions of operation of credit institutions and may make proposals or suggestions within the field of its competence. The CNME can create internal working groups to carry out

[6] CNME stands for «Conseil National de la monnaie et de l'Epargne ».
[7] CEC stands for : « Comité des Etablissement de Crédit »

studies which it considers useful for appropriately accomplishing it duties. The CNME is chaired by the Minister of Finance or, in case he is unable to attend, by the Governor of Bank Al-Maghrib, the Vice-Chairman, and includes 29 permanent members representing, in particular, the public authorities, the economic operators and members of the Moroccan Professional Group of Banks -(Banks' representatives). The CNME meets at least twice a year, and has its quorum when at least half of its members are present. Its recommendations and proposals are adopted by the majority of the members present. The secretariat of the CNME is performed by Bank Al-Maghrib.

The *Credit Institutions Committee (CEC)* has to be consulted before any decision concerning the activity of credit institutions is taken, or on the technical aspects of monetary policy and prudential rules. The CEC provides its opinion on various issues concerning the activity of credit institutions, especially as regards: the granting, renewal or withdrawal of approval to exercise banking activity, the conditions for the acquisition of participating interests n the capital of enterprises, the conditions for the publication of annual and half-yearly accounts, the setting up of subsidiaries, the opening of branches and agencies abroad. The CEC is also consulted on matters relating to the terms and conditions of operation of the deposit protection scheme (c*ollective deposit guarantee fund*[8]*).* The CEC is chaired by the Governor of the Bank Al-Maghrib and includes as other members: the Vice-Governor of the Central Bank as vice-chairman, two representatives of the Minister of Finance, two representatives of the Moroccan Professional Group of Banks (GPBM), and two representatives of the Professional Association of Financing Companies (APSF). The secretariat of the CNME is performed by Bank Al-Maghrib. The committee has a quorum when at least half of its members are present and adopts its recommendations and proposals by a majority of the members present.

The 1993' banking law has also created a third advisory body in charge of *disciplinary matters*, the *Credit Institutions Disciplinary Commission* (Commission de Discipline des Etablissements de Crédit). The CEC is assigned the duty of drawing up the disciplinary matters and proposing penalties which can be imposed on credit institutions by the monetary authorities. Among penalties that can be suggested: prohibition or restriction of the exercise of certain operations, the appointment of a temporary director and the withdrawal of the approval to exercise. The CEC is chaired by the Vice-Governor of the Central Bank or his representative, and comprises a representative of Bank Al-Maghrib, two representatives of the Minister of Finance, and one magistrate appointed by the Minister of Finance on the proposal of the Minister of Justice. The commission's opinions are adopted by a majority of the members present.

2.2. Entry conditions in the banking sector

Any legal person, before exercising the activity of credit institution, must send his application to the Minister of Finance for approval as a bank or financing company. In support of his application it submits a dossier consisting of information on technical,

[8] The deposit protection scheme is known as « Fond Collectif de Garantie des Dépôts ».

financial and human resources (quality of founders, shareholders and managers), and on its short-term and medium term plan of action (opening of branches and agencies). Approval is granted or refused after consultative advice has been provided by the Credit Institutions Committee, which is in charge of examining the dossier and is consequently authorized to request all documents and information which it deems necessary.

A credit institution may be created only in the form of a fixed-capital limited liability company, except for institutions on which the law has conferred a special status and those whose registered head office is located abroad.

Application for a new approval is required whenever changes affect the nationality of a credit institution, its control, the location of its registered head office or the nature of the operations which it habitually carries out. Approval is also required before merging of two or more credit institutions or the absorption of one or more institutions by another. The setting up of subsidiaries or the opening of branches, agencies and offices abroad by institutions which have their registered head office in Morocco are subject to prior approval by the Minister of Finance, given after the Credit Institutions Committee has given its approbation.

2.3. Prudential regulation in the banking sector in Morocco

The banking sector's prudential framework has been significantly improved in recent years. However, additional measures need to be implemented by the central bank to be in accordance with the Basle Core Principles for Effective Banking Supervision. Credit institutions are required to comply with the prudential rules, the accounting standards, and information disclosure to the monetary authorities.

Prudential rules relate to capital requirement, minimum liquidity and solvency ratios, maximum concentration of risk ratio, and limits to open positions in foreign currencies. Other prudential rules deal with classification of nonperforming loans and their provisioning requirements.

The minimum capital was raised from 15 million DH in 1983 to 100 million DH in 1991. The liquidity ratio, which represents the ratio of cash and short term assets to short term liabilities, should be kept at a minimum of 100 percent as allow banks to be able to meet their short term liabilities. The computation of the solvency ratio has been changed to account for the nature of risks incurred by banks. The solvency ratio is defined as the ratio of banks' net capital and reserves to their assets and their disbursement liabilities or liabilities by signature (off-balance sheet). The risks are weighted by proportions 0, 20, 50 and 100 percent depending on the nature operations, the quality of lenders, and the importance collateral. The minimum solvency ratio that has to be observed is 8 percent. The objective of concentration of risk ratio is to limit excessive exposure to a limited number of clients. The ratio requires that the maximum lending exposure to a single client cannot exceed 20 percent.

Regarding nonperforming loans, banks are required to categorize them into three categories (potentially doubtful, doubtful and lost). Provisioning rules are designed to safeguard banks against risk of default of their customers. Provisions are equal to 20, 50 or 100 percent depending on their respective category.

3. Assessment of barriers to trade in the banking sector in Morocco

Measurement of barriers to trade in services is not as simple as in the case of trade in goods. The issue of quantifying restrictions to trade in services and the economic effects of their removal has received a special interest from academic researchers over the last few years. But, measurement of trade in services appears to be also very crucial to policy makers in their bilateral, regional and multilateral negotiations.

For the specific case of Morocco, the potential impact of liberalizing trade in goods has received much more academic attention (Rutherford and Tarr (1997), Chater and Hamdouch (2001), Achy and Milgram (2003) and Chater (2004)). In contrast, the potential impact of liberalizing trade in services in general, and banking services more specifically, has not received comparable interest. The main objective of this research is to provide a first assessment on this potential impact. The basic assumption that lies behind this exercise is that by removing barriers to trade, liberalization will increase competition in the domestic market, and lower interest rates margins. Since banking services are inputs for other activities, any reduction of their cost will improve competitiveness and generate welfare effects.

3.1 Methodology of computing the restrictiveness index

Various methodologies have been used to quantify barriers to trade in services. One the most widely used is based on "frequency measures" developed by Hoeckman (1995). This methodology has been applied to GATS commitments scheduled by member countries. A more elaborate set of frequency measures has been constructed by the Australia's productivity commission and applied to various services such as banking, telecommunications, maritime transport, education, distribution and professional services. The Australian methodology is based on the actual impediments to trade rather than scheduled commitments under GATS. These restrictions are assigned scores and grouped into categories, each of which has its specific numerical weight. These scores and weights are chosen as to reflect the costs of the existing restrictions on the economic efficiency. Based on these scores and weights, an aggregate restrictiveness index is computed for each service in each country.

In assessing restrictiveness of trade in banking services and their economic impact, this paper follows a methodology similar to that of the Australian team. It has been developed by McGuire and Scheuele (2000) Kalirajan et al. (2000) and revisited by Kimura et al. (2003). This methodology is made up of three steps.

- § In the *first step*, restrictions are listed and weights are assigned to them. These weights are determined based on how significantly a given restriction would limit service suppliers from entering and/or operating in the domestic market.

- § In the *second step*, based on surveys and interviews, scoring sheets are filled out. The assigned scores vary from 0 (least restrictive case) to 1 (most restrictive case). For each item, the restrictiveness index (partial restrictiveness index) is obtained by multiplying the assigned score by its corresponding weight. The overall restrictiveness index is calculated by summing up all partial indexes.

- § Finally, in the *third step*, ad valorem equivalents of barriers are estimated on the basis of the overall restrictiveness index.

As shown below, restrictions are classified into three categories:

(1) Restrictions on commercial presence,
(2) Restrictions on cross-border trade,
(3) Other restrictions.

The score is chosen for each category of restrictions depending on the nature of its legal and regulatory provisions complemented by field interviews conducted with experts in the banking sector in Morocco. Legal and regulatory provisions, are not strictly enforced in some cases, and hence don't offer an accurate reference for measuring the extent of restrictions. On the other hand, a *new banking law* and *a new legal status of the central bank* are being adopted. Their implementation in the near future is expected to narrow the gap between the legal and regulatory frameworks in Morocco and their international counterparts. Therefore, the assessment of restrictions to the banking services in Morocco is based on a combination of objective and subjective evaluations.

On the basis of our computation, the overall restrictiveness index for the Moroccan banking services is 0.35.

McGuire and Scheuele (2000) have computed trade restrictiveness indexes for 27 countries (19 developed and 8 developing countries). Their results are very useful for comparative purposes. The indexes for developed countries are less than 0.1 (for instance US: (0.06); UK: (0.07); Switzerland (0.08); Italy: (0.07)) except Australia (0.12) and Japan (0.19). Conversely, the indexes are substantially higher in developing economies (for instance Malaysia (0.65); Indonesia (0.55); Korea (0.43), Chile (0.40) and Columbia (0.23)). Argentina is an exception with an index of (0.07) similar to that of developed countries.

The degree of restrictiveness to trade in banking services in Morocco, which takes the value 0.35, seems to be located in the middle among developing countries but significantly high when compared to that of industrialized economies.

In comparison to other countries in the region, the restrictiveness index in Morocco seems to be significantly higher than those of Egypt and the Turkey (Kheir-El-Din et al. 2005) and (Berument and Togan 2005) respectively and lower than the Tunisian index (Boughzala et al. 2005). Overall, these results are somewhat expected. The main explanation of these findings is that Egypt and Turkey have their capital accounts liberalized, while both Maghreb Arab countries continue to impose significant restrictions on foreign exchange and on the ability of residents to hold foreign currency accounts.

3.2. Tariff equivalent of banking services' barriers to trade in Morocco

Theoretically, the presence of impediments to free trade of banking services affect access, quality and price of these services. In a more liberalized environment, banking services would be accessible to a wider range of customers; they would be of a better quality, and cheaper than under restrictions. The focus of this paper is on *price-based measure* of *the* impact of liberalizing banking services. The two other components are important, particularly when access to banking services is still limited (less than 20 percent of the population has access to banking services in Morocco) and the quality of their delivery could be substantially improved. However, access and quality components need more subtle approach to assess their potential impact, and hence left to future research.

The price-based approach derives estimates of barriers to trade from the difference between domestic and foreign prices. It is assumed that the existence of barriers to trade acts as an *ad valorem tax* on foreign service providers. If data on prices are available, such measure can be directly computed by comparing domestic price of the imported service with a reference foreign price. The percentage difference between the domestic and foreign prices is similar to a tariff. In our case, this would mean to compare the price of banking services in Morocco to that of the EU, and derive the magnitude of tariff equivalent due to barriers to trade. The implementation of this approach poses two issues. The first relates to the availability of suitable and accurate data on banking services prices. The second issue arises from the fact that the entire gap between domestic and foreign prices is supposed to originate from restrictions to trade. In practice, other factors, other that restrictions to trade, may justify the existence of price differences between domestic and foreign financial services' providers. To overcome these weaknesses, an alternative approach has been applied.

This alternative approach is based on Kalirajan et al. (2000) who combine restrictiveness indexes with other data to estimate econometrically the impact of barriers. Using data on the economic determinants of banking services prices, an econometric model has been formulated and estimated by Kalirajan et al. (2000). The estimated coefficient of the restrictiveness index variable, included as additional explanatory in the econometric model, provides an approximation of the effect of trade restrictions on prices, controlling for other relevant determinants included in the model.

By doing so, Kalirajan et al. (2000) quantified the impact of restrictions in banking services on the net interest margin of banks, which measures the price of banking services. The net interest margin (NIM) is defined as the difference between the interest rate banks charge on their loans and the rate they pay on their deposits. Restrictions on trade in banking services, by constraining the scope for competition, are expected to increase the interest margin or the price of banking services.

Under the assumption that the expected effects of restrictions to trade in banking services are common across countries, the same estimated coefficient found be Kalirajan et al. (2000) has been extended Morocco, and applied to its restrictiveness index. The *tariff equivalent* of restrictions is then calculated from the formula

$$100*\left[\frac{NIM_1 - NIM_0}{NIM_0}\right] = 100*(e^{b*TRI} - 1)$$

NIM_1: stands for the net interest margin under restrictions and NIM_0 the net interest margin under free trade, TRI the value of trade restrictiveness index, and b is he estimated coefficient associated to the restrictiveness index variable. According to Kalirajan et al. (2000) estimates, b takes the value 0.732.

By applying the above formula to our restrictiveness index (0.35), the result shows that the existing barriers to trade in the banking sector in Morocco are equivalent to imposing a tariff of roughly 30 percent on net interest margins. In other words, the lack of foreign competition in the domestic market increases the cost of funding for economic actors by 30 percent compared to what would prevail under full liberalization. Protecting local banks and imposing restrictions to prevent their exposure to international competition generates an excess of 30 percent in the cost of banking services. This higher cost of finance weakens local producers' competitiveness, particularly those that rely on banking services for their funding.

In Kalirajan et al. (2000), the restrictiveness index for the banking services in the EU is estimated to 0.0708. Applying the same formula leads to a tariff equivalent of 6.3 percent in comparison with a scenario of full liberalization. Harmonizing the Moroccan banking sector regulations along the EU lines, would translate into a reduction of 19.3 percent of the cost of banking services. However, it has to be noticed that the EU restrictiveness index was computed by Kalirajan et al. (2000) on the basis of 1997's regulations. It is very likely that the EU has further liberalized its banking services over the period 1998-2005. Therefore, the magnitude of our tariff equivalent with respect to the EU estimated to 19.3 percent is probably only a lower band estimate. An attempt is made in next section to provide a first assessment of expected welfare effects using an input-output methodology.

4. Welfare effects of liberalizing banking services in Morocco

The purpose of this paper is not just to measure the magnitude of barriers to trade in the banking services, but also to provide an approximation of the impact of these barriers on the rest of the economy. The same exercise has already been done in the area of removing barriers on goods using econometric, as well as partial and general equilibrium methodologies. The objective arises from the need to understand how the removal of barriers to trade in services will affect conditions of competition, productivity, allocation of resources, and economic welfare within and between sectors and countries (Deardorff and Stern 2004).

In our specific case, banking services are intermediate inputs used by various activities in the production of other commodities. Hence, it is expected that prices of other commodities in the economy will change as a result of removing impediments to trade in banking services.

In order to assess the effect a 19.3 percent decrease in the price of banking services on the economy computed earlier, the 1998 *Input-Output table* of the Moroccan economy has been used[9]. We assume that there are no significant changes in the structure of the Moroccan economy over the period 1998-2005. We suppose in particular that the banking sector plays more or less the same role in 2005 compared to 1998. This assumption is to some extent defendable. Although, the share of the banking sector's total assets increased from 80 to 96 percent of GDP from 1998 to 2004, and the share of total deposits rose from 56 to 71 percent of GDP over the same period; the share of private claim in GDP increased only from 49 to 55 percent. Furthermore, a large part of this increase is due to real estate and consumption credit extended to households.

The methodology of assessing welfare effects of liberalizing trade, applied in this paper, is made of several steps. First, Let A be the 36x36 matrix of input coefficients. On the basis of A; the matrix B is created form the 35x35 input-output matrix by deleting the 30th column and 30th raw referring to the banking sector. Denote the 30th raw where the 30th column element has been deleted by e. Let p be the 1x35 price vector of the 35 commodities excluding banking sector and $v.a$ the corresponding 1x35 unit gross value added vector. The price equation can be written as:

$$p = p\,B + p_b\,e + v.a$$

p_b denotes the price of the banking services. By rearranging the above equation, we obtain:

$$p = p_b\,e\,(I-B)^{-1} + v.a\,(I-B)^{-1}$$

[9] This is the most recent input-output table available in Morocco.

Given the price of banking services that will prevail in Morocco when it adopts and implements the EU rules and regulations, p_b, we determine the *equilibrium prices* of the other 35 remaining commodities from the above equation assuming that there is no change in the unit gross value added vector v.a.

We denote by π the 1x36 price vector composed by the price vector p and the scalar p_b. $\pi = (p\ p_b)$, and *CON* the 36x1 consumption expenditure vector obtained from the 1998 input-output matrix by deleting the value of consumption of banking sector and con_b the value of consumption of banking services. Then we form the 36x1 consumption vector as

$$CONS = \begin{bmatrix} CON \\ con_b \end{bmatrix}.$$

By construction, all base year prices are equal to unity. Hence, total consumption expenditure evaluated at base-year prices can be written as:

$$C = u\ CONS$$

where u denotes the 1x36 unit vector. The value of total consumption expenditure evaluated at the prices that will prevail once Morocco has adopted and implemented the EU rules and regulations in the banking sector is then given by:

$$C^* = \pi\ CONS$$

The effect on consumer welfare can be calculated as:

$$(C - C^*) \times 100 / C^*$$[10]

As indicated earlier, this measure of welfare effect change focuses exclusively on the price effect of liberalization. It does not account for any potential increase in consumer demands for the different commodities following their price reduction. Hence, this approach provides a downward biased estimate of the welfare effect. Accounting for the other effects would require the use of *price elasticities of demand* for the 36 commodities included in the input-output table, which are nor readily available. Thus, the welfare gain is very likely to be higher that estimates provided in this paper.

On the basis of previous computations, the adoption of the EU rules and regulations in the banking sector is expected to lead to a reduction of banking services' price 19.3 percent. Accordingly, the welfare of the society captured through total consumption, will improve by 1.151 percent. Since in 1998 consumption represented 86.12 percent of GDP[11], this welfare gain will translate into an increase of 0.9912 percent in GDP.

[10] Note that this approach determines the equivalent variation in consumer' income.
[11] Haut Commissariat au Plan (2003), « Comptes et Agrégats de la nation 1980-2002 »

Since in 2004, GDP amounted to DH 444 billion or the equivalent of US$ 50 billion, our first approximation of the welfare gain from adopting the EU rules and regulations in the banking sector is estimated to US$ 495 million. It very likely that this figure underestimate the total effect of liberalizing banking services in Morocco.

5. Conclusion

The purpose of this paper is to assess welfare effects of regulating the banking sector in Morocco along the European Union lines. The issue of quantifying restrictions to trade in services and the economic effects of their removal has received a special interest from academic researchers over the last few years. But, measurement of trade in services appears to be also very crucial to policy makers in their bilateral, regional or multilateral negotiations.

As far as Morocco is concerned, the potential impact of liberalizing trade in goods has received much more academic attention. In contrast, the potential impact of liberalizing trade in services in general, and banking services more specifically, has not received comparable interest. The main objective of this research is to filling this gap in the literature.

Theoretically, the presence of impediments to free trade of banking services affect access, quality and price of these services. In a more liberalized environment, banking services would be accessible to a wider range of customers; they would be of a better quality, and cheaper than under restrictions. The focus of this paper is on *price-based measure* of the impact of liberalizing banking services. The two other components are important particularly when access to banking services is still limited (less than 20 percent of the population has access to banking services in Morocco) and the quality of their delivery could be substantially improved. However, access and quality components need more subtle approach to assess their potential impact, and hence left to future research.

This paper follows a methodology similar to that of the Australian team. It has been developed by McGuire and Scheuele (2000) Kalirajan et al. (2000) and revisited by Kimura et al. (2003). According to our computation, the overall restrictiveness index for Moroccan banking services is 0.35. McGuire and Scheuele (2000) have computed trade restrictiveness indexes for 27 countries (19 developed and 8 developing countries). Their results are very useful for comparative purposes. The degree of restrictiveness of trade in the banking services in Morocco seems to be located in the middle among developing countries but significantly high when compared to that of industrialized economies. In comparison to other countries in the region, the restrictiveness index in Morocco seems to be significantly higher than those of Egypt and the Turkey and respectively and lower than the Tunisian index.

Under the assumption that the expected effects of restrictions to trade in banking services are common across countries, the same estimated coefficient found by Kalirajan et al. (2000) has been extended Morocco, and applied to its restrictiveness index to compute the *tariff equivalent* of restrictions. The result shows that the existing barriers to trade in the banking sector in Morocco are equivalent to imposing a tariff of roughly 30 percent.

In Kalirajan et al. (2000), the restrictiveness index for the EU is estimated to 0.0708, which leads to a tariff equivalent of 6.3 percent in comparison with a scenario of full liberalization. Hence, harmonizing the Moroccan banking sector regulations along the EU lines, would translate into a reduction of 19.3 percent of the cost of banking services.

In order to assess the effect this reduction on the economy, the 1998 *Input-Output table* of the Moroccan economy has been used assuming that there are no significant changes in the structure of the Moroccan economy over the period 1998-2005. Our results indicate that the welfare, captured through total consumption, will improve by 1.151 percent. Since in 1998 consumption represented 86.12 percent of GDP[12], this welfare gain will translate into an increase of 0.9912 percent in GDP.

In absolute terms, our first approximation of the welfare gain from adopting the EU rules and regulations in the banking sector in Morocco is estimated to US$ 495 million. However, this figure may be underestimating the total effect of liberalizing banking services. In particular, it is expected that dynamic and efficiency effects will be much substantial.

[12] Haut Commissariat au Plan (2003), « Comptes et Agrégats de la nation 1980-2002 »

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Table 1

Structure of the Moroccan Banking Sector's Balance Sheet

	1997	2000	2001	2002	2003	2004
Assets						
Treasury and financial intermediaries	10.3	12.1	10.9	11.5	13.2	15.2
Treasury bonds (BDT)	23.3	19.2	20.6	20.5	19.2	16.9
Loans to customers	60.2	62.0	59.0	58.3	58.2	58.3
Securities and shares	5.4	6.0	6.5	6.7	6.5	6.6
Fixed assets	3.6	3.2	3.1	3.1	2.9	3.0
Total	*100*	*100*	*100*	*100*	*100*	*100*
Liabilities						
Deposit accounts	32.7	35.2	37.9	40.2	41.9	43.8
Saving accounts	35.0	34.3	33.1	32.2	31.9	31.2
Provision for bad loans	5.2	5.4	6.3	6.7	7.4	7.9
Own funds	9.4	9.2	9.3	8.9	8.2	8.0
Other liabilities	17.7	15.9	13.4	12.0	10.7	9.1
Total	*100*	*100*	*100*	*100*	*100*	*100*
Total balance sheet (billion DH)	251	321	351	368	397	424

Table 2
Capital adequacy of the Banking Sector in Morocco

	1997	1998	2000	2001	2002	2004
Statutory capital as a proportion of risk weighted assets	11.2	12.6	12.8	12.6	12.5	10.8
Commercial banks	12.7	13.1	14.7	15.3	15.3	
Specialized banks	6.1	11.1	5.9	1.2	0.5	

Table 3
Non performing loans in the banking system in Morocco

	1997	1998	2000	2001	2002	2003	2004
Non performing loans in billions of DH	16.6	21.1	35.8	35.7	38.0	43.2	48.1
NPLs as a share of banking credits in %	11.0	12.6	17.5	17.2	17.7	18.7	19.4
Provisions as a share of NPLs in %	57.5	52.6	45.7	53.0	53.8	55.0	59.3
NPLs as a share of banking assets in %	6.8	7.7	11.2	10.3	10.3	10.8	11.3
NPLs as a share of GDP in %	5.2	6.1	10.1	9.3	9.5	10.3	10.8

Table 4
Profitability indicators of the banking sector in Morocco

	1997	1998	2000	2001	2002
Average return on assets (ROA)	1.0	0.9	0.7	0.9	0.7
Commercial banks	1.1	1.1	1.1	1.1	1.1
Specialized banks	0.2	-0.1	-1.0	-0.1	-1.0
Average return on equity (ROE)	11.0	9.5	8.1	10.2	7.8
Commercial banks	13.4	12.4	13.0	12.7	11.8
Specialized banks	2.8	-1.8	-14.8	-0.9	-10.0
Interest margins (as % of gross revenues)	77.2	75.0	80.0	77.8	-
Average spread between loan and deposit rates	6.27	5.54	5.10	4.81	4.81
Demand accounts (as % of bank resources)	32.7		35.2	37.9	40.2

Appendix 1 (1/2)

List of potential restrictions to free trade of banking services and their respective weights (1)

1. Restrictions on Commercial Presence *(weight w(1)=0,62)*

1.1. Licensing of banks (w(1.1)=0,10)
- Issues no new license. / No new license is allowed.
- Issues up to 3 new licenses with only prudential requirements. / Licenses are issued through complicated (discriminatory) and costly procedure.
- Issues up to 6 new licenses with only prudential requirements. / Licenses are generally issued with application fee and several requirements.
- Issues up to 10 new licenses with only prudential requirements. / Licenses are generally issued with application fee.
- Issues new licenses with only prudential requirements / Licenses are automatically issued upon application without any cost.

1.2. Form of commercial presence (w(1.2)=0,10)
- Measures which restrict or require a specific type of establishments.
- No restriction on establishment.

1.3. Direct investment: equity participation permitted (w(1.3)=0,20)
- The score is inversely proportional to the maximum equity participation permitted in an existing domestic bank.

1.4. Direct investment: restrictions on certain types of services (w(1.4)=0,10)
- Restrictions on providing some types of banking services.
- No restriction on providing any type of banking services.

1.5. Joint venture arrangements (w(1.5)=0,10)
- Issues no new banking licenses and no entry is allowed through a joint venture with a domestic bank.
- Bank entry is only through a joint venture with a domestic bank.
- No requirement for a bank to enter through a joint venture with a domestic bank.

1.6. Permanent movement of people (w(1.6)=0,02)
- No entry of executives, senior managers and/or specialists.
- Executives, specialists and/or senior managers can stay up to 1 year.
- Executives, specialists and/or senior managers can stay up to 2 years.
- Executives, specialists and/or senior managers can stay up to 3 years.
- Executives, specialists and/or senior managers can stay up to 4 years.
- Executives, specialists and/or senior managers can stay a period of 5 years or more.

Appendix 1 (2/2)

List of potential restrictions to free trade of banking services (2)

2. Cross-border Trade *(weight w(2)=0,20)*

2.1. Raising funds by foreign banks (w(2.1)=0,10)

- § Banks are not permitted to raise funds in the domestic market./ Foreign banks are not permitted to have cross-border deposits of Moroccan banks, corporations, and households
- § Banks are restricted from raising funds from domestic capital market. / Foreign banks are permitted to have cross-border deposits of only some types of Moroccan residents or any type of Moroccan residents with specific ceiling amount
- § Banks are restricted in accepting deposits from the public./ Foreign banks are permitted to have cross-border deposits of Moroccan banks, corporations, and households with licenses
- § Banks can raise funds from any source with only prudential requirements. / Foreign banks are permitted to have cross-border deposits of any type of Moroccan residents without restrictions

2.2. Lending funds by foreign banks (w(2.2)=0,10)

- § Banks are not permitted to lend to domestic clients./ Foreign banks are not permitted to have cross-border lending to Moroccan banks, corporations, and households
- § Banks are restricted to a specified lending size or lending to government projects. / Foreign banks are permitted to have cross-border lending to only some types of Moroccan residents or any type of Moroccan residents with specific ceiling amount
- § Banks are restricted in providing certain services such as credit cards, leasing and consumer finance. / Foreign banks are permitted to have cross-border lending to Moroccan banks, corporations, and households with licenses.
- § Banks are directed to lend to housing and small business.
- § Banks can lend to any source with only prudential restrictions. / Foreign banks are permitted to have cross-border lending to any type of Moroccan residents without restrictions.

3. Other Restrictions

3.1. Other business of banks -insurance and securities (w(3.1)=0,10)

- § Banks can only provide banking services.
- § Banks can provide banking services plus one other line of business -insurance or security services.
- § Banks have no restrictions on conducting other lines of business.

3.2. Expanding the number of banking outlets (w(3.2)=0,05)

- § One banking outlet with no new banking outlet permitted.
- § Number of banking outlets is limited in number and location.
- § Expansion of banking outlets is subject to non-prudential regulatory approval.
- § No restrictions on banks expanding operations.

3.3. Composition of the board of directors (w(3.3)=0,02)

- § The score is inversely proportional to the percentage of the board that can comprise foreigners.

3.4. Temporary movement of people (w(3.4)=0,01)

- § No temporary entry of executives, senior managers and/or specialists.
- § Temporary entry of executives, senior managers and/or specialists up to 30 days.
- § Temporary entry of executives, senior managers and/or specialists up to 60 days.
- § Temporary entry of executives, senior managers and/or specialists up to 90 days.
- § Temporary entry of executives, senior managers and/or specialists over 90 days

Appendix 2

Regulatory framework of Banking Services in Morocco (1)

1. Entry into Banking (1)		Answers
What body/agency grants commercial banking licenses?		The Minister of Finance
Is there more than one body/agency that grants licenses to banks?		No
Is more than one license required (e.g., one for each banking activity, such as commercial banking, securities operations, insurance, etc.)?		No
How many commercial banks were there at year-end 2004		15
What is the minimum capital entry requirement? (in US$ and/or domestic currency, state which)		MAD 100.000.000
Is this minimum capital entry requirement the same for a foreign branch and subsidiary?		Yes
Is it legally required that applicants submit information on the source of funds to be used as capital?		Yes
Are the sources of funds to be used as capital verified by the regulatory/supervisory authorities?		Yes
Can the initial disbursement or subsequent injections of capital be done with assets other than cash or government securities?		Yes
Can initial disbursement of capital be done with borrowed funds?		No
Which of the following are legally required to be submitted before issuance of the banking license?		
Draft by-laws?		Yes
Intended organization chart?		Yes
Financial projections for first three years?		Yes
Financial information on main potential shareholders?		Yes
Background/experience of future directors?		Yes
Background/experience of future managers?		Yes
Sources of funds to be disbursed in the capitalization of new bank?		Yes
Market differentiation intended for the new bank?		Yes
In the past five years, how many applications for commercial banking licenses have been received from domestic entities?		1
How many of those applications have been denied?		0
Number of applications from foreign entities to enter through the acquisition of domestic bank?	Received	4[13]
	Denied	0
Number of applications from foreign entities to enter through new, capitalized subsidiary?	Received	0
	Denied	0
Number of applications from foreign entities to enter through opening a branch?	Received	0
	Denied	0
Number of applications from foreign entities to enter through some other means?	Received	4
	Denied	0
Are foreign entities prohibited from entering through		
Acquisition		Not prohibited
Subsidiary		Not prohibited
Branch		Not prohibited

Regulatory framework of Banking Services in Morocco (2)

2. Ownership	Answers
Is there a maximum percentage of bank capital that can be owned by a single owner?	No
Can related parties own capital in a bank??	Yes
If yes, what are the maximum percentages associated with the total ownership by a related party group (e.g., family, business associates, etc.)?	None
Can non-financial firms own shares in commercial banks?	Permitted
Can non-bank financial firms (e.g. insurance companies, finance companies, etc.) own commercial banks?	Permitted

3. Capital	Answer
What is the minimum capital-asset ratio requirement?	8%
Is this ratio risk weighted in line with the Basle guidelines?	Yes
Does the minimum ratio vary as a function of an individual bank's credit risk?	No
Does the minimum ratio vary as a function of market risk?	No
What is the actual risk-adjusted capital ratio in banks as of year-end 2001, using the 1988 Basle Accord definitions?	12,60%
What is the actual capital ratio (i.e., not risk-adjusted) of banks as of year-end 2001?	7,50%
Is subordinated debt allowable as part of capital?	Yes
Is subordinated debt required as part of capital?	No
What fraction of revaluation gains is allowed as part of capital?	35%
What fraction of the banking system's assets is in banks that are:	
50% or more government owned as of year-end 2001?	35%
50% or more foreign owned as of year-end 2001?	21%
Before minimum capital adequacy is determined, which of the following are deducted from the book value of capital?	
Market value of loan losses not realized in accounting books?	Yes
Unrealized losses in securities portfolios?	Yes
Unrealized foreign exchange losses?	Yes

4. Activities	Answer
Securities	Permitted
Insurance	Permitted
Real Estate	Restricted
Bank Owning Non-financial Firms	Restricted

[13] It is about demand to increase their parts of capital to assure(insure) the control of the Moroccan banks.

Regulatory framework of Banking Services in Morocco (3)

5. External Auditing Requirements	Answer
Is an external audit a compulsory obligation for banks?	Yes
Are specific requirements for the extent or nature of the audit spelled out?	Yes
Are auditors licensed or certified?	Yes
Do supervisors get a copy of the auditor's report?	Yes
Does the supervisory agency have the right to meet with external auditors to discuss their report without the approval of the bank?	Yes
Are auditors required by law to communicate directly to the supervisory agency any presumed involvement of bank directors or senior managers in illicit activities, fraud, or insider abuse?	Yes
Can supervisors take legal action against external auditors for negligence?	No; Bank Al-Maghrib can send one warning to every listener who does not release his mission with the competence and the diligence required or failed in its commitments. Bank Al-Maghrib can remove him(her) the approval if he does not take into account this warning.
Has legal action been taken against an auditor in the last 5 years?	No

6. Internal Management/Organizational Requirements	Answer
Can the supervisory authority force a bank to change its internal organizational structure?	Yes
Has this power been utilized in the last 5 years?	No

Regulatory framework of Banking Services in Morocco (4)

7. Liquidity & Diversification Requirements	Answer
Are there explicit, verifiable, and quantifiable guidelines regarding asset diversification? (for example, are banks required to have some minimum diversification of loans among sectors, or are their sectoral concentration limits)?	No
Are banks prohibited from making loans abroad?	No; they can extend them after preliminary agreement of proper authorities.
Are banks required to hold either liquidity reserves or any deposits at the Central Bank?	Yes
If so, what are these requirements?	14%
Do these reserves earn any interest?	Yes
What interest is paid on these reserves?	0,50%
Are banks allowed to hold reserves in foreign denominated currencies or other foreign denominated instruments?	Yes
If yes, please state the ratio	Max ratio (net position/ net capital and reserves) of 10% in each currency and maximum ratio of 20% for all currencies
Are banks required to hold reserves in foreign denominated currencies or other foreign denominated instruments?	No
If yes, please state the ratio	
What percent of the commercial banking system's assets is foreign-currency denominated?	4%
What percent of the commercial banking system's liabilities is foreign-currency denominated?	5%
What percent of the commercial banking system's assets is in central government bonds?	20,60%
What percent of the commercial banking system's assets is funded with deposits?	73%
What percent of the commercial banking system's assets is funded with insured deposits?	73%

Regulatory framework of Banking Services in Morocco (5)

Depositor (Savings) Protection Schemes		Answer
Is there an explicit deposit insurance protection system? If yes:		Yes
Is it funded by (check one) : the government, the banks, or both ?		The banks
How insurance premia collected		Regularly (ex ante)
Do deposit insurance fees charged to banks vary based on some assessment of risk?		No
If pre-funded, what is the ratio of accumulated funds to total bank assets?		0,80%
What is the deposit insurance limit per account?		MAD 50.000
Is there a limit per person?		Yes
If yes, what is that limit (in domestic currency)?		MAD 50.000
Is there formal co-insurance under which depositors are only insured for some percentage of their deposits, either absolutely or above some floor and/or up to some limit?		Yes
Does the deposit insurance scheme also cover foreign currency deposits?		Yes
Are inter-bank deposits covered?		No
Does the deposit insurance authority make the decision to intervene a bank? If no, who does?		No The Central Bank and The Ministry of Finance
Does the deposit insurance authority have the legal power to cancel or revoke deposit insurance for any participating bank?		No
As a share of total assets, what is the value of large denominated debt liabilities of banks-subordinated debt, bonds, etc.-that are definitely not covered by any explicit or implicit savings protection scheme?		6%
As part of failure resolution, how many banks closed or merged in the last 5 years?		1; It is about a fusion-absorption.
Were depositors wholly compensated (to the extent of legal protection) the last time a bank failed?		Never happened
On average, how long does it take to pay depositors in full?		Never happened
What was the longest that depositors had to wait in the last 5 years?		Never happened
Were any deposits not explicitly covered by deposit insurance at the time of the failure compensated when the bank failed (excluding funds later paid out in liquidation procedures)?		Never happened
Can the deposit insurance agency/fund take legal action against bank directors or other bank officials?		No
Has the deposit insurance agency/fund ever taken legal action against bank directors or other bank officials?		No
Are non-residents treated differently than residents with respect to deposit insurance scheme coverage?		No
Who manages the insurance fund? Is it managed:	(a) solely by the private sector	No
	(b) jointly by private-public officials	No
	(c) solely by public sector	Yes

Regulatory framework of Banking Services in Morocco (5)

9. Provisioning Requirements	Answer
Is there a formal definition of a "non-performing loan"?	Yes
The primary system for loan classification is based on which criterion?	The number of days a loan is in arrears
After how many days is a loan in arrears classified as:	
Sub-standard?	90 days; Pre-doubtful debts
Doubtful?	180 days bad debts
Loss?	360 days compromised debts
What is the minimum provisioning required as loans become:	
Sub-standard?	20%
Doubtful?	50%
Loss?	100%
If a customer has multiple loans and one loan is classified as non-performing, are the other loans automatically classified as non-performing?	Yes; When the loan is classified in the category of the compromised debts
What is the tax deductibility of provisions?	Specific provisions can be deducted; This deduction is not automatic.