

# DOCUMENTS ACCOMPANYING THE 2025 FINANCE BILL

## - 2023 DEBT REPORT-

In accordance with the provisions of article 48 of the regulatory law no. 130-13 relating to the Finance Act, the Treasury and External Finances Department prepares an annual report on public debt, appended to the Finance Act. This report presents the consolidated debt position of public administrations and highlights the Treasury's financing, whether on the domestic or international markets, or with foreign lenders. It also includes an analysis of the debt portfolio in terms of volume, servicing and structure by instrument, interest rate and currency, as well as an assessment of the cost indicators and risks associated with debt management.

The report also covers the active management of domestic and foreign debt, in addition to the active management of the public treasury carried out by this department.

### CONSOLIDATED GENERAL GOVERNMENT DEBT

Since 2020, and with the aim of improving the quality of available data, the debt report has been enriched with consolidated general government debt statistics.

As a reminder, these statistics have been drawn up according to a methodology developed and shared with the International Monetary Fund, and which enables the gradual transition to international standards in the publication of statistics, as recommended in the Public Finance Statistics Manual (MSFP 2014), and the Public Sector Debt Statistics Manual (GSDSP 2011).

This methodology aims to provide a view of the real and overall debt situation, by adding up all existing flows and balances according to an agreed analytical framework, and then subtracting all existing flows and balances exchanged between the units that make up the public sector. This methodology is then as follows:

- a- Determine the scope of institutional coverage, which includes all structures that make up the public administration sector, in line with the Public Finance Statistics Manual for 2014;
- b- Identify the debt instruments that will be taken into account when calculating debt;
- c- Assess these instruments according to the method adopted.

The volume of consolidated general government debt is estimated at around 964.7 MMDH at the end of 2023, compared with 880.5 MMDH at the end of 2022, representing an increase of around 84.2 MMDH, or 9.6%.

This change is mainly due to the increase in Treasury debt of around 64.9 MMDH, and the increase in Treasury deposits (+ 13.7 MMDH), in addition to the increase in the debt of local authorities (+ 0.7 MMDH). Also contributing to the increase in consolidated general government debt was the fall in the volume of Treasury bills held by pension and social reserve bodies and non-commercial public establishments by around 11.7 MMDH and 1.0 MMDH respectively.

As a percentage of GDP, the volume of consolidated general government debt recorded a slight decrease of around 0.3 percentage points to 65.9% at the end of 2023, compared with 66.2% at the end of 2022.

## TREASURY FINANCING

### 1. Domestic financing

Faced with an uncertain environment marked mainly by the size of the Treasury's borrowing requirement, coupled with a concentration of investor demand for short maturities at the beginning of the year and a rise in interest rates, the Treasury's borrowing policy was based on:

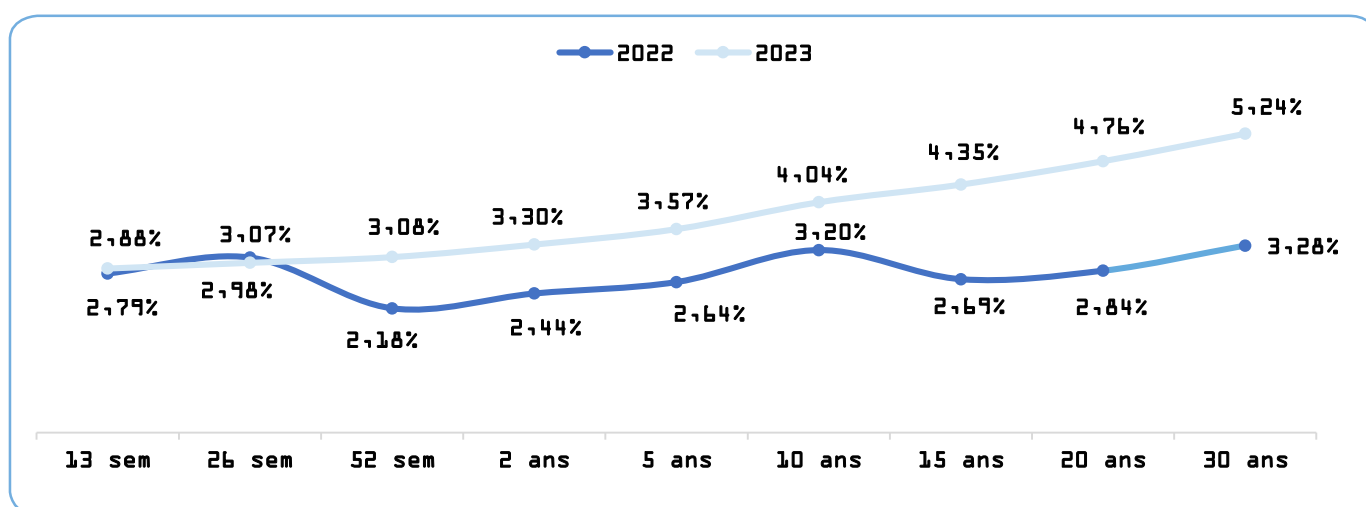
- An alignment of the structure of fund-raising with that of demand, mainly oriented towards short-term financing;
- Maintaining a regular presence on the MAVT to cover the Treasury's financing needs and maintain demand for securities even after they have been issued on the MFI;
- Continuation of GADI operations to smooth the Treasury's debt maturity profile and mitigate refinancing risk;
- The daily investment of CCT surpluses to optimize CCT cash balances by reinjecting into the money market the cash accumulated to meet large Treasury debt repayments.
- First-quarter recourse to MFI to ease pressure on the domestic market.

Treasury issues on the auction market rose by almost 98.2% to 255.2 MMDH in 2023, compared with 128.8 MMDH a year earlier. 192.6 MMDH (75.4%) of this volume was raised through auctions, and 62.7 MMDH (24.6%) through BDT exchange operations.

Following in the footsteps of the rates applied for, the rates retained by the Treasury showed a mixed trend throughout the year. This trend was characterized by a rise in rates during the first four months of the year, followed by a gradual easing over the rest of the year.

By maturity segment, BDTs with maturities of 5 years or more rose sharply by 146.3 bp, while BDTs with maturities of 2 years or less recorded a smaller increase of no more than 44.1 bp.

Annual change in BDT yields - Latest TMPs selected -



### 2. External financing

For the year 2023, drawdowns on the Treasury's external borrowings totaled 45.5 MMDH, up 15.8 MMDH on the 29.7 MMDH recorded in 2022.

This increase is mainly attributable to the completion of a bond issue on the MFI in the amount of US\$2.5 billion (26.1 MMDH), representing a 57.3% share of total drawings.

Mobilizations from multilateral creditors amounted to 15.4 MMDH, representing 34.0% of total drawdowns, down 5.9 MMDH on 2022. These drawings were made mainly with the World Bank (7.7 MMDH), the ADB (3.2 MMDH), the FMA (3.2 MMDH) and the EBRD (0.7 MMDH).

Mobilizations from bilateral creditors amounted to 8.7% of total drawdowns, reaching 4.0 MMDH in 2023, compared with 8.4 MMDH the previous year, down by 4.4 MMDH. These drawdowns were mainly with France (2.0 MMDH), Germany (1.6 MMDH) and Japan (0.3 MMDH).

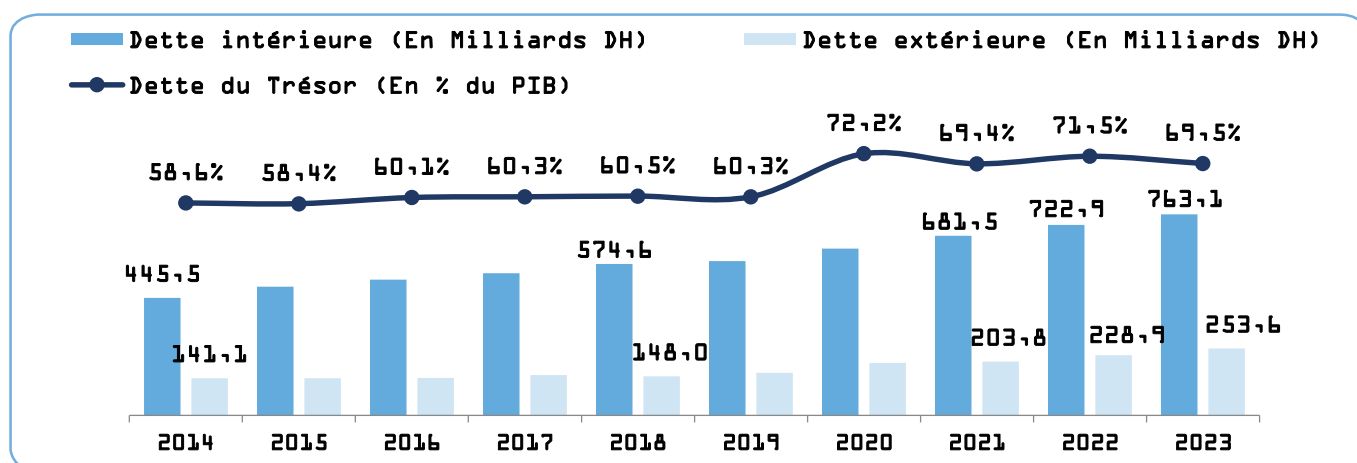
## CHANGES IN TREASURY DEBT

### 1. Outstanding

At the end of 2023, outstanding Treasury debt stood at 1,016.7 MMDH, up by 64.9 MMDH or 6.8% compared with the end of 2022 (951.8 MMDH), compared with an increase of 7.5% between 2021 and 2022.

As a percentage of GDP, outstanding Treasury debt fell by 2.0 GDP points to 69.5%, compared with 71.5% at the end of 2022, following an equivalent increase between 2021 and 2022.

Change in outstanding Treasury debt



### 2. Structure by instrument

Treasury debt is mainly negotiable, with a share of almost 78.1%, including 68.8% for BDTs issued on the auction market and 9.3% for Eurobonds issued on the MFI.

Non-negotiable debt accounts for 21.9% of the Treasury's debt portfolio, and is mainly made up of external loans raised from official creditors (16.4%).

### 3. Interest rate structure

At the end of 2023, the proportion of the Treasury's outstanding debt at fixed rates stood at almost 88.6% of the total, down 0.7% on the end of 2022. The predominance of fixed-rate debt is essentially due to the fact that domestic debt, which accounts for 75.1% of outstanding Treasury debt, is almost exclusively fixed-rate. It should be noted that 2023 saw the issue of new 2-year and 5-year adjustable-rate BDTs, with total outstandings of 20.2 MMDH, or 2.6% of outstanding domestic debt.

With regard to external debt, the structure by type of interest rate was characterized by an increase in the proportion of fixed-rate debt, which stood at 70.1% versus 68.3% at end-2022, and a decrease in variable-rate debt, which stood at 29.9% at end-2023 versus 31.7% at end-2022. It should be noted that the structure by type of interest rate remains in line with the benchmark external debt portfolio.

### 4. Currency structure

The Treasury's debt portfolio remains dominated by DH-denominated debt, which accounts for 72.3% of outstanding debt, down 0.8% on 2022 (73.1%).

At the end of 2023, the share of the Treasury's foreign debt denominated in euros in the total stock of debt denominated in foreign currencies reached 59.2%, while that denominated in US dollars and related currencies stood at 36.1% and that of other currencies (Japanese yen, Kuwaiti dinar and others) at 4.7%.

This structure remains close to that of the current DH quotation basket (60% euro and 40% US dollar), thus limiting the exposure of the Treasury's external debt portfolio to currency risk.

## 5. Treasury debt service

Treasury debt charges in amortization, interest and commissions, settled in 2023, reached 277.4 MMDH against 167.2 MMDH in 2022, an increase of 110.3 MMDH or 65.9%. This increase is due to a rise in principal expenses of 105.7 MMDH and in interest expenses of almost 4.5 MMDH.

By type of debt, domestic debt charges rose by almost 120.0 MMDH to 258.6 MMDH, compared with 138.6 MMDH at the end of 2022. This trend is essentially due to the high level of principal payments, in line with the structure of mobilizations in previous years. External debt charges fell by 9.7 MMDH to 18.8 MMDH in 2023, compared with 28.6 MMDH the previous year.

## 6. Cost indicators

### 6.1. Average cost of Treasury debt

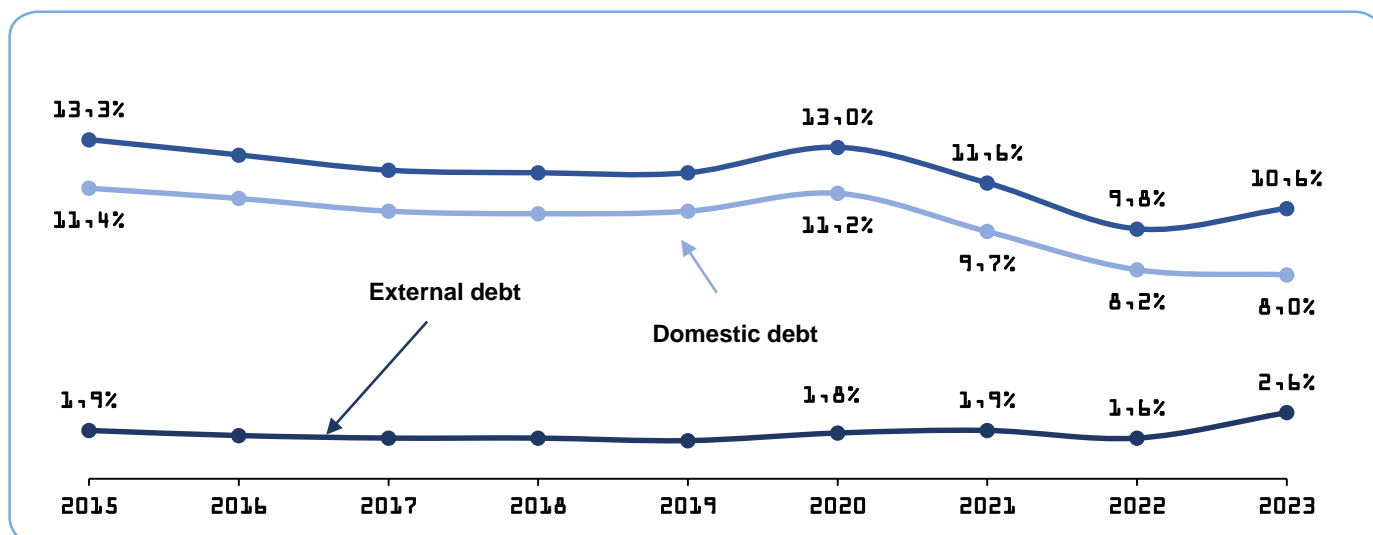
At the end of 2023, the Treasury's average cost of debt was 12.7 bp higher than in 2022, at 3.33% versus 3.20%.

### 6.2. Weighted average auction rate

The weighted average rate for BDT issues (including GADI operations) stood at 3.92%, up 169.7 bp on the rate recorded at the end of 2022 (2.23%). This development is the result of the sharp rise in rates retained by the Treasury in 2023, in the wake of the rise in rates demanded by investors on the MAVT following the 150 bp increase in BAM's key rate, coupled with the increase in the share of subscriptions on maturities of 5 years and over.

### 6.3. Interest expense on Treasury debt as a proportion of ordinary revenue

At the end of 2023, the ratio of Treasury debt interest expense (including commissions) to ordinary revenue stood at 10.6%, up 0.8 points on 2022.



## 7. Risk indicators

### 7.1. Short-term portion

At the end of 2023, the share of short-term Treasury debt stood at 11.8%, compared with 17.2% at the end of 2022, down 5.4%. This is a result of the fall in the share of short-term domestic debt by almost 7.5% to 13.9%, compared with 21.2% the previous year, following the increase in Treasury borrowings on the MLT segments of almost 157.1% compared with the previous year.

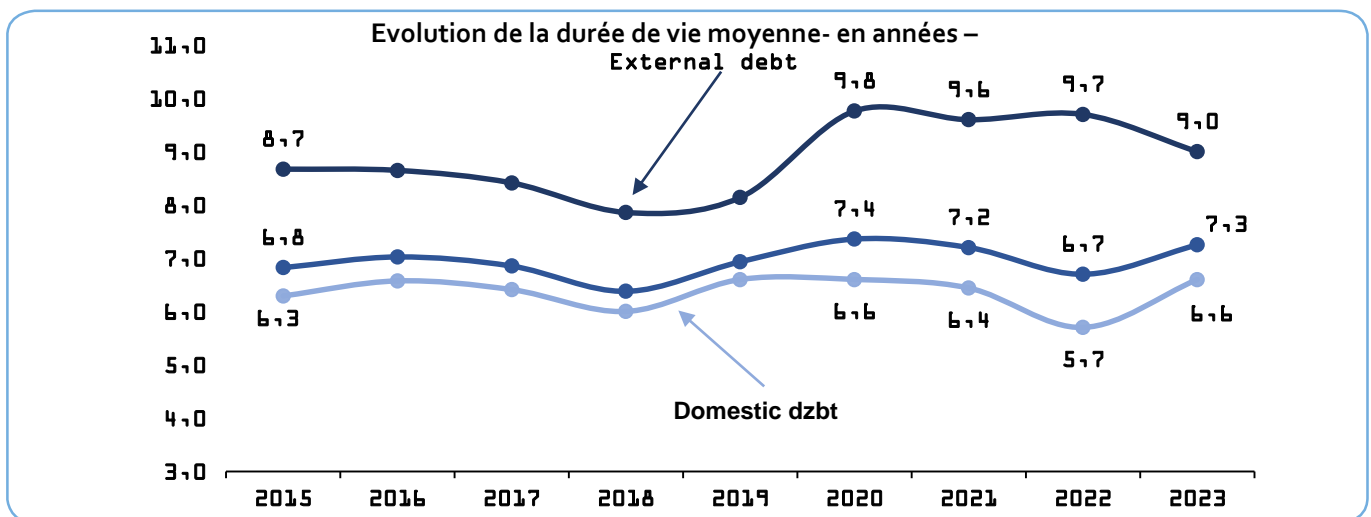
The share of short-term debt in the external debt portfolio increased by 1.9 percentage points to 6.5% at the end of 2023, compared with 4.6% a year earlier.

### 7.2. Average maturity of Treasury debt

At the end of 2023, the average maturity of the Treasury's debt stood at 7 years and 3 months, compared with 6 years and 8 months in 2022, representing an increase of 7 months, a level which remains in line with the target set for the Treasury's benchmark debt portfolio (between 6.5 years and 7.5 years).

This evolution is the result of an increase in the average maturity of domestic debt of almost 11 months, attributable mainly to the rise in issues on the MLT segments compared with last year, after the significant drop in this indicator in 2022 (-8 months compared with 2021).

As for the average maturity of external debt, it fell by almost 9 months to almost 9 years.



### 7.3. Monthly coverage rate of issues on the auction market

At the end of December 2023, the average bid-to-cover ratio for BDT auctions stood at 2.3 times, up from 2.1 times at the end of December 2022. This evolution is explained in particular by the significant increase in the volume of investor demand (+108.0%) compared with the volume raised by the Treasury (+98.2%), given the context that prevailed in 2023.

### 7.4. Interest rate risk

Interest-rate risk is assessed using two indicators: (i) the proportion of debt requiring repricing, and (ii) the proportion of debt at variable rates.

#### Portion of debt requiring repricing

Treasury debt requiring interest rate resetting in 2024 comprises:

- variable-rate debt (external and domestic); and
- Short-term fixed-rate debt (domestic and foreign) requiring refinancing in 2024.

At the end of 2023, this debt stood at almost 234.3 MMDH, or 23.0% of the Treasury's outstanding debt, down 0.2 points compared with the end of 2022. This evolution is mainly due to the decrease in the share of domestic debt maturing in less than one year, following the increase in borrowings on the MLT segment compared with 2022.

## *Percentage of variable-rate debt*

For 2023, the share of variable-rate debt in the Treasury's debt portfolio stood at 11.5%, compared with 10.8% a year earlier. This change is due to the increase in variable-rate domestic debt, which rose from 1.2% at end-2022 to 2.6% at end-2023 as a result of the issuance of an additional 11.2 MMDH in revisable-rate BDTs in 2023. The share of variable-rate external debt fell by almost 1.8% to 29.9% at end-2023, compared with 31.7% at end-2022.

### **7.5. Exchange rate risk**

At the end of 2023, the proportion of foreign currency-denominated debt represents only 27.7% of the Treasury's debt portfolio, thereby limiting exchange rate risk.

The foreign currency composition of the Treasury's external debt portfolio, with 59.2% of debt denominated in euros and 36.1% in US dollars and related currencies, remains close to the Dirham's current quotation basket (60% euro - 40% US dollar), helping to mitigate the portfolio's exposure to the impact of fluctuations in the exchange rates of international currencies against the Dirham.

## **CHANGES IN PUBLIC EXTERNAL DEBT**

### **1. Outstanding**

At the end of 2023, outstanding public external debt had risen by 15.1 MMDH or 3.6% to 438.8 MMDH. The ratio of public external debt to GDP stood at 30.0%, down 1.8 points of GDP compared with the end of 2022.

Public external debt comprises (i) the Treasury's external debt, (ii) the guaranteed and unguaranteed external debt of the EEPs, TSTs and IFPs, and (iii) the State-guaranteed external debt of the IUPs.

The change in public external debt outstanding is mainly due to the 10.8% rise in the Treasury's external debt outstanding and the 5.0% fall in the external debt of other public borrowers.

As a result, the Treasury's external debt outstanding rose by around 24.7 MMDH to 253.6 MMDH at the end of 2023, compared with 228.9 MMDH at the end of 2022. The Treasury's debt-to-GDP ratio stood at 17.3%, an increase of 0.1 points of GDP compared with end-2022.

Public external debt outstanding, excluding the Treasury, stood at 185.2 MMDH at the end of 2023, compared with 194.9 MMDH the previous year, down by 9.7 MMDH. As a percentage of GDP, this outstanding debt reached 12.7%, down 1.9 points of GDP compared with the end of 2022.

### **2. Structure by creditor**

At the end of 2023, the creditor structure of public external debt remains dominated by loans contracted with official creditors (bilateral and multilateral), representing 72.1% of total outstanding debt. External debt to private creditors accounted for 27.9% of total outstanding debt, an increase of 17.5 MMDH compared with the end of 2022. It should be noted that 96.5% of this debt corresponds to public sector issues on the international financial market.

### **3. Structure by borrower**

For the 4<sup>th</sup> consecutive year since 2015, the Treasury's external debt at the end of 2023 exceeded that of other public borrowers (guaranteed and unguaranteed).

As a result, the Treasury's external debt outstanding amounted to 253.6 MMDH, representing 57.8% of total public external debt outstanding. Outstanding external debt of other public borrowers amounted to 185.2 MMDH, representing 42.2% of total public external debt.

For external debt excluding the Treasury, the EEPs remain the leading group of borrowers, with outstanding debt of 176.5 MMDH. Five main borrowers account for 76.8% of this total: OCP (23.9%), ONEE (23.8%), ONCF (11.7%), ADM (8.8%) and MASEN (8.6%).

#### 4. Currency structure

The currency structure of public external debt for 2023 shows a preponderance of euro-denominated debt, with a share of 60.1%, followed by debt denominated in US dollars and related currencies (33.0%), while the Kuwaiti dinar accounted for 3.5%.

This structure remains close to that of the dirham quotation basket, which helps limit the impact of exchange-rate risk on outstanding public external debt and debt servicing.

#### 5. Interest rate structure

By type of interest rate, the structure of public external debt is marked by a predominance of debt with fixed interest rates, which reached 74.5%, against 25.5% for debt with floating interest rates.

It should be noted that 84.4% of floating-rate debt is indexed to the euro, thereby reducing servicing costs.

#### 6. Drawdowns on external borrowings

In 2023, drawings by the Treasury totaled 45.5 MMDH, compared with 29.7 MMDH in 2022, an increase of 15.8 MMDH.

For their part, drawdowns by other public borrowers fell by almost 6.3 MMDH compared with 2022.

#### 7. Foreign public debt service

In 2023, external public debt servicing amounted to 38.2 MMDH, compared with 47.4 MMDH at the end of 2022, down by 9.2 MMDH. This change in amortization, interest and commission expenses is essentially due to a 4.1 MMDH increase in debt servicing to official creditors, offset by a 13.3 MMDH decrease in servicing to private creditors.

In addition, public external debt servicing as a proportion of current receipts from the balance of payments decreased by 1.5%, from 6.4% in 2022 to 4.9% in 2023.

### ACTIVE MANAGEMENT OF TREASURY DEBT

#### 1. Active management of domestic debt

The year 2023 saw a return to investor interest in GADI operations. To this end, DTFE carried out 11 GADI transactions, including 10 BDT exchange transactions and a single BDT repurchase transaction.

The total amount of BDT repurchased through GADI operations amounted to 74.3 MMDH.

The total amount repurchased came to 69.8 MMDH, of which 61.8 MMDH from BDT exchange operations and almost 8.0 MMDH from the repurchase operation. By year of maturity, the amount repurchased in 2023 is broken down as follows:

- 40.0 MMDH for the buyback of the 2023 falls;
- 26.5 MMDH for the redemption of 2024 maturities; and
- 3.3 MMDH to buy back 2025 maturities.

In terms of the impact of GADI's operations, the following can be noted:

- Mitigation of refinancing risk through a reduction in domestic debt repayments in the months concerned by these operations, by an average of almost 4.5 MMDH per month in 2023, almost 2.5 MMDH per month in 2024 and almost 0.7 MMDH in 2025.
- The increase in interest expense on domestic debt paid in 2023 of almost 270.4 MDH. This increase is due to the combined effect of a saving of almost 194.7 MDH on interest charges arising from the redemption of 2023 maturities, and an increase of almost 388.6 MDH on interest charges arising from the redemption of 2024 maturities and of 76.5 MDH on interest charges arising from the redemption of 2025 maturities.
- It should be emphasized that a decrease/increase in interest expense in connection with exchange operations depends on the buyback date in relation to the coupon payment date for each line. Thus, a line bought back before/after the coupon payment date will produce a decrease/increase in interest expense.
- A reduction in the debt ratio for 2023 of almost 0.5 points of GDP, due to the repurchase of almost 8.0 MMDH as part of a buyback operation carried out at the end of the year.

## 2. Active management of external debt

As part of its active management of foreign debt, aimed in particular at reducing the cost of indebtedness, the Treasury and External Finances Department has continued its efforts to convert debt into public investment.

Thus, an amount of 0.5 MDH was converted in 2023 as part of the conversion program concluded with Italy under the cultural heritage preservation project, bringing the total amount converted at the end of December 2023 under this project to around 15.6 MDH out of a total envelope of 2 million euros.

Cumulative conversions under the above-mentioned program amounted to some 153.8 MDH, representing 90% of the total envelope of 15 million euros earmarked for the program.

Cumulative amounts processed since 1996 have reached around **90 MMDH**.

## ACTIVE CASH MANAGEMENT

### 1. Operations completed in 2023

During 2023, the DTFE's recourse to active public cash management operations took place in a context characterized by:

- An increase in the bank liquidity deficit, from an average weekly deficit of 80.9 MMDH at the end of 2022 to an average weekly deficit of 83.2 MMDH at the end of 2023; and
- An increase in the CCT's cash position, which averaged around 33.3 MMDH on a daily basis in 2023, compared with 10.3 MMDH last year, following the creation of a substantial cash cushion as part of the DTFE's proactive debt management program, aimed at pre-financing major financing requirements linked to large debt maturities, and thus better managing refinancing risk.

In 2023, the number of investment operations carried out by the DTFE reached 449, compared with 405 in 2022.

Cumulative volume placed with banks rose by a substantial 172.0% to 1,842.3 MMDH in 2023, compared with 677.2 MMDH in 2022, thanks to the substantial increase in the CCT's liquid assets, excluding treasury operations, resulting from the build-up of a comfortable cash cushion, as mentioned above.

### 2. Active cash management revenues

Active management of the public cash position will generate net income of 680.5 MDH in 2023, compared with 94.2 MDH in 2022. These revenues are broken down as follows:

- 627.5 MDH (92.2% of total revenues) in investment income, compared with 71.2 MDH at the end of December 2022; and
- 53.0 MDH in remuneration of the CCT balance.

Since the start of operations in 2010, total revenues from active cash management have amounted to almost 2.5 MMDH, broken down as follows:

- 1,950.9 MDH (or 76.9% of total revenues) in investment income; and
- 587.0 MDH from remuneration of the CCT balance.