Royaume du Maroc

Ministère de l'Economie et des Finances

Department of Economic Studies and Financial Forecasts

Monetary and bond market trends in 2009

March 2010

Introduction

In 2009, Morocco achieved an economic growth of 5.3%, not much lower than the year before (5.6%). Such a significant growth was induced by increasing domestic demand, sustained investment, improved household income, good harvest together with measures taken by the strategic watch committee in favor of export-based sectors.

Public finances, however, failed to sustain the remarkable record of 2008 and witnessed a deficit closer to 2.5% of the GDP, following dwindling tax earnings on account of lower taxation rates and an economic crisis that seriously affected activities driven by foreign demand. To make up for this deficit, the treasury has significantly increased its collection volume on the primary market with debts totaling MDH 5 billion. Treasury financing on securities auctions was conducted in the midst of lower rates of bargained units occasioned by rising subscription demand decreasing monetary rates.

The international economic crisis negatively impacted both the balance of the current account and external credits in the wake of a sluggish flux of foreign capital, namely transfers by Moroccans living abroad, foreign investments and private loans as well as international travel receipts. Banking liquidity has also come under strain resulting in a noticeable economic slowdown marked by a downturn in real estate loans and activity of financing institutions. Money supply has soared to higher levels, thus driving up the dire need for liquidity to an average of MDH 18 billion in 2009.

To maintain the market balance, Bank Al-Maghrib put in place an elaborate monetary policy and injected the liquidity required. The viability of such a measure is evident in the scale of deposits on calls for bid and the consistent decrease in cash reserve ratio as well as in the transaction volume and interest rate on inter-bank compartment.

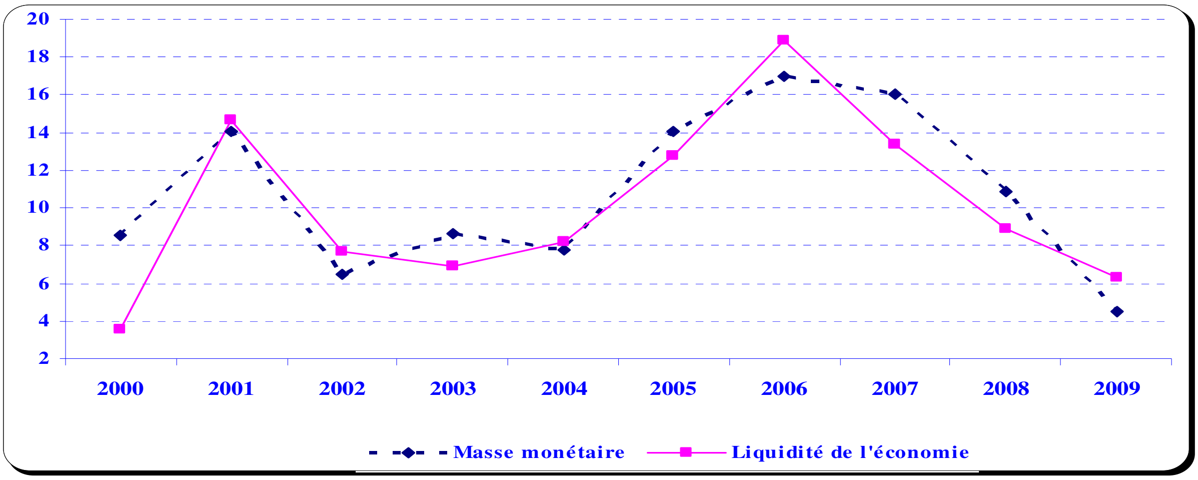
Inflation, which is measured according to consumer price index, has significantly decreased in comparison to the previous year, from 3.7% to 1%. Such a decrease is prompted by the drop in energy and raw material prices on the international market. In 2009, Bank Al-Maghrib decided to lower the key rate down to 3.25%, a measure that has further brought down the bond rate in the first quarter of the year.

In spite of the decrease in transaction volume, the private debt market has always been galvanised by a deeper banking liquidity deficit and a dire need for investment-based finances.

1. Downturn in the Liquidity Market

Due to a shortage in money supply, the downturn in the liquidity market worsened in 2009, from 13.4% in 2007 and 8.9% in 2008 to 6.3% (see table 1). Owing to a decrease in demand deposit from 7.9% to 4.8% which followed a decline in demand deposit accounts at banks from 7.6% to 5.8%, the outstanding balance for 2008 rose by only 4.5% instead of a projected growth of 10.8%. Savings accounts together with investments have also retracted by 1.1% and 23.2 points respectively following the steep decrease in fee-earning deposit accounts and fixed term bonds. Liquid investments, for their part, have increased from 15.5% in 2008 to 36. 3%, thus contributing 2.1% to the liquidity market.

Figure 1: Evolution of the overall economic liquidity and money supply
(Year over year en %)



Source: Bank Al-Maghrib, calcul DEPF

With regard to monetary counterparts, contribution to money supply, which was set at 115%, rose by only 9.1% compared to 22.9% a year ago. Two factors account for this recoil. On the one hand, real estate loans rose by 15 points while financing firms witnessed a sluggish growth of 20 points. On the other hand, treasury loans dropped by 1% from 22% in 2008 whereas several types of consumer credits decreased by 12 % compared to 95% for the same year.

State financial obligations rose by 6% compared to 1% in 2008, due to the treasury resorting to banks, for a package of around 1.9 billion, and to the deteriorating balance of the treasury at the Central Bank

Finally, and for the second consecutive year, net external assets have slid from MAD 196 billion at the end of 2008 to 189 billion, a 3.6% drop which follows the 5.3% drop a year earlier. Such a decline, occurring despite the fact that the trade balance deficit was cut from 23.5% to 10.4% in 2009, was caused by a drop of 5% in travel revenues, 5.3% in transfers from Moroccans in residence abroad, and 26.1% in foreign investment and private loans.

Table 1: *Aggregates of liquidity in the economy (year over year in outstanding in %)*

Aggregates	2005	2006	2007	2008	2009
Money supply	**14,0**	**17,0**	**16,1**	**10,8**	**4,5**
Counterpart items:					
- External assets	14,9	15,0	8,8	-5,3	-3,6
-State debt	6,6	0,2	2,7	1,1	6,0
-Aid to economy	11,1	16,3	28,5	22,9	9,1
Liquid investment	**0,1**	**40,9**	**-12,3**	**-15,5**	**36,3**
Liquidity of economy	**12,8**	**18,9**	**13,4**	**8,9**	**6,3**

Source : Bank Al-Maghrib, calcul DEPF

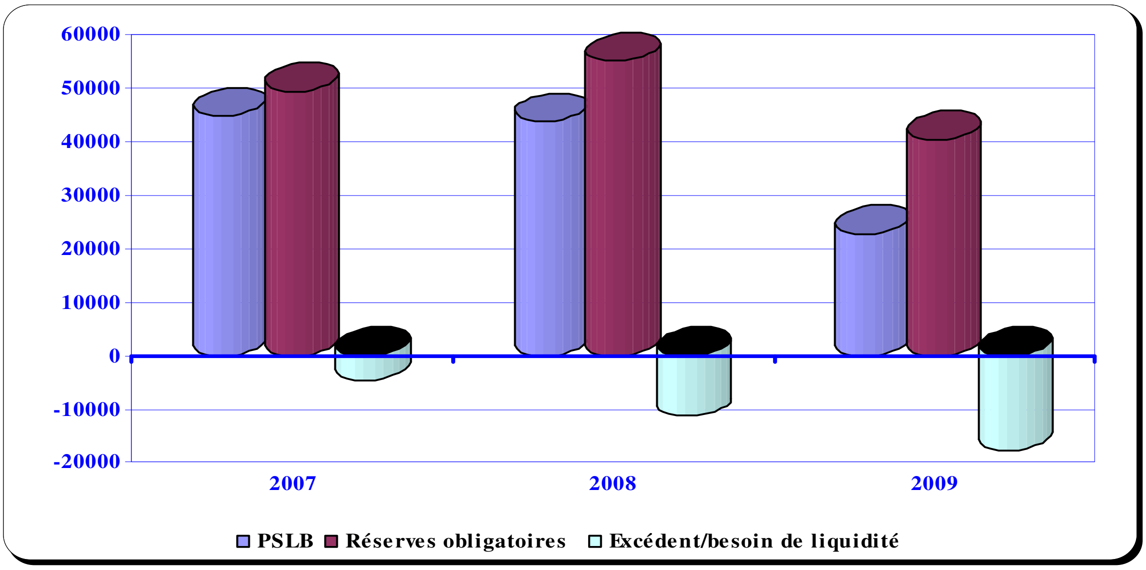
2. Monetary market : drop in interest rates despite a growing deficit in liquidity

2.1 Banking system: rising liquidity needs

In the year 2009, the average structural liquidity position for banks, calculated from average outstanding at the close of the week, dropped by 48%, from MAD 43.7 billion to 22.8 billion, following a 2.3% drop in 2008. Such a situation was due to the restrictive impact of autonomous bank liquidity factors, especially the 6.7% increase in paper money circulation, shrinking net external assets, and the deterioration by 37% of the Treasury's position at Bank Al Maghreb.

As a result, the monetary market remained in need of liquidity estimated at MAD 17.7 billion, instead of 11.3 billion the previous year. This situation developed regardless of the 26.5% reduction in the mandatory reserve, from MAD 55 billion to 40.4 billion, notably resulting from lower economic growth in loans granted and in the mandatory reserve rate.

Graph 2: Trends in banking system liquidity based on average end-of-week outstanding (in MAD million)

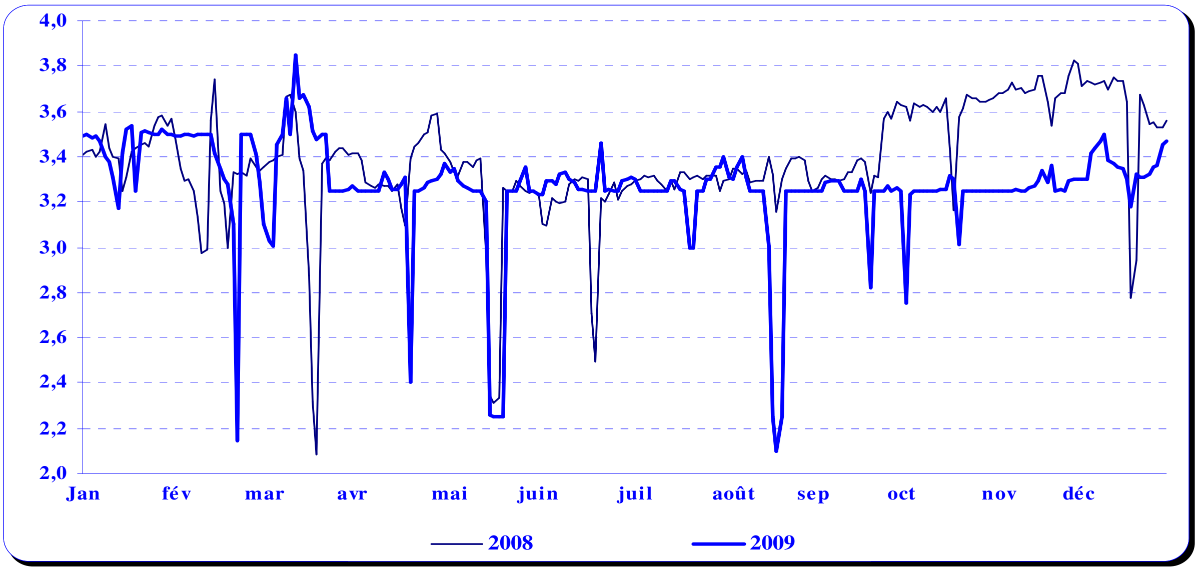


Source: Bank Al-Maghrib, figures DSFF

2.2 Drop in volume of exchange and in interest rates in interbank compartment

The average day-to-day volume of exchange dropped from MAD 2.94 billion in 2008 to 2.72 billion in 2009, a 7.8% fall subsequent to a 34.8% rise a year earlier. In such a context, trends in monetary rates took a downward turn. The daily weighted mean rate stood at 3.26%, against 3.37% a year earlier. This slight decline was due to reserve surplus levels during particular periods, especially in relation to successive drops in mandatory reserve ratios. The 25 basis points drop in the base rate in March 2009 (following a rise of the same magnitude in September 2008), as a result of subsiding inflation risks, largely contributed to the drop in interbank rates. A similar trend was seen in the repurchase agreement markets, with average day-to-day rates at 3.02%, against 3.18%. Thanks to Bank AL Maghrib's strong involvement in refinancing banks, interbank rate volatility stabilized at a relatively low level at 0.24%, against 0.49% in repurchase agreement markets.

Graph 3: Comparative trends in day-to-day interbank rate between 2008 and 2009

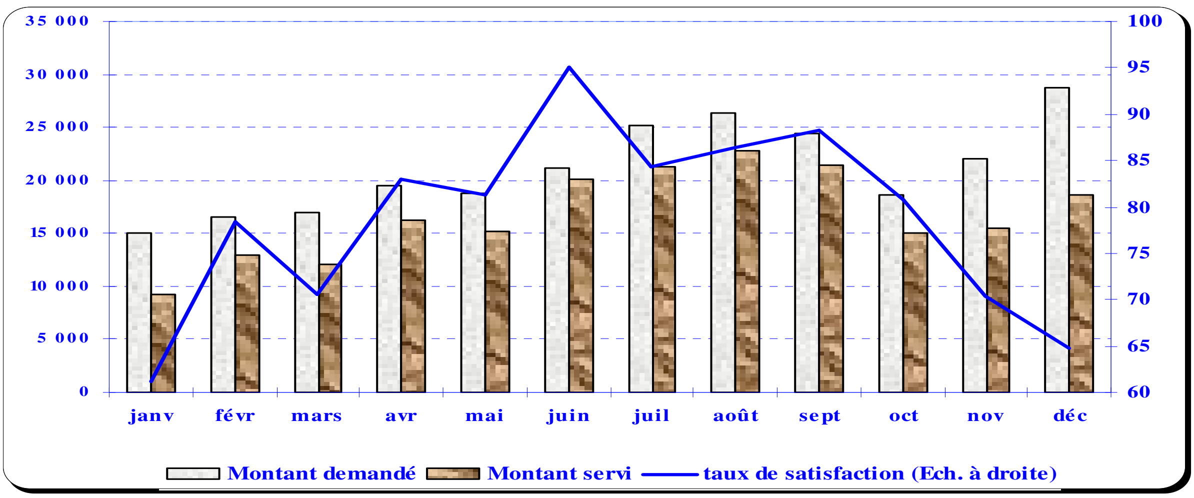


Source : Bank Al-Maghrib

2.3. Bank Al Maghrib's intervention to regulate the market

To inject the necessary liquidity, Bank Al Maghrib has intervened through 7-day advances on tender bids, for an average weekly amount of MAD 16 billion in the face of an average weekly demand of MAD 20.3 billion, a demand satisfaction rate of 78.6% instead of 52.5% in 2008 for a weekly amount of MAD 11.2 billion. Banks have also solicited 24-hour advances for an overall amount not exceeding MAD 2.2 billion. Moreover, to counter upward trends of interbank rates, Bank Al Maghrib has used other regulatory instruments, namely Repo market operations and the on-going reduction in the mandatory reserve rate to bring it down from 15% in 2008 to 8%. For the first instrument, the operation involved an overall amount of MAD 18.5 billion. The second instrument saw through the injection of around 26.5 billion. Finally, the 25-point reduction of the base rate to 3.25% illustrates Bank Al Maghrib's determination to cut the cost of refinancing banks, in view of very remote inflation risks.

Graph 4: Average weekly amounts requested and granted in 7-day tender bids market (in million MAD)



Source: Bank Al-Maghrib

3. Treasury bond market[1] : rocketing taking up and downward trend for rates

After the robust expansion of 2008, the demand for treasury bonds on the primary market continued to rise in 2009, climbing up from 317 to around MAD 449 billion. This is accounted for by the attractiveness of treasury bonds at a time of falling rates in the interbank compartment, and also by the shortage of bonds in the secondary compartment resulting notably from the relatively subdued performance of the treasury on the primary market between 2006 and 2008.

According to the breakdown, per maturity, of submissions volume, the short term, always more prominent, lost 16 points in comparison to the previous year, with a 63% share against 79% in 2008, to the medium term whose share increased from 14% to 35%. The long term only accounted for 2% of overall submissions by the end of 2009. This trend is notably due to the anticipated increase in long rates, given the expected drop in tax revenues and significant state investment for 2010. The quarterly breakdown of these submissions shows greater dynamism in the first two quarters, with a share of more than 30% each against 15% and 23% for the 3rd and 4th quarter respectively.

For the treasury, the overall demand satisfaction rate remained equal to that of the previous year (16%), which nevertheless reflected a significant increase in taking up of 57%, against 21% at the end 2008, the equivalent of MAD 73 billion instead of MAD 46.5 billion in 2008. This is due to the treasury's financing needs which rose as a result of falling tax revenues, and to the bulk of repayments which climbed up to MAD 67.7 billion, instead of 52.7 billion in 2008. Consequently, the treasury net subscription rose up to more than MAD 5.2 billion, whereas the treasury debt was cut down by more than MAD 6 billion the previous year. This resulted in a positive trend of 2.1% of outstanding bonds issued by tender to $ 259 billion dirhams at the end of 2009 against 2.4% in 2008 which reflects a relatively tight public finances over the growing need for funding. The taking up structure reflects a preference for the short term that has funneled 68% of total supply against a total absence of long-term.

Tableau 2: *Net treasury taking ups per maturity in 2009 (in MAD million)*

Maturity	Repayment	Taking up	Net debt
13 weeks	6 000	6150	150
26 weeks	6 652	8827	2 175
52 weeks	13 012	34903	21 891
2 years	6 922	11993	5 072
5 years	23 104	11038	-12 066
10 years	6 802	0	-6 802
15 years	5 182	0	-5 182
20 years	0	0	0
30 years	0	0	0
Total	**67 673**	**72 911**	**5 238**

Source: Bank Al-Maghrib, DSFF figures

The annual weighted mean of remuneration rate dipped by 33 base points for 52-week bonds and by 20 base points for 26-week bonds, to stand respectively at 3.50% and 3.49% instead of 3.83% and 3.69% in 2008. 13-week and 5-year bonds also lost 12 and 9 base points, while 2-year bonds remained essentially unchanged. In such a context, the ponderated average interest rate which synthesizes all bond issues stands at 3.56%, a 19 base point drop compared to its 2008 level, notably as a result of the 26 base point decrease in weighted mean rate in short maturity bonds, and of the lack of long-term issues.

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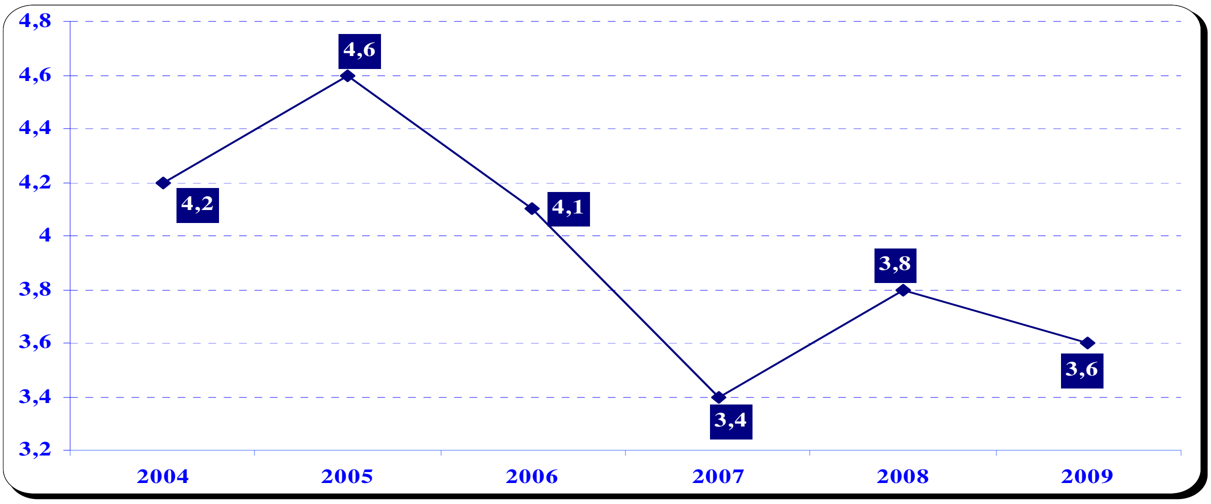
1 The statistics take into account payment and not award dates.

Graph5: *Trends in average cost of treasury bonds issued by tender (all maturities)*



Source: Bank Al-Maghrib, DSFF figures

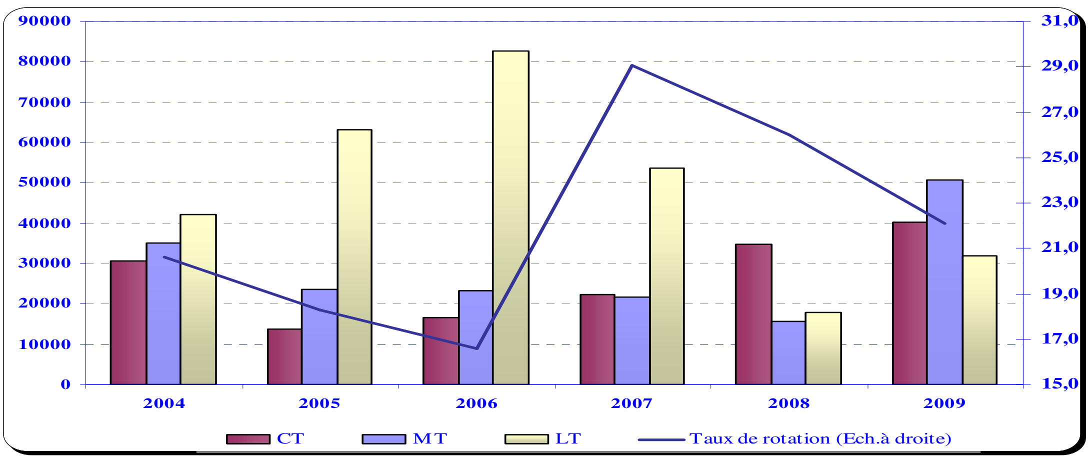
The overall transaction volume on the secondary market for treasury bonds issued by tender reached MAD 5711 billion, a 13.4% drop, following 12.7% the previous year. This drop was caused by the 14% fall in temporary operations, also affected by the 16 base points drop in TAUX REPOS.

In contrast, firm transactions increased noticeably in 2009 (+80%) to regain the 2006 level (around MAD 123 billion against 68 billion in 2008), following the consecutive drops in 2007 and 2008. This performance results from the integration of other transactions, hitherto conducted in the outside market, to this type of transactions, as ordered by Bank Al Maghrib.

The overall structure of these transactions highlights a relative drop in the short maturity share, 33% instead of 51% in 2008, and consequent increase in the mid-term maturity share which gained 18 points in comparison to 2008, to move up to 41%. The short maturity share remained stable, around 26%.

The turnover ratio took a downward turn to stand at 22%, as opposed to 26% in 2008 and 29% in 2007. This downward trend was caused by a more proportionate increase in the volume of transactions on the secondary market in relation to the increase in treasury bond outstanding on the market.

Graph6: Monthly trends in firm transactions and turnover ratio RATE between 2004 and 2009 (in MAD million and %)



Source: Bank Al-Maghrib, DSFF figures

4. Private debt market: significant volume of issues despite fall-back

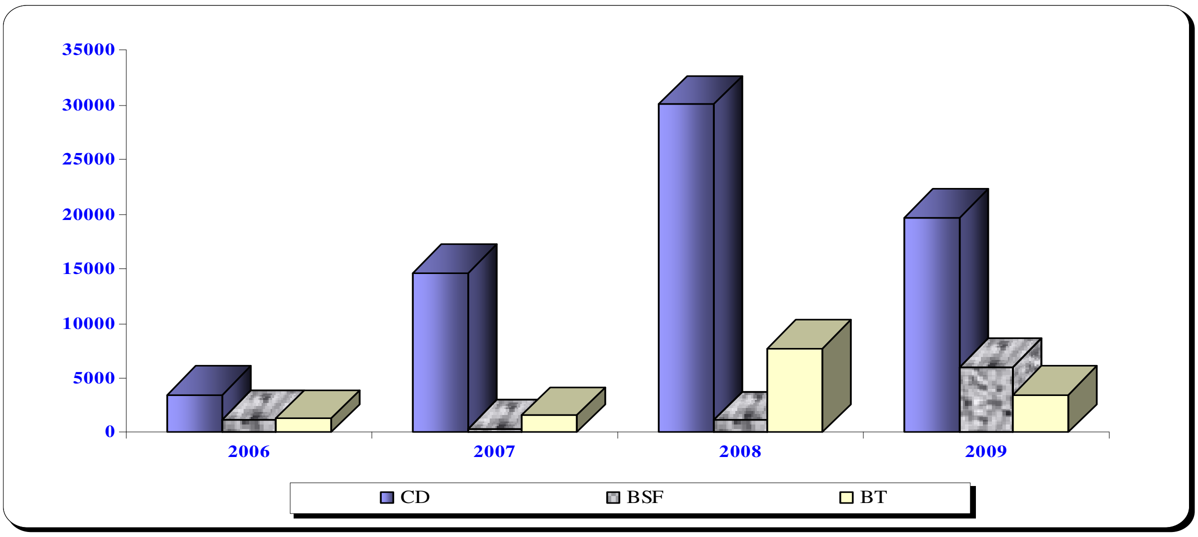
Although the volume of issues decreased by more than 20% compared to 2008, the private debt market has remained a potential financing source for private investors. Indeed, the growing bank liquidity deficit of 2009 boosted this compartment where issues rose up to around MAD 42 billion. These transactions are of some importance because such a market is an alternative for banks trying to address their liquidity needs. This dynamism was further stimulated by potential investors in search of real investment opportunities, at a time of decreasing return on the stock market. The structure of issues shows the prominence of certificates of deposit (CD) which account for 47% of overall issues, followed by bond issues and financing company bonds with respectively 31% and 14% of overall private issues.

4.1. Negotiable debt instrument market: drop in volume of issues

At the end of 2009, the volume of issues of NDI reached MAD 29.2 billion, after MAD 37.6 billion in the previous year. Regardless of the drop registered, the volume of issues remained significant, thanks notably to the quantity of issues of certificates of deposit. With 67% of overall volume of issues of NDIs, CDs accounted for MAD 19.7 billion. The main issuers of these bonds are Attijariwafa Bank, Credit du Maroc, and BMCE with MAD 6.1 billion, 4.2 billion, and 2.9 billion respectively.

At the same time, financing company bonds, with a volume of issues of MAD 6.1 billion, rose to MAD 4.9 billion, after a mere MAD 721 million a year earlier. The issues of financing company bonds, written for up to 70% by loan companies and the Deposit and Management Fund, pertain mainly to Eqdom (31%), Wafasalaf (28%) and Maghrebail (16%). Finally, the issue of commercial papers stood at MAD 3.5 billion instead of MAD 7.7 billion in the same period of the previous year. Issued by Maghreb Steel (MAD 1.8 billion), SNI (MAD 1.3 billion), Nexans Maroc (MAD 250 million) and Distrisoft (MAD 235 million), these papers are mostly written by UCITSs for up to 81% and by loan companies for the remaining 19%.

Graph 7: ***Volume of issues for negotiable debt instruments between 2006 and end of September 2009 (in MAD million)***

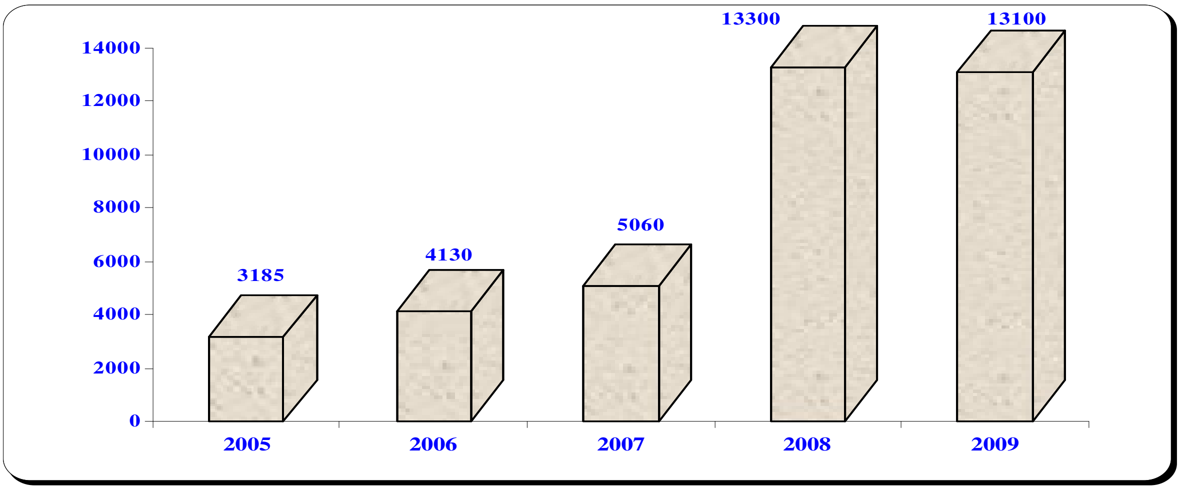


Source : Bank Al-Maghrib

4.2. Solid performance of corporate bond issues

In 2009, corporate bond issues generally remained at the same level as in the previous year, reaching MAD 11.2 billion against 10.3 billion. Overall, 16 corporate bond issues were conducted, with an average spread, all maturities included, on the rise from 79 to 88 base points.

Graph 8: *Trends in volume of corporate bond issues (in MAD million)*



Source: Bank Al-Maghrib, CFG, CDG and CDVM

The development of the bond market in 2009 was largely the result of bank issues which accounted for 49% of overall issues, thanks in part to a new issuer, BCP. Attijariwafa Bank alone achieved four debenture loans totaling MAD 2 billion, followed by SGMB with MAD 1.9 billion, and BCP and BMCE with 1 and MAD 1.5 billion respectively. SNI and Addoha also issued bonds of a value of MAD 1.5 billion each for a 10-year period and at the rate 5.10% and 4.20% respectively.

Similarly, the Moroccan Highways Company issued three debenture loans of a total value of MAD 3.4 billion. Two new issuers entered the fray in 2009, CMT and Distra, with a volume of MAD 250 million and 50 million respectively. It should be noted that the Addoha and Distra’s issues were conducted as private investment.

Conclusion

In 2009, and despite the international recession, the monetary and bond market registered generally positive trends. The recession mostly affected sectors geared towards export, and revenues from foreign investment and private loans. Moreover, transfers from Moroccans in residence abroad and travel revenues recovered slightly to stand at –5.3% and –5% respectively at the end of 2009, instead of –14% and -18% on average in the first semester of 2009.

Nevertheless, this situation helped sustain activity on the private debt market, which provides an alternative to banks looking to meet their financing needs. On the bond market, the treasury takings up rose markedly in comparison to 2008, because of the expanding financing needs of the state and the downward turn in short rates. The secondary compartment also showed a notable rise in firm transactions related to the inclusion, in this type of operations, of transactions hitherto conducted outside the market.

Inflation fell significantly to stand at 1%, following the collapse in prices of raw materials and energy products worldwide, despite continuing demand.