DOCUMENTS ACCOMPANYING THE 2018 FINANCE BILL
- DEBT REPORT OF 2016 –

Debt Report, which is drawn up every year by the Directorate of Treasury and External Finance, describes Treasury's borrowing both from domestic market and foreign lenders; analyzes the evolution of the debt portfolio in terms of outstanding debt and debt service, as well as in terms of structure by instrument, type of interest rate, and by currency; and assesses cost and risk indicators adopted in debt management. This document also takes stock of the active management of domestic and foreign debt, and the active management of the public treasury undertaken by the Directorate of Treasury and External Finance.

TREASURY'S BORROWING

In 2016, gross mobilizations of the Treasury amounted to 121.8 billion dirhams, 111.4 billion dirhams of which were raised from the domestic market (77.7%) and 10.4 billion dirhams from external origin.

1. Domestic Borrowing

In a context characterized by a continued improvement in borrowing conditions on the tender market, the Treasury conducted a borrowing policy during 2016 that focused on the following points:

- Ensure a regular presence on all maturities, taking into account market conditions. This action was reflected in the first half of the year by raising debt mainly from medium and long term maturities because of the low interest rate, whereas in the second half, more emphasis was put on short term maturities following the upward trend of interest rates required by investors.

- Ensure that domestic debt risk indicators remain close to the levels proposed and validated in the annual financing plan.

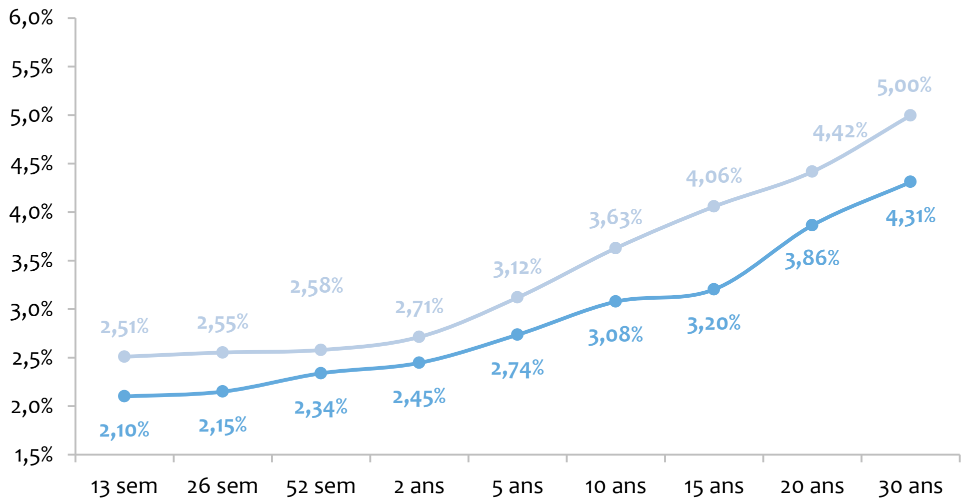
- Regularly resort to Treasury Bonds exchanges to mitigate refinancing risk through the smoothing of monthly payments of 2016 and 2017 Treasury debt that are experiencing significant peaks.

- Conduct daily investment transactions of Treasury's current account surpluses in order to optimize the availability of current account balance, and at the same time enable the Treasury to respect its issuance strategy.

Thus in 2016, the total volume of Treasury issuances on the auction market amounted to 111.4 billion dirhams against 148.5 billion dirhams in 2015. This volume is quite evenly distributed between maturities of 5 years and more and maturities of 2 years and less, with respective shares of 53% and 47%, which accounts for almost the same distribution as in 2015.

Interest rates retained by the Treasury decreased by an average 48.3bps compared to 17.7bps in 2015. In terms of maturity, Long-term maturities decreased by 66.1 bps, followed by short term maturities (-35.1, bps) and medium term maturities (-32.5 bps).

Annual evolution of Treasury Bonds' return rates - Latest weighed average rates adopted –



2. External financing

During 2016, drawings on external loans were marked by the absence of Treasury issuances on the international financial market (IFM) and amounted to 10.4 billion dirhams, thus recorded an increase of 20% compared to 2015.

Drawings on multilateral creditors amounted to 9.2 billion dirhams, which accounts for 88% of total loans, against MAD 8.3 billion in 2015 (up 10%), whereas drawings on bilateral creditors amounted to MAD 1.2 billion compared to MAD 0.4 billion in 2015.

The financial resources raised from multilateral creditors were mainly intended to support reform programs worth MAD 8.4 billion (91%). Whereas MAD 800 million (9%) were intended to finance the projects included in the State budget.

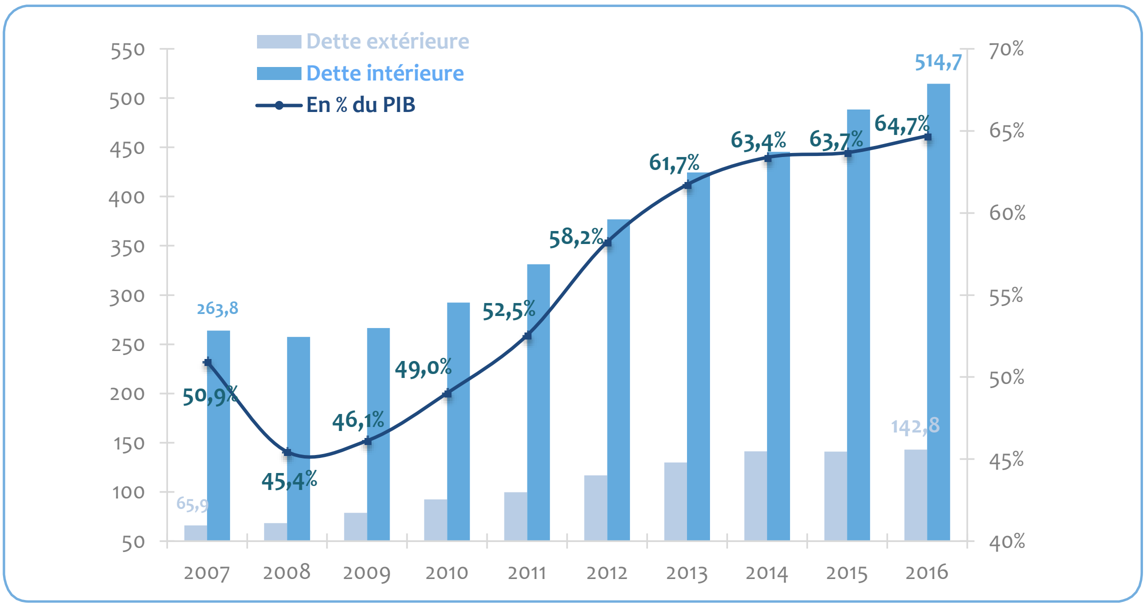
EVOLUTION OF TREASURY DEBT

1. Outstanding debt

In 2016, outstanding Treasury debt, corresponding to public direct domestic and external debts, amounted to MAD 657.5 billion, up by MAD 28.3 billion on 2015 (MAD 629.2 billion). Despite this increase, debt pace has dropped significantly from an annual average of 10.6% between 2010 and 2015 to 4.5% between 2015 and 2016, the lowest level since 2009.

In relation to GDP, outstanding Treasury debt accounted for 64.7% in 2016 compared to 63.7% in 2015. This increase of the Treasury debt ratio was characterized by a progressive control as it was reduced from an average annual change of 3.6 points of GDP between 2011 and 2014 to1 point of GDP between 2015 and 2016, thanks to government's policy that attaches crucial importance to the restoration of macroeconomic balances to keep the debt on a sustainable path.

Evolution of outstanding Treasury debt



- External debt
- Domestic debt
- % of GDP

2. Debt structure by instrument

The Treasury debt consists mainly of negotiable debt, which accounts for 82.1% of which 74.5% are Treasury bonds issued on the auction market, and 7.5% are outstanding Eurobonds issued on the IFM. Non-negotiable debt represents 17.9% of the Treasury's debt portfolio and consists essentially of external debt from official creditors.

3. Debt structure by Interest rate

At the end of 2016, outstanding fixed-rate Treasury debt accounted for nearly 90.9% of the total outstanding debt, 0.5 points down on 2015. The preponderance of the share of fixed-rate debt is explained by the fact that domestic debt, which accounts for the predominant proportion in the outstanding Treasury debt, is exclusively at a fixed rate. As for external debt, its structure by type of interest rate shows that 58.0% of the outstanding debt has fixed interest rates, whereas the remaining 42.0% was contracted at floating rates.

4. Debt structure by currency

The Treasury debt portfolio is dominated by the dirham-denominated debt, whose share accounted for 77.7% in 2016. This proportion, which is represented by domestic debt, increased by 0.5 points compared to 2015.

Regarding the distribution of the Treasury external debt by currency, and following the strengthening of the US dollar's share in the Moroccan Dirham trading basket on April 13, 2015 whose weighting increased from 20% to 40%, the proportion of the euro in the Treasury's external debt portfolio went down to 71.0% at the end of 2016 compared to 75.9% in 2015, whereas the share of the US dollar and related currencies increased to22.8% at the end of 2016 compared to 17.7% a year earlier. As for other currencies (i.e. Japanese Yen, Kuwaiti Dinar and others), their share accounted for 6.2% against 6.4% in 2015.

5. Treasury Debt Service

Treasury debt expenses for settlements, interests and commissions, settled in 2016 amounted to MAD 129 billion, a decrease of MAD 14 billion or 10% down on 2015 (MAD 143 billion). This shrinkage is the result of the combined effect of the decrease of principal expenses by 13.7 billion dirhams and the decrease of interest expenses by 0.3 billion dirhams.

By type of debt, domestic debt expenses shrank by almost 13 billion dirhams from 130.6 billion dirhams in 2015 to 117.6 billion dirhams. On the other hand, external debt expenses decreased by MAD 1 billion to reach MAD 11.4 billion in 2016 against MAD 12.4 billion in 2015.

6. Cost indicators

6.1. Average cost of Treasury debt

The average cost of the Treasury's debt reached 4.0% in 2016, down nearly 30 bps on 2015 level of 4.3%. This performance is mainly due to the abatement of the average cost of domestic debt by nearly 36 bps combined with the abatement of the average cost of external debt by14 bps.

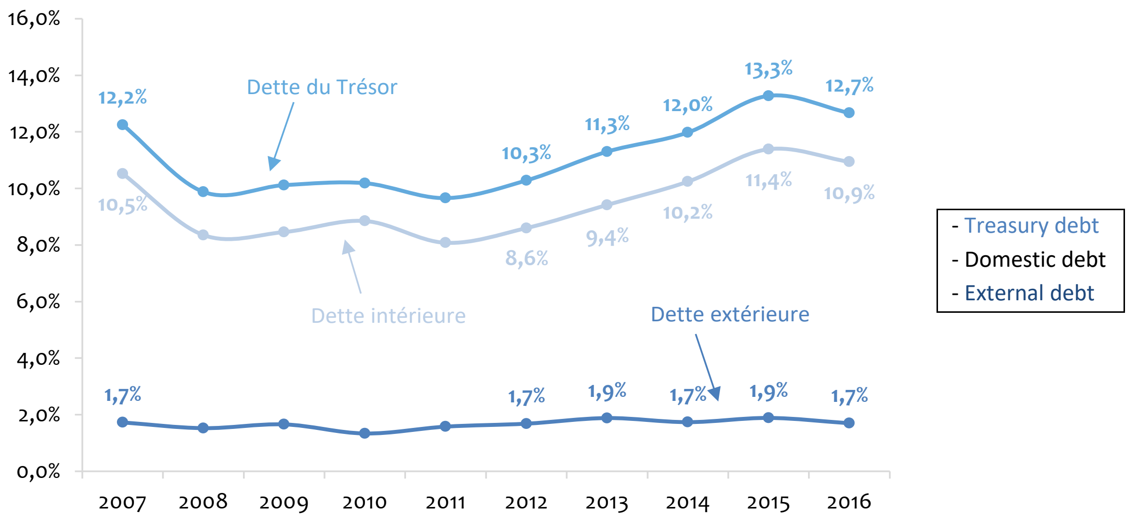
6.2. Weighted average rate of Treasury bonds issuance by auction

The weighted average rate of Treasury bonds issuance (including active management transactions) settled at 2.82% in 2016, 35.4 bps down on previous year. This decrease is mainly due to the downward trend of Treasury bonds’ rates compared to 2015 (-48.3 bps), given that the structure of Treasury debt did not undergo any significant changes between these two years, with a quasi-stability of maturities of 2 years or less (46% in 2015 versus 47% in 2016).

6.3. Ratio of interest expenses on Treasury debt to ordinary revenue

At the end of 2016, the ratio of interest expenses on Treasury debt to ordinary revenue excluding VAT of local authorities reached only 12.7% compared to 13.3% in 2015. This 0.6 % decrease of the ratio is essentially due to the combined effect of the almost 4% increase in ordinary revenue and the 1% decrease in interest expenses compared to 2015.

Evolution of the Interest expenses / Ordinary revenue ratio



7. Risk indic

7.1. Short-te

The share of the short term debt in the Treasury debt portfolio accounted for 13.3% against 13.9% in 2015. This shrinkage is mainly due to the decline in the stock of short term residual maturity instruments in the domestic debt portfolio which dwindled from 80.1 billion dirhams to 75.3 billion at the end of 2016 following the resort to swap transactions to replace short-term Treasury bonds with medium and long term Treasury bonds.

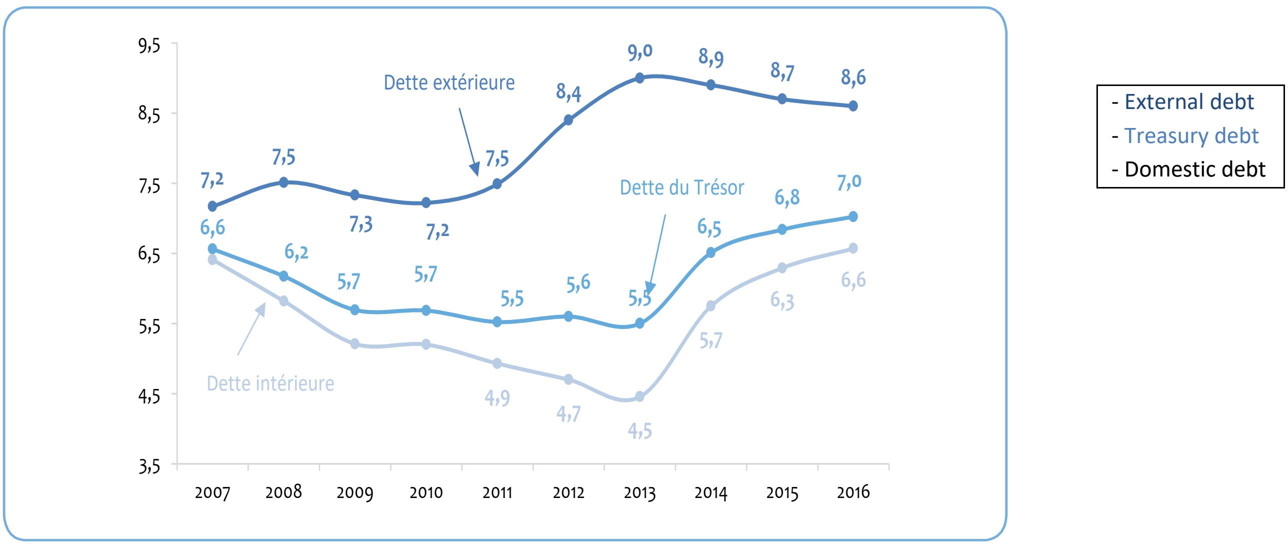
As for external debt, the portion of settlements maturing in less than one year accounted for 8.3% at the end of 2016 compared to 5.2% in 2015. This change is linked to the repayment of Eurobond's 500 million euros issued in 2007 expected during the first half of 2017.

7.2. Average period of Treasury debt

The average period of Treasury debt increased by 2 months and 12 days compared to the end of 2015 to reach 7 years. This change is mainly attributable to the increase in the average period of domestic debt, which was set at 6 years and 7 months, up 4 months compared to the end of 2015.

On the other hand, the average period of external debt settled at 8 years and 8 months at the end of 2016, almost the same as in 2015. This constancy was the result of the nature of the loans taken out from bilateral and multilateral creditors, which have redeemable repayment schedules (repayments which are spread over loans period).

Evolution of the average debt period - in years –



7.4. Share of floating-rate debt

At the end of 2016, the portion of floating-rate debt in the Treasury's external debt portfolio accounted for 42.0% compared to 38.3% at the end of 2015 and 35.1% at the end of 2014. This increase in the share of floating-rate debt, which resulted in savings in terms of paid interests, is motivated by the historically low level of floating interest rates, particularly the Euribor which has turned negative since November 6, 2015 and by market expectations that do not presage any imminent rise in interest rates, particularly the euro, given the economic outlook in the euro zone.

EVOLUTION OF PUBLIC EXTERNAL DEBT

1. Outstanding debt

The standing public external debt, which consists of (i) the standing external debt of the Treasury, (ii) the standing guaranteed or unsecured external debt of Public Establishments and Enterprises, and (iii) the outstanding external debt of territorial authorities amounted to 312.5 billion dirhams at the end of 2016, thus recorded an increase of MAD 11.5 billion or 3.8% compared to 2015.

This rise in the outstanding public external debt is mainly attributable to the increase of 6.0% in the outstanding external debt of the Public establishments and Enterprises to reach MAD 168.8 billion at the end of 2016 against MAD 159 .2 billion in the previous year (+9.6 MAD billion).

At the end of 2016, the ratio of public external debt to GDP was 30.8% against 30.5% at the end of 2015, which represents a slight 0.3 % increase.

2. Debt structure by creditors

Public external debt structure by creditors remains characterized by the predominance of loans from (bilateral and multilateral) official creditors, whose outstanding loans rose by 12.1 billion dirhams during this year. Regarding private creditors, their outstanding loans declined by MAD 0.6 billion as a result of the combined effect of the absence in 2016 of public sector issuance on the international financial market and the negative net flows of debt portfolio owed to commercial banks.

3. Debt structure by borrowers

The external debt of Public Establishments and Enterprises accounts for more than 54% of the total public external debt. As a result, and for the second year in a row, they became the largest borrowers group of the public sector with an outstanding debt of MAD 169.7 billion.

Regarding the distribution of external debt of Public Establishments and Enterprises by borrower, more than 75% of the outstanding debt is taken out by five borrowers, namely: ONEE (25%), OCP (24%), ADM (13%), ONCF (10%) and MASEN (9%).

4. Debt structure by interest rate

The distribution of public external debt by type of interest rate shows a preponderance of fixed-rates external debt as they account for 74% compared to floating-rate debt which accounts for 26%.

5. Drawdown on external loans

External loans taken out by the public sector in 2016 amounted to MAD 31.9 billion, down 15% on 2015. Drawdowns taken out by the Treasury in 2016 amounted to MAD 10.4 billion, whereas those rose by Public Establishments and Enterprises amounted to nearly DH 21.5 billion.

Public sector drawdowns were exclusively borrowed from official creditors and amounted up to MAD 12.5 billion from bilateral creditors and MAD 19.3 billion from international institutions, up by MAD 3.8 billion and MAD1.6 billion respectively.

6. Public external debt service

Public external debt service amounted to MAD 29.1 billion against MAD 24.7 billion in 2015, and thus recorded an increase of MAD 4.4 billion. This change is mainly attributable to the combined effect of the prepayments undertaken by ADM and Holding Al Omrane (HAO) concerning FADES 3.2 billion dirhams, the start of repayments of some external loans taken out by Public Establishments and Enterprises, and interest payments for the Eurobond issued in 2015 by OCP.

In relation to the current account of repayments balance, the public external debt service accounted for 6.8% in 2016 against 6.0% in 2015 and 7.1% in 2006.

ACTIVE MANAGEMENT OF TREASURY DEBT

1. Active management of domestic debt

In 2016, the Treasury Directorate conducted 7 swap transactions of Treasury bonds for a total redeemed amount of MAD 25.1 billion.

In terms of the impact of active management operations of domestic debt carried out in 2016 on cost and risk indicators, these operations generated:

- a net reduction in interest expenses on domestic debt paid in 2016 of nearly 90.9 million dirhams. This decrease stems from the combined effect of the fall in interest expenses payable in 2016 of nearly MAD194.3 million following the early redemption of the same year's payments and an increase in these expenses of nearly MAD103.4 million following the redemption of 2017 payments.

- an mitigation of the refinancing risk related to the Treasury debt by reducing the payments of the months involved in Treasury bonds’ swap transactions by an average MAD 2.6 billion per month; and

- an extension of the average lifetime of domestic debt by nearly 4 months compared to 2015 to last for 6 years and 7 months. Had we excluded the impact of these operations on the average lifetime, it would have been 6 years and 3.4 months, which is practically the same lifetime recorded at the end of 2015.

2. Active management of external debt

As part of the ongoing active management operations of external debt aimed at reducing the cost of debt and mitigating the financial risks associated with Treasury's external debt portfolio, an amount of around MAD 17.5 million was processed during 2016, thus bringing the total amount processed via these operations to nearly MAD73 billion.

The main activities of 2016 concerned the following points:

- ending the private equity debt conversion program with Spain;
- carrying out the projects funded through the current debt conversion agreements with Italy and Spain;
- cancelling a part of Italy's debt.

ACTIVE CASH MANAGEMENT

1. Operations conducted in 2016

In a context of improving both Treasury current account (TCA) and liquidity needs for banks, the Treasury Directorate managed to reduce the TCA balance by an average 5.7 billion dirhams per day in 2016 to settle at an average 3.3 billion dirhams per day against 9 billion dirhams excluding treasury operations, thanks to the daily resort to investment transactions on the monetary market.

In fact, The Directorate of Treasury and External Finances (DTFE) carried out 305 investment transactions, including 289 investment transactions with reverse repurchase (95%) and 16 unsecured deposits operations (5%).

The total amount placed reached 695.1 billion dirhams against 691.5 billion dirhams in 2015, while the weighed average rates of investment operations carried out under investment operations (repurchase agreements of Treasury bonds and unsecured deposits) decreased by 24bps to settle at 2.18% in 2016 against 2.42% in 2015.

2. Revenue collected under active cash management

In 2016, active cash management generated net proceeds of MAD 135.3 million, deducted from the Treasury debt expense, of which MAD 98.2 million (73% of total revenue) generated from the proceeds of investment transactions and MAD 37.1 million from the return of TCA balance.