- 2018 DEBT REPORT-

The debt report, which is prepared annually by the Department of Treasury and External Finance (DTFE), gives an overview of the situation of domestic and external debt at the end of each year. To this end, It describes the Treasury's use of financing on the domestic market and from foreign donors and the conditions under which this is done, analyzes the evolution of the structure of the debt portfolio by financial instrument, by type of interest rate and by currency, provides the debt service situation and assesses the cost and risk indicators related to this portfolio. This document presents the state of public external debt and presents the records of active management of internal and external debts and that of the public treasury carried out by the Department of Treasury and External Finance (DTFE).

TREASURY FINANCING

In 2018, the gross amounts raised by the Treasury amounted to 121.3 billion dirhams, 115.1 billion dirhams raised on the domestic market (95%) and 6.2 billion dirhams of foreign origin.

1. Domestic financing

In an environment characterized by the rise in the need for liquidity of banks and the fall in demand on the auction market, the Department of Treasury and External Finance (DTFE) has carried out, during 2018, a financing policy which is structured around the following points:

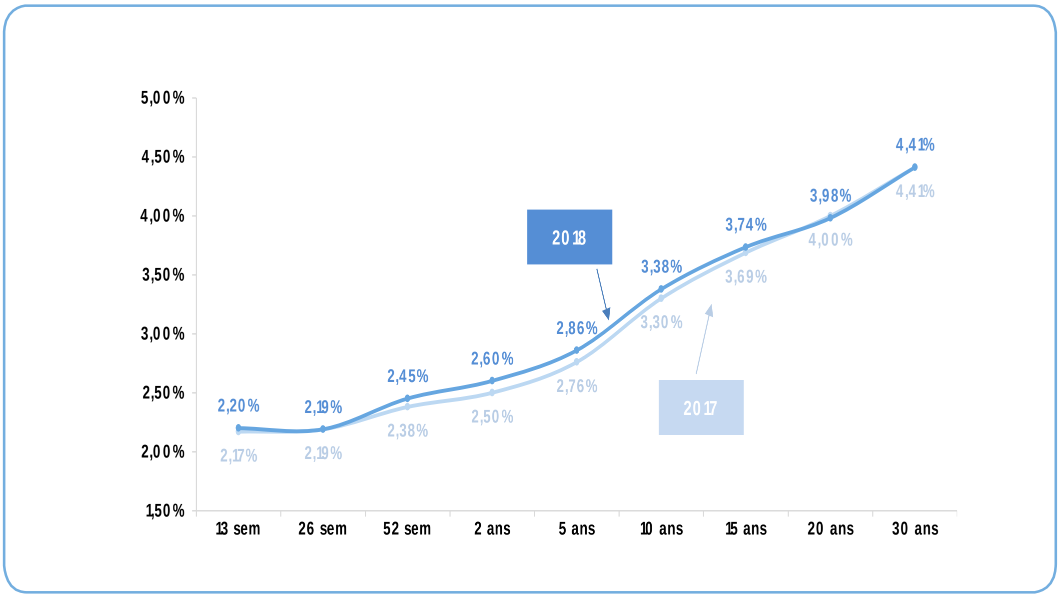
- Ensure a regular monitoring of maturities, short, medium and long term, by taking into account changes in market conditions
- Maintain the use of active management of domestic debt through the use of Treasury Bills trades with the aim of reducing the risk of refinancing by leveling off the monthly settlements of the 2018 and 2019 treasury debt which is experiencing significant repayment peaks; and
- Pursue dynamic management of the public treasury by making daily use of the investment operations of the Treasury Current Account surplus in order to optimize the cash balance of the current account and at the same time allow DTFE to fulfill its issuance strategy.

At the end of 2018, Treasury issues on the auction market amounted to 115.1 billion dirhams compared to 110.7 billion dirhams in 2017; 94.7 billion dirhams (82.3% of funding) in auctions and 20.3 billion dirhams (17.7%) for issues in the context of Treasury Bills trades.

Maturities at 5 years and over represented 47% of the total volume of funds raised, compared to 53% in 2017.

In terms of retained rates, they experienced an average increase of 5.2 basis points (bps) compared to 12.9 bps in 2017. This increase was 5.5 bps on average for maturities greater than or equal to 5 years and 4.9 bps on average for maturities less than or equal to 2 years.

Annual evolution of yields on Treasury Bills - Latest weighted average rates -



2. External financing

In 2018, external loans drawdowns amounted to 6.2 billion dirhams compared to 16.8 billion dirhams in 2017.

Drawdowns from multilateral creditors reached 94% or 5.8 billion dirhams, recording a decrease of 5.2 billion dirhams compared to 2017. These drawdowns were mobilized mainly from the FMA (2.8 billion dirhams), the AfDB (1.5 billion dirhams) and the IBRD (1.4 billion dirhams).

The drawdowns mobilized from bilateral partners amounted to 0.4 billion dirhams compared to 5.8 billion dirhams in 2017. The drawdowns from France amounted to 0.3 billion dirhams.

Inaugural issue of Sukuk certificates

On October 5, 2018, Morocco carried out its first issue of sovereign Ijara-type Sukuk certificates. This program is part of the efforts made by the Ministry of Economy and Finance to support the development of crowdfunding in Morocco.

The amount raised, as part of this inaugural issue, is 1 billion dirhams with a 5 year maturity and a yield of 2.66% as well as a depreciable repayment period. This first issue was a resounding success with a demand of nearly 3.6 billion dirhams resulting in the payment of 28% of this amount, representing a 3.6 times oversubscription rate.

The structure chosen for this inaugural issue is based on the constitution of a right of usufruct on real estate assets belonging to the State for the benefit of the Collective Investment Fund created for this purpose. On October 15, 2018, the settlement and delivery date of this issue, this fund proceeded to the issue of the Sukuk certificates and to the leasing of the underlying assets over a period of 5 years, the annual lease payments of which will be distributed to holders of Sukuk certificates. This issuing was guaranteed by the State so that, in terms of prudential rules, the Sukuk certificates are treated the same as the securities issued or guaranteed by the State.

Features of the inaugural issue of sovereign Sukuk certificates

Name	Ijara sovereign Sukuk 2.66%
Initiating institution	Moroccan State
Managing institution	Maghreb Securitization
Name of the Securitization Fund	FT Imperium Sukuk CI
Global nominal amount	1,000,000,000 MAD
Nominal amount per unit	100,000 MAD
Yield	2.66%
Maturity	5 years
Repayment	Depreciable over 5 years
Subscription date	October 5, 2018
Payment settlement date	October 15, 2018
Over-subscription rate	3.6 times

EVOLUTION OF TREASURY DEBT

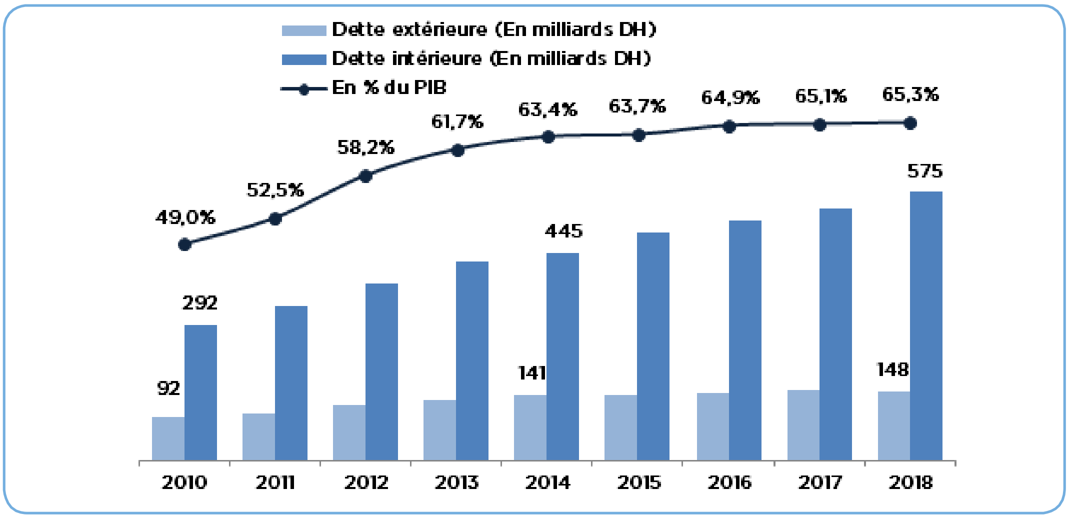
1. Sums outstanding

At the end of 2018, the outstanding Treasury debt amounted to 722.6 billion dirhams, up 30.3 billion dirhams or 4.4% compared to the end of 2017 (692.3 billion of dirhams). Despite this increase, the rate of growth in debt declined by more than half between 2017 and 2018 compared to an average annual increase of 9.1% between 2010 and 2017.

In relation to GDP, the outstanding Treasury debt reached 65.3% at the end of 2018 compared to 65.1% at the end of 2017. This rate reached 51.9% for domestic debt and 13, 4% for external debt compared to 50.7% and 14.4% respectively at the end of 2017.

It is important to note that the decline in the rate of growth of the Treasury debt was confirmed for the 3rd consecutive year. This progressive control over the evolution of the debt ratio, which was brought down from an average annual variation of 2.4 points of GDP between 2010 and 2017 to a slight increase of 0.2 points of GDP between 2017 and 2018, is mainly due to the implementation of various reforms by the government since 2013 (compensation fund, organic finance law, retirement, tax reform, etc.) and which have resulted in improved macroeconomic indicators as well as improved conditions for Treasury financing.

Evolution of outstanding Treasury debt



2. Structure by instrument

The Treasury debt mainly consists of negotiable debt with a share of nearly 82% including 76% for treasury bills issued on the auction market and 6% for bonds issued on the international financial market. Non-negotiable debt represents 18% of the Treasury debt portfolio and consists mainly of external debt from official bilateral and multilateral creditors.

3. Structure by interest rate

At the end of 2018, the share of outstanding fixed-rate Treasury debt reached nearly 92% of the total outstanding amount, an increase of 1 percentage point compared to the end of 2017. The dominant share of fixed-rate debt is mainly due to the fact that the domestic debt, which represents 79.5% of the outstanding debt of the Treasury, is exclusively at fixed rate.

As for external debt, its structure by type of interest rate shows an increase in the share of debt with fixed interest rates, the share of which in the outstanding amount of this debt has increased to 63 % at the end of 2018 compared to 59% at the end of 2017. On the other hand, the share of floating-rate external debt reached 37% at the end of 2018 compared to 41% at the end of 2017, following the rate swap operations carried out on the portfolio of loans from the IBRD.

4. Structure by currency

At the end of 2018, the currency structure of the Treasury debt portfolio showed a predominance of dirham-denominated debt, which reached nearly 79% compared to nearly 78% in 2017.

Regarding the currency composition of the Treasury's external debt and following the change in weightings of the trading of the Dirham in April 2015, which resulted in the strengthening of the share of the US dollar, whose weighting increased from 20% to 40%, the share of debt denominated in US dollar and related currencies increased to 29.0% at the end of 2018 compared to 28.4% in 2017 and 14.5% in 2014 while that of the Euro fell to 63.2% at the end of 2018 from 65.6% in 2017 and 78.8% in 2014.

5. Treasury Debt Service

The Treasury debt burdens in terms of write-offs, interest and commissions, settled during 2018, continued to decrease for the third consecutive year to reach 124.7 billion dirhams compared to 127.9 billion dirhams in 2017, a decrease of 3.1 billion dirhams or 2%. This decline is the result of the combined effect of the decrease in expenses of 3.2 billion dirhams and the limited increase in interest expense of 0.1 billion dirhams.

In terms of type of debt, domestic debt burdens increased by nearly 2.1 billion dirhams to reach 112.9 billion dirhams compared to 110.8 billion dirhams at the end of 2017. As for those of external debt, they recorded a decrease of 5.2 billion dirhams to reach 11.8 billion dirhams in 2017 compared to 17.0 billion in 2017.

6. Cost indicators

6.1. Average cost of Treasury debt

The average cost of Treasury debt was at 3.9% in 2018 compared to 4.1% in 2017. This is due to the drop in the average cost of domestic and external debt by 0.2% respectively.

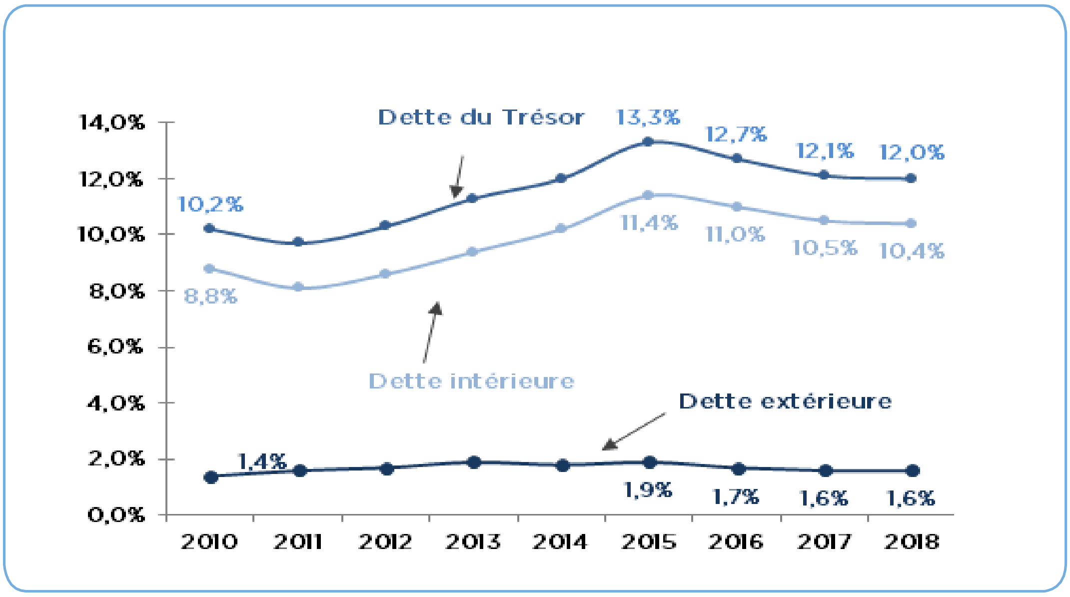
6.2. Weighted average rate of issuings by auction

The weighted average issue rate of Treasury Bills (including active management) decreased by almost 2.9 bps between 2018 and 2017, reaching 2.77% at the end of 2018 compared to 2.80% at end of 2017. This decrease is mainly explained by the combined effects of two factors in this case, the retained rates were kept at levels close to those of last year and the structure of the mobilizations of 2018 recorded a decrease in the share of maturities at 5 years and over to reach 47% compared to 53% in 2017.

6.3. Treasury's debt interest expenses compared to the ordinary income

At the end of 2018, the ratio of the Treasury's debt interest expenses compared to the ordinary income excluding VAT of local authorities was 12.0% compared to 12.1% in 2017, a decrease of 0.1 percentage point. This decrease is mainly due to the limited increase of 0.5% in interest expense in 2018 compared to that of ordinary income which was around 2%.

Evolution of the Interest expense ratio / Ordinary income



7. Risk indicators

7.1. Short-term share

The share of short-term debt in the Treasury debt portfolio decreased by 1% to reach 11.4% in 2018 compared to 12.4% in 2017. This is mainly due to the decrease of 1.4% in the share of short-term domestic debt which reached 12.9% at the end of December 2018 compared to 14.4% at the end of 2017;

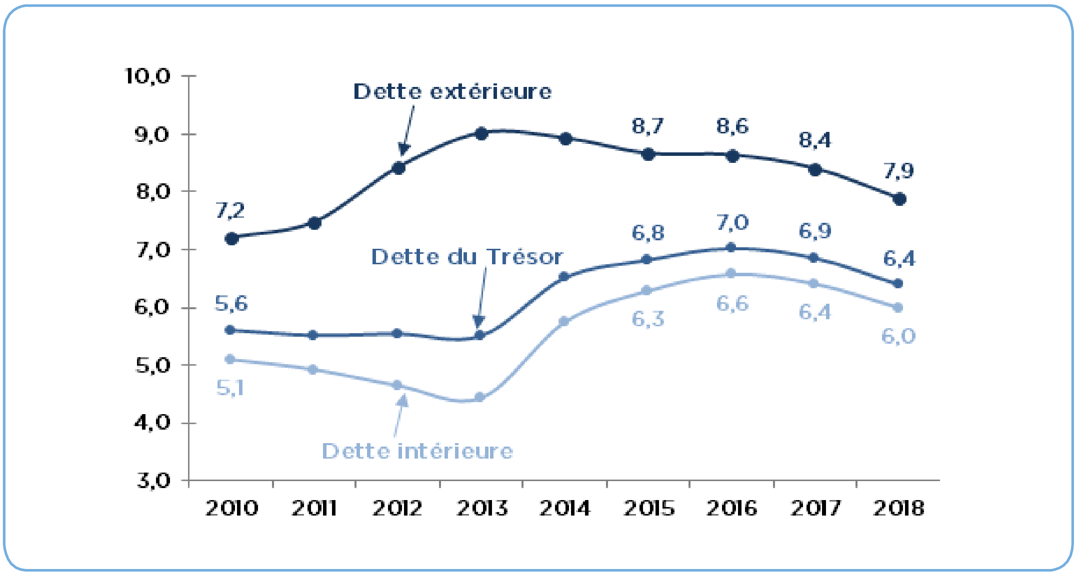
When it comes to external debt, the share of write-offs maturing within less than a year remained almost stable and represented 5.5% at the end of 2018 compared to 5.6% in 2017.

7.2. Average maturity of the Treasury debt

The average maturity of the Treasury debt decreased by 5 months compared to the end of 2017 to reach 6 years and 5 months at the end of 2018, mainly due to the decrease in the average maturity of the domestic debt which was 6 years at the end of 2018 compared to 6 years and 5 months at the end of 2017. This decrease in the average maturity of the domestic debt, which is mainly due to the concentration of Treasury funds on maturities lower or equal to 2 years (53% of total funds), was voluntary in view of the existing leeway and aimed at reducing the cost of financing of the Treasury.

As for the average maturity of external debt, it decreased by 7 months to reach 7 years and 10 months at the end of 2018 compared to 8 years and 5 months at the end of 2017.

Evolution of the average maturity - in years -



7. 3. Floating-rate debt share

At the end of 2018, the floating-rate's share in the Treasury's external debt portfolio was 37% compared to 41% at the end of 2017. This change is explained by the use of currency conversion operations with the World Bank which have made it possible to convert floating-rate interest into fixed interest rates for a total amount of loans of nearly 5 billion dirhams, to cover against any increases in Libor rates over the remaining terms of the loans.

EVOLUTION OF EXTERNAL PUBLIC DEBT

1. Outstanding

For the first time since 2014, outstanding external public debt decreased in 2018 by 6.0 billion dirhams or 2% compared to 2017, reaching 326.6 billion dirhams at the end of 2018.

It is important to note that the outstanding external public debt is made up of the outstanding external debt of the Treasury, Public Entities and Enterprises (EEP), Local authorities, external loans of the Public Banking Sector and nonprofit organizations that are guaranteed by the State.

This change in the outstanding external public debt is mainly explained by the decrease in the outstanding external debt of the Treasury by 3.4% and that of the external debt of Public Entities and Enterprises by 1%.

The Treasury's outstanding external debt decreased by 5.2 billion dirhams to reach 148 billion dirhams at the end of 2018 compared to 153.2 billion dirhams in 2017. The external debt ratio of the Treasury, meanwhile, decreased by 1 percentage point compared to 2017 to reach 13.4% of GDP at the end of 2018 compared to 14.4% of GDP in 2017.

As for the outstanding external public debt excluding that of the Treasury, it reached 178.7 billion dirhams in 2018 representing 16.1% of GDP, down 0.8 percentage point of GDP compared to 2017. This drop in the debt ratio is the first since 2006, after 11 years of consecutive increases.

Overall, the public external debt to GDP ratio was at 29.5% compared to 31.3% in 2017, i.e. a decrease of 1.8 percentage points in GDP.

2. Structure by creditors

Similar to last year, , the structure of external public debt by creditors at the end of 2018 remains mainly made up of loans from official creditors (bilateral and multilateral) whose share amounted to 77% of the total outstanding amount. As for private creditors, the outstanding amount of their loans to public borrowers is around 33% of the total outstanding amount, including 93% for public sector issuance on the international financial market.

3. Structure by borrowers

At the end of 2018, public external debt excluding that of the Treasury represented almost 55% of total public external debt. Public Entities and Enterprises (EEP) remain first in the public sector with an outstanding amount of 176.8 billion dirhams, 81% of this debt is held by five borrowers, namely ONEE (24%), OCP (21%), ONCF (14%), ADM (12%) and MASEN (11%).

4. Structure by currency

After adopting, in April 2015, new dirham currency weighting, the process of improving the currency structure of the debt continued in 2018, a process which aims to move towards a structure of the target portfolio of external debt (benchmark) capable of mitigating exposure to exchange risk and limiting the impact of fluctuations in the various currencies.

Thus, the share of public external debt denominated in US dollars increased from 19% in 2014 to 30% at the end of 2018, while the share of debts denominated in Euro decreased from 69% to 60 %. The share of the Kuwaiti Dinar also decreased from almost 6% in 2014 to less than 5% in 2018.

5. Structure by interest rate

The public external debt by type of interest rate shows a preponderance of debt with fixed interest rates which amounts to 75% compared to 25% for debt with floating interest rates. The latter remains essentially indexed to Euribor at 83%, which contributes to lowering the related service given the historically low levels of this floating rate.

6. External loans drawdowns

The external loans' resources mobilized by the public sector during the year 2018 amounted to 19.3 billion dirhams compared to 35.7 billion dirhams in the year 2017.

The drawdowns mobilized by the Treasury in 2018 totaled 6.2 billion dirhams while those mobilized by the EEP were nearly 13.1 billion dirhams.

As for the drawdowns of Public Entities and Enterprises (EEP), a share of almost 83% (or 15.7 billion dirhams) was achieved by four EEP in the context of the financing of their investment projects. These include: ONEE (4.2 billion dirhams), ONCF (3.4 billion dirhams), MASEN (1.7 billion dirhams) and RAM (1.6 billion dirhams).

7. External public debt service

The external public debt expenses, write-offs, interest and commissions settled during 2018 amounted to 28.6 billion dirhams compared to 32.1 billion dirhams in 2017, thus recording a decrease of 3.5 billion of dirhams. This is explained by the combined effects of the rise in debt service to official creditors by 2.4 billion dirhams, on the one hand, and the decline in debt service to private creditors of 5.9 billion dirhams, on the other hand.

When compared to the current account balance of payments, external public debt service decreased by 1.2%, from 6.8% in current account balance of payments in 2017 to 5.6% in 2018.

ACTIVE MANAGEMENT OF TREASURY DEBT

1. Active management of domestic debt

During 2018, the Treasury Department set up 10 Treasury bill swap transactions for a total repurchase amount of 19.8 billion dirhams.

In terms of the impact of the active management of domestic debt carried out in 2018 on the cost and risk indicators, these operations resulted in:

- A slight increase in domestic debt interest expenses paid in 2018 of nearly 53.4 million dirhams. This increase stems from the combined effect of the decrease in interest expense paid in 2018 of nearly 59.6 million dirhams, following the early redemption of the same year's deposits and an increase in these expenses of nearly 113.0 million dirhams, following the redemption of the deposits of 2019.
- Mitigation of refinancing risk linked to the Treasury debt by (i) reducing the fall of the months concerned through the treasury bill swap transactions of nearly 1.9 billion dirhams on average per month in 2018 and by nearly 3.6 billion dirhams on average per month in 2019 and (ii) the extension of the average maturity of the domestic debt by almost 2 months.

In addition to these quantitative results, active domestic debt management operations also had a qualitative impact on debt management, by allowing the Treasury to balance its cash requirements over the whole year and to better manage its issuance policy.

2. Active management of external debt

As part of the active management of external debt implemented by the Department of Treasury and External Finance in order to reduce the cost of debt and to mitigate the financial risks associated with the Treasury's external debt portfolio, an amount of around 4.5 billion dirhams was processed in 2018, bringing the total amount processed since the start of these operations, initiated in 1996, to nearly 85 billion dirhams.

The amount processed in 2018 related to the conversion of debts into public investments with Italy as follows:

- 3.1 million dirhams for projects under the National Initiative for Human Development; and
- 1.4 million dirhams allocated to the project for the preservation of the national archaeological heritage (Sites of Chellah and Volubilis).

ACTIVE TREASURY MANAGEMENT

1. Transactions completed in 2018

During 2018, the Department of Treasury and External Finance used active treasury management transactions in a context characterized by:

- The increase of the bank liquidity deficit which reached -62.2 billion dirhams on average weekly during the year 2018 compared to -41.5 billion dirhams during 2017; and
- A slight decrease in the availability of the current account of the Treasury (CCT), which reached 8.5 billion dirhams on average daily compared to 9.5 billion dirhams in 2017 (excluding transactions)..

The Department of Treasury and External Finance carried out 321 transactions aimed at the investment of surplus funds of the treasury current account balance in 2018, including 305 reverse repurchase transactions.

The overall volume kept in banks reached 811.4 billion dirhams in 2018 compared to 857.1 billion dirhams last year, a decrease of 5% due to the drop in availability of the current account of the Treasury (CCT) by almost 5%.

The weighted average rate of investment transactions was 2.33% in 2018 compared to 2.37% in 2017, a decrease of nearly 4.1 bps.

2. Active treasury management revenue

In 2018, active cash management revenue reached 145.4 million dirhams (net of tax), distributed as follows:

- 111.3 million dirhams (77% of total revenue) in proceeds from investment transactions; and
- 34.1 million dirhams for the payment of the balance of the CCT.

Since the start of operations in February 2010, the total amount of active treasury management revenue has amounted to 1.4 billion dirhams, distributed as follows:

- 979,4 million dirhams (or 69% of total revenue) in proceeds from investment transactions; and
- 430.5 million dirhams for the payment of the balance of the CCT.