DOCUMENTS ACCOMPANYING THE FL 2021 DRAFT
- 2019 DEBT REPORT -

The debt report, which is produced each year by the Treasury and External Finance Department (**TEFD**), describes the financing of the Treasury both on the domestic market and with foreign donors, analyses the evolution of the portfolio debt in terms of outstanding debt and debt service as well as in terms of structure by instrument, by type of interest rate and by currency, and assesses the cost and risk indicators monitored in terms of debt. This document also takes stock of the active management of internal and external debts, in addition to the active management of the public treasury carried out by the Treasury and External Finance Department.

TREASURY FINANCING

1. Domestic financing

In a context marked by the continued increase in bank liquidity and the increase in investor demand on the auction market, combined with controlled financing needs, the Treasury carried out, during 2019, a policy of flexible financing which aimed to:

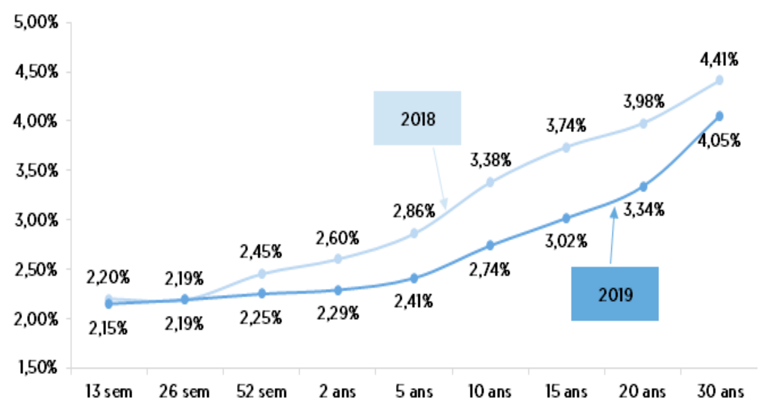
- Ensure a regular presence on all maturities while responding as best as possible to changes in market demand ;
- Ensure that the risk indicators for domestic debt remain, as far as possible, close to the levels selected and validated in the annual financing plan ;
- Regularly use BDT's swap and buyback operations to mitigate the refinancing risk by smoothing the monthly Treasury debt falls in 2019 and 2020 which experience significant repayment peaks ;
- Carry out daily investment operations of CCT surpluses in order to optimize the availability of the current account balance and at the same time allow the Treasury to comply with its issuance strategy.

Thus at the end of 2019, the overall volume of Treasury issues on the auction market stood at MAD 104.4 billion against MAD 115.1 billion a year earlier, down 9.3% or more. 10.7 billion DH compared to 2018. This volume is distributed to the tune of 67.3 billion DH or 64.4% of the raised under the auctions against 94.7 billion DH or 82.3% in 2018 and 37.1 billion DH (35.6%) in respect of issues in the context of BDT exchange operations.

By fundraising structure, maturities of 5 years and over represented 76% of the overall volume raised, thus recording a level well above that of 2018 (47%).

In terms of the rates used and like the rates requested by investors, they followed a downward trend during 2019, with an average drop of 37.0 bps compared to the rates recorded at end of 2018.

Annual change in BDT rates of return - Latest TMPs retained -



2. External funding

For the year 2019, drawdowns on external loans jumped by 19.3 billion DH to reach 25.5 billion DH against 6.2 billion DH in 2018

The share mobilized from multilateral creditors reached 56%, i.e. 14.1 billion DH, thus registering an increase of 8.3 billion DH compared to 2018. These drawings were mainly mobilized from the IBRD (9.6 billion DH), and the AfDB (3.8 billion DH).

A share of 41% of the total drawdowns was carried out under the Kingdom issue, on November 21, 2019, on the international financial market for the bond loan of one billion euros (i.e. 10.6 billion DH). This issue, which marked Morocco's return to this market after 5 years of absence, was a remarkable success with international investors.

As for the mobilizations made with bilateral creditors, they amounted to a total amount of 0.7 billion (i.e. a share of 3% of the total drawdowns made), an increase of 0.3 billion compared to 2018.

Successful issue on the Euro compartment

Morocco issued on November 21, 2019, a bond loan on the international financial market (MFI) for an amount of 1 billion euros, with a maturity of 12 years and a coupon of 1.5% (with a spread of 139.7bp compared to the swap rate).

This issue, which marked Morocco's return to the international financial market after an absence of 5 years, was a remarkable success with international investors and benefited from the largest order book by its size for a transaction in euro from Morocco. (the order book reached more than 5.3 billion euros during the day with more than 285 investors involved). The rate of 1.5% constitutes the lowest level ever obtained by Morocco on the international financial market.

This rate level of 1.5% was obtained thanks on the one hand (i) to the favourable financing conditions prevailing on the MFI and on the other hand (ii) to the improvement of investors' perception of the quality. credit Morocco supported by political stability and solid economic fundamentals as evidenced by Morocco's rating maintained at "Investment grade" level for over a decade.

This operation saw a wide diversification in terms of investor profile. Fund managers and insurance companies lead the way with 88% of the total issue volume, followed by banks (9%) and other investors (3%).

Characteristics of the sovereign issue on the MFI

Rating	S&P / Fitch : BBB-
Amount	€ 1 billion
Coupon	1,5%
Rate of return	1,6%
Maturity	12 years (november 27th, 2031)
Date of issue	November 21st, 2019
Settlement date	November 27th, 2019
Spread / Mid swap	139,7 pbs

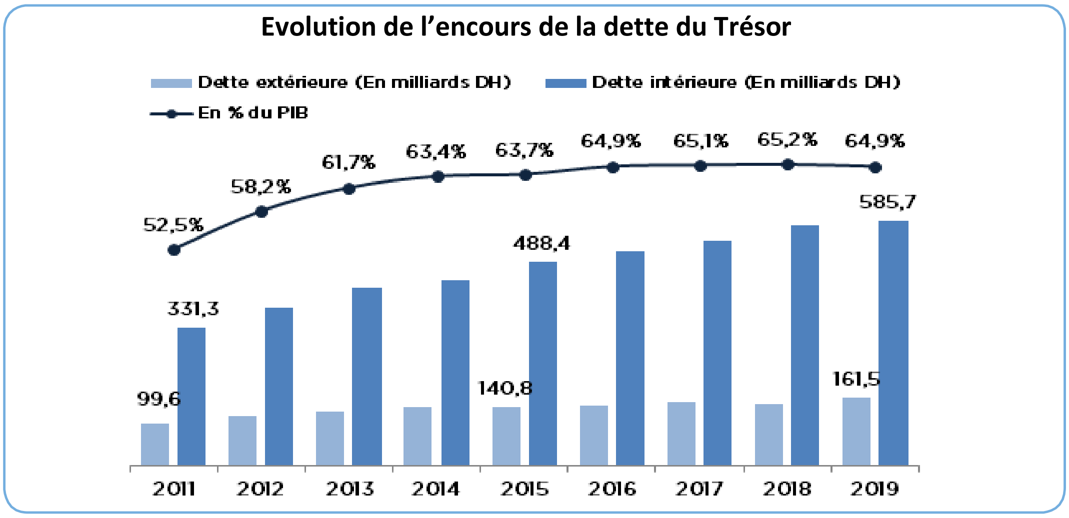
TRENDS IN TREASURY DEBT

1. Outstandings

At the end of 2019, the outstanding Treasury debt stood at DH 747.2 billion, up DH 24.6 billion or 3.4% compared to the end of 2018 (722.6 billion DH). Despite this increase, the pace of debt growth continued its downward trajectory, recording the smallest increase since 2009 (3.4%) against an average annual increase of 8.3% between 2010 and 2018.

Relative to GDP, the outstanding Treasury debt marks, for the first time since 2008, a drop of 0.3 percentage point of GDP to stand at 64.9% at the end of 2019 against 65.2% at the end of 2018 This ratio reached 50.9% for domestic debt and 14.0% for external debt compared to 51.8% and 13.4% respectively at the end of 2018.

This gradual control of the evolution of the Treasury debt ratio was confirmed for the 4th consecutive year with an average annual variation, reduced from 2.4 points of GDP between 2010 and 2017, to a slight increase of 0.1 point of GDP between 2017 and 2018 then to a drop of 0.3 point of GDP in 2019. This change is mainly due to the government policy put in place which attaches crucial importance to restoring macroeconomic balances to keep the debt in a sustainable trajectory. The measures put in place to this end since 2013, which have aimed at rationalizing expenditure and optimizing revenue, have resulted in an improvement in macroeconomic indicators as well as in Treasury financing conditions.



2. Structure by instrument

The Treasury debt is mainly made up of negotiable debts representing a share of nearly 82% of which 75% under BDTs issued on the auction market and 7% under bond issues on the MFI.

Non-negotiable debt represents 18% of the Treasury's debt portfolio and is essentially made up of external debt contracted with official bilateral and multilateral creditors.

3. Structure by interest rate

At the end of 2019, the outstanding fixed-rate Treasury debt represented nearly 92.3% of the overall outstanding, virtually stable compared to the level recorded a year earlier. The preponderance of the share of fixed rate debt in the Treasury debt portfolio is mainly due to the fact that domestic debt, which is exclusively subject to fixed rate, represents the dominant share in the outstanding debt (near 78.4%).

Regarding the external debt, its structure by type of interest rate was characterized by the strengthening of the portion of the debt at fixed interest rates which stood at 64.3% against 63% at the end of 2018. As for to the external debt contracted at variable rates, it fell from 37% at the end of 2018 to 35.7% at the end of 2019. This decrease is mainly due to the lending rate fixing operations which were carried out on certain loans contracted with the BIRD.

4. Currency structure

The Treasury debt portfolio is dominated by debt denominated in dirham, which represents 78.1% of the outstanding amount, down slightly compared to 2018 (79.1%).

As regards the external debt, the share of that contracted in euros stood at 66.7% at the end of 2019, while that contracted in US dollars and related currencies at 26.7% and that of other currencies (Yen Japanese, Kuwaiti Dinar and others) at 6.6% compared to 63.2%, 29.0% and 7.8% respectively at the end of 2018.

5. Treasury debt service

Treasury debt charges in amortization, interest and commissions, paid during 2019, increased to 135.9 billion DH against 124.7 billion DH in 2018, an increase of 11.2 billion DH or 9%. This increase results from the combined effect of the increase in principal charges of MAD 8.7 billion and the increase in interest charges of DH 2.5 billion.

By type of debt, the domestic debt charges increased by nearly 10.9 billion DH to stand at 123.9 billion DH against 112.9 billion DH at the end of 2018. As for those of the external debt, they recorded an increase of 0.3 billion DH to stand at 12.1 billion DH in 2019 against 11.8 billion in 2018.

6. Cost indicators

6.1. Average cost of Treasury debt

The average cost of Treasury debt stood at 3.9% in 2019, stagnating from the end of 2018.

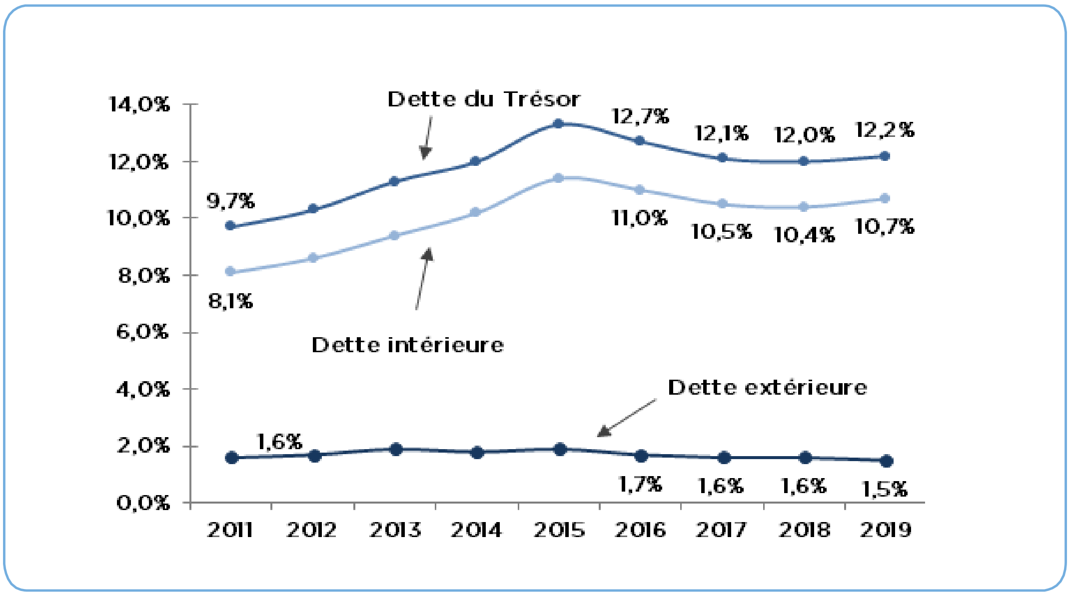
6.2. Weighted average rate of issues per auction

The weighted average rate of BDT issues (including active management operations) stood at 2.98%, up nearly 21bp from that recorded at the end of 2018. This increase, made in a context characterized by a drop in rates, is mainly attributable to the configuration of fundraising on the domestic market and which was characterized by a concentration of subscriptions on maturities greater than or equal to 5 years compared to last year.

6.3. Interest expense on Treasury debt in relation to ordinary revenue

The interest charges on the debt brought down to ordinary revenue, excluding VAT for local authorities, amounted to 12.2% in 2019, a slight increase of 0.2 point compared to 2018. This inflection, the first since 2015 , is mainly explained by the increase in the interest paid on domestic debt in 2019, itself attributable to the increase in the stock of debt and its structure dominated by BDTs at 5 years and more.

Evolution of the ratio Interest charges / Ordinary income



7. Risk indicators

7.1. Short-term share

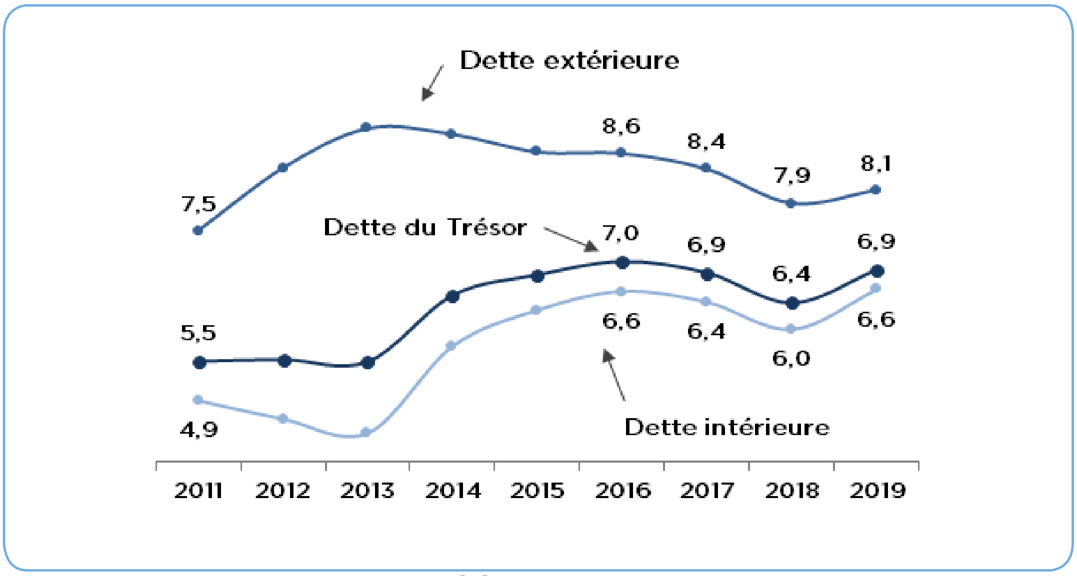
At the end of December 2019, the short-term share of the Treasury debt portfolio stood at 13.2% against 11.4% in 2018, thus registering an increase of 1.8%. This increase is mainly due to the increase in the short-term share of domestic debt, which stood at 13.7% at the end of 2019 against 12.9% at the end of 2018 mainly due to the configuration of the 2005 subscriptions (BDT at 15 years) and 2015 (5-year BDT) and the method of ultimately repaying this debt.

In terms of the short-term share of the external debt portfolio, this increased by 6.2% to 11.7% at the end of 2019.

7.2. Average maturity of Treasury debt

The average maturity of Treasury debt is 6 years and 11 months, an increase of 6 months from the previous year. This change is mainly attributable to the increase in the DVM of the domestic debt of 7 months compared to its level of 2018, reflecting the concentration of Treasury fundraising on maturities greater than or equal to 5 years (76% of overall fundraising). .

Evolution of the average lifespan –in years–



7.3. Monthly issue coverage rate on the auction market

In 2019, the average coverage rate of Treasury bill auctions by bids was 5.0 times compared to 3.5 times in 2018. This increase is due to the cross effect of the increase in volumes offered by investors and the drop in treasury funds (excluding active management operations) of nearly 1.3% and 29.0% respectively compared to 2018

7.4. Interest rate risk

The interest rate risk is assessed using two indicators, namely (i) the portion of the debt requiring rate resetting and (ii) the portion of the debt with variable rates.

- **Share of debt requiring a refixing**

The portion of the Treasury debt to be subject to a refixing of its interest rate in 2020 is made up of variable rate debt (external only) and short-term fixed rate debt (domestic and external). to be refinanced in 2020. At the end of 2019, this debt amounted to nearly 153.9 billion DH, or nearly 21.0% of the outstanding Treasury debt, up 2 points compared to end of 2018.

This change is mainly explained by the increase in the share of external debt due within one year, which rose from 6% in 2018 to 12% at the end of 2019, due to the repayment of the Eurobond of one billion euros issued in 2010 and scheduled for the second half of 2020.

- **Share of variable rate debt**

At the end of 2019, the share of the variable rate in the Treasury's external debt portfolio stood at 35% against 37% at the end of 2018. This change is explained by the continued realization of the conversion operations, already concluded with the World Bank, which make it possible to convert floating lending interest rates into fixed interest rates in order to hedge against possible increases in Libor rates over the remaining terms of said loans.

7.5. Risk of change

Debt denominated in foreign currencies represents nearly 21.9% of the Treasury's outstanding debt. This debt is, in fact, made up of 66.7% debt denominated in euros and 26.7% in US dollars and related currencies. This structure, which approximates the current dirham quotation basket, helps mitigate this portfolio's exposure to currency risk.

EVOLUTION OF PUBLIC EXTERNAL DEBT

1. Oustandings

At the end of 2019, the outstanding public external debt stood at DH 339.9 billion, up by DH 13.3 billion or 4.1% compared to the end of 2018. The public external debt ratio per to GDP, meanwhile, recorded stability at 29.5% of GDP.

It should be remembered that the outstanding public external debt is made up of the outstanding external debt of the Treasury, public establishments and enterprises (PEEs), the public banking sector and external loans guaranteed by the State of local authorities. (LAs) and Public Utility Institutions (PUIs).

The observed trend in the outstanding public external debt is mainly explained by the increase in the outstanding external debt of the Treasury by 9.1% and the decrease in that of the external public debt excluding the Treasury by 0.1%.

Indeed, the outstanding external debt of the Treasury increased by 13.5 billion DH, from 148 billion DH at the end of 2018 to 161.5 billion DH at the end of 2019. The external debt ratio of the Treasury thus increased. reached 14.0% of GDP at the end of 2019 against 13.4% of GDP in 2018.

Regarding the outstanding public external debt outside the Treasury, it stood at MAD 178.4 billion in 2019, representing 15.5% of GDP, down 0.6 percentage point of GDP compared to 2018. It This is the second consecutive annual decrease in this ratio after 11 years of successive increases

2. Creditors structure

The structure, by creditors, of the public external debt at the end of 2019 remains mainly composed of loans contracted with official creditors (bilateral and multilateral), the share of which reached 75% of the total outstanding. Regarding the debt of public borrowers to private creditors, this is around 25% of the total outstanding, of which 91% is for public sector issues on the international financial market..

3. Structure by borrowers

At the end of 2019, public external debt excluding the Treasury represented 52.5% of the total public external debt. EEPs remain the first group of public sector borrowers with outstanding amounts of MAD 174.8 billion. Five main borrowers hold a stake of more than 80%, namely ONEE (25%), OCP (20%), ONCF (14%), ADM (11%) and MASEN (11%).

4. Currency structure

At the end of 2019, the share of public external debt denominated in Euro stood at 62%, that of debts denominated in US $ and related currencies at 28%, while the share of the Kuwaiti Dinar reached 5%.

This structure remains close to that of the Dirham's rating basket and helps to mitigate the exposure of the portfolio of foreign public debt to foreign exchange risk and also to limit the impact of fluctuations in different currencies..

5. Structure by interest rate

The average cost of public external debt was maintained at 2.6% in 2019 with an average remaining repayment period of around 8 years

The composition of this debt by type of interest rate shows a preponderance of debt with fixed interest rates, the share of which amounts to 75% against 25% for debt with floating interest rates. The latter is essentially pegged to the Euribor at 82%, which contributes to lowering the related service given the historically low levels of this floating rate..

6. Drawings on external loans

In 2019, the resources mobilized for external borrowing by the public sector reached an amount of DH 39.5 billion, a marked increase compared to 2018 (DH 19.3 billion).

Of this amount, 25.4 billion DH was mobilized by the Treasury while the mobilizations carried out by other public borrowers amounted to nearly 14.1 billion DH..

7. Public external debt service

The service of the public external debt, for the year 2019, amounted to 29.2 billion DH against 28.6 billion DH at the end of 2018, an increase of 646 million DH. This increase in amortization, interest and commission charges on the said debt is due to the combined effects of i) the increase in debt service to official creditors of DH 326 million and ii) the increase in service to official creditors. from private creditors of 319 million DH.

The service of the public external debt in relation to the current receipts of the balance of payments recorded a decrease of 0.4% from 5.8% in 2018 to 5.4% in 2019.

ACTIVE MANAGEMENT OF TREASURY DEBT

The active management put in place by the Department of the Treasury and External Finances essentially aims to reduce the cost and mitigate the risks inherent in the debt portfolio.

1. Active management of domestic debt

In 2019, the Treasury Department carried out 10 BDT exchange operations and one repurchase operation for a total repurchased amount of 44.1 billion DH.

In terms of the impact of the active management of domestic debt operations carried out in 2019 on cost and risk indicators, these operations have generated:

- A slight increase in interest charges on the domestic debt paid in 2019 of nearly 22 million DH. This increase stems from the combined effect of the drop in interest charges paid in 2019 of nearly MAD 193.9 million, following the early redemption of the deadlines for that same year and an increase in said charges of nearly 215.8 million. million DH, following the redemption of the 2020 deadlines;

- A reduction of the refinancing risk linked to the Treasury debt through (i) the reduction of the fall of the months concerned by the BDT swap operations of nearly 3.1 billion DH on average per month in 2019 and of nearly 2.4 billion DH on average per month in 2020 and (ii) the extension of the DVM of the domestic debt by nearly 5 months and 16 days.

2. Active management of external debt

As part of the actions of active management of the external debt, the main activities carried out during the year 2019 focused on the pursuit of the realization of the projects financed through the agreements for converting debts into public investments concluded with Italy. Thus, a total of 5.8 million DH was converted in 2019 under the agreement of April 9, 2013 with Italy, broken down as follows:

- 5.1 millions DH spent on projects under the National Human Development Initiative ; and
- 0.7 million DH spent as part of a national archaeological heritage preservation project.

The sum of the amounts processed through these operations initiated in 1996, is around 85 billion DH.

ACTIVE TREASURY MANAGEMENT

1. Transactions carried out in 2019

During 2019, the number of operations carried out by the Treasury Department reached 352 operations, including 350 investment operations and 2 unsecured borrowing operations compared to 321 investment operations in 2018. The use of unsecured loans , during the year 2019, was done on an ad hoc basis to meet the cash requirements forecast at the start of the days concerned.

In the wake of the increase in CCT availability of nearly 8% in 2019, the overall volume placed with banks increased by 11% to reach 900.2 billion DH in 2019 against 811.4 billion DH in 2018. While the average remuneration obtained by the Treasury Department on its investment operations stood at 2.21% against 2.33% in 2018, a decrease of nearly 11.4 bps..

2. Receipts from active cash management

For the year 2019, active cash management generated net income of 139.2 million DH in 2019. This income is broken down as follows:

- 104.1 millions DH (75% of total income) in respect of the proceeds of investment operations; and
- 35.1 millions DH for the remuneration of the balance of the CCT.

Since the start of operations in February 2010, the total amount of revenue from active cash management has stood at DH 1.5 billion broken down as follows:

- 1 083,5 million DH (or 69% of total income) in respect of the proceeds of investment operations; and
- 465.6 million DH from the remuneration of the balance of the CCT.