DOCUMENTS ACCOMPANYING THE FINANCE BILL 2022
- 2020 DEBT REPORT -

The debt report, produced annually by the Department of Treasury and External Finance (DTFE), describes the Treasury's financing on the domestic market as well as with foreign donors. It also reviews the evolution of the debt portfolio 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 evaluates the cost and risk indicators monitored in terms of debt management. This document also assesses the active management of domestic and foreign debt, in addition to the active management of the public treasury carried out by the Department of Treasury and External Finance.

TREASURY FINANCING

1. Treasury financing, debt and cash management during health crisis

The outbreak of the COVID-19 pandemic has resulted in a global health, economic and social crisis. The magnitude of this crisis has significantly influenced the macroeconomic maneuverability of our country, as it has for most countries in the world, resulting in a significant drop in government revenues and, consequently, a near doubling of its financing needs. Similarly, with the outbreak of the pandemic, we expected a strong pressure on our country's foreign exchange reserves due to the drop in exports and foreign direct investment, in addition to the damage caused to certain economic sectors generating foreign exchange.

In this unprecedented context, the financing and debt management policy, which is at the heart of public economic policies, has been strongly challenged.

The MEFRA and more particularly the debt managers within the DTFE " Department of Treasury and External Finance" were called upon to adapt quickly to this new context and make strong efforts, first, to :

- ensure the continuity of work, especially during the containment period;
- mobilize the resources needed to cover the State's entire financing requirement;
- ensure the payment of debt instalments on time and to avoid any delay in payment or arrears; and then to
- introduce the necessary actions to remedy the dysfunctions of the domestic market caused by the crisis; and
- ensure a rapid return to normal operation of this market.

2. Domestic Financing

To take into account the new context created by the crisis, the DTFE had to readjust the Treasury's financing policy on the domestic market. Thus, in 2020, the DTFE has implemented a financing policy based on the following points:

- ensure, as far as possible, a regular presence on all maturities;
- strengthen communication with market players to adapt to the constraints and challenges imposed by the health crisis, in line with international best practices in this area;
- Continue to use BDT swaps to mitigate refinancing risk and supplement the demand of BDT investors, particularly banks, to enable them to refinance themselves with the Central Bank;
- carry out, on an ad hoc basis and depending on the public cash flow situation, buyback operations to reduce the CCT balance surpluses and alleviate the pressure on domestic rates; and

- Conducting, on a daily basis, CCT surplus investment operations in order to optimize the availability of the CCT balance. At the same time, the DTFE has strengthened coordination with the Central Bank and the exchange of information with the IVT banks in view of the deterioration of bank liquidity and the expansive strategy pursued by BAM to take into account the new context created by the pandemic

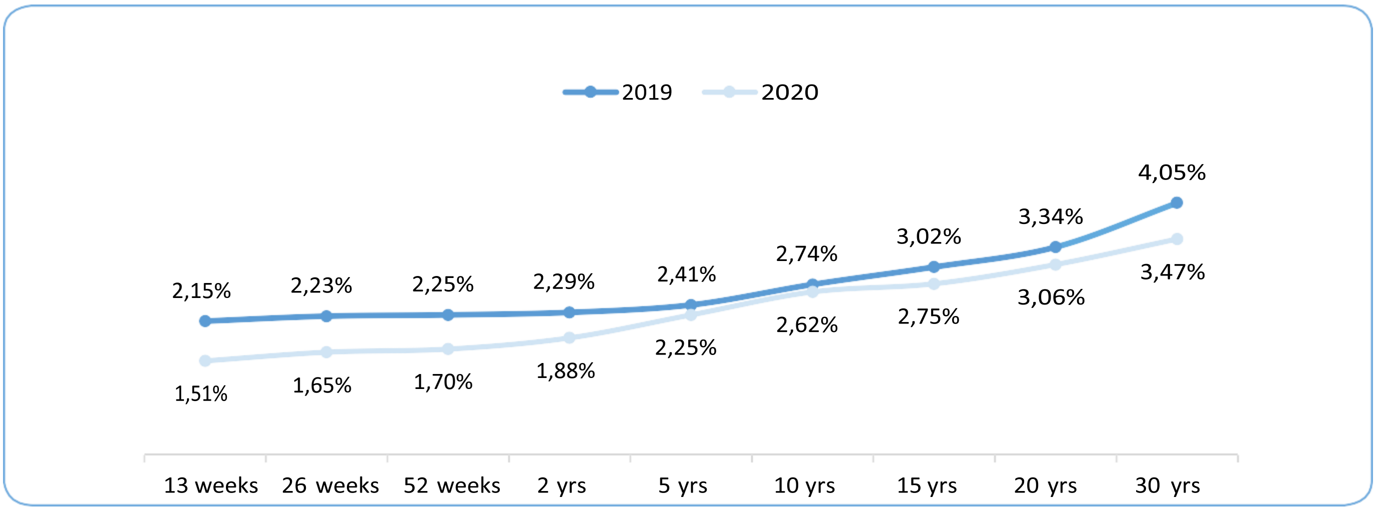
The total volume of the Treasury's issues on the auction market amounted to 152.7 billion DH against 104.4 billion DH one year earlier, up 46.2%. This volume is distributed up to DH 130.6 billion or 85.5% of the issues raised for the financing of the Treasury's needs and DH 22.1 billion (14.5%) for the issues within the framework of BDT exchange operations.

Following the collection of significant revenues under the Special Fund for the management of the Coronavirus pandemic "Covid-19", the Treasury's financing on the auction market during the first four months of 2020 has experienced a decline of nearly 20.2% compared to the same period of 2019 reaching 40.2 billion DH against 50.4 billion DH at the end of April 2019. During the last 8 months of the year, the Treasury's subscriptions accelerated with a monthly average of nearly 14 billion DH against 6.7 billion DH in 2019. This is due to the increased recourse to the domestic market for the financing of the important needs of the Treasury mitigated by the acceleration of the rhythm of the external mobilizations towards the second half of the year 2020.

In terms of the structure of the raises, maturities of 5 years and above accounted for 42% of the overall volume raised, which is lower than the level recorded in 2019 (76%), reflecting the structure of market demand oriented more towards short maturities.

At the end of 2020, the rates retained by the Treasury fell by an average of 39.9 bp compared with the last MTRs retained at the end of 2019, all maturities combined. By maturity segment, this decline was more significant on maturities less than or equal to 2 years with 54.7 bp on average, given that this part of the yield curve is more sensitive to decreases in the policy rate. As for maturities of 5 years and more, the decline reached only 28.1 bp because the transmission of monetary decisions of the Central Bank is made over a longer period.

Annual evolution of BDT rates of return - Latest TMPs retained -



3. External funding

It was recognized at the outset of the Covid-19 pandemic that it would potentially place significant stress on the country's external assets due to the expected restrictive impact on foreign exchange generating activities and sectors such as tourism, FDI and manufactured exports.

Against this backdrop of a significant decline in government revenues, which has led to a significant increase in the government's financing needs, the government proactively passed Decree-Law 2.20.320 authorizing the removal of the external borrowing ceiling, which was initially set at MAD 31 billion, as part of the 2020 Finance Act. Thanks to this measure, the Treasury has been able to increase its recourse to external financing by diversifying its sources of financing and increasing its drawings from both official donors and the international financial market.

Thus, drawings on external borrowings of the Treasury have recorded, for the year 2020, a jump of 37.5 billion DH to reach nearly 63.0 billion DH against 25.5 billion DH in 2019.

The Treasury's fundraising on the international financial market alone totaled a share of nearly 59.5% of these drawings, or DH 37.5 billion, with an increase of DH 26.9 billion compared to 2019. Note that the year 2020 was characterized by two outflows on the MFI for, respectively, 1 billion euros (DH 10.8 billion) in September and 3 billion U.S. dollars (DH 26.7 billion) in December.

As for the share mobilized from multilateral creditors, it reached 32.9% of total drawings, or DH 20.8 billion, thus recording an increase of DH 6.5 billion compared to last year. These drawings were mobilized, mainly, from IBRD (MAD 10.6 billion), the AMF (MAD 3.9 billion) and the ADB (MAD 3.5 billion).

As for mobilizations made with bilateral creditors, they totaled DH 4.7 billion, or 7.6% of total drawings, up DH 4.0 billion from the level recorded in 2019. The said drawings were made, mainly, with EU countries.

CONSOLIDATED GOVERNMENT DEBT

Continuing its effort to converge with international standards for the compilation and publication of debt statistics, MEFRA has begun extensive work on consolidating public finances by adopting the concepts, definitions and methodology of the 2014 PSM, including debt statistics (recommendations of the 2011 Guide to Public Sector Debt Statistics/GSDSP).

Within the framework of this work, a methodological approach has been defined with the aim of further improving the quality of the information made available and responding to the various requests concerning consolidated debt, its scope and objectives, and gradually converge towards the consolidation standards recommended at international level.

At the end of 2020, the consolidated debt of public administrations (APUs) is estimated at nearly MAD 761.0 billion, i.e. 69.8% of GDP, which is up by nearly 13 points of GDP.

The increase in the consolidated debt of the general government stems essentially from its component relating to the Treasury debt. Indeed, as a proportion of GDP, the latter has rebounded by 11.6 points of GDP between 2019 and 2020 under the effect of the Covid-19 pandemic crisis (see section "Changes in the Treasury debt"). This increase is also due to the non-market public establishments and, to a lesser extent, to the local authorities, whose debts increased by 0.9 GDP points (+Dhs 8.4 billion) and 0.2 GDP points (+Dhs 1.3 billion) respectively compared to the previous year. The decline in the stock of Treasury bills held by the pension and social security organizations (ORPS) and the non-market public establishments (EPNMs) by DH17.1 billion or 0.6 percentage point of GDP also contributed to the rise in the debt ratio of the general government sector.

EVOLUTION OF THE TREASURY DEBT

1. Treasury Debt Profile

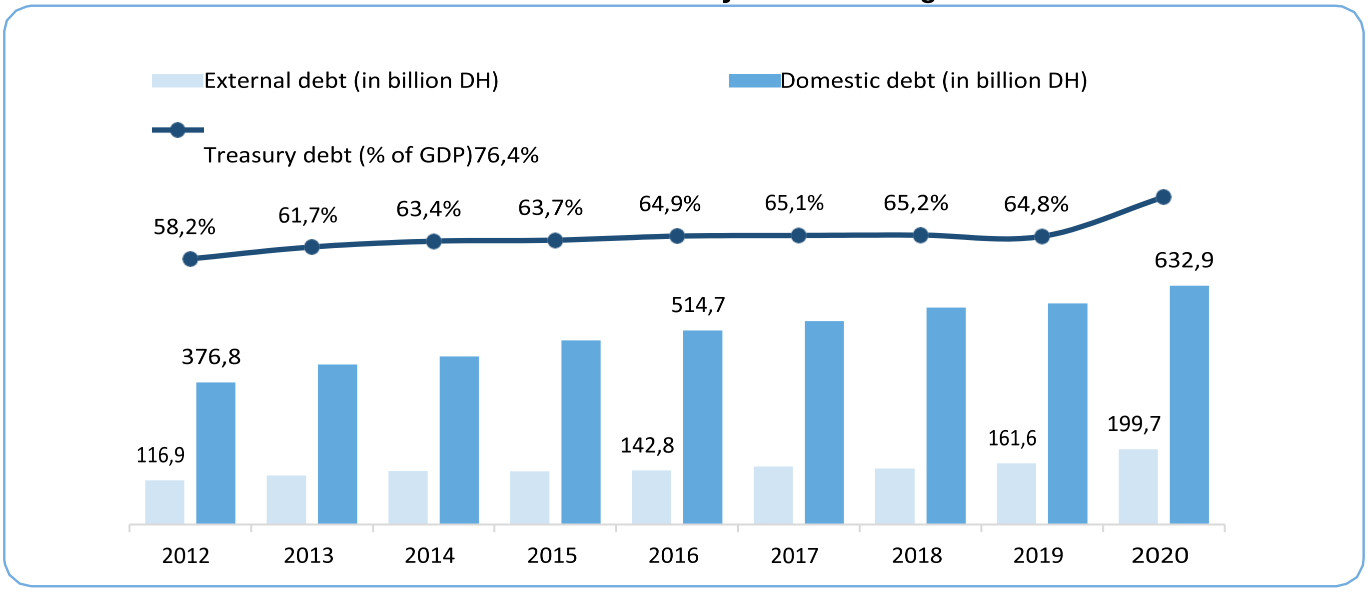
Outstanding

The outbreak of the Covid-19 pandemic directly affected the macroeconomic situation of our country like most countries in the world. The budget deficit in particular has declined and stood at 7.6% against 3.6% a year earlier. The outstanding debt of the Treasury stood at DH 832.6 billion, up by DH 85.3 billion or 11.4% compared to the end of 2019 (DH 747.3 billion)

As a proportion of GDP, the Treasury's outstanding debt increased by 11.6 percentage points of GDP, after having stabilized at around 65% for the past four years, to 76.4% at the end of 2020, compared with 64.8% at the end of 2019. This ratio reached 58.1% for domestic debt and 18.3% for external debt, compared with 50.8% and 14.0% respectively at the end of 2019.

The increase in the share of external debt in the Treasury's debt portfolio is mainly due to the rebalancing of the Treasury's financing strategy. The said rebalancing between domestic and external financing was implemented in order to face the possible fallout of the crisis and also to avoid that the massive recourse to domestic resources exerts a crowding out effect on the private sector in the sense that the effort of the banking sector in this period of crisis must be more directed towards financing the economy to promote its recovery.

Evolution of the Treasury's outstanding debt



Structure by instrument

The Treasury's debt is essentially negotiable, with a share of nearly 82%, of which 72% for BDTs issued on the auction market and 10% for Eurobonds issued on the MFI.

Non-negotiable debt accounts for 18 percent of the Treasury's debt portfolio and consists mainly of external loans raised from official creditors (15 percent).

Structure by type of interest rate

At the end of 2020, the share of the Treasury's outstanding debt with fixed rates stood at nearly 92.5 percent of the overall outstanding debt, registering a slight increase compared to the end of 2019. The predominance of debt with fixed rates is mainly because domestic debt, which accounts for 76 percent of the Treasury's outstanding debt, is exclusively at fixed rates. The two fixed-rate issues on MFI also contributed to the increase in this category of debt.

With regard to external debt, its structure by type of interest rate was marked by an increase in the share of debt with fixed interest rates, which stood at 68.7% compared with 64.3% at the end of 2019. External debt contracted at variable rates fell from 35.7 percent at the end of 2019 to 31.3 percent at the end of 2020.

Currency structure

The Treasury's debt portfolio is dominated by DH-denominated debt, which accounts for 75.4% of the outstanding amount, down from 78.1% in 2019.

As regards external debt, the share of that denominated in euros reached 60.6% at the end of 2020, while that denominated in US dollars and related currencies stood at 33.8% and that of other currencies (Japanese Yen, Kuwaiti Dinar and others) at 5.6%. This structure is close to that of the current DH quotation basket and reflects the efforts made to bring the structure of the Treasury's external debt portfolio closer to that of the said basket, thus reducing the exposure of this portfolio to exchange rate risk.

Structure by investor base

Outstanding bills issued through auctions at the end of 2020 are held primarily by mutual funds with a 36% share, followed by banks with a 30% share and pension funds and insurance companies with a share of nearly 20%. The remaining 14% is held by other financial and non-financial clients.

The structure of the Treasury's external debt by type of creditor did not change significantly from 2019 to 2020. Multilateral creditors remain the Treasury's largest group of creditors with a share of 52%, followed by the international financial market, whose share rose from 31% to 37%, and bilateral creditors with 11%.

2. Treasury Debt Service

The Treasury's debt charges in amortization, interest and commissions, settled during the year 2020, increased to DH 169.6 billion against DH 135.9 billion in 2019, an increase of DH 33.7 billion or 25%. This increase is the result of an increase in principal expenses of DH 34.6 billion, mitigated by a decrease in interest expenses of DH 0.9 billion.

By type of debt, domestic debt charges increased by nearly DH 22 billion to stand at DH 145.6 billion against DH 123.9 billion at the end of 2019. As for those of the external debt, they recorded an increase of DH 11.9 billion to settle at DH 24.0 billion in 2020 against DH 12.1 billion in 2019.

3. Cost indicators

3.1. Average cost of Treasury debt

The Treasury's average cost of debt continued its downward trend in 2020 at nearly 3.6% compared to 3.9% a year earlier. This decline was mainly the result of a 35 bp drop in the average cost of domestic debt (3.89% vs. 4.24% in 2019) driven by the continued decline in domestic BDT rates in recent years.

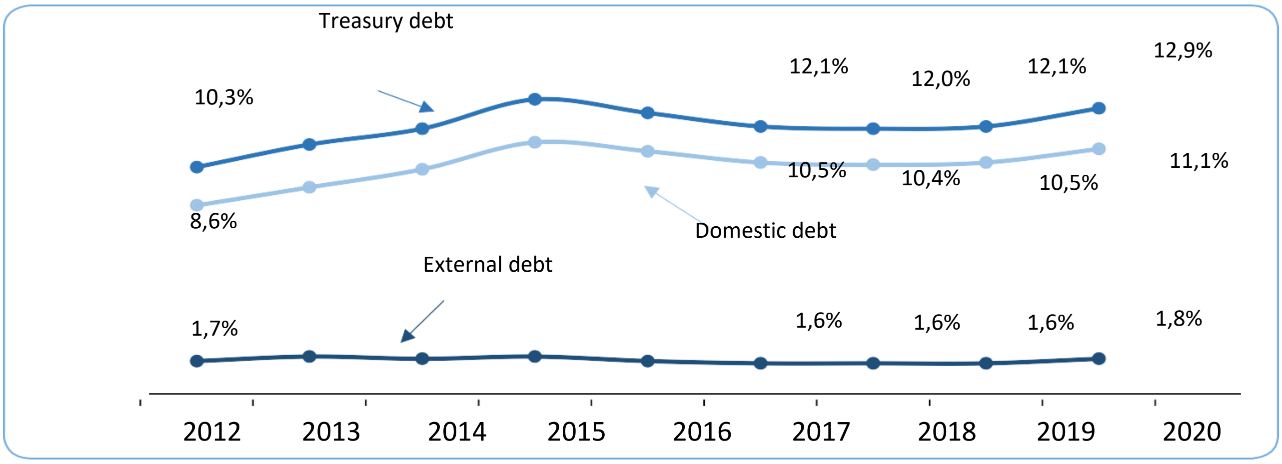
3.2. Weighted average auction rate

The weighted average rate of BDT issues (including active management operations) stood at 2.29%, down by 69 bp compared to that recorded at the end of 2019 (2.98%). This evolution is the result of the significant decrease observed in the rates on the auction market during this year and this, in the wake of the decrease of the Bank Al-Maghreb's key rate by 75 bp.

3.3. Interest expense on the Treasury's debt compared to ordinary revenue

The interest burden on the Treasury's debt in relation to ordinary revenue stood at 12.9% at the end of 2020, compared with 12.1% the previous year, recording an increase of 0.8 percentage points due to the decline in ordinary revenue as a result of the Covid-19 crisis.

Evolution of the ratio of interest expenses to ordinary income



4. Risk Indicators

4.1. Refinancing risk

Short-term share

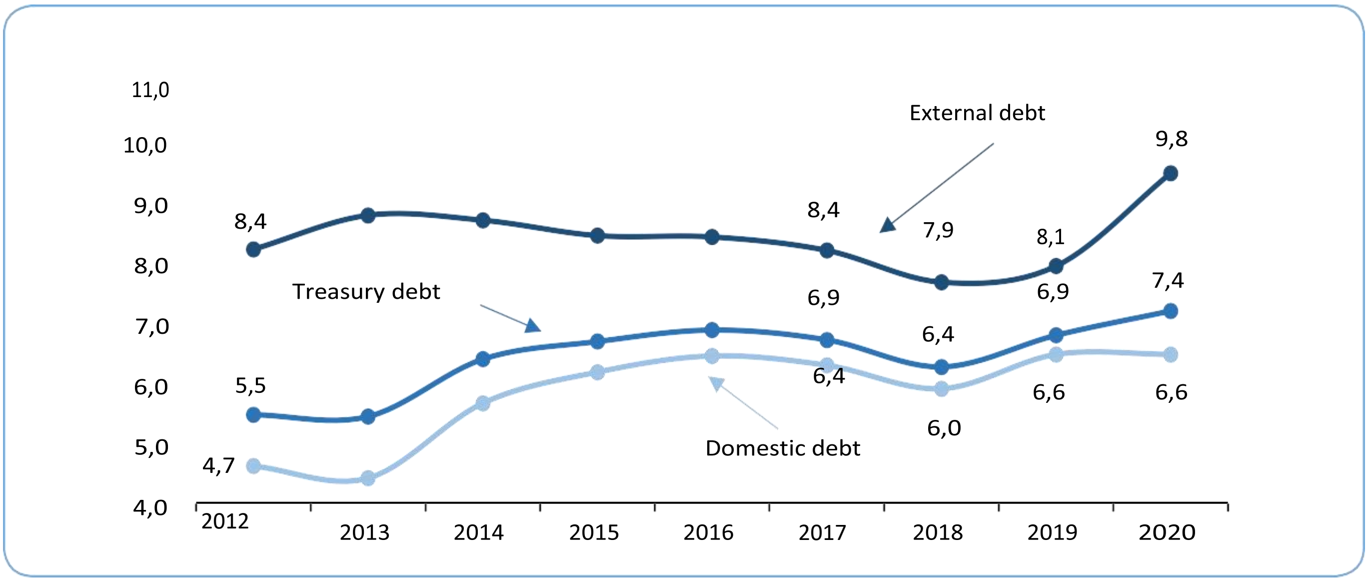
The share of short-term in the Treasury's debt portfolio in 2020 was 11.5 percent compared to 13.2 percent at the end of 2019, a decline of 1.7 percent driven mainly by the importance of exclusively medium- and long-term external mobilizations.

At the end of December 2020, the share of short-term in the domestic debt portfolio stood at 13.5 percent compared to 13.7 percent in 2019 and that of external debt reached 5.1 percent at the end of 2020 compared to 11.7 percent at the end of 2019.

Average life of Treasury debt

The average maturity of the Treasury's debt stood at 7 years and 4 months at the end of 2020, compared with 6 years and 11 months in 2019, i.e. an improvement of almost 5 months, mainly due to the lengthening of the maturity of the external debt.

Evolution of the average life span - in years–



4.2. Liquidity or funding risk

Monthly coverage rate of issues on the auction market

At the end of 2020, the average bid-to-cover ratio for BDT auctions was 2.6 times versus 5.0 times in 2019. This decrease was primarily due to the increase in the volume of raises (excluding active management operations) by nearly 94.1 percent compared to last year while investor demand for BDTs (excluding active management operations) remained nearly flat.

4.3. Interest rate risk

Share of debt requiring refixing

Treasury debt requiring interest rate refixing in 2021 consists of:

- variable rate debt (exclusively external); and
- Short-term fixed-rate debt (domestic and foreign) to be refinanced in 2021.

At the end of 2020, this debt stood at nearly MAD 154.3 billion, i.e. 18.5% of the Treasury's outstanding debt, down 2.5 points compared with a year earlier, mainly due to the fall in the share of external debt falling due within one year.

Share of variable-rate debt

At the end of 2020, the share of variable-rate debt in the Treasury's external debt portfolio reached 31% compared to 36% at the end of 2019. This change is mainly due to the importance of mobilizations carried out at fixed rates during this year, particularly with the MFI.

4.4. Foreign exchange risk

The share of foreign currency-denominated debt in the Treasury's debt portfolio is nearly 24.6%. In fact, 60.6% of this debt is denominated in euros and 33.8% in US dollars and related currencies. This structure, which is close to the current quotation basket of the dirham, contributes to the mitigation of the exposure of this portfolio to the impacts of the variations of the exchange rates of the international currencies in relation to the dirham.

EVOLUTION OF THE PUBLIC EXTERNAL DEBT

1. Outstanding

At the end of 2020, the outstanding public external debt stood at MAD 374.6 billion, recording an increase of MAD 34.7 billion or 10.2% compared to the end of 2019. For its part, the ratio of public external debt to GDP stood at 34.4%, up 4.9 GDP points compared to 2019.

It should be recalled that the public external debt stock is made up of the external debt stock of the Treasury, the PEEs, the public banking sector and external loans guaranteed by the State, the local authorities and the public utility institutions (IUPs).

This development occurred in a particular context marked by the negative effects of the Covid-19 health crisis and is explained mainly by the 23.6% increase in the Treasury's outstanding external debt and the 1.9% decrease in the external debt of other public borrowers.

Indeed, the Treasury's outstanding external debt rose from MAD 161.6 billion at the end of 2019 to MAD 199.7 billion at the end of 2020, an increase of MAD 38.1 billion. As for the Treasury's debt ratio, it reached 18.3% of GDP, up 4.3 GDP points compared to the end of 2019.

As for the outstanding public external debt excluding the Treasury, it has decreased by DH 3.5 billion to reach, at the end of 2020, DH 174.9 billion against DH 178.4 billion at the end of 2019. The debt ratio has, for its part, recorded, under the effect of the contraction of GDP in 2020, an increase of 0.6 point of GDP compared to the previous year to reach 16.1%. The increase in the debt ratio comes after two years of successive declines.

2. Structure by creditor

The structure, by creditor, of the public external debt at the end of 2020 remains characterized by the predominance of loans contracted with official creditors (bilateral and multilateral) whose outstanding amount represents 72% of the total outstanding amount. As for the debt to private creditors, it increased by DH 20.4 billion, compared to the end of 2019, to represent 28% of the total outstanding amount, of which 93% represents the outstanding amount of public sector issues on the international financial market.

3. Structure by borrower

At the end of 2020 and for the 1st time since 2015, the Treasury's external debt exceeds that of other government borrowers (guaranteed and unguaranteed).

Indeed, the outstanding external debt of the Treasury, which amounted to MAD 199.7 billion, represents 53.3% of the total public external debt. As for the external debt excluding the Treasury, it reached MAD 174.9 billion, representing 46.7% of the total public external debt.

The PEEs remain the first group of public borrowers outside the Treasury, with an outstanding amount of 171.1 billion DH. Five main borrowers held eighty percent of this outstanding amount, namely ONEE (26%), OCP (19%), ONCF (14%), MASEN (11%) and ADM (10%).

4. Currency structure

At the end of 2020, the currency structure of the public external debt shows a predominance of the debt denominated in euro which represents a share of 60.6%, followed by that denominated in US dollars and related currencies (30.7%), while the share of the Kuwaiti Dinar reached 3.9%.

This structure, which remains close to that of the dirham quotation basket, makes it possible to mitigate the exposure of the public external debt portfolio to exchange rate risk and to limit the impact of the latter on the outstanding amount and debt service.

5. Interest rate structure

As regards the structure of this debt by type of interest rate, the proportion of debt with fixed interest rates was 74.5% compared with 25.5% for debt with floating interest rates.

It should be noted that the latter is mainly indexed to Euribor at 82%, which contributes to lowering the related service, given the low levels of this reference rate on the MFI.

6. Drawings on external loans

At the end of 2020, the external borrowing resources mobilized by the public sector recorded a leap of 36.6 billion DH to 76.1 billion DH against 39.5 billion DH in 2019

The drawings mobilized by the Treasury amounted to DH 63.0 billion while those mobilized by other public borrowers amounted to nearly DH 13.1 billion.

7. Public external debt service

For the year 2020, public external debt service amounted to MAD 41.4 billion against MAD 29.2 billion at the end of 2019, an increase of MAD 12.2 billion. This evolution of the expenses in amortization, interest and commissions of the said debt is mainly due to i) the increase of the debt service to official creditors of DH 1.1 billion and ii) the increase of the one to private creditors of DH 11.1 billion.

As a proportion of current receipts in the balance of payments, public external debt service rose by 3.6 percentage points from 5.7 percent in 2019 to 9.3 percent in 2020

ACTIVE MANAGEMENT OF THE TREASURY DEBT

1. Active management of domestic debt

At the end of the year 2020, the DTFE has implemented nine BDT exchange operations and three repurchase operations for a total amount repurchased of MAD 35.9 billion. By year of maturity, the amount repurchased was distributed as follows:

- 9.7 billion DH for the repurchase of the falls of 2020 ;
- 24.9 billion for the redemption of the 2021 maturities; and
- 1.3 billion for the redemption of 2022 maturities.

In terms of the impact of active domestic debt management operations, the following can be noted:

- the mitigation of the Treasury's debt refinancing risk through (i) the reduction of the months concerned by the BDT exchange operations by an average of nearly MAD 1.3 billion per month in 2020, by an average of nearly MAD 2.5 billion per month in 2021 and by an average of nearly MAD 0.2 billion per month in 2022 and (ii) the extension of the DVM of the domestic debt by nearly 5 months;
- the increase in interest charges on the domestic debt paid in 2020 by nearly MAD 185.2 million. This increase is due to the combined effect of the decrease in interest charges paid in 2020 by nearly MAD 67.8 million following the early redemption of the instalments of this same year and an increase in these charges of nearly MAD 245.4 million and MAD 7.6 million, following the redemption of the instalments of 2021 and 2022 respectively;
- the reduction of the debt ratio by 1.2 points of GDP due to the repurchase of an amount of MAD 13 billion as part of the two repurchase operations carried out at the end of the year.

2. Active management of external debt

Within the framework of the continuation of the active management actions of the external debt aiming at the reduction of the cost of indebtedness and the mitigation of the financial risks related to the portfolio of the Treasury's external debt, an amount of about MAD 3.5 million was processed during the year 2020 as debt conversion operations in public investments. The total amount processed through the different active management operations, initiated in 1996, is close to MAD 85 billion.

The amount of MAD 3.5 million processed during this year concerns part of the envelope of the last conversion agreement concluded with Italy and is broken down as follows:

- Nearly DH 2.0 million for projects carried out in partnership with the National Human Development Initiative; and

- Nearly 1.5 million DH for the project of preservation of the national archaeological heritage carried out in partnership with the Ministry of Culture, Youth and Sports and the Italian University of Siena.

ACTIVE TREASURY MANAGEMENT

1. Completed operations in 2020

To ensure the sound management of public funds, the Treasury Department actively manages the State's cash position. Temporary cash surpluses are invested on the money market either in the form of reverse repos or unsecured deposits, and to meet specific cash requirements, the DTFE may resort to interbank borrowing.

In a very particular context characterized:

(i) On the one hand, by the deepening of bank liquidity, which reached an average of MAD 90.2 billion per week as a direct corollary of the impact of the health crisis on the economic and financial sphere of our country; and

(ii) on the other hand, by the important increase of the CCT balance availabilities which approached nearly 11.5 billion DH on average per day because of the accumulation of the receipts related to the Special Fund for the management of the pandemic of the Coronavirus "Covid-19" and those of the borrowings on the international financial market

The main objectives of the treasury operations implemented this year were to contribute to the mitigation of the banks' liquidity deficit by injecting the surplus balance of the CCT into the monetary circuit, to reduce the State's financial burden and to allow the Treasury to respect its BDT issuance strategy on the auction market.

Thus, during the year 2020, the number of operations carried out by the DTFE reached 386 operations, including 381 investment operations and 5 unsecured borrowing operations, compared with 352 operations in 2019. The use of unsecured borrowing during 2020 was done on an ad hoc basis to meet cash flow needs anticipated at the beginning of the days concerned.

The overall volume placed with banks recorded a decline of nearly 25% to reach DH 675.0 billion in 2020 against DH 900.2 billion in 2019, and this is mainly due to the decline in the amounts requested by banks by nearly 31% in 2020 following the increase in BAM's injections on the money market to meet their cash needs.

2. Revenue received from active cash management

The active management of the cash flow has allowed to generate a net income of MAD 112.2 million in 2020. These revenues are distributed as follows:

- MAD 86.1 million (77% of total revenues) in investment income; and
- MAD 26.1 million for the remuneration of the balance of the CCT by BAM.

Since the beginning of operations in 2010, total revenues from active cash management amounted to MAD 1.7 billion, distributed as follows:

- 1.2 billion DH (or 70% of total revenues) in investment income; and
- 0.5 billion DH from the remuneration of the balance of the CCT.