ROYAUME DU MAROC

Ministère de l'Economie et des Finances

المملكة المغربية

وزارة الاقتصاد والمالية

REPORT ON DEBT

DOCUMENT APPENDED TO FB 2014

For the second year, the Report on debt, prepared by the Directorate of Treasury and External Finance, is part of the documents appended to the Finance Act. This Report provides information about the trend of debt during the year concerned, while locating it in the national and international contexts which characterized the period under review. This Report examines the trend of the debt portfolio as well as the relevant cost and risk indicators. It also includes an assessment of the transactions carried out by the Directorate of Treasury and External Finance as regards active management of debt and active management of public cash flow.

CONTEXT

As it was the case in the year 2011, the financing of the Treasury, during the year 2012, took place under difficult conditions at the international and national levels.

At the international scale, the year 2012 was marked mainly by the persistence of the crisis of sovereign debt in the euro area, the disturbed regional geopolitical context and the slowdown in economic growth world; these factors had overall a negative impact on the financial markets and contributed to the tightening of the financing conditions of the peripheral countries of the euro area and emerging countries.

At the national level, the degradation of twin deficits and the late vote on the finance Act conducted in May 2012 generated in investors a behavior of wait-and-see policy and prudence which resulted in decreasing demand due to increasing financing needs of the Treasury, which exerted an upward pressure on the required rates of return.

Major lines of the financing strategy conducted by the Directorate of Treasury and External Finance

Within the framework of the fundamental objective assigned to debt management, which consists of ensuring for the Treasury stable and sustainable funding to cover financing needs, and due to the constraints imposed by the context in force, supervising the financing strategy conducted in 2012 by the Directorate of Treasury and External Finance was based on monitoring markets along with the following three principles:

- arbitration between the internal and external funding sources in favor of recourse to the international financial market in order to attenuate the pressure on domestic resources, avoid the ousting of the private sector and consolidate the level of our foreign exchange reserves;
- recourse to customized management of public cash flow;
- continuation of the operations of the active management of foreign debt aiming at reducing the financial risks related to the debt portfolio of the Treasury through the convergence towards our target portfolio "Benchmark".

This steering resulted in setting up, in 2012, the major actions hereafter:

- readjustment of the policy of the issuance of Treasury bills on the domestic market by concentrating its borrowings on short and average maturities to meet the demand of the market which was mainly centered on such maturities;
- successful issuance, on 5 December 2012, of a debenture on the international financial market of an amount of 1.5 billion US$ in two installments. A first installment amounting to 1 billion US$, related to a 10-year maturity and a spread of 275 basis points. The second installment, amounting to 500 million US$, is supplied with a 30-year maturity with a spread of 290 basis points;
- recourse to the issuance of very short term Treasury bills with a total volume of almost 25 billion MAD, or 21% of total borrowings;
- conducting operations of loan on the interbank market to cover auxiliary needs of the Treasury, for a borrowed total amount of 50, 9 billion MAD;
- setting up an operation of currency swap (from US dollar to the Euro) on the 1st installment of 1 billion $US over 10 years of the debenture issued on 5 December 2012 on IFM;
- continuation of the operations of the conversion of debts into public investments with Spain and Italy for a total amount of 75, 3 million MAD.

TREND OF DOMESTIC AND EXTERNAL FINANCING

Concerning domestic financing, the Directorate of Treasury succeeded in mobilizing the required funds to ensure the financing of the needs for the State, that is 120,3 BMAD, by containing the rise of interest rates at moderated levels, on average 53 basis points, compared to the levels offered by the market, in spite of the increase in the needs for the Treasury because of the recording of a budget deficit higher than in 2011 (7,3% in 2012 compared to 6,0% in 2011) and the fall of 55% of volume of the supply of investors on the auction market, which stood at 248,8 BMAD in 2012 as against 557,4 BMAD in 2011.

As regards the external resources mobilized during the year 2012, they amounted to a global amount of 23,1 BMAD, up 66% compared to their level of 2011. If we exclude the entry on the international financial market of 2012, the drawdowns related to foreign loans of the Treasury dropped by 26% in 2012 compared to 2011.

SUCCESSFUL ISSUACE IN DOLLAR ON IFM

Morocco benefitted from the favorable conditions which prevailed AT the end of the year and successfully issued, on 5 December 2012, a debenture on the international financial market amounting to 1, 5 billion US$ in two installments.

A first installment, amounting to 1 billion US$, related to a 10-year maturity and a spread of 275 basis points, offering an output of 4,346%. The second installment, amounting to 500 million dollars, is supplied with a 30-year maturity and a spread of 290 basis points, offering an output of 5,677%. It is the longest maturity launched by Morocco on IFM and the first dollar-dominated issuance.

Main features of the issuance

Issuer	**Kingdom of Morocco**	
Rating (Fitch Ratings /Standard & Poor's)	(BBB-, BBB-)	
Amount	1.000 million US$	500 million US$
Coupon	4,25% (semi-annual)	5,50% (semi-annual)
Maturity	10 years (December 11th, 2022)	30 years (December 11th, 2042)
Issuance date	December 5th, 2012	December 5th, 2012
Spread/US Treasury	275basis points	290basis points
Introductory price	99,228%	97,464%
Joint leaders		Barclays /BNP Paribas/Citi/Natixis

It should be noted that the two credit rating agencies Standard & Poor's (S&P) and Fitch Ratings (Fitch) assigned to this issuance the grade “BBB-” (category “Investment grade”), thus confirming the confidence of the international financial community in the credit solvability of Morocco, particularly reflected by the strong demand of the investors which reached 6 billion US$ for the 1st installment over 10 years and 2 billion US$ for 2nd installment over 30 years.

In addition to the objectives assigned in terms of attenuation of pressures on the liquidity at the level of the domestic market and reinforcement of foreign exchange reserves, this entry on IFM made it possible to establish a benchmark on the dollar sub-fund as well as widen and diversify the base of international investors.

It should be pointed out that this operation was considered “Best deal” of the year in the MENA Region by “Euromoney” and “Best sovereign bond in Africa” by EMEA Stores FINANCE.

Trend of Treasury debt

Outstanding

The outstanding amount Treasury debt (domestic and external) stood at the end of the year 2012 at 493,7 BMAD as against 430,9 BMAD at the end of 2011, that is an increase of 62,8 BMAD or 15%. This trend includes an increase in outstanding domestic and external debt of 45.5 BMAD and 17.3 BMAD, respectively.

Compared to GDP, the ratio of Treasury debt posts a rise for the third consecutive, after the improvement cycle recorded between the years 2000 and 2009.

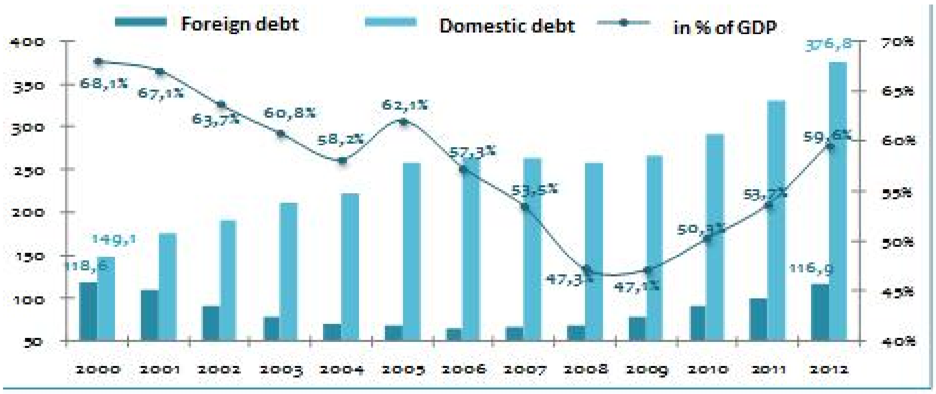
Indeed, over the period 2000-2009, this ratio significantly decreased from 68, 1% in 2000 to 47, 1% in 2009; that is an average annual fall of 2.3 points of GDP. This trend was supported by the achievement of satisfactory levels of economic growth, the maintenance of the budget deficit at a level lower than 3% of GDP on average and the actions aiming at the reduction of the weight of foreign debt, particularly due to the establishment of the policy of active management.

At the end of the year 2012, the ratio of Treasury debt compared to GDP reached 59, 6%, an annual average increase of 4,2 points compared to 2009. This trend is explained primarily by the rise of the budget deficit in recent years.

The structure of Treasury debt by funding source shows that the share of foreign debt stood at 24%; that is practically the same level as in 2011 (23%). This structure is almost in line with the objectives adopted for the benchmark portfolio (75% domestic debt/25% foreign debt).

The ratio of Treasury domestic debt accounted for 45,5% of GDP compared with 41,3% at the end of 2011 while that of foreign debt stood at 14,1% compared with 12,4% at the end of 2011.

Trend of the ratio of Treasury debt in relation to GDP



STRUCTURE BY INSTRUMENT

More of the three quarters (78%) of Treasury debt is a negotiable debt made up of TB issued on the auction market (72%) and the euro-bonds issued on IFM (6%).

Nonnegotiable debt accounts for 22% of the portfolio of Treasury debt and is primarily made up of foreign debt from bilateral and multilateral donors.

STRUCTURE BY RESIDUAL TERM

The structure by residual term of Treasury debt shows the prevalence of medium and long terms which account for, at the end of 2012, nearly 84% of the total outstanding debt, as against 86% at the end of 2011.

STRUCTURE BY INTEREST RATE

At the end of 2012, Treasury outstanding debt at fixed rate represented nearly 92.5% of the outstanding total, in quasi-stability compared to 2011.

By rate interval, the distribution of domestic Treasury debts shows that 94% of the outstanding amount carries fixed interest rate ranging between 3% and 6% compared with 90% in 2011. This share increased due to a fall in the share of the debt with interest rates higher than 6% which fell from 9% in 2011 to 5% in 2012. This situation is explained mainly by the renewal of the old debts carrying high rates by the issuance of new TB at lower rates.

As regards foreign debt, the structure by type of interest rate, at the end of 2012, is as follows:

- 68,2% of foreign debt carry fixed interest rates of which 14,6% with interest rates lower than 3% and 52,4% with rates ranging between 3% and 5%;
- 31,8% of foreign debt carry variable interest rates including 28,3% indexed on Euribor in 6 months and 2,7% on Libor $US in 6 months.

STRUCTURE BY CURRENCIES

The portfolio of Treasury debt remains dominated by the debt in dirhams with a share of about 76% mainly because of the importance of the debt issued over the domestic market.

The share of the euro remained practically stable during 2012 compared to 2011 (18%), thanks to the policy of external financing of the Treasury which favors the choice of the euro as basic currency of the new loans mobilized in particular from IBRD and ADB, coupled with the strategy of active management of foreign debt adopted for nearly two decades, through the conversion into euro of certain loans of IBRD and the swap into euro of the debenture mobilized on the international financial market in 2012.

Structure of Treasury outstanding debt by currencies

	2011		2012	
In M.MAD	Volume	Share	Volume	Share
MAD	328 673	76%	374 925	76%
EUR	78 168	18%	91 461	18%
USD	12 344	3%	15 487	3%
KWD	3 548	1%	3 627	1%
JPY	3 661	1%	3 737	1%
Other	4 529	1%	4 439	1%
Total	430 923	100%	493 677	100%

PAYMENT OF TREASURY DEBT

The costs of Treasury debt in depreciation, interests and commissions paid during the year 2012 amounted to 106 BMAD, up 10% compared to 2011 (96 BMAD).

Interests and commissions costs

The costs in interests and commissions of Treasury debt stood at 19, 9 BMAD, up 1, 8 BMAD compared to 2011 (18,1 BMAD). As a percentage of GDP, the costs in interests account for 2, 4% compared with 2, 3% in 2011.

Principal costs

The principal costs of Treasury debt were stood at 85, 7 BMAD in 2012 as against 77, 8 BMAD in 2011; that is a rise of 7, 9 BMAD or 10%.

COST INDICATORS

Average costs of Treasury debt

The average costs of Treasury debt (or apparent cost) amount to 4, 5% in 2012; that is the same level recorded in 2011.

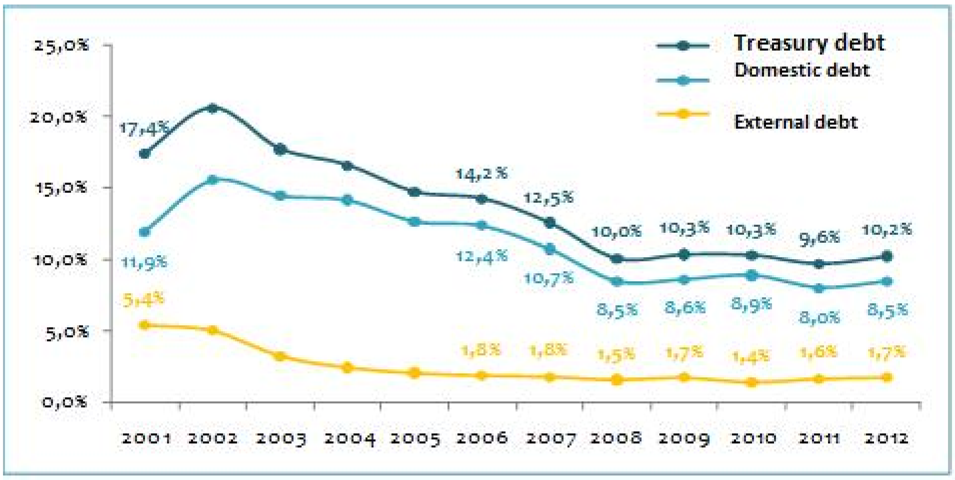
As regards domestic debt, its average costs stood at 4,79%, with a slight fall of 5 basis points compared to 2011 (4,84%) as a consequence of the renewal of debts in the long run carrying high interest rates and maturing by new issuances with lower interest rates.

As regards foreign debt, its average costs were stood at 3.34% compared with 3, 29% in 2011, that is a rise of 5 basis points. This slight rise is explained primarily by the rise of the levels of floating interest rates in euros invoiced in 2012, which recorded an average increase of 10 basis points compared to their level of 2011.

Costs of Treasury debt interests in relation to regular income

At the end of 2012, the ratio of the costs in Treasury debt interests in relation to the regular income excluding VAT of LG and revenues of TSA, stood at 10,2% compared with 9,6% in 2011; that is a rise of 0,6 points.

Trend of interest costs ratio / regular income



Total costs of foreign debt in relation to current revenues of the balance of payments (CRBP)

In relation to the current revenues of the balance of payments (CRBP), the total costs of foreign debt of the Treasury in 2012 stood at 3.0% as against 2.7% in 2011, or a rise of 0,3 points.

RISK INDICATORS

Short term share

The short term share in the portfolio of Treasury debt stood at 16% at the end of 2012 compared with 14% in 2011; that is a rise of 2 points. This increase is explained primarily by the rise of short term share in the portfolio of domestic debt, which rose from 16% last year to 18% at the end of 2012, mainly because of the concentration of the borrowings of the Treasury on maturities lower than or equal to 2 years during the last two years.

Average lifespan of Treasury debt

The average lifespan of Treasury debt recorded a one-month rise compared to that recorded at the end of 2011 by reaching 5 years and 7 months at the end of 2012.

By debt type, the lifespan of domestic debt stood at 4 years and 8 months, down 3 months compared to 2011. This fall is explained by the concentration of the borrowings of the Treasury on maturities lower than or equal to 2 years.

Concerning foreign debt and taking into account the redeemable character of the loans from bilateral and multilateral donors (repayments spread out over the duration of the loans, which are amortized (non-bullet) loans), since the duration of refunding remains average amounting at the end of 2012 to 8 years and 5 months.

ACTIVE MANAGEMENT OF FOREIGN DEBT

Since 1996 Morocco has adopted a policy of active management of foreign debt of the Treasury aiming at the reduction of the weight and cost of debt as well as the attenuation of risks of interest rate, exchange and refinancing.

The operations carried out within this framework made it possible to bring the amount processed since 1996 to more than 72 BMAD of debts including 8, 5 BMAD for the year 2012.

CONVERSION OF DEBTS INTO PUBLIC INVESTMENTS

Within the framework of the continuation of the achievements of the projects financed through the budgets of the Agreements of conversion of debts concluded with Spain and Italy, a total amount of 75,3 M.MAD of debts was converted for the year 2012 distributed as follows:

- The amounts converted in 2012 with Spain reached 73, 2 M.MAD arising from the budget of 50 € million relating to the Program of 9 December 2003 concluded with this country. This amount financed projects of liquid cleansing carried out by the National Office of Electricity and Drinking Water Drinkable- Water Section benefiting the cities of Chefchaouen and Saidia and the projects of acquisition of electrical equipment by the Electricity Section of such Office.

- The amounts converted in 2012 with Italy reached 2, 1 M.MAD arising from the budget of 20 million € relating to the Agreement of 13 May 2009 concluded with this country. This amount financed projects within the framework of INDH and some actions of the program of reinforcement of the capacities of the Moroccan associations set up by the Social Development Agency.

The year 2012 was also marked by the completion of the construction and development project of 8 rural roads set up by the Road Financing Fund in the province of Azilal and financed within the framework of the Agreement of 13 May 2009 concluded with Italy. This project, completed in February 2012, and whose linear distance is about 106 km, benefited a population estimated at 33.800 inhabitants and contributed to ending the isolation of Tadla-Azilal Region.

CURRENCY SWAP OPERATIONS

Within the framework of the continuation of its strategy of risk management, the Directorate of Treasury resorted in 2012 to an operation of currency swap on the 1st installment of 1 billion $US over 10 years of the debenture issued on 5 December 2012 on the international financial market. Following this operation, carried out with the World Bank, interest rate on the installment of 10 years was fixed at 3,755% in euros against a rate of 4, 25% fixed initially in dollar.

In addition to the favorable conditions gained through this swap operation, the share of the euro in the portfolio increased from 68% to 76, 6% making it possible to further approach the structure in Benchmark currencies.

MAINTENANCE OF “INVESTMENT GRADE” OF MOROCCO

In a difficult context marked by the crisis of sovereign debt and the worsening of world economic conditions, the major rating agencies proceeded to a series of downgrading both developed and emerging countries.

In this particular context, the two agencies Standard & Poor's and Fitch Ratings maintained, as to “investment grade”, the grades “BBB-” of Morocco for its long-term debt in currencies with respectively negative and stable prospects, within the framework of the annual consultations held in September and at the beginning of October 2012. During these consultations, the analysts of the two agencies held meetings with certain members of the Government, representatives of the private sector and the officials of the foreign representations in Morocco.

I- Confirmation of the grade granted to Morocco by Standard & Poor's with a change of prospect from stable to negative

S&P confirmed in October 2012 the grade “BBB-” of Morocco for its long-term debt in currencies, changing of its prospect from stable to negative. According to this agency, the grades of Morocco were supported by a careful macroeconomic management, which contributed to a strong economic growth compared to its peers, a weak inflation of consumer prices and a moderate level of government debt. S&P emphasized, however, that the grade could be lowered if the budget and current account deficits are not reduced in a significant and sustainable fashion.

II- Confirmation of the grade granted Morocco by Fitch Ratings with stable prospect.

Fitch also maintained in November 2012, as to investment grade, the grade “BBB-” of Morocco for its long-term debt in currencies, reviewing the prospect from stable to negative. In reaction to this action, this department made this decision bringing new facts which would have a positive impact on the prospects for domestic and external balances, especially the impulse given by the visit of HM the King to the Gulf countries to the strategic partnership with these countries that should result in an acceleration of the release of donations for Morocco to finance a number of socio-economic projects. Finance Bill 2013 recently deposited at the Parliament, giving more detail on the measures that the Government was going to take to reduce the two deficits was another important component presented to the Agency. The appeal was considered to be acceptable by this Agency, which held a 2nd meeting of its grading committee. At the conclusion of this meeting, Fitch changed its decision by assigning “stable prospect” to the grade of Morocco.

The confirmation of the grade was justified by “strong macroeconomic performance as testified by a sustained high growth of GDP and a level of debt in line with peer countries classified in the same grade category”. The Agency stressed that “on the other hand, the incapacity to rectify the budget and current account deficits, the continuation of the degradation of external position and the weakening of the economic performance with regard to exogenic shocks, are negative factors likely to weigh on the grade”.

Trend of public foreign debt

Outstanding

Public foreign debt is composed of Treasury foreign debt and foreign debt of Public Establishments and Companies (PEC). Its outstanding amount stood at nearly 212,7 BMAD on 31 December 2012, up 23,6 BMAD or 12,5% compared to its level recorded at the end of 2011, mainly due to (I) the positive balance of net flows of the external financings which reached 23,8 BMAD in 2012, (II) the rise in the prices of Eurobonds issued in euros on IFM in 2007 and 2010 and (III) the impact of exchange due to the appreciation against the Dirham of the major international currencies, especially the Japanese Yen by +12% and US Dollar and related currencies by almost +1,7%.

As for the ratio of public foreign debt in relation to GDP, this indicator recorded a rise of 2, 1 points of GDP compared to its level of 2011 (23, 6%), amounting to 25, 7%.

Expressed in US Dollar and Euro, the stock of public foreign debt amounts at the end of 2012 to 25, 2 B. $US and 19, 1 B. € respectively.

STRUCTURE BY CREDITORS

International development institutions remain the first cluster of creditors of Morocco with a share of 49, 2% of public foreign debt with an outstanding amount of 104, 7 BMAD. This item confirms the effort made by Morocco as regards the mobilization of external resources from these institutions and the major role they play in implementing structural and sector- based reform programs.

It should be noted that ADB, one of the major multilateral donors, is the first creditor of Morocco for the 4th consecutive year with 29, 1% of multilateral debt, in front of IBRD, which holds 23, 8% of such debt and EIB with 20, 5%.

As regards bilateral debt, its outstanding stock amounts to 74, 8 BMAD or 35, 2% of public foreign debt. France is the first creditor with 38, 4% of this debt, followed by Japan with 15, 1% and the Netherlands with 8, 4%.

The international financial market and commercial banks hold a stock of 33, 2 BMAD, or 15, 6% of the total debt.

STRUCTURE BY BORROWER

The Treasury remains the major borrower with an outstanding amount of 116, 9 BMAD at the end of 2012 standing for nearly 54, 9% of the total public foreign debt. Sustaining its upward trend starting in 2007, the stock of foreign debt of the Treasury was marked by an average annual increase of 10, 3%. Nevertheless, in spite of the increasingly rising recourse of the Treasury to external financings within the framework of the policy of arbitration between internal and external financings, this recourse is conducted in a controlled fashion, favoring the financings carrying the best financial conditions (interest rate, maturity and grace periods) like those contracted near the multilateral creditors.

The outstanding amount of PEC foreign debt stood at 95, 8 BMAD at the end of 2012; that is a share of 45, 1% of public foreign debt. It is held mainly by ONEE (36 BMAD), ADM (22, 3 BMAD), CFR (6, 2 BMAD) and OCP (6, 1 BMAD). Because of the increasingly significant recourse of PEC to the external support to meet their financing needs related to the execution of their ambitious investment plans, the outstanding stock of foreign debt of PEC witnessed an upward trend starting in 2005 with an average annual increase of 9,9%.

DRAWDOWNS ON FOREIGN LOANS

As regards the resources of foreign loans mobilized by the public sector in 2012, they have reached a global amount of 37,5 BMAD, up 47% compared to their level of 2011. It should be noted that except the issuance of 1,5 billion $US performed by the Treasury on the international financial market in 2012, drawdowns of the public sector during this year stood at 24,7 BMAD, up 3% compared to the previous year.

COSTS OF PUBLIC EXTERNAL DEBT

The costs of public foreign debt in depreciation, interests and commissions paid in 2012, recorded a rise of 2, 4 BMAD to stand at 19, 9 BMAD as against 17, 5 BMAD in 2011.

As for the debt costs expressed in terms of current revenues of the balance of payments, it amounts to 5, 3% in 2012 compared to 4, 8% in 2011 and 18, 9% in 2000.

ACTIVE MANAGEMENT OF PUBLIC CASH FLOW

The fundamental objective of public cash management consists of ensuring an optimal management of public money, while making sure that the State has constantly and in all circumstances sufficient funds to honor its financial liabilities, avoiding a debit balance in end-of-day as to the current account of Treasury (CCT) held at Bank Al-Maghreb.

In this regard, in order to ensure a good management of public money, the Directorate of the Treasury:

(I) conducts daily, on the basis of forecast of treasury of the previous day, investment transactions on the money market of the treasury temporary surpluses (beyond a precautionary balance) or very short term loan transactions; and

(II) monitor the situation of CCT during the day, in order to resort to auxiliary operations in the event of unforeseen improvement or degradation of the balance of CCT.

TRANSACTIONS CONDUCTED IN 2012

The Directorate of Treasury had recourse to 314 investment transactions and 29 loan transactions in 2012. Compared to the year 2011, the recourse of the Treasury to the instruments of treasury shows a much more important use of unsecured loans, which testifies to a closer management of the public cash flow toward optimizing debt

Investment transactions of CCT surplus

The total volume of the investment transactions of CCT surpluses performed by the Directorate of Treasury on the money market in 2012 reached 411,6 BMAD; that is practically the same level achieved in 2011 (429,3 BMAD).

As for the distribution by type of transaction, the volume of investments with reverse repurchase reached 315, 8 BMAD in 2012; that is the same level as that recorded in 2011. As for the daily average outstanding amount of these transactions, it stood at 3, 1 BMAD as against 2, 5 BMAD the previous year.

As regards unsecured deposits, their volume reached 95, 8 BMAD as against 114, 1 BMAD the previous year, down 16%. The daily average outstanding amount reached 1, 3 BMAD as against 1, 2 BMAD in 2011.

It should be pointed out also that unsecured deposits of the Directorate of Treasury on the interbank market accounted for only 12% of the total volume processed on this market; that is almost the same level achieved last year. This trend is explained by the fact that the Directorate of Treasury prefers the recourse to repo transactions which involve almost no risk of the counterpart with regard to unsecured deposits.

Loans on the interbank market

In 2012, the Directorate of Treasury had recourse to 29 unsecured loan transactions amounting to 50, 9 BMAD with an average balanced rate of 3, 31% and an average volume by transaction of 1, 8 BMAD. The recourse to these loans was conducted primarily on the basis of a need identified at the beginning of the day, aimed at optimizing recourse to debt at the auction market of Treasury bills.

REVENUES COLLECTED FROM THE ACTIVE MANAGEMENT OF TREASURY

The operations of the active management of treasury (investment of cash surplus and remuneration of TCCB), contributed in 2012 to the attenuation of debt costs by generating revenues amounting to 113, 4 million MAD (net of taxes).