Royaume du Maroc
Ministère de l'Economie et des Finances
Direction du Trésor et des Finances Extérieures

المملكة المغربية
وزارة الإقتصاد والمالية
مديرية الخزينة والمالية الخارجية

DOCUMENTS ACCOMPANYING THE 2019 DRAFT FINANCE LAW
- DEBT REPORT 2017 –

The debt report, which is produced every year by the Department of Treasury and External Finance (DTFE), describes the Treasury's financing both in the domestic market and to foreign lenders, analyzes the evolution of the debt portfolio in terms of outstanding sums and debt service as well as in terms of structure by instrument, interest rate and currency, and assesses the cost and risk indicators used in debt management.

This document also assesses the active management of domestic and foreign debt, in addition to the active management of the public treasury conducted by the Department of Treasury and External Finance.

TREASURY FINANCING

In 2017, the gross amounts raised by the Treasury amounted to 127.5 billion dirhams, 110.7 billion dirhams raised in the domestic market (87%) and 16.8 billion dirhams from outside sources.

1. Domestic financing

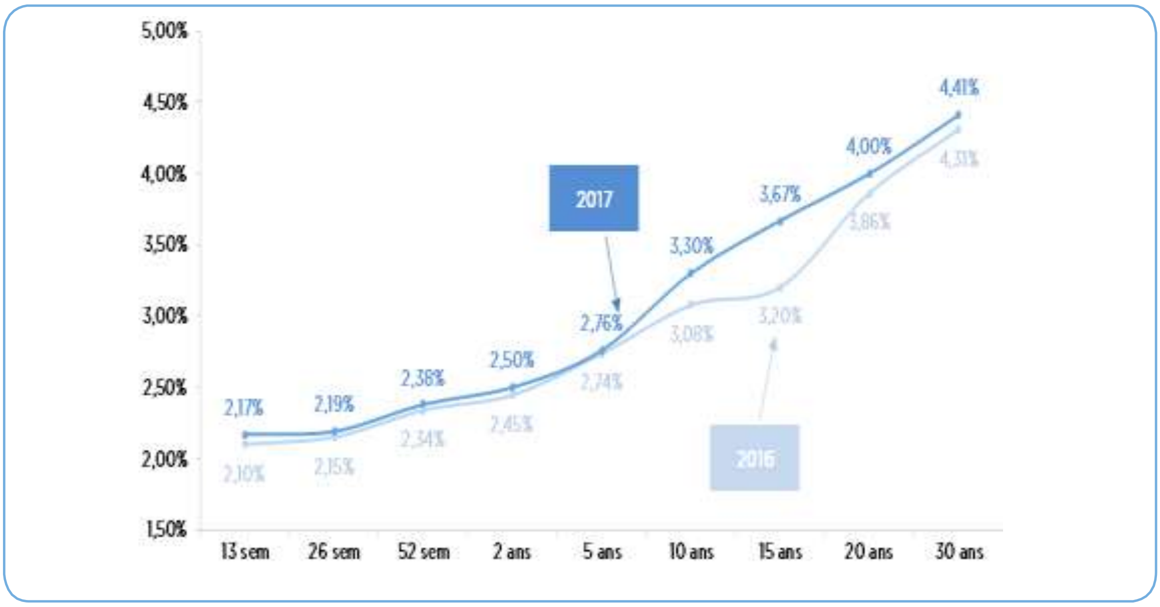
In a context marked by sustained investor demand for government securities combined with stable rates offered, the Treasury continued in 2017, the same funding policy as that conducted in 2016 and which revolves around the following points:

- Ensure a regular monitoring of maturities taking into account market conditions;
- Ensure that domestic debt risk indicators remain close to the levels suggested and validated on the annual financing plan;
- Make regular use of Treasury Bills trades to mitigate refinancing risk by smoothing of the monthly fall in the 2017 and 2018 treasury debt, which is experiencing significant recovery peaks; and
- Realize on a day-to-day basis 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, enable the Treasury to respect its issuance strategy.

Thus, the total volume of Treasury issues on the auction market was 110.7 billion dirhams against 111.4 billion dirhams a year earlier. This volume is distributed relatively evenly between maturities at 5 years and over and those at 2 years and under with respective shares of 53% and 47%, which is almost the same distribution as in 2016.

In terms of rates retained by the Treasury, they have registered an increase averaging 12.9 basis points (bps) compared to the levels recorded at the end of 2016. This increase was 19.0 bps, on average, for maturities greater than or equal to 5 years and 5.2 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 2017, the external loans drawings, which were marked by the absence of Treasury issues on the international financial market, amounted to 16.8 billion dirhams, an increase of 62% compared to 2016.

With 66% of the total, drawings from multilateral creditors amounted to 11 billion dirhams against 9.2 billion in 2016, an increase of 21%; while those mobilized from bilateral sources stood at 5.8 billion against 1.2 billion in 2016.

Resources mobilized from multilateral sources were mainly intended to support reform programs worth 10.2 billion dirhams (93%) and projects included in the State Budget for nearly 806 million dirhams (7%).

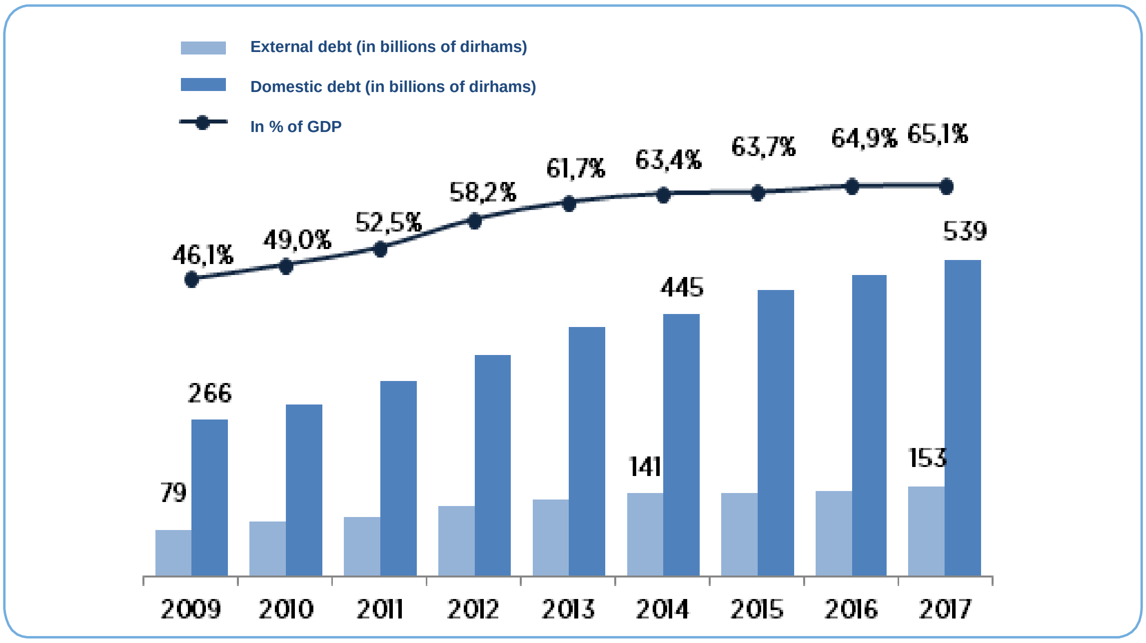
EVOLUTION OF TREASURY DEBT

1. Sums outstanding

At the end of 2017, outstanding Treasury debt, corresponding to the State's direct internal and external debts, amounted to 692.3 billion dirhams, up by 34.9 billion dirhams or 5 % compared to the end of 2016 (657.5 billion dirhams). Despite the increase recorded, the pace of growth has dropped significantly, compared to that observed over the 2009-2014 period, which averaged 9%.

In relation to GDP, outstanding Treasury debt stood at 65.1% at the end of 2017 compared with 64.9% at the end of 2016. This rate of increase in the Treasury debt ratio was characterized by a progressive control as it has been reduced from an average annual variation of 2.7 of GDP between 2011 and 2016 to 0.2 of GDP for 2017, thanks to the crucial government policy restoring macroeconomic balances to keep the debt on a sustainable path.

Evolution of outstanding Treasury debt



2. Structure by instrument

The Treasury debt mainly consists of negotiable debt with a share of nearly 81%, of which 74% is treasury bills issued on the auction market and 7% Eurobond issued on the international financial market. Non-negotiable debt represents 19% of the Treasury debt portfolio and consists mainly of external debt contracted to the official creditors.

3. Structure by interest rate

At the end of 2017, outstanding fixed rate Treasury debt represents nearly 91% of the total outstanding amount. The preponderance of fixed-rate debt is due to the fact that the domestic debt, which accounts for the dominant share in outstanding Treasury debt, is exclusively fixed-rate. As for the external debt, its structure by type of interest rate shows that 59% of the stock of this debt has fixed interest rates. The rest (41%) is contracted at variable rates.

4. Structure by currency

The Treasury debt portfolio is dominated by the dirham-denominated debt; whose share was at 78% in 2017. This share, which is represented by domestic debt, has been stable compared to 2016.

As regards the currency composition of the Treasury's external debt and following the change in weightings of the Dirham trading basket on April 13, 2015 with a strengthening of the US dollar's share weighting from 20% to 40%, the Euro's debt in the Treasury's external debt portfolio fell to 66% at the end of 2017 compared to 71% in 2016, while that of the US dollar and related currencies increased to 28% at the end of 2016 against 23% a year earlier. As for other currencies (Japanese Yen, Kuwaiti Dinar and others), their share stabilized at 6% in 2017.

5. Treasury Debt Service

The Treasury debt burdens in terms of redemptions, interest and commissions, settled during the year 2017, amounted to 127.9 billion dirhams, a decrease of 1.1 billion dirhams or 1% compared to 2016 (129 billion dirhams).

This decrease is the result of the combined effect of the 1.2 billion dirhams decrease in expenses foremost and the limited increase in interest expense of 0.1 billion dirhams.

As for type of debt, domestic debt expenses fell by 6.8 billion dirhams to reach 110.9 billion dirhams from 117.6 billion dirhams at the end of 2016. As for those of the external debt, they recorded an increase of 5.7 billion dirhams to reach 17 billion dirhams in 2017 against 11.4 billion in 2016.

6. Cost indicators

6.1. Average cost of Treasury debt

The average cost of the Treasury debt has stabilized at 4.1% in 2017. This stabilization is mainly due to the decrease in the average cost of domestic debt by almost 12 basis points, coupled with a decline in the average cost of external debt of 4 basis points.

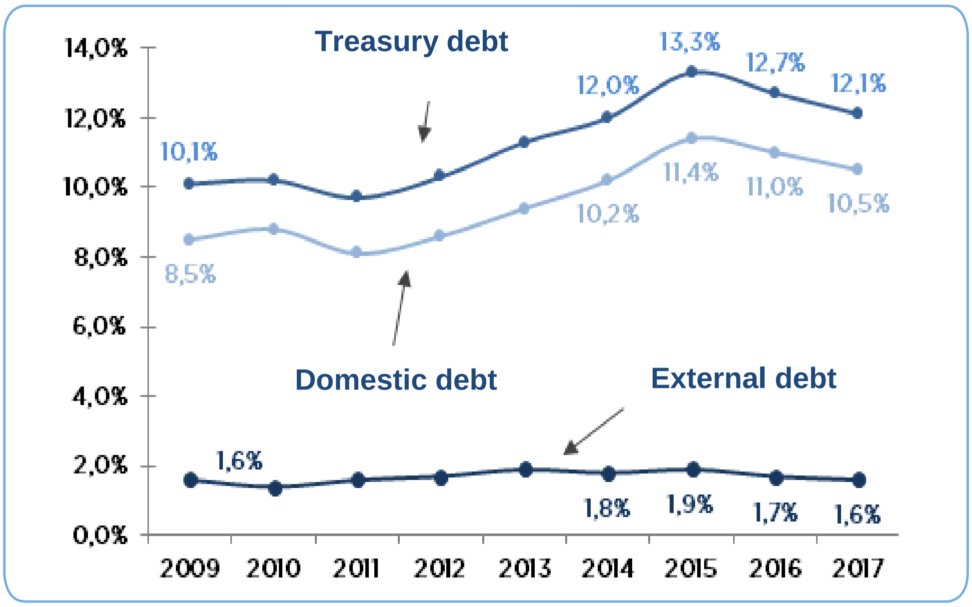
6.2. Weighted average rate of issuings by auction

The weighted average issue rate of Treasury Bills (including active management) was 2.80%, down slightly by almost 2 bps from its 2016 level. This situation is mainly due to the fact that the retained rates were kept at levels close to those of last year and that the same structure of the levies was retained as in 2016.

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

At the end of 2017, the ratio of the Treasury's debt interest expenses compared to the ordinary income excluding VAT of local authorities was 12.1% compared to 12.7% in 2016, a decrease of 0.6% point. The change in this ratio is mainly due to the combined effect of the almost 5% increase in ordinary income and the limited increase of less than 1% in interest expense in 2017 compared to 2016.

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 was 12.4% compared to 13.4% in 2016. This decline is mainly due to the decline in the stock of instruments with short-term remaining maturity in the domestic debt portfolio. During 2017, the share of short-term debt in the Treasury's domestic debt portfolio fluctuated several times, ending up at 14.4% at the end of 2017, slightly down from last year's level (14.6%).

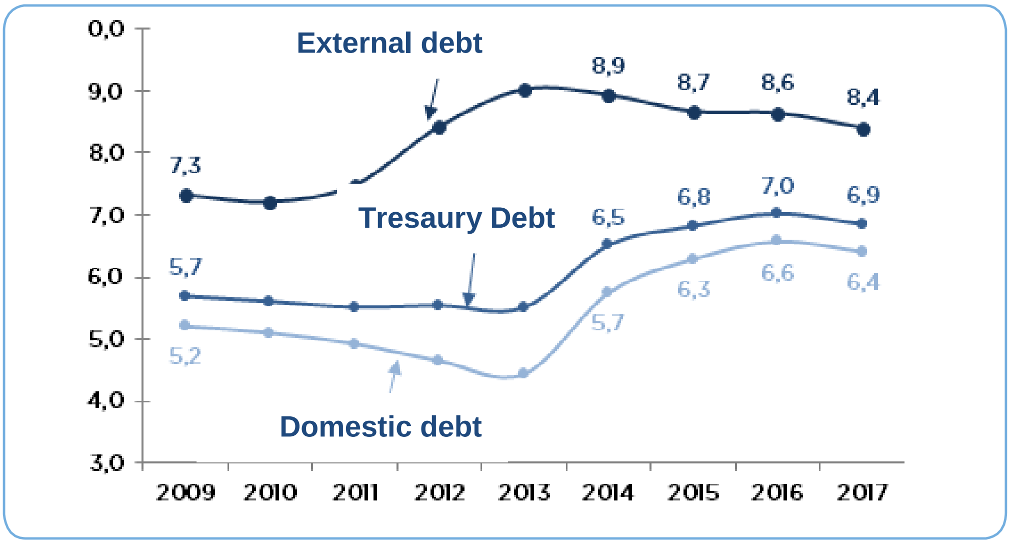
When it comes to external debt, the share of redemptions maturing in less than one year amounted to 5.3% at the end of 2017 compared to 8.3% in 2016. This change is related to the repayment made during the first half of 2017 of the € 500 million Eurobond issued in 2007.

7.2. Average life of the Treasury debt

The average life of the Treasury debt has decreased by 2 months compared to the end of 2016, to reach 6 years and 10 months. This change is mainly due to the decline in the average life of the domestic debt which stood at 6 years and 5 months, down 2 months compared to the end of 2016.

With regard to the average life of the external debt and taking into account the nature of the loans contracted from bilateral and multilateral lenders whose repayment schedules are staggered (repayments spread over the duration of the loans), this one has decreased by 3 months to settle at 8 years and 5 months at the end of 2017 against 8 years and 8 months in 2016.

Evolution of the average life - in years -



7.4. Variable rate debt share

At the end of 2017, the share of the variable rate in the Treasury's external debt portfolio was 41% compared to 42% at the end of 2016.

EVOLUTION OF EXTERNAL PUBLIC DEBT

1. Outstanding

Outstanding external public debt, which is composed 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, was at the end of 2017, 332.6 billion dirhams, recording, thus, an increase of 20.1 billion dirhams or 6.4% compared to 2016.

This change in the outstanding external public debt is explained by the increase in the outstanding external debt of the Treasury by 7.3% and that of the external debt of the rest of the public sector by 5.7% to settle at the end of 2017, respectively, at 153.2 and 179.4 billion dirhams.

The Treasury's outstanding external debt increased by 10.4 billion dirhams to reach, by the end of 2017, 153.2 billion dirhams compared to 142.8 billion dirhams in 2016. The external debt ratio of the Treasury, meanwhile, was marked by a slight increase of 0.3 point compared to 2016, after two successive decreases in the ratio by 1 percentage point of GDP in 2015, and 0.2 in 2016.

The evolution of outstanding external public debt excluding that of the Treasury, which represents 16.9% of GDP in 2017, was marked by a limited increase of 0.2 percentage point of GDP compared to 2016. This trend was less pronounced than those recorded in 2015 and 2016 during which this debt ratio had increased, respectively, by 1.4 and 0.5 percentage point of GDP.

2. Structure by creditors

At the end of 2017, the structure of external public debt by creditors continued to be characterized by the predominance of loans to official creditors (bilateral and multilateral), which saw their outstandings rise by 21.1 billion dirhams during this year. In the case of private creditors, outstanding loans declined by 1.1 billion dirhams as a result of the combined effect of the absence of public sector issuance on the international financial market in 2017, and negative net flows recorded for the commercial banks debt portfolio.

3. Structure by borrowers

At the end of 2017, the external public debt excluding that of the Treasury represents nearly 54% of the total public external debt. Public Entities and Enterprises (EEP) remain the largest group of public sector borrowers with outstanding amounts of 178.3 billion dirhams.

As for the concentration of the external debt of Public Entities and Enterprises (EEP), nearly 81% of the outstanding debt is held by five borrowers, namely ONEE (24%) and OCP (23%), ADM (12%), ONCF (12%) and MASEN (10%).

Regarding the external debt of the Treasury, its share in the external public debt remained stable at around 46% at the end of 2017, the same level as in 2016.

4. Structure by interest rate

The composition of external public debt by type of interest rate shows a preponderance of debt with fixed interest rates of 74% versus 26% for floating interest rate debt.

5. External loans drawings

The external loans' resources mobilized by the public sector in 2017 amounted to an overall amount of 35.7 billion dirhams, up 12% from their 2016 level (31.9 billion dirhams).

Drawings mobilized by the Treasury in 2017 totaled 16.8 billion dirhams while those mobilized by Public Entities and Enterprises (EEP) amounted to nearly 18.9 billion dirhams.

Regarding drawings of Public Entities and Enterprises (EEP), a share of nearly 83% (or 15.7 billion dirhams) was achieved by six EEPs as part of the financing of their investment projects. These include: ONCF (5.4 billion dirhams), ONEE (3.4 billion dirhams), MASEN (2.7 billion dirhams), CDG_FINEA (1.7 billion dirhams), OCP (1.6 billion dirhams) and ADM (1.1 billion dirhams).

6. External public debt service

The external public debt expenses, redemptions, interest and commissions settled in 2017 amounted to 32.1 billion dirhams against 29.1 billion dirhams in 2016, thus recording an increase of 3 billion dirhams. This change is mainly due to the repayment, in 2017, of the Eurobond issued by the Treasury on June 27, 2007 for an amount of € 500 million.

In relation to the current account balance of payments, the external public debt service stabilized at 6.8% of the current account balance of payments in 2017.

ACTIVE MANAGEMENT OF TREASURY DEBT

1. Active management of domestic debt

At the end of 2017, the Treasury Department set up 8 Treasury bill swap transactions for a total repurchase amount of 23.5 billion dirhams.

In terms of the impact of the active management of domestic debt carried out in 2017 on the cost and risk indicators, these operations resulted in:

- A net reduction in domestic debt interest expenses paid in 2017 of nearly 5.7 million dirhams. This decrease stems from the combined effect of the fall in interest expense paid in 2017 of nearly 96.9 million dirhams, following the early redemption of the same year's deposits, and an increase in these expenses by almost 91.2 million dirhams following the redemption of the deposits of 2018.

- A refinancing risk mitigation linked to the Treasury debt through the reduction of the fall of the months concerned by the treasury bill swap transactions of around 2.3 billion dirhams on average per month in 2017 and close to 2,6 billion dirhams on average per month in 2018.

In addition to these quantitative results, the active management of domestic debt also had a qualitative impact on debt management by allowing the Treasury to spread out its cash requirements over the year; and better manage its issuance policy by curbing, as far as possible, any unjustified development of interest rates in relation to the macroeconomic situation.

2. Active management of external debt

As part of the active external debt management operations set up 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 about 12.32 billion dirhams was processed during the year 2017, thus, bringing the sum of the processed amounts, since the beginning of these operations initiated in 1996, to 85 billion dirhams.

During the course of 2017, these transactions involved:

- The conversion of an amount of 14.7 million dirhams of debt under the debt conversion agreements into public investments concluded with Italy and Spain;
- The use of 9 swap transactions to fix the interest rates of certain loans with variable rates totaling an amount of approximately 1.3 billion USD (12.3 billion dirhams).

ACTIVE TREASURY MANAGEMENT

1. Transactions completed in 2016

In the course of 2017, the Department of Treasury and External Finance's use of active treasury management operations took place in a context characterized by:

- The widening of the banking liquidity deficit which went from -14.5 billion dirhams at the end of December 2016 to -42.2 billion dirhams at the end of December 2017;
- A slight improvement in the availability of the current account of the Treasury (CCT) which reached 9.5 billion dirhams on average daily against 9.0 billion dirhams in 2016 (excluding transactions); and
- A rise in money market rates, following the strain on cash that has characterized this market since the end of the first half of 2017.

In 2017, the Department of Treasury and External Finance completed 330 active treasury management transactions, including 328 investment transactions and 2 unsecured loan transactions. The use of unsecured loans was made on an ad hoc basis to meet cash requirements expected at the beginning of the days concerned.

The overall volume kept in banks reached 857.1 billion dirhams in 2017 against 695.1 billion dirhams last year, an increase of 23%. This increase is mainly due to the rise in the availability of the current account of the Treasury (CCT) and the increase in banks' liquidity requirements.

The weighted average rate of investment transactions was 2.37% in 2017, compared to 2.18% in 2016, an increase of nearly 19.1 bps, mainly due to higher refinancing rates, following the strain on cash that characterized the money market since May, due to the widening of the deficit of the bank liquidity.

2. Revenue received from active treasury management

During the year 2017, active treasury management made it possible to reach revenues of 160,3 million dirhams (net of taxes) distributed as follows:

- 125.3 million dirhams (78% of total revenue) in proceeds from investment transactions; and
- 35.0 million dirhams for the payment of the balance of the CCT.

Since the start of operations, the total amount of active treasury management revenue has been 1.3 billion dirhams distributed as follows:

- 868.0 million dirhams (or 69% of total revenue) in proceeds from investment transactions; and
- 396.5 million from the payment of the CCT balance.

LAUNCH OF THE PREPARATORY WORK FOR THE REALIZATION OF AN INAUGURAL ISSUE OF SOVEREIGN SUKUK CERTIFICATES IN THE DOMESTIC MARKET:

In order to support the development of the participative finance sector in Morocco and to offer shari'a-compliant investment instruments to the various players in participatory finance and to participative banks and establishments while, at the same time, diversify government financing instruments and broaden its investor base, the Department of Treasury and External Finance launched in April 2017, preparatory work for the realization of an inaugural issue of Sukuk certificates. This issuing will be the first in a sovereign Sukuk certificate issuance program aimed at creating and developing a Sukuk subdivision in the domestic market.

This project has achieved several prerequisites including:

- The selection of Maghreb Securitization as a managerial institution, in accordance with Law 33-06 on the securitization of Assets, as supplemented and amended;
- The recruitment of GIDE LOYERETTE NOUEL, an internationally renowned law firm, as legal adviser of the Ministry of Economy and Finance for this program;
- The establishment of a working group composed of representatives of the General Treasury of the Kingdom, the Tax Department, the Department of state property, the Moroccan Financial Market Authority, the Supervisory Authority of Insurance and Social Welfare and Bank Al-Maghrib to examine all the prerequisites necessary for the realization of Sukuk's certificate issuance; and
- The development of the first financial, legal and sharia-legal structuring project for the program in question.

The program in question will be carried out in 2018 after obtaining the Sharia compliance notice from the Higher Council of Ulemas.