

AL MALIYA SPECIAL FINANCE LAW

DOCUMENTS ACCOMPANYING THE DRAFT LF 2024

- 2022 DEBT REPORT -

In accordance with the provisions of article 48 of organic law n°130-13 relating to the finance law, the Treasury and External Finances Department produces the public debt report, which accompanies each year's finance bill. This report presents the consolidated debt situation of public administrations, describes the Treasury's financing on the domestic market, mobilizations from foreign lenders and issues on the international market. It also presents an analysis of changes in the Treasury's debt portfolio and public debt in terms of outstandings and debt servicing, as well as the structure of this portfolio by instrument, by type of interest rate and by currency, and assesses the cost and risk indicators monitored in terms of debt management.

The document also takes stock of the active management of domestic and foreign debt, in addition to the active management of the public treasury by the Treasury and External Finances Department.

CONSOLIDATED GENERAL GOVERNMENT DEBT

Since 2020, as part of our drive to improve the quality of the information made available, the debt report has been enriched with statistics on the consolidated debt of public administrations (APUs).

As a reminder, these statistics are drawn up according to a methodological approach developed and shared with the IMF, and which enables progressive convergence towards international standards in terms of statistics' publications as recommended by the Public Finance Statistics Manual (MSFP 2014) and in the Guide to Public Sector Debt Statistics (GSDSP 2011).

The purpose of this consolidation methodology is to provide an overview of the public sector's real and overall debt situation by aggregating all flows and outstandings within the agreed analytical framework, and then eliminating all reciprocal flows and outstandings between the entities making up the public sector. To this end, the said methodology consists of the following:

1. The definition of the institutional coverage perimeter grouping together all the structures making up the APU sector in line with the 2014 MSFP framework;
2. The identification of debt instruments taken into account in the calculation of debt stock; and
3. The assessment of these instruments according to the method adopted.

At the end of 2022, the consolidated debt of the general government is estimated at almost DH880.2 billion, compared with DH799.3 billion at the end of 2021, an increase of almost DH80.8 billion or 10.1%. This increase is mainly due to the rise in outstanding Treasury debt of almost DH66.5 billion, Treasury deposits (+DH10.3 billion) and local authority debt (+DH0.8 billion).

In addition, the decline in outstanding BDT held by ORPS and EPNMs of DH9.4 billion and DH1.0 billion respectively also contributed to the rise in consolidated outstanding debt of APUs.

As a percentage of GDP, the APU debt recorded an increase of almost 3.5 percentage points, standing at 66.2% at the end of 2022 compared to 62.7% at the end of 2021.

TREASURY FINANCING

1. Domestic financing

Faced with a context marked by a widening bank liquidity deficit, a concentration of investor demand on short maturities coupled with a sharp rise in demand rates, the Treasury Department adjusted its issuing policy to take account of this new context. As a result, the policy implemented was based on the following points:

- Align with the structure of investor demand for BDT, more than 50% of which is oriented towards CT ;
- Adapt to operators' interest in variable-rate issues by carrying out, for the first time, an issue of this type in order to attract demand for medium maturities;
- Continue to use BDT swaps to mitigate refinancing risk; and
- Daily investment of CCT surpluses to optimize the CCT balance.

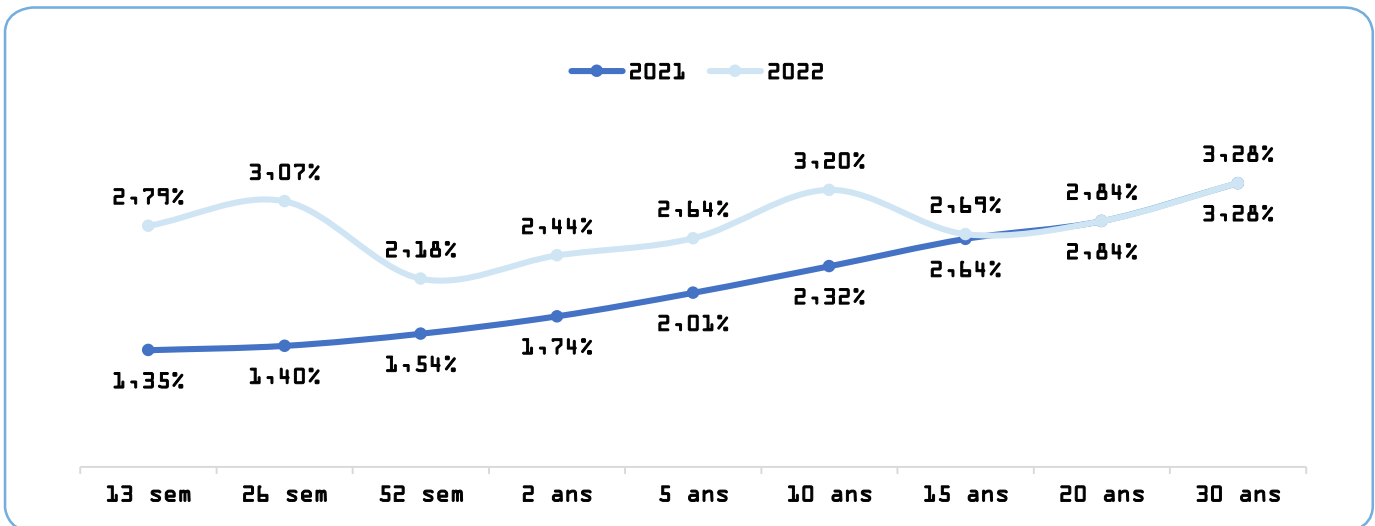
At the end of 2022, the overall volume of Treasury issues on the auction market fell by almost 10.9% to DH128.8 billion in 2022, compared with DH144.5 billion a year earlier. Auctions accounted for DH119.9 billion (93.1%) of this volume, while

BDT exchange issues accounted for DH8.9 billion (6.9%). With regard to the structure of issues, as in the case of demand, the share of issues of BDTs with maturities of 2 years or less represented almost 68.2% of the total volume raised, of which 14.5% concerned very short-term BDTs (TCT).

Following in the footsteps of demand rates, Treasury rates trended upwards throughout 2022. This increase averaged almost 75.1 bp (all maturities combined), excluding TCT and adjustable-rate BDTs.

By maturity segment, the increase was almost 111.1 bp for maturities of 2 years or less and almost 39.2 bp for maturities of 5 years or more.

Annual change in BDT yields - Latest TMPs selected -



2. External financing

For 2022, drawings on the Treasury's external borrowings totaled DH29.7 billion, compared with DH18.4 billion in 2021, representing an increase of DH11.3 billion. These drawdowns were entirely mobilized from official creditors (bilateral and multilateral) in the absence of Treasury issues on the MFI.

Multilateral creditors accounted for 71.8% of total drawdowns, or DH21.3 billion, up DH9.3 billion on the previous year. These drawings were mainly from the World Bank (DH12.0 billion), the African Development Bank (DH5.3 billion), the Arab Monetary Fund (DH2.1 billion) and OPEC (DH1.0 billion).

Mobilizations from bilateral creditors amounted to DH8.4 billion, or 28.2% of total drawings, an increase of DH2.0 billion on the level recorded in 2021. Drawdowns were made mainly with Germany (DH4.7 billion), France (DH2.6 billion) and Japan (DH1.0 billion).

CHANGES IN TREASURY DEBT

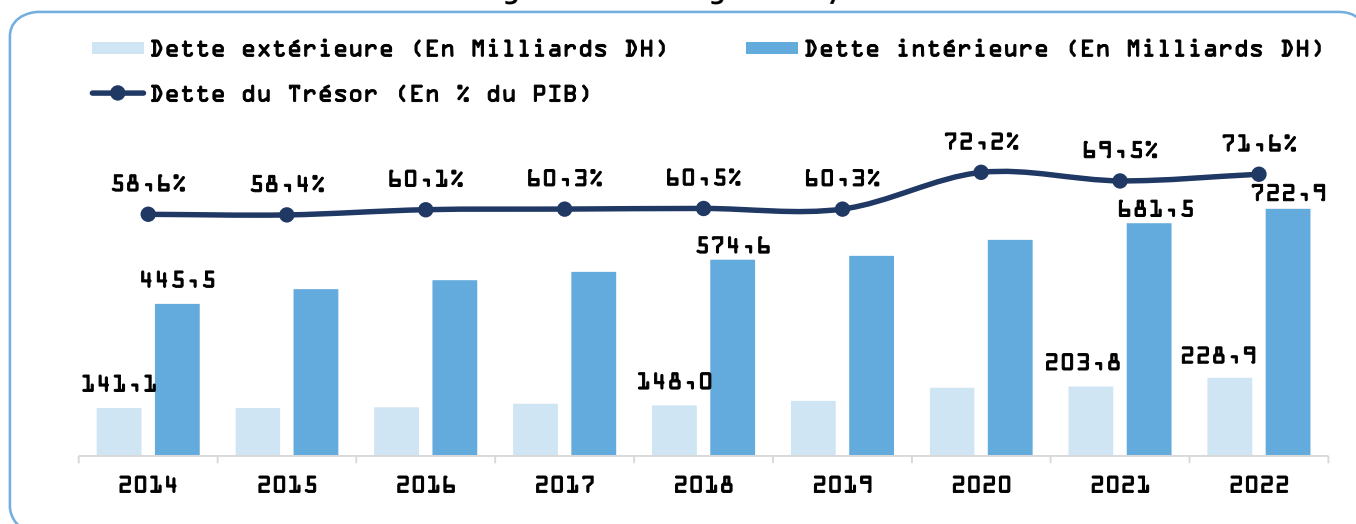
1. Outstanding

At the end of 2022, outstanding Treasury debt stood at DH 951.8 billion, up by DH 66.5 billion or 7.5% compared with the end of 2021 (DH 885.3 billion), compared with an increase of 6.3% between 2020 and 2021.

As a percentage of GDP, outstanding Treasury debt will rise by 2 points of GDP to 71.6%, compared with 69.5% at the end of 2021, following a fall of 2.7 points of GDP in 2021. This trend is mainly attributable to moderate economic growth in 2022, after the sharp rebound in 2021.

This indicator reached 54.4% of GDP for domestic debt and 17.2% for external debt, compared with 53.5% and 16.0% respectively in 2021.

Change in outstanding Treasury debt



2. Structure by instrument

Treasury debt is mainly negotiable, with a share of almost 77.6%, including 69.9% for BDTs issued on the auction market and 7.6% for Eurobonds issued on the MFI.

Non-negotiable debt represents 22.4% of the Treasury's debt portfolio, and consists mainly of external loans raised from official creditors (17.1%).

3. Interest rate structure

At the end of 2022, the proportion of the Treasury's debt outstanding at fixed rates stood at almost 89.2% of the total, down 4.3% on the end of 2021. The predominance of fixed-rate debt is essentially due to the fact that domestic debt, which accounts for 76.0% of outstanding Treasury debt, is virtually fixed-rate. It should be noted that 2022 saw the first issue of 5-year adjustable-rate BDTs, with outstandings of DH 9 billion, or 1.2% of outstanding domestic debt.

With regard to external debt, the structure by type of interest rate was marked by a decline in the proportion of debt with fixed interest rates, which stood at 68.3% versus 72.2% at end-2021, to the detriment of that with variable rates, which stood at 31.7% at end-2022 versus 27.8% at end-2021. However, the rate structure remains in line with the benchmark external debt portfolio.

4. Currency structure

The Treasury's debt portfolio is dominated by DH-denominated debt, which accounts for 73.1% of outstandings, down from 76.1% in 2021.

At the end of 2022, euro-denominated external debt accounted for 63.8% of total foreign-currency-denominated debt, while US dollar and related currencies accounted for 31.7% and other currencies (Japanese yen, Kuwaiti dinar and others) for 4.5%.

This structure, which remains close to that of the current DH quotation basket, reduces the exposure of the Treasury's external debt portfolio to foreign exchange risk.

5. Treasury debt service

Treasury debt charges in amortization, interest and commissions, settled in 2022, rose to DH167.2 billion from DH142.6 billion in 2021, an increase of DH24.5 billion or 17.2%. This increase was mainly due to a DH24.4 billion rise in principal expenses, while interest and commission expenses rose by just DH93.0 million.

By type of debt, the cost of domestic debt rose by almost DH10.9 billion to DH138.6 billion, compared with DH127.7 billion at the end of 2021. External debt charges have risen by DH13.7 billion to DH28.6 billion in 2022, compared with DH14.9 billion in 2021. This increase is mainly attributable to the US\$1.5 billion fall in 10-year Eurobonds issued by the Treasury in 2012 for US\$1 billion and in 2013 for US\$500 million.

6. Cost indicators

6.1. Average cost of Treasury debt

At the end of 2022, the Treasury's average cost of debt was 15 bp lower than in 2021, at 3.20% versus 3.35%.

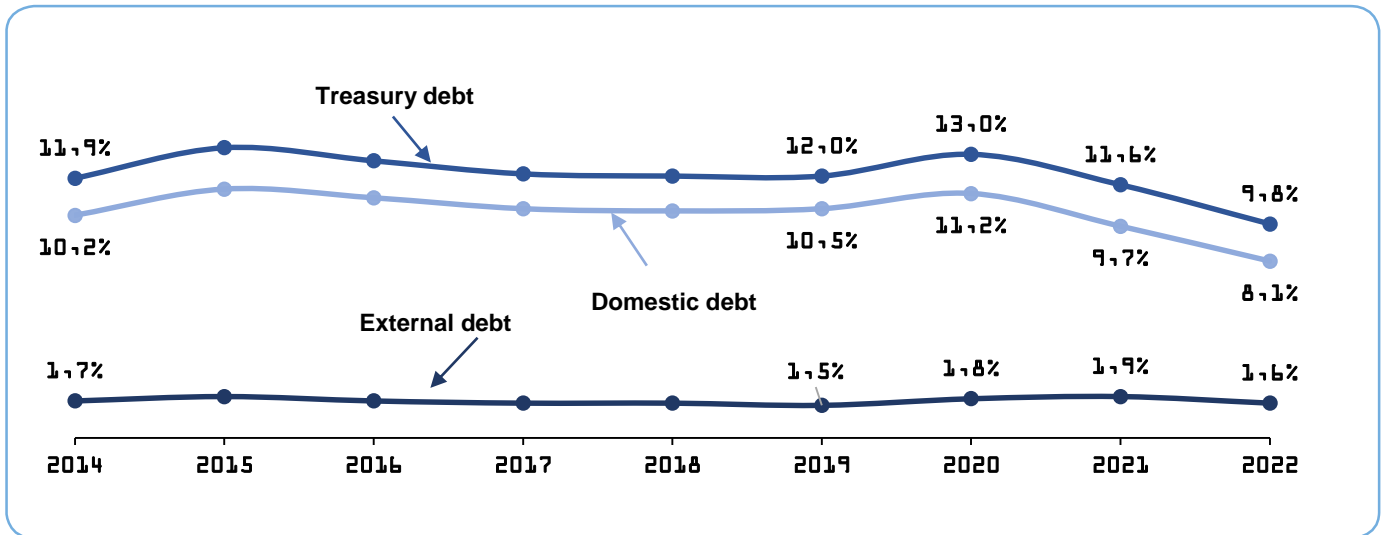
6.2. Weighted average auction rate

The weighted average rate on BDT issues (including active management operations) stood at 2.226%, up 25.2 bp on the rate recorded at end-2021 (1.974%). This increase is the result of the rise in BDT rates in the wake of the cumulative 100 bp increases in the key rate implemented by the Central Bank during September and December 2022.

6.3. Interest expense on Treasury debt as a proportion of ordinary revenue

The year 2022 closed with a ratio of Treasury debt interest expense (including commissions) to ordinary revenue of 9.8%, down 1.8 points on 2021.

Change in interest expense/ordinary income ratio



7. Risk indicators

7.1. Short term share

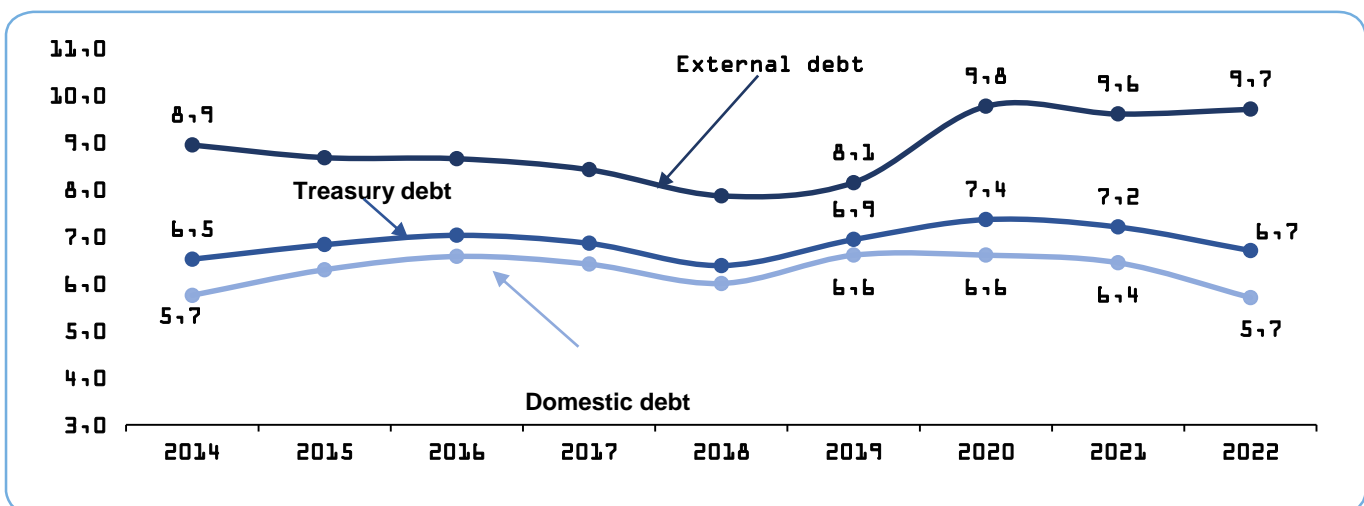
The share of short-term Treasury debt reached 17.2% at the end of 2022 compared with 12.7% at the end of 2021, an increase of 4.5% due to the rise in the share of short-term domestic debt of almost 7.7% to 21.2% at the end of 2022 compared with 13.5% at the end of 2021.

The share of short-term debt in the external debt portfolio fell by 5.2% to 4.6% at the end of 2022, compared with 9.8% a year earlier.

7.2. Average maturity of Treasury debt

At the end of 2022, the DVM (Average debt life) of Treasury debt has fallen by 6 months compared with the end of 2021, to 6 years and 8 months compared with 7 years and 2 months, a level which nevertheless remains in line with the target set for the benchmark Treasury debt portfolio (between 6.5 years and 7.5 years). This decline is the result of a fall in the DVM of domestic debt of almost 8 months, while the DVM of foreign debt rose by almost 2 months to 9 years and 9 months.

Evolution of average life expectancy - in years



7.4. Monthly coverage rate of issues on the auction market

At the end of 2022, the average bid-to-cover ratio for treasury bill auctions remains above the threshold of 2, although it has fallen to 2.1 times from 2.5 times in 2021. This decline is due to the cross effect of a greater drop in investor demand (-21.9%) than in the volume raised (-10.9%), given the context that prevailed in 2022.

7.5. Interest rate risk

Interest-rate risk is assessed using two indicators: (i) the proportion of debt requiring repricing, and (ii) the proportion of debt at variable rates.

- **Portion of debt requiring repricing**

Treasury debt requiring interest rate resetting in 2023 comprises:

- variable-rate debt (external and domestic); and
- Short-term fixed-rate debt (domestic and foreign) requiring refinancing in 2023.

At the end of 2022, this debt stood at nearly DH 240.0 billion, or 25.2% of the Treasury's outstanding debt, up 6.6 points on a year earlier. This trend is mainly due to the increase in the share of domestic debt maturing in less than one year, following the concentration of Treasury borrowings on short-term debt in line with the structure of investor demand.

- **Percentage of variable-rate debt**

At the end of 2022, the share of variable-rate debt in the Treasury's debt portfolio stood at 10.8%, compared with 6.5% at the end of 2021. This evolution is due to the increase in the share of variable-rate debt in external debt by almost 3.9%, reaching 31.7% at the end of 2022, compared with 27.8% at the end of 2021, and the recourse, for the first time, to the issue of adjustable-rate BDTs on the domestic market, representing a share of 1.2% of domestic debt.

7.6. Foreign exchange risk

This risk remains limited insofar as the proportion of debt denominated in foreign currencies represents, at the end of 2022, only around 24.7% of the Treasury's debt portfolio.

In addition, the currency structure of the Treasury's external debt portfolio remains close to the current Dirham quotation basket, which helps to mitigate the portfolio's exposure to the impact of fluctuations in the exchange rates of international currencies against the Dirham. In fact, 63.8% of this debt is denominated in euros and 31.7% in US dollars and related currencies, for a structure of 60%€-40%\$ for the Dirham quotation basket.

CHANGES IN PUBLIC EXTERNAL DEBT

1. Outstanding

At the end of 2022, outstanding public external debt stood at DH423.6 billion, up by DH43.0 billion or 11.3% compared with the end of 2021. The ratio of public external debt to GDP stood at 31.8%, up 1.9 points of GDP compared with the end of 2021.

Public external debt comprises (i) the Treasury's external debt, (ii) the guaranteed and unguaranteed external debt of EEPs, TSTs and IFPs, and (iii) the state-guaranteed external debt of IUPs.

This change in outstanding public external debt was mainly due to a 12.3% increase in the Treasury's external debt and a 10.1% rise in the external debt of other public borrowers.

In fact, the Treasury's outstanding foreign debt rose by DH25.1 billion to DH228.9 billion at the end of 2022, compared with DH 203.8 billion last year. The Treasury's debt-to-GDP ratio reached 17.2%, an increase of 1.2 points of GDP compared with the end of 2021.

At the end of 2022, public external debt excluding the Treasury stood at DH 194.7 billion, compared with DH 176.8 billion at the end of 2021, an increase of DH 17.9 billion. The debt-to-GDP ratio reached 14.6%, up 0.7 points compared with end-2021.

2. Structure by creditor

At the end of 2022, the structure of public external debt by creditor remains predominantly made up of loans contracted with official creditors (bilateral and multilateral), with outstandings representing 75.2% of total outstandings. Debt to private creditors accounts for 24.8% of total outstandings, down by DH 2.9 billion compared with the end of 2021, of which 95.0% is accounted for by public sector issues on the international financial market.

3. Structure by borrower

The Treasury's external debt for 2022 exceeds that of other public borrowers (guaranteed and unguaranteed) for the 3rd consecutive year since 2015.

The Treasury's outstanding foreign debt totaled DH228.9 billion, representing 54% of total outstanding foreign public debt. Outstanding external debt of other public borrowers stood at DH194.7 billion, representing 46% of total public external debt.

The 1st group of public borrowers outside the Treasury remains the EEPs, with outstandings of DH186.6 billion. Five main borrowers account for almost 80.4% of this total: ONEE (25.3%), OCP (23.6%), ONCF (12.6%), ADM (9.5%) and MASEN (9.4%).

4. Currency structure

At the end of 2022, the currency structure of public external debt remained dominated by euro-denominated debt, which accounted for 61.8%, followed by US dollars and related currencies (30.8%), while the share of Kuwaiti dinar reached 4%.

This structure remains close to that of the dirham quotation basket, thus limiting the impact of exchange rate risk on outstanding public external debt and debt servicing.

5. Interest rate structure

The composition of public external debt by type of interest rate shows a preponderance of debt share with fixed interest rates, which reached 74.1% against 25.9% for debt with floating interest rates.

The latter is mainly indexed to the euro (82.5%), which contributes to lowering the related service charge.

6. Drawdowns on external borrowings

In 2022, resources mobilized for external borrowing by the public sector totaled DH47.2 billion, compared with DH41.3 billion the previous year, an increase of DH5.9 billion.

Drawdowns mobilized by the Treasury totaled DH29.7 billion, while those mobilized by other public borrowers amounted to nearly DH17.5 billion.

7. Foreign public debt service

At the end of 2022, public external debt servicing increased by DH 5.9 billion to DH 47.4 billion, compared with DH 41.5 billion a year earlier. This increase in amortization, interest and commission expenses is essentially due to i) a DH0.3 billion rise in debt servicing to official creditors, and ii) a DH5.6 billion increase in servicing to private creditors.

Public external debt servicing as a percentage of current balance of payments revenues fell by 1.2% to 6.4% in 2022.

ACTIVE MANAGEMENT OF TREASURY DEBT

1. Active management of domestic debt

Over the course of 2022, and due to the context described above, which resulted in less pronounced investor interest in long-dated BDTs, the Treasury Department carried out only 2 BDT exchange operations out of the 8 operations scheduled at the beginning of the year. These operations were carried out in January and February 2022, for a total amount repurchased of almost DH8.6 billion.

By year of maturity, the amount redeemed in 2022 is broken down as follows:

- DH6.7 billion for the buyback of 2022 maturities; and
- DH1.9 billion for the buyback of 2023 maturities.

In terms of impact on the refinancing risk relating to domestic debt, these operations have made it possible to reduce the fall in Treasury debt in the months concerned by the said operation by an average of almost DH1.7 billion per month in 2022 and by almost DH1.0 billion in 2023.

With regard to interest charges on domestic debt paid in respect of 2022, it should be noted that the exchange operations carried out resulted in a reduction of almost DH44.3 million in these charges. This reduction was due to savings on interest arising from the redemption of 2022 maturities and 2023 maturities before the coupon payment dates of the redeemed lines.

It should be emphasized that a decrease/increase in interest expense on swap transactions depends on the repurchase date relative to the coupon payment date for each line. Thus, a line bought back before/after the coupon payment date will produce a decrease/increase in interest charges.

2. Active management of external debt

As part of its active management of foreign debt, aimed in particular at reducing the cost of debt, the Treasury and External Finances Department has continued its work on debt-for-public-investment conversion programs.

An amount of DH4.07 million was converted in 2022 as part of the conversion program concluded with Italy under the cultural heritage preservation project, bringing the total amount converted under this project to around DH15.2 million out of a total envelope of 2 million euros.

The total amount converted under the conversion program with Italy reached DH 153.4 million, representing 90% of the total envelope dedicated to this program, i.e. 15 million euros.

Cumulative amounts processed since the start of these operations have reached around DH90 billion. In addition to the conversion of debt into public investments (DH 11.3 billion), these transactions include the conversion of debt into private investments (DH 8.9 billion), interest rate renegotiations (DH 1.6 billion), the refinancing of high-cost debt (DH 20.9 billion), as well as interest rate Swaps and currency Swaps (DH 46.9 billion).

ACTIVE CASH MANAGEMENT

1. Operations completed in 2022

During 2022, the Treasury Department's recourse to active public cash management operations took place in a context characterized by:

- A worsening of banks' liquidity needs, which rose from a weekly average of Dhs- 70.8 billion at the end of December 2021 to Dhs- 80.9 billion at the end of December 2022; and
- A fall of almost 11.6% in the CCT's cash position, excluding treasury operations, which reached DH10.3 billion on average daily, compared with DH11.7 billion in 2021.

In 2022, the number of investment transactions carried out by the Treasury Department reached 405, compared with 401 in 2021.

Cumulative volume placed with banks fell slightly, by almost 2.2%, to DH 677.2 billion in 2022, compared with DH 692.3 billion in 2021, as a result of the 11.6% decline in CCT liquid assets, excluding treasury operations, compared with 2021.

2. Active cash management revenues

Active cash management has generated a net income of DH94.2 million in 2022. These revenues are broken down as follows:

- DH 71.2 million (75.6% of total revenues) in investment income; and
- DH 23.0 million in remuneration for the balance of the CCT.

Since the start of operations in 2010, total revenues from active cash management have amounted to DH1.8 billion, broken down as follows:

- DH 1,323.4 million (or 71.2% of total revenues) in investment income; and
- DH 534.0 million from remuneration of the balance of the CCT.