AL MALIYA SPECIAL FINANCE ACT
DOCUMENTS ACCOMPANYING THE 2023 FINANCE BILL
- 2021 DEBT REPORT -

The debt report is produced each year by the Department of the Treasury and External Finance. It accompanies each year's Finance Bill in accordance with the provisions of Article 48 of Organic Law No. 130-13 on the Finance Act, which consolidates the transparency of public finances and strengthens parliamentary control describes the Treasury's financing both on the domestic market and with foreign lenders. It also, analyses 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 assesses the cost and risk indicators monitored in terms of debt management. This document also presents an assessment of the active management of domestic and foreign debt, in addition to the active management of the public treasury carried out by the Department of the Treasury and External Finance.

Since 2020 and as part of the improvement in the quality of the information made available, this report has been enriched by statistics relating to the consolidated debt of the Public Administrations.

TREASURY FINANCING

1. Domestic Financing

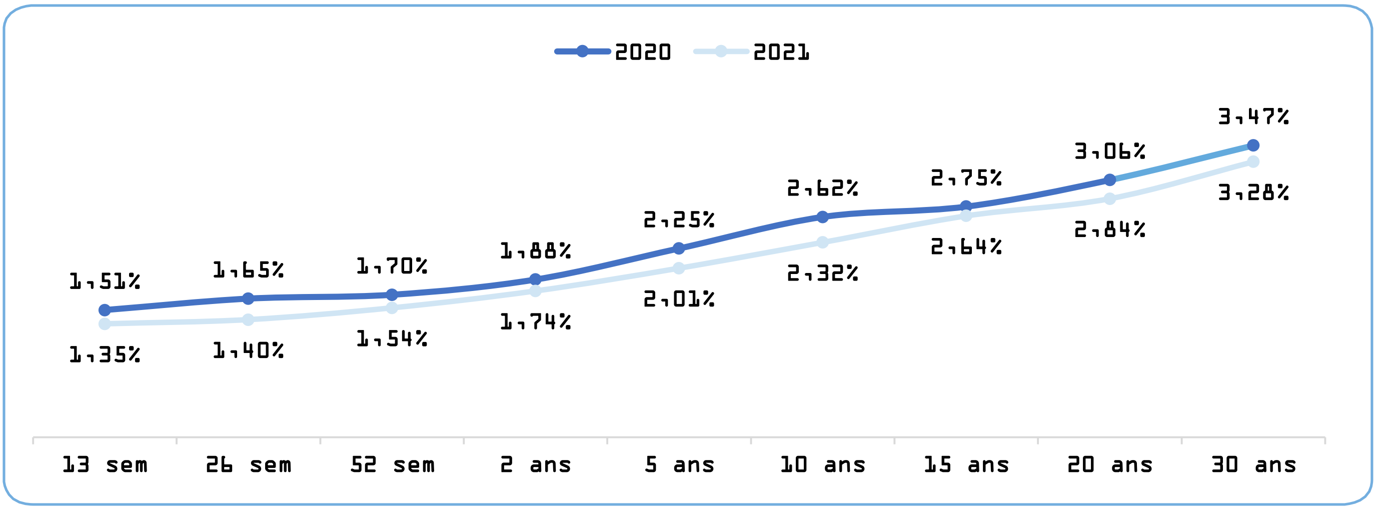
In a context marked by the alleviation of the banks' need for liquidity and the control of the budget deficit, the Treasury has conducted, during the year 2021, a financing policy based on the following points

- Ensure a regular presence on all maturities, taking into account market conditions.
- Regularly use BDT "treasury bills" swaps to mitigate refinancing risk by smoothing the monthly Treasury debt maturities of 2021 and 2022, which are experiencing significant repayment peaks.
- Carry out daily investment operations on the Treasury's current account surplus (CCT) in order to optimize the CCT's liquidity and at the same time allow the Treasury to respect its issuing strategy.

Thus, and for the year 2021, the global volume of the Treasury issues on the auction market amounted to 144.5 MMDH against 152.7 MMDH a year earlier, down by 5.4%. This volume is distributed up to 123.0 MMDH or 85.1% of the issues raised within the framework of auctions and 21.5 MMDH (14.9%) within the framework of the BDT exchange operations.

Following the same trend as the rates charged, the rates retained by the Treasury fell during 2021, averaging 19.7 bps for all maturities combined compared to 2020. By term, this decline was 17.7 bps for maturities less than or equal to 2 years and 21.3 bps for maturities of 5 years and longer.

Annual change in BDT rates of return – Latest TMPs used -



2. External financing

The year 2021 was characterized, on the one hand, by the absence of Treasury issues on the International Financial Market and, on the other hand, by the decline in drawings from official creditors (bilateral and multilateral), which fell by nearly 27.7% compared to 2020.

Thus, the Treasury's external borrowings involved a total volume of 18.4 MMDH against 63.0 MMDH in 2020, i.e., a decrease of 44.6 MMDH.

As for the share mobilized from multilateral creditors, it reached 65.2% of total drawings, i.e. 12.0 MMDH, thus recording 12.0 MMDH, a drop of 8.8 MMDH compared to last year. These drawings were mobilized, mainly, from the International Bank for Reconstruction and Development (8.6 MMDH), the European Investment Bank (1.0 MMDH), the Arab Monetary Fund (0.8 MMDH) and the African Development Bank (0.5 MMDH).

As for mobilizations made with bilateral creditors, they totaled 6.4 MMDH, or 34.8% of total drawings, up 1.7 MMDH compared to the level recorded in 2020. The said drawings were made, mainly, with Germany (2.7 MMDH), France (1.9 MMDH) and Japan (1.8 MMDH).

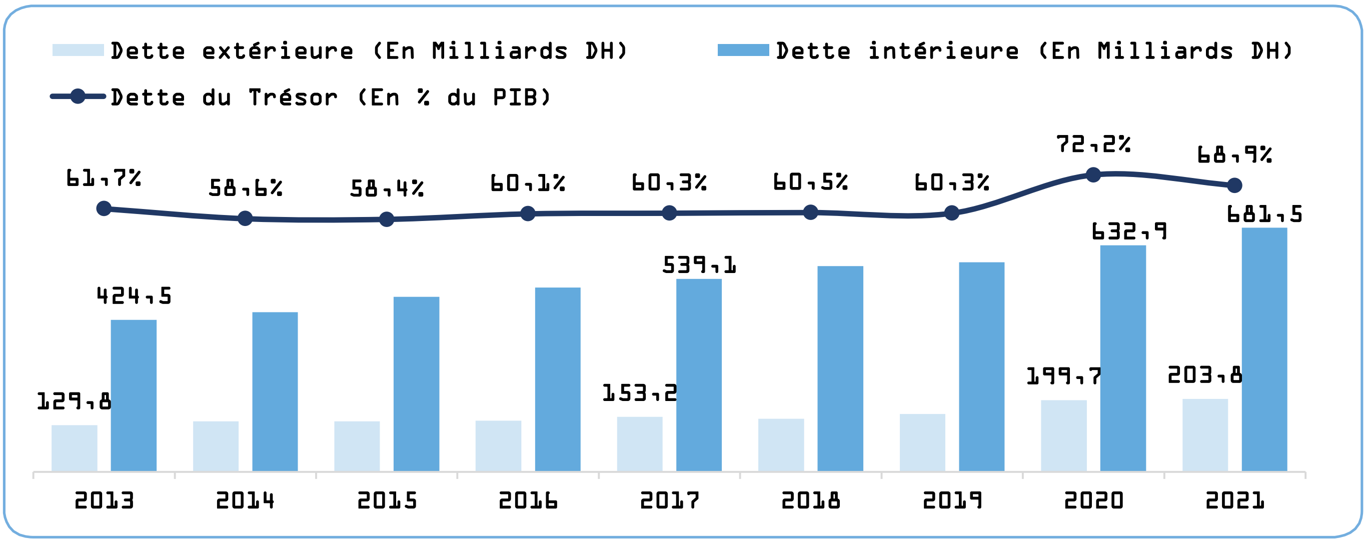
EVOLUTION OF THE TREASURY DEBT

1. Outstanding

At the end of 2021, the Treasury's outstanding debt stood at 885.3 MMDH, up by 52.7 MMDH or 6.3% compared to the end of 2020 (832.6 MMDH). Despite this increase, the rate of growth of the debt resumes its downward trajectory after an increase of 11.4% between 2019 and 2020.

As a proportion of GDP, the Treasury's outstanding debt fell by 3.3 percentage points of GDP to 68.9%, compared with 72.2% at the end of 2020. This ratio reached 53.1% for domestic debt and 15.8% for external debt, compared with 54.9% and 17.3% respectively at the end of 2020.

Evolution of the Treasury's outstanding debt



It should be noted that the debt ratios have been revised as of 2014, following the revision of GDP after the change in the base year of the national accounts from 2007 to 2014 (Box 1) carried out by the HCP. This is part of the HCP's periodic review of the Moroccan national accounts, with reference to the 2008 System of National Accounts.

Box 1: Change of base year for national accounts by the HCP

2014 instead of 2007

The High Commissioner for the Plan (HCP) has proceeded, within the framework of the periodic revision of the Moroccan national accounts, to establish a new base year for the national accounts, in this case 2014 instead of 2007, with reference to the System of National Accounts of 2008.

This revision is a review of the conceptual and methodological framework of the national accounts to incorporate new data sources, make conceptual changes, improve valuation methods and integrate new versions of standards adopted by the international community.

Changes introduced in the 2014 database

The main changes introduced in the 2014 base are as follows:

- ***The use of new sources of information.*** These are mainly the Economic Structure Surveys of Non-Financial Enterprises (2014), the National Informal Sector Survey (ENSI 2013/2014), the National Household Consumption and Expenditure Survey (2014), the Public Administration Investment Survey (2014), and various administrative data sources (Balance of Payments in 6th edition, public finance statistics, and customs statistics).
- ***The adoption of a new classification of activities and products.*** In order to take into account changes in the structure of the economy as well as the revision of international classifications, new classifications of economic activities and products have been introduced in the 2014 Moroccan national accounts database.
- It should be noted that the nomenclatures of activities and products make it possible to describe the activities of the various economic agents, their products and their trade. They are mainly used to facilitate the organization of the economic information contained in the national accounts.
- ***The use of the balance of payments according to the sixth edition (BPM6).*** In this respect, the transition to the new 2014 base was accompanied by the alignment of the rest of the world account with the balance of payments statistics established according to the 6th edition, given that the new product nomenclature allows it.

The impact on the main macroeconomic aggregates

The changeover to the 2014 base has led to a revision of the main macroeconomic aggregates relating to the period from 2014 to 2019, in particular GDP and its components. To this end, for the year 2014, the GDP in value amounted to 1 001.5 MMDH in 2014 base, instead of 925.4 MMDH in 2007 base, that is to say a rise of 8.2% compared to the previous base. The growth rate has been revised downwards over the period 2015-2019, except for the years 2017 and 2019 for which the growth rate has been revised upwards by 0.9 and 0.3 points respectively. With regard to the debt-to-GDP ratio, the revision of macroeconomic aggregates, particularly GDP and the growth rate, has consequently led to a downward revision of the debt and budget deficit ratios over the period 2014-2021. This decline averaged nearly 4.8 points for the debt-to-GDP ratio and 0.4 points for the budget deficit.

Treasury debt	2014	2015	2016	2017	2018	2019	2020	2021
% of GDP (2007 base)	63,4%	63,7%	64,9%	65,1%	65,2%	64,9%	76,4%	74,2%
% of GDP (2014 base)	58,6%	58,4%	60,1%	60,3%	60,5%	60,3%	72,2%	68,9%
Difference	**-4,8%**	**-5,3%**	**-4,8%**	**-4,8%**	**-4,7%**	**-4,6%**	**-4,2%**	**-5,3%**

2. Structure by instrument

The Treasury's debt is mainly negotiable, with a share of nearly 82.0%, including 73.0% for BDTs issued on the auction market and 8.9% for Eurobonds issued on the MFI.

Non-negotiable debt represents 18.0% of the Treasury's debt portfolio and consists mainly of external loans mobilized from official creditors (15.0%).

3. Interest rate structure

At the end of 2021, the share of the Treasury's outstanding debt at fixed rates stood at almost 93.6% of the total outstanding debt, virtually unchanged from the end of 2020. The predominance of fixed-rate debt is mainly due to the fact that domestic debt, which represents 77% of the Treasury's outstanding debt, is exclusively at fixed rates.

As for the external debt, its structure by type of interest rate was characterized by the strengthening of the share of the debt at fixed interest rates that amounted to 72.2% against 68.7% at the end of 2020. Conversely, the external debt contracted at variable rates has, for its part, fallen from 31.3% at the end of 2020 to 27.8% at the end of 2021.

4. Currency structure

The Treasury's debt portfolio is dominated by debt denominated in DH, which represents 76.1% of the outstanding amount, up from 75.4% in 2020.

As for the external debt, the share of the debt denominated in euro was established, at the end of 2021, at 63.1% while that denominated in US dollars and related currencies reached 32.1% and that of other currencies (Japanese Yen, Kuwaiti Dinar and others) 4.8%. This structure remains close to that of the current DH quotation basket, which reduces the exposure of this portfolio to foreign exchange risk.

5. Treasury Debt Service

The Treasury's debt charges in amortization, interest and commissions, settled during the year 2021, decreased to reach 142.6 MMDH against 169.8 MMDH in 2020, i.e. a decrease of 27.1 MMDH or 16.0%. This decrease is the result of the decrease in principal expenses of 27.1 MMDH and interest expenses of nearly 39.0 MDH.

By type of debt, domestic debt charges fell by nearly 18 MMDH to 127.7 MMDH compared with 145.7 MMDH at the end of 2020. As for the external debt, it has decreased by 9.1 MMDH to reach 14.9 MMDH in 2021 against 24.0 MMDH in 2020.

6. Cost Indicators

6.1. Average cost of Treasury debt

At the end of 2021, the Treasury's average cost of debt fell by 25 bp from its 2020 level, to 3.35% from 3.60%.

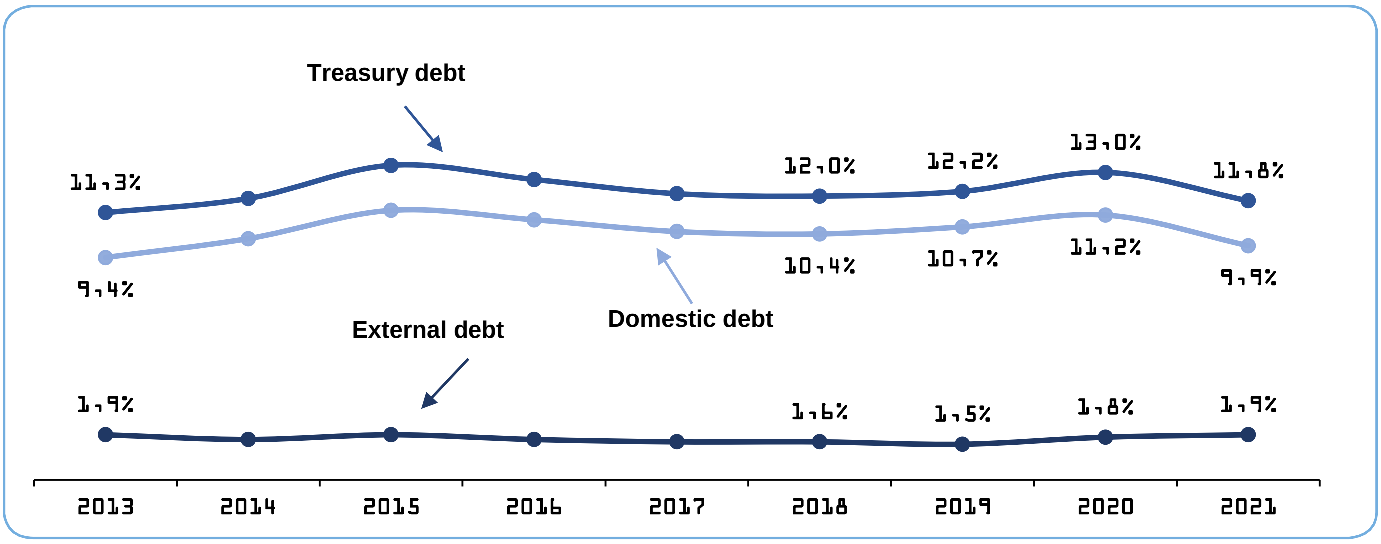
6.2. Weighted average auction rate

The weighted average rate of BDT issues (including active management operations) stood at 1.97%, down 31.7 bp compared to that recorded at the end of 2020 (2.29%). Like the average cost of domestic debt, this evolution is the result of the fall in rates on the Treasury securities auction market, which continued in 2021, despite the concentration of issues on maturities of 5 years or more in 2021 (almost 51.6% of the total volume raised in 2021 compared with almost 41.9% in 2020).

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

The year 2021 ended with a ratio of Treasury debt interest expense (including fees) to ordinary revenue of 11.6 percent, marking a decline of 1.3 points compared to 2020.

Evolution of the ratio of interest expenses to ordinary income



7. Risk Indicators

7.1. Short-term share

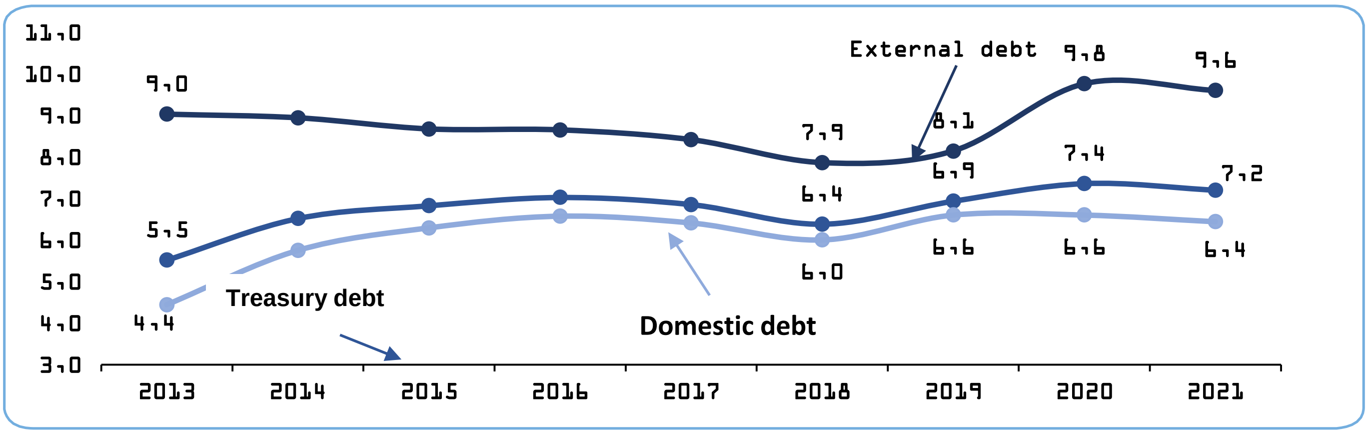
The short-term share of the Treasury's debt reached 12.7% at the end of 2021, compared with 11.5% at the end of 2020, an increase of 1.2% driven mainly by the approaching redemption of the bond issued in 2012 in the amount of US$1.5 billion, which will take place in December 2022.

At the end of 2021, the share of short-term debt in the domestic debt portfolio stood at 13.5%, the same share recorded at the end of 2020. As for the share of short-term in the external debt portfolio, it stood at 9.8% at the end of 2021 against 5.2% at the end of 2020, an increase of 4.6%.

7.2. Average Maturity (AM) of Treasury debt

At the end of 2021, the average maturity of the Treasury's debt fell by 2 months compared with the end of 2020, to 7 years and 2 months compared with 7 years and 4 months, a level in line with the target for the Treasury's benchmark debt portfolio (between 6.5 years and 7.5 years). This decrease is the result of the decline in the (AM) of the domestic debt and the external debt by almost 2 months each, to 6 years and 5 months and 9 years and 7 months respectively.

Evolution of the average maturity - in years



7.4. Monthly coverage rate of issues on the auction market

At the end of 2021, the average bid-to-cover ratio for Treasury bill auctions was 2.5 times compared to 2.6 times in 2020. This slight decrease is due to the decline in investor demand for BDT (-7.0%) and the volume raised by the Treasury (-5.8%) (excluding active management operations).

7.5. Interest rate risk

Interest rate risk is assessed through two indicators, namely (i) the proportion of debt requiring repricing and (ii) the proportion of debt with variable rates.

- **Share of debt requiring refixing**

The Treasury's debt requiring interest rate refixing in 2022 consists of variable-rate debt (exclusively external); and short-term fixed-rate debt (domestic and external) subject to refinancing in 2022.

At the end of 2021, the said debt stood at nearly 165.0 MMDH, i.e. 18.6% of the Treasury's outstanding debt, up 3.1 points compared to a year earlier, mainly due to the increase in the share of domestic debt falling due within one year.

- **Share of variable-rate debt**

At the end of 2021, the share of floating rate debt in the Treasury's external debt portfolio reached 27.8% compared to 31.3% at the end of 2020. This change is mainly due to (i) the importance of mobilizations at fixed rates and (ii) the continued conversion of floating rates into fixed rates.

7.6. Foreign exchange risk

The share of debt denominated in foreign currencies in the Treasury's debt portfolio represents nearly 23.9%. In fact, 63.1% of this debt is denominated in euros and 32.1% in US dollars and related currencies. This structure, which remains 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 compared to the Dirham.

EVOLUTION OF THE PUBLIC EXTERNAL DEBT

1. Outstanding

The outstanding public external debt stood at 379.7 MMDH at the end of 2021, recording an increase of 2.5 MMDH or 0.7% compared to the end of 2020. As for the ratio of public external debt to GDP, it reached 29.5%, down by 3.2 GDP points compared to the year 2020.

It should be remembered that the public external debt stock is made up of the external debt stock of the Treasury, Public Establishments and Enterprises (PEEs), the public banking sector and external loans guaranteed by the State of the Territorial Collectivities (TCs) and Institutions of Public Utility (IUPs).

This development occurs in a context characterized by the rebound of the national economy after the negative effects of the health crisis of Covid-19 and is explained, mainly, by the increase in the outstanding external debt of the Treasury of 2.0% and the decrease in that of the external debt of other public borrowers by 0.9%.

Indeed, the Treasury's outstanding external debt amounted to 203.8 MMDH at the end of 2021 against 199.7 MMDH at the end of 2020, i.e. an increase of 4.1 MMDH. For its part, the Treasury's debt ratio reached 15.8% of GDP, down by 1.5 GDP points compared to the end of 2020.

For its part, the outstanding public external debt excluding the Treasury recorded a drop of 1.6 MMDH to reach, at the end of 2021, 175.9 MMDH against 177.5 MMDH at the end of 2020. The debt ratio has experienced, under the effect of the GDP rebound in 2021, a decrease of 1.7 GDP point compared to the previous year to reach 13.7%.

2. Structure by creditor

At the end of 2021, the structure, by creditors, of the public external debt remains marked by the predominance of loans contracted with official creditors (bilateral and multilateral) whose outstanding amount represents 71.6% of the total outstanding amount. Concerning the debt to private creditors, it increased by 2.5 MMDH, compared to the end of 2020, to represent 28.4% of the total outstanding amount, of which a share of 94.6% represents the outstanding issues of the public sector on the international financial market.

3. Structure by borrower

At the end of 2021, the Treasury's external debt exceeds that of other public borrowers (guaranteed and non-guaranteed) for the second consecutive year since 2015.

Indeed, the outstanding external debt of the Treasury reached 203.8 MMDH representing a share of 53.7% of the total outstanding external public debt. For its part, the outstanding public external debt excluding the Treasury amounted to 175.9 MMDH, i.e. 46.3% of the total outstanding public external debt.

The PEEs remain the first group of public borrowers outside the Treasury, with an outstanding amount of 171.4 MMDH. Almost 79.7% of this outstanding amount is held by five main borrowers, namely, ONEE (25.2%), OCP (21.2%), ONCF (13.3%), MASEN (10.1%) and ADM (9.9%).

4. Currency structure

The structure by currencies of the public external debt, at the end of 2021, remains marked by a predominance of the debt denominated in euro which represents a share of 60.6%, followed by that denominated in US dollar and related currencies (31.3%), while the share of the Kuwaiti Dinar reached 4.1%.

It should be noted that this structure, which remains close to that of the basket of quotation of the Dirham, makes it possible to limit the impact of the exchange rate risk on the outstanding amount and the service of the public external debt.

5. Interest rate structure

The structure of this debt by type of interest rate is marked by the preponderance of the share of debt with fixed interest rates, which reached 76.2% against 23.8% for the debt with floating interest rates.

It should be noted that the latter is mainly indexed on the Euribor at 83.3%, which contributes to lowering the related service, given the continued easing of this reference rate on the MFI.

6. Drawings on external loans

The resources of external borrowing mobilized by the public sector during the year 2021 involved a total amount of 41.3 MMDH against 76.6 MMDH during the year 2020, a decrease of 35.3 MMDH.

The drawings mobilized by the Treasury amounted to 18.4 MMDH while those mobilized by other public borrowers totalled an amount of nearly 22.9 MMDH.

Public external debt service

At the end of the year 2021, the service of the public external debt recorded an increase of 0.1 MMDH to reach 41.4 MMDH against 41.3 MMDH at the end of 2020. This evolution of the amortization, interest and commission charges of the said debt is mainly attributable to (i) the increase in debt service to official creditors of 2.1 MMDH and (ii) the decrease in that to private creditors of 2.0 MMDH.

In relation to current balance of payments revenues, public external debt service stood at 7.8% in 2021, compared with 9.2% a year earlier, i.e. a fall of 1.4%.

ACTIVE MANAGEMENT OF THE TREASURY DEBT

1. Active management of domestic debt

During the year 2021, the Treasury Department carried out 8 BDT exchange operations for a total amount repurchased of DH 21.5 billion.

By year of maturity, the amount redeemed for the year 2021 was allocated as follows:

- 11.3 MMDH for the buyback of the 2021 falls; and
- 10.2 MMDH for the redemption of 2022 maturities.

Active management operations have made it possible to mitigate the refinancing risk relating to domestic debt through:

the reduction of the Treasury's debt in the months concerned by the said operations by an average of nearly 1.3 MMDH per month in 2021 and by an average of nearly 2.1 MMDH per month in 2022; and

- The extension of the (AM) of the domestic debt by almost 2 months and 15 days.

In terms of the impact of the said operations on the interest charges of the domestic debt paid for the year 2021, it should be noted that they resulted in a decrease of the said charges of nearly 19.0 MDH. This decrease comes from the combined effect of the decrease of the interest charges paid in 2021 by nearly 85.7 MDH and an increase of the said charges by nearly 66.7 MDH following the repurchase of the 2022 maturities.

It should be noted that a decrease/increase in interest expense on swap transactions depends on the repurchase date with respect to the coupon payment date of each line. Thus, a line that is redeemed before/after the coupon payment date will produce a decrease/increase in interest expense.

In addition to these quantitative results, active domestic debt management operations have also had a qualitative impact on debt management by enabling the Treasury to smooth out its cash requirements throughout the year and to better manage its issuance policy.

2. Active management of external debt

Within the framework of the continuation of the actions of active management 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 the order of 4.64 MMDH was treated during the year 2021 bringing, thus, the total of the amounts treated since the beginning of these operations to 89.6 MMDH.

During the year 2021, active management operations included:

The conversion of an amount of 3.02 MDH of debts under the Debt Conversion Agreement signed with Italy; and

- The conclusion of 6 swaps operations totaling an outstandingى amount of about 507.3 million USD, i.e. nearly 4.63 MMDH.

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ACTIVE CASH MANAGEMENT

1. Completed operations in 2021

During the year 2021, the DTFE's use of active public cash management operations took place in a context characterized by:

- a reduction in the bank liquidity deficit from -90.2 MMDH at the end of December 2020 to -70.8 MMDH at the end of December 2021; and
- a slight incréés of 1.6% in the CCT's liquid assets excluding treasury operations, which reached an average daily amount of 11.7 MMDH in 2021 compared to 11.5 MMDH in 2020.

Thus, during the year 2021, the number of investment operations carried out by the Treasury Department reached 401 operations against 381 operations in 2020.

The overall volume placed with banks recorded a slight increase of almost 2.6% to reach 692.3 MMDH in 2021 against 675.0 MMDH in 2020 and this, following the slight increase of the CCT's availabilities excluding cash operations.

2. Revenue received from active cash management

Active cash management has resulted in net income of 102.0 MDH in 2021. These revenues are distributed as follows:

- 82.7 MDH (81.1% of total revenues) in investment income; and
- 19.3 MDH in remuneration for the balance of the CCT.

Since the beginning of operations in 2010, total revenues from active cash management amounted to 1.8 MMDH, distributed as follows

- 1,252.2 MDH (or 71.0% of total revenues) in investment income; and
- 511.0 MDH from the payment of the balance of the CCT.

CONSOLIDATED GENERAL GOVERNMENT DEBT

For the third consecutive year, the Ministry of Economy and Finance (MEF) publishes statistics on the consolidated debt of the Public Administrations (APUs) as part of the report on public debt.

As a reminder, these statistics are compiled according to a methodological approach developed and shared with the IMF and which allows for a gradual convergence towards international standards for the publication of statistics as recommended by the Public Finance Statistics Manual (PFSM 2014) and in the Guide to Public Sector Debt Statistics (GSDSP 2011).

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

1. The definition of the institutional coverage perimeter regrouping all the structures composing the APU sector in accordance with the 2014 MSFP framework;
2. the identification of debt instruments included in the calculation of debt stock; and
3. the valuation of these instruments according to the method adopted.

At the end of 2021, the consolidated debt of the general government is estimated at nearly 799.3 MMDH, compared with 747.7 MMDH at the end of 2020, i.e. an increase of 6.9%. This evolution is mainly due to the increase of the Treasury debt by nearly 52.7 MMDH, i.e. 3.3 GDP points, of the Treasury deposits (+14.6 MMDH) and of the local authorities' debt (+1.4 MMDH) compared to 2020.

In addition, the decrease in the stock of BDT held by Public Establishments of a non-market nature (EPNMs) and by Retirement and Social Security Organizations (ORPS) by 4.4 MMDH and 1.8 MMDH respectively has also contributed to the increase in the consolidated debt of APUs.

In relation to GDP, the debt of the general government recorded a fall of almost 2.6 percentage points to 62.2% at the end of 2021 as against 64.9% at the end of 2020. This is mainly due to the rise in GDP in 2021 (+11.4%) as a result of the economic recovery and the fall in the debt of the public sector enterprises (EPNMs) by 76.4% or -24.1 MMDH.