

# BORROWING COST MANAGEMENT : MAROCCAN EXPERIENCE



*Policy dialogue : Managing risk in the debt portfolio  
3, 4 October, 2017  
Abidjan, Ivory Cost*

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# CONTENT

**I**

***CENTRAL GOVERNMENT DEBT : KEY FIGURES***

**II**

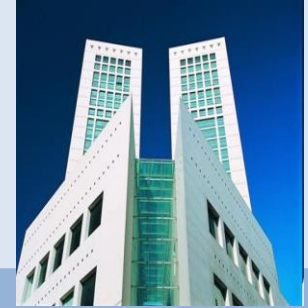
***RECENT TREND OF CENTRAL GOVERNMENT DEBT***

**III**

***HOW WE MANAGE BORROWING COST ?***

**IV**

***CONCLUSION***

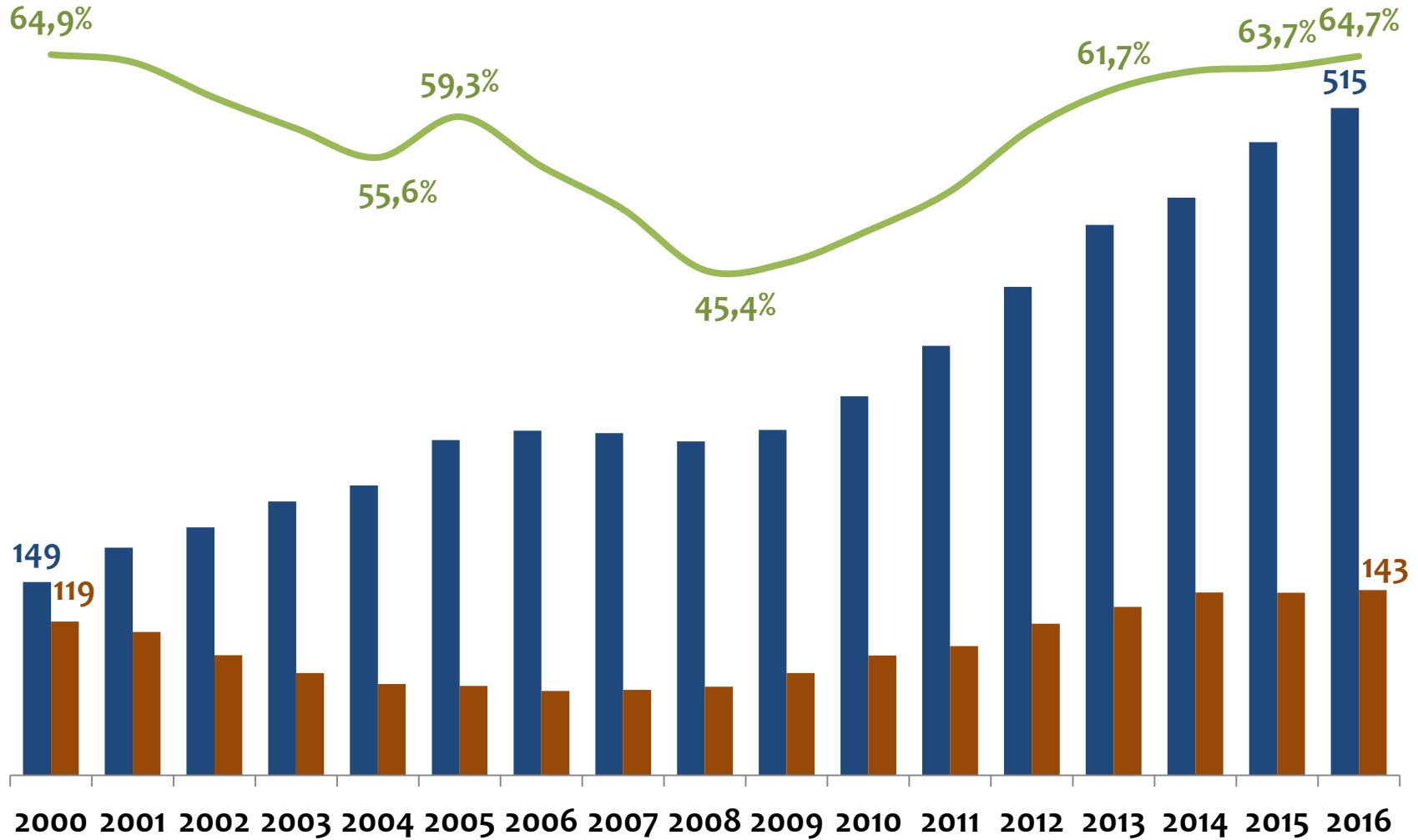


# **I- CENTRAL GOVERNEMENT DEBT : KEY FIGURES**

# CENTRAL GOVERNEMENT DEBT : KEY FIGURES

Domestic Debt - External Debt - % GDP

Billion MAD



# CENTRAL GOVERNEMENT DEBT : KEY FIGURES

End of 2016

Average Time to maturity

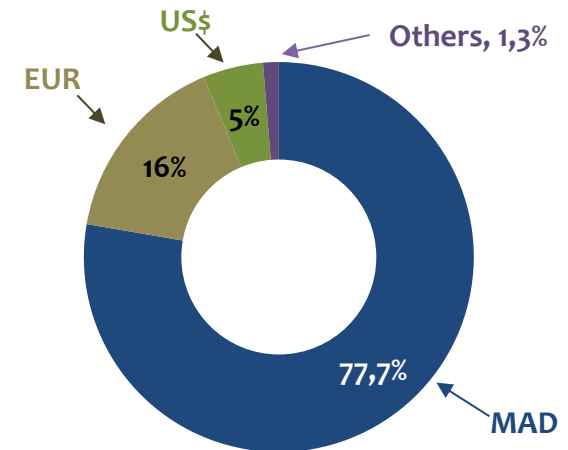
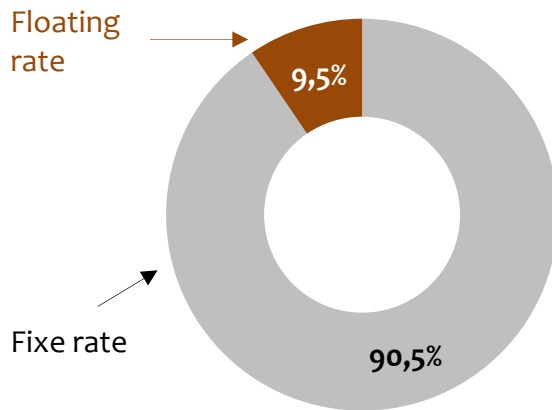
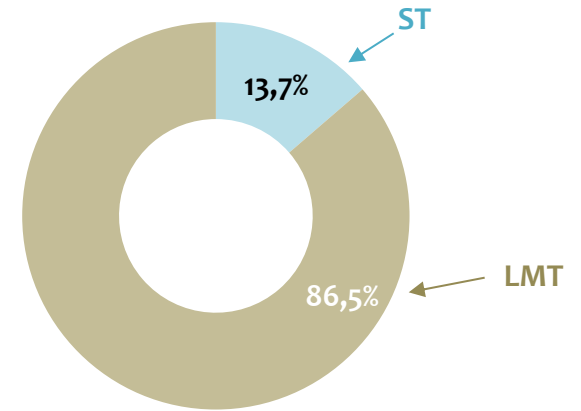
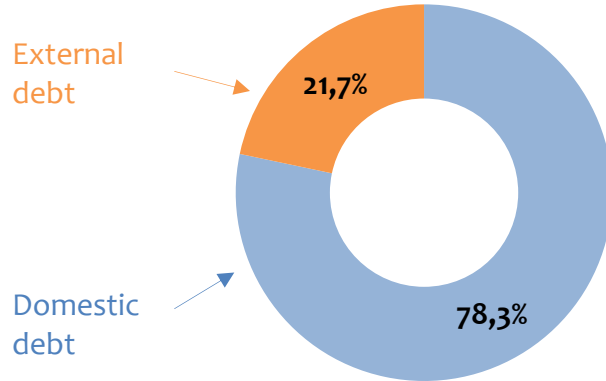
**7 years**

Average Cost

**4,05%**

Interest / GDP

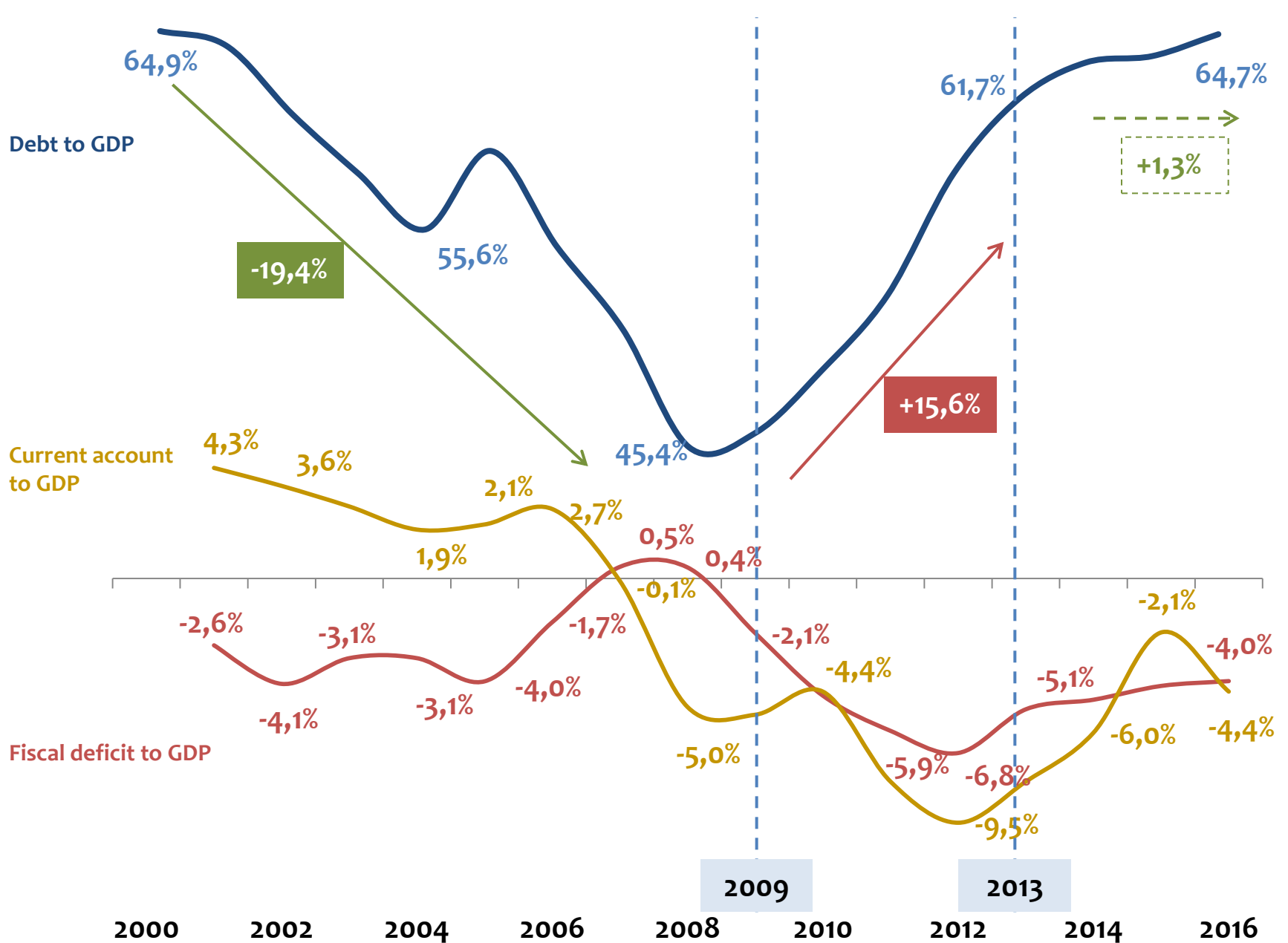
**2,7%**





## ***II- RECENT TREND OF DEBT***

# RECENT TREND OF DEBT



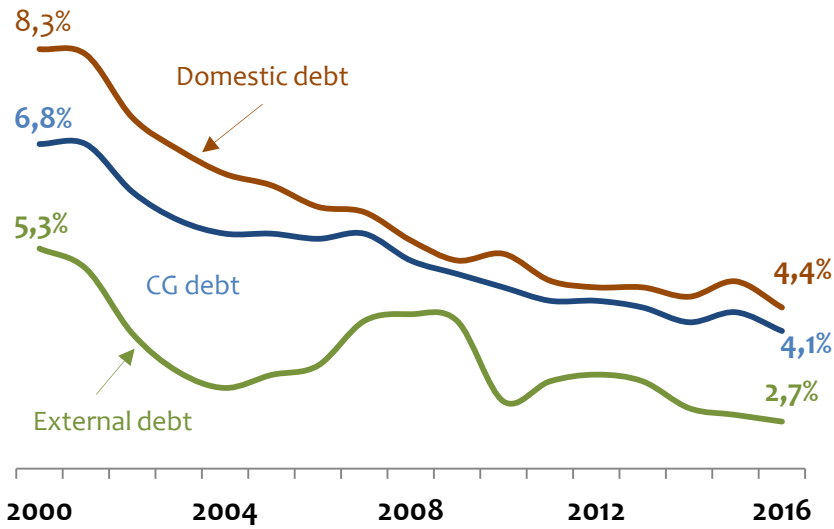


### **III- HOW WE MANAGE BORROWING COST ?**

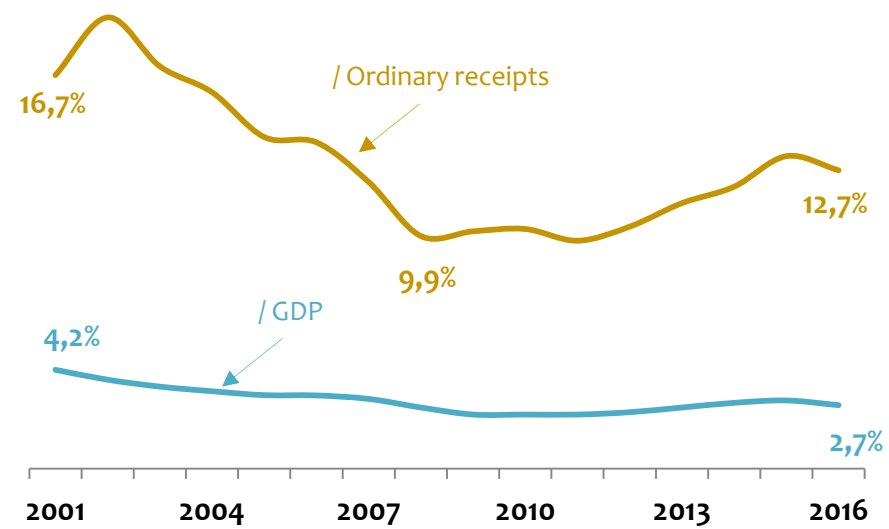


# TREND OF BORROWING COST

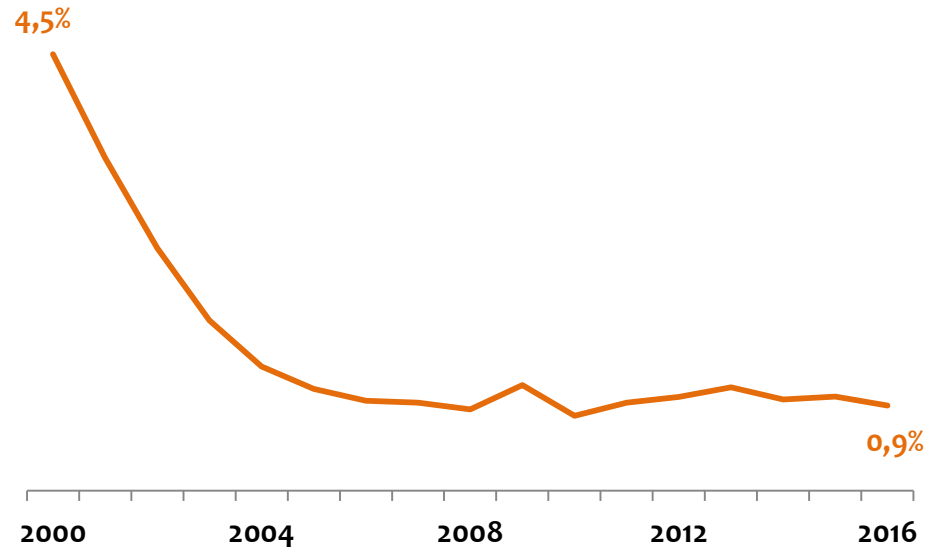
## Average cost



## Interests burden



## External debt interests to BPCR



# HOW WE MANAGE BORROWING COST ?

**Morocco manage its borrowing cost within a well-defined medium term debt strategy framework**



The main objectives of debt management strategy is to ensure that the Government's financing needs are met at the lowest possible cost over the long-term consistent with a prudent level of risk, while contributing to the development of the Government securities domestic market



# HOW WE MANAGE BORROWING COST ?

Actions aiming to reduce borrowing cost :

1. **Converge to a target portfolio structure (Benchmark) that optimize debt cost and risks.**
2. **Developp the Government securities domestic market to reduce the dependance to external financing rerssources.**



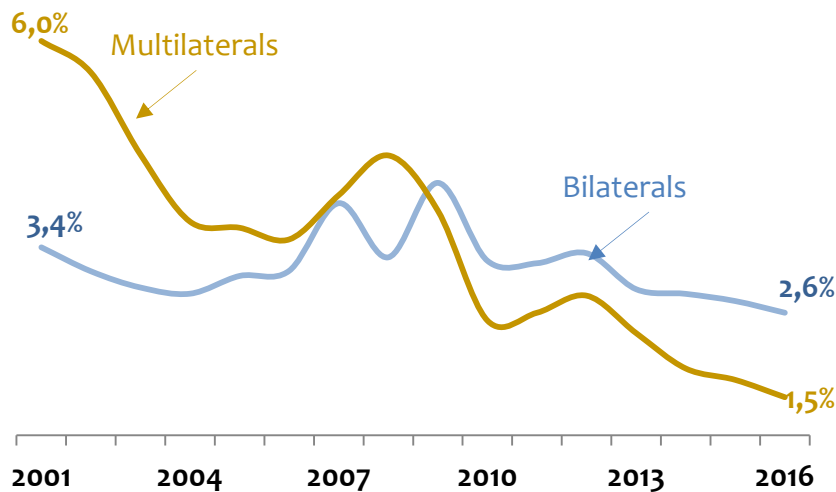
# HOW WE MANAGE BORROWING COST ?

## In term of external financing

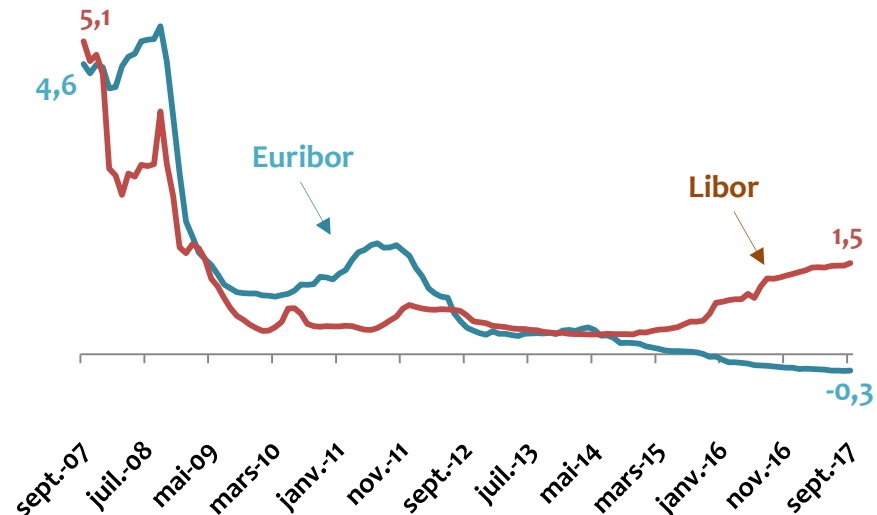
1- Mobilization of concessional external financing resources from bilateral and multilateral creditors

End of 2016	Share in external debt outstanding (%)	Structure by interest rate	
		Floating	Fixe
Bilaterals	17%	3%	14%
Multilaterals	51%	39%	12%
IMF	32%	0%	32%
	<b>100%</b>	<b>42%</b>	<b>58%</b>

Average cost by creditor



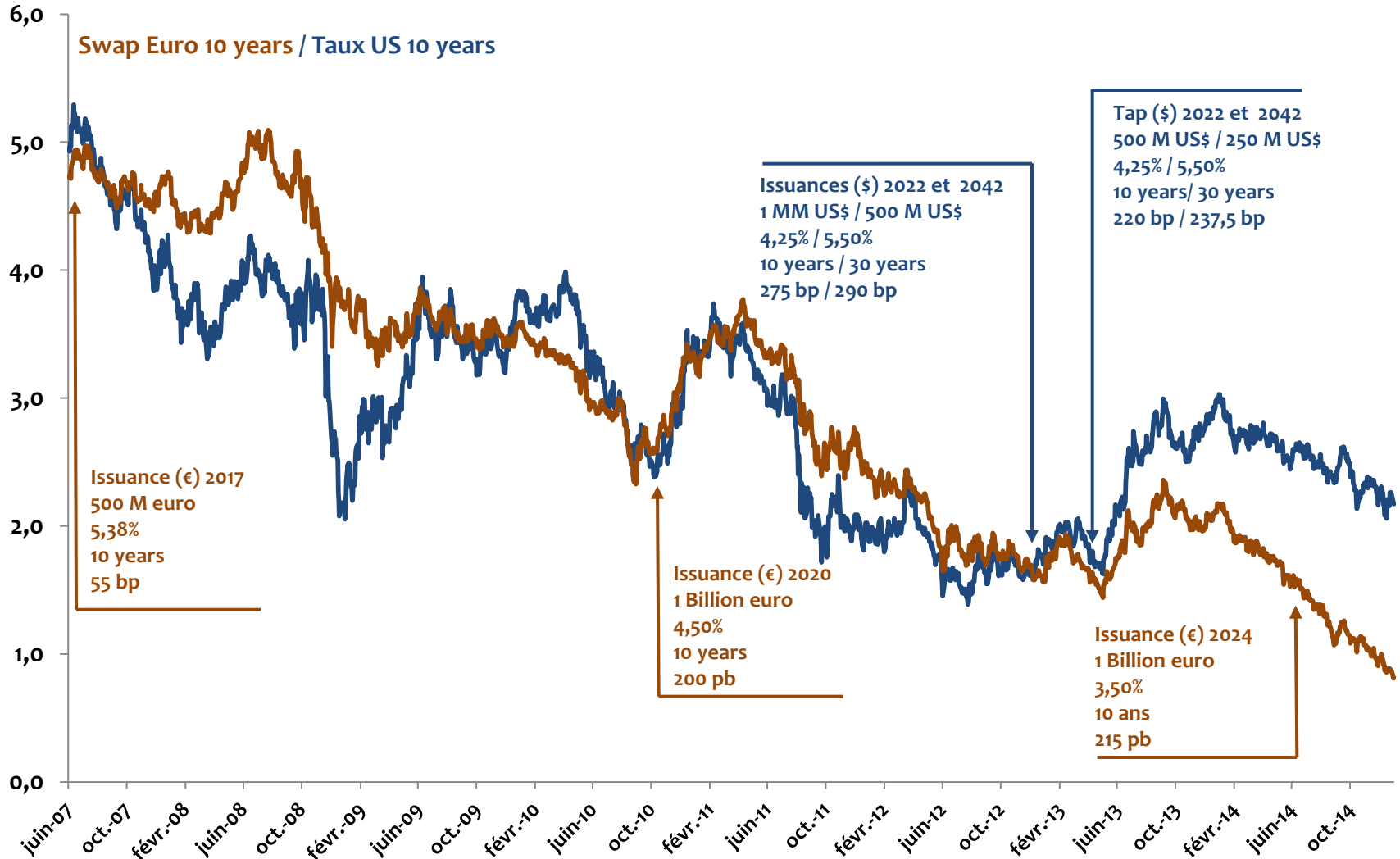
Evolution of Euribor and Libor



# HOW WE MANAGE BORROWING COST ?

## In term of external financing

2- Morocco was able, each time, to raise funds on the international market with favorable financing conditions.



# HOW WE MANAGE BORROWING COST ?

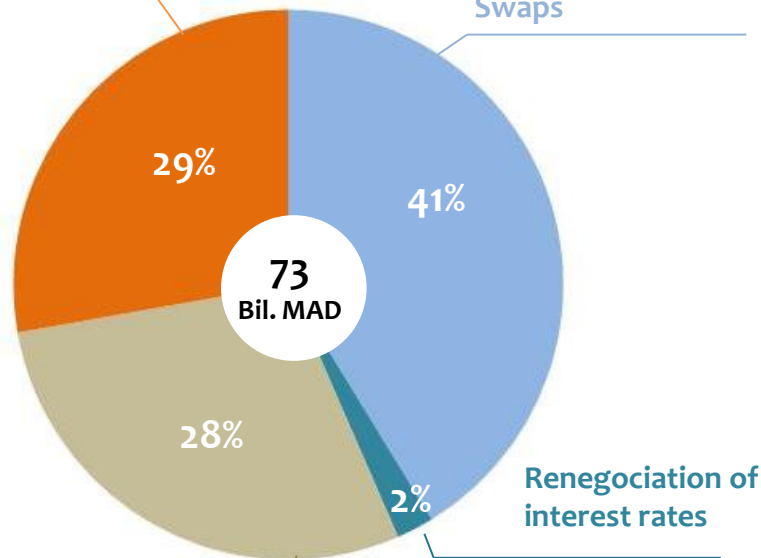
## In term of external financing

3- Use of active debt management operations to reduce the cost of debt and mitigate financial risks.

1996 – 2016

Conversion of debt into public and private investment

Interest rate and foreign exchange Swaps



Refinancing expensive debt

73  
Bil. MAD

Exemple of swap operation  
1 billion \$US issued in 2012

	Before SWAP	After SWAP
Currency	USD	EURO
Amount	1 000 millions	752,9 millions
Interest rate	4,25%	3,755%



Share of Euro in the external debt portfolio	68%	76,6%
Share of US dollar in the external debt portfolio	22%	13,3%

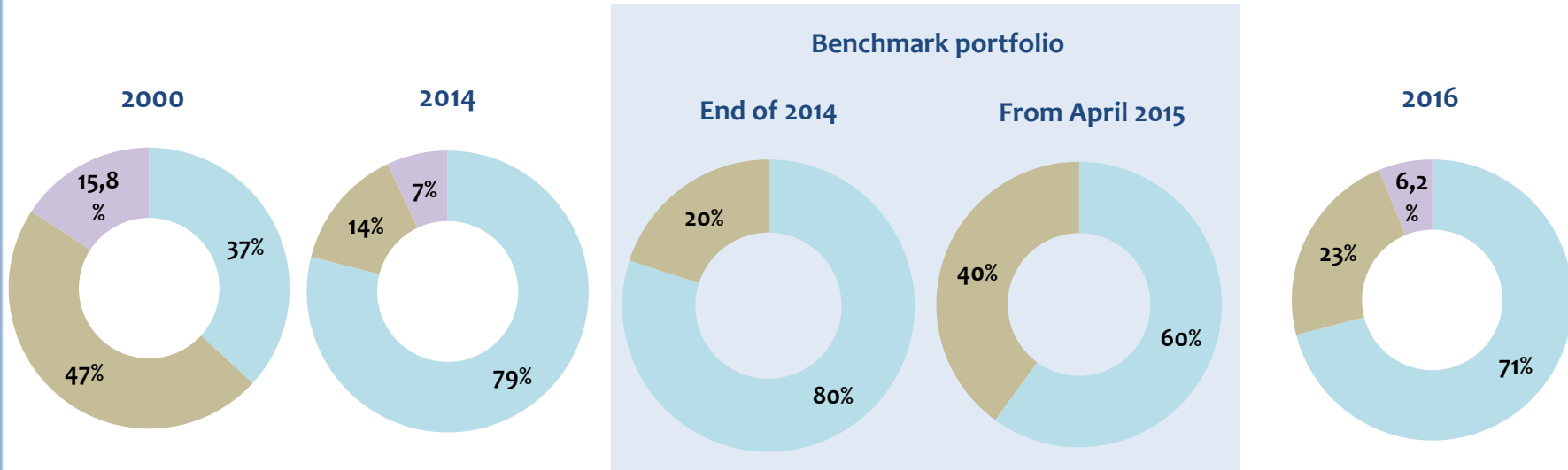
# HOW WE MANAGE BORROWING COST ?

## In term of external financing

**Results :** The strategy adopted by Morocco to manage the cost and risks associated to external debt allows to converge gradually to the Benchmark portfolio

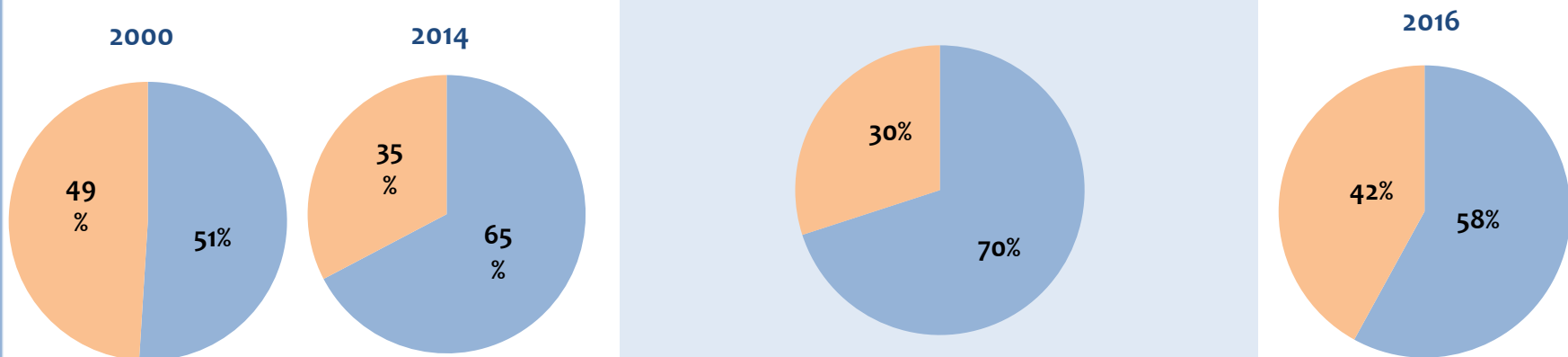
### Structure by currency

Euro / US \$ / Autres



### Structure by rate

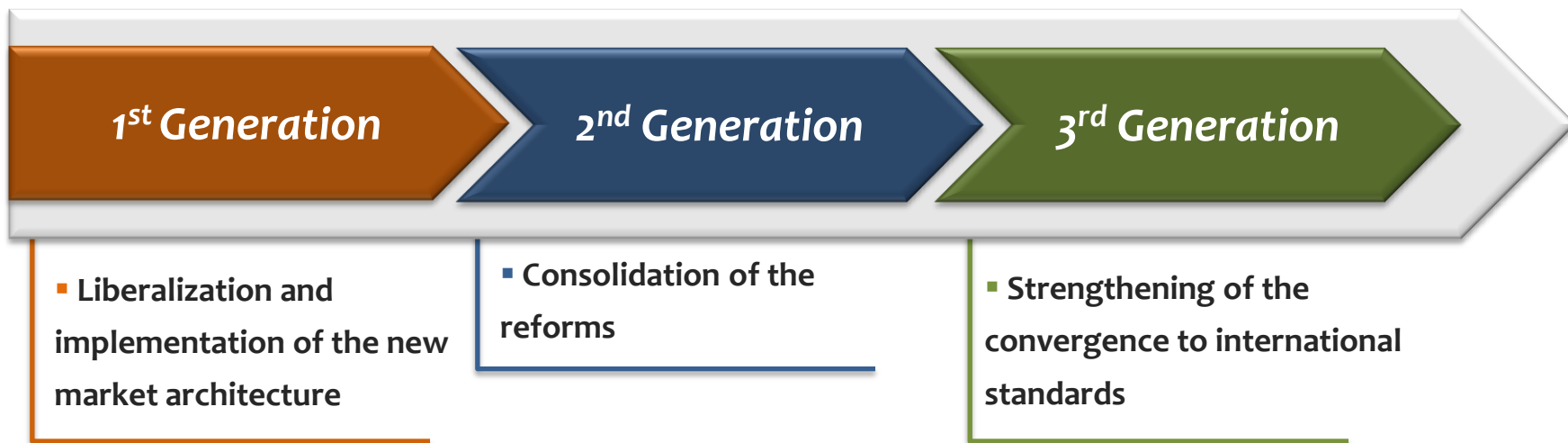
Taux fixe / Taux variable



# HOW WE MANAGE BORROWING COST ?

In term of domestic financing

*Domestic market reform carried out over several generations*





# HOW WE MANAGE BORROWING COST ?

## In term of domestic financing

**1<sup>st</sup> GENERATION (1989 – 1998) :** *Liberalization and implementation of the new market architecture*

- **Gradual abandon of Treasury's advantages :**
  - *Elimination in 1991 of bond issuances at predetermined rates*
  - *Submitting bonds to common rules of taxation (1995)*
  - *Suppression in 1998 of banks mandatory subscriptions;*
- **Creation of the primary market in 1989.**
- **Creation of the secondary market and assignement of primary dealers in 1996.**
- **Standardization of bonds.**

# HOW WE MANAGE BORROWING COST ?

In term of domestic financing

**2<sup>nd</sup> GENERATION (1998 - 2008) : Consolidating of reforms**

- *Introduction of the reopening technic.*
- *Broadening the investor base : mutual funds, insurance companies, Pension funds...*
- *Issuance of long term bonds(20 and 30 years).*
- *Treasury voluntary renonciation, since 2001, to the central bank advances, before their legal suppression in 2006.*
- *Legal framework for active domestic debt and cash management.*

# HOW WE MANAGE BORROWING COST ?

## In term of domestic financing

**3<sup>rd</sup> GENERATION (since 2008)** : Strengthening convergence towards international standards

- *Modernization of debt management institutional and fonctionnal frameworks.*
- *Implementation of an integrated debt and cash management information system.*
- *Launch of active debt and cash management (2010 - 2011).*
- *Implementation of the electronic auction system (2009).*
- *Creation of benchmarks lines.*

## Last reforms implemented since 2011

- Implementation of an electronic trading platform
- Design a Repo facility for Primary dealers who are committed to quote bonds
- Review of the Primary Dealer (PD) scheme to foster their commitment to contribute to the development of the domestic market

# HOW WE MANAGE BORROWING COST ?

In term of domestic financing

## REFORMS RESULT

**Moroccan domestic market has become one of the most mature in the MENA region**

*Diversified maturities issued regularly ...*

- 1 to 6 Week : Out of calendar
- 13 Week, 52 Week and 2 Year : 1<sup>st</sup> and 3<sup>rd</sup> Tuesday
- 26 Week, 52 Week, 5 Year and 15 Year : 2<sup>nd</sup> Tuesday
- 26 Week, 2, 10 and 20 Year : The last Tuesday
- 30 Year : Last Tuesday of each quarter

*Creation of benchmark bonds ...*

Maximum size of bonds

Billion MAD

52 Week	2 Year	5 Year	10 Year	15 Year	20 Year	30 Year
5	6	15	15	15	10	10

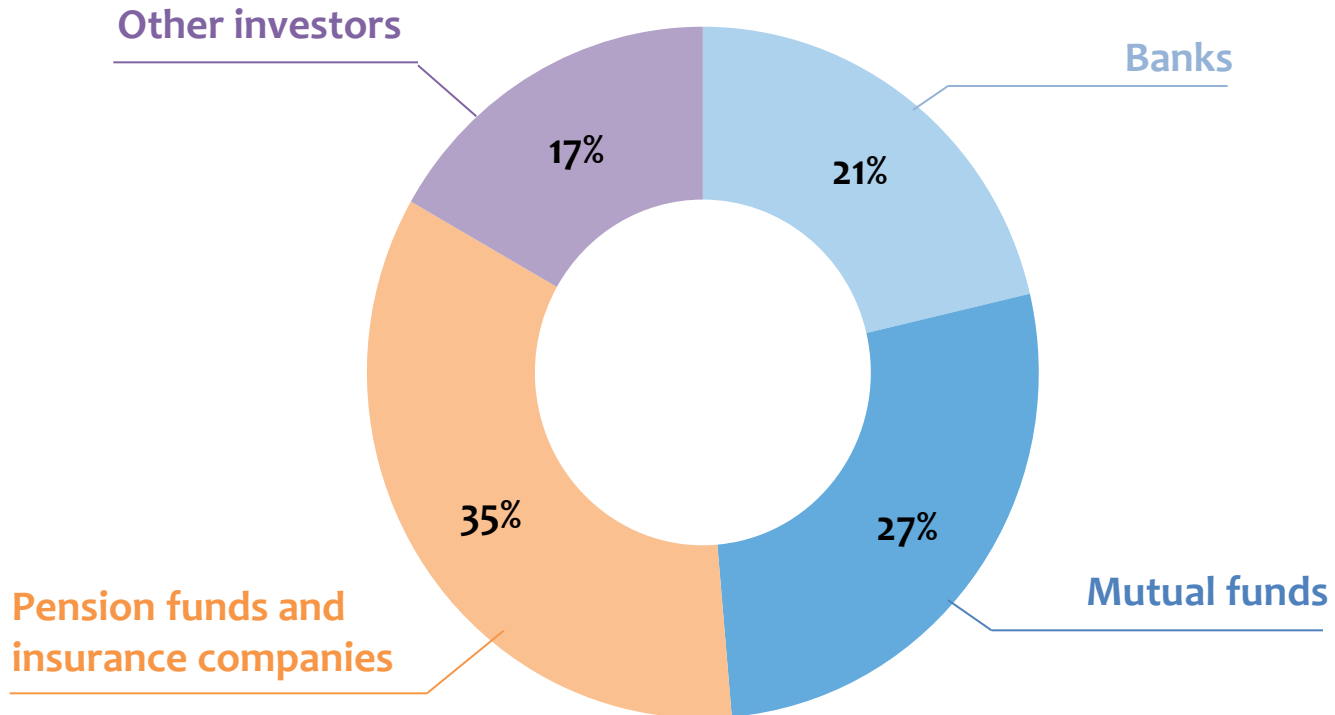
# HOW WE MANAGE BORROWING COST ?

In term of domestic financing

## REFORMS RESULT

*Well Diversified investor base ...*

**Breakdown of auctioned debt outstanding by holders – end of 2016**

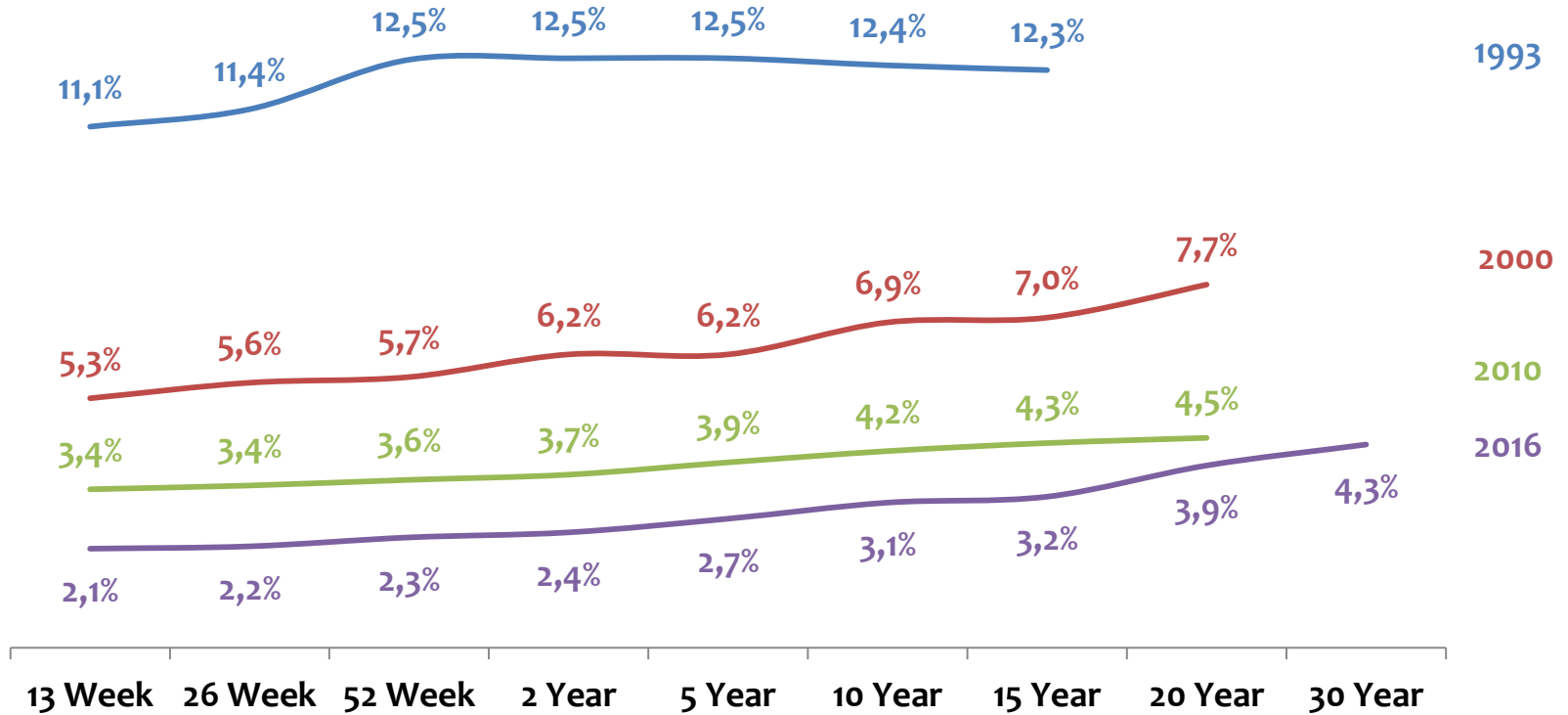


# HOW WE MANAGE BORROWING COST ?

In term of domestic financing

## REFORMS RESULT

... along with a decreasing funding cost



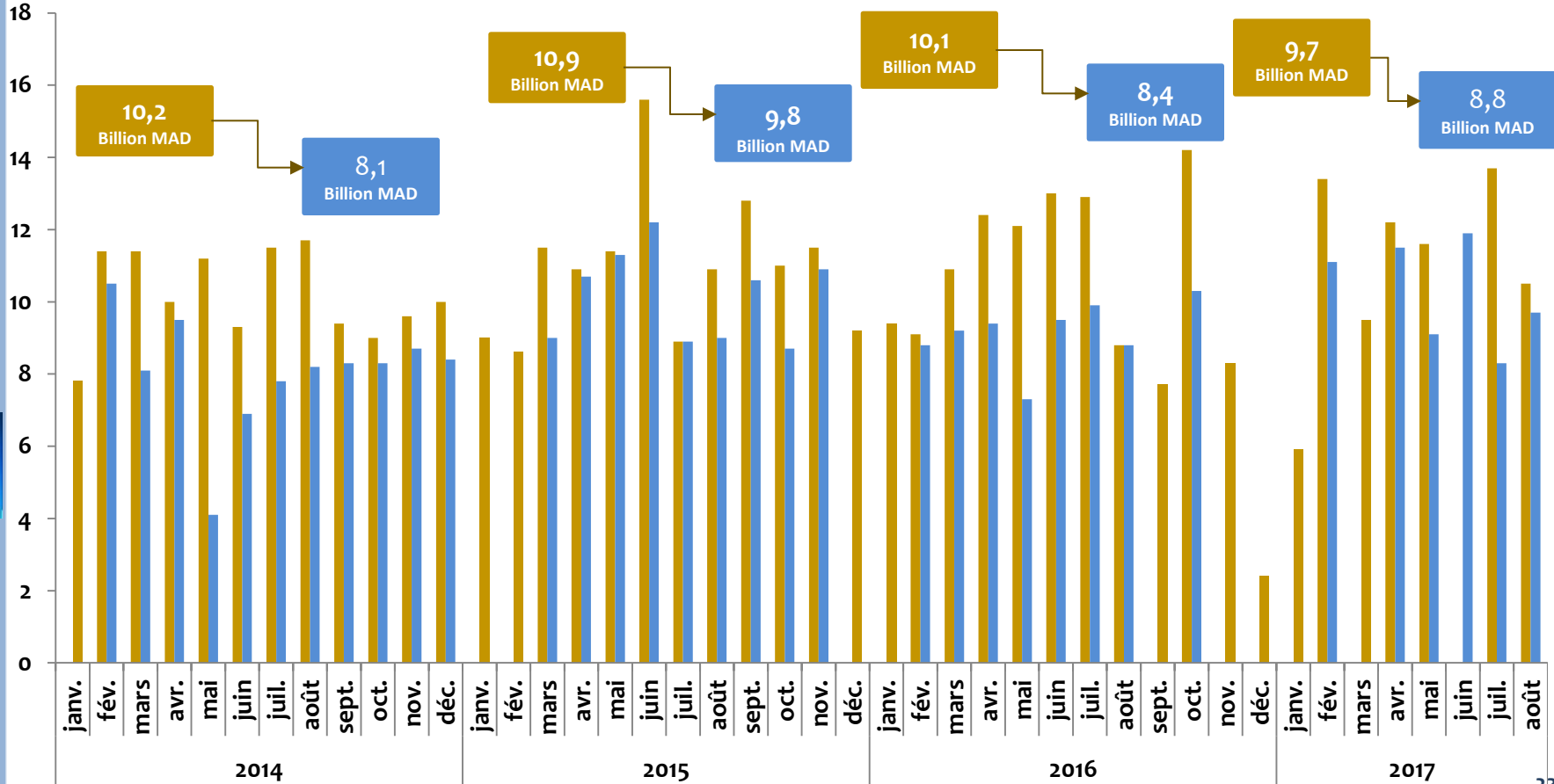
# HOW WE MANAGE BORROWING COST ?

In term of domestic financing

## REFORMS RESULT

Recourse to active debt management to reduce refinancing risk and thus avoiding to refinance debt at high cost level

Before / After active debt management operations

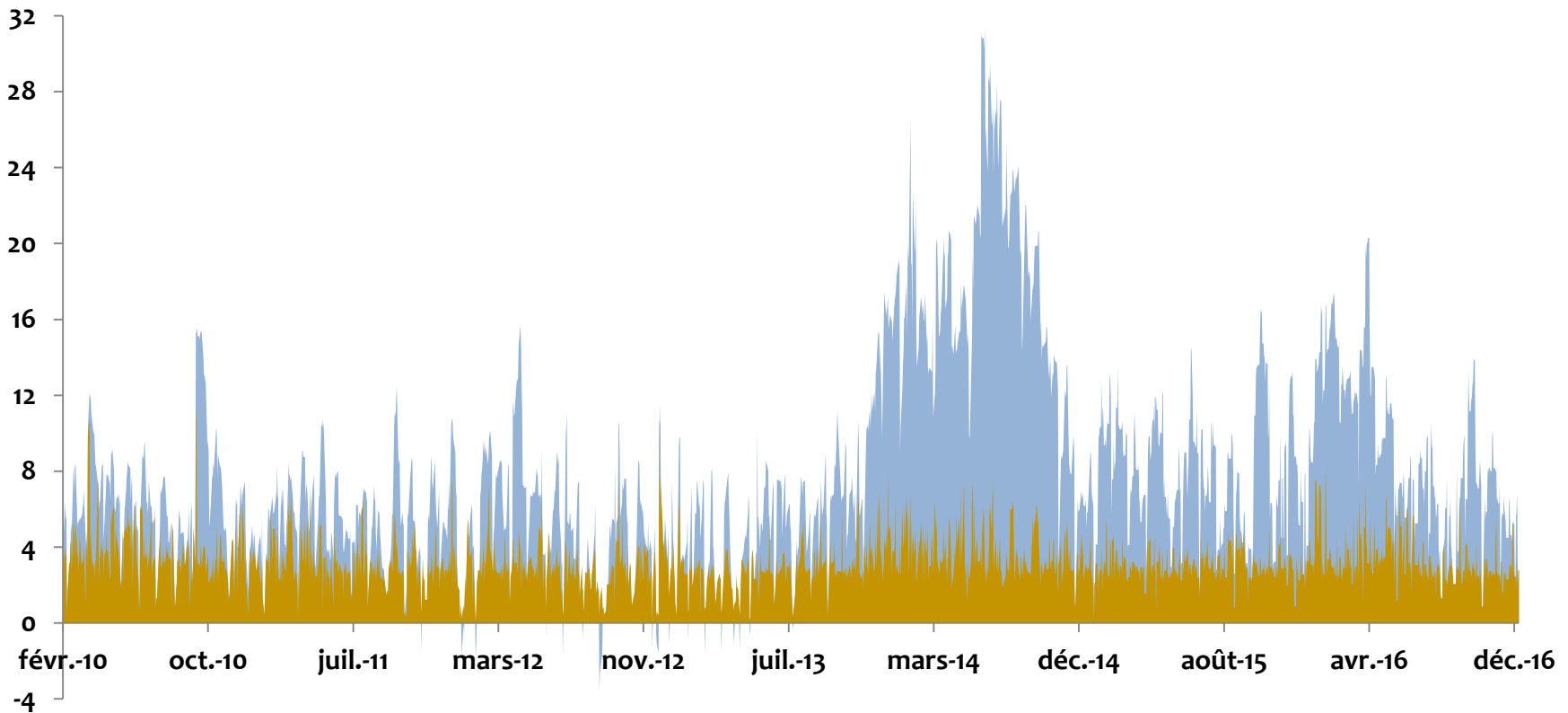


# HOW WE MANAGE BORROWING COST ?

In term of domestic financing

## REFORMS RESULT

*The Use of active cash management operations to optimise the Treasury Current Account and reduce the recourse to debt*



Treasury cash management allowed to daily reduce the current account by 4,8 Billion MAD in average.





## **V- CONCLUSION**

# CONCLUSION

Morocco succeeded to maintain its borrowing cost on a downward trajectory thanks to :

## Constitutional Rule since 2011

« The parliament and the government ensure the preservation of the balance of the state's finances »

(The Constitution, art. 77)

- A sound macroeconomic framework and resilience of the national economy to chocs.
- A well-defined debt strategy.
- A mature domestic debt market with a well diversified investor base able to cover the Government needs with favorable financial conditions.
- National and foreign investors confidence in Morocco (« Investment Grade » rating by S&P and Fitch).
- The expertise level attained in debt management allowing to maintain a sound Government debt structure that reduces exposure to risks.

## Gold Rule – Organic Budget Law since 2014

« In order to preserve the balance of the state's finances, net borrowing must not exceed the investment expenditures during the fiscal year »

(OBL, art. 20)

## CHALLENGES AND PERSPECTIVES

- Upcoming Exchange rate flexibility
- Trend of external debt of the state owned enterprises
- Moroccan rating