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CHANGES IN THE USE OF SHORT TERM SECURITIES: CASE OF MOROCCO

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This document is circulated as a background paper to Joint Session No. 1 for the 3rd Forum on African Public Debt Management, beginning on 4 December 2008 at 9am. Questions concerning this document can be addressed to Hans J. Blommestein, Co-ordinator of the OECD Working Party on Debt Management;(mailto:hans.blommestein@oecd.org).

MINISTRY OF ECONOMY AND FINANCE

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Head of Domestic Debt Division

Contents

Impact of the liquidity crisis

- The liquidity crisis has, so far, had limited impact on Morocco
  - Moroccan economic agents are marginally dependent on external financing, thanks to the development of the domestic financial market with limited foreign liabilities and negligible toxic assets :
  - External debt : 20% of GDP (USD 15 billion)
    - Essentially long term debt and borrowed from bilateral creditors and multilateral institutions
    - Central Government debt : 20% external debt vs 80% domestic debt
    - Foreign reserves = 1.5 external debt outstanding
  - Banks : 1.2% of their resources
  - Corporate : 3.3% of total debt.

Impact of the liquidity crisis

IMF statements

- "The Moroccan banking sector is stable, adequately capitalized, profitable, and resilient to shocks" (July, 2008)
- "Purely financial spillovers from the global credit turmoil have so far been very limited because Morocco's external debt is low, with long maturities, and macroeconomic policies have been strengthened in recent years". (July, 2008)

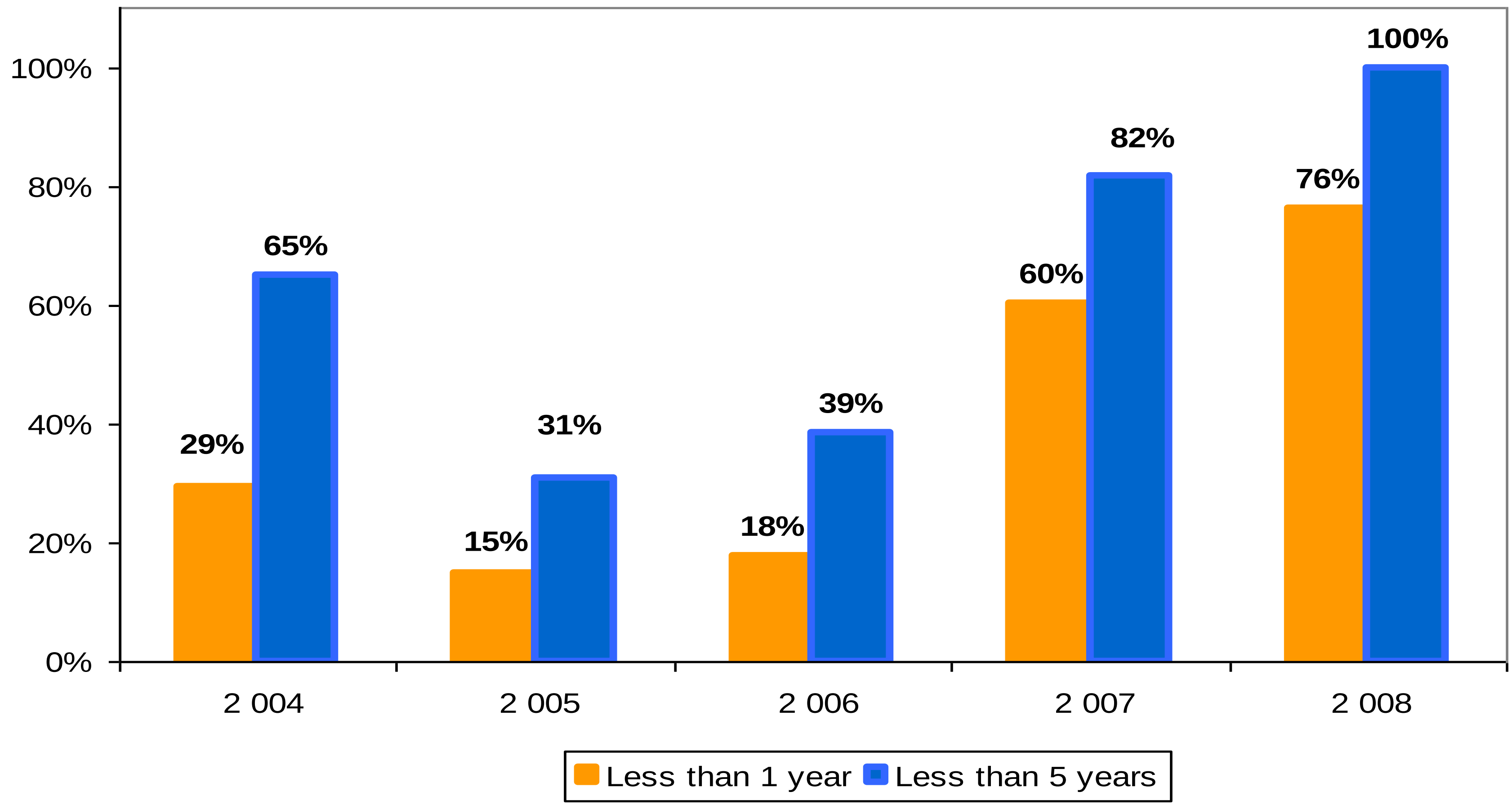
Impact of the liquidity crisis

- The stock exchange of Casablanca recorded a capitalization loss of about 12% in last three months.
- The decline is rather due mainly to psychological effect (assets held by non-residents are mostly strategic and the share of floating assets is less than 1.8%)
- Real economy is expected to be impacted in 2009 through 4 channels : Exports, Tourism, Remittances and FDI.
  - The estimated economic growth loss : 1 to 2% of GDP at 5.4%

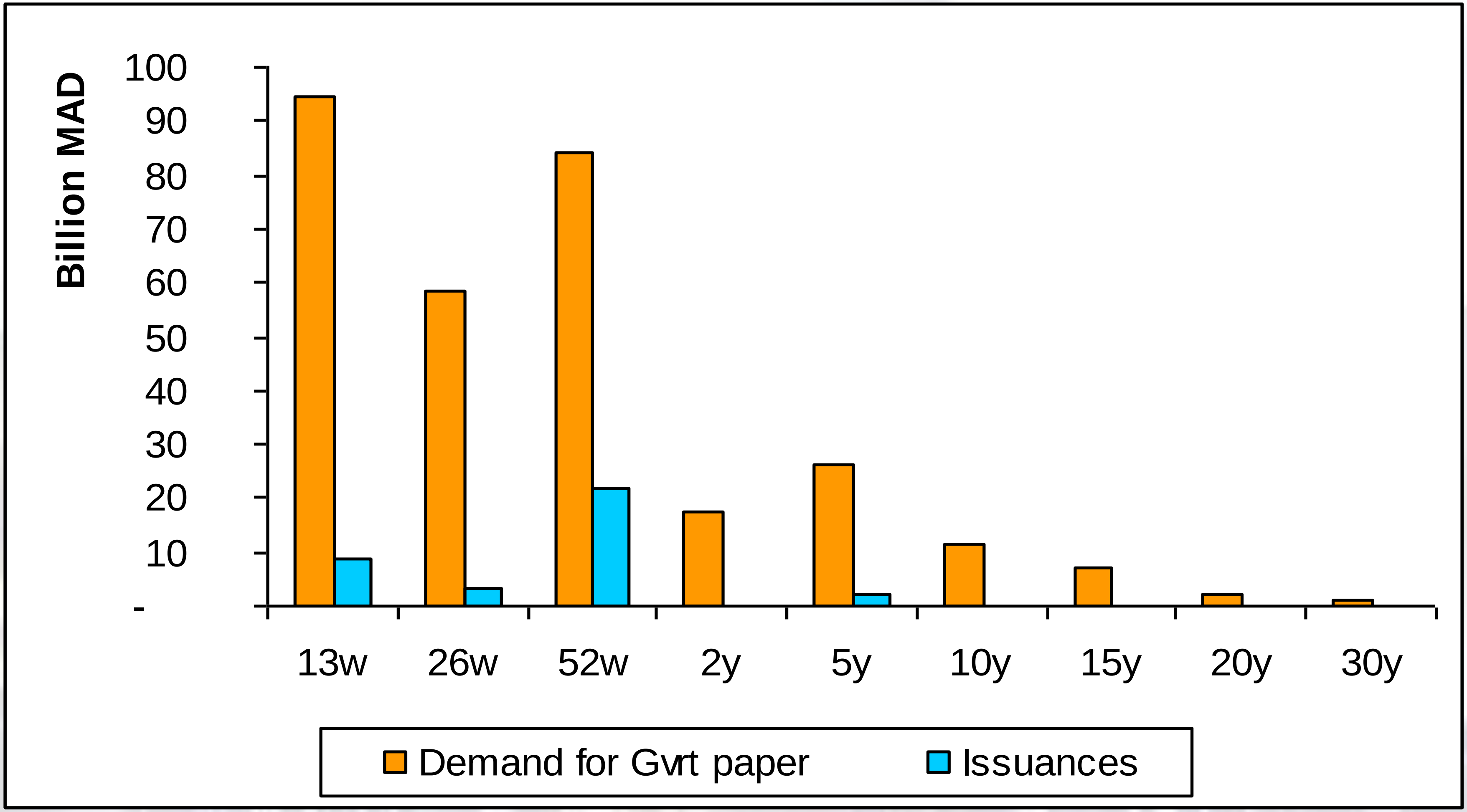
II. Recent developments in the Government bond market

Predominance of short term borrowings in 2007 and 2008

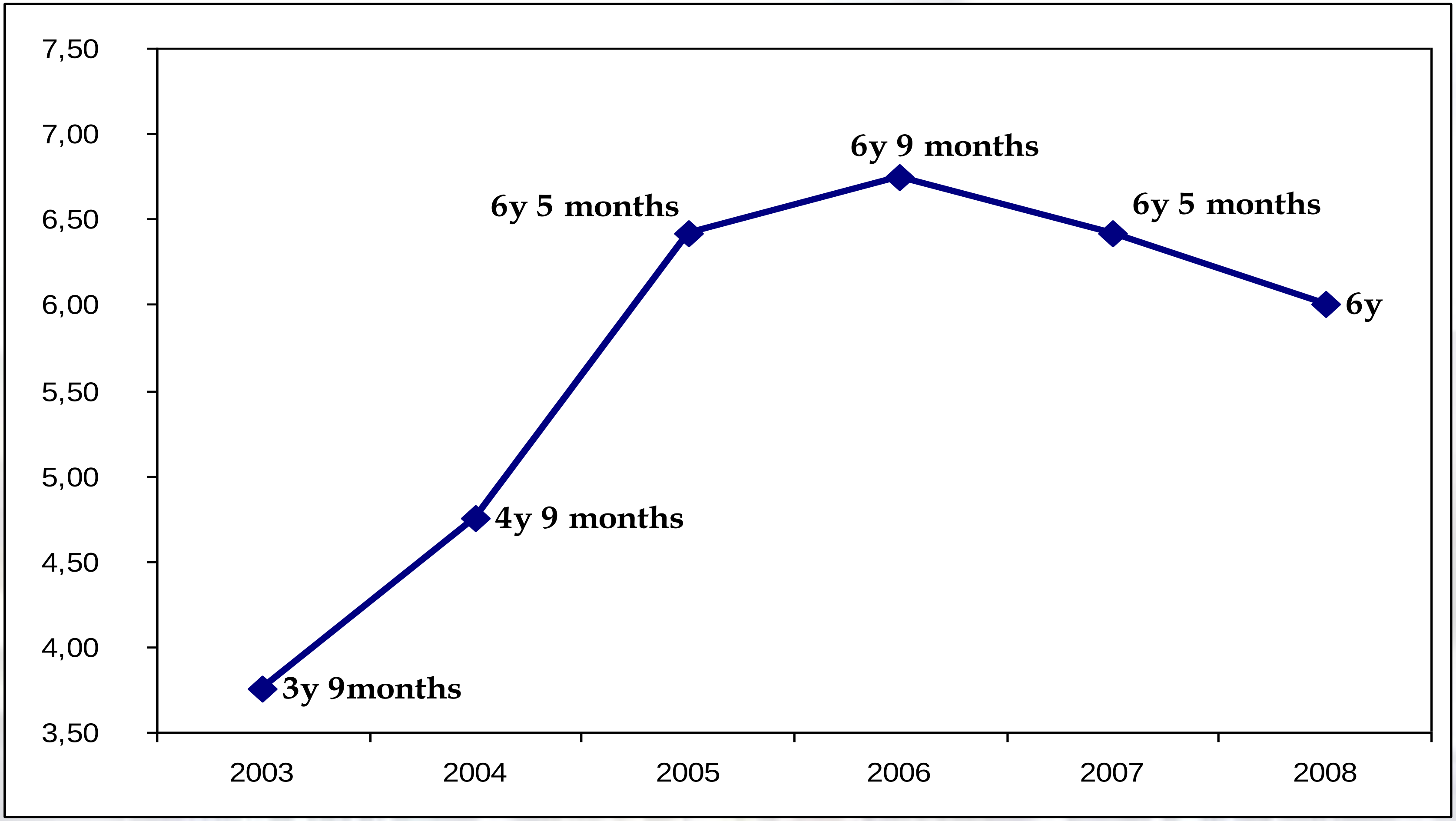
Share of short term issuances



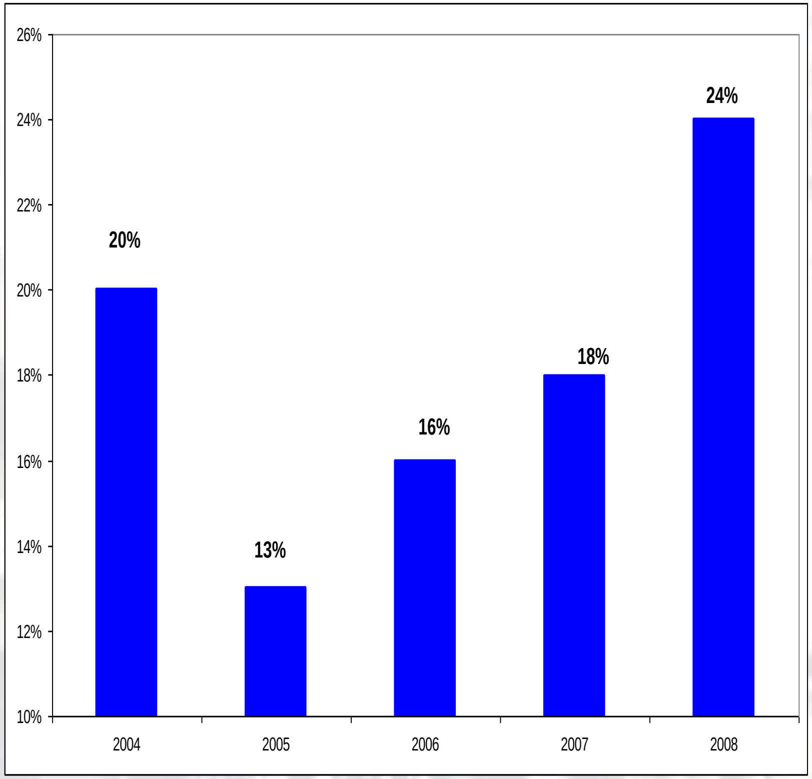
Breakdown of bids for and issuances of Government papers in 2008



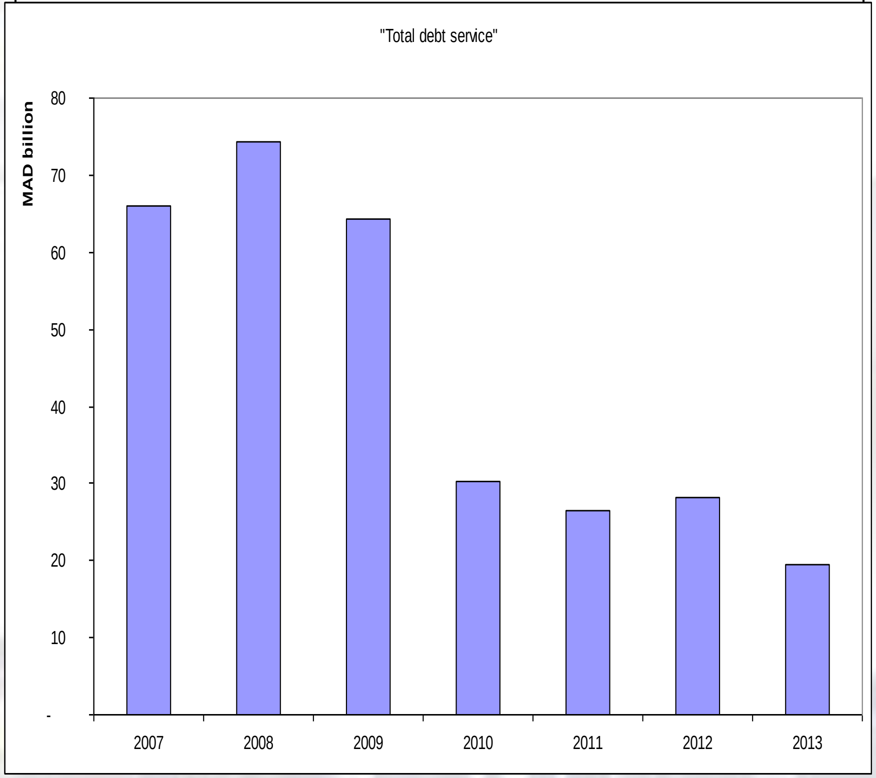
Term to maturity in a declining trend but remains consistent with objectives



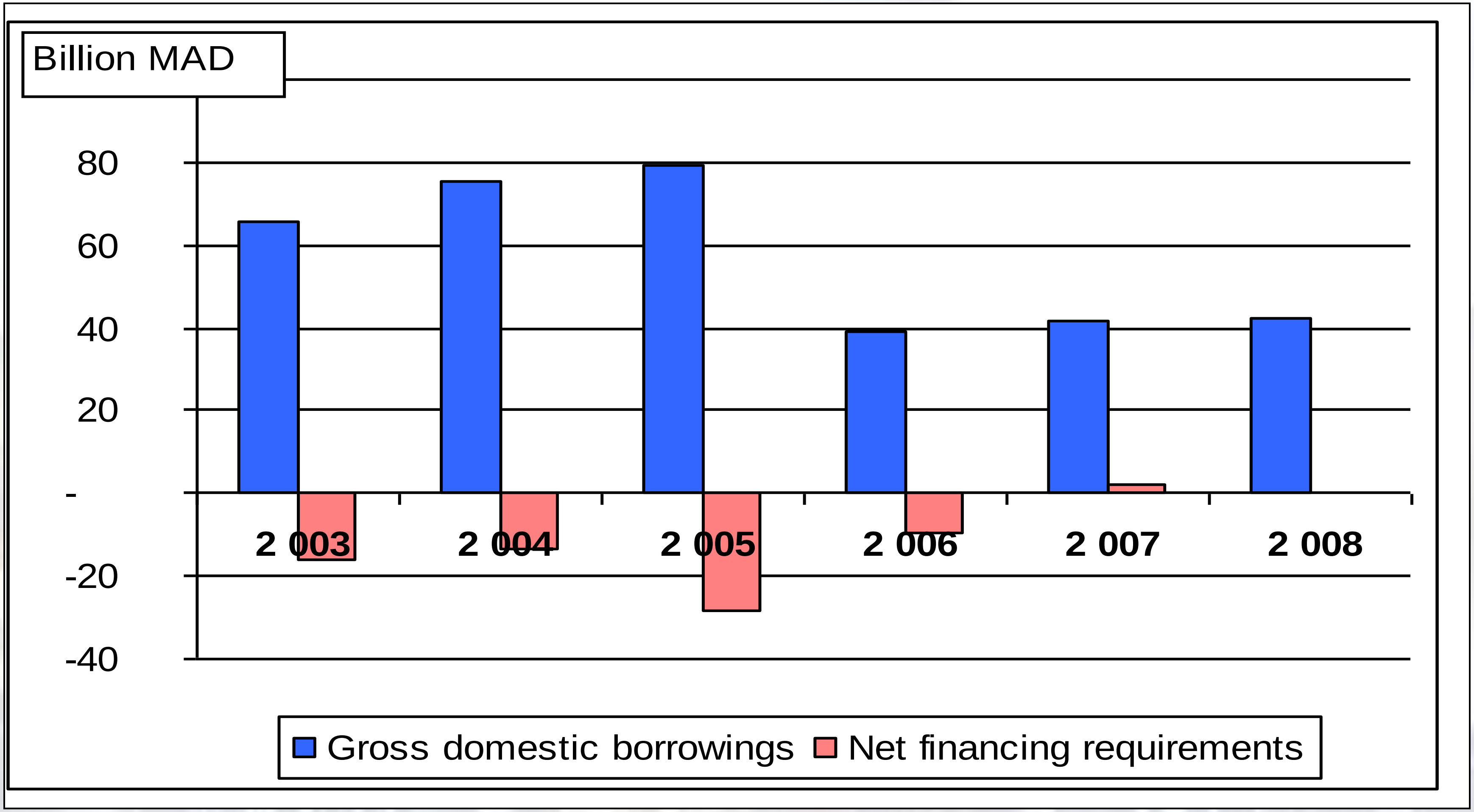
Increase in the short term debt outstanding



Lower financing requirements reduced refinancing risk

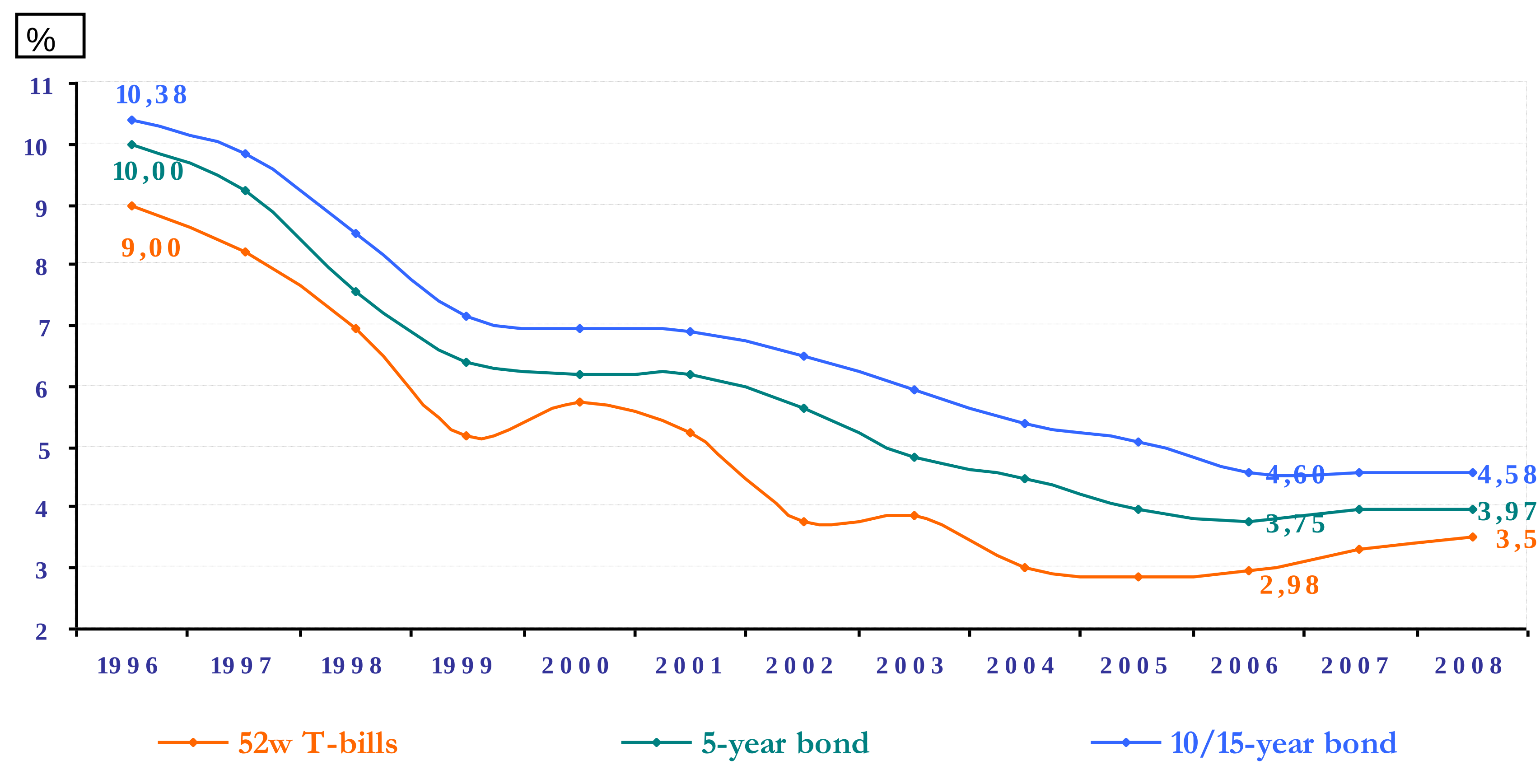


Decrease of domestic financing needs



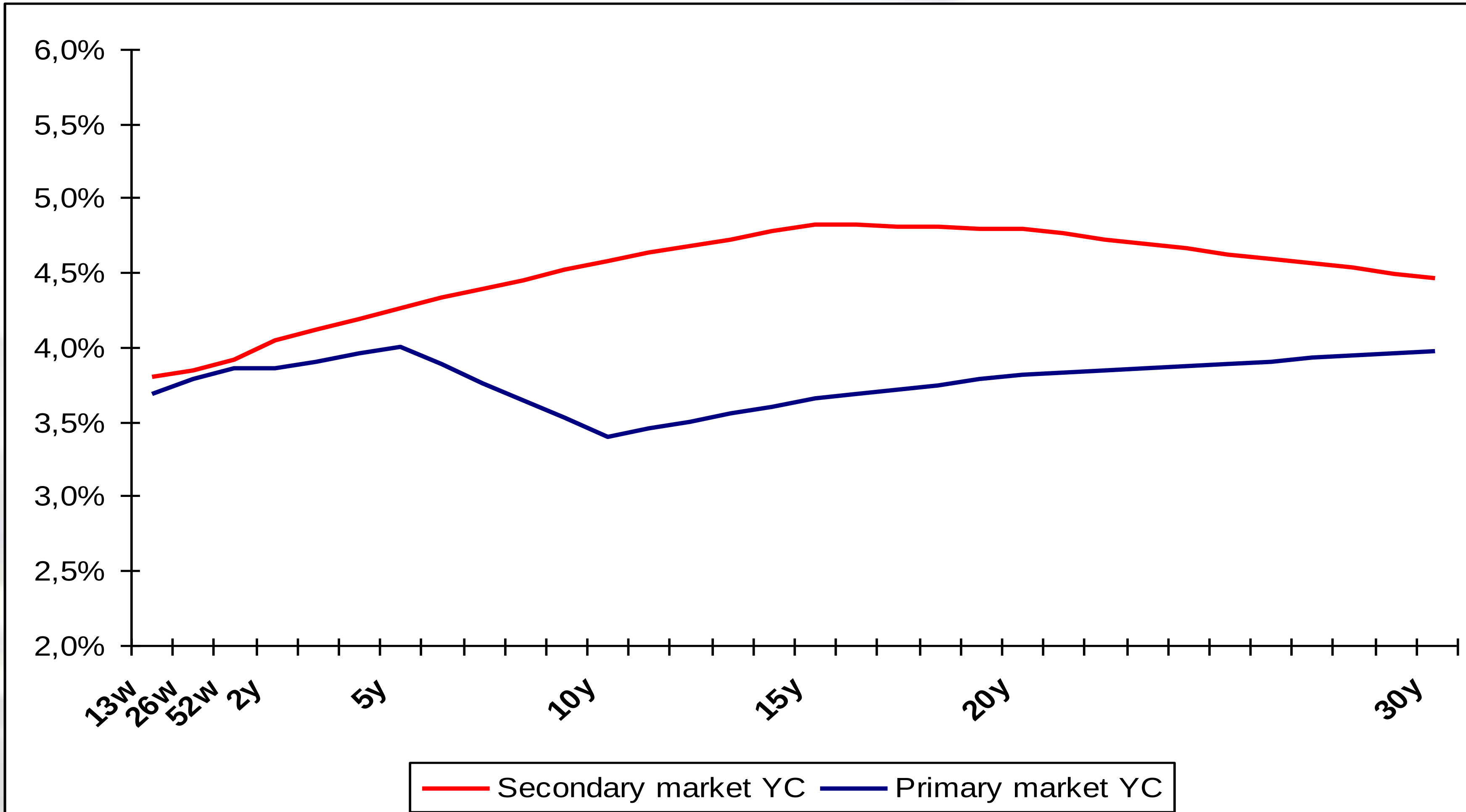
- Credits to the economy (especially mortgages) are linked to medium and long term Government bonds
  - Medium term loans : Weighted Average Interest Rates of 5-years bonds
  - Long term loans : WAIR of 10 and 15 years bonds.
- Housing sector boom benefiting from low interest rates in a context of lower supply vs high demand for new houses

Important Government securities interest rates decrease



- Any interest rate increase for MLT Government bonds will have negative impact on the whole Economy : Slow credit to the Economy (housing, tourism, Small and Medium enterprises…)
  - May slow growth and increase unemployment.

Disconnection between primary and secondary market long term yields



Reform proposal

In the short run

- Issuance of floating instruments
  - Inflation linked instruments
  - T-bills linked instruments

- Change the referential rate for floating loans
  - Overnight inter-banking rate
  - Average of overnight inter-banking rate and inflation rate

In the mid-term

- Casibor