

Subsidy system

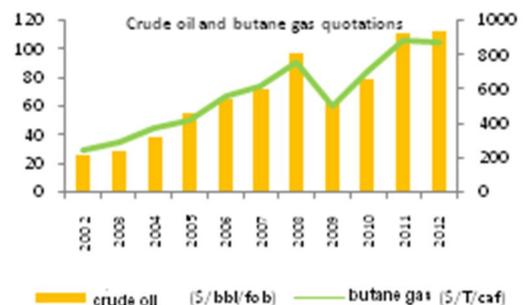
In Morocco, the system of subsidizing consumer prices of oil products and certain agricultural commodities made it possible to save the population and domestic productive fabric from the erratic fluctuations of the prices of such products on the international market in recent years, hence contributing to the maintenance of the population's purchasing power as well as social stability.

However, the related cost has soared in recent years from almost 4 billion MAD in 2002 to nearly 49 billion MAD in 2011, or 0.9% and 6.1% of GDP respectively.

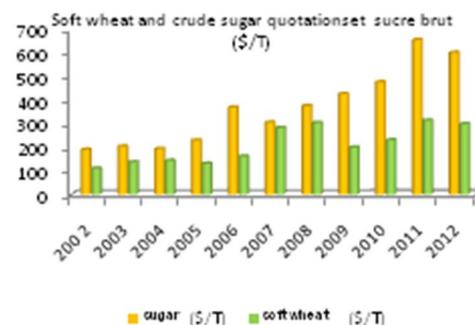
Taking account of the importance of the subsidy issue, and the challenges which it represents with regard to fiscal sustainability, support of purchasing power and the competitiveness of the national economy, a report on subsidy was appended for the first time to the documents of the Draft Finance Bill 2013. The objective is to provide more information on the problems relating to the subsidies of consumer prices, through a diagnosis of subsidy mechanisms and an analysis of the exogenous and endogenous factors of the cost of subsidies: the fluctuations of the prices of the products subsidized at the level of the international market, the level of domestic consumer prices of the subsidized commodities, trend of the release of such products on the market as well as the cover of this consumption through local production.

Indeed, the global market of oil products has witnessed radical

transformation and strong fluctuation for the last ten years. The annual average price of crude oil increased from nearly **\$ 25** a barrel in 2002 to more than **\$ 111** a barrel in 2011; that is a rise of **344%**. With regard to the prices of butane gas, they rose from **\$ 248 T/cost and freight** to **\$ 873 T/cost and freight** over the same period; that is an increase of about **250%**.

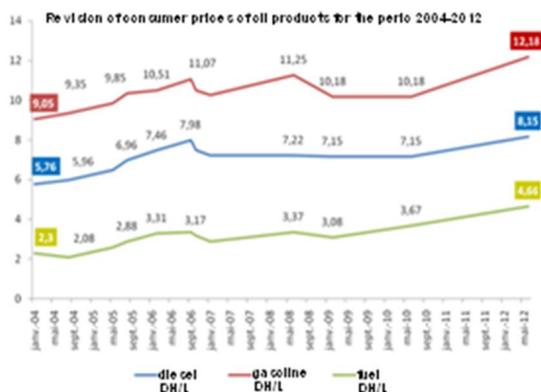


Similarly, the prices of subsidized food products, namely sugar and soft wheat, have posted a sharp rise and volatility since 2007.



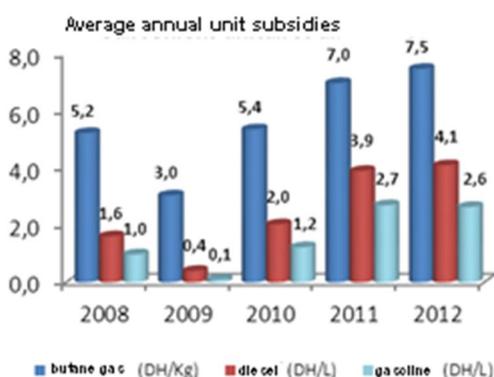
During the period 2004-2012, the soaring oil prices had partial effects on the rise of domestic consumer prices. The prices of diesel and gasoline increased from **5.76 MAD/L** and **9.05 MAD/L** to **8.15 MAD/L** and **12.18 MAD/L** respectively, up **41%** and **35%** respectively. While the price of fuel used by certain industries has practically doubled over the same

period from **2.3 MAD/Kg** to **4.66 MAD/Kg**.



Moreover, the prices of butane gas and fuel intended for the production of electrical energy remained unchanged in spite of the soaring prices of oil products over the decade 2002-2012.

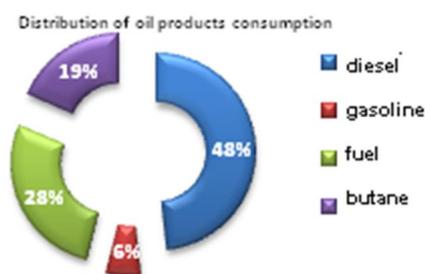
In spite of these measures, the unit subsidies granted to diesel, butane and gasoline developed considerably between 2008 and 2012. For diesel, the percentage of the subsidy compared to the selling price rose from **22%** in 2008 to **55%** in 2011. And in spite of the increase of diesel prices coming into effect in June 2012, such percentage always stands at **50%**, a level which remains quite high.



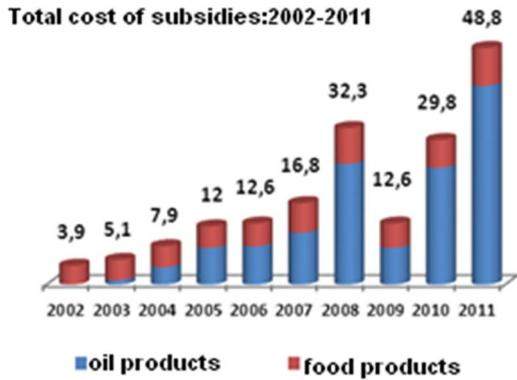
With regard to gasoline, the subsidy percentage compared to the market price rose from **9%** in 2008 to **27%** in

2011 and **22%** in 2012 in spite of the increase of gasoline prices. Concerning butane gas, subsidy compared to market price witnessed a vertiginous rise between 2008 and 2012 increasing from **157%** to **224%**. As for industrial fuel, its subsidy compared to the market price rose from **41%** to **60%** between 2008 and 2012, a fluctuation which remained relatively moderate following the increase of industrial fuel prices during the years 2010 and 2012.

With regard to sales volume, the consumption of these products practically doubled between the years 2002 and 2012, rising from almost 6 million tons to more than 11 million tons, or a growth rate over this period of about **80%**. It should be noted that the annual average growth rate of the consumption of such products stands at nearly **5%** for butane, diesel and gasoline and **7%** for fuel. This consumption growth rate remains rather high compared to the annual growth rate of the population, which was about 1.2% over the same period.



Consequently, the gross total cost of subsidy rose from **3.9 billion MAD** in 2002 to more than **48.8 billion MAD** in 2011.



Concerning tax revenues, the income from Domestic Consumption Tax on oil products increased from 8.37 billion MAD in 2002 to **12.2 billion MAD** in 2011, or an average growth rate of about **4.2%**. As to revenues from VAT on oil products, they change according to the trend of the prices of such products on the international market. Hence, over the period 2002-2011, revenues from this tax rose from nearly **2 billion MAD** in 2002 to more than **10 billion MAD** in 2011, while the average price of crude oil increased from **\$ 24.9** to **\$ 111.4** a barrel.

For the year 2013, two scenarios were formulated for the forecasts of the cost of subsidy for basic food products and oil products. The first scenario is based on the price of **\$ 105** a barrel, butane price of **840 \$/T**, sugar price of **500 \$/T** and soft wheat price of **300 \$/T**. The second scenario is based on the price of **\$ 110** a barrel, butane price of **880 \$/T**, sugar price of **500 \$/T** and soft wheat price of **300 \$/T**. On the basis of these assumptions, the estimated cost of subsidy, if no measure is taken, would range between **45 900 MMAD** and **49 300 MMAD**.

In conclusion, subsidy costs will continue to weigh heavily on the State

budget over the period 2013-2016, and if no action is taken, the estimated subsidy cost could exceed 200 billion MAD as against nearly 123 billion MAD over the period 2009/2011.

Hence, the reform of the subsidy system in force is one of the top priorities of the Government. It constitutes a major national issue for reflection, which should be conducted within the framework of a participative approach, a comprehensive involvement of the entire set of stakeholders and the initiation of the control of impacts.

This reform is meant to be progressive and complementary to all the social actions currently underway such as the National Initiative for Human Development and the Program of Conditional Monetary Transfer at the level of education (%ayssir+ and Medical Assistance Scheme, %AMED+, whose generalization is underway. Indeed, the study of international experiences in protection and social assistance indicates that universal intervention policies are shifting towards targeting the populations.