

Summary of the Report on the Compensation accompanying the Finance Bill 2016

The year 2015 proved to be an important stop in the process of the compensation reform. It actually witnessed the implementation of four significant measures, namely i) lifting diesel subsidies, ii) elimination of the revenues of the equalization which has reduced the fuel costs, iii) the consecutive entry into force of the Approval for liquid petroleum products prices for the period of January-November 2015, and finally iv) The definitive liberalization of fuel prices on December 1, 2015.

The approval for fuel prices between January and November was a preparatory phase for the said liberalization, through which the State was fixing only the price ceilings, giving free leeway to the oil companies to charge prices below the fixed ceiling within a competitive framework.

Concerning the budgetary aspect of this reform, the assessment of the indexation system after two years of its entry into force has shown positive results both for the State and consumers. This system has actually helped reduce the compensation expenditures by nearly 70% between 2012 and 2015, contributing significantly to the alleviation of the burden of public finances and the gradual restoration of macroeconomic equilibriums of the country.

Thus, the margins obtained allowed, on one hand, to clear all of the accumulated arrears of oil products in previous years, and on the other hand, the reallocation of public funds to the structural and sustainable investment in social infrastructures especially in the fields of education, health and housing, As well as the support of some needy social segments.

As for consumers, the indexation system allowed them to benefit from oil price downturns on the international market, which result in a significant drop in fuel prices at the fuel stations, below even the prices recorded before the indexation for certain products.

1. I. Assessment of the reform of liquid petroleum products (LPP): the period 2012 -2015

1. 1. Curbing of Budget overruns

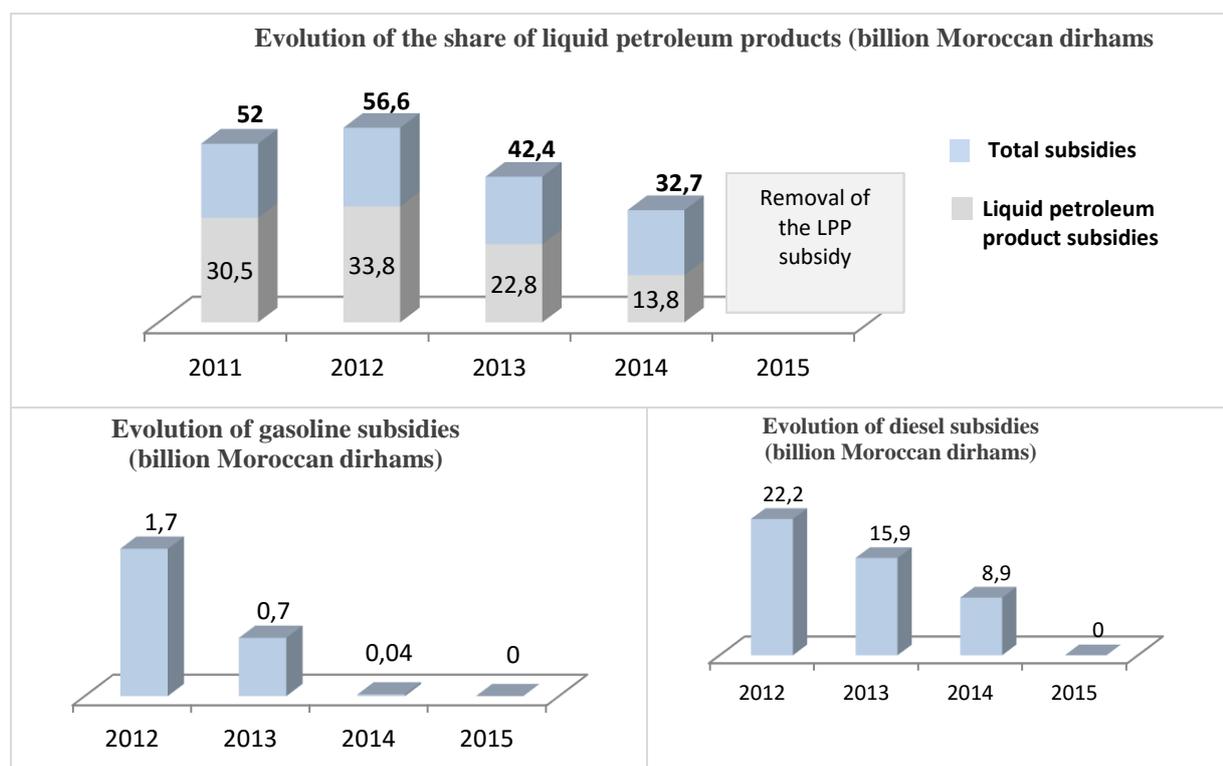
2. The reform undertaken since 2012 has allowed reducing its budget overrun by nearly MAD 4.3 billion, and avoiding overruns for the years 2013, 2014 and that forecast for 2015. It should be noted that during the years prior to 2013, the execution of the annual expenditures of the compensation had consistently witnessed overruns compared with the appropriations initially allocated, which had led to the allocation of supplementary appropriations to ensure the products' subsidy amounting to MAD 14 billion in 2008, MAD 18 billion in 2011 and MAD 10 billion in 2012.

3. 2. Clearance of accumulated arrears

The implementation of the indexation system in 2013 has allowed the gradual clearance of arrears accumulated in previous years. The Finance Acts of 2013, 2014 and 2015 have provided for respective amounts of MAD 10 billion, MAD 6.65 billion and MAD 7.5 billion for this purpose. Thus, the arrears of compensation which amounted to over MAD 22 billion in 2012 were completely cleared between 2013 and 2015, and therefore the price adjustment account of petroleum products was closed in February 2015.

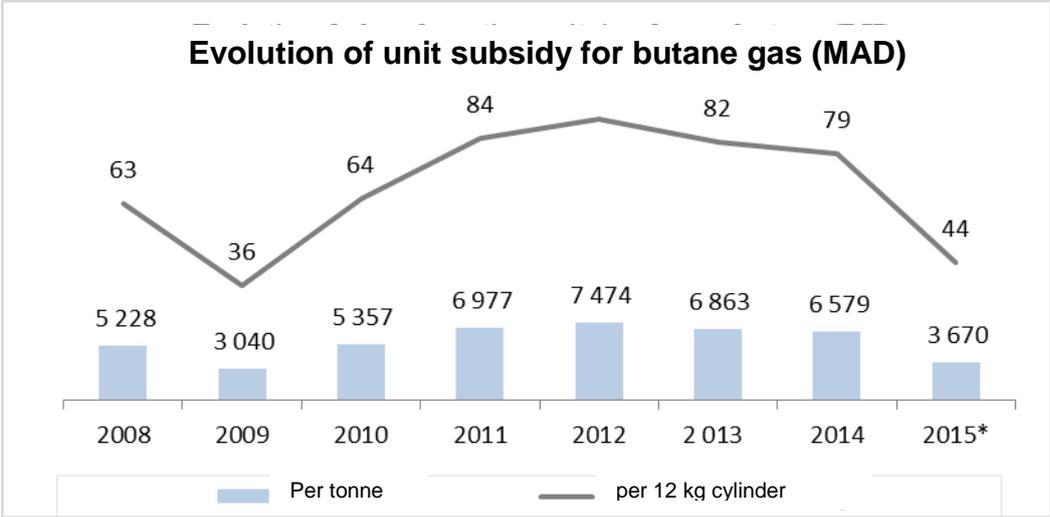
4. 3. Reduction of compensation expenditures

Following the indexation of liquid petroleum product prices, the burden of compensation was totally relieved of expenditures related to such products, which amounted in the past to nearly MAD 33.8 billion in 2012.

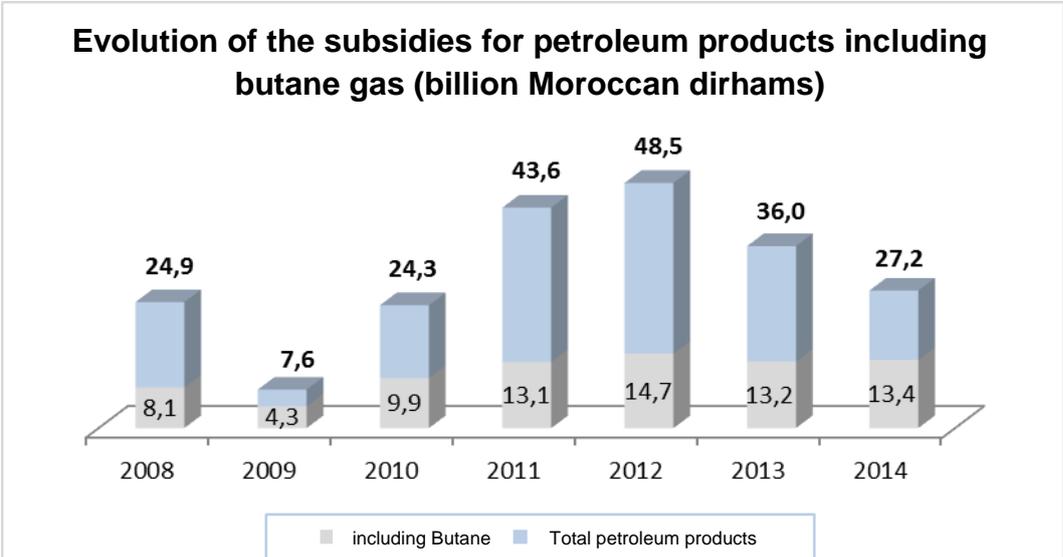


II. Evolution of Butane gas subsidies

The Subsidies for oil products were limited since January 2015 to butane gas. Following the strong volatility in its price in the international market, the butane gas subsidy per 12 kg cylinder has ranged between 90 and 44 Moroccan dirhams between 2012 and 2015.



In addition, the butane gas subsidies have ranged in the last five years between 10 and 15 billion Moroccan dirhams. This evolution is mainly due to the volatility in its price in the international market as well as the continuous annual increase in domestic consumption.



III. Evolution of the subsidies for food products

1. 1. Sugar subsidy

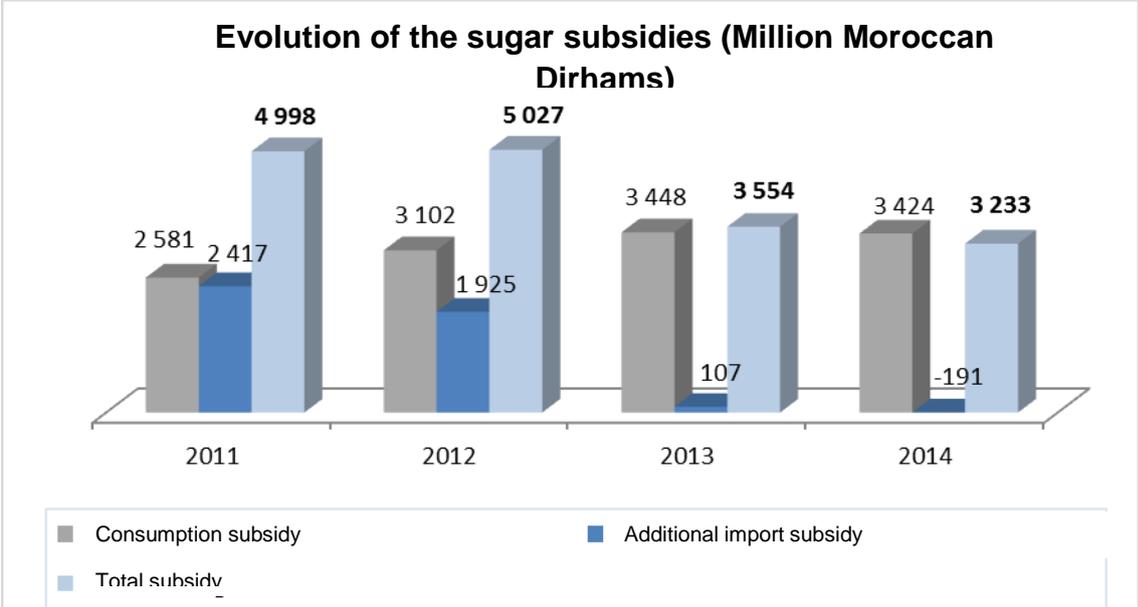
Following the efforts made by the government especially with regard to the revalorisation of sugar crops on the one hand, and the strengthening of the financial incentives for the Agricultural Development Fund on the other hand, as was provided for under the performance contract of sugar sector 2013-2020, the domestic

production of white sugar significantly increased, rising from 250 KT in 2012 to 510 KT in 2015. Thus, the rate of the coverage of consumption by domestic production rose from 20% in 2012 to 29% in 2013, then to 42% in 2015.

Moreover, the sugar subsidies decreased from MAD 5.0 billion in 2011 and 2012 to MAD 3.2 billion in 2014. This decline is explained by the decrease of the import subsidy which is due to the decline in raw sugar price in the international market.

The said subsidy for imports has actually decreased from MAD 2.4 billion in 2011 to a refund for the benefit of the compensation fund of around MAD 200 million in 2014, and this took place following the decline in the price of raw sugar from 660 dollar per tonne to 355 dollar per tonne during the said period. This import subsidy represents the variable part of the sugar compensation expenditures, which depends mainly on the vagaries of the international market, especially in a national context which is heavily dependent on imports to meet the domestic demand for this product.

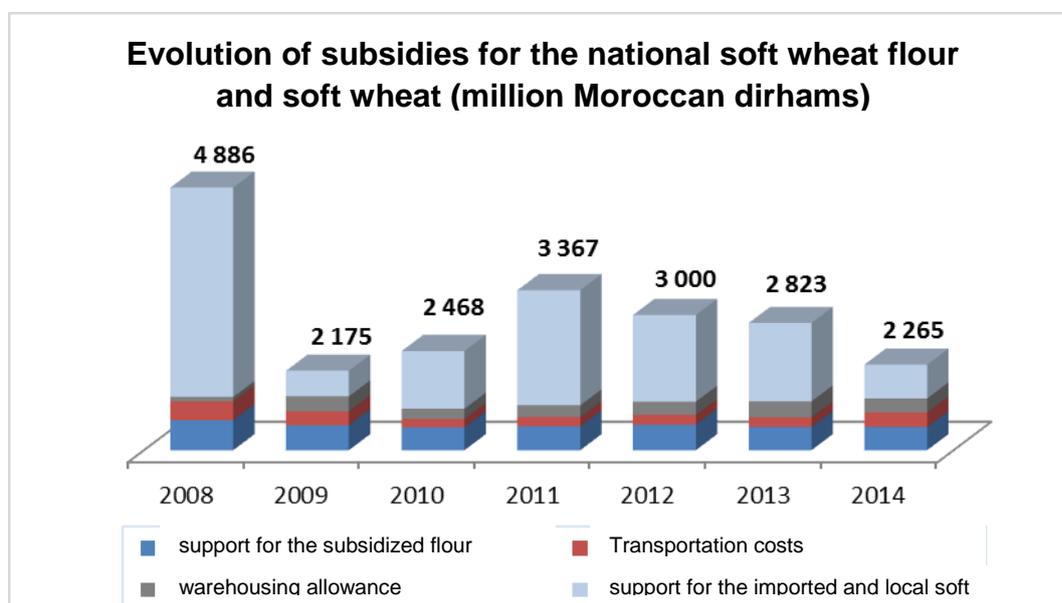
Concerning the lump sum consumption subsidy, it constitutes the relatively stable part of the sugar compensation expenditures, and that is dependent only on the quantities consumed. This subsidy amounted to MAD 3.4 billion in 2013 and 2014.



2. National soft wheat flour

Cereal production during the 2014-2015 crop season reached a record of 110 million quintals (MQ), including 55 MQ for soft wheat. This is the best cereal crop season for the past decade.

With regard to the subsidies for the national soft wheat flour, they decreased from MAD 3.4 billion in 2011 to MAD 2.2 billion in 2014.



IV. The Draft Finance Bill 2016

The reform of the compensation has initially targeted the liquid fuels, while the government continued to subsidize the subsistence products like butane gas and food products.

Thus, the finance bill 2016 provides for the appropriation of a budget of MAD 15,550 million for the continuation of support for the consumption of these products and for the accompanying measures especially those related to the support of the transport sector and the allocation of a direct aid to the ONEE (National Office for Electricity and Drinking Water Supply) in lieu of fuel subsidy, as part of the performance contract between the state and the this Establishment.