



Kingdom of Morocco

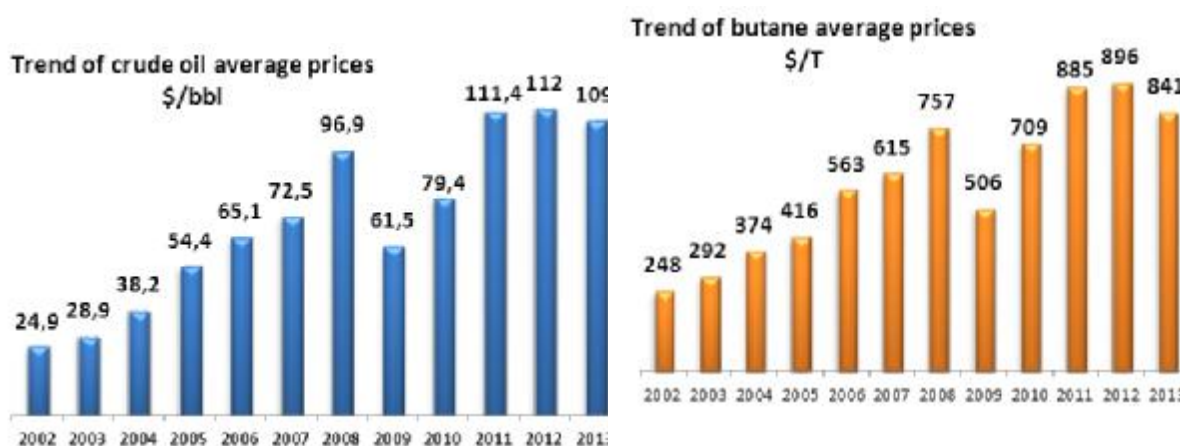


Directorate of Budget/DSAC/SCT

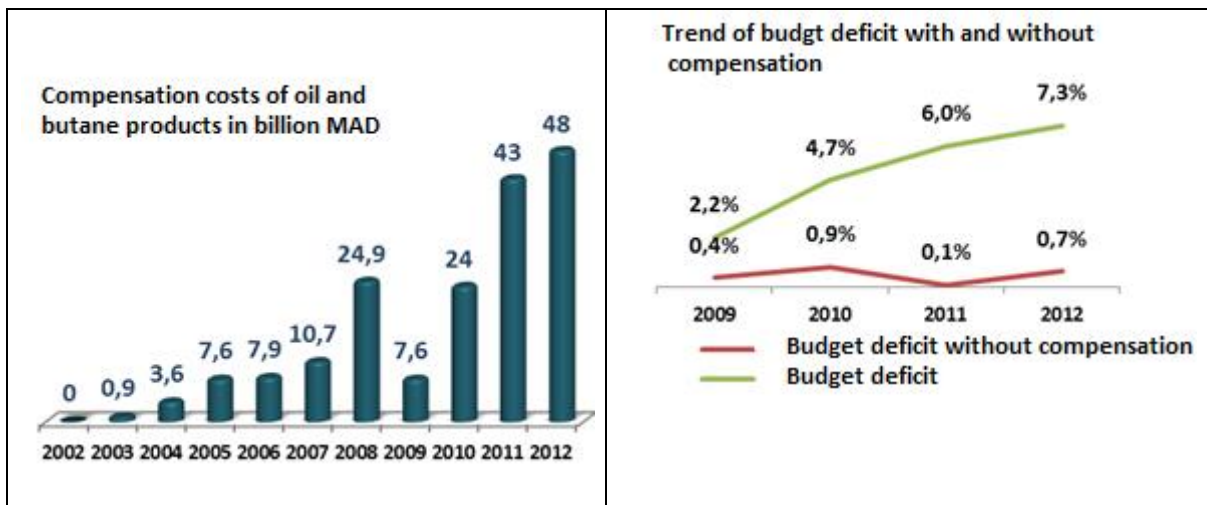
Summary of the report on compensation for the year 2014

During the last decade, the international market of raw materials witnessed serious changes which had a considerable impact on the volatility of prices of oil and agricultural products and the increase thereof.

Hence, crude oil and butane prices witnessed an upward trend rising respectively from 25 \$/bbl and 248 \$/T in 2002 to 112 \$/bbl and 896 \$/T (cost and freight) in 2012, or an increase of 348% and 261%.



Consequently, compensation costs posted a soaring rise, exceeding 55 billion dirhams in 2012 in spite of the partial revisions of the prices of certain fuels for the period 2004-2012. This situation was reflected negatively on the balance of public finance, resulting in a widened budget deficit compared to GDP, up from 2,2% in 2009 to 7,3% in 2012.

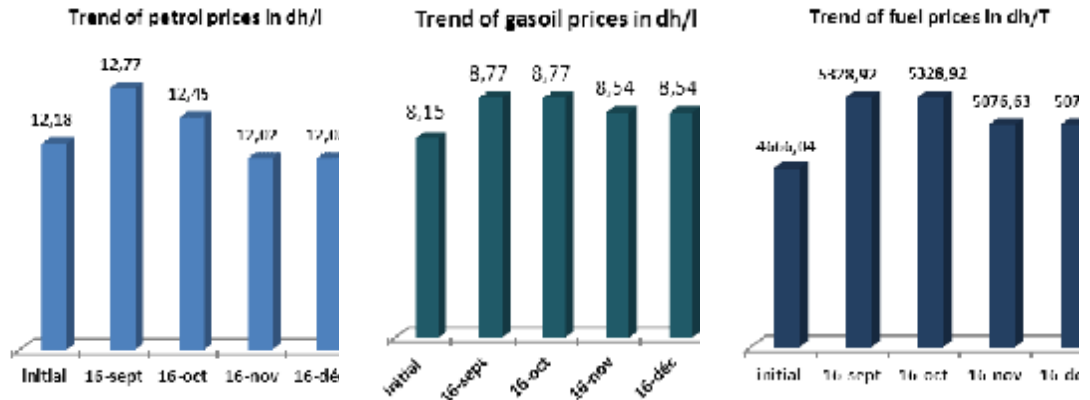


For food products, particularly sugar and common wheat, their prices on the international market showed strong volatility and rose respectively from the average of 376 \$/T and 304 \$/T in 2008 to 578 \$/T and 310\$/T in **2012 resulting in a rise of compensation costs exceeding 8 billion MAD in 2012.**

For this purpose, with a view to controlling compensation costs within the limit of the appropriations initially provided under Finance Law, **a partial indexing system was set up as of 16 September 2013 under the terms of the Decree of the Head of Government n°3-69-13 dated 19 August 2013.**

This system hinges on the following principles:

- ü **continuation of the protection of citizens' purchasing power** through bearing by State budget an important part of the rise of the prices of subsidized products;
- ü **budgetary sustainability aiming at the control of the budget allocated to compensation by the Finance Act:** fixing the level of the subsidy allocated to gas oil, high-grade petrol and industrial fuel n°2 to the one adopted by the Finance Act and partially reflecting upwards or downwards the variation in relation to the international market;
- ü **establishing support measures:** the implementation of an operation of covering the risks of fluctuations of the prices of gas oil allowing to put a ceiling to the rise in its price at a socially acceptable level and the support of some professionals of the transport sector in order to attenuate the impact in the event gas oil prices increase.



Thus, following the coming into effect of the indexing system on 16 September 2013, the selling prices of high-grade petrol, gas oil and fuel oil n° 2 are revised the 16th of each month on the basis of moving average of the redemption prices of the previous two months in accordance with the elements of the price patterns and references of the international market in force as shown in the following graphs:

For the year 2014, the appropriations of compensation available for finance Act 2014, amount to 41.65 billion MAD including 6,65 billion MAD for the financing postponed from the previous year and 35 billion dirhams new appropriations including 28 billion dirhams for oil products, 5 billion dirhams for food products and 2 billion dirhams for the financing of the support measures for the partial indexing system.

Thus, the importance of the appropriations granted to the compensation fund for the year 2014 shows the will of the Government of the continuation of its commitment to the support of the purchasing power of citizens. In order to ensure the success of the objectives of the partial indexing system without causing damage to certain sectors, the State devoted 2 billion MAD for the support measures.

Other provisions will be adopted for oil products for the year 2014 under the terms of **the Decree of the Head of the Government n°3-01-14 of 15 January 2014 and the joint decree of the Ministers for Economy and Finance, Energy and Mines and General Affairs and Governance n° 31.14 of 15 January 2014 which consist of the following:**

- ü **For gas oil:** the selling price of gas oil will be revised the 16th of each month on the basis of the moving average redemption prices of the previous two months, in accordance with the elements of the price patterns and references of the international market. The readjustment of the

consumer price is conducted each time the variation on the selling price exceeds 2.5%.

The unit subsidy allocated to gas oil for the year 2014 would be fixed as follows:

Periods	Unit subsidy (MAD/L)
January 16th, 2014	2,15
April 16th, 2014	1,70
June 16th, 2014	1,25
October 16th, 2014	0,80

ü For gasoline and fuel: the selling prices of gasoline and fuel n°2 are revised on the 1st and 16th of each month on the basis of elements of the price patterns and references of the international market. Such products will be completely indexed on the international market as of February 1st, 2014.

In addition, the selling prices of butane, fuel intended for the production of electrical energy and foodstuffs, particularly sugar and the national flour of common wheat, will remain at their levels while still benefiting from the same subsidy granted by the State.