

Summary of the report on Compensation Accompanying the Finance Act 2018

Introduction

The evolution of the world market during the last fifteen years showed the unsustainability of the compensation system which became unpredictable and very expensive. The compensation cost, which increased to MAD 52 billion in 2011 and MAD 56.6 billion in 2012, has indeed amounted to total of about MAD 200 billion during the period 2011-2015.

With the impacts of such expenditure on the medium and long terms, both in terms of budget and economy, the reform of compensation has been introduced as one of the priority reforms aimed at redressing the country's macroeconomic equilibrium and fostering a higher and more inclusive growth that comprises promotion of investments and protection of vulnerable population.

Following a gradual decompensation that started in 2012, the prices of liquid petroleum products were liberalized in December 2015. This contributed to the reduction of the weight of the compensation charge from 6.5% of GDP in 2012 to 1.4% in 2016.

The margins generated by this reform enabled, initially, to reduce spending to the levels authorized by the Finance Act, clear the compensation arrears accumulated during previous years and strengthen the budgets allocated to social sectors. In this regard, the project related to setting a unique social record shall constitute a national database of vulnerable and poor population, allowing to channel in the

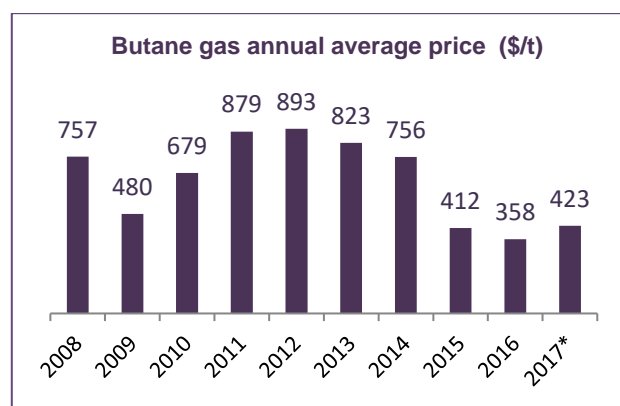
future all social assistance in a more targeted way for the benefit of the eligible persons.

1. International Benchmark on Subsidies Reform

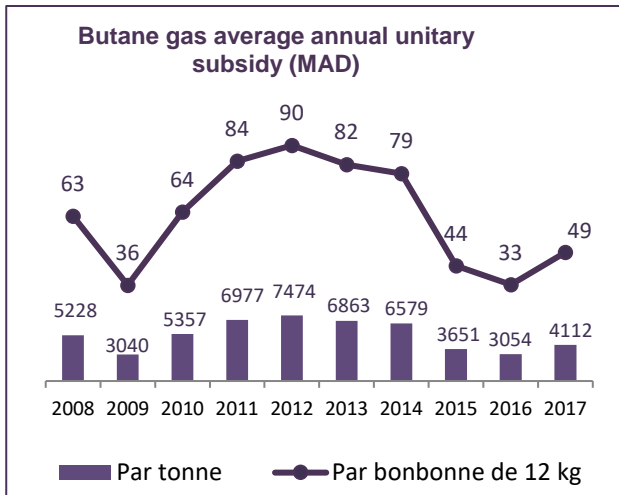
Since mid-2014, 32 countries have reformed their energy subsidies, including 17 oil exporters. The compensation report presents the cases of Brazil, Chile and Mexico, and concludes with Morocco's experience in social programs.

2. Butane gas compensation

Butane gas annual average price increased from \$ 358/T in 2016 to \$ 423/T by the end of August 2017. As a result, the gas unitary subsidy increased from MAD 3,054 / T in 2016 to MAD 4,112 /T in 2017 (January-September period) i.e. is MAD 49 per flask of 12 Kg, and MAD 12.25 per flask of 3 Kg.

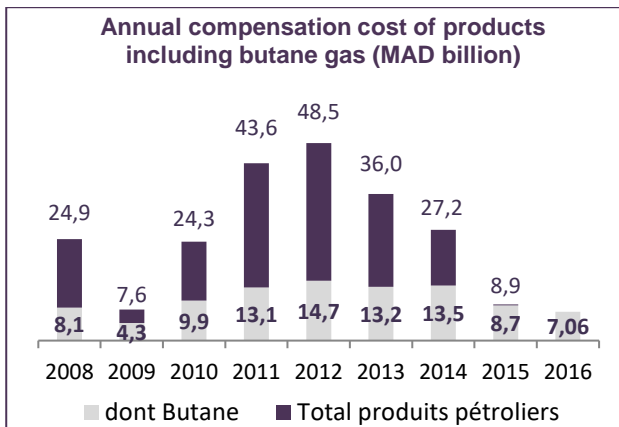


(*) January-August period



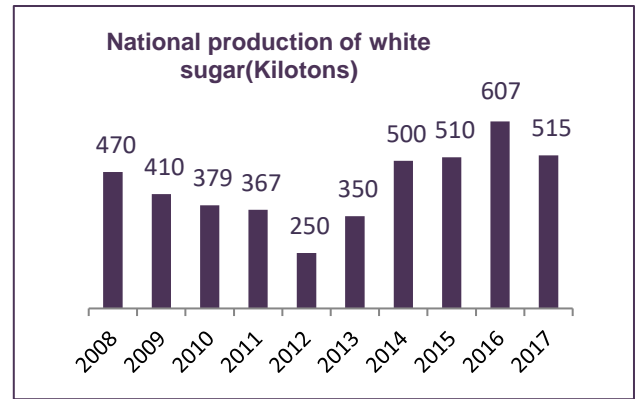
(*) January-September period

Butane gas compensation cost reached MAD 7.06 billion in 2016, while it increased by MAD 13 to 14.7 billion between 2011 and 2014.

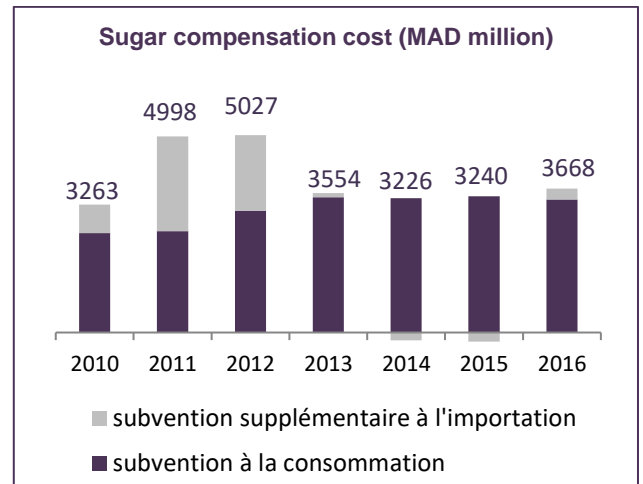


3. Sugar compensation

Due to the efforts made by the public authorities, particularly, at the level of, on one hand, reevaluating sugar crops and, on the other hand, strengthening the financial incentives of the Agricultural Development Fund, the national production of white sugar has significantly increased from 250 Kilotons (KT) in 2012 to 607 KT in 2016 (record level), and is expected to reach 515 KT in 2017. In this way, the rate of coverage of consumption by domestic production has increased from 20% in 2012 to 49% in 2016, and is expected to reach 43% in 2017.

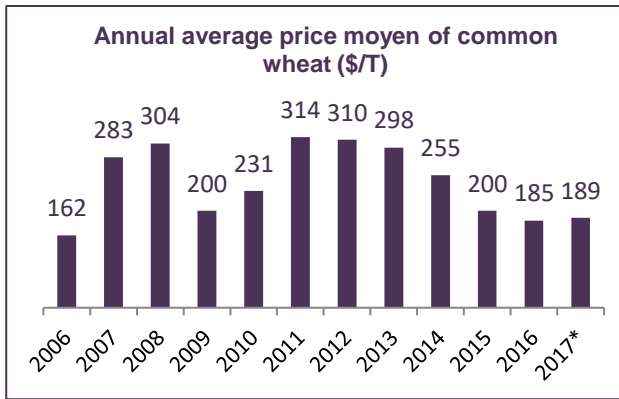


Sugar compensation cost moved from MAD 3.69 billion in 2016 of which MAD 3.39 billion as support for white sugar consumption and MAD 280 million as additional subsidy for the importation of raw sugar.



4. Wheat and floor compensation

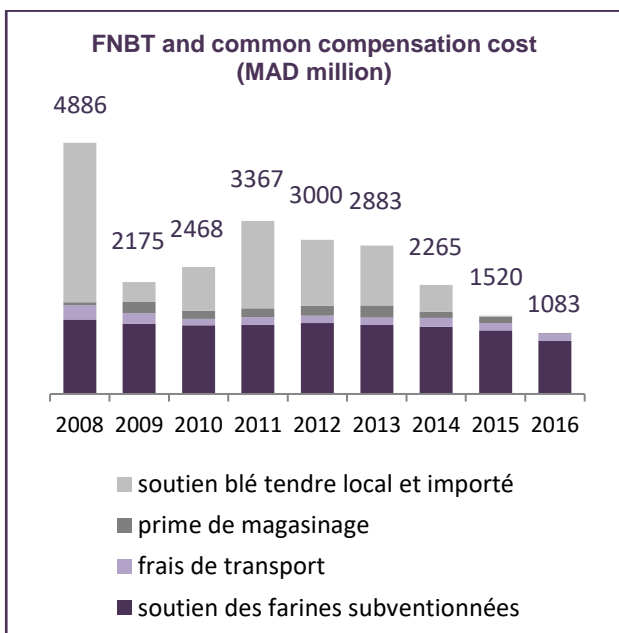
Common wheat price in the international market reached an average of \$ 189.4 / T between January and September 2017, with the French common wheat as a reference. This is the 3rd year in row that the average price of common wheat has been below \$ 200 / T, compared to more than \$ 300 / T in 2011, 2012 and most of 2013. The global production each year, leading to the accumulation of stocks, has played in favor of decreasing the price of common wheat.



(*) January-September period

Concerning the national cereal season, the production forecasts for the three main cereals for the 2016/2017 season are estimated at 96 million quintals (MQx), i.e. an increase of 176% compared to last season, of which 49 MQx for common wheat.

As a result of reducing the quota of the national common wheat flour (FNBT) to 6.5 million quintals at the end of 2016 and due to the non-use of the import refund system for common wheat following the decrease of prices of this product in the international market, the compensation cost of the FNBT and common wheat moved in 2016 to MAD 1 billion, thus registering a decrease of 62% compared to 2013.



The finance act bill for the fiscal year 2018 provides an allocation of MAD 13.019 billion to support the prices of butane gas and food products (sugar, flour and common wheat).

5. 2018 Finance Act Bill