Kingdom of Morocco
Ministry of Economy and Finance
Budget Department

SUMMARY OF THE REPORT ON COMPENSATION FOR THE YEAR 2023

INTRODUCTION

The undermining of the international market for subsidized products, triggered since the year 2020 in the wake of the COVID 19 pandemic, has been accentuated by the fallout of the war in Ukraine that began in 2022.

Indeed, the global commodity trade has undergone profound changes over the past two years because of supply and demand uncertainties, combined with high logistics and ocean freight costs. As a result, global supply chains have been disrupted, again in 2022, causing a surge in commodity prices and inflation.

Thus, international oil and gas markets have been affected by the disruption of trade flows and the decline in global inventory levels. As a result, crude oil and butane gas prices rose by nearly 57% and 41% respectively year-on-year during the period January-August 2022. As for the prices of liquid petroleum products, they have broken historical records by marking a strengthening in the same period of 98% for diesel and 74% for super in year-on-year.

As for food markets, due to the disruption of food exports from Russia and Ukraine on the one hand and the increase in prices of inputs such as fuel and fertilizers on the other, they have been exposed to tight supplies and trade disruptions. Accordingly, international prices for soft wheat and raw sugar have risen significantly over the period January-August 2022, by 38% and 10% respectively year-on-year.

Thus, and in order to face the repercussions of the rise in world prices of subsidized products on the domestic market, the Government has implemented a set of measures to ensure the security of supply of the country of these products and to limit the contraction of the purchasing power of the citizen.

In this regard, with regard to petroleum products, it should be noted that the subsidy of the 12 Kg butane gas cylinder of nearly 99 DH for the period January-August 2022, an additional effort of +80% compared to the same period of the previous year. As a result, the compensation charge for butane gas could rise this year by +52% year-on-year, exceeding 22 MMDH.

As for fuels, and in order to stabilize the tariffs of the transport of people and goods, a device was established for the granting of an exceptional direct help by vehicle to the whole of the professionals of the sector of the road transport of people and goods.

Regarding food products, and in view of the historic rise in the international price of soft wheat, the inadequacy of domestic production under this campaign following the drought, and in order to stabilize the price of bread at 1.20 DH, the government has proceeded to the institution of a flat-rate premium to import. In addition, it also proceeded to the suspension of import duties on soft wheat throughout the year 2022,

Therefore, in view of the combined effect of the increase in the flat-rate premium and the quantities imported at unprecedented levels, the annual credits needed to meet the import refund burden for soft wheat could exceed an amount of 8.5 MMDH, excluding the annual support for national soft wheat flour amounting to nearly 1.3 MMDH.

Regarding raw sugar, and in order to fill the gap in national sugar production and to cope with the surge in world prices, the import refund system has been systematically reactivated, which could result in an estimated additional annual cost of more than 1.3 MMDH. Regarding refined sugar, the government continues its support to domestic consumption of this product for an annual envelope approaching 3.5 MMDH.

As a result, the projected compensation expense for the year 2022 excluding support for motor carriers could increase by almost 72% over the year 2021.

In view of these remarkable increases in subsidies and compensation costs and in line with the firm commitment to protect the purchasing power of citizens, the government has proceeded during the year 2022 to a budgetary extension for the support of consumer prices in the amount of 16 MMDH so that the credits reserved for compensation amount to 32 MMDH at the end of September.

Moreover, in view of the persistent uncertainties that have gripped the markets for subsidized products in an international context marked by a succession of multiple crises and their impact on the State budget, on the one hand, and in order to be in line with the major strategic orientations of the social protection reform project advocating the adoption of family allowances for the support of target populations, on the other hand, it is planned to continue the gradual decompensation of the remaining subsidized products.

Thus, pending the establishment of the necessary prerequisites for the operationalization of the said reform, an envelope of 25.98 MMDH is programmed under the Finance Bill of the year 2023 for the continuation of support for the prices of butane gas, sugar and national flour of soft wheat.

REPERCUSSIONS OF THE WAR IN UKRAINE ON THE INTERNATIONAL MARKET OF SUBSIDIZED PRODUCTS

The war in Ukraine, which started in 2022, has considerably upset the international commodities market, leading to an increase in the price of oil products and a general surge in the price of food products.

For the oil market, already characterized by an imbalance between supply and demand and a permanent decline in global stocks inherited from the COVID 19 pandemic, it has been significantly affected by the outbreak of war in Ukraine on all levels.

Oil demand continued to recover in 2022, driven mainly by the shift in Europe, Asia and the Middle East towards the production of electricity from oil as a substitute for natural gas due to the sharp rise in the price of the latter. On the supply side, the increase since 2021 has been confronted with a greater increase in consumption, implying a more massive recourse to international stocks, and a sharp rise in the price of oil products. Thus, in this context of tight inventories, the war in Ukraine has increased the degree of uncertainty in the market regarding supply and the risk of supply disruption. However, the resilience of Russian supply and the mobilization of U.S. crude inventories have partially limited the impact of the crisis on the oil market so that global supply exceeds demand in the second quarter of 2022 for the first time in two years.

As for world trade, the American and European embargo on Russian oil has prompted Russia to turn away from Europe to customers in India and China. On the other hand, Europe has turned to the United States, the Gulf States and West African countries to substitute Russian products.

On the other hand, the price of oil oscillated during the period January-15 September in a band between 80 and 134 $ / bbl marking an average of 104 $ / bbl up 55% compared to the same period of the year 2021, impacted mainly by the outbreak of military conflict in Ukraine.

For fuels, refining margins for gasoline and diesel reached their highest levels since 2009 in 2022, mainly due to increased demand for fuels in a context of tightening refinery production and soaring natural gas prices. This situation has weighed heavily on the prices of liquid petroleum products, which have reached historic highs.

The global LPG market has been influenced over the past two years by the uncertainties and disruptions in the crude oil and natural gas markets caused by the COVID-19 pandemic and the war in Ukraine. In terms of LPG demand, global consumption has increased due to the substitution of LPG in natural gas operations. Following the same trend, global LPG supply improved in 2022 because of increased production from OPEC+ countries and the US. Regarding trade flows, the war in Ukraine has caused collateral effects on global LPG trade due to the low volumes shipped outside Europe by Russia, the world's tenth largest LPG exporter.

In addition, as a result of the geopolitical tension in the Black Sea, the price of hybrid butane gas reached an average of $790/T for the period January-15 September 2022, compared with $572/T year-on-year, thus registering an increase of 38%.

For the world sugar market, it has in turn suffered the collateral effects of the war in Ukraine.

In terms of world sugar demand, it increased by 3 MT year-on-year, driven mainly by population growth and industrial outlets. On the supply side, world sugar production improved by 5 MT year-on-year, supported by record production increases in India, Europe, Thailand, and Pakistan.

Indeed, the war in Ukraine has indirectly impacted the sugar market, by generating a surge in the costs of agricultural inputs (especially fertilizers), agricultural services (in particular energy) and logistics (supply chains). This is to say an increase in the agricultural bill which has put the part of the crop rotation usually dedicated to sugar crops in stiff competition with other crops (especially oilseeds). On the other hand, the unprecedented rise in fuel prices has favored the arbitrage towards biofuel production to the detriment of sugar for domestic use. The combination of these different factors has led to a recovery in the price of raw sugar, which averaged $442 per tonne for the period January-15 September 2022, marking a 9% year-on-year increase.

For the global grain market, which has been strongly impacted by a sustained and robust recovery in global demand, the outbreak of war in Ukraine in 2022 has intensified the disruption of grain supply flows due to the strong positioning of the two countries involved in the conflict (both accounting for 30% of global wheat trade).

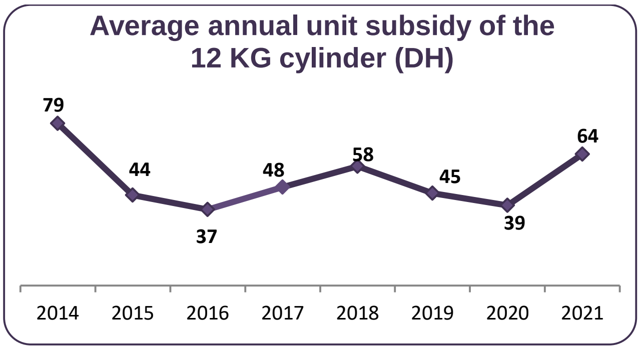
On the demand side, world use in 2022/23 is expected to decline annually by 0.1% for cereals and 0.08% for wheat, reflecting an expected decline in feed use, while the share of food use is expected to rise steadily, driven by demographic and industrial growth. On the supply side, world production in 2022/23 is expected to decline by 1.4% annually for cereals and 0.13% for wheat, mainly due to continued drought in northern hemisphere countries.

In the short and medium term, the war in Ukraine has strongly disrupted trade flows by causing a total halt to grain exports from Ukraine (which are expected to fall by nearly 50% in 2022/23), and a partial halt to grain exports transiting through the Black Sea from Russia. This has allowed China to conquer additional shares mainly from Egypt and Vietnam, and the European Union to increase its market share benefiting from its proximity to several Black Sea customer markets.

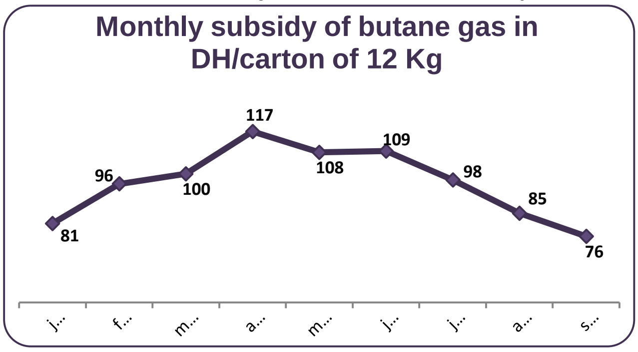
In sum, in the short and medium term, the war in Ukraine has reshaped trade flows without any risk of shortage given the high world stocks. However, it has put strong pressure on international soft wheat prices, already impacted by unfavorable weather conditions in South America, to reach an average level of $378/T at the end of the January-September 2022 period (for French origin), up 37% over one year and 75% over two years.

BUTANE GAS COMPENSATION

In 2021, the average annual price of butane gas rose by $257/T compared to 2020 to reach $634/T. Consequently, the average annual subsidy for a 12 KG butane gas cylinder in 2021 has increased by 65% year-on-year to 64 DH, the highest level recorded since 2014

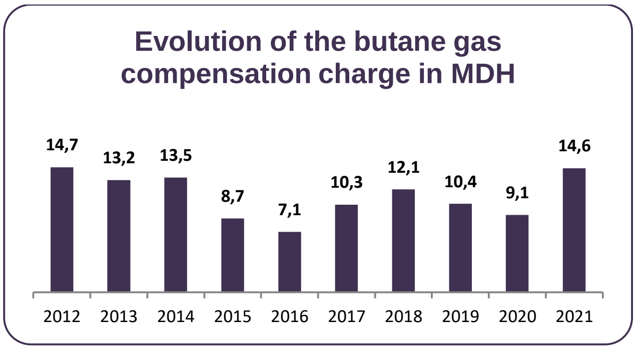


During the year 2022, the monthly butane gas subsidy followed the same upward trend of butane gas prices on the international market. It increased steadily during the first four months, reaching a peak of MAD 117 in April. From June onwards, a lull set in so that the monthly subsidy for the 12 KG cylinder fell from 109 DH to its lowest level of the year of 76DH in September.



Thus, the subsidized share of butane gas recorded more than two thirds of the real purchase price during the first nine months of the year 2022 by recording its maximum of 75% of the cost price in April of this year.

The butane gas compensation charge recorded an increase of 5.5 MMDH over 2020 to 14.6 MMDH in 2021, the highest annual level recorded since 2014.

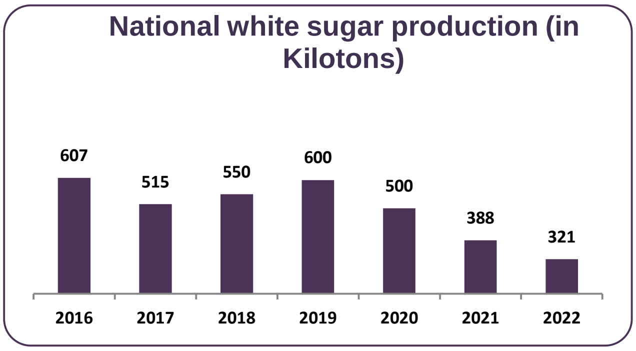


SUGAR COMPENSATION

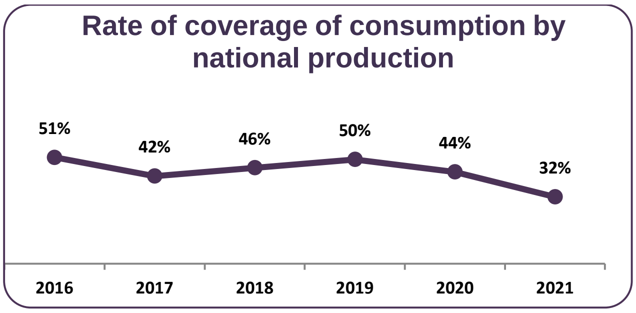
In 2021, the price of raw sugar oscillated between $349.6/T and $481.4/T, registering an average of $423/T, marking a 38% increase over the average recorded in 2020 of $307/T, and 27% over the five-year average of $332/T. This increase is attributable to a combination of factors: the long-term after-effects of the COVID-19 crisis, the significant volatility of the price of oil and the Brazilian currency, and the significant decline in French sugar production to a five-year low.

Currently, the national sugar sector is an important sector of national agriculture, an important source of employment, and a solid component for ensuring food security, which evolves continuously in the heart of a large ecosystem. Moreover, as a sector committed to sustainable development, it has managed to significantly reduce dependence on the international market, ensuring a production that exceeds 500,000 tons under the period 2015-2020. Nevertheless, during the last two years, the sustainability of the sector has faced many challenges, in terms of water stress, low rainfall, and consequently, water reserves largely deteriorated. Indeed, as of August 31, 2022, the filling rate of dams at the national level has declined to 25.8% against 40.5% during the same period last year.

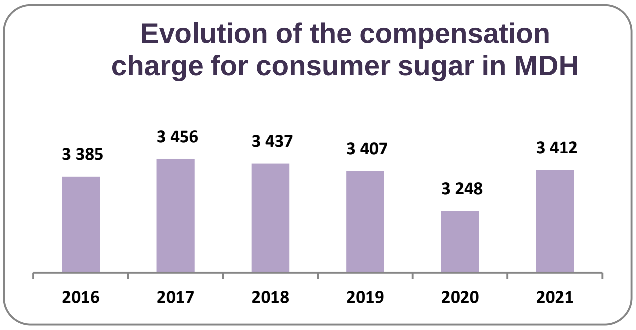
Thus, in this context of prolonged and widespread drought, national sugar production for the 2021-22 crop year has dropped significantly for the second year in a row to 321,000 tons, marking a decline of 17% compared to the previous year, 36% compared to the crop year 2020, and 47% compared to the crop year 2019.



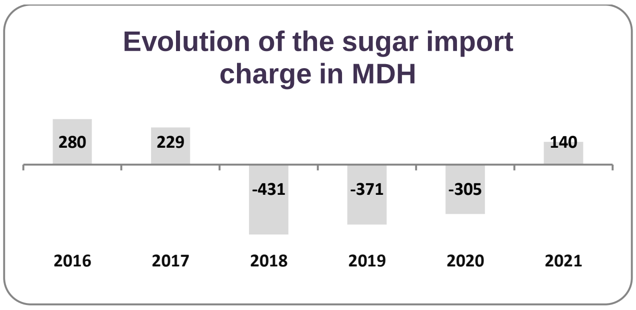
Thus, the rate of coverage of consumption by domestic production went from 20% in 2012 to 49% in 2016, to 32% in 2021 and it is expected to fall back to nearly 27% in 2022.



At the end of the year 2021, the increase in domestic sugar consumption of 5% year-on-year had as a direct corollary the increase in the charge of sugar subsidy to consumption, with the same magnitude so that it is established at 3.412 MMDH against 3.248 MMDH under the previous year.



Concerning the import subsidy, under the combined effect of a surge in international raw sugar prices (+38%) and an increase in domestic imports (+9%), the additional import subsidy charge has increased to a refund in favor of operators in the amount of 140 MDH.



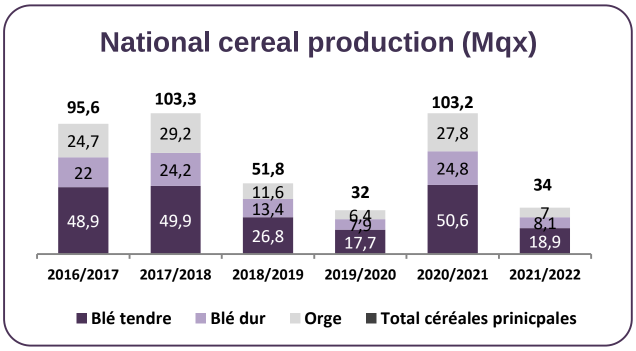
COMPENSATION OF SOFT WHEAT AND SOFT WHEAT FLOUR

The price of soft wheat on the international market has continued its upward trend to record an average of $291/T for the year 2021 for the French soft wheat reference, marking a clear recovery of 29% and 41% compared to the years 2020 and 2019 respectively. This increase is supported by continued and growing international demand, declining stocks, average quality of French production, and a less favorable production outlook.

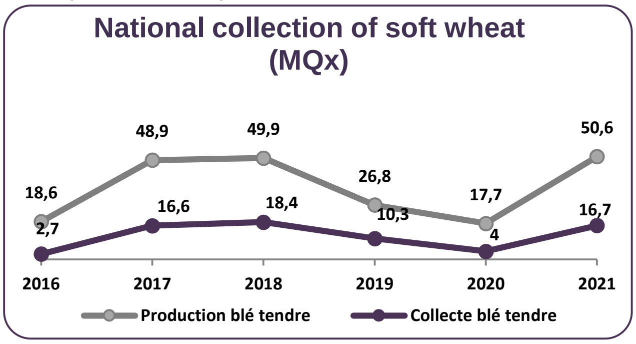
The production forecasts for the three main cereals for the year 2022 amount to 34 million quintals (Mqx), marking a drastic decline of nearly 67% compared to the previous campaign, which had recorded an exceptional performance of 103.2 million quintals. More than 58% of production comes from the favorable areas of the regions of Fez-Meknes and Rabat-Salé-Kenitra while irrigated cereals have contributed only 20.7% of total production because of a decrease in irrigated area coupled with irrigation restrictions in the perimeters of large hydraulic.

Production was strongly impacted by the significant decline in the area sown, which fell by 17% to 3.6 million hectares compared with 4.35 million hectares in the previous season, on the one hand, and by low or even almost non-existent rainfall in some regions, thus creating a rainfall profile characterized by poor temporal and territorial distribution on the other.

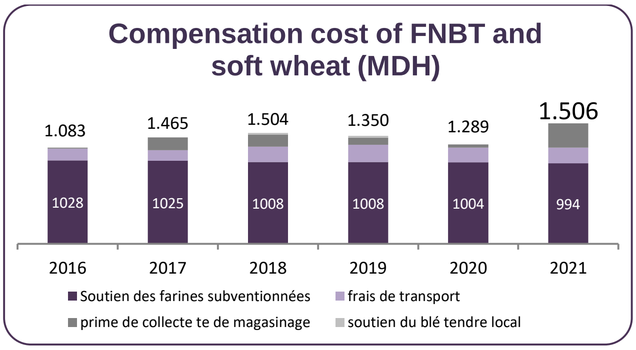
In addition, the forecast production will be divided by cereal species as follows: 18.9 Mqx of soft wheat, 8.1 Mqx of durum wheat, and 7 Mqx of barley.



Regarding the year 2021, on a production of 50.6 Mqx, the quantity collected in soft wheat was nearly 16.7 Mqx, a collection rate of 33%.



In 2021, the compensation charge for local soft wheat and flour amounted to 1,506 MDH (excluding import refunds) against 1,289 MDH for the previous year, up 17% following the increase in the premium for collection and storage of soft wheat and the quantity collected compared to the previous campaign.



Following the reactivation of the imported soft wheat refund system in 2021, the soft wheat import subsidy burden amounted to 1,350 MDH for the year 2021. Consequently, the overall subsidy burden for soft wheat (local and imported) and national soft wheat flour in 2021 amounted to 2,856 MDH.

MEASURES TO SUPPORT THE PURCHASING POWER FOR THE YEAR 2022

The world commodities market was characterized in 2022 by a general surge in international prices, especially those of energy and food, initiated by the health crisis related to COVID-19 and accentuated by the war in Ukraine.

Thus, in order to ensure a regular and sufficient supply of the national market and a stabilization of prices of basic commodities, the government has continued to support subsidized products (butane gas, sugar, soft wheat and a quota of the national flour of soft wheat), and has implemented new measures:

For the soft wheat sector, the government has proceeded in addition to the suspension of import duties on soft wheat throughout the year 2022, to the institution of a flat-rate premium for the import of soft bread wheat in addition to measures to support production already in place.

The objective of these measures is to ensure the regular supply of soft wheat to the domestic market in the best conditions and stabilize the price of bread at 1.20 DH by maintaining a price of 270 DH/Ql of imported soft wheat at the port of Casablanca.

The reactivation of the import refund system of soft wheat has allowed the guarantee of a dynamic pace of imports having totaled a quantity of 39 Mqx during the period January-August 2022, giving rise to an overall charge under this period of nearly 6.965MDH.

To support the road transport sector, in order to stabilize the rates of transport of people and goods, the State has established a device for the granting of an exceptional direct aid per vehicle to professionals in the road transport sector from April 2022. Thus, the budget allocated to this operation for the period April-August 2022 has exceeded 2.7 MMDH.

In view of the remarkable increase in the compensation burden, the government has proceeded during the year 2022 to a budgetary extension for the support of consumer prices in the amount of 16 MMDH so that the open credits reserved for compensation amount at the end of September to 32 MMDH.

FINANCE BILL FOR THE YEAR 2023

The Finance Bill for the fiscal year 2023 provides for an overall allocation of 25.98 MMDH to support the prices of butane gas and food products (sugar and soft wheat flour).