

Summary of the report on compensation for 2024

INTRODUCTION

The international market for subsidized products experienced a lull in the first eight months of 2023, compared with 2022. The slowdown in economic growth, caused by high levels of inflation, and the continued tightening of central banks' monetary policies to counter this, contributed significantly to the marked decline in ocean freight rates and world prices for the majority of raw materials.

As a result, global supply chains have gradually returned to normal, in tandem with the gradual decline in inflation and the relative contraction in international oil and food prices compared with the peak levels of the previous year. However, these prices remain high compared with pre-pandemic levels.

As a result, over the period January-August 2023, the price of Brent crude oil fluctuated in a range from \$71.8/bbl to \$88.1/bbl, or an average of \$80.6/bbl, down 23% year-on-year. For butane gas, the Moroccan formula varied over the same period between \$349/T and \$755/T, with an average of \$540/T, marking a 32% decline compared with the January-August 2022 period.

It should be noted that these declines were mitigated by the fall in world oil inventories due to OPEC+ production cuts since May 2023, against a backdrop of continuing growth in global demand, which could reach a record level this year, according to the International Energy Agency (IEA). As a result, crude oil and butane prices have resumed their upward trend, reaching \$94.6/bbl and \$574/T respectively on September 15, 2023.

As for liquid petroleum products, prices remain high compared with pre-pandemic levels. However, world prices for diesel and premium have fallen by almost 25% and 18% respectively over the period January-August 2023, compared with the same period in 2022.

World prices for subsidized food products showed divergent trends. International soft wheat prices contracted significantly over the January-August 2023 period, compared with the historically high levels recorded in 2022, reaching an average of \$278 per tonne, a year-on-year decline of 27%. This situation can be explained by a high level of supply following the consistency of world stocks of this commodity and the continuation of the Black Sea Initiative, which facilitated exports from Ukraine until July 2023.

The price of raw sugar soared to an average of \$542/T for the period January-August 2023, up 23% year-on-year. This rise is underpinned by the prospect of tighter supply following unfavorable dry weather conditions, especially in India and Thailand, leading to lower yields and production than targeted, while import demand is rising. India, the world's second-largest sugar producer and exporter, has imposed a reduced export quota on its sugar factories in order to better meet local sugar needs. In addition, the main sugar producers are turning to ethanol production from surplus sugar cane, to the detriment of sugar for domestic use.

Furthermore, in order to stabilize domestic consumer commodity prices despite the volatility of world prices, the Government is continuing to roll out several measures in 2023 to support citizens' purchasing power.

For butane gas, the average subsidy per 12kg cylinder amounted to almost DH68 for the first eight months of 2023, down 31% on the historic level achieved for the same period in 2022, and an additional effort of +34% (+DH3 billion) compared with the same period in 2021. As a result, the butane gas compensation charge for the same period fell by 28% year-on-year, to just under DH11.4 billion.

With regard to sugar, the Government has maintained the same system of support for refined sugar consumption, revising upwards the flat-rate subsidy by 25% from April 14, 2023, from DH 2.847 /kg to DH 3.572 /kg. This increase

follows a recovery in the purchase price of sugar crops to encourage farmers to boost domestic white sugar production. This measure is in line with the key national objective of ensuring food sovereignty and security. As a result, consumer subsidies for refined sugar could amount to DH 2.66 billion for the period January-August 2023, up 14% on an annual basis.

As for raw sugar, its weighted average import subsidy showed a qualitative leap despite the upward revision of the product's target import price following the revaluation of sugar crop prices. For the period January-August 2023, it rose to a weighted average of DH 1,987 /T, up more than 37% year-on-year. As a result, the additional cost of importing raw sugar for this period came to DH 1,220 million, up 54% year-on-year. As a result, the overall cost of sugar support came close to DH 3.88 billion for the period in question, up 24% on the same period the previous year.

With regard to national soft wheat flour, the Government is continuing to support a quota of 6.26 Mqx at a unit subsidy of 143.375 DH/QI, in parallel with measures to promote local production (covering storage and warehousing costs), with a budget of nearly 880 MDH for the period January-August 2023.

For soft wheat, in view of the shortfall in national production of this commodity this season due to drought conditions, and the fact that the cost of importing soft wheat at the target price continues to be exceeded, the Government has maintained, in addition to the suspension of import duties for the year 2023, the granting of an import subsidy for soft wheat. The aim is to secure supplies of this commodity to the national market and stabilize the price of bread at 1.20 DH, as well as flour prices.

As a result, the flat-rate import premium for soft wheat for the period January-August 2023 averaged DH 62 /QI, down 63% year-on-year. Import support for soft wheat thus fell by 67% compared with the same period in 2022. As a result, the overall cost of support for imported wheat and domestic soft wheat flour could reach DH 3.2 billion over the same period, down 60% year-on-year.

For fuels, given that average diesel and premium prices for the period January-August 2023 are still above pre-pandemic levels, and in order to stabilize passenger and freight transport tariffs, the Government is continuing to provide exceptional support for road transport professionals in 2023. The amount allocated to

this operation for the said period is DH 1 billion, down 64% on an annual basis due to the significant drop in world diesel and premium prices of 25% and 18% respectively over the same period.

All in all, the forecast compensation charge for the period January-August 2023, including support for road transport, could fall by almost 34% compared with the same period in 2022.

Furthermore, in line with the major strategic orientations of the social protection project, which advocate a shift towards family allowances to better target needy populations, it is planned to continue the gradual decompensation of the remaining subsidized products.

Thus, by applying this gradual approach, a budget of DH16.357 billion has been earmarked in the 2024 Finance Act to continue supporting the prices of butane gas, sugar and domestic soft wheat flour.

TRENDS IN THE INTERNATIONAL MARKET FOR SUBSIDIZED PRODUCTS

The oil market remains subject to constant tension and volatility, influenced by producing countries' decisions on oil production and exports. In 2022, global demand increased by 2.9 million barrels per day (b/d), reaching 99.6 million b/d, with growth mainly observed in non-OECD countries, notably China. Thus, imbalances between supply and demand persisted, leading to a contraction in demand in the fourth quarter of 2022; however, global demand registered a recovery in 2023, driven mainly by China. Global oil supply increased by 3.8 million b/d in 2022, with OPEC+ accounting for over 60% of this growth. Production cuts announced by OPEC in April 2023 narrowed the gap between supply and demand in the second quarter. In terms of world trade, international oil trade rose by 3.4% in 2022, with significant changes due to the war in Ukraine. As a result, Russian exports to Europe fell, while exports to India rose. World prices for petroleum products fluctuated, due to the rise in the price of Brent crude oil in 2022 and its instability in 2023. Gasoil prices in 2023 showed a downward trend until May, followed by an upward trend due to production cuts and increased refining margins. The price of premium has fallen less than that of

diesel, with a stronger correlation with Brent. In summary, the oil market continues to be influenced by economic, geopolitical and environmental factors, with repercussions on supply, demand, trade and price trends. The global liquefied petroleum gas (LPG) market has undergone major transformations, stimulated by the oil product supply crisis, the post-Covid19 recovery, and changes in the petrochemical industry. Global demand increased in 2022, with notable growth in China and emerging markets. However, petrochemical consumption fell in the second quarter of 2023, affecting industrial production in China and Europe.

Global LPG supply increased, mainly thanks to production growth in the United States. As a result, US exports maintained their dominance, while Asia, particularly China, remained the main importer. World butane gas prices reached a record level in 2022, but experienced a significant drop in 2023 between March and July, influenced by cyclical factors. Despite this drop, prices showed an upward trend from July onwards, stimulated by the strengthening fundamentals of the global LPG market.

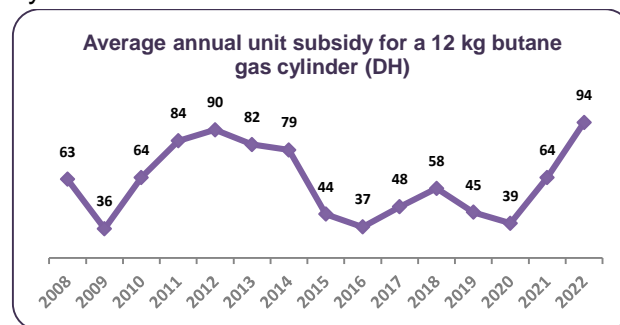
The sugar market for the 2022/2023 campaign was characterized by unprecedented complexity and volatility. After two successive years of deficit, at the end of the 2022/2023 season the market showed a modest surplus, with forecasts of rising world sugar prices. World sugar production is expected to reach 177.024 million tonnes, an increase of 2.62%. However, logistical constraints, export limitations in India and forecasts of poor harvests in Asia have created downside risks for global stocks, stimulating a significant rise in world prices. In terms of demand, world sugar consumption for the 2022/2023 campaign stands at 176.51 million tonnes, with India, the European Union and China as the main consumers. World trade totaled 63 million tonnes, with Brazil as export leader. In terms of world prices, the 2017-2023 period saw marked volatility, passing through a period of surplus (2017-2019), followed by a decline due to the Covid19 pandemic (2020-2021), and recently a period of deficit (2022-2023) that propelled prices to record levels in 2023. In the first three quarters of 2023, prices rose steadily, averaging \$542/T, with significant quarterly variations.

As for the world cereals market, production for the 2022/2023 campaign reached a record level of 2,815 million tonnes, up 0.9% on the previous campaign. Although wheat production fell by 3% to 781 million tonnes, the overall rise was due to increases in other cereals, notably rice and coarse grains... Forecasts for world cereal use in 2023/2024 indicate an increase of 1%, mainly due to increased use of wheat for animal feed. World cereal stocks for the 2023/2024 season are estimated at 878 million tonnes, up 2.2% on the previous season. Wheat stocks will increase slightly, while coarse grain stocks will rise by 4.3%. World cereal trade is forecast to decline by 1.7% in 2023/2024, with reductions expected in both wheat and coarse grain trade.

For soft wheat, international prices have been highly volatile in recent years, rising from \$178/T in 2016 to a peak of \$367/T in 2022, due to geopolitical conflicts and the Covid19 pandemic. In 2022, prices went through four distinct phases. In 2023, prices trended downwards, fluctuating between \$241 and \$337/T, with an average of \$278/T, due to high initial stocks and the extension of Black Sea export restrictions.

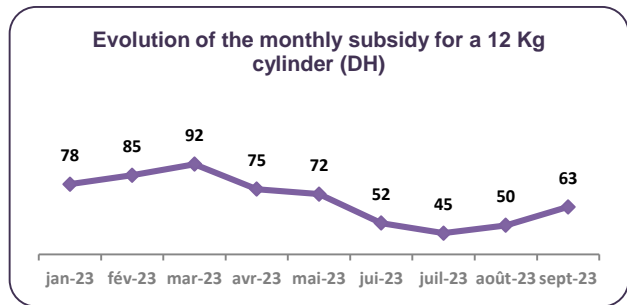
BUTANE GAS COMPENSATION

In 2022, the average annual price of butane gas, according to the Moroccan formula, reached its highest level in eight years at \$739 per tonne, up \$105 per tonne year-on-year. The average annual subsidy for a 12 kg butane gas cylinder showed substantial growth. It rose by DH30, equivalent to 75% of the consumer price, on an annual basis, reaching DH 94 in 2022. This amount represents the highest average annual subsidy in the history of the butane gas support system in Morocco.

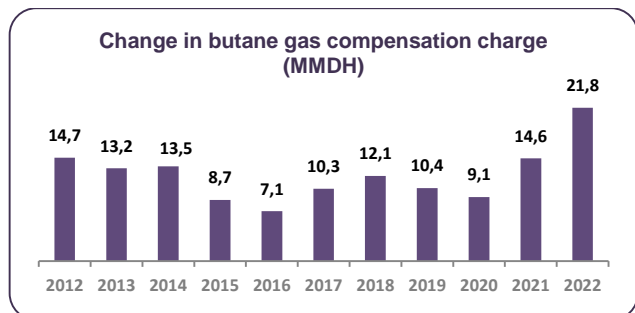


In the first quarter of 2023, the state subsidy for a 12kg cylinder continued its upward trend, peaking in March at 92 DH, the highest monthly level since July 2022, and the highest support for 2023. From April onwards, this trend reversed, leading to a significant drop in the monthly

subsidy for the 12kg cylinder, which fell to DH 45 in July, the lowest level recorded since December 2020. After this reduction by more than half compared with March, the support for the 12 Kg cylinder increased again, reaching 63 DH in September, an increase of 40% compared with July 2023. It should be noted that the average subsidy for a 12 kg butane gas cylinder amounted to around 68 DH for the period January-September 2023, representing a 30% drop compared with the same period the previous year.

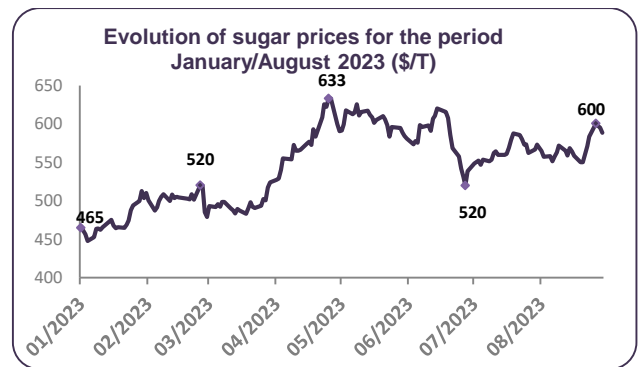


For the second year running, the butane gas compensation charge rose sharply in 2022, reaching 21,812 MDH, a new all-time record in terms of state financial support for this product. The 17% year-on-year rise in butane gas prices in 2022, combined with an increase in consumption of more than 2.2% compared with 2021, resulted in an increase in public support of DH 7.2 billion year-on-year, representing an additional budgetary effort of 49%.

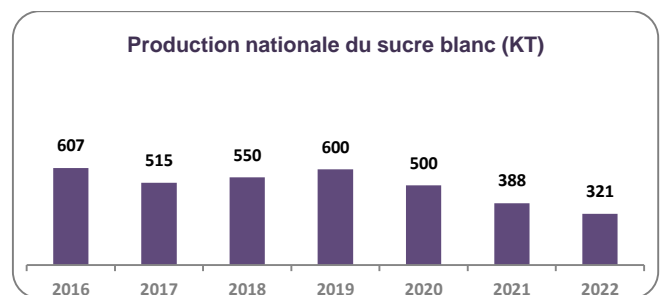


SUGAR COMPENSATION

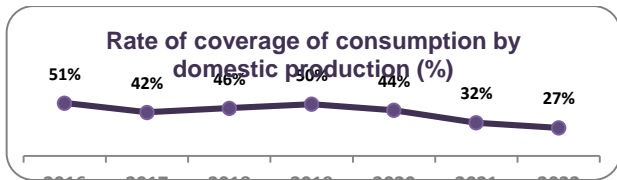
Raw sugar prices were very tight over the period January 1 to August 31, ranging from a low of \$448/T to a high of \$633/T, with an average of \$542/T, up 23% year-on-year.



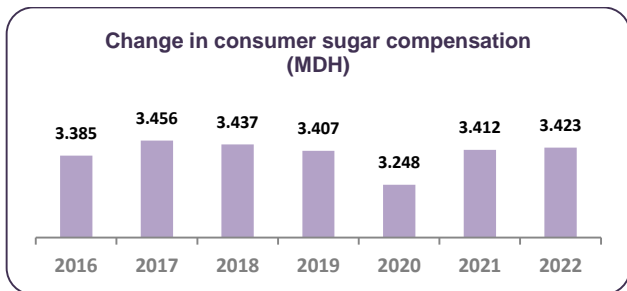
National sugar production has fluctuated significantly over the period 2016-2022. In 2016, it reached a record level of 607 KT (51% of national production coverage). Production then remained at an acceptable level over the 2017-2020 period, recording an average of 541 KT (45% of the national production coverage rate). From 2021 onwards, national white sugar production fell drastically due to drought and the growing shortage of water resources. As a result, it fell to 321 KT in 2022 and, according to current forecasts, will fall to 230 KT in 2023 (19% of national production coverage). As a result, dependence on the international market to meet national consumption needs has once again increased significantly, in a global context marked by high volatility for this product.



In view of the aid provided by the State under the measures implemented by the Agricultural Development Fund, national sugar production was able to cover, on average, almost 47% of the country's domestic demand for this product over the 2016-2020 period. However, given the dry and unfavorable weather conditions that have marked the last three campaigns, the share of national sugar production in covering national needs has plummeted to 27% in 2022, and could be as low as 19% in 2023.

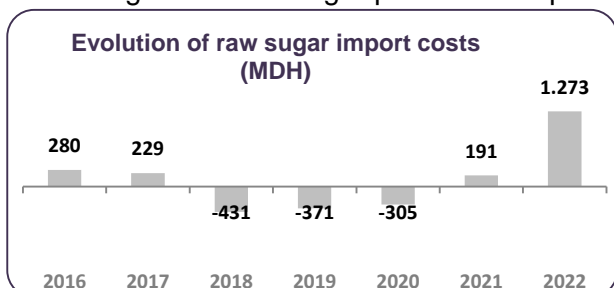


Sugar consumption compensation costs followed the same trend in terms of quantities consumed. Based on a flat-rate sugar consumption subsidy of DH 2,847 /T, the charge for this product remained almost stable at DH 3.4 billion between the years 2021 and 2022, as in the years 2017-2019. However, in view of the upward revision of the said subsidy by 25% from April 14, 2023 following the revaluation of sugar crop prices, the consumer sugar compensation charge would exceed DH 4 billion in 2023.



After recording import refunds for raw sugar in favor of the State for the years 2018-2020 following the downturn in world prices for this product, the trend has been reversed from the year 2021 onwards. The combined effect of soaring raw sugar prices on the international market and the significant increase in quantities imported to make up for the growing shortfall in domestic production has led to a considerable rise in the raw sugar import refund charge to the detriment of the State budget.

As a result, the budget allocated to the regularization of raw sugar import files will rise to DH 1.27 billion between 2021 and 2022. It should be noted that this envelope is likely to approach DH 2 billion in 2023 because of the continuing rise in raw sugar prices and imports.

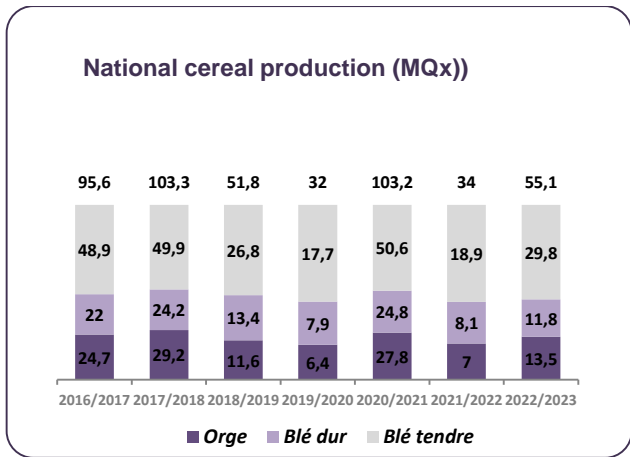


COMPENSATION FOR SOFT WHEAT AND SOFT WHEAT FLOUR

For the period from January 1 to August 31, 2023, prices for soft wheat from France were on a downward trend compared with historical levels in 2022, fluctuating between \$241 and \$337 per tonne, with an average of \$278 per tonne. This situation can be explained by the start of 2023 with a large initial stock and the extension of the Black Sea Grain Initiative to July 2023.

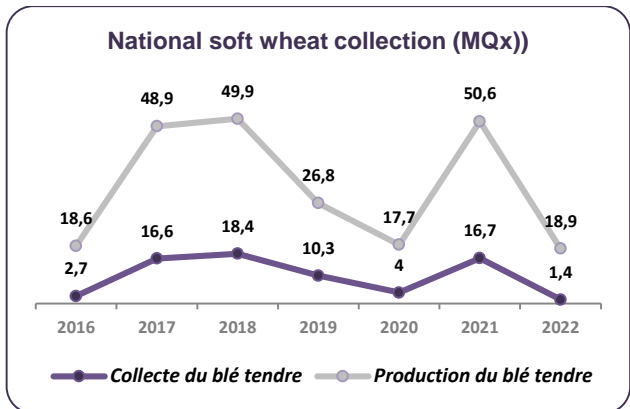
Production of the three main cereals in the 2022/2023 crop year amounted to 55.1 million quintals, compared with 34 Mqx in the 2021/2022 crop year, an increase of 62%. However, this production is 15% lower than the five-year production average (2018/2022). This situation can be explained by the succession of drought crises leading to a drop in cumulative rainfall, with poor distribution of rainfall and significant variability in minimum and maximum temperatures, resulting in disruptions to the production cycles of the various cereal species.

The current crop year saw a cumulative rainfall of 207 mm, 36% down on a normal year (322 mm), but 13% up on the previous year (184 mm) at the same time. The start of the campaign was marked by unfavorable weather conditions, with a delay in the first rains, a notable water deficit and inadequate distribution in space and time, particularly from September to the first dekad of November 2022, which delayed the establishment of autumn crops and had a negative impact on the condition of pastures. Precipitation was concentrated between the second dekad of November 2022 and the end of February 2023, with light rainfall in March and early April in some areas.



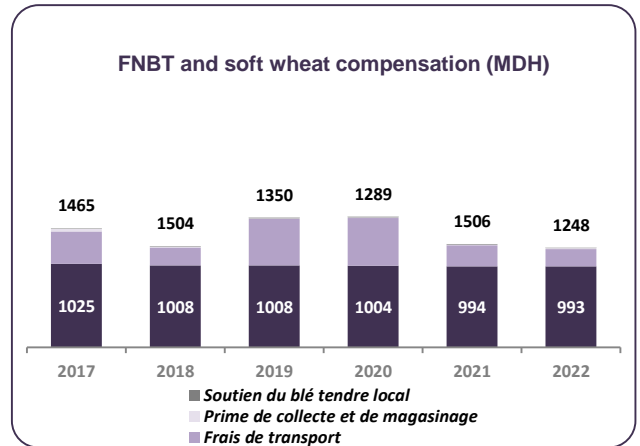
The quantity of soft wheat collected for the 2021/2022 campaign amounted to 1.4 million quintals, or 7% of national production, compared with 33% for the previous campaign. This represents the lowest level ever recorded in the last decade.

This campaign was marked by the significant participation of animal feed manufacturers in the collection of soft wheat, representing 63% of the total quantity collected (around 886 thousand quintals), followed by cereal traders with 30% and industrial plants with 7%. Of this quantity, 64% was collected in the Casablanca/Settat region and 24% in the Fès/Meknès region.



Compensation expenditure for local soft wheat and national soft wheat flour totalled 1,248 MDH (excluding import refunds) at the end of 2022, down 17% on the previous year, due to the quantity collected compared with the

previous campaign.



Measures to support citizens' purchasing power for 2023

Despite the relative decline in world prices for oil, butane, diesel, super and soft wheat over the January/August 2023 period by 23%, 32%, 25%, 18% and 27% respectively, compared with historical levels for the same period the previous year, international prices for these basic raw materials remain high compared with pre-pandemic levels. In contrast to the downward trend in these products, the international price of raw sugar rose sharply during the same period, by 23% year-on-year. Consequently, in order to ensure a steady supply of these basic products to the national market, while stabilizing their domestic selling prices, the government maintained the selling prices of subsidized products unchanged on the domestic market, despite their high volatility on the international market, by continuing to provide the following subsidies:

The average subsidy for a 12 kg butane gas cylinder amounted to around DH 68 for the period January/August 2023, recording a decline of 31% compared to the same period of the previous year.

The weighted average import subsidy for raw sugar is set at DH 1,987/T for the period January/August 2023, compared with DH 1,451/T in 2022, representing a year-on-year increase of 37%. The aim of this support is to enable sugar imports to make up for the shortfall in domestic production of this product, which has fallen sharply due to the lack of water resources, while guaranteeing the same domestic selling price for sugar;

Continued support for refined sugar consumption, with an increase in the flat-rate subsidy of almost 25% from DH 2.847/kg to DH 3.572/kg from April 14, 2023, following the revaluation of sugar crop prices to boost domestic sugar production;

Support for a quota of 6.26 million quintals of national soft wheat flour, with a unit subsidy of DH 143.375 /Ql.

In view of the shortfall in national soft wheat production this year, due to drought conditions, and the fact that the cost of importing this product continues to exceed the target price, the government has maintained, in addition to suspending customs duties on imports during 2023, the granting of an import subsidy for soft wheat. The aim is to secure supplies of this product to the national market and stabilize the price of bread at DH 1.20 and flour prices.

. Due to the high volatility of international soft wheat prices on the world market, the flat-rate soft wheat import premium fluctuated between DH 20.7/Ql and DH 126.64/Ql over the January-August 2023 period, with an average of DH 62/Ql, down 63% year-on-year.

Monthly expenditure on soft wheat import refunds varied considerably over the January/August 2023 period, from a high of 551 MDH to a low of 106 MDH, depending on the level of the flat-rate premium and the quantities imported. As a result, the import refund charge for soft wheat amounted to 2,283 MDH for the said period, representing a 67% decline on the previous year.

In response to the continuing surge in fuel prices nationwide compared with pre-pandemic levels, and with the aim of stabilizing passenger and freight transport tariffs, the government continued its exceptional direct support for the road transport sector in 2023. Consequently, the budget allocated to this operation for the period from January to August 2023 amounted to 1,000 MDH.

billion to support the prices of butane gas, sugar and soft wheat flour.

Appropriations programmed under the 2024 Finance Bill

The Finance Bill for the 2024 financial year provides for an overall allocation of DH 16.357