

EBS/84/239

CONFIDENTIAL

November 27, 1984

To: Members of the Executive Board  
From: The Secretary  
Subject: Mali - Mid-Term Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the mid-term review under the stand-by arrangement for Mali. A draft decision appears on page 31.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. François (ext. (5)8510) or Mr. Sacerdoti (ext. (5)8514).

Att: (1)

INTERNATIONAL MONETARY FUND

MALI

Mid-Term Review Under the Stand-by Arrangement

Prepared by the African Department and the Exchange and Trade  
Relations Department

(In consultation with the Fiscal Affairs, Legal, and  
Treasurer's Department)

Approved by A. D. Ouattara and S. Kanesa-Thanan

November 26, 1984

I. Introduction

On December 9, 1983, the Executive Board approved a stand-by arrangement for an 18-month period (EBS/83/262) for an amount equivalent to SDR 40.5 million, representing 79.7 percent of Mali's present quota and 100 percent of Mali's previous quota. Under the arrangement, Mali has met the performance criteria for end-December 1983 and end-March 1984, enabling it to make purchases totalling SDR 22 million. These drawings brought the Fund credit outstanding to Mali as of September 30, 1984 to SDR 53.7 million, equivalent to 105.6 percent of quota (Table 1), including credit outstanding under the CFF. The next drawings under the arrangement (SDR 18.5 million) are subject to the completion of the mid-term review and to end-June, end-September and end-December 1984 quantitative performance criteria. The end-June quantitative performance criteria have been met, and the performance criteria of end-September are likely to be met. The mid-term review was scheduled to be completed by mid-September 1984. However, a full review of the program had to be postponed pending the completion of the financial arrangement associated with Mali's entry into the West African Monetary Union (WAMU), including a new currency arrangement and the adoption of key policy measures in the areas described below. In view of the delay in the completion of the review and the need to ensure continuity in the adjustment process, the authorities established, in consultation with the staff, financial targets for 1985 and the main lines of financial policies.

The stand-by arrangement provides that during the review, understandings were to be reached with the Fund on: (a) policy on agricultural producer prices for 1984/85; (b) the cereal market intervention policy; (c) the necessary steps to carry out the rehabilitation of SOMIEX and Air Mali, including steps for settling Air Mali's payments

Table 1. Mali: Schedule of Purchases and Repurchases  
Under the Stand-By Arrangement, 1983-85

(In millions of SDRs)

	1983	1984				1985	Stand-by period
	Dec.	Jan.-March	April-June	July-Sept.	Oct.-Dec.	Jan.-April	Total
Purchases	10.000	6.000	6.000	--	6.000 <sup>1/</sup>	6.000 <sup>2/</sup>	40.500
Stand-by arrangement	10.000	6.000	6.000	--	6.000	6.000	40.500
Ordinary resources	(--)	(3.000)	(3.000)	--	(3.000)	(3.000)	(15.250)
Borrowed resources	(10.000)	(3.000)	(3.000)	--	(3.000)	(3.000)	(25.250)
Repurchases	0.638	0.638	0.638	0.638	--	0.638	3.828
CFF facility	(0.638)	(0.638)	(0.638)	(0.638)	--	(0.638)	(3.828)
Net purchases	9.362	5.362	5.362	-0.638	6.000	5.362	36.672
Fund credit outstanding (end-period)							
Total	43.562	48.924	54.287	53.650	59.650	65.012	70.874
Excluding CFF	40.375	46.375	52.375	52.375	58.375	64.375	70.874
In percent of quota							
Total	85.8	96.3	106.9	105.6	117.4	128.0	139.5
Excluding CFF	79.5	91.3	103.1	103.1	114.9	126.7	139.5
<u>Memorandum item:</u>							
Trust Fund repurchases	--	0.912	--	0.912	--	--	3.402

Sources: IMF Treasurer's Department; and stand-by arrangement.

<sup>1/</sup> Subject to completion of the mid-term review.

<sup>2/</sup> Subject to the observance of quantitative performance criteria for end-September 1984.

arrears; (d) the progress achieved in restructuring the Postal Telecommunications Office, the Office du Niger and other major public enterprises, (e) the renegotiation of certain external debts. During the review the authorities would also establish, in consultation with the Fund, the December 1984 ceiling on credit to the economy. An additional review was to take place when the precise terms and conditions of Mali's entry into WAMU had become known and when Mali had become an effective member of the Union. In the event, Mali's effective entrance into the Union took place on June 1, 1984, and no separate review proved necessary.

Discussions that provided the basis for the program review were held in Bamako in the period July 12-26, 1984, in Washington in the period September 21-27, 1984, and in Bamako in the period October 11-22, 1984. <sup>1/</sup> In the attached letter to the Managing Director, dated October 31, 1984, the Minister of Finance presents a comprehensive review of the economic and financial developments registered under the program, indicates the measures taken and the policies adopted to meet the requirements of the review, and establishes the credit to the economy end-December 1984 which is a performance criteria and the main objectives and financial policies for 1985.

In conducting the review, close contact was maintained with the World Bank, especially in the area of public enterprises and agricultural policy, taking into account that the Bank finances technical assistance to the main import-export agency (SOMIEX) and is in the process of negotiating a public enterprise rehabilitation project and an important agricultural project for the Office du Niger.

## II. Recent Economic Developments

### 1. Economic activity

In 1983 real GDP is estimated to have been flat following a rise of 1.8 percent in 1982 (Table 2). The deceleration is mainly due to a decline of about 7 percent of cereal production in the 1982/83 crop season, due to unfavorable weather conditions, and to a sharp decline in groundnut production. The decline in cereal and groundnut production was offset by a 30 percent increase in cotton production, and by further growth in the secondary and tertiary sectors. The shortfall in the cereal crop led to a substantial acceleration in the rise in the index of foodstuff prices, the only price indicator available in Mali, during

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<sup>1/</sup> The staff team involved in the July mission consisted of Messrs. Ch. A. François (AFR head), Ms. Doizé (AFR), and Mr. Abisourour (ETR), and in the October mission of Mr. Sacerdoti (head) and Mr. Zavadjil (both AFR). Mr. François participated in the policy discussions during this mission. Mr. Daumont, Fund representative in Bamako until September 13, 1984, took part in the July discussion and Ms. Doizé, Fund representative in Bamako since September 14, 1984, assisted in the October discussion.

Table 2. Mali: Selected Economic and Financial Indicators, 1981-85

	1981	1982	1983		1984		1985
	Actual	Actual	Prog.	Actual	Prog.	Proj.	Proj.
(Annual percentage changes, unless otherwise specified)							
National income and prices							
GDP in constant prices	-2.4	1.8	2.0	--	4.5	1.0	2.0
GDP deflator	11.0	9.2	7.9	9.1	6.5	15.0	6.0
Food price index	12.7	3.7	6.5	10.6	6.5	12.0	6.0
National minimum wage	--	--	--	--	--	--	10.0
External sector							
Exports, f.o.b. (in SDRs)	-17.1	0.6	18.6	17.6	22.2	19.4	5.3
Imports, c.i.f. (in SDRs)	-13.2	-8.1	3.0	9.0 <sup>1/</sup>	3.5	10.8 <sup>2/</sup>	3.5
Non-oil imports, c.i.f. (in SDRs)	-15.4	-9.9	3.8	15.1	3.8	11.2	5.3
Export volume	-14.1	4.3	17.2	15.8	16.4	6.0	6.5
Import volume	-20.3	-5.8	1.7	13.0	-1.0	9.0	1.5
Terms of trade	-11.4	-1.1	-0.2	5.3	0.5	10.7	-3.6
Nominal import-weighted effective exchange rate (depreciation -)	-3.7	-3.0	-2.5	-2.5	-1.1	-1.5	--
Consolidated government operations							
Revenue (excluding grants)	16.9	9.4	6.6	6.5	8.7	18.7	9.8
Total expenditure	8.1	-0.7	4.0	7.2	5.4	11.4	5.1
Money and credit							
Domestic credit	7.3	7.8	10.2	7.4	9.8 <sup>3/</sup>	6.5 <sup>3/</sup>	8.0 <sup>3/</sup>
Credit to Government	(8.5)	(6.4)	(6.7)	(8.0)	(8.7) <sup>3/</sup>	(7.4) <sup>3/</sup>	(8.5) <sup>3/</sup>
Credit to economy	(6.5)	(8.8)	(12.6)	(7.0)	(10.6) <sup>3/</sup>	(5.8) <sup>3/</sup>	(7.4) <sup>3/</sup>
Money and quasi-money (M2)	5.8	8.6	13.4	15.4	10.9 <sup>3/</sup>	10.0 <sup>3/</sup>	9.6 <sup>3/</sup>
Velocity (GDP relative to M2)	4.3	4.6	4.3	4.5	4.2	4.6	4.6
Interest rate <sup>4/</sup>	4.0	5.0	5.0	5.0	5.0	8.5	8.5
(In percent of GDP)							
Consolidated government deficit <sup>5/</sup>							
Excluding grants	3.0	1.5	1.2	1.5	0.7	0.6	--
Including grants	1.9	1.2	0.4	0.5	-0.3	-0.1	--
Domestic bank financing (net)	0.8	1.9	1.5	1.5	1.8	1.5	0.6
Foreign borrowing (net)	0.7	1.9	1.9	1.4	-0.4	-0.2	-0.9
Payments arrears (change) and other (reduction -)	0.4	-2.6	-3.0	-2.4	-1.7	-1.4	0.3
Gross domestic investment	17.2	16.5	17.0	18.0	18.0	17.7	17.5
Gross domestic savings	-3.2	-1.9	-1.9	-1.5	1.9	-1.2	-0.6
Resource gap	20.4	18.4	18.9	19.5	16.1	18.9	18.1
Current account deficit							
Excluding official transfers	20.3	18.5	18.5	19.6	15.5	18.7	17.8
Including official transfers							
Before debt relief	9.5	10.0	7.8	9.4	6.3	7.0	5.8
After debt relief	9.5	8.0	7.0	7.7	5.5	6.5	5.7
External debt <sup>6/</sup>	77.9	94.4	106.5	110.7	113.5	112.7	110.1
Debt service ratio <sup>7/8/</sup>	13.9	6.2	6.1	9.2	7.7	12.6	16.6
Interest payments ratio <sup>8/</sup>	11.4	2.8	3.5	3.5	3.6	5.5	6.7
(In millions of SDRs, unless otherwise specified)							
Overall balance of payments (deficit)	-32.6	-6.6	-5.3	2.7	-2.7	-9.1	-8.0
Gross official reserves (months of imports)	0.5	0.5	0.5	0.3	1.0	0.2	0.3
External payments arrears <sup>9/</sup>	21.5	11.3	5.0	4.8	--	--	--

Sources: Data provided by the Malian authorities; and staff estimates.

1/ Reflecting the purchase of the airplane and the increase in cereal imports.

2/ Reflecting a further increase in cereal imports.

3/ Growth rate over the 12-month period to September.

4/ Minimum rate for one-year small savings deposits.

5/ Includes the operations of the Central Government, special funds, as well as extra-budgetary receipts and payments reflected in the Treasury accounts, but not operations of the rural development agencies, development expenditures financed directly by external aid, and interest charges to be refinanced or rescheduled.

6/ Inclusive of Fund resources and the operations account with the French Treasury.

7/ In percent of exports of goods and services and private transfers receipts.

8/ Net of debt relief.

9/ Arrears subject to cash payments.

the second part of the year. In the 12 months to December 1983, the price rise was 16.5 per cent, and the average price increase was 10.6 percent in 1983, compared with 3.7 percent in 1982.

In 1984 real GDP is projected to grow by about 1 percent. A new severe drought has affected the 1983/84 coarse cereal crop (millet, sorghum, and maize), which is estimated to have declined by a further 15 percent to a level that is the lowest since 1973, and is approximately 20 percent below average annual production since the end of the great drought of 1971-73. The drought also led to a substantial decline in the livestock herd. On the other hand, cotton production, which is located in the most southern area of the country, recorded a further substantial increase of 10 per cent, reaching 140,000 tons. Reflecting the weather-induced drop in cereal production and the delays in shipment of emergency food aid, cereal prices increased further by 20 percent in the free markets in the first half of 1984, and the overall food price index rose at a 10 percent annual rate in the period December 1983-August 1984. For the whole year, the rate of inflation as measured by that index is projected at about 12 percent. As wages and salaries in the public sector have remained unchanged since 1981, average real wages have declined by about 30 percent over the last three years.

## 2. Entry into the West African Monetary Union

Following the decision of October 31, 1983, by the Heads of States of the West African Monetary Union to accept Mali in the Union and extensive negotiations on the financial aspects of entry, Mali became an effective member of the Union on June 1, 1984. As a result, the Central Bank of Mali has ceased to exist, the Central Bank of the West African States (BCEAO) has become the monetary authority for the country, and the CFA franc has become the legal tender, replacing the Mali franc. A three-month period, from June 1 to August 31, was established to carry out the currency conversion from Mali francs into CFA francs at the previously existing rate of MF 1 = CFAF 0.5. All banking and credit regulations in effect in the Monetary Union have started applying to Mali, including those pertaining to the interest rate structure, access to rediscount, advances to the Government, bank accounting and reporting. The financial arrangements for the liquidation of the Central Bank of Mali have included consolidation of the external liabilities under the operations account with the French Treasury, which at May 31, 1984, amounted to MF 150 billion, in a 35-year debt at 0.33 percent interest with 5 years of grace, which has been assumed by the Malian Government and will be serviced by the Caisse Autonome d'Amortissement (CAA). As a counterpart, this consolidation allowed for the cancellation of an amount of MF 132 billion of nonperforming assets and certain other claims. The nonperforming assets cancelled include MF 54.3 million of claims on the Government deriving from previous consolidation of bank credit to public enterprises,

and MF 74.3 billion of rediscount in favor of public enterprises. The excess of the external liabilities transferred to the Government over the cancelled assets of the Central Bank (MF 18 billion) has been used to strengthen the capital position of the Development Bank of Mali and that of the liquidated Central Bank so as to bring the latter in line with the share of the BCEAO capital payable by Mali.

The operation of the currency conversion has proceeded smoothly, and was completed at end-September, as scheduled, leaving an amount equivalent to 2.5 percent of total currency in circulation in Mali francs not exchanged. The conversion has been accompanied by substantial capital movements and shifts in the composition of the money supply, which are discussed below.

### III. Implementation of the 1983-84 Program

The main objectives of the 1983-84 program supported by Fund resources is to make further progress in reducing domestic and external financial imbalances and intensify the pace and scope of the substantial effort to restructure the economy undertaken since 1981. This is to be achieved by proceeding decisively in the reform of public finances and the public enterprise sector, by expanding the scope of agricultural reforms, by increasing the role of the private sector, and by improving investment policy. The implementation of the program in 1984 was made difficult by the negative effects on economic activity and income of the severe drought and by the temporary disturbance associated with Mali's entry into WAMU. After some delays in the first half of 1984 in the implementation of policy measures with regard to public enterprises, agriculture, and the management of external debt, important actions were taken and decisions adopted between September and October 1984, so as to keep the program on track. The main financial indicators are reported in Table 2, and a summary of policy measures is presented in Table 3. The quantitative performance criteria for end-December 1983, end-March, and end-June 1984 were met (Table 4).

#### 1. Public finance

In light of the weakness of the government budgetary position, which was, inter alia, reflected in the existence of arrears, and in an unbalanced distribution of expenditures, the 1983 and 1984 programs aimed to achieve a reduction in the share of personnel expenditures in the total and a further reduction in the consolidated government deficit after the decline already attained in 1982. The consolidated government deficit on a commitment basis <sup>1/</sup>, was programmed to decline from CFAF 5.1 billion in 1982 (1.5 percent of GDP) to CFAF 4.3 billion in 1983 and to CFAF 2.7 billion in 1984 (0.7 percent of GDP) (Tables 2 and 5).

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<sup>1/</sup> The consolidated government deficit includes the state budget, the budget of the Special Funds and extrabudgetary operations, but excludes all investment expenditures financed by foreign aid; the latter are estimated at CFAF 53 billion in 1983, equivalent to 13 percent of GDP.

Table 3. Mali: Status of Implementations of Principal Policy Measures of the Program

Measures	Status
<u>I. Public finance</u>	
Revenue measures:	
(a) Increased administrative values applied to imports;	done
(b) Stricter taxation of oil imports;	done
(c) New fiscal revenue from cotton exports;	done
(d) Elimination of the minimum profit tax equal to 1 percent of turnover for certain public enterprises.	done
Expenditure measures:	
(a) Termination of the practice of automatically hiring university graduates beginning from the second half of 1983;	done
(b) Establishment of competitive examination for entry in the civil service;	done
(c) Strict enforcement of rules on compulsory retirement;	done
(d) Incentives for voluntary separation;	Not implemented.
(e) Wage freeze.	done
(f) Census of civil servants.	Delayed to end-1984.
Special funds:	
(a) Strengthening of financial resources and management of Autonomous Amortization Agency (CAA).	done
(b) Reorganization of the Price Stabilization Fund.	done
<u>II. Current payments arrears</u>	
(a) Elimination of domestic and external arrears subject to cash settlements of the Treasury, the Post Office, and public enterprises, excluding Air Mali (MF 22.8 billion at end-1982).	On schedule.
(b) Precise schedule of elimination of external arrears of Air Mali (MF 5.6 billion at end-1982) to be established at the mid-term review.	To be implemented in the context of liquidation of the company.
<u>III. Monetary policies</u>	
(a) Domestic credit expansion in the 12-month period to September 1984 limited to 9.5 percent, implying an expansion of money and quasi-money of 10.9 percent.	Outcome below target.
(b) Restrictive credit policy for noncrop financing credit (maximum rate of increase: 13.2 percent).	Outcome below target.
(c) Strengthening of the structure of the banking system, in particular of the development bank.	In process.
(d) Harmonization of the interest rate structure with that prevailing in the WAMU at the time of effective entry into the Union.	done
<u>IV. External sector</u>	
(a) Ceiling of SDR 10 million during the program period on new borrowing on nonconcessional terms contracted or guaranteed by the Government.	Ceiling observed.
(b) Completion of the negotiations underway for the rescheduling of certain bilateral loans.	done
<u>V. Public enterprises</u>	
(a) Privatization or closure of five nonstrategic enterprises;	Four enterprises under liquidation.
(b) Precise measures for SOMIEX and Air Mali, including: for SOMIEX, cut of personnel, privatization of certain activities and foreign managerial assistance; for Air Mali, closure of unprofitable routes, reduction in personnel, opening the capital to participation of domestic and foreign partners, conclusion of a management and technical assistance contract with a foreign partner;	Measures for SOMIEX implemented; Air Mali under liquidation.
(c) reorganization of Postal Telecommunication Office, Office du Niger and other major enterprises with the assistance of the World Bank and certain donor countries.	In process.
<u>VI. Agricultural and other economic policies</u>	
(a) Change in the modality of intervention of the cereal marketing agency so as to increase its average retail price by about 10 percent;	Delayed, but OPAM losses declined.
(b) Establishment of a new financial system for cotton exports effective November 1, 1983, which includes an income stabilization fund for producers, and terminates the absorption of export profits by SOMIEX;	done
(c) Strengthening of the role of the private sector by adoption of new investment code, activation of credit lines for small enterprises, and other institutional measures in connection with the restructuring of public enterprises;	Still under study.
(d) Improved monitoring of the investment program and establishment of an investment budget for 1985.	Improved monitoring underway; investment budget not yet prepared.

Table 4. Mali: Quantitative Performance Criteria for the 1983-85 Stand-By Arrangement

	1983				1984							
	Dec.		March		June		Sept.		Dec.			
	Program	Actual	Program	Actual	Initial	Adjusted	Actual	Initial	Adjusted	Actual	Initial	Adjusted
	(In billions of Mali francs)				(In billions of CFA francs)				(In billions of Mali francs)		(In billions of CFA francs)	
Bank credit to Central Government	142.0	142.0	146.5	139.9	150.5	72.3	69.8	153.5	73.8	71.4	156.5	75.3
Bank credit to the economy												
Upper limit	217.5		231.8		223.8	74.8		218.5	72.1		230.4	78.0
Lower limit <sup>2/</sup>	214.0	203.3	227.3	213.2	219.3	72.5	68.8	214.5	70.1	66.4	226.4	76.0
Maximum outstanding payments arrears <sup>3/</sup>												
Domestic	4.00	3.99	3.00	2.99	2.00	1.00	0.99	1.00	0.50	...	--	--
External <sup>4/</sup>	4.40	4.17	3.80	3.26	3.10	1.55	1.05	1.00	0.50	...	--	--
	(In millions of SDRs)											
New external borrowing <sup>5/</sup>	10.0	--	10.0	--	10.0	10.0	1.6	10.0	10.0	1.6	10.0	10.0

<sup>1/</sup> Technicals adjustments due to entry into WAMU. For detail see Appendix III, Table IV.

<sup>2/</sup> If the lower limits are not observed, the Malian authorities will consult with the Managing Director of the Fund. Upper limits are performance criteria.

<sup>3/</sup> Refers solely to arrears subject to reduction by cash payments.

<sup>4/</sup> Not including the arrears of Air Mali.

<sup>5/</sup> Nonconcessional loans, contracted or guaranteed by the Central Government with an initial maturity of more than 1 year to less than 12 years.

Table 5. Mali: Consolidated Government Operations, 1982-85 <sup>1/</sup>

(In billions of CFA francs)

	1982	1983		1984		1985
		Prog.	Act.	Prog.	Proj.	Proj.
Revenue	<u>50.6</u>	<u>53.9</u>	<u>54.0</u>	<u>58.6</u>	<u>64.1</u>	<u>70.4</u>
Central government budget	39.2	42.0	42.8	46.0	44.5	51.7
Annexed budgets and special funds	11.8	11.3	12.1	12.0	19.6 <sup>2/</sup>	18.7 <sup>2/</sup>
Extrabudgetary revenue	-0.4	0.6	-0.9	0.6	--	--
Expenditure	<u>55.7</u>	<u>58.2</u>	<u>59.8</u>	<u>61.3</u>	<u>66.6</u>	<u>70.4</u>
Central government budget	44.1	46.8	47.5	49.2	50.0	54.7
Annexed budgets and special funds	10.2	10.5	10.6	10.6	14.8	15.7
Extrabudgetary expenditure	1.4	1.0	1.7	1.5	1.8	--
Surplus/deficit(-)(commitment basis)	<u>-5.1</u>	<u>-4.3</u>	<u>-5.8</u>	<u>-2.7</u>	<u>-2.5</u>	<u>--</u>
Central government budget	-4.9	-4.8	-4.7	-3.2	-5.5	-3.0
Annexed budgets and special funds	1.6	0.9	1.5	1.4	4.8	3.0
Extrabudgetary operations	-1.8	-0.4	-2.6	-0.9	-1.8	--
Change in payments arrears (reduction -)	-5.8	-6.1	-5.8	-3.0	-3.0	--
Deficit (cash basis)	<u>-10.9</u>	<u>-10.4</u>	<u>-11.6</u>	<u>-5.7</u>	<u>-5.5</u>	<u>--</u>
Financing	<u>10.9</u>	<u>10.4</u>	<u>11.6</u>	<u>5.7</u>	<u>5.5</u>	<u>--</u>
Foreign	7.4	9.5	9.3	2.2	2.3	-4.3
Grants	(0.9)	(2.6)	(3.8)	(3.9)	(3.0)	(--)
Gross borrowing	(7.2)	(8.3)	(7.0)	(0.7)	(2.5)	(--)
Amortization	(-0.7)	(-1.4)	(-1.5)	(-2.4)	(-3.2)	(-4.3)
Banking system	6.2	5.7	5.7	6.7	6.7 <sup>3/</sup>	3.0 <sup>3/</sup>
Other (including Postal Checking System)	-2.7	-4.8	-3.4	-3.7	-3.5	1.3

Memorandum items:

(In percent of GDP)

Deficit on a commitment basis	1.5	1.2	1.5	0.7	0.6	--
Including grants	1.2	0.4	0.5	-0.3	-0.1	--
Deficit on a cash basis	3.2	2.8	2.9	1.4	1.2	--
Including grants	2.9	2.1	2.0	0.4	0.5	--

<sup>1/</sup> Excludes investment expenditures and related technical assistance financed by foreign aid, estimated at CFAF 45 billion in 1982, CFAF 53 billion in 1983 and CFAF 58 billion in 1984.

<sup>2/</sup> Including the fiscal revenue from cotton exports (estimated at CFAF 5.5 billion in 1984 and 4 billion in 1985) deposited in a special fund pending transfer to the Treasury in the following year.

<sup>3/</sup> Includes the increase in bank deposits due to the accumulation of fiscal revenue from cotton exports pending transfer to the Treasury in the following year.

At the same time, the share of personnel expenditures in the total was to decline in 1984 through a containment of recruiting, the adoption of a number of measures to accelerate retirements and encourage voluntary departures, and savings to be achieved through a census of personnel actually employed and the establishment of a centralized payroll procedure. On the revenue side, the improvement in tax administration and collection achieved in 1981 and 1982 was to be pursued, import duties increased, tax evasion, especially on customs duties, reduced; at the same time, revenues from cotton export activities were to be reincorporated in the budget, together with certain other revenues previously earmarked for special funds. In total, central government revenues were planned to increase by 7.2 percent in 1983 and 9.5 percent in 1984.

The 1983 outcome of the consolidated deficit was higher than programmed; it reached CFAF 5.8 billion, corresponding to 1.5 percent of GDP, compared with a program target of CFAF 4.3 billion (1.2 percent of GDP) although the central government deficit was in line with the program with both budgetary revenues and expenditures higher than planned, and the surplus of the special funds was higher than programmed. However, treasury operations and extrabudgetary expenditures recorded a deficit substantially higher than envisaged. The increase in central government budgetary expenditures was higher than planned (7.8 percent compared with 5.9 percent), mainly because of a faster than expected growth of personnel expenditures, which rose by 10.6 percent, compared with an 8 percent target (see Appendix III, Table I); this was due to delayed payments of merit increases related to 1981 and 1982 and to recruitment associated with the large graduating class of 1982 after the closure of schools in 1980 and 1981. Government revenues were also higher than planned, rising by 9.2 percent, against a projection of 7.2 percent as a result of higher than expected income tax receipts. The increase in receipts from the customs duties and import taxes was substantial (12.7 percent), and in line with projections, owing to the increase in administrative values applied to imports for duty purposes (valeurs mercuriales) and strengthening of tax administration (Appendix III, Table II).

The reduction in arrears was somewhat less than programmed (CFAF 5.8 billion versus CFAF 6.1 billion planned) because of a small increase in arrears of the Road Fund and a slightly smaller reduction in the arrears of the Autonomous Amortization Agency than planned; the Treasury arrears reduction was in line with program targets. The performance criteria on arrears reduction by end-December 1983 was met, as the reduction of the external arrears of the Postal Telecommunications Office was larger than planned (Tables 4 and 6). The consolidated deficit on a cash basis of CFAF 11.6 billion was covered by a recourse to the banking system and foreign budgetary assistance in line with program targets.

Table 6. Mali: Current Payments Arrears, 1981-84 1/

(In millions of CFA francs; end of period)

	1981	1982	1983	1984	
	Dec.	Dec.	Dec.	March	June
Treasury	15,002	9,013	2,980	2,213	1,464
External arrears	(4,025)	(1,789)	(985)	(718)	(469)
Domestic arrears	(10,224)	(6,746)	(1,995)	(1,495)	(995)
Extrabudgetary domestic arrears	(753)	(478)	--	--	--
Post Office (international postal transfers) <u>2/</u>	2,410	1,311	-31	-270	-396
Public enterprises	724	528	537	465	360
ITEMA	(367)	(266)	(237)	(184)	(115)
COMATEX	(151)	(66)	(47)	(19)	--
Energie du Mali	(206)	(196)	(253)	(262)	(245)
Autonomous Amortization Agency (CAA)	--	147	97	350	--
Road Fund	--	--	131	--	21
Upper River Niger Development Agency (OERHN)	33	418	366	366	595
<b>Total arrears</b>	<b>18,169</b>	<b>11,417</b>	<b>4,080</b>	<b>3,124</b>	<b>2,044</b>
External arrears	7,192	4,193	2,085	1,629	1,049
Domestic arrears	10,977	7,224	1,995	1,495	995
Memorandum item:					
Air Mali <u>3/</u>	(2,976)	(2,813)	(3,678)	(3,533)	(3,345)

Source: Data provided by the Malian authorities,

1/ Arrears subject to cash payments.

2/ Minus sign indicates net creditor position.

3/ Arrears to be settled in connection with the liquidation of the company now underway.

In 1984 the consolidated government deficit on a commitment basis is expected to be contained to CFAF 2.5 billion, an amount slightly lower than the program target (CFAF 2.7 billion). Although the central government deficit will be higher than planned, this will be offset by a larger than expected surplus for the annexed budget and special funds. The central government deficit is presently projected at CFAF 5.5 billion, compared with a program target of CFAF 3.2 billion, because of a shortfall in revenues, while expenditures are in line with projections. On the expenditure side, the growth of personnel outlays was programmed to slow down considerably to 4.9 percent, as a result, inter alia, of a containment in recruiting resulting from the establishment, for the first time, of competitive examination for entrance into the civil service and a limitation in the number of new positions. With total budgetary expenditures projected to grow by 5.3 percent, the share of personnel expenditures in the total was to decline. This target is not likely to be achieved. While total budgetary expenditures are projected to grow by 5.2 percent over the 1983 outcome, in line with the projections, the growth rate of personnel expenditure is projected at 5.6 percent, slightly above the target, despite the fact that the expenditure for new recruitment has been maintained to the limit indicated in the program (CFAF 1.5 billion). While there has been a stricter observance of regulations concerning retirement, it has not proved possible to formulate plans to encourage voluntary departures. The census of personnel actually employed, which was expected to be executed in the first half of 1984, is scheduled to take place before the end of the year, and should lead to savings in personnel expenditures in 1985.

Budgetary revenues in 1984 are now projected to amount to CFAF 44.5 billion, compared with a projection of CFAF 46 million under the program. The shortfall is mainly the result of the sharp drought which has led to lower than projected receipts from the head and livestock taxes, by an amount of CFAF 1.2 billion. In addition, the yield from the petroleum tax may remain somewhat below projections, and a supplementary revenue shortfall arises from the postponement to March 1985 of the encashment by the Treasury of the 1984 cotton export profits (estimated in the budget at CFAF 1 billion), in conformity with the regulations established with the foreign lending institutions involved in the development of cotton production; these profits, which are deposited in an account of the Price Stabilization Fund (ORSP), are now projected to reach CFAF 5.5 billion, in light of very favorable export prices and high export volume.

The current operations of the special funds and annexed budgets, which were projected under the program to record a surplus of CFAF 1.5 billion, are now expected to achieve a surplus of CFAF 4.8 billion, taking into account the profits from cotton export operations, to be transferred to the Treasury in March 1985. In conformity with program objectives and in line with a considerable rise in debt service, the

revenues of the Autonomous Amortization Agency (CAA) were considerably strengthened by broadening the basis of the special tax on cotton, and by improving the collection of revenues due by other agencies and public enterprises whose debt is serviced by the CAA. There was, however, some slippage in the performance of the Road Fund and the Social Security Fund, as expenditures and consequently the deficit were higher than expected.

The decline in domestic and external arrears of the Treasury and the CAA has proceeded, in the first three quarters of 1984, as scheduled under the program, and the performance criteria on arrears reduction have been met (Table 4 and Table 6). Taking into account the planned decline of these arrears by CFAF 3 billion in the year as a whole, the consolidated deficit on a cash basis will amount to CFAF 5.5 billion in line with projections under the program. To help cover this financing requirement, the Government has obtained foreign budgetary assistance for an amount of CFAF 3 billion of which CFAF 2.5 billion is expected to be disbursed in the coming weeks. Net financing from the banking system is planned at CFAF 6.7 billion, or slightly less than the amount envisaged under the program (CFAF 7.2 billion). Out of this total, financing from the Central Bank will be substantially higher than envisaged originally (CFAF 10.8 billion, compared with an initial projection of CFAF 7 billion), which will be offset by an increase of CFAF 4.1 billion in government deposits with the banking system, associated with the build-up of the deposits from the cotton export revenues. The residual financing item, which involves a net absorption of resources by CFAF 3.5 billion, includes the change in the position of the Treasury vis-à-vis its correspondents, the increase in the holding of postal checks by the special funds, and the increase of private sector deposits at the postal checking system.

While Mali does not presently prepare an investment budget, the program envisaged that steps would be taken in 1983 and 1984 to improve the monitoring of the flow of external assistance and to strengthen administrative capability with a view to establishing an investment budget by 1985. While some progress has been made so far in improving the follow-up of investment projects and centralizing investment information, additional work remains to be done in 1985 to arrive at the preparation of an investment budget.

## 2. Public enterprises

The Malian authorities adopted at the end of 1983 and during 1984 a number of substantial actions to carry forward the reorganization of the public enterprise sector, which started in 1982 but had encountered some delays. These actions included, inter alia, a substantial reduction in the personnel of these enterprises, which

has been reduced by 20 percent since end-1982, the liquidation of four enterprises that have been deemed nonviable and, more recently, of Air Mali, and the overhaul of the role of major public enterprises, in particular, SOMIEX and OPAM. They have been accompanied by the cancellation of 60 percent of the bank debt of public enterprises in connection with Mali's entry into WAMU in June 1984. Substantial measures of reorganization have been taken for the state import-export company SOMIEX, for the air transport sector and for the Postal Telecommunications Office (OPT), and actions are presently underway in regard to the Selingué dam authority and the Office du Niger. Owing to the implementation of these various measures, the aggregate operating deficit of the major public enterprises has been reduced from CFAF 7.6 billion in 1982 to CFAF 5.2 billion in 1983, and is expected to be reduced to CFAF 3 billion in 1984 (Appendix III, Table III). A general strategy for the rehabilitation of the sector was recently agreed upon with the World Bank, and a detailed project supported financially by the World Bank is under preparation, which covers both policy and institutional measures and the specific rehabilitation of certain enterprises for which no restructuring has yet been undertaken. It is expected that this project will be finalized by mid-1985.

SOMIEX's previous involvement in cotton export activity, which permitted the company to absorb the substantial profits from exports to cover losses in internal distribution, has been drastically reduced with the entry in effect, on November 1, 1983, of a new organization and financial mechanism for cotton exports ensuring that these profits are channeled to the Treasury, leaving SOMIEX with a commission for services rendered. To rehabilitate the domestic distribution activity, which recorded large losses, initial actions under the program, complementing measures already implemented in 1982-83, have been the reduction in December 1983 and January 1984 of excessive personnel, with the lay-off and retirement of 400 employees, representing 25 percent of employment, and the sale of the lossmaking supermarket stores to the private sector in the first half of the year. In the second half of the year, the reorganization of the company has taken added vigor, with the entry into operation of a team of technical assistance to management financed by the World Bank, a change in the management structure, and a reorganization of purchasing and stocking activities. It is now expected that the operating losses from internal distribution, excluding interest charges on the bank debt cancelled with the entry into WAMU, will decline from about CFAF 1.2 billion in 1983 to CFAF 300 million in 1984, and that a surplus will be achieved in 1985. Appropriate price adjustments will be introduced at the beginning of 1985 and a further reduction of personnel is envisaged.

To solve the problems of Air Mali, a company that has continued to record very large operating losses and has accumulated large arrears, the management, under government instructions, cut in January 1984 a number of unprofitable routes, closed offices abroad, and reduced

personnel by 25 percent. Additional measures of rehabilitation, and a parallel strengthening of its financial resources, were recommended by a consultant's report in July 1984. Instead, early in October, the Government decided against the infusion of new funds into the company, and opted for the liquidation of Air Mali, to be followed by the establishment of a new mixed capital company with the financial and technical partnership with foreign airlines. In the interim period, domestic air transport is to be ensured by a private company, which has leased the new airplane purchased in 1983 by the Government. The decree organizing the liquidation will be issued before end-November. The evaluations of the assets of Air Mali is underway; the liabilities of the company, represented mainly by commercial accounts payable to foreign companies will be taken over by the Government, and will be settled in the context of the liquidation on terms to be negotiated with creditors. The World Bank is providing technical and financial assistance to carry out the liquidation and is assisting in establishing the terms for the new mixed company. Negotiations with potential foreign partners are already underway; they will have to ensure that the new company to be established will operate in equilibrium, and that no further losses will be incurred by the Government. With regard to the new plane that was purchased with a nonconcessional loan, the authorities have decided that the debt service charges cannot be absorbed by the government budget and will have to be covered by the airplane's operating revenues; if these prove insufficient, the airplane will be sold. To maximize earnings, the airplane has recently started operating on routes to neighboring countries, and further intensification of its use is envisaged; a deferral on the debt service scheduled for the first part of 1984 was obtained, so that the first debt obligation will become due at the end of the year.

Progress is underway to improve the financial situation and management structure of the Postal and Telecommunication Office (OPT), in connection with technical assistance provided by the IMF's Central Banking Department; measures adopted include reinforcement of financial controls and quicker recovery of credits. These measures will be accompanied, before the end of the year, by the cancellation of reciprocal debt and credit with the Government, and by new budgetary procedures to assure prompter settlements of government bills. New regulations regarding the postal checking system are being prepared in consultation between OPT and the Treasury to ensure that the liquidity of the system is not absorbed by these two institutions. A comprehensive rehabilitation project for OPT, to be financed by the World Bank, is currently under preparation, which will involve the financing of new investment and should lead to a complete reorganization of cost controls and management procedures. It is expected that the reorganization will lead to a separation of postal from telecommunication activities.

In the electricity sector, significant progress has been made to improve the financial and technical performance of the electricity agency EDM. At the same time, however, the Selingué dam authority

(OERHN), which is the main supplier of electricity in the country, remains in a difficult financial situation and has not been able to service its external debt charges, because electricity production is only at 50 percent of capacity, and also because of poor budgetary controls. A rescheduling or refinancing of the unsettled obligations and of a part of amortization obligations becoming due over the next few years (which are mostly owed to African and Arab financial institutions), is necessary, until the completion of the transmission network permits the full utilization of the electricity production capacity by about 1990. The Government has recently received assurances from the African Development Bank that the latter is willing to organize a creditors' conference to provide rescheduling and the needed resources to increase capacity utilization. At the same time, measures have been taken to ensure that the maximum effort is made by Mali to increase resources available for servicing the external debt; they include the increase in the electricity bulk sale prices by 30 to 50 percent, effective January 1, 1985, on the basis of a tariff study undertaken with World Bank assistance, presently close to completion; the strengthening of financial controls at OERHN; and the establishment of a precise program and schedule for payments on the external debt covering the period 1985 to 1990.

### 3. Agricultural policy

The liberalization of cereal marketing, which has been in effect since 1981, with the exception of rice produced in the publicly managed irrigated areas, was put to test by the sharp increase in the market prices for cereals in the second half of 1983 and in 1984 as a result of the 1983 drought; the price increases reached 50 percent for millet, maize, and sorghum. The decision of the Government to allow the market forces to express themselves is to be welcomed. As the market price paid to the producer rose in 1983/84 above the official producer price, the amount of cereal marketed by the official agency OPAM has declined sharply, contributing to reduce its operational losses from CFAF 1.4 billion in 1983 to CFAF 1.2 billion in 1984. While some increase in official retail prices in 1984 were envisaged in the program to limit the gap between official and market retail prices, the Government decided to defer these increases to 1985, in light of the cereal shortages, the sharp rise in domestic market prices already experienced, and the continued wage freeze. The decision appears justified, especially since the losses of OPAM are now fully financed by the counterpart of external food aid and have declined.

An increase of the paddy producer price from CFAF 60 to CFAF 65 per kilogram for the 1985 crop was announced in November 1984; it will be accompanied by a commensurate increase in the official retail price of rice, which will enter into effect in mid-1985. During 1985 the Government will also modify the intervention procedures of OPAM, as was envisaged under the program, so as to increase the average official retail prices.

The Government has taken the decision to extend in steps over 1985-87 the liberalization of cereal marketing to paddy rice produced in the publicly managed irrigated areas. To initiate its implementation, the authorities have taken the decision to liberalize marketing in the area of Mopti in the 1984/85 crop year. With regard to the area under the management of the Office du Niger, the most important rice-producing compound in the country, it has been decided that paddy marketing and processing procedures will be made more flexible in the 1984/85 campaign, by decreasing the intervention of the Office and enlarging the autonomy of farmers. These measures are accompanied by actions to restructure the financial, managerial, and technical organization of the Office du Niger in the framework of a project supported by the World Bank and other donors, with the objective to increase efficiency and reduce costs. This liberalization and substantial reorganization of the rice sector will be supported by financial assistance of the food donors within a multiyear arrangement already concluded; this assistance will make it possible to eliminate, beginning in 1985, the Price Stabilization Fund subsidies to the rice producing agencies.

#### 4. Monetary policy

In 1983 and 1984 the authorities have pursued a tight credit policy consistent with the containment of external imbalances and of inflationary pressures. The quantitative performance criteria for end-December 1983, and end-March, June, and September 1984 have been met. In 1983 domestic credit rose by 7.4 percent, which was significantly below the program target of 10.2 percent (Tables 2 and 7). The expansion of bank credit to Government was at the target level, while credit to the economy increased by substantially less than planned (the growth rate was 7 percent, compared with 12.6 percent programmed), as both seasonal and ordinary credit increased by less than projected. Ordinary credit rose by 8.2 percent, compared to a programmed increase of 11.2 percent, because of restraint in the granting of credit to the larger public enterprises, while other ordinary credit rose relatively fast (by 16 percent), as projected. With net foreign assets of the banking system decreasing by less than planned, money and quasi-money rose by 15 percent, or somewhat faster than planned, and faster than the growth of nominal GDP (9 percent).

In 1984 the stance of credit policy has continued to remain restrictive. Credit to the economy has remained substantially below the program targets in the first three quarters of 1984. <sup>1/</sup> In the 12-month period to September, the increase in credit to the economy (excluding credits written off in connection with the entry into WAMU), in percent of the money stock at the beginning of the period, amounted

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<sup>1/</sup> In view of the write-off of credit that took place at the end of May 1984, in connection with the entry into WAMU, the initial program targets have been adjusted downward by the amount of these write offs. The calculation of the adjustment is reported in Appendix III, Table IV.

Table 7. Mali: Monetary Survey, 1983-85

(In millions of CFA Francs)

	1983		1984				1985		1983 1984 1985					
	Dec.	March	June	Sept.	Dec.	Sept.	Dec.	Dec.	Sept.	Sept.	Increase over previous 12-month period in per cent of money at beginning of period			
	Prog.	Act.	Prog. 1/	Act.	Prog. 1/	Prov.	Prog. 1/	Proj.	Proj.					
(In billions of CFA francs)														
Foreign assets (nets)	-71.4	-67.2	-71.2	-61.7	-37.0	-38.1 2/	-39.1 2/	-34.4 2/	-35.5 2/	-36.4 2/	-36.4 2/	-1.9	-3.3	-2.1
Domestic credit	179.5	175.0	188.3	179.2	146.2	141.0	145.2	140.3	153.8	151.5	...	14.9	12.5	11.7
Claims on Government	72.5	73.3	74.7	72.6	73.7	72.2 3/	75.1 3/	73.9 3/	77.8 3/	80.2 3/	80.8 3/	6.7	6.1	6.6
Banking system	71.0	71.0	73.3	69.9	72.3	69.8	73.8	71.4	75.3	77.7	78.3	7.2	6.0	6.6
Postal checking system	1.5	2.3	1.4	2.7	1.4	2.3	1.3	2.5	2.5	2.5	2.5	-0.5	0.1	...
Claims on economy	107.0	101.7	113.6	106.6	72.5	68.8 4/	70.1 4/	66.4 4/	76.0 4/	71.3 4/	...	8.2	6.4	5.1
Ordinary	76.9	74.9	78.8	75.5	56.4	55.6	58.9	57.3	58.5	61.3	64.1	7.0	8.6	4.2
Crop financing	30.1	26.8	34.8	31.2	16.1	13.3	11.2	9.1	17.5	10.0	...	1.2	-2.2	0.9
Money and quasi-money	92.1	93.8	101.1	101.3	98.0	100.1	94.3	94.7	106.5	103.8	...	15.4	10.0	9.6
Currency	...	50.2	...	50.4	...	41.5	...	37.3	...	...	...	11.4	...	...
Bank deposits	...	41.3	...	48.2	...	56.3	...	54.9	...	...	...	22.9	...	...
Postal deposits	1.5	2.3	1.4	2.7	1.4	2.3	1.3	2.5	2.5	2.5	...	-14.8	--	...
Medium and long-term foreign liabilities	3.5	3.3	3.5	4.2	1.0	1.8	1.0	1.8	1.8	1.8	1.8	--	-0.1	--
Others items (net)	12.5	10.7	12.5	12.0	10.2	1.0	10.8	9.4	10.0	9.5	9.5	2.5	0.9	--

Sources: Data provided by the Malian authorities; and staff estimates.

1/ The program figures have been adjusted to take account of the accounting changes and cancellation of credit that have taken place in connection with the entry into WAMU; see Appendix III, Table IV.

2/ The data reflect the exclusion as of end of May of Central Bank liabilities under the operations account which were consolidated and transferred to the Government in connection with the entry into WAMU; they also reflect changes in the definition of commercial banks external liabilities to include commercial bills drawn on domestic banks but not yet come to maturity. As a net result of these changes, the series of net foreign assets has been adjusted upwards by CFAF 35.4 billion as of end of May.

3/ The data reflect the cancellation of CFAF 27.2 billion of claims on the Government at the end of May in connection with the entry into WAMU partly offset by a consolidated claim on the Government of CFAF 24.2 billion representing accumulated interest on the operations account, resulting in a net downward adjustment of the series by CFAF 3 billion.

4/ The data reflect the cancellation of CFAF 37.2 billions of loans to state enterprises at the end of May on occasion of the entry into WAMU, of which CFAF 12.2 billion relates to loans recorded under crop financing.

to only 6.4 percent compared with an expansion envisaged under the program of 12 percent. Both seasonal credit and ordinary credit remained below target up to September; as in 1983, the growth of credit to large enterprises has remained significantly below projections, while other ordinary credit has increased relatively fast, by 16 percent excluding credit written off. Credit to the Government was significantly below target both in June and September 1984; the increase in the 12 months to September 1984, in percent of initial money stock and excluding credit written off, was 6.1 percent, compared with a target of 7.3 percent. The ceiling for credit to the economy for end-December 1984 has been established taking account of the need for new seasonal credit in the last quarter of the year; this need is relatively large, because of the new financial mechanism for cotton production and export, which aims at ensuring prompter payments to producers and accurate coverage of direct and indirect costs. As a result, seasonal credit is projected to increase by CFAF 8.4 billion in the last quarter, which would result in an increase over the year, excluding cancellation, of 3.6 percent of initial money stock. With stability in ordinary credit to large enterprises in the last quarter, and a deceleration in other ordinary credit, ordinary credit is planned to increase in the last quarter by CFAF 1.2 billion, resulting in an increase during 1984, in percent of initial money stock and excluding credit written off, of 8.6 percent. This would lead to a growth of credit to the economy in 1984 of 12.3 percent of initial money stock, and an increase in total domestic credit of 19.6 percent, compared with 14.9 percent in 1983, the increase being accounted for almost entirely by the larger need for seasonal credit.

The evolution of money and quasi-money in the first 9 months of 1984 has been considerably affected by the currency conversion operation, which took place between June 1 and August 31, 1984. Currency in circulation declined significantly between March and May, as currency holders were shifting to bank deposits to facilitate conversion; the shift out of currency and into deposits continued in the third quarter; in the 12-month period to September 1984, provisional data show that deposits rose by 37 percent, compared with a 16 percent growth in 1983 and a 13 percent growth in 1982. During the same period, the currency in circulation declined by 15 percent, of which 2.6 percentage points are accounted for by Mali francs not presented for conversion. Money growth in the 12 months to September 1984 is estimated at 10 percent on the basis of provisional data. It appears that there was a significant capital outflow in the form of Mali franc banknotes before the beginning of the conversion period, in part because of fear of controls at the time of conversion, which led to a decline in net foreign assets of the banking system in June and July. This outflow was followed by inflows of CFA franc bank notes in the following months. As a result of these developments, by the end of September 1984 the banking system was extremely liquid, leading to a sharp decline in rediscount, and, also, to some increase in the foreign asset position of

commercial banks. To stem this latter development, which deteriorates the external position of the Central Bank, the Central Bank is endeavoring to stimulate interbank operations. Net foreign assets, adjusted to exclude the central bank liabilities under the operations account, declined by CFAF 1.3 billion in the period January-May 1984. In the following two months a deterioration took place because of the delay in the accounting of foreign banknotes presented to the banking system, which is likely to be substantial; by the end of the year, when these delays will be corrected, it is expected that the decline in net foreign assets be limited to about CFAF 4 billion.

With the entry into WAMU, the whole interest rate structure was raised to the higher level prevailing in the Union. The discount rate of the Central Bank was increased from 6 to 10.5 percent, and the preferential rate applied to agricultural crop credit to 8 percent. Bank lending rates applied to state enterprises have risen by more than 2 percentage points. Deposit rates have also increased substantially, with those on small savings deposits rising from 5 percent to 8.5 percent.

#### 5. External sector

Taking into account the adverse effects of the severe drought conditions in 1982-84, balance of payments developments in 1983-84 have been broadly favorable, as evidenced by the growth in exports and the containment of imports other than cereals and exceptional capital equipment. However, the 1983 current account of balance of payments was different from program projections because of new information relating to an exceptional import of an airplane in mid-1983, which correspond to 1.8 percent of GDP. The current account deficit, including grants and after debt relief, was SDR 75 million, or 7.7 percent of GDP, compared with a program target of SDR 69 million, or 7 percent of GDP, and a deficit of SDR 78 million in 1982 (Table 8). Excluding such exceptional imports, the current account, including grants, would have declined to SDR 58 million (5.9 percent of GDP). Exports increased by 18 percent in SDR terms, in line with projections, with cotton accounting for most of the increase. The volume of cotton exports rose by over 30 percent as a result of the successful implementation of a major agricultural development effort in the cotton growing areas of the country and an increase in producer prices. Total imports were above the level programmed due to the purchase of an airplane and to substantial imports of cereals to offset the effects of the drought. As most of the increase in cereal imports was financed by external grants, it did not affect the current account, including grants. Other imports declined by 6 percent in SDR terms, reflecting depressed aggregate demand as a result of tight income and financial policies. Net capital inflow rose to SDR 77 million, from SDR 71 million in 1982, and was considerably higher than the program projection of SDR 57 million; while most of this increase reflects the large noncon-

Table 8. Mali: Balance of Payments, 1981-1985

(In millions of SDRs) 1/

	1981	1982	1983		1984		1985 Proj.
			Prog.	Actual revised 2/	Prog.	Est.	
Exports, f.o.b	130.5	131.3	156.5	154.4	191.2	184.4	194.2
Cotton	53.3	51.1	70.9	69.0	83.0	96.0	90.4
Livestock	43.6	47.0	51.2	52.3	52.3	50.9	55.0
Others	33.6	33.2	34.4	33.1	55.9	37.6	48.8
Imports, c.i.f	-330.4	-302.4	-310.4	-328.5	-321.2	-363.9	-376.8
Of which: cereals	(-28.1)	(-23.3)	(-40.8)	(-50.1)	(-30.6)	(-95.3)	(-98.0)
Services (net)	-33.6	-38.9	-38.3	-37.1	-46.6	-35.4	-37.7
Of which: interest payments	(-24.0)	(-25.8)	(-18.5)	(-23.8)	(-17.1)	(-19.5)	(-19.9)
Private transfers (net)	25.1	26.0	22.1	21.8	22.5	21.6	23.5
Current account (excl. grants) (as percent of GDP)	-208.4 (-20.2)	-183.9 (-18.5)	-170.1 (-18.5)	-189.4 (-19.6)	-154.1 (-15.5)	-193.2 (-18.7)	-196.8 (-17.8)
Public transfers	110.0	84.3	92.7	98.6	91.7	121.4	132.5
Current account (including grants)							
Before debt relief	-98.3	-99.6	-77.4	-90.8	-62.4	-71.8	-64.3
(as percent of GDP)	(-9.5)	(-10.0)	(-7.8)	(-9.4)	(-6.3)	(-7.0)	(-5.8)
After debt relief	-98.1	-79.4	-69.3	-75.0	-54.7	-66.9	-62.9
(as percent of GDP)	(-9.5)	(-8.0)	(-7.0)	(-7.7)	(-5.5)	(-6.5)	(-5.7)
Nonmonetary capital	60.3	70.9	57.4	77.0	45.8	56.1	51.2
Private (net)	0.6	-2.5	-3.7	--	--	3.4	4.9
Public	59.6	73.4	61.1	77.0	45.8	52.7	46.3
Disbursements	64.8	80.3	71.2	87.8	58.5	68.5	68.3
Budgetary loans	(9.4)	(19.7)	(19.3)	(18.0)	--	(--)	(2.2)
Project loans	(55.4)	(60.6)	(51.9)	(66.6)	(58.5)	(64.0)	(66.1)
Food aid	(--)	(--)	(--)	(3.2)	(--)	(4.5)	(--)
Amortization	-5.1	-7.0	-10.1	-10.9	-12.7	-15.9	-22.1
Allocation of SDRs	3.0	--	--	--	--	--	--
Debt relief 3/	2.4	21.1	14.7	16.5	13.9	6.7	5.1
Interest	(0.3)	(20.2)	(8.1)	(15.8)	(7.7)	(5.0)	(1.4)
Principal	(2.1)	(0.9)	(6.6)	(0.7)	(6.2)	(1.7)	(3.7)
Overall balance	-32.6	-7.6	-5.3	2.7	-2.7	-9.1	-8.0
Central Bank	17.0	16.1	12.2	4.8	10.3	15.6	...
(Increase in liabilities +)							
Operations account	(23.3)	(-7.0)	(5.7)	(-6.3)	(...)	(3.2)	(...)
IMF	(-2.1)	(24.3)	(12.2)	(12.8)	(19.7)	(19.8)	(...)
Reserves	(-4.2)	(-1.2)	(-5.7)	(-1.7)	(...)	(-7.4)	(...)
Commercial banks	-3.4	-3.7	-2.5	-6.9	-2.4	-7.4	...
(Increase in liabilities +)							
Arrears	18.1	-8.8	-4.4	-5.2	-5.2	-4.9	...
(reduction-)							
Obligations not serviced pending rescheduling 4/	1.0	4.0	--	4.6	--	5.8	6.0

Sources: Data provided by the Malian authorities; and staff estimates.

1/ Converted from CFA francs at the following period average exchange rates: 1981: 320.40; 1982: 362.80; 1983: 407.36; 1984: 440.65; 1985: 445.85.

2/ Including the purchase of a plane and its financing by a suppliers' credit.

3/ Including interest on the operations account in 1982-84 pending consolidation, and obligations under various bilateral debts not serviced in 1981-84, for which agreements on rescheduling has been reached.

4/ Obligations for which rescheduling is expected and negotiations are in progress.

cessional loan to finance the airplane purchase, private capital flows also recorded a more favorable performance than expected. Debt relief obtained amounted to SDR 16.5 million, which includes charges on the operations account whose renegotiation was underway, and debt service on bilateral debt for which the renegotiation has been concluded. Unsettled obligations for which renegotiations have not been concluded (they include obligations of the Selingué dam authorities and obligations toward a bilateral creditor) amount to SDR 4.6 billion. The overall balance of payments recorded a surplus of SDR 2.7 million, and external arrears were reduced by SDR 5.2 million, meeting the performance criterion for end-December 1983.

In 1984, on the basis of available information, the overall balance of payments deficit will exceed program objectives because the rescheduling of the external obligations of the Selingué dam authority and of the obligations on one bilateral debt have not yet been concluded, contrary to expectations. If such debt relief had been obtained, the overall deficit would have been on target. The current account deficit, including grants and after debt relief, is expected to be somewhat higher than envisaged under the program; it is projected to amount to SDR 67 million (equivalent to 6.5 percent of GDP), compared with a program target of SDR 55 million, or 5.5 percent of GDP. Exports are expected to increase by 19 percent, with higher than expected cotton revenues compensating for a weaker than projected performance of other exports. This shortfall is due to the effect of the drought on the production of groundnuts, sheanuts, and fish. Imports are instead estimated to be substantially higher than projected under the program, because of a further drought-related increase in cereal imports, which will reach 300,000 tons, up from 155,000 tons in 1983; while most of the increase will be financed by external grants, private sector imports on commercial terms are also projected to rise. Imports other than cereals will grow only modestly, by 3 percent in SDRs, reflecting the slow growth of GDP and tight demand policies. Interest payments are estimated to reach SDR 19 million, an amount SDR 2 million higher than originally projected, because of the debt service on the new suppliers' credit contracted in 1983 and upward revision in debt service payments. Grants and net capital inflows in 1984 will be higher than projected, despite higher amortization, because of higher than expected project loans, and also because of some borrowing to finance cereal imports. The entry into WAMU has been accompanied during the first months of the year by an outflow of capital in the form of Malian bank notes, partly motivated by fear of controls on the occasion of the currency conversion; this has been followed in the second part of the year by a reflow of capital of residents and also by a significant inflow of capital from neighboring countries, stimulated by the integration of Mali in the common financial system. With external arrears declining by SDR 5 million the net foreign liabilities of the banking system are projected to increase by SDR 8 million. In the first five months of this year, the only ones for which accurate data

In order to contain the external debt service burden of the Government and public agencies and enterprises at a sustainable level, the Government has succeeded in 1984 in completing bilateral negotiations for rescheduling a significant portion of the external debt; the debt rescheduled includes the liabilities vis-à-vis the U.S.S.R., China, Algeria, Egypt and Ghana, in addition to the consolidation of the liabilities under the operations account with the French Treasury. The Government has also obtained the agreement in principle of two other countries to cancel its debt, and assurances from a third country of favorable rescheduling.

As discussed in Section 3, the Government is still negotiating a restructuring or refinancing of the principal obligations that have remained unsettled on the debt contracted by the Selingué dam authorities (OERHN), which amount to SDR 9 million at the end of June 1984, and also of a large part of amortization payments that will become due in the next few years, until the level of electricity production will be adequate to cover these charges; the authorities have received assurances of aid to be received from friendly countries and of assistance to be provided by the African Development Bank for a comprehensive rescheduling agreement with creditors, which are mainly Arab and African financial institutions.

Out of a total scheduled debt service of SDR 37.5 million in 1983, and SDR 39.7 million in 1984, the debt relief obtained amounted to SDR 16.5 million in 1983 (of which SDR 15.6 million represented interest due on the operations account liabilities), and SDR 6.6 million in 1984 (of which SDR 4.4 million of interest on the operations account debt) (Table 9). Despite this large amount of debt relief, debt service after relief rose considerably in 1983 and 1984, with the debt service ratio increasing from 6.2 percent in 1982 to 9.2 percent in 1983 and 12.6 percent in 1984. The increase is due to higher charges on the debt managed by the CAA, resulting partly from the appreciation of the U.S. dollar, to a substantial increase in payments to the IMF, and, in 1984, to the service of the nonconcessional debt contracted to finance the purchase of the airplane; the latter debt service has been refinanced with an additional loan.

Despite the entrance into WAMU, and the replacement of the CFA franc to the Mali franc as the legal tender, the exchange rate regime did not change, as the exchange rate continues to remain pegged to the French franc; as mentioned above the conversion between the Mali franc and the CFA franc has taken place at the previously prevailing rate of MF 1 = CFAF 0.5; the exchange rate of the CFA franc vis-à-vis the French franc is CFAF 1 = F 0.02. The exchange rate depreciated vis-à-vis the SDR by 12.3 percent in 1983, and by an additional 6 percent in the first 10 months of 1984. The trade-weighted nominal effective exchange rate depreciated in 1983 by 2.5 percent and a further depreciation of 1.5 percent took place in the first 11 months of the year.

Table 9. Mali: External Public Debt, 1984-90

(In millions of SDRs)

	1981	1982	1983	1984 Est.	1985 Proj.	1986 Proj.	1987 Proj.	1988 Proj.	1989 Proj.	1990 Proj.
<b>A. Service on debt contracted</b>										
Through end 1983	28.6	31.9	32.5	31.0	35.6	31.8	34.4	35.8	39.4	43.3
Interest	23.4	24.9	21.6	15.2	13.5	13.3	13.4	13.0	12.4	11.6
Principal	5.2	7.0	10.9	15.9	22.1	18.5	21.0	22.8	27.0	31.7
Of which:										
CAA	5.9	6.9	10.6	15.3	21.2	16.3	18.4	20.3	21.9	23.3
Interest	1.8	2.3	3.2	5.4	7.5	7.3	7.7	7.9	7.8	7.6
Principal	4.1	4.6	7.4	9.9	13.8	9.0	10.7	12.3	14.0	15.7
OERHN	2.4	3.9	4.7	5.2	4.8	5.2	5.2	5.1	4.6	4.5
Interest	1.4	1.7	1.5	1.8	1.5	1.5	1.5	1.2	1.1	1.0
Principal	1.0	2.2	3.2	3.4	3.3	3.7	3.7	3.9	3.5	3.5
Road Fund	0.4	1.0	1.3	1.8	4.4	5.5	6.2	6.1	6.2	6.1
Interest	0.3	0.8	1.1	1.3	1.8	2.0	2.0	1.9	1.8	1.7
Principal	0.1	0.2	0.3	0.5	2.6	3.4	4.2	4.2	4.4	4.4
Suppliers	--	--	0.2	4.3	4.6	4.3	4.0	3.7	3.4	3.2
Interest	--	--	0.2	2.3	2.2	1.9	1.7	1.4	1.1	0.8
Principal	--	--	--	2.0	2.4	2.4	2.4	2.4	2.4	2.4
Operations account	19.9	20.1	15.6	4.4	0.6	0.6	0.5	0.5	3.3	6.2
Interest	19.9	20.1	15.6	4.4	0.6	0.6	0.5	0.5	0.5	0.5
Principal	--	--	--	--	--	--	--	--	2.8	5.7
<b>B. Estimated service on new financing</b>										
Interest	--	--	--	0.2	0.6	0.8	0.9	1.1	1.3	1.6
Principal	--	--	--	--	--	--	--	--	--	--
<b>C. Subtotal</b>	28.6	31.9	32.5	31.3	36.2	32.6	35.3	36.9	40.7	44.9
Interest	23.4	24.9	21.6	15.4	14.1	14.1	14.3	14.1	13.7	13.2
Principal	5.2	7.0	10.9	15.9	22.1	18.5	21.0	22.8	27.0	31.7
<b>D. Payments to the IMF <sup>1/</sup></b>	2.8	1.9	5.0	8.4	14.9	23.7	25.0	21.0	16.5	8.7
Interest	0.6	0.9	2.2	4.1	5.8	5.5	4.3	3.1	1.9	0.9
Principal	2.2	1.1	2.7	4.3	9.1	18.2	20.7	17.9	14.6	7.8
<b>E. Total debt service before rescheduling</b>	31.4	33.8	37.5	39.7	51.1	56.3	60.3	57.9	57.2	53.6
Interest	24.0	25.8	23.8	19.5	19.9	19.6	18.6	17.2	15.6	14.1
Principal	7.4	8.0	13.7	20.2	31.2	36.7	41.7	40.7	41.6	39.5
<b>F. Debt relief <sup>2/</sup></b>	2.4	21.1	16.5	6.6	5.1	--	--	--	--	--
Interest	0.3	20.2	15.8	5.0	1.4	--	--	--	--	--
Principal	2.1	0.9	0.7	1.7	3.7	--	--	--	--	--
<b>G. Debt service after rescheduling</b>	29.0	12.8	21.0	33.1	46.0	56.3	60.3	57.9	57.2	53.6
Interest	23.7	5.7	8.0	14.5	18.5	19.6	18.6	17.2	15.6	14.1
Principal	5.3	7.1	13.0	18.6	27.5	36.7	41.7	40.7	41.6	39.5
<b>Memorandum items:</b>										
Debt service ratio before rescheduling	15.0	16.4	16.5	15.1	18.5	18.7	18.2	16.2	14.9	12.9
(excluding IMF)	13.7	15.5	14.3	11.9	13.0	10.8	10.7	10.3	10.6	10.8
Debt service ratio after rescheduling	13.9	6.2	9.2	12.6	16.6	18.7	18.2	16.2	14.9	12.9
Interest	(11.4)	(2.8)	(3.5)	(5.5)	(6.7)	(6.5)	(5.6)	(4.8)	(4.1)	(3.4)
Principal	(2.5)	(3.4)	(5.7)	(7.1)	(9.9)	(12.2)	(12.6)	(11.4)	(10.8)	(9.5)
(excluding IMF)	12.5	5.3	7.0	9.4	11.3	10.8	10.7	10.3	10.6	10.8
Disbursed debt (end of period) (in percent of GDP)	802.4	939.3	1,064.9	1,163.1	1,121.7	1,250.1	1,281.0	1,313.6	1,351.5	1,393.5
Exports of goods, services and private transfers	208.8	205.9	227.8	262.2	276.4	301.4	330.5	356.8	386.1	417.0

Sources: Data provided by the Malian estimates; and staff estimates.

<sup>1/</sup> Including all payments under the current stand-by arrangement.

<sup>2/</sup> Including interest on the operations account in 1982-84 pending consolidation and obligations under various bilateral debts not serviced in 1981-4 for which agreement on rescheduling has been reached.

#### IV. Financial Policies for 1985 and Medium-term Prospects

##### 1. Financial policies and prospects for 1985

To ensure continuity in the adjustment process also after the completion of the present program, the authorities established, in consultation with the staff, the financial targets for 1985 and the main lines of financial policy. With cereal output in 1985 expected to be somewhat more favorable than in 1984, and a stabilization of cotton output at the level of 1984, GDP growth is expected to accelerate to about 2 percent, while inflation should moderate to about 6 percent.

Fiscal policy for 1985 aims at achieving equilibrium of the consolidated fiscal balance on a cash basis, from a deficit of CFAF 5.5 billion in 1984. The draft 1985 state budget has been established with the objective to contain the central government deficit to CFAF 3 billion, substantially below the 1984 expected outcome (CFAF 5.5 billion). To contain the growth in expenditures to 4.5 percent, new recruitment in the civil service will be curtailed by one third from 1984, so as to decrease the cost of recruitment from CFAF 1.5 billion in 1984 to CFAF 1 billion in 1985. Revenue growth is projected at 10 percent, as a result of a substantial increase in the revenue expected from the income tax and custom duties. The draft budget has been prepared without taking into account any general wage increase. More recently, the Government decided to increase wages by about 10 percent, which would result in an increase of personnel costs by 7.5 percent, or CFAF 2.7 million, taking into account that certain elements of remuneration will not be increased. This increase appears justified taking into account that the last wage increase, net of taxes, was granted in 1981, and that the purchasing power of wages has decreased in the ensuing period by about 30 percent; it will be accompanied by some increase in administered prices of goods and public services. The wage increase is to be fully covered by a rise in revenue and by savings in subsidies; to that effect, the Government has prepared a revenue package that includes increases in certain specific taxes, in administrative values on imports applied for customs duties, in import taxes, and a strengthening of customs controls. The savings in subsidies will result from the reform in rice marketing. With the special funds and annexed budget expected to record a surplus of CFAF 3 billion (including CFAF 4 billion of fiscal revenues from cotton exports expected for 1985), the consolidated government operations are projected to be in equilibrium.

To cover the scheduled external debt amortization (CFAF 4.3 billion), the Government intends to make use of the 1984 cotton revenue, estimated at about CFAF 5.5 billion, which will be transferred to the Treasury at end of March 1985; this will help avoid recourse to external budgetary assistance. Financing by the banking system is projected at CFAF 3

billion, which represents a growth of credit to the Government of 3.9 percent in the year to December 1985. The expansion of credit to the economy will be held to 7.4 percent in the 12-month period to September 1985; ordinary credit to the economy will increase by 6.5 percent, and seasonal credit outstanding by 10 percent. With the overall balance of payments projected to be close to equilibrium in 1985, credit growth would be consistent with an expansion of the money supply by 9.6 percent, in line with the projected growth of nominal GDP.

The overall balance of payments is projected to be close to equilibrium, provided that debt relief is obtained with regard to the external obligations of the Selingué dam authority and on a bilateral debt on which the renegotiation has not yet been concluded. Excluding such debt relief, the balance of payments is projected to record a deficit of about SDR 8 million. A further reduction in the current account deficit, including grants, to SDR 64 million (or 5.8 percent of GDP) is projected. Export revenues are expected to increase by 5 percent in SDRs; a decline of about 6 percent in cotton receipts, resulting from lower volume and export prices, is expected to be offset by an increase in other exports, including gold and livestock. Imports of cereals are expected to remain at the high level of 1984, as cereal production is expected to improve only marginally and security stock will have to be reconstituted. Other imports will continue to grow modestly by 4 percent in value, as a result of a continuation of prudent demand management; as a result, the growth of total imports is projected to be contained to 4 percent. Interest payments after debt relief are expected to increase significantly. Because of rising amortization payments, net capital inflows are likely to be lower than in 1984. The debt service ratio, after debt relief already obtained, is projected to rise from 12.6 percent in 1984 to 16.6 percent in 1985, reflecting larger payments to the Fund, and larger service both for interest and principal on the debt managed by the CAA and by the Road Fund. If debt relief is obtained on the Selingué debt and on the bilateral debt under renegotiation, the debt service ratio would be at about 14.5 percent.

## 2. Medium-term outlook of the external position

The medium-term outlook for the external position has been revised from the one elaborated at the time of the program preparation (see EBS/83/242 of November 10, 1983), to take account of recent developments and updated information (Table 10). The current account deficit including grants is still expected to decline gradually from 6.5 percent of GDP in 1984 to less than 3 percent in 1989-90, although the decline is projected to be less rapid in 1985-86 than originally envisaged, due to higher cereal imports and lower receipts from cotton exports, resulting from a less favorable outlook for cotton export prices. After 1985 cereal imports are projected to decline substantially, and

Table 10. Mali: Balance of Payments, 1984-1990

(In millions of SDRs)

	<u>1984</u> Est.	<u>1985</u> Proj.	<u>1986</u> Proj.	<u>1987</u> Proj.	<u>1988</u> Proj.	<u>1989</u> Proj.	<u>1990</u> Proj.
Exports, f.o.b	184.4	194.2	211.7	232.7	250.2	270.0	290.4
Cotton	96.0	90.4	98.5	108.5	116.4	124.8	133.9
Livestock	50.9	55.0	58.6	62.5	65.0	69.3	73.6
Others	37.6	48.8	54.6	61.7	68.9	75.8	82.9
Imports, c.i.f	-363.9	-376.8	-345.5	-368.6	-393.4	-416.9	-444.0
Of which: cereals	(-95.3)	(-98.0)	(-43.9)	(-41.0)	(-41.3)	(-38.6)	(-37.4)
Services (net)	-35.4	-37.7	-38.8	-39.7	-40.5	-40.7	-41.6
Interest on external debt	(-19.5)	(-19.9)	(-19.6)	(-18.6)	(-17.2)	(-15.6)	(-14.1)
Private transfers (net)	21.6	23.5	25.9	28.5	31.3	34.5	37.9
Current account (excluding grants)(as percent of GDP)	<u>-193.2</u> (-18.7)	<u>-196.8</u> (-17.8)	<u>-146.8</u> (-12.2)	<u>-147.2</u> (-11.3)	<u>-152.3</u> (-10.8)	<u>-153.2</u> (-10.0)	<u>-157.3</u> (-9.5)
Public transfers	121.4	132.5	96.0	100.9	104.8	108.7	113.5
Current account (including grants)							
Before debt relief	-71.8	-64.3	-50.8	-46.3	-47.5	-44.4	-43.8
(As percent of GDP)	(-7.0)	(-5.8)	(-4.2)	(-3.6)	(-3.4)	(-2.9)	(-2.6)
After debt relief	-66.8	-62.8	-50.8	-46.3	-47.5	-44.4	-43.8
(As percent of GDP)	(-6.5)	(-5.7)	(-4.2)	(-3.6)	(-3.4)	(-2.9)	(-2.6)
Non-monetary capital	56.1	51.2	52.9	53.2	54.2	53.0	51.4
Private (net)	3.4	4.9	2.7	2.7	2.7	2.7	2.7
Public	52.7	46.3	50.2	50.5	51.5	50.3	48.7
Disbursements	68.5	68.3	68.7	71.5	74.3	77.3	80.4
Amortization	-15.9	-22.1	-18.5	-21.0	-22.8	-27.0	-31.7
Debt relief <u>1/</u>	6.7	5.1	--	--	--	--	--
Interest	(5.0)	(1.4)	(--)	(--)	(--)	(--)	(--)
Principal	(1.7)	(3.7)	--	--	--	(--)	(--)
Overall balance	-9.1	-8.0	2.1	6.9	6.7	8.5	7.7

Sources: Data provided by the Malian authorities; and staff estimates.

1/ See footnote 3/ on Table 8.

total imports are projected to rise in 1987-90 on average by 7 percent a year in SDR terms. While nonfactor service payments are now projected to be considerably lower than originally envisaged, interest payments on external debt are expected to be substantially higher, in line with the increase of these charges in 1984 and 1985 described above. Total interest payments are projected to fall after 1986, reflecting a decline in interest charges to the Fund. Official unrequited transfers are projected to decline in 1986 with the decline in exceptional cereal imports, and to grow by 4 percent per year thereafter in line with past trends. Even on the assumption that there would be a deceleration of capital inflow on concessional terms, the balance of payments would generate overall surpluses after 1985, although smaller than originally envisaged.

The debt service ratio (after debt relief) is projected to rise from 16.6 percent in 1985 to 18.7 percent in 1986, reflecting larger payments to the Fund, and to decline gradually thereafter. The level of debt service charges projected for 1986 and beyond will represent a considerable burden on government resources, and will require an important effort to enlarge government revenue. Disbursed external debt in percent of GDP is projected to decline to about 85 percent in 1990, from 113 percent in 1984.

#### V. Staff Appraisal

In addition to assessing the change in the monetary system resulting from the entry into WAMU and establishing the performance criteria for end-December 1984, the review has concentrated on the execution of the 1984 budget, progress in the rehabilitation of key public enterprises, agricultural policy, and the renegotiations of certain external debts. During the review the main financial policies and financial objectives for 1985 were established so as to ensure the continuity of the adjustment effort after the end of the program period.

The implementation of the program for 1984 was rendered more difficult by the severe drought, which sharply reduced income and rendered large cereal imports necessary. Despite these difficulties, the authorities have carried out with determination the adjustment and structural measures envisaged in the program. The implementation of some structural measures envisaged encountered some delays in the first half of the year, partly because the authorities were absorbed in the finalization of the arrangements for the entry into WAMU. With the measures in these areas adopted in the second part of the year, the program has remained on track.

Despite the drop in tax revenues and increased imports caused by the severe drought, the financial performance in 1984 has been satisfactory. Income policy has remained very tight, as wages have not been increased for the third consecutive year, despite the sharp rise in food prices caused by the drought. Credit expansion has been maintained well below target, and the consolidated government deficit has been in line with the program target, as substantial fiscal revenues from cotton have offset the shortfall in direct tax revenue. Since most of the additional cereal imports were financed by grants, the current account of the balance of payments after grants is projected in 1984 to be only modestly above the target of 5.5 percent of GDP, the excess being due to higher private commercial imports of cereals made necessary by the drought. The overall balance is expected to be on target.

The entry into WAMU provides Mali with important benefits, both of a general character and of an immediate financial nature. The entry ensures Mali with a durable regime of full convertibility of the national currency, and represents the expected conclusion of the transitory period of several years in which the convertibility of the Mali franc was ensured by temporary bilateral arrangements with France, which were not intended to be of a permanent nature. The staff fully concurs with the view of the authorities that the benefits provided to the Malian economy by the full currency convertibility are substantial and ensure a solid basis for the development of the country's economic potential. The financial arrangements associated with the entry into the union also provide extensive advantage to the main public enterprises and facilitate their rehabilitation. In addition, over the medium term Mali is expected to benefit from the stricter economic integration with the neighboring countries, which is being stimulated by the monetary union.

The actions taken in carrying out the rehabilitation of key public enterprises, such as the export-import agency (SOMIEX), and the liquidation of enterprises regarded as nonviable, including Air Mali, represent important steps in the process of reorganizing the state company sector and in enlarging the scope of private sector activity in Mali, and are in line with program objectives. It is welcome that this process of rehabilitation will be further expanded and strengthened in the coming months to cover an additional group of enterprises, in the framework of a comprehensive project supported by the technical and financial assistance of the World Bank, for which agreement in principle has already been reached.

In the field of agricultural policy, the acceptance by the authorities of a sharp increase in market retail prices in response to supply conditions without any resumption of controls has confirmed the commitment of the authorities to the policy of market liberalization, which

is essential for promoting agricultural production in the country. The decision of the authorities to enlarge the application of cereal marketing liberalization to rice produced in the irrigated areas managed by rural development operations, and the beginning of the implementation of structural reforms in the Office du Niger, represent important steps, adopted in conformity with the program, which are expected to lead to full liberalization over a three-year period. It is important that the process of restructuring of the Office du Niger, now started, be enlarged and carried out decisively, so as to ensure the support of donor countries and lending institutions, and to achieve a sustained increase in rice production, which will reduce reliance on imports.

Bilateral agreements to restructure external debt have been concluded with a number of countries, as envisaged in the program, so as to contain the debt service burden to a manageable level. Arrangements for the restructuring of the large debt service for the construction of the Selingué dam are also under way, after delays encountered in the first half of the year. The expansion of the financial resources of the Caisse Autonome d'Amortissement to deal with the increasing debt service of the coming years has been substantial in 1984, as planned, and it is expected that it will be carried out further in 1985 and beyond.

The financial policies and targets established for 1985 should ensure further progress in the reduction of the domestic and external imbalances of the Malian economy and in the restructuring of the economy; it is important that the authorities continue to adhere to these policies with determination so as to secure a sound basis for economic development in the context of a viable balance of payments position. The preparation of a comprehensive investment budget should be accelerated; it would contribute to more efficient use of external development assistance which is high in relation to GDP and is expected to remain substantial in the coming years.

The staff is of the view that despite the difficult environment in 1983-84, which was partly responsible for delays in the implementation of the program, the authorities have adopted appropriate corrective measures and are proceeding with determination in carrying out a comprehensive policy of economic and financial rehabilitation. It considers that these policies are worthy of the Fund's continued support.

VI. Proposed Decision

In view of the above, the following draft decision is proposed for the adoption by the Executive Board:

1. Mali has consulted with the Fund in accordance with paragraph 4(c) of the stand-by arrangement for Mali (EBS/83/242, Supplement 1) and paragraph 3 of the letter of the Minister of Finance dated September 19, 1983, attached to the stand-by arrangement, in order to reach understandings subject to which further purchases may be made by Mali under the stand-by arrangement.

2. The letter of the Minister of Finance, dated October 31, 1984, with annexed policy memorandum, shall be attached to the stand-by arrangement for Mali and the letter of September 19, 1983, shall be read as supplemented by the letter of October 31, 1983 with annexed policy memorandum.

3. Mali shall not make purchases under the stand-by arrangement, after December 31, 1984, that would increase the Fund's holdings of Mali's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota, if the upper limit on bank credit to the economy for end-December 1984 specified in paragraph IV(4) of the policy memorandum annexed to the letter of October 31, 1984, is not observed.

4. Paragraph 4(e) of the stand-by arrangement for Mali (EBS/83/242, Supplement 1) shall be amended to read as follows:

" during the entire period of this stand-by arrangement, while Mali has any overdue obligation to the Fund, or if Mali ... "

Mali: Relations with the Fund  
(As of October 31, 1984)

I. Membership status

- (a) Date of membership - September 27, 1983
- (b) Status - Article XIV

(A) Financial Relations

II. General department (General Resources Account)

- (a) Quota: SDR 50.8 million
- (b) Total Fund holdings of member's currency: SDR 95.8 million  
188.5 percent of quota

	<u>Millions of SDRs</u>	<u>Percent of quota</u>
(c) Use of Fund credit	53.7	105.6
Credit tranches	36.4	71.6
EAR	16.0	31.5
CFF	1.3	2.5
(d) Reserve tranche position	8.7	17.1

III. Current stand-by arrangement

- (a) Duration: December 9, 1983-May 31, 1985
- (b) Amount: SDR 40.5 million.
- (c) Utilization: SDR 22 million.
- (d) Undrawn balance: SDR 18.5 million.
- (e) Previous stand-by arrangements: stand-by arrangement (one-year) approved in May 1982 in an amount of SDR 30.4 million, 75 percent of quota (SDR 40.5 million).

IV. SDR department

- (a) Net cumulative allocation: SDR 15.9 million.
- (b) Holdings: SDR 0.4 million; 2.57 percent of net cumulative allocation.

V. Administered accounts

Trust Fund loans

- (i) Disbursed: SDR 21.5 million
- (ii) Outstanding: SDR 19.3 million

VI. Overdue obligations to the Fund - None

(B) Nonfinancial Relations

VII. Exchange system: Pegged to the French franc; SDR 1 = CFAF 463.74

VIII. Last Article IV Consultation and request for Stand-by Arrangement - December 1983. Decisions as follows:

Article IV Consultation

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Mali, in the light of the 1983 Article IV consultation with Mali conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Mali continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions, and urges the authorities to take early action to terminate the remaining bilateral payments agreements with Fund members.

Stand-by Arrangement

1. The Government of Mali has requested a stand-by arrangement for the period from December 9, 1983 to May 31, 1985 for an amount equivalent to SDR 40.5 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/242, Supplement 1, Correction 1.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

IX. Technical assistance

(a) CBD: Two technical assistance missions in support of a reorganization of the postal checking system and improving financial management of the Postal and Telecommunications Office have taken place in January and October 1984.

Relations with the World Bank Group

1. Lending operations through September 1984 1/  
(In millions of U.S. dollars)

Agricultural and rural development	105.2	98.1	7.1
Rainfed agriculture	(51.9)	(49.4)	(2.5)
Irrigated agriculture	(35.5)	(31.9)	(3.6)
Livestock and forestry	(17.8)	(16.8)	(1.0)
Transportation	81.4	74.0	7.4
Roads	(53.6)	(48.0)	(5.6)
Railways	(27.8)	(26.0)	(1.8)
Health	27.6	3.7	23.9
Education	24.4	15.4	9.0
Urban development	12.0	9.2	2.8
Industry	15.6	4.0	11.6
Energy	27.7	8.8	18.9
Telecommunications	17.1	5.6	11.5
Technical assistance	10.4	2.9	7.5
 Total	 321.4	 221.7	 99.7
Repayments	2.05	2.05	--
Debt outstanding	319.35		99.7

2. Statement of IFC investments as of September, 1984  
(In millions of U.S. dollars)

Amount of loans	2.5
Equity	0.5
Undisbursed	--

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1/ IDA lending only.

3. Technical assistance

The World Bank provides technical assistance to Mali through its standard lending operations for projects, mainly in the agricultural and transportation sectors. In the context of Mali's effort to restructure its economy, the Bank is financing an economic management and training project, which provides specialists, studies, training, and related support to improve financial and economic policies, to strengthen public institutions, and to train civil servants. The Bank is presently preparing a public enterprise rehabilitation project which

covers both policy and institutional measures and the specific rehabilitation of certain enterprises. The Bank is actively involved in promoting agricultural development and reform, in particular, in the context of the project for Mali Sud, which has involved a major restructuring of the cotton export system, and a project for the restructuring of Office du Niger under preparation.

Table I. Mali: Budgetary Expenditures, 1981-84

(In millions of CFA francs)

	1981	1982	1983		1984	
			Prog.	Act.	Prog.	Proj.
Total expenditures	42,719	44,132	46,742	47,565	49,250	50,019
National budget	39,032	40,154	42,612	43,186	44,925	45,543
Regional budget	3,688	3,978	4,130	4,379	4,325	4,476
Personnel	24,728	27,305	29,483	30,195	30,935	31,885
National budget	21,525	23,757	25,781	26,259	27,033	27,053
Regional budget	3,203	3,548	3,702	3,936	3,896	4,032
Scholarships	3,252	3,067	3,109	3,244	3,302	3,468
Maintenance	8,238	8,644	8,713	9,151	8,713	9,163
National budget	7,965	8,398	8,468	8,902	8,468	8,911
Regional budget	273	246	245	249	245	252
Other current expenditures	3,849	3,521	3,796	3,371	4,382	3,777
National budget	3,665	3,337	3,612	3,177	4,138	3,585
Regional budget	184	184	184	194	184	192
Equipment	1,501	1,595	1,642	1,604	1,918	1,726

Table II. Mali: Budgetary Revenues, 1981-84 1/2/

(In millions of CFA francs)

	1981	1982	1983		1984	
	Real.	Real.	Program	Realisation	Program	Projection
<u>Taxes on net income and profits</u>	<u>6,360</u>	<u>7,094</u>	<u>6,686</u>	<u>7,553</u>	<u>7,135</u>	<u>7,413</u>
Enterprises	3,586	5,016	4,736	5,045	4,960	4,969
Of which: state enterprises	(726)	(923)	(700)	(714)	(700)	(535)
private sector	(2,862)	(2,642)	(2,480)	(2,488)	(2,600)	(2,520)
Individuals	2,774	2,078	1,950	2,500	2,175	2,444
Of which: assessment	(219)	(600)	(400)	(408)	(440)	(500)
withholding	(2,250)	(1,246)	(1,335)	(1,741)	(1,490)	(1,640)
<u>Taxes on property</u>	<u>342</u>	<u>581</u>	<u>885</u>	<u>590</u>	<u>840</u>	<u>822</u>
<u>Taxes on goods and services</u>	<u>5,635</u>	<u>5,708</u>	<u>7,042</u>	<u>7,251</u>	<u>7,532</u>	<u>7,864</u>
Of which: general sales tax	4,501	4,066	4,575	5,299	4,895	5,157
Of which: state enterprises	(459)	(1,245)	(1,300)	(1,528)	(1,400)	(1,400)
private sector	(3,008)	(2,129)	(2,450)	(3,006)	(2,600)	(2,850)
Of which: excises	1,134	1,642	2,467	1,752	2,637	2,707
<u>Taxes on international trade</u>	<u>16,338</u>	<u>16,097</u>	<u>18,169</u>	<u>18,149</u>	<u>20,044</u>	<u>19,319</u>
Of which: custom duties	910	767	1,000	923	1,540	1,000
other import charges	4,022	4,838	5,222	5,771	5,223	5,631
sales taxes on imports	6,044	6,242	7,368	6,724	7,670	7,494
petroleum taxes	3,046	2,450	2,600	2,508	2,612	2,214
export tax	885	468	650	840	1,176	1,126
liquidation	1,319	1,239	1,214	1,165	1,476	1,500
<u>Other taxes</u>	<u>6,808</u>	<u>8,105</u>	<u>7,713</u>	<u>7,752</u>	<u>7,980</u>	<u>7,136</u>
Of which: head tax	2,581	3,217	3,325	3,244	3,437	2,466
cattle tax	647	822	825	764	855	667
stamp duties	1,223	2,071	1,660	1,827	1,860	1,775
previous years' receipts	2,216	1,952	1,775	1,650	1,675	2,075
<u>Nontax revenues 2/</u>	<u>985</u>	<u>1,499</u>	<u>1,304</u>	<u>1,686</u>	<u>2,472</u>	<u>1,985</u>
<u>Total revenues 2/</u>	<u>36,468</u>	<u>39,184</u>	<u>41,999</u>	<u>42,781</u>	<u>46,003</u>	<u>44,539</u>
(Percentage change)	(19.8)	(7.8)	(7.2)	(9.2)	(9.5)	(4.1)

Source: Data provided by the Malian authorities.

1/ Central and regional government budgets only.

2/ Excluding extraordinary receipts recorded under budgetary code 08-03.

Table III. Mali: Net Operating Results of the  
Major State Enterprises, 1980-84

(In millions of CFA francs)

	1980	1981	1982	1983 Prov.	1984 Proj.
<b>I. Enterprises under the supervision of the Ministry of state enterprises</b>					
SOMIEX (import-export)	-318	680	-1,098	-140	-1,031
Export activities	(2,355)	(3,770)	(2,194)	(1,968)	(69)
Domestic distribution	(-2,673)	(-3,090)	(-3,292)	(-2,108)	(1,000)
Air Mali (air transport)	-895	-1,024	-907	-500	-400
EDM (electricity)	-74	-245	127	105	- 46
COMATEX (unbleached textile fiber)	-875	-969	-444	-584	-247
ITEMA (textiles)	-164	-145	19	217	184
PPM (pharmaceuticals)	218	257	335	193	200
SEPAMA (groundnut oil processing)	-859	-694	-134	-100	-100
SEPOM (refined groundnut oil)	-307	86	-178	-191	127
SMECMA (agricultural equipment)	38	13	20	40	40
SONATAM (cigarettes and matches)	209	267	203	305	376
Total	-3,027	-1,774	-2,057	-655	-899
Total excluding export profits of SOMIEX	-5,382	-5,544	-4,251	-2,623	-967
<b>II. Other enterprises</b>					
OPAM (cereal marketing)	-3,398	-2,330	-1,620	-1,410	-1,150
RCFM (railways)	-1,096	-1,582	-1,469	-1,315	-1,000
OPT	-568	-634	-247	129	100
Total I + II	-8,089	-6,320	-5,393	-3,251	-2,949
Total excluding export profits of SOMIEX	-10,444	-10,090	-7,587	-5,219	-3,018

Source: Data provided by the Malian authorities.

Table IV. Mali: Technical Adjustment of Targets for Domestic Credit, 1983-84

(In billions of Mali francs and CFA francs)

	1983	1984			
	Dec.	March	June	Sept.	Dec.
<b>1. Bank credit to the Government (net)</b>					
Initial ceiling (MF)	142.0	146.5	150.5	153.5	156.5
UMOA adjustment (MF) <u>1/</u>	--	--	5.9	5.9	5.9
Revised ceiling (MF)	142.0	146.5	144.6	147.6	150.6
Revised ceiling (CFAF)	71.0	73.3	72.3	73.8	75.3
Results	71.0	69.9	69.8	71.4	...
<b>2. Ordinary credit to the economy <u>2/</u></b>					
Initial program (MF)	153.9	157.6	161.6	166.6	169.8
UMOA adjustment (MF)	--	--	48.8	48.8	48.8
Revised program (MF)	153.9	157.6	112.8	117.8	121.0
Revised program (CFAF)	76.9	78.8	56.4	58.9	58.5
Results (CFAF)	74.9	75.5	55.6	57.3 <u>3/</u>	...
<b>3. Seasonal credit <u>2/</u></b>					
Initial program (MF)	60.1	69.7	57.7	47.9	...
UMOA adjustment (MF)	--	--	25.5	25.5	25.5
Revised program (MF)	60.1	69.7	32.2	22.4	...
Revised program (CFAF)	30.1	34.9	16.1	11.2	17.5
Results (CFAF)	26.8	31.2	13.2	9.1 <u>3/</u>	...
<b>4. Total credit to the economy <u>1/ 2/</u></b>					
Initial program (lower limit) (MF)	214.0	227.3	219.3	214.5	...
UMOA adjustment (MF)	--	--	74.3	74.3	74.3
Revised lower limit (MF)	214.0	227.3	145.0	140.2	...
Revised lower limit (CFAF)	107.0	113.7	72.5	70.1	76.0
Results (CFAF)	101.7	106.6	68.8	66.4 <u>3/</u>	...

1/ Cancellation of the items "interest paid on account of the Treasury" and "OPAM/BRM liquidation agreement" (MF 94.4 billion) and addition of the item "consolidated interest on operations account" (MF 88.5 billion).

2/ Including bad debts (estimated at CFAF 10.8 billion).

3/ Provisional.

Letter of Intent for Program Review

Ministry of Finance  
Office of the Minister

Republic of Mali

Confidential

Bamako, October 31, 1984

Mr. J. de Larosière  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. de Larosière:

1. In accordance with the fourth paragraph of the letter I sent you on September 19, 1983, the Government of Mali has conducted a thorough review with Fund staff of the implementation of the economic and financial program for 1983-84, which was supported by a stand-by arrangement of the International Monetary Fund approved December 9, 1983. This review also made it possible to examine the implications for the current program of Mali's membership in the West African Monetary Union (UMOA), which became effective on June 1, 1984. Finally, in consultation with Fund staff, the monetary authorities have established the ceiling on bank credit to the economy for end-December 1984, which will constitute a performance criterion for drawing under the stand-by arrangement after December 31, 1984 and made the necessary technical adjustments to the other performance criteria already established in the program in order to reflect the change in monetary unit and the changes in bank balance sheets pursuant to the different financial arrangements associated with Mali's entry into the UMOA. Because of the time that was needed to finalize these various arrangements and implement the currency change, the review was completed two months later than initially planned in the program.

2. In view of the delayed completion of the review, we took the opportunity of the mission's presence in Bamako to examine with Fund staff the economic outlook for 1985 and for the medium term and to establish the financial targets and main aspects of the policies to be pursued by the Government in 1985 in order to ensure continuity in the process of restructuring and adjusting our economy. In addition, the Government has just adopted a package of measures, described to you in the attached memorandum, to minimize the impact of the unforeseen delays and difficulties encountered in implementing the program in 1984. In view of the foregoing, we express our strong desire to pursue the execution of our program within the framework of the current stand-by arrangement, which expires on

May 31, 1985. We are prepared to conduct an additional review with the staff of the targets and financial policies for 1985 before the end of 1984, that is, before the budget and other specific measures are finalized.

3. The Government considers the policies and measures described in the attached memorandum to be adequate to ensure achievement of the objectives of its program, but is prepared to adopt any other measures that may prove necessary to this end. In accordance with Fund policy in this regard, it will consult the Fund on the adoption of all measures that may seem appropriate.

Sincerely yours,

/s/

Drissa Keita  
Minister of Finance

Memorandum on Review of Program Execution in 1983-84  
and the Main Aspects of Financial Policy for 1985

Introduction

- I. Government Finance
- II. Public Enterprises
- III. Food Strategy
- IV. Monetary Policy
- V. External Payments

Introduction

The new drought during the 1983/84 crop year and the more restrictive conditions of access to foreign financial assistance have adversely affected the economic situation in 1984 and made it difficult to achieve the main financial targets for 1984, especially in the areas of government finance, the results of the major public enterprises, and the balance of payments. However, these difficult circumstances, combined with the temporary disruptions associated with Mali's entry into the UMOA, have not weakened the Government's resolve to continue its adjustment and reorganization efforts. Substantial progress has been made in the restructuring and rehabilitation of the major public enterprises, even though progress in this area was slowed by a shortage of the technical and human resources needed for rapid implementation of the decisions adopted. The program's performance criteria for end-December 1983 and for end-March and end-June 1984 have been observed, and the preliminary data for end-September 1984 suggest that those criteria have been met as well. To ensure the satisfactory realization of the financial targets and the faithful execution of the structural measures called for in the program, the Government has without hesitation taken the additional and complementary measures indicated below in this memorandum, specifically in the areas of government finance, state enterprises, and prices.

2. The drought lasting from June through September 1983 reduced crop and livestock production for export and domestic consumption and had a severe impact on incomes and herd sizes in the northern part of the country. According to the latest estimates, cereal output amounted to only 750,000 tons, some 15 percent below the average for 1973-83, thus widening the gap between domestic production and consumption and contributing to an almost 30 percent increase in the average price of cereals in urban markets between June 1983 and June 1984. However, the cotton crop, produced farther to the south, reached a record 141,000 tons, 18 percent above the 1982/83 level, thanks to good organization and a particularly effective marketing and incentive system. As a whole, however, agricultural value added declined and, despite the improvement of output in other sectors, the increase in real GDP will fall substantially short of the 2.5 percent rate projected in the program. Fortunately, the adverse impact of the drought on the domestic economy, government finance, and the balance of payments was partly offset by an improvement

in cotton export prices (as compared to the assumptions in the program) and an increase in emergency food aid from abroad. With its exceptionally high revenue, the cotton sector was able to set up a CFAF 2.75 billion cyclical reserve fund in 1984 and will be able to increase its contribution to central government revenues in 1985.

### I. Government Finance

1. Because of the unfavorable weather conditions, tax receipts will be less than anticipated in 1984, particularly those under the head tax, the development tax and the cattle tax. A decline in the yield of the domestic tax on fuels is also expected, while the revenue expected from the cotton sector will not be collected until 1985. The yield of the income tax, the tax on goods and services, and the taxes and tariffs collected by customs will rise at the anticipated rates. Total receipts for the year should reach CFAF 44.5 billion, or CFAF 2.1 billion less than the CFAF 46.6 billion forecast. At the same time, the rise in budgetary expenditure should not exceed the anticipated 5.2 percent. Thanks to the steps taken to limit new hiring, the growth in personnel expenditure will be limited to 5.6 percent, a rate slightly higher than the 4.9 percent forecast. Hence, the Central Government budget deficit is expected to rise from CFAF 4.7 billion in 1983 to CFAF 5.5 billion in 1984 on a commitments basis. The total receipts of the special funds could exceed the forecasts, chiefly because of the increase in the receipts of the Caisse Autonome d'Amortissement (CAA). The outlays of the CAA for interest on external debt, on the other hand, have had to be revised upward; the same applies to the outlays of the Highways Fund and the INPS. Despite the savings achieved in the level of ORSP support of OPAM, the special funds may show a modest deficit instead of the projected surplus. However, if account is taken of the fiscal revenue from cotton exports of CFAF 5.5 billion (see paragraph 2), the special fund would register a surplus of about CFAF 4.8 billion. Extrabudgetary expenditure, especially the Treasury's regularization operations and exceptional expenditure such as the provision of additional capital to the BDM and of assistance to public enterprises, is estimated at CFAF 1.8 billion for 1984. The overall consolidated deficit of the Central Government's operations on a commitments basis is projected at CFAF 2.5 billion, including the fiscal revenue from cotton exports, as compared to the projection of CFAF 2.7 billion in the program and the CFAF 5.8 billion outturn in 1983. This would mean a deficit equivalent to 0.6 percent of GDP in 1984 as compared to 1.5 percent in 1983. Taking into account the target for reducing the domestic and external arrears of the Treasury and the special funds (see paragraph 4), the Central Government's consolidated deficit on a cash basis will be CFAF 5.5 billion. However, the financing requirement will be CFAF 10.5 million in 1984, as cotton profits will not be available to the Government before 1985. It should be possible to finance this deficit and all scheduled external loan repayments by means of external assistance obtained in the first half of the year and secured for the second half, as well as by the moderate recourse to bank credit provided for in the program.

2. In accordance with the financial arrangements for the cotton sector agreed upon with the World Bank in September 1983 in connection with the launching of a major project to expand production (Mali-Sud II), the increases in tax receipts from cotton exports are being kept in bank accounts until the end of the cotton crop year and will be paid to the Treasury by March 31, 1985. Since the revenues from the 1983/84 crop year were exceptionally high and are unlikely to be repeated, the Government does not intend to include that revenue in the 1985 budget; instead, it will use it to cover some of the Treasury's financing needs, thereby reducing recourse to external budgetary assistance that has become more and more uncertain.

3. The Government is resolved to continue its efforts to reduce and eliminate the structural deficit of government finance and to improve the management and allocation of public funds. Controlling personnel expenditure, which is absorbing a rising share of total government expenditure, is a priority objective. To achieve this objective, the Government has established a strict hiring policy, basing entry to the civil service on competitive examination and encouraging retirement and voluntary separation. Before the end of the year, the Government will also carry out a census of government personnel actually in place which was scheduled for the first half of the year. This operation will be followed in 1985 by the centralization of salary payments in the Ministry of Finance on the basis of individual files and computerized procedures.

4. The financial program calls for the elimination, by the end of 1984, of both the domestic and external arrears of the Treasury and the special funds, and of the identified external arrears of the public enterprises other than Air Mali. The payments arrears of the Treasury and the CAA have actually declined from CFAF 9.1 billion on December 31, 1982 to CFAF 1.5 billion on June 30, 1984. Taking into account the decline in the external arrears of the public enterprises covered by the program (ITEMA, COMATEX and EDM), the total outstanding as of end-June 1984 was CFAF 2.4 billion, slightly below the level set as a performance criterion. The target for end-September 1984 is a reduction to a maximum of CFAF 1 billion, and the balance will be cleared by year's end. Air Mali's external arrears, which are not included in this ceiling, will be settled in the context of the company's liquidation.

5. The 1985 Central Government budget has been drawn up with the objective of limiting the deficit to CFAF 3 billion. A 10 percent wage increase is planned. This raise, entailing additional expenditure of CFAF 2.7 billion, will be financed in its entirety by sure and permanent new tax revenues which have already been identified and by any savings in the subsidies paid by ORSP to the rice sector. The tax measures include increases in certain specific taxes, in administrative values used as a basis for customs duties, and in import taxes on private automobiles, and a further strengthening of customs controls. The current operations of the annexed budgets and special funds could post a CFAF 3 billion surplus because of the expected revenue from 1985 cotton exports which

will be deposited in ORSP accounts pending transfer to the Treasury in 1986. Excluding this revenue, the deficit would amount to CFAF 1 billion, in view of the increases in interest payable by the CAA and in the current expenditure of the Highways Fund and the INPS. Consolidated government operations would be in equilibrium. With the increase in the amortization charges on the external debt expected for the CAA and the Highways Fund (CFAF 4.3 billion in 1985), the financing requirement is expected to reach CFAF 4.3 billion. It is anticipated that this requirement will be met by external assistance, supplemented by using the 1984 revenues from the cotton sector, estimated at CFAF 5.5 billion, and by recourse to the Central Bank statutory advance and special advances granted as counterparts to purchases from the International Monetary Fund.

## II. Public Enterprises

1. Despite the difficulties encountered and the delays that have sometimes occurred, the Government has pursued its policy of economic reorganization and financial rehabilitation of the public sector enterprises and agencies. To this end, it has taken or reinforced a number of general and specific measures. Among the most important general measures are the following:

- a. Initiation of the process of liquidating four enterprises deemed nonviable (SOCORAM, SOMITRAM, SHM and SAT) and, more recently, Air Mali.
- b. The financial reorganization of the cotton sector.
- c. A general effort to control operating costs, one notable effect of which has been to reduce the number of employees in the sector by almost 25 percent between end-1981 and 1984.
- d. Cancellation of almost one third of the bank debts of public enterprises in connection with Mali's entry into the UMOA.

Thanks to the implementation of the general and specific measures, the aggregate operating deficit (before exceptional losses) of the major public enterprises was reduced from CFAF 5.5 billion in 1981 to CFAF 4.2 billion in 1982 and about CFAF 2.6 billion in 1983. The overall deficit will be further reduced in 1984, especially as a result of the improved performance of SOMIEX (exclusive of profits from cotton) and the reduction in financial costs following cancellation of part of the bank debt. A general strategy for the rehabilitation of the sector was recently agreed upon with the World Bank, and its implementation will be the object of a detailed project with financial support from the World Bank and other lenders to be prepared in the months ahead. The strategy establishes strict economic criteria for evaluating government investment in this sector and for the creation of any new public enterprises.

2. The general measures have been accompanied by the preparation, initiation, or continuation, as applicable, of specific recovery programs to rehabilitate the major public enterprises: SOMIEX, OPT, EDM and the Office de Sélingué (OERHN).

Société malienne d'import et d'export (SOMIEX)

The plan for reducing the size of the company, under which most of its retail and transportation activities were terminated in 1982, was continued in 1983-84 with the sale of its self-service establishments, changes in its intervention in cotton exports, and a 20 percent reduction in its staff. As a result of an audit in late 1983, the write-off of worthless claims and the clearance of most of its bank debts, the company's financial condition improved markedly and a positive working capital position was established. The Government and the Board of Directors have recently taken additional measures to strengthen the company's management significantly. These measures, which were spelled out in a detailed memorandum dated September 21, 1984, included steps to redynamize the company, an internal reorganization, and the association of World Bank-financed technical assistance in the management of the company. In addition, the Government has decided to drop from the SOMIEX payroll the employees of the self-service establishments or an equivalent number who are not hired by the new operators, and to review the selling prices of certain products. In addition, the Government is prepared to re-examine the fiscal constraints on SOMIEX, to study the company's monopoly positions, to reconsider the case of certain retail stores, and to reduce the overstaffing sufficiently to enable the company to achieve an operating surplus. Thus, in view of the measures already or soon to be taken, it is now projected that overall operating losses (excluding cotton) will be reduced from CFAF 3.2 billion in 1983 to about CFAF 1.1 billion in 1984 (corresponding to a deficit of about 300 million net of financial costs on the canceled bank debt), and that a reasonable surplus will be realized in 1985.

Office des Postes et Télécommunications (OPT)

Notable progress was made in 1983 and 1984 in the general management of the OPT, as evidenced by a small surplus on overall operations and by the restoration of a balance between debts and credits vis-à-vis foreign postal administrations. The Government is aware, however, that a lasting financial rehabilitation of the OPT and the expansion of its services will doubtless require a thorough reorganization of its activities and a significant strengthening of its management and resources. With this in mind, the Ministry of Information, in association with the World Bank, will shortly undertake the task of preparing a detailed rehabilitation plan within the context of the public enterprise sector rehabilitation project and the telecommunications financing project. Without awaiting the finalization of these plans, the Government has taken steps further to improve the OPT's economic and financial performance. These measures, spelled out in a memorandum of October 20, include, inter alia, more rapid collection of claims from private customers and a strengthening of controls

on administrative expenditure; they are intended to bring about an overall operating surplus and to overcome the cash flow problems that have caused lengthy delays in the payment of international telephone bills. Before the end of the year, these internal measures will be matched by a reciprocal clearing of debts between the OPT and the Central Government, a speed-up in the Government's procedures for paying its bills, a provision in the 1985 budget for adequate resources to cover the use of public services, and the preparation of new regulations to govern the financial relations between the OPT and the Treasury. The execution of these measures will be subject to financial monitoring on a monthly basis.

Electricité du Mali (EDM) and Office de Sélingué (OERHN)

Implementation of the first phase of EDM's rehabilitation program for 1983-87, agreed with the World Bank, has brought about a general improvement in the company's technical and financial performance. Contrary to the expectations of the program, however, it has not yet been possible to draw up a comprehensive plan for improving the use of Mali's power resources in the short and medium term. In addition, the Government has not yet been able to negotiate the rescheduling or refinancing of the overdue or approaching obligations on the external loans taken out to finance construction of the Sélingué dam. This rescheduling is required for the period until 1990, when the dam's hydroelectric capacity will be fully utilized. In view of assurances of aid obtained from friendly countries and the assistance to be provided by the African Development Bank in negotiations for a comprehensive settlement, the Government has good reason to believe that the unsettled obligations will be refinanced and the future obligations rescheduled soon. To make clear its determination to solve the outstanding problems as soon as possible, the Government of Mali has reached the following decisions:

- a. increase by 30 to 50 percent the OERHN sale price to EDM, and appropriate adjustment of the rates charged by EDM effective January 1, 1985, on the basis of the tariff study now in progress, which will be completed by November 30;
- b. in cooperation with the CAA, draw up an external payments program covering the 1985-90 period by December 1, 1984, providing for a schedule of interest payments and amortization of a reasonable portion of principal, including overdue obligations;
- c. make practical arrangements, effective January 1, 1985, whereby the funds needed for the execution of the program established pursuant to (b) above will be transferred to the CAA;
- d. strengthen the Office's general organization and financial management, in particular by drawing up the financial accounts for 1983 and 1984 and preparing estimates for the 1985-90 period;

e. complete the institutional study of the power and water sectors by June 30, 1985, in accordance with terms of reference to be agreed with the World Bank by November 30.

Air Mali

3. Pending the completion of studies on the organization of air transport in Mali and on the future of Air Mali, the Government adopted a number of emergency measures in early 1984. They included the termination of Air Mali's unprofitable routes, a one-third reduction in staffing, an agreement with Air Afrique on the exploitation of the Paris route, and the granting of authorization to a private company to fly within Mali and abroad. After examining the overall situation, on October 10 the Government decided to dissolve Air Mali. The decree organizing the liquidation of the company will be promulgated before end-November 1984, and a liquidation commission has already been set up. The Minister of State for Economy and Planning has been asked to determine the company's net worth, to study the various alternatives for establishing with partners a new semipublic company which will provide domestic and regional air transport services, to assess both the amount and the financing of the Government's future contribution to this new company, and to organize the management of the company under liquidation during the interim period, pending the establishment of a new company. During this period air transport in Mali will be provided jointly by a Government-approved private firm and by the use, on a financially sound basis, of the former Air Mali's airplanes and the new airplane recently acquired by the Government. The Government is now considering the terms for operating this new airplane so as to ensure that it will generate sufficient earnings to cover, beginning in 1985, the financial charges of the loans contracted, without imposing any additional budgetary burden on the Central Government. Should experience reveal that this objective cannot be fully met, the Government will not hesitate to resell or exchange the airplane. As 1984 was a trial period for the plane, the Government was able to obtain a deferral of the debt service scheduled for 1984. With regard to the new mixed enterprise to be established, the Government will make sure from the start that the terms of the partnership with the foreign companies and the conditions of operation will be such as to assure a viable financial equilibrium, which will avoid any further contribution from the state. To assist in the liquidation of Air Mali and the creation of a new company, the Government has requested immediate technical assistance from the World Bank.

III. Food Strategy

1. Since 1981, the Government has considerably strengthened its economic strategy for returning the country to self-sufficiency in food as rapidly as possible, in conformity with its potential. This strategy is based in part on direct economic incentives for production through the producer price system, on the deregulation of imports and the domestic

marketing of cereals, on the introduction of more realistic consumer pricing, and on the reorganization of the main production units, particularly of the Office du Niger. To attenuate the impact of these measures on the purchasing power of urban residents, compensation mechanisms that are to be reviewed annually have been developed with the financial assistance of the major donors of food aid. Despite the difficulties encountered in implementing this policy, substantial progress was made between 1981 and 1984. The Government firmly intends to continue along the same path in 1984/85.

2. Despite the drought-induced decline in cereal production in 1983/84 and the resulting sharp rise in market prices, the deregulation of marketing (other than that of paddy and rice produced in areas managed by rural development operations) has mitigated supply and transport problems. It has also made possible a significant increase in effective producer prices, which should help revive cereal production in 1984/85 if weather conditions improve and if the output price relative to input costs continues to provide an incentive. In this context the Government will announce a CFAF 5 increase in the producer price in about mid-November, which will be followed in 1985 by a commensurate increase in the official retail price.

3. The Office des Produits Agricoles du Mali (OPAM), whose role has changed fundamentally since the deregulation of marketing, has succeeded in further improving its management and obtained better financial results in 1984. Even though there is a structural gap between official selling prices and the cost of supplies, operating losses were markedly reduced in financial year 1983-84 through additional economies in operating costs and a decline in market purchases. This financial improvement was also brought about by the reduction in the interest burden following the cancellation of most of the bank debt. Unlike in earlier years, all of the operating deficit was covered by the counterparts of food aid, without recourse to bank credit or government subsidies. However, the Government was unable to raise OPAM's average official selling prices for all cereals in 1984 as provided for in the program because of the wage freeze. In view of the sharp increases in prices on the free market, whose importance has grown as a result of deregulation, the average price paid by the consumer has risen substantially.

4. As part of its program to boost output, the Government has undertaken to extend the deregulation of cereal marketing progressively to paddy and rice raised in areas managed by rural development agencies, and to proceed concurrently with the reorganization of the production units. This controlled liberalization will be implemented through specific provisions in the decree establishing price schedules, which will be promulgated in about mid-November. As one of the transitional measures that have received the formal support of the major suppliers of food aid, the Government has already decided to deregulate marketing and processing in the Mopti area in 1984/85. It will also relax the marketing and processing procedures in the Office du Niger and in the Ségou area. These measures will include

the transfer of certain tasks to producers, who will be grouped and dynamized in village "tons"; combined with reorganization measures, they will reduce the costs of the Office du Niger. The deregulation measures will be further extended in the 1985/86 crop year in conjunction with a project to expand rice production, with the prospect of a complete deregulation during the 1986/87 crop year. Finally, the Government has agreed to establish an emergency plan with the lenders involved to strengthen the financial management of the Office du Niger and reduce its operating costs so that a consolidation plan for the Office, which could be supported by significant external aid, can be prepared without further delay. With the deregulation and reorganization measures described above, beginning in 1984/85 it will be possible to eliminate ORSP support of the Office du Niger and other rice-support operations, taking into account the financial support to be provided in these circumstances by the counterpart funds of food aid.

#### IV. Monetary Policy

1. Credit policy in 1983 and 1984 was conducted in accordance with the quantitative and qualitative targets set forth in the program. Net domestic credit, including deposits in postal checking accounts, increased by less than expected between September 1983 and September 1984 (6.5 percent instead of 9.8 percent), chiefly because credit to the economy expanded by less than anticipated. Net bank credit to the Central Government increased by 6.9 percent in the same 12-month period--a rate well below the 9.6 percent forecast in the program, in particular because of the growth of deposits of the new cotton sector export system. Credit to the economy increased appreciably less than expected owing to the strict policy line taken toward public enterprises and the slow growth of economic activity. Money and quasi-money fluctuated very irregularly during the period, with respect to both aggregate growth rate and composition, as a result of the disruptions associated with the currency conversion and Mali's entry into the UMOA. In particular, the seasonal decline in liquidity after May was much more pronounced than in the past. For the whole of the 12-month period ended in September 1984, the overall growth of liquidity has been tentatively estimated at 10 percent (as compared to 13.2 percent in the corresponding period to September 1983) following the invalidation of the approximately 3 percent of the currency in circulation not presented for exchange. Reflecting both this invalidation as well as the sharp growth in bank deposits that began in March in anticipation of the currency exchange, currency in circulation fell by 15 percent in the period September 1983 to September 1984 and its share in overall liquidity dropped from 51 percent at end-September 1983 to about 40 percent at end-September 1984. The marked expansion of bank deposits (37 percent in the year to September 1984) contributed to a substantial improvement in the liquidity of certain banks and resulted in a reduction of their liabilities to the Central Bank and, in the absence of a money market, to investment abroad.

2. Following Mali's entry into the UMOA on June 1, the balance sheets of the monetary institutions and monetary policy itself were profoundly restructured. The reorganization of balance sheets chiefly reflects the noninclusion in the balance sheet prepared for the merger with the BCEAO of the former Central Bank of Mali's short-term external debt to the French Treasury. This debt, provisionally assessed at MF 150 billion, was consolidated on highly concessional terms as an intergovernmental debt administered by the Caisse Autonome d'Amortissement (CAA). This consolidation made it possible to cancel from the assets of the former central bank an equivalent amount of assets representing claims on the Government of Mali, the public enterprises and the banks, and other miscellaneous items not incorporated in the merger balance sheet. These cancellations permitted a substantial reduction in banks' indebtedness to the Central Bank and in the indebtedness of the major public enterprises to the banking system, thereby placing the Malian banks and enterprises in a position where they could respect the BCEAO's rediscount rules. These financial restructurings substantially changed the level of bank credit after June 1, 1984, necessitating a technical adjustment of the performance criteria relating to credit to the Government and to the economy.

3. Mali's adherence to the UMOA was also accompanied by significant changes in the formulation and implementation of the principal instruments of monetary policy. Since June 1, all the statutory and regulatory provisions of the UMOA have been promulgated in proper legal fashion and are fully applicable to Mali. Specifically, these provisions entailed changes in the definition and amount of net bank credit to the Government, the instruments for controlling net bank credit to the economy, and the terms of access to central bank refinancing for ordinary and crop loans. They also required the application of a new banking law in Mali and a new and considerably higher structure of interest rates on loans and deposits. After an initial period of adaptation, all these provisions have entered fully in force.

4. In accordance with the program, the lower limit on credit to the economy was set in agreement with the Fund at CFAF 76 billion for end-December 1984. This limit takes into account the rate of increase for ordinary credit already set by the program and the minimum requirements for new credit for the 1984/85 crop year beginning in November. In view of the normal leads and lags which can occur in the domestic and foreign sale of agricultural commodities, a technical margin of CFAF 2 billion has been added to the crop credits and thus to the total credit to the economy which constitute performance criteria for December 31, 1984.

5. For 1985, the monetary authorities have chosen as an objective the stability of net external assets of the banking system. To this end, they plan to apply a credit policy that will make it possible to limit the expansion of monetary liquidity in 1985 to about 9.5 percent--a rate equal to the expected nominal expansion of GDP. The growth of domestic

credit will thus not exceed 8 percent for the period September 1984-September 1985. The growth of credit to the Government, as defined in the present program, will not exceed CFAF 7 billion for the year as a whole. Excluding from this increase the fiscal revenues from 1985 cotton exports, which will be deposited in ORSP bank accounts pending their transfer to the Treasury in March 1986, the expansion of credit to the Government will not exceed CFAF 3 billion, corresponding to a rate of increase of 3.9 percent. The expansion of credit to the economy will be held to 7.4 percent in the period September 1984-September 1985, assuming a slight increase in the amount of seasonal credit outstanding at the end of the crop year. Ordinary credit to the economy will not be permitted to increase in 1985 at a rate in excess of more than 7 percent per year, or roughly 1.7 percent per quarter.

#### V. External Payments

1. On the basis of the results of the first half of 1984 and the outlook for the rest of the year, the balance of payments deficit on current account (after grants and external debt relief) is now expected to amount to about CFAF 30 billion (SDR 67 million), equivalent to about 6.5 percent of GDP; it will thus be below the revised results for 1983, when the purchase of an airplane boosted the import figure, but slightly above the program target of 5.5 percent of GDP. Export receipts will rise by about 19 percent in 1984 (in terms of SDRs), chiefly because of a large rise in the volume of cotton exports and an improvement in world prices in the first half of the year. Imports of goods and services will expand much more than initially forecast, chiefly because of exceptionally large imports of cereals as the result of the drought and because of the decline in domestic output. Excluding cereals, and not taking into account the exceptional purchase of an airplane in 1983, merchandise imports are estimated to have increased by only 3 percent in 1984. Since a large share of the extra imports of cereals was in the form of grants, the current deficit after grants and rescheduling declined to approximately the level forecast in the program, both in absolute terms and as a percentage of GDP. Our objective is to reduce it in future years to a level of about 2.5 percent, which we consider sustainable in the medium term.

2. The current deficit net of grants and the external debt amortization will be financed in 1984 primarily by concessional loans for investment and by the restructuring or refinancing of certain bilateral debts. Thus, the overall balance of payments deficit after rescheduling of certain debts which has been concluded will be limited to CFAF 4 billion (SDR 9 million), including the reduction of external arrears through cash payments to the level envisaged in the program. In accordance with the program targets, the net external assets of the banking system increased in 1983; a slight decline is expected in 1984. Uncertainties persist, however, as to the impact of Mali's membership in the UMOA on the net movement of short-term private sector capital, mainly in the form

of banknote movements. Because of the currency exchange operation, it has not yet been possible to calculate the net entry of banknotes issued by other UMOA members, resulting in uncertainty on the assessment of certain items of the balance of payments and of the external asset position of the Central Bank.

3. The persistence of adverse weather conditions in the crop year 1984/85 will limit the balance of payments improvement that could have been expected in 1985. The current account deficit, including grants and interest relief on the external debt, is now expected to amount to about CFAF 28 billion, or about SDR 63 million. As a percentage of GDP, the deficit will decline from 6.5 percent in 1984 to 5.7 percent in 1985. After the substantial increase of 1984, export receipts in SDRs will rise by 5 percent, with the decline in cotton earnings (down 5 percent) more than offset by a rise in the value of gold, fish and cattle exports. Cereal imports should remain at the high level of 1984 (equivalent to 9 percent of GDP), but almost half will continue to be financed by external assistance. Other imports will grow by about 4 percent, or about 1 percent in volume, reflecting the continuation of restrictive monetary and fiscal policies and a moderate growth of investment financed by foreign aid. Disbursements on concessional loans, mainly for project financing, will increase somewhat in 1985, but less than the increase in amortization payments. The overall balance of payments deficit should amount to CFAF 3.5 billion (SDR 8 million) assuming normalization of the movement of banknotes issued by other UMOA members. The overall deficit will be reduced to CFAF 1 billion (SDR 2 million) with the completion of the rescheduling of the external debt of Selingué.

4. To reduce the burden of servicing the short-term and medium-term external debt for the Government and public agencies and enterprises, the Government has succeeded in rescheduling a significant portion of its external debt, especially vis-à-vis the French Treasury, the U.S.S.R., China, Algeria, Egypt and Ghana. It has also obtained the agreement in principle of two countries to cancel its debt, as well as assurances from a third country of a favorable rescheduling. The restructuring or refinancing of the amortization schedule on the loans from Arab funds used in the construction of the Selingué dam is still being negotiated. Pending the imminent conclusion of these negotiations, Mali has taken the steps referred to above to reduce the outstanding amount of overdue obligations.

5. The Government has taken further steps to centralize with the Caisse Autonome d'Amortissement the management of the debts hitherto managed by the Highways Fund and the Office de Selingué. It has also strengthened the external debt accounting management with the assistance of a group of financial consultants financed by the World Bank. In addition, it is considering the possibility of further bolstering the financial resources of the CAA by raising the rates of certain earmarked taxes and releasing some CAA funds now frozen in postal checking accounts. The Government

also plans to monitor more closely the negotiation of all debts, whether concessional or on market terms, contracted or guaranteed by the Government. In the context of the project to restructure the public enterprise sector, now being negotiated with the World Bank, the Government has agreed to examine in advance with the Bank the economic and financial implications of all large investment projects involving public enterprises. In any event, the Government does not intend to contract any nonconcessional loans during the stand-by period or during the remainder of 1985 beyond the SDR 10 million ceiling set forth in the program.