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AGENDA**

EBS/83/25

CONFIDENTIAL

February 2, 1983

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

Attached for consideration by the Executive Directors is a report on the mid-term review of the stand-by arrangement for Mali. A draft decision appears on page 25.

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

Att: (1)

INTERNATIONAL MONETARY FUND

MALI

Stand-by Arrangement Mid-Term Review

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

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

Approved by J.B. Zulu and S. Kanesa-Thasan

January 31, 1983

I. Introduction

On May 21, 1982 the Executive Board approved a one-year stand-by arrangement (EBS/82/68) for an amount equivalent to SDR 30.375 million, representing 75 per cent of Mali's quota of SDR 40.5 million (Table 1). Under the arrangement Mali has met the performance criteria for end-June and end-September 1982 (Table 2) enabling it to make purchases totaling SDR 25.375 million. These drawings brought Fund holdings of Mali francs as of December 31, 1982 to 155.1 per cent of quota. The final drawing of SDR 5 million will be effected upon the performance criteria for end-December, which is the last test date under the program, being observed.

The program provided for a staff visit in July 1982 and for a Fund review of the program before the end of November 1982. During the Fund review the staff would establish the ceiling on bank credit to the economy for end-December 1982, and would discuss budgetary policies and other main economic policies for 1983. An additional review was also envisaged to take place at the time of entry into the West African Monetary Union (WAMU). In the event such entry has not yet taken place for reasons of a political nature, but remains under active consideration.

Discussions that provided the basis for the program review were held in Bamako during the period July 15-21, 1982 and November 15-26, 1982 1/.

1/ The staff team involved in the two missions consisted of Messrs. Ch. A. François (head), Faria, Sacerdoti, Daumont, (all from the African Department), and Abisourour (ETR), Mrs. Dowsett and Ms. Livsey-Coates (secretaries-AFR). Mr. Makalou (AFR) participated in the main policy discussions of the staff visit in July. Mr. Daumont, Fund representative in Bamako since September 1982, also assisted the mission during the mid-term review.

Table 1. Mali: Schedule of Purchases and Repurchases Under the Stand-by Arrangement, 1982-83

(In millions of SDRs)

	1982			1983	Stand-by period Total
	April-June ^{1/}	July-Sept.	Oct.-Dec.	Jan.-April	
<u>Purchases</u>	12.150	6.613	6.612	5.000	30.375
Stand-by arrangement	(12.150) ^{2/}	(6.313)	(6.612)	(5.000)	(30.375)
<u>Repurchases</u>	0.249	0.249	0.249	0.249	.996
Oil facility	(0.249)	(0.249)	(0.249)	(0.249)	(.996)
<u>Net purchases</u>	11.901	6.364	6.364	4.751	29.379
<u>Fund holdings</u> ^{3/} (cumulative end period)					
Total	50.072	56.436	62.799	67.550	
Holdings excluding CFF, oil facility	43.974	50.587	57.199	62.199	
In per cent of quota					
Total holdings	123.63	139.35	155.06	166.79	
Holdings excluding CFF, oil facility	108.58	124.91	141.23	153.58	

Sources: IMF Treasurer's Department; and stand-by arrangement (EBS/82/68, Attachment A).

^{1/} After Board approval.

^{2/} Includes SDR 10.125 million in the first credit tranche.

^{3/} Excluding the possible use of the reserve tranche available (SDR 8.68 million as of December 31, 1982).

Table 2. Mali: Quantitative Performance Criteria and Quantitative Targets, 1982/83

(In billions of Mali francs; end of period)

	1982 1/			1983
	June (Performance criteria)	Sept.	Dec.	March (End of program target)
Net bank credit to Government				
Ceiling	129.4	135.3	139.7	
Actual	123.5	130.8	133.3	2/
Bank credit to the economy				
Upper limit 3/	188.5	187.1	205.3	5/
Lower limit 4/	186.5	184.1	200.8	5/
Actual	185.7	181.0	...	
Reduction of payments arrears 6/ (cumulative)				
Total				
Minimum objective	4.0	7.3	10.6	13.9
Actual	6.7	11.5
External				
Minimum objective	2.4	4.2	6.0	8.1
Actual	2.4	5.1
New external borrowing 7/				
Ceiling	--	--	--	
Actual	--	--	...	

1/ Ceilings as defined in EBS/82/68, page 55 and Attachment C, Page 49.

2/ Provisional.

3/ The upper limits constitute the quantitative performance criteria.

4/ If the lower limits are exceeded, the Malian authorities will consult with the Managing Director as indicated in EBS/82/68, Attachment C, page 50.

5/ Established during the review mission in November 1982.

6/ Relates exclusively to reduction of payment arrears through cash settlements as defined in EBS/82/68, Attachment C, page 45; for arrears reduction through rescheduling arrangements see Table 5, footnote 1.

7/ Nonconcessional loans contracted or guaranteed by the Government with initial maturities of 1 to 12 years.

In the attached letter to the Managing Director, dated November 26, 1982, the Minister of Finance reviews the developments registered under the program, proposes the performance criterion for credit to the economy for end-December 1982, and indicates the areas in which additional measures will be taken before the end of the stand-by period, as well as the continuing adjustment policy actions proposed for 1983.

In conducting the review, close cooperation was maintained with the World Bank, which itself was in the process of completing negotiations with the Malian authorities on a detailed project for technical assistance and training covering key institutions responsible for economic management, personnel, external debt, public enterprises, and cereal marketing. An IDA loan of US\$10.4 million to finance this project was approved by the Bank's Board on December 7, 1982.

Summaries of Mali's relations with the Fund and the World Bank are shown in the attached Appendices.

II. The 1982 Program and Its Implementation

1. Background and main developments

Following a comprehensive re-examination of economic and financial policy after a period of unsatisfactory economic performance, the Malian authorities initiated in 1980 and 1981, in close cooperation with the Fund and World Bank staff, wide-ranging reforms aimed at improving the domestic and external financial situation of the country and stimulating production. These reforms, which focus in particular on public finance, state enterprises, agriculture, and overall economic and financial management, are being effected within the framework of the Five-Year Development Plan, 1981-85 and Mali's prospective entry into WAMU.

As an important step in the implementation of these reforms, the Government adopted in March 1982 a program covering calendar year 1982 (set forth in detail in the policy memorandum attached to EBS/82/68) which is supported by the use of Fund resources. The program contains an inter-related set of measures of both a short-term and a structural nature directed at reducing the fiscal imbalance, improving the performance of the state enterprise sector, strengthening the country's payments system, and stimulating agricultural production. A summary of policy measures and the status of their implementation is presented in Table 3, while more detailed descriptions are provided in the appropriate sections below.

The main economic assumptions underlying the program were an increase in real GDP in 1982 by about 4 per cent, as a result of favorable climatic conditions and an excellent cereal crop in 1981/82, a 2.5 per cent depreciation of the exchange rate vis-à-vis the SDR pari-passu with the French

Table 3. Mali: Policy Measures Under Stand-by Program: Current Status of Implementation

Program	Current status of implementation
1. <u>Fiscal measures</u>	
a. Tax increases: 20 per cent increase in the cattle and in the development tax, increase in stamp duties, adjustment of administrative values on imports, introduction of a tax on wages paid by employers and of miscellaneous regional taxes.	These tax measures were introduced in the 1982 budget and became effective in the first months of 1982.
b. Measures to improve custom tax administration.	Introduced in part on an experimental basis.
c. Revision of the rate structure for the global income tax.	Implemented.
d. Strict limitation of personnel expenditures, including limit to the cost of new recruitment; and control of personnel in place.	Personnel expenditures were maintained at a level below budgetary target. Control of personnel initiated.
e. Adoption of a new recruitment policy.	Medium-term recruitment policy still to be formulated.
f. Containment of scholarship expenditures.	Scholarship expenditures were reduced and maintained below target.
g. Improvement in the management methods at the Treasury level to establish accurate periodic statements of accounts.	Important progress achieved.
h. Improved monitoring of the budget execution.	Important progress achieved.
i. Centralized monitoring of and administrative control over the operations of the autonomous special funds by the Ministry of Finance.	Statements of the consolidated operations of the special funds have been prepared in 1982; beginning in 1983 the Ministry of Finance will be responsible for preparing and monitoring the budgets of all special funds.
2. <u>Reduction of public sector domestic and external arrears</u>	The reduction has exceeded the program targets.
3. <u>Restoration of postal checking operations (CCP)</u>	
a. Separation of postal checking operations from those of the Treasury and the Post and Telecommunications office.	The administrative regulation has been adopted, but some shortfalls will have to be corrected.

Table 3. Mali: Policy Measures under Stand-by Program: Current Status of Implementation (concluded)

Program	Current status of implementation
<p>b. Establishment of a reserve fund for the CCP to oversee the possible withdrawal of nongovernment deposits.</p>	<p>Implemented, but tighter operational rules required to prevent unauthorized use by the Post Office.</p>
<p>c. Consolidation of the deposits of government agencies in the CCP in medium-term claims on the Treasury.</p>	<p>Frozen pending consideration of these deposits on a case-by-case basis.</p>
<p>4. <u>Public enterprises</u></p>	
<p>a. No access to bank credits to finance structural operating losses.</p>	<p>Implemented.</p>
<p>b. Transfer to the private sector either totally or in partial participation of a number of nonstrategic enterprises.</p>	<p>Negotiations have been started for some enterprises but negligible success achieved thus far.</p>
<p>c. Tariff increases for the electricity and rail-road companies.</p>	<p>Implemented.</p>
<p>d. Curtailment of the operating costs of SOMIEX through closures of retail outlets and personnel reduction; elimination of the operating losses from internal distribution activities.</p>	<p>Delays in implementing cost reductions mainly for personnel. Losses from internal distribution remain high.</p>
<p>e. Reduction of the aggregate losses of the 12 principal enterprises by 35 per cent.</p>	<p>Aggregate losses estimated to be reduced by 10 per cent.</p>
<p>f. Study by IBRD on the prerequisite for the sector's rehabilitation.</p>	<p>Completed.</p>
<p>5. <u>Cereal marketing</u></p>	
<p>a. Opening of cereal marketing to private traders.</p>	<p>Implemented.</p>
<p>b. Increase of cereal retail prices by 35 per cent in early 1982.</p>	<p>Implemented.</p>
<p>c. Reduction of the scope of intervention of the cereal marketing agency, and curtailment of its costs, so as to reduce operating losses by 35 per cent.</p>	<p>Costs were curtailed and intervention policy revised; reduction in losses remained below target.</p>
<p>6. <u>Monetary policy</u></p>	
<p>Increase of deposit interest rates.</p>	<p>Implemented.</p>
<p>7. <u>External policy</u></p>	
<p>No external borrowing at nonconcessional rates with maturities up to 12 years.</p>	<p>Implemented.</p>

franc, to which the Mali franc is pegged, and a small decline of the rate of inflation, despite the exchange rate depreciation, as a result of the favorable agricultural supply. In the event, GDP real growth remained close to that forecast. The rate of inflation, measured by the GDP deflator, was lower than expected, mainly as a result of a sharp deceleration in the growth of food prices, which offset the effect of a larger than expected depreciation of the Mali franc vis-à-vis the SDR (13.2 per cent) and in effective terms (5 per cent). The depreciation helped to maintain the profitability of the export sector in the face of a decline in international prices; however, the volume of the main export crop, cotton, was constrained by the supply situation in 1981.

As a result of the implementation of most of the adjustment policies envisaged in the program, the financial objectives relating to the budget, the reduction of arrears, and the balance of payments are likely to be achieved (Table 4). In the area of government finance the compression of expenditures helped to keep the deficit virtually at the program level, despite a slower growth in revenue. Owing to a higher than projected external budgetary assistance, the level of arrears was reduced beyond program level. While the balance of payments deficit on current account declined, as a ratio to GDP, by somewhat less than envisaged in the program, the overall balance of payments deficit was half the amount forecast, due to higher net capital inflow. The performance with regard to public enterprises was on the whole disappointing because of difficulties in implementing part of the measures envisaged; as a result the targeted reduction of their aggregate losses was not fulfilled.

2. Production and aggregate demand

In 1982 the agricultural output rose by 8 per cent as a result of a large cereals crop in 1981/82, which compensated for the decline in cotton production, resulting in part from a shifting in acreage allocation toward cereals, Industrial production grew modestly and there was a decline in value added by government service in line with the containment of government expenditures. Consequently, GDP is now projected to have risen by about 4.5 per cent in 1982. Because of improved supply conditions for cereals, the rate of inflation measured by the price index for foodstuffs, the only one available in Mali, declined sharply in 1982; for the first nine months of the year the price index was 4.5 per cent higher than in the corresponding period of 1981, compared with a 12 per cent rate of increase in 1981. Investment activity in 1982 appears to have been in line with the expectation at the time of the program preparation, with a growth rate probably slightly in excess of that of GDP, reflecting implementation of ongoing projects. With public consumption contained by a restrictive public expenditures policy, and no general wage increase in the civil service and the private sector, private consumption is likely to have grown in 1982 at a rate below that of GDP. As a result, the savings ratio has probably increased to about 1 per cent, from a negative level in 1981.

Table 4. Mali: Selected Economic and Financial Indicators, 1980-82

	1980	1981	1982	
	Actual	Actual	Program	Proj.
	(Annual changes in per cent, unless otherwise specified)			
National income and prices				
GDP at constant price	-1.2	-2.4	4.0	4.5
GDP deflator	7.4	11.0	8.0	6.0
Food price index	20.2	13.0	12.0	5.0
National minimum wage	18.6	--	--	--
External sector				
Exports, f.o.b. (in SDRs)	38.0	-16.9	1.7	0.8
Imports, c.i.f. (in SDRs)	24.7	-3.7	-5.1	-4.0
Non-oil imports, c.i.f. (in SDRs)	20.3	-3.6	-5.3	-7.0
Export volume	21.5	-15.9	-0.1	1.0
Import volume	11.8	1.5	-8.3	-4.0
Terms of trade	-4.7	-8.8	-1.7	-1.3
Nominal import-weighted effective exchange rate (depreciation, -)	-0.3	-6.5	-2.0	-5.0
Central government budget				
Revenue (excluding grants)	5.9	19.8	14.2	6.8
Total expenditure	6.5	5.2	7.0	2.7
Money and credit				
Domestic credit	7.5	8.8	10.4	9.6
Of which: credit to Government	(3.5)	(7.7)	(10.0)	(6.6)
Money and quasi-money (M2)	10.4	6.4	10.9	10.9
Velocity (GDP relative to M2)	3.8	3.9	4.3	4.1
Interest rate <u>1/</u>	4.0	4.0	5.0	5.0
	(In per cent of GDP)			
Overall consolidated government deficit <u>2/</u>				
Including grants	3.1	2.0	0.5	0.8
Excluding grants	4.4	3.3	1.6	1.8
Domestic bank financing	0.4	1.2	2.8	2.1
Foreign financing (net)	3.3	2.2	0.9	2.0
Current payments arrears (change)	0.9	1.3	-1.6	-1.9
State enterprises' net operating losses	2.7	2.0	0.9	1.5
Gross domestic investment	17.3	17.6	20.7	20.8
Gross domestic savings	-2.6	-5.2	0.8	0.9
Resource gap	19.9	22.8	19.9	19.9
Current account deficit				
Excluding official transfers	18.6	21.7	16.8 <u>3/</u>	18.1 <u>3/</u>
Including official transfers	10.2	12.9	9.0 <u>3/</u>	11.1 <u>3/</u>
External debt <u>4/</u>	72.8	89.6	110.3	106.6
Debt service ratio <u>5/</u>	4.2	5.4	9.2	9.7
Interest payments ratio <u>5/</u>	1.5	3.2	2.3	3.9
	(In millions of SDRs, unless otherwise specified)			
Overall balance of payments	-22.7	-34.5	-13.2	-5.2
Gross official reserves (months of imports)	1/2	1/2	1/2	1/2
External payments arrears <u>6/</u>	28.2	30.3	21.7	20.3

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

1/ Minimum rate for one year small savings deposit.

2/ Includes the operations of the central government, special funds, as well as extrabudgetary receipts and payments reflected in the Treasury accounts, but not operations of the rural development agencies and development expenditures financed directly by external aid and the charges on the operations account.

3/ Excluding interest charges on the operations account to be consolidated.

4/ Inclusive of Fund resources and the operations account.

5/ In per cent of exports of goods and services and private transfers; excludes interest on the operations account.

6/ Excluding payments arrears to be reduced through rescheduling.

3. Public finance

The consolidated government deficit, as defined in the program (to exclude investment financed with external aid and interest charges on the operations account with the French Treasury, whose consolidation is pending), is estimated to have declined from MF 19.5 billion (3.3 per cent of GDP) in 1981 to MF 11.9 billion (1.8 per cent of GDP) in 1982 (Table 5 and Appendix Table I). Although the deficit in 1982 will be slightly higher (by 0.2 per cent of GDP) than the program target, the actual reduction from the previous year will be larger than initially envisaged because of a higher actual deficit in 1981 than estimated in the program 1/. On the basis of preliminary estimates the 1982 central government deficit is expected to amount to MF 10.2 billion (1.5 per cent of GDP), against a program target of MF 9.9 billion (1.5 per cent of GDP), and a deficit of MF 12.7 billion in 1981 (2.1 per cent of GDP).

Budgetary revenues in 1982 are expected to be close to program projections, reaching MF 77.6 billion, an increase of 6.8 per cent from the 1981 level (Appendix Table II); the programmed increase of 14.1 per cent was based on a lower preliminary 1981 outturn. Most of the increase in tax revenues originated from additional direct tax measures introduced in line with the program's undertakings and from better administration of indirect taxes. Taxes on international trade, after having risen by 37 per cent in 1981 as a result of a tightening of tax administration, grew by only 1 per cent in 1982, partly because of the temporary removal of the export tax on cotton and difficulties in collecting taxes from the state import-export company SOMIEX. After the tightening of customs administration in 1981, further administrative measures, such as the decentralization of tax collections, were introduced in 1982 on an experimental basis with a view to improving the collection process; the authorities have been encouraged by the results achieved so far, and expect further progress in 1983. Income tax revenues declined as a result of the extension in January 1982 of a two-thirds cut in the global income tax liability to private sector employees; this cut was introduced in July 1981 for government employees only. The decline in this tax was only partially compensated by the tripling of the payroll tax on private employers from 5 per cent to 15 per cent.

1/ The 1981 consolidated government deficit has been revised upward from the preliminary figure available at the time of the program preparation (MF 14.4 billion) mainly because of more comprehensive recording of extrabudgetary operations at the level of the Treasury, which could not previously be properly ascertained because of delays in the preparation of the accounts.

Table 5. Summary of Consolidated Government Operations 1/, 1980-83

(In billions of Mali francs)

	1980	1981	1982		1983
			Prog.	Proj.	Budgetary Forecast
Central government deficit	-20.6	-12.7	-9.9	-10.2 <u>2/</u>	-8.9
Revenues	(60.7)	(72.7)	(78.9)	(77.6) <u>2/</u>	(85.9)
Expenditures	(-81.3)	(-85.4)	(-88.8)	(-87.8) <u>2/</u>	(94.8)
Special Funds	5.8	2.8	1.5	3.5 <u>2/</u>	...
Net extrabudgetary payments	-9.2	-9.6	-2.0	-5.2 <u>2/</u>	...
Consolidated government deficit	-24.0	-19.5	-10.4	-11.9	-8.0
Financing					
External (net)	18.1	12.8	6.2	13.0	...
Domestic credit (net)	0.7	9.4	12.7	8.7	...
Of which: banking system	(2.4)	(7.4)	(18.4)	(13.7)	...
CCP	(-1.7)	(2.0)	(-5.7)	(-5.0)	...
Change in payment arrears	5.1	7.6	-10.6	-12.7 <u>3/</u>	...
Others	-0.1	-10.3	2.1	2.9	...
<u>Ratios</u>					
	(In per cent of GDP)				
Central government deficit	-3.8	-2.1	-1.5	-1.5	-1.3
Special Funds	1.1	0.5	0.2	0.5	...
Net extrabudgetary payments	-1.7	-1.6	-0.3	-0.8	...
Consolidated government deficit	-4.4	-3.3	-1.6	-1.8	-1.2

Source: Appendix Table I.

1/ Excluding interest charges on the operations account to be consolidated, and other debt service being rescheduled.

2/ Based on actual data for 9 months.

3/ This differs from Table 6 which includes arrears reduction of public enterprises from their own resources.

With regard to budgetary expenditures, current estimates indicate that the authorities have been able to contain total 1982 outlays to MF 87.8 billion, or slightly below the budgeted level of MF 88.8 billion. The expansion of the wage bill is expected to be very modest in 1982 (2.6 per cent), compared with a budgetary forecast of 8.5 per cent and a 8.0 per cent growth rate in 1981 (Appendix Table III). It reflects efforts by the authorities to contain recruitment, to control the number of personnel effectively in place, and to limit transportation and relocation expenses, as well as the decline in the number of students graduating from professional schools due to their temporary closure in 1981. To strengthen personnel policy, the role of the Ministry of Finance in overseeing the recruitment by the various departments and its consistency with budgetary provisions was reinforced. No general wage increase was granted during the year, but a pay raise by a flat amount of MF 2,000 per month was granted to the lowest paid personnel. Expenditures on scholarships, which had increased rapidly in the past, are estimated to have remained in 1982 at 20 per cent below the historically high level of 1980, as individual entitlements for secondary school students were cut. Maintenance expenditures, which had remained unchanged in the last three years, were increased by 10 per cent making use of the savings in personnel expenditures.

The overall surplus of the special funds is projected to amount to MF 3.5 billion, exceeding both the program estimate (MF 1.5 billion) and the 1981 outturn (MF 2.8 billion). Progress has been made in centralizing information on the performance of the special funds and monitoring their operations. Measures were also taken to contain their expenditures and strengthen their revenues; the subsidies of the Price Stabilization Fund to cereal marketing were reduced while its receipts from the hydrocarbon tax rose by more than budgeted. Revenues of the Autonomous Amortization Fund are instead expected to remain below the budgeted level, because of delays in tax collection.

Significant progress has been achieved in the quality of financial management in the Treasury and budget offices of the Ministry of Finance, enabling a more accurate month-by-month monitoring of the Treasury's overall financial position and of the budget execution on the expenditures and revenue sides. Better budgetary procedures and controls is expected to lead to a reduction of net extrabudgetary expenditures of the Treasury from MF 9.6 billion in 1981 to MF 5.2 billion in 1982.

While the consolidated government deficit declined in 1982, the Treasury also benefited from a doubling in external budgetary assistance, (MF 13 billion against MF 6.2 billion assumed in the program) resulting from an increased amount of loans at very concessional rates from oil producing countries and also from the depreciation of the exchange rate which boosted the domestic currency value of the aid flow. It also received special advances from the Central Bank representing the counterpart of Fund assistance. With external budgetary assistance higher than forecast in the program, the Government was able to reduce domestic and external arrears

by more than the program target. Over the year as a whole, domestic arrears of the Treasury are estimated to have been reduced through cash settlement by MF 6.6 billion as compared with MF 4.6 billion programed (Table 6). External arrears of the Treasury, the Post Office, and the public enterprises expressed at current exchange rates (not including arrears subject to rescheduling) are estimated to have been reduced by MF 6.5 billion, against a programed reduction of MF 6 billion. In addition, an amount of arrears of MF 16.6 billion, including MF 12.6 billion of interest charges due under the operations account, is in the process of being eliminated through rescheduling.

To remedy the illiquidity of the postal checking system, which prevented the encashability of postal checks, the program envisaged the establishment of a reserve fund at the Central Bank, amounting to MF 6 billion, making use of the counterpart of purchases from the Fund. Its purpose was to permit the withdrawal of postal deposits, including savings deposits held by the public and by enterprises, estimated originally at MF 6 billion. For the deposits of government agencies, estimated at MF 17 billion, the program envisaged a consolidation in the form of medium-term claims on the Treasury, with the exception of an amount of MF 500 million of the deposits of the Road Fund, which could be withdrawn. The reserve fund was established on June 12, 1982, and at the same time a set of regulations was issued providing for the separation of the operations of the postal checking system from those of the Treasury and the Postal and Telecommunications Office (OPT) so as to prevent indirect financing of the deficits of these agencies. Leakages occurred in the use of the reserve fund, as its resources were partly used to finance operations of the OPT other than the withdrawal of deposits and to cover certain Treasury short-term borrowing requirements. During the review it was agreed that the authorities would appraise the functioning of the reserve fund, and that the leakages would be made up by prompt repayment to the reserve fund. It was also agreed that the reserve fund be supplemented to take into account that the actual amount of nongovernment deposits on June 12 was MF 900 million higher than envisaged at the time of the program preparation.

4. Public enterprises and agricultural policies

The results obtained in 1982 to improve the overall situation of public enterprises remained considerably short of target. Efforts were undertaken to turn over to the private sector, either wholly or in partial participation, a number of state enterprises not considered of strategic importance. Negotiations with possible private partners have started for a few enterprises, but so far prospects are not very encouraging. The liquidation of a number of companies, which presently are only partially operational, continues to be envisaged. In the meantime, these enterprises have not had access to bank credit, and the level of their operations has been reduced. With regard to the 12 main enterprises considered of strategic importance, the objective of reducing their deficit by 45 per cent was not

Table 6. Mali: Current Payments Arrears 1/, 1980-82

(In millions of Mali francs; end of year)

	1980	1981	1982	
			Prog.	Proj.
Treasury	20,891	28,497	20,797	18,346
Domestic arrears	(13,565)	(20,448)	(15,848)	(13,825)
External arrears	(7,326)	(8,049)	(4,949)	(4,521)
Post Office (International postal transfers)	3,520	4,820	3,320	2,838
Public enterprises <u>2/</u>	5,366	7,401	6,001	6,441
Total arrears	29,777	40,718	30,118	27,625
Domestic arrears	13,565	20,448	15,848	13,825
External arrears	16,212	20,270	14,270	13,800
<u>Annual changes</u>				
Total arrears	7,287	10,941	-10,600	-13,093
Domestic arrears	3,277	6,883	-4,600	-6,623
External arrears	4,010	4,058	-6,000	-6,470
Treasury arrears	5,063	7,606	-7,700	-10,151

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

1/ Excluding payments arrears to be reduced through rescheduling in 1982. At the end of December 1981, these arrears amounted to MF 16,614 million, of which MF 12,599 million related to the operations account, MF 2,700 million to accrued interest payments owed by the Selingué dam authority and currently under negotiation, and MF 1,315 million to three external loans.

2/ External payments arrears only.

attained. The 1982 deficit is estimated at MF 9.8 billion, compared with a 1981 deficit of MF 10.7 billion and a program objective of MF 5.8 billion (Appendix Table IV). This higher-than-programed deficit is mainly due to the disappointing results of the export-import company (SOMIEX).

The restructuring of SOMIEX, which has a key position in the country as an importer of essential commodities and an exporter of cotton has encountered substantial delays; domestic distribution operations, which in the program were envisaged to be close to equilibrium in 1982, have recorded instead a large deficit estimated at MF 6 billion. This was caused by the major difficulties encountered in implementing the company reorganization plan adopted in 1981 due to the obstacles to the planned closure of retail outlets and the associated reduction of personnel and liquidation of stocks, to delays in obtaining government approval for increases in retail prices to cover costs, and to continuous management weakness. Furthermore, as the company was unable to obtain additional bank credit, it could not fully meet its tax and financial obligations. The losses were financed in part by absorbing the profits from cotton exports, which benefited from the substantial depreciation of the exchange rate.

Progress in strengthening the efficiency of operations and in improving financial results has been achieved for the electricity agency (EDM) and the railroad enterprise (RCFM), as a result of tariff increases, in the case of EDM, by the increase in electricity delivered from the recently completed hydroelectric plant at Sélingué, and by the adoption of internal rehabilitation measures underpinned by financial and technical assistance by the World Bank. In the groundnut sector, the unfavorable level of the international groundnut oil price continued to create serious difficulties for the refining companies, SEPAMA and SEPOM, whose operations have been curtailed.

An important element of the program was the liberalization of the cereal market and the associated restructuring of the cereal marketing agency (OPAM) so as to improve supply conditions and reduce the losses of the agency, which in the past has required government subsidies through the Price Stabilization Fund and bank credit. In early January 1982 cereal marketing was legally opened to private traders, and the role of OPAM was redefined, limiting its distribution activities to certain public service agencies and to the more disadvantaged areas of the country, and restricting its interventions for the purpose of price stabilization. Retail prices of OPAM were increased by 35 per cent for maize and millet and by 15 per cent for rice. Measures to cut the agency's operating costs were introduced at the end of March 1982, mainly through a reduction of personnel and savings in transportation costs. These measures, together with the increase in retail prices, helped to reduce OPAM's losses in its 1981-82 budget year to MF 3.9 billion, down from MF 4.7 billion in 1980-81. This deficit,

however, remained higher than that envisaged in the program (MF 3 billion), mainly because the retail price adjustments and the cost-cutting measures were adopted only in the course of its fiscal year. As the company benefited from the use of the counterparts of substantial external food aid, and government subsidies higher than envisaged in the program, its recourse to bank credit declined. Although the spread between the market and official prices declined during 1982, it continued to remain significant (about 35 per cent on average during the year). For operational reasons, seasonal flexibility of the official price, as envisaged in the program, could not be implemented effectively at this stage.

5. Money and credit

Credit and monetary developments have been in accordance with the quantitative and qualitative targets established in the program. Bank credit to the Government and to the economy remained at end-June and end-September 1982 below the ceilings set in the program (Table 2). As envisaged under the program, the review mission had to establish the ceiling for credit to the economy at end-December 1982, since the projections in the program represented an indicative target only. Credit to the economy expanded up to September 1982 at a rate slightly below what had been targeted; a faster increase of crop financing, because of a good harvest was offset by a shortfall in the expansion of nonseasonal credit, reflecting a restrictive credit policy by the authorities and some improvement in the liquidity position of companies due to a substantial reduction in the Treasury's arrears.

The ceiling on bank credit to the economy for end-1982 was established on the basis of the indicative limit on nonseasonal credit already set in the program and taking into account the need for new seasonal credit required to market the 1982/83 agricultural production (Table 7). The lower limit of credit to the economy, which served as an operational ceiling whose non-observance would call for consultation with the Fund's management, was set at MF 200.8 billion, compared with the indicative program target of MF 198.7 billion. However, to take account of the leads and lags which may occur in marketing and exporting farm products and which could be particularly large in the initial phase of crop financing, a technical margin of MF 4.5 billion was added to this lower limit to arrive at an upper limit of MF 205.3 billion to be observed as a performance criterion. On the basis of the lower limit established for December, credit to the economy would increase in 1982 by 11.7 per cent or somewhat more than forecast in the program (10.6 per cent), the adjustment being required because of the increase in the volume of the cotton production to be marketed.

Net bank credit to the Government increased in the first nine months of the year both in absolute amount and in percentage terms by less than envisaged in the program, mainly because of the higher-than-expected level of government deposits. It was agreed that the expansion of bank credit

Table 7. Mali: Monetary Survey, 1980-82

(In billions of Mali francs; end of period)

	1980 Dec.	1981 Dec.	1982				Annual increase (in per cent)		
			March	June	Sept.	Dec.	1981		1982
			Actual	Actual	Actual	Proj.	Actual	Prog.	Proj.
Foreign assets (net)	-112.1	-121.6	-117.9 <u>1/</u>	122.3 <u>1/</u>	-134.8 <u>1/</u>	-131.9 <u>1/</u>	-8.5	12.0	8.5
Domestic credit (net)	286.2	311.3	316.4	319.3	319.3	341.1	8.7	10.4	9.6
Claims on Government	122.2	131.6	132.4 <u>1/</u>	133.9 <u>1/</u>	138.3 <u>1/</u>	140.3 <u>1/</u>	7.7	10.0	6.6
Banking system	112.2	119.6	120.5 <u>1/</u>	123.5 <u>1/</u>	130.8 <u>1/</u>	133.3 <u>1/</u>	6.6	15.2	11.4
Postal checking system <u>2/</u>	10.0	12.0	11.9	10.4	7.5	7.0	20.0	-52.5	-41.7
Claims on the economy	164.0	179.7 <u>3/</u>	184.0	185.7	181.0	200.8 <u>4/</u>	9.6	10.6	11.7
Ordinary	115.1	121.8	125.5	127.4	129.6	138.8	5.8	14.0	14.0
Crop financing	48.9	57.9 <u>3/</u>	58.5	58.3	51.4	62.0 <u>4/</u>	18.4	3.6	7.1
Money and quasi-money	142.9	152.1	163.5	163.3	155.0	168.6	6.4	10.9	10.9
Other items (net)	31.2	37.6	35.0	34.0	29.5	44.5	--	--	--

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

1/ Interest on the operations account due in 1982 is excluded in anticipation of the consolidation of total liabilities under operations account.

2/ New series representing deposits of economic agents within the Postal Checking System and the Savings Fund, capable of being drawn.

3/ Included an upward adjustment of MF 5 billion to take account of technical delays in granting crop financing facilities at the end of 1981.

4/ Data corresponding to the lower limit under the credit ceiling.

to Government between end-December 1981 and end-December 1982 would remain limited to the absolute increase permitted under the program (MF 18.4 billion); as a result, the amount of net outstanding bank credit to Government at the end of 1982 would be below the target originally established. In the event, the increase of bank credit to the Government in the fourth quarter was substantially lower than projected and the expansion during the year was limited to MF 13.7 billion, corresponding to a growth rate of 11.4 per cent versus a programmed rate of 15.2 per cent. Postal checking deposits declined by an amount similar to that foreseen in the program, although the end-1981 base and the series up to that date were revised upward as a result of more complete statistical information. The rate of increase in total credit to Government during the year was 6.6 per cent versus the 10 per cent rate envisaged. As a result of these developments, total domestic credit is expected to increase during the year by 9.6 per cent, against 10.4 per cent forecast in the program and 8.7 per cent in 1981. The growth rate of money and quasi-money is projected at 10.9 per cent, as in the original program, or somewhat below the growth of nominal GDP.

As agreed in the program, interest rates on deposits were revised upward in May 1982. Interest rates on sight deposits were increased by about 2 percentage points and those on term deposits by a somewhat larger amount, according to market conditions, so as to maintain deposit rates in line with those in neighboring countries. Preliminary indications are that this increase had a favorable effect on remittances by Malians working abroad. With the normalization of the functioning of the postal system, the authorities are considering increasing the interest rate applied to postal savings deposits. Lending rates, which range from 9.5 per cent to 15 per cent and which already approximate those in neighboring countries, have not been changed.

6. External sector

During 1982 the Mali franc, which is pegged to the French franc at the rate of MF 100 = F 1, depreciated by 13.2 per cent vis-à-vis the SDR, or substantially more than forecast in the program (2.5 per cent); on an import-weighted basis the depreciation amounted to 5 per cent. The depreciation contributed to contain import volume and improve the profitability of the cotton export sector.

On the basis of preliminary data, the deficit of the current account of the balance of payments (excluding official grants) is expected to have declined in 1982 to SDR 182 million (equivalent to 20.1 per cent of GDP) compared with a forecast under the program of SDR 190 million (18.8 per cent of GDP) and a deficit in 1981 of SDR 201 million (21.7 per cent of GDP) (Table 8 and Appendix Table V). ^{1/} Although the absolute decline in

^{1/} Excluding interest on the operations account, whose consolidation is pending, the 1982 current account deficit was SDR 166 million, or 18.1 per cent of GDP, compared with a forecast under the program of SDR 170 million or 16.8 per cent of GDP.

Table 8. Mali: Balance of Payments Summary, 1980-83

(In millions of SDRs) 1/

	1980	1981	1982		1983
			Program forecast	Prel. estimate	Prel. forecast 2/
Exports, f.o.b.	157.4	130.8	133.8	131.9	144.9
Imports, c.i.f.	-338.4	-326.0	-311.5	313.1	-316.1
Trade balance	-181.0	-195.2	-177.7	-181.2	-171.2
Services (net)	30.0	-32.8	-39.5	-37.6	-40.2
Private transfers (net) 3/	25.6	26.7	27.1	36.6	30.3
Current account balance	<u>-185.4</u>	<u>-201.3</u>	<u>-190.2</u>	<u>-182.2</u>	<u>-181.1</u>
Related to project aid	-118.7	-135.9	-137.9	-131.0	-139.3
Related to interest on op/acc.	-9.4	-19.7	-19.9	-17.9	-15.8
Related to other transactions	-57.3	-45.7	-32.4	-33.3	-26.0
Official transfers	98.2	102.8	76.9	82.7	88.4
Project aid	(81.8)	(80.1)	(53.6)	(67.0)	(68.6)
Other 4/	(16.4)	(22.7)	(23.6)	(15.7)	(19.8)
Capital	61.6	61.0	100.1	94.3	81.7
Project aid	(36.9)	(55.9)	(84.3)	(64.0)	(70.7)
Other	(24.7)	(4.1)	(15.8)	(20.3)	(11.0)
SDR allocations	2.9	3.0	--	--	--
Overall balance	-22.7	-34.5	-13.2	-5.2	-11.0
<u>Memorandum items:</u>			<u>(In per cent of GDP)</u>		
Current account (deficit) exclud- ing official transfers 5/	18.6	21.7	18.8	20.1	20.1
Related to project aid	11.9	14.7	13.6	14.4	15.5
Related to int. on op. acc.	0.9	2.1	2.0	2.0	1.7
Related to other transactions	5.7	4.9	3.2	3.7	2.9
Overall deficit	2.3	3.7	1.3	0.6	1.2

1/ Calculated on the basis of the following exchange rates: 1980: SDR 1 = MF 550; 1981: SDR 1 = MF 640.8; 1982 program forecast: SDR 1 = MF 652.55; 1982 preliminary estimate: SDR 1 = MF 725.4; 1983: SDR 1 = MF 757.9.

2/ These forecasts will be discussed with the authorities in the context of a new program.

3/ Including errors and omissions.

4/ Including emergency food aid.

5/ Including interest on the operations account with the French Treasury.

SDR terms was greater than forecast, the decline in the current account deficit to GDP ratio was less than targeted because of the impact on the current account of the large depreciation of the Mali franc vis-à-vis the SDR. The reduction of the current account deficit net of imports tied to project aid and of interest on the operations account is sizable (from SDR 45.7 million in 1981 to SDR 33.3 million in 1982 and as a ratio to GDP from 4.9 per cent to 3.7 per cent), although somewhat below the program's forecast (SDR 32.4 million, or 3.2 per cent of GDP). Total exports in 1982 are estimated to have increased by 1 per cent in terms of SDRs. The volume of fiber exports declined by 4 per cent as a result of a smaller reduction in 1981 caused by a shift in acreage toward cereal production and, with cotton prices falling by 5 per cent in SDR terms, the value of cotton exports declined significantly. On the other hand, exports of livestock, the other main export product, are expected to have increased by 10 per cent. The level of imports in 1982 is expected to be in line with the program's forecast and to decline by 7 per cent in terms of SDRs from the 1981 level, mainly on account of a sharp reduction in foodstuffs imports (20 per cent from the 1981 level) as a result of higher domestic cereal production and the decline in world market prices. Imports financed by project aid, mainly equipment and construction materials, are expected to have fallen slightly, while other imports of manufactured goods are estimated to have remained stable, and those of petroleum products have increased on account of higher prices resulting from the lags with which international market prices are translated into border prices.

Total official transfers and borrowing were close to the level envisaged in the program; a smaller amount of project aid was offset by a higher volume of budgetary aid and a smaller flow of debt repayments. As a result of these developments the overall 1982 balance of payments, net of interest on the operations account to be refinanced (SDR 17.9 million), is expected to record a deficit of SDR 5.2 million (0.6 per cent of GDP), which is substantially smaller than envisaged in the program (SDR 13.2 million or 1.3 per cent of GDP) and compares with a 1981 deficit of SDR 34.5 million (3.7 per cent of GDP). Net foreign liabilities of the banking system increased by SDR 14.2 million, and the authorities reduced external arrears with cash settlements by SDR 9 million, as envisaged in the program. The stock of external arrears declined by slightly more (SDR 10.0 million), as a result of valuation adjustments.

The authorities have not contracted any new external nonconcessional loans, pursuant to the undertaking provided to the Fund. Total debt outstanding, inclusive of Fund credit and the operations account, is projected to rise from SDR 831 million, or 89.6 per cent of GDP in 1981, to SDR 966 million, or 106.6 per cent of GDP in 1982, as a result of an increase in loans from official multilateral and bilateral agencies. The debt service ratio, excluding interest on the operations account with the French Treasury, whose renegotiation is pending, rose from 5.4 per cent in 1981 to 9.7 per cent, reflecting larger scheduled amortization and higher interest charges.

III. Main Prospects and Policies for 1983

Although the program supported by the existing stand-by arrangement covers only calendar year 1982, the authorities intend in 1983 to continue to pursue their efforts to rehabilitate the public sector and to strengthen the foundation for successful economic development in the future. Consistent with this approach as indicated in the attached letter of the Minister of Finance, they have already adopted a number of corrective measures and hope that the program now being prepared will be supported, upon expiration of the stand-by presently in effect, by a new arrangement with the Fund. The new program, which will be completed in the coming months, comprises at this stage the central government budget for 1983, with related tax and expenditure policies, immediate actions for SOMIEX, prospective measures for the public sector, and the main lines of credit policy. Financial prospects are likely to be favorably affected by the eventual entry into WAMI for which a final political decision has not yet been taken.

Prospects for production in 1983 are less favorable than in 1982, as the lack of rainfall in the northern regions of the country in the second half of 1982 is likely to entail a significant decline in cereal production and may lead to large losses of cattle as a result of extensive damage to grazing lands. With cereal production forecast to fall by about 15 per cent and livestock to decline by 20 per cent, production in the primary sector may fall by about 15 per cent, despite an expected increase in cotton production; real GDP may decline by about 4 per cent. The rate of inflation, which had subsided considerably in 1982, may accelerate, reflecting the less favorable cereal crop and higher import prices resulting from the depreciation of the exchange rate.

The objective of the authorities in 1983 would be to reduce the consolidated government deficit to MF 8 billion from an estimated MF 11.9 billion in 1982, through a lower central government deficit, lower extra-budgetary expenditures, and the maintenance of a significant surplus of the special funds. The 1983 central government budget, which was approved in December 1982, projects a further reduction of the deficit to MF 8.9 billion, compared to an estimated deficit of MF 10.2 billion in 1982 (Table 5). Budgetary revenues are expected to increase by 10.7 per cent, close to the average recorded in the 1981-82 period, reflecting continuing efforts to enlarge the tax base and to improve tax administration. Budgetary expenditures are projected to increase at a much faster rate than in 1982 (8.0 per cent versus 2.7 per cent), mainly because of a 12 per cent increase in personnel expenditures, representing largely the recruitment of a larger than normal graduating class caused by the school closure in the previous year. However, as in 1982, actual personnel expenditures may well remain below the budgetary appropriations, as the controls on personnel effectively in place are being strengthened, and attrition is being encouraged. As in 1981 and 1982, no general wage increase is contemplated for 1983. With the technical assistance of the World Bank, the authorities are envisaging

the introduction of a new system of employment monitoring and salary control that should assist in containing personnel expenditures.

With regard to the public enterprises, in addition to the implementation of the measures for SOMIEX already envisaged for 1982, the Government intends to introduce in the coming months a package of measures of both a short- and long-term nature designed to strengthen the finances of the strategic public enterprises and to eliminate unprofitable operations. These measures will be based on the proposals contained in the report on public enterprises prepared by a group of consultants financed by the World Bank and submitted to the authorities in October. Furthermore, the Government intends to reduce the deficit of the cereals market agency by about one half in 1983 through further reduction in its operating costs and price adjustments. *Official retail prices of cereals were increased at the beginning of November 1982 by an average of 8 per cent; the prices of maize, millet, and sorghum were raised to MF 125 per kilo from MF 116 and that of rice (RM 40 quality) to MF 250 per kilo from MF 230.* As these prices remain considerably below those prevailing in the free market (by a margin of about 35 per cent), changes in the price and regulation policy are under consideration. Monetary policy in 1983 will continue to remain tight, so as to prevent the financing of structural operating deficits of state enterprises.

On the basis of information presently available, during 1983 exports are expected to increase by about 15 per cent as a result of a higher production of cotton and a higher anticipated offtake rate for livestock owing to the drought in some parts of the country (Table 8). Imports are expected to increase by about 8 per cent, mainly because of an acceleration of imports related to investment projects and higher foreign-financed cereal imports owing to the expected shortfall in domestic production. Overall, the current account deficit may register on present trends a further decline to SDR 181 million or 20 per cent of GDP; net of imports tied to foreign aid and of interest on the operations account, the current account deficit is expected to decline both in absolute terms and as a ratio of GDP. Most of the deficit will be financed by project aid, food aid, and the expected external budgetary aid. Debt service payments excluding interest on the operations account is expected to remain moderate at about 9 per cent. The balance of payments prospects and targets will be the subject of further discussions in the context of a new program.

IV. Staff Appraisal

The economic and financial performance of the Malian economy in 1982 was broadly favorable. Owing to favorable climatic conditions, cereal production reached a relatively high level, leading to a significant growth of real GDP after two years of stagnation, and contributing to a deceleration of inflation. Furthermore, as a result of the satisfactory implementation of many of the measures envisaged in the program, most of the financial objectives are likely to be attained and domestic and

external financial disequilibria reduced in line with the program targets. Progress was also made in the reorientation of the economy toward more reliance on the price mechanism and the private sector.

With regard to government finance, progress was achieved in reducing budgetary imbalances, improving the monitoring of the budget execution, and the control of Treasury operations. Initial steps were also taken to centralize control of the hitherto largely autonomous special funds which absorb a significant part of government revenues. In the crucial area of personnel expenditures, a significant decline in the growth of the wage bill was achieved in 1982 partly through a tight control of new recruitment and payments procedures by the Ministry of Finance and partly as a result of a postponement in the completion of the school year. No general wage increase was granted for the second successive year. Following new tax measures in 1981 and 1982 and a strengthening of tax administration, government revenues rose significantly in the last two years. Confidence in the Government's payments system has been partly restored through the reduction of Treasury payments arrears and the improvement in the international and domestic postal operations.

Credit policy was fully in line with the program's undertakings, and the expansion of credit both to the economy and to the Government remained below the program's ceilings. In particular, a tight credit policy was pursued in relation to public enterprises to avoid financing structural losses and to stimulate the adoption of corrective measures at the enterprise level. The increase in bank deposit interest rates which took place in May contributed, together with the deceleration of inflation, to raising interest rates to positive levels in real terms and appears to have had favorable effects on workers' remittances from abroad.

Public enterprises' losses declined from the 1981 level but remained considerably higher than envisaged in the program. As bank credit remained tight, most of these losses were financed by an increase in tax arrears and the proceeds of external grants. A number of adjustments were introduced, with favorable consequences on the financial situation of some public utility enterprises. On the other hand, substantial major difficulties have been encountered in carrying through the restructuring of the state export-import company, which accounts for a major part of the sector's losses. The restructuring of the cereal marketing agency, involving changes in its intervention policy and reductions in costs, has proceeded satisfactorily and has led to a reduction in its losses, albeit by less than envisaged in the program, and a decline in government subsidies.

The balance of payments performance has been broadly in line with the program's objectives, and the overall deficit is expected to decline by considerably more than envisaged, partly on account of higher official transfers and capital inflows. The current account in absolute terms declined by more than indicated in the program but as a ratio to GDP was higher than programed on account of the SDR effects of the exchange rate

depreciation on the current deficit in local currency. The average depreciation of the exchange rate during 1982, amounting to 13 per cent in terms of the SDR, was larger than envisaged at the time of the program preparation and improved the profitability of the export sector.

Notwithstanding the commendable progress achieved by Mali in 1982, additional decisive action will be needed in 1983 to reduce even further the financial and structural imbalances of the economy, and to make up for lagging implementation in some areas. In the government finance area, continuing efforts are required to improve the functioning of customs duty collections, the assessment of direct taxes, and the control of exemptions. While the authorities have been able to contain personnel expenditures, a new effective recruitment policy has yet to be formulated and implemented to ensure that, with the return of normal school operations, hiring in the civil service will be strictly limited. To reinforce the steps already taken in 1982 to restore the proper functioning of postal payments operations, measures will be required to rehabilitate the Postal and Telecommunications Office and completely insulate its financial operations from those of the postal checking system.

As the planned rehabilitation of the large state enterprise sector will take several years, every effort should be made to implement without delay the reforms already adopted. In this respect, decisive actions are necessary at the earliest to carry out fully the restructuring of the state export-import company, as envisaged in the program for 1982. Moreover, it is essential that, with the recent completion of a comprehensive survey conducted with the assistance of the World Bank, the authorities prepare a set of additional measures to be implemented during 1983 in the context of a medium-term sectoral strategy. Determined efforts to promote greater private initiative in directly productive activities in agriculture and manufacturing could ease the expected decline in employment in the public sector. In the agricultural sector, the liberalization of cereal marketing and the restructuring of the cereal marketing agency which was effected in 1982 will have to be reinforced by a further reduction of the gap between market and official retail cereal prices, which remains substantial and leads to a misallocation of resources. Although producer prices have been increased substantially in recent years, further adjustments are necessary, especially for rice, to provide appropriate incentives and stimulate a fuller use of the productive potential.

Despite a projected decline in production, due in part to unfavorable climatic conditions in certain regions, the authorities remain firmly committed to make further progress in 1983 to reduce the existing financial disequilibrium and strengthen the base for economic development. The central government budget recently approved, together with other measures indicated above, should make it possible to reduce the consolidated government deficit (excluding interest charges on the operations account to be refinanced and foreign-financed investment) from 2 per cent of GDP in 1982 to 1 per cent in 1983. A new package of measures in the areas of public

enterprises, agriculture, and economic management is currently being prepared for implementation in 1983. The staff believes that the adjustment and restructuring efforts of the authorities are worthy of the Fund's continued support. The staff plans to have discussions with the authorities on a new program in the near future, at which time the Article IV Consultation with Mali will also take place.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. Mali has consulted with the Fund in accordance with paragraph 3(b) of the stand-by arrangement for Mali (EBS/82/68, Supplement 1, May 21, 1982) and the letter of the Ministry of Finance dated March 12, 1982, attached to the stand-by arrangement, in order to reach understandings subject to which purchases may be made by Mali under the stand-by arrangement.

2. The letter dated November 26, 1982, from the Minister of Finance shall be attached to the stand-by arrangement for Mali as representing further understandings reached for the remaining period of the arrangement. Accordingly, the ceilings on bank credit to the economy for end-December 1982 shall be in accordance with paragraph 6 of the letter of November 26, 1982.

Table I. Mali: Consolidated Government Deficit, 1980-82

(In billions of Mali francs)

	1980	1981	1982	
			Program	Proj.
Central government budget	-20.6	-12.7	-9.9	-10.2
Revenue	60.7	72.7	78.9	77.6
Expenditure	-81.3	-85.4	-88.8	-87.8
Special funds <u>1/</u>	5.8	2.8	1.5	3.5
Other net extrabudgetary payments <u>2/</u>	-9.2	-9.6	-2.0	-5.2
Interest charges due on the operations account	-4.7	-12.4	-13.0	-12.7
Total consolidated deficit				
Incl. interest on op/ac	-28.7	-31.9	-23.4	-24.6
Excl. interest on op/ac	-24.0	-19.5	-10.4	-11.9
Financing requirements	28.7	31.9	23.4	24.6
External financing (net)	18.1	12.8	20.8	27.3
Grants	(6.8)	(7.5)	(7.2)	(6.5)
Gross borrowing	(12.4)	(6.5)	(4.0)	(9.0)
Amortization	(-1.1)	(-1.2)	(-5.0)	(-2.5)
External refinancing	(--)	(--)	(14.6)	<u>3/</u> (14.3) <u>3/</u>
Domestic credit (net)	0.7	9.4	12.7	8.7
Banking system	(2.4)	(7.4)	(18.4)	<u>4/</u> (13.7) <u>4/</u>
CCP	(-1.7)	(2.0)	(-5.7)	(-5.0)
Change in payments arrears	8.1	15.0	-10.6	-12.7
Treasury <u>5/</u>	(5.1)	(7.6)	(-7.7)	-10.2)
Public enterprises <u>5/</u>	(--)	(--)	(-2.9)	(-2.5)
Unpaid interest charges on operations account	(3.0)	(7.4)	(--)	(--)
Others <u>6/</u>	-1.8	-5.3	0.5	1.3

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

1/ Includes the Autonomous debt-amortization fund (CAA), the Road Fund (FR), the Social Security Fund (INPS), the Price Stabilization and Regulation Board (ORSP), the National Transport Office (ONT), Mining Fund (FM), National Forestry Fund (FFN), Government Employees Retirement Fund (CRM).

2/ Net amount of extrabudgetary receipts and payments reflected in the Treasury accounts.

3/ Includes provisional estimate of interest charges due in 1982 on the operations account with the French Treasury, pending the consolidation of the debt outstanding in the context of Mali's entry into WAMU, and other debt service being rescheduled.

4/ Excluding interest payments on the operations account financed by the Central Bank, but including special advances from the Central Bank representing counterpart of Fund resources.

5/ See Table 6. For public enterprises, the figure corresponds to Treasury advances to reduce arrears; this differs from Table 6, which also includes arrears reduction of public enterprises from their own resources.

6/ Obtained by difference; includes variation in other assets and liabilities of the Treasury.

Table II. Mali: Budgetary Revenues, 1980-83 1/

(In millions of Mali francs)

	1980	1981	1982		1983
			Prog.	Prel. est.	Budgetary forecast
<u>Taxes on net income and profits</u>	11,840	13,207	12,744	12,216	14,295
Enterprises	5,802	7,169	9,116	8,473	9,900
Of which: state enterprises	(1,407)	(1,451)	(1,400)	(1,538)	(1,820)
private sector	(3,147)	(4,125)	(4,000)	(4,468)	(4,800)
Individuals	6,038	6,038	3,628	3,743	4,395
Of which: assessment	(3,063)	(3,561)	(2,262)	(2,460)	(3,104)
withholding	(2,381)	(1,961)	(700)	(850)	(820)
<u>Taxes on property</u>	456	685	1,120	887	1,400
<u>Taxes on goods and services</u>	9,347	10,235	11,960	11,804	13,532
Of which: general sales tax	7,249	7,392	8,313	7,900	8,470
Of which: state enterprises	(5,299)	(2,250)	(3,000)	(2,560)	(2,800)
private sector	(1,300)	(5,142)	(4,590)	(4,719)	(4,845)
Excises	2,098	2,044	2,708	3,068	4,093
<u>Taxes on international trade</u>	24,667	33,759	33,952	34,082	35,998
Of which: custom duties	1,252	1,819	2,520	1,750	2,009
other import charges	5,692	7,862	9,000	8,599	9,851
sales taxes on imports	9,038	12,288	12,870	12,382	14,315
petroleum taxes	5,090	6,133	5,392	5,404	5,400
liquidation	1,537	3,639	2,520	3,903	2,520
export tax	1,644	1,770	1,150	1,419	1,266
<u>Other taxes</u>	12,043	12,809	15,401	16,375	16,779
Of which: head tax	5,089	5,161	6,847	6,586	6,531
cattle tax	1,095	1,294	1,561	1,596	1,765
stamp duties	1,788	1,973	2,300	3,431	3,300
previous years' receipts	2,042	3,574	3,620	3,982	3,550
<u>Nontax revenues</u>	2,361	2,032	3,710	2,225	3,917
<u>Total revenues</u>	60,714	72,727	78,887	77,619	85,921
Percentage change:	(5.9)	(19.8)	(8.4)	(6.8)	(10.7)

Source: Data provided by the Malian authorities.

1/ Central and regional government budgets only.

Table III. Mali: Budgetary Expenditures, 1980-83 ^{1/}

(In millions of Mali francs)

	1980	1981	1982		1983 Budgetary Forecast
			Prog.	Prel. Est.	
Personnel	49,402	53,341	57,885	54,724	61,537
National budget	43,665	47,114	50,491	47,430	53,612
Regional budget	5,737	6,227	7,294	7,294	7,925
Scholarships	7,850	6,458	6,325	6,325	7,519
Maintenance	15,215	15,469	16,857	17,069	16,891
National budget	14,803	15,069	16,409	16,621	16,443
Regional budget	412	400	448	448	448
Miscellaneous	8,785	10,173	7,832	9,650	8,845
National budget	6,377	6,444	4,491	6,309	4,405
Regional budget	405	726	501	501	501
Equipment	2,003	3,003	2,840	2,840	3,939
Total expenditures	81,252	85,441	88,809	87,768	94,792
Percentage change	(6.5)	(5.2)	(3.9)	(2.7)	(8.0)

Source: Data provided by the Malian authorities.

^{1/} Central and regional government budgets only. Subsidies to public enterprises are not included in these budgets.

Table IV. Mali. Net Operating Results of the
Major State Enterprises, 1980-82

(In millions of Mali francs)

	1980	1981	1982	
			Prog.	Prel. Est.
SOMIEX (Import-export)	-636	1,360	100	-2,500
Export activities	(4,710)	(7,540)	(111)	(3,500)
Domestic distribution	(-5,346)	(-6,180)	(-11)	(-6,000)
OPAM (Cereals marketing)	-6,795	-4,718	-3,000	-3,910
Air Mali (Air transport)	-1,790	-2,048	-1,400	-1,500
EDM (Electricity)	-147	-159	--	400
RCFM (Railways)	-2,193	-3,163	-300	-1,490
COMATEX (Unbleached textile fiber)	-1,750	-2,160	-300	-500
ITEMA (Textiles)	-328	347	--	--
PPM (Pharmaceuticals)	436	514	400	600
SEPAMA (Groundnut oil processing)	-1,718	-1,389	-1,000	-1,200
SEPOM (Refined groundnut oil)	-615	150	-1,000	-500
SMECMA (Agricultural equipment)	75	62	200	200
SONATAM (Cigarettes and matches)	<u>418</u>	<u>534</u>	<u>500</u>	<u>578</u>
Total	-15,043	-10,670	-5,800	-9,822
(Percentage change)	(-33.4)	(-29.1)	(-45.6)	(-8.0)

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

Table V. Mali: Balance of Payments, Analytic Presentation, 1979-83

(In millions of SDRs)

	1980	1981	1982 Program forecast	1982 Prel. est.	1983 Est.
Exports, f.o.b.	157.4	130.8	133.8	131.9	144.9
Cotton	(79.1)	(53.4)	(43.4)	(50.4)	(54.8)
Livestock	(45.6)	(43.5)	(52.1)	(47.6)	(55.0)
Others	(32.7)	(33.9)	(38.3)	(33.9)	(35.1)
Imports, c.i.f.	-338.4	-326.0	-311.5	-313.1	313.1
Imports, project aid	(-99.5)	(-113.1)	(-114.9)	(-108.9)	-116.1
Other imports	(-238.9)	(-212.9)	(-196.6)	(-196.9)	(-200.0)
Petroleum	(-63.6)	(-61.2)	(-59.3)	(-66.9)	(-64.6)
Foodstuffs	(60.6)	(-71.5)	(-49.0)	(-56.5)	(-57.0)
Other	(-114.7)	(-80.2)	(-88.3)	(-80.8)	(-78.4)
Services (net)	-30.0	-32.8	-39.5	-37.6	-40.2
Private transfers (net) ^{2/}	25.6	26.7	27.1	36.5	30.3
Current account balance	-185.4	-201.3	-190.2	-182.2	-181.1
Related to project aid	-118.7	-135.9	-137.9	-131.0	-139.3
Related to int. on op. account	-9.4	-19.7	-19.9	-17.9	-15.8
Related to other transaction	-57.3	-45.7	-32.4	-33.3	-26.0
Project aid	118.7	135.9	137.9	131.0	139.3
Grants	(81.8)	(80.0)	(53.6)	(67.0)	(68.6)
Concessional loans	(36.9)	(55.9)	(84.3)	(64.0)	(70.7)
Refinancing debt	--	--	22.7	19.7	15.8
Other transfers and capital (net)	44.0	30.9	16.7	26.3	15.0
Food aid	(6.0)	(17.3)	(12.3)	(11.0)	(13.2)
Budgetary aid	(32.9)	(15.6)	(17.2)	(18.7)	(19.8)
Debt repayments	(-7.8)	(-8.9)	(-12.7)	(-6.2)	(-19.3)
Other (net)	(4.4)	(3.7)	(--)	(2.8)	(1.3)
Trust Fund loans	(5.6)	(0.2)	(--)	(--)	(--)
SDR allocations	(2.9)	(3.0)	(--)	(--)	(--)
Overall balance	22.7	-34.5	-13.2	-5.2	-11.0
Central Bank	5.3	18.3	21.9	17.1	...
Operations account	(9.1)	(23.3)	(--)	(-7.0)	...
IMF (net)	(5.1)	(-2.8)	(24.6)	(23.8)	...
Other (net)	(-8.9)	(-2.2)	(-2.7)	(0.3)	...
Deposit money banks	3.9	-3.5	0.5	-2.9	...
Changes in arrears	13.5	19.7	-9.2	-9.0	...

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

^{1/} 1979: SDR 1 = MF 549.7; 1980: SDR 1 = MF 550; 1981: SDR 1 = MF 640.8; 1982 program forecast: SDR 1 = MF 652.5; 1982 preliminary estimate SDR 1 = MF 725.4, 1983: SDR 1 = MF 757.9.

^{2/} Including errors and omissions.

Relations with the Fund
(As of December 31, 1982)

Fund data

Date of membership:	September 27, 1963
Quota:	SDR 40.5 million
Intervention currency and the rate:	French franc; MF 100 = F 1
Fund holdings of local currency:	SDR 62.80 million (155.08 per cent of quota), of which SDR 0.50 million (1.23 per cent) under the oil facility and SDR 5.10 million (12.59 per cent) under the compensatory financing facility.
SDR position:	Holdings amounted to SDR 0.5 million (3.1 per cent of the net cumulative allocation of SDR 15.91 million)
Trust Fund loans outstanding.	SDR 21.5 million
Direct distribution of profits from gold sales:	US\$3.48 million
Gold distribution:	18,826.368 fine ounces

Staff contacts and technical
assistance:

The 1981 Article IV consultation discussions were held in Bamako during the periods April 27-May 14 and September 10-16, 1981 and the staff report (SM/81/206) was discussed by the Executive Board on November 16, 1981.

The stand-by discussions were initiated in Bamako between November 26 and December 9, 1981 and concluded in Washington during the period January 27-February 3, 1982. The program paper (EBS/82/68) was discussed and approved by the Executive Board on May 21, 1982.

An expert from the fiscal panel was assigned in August 1982 for one year to assist the authorities in the field of budget control. A Fund resident representative was appointed for an initial one-year term and arrived in Bamako on September 29, 1982.

Relations with the World Bank Group1. Lending operations through November 1982 ^{1/}

	<u>Committed</u>	<u>Disbursed</u>	<u>Undisbursed</u>
(In millions of U.S. dollars)			
Agriculture and rural development	79.3 ^{2/}	67.6	11.7
Rainfed agriculture	(32.5)	(25.5)	(7.0)
Irrigated agriculture	(29.0)	(27.9)	(1.1)
Livestock and forestry	(17.8)	(14.2)	(3.6)
Transportation	78.8	61.5	17.3
Roads	(52.5)	(39.1)	(13.4)
Railways	(26.3)	(22.4)	(3.9)
Education	15.0	3.0	2.0
Urban development	12.0	5.7	6.3
Industry	8.0	1.1	6.9
Energy	27.7 ^{3/}	1.7	26.0
Telecommunications	17.1 ^{4/}	3.6	13.5
Technical assistance	10.4	--	10.4
Total	248.3	154.2	94.1
Repayments	0.9	0.9	--
Debt outstanding	247.4	151.3	94.1

2. 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 approved on December 7, 1982 an economic management and training project which will finance specialists, studies, training, and related support to improve financial and economic policies, to strengthen public institutions, and to train civil servants. Assistance will focus on cereals marketing, rural development agencies, state enterprises, the civil service bureau, the public debt agency, and the business management institute. During preparation of this project, two long-term technical experts have assisted in the reform of public cereals marketing, and diagnostic studies of public enterprises and rural development agencies have been carried out to help prepare reform programs in these two sectors.

^{1/} IDA lending (US\$) only.

^{2/} Includes US\$6.5 million approved but not yet effective.

^{3/} Includes US\$13.5 million approved but not yet effective.

MINISTRY OF FINANCE
Office of the Minister
The Minister of Finance
of Mali

REPUBLIC OF MALI

CONFIDENTIAL

No. 00157/MF-CAB-SP-C

Koulouba, November 26, 1982

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

Sir:

1. In accordance with the fourth paragraph of the letter of March 12, 1982, the Malian Government has just reviewed the implementation of the economic and financial program which received International Monetary Fund support on May 21, 1982 in the form of a stand-by arrangement. In consultation with Fund staff, the Government has also established the ceiling on bank credit to the economy for end-December 1982 and the main lines of economic and financial policy for 1983, particularly as regards the budget, public enterprises, and agricultural prices. The Government hopes that the program it is now preparing for 1983 will be supported, upon expiration of the stand-by presently in effect, by a new arrangement that provides tangible evidence of the Fund's support for the next stage in the rehabilitation process of the Malian economy.

2. Based on the periodical assessment of the execution of the program by an interministerial committee and on in-depth discussions with the Fund mission from November 15 to November 26, 1982, the Government has good reason to expect that the main objectives established for 1982 will be satisfactorily attained. Subject to the unavoidable imprecision of data for the last quarter of the year, the consolidated government finance deficit and the balance of payments deficit will be reduced to the extent provided for by the program, owing to strict application of the various fiscal, budgetary, and monetary measures envisaged under the program. The steps planned to re-establish the proper functioning of the Postal Checking Center (CCP) have also been taken, and the reorganization of the cereals market has been effected satisfactorily for the initial year. In the state enterprise sector, on the other hand, the results have not been up to expectation, and the Government is reviewing the situation to find more effective solutions to the structural problems faced by certain enterprises, in particular, the Société Malienne d'Importation et d'Exportation (SOMIEX). Despite the financial constraints resulting from these difficulties, the performance criteria related to bank credit to the Government and the rest of the economy, to reduction of domestic and external payment arrears, as

well as to external borrowing were observed for June and September 1982, and every effort will be made to ensure that they are also observed for December 1982.

3. In the government finance area, the results for the first nine months of 1982 together with preliminary forecasts made for the fourth quarter suggest that the consolidated government deficit, as defined in the program, will be reduced from MF 19.5 billion in 1981 to MF 11.9 billion in 1982, compared with a programmed reduction from MF 14.4 billion in 1981 to MF 10.4 billion in 1982. The larger reduction will result in part from a 7 per cent increase in budgetary revenue and a moderate increase of 2 per cent in budgetary expenditure, substantially due to a limitation of new recruitment and of scholarships, and a stricter observance of budgetary procedures. It will also result from an anticipated substantial surplus in the operations of the Special Funds and from a decrease in net extra-budgetary expenditure. This reduction of the consolidated deficit was accompanied by a level of external budgetary aid higher than that originally estimated under the program as well as by the expected amount of Central Bank credit. Therefore, the Government has been able to reduce the payments arrears of the Treasury and the public enterprises by an amount larger than was provided for in the program. Improved management at the Directorate General of the Treasury now enables a much closer monitoring of the Treasury's transactions; consequently, we have significantly revised the data for earlier years, in particular those for 1981, so as to ensure the necessary continuity and consistency. An initial centralization of data on the operations of the special funds has been carried out, and before the end of March 1983 we will establish appropriate administrative arrangements to facilitate the periodic preparation of standardized and integrated accounting statements for monitoring their activities more actively. Special steps will also be taken during 1983 to improve the procedures for financial control over special funds.

4. In the area of public enterprises (including OPAM), the program's objectives for 1982 cannot be achieved, either because the measures adopted were applied too late or because their application ran into considerable difficulties. Thus, the aggregate operating deficit of the 13 main enterprises, while showing a reduction in relation to the years 1979-81, is now estimated at about MF 10 billion for 1982, instead of the programmed level of MF 6 billion. In particular, difficulties encountered in implementing the restructuring of SOMIEX contributed to maintaining the losses from its distribution activity at a high level. As the company was unable to obtain additional bank credit, it could not meet all of its tax and financial obligations. Moreover, it was unable to satisfactorily fulfill its new role now limited to ensuring the country's supply of essential goods. In this very difficult situation, the Government is thoroughly reviewing the restructuring plan adopted in January 1981 with a view to identifying the reasons for deficiencies in its implementation, and exploring appropriate alternative solutions. The Government considers the prompt implementation of more effective measures to be a matter of high priority. The specific measures planned for the other state corporations, in particular the Mali

Electric Company and the Malian National Railways, were implemented as planned, leading to satisfactory results in 1982 and further improvement in the future. Whatever the progress or difficulties recorded in 1982, it needs to be recognized that the internal and external constraints weighing upon the state corporation and state enterprise sector continue to be substantial and that their reduction will take several years. Despite the scope and difficulty of this task, the Government remains determined to find effective and realistic solutions for each company and it plans in coming weeks to prepare a program of specific supplementary action to be undertaken during 1983. In preparing this program, the Government will take into account the proposals made in a report recently drawn up by a group of consultants financed by the World Bank.

5. While the reorganization of OPAM has been proceeding normally since the beginning of the year, operating losses for the fiscal year from September 1981 to August 1982 will amount to some MF 3.9 billion rather than the programmed level of MF 3 billion. This increase is due mainly to the fact that selling prices were not adjusted until January 1982 and the cost-reducing measures only became effective in March 1982. However, it was possible to finance the deficit mainly through the use of counterpart funds from external food aid, so that the expansion in bank credit and the amount of ORSP subsidies was reduced. For fiscal 1982/83 the objective is to reduce the OPAM deficit to about MF 2 billion. To this end, selling prices were raised by an average of 8 per cent effective November 5, 1982. Moreover, OPAM will continue its efforts to reduce costs and will introduce certain adjustments in its regulation and intervention policies so as to reduce considerably the average spread between free market and official prices of cereals, in line with the Government's goal of totally eliminating this spread over the medium term.

6. Credit policy in 1982 has complied with the program's quantitative and qualitative targets. Net domestic credit, including deposits with CCP, expanded during the first nine months of the year at a lesser rate than expected; for the year as a whole, however, it should not increase by more than 11 per cent, as projected under the program. The expansion of bank credit to the Government remained well within the limit set for the end of September, due in particular to the higher than anticipated level of government deposits. For end-December 1982, bank credit to the Government is not expected to exceed in absolute terms the maximum increase permitted in the program (MF 18.4 billion). Consequently, the increase in total credit to the Government (10.2 per cent) will be only slightly higher than initially forecast, reflecting exclusively a slower decline in deposits with the CCP than envisaged. Credit to the rest of the economy also remained within the lower limit set for the end of September, due in particular to restrictive nonseasonal credit policy and a substantial reduction in the Government's arrears related to individuals and enterprises. Taking into account the granting of new credits, beginning in October, for the 1982/83 crop year, and the ceiling on nonseasonal

credit already set in the program for the end of the year, the lower limit for credit to the economy was set, in agreement with Fund staff, at MF 200.8 billion for the end of December 1982. Thus, total credit to the economy is anticipated to grow by 11.7 per cent in 1982, or slightly more than the initial estimate, due exclusively to the growth of the volume and value of the agricultural production to be marketed before the end of the year. However, to take account of the leads and lags that may occur in marketing and exporting farm products, a technical margin of MF 4.5 billion has been added to the lower limit of credit to the economy to arrive at an upper limit which will serve as a performance criterion for December 31, 1982.

7. Despite the expected low growth of exports, it should be possible to meet the various balance of payments targets, excluding the charges relating to the operations account, in 1982. These results are due not only to the application of the measures provided for in the program but also to the lower level of investment pending the recovery connected with the new five-year plan and to a more marked depreciation of the effective exchange rate of the Mali franc. Thus, the current account deficit of the balance of payments (excluding official grants) is now expected to decrease from SDR 201 million in 1981 to SDR 184 million in 1982. If imports of goods and services directly linked to grants or concessional loans are excluded, the reduction of the current account deficit is sizable, although slightly below the program's forecasts. The overall balance of payments deficit should not exceed SDR 11.3 million, rather than the SDR 13.2 million foreseen, due to a smaller decline of net external assets and a larger reduction of external payment arrears.

8. To restore confidence in the Malian economy and re-establish the normal functioning of its financial systems, the Government has paid particular attention to reducing the public sector's extremely high domestic and external payments arrears. Owing mainly to larger external assistance than initially expected, it has been possible to reduce these arrears by a greater amount than was foreseen in the program, despite the depreciation of the exchange rate in relation to currencies other than the French franc and the CFA franc. Thus, the combined external arrears of the Government and the public enterprises expressed at current rates (not including arrears subject to rescheduling) decreased by MF 5.1 billion during the first nine months (as against the MF 4.2 billion indicated in the program), and additional settlements amounting to MF 1.4 billion will be made in the fourth quarter. Indeed, but for the rise in exchange rates, the level of arrears would have been reduced by 27 per cent compared with the 21 per cent targeted for the first nine months. The Treasury's domestic arrears to the rest of the economy had decreased by MF 6.4 billion by end-September (as against MF 3.1 billion foreseen), and a further reduction of MF 200 million is planned for the fourth quarter.

9. The Government is firmly resolved to continue in 1983 with its efforts to reorganize and rehabilitate the public sector and to strengthen the basis for future economic development. However, the pursuit of these

goals in 1983 will be adversely affected by the lack of rainfall in certain regions between June and September 1982, which caused a large decline in cereal production and a deterioration of grazing land likely to entail substantial losses of cattle. Despite these difficulties, which will have negative effects on economic activity in 1983, the Government intends to limit the central government budget deficit to a maximum level of MF 8.9 billion. Taking account of the expected extrabudgetary expenditure and the anticipated surplus of the special funds, the consolidated deficit should not exceed MF 8 billion. Further efforts will be made in 1983 to restore budget equilibrium, control personnel expenditure, strengthen management instruments, and further reduce payments arrears. Overall operations of the CCP Reserve Fund will be reviewed before the end of December 1982 to make sure that its operational procedures conform to the established objectives and rules and to guarantee the lasting viability of its financial equilibrium. The action already planned in the government finance area and the action now being prepared for state enterprises will be supplemented by a review of agricultural producer price policy in May 1983 and a reorganization of agricultural development operations to be effected in light of a survey by a group of experts financed by the World Bank. Finally, all these actions will be supplemented by the various financial arrangements associated with Mali's entry into WAMU, still expected for the end of 1982.

Very truly yours,

/s/

Drissa Keita
Minister of Finance

