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EBS/86/56

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March 5, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Mali - Staff Report for the 1986 Article IV Consultation and First Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Mali and the first review under its stand-by arrangement. Draft decisions appear on pages 33-35.

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

Mr. Nsouli (ext. 6937) or Ms. Schmitz (ext. 6933) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

MALI

Staff Report for the 1986 Article IV Consultation and First Review under Stand-By Arrangement

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

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

Approved by A.D. Ouattara and Eduard Brau

March 4, 1986

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I. Introduction

A staff mission visited Bamako during December 2-17, 1985 to conduct the 1986 Article IV consultation discussions and the first review under the current stand-by arrangement. The discussions were concluded with a delegation headed by the Minister of Finance and Commerce at Fund headquarters during January 16-24, 1986. 1/ The stand-by arrangement, for a period of 17 months and in an amount equivalent to SDR 22.86 million (45 percent of quota), was approved by the Executive Board on November 8, 1985; to date, Mali has purchased the first two installments of SDR 3.266 million each. The remaining purchases, scheduled in five quarterly amounts of SDR 3.266 million, are subject to the observance of performance criteria for the preceding quarter; purchases after end-December 1985 and end-June 1986 are, in addition, contingent on the completion of the first and second reviews, respectively, scheduled before end-March 1986 and end-June 1986. As the performance criterion relating to external payments arrears for end-December 1985 has not been met, Mali can resume purchases from the Fund only when the end-March 1986 performance criteria have been observed and the first review has been completed. As of end-January 1986, Mali's outstanding use of Fund credit amounted to SDR 73.5 million (144.7 percent of quota), reflecting purchases under three successive stand-by arrangements. If all scheduled repurchases and all purchases under the current stand-by arrangement are made, Mali's outstanding use of Fund credit would amount to SDR 72.1 million (142.0 percent of quota) by the end of March 1987 (Appendix VII, Table I).

The Fund and Bank staffs have continued to work closely on Mali. In December 1985 the Fund mission overlapped with two Bank missions, which reviewed the progress made in public resource management, provided assistance for public investment programming, and prepared the envisaged public enterprise reform project for negotiation. There has also been close cooperation in the area of agricultural reform, and in particular with respect to the economic and financial plan for the cotton sector in

1/ In addition to Mr. Dianka Kaba Diakité, Minister of Finance and Commerce, the representatives of Mali included Mr. Djibril Diallo, Minister of State in charge of Industrial Development and Tourism; Mr. Oumar Coulibaly, Minister of State in charge of the Ministry of State Enterprises; Mr. Modibo Keita, Minister of Employment and Civil Service; Mr. Younoussi Touré, National Director of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO); and other senior officials concerned with economic and financial matters. The staff representatives were Mr. S.M. Nsouli (head-AFR), Mr. A. Faria, Mrs. L. Schmitz, Mr. J. Clément and Mr. K. Enders (all AFR), Mrs. P. Alonso-Gamo (FAD), Ms. A. Doizé, Fund Resident Representative in Bamako, and Ms. Y. Guyon (secretary-AFR). World Bank staff representatives participated in the discussions. Mr. A. Alfidja, Mali's Executive Director in the Fund, also participated in the discussions in Bamako and at headquarters.

1986. In addition, the medium-term scenario was developed in close collaboration with the World Bank staff.

Mali continues to avail itself of the transitional arrangements of Article XIV. Summaries of Mali's relations with the Fund and the World Bank Group are given in Appendices II and III. The basic data table and a note on statistical issues are included in Appendices V and VI.

II. Recent Economic and Financial Developments

In the two decades following independence in 1960, the Malian economy was beset by growing economic and financial imbalances, reflected in a slowdown in economic activity, rising inflationary pressures, a deterioration in the external sector position, and an accumulation of domestic and external payments arrears. Mali suffered from recurrent droughts and a decline in its external terms of trade. Concomitantly, the authorities embarked on an ambitious public investment program, which, together with a rise in current government expenditure, contributed to rising overall budgetary deficits. These were largely financed by a heavy recourse to domestic bank and external borrowing. A comprehensive system of price controls was rigidly implemented, with adverse effects on economic activity and resource allocation. Furthermore, the large public enterprise sector incurred substantial losses, due partly to technical and managerial problems.

In 1980 and 1981 the authorities took some initial steps to redress the situation. During 1982-84 the adjustment efforts were intensified and supported by two successive stand-by arrangements from the Fund, as well as financial and technical assistance from the World Bank. In the context of these arrangements, the authorities implemented a number of supply- and demand-oriented measures and made progress in reducing the underlying economic and financial imbalances. The coarse cereals marketing system was liberalized, official agricultural producer and retail prices were raised, the rehabilitation of key public enterprises was initiated, financial management was strengthened, and identified domestic and external arrears of the public sector were reduced. In spite of the adverse effects of severe drought conditions, all the performance criteria were observed. 1/

Notwithstanding the progress made, a number of structural bottlenecks and distortions continued to constrain economic activity, while the fiscal and external sector positions remained unsustainable. Thus, during 1985 the authorities stepped up their adjustment effort by introducing measures designed to tackle the structural imbalances, reduce the existing distortions, and restrain the growth of aggregate demand.

1/ The performance of the economy during 1982-84 in the context of the two successive stand-by arrangements is analyzed in EBS/85/241.

The key quantitative objectives of the economic and financial program for 1985 were to promote economic activity so as to attain a growth rate of 1.7 percent in real GDP; to reduce the rate of inflation, as measured by the GDP deflator, to 8.2 percent; and to narrow the external current account deficit, including grants, to 5.8 percent of GDP, with a view to limiting the overall balance of payments deficit to SDR 10.2 million. To attain these objectives, the program involved a further liberalization of pricing and marketing policies, the adjustment of official agricultural prices, an increase in a number of retail prices and tariffs in the public enterprise sector, and a strengthening in the public investment planning process. In addition, the program envisaged a further reduction in the fiscal deficit, the pursuit of a restrictive credit policy, and the continuation of a prudent external debt management policy. The authorities have implemented the measures envisaged under the program, and, based on preliminary estimates, the objectives have been broadly attained. 1/

After stagnating in 1984, real GDP is estimated to have grown by 1.1 percent in 1985 2/. The growth in economic activity was spurred by a sharp rise in cotton output. This reflected the effects of the increase in producer prices in 1984, the impact of the sectoral reform project initiated in 1983 with World Bank assistance, and sufficient rainfall in the cotton producing region. The good cotton harvest also stimulated activity in the manufacturing, trade, and transport sectors. By contrast, the drought conditions in other parts of the country during the 1984/85 agricultural season affected cereal and livestock production more severely than anticipated. The cereal crop declined by 20 percent, while value added in the livestock sector increased by only 2 percent. Tight demand management policies and improved food supply conditions in the second half of 1985 were instrumental in bringing down the rate of inflation, as measured by the GDP deflator, from 11.6 percent in 1984 to 8.3 percent in 1985, close to the program target (Table 1).

Although there was a marked decline in the world market price of Mali's major export commodity, cotton, and a shortfall in external budgetary assistance, the outcome for the external sector position was basically on target (Table 2). While cotton export receipts dropped by 16.8 percent, 3/ owing to an 18 percent drop in the average export price, the decline in total export earnings was limited to about 2 percent, due to an increase in the exports of gold. Furthermore, imports were lower

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1/ The subsequent analysis for 1985 is based on preliminary estimates.

2/ For the period of 1981-84, the authorities have revised the GDP data on the basis of an improved data series for agricultural and industrial production. The economic and financial indicators are based on the new series; the ratios for the original program targets have been maintained on the basis of the previous GDP series.

3/ Except where otherwise noted, the discussion is in terms of CFA francs.

Table 1. Mali: Selected Economic and Financial Indicators, 1981-86

	1981	1982	1983	1984	1985 Prog.	1985 Prel. est.	1986 Prog.	1986 Rev. prog.
	(Annual percentage changes; unless otherwise specified) 1/							
National income and prices								
GDP at constant prices	-2.4	5.9	-4.1	-0.1	1.7	1.1	3.5	9.1
GDP deflator	11.0	2.2	6.8	11.6	8.2	8.3	6.3	6.0
Food price index	12.7	3.7	10.7	10.9	5.5	9.0	5.0	5.0
National minimum wage	--	13.0	--	--	35.0	35.0	--	--
External sector								
Exports, f.o.b. (in SDRs)	-17.1	0.6	17.8	14.9	-3.0	-4.3	11.1	-1.7
Imports, c.i.f. (in SDRs)	-13.4	-8.5	8.5	8.8	0.9	-0.8	-4.2	-3.8
Non-oil imports, c.i.f. (in SDRs)	-15.4	-10.4	14.0	8.8	0.3	-0.3	-6.1	-3.0
Export volume 2/	...	1.4	22.1	9.8	2.6	-6.8	7.2	-13.4
Import volume 3/	...	-6.9	16.3	21.5	-2.3	-2.5	-7.0	-19.4
Terms of trade (CFAF) 4/	...	1.3	11.5	4.9	-8.7	-6.1	0.6	-22.4
Nominal effective exchange rate (depreciation -)	-3.7	-3.0	-2.5	-1.4	...	0.4	...	...
Real effective exchange rate								
CPI based	-2.5	-8.4	--	2.5	...	3.2	...	...
Wage based	-11.8	-4.8	-10.2	-7.1	...	...	...	...
Consolidated government operations								
Revenue (excluding grants)	16.9	7.7	6.8	14.6	19.4	21.0	9.2	15.0
Expenditure (commitment basis)	8.1	2.3	5.4	6.5	4.4	11.9	3.1	0.1
Money and credit								
Domestic credit 5/ 6/	14.6	15.7	14.8	15.9	11.4	11.4	5.8	7.2
Credit to Government 5/ 6/	(7.1)	(5.5)	(6.6)	(7.9)	(3.5)	(2.5)	(0.5)	(0.5)
Credit to economy 5/	(7.5)	(10.2)	(8.2)	(8.0)	(7.9)	(8.9)	(5.4)	(6.7)
Money and quasi-money 6/	5.8	8.6	15.4	25.2	11.3	13.4	7.9	13.0
Velocity (GDP relative to M2)	4.4	5.1	4.5	4.0	4.0	3.9	4.0	4.0
Interest rate 7/	4.0	5.0	5.0	8.5	8.5	8.5	...	...
	(In percent of GDP)							
Overall fiscal position (commitment basis)								
Excluding grants 8/	-10.7	-9.4	-12.8	-9.6	-7.6	-8.3	-6.5	-4.5
Consolidated government balance 9/								
Excluding grants	-3.9	-3.0	-3.0	-1.9	--	-0.8	0.8	1.1
Including grants	-2.9	-2.8	-2.0	-1.2	1.1	-0.4	1.7	2.1
Domestic bank financing (net)	0.5	1.5	1.3	1.4	0.8	0.6	0.1	0.3
Foreign borrowing (net) 10/	0.6	3.3	2.7	0.2	-0.7	-0.5	-0.8	-0.3
Payments arrears (change, reduction -)	1.0	-1.4	-1.4	-0.6	-0.1	0.6	-0.5	-1.1
Gross domestic investment	24.5	28.8	28.0	25.7	24.0	26.2	23.9	27.4
Gross domestic savings	7.4	12.1	9.5	7.0	5.3	8.9	10.1	13.3
Resource gap	-17.1	-16.7	-18.4	-18.7	-18.7	-17.3	-13.8	-14.1
	(In percent of GDP)							
External current account deficit 11/								
Excluding official transfers	17.6	16.8	18.7	18.4	18.3	17.9	13.3	13.3
Including official transfers								
Before debt relief	8.3	8.8	8.9	6.1	5.8	5.9	4.0	4.2
After debt relief 12/	8.3	7.0	7.3	5.5	5.5	5.7	4.0	4.0
External debt 13/	85.5	81.8	108.4	122.2	105.8	116.8	100.5	104.2
Debt service ratio 14/	13.8	6.3	9.1	13.0	19.4	19.9	22.7	26.3
(Excluding payments to IMF)	12.5	5.4	7.1	9.8	13.8	12.6	13.8	15.0
Interest payments ratio 12/	11.4	2.8	3.5	5.6	7.3	8.3	7.2	7.6
	(In millions of SDRs, unless otherwise specified)							
Overall balance of payments	-32.7	-7.6	2.5	3.6	-10.2	-12.1	6.8	15.3
Gross official reserves (months of imports)	0.5	0.5	0.5	0.9	...	0.2	...	...
External payments arrears 15/	54.3	30.8	9.3	--	--	2.8	--	--
Obligations not serviced pending rescheduling (cumulative amount at end of period)	9.9	12.8	18.1	28.0	...	33.1	...	41.3

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

1/ These percentages are calculated on the basis of the actual data and may differ marginally from those obtained based on rounded data.

2/ Excludes gold and other exports for which volume data are unreliable and which account on average for less than 10 percent of exports during the period under review.

3/ Excludes all imports for which volume data are unreliable and which account on average for less than 15 percent during the period under review.

4/ *Laspeyres index, 1981=100, see also footnotes 2 and 3 above.*

5/ Increase over previous 12-month period in percent of money stock at the beginning of the period.

6/ Beginning with the monetary data for 1984, cotton deposits, which were previously included under net credit to the Government are, in line with the BCEAO methodology, recorded under domestic liquidity. *Under the previous classification, growth of domestic credit in 1984 was 13.3 percent, and of domestic* liquidity 18.2 percent. The growth rate of domestic credit and credit to the Government for 1985 exclude adjustments made at end-1985, in order to maintain comparability with the credit targets.

7/ Minimum rate for one-year savings deposits.

8/ Includes foreign-financed investment.

9/ Commitment basis. Includes the operations of the Central Government, the annexed budgets, and *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.

10/ Includes debt relief.

11/ Excludes debt service with the U.S.S.R. and China.

12/ After debt relief and excluding interest not serviced pending rescheduling during the period under review.

13/ Including use of Fund resources, the operations account with the French Treasury, and loans with the U.S.S.R., China, and Bulgaria.

14/ After debt relief obtained and in percent of exports of goods and services and private transfers receipts.

15/ Relates to outstanding identified arrears, excluding those of Air Mali.

Table 2. Mali: Balance of Payments, 1982-86

(In billions of CFA francs)

	1982	1983	1984	1985		1986	
			Est.	Prog.	Prel. est.	Prog.	Rev. prog.
Exports, f.o.b.	47.6	62.9	78.9	79.0	77.2	84.9	66.8
Of which: cotton	(17.0)	(25.9)	(39.4)	(37.4)	(32.8)	(39.7)	(22.8)
Imports, f.o.b.	-77.2	-94.3	-111.3	-115.7	-114.3	-107.2	-100.1
Of which: cereals	(-6.8)	(-12.3)	(-28.5)	(-32.0)	(-30.8)	(-16.5)	(-12.1)
Trade balance	-29.6	-31.4	-32.4	-36.7	-37.1	-22.3	-33.3
Services (net)	-46.6	-56.5	-64.0	-66.6	-65.5	-63.1	-56.5
Of which: interest	(-9.4)	(-9.7)	(-8.5)	(-9.0)	(-9.2)	(-8.2)	(-7.3)
Private transfers (net)	9.5	8.9	9.7	10.4	10.6	11.0	10.9
Current account (excluding public transfers)	-66.8	-78.9	-86.7	-92.9	-92.0	-74.4	-78.9
Public transfers	30.6	41.5	57.9	63.5	61.7	51.9	54.0
Of which: food	(6.5)	(9.8)	(19.0)	(22.6)	(28.1)	(11.5)	(12.6)
Current account (including public transfers)	-36.1	-37.4	-28.8	-29.4	-30.3	-22.5	-24.9
Capital (net)	25.7	31.8	28.4	24.7	24.8	25.5	31.0
Private	-0.9	--	4.4	2.0	2.0	2.0	2.0
Public	26.7	31.8	24.0	22.7	22.8	23.5	29.0
Of which: disbursements	(29.2)	(36.3)	(30.8)	(32.8)	(32.3)	(34.5)	(39.7)
amortization	(-2.5)	(-4.5)	(-6.8)	(-10.1)	(-9.5)	(-11.0)	(-10.7)
Debt relief	7.6	6.6	2.0	--	--	--	--
Overall balance	-2.8	1.0	1.6	-4.7	-5.5	3.0	6.1
Financing	2.8	-1.0	-1.6	4.7	5.5	-3.0	-6.1
Obligations under renegotiation	1.5	2.0	4.4	2.4	2.3	4.3	3.3
International reserves	4.9	1.5	-1.6	2.8	5.7	-4.5	-8.3
Of which: IMF (net)	(8.8)	(5.2)	(8.7)	(2.3)	(2.3)	(-2.3)	(-2.1)
Valuation adjustment	-0.4	-2.4	-2.3	--	-3.6	--	--
Arrears (reduction -)	-3.2	-2.1	-2.1	-0.5	1.1 1/	-2.8	-1.1 1/

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

1/ Excludes payment of Air Mali external arrears, pending the conclusion of the work of the liquidation commission.

than programmed, having grown by only 2.7 percent. Cereal imports grew by only 8.1 percent, compared with a projection of 12.3 percent. Expenditure on other imports stagnated, reflecting tight demand management policies and such factors as the upward adjustment in the retail prices of petroleum. Consequently, the current account deficit, excluding official grants, narrowed from 18.4 percent of GDP in 1984 to 17.9 percent in 1985. Including grants, it fell from 6.1 percent of GDP in 1984 to 5.9 percent in 1985, compared with a target of 5.8 percent. As net capital inflows declined, reflecting lower private capital inflows and higher amortization obligations, the overall balance of payments turned around to record a deficit of CFAF 5.5 billion, close to the program target of CFAF 4.7 billion. Taking into account debt service obligations under negotiation and not paid, amounting to CFAF 2.3 billion, and the accumulation of external payments arrears of CFAF 1.1 billion, the actual debt service ratio (including obligations to the Fund) amounted to 16.4 percent, as against a scheduled 21.1 percent and an actual ratio of 13.0 percent in 1984. A rescheduling of the debt related to the purchase of the state-owned airplane did not take place; the Government reported that it put the airplane on the market for sale, but did not receive any purchase offers in 1985.

While the program target of a balanced budgetary position was exceeded due to expenditure overruns (Table 3), the deficit on consolidated government operations, on a commitment basis and excluding foreign-financed investment and grants, declined from 1.9 percent of GDP in 1984 to an estimated 0.8 percent of GDP in 1985. This, together with a shortfall in foreign budgetary assistance of CFAF 3.1 billion, resulted in an accumulation of extrabudgetary arrears estimated at CFAF 3.3 billion. Taking into account a carryover of CFAF 3.0 billion into the complementary period, the deficit on a cash basis declined from 1.9 percent of GDP in 1984 to an estimated 0.3 percent of GDP in 1985, compared with a program target of 0.7 percent. The deficit was financed mainly by domestic bank credit and grants. Net external borrowing was negative, reflecting rising amortization payments. Based on preliminary information on foreign-financed investment, the overall deficit on a commitment basis, including foreign-financed investment but excluding grants, narrowed from 9.6 percent of GDP in 1984 to 8.3 percent of GDP in 1985, compared with a program target of 7.6 percent.

The decline in the budget deficit relative to 1984 reflected mainly a sharp increase in revenue. Government revenue increased by 21.0 percent, exceeding the program target of 19.4 percent. This increase reflected a marked rise in cotton receipts, related to previous harvests, the introduction of a number of tax measures, and the increase in petroleum prices. The tax measures taken included increases in excise taxes, stamp duties on import licenses, increases in customs duties, the reinstatement of the import and sales tax on commercial imports of cereals, and a shift in the base for the sales tax on other imports to

Table 3. Mali: Consolidated Government Operations, 1982-86

(In billions of CFA francs)

	1982	1983	1984	1985		1986	
			Act.	Prog.	Prel. est.	Prog.	Rev. prog.
Revenue	50.6	54.0	61.9	73.9	74.9	80.7	86.1
Budget	39.2	42.8	47.2	57.8	59.4	61.7	62.1
Income tax	7.1	7.6	8.0	9.0	9.0	9.7	8.6
Taxes on goods and services	5.7	7.0	7.8	8.8	9.4	9.6	10.3
Taxes on international trade	16.1	18.1	19.7	22.1	24.2	25.0	26.5
Other	10.3	10.1	11.7	17.9	16.8	17.4	16.7
Annexed budgets and special funds	11.4	12.1	14.7	16.0	15.5	19.0	24.0
Extrabudgetary	--	-0.9	--	--	--	--	--
Expenditure	63.1	66.5	70.8	73.9	79.2	76.2	79.3
Budgetary	44.1	47.5	53.2	57.5	61.8	58.6	61.0
Current	42.5	45.9	51.3	55.1	59.4	56.1	58.4
Wages and salaries	27.3	30.2	33.2	37.0	37.0	37.0	37.0
Maintenance	8.6	9.1	11.3	10.4	11.0	11.5	11.5
Scholarships	3.1	3.2	3.0	3.4	3.4	3.4	3.4
Other current expenditure	3.5	3.4	3.9	4.3	8.0	4.2	6.5
Capital	1.6	1.6	1.9	2.4	2.4	2.5	2.6
Annexed budgets and special funds	17.6	17.4	17.0	16.4	17.4	17.6	18.3
Extrabudgetary	1.4	1.7	0.6	--	--	--	--
Surplus/deficit (commitment basis)	-12.5	-12.5	-8.9	--	-4.3	4.5	6.8
Change in arrears	-5.8	-5.8	-3.0	-0.4	-0.4	-3.0	-6.3
Change in extrabudgetary arrears	...	...	...	...	3.3	--	--
Transactions in the complementary period	--	--	+3.0	-3.0	-- 1/	--	-3.0
Surplus/deficit (cash basis)	-18.3	-18.3	-8.9	-3.4	-1.4	1.5	-2.5
Financing	18.3	18.3	8.9	3.4	1.4	-1.5	2.5
Grants	0.9	3.8	3.4	5.6	2.5	5.1	5.8
Foreign borrowing (net)	13.7	11.5	0.9	-3.5	-2.4	-4.7	-1.5
Gross borrowing	(7.2)	(7.0)	(0.9)	(0.9)	(0.9)	(1.0)	(5.8)
Amortization	(-1.7)	(-3.1)	(-5.5)	(-8.2)	(-6.6) 2/	(-9.3)	(-10.6)
Debt relief under negotiation 3/	(8.2)	(7.6)	(5.5)	(3.8)	(3.3)	(3.7)	(3.3)
Domestic financing (net)	3.6	3.0	4.7	1.3	1.3	-1.9	-1.8
Banking system	(6.2)	(5.7)	(6.5)	(4.1)	(2.9)	(0.6)	(0.6)
Other	(-2.6)	(-2.7)	(-1.8)	(-2.8)	(-1.6)	(-2.5)	(-2.4)
Memorandum items:							
Foreign-financed investment expenditure	26.0	41.5	36.3	38.5	38.5	40.6	33.7
Of which: financed by grants	(11.5)	(19.0)	(21.5)	(22.0)	(22.0)	(22.5)	(12.4)
				(In percent of GDP)			
Revenue	12.3	12.8	13.2	14.4	14.6	13.6	14.5
Expenditure	15.3	15.8	15.1	14.4	15.4	12.8	13.3
Balance commitment basis (deficit -)	-3.0	-3.0	-1.9	--	-0.8	0.8	1.1
Balance cash basis (excluding grants)	-4.4	-4.3	-1.9	-0.7	-0.3	0.3	-0.4
Balance cash basis (including grants)	-4.2	-3.4	-1.2	0.4	0.2	1.1	0.6
Foreign financing (net)	3.3	2.7	0.2	-0.7	-0.5	-0.8	-1.0
Bank financing (net)	1.5	1.4	1.4	0.8	0.6	0.1	0.1
Overall deficit (commitment basis) 4/							
Excluding grants	-9.4	-12.8	-9.6	-7.6	-8.3	-6.5	-4.5
Including grants	-6.3	-7.4	-4.3	-2.1	-3.5	-1.4	-1.5

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

1/ Includes CFAF 3.0 billion paid in 1985 relative to the 1984 budget and a carryover of CFAF 3.0 billion into the 1986 budget.
2/ Excludes CFAF 0.8 billion in arrears on external debt amortization.
3/ Includes debt relief obtained.
4/ Includes foreign financed investment.

their c.i.f. value. In addition, the authorities stepped up the collection of previous years' taxes and strengthened collection procedures.

While expenditure grew at a slower pace than revenue, the growth rate of 11.9 percent nonetheless exceeded the program target of 4.4 percent. The increase in the wage bill was limited to 11.4 percent, in scholarships to 13.3 percent, and in equipment to 26.3 percent, in line with budgetary allocations. As the Government restricted new employment, the increase in the wage bill reflected primarily an average cost of living adjustment of about 11 percent, following a three-year wage freeze. The rise in equipment expenditure resulted from an improved coverage of budgetary expenditure. The overshooting that took place was mainly due to an increase in other current expenditure, including travel, representation, and dues to regional organizations. Expenditure in the annexed budgets and special funds was limited to about the same level as in 1984, but exceeded the program target due mainly to higher expenditure by the Social Security Fund.

Monetary policy in 1985 aimed at reducing the rate of growth of domestic liquidity, while providing credit to the economy 1/ in line with the expected improvement in economic activity. Based on preliminary data, the growth in total domestic credit as a percentage of beginning money stock was brought down from 15.9 percent in 1984 to 11.4 percent in 1985 in line with program targets (Table 4). This reflected a reduction in the expansion of net credit to the Government to only 2.5 percent, compared with 7.9 percent in 1984. By contrast, credit to the economy is estimated to have increased by 8.9 percent, as against 8.0 percent in 1984. Taking into account the evolution of net foreign assets and other items (net), the growth in domestic liquidity decelerated from 25.2 percent in 1984 to 13.4 percent, compared to 11.3 percent programmed. The minimum rate for savings deposits for one year remained at 8.5 percent, while money market rates were progressively reduced by the BCEAO in line with trends in international money markets; by November 1985 they ranged between 9.8 percent and 10.4 percent for terms of up to three months.

In order to ensure adequate producer incentives and to reduce price distortions, the Government implemented a wide range of price measures in the latter part of 1985. It raised producer prices by 10 percent for coarse cereals, 8 percent for paddy rice, and 13 percent for cotton. The official sales prices were increased by 52 percent for coarse cereals and 32 percent for rice. Moreover, retail prices were raised by 27 percent for flour, 11 percent for bread, 27 percent for salt, 13 percent for tea, and 3 percent for soap. Further, there was an upward adjustment of 15 percent in the prices of petroleum products, of 46 percent in the road transportation tariff of fluids and 25 percent in that of solids, of 35 percent in tariffs on domestic flights, of 10 percent in postal and 15 percent in telecommunications tariffs, and of 200 percent in water and 35 percent in electricity tariffs on average.

1/ The growth in credit is based on the original definition used in the program (Table 1).

Table 4. Mali: Monetary Survey, 1982-86

(In billions of CFA francs; end of period)

	1982	1983	1984	1985						1986				1984 1/	1985 1/	1986
				March	June	September		December		Mar.	June	Sept.	Dec.	Percentage change relative to money stock at the beginning of the period 3/		
						Prog.	Act.	Prog.	Est. (adjusted) 2/							
Foreign assets (net) 4/	-65.7	-67.2	-27.5	-35.1	-32.3	-41.8	-39.4 5/	-30.3	-33.2	...	...	...	-26.0	1.7	-4.9	5.4
Domestic credit	163.0	175.0	120.0	126.2	124.9	129.2	128.2	133.4	121.1 6/	129.4	129.4	129.9	130.6	15.9	11.4	7.2
Domestic credit excluding postal checking accounts	160.3	172.7	116.8	122.9	122.3	126.0	125.8	130.2	117.9	126.2	126.2	126.7	127.4	14.9	11.4	7.2
Credit to the Government (net)	68.0	73.3	40.5	40.6	40.5	43.7	42.9	44.9	39.8	40.4	40.4	40.4	40.4	7.9	2.5	0.5
Banking system	(65.3)	(71.0)	(37.6)	(37.3)	(37.9)	(40.5)	(39.8) 5/	(41.7)	(36.6) 6/	(37.0)	(37.2)	(37.2)	(37.2)	(6.9)	(2.5)	(0.5)
Postal checking system 7/	(2.7)	(2.3)	(3.2)	(3.3)	(2.6)	(3.2)	(3.1)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(1.0)	(--)	(--)
Credit to the economy 8/	95.0	101.7	79.2	85.6	84.4	85.5	85.3	88.5	81.3	89.2	89.0	89.5	90.2	8.0	8.9	6.7
Ordinary	(69.2)	(74.9)	(57.7)	(61.3)	(61.8)	(64.5)	(64.1)	(64.9)	(74.3)	(76.2)	(78.0)	(79.5)	(81.2)	(...)	(7.4)	(5.2)
Crop credit	(25.8)	(26.8)	(7.6)	(10.4)	(8.1)	(6.5)	(6.3)	(9.1)	(7.0)	(13.0)	(11.0)	(10.0)	(9.0)	(...)	(-0.5)	(1.5)
Doubtful claims 8/	(...)	(...)	(13.9)	(13.9)	(14.5)	(14.5)	(14.9)	(14.5)	(--)	(...)	(...)	(...)	(...)	(...)	(2.0)	(--)
Money supply	81.3	93.8	117.4	123.9	129.1	117.8	124.3 5/	130.7	133.1	...	...	...	150.4	25.2	13.4	13.0
Medium- and long-term external liabilities	3.2	3.3	3.5	1.8	1.9	1.8	2.2	1.8	2.2	...	...	...	2.2	0.2	-1.1	--
Other items (net) 9/	12.8	10.7	-28.4	-34.6	-38.4	-32.2	-37.7	-29.4	-47.4	...	...	...	-48.0	-7.8	-5.7	-0.5

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

1/ The data for 1984 were adjusted to take into account the cancellation of credits and external liabilities Mali's entry into the West African Monetary Union. For 1984 percentage changes were calculated by reference to adjusted 1983 data to ensure comparability with 1984 data and with the BCEAO presentation. For 1985 percentage changes for credit and other items (net) were calculated by reference to the estimated, nonadjusted data for end-December 1985 in order to maintain comparability with the credit targets.

2/ The base at end-December 1985, used to establish the performance criteria for 1986, has been adjusted on a provisional basis pending the receipt of actual data, as follows: (a) to exclude from credit to the economy agios estimated at CFAF 1.0 billion for the last quarter of 1985; (b) to include in credit to the economy bad and doubtful debts after provisions and (c) to reclassify certain private deposits previously included in private sector deposits as government deposits.

3/ Numbers may not add up due to rounding.

4/ Not including SDR allocations and long-term liabilities.

5/ Excludes private sector deposits (CFAF 2.0 billion) reclassified by the BCEAO as government deposits at end-September. A compensating adjustment has been made to the money supply. Includes adjustment for a Trust Fund repayment of CFAF 0.7 billion in July effected by the CAA in July 1985 but recorded by the BCEAO only in October 1985; a compensating adjustment is made to foreign assets (net).

6/ Includes government deposits previously classified as private sector deposits.

7/ Effective January 1, 1985, the liaison accounts with the Treasury were suspended.

8/ For 1983 included in ordinary credit; for 1984 and 1985 shown gross, before provisions; for 1986 shown net to accord with the BCEAO treatment.

9/ Beginning in 1984, includes nonstatutory BCEAO advances to the Treasury resulting from consolidation of the former Central Bank of Mali's debt of CFAF 41.8 billion, including interest charged thereon.

The performance of key public enterprises improved in 1985 as a result of the aforementioned price adjustments as well as the implementation of a number of rehabilitation measures. The official cereal marketing agency (OPAM) reduced its losses considerably after the official cereal retail prices were raised in October 1985. In the energy sector, the financial situation of the Sélingué dam authority (OERHN) benefited from the electricity tariff increase, the resumption of regular payments by its main customer, the national power company (EDM), and a foreign grant obtained for the payment of certain principal obligations. EDM also benefited from the increases in energy and water tariffs, as well as improved billing procedures. The post and telecommunications office (OPT) made further progress in implementing managerial and technical reforms in the context of a World Bank project; the increase in postal and telecommunications tariffs on November 1, 1985 contributed to strengthening its financial position. The state trading company (SOMIEX) reduced its personnel by 264 persons in the second half of 1985 and raised a number of its selling prices in August 1985; nonetheless, it incurred substantial losses, mainly due to the costly financing charges of large stocks of sugar. The national airline company, Air Mali, benefited from the increase in its domestic tariffs in August 1985 and the extension of its profit-sharing arrangement on international routes with Air Afrique. Despite concerted efforts to find a partner to form a mixed company, sufficiently elaborated proposals had not been received by end-December 1985.

With the exchange rate pegged to the French franc, variations in Mali's nominal effective exchange rate reflect developments between the French franc and the currencies of Mali's trading partners outside the franc area. The trade-weighted nominal effective exchange rate appreciated by 0.4 percent in 1985, following depreciations of 1.4 percent in 1984 and 2.5 percent in 1983. In real terms, the effective exchange rate, which had remained stable in 1983 and appreciated by 2.5 percent in 1984, is estimated to have further appreciated by 3.2 percent by September 1985 (see Chart).

Performance criteria under the program were set for end-September and end-December 1985. These included ceilings on total domestic bank credit, on net bank credit to the Government, on Treasury arrears, and on external payments arrears of the national debt agency (CAA), the Road Fund, and the OERHN. 1/ In addition, the performance criteria provided for no contracting or guaranteeing by the Government of new nonconcessional loans with a maturity between 0 and 12 years, excluding normal trade credits (Table 5). All the performance criteria were met at end-September 1985. At end-December 1985, the ceiling on external payments arrears was not observed, with CFAF 1.1 billion outstanding at end-December 1985. The authorities explained that payment instructions

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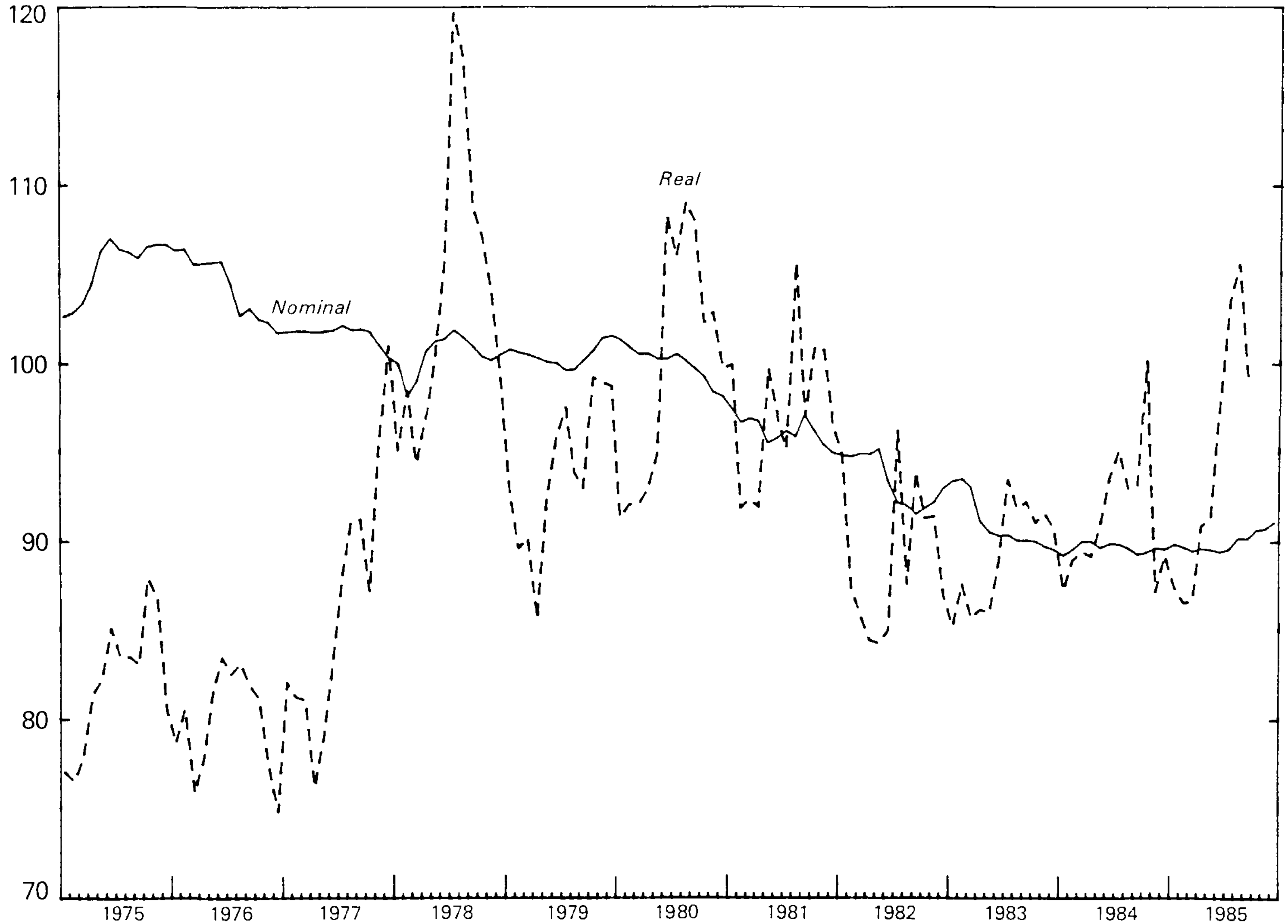
1/ For OERHN, the ceiling applied only to interest payments; principal obligations were under renegotiation.

CHART

MALI

EFFECTIVE EXCHANGE RATES[1]

(1980=100; foreign currency per CFA franc)



Sources: IMF, *International Financial Statistics*, Direction of Trade; and staff calculations.

[1] Trade weighted effective rates vis-a-vis 14 main exporters of manufactures of goods. Real effective rate is based on the relative consumer price indices.

Table 5. Mali: Quantitative Performance Criteria Under the Program for 1985-86

(In billions of CFA francs)

	1985				1986			
	September		December		March	June	Sept.	Dec.
	Prog.	Act.	Prog.	Est.				
Domestic bank credit 1/ 2/	126.0	125.8	130.2	130.2	126.2	126.2	126.7 3/	127.4 3/
Net bank credit to Government 1/ 2/	40.5	40.5	41.7	40.5	37.0	37.2	37.2 3/	37.2 3/
Maximum outstanding external payments of the CAA, the OERHN, 4/ and the Road Fund	1.4	1.4	--	1.1	--	--	--	--
Maximum outstanding payments arrears of the Treasury	0.05	0.05	0.05	0.05	...	...	...	...
Minimum reduction of government arrears	...	...	...	...	1.1	1.6	1.6 3/	2.0 3/
New external debt (1 to 12 years) 5/	--	--	--	--	--	--	--	--
New external debt (less than 1 year) 6/	--	--	--	--	--	--	--	--

Source: Letter of intent.

1/ Excluding the balances in the postal checking system (CCP). For end-December 1985, the data for domestic bank credit and net bank credit has been presented on the basis of the original definitions of accounts utilized in the program. The data for 1986 is based on the adjusted level (Table 4).

2/ To be adjusted downward by the extent of any additional foreign budgetary assistance, including debt relief, in excess of that programmed. For 1985, the adjustment applied to the end-December ceilings. For 1986, total external budgetary financing, excluding debt relief, is projected at CFAF 11.6 billion. The cumulative amount to be received is projected at CFAF 4.8 billion at end-March 1986, at CFAF 7.5 billion at end-June 1986, at CFAF 9.5 billion at end-September 1986, and at CFAF 11.6 billion at end-December 1986. External financing provided under the U.S. Economic Policy Reform Program will be excluded, as it will be associated with specific revenue shortfalls resulting from modifications in the tax system and tied to additional expenditures.

3/ Indicative ceilings.

4/ In 1985, includes only interest obligations of OERHN, whereas in 1986 both interest and principal obligations of OERHN are included.

5/ Nonconcessional loans contracted or guaranteed by the Government with an initial maturity of 1 to 12 years, excluding debt relief obtained through rescheduling or refinancing.

6/ Government contracted or guaranteed external short-term debt, excluding normal trade credits.

had been given to the concerned special funds before end-December; however, the execution of the payments was delayed for about two weeks for technical reasons, so that the transactions were only effected in the second week of January 1986. Although final data are not yet available, the authorities estimate that both the ceilings on total domestic bank credit and net bank credit to the Government were observed and that Treasury arrears remained within the ceiling of CFAF 50 million. No new nonconcessional loans with a maturity of 0 to 12 years, excluding normal trade credits, were contracted or guaranteed by the Government during 1985.

III. Report on the Discussions

The discussions were held against the backdrop of the sudden and precipitous fall in cotton export prices that had taken place in the last few months of 1985 and which changed considerably the perspectives for 1986 and the medium term. Based on a projected drop of about 40 percent in the average cotton export price in 1986, a shortfall in cotton export proceeds of about CFAF 21.8 billion (3.7 percent of GDP) and a loss in government revenue of CFAF 7.1 billion (1.2 percent of GDP) were estimated. Without an adjustment in its operations, the semipublic cotton enterprise (CMDT) 1/ would incur losses of about CFAF 20.5 billion. Thus, nowithstanding the wide-ranging measures implemented in 1985 and the progress achieved, the authorities recognized the need to readapt and strengthen their economic and financial policies to mitigate the impact of these exogenous factors.

The discussions took into account the views expressed at the two most recent Executive Board discussions on Mali. 2/ At these discussions, Executive Directors commended the Malian authorities for their adjustment efforts and stressed the need to persevere with them in view of the continuing structural problems. They urged the authorities to aim their adjustment efforts at increasing and mobilizing domestic savings and at enhancing the productive capacity of the country through the elimination of distortions. They underscored the need to strengthen producer incentives and to improve resource allocation through a reduction in price controls. They felt that the strengthening of investment budgeting and programming and the accelerated reform of the public enterprise sector were important elements in the adjustment process. They indicated their concern about the rising external debt burden.

1/ Compagnie Malienne pour le Développement des Textiles.

2/ The last Article IV consultation discussions were held in Bamako during January 7-17, 1985. The staff report for the consultation (SM/85/91) and the report on recent economic developments (SM/85/109) were considered by the Board on May 3, 1985. The request for the current stand-by arrangement (EBS/85/241) was considered and approved by the Board on November 8, 1985.

Directors observed that the case of Mali was an effective example of Fund/Bank collaboration, which would need to continue.

In the formulation of the program for 1986, the authorities placed particular emphasis on laying the foundation for sustained economic growth consonant with the achievement over the medium term of domestic and external financial stability. To this end, they indicated their determination to proceed with fundamental structural reforms. Thus, a liberalization of pricing and marketing policies is being undertaken, a far-reaching reform of the public enterprise sector is expected to be launched, and progress is being made in the preparations for restructuring the tax system to enhance the incentives for private sector economic activity. The authorities have also decided to tackle the problem of cross-arrears in the public sector, which have had adverse effects on economic activity. Steps to strengthen investment programming and budgeting are also being taken. Financial policies have been designed to complement the supply-oriented policies. The authorities indicated that they will implement a restrained expenditure policy, while continuing to introduce revenue measures, so as to generate a surplus on consolidated government operations on a commitment basis (excluding foreign-financed investment). The Government will also reduce significantly its arrears, thereby releasing resources to the non-government sector. The improved budgetary situation is expected to be reflected in only a marginal Government recourse to domestic bank credit, with the result that credit expansion is being directed to meet the recovery in economic activity, while maintaining the growth in domestic liquidity below that of nominal GDP.

The demand-management policies being pursued, together with the improved weather conditions, are expected to contribute to offsetting the effects of the drop in cotton prices on the balance of payments. Revenue-generating measures by the Government will also offset the impact of the loss in cotton revenue. In view of the potential estimated loss of CFAF 20.5 billion for the cotton sector, the Government has opted for a set of measures, worked out in cooperation with the World Bank, to achieve savings of CFAF 10.7 billion. These measures, which comprise the deferral of certain expenditures, including tax payments, and the reduction in input subsidies, are to become effective no later than end-February 1986. In addition, an increase in the sales price of cotton seeds is estimated to generate extra revenue of CFAF 1.1 billion. The remaining loss of CFAF 8.7 billion is expected to be covered primarily by external financial assistance. During 1986 the authorities are working closely with the World Bank to put in place a plan of action aimed at re-establishing a viable financial position for the cotton sector in line with the revised prospects for world cotton prices over the medium term.

Given the reinforced adjustment strategy and a more favorable than initially projected agricultural harvest in 1985/86, due to improved weather conditions, the revised quantitative objectives of the program for 1986 are to achieve a rate of real economic growth of 9.1 percent, to cut the rate of inflation, as measured by the GDP deflator, to 6.0 percent, and to reduce the external current account deficit to 4.2 percent of GDP. These compare with original program targets for 1986 of 3.5 percent for economic growth, 6.3 percent for inflation, and 4.0 percent of GDP for the external current account deficit. A summary of the program's targets and policies is provided in Appendix IV.

1. Production, savings, and investment

The authorities were of the view that the supply-oriented measures undertaken in 1985 and those envisaged for 1986, together with the marked improvement in weather conditions, would contribute to a strong recovery in economic activity in 1986. In particular, agricultural output was expected to grow by about 30 percent in real terms, with cereal production recovering to the 1979/80 level, after having declined by almost 50 percent during the drought period of 1982/83-84/85. Cotton production was expected to grow by 26 percent, due largely to the beneficial effects of a large-scale project financed by the World Bank. With the improved weather conditions, the reconstitution of the livestock herd was expected to continue in 1986. Thus, the primary sector was expected to lead the resurgence in economic activity, growing by about 16 percent in 1986. Reflecting this, as well as increased production of gold at the Kalana mine, activity in the secondary sector was projected to grow by about 6 percent in 1986 in real terms. Activity in the tertiary sector, however, would slow down significantly to 2 percent, due to the sharp decline in cereal imports and the slowdown in the government sector. Accordingly, overall real GDP growth was expected to reach 9.1 percent in 1986. Reflecting the tight financial policies as well as the drop in cotton prices, inflation, as measured by the GDP deflator, was projected to fall to 6.0 percent in 1986.

The authorities expected that the recovery in economic activity, together with the economic and financial policies being pursued, would result in an increase in domestic savings in 1986. Consumption in 1986 is expected to grow by 4.1 percent in real terms. Consumption as a share of nominal GDP is projected to drop from 91 percent in 1985 to about 87 percent in 1986, implying a rise in domestic savings to 13 percent. Largely owing to a substantial reconstitution of the livestock herd, the share of investment in nominal GDP is estimated to increase from 26.2 percent to 27.4 percent. The higher domestic savings ratio is estimated to result in a drop in the resource gap from 17.3 percent in 1985 to 14.1 percent in 1986.

While the economic policies are expected to improve resource allocation and enhance the incentives for private investment, the authorities reiterated their commitment to further improve the development planning process. They noted that the list of projects currently being executed, drawn up with technical assistance from the UNDP in 1985, had enabled the Government to establish, with Fund technical assistance, a preliminary inventory of government investment for 1986, which it views as being in line with the development priorities of Mali and its debt servicing capacity. Based on this inventory, government investment for 1986 will be limited to projects currently being implemented. The investment inventory for 1986 provides for total investment expenditure of CFAF 41.8 billion, of which CFAF 14.0 billion will be spent on projects in the rural sector and CFAF 12.5 billion on infrastructure. About 51 percent of the investment will be financed by concessional foreign loans, about 30 percent from external grants, and about 19 percent from domestic resources.

In cooperation with the World Bank, the authorities are preparing a program of action for 1986, which will provide the basis for formulating the public investment budget and improving selection of the projects on the basis of economic criteria, sectoral priorities, counterpart fund requirements, recurrent cost implications, and debt servicing capacity. The reform will require close coordination between the Ministries of Plan and Finance with regard to the preparation of the investment budget. The authorities intend to prepare proposals for the introduction of a multi-annual rolling plan, to be implemented beginning with the 1987 investment budget. To assist in this reform, the World Bank has agreed to finance a consultant to prepare specific recommendations regarding the reform of planning and associated budgetary procedures, which the Government will take into account in the preparation of the investment program for 1987-89. The progress made will be examined at the time of the second review of the program.

2. Pricing and marketing policies

The authorities placed considerable importance on the liberalization of pricing and marketing policies as a means of promoting domestic production, improving resource allocation, and strengthening the financial operations of public enterprises. The current system, under which all commodities are subject to price control, is being abolished effective end-February 1986 and replaced with a new system under which prices will be freely determined by market forces, except for a number of goods and services deemed as strategic or essential by the Government. For a significant part of the latter, the procedure of "homologation souple" will be put in place. Producers and merchants of these products 1/

1/ Vinegar, tomato paste, broth in cubes, noodles, sardines in oil, instant coffee, other tea, ice blocks, imported cereal, yarn, cloth, hardware, lanterns, candles, toiletries, bleach, school supplies, transportation spare parts, cement, iron, limestone.

will be free to determine their prices on the basis of preset profit margins. For the remaining goods and services 1/ subject to price regulation, prices will be fixed directly by the administration or, on the basis of documentation of costs, approved prior to their application. 2/ The authorities indicated that the new system would be applied flexibly. The experience with the new system in the first months of its application will be examined during the second review under the stand-by arrangement, and, if necessary, appropriate modifications agreed upon.

The Government adopted in January 1986 a new commercial code designed to complement the policy of price liberalization and to encourage private sector economic activity. Although there was no comprehensive commercial code before, there was some legislation regulating commercial activity. Under this legislation, all private businesses were required to undergo lengthy and cumbersome procedures before they were set up. Under the new code, the setting up of private businesses has been considerably facilitated by dropping the general requirement of prior government approval. New private businesses, with the exception of certain foreign enterprises and financial institutions, can start operating simply by registering.

The authorities noted that coarse cereals marketing had been completely liberalized in recent years. Further, the marketing of paddy rice grown in the area managed by the Office du Niger, a rural development agency which operates one of the largest irrigation schemes in Africa, was being liberalized on the basis of a timetable agreed upon with the World Bank and bilateral donors. The authorities indicated that the impact of the abundant 1985/86 harvest began to be felt in November 1985, when market prices dropped below official producer prices in some areas; on average, however, market prices had been close to the official producer prices. With the increase effected in November 1985, official selling prices had also been closely aligned with market prices. Accordingly, the role of the official cereal marketing agency (OPAM) had narrowed considerably. While it still marketed most of the rice production of the Office du Niger, its purchases and sales of coarse cereals had declined markedly. The reduction in its operations, together with the increase in sales prices in 1985, led to an improvement in its financial position; moreover, the authorities estimated that OPAM would break even for the 1985/86 marketing season, after incurring losses of about CFAF 1.0 billion per year on average in the previous two years.

1/ Cereals, cotton, essential agricultural inputs, pharamceutical products, medical treatment, education, transportation, petroleum products, water, electricity, movie tickets,hotels, customs brokerage, and essential products. These are defined as bread, meat, sugar, edible oil, salt, milk, flour, green tea, soap, tobacco, matches, and cigarettes.

2/ Data on the relative shares of retail sales of the commodities subject to price regulation are not available.

With regard to petroleum prices, the average increase of 15 percent that became effective in August 1985 had resulted in significant revenue gains for the Government. The authorities explained that for 1986, the Government of Mali had negotiated lower purchase prices for petroleum from the refinery in Dakar and was planning to do the same with other suppliers. The authorities felt that the increases in road transportation tariffs effected in August 1985 were sufficient for the moment. As rail transportation tariffs had not been increased at the time, pending the completion of the requisite studies, the Government had decided to increase them sufficiently to cover the operating costs of the railroad (Régie de Chemins de Fer) by end-February 1986.

3. Public enterprises

The authorities reiterated their commitment to the reform of the public enterprise sector. The emphasis of their policies is to keep in operation in the public sector certain viable enterprises, to privatize others, and to liquidate those that are not deemed to be viable. They indicated that the operations of those to be kept in the public domain would need to be streamlined to improve their financial position. They noted that a number of the measures taken in 1985 had already resulted in an improvement in the operations of certain key enterprises.

The overall reform and rehabilitation of the public enterprise sector is to take place in the context of a project negotiated with the World Bank, which would involve financing of about US$50 million. The project negotiations, which are now expected to be concluded in April 1986, have been delayed as the reform strategy is being reassessed by the Government and the World Bank in order to widen its scope. The project is expected to include wide-ranging measures designed to improve the economic, financial, and institutional frameworks within which public enterprises operate. The reform strategy will emphasize the reduction in the scope of the public enterprise sector, limiting government involvement to strategically important industries or those producing public services that cannot be assured by the private sector. The program will also include specific measures and timetables to rehabilitate individual public enterprises and public utilities, as well as to privatize and liquidate others. In the context of this project, a study to identify the payments arrears of public enterprises, including cross-arrears between each other and between them and the Government, is under way. Pending the launching of the comprehensive project, the Government plans to continue to implement specific measures to improve the operations of key enterprises and to take steps to liquidate those that are clearly not viable.

The authorities explained that considerable efforts had been made in 1985 to form a mixed national airline company. In October, a roundtable conference of potential partners had been held in Bamako to solicit specific proposals for the formation of such a company. While some airline carriers, including Air Afrique, SABENA, UTA, and Air Inter submitted initial proposals, these proposals were not sufficiently elaborated to enable the Government to select an appropriate partner. Accordingly, more detailed proposals had been requested and were expected to be received early in 1986. Nonetheless, in accordance with its policy with regard to the national airline, Air Mali, the Government decided on January 8, 1986 to appoint an official liquidation commission to assess the value of the assets and verify the outstanding arrears owed by and to Air Mali. The commission was charged with the sale of those assets and the elimination of all the verified outstanding arrears by May 15, 1986, either through cash payments or their conversion into grants or concessional loans. The Government also decided to discontinue all domestic flights effective January 31, 1986, 1/ and to give all the personnel of Air Mali at end-February 1986 the official one-month notice of termination of employment. The authorities indicated that, notwithstanding the liquidation of Air Mali, the Government would continue its efforts to form a new mixed company on sound economic and financial grounds. The authorities will consult with the management of the Fund and the World Bank regarding any arrangements made for the formation of a new mixed airline. To speed up the liquidation process and to evaluate the offers for the formation of a new mixed company, the Government has requested technical assistance from the World Bank.

The authorities recognized that the state trading agency, SOMIEX, continued to face serious problems and decided to implement a number of corrective measures. In particular, the monopoly rights and purchase obligations vis-à-vis domestic producers of sugar, edible oil, soap, flour, and tea would be abolished by March 1, 1986. By the same date, SOMIEX's monopoly for the import or sale of edible oil, soap, and flour would also be abolished. Simultaneously, SOMIEX's selling prices, including those for salt, imported tea, powdered milk, soap, and edible oil, would be raised to cover costs. Furthermore, personnel would be reduced by 150 persons during January-March 1986 and by a further 150 persons during April-June 1986. To reduce the large stocks of sugar accumulated during 1984 and 1985, for which high financial charges had been incurred, SOMIEX would not be authorized to import any sugar during 1986. The financial position of SOMIEX will be examined during the second review of the program, and understandings will be reached on any additional measures necessary to further improve SOMIEX's financial position.

The authorities explained that the efforts to strengthen operations and management of OPT will continue in 1986; technical assistance, financed by the World Bank, was put in place in September 1985. The increase in OPT's postal and telecommunications tariffs in November 1985

1/ International flights were discontinued at the beginning of 1985.

are expected to contribute to an improvement in its financial position in 1986. The Government and OPT reached an agreement in November 1985 on the amount of net arrears of the Treasury to OPT outstanding at end-December 1984; the amount agreed upon was CFAF 2.8 billion. The Government will start settling these arrears in 1986; CFAF 0.5 billion will be paid by the end of each of the second, third, and fourth quarters of 1986. In order to avoid future accumulation of government arrears vis-à-vis OPT, the Government and OPT have also agreed on the amount of services OPT will provide to the Government in 1986, and adequate budgetary allocations have been incorporated in the budget. The improved financial position of OPT is expected to facilitate the process of the financial separation of postal, telecommunications, and postal checking services in line with World Bank recommendations. The Government expects to conclude negotiations with the World Bank in 1986 on a comprehensive reform program for OPT.

The Government continues to pursue the rehabilitation of the Office du Niger, including the liberalization of paddy rice marketing, with the assistance of the World Bank and several bilateral donors. During the 1985/86 harvest, authorized merchants and cooperatives have had access to the area managed by the Office for a defined period, beginning on February 15, 1986, to buy freely paddy rice from the producers in the area at market-determined prices. The operations of the Office du Niger are also expected to benefit from the abolition of the requirement to sell rice to OPAM at predetermined prices. Beginning with the 1986/87 harvest, paddy rice marketing at the Office du Niger will be completely liberalized, with producers being free to sell to any purchaser throughout the year.

4. Fiscal policy

The authorities placed considerable emphasis on further improving the financial position of the Government in 1986. The loss in cotton revenue, estimated at CFAF 7.1 billion for 1986, necessitated the introduction of additional revenue measures and a reinforced effort to tighten expenditure. On the basis of the measures taken, the consolidated position of government operations, on a commitment basis, which excludes foreign-financed investment and grants, is projected to move from a deficit of CFAF 4.3 billion (0.8 percent of GDP) in 1985 to a surplus of CFAF 6.8 billion (1.1 percent of GDP) in 1986. After taking into account reductions in arrears of CFAF 6.3 billion and transactions in the complementary period relating to the 1985 budget, estimated at CFAF 3.0 billion, the deficit on a cash basis is projected to rise from CFAF 1.4 billion (0.3 percent of GDP) in 1985 to CFAF 2.5 billion (0.4 percent of GDP) in 1986. Given the rise in amortization payments, net external borrowing is estimated to be negative in 1986. The consolidated government position is expected to be financed mainly by grants, with use of net bank credit being sharply curtailed.

Revenue for 1986 is projected to grow by 15.0 percent. This increase is due in large part to the full-year effect of the measures taken in 1985. The Government will also raise the valeurs mercuriales for customs duties by an additional 10.0 percent, effective end-February 1986. In addition, the Government will receive in 1986 CFAF 3.0 billion in revenue from the operations of the Kalana gold mine. The renegotiation of the prices for oil imports is expected to generate at least CFAF 1.5 billion in revenue in 1986. The authorities stressed that they would intensify further their efforts to collect outstanding tax arrears and strengthen tax administration. They indicated that, under the U.S. Economic Policy Reform Program, preparations were under way to introduce a tax reform package designed to stimulate private sector economic activity over the medium term, based on technical assistance provided by the Fund. It was expected that the introduction of such measures, aimed at reducing the tax burden of the private sector, would initially result in a shortfall in revenue. This shortfall, however, would be fully financed by a grant by the U.S. Government.

On the expenditure side, the authorities had decided to keep expenditures frozen at the 1985 level in nominal terms, implying a substantial cut in real terms. Accordingly, the provisions for the wage bill and scholarships had been frozen. Notwithstanding an increase in employment of about 1 percent, the containment in the wage bill is expected to be achieved through economies generated by the revision and computerization of the payroll, reflecting the result of the census of the civil service undertaken in 1985. Other current expenditure will be reduced by 19 percent, reflecting the imposition of economy measures limiting, in particular, expenditure on travel and representation. However, in order to avoid a further accumulation of arrears, the budget incorporates increased allocations for expenditures on maintenance.

In addition, the phased introduction of the new more detailed budgetary nomenclature is expected to enhance expenditure control. While the official government budget was not approved on the basis of the new nomenclature, the Ministry of Finance plans to follow up on expenditures based on the new nomenclature. The authorities, therefore, view 1986 as a transitional year, during which experience will be gained by using the new nomenclature along with the previous one. The progress made in the initial phases of introducing the new nomenclature will be reviewed during the second review of the program, with a view to providing the basis for preparing the 1987 budget according to the new nomenclature. Furthermore, to improve expenditure control, the Ministry of Finance has given instructions to spending ministries to strictly enforce the requirement that, under no circumstances, shall any expenditure commitment be made without prior budgetary allocation. In addition, the Treasury will not pay any expenditure committed without being passed through all the steps of the established process of expenditure control.

Expenditure control is also expected to be enhanced by the introduction of a comprehensive system to monitor all government arrears. The authorities recognized that arrears have been a major problem over the last few years. The accounts of "treasury arrears" were inadequate, as they covered only a narrow set of possible arrears. Accordingly, with technical assistance from the Fund in this area, the Government is introducing, effective March 1, 1986, a comprehensive system for monitoring arrears that would cover all government obligations, including salaries. 1/ To assist the authorities in examining the initial operation of the system, in view of their commitment not to accumulate any new arrears in 1986, a staff visit will take place in April 1986. Furthermore, in order to strengthen financial management, the complementary period relating to the 1986 budget will be closed as stipulated by law on February 28, 1987, compared with previous years, when it had been closed in May or June. In this connection, the Government of Mali plans to examine during 1986 the possibility of discontinuing the complementary period.

In view of the prevalence of large undocumented arrears in the public sector, the authorities indicated that during 1985 they had exerted considerable efforts to identify the Government's own undocumented arrears and the cross-arrears for public enterprises vis-à-vis the Government. The lack of adequate and detailed information, however, did not permit the completion of a detailed inventory. To address this problem, a study, in the context of the public enterprise reform project being negotiated with the World Bank, was initiated in December 1985 and is expected to be completed by end-March 1986. The Government has decided to set up a commission to review the results of the study, to verify the amounts involved, and to prepare by end-May 1986 a plan of action for the elimination of all identified arrears. Understandings on such a plan of action will be reached at the time of the second review.

Reflecting its efforts in 1985, the Government has so far identified CFAF 4.4 billion in domestic arrears to public enterprises as of end-1984. In addition, an estimated CFAF 2.2 billion in domestic arrears and CFAF 1.1 billion in external payments arrears are estimated to have been accumulated during 1985. Thus, the total stock of identified arrears of the Government at end-1985 is estimated at CFAF 7.7 billion. During 1986 the Government has decided to repay CFAF 6.3 billion of this outstanding stock of arrears, including the elimination by end-March 1986 of all external payments arrears. Arrears will be reduced by CFAF 1.1 billion in the quarter ending March 1986, CFAF 1.6 billion each in the quarters ending June and September 1986, and CFAF 2.0 billion in that ending December 1986. Moreover, based on the new system for monitoring arrears, the Government will not incur any new domestic payments

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1/ The system is described in Annex I of the attached letter of intent.

arrears, defined as the difference between the amounts authorized and paid in excess of a normal float estimated at CFAF 4.7 billion. If this difference were to be exceeded at the end of a month, or if the system were not functioning satisfactorily, the Government of Mali would consult with the Fund's management with a view to determining the cause and the requisite corrective measures.

In order to improve public finance management, the Government is proceeding with its work to establish an investment budget that incorporates government investment expenditures financed by tied external assistance. As indicated above, for 1986 an investment inventory was prepared on the basis of responses to a questionnaire circulated by the Ministry of Finance and Commerce. Based on this investment inventory, the Ministry of Finance and Commerce is pursuing its efforts to review the data received, which may not fully cover all foreign-financed investment. On the basis of further work to be undertaken during 1986, a comprehensive investment budget will be prepared for 1987 and fully integrated in the budgeting and expenditure control processes. On the basis of the present inventory, the overall deficit of government operations on a commitment basis, including foreign-financed investment, but excluding grants, would be reduced to CFAF 26.9 billion (4.5 percent of GDP) in 1986.

5. Monetary and credit policies

Monetary and credit policies for 1986 have been designed consistent with the expected recovery in economic activity as well as the inflation and balance of payments objectives. To limit the growth in aggregate demand, domestic liquidity is programmed to grow by 13.0 percent, compared with a growth in nominal GDP of 15.6 percent. Consistent with this target, the growth in domestic credit is programmed at 7.2 percent of beginning money stock. The emphasis will be on the provision of credit to the economy; such credit is programmed to grow by 6.7 percent of beginning money stock. As a percentage of credit to the economy at end-December 1985, it would represent a growth of 10.9 percent. In addition, the liquidity of the nongovernment sector is expected to benefit from the programmed reduction in domestic government arrears, which is equivalent to 6.3 percent of credit to the economy outstanding at end-December 1985. Net bank credit to the Government is to be limited to 0.5 percent of beginning money stock.

The authorities indicated that during 1985 considerable efforts had been made to refine and improve the monetary accounts, as well as to make them consistent with the definitions utilized in other member countries of the West African Monetary Union. For purposes of monitoring the 1985 program, data communicated to the Fund through end-1985 would be based on the definitions used for the performance criteria. Starting in 1986, a number of adjustments were being introduced. The adjusted base for end-December 1985 includes primarily a reclassification of government deposits that had been originally classified as private sector deposits, the inclusion in domestic credit of bad and doubtful debts, incorporating "provisions" on a net basis, and the classification of certain interest accounts (agios) under other items net.

To monitor progress under the program, quarterly ceilings for overall domestic bank credit and net bank credit to Government for the first half of 1986 and quarterly indicative ceilings for the second half of 1986 have been set on the basis of the adjusted levels for end-December 1985. These indicative ceilings will be reviewed and binding ceilings established at the time of the second review, scheduled for June 1986. Accordingly, total domestic bank credit, which is estimated to have amounted to CFAF 117.9 billion at end-December 1985, 1/ will not exceed CFAF 126.2 billion at end-March 1986 and CFAF 126.2 billion at end-June 1986. On an indicative basis, it will not exceed CFAF 126.7 billion at end-September 1986 and CFAF 127.4 billion at end-December 1986. Net bank credit to the Government, 2/ which is estimated to have amounted to CFAF 36.6 billion at end-December 1985, 1/ will not exceed CFAF 37.0 billion at end-March 1986 and, CFAF 37.2 billion at end-June 1986. On an indicative basis it will not exceed CFAF 37.2 billion at end-September and end-December 1986. These ceilings will be adjusted downward by the cumulative amount of external budgetary assistance, including debt relief, received in each quarter in excess of that programmed. External financing provided under the U.S. Economic Policy Reform Program shall be excluded since, as noted above, it will be associated with specific revenue shortfalls resulting from modifications in the tax system and tied to other expenditure measures.

6. The external sector 3/

The tight financial policies being pursued and the more favorable 1985/86 agricultural harvest than had been originally envisaged are expected to result in a sharp reduction of imports. This will mitigate the negative effects of the 22 percent deterioration in Mali's terms of

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1/ Based on the end-December 1985, adjusted level (Table 4).

2/ For the purposes of this program, accounts of the Central Government with the banking system also include central government funds held in suspense accounts and the balances of the ministries and government bodies covered in the consolidated figures for central government financial operations. The position of the postal checking system is excluded.

3/ The analysis in this section is based on the CFA franc. The CFA franc has been chosen, rather than the SDR, because a large share of Mali's external transactions are carried on within the franc zone. The balance of payments and debt service tables in SDRs are included in Appendix VII.

trade in 1986 (Table 1), resulting largely from the projected drop in cotton prices. The external current account deficit, excluding official transfers, is now projected to decline from CFAF 92.0 billion (17.9 percent of GDP) in 1985 to about CFAF 78.9 billion (13.3 percent of GDP) in 1986, compared with an original target of CFAF 74.4 billion (13.3 percent of the original GDP estimate). Given a projected decline in official transfers, associated with the reduced need for food aid, the deficit of the current account, including official transfers, would be reduced from CFAF 30.3 billion (5.9 percent of GDP) to CFAF 24.9 billion (4.2 percent of GDP), compared with an original target of CFAF 22.5 billion (4.0 percent of the original GDP estimate). Together with a rise in net disbursements of nonmonetary capital, due to an increase in external budgetary assistance and in aid for the cotton sector, this is projected to result in an overall balance of payments surplus of CFAF 6.1 billion, compared with an original program target of CFAF 3.0 billion. Taking into account the unserviced external debt obligations under rescheduling of CFAF 3.3 billion and the payment of CFAF 1.1 billion of external arrears, the level of net foreign assets is expected to increase (Table 2).

Despite the sharp deterioration in the terms of trade, the deficit on the trade balance is estimated to narrow, due to a sharp reduction in import payments that would offset the expected drop in export receipts. Foodstuff imports, in particular, are projected to be cut in half. This would reflect a number of factors. Sugar imports are projected to fall, as SOMIEX will not import any sugar during 1986, and as the domestic demand for sugar is expected to be met by a record level of domestic production and the sale of existing stocks. Imports of cereals by the public sector will also be limited. Moreover, the decrease in the international price of oil, together with the recent appreciation of the CFA franc vis-à-vis the U.S. dollar, is estimated to result in a reduction in the negotiated unit price of oil imports of at least 6 percent. The projected decline in export receipts of 13 percent is due largely to the collapse in the world price of cotton fiber and the sharp reduction in livestock export volume caused by an anticipated reconstitution of the herds. These negative effects would be offset only in part by an increase in export volume of cotton fiber and of gold from the Kalana mine.

The authorities shared the view of the staff that Mali's external debt position remains precarious; the debt service ratio before debt relief is estimated to reach 41 percent in 1986 (Appendix VII, Table III). If debt service payments to China and the U.S.S.R are excluded, the ratio is equal to 25 percent before debt relief and 22 percent after debt relief. Charges and repurchases from the Fund would increase sharply in 1986 and reach about 41 percent of total debt service after debt relief (excluding debt service with China and the U.S.S.R).

For 1986, the Government is determined to pursue a strict external debt management policy. The Government will not contract or guarantee any new nonconcessional loans with a maturity between 0 and 12 years, excluding normal short-term trade credit. Furthermore, there will be no accumulation of external payments arrears for the CAA, the Road Fund, and the OERHN. The authorities indicated that they were continuing negotiations to reschedule the official debt vis-à-vis nine Fund members (Algeria, China, Ghana, Egypt, France, Iraq, Libya, Qatar, and the United Kingdom), and with two non-Fund members (Bulgaria and the U.S.S.R). The obligations pending rescheduling (excluding debt with China and the U.S.S.R) amount to CFAF 3.3 billion in 1986, or 13 percent of total debt service. The debt obligations toward China and the U.S.S.R represent in 1986 about 40 percent of total debt service before debt relief. The authorities noted that China has already indicated its willingness to postpone debt service payments due beyond 1990, while an agreement is being negotiated with the U.S.S.R whereby Mali would honor its debt service with a percentage of the annual production of the Kalana gold mine, which is currently operating with U.S.S.R technical assistance. The authorities also decided to exert efforts to sell the state-owned airplane before end-February 1986, and to seek that any potential losses be financed on concessional terms.

The authorities are implementing reforms to improve the monitoring of external debt. In 1986 all external debt service will be centralized with the CAA; the decision to this effect will be adopted by the Government before end-February 1986. The Government is also proceeding with the computerization of all external debt records.

7. Performance criteria

The quantitative performance criteria are summarized in Table 5. These include the following: (1) quarterly ceilings for end-March and end-June 1986 for total domestic bank credit and net bank credit to the Government; (2) the amounts for the repayment of government arrears by end-March and end-June 1986; (3) the understanding that no external payments arrears be incurred by the CAA, OERHN, and the Road Fund; (4) the commitment that no new government or government-guaranteed nonconcessional loans with a maturity between 0 and 12 years, excepting normal trade credits, be contracted. The usual provisions regarding exchange and trade restrictions, as well as the completion of the second review under the current stand-by arrangement, will also constitute performance clauses.

During the second review, understandings will be reached on the economic and financial policies for the second half of 1986 in light of the objectives of the program and the progress achieved in the first half of the year. The review will include understandings on measures pertaining to public enterprises, pricing and marketing policies, fiscal policy, including government arrears, on quarterly credit ceilings for the second half of 1986, on quarterly reductions in government arrears during the second half of 1986, and on a timetable and the modalities for the elimination of the cross-debts of public enterprises vis-à-vis each other and vis-à-vis the Government.

8. Statistical issues

The authorities shared the staff's concerns about the timeliness, coverage, and accuracy of the statistical base in Mali. They indicated that considerable work had been done on improving the data relating to national income accounts, prices, public sector operations, monetary accounts, external sector operations, and external debt. They concurred that substantial further work would still need to be undertaken. In particular, the compilation of data on fiscal operations on a more timely basis and the extension of the coverage to include all government transactions is needed. The introduction of the new nomenclature and computerization of operations is expected to help in this respect. Furthermore, the lack of information on the accumulation of government payments arrears is expected to be remedied with the introduction of the new monitoring system. In addition, while progress has been made in the collection of data on public investment, the authorities recognized the importance of preparing and integrating an investment budget into the regular budgeting process. The Fund has provided and continues to provide technical assistance in this regard.

In the last two years, the national agency of the BCEAO in Mali has worked, with technical assistance from the Central Banking Department and the Bureau of Statistics of the Fund, on improving and standardizing the monetary statistics in accordance with BCEAO regulations. Further work to speed up the timeliness with which the data become available is needed. In this regard, the Bureau of Statistics has recommended a redesign of the report forms for monetary statistics for both the central bank and the commercial banks. The authorities are also working on improving external sector data, which are largely estimated from exchange records. With regard to external debt data, the authorities expected a major improvement following the centralization and computerization at the CAA.

IV. Medium-term Outlook for Economic Growth and the Balance of Payments

The economic and financial program for 1986 was formulated in the context of a baseline medium-term scenario relating the twin objectives of achieving a sustainable rate of economic growth and balance of payments viability. In addition, four other scenarios based on different assumptions have been elaborated (Table 6).

The baseline scenario indicates that Mali can achieve an annual real average rate of economic growth of 3.8 percent during 1987-90 and attain balance of payments viability by 1990. This scenario differs from that presented in EBS/85/241 in large part due to the drop in

Table 6. Mali: Medium-Term Outlook for Economic Growth and the Balance of Payments, Alternative Scenarios, 1986-90

	1986	1987	1988	1989	1990
			Scenario I (Baseline)		
			(In billions of CFA francs)		
Overall balance	6.1	-5.6	1.2	6.4	9.7
Financing gap	--	12.3	5.7	0.5	--
			(In percent)		
Growth rate of real GDP	9.1	4.2	3.8	3.6	3.7
Current account deficit/GDP 1/	-4.2	-4.8	-4.1	-3.4	-3.0
Savings/GDP	13.3	15.9	16.4	17.1	17.6
Investment/GDP	27.4	27.2	27.2	26.8	27.1
Resource gap/GDP	-14.1	-11.3	-10.8	-9.8	-9.5
			Scenario II 2/		
			(In billions of CFA francs)		
Overall balance	6.1	-6.9	-3.0	-1.2	-1.7
Financing gap	--	-13.6	-9.9	-8.1	-7.3
			(In percent)		
Growth rate of real GDP	9.1	4.2	3.8	3.6	3.7
Current account deficit/GDP 1/	-4.2	-5.0	-4.7	-4.4	-4.4
Savings/GDP	13.3	15.8	16.1	16.5	16.8
Investment/GDP	27.4	27.3	27.6	27.4	27.9
Resource gap/GDP	-14.1	-11.5	-11.5	-10.9	-11.1
			Scenario III 3/		
			(In billions of CFA francs)		
Overall balance	6.1	-6.9	-2.9	2.0	5.7
Financing gap	--	13.6	9.8	4.9	--
			(In percent)		
Growth rate of real GDP	9.1	4.2	3.8	2.0	1.6
Current account deficit/GDP 1/	-4.2	-5.0	-4.7	-4.1	-3.7
Savings/GDP	13.3	15.8	16.0	16.7	17.3
Investment/GDP	27.4	27.3	27.5	27.4	27.9
Resource gap/GDP	-14.1	-11.5	-11.5	-10.7	-10.6
			Scenario IV 4/		
			(In billions of CFA francs)		
Overall balance	6.1	-4.2	3.1	8.9	9.7
Financing gap	--	10.9	3.8	--	--
			(In percent)		
Growth rate of real GDP	9.1	4.2	3.8	3.6	3.7
Current account deficit/GDP 1/	-4.2	-4.5	-3.8	-3.1	-3.0
Savings/GDP	13.3	16.1	16.6	17.3	17.8
Investment/GDP	27.4	27.1	27.0	26.7	26.9
Resource gap/GDP	-14.1	-11.0	-10.4	-9.4	-9.1
			Scenario V 5/		
			(In billions of CFA francs)		
Overall balance	6.1	0.2	11.7	17.7	10.2
Financing gap	--	6.5	--	--	--
			(In percent)		
Growth rate of real GDP	9.1	4.2	3.8	3.6	3.7
Current account deficit/GDP 1/	-4.2	-3.8	-2.6	-1.9	-2.9
Savings/GDP	13.3	16.6	17.4	18.0	18.4
Investment/GDP	27.4	26.9	26.5	26.2	26.4
Resource gap/GDP	-14.1	-10.3	-9.1	-8.2	-8.0

Source: Appendix VII, Table IV.

1/ Current account deficit, including grants.
2/ Scenarios II and III assume constant cotton export unit prices of CFAF 350/kg during 1987-90.
3/ The resource gap is constrained such that balance of payments viability will be achieved by 1990.
4/ Scenario IV assumes constant petroleum import unit prices of CFAF 171/liter during 1987-90.
5/ Scenario V assumes petroleum import unit prices of CFAF 144/liter in 1987 and CFAF 117/liter for 1988-90.

cotton export prices that took place in the latter part of 1985. It is critically dependent on the continued pursuit of adjustment policies and their readaptation in light of changing circumstances. In particular, it assumes that the Government will continue to implement appropriate supply-oriented policies, including the liberalization of pricing and marketing policies, the reform of the public enterprise sector, and the strengthening of the process of public investment programming. It is also assumed that demand management policies will be designed to align the growth in aggregate demand with aggregate supply and to release resources from the public sector to the private sector, by reducing the share of government consumption in GDP and by the provision of credit to meet the genuine requirements of the private sector. In addition, it is assumed that no major droughts will recur.

The baseline scenario assumes an improvement in the terms of trade of 1.6 percent in 1987, following a deterioration of 22.4 percent in 1986, and an average annual improvement of 4.8 percent per year during 1988-90. This projection is based on an expected rise in the unit price of cotton of 11.3 percent per year and of livestock of 3.9 percent per year, more than compensating for the average annual rise in the unit price of imports of 3.7 percent during 1987-90. The projections represent the staff's assessment of the likely evolution in the world cotton price after the collapse in late 1985. The projected recovery relies on growth in world demand and the levelling off in world production. As it is not expected that cotton prices will recover fully to their 1984/85 peak, the Government will need to encourage the diversification of agricultural production.

Developments in the agricultural sector are estimated to have a critical impact on both economic growth and the external sector. After the sharp increase in cereal production during 1986, the growth rate in the cereal sector is expected to decline from 6.5 percent in 1987 to 3.0 percent in 1990. It is expected that the policy of diversification in the agricultural sector will result in constant cotton production after 1987. Furthermore, the improved weather conditions will allow for a reconstitution and improvement in the quality of the livestock herd. These developments are estimated to result in an annual average growth rate of the primary sector of 3.7 percent during 1987-90. Given the emphasis that economic policies are giving to investment incentives, the expected improved performance of public enterprises, as well as the impact of the recovery in the primary sector, the industrial sector is projected to grow at an annual average rate of 5.4 percent. Taking into account the restraint in the government sector, the expansion in the tertiary sector is projected to average 3.5 percent annually during 1987-90. Based on these sectoral developments, real GDP is, therefore, projected to grow at an average of 3.8 percent annually during 1987-90.

The policies being pursued are reflected in the projected use of resources. The share of consumption in GDP is projected to decline gradually, in large part due to the substantial recovery in income following several years of drought, the reduction in distortions that will stimulate savings, and the pursuit of a restrained fiscal policy. Thus, the share of domestic savings in GDP is projected to increase from 13.3 percent in 1986 to 17.6 percent in 1990. To sustain the growth of the economy, investment in real terms is projected to grow by about 5.5 percent annually during 1987-90 but to fall as a share of GDP, due to the lower price deflator for investment expenditure. The resource gap would, therefore, decline from 14.1 percent of GDP in 1986 to 9.5 percent in 1990. This resource gap would be consistent with the attainment of balance of payments viability by 1990.

The external sector scenario consistent with this growth scenario shows a narrowing in the trade deficit from 12.8 percent of GDP in 1986 to 8.5 percent in 1990. This is predicated on an increase in total export earnings at an average annual rate of 9.0 percent and a containment in the growth of import payments to an annual average rate of 4.4 percent. The growth in export receipts is based largely on the projected increase in cotton export prices and the recovery in livestock exports. The improved weather conditions are projected to lead to a substantial fall in imports of foodstuffs; imports of other consumer goods are assumed to increase at an average annual rate of 5.1 percent. Consistent with the projected growth in investment, imports of capital goods are projected to grow by 10.6 percent per year.

Reflecting the increase in trade and the rising debt service, the deficit on the service account is projected to widen. The inflow of private transfers is expected to benefit from improved economic conditions and the entry into the West African Monetary Union. After a sharp decline in food-related aid in 1987, official transfers are projected to increase at an average annual rate of 5.0 percent thereafter. Thus, the external current account deficit, excluding public transfers, would gradually decline from 11.7 percent of GDP in 1987 to 9.0 percent in 1990. Including public transfers, it would decline from 4.8 percent in 1987 to 3.0 percent in 1990. With the expected increase in net capital inflows, the overall balance of payments would record a surplus in 1990.

Mali's medium-term scenario is sensitive to a number of underlying factors, including the domestic adjustment policies and the external environment, particularly the world demand for cotton and the import prices of petroleum products. Scenario II assumes that cotton prices remain unchanged at the 1986 level and that policies are not readapted to the changed circumstances. In such a case, the terms of trade would decline at an annual rate of 1.6 percent. Even if the same economic growth as in the baseline scenario were to be sustained, nominal GDP would decline relative to the baseline scenario and contribute to a reduction in the savings ratio. With investment unchanged, the resource gap would be higher than under the baseline scenario and balance of payments viability would not be attained by 1990.

Scenario III differs from Scenario II only in that the authorities readapt their policies to achieve balance of payments viability by 1990. If the authorities were to realign aggregate demand in line with the availability of resources, the rate of economic growth would drop, averaging annually 2.9 percent. Domestic savings, as a ratio of GDP, would be higher than under scenario II due to the more restrained financial policies, contributing thereby to a reduction in the resource gap.

Scenario IV assumes that petroleum prices remain unchanged after 1986, compared with an annual increase of 2.8 percent in the baseline scenario. It otherwise retains the same assumptions. Under these conditions, balance of payments viability could be attained by 1989. Scenario V assumes that petroleum prices decline by about 30 percent during 1987-90. This is equivalent to the decline in world market prices during 1985-86, which has not yet been reflected completely in Mali's import prices. It would require a further renegotiation of Mali's contracts with its suppliers and possibly a diversification of its supply sources. In such an event, balance of payments viability could be achieved by 1988.

With the pursuit of a prudent external debt policy, Mali's external debt servicing burden would be reduced over the medium term (Appendix VII, Table III). Scheduled external debt service as a proportion of goods, nonfactor services, and private transfer receipts would decline gradually from 40.2 percent in 1987 to 25.9 percent in 1990. Further, if debt service to China and the U.S.S.R. is excluded, the fall would be from 25.2 to 15.4 percent. The share of debt service obligations to the Fund as a percent of total debt service would decline from 25.0 percent in 1987 to 18.6 percent in 1990.

V. Staff Appraisal

The Malian authorities implemented in 1985 an adjustment program involving wide-ranging measures aimed at redressing the structural and financial imbalances facing the Malian economy. The upward revision in the official prices of key agricultural products and of petroleum products, as well as in the tariffs for road transportation, electricity, and water, contributed significantly to a reduction in economic distortions. Furthermore, the liberalization of paddy rice marketing proceeded on schedule. The price measures, together with specific corrective actions, were instrumental in strengthening the financial position of key public enterprises. Furthermore, the inventory of all ongoing projects that was prepared and the progress made in the preparation of an investment budget provide an important foundation for improving investment programming. These supply-oriented measures were reinforced with restrained financial policies. Even though government expenditures were higher than programmed and there was a shortfall in external budgetary assistance, the deficit on consolidated government operations was narrowed through both revenue-generating and specific expenditure-containing measures. Nonetheless, the target for the budgetary deficit was exceeded and domestic extrabudgetary arrears were incurred. The reduced recourse of the Government to domestic bank financing allowed the monetary authorities to emphasize the provision of credit to the nongovernment sector, while achieving a slowdown in the expansion of domestic credit and domestic liquidity. As a result of the measures taken and improved weather conditions, economic activity picked up, the rate of inflation declined, and the underlying external sector position strengthened. All the performance criteria through end-September 1985 were met. While the final data for all the other end-December 1985 performance criteria are not yet available, the criterion relating to the elimination of external payments arrears for end-December 1985 was not observed due to a two-week delay in settling the obligations due.

Notwithstanding the progress achieved in 1985, the sharp decline in cotton export prices has changed considerably the perspectives for 1986 and the medium term. The decline in cotton prices is expected to result in major shortfalls in both budgetary revenue and export proceeds, as well as in substantial losses for the semipublic enterprise in charge of the cotton sector. The adjustment program for 1986 has therefore been readapted with a view to mitigating the impact of these adverse exogenous factors and to maintaining the adjustment effort on track. In addition to further redressing the structural and financial imbalances, the policies being pursued for 1986 place considerable emphasis on the revival of economic activity that will be facilitated by the improved weather conditions. Furthermore, an economic and financial program for the cotton sector has been worked out with the World Bank to offset and cover the estimated losses.

The Government is embarking on a liberalization of pricing and marketing policies that should be instrumental in reducing economic distortions and encouraging private sector economic activity. The new commercial code, which facilitates the setting up of private businesses, complements the liberal pricing policy. Furthermore, the comprehensive project that is being elaborated in consultation with the World Bank to rehabilitate and reform the public enterprise sector will be critical to the improvement in economic conditions. The decision of the authorities to continue in the meantime to implement measures relating to certain key public enterprises is essential to consolidate the progress made thus far. In particular, the decision of the Government to liquidate Air Mali and to abolish the monopsony and monopoly positions of SOMIEX with respect to several products should strengthen the overall financial position of the sector.

The contribution of public sector investment to economic growth in Mali in the future will depend critically on the formulation and implementation of an appropriate medium-term investment program. The staff, therefore, attaches considerable importance to the follow-up of the agreement between the authorities and the World Bank to prepare a detailed plan of action for 1986. Furthermore, the institution of a public investment budget, integrated into the regular budgetary and expenditure processes, will be essential for economic and financial management.

The financial policies for 1986 have been designed to align the growth in aggregate demand with the expected resurgence in economic activity. The tax measures being taken by the authorities, as well as the restrained expenditure policies, are expected to contribute to an improved budgetary position. In this regard, the staff welcomes the decision of the authorities to freeze the wage bill and scholarships, to introduce a number of economy measures, and to provide more adequately for recurrent expenditure. With the introduction of a comprehensive system to monitor government arrears, financial management in Mali will be significantly enhanced. The envisaged reduction in government arrears during 1986 will effectively release resources that would improve the liquidity position of the nongovernment sector. Furthermore, the emphasis that the authorities are placing on the provision of credit to the nongovernment sector, while limiting the growth in domestic liquidity, is consonant with their objectives of stimulating economic activity and reducing domestic and external financial imbalances.

The measures envisaged for 1986 are expected to result in a considerable improvement in the external sector position. The authorities continue to negotiate with a number of bilateral creditors with a view to rescheduling Mali's external debt obligations. In view of the rising external debt service burden, the staff is of the view that Mali will continue to need to pursue a cautious external debt management policy over the medium term. In this connection, the sale of the state-owned airplane will help reduce Mali's external debt obligations.

The Malian authorities have taken significant measures to improve economic and financial conditions in Mali. Faced with a major drop in the price of its main export commodity, the Government of Mali has readapted and intensified its adjustment efforts for 1986. The achievement of its objectives will depend critically on the timely and effective implementation of the measures envisaged. In the view of the staff, the proposed program constitutes a significant step forward. The attainment of sustained economic growth and medium-term balance of payments viability by 1990 will necessitate the continuation over the next four years of appropriate adjustment policies and external concessional financing, including debt relief.

It is recommended that the next Article IV consultation with Mali be held on the standard 12-month cycle.

VI. Proposed Decisions

The following decisions are proposed for adoption by the Executive Board:

A. 1986 Consultation

1. The Fund takes this decision in concluding the 1986 Article XIV consultation with Mali in the light of the 1986 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.

B. Review Under Stand-By Arrangement

1. Mali has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Mali (EBS/85/241, Supplement 1, November 14, 1985) and paragraph 4 of the letter dated August 21, 1985 from the Minister of Finance and Commerce of Mali, in order to review progress made by Mali in implementing its program and to reach understandings with the Fund regarding policies and measures that the authorities intend to pursue for 1986, and to establish performance clauses for the first half of 1986.

2. The letter, with annexed memorandum, dated January 24, 1986 from the Minister of Finance and Commerce shall be attached to the stand-by arrangement for Mali and the letter dated August 21, 1985, together with the annexed memorandum, shall be read as modified and supplemented by the letter of January 24, 1986 with the annexed memorandum.

3. Mali will not make purchases under the stand-by arrangement for Mali 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:

(a) during any period in which the data at the end of the preceding period indicate that:

(i) the limit on total domestic bank credit as specified in paragraph 21 of the memorandum annexed to the letter dated January 24, 1986; or

(ii) the limit on net bank credit to the Government as specified in paragraph 21 of the memorandum annexed to the letter dated January 24, 1986; or

(iii) the target for the elimination of external payments arrears as specified in paragraph 19 of the memorandum annexed to the letter dated January 24, 1986; or

(iv) the target for the reduction of payments arrears of the Government as specified in paragraph 19 of the memorandum annexed to the letter dated January 24, 1986; or

(v) the limits on contracting or guaranteeing of non-concessional external loans as specified in paragraph 33 of the memorandum annexed to the letter dated January 24, 1986 have not been observed, or

(b) during any period after July 1, 1986, if the review contemplated in paragraph 6 of the attached letter dated January 24, 1986 has not been completed and suitable performance criteria have not been established as contemplated in that provision, or, after such criteria having been established, while they are not being observed, or

4. The Fund decides, pursuant to paragraph 4 of the stand-by arrangement, that the first review provided for in paragraph 21 of the letter from the Minister of Finance and Commerce, dated August 21, 1985, is completed and that Mali may proceed to request purchases under the stand-by arrangement after May 1, 1986.

REPUBLIC OF MALI

ONE PEOPLE, ONE GOAL, ONE FAITH

MINISTRY OF FINANCE
AND COMMERCE

The Minister of Finance
and Commerce

Washington, D.C., January 24, 1986

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

Dear Mr. de Larosière:

1. On November 8, 1985, the Fund approved a stand-by arrangement for Mali in an amount equivalent to SDR 22.86 million (45 percent of quota), in support of an adjustment program covering the second half of 1985 and calendar year 1986. All the requisite measures for 1985 have been implemented, and all the performance criteria through end-September 1985 have been observed. As there was a technical delay of two weeks in eliminating external payments arrears, the performance criterion for end-December 1985 relating to external payments arrears has not been observed. The Government estimates that all the other performance criteria for end-December 1985 have been met. As an indication of its commitment to the adjustment effort, the Government of Mali will resume purchases from the Fund only when the end-March 1986 performance criteria have been observed. The purchase relating to the end-March 1986 performance criteria will, therefore, amount to SDR 6.5 million. In accordance with the provisions of the stand-by arrangement, the Government of Mali has reviewed with the Fund staff the developments in 1985 and has reached understandings on economic and financial policies for 1986.

2. The measures taken during 1985 aimed at restraining the growth in aggregate demand, tackling the structural imbalances, and reducing the existing distortions. On the demand side, the Government narrowed the deficit on consolidated government operations, through both revenue-generating and expenditure-containing measures, and reduced the expansion in domestic credit and domestic liquidity. On the supply side, the measures taken included increases in producer prices of key agricultural products, in the official selling prices of cereals, in the retail prices for flour and bread, and in petroleum prices. Upward adjustments in road

transportation tariffs as well as in electricity and water tariffs were also made. In addition, steps to liberalize paddy rice marketing were taken. Measures to strengthen the position of five key public enterprises were implemented. Furthermore, to provide the basis for improved investment programming, an inventory of all ongoing projects, with UNDP technical assistance, has been completed and an investment budget, with Fund technical assistance, has been prepared.

3. While considerable progress has been achieved in 1985, the Malian economy suffered severely from the effects of the drought on the 1984/85 agricultural harvest. Two factors, in addition, affected the performance of the economic and financial policies. First, a precipitous decline in cotton export prices in CFA franc terms took place during the last quarter of the year, due to a weakening in world market prices and the depreciation of the U.S. dollar vis-à-vis the CFA franc. Second, there was a significant shortfall in expected external budgetary assistance.

4. The sharp decline in cotton export prices is not expected to be reversed in 1986. As cotton is Mali's major export commodity and an important source of budgetary revenue, the perspectives for 1986 have now changed considerably compared with last August, when the indicative program for 1986 was formulated. In the circumstances, the Government has decided to readapt and intensify its adjustment efforts to mitigate the impact of this adverse exogenous factor so as to maintain the adjustment effort on track.

5. The specific policies that will be pursued for 1986 are detailed in the attached memorandum. During 1986, restrained financial policies will continue to be pursued, while steps aimed at further reducing the structural imbalances are being taken. On the demand side, measures are being put in place to generate a surplus in the budget on consolidated government operations on a commitment basis. A significant reduction in government arrears is programmed. Furthermore, a tight credit policy will be pursued, with a view to keeping the rate of growth of domestic liquidity below that of nominal GDP. On the supply side, the Government is taking specific steps to liberalize significantly pricing policies. A comprehensive project for the reform of the public enterprise sector, supported by financial assistance from the World Bank, is expected to be launched. In addition, measures to improve the operations of key public enterprises are being undertaken and the liquidation of Air Mali, initiated at the beginning of January 1986, will be completed.

6. During the second review of the program, before end-June 1986, the authorities will reach understandings with the Fund on the economic and financial policies for the second half of 1986 in light of developments and the progress achieved in the first half of the year. The review will include understandings on measures pertaining to public enterprises, pricing and marketing policies, fiscal policy, including government arrears, on quarterly credit ceilings for the second half of 1986, and on

a timetable and the modalities for the elimination of the cross-debts of public enterprises vis-à-vis each other and vis-à-vis the Government. A study for this purpose, financed by the World Bank, is under preparation and is scheduled to be completed by end-March 1986.

7. The Government believes that the measures described in the attached memorandum are adequate to achieve the objectives of the 1986 program, but will take any further measures that might become necessary for this purpose. The Government of Mali will consult with the Fund in accordance with the policies of the Fund on the progress made in the implementation of the program and any policy adaptations that may be appropriate for the achievement of its objectives.

Sincerely yours,

Dianka Kaba Diakité
Minister of Finance
and Commerce

Attachments

Memorandum on the Economic and Financial Policies
of the Government of Mali for 1986

1. The Government of Mali has been pursuing since 1982 a series of adjustment programs supported by three successive stand-by arrangements from the International Monetary Fund. The last stand-by arrangement for a 17-month duration was approved by the Executive Board of the Fund on November 8, 1985, for an amount equivalent to SDR 22.86 million (45 percent of quota). It was in support of an adjustment program covering the second half of 1985 and calendar year 1986. The program aimed at promoting economic growth, reducing inflationary pressures, and making progress, over the medium term, toward achieving a viable external sector position. All the measures envisaged under the program for 1985 have been implemented, and all the performance criteria through end-September 1985 have been observed. The first part of this memorandum reviews the progress made during 1985. The second part of this memorandum outlines the Government's economic and financial policies for 1986, taking into account the outcome for 1985 as well as the recent sharp drop in international cotton prices. The Government's economic and financial policies have been readapted and strengthened to ensure that the program for 1986, as described in the memorandum attached to our letter of intent dated August 21, 1985, remains on track.

I. Economic and Financial Developments and Policies in 1985 1/

2. The key objectives of the program for 1985 were to achieve an increase in real economic growth of 1.7 percent, to reduce the rate of inflation as measured by the GDP deflator to 8.2 percent, to narrow the external current account deficit to 5.8 percent of GDP, and to limit the balance of payments deficit to CFAF 4.7 billion. Based on preliminary estimates, these objectives have been broadly attained. After stagnating in 1984, economic activity picked up in 1985; a rate of real economic growth of 1.1 percent in 1985 is estimated. It remained somewhat below the target due to a weaker than expected performance in the agricultural and livestock sectors, reflecting the effects of the adverse weather conditions during the 1984/85 agricultural season. Inflation, as measured by the GDP deflator, dropped from 11.6 percent in 1984 to 8.3 percent in 1985, reflecting largely the tight demand management policies as well as the improved food supply conditions in the second half of 1985. The external current account deficit, including grants, narrowed from 6.1 percent of GDP in 1984 to 5.9 percent in 1985; however, owing in part to a drop in net capital inflows, the overall balance of payments moved into a deficit position of CFAF 5.5 billion, compared with a surplus of CFAF 1.6 billion in 1984. Even though Mali experienced a shortfall in cotton export proceeds and in foreign budgetary assistance, developments

1/ The discussion in this section is based on preliminary estimates for 1985.

in the external sector were basically on target as the effects of these two factors were virtually offset by a lower than programmed level of imports.

3. The performance of the Malian economy in 1985 benefited from the implementation of a wide range of supply-oriented measures. These included increases in the prices of petroleum products, in the official selling prices of cereals, and in the producer prices of cereals and cotton. Road transportation tariffs as well as electricity and water tariffs were also revised upward. In addition, the Government took several measures designed to improve the financial position of several key public enterprises, notably Air Mali, SOMIEX, EDM, OERHN, OPT, and the Office du Niger. The domestic tariffs of Air Mali were increased in October 1985 by 35 percent. Furthermore, Air Mali did not undertake any international flights; the profit sharing arrangement with Air Afrique contributed to an improvement in the receipts of Air Mali. During 1985, efforts to form a mixed national airline company were continued. However, by end-December 1985, it had not been possible to form a mixed company. SOMIEX increased its selling prices on a number of commodities and reduced its personnel by 264 persons during the second half of 1985. Both EDM and OERHN benefited from the increase in water and electricity tariffs. OPT continued to implement managerial and technical reforms in the context of a World Bank project. Further, on November 1, 1985, the postal tariffs were increased by 10 percent on average and telecommunication tariffs by 15 percent on average. The Office du Niger continued its reforms with technical assistance from the World Bank.

4. The Government tightened its financial policies in 1985. The consolidated position of government operations on a commitment basis, which excludes foreign-financed investment and grants, 1/ is estimated to have moved from a deficit of CFAF 8.9 billion (1.9 percent of GDP) in 1984 to a deficit of CFAF 4.3 billion (0.8 percent of GDP) in 1985, compared with a program objective of virtual balance. After taking into account an accumulation in arrears estimated at CFAF 3.3 billion and a carry-over of transactions into the complementary period estimated at CFAF 3.0 billion, the deficit on a cash basis is estimated to have declined from CFAF 8.9 billion (1.9 percent of GDP) in 1984 to CFAF 1.4 billion (0.3 percent of GDP) in 1985, compared with a program target of a deficit of CFAF 3.4 billion. As net external borrowing was negative, the consolidated government position was financed mainly by credit from the banking system and grants. Domestic net bank financing amounted to CFAF 4.1 billion. Foreign budgetary assistance, in the form of grants, amounted to CFAF 2.5 billion, representing a shortfall of CFAF 3.1 billion from program projections. Based on currently available information, the

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1/ The consolidated government position, excluding foreign-financed investment and grants, has been the operational budget monitored under past programs because of the lack of reliable investment data.

overall deficit on a commitment basis, including foreign-financed investment but excluding grants, fell from CFAF 45.2 billion (9.6 percent of GDP) in 1984 to an estimated CFAF 42.8 billion (8.3 percent of GDP) in 1985.

5. Total revenue increased by an estimated 21.0 percent, from CFAF 61.9 billion in 1984 to CFAF 74.9 billion in 1985, exceeding the program target. The increase in budgetary revenue was due largely to a number of revenue measures taken by the Government. During the first half of the year, these included increases in the taxes on salt, cola nuts and tea, and an increase in the stamp duties on import licenses. In addition, income tax receipts increased as a result of the wage adjustment in the civil service. In August, additional measures were implemented, including an increase in valeurs mercuriales, the administered prices on which customs duties are assessed, an adjustment in the prices of petroleum products, the reinstatement of import duties and sales taxes on cereal products, and a change in the assessment of the sales tax on other imports to their c.i.f. value instead of their valeurs mercuriales.

6. Total expenditure increased by 11.9 percent in 1985, reaching CFAF 79.2 billion compared with a program target of CFAF 73.9 billion. Since expenditure on wages, maintenance, scholarships, and equipment were in line with budgetary allocations, the overshooting was mainly due to overruns in miscellaneous expenditure, including travel, representation, and dues to regional organizations. Expenditure in the annexed budgets and special funds are estimated to have increased by 2.4 percent in 1985, to CFAF 17.4 billion, or CFAF 1.0 billion above the program target.

7. The thrust of monetary policy in 1985 was to maintain a restrictive stance consistent with the objectives of the program. Domestic credit has grown by 11.4 percent of beginning money stock, compared with 15.9 percent in 1984, largely reflecting a sharp deceleration in the growth of credit to Government to 2.5 percent from 7.9 percent in 1984. Credit to the economy is estimated to have grown by 8.9 percent, as against 8.0 percent in 1984. Domestic liquidity growth fell to 13.4 percent in 1985, compared with 25.2 percent in 1984. This growth was somewhat higher than the program projection of 11.3 percent due primarily to valuation effects. Deposit rates in the money market, which are periodically adjusted by the BCEAO in the light of trends in the international money markets, were progressively reduced four times, in January, April, May, and September, to levels ranging between 9.9 and 10.4 percent for terms up to three months. The minimum rate for saving deposits for one year remained unchanged at 8.5 percent.

8. In the external sector, export receipts declined by about 2 percent in 1985, representing a 2 percent shortfall from program projections. This was mainly due to a sharp decrease in the unit price of cotton, which was only partly compensated by an increase in the export volume. Import payments for goods and nonfactor services did not increase, remaining below

program projections. As a result, the external current account deficit, excluding official transfers, was contained to CFAF 92.0 billion in 1985, compared with the program target of CFAF 92.9 billion and CFAF 86.7 billion in 1984. As official transfers increased by CFAF 3.8 billion in 1985, the overall external current account deficit was contained to CFAF 30.3 billion, compared with to CFAF 28.8 billion in 1984. Notwithstanding a shortfall in foreign grants, the overall current account deficit was nearly on target. A drop in net capital inflows led to the emergence of a balance of payments deficit of CFAF 5.5 billion in 1985, broadly in line with program projections.

9. During 1985, the Government implemented a prudent debt management policy aimed at limiting the burden of external debt service. Accordingly, the Government did not contract or guarantee any new nonconcessional loans with a maturity between 0 and 12 years, excluding normal short-term trade credits. Furthermore, the external payments arrears of the CAA and the Road Fund, and the interest arrears of OERHN were reduced from CFAF 2.8 billion at end-July 1985 to CFAF 1.1 billion at end-September. At end-1985, however, a sum of CFAF 1.1 billion of external payments arrears, based on the same coverage, was outstanding due to technical delays. These arrears, however, were paid in totality by January 15, 1986.

II. Economic and Financial Policies for 1986

Overview

10. The Government of Mali is committed to pursuing its adjustment efforts in 1986 with a view to further stimulating economic activity and reducing both domestic and external financial imbalances. These efforts will have to be strengthened in view of the sudden and precipitous fall in cotton export prices in CFA francs that took place in recent months. It is estimated that the average cotton export price will drop by about 40 percent in 1986. At the projected export volume level of 65,000 tons, this would represent a shortfall in cotton export proceeds of about CFAF 21.8 billion and a loss of government revenue of CFAF 7.1 billion. In addition, if no adjustment in its financial operations were made, the Compagnie Malienne pour le Développement des Textiles (CMDT) would incur losses of CFAF 20.5 billion.

11. The policies outlined below are designed to mitigate the impact of this adverse exogenous factor and, together with the improved weather conditions, contribute to the attainment of a rate of real economic growth of 9.1 percent, compared to the initial program objective of 3.5 percent; to a further reduction in the rate of inflation as measured by the GDP deflator to 6.0 percent, compared with the initial target of 6.3 percent; and to a narrowing in the external current account deficit

to 4.2 percent of GDP, compared with an initial program objective of 4.0 percent. The improvement in the current account relative to 1985 would reflect in part a reduction in import demand, resulting mainly from the favorable 1985/86 agricultural harvest and the tight demand management policies. This improvement and the higher than originally projected net capital inflows are expected to result in a turnaround in the balance of payments position, which is projected to record a surplus of CFAF 6.1 billion in 1986 compared with an initial program target of CFAF 3.0 billion.

12. The program for 1986 was elaborated in the context of a medium-term scenario which indicates that Mali can achieve balance of payments viability by 1990. On the demand side, the program for 1986 involves a further reduction in the fiscal deficit, the pursuit of a tight credit policy, and the continuation of a cautious external debt management policy. On the supply side, the program includes the introduction of a public investment budget and its integration in the regular budgeting process, the rehabilitation of the public enterprise sector, and a major liberalization of pricing policies.

Fiscal policy

13. Notwithstanding the loss of some CFAF 7.1 billion in revenue from the cotton sector, the introduction of additional tax measures and restrained expenditure policies are expected to contribute to an improvement in the financial position of the Government in 1986. The consolidated position of government operations on a commitment basis, which excludes foreign-financed investment and grants, is projected to move from a deficit of CFAF 4.3 billion (0.8 percent of GDP) in 1985 to a surplus of CFAF 6.8 billion (1.1 percent of GDP) in 1986. After taking into account reductions in arrears of CFAF 6.3 billion and transactions in the complementary period 1/ amounting to CFAF 3.0 billion, the deficit on a cash basis is projected to rise from CFAF 1.4 billion (0.3 percent of GDP) in 1985 to CFAF 2.5 billion (0.4 percent of GDP) in 1986. As net external borrowing is estimated to be negative in 1986, the consolidated government position is to be financed mainly by grants. The use of net bank credit is projected to be sharply curtailed.

14. In order to improve public finance management and economic analysis, the Government has decided to establish an investment budget that incorporates government investment expenditure financed by tied external assistance. For 1986 an investment inventory was prepared on the basis of responses to a questionnaire circulated by the Ministry of Finance and Commerce. Based on this investment inventory, the Ministry of Finance and Commerce is pursuing its efforts to review the data received, which may not fully cover all foreign-financed investment. On the basis of further work to be undertaken during 1986, a comprehensive investment

1/ Relating to the 1985 budget exercise.

budget will be prepared for 1987 and fully integrated in the budgeting and expenditure control processes. Based on the inventory, the overall deficit on a commitment basis, including foreign-financed investment, but excluding grants, would be reduced from an estimated CFAF 42.8 billion (8.3 percent of GDP) in 1985 to CFAF 26.9 billion (4.5 percent of GDP in 1986). To achieve the fiscal targets for 1986, the Government plans to implement various measures on the revenue and expenditure sides.

15. Revenue for 1986 is projected to grow by 15.0 percent, notwithstanding the loss of revenue from the cotton sector. This increase reflects in large part the full-year effect of the measures taken in 1985. In addition, the Government will receive CFAF 3.0 billion in revenue from the operations of the Kalana gold mine. The Government will also raise the valeurs mercuriales by an additional 10.0 percent, effective end-February 1986. Furthermore, the Government is renegotiating the prices for oil imports with a view to generating at least CFAF 1.5 billion in revenue in 1986. The Government will also step up its efforts to collect outstanding tax arrears and strengthen tax administration. These projections do not take into account any shortfall in revenue that may result from the introduction during 1986 of initial measures in the context of a tax reform package designed to stimulate private sector economic activity over the medium term; any resulting shortfall in revenue is expected to be financed by the U.S. Government under its Economic Policy Reform Program.

16. On the expenditure side, there will be no growth in nominal terms. To this end, the Government has decided to freeze the wage bill and scholarships in nominal terms at the 1985 levels. The freeze in the wage bill will be made possible through the economies generated by the revision and computerization of the payroll, reflecting the result of the census of the civil service. Miscellaneous expenditures will be reduced by 19 percent as a result of austerity measures limiting, in particular, expenditure on travel and representation. On the other hand, the budget incorporates increased allocations for recurrent (maintenance) expenditures, in order to avoid a further accumulation of extrabudgetary arrears. In addition, the introduction of the new budgetary nomenclature is expected to enhance expenditure control. The progress made in the initial phases of introducing the new nomenclature will be reviewed during the second review of the program. Furthermore, to improve expenditure control, the authorities will give instructions to spending ministries to strictly enforce the requirement that, under no circumstances, expenditure commitments shall be incurred without prior budgetary allocation. In addition, the Treasury will not pay any expenditure committed without being passed through all the steps of the established process of expenditure control.

Domestic arrears

17. The lack of a comprehensive system to monitor domestic government arrears has been a major problem over the last few years. The Government

has recognized that the accounts of "treasury arrears" have covered only a narrow set of possible arrears. Accordingly, the Government requested technical assistance from the Fund in this area. Thus, in November 1985, a Fund technical assistance mission visited Bamako and prepared a report for the authorities. In addition, the terms of reference of the Fund's fiscal advisor in Bamako were expanded to provide technical assistance in this area. Based on the mission's recommendations, the Government is introducing effective March 1, 1986 a comprehensive system for monitoring arrears that would cover all government obligations, including salaries. The system is described in Annex I. A staff visit will take place in April 1986, to examine the initial operations of the system and have discussions with the authorities regarding their commitment not to accumulate any new arrears. Furthermore, the complementary period relating to the 1986 budget will be closed as stipulated by law on February 28, 1987. The Government of Mali will examine the possibility of discontinuing the complementary period.

18. As indicated in the Government's last letter of intent, there are large undocumented arrears in the public sector. During 1985 the Government exerted efforts to identify its own undocumented arrears and the cross-arrears for public enterprises vis-à-vis each other and vis-à-vis the Government. The lack of adequate and detailed information, however, has hindered the Government's efforts to complete a detailed inventory. The study envisaged in the context of the public enterprise reform project being negotiated with the World Bank is now well under way and is expected to be completed by end-March 1986. The Government will set up a commission to review the results of the study, to verify the amounts involved, and to prepare by end-May 1986 a plan of action for the elimination of all verified arrears. Understandings on this plan of action will be reached at the time of the second review.

19. Nonetheless, the Government has so far identified CFAF 4.4 billion in domestic arrears as of end-1984 and has accumulated an estimated CFAF 2.2 billion during 1985. Including external arrears, the total stock of identified arrears of the Government at end-1985 is, therefore, estimated at CFAF 7.7 billion. During 1986, the Government will reduce its arrears from this outstanding stock by CFAF 6.3 billion, including the elimination by end-March 1986 of all external payments arrears as defined above. The reduction will be by CFAF 1.1 billion for the quarter ending March 1986, by CFAF 1.6 billion each for those ending June and September 1986, and by CFAF 2.0 billion for that ending December 1986. Moreover, based on the new system for monitoring arrears, the Government will not incur any new domestic payments arrears, defined as the difference between the amounts authorized and paid in excess of CFAF 4.7 billion. If this difference were to be exceeded at the end of a month, or if the system is not functioning satisfactorily, the Government of Mali will consult the Fund management with a view to determining the cause and the requisite corrective measures. This information for the Bamako region will be communicated to the Fund within one month. The consolidated

position, including all the regions, will be communicated within two months. Finally, the Government will not incur any new external payments arrears.

Monetary and credit policy

20. Consistent with the objectives of the program, in 1986, domestic credit is programmed to rise by 7.2 percent of beginning money stock. Credit to the economy is projected to rise by 6.7 percent of beginning money stock, while the increase in net bank credit to the Government is projected to be limited to 0.5 percent of beginning money stock. Taking into account the balance of payments target, the growth in domestic liquidity is projected at 13.0 percent, remaining below the projected growth in nominal GDP.

21. To monitor progress under the program, quarterly ceilings for overall domestic credit and net credit to Government for the first half of 1986 and quarterly indicative ceilings for the second half of 1986 have been set on the basis of the adjusted levels for end-December 1985. 1/ These indicative ceilings will be reviewed and corresponding ceilings established at the time of the second review, scheduled for June 1986. Accordingly, total domestic bank credit, which is estimated to have amounted to CFAF 117.9 billion at end-December 1985, will not exceed CFAF 126.2 billion at end-March 1986 and CFAF 126.2 billion at end-June 1986. On an indicative basis, it will not exceed CFAF 126.7 billion at end-September 1986 and CFAF 127.4 billion at end-December 1986. Net bank credit to the Government, 2/ which is estimated to have amounted to CFAF 36.6 billion at end-December 1985, will not exceed CFAF 37.0 billion at end-March 1986 and CFAF 37.2 billion at end-June 1986. On an indicative basis, it will not exceed CFAF 37.2 billion at end-September 1986 and CFAF 37.2 billion at end-December 1986. These ceilings will be

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1/ The overall ceiling for domestic credit takes account of a revised base at end-December 1985 for domestic credit to the economy. This base includes adjustments made (a) to exclude an estimated amount of agios of CFAF 1.0 billion; and (b) to include bad and doubtful debts net of provisions at the level of ordinary credit. All references henceforth are on the basis of the adjusted base.

2/ For the purposes of this program, accounts of the Central Government with the banking system also include central government funds held in suspense accounts and the holdings of the ministries and government bodies covered in the consolidated figures for central government financial operations. The position of the postal checking system is excluded. However, private sector deposit accounts which were reclassified as government deposit accounts in 1985 shall retain their revised character in 1986.

adjusted downward by the cumulative amount of external budgetary assistance, including debt relief, received in each quarter in excess of that programmed. 1/

Cotton sector

22. The fall in world cotton prices projected for 1986 is estimated to result in a shortfall in revenue for the semipublic cotton enterprise (CMDT). If no corrective action were taken, this shortfall would represent losses of about CFAF 20.5 billion. In order to reduce these potential losses, the Government has decided to take a set of measures to enter into effect no later than end-February 1986, to achieve savings of CFAF 10.7 billion. These comprise (a) the deferral of tax liabilities and amortization payments to the Government (CFAF 2.8 billion); (b) cuts and deferrals in expenditure and remuneration of CMDT (CFAF 6.2 billion); and (c) the reduction in input subsidies (CFAF 1.7 billion). In addition, revenues will be increased by CFAF 1.1 billion through the increase in the sales price of cotton seeds. The remaining gap of CFAF 8.7 billion is expected to be financed from the Guarantee Fund as well as financial assistance provided by PRMC, STABEX, the Caisse Centrale, and the World Bank. Moreover, the Government will study appropriate measures to improve the efficiency of the sector. The measures under study would include, among others, the abolition of the obligation of CMDT to use SOMIEX services for the export of cotton fiber and the revision of transport regulations. The study on transport regulations is being financed by the World Bank. Furthermore, CMDT will undertake cereals marketing and storage in accordance with the terms of the Credit Agreement of Mali Sud II. During 1986, the authorities and the World Bank will keep in close touch and will agree on additional corrective measures in light of the evolution of international cotton prices and the inflows of foreign financing. Recognizing that there will be a need to introduce further measures to reduce the reliance on external financing in 1987, the Government is working closely with the World Bank and the concerned French agencies to determine the requisite measures. In this regard, the Government has agreed to undertake a study of the efficiency of the cotton sector in order to identify specific cost reduction measures. The progress made in this area will be reviewed at the time of the second review of the stand-by arrangement.

Pricing policies

23. The Government of Mali remains committed to the liberalization of pricing and marketing policies, with a view to reducing distorions and encouraging private sector economic activity. To this end, it has

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1/ External financing provided under the U.S. Economic Policy Reform Program shall be excluded, as it will be associated with specific revenue shortfalls resulting from modifications in the tax system and tied to other expenditure measures.

adopted a major reform of the current system under which all commodities were subject to price controls. Under the new draft legislation, which will become effective at end-February 1986, prices will be freely determined by market forces, except for a number of strategic or essential goods and services (Annex II). For a significant part of the commodities subject to price regulation, the control will take the form of "homologation souple" (Annex II). Producers and merchants of these products will be free to determine their prices on the basis of preset profit margins. For the other regulated commodities, prices will be directly fixed by the administration or approved prior to their application. The Government intends to apply the system with considerable flexibility. The working of the system will be examined during the second review of the program, with a view to reaching understandings on appropriate modifications in light of the experience in the first four months of its application. To complement the new liberal pricing policy and to encourage private sector economic activity, the Parliament has approved a commercial code. Under the commercial code, virtually all private businesses can be set up without prior approval by the Government. This contrasts with the previous system under which prior approval was required.

Public enterprise sector

24. The Government of Mali has continued its discussions with the World Bank with a view to launching in 1986 a comprehensive sectoral reform project for the public enterprise sector, involving costs of about US$50.0 million. Project negotiations are now expected to be completed in March 1986, as the reform strategy is being reassessed with a view to widening its scope beyond what had been originally envisaged. It is expected that the project will include wide-ranging measures designed to improve the economic, financial, and institutional frameworks within which public sector enterprises operate. Public enterprises are being classified into three categories, namely those to be rehabilitated, those to be privatized, and those to be liquidated. The project will include detailed plans of action and timetables for these purposes. Notwithstanding the delay in the preparation of the project, the Government is continuing to introduce specific measures to improve the operations of key enterprises and is taking steps to liquidate those that are clearly not viable.

25. During 1985, the Government of Mali has pursued its efforts to form a mixed national airline company. In October 1985, a roundtable conference of potential partners was held in Bamako to solicit specific proposals for the formation of such a company. Some airline carriers, including Air Afrique, SABENA, UTA, and Air Inter, submitted initial proposals; these proposals were not sufficiently elaborated to enable the Government to proceed with the selection of the appropriate partner; more detailed proposals were expected to be received by mid-January 1986. Nonetheless, the Government took a decision on January 8, 1986, to appoint an official liquidation commission to assess the value of the assets and

verify the outstanding arrears owed by and to Air Mali. The commission is charged with the sale of those assets and the elimination of all the verified outstanding arrears by May 15, 1986, either through cash payments or their conversion into grants or concessional loans. As of January 31, 1986, all domestic flights will be discontinued. 1/ At end-February 1986, the personnel of Air Mali will be given the official one-month notice of termination of employment. The liquidation of Air Mali does not preclude the formation of a new mixed company on sound economic and financial grounds. The Government of Mali will consult with the Fund and the World Bank regarding any arrangements made for the formation of a new mixed airline. The Government has requested, and the World Bank has agreed to finance, technical assistance to speed up the liquidation process and to evaluate the offers for the formation of a new mixed company.

26. The Government of Mali will pursue the reform of the state trading agency, SOMIEX. First, the current monopsony position and any purchase obligations of SOMIEX vis-à-vis several domestic industries will be abolished by March 1, 1986. These include the sugar, soap, oil, flour, and tea industries. Second, no imports of sugar by SOMIEX during the whole of 1986 will be authorized, in order to reduce its existing stocks. Third, the selling prices of salt, imported tea, powder milk, soap, and edible oil will be increased at the latest by March 1, 1986, to cover costs. Fourth, the monopoly position of SOMIEX for edible oil, soap, and flour will be abolished by March 1, 1986; all traders will be allowed to import these commodities. In addition, a further reduction in personnel of 300 persons will be effected by end-June 1986. This will be done in two phases: there will be a reduction in personnel of 150 during January-March 1986 and of 150 during April-June 1986. The personnel of SOMIEX will, therefore, have been reduced from about 2,400 persons at end-1983 to about 600 persons at end-June 1986. The financial position of SOMIEX will be reviewed at the time of the second review of the program, and understandings will be reached on additional measures that may become necessary.

27. With the aforementioned increase in telecommunications and postal tariffs in November 1985, the financial position of OPT is expected to improve in 1986. The Government and OPT have agreed that the amount of net arrears due to OPT and outstanding as of December 31, 1984 amounted to CFAF 2.8 billion. The Government will repay during 1986 CFAF 1.5 billion to OPT in three equal quarterly installments starting with the second quarter of 1986. The Government and OPT have also agreed on the amount of services OPT will provide to the Government in 1986, in line with budgetary allocations. OPT is proceeding with the necessary preparations for the financial separation of postal, telecommunications, and postal checking services in accordance with World Bank recommendations.

1/ International flights were discontinued at the beginning of 1985.

28. The economic and financial situation of the Office du Niger is expected to improve due to the rehabilitation measures currently being prepared with assistance from the World Bank and several bilateral donors. These measures are expected to be implemented in the course of 1986. Rice production is expected to benefit from the progressive liberalization of paddy rice marketing. During the 1985/86 season, authorized merchants and cooperatives will be allowed to freely buy paddy rice from the producers of the Office du Niger at market determined prices. In addition, the Office du Niger is no longer required to sell any paddy rice to OPAM at predetermined prices. For the 1986/87 season, paddy rice marketing will be completely liberalized throughtout the harvesting period.

29. With a view to improving the financial position of the National Railway Company (Régie des Chemins de Fer du Mali), the Government of Mali will increase railroad tariffs for solids, liquids, and passengers, to cover costs effective March 1, 1986.

Public investment

30. The Government is committed to further improve the development planning process. During 1985, the Government made considerable efforts in this regard. An inventory of projects currently being executed was drawn up with technical assistance from the UNDP. The Government also established, with Fund technical assistance, an investment inventory for 1986, which it views as being in line with development priorities of Mali and its debt servicing capacity. The investment inventory for 1986 limits investment to projects currently being implemented. The inventory provides for total investment expenditures of CFAF 41.8 billion, of which CFAF 14 billion will be spent on projects in the rural sector and CFAF 12.5 billion on infrastructure. About 51 percent of the investment will be financed by concessional foreign loans, about 30 percent from external grants, about 19 percent from domestic resources.

31. The Government is preparing, in cooperation with the World Bank, a program of action for 1986 to improve the system of programming public investment expenditures. The plan of action will provide for strengthening the formulation of the public investment budget with a view to improving selection of the projects on the basis of economic criteria, sectoral priorities, counterpart fund requirements, recurrent cost implications, and debt servicing capacity. The reform will require better coordination between the Ministries of Plan and Finance with regard to the preparation of the investment budget. To this end, the Government will prepare proposals for the introduction of a multiannual rolling planning process, to be implemented beginning with the 1987 investment budget. To assist in this reform, the World Bank will finance a consultant to prepare specific recommendations regarding the reform of planning and associated budgetary procedures. The Government will take these recommendations into account for the preparation of the investment program for 1987-89. The progress will be examined at the time of the second review of the program.

External sector

32. Notwithstanding the shortfall in export cotton proceeds, the external current account deficit, excluding official transfers, will decline from CFAF 92.0 billion in 1985 to about CFAF 79.0 billion in 1986, reflecting largely the favorable 1985/86 agricultural harvest and the tight financial policies. This improvement, accompanied with a rise in external financial assistance, is projected to result in an overall balance of payments surplus of CFAF 6.1 billion, compared with an original program target of CFAF 3.0 billion.

33. For 1986, the Government will continue to pursue a prudent external debt management policy. The Government will not contract or guarantee any new nonconcessional loans with a maturity between 0 and 12 years during 1986, excluding normal short-term trade credits. Furthermore, the Government will not incur any new external payments arrears. In 1986, all debt service will be centralized with the CAA. The text of the reforms assuring the centralization of all transactions related to external debt management will be adopted by the Government before end-February 1986. These reforms will be instrumental in improving external debt monitoring. The Government is continuing its negotiations to reschedule its official debt vis-à-vis nine Fund members (Algeria, China, Ghana, Egypt, France, Iraq, Libya, Qatar, and the United Kingdom), and with two non-Fund members (Bulgaria and the U.S.S.R). As provided for under the program, the Government decided to sell the British Aerospace airplane and sent it in October 1985 to the United Kingdom for repairs and appraisal. Notwithstanding its efforts to sell the airplane, the Government did not receive an offer during 1985. The Government is pursuing its efforts to sell the airplane before end-February 1986 and is continuing its negotiations with the United Kingdom for refinancing the possible losses on concessional terms.

Government Arrears Survey Unit
Attached to the Directorate General of the Budget

1. In order to improve and strictly enforce expenditure control as well as to monitor and avoid the accumulation of new arrears, a monitoring unit will be established on March 1, 1986 and attached to the Directorate General of the Budget. From that date, the unit will centralize all the expenditure information provided monthly by the administrative and financial units (CAF) of the ministries, the Ministry of Finance and the Treasury. On this basis, it will monitor the different stages of all expenditure in the payments process, monitoring thus expenditure arrears. The unit will prepare a monthly report, which will be submitted to the Minister of Finance, covering all the information listed below. All expenditure, and thus arrears, will be monitored at the following levels:

(a) expenditure commitments (dêpenses engagées);

(b) expenditure for which bills are received;

(c) expenditure verified for issue of payment orders (dêpenses liquidées);

(d) expenditure for which payment orders to the Treasury are issued (dêpenses mandatées ou ordonnancées);

(e) expenditure for which payment orders are received by the Treasury (prise en charge par le Trésor);

(f) actual disbursements made by Treasury.

The unit will also inform the Ministry of Finance of any commitments that are undertaken without prior budgetary allocation or exceed the budgetary allocations.

2. As part of the process of gathering information, the unit will receive the following:

(a) From the CAF, by the tenth of the following month:

- Statement of salaries due but not authorized for payment;
- Statement of scholarships due but not authorized for payment;
- Statement of invoices received but not authorized for payment;
- Statement of goods and services furnished but the expenditure for which has not been committed.

(b) From the Ministry of Finance, by the 10th of the following month:

- Statement of commitments and payments that have been authorized.

(c) From the Treasury:

- A monthly balance sheet for the Bamako region by the end of the following month, supplemented by accounting data by major expenditure categories by fiscal year and on a cash basis (gestion) on: (1) government budget expenditure items accepted for payment; and (2) amounts disbursed. The Treasury will be responsible for classifying the 1986 expenditure according to the new nomenclature, upon its introduction;

- A consolidated general balance sheet, including all the regions, will be prepared quarterly within the following two months.

3. Furthermore, the unit will verify:

(a) that government budget expenditure for salaries and scholarships be cleared and and authorized for payment (liquidé et mandaté) no later than the tenth day of the following month; and

(b) that other expenditure be cleared and authorized within four weeks of receipt of the invoice.

Commodities Subject to Price Control

I. Goods and Services Subject to Prior Price Approval

Cereals, cotton, essential agricultural inputs, pharmaceutical products, medical treatment, schools, transportation, petroleum products, water, electricity, movie tickets, hotels, customs brokerage, and essential products 1/.

II. Goods and Services Subject to Preset Profit Margins

Vinegar, tomato paste, broth in cubes, noodles, sardines in oil, instant coffee, other tea, ice blocks, imported cereal, yarn, cloth, hardware, lanterns, candles, toiletries, bleach, school supplies, transportation spare parts, cement, iron, lime stone.

1/ These are defined as bread, meat, sugar, edible oil, salt, milk, flour, green tea, soap, tobacco, matches, and cigarettes.

Mali: Relations with the Fund
(As of January 31, 1986)

I. Membership Status

(a) Date of membership - September 27, 1963
(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 115.6 million (227.6 percent of quota)

		Millions of SDRs	Percent of quota
(c)	Use of Fund credit	73.5	144.7
	Credit tranches	(45.0)	(88.6)
	EAR	(28.5)	(56.1)
	CFF	(--)	(--)
(d)	Reserve tranche position	8.7	17.1

III. Stand-By Arrangements

1. Current stand-by arrangement:
   (a) Duration: November 8, 1985-March 31, 1987
   (b) Amount: SDR 22.86 million
   (c) Utilization: SDR 6.53 million
   (d) Undrawn balance: SDR 16.33 million

2. Last stand-by arrangement: stand-by arrangement approved in December 1983 in an amount of SDR 40.5 million, 79.7 percent of quota (SDR 50.8 million)

IV. SDR Department

(a) Net cumulative allocation: SDR 15.9 million
(b) Holdings: SDR 1.15 million (7.2 percent of net cumulative allocation)

Mali: Relations with the Fund (continued)

V. Administered Accounts

Trust Fund loans

(i) Disbursed: SDR 21.5 million
(ii) Outstanding: SDR 14.0 million

VI. Overdue Obligations to the Fund - None

(B) Nonfinancial Relations

VII. Exchange System

Pegged to the French franc at the rate of CFAF 50 = F 1; on January 31, 1986 the rate in terms of SDR, was SDR 1 = CFAF 415.26.

VIII. Last Article IV Consultation

Discussions were held by the staff during January 14-24, 1985. The staff report (SM/85/91) was discussed by the Executive Board on May 3, 1985. The decision follows:

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Mali, in the light of the 1985 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.

IX. Current Stand-By Arrangement

The current stand-by arrangement (EBS/85/241) was approved by the Executive Board on November 8, 1985. The decision follows:

1. The Government of Mali has requested a stand-by arrangement for the period from November 8, 1985 through March 31, 1987 in an amount equivalent to SDR 22.86 million.

2. The Fund approves the stand-by arrangement set forth in EBS/85/241.

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

Mali: Relations with the Fund (concluded)

X. Technical Assistance

(a) Central Banking Department: Two technical assistance missions in support of a reorganization of the postal checking system and the improvement of the financial management of the Postal and Telecommunications Office took place in January and October 1984. Technical assistance for research and monetary statistics was provided to the national agency of the BCEAO (1985). A technical assistance mission on money and banking statistics by STAT took place in May 1985.

(b) Fiscal Affairs Department: A member from the FAD panel, stationed in Bamako since August 1982, has been providing technical assistance in expenditure control and investment budgeting. Technical assistance was provided in March 1985 for the preparation of an investment budget, in June 1985 for the reform of the tax system, and in November/December 1985 for the establishment of a monitoring system of Government arrears.

XI. Resident Representative

Since September 1982 a resident representative has been stationed in Bamako. Ms. Doizé succeeded Mr. Daumont in September 1984.

Mali: Relations with the World Bank Group

1. Statement of IDA Credits as of September 30, 1985

Credit Number	IDA Fiscal Year	Purpose	Amount (less cancellations) IDA	Undisbursed
			---------US$ million-------	
Seventeen credits fully disbursed			125.14	
669-MLI	1977	Mali-Sud Agricultural	15.5	0.44
753-MLI	1978	Mopti Rice II	15.0	0.06
943-MLI	1979	Urban Development	12.0	1.04
986-MLI	1980	Industrial Sector Development	8.0	4.04
1104-MLI	1981	Road Maintenance	17.0 1/	1.52
1134-MLI	1981	Petroleum Exploration Promotion	3.7	0.94
1174-MLI	1982	ODIPAC Technical Assistance	6.5	1.61
1200-MLI	1982	Second Telecommunications	13.5	9.36
1282-MLI	1982	Water/Power	24.0	12.99
1307-MLI	1983	Economic Management and Training	10.4	6.32
1403-MLI	1984	Biomass Alcohol and Energy Efficiency	7.6	6.23
1415-MLI	1984	2nd Mali-Sud Rural Development	25.9	21.16
1422-MLI	1984	Health Development	16.7	12.96
1431-MLI	1984	Rural Water Supply	4.6	3.55
1442-MLI	1984	Third Education	4.6	3.72
1597-MLI 2/	1985	Mopti Area Development	19.5	19.50
1629-MLI 2/	1985	Fifth Highway	48.6	48.60
F007-MLI	1984	Rural Water Supply	6.3	5.10
F010-MLI	1984	Third Education	4.9	4.44
		Total	389.44	163.58
		Of which: has been repaid	(2.84)	
		Total now held by IDA	386.60	
		Total undisbursed		163.58

Mali: Relations with the World Bank Group (concluded)

2. Statement of IFC Investments as of March 31, 1985

Loan Number	Year	Borrower	Purpose	Amount of Loan	Equity	Undisbursed
				----------US$million----------		
403-MLI	1978	Société Mamadou Sada Diallo et Fils	Bleach and plastic products	0.6		--
612-MLI	1982	Société Internationale de Karité du Mali, S.A.	Sheanut butter for export	1.8	4.5	--

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. In this context, the Bank will carry out a public expenditure review in 1986 and provide assistance for public investment programming. 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 under preparation for the restructuring of the Office du Niger.

Source: World Bank.

1/ Beginning with Credit 1104-MLI, credits have been denominated in special drawing rights. The dollar amounts in these columns represent the dollar equivalents at the time of credit negotiations for the IDA amounts and the dollar equivalents as of March 31, 1985, for the undisbursed amounts.
2/ Not yet effective.

Mali: Summary of the Adjustment Program for 1986

Objectives

1. Economic growth: 9.1 percent.
2. Inflation: 6.0 percent.
3. External current account deficit, including grants: 4.2 percent of GDP.

Key Policy Measures

I. The Cotton Sector

1. Implement measures and financial program agreed upon with World Bank (February).
2. Prepare medium-term plan of action for cotton sector.

II. Public Investment

1. Limit public investment to ongoing projects, consistent with budget and balance of payments objectives.
2. Establish system of investment programming and budgeting.
3. Prepare a public investment program for 1987-89.

III. Pricing and Marketing

1. Implement new pricing system (February).
2. Implement new commercial code (January).
3. Increase railroad tariffs (February).

IV. Public Enterprises

1. Conclude negotiations with World Bank staff on public enterprise rehabilitation project (March).
2. Complete inventory of public sector arrears by end-March and prepare by end-May a timetable for their elimination.
3. Air Mali
   a. Form a liquidation commission (January).
   b. Discontinue all flights (January).
   c. Issue official notice of termination of employment to personnel (February).
   d. Complete sale of Air Mali's assets and settlement of arrears (May).
4. SOMIEX
   a. Abolish monopsony position and purchase obligations vis-à-vis domestic producers of sugar, soap, oil, flour, and tea (February).
   b. Abolish SOMIEX's monopoly position for imports of edible oil, soap, and flour (February).
   c. Increase selling prices of salt, imported tea, milk powder, soap, and edible oil (February).

Mali: Summary of the Adjustment Program for 1986 (continued)

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d. Reduce personnel by 150 persons by end-March and by a further 150 by end-June.

5. OPT

Proceed with preparations for the financial separation of postal, telecommunications, and postal checking services in accordance with World Bank recommendations.

6. Office du Niger

Liberalize paddy rice marketing fully by the 1986/87 season.

V. Public Finance

Generate a surplus of 1.1 percent of GDP in consolidated government operations on a commitment basis, excluding foreign-financed investment and grants.

a. Expenditure

i. Freeze wage bill at CFAF 37.0 billion;
ii. Freeze expenditures on scholarships at CFAF 3.4 billion;
iii. Provide adequate allocations for recurrent expenditures;
iv. Improve expenditure control and monitoring on the basis of the new nomenclature.

b. Revenue

i. Increase valeurs mercuriales by an additional 10.0 percent (February).
ii. Renegotiate the prices for oil imports in order to generate additional revenue of at least CFAF 1.5 billion.
iii. Strengthen tax collection and administration.

c. Introduce a system for monitoring arrears (March 1).
d. Repay government arrears of CFAF 6.3 billion.
e. Close the complementary period relating to the 1986 budget at end-February 1987.

VI. Monetary and Credit Policies

1. Limit growth in domestic liquidity to 13.0 percent.
2. Contain growth of net domestic bank credit as percentage of beginning money stock to 7.2 percent in 1986, with emphasis on the provision of credit to the private sector.

Mali: Summary of the Adjustment Program for 1986 (concluded)

VII. External Debt

1. No new external short-term borrowing contracted or guaranteed by the Government, except for normal trade credits.
2. No new commitment on nonconcessional government and government-guaranteed foreign borrowing with a maturity of one to twelve years.
3. Eliminate the external arrears of the National Debt Agency (CAA) and the Road Fund by end-March. No accumulation of external arrears by the CAA, OERHN, and the Road Fund.
4. Refinance the loss resulting from the sale of the state-owned airplane at concessional terms (February).
5. Centralize the external debt management with the CAA.

MALI - Basic Data

Area, population, and GDP per capita

Area	1,240,190 square kilometers
Population (1984)	7.86 million
Growth rate	2.5 percent
GDP per capita (1984)	SDR 139

	1982	1983	1984	1985 Prov.	1986 Proj.
Gross domestic product					
At current prices					
Total (in billions of CFA francs)	411.7	421.7	470.1	514.7	595.0
		(In percent of GDP)			
Consumption	87.9	90.5	93.0	91.1	86.7
Gross domestic savings	12.1	9.5	7.0	8.9	13.3
Investment	28.8	28.0	25.7	26.2	27.4
Resource gap	-16.7	-18.4	-18.7	-17.3	-14.1
At 1982 constant prices					
Total (in billions of CFA francs)	411.7	394.9	394.6	398.9	435.1
		(In percent of GDP)			
Primary sector	58.8	54.3	49.8	47.0	50.0
Secondary sector	9.7	11.0	11.6	12.0	11.6
Tertiary sector	31.4	34.8	38.6	41.1	38.4
		(Annual change in percent)			
Real GDP	5.9	-4.1	-0.1	1.1	9.1
Nominal GDP	8.2	2.4	11.5	9.5	15.6
Prices					
Implicit GDP deflator	2.2	6.8	11.6	8.3	6.0
Price index of foodstuffs in Bamako					
Controlled market	9.1	13.6	5.1	12.2	6.0
Uncontrolled market	2.2	9.8	12.6	8.2	4.7
Composite index	3.7	10.7	10.9	9.0	5.0

MALI - Basic Data (continued)

	1982	1983	1984	1985 Prov.	1986 Proj.
Government finance	(In billions of CFA francs)				
Revenue	50.6	54.0	61.9	74.9	86.1
Central Government budget	39.2	42.9	47.2	59.4	62.1
Annexed budgets and special funds	11.4	12.1	14.7	15.5	24.0
Extrabudgetary	--	-0.9	--	--	--
Expenditure	-63.1	-66.5	-70.8	-79.2	79.3
Central Government budget	-44.1	-47.5	-53.2	-61.8	61.0
Annexed budgets and special funds	-17.6	-17.4	-17.0	-17.4	18.3
Extrabudgetary	-1.4	-1.7	-0.6	--	--
Consolidated budget (commitment basis excluding grants)	-12.5	-12.5	-8.9	-4.3	6.8
Grants	0.9	3.8	3.4	2.5	5.8
Consolidated budget (commitment basis including grants)	-11.6	-8.7	-5.5	-1.8	12.6
Consolidated cash basis (including grants)	-17.4	-14.5	-5.5	1.1	3.3
Foreign borrowing (net)	13.7	11.5	0.9	-2.4	-1.5
Banking system (net)	6.2	5.7	6.5	2.9	0.6
Other	-2.5	-2.7	-1.9	-1.6	-2.4
Monetary survey (end of year) 1/					
Net foreign assets	-65.7	-67.2	-27.5	-33.2	-26.0
Domestic credit	163.0	175.0	126.2	121.1	130.6
Claims on Government (net)	68.0	73.3	40.8	39.8	40.4
Claims on economy	95.0	101.7	79.2	81.3	90.2
Money and quasi-money	81.3	93.8	117.4	133.1	150.4
Other items (net)	16.0	14.0	-24.9	-45.2	45.8
Balance of payments	(In millions of SDRs)				
Exports, f.o.b.	131.2	154.5	177.4	169.7	167.0
Imports, f.o.b.	-211.6	-229.7	-250.1	-251.2	-250.2
Services (net)	-129.6	-140.3	-143.9	-144.0	-141.2
Of which: interest	(-25.9)	(-23.8)	(-18.9)	(-20.2)	(-18.2)
Private transfers (net)	26.2	21.8	21.8	21.3	27.2
Current account (excluding grants)	-183.9	-193.7	-194.8	-202.3	-197.2

Mali - Basic Data (continued)

	1982	1983	1984	1985 Prov.	1986 Proj.
Balance of payments (continued)			(In millions of SDRs)		
Unrequited public transfers (net)	84.3	101.8	130.1	135.6	135.0
Current account (including grants)	-99.6	-92.0	-64.7	-66.6	-62.2
Capital (net)	70.9	78.2	67.8	54.5	77.5
Government capital (net)	73.4	78.2	53.9	50.1	72.5
Central government, long-term disbursements	(80.4)	(89.1)	(69.2)	(71.0)	(99.2)
Amortization	(-7.0)	(-10.9)	(-15.3)	(-21.8)	(-26.7)
Private capital (net)	-2.5	--	9.9	4.4	5.0
Debt relief	20.9	16.3	4.5	--	...
SDR allocations	--	--	--	--	--
Overall balance	-7.6	-2.5	3.6	-12.1	15.3
International reserves	-12.4	-2.1	-8.8	4.3	-20.9
Commercial banks	-3.7	-6.9	-7.4	...	...
Central bank	16.1	4.8	-1.4	(...)	(...)
Operations account	(-7.0)	(-6.3)	(-14.4)	(...)	(...)
IMF (net)	(24.3)	(12.8)	(19.0)	(4.9)	(-5.2)
Other (net)	(-1.2)	(-1.7)	(-6.0)	(...)	(...)
Change in arrears	-8.8	-5.2	-4.7	2.7	-2.7
Obligations not serviced pending rescheduling	4.0	4.8	9.9	5.1	8.3
			(In millions of SDRs)		
Official foreign reserves and liabilities (end of year)					
Gross reserves	15.4	15.6	26.3	...	...
Gross liabilities	197.6	179.9	4.2 2/	...	...
Outstanding external debt (end of period)	923.9	1,06.6	1,174.6	1,130.8	1,192.2
Of which: Fund credit	(31.0)	(44.2)	(65.0)	(73.5)	(72.6)
Trust Fund loans	(21.5)	(21.1)	(19.3)	(15.7)	(11.4)
Debt service ratio (in percent) 3/	4.4	6.9	9.9	17.5	21.7
Excluding payment to IMF	4.3	4.9	6.3	11.2	12.4

Mali- Basic Data (concluded)

	1982	1983	1984	1985 Prov.	1986 Proj.
			(In billions of CFA francs)		
Total identified payments arrears 4/ (end of period)	11.4	4.1	--	1.1	--
Domestic arrears 5/	(7.2)	(2.0)	(--)	(--)	(--)
External arrears	(4.2)	(2.1)	(--)	(1.1)	(--)
Change in extrabudgetary domestic arrears	...	...	...	2.2	-5.2
			(CFA francs per SDR and per U.S. dollar)		
Exchange rates (period average)					
SDR	362.8	407.4	445.0	456.2	400.0
U.S. dollar	328.6	381.1	437.0	449.3	385.0
			(1980 = 100)		
Trade-weighted effective rate index (nominal)	93.4	91.0	89.6	90.0	...
Real (CPI-based)	89.3	89.2	91.4	94.3	...

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

1/ Data adjusted to conform with BCEAO presentation (Table 4.)
2/ Reflects the consolidation of the debt under the operations account with the French Treasury when Mali re-entered the West African Monetary Union (WAMU) on June 1, 1984.
3/ After debt relief and excluding obligations under renegotiations.
4/ Arrears subject to cash payment.
5/ Identified domestic arrears recorded in the Treasury accounts.

Mali - Statistical Issues

1. Outstanding Statistical Issues

a. Real sector

(i) National accounts

The Directorate of Statistics has computed, with technical assistance from the United Nations, a new series of national accounts data beginning in 1981. As a result of a more sophisticated disaggregation and valuation method, there was a substantial shift in value added from the tertiary to the primary sector and a general upward revision of the GDP. The staff has adopted the new series.

(ii) Consumer price index

The Directorate of Statistics compiles two monthly indices of basic foodstuff retail prices in Bamako based on the Malian consumption pattern. One covers sales on the controlled market and the other on the free market. They are published with a four-month delay. The staff uses a composite weighted index which approximates the actual sales pattern. In preparation of a broader price index of consumption, the Directorate of Statistics has initiated a consumption survey of Malian households. In 1985, a consumer price index series was prepared based on the budget of a bachelor household in Bamako, but has not been adopted as the official index, pending the completion of the household surveys to establish a more representative index.

b. Government finance

The coverage of statistical information on government operations has been improved in recent years with the creation of a special unit in the Ministry of Finance to monitor and collect informaton on the operations of the special funds and annexed budgets on a regular basis. For the first time in 1985, data on public investment expenditure financed with foreign grants and loans was compiled in a national investment project file.

Detailed data for the consolidated central government through 1983 are published in the Government Finance Statistics Yearbook, and International Financial Statistics. The most recent statistics were compiled on the occasion of a technical assistance mission of the Bureau of Statistics in 1984. No new data have been reported since then. Updates of the GFS Yearbook may be hampered somewhat, as a new system of treasury accounts is being introduced; the GFS correspondent has been encouraged to consult with the Bureau of Statistics to resolve possible problems.

Mali - Statistical Issues (continued)

As a result of the 1984 Bureau of Statistics technical assistance visit, the presentation of government finance data in the report on recent economic developments and the presentation in the GFS Yearbook were aligned more closely; remaining differences in the respective presentations are identified in the mission's report of September 5, 1984.

c. External sector

(i) Balance of payments

No official balance of payments data are available. The data presented are estimates made by the Bamako agency of the BCEAO and the staff, based mainly on cash transactions recorded by the BCEAO and inquiries made with various government agencies and local enterprises. Large discrepancies exist between customs and BCEAO data, because the coverage by the Customs Administration, in particular of exports of livestock and minerals and imports of consumer goods, poses a major problem.

(ii) External debt

Recording of external debt has improved significantly. The National Debt Agency (CAA) has completed, with technical assistance by the World Bank, an inventory of all external debt and has produced a repayments schedule based on debt outstanding as of June 30, 1984. Beginning in 1986, all external debt data will be monitored by the CAA.

d. Money and banking

Monetary statistics now comply fully with BCEAO requirements.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data obtained by the recent mission and data published in the country page for Mali in the February 1986 issue of IFS. The data are based on reports sent to the Bureau of Statistics which during the year have been provided on a regular basis.

Mali Statistical Issues (concluded)

Status of Data Reporting

	Latest data in February 1986 IFS	New official data obtained by the Article IV consultation mission
Real sector		
National accounts	n.a.	1984
Consumer prices 1/	n.a.	September 1985
Production	n.a.	1985/86
Employment	n.a.	September 1985
Earnings	n.a	1985
Government finance		
Deficit/Surplus	1983	1985
Financing	1983	1985
Debt	1983	1985
Monetary accounts		
Monetary authorities	August 1985	September 1985
Deposit money banks	August 1985	September 1985
Other financial institutions	August 1985	September 1985
External sector		
Merchandise trade: value	1983	1984
Merchandise trade: prices	n.a.	1984
Balance of payments	1984	1984
International reserves	October 1985	October 1985
Exchange rates	December 1985	December 1985

Data on reserves have been reported regularly but with a three-month lag. Preparations are under way to include national accounts data in IFS. To the extent that the new data obtained by the mission can be used, they are being processed and will be included in IFS as soon as possible.

1/ Retail price index for basic foodstuffs.

Table I. Mali: Fund Position During Period of Stand-By Arrangement

(In millions of SDRs)

	Outstanding on Oct. 31, 1985	1985	1986				1987	Stand-by period
		Nov.-Dec.	Jan.-March	April-June	July-Sept.	Oct.-Dec.	Jan.-March	Total
Purchases 1/	--	6.532 2/	--	6.532	3.266	3.266	3.266	22.86
Stand-by arrangement								
Ordinary resources	(--)	(3.266)	(--)	(3.266)	(0.162)	(--)	(--)	(6.694)
Borrowed resources	(--)	(3.266)	(--)	(3.266)	(3.104)	(3.266)	(3.266)	(16.166)
Repurchases	--	2.345	3.172	3.172	3.797	3.797	3.797	20.080
Net purchases	--	4.187	-3.172	3.360	-0.531	-0.531	-0.531	2.780
Fund credit outstanding (end-period)								
Total	69.332	73.519	70.347	73.707	73.176	72.645	72.114	--
In percent of quota	136.5	144.7	139.6	145.1	144.0	143.0	142.0	--
Memorandum item:								
Trust Fund	15.680	--	-1.726	-0.416	-1.726	-0.416	-1.726	-6.010

Source: IMF, Treasurer's Department.

1/ Rounded. The exact amount of each purchase will be SDR 3,265,714.
2/ Consisting of two purchases for SDR 3.266 each; the first was made upon approval by the Executive Board and the second at end-December 1985.

Table II. Mali: Balance of Payments, 1982-86

(In millions of SDRs) 1/

	1982	1983	1984	1985 Prog.	1985 Prel. est.	1986 Prog.	1986 Rev. prog.
Exports, f.o.b.	131.2	154.5	177.4	172.1	169.7	191.4	167.0
Of which: cotton	(51.1)	(69.0)	(96.4)	(81.5)	(72.1)	(89.7)	(57.0)
Imports, f.o.b.	-211.6	-229.7	-250.1	-252.2	-251.2	-241.6	-250.2
Of which: cereals	(-16.3)	(-30.0)	(-64.0)	(-70.3)	(-67.7)	(-37.1)	(-30.4)
Trade balance	-80.4	-75.2	-72.8	-80.1	-81.5	-50.2	-83.2
Services (net)	-129.6	-140.3	-143.8	-144.9	-144.0	-142.0	-141.2
Of which: interest obligations	(-25.9)	(-23.8)	(-18.9)	(-18.1)	(-20.2)	(-19.6)	(18.2)
Private transfers (net)	26.2	21.8	21.8	22.7	23.3	24.8	27.2
Current account, excluding public transfers	-183.9	-193.7	-194.8	-202.3	-202.2	-167.4	-197.2
Public transfers	84.3	101.8	130.1	138.3	135.6	116.8	135.0
Current account, including public transfers	-99.6	-92.0	-64.7	-64.0	-66.6	-50.6	-62.2
Capital account	70.9	78.2	63.8	53.8	54.5	57.4	77.5
Private (net)	-2.5	--	9.9	4.1	4.4	4.5	5.0
Public	73.4	78.2	53.9	49.7	50.1	52.9	72.5
Disbursements	(80.4)	(89.1)	(69.2)	(71.5)	(71.0)	(77.7)	(99.2)
Amortization	(-7.0)	(-10.9)	(-15.3)	(-21.8)	(-20.9)	(-24.8)	(-26.7)
Debt relief 2/	20.9	16.2	4.5	--	--	--	--
Overall balance	-7.6	2.5	3.6	-10.2	-12.1	6.8	15.3
Financing	7.6	-2.5	-3.6	10.2	12.1	-6.8	-15.3
Obligations under renegotiation	4.0	4.8	9.9	5.3	5.1	9.7	8.3
International reserves	12.4	-2.1	-8.8	6.1	4.3	-10.1	-20.9
Central bank	16.1	4.8	-1.4	8.5	...	-5.4	...
Of which: operations account	(-7.0)	(-6.3)	(-14.4)	(...)	(...)	(...)	(...)
IMF (net) 3/	(24.3)	(12.8)	(19.0)	(4.9)	(4.9)	(-5.2)	(-5.2)
Commercial banks	-3.7	-6.9	-7.4	-2.4	...	-4.7	...
Arrears	-8.8	-5.2	-4.7	-1.2	2.7 4/	-6.4	-2.7 4/

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

1/ CFAF/SDR average exchange rate: 1982: 362.80; 1983: 407.36; 1984: 445.0; 1985: 455.0; 1986: 400.0.
2/ Includes interest on the operations account and obligations under various bilateral debts for which agreements on rescheduling have been reached.
3/ Includes Trust Fund.
4/ Excludes payment of Air Mali's external arrears, pending the conclusion of the work of the liquidation commission.

Table III. Mali: Debt Service on Medium- and Long-Term External Public Debt, 1982-90 1/

	1982	1983	1984	1985	1986	1987	1988	1989	1990
		Act.			Est.			Proj.	
				(In millions of SDRs)					
Actual debt service	5.6	10.2	14.0	23.8	30.3	40.5	35.6	36.2	37.2
Interest	3.8	4.6	7.2	10.1	9.6	14.3	15.4	16.4	17.4
Principal	1.8	5.6	6.8	13.7	20.7	26.2	20.2	19.8	19.8
Unserviced maturities being refinanced	20.9	16.3	4.5	--	--	...	...	...	...
Interest	20.1	15.5	4.5	--	--	...	...	...	...
Principal	0.8	0.8	--	--	--	...	...	...	...
Unserviced maturities pending rescheduling	4.0	4.8	9.9	8.6	8.3	...	...	...	...
Interest	--	0.5	1.7	3.1	2.3	...	...	...	...
Principal	4.0	4.3	8.2	5.5	6.0	...	...	...	...
Obligations falling in arrears	1.5	1.2	1.7	2.4	--	--	--	--	--
Interest	1.1	1.0	1.4	0.7	--	--	--	--	--
Principal	0.4	0.2	0.3	1.7	--	--	--	--	--
IMF	2.0	4.5	9.1	15.0	24.5	27.0	23.2	22.0	17.0
Interest	0.9	2.3	4.1	6.3	6.3	6.2	5.1	3.8	2.4
Principal	1.1	2.2	5.0	8.7	18.2	20.8	18.1	18.2	14.6
Total scheduled debt service 2/	34.0	36.9	39.2	49.8	63.1	67.5	58.8	58.2	54.2
Interest	25.9	23.8	18.9	20.2	18.2	20.5	20.5	20.2	19.8
Principal excluding IMF	7.0	10.9	15.3	20.9	26.7	26.2	20.2	19.8	19.8
Repurchases to IMF	1.1	2.2	5.0	8.7	18.2	20.8	18.1	18.2	14.6
Memorandum items: 3/									
Debt service with China	...	...	...	13.0	8.1	7.4	7.3	8.4	6.2
Interest	...	...	...	--	--	--	--	--	--
Principal	...	...	...	13.0	8.1	7.4	7.3	8.4	6.2
Debt service with U.S.S.R.	...	...	...	30.0	33.2	32.9	32.3	31.3	31.0
Interest	...	...	...	3.4	3.4	3.1	2.6	2.2	1.9
Principal	...	...	...	26.6	29.8	29.8	29.7	29.1	29.1
Total debt service, including China and U.S.S.R.	...	...	...	92.7	104.5	107.8	98.4	97.9	91.4
Interest	...	...	...	23.6	21.6	23.6	23.1	22.4	21.7
Principal	...	...	...	69.1	82.9	84.2	75.3	75.5	69.7
Exports of goods, services, and private transfer receipts	206.2	227.2	251.7	236.0	253.0	268.0	289.0	323.8	352.3
				(In percent)					
Debt service ratio (excluding U.S.S.R. and China)									
Before debt relief	16.5	16.2	15.6	21.1	24.9	25.2	20.3	18.0	15.4
Interest	12.6	10.5	7.5	8.6	7.2	7.6	7.1	6.2	5.6
Principal	3.9	5.7	8.1	12.5	17.7	17.6	13.2	11.8	9.8
After debt relief and excluding obligations under renegotiations	4.4	6.9	9.9	17.5	21.7	...	...	...	...
Interest	2.8	3.4	5.0	7.2	6.2	...	...	...	...
Principal	1.6	3.5	4.9	10.3	15.5	...	...	...	...
Debt service ratio (including U.S.S.R. and China)									
Before debt relief	...	...	...	39.3	41.3	40.2	34.0	30.2	25.9
Interest	...	...	...	10.0	8.5	8.8	8.0	6.9	6.1
Principal	...	...	...	29.3	32.8	31.4	26.0	23.3	22.8

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

1/ For the period 1986-90, SDR 1 = CFAF 400 (average exchange rate).
2/ After 1985, the debt service related to the financing of the gaps in the baseline scenario is included.
3/ Accurate data on debt servicing with China and the U.S.S.R. are not available before 1985.

Table IV. Mali: Medium-Term Scenarios, 1986-90

	1986	1987	1988	1989	1990
	Medium-term scenario I (Baseline)				
Balance of payments	(In billions of CFA francs)				
Exports, f.o.b.	66.8	71.1	76.2	85.1	94.2
Imports, c.i.f.	-143.0	-142.7	-148.2	-157.6	-169.6
Services (net)	-13.6	-17.7	-18.7	-19.3	-19.6
Private transfers (net)	10.9	12.0	13.0	14.2	15.5
Current account	-78.9	-77.3	-77.7	-77.6	-79.5
Official transfers (net)	58.0	45.7	47.9	50.3	52.9
Current account (including official transfers)	-24.9	-31.6	-29.8	-27.3	-26.6
Nonmonetary capital	31.0	26.0	31.0	33.7	36.3
Private	2.0	2.0	2.0	2.0	2.0
Public	29.0	24.0	29.0	31.7	34.3
Overall balance	6.1	-5.6	1.2	6.4	9.7
IMF (net)	-2.4	-6.7	-6.9	-6.9	-5.6
Gap	--	12.3	5.7	0.5	--
Memorandum items:	(In percent)				
Terms of trade (annual change)	-22.4	1.6	5.0	4.8	4.7
Debt service ratio before debt relief 1/	...	25.2	20.3	18.0	15.4
Current account as percent of GDP					
Excluding official transfers 2/	-13.3	-11.7	-10.6	-9.6	-9.0
Including official transfers	-4.2	-4.8	-4.1	-3.4	-3.0
Real sector	(Annual rates of change in percent)				
GDP (in real terms)	9.1	4.2	3.8	3.6	3.7
Primary sector	16.0	5.0	3.7	3.1	3.1
Secondary sector	6.1	5.7	5.2	5.3	5.4
Tertiary sector	2.0	2.6	3.6	3.7	4.0
GDP deflator	6.0	6.7	6.5	6.3	6.1
Nominal GDP	15.6	11.2	10.5	10.1	10.0
	(In percent of nominal GDP)				
Private consumption	77.5	75.4	75.4	75.2	75.2
Government consumption	9.2	8.7	8.2	7.7	7.2
Investment	27.4	27.2	27.2	26.8	27.1
Resource gap	-14.1	-11.3	-10.8	-9.8	-9.5
Savings	13.3	15.9	16.4	17.1	17.6

Table IV. Mali: Medium-Term Scenarios, 1986-90 (continued)

	1986	1987	1988	1989	1990
		Medium-term scenario II 3/			
Terms of trade (percentage change)	-22.4	-1.8	-1.6	-1.6	-1.5
Balance of payments		(In billions of CFA francs)			
Exports, f.o.b.	66.8	69.8	72.0	77.6	83.0
Imports, c.i.f.	-143.0	-142.7	-148.2	-157.6	-169.6
Services (net)	-13.6	-17.7	-18.7	-19.4	-19.8
Overall balance	6.1	-6.9	-3.0	-1.2	-1.7
IMF (net)	-2.4	-6.7	-6.9	-6.9	-5.6
Gap	--	13.6	9.9	8.1	7.3
Current account (in percent of GDP)					
Excluding official transfers	-13.3	-11.9	-11.4	-10.8	-10.6
Including official transfers	-4.2	-5.0	-4.7	-4.4	-4.4
Real sector					
Real GDP (annual percentage change)	9.1	4.2	3.8	3.6	3.7
Resource gap (in percent of nominal GDP)	-14.1	-11.5	-11.5	-10.9	-11.1
Savings (in percent of nominal GDP)	13.3	15.8	16.1	16.5	16.8
		Medium-term scenario III 4/			
Terms of trade (percentage change)	-22.4	-1.8	-1.6	-1.6	-1.5
Balance of payments		(In billions of CFA francs)			
Exports, f.o.b.	66.8	69.8	72.0	77.6	83.0
Imports, c.i.f.	-143.0	-142.7	-148.1	-154.4	-162.3
Services (net)	-13.6	-17.7	-18.7	-19.4	-19.8
Overall balance	6.1	-6.9	-2.9	2.0	5.7
IMF (net)	-2.4	-6.7	-6.9	-6.9	-5.6
Gap	--	13.6	9.8	4.9	--
Current account (in percent of GDP)					
Excluding official transfers	-13.3	-11.9	-11.3	-10.6	-10.1
Including official transfers	-4.2	-5.0	-4.7	-4.1	-3.7
Real sector					
Real GDP (annual percentage change)	9.1	4.2	3.8	2.0	1.6
Resource gap (in percent of nominal GDP)	-14.1	-11.5	-11.5	-10.7	-10.6
Savings (in percent of nominal GDP)	13.3	15.8	16.0	16.7	17.3

Table IV. Mali: Medium-Term Scenarios, 1986-90 (concluded)

	1986	1987	1988	1989	1990
	Medium-term scenario IV 5/				
Terms of trade (percentage change)	-22.4	2.9	5.4	5.3	5.1
Balance of payments	(In billions of CFA francs)				
Exports, f.o.b.	66.8	71.1	76.2	85.1	94.2
Imports, c.i.f.	-143.0	-141.3	-146.3	-155.1	-169.6
Overall balance	6.1	-4.2	3.1	8.9	9.7
IMF (net)	-2.4	-6.7	-6.9	-6.9	-5.6
Gap	--	10.9	3.8	--	--
Current account (in percent of GDP)					
Excluding official transfers	-13.3	-11.4	-10.3	-9.3	-8.9
Including official transfers	-4.2	-4.5	-3.8	-3.1	-3.0
Real sector					
Real GDP (annual percentage change)	9.1	4.2	3.8	3.6	3.7
Resource gap (as percent of GDP)	-14.1	-11.0	-10.4	-9.4	-9.1
Savings (as percent of GDP)	13.3	16.1	16.6	17.3	17.8
	Medium-term scenario V 6/				
Terms of trade (percentage change)	-22.4	6.7	9.2	5.0	4.9
Balance of payments	(In billions of CFA francs)				
Exports, f.o.b.	66.8	71.1	76.2	85.1	94.2
Imports, c.i.f.	-143.0	-136.9	-137.8	-146.6	-169.6
Overall balance	6.1	0.2	11.7	17.7	10.2
IMF (net)	-2.4	-6.7	-6.9	-6.9	-5.6
Gap	--	6.5	--	--	--
Current account (in percent of GDP)					
Excluding official transfers	-13.3	-10.7	-9.0	-8.0	-8.7
Including official transfers	-4.2	-3.8	-2.6	-1.9	-2.9
Real sector					
Real GDP (annual percentage change)	9.1	4.2	3.8	3.6	3.7
Resource gap (as percent of GDP)	-14.1	-10.3	-9.1	-8.2	-8.0
Savings (as percent of GDP)	13.3	16.6	17.4	18.0	18.4

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

1/ Excluding China and the U.S.S.R.
2/ The current account and the resource gap differ slightly because the former includes nonfactor services.
3/ Scenarios II and III assume constant cotton export unit prices of CFAF 350/kg during 1987-90.
4/ The resource gap is constrained such that balance of payments viability will be achieved by 1990.
5/ Scenario IV assumes constant petroleum import unit prices of CFAF 171/liter during 1987-90.
6/ Scenario V assumes petroleum import unit prices of CFAF 144/liter in 1987 and CFAF 117/liter for 1988-90.