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August 22, 1986

To: Members of the Executive Board

From: The Acting Secretary

Subject: Mali - Second Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper for the second review under the stand-by arrangement for Mali. A draft decision appears on pages 35 and 36.

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

Second 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 S.J. Anjaria

August 22, 1986

Contents

Contents

Page

Text Tables

Appendices

Chart

I. Introduction

A staff mission visited Bamako during June 26-July 11, 1986 to conduct the second review under Mali's current 17-month stand-by arrangement for SDR 22.86 million (45 percent of quota). 1/ The mission also initiated discussions on a medium-term policy framework paper. These discussions are expected to be pursued at headquarters during the Annual Meetings.

The current stand-by arrangement, which was approved by the Executive Board on November 8, 1985, will expire at end-March 1987. The arrangement is in support of an economic and financial program for the second half of 1985 and the whole of 1986. To date, Mali has made three purchases totaling SDR 13.1 million; the latest purchase in June 1986 followed the first review concluded on April 4, 1986 and the observance of the performance criteria for end-March 1986. The remaining purchases, scheduled in three quarterly amounts of SDR 3.25 million each, are contingent on the observance of the performance criteria for each of the respective preceding quarters and the completion of the second review before end-September 1986. As of end-July 1986, Mali's outstanding use of Fund credit amounted to SDR 73.1 million (143.9 percent of quota), reflecting purchases under three successive stand-by arrangements. If all purchases under the current arrangement and scheduled repurchases are made, Mali's outstanding purchases would amount to SDR 72.1 million (142.0 percent of quota) by end-March 1987 (Appendix V, Table I).

The Fund and World Bank staffs have continued their close collaboration on Mali. In the context of all the recent missions, the Bank staff have participated in the key policy discussions between the Fund staff and the authorities. Further, the latest Fund mission overlapped with two World Bank missions which carried out a public expenditure review and prepared the public enterprise reform project for negotiation. The negotiations for this project took place at Bank headquarters in August 1986. The Fund and Bank staffs worked jointly on issues relating to public enterprises and agricultural reform, in particular on cereals pricing and marketing and the cotton sector, as well as development planning. Furthermore, the two staffs have

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1/ The representatives of Mali included Mr. Dianka Kaba Diakité, Minister of Finance and Commerce; Mr. Ousmane Diallo, Minister of Plan; Mr. Mahamadou Wague, Minister of Public Enterprises; 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), Mrs. L. Schmitz (AFR), Mr. R. Vaez-Zadeh (CBD), Mr. K. Enders (EP-AFR), Mrs. P. Alonso-Gamo (EP-FAD), Ms. A. Doizé, Fund resident representative in Bamako, and Mrs. B. Ruch (secretary-ADM). World Bank staff representatives participated in the discussions. Mr. K. Yao, Advisor to Mali's Executive Director in the Fund, also participated in the discussions.

coordinated closely their work on the medium-term structural and financial policies for Mali as well as on the medium-term scenario for economic growth and the balance of payments.

The staff report on the 1986 Article IV consultation and first review under the stand-by arrangement was discussed by the Executive Board on April 4, 1986 (EBS/86/56 and SM/86/64). On that occasion, Directors noted that the Malian authorities had implemented wide-ranging adjustment measures aimed at tackling the structural and financial imbalances facing the Malian economy. They welcomed the authorities' decision to readapt and strengthen their adjustment policies for 1986 in order to mitigate the adverse impact on the economy of the deterioration in the terms of trade and to lay the foundation for achieving sustained economic growth under conditions of domestic and external financial stability over the medium term. They viewed the economic and financial program for the cotton sector as a critical element in the adjustment effort. Directors welcomed the steps taken to liberalize pricing and marketing policies in order to reduce distortions and foster private sector economic activity. While commending the authorities on the measures taken to reform key public enterprises, Directors attached importance to the launching of the World Bank-supported comprehensive reform program. Directors welcomed the steps taken to strengthen investment programming and emphasized the need to develop an appropriate medium-term investment program. Directors attached considerable importance to the improvement in the fiscal position and the pursuit of a credit policy compatible with the program's inflation and balance of payments objectives. In view of the difficult external sector position and the high level of external indebtedness, Directors urged the Malian authorities to persevere over the medium term with their adjustment efforts and to continue to pursue a prudent external debt management policy. Directors welcomed the close collaboration between the Fund and Bank staffs.

Summaries of Mali's relations with the Fund and the World Bank Group are given in Appendices II and III, respectively.

II. Performance Under the 1985 Program

Faced with mounting domestic and external economic and financial imbalances, the Malian authorities pursued their adjustment efforts during 1982-84 in the context of economic and financial programs supported by two successive stand-by arrangements from the Fund, as well as financial and technical assistance from the World Bank. During this period, the marketing of coarse cereals was liberalized, official producer and retail prices of agricultural products raised, the rehabilitation of key public enterprises initiated, and financial management strengthened. Notwithstanding the prevailing drought conditions, some progress in reducing the underlying imbalances was achieved and all the performance criteria observed. Nonetheless, a number of structural bottlenecks and distortions continued to constrain economic activity while the fiscal and external sector positions remained unsustainable.

Against this background, the Malian authorities intensified their adjustment efforts in 1985, by implementing wide-ranging supply- and demand-oriented measures aimed at reducing the structural distortions and financial imbalances. In the first half of 1985, the authorities revised upward agricultural producer prices and introduced a number of tax measures. However, in view of the magnitude of the imbalances, they decided to launch in the second half of 1985 a comprehensive adjustment program supported by the current stand-by arrangement. This program involved a further liberalization of pricing and marketing policies, the adjustment of official agricultural prices, an increase in a large number of official retail prices and tariffs, specific measures to improve the financial position of key public enterprises, and a strengthening in the public investment planning process. In addition, the program envisaged a reduction in the fiscal deficit, the pursuit of a restrictive credit policy, and the continuation of a prudent external debt management policy. These policies were designed to enable Mali to make progress toward the establishment, over the medium term, of domestic and external financial stability consonant with a sustainable rate of economic growth. The economic and financial program for 1985 aimed at attaining a rate of growth of real GDP of 1.7 percent, reducing the rate of inflation, as measured by the GDP deflator, to 8.2 percent, and narrowing the external current account deficit, including grants, to 5.8 percent of GDP. The overall balance of payments deficit was projected to be limited to CFAF 4.7 billion (Table 1).

Although all the measures envisaged under the program were implemented, the Malian economy suffered severely from three major exogenous factors. First, the 1984/85 agricultural harvest and the livestock sector were more seriously affected by a third consecutive year of drought than was initially estimated. Second, cotton export prices fell steeply in the last quarter of 1985, due to the weakening in world market prices of cotton and the depreciation of the U.S. dollar vis-à-vis the CFA franc. Third, the Government received significantly less external budgetary assistance than had been expected. Thus, while the policies pursued contributed to a reduction in distortions and in financial imbalances, the key quantitative objectives under the program were not fully attained. Real GDP grew by only 0.3 percent, after having declined during the previous two years. The rate of inflation, as measured by the GDP deflator, was reduced as targeted to 8.3 percent, reflecting the tight financial policies and the improved flow of food imports in the second half of the year. However, the external current account deficit, including grants, rose to 11.1 percent of GDP in 1985, mainly due to the adverse exogenous factors mentioned above. This ratio, however, is not fully comparable to the program target or to the previous years' outturn, as it is based on higher estimates of imports of capital goods and project-related services, reflecting a more complete coverage of the data on foreign-financed projects. The overall balance of payments deficit reached CFAF 21.2 billion.

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

	1981	1982	1983	1984	1985 Prog.	1985 Est.	1986 Rev. prog.	1986 Proj.
	(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	0.3	9.1	9.6
GDP deflator	11.0	2.2	6.8	11.6	8.2	8.3	6.0	6.5
Food price index	12.7	3.7	10.7	10.9	5.5	8.9	5.0	5.3
National minimum wage	--	13.0	--	--	35.0	35.0	--	--
External sector								
Exports, f.o.b. (in SDRs)	-17.1	0.6	17.8	22.0	-3.0	-8.6	3.8	-6.7
Imports, c.i.f. (in SDRs)	-13.4	-8.5	8.5	8.8	0.9	15.5	-4.1	-16.5
Non-oil imports, c.i.f. (in SDRs)	-15.4	-10.4	14.0	8.8	0.3	13.5	-4.9	-18.9
Export volume 2/	...	1.4	22.0	13.7	2.6	-7.9	-2.9	-4.2
Import volume 3/	...	-6.9	14.1	24.1	-2.3	14.2	-20.5	-25.7
Terms of trade (CFAF) 4/	...	-1.2	9.5	12.2	-8.7	-11.9	-22.4	-10.6
Nominal effective exchange rate (depreciation -)	-3.7	-3.0	-2.5	-1.4	...	0.5	...	...
Real effective exchange rate, CPI-based	-2.5	-8.4	--	2.5	...	3.5	...	...
Consolidated government operations								
Revenue (excluding grants)	16.9	7.7	6.8	14.6	19.4	14.7	15.0 5/	24.4
Expenditure (commitment basis)	8.1	2.3	5.4	6.5	4.4	8.5	0.1 5/	10.4
Money and credit								
Domestic credit 6/ 7/	14.6	15.7	14.8	15.9	11.4	13.3	7.2 8/	8.0
Credit to Government 6/ 7/	(7.1)	(5.5)	(6.6)	(7.9)	(3.5)	(2.4)	(0.5) 8/	0.6
Credit to economy 6/	(7.5)	(10.2)	(8.2)	(8.0)	(7.9)	(10.9)	(6.7) 8/	7.4
Money and quasi-money 7/	5.8	8.6	15.4	25.2	11.3	9.5	13.0 8/	13.0
Velocity (GDP relative to M2)	4.4	5.1	4.5	4.0	4.0	4.0	4.0 8/	4.2
Interest rate 9/	4.0	5.0	5.0	8.5	8.5	8.5	...	...
	(In percent of GDP)							
Overall fiscal position (commitment basis)								
Excluding grants 10/	-10.7	-9.4	-12.8	-9.6	-7.6	-9.5	-4.5	-6.9
Consolidated government balance 11/								
Excluding grants	-3.9	-3.0	-3.0	-1.9	--	-1.2	1.1	0.6
Including grants	-2.9	-2.8	-2.0	-1.2	1.1	-0.8	2.1	1.4
Domestic bank financing (net)	0.5	1.5	1.4	1.4	0.8	0.5	0.1	0.1
Foreign borrowing (net) 12/	0.6	3.3	2.7	0.2	-0.7	-0.8	-0.3	0.3
Payments arrears (change, reduction -)	1.0	-1.4	-1.4	-0.6	-0.1	0.8	-1.1	-1.1
Gross domestic investment 13/	24.5	23.1	22.1	20.1	24.0	23.8	27.4	23.9
Gross domestic savings	7.4	6.4	3.7	1.7	5.3	-0.5	13.3	8.8
Resource gap	-17.1	-16.7	-18.5	-18.4	-18.7	-24.3	-14.1	-15.0
External current account deficit 14/								
Excluding official transfers	17.6	16.8	18.7	18.2	18.3	24.3	13.3	14.9
Including official transfers								
Before debt relief	8.3	8.8	8.9	6.1	5.8	11.1	4.2	6.2
After debt relief 15/	8.3	7.0	7.3	5.5	5.5	10.8	4.2	5.9
External debt 16/	85.5	81.8	108.4	124.1	116.8	100.7	104.2	77.9
Debt vis-à-vis the Fund	9.4	19.5	28.5	39.6	...	37.0	...	34.6
Debt service ratio 17/	13.8	6.3	9.1	13.3	19.4	22.1	24.9	25.8
(Excluding payments to IMF)	12.5	5.4	7.1	9.8	13.8	16.3	15.3	16.2
Interest payments ratio 15/	11.4	2.8	3.5	4.9	7.3	6.5	7.2	7.3

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

	1981	1982	1983	1984	1985 Prog.	1985 Est.	1986 Rev. prog.	1986 Proj.
	(In millions of SDRs, unless otherwise specified)							
Overall balance of payments	-32.7	-7.6	2.5	3.6	-10.2	-46.6	15.3	4.4
Gross official reserves (months of imports)	0.5	0.5	0.5	0.9	...	0.6	...	...
External payments arrears 18/	54.3	30.8	9.3	--	--	4.3	--	--
Obligations not serviced pending rescheduling (cumulative amount at end of period) 19/	9.9	12.8	18.1	28.0	...	42.4	...	53.6

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

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/ The percentage changes are calculated against the preliminary estimates for the outturn of 1985, which served as the base when the program targets were revised in January 1986. The respective changes against the actual data for 1985 would amount to 21.3 percent for revenue and 3.1 percent for expenditure.
6/ Increase over previous 12-month period in percent of money stock at the beginning of the period.
7/ 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 excludes adjustments made at end-1985, in order to maintain comparability with the credit targets.
8/ When the monetary aggregates were programmed for 1986, only estimates were available for end-December 1985; the percentage changes refer to this base. As the actual monetary data for end-December 1985 differed substantially from the initial estimates, the programmed monetary developments would now imply the following growth rates in percent against the revised base of end-1985: for domestic credit 4.9, credit to Government -0.3, credit to economy 5.2, and money and quasi-money 17.9.
9/ Minimum rate for one-year savings deposits.
10/ Includes foreign-financed investment. Data for 1985 estimates and 1986 projections are not comparable with previous projections due to the revisions in the data on foreign-financed investment.
11/ Commitment basis, before debt relief. 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.
12/ Includes debt relief.
13/ The series of investment for 1982-85 has been revised downward by about 4 percentage points of GDP, reflecting new information on the sectoral distribution of private and public investment, contained in the new UNDP-prepared investment inventory, as well as analysis by the World Bank under the current public expenditure review.
14/ Excludes debt service with the U.S.S.R. and China.
15/ After debt relief and excluding interest not serviced pending rescheduling.
16/ Including use of Fund resources, the operations account with the French Treasury, and loans with the U.S.S.R., China, and Bulgaria.
17/ Excluding China and the U.S.S.R.; after debt relief obtained, but including obligations under renegotiation; in percent of goods, nonfactor services, and private transfers receipts.
18/ Relates to outstanding identifed arrears, excluding those of Air Mali.
19/ Excluding China and the U.S.S.R.

In order to strengthen production incentives, reduce price distortions, and improve the financial position of key public enterprises, the Government took a wide range of price measures in 1985. Official producer prices for coarse cereals were raised by 10 percent, for paddy rice by 8 percent, and for cotton by 13 percent. Official sales prices for coarse cereals were increased by 52 percent and for rice by 32 percent, effectively bringing the official sales prices of the cereal marketing board (OPAM) close to prevailing market prices. Furthermore, retail sales 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, with a view to cover costs. Prices of petroleum products were raised by 15 percent, road transportation tariffs for fluids and solids by 46 and 25 percent, respectively, domestic flight tariffs by 35 percent, postal and telecommunications tariffs by 10 and 15 percent, respectively, and average water and electricity tariffs by 200 and 35 percent, respectively. Overall, the implementation of the price adjustments was based on the need to cover costs and improve the returns to producers and the profitability of public enterprises. For most of these goods and services, the adjustment implied an increase in real terms.

In addition to the aforementioned price adjustments, a number of rehabilitation measures aimed at strengthening the financial position of key public enterprises were implemented. The state trading agency (SOMIEX) reduced its personnel by 264 persons or about 20 percent in the second half of 1985. It also benefited from the aforementioned increase in retail prices in August 1985. Nonetheless, it incurred substantial losses, largely as a result of the financing charges resulting from holding large sugar stocks. The national airline company, Air Mali, reduced its losses because of the extension of the profit sharing arrangement with Air Afrique on international routes, and the increase in its tariffs. In the energy sector, the financial position of the national power company (EDM) was strengthened through improvements effected in bill recovery and the increase in energy and water tariffs. The Sélingué dam authority (OERHN) benefited from a foreign grant obtained for the payment of certain principal obligations, the resumption of payments by its main customer, EDM, and the upward adjustment in electricity tariffs. The postal and telecommunications office (OPT) made further progress in restructuring its operations in the context of a World Bank project; its financial position also benefited from the increase in postal and telecommunications tariffs on November 1, 1985.

The Government also made progress in strengthening the development planning process. It prepared for the first time, with UNDP technical assistance, a list of ongoing public investment projects. This work has enabled the authorities to compile a new series for public investment, which is more comprehensive in its coverage. The national income accounts and balance of payments data, as well as the estimates of the budget position, including foreign-financed investment, starting in

1985, have been revised accordingly. They are, therefore, not fully comparable to the original program targets or the previous years' data.

While the program target of a balanced budgetary position, 1/ on a commitment basis and excluding foreign-financed investment and grants, was not achieved owing to a revenue shortfall and expenditure overruns, there was a decline in the deficit from CFAF 8.9 billion in 1984 (1.9 percent of GDP) to CFAF 5.9 billion (1.2 percent of GDP) in 1985. The higher-than-programmed deficit, together with a shortfall in gross disbursements of foreign budgetary financing of CFAF 4.6 billion, resulted in an accumulation of payments arrears estimated at CFAF 4.3 billion, of which CFAF 1.8 billion constituted external payments arrears. Taking into account a net carry-over of CFAF 1.3 billion into the complementary period, 2/ the deficit on a cash basis declined from CFAF 9.7 billion (2.1 percent of GDP) to an estimated CFAF 0.3 billion (0.1 percent of GDP) in 1985, compared with a program target of CFAF 3.4 billion (0.7 percent of GDP). The deficit was financed mainly by net domestic bank credit and grants. Net external borrowing was negative, reflecting rising amortization payments. Based on preliminary information on foreign-financed government investment, the overall deficit, on a commitment basis, including foreign-financed investment but excluding grants, amounted to 9.5 percent of GDP in 1985; this ratio is not comparable to the outturn for 1984 of 9.6 percent of GDP or the projection for 1985 of 7.5 percent because of the revision of the data on foreign-financed investment.

Although government revenue increased by 14.7 percent, it fell short of the program target of 19.4 percent. This increase reflected mainly the effects of the increase in petroleum prices and the introduction of several tax measures. These included increases in excise taxes, the introduction of 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 their c.i.f. value. In addition, the authorities stepped up collection of previous years' taxes and strengthened collection procedures. However, the fall in cotton export receipts and the adverse effects of the persistent drought on the yields of head and cattle taxes prevented the attainment of the program target.

While expenditure (excluding foreign-financed investment) grew at a slower pace than revenue, the growth rate of 8.5 percent nonetheless exceeded the program target of 4.4 percent. The increases in the wage bill and in scholarships were limited to 8.1 percent and 13.3 percent, respectively, 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. Since expenditure on maintenance

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1/ Due to shortcomings in data on foreign investment and grants, the fiscal aspects of the program focused on government operations.

2/ CFAF 2.2 billion paid in 1985 relating to the 1984 budget and CFAF 3.5 billion carried over into 1986.

declined, most overruns were due to an increase in other current expenditures, mainly travel, representation, utilities, and dues to regional and international organizations. Expenditure in the annexed budgets and special funds was limited to below the 1984 level as well as the program target.

The improved fiscal performance in 1985 was reflected in a slowdown in the expansion of net credit to the Government from 7.9 percent of beginning money stock in 1984 to 2.4 percent in 1985. It remained below the program target of 3.5 percent, due to the accumulation of arrears. Credit to the economy, which includes public enterprises, grew by 10.9 percent, compared with 8.0 percent in 1984 and a program target of 7.9 percent. In the last quarter of 1985, credit to the economy exceeded the programmed level, mainly because of the financing needs of SOMIEX, which was unable to reduce sufficiently its sugar stocks by end-December 1985. As a result, ordinary credit, at CFAF 85.0 billion, exceeded the program projection of CFAF 79.4 billion; by contrast, crop credit, at CFAF 7.0 billion, remained below the projection of CFAF 9.1 billion. Consequently, the ceiling on domestic bank credit was not observed at end-December 1985. Thus, even though the expansion in overall domestic credit slowed down from 15.9 percent of beginning money stock in 1984 to 13.3 percent in 1985, it exceeded the program target of 11.4 percent. Domestic liquidity growth declined from 25.2 percent in 1984 to 9.5 percent in 1985, below the targeted 11.3 percent. As a member of the West African Monetary Union, Mali maintains the same interest rate policy as other member countries. The overnight money market rate on time deposits, a representative rate, remained positive in real terms, averaging 10.2 percent in 1985.

The balance of payments in 1985 recorded a deficit of CFAF 21.2 billion, compared with a program target of CFAF 4.7 billion. The analysis of the components of the balance of payments outcome for 1985 is complicated by the aforementioned revision of the series on foreign-financed investment. However, the difference in the outcome for 1985 relative to the program target is accounted for mainly by a shortfall in external budgetary financing of CFAF 4.6 billion, higher commercial cereal imports of CFAF 2.4 billion, an increase in petroleum imports by CFAF 7.7 billion (29 percent) associated with the domestic transportation of cereals, and a shortfall in cotton export receipts of CFAF 1.8 billion. The overall deficit was virtually fully financed with an increase in net foreign liabilities of CFAF 14.4 billion and debt service obligations under renegotiation and not paid of CFAF 5.2 billion. While external payments arrears in an amount of CFAF 0.2 billion of the Road Fund were repaid in early 1985, external arrears of CFAF 1.8 billion were accumulated at end-1985 due to a technical delay in the payments of the external debt of the National Debt Agency (CAA) and the Road Fund. These arrears were settled in January 1986.

The scheduled debt service ratio, excluding China and the U.S.S.R., rose sharply in 1985, reaching 22.1 percent compared with 15.1 percent in 1984. Taking into account debt service obligations under renegotiation and not paid, as well as the accumulation of external payments arrears, the actual debt service ratio amounted to 15.2 percent, compared with 8.9 percent in 1984. In accordance with its external debt management policy, the Government did not contract or guarantee any nonconcessional debt with a maturity of 0-12 years, with the exception of normal short-term trade credits.

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 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 2). All the performance criteria were met at end-September 1985. At end-December 1985, the ceilings on domestic bank credit and external payments arrears were not observed. However, the authorities did not request a waiver; they decided to resume purchases only after observing the end-March 1986 performance criteria.

III. Implementation of the 1986 Program

1. Overview of the 1986 program

With a sudden and precipitous fall in the export price of Mali's main export commodity, cotton, which occurred in the last few months of 1985, the economic and financial prospects for 1986 and the medium term changed significantly. Based on a projected drop of about 40 percent in the average cotton export price in 1986, a shortfall in cotton export proceeds of CFAF 21.8 billion (3.7 percent of GDP) and a loss of government revenue of CFAF 7.1 billion (1.2 percent of GDP) were estimated. Furthermore, the semipublic cotton enterprise, CMDT, 2/ was projected to incur losses amounting to CFAF 20.5 billion. To mitigate the severe impact of this exogenous factor, the authorities readapted and strengthened their economic and financial policies at the beginning of 1986. The program for 1986 included a detailed financial plan to reduce the losses of CMDT and to cover the remaining financing gap. On the budgetary front, additional revenue-generating and expenditure-containing measures were introduced with a view to offsetting the impact of the loss in cotton revenue and to achieving a surplus on consolidated government operations on a commitment basis, excluding foreign-financed investment. The Government was to reduce significantly its arrears, thereby releasing resources to the nongovernment sector. With a reduced recourse by the Government to domestic bank borrowing, credit expansion would be directed to finance the recovery in economic activity. The program also provided for fundamental structural reforms. These

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

2/ Compagnie Malienne pour le Développement des Textiles.

Table 2. Mali: Quantitative Performance Criteria Under the Program for 1985/86

(In billions of CFA francs; end of period)

	1985				1986							
	September		December		March		June		Sept.		Dec.	
	Prog.	Actual	Prog.	Actual	Prog.	Actual	Prog.	Est.	Prog.	Rev. prog.	Prog.	Rev. prog.
Domestic bank credit 1/ 2/	126.0	125.8	130.2	132.3	126.2	121.1	126.2	126.0	126.7	124.7	127.4	130.0
Net bank credit to Government 1/ 2/	40.5	40.5	41.7	40.3	37.0	34.3	37.2	36.5	36.2	36.4	37.1	37.1
Maximum outstanding external payments arrears of the CAA, the OERHN, 3/ and the Road Fund	1.4	1.4	--	1.8	--	--	--	--	--	--	--	--
Maximum outstanding payments arrears of the Treasury	0.05	0.05	0.05	0.05	...	...	...	...	...	...	...	...
Minimum reduction of government arrears 4/	...	...	...	...	1.1	1.8	2.7	3.4	4.3	4.3	6.3	6.3
New external debt (1 to 12 years) 5/	--	--	--	--	--	--	--	--	--	--	--	--
New external debt (less than 1 year) 6/	--	--	--	--	--	--	--	--	--	--	--	--

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

1/ Excluding the balances in the postal checking system (CCP). For end-December 1985, the data for domestic bank credit and net bank credit to the Government have been presented on the basis of the original definitions of accounts as used in the program. The data for 1986 are on an adjusted basis.

2/ To be adjusted downward by the extent of any additional foreign budgetary assistance, including debt relief calculated at the respective exchange rates as used for the projection, 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 11.7 billion. The cumulative amount to be received is projected at CFAF 4.8 billion for end-March 1986, at CFAF 7.5 billion for end-June 1986, at CFAF 9.8 billion for end-September 1986, and at CFAF 11.7 billion for end-December 1986. External financing provided under the U.S. Economic Policy Reform Program until end-June 1986 will be excluded, as it will be associated with specific revenue shortfalls resulting from modifications in the tax system and tied to additional expenditures. However, the performance criteria at end-September and at end-December 1986 will take financing from this source into account.

3/ Includes only interest obligations of OERHN through 1985; in 1986 both interest and principal obligations of OERHN for 1986 are included.

4/ Refers to the cumulative amount as of March 1986.

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.

included measures to liberalize marketing and pricing policies further, to improve the financial position of key public enterprises, to restructure the tax system to enhance private sector incentives, to address the problem of the cross-arrears in the public sector, and to strengthen investment programming and budgeting. Based on the reinforced adjustment strategy and improved weather conditions, the program aimed at achieving a rate of real economic growth of 9.1 percent, a cut in the rate of inflation, as measured by the GDP deflator, to 6.0 percent, and a reduction in the external current deficit (including grants) to 4.2 percent of GDP. 1/

The authorities have implemented all the measures envisaged under the program, and all the performance criteria for end-March 1986 have been observed. Nonetheless, at the time of the second review, the less favorable outcome for 1985, as well as a downward revision in the price projections for cotton exports, 2/ necessitated the introduction of further measures, primarily for the cotton sector, the budget, and public enterprises. Based on the restrengthened policies, and the improved weather conditions, real GDP is now expected to grow by 9.6 percent and the rate of inflation, as measured by the GDP deflator, to decelerate to 6.5 percent, compared with the program targets of 9.1 percent and 6.0 percent, respectively. 3/ The program also provided for a reduction in the external current account deficit, including grants, of 1.6 percentage points and an improvement in the overall balance of payments of CFAF 10.8 billion. Mainly on account of a sharp drop in imports, particularly cereals, due to the improved weather conditions and the tight financial policies being pursued, it is now projected that the external current account deficit, including grants, will decline by 4.9 percentage points and the balance of payments will improve by CFAF 23.0 billion. 4/ Thus, the external current account deficit, including grants, is projected to drop from CFAF 56.9 billion (11.1 percent of GDP) in 1985 to CFAF 37.0 billion (6.2 percent of GDP) in 1986, while the overall balance of payments position is projected to move from a deficit of CFAF 21.2 billion in 1985 to a surplus of CFAF 1.8 billion in 1986. However, in view of the less favorable than programmed outcome for 1985, the surplus in 1986 will be lower than the original program target of CFAF 6.1 billion.

1/ For a summary of the adjustment measures under the 1986 economic and financial program, see Appendix IV.

2/ Relative to the projections made at the time of the last Board discussion, which were based on the prices of cotton exports during the first three months of 1986 (see Section III.2.b.).

3/ All references to the program are to the program as reviewed in January 1986.

4/ The comparison of the changes provides a more accurate assessment of the adjustment effort, as the external current accounts in the program targets and the projections are based on different series for foreign-financed investment.

2. Supply-oriented policies

a. Production, savings, and investment

The supply-oriented measures implemented, together with a major improvement in weather conditions, are expected to contribute to a sharp recovery in economic activity in 1986. The agricultural output of the 1985/86 crop season increased by about 35 percent, with cereal production recovering to the 1979/80 level after having declined by almost 50 percent during the drought years of 1982/83-1984/85. Cotton production also increased by about 20 percent, benefiting from a large-scale project financed by the World Bank. Livestock production is estimated to expand by about 5 percent in 1986, allowing a further reconstitution of the herds. The primary sector is thus expected to lead economic expansion, growing by about 16 percent in 1986. The secondary sector is projected to grow by about 6 percent in real terms, reflecting improved supply conditions for food processing industries and a high level of building and construction activity. Expansion in the tertiary sector is projected to slow down to about 4 percent, due to the sharp decline in the commercial and transport activities related to cereal imports, as well as the slowdown in government sector expansion. Accordingly, overall real GDP is projected to grow by 9.6 percent in 1986. Reflecting tight financial policies, the impact of the favorable harvest on food prices, and the sharp drop in cotton export prices, inflation, as measured by the GDP deflator, is projected to decelerate to 6.5 percent in 1986.

The pickup in economic growth, together with the economic and financial policies being implemented, are expected to be reflected in an increase in investment and domestic savings. Investment would grow by about 13.5 percent in real terms, largely owing to the reconstitution of the livestock herd and of cereal stocks. Nonetheless, the ratio of investment to nominal GDP is estimated to remain constant due to the low deflator for imported investment goods. Consumption is projected to fall, as a share of GDP, from 100.5 percent in 1985 to 91.2 percent in 1986, implying a rise in domestic savings from -0.5 percent of GDP in 1985 to 8.8 percent in 1986. The rise in domestic savings is estimated to result in a drop of the resource gap from 24.3 percent of GDP in 1985 to 15.0 percent in 1986.

The authorities reaffirmed their intention to limit public investment for 1986 to ongoing projects, while working closely with the World Bank to strengthen the system of public investment programming. This involves a reform of the project selection procedures to ensure that projects are selected on the basis of clearly specified development objectives, strict economic criteria, sectoral priorities, counterpart fund requirements, recurrent cost implications, and debt servicing capacity. The Government plans to develop a multiannual rolling investment program. The annual investment programs will be executed in the context of an government investment budget. In order to analyze past performance and to develop specific proposals in this regard, the

Government plans to complete, with technical assistance from the World Bank, a public expenditure review by the end of 1986. Furthermore, a consultant financed by the World Bank is currently assisting in the preparation of specific recommendations regarding the reform of planning and associated budgetary procedures, with a view to integrate all government investment expenditure, including foreign-financed investment, into normal budgetary and expenditure control processes.

b. The cotton sector

In February 1986, the Government implemented measures to reduce the potential losses of the cotton sector in 1986. These losses were estimated at about CFAF 20.5 billion during the 1985/86 budget year 1/ if no measures were taken, based on a projected export price of CFAF 381 per kg. The measures implemented included the deferral of CMDT's tax liabilities and amortization payments to the Government; cuts and deferrals in CMDT's expenditure and remuneration; a reduction in input subsidies; and an increase in CMDT's sales price for cottonseeds. These measures had been estimated to narrow the losses of the cotton sector to about CFAF 8.7 billion, which were expected to be financed by the Guarantee Fund, the group of donors involved in the restructuring of the cereal market (PRMC), STABEX, the French Caisse Centrale, and the World Bank. In April 1986, when the Board discussed the first review under the stand-by arrangement, export sales during the first three months of 1986 had been effected at an average price of CFAF 414 per kg. On this basis, projections for the losses of the cotton sector for 1985/86 were revised to CFAF 6.4 billion. However, the price for cotton exports weakened further during the second quarter, owing to the further appreciation of the CFA franc vis-à-vis the U.S. dollar. The average price for 1985/86 has been, therefore, revised downward to CFAF 385 per kg. Furthermore, final data on the 1985/86 harvest indicated that production was about 5,000 tons below original projections. Revenue from the sale of cottonseeds was also revised downward. Thus, despite the measures implemented in early 1986, the losses were re-estimated to reach CFAF 9.2 billion.

Accordingly, the Government decided to take further measures. The payments made for collection, ginning, and export services will be reduced so as to generate savings of CFAF 3.2 billion. These savings are based on lower costs incurred by CMDT and SOMIEX, as estimated in the study on the restructuring of the cotton sector, the first phase of which was completed in June 1986 with assistance from the World Bank and

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1/ CMDT's budget covers the fiscal year ending September 30. The budget refers exclusively to transactions from the current harvest. Consequently, export shipments of cotton from the 1984/85 harvest during 1986 would not be reflected in the 1985/86 budget. They would be allocated to the 1984/85 budget, which is closed only once the entire 1984/85 harvest has been exported. Thus, receipts from cotton exports, as recorded in the balance of payments, differ from those recorded in CMDT's budget.

the Caisse Centrale. The budgets for CMDT and SOMIEX are to be revised accordingly by August 1, 1986. The remaining gap of CFAF 6.0 billion will be financed from the Guarantee Fund as well as financial assistance provided by the World Bank, STABEX, PRMC, and Caisse Centrale. Simultaneously, a number of measures to facilitate the operations of the cotton sector will be implemented, including the cancellation of all the payments of CMDT and SOMIEX that had been deferred in early 1986; the requirement that Mali's development bank, BDM, credit the price stabilization board, OSRP, as well as CMDT and SOMIEX daily for transfers received; and the extension of CMDT's import tax exemption through end-December 1986.

Recognizing that further measures will be necessary to reduce the reliance on external financing in 1987, the Government has decided to (a) abolish SOMIEX's monopoly on cotton export services effective August 1, 1986; (b) cut input subsidies further for 1986/87; (c) adopt the CMDT accounting changes recommended in the first phase of the restructuring study by October 1, 1986; (d) identify alternative financing for noncotton development activities undertaken by CMDT and so far financed with cotton revenues; and (e) complete the second phase of the restructuring study by October 1986. Based on the results of this study and prospects for world cotton prices, the Government intends to work closely with the World Bank and the Caisse Centrale to develop a medium-term restructuring plan by November 1986.

c. Pricing and marketing policy

The Government of Mali is pursuing its policy of liberalizing pricing and marketing policies. A major reform of the price system was introduced in 1986. The new system was adopted by the Government in February 1986, and ratified by Parliament in July 1986. Under the previous system, all commodities were subject to price control. Under the new system, prices are freely determined by market forces, except for a specified number of goods and services considered by the Government as essential or as of strategic importance. For a significant part of the latter, 1/ producers and merchants are free to set their prices on the basis of preset profit margins. For the remaining goods and services, 2/ administration or, on the basis of documentation of costs, approved prior to their application. The authorities indicated that the system was being implemented flexibly.

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

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

They noted that, given the short period since its adoption, it was premature to make any modifications.

The new commercial code, adopted by the Government in January 1986, and ratified by Parliament in March 1986, has substantially facilitated the setting up of private businesses by abolishing a number of lengthy and cumbersome procedures formerly required. In particular, the requirement of prior government approval ("agrément") has been dropped, and new businesses, with the exception of certain foreign enterprises and financial institutions, can be established simply by registering.

Marketing policies have also been liberalized through the abolition of a number of monopolies, monopsonies, and purchase obligations toward domestic industries of the state trading agency SOMIEX. The remaining import and export monopolies of SOMIEX will be abolished effective August 1, 1986. 1/ With regard to cereal marketing, the system was further liberalized by authorizing private traders to buy paddy rice freely on the compound of the Office du Niger only toward the middle of the harvest season after February 15, 1986. For the 1986/87 crop year, private traders will be so authorized from the beginning of the harvest season. Furthermore, the Government is currently reviewing the role and operations of the public cereals marketing board (OPAM), in consultation with the World Bank and the donor group financing the restructuring program of the cereal market (PRMC), with a view to reducing OPAM's role in the stabilization of prices and aligning its buying and selling prices with market conditions. On the basis of studies being undertaken, reforms in the cereals market will be decided upon by end-October 1986.

During the 1985/86 crop season, OPAM bought large amounts of cereals at its official intervention price, while sales at the official sales prices fell short of targets through June 1986. To reduce its excessive stocks, and to enable the timely repayment of crop credit, OPAM will begin with an orderly reduction of its stocks by August 1, 1986. Furthermore, OPAM's cereal monopsony vis-à-vis rural development agencies, including the Office du Niger, is being abolished effective August 1, 1986. This measure will permit these agencies to sell cereals to any buyer and, in the circumstances, ease the liquidity problems of the agricultural sector.

With regard to petroleum prices, following the 15 percent increase that became effective in August 1985, the Government plans to keep the domestic retail price at its current level. The Government succeeded in negotiating lower purchase prices with its suppliers in Dakar in December 1985 and March 1986, and with suppliers in Abidjan in April 1986. As a result, at end-June 1986 purchase prices for gasoline ex-Dakar had dropped by about 23 percent, and ex-Abidjan by 24 percent. Furthermore, private importers have increasingly diversified to low cost sources of supply in Nigeria, Benin, and Togo. The Government is

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1/ These are detailed in section III.2.d. below.

pursuing negotiations to diversify its sources of supply and secure more favorable conditions from its traditional suppliers. As provided for under the program, railroad tariffs were increased in February 1986 by about 20 percent on average. This has improved the financial position of the Régie de Chemin de Fer du Mali (RCFM) and aligned its tariffs with road transportation tariffs.

d. Public enterprises

The Government has pursued its efforts to formulate a comprehensive program to reform the public enterprise sector. Negotiations with the World Bank on such a program, for a total cost of about US$153.7 million, took place in August 1986; it is expected to be launched early in 1987. The World Bank and cofinancers will provide US$71.9 million, with the remainder being financed by the Government, the public enterprises, Mali's development bank (BDM), and foreign donors. The program aims at (i) reducing the burden of the sector on the Malian economy through privatization/liquidation of public enterprises that are neither public utilities nor of strategic importance; (ii) improving the performance of the remaining enterprises through reforms of the economic, financial, and institutional frameworks within which public enterprises operate; and (iii) rehabilitating specific enterprises under follow-up projects. Of the 36 public enterprises covered under the proposed program, only 6 are programmed to remain in the public sector, while the others are either to be liquidated or privatized. The program also provides for the settlement of cross-arrears within the public sector and vis-à-vis the private sector. Further, it addresses the institutional and financial restructuring of the public utility companies. In particular, the World Bank will finance under this project the restructuring of the energy and the telecommunications sectors, complementing ongoing and future projects that tackle the internal management and technical difficulties at the national power company (EDM), the Sélingué dam authority (OERHN), and the postal and telecommunications office (OPT). Other enterprises will be rehabilitated with bilateral assistance. Pending the launching of this program, the Government has continued to take specific actions to improve the operations of key public enterprises and to liquidate those that are clearly not viable.

In January 1986, the Government set up a commission charged with the liquidation of Air Mali and discontinued all its flights. The commission was to assess the value of Air Mali's assets, to verify all outstanding debts owed by and to Air Mali, and to proceed with the sale of assets and the settlement of verified outstanding arrears, either through cash payment or their conversion into grants or concessional loans. At end-May, Air Mali dismissed 94 employees; only those necessary to operate the airports, to proceed with the liquidation, and to manage the pool and association arrangement with Air Afrique on international flights were retained. After repeated efforts to sell the Boeing 727 directly, the commission selected a Belgian brokerage firm to sell the airplane. The Boeing 737 has been leased to a British company, with the monthly receipts being paid directly to Air Afrique to reduce outstanding arrears. Arrears toward Air France were partially settled in March 1986; the remainder were scheduled to be paid in seven monthly installments beginning May 1986. Negotiations concerning the rescheduling of arrears toward Air Algérie and Aeroflot continue; an agreement on the amounts involved was signed with the latter in April 1986. The liquidation commission expects to complete its work and to have all outstanding arrears eliminated by end-November 1986, either through cash payment or their conversion into grants or concessional loans.

Negotiations with a French company (SODETRAF) on the establishment of a new mixed airline company have made considerable progress. The Government will only hold a minority share; the rest of the capital is expected to be put up by SODETRAF and private Malian investors. Initially, the new company will operate internal flights. It will undertake regional or other international flights only if feasibility studies clearly establish their profitability. The Government will also not guarantee any debt contracted by the new airline or on-lend any loans, in order to limit government involvement. The new company will also diversify its sources of bank financing; it will not borrow more than 50 percent of its financing needs from any single local bank. The negotiations on the formation of the new company are continuing. The authorities will consult with the managements of the Fund and the World Bank regarding any arrangements made for the formation of the new airline company.

The financial situation of the state trading company (SOMIEX) remains precarious, despite the implementation of a number of corrective measures in 1986. These included a reduction of personnel by 298 to about 600 employees; the abolition of its monopsony position and purchase obligations vis-à-vis domestic producers of sugar, edible oil, soap, flour, and tea; the abolition of its distribution monopoly for edible oil, soap, and flour; the sale of its substantial sugar stocks during January-March 1986; and several increases in sales prices. However, although the sugar sales allowed a significant reduction in outstanding bank credit, SOMIEX remains a heavy burden on the banking system, with outstanding credit of about CFAF 5.0 billion as of end-June 1986. It is also estimated to owe the Government about CFAF 3.0 billion in tax arrears. The Government is, therefore, reviewing the role and the function of SOMIEX and will prepare a study in this regard during the second half of 1986. The study will also evaluate the effects of liquidating the company, particularly on the distribution in the remote regions of the country. A decision on SOMIEX will be taken in consultation with the Fund and the World Bank in December 1986. Pending the completion of the study, the Government will take specific steps to improve the economic and financial performance of the company and to allow the private sector to play a larger role in the distribution of essential products. The personnel of SOMIEX will be further reduced by 50 persons during July-September and another 50 persons during October-December 1986. The remaining import monopolies of

SOMIEX, including those for sugar, salt, and tea, were to be abolished effective August 1, 1986. Furthermore, SOMIEX will curtail sharply its operations; total purchases of SOMIEX during August 1, 1986 to December CFAF 1.0 billion, compared with an estimated CFAF 6.0 billion in the same period of 1985.

3. Financial management

a. Fiscal policy

The authorities have implemented all the measures provided for in the program to strengthen the budgetary position and offset the loss in cotton revenue, estimated at CFAF 7.1 billion. At the time of the second review, a shortfall in budgetary revenue in 1986 of CFAF 4.5 billion from program projections was estimated, in view of the lower-than-expected revenue outturn for 1985 and the loss of CFAF 1 billion in revenue arising from the implementation of the tax reform program financed by USAID. Furthermore, primarily due to a revision in the budget of the CAA, the surplus of the annexed budgets and special funds is projected to be reduced from a target of CFAF 5.7 billion to CFAF 2.1 billion. Thus, in the absence of corrective measures, the consolidated budget, on a commitment basis and excluding foreign-financed investment and grants, would record a deficit of CFAF 1.3 billion (0.2 percent of GDP). Consequently, the Government decided to take additional revenue measures to achieve a surplus of CFAF 3.4 billion (0.6 percent of GDP), compared with a program target of a surplus of CFAF 6.8 billion (1.1 percent of GDP). The budget position would, therefore, improve by 1.8 percentage points compared with the program target of an improvement of 1.1 percentage points (Table 3).

With the programmed reduction in arrears of CFAF 6.3 billion and the net transactions relating to the complementary period of CFAF 2.0 billion, the consolidated budget, on a cash basis, is projected to record a deficit of CFAF 4.9 billion (0.8 percent of GDP). This deficit is projected to be financed primarily by net foreign financing and grants, while recourse to domestic bank financing is to be sharply curtailed. Based on balance of payments estimates for foreign-financed investment, the overall deficit, on a commitment basis, including foreign-financed investment but excluding grants, would amount to CFAF 41.1 billion (6.9 percent of GDP).

Revenue is projected to grow by 24.4 percent, reaching CFAF 88.3 billion instead of the CFAF 86.1 billion originally programmed. This growth reflects the full-year effect of the measures taken in late 1985, the 10 percent increase in administrative values (valeurs mercuriales) in March 1986, the revenue impact of the drop in oil import prices with unchanged domestic prices, and the additional measures taken by the authorities in August 1986. These include a further 10 percent increase in administrative values; the collection of an estimated CFAF 3.0 billion in tax arrears, CFAF 2.0 billion of which have already been settled by compensation; an increase in the import tax on rice from the

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

	1982	1983	1984	1985 Prog.	1985 Act.	1986 Prog. 1/	1986 Rev. Prog. 1/
	(In billions of CFA francs) 2/						
Revenue	50.6	54.0	61.9	73.9	71.0	86.1	88.3
Budget	39.2	42.8	47.2	57.8	53.7	62.1	61.0 3/
Income tax	7.1	7.6	8.0	9.0	9.0	8.6	8.1
Taxes on goods and services	5.7	7.0	7.8	8.8	8.4	10.3	8.8
Taxes on international trade	16.1	18.1	19.7	22.1	22.0	26.5	25.5
Other	10.3	10.1	11.7	17.9	14.3	16.7	18.6 4/
Annexed budgets and special funds	11.4	12.1	14.7	16.0	17.3	24.0	27.3
Extrabudgetary	--	-0.9	--	--	--	--	--
Expenditure	63.1	66.5	70.8	73.9	76.9	79.3	84.9
Budgetary	44.1	47.5	53.2	57.5	58.3	61.0	61.0
Current	42.5	45.9	51.4	55.1	56.1	58.4	58.1
Wages and salaries	(27.3)	(30.2)	(33.2)	(37.0)	(35.9)	(37.0)	(37.0)
Maintenance	(8.6)	(9.1)	(11.3)	(10.4)	(8.1)	(11.5)	(9.2)
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)	(8.7)	(6.5)	(8.5)
Capital	1.6	1.6	2.0	2.4	2.2	2.6	2.9
Annexed budgets and special funds	17.6	17.4	17.0	16.4	15.9	18.3	23.9
Extrabudgetary	1.4	1.7	0.6	--	2.7	--	--
Surplus/deficit (commitment basis)	-12.5	-12.5	-8.9	--	-5.9	6.8	3.4
Change in arrears	-5.8	-5.8	-3.0	-0.4	4.3	-6.3	-6.3
Transactions in the complementary period	--	--	2.2	-3.0	1.3	-3.0	-2.0
Surplus/deficit (cash basis)	-18.3	-18.3	-9.7	-3.4	-0.3	-2.5	-4.9
Financing	18.3	18.3	9.7	3.4	0.3	2.5	4.9
Grants	0.9	3.8	3.4	5.6	1.9	5.8	4.8
Foreign borrowing (net)	13.7	11.5	0.9	-3.5	-3.9	-1.5	1.9
Gross borrowing	(7.2)	(7.0)	(0.9)	(0.9)	(--)	(5.8)	(6.9)
Amortization	(-1.7)	(-3.1)	(-5.5)	(-8.2)	(-9.0)	(-10.6)	(-9.4)
Debt relief under negotiation 5/	(8.2)	(7.6)	(5.5)	(3.8)	(5.1)	(3.3)	(4.4)
Domestic financing (net)	3.6	3.0	5.4	1.3	2.3	-1.8	-1.8
Banking system	(6.2)	(5.7)	(6.5)	(4.1)	(2.7)	(0.6)	(0.6)
Other	(-2.6)	(-2.7)	(-1.1)	(-2.8)	(-0.4)	(-2.4)	(-2.4)
Memorandum items:							
Foreign-financed investment expenditure	26.0	41.5	36.3	38.5	42.6	33.7	44.5
Of which: financed by grants	(11.5)	(19.0)	(21.5)	(22.0)	(18.4)	(12.4)	(19.6)
	(In percent of GDP)						
Revenue	12.3	12.8	13.2	14.4	13.9	14.5	14.8
Expenditure	15.3	15.8	15.1	14.4	15.1	13.3	14.3
Balance, commitment basis (deficit -)	-3.0	-3.0	-1.9	--	-1.2	1.1	0.6
Balance, cash basis (excluding grants)	-4.4	-4.3	-2.1	-0.7	-0.1	-0.4	-0.8
Balance, cash basis (including grants)	-4.2	-3.4	-1.3	0.4	0.3	0.6	--
Foreign financing (net)	3.3	2.7	0.2	-0.7	-0.8	-1.0	0.3
Bank financing (net)	1.5	1.4	1.4	0.8	0.5	0.1	0.1
Overall deficit (commitment basis) 6/							
Excluding grants	-9.4	-12.8	-9.6	-7.6	-9.5	-4.5	-6.9
Including grants	-6.3	-7.4	-4.3	-2.1	-5.5	-1.5	-2.8

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

1/ The data under program 1986 refer to the targets set in January 1986 under the first review. Revised program 1986 refers to the targets set in July 1986 under the second review.
2/ Numbers may not add up to totals due to rounding.
3/ Including a revenue shortfall of about CFAF 1.0 billion as a result of the tax reform implemented under the U.S.-supported Economic Policy Reform Program. Under this program, Mali will receive in 1986 grants estimated at CFAF 1.8 billion.
4/ Of which CFAF 3 billion in tax arrears are being settled by compensation.
5/ Includes debt relief obtained.
6/ Includes foreign-financed investment.

present 27.2 percent to 32.76 percent; the full application of the import duties and taxes shown in the regular tariff schedule for coarse cereals; a shift in the basis of customs duties from indicative to real values; and an increase of at least one percentage point in the levy on international transactions (CPS). The upward revision in the revenue of the annexed budgets and special funds reflects primarily the increased resources of the CAA and the OSRP. The revenues of the CAA are expected to rise because of the centralization of public external debt service, the increase in the CPS rate, and stepped-up efforts to collect arrears for debt service payments made by the CAA. Revenue of the OSRP is expected to increase by about CFAF 2.0 billion resulting from the negotiation of lower oil import prices. Under the U.S. Economic Policy Reform Program, a new tax reform package is being introduced with the objective of stimulating private sector economic activity over the medium term. In this connection, a reduction in the payroll tax and a realignment of customs duties have been implemented in 1986, aimed at reducing the tax burden of the private sector. These measures will initially result in a reduction in revenue, estimated at about CFAF 1 billion in 1986. This shortfall will be fully compensated by a grant from the U.S. Government, estimated at around CFAF 1.8 billion for 1986.

Expenditures, excluding foreign-financed investment, are projected to grow by 10.4 percent to reach CFAF 84.9 billion, compared with a program target of CFAF 79.3 billion. The Government is committed to hold nominal budgetary expenditure, excluding the annexed budgets and special funds, at the same level as in 1985 (inclusive of extrabudgetary expenditure), through a containment of the wage bill and scholarships as well as the institution of austerity measures. 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 results of the census of the civil service undertaken in 1985. The revised expenditures of the annexed budgets and special funds are higher primarily due to the expanded activity which has taken place in the cereal market, financed largely with counterpart funds from food aid, and the increased centralization of public external debt service payments at the CAA. In addition, the authorities are strengthening expenditure control. The Ministry of Finance is monitoring expenditures on the basis of the new nomenclature, which permits the follow-up of expenditures on the basis of more detailed categories. 1/ Furthermore, the Ministry of Finance has given instructions to spending ministries to enforce strictly the requirement that under no circumstances shall any expenditure commitment be made without prior budgetary allocation. In

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1/ While the official government budget was not approved on the basis of the new nomenclature, the authorities view 1986 as a transitional year, during which experience will be gained by using the new nomenclature along with the previous one. The 1987 budget will be prepared on the basis of the new nomenclature.

addition, the Treasury will not pay any expenditure committed that has not passed through all the steps of the established process of expenditure control.

Expenditure control has also been 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, since the accounts of "treasury arrears" covered only a narrow set of possible arrears. Accordingly, with technical assistance from the Fund, the Government introduced, effective March 1, 1986, a comprehensive system for monitoring arrears that covers all government obligations, including salaries. To assist the authorities in examining the initial operations of the system, a staff visit took place in May 1986. As a result, a number of steps were taken to improve the monitoring under the system, including a more detailed breakdown in the categories being monitored. 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 is examining the possibility of discontinuing the complementary period.

On the basis of the data available as of end-May 1986, outstanding extrabudgetary arrears (expenditures neither committed nor paid) are estimated at CFAF 14.9 billion, of which CFAF 6.5 billion constituted amounts owed to international and regional organizations, CFAF 6.7 billion owed to public enterprises, and the remainder, amounts owed to the private sector. These sums still need to be verified and recognized by the Government. Furthermore, detailed data on tax arrears need to be compiled and verified. In this regard, a study on cross-debts of the public sector was financed by the World Bank. The preliminary results of the study showed the Government owing CFAF 9.0 billion to public enterprises, while arrears of CFAF 18.0 billion, mostly taxes and arrears for debt service payments made by the CAA, were owed by public enterprises. Most of the arrears to the Government and the CAA were owed by public enterprises which are to be privatized or liquidated. These arrears will be either consolidated into subsidies or equity, or rescheduled over a longer period. The Government's own arrears were mostly owed to public utility companies and will be settled under the World Bank's public enterprise reform project. A commission, which was set up by the Government in May 1986 to review the data collected, verify the arrears thus identified, and propose a timetable and procedures for settling them, is expected to complete its work by end-November 1986.

During 1986, the Government is to repay CFAF 6.3 billion of identified and verified arrears, CFAF 1.8 billion of which constitutes external payments arrears. These arrears were reduced by CFAF 1.8 billion at end-March 1986 and by a further CFAF 1.6 billion at end-June 1986, as provided for under the relevant performance criteria. By end-September 1986, the cumulative reduction will amount to CFAF 4.3

billion, and by end-December 1986, to CFAF 6.3 billion, as performance criteria. Based on the new system for monitoring arrears, the Government will not incur any new domestic payments arrears, defined as the difference between amounts authorized and amounts paid in excess of a normal float of CFAF 4.7 billion. 1/ If this difference were to be exceeded at the end of a month, or if the system were not functioning satisfactorily, the Government would consult with the Fund's management with a view to determining the cause and taking the necessary corrective measures.

b. Monetary and credit policies

The credit targets for 1986 have been revised to take into account the improved growth prospects of the economy as well as the revised inflation and balance of payments objectives. Total domestic credit is programmed to increase by 8.0 percent of beginning money stock in 1986, compared with an initial target of 7.2 percent and with 13.3 percent in 1985. Taking into account the balance of payments objective, domestic liquidity is estimated to grow by 13.0 percent, in line with the program target, remaining well below the estimated growth in nominal GDP of 16.7 percent (Table 4).

Crop credit is projected to increase by 3.2 percent of beginning money stock in 1986, compared with an initial program target of 1.5 percent and a decline of 0.5 percent in 1985. The upward revision is necessitated by the projected increase in the 1986/87 crop. The expansion in ordinary credit to the economy will be reduced from 9.3 percent of beginning money stock in 1985 to 3.6 percent in 1986, compared with an initial target equivalent to 5.2 percent. This downward revision in the growth target reflects primarily the excess credit level at end-1985. The expansion of ordinary credit remains consonant with the original program objectives, as SOMIEX, which had primarily accounted for the excess credit at the end of December, reduced its outstanding credit sharply in the first quarter of 1986. Furthermore, the nongovernment sector's liquidity will benefit from the reduction in domestic government arrears. The scheduled increase in net bank credit to the Government remains as programmed at CFAF 0.6 billion, equivalent to 0.6 percent of beginning money stock.

To monitor progress under the program, quarterly ceilings were set as performance criteria on total domestic bank credit and net domestic bank credit to the Government for the end of the third and fourth quarters of 1986 (Table 2). Accordingly, total domestic bank credit, which is estimated to have amounted to CFAF 126.0 billion at end-June 1986, will not exceed CFAF 124.7 billion at end-September 1986 and CFAF 130.0 billion at end-December 1986. Net bank credit to the Government, which is estimated to have reached CFAF 36.5 billion at end-June 1986, will not exceed CFAF 36.4 billion at end-September 1986 and CFAF 37.1

1/ For a description of the monitoring system, see EBS/86/56 (Appendix I, Annex II).

Table 4. Mali: Monetary Survey, 1982-86

(In billions of CFA francs; end of period)

	1982	1983	1984	1985						1986						Percentage change relative to money stock at the beginning of the period 1/			
				March	June	Sept.	December			March		June		Sept.	Dec.	1984 3/	1985 3/	1986	
							Prog.	Actual		Prog.	Act.	Prog.	Est.	Rev. Prog.	Rev. Prog.			Proj.	Rev. prog.
								Unadj.	adj. 2/										
Foreign assets (net) 4/	-65.7	-67.2	-27.5	-35.1	-32.3	-39.4 5/	-30.3	-45.5	-45.5	...	-43.6	...	...	...	-33.3	1.7	-15.3	5.4	9.6
Domestic credit	163.0	175.0	120.0	126.3	125.8	128.2	133.4	135.6	123.4	129.4	124.8	129.4	129.5	128.2	133.5	15.9	13.3	7.2	8.0
Domestic credit excluding postal checking accounts	160.3	172.7	116.8	123.0	123.2	125.1	130.2	132.3	120.1	126.2	121.1	126.2	126.0	124.7	130.0	14.9	13.2	7.2	7.8
Credit to the Government (net)	68.0	73.3	40.8	40.6	40.5	42.9	44.9	43.6	39.8	40.4	38.0	40.4	40.0	39.9	40.6	7.9	2.4	0.5	-0.6
Banking system	(65.3)	(71.0)	(37.6)	(37.3)	(37.9)	(39.8) 5/	(41.7)	(40.3)	(36.5)	(37.0)	(34.3)	(37.2)	(36.5)	(36.4)	(37.1)	(6.9)	2.3	(0.5)	(0.5)
Postal checking system 6/	(2.7)	(2.3)	(3.2)	(3.3)	(2.6)	(3.1)	(3.2)	(3.3)	(3.3)	(3.2)	(3.7)	(3.2)	(3.5)	(3.5)	(3.5)	(1.0)	(—)	(—)	(0.2)
Credit to the economy 7/	95.0	101.7	79.2	85.7	85.3	85.3	88.5	92.0	83.6	89.2	86.8	89.0	89.5	83.3	92.9	8.0	10.9	6.7	7.4
Ordinary	(69.2)	(74.9)	(57.7)	(61.4)	(62.7)	(64.1)	(64.9)	(68.6)	(76.6)	(76.2)	(74.7)	(78.0)	(79.8)	(79.8)	(81.9)	(...)	(9.3)	(5.2)	(4.2)
Crop credit	(25.8)	(26.8)	(7.6)	(10.4)	(8.1)	(6.3)	(9.1)	(7.0)	(7.0)	(13.0)	(12.1)	(11.0)	(9.7)	(8.5)	(11.0)	(...)	(-0.5)	(1.5)	(3.2)
Doubtful claims 7/	(...)	(...)	(13.9)	(13.9)	(14.5)	(14.9)	(14.5)	(16.4)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(2.1)	(—)	(—)
Money supply	81.3	93.8	117.4	123.9	129.1	124.3 5/	130.7	128.5	126.6	...	129.7	...	...	...	143.1	25.2	9.5	13.0	13.0
Medium- and long-term external liabilities	3.2	3.3	3.5	1.8	1.9	2.2	1.8	2.4	2.4	...	2.7	...	...	...	2.4	0.2	-0.9	—	—
Other items (net) 8/	12.8	10.7	-28.4	-34.5	-37.5	-37.7	-29.4	-40.8	-51.1	...	-51.8	...	-43.5 9/	...	-45.3	-7.8	-10.6	-0.5	-4.6

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

1/ Numbers may not add up due to rounding.

2/ The base at end-December 1985 has been adjusted as follows: (a) to exclude from credit to the economy agios of 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 deposits of CFAF 3.8 billion as government deposits. Of these, CFAF 1.9 billion were previously classified as private sector deposits, and the rest were recorded as counterpart funds of foreign loans under other items (net).

3/ The data for 1984 were adjusted to take into account the cancellation of credits and external liabilities at Mali's entry into the West African Monetary Union. For 1984 percentage changes were calculated with reference to adjusted 1983 data to ensure comparability with 1984 data and with the BCEAO presentation. For 1985 percentage changes were calculated with reference to the nonadjusted data for 1985 in order to maintain comparability with the program targets.

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

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

8/ 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 movement in 1985 reflects largely the modifications in the monetary data to conform to the classification of the BCEAO.

9/ Includes the effect of the valuation adjustment related to the Fund position that was incorporated on May 1, 1986. The counterpart entry would be reflected in net foreign assets.

billion at end-December 1986. These ceilings will be adjusted downward by the cumulative amount of external budgetary assistance, including debt relief, in excess of that programmed.

During 1986, the authorities strengthened credit control. In BCEAO countries, the most important instrument for control over the expansion and sectoral distribution of credit is the setting of annual and monthly limits for credit and rediscounting for each financial institution. These ceilings are determined by the national agency of the BCEAO and exclude crop credit, which can be financed without limit. The ceilings can be adjusted in light of the evolution of credit and the institutions' other sources of financing. 1/ In order to improve the reporting system on credit extension by the banks, the national agency introduced regular meetings with all the deposit money banks to follow closely the extension of credit, with particular notification required for credit to large users. In addition, bank financing of stocks, including its repayment in accordance with the decumulation of stocks, has been examined regularly. As a further measure of credit control, the BCEAO has imposed, on several occasions, sanctions on banks for credit extended either in excess of amounts authorized or without any prior authorization. These sanctions take the form of noninterest bearing deposits with the BCEAO.

In view of the recent drop in interest rates in various international money centers, the BCEAO reduced interest rates by about 1.0 percentage point in March 1986. The deposit rates represent only minimum rates, and banks are free to set their rates in accordance with market conditions. Money market rates, as set by the central bank, declined by another percentage point by end-May 1986, when the rates for overnight deposits and for deposits of up to three months ranged from 7.75 percent to 8.125 percent, respectively, and remained positive in real terms.

c. The external sector

Reflecting the policies being pursued and the favorable 1985/86 agricultural harvest, the external sector performance is expected to improve significantly despite the sharp deterioration in the world price of Mali's major export, cotton. The overall balance is projected to move from a deficit of CFAF 21.1 billion in 1985 to a surplus of CFAF 1.8 billion in 1986, while the current account deficit, including grants, is projected to narrow from CFAF 56.9 billion (11.1 percent of GDP) to CFAF 37.0 billion (6.2 percent of GDP). The projected improvement stems mostly from a 25 percent decline in import expenditure to CFAF 143.4 billion (Table 5). Apart from a sharp reduction in cereal and sugar imports, this reflects savings in the petroleum bill owing to

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1/ Refinancing at the rediscount window of the BCEAO is restricted to 35 percent of a deposit money bank's assets and is available at the discretion of the national agency of the BCEAO in accordance with its established limits and sectoral priorities.

Table 5. Mali: Balance of Payments, 1982-90

(In billions of CFA francs)

	1982	1983	1984	1985 Prog.	1985 Act.	1986 Prog.	1986 Proj.	1987	1988	1989	1990
								Projections			
Exports, f.o.b.	47.6	62.9	83.9	79.0	78.4	66.8	66.1	72.5	78.8	88.6	101.1
Of which: cotton	(17.0)	(25.9)	(39.4)	(37.4)	(35.6)	(22.8)	(26.8)	(29.5)	(33.7)	(38.5)	(42.2)
Imports, c.i.f.	-109.7	-133.7	-160.9	-163.3	-190.1	-143.0	-143.4	-143.7	-153.2	-163.6	-173.2
Of which: cereals	(-8.5)	(-17.5)	(-40.4)	(-44.0)	(-50.0)	(-17.4)	(-12.9)	(-8.7)	(-9.0)	(-8.8)	(-9.1)
Service (net)	-14.1	-17.0	-17.9	-19.0	-21.8	-13.6	-21.3	-20.8	-21.2	-21.3	-21.4
Of which: interest	(-9.4)	(-9.7)	(-8.5)	(-9.0)	(-9.3)	(-10.9)	(-9.1)	(-8.6)	(-8.4)	(-8.0)	(-7.5)
Private transfers (net)	9.5	8.9	9.1	10.4	9.6	10.9	9.7	9.7	10.0	10.5	11.0
Current account deficit (before grants)	-66.8	-78.9	-85.8	-92.9	-123.9	-78.9	-88.9	-82.3	-85.6	-85.8	-82.5
Official transfers (net)	30.6	41.5	57.0	63.5	67.0	58.0	51.9	52.9	55.8	59.8	63.8
Of which: food	(6.5)	(9.8)	(19.0)	(22.6)	(26.2)	(17.4)	(6.9)	(5.0)	(5.6)	(5.9)	(6.1)
budgetary	(0.9)	(3.8)	(3.4)	(5.6)	(1.9)	(5.8)	(4.8)	(4.0)	(3.2)	(3.2)	(3.0)
project	(25.2)	(29.9)	(34.6)	(35.3)	(40.9)	(34.8)	(42.2)	(46.0)	(49.2)	(53.0)	(57.1)
Current account deficit (after grants)	-36.1	-37.4	-28.8	-29.4	-56.9	-24.9	-37.0	-29.4	-29.8	-26.0	-18.7
Capital (net)	25.7	31.8	28.4	24.7	34.7	31.0	38.8	32.6	37.2	40.7	44.2
Private (net)	-0.9	--	4.4	2.0	2.0	2.0	-0.5	-0.7	--	0.5	0.7
Public (net)	26.7	31.8	24.0	22.7	32.7	29.0	39.3	33.3	37.2	40.2	43.5
Disbursements	29.2	36.3	30.8	32.8	44.4	39.7	48.7	44.3	47.9	51.7	55.7
Of which: budgetary	(7.2)	(7.0)	(0.9)	(0.9)	(--)	(5.8)	(6.9)	(--)	(--)	(--)	(--)
project	(22.0)	(27.8)	(29.9)	(31.9)	(44.4)	(33.9)	(41.8)	(44.3)	(47.9)	(51.7)	(55.7)
Amortization	-2.5	-4.5	-6.8	-10.1	-11.7	-10.7	-9.4	-11.0	-10.7	-11.5	-12.2
Debt relief	7.6	6.6	2.0	--	--	--	--	...	...	...	...
Errors and omissions	--	--	--	--	1.0	--	--	--	--	--	--
Overall balance	-2.8	1.0	1.6	-4.7	-21.2	6.1	1.8	3.2	7.4	14.7	25.5
Financing	2.8	-1.0	-1.6	4.7	21.2	-6.1	-1.8	-3.2	-7.4	-14.7	-25.5
Reserves	4.9	1.5	-1.6	2.8	18.0	-8.3	-12.2	...	...	...	...
Of which: IMF 1/	8.8	5.2	8.7	2.3	2.0	-2.1	-2.1	-7.3	-7.7	-7.9	-6.4
purchases	(9.2)	(6.0)	(10.7)	(6.0)	(5.9)	(5.4)	(5.4)	(1.4)	(...)	(...)	(...)
repurchases	(-0.4)	(-0.8)	(-2.0)	(-3.7)	(-3.9)	(-7.5)	(-7.5)	(-8.7)	(-7.7)	(-7.9)	(-6.4)
Valuation adjustment	-0.4	-2.4	-2.3	--	-3.6	--	7.7	...	...	...	...
Debt under renegotiation	1.5	2.0	4.4	2.4	5.2	3.3	4.5	...	...	...	...
Credit	1.5	2.0	4.4	3.7	6.0	3.3	4.5	...	...	...	...
Debit	--	--	--	-1.3	-0.8	--	--	...	...	...	...
Arrears (reduction -)	-3.2	-2.1	-2.1	-0.5	1.6	-1.1	-1.8	--	--	--	--
Financing gap	--	--	--	--	--	--	--	4.1	0.3	--	--

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

1/ Includes Trust Fund.

the renegotiation of import prices, and a small decline in imports of capital goods in line with the envisaged flow of project aid. The drop in imports will offset the projected decline of 16 percent in export earnings to CFAF 66.1 billion. Despite a higher export volume, cotton receipts are expected to drop by CFAF 8.8 billion, accounting for 72 percent of the overall decline in export earnings. Furthermore, livestock exports will decline as a result of the ongoing reconstitution of the herds. Net capital inflows would contribute to the improvement in the overall balance of payments as they are projected to be moderately higher than in 1985, because of higher budgetary loans and lower amortization obligations. The improved balance of payments performance and the strengthening of the CFA franc vis-à-vis the SDR are projected to improve Mali's net reserve position by CFAF 12.2 billion (SDR 10.9 million) or the equivalent of one month of imports (Appendix V, Table II).

Mali's scheduled debt service, excluding China and the U.S.S.R., is projected to rise from CFAF 24.9 billion in 1985 to CFAF 26.0 billion in 1986, equivalent to an increase in the debt service ratio from 22.1 percent to 25.8 percent. Debt service to the Fund is projected to account for 9.7 percentage points of the debt service ratio in 1986, compared with 5.8 percentage points in 1985. If the debt service obligations vis-à-vis China and the U.S.S.R., which have had successive moratoria, are included, the debt service ratio would amount to 39.5 percent in 1985 and 29.0 percent in 1986. The decline in the ratio in 1986 reflects the new moratorium agreed in April 1986 with the U.S.S.R. deferring the initial debt service schedule until 1990, whereas negotiations with China are still ongoing. Excluding debt service under renegotiation, the actual debt service ratio would amount to 21.4 percent in 1986, compared with 16.8 percent in 1985.

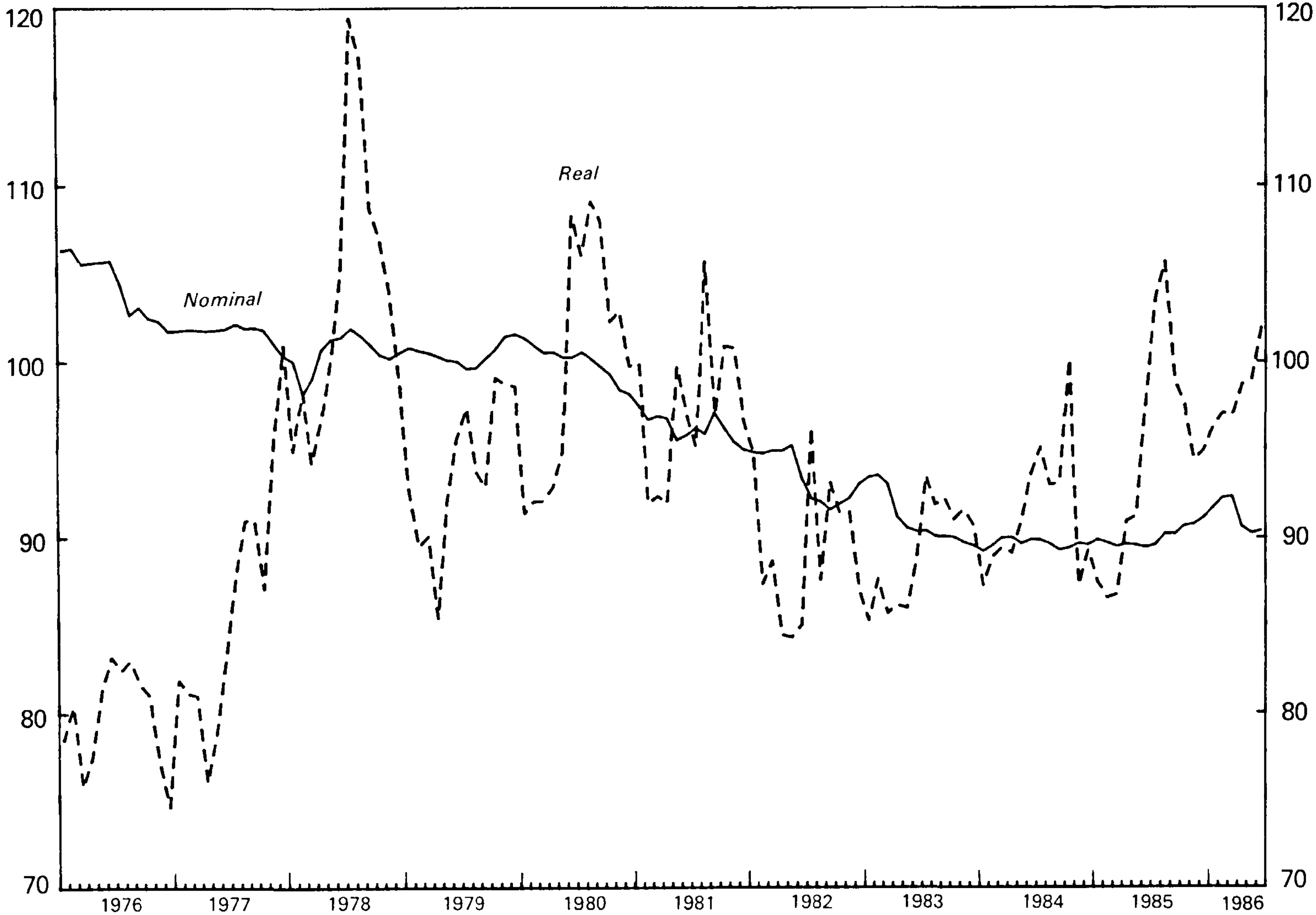
The Government remains committed to a prudent external debt management policy. It will not contract or guarantee any new nonconcessional loans with a maturity between 0 and 12 years, excluding normal short-term trade credits. Furthermore, there will be no accumulation of external payments arrears by the CAA, the OERHN, and the Road Fund. To improve the monitoring of external debt, the service on external public debt was centralized at the CAA in early 1986. With technical assistance from the World Bank, the computerization of all external debt records is under way. In addition, the CAA has been assigned the responsibility to evaluate, on the basis of the country's debt servicing capacity, the conditions of potential loans which the Government is considering to contract or guarantee. Concerning its bilateral debts under renegotiation, the Government has intensified its efforts with a view to conclude the rescheduling negotiations by end-November 1986. The negotiations now in progress concern debts to ten Fund members (Algeria, China, Côte d'Ivoire, Egypt, France, Ghana, Iraq, Libya, Qatar, and the United Kingdom) and one nonmember (Bulgaria). Negotiations are also continuing with the Société des Banques Suisses. Concerning the debt incurred for the purchase of the state-owned aircraft, the Government and the creditors agreed in

CHART

MALI

EFFECTIVE EXCHANGE RATES[1], 1976-86

(1980=100; foreign currency per CFA franc)



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

[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.

February 1986 on the procedures for the sale of the aircraft and on the possibility of refinancing any loss on concessional terms.

As Mali's exchange rate is pegged to the French franc, variations in its 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 0.5 percent in 1985, following depreciations of 1.4 percent in 1984 and 2.5 percent in 1983. Through June 1986 the nominal effective exchange rate appreciated further by 1.4 percent. In real terms, the effective exchange rate, which had remained stable in 1983, has since then been appreciating by 2.5 percent in 1984, 3.5 percent in 1985, and by an estimated 3.9 percent through June 1986 (see Chart).

d. Performance criteria

The quantitative performance criteria are summarized in Table 2. They are as follows: (i) quarterly ceilings for end-September and end-December 1986 for total domestic bank credit and net bank credit to the Government; (ii) the minimum cumulative amounts for the repayment of government arrears by end-September and end-December 1986; (iii) the understanding that no external payments arrears be incurred by the CAA, OERHN, and the Road Fund; and (iv) the intention that the Government will not contract or guarantee any nonconcessional loans with a maturity between 0 and 12 years, excepting normal short-term trade credits. The usual provisions regarding exchange and trade restrictions will also constitute performance criteria.

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

Notwithstanding the progress made so far, Mali still faces major structural and financial problems. The economy remains weak and vulnerable, the public enterprise sector is overextended, and the budget and external current account deficits are unsustainable. In particular, the sizable external debt weighs heavily on the budget and the balance of payments. Thus, appropriate adjustment policies will need to continue to be pursued over the medium term to achieve a sustainable rate of economic growth consonant with domestic and external financial stability.

The medium-term baseline scenario in EBS/86/56 has been revised on the basis of up-to-date information. The updated scenario shows that Mali can achieve an annual average growth rate of 3.1 percent during 1987-90, compared with 3.8 percent in the previous scenario, and that balance of payments viability can be attained by 1989, one year earlier than in the previous scenario (Tables 5 and 6, and Appendix V, Table IV).

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	1.8	3.2	7.4	14.7	25.5
Financing gap	--	4.1	0.3	--	--
			(In percent)		
Growth rate of real GDP	9.6	3.5	2.9	3.0	3.0
Current account deficit/GDP 1/	-6.2	-4.5	-4.1	-3.3	-2.2
Savings/GDP	8.8	10.9	11.5	12.5	13.8
Investment/GDP	23.9	23.6	23.6	23.7	23.7
Resource gap/GDP	-15.0	-12.7	-12.1	-11.1	-9.9
			Scenario II 2/		
			(In billions of CFA francs)		
Overall balance	1.8	2.1	-8.3	-7.4	-2.4
Financing gap	--	5.2	16.0	15.3	8.8
			(In percent)		
Growth rate of real GDP	9.6	3.5	2.3	2.8	2.7
Current account deficit/GDP 1/	-6.2	-4.6	-6.4	-6.2	-5.6
Savings/GDP	8.8	10.8	9.5	10.1	11.0
Investment/GDP	23.9	23.6	24.0	24.4	24.7
Resource gap/GDP	-15.0	-12.8	-14.5	-14.3	-13.7
			Scenario III 3/		
			(In billions of CFA francs)		
Overall balance	1.8	2.1	-5.2	-0.2	6.7
Financing gap	--	5.2	12.9	7.7	--
			(In percent)		
Growth rate of real GDP	9.6	3.2	1.8	2.2	2.3
Current account deficit/GDP 1/	-6.2	-4.6	-6.0	-5.3	-4.5
Savings/GDP	8.8	10.8	10.0	11.2	12.4
Investment/GDP	23.9	23.7	24.2	24.7	25.2
Resource gap/GDP	-15.0	-12.9	-14.2	-13.5	-12.8
			Scenario IV 4/		
			(In billions of CFA francs)		
Overall balance	1.8	3.2	11.4	23.5	38.3
Financing gap	--	4.1	--	--	--
			(In percent)		
Growth rate of real GDP	9.6	3.5	3.1	3.2	3.2
Current account deficit/GDP 1/	-6.2	-4.5	-3.5	-2.1	-0.7
Savings/GDP	8.8	10.9	12.0	13.5	15.1
Investment/GDP	23.9	23.5	23.4	23.4	23.4
Resource gap/GDP	-15.0	-12.6	-11.4	-9.9	-8.3

Source: Appendix V, Table IV.

1/ Current account deficit, including grants.

2/ Scenarios II and III assume constant cotton export unit prices of CFAF 358 per kg during 1987-90, and another drought in 1987/88 delaying recovery in the agro-pastoral sector.

3/ Compared with scenario II, scenario III assumes a readaptation of policies to achieve balance of payments viability by 1990.

4/ Scenario IV assumes petroleum import unit prices of CFAF 145 per liter for 1987-90 and an annual increase of cereal production of 5 percent during 1987-90.

The baseline scenario differs from that in EBS/86/56 due to several factors. First, the reconstitution of the livestock sector has been reassessed to be slower than originally expected, resulting in a downward revision in the growth rate of the primary sector and a concomitant reduction in the growth rate of related economic activities in other sectors. Second, the coming on stream of the second gold mine is expected to be delayed till the end of the decade. Third, the data on total investment and domestic savings for 1982-85 have been revised downward on the basis of a new survey, resulting in a change in the series for investment and domestic savings in 1982-90. However, the level of foreign-financed public investment for 1985-90 has been revised upward; given the domestic expenditure financed by part of these financial flows, the revision has a net positive impact on the overall balance of payments position. Fourth, the base for the balance of payments projection has changed, given the final data for 1985. Fifth, the terms of trade are expected to be more favorable. The decline in the terms of trade in 1986 is now projected at 10.6 percent, compared to 22.4 percent in the previous scenario. This is primarily due to lower prices for oil, capital goods, and cereals. During 1987-90, the terms of trade are projected to increase at an annual rate of 4.7 percent, compared with 4.0 percent in the previous scenario. This is based on a projected annual rise of 10.6 percent in the export unit price for cotton and of 7.0 percent for livestock, more than offsetting a projected rise in the average unit price of imports of 3.6 percent annually during 1987-90. The scenario assumes that the thrust of adjustment policies described in EBS/86/56 will be continued and that no major drought will recur.

Given the large size of the primary sector, and the fact that both secondary and tertiary sector activities involve to a large extent the processing and distribution of primary sector output, developments in the agropastoral sector have a dominating impact on both overall economic growth and the external sector. After the sharp recovery in cereal production in 1986, the growth of cereal production is expected to decline to about 6 percent in 1987 and to level off to about 3 percent by 1990. Within the cash crop sector, cotton production is expected to increase further by about 5 percent in 1987 and to level off thereafter, with a modest recovery in groundnut and other cash crop production, reflecting the policy of diversification in the agricultural sector. Furthermore, the improved weather conditions will allow a reconstitution and improvement in the quality of the livestock herds. As a result, the primary sector is estimated to grow at an annual average rate of 3.1 percent during 1987-90, following the strong recovery reflected in a growth rate of 16.0 percent in 1986. The industrial sector is expected to benefit from the liberalization of pricing and marketing policies, the reform of the public enterprise sector, and the recovery of the primary sector, resulting in an annual average growth of 4.2 percent during 1987-90. Reflecting restraint in the expansion of the government sector, and the slowdown in commercial and transport activities related to food imports, the annual expansion in the tertiary sector is projected to average 2.7 percent during 1987-90. As a result, real GDP growth is expected to average 3.1 percent annually during 1987-90.

The economic and financial policies being implemented are projected to stimulate savings and investment. The share of total consumption is projected to decline during 1987-90, reflecting the recovery in economic activity after several years of drought, the enhanced incentives for saving and investment, and the pursuit of restrained fiscal policies. Accordingly, the domestic savings ratio is projected to rise from 8.8 percent in 1986 to 13.8 percent by 1990. Investment in real terms is projected to grow at about 5.3 percent annually during 1987-90; it will, however, remain constant as a share of GDP due to the lower price deflator for investment expenditure. Thus, the resource gap is estimated to decline from 15.0 percent in 1986 to 9.9 percent in 1990. This gap is consonant with the achievement of balance of payments viability by 1989.

Consistent with this growth scenario, the deficit on the trade balance is projected to decline from 13.0 percent of GDP in 1986 to 8.3 percent in 1990. Export receipts are projected to increase at an average annual rate of about 11.2 percent during 1987-90, based largely on the projected recovery of cotton and livestock export prices, with moderate increases in the volume of cotton exports in 1987 and 1988 and of livestock exports in 1990. Improved weather conditions are projected to result in a further decline in foodstuff imports. In line with the projected growth in investment, imports of capital goods are projected to grow at an average annual rate of 7.7 percent in nominal terms (3.4 percent in real terms) during 1987-90. As a result, imports are projected to grow by about 4.8 percent annually during 1987-90.

The deficit on the service account is projected to stabilize, reflecting largely the decline in interest payments on public external debt. The inflow of private transfers is expected to benefit from improved economic conditions and the entry into the West African Monetary Union. Official transfers are projected to increase at an average annual rate of 5.3 percent. Thus, the external current account deficit, excluding public transfers, would gradually decline from 14.9 percent of GDP in 1986 to 9.5 percent in 1990. Including public transfers, it would decline from 4.2 percent in 1986 to 2.2 percent in 1990. With the expected increase in net capital inflows, the overall balance of payments surplus would rise from CFAF 1.8 billion in 1986 to CFAF 14.7 billion in 1989, when balance of payments viability would be attained, and further to CFAF 25.5 billion in 1990.

This medium-term scenario is sensitive to changes in the underlying hypotheses, including those concerning domestic adjustment policies and world market prices for Mali's exports and imports. Scenario II assumes that cotton prices remain unchanged at the 1986 level, that another drought affects the 1987/88 crop, and that policies are not readapted to the changed circumstances. In such a case, the terms of trade would improve only at an annual rate of 1.0 percent during 1987-90. Cotton production would decline, due to diminished incentives. In addition, cereal production would decline in 1988. Thus, real GDP would grow only at an average annual rate of 2.8 percent. With the ensuing drop in the savings ratio, the resource gap would widen, compared with the baseline scenario, and balance of payments viability would not be achieved by 1990. Scenario III differs from scenario II only in that the authorities readapt and intensify their adjustment efforts to achieve balance of payments viability by 1990. This would require a compression of demand to align it with available resources. In such a case, the rate of real GDP growth would drop further to an annual average of 2.4 percent during 1987-90. Due to the more restrained financial policies, the savings ratio would be higher than under scenario II, contributing thereby to a reduction in the resource gap.

By contrast, scenario IV assumes somewhat more favorable developments. It differs from the baseline scenario in that cereal production grows at an annual average rate of 5.0 percent during 1987-90, compared with 3.7 percent under the baseline scenario. The scenario furthermore assumes that world petroleum prices in CFA francs remain constant during 1988-90 at the 1987 level, compared with an annual rate of increase of 4.6 percent under the baseline scenario. In these circumstances, real GDP would grow at an average annual rate of about 3.2 percent during 1987-90, the savings ratio would be higher than under the baseline scenario, and balance of payments viability would be achieved by 1988.

Assuming that Mali continues to follow a prudent external debt policy, its external debt service burden would be reduced over the medium term (Appendix IV, Table III). The scheduled debt service ratio, excluding the U.S.S.R. and China, would decline gradually from 25.8 percent in 1986 to 17.5 percent of exports of goods, nonfactor services, and private transfer receipts in 1990. If debt service to China and the U.S.S.R. were included, the decline in the ratio from 29.0 percent in 1986 to 25.6 percent in 1990 would be less pronounced, because the current moratorium with the U.S.S.R. ends in 1990. Debt service obligations with the Fund would decline from 9.7 percentage points of the debt service ratio in 1986 to 5.2 percentage points in 1990.

V. Staff Appraisal

The Malian economy suffered severely in 1985 from three major exogenous factors, namely the effects of the third consecutive year of drought on the 1984/85 harvest, the precipitous decline in cotton export prices, and a significant shortfall in financial assistance. Even though the rate of inflation was reduced, these factors contributed to a stagnation in economic activity and a significant widening in the balance of payments deficit. Nonetheless, a wide range of supply- and demand-oriented measures were implemented by the authorities to reduce the underlying financial and structural imbalances. In particular, the readjustment of official retail and producer prices, together with the further liberalization of paddy rice marketing, contributed significantly to alleviating economic distortions. With these price adjustments and specific rehabilitation measures, the financial position of key public enterprises was strengthened. Furthermore, the completion of the inventory on all ongoing public investment projects laid the foundation for preparing an investment budget and improving investment programming. On the financial side, even though the program target of a balanced consolidated budget was not achieved, due to a shortfall in revenue and overruns in expenditure, the measures taken resulted in a reduction in the deficit relative to 1984. However, the larger-than-programmed budget deficit, together with the shortfall in foreign budgetary assistance, was reflected in an accumulation of arrears. The slowdown in domestic credit and domestic liquidity expansion contributed to limiting the excess demand pressures. All the performance criteria through end-September 1985 were met. However, the ceilings on domestic bank credit and external payments arrears at end-December 1985 were not observed.

Faced with the sharp drop in cotton export prices, the authorities readapted and strengthened their economic and financial policies at the beginning of 1986 to mitigate the adverse impact of this exogenous factor. The program for 1986 placed considerable emphasis on the revival of economic activity, that would be facilitated by the improved weather conditions, as well as on further steps to redress the structural and financial imbalances. In view of the critical situation in the cotton sector, it also included an economic and financial program, prepared with World Bank assistance, designed to reduce the potential losses and cover the remaining financing gap of the cotton sector. The authorities have implemented all the measures envisaged; and all the performance criteria for end-March 1986 were observed. Nonetheless, in view of the less favorable than envisaged outcome for 1985 and developments in the first half of 1986, the authorities have decided to implement in the second half of 1986 further measures relating primarily to the cotton sector, public enterprises, and fiscal policy.

The authorities have taken several measures to increase the revenue and reduce the expenditure of the semipublic enterprise in charge of the cotton sector. Based on cotton export prices in the first quarter of 1986, the remaining financing gap for the cotton sector was estimated in April 1986 to be fully financed. However, with a weakening in the cotton export price in the second quarter, a financing gap was projected to re-emerge if no further corrective action was taken. Accordingly, the Government is taking further measures to eliminate the potential financing gap. The measures, based on a study prepared with the assistance of the World Bank, include reductions in the remuneration for collection, ginning, and export services. In view of the changed perspectives for the cotton sector, the staff attaches considerable importance to the medium-term restructuring of the sector. In this regard, it welcomes the progress being made in the preparation of the second phase of the study to restructure the cotton sector as well as the additional measures being taken to facilitate the operations of the sector. In particular, it will be important to isolate the costs of the cotton sector from those resulting from the noncotton rural development activities that had been so far financed by cotton revenues and to identify alternative sources of financing for these activities.

The liberalization effected in pricing and marketing policies, coupled with the introduction of the new commercial code, is a critical element in stimulating private sector economic activity and improving resource allocation. Marketing policies will be further liberalized with the abolition of all monopolies of the state trading agency, SOMIEX, as well as the monopsony position of the state cereals marketing agency, OPAM. The concomitant reform of the public enterprise sector will further reduce financial imbalances and improve economic conditions. In this regard, the staff welcomes the progress made in the negotiations between the authorities and the World Bank staff on a comprehensive reform program for the sector, expected to be launched in 1987. In the meantime, it is essential that the authorities continue with the implementation of measures relating to key public enterprises. In particular, the measures taken during the first half of the year to improve the financial position of SOMIEX will need to be supplemented by the additional reduction in its personnel and the limitation in its purchases, pending the completion of a study on its operations and role. Furthermore, while all the operations of Air Mali have been discontinued, the liquidation commission will have to step up its efforts to conclude its work by end-November 1986.

The formulation of an appropriate medium-term public investment program is essential to enhance Mali's growth prospects. In this regard, the staff welcomes the work being undertaken by the authorities in consultation with the World Bank staff. In addition, the progress being made in the preparation of a public investment budget, which will be integrated into regular budget and expenditure control processes, will contribute to an improvement in economic and financial management.

The financial policies being pursued are consonant with the objectives of aligning the growth in aggregate demand with the recovery in economic activity. The restraint in expenditure, together with the additional tax measures being implemented in the second half of 1986, are expected to lead to an improvement in the budgetary position. The system instituted to monitor government arrears has enhanced the effectiveness of financial management, while the programmed reduction in government arrears will release resources to the nongovernment sector. In addition, the first steps taken to restructure the tax system, supported by a U.S. grant, are designed to stimulate private sector economic activity. Credit policy is emphasizing the provision of credit to the nongovernment sector, while the limited recourse of the Government to domestic bank credit will slow down the pace of expansion of credit and domestic liquidity.

The adjustment policies are expected to be reflected in a strengthening in the balance of payments position. In view of its high debt service obligations, Mali will need to continue to pursue a prudent external debt management policy and to secure debt relief. In this connection, the authorities are intensifying their efforts to conclude the ongoing negotiations with a number of bilateral creditors with a view to rescheduling Mali's external debt obligations.

In summary, the Malian authorities have reacted quickly to the major drop in the export price of cotton by reinforcing their adjustment efforts at the beginning of the year and by taking additional measures during the second half of 1986. The achievement of the program objectives in 1986 will depend critically on the effective and timely implementation of the envisaged measures. Nonetheless, Mali still faces major structural and financial problems. Accordingly, to achieve a sustained rate of economic growth consonant with domestic and external financial stability by 1989, the authorities will need to continue to implement appropriate adjustment policies over the next three years, supported by concessional financial assistance, including debt relief. In this connection further measures relating particularly to the liberalization of pricing and marketing policies, the restructuring of the cotton sector, the reform of the public enterprise sector, the improvement in public investment programming, the restructuring of the tax system, and the strengthening of financial management will constitute important elements of a program to be supported by an arrangement under the structural adjustment facility.

VI. Proposed Decision

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

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 during the second half of 1986, and to establish performance clauses for the second half of 1986.

2. The letter dated July 11, 1986 from the Minister of Finance and Commerce shall be attached to the stand-by arrangement for Mali, and the letters dated August 21, 1985 and January 24, 1986, together with their annexed memoranda, shall be read as modified and supplemented by the letter of July 11, 1986.

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 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 18 of the attached letter dated July 11, 1986; or

(ii) the limit on net bank credit to the Government as specified in paragraph 18 of the attached letter dated July 11, 1986; or

(iii) the target for the elimination of external payments arrears as specified in paragraph 17 of the attached letter dated July 11, 1986; or

(iv) the target for the reduction of payments arrears of the Government as specified in paragraph 17 of the attached letter dated July 11, 1986; or

(v) the limits on contracting or guaranteeing of non-concessional external loans as specified in paragraph 19 of the attached letter dated July 11, 1986

have not been observed.

4. The Fund decides, pursuant to paragraph 4 (b) of the stand-by arrangement, that the second review provided for in paragraph 4 of the letter from the Minister of Finance and Commerce, dated August 21, 1985, is completed.

Republic of Mali
Minister of Finance and Commerce

Bamako, July 11, 1986

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

Dear Mr. de Larosière:

1. In accordance with the 17-month stand-by arrangement for Mali approved by the Executive Board of the Fund on November 8, 1985, the Government of Mali has consulted with a Fund staff mission in connection with the second review of Mali's adjustment program. The review provided an opportunity to reassess the results for 1985 on the basis of up-to-date information as well as to examine the progress made in the implementation of the program during the first half of 1986. Although progress was achieved in 1985 in reducing the structural distortions and the underlying financial imbalances, the severity of several adverse factors resulted in a less favorable outturn than programmed. Furthermore, at the beginning of 1986 the prospects for the year were changed considerably as a result of the sharp drop in cotton export prices. Accordingly, in January 1986 the Government readapted and strengthened its economic and financial policies with a view to mitigating the impact of this exogenous factor and keeping the adjustment effort on track. All the measures envisaged have been implemented and all the performance criteria for end-March 1986 have been observed. On the basis of available indicators, the performance criteria for end-June 1986 are also expected to have been observed. Nonetheless, in view of the latest data on the outturn for 1985 and developments in the first half of 1986, the prospects for 1986 appear less favorable than was anticipated at the beginning of the year. The Government of Mali has, therefore, decided to take further measures, particularly with regard to the cotton sector and the budget, in order to make further progress toward the attainment of a viable external position consonant with the achievement of a sustainable rate of economic growth over the medium term.

2. In 1985, the Malian economy suffered severely from three major factors. First, the 1984/85 agricultural harvest was seriously affected by a third consecutive year of drought. Second, cotton export prices declined precipitously in the last quarter of 1985, due to the weakening in world market prices of cotton and the depreciation of the U.S. dollar vis-à-vis the CFA franc. Third, there was a significant shortfall in expected external financial assistance. Thus, while the measures implemented contributed to a reduction in distortions and in financial imbalances, real GDP grew by only 0.3 percent, after having declined during the previous two years, compared with a program target of 1.7 percent. The tight financial policies pursued and the improved food supply conditions

in the second half of the year resulted in a drop in the rate of inflation, as measured by the GDP deflator, to 8.3 percent, consistent with the program target. The external current account deficit, including official transfers, rose to 11.1 percent of GDP in 1985, mainly due to the adverse exogenous factors mentioned above. This ratio is not comparable to the program target of 5.8 percent or to the previous year's outturn, as it is based on higher estimates of imports of capital goods and related services, reflecting a more complete coverage of the data on foreign financed projects. The overall balance of payments deficit reached CFAF 21.2 billion, compared with a program target of CFAF 4.7 billion and a surplus of CFAF 1.6 billion in 1984.

3. In 1985, wide-ranging measures aimed at reducing structural distortions were implemented. The producer prices for key agricultural products were raised. The official retail prices of several commodities, including petroleum products, were revised upward, and the tariffs for road transportation, domestic flights, postal and telecommunications services, water, and electricity were raised. In addition, the liberalization of paddy rice marketing proceeded as scheduled. Reflecting the price adjustments, as well as the implementation of specific rehabilitation measures, the financial position of key state enterprises improved. To strengthen investment programming, an inventory of all ongoing public investment projects was prepared, and progress was made in the preparation of an investment budget.

4. Concomitantly, restrictive financial policies were pursued. The budget deficit on consolidated government operations, on a commitment basis and excluding foreign-financed investment and grants, declined from CFAF 8.9 billion in 1984 (1.9 percent of GDP) to CFAF 5.9 billion (1.2 percent of GDP) in 1985, compared with a program target of a balanced budget. This improvement reflected an increase in revenue of 14.7 percent, resulting primarily from the introduction of a number of tax measures and an increase in domestic petroleum prices, while the growth in expenditures was held to 8.5 percent. Nonetheless, the deviation from the program target can partly be attributed to a shortfall in budget revenue, deriving mainly from the impact of the fall in world cotton prices and the adverse effects of the drought on the yield of the head tax. Total expenditure was also higher than targeted, due to overruns in travel, representation expenses, and contributions to international and regional organizations. The higher than programmed deficit, together with a shortfall of CFAF 3.7 billion in foreign budgetary grants, resulted in an accumulation of arrears of CFAF 4.3 billion. The deficit on a cash basis declined from CFAF 9.7 billion in 1984 (2.1 percent of GDP) to an estimated CFAF 0.3 billion in 1985 (0.1 percent of GDP). Even though net foreign borrowing turned negative and foreign budgetary grants declined, the narrower deficit permitted a slowdown in net domestic bank financing. Net credit to the Government grew by 2.4 percent of beginning money stock, compared with 7.9 percent in 1984 and a program target of 3.5 percent. By contrast, credit to the economy, which includes public enterprises, grew by 10.9 percent, compared with 8.0 percent in 1984 and a program target of 7.9 percent. The higher-than-programmed growth in credit to the economy took place in the

last quarter and resulted in the nonobservance of the credit ceiling at end-December. The expansion in overall domestic credit slowed down from 15.9 percent of beginning money stock in 1984 to 13.3 percent in 1985, but exceeded the program target of 11.4 percent. Domestic liquidity growth declined to 9.5 percent, compared with 25.2 percent in 1984 and an 11.3 percent target in 1985.

5. During 1985, the Government implemented a prudent debt management policy aimed at reducing 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. The external payments arrears of the CAA and Road Fund, as well as the interest arrears of OERHN, were reduced from CFAF 2.8 billion at end-July 1985 to CFAF 1.8 billion at end-December 1985; due to technical delays, these were eliminated only in January 1986.

6. To mitigate the severe impact of the drop in cotton export prices, the Government of Mali readapted and strengthened its economic and financial policies as described in my letter of January 24, 1986. The policies have been rigorously implemented during the first half of 1986. The Government of Mali remains committed to its adjustment efforts. Since the outcome for 1985 was less favorable than envisaged, further measures, primarily on the fiscal front, are being taken. Based on the policies pursued and the improved weather conditions, real GDP growth is expected to reach 9.6 percent and the rate of inflation, as measured by the GDP deflator, to drop to 6.5 percent, compared with the program targets of 9.1 percent and 6.0 percent, respectively. 1/ The external current account deficit, including official transfers, is projected to drop to CFAF 37.0 billion (6.2 percent of GDP), compared with CFAF 56.9 billion (11.1 percent of GDP) in 1985 and a program target of CFAF 24.9 billion (4.2 percent of GDP). The improvement relative to 1985 reflects primarily a sharp drop in imports, particularly cereals, due to the improved weather conditions and the tight financial policies being pursued. However, the larger-than-programmed deficit is due mainly to an upward revision in the deficit on the service account. As a result, while the overall balance of payments position is projected to move from a deficit of CFAF 21.2 billion in 1985 to a surplus of CFAF 1.8 billion in 1986, the surplus remains somewhat lower than the program target of CFAF 6.1 billion.

7. The fall in cotton prices was estimated to result in a shortfall of about CFAF 20.5 billion in revenue for the semipublic cotton enterprise (CMDT). In February 1986, the Government implemented a number of measures to reduce these losses. These measures included the deferral of tax liabilities and amortization payments to the Government, cuts and deferrals in expenditure and remuneration of CMDT, a reduction in subsidies for

1/ All references to the program are to the program as reviewed in January 1986.

inputs, and increases in the sales price of cottonseeds. Based on developments in the first half of 1986, it is estimated that, if no additional measures were taken, CMDT would have a financing gap of CFAF 9.2 billion in 1986, compared with the previous estimate of CFAF 6.4 billion. The first phase of the cotton sector restructuring study, financed by the World Bank and the Caisse Centrale, has provided improved cost estimates for CMDT and the cotton exporting operations of SOMIEX. The study has identified areas in which additional savings are possible; the revised budgets of CMDT and SOMIEX, to be adopted by August 1, 1986, will reflect these savings, estimated at CFAF 3.2 billion. The remaining gap of CFAF 6.0 billion will be financed from the Guarantee Fund as well as financial assistance provided by the World Bank, STABEX, PRMC, and the Caisse Centrale. Concomitantly, a number of measures will be taken to facilitate the operations of the cotton sector. These include (a) the cancellation of all payments to or by CMDT and SOMIEX deferred in January 1986; (b) the assurance that BDM will credit the accounts of OSRP, CMDT, and SOMIEX daily for transfers received; and (c) the extension of CMDT's import tax exemption through end-December 1986.

8. As there will be a need to introduce further measures to reduce the cotton sector's reliance on external financing in 1987, the Government has decided (a) to abolish SOMIEX's monopoly in the area of cotton exports effective August 1, 1986; (b) to further reduce input subsidies for 1986/87; (c) to adopt the accounting changes for CMDT recommended in the first phase of the restructuring study by October 1, 1986; (d) to identify alternative financing for non-cotton development activities undertaken by CMDT and heretofore financed with cotton revenues; and (e) to complete the second phase of the restructuring study by October 1986. On the basis of the results of this study, the Government will work closely with the World Bank and the Caisse Centrale to develop a medium-term restructuring plan by November 1986.

9. The Government of Mali remains committed to the liberalization of pricing and marketing policies. A major reform of the price system was introduced in 1986, under which prices are determined freely by market forces, except for a number of goods and services deemed strategic or essential. This reform is expected to help reduce distortions and stimulate private sector economic activity. Concomitantly, a new commercial code, under which virtually all private businesses can be set up without prior approval, has been adopted. The marketing system will be further liberalized by the abolition of SOMIEX's monopolies, as indicated in paragraph 12. With regard to cereals marketing, trade in coarse cereals was fully liberalized, and that in paddy rice will be fully liberalized by the 1986/87 marketing season. The Government of Mali has decided that the official cereals marketing agency (OPAM) will adopt a market-oriented pricing policy. Studies and discussions in this regard are under way with the World Bank and the donors supporting the cereals market restructuring program (PRMC). A decision to establish the appropriate mechanisms will be made by end-October 1986. Pending the results of the studies and the establishment of an appropriate system, the monopsony position of OPAM for the purchase of cereals from the Office du

Niger and from other rural development operations will be officially eliminated on August 1, 1986. Since OPAM has large stocks, the agency will begin to reduce its stocks in an orderly fashion beginning early in August 1986.

10. The Government of Mali has made considerable progress in the preparation of a major rehabilitation program for the public enterprise sector, which is expected to be launched in 1987. Project negotiations with the World Bank are expected to be completed in 1986. The reform strategy aims at improving the economic, financial, and institutional frameworks within which public enterprises operate. The program will include specific measures and timetables to rehabilitate individual public enterprises and public entities, as well as to privatize or liquidate others. Of 36 public enterprises which are expected to be covered under the program, only 8 are to be retained in the public sector, while the remainder are to be either privatized or liquidated. The total costs of the project are estimated at US$50 million. Pending the launching of this project, the Government is continuing to introduce specific measures to improve the operations of key enterprises and has already taken steps to liquidate those that are clearly not viable.

11. In January 1986, the Government appointed a commission to liquidate Air Mali and discontinued all its flights. Its personnel, excluding those required for the functioning of the airport, the liquidation process, and/or the conduct of the pool and seat-sharing arrangement with Air Afrique on international lines, were dismissed at end-May 1986. The liquidation commission is proceeding with the sale of assets and the elimination of verified arrears. The commission has selected a Belgian brokerage firm to sell the Boeing 727. The Boeing 737 has been leased to a British firm; the proceeds are being paid directly to Air Afrique to reduce outstanding arrears. A part of the arrears to Air France was paid in March 1986; an agreement was reached to pay the remainder in seven monthly installments beginning May 1986. Negotiations on the rescheduling of arrears to Air Algérie and Aeroflot are continuing. The liquidation commission expects to complete its work and have all remaining arrears eliminated by end-November 1986, through either cash payments or their conversion into grants or concessional loans. Negotiations with a French company (SODETRAF) on the formation of a new jointly owned airline company, with minority participation of the Malian Government, have made considerable progress. Initially, the proposed airline company will serve domestic routes. It will undertake flights to neighboring countries and other international destinations only if studies clearly indicate that they will be profitable. The Government undertakes not to guarantee any debt contracted by the new company and not to on-lend any borrowed resources to it. The new company will be authorized to diversify its sources of bank financing; it will not be permitted to secure more than half of its financing needs from any single local bank. The Government will consult with the Fund and the World Bank on any arrangements made to establish the new airline company.

12. The Government has also taken major measures to pursue the reform of the state trading agency, SOMIEX. The sales prices of several commodities were increased on March 29, 1986. SOMIEX's monopsony positions and purchase obligations vis-à-vis domestic producers of sugar, oil, soap, flour, and tea and its monopoly position for edible oil, soap, and flour were abolished on March 1, 1986. In addition, its staffing was reduced by 298 persons in the first half of 1986. Furthermore, SOMIEX sold virtually all its sugar stocks during the first three months of 1986. Notwithstanding the reform efforts over several years, SOMIEX's financial position remains weak. The Government of Mali has, therefore, decided to take additional steps. The personnel of SOMIEX will be reduced in two phases: by 50 employees during July-September 1986 and by 50 during October-December 1986. On August 1, 1986, all remaining monopolies of SOMIEX will be abolished. Furthermore, SOMIEX's purchases during August 1, 1986 to December 31, 1986 will not exceed a total of CFAF 1.0 billion. During this period, a study on the role and position of SOMIEX, which will not exclude the option of its liquidation, will be undertaken. A final decision will be made in December 1986, in consultation with the Fund and the World Bank.

13. The Government of Mali is working closely with the World Bank to strengthen the system of public investment programming. The aim is to improve the selection of projects on the basis of economic criteria, sectoral priorities, counterpart fund requirements, recurrent cost implications, and debt servicing capacity. An investment budget for 1987 will be prepared. It will cover all investment projects, whether locally financed or foreign-financed; all investment expenditures will be subject to the normal expenditure control procedures. The effort to develop a multiannual rolling planning process, on which the preparation of the annual investment budgets will be based, is continuing.

14. In accordance with the contents of my letter of intent of January 24, 1986, the Government of Mali has taken a number of revenue-generating and expenditure-containing measures to strengthen the fiscal position, notwithstanding the loss of an estimated CFAF 7.1 billion in revenue from the cotton sector. However, in view of the lower than expected outturn for revenue in 1985, and a shortfall of CFAF 1.0 billion in revenue resulting from the measures taken to stimulate private sector economic activity in the context of a tax reform program financed by USAID, a shortfall in government revenue of about CFAF 4.5 billion is anticipated. Furthermore, due primarily to a revision of the revenue and expenditure of the Caisse Autonome d'Amortissement, the surplus of the annexed budgets is expected to be reduced from the program target of CFAF 5.7 billion to CFAF 2.1 billion. Thus, without any additional measures, the consolidated budget, on a commitment basis, and excluding foreign-financed investments and grants, would record a deficit of CFAF 1.3 billion, compared with a program target of a surplus of CFAF 6.8 billion. Accordingly, the Government has decided to take

several revenue measures to achieve a surplus of CFAF 3.4 billion (0.6 percent of GDP), compared with a deficit of CFAF 5.9 billion (1.2 percent of GDP) in 1985. With the programmed reduction in arrears of CFAF 6.3 billion and net transactions relating to the complementary period of CFAF 2.0 billion, the budget deficit, on a cash basis, is projected to rise to CFAF 4.9 billion (0.8 percent of GDP). This deficit is projected to be financed primarily by net foreign financing and grants, with domestic bank financing being sharply curtailed. Based on up-to-date information, the overall deficit on a commitment basis, including foreign-financed investment but excluding grants, would amount to CFAF 41.1 billion (6.9 percent of GDP).

15. Revenue is projected to grow by 24.4 percent, reaching CFAF 88.3 billion instead of the CFAF 86.1 billion originally programmed. This growth reflects the full-year effect of he measures taken n late 1985, the increase in administrative values (valeurs mercuriales) in March 1986, and the revenue impact of the drop in oil import prices with unchanged domestic retail prices. Effective August 1, 1986, the authorities will take additional measures, including a further 10 percent increase in administrative values, the collection of an estimated CFAF 3.0 billion in tax arrears, of which CFAF 2.0 billion have already been settled by compensation, an increase in the import tax on rice from the present 27.2 percent to 32.76 percent, the full application of the import duties and taxes shown in the regular tariff schedule for coarse cereals, a shift in the basis of customs duties from indicative to real values, and an increase of at least one percentage point in the CPS rate. Expenditures are projected at CFAF 84.9 billion, compared with a program target of CFAF 79.3 billion. Budgetary expenditure in nominal terms, excluding the annexed budgets and special funds, will be held constant at the 1985 level (inclusive of extrabudgetary expenditure), through a containment in the wage bill and scholarships as well as the institution of austerity measures. The follow-up of expenditure in 1986, based on the experimental application of the new nomenclature which will enter into effect in 1987, is already making it possible to monitor and control such expenditure more effectively. The expenditure in the annexed budgets will be higher due to the expanded activity in the cereal market, financed largely with the counterpart of food aid, and a further centralization of external debt service payments at the CAA.

16. In order to improve economic and financial management, a comprehensive system to monitor government expenditure and arrears was set up in March 1986 with Fund technical assistance. Furthermore, a number of steps have been taken since then to improve the monitoring under the system, including a further breakdown of the expenditure categories being monitored. On the basis of the data available as of end-May 1986, outstanding extrabudgetary arrears (expenditures without authorization or payment orders) are estimated at CFAF 14.9 billion, of which CFAF 6.5 billion constituted amounts owed to international and regional organizations, CFAF 6.7 billion to public enterprises, and the remainder to the private

sector. These sums still need to be verified. Furthermore, detailed data on tax arrears needf to be compiled and verified. In this connection, a study on cross-debts of the public sector was financed by the World Bank. A commission was set up by the Government in May 1986 to review the data collected, verify the arrears this identified, and propose a timetable and the modalities for settling them. The work of the commission is expected to be completed by end-November 1986.

17. During 1986, the Government is to repay CFAF 6.3 billion in identified and verified arrears, CFAF 1.8 billion of which constitute external payments arrears. These arrears had already been reduced by CFAF 1.8 billion at end-March 1986 and by a further CFAF 1.6 billion at end-June 1986. By end-September 1986, the cumulative reduction will amount to CFAF 4.3 billion, and by end December 1986, to CFAF 6.3 billion. The Government will not incur any new domestic payments arrears, defined under the new monitoring system as the difference between amounts authorized and paid in excess of a normal float of CFAF 4.7 billion. If this difference is exceeded at the end of a month, or if the system is not functioning satisfactorily, the Government of Mali will consult with the Fund's management with a view to determining the cause and requisite corrective measures.

18. Consistent with the objectives of the program, the rate of growth of domestic liquidity during 1986 will be limited to 13 percent. The growth of domestic credit will be held to 8.0 percent of beginning money stock, with credit to the private sector accounting for 7.4 percent and to the government sector for 0.6 percent of the growth. Total domestic bank credit, which is estimated to have amounted to CFAF 126.0 billion at end-June 1986, will not exceed CFAF 124.7 billion at end-September 1986 and CFAF 130.0 billion at end-December 1986. Net bank credit to the Government, 1/ which is estimated to have amounted to CFAF 36.5 billion at end-June 1986, will not exceed CFAF 36.4 billion at end-September 1986 and CFAF 37.1 billion at 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.

19. The Government is determined to pursue a prudent external debt management policy. Hence, the Government will not contract or guarantee any nonconcessional loans with a maturity of 0-12 years during the program period, excluding ordinary short-term trade credits. Furthermore, the Government will not incur any new external payments arrears. With the technical assistance of the World Bank, the Government is pursuing its efforts to centralize and computerize all data on official

1/ For the purpose 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 accounts for central government operations. The position of the postal checking system is excluded.

external debt at the CAA by the end of 1986. The Government has strengthened its efforts to reschedule the official external debt with a view to reaching agreements with its creditors by end-November 1986. The negotiations now in progress concern debts to ten Fund members (Algeria, and the United Kingdom) and one nonmember (Bulgaria). Negotiations are also continuing with the Société des Banques Suisses. Negotiations for a new moratorium with the U.S.S.R. were concluded in April 1986; the initial debt service schedule has been deferred to 1990. With respect to the debt incurred for the purchase of the British Aerospace aircraft, the Government and the creditors involved reached agreement in February 1986 on procedures for the sale of the airplane and on the possibility of refinancing any loss on concessional terms.

20. The Government of Mali considers that the policies and measures described in my letter of January 24, 1986, as supplemented by this letter, should make it possible to achieve the objectives of the program. However, it will take any additional measures which may prove appropriate for this purpose. The Government will consult with the Fund in accordance with the Fund's policy in this regard.

Sincerely yours,

Dianka Kaba Diakité
Minister of Finance
and Commerce

Mali: Relations with the Fund
(As of July 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 115.26 million (226.89 percent of quota)

		Millions of SDRs	Percent of quota
(c)	Use of Fund credit	73.14	143.98
	Credit tranches	(41.34)	(81.38)
	EAR	(31.80)	(62.59)
	CFF	(--)	(--)
(d)	Reserve tranche position	8.68	17.09

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 13.1 million
   (d) Undrawn balance: SDR 9.76 million

2. Previous stand-by arrangement: stand-by arrangement approved in December 1983 in an amount of SDR 40.5 million (79.7 percent of quota) for a period of 1 1/2 years. There was no undrawn balance at expiration.

IV. SDR Department

(a) Net cumulative allocation: SDR 15.91 million
(b) Holdings: SDR 1.17 million (7.36 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 11.8 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 July 31, 1986 the rate in terms of the SDR was SDR 1 = CFAF 409.29.

VIII. Last Article IV Consultation

Discussions were held by the staff during December 2-17, 1985. The staff report (EBS/86/56) was discussed by the Executive Board on April 4, 1986. The decision follows:

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.

IX. 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 has been provided to the national agency of the BCEAO since 1985. A technical assistance mission on money and banking statistics by STAT took place in May 1985.

Mali: Relations with the Fund (concluded)

(b) Fiscal Affairs Department: Mr. Bouley, a member from the FAD panel, stationed in Bamako since August 1982, has been providing technical assistance in expenditure control, investment budgeting, and, since 1986, also in the design and implementation of a monitoring system for government arrears. 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.

X. 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 March 31, 1986

Credit Number	IDA Fiscal Year	Purpose	Amount (less cancellations) IDA	Undisbursed
			----US$ million---	
Seventeen credits fully disbursed			125.14	
943-MLI	1979	Urban Development	12.0	0.35
986-MLI	1980	Industrial Sector Development	8.0	3.08
1104-MLI	1981	Road Maintenance	17.0 1/	1.06
1134-MLI	1981	Petroleum Exploration Promotion	3.7	0.76
1174-MLI	1982	ODIPAC Technical Assistance	6.5	1.06
1200-MLI	1982	Second Telecommunications	13.5	6.70
1282-MLI	1982	Water/Power	24.0	11.10
1307-MLI	1983	Economic Management and Training	10.4	5.71
1403-MLI	1984	Biomass Alcohol and Energy Efficiency	7.6	6.46
1415-MLI	1984	2nd Mali-Sud Rural Development	25.9	21.78
1422-MLI	1984	Health Development	16.7	12.34
1431-MLI	1874	Rural Water Supply	4.6	3.46
1442-MLI	1984	Third Education	4.6	3.11
F007-MLI	1984	Rural Water Supply	6.3	4.98
F010-MLI	1984	Third Education	4.9	3.91
1597-MLI 2/	1985	Mopti Area Development	19.5	20.72
1629-MLI 2/	1986	Fifth Highway	48.6	48.60
1654-MLI	1986	Second Forestry	6.3	6.30
		Total	395.30	155.18
		Of which: has been repaid	(3.27)	
		Total now held by IDA	392.03	
		Total undisbursed		155.18

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 rehabilitation project for the public enterprise sector. 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 is 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, 1986, for the undisbursed amounts.

2/ Not yet effective.

Mali: Summary of the Adjustment Program for 1986

Objectives

1. Economic growth: 9.6 percent.
2. Inflation: 6.5 percent.
3. External current account deficit, including grants: 6.2 percent of GDP.

Key Policy Measures

I. The cotton sector
   1. Implement measures and financial program agreed upon with World Bank. 1/ 2/
   2. Prepare medium-term plan of action for cotton sector.
   3. Abolish SOMIEX's monopoly for exports of cotton. 2/

II. Public sector
   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.
   4. Abolish OPAM's monopsony for purchases of cereals from the Office du Niger and other rural development agencies. 2/
   5. Adopt for OPAM a market-oriented pricing policy. 2/

III. Pricing and marketing
   1. Implement new pricing system. 1/
   2. Implement new commercial code. 1/
   3. Increase railroad tariffs. 1/

IV. Public enterprises
   1. Conclude negotiations with World Bank staff on public enterprise rehabilitation project.
   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. 1/
      b. Discontinue all flights. 1/
      c. Issue official notice of termination of employment to personnel. 1/
      d. Complete sale of Air Mali's assets and settlement of arrears.
   4. SOMIEX
      a. Abolish monopsony position and purchase obligations vis-à-vis domestic producers of sugar, soap, oil, flour, and tea. 1/
      b. Abolish SOMIEX's monopoly position for imports of edible oil, soap, and flour. 1/
      c. Increase selling prices of salt, imported tea, powdered milk, soap, and edible oil. 1/
      d. Reduce personnel by 150 persons by end-March and by a further 150 by end-June. 1/
      e. Reduce personnel by 50 persons by end-September and by a further 50 by end-December. 2/
      f. Abolish SOMIEX's monopoly position for exports of cotton and imports of sugar, milk powder, and tea. 2/
      g. Limit SOMIEX's purchases during August 1-December 31, 1986 to a total of CFAF 1.0 billion. 2/
   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 21.0 percent. 1/ 2/ 3/
         ii. Renegotiate the prices for oil imports in order to generate additional revenue of at least CFAF 2.0 billion. 1/ 2/ 3/
         iii. Raise the import tax on rice from 27.2 percent to 32.76 percent. 2/
         iv. Fully apply the import duties and taxes of the regular tariff schedule for coarse cereals. 2/
         v. Shift the basis of customs duties from indicative to real values. 2/
         vi. Increase the CPS rate by a minimum one percentage point. 2/
         vii. Strengthen tax collection and administration.
      c. Introduce a system for monitoring arrears. 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 7.8 percent in 1986, with emphasis on the provision of credit to the private sector.

VII. External debt
   1. No new commitment on nonconcessional government and government-guaranteed foreign borrowing, except for normal trade credits.
   2. Eliminate the external arrears of the National Debt Agency (CAA) and the Road Fund by end-March. 1/ No accumulation of external arrears by the CAA, OERHN, and the Road Fund.
   3. Refinance the loss resulting from the sale of the state-owned airplane at concessional terms.
   4. Centralize the external debt management with the CAA. 1/

Sources: Letters of intent (with annexed memorandum) dated January 24, 1986 and July 11, 1986, respectively.

1/ Indicates measures already implemented in conformance with the program.
2/ Indicates measures that were introduced in the context of the second review under the current stand-by arrangement.
3/ Refers to cumulative effect of revenue measures agreed upon under the first and second reviews under the current stand-by arrangement.

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

(In millions of SDRs)

	Outstanding on Oct. 31, 1985	1985 Nov.-Dec.	1986 Jan.-March	1986 April-June	1986 July-Sept.	1986 Oct.-Dec.	1987 Jan.-March	Stand-by period Total
Purchases	--	6.500	--	6.600	3.253	3.253	3.254	22.86
Stand-by arrangement								
Ordinary resources	(--)	(3.250)	(--)	(3.300)	(0.144)	(--)	(--)	(6.694)
Borrowed resources	(--)	(3.250)	(--)	(3.300)	(3.109)	(3.253)	(3.254)	(16.166)
Repurchases	--	2.345	3.172	3.172	3.797	3.797	3.797	20.080
Net purchases	--	4.155	-3.172	3.428	-0.544	-0.544	-0.543	2.780
Fund credit outstanding (end of period)								
Total	69.332	73.487	70.315	73.743	73.199	72.655	72.112	--
In percent of quota	136.5	144.7	138.4	145.2	144.1	143.0	142.0	--
Memorandum item:								
Trust Fund credit (end of period)	15.680	--	-1.726	-0.416	-1.726	-0.416	-1.726	-6.010

Source: IMF, Treasurer's Department.

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

(In millions of SDRs) 1/

	1982	1983	1984	1985		1986	
				Prog.	Prel. est.	Prog.	Rev.
Exports, f.o.b.	131.2	154.5	188.5	172.1	172.3	191.4	160.8
Of which: cotton	(51.1)	(69.0)	(96.4)	(81.5)	(78.2)	(89.7)	(65.2)
Imports, f.o.b.	-211.6	-229.7	-250.1	-252.2	-294.3	-241.6	-245.8
Of which: cereals	(-16.3)	(-30.0)	(-64.0)	(70.3)	(-77.4)	(-37.1)	(-22.1)
Trade balance	-80.4	-75.2	-61.6	-80.1	-122.0	-50.2	-85.0
Services (net)	-129.6	-140.3	-151.7	-144.9	-171.4	-142.0	-154.9
Of which: interest obligations	(-25.9)	(-23.8)	(-18.9)	(-18.1)	(-20.4)	(-19.6)	(-22.2)
Private transfers (net)	26.2	21.8	20.4	22.7	21.1	24.8	23.6
Current account, excluding public transfers	-183.9	-193.7	-192.9	-202.3	-272.3	-167.4	-216.3
Public transfers	84.3	101.8	128.2	138.3	147.3	116.8	126.3
Current account, including public transfers	-99.6	-92.0	-64.7	-64.0	-125.0	-50.6	-90.0
Capital account	70.9	78.2	63.8	53.8	76.3	57.4	94.4
Private (net)	-2.5	--	9.9	4.1	4.4	4.5	-1.2
Public	73.4	78.2	53.9	49.7	71.9	52.9	95.6
Disbursements	(80.4)	(89.1)	(69.2)	(71.5)	(97.5)	(77.7)	(118.5)
Amortization	(-7.0)	(-10.9)	(-15.3)	(-21.8)	(-25.6)	(-24.8)	(-22.9)
Debt relief 2/	20.9	16.2	4.5	--	--	--	--
Errors and omissions	--	--	--	--	2.1	--	--
Overall balance	-7.6	2.5	3.6	-10.2	-46.6	6.8	4.4
Financing	7.6	-2.5	-3.6	10.2	46.6	-6.8	-4.4
Obligations under renegotiation	4.0	4.8	9.9	5.3	11.4	9.7	10.9
International reserves	12.4	-2.1	-8.8	6.1	31.7	-10.1	-10.9
Of which: IMF (net) 3/	(24.3)	(12.8)	(19.0)	(4.9)	(4.9)	(-5.2)	(-5.2)
Arrears	-8.8	-5.2	-4.7	-1.2	3.5	-6.4	-4.4

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: 411.0.
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.

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
	Actuals			Estimates		Projections			
				(In millions of SDRs)					
Actual debt service (excluding IMF) 2/	5.6	10.2	14.0	23.1	28.8	41.6	39.9	40.2	40.6
Interest	3.8	4.6	7.2	10.1	12.5	15.3	14.8	14.1	13.3
Principal	1.8	5.6	6.8	13.0	16.3	26.3	25.1	26.1	27.3
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	13.1	10.8	...	...	...	...
Interest	--	0.5	1.7	4.3	4.2	...	...	...	...
Principal	4.0	4.3	8.2	8.8	6.6	...	...	...	...
Obligations falling in arrears	1.5	1.2	1.7	4.0	--	--	--	--	--
Interest	1.1	1.0	1.4	0.2	--	--	--	--	--
Principal	0.4	0.2	0.3	3.8	--	--	--	--	--
IMF	2.0	4.5	9.1	14.4	23.7	26.1	22.8	21.7	16.8
Interest	0.9	2.3	4.1	5.8	5.5	5.3	4.7	3.7	2.5
Principal	1.1	2.2	5.0	8.6	18.2	20.8	18.1	18.0	14.3
Total scheduled debt service 3/	34.0	36.9	39.2	54.6	63.3	67.7	62.7	61.9	57.4
Interest	25.9	23.8	18.9	20.4	22.2	20.6	19.5	17.8	15.8
Principal, excluding IMF	7.0	10.9	15.3	25.6	22.9	26.3	25.1	26.1	27.3
Repurchases to IMF	1.1	2.2	5.0	8.6	18.2	20.8	18.1	18.0	14.3
Memorandum items: 4/									
Debt service with China	...	...	...	13.0	7.7	7.0	6.6	7.5	5.3
Interest	...	...	...	--	--	--	--	--	--
Principal	...	...	...	13.0	7.7	7.0	6.6	7.5	5.3
Debt service with the U.S.S.R.	...	...	...	30.0	--	--	--	--	20.8
Interest	...	...	...	3.4	--	--	--	--	2.1
Principal	...	...	...	26.6	--	--	--	--	18.7
Total debt service, including China and the U.S.S.R.	...	...	...	97.6	71.0	74.7	69.3	69.4	83.5
Interest	...	...	...	23.8	22.2	20.6	19.5	17.8	17.9
Principal	...	...	...	73.9	48.8	54.1	49.8	51.6	65.6
Exports of goods, services, and private transfer receipts	206.2	227.2	260.4	246.8	245.2	262.8	275.9	299.3	326.3
					(In percent)				
Debt service ratio (excluding the U.S.S.R. and China)									
Before debt relief	16.5	16.2	15.1	22.1	25.8	25.8	22.7	20.7	17.5
Interest	12.6	10.5	7.3	8.3	9.1	7.8	7.1	5.9	4.8
Principal	3.9	5.7	7.8	13.8	16.7	18.0	15.6	14.8	12.7
After debt relief and excluding obligations under renegotiation	4.4	6.9	9.5	16.8	21.4	...	...	...	...
Interest	2.8	3.4	6.5	6.5	7.3	...	...	...	...
Principal	1.6	3.5	3.0	10.3	14.1	...	...	...	...
Ratio of debt service with the Fund	0.1	2.0	3.5	5.8	9.7	9.9	8.3	7.3	5.2
Debt service ratio (including the U.S.S.R. and China)									
Before debt relief	...	...	...	39.5	29.0	28.4	25.1	23.2	25.6
Interest	...	...	...	9.6	9.1	7.8	5.9	5.1	5.5
Principal	...	...	...	29.9	19.9	20.6	19.2	18.1	20.1

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

1/ CFAF/SDR average exchange rate: for 1982-86 see Table II, footnote 1; 1987: 419; 1988: 428; 1989: 438; 1990: 448.
2/ Excluding payment of arrears on external debt.
3/ After 1986 the debt service related to the financing of the gaps in the baseline scenario is included.
4/ Accurate data on debt service 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.	66.1	72.5	78.8	88.6	101.1
Imports, c.i.f.	-143.4	-143.7	-153.2	-163.6	-173.2
Services (net)	-21.3	-20.8	-21.2	-21.3	-21.4
Private transfers (net)	9.7	9.7	10.0	10.5	11.0
Current account	-88.9	-82.3	-85.6	-85.8	-82.5
Official transfers (net)	51.9	52.9	55.8	59.8	63.8
Current account (including official transfers)	-37.0	-29.4	-29.8	-26.0	-18.7
Nonmonetary capital	38.8	32.6	37.2	40.7	44.2
Private	-0.5	-0.7	--	0.5	0.7
Public	39.3	33.3	37.2	40.2	43.5
Disbursements	48.7	44.3	47.9	51.7	55.7
Amortization	-9.4	-11.0	-10.7	-11.5	-12.2
Overall balance	1.8	3.2	7.4	14.7	25.5
IMF (net)	-2.1	-7.3	-7.7	-7.9	-6.4
Gap	--	4.1	0.3	--	--
Memorandum items:	(In percent)				
Terms of trade (annual change)	-10.6	5.5	4.4	5.1	3.6
Debt service ratio before debt relief 1/	25.8	25.8	22.7	20.7	17.5
Current account in percent of GDP					
Excluding official transfers 2/	-14.9	-12.5	-11.8	-10.8	-9.5
Including official transfers	-6.2	-4.5	-4.1	-3.3	-2.2
Real sector	(Annual rates of change in percent)				
GDP (in real terms)	9.6	3.5	2.9	3.0	3.0
Primary sector	16.0	3.8	2.8	2.9	2.9
Secondary sector	5.5	4.5	4.0	4.2	4.0
Tertiary sector	3.7	2.7	2.7	2.8	2.7
GDP deflator	6.5	7.0	6.6	6.6	6.1
Nominal GDP	16.7	10.7	9.7	9.8	9.3
	(In percent of nominal GDP)				
Private consumption	79.4	77.6	77.3	76.6	75.6
Government consumption	11.8	11.5	11.2	10.9	10.6
Investment	23.9	23.6	23.6	23.7	23.7
Resource gap	-15.0	-12.6	-12.1	-11.1	-9.9
Savings	8.8	10.9	11.5	12.5	13.8

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

	1986	1987	1988	1989	1990
	Medium-term scenario II 3/				
Terms of trade (percentage change)	-10.6	3.9	-0.5	0.2	0.3
Balance of payments	(In billions of CFA francs)				
Exports, f.o.b.	66.1	71.4	72.7	77.0	84.2
Imports, c.i.f.	-143.4	-143.7	-162.8	-174.1	-184.2
Services (net)	-21.3	-20.8	-21.2	-21.3	-21.4
Overall balance	1.8	2.1	-8.3	-7.4	-2.4
IMF (net)	-2.1	-7.3	-7.7	-7.9	-6.4
Gap	--	5.2	16.0	15.3	8.8
Current account (in percent of GDP)					
Excluding official transfers	-14.9	-12.7	-14.3	-14.0	-13.2
Including official transfers	-6.2	-4.6	-6.4	-6.2	-5.6
Real sector					
Real GDP (annual percentage change)	9.6	3.5	2.3	2.8	2.7
Resource gap (in percent of GDP)	-15.0	-12.8	-14.5	-14.3	-13.7
Savings (in percent of GDP)	8.8	10.8	9.5	10.1	11.0
	Medium-term scenario III 4/				
Terms of trade (percentage change)	-10.6	3.9	-0.5	0.2	0.3
Balance of payments	(In billions of CFA francs)				
Exports, f.o.b.	66.1	71.4	72.7	77.0	84.2
Imports, c.i.f.	-143.4	-143.7	-159.7	-166.5	-174.8
Services (net)	-21.3	-20.8	-21.2	-21.3	-21.4
Overall balance	1.8	2.1	-5.2	0.2	7.0
IMF (net)	-2.1	-7.3	-7.7	-7.9	-6.4
Gap	--	5.2	12.9	7.7	--
Current account (in percent of GDP)					
Excluding official transfers	-14.9	-12.7	-13.9	-13.2	-12.3
Including official transfers	-6.2	-4.6	-6.0	-5.3	-4.5
Real sector					
Real GDP (annual percentage change)	9.6	3.2	1.8	2.2	2.3
Resource gap (in percent of GDP)	-15.0	-12.9	-14.2	-13.5	-12.8
Savings (in percent of GDP)	8.8	10.8	10.0	11.2	12.4

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

	1986	1987	1988	1989	1990
			Medium-term scenario IV 5/		
Terms of trade (percentage change)	-10.6	5.5	5.2	6.1	4.6
Balance of payments			(In billions of CFA francs)		
Exports, f.o.b.	66.1	72.5	78.8	88.6	101.1
Imports, c.i.f.	-143.4	-143.7	-149.2	-154.8	-160.4
Overall balance	1.8	3.2	11.4	23.5	38.3
IMF (net)	-2.1	-7.3	-7.7	-7.9	-6.4
Gap	--	4.1	--	--	--
Current account (in percent of GDP)					
Excluding official transfers	-14.9	-12.5	-11.2	-9.6	-7.9
Including official transfers	-6.2	-4.5	-3.5	-2.1	-0.7
Real sector					
Real GDP (annual percentage change)	9.6	3.5	3.1	3.2	3.2
Resource gap (in percent of GDP)	-15.0	-12.6	-11.4	-9.9	-8.3
Savings (in percent of GDP)	8.8	10.9	12.0	13.5	15.1

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 and private transfers.

3/ Scenarios II and III assume constant cotton export prices of CFAF 358 per kg during 1987-90, and a declining volume of cotton exports during 1988-90. Furthermore, they assume a drought affecting the 1987/88 crop. This would necessitate a rise in cereal imports to about the 1983 level and an increase in petroleum imports to transport the higher cereal imports.

4/ Compared with scenario II, scenario III assummes a readaptation of policies to achieve balance of payments viability by 1990.

5/ Scenario IV assumes an annual growth of 5 percent in cereal production and petroleum import unit prices of CFAF 145 per liter during 1987-90.