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AGENDA

EBS/85/241

CONFIDENTIAL

October 3, 1985

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: Mali - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request from Mali for a stand-by arrangement equivalent to SDR 22.86 million. A draft decision appears on page 32.

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 the Board discussion.

Att: (1)



INTERNATIONAL MONETARY FUND

MALI

Request for Stand-By Arrangement

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

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

Approved by A.D. Ouattara and Eduard Brau

October 2, 1985

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## I. Introduction

In the attached letter, dated August 21, 1985, the Government of Mali requests a 17-month stand-by arrangement in an amount equivalent to SDR 22.86 million (45 percent of quota), in support of an adjustment program for the second half of 1985 and the whole of 1986 (Appendices I and II). <sup>1/</sup> Of this amount, SDR 6.69 million would be from the Fund's ordinary resources and SDR 16.17 million from borrowed resources.

Mali's outstanding use of Fund credit amounted to SDR 69.3 million (136.5 percent of quota) at end-September 1985, reflecting purchases under two recent stand-by arrangements (in an amount of SDR 30.4 million during May 1982-May 1983 and in an amount of SDR 40.5 million during December 1983-May 1985). If all purchases under the proposed stand-by arrangement are made, and after taking into account scheduled repurchases, Mali's outstanding purchases would increase to SDR 72.1 million (142.0 percent of quota) by the end of March 1987 (Table 1).

As the negotiations on the program were initiated in June 1985, but concluded only in August, the Executive Board's consideration of Mali's request for a stand-by arrangement could no longer be scheduled before end-September 1985, as had been initially envisaged. Consequently, the first test date for the performance criteria, at end-September 1985, would now precede the expected date on which the arrangement would become effective, thus departing from the general operational guidelines set forth in SM/85/39, Supplement 1. However, in view of the time lags with which data relating to the performance criteria become available in Mali, the purchase pertaining to the end-September performance

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<sup>1/</sup> Discussions that provided the basis for the proposed stand-by arrangement were held in Bamako during June 27-July 12, 1985 and were concluded in Washington during August 12-21, 1985. The representatives of Mali included General Amadou Baba Diarra, Minister of State in charge of Planning; Mr. Djibril Diallo, Minister of State in charge of Industrial Development and Tourism; Mr. Oumar Coulibaly, Minister of State in charge of the Ministry of State Enterprises; Mr. Dianka Kaba Diakit , Minister of Finance and Commerce; Lieutenant-Colonel Issa Ongoiba, Minister of Agriculture; Mr. Modibo Keita, Minister of Employment and Civil Service; Mrs. Gakou Fatou Niang, Minister of Information and Telecommunications; Mr. Younoussi Tour , National Director of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO); and other senior officials concerned with economic and financial matters. The staff representatives were Mr. S.M. Nsouli (head-AFR), Mr. Buu Hoan (AFR), Ms. L. Schmitz (AFR), Mr. A. Mansoor (FAD), Mr. K. Enders (EP-INST), Ms. A. Doiz , Fund resident representative in Bamako, and Mrs. C. Nelson (secretary-LEG). Mr. A. Alfidja, Mali's Executive Director in the Fund, participated in the discussions held in Washington.

Table 1. Mali: Fund Position During Period of Stand-By Arrangement

(In millions of SDRs)

	Outstanding on Sept. 30, 1985	1985	1986				1987	Stand-by period Total
		Oct.-Dec.	Jan.-March	April-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	
Purchases <sup>1/</sup>	--	6.532 <sup>2/</sup>	3.266	3.266	3.266	3.266	3.266	22.86
Stand-by arrangement								
Ordinary resources	(--)	(3.266)	(1.633)	(1.633)	(0.162)	(--)	(--)	(6.694)
Borrowed resources	(--)	(3.266)	(1.633)	(1.633)	(3.104)	(3.266)	(3.266)	(16.166)
Repurchases	--	2.345	3.172	3.172	3.797	3.797	3.797	20.080
Net purchases	--	4.187	0.094	0.094	-0.531	-0.531	-0.531	2.780
Fund credit outstanding (end-period)								
Total	69.332	73.519	73.613	73.707	73.176	72.645	72.114	--
In percent of quota	136.5	144.7	144.9	145.1	144.0	143.0	142.0	--
<u>Memorandum item:</u>								
Trust Fund repayments	1.620	0.416	1.726	0.416	1.726	0.416	1.726	6.426

Source: IMF, Treasurer's Department.

<sup>1/</sup> Rounded. The exact amount of each purchase will be SDR 3,265,714.

<sup>2/</sup> Consisting of two purchases for SDR 3.266 each; the first is to be made upon approval by the Executive Board and the second by end-December 1985.

criteria is not expected to take place before late December 1985. As this purchase would thus take place about two months after the initial purchase, which would be made following approval by the Executive Board, it would conform with the operational guidelines. This scheduling would allow Mali to make two purchases in 1985 under the requested stand-by arrangement in order to enable Mali to execute its financial program smoothly.

The last Article IV consultation report was considered by the Executive Board on May 3, 1985 (SM/85/91). Summaries of relations with the Fund and the World Bank Group are given in Appendices III and IV.

## II. Background

In the two decades following independence in 1960, economic and financial imbalances in Mali were aggravated by a number of adverse exogenous factors, as well as by inappropriate economic and financial policies. During this period, Mali suffered from recurring droughts, which seriously affected economic activity, and from a declining trend in its external terms of trade. Concomitantly, the Government embarked on an ambitious public investment program, which, together with a marked rise in current government expenditures, contributed to widening fiscal deficits, including foreign-financed investment. These deficits, in turn, required a heavy recourse to both domestic bank and external borrowing. However, as the financing was insufficient to cover the deficits, the Government accumulated domestic and external payments arrears. Meanwhile, a comprehensive system of price controls was rigidly implemented, with the result that agricultural production suffered and parallel markets developed and widened in scope. Furthermore, the Government set up a large public enterprise sector, which incurred substantial losses due to technical and managerial problems, overstaffing, and price rigidities. By 1980, the structural and financial imbalances were reflected in a decline in economic activity, a high rate of inflation, an unsustainable balance of payments deficit, and large domestic and external payments arrears. In view of the severity of the problems, the Malian authorities took some initial steps in 1980 and 1981 in an attempt to redress the situation. These included adjustments in regulated prices, reforms in the public enterprise sector, and measures to reduce the deficit on government operations. However, though the rate of inflation declined, economic activity dropped further, and the external sector position continued to deteriorate.

### III. Recent Economic and Financial Developments

#### 1. Developments in 1982-83

Against this background, the Malian authorities implemented adjustment programs, supported by the last two stand-by arrangements, which aimed at stimulating economic growth, containing inflationary pressures, and strengthening the external sector position. <sup>1/</sup> Concomitantly, the World Bank provided technical and financial support for reforms, mainly in the agricultural and public enterprise sectors.

In 1982-83 a number of supply- and demand-oriented policies were implemented, and all the performance criteria under the Fund-supported programs were observed. The deficit on consolidated government operations, on a commitment basis, excluding grants and foreign-financed investment, was reduced from the equivalent of 4.5 percent of gross domestic product (GDP) in 1981 to 3.5 percent in 1982 and 3.1 percent in 1983 (Table 2). <sup>2/</sup> At the same time, a total of CFAF 14 billion, equivalent to 80 percent of the amount of identified domestic and external payments arrears outstanding at end-1981, were repaid. Reflecting in part the reduced recourse of the Government to bank financing, domestic credit expansion in 1982 and 1983 was limited to 15.7 percent and 14.8 percent of beginning money stock, respectively, remaining below the program targets. To reduce the structural imbalances, several measures to improve the operational and financial performance of public enterprises were taken; these included adjustments in prices, the closure of three enterprises, a reduction in personnel, and improvements in management. As a result, overall losses of the 13 key state enterprises were almost halved between 1981 and 1983 to CFAF 5.7 billion. To promote agricultural production, official producer prices for cereals and cotton were raised. In addition, the marketing of coarse cereals was liberalized, by abolishing the monopsony of the cereal marketing agency (OPAM) and allowing producers to sell freely at market-determined prices.

Reflecting the adjustment measures taken in 1982, together with favorable weather conditions, economic activity picked up, with real GDP growing by 1.8 percent, the rate of inflation (as measured by the GDP deflator) fell to 7.4 percent, and the external current account deficit, excluding grants, declined by almost two percentage points to 18.5 percent of GDP. In 1983 the adjustment measures succeeded in limiting only in part the adverse impact of the re-emergence of severe

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<sup>1/</sup> These have been analyzed in detail in EBS/83/25, SM/83/190, EBS/84/239, and SM/85/91.

<sup>2/</sup> Including estimates of foreign-financed investment, the deficit would have amounted to 12.4 percent of GDP in 1981, 10.7 percent in 1982, and 13.6 percent in 1983.

Table 2. Mali: Selected Economic and Financial Indicators, 1981-86

	1981	1982	1983	1984		1985	1986
				Prog.	Act.		
(Annual percentage changes, unless otherwise specified) 1/							
National income and prices							
GDP in constant prices	-2.4	1.8	-1.1	4.5	1.3	1.7	3.5
GDP deflator	11.0	7.4	11.2	5.5	15.0	4.2	6.3
Food price index	12.7	1.7	10.7	6.5	10.7	5.5	5.0
National minimum wage	--	--	--	--	--	35.0	--
External sector							
Exports, f.o.b. (in SDRs)	-17.1	0.6	17.8	22.2	14.9	-3.0	11.1
Imports, c.i.f. (in SDRs)	-13.4	-4.5	8.5	7.5	8.8	0.9	-4.2
Non-oil imports, c.i.f. (in SDRs)	-15.4	-10.4	14.0	3.8	8.8	0.3	-6.1
Export volume	-11.6	4.0	15.2	16.4	1.5	2.6	7.2
Import volume	-17.4	-8.7	9.1	-1.0	2.7	-2.3	-7.0
Terms of trade	-10.3	-3.6	2.8	0.5	7.3	-6.7	0.6
Nominal effective exchange rate (depreciation -)	-3.7	-3.0	-2.5	-1.1	-1.4	...	...
Real effective exchange rate							
CPI based	-2.5	-8.4	--	...	2.5	...	...
Wage based	-11.8	-4.8	-10.2	...	-7.1	...	...
Consolidated government operations							
Revenue (excluding grants)	16.9	7.7	6.8	6.8	14.6	19.4	9.2
Expenditure (commitment basis)	8.1 2/	2.3	5.4	-3.5	0.5	4.4	3.1
Money and credit							
Domestic credit 3/ 4/	14.6	15.7	14.8	20.3	15.9	11.4	5.8
Credit to Government 3/ 4/	(7.1)	(5.5)	(6.6)	(8.0)	(7.9)	(3.5)	(0.5)
Credit to economy 3/	(7.5)	(10.2)	(8.2)	(12.3)	(8.0)	(7.9)	(5.4)
Money and quasi-money (M2) 4/	5.8	8.6	15.4	13.5	25.2	11.3	7.9
Velocity (GDP relative to M2)	4.4	4.4	4.2	4.2	3.9	3.9	4.0
Interest rate 5/	4.0	5.0	5.0	3.0	8.5	8.5	...
(In percent of GDP)							
Overall fiscal position (commitment basis)							
Excluding grants 6/	-12.4	-10.7	-13.6	-9.4	-10.0	-7.6	-6.5
Consolidated government balance 7/							
Excluding grants	-4.5	-3.5	-3.1	-1.2	-1.9	--	0.8
Including grants	-3.3	-3.2	-2.2	-0.4	-1.2	1.1	1.7
Domestic bank financing (net)	0.6	1.7	1.4	1.6	1.4	0.8	0.1
Foreign borrowing (net) 8/	0.7	3.8	2.9	0.1	0.2	-0.7	-0.8
Payments arrears (change) and other (reduction -)	2.0	-2.3	-2.1	-1.3	-0.4	-1.1	-1.0
Gross domestic investment	24.3	24.5	25.6	...	24.5	24.0	23.9
Gross domestic savings	4.0	6.0	6.0	...	5.5	5.3	10.1
Resource gap	20.3	18.5	19.6	...	19.0	18.7	13.8
External account deficit							
Excluding official transfers	20.2	18.5	19.9	15.5	18.7	18.3	13.3
Including official transfers							
Before debt relief	9.6	10.0	9.4	6.3	6.2	5.8	4.0
After debt relief	9.5	8.0	7.8	5.5	5.4	5.8	4.0
External debt 9/	78.0	93.0	107.7	113.5	109.1	105.8	100.5
Debt service ratio 10/ 11/	13.8	6.3	9.1	7.7	13.0	19.4	22.7
(Excluding payments to IMF)	12.5	5.4	7.1	4.2	9.8	13.8	13.8
Interest payments ratio 11/	11.4	2.8	3.5	3.6	5.6	7.3	7.2
(In millions of SDRs, unless otherwise specified)							
Overall balance of payments	-32.7	-7.6	2.5	-2.7	3.6	-10.2	6.8
Gross official reserves (months of imports)	0.5	0.5	0.5	1.0	0.9	...	...
External payments arrears 12/	21.5	11.3	4.8	--	--	--	--
Obligations not serviced pending rescheduling (cumulative amount at end of period)	9.9	12.8	18.1	...	22.7	...	...

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

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

2/ Interest payments on a cash basis.

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

4/ 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, of which credit growth to the Government was 4.3 percent; domestic liquidity increased by 18.2 percent.

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

6/ Includes foreign-financed investment.

7/ Commitment basis. Includes the operations of the Central Government, the annexed budgets and special funds, as well as extrabudgetary receipts and payments reflected in the Treasury accounts, but not operations of the rural development agencies, and development expenditures financed directly by external aid.

8/ Includes debt relief obtained.

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

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

11/ After debt relief.

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

drought conditions. Real GDP declined by 1.1 percent, the rate of inflation rose to 11.2 percent, and the current account deficit, excluding grants, increased to 19.9 percent of GDP. Nonetheless, with rising public transfers and concessional financing, the overall balance of payments position turned around from a deficit of SDR 7.6 million in 1982 to a surplus of SDR 2.5 million in 1983.

## 2. Developments in 1984

Although most of the measures called for under the 1984 adjustment program were implemented and all the performance criteria were observed, the persistence of severe drought conditions had an adverse impact on the economic and financial situation and hindered the full attainment of the program objectives (Table 2 and Appendix V, Table I). The drought limited the growth of real GDP to 1.3 percent, instead of the programmed 4.5 percent. A sharp fall in cereal and groundnut production was offset in part by a record cotton harvest and increased activity in the trade and transportation sectors. The rate of inflation (as measured by the GDP deflator) reached 15.0 percent, compared with a target of 6.5 percent, primarily due to the drought conditions, price speculation relating to Mali's entry into the West African Monetary Union (WAMU), the rise in international cotton prices, and the increase in domestic liquidity.

The adverse effects of the drought on the balance of payments were offset by a sharp increase in cotton export earnings, a decline in noncereal imports, and the receipt of substantial food aid. The record cotton harvest, combined with a surge in cotton export prices, contributed to an increase in total exports of 14.9 percent in SDR terms. By contrast, total imports rose by only 8.8 percent. Cereal imports, about half of which were in the form of grants, more than doubled. This sharp increase was partly compensated for by a decline of 6.7 percent in noncereal imports. The current account deficit, excluding official grants, declined from 19.9 percent of GDP in 1983 to 18.7 percent in 1984; it was, however, higher than the target of 15.5 percent, primarily due to the high level of cereal imports. Nonetheless, in view of the increase in official grants associated with cereal imports, the current account deficit, including grants, declined from 9.4 percent to 6.2 percent of GDP, as targeted. As net capital inflows were higher than projected, because of larger disbursements of project loans and increased private capital inflows associated with the entry of Mali into the West African Monetary Union, the balance of payments registered a surplus of SDR 3.6 million, compared with a targeted deficit of SDR 2.7 million. Gross official reserves rose from the equivalent of half a month of imports to almost one month. As debt relief of SDR 6.3 million was obtained and debt service obligations under negotiation and not paid amounted to SDR 8.1 million, the actual debt service ratio (including obligations to the Fund) amounted to 9.8 percent, as against a scheduled 15.5 percent.

The consolidated government deficit, on a commitment basis, excluding foreign-financed investment and grants, was reduced from 3.1 percent of GDP in 1983 to 1.9 percent in 1984, but was still higher than the program target of 1.2 percent, due to expenditure overruns. The Government reduced identified Treasury arrears by CFAF 3.0 billion, as programmed; however, transactions resulting from expenditures in the complementary period (January-March 1985) relating to the 1984 budget amounted to CFAF 3.0 billion also. Thus, the deficit on a cash basis was equal to that on a commitment basis and was financed almost equally by external and domestic resources. Based on available estimates of foreign-financed investment, the overall deficit, on a commitment basis, including foreign-financed investment, but excluding grants, declined from 13.6 percent of GDP in 1983 to 10.0 percent in 1984.

Government revenue increased by 14.6 percent, exceeding the program target. Revenue benefited from profits stemming from the nonconversion of a part of the former currency in circulation into CFA francs, as well as from the transfer of cotton profits of CFAF 2.1 billion to the Treasury under a new arrangement. Tax receipts increased by only 3.3 percent, reflecting the adverse effects of the drought. However, expenditure increased by 6.5 percent, also exceeding the program target. This was mainly due to overruns in personnel expenditure, social security payments, interest on central bank advances, and cereal subsidies. Thus, expenditure overruns, some of which took place during the complementary period, totalled 1.4 percent of GDP, and were in part compensated by higher-than-programmed revenue in an amount of 0.7 percent of GDP.

In 1984, credit to the economy (defined as credit to the nongovernment sector) remained substantially below the program ceilings. 1/ 2/ It increased by 8.0 percent of beginning money stock, compared with a target of 12.3 percent. Net credit to the Government rose by 7.9 percent, remaining somewhat below the program ceiling. 3/ As a

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1/ The monetary data have been adjusted to ensure consistency following the entry of Mali into the WAMU in June 1984. This entailed the revaluation of assets of the former Central Bank of Mali, the cancellation of central bank liabilities under the operations account, the cancellation of some claims on the Government and state enterprises, and the new definition and reclassification of some monetary items.

2/ This also applies after inclusion of upward adjustments made retroactively in 1985 in order to enter a commercial bank's interest charges (agios), which had not been recorded for 1983 and 1984.

3/ This takes into account the reclassification of cotton deposits. Under the program, they were recorded as government deposits and, consequently, part of net credit to the Government. They have been reclassified, according to BCEAO standards, as nongovernment deposits, which are part of domestic liquidity.

result, total domestic credit rose by 15.9 percent of beginning money stock, as against the programmed 20.3 percent. However, in view of the movements in net foreign assets and other net monetary items, domestic liquidity increased by 25.2 percent, compared with a program target of 13.5 percent.

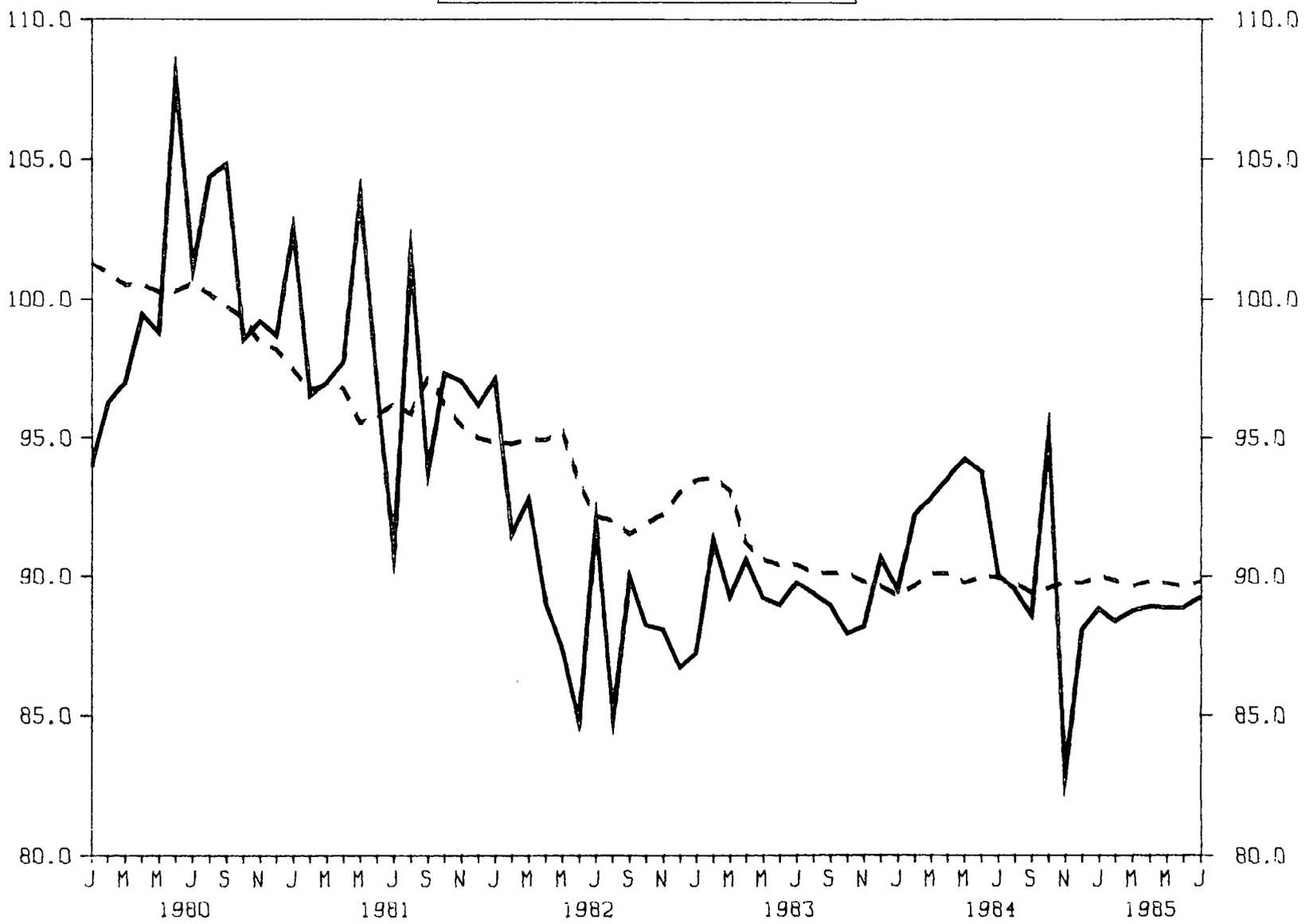
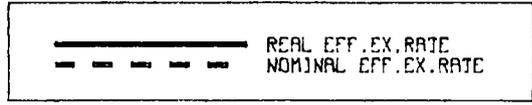
The 1984 program placed considerable emphasis on the reform of the public enterprise sector. A number of measures to improve the operations of key enterprises were taken, and four enterprises deemed not to be viable were liquidated. Specifically, Air Mali reduced its personnel by 25 percent, discontinued its own flights on international routes, and closed a number of offices abroad. It also entered into pool and association arrangements with a foreign airline on international routes. In view of Air Mali's persistent losses and the continued accumulation of arrears, which reached CFAF 3.9 billion at end-December 1984, the Government issued a decree for the liquidation of Air Mali by end-June 1985 and its replacement with a new mixed company. The state trading agency (SOMIEX) cut its personnel and strengthened its organization of purchases, sales, and stocks. Nonetheless, in part because of price rigidities, SOMIEX incurred losses of CFAF 1.7 billion in 1984. The post and telecommunications office (OPT) made some progress by discontinuing the access of the Treasury to the postal checking system (CCP) and by improving bill collection; however, the CCP continues to face liquidity problems pending the settlement of cross-debts between the Government and the OPT. In the energy sector, the national power company (EDM), which buys most of its electricity from the Sélingué Dam Authority (OERHN), improved its billing procedures and established a schedule to reduce its arrears to the OERHN. However, both enterprises still face financial problems, owing in part to a delay in adjusting tariffs. The public enterprise sector benefited from the cancellation of 60 percent of its debt in connection with Mali's entry into the WAMU. Overall, it is estimated that in 1984 the 13 major enterprises were able to reduce their aggregate operating deficit by about 23 percent, to CFAF 4.4 billion.

Mali's entry into the WAMU entailed a currency conversion from the Mali franc to the CFA franc, which was made at the previously prevailing exchange rate. This did not fundamentally change the exchange regime, because the Mali franc had been pegged since 1968 to the French franc, and full convertibility had been assured through an operations account with the French Treasury. Given the continued peg to the French franc, variations in Mali's 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 depreciated by 2.5 percent in 1983, by 1.4 percent in 1984, and remained virtually unchanged through July 1985. In real terms, the effective exchange rate, which had remained stable in 1983, appreciated by 2.5 percent during 1984, but is estimated to have depreciated again by 2.2 percent by July 1985 (see Chart).

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MALI

# EFFECTIVE EXCHANGE RATES, 1980 - 85 1/

(1980 = 100: FOREIGN CURRENCY PER CFA FRANC)



Source: Staff calculations.

1/ Trade-weighted effective rates vis-à-vis 23 main exporters of manufactured goods. Real effective rate is based on the relative consumer price indices.



#### IV. The 1985-86 Program

While Mali has made progress in the context of the programs supported by the last two stand-by arrangements, serious economic and financial imbalances persist. A number of structural bottlenecks and distortions continue to constrain economic activity, mainly with regard to pricing and public enterprises. Further, the fiscal and external sector positions remain unsustainable, particularly in view of the rapidly rising debt service payments. Against this background, the program for 1985-86 comprises a set of measures designed to restrain the growth of aggregate demand, while tackling the structural imbalances and reducing the existing distortions. On the demand side, a further reduction in the fiscal deficit, the pursuit of a restrictive credit policy, and a continuation of a prudent external debt management policy are envisaged. On the supply side, the program involves the further liberalization of pricing and marketing policies, an acceleration in the pace and a widening in the scope of the reform of the public enterprise sector, the restructuring of the tax system to stimulate private sector economic activity, and a strengthening in the development planning process, including the formulation and integration of a public investment budget in the regular budgeting process.

These policies are envisaged to enable Mali to make progress, over the medium term, toward re-establishing domestic and external financial stability. The medium-term (base-line) scenario, in the context of which the program was formulated, shows that Mali can achieve balance of payments viability by 1988, provided the adjustment process is pursued and adapted in light of the progress achieved and changing circumstances. The key quantitative objectives of the program for 1985 and 1986 are to achieve an annual average rate of economic growth of 2.6 percent, to contain inflation based on the GDP deflator to an annual average of 7.2 percent, and to reduce the external current account deficit, including grants, to 5.8 percent of GDP in 1985 and 4.0 percent of GDP in 1986. A summary of the program's targets and policies is provided in Table 3.

##### 1. Fiscal policy

The consolidated position of government operations, on a commitment basis, excluding foreign-financed investment and grants, is programmed to move from a deficit of CFAF 8.9 billion (1.9 percent of GDP) in 1984 into virtual balance in 1985 and to record a surplus of CFAF 4.5 billion (0.8 percent of GDP) in 1986 (Table 4). On a cash basis, the deficit is expected to decline from CFAF 8.9 billion (1.9 percent of GDP) in 1984 to CFAF 3.4 billion (0.7 percent of GDP) in 1985, reflecting repayment of arrears and transactions during the complementary period related to expenditures under the 1984 budget. In 1986, even after taking into account an envisaged reduction of CFAF 3.0 billion in extrabudgetary Treasury arrears, a surplus of CFAF 1.5 billion

Table 3. Mali: Summary of the Adjustment Program for 1985-86

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Objectives

1. Economic growth: 1.7 percent in 1985 and 3.5 percent in 1986.
2. Inflation: 8.2 percent in 1985 and 6.3 percent in 1986.
3. External current account deficit: 5.8 percent of GDP in 1985 and 4.0 percent in 1986.

Policy Measures

I. Public Investment

1. Complete inventory of investment projects with UNDP assistance (July 1985).
2. Establish 1986 Investment Budget (end-November 1985).
3. Limit 1986 investment to ongoing projects, consistent with budget and balance of payments objectives.
4. Elaborate, with World Bank technical assistance, a plan of action for establishing a system of investment programming.

II. Pricing and Marketing

1. Initiate relaxation of price controls.
2. Increase producer prices for paddy rice to CFAF 70 and for coarse cereals to CFAF 55 per kilogram (June 1985).
3. Raise OPAM selling prices of rice to CFAF 165 and coarse cereals to CFAF 95 per kilogram (October 1985).
4. Adhere to the timetable for paddy rice marketing liberalization.
5. Continue to adjust the producer price for cotton (raised to CFAF 85 per kilogram in June 1985) in accordance with World Bank recommendations.
6. Raise prices of petroleum products by an average of 15 percent (August 1985).
7. Increase transportation tariffs by 45.5 percent for fluids and by 25 percent for solids and containers (August 1985).

III. Public Enterprises

1. Conclude negotiations with World Bank staff on public enterprise rehabilitation project (December 1985).
  2. Prepare an inventory of public enterprise arrears by end-November 1985 and agree on timetable for their elimination.
  3. Air Mali
    - a. Increase domestic fares by 35 percent (August 1985);
    - b. Initiate liquidation of company in December 1985, if losses continue during August 1-November 30, 1985 and if negotiations with a new partner to establish a mixed company are not concluded;
    - c. Repay arrears with proceeds of the liquidation by end-March 1986.
  4. SOMIEX
    - a. Readjust prices to cover costs (August 1985);
    - b. Reduce personnel by 200 to 600 persons by November 30, 1985.
  5. EDM and OERHN
    - a. Adjust electricity tariffs of EDM by 35 percent (October 1985);
    - b. Increase water tariffs of EDM by 200 percent (October 1985);
    - c. Improve recovery rates of EDM;
    - d. Increase electricity tariff of OERHN by 26 percent (October 1985).
  6. OPT
    - a. Separate financial operations of postal services, telecommunications, and the postal checking system (on basis of World Bank timetable);
    - b. Conclude agreement with Treasury on interlocked debts and arrears and agree on timetable for their elimination (November 30, 1985);
    - c. Prepare tariff proposals to cover costs for 1986 (October 1985);
    - d. Agree with Treasury on extent of services to be provided to the Government in line with budgetary allocations in 1986 (November 1985).
  7. Office du Niger
    - a. Conclude negotiations with World Bank staff on rehabilitation program.
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Table 3. Mali: Summary of the Adjustment Program for 1985-86 (concluded)

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IV. Public Finance

Balance consolidated budgetary operations in 1985 and generate a surplus of 0.8 percent of GDP in 1986.

1985 Measures<sup>1/</sup>

a. Revenue

- i. Adjust valeurs mercuriales so as to generate an additional CFAF 200 million (August 1985);
- ii. Levy sales taxes on the c.i.f. value of imports;
- iii. Increase petroleum prices (as per above) (August 1985);
- iv. Introduce a 10.0 percent customs duty and sales tax on commercial imports of cereals and cereal products (August 1985);
- v. Improve tax administration.

b. Expenditures

- i. Limit personnel expenditure to CFAF 37.0 billion;
- ii. Limit scholarships to CFAF 3.4 billion;
- iii. Respect budgetary allocations.

- c. Complete inventory of arrears, including extrabudgetary and cross-debts, and agree on timetable for their elimination (November 30, 1985).

1986 Measures

a. Revenue

- i. Implement change in tax structure to stimulate economic activity;
- ii. Further improve tax administration.

b. Expenditure

- i. Freeze wage bill at CFAF 37.0 billion;
- ii. Freeze expenditures on scholarships at CFAF 3.4 billion;
- iii. Incorporate adequate budgetary allocations for all categories of expenditures;
- iv. Take measures to ensure that budgetary allocations are observed.

- c. Adhere to timetable for elimination of identified arrears.

- d. Incorporate investment budget, including foreign-financed investment, in 1986 consolidated government operations.

V. Monetary and Credit Policies

1. Limit growth in domestic liquidity to 11.3 percent in 1985 and 7.9 percent in 1986.
2. Contain growth of net domestic bank credit as percentage of beginning money stock to 11.4 percent in 1985 and 5.8 percent in 1986.

VI. External Debt

1. No new external short-term borrowing contracted or guaranteed by the Government, except for normal trade credits.
2. No new commitment on nonconcessional government and government-guaranteed foreign borrowing with a maturity of one to twelve years.
3. Eliminate external arrears of the National Debt Agency (CAA) and the Road Fund, and interest arrears of the OERHN by end-1985.
4. Refinance the loss resulting from the sale of the state-owned airplane at concessional terms.

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<sup>1/</sup> Measures taken in the context of the 1985-86 stand-by arrangement, in addition to those already taken at the beginning of the year.

Table 4. Mali: Consolidated Government Operations, 1982-86 <sup>1/</sup>

	1982	1983	1984		1985	1986
			Prog.	Act.	Prog.	Prog.
(In billions of CFA francs)						
Revenue	50.6	54.0	58.8	61.9	73.9	80.7
Budgetary revenue	39.2	42.8	46.1	47.2	57.8	61.7
Income tax	7.1	7.6	7.1	8.0	9.0	9.7
Taxes on goods and services	5.7	7.0	7.5	7.8	8.8	9.6
Taxes on international trade	16.1	18.1	20.0	19.7	22.1	25.0
Other taxes and nontax revenues	10.3	10.1	11.4	11.7	17.9	17.4
Annexed budgets and special funds and other extrabudgetary revenues	11.4	11.2	12.6	14.7	16.0	19.0
Expenditure	63.1	66.5	64.2	70.8	73.9	76.2
Budgetary expenditure	44.1	47.5	49.3	53.2	57.5	58.6
Current expenditure	42.5	45.9	47.3	51.3	55.1	56.1
Personnel	27.3	30.2	30.9	33.2	37.0	37.0
Maintenance	8.6	9.1	8.7	11.2	10.4	11.5
Other	6.6	6.6	7.7	7.0	7.7	7.6
Equipment	1.6	1.6	1.9	1.8	2.4	2.5
Annexed budget and special funds	17.6	17.4	13.5	17.0	16.4	17.6
Extrabudgetary expenditure	1.4	1.7	1.5	0.6	--	--
balance on a commitment basis (deficit -)	-12.5	-12.5	-5.5	-8.9	--	4.5
Changes in arrears (reduction (-)) <sup>2/</sup>	-5.8	-5.8	-3.0	-3.0	-0.4	-3.0
Transactions during complementary period <sup>3/</sup>	--	--	--	3.0	-3.0	--
Balance on a cash basis (deficit -)	-18.3	-18.3	-8.5	-8.9	-3.4	1.5
Financing	18.3	18.3	8.5	8.9	3.4	-1.5
Grants	0.9	3.8	3.9	3.4	5.6	5.1
External financing (net)	13.7	11.5	0.4	0.9	-3.5	-4.7
External borrowing (gross)	(7.2)	(7.0)	(0.7)	(0.9)	(0.9)	(1.0)
Debt rescheduling	(8.2)	(7.6)	(5.2)	(5.5)	(3.8)	(3.7)
Debt relief obtained	(7.6)	(6.6)	(2.8)	(2.8)	(--)	(--)
Obligations under renegotiation	(0.7)	(1.0)	(2.4)	(2.7)	(3.8)	(3.7)
Amortization	(-1.7)	(-3.1)	(-5.4)	(-5.5)	(-8.2)	(-9.3)
Domestic financing	3.6	3.0	4.1	4.7	1.3	-1.9
Banking system	(6.2)	(5.7)	(7.2)	(6.5)	(4.1)	(0.6)
Other	(-2.6)	(-2.7)	(-3.1)	(-1.8)	(-2.8)	(-2.5)
Memorandum items:						
Foreign-financed investment expenditure	26.0	41.5	...	37.4	38.5	40.6
Of which: financed by grants	(11.5)	(19.0)	(...)	(21.4)	(22.0)	(22.5)
(In percent of GDP)						
Balance on a commitment basis (deficit -)						
Excluding grants	-3.5	-3.1	-1.2	-1.9	--	0.8
Including grants	-3.2	-2.2	-0.4	-1.2	1.1	1.7
Balance on a cash basis (deficit -)						
Excluding grants	-5.1	-4.6	-1.9	-1.9	-0.7	0.3
Including grants	-4.8	-3.7	-1.0	-1.2	0.4	1.2
Overall balance including foreign-financed investment (commitment basis)						
Excluding grants	-10.7	-13.6	...	-10.0	-7.6	-6.5
Including grants	-7.2	-7.9	...	-4.7	-2.1	-1.5

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

<sup>1/</sup> Numbers may not add up due to rounding.

<sup>2/</sup> Excludes arrears arising from expenditure undertaken without budgetary allocations for which data are not available.

<sup>3/</sup> These reflect expenditures under the 1984 budget which were paid during the complementary period in 1985.

(0.3 percent of GDP) on a cash basis is projected. With a sharp rise in external debt amortization and a decline in expected debt relief, net external borrowing is projected to turn negative and net repayments to increase over the program period. However, foreign grants are also projected to rise. Together with the improved budgetary position, this is expected to reduce significantly the Government's recourse to domestic bank financing.

The program incorporates a number of measures to enhance revenue and limit the growth in expenditures. In 1985, revenue is estimated to grow by 19.4 percent, while expenditure growth is to be contained to 4.4 percent. In view of the favorable cotton harvest in 1984, cotton receipts are projected to reach CFAF 6.2 billion in 1985, compared with CFAF 2.1 billion in 1984, accounting for about one half of the estimated increase in revenue. A number of tax measures introduced in 1985 are estimated to account for almost one fifth of the increase (Appendix V, Table II). These included increases, at the beginning of the year, in taxes on salt, cola nuts, and tea, as well as in stamp duties on import licenses. In August 1985 the Government increased customs duties, by raising the administered prices on which tariffs are levied (valeurs mercuriales), reintroduced a 10 percent customs duty on the c.i.f. value of imports of cereals and cereal products, reinstated the sales tax on these products, shifted the base for the sales tax on other imports to the c.i.f. value, and stepped up collection of outstanding taxes and fines. Furthermore, an increase in petroleum prices in August 1985 is projected to account also for about one fifth of the increase in revenue, partly due to profits from the revaluation of existing petroleum stocks and the wider margin between purchase and selling prices. Revenue in 1985 is also expected to benefit from the full-year impact of tax measures introduced late in 1984, the effects of improved customs administration, and the rise in income tax receipts resulting from the general wage increase in the civil service granted in March 1985.

The programmed decline in the growth in expenditure, from 6.5 percent in 1984 to 4.4 percent in 1985, reflects a number of measures. The growth in the wage bill will be limited to 11.4 percent, notwithstanding cost-of-living adjustments ranging between 10 percent and 35 percent of the base salary given to civil servants in March 1985, after a three-year freeze. The programmed rise in the wage bill is to be achieved through restraint in new hiring, limited merit increases, and economies to be generated from tighter control on disbursements of personnel salaries following initial work on a census of civil servants. The growth in scholarships will be limited to 11.4 percent. The increase in a number of regulated prices will be reflected in lower expenditures on subsidies and transfers in the annexed budgets and special funds. The consolidation of the balances outstanding under the operations account with the French Treasury, in June 1984, also reduced interest obligations. In addition, the Government is strengthening expenditure

control to ensure the respect of budgetary allocations. In this regard, the budget provides for some increase in appropriations to avoid the accumulation of extrabudgetary arrears.

The attainment in 1986 of the targeted surplus on consolidated government operations reflects, in part, the full-year effect on revenue of the tax and price measures taken in August 1985, as well as the pursuit of an austere expenditure policy. Revenue is projected to expand by 9.2 percent. The growth in economic activity is projected to account for about half of this expansion. The remaining growth is expected to be determined by two divergent factors. On the one hand, the full-year effect of the revenue measures taken in August 1985 is estimated to account for 9.4 percent of revenue growth. On the other hand, receipts from the cotton sector are projected to decline, due to a weakening in world market prices, reducing total revenue by an estimated 4.5 percent. Tax administration is also expected to be further improved. For 1986, the Government is preparing, based on technical assistance provided by the Fund, a tax reform package aimed at encouraging private sector economic activity over the medium term. Some of the reform measures are expected to be introduced in the 1986 budget. The budget projections do not take into account any resulting short-term shortfall in revenues; such losses are expected to be financed by the U.S. Government under its Economic Policy Reform Program. Expenditure growth in 1986 will be limited to 3.1 percent. The key measures include a freeze in the wage bill and on scholarships in nominal terms at the 1985 levels. The freeze in the wage bill will be made possible through the economies generated by the revision and computerization of the payroll, reflecting the results of the ongoing census of the civil service. In light of the outturn for 1985 and the result of the census, further savings in the wage bill and scholarships will be considered at the time of the first review of the program. The expenditure projections for 1986 also incorporate adequate allocations for all categories of expenditure, in order to avoid a further accumulation of extrabudgetary arrears. Expenditure monitoring and control are expected to improve as a result of the introduction of a new nomenclature and the computerization of budget operations.

The Government has accumulated a considerable amount of extrabudgetary domestic arrears and is owed substantial tax arrears. No reliable or comprehensive data on such arrears are, however, available. Accordingly, the Government is preparing an inventory of all arrears, which is expected to be completed by end-November 1985, and plans to draw up a timetable and review the modalities for their elimination. The timetable will be examined at the time of the first review of the program. To prevent a further accumulation of government arrears, a comprehensive system for monitoring all arrears of the Government is expected to be set up by end-November 1985. Pending the completion of this work, the outstanding stock of Treasury arrears, estimated at about CFAF 50 million at end-June 1985, will not exceed, as a performance criterion, CFAF 50 million at end-September and end-December 1985.

With a view to strengthening public finance management and economic analysis, the Government plans to establish an investment budget for 1986 that will incorporate government investment expenditures financed by tied external assistance. <sup>1/</sup> The Fund has already provided technical assistance for this purpose. In light of the outcome of this exercise, the target for the overall deficit of the Government in 1986 will be reassessed at the time of the first review and shifted to a deficit target inclusive of foreign-financed investment. Based on currently available information, the overall deficit, on a commitment basis, including foreign-financed investment but excluding grants, would drop from CFAF 46.3 billion (10.0 percent of GDP) in 1984 to CFAF 38.5 billion (7.6 percent of GDP) in 1985 and further to CFAF 36.1 billion (6.5 percent of GDP) in 1986.

## 2. Monetary policy

The authorities will pursue a restrictive monetary policy consistent with the balance of payments and budgetary targets. Accordingly, the expansion of domestic credit will be limited to 11.4 percent of the beginning money stock in 1985 and 5.8 percent in 1986, compared with 15.9 percent in 1984 (Table 5). Due to the envisaged improvement in the Government's consolidated position, the expansion in net claims on the Government will decelerate from 7.9 percent of the initial money stock in 1984 to 3.5 percent in 1985 and further to 0.5 percent in 1986. Concomitantly, the growth of credit to the economy will be reduced to 7.9 percent in 1985 and further to 5.4 percent in 1986. In view of the expected improvement in weather conditions in 1985 and 1986, crop credit is projected to increase significantly. Taking into account the overall balance of payments objectives, the growth of domestic liquidity is projected to decline from 25.2 percent in 1984 to 11.3 percent in 1985 and to 7.9 percent in 1986.

As in all countries which are members of the WAMU, the structure of interest rates is determined by the common Central Bank of West African States (BCEAO). The minimum deposit rate for small savings accounts is set at 8.5 percent and the basic discount rate at 10.5 percent. These rates are positive in real terms in Mali, and the interest rate structure is viewed as appropriate by the authorities.

Quarterly ceilings on domestic bank credit and on net bank credit to the Government were set for end-September 1985 and end-December 1985, as performance criteria. During the first review of the program, scheduled for December 1985, quarterly credit ceilings will be set as performance criteria for the first half of 1986, and indicative credit

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

Table 5. Mali: Monetary Survey, 1982-86

(In billions of CFA francs; end of period)

	1982	1983		1984	1985				1986 Dec. Proj.	1984 1985 1986 Percentage change relative to money stock at the beginning of the period <sup>2/</sup>		
		Actual	Actual adj. <sup>1/</sup>		March	June Est.	Sept. Program	Dec.				
Foreign assets (net) <sup>3/</sup>	-65.7	-67.2	-29.1	-27.5	-35.1	-35.8	-41.8	-30.3	-25.8	1.7	-2.4	3.4
Domestic credit	163.0	175.0	105.1	120.0 <sup>4/</sup>	126.2 <sup>4/</sup>	126.8	129.2	133.4	141.0	15.9	11.4	5.8
Domestic credit excluding postal checking accounts	160.3	172.7	102.8	116.8	123.0	123.6	126.0	130.2	137.8	14.9	11.4	5.8
Credit to the Government (net)	68.0	73.3	33.4	40.8	40.6	42.7	43.7	44.9	45.5	7.9	3.5	0.5
Banking system	(65.3)	(71.0)	(31.1)	(37.6)	(37.4)	(39.5)	(40.5)	(41.7)	(42.3)	(6.9)	(3.5)	(0.5)
Postal checking system <sup>5/</sup>	(2.7)	(2.3)	(2.3)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(1.0)	(--)	(--)
Credit to the economy <sup>6/</sup>	95.0 <sup>6/</sup>	101.7 <sup>6/</sup>	71.7	79.2 <sup>4/</sup>	85.6 <sup>4/</sup>	84.1	85.5	88.5	95.5	8.0	7.9	5.4
Ordinary	(69.2) <sup>6/</sup>	(74.9) <sup>6/</sup>	(...)	(57.7)	(61.4)	(61.5)	(64.5)	(64.9)	(70.3)	(...)	(6.1)	(4.1)
Crop credit	(25.8) <sup>6/</sup>	(26.8) <sup>6/</sup>	(...)	(7.6)	(10.3)	(8.1)	(6.5)	(9.1)	(10.7)	(...)	(1.3)	(1.2)
Doubtful claims <sup>7/</sup>	(...)	(...)	(...)	(13.9)	(13.9)	(14.5)	(14.5)	(14.5)	(14.5)	(...)	(0.5)	(--)
Money supply	81.3	93.8	93.8	117.4	123.9	122.5	117.8	130.7	141.0	25.2	11.3	7.9
Long-term external liabilities	3.2	3.3	3.3	3.5	1.8	1.8	1.8	1.8	1.8	0.2	-1.4	--
Other items (net) <sup>8/</sup>	12.8	10.7	-21.1	-28.4	-34.6	-33.2	-32.2	-29.4	-27.6	-7.8	-0.9	-1.3

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

<sup>1/</sup> Adjusted to ensure comparability with 1984 data and with the BCEAO presentation.<sup>2/</sup> Numbers may not add up due to rounding.<sup>3/</sup> Not including SDR allocations and long-term liabilities.<sup>4/</sup> Including a retroactive adjustment of CFAF 4.8 billion stemming from adjustment of the agio accounts of a local bank. These agios are not on the books for the period from January 1983 to December 1984 because of a computer malfunction at the bank. The figures above differ from BCEAO figures, because the BCEAO makes the adjustment for the agios of CFAF 0.7 billion relating to the final quarter of 1984 only at end-June 1985.<sup>5/</sup> Effective January 1, 1985, the liaison accounts were suspended.<sup>6/</sup> Includes gross doubtful claims, before provisions.<sup>7/</sup> Gross doubtful claims, before provisions.<sup>8/</sup> 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.

ceilings for the second half of the year will be established. Quarterly credit ceilings as performance criteria for the second half of 1986 will be set at the time of the second review.

Domestic bank credit outstanding, 1/ which was CFAF 123.0 billion at end-March 1985 and is estimated at CFAF 123.6 billion at end-June 1985, will not exceed CFAF 126.0 billion at end-September 1985 and CFAF 130.2 billion at end-December 1985. Similarly, net bank credit to the Government, 2/ which stood at CFAF 37.4 billion at end-March 1985 and is estimated at CFAF 39.5 billion at end-June 1985, will not exceed CFAF 40.5 billion at end-September 1985 and CFAF 41.7 billion at end-December 1985. Should external budgetary assistance, including debt relief, exceed the projected CFAF 10.3 billion in 1985, the ceilings for total domestic bank credit and net bank credit to the Government at end-December 1985 will be reduced by the additional amount.

### 3. Pricing and marketing policies

To improve resource allocation, promote domestic production, and strengthen the financial operations of public enterprises, the authorities have decided to liberalize pricing and marketing policies gradually. They are currently preparing a detailed study of the price control system and a timetable for its relaxation. The study and timetable will be examined at the time of the first review of the program, with a view to setting a schedule for the requisite measures to be introduced in 1986. In the meantime, the Government is already proceeding with a number of pricing and marketing measures.

The Government has started to liberalize paddy rice marketing in the areas covered by the Office du Niger (ON) on the basis of a timetable that envisages full liberalization by the 1986/87 growing season. The ON, which operates one of the largest irrigation schemes in Africa, is the major rice producer in the country. Farmers on its compound were, until recently, obliged to sell their paddy rice exclusively to the ON at an administered price. Under the timetable for liberalization, free marketing was permitted in the summer of 1985 for the small harvest of the intermediate growing season (SM/85/109). This will be followed by the authorization of private merchants to freely purchase paddy rice

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1/ For the purposes of monitoring the program, gross doubtful loans, before provisions, are included in the definition of credit to the economy. The position of the postal checking system is excluded.

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

from the farmers during a certain period of the 1985/86 crop season. In this context, the ON will also no longer be required to sell any specified quantities to the cereal marketing agency (OPAM).

In order to ensure adequate production incentives, on June 1, 1985 producer prices for cereals were increased by CFAF 5 per kg (to CFAF 55 per kg for coarse cereals and CFAF 70 per kg for paddy rice) and those for cotton by CFAF 10 per kg (to CFAF 85 per kg). Even though the coarse cereal market has been liberalized and free market prices have exceeded official producer prices, the official producer price serves as a minimum guaranteed price.

Further, the OPAM will raise its sales prices per kg from CFAF 62.5 to CFAF 95 and from CFAF 125 to CFAF 165 for coarse cereals and rice, respectively, by end-October 1985. These large increases are predicated in part on the fact that selling prices of OPAM have not been adjusted since 1982, even though producer prices have been raised substantially. Moreover, the retail prices of flour and bread were increased on August 8, 1985 by 27.0 percent and 11.1 percent, respectively.

The prices of petroleum products were raised by an average of 15 percent on August 3, 1985, after being frozen for the last four years. This upward revision will contribute to improving the revenue position of the price stabilization board (OSRP), which derives the bulk of its resources from profits made on the sale of petroleum products, but which had recently begun to incur losses. The measure is also expected to dampen petroleum consumption and improve the trade balance. Future increases in procurement costs will be automatically passed through to prices.

Tariffs for railway and road transportation were increased on August 8, 1985 by 45.9 percent for fluids and by 25 percent for solids and containers. The adjustments in tariffs are expected to promote the private transportation sector and improve the financial situation of the railway system (RCFM), where tariff adjustments were overdue. These tariffs will be automatically adjusted in the future for increases in petroleum prices.

#### 4. Public enterprises

The Government plans to launch a comprehensive program to reform and rehabilitate the public enterprise sector in 1986, costing about US\$45-50 million for which complete financing is being arranged by the World Bank. The negotiations relating to this project are expected to be concluded before end-1985. The reform strategy involves general measures applicable to the whole sector, specific rehabilitation programs for 4 enterprises, viability studies for 29 enterprises, and a plan of action for the privatization or liquidation of 10 enterprises. At present, there are no reliable and comprehensive data on domestic

and external arrears of the public enterprise sector. The Government is preparing an inventory of such arrears, which is expected to be completed by end-November 1985. During the first review of the program, a timetable and the modalities for their elimination will be established, in consultation with the World Bank. In the meantime, specific measures are being adopted in the context of the 1985 adjustment program to improve the operations of five key enterprises; these are the national airline (Air Mali), the state trading agency (SOMIEX), the national power company (EDM), the post and telecommunications office (OPT), and the Office du Niger (ON).

To improve the financial situation of Air Mali, domestic fares were raised by 35 percent on August 8, 1985. The Government's position with regard to the liquidation of Air Mali remains unchanged, even though the deadline for liquidating the company and setting up a mixed company by end-June 1985 has not been observed. Following the issuance of the decree requiring Air Mali's liquidation by end-June 1985, the Government pursued a twofold strategy. First, it entered into discussions with several foreign air transport companies with a view to finding a partner to establish a new mixed company that would replace Air Mali. Second, it reorganized Air Mali's services to avoid the accumulation of further losses. In early 1985 the company leased its two medium-range airplanes abroad and discontinued its international flights. All routes outside Mali are currently being utilized by Air Afrique under a profit-sharing arrangement. Although the profit-sharing arrangement on the connection with Paris has generated substantial profits, Air Mali has continued to incur losses on its ground service and domestic flights. The liquidation of Air Mali and the establishment of a mixed company by end-June 1985 was not possible due to the lengthy negotiations involved. The Government, therefore, decided to extend the period for the liquidation of Air Mali till end-December 1985, and to pursue the necessary negotiations. In this regard, the situation will be reviewed by end-November 1985. If a partner to establish a mixed company is not found by then, and if the company continues to sustain losses, based on cash receipts and inclusive of any change in domestic or external payments arrears incurred during August to November 30, 1985, the Government will proceed with the immediate liquidation of the company by end-December 1985. The proceeds of the liquidation would be used to settle its arrears by end-March 1986.

As SOMIEX has continued to incur losses, on August 8, 1985 it increased the selling prices of various commodities. Tea prices were raised by 10-31 percent, salt by 27 percent, and soap by 3 percent. In addition, SOMIEX will reduce by end-November 1985 its personnel by between 200 and 600 persons, from a level of 1,314 at end-1984. It will also attempt to effect further economies by improving its organization and management procedures. In the context of the discussions for the liberalization of pricing and marketing policies, and in the event that SOMIEX continues to incur losses, its role and functions will be examined during the first review of the program.

The OPT will continue to strengthen its operations and management. Technical assistance financed by the World Bank, for this purpose, was put in place in September 1985. A comprehensive reform program is currently being discussed with the World Bank. An agreement is scheduled to be concluded by end-November 1985 between the OPT and the Treasury on the outstanding amounts of interlocked arrears and on a timetable for their elimination. The OPT is also reviewing its tariffs to ensure that they cover costs; the requisite adjustments would be introduced by January 1, 1986. In order to avoid future accumulation of government arrears vis-à-vis the OPT, the Government and the OPT plan to agree by end-November 1985 on the extent of services that can be provided to the Government in 1986 within the confines of the budgetary allocations. To improve its internal organization, the OPT expects to complete the separation of the financial operations of postal services, telecommunications, and the postal checking system subsequent to the elimination of the Government's arrears.

To attain the ratio of self-financing required under a current World Bank project, the EDM will increase its electricity tariffs on average by 35 percent and water tariffs on average by 200 percent before end-October 1985. The EDM is also putting in place measures to further improve bill collection rates. Concomitantly, the OERHN will raise its tariffs by 26 percent, in line with the findings of a recent study on tariff structures. The revised tariff structure, as well as envisaged institutional reforms, are expected to help the OERHN meet its external obligations over the medium term and to finance infrastructural investments in order to fully exploit the energy producing capacity of the dam.

The financial position of the ON is expected to benefit from the abolishment of the requirement that it sell specified quantities of cereals to OPAM at set prices. Furthermore, the ON is expected to introduce major managerial and operational reforms, under a rehabilitation project that is currently being prepared with World Bank assistance and which is expected to start implementation in 1986.

##### 5. Development planning and investment

The Government is taking steps to strengthen the development planning process and investment monitoring. So far, public investment has not been centralized, and no formal monitoring mechanism is in place. Based on the inventory of ongoing investment projects that was completed with UNDP technical assistance in July 1985, the Government is preparing, as a first step, an investment budget for 1986 with Fund technical assistance. The Government will ensure that the level and composition of investment is compatible with Mali's development priorities, its debt servicing capacity, and its fiscal and balance of payments objectives. The budget will provide an important tool for the monitoring of investment, which is essential for overall economic and financial management.

The Government also intends to prepare by mid-1986, in cooperation with the World Bank, a plan of action for the establishment and implementation of a comprehensive system of investment programming. The system will contribute to improving the selection of projects and the allocation of resources on the basis of economic criteria, sectoral priorities, domestic finance requirements, external resource availabilities, and recurrent cost implications. In addition, the Government will seek World Bank assistance in preparing a five-year development plan for the period 1987-91, to follow the current five-year development plan which expires at end-1985. For the interim period of 1986, a plan has not been prepared, but the Government intends to continue with ongoing projects. It does not plan to initiate any new project or enter into commitments regarding any new project which has not been endorsed by the World Bank.

6. Balance of payments and external debt

The policies described above are expected to further strengthen Mali's external position in 1985 and 1986. The current account deficit, excluding grants, is projected to decline from 18.7 percent of GDP in 1984 to 18.3 percent in 1985 and 13.3 percent in 1986. Including grants, the reduction would be from 6.2 percent of GDP in 1984 to 5.8 percent in 1985 and 4.0 percent in 1986. Nonetheless, mainly due to a sharp rise in debt amortization, the balance of payments in 1985, before debt relief, will record a deficit of SDR 10.2 million. In 1986, with the narrowing in the current account deficit and a rise in net capital inflows, a balance of payments surplus of SDR 6.8 million is projected (Table 6).

In 1985 the trade balance is projected to deteriorate. <sup>1/</sup> The growth of total imports is projected to be limited to 0.9 percent. Imported consumer goods, excluding cereals, are projected to decline by 14 percent, reflecting a decumulation of excess stocks and a decline in world market food prices. Petroleum import payments are projected

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<sup>1/</sup> Export performance in 1985 is expected to be somewhat better than projected earlier in SM/85/91 because of a more favorable cotton harvest. However, the volume of livestock exports has been revised downward in light of lower than previously estimated exports in 1984 and drought effects prevailing still in the first half of 1985. Export receipts expressed in SDR terms remain virtually unchanged, nonetheless, because of the appreciation of the CFA franc vis-à-vis the SDR since spring 1985. Imports of cereals are now estimated to be 334,000 tons, compared with an initial projection of 307,000 tons (SM/85/91, Supplement 1) and imports of 296,000 tons in 1984. Cereal import prices had to be revised upward substantially from initial projections, due to higher-than-envisaged transportation charges. Food aid is projected to account for 44 percent (131,000 tons) of total cereal imports.

Table 6. Mali: Balance of Payments, 1982-90

(In millions of SDRs) 1/

	1982	1983	1984	1985	1986	1987	1988	1989	1990
				Program			Projections		
Exports, f.o.b.	131.2	154.5	177.4	172.1	191.4	207.9	220.7	238.2	255.8
Cotton	51.1	69.0	96.4	86.5	89.7	96.2	103.1	107.9	118.4
Livestock	47.0	52.3	44.6	49.9	55.4	58.2	62.4	66.7	71.3
Other	33.1	33.2	36.4	35.7	46.3	53.5	55.2	63.6	66.1
Imports, c.i.f.	-302.4	-328.2	-357.2	-360.3	-345.1	-347.7	-366.5	-386.3	-409.1
Of which: cereals	(-23.3)	(-42.8)	(-91.0)	(-99.6)	(-52.8)	(-36.6)	(-35.1)	(-33.4)	(-27.9)
Services (net)	-38.9	-41.9	-36.6	-36.8	-38.5	-41.5	-43.3	-44.8	-45.7
Of which: interest on external debt	(-25.9)	(-23.8)	(-18.9)	(-18.1)	(-19.6)	(-20.5)	(-20.5)	(-20.1)	(-19.8)
Private transfers (net)	26.2	21.8	21.8	22.7	24.8	27.0	29.4	32.0	34.9
Current account (excluding grants) (as percent of GDP)	-183.9 (-18.5)	-193.7 (-19.9)	-194.6 (-18.7)	-202.3 (-18.3)	-167.4 (-13.3)	-154.2 (-11.1)	-159.7 (-10.5)	-160.9 (-9.6)	-164.1 (-8.9)
Public transfers	84.3	101.8	130.1	138.3	116.8	102.9	108.8	114.5	119.4
Current account (including grants) (as percent of GDP)	-99.6 (-10.0)	-92.0 (-9.4)	-64.5 (-6.2)	-64.0 (5.8)	-50.6 (-4.0)	-51.3 (-3.7)	-50.9 (-3.3)	-46.4 (-2.8)	-44.7 (-2.4)
Nonmonetary capital	70.9	78.2	61.8	53.8	57.4	58.6	69.8	75.9	81.8
Private (net)	-2.5	--	7.9	4.1	4.5	4.5	4.5	4.5	4.5
Public	73.4	78.2	53.9	49.7	52.9	54.1	65.3	71.4	77.3
Disbursements	80.4	89.1	69.2	71.5	77.7	80.4	85.6	91.2	97.1
Amortization	-7.0	-10.9	-15.3	-21.8	-24.8	-26.4	-20.3	-19.8	-19.8
Debt relief 2/	20.9	16.2	6.3	...	...	...	--	--	--
Interest	(20.2)	(15.8)	(4.7)	(...)	(...)	(...)	(-)	(-)	(-)
Principal	(0.7)	(0.4)	(1.6)	(...)	(...)	(...)	(-)	(-)	(-)
Overall balance	-7.6	2.5	3.6	-10.2	6.8	7.3	18.9	29.5	37.1
Financing	7.6	-2.5	-3.6	10.2	-6.8	-7.3	-18.9	-29.5	-37.1
Central Bank									
(Increase in liabilities +)	16.1	-4.8	0.4	8.5	-5.4	...	...	...	...
Operations account	(-7.0)	(-6.3)	(-14.4)	(...)	(...)	(...)	(...)	(...)	(...)
IMF	(24.3)	(12.8)	(19.0)	(4.9)	(-5.2)	(-17.5)	(-18.1)	(-18.2)	(-14.6)
Purchases	(25.4)	(15.0)	(24.0)	(13.0)	(13.0)	(3.3)	(...)	(...)	(...)
Repurchases 3/	(-1.1)	(-2.2)	(-5.0)	(-8.1)	(-18.2)	(-20.8)	(-18.1)	(-18.2)	(-14.6)
Reserves	(-1.2)	(-1.7)	(-4.2)	(...)	(...)	(...)	(...)	(...)	(...)
Commercial banks									
(Increase in liabilities +)	-3.7	-6.9	-7.4	-2.4	-4.7	...	...	...	...
Arrears									
(reduction -)	-8.8	-5.2	-4.7	-1.2 4/	-6.4 4/	--	--	--	--
Obligations not serviced pending rescheduling 5/	4.0	4.8	8.1	8.1	10.8	...	...	...	...
Payments obligations after rescheduling	--	--	--	-2.8	-1.1	...	...	...	...
Financing gap	--	--	--	--	--	10.2	--	--	--
Memorandum item:									
Gross domestic product	993.4	974.2	1,038.7	1,108.0	1,259.9	1,386.1	1,524.6	1,676.9	1,844.8

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

1/ Converted at the following exchange rates (CFAF/SDR): 1982: 362.80; 1983: 407.36; 1984: 445.00; 1985: 458.83; 1986-90: 443.85. Numbers may not add up due to rounding.

2/ Includes interest on the operations account and obligations under various bilateral debts for which agreements on rescheduling have been reached.

3/ Includes Trust Fund.

4/ Estimated repayment of Air Mali's external arrears. Since 1982 data on external transactions by Air Mali have not been included in the balance of payments.

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

to increase by only 3.4 percent, primarily due to the increase in domestic petroleum prices. In addition, capital goods imports are expected to grow by only 2.0 percent, in line with scheduled disbursements associated with ongoing projects. The combined effect of these factors is expected to more than compensate for a sharp drought-related rise in cereal import payments, which is estimated at 9.4 percent. The positive effect of the containment in the growth of imports is projected to be offset by a decline in exports. The latter is due to a drop in the price of cotton exports and a cyclical fall in sheanut production, which are estimated to be larger than the increases in the exports of livestock, vegetables, and minerals.

The service account in 1985 is expected to remain virtually unchanged, due in part to a fall in interest charges. The increase in transfers, mainly associated with food aid, is expected to more than compensate for the widened trade deficit, contributing to the reduction in the current account deficit. Net capital inflows are projected to decline due to lower private capital inflows, following the exceptional surge in 1984 associated with entry into WAMU, and higher scheduled amortization. The resulting balance of payments deficit is expected to be financed primarily by drawings from the Fund and prospective debt relief.

In 1986 a recovery in domestic production and tight financial policies are expected to strengthen the external sector position. Export receipts are projected to increase by 11.1 percent based on a higher output of cotton, as envisaged under the sectoral reform project supported by the World Bank, a recovery in livestock and fish exports, and a cyclically good sheanut harvest. The rise in cotton export receipts is projected to be constrained by weak world market prices. By contrast, total import payments are programmed to decline by 4.2 percent, with cereal imports falling by 47.0 percent (from 334,000 tons to 175,000 tons), reflecting the expected improvement in the cereal harvest in 1985/86. With projected imports of capital goods growing by 10.6 percent and growth in demand for petroleum being contained by the new price policy, noncereal imports are projected to increase by 12.1 percent. The deficit on the service account is expected to widen due to an increase in scheduled interest charges, while official transfers are projected to decline as a result of a drop in food aid. The surplus on the net capital account is projected to increase, reflecting higher disbursements associated with investment projects. Reflecting these factors, the overall balance of payments position is projected to turn into a surplus. This surplus, together with prospective debt relief, would enable Mali to improve its external reserve position.

External debt service obligations are projected to increase significantly in 1985 and 1986, because of a substantial rise in amortization, higher payments to the Fund, and an increase in interest on medium- and long-term obligations after 1985 (Appendix V, Table III). The debt

service ratio, before debt relief, would increase from 15.5 percent in 1984 to 19.4 percent in 1985 and 22.7 percent in 1986. The Government is continuing its negotiations to reschedule the official debt to Egypt, Iraq, Libya, and the United Kingdom, as well as with bilateral creditors for the principal of the Sélingué Dam Authority. The authorities are negotiating with the United Kingdom on the suppliers' credit for the purchase of the state-owned airplane with a view to refinancing on concessional terms the losses resulting from its sale before end-1985. Debt service payments, excluding obligations under renegotiation, are estimated to amount to 16.1 percent in 1985 and 18.8 percent in 1986, compared with a ratio of actual payments of 9.8 percent in 1984. As performance criteria, there will be no new government-contracted or government-guaranteed external short-term debt, except normal trade credits, and no new government-contracted or government-guaranteed external loans on nonconcessional terms with an initial maturity of 1-12 years, excluding debt rescheduling or refinancing.

External payments arrears of the Caisse Autonome d'Amortissement (CAA) and the Road Fund and interest arrears of the OERHN amounted to CFAF 2.8 billion at end-July 1985. As a performance criterion, these arrears will be reduced by cash payments to CFAF 1.4 billion by end-September 1985 and be eliminated by end-December 1985.

#### V. Performance Criteria and Phasing of Purchases

The proposed performance criteria for 1985 and 1986 include the following: (i) quarterly ceilings on total domestic bank credit; (ii) quarterly ceilings on net bank credit to the Government; (iii) the elimination of external arrears of the CAA and the Road Fund, as well as of the interest arrears of the OERHN by end-December 1985; (iv) quarterly ceilings on the stock of Treasury payments arrears; (v) no contracting or guaranteeing by the Government of new short-term nonconcessional debt, excluding normal trade credits; and (vi) no contracting or guaranteeing by the Government of nonconcessional loans with an initial maturity between 1 and 12 years (Table 7). The usual provisions regarding exchange and trade restrictions, and two reviews will also constitute performance criteria.

Specific credit ceilings are incorporated in the program only for the last two quarters of 1985. In the course of the first review, the authorities will reach understandings with the Fund on economic and financial policies for 1986 in light of the progress achieved in 1985. This review will include understandings on measures pertaining to public enterprises, including Air Mali, price policy, fiscal policy (including the investment budget financed with external resources); on quarterly credit ceilings for the first half of 1986; and on the schedule for eliminating the Government's arrears and its reciprocal debts and claims

vis-à-vis the public agencies and enterprises. The outcome of external debt renegotiations, including those regarding the losses arising from the sale of the state-owned airplane, will also be reviewed. The second review, scheduled for mid-1986, will involve understandings on the foregoing matters, as well as on quarterly credit ceilings for the second half of 1986.

Table 7. Mali: Quantitative Performance Criteria Under the Program for 1985

(In billions of CFA francs)

	1985	
	September	December
Domestic bank credit <u>1/</u>	126.0	130.2 <u>2/</u>
Net bank credit to the Government <u>1/</u>	40.5	41.7 <u>2/</u>
Maximum outstanding payments arrears of the CAA, the OERHN, <u>3/</u> and the Road Fund	1.4	--
Maximum outstanding payments arrears of the Treasury	0.05	0.05
New external debt (1-12 years) <u>4/</u>	--	--
New external debt (less than 1 year) <u>5/</u>	--	--

1/ Excluding the balances with the postal checking system (CCP).

2/ To be adjusted downward by the extent of any additional foreign budgetary assistance beyond that programmed.

3/ Includes only interest obligations of the OERHN.

4/ 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.

5/ Government contracted or guaranteed external short-term debt, excepting normal trade credits.

The proposed amount under the arrangement (SDR 22.86 million or 45 percent of quota) appears to be consistent with access criteria, taking into account the adjustment envisaged under the program and the prospects for possible future use of Fund resources. The proposed phasing provides for seven equal installments of SDR 3.266 million. The first purchase would be available after Executive Board approval of the stand-by arrangement. All subsequent quarterly purchases are contingent on the satisfaction of the performance criteria for the respective preceding quarters; purchases after the third and fifth quarters are, in addition, contingent on the completion of the first and the second reviews, respectively.

#### VI. Medium-Term Outlook of the Balance of Payments

The program was elaborated in the context of a base-line medium-term scenario which updates that presented in SM/85/91, taking into account the most recent information on the outcome for 1984, as well as the impact of the adjustment program for 1985-86. Under this scenario (Tables 6 and 8), Mali can be expected to attain a viable balance of payments position by 1988, provided that appropriate adjustment policies are pursued and that weather conditions are not unduly unfavorable. As shown in the base-line scenario presented in Table 6, the current account deficit, including grants, would gradually decline from 4.0 percent of GDP to 2.4 percent between 1986 and 1990; the surplus of the balance of payments would correspondingly increase from SDR 7 million to SDR 37 million.

The improvement in Mali's balance of payments, as depicted in the base-line scenario, relies on the containment of the deficits on the trade and service accounts, a rising trend in private transfers, and a modest increase in project aid, which is reflected in the corresponding inflows of official transfers and capital. Official transfers, however, are expected to decline markedly in 1987, as food aid reverts to a normal level. Thereafter, public transfers are projected to grow at declining rates, averaging about 5.0 percent per year. Total external debt service obligations (including those to the Fund) are projected to peak in 1987 at 22.8 percent of exports of goods, services, and private transfers, before declining gradually to 14.9 percent by 1990 (Appendix V, Table III). Interest payments are expected to remain virtually unchanged, largely due to a projected drop in Fund charges.

Exports are projected to increase at an average annual rate of 7.5 percent, while imports are expected to rise at an average annual rate of 4.3 percent. The increase in total export earnings reflects not only the continued growth in the two key export commodities, cotton and livestock, but also the coming on stream of a second gold mine. The value of cotton exports is projected to grow at an average annual rate of 7.2 percent, reflecting almost equally price and volume

Table 8. Mali: Medium-Term Outlook of the Balance of Payments, Alternative Scenarios, 1984-90

(In millions of SDRs)

	1984	1985	1986	1987	1988	1989	1990
				Projections			
				<u>Scenario A</u> 1/			
Current account deficit/GDP 2/	-6.2	-5.8	-4.0	-4.1	-4.1	-3.7	-3.8
Overall balance 3/	3.6	-10.2	6.8	1.2	7.2	13.6	11.8
Debt under renegotiation	8.1	8.1	10.8	...	...	...	...
Financing gap 4/	--	--	--	16.3	10.9	4.6	2.8
				<u>Scenario B</u> 5/			
Current account deficit/GDP 2/	-6.2	-5.8	-4.0	-4.1	-4.1	-3.9	-3.9
Overall balance 3/	3.6	-10.2	6.8	1.7	7.2	10.6	10.6
Debt under renegotiation	8.1	8.1	10.8	...	...	...	...
Financing gap 4/	--	--	--	15.8	10.9	7.6	4.0
				<u>Scenario C (Base-Line)</u>			
Current account deficit/GDP 2/	-6.2	-5.8	-4.0	-3.7	-3.3	-2.8	-2.4
Overall balance 3/	3.6	-10.2	6.8	7.3	18.9	29.5	37.1
Debt under renegotiation	8.1	8.1	10.8	...	...	...	...
Financing gap 4/	--	--	--	10.2	--	--	--
				<u>Scenario D</u> 6/			
Current account deficit/GDP 2/	-6.2	-5.8	-4.0	-3.3	-3.1	-2.4	-2.3
Overall balance 3/	3.6	-10.2	6.8	12.8	22.6	35.8	40.1
Debt under renegotiation	8.1	8.1	10.8	...	...	...	...
Financing gap 4/	--	--	--	4.7	--	--	--

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

1/ Assuming that the volume of cotton exports remains stable at 54,500 tons after 1986, and that the import volume increases on average by 1.5 percent, compared with 0.8 percent in the base-line scenario. About half of the increase in the import volume is due to lower domestic cereal production compared to the base-line scenario.

2/ Current account deficit, including grants, in percent of GDP.

3/ Excluding debt rescheduling.

4/ Including projected Fund repurchases and Trust Fund repayments.

5/ Assuming that there will be a further deterioration in the terms of trade; average import prices (in SDRs) are projected to increase on average by 4.6 percent, compared with an average of 3.5 percent in the base-line scenario; average export prices (in SDRs) are projected to increase by an annual average of 2.3 percent, compared with 3.3 percent in the base-line scenario.

6/ Assuming that cotton production will continue to exceed the targets set under the World Bank cotton project, as was the case in 1983 and 1984. This implies an increase in cotton fiber exports from 54,500 tons in 1986 to 64,600 tons by 1990, compared with projections of 62,900 tons in 1990 in the base-line scenario.

increases. After an expected reconstitution of livestock herds, following the drought, the growth of livestock exports in volume terms is expected to average annually 2.6 percent after 1987. The second gold mine is expected to come on stream in 1987.

The lower growth rate projected for imports is critically dependent on continued progress in structural adjustment to improve domestic production, accompanied with the pursuit of restrictive demand-management policies. The value of food imports is assumed to decline over the medium term, while the volume of other imports is forecast to rise at an average annual rate of 3.4 percent. Petroleum imports, however, are expected to decline in volume terms, as a result of increased reliance on hydroenergy production and an appropriate pricing policy. Consistent with the availability of financial resources, relating primarily to the public sector, the volume of intermediate and capital goods is projected to grow by 4.5 percent.

Medium-term balance of payments scenarios under different assumptions are shown in Table 8. Even if weather conditions do not deteriorate, a relaxation in the adjustment effort and/or a further deterioration in the terms of trade would delay the attainment of a viable balance of payments position beyond 1988. If there was a slackening in the pursuit of appropriate agricultural policies and some loosening in financial policies, there would be no volume growth in cotton exports after 1986, and the import volume would rise by an average annual rate of 1.5 percent instead of 0.8 percent as in the base-line scenario. Thus, there would be only a marginal improvement in the current account deficit in terms of GDP after 1988 (Scenario A). If the terms of trade were to deteriorate by more than envisaged in the base-line scenario, the resulting scenario shows that the current account deficit in terms of GDP would also remain virtually unchanged by 1990 (Scenario B). In these cases, a readaptation of adjustment policies would be needed.

By contrast, developments could be more favorable. If cotton production continues to expand at a faster pace than targeted under the World Bank-supported cotton sector project, the current account deficit would decline faster to 2.3 percent of GDP in 1990 (Scenario D). The financing gap in 1987 would be sharply reduced from SDR 10.2 million in the base-line scenario to SDR 4.7 million, with viability still being attained in 1988.

## VII. Staff Appraisal

Against a backdrop of mounting economic and financial imbalances, Mali launched in 1982 a substantial adjustment effort that has been supported by two successive stand-by arrangements from the Fund. Under these arrangements, Mali implemented a number of measures designed to

reduce the structural imbalances and to re-establish over the medium term domestic and external financial stability. The measures included adjustments in regulated prices, a liberalization of marketing of coarse cereals, reforms of key public enterprises, a reduction of the consolidated government deficit, a tightening in credit policy, and the pursuit of a prudent external debt management policy. Even though the Malian economy suffered from drought conditions, Mali made considerable progress under its adjustment programs and observed all the quantitative performance criteria.

Nonetheless, Mali continues to face serious economic and financial imbalances. These stem, in particular, from price rigidities resulting from a comprehensive system of price controls, continued losses in the public enterprise sector, the lack of a comprehensive development planning process, a difficult budgetary position, and a rapidly rising external debt service burden. The proposed program for 1985-86 includes a set of measures designed to tackle the basic structural problems and further reduce the financial imbalances with a view to attaining a viable external sector position over the medium term.

To improve the fiscal position, the authorities have undertaken to pursue austere expenditure policies. Particular emphasis is being placed on limiting the growth in the wage bill and in scholarships. More adequate provisions for specific categories of budgetary expenditures are being made to avoid the accumulation of government arrears. In this connection, it is important that no expenditures without budget allocations be permitted. Complementing the emphasis on restraining expenditures, a wide set of measures is being taken to enhance revenue. Furthermore, the envisaged restructuring of the tax system should be instrumental in promoting private sector economic activity. The staff attaches importance to the identification and elimination of all extrabudgetary government domestic arrears, as well as existing tax arrears, in order to regularize the budgetary situation. In this context, the setting-up of a comprehensive system to monitor all arrears is essential to prevent the emergence of additional government arrears. The improvement of budgetary performance will have to be accompanied with a restrictive credit policy that will contribute to a deceleration in the expansion of domestic liquidity.

The comprehensive system of price controls that is in effect needs to be gradually liberalized to bring about an improvement in resource allocation and to promote economic activity. The study which the Government is currently preparing, to be examined at the time of the first review of the program, will provide the basis for setting a timetable for the liberalization of marketing and pricing policies in 1986. Nonetheless, the measures taken in 1985 in this regard, in particular the liberalization of paddy rice marketing, the increase in the producer prices for cotton, and the upward adjustment in the producer prices for paddy rice and other cereals, should contribute to stimulating

production in the agricultural sector. The increases in the retail selling prices of rice and coarse cereals by the cereal marketing agency will help align these prices with market conditions and strengthen the financial position of the cereal marketing agency. The increase in petroleum prices and transportation tariffs is expected to contribute to enhancing the receipts of the Government and improving resource allocation.

Several measures are being introduced to improve the financial position of key public enterprises, pending the launching of a comprehensive sectoral reform project with World Bank technical and financial assistance. Air Mali can be expected to improve its financial operations as a result of the increase in its domestic fares and the profit-sharing arrangements established with Air Afrique. However, the staff concurs with the authorities on the importance of liquidating Air Mali by end-December 1985, if losses continue to be incurred and if negotiations with a partner to establish a mixed company are not completed. The recent increases in the selling prices of the state trading agency (SOMIEX), as well as the envisaged reduction in personnel, should improve its financial position. Similarly, the envisaged increases in electricity and water tariffs should help the national power company (EDM) to strengthen its financial position. These increases are to be accompanied with an adjustment in the tariff structure of the Sélingué Dam Authority, with a view to improving its capability to meet its external debt obligations over the medium term. While the separation of the financial operations of the various units within the office of post and telecommunications (OPT) should strengthen its management, the preparation of an inventory of cross-arrears with the Treasury and their gradual elimination will be essential to restore its financial viability. The Office du Niger (ON) will also benefit from the decision not to require it to sell any specified quantities to the cereal marketing agency at set prices.

Mali is taking steps to strengthen the development planning process. The inventory of ongoing investment projects that has been compiled with UNDP assistance should allow the Government to prepare a meaningful investment budget for 1986 consistent with the country's development priorities, its debt servicing capacity, and its fiscal and balance of payments objectives.

The improvement in the external sector position will depend not only upon the implementation of the measures envisaged under the program, but also on a return to normal weather conditions. The Government is negotiating a rescheduling of official debt to four bilateral creditors, in addition to the debt of the Sélingué Dam Authority. In view of the budgetary and balance of payments constraints, the staff welcomes the decision of the Government to sell the state-owned airplane before end-1985.

The program includes a number of measures designed to bring about structural reforms that can be expected to be instrumental in improving economic efficiency and promoting financial discipline. In the view of the staff, the timely and effective implementation of all the measures proposed for 1985-86 is critical to the achievement of the objectives of the program and to making progress toward the attainment of medium-term balance of payments viability.

VIII. Proposed Decision

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

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

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

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

Mali--Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated August 21, 1985, from the Minister of Finance and Commerce of Mali requesting a stand-by arrangement and setting forth (a) the objectives, policies, and measures that the authorities of Mali intend to pursue for the period of this stand-by arrangement; and (b) understandings of the Malian authorities with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures to be pursued for the remaining period of this stand-by arrangement.

To support these objectives, policies, and measures the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from \_\_\_\_\_, 1985 to March 31, 1987, Mali will have the right to make purchases from the Fund in an amount equivalent to SDR 22.86 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.
2. (a) Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 3.3 million through October 31, 1985, SDR 6.5 million through December 31, 1985, SDR 9.8 million through March 31, 1986, and SDR 13.1 million through June 30, 1986, SDR 16.3 million through September 30, 1986, and SDR 19.6 million through December 31, 1986.  
  
(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Mali's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.
3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1 until purchases under this arrangement reach a total of SDR 13,387,500, and thereafter each purchase shall be made from borrowed resources, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.
4. Mali will not make purchases under this stand-by arrangement, other than the initial purchase of SDR 3.3 million that it may request not later than within 20 days of the effective date of this arrangement, 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:

Mali--Stand-By Arrangement (continued)

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

- (i) the limit on total domestic bank credit as specified in paragraph 15 of the annexed memorandum, or
- (ii) the limit on net bank credit to the Government as specified in paragraph 15 of the annexed memorandum, or
- (iii) the target for the elimination of external payments arrears as specified in paragraph 26 of the annexed memorandum, or
- (iv) the limit on the stock of Treasury arrears as specified in paragraph 10 of the annexed memorandum, or
- (v) the limits on contracting or guaranteeing of nonconcessional external loans as specified in paragraph 27 of the annexed memorandum,

have not been observed, or

(b) during any period after December 31, 1985 and July 1, 1986, if the reviews contemplated in paragraph 4 of the attached letter have not been completed and suitable performance criteria have not been established as contemplated in that provision, or after such criteria having been established, while they are not being observed, or

(c) throughout the duration of this stand-by arrangement, if Mali

- (i) imposes or intensifies restrictions on payments and transfers for current international transactions, or
- (ii) introduces or modifies multiple currency practices, or
- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or
- (iv) imposes or intensifies restrictions on imports for balance of payments reasons.

Mali--Stand-By Arrangement (continued)

When Mali is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Mali and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Mali will not make purchases under this arrangement during any period of the arrangement in which Mali has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. Mali's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Mali. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Mali and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Mali, the Fund agrees to provide them at the time of the purchase.

8. The value date for purchases under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's Rules and Regulations. Mali will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

9. Mali shall pay a charge for this arrangement in accordance with the decisions of the Fund.

10. (a) Mali shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Mali's balance of payments and reserve position improves.

Mali--Stand-By Arrangement (concluded)

(b) Any reductions in Mali's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

11. During the period of the stand-by arrangement Mali shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Mali or of representatives of Mali to the Fund. Mali shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Mali in achieving the objectives and policies set forth in the annexed memorandum.

12. In accordance with paragraph 5 of the attached letter Mali will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Mali has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Mali's balance of payments policies.

Attachment

REPUBLIC OF MALI

ONE PEOPLE, ONE GOAL, ONE FAITH

MINISTRY OF FINANCE  
AND COMMERCE

The Minister of Finance  
and Commerce

No.

Washington, D.C., August 21, 1985

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

Dear Mr. de Larosière:

1. On December 9, 1983, the Fund approved a stand-by arrangement for Mali in support of an adjustment program covering an 18-month period ending May 31, 1985. This program aimed primarily at reducing the domestic and external financial imbalances and re-establishing over the medium term a viable balance of payments position. Although the economy has suffered severely from adverse weather conditions, the measures envisaged under the program have been implemented and the performance criteria have been observed.
2. In order to consolidate the progress made toward attaining a viable external position consonant with domestic financial stability and a sustainable rate of economic growth, the Government has decided to continue its adjustment efforts in the context of a financial program for an 18-month period ending December 31, 1986. In support of this program, the Government of Mali requests the use of Fund resources under a stand-by arrangement in the amount of SDR 22.86 million, which would end on March 31, 1987.
3. The attached memorandum describes the program's economic and financial objectives and policies. For 1985/86, the main objectives of the program are to reduce further the current account deficit, to maintain relative price stability, and to stimulate economic growth. Accordingly, the Government will emphasize restrictive financial policies aimed at containing demand pressures, while addressing the structural problems in the economy with a view to improving the domestic supply situation. The key elements of the program involve a strengthening in the fiscal position, the pursuit of a tight credit policy, the implementation of

an appropriate investment program, the gradual liberalization of prices and deregulation of cereal markets, the rehabilitation of the public enterprises, and prudent external debt management policies.

4. The program will include two reviews. The first will be conducted before end-December 1985. In the course of this review, the authorities will reach understandings with the Fund on economic and financial policies for 1986 in light of the progress achieved in 1985. This first review will include understandings on measures pertaining to public enterprises, including Air Mali, price policy, fiscal policy (including the investment budget financed with external resources), on quarterly credit ceilings for the first half of 1986, and on the schedule for eliminating the Government's arrears and its reciprocal debts and claims vis-à-vis the public agencies and enterprises. The outcome of external debt renegotiations, including those pertaining to the losses arising from the sale of the British Aerospace airplane, will also be reviewed. The second review will involve understandings on all the foregoing matters as well as on quarterly credit ceilings for the last half of 1986.

5. The Government believes that the measures described in the attached memorandum are adequate to achieve the objectives of the 1985-86 program, but will take any further measures that might become necessary for this purpose. The Government of Mali will consult with the Fund in accordance with the policies of the Fund on the progress made in the implementation of the program and any policy adaptations that may be appropriate for the achievement of its objectives.

Sincerely yours,

Dianka Kaba Diakité  
Minister of Finance  
and Commerce

Attachment

Memorandum on the Economic and Financial Program of the Republic of Mali

I. Background

1. Faced with mounting domestic and external economic and financial imbalances, the Malian Government launched in 1981 an adjustment effort aimed at stimulating economic growth, containing inflationary pressures, and strengthening the external sector position. The thrust of this adjustment effort was, inter alia, to reduce the scope of public sector intervention in the economy and create conditions for encouraging the development of the private sector. A number of supply-side and demand-management policies were adopted by the authorities and supported by two stand-by arrangements from the International Monetary Fund, the first covering the 12-month period from May 21, 1982 to May 21, 1983 and the second the 18-month period from December 9, 1983 to May 31, 1985. The adjustment measures called for under these programs were implemented and were instrumental in strengthening the underlying economic and financial situation, notwithstanding the adverse effects of a severe drought. These adjustment efforts have also been supported by World Bank assistance, primarily in the agricultural and public enterprise sectors.

2. Economic activity has fluctuated considerably as a consequence of weather conditions; there has been virtually no growth on an average annual basis since 1980. The adverse supply conditions were reflected in food prices, which, after an annual increase of 4 percent in 1982, rose by about 11 percent in both 1983 and 1984. Reflecting in part an increase in cereal imports, the external current account deficit excluding grants rose from SDR 184 million (18.5 percent of GDP) in 1982 to SDR 194 million (19.9 percent of GDP) in 1983. As drought conditions intensified in 1984, cereal imports more than doubled. However, as noncereal imports declined and cotton exports rose sharply, the current account deficit excluding grants remained virtually unchanged in absolute terms, but declined to 18.7 percent of GDP. Since a sizable proportion of the cereal imports were in the form of food grants, the current account deficit, including grants and before debt relief, was reduced from SDR 100 million in 1982 to SDR 65 million in 1984. Even though the debt service ratio, after debt relief, rose from 6.3 percent in 1982 to 9.4 percent in 1983, mainly because of an increase in external debt amortization, the overall balance of payments turned around from a deficit position to record a small surplus in 1983. Despite a further rise in scheduled external debt amortization in 1984, which led to an increase in the debt service ratio to 13.0 percent, the overall balance of payments surplus increased.

3. The adjustment measures implemented by the authorities contributed to a strengthening in the external sector position, notwithstanding the drought. On the supply side, a key policy element was the liberalization

of the pricing and marketing arrangements for coarse cereals initiated in 1981; the monopsony position of the cereal marketing agency (OPAM) was abolished and producers of coarse grains were authorized to sell their produce freely in the marketplace. Efforts to tackle the problems facing public enterprises were also pursued in 1983-84. A number of measures were taken, including a reduction in personnel and the closing in 1984 of four public enterprises deemed not to be viable, with a view to improving the financial position of the public enterprise sector. In December 1984, the Government issued a decree establishing the procedures for liquidating Air Mali by July 1985.

4. On the demand side, fiscal policies were tightened considerably. The deficit on consolidated government operations on a commitment basis, which excludes foreign-financed investment, was reduced from 4.5 percent of GDP in 1981 to 1.9 percent in 1984, exceeding somewhat the target of 1.2 percent for 1984. This was due mainly to overruns in personnel expenditure, social security payments, interest on advances from the Central Bank, electricity and water charges of EDM, and cereal subsidies paid by the Price Stabilization Board (ORSP). With the exception of the arrears of Air Mali, all the identified domestic and external payments arrears of the Treasury, as well as the external payments arrears of public enterprises monitored under the program, were eliminated on a net basis as scheduled by end-1984. Taking into account available estimates of public investment, the overall deficit, on a commitment basis and excluding grants, is estimated to have been reduced from 12.4 percent of GDP in 1981, to 10.0 percent of GDP in 1984. Nevertheless, domestic credit as a percentage of the initial money stock expanded by 16 percent in 1984. When Mali joined the West African Monetary Union in June 1984, the interest rate structure was revised upward.

## II. The 1985/86 Adjustment Program

### Overview

5. Notwithstanding the progress made in the context of the last two stand-by arrangements, Mali continues to face serious economic and financial imbalances. Economic activity, particularly in the agricultural and public enterprise sectors, is constrained by a number of structural bottlenecks and distortions. The financial imbalances are reflected in the high overall fiscal and external current account deficits, excluding grants, and in the rapidly rising debt service ratio. Accordingly, the Government of Mali is determined to continue its adjustment efforts in the context of a financial and economic program for 1985 and 1986.

6. The program for 1985/86 has been drawn up in the context of a medium-term scenario which aims at achieving balance of payments viability by 1988. The program aims at reducing the external current

account deficit, including grants, from 6.2 percent of GDP in 1984 to 5.8 percent of GDP in 1985 and to 4.0 percent of GDP in 1986, at stimulating economic growth to achieve an annual average rate of growth of 2.6 percent, and at limiting inflation as measured by the GDP deflator to an annual average rate of about 7 percent. On the demand side, the program involves a further reduction in the fiscal deficit, the pursuit of a tight credit policy, and the adoption of a cautious external debt management policy. On the supply side, the program calls for the introduction of a public investment budget, and its integration in the regular budgeting process, the restructuring of the tax system to stimulate economic activity, an acceleration in the rehabilitation of the public enterprise sector, and a further liberalization of pricing and marketing policies. While the measures detailed below will constitute the main components of the program for 1985, the specific quantitative projections for 1986 are indicative and will be re-examined at the time of the first review of the program in light of the progress made in 1985 and more up-to-date information.

#### Fiscal policy

7. The consolidated position of government operations on a commitment basis, which excludes foreign-financed investment and grants, <sup>1/</sup> is projected to move from a deficit of CFAF 8.9 billion (1.9 percent of GDP) in 1984 into virtual balance in 1985 and to record a surplus of CFAF 4.5 billion (0.8 percent of GDP) in 1986. After taking into account reductions in arrears and transactions in the complementary period, the deficit on a cash basis is projected to decline from CFAF 8.9 billion (1.9 percent of GDP) in 1984 to CFAF 3.4 billion (0.7 percent of GDP) in 1985. A cash surplus of CFAF 1.5 billion (0.3 percent of GDP) is projected for 1986. As net external borrowing is estimated to be negative in 1985 and 1986, the consolidated government position is to be financed mainly by credit from the banking system and grants. The central government budget, on a commitment basis, is projected to turn from a deficit of CFAF 6 billion in 1984 to surpluses of CFAF 0.3 billion in 1985 and CFAF 3.1 billion in 1986.

8. In order to improve public finance management and economic analysis, the Government will establish an investment budget for 1986 that will incorporate government investment expenditures financed by tied external assistance. The International Monetary Fund has already provided technical assistance for this purpose. In light of the outcome of this exercise, the target for the overall deficit of the Government in 1986 will be reassessed at the time of the first review and shifted to a deficit target inclusive of foreign-financed investment. Based on

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

currently available information, the overall deficit on a cash basis, including foreign-financed investment but excluding grants, would fall from CFAF 46.3 billion (10.0 percent of GDP) in 1984 to CFAF 38.5 billion (7.6 percent of GDP) in 1985 and to CFAF 36.1 billion (6.5 percent of GDP) in 1986.

9. To achieve the 1985 target for consolidated government operations, a number of revenue and expenditure measures have already been taken. These include a further improvement in customs administration and a package of tax measures. These tax measures involved increases in the taxes on salt, cola nuts, and tea, expected to produce CFAF 650 million in added revenue, and an increase in the stamp duties on import licenses, with an anticipated additional yield of CFAF 250 million. The wage increase of the civil service was, in addition, expected to result in an increase of about CFAF 500 million in income tax (IGR) and payroll tax collections. It was anticipated that the growth of budgetary expenditure would be contained in large part by reducing budgetary allocations for new recruitment and keeping nonwage expenditure constant in nominal terms. Furthermore, savings were expected to result from the much tighter monitoring of personnel expenditure made possible by the computerization and centralization of payrolls on the basis of the census of civil servants completed in June 1985. These measures are expected to limit the impact of the recent wage increases ranging between 10 and 35 percent granted after a three-year freeze. However, developments in the first half of 1985 indicate that, as a result of revenue shortfalls and expenditure overruns, the 1985 target for consolidated government operations may not be achieved. Accordingly, the Government has decided to take additional measures effective August 1985. On the revenue side, the administered prices on which customs duties are assessed /valeurs mercuriales/ were increased so as to generate an additional CFAF 200 million. The profits from the sale of petroleum products will rise by CFAF 2.1 billion, following the adjustment in prices. A 10 percent customs duty on the c.i.f. value of commercial imports of cereals and cereal products and the reinstatement of the sales tax on these products are expected to yield an additional revenue of CFAF 0.4 billion. Furthermore, the sales tax on other imports will be assessed on their c.i.f. value, instead of on the basis of their valeurs mercuriales, yielding receipts of CFAF 0.3 billion. Moreover, revenue in the amount of CFAF 0.4 billion is expected from the collection of previous years' taxes and fines. On the expenditure side, the Government will contain the wage bill to CFAF 37.0 billion and scholarships to CFAF 3.4 billion in 1985, representing increases of approximately 11 and 10 percent, respectively, compared to 1984. Additional budgetary allocations of CFAF 0.3 billion will be provided for budgetary expenditures other than for personnel and scholarships. Expenditure control will be strengthened to ensure the respect of budgetary allocations.

10. The Government is aware that it owes a considerable amount of extrabudgetary domestic arrears and is owed considerable tax arrears. As of now, no reliable or comprehensive data on such arrears is available. Accordingly, by end-November 1985, the Government will complete an inventory of all arrears and draw up a timetable and the modalities for their elimination. The timetable will be examined at the time of the first review of the program. A system for monitoring all arrears of the Government will be set up by end-November 1985. Pending the completion of this work, the outstanding stock of Treasury arrears will not exceed CFAF 50 million at end-September and end-December 1985.

11. With respect to 1986, the authorities plan to vigorously pursue various measures on the revenue and expenditure sides to achieve the targeted surplus on consolidated government operations. Revenue for 1986 is projected to grow by 9.2 percent, in part due to the full-year effect of the measures taken in 1985. Furthermore, the Government is preparing, based on technical assistance provided by the Fund, a comprehensive tax reform package designed to stimulate private sector economic activity over the medium term. Some of these reform measures are expected to be incorporated in the 1986 budget, with any resulting shortfall in revenues to be financed by the U.S. Government under its Economic Policy Reform Program. On the expenditure side, expenditure growth will be limited to 3.1 percent. The key measures include a freeze in the wage bill and on scholarships in nominal terms at the 1985 levels. The freeze in the wage bill will be made possible through the economies generated by the revision and computerization of the payroll, reflecting the result of the census of the civil service. In light of the outturn for 1985 and the result of the census, further savings in the wage bill and scholarships will be considered at the time of the first review. The budget will incorporate adequate allocations for all categories of expenditure, in order to avoid a further accumulation of extrabudgetary arrears. The adoption of the overall budget for 1986, including foreign-financed investment, along with a schedule for the elimination of arrears, with an estimated reduction of CFAF 3.0 billion, will be necessary for completion of the first review.

12. Within the context of the consolidated budget, the financial position of the special funds will be strengthened by the measures referred to above. The Price Stabilization Board (OSRP) and the Road Fund are expected to benefit from the increase in the prices of petroleum products. The Caisse Autonome d'Amortissement (CAA) will be provided sufficient resources to service its external debt obligations.

#### Credit Policy

13. The rate of credit growth will be strictly limited, consistent with the objectives of the program. Domestic credit expansion is projected to decelerate from 16 percent of beginning money stock in

1984 to 11.4 percent in 1985 and 5.8 percent in 1986. Reflecting the projected improvement in the budgetary position, however, net credit to the Government is expected to grow at a slower rate in 1985 than in 1984 despite the rise in external debt amortization. With the projected further strengthening in the Government's consolidated position in 1986, a further sharp drop in the growth of net credit to the Government is expected. The growth in domestic liquidity is projected to decelerate from 25.2 percent in 1984 to 11.3 percent in 1985 and 7.9 percent in 1986.

14. To monitor the progress under the program, quarterly ceilings for overall domestic credit and net credit to the Government for the second half of 1985 have been set. Quarterly credit ceilings as performance criteria for the first half of 1986, as well as indicative ceilings for the second half of 1986, will be set at the time of the first review. Quarterly credit ceilings as performance criteria for the second half of 1986 will be set at the time of the second review.

15. Domestic bank credit, 1/ which amounted to CFAF 123.0 billion at end-March 1985 and is estimated to have reached CFAF 123.6 billion at end-June 1985, will not exceed CFAF 126.0 billion at end-September 1985 and CFAF 130.2 billion at end-December 1985. Net bank credit to the Government 2/ will not exceed CFAF 40.5 billion at end-September 1985 and CFAF 41.7 billion at end-December 1985. Should external budgetary assistance, including debt relief, exceed the projection of CFAF 10.3 billion in 1985, the ceilings for net bank credit to the Government and domestic bank credit will be reduced by the amount of the excess. Any additional resources thus secured will be examined with the Fund at the time of the first review of the program.

#### Pricing and Marketing

16. The Government of Mali has decided to liberalize pricing and marketing policies gradually, with a view to improving resource allocation and stimulating economic activity. For this purpose, it is now preparing a detailed study on the existing system of price controls and a timetable for their relaxation. The study and timetable are expected to be ready by the time of the first review, with a view to start

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1/ For purposes of this program, doubtful bank loans to the economy, before provisions, are included in the definition of bank credit. The position of the postal checking system is excluded.

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

implementation in 1986. The completion of the first review will be dependent on reaching understandings on the specific measures and the timetable for their implementation.

17. Pending the completion of the above work, the Government has already decided to take the following measures:

a. Liberalization of paddy rice marketing: The Government has issued a timetable for the liberalization of paddy rice marketing in the region covered by the Office du Niger;

b. Cotton: The producer price for cotton has been raised from CFAF 75 to CFAF 85 per kilogram effective June 1, 1985. The Government will continue to consult with the World Bank on cotton pricing policy;

c. Cereal producer prices: The producer price for paddy rice has been increased from CFAF 65 to CFAF 70, and that for coarse cereals from CFAF 50 to CFAF 55 per kilogram, effective June 1, 1985;

d. Cereal selling prices: Retail selling prices of rice and coarse cereals by the cereals marketing board (OPAM) will be raised to CFAF 165 and CFAF 95 per kilogram, respectively, by end-October 1985.

e. Petroleum: The prices of petroleum products have been raised by an average of 15 percent on August 3, 1985. These will be automatically adjusted for any increase in procurement costs.

f. Transportation: The tariffs for road transportation (TKM) have been raised on August 8, 1985, by 45.9 percent for fluids and by 25 percent for solids and containers. The effects of any future increase in petroleum prices will be automatically passed through.

#### Public enterprises

18. The Government of Mali is determined to pursue the reform of the public enterprise sector more vigorously. Negotiations with the World Bank on a comprehensive sectoral reform project, involving costs of US\$49.3 million, are nearing conclusion. Implementation of the project is expected to begin in early 1986. The reform strategy includes global measures applicable to the sector, specific rehabilitation programs for four enterprises, studies to determine the viability of 29 enterprises, and a plan of action for privatizing or liquidating 10 enterprises. As of now, the Government does not have comprehensive and reliable data on the domestic and external arrears of the sector. An inventory of such arrears will be prepared by end-November 1985, and the Government and the Fund will reach understandings during the first review of the program on a timetable as well as on the modalities for their elimination. Pending the launching of this structural reform project, the Government is introducing specific measures affecting several enterprises in 1985.

19. The liquidation of Air Mali by July 1, 1985 and its conversion into a mixed company with private partners were not possible owing to the lengthy negotiations involved. However, the position of the Government vis-à-vis Air Mali remains unchanged. In order to avoid further losses, domestic fares have been increased by 35 percent on August 8, 1985. International lines are being utilized jointly with Air Afrique. If a partner is not found by end-November 1985, and if the company continues to sustain losses on a cash basis, inclusive of any change in domestic or external payment arrears during the period from August 1 to November 30, 1985, the Government will take the steps necessary for its immediate liquidation by end-December 1985. The proceeds of the liquidation will be used to settle its arrears by end-March 1986.

20. Despite a number of measures taken over the past few years, SOMIEX continues to incur large losses. Effective August 8, 1985, a number of selling prices of SOMIEX have been adjusted to cover costs. SOMIEX will also reduce unnecessary personnel by between 200 to 600 persons by November 30, 1985. In the event of further losses, and in the context of the liberalization of pricing and marketing policies, the role and function of SOMIEX will be reviewed during the first review of the program.

21. The electricity company (EDM) will increase its electricity tariffs by 35 percent on average and its water tariffs by 200 percent on average before end-October 1985. These increases are necessary to achieve the stipulated ratios of self-financing in the loan agreement with the World Bank. Concomitantly, the tariff of OERHN will be increased by 26 percent. Studies on the tariff structures of EDM and of the Sélingué Dam authority (OERHN), financed by the World Bank, have been completed. These studies provide the basis for adjusting the tariff structure of both enterprises. The revised tariff of OERHN, as well as envisaged institutional reforms, are expected to help it meet its external debt obligations over the medium term.

22. The Post and Telecommunications Office (OPT) has introduced a number of management and operational reforms. One notable measure, in line with Fund recommendations, was the discontinuation on January 1, 1985 of the access of the Treasury to the funds of the postal checking system. The following further steps are expected to be taken in 1985. By end-November 1985, OPT will conclude an agreement on cross arrears and debts with the Treasury and establish a timetable for their elimination. OPT will review its tariffs by October 1, 1985 and make specific proposals to ensure that they cover costs beginning January 1, 1986. In view of the Treasury's limited budget allocations for the Government's use of OPT services, OPT and the Government will reach agreement by end-November 1985 on the amount of services OPT will provide to the Government in 1986. From an organizational point of view, OPT expects to complete the separation of the financial operations of three units, namely

(a) postal services, (b) telecommunications, and (c) the postal checking system, once its cross arrears and debts with the Treasury have been settled.

23. The financial position of the Office du Niger is expected to improve as a consequence of the liberalization of the paddy rice marketing policy in 1985. Beginning with the 1985/86 growing season, authorized merchants and cooperatives will be allowed to purchase paddy rice at market-determined prices in the region covered by the agency. Furthermore, the Office du Niger will no longer be required to sell any specified quantities to OPAM at set prices. The World Bank is currently preparing a rehabilitation project for the Office du Niger, which is expected to involve managerial and operational reforms. The rehabilitation project is expected to be completed by end-1985.

#### Public investment

24. The Government has decided to take steps to strengthen the development planning process. As a first step, an inventory of ongoing investment projects has been prepared with UNDP assistance. This will serve as a basis for the preparation of the investment budget for 1986, which is well under way. The Government will ensure that the composition and level of investment included in the 1986 budget will be consistent with Mali's development priorities, its debt servicing capacity, and its financial and balance of payments objectives. Investment will be confined to ongoing projects. Furthermore, the Government intends to work out a plan of action to establish a system of investment programming that will involve project selection on the basis of economic criteria, sectoral priorities, counterpart-fund requirements, and recurrent cost implications. The Government will work closely with the World Bank to complete the preparation of such a plan of action by mid-1986 as well as to prepare an investment plan for the 1987-1991 period. The Government will not initiate any new project or enter into commitments regarding any new project which has not been endorsed by the World Bank.

#### External sector

25. The policies described above are geared toward strengthening the balance of payments position over the medium term. During the program period, the policies are aimed at reducing the current account deficit, excluding grants, from 18.7 percent of GDP in 1984 to 18.3 percent in 1985 and 13.3 percent in 1986. Including grants, the reduction would be from 6.2 percent in 1984 to 5.8 percent in 1985 and 4.0 percent in 1986. A recovery in domestic production and the tight financial policies called for under the program are expected to contribute to a slowdown in the growth of imports in 1985 and a decline in 1986. In particular, the decline in 1986 would result in large part from a drop in cereal imports, which hinges critically on a return to more normal

weather conditions. Exports are expected to reflect higher levels of livestock exports and the coming on stream of two new gold mines, while an increase in the volume of cotton exports is expected to offset the impact of the projected decline in export prices. The balance of payments, before debt relief, will record a deficit in 1985 because of an increase in cereal imports and in scheduled external debt amortization. However, with a further improvement in the current account, the overall balance is projected to move into surplus in 1986.

26. The Government is continuing its negotiations on rescheduling of the official debt to four bilateral creditors (Egypt, Iraq, Libya, and the United Kingdom) and the Sélingué Dam authority's debts to bilateral creditors. 1/ Negotiations with the United Kingdom on the suppliers' credit for the purchase of the British Aerospace airplane are aimed at refinancing on concessional terms the losses resulting from its sale before end-1985. The external payments arrears of the CAA and the Road Fund, and the interest arrears of the Sélingué Dam authority (OERHN) amounted to CFAF 2.8 billion at end-July 1985. These arrears will be reduced by cash payment to CFAF 1.4 billion by end-September 1985 and eliminated by end-December 1985.

27. During the period of the program there will be no new government contracted or guaranteed external short-term debt, excepting normal trade credits, and no new commitments of government contracted or guaranteed external debt on nonconcessional terms with initial maturities of 1 to 12 years.

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1/ The unpaid principal obligations of the Sélingué Dam authority amounted to CFAF 3.6 billion at end-July 1985.

Mali: Relations with the Fund  
(As of August 31, 1985)

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 111.5 million  
(219.4 percent of quota)

	<u>Millions of</u> <u>SDRs</u>	<u>Percent of</u> <u>quota</u>
(c) Use of Fund credit	69.3	136.5
Credit tranches	(44.1)	(86.8)
EAR	(25.3)	(49.7)
CFF	(--)	(--)
(d) Reserve tranche position	8.7	17.7

III. Stand-By Arrangements

- 1. Last stand-by arrangement:
  - (a) Duration: December 9, 1983-May 31, 1985
  - (b) Amount: SDR 40.5 million
  - (c) Utilization: SDR 40.5 million
  - (d) Undrawn balance: Nil
- 2. Previous stand-by arrangement: stand-by arrangement approved in May 1982 in an amount of SDR 30.4 million, 75 percent of quota (SDR 40.5 million)

IV. SDR Department

- (a) Net cumulative allocation: SDR 15.9 million
- (b) Holdings: SDR 0.17 million (1.1 percent of net cumulative allocation)

Relations with the Fund (concluded)

V. Administered Accounts

Trust Fund loans

- (i) Disbursed: SDR 21.5 million
- (ii) Outstanding: SDR 16.1 million

VI. Overdue Obligations to the Fund - None

(B) Nonfinancial Relations

VII. Exchange system: Pegged to the French franc; SDR 1 = CFAF 440.03

VIII. Last Article IV consultation completed by the Executive Board on May 3, 1985. Decision as follows:

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Mali, in the light of the 1985 Article IV consultation with Mali conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).
2. The Fund notes with satisfaction that Mali continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions, and urges the authorities to take early action to terminate the remaining bilateral payments agreements with Fund members.

IX. Technical Assistance

(a) CBD: 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 at the national agency of the BCEAO (1985).

(b) FAD: Budget control (from August 1982 through 1985). Technical assistance was provided in March 1985 for the preparation of an investment budget, and in June 1985 for the reform of the tax system.

X. Resident Representative

Since September 1982. Miss Doizé succeeded Mr. Daumont in September 1984.

Mali: Relations with the World Bank Group

1. Statement of IDA Credits as of March 31, 1985

<u>Credit Number</u>	<u>IDA Fiscal Year</u>	<u>Purpose</u>	<u>Amount (less cancellations)</u>	
			<u>IDA</u>	<u>Undisbursed</u>
			-----US\$ million-----	
Fifteen Credits fully disbursed			107.34	
538-MLI	1975	Livestock	13.3	0.29
669-MLI	1977	Mali-Sud Agricultural	15.5	0.49
753-MLI	1978	Mopti Rice II	15.0	0.26
883-MLI	1979	Forestry	4.5	0.14
943-MLI	1979	Urban Development	12.0	1.92
986-MLI	1980	Industrial Sector Development	8.0	4.62
1104-MLI	1981	Road Maintenance	17.0 <u>1/</u>	3.03
1134-MLI	1981	Petroleum Exploration Promotion	3.7	1.27
1174-MLI	1982	ODIPAC Technical Assistance	6.5	2.66
1200-MLI	1982	Second Telecommunications	13.5	9.37
1282-MLI	1983	Water/Power	24.0	15.63
1307-MLI	1983	Economic Management and Training	10.4	6.46
1403-MLI	1984	Biomass Alcohol and Energy Efficiency	7.6	5.86
1415-MLI	1984	2nd Mali-Sud Rural Development	25.9	20.77
1422-MLI	1984	Health Development	16.7	12.94
1431-MLI	1984	Rural Water Supply	4.6	3.50
1442-MLI	1984	Third Education	4.6	3.69
FO07-MLI	1984	Rural Water Supply	6.3	5.33
FO10-MLI	1984	Third Education	<u>4.9</u>	<u>4.42</u>
Total			321.34	102.63
Of which has been repaid			<u>2.41</u>	
Total now held by IDA			318.93	
Total undisbursed				102.63

Mali: Relations with the World Bank Group (concluded)

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

<u>Loan Number</u>	<u>Year</u>	<u>Borrower</u>	<u>Purpose</u>	<u>Amount</u>		
				<u>of Loan</u>	<u>Equity</u>	<u>Undisbursed</u>
				-----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. The Bank is presently preparing a public enterprise rehabilitation project which covers both policy and institutional measures and the specific rehabilitation of certain enterprises. The Bank is actively involved in promoting agricultural development and reform, in particular, in the context of the project for Mali Sud, which has involved a major restructuring of the cotton export system, and a project for the restructuring of Office du Niger under preparation.

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Source: World Bank.

1/ Beginning with Credit 1104-MLI, credits have been denominated in special drawing rights. The dollar amounts in these columns represent the dollar equivalents at the time of credit negotiations for the IDA amounts and the dollar equivalents as of March 31, 1985, for the undisbursed amounts.

Table I. Mali: Quantitative Performance Criteria and Results Under the 1983-85 Program

	1983						1984							
	Dec.		March		Init. prog.	June		Init. prog.	Sept.		Init. prog.	Dec.		
	Prog.	Act.	Prog.	Act.		Adj. prog. 1/	Act.		Adj. prog. 1/	Act.		Adj. prog. 1/	Act.	
	(In billions of Mali francs)						(In billions of CFA francs)		(In billions of CFA francs)		(In billions of Mali francs)		(In billions of CFA francs)	
Net bank credit to Central Government	142.0	142.0	146.5	139.9	150.5	28.1	25.6	153.5	29.6	27.1	156.5	31.1	26.9	2/
Bank credit to the economy														
Upper limit	217.5		231.8		223.8	74.8		218.5	72.1		230.4	78.0		
Lower limit <u>3/</u>	214.0	203.3	227.3	213.2	219.3	72.5	68.8	214.5	70.1	67.1	226.4	76.0	73.0	
Maximum outstanding payments arrears <u>4/</u>														
Domestic	4.00	3.99	3.00	2.99	2.00	1.00	0.99	1.00	0.50	0.49	--	--	--	
External <u>5/</u>	4.40	4.17	3.80	3.26	3.10	1.55	1.21	1.00	0.50	0.50	--	--	--	
	(In millions of SDRs)													
New external borrowing <u>6/</u>	10.0	--	10.0	--	10.0	10.0	1.6	10.0	10.0	1.6	10.0	10.0	1.6	

Source: Data provided by the Malian authorities.

1/ Technical adjustment due to entry into WAMU.

2/ Excluding re-evaluation of "special advances to Government through use of Fund credit and Trust Fund," and including, as government deposits, revenue of the Cotton Fund which is earmarked for transfer to the Treasury.

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

4/ Refers solely to arrears subject to reduction by cash payments.

5/ Not including the arrears of Air Mali.

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

Table II. Mali: Impact of Revenue Measures Implemented in 1985-86

(In millions of CFA francs)

	1985	1986
Total	<u>4,300</u>	<u>7,000</u>
Tax Measures	<u>2,200</u>	<u>2,800</u>
Prior to program	<u>900</u>	<u>--</u>
Increase in taxes on salt, cola nuts, tea	650	--
Increase in stamp duties on import licenses	250	--
Under program	<u>1,300</u>	<u>2,800</u>
Increase in " <u>valeurs mercuriales</u> "	200	700
Import tax and IAS on rice, other cereals, and cereal products	400	600
Calculation of IAS on imports on c.i.f. basis	300	600
Recovery of previous years' tax claims and fines	400	900
Other revenue measures	<u>2,100</u>	<u>4,200</u>
Increase in prices of petroleum products <u>1/</u>	2,100 <u>1/</u>	4,200

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

1/ Includes profits from the revaluation of existing stocks.

Table III. Mali: External Public Debt Service, 1982-90

(In millions of SDRs)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
				Projections					
Interest	<u>25.9</u>	<u>23.8</u>	<u>18.9</u>	<u>18.1</u>	<u>19.6</u>	<u>20.5</u>	<u>20.5</u>	<u>20.1</u>	<u>19.8</u>
Medium- and long-term	25.0	21.5	14.8	12.4	13.3	14.3	15.4	16.3	17.4
IMF charges	0.9	2.3	4.1	5.7	6.3	6.2	5.1	3.8	2.4
Principal	<u>8.1</u>	<u>13.1</u>	<u>20.3</u>	<u>29.9</u>	<u>43.0</u>	<u>47.2</u>	<u>38.4</u>	<u>38.0</u>	<u>34.4</u>
Medium- and long-term	7.0	10.9	15.3	21.8	24.8	26.4	20.3	19.8	19.8
IMF charges	1.1	2.2	5.0	8.1	18.2	20.8	18.1	18.2	14.6
Total (before debt relief)	<u>34.0</u>	<u>36.9</u>	<u>39.2</u>	<u>48.0</u>	<u>62.6</u>	<u>68.1</u>	<u>58.9</u>	<u>58.1</u>	<u>54.2</u>
Debt rescheduling	<u>24.9</u>	<u>21.1</u>	<u>14.4</u>	<u>8.1</u>	<u>10.8</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Debt relief obtained	20.9	16.2	6.3	--	--	--	--	--	--
Obligations under renegotiation	4.0	4.9	8.1	8.1	10.8	...	...	...	...
Total (after debt relief obtained)	<u>13.1</u>	<u>20.7</u>	<u>32.9</u>	<u>48.0</u>	<u>62.6</u>	<u>67.7</u>	<u>58.9</u>	<u>58.1</u>	<u>54.2</u>
Total (after debt relief obtained and excluding obligations under renegotiation)	<u>9.1</u>	<u>15.8</u>	<u>24.8</u>	<u>39.9</u>	<u>51.8</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>...</u>
Total debt outstanding	923.9	1,049.2	1,139.4	1,172.3	1,266.2	1,299.4	1,346.6	1,399.8	1,462.5
<u>Memorandum items:</u>									
Export goods, services, and private transfer receipts	206.2	227.2	251.7	247.8	275.5	296.3	315.2	338.6	364.1
Debt service ratio	(In percent)								
Before debt rescheduling	16.5	16.2	15.5	19.4	22.7	22.8	18.7	17.2	14.9
After debt relief obtained	6.3	9.1	13.0	19.4	22.7	22.8	18.7	17.2	14.9
After debt relief obtained and excluding obligations under renegotiation	4.4	7.0	9.8	16.1	18.8	...	...	...	...
Total debt/GDP	93.0	107.7	109.7	105.8	100.5	93.7	88.3	83.5	79.3

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

