

**LAPSE OF
TIME**

EBS/20/194

December 22, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Mali—Request for Modification of Performance Criteria Under the Extended Credit Facility**

Board Action:	Executive Directors' consideration on a lapse of time basis
Deadline to Request a Board Meeting, after which Proposed Decision Deemed Approved:	Thursday, January 7, 2021 12:00 (noon)
Proposed Decision:	Page 3
Publication:	Yes*
Questions:	Ms. Cebotari, AFR (ext. 35417) Ms. Jankulov Suljagic, AFR (ext. 36479) Ms. Isakova, AFR (ext. 34723)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank, Islamic Development Bank, Organisation for Economic Cooperation and Development, West African Economic and Monetary Union, World Trade Organization

*The authorities have indicated that they consent to the Fund's publication of this paper.



MALI

December 21, 2020

REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA UNDER THE EXTENDED CREDIT FACILITY

Approved By
Annalisa Fedelino (AFR)
and **Bjoern Rother (SPR)**

Prepared by the African Department

MODIFICATION OF PERFORMANCE CRITERIA

This staff report proposes the modification of the performance criteria for end-December 2020 for the economic program supported by the three-year Extended Credit Facility (ECF) arrangement that was approved by the Executive Board on August 28, 2019. The modifications aim to accommodate the needed response to combat the COVID-19 pandemic and to adjust the end-December 2020 targets to take account of the impact of the pandemic shock.

1. At the time of the authorities' request for a [Rapid Credit Facility](#) (April 30, 2020) and the second tranche of debt relief under the [CCRT](#) (October 30, 2020), staff reported to the Board about the expected impact of the COVID-19 pandemic and the package of policy measures announced by the authorities to support households, firms, and the healthcare sector in dealing with it. In addition, the socio-political crisis that rattled Mali since mid-2020 culminated in a coup d'état in August 2020. The COVID-19 pandemic and the coup have added to Mali's significant security and social challenges, and have also delayed discussions under the second and third review of the ECF (with end-December 2019 and end-June 2020 test dates, respectively).

2. As a transitional government took office in early October 2020, it reached out to the IMF staff to indicate its readiness to resume discussions under the IMF-supported ECF. The transition government—in place for 18 months until general elections in early 2022—announced that it will assume all international obligations and commitments of the previous government, and that its policy priorities will include addressing the country's security situation, carrying out key political and institutional reforms conducive to transparent and credible elections within 18 months, improving

governance and reducing corruption, achieving strong and inclusive growth, and fighting COVID-19.

3. Discussions with the authorities are currently underway to complete the second and the third reviews under the ECF arrangement, with a Board discussion expected in late-January 2021 at the earliest. The discussions aim to recalibrate the program for the remainder of 2020 and 2021 to account for the new macroeconomic outlook and the needed policy response to the pandemic shock, including corrective actions to support program objectives.

4. The original program targets for end-December 2020 have become inconsistent with recent developments and/or infeasible. Since the timing of the Board discussion for the envisaged combined second and third reviews would not allow for resetting of the end-December 2020 targets for the fourth review, the authorities have requested that these targets be reset prior to the Board meeting.

- The proposed modifications are consistent with the revised macroeconomic outlook and the policy response to the pandemic as reported to the Board at the time of the second tranche of the CCRT. At the time of the CCRT request, staff indicated that growth was expected to decline from 5 percent pre-covid to -2 percent in 2020, accompanied by muted inflation and a strengthening external current account due to a significant improvement in the terms of trade. The weakening activity and the policy response to combat the pandemic were also expected to widen the fiscal deficit to 6.2 percent of GDP, compared to the programmed 3½ percent. The proposed modifications also take into account the tightening of the external financing environment after the coup as international donor support retrenched. As a result of lower external financing, some non-priority spending cannot be implemented as envisaged and the proposed modifications therefore target an overall fiscal deficit of 5½ percent of GDP in 2020, narrower than projected at the time of the CCRT request.
- The request for modification of performance criteria covers the following targets: (i) the floor on net tax revenues; (ii) the ceiling on the overall fiscal deficit; and (iii) the ceiling on net domestic financing, which covers the on-lending of IMF borrowing from the regional Central Bank (Table 1 of the Letter of Intent).

5. **Staff assessment.** Staff supports the authorities' request for modification of the end-December 2020 performance criteria under the ECF-supported program. These modifications would accommodate the macroeconomic impact of the pandemic and the authorities' policy response needed to contain the spread of COVID-19 and mitigate the impact of the pandemic on the Malian economy. They would also render the program targets credible and consistent with the impact of the pandemic shock on the economy.

Proposed Decision

The following decision, which may be adopted by a majority of votes cast, is proposed for adoption by the Executive Board:

1. In a letter dated December 21, 2020 (the “**December 2020 Letter**”), the Minister of Economy and Finance of Mali requests a modification of the performance criteria on:
 - the ceiling on the net domestic financing of the government,
 - the ceiling on the overall fiscal deficit, and
 - the floor on net tax revenue,
 that are set forth in paragraphs 4.A.a.i., 4.a.ii., and 4.A.a.iii, respectively, of the Extended Credit Facility (EBS/19/78, 8/13/2019) (the “**ECF Arrangement**”), and its attachments, as amended.
2. The December 2020 Letter, together with its attachment, shall be attached to the ECF Arrangement, and the letter from the Prime Minister and Minister of Economy and Finance of Mali, dated August 9, 2019, together with its attachments, shall be read as supplemented and modified by the December 2020 Letter and its attachment.
3. Accordingly, paragraph 4.B of the ECF Arrangement for Mali shall be amended as follows:
 - “B. Mali will not request the fifth disbursement under this arrangement specified in paragraphs 2(e), above:
 - (a) if the Managing Director of the Trustee finds that the data as of December 31, 2020 indicate that:
 - (i) the ceiling on the net domestic financing of the government;
 - (ii) the ceiling on the overall fiscal deficit; or
 - (iii) the floor on net tax revenue,
 as set out in Table 1 attached to the December 2020 Letter and further specified in the December 2019 TMU was not observed.”

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
 Managing Director
 International Monetary Fund
 Washington DC, 20431, U.S.A.

December 21, 2020

Dear Ms. Georgieva,

1. We are writing to request the modification to the following performance criteria for end-December 2020 (test date for the fourth review) as specified in the Extended Credit Facility (ECF) for Mali for the period August 2019-22:

- i. The ceiling on net domestic financing;
- ii. The ceiling on the overall fiscal deficit; and
- iii. The floor on net tax revenue.

2. As we have indicated to staff during this year's Annual Meetings, the Transitional Government is fully committed to implementing the program supported by the ECF. The unexpected shock of the COVID-19 pandemic and its fallout throughout the economy, which compelled the government to react in order to save lives and livelihoods, have fundamentally changed our ability to meet the targets for 2020 as previously set during the first review (January 2020), as these targets did not anticipate the COVID-19 shock.

3. The requested revisions to the targets reflect two factors. First, the expected decline in revenues and the impact of the policy response on expenditures necessitated the revision of the 2020 budget by the previous government from a deficit of 3½ percent of GDP to 6.2 percent of GDP. This response to the pandemic and the budget revisions have already been discussed with the staff in the context of our request for the Rapid Credit Facility. Second, the current government, in place since October 8, 2020, has been adhering to this inherited revised budget envelope. However, serious external financing constraints we have faced after the political transition are limiting our ability to implement fully the spending plans of that budget. This will lead to a lower-than-budgeted overall deficit in 2020, estimated at around 5½ percent of GDP. As a result, and in close consultation with the IMF staff, the revised targets will reflect these two factors. We will endeavor to meet these targets.

4. I authorize the Fund to publish this Letter of Intent and the Staff Report.

Yours sincerely,

/s/

Alousséni SANOU
 Minister of Economy and Finance

Table 1. Mali: Quantitative Performance Criteria and Indicative Targets, 2019–20¹
(CFAF billion, unless otherwise indicated)

	2019		2020	
	December	June	December	
	Program	Program	Program	Proposed
Performance criteria				
Ceiling on net domestic financing ²	123	140	261	499
Ceiling on external payments arrears ³	0	0	0	0
Ceiling on domestic payments arrears ³	0	0	0	0
Ceiling on new external debt contracted or guaranteed by the government ⁴	329	526	526	526
Ceiling on the overall fiscal deficit (commitment basis) ⁵	307	152	382	558
Floor on net tax revenue ⁶	1480	775	1694	1415
Indicative target				
Floor on priority social and development spending ⁷	506	188	651	651
Memorandum items				
Budget support loans	275	16	54	62
Budget support grants	94	22	111	37
Net change in budgetary float (– = reduction)	-61	-3	-7	43
Payment of tax refunds	-72	-39	-78	-128

Sources: Malian authorities; and IMF staff projections.

¹ Cumulative figures from the beginning of the year, unless otherwise indicated. See Technical Memorandum of Understanding (TMU) for definitions.

² This performance criterion is subject to adjustment for budget support loans, net change in budgetary float, and payment of tax refunds.

³ These performance criteria will be monitored on a continuous basis.

⁴ In PV terms, cumulative from the starting year of the program.

⁵ This performance criterion is subject to adjustment for budget support.

⁶ The floor on net tax revenue will be adjusted downward (upward) to the extent that tax refunds exceed (fall short of) the projected amount.

⁷ The definition of priority social spending as of 2020 is different from before as specified in the TMU.