DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

FOR INFORMATION

FO/DIS/20/238

December 22, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Mali—Assessment Letter for the European Union Delegation**

Board Action:	Executive Directors' **information**
Publication:	Not yet decided*
Questions:	Ms. Cebotari, AFR (ext. 35417) Ms. Jankulov Suljagic, AFR (ext. 36479) Ms. Isakova, AFR (ext. 34723)

***If the authorities consent to the publication of this assessment, it may be published by the EU.**

Mali—Assessment Letter for the European Union Delegation in Mali

December 22, 2020

1. **I hereby would like to confirm that based on available information, Mali's macroeconomic situation remains broadly stable, despite the challenging double health and political shocks that hit the country in 2020**. The fallout from the coup d'état added to the challenges posed by the long-standing security situation and the COVID-19 pandemic at the time of the approval of the IMF's Rapid Credit facility (RCF) disbursement.[1] Despite the resulting disruption of economic growth and revenue performance, public expenditure were adjusted significantly to mitigate fiscal risks, safeguard fiscal discipline, and preserve public debt sustainability. However, uncertainty on donor support post-coup may pose risks to budget execution in the near term, especially given prospective tightening of regional financial markets. The Transition government reached out to the IMF to indicate its readiness to resume discussions under the Extended Credit Facility (ECF) arrangement, which was on hold following the COVID-19 outbreak and the coup. An IMF mission has reviewed performance under the ECF (for test dates of end-December 2019 and end-June 2020) during December 8-21, 2020, while recalibrating the program to account for the new macroeconomic outlook and policy challenges since the last issued IMF staff report under the ECF.[2]

2. **The post-coup sanctions, coupled with the likely socio-economic impact of the COVID-19 pandemic** have weakened the economy, requiring strong policies and donor support to maintain macroeconomic stability. The sanctions adversely affected trade, transport, and financial flows, while the pandemic is likely to weigh severely on livelihoods and businesses, given the high poverty and informality, weak social safety nets, and persistent food insecurity. The policy measures announced in April to support households and firms have been executed only partially before the coup and could not be carried through during the sanction-related freeze of the Treasury Single Account. Economic growth is expected to fall to around -2 percent in 2020, compared to an average of 5 percent over the past six years. Inflation remains muted, although relatively higher food inflation is posing distributional risks.

3. **The external position is expected to strengthen on account of improved terms-of-trade**. Significantly higher gold prices and lower oil prices in 2020 are expected to contribute to a notable improvement in the current account deficit. However, this improvement is likely to be insufficient to offset the expected decline in private and official financial inflows in the aftermath of the global pandemic and the coup.

---

[1] Mali: Requests for Disbursement under the Rapid Credit Facility and Rephasing of Access under the Extended Credit Facility Arrangement – Press Release; Staff Report: and Statemen by the Executive Director for Mali, IMF, May 2020, IMF Country Report No. 20/153

[2] Mali: First Review Under the Extended Credit Facility Arrangement, Request for a Waiver of Nonobservance of a Performance Criterion and Modification of Performance Criteria-Press Release; Staff Report; and Statement by the Executive Director for Mali; IMF Country Report No. 20/8; December 23, 2019.

4. **The tightened fiscal outlook for 2021 and beyond calls for renewed commitment to structural reforms and fiscal discipline to contain spending pressure and improve its quality**. In 2019, revenue performance was strong, thanks to a successful recovery of most of the 2018 revenue shortfall. Lower-than-programmed capital spending, owing to delays in external financing disbursements, led to budget under-execution in 2019 and a smaller overall deficit compared to the programmed target. In 2020, the fiscal position is expected to deteriorate relative to the program due to the fallout from the pandemic on the economy and the needed policy response to mitigate its effects. Tax revenues are expected to come below the targeted level, reflecting the impact of the pandemic on the economy, the temporary tax relief and deferral measures adopted in mid-April to combat the pandemic, as well as limited capacity to enforce compliance under pandemic conditions. Non-priority spending will be reined in to offset pressures from lower revenues and pandemic-related spending. After the August coup, the authorities were de facto prevented from servicing public debt as well as from executing and/or settling most expenditures, including the COVID-19 relief measures, owing to the inability to access the Treasury Single Account for the duration of the post-coup sanctions. Debt arrears were settled soon after the sanctions were lifted at end-October. Continued commitment to fiscal discipline under the ECF is critical for containing emerging fiscal risks from demands for higher wage outside the education sector, underlying the need to identify fiscally sustainable options for harmonizing policies governing the setting of salary scales in the public sector. The situation of state-owned companies (SOEs), including the electricity and cotton companies, which is reported to have deteriorated, needs to be adequately addressed, to limit strains on the budget. Fiscal policies under the ECF will also need to be anchored on the medium-term objective of reversing the deterioration in the expenditure mix (rising wage bill and subsidies to SOEs, and declining development spending), with a view to preserving pro-poor quality expenditure (public investments and priority social spending).

5. **Identifying additional donor financing for 2021 will be critical to prevent spending cuts, including on public investment**. The fiscal and external financing constraints will tighten in 2021. The fiscal and external financing gaps could reach about 1-2 percent of GDP in 2021, should some of the initially projected external financing not materialize and/or access to the WAEMU financial market be limited. The ECF review mission will firm up the financing prospects with the authorities and development partners and, if needed, reach understanding on contingency spending cuts to offset potential financing shortfalls.

6. **Public debt remains at moderate risk of distress.** Public debt is projected to peak at around 48 percent over the next three years, up from 40½ percent of GDP in 2019. The higher debt level is mostly driven by weaker growth and higher-than-programmed borrowing to finance the response to the pandemic, including from the IMF emergency window (RCF). Fiscal vulnerabilities have also increased, including owing to the higher than programmed gross financing needs. Should an adverse scenario of a second COVID-19 wave and protracted political instability materialize, debt may rise closer to 50 percent of GDP in 2021-23 before declining afterward. Supply shocks in the gold and cotton sectors could also present large two-sided risks in light of their oversized share in exports. Further downside risks to the macroeconomic

framework may arise from a dampened demand owing to the lower than programmed fiscal impulse in 2020 amid the retrenchment of donor support post-coup.

7. Progress was made on structural reforms, but more needs to be done. The reform agenda has advanced both at the tax and customs departments since the 2018 revenue underperformance. Although some reforms were delayed, including because of the pandemic and the political crisis, they are on track of being completed with assistance from the IMF. The completion of these reforms will be pursued during the current and future reviews of the ECF, including (i) operationalizing two tax centers for medium-sized businesses, (ii) digitalizing tax declaration and payments, (iii) accelerating the implementation of the post-TADAT strategy, (iv) implementing the electronic acceptance of the airline cargo manifests and operationalizing the online module for the valuation of imports based on transaction value, and (vi) addressing deficiencies in the customs clearance of imported petroleum products. The reform agenda also needs to be accelerated in public financial management (PFM), including for strengthening expenditure commitment controls in all line ministries and improving cash management to prevent domestic spending arrears accumulation, completing the treasury single account and the interconnexion between the treasury's information system with BCEAO's automated payment systems. Continued capacity building, including from the IMF and other international development partners, remain critical for assisting the Malian Authorities in achieving these structural reform objectives.

8. Transparency and governance reforms also need to be accelerated. The delay in refining the list of officials subject to the mandatory declaration of assets needs to be addressed, in line with the window of opportunity offered by the Transition's mandate to tackle corruption and impunity. The monitoring of accuracy and comprehensiveness of these asset declarations should also be strengthened. In addition, the authorities' commitment at the time of the RCF approval to publish information on the execution of COVID spending and COVID-related large procurements, which has been delayed because of the coup, needs to be carried through. The independent audit of COVID-related spending also needs to be completed in 2021, with its results published. An envisaged IMF Governance Assessment mission, which the Transition government requested to help identify and address governance vulnerabilities, will guide further governance-improvement reforms in future reviews of the ECF.

9. IMF relations. The first review under the IMF's ECF arrangement was completed in January 2020. On April 30, 2020 the IMF approved a COVID-19 emergency support under the Rapid Credit Facility (1.2 percent of GDP), which followed the approval of debt service relief during April-October 2020 under the Catastrophe Containment Relief Trust (CCRT) (0.06 percent of GDP). A second six-month tranche of debt service relief for Mali under the CCRT (0.06 percent of GDP), which was delayed because of the coup d'état, was approved on October 30, 2020. Following the Transition government's declared commitment to reforms under the ECF arrangement, an IMF mission has reviewed performance under the ECF during December 8-21, 2020. It will agree on a set of corrective actions to address the rising fiscal vulnerabilities, and firm up financing prospects with the authorities and development partners.