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August 2008
IMF Country Report No. 08/283

Mali: 2008 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Supplements; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Mali

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2008 Article IV consultation with Mali and a request for a three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- The staff report for the combined 2008 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on February 20, 2008, with the officials of Mali on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 8, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A staff supplement of May 27, 2008, updating information on recent economic developments and containing a supplementary letter of intent sent to the IMF by the authorities of Mali.

- A Public Information Notice (PIN) and a Press Release, summarizing the views of the Executive Board as expressed during its May 28, 2008, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- A statement by the Executive Director for Mali.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Mali*
Memorandum of Economic and Financial Policies by the authorities of Mali*
Technical Memorandum of Understanding*
Selected Issues Paper
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

MALI

Staff Report for the 2008 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department
(In consultation with other departments)

Approved by Robert Sharer and Mark Plant

May 8, 2008

Discussions: Discussions took place in Bamako (February 7–20) and concluded in Washington (March 18–21, 2008). The staff met with Mr. Abou-Bakar Traoré, Minister of Finance; Ms. Bah Fatoumata Néné Sy, then Minister of Economy, Industry and Commerce; Mr. Idrissa Traoré, National Director of the BCEAO; and other senior officials. It also met with representatives from the donor community, the private sector, trade unions, civil society organizations, and the University of Bamako. The mission comprised Messrs. Beaugrand (head), Anayiotos, Camard, Thomas (all AFR), and Wane (resident representative).

PRGF arrangement: The authorities are requesting a three-year PRGF arrangement with total access of SDR 27.99 million (30 percent of quota), which would help finance additional costs arising from higher food and oil import prices in 2008. Mali's outstanding loans from the Fund were SDR 8 million (9 percent of quota) at the end of March 2008.

Political and Regional Developments. The domestic political situation is stable. President Touré won a second term in April 2007 and appointed a new government in September. However, there has been growing discontent in recent months, stemming from increases in food and fuel prices and from relatively low pay for contractual teachers. Tensions in Kidal, Mali's northeastern region, are also a source of concern. The security situation in neighboring Côte d'Ivoire is improving, facilitating regional trade.

Article VIII. Mali has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system that is free of restrictions on current international transactions.

Publication. The authorities consent to the publication of this report.

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ACRONYMS

BCEAO	Central Bank of West African States
BDM	*Banque de Développement du Mali* (Development Bank of Mali)
BHM	*Banque de l'Habitat du Mali* (Housing Bank of Mali)
BIM	*Banque Internationale du Mali* (International Bank of Mali)
CRM	*Caisse des Retraites du Mali* (Civil Service Pension Fund)
CMDT	*Compagnie Malienne pour le Développement des Textiles* (Cotton Ginning Company of Mali)
ECOWAS	Economic Community of West African States
EdM	*Énergie du Mali* (Energy Company of Mali)
EITI	Extractive Industries Transparency Initiative
EPA	Economic Partnership Agreement
EU	European Union
FGHM	*Fonds de Garantie Hypothécaire du Mali* (Mortgage Guarantee Fund of Mali)
FSAP	Financial Sector Assessment Program
FSDS	Financial Sector Development Strategy
FSSA	Financial sector Stability Assessment
GPRSP	Growth and Poverty Reduction Strategy Paper
INPS	*Institut National de Prévoyances Sociales* (Noncivil Service Pension Fund)
JSAN	Joint Staff Advisory Note
LOSP	*Loi d'orientation du secteur privé* (Framework Law on the Private Sector)
MEFP	Memorandum of Economic and financial policies
MDRI	Multilateral Debt Relief Initiative
MDGs	Millennium Development Goals
NPLs	Nonperforming loans
OdN	*Office du Niger* (Authority in charge of irrigation and extension services in the Niger river inland delta)
PAGAM-GFP	*Programme d'action gouvernementale d'amélioration et de modernisation de la gestion des finances publiques* (Government Action Program for Improving and Modernizing Public Finance)
PEFA	Public expenditure and financial accountability
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
REER	Real effective exchange rate
SOTELMA	*Société de Télécommunications du Mali* (Telephone Company of Mali)
TMU	Technical Memorandum of Understandings
WAEMU	West African Economic and Monetary Union

EXECUTIVE SUMMARY

Recent developments. Economic growth in Mali slowed to 3 percent in 2007, reflecting the impact of late and heavy rainfall on agriculture, especially cotton. Inflation was subdued at about 2 percent but surged to 6 percent in February 2008, mainly because of higher cereal prices. The basic fiscal balance turned from a surplus of 0.3 percent of GDP in 2006 to a deficit of 1.1 percent in 2007. The terms of trade improved slightly because higher gold export prices more than offset the surge in oil import prices.

Article IV Consultation. The consultation focused on the authorities' strategies for managing shocks and raising economic growth. The discussions gave special attention to medium-term economic policies to accelerate economic growth and reduce poverty, including efforts to boost competitiveness, enhance the environment for private sector activity, develop financial intermediation, and implement other structural reforms. The authorities generally concurred with the staff's suggestions.

- **Fiscal issues**. The authorities should strive to regain fiscal space over time to address potential shocks. Tax and customs administration need to improve further to broaden the revenue base. The authorities also need to intensify efforts to reduce low priority spending (including untargeted transfers) and increase social spending.

- **Competitiveness**. The CPI-based real effective exchange rate was broadly stable in recent years, but other measures suggest that the real exchange rate level is moderately overvalued. Meanwhile, Mali's share of the BCEAO's reserve position has risen to about 6 months of imports.

- **Financial sector**. A recent FSAP mission highlighted priority issues for the authorities to address to ensure that the banking sector is stable and supports growth and poverty reduction objectives.

- **Structural reforms**. Priorities are to improve agriculture and work toward food security, restructure and privatize public enterprises, and reduce impediments to private sector development.

New program. The authorities are requesting a three-year PRGF arrangement to help address the challenges posed by Mali's economic vulnerability and raise its growth potential. The program aims to strengthen the fiscal position and accelerate structural reforms, thereby increasing the resources available for poverty reduction.

Program risks. The proposed PRGF entails manageable risks. Mali is subject to various exogenous shocks that have adverse effects on the economy and the budget, but the authorities have previously demonstrated their capacity to weather such shocks, by implementing the measures necessary. Staff support the authorities' request for a new PRGF.

I. INTRODUCTION

1. **Mali's economy has doubled in size since the democratic transition of the early 1990s.** Sound macroeconomic management has produced growth averaging almost 5 percent and raised the tax ratio from less than 10 percent of GDP to around 16 percent. Together with external aid, including HIPC and MDRI debt relief, the increase in resources has fueled rapid expansion of poverty-reducing spending and helped sustain economic growth. Nonetheless, Mali is still very poor and highly vulnerable to natural and external shocks. Agriculture, the mainstay of the economy, has been buffeted by recurrent droughts, floods, locust infestation, diseases, and depressed world prices for cotton—owing in part to domestic subsidies to cotton farmers in advanced countries.

2. **The authorities are requesting a new PRGF arrangement for 2008–11 in an amount equivalent to 30 percent of quota** (Attachment I). Over one-half of the PRGF amount would be disbursed in 2008 to finance part of the higher food and oil import costs. The authorities believe continued Fund support will help them to maintain sound economic policies, increase the economy's resilience to shocks, and frame a reform program that supports their second-generation growth and poverty reduction strategy. Fund support to Mali would also help to secure continued donors assistance.

3. **Mali is a long-term user of Fund resources.** Four three-year arrangements were completed from 1992 through 2007 (the last PRGF expired in November 2007),[1] with all amounts fully drawn (see Informational Annex). An Ex Post Assessment in December 2003 concluded that Mali had a satisfactory record of performance but faced deep-seated problems, especially in the cotton sector. The authorities have been responsive to policy recommendations formulated during the last Article IV consultation in December 2005 related to the cotton sector, food security, fiscal space for poverty reduction, the financial sector, and private sector development (Box 1).[2] In recent Executive Board meetings on Mali, most Directors expressed their appreciation for Mali's performance on the PRGF-supported program, although a number were disappointed by slow progress in structural reforms.

4. **Mali has not been able to reduce poverty much**. Over the last 15 years, it has increased income levels, school enrolment rates, and access to basic social services (from very low bases), and education outcomes are starting to rise. Still, Mali's development indicators—especially those related to literacy—are among the lowest in the world, reflecting acute underinvestment in education in the first decades after independence. Mali still lags behind other countries in the region, and its prospects for achieving most of the MDGs by

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[1] The sixth and final PRGF review was completed on October 31, 2007 (Country Report No. 08/113, March 27, 2008).

[2] Updates on some of these issues—including the cotton sector, private sector development, and gold mining—are in the forthcoming Selected Issues Paper.

2015 are low, particularly those on infant and child mortality, maternal health, and gender equality (Box 2, Figure 1).

Box 1. Mali: Recommendations from the 2005 Article IV Consultation

Advice	Status
Cotton Sector	
• Set seed cotton prices at floor of price range of the producer price mechanism to tackle budget risks.	Prices set at, or close to, the floor.
• Implement formula for fuel prices to safeguard revenue objectives.	Formula adopted, but implemented with lags in order to smooth fluctuations in fuel prices.
• Develop comprehensive plan to chart CMDT privatization and begin implementing the strategy.	CMDT medium-term privatization plan in place; the authorities are committed to completing privatization in 2008–09.
Food Security	
• Address impediments to food trade, particularly at a regional level.	Issue discussed at regional level, with limited progress.
Fiscal Space and Poverty Reduction	
• Address issues on budgetary policies relating to pensions, the efficiency of spending, and social safety net payments to help create fiscal space.	Slow progress with pension reform; significant headway in rationalizing expenditure and increasing poverty reduction spending.
• Revise strategy to explicitly link growth and poverty reduction and maintain a realistic assessment of growth potential.	Link between growth and poverty reduction is highlighted, but without an action plan to achieve ambitious growth objectives.
Financial Sector	
• Strengthen supervision, with reduced forbearance for missed prudential ratios.	Progress made in observing prudential ratios.
• Examine ways to reinvigorate financial intermediation and private sector lending.	A new Financial Sector Development Strategy addresses, inter alia, limited access to credit.
Enabling Growth	
• Address competitiveness issues through reforms that reduce the costs of doing business and factor price flexibility.	One-stop shop to be set up soon to reduce time and cost of doing business.
• Implement program of structural reforms regarding privatization and management of state enterprises.	Slow progress; failed farming out of electricity company; delays in privatizing other state enterprises (e.g., telecommunications company).

Box 2. Mali: Attaining the Millennium Development Goals

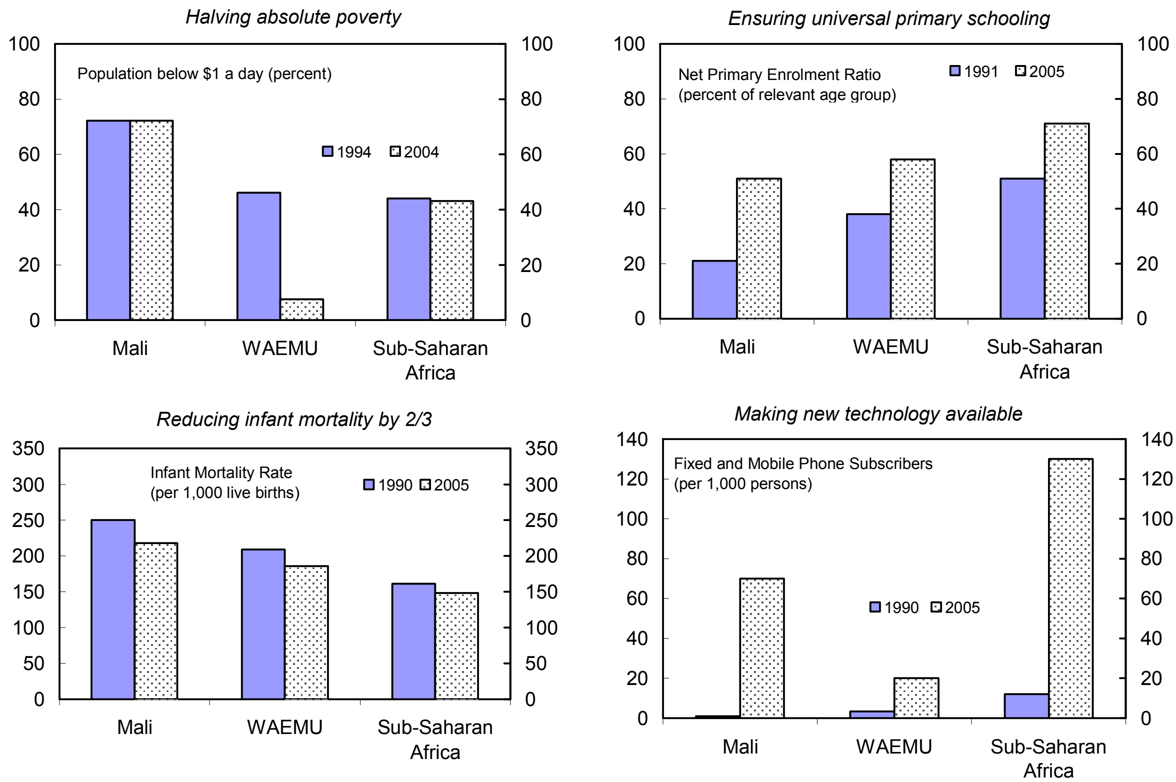
Despite a stable democratic system and sound economic performance for more than a decade, Mali has only modestly reduced poverty, which fell from an estimated 68.3 percent in 2001 to 64.4 percent in 2006 (the 2001–06 PRSP target was 47.5 percent).[1] Poverty dynamics differ by geographical areas. While poverty fell in the urban areas from 37.4 percent in 2001 to 31.4 percent in 2006, it increased slightly in the rural areas, from 79.2 percent in 2001 to 79.5 percent in 2006. The significant structural barriers to development include high illiteracy, low health indicators, undeveloped infrastructure, and distance to markets. Mali's per capita income growth, while steady, allows only limited progress toward the MDGs (Table 1).

MDG Indicator	**Achievement by 2015**
Goal 1: Eradicate Extreme Poverty	Potentially
Goal 2: Achieve Universal Primary Education	Potentially
Goal 3: Promote Gender Equality and Empower Women	Unlikely
Goal 4: Reduce Child Mortality	Unlikely
Goal 5: Improve Maternal Health	Unlikely
Goal 6: Combat HIV/AIDS, Malaria and Other Disease	Likely
Goal 7: Ensure Environmental Sustainability — Proportion of population having access to safe drinking water	Likely
Other: Donor Coordination	Potentially

Source: World Bank.

[1] See Mali's GPRSP 2007–11 (EBD/07/114, 10/15/07), and the JSAN (EBD/07/115, 10/15/07).

Figure 1. Mali: Selected Millennium Development Goals for 2015 [1]



Source: The World Bank, Milllennium Development Goals
[1] When data are not available, the charts use data from the closest available year.

II. Recent Developments

5. **Economic growth slowed from 5.3 percent in 2006 to less than 3 percent in 2007**. Favorable weather and record gold production boosted growth in 2006, but late and heavy rainfall affected agriculture in 2007, especially cotton (Tables 2–6, Figure 2). Inflation remained subdued in 2007 at 2.3 percent (12-monthly rate) but surged to 6 percent in February 2008 as cereal prices rose. Although the terms of trade improved further—higher gold export prices more than offset the increase in oil import prices—the impact was unevenly distributed (especially since gold is an enclave sector).[3] Thus, last year real purchasing power of the urban population declined. The government tried to offset higher import costs using the windfall from higher gold prices to provide tax breaks for food and fuel imports and announcing wage increases for civil servants (5 percent for 2008 and another 5 percent for 2009). With almost half of tax revenue coming from international trade, however, these measures undermined the fiscal outturn, and the basic balance turned from a

[3] Moreover, gold output was down in 2007 because some mines faced temporary problems such as large rock formations, which slowed excavation operations.

surplus of 0.3 percent of GDP in 2006 to a deficit of 1.1 percent in 2007. The overall fiscal deficit (excluding grants) also widened to 8½ percent of GDP, against 7½ percent in 2006.

6. **The balance of payments weakened in 2007**. The trade balance turned into a deficit, compared with a surplus in 2006, largely because gold output was lower. Foreign exchange reserve accumulation slowed from the robust levels of 2005–06, leaving reserve cover steady at about 6 months of imports. Thus, the contribution of net foreign assets to broad money growth was only 1 percent for 2007, against 11 percent in 2006. A smaller cotton harvest to finance, a less favorable economic environment, and persistent weaknesses at state-owned banks all contributed to a decline in credit to the economy of 0.8 percent.

7. **The authorities have continued to advance their structural reforms**. In December 2007, four regional subsidiaries of the state cotton ginner (CMDT) were chartered as a precursor to privatization. The National Assembly in January 2008 approved a law granting the housing bank (BHM) greater powers to collect on nonperforming loans (NPLs), and the Council of Ministers in March approved a draft law to reform the civil service retirement fund (CRM). In April, the authorities completed the tariff study for the electricity company, which the electricity and water regulatory commission is considering, and they launched a tender for privatizing the International Bank of Mali (BIM). The authorities are also revising their financial sector development strategy (FSDS), based in part on the conclusions of the regional and Mali-specific FSAP missions in November 2007 and February 2008.

8. **Despite its record of sound financial management, Mali is facing tall challenges**. In view of persistently weak social indicators, slowing economic growth, and pressures on the budget, staff framed the 2008 Article IV consultation discussions as an opportunity to broaden the diagnosis of economic conditions and prospects to feed into preparation of a possible Fund-supported program. The staff updated its assessment of Mali's competitiveness—in parallel with the work of the 2008 WAEMU consultation mission[4]—and focused on avenues to raise the growth potential over the medium term.

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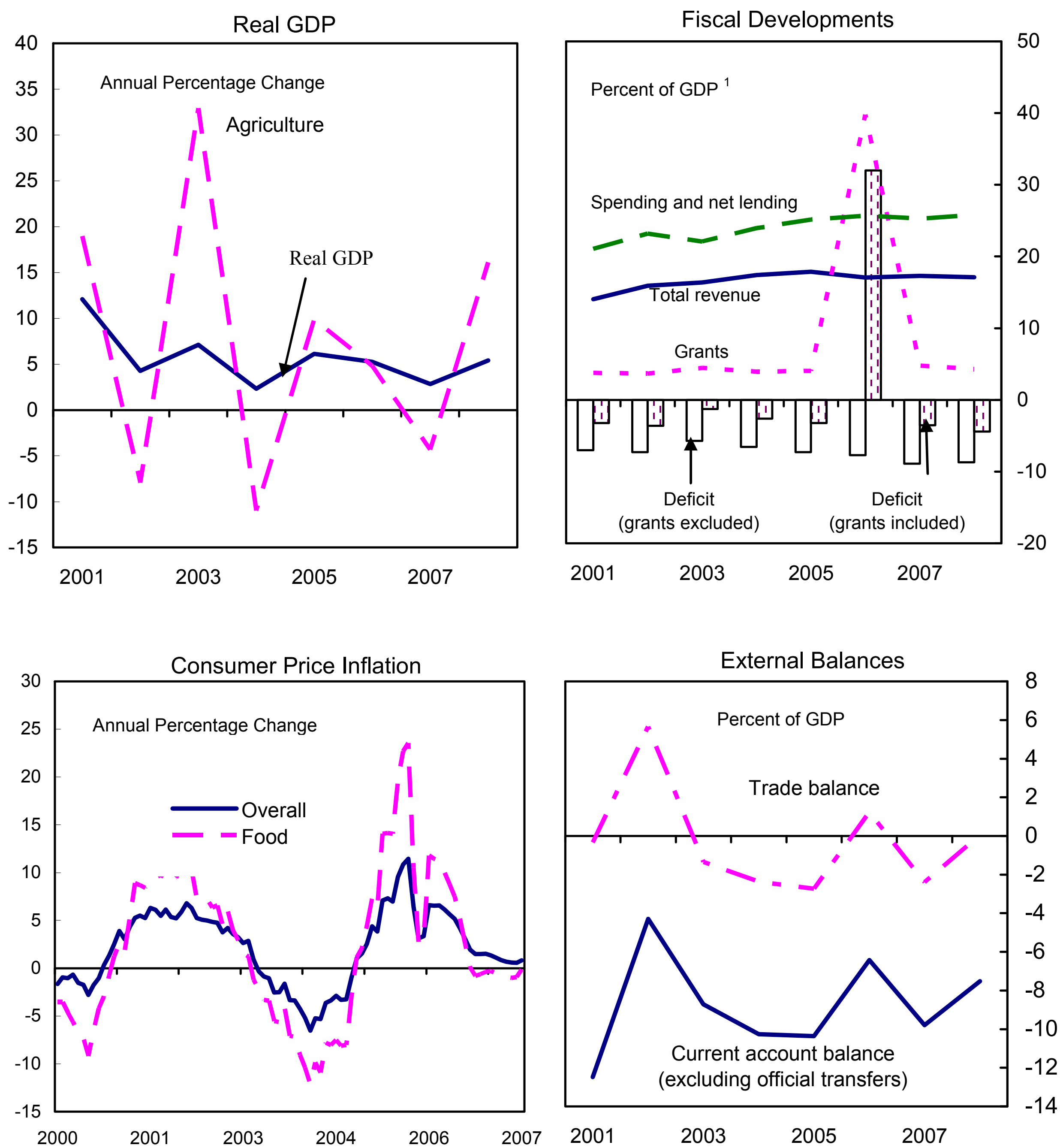
[4] See forthcoming WAEMU—Staff Report for the 2008 Article IV Consultation.

Figure 2. Mali: Main Economic Trends, 2001-08



Sources: Malian authorities; and IMFstaff estimates.

[1] Includes MDRI grants of 34.6 percent of GDP in 2006.

III. Policy Discussions

9. **The discussions focused on how the authorities plan to manage shocks and raise economic growth.** They helped highlight policies that would make Mali's economy more resilient to natural hazards and adverse terms of trade. They also gave special attention to medium-term economic policies to accelerate economic growth and reduce poverty, including efforts to boost competitiveness, improve the environment for private sector activity, deepen financial intermediation, and accomplish other structural reforms. The authorities generally concurred with the staff's suggestions.

A. Coping with Exogenous Shocks

10. **Food security is an overarching concern.** The government is giving food security top priority for the next few years and has set ambitious objectives to increase irrigation, notably in the Niger inland delta area managed by the Office du Niger (OdN).[5] Staff expressed their full support, but pointed out that over the years the canals have not been well maintained, and water charges fall far short of operating costs. Moreover, given the predominance of smallholder agriculture, there is limited scope to introduce modern agricultural methods or marketing practices. At the same time, rising cereal prices have led the authorities to introduce customs exemptions on imports. Staff cautioned that such subsidies risk reducing incentives for agricultural production. The authorities indicated that farmgate prices are not closely linked to market prices, owing in part to logistical constraints. In the short run, food security is ensured through a combination of food aid, reserve stocks of cereals, and temporary tax exemptions in response to high import prices.

11. **Irrigated agriculture helped to cushion the impact of late rains and flooding on cereals production in 2007, but cotton production fell sharply**. While cereals production matched the good harvest of 2006, 2007 seed cotton output dropped by 40 percent from 2006, which itself was 20 percent below 2005. The latest decline mainly reflected adverse weather (cotton in Mali is exclusively rain-fed), but stagnating producer prices also gave farmers an incentive to diversify away from cotton.

12. **The authorities are committed to making the cotton sector more competitive by breaking up and privatizing CMDT, the ginnery**. Meanwhile, the current mechanism for setting the procurement price, which allocates 60 percent of estimated cotton revenue to the growers and the rest to the ginner, will remain in place.[6] CMDT's assets are being transferred to the new regional subsidiaries slated for privatization. The government will assume

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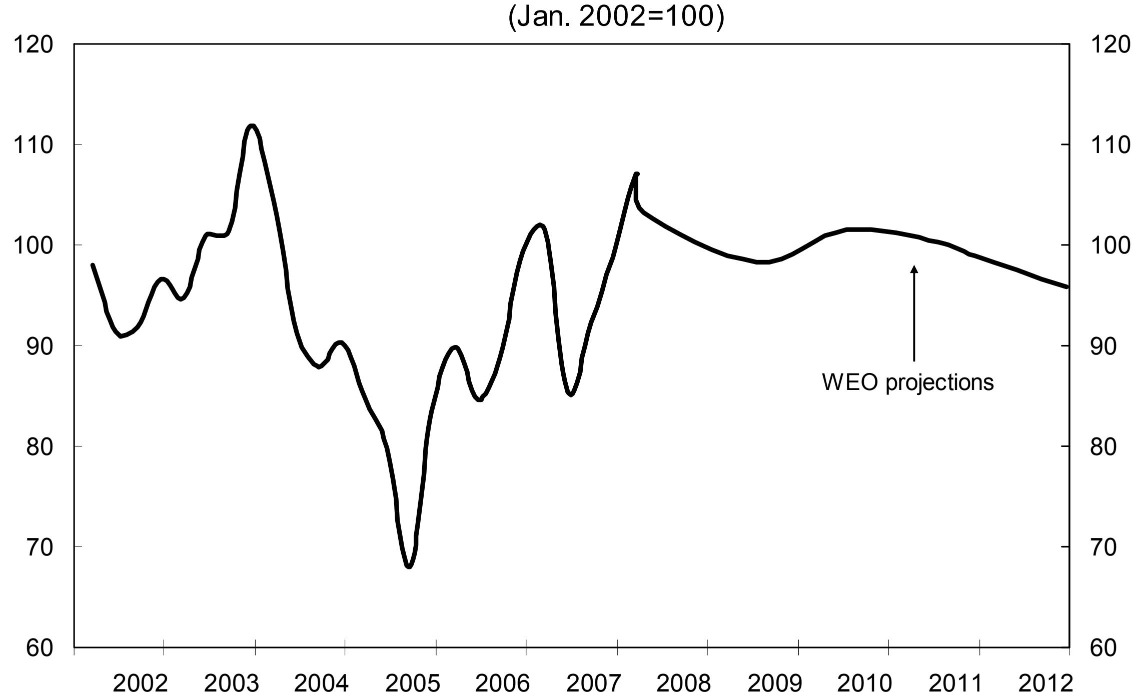
[5] At present, only 10 percent of the irrigation potential in the Niger delta is used. Many donors—including the European Union, France, and the Millennium Challenge Corporation—have committed large amounts to develop the Niger delta region.

[6] Although the mechanism has now been in place for three years, there is little evidence that CMDT has responded to the incentives it provides to cut costs and curb losses.

CMDT's publicly guaranteed external debt, but it is not yet clear how its other liabilities are to be distributed. The 2008 budget subsidy to CMDT (0.3 percent of GDP) does not fully cover its losses for 2007/08, and the company's balance sheet may deteriorate further in 2008/09. Staff therefore urged the authorities to ensure that its deficits are curtailed and begin to consider how to wind up CMDT once it divests the subsidiaries.

13. **The recent strengthening of the terms of trade conceals risks.** After bottoming out in 2005, Mali's terms of trade rose markedly as gold prices surged (Figure 3), more than offsetting increases in oil import prices. The gains benefited the gold mining sector and lifted government revenue from gold to about 3 percent of GDP in 2007. Gold revenues will likely increase further because some tax holidays expire in 2009 and new mines come on stream in 2008 and 2011, although the benefits will be somewhat offset by the aging of some mines. Moreover, the added investment will reduce short-run tax receipts, and the outlook for gold output and prices over the medium term is highly uncertain. Meanwhile, rising oil and food import costs and stagnating cotton prices have adversely affected the entire economy. Considering the uncertainties about future gold revenues, staff suggested to allocate a greater share of the windfalls from higher gold prices to develop infrastructure and to help diversify the rest of the economy.

Figure 3: Mali: Terms of Trade, January 2002-December 2012 [1]
(Jan. 2002=100)



[1] Synthetic index based on monthly prices of cotton, rice, gold, oil, and euro-zone exports.

Source: Staff estimates based on WEO

B. Fostering Faster Economic Growth

14. **Mali's recent growth rates are not sufficient to reduce poverty significantly, particularly for the large rural population**. The authorities recognize that the challenges of attaining the MDGs would be eased if economic growth rose substantially. The discussions therefore revolved around the following themes: (a) sound macroeconomic policies, including a sustainable budget position; (b) enhanced competitiveness; (c) public administration reform to improve and decentralize the provision of key public goods and promote public investment; (d) a stronger financial sector; and (e) structural reforms directed to speed growth.

Medium-Term Macroeconomic Framework

15. **The authorities have set ambitious medium-term macroeconomic objectives**. The 2007–11 GPRSP (second generation PRSP), as part of the government's long-term vision of "Mali 2025," emphasizes raising annual economic growth to 7 percent per annum to mobilize resources for poverty reduction. The GPRSP spells out three strategies: (a) building infrastructure and the productive sectors, especially by improving the business environment; (b) pursuing public sector reforms, particularly through decentralization, the rule of law, and the fight against corruption; and (c) reinforcing the social sectors, with better delivery of basic services.[7] While emphasizing faster growth, the GPRSP also recognizes the central importance of macroeconomic stability and fiscal sustainability.

16. **The planned growth-enhancing reforms need to be broadened to support Mali's ambitious poverty reduction goals**. The authorities should sequence priority actions, with explicit links between the budget and the poverty reduction strategy (see JSAN). Such links are to be detailed in the forthcoming GPRSP progress report, based on an updated poverty analysis (using the 2006 household survey). The authorities are also considering adopting a results-based management system for the GPRSP and MDGs, drawing on UN and World Bank expertise. Despite the ambitious objectives staff argued, and the authorities agreed, that baseline macroeconomic projections should rely on conservative assumptions. Accordingly, the medium-term framework assumes annual real GDP growth of about 5 percent over the medium run, tracking long-term trends (Table 7).

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[7] These strategies are detailed in 14 priority areas covering all activities relating to administration, civil society, the private sector, and productive sectors: (1) food security and rural development; (2) development of small- and medium-size enterprises; (3) protection and sustainable management of natural resources; (4) consolidation of public administration reform; (5) reform of the business environment; (6) financial sector development; (7) development of infrastructure; (8) promotion of democratic governance and public freedoms; (9) capacity building for the civil society; (10) strengthening of regional and subregional integration initiatives; (11) creation and promotion of long-term jobs; (12) development of access to basic services; (13) HIV/AIDS control; and (14) integration into the multilateral trade system.

17. **Mali has been one of the countries most compliant with the WAEMU convergence criteria**. It currently meets 4 of 5 primary criteria, and 2 of 4 secondary criteria (Table 8). Further progress toward meeting the criteria would require returning the basic balance to surplus; raising tax revenue to 17 percent of GDP; and pushing the external current account deficit (excluding official transfers) below 5 percent of GDP. The authorities intend to meet the first two objectives by 2010 but, given current levels of grant-financed assistance and investments in the mining sector, the last will take longer.

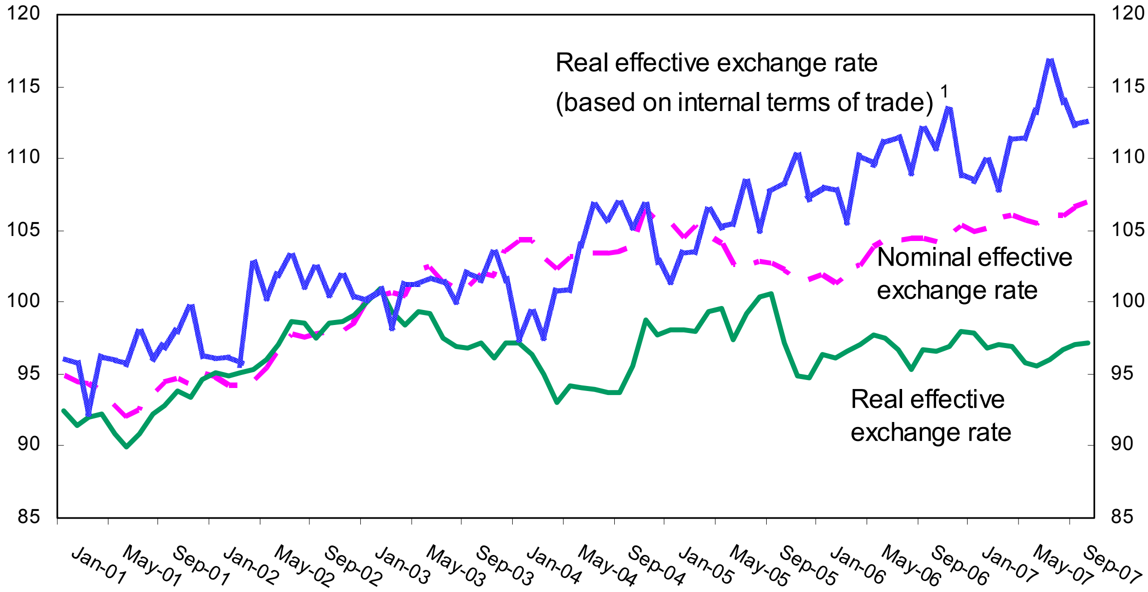
18. **The balance of payments situation is fragile, and Mali depends heavily on foreign exchange inflows**. The combined total from external aid, gold exports, and personal transfers is 16½ percent of GDP (based on official estimates), and may be up to 25 percent taking into account personal transfers through informal channels. Remittances from Malian expatriates provide an added fillip to the economy, and the authorities are working to revalue the impact of these inflows, which are substantially understated in official data.

Enhancing Competitiveness

19. **Mali's competitiveness has been eroding gradually since 2000**. Staff argued, and the authorities generally agreed, that deteriorating competitiveness is a major reason for the lackluster GDP growth, and that without determined policy measures, the GPRSP medium-term growth target of 7 percent is probably out of reach. Staff also pointed out that the economy is stable and relatively strong—especially with the continued buildup of net foreign assets at the BCEAO—thanks to foreign exchange inflows. Mali's economy might therefore be subject to Dutch disease effects, with large but sustainable domestic and external imbalances at the cost of below-potential economic growth.

20. **There is a need to raise productivity growth and diversify exports**. Mali's CPI-based real effective exchange rate (REER) has been broadly steady in recent years because low inflation has offset the nominal appreciation of the CFA franc against the U.S. dollar (Figure 4), but other measures—notably the nontradable/tradable price ratio and some estimates of the equilibrium exchange rate—are worrisome. A number of estimates suggest that the level of the exchange rate is moderately overvalued (Box 3). Meanwhile, Mali's share of the BCEAO reserve position rose during 2005–07 to about 6 months of imports. Staff believe Mali's lack of competitiveness stems primarily from structural causes that should be addressed by improving the business climate, diversifying the economic base, alleviating impediments to trade, and raising productivity. Overall, however, the authorities and the staff agreed that its exchange system has served Mali well—with a solid anchor for low inflation supported by tight financial discipline.

Figure 4. Mali: Effective Exchange Rates, January 2001-October 2007
(January 2003=100)



Source: IMF, Information Notice System (INS).
[1] Defined as the price ratio of nontradables to tradables.

Box 3. Mali: Real Effective Exchange Rate Developments

Despite the large appreciation of the CFA franc against the U.S. dollar since 2001, Mali's REER seems only moderately overvalued. Over 2000–07, the REER increased by 9 percent and the ratio of nontradable to tradable prices increased by 15 percent, compared with nearly 50 percent for the U.S. dollar exchange rate. The moderate real appreciation was because inflation in Mali was relatively low and most of its trading partners appreciated as well (WAEMU-wide estimates found Mali's REER to be the least overvalued in the zone).

Estimates of overvaluation using the fundamental equilibrium approach are inconclusive. The various methods (using the autoregressive distributed lag model, the Johansen model, and multi-country panel data estimates) yield results for 2006–07 ranging from a 24 percent undervaluation to a 16 percent overvaluation. The strength of Mali's share in the BCEAO international reserve position and the stable long-term balance of payments outlook seem to run counter the notion of serious overvaluation in Mali.

Fiscal Space and Public Administration Reform

21. **The 2007 turnout left the budget in a somewhat weaker position to address potential shocks and avoid a buildup of costly domestic debt**. In view of the uneven implementation of the September 2007 revenue package and a gradual erosion of the level of

taxes on petroleum products, achievement of the 2008 budget revenue targets might be out of reach. Maintaining poverty reduction programs may require the authorities to cut spending below budget in non-priority areas in order to avoid a large deterioration in the basic fiscal balance. Staff emphasized that with continued implementation of fiscal reforms and prudence in programming spending increases, the basic balance deficit could be eliminated by 2010.

22. **While healthy revenue mobilization has permitted double-digit spending growth in recent years, a tight focus on the composition of spending is essential to budgetary stability and poverty reduction efforts**. In the 2008 budget, outlays for basic health and primary education are nearly unchanged relative to GDP. Staff argued that further efforts to cut wasteful and inefficient spending, specially poorly targeted transfers, could free resources for poverty reduction. Moreover, the wage bill is set to reach 5.5 percent of GDP in 2008, up from 5.0 percent in 2007, reflecting both across-the-board increases in base salaries and allowances and higher contributions to the civil service pension fund, and the ratio of wages to tax revenue is approaching the WAEMU ceiling of 35 percent. In view of the need to recruit additional teachers, health workers, and other personnel for the social sectors, staff recommended rationalizing the status of the different classes of public sector workers, reviewing allowances, and reforming the salary structure.

23. **The government has adopted a comprehensive action plan to modernize public finance management**, and recently expanded it to respond to the recommendations of the May 2007 report on public expenditure and financial accountability (PEFA). Priorities are better monitoring of budget execution, particularly with respect to cash management and financial obligations to the private sector, tightening financial control, and clearer relationship between the General Auditor and other control entities. Public procurement is also being reviewed. Mali has been accepted as a candidate country for the Extractive Industries Transparency Initiative (EITI), and the authorities are moving ahead to ensure full disclosure and reconciliation of mining sector revenues.

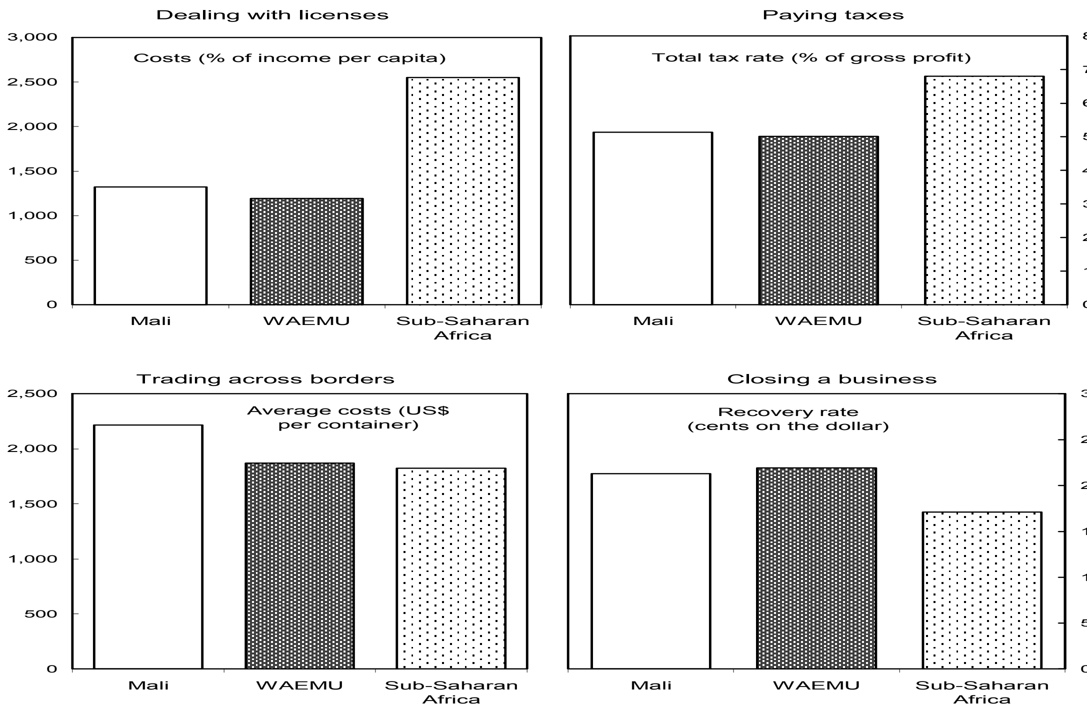
24. **The authorities are decentralizing public administration with the support of partners, notably the European Union and the World Bank**. While progress is encouraging, a prerequisite for devolving greater financial responsibility to local authorities is enhancing their management capacity. In particular, staff stressed the importance of ensuring control of how the decentralized entities recruit personnel.

Private Sector Development

25. **The authorities are promoting private enterprise to foster economic growth**. Strengthening the productive sector ranks high among the GPRSP priorities. Notwithstanding significant progress in recent years, however, private enterprises still face severe impediments. Mali is ranked 158th out of 178 countries on the World Bank's *2008 Doing Business* survey and even fares less well than other sub-Saharan African countries (Figure 5). Staff discussed measures planned to improve the business climate, such as reducing the time to set

up a business, securing property rights and strengthening the property law, cutting transport cost, and improving access to energy.

Figure 5. Selected Doing Business Indicators, 2007



Source: World Bank, 2008 *Doing Business Survey*.

26. **Reforms to enhance prospects for rapid growth include improving the business climate and increasing efficiency to promote productivity growth**. The authorities recognize that reinforcing the operations of public enterprises—perhaps including further privatization—and reducing impediments to private sector development (related to business start-up, property registration, licensing, labor market regulation, and contract enforcement) is essential to growth.[8] The authorities intend to accelerate financial sector reforms, especially easing access to credit for small- and medium-sized enterprises.

Financial Sector Reforms

27. **The financial sector needs to be firmed up to support private sector development**. As highlighted in the conclusions of the regional and Mali-specific FSAP missions, banks are not well grounded and are vulnerable to exogenous shocks that might

[8] The Presidential Investor's Council has called for three ranges of measures: (a) establishing a one-stop shop for setting up new companies; (b) facilitating trading in real estate; and (c) shortening the delivery of building permits by, e.g., accelerating the conduct of environmental surveys.

destabilize them.[9] Financial intermediation has leveled off since 2003 and, at about 18 percent, the ratio of credit to the economy to GDP is low. While Mali's banking system as a whole has excess liquidity, average capitalization is short of need and several banks are in breach of prudential norms (Figure 6). Exposure to the cotton sector is high, and BHM, which is being restructured, has a persistently large NPL portfolio. To enhance the efficiency and soundness of the financial sector and boost growth, the authorities intend to strengthen the balance sheets of public institutions, increase private ownership, and expand access to bank credit.[10]

28. **The authorities intend soon to finish restructuring banks and further advance privatization**. State participation in credit institutions has placed excessive risks on the budget and hampered financial sector development. Staff encouraged the authorities to ensure that conditions are in place for successful privatization of BIM, and to support BHM in its efforts to recover NPLs using the enhanced authority granted by the law enacted by the National Assembly in January 2008. Restructuring BHM will likely entail significant costs: to safeguard its cash flow in the short term, the authorities are closely monitoring its financial position. As the FSAP mission recommended, staff suggested that the government refrain from direct lending for housing and instead entrust management of housing loans to financial professionals. The authorities should also strive to improve systems for managing deeds and help establish regional mechanisms to mobilize long-term financial resources.

C. Other Issues

29. **Mali's statistics are adequate for effective surveillance and it is working to strengthen capacity**.[11] Staff reviewed Mali's progress in implementing the *GFSM 2001* methodology (a pilot program), and discussed ways to better monitor companies in which the state is a shareholder, as well as prospects for extending coverage of public finance statistics to the nonfinancial public sector. The authorities indicated interest in additional technical assistance to implement the findings of the *GFSM 2001* pilot study, e.g., to compile a government balance sheet.

30. **Further trade liberalization, particularly related to the forthcoming Economic Partnership Agreement (EPA) with the EU, could help make Mali more competitive**. Trade policy issues are normally handled by WAEMU, but negotiations with the EU are conducted by ECOWAS, with assistance from the WAEMU commission; Mali has not pursued a separate interim agreement. The Malian authorities, who are concerned about

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[9] The main recommendations from the FSAP mission cover financial sector supervision and stability, bank restructuring, cash flow and public debt management, access to financial sector services, microfinance, housing finance, and the legal and judicial system.

[10] Additional information on Mali's financial system is provided in the forthcoming FSSA report.

[11] Statistical Issues are summarized in the Informational Annex and the pilot study on Mali's fiscal data is discussed in an Information Note prepared by the Statistics Department in consultation with AFR.

possible revenue losses from an EPA, support the regional position that accompanying measures—including financial assistance to offset the impact of liberalization—should be in place before an EPA is signed.

31. **Staff and the World Bank have updated Mali's debt sustainability analysis**. Having benefited from considerable HIPC and MDRI debt relief, Mali is at low risk of debt distress (see Supplement). Because implementing the GPRSP will require large public investments, particularly in infrastructure, the authorities are seeking additional resources. Somewhat larger borrowing can be sustainable over the long run, if debt management continues to be prudent and nonconcessional borrowing is avoided.[12]

IV. New Economic and Financial Program

32. **The authorities are requesting a three-year PRGF arrangement to help address the challenges posed by Mali's economic vulnerability and raise its growth potential**.[13] The proposed program would further the objectives set out in the 2007–11 GPRSP: (a) increase the resources available for poverty reduction, by both mobilizing more domestic revenue and possibly securing scaled-up development assistance; (b) improve external viability, mainly by strengthening the fiscal position; and (c) raise growth potential by accelerating structural reforms.

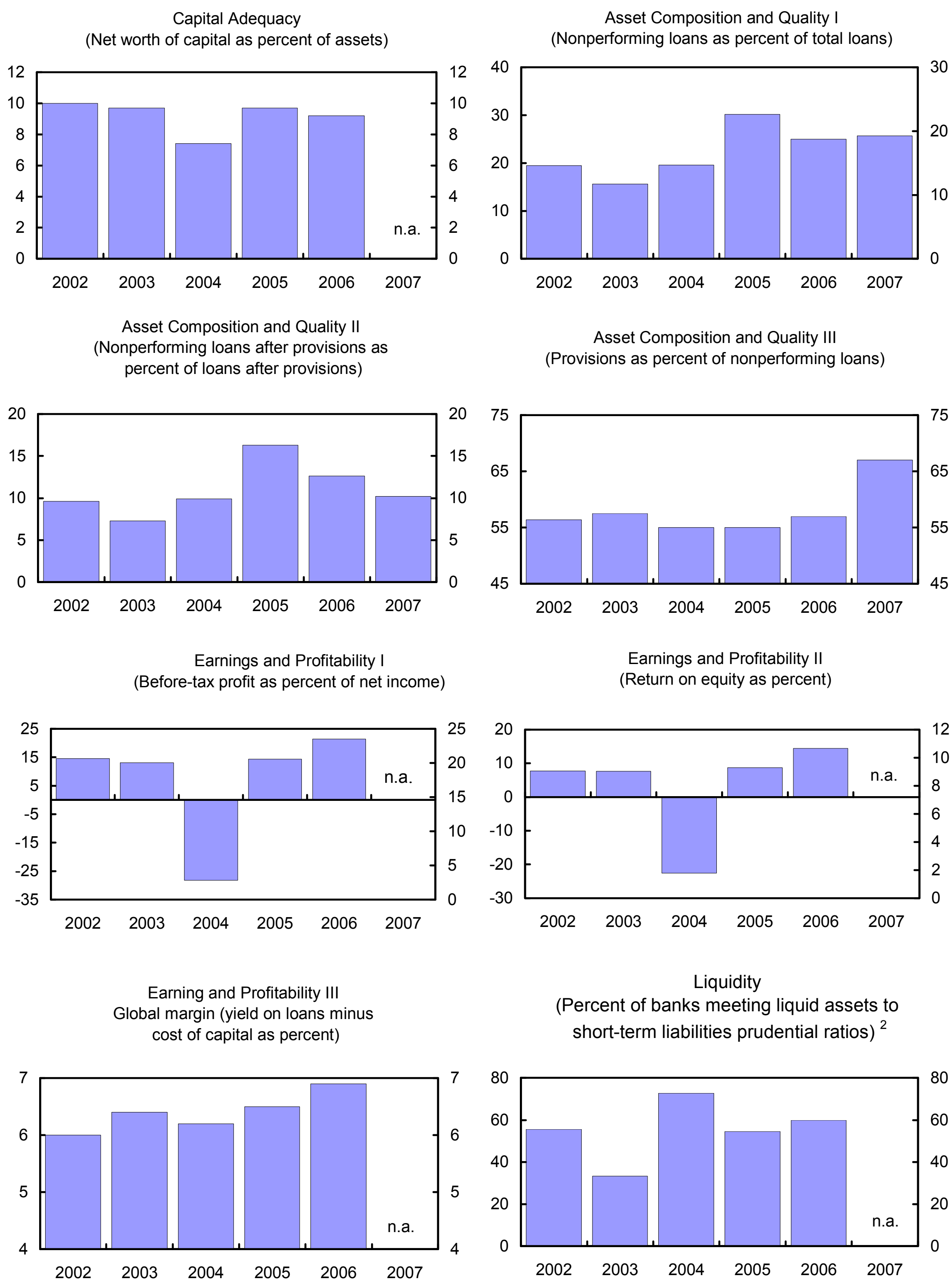
33. **The program calls for strengthening the fiscal position over time without constraining aid-financed outlays** (Tables 2–7; MEFP, ¶ 7). An important objective is to eliminate the deficit of the basic balance by 2010 (something Mali is committed to under the WAEMU convergence framework),[14] which provides an appropriate reference point for the authorities to focus on medium- and long-term fiscal sustainability. The 2008 fiscal outlook is more difficult than envisaged in the initial budget because of lower grant aid and higher costs associated with the surge in food and oil import prices. Temporary customs exemptions on rice imports and a partial pass-through of higher oil prices entail foregone tax revenue of more than 1½ percent of GDP in 2008. To address the difficult situation, the government is scaling back spending plans to limit recourse to domestic financing.

[12] In 2007, the electricity company (EdM) contracted a commercial loan on an emergency basis from the Islamic Development Bank, with government guarantee. This operation had a marginal effect on Mali's long-term debt sustainability. The authorities intend to seek more favorable terms for this loan.

[13] The authorities also considered the option of a Policy Support Instrument (PSI) but judged that the PRGF is a more appropriate framework for Mali considering its unfinished structural reform agenda.

[14] Because the basic balance is defined as revenue (excluding grants) minus current expenditure, domestically financed investment and net lending, it excludes both foreign-financed capital expenditure and expenditure financed by HIPC debt relief. Additional budget support would be accommodated in part through a program adjuster (TMU, ¶ 9).

Figure 6. Mali: Financial Soundness Indicators, 2002-07 [1]



Source: BCEAO.

[1] Data up to October 2007.

[2] Data up to June 2006.

34. **The understandings reached with the authorities on the main economic targets are in line with the Article IV discussions**. Assuming normal weather, growth is projected to recover to 5.4 percent in 2008, up from an estimated 2.8 percent in 2007. As in the past, inflation would remain low at some 2–3 percent.[15] With the expected increase in government revenue, the overall fiscal deficit (excluding grants) would be at about the same level as in 2007. The external current account balance (excluding official transfers) is projected to improve, despite lower cotton exports and continued growth in imports, as the value of gold exports surges. Gross international reserves would remain at about 6 months of imports (Tables 2–6).

A. Fiscal Management

35. **The program aims to raise government revenue by broadening of the tax base**. To offset the revenue loss from the partial pass-through of higher oil prices and customs exemptions on rice imports, the authorities are working to curtail tax expenditures and improve administrative efficiency. For customs, the authorities are committed to phasing out discretionary exemptions and maintaining a floor for taxes on petroleum products.[16] To improve customs control, scanners are being used for containerized merchandise and the monitoring of import valuation has stepped up. Discontinuing discretionary exemptions will help reduce economic distortions, ensure a level playing field for investors, and foster transparency. To improve tax administration, the authorities are expanding computerization and enhancing auditing capacity.

36. **Budget expenditure is set to increase in 2008 to respond to GPRSP priorities and the impact of salary increases**. The general pay hike, larger contributions to the pension fund, and recruitment for the social sectors mean the increase in the wage bill will outstrip GDP growth. For the program, the authorities have decided to contain total outlays below the amounts approved in the Finance Law (by 2 percent of GDP) by saving on goods and services (½ percent of GDP) and lowering capital expenditure. The expenditure cuts entail a strict containment of nonpriority outlays, and the deferral of some investment projects. This should limit the deterioration in the basic deficit from an estimated 1.1 percent of GDP in 2007 to 1.9 percent in 2008. Should revenue collections fall short, the authorities are committed to cut spending further to adhere to the ceiling on net domestic financing.

37. **The 2008 budget increases social outlays to a level consistent with those programmed in the GPRSP**. The authorities are determined to ensure that allocations for

[15] Notwithstanding upside risks, especially from food and energy prices, the authorities expect that inflation can be contained in 2008, if rains are normal.

[16] See MEFP, ¶ 8, and TMU, ¶ ¶ 17–20. There remains a scope to grant exceptional customs exemptions, subject to a decision of the Council of Ministers. This provision will also likely be used in 2008 to reduce fuel costs for EdM. The administrative measures under way or planned for 2009 are in line with the recommendations from FAD's recent tax and customs technical assistance missions.

basic services, such as primary education and health clinics, are maintained or raised (MEFP, ¶ 9). Further increases in social outlays are possible if additional financing materialize from a donors roundtable to be convened shortly in Bamako.

38. **The government intends to prepare a revised 2008 budget law in June/July**. The revised budget will detail the impact of the new international environment and spell out changes in expenditure priorities such as steps to speed up the expansion in rice output. Beyond the current year, the Ministry of Finance expects that lower import prices will allow restoring in part the taxation levels prevailing in 2006–07, which should facilitate achievement of a revenue ratio of 17 percent within two to three years. However, it would also stand ready to introduce new tax measures and contain spending to secure achievement of the basic balance objective.

B. Structural Reforms

39. **The program gives renewed impetus to structural reforms**. Mali made progress in the 1990s and early 2000s in such areas as rationalizing public resource management, privatizing, improving the viability of the cotton sector, restructuring commercial banks, and modernizing regulation. In many respects, however, progress was slow and some goals remained elusive.

40. **Understandings have been reached on reforms to be undertaken in 2008 and on an agenda for the medium term**. The focus is on measures to raise agriculture production and food security and thus help reduce the volatility of food prices; reform macrocritical state enterprises like the public utilities, cotton ginnery, and banks; and increase the contribution of the private sector to growth (see MEFP, ¶ 13).[17] In line with the GPRSP, over the next three years the authorities expect to complete the restructuring of CMDT and BHM, split and farm out the water and electricity utilities, and make the administration business-friendly.

41. **Over the long term, the paramount challenge is to increase productivity, improve competitiveness, and thus raise economic growth** (MEFP, ¶ ¶ 14–16). The authorities recognize that these objectives are demanding and that progress is likely to be gradual. They are crafting a comprehensive strategy for accelerating growth, a draft of which they will submit for discussion during the forthcoming donor roundtable.

C. Program Modalities

42. **The program provides for quarterly quantitative indicators and semiannual performance criteria, and semiannual reviews**. Quantitative indicators include ceilings on

[17] The 2008 budget includes provisions for restructuring costs with respect to SOTELMA and a capital transfer to CMDT. Additional costs associated with the restructuring of EdM, CMDT, and BHM will likely be incurred in 2009–10.

(a) net domestic financing of the government; (b) external arrears; (c) contracting or guaranteeing of nonconcessional loans; and (d) short-term borrowing; and indicative floors on (e) budget revenue and the basic balance. Structural indicators include continuous implementation of two measures to secure the government revenue base, reforms of SOTELMA and OdN, and a new regulatory system for water and electricity (MEFP, ¶ ¶ 17–18, and attached Table 1). The first review, to be completed by November 2008, would cover budget developments, competitiveness, and reforms at OdN and EdM.

43. **Program performance criteria and benchmarks are macrocritical**. The authorities see the current privatization of the telephone company as essential not only to foster competition in telecommunications but also to secure government revenue and prevent a deterioration in the company's financial position.[18] Restructuring and reform of OdN is over time expected to help achieve food security and improve resilience to shocks. Strengthening of the electricity and water subsectors is designed to place EdM on a sounder footing and make energy more available. Other elements of the authorities' structural reform agenda—e.g., in the cotton and financial sectors and the business environment—are being monitored by the World Bank.

44. **Access under the program would help Mali cope with a difficult international environment in 2008**. Of the proposed amount of SDR 27.99 million, SDR 12.99 million would be made available upon Executive Board approval and SDR 5 million at the time of the first review, with subsequent semiannual disbursements of SDR 2 million (Table 9). Fund financing would cover about one-fourth of the additional import costs in 2008, and represent one-fifth of overall balance of payments support from international financial institutions over 2008–10. Mali currently has low outstanding loans with the Fund (SDR 8 million) and its overall debt level is manageable (23 percent of GDP). Under the proposed arrangement, Mali's outstanding Fund loans would reach 3.6 percent of budget revenue and 2.3 percent of exports of goods and services in 2010 (Table 10).

45. **Mali is expected to continue using Fund technical assistance extensively**. The authorities have expressed satisfaction with the assistance from AFRITAC-West and IMF headquarters and desire further support in several areas. Mechanisms to coordinate technical assistance, especially in the fiscal area, where the PAGAM/PEFA action plan makes clear what is needed, appear adequate.

V. Staff Appraisal

46. **Mali has made much progress over the years in securing a sound environment for economic growth and poverty reduction**. The authorities have a solid track record of performance in four Fund-supported programs since the early 1990s. They have consolidated

[18] SOTELMA accumulated tax arrears in 2007 and it defaulted on external debt obligations in March 2008.

economic stability and advanced structural reforms, though often with delays. Yet Mali's social indicators still lag behind those of other developing countries, and economic growth has slackened in recent years.

47. **The authorities recognize the importance of designing policies to make the economy more resilient to shocks and boost competitiveness**. The 2008 Article IV discussions gave the Malian authorities and Fund staff an opportunity to reassess economic developments and prospects. Notwithstanding short-term considerations and the day-to-day pressures of budget management, the authorities must steadfastly focus on the fundamentals that are critical to executing their growth and poverty reduction strategy successfully; the program for which they are requesting PRGF support is an appropriate starting point.

48. **As staff and the authorities agree, Mali's competitiveness has been deteriorating since the early 2000s**. Despite much uncertainty in the extent of misalignment, there is little doubt that much must be done to reinvigorate economic activity, diversify exports, and generate employment for a growing population. The CFA franc-based fixed exchange system has served Mali well, providing a solid anchor for economic stability, and Mali's external position (as measured by its share in BCEAO international reserves) has continued to strengthen. However, macroeconomic equilibrium may be consistent with suboptimal economic growth, especially considering the vast inflows of foreign exchange from external aid, gold exports, and personal transfers.

49. **In the short run, sound budget management is crucial**. The 2008 fiscal position is under much pressure owing mainly to the recent surge in food and oil prices. The authorities are committed to taking resolute action to protect the revenue base, especially to rein in customs exemptions effectively and preserve a minimum level of taxation on petroleum products, and to cut overall spending below the ceilings approved in the original Finance Law. Expenditure priorities are well grounded in the 2007–11 GPRSP, but it is important to ensure that the wage bill remains well within the ceiling set by the WAEMU convergence criteria. The authorities have made much progress in strengthening public finance management and are clearly committed to addressing the shortcomings highlighted in the 2007 PEFA report and producing EITI-consistent revenue reports later this year.

50. **In the longer run, structural reforms are essential to raise Mali's growth potential**. The authorities must be steadfast in executing their plans in a timely manner, especially divesting the state's shares in SOTELMA, restructuring the OdN, and reforming regulation of water and electricity. While steps to raise productivity and enhance competitiveness will take time to yield results, the policy measures planned under the program will help move Mali into the right direction. In the months ahead, the authorities need to balance carefully the desire to alleviate the impact of increases in food prices with the imperative of boosting incentives to expand irrigation and cultivation. A preferred approach would be for the government to limit its intervention through targeted subsidies for the most vulnerable groups.

51. **The risks to the proposed program are manageable**. Mali is subject to recurrent exogenous shocks that may have adverse effects on the economy as a whole and especially the budget. Access under the proposed PRGF is below norm. The substantial up-front disbursement would help Mali cope with the sharp increases in food and oil import costs in 2008. For 2009 and beyond, the authorities are committed to continue raising revenue and adjust expenditure to maintain a sustainable fiscal position, and they have previously demonstrated their capacity to implement additional measures as the need arises.

52. **The data provided are generally adequate for Fund surveillance**. Moreover, the authorities are well aware of deficiencies in their data compilation systems and are working diligently, with Fund support, to address them.

53. **Staff recommends approval of Mali's request for a three-year PRGF arrangement**.

54. It is expected that the next Article IV consultation with Mali will take place in accordance with the July 15, 2002 Executive Board decision on consultation cycles.

Table 1. Mali: Millennium Development Goals, 1990–2006 [1]

	1990	1995	1998	2001	2006
Goal 1: Eradicate extreme poverty and hunger	**2015 target=halve 1990 US$1 a day poverty and malnutrition rates**				
Income share held by lowest 20%	..	*5*	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	*27*	..	33	..
Poverty gap at US$1 a day (PPP) (%)	..	*37*	..	..	..
Poverty headcount ratio at US$1 a day (PPP) (% of population)	..	*72*	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	64	..	..
Prevalence of undernourishment (% of population)	..	..	*32*	..	*28*
Goal 2: Achieve universal primary education	**2015 target = net enrollment to 100**				
Literacy rate, youth total (% of people ages 15-24)	..	..	..	..	24
Persistence to grade 5, total (% of cohort)	*70*	..	*78*	84	*79*
Primary completion rate, total (% of relevant age group)	10.5	13	*21.3*	32.3	44
School enrollment, primary (% net)	*21*	..	*40*	*47*	46
Goal 3: Promote gender equality and empower women	**2015 target = education ratio to 100**				
Proportion of seats held by women in national parliament (%)	..	..	12	12	10
Ratio of girls to boys in primary and secondary education (%)	*58.9*	..	*68.3*	*71.3*	74.4
Ratio of young literate females to males (% ages 15-24)	..	..	..	..	52.3
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	36	..	..	..	..
Goal 4: Reduce child mortality	**2015 target = reduce 1990 under 5 mortality by two-thirds**				
Immunization, measles (% of children ages 12-23 months)	43	52	54	61	75
Mortality rate, infant (per 1,000 live births)	140	131	..	*124*	96
Mortality rate, under-5 (per 1,000)	250	233	..	*224*	191
Goal 5: Improve maternal health	**2015 target = reduce 1990 maternal mortality by three-fourths**				
Births attended by skilled health staff (% of total)	..	*23.7*	..	40.6	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*1200*	582
Goal 6: Combat HIV/AIDS, malaria, and other diseases	**2015 target = halt, and begin to reverse, AIDS and other major diseases**				
Children orphaned by HIV/AIDS	..	..	..	59000	*75000*
Contraceptive prevalence (% of women ages 15-49)	..	*7*	..	8	..
Incidence of tuberculosis (per 100,000 people)	303.6	..	..	..	281.3
Prevalence of HIV, female (% ages 15-24)	..	..	..	2	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	2	*1.7*
Tuberculosis cases detected by DOTS (%)	..	14	17.5	*17.7*	18
Goal 7: Ensure environmental sustainability	**2015 target = various**				
CO_2 emissions (metric tons per capita)	0	0	0	0	..
Forest area (% of land area)	12	..	..	*11*	*10*
GDP per unit of energy use (constant 2000 PPP US$ per kg of oil equiva	..	..	..	..	..
Improved sanitation facilities (% of population with access)	36	..	..	*45*	..
Improved water source (% of population with access)	34	..	..	*48*	..
Nationally protected areas (% of total land area)	..	..	..	..	3.7
Goal 8: Develop a global partnership for development	**2015 target = various**				
Aid per capita (current US$)	54.2	53.3	31.6	29.5	43.2
Debt service (PPG and IMF only, % of exports of G&S, excluding workers' remittances)	15	16	11	9	6
Fixed line and mobile phone subscribers (per 1,000 people)	1.3	1.7	2.9	8	36.2
Internet users (per 1,000 people)	0	*0*	0.2	1.7	4
Personal computers (per 1,000 people)	..	0.3	0.8	1.2	3.2
Total debt service (% of exports of goods, services and income)	12	13	11	8	*6*
Memorandum items					
Fertility rate, total (births per woman)	7.4	7.3	*7.2*	*6.9*	6.8
GNI per capita, Atlas method (current US$)	260	230	240	220	330
GNI, Atlas method (current US$ billions)	2.3	2.4	2.6	2.6	4.3
Gross capital formation (% of GDP)	23	22.9	20.9	31	19.7
Human development index (ranking, out of 177 countries)	..	172	165	172	173
Life expectancy at birth, total (years)	46	47.1	*47.4*	*47.7*	48.3
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	19
Population, total (millions)	8.9	10.1	11	12	13.1
Trade (% of GDP)	50.9	57.3	60	83.6	64.3

Source: World Bank (http://ddp-ext.worldbank.org/ext/ddpreports).

[1] Figures in italics refer to periods other than those specified.

Table 2. Mali: Selected Economic and Financial indicators, 2005–09 [1]

	2005	2006	2007 Est.	2008 Prog.	2009 Proj.
	(Annual percentage change)				
National income and prices					
Real GDP	6.1	5.3	2.8	5.4	5.1
GDP deflator	2.1	5.1	2.1	2.0	2.6
Consumer price inflation (average)	6.4	1.5	1.4	2.5	2.5
External sector (percent change)					
Terms of trade (deterioration -)	-10.7	18.9	5.3	25.1	-4.7
Real effective exchange rate (depreciation -)	3.9	3.1	3.2	…	…
Money and credit (contribution to broad money growth)					
Credit to the government	4.3	-12.1	1.3	5.3	...
Credit to the economy	-1.1	11.5	-0.8	3.7	...
Broad money (M2)	9.5	10.9	1.2	8.4	...
	(Percent of GDP)				
Investment and saving					
Gross domestic investment	22.3	23.7	23.9	23.3	23.6
Of which : Government	7.1	8.2	9.0	7.3	6.7
Gross national savings	14.1	20.0	15.7	17.3	17.9
Of which : Government	2.0	3.2	3.0	2.1	2.4
Gross domestic savings	13.7	18.9	16.0	19.0	21.0
Central government finance					
Revenue	17.9	17.7	17.3	17.1	18.4
Grants	4.1	39.7	4.8	4.3	4.0
Total expenditure and net lending	25.2	25.4	25.3	25.8	25.2
Overall balance (payment order basis, excluding grants)	-7.3	-7.7	-8.4	-8.7	-6.8
Basic fiscal balance [2]	-0.2	0.3	-1.1	-1.9	-0.7
External sector					
Current external balance, including official transfers	-8.2	-3.7	-8.2	-6.0	-5.7
Current external balance, excluding official transfers	-10.4	-6.4	-9.8	-7.5	-7.2
Exports of goods and services	25.6	31.1	26.9	29.3	29.2
Imports of goods and services	-34.2	-35.9	-34.7	-33.6	-31.8
Debt service to exports of goods and services	7.4	3.7	3.4	3.4	3.6
External debt (end of period)	49.4	20.0	22.9	26.9	29.3
	(Units indicated)				
Memorandum items:					
Nominal GDP (CFAF billions)	2,829	3,132	3,289	3,538	3,818
Overall balance of payments in US$ millions	96.4	119.7	0.6	-5.3	-6.4
Money market interest rate in percent (end of period)	5.0	5.0	5.0	…	…
Gross international reserves in US$ millions	942	1,182	1,192	1,217	1,248
Months of next year's imports	5.7	5.9	5.8	5.8	5.7
US$ exchange rate (end of period)	541.5	514.9	511.9	...	...

Sources: Malian authorities; and IMF staff estimates and projections.

[1] 2006 data after adjustment for MDRI.

[2] Revenue (excluding grants) less total expenditure (excluding foreign financed investment projects and HIPC initiative related spending.

Table 3. Mali: National Accounts, 2005–10

	GDP Weight (2002, percent)	2005	2006	2007 Est.	2008 Proj.	2009 Proj.	2010 Proj.
		(Annual percentage change, at constant prices)					
Primary sector	32.3	7.0	4.4	0.8	11.2	4.9	5.1
Agriculture	17.4	9.9	4.8	-2.0	16.1	5.9	5.3
Food crops, excluding rice	10.7	14.9	10.0	5.2	10.0	6.0	5.0
Rice	3.5	11.1	6.0	-8.5	27.0	7.0	7.0
Industrial agriculture, excluding cotton	0.9	6.0	3.0	8.0	6.0	5.0	5.0
Cotton	2.4	-9.8	-21.6	-40.4	60.9	3.0	3.8
Livestock	9.8	3.0	4.0	4.6	5.0	3.0	5.0
Fishing and forestry	5.1	4.0	3.8	4.5	4.6	4.0	4.1
Secondary sector	25.4	7.9	8.2	-3.1	-0.7	7.9	0.6
Mining	11.4	18.9	17.8	-8.8	-2.2	-0.4	-15.3
Industry	7.6	1.1	0.9	-4.1	-6.4	18.9	8.1
Energy	1.9	6.0	10.0	10.0	10.0	7.0	10.0
Construction and public works	4.4	4.0	3.0	3.2	5.0	7.0	8.0
			0.0	0.0	0.0	0.0	0.0
Tertiary sector	34.5	4.2	9.4	5.9	5.4	2.9	4.1
GDP (factor cost)	92.1	6.1	7.3	1.9	6.1	4.7	3.7
Indirect taxes	7.9	6.0	-15.1	15.0	-2.0	10.1	8.6
GDP (market prices)	100.0	6.1	5.3	2.8	5.4	5.1	4.1
Nonmining real GDP	88.6	5.2	4.2	3.9	6.1	5.6	5.5
		(Percentage of GDP, unless otherwise indicated)					
Gross national saving		14.1	20.0	15.7	17.3	17.9	17.7
Of which : domestic saving		13.7	18.9	16.0	19.0	21.0	19.9
Gross domestic investment		22.3	23.7	23.9	23.3	23.6	23.4
Memorandum items:							
External current account balance[1]		-8.2	-3.7	-8.2	-6.0	-5.7	-5.7
Nominal GDP (CFAF billions)		2,829	3,132	3,289	3,538	3,818	4,152

Sources: Malian authorities; and IMF staff estimates and projections.

[1] Including official transfers.

Table 4. Mali: Central Government Consolidated Financial Operations, 2006–09 [1]

	2006	2007		2008		2009
		Prog.	Prel.	Budget	Prog.	Proj.
			(CFAF billions)			
Revenue and grants	1,798.7	768.1	730.3	819.6	757.6	852.4
Total revenue	554.2	586.9	569.9	649.4	606.2	700.6
Budgetary revenue	504.5	539.9	509.4	597.3	539.9	629.0
Tax revenue	478.6	509.7	487.2	564.9	514.7	594.1
Nontax revenue	25.9	30.2	22.2	32.4	25.2	35.0
Special funds and annexed budgets	49.7	47.0	60.5	52.0	66.3	71.5
Grants	1,244.5	181.2	160.4	170.2	151.5	151.8
Total expenditure and net lending	796.3	891.3	832.7	982.1	913.5	961.8
Budgetary expenditure	752.6	893.6	832.7	925.5	842.6	894.6
Current expenditure	411.8	462.5	437.1	504.1	480.2	552.8
Wages and salaries [1]	147.9	160.3	162.9	193.1	194.2	208.9
Interest	15.5	14.1	13.9	14.6	13.4	23.2
Of which: Domestic	1.0	2.8	2.7	1.8	1.8	2.0
Other current expenditure [1]	248.4	288.1	260.4	296.4	272.6	320.7
Capital expenditure	340.8	431.1	395.6	421.4	362.4	341.8
Of which: Externally financed	228.7	268.2	227.6	255.8	227.7	221.8
Special funds and annexed budgets	49.7	47.0	60.5	52.0	66.3	71.5
Net lending [2]	-6.0	-49.3	-47.6	4.6	4.6	-4.4
Overall fiscal balance (payment order basis)						
Excluding grants	-242.1	-304.4	-275.7	-332.7	-307.3	-261.2
Including grants	1,002.4	-123.2	-113.5	-162.5	-155.8	-109.4
Adjustment to cash basis	0.0	0.0	10.0	0.0	0.0	0.0
Overall fiscal balance (cash basis, incl. grants)	1,002.4	-123.2	-103.5	-162.5	-155.8	-109.4
Financing	-1,002.4	123.1	103.5	141.9	155.8	105.3
External financing (net)	-890.5	134.2	98.0	131.3	115.5	102.7
Of which: Budgetary loans	40.1	25.8	18.0	25.0	19.5	25.0
Amortization	-1,053.3	-30.9	-31.4	-32.7	-29.1	-44.5
Domestic financing (net)	-111.9	-11.0	5.5	10.6	40.3	-1.5
Banking system	-100.2	1.6	11.5	23.9	49.7	-9.4
Privatization receipts	0.9	8.1	0.7	8.1	8.1	12.0
Other financing	-12.6	-20.7	-6.7	-21.4	-17.5	4.1
Financing gap	0.0	0.0	0.0	20.6	0.0	0.0

Sources: Ministry of Finance; and IMF staff estimates and projections.

[1] Figures for 2008 include impact of CRM reform.

[2] Figures for 2007 include CFAF 44 billion recapitalization of CMDT as a capital transfer and reduction in net lending.

Table 4. Mali: Central Government Consolidated Financial Operations, 2006–09 (concluded) [1]

	2006	2007		2008		2009
		Prog.	Prel.	Budget	Prog.	Proj.
	(Percent of GDP)					
Revenue and grants	57.4	22.4	22.2	23.2	21.4	22.3
Total revenue	17.7	17.1	17.3	18.4	17.1	18.4
Budgetary revenue	16.1	15.8	15.5	16.9	15.3	16.5
Special funds and annexed budgets	1.6	1.4	1.8	1.5	1.9	1.9
Grants	39.7	5.3	4.8	4.8	4.3	4.0
Total expenditure and net lending	25.4	26.0	25.3	27.8	25.8	25.2
Current expenditure	13.1	13.5	13.3	14.2	13.6	14.5
Wages and salaries [1]	4.7	4.7	5.0	5.5	5.5	5.5
Interest payments	0.5	0.4	0.4	0.4	0.4	0.6
Other current expenditure [1]	7.9	8.4	7.9	8.4	7.7	8.4
Capital expenditure [2]	10.9	12.6	12.0	11.9	10.2	9.0
Of which: Externally financed	7.3	7.8	6.9	7.2	6.4	5.8
Net lending, special funds & annexed budgets [2]	1.4	-0.1	0.4	1.6	2.0	1.8
Overall fiscal balance (payment order basis)						
Including grants	32.0	-3.6	-3.5	-4.6	-4.4	-2.9
Excluding grants	-7.7	-8.9	-8.4	-9.4	-8.7	-6.8
Overall fiscal balance (cash basis, incl. grants)	32.0	-3.6	-3.1	-4.6	-4.4	-2.9
External financing	-28.4	3.9	3.0	3.7	3.3	2.7
Domestic financing	-3.6	-0.3	0.2	0.3	1.1	0.1
Memorandum items						
External Budgetary assistance	3.4	2.2	1.7	2.2	1.9	2.1
Public saving [3]	5.2	5.4	5.8	4.3	3.8	4.5
Basic fiscal balance [4]	0.3	-0.7	-1.1	-1.8	-1.9	-0.7
Wages and salaries/fiscal revenues (percent)	30.9	31.4	33.4	34.2	37.7	35.2
	(CFAF billions)					
External budgetary assistance	106.3	76.2	56.6	87.7	78.4	81.3
Public saving [3]	162.9	185.0	191.5	150.8	153.6	173.3
Basic fiscal balance [4]	8.8	-25.7	-37.4	-64.2	-67.0	-27.2
Nominal GDP	3,132	3,428	3,289	3,538	3,538	3,818

Sources: Ministry of Finance; and IMF staff estimates and projections.

[1] Figures for 2008 include impact of CRM reform.

[2] Figures for 2007 include CFAF 44 billion recapitalization of CMDT as a capital transfer and reduction in net lending.

[3] Total revenue less current non-interest spending and net lending.

[4] Excluding grants, externally financed capital expenditures, and HIPC-financed spending.

Table 5. Mali : Monetary Survey, 2004–08

	Dec. 2004	Dec. 2005 Prel.	Dec 2006 [1] Prel.	Jun 2007 Prel.	Sep 2007 Prel.	Dec 2007 Prel.	Dec 2008 Prog.
	(CFAF billions)						
Net foreign assets	367.5	428.9	524.0	549.2	552.8	535.0	545.0
Central Bank of West African States (BCEAO)	319.3	399.9	460.0	491.2	467.2	461.9	471.9
Commercial banks	48.2	29.0	64.0	58.0	85.6	73.1	73.1
Net domestic assets	399.7	411.4	408.0	329.1	398.8	407.8	477.5
Credit to the government (net)	-59.7	-26.4	-128.2	-141.4	-122.5	-116.7	-67.0
BCEAO, net	95.4	83.4	22.5	7.5	33.3	38.4	…
Commercial banks	-166.9	-130.0	-180.3	-183.6	-193.8	-196.6	…
Other	11.9	20.2	29.6	34.7	38.0	41.5	…
Credit to the economy	521.7	516.0	575.2	534.7	572.8	570.7	591.7
Other items (net)	-62.3	-78.2	-39.1	-64.3	-51.6	-46.2	-47.2
Money supply (M2)	767.2	840.3	932.0	878.3	951.6	942.8	1,022.5
Currency outside banks	275.4	344.9	343.7	319.9	320.0	321.9	367.0
Bank deposits	491.8	495.4	588.2	558.4	631.6	621.0	655.5
Base money (M0)	402.7	462.3	449.4	459.6	450.7	455.8	486.3
	(Percent of beginning-of-period broad money)						
Contribution to the growth of broad money							
Net foreign assets	-7.1	8.0	11.3	2.7	3.1	1.2	1.1
Net domestic assets	4.7	1.5	-0.4	-8.5	-1.0	0.0	7.4
Of which : credit to the central government	1.9	4.3	-12.1	-1.4	0.6	1.2	5.3
	(Annual percentage change, unless otherwise indicated)						
Memorandum items:							
Money supply (M2)	-2.4	9.5	10.9	-5.8	2.1	1.2	8.4
Base money (M0)	-15.1	14.8	-2.8	2.3	0.3	1.4	-3.2
Credit to the economy	8.1	-1.1	11.5	-7.0	-0.4	-0.8	3.7
Velocity (GDP/M2)	3.4	3.4	3.4	3.5	3.5	3.5	3.5
Money multiplier (M2/M0)	1.9	1.8	2.1	1.9	2.1	2.1	2.1
Currency outside banks / M2 (percent)	35.9	41.0	36.9	36.4	33.6	34.1	35.9

Sources: BCEAO; and IMF staff estimates and projections.

[1] Includes the impact of MDRI from IMF.

Table 6. Mali: Balance of Payments, 2005–10 [1]

	2005	2006	2007	2008	2009	2010
				Prog.	Proj.	
	(CFAF billions, unless otherwise indicated)					
Current account balance						
Excluding official transfers	-293	-201	-322	-266	-276	-301
Including official transfers	-232	-115	-270	-213	-218	-237
Exports, f.o.b.	580	811	718	853	918	909
Cotton fiber	140	142	114	67	103	105
Gold	359	586	515	695	711	686
Imports, f.o.b.	-657	-772	-797	-851	-862	-895
Petroleum products	-156	-188	-196	-225	-223	-212
Trade balance	-77	39	-79	2	56	14
Services (net)	-166	-189	-180	-152	-155	-156
Income (net)	-109	-135	-130	-185	-251	-237
Of which: interest due on public debt	-18	-15	-11	-12	-21	-20
Private transfers (net)	59	84	66	70	74	78
Official transfers (net)	61	86	52	53	58	64
Capital and financial account	282	225	270	210	214	249
Capital account (net)	77	1,159	134	138	80	84
Capital transfers	77	1,159	134	138	80	84
Debt forgiveness	0	1,085	0	0	0	0
Project grants	70	68	134	138	80	84
Financial account	205	-934	136	72	134	165
Private (net) [2]	127	-78	32	-40	69	81
Official (net)	79	-913	104	112	66	84
Overall balance	51	63	0	-3	-3	12
Financing	-51	-63	0	3	3	-12
Foreign assets (net)	-81	-85	-11	-10	-13	-18
Of which: IMF (net)	-11	-61	1	13	3	3
HIPC Initiative assistance	30	22	11	13	12	6
Memorandum items:	(Annual percentage changes)					
External trade						
Export volume index	19.1	2.9	-11.5	-10.7	12.1	-0.7
Import volume index	7.6	2.9	8.5	0.5	0.5	3.0
Export unit value	-5.6	35.9	0.1	32.9	-3.9	-0.4
Import price	5.7	14.3	-4.9	6.2	0.8	0.7
Terms of trade	-10.7	18.9	5.3	25.1	-4.7	-1.1
	(Percent of GDP, unless otherwise indicated)					
External current account balance						
Including official transfers	-8.2	-3.7	-8.2	-6.0	-5.7	-5.7
Excluding official transfers	-10.4	-6.4	-9.8	-7.5	-7.2	-7.2
External public debt	49.4	20.0	22.9	26.9	29.3	31.0
Debt service to exports of goods and services (after debt relief, in percent)	7.4	3.7	3.4	3.4	3.6	3.5
NPV of debt-to-exports (percent)	44.0	40.6	47.9	54.6	59.0	64.1
Commodity prices:						
Petroleum (crude spot; US$/barrel)	53.4	64.3	71.1	95.5	94.5	93.3
Gold (US$/ounce)	444.9	610.0	696.7	960.0	985.0	1,015.0
Cotton (US cents/pound), f.o.b	51.2	53.0	59.3	64.0	62.0	61.0

Sources: Malian authorities; and IMF staff estimates and projections.

[1] Presented according to the *Balance of Payments Manual (5th edition)*; 2006–2010 data after adjustment for MDRI (IMF, IDA, and AfDB).

[2] Reflects mainly the investments in the gold sector; includes short-term capital flows and errors and omissions.

Table 7. Mali: Medium-Term Outlook, 2006–12

	2006 [1]	2007	2008	2009	2010	2011	2012
			Projections				
			(Annual percentage change)				
Output supply and demand							
Real GDP	5.3	2.8	5.4	5.1	4.1	5.9	4.2
Primary sector	4.4	0.8	11.2	4.9	5.1	4.8	4.8
Secondary sector	8.2	-3.1	-0.7	7.9	0.6	10.8	1.7
Tertiary sector	9.4	5.9	5.4	2.9	4.1	4.8	4.5
Aggregate demand (contribution to output growth)							
Consumption	0.2	5.2	1.4	2.1	4.3	4.7	4.5
Gross investment	1.6	0.9	0.7	1.5	0.7	0.0	2.9
Of which : changes in inventories	-1.0	-3.8	0.8	0.0	-0.3	0.0	0.0
Net foreign balance	3.5	-3.3	3.4	1.5	-1.0	1.1	-3.2
Prices, period average							
GDP deflator	5.1	2.1	2.0	2.6	4.5	0.1	2.5
CPI inflation	1.5	1.4	2.5	2.5	2.5	2.5	2.5
Terms of trade	18.9	5.3	25.1	-4.7	-1.1	-3.2	-3.9
			(Percent of GDP; unless otherwise indicated)				
Investment and saving							
Gross domestic investment	23.7	23.9	23.3	23.6	23.4	22.1	24.0
Government	8.2	9.0	7.3	6.7	6.9	6.9	7.2
Nongovernment	15.4	14.8	16.0	16.9	16.4	15.2	16.8
Gross national savings	20.0	15.7	17.3	17.9	17.7	17.7	17.8
Gross domestic saving	18.9	16.0	19.0	21.0	19.9	19.9	18.9
Government	0.4	1.1	1.4	0.5	0.7	0.7	1.0
Nongovernment	18.5	14.9	17.6	20.5	19.3	19.3	17.8
Central government finance							
Total revenue and grants	57.4	22.2	21.4	22.3	22.6	22.6	23.1
Total revenue	17.7	17.3	17.1	18.4	18.7	18.7	19.1
Fiscal revenue	15.3	14.8	14.5	15.6	15.9	15.9	16.3
Non-tax revenue and special accounts	2.4	2.5	2.6	2.8	2.8	2.8	2.8
Grants [2]	39.7	4.9	4.3	4.0	3.9	3.9	4.0
Total expenditure and net lending [3]	25.4	25.3	25.8	25.2	25.5	25.5	25.9
Of which : Current expenditure	13.1	13.3	13.6	14.5	14.5	14.5	14.4
Capital expenditure	10.9	12.0	10.2	9.0	9.2	9.2	9.6
Overall balance (payment order basis, excl. grants)	-7.7	-8.3	-8.7	-6.8	-6.9	-6.8	-6.7
External sector							
Current external balance, including official transfers	-3.7	-8.2	-6.0	-5.7	-5.7	-4.4	-6.2
Current external balance, excluding official transfers	-6.4	-9.8	-7.5	-7.2	-7.2	-6.0	-7.8
Exports of goods and nonfactor services	31.1	26.9	29.3	29.2	26.8	26.8	24.4
Imports of goods and nonfactor services	35.9	34.7	33.6	31.8	30.2	29.0	29.5
Debt service ratio after debt relief	3.7	3.4	3.4	3.6	3.5	3.6	3.6
Gross international reserves							
US$ millions	1,182	1,192	1,217	1,248	1,292	1,351	1,401
Months of next year's imports	5.9	5.8	5.8	5.7	5.9	5.6	5.4
External public debt	20.0	22.9	26.9	29.3	31.0	33.7	36.3

Source: Malian authorities; and IMF staff estimates and projections

[1] Includes MDRI from IMF and IDA.

[2] Excludes general budgetary grants from 2007 onwards.

[3] Data on a payment order basis.

Table 8. Mali: WAEMU Convergence Criteria, 2004–07

	Criterion	2004	2005	2006	2007 Est.
	(Ratios in percent, unless otherwise indicated)				
Primary criteria					
Basic fiscal balance / GDP	>=0	0.4	-0.2	0.3	-1.1
Inflation (annual average percentage change)	<=3	-3.1	6.4	1.5	1.4
Total nominal debt / GDP	<=70	48.8	49.4	20.0	22.9
Domestic arrears accumulation (CFAF billions)	<=0	0.0	0.0	0.0	0.0
External arrears accumulation (CFAF billions)	<=0	0.0	0.0	0.0	0.0
Secondary criteria					
Wages / fiscal revenue	<=35	30.9	30.9	30.9	33.4
Domestically financed investment / fiscal revenue	>=20	22.7	22.0	17.3	34.5
Current account deficit, excl. current official transfers / GDP	<=5	10.3	10.4	-6.5	-9.8
Fiscal revenue / GDP	>=17	15.1	15.8	15.3	14.8

Sources: Malian authorities; and IMF staff estimates and projections.

Table 9. Mali: Schedule of Disbursements Under the PRGF Arrangement, 2008–11

Amount	Available date	Disbursement date	Conditions for disbursement [1]
SDR 12.99 million	May 23, 2008	June 15, 2008	Executive Board approval of the three-year PRGF arrangement
SDR 5.00 million	November 15, 2008	December 1, 2008	Observance of the performance criteria for June 30, 2008, and completion of the first review under the arrangement
SDR 2.00 million	May 15, 2009	June 1, 2009	Observance of the performance criteria for March 31, 2009, and completion of the second review under the arrangement
SDR 2.00 million	November 15, 2009	December 1, 2009	Observance of the performance criteria for June 30, 2009, and completion of the third review under the arrangement
SDR 2.00 million	May 15, 2010	June 1, 2010	Observance of the performance criteria for March 31, 2010, and completion of the fourth review under the arrangement
SDR 2.00 million	November 15, 2010	December 1, 2010	Observance of the performance criteria for June 30, 2010, and completion of the fifth review under the arrangement
SDR 2.00 million	May 15, 2011	June 1, 2011	Observance of the performance criteria for March 31, 2011, and completion of the sixth review under the arrangement

Source: International Monetary Fund.

[1] In addition to the generally applicable conditions under the Poverty Reduction and Growth Facility arrangement.

Table 10. Mali: Indicators of Capacity to Repay the Fund, 2007–12 [1]

	2007	2008	2009	2010	2011	2012
		Projections				
Fund obligations based on existing credit			(SDR millions)			
Principal	0.0	0.0	0.0	0.1	0.5	1.2
Charges and interest	0.7	0.5	0.5	0.5	0.5	0.5
Fund obligations based on existing and prospective credit			(SDR millions)			
Principal	0.0	0.0	0.0	0.1	0.5	1.2
Charges and interest	0.7	0.5	0.6	0.6	0.6	0.6
Total obligations based on existing and prospective credit			(In units indicated)			
In millions of SDRs	0.7	0.4	0.6	0.7	1.1	1.8
In billions of CFA francs	0.5	0.3	0.4	0.5	0.8	1.3
In percent of government revenue	0.1	0.1	0.1	0.1	0.1	0.2
In percent of exports of goods and services	0.1	0.0	0.0	0.0	0.1	0.1
In percent of debt service [2]	0.8	0.6	0.9	1.1	1.6	2.5
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0
In percent of quota	0.7	0.4	0.6	0.8	1.2	1.9
Outstanding Fund credit [2]			(In units indicated)			
In millions of SDRs	8.0	26.0	30.0	33.9	35.3	34.1
In billions of CFA francs	6.1	19.7	22.7	25.4	26.3	25.5
In percent of government revenue	1.2	3.7	3.6	3.6	3.6	3.1
In percent of exports of goods and services	0.7	1.9	2.0	2.3	2.2	2.2
In percent of debt service [2]	9.1	40.1	46.6	51.6	49.8	46.9
In percent of GDP	0.2	0.6	0.6	0.6	0.6	0.5
In percent of quota	8.6	27.9	32.1	36.3	37.9	36.6
			(SDR millions)			
Net use of Fund credit	2.7	18.0	4.0	3.9	1.5	-1.2
Disbursements	2.7	18.0	4.0	4.0	2.0	0.0
Repayments and Repurchases	0.0	0.0	0.0	0.1	0.5	1.2
Memorandum items:			(CFAF billions, unless otherwise indicated)			
Nominal GDP	3,289	3,538	3,818	4,152	4,412	4,711
Exports of goods and services	884	1,037	1,116	1,112	1,179	1,144
Government revenue	509	540	629	697	740	811
Debt service [2]	67.1	49.1	48.6	49.3	52.9	54.3
CFA francs/SDR (period average)	762.1	...	...	...	...	...

Sources: IMF staff estimates and projections.

[1] Assumes PRGF access in an amount of SDR 27.99 million.

[2] Total debt service includes IMF repurchases and repayments.

Attachment I. Mali—Letter of Intent

Bamako, May 5, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. The Government of Mali implemented the program supported by the Poverty Reduction and Growth Facility (PRGF) for 2004–07 in a generally satisfactory manner and was thus able to mobilize all the planned disbursements. Compliance with the program parameters made it possible to maintain macroeconomic stability and to meet most of the convergence criteria of the West African Economic and Monetary Union (WAEMU). Progress was also made in implementing structural reforms and strengthening social programs in line with the Poverty Reduction Strategy Paper (PRSP) for 2002–06. The Government approved a Second Generation PRSP—the Growth and Poverty Reduction Strategy Paper (GPRSP) 2007–11—in December 2006. On the basis of its performance, Mali benefited from the Multilateral Debt Relief Initiative (MDRI) in 2006.

2. Because the progress made under the last PRGF does not constitute a sufficient achievement, the Government requests continued Fund support. The Memorandum on Economic and Financial Policies (MEFP) annexed to this letter outlines the policies of the Government of Mali for 2008–11. The Government asks that its program—which seeks to reduce poverty by improving the competitiveness of the economy and accelerating growth while preserving macroeconomic stability—receive support from the IMF under a new PRGF arrangement in an amount of SDR 27.99 million, and it hereby requests the first disbursement in an amount of SDR 12.99 million.

3. The Government considers that the PRGF is the appropriate instrument at the present time to maintain a close economic policy dialogue with the Fund and to signal to the international community its commitment to sound policies. Mali has a well-established tradition of macroeconomic stability but its overall situation remains vulnerable and the international environment in 2008 is particularly challenging. The Government is determined to adhere to the timetable for implementing the program as envisaged in the MEFP.

4. The Government believes that the policies and measures set out in the MEFP are adequate to meet the objectives of the PRGF-supported program. In line with its firm

commitment to reach the objectives of the program, it will swiftly adopt any additional measures necessary to attain them. The Government will consult with Fund staff on its own initiative or at the request of the Fund's Managing Director before adopting such measures, or if there are changes in the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

5. The Government will provide Fund staff with any information required on progress made in implementing the economic and financial policies and monitoring program objectives. During the program, the Government will not introduce or intensify any exchange restrictions, multiple currency practice, or import restriction for balance of payments purposes, nor conclude any bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement.

6. The Government authorizes the Fund to publish this letter, the annexed MEFP, and the staff report relating to this request.

Yours truly,

/s/

Abou-Bakar Traoré
Minister of Finance

Attachments: – Memorandum on Economic and Financial Policies
– Technical Memorandum of Understanding

Attachment I. Annex I: Memorandum of Economic and Financial Policies

1. The year 2007 was not satisfactory in terms of economic growth in Mali. Late rains led to a fall in agricultural production and rural incomes. The sustained rise in oil and cereals prices on the international market produced adverse effects, particularly in urban areas. Although the mining sector benefited from a significant increase in the price of gold, Mali's primary export product, gold production fell appreciably owing to geological problems. Moreover, the depreciation of the dollar reduced export earnings, which derive mainly from raw materials whose prices are quoted in dollars.

2. Despite these exogenous factors, inflation remained moderate with price increases averaging 1.4 percent; but real GDP growth 2007 is estimated at only 3 percent. The collection of fiscal revenue was below forecast by an amount equivalent to 1 percent of GDP, and preliminary estimates suggest that the basic budget balance recorded a deficit of 1.1 percent of GDP. The fall in exports due to lower gold and seed cotton production led to an external current account deficit (excluding official grants) of 9.8 percent of GDP, compared with 6.4 percent in 2006. Nevertheless, international reserves continued to grow, reaching the equivalent of six months of imports at end-2007, and thanks to the MDRI, Mali's external debt burden declined markedly (23 percent of GDP, against nearly 50 percent in 2005).

3. In 2008 most macroeconomic indicators should be favorable, provided that weather conditions are normal. Inflation is expected to remain at around 2½ percent and GDP growth should reach 5 percent. The external position should strengthen in view of the high price of gold; the trade balance would improve and foreign exchange reserves would remain stable at about six months of imports.

Development Strategies

4. The strategy to revive the Malian economy rests on three pillars. First, mobilization of the resources needed to reduce poverty remains a fundamental priority, especially to promote agriculture, ensure food security, and strengthen basic social services. Second, because it is essential that financial stability underpin development, the Government aims to create fiscal space to cope with potential shocks while at the same time striving to meet the WAEMU convergence criteria, in particular by increasing the basic budget balance. The third pillar of the plan, indispensable for robust and sustainable economic growth, is to seek gains in competitiveness by improving the business climate to foster private sector growth. The Government is convinced that these components, implemented concurrently, will help raise medium-term growth, which should reach about 7 percent a year.

5. The cornerstone of the economic and social development strategy remains a sustainable reduction in poverty and progress toward the Millennium Development Goals (MDGs). The Growth and Poverty Reduction Strategy Paper (GPRSP) for 2007–11 sets the main approaches. The focus is on the pursuit of structural reforms, improved governance, the

expansion of basic infrastructure, private sector development, and human capacity-building. Budgetary resources in 2008 are expected to be within the range of GPRSP forecasts, and allocations to the most critical social sectors are consistent with the targets of the Medium-Term Fiscal Framework (MTFF) adopted by the Council of Ministers with the GPRSP. To ensure that those resources are used effectively for poverty reduction, the Government will take account of the GPRSP priorities, strengthen budgetary devolution and decentralization, and monitor resources use at all levels.

6. The National Assembly approved a law granting enhanced foreclosure powers to the Banque de l'Habitat du Mali (BHM) in January 2008, and more vigorous efforts to collect bad debts are under way. Reform of the Malian Retirement Fund (CRM), which revises the parameters of the system to reduce gradually the CRM deficit and its cost to the Government, was submitted to the National Assembly in March for consideration during its April 2008 session. The Government expects to publish the decree implementing the reform by end-July 2008, and in the near future it intends to launch new reforms of the general pensions system (INPS). Somewhat behind schedule, the Government launched a call for bids in April for the sale of its shares in Banque Internationale du Mali (BIM), and it intends to complete the process as soon as possible.

Fiscal Policies

7. Mali is vulnerable to external or natural exogenous shocks. Without the fiscal space to respond rapidly to ad hoc demands, there is a risk that macroeconomic stability and the development program will be undermined. The Government considers that in the medium-term, a zero basic balance is the most appropriate budget target for responding to emergent needs. In 2008 the deficit in the basic balance should be 1.9 percent of GDP, compared with 1.1 percent in 2007, reflecting the budgetary impact of the terms of trade. The aim is to reduce the deficit to 1 percent of GDP in 2009 and achieve balance in 2010. In order to respect the programming of expenditure to reduce poverty, measures have been implemented to correct the downward trend in the tax to GDP ratio observed since 2005.

8. On the basis of the measures in place, total budget revenue is projected at CFAF 606 billion, equivalent to 17.1 percent of GDP, compared with 17.3 percent in 2007. The Government is continuing to improve tax administration and broaden the tax base, in particular by implementing the recommendations of recent IMF technical assistance missions. At the Tax Directorate this involves in particular expansion of computerization, enhanced monitoring of registration, and strengthened audit programs. A sub-directorate will be established in 2009 to manage small and medium-sized enterprises. With regard to Customs, the Government has decided to eliminate all exemptions that do not have an explicit legal basis (with possible temporary exceptions duly approved by the Council of Ministers). Existing exemptions will be more closely monitored and limited, in particular by stricter application of the legislation providing for possible exemption. Moreover, the implementation of the scanning of goods and enhanced monitoring of customs valuation will

allow better control of the tax base. With regard to oil products, the Government has not been in a position to fully pass the increase in import prices through to retail prices. However, it is committed to maintaining a minimum level of nominal taxation, as described in the attached technical memorandum of understanding. The related increase in the retail prices of oil products is a prior action under the program.

9. The Government budget is under much pressure, especially as a result of the readjustment of bonuses and allowances and the general increase in salaries (5 percent effective January 1, 2008, and another 5 percent effective January 1, 2009). For 2008, total budget expenditure is capped at CFAF 913½ billion (25.8 percent of GDP, compared with 25.3 percent of GDP in 2007), of which CFAF 480 billion is for current expenditure and CFAF 362 billion for capital expenditure. At the same time the Government has decided to strengthen its policy in favor of the social sectors. Thus, recurrent expenditure on the priority social sectors (i.e., education and basic healthcare) will represent 41.5 percent of total recurrent costs in 2008, compared with 40.8 percent in 2007. The Government also would like to put into action its announced support for infrastructure and the productive sectors, especially through reduction in untargeted transfers.

10. Improving the quality of public spending remains a top priority. In coordination with our external partners, measures have been included in the Government Action Program for Improving and Modernizing Public Finance (PAGAM-GFP) to respond, among other things, to the conclusions of the Public Expenditure and Financial Accountability (PEFA) exercise. An action plan incorporating PEFA measures has been prepared for 2008. Efforts are under way to pursue implementation of the PAGAM-GFP/PEFA action plan, in particular by completing the connection of authorizing officers (ministries, institutions, regions) to the computerized expenditure system; improving the execution rate of programs by devolving parts of the Procurement Office to the regions; reviewing the Procurement Code; shifting gradually all donors from projects to budget support; and putting in place an economic and financial analysis unit to help strengthen the capacities of the Finance Committee of the National Assembly.

11. With regard to financing, the Government will continue a policy of prudent borrowing, both domestically and externally. To ensure debt sustainability, the Government reaffirms its commitment to select high-quality projects and make use of external financing on concessional terms only. Moreover, the Treasury intends to expand the issuance of bills and bonds to improve cash management and finance capital imports. For 2008, total Government financing is capped at CFAF 156 billion (4.4 percent of GDP), including CFAF 116 billion for external financing and CFAF 40 billion for domestic financing.

Improved Competitiveness

12. Mali's economic growth rate has averaged nearly 5 percent a year since the mid-1990s, which represents an annual increase in per capita GDP of 2 percent. However, the

growth rate has fluctuated significantly from year to year, and it has been on a downward trend since the beginning of the present decade. The GPRSP-mandated rate of 7 percent is essential for sustained poverty reduction, but requires far-reaching reforms to improve the business climate and the competitiveness of the Malian economy.

13. Increasing competitiveness calls for significant changes, primarily in the quality and availability of developed land and basic infrastructure; the cost and reliability of services like electricity and communications; the cost and quality of the workforce; and financial sector reforms. These far-reaching changes can only be successful as part of a medium-term approach and the Government is determined to launch the necessary reforms immediately. The program's main measures, covering food security, transport, the cotton sector, energy, telecommunications, and the financial sector, are as follows:

- **Food security.** The Government intends to improve all economic activities in the primary sector by relying on, inter alia, irrigation, the modernization of farms, and the development of an efficient agro-industrial sector. It aims to reduce the risks over the long term and cushion the impact of cyclical food crises. The strategy is based on using agro-ecological potential, especially by controlling water flows and managing local development, diversifying activities, promoting the professional expertise of those active in the sector, coordinating agricultural activities, and ensuring income security for producers and operators. In particular, the strategy will be executed in the Niger Delta region. The reform master plan for the Office du Niger (OdN) and a performance contract between the state, producers and OdN will be adopted shortly by the Council of Ministers, and the company's institutional modernization plan should be completed by end-2008. The development of new land will continue (100,000 hectares, including 60,000 hectares at OdN, by 2012). Finally, an incentive-based financing framework will be put in place with the creation of the National Agricultural Development Fund, as provided for in the Framework Law on Agriculture, and the establishment of a mechanism to finance hydro-agricultural systems and attract private investment.

- **Transport and marketing**. The Government intends to develop marketing channels for foodstuffs to improve distribution, in particular by implementing the second Transportation Sectoral Program (PST 2), designed to improve transport conditions for rural and urban communities, and by pursuing policies to overcome domestic and external transportation constraints through diversification of the country's supply and export routes. The support measures envisaged include capacity-building, rehabilitation, and modernization of public transport vehicles and strict application of transport and safety legislation.

- **Cotton.** The creation of four subsidiaries of the cotton company (CMDT) should be completed by December 2008, in line with the timetable prepared in consultation with the external partners in 2005 and approved by the Council of Ministers in October

2006. In the meantime, the committee that monitors the financial situation of CMDT will continue to meet monthly, and it will examine the company's recurrent difficulties and advise on ways and means to reduce the sector's losses. Moreover, the existing process for setting procurement prices will be retained for the 2008/09 crop year based on principles intended to balance the sector's accounts, while steps will be taken to properly manage the transition with the identification of private buyers for the subsidiaries.

- **Energy.** An action plan to ensure the medium-term viability of the electricity and water sector was adopted at end-2005. The plan includes a tariff study and preparation of an economic and financial model, an optimal investments analysis, an institutional survey, and the auditing of Énergie du Mali (EdM). The tariff study will be completed in May 2008 and, based on that study, the Energy and Water Committee will make proposals on price adjustments, which will be implemented as soon as possible. The optimal investment plan and the financial simulations are due in May 2008, and the audit of EdM will be completed by end-June 2008. In the medium term, the linking up of electricity grids at the regional level and the construction of new hydroelectric plants will make it possible to lower costs and increase the availability of electricity.

- **Telecommunications.** It is expected that the call for bids to sell the Government's shares in Société de Télécommunications du Mali (SOTELMA) will go out in September 2008 and the process will be completed by year-end. This privatization will make it possible to consolidate SOTELMA's market position through new investment, extend access to telephones, and improve the quality of service. Increased competition in the sector should encourage expansion of the supply of telephone services and facilitate access to telecommunications services for the maximum number of users, in particular in rural areas and at lower cost, while ensuring the collection of taxes and fees on telecommunications.

- **Financial sector.** The Council of Ministers adopted an updated version of the financial sector development strategy in April, based on the analysis of the Financial Sector Assessment Program (FSAP) carried out in February 2008. In the short-term, measures include: privatization of Banque Internationale du Mali (BIM) through the sale of 51 percent of the Government's shares to a leading bank; restructuring of the Banque de l'Habitat du Mali (BHM) and the Fonds de Garantie Hypothécaire du Mali (FGHM), in particular by raising their capital, to ensure sound financing for housing; social security reform to improve the financial situation and management of the social security institutions (CRM and INPS), to help transform them into key institutional investors and strengthen capital markets; and improving efficiency in the monitoring and supervision of microfinance institutions.

14. The Government intends to ensure that future wage increases are linked to productivity to encourage labor market conditions conducive to growth. In the public sector, which serves as a benchmark for the entire formal sector, the Government plans new measures to boost labor productivity, including better incentives to enhance performance and devolve public services. Moreover, studies are under way on rationalizing wage policy, correcting distortions between different categories of Government employees, and simplifying the system of bonuses and allowances. With regard to management of contractual staff in the health and education systems, recruited on behalf of local authorities, the following measures were implemented in 2008 to improve control of the payroll: (i) extension of the computer system used to manage the salaries of contract staff to cover those in the healthcare sector, and diligent registration of employees to facilitate data processing of salary statements; (ii) creation of a national database to improve the monitoring of staff; and (iii) adoption of a ministerial decree with detailed rules Governing the organization and functioning of committees that oversee the reclassification and promotion of local government contractual staff.

15. The Government has launched a program of measures to improve the business climate and facilitate private sector activity. On the regulatory front, planned reforms will make it possible to remove obstacles facing entrepreneurs. Efforts will focus in particular on setting up a one-stop shop to streamline business start-up procedures; lowering the cost of recording property transfers; using collective bargaining procedures; improving the functioning of commercial courts and arbitration boards; and simplifying and standardizing transit documents for international trade. With regard to institutions, a number of measures are under way or will be implemented in 2008. The Agency to Promote Investment in Mali (API-Mali) has been operational since March 2008, and has recruited three sectoral directors; the one-stop shop will shortly be in place and make it possible to start up a new business within 72 hours, with two procedures instead of the current 11; the Government also intends to cut the cost of starting a business to one-fifth of the present cost. In addition, a study is being prepared on export development. The report, expected in 2008, will make proposals on the establishment of an export promotion agency (ADEX).

16. The accelerated growth strategy aims to lay the foundations for sustained growth and lasting poverty reduction. The priorities in 2008 for mobilizing productivity gains concern (i) macroeconomic measures to reduce the cost of factors of production and increase their availability; (ii) sectoral measures to boost productivity, by providing basic infrastructure and land suited for industrial and commercial use; and (iii) promotion of a dynamic and competitive private sector, particularly with regard to rice production, the processing of agricultural products, and tourism. Improving the industrial base is also an important part of overall competitiveness. Industrial policy seeks to boost the creation of new businesses and restructuring of existing ones, revive production, promote investment, and create jobs. The drafting and implementation of the Framework Law on the Private Sector (LOSP) should sustain and reinforce the efforts to develop the sector. Looking ahead, the integration of the Malian economy into the multilateral trade system is also an important component, which

means taking an active part in negotiations on the Doha Round, on the Economic Partnership Agreements (EPAs), and on access under the African Growth and Opportunities Act (AGOA), to enable Mali to win and retain market shares.

Program Monitoring

17. Table 1 lists the program performance indicators and benchmarks for 2008–09. The indicators are defined in the attached technical memorandum. To provide for contingencies, the monitoring framework provides for an adjustment mechanism (described in detail in paragraph 9 of the memorandum), to be used if there is a gap between nonproject external assistance and program projections.

18. The conclusion of the first PRGF review, scheduled for November 2008, will be based on achievement of performance criteria at end-June 2008. The review will focus on fiscal developments and competitiveness indicators, as well as reform programs at the OdN and EdM. The second program review is scheduled to be completed by end-May 2009 on the basis of the performance criteria at end-December 2008.

Table 1. Mali: Performance Criteria and Program Indicators Under the Poverty Reduction and Growth Facility, March–December 2008

	2008			
	March Est.	June Criterion	Sep. Bench–mark	Dec. Criterion
Quantitative targets[1]				
Net domestic financing of the Government (ceiling)	...	51.2	58.1	40.3
Of which: Bank and market financing	…	61.8	73.9	49.7
Cumulative increase in external payment arrears (ceiling)[2]	0.0	0.0	0.0	0.0
New external credits with a maturity of a year or more contracted or guaranteed by the Government on nonconcessional terms (ceiling)[2 3]	0.0	0.0	0.0	0.0
New short-term external credits (less than one year) contracted or guaranteed by the Government (ceiling)[2]	0.0	0.0	0.0	0.0
Financial indicators (floors):				
Cumulative net tax revenue	...	205.9	360.3	514.7
Basic budget balance	...	-61.7	-63.0	-67.0
Structural targets	**Timetable**			
Elimination of all customs exemptions not explicitly provided for by law (unless approved by the Council of Ministers)	Continuous criterion			
Maintenance of a minimum threshold for the taxation of oil products (as stipulated in the TMU)	Continuous criterion			
Launch of a call for tenders for the sale of Government shares in SOTELMA	Criterion at end-September 2008			
Adoption by the Council of Ministers of a new institutional public service framework for water and electricity	Benchmark at end-September 2008			
Adoption by the Council of Ministers of the reform master plan and of a development contract at the Niger Authority	Benchmark at end-September 2008			
Memorandum items:				
External budgetary assistance[1 4]	...	27.2	42.8	55.7
Debt relief under the HIPC Initiative[1]	...	5.7	8.9	12.7

[1] Cumulative figures since the beginning of each year. See technical memorandum for definitions.
[2] The following performance criteria will be monitored on a continuous basis.
[3] Grant component equal to or higher than 35 percent.
[4] Excluding use of Fund resources.

Attachment I, Annex II: Technical Memorandum of Understanding

1. This technical memorandum of understanding defines the performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement. It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program-monitoring purposes.

I. Definitions

2. Unless otherwise indicated, the Government is defined as the central administration of the Republic of Mali and does not include local administrations, the central bank, or any other public entity with autonomous legal personality that is not included in the table of Government financial operations (TOFE).

3. The definitions of "debt" and "concessional loans" for the purposes of this memorandum of understanding are as follows:

(a) Debt is defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (see Decision of the Executive Directors of the IMF No. 12274-00/85, August 24, 2000).

(b) A loan is considered concessional if, on the date the contract is signed, the ratio of the present value of the debt, based on the reference interest rates, to the nominal value of the debt is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

II. Quantitative Performance Criteria

A. Ceiling on Net Domestic Financing of the Government; Subceiling on Net Domestic Bank and Market Financing of the Government

4. Net domestic financing is defined as the sum of (i) net bank credit to Government, as defined below, (ii) other Government claims and debts vis-à-vis national banking institutions, and (iii) nonbank financing of the Government.

5. Figures on net bank credit to Government are calculated by the BCEAO. Figures on nonbank financing are calculated by the public treasury, and are final in the context of the program.

6. Net bank credit to Government is defined as the balance between Government debts and Government claims vis-à-vis the central bank and commercial banks. The scope of net

bank credit to Government is that used by the Central Bank of West African States (BCEAO) and is consistent with established Fund practice in this area. It implies a broader definition of Government than that specified in paragraph 2 by also including local governments, and selected autonomous government agencies and projects. Government claims include the CFA franc cash balance, postal checking accounts, secured liabilities (*obligations cautionnées*), and all deposits with the BCEAO and commercial banks of public entities, with the exception of industrial or commercial public institutions (EPICs) and public enterprises, which are excluded from the calculation. Government debts to the banking system include all debts to these same financial institutions. Deposits of the cotton stabilization fund and Government securities held outside the Malian banking system are not included in the calculation of net bank credit to Government.

7. Nonbank financing of the Government is defined as nonbank market financing and other nonbank financing. Nonbank market financing includes sales net of repayments of Government bills and bonds held outside national banking institutions. Other nonbank financing of the Government includes proceeds from the sale of Government assets, repayments on domestic debt to nonbank creditors, and other net claims on the treasury. The receipts from sale of Government assets are defined as the proceeds from the sale, effectively received by the Government during the fiscal year, of all or part of the shares held by the Government in privatized enterprises. In the event that payments in respect of these sale transactions are expected to extend beyond the fiscal year, the residual will be included in the calculation of nonbank financing of the Government in each of the subsequent years, in accordance with the annual scheduling of the expected payments.

8. Net domestic bank and market financing of the Government is defined as the sum of (i) net bank credit to Government, as defined above, (ii) other Government claims and debts vis-à-vis national banking institutions, and (iii) nonbank financing of the Government through the issuance of securities to nonbanks.

Adjustment factor

9. The ceiling on the change in net domestic financing of the Government will be adjusted down (up) if external budgetary assistance exceeds (falls short of) the program amount. Budgetary assistance is defined as grants, loans, and debt relief (excluding project loans and grants, IMF resources, and debt relief under the Initiative for Heavily Indebted Poor Countries). Adjustment will be made at a rate of nil percent for amounts up to CFAF 10 billion; 50 percent for amounts from CFAF 10 billion up to CFAF 25 billion; and 75 percent for amounts in excess of CFAF 25 billion.

B. Nonaccumulation of External Public Payments Arrears

10. External payments arrears are defined as the sum of external payments due and unpaid for external liabilities of the Government and foreign debt held or guaranteed by the Government. The definition of external debt provided in paragraph 3(a) applies here.

11. Under the program, the Government will not accumulate external payments arrears, with the exception of arrears arising from debt under renegotiation or being rescheduled. The performance criterion on the nonaccumulation of external payments arrears will be applied on a continuous basis throughout the program period.

C. Ceiling on Nonconcessional External Debt with a Maturity of One Year or More Newly Contracted or Guaranteed by the Government and/or Public Enterprises

12. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00)), but also to commitments contracted or guaranteed for which no value has yet been received.

13. The concept of Government for the purposes of this performance criterion includes Government as defined in paragraph 2, administrative public institutions (EPAs), scientific and/or technical public institutions, professional public institutions, industrial and/or commercial public institutions (EPICs), and local governments.

14. Starting on the date of program approval by the Executive Board of the IMF, a ceiling of zero is set for nonconcessional borrowing. This performance criterion is monitored on a continuous basis.

15. The Government undertakes not to contract or guarantee external debt with a maturity of one year or more and a grant element of less than 35 percent (calculated using the reference interest rates corresponding to the borrowing currencies provided by the IMF). This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing, adopted by the Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which no value has yet been received. However, it does not apply to financing granted by the IMF and treasury bills and bonds issued in CFA francs on the West African Economic and Monetary Union (WAEMU) regional market.

D. Ceiling on Short-Term External Debt Newly Contracted or Guaranteed by the Government and/or Public Enterprises

16. The definition in paragraph 12 applies to this performance criterion. Short-term external debt is debt with a contractual term of less than one year. Import- related credit, CMDT foreign borrowing secured by the proceeds of cotton exports, and debt-relief operations are excluded from this performance criterion. Treasury bills issued in CFA francs on the WAEMU regional market are also excluded. In the context of the program, the Government and public enterprises will not contract, or guarantee, short-term external debt. This performance criterion is monitored on a continuous basis.

E. Floor on Taxation of Petroleum Products

17. Starting on the date of program approval by the Executive Board of the IMF, the Government shall maintain taxation of petroleum products at or above minimum nominal levels as follows:

(i)	Gasoline, all grades (*essence*)	CFAF 255 per liter
(ii)	Diesel fuel (*gasoil*)	CFAF 110 per liter
(iii)	Distillate diesel oil (*DDO*)	CFAF 130 per liter
(iv)	Other fuel (except kerosene)	CFAF 100 per liter

18. These minima shall apply to all imports of a given product through a given corridor in excess of 100 tons in a calendar month. Reductions of up to10 percent in total taxation may apply on corridors other than Abidjan and Dakar.

19. Taxation for the purposes of this performance criterion is defined to include value-added tax, import duties, excise taxes (notably the Domestic Tax on Petroleum Products, TIPP), and statistical tax. This performance criterion is monitored on a continuous basis, using the monthly regulatory order setting the retail price structure of petroleum products.

F. Customs Exemptions not Explicitly Provided for by Law

20. Starting on the date of program approval by the Executive Board of the IMF, the Government shall permit no customs exemption that is not explicitly provided for by law. Exemptions not subject to this provision include, but are not necessarily limited to, those under the Vienna Convention on Diplomatic Relations and similar international conventions governing multilateral institutions; the Mining Code; under the Investment Code; the General Tax Code; the Customs Code; and for the imports of donor-funded projects. Only exceptions that have been (i) duly approved by the Council of Ministers, and (ii) temporary, having a fixed validity period not exceeding 6 months, will be excluded from the limit. This performance criterion is monitored on a continuous basis.

III. Quantitative Indicators

21. The program also includes indicators on Government tax revenues and the basic fiscal balance.

A. Floor for Tax Revenues

22. Government tax revenues are defined as those that figure in the Table on Government financial operations (TOFE). The Government shall report tax revenues to IMF staff each month in the context of the TOFE. Quantitative performance indicators for tax revenues are set in Table 1 attached to the Letter of Intent.

B. Floor on the Basic Fiscal Balance, Excluding HIPC Initiative-Related Expenditure

23. The basic fiscal balance is defined as the difference between total revenues, excluding grants and privatization receipts, and total expenditure plus net lending, excluding capital expenditure financed by foreign donors and lenders and HIPC Initiative-related expenditures. The floors for the performance indicators for the basic fiscal balance, excluding HIPC Initiative-related expenditure, are set in Table 1 attached to the Letter of Intent.

IV. Structural Measures

24. The table attached to the letter of intent describes the structural measures identified as performance criteria and structural performance indicators under the program. This table provides information regarding the implementation dates for the structural reforms envisaged.

25. Information relating to the introduction of the measures constituting structural benchmarks and performance criteria will be sent to Fund staff within two weeks of the date of their scheduled implementation.

V. Additional Information for Program Monitoring

26. The Government will provide IMF staff with information as set out in the following summary table in order to assist in the monitoring of the program.

SUMMARY OF DATA TO BE REPORTED

Data Type	Tables	Frequency	Time Frame
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of the national accounts	Variable	8 weeks following the revision
	Disaggregated consumer price indexes	Monthly	End of month + 2 weeks
Government finances	Net Government position (including the list of accounts of other public entities with the banking system) and breakdown of nonbank financing	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	Treasury general ledger	Monthly	End of month + 4 weeks
	TOFE of the central Government and consolidated TOFE	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	Budget execution through the expenditure chain as recorded in the automated system	Monthly	End of month + 2 weeks
	Breakdown of fiscal revenue and expenditure in the context of the TOFE	Monthly	End of month + 6 weeks (TOFE)
	Separate report on outlays financed with HIPC resources	Monthly	End of month + 6 weeks
	Execution of capital budget	Quarterly	End of quarter + 8 weeks
	Tax revenues in the context of the TOFE	Monthly	End of month + 6 weeks
	Wage bill in the context of the TOFE	Monthly	End of month + 6 weeks
	Basic fiscal balance in the context of the TOFE	Monthly	End of month + 6 weeks
	Regulatory order setting prices of petroleum products, tax revenues from petroleum products, and subsidies paid	Monthly	End of month
	Imports of petroleum products by type and point of entry	Monthly	End of month + 2 weeks
	Customs exemptions	Monthly	End of month + 4 weeks
	Treasury operations of the CMDT	Monthly	End of month + 4 weeks
Monetary and financial data	Summary accounts of the BCEAO, summary accounts of banks, and accounts of the banking system	Monthly	End of month + 4 weeks (provisional); end of month + 8 weeks (final)
	Foreign assets and liabilities of the BCEAO	Monthly	End of month + 8 weeks
	Lending and deposit interest rates, BCEAO intervention rates, and BCEAO reserve requirements	Monthly	End of month + 4 weeks
	Bank prudential ratios	Monthly	End of month + 6 weeks
Balance of payments	Balance of payments	Annual	End of year + 12 months

Data Type	Tables	Frequency	Time Frame
	Revisions of balance of payments	Variable	8 weeks following each revision
External debt	Breakdown of all new external borrowing terms	Monthly	End of month + 4 weeks
	Debt service, indicating amortization, interest payments, and relief obtained under the HIPC Initiative	Monthly	End of month + 4 weeks
PRSP	Share of poverty-reducing expenditure	Quarterly	End of quarter + 4 weeks
	Share of primary education in total education outlays	Quarterly	End of quarter + 4 weeks
	Gross enrollment ratio in primary education, by gender	Annual	Beginning of the next academic year +1 month (final)
	Percentage of the population having access to health care facilities within a radius of 15 kilometers	Annual	End of year + 2 months
	Rate of assisted births	Annual	End of year + 2 months
	Data on immunization rate DTCP3 of child below 1 year	Annual	End of year + 2 months

INTERNATIONAL MONETARY FUND

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

MALI

Joint IMF/IDA Debt Sustainability Analysis

Prepared by the Staffs of the World Bank and the International Monetary Fund[1]

Approved by Robert Sharer and Mark Plant (IMF)
and Sudhir Shetty and Carlos Braga (World Bank)

May 8, 2008

The 2008 debt sustainability analysis (DSA) indicates that Mali is at a low risk of debt distress. The outlook remained broadly stable since the previous DSA, completed in October 2007. Further fiscal consolidation, structural reforms to reduce vulnerability to shocks, and strengthened debt management would help Mali further reduce its risk of debt distress.

I. Background and Macroeconomic Assumptions

1. **As a result of the HIPC and MDRI initiatives, Mali's stock of external debt has declined significantly.**[2] Mali's stock of public and publicly guaranteed external debt has declined from 49.3 percent of GDP in 2005 to 20 percent in 2006; at end-2007 it increased slightly to 22.9 percent of GDP[3]. Total public debt at end-2007 was estimated at US$1,542 million (i.e., 24 percent of GDP, of which 1.1 percent was domestic debt).

2. **The baseline scenario reflects prudent macroeconomic projections and is in line with Mali's historical experience (Box 1**). The medium-term outlook envisages continued macroeconomic stability and sustained economic growth, supported by continued structural reforms, highly concessional borrowing, and a moderate scaling up of aid. Exports are projected to drive growth over the medium term based on an increase in gold production

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[1] Prepared jointly by IMF and World Bank staff. ADB staff was consulted during the preparation process.

[2] HIPC debt relief was granted by all multilaterals, Paris Club bilateral creditors, and three non-Paris Club creditors (Saudi Arabia, Kuwait and China). Negotiations with four countries are ongoing.

[3] This reflects new concessional loans from IDA and the ADB, and a non-concessional loan from IsDB.

spurred by the high international gold prices. In the long term, however, gold production is projected to taper off, resulting in slightly lower growth of GDP and exports, and slowing the improvement in the current account deficit. The fiscal deficit (including grants), upon which net public borrowing depends, is projected to hover around 4 percent of GDP throughout the DSA period.

Box 1. Mali: Debt Sustainability Analysis: Macroeconomic Assumptions, 2008-26

- Real GDP growth is projected to average 4.9 percent a year during 2008-13 and remain around 5 percent a year thereafter, assuming lower gold production from 2012 onward and rainfall returning to its long-term average level.[4]
- Consumer price inflation is projected to remain at about 2.5 percent a year, in line with the WAEMU convergence criterion.
- The basic fiscal balance is projected to improve from an average deficit of 0.4 percent of GDP in the period 2008 to 2013, to a surplus of 0.2 percent of GDP in the long run; grants are assumed to increase on average by 3 percent per year during 2008-13.
- Exports are projected to grow by 7.3 percent a year during 2008-13, compared to a growth rate of 13 percent during 2002-2007, reflecting slower gold exports. Imports are projected to grow at 6.4 and 7.7 percent in the medium and long term respectively. International reserves are expected to remain high, at about 6 months of imports of goods and services during the projection period.
- The terms of trade and real exchange rate are projected to remain unchanged from 2013 onward. Public sector net external new borrowing is expected to average about 2.3 percent of GDP a year. It is assumed that 70 percent of the new borrowings will come from multilateral sources and the remaining 30 percent from bilateral sources.
- It is assumed that there will be no new public sector domestic medium and long-term (MLT) loans. The current MLT domestic loan stock is assumed to be amortized linearly through the period 2008-2013.

II. Results of the External Debt Sustainability Analysis

3. **Mali's external debt ratios have changed little since the last DSA and have remained well below the indicative thresholds under the baseline scenario.** Although Mali's external debt ratios are projected to increase steadily over time, they are projected to remain below the applicable indicative debt thresholds over the period 2008–26 under the baseline scenario (Figure 1 and Table 1).[5] The NPV of debt-to-GDP is expected to climb

[4] The 2007 PRSP projects an annual economic growth of 7 percent. The teams assumed a more conservative approach, taking into account the current pace of economic reform, assuming that the economy will grow at its historical trend rate of 5 percent per year.

[5] Based on the World Bank classification, the external debt burden thresholds relevant for Mali are (i) NPV of debt-to-exports ratio of 150 percent; (ii) NPV of debt-to-revenue of 250 percent; (iii) NPV of debt-to-GDP of 40 percent; and (iv) debt service-to-exports and revenue ratios of 20 and 30 percent, respectively.

from about 14 percent in 2007 to 31 percent in 2026. As gold production tapers off, NPV of debt-to-exports is projected to increase from 48 percent in 2007 to 106 percent in 2026. The debt service-to-exports ratio is expected to increase from 3 percent in 2007 to 5 percent in 2026.

4. **The standard sensitivity tests reveal some vulnerabilities** (Table 1 and Figure 1). The threshold for the ratio of NPV of debt-to-GDP is breached in the later years of the projection period for the alternative scenario that assumes new public loans on less favorable terms and for the bound test that assumes a 30 percent depreciation relative to the baseline in 2008. However, all debt service ratios remain below the indicative thresholds in all scenarios examined.

5. **Mali remains at low risk of debt distress**. Even though the indicative threshold is breached under two scenarios, there are important factors that mitigate the risks identified by the analysis. Regarding the 30 percent depreciation shock, Mali's real exchange rate has remained broadly stable, and recent econometric studies on Mali's real exchange rate parity are inconclusive. For the WAEMU zone as a whole, the studies indicate that any misalignment is modest, suggesting that a shock of such magnitude would be unlikely. The establishment of mechanisms to ensure closer consultations between the authorities and the IMF and Bank staffs mitigates the risk of less concessional lending. In addition, upcoming Bank-supported technical assistance in debt management will further strengthen debt management structures and analysis.[6] Finally, it should be emphasized that the breaches occur at the end of the projection period – therefore, there is ample time for policy reactions should future DSAs point to a worsening debt situation.

Box 2: Debt Burden Indicators

	Thresholds[1/]	Mali: Baseline Scenario Ratios		
		2007	2008-13[2/]	2014-26[2/]
		(in percent)		
NPV of external debt-to-exports	150	47.9	66.2	97.0
NPV of external debt-to-GDP	40	14.2	20.3	29.3
External debt service-to-exports	20	3.4	3.5	4.0
NPV debt-to revenue 3/	250	77.3	110.1	143.4
Debt service-to revenue 3/	30	11.9	5.5	5.4

1/ Policy indicative thresholds for a medium policy performer.
2/ Simple averages.
3/ Excluding grants.

[6] In the past, Mali has generally contracted concessional loans. In 2007, a non-concessional package was contracted from the IsDB in the amount of US$71 million (about 1 percent of Mali's 2007 GDP). Based on the economic merits of the package, IDA granted a waiver on its non-concessional borrowing policy.

III. Results of the Public Debt Sustainability Analysis

6. **In the baseline scenario, Mali's public debt increases moderately over the projection period** (Figure 2 and Table 4). The NPV-of-debt-to-revenue ratio is projected to increase from 64 percent in 2007 to 135 percent in 2026 (incl. grants).[7] The debt-service-to-revenue (excl. grants) ratio is projected to remain low, declining from 10 percent in 2007 to 4 percent in 2026. Thus, Mali's public debt is considered manageable, as long as the authorities implement a cautious debt strategy.[8]

7. **The sensitivity analysis shows that Mali's public debt is vulnerable to shocks.** If GDP growth were to be permanently lower by 1 percentage point compared to the baseline, adversely affecting revenue collection, and without any offsetting adjustment, the NPV of public debt (incl. grants) would reach 196 percent of revenue by 2026 (Table 2 and Figure 2) compared to 135 percent under the baseline. Similarly, if the projected 2008 primary deficit of 3.5 percent—atypically high for Mali—remained constant throughout the projection period (as opposed to the projected drop to an average of 0.2 percent), the NPV of public debt-to-revenue would climb from 64 percent in 2007 to 192 percent by 2026 (Table 4). The sensitivity analysis underscores the importance of continuing to pursue sound macroeconomic policies to achieve high GDP growth rates and low public sector deficits.

IV. Conclusion

8. **Mali's risk of debt distress is low**. Most debt indicators are below the relevant country-specific debt-burden thresholds. Under two sensitivity tests, the NPV of debt-to-GDP breaches the threshold in the outer years of the projection period, but strong mitigating factors would render these scenarios unlikely. Results of the total public sector debt ratios confirm the results of the external DSA. Going forward, Mali would need to deepen fiscal consolidation, enhance competitiveness, and follow a prudent debt strategy, in order to strengthen its debt sustainability.

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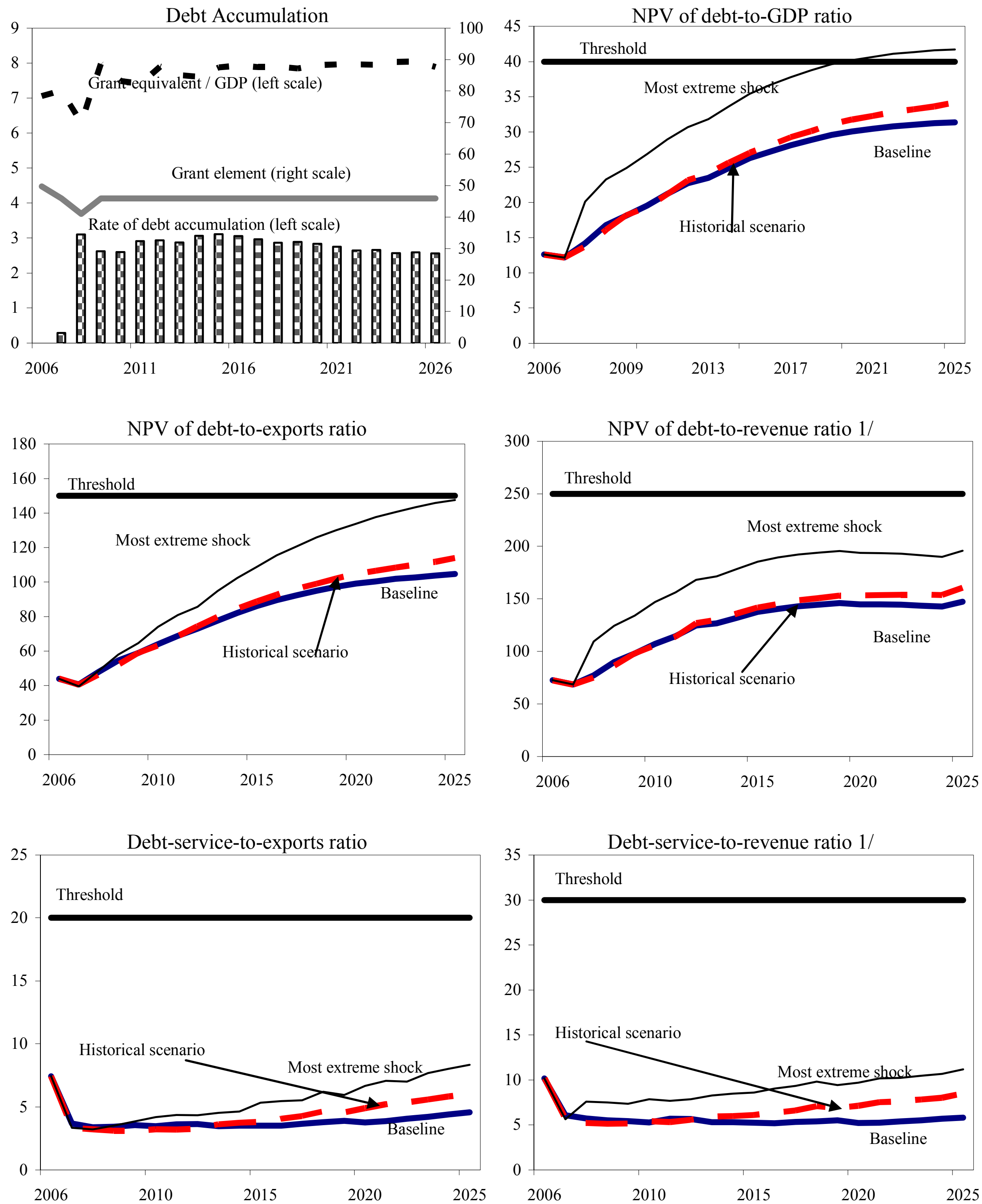
[7] Excluding grants, the NPV-of-debt-to-revenue ratio is projected to increase from 75.8 percent in 2007 to 152 percent in 2026.

[8] Mali's current debt strategy relies on lower cost concessional external financing, thereby reducing the stock of the government's domestic borrowing and promoting the "crowding in" of credit to the private sector.

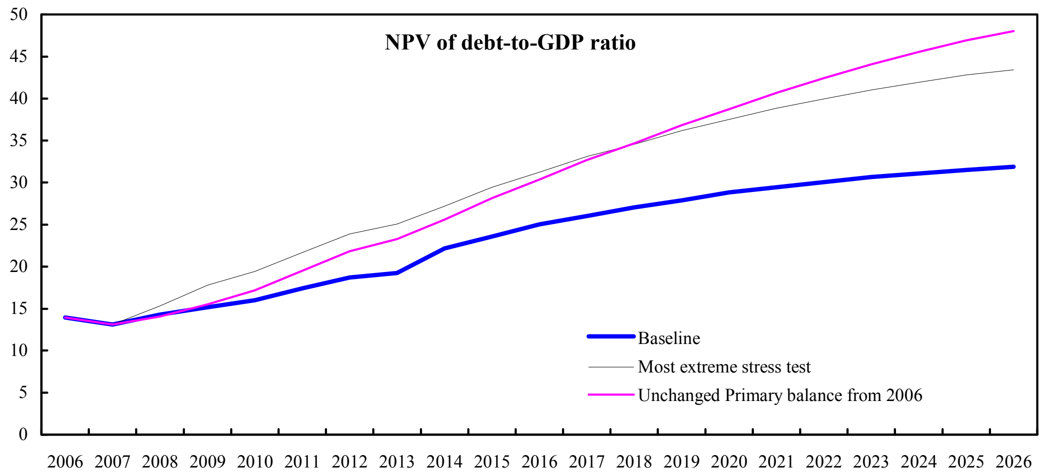
Figure 1. Mali: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2006-2026 (in percent)

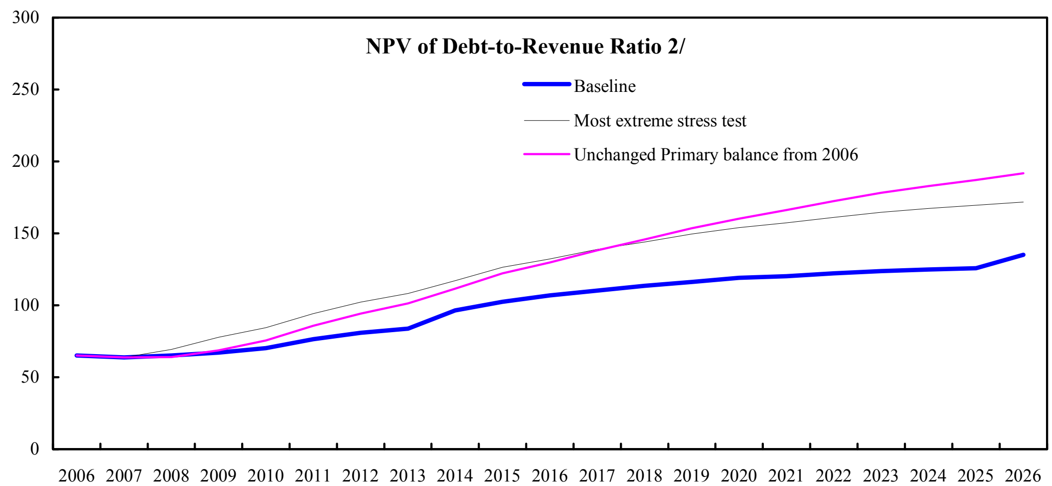


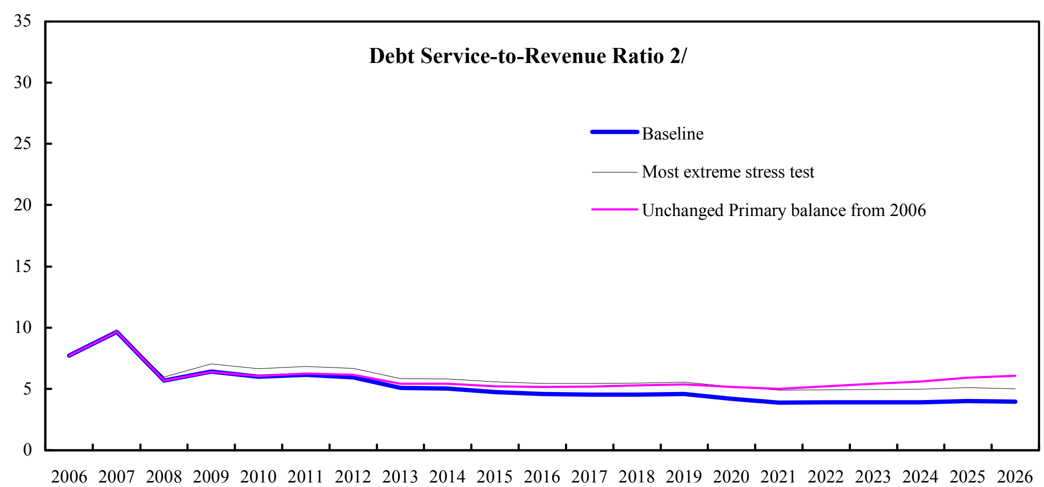
Source: Staff projections and simulations.

1/ Revenue excludes grants.

Figure 2.Mali: Indicators of Public Debt Under Alternative Scenarios, 2006-2026 1/







Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2016.
2/ Revenue including grants.

Table 1. Mali: External Debt Sustainability Framework, Baseline Scenario, 2005-2026 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/										
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2026	2014-26 Average
External debt (nominal) 1/	49.3	20.0	22.9	58.0	26.3	26.9	29.3	31.0	33.7	36.3	37.1	32.4	46.8	54.6	48.5
o/w public and publicly guaranteed (PPG)	49.3	20.0	22.9	57.7	25.4	26.9	29.3	31.0	33.7	36.3	37.1	32.4	46.8	54.6	48.5
Change in external debt	0.5	-29.3	2.9	-7.7	11.6	4.0	2.4	1.7	2.7	2.6	0.8	2.4	1.3	0.6	1.3
Identified net debt-creating flows	-1.0	0.5	3.7	0.4	8.5	3.5	2.4	3.0	2.5	2.9	2.4	2.8	1.9	1.3	1.8
Non-interest current account deficit	5.7	5.0	5.5	6.3	1.9	5.5	4.5	5.0	5.1	5.1	5.0	5.0	5.0	4.7	5.0
Deficit in balance of goods and services	8.4	6.5	7.0	11.2	8.8	7.2	5.5	5.5	5.5	5.5	5.3	5.7	4.9	4.4	4.8
Exports	28.6	30.0	29.6	27.2	3.2	30.8	30.8	30.5	30.8	31.2	30.2	30.7	30.4	29.5	30.2
Imports	37.0	36.6	36.6	38.3	8.2	38.0	36.3	36.0	36.3	36.6	35.5	36.5	35.3	33.9	35.0
Net current transfers (negative = inflow)	-2.8	-2.6	-1.5	-4.3	1.8	-1.4	-1.4	-1.4	-1.4	-1.3	-1.3	-1.4	-1.2	-0.9	-1.2
o/w official	-1.3	-1.5	-0.4	-2.0	1.7	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Other current account flows (negative = net inflow)	0.1	1.1	0.0	-0.5	5.8	-0.3	0.4	0.9	1.0	1.0	1.0	0.7	1.3	1.2	1.4
Net FDI (negative = inflow)	-1.0	-1.3	-1.0	-2.2	2.1	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3
Endogenous debt dynamics 2/	-5.7	-3.2	-0.8	-3.7	5.6	-0.9	-1.0	-0.8	-1.4	-1.0	-1.3	-1.1	-1.8	-2.0	-1.8
Contribution from nominal interest rate	0.2	0.5	0.2	0.6	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.5
Contribution from real GDP growth	-2.6	-2.4	-0.5	-2.9	3.6	-1.1	-1.3	-1.1	-1.7	-1.3	-1.7	-1.4	-2.3	-2.5	-2.3
Contribution from price and exchange rate changes	-3.3	-1.3	-0.5	-1.5	4.8	...	...	...	...	...	...	...	...	...	...
Residual (3-4) 3/	1.5	-29.8	-0.7	-8.1	10.9	0.5	0.0	-1.3	0.2	-0.4	-1.7	-0.4	-0.6	-0.7	-0.5
o/w exceptional financing	0.0	0.0	0.0	-0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPV of external debt 4/	12.6	12.2	14.2	20.2	8.0	16.8	18.2	19.5	21.2	22.7	23.5	20.3	28.8	31.4	29.3
In percent of exports	44.0	40.6	47.9	77.0	36.0	54.6	59.0	64.1	68.8	73.0	77.7	66.2	95.0	106.5	97.0
NPV of PPG external debt	12.6	12.2	14.2	20.2	8.0	16.8	18.2	19.5	21.2	22.7	23.5	20.3	28.8	31.4	29.3
In percent of exports	44.0	40.6	47.9	77.0	36.0	54.6	59.0	64.1	68.8	73.0	77.7	66.2	95.0	106.5	97.0
In percent of government revenues	72.6	68.6	77.3	116.4	49.0	90.0	97.9	107.1	114.4	124.6	126.7	110.1	144.5	152.8	143.4
Debt service-to-exports ratio (in percent)	7.4	3.7	3.4	7.2	2.9	3.4	3.6	3.5	3.6	3.6	3.5	3.5	3.8	4.7	4.0
PPG debt service-to-exports ratio (in percent)	7.4	3.7	3.4	6.9	2.7	3.4	3.6	3.5	3.6	3.6	3.5	3.5	3.8	4.7	4.0
PPG debt service-to-revenue ratio (in percent)	10.2	6.1	5.7	11.9	5.2	5.5	5.4	5.3	5.7	5.7	5.3	5.5	5.4	6.1	5.4
Total gross financing need (billions of U.S. dollars)	0.4	0.3	0.4	0.3	0.2	0.4	0.3	0.4	0.4	0.5	0.5	0.4	0.7	1.3	0.9
Non-interest current account deficit that stabilizes debt ratio	5.2	34.2	2.6	14.1	12.3	1.5	2.1	3.3	2.3	2.5	4.2	2.7	3.7	4.1	3.7
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.1	5.3	2.8	4.8	4.1	5.4	5.1	4.1	5.9	4.2	5.0	5.0	5.4	5.0	5.2
GDP deflator in US dollar terms (change in percent)	7.3	2.7	2.4	4.3	8.3	2.7	4.9	1.0	2.5	6.0	2.8	3.3	2.3	4.3	2.9
Effective interest rate (percent) 5/	0.5	1.1	1.2	1.0	0.4	1.1	1.1	1.1	1.1	1.0	1.0	1.1	1.1	0.9	1.0
Growth of exports of G&S (US dollar terms, in percent)	32.0	10.9	6.4	12.8	13.0	3.9	8.0	8.2	8.0	8.0	8.0	7.3	8.0	7.0	7.9
Growth of imports of G&S (US dollar terms, in percent)	23.2	4.4	8.2	13.2	21.9	3.8	3.0	8.4	7.8	7.8	7.8	6.4	7.8	7.0	7.7
Grant element of new public sector borrowing (in percent)	45.9	45.9	41.0	44.3	2.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9
Aid flows (in billions of US dollars) 7/	2.0	0.6	0.7	0.8	0.5	0.7	0.7	0.8	0.8	0.9	0.9	0.8	1.3	0.1	1.3
o/w Grants	0.3	0.4	0.3	0.2	0.1	0.4	0.4	0.5	0.5	0.6	0.6	0.5	0.9	1.7	1.2
o/w Concessional loans	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.1	0.2
Grant-equivalent financing (in percent of GDP) 8/	3.1	7.2	6.3	5.5	2.1	8.0	7.5	7.4	7.9	7.7	7.6	7.7	7.8	7.6	7.9
Grant-equivalent financing (in percent of external financing) 8/	61.3	78.1	70.5	70.0	8.4	71.3	74.7	75.1	74.2	74.6	75.3	74.2	75.6	75.6	75.6
Memorandum items:															
Nominal GDP (billions of US dollars)	6.1	6.4	6.9	3.9	1.6	6.9	7.5	8.2	8.7	9.3	10.4	8.5	15.2	28.7	18.6
(NPVt-NPVt-1)/GDPt-1 (in percent)						2.6	2.8	3.2	3.1	3.1	3.4	3.0	3.1	2.8	3.0

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. Projections also includes contribution from price and exchange rate changes. The large residual in 2006 is due to MDRI.

4/ Assumes that NPV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Table 2.Mali: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2026
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5/	Standard Deviation 5/	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2026	2014-26 Average
Public sector debt 1/	51.3	21.4	24.0	64.0	32.4	27.8	30.1	31.7	34.3	36.8	37.6	33.0	47.3	55.1	49.0
o/w foreign-currency denominated	49.3	20.0	22.9	61.7	32.3	26.9	29.3	31.0	33.7	36.3	37.1	32.4	46.8	54.6	48.5
Change in public sector debt	6.0	-29.9	2.6	-8.7	16.3	3.8	2.3	1.6	2.6	2.5	0.8	2.3	2.3	1.8	2.0
Identified debt-creating flows	5.5	-29.4	1.6	-8.2	17.0	1.6	0.2	-1.0	-0.5	-0.8	-2.6	-0.5	0.2	-2.7	-1.7
Primary deficit	2.6	2.7	3.0	2.2	0.8	3.5	2.1	1.3	1.1	0.9	0.8	1.6	2.1	0.0	0.7
Revenue and grants	22.0	21.4	20.6	20.0	1.3	21.9	22.6	22.8	22.7	23.1	22.9	22.7	22.6	23.6	23.0
of which : grants	4.1	3.7	3.3	4.1	0.6	3.0	3.2	3.1	3.0	3.0	2.8	3.0	3.2	2.6	2.8
Primary (noninterest) expenditure	24.6	24.2	23.6	22.2	1.5	25.4	24.6	24.0	23.8	24.0	23.7	24.3	24.6	23.6	23.8
Automatic debt dynamics	3.3	-6.6	-0.7	-5.1	10.4	-1.4	-1.4	-1.9	-1.5	-1.6	-3.2	-1.8	-1.4	-2.7	-2.3
Contribution from interest rate/growth differential	-3.2	-3.1	-0.6	-4.7	4.3	-1.3	-1.3	-1.2	-1.8	-1.5	-1.9	-1.5	-1.3	-2.6	-1.9
of which : contribution from average real interest rate	-0.6	-0.5	0.0	-0.7	0.5	-0.1	0.1	0.0	0.0	-0.1	-0.2	0.0	0.1	-0.4	-0.2
of which : contribution from real GDP growth	-2.6	-2.6	-0.6	-3.3	4.0	-1.2	-1.4	-1.2	-1.8	-1.4	-1.8	-1.4	-1.4	-2.2	-1.8
Contribution from real exchange rate depreciation	6.5	-3.6	-0.1	-0.5	8.8	-0.1	-0.2	-0.8	0.3	-0.2	-1.3	-0.4	-0.2	-0.1	-0.4
Other identified debt-creating flows	-0.3	-25.5	-0.7	-5.2	10.3	-0.5	-0.4	-0.4	-0.1	-0.1	-0.1	-0.3	-0.4	0.0	-0.1
Privatization receipts (negative)	-0.3	0.0	-0.2	-0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	0.0	-25.5	-0.5	-4.9	10.2	-0.5	-0.4	-0.4	-0.1	-0.1	-0.1	-0.3	-0.4	0.0	-0.1
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	0.5	-0.5	1.0	-0.6	3.7	2.2	2.1	2.6	3.1	3.3	3.3	2.8	2.1	4.5	3.7
NPV of public sector debt	29.7	14.0	13.1	12.5	11.7	14.3	15.2	16.0	17.4	18.7	19.3	16.8	27.0	31.9	28.1
o/w foreign-currency denominated	27.7	12.6	12.1	10.2	11.9	13.3	14.4	15.3	16.8	18.2	18.8	16.1	23.7	28.6	24.7
o/w external	27.7	12.6	12.1	...	...	13.3	14.4	15.3	16.8	18.2	18.8	16.1	23.7	28.6	24.7
NPV of contingent liabilities (not included in public sector debt)	...	0.0	0.0	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing need 2/	4.8	4.4	5.0	4.8	0.6	5.2	4.0	3.1	3.0	2.8	2.4	3.4	1.6	0.9	1.4
NPV of public sector debt-to-revenue and grants ratio (in percent)	135.3	65.2	63.8	60.0	55.1	65.1	67.3	70.4	76.5	80.9	83.9	74.0	119.9	135.1	122.0
NPV of public sector debt-to-revenue ratio (in percent)	166.0	78.9	75.8	74.2	68.3	75.5	78.3	81.4	88.4	93.0	95.9	85.4	139.4	151.5	139.1
o/w external 3/	...	...	...	...	...	70.6	74.2	77.9	85.4	90.6	93.4	82.0	122.0	135.8	122.3
Debt service-to-revenue and grants ratio (in percent) 4/	9.8	7.7	9.6	12.9	3.1	5.7	6.4	6.0	6.1	5.9	5.1	5.9	4.5	4.0	4.4
Debt service-to-revenue ratio (in percent) 4/	12.0	9.4	11.5	16.4	4.6	6.6	7.5	6.9	7.1	6.8	5.8	6.8	6.8	4.6	5.9
Primary deficit that stabilizes the debt-to-GDP ratio	-3.4	32.7	0.4	8.3	16.5	-0.4	-0.2	-0.3	-1.5	-1.6	0.0	-0.7	-0.2	-1.8	-1.2
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.1	5.2	2.8	4.8	4.1	5.4	5.1	4.1	5.9	4.2	5.0	5.0	5.4	5.0	5.2
Average nominal interest rate on forex debt (in percent)	1.2	0.5	1.5	1.0	0.4	1.4	1.3	1.3	1.2	1.2	1.2	1.3	1.2	1.0	1.2
Average nominal interest rate on domestic debt (in percent)	3.8	14.6	10.2	4.5	5.1	7.4	33.0	34.2	34.8	35.3	33.9	29.8	-8.0	-68.1	-27.4
Average real interest rate (in percent)	-1.4	-1.0	0.1	-0.9	0.5	-1.0	0.1	-0.3	0.3	0.0	0.0	-0.1	-0.9	-1.5	-1.0
Real discount rate on foreign-currency debt (in percent)	1.9	2.9	2.9	2.9	0.6	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Average real interest rate on domestic currency debt (in percent)	7.6	9.0	7.9	1.4	6.2	5.4	30.0	28.7	34.5	32.0	26.3	26.2	-10.5	-69.2	-29.3
Real exchange rate depreciation (in percent, + indicates depreciation)	16.1	-7.8	-0.7	-1.3	12.2	-0.4	-0.7	-2.7	1.0	-0.5	-3.8	...	...	...	...
Inflation rate (GDP deflator, in percent)	-3.6	5.1	2.1	2.6	3.6	1.9	2.3	4.2	0.2	2.5	6.0	2.9	2.7	3.5	2.8
Growth of real primary spending (deflated by GDP deflator, in percent)	19.3	3.4	0.6	6.7	8.1	13.2	2.0	1.6	5.0	5.2	3.5	5.1	5.6	5.3	5.5
Grant element of new external borrowing (in percent)	49.7	49.7	45.9	49.3	1.3	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9	45.9

Sources: Country authorities; and Fund staff estimates and projections.
1/ Comprises central government and publicly guaranteed debt.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 3. Mali: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-26
(In percent)

	Projections						
	2007	2008	2009	2010	2011	2016	2026
NPV of debt-to-GDP ratio							
Baseline	14	17	18	20	21	27	31
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2008-27 1/	14	16	18	19	21	28	35
A2. New public sector loans on less favorable terms in 2008-27 2/	14	18	20	23	25	35	42
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	14	17	19	20	22	27	31
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	15	20	21	22	24	30	32
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	16	20	21	23	25	31	35
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	14	16	17	18	20	25	29
B5. Combination of B1-B4 using one-half standard deviation shocks	13	14	16	17	19	26	32
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	20	23	25	27	29	37	42
NPV of debt-to-exports ratio							
Baseline	48	55	59	64	69	90	106
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2007-26 1/	46	52	59	63	69	93	118
A2. New public sector loans on less favorable terms in 2007-26 2/	49	58	65	74	81	116	142
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	48	58	63	66	72	92	110
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	52	75	81	85	91	114	131
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	48	58	63	66	72	92	110
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	47	55	60	64	69	90	109
B5. Combination of B1-B4 using one-half standard deviation shocks	41	43	49	52	58	79	101
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	48	58	63	66	72	92	110
Debt service-to-exports ratio							
Baseline	3	3	4	3	4	4	5
A. Alternative Scenarios							
A1. Key variables at their historical averages in 2008-27 1/	3	3	3	3	3	4	6
A2. New public sector loans on less favorable terms in 2008-27 2/	3	4	4	4	4	5	9
B. Bound Tests							
B1. Real GDP growth at historical average minus one standard deviation in 2008-09	3	3	3	4	4	4	6
B2. Export value growth at historical average minus one standard deviation in 2008-09 3/	3	4	4	4	4	5	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	3	3	3	4	4	4	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/	3	3	3	3	3	4	6
B5. Combination of B1-B4 using one-half standard deviation shocks	3	3	3	3	3	4	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	3	3	3	4	4	4	6
Memorandum item:							
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	47	47	47	47	47	47	47

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assum an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

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Table 4.Mali: Sensitivity Analysis for Key Indicators of Public Debt 2007-2026

	Projections							
	2007	2008	2009	2010	2011	2012	2016	2026
NPV of Debt-to-GDP Ratio								
Baseline	13	14	15	16	17	19	25	32
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	13	14	15	17	19	25	40
A2. Primary balance is unchanged from 2006	13	14	16	17	20	22	30	48
A3. Permanently lower GDP growth 1/	13	14	16	17	19	21	29	50
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	13	15	18	19	22	24	31	43
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	13	14	15	16	17	19	23	29
B3. Combination of B1-B2 using one half standard deviation shocks	13	14	15	16	17	19	23	30
B5. 10 percent of GDP increase in other debt-creating flows in 2008	13	20	20	20	22	23	27	31
NPV of Debt-to-Revenue Ratio 2/								
Baseline	64	65	67	70	77	81	107	135
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	64	61	63	67	75	80	107	159
A2. Primary balance is unchanged from 2006	64	64	69	76	86	94	130	192
A3. Permanently lower GDP growth 1/	64	66	69	74	83	89	121	196
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	64	70	78	84	94	102	132	172
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	64	63	67	70	76	81	98	117
B3. Combination of B1-B2 using one half standard deviation shocks	64	63	67	70	76	80	98	118
B5. 10 percent of GDP increase in other debt-creating flows in 2008	64	89	88	90	96	99	114	125
Debt Service-to-Revenue Ratio 2/								
Baseline	10	6	6	6	6	6	5	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	10	6	6	6	6	6	5	5
A2. Primary balance is unchanged from 2006	10	6	6	6	6	6	5	6
A3. Permanently lower GDP growth 1/	10	6	7	6	6	6	5	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	10	6	7	7	7	7	5	6
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	10	6	6	6	6	6	5	4
B3. Combination of B1-B2 using one half standard deviation shocks	10	6	7	6	6	6	5	4
B5. 10 percent of GDP increase in other debt-creating flows in 2008	10	6	7	6	7	6	5	5
Debt Service-to-GDP Ratio								
Baseline	2	1	1	1	1	1	1	1
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	2	1	1	1	1	1	1	1
A2. Primary balance is unchanged from 2006	2	1	1	1	1	1	1	2
A3. Permanently lower GDP growth 1/	2	1	1	1	1	1	1	2
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	2	1	2	2	2	2	1	1
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	2	1	1	1	1	1	1	1
B3. Combination of B1-B2 using one half standard deviation shocks	2	1	1	1	1	1	1	1
B5. 10 percent of GDP increase in other debt-creating flows in 2008	2	1	2	1	1	1	1	1

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

MALI

2008 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Informational Annex

Prepared by the African Department
(In collaboration with other departments)

Approved by Robert Sharer and Mark Plant

May 8, 2008

- **Relations with the Fund.** Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 8 million (8.7 percent of quota) at end-February 2008.
- **Relations with the World Bank.** Describes the World Bank Group program and portfolio, including a statement of IFC investments.
- **Statistical Issues.** Assesses the quality of statistical data. Data provision for surveillance purposes is adequate overall, but weaknesses in a broad range of economic statistics are hampering the analyses of economic developments.

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APPENDIX I. MALI: RELATIONS WITH THE FUND

(As of March 31, 2008)

I. Membership Status: Joined September 27, 1963 Article VIII

II. General Resources Account	SDR Millions	%Quota
Quota	93.30	100.00
Fund holdings of currency	83.71	89.72
Reserve position	9.61	10.30
Holdings Exchange Rate		

III. SDR Department	SDR Millions	%Allocation
Net cumulative allocation	15.91	100.00
Holdings	0.23	1.44

IV. Outstanding Purchases and Loans	SDR Millions	%Quota
PRGF arrangements	8.00	8.57

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Millions)	Amount Drawn (SDR Millions)
PRGF	Jun 23, 2004	Nov 30, 2007	9.33	9.33
PRGF	Aug 06, 1999	Aug 05, 2003	51.32	51.32
PRGF	Apr 10, 1996	Aug 05, 1999	62.01	62.01

VI. Projected Payments to Fund

(SDR millions; based on existing use of resources and present holdings of SDRs):

			Forthcoming		
	2008	2009	2010	2011	2012
Principal	--	--	0.13	0.53	1.20
Charges/interest	0.36	00.46	0.46	0.46	0.46
Total	0.36	0.46	0.66	0.99	1.66

VII. Implementation of HIPC Initiative

I. Commitment of HIPC assistance	Original Framework	Enhanced Framework
Decision point date	Sep 1998	Sep 2000
Assistance committed		
by all creditors (US$ millions) [1]	121.00	417.00
Of which: IMF assistance (US$ millions)	14.00	45.21
(SDR equivalent in millions)	10.80	34.74
Completion point date	Sep 2000	Mar 2003

	Original Framework	Enhanced Framework	Total
II. Disbursement of IMF assistance (SDR millions)			
Assistance disbursed to the member	10.80	34.74	45.54
Interim assistance	--	9.08	9.08
Completion point balance	10.80	25.66	36.46
Additional disbursement of interest income [2]	--	3.73	3.73
Total disbursements	10.80	38.47	49.27

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Decision point—point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance—amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point—point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI)

I.	Total Debt Relief (SDR million)[1]	75.07		
	Of which: MDRI	62.44		
	HIPC	12.63		
II.	Debt Relief by Facility (SDR million)			
		Eligible Debt		
		GRA	PRGF	Total
	Delivery Date: January 2006	N/A	75.07	75.07

[1] The MDRI provides 100 percent debt relief to eligible member countries that qualify for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Safeguards Assessments

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union that includes Mali. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicated progress has been made in strengthening the bank's safeguards framework since the 2002 assessment and identified some areas where further steps would help solidify it.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms for improving risk management have been established and follow-up on internal and external audit recommendations has been strengthened.

The monitoring results of the first half of 2007 indicate certain vulnerabilities remain in internal control systems and legal structure, while there has been some progress in improving the external audit process (through adopting a multi year audit program), establishing an audit committee, expanding disclosures in the notes to financial statements on financial positions with the Fund by countries, and further strengthening of the effectiveness of the internal audit function.

X. Exchange Rate Arrangements and Summary of Exchange Restrictions

Mali is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the union, has no restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, was pegged to the French franc at the rate of CFAF 50 = F 1 from 1948 until early 1994. Effective January 12, 1994, the CFA franc was devalued, and the new parity set at CFAF 100 = F 1. Effective January 1, 1999, the CFA franc was pegged to the Euro at a rate of CFAF 655.96 = EUR 1.

As of June 1, 1996, Mali and other members of WAEMU accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. Mali's exchange system has no restrictions on making payments or transfers for current international transactions and the country does not engage in multiple currency practices.

Sharing a common trade policy with other members of WAEMU, Mali has shifted key trade policy-making to the sub-regional level. The common external tariff (CET) was adopted in January 2000. Mali complies with the union's tariff rate structure and has effectively dismantled internal tariffs. WAEMU tariff reform has reduced the simple average custom duty from 22.1 percent in 1997 to 14.6 percent in 2003 (latest available): the maximum rate is 20 percent. Imports to Mali are not subject to quantitative restrictions.

Because Mali has signed the Cotonou Convention, its exports to the European Union generally enjoy nonreciprocal preferential treatment in the form of exemption from import duties. Malian goods enjoy nonreciprocal preferential access to the markets of developed countries other than the European Union under the Generalized System of Preferences. Mali is also eligible to benefits from the United States' African Growth and Opportunity Act. At the WAEMU level, officially Mali experiences no regulatory impediments to its exports.

XI. Article IV Consultations

Mali's Article IV consultation cycle is governed by the provisions of the July 2002 decision on consultation cycles. The Executive Board completed the 2005 Article IV consultation (Country Report No. 06/73) on December 19, 2005.

XII. ROSC/AAP

Regarding the HIPC Assessment Action Plan, a May 2004 mission concluded that progress had been achieved. The number of tightly defined benchmarks observed by Mali had increased from 8 out of 15 in 2001 to 11 out of 16, and significant advances were made in the areas where the benchmarks were not yet met. The report put forward an action plan to strengthen Mali's budget management capacity, with the view to helping Mali meet all 16 indicators in the medium term. One of the priorities the mission identified in many areas was to extend beyond the procedural monitoring of compliance with the rules to emphasize effectiveness and efficiency based on a tighter focus on risk management.

XIII. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	April 2008	*Strengthening of public accounts*
FAD	Expert	March 2008	*Establishment of medium-size taxpayer unit*
FAD	Staff	Feb. 2008	*Customs administration*
AFRITAC	MFI Expert	Nov. 2007	*Control of microfinance institution.*
AFRITAC	Customs expert	Nov. 2007	*Customs control procedures, and ways to speed up customs clearances*
AFRITAC	Statistics Advisor	Nov. 2007	*Help in ensuring consistency of national accounts data, and checks in national accounts*
AFRITAC	MFI Advisor	Sept. 2007	*Control of microfinance institutions*
FAD/AFRITAC	Staff	Sept. 2007	*Modernization of tax administration and strategy for the next stage of reforms, with focus on priority measures to improve the performances of the tax department*
AFRITAC	Statistics Advisor	Jun-Jul 2007	*Migration to SNA 1993*
AFRITAC	PEM Advisor and expert	Jul. 2007	*National Treasury's accounting and centralization of accounts*
STA/AFRITAC	Staff	Jul. 2007	*Use of GFSM 2001 framework for fiscal policy analysis*
AFRITAC	Statistics Advisor	Mar. 2007	*Gold statistics*
AFRITAC	Debt Advisor	Mar. 2007	*External debt computerization(follow up on 2006 mission)*
AFRITAC	PEM Advisor and expert	Aug. 2006	*Computerization of budget operations*
AFRITAC	STA Advisor	July 2006	*Workshop on the GFS compilation*
AFRITAC	STA Advisor	June 2006	*Gold statistics*
AFRITAC	Expert	Apr. 2006	*Fuel pricing and taxation*
AFRITAC	STA Advisor	Mar. 2006	*Strategy for developing national accounts and consumer price statistics*
AFRITAC	STA Advisor	Mar. 2006	*Statistics for gold sector*
AFRITAC	Customs Advisor	Mar. 2006	*Customs valuation*
AFR/FAD	Staff	Feb. 2006	*Wage policy*
AFRITAC	MFI Advisor	Sept. 2005	*Help CAS/SFD to improve its function, control, and inspection capacity*
AFRITAC	PEM Advisor and expert	Aug. 2005	*Treasury accounting*
LEG	Expert	Aug. 2005	*Anti-money-laundering law*
AFRITAC	Multisector advisor	Jun. 2005	*Government Finance Statistics*
AFRITAC	Debt Advisor	Apr. 2005	*External and domestic debt management and issuance of government securities*

Appendix II. Mali: IMF-World Bank Relations
(April 7, 2008)[1]

A. Partnership in Mali's development strategy

1. Mali's Growth and Poverty Reduction Strategy Framework (GPRSF) adopted by the Government in December 2006, comprises programs over the 2007-11 period grouped under the following three pillars: (i) infrastructure development and strengthening of the productive sectors (including food security, rural development, SME development, and sustainable natural resources management); (ii) strengthening the structural reform agenda (comprising public sector reforms, investment climate, financial sector, governance, and capacity of the civil society); and (iii) strengthening of social sector services (including promotion of job creation, improved access to basic social services, and HIV/AIDS).

2. The IMF and World Bank staffs maintain a collaborative relationship in supporting the Government's macroeconomic and structural reforms, in line with the guidelines for enhanced Bank-Fund collaboration. This includes participation of Bank staff in the meetings with the Malian authorities on the Fund's program review missions, and IMF staff participation in Bank development policy missions as well as in Bank internal review meetings on key operations or studies. The IMF takes the lead in macroeconomic stabilization and the World Bank in social and structural areas, with close collaboration on a few structural areas that have a particular impact on macroeconomic stability. The Fund's dialogue and conditionality are consistent with the structural programs agreed with the Bank, and the Bank's policy framework with Mali is elaborated consistent with the Governments' macroeconomic framework agreed with the Fund.

B. World Bank Group strategy

3. The World Bank Group's strategy, outlined in the new joint IDA-IFC Country Assistance Strategy (CAS), discussed by the Board of Directors on February 5, 2008 selectively supports key pillars of the 2006 GPRSF. The CAS covers the period FY08-11 and has two strategic objectives: (i) promote rapid and broad-based growth; and (ii) strengthen public sector performance for service delivery. Within the two CAS pillars, the Bank will focus on (a) private sector led growth by addressing key constraints such as productivity, energy, transport, and finance and by linking the country to the rest of the world; b) governance; and (c) capacity development. The Bank also supports Mali under the Bank's Regional Integration Assistance Strategy (2001), notably the programs for connection to the West Africa Power Pool, harmonization of country policies and/or regulatory frameworks (telecommunications, agriculture, and financial sectors), water resource development of the Niger and Senegal Rivers, strengthening of road transport corridors and transit facilitation, and strengthening the regional payments system. The Bank's assistance to Mali in its support to regional integration will be fully aligned with the regional PRS and UEMOA regional economic program (REP) priorities.

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[1] This note is updated on an annual basis by World Bank staff.

4. As of December 2007, the IDA portfolio in Mali consists of 14 operations totaling $622.4 million in net commitments, of which $353.5 million (57 percent) remain undisbursed. Including the regional operations, the portfolio amounts to $723.8 million. Close to 47 percent of the IDA portfolio is concentrated in the rural development sector and more than 22 percent in the transport sector.. Since FY07, the Bank has provided budget support through Poverty Reduction Support Credits (PRSCs) underpinned by a medium-term program. In light of the limited IDA allocations,, the FY08-FY11 CAS envisages yearly PRSCs and self-standing investments in key projects in the energy, agriculture and urban sectors.

5. Recently completed non-lending activities include a Macroeconomic Growth and Water Variability study, Poverty Assessment, Country Procurement Assessment Review (CPAR), a Diagnostic Trade Integrated Framework Study, urban sector review, health and education country status reports, transport and growth study, a Poverty and Social Impact Analysis of the cotton sector, and a Country Economic Memorandum providing analysis on Mali's growth performance and prospects. The Bank has also assisted with development of medium-term expenditure frameworks (MTEF) for health, education, transport, and agriculture-livestock-fisheries sectors. In FY07, the Bank was the lead donor for Mali's Public Expenditure and Financial Accountability (PEFA) review. Ongoing non-lending activities include a Public Expenditure Management and Financial Accountability Review (PEMFAR), and three studies: Demography and Economics, Rural Finance and Governance Diagnostic. Going forward, the Bank will focus on tackling constraints to growth and service delivery. The FY09 indicative knowledge program includes a growth note on mining, a study on remittances, an investment climate assessment (ICA) update, a country environmental assessment and a skills development study.

C. IMF-World Bank collaboration

6. **Areas in which the Fund leads**. The Fund takes the lead in macroeconomic stabilization including macro-fiscal policy, monetary policy, exchange rate policy, and financial stability and risk management.

7. **Areas in which the Bank leads**. The Bank takes the lead in structural areas where both institutions have conditionality, including cotton sector reform, privatization and regulatory reform (telecommunications, banking, financial and energy sectors), pension reform, and measures to improve the investment climate. The Bank also leads in other areas such as: agricultural competitiveness/diversification; rural development (irrigation, roads, support to producer organizations); private sector development (strengthening the investment climate, telecommunications sector, airport improvement, mining regulation and environment management, small-scale mining, access to business services, support to small/medium enterprises); urban development (land/housing market development, water/road infrastructure); transportation policy/infrastructure; energy sector reforms; and social sectors (health, education and social protection, including HIV/AIDS). The Bank's work in structural areas includes analytical work and dialogue on trade and growth policies, which form part of the overall economic policy dialogue. The Bank collaborates closely with other donors in all areas of its sector dialogue with Mali. Harmonized donor support is established in some sections (health, education, *Office du Niger*, cotton) and is being established in other sectors, namely rural water

supply and sanitation. The Bank is lead donor in the dialogue to harmonize donor budget support to Mali.

8. **Areas of shared responsibility**. Both Bank and Fund collaborate in assessing performance of HIPC resource use. Both also monitor progress on budgetary and public expenditure management, yet emphasize different aspects of the Government's reform program in the respective support operations to Mali. The Bank emphasis in this area is on strengthening all phases of the public expenditure system—budget preparation, execution, and controls—to support the Government's objectives of progressive shifts toward result-based budgeting and improved expenditure management. Bank support is at the national level in the finance ministry (global MTEF, integrated information technology system, audit capabilities, budget reporting) and sector ministries (selected sector MTEFs, inter- and intra-sectoral allocations), as well as at de-concentrated levels of the government (IT system, capacity building). The Fund's emphasis is on fiscal management, expenditure management (including financing of transfers to parastatals), revenue enhancing measures, and audit capabilities. Table 1 summarizes the areas of Bank-Fund collaboration in Mali.

Table 1. Bank Fund Collaboration in Mali (ongoing or planned)

Area	Specialized Advice from Fund	Specialized Advice from Bank	Key Instruments
Economic Framework/Management	Fiscal/monetary policy, Economic statistics	Economic growth analysis.	*IMF*: PRGF performance criteria and benchmarks on fiscal and monetary targets; technical assistance. *Bank* PRSC program; Analytical studies
Budget Framework and Public Finance Reforms	Overall budget envelope, Expenditure management, Enhancement of tax and non-tax revenue, Pension reform	Sector MTEFs, Integrated information system, Monitoring of budget execution, Efficiency of public expenditures (education and health sectors), Fiduciary accountability and management, Pension reform.	*IMF*: PRGF performance criteria and benchmarks on overall fiscal balance, customs exemptions and taxation of oil products; technical assistance. *Bank*: PRSC program; Financial sector development project; CPAR; PEMFAR.
Agriculture and Rural Development		Rural development strategy, Agricultural export promotion, Irrigation, Rural roads, Community driven development, Rural water supply and sanitation. Cotton: Reform to improve management of the sector and of the cotton ginning company; and strengthen farmers' role in sector management.	*IMF*: PRGF benchmark on reform and development of Niger Authority. *Bank*: PRSC program; Agricultural services and producer organizations project; Agriculture diversification and competitiveness project; National rural infrastructure project (for rural roads and irrigation); Rural Community Support Project.
Social Sector Reforms/Poverty Monitoring		Reforms in education and health, HIV/AIDS program, Poverty strategy.	*Bank*: Education sector expenditure program (second phase); HIV/AIDS MAP project, PRSC program.
Private Sector Development		Advice in key growth-oriented sectors (telecommunications, banking, energy, urban water, transport services and transit facilitation), Business development services (incl. to SMEs).	*IMF:* PRGF benchmarks on institutional framework for water and electricity, and telecom privatization process. *Bank*: PRSC growth component; Financial sector development project; Support to growth project; Household energy project, and advice on electricity utility; 2nd West Africa Power Pool project; Regional transit facilitation project; Regional air travel security project.
Infrastructure and Other Sectors		Strategy, policy and investment program (transport, energy, health, water).	*Bank*: Transport corridor project; Rural infrastructure project; Household energy and universal access project; 2nd transport sector project (FY07); WAPP; APL 2 Regional water project (Senegal river basin development, and Electricity generation).

Prepared by World Bank staff. Questions may be referred to Ms Bassani (Acting Country Director, 473-2644) or Ms. Sousa (Sr. Economist, 473-2558).

Appendix III. Mali: Statistical Issues

(As of March 2008)

While data provision for surveillance purposes is adequate overall, there is considerable scope for improving coverage, timeliness, and availability of economic and financial data. Mali has been participating in the General Data Dissemination System (GDDS) since September 2001 and has advanced the implementation of its short- and medium-term plans for improvement. The metadata posted on the Dissemination Standards Bulletin Board (DSBB), last certified in June 2003, require updating.

Real sector

There are weaknesses in the accuracy, coverage, and timeliness of national accounts data. The main reason has been the inadequacy of real sector data, owing to insufficient funding and technical staffing of the National Directorate of Statistics and Data Processing (DSDP). With the support of AFRITAC West, a mission conducted in November 2007 found that significant progress has been made in the compilation of the 2004 national accounts and a more efficient organization of work has been put in place.

In collaboration with other West African Economic and Monetary Union (WAEMU) member countries, the DSDP has been compiling and publishing a harmonized consumer price index (CPI) for Bamako, on a monthly basis since early 1998. Index weights and, possibly, extension of coverage to additional cities is under review.

Government finance statistics

As part of the process of economic integration among the member countries of the WAEMU, Mali has made significant progress in bringing its fiscal data in line with the common framework that has been developed with technical assistance from the Fund (the harmonized table of government financial operations – TOFE). However, effort are needed to improve the timeliness of the TOFE. Work is progressing with the assistance of AFRITAC West and AFRISTAT to expand the coverage of the TOFE to public agencies and local governments. Staff have begun discussions with the Ministry of Finance on issues relating to the adoption of the revised 2001 GFS methodology. Fiscal data are re-disseminated on the BCEAO's and the WAEMU's website, and the Ministry of Economy and Finance launched a website in 2006.

In July 2007 a GFS mission visited Bamako to advance further the implementation of the *Government Finance Statistics Manual 2001*. The authorities responded favorably and a page for Mali was introduced in the 2007 issue of *GFS Yearbook*. To date the authorities have supplied six years of annual GFS data and they are preparing to disseminate quarterly data to STA for publication in *IFS*. In January 2008, the Minister of Finance issued a decree committing the government to the development of a database which will facilitate the balance sheet approach to analysis of the public sector; among the first steps will be an inventory and appraisal of the fair market value of Mali's nonfinancial assets.

Public debt statistics are prepared and monitored by separate agencies: external debt by the National Public Debt Directorate (NPDD) and domestic debt by the National Directorate of the Treasury and Government Accounting. The NPDD uses CS-DRMS accounting software. Debt data and projections are of generally good quality, although there is scope for improving the coverage of debt relief (multilateral and bilateral) and the presentation of passive debts. A procedure for regularly updating exchange rate projections is needed.

Monetary data

Preliminary monetary data for Mali are prepared by the national agency of the Bank of Central African States (BCEAO) and released officially by the headquarters of the BCEAO. The dissemination of monthly monetary data from the BCEAO takes from four to six weeks consistent with GDDS recommendations. Data are posted on the BCEAO website with a considerably longer lag.

In June 2005, the BCEAO made substantial revisions to the estimates of currency in circulation in member states. The revised method, based on updating sorting coefficients ("coefficients de tri"), has been applied retroactively from December 2003. The revised estimates increased the export of CFA franc banknotes from Mali to other member states, from 2003 resulting in a reduction of currency in circulation and a reduction of the counterpart net foreign assets in the BCEAO national balance sheet. Parallel revisions were also made to the balance of payments. Nonetheless, the national BCEAO balance sheets remain estimates based on the calculation of banknote movements and are therefore subject to error.

In March 2006, as part of the authorities' efforts to implement the *MFSM*'s methodology, the BCEAO reported to STA test data for the central bank for June 2005 for all member countries using the Standardized Report Form (1SR). In response to STA's comments, the BCEAO has recently provided a revised 1SR and indicated that the form for Other Depository Corporations (2SR) is being prepared.

Balance of payments data

In December 1998, the responsibility for compiling and disseminating balance of payments statistics was formally assigned to the BCEAO by area-wide legislation adopted by the countries participating in the WAEMU. The BCEAO national agency disseminates balance of payments statistics with a lag which is longer than the recommendation of the GDDS guidelines. The BCEAO national agency compiles quarterly balance of payments statements, which, however, are not sufficiently robust for publication.

The foreign assets of the private non banking sector are not well covered in the financial accounts, especially the assets of WAEMU residents, obtained through partial surveys of residents' foreign assets. The BCEAO has recently implemented a compilation system allowing commercial banks to report data on payments involving nonresidents; however, these data are not used to produce annual balance of payments statistics.

The multi sector statistics mission that visited Mali during April 22-May 6, 2003 found that the balance of payments compilation system is generally sound and encouraged the authorities to integrate banking settlement sources and disseminate the balance of payments within the recommended timeliness, as set by the GDDS. Implementation of these recommendations is pending.

Annual statistics on balance of payments and international investment position are reported to STA on a regular basis.

Poverty Statistics

The PRS Annual Update identifies a key set of poverty indicators for monitoring of the PRS implementation.

Mali: Common Indicators Required for Surveillance
(As of April 7, 2008)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb 2008	Mar 2008	M	M	M
Reserve/Base Money	Feb 2008	Mar 2008	M	M	M
Broad Money	Feb 2008	Mar 2008	M	M	M
Central Bank Balance Sheet	Feb 2008	Mar 2008	M	M	M
Consolidated Balance Sheet of the Banking System	Feb 2008	Mar 2008	M	M	M
Interest Rates[2]	Apr 2008	Apr 2008	I	W	M
Consumer Price Index	Feb 2008	Mar 2008	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A				
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2007	Feb 2008	M	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2007	Feb 2008	M	J	A
External Current Account Balance	2007	Feb 2008	A	A	A
Exports and Imports of Goods and Services	2007	Feb 2008	A	A	A
GDP/GNP	2007	Feb 2008	A	A	Semi-A
Gross External Debt	2007	Feb 2008	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND

MALI

Staff Report for the 2008 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Supplementary Information and Supplementary Letter of Intent

Prepared by the African Department
(In consultation with other departments)

Approved by Robert Sharer and Mark Plant

May 27, 2008

1. This supplement provides updated information on Mali's request for a new three-year arrangement under the Poverty Reduction and Growth Facility (please refer to this Country Report).

2. In the attached letter addressed to the Managing Director, the Minister of Finance of Mali states that the authorities were unable to meet the prior action for the program—to reach floor levels for the taxation of petroleum products—owing to developments in international oil prices (Attachment I). The authorities were concerned that a large price hike at this juncture could prove inordinately disruptive at the start of the planting season, especially considering the continuing pressures on food prices and uncertainties about the 2008/09 crop. Retail petroleum prices were raised by 2½ percent in mid-May, whereas 8–9 percent would have been required at that time to protect the revenue base. There is now a financing gap of CFAF 12 billion (0.4 percent of GDP).

3. The authorities intend to meet their original commitment later, but the timetable for further increases in tax rates is not yet clear. To close the emerging financing gap, they are renewing efforts to raise tax and customs collections and further curtailing capital expenditure, which implies deferring, or slowing the implementation of, several investment projects. The 2008–09 budget projections are essentially unchanged at this stage, apart from symmetrical reductions in 2008 revenue and expenditure (by CFAF 12 billion).

4. Given the unusual challenges Mali is facing, staff believes that the expenditure cuts are the most prudent way to respond to the revenue shortfall. Staff is urging the authorities to adhere to the agreed floors on petroleum taxation, which will likely require further price hikes in the coming months, and to restore the levels set earlier as soon as conditions permit.

5. Staff recommends approval of Mali's request for a three-year PRGF arrangement.

Attachment I. Mali—Letter of Intent

Bamako, May 27, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. This letter supplements the request dated May 5, 2008. It modifies some elements of the 2008 program, taking into account recent economic developments.

2. In view of the sharp increase in oil prices on international markets, the Government of Mali has not been in a position to fulfill its commitment to reach the established minimum levels of taxation on petroleum products (MEFP, ¶ 8, and TMU, ¶¶ 17–19). The price increases implemented on May 14 were limited to CFAF 15 per liter, whereas increases of about CFAF 55 were necessary under the program. As a result, the prior action was not fulfilled, resulting in a financing gap of CFAF 12 billion in the 2008 budget.

3. The Government is committed to preserving the stability of public finances, and it has adopted additional measures to raise revenue and curtail expenditure. These measures, which take effect immediately, should safeguard the program's objectives.

4. Regarding revenue, the Government is determined to adjust retail prices on petroleum products regularly so as to maintain the planned level of revenue. However, given developments in the international oil market, the timetable for fully restoring oil product taxation is uncertain. During the period of the program, the Government is committed to preserving a minimum level of cumulative taxes and duties on petroleum products as specified below (these replace the figures in ¶ 17 of the TMU):

(i)	Gasoline (all grades)	CFAF 224 per liter
(ii)	Diesel fuel	CFAF 93 per liter
(iii)	Distillate diesel oil	CFAF 110 per liter
(iv)	Other fuel (except kerosene)	CFAF 72 per liter

In addition, the Government intends to redouble its efforts to boost revenue collection at the tax and customs departments.

5. Regarding expenditure, the Government has decided to save an additional CFAF 12 billion by postponing investment projects, and it is committed to protecting priority spending, especially for the social sectors. Thus, aggregate expenditure in the 2008 budget is capped at CFAF 901.5 billion, of which CFAF 480.2 billion is current expenditure and CFAF 350.4 billion capital expenditure. These figures could be revised upward should the revenue outturn be significantly better than expected.

6. The modifications to revenue and expenditure will be ratified through a supplementary budget law.

7. The Government authorizes the Fund to publish this letter as well as other documents relating to the 2008 Article IV consultation and PRGF request.

Yours truly,

/s/

Abou-Bakar Traoré
Minister of Finance

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 08/93
FOR IMMEDIATE RELEASE
July 29, 2008

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with Mali

On May 28, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mali.[1]

Background

Mali's economy has doubled in size since the democratic transition of the early 1990s. Sound macroeconomic management produced average economic growth of almost 5 percent, and raised the tax ratio from less than 10 percent to around 16 percent of GDP. Together with external aid, including debt relief under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, the increase in resources has fueled a rapid expansion of poverty-reducing spending and helped sustain economic growth. Nonetheless, Mali is still very poor, and activity remains highly vulnerable to natural and external shocks. Agriculture, which is the mainstay of the economy, has been buffeted by recurrent drought, flood, locust infestation, diseases, and depressed world prices for cotton—owing in part to subsidies in advanced countries.

Economic growth slowed to less than 3 percent in 2007, reflecting the impact of late and excessively heavy rainfall on agriculture, especially cotton (Table 1). Inflation remained subdued, at 2.3 percent (12-monthly rate), but surged to 6 percent in February 2008, mainly because of higher cereals prices. Although the terms of trade improved slightly, with higher gold export prices more than offsetting the increase in oil import prices, the impact of these shifts was unevenly distributed (especially since gold is an enclave sector). Thus, the urban

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

population's real purchasing power declined in the past year. The government tried to offset higher import costs, providing tax breaks for food and fuel imports and announcing wage increases for civil servants (5 percent for 2008 and another 5 percent for 2009). With almost half of tax revenue coming from international trade, however, these measures led to a weakening of the fiscal outturn, and the basic balance turned from a surplus of 0.3 percent in 2006 to a deficit of 1.1 percent in 2007.

The balance of payments weakened in 2007. The trade balance turned from a surplus in 2006 into a deficit, largely owing to lower gold output. Foreign exchange reserve accumulation slowed from the robust levels of 2005–06, leaving reserve cover steady at around 6 months of imports. As reserve accumulation slowed, the contribution of net foreign assets to broad money growth was only 1.2 percent for 2007. The smaller cotton harvest to finance, the less favorable economic environment, and persistently weak conditions at the state-owned banks all contributed to a decline in credit to the economy of 0.8 percent.

The authorities have continued to advance the implementation of structural reforms. In particular, in December 2007, four regional subsidiaries of the state cotton ginner (CMDT) were chartered as a precursor to privatization. The National Assembly approved in January 2008 a law granting the housing bank (BHM) greater powers to collect on non-performing loans, and the Council of Ministers approved in March a draft law to reform the civil service retirement fund (CRM). In April, the authorities completed the tariff study for the electricity company, which is under consideration by the electricity and water regulatory commission, and they launched a tender for privatizing the state-owned International Bank of Mali (BIM). In addition, the authorities revised their financial sector development strategy, based in part on the conclusions of the FSAP mission in February.

Executive Board Assessment

Executive Directors commended the Malian authorities for their good performance under Fund-supported programs in securing a sound environment for economic growth and poverty reduction. Directors noted that, notwithstanding the progress made over the years, growth has been inadequate to make a significant reduction in poverty, and the economy is still vulnerable to natural and exogenous shocks. Rising oil and food import costs, as well as stagnating cotton prices, have put considerable pressure on the fiscal position.

Directors commended the authorities for their ambitious medium-term economic policies aimed at raising the growth potential and boosting external competitiveness. They emphasized the importance of adhering steadfastly to the policy priorities, notably to strengthen budget management and pursue structural reforms in key areas such as food production, telecommunications, water and electricity, and the financial sector. Restructuring state-owned enterprises, particularly in the cotton sector, is also a priority. Most Directors were of the view that continued support from the Fund through a new financial arrangement would help Mali cope with the increasing challenges and deepen the authorities' reform agenda. A few Directors, on the other hand, noted a limited impact of the current food and fuel shocks on the balance of payments and expressed reservations with regard to the need for Fund financial assistance in these circumstances.

Directors agreed that the CFA franc-based fixed exchange rate system has served Mali well, and that it has provided a solid anchor for economic stability. They nonetheless stressed the need to avoid an erosion of competitiveness and encouraged the authorities to continue monitoring developments closely. At the same time, structural reforms should be accelerated to reinvigorate economic activity, diversify exports, and generate employment for a growing population. Effective use of the windfalls from higher gold export prices for the development of infrastructure would also help to improve competitiveness.

Noting the fiscal impact of increases in food and oil prices, Directors underscored that sound budget management will be critical to fiscal sustainability and poverty reduction efforts. In this context, they welcomed the authorities' commitment to protect the revenue base, notably by reining in customs exemptions and preserving a minimum level of taxation on petroleum products, and to readjust expenditure ceilings while protecting priority spending. It will also be important to intensify efforts to raise additional funds from donors, and to ensure that the wage bill remains well within the ceiling set by the WAEMU convergence criteria. While recognizing the need to alleviate the impact of higher food prices, Directors saw scope for better targeting subsidies for the most vulnerable groups so as not to reduce incentives to expand irrigation and cultivation. They welcomed the progress achieved in strengthening public finance management and encouraged the authorities to address the shortcomings highlighted in the 2007 report on public expenditure and financial accountability.

Directors discussed financial sector developments based on the staff's Financial Sector Stability Assessment. They considered that there is a need to strengthen Mali's banking system, particularly in view of the persistently large exposure to a few borrowers and the high level of nonperforming loans, notably at the state-owned housing bank. They encouraged the authorities to step up their efforts to restructure the banking system and to enforce prudential regulations in an even-handed manner. Directors welcomed the preparation by the authorities of a financial sector development strategy designed to enhance the efficiency and soundness of the financial sector in support of private sector development.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Mali: Selected Economic and Financial Indicators, 2005–09[1]

	2005	2006	2007 Est.	2008 Prog.	2009 Proj.
	(Annual percentage change)				
National income and prices					
Real GDP	6.1	5.3	2.8	5.4	5.1
GDP deflator	2.1	5.1	2.1	2.0	2.6
Consumer price inflation (average)	6.4	1.5	1.4	2.5	2.5
External sector (percent change)					
Terms of trade (deterioration -)	-10.7	18.9	5.3	25.1	-4.7
Real effective exchange rate (depreciation -)	3.9	3.1	3.2	...	...
Money and credit (contribution to broad money growth)					
Credit to the government	4.3	-12.1	1.3	5.3	...
Credit to the economy	-1.1	11.5	-0.8	3.7	...
Broad money (M2)	9.5	10.9	1.2	8.4	...
	(Percent of GDP)				
Investment and saving					
Gross domestic investment	22.3	23.7	23.9	23.3	23.6
Of which: Government	7.1	8.2	9.0	7.3	6.7
Gross national savings	14.1	20.0	15.7	17.3	17.9
Of which: Government	2.0	3.2	3.0	2.1	2.4
Gross domestic savings	13.7	18.9	16.0	19.0	21.0
Central government finance					
Revenue	17.9	17.7	17.3	17.1	18.4
Grants	4.1	39.7	4.8	4.3	4.0
Total expenditure and net lending	25.2	25.4	25.3	25.8	25.2
Overall balance (payment order basis, excluding grants)	-7.3	-7.7	-8.4	-8.7	-6.8
Basic fiscal balance [2]	-0.2	0.3	-1.1	-1.9	-0.7
External sector					
Current external balance, including official transfers	-8.2	-3.7	-8.2	-6.0	-5.7
Current external balance, excluding official transfers	-10.4	-6.4	-9.8	-7.5	-7.2
Exports of goods and services	25.6	31.1	26.9	29.3	29.2
Imports of goods and services	-34.2	-35.9	-34.7	-33.6	-31.8
Debt service to exports of goods and services	7.4	3.7	3.4	3.4	3.6
External debt (end of period)	49.4	20.0	22.9	26.9	29.3
Memorandum items:	(Units indicated)				
Nominal GDP (CFAF billions)	2,829	3,132	3,289	3,538	3,818
Overall balance of payments in US$ millions	96.4	119.7	0.6	-5.3	-6.4
Money market interest rate in percent (end of period)	5.0	5.0	5.0	…	…
Gross international reserves in US$ millions	942	1,182	1,192	1,217	1,248
Months of next year's imports	5.7	5.9	5.8	5.8	5.7
U.S.$ exchange rate (end of period)	541.5	514.9	511.9	...	...

Sources: Malian authorities; and IMF staff estimates and projections.

[1] 2006 data after adjustment for MDRI.

[2] Revenue (excluding grants) less total expenditure (excluding foreign-financed investment projects and HIPC initiative-related spending.

Press Release No. 08/126
FOR IMMEDIATE RELEASE
May 29, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$45.7 Million PRGF Arrangement for Mali with Front-Loaded Disbursement to Address Higher Food and Fuel Prices

On May 28, 2008, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for Mali in an amount equivalent to SDR 27.99 million (about US$45.7 million) to support the government's economic program for 2008-11. To help Mali finance costs arising from higher food and oil import prices, the Executive Board supported a front-loaded disbursement schedule, making more than half of the total amount available during 2008. An initial disbursement of SDR 12.99 million (about US$21.2 million) will be available immediately.

At the conclusion of the Executive Board's discussion on Mali's request for a PRGF arrangement, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The Malian authorities are to be commended for the implementation of sound macroeconomic policies and structural reforms under previous Fund-supported programs. These policies have boosted Mali's economic growth, raised average per capita income, and reduced inflation. Mali's attainment of the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative has led to a reduction in the country's debt burden and an increase in social spending. The external sector has improved, underpinned by the strong performance of the mining sector.

"In spite of the progress made, poverty remains widespread and the economy is still vulnerable to exogenous shocks. To address these issues and assist Mali in progressing toward the Millennium Development Goals, the new three-year PRGF- supported program seeks to bring the economy to a higher growth path, maintain macroeconomic stability, boost cereal production and continue to implement strong social policies. The program is fully aligned with the authorities' Growth and Poverty Reduction Strategy Paper.

"To create fiscal space to respond to shocks, the PRGF-supported program focuses on pursuing fiscal consolidation by increasing government revenue, through an improvement in tax administration and policy, and strengthening public expenditure management. For 2008, the budget will seek a balance between lightening taxation on energy and food to dampen price increases and the revenue needs underlying social spending plans, supported by a front-loading of Fund access under the new arrangement. Indeed, to implement its ambitious program, Mali will remain heavily dependent on foreign financial assistance. To avoid raising the debt burden, the authorities plan to rely on grants and concessional loans.

"The authorities' efforts to enhance the economy's competitiveness and improve the business climate are also welcome. Of particular importance are reform and privatization of key parastatal enterprises, including in the energy, telecommunications, and cotton sectors; the restructuring the Niger River Authority to improve irrigation services; and the strengthening of the financial system," Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty and reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

ANNEX

Recent Economic Developments

Mali's economy has doubled in size since the democratic transition of the early 1990s. Sound macroeconomic management has produced growth averaging almost 5 percent and raised the tax ratio from less than 10 percent of GDP to around 16 percent. Together with external aid, including the HIPC debt relief initiative and the Multilateral Debt Relief Initiative (MDRI), the increase in resources has fueled rapid expansion of poverty-reducing spending and helped sustain economic growth. Nonetheless, the country remains poor and highly vulnerable to natural and external shocks. Agriculture, the mainstay of the economy, has been buffeted by recurrent droughts, floods, locust infestation, diseases, and depressed world prices for cotton—owing in part to domestic subsidies to cotton farmers in advanced countries.

Economic growth slowed from 5.3 percent in 2006 to less than 3 percent in 2007. Favorable weather and record gold production boosted growth in 2006, but late and heavy rainfall affected agriculture in 2007, especially cotton. Inflation remained subdued in 2007 at annual 2.3 percent but surged to 6 percent in February 2008 as cereal prices rose. The government tried to offset higher import costs by using the windfall from higher gold prices to provide tax breaks for food and fuel imports and announcing wage increases for civil servants. With almost half of tax revenue coming from international trade, however, these measures undermined the fiscal outturn, and the basic balance turned from a surplus of 0.3 percent of GDP in 2006 to a deficit of 1.1 percent in 2007. The overall fiscal deficit (excluding grants) also widened to 8 ½ percent of GDP, against 7 ½ percent in 2006.

Program summary

The PRGF-supported program aims to help Mali address the challenges posed by its economic vulnerability and raise its growth potential. The program is in line with the objectives set out in the 2007-11 Growth and Poverty Reduction Strategy Paper (GPRSP): a) increase the resources available for poverty reduction by mobilizing more domestic revenue and possibly securing scaled-up development assistance; b) improve external viability, mainly by strengthening the fiscal position; and c) raise growth potential by accelerating structural reforms.

The program calls for strengthening the fiscal position over time without constraining aid-financed outlays. The program aims to raise government revenue by broadening of the tax base. Although budget expenditure is set to increase in 2008 to respond to GPRSP priorities and the impact of salary increases, the authorities intends to contain total outlays below the amounts approved in the Finance Law (by about 2 percent of GDP) by saving on goods and services and lowering capital expenditure, and are preparing a Supplementary Finance Law to that effect. The expenditure cuts entail a strict containment of nonpriority outlays and the deferral of some investment projects.

The program gives renewed impetus to structural reforms. The focus is on measures to raise agricultural production and food security and thus help reduce the volatility of food prices; reform macrocritical state enterprises like the public utilities, cotton ginnery, and banks; and increase the contribution of the private sector to growth. Over the longer term, the challenge is to increase productivity, improve competitiveness and thus raise economic growth.

Assuming normal weather, growth is projected to recover to 5.4 percent in 2008, up from an estimated 2.8 percent in 2007. Inflation would remain low at some 2-3 percent. With the expected increase in government revenue, the overall fiscal deficit (excluding grants) would be at about the same level as in 2007. The external current account balance (excluding official transfers) is projected to improve, despite lower cotton exports and continued growth in imports, as the value of gold exports surges. Gross international reserves would remain at about 6 months of imports.

Statement by Lauren W. Rutayisire, Executive Director for Mali
May 28, 2008

1. I thank Management and staff for the candid policy dialogue that they have maintained with my Malian authorities. I am also thankful to Directors for the valuable financial and policy support that the Fund has continuously provided to Mali under their guidance. As noted by the Secretary, my authorities have already consented to the Fund publication of the staff report.

2. Mali's overall satisfactory performance under previous PRGF-supported programs translated into a number of positive outcomes, including sustained macroeconomic stability, strong economic growth, and improved debt sustainability. These outcomes would have hardly materialized without the sound macroeconomic and structural policies put forward by the authorities. Despite these commendable achievements, significant challenges still remain that continue to constrain the authorities' efforts to accelerate growth and improve social welfare, thus necessitating perseverance in the implementation of prudent macroeconomic policies.

3. In addressing these challenges, it is the authorities' belief that continuous Fund support of their economic program will be helpful. During the last Board discussions on Mali, we noted that the authorities intended to determine the nature of the program relationship they wish to maintain with the Fund based on their assessment of the country's specific circumstances. In this light, they have come to the conclusion that, at this current juncture, a PRGF continues to be the Fund arrangement which fits best the country's specifics and reform needs.

RECENT ECONOMIC DEVELOPMENTS AND POLICY CHALLENGES

4. Over the past decade, Mali's economy grew annually by a rate of about 5 percent on average. In 2007, the pace of growth is estimated to have been about two points lower than this rate, mainly on account of the adverse impact of weather vagaries on agricultural production. Before surging early this year due to rising food prices, average consumer price inflation was contained below 2 percent in 2007. The overall fiscal deficit (excluding grants) is estimated to be about 8.4 percent of GDP which is slightly higher than its 2006 level. Overall, Mali's macroeconomic performance has remained relatively strong, owing to a variety of factors key of which is the authorities' prudent economic management. As a matter of fact, Mali has met since 2006 all five primary convergence criteria set by the regional economic and monetary, except for the one related to the ratio of basic fiscal balance to GDP which is estimated to have been missed in 2007.

5. The Article IV consultation and the negotiation of the proposed program provide once again an opportunity for the authorities to benefit from Fund advice in the process of coping with the current policy challenges facing the country. Key among these challenges are mitigating the impact of food and energy price increases and accelerating growth.

Mitigating the impact of food and energy price increases

6. The authorities' initial policy response to food price increases has included granting temporary customs exemptions on rice imports, notably with a view to protecting low-income consumers. Indeed, it is an open debate whether these exemptions are well-targeted, cost-effective and friendly to domestic production. But even if they are proven otherwise, they might well have helped avoided possible costlier tensions on the social front from the authorities' perspective. Similar concerns make it also difficult for the authorities to ensure full pass-through of higher oil prices. Nevertheless, the authorities have decided to maintain continuously a minimum level of taxation for petroleum products.

7. In order to offset the negative budgetary impact of the policy measures taken to cope with food and energy price increases, the Council of Ministers approved on May 7 a series of current and capital expenditure cuts amounting about CFA 40 billion. More recently the authorities decided to effect further budgetary cuts in order to offset additional tax revenue losses estimated to be incurred in the energy sector. In performing these cuts, an effort was made by the authorities to preserve resources allocated to key priority sectors. In addition to the authorities' adjustment efforts, the proposed augmentation of access with a frontloaded disbursement will be helpful in mitigating the impact of the energy and food price shocks. We are appreciative of the flexibility of the policy and financial support that Management and staff propose in support of the authorities' efforts to cope with these shocks. Mali's case underscores however potential tensions that may arise between the objectives of proposed access augmentation and program conditions. Due care will need to be taken by staff in close consultation with country authorities to deal with such tensions whenever they risk materializing.

8. Going forward, it is the authorities' intention to take necessary actions toward ensuring food security and improving electricity generation capacities. In particular, these actions will aim to increase electricity production at reduced costs through the installation of new hydroelectric plants and the setup of regional electric grids. They will also aim to expand irrigated land and the use of modern farming techniques, notably by restructuring *Office du Niger* which is the authority in charge of irrigation services. They will also take part in a coordinated effort at the regional level to achieve food self-sufficiency through the implementation of a three-year plan that was devised last month by WAEMU finance ministers.

Accelerating Growth

9. One of the authorities' key objectives reiterated in Mali's second generation PRSP is to improve the living standards of the Malian population, particularly poor households. To achieve this objective and thus accelerate progress toward the MDGs, growth acceleration is indeed critical and thus ranks high on the authorities' agenda. Hence, we welcome the emphasis put on this issue during the policy discussions between the authorities and staff, which is in line with the call that we made during the last Board discussions on Mali.

10. It is the authorities' hope that their accelerated growth strategy will foster high levels of growth, thereby helping mobilize the enormous resources needed to finance the Poverty Reduction Strategy. In the meantime, external financing and policy support will be much needed. And in order to secure donor support the authorities will be organizing a Donor Roundtable Conference on the 12th and 13th of June 2008 in Bamako. In addition to helping the authorities strengthen their accelerated growth strategy and ensure faster progress toward the MDGs, the Conference is expected to provide an opportunity for strengthening collaboration between the Malian government and its partners; developing appropriate tools for measuring and monitoring the country's development policies and strategies; and securing donor support in the implementation of these policies and strategies. I would appreciate it if Directors could draw their authorities' attention about the importance of the Conference. To Management and staff, I also reiterate the importance of their participation.

POLICY AND REFORM AGENDA UNDER THE PROPOSED ARRANGEMENT

11. The overarching objective of the proposed program under the PRGF is to reduce poverty by supporting the authorities' efforts to promote a more competitive and fast-growing economy within an environment of continuous macroeconomic stability. In order to achieve this objective, the authorities are committed to continuing the comprehensive set of reforms they have embarked on in the context of previous PRGF-supported arrangements.

Fiscal Policy and Reforms

12. Largely on account of food and oil price increases, the basic fiscal balance is estimated to deteriorate further in 2008 to reach about 1.8 percent of GDP. Thereafter, it is expected to improve over the remainder of the program period, thanks to a series of measures that the authorities envisage to take both on the expenditure and income fronts. Indeed, as previously noted, the authorities have already taken firm steps to reduce nonpriority expenditures. On the revenue side, efforts to broaden the tax base and improve tax and customs administrations will continue under the proposed program. It is also the authorities' stated decision that all non-legally backed customs exemptions will be eliminated.

13. The authorities continue to attach high value to reforming public administration. With the assistance of the major development partners, decentralization of public administration is proceeding steadfastly. The implementation of the government's action plan for improving and modernizing public finance management is also on track after being enriched with the results of last year's PEFA analysis.

Financial Sector Reforms

14. In spite of the notable steps taken over recent years to improve the health of the financial sector, the authorities are aware that continuous vigilance is still warranted, particularly with regard to the banking system. However, they remain optimistic about the prospective soundness and performance of this sector given a number of recent and expected developments. Indeed, since last Board discussions on Mali, the National Assembly has approved a law strengthening the ability of the housing bank to recover its nonperforming

loans. At the same time, the authorities continue to closely monitor the financial situation of the housing bank, *Banque de l'Habitat du Mali (BHM)*, standing ready to take any actions that may be deemed necessary. In addition, the planned privatization of the cotton-ginning company should help reduce sources of vulnerabilities for the banking system. Bank profitability continues to improve, as highlighted in the FSAP analysis. Finally, successful implementation of the authorities' Financial Sector Development Strategy which was updated in light of the conclusions of the recently completed FSAP is expected to strengthen private sector's participation in the activities of the banking sector, lower fiscal risks stemming from public entities' involvement in the financial sector, and foster intermediation and innovation in this sector.

Other Structural Reforms

15. The authorities will continue to implement necessary reforms to achieve program objectives. In particular, enhancing the competitiveness of the Malian economy will mainly require the implementation of appropriate structural reforms, given that the exchange system continues to serve the country well and the real exchange rate remains adequate. In this connection, the recent measures taken such as the creation of an investment promotion agency will be useful; so will be other planned actions aimed at improving doing business indicators and promoting export development, notably through the setup of a one-stop shop to reduce the time length and costs of business registration and the ongoing export development study expected to pave the way for the creation of an export promotion agency.

16. Keeping up with their previous commitment, the authorities are making progress in advancing their privatization agenda. The tender for the privatization of the *Banque Internationale du Mali* has already been launched. Consistent with the previously approved timetable for privatization of the cotton ginning company, CMDT, they intend to split by the end of the year the company into four privately owned subsidiaries. In parallel, the call for tenders for the sale of government's shares in the telecommunications company, *SOTELMA*, is expected to be launched by September 2008.

CONCLUSION

17. While the Malian economy is well positioned to continue taking advantage of the authorities' sound economic management, a number of challenges it still faces cast a shadow on its prospects. The authorities are committed to persevering in the implementation of appropriate macroeconomic policies and structural reforms. It is their expectation that in this process, they will continue to benefit from the Fund's valuable policy and financial support. On my part, I am hopeful that Directors will help materialize these expectations by supporting my authorities' request for a successor PRGF arrangement.