INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/44

MALI

February 2013

2012 Article IV Consultation, Request for Disbursement Under the Rapid Credit Facility and Cancellation of the Extended Credit Facility Arrangement—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 the 2012 Article IV consultation with Mali and request for disbursement under the Rapid Credit Faciliity and cancellation of the Extended Credit Facility Arrangement, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV Consultation, request for disbursement under the Rapid Credit Facility and cancellation of the Extended Credit Facility arrangement prepared by a staff team of the IMF, following discussions that ended on November 14, 2012 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 January 18, 2013. 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.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its January 28, 2013 discussion of the staff report that concluded the Article IV consultation.
- **Press Release** on the approval of the disbursement under the Rapid Credit Facility.
- **Statement by the Executive Director** for Mali.

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

MALI

January 18, 2013

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY, AND CANCELLATION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT

Context: Hit by a drought in 2011, terrorist attacks, and a military coup, Mali's economy is traversing a very difficult period. The economy is in recession. Donors suspended budgetary support and reduced project support. The government responded with fiscal austerity, including the cutting of almost all capital spending. In spite of these steps, it accumulated arrears to external creditors in an amount of 0.5 percent of GDP. The economy should rebound as gold and agricultural production increases and project support resumes but political and security risks weigh on the recovery.

Request for disbursement under the Rapid Credit Facility: The authorities request a disbursement of SDR 12 million to help them cope with these shocks and re-engage with donors during the transition towards a newly elected government. They commit to a 12-month program of economic and financial policies and structural reforms in public financial management that are crucial to maintain macroeconomic stability.

Article IV discussions: Harnessing the potential for increasing growth and reducing poverty requires steadfast implementation of policies to increase fiscal space for priority spending and deepen the financial system.

Exchange regime and restrictions: Mali, a member of the West African Economic and Monetary Union (WAEMU), accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the Fund's Articles of Agreement as of June 1, 1996, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The WAEMU's exchange rate regime is a conventional peg to the euro.

Main policy recommendations:

- ***Implementing a tight fiscal policy in 2013***. Freeze spending in an amount of 1 percent of GDP in 2013 until potential donor aid materializes, in order to avoid building up arrears that would spread fiscal problems to the rest of the economy.

- ***Focus public financial management reforms on tax administration and cash flow management,*** in order to mobilize domestic revenue and prevent arrears.

- ***In the medium term, foster inclusive growth*** by creating fiscal space for priority spending, deepening the financial system, and improving the business environment.

Approved By
Roger Nord and Peter Allum

The staff teams, which visited Bamako during March 9–28, 2012 and November 1–14, 2012, comprised Christian Josz (head), Mitra Farahbaksh, Ermal Hitaj, Christina Kolerus and Aleksandra Zdzienicka (AFR), Nazim Belhocine and Salvatore Dell'Erba (FAD), Alain Feler and Anton Op de Beke (resident representatives) and Bakary Traore (local economist). Staff met the Prime Minister, the Minister of Economy, Finance and the Budget, the National Director of the Central Bank of West African States (BCEAO), as well as representatives from Parliament, private sector, trade unions, civil society, and the donor community. Oumar Diakite (OED) participated to the discussions.

CONTENTS

ANNEXES

BACKGROUND, RECENT DEVELOPMENTS, AND OUTLOOK

1. **Last March, Mali suffered a military coup and a period of violence and confusion ensued.** Triggered by defeats of the army against heavily armed Tuareg separatists returning from Libya, the coup fed on frustration about an ineffective political process and pervasive corruption. In the wake of the coup, a coalition of secular Tuareg separatists and Islamic fundamentalist terrorist groups took control of Mali's north.

2. **International pressure—led by the regional Economic Community of West African States (ECOWAS)—resulted in a gradual return to constitutional order.** In April, former President Toure officially resigned, and the President of the National Assembly, Traore, took over, with a mandate until the next presidential elections. A Prime Minister was appointed, a cabinet formed, and the National Assembly reconvened. On August 20, the President reshuffled and expanded the cabinet to turn it into a Transitional Government of National Unity with reintegrating the north and holding democratic elections as priorities. On December 11, the army ousted the Prime Minister and the President appointed a new Prime Minister. On December 15, the Prime Minister changed the composition of the government to make it more inclusive. The Minister of Economy, Finance, and the Budget, who has been in charge since April, was reappointed. The Transitional Government of National Unity has asked the United Nations, the African Union and ECOWAS for help to regain control of the north.

3. **In January 2013, the government requested and received the military intervention of France to stop the rebel advance**. In reaction to an advance by rebel groups beyond the front line between the north and the south of the country, the authorities have received military support from France to respond to the situation. Reports from Mali suggest that the military intervention has been successful in stopping the rebel advance. The government has also requested military support from other countries in the region, which is forthcoming. In this very challenging environment, the authorities remain committed to the stability-oriented fiscal policy and public financial management reforms described in their letter of intent (Annex V).

4. **As a consequence of the military coup and its aftermath, Mali's economy is in recession and, as a consequence of the poor harvest in 2011, inflation is rising** (Figure 1 and Tables 1 and 2). Real GDP is expected to contract by 1.5 percent in 2012. The March 2012 coup d'état and its aftermath hurt the economy and added to the stress from the poor 2011 harvest. This put close to 4 million people (or 27 percent of the population) in situation of food insecurity. The donors' decision to suspend all budget support and slow down much of their project support led to a contraction of the construction and public works sector. The deteriorating security situation prompted a sharp reduction of travel to Mali. This hit hard the commerce, hotel and restaurant sectors. But strong performance in gold mining, cotton and a recovery in agriculture softened the decline in overall GDP. Higher food prices have led to an increase in average annual inflation to 5.3 percent in December 2012.

5. A balance of payments deficit is emerging in 2012 owing to the need to import food to compensate for the poor harvest in 2011 and the reduction of donor support (Table 7). The current account deficit (excluding official transfers) is estimated at 7.3 percent of GDP. This deficit reflects high food imports needed to alleviate the food crisis. Current official transfers and the capital and financial account surplus, which have been affected by the reduction in donor support, will only partly finance that deficit, necessitating a large drawdown of the foreign exchange reserves ($260 million) of the regional central bank (BCAEO).

6. The government responded with fiscal austerity, including the cutting of almost all capital spending but could not prevent the accumulation of arrears to external creditors in an amount 0.5 percent of GDP (Tables 3–6; MEFP, ¶13, 24 and 31). The government managed its budget prudently by offsetting the loss of revenue by expenditures cuts, especially public investment and implicit subsidies on petroleum products and cooking gas. As a result, the basic budget balance (revenue and budget grants minus domestically financed expenditure) was in equilibrium at the end of September 2012. These efforts notwithstanding, the government could not prevent the emergence of external debt service arrears towards mostly official bilateral and multilateral creditors ($58 million by mid-November 2012).[1] It has alerted all affected creditors of its inability to serve its external debt in full in 2012, reiterated its commitment to clear these arrears as soon as possible, and committed to service its external debt in full in 2013. In October, the government adopted a revised 2012 budget recognizing the need for fiscal austerity. The revised budget cuts overall spending by one quarter (6.3 percent of GDP, mostly capital spending) compared to 2011 (MEFP, ¶20).

7. During the first nine months of 2012, money growth was driven by the government's use of its deposits in the banking sector to finance the budget deficit (Table 8). At end-September 2012, money supply increased by 11 percent year-on-year, mainly because of the drawdown of government's bank deposits. The government has reached agreement with banks so far on rolling over its maturing treasury bills and bonds (CFAF 138 billion, $276 million or 2.6 percent of GDP) in 2012 at the same financial conditions as the maturing instruments.

8. The crisis is hurting the financial soundness of the banking sector (Table 10). Following the take-over of the north, banks suffered losses estimated at CFAF 18 billion ($36 million or 0.3 percent of GDP) through the theft of banknotes, the looting of buildings, and an increase in non-performing loans. In the south, the recession has not yet translated into a deterioration of the financial soundness of the banking sector. At end-June 2012, the banking system remained well capitalized (with a capital-to-risk-weighted-asset close to 15 percent) but burdened by a high share of non-performing loans (NPLs, 20 percent of total loans before provisions, 7.5 percent of total loans

[1] According to the latest information, the creditors towards which the government of Mali has accumulated external arrears are official bilateral creditors (Belgium, France, India, Kuwait, Libya, and Saudi Arabia), multilateral official creditors (Arab Bank for Economic Development in Africa, International Fund for Agricultural Development, Investment and Development Bank of ECOWAS, Islamic Corporation for Private Sector Development, Islamic Development Bank and Organization of Petroleum Exporting Countries) and one commercial bank (from the Netherlands).

after provisions). However both the levels of capital and NPLs are expected to worsen at year-end.

9. **The arrangement under the Extended Credit Facility (ECF) approved in December 2011, which was off to a good start, is off-track** (MEFP, ¶¶15–16 and Tables 1–2).[2] At end-December 2011, all but one performance criteria and all but one indicative targets were met. Since March 2012, the impact of the crisis on fiscal performance has sent the program off-track. Gross tax revenue fell short of the targets, pushing government bank and market financing over the ceiling. Arrears on external debt service emerged.

10. **In 2013, the economy is projected to rebound** (Text Table 1 and Tables 1-8). Real GDP growth should get back to trend (4.8 percent growth) in 2013 on account of the increase in agricultural and gold production (owing to the opening of a new mine in the south of the country), the recovery of service activity helped by the establishment of a third mobile phone operator, and the rise in project aid. Average inflation should decrease to 3 percent, assuming favorable rainfall. External financing requirements will remain high: the current account deficit (excluding official transfers) of the balance of payments should increase (to 8.8 percent of GDP), as the economy picks up and the authorities reconstitute their emergency food stock (at a cost of CFAF 13 billion or $26 million) depleted to cope with the bad harvest in 2011. This deficit should only be partially financed by foreign direct investment and the resumption of project aid. Therefore Mali should continue to use the foreign exchange reserves of BCEAO to the tune of about $160 million (1.5 percent of GDP) to finance the overall balance of payments deficit in 2013. The fiscal position should remain very tight but be helped by one-off revenue from the sale of the third mobile phone license ($110 million or about 1.0 percent of GDP spread over 2012–13).

Text Table 1. Mali: Key Economic Indicators, 2010–15

	2010	2011		2012		2013	2014	2015
		Prog.[1]	Est.	Prog.[1]	New Prog.	Prog.	Proj.	
	(in percent of GDP, unless otherwise indicated)							
Real GDP growth	5.8	5.4	2.7	5.6	-1.5	4.8	5.8	5.3
Consumer price inflation (average)	1.4	3.0	3.1	2.8	5.4	3.2	3.0	2.5
Revenue	17.3	16.7	17.2	17.6	17.5	18.0	18.2	18.3
of which: Tax revenue	14.6	14.3	14.6	15.1	14.6	15.3	15.4	15.6
Grants	2.9	3.5	3.9	2.9	0.7	1.1	3.2	3.2
Total expenditure and net lending	22.8	24.4	24.8	23.4	20.3	21.4	23.7	23.8
Overall balance (cash)	-4.4	-4.3	-3.8	-3.1	-2.5	-2.5	-2.7	-2.2
Basic fiscal balance [2]	-0.1	-1.6	-1.1	-0.4	-1.0	-0.1	0.0	0.0
Total public debt	28.7	26.6	32.9	27.8	34.9	33.7	33.4	33.2
Current external balance (including official transfers)	-12.7	-7.5	-10.4	-5.4	-5.8	-8.0	-9.0	-8.9
Overall balance of payments	-2.1	-0.5	0.6	0.8	-2.5	-1.5	0.3	0.3

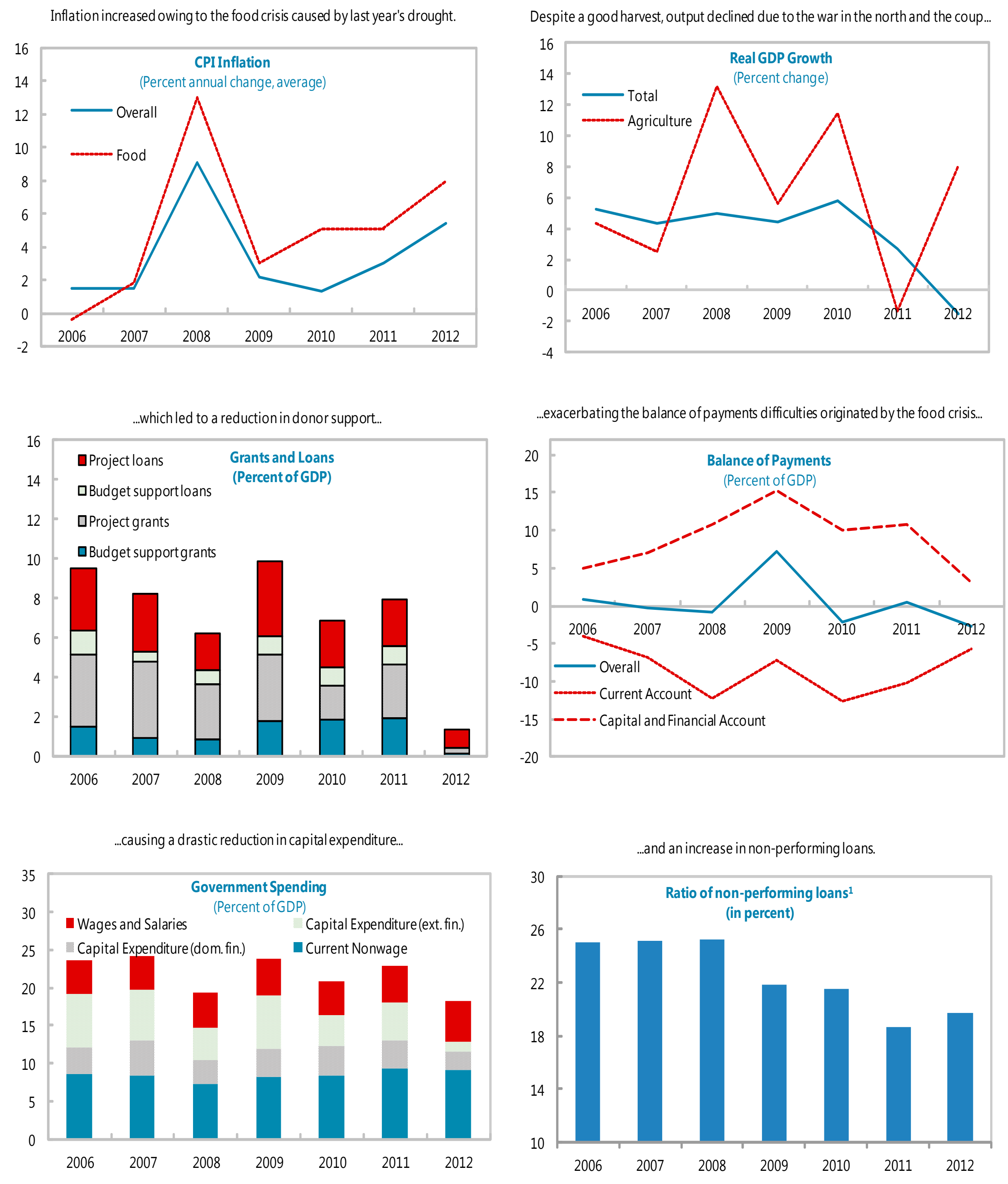
Sources: Malian authorities; and IMF staff estimates and projections.

[1] IMF Country Report No. 12/3: Mali—Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.

[2] Defined in Table 3, footnote 4.

[2] Country Report No 12/3. Mali: Seventh Review under the Extended Credit Facility and Request for a new Three-Year Arrangement under the Extended Credit Facility - Staff Report.

Figure 1. Mali: Macroeconomic Developments, 2006-12



Source: Staff estimates.

¹The ratio of non-performing loans in 2012 is the one observed at end-June.

11. Because of the fluidity of the political and security situation, the authorities and staff agree that this outlook is subject to more downside risks than usual. A weakening of the fragile political consensus, social tensions flowing from the economic recession, or setbacks of the transition government in its attempts to recoup the north of the country could weaken consumer, investor and donor confidence and slow down growth (Table 11). A sharp reversal of the terms of trade improvement observed since 2008 could cause fiscal slippages. In WAEMU, Mali would be one of the least exposed countries to negative tail risks in the euro area because its exports (mostly gold) are inelastic toward traditional trade partners' growth. The main transmission channel would be lower remittances. The banking sector is mostly financed by local deposits and should not be affected by the ongoing deleveraging of European banks.

12. In the medium term, the authorities and staff agreed that the continuation of prudent fiscal policies would foster macroeconomic stability and growth. The authorities' commitment to keep the basic fiscal balance in equilibrium or surplus, as required under the WAEMU convergence criteria, will avoid crowding out the private sector. Such prudent fiscal policy will also allow the authorities to build up some buffer to use in times of crises as the drought that hit Mali in 2011. Their commitment to keep the overall fiscal balance in line with debt sustainability will also nurture growth provided that borrowed resources are well spent.

SHORT-TERM CHALLENGE: MAINTAINING MACROECONOMIC AND FINANCIAL STABILITY DURING VERY DIFFICULT POLITICAL AND SOCIAL TIMES

13. The authorities face a drastic budget constraint in a tense political and social situation. Tax revenue is hit hard by the economic recession in 2012. Budget aid is uncertain until a clear road map towards democratic elections emerges. The humanitarian crisis caused by the displacement of about 400,000 people to the south of the country and neighboring countries puts upwards pressure on social spending. A military intervention to regain control of the north of the country would necessitate an increase in military spending.

14. The 2013 budget sent to Parliament in early October is designed to maintain macroeconomic and financial stability (Text Table 2, Tables 3–6, and MEFP, ¶25). The fiscal policy priority is to avoid accumulation of arrears and prevent contagion from the financing difficulties of the state to its suppliers and the banking sector. The budget assumes no resumption of aid. It aims for a very low deficit (less than 1 percent of GDP) by keeping spending almost in line with tax and non-tax revenue. It aims for an ambitious increase of tax revenue (by 0.5 percent of GDP, compared to the revised 2012 budget, to 15.5 percent of GDP) through a 25 percent increase in oil taxation and the continued implementation of ambitious administrative reforms at the customs, tax, and real estate administrations (¶17).

Text Table 2. Mali: Central Government Consolidated Financial Operations, 2011–13

	2011		2012			2013	
	Prog.[1]	Est.	Prog.[1]	Rev. Budget	New Prog.	Budget	Prog.
				(in percent of GDP)			
Total revenue and grants	20.2	21.1	20.5	18.0	18.2	18.2	19.1
Tax revenue	14.3	14.6	15.1	15.0	14.6	15.5	15.3
of which: Tax refund	-0.7	-0.7	-0.7	-0.6	-0.8	-0.6	-0.8
Nontax revenue [2]	2.4	2.6	2.5	2.9	2.9	2.7	2.7
Grants	3.5	3.9	2.9	0.1	0.7	0.0	1.1
Total expenditure and net lending (payment orders)	24.4	24.8	23.4	18.5	20.3	18.2	21.4
Current expenditure	14.0	14.1	14.5	14.1	14.4	13.6	13.7
Capital expenditure	9.0	8.7	7.5	2.7	4.1	2.9	6.0
Externally financed	4.9	5.1	4.3	0.1	1.5	0.0	3.1
Domestically financed	4.1	3.7	3.2	2.6	2.6	2.9	2.9
Adjustment to cash basis [3]	-0.2	-0.1	-0.3	-0.3	-0.3	-0.2	-0.3
Overall fiscal balance (cash)	-4.3	-3.8	-3.1	-0.8	-2.5	-0.1	-2.5
External financing	2.7	2.7	2.3	-0.7	0.2	-0.4	1.3
Domestic financing	1.7	1.1	0.8	1.5	2.3	0.5	0.3
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Memorandum items							
Basic fiscal balance[4]	-1.6	-1.1	-0.4	-1.0	-1.0	0.2	-0.1

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

[1] IMF Country Report No. 12/3: Mali —7th Review Under the ECF and Request for a New 3-Year Arrangement Under the ECF.

[2] Including Special funds and annexed budgets.

[3] Including variation of arrears.

[4] Defined in Table 3, footnote 4.

15. In their program backing their request for a disbursement under the Rapid Credit Facility (RCF), the authorities commit to implement a more conservative fiscal program than the 2013 budget. When reviewing the 2013 budget in November, the authorities and staff identified a financing gap of 1 percent of GDP (MEFP, ¶26). Revenue projections, notably VAT revenue, were overly optimistic, and some spending, notably external debt service and transfers to the state electricity company, was understated. To address this financing gap, staff suggested amending the budget by reducing spending by CFAF 55 billion. The authorities proposed instead, and staff agreed, to leave the 2013 budget as is, but to identify capital expenditure in an equivalent amount to be frozen until budget support resumes.[3] The authorities were hopeful that budget support to close the financing gap would be forthcoming following the disbursement under the RCF. They wanted to have spending ready for execution when that would happen. The authorities informed the Assembly about the credit lines that would be frozen before it passed the budget.

[3] The joint budget review also revealed that project aid will be higher than shown in the 2013 budget (MEFP, ¶28). These are projects already approved by Parliament and executed by donors.

16. Under the present exceptional circumstances that call for an increase in military spending, the authorities will nonetheless protect social spending as much as possible, while subjecting military expenditure to a public expenditure review (MEFP, ¶¶29-30). Defense spending in the 2013 budget are 37 percent above 2011 levels, while almost all other spending categories are seriously below 2011 levels (Text Table 3). Social spending, too, has been hit hard, but the authorities still attach priority to spending on education, health, and social development in line with their growth and poverty reduction strategy. This is attested by the above average cumulative growth of this spending in the budgets 2012–13 and the floors that the authorities have committed to respect as part of their program for 2012–13 (indicative target, MEFP, Table 3). They are keen to ensure the quality of rising military spending and will subject this spending to a public expenditure review, in collaboration with the World Bank.

Text Table 3. Mali: Public Expenditure by Function,[1] 2011-13
(In CFAF billions)

	2011	2012		2013		
	Est.	Rev. Budget	y-o-y growth	Budget	y-o-y growth	Cum. gowth
Defence	106.1	108.7	2%	145.1	33%	37%
Tertiary Education	73.4	78.9	7%	90.0	14%	23%
Foreign Affairs	22.5	23.1	3%	27.0	17%	20%
Employment	6.9	6.3	-9%	7.7	22%	12%
Basic Education	158.9	166.1	5%	164.2	-1%	3%
Agriculture	81.2	75.4	-7%	79.5	5%	-2%
Health	81.6	73.0	-11%	77.8	7%	-5%
Public Administration	110.4	91.4	-17%	105.0	15%	-5%
Culture	15.4	10.6	-31%	14.0	32%	-9%
Social Sector	45.9	37.5	-18%	41.0	9%	-11%
Mines, Water	49.8	40.1	-19%	43.7	9%	-12%
Transport	18.1	9.4	-48%	12.7	35%	-30%
Communication	15.5	12.4	-20%	10.2	-18%	-34%
Urban Development	46.3	29.5	-36%	24.8	-16%	-46%
Others	383.8	180.8	-53%	160.1	-11%	-58%
Total	1215.7	943.1	-22%	1002.8	6%	-18%

[1] Excluding debt service; and including capital expenditure to be frozen in 2013 in absence of budget support.

Sources: Malian authorities and staff estimates.

17. To increase tax revenue, the authorities will continue to implement far-reaching tax policy and tax administration reforms started under their ECF arrangement (MEFP, ¶¶33–36). Transparency is being used to build political support for a reduction of tax exemptions and energy subsidies. The 2013 budget contains an inventory of all exemptions included in the tax, customs, mining, and investment codes and other legislation, and the associated fiscal costs (structural benchmark; MEFP, Table 2).[4] It also contains an estimate of the budgetary costs of not adjusting domestic energy prices to international prices (structural benchmark; MEFP, Table 2).[5] As a result of this fiscal cost, and given the tight financing constraints, the authorities have started to raise oil prices[6] and plan to increase electricity prices. They will design targeted cash transfers in close collaboration with the World Bank in order to reduce the risk of social tensions in the urban areas associated with oil or food price increases. They will also study the feasibility of introducing more progressivity in the tax regime of mining companies to capture excess profits when prices are very high.[7] Finally, they will continue to implement ambitious reforms in tax and customs administration including: the completion of reforms to strengthen the VAT administration; investigations by an interdepartmental tax intelligence unit to identify under-reporting tax payers; and the overhaul of the large-and medium-tax payers' offices (structural benchmark; MEFP, Tables 2 and 4).[8]

18. The authorities will continue ongoing reforms in the area of public financial management (PFM) (MEFP, ¶¶ 37–42). The authorities will continue to implement their rolling action plan updated in close collaboration with donors, with a view to enhancing budget preparation, monitoring, execution, and audit, and improving cash management. Under their program, the Treasury will continue to take the necessary steps to establish a single treasury account at the BCEAO[9] and strengthen its control of the bank accounts of the ministries and government agencies in banks (structural benchmark; MEFP, Table 4).[10] The authorities will also implement WAEMU PFM directives into Malian law, including by stopping the validation of payment orders of

---

[4] In 2011, tax exemptions amounted to 4.6 percent of GDP (out of which 2.4 percent of GDP on taxes collected by the tax directorate and 2.2 percent of GDP on taxes collected by the customs directorate), or about one third of the tax revenue, which amounted to 14.6 percent of GDP.

[5] In view of the small pass-through of international oil prices in domestic oil prices during 2009–11, oil tax revenue shrank from 2.3 percent of GDP in 2009 to 1 percent of GDP in 2011. In the absence of adjustment of electricity prices, the authorities transferred about 0.6 percent of GDP to the state-electricity company to keep it afloat in 2012.

[6] The authorities increased oil prices by 1.5 percent in May and June 2012.

[7] The authorities will request technical assistance from the Fund's Topical Trust Fund on Managing Natural Resource Wealth to strengthen their capacity to collect revenue due by the gold companies (MEFP, ¶36).

[8] The authorities will request technical assistance from the Fund's Topical Trust Fund on Tax Policy and Tax Administration to implement a multi-year results-based program of technical assistance in this area (MEFP, ¶36).

[9] The Treasury transferred money deposited in its accounts in seven commercial banks to the BCEAO in December 2011. It reversed that operation after the military coup in March 2012 because it lost access to its account at the BCEAO during a short time in end-March/early-April when ECOWAS imposed sanctions on Mali (MEFP, ¶39, first bullet point).

[10] At the end of September 2012, the monetary survey compiled by the BCEAO reported state deposits in banks in an amount of CFAF 260 billion ($520 million or 5 percent of GDP), of which about CFAF 100 billion were well identified by the Treasury.

any budget year by end-January of the following year. They will use the new budget accounting software to track payments, with a view to avoiding the buildup of domestic arrears (structural benchmark; MEFP, Table 4). Finally, they will also strengthen their oversight mechanism and accelerate the production of government audited accounts.

19. In the present circumstances, the authorities plan to meet their external financing needs by grants and concessional loans *(*MEFP, ¶¶43–44). *The updated Debt Sustainability Analysis (DSA)* concludes that the risk of debt distress remains moderate.[11] Debt sustainability remains sensitive to the price of gold (whose production will decline over the medium term), the cost of borrowing, and the implementation of sustainable fiscal policies. In the present circumstances, the authorities and staff agreed that it was cautious not to use the scope for borrowing of about CFAF 51 billion ($100 million or 1 percent of GDP) on non-concessional terms agreed in the three-year arrangement under the ECF approved in December 2011.[12]

20. The government will not accumulate fresh external arrears (MEFP, ¶31). Regarding the arrears outstanding at the end of 2012, the government commits to clear these as soon as its financial situation permits. In the interim, it will not accumulate fresh external arrears in 2013 (indicative targets, MEFP, Table 3).

SHORT TERM CHALLENGE: RE-ENGAGING WITH DONORS

21. Donors maintained only humanitarian assistance following the coup, but several have now begun to re-engage more actively. Several donors have provided humanitarian assistance via non-governmental organizations or resumed project support. In early July, World Bank management authorized the resumption of disbursement of already approved project loans and, on a case-by-case basis, the approval of new project loans. Most donors look to the Fund to play an active role in assisting the transition government implement policies that promote macroeconomic stability and growth. Since the foreign military intervention (¶3), key donors have indicated that they are continuing their re-engagement in Mali.

22. Given its short time horizon and narrow mandate, the government has decided to cancel the three-year ECF arrangement and request a disbursement under the RCF. (LOI, ¶3). The requested access under the RCF is SDR 12 million (13 percent of quota), well below Mali's balance of payment deficit caused by the food crisis (about $130 million during 2012–13, ¶¶5 and 10), with a view to encouraging donor's financial support. It would bring Mali's outstanding loans to 80 percent of quota, well below the cumulative access limit of the Poverty Reduction and Growth Trust (Table 12). In its request for an RCF disbursement, the government commits to implement

[11] Mali: Joint IMF/IDA Debt Sustainability Analysis for Low Income Countries (forthcoming).

[12] Country Report No 12/3, Staff Report, ¶19.

stability-oriented fiscal policies during the next twelve months, including the fiscal program and PFM reforms agreed with staff for 2013 (¶¶15-20). This program sets quarterly indicative targets starting in December 2012 (MEFP, Table 3) and structural benchmarks in the areas of tax and customs administration and public financial management critical to the maintenance of macroeconomic and financial stability (MEFP, Table 4). Together with a clear road map towards democratic elections, the disbursement under the RCF and the program will help catalyze donor support.

23. Mali's capacity to repay the Fund is adequate but the military intervention poses risks to program implementation. Debt service to the Fund will absorb a minimal fraction of government revenue and exports (Table 12) and Mali's risk of debt distress is moderate (¶19). The military intervention is not without risks for program implementation. On the one hand, the intensification of military operations may delay the economic recovery. On the other hand, the deployment of foreign military forces should reduce the threat of disruption from rebel advance towards the south.

24. The authorities envisage a repeated use of the RCF in around six months, conditional on the presence of an urgent balance of payments need and a satisfactory performance relative to their policy commitments accompanying the first disbursement under the RCF (LOI, ¶6). Such a strategy would provide a clear road map for a return to an ECF arrangement when a new democratically elected government with a broader mandate and a longer time horizon comes to power and relations with donors are fully normalized. In the meantime, this engagement with the Fund would provide the authorities with the opportunity to send a clear signal to donors about their performance in implementing stability-oriented macroeconomic policies and thereby contribute to donors' gradual re-engagement in Mali.

MEDIUM-TERM CHALLENGE: BUILDING THE FOUNDATION FOR STABLE AND INCLUSIVE GROWTH

25. Discussions focused on the policies required to build the foundation for stable and inclusive growth, and were grouped in four main themes: (i) make growth more inclusive; (ii) create fiscal space for priority spending; (iii) deepen the financial sector; and (iv) improve the business environment to facilitate the diversification of the economy. There was broad agreement between the authorities and staff on the issues facing Mali and the policies to address them.

A. Making Growth More Inclusive

26. Economic growth was inclusive during the past decade in Mali (Annex I). After a decade of relatively low growth, real GDP per capita growth picked up and averaged 3.2 percent during 2001–10. Mali's share of poor households has decreased substantially from 56 percent in 2001 to

44 percent in 2010 taking into account the national poverty line.[13] Mali's poverty reduction was also significantly stronger than in Sub-Saharan Africa during 2001–10. Growth in economic activity was also largely inclusive, meaning that it was associated with a larger increase in consumption for the poorest.

27. However poverty reduction decelerated after 2006 as growth became more uneven among sectors. During 2001–06, the economy grew at a similar pace in all sectors, while manufacturing contracted and agricultural production boomed during 2006–10. Since the very poor are mostly farmers, their consumption basket expanded during this part of the decade. But as most farmers produce on a subsistence level, these gains in agricultural production could not be translated into an overall increase in production and employment elsewhere. Hence, the impressive growth in agriculture during 2006–10 allowed the very poor to improve their lives relative to the rest of the population, but the balanced growth during 2001–06 helped more households to escape poverty.

28. The authorities and staff agreed that there remains a large room for further reducing poverty in Mali. First, a vast area of agricultural land remains to be cultivated thanks to the potential for irrigation provided by the Niger River. Second, there is a huge scope for modernizing agricultural techniques and move agriculture beyond subsistence levels. Third, further investments in road and power infrastructure would open new markets for agriculture inside and outside Mali. Fourth, continued investment in education and health is needed to equip the young and fast growing population with the required skills to help the economy grow. Finally, stepped-up effort is needed to improve the business environment and foster domestic and foreign direct investment to diversify the economy (¶¶34–35).

B. Creating Fiscal Space for Priority Spending

29. There is significant room to increase fiscal space for priority spending in Mali. First, there is scope to increase the tax pressure, which has remained below 15 percent of GDP since the mid-2000, less than the WAEMU convergence target of 17 percent, the ECOWAS objective of 20 percent of GDP, and the tax performance in Senegal (19 percent of GDP in 2011). Second, adjusting more fully domestic petroleum products to international oil prices would put an end to the erosion of oil tax revenue, which decreased by 1.3 percent of GDP between 2009 and 2011 as a result of the policy to absorb part of the increase in international oil prices by cuts in petroleum taxation (Annex II). Third, the increase of electricity prices would also free up fiscal resources as the current sale of electricity at a price below cost[14] necessitates budgetary transfers to the state electricity company of at least 0.5 of GDP annually. Fourth, there is scope to reduce spending by taking measures to eliminate the deficits of the civil servants' and private sector employees' pension funds, which could reach 2 percent of GDP in 2015 in the absence of reforms, according to recent

[13] The national poverty line lies at CFAF 453 (about $1) per day of household consumption.

[14] In 2012, the average sales price of electricity was 24 percent below the production cost (MEFP, ¶21, footnote 5).

actuarial studies. The loss-making state housing and development banks also pose contingent liabilities that could be eliminated by selling or liquidating those banks. Finally, there are resources to be gained by centralizing the cash flow management of ministries and government agencies, which currently hold about 3,400 separate bank accounts, in a single treasury account at the central bank (¶18).

30. In the present circumstances, the authorities and staff agreed that the focus of government's action should be to improve tax administration and cash management, while the authorities were also considering eliminating energy subsidies. While the authorities noted that the relatively low tax pressure in Mali may reflect the larger share of the informal economy that is not subject to taxation, they agreed that there was scope to increase the tax pressure by implementing all the reforms committed under their program backing their request for a disbursement under the RCF (¶17). They insisted in particular on the need for a more cautious allocation of tax exemptions and stricter control of their use for their intended purposes.
The authorities emphasized that they had started to increase the price of petroleum products with a view to eliminating energy subsidies and planned to do the same with electricity prices. While staff welcomed such a policy move, which had been long overdue, it recommended to design compensatory measures to alleviate the consequences on the poorest and to engage into a comprehensive public communication campaign beforehand to explain the motivation of the policy move and its benefits for the population, in light of experiences in other low income countries that have reduced energy subsidies (Annex II). The authorities agreed with the benefits of moving most of government accounts to a single treasury account at the BCEAO after the transition to an elected government. In the mean time, in light of the freezing of the government accounts at the BCEAO in the wake of the sanctions imposed by ECOWAS after the coup (¶18), they prefer to keep accounts in commercial banks. The Treasury will sort out the identity of all government accounts registered in the monetary survey shortly.

C. Deepening the Financial Sector

31. Financial intermediation has been increasing, but remains low (Annex III). The financial sector is dominated by banks. As of end-2012, there were 13 banks, of which eleven were foreign owed, holding over 80 percent of the sector's assets. The banking sector is relatively concentrated, with five banks accounting for two-thirds of assets and over 70 percent of deposits. Microfinance institutions (MFIs) are growing (1.2 million members in 2011, compared with 0.8 million in 2005), but are not systemically important (as their credit amounted to 1.6 percent of GDP at the end of 2011). The ratio of bank credit-to-GDP increased from 15 percent in 2000 to 20 percent in 2011. Interest rates do not appear to have adversely affected bank intermediation, as banks' spreads (4.5 percent on average at end 2011) seem to reflect cost of doing business. Nonetheless, intermediation remains low, compared with some other sub-Saharan countries (Senegal, Togo, Kenya). Only about 10 percent of the population has banks accounts, and rural populations remain particularly underserved by commercial banks.

32. The main vulnerabilities of the financial sector are the concentration of bank loans on a few large borrowers and the large share of NPLs. Banks have been well-capitalized since the doubling of the minimum capital requirement to CFAF 5 billion ($10 million) at the end of 2010 (Table 10), and appear profitable, but are being hurt by the deterioration of the economic situation since March, which will show up in a deterioration of their financial soundness indicators at end-2012 (¶8). Stress tests indicate that the banks are most exposed to a deterioration of the quality of credits of their largest borrowers (including the state owned cotton and electricity company), which is symptomatic of the concentration of risks in the banking sector. With an average gross NPLs ratio of 20 percent at end-June 2012, the quality of bank portfolio varies with NPLs ratios diverging from low to more than half the portfolio in the case of the housing bank (BHM). The provisioning rate, at 67 percent, remains insufficient and below the WAEMU average. The stagnation of the NPLs at high levels is a reflection of the unfavorable business environment, and in particular the many difficulties encountered in recovery procedures. Weak governance in about one third of the MFIs representing about 40 percent of deposits is getting increasing attention, with the recent involvement of the BCEAO in their supervision as a consequence of the implementation of a new WAEMU-wide microfinance law.

33. The authorities and staff agreed on the priority measures to strengthen the stability and enhance the development of the financial sector. To strengthen the stability of the financial sector, it is important to: complete the sale of the loss-making state housing bank BHM and development bank BRS; devise a strategy for another six banks, whose liquidity will fall below the minimum norm once the government closes its accounts and transfers its deposits to a single treasury account at the central bank; reform the courts to speed up the activation of guarantees backing NPLs; and strengthen the MFIs by closing the weakest ones and improving the management, monitoring and supervision of the others. To enhance the development of the financial sector, it is imperative to: review the land code, and improve the land tenure and land registration regime, with a view to establishing land titles that could be used for obtaining bank loans; enact legislation to promote leasing, venture capital, and investment capital; and improve the scope of the credit information at the BCEAO to cover a greater range of information and potential borrowers, particularly the largest small and medium-sized enterprises.

D. Strengthening the Business Environment to Facilitate the Diversification of the Economy

34. Staff external stability assessment concludes that Mali's business environment needs to be improved in order to enhance competitiveness (Annex IV). During the past decade, Mali's balance of payments was characterized by a relatively stable current account deficit (excluding official grants) of about 10 percent of GDP, financed by a steady flow of aid and foreign direct investment, mostly in the gold and telecom sectors. Export performance was stable, but overly reliant on gold, and export diversification decreased. The exchange rate assessment suggests that the real exchange rate is broadly in line with fundamentals. The burden of enhancing competitiveness rests on removing structural and institutional bottlenecks. Mali needs to better diversify its exports across products and markets by improving the business environment: expand electricity coverage, enhance access to finance, strengthen investor protection, make it easier for businesses to pay taxes, and improve health and education standards.

35. The authorities agreed and emphasized that improving the quality of human resources is key to diversify the economy and reduce aid dependence. The authorities underlined that there is a large potential to develop agricultural exports. The key to develop this potential is improving the quality of human resources through further investment in health and education. Better human resources will be critical to address many of the weaknesses in the business environment and design home-grown policies.

STAFF APPRAISAL

36. Hit by a drought in 2011, terrorist attacks, and a military coup, Mali's economy is traversing a very difficult period. As a consequence of the poor harvest in 2011, inflation is rising and about 3.6 million people have faced food insecurity. As a consequence of the terrorist attacks, the military coup and its aftermath, Mali's economy is in recession. A large balance of payments deficit is emerging in 2012–13 owing to the need to import food to compensate for the bad harvest in 2011 and the reduction of donor support. The crisis is hurting the financial soundness of the banking sector. These shocks sent the arrangement under the ECF off-track. The government responded with fiscal austerity, including the cutting of almost all capital spending. The tight liquidity situation has led to the accumulation of arrears to external creditors in an amount 0.5 percent of GDP.

37. The economic outlook is subject to high risks. The economy should rebound as agriculture should be strong under normal weather conditions, a new gold mine comes into operation, a third mobile phone operator invests in the country, and donors resume aid. But a weakening of the fragile political consensus in the south of the country, social tensions in a fluid political and security environment, or setbacks of the transition government in its attempts to organize elections and recoup the north of the country could weaken consumer, investor and donor confidence and slow down growth.

38. Tight fiscal policy is essential to maintain macroeconomic and financial stability. While the 2013 budget is a step in the right direction, the implementation of a more conservative fiscal program is needed. Spending in an amount of 1 percent of GDP will need to be frozen until potential donor aid materializes.

39. The accumulation of external arrears is unfortunate and the accumulation of new arrears needs to be avoided. The accumulation of arrears on the external debt is regrettable, as it put into jeopardy one of the most important balance of payment flows on which Mali's external stability relies. While the full payment of accumulated arrears will be difficult in the short run, the authorities need to do their best efforts to clear these arrears as soon as possible and avoid any accumulation of new arrears, which would complicate even more the resumption of aid that is needed to rebound from the crisis.

40. Steadfast implementation of tax policy, tax administration, cash flow management, and energy policy reforms will be essential to maintain macroeconomic stability. The ambitious tax revenue targets in 2013 will need to come from a continued increase in taxes on oil products and progress in tax administration through systematic cross-checking of information by the tax, customs, and procurement administrations. Prudent expenditure execution and tight cash management will be needed to meet the deficit target and avoid the accumulation of arrears to suppliers and creditors. While electricity tariff adjustments are needed to bring the sector back to a sustainable path, a clear reform and public communication strategy is essential to gain the population's acceptance.

41. In the medium term, harnessing the potential for increasing growth and reducing poverty requires steadfast implementation of policies to increase fiscal space and deepen the financial sector. The full development of the vast agricultural land that can be irrigated would make growth more inclusive. This requires more investment in priority spending like road, power, irrigation infrastructure, modernized agricultural production techniques, education and health. To create fiscal space for such spending, tax revenue needs to be increased (through the reduction of tax exonerations, the elimination of energy subsidies, and the overhaul of the tax and customs administrations), non-priority spending needs to be reduced (through the elimination of transfers to the loss making state-owned energy company, housing and development banks, and pension funds), and cash flow management needs to be tightened (by implementing the single treasury account). To foster private sector investment, access to financing needs to be expanded by speeding up the resolution of banks' non-performing loans, reforming the land code, with a view to creating securities for bank credit, and strengthening the microfinance sector.

42. Based on the severity of the external shocks that hit Mali's economy and the authorities' policy intentions, the staff recommends approval of the authorities' request for a disbursement under the RCF.

Table 1. Mali: Selected Economic and Financial Indicators, 2010-15

	2010	2011		2012		2013	2014	2015
		Prog.[1]	Est.	Prog.[1]	New Prog.	Prog.	Proj.	
				(annual percentage change)				
National income and prices								
Real GDP	5.8	5.4	2.7	5.6	-1.5	4.8	5.8	5.3
GDP deflator	4.2	4.1	4.9	2.5	5.9	2.7	2.2	2.2
Consumer price inflation (average)	1.4	3.0	3.1	2.8	5.4	3.2	3.0	2.5
External sector (percent change)								
Terms of trade (deterioration -)	-9.7	14.0	-3.4	2.7	14.8	-6.6	2.1	-1.2
Real effective exchange rate (depreciation -)	-5.2	...	2.6	...	...	...	...	...
Money and credit (contribution to broad money growth)								
Credit to the government	2.5	6.7	5.1	3.0	7.4	0.4	0.9	-0.3
Credit to the economy	8.4	6.6	15.7	6.0	6.3	8.5	9.0	7.0
Broad money (M2)	9.0	11.5	15.3	12.7	11.6	4.6	11.2	7.6
				(in percent of GDP, unless otherwise indicated)				
Investment and saving								
Gross domestic investment	18.4	20.5	20.2	20.0	16.3	19.5	23.5	24.7
Of which: government	7.9	9.0	8.7	7.5	3.8	6.0	9.0	9.2
Gross national savings	5.8	13.0	10.0	14.6	10.6	11.5	14.5	15.7
Of which: government	1.6	2.3	2.1	0.7	1.4	1.9	3.1	3.2
Gross domestic savings	4.5	13.0	10.2	15.4	11.4	13.5	15.9	17.0
Central government finance								
Revenue	17.3	16.7	17.2	17.6	17.5	18.0	18.2	18.3
Grants	2.9	3.5	3.9	2.9	0.7	1.1	3.2	3.2
Total expenditure and net lending	22.8	24.4	24.8	23.4	20.3	21.4	23.7	23.8
Overall balance (payment order basis, including grants)	-2.7	-4.2	-3.7	-2.9	-2.1	-2.3	-2.3	-2.3
Basic fiscal balance [2]	-0.1	-1.6	-1.1	-0.4	-1.0	-0.1	0.0	0.0
Domestic debt [3]	4.4	4.0	4.7	4.2	5.1	4.7	4.3	4.0
External sector								
Current external balance (including official transfers)	-12.7	-7.5	-10.4	-5.4	-5.8	-8.0	-9.0	-8.9
Current external balance (excluding official transfers)	-14.8	-9.0	-11.6	-6.8	-7.3	-8.8	-10.4	-10.1
Exports of goods and services	26.0	27.5	26.1	29.6	31.2	30.8	29.8	28.4
Imports of goods and services	39.9	35.0	36.1	34.2	36.1	36.8	37.4	36.0
Debt service to exports of goods and services	3.1	4.0	4.0	3.8	3.4	3.5	3.4	3.8
External debt	24.3	22.7	28.1	23.7	29.9	29.0	29.0	29.2
Memorandum items:								
Nominal GDP (CFAF billions)	4,667	5,109	5,028	5,529	5,243	5,642	6,100	6,563
Overall balance of payments (US$ millions)	-198.3	-51.8	62.1	89.6	-252.1	-155.5	34.8	33.4
Money market interest rate in percent (end of period)	4.1	...	3.3	...	...	...	...	...
Gross international reserves (US$ millions)								
Central Bank of West African States (BCEAO)	13,643	...	14,958	...	...	...	...	...
in percent of broad money	57.9	...	59.2	...	...	...	...	...
in months of imports of g. and s.	6.1	...	6.2	...	...	...	...	...
BCEAO Mali (imputed)	1,299	1,341	1,409	1,432	1,099	963	1,002	1,033
in percent of broad money	49.8	42.9	47.0	41.1	35.0	29.4	27.6	26.5
US$ exchange rate (end of period)	496.2	...	497.7	...	...	...	...	...
Gold Price (US$/fine ounce London fix)	1,225	1,582	1,569	1,758	1,629	1,619	1,632	1,651
Petroleum price (crude spot)(US$/bbl)	79.0	103.2	104.0	100.0	102.4	96.9	94.3	92.0

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

[1] IMF Country Report No. 12/3: Mali —Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.

[2] Total revenue, plus general budgetary grants, plus revenue from HIPC debt relief, minus total expenditure and net lending excluding externally financed capital spending.

[3] Includes BCEAO statutory advances, government bonds, treasury bills, and other debts.

Table 2. Mali: National Accounts, 2010-15

	Share[1]	2010	2011		2012		2013	2014	2015
			Prog.[2]	Est.	Prog.[2]	New Prog.	Prog.	Proj.	
	(Annual percentage change, at constant prices)								
Primary sector	35.1	11.4	6.9	-1.3	5.4	8.1	5.3	5.4	5.4
Agriculture	22.3	16.0	8.5	-4.5	6.1	13.1	6.0	6.1	6.2
Food crops, excluding rice	15.1	14.0	6.3	-1.8	6.3	9.9	6.3	6.3	6.3
Rice	4.7	24.0	5.5	-24.6	5.8	27.0	6.0	5.8	5.8
Industrial agriculture, excluding cotton	1.6	9.5	5.0	2.0	7.8	4.0	7.3	7.3	7.5
Cotton	0.9	6.4	67.0	82.7	4.0	8.0	2.0	5.0	5.0
Livestock	8.1	4.3	4.0	4.0	4.4	0.0	3.8	3.7	3.7
Fishing and forestry	4.7	4.5	4.6	4.6	3.7	0.0	4.7	4.4	4.4
Secondary sector	18.9	-2.1	4.5	8.1	8.9	-2.2	5.4	5.6	4.0
Mining	6.7	-14.3	0.1	0.0	10.0	7.5	8.4	1.9	-2.0
Industry	5.2	0.1	7.4	20.8	10.4	3.4	4.8	4.3	5.4
Agrobusiness	2.1	4.0	10.0	18.6	5.4	-13.0	4.0	6.0	6.0
Textile	1.9	4.9	5.1	31.0	29.0	35.0	8.0	2.0	5.0
Others	1.2	-8.4	5.4	15.5	2.6	-2.0	1.8	5.0	5.0
Energy	1.9	10.0	8.0	8.0	9.4	-2.0	5.0	10.7	8.0
Construction and public works	5.1	7.0	5.0	5.0	5.6	-20.0	2.0	10.0	8.0
Tertiary sector	36.0	4.6	4.4	3.8	4.9	-8.8	4.4	6.5	5.8
Transportation and telecommunications	5.5	5.0	5.5	5.2	5.5	0.0	3.8	8.5	6.5
Trade	14.4	5.5	4.5	4.0	6.5	-10.0	4.3	6.4	6.4
Financial services	0.7	3.5	3.0	3.0	3.8	-10.0	3.8	4.0	4.0
Other nonfinancial services	6.7	4.0	5.0	2.0	4.0	-15.0	4.5	6.0	5.0
Public administration	8.9	3.0	3.0	4.0	2.0	-10.0	5.0	5.0	4.5
Indirect taxes	10.0	4.2	4.3	6.0	2.4	-10.3	2.6	5.6	5.6
GDP (market prices)	100.0	5.8	5.4	2.7	5.6	-1.5	4.8	5.8	5.3
	(in percent of nominal GDP)								
National accounts									
Gross domestic investment		18.4	20.5	20.2	20.0	16.3	19.5	23.5	24.7
Gross national savings		5.8	13.0	10.0	14.6	10.6	11.5	14.5	15.7
Current account balance (including official transfers)		-12.7	-7.5	-10.4	-5.4	-5.8	-8.0	-9.0	-8.9
Memorandum items:									
Nominal GDP (in CFAF billions)		4,667	5,109	5,028	5,529	5,243	5,642	6,100	6,563
GDP deflator (annual percent change)		4.2	4.1	4.9	2.5	5.9	2.7	2.2	2.2

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

[1] Share of 2009 Nominal GDP.

[2] IMF Country Report No. 12/3: Mali —Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.

Table 3. Mali: Central Government Consolidated Financial Operations, 2010-15
(in CFAF billions)

	2010	2011		2012			2013		2014	2015
		Prog.[1]	Est.	Prog.[1]	Rev. Budget	New Prog.	Budget	New Prog.	Proj.	
Revenue and grants	940.0	1,030.5	1,060.5	1,132.8	941.3	954.3	1,029.2	1,079.2	1,302.7	1,409.2
Total revenue	806.3	851.8	866.6	972.2	937.1	917.1	1,029.2	1,018.3	1,108.7	1,200.6
Budgetary revenue	727.6	780.3	770.5	894.8	836.9	816.9	929.0	918.1	1,000.4	1,084.0
Tax revenue	681.8	731.1	734.2	836.2	786.2	766.2	876.1	865.2	942.1	1,024.3
Direct taxes	204.6	216.9	220.8	224.5	234.3	243.2	253.0	265.4	288.6	311.8
Indirect taxes	477.2	514.2	513.4	611.7	551.9	523.0	623.2	599.8	653.5	712.5
VAT	261.8	309.4	310.4	340.1	306.7	298.0	343.9	336.7	367.5	395.4
Excises on petroleum products	25.5	4.0	4.7	7.0	17.7	17.7	19.9	19.9	21.5	23.1
Import duties	94.6	110.0	112.1	113.3	102.6	102.6	115.3	115.3	127.3	148.3
Other indirect taxes	102.3	127.7	120.3	191.3	154.5	145.2	179.1	171.4	182.0	190.2
Tax refund	-6.9	-37.0	-34.1	-40.0	-29.6	-40.6	-35.0	-43.5	-44.8	-44.6
Nontax revenue	45.8	49.2	32.9	58.6	50.7	50.7	52.9	52.9	58.2	59.7
Special funds and annexed budgets	78.7	71.5	96.1	77.4	100.2	100.2	100.2	100.2	108.3	116.6
Grants	133.7	178.8	193.9	160.6	4.2	37.2	0.0	60.8	193.9	208.7
Projects	57.2	83.7	97.1	85.9	3.6	33.0	0.0	60.8	97.1	104.5
Budgetary support	76.5	95.1	96.9	74.7	0.6	4.2	0.0	0.0	96.9	104.2
Of which: general	54.9	49.2	55.7	46.4	0.0	3.6	0.0	0.0	55.7	59.9
Of which: sectoral	21.6	45.9	41.2	28.3	0.6	0.6	0.0	0.0	41.2	44.3
Total expenditure and net lending (payment orders basis)	1,064.4	1,244.3	1,246.3	1,291.7	970.9	1,066.9	1,026.5	1,207.6	1,442.6	1,559.8
Budgetary expenditure	971.0	1,175.9	1,143.6	1,216.3	872.6	968.7	928.2	1,109.3	1,334.3	1,443.2
Current expenditure	601.2	714.8	709.0	800.1	738.2	752.3	764.7	772.6	792.0	846.8
Wages and salaries	231.8	269.8	265.1	306.8	306.7	306.7	311.8	311.8	330.4	348.5
Goods and services	213.2	233.5	232.0	250.5	220.7	220.6	232.6	232.6	226.3	245.6
Transfers and subsidies	137.1	183.5	181.4	209.7	183.1	193.1	196.6	196.6	200.9	216.5
Interest	19.1	28.1	30.6	33.1	27.8	32.0	23.7	31.5	34.4	36.2
Of which: domestic	6.1	11.0	13.5	13.6	14.1	14.1	11.5	11.5	10.1	10.1
Capital expenditure	369.8	461.1	437.9	416.2	140.9	216.3	163.5	336.8	542.3	596.4
Externally financed	187.6	249.2	253.9	240.4	4.2	79.7	0.0	173.3	278.2	299.4
Domestically financed	182.2	211.9	184.0	175.8	136.6	136.6	163.5	163.5	264.0	297.0
Special funds and annexed budgets	78.7	71.5	96.1	77.4	100.2	100.2	100.2	100.2	108.3	116.6
Net lending	14.7	-3.1	-3.2	-2.0	-2.0	-2.0	-1.9	-1.9	0.0	0.0
Overall fiscal balance (excl. grants)	-258.1	-392.5	-379.8	-319.4	-33.9	-149.8	2.7	-189.3	-333.9	-359.3
Overall fiscal balance (incl. grants)	-124.4	-213.8	-185.8	-158.8	-29.6	-112.6	2.7	-128.5	-140.0	-150.6
Variation of arrears	-29.0	-12.3	-9.2	-14.2	-10.4	-21.5	-9.2	-15.1	0.0	0.0
Adjustment to cash basis	-53.3	4.2	2.2	0.0	-7.5	4.2	0.0	0.0	-22.4	5.7
Overall balance (cash basis, incl. grants)	-206.7	-221.9	-192.8	-173.0	-43.3	-129.9	-6.5	-143.6	-162.3	-144.9
Financing	206.7	221.9	192.8	173.0	43.4	129.9	6.5	89.0	162.3	144.9
External financing (net)	131.2	136.2	136.9	126.5	-35.8	9.5	-22.6	74.7	156.6	164.6
Loans	152.6	165.1	165.0	168.3	0.0	46.1	0.0	112.5	195.0	209.8
Project loans	108.8	119.7	120.0	126.2	0.0	46.1	0.0	112.5	140.0	150.6
Budgetary loans	43.8	45.4	45.0	42.1	0.0	0.0	0.0	0.0	55.0	59.2
Amortization	-32.4	-42.9	-41.7	-53.3	-35.8	-48.2	-34.0	-49.1	-38.3	-45.1
Debt relief	11.0	14.0	13.6	11.6	0.0	11.6	11.4	11.4	0.0	0.0
Domestic financing (net)	75.5	85.7	55.9	46.5	79.2	120.4	29.1	14.3	5.7	-19.7
Banking system	96.0	87.3	66.2	43.5	69.1	110.3	21.9	7.0	20.5	-5.0
Central bank	...	78.8	62.9	18.5	16.5	57.7	15.1	0.3	20.5	-5.0
Commercial banks	...	8.6	3.3	25.1	52.6	52.6	6.8	6.8	0.0	0.0
Privatization receipts	0.2	3.3	0.0	0.0	33.0	33.0	22.0	22.0	0.0	0.0
Non-bank financing	-20.8	-4.9	-15.8	3.0	-22.9	-22.9	-14.7	-14.7	-14.7	-14.7
Financing gap	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	54.6	0.0	0.0
Memorandum items										
Basic fiscal balance [2]	-59.5	-129.4	-112.2	-112.2	-96.5	-58.5	-4.7	-4.7	-55.6	-59.9
Underlying basic fiscal balance [3]	3.6	-73.5	-79.7	-79.7	-56.5	-5.2	-4.7	-4.7	-55.6	-59.9
Basic fiscal balance (WAEMU def.) [4]	-4.6	-80.1	-56.6	-21.1	-54.9	-54.9	14.0	-4.7	0.0	0.0
Underlying basic fiscal balance (WAEMU def.) [3]	58.5	-24.3	-24.1	-4.7	-1.6	-1.6	-4.7	-4.7	0.0	0.0
General budgetary assistance	98.7	94.7	100.7	88.5	0.0	3.6	0.0	0.0	110.7	119.1
Nominal GDP	4,667	5,109	5,028	5,529	5,243	5,243	5,642.1	5,642	6,100	6,563

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

[1] IMF Country Report No. 12/3: Mali —Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.

[2] Total revenue, plus revenue from HIPC debt relief, minus total expenditure and net lending excluding externally financed capital spending.

[3] Excluding spending financed by one-off revenue from the privatization of the telecom company SOTELMA.

[4] Total revenue, plus general budgetary grants, plus revenue from HIPC debt relief, minus total expenditure and net lending excluding externally financed capital spending.

Table 4. Mali: Central Government Consolidated Financial Operations, 2012
(in CFAF billions)

	March		June		September		December		
	Prog.[1]	Est.	Prog.[1]	Est.	Prog.[1]	Est.	Prog.[1]	Rev. Budget	New Prog.
Revenue and grants	288.9	210.9	570.3	474.5	861.2	703.1	1,132.8	941.3	954.3
Total revenue	243.1	177.3	486.1	440.8	729.2	669.5	972.2	937.1	917.1
Budgetary revenue	223.7	191.4	447.4	399.0	671.1	599.5	894.8	836.9	816.9
Tax revenue	209.1	175.1	418.1	373.9	627.2	559.9	836.2	786.2	766.2
Direct taxes	56.1	50.8	112.3	133.7	168.4	186.2	224.5	234.3	243.2
Indirect taxes	152.9	124.3	305.9	240.2	458.8	373.7	611.7	551.9	523.0
VAT	85.0	57.3	170.1	136.1	255.1	208.9	340.1	306.7	298.0
Excises on petroleum products	1.8	1.3	3.5	6.7	5.3	15.5	7.0	17.7	17.7
Import duties	28.3	34.5	56.7	49.1	85.0	74.1	113.3	102.6	102.6
Other indirect taxes	47.8	34.5	95.7	68.5	143.5	102.6	191.3	154.5	145.2
Tax refund	-10.0	-3.5	-20.0	-20.2	-30.0	-27.3	-40.0	-29.6	-40.6
Nontax revenue	14.7	15.4	29.3	23.3	44.0	37.2	58.6	50.7	50.7
Special funds and annexed budgets	19.3	25.4	38.7	49.5	58.0	70.0	77.4	100.2	100.2
Grants	45.8	33.6	84.2	33.6	132.1	33.6	160.6	4.2	37.2
Projects	21.5	33.0	43.0	33.0	64.4	33.0	85.9	3.6	33.0
Budgetary support	24.4	0.6	41.3	0.6	67.6	0.6	74.7	0.6	4.2
Of which: general	17.3	0.0	27.1	0.0	46.4	0.0	46.4	0.0	3.6
Of which: sectoral	7.1	0.6	14.2	0.6	21.2	0.6	28.3	0.6	0.6
Total expenditure and net lending (payment order basis)	324.2	289.7	648.3	492.2	972.5	726.2	1,291.7	970.9	1,066.9
Budgetary expenditure	305.3	264.3	610.6	443.7	916.0	658.2	1,216.3	872.6	968.7
Current expenditure	200.0	164.1	400.0	313.3	600.1	498.4	800.1	738.2	752.3
Wages and salaries	76.7	58.0	153.4	131.3	230.1	209.3	306.8	306.7	306.7
Goods and services	62.6	46.7	125.3	77.0	187.9	138.1	250.5	220.7	220.6
Transfers and subsidies	52.4	54.8	104.9	95.5	157.3	132.1	209.7	183.1	193.1
Interest	8.3	4.7	16.5	9.6	24.8	18.9	33.1	27.8	32.0
Of which: domestic	3.4	2.9	6.8	3.8	10.2	11.4	13.6	14.1	14.1
Capital expenditure	105.3	91.5	210.6	108.0	315.9	119.4	416.2	140.9	216.3
Externally financed	60.1	58.7	120.2	58.7	180.3	58.7	240.4	4.2	79.7
Domestically financed	45.2	32.8	90.4	49.3	135.6	60.7	175.8	136.6	136.6
Special funds and annexed budgets	19.3	25.4	38.7	49.5	58.0	70.0	77.4	100.2	100.2
Net lending	-0.5	0.0	-1.0	-1.0	-1.5	-2.0	-2.0	-2.0	-2.0
Overall fiscal balance (excl. grants)	-81.1	-112.4	-162.2	-51.3	-243.3	-56.7	-319.4	-33.9	-149.8
Overall fiscal balance (incl. grants)	-35.3	-78.8	-78.0	-17.7	-111.3	-23.1	-158.8	-29.6	-112.6
Variation of arrears	-3.6	0.0	-7.1	-9.4	-10.7	-10.4	-14.2	-17.9	-21.5
Adjustment to cash basis	-41.3	45.6	-20.3	-14.4	-46.9	-6.0	0.0	4.2	4.2
Overall balance (cash basis, incl. grants)	-80.2	-33.2	-105.4	-41.5	-168.9	-39.5	-173.0	-43.3	-129.9
Financing	80.2	33.2	105.4	41.6	168.9	39.5	173.0	43.4	129.9
External financing (net)	21.1	22.8	43.4	22.3	99.1	17.6	126.5	-35.8	9.5
Loans	31.5	25.1	63.1	25.1	128.6	25.1	168.3	0.0	46.1
Project loans	31.5	25.1	63.1	25.1	94.6	25.1	126.2	0.0	46.1
Of which: non-concessional	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budgetary loans	0.0	0.0	0.0	0.0	34.0	0.0	42.1	0.0	0.0
Amortization	-13.3	-2.3	-26.7	-9.4	-40.0	-14.1	-53.3	-35.8	-48.2
Debt relief	2.9	0.0	7.0	6.6	10.5	6.6	11.6	0.0	11.6
Domestic financing (net)	59.0	10.4	62.0	19.3	69.8	21.9	46.5	79.2	120.4
Banking system	58.3	52.3	60.6	93.2	67.6	127.1	43.5	69.1	110.3
Central bank	4.6	-8.5	9.2	82.6	13.8	81.4	18.5	16.5	57.7
Commercial banks	53.7	60.9	51.3	10.6	53.7	45.7	25.1	52.6	52.6
Net credit to the government	58.3	3.7	60.6	3.0	67.6	1.8	43.5	1.1	7.3
IMF (net)	-0.2	4.3	-0.4	4.3	-0.7	3.8	-0.9	3.8	7.3
Central bank credit (net)	1.3	-0.7	2.5	-1.3	3.8	-2.0	5.0	-2.7	0.0
Other	4.0	0.0	8.0	0.0	12.0	0.0	16.0	0.0	0.0
Other domestic financing	1.3	-0.9	2.5	-63.8	3.8	-77.5	5.0	0.0	0.0
Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	33.0	33.0
Non-bank financing	0.7	-41.0	1.5	-10.1	2.2	-27.7	3.0	-22.9	-22.9
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Memorandum items									
Basic fiscal balance [2]	-0.8	-53.7	-7.9	13.9	-6.2	8.6	-21.1	-29.6	-54.9
Underlying basic fiscal balance [3]	3.2	-44.9	0.1	28.8	5.8	24.4	-5.1	12.2	-1.6
External budget support	17.3	0.6	27.1	0.0	80.4	0.6	88.5	0.0	3.6
Government bank and market financing	63.4	72.8	70.7	100.0	82.8	132.6	63.8	65.7	106.9

Sources: Ministry of Finance; and IMF staff projections.

[1]IMF Country Report No. 12/3 Mali — Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.

[2]Total revenue, plus general budgetary grants, plus revenue from HIPC debt relief, minus total expenditure and net lending, excluding externally financed capital spending.

[3]Excluding spending financed by the revenue from the privatization of the telecom company SOTELMA.

Table 5. Mali: Central Government Consolidated Financial Operations, 2010-15
(in percent of GDP)

	2010	2011		2012			2013		2014	2015
		Prog.[1]	Est.	Prog.[1]	Rev. Budget	New Prog.	Budget	Prog.	Proj.	
Revenue and grants	20.1	20.2	21.1	20.5	18.0	18.2	18.2	19.1	21.4	21.5
Total revenue	17.3	16.7	17.2	17.6	17.9	17.5	18.2	18.0	18.2	18.3
Budgetary revenue	15.6	15.3	15.3	16.2	16.0	15.6	16.5	16.3	16.4	16.5
Tax revenue	14.6	14.3	14.6	15.1	15.0	14.6	15.5	15.3	15.4	15.6
Direct taxes	4.4	4.2	4.4	4.1	4.5	4.6	4.5	4.7	4.7	4.8
Indirect taxes	10.2	10.1	10.2	11.1	10.5	10.0	11.0	10.6	10.7	10.9
VAT	5.6	6.1	6.2	6.2	5.9	5.7	6.1	6.0	6.0	6.0
Excises on petroleum products	0.5	0.1	0.1	0.1	0.3	0.3	0.4	0.4	0.4	0.4
Import duties	2.0	2.2	2.2	2.0	2.0	2.0	2.0	2.0	2.1	2.3
Other indirect taxes	2.2	2.5	2.4	3.5	2.9	2.8	3.2	3.0	3.0	2.9
Tax refund	-0.1	-0.7	-0.7	-0.7	-0.6	-0.8	-0.6	-0.8	-0.7	-0.7
Nontax revenue	1.0	1.0	0.7	1.1	1.0	1.0	0.9	0.9	1.0	0.9
Special funds and annexed budgets	1.7	1.4	1.9	1.4	1.9	1.9	1.8	1.8	1.8	1.8
Grants	2.9	3.5	3.9	2.9	0.1	0.7	0.0	1.1	3.2	3.2
Projects	1.2	1.6	1.9	1.6	0.1	0.6	0.0	1.1	1.6	1.6
Budgetary support	1.6	1.9	1.9	1.3	0.0	0.1	0.0	0.0	1.6	1.6
Of which: general	1.2	1.0	1.1	0.8	0.0	0.1	0.0	0.0	0.9	0.9
Of which: sectoral	0.5	0.9	0.8	0.5	0.0	0.0	0.0	0.0	0.7	0.7
Total expenditure and net lending (payment order basis)	22.8	24.4	24.8	23.4	18.5	20.3	18.2	21.4	23.7	23.8
Budgetary expenditure	20.8	23.0	22.7	22.0	16.6	18.5	16.5	19.7	21.9	22.0
Current expenditure	12.9	14.0	14.1	14.5	14.1	14.4	13.6	13.7	13.0	12.9
Wages and salaries	5.0	5.3	5.3	5.5	5.9	5.9	5.5	5.5	5.4	5.3
Goods and services	4.6	4.6	4.6	4.5	4.2	4.2	4.1	4.1	3.7	3.7
Transfers and subsidies	2.9	3.6	3.6	3.8	3.5	3.7	3.5	3.5	3.3	3.3
Interest	0.4	0.5	0.6	0.6	0.5	0.6	0.4	0.6	0.6	0.6
Of which: domestic	0.1	0.2	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.2
Capital expenditure	7.9	9.0	8.7	7.5	2.7	4.1	2.9	6.0	8.9	9.1
Externally financed	4.0	4.9	5.1	4.3	0.1	1.5	0.0	3.1	4.6	4.6
Domestically financed	3.9	4.1	3.7	3.2	2.6	2.6	2.9	2.9	4.3	4.5
Special funds and annexed budgets	1.7	1.4	1.9	1.4	1.9	1.9	1.8	1.8	1.8	1.8
Net lending	0.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance (excl. grants)	-5.5	-7.7	-7.6	-5.8	-0.6	-2.9	0.0	-3.4	-5.5	-5.5
Overall fiscal balance (incl. grants)	-2.7	-4.2	-3.7	-2.9	-0.6	-2.1	0.0	-2.3	-2.3	-2.3
Variation of arrears	-0.6	-0.2	-0.2	-0.3	-0.2	-0.4	-0.2	-0.3	0.0	0.0
Adjustment to cash basis	-1.1	0.1	0.0	0.0	-0.1	0.1	0.0	0.0	-0.4	0.1
Overall balance (cash basis, incl. grants)	-4.4	-4.3	-3.8	-3.1	-0.8	-2.5	-0.1	-2.5	-2.7	-2.2
Financing	4.4	4.3	3.8	3.1	0.8	2.5	0.1	1.6	2.7	2.2
External financing (net)	2.8	2.7	2.7	2.3	-0.7	0.2	-0.4	1.3	2.6	2.5
Loans	3.3	3.2	3.3	3.0	0.0	0.9	0.0	2.0	3.2	3.2
Project loans	2.3	2.3	2.4	2.3	0.0	0.9	0.0	2.0	2.3	2.3
Of which: non-concessional	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budgetary loans	0.9	0.9	0.9	0.8	0.0	0.0	0.0	0.0	0.9	0.9
Amortization	-0.7	-0.8	-0.8	-1.0	-0.7	-0.9	-0.6	-0.9	-0.6	-0.7
Debt relief	0.2	0.3	0.3	0.2	0.0	0.2	0.2	0.2	0.0	0.0
Domestic financing (net)	1.6	1.7	1.1	0.8	1.5	2.3	0.5	0.3	0.1	-0.3
Banking system	2.1	1.7	1.3	0.8	1.3	2.1	0.4	0.1	0.3	-0.1
Central bank	...	1.5	1.3	0.3	0.3	1.1	0.3	0.0	0.3	-0.1
Commercial banks	...	0.2	0.1	0.5	1.0	1.0	0.1	0.1	0.0	0.0
Privatization receipts	0.0	0.1	0.0	0.0	0.6	0.6	0.4	0.4	0.0	0.0
Non-bank financing	-0.4	-0.1	-0.3	0.1	-0.4	-0.4	-0.3	-0.3	-0.2	-0.2
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0
Memorandum items										
Basic fiscal balance [2]	-0.1	-1.6	-1.1	-0.4	-1.0	-1.0	0.2	-0.1	0.0	0.0
General budgetary assistance	2.1	1.9	2.0	1.6	0.0	0.1	0.0	0.0	1.8	1.8
Nominal GDP (in billions of CFAF)	4,667	5,109	5,028	5,529	5,243	5,243	5,642	5,642	6,100	6,563

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

[1] **IMF Country Report No. 12/3: Mali —Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.**

[2] **Total revenue, plus general budgetary grants, plus revenue from HIPC debt relief, minus total expenditure and net lending, excluding externally financed capital spending.**

Table 6. Mali: Central Government Operations, GFSM 2001 Classification,[1] 2010-15

	2010	2011		2012			2013		2014	2015
		Prog.[2]	Est.	Prog.[2]	Rev. Budget	New Prog.	Budget	Prog.	Proj.	
	(in CFAF billions)									
Revenue	951.0	1,044.5	1,070.7	1,144.4	940.7	954.3	1,040.6	1,090.5	1,302.7	1,409.2
Taxes	681.8	731.1	734.2	836.2	786.2	766.2	876.1	865.2	942.1	1,024.3
Grants	144.7	192.7	207.5	172.2	3.6	37.2	11.4	72.2	193.9	208.7
Current	54.9	49.2	55.7	46.4	0.0	3.6	0.0	0.0	55.7	59.9
Capital	89.8	143.5	151.9	125.8	3.6	33.6	11.4	72.2	138.3	148.8
Other revenue	124.5	120.7	129.0	136.0	150.9	150.9	153.1	153.1	166.6	176.3
Expenditure	1,049.7	1,247.4	1,243.0	1,293.7	979.3	1,052.5	1,028.4	1,209.5	1,448.3	1,564.6
Expense	679.9	786.3	805.1	877.5	838.4	852.5	864.9	872.8	900.3	963.4
Compensation of employees	231.8	269.8	265.1	306.8	306.7	306.7	311.8	311.8	330.4	348.5
Use of goods and services	213.2	233.5	232.0	250.5	220.7	220.6	232.6	232.6	226.3	245.6
Interest	19.1	28.1	30.6	33.1	27.8	32.0	23.7	31.5	34.4	36.2
Subsidies	13.5	25.8	16.9	30.0	30.0	30.0	30.0	30.0	32.4	34.9
Grants	100.3	110.3	118.6	129.9	109.0	109.0	117.7	117.7	128.2	139.1
Other expense	102.1	118.9	142.1	127.2	144.3	154.3	149.2	149.2	148.6	159.1
Net acquisition of nonfinancial assets	369.8	461.1	437.9	416.2	140.9	200.0	163.5	336.8	547.9	601.2
Gross Operating Balance	271.1	258.2	265.6	266.9	102.3	101.8	175.6	217.8	402.3	445.9
Net lending (+)/borrowing (–)	-98.7	-202.9	-172.3	-149.2	-38.6	-98.3	12.1	-119.0	-145.6	-155.4
Net financial transactions	-98.7	-202.9	-172.3	-149.2	-38.6	-98.3	12.1	-119.0	-145.6	-155.4
Net acquisition of financial assets	19.0	-79.1	-20.0	-21.0	5.5	-35.7	5.0	19.8	-3.5	15.2
Domestic	19.0	-79.1	-20.0	-21.0	5.5	-35.7	5.0	19.8	-3.5	15.2
Currency and deposits	-17.0	-55.9	-41.3	-16.0	-15.4	-56.6	-7.8	7.0	-18.2	0.4
Loans (net lending)	14.7	-3.1	-3.2	-2.0	-2.0	-2.0	-1.9	-1.9	0.0	0.0
Equity and investment shares (privatization proceeds)	32.2	4.9	15.8	-3.0	22.9	22.9	14.7	14.7	14.7	14.7
Other accounts receivable	-10.9	-25.1	8.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	117.7	115.5	152.3	131.2	44.1	62.6	-7.1	138.9	142.1	170.5
Domestic	-5.4	-32.1	4.9	12.5	76.1	60.9	19.6	68.2	-16.8	10.5
Debt securities and loans	113.1	-4.6	34.7	27.5	0.0	27.0	0.0	0.0	0.0	0.0
Other accounts payable	-118.5	-27.5	-29.9	-15.0	76.1	33.9	19.6	68.2	-16.8	10.5
Foreign	123.1	147.7	147.5	118.7	-32.0	1.7	-26.7	70.6	158.8	160.1
Memorandum items:										
Change in net worth: Transactions	-98.7	-202.9	-172.3	-149.2	-38.6	-98.3	12.1	-119.0	-145.6	-155.4
Nominal GDP	4,667	5,109	5,028	5,529	4,974	5,243	5,583	5,642	6,100	6,563

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

[1] Government Finance Statistics Manual (http://www.imf.org/external/pubs/ft/gfs/manual/).

[2] IMF Country Report No. 12/3: Mali —Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.

Table 7. Mali: Balance of Payments, 2010–17

	2010	2011 Prog.[1]	2011 Est.	2012 Prog.[1]	2012 New Prog.	2013 Prog.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
	(in CFAF billions)									
Current account balance										
Excluding official transfers	-688.5	-457.8	-585.7	-374.1	-382.9	-494.3	-632.0	-665.5	-680.7	-783.2
Including official transfers	-590.3	-383.4	-522.6	-300.4	-301.6	-450.7	-549.2	-586.4	-595.9	-692.0
Trade balance	-335.4	-90.2	-188.8	53.8	98.2	58.3	-46.5	-63.7	-87.0	-164.6
Exports, f.o.b.	1,018.1	1,202.7	1,119.8	1,423.6	1,455.2	1,555.5	1,607.1	1,648.6	1,683.0	1,701.3
Cotton fiber	82.8	130.1	90.9	128.3	214.9	164.4	163.4	164.3	163.5	174.2
Gold	761.8	910.1	841.1	1,114.0	1,071.0	1,181.3	1,216.1	1,210.0	1,203.9	1,196.9
Other	173.4	162.4	187.9	181.3	169.4	209.7	227.6	274.3	315.6	330.2
Imports, f.o.b.	-1,353.4	-1,292.9	-1,308.7	-1,369.8	-1,357.0	-1,497.1	-1,653.5	-1,712.3	-1,770.1	-1,865.9
Petroleum products	-275.9	-366.2	-365.9	-378.0	-357.4	-417.6	-427.5	-432.3	-435.6	-455.7
Foodstuffs	-159.3	-178.8	-174.6	-202.3	-227.3	-210.0	-207.1	-211.8	-220.9	-234.7
Other	-918.2	-747.8	-768.2	-789.5	-772.3	-869.6	-1,019.0	-1,068.3	-1,113.6	-1,175.5
Services (net)	-313.7	-292.1	-312.7	-310.2	-355.4	-395.7	-418.5	-439.0	-459.2	-488.1
Credit	195.0	201.3	192.3	211.0	178.3	182.8	207.7	213.6	219.7	226.2
Debit	-508.7	-493.4	-505.0	-521.1	-533.6	-578.4	-626.2	-652.6	-678.9	-714.3
Of which: freight and insurance	-279.8	-298.4	-270.7	-316.1	-293.8	-324.2	-358.1	-370.8	-383.3	-404.0
Income (net)	-207.5	-225.3	-238.7	-280.0	-295.4	-326.8	-338.8	-337.0	-311.1	-309.1
Of which: interest due on public debt	-17.1	-17.1	-17.1	-19.5	-17.9	-20.0	-24.3	-26.1	-28.1	-30.1
Transfers (net)	266.2	224.2	217.6	235.9	251.0	213.4	254.7	253.3	261.5	269.8
Private transfers (net)	168.1	149.8	154.6	162.2	169.7	169.8	171.9	174.2	176.6	178.6
Official transfers (net)	98.1	74.5	63.0	73.7	81.3	43.6	82.8	79.1	84.9	91.2
Of which: budgetary grants	54.9	49.2	55.7	46.4	3.6	0.0	55.7	59.9	64.2	69.0
Capital and financial account	469.0	359.3	551.9	342.0	171.0	368.2	567.6	604.2	621.3	693.2
Capital account (net)	113.7	137.8	175.0	123.2	56.0	102.5	183.3	197.2	211.6	227.4
Of which: project grants	78.8	129.5	138.3	114.2	17.3	60.8	138.3	148.8	159.6	171.6
Financial account	355.3	221.5	376.9	218.8	115.0	265.7	384.3	407.0	409.7	465.8
Private (net)	216.0	85.3	230.3	92.3	105.5	202.4	222.0	235.0	223.4	264.5
Direct investment (net)	197.4	83.9	141.7	90.8	148.2	205.2	225.1	238.3	227.0	268.4
Portfolio investment private (net)	-2.0	1.3	-2.6	1.4	-2.7	-2.9	-3.1	-3.3	-3.6	-3.8
Other private capital flows	20.7	0.0	91.2	0.0	-40.0	0.0	0.0	0.0	0.0	0.0
Official (net)	120.2	122.2	123.3	115.0	-2.1	63.4	162.4	170.4	184.6	199.4
Disbursements	152.6	165.1	165.0	168.3	46.1	112.5	195.0	209.8	225.0	241.8
Budgetary	43.8	45.4	45.0	42.1	0.0	0.0	55.0	59.2	63.5	68.2
Project related	108.8	119.7	120.0	126.2	46.1	112.5	140.0	150.6	161.5	173.6
Monetary authority	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due on public debt	-32.4	-42.9	-41.7	-53.3	-48.2	-49.1	-32.6	-39.3	-40.4	-42.4
Errors and omissions	23.3	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-98.0	-24.1	29.3	41.7	-130.6	-82.5	18.5	17.8	25.4	1.2
Financing	98.0	24.1	-29.3	-41.7	130.6	82.5	-18.5	-17.8	-25.4	-1.2
Foreign assets (net)	87.0	10.1	-42.9	-53.2	119.0	71.1	-18.5	-17.8	-25.4	-1.2
Of which: IMF (net)	2.9	25.4	21.2	5.0	3.8	7.3	-4.2	-4.6	-6.6	-9.4
HIPC Initiative assistance	11.0	14.0	13.6	11.6	11.6	11.4	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(in percent of GDP, unless otherwise indicated)									
Current account balance										
Excluding official transfers	-14.8	-9.0	-11.6	-6.8	-7.3	-8.8	-10.4	-10.1	-9.7	-10.4
Including official transfers	-12.7	-7.5	-10.4	-5.4	-5.8	-8.0	-9.0	-8.9	-8.5	-9.1
	(annual percentage change)									
External trade										
Export volume index	0.5	2.0	2.9	22.1	15.5	9.5	2.8	4.3	3.5	4.7
Import volume index	8.3	8.5	-12.6	12.2	6.1	6.4	12.5	4.4	4.2	4.1
Export unit value	20.0	21.9	6.9	-3.1	12.2	-3.2	0.2	-2.0	-1.7	-1.4
Import unit value	32.9	6.9	10.6	-5.6	-2.3	3.7	-1.8	-0.8	-0.8	1.2
Terms of trade	-9.7	14.0	-3.4	2.7	14.8	-6.6	2.1	-1.2	-0.9	0.4

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

[1] **IMF Country Report No. 12/3: Mali —Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.**

Table 8. Mali: Monetary Survey, 2010-15

	2010	2011		2012			2013	2014	2015
		Prog.[1]	Est.	Sept.	Prog.[1]	New Prog.	Prog.	Proj.	
	(in CFAF billions)								
Net Foreign Assets	726.0	701.9	693.9	603.1	755.2	614.9	543.8	566.4	585.0
BCEAO	552.2	528.1	584.9	474.7	581.3	466.0	394.8	417.4	436.0
Commercial Banks	173.8	173.8	109.0	128.4	173.8	149.0	149.0	149.0	149.0
Net Domestic Assets	568.0	741.4	797.4	925.9	871.1	1,049.4	1,197.6	1,370.0	1,498.5
Credit to the government (net)	-269.9	-182.5	-203.7	-77.4	-139.0	-93.4	-86.4	-70.6	-77.2
BCEAO	-74.1	4.7	-11.2	70.3	23.2	46.5	46.8	62.6	55.9
Commercial banks	-195.7	-187.2	-193.1	-146.8	-162.1	-140.5	-133.7	-133.7	-133.7
Other	-0.1	0.0	0.6	-0.8	0.0	0.0	0.0	0.0	0.0
Credit to the economy	845.3	931.3	1,048.7	1,042.5	1,017.5	1,142.8	1,284.0	1,440.6	1,575.8
Other items (net)	-7.4	-7.4	-47.6	-39.2	-7.4	0.0	0.0	0.0	0.0
Money supply (M2)	1,294.5	1,443.3	1,492.0	1,529.0	1,626.3	1,664.3	1,741.4	1,936.4	2,083.5
Currency outside banks	314.5	350.7	415.4	461.0	395.1	463.4	484.8	539.1	580.1
Bank deposits	980.0	1,092.6	1,076.6	1,068.0	1,231.1	1,200.9	1,256.5	1,397.3	1,503.4
Memorandum item:									
Base Money (M0)	545.1	607.8	643.5	636.1	684.8	717.8	751.1	835.2	898.6
Gross international reserves BCEAO	644.4	619.6	701.4	...	667.8	582.5	511.3	533.9	552.5
in percent of broad money	49.8	42.9	47.0	...	41.1	35.0	29.4	27.6	26.5
	(in percent of beginning-of-period broad money)								
Contribution to growth of broad money									
Money supply (M2)	9.0	11.5	15.3	10.8	12.7	11.6	4.6	11.2	7.6
Net foreign assets	-1.4	-1.9	-2.5	-5.8	3.7	-5.3	-4.3	1.3	1.0
BCEAO	-7.3	-1.9	2.5	-5.7	3.7	-8.0	-4.3	1.3	1.0
Commercial banks	5.9	0.0	-5.0	-0.1	0.0	2.7	0.0	0.0	0.0
Net domestic assets	10.3	13.4	17.7	16.6	9.0	16.9	8.9	9.9	6.6
Credit to the central government	2.5	6.7	5.1	10.4	3.0	7.4	0.4	0.9	-0.3
Credit to the economy	8.4	6.6	15.7	7.0	6.0	6.3	8.5	9.0	7.0
Other items net	-0.6	0.0	-3.1	-0.8	0.0	3.2	0.0	0.0	0.0
	(annual percent change, unless otherwise specified)								
Memorandum items:									
Money supply (M2)	9.0	11.5	15.3	10.8	12.7	11.6	4.6	11.2	7.6
Base money (M0)	0.7	11.5	18.0	12.8	12.7	11.6	4.6	11.2	7.6
Credit to the economy	13.5	10.2	24.1	10.3	9.3	9.0	12.4	12.2	9.4
Velocity (GDP/M2)	3.6	3.5	3.4	3.3	3.4	3.2	3.2	3.2	3.2
Money Multiplier (M2/M0)	2.4	2.4	2.3	2.4	2.4	2.3	2.3	2.3	2.3
Currency outside banks / M2	24.3	24.3	27.8	30.2	24.3	27.8	27.8	27.8	27.8

Sources: BCEAO; and Fund staff estimates and projections.

[1] IMF Country Report No. 12/3: Mali —Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.

Table 9. Mali: Selected Economic and Financial Indicators, 2010-17

	2010	2011	2012	2013	2014	2015	2016	2017
		Est.	New Prog.	Prog.		Proj.		
				(annual percentage change)				
National income and prices								
Real GDP	5.8	2.7	-1.5	4.8	5.8	5.3	5.0	5.0
GDP deflator	4.2	4.9	5.9	2.7	2.2	2.2	2.2	2.4
Consumer price inflation (average)	1.4	3.1	5.4	3.2	3.0	2.5	2.6	2.5
External sector (percent change)								
Terms of trade (deterioration -)	-9.7	-3.4	14.8	-6.6	2.1	-1.2	-0.9	0.4
Real effective exchange rate (depreciation -)	-5.2	2.6	...	...	...	...	...	...
Money and credit (contribution to broad money growth)								
Credit to the government	2.5	5.1	7.4	0.4	0.9	-0.3	-0.4	-0.4
Credit to the economy	8.4	15.7	6.3	8.5	9.0	7.0	8.2	8.3
Broad money (M2)	9.0	15.3	11.6	4.6	11.2	7.6	9.0	7.5
				(in percent of GDP, unless otherwise indicated)				
Investment and saving								
Gross domestic investment	18.4	20.2	16.3	19.5	23.5	24.7	24.8	24.8
Of which: government	7.9	8.7	3.8	6.0	9.0	9.2	9.3	9.3
Gross national savings	5.8	10.0	10.6	11.5	14.5	15.7	16.3	15.6
Of which: government	1.6	2.1	1.4	1.9	3.1	3.2	3.4	3.6
Gross domestic savings	4.5	10.2	11.4	13.5	15.9	17.0	17.0	16.1
Central government finance								
Revenue	17.3	17.2	17.5	18.0	18.2	18.3	18.4	18.4
Grants	2.9	3.9	0.7	1.1	3.2	3.2	3.2	3.2
Total expenditure and net lending	22.8	24.8	20.3	21.4	23.7	23.8	23.9	23.9
Overall balance (payment order basis, including grants)	-2.7	-3.7	-2.1	-2.3	-2.3	-2.3	-2.3	-2.3
Basic fiscal balance[1]	-0.1	-1.1	-1.0	-0.1	0.0	0.0	0.0	0.0
Domestic debt[2]	4.4	4.7	5.1	4.7	4.3	4.0	3.8	3.5
External sector								
Current external balance (including official transfers)	-12.7	-10.4	-5.8	-8.0	-9.0	-8.9	-8.5	-9.1
Current external balance (excluding official transfers)	-14.8	-11.6	-7.3	-8.8	-10.4	-10.1	-9.7	-10.4
Exports of goods and services	26.0	26.1	31.2	30.8	29.8	28.4	27.0	25.5
Imports of goods and services	39.9	36.1	36.1	36.8	37.4	36.0	34.8	34.1
Debt service to exports of goods and services	3.1	4.0	3.4	3.5	3.4	3.8	3.9	4.2
External debt	24.3	28.1	29.9	29.0	29.0	29.2	29.5	29.6
Memorandum items:								
Nominal GDP (CFAF billions)	4,667	5,028	5,243	5,642	6,100	6,563	7,040	7,567
Overall balance of payments (US$ millions)	-198.3	62.1	-252.1	-155.5	34.8	33.4	47.4	2.2
Money market interest rate in percent (end of period)	4.1	3.3	...	...	...	...	...	...
Gross international reserves (US$ millions)								
Central Bank of West African States (BCEAO)	13,643	14,958	...	...	...	...	...	...
in percent of broad money	57.9	59.2	...	...	...	...	...	...
in months of imports of g. and s.	6.1	6.2	...	...	...	...	...	...
BCEAO Mali (imputed)	1,299	1,409	1,099	963	1,002	1,033	1,075	1,059
in percent of broad money	49.8	47.0	35.0	29.4	27.6	26.5	25.4	23.3
US$ exchange rate (end of period)	496.2	497.7	...	...	...	...	536.8	536.8
Gold Price (US$/fine ounce London fix)	1,225	1,569	1,629	1,619	1,632	1,651	1,670	1,694
Petroleum price (crude spot)(US$/bbl)	79.0	104.0	102.4	96.9	94.3	92.0	89.8	91.1

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

[1] Total revenue, plus general budgetary grants, plus revenue from HIPC debt relief, minus total expenditure and net lending excluding, externally financed capital spending.
[2] Includes BCEAO statutory advances, government bonds, treasury bills, and other debts.

Table 10. Mali: Financial Soundness Indicators for the Banking Sector, 2008-12[1]

	2008	2009	2010	2011	2012[2] Prel.
			(in percent)		
Capital					
Capital to risk-weighted assets	11.4	9.9	16.9	13.4	14.8
Tier 1 capital to risk-weighted assets	10.5	9.4	15.4	11.7	13.5
Capital (net worth) in percent of assets	6.0	5.7	9.2	8.5	9.6
Sectoral distribution of credit to the economy					
Agriculture and fishing	11.6	7.5	3.0	11.7	3.2
Mining sector	0.1	0.1	0.3	0.1	3.5
Manufacturing	8.0	6.9	8.0	8.0	11.4
Electricity, gas, and water	4.3	5.9	11.3	10.0	11.1
Building and construction	2.0	2.4	4.3	4.5	4.9
Wholesale and retail trade, hotels and restaurants	40.6	43.8	42.0	43.2	41.5
Transportation, warehouses, communications	14.7	12.7	9.0	7.2	6.5
Insurance, real estate, and services for enterprises	6.7	7.7	11.0	7.0	8.5
Collectives and social services	3.4	4.0	5.0	3.8	3.9
Other activities	8.6	9.0	6.1	4.5	5.5
Asset quality					
Non-performing loans to total loans	25.3	21.9	21.5	18.7	19.7
Non-performing loans to total loans (net of provisioning)	9.3	9.1	8.8	6.4	7.5
Provisions to gross non-performing loans	66.9	59.5	64.0	69.4	67.3
Provisions to gross loans	15.4	14.8	13.5	12.7	13.3
Earnings and profitability					
Return on assets (ROA)	0.8	0.6	1.4	1.3	...
Return on equity (ROE)	12.9	10.0	15.2	15.6	...
Liquidity					
Liquid assets to total assets	43.8	48.9	50.6	47.4	49.1
Liquid assets to short term liabilities	84.0	61.2	92.9	89.4	88.8
Ratio of deposits to assets	73.6	73.0	75.4	71.8	70.4
Ratio of loans to deposits	90.7	71.1	69.8	77.0	80.7
Memorandum items[3]					
Deposit rate	5.0	4.7	4.9	4.9	...
Lending rate	9.8	9.4	9.3	9.4	...

Source: BCEAO, and IMF staff estimates.

[1] Ratios calculated on the basis of average stocks of the period.

[2] At the end of 2nd quarter 2012.

[3] Average.

Table 11. Mali: Risk Assessment Matrix (RAM) [1]

Likelihood	Shock	Potential Impact
Medium	Weakening of the political consensus in the south	Could lead to social tensions and further undermine investment confidence, growth, tax revenue, and slow down the resumption of aid.
Medium	Setbacks of the transition government in its attempts to recoup the north of the country	Would lead to social tensions and further undermine investment confidence, growth, and tax revenue.
Medium	Faster resumption of international aid	Would boost growth and tax revenue.
Medium	Protracted period of slow European growth	In WAEMU, Mali would be one of the least exposed countries to negative tail risks in the euro area because its exports (mostly gold) are inelastic toward traditional trade partners' growth. The main transmission channel would be lower remittances. The financial sector is mostly financed by local deposits and should not be affected by the ongoing deleveraging of European banks.
Low	Sharp reversal of the terms of trade improvement observed since 2008	Fall in gold prices would reduce tax and non tax revenue (royalties) paid by the gold companies that together account for 20 percent of the government's revenue. Increase in international oil prices in the absence of full pass through in retail oil prices and electricity prices would reduce tax revenue and increase transfers to the state electricity company.

[1] The RAM shows probability events that could materially alter the baseline path, which is the scenario most likely to materialize in the view of the staff. Staff's subjective assessment of the relative likelihood among those low probability events is noted in the matrix (ranging from "low" to "high").

Table 12. Mali: Indicators of Capacity to Repay the Fund, 2012-22[1]

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(in millions of SDRs)										
Fund obligations based on existing credit											
Principal	1.2	2.9	5.2	5.7	8.2	11.6	10.5	8.2	7.6	4.7	0.6
Charges and interest	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Fund obligations based on existing and prospective credit											
Principal	1.2	2.9	5.2	5.7	8.2	11.6	11.7	10.6	10.0	7.1	3.0
Charges and interest	0.0	0.0	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0
Total obligations based on existing and credit											
In millions of SDRs	1.2	2.9	5.4	5.9	8.3	11.7	11.8	10.7	10.1	7.1	3.0
In billions of CFA francs	1.5	3.6	6.7	7.3	10.3	14.5	14.6	13.2	12.5	8.8	3.7
In percent of government revenue	0.2	0.4	0.6	0.6	0.8	1.0	1.0	0.8	0.7	0.5	0.2
In percent of exports of goods and services	0.1	0.2	0.4	0.4	0.5	0.8	0.7	0.6	0.6	0.4	0.2
In percent of debt service	2.2	5.3	9.3	8.9	12.3	16.5	15.5	14.3	12.7	8.4	3.4
In percent of GDP	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0
In percent of quota	1.3	3.1	5.8	6.3	8.9	12.6	12.7	11.4	10.8	7.6	3.2
Outstanding Fund credit[1]											
In millions of SDRs	65.1	74.2	69.0	63.4	55.2	43.6	31.9	21.3	11.3	4.2	1.2
In billions of CFA francs	51.4	59.4	55.4	51.0	44.5	35.2	25.7	17.2	9.1	3.4	1.0
In percent of government revenue	5.6	5.8	5.0	4.2	3.4	2.5	1.7	1.1	0.5	0.2	0.0
In percent of exports of goods and services	3.1	3.4	3.1	2.7	2.3	1.8	1.3	0.8	0.4	0.2	0.0
In percent of debt service	74.9	85.8	76.1	62.7	52.8	39.8	27.2	18.6	9.3	3.2	0.9
In percent of GDP	1.0	1.1	0.9	0.8	0.6	0.5	0.3	0.2	0.1	0.0	0.0
In percent of quota	69.8	79.6	74.0	67.9	59.1	46.7	34.2	22.8	12.1	4.5	1.3
Disbursements and Repurchases	4.8	9.1	-5.2	-5.7	-8.2	-11.6	-11.7	-10.6	-10.0	-7.1	-3.0
Disbursements	6.0	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	1.2	2.9	5.2	5.7	8.2	11.6	11.7	10.6	10.0	7.1	3.0
Memorandum items:	(in CFAF billions, unless otherwise indicated)										
Nominal GDP	5,243	5,642	6,100	6,563	7,040	7,567	8,115	8,707	9,349	10,043	10,793
Exports of goods and services	1,633	1,738	1,815	1,862	1,903	1,927	1,997	2,064	2,135	2,213	2,297
Government revenue	917	1,018	1,109	1,201	1,295	1,396	1,502	1,616	1,741	1,880	2,031
Debt service	69	69	73	81	84	88	94	92	98	105	110

Sources: IMF staff estimates and projections.

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

Table 13. Mali: Millennium Development Goals 1990-2010

	1990	1995	2000	2005	2010
Goal 1: Eradicate extreme poverty and hunger	**2015 target = halve 1990 poverty and malnutrition rates**				
Employment to population ratio, 15+, total (%)	48	48	49	47	48
Employment to population ratio, ages 15-24, total (%)	35	35	35	36	36
GDP per person employed (constant 1990 PPP $)	2,421	2,598	2,862	3,409	3761
Income share held by lowest 20%	7	5	6	7	8
Malnutrition prevalence, weight for age (% of children under 5)	..	38	30	28	..
Poverty gap at $1.25 a day (PPP) (%)	..	53	26	19	16
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	86	61	51	50
Vulnerable employment, total (% of total employment)	..	96	..	87	..
Goal 2: Achieve universal primary education	**2015 target = increase net enrollment to 100**				
Literacy rate, youth female (% of females ages 15-24)	..	..	17	31	..
Literacy rate, youth male (% of males ages 15-24)	..	..	32	47	..
Persistence to last grade of primary, total (% of cohort)	33	..	76	74	75
Primary completion rate, total (% of relevant age group)	9	..	31	44	55
Total enrollment, primary (% net)	..	..	42	54	66
Goal 3: Promote gender equality and empower women	**2015 target = increase education ratio to 100**				
Proportion of seats held by women in national parliaments (%)	..	2	12	10	10
Ratio of female to male primary enrollment (%)	61	69	75	80	87
Ratio of female to male secondary enrollment (%)	50	50	56	62	70
Ratio of female to male tertiary enrollment (%)	15	18	48	54	42
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	27	..	35	..
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	55	73	63
Mortality rate, infant (per 1,000 live births)	132	122	114	106	100
Mortality rate, under-5 (per 1,000 live births)	257	235	214	196	179
Goal 5: Improve maternal health	**2015 target = reduce 1990 maternal mortality by three-fourths**				
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	191	190	188	176
Births attended by skilled health staff (% of total)	..	40	41	49	..
Contraceptive prevalence (% of women ages 15-49)	..	7	8	8	..
Maternal mortality ratio (estimate, per 100,000 live births)	1,100	930	740	620	540
Pregnant women receiving prenatal care (%)	..	47	57	70	..
Unmet need for contraception (% of married women ages 15-49	..	26	29	31	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases	**2015 target = begin to reverse AIDS and other major diseases**				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..	32	..
Condom use, female (% of females ages 15-24)	..	3	3	4	..
Condom use, male (% of males ages 15-24)	..	26	26	29	..
Incidence of tuberculosis (per 100,000 people)	163	185	124	61	68
Prevalence of HIV, total (% of population ages 15-49)	0	2	2	1	1
Tuberculosis case detection rate (all forms)	21	17	30	59	51
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0	0	0	0	0
CO2 emissions (metric tons per capita)	0	0	0	0	0
Forest area (% of land area)	12	..	11	11	10
Improved sanitation facilities (% of population with access)	15	17	18	20	22
Improved water source (% of population with access)	28	37	46	55	64
Net ODA received per capita (current US$)	55	55	25	55	71
Goal 8: Develop a global partnership for development					
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	15	16	13	4	4
Internet users (per 100 people)	0	0	0	1	2
Mobile cellular subscriptions (per 100 people)	0	0	0	6	48
Telephone lines (per 100 people)	0	0	0	1	1
Fertility rate, total (births per woman)	7	7	7	7	6
Other					
GNI per capita, Atlas method (current US$)	260	240	230	390	600
GNI, Atlas method (current US$) (billions)	2	2	3	5	9
Gross capital formation (% of GDP)	23	23	25	23	..
Life expectancy at birth, total (years)	44	46	47	49	51
Literacy rate, adult total (% of people ages 15 and above)	..	..	19	26	..
Population, total (millions)	8.7	9.8	11.3	13.2	15.4
Trade (% of GDP)	51	57	66	63	..

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

ANNEX I—INCLUSIVE GROWTH IN MALI[1]

This note studies Mali's performance in poverty reduction by analyzing household data from surveys in 2001, 2006 and 2009–10. Mali's share of poor households has decreased substantially during the past decade. While the reduction in headcount poverty was more pronounced from 2001–06 when all sectors of Mali's economy grew at a similar pace, economic growth was mainly beneficial to the very poor during 2006–10 when agricultural production boomed.

A. Economic Growth Was Inclusive During the Past Decade

1. Fairly high growth led to substantial poverty reduction. After a decade of relatively low per capita growth, real GDP per capita picked up and averaged 3.2 percent during 2001–10. Although real GDP growth has been volatile, Mali's share of poor households has decreased substantially from 55.6 percent in 2001 to 43.6 in 2010 taking into account the national poverty line[2]. Also in comparison with other countries, Mali's poverty reduction was remarkable. While per capita growth was comparable in Mali and Sub-Saharan Africa during 2001–10, poverty reduction was significantly stronger in the former. This is also shown by higher elasticity of poverty reduction relative to GDP growth in Mali than in comparable countries (Figure 1).

2. Growth in economic activity has been largely inclusive, meaning that it has not been associated with an increase in inequality (Rauniyar and Kanbur (2010)) or with a reduction in the share of the bottom quintile of the income distribution (IMF 2010). During 2001–10, the growth incidence curve – depicting the changes in household consumption according to consumption percentiles – features a clear downward slope implying an increase in consumption of poorer households relative to richer households. Real consumption for households below the poverty line increased by 25 percent ('pro-poor growth'), while average consumption grew by 7.5 percent.

3. Poverty in Mali is mainly rural and concentrated amongst farmers. The results from a regression analysis pooling data of three household surveys (2001, 2006 and 2010) suggest that being a farmer implies a lower consumption by 33 percent (Table 1); in 2010 this effect was less pronounced, at 24 percent, reflecting an overall improvement of farmers' consumption relative to the rest. Subsequently, urban poverty has increased in the second part of the decade mainly due to migration to Bamako (Figure 2). Further, a higher number of household members and an older age of the household head affect consumption negatively while civil servants are clearly better off than others. The results of Table 1 are broadly similar to regression analyses performed on comparable Sub-Saharan countries (IMF 2011). However, the rural-urban divide seems more pronounced in Mali and household size and age have a positive influence in other countries studied in IMF 2011 as opposed to a negative effect in Mali. The latter might be partially explained by Mali's higher population growth and children per household than in comparator countries.

[1] Prepared by Christina Kolerus and Mitra Farahbaksh.

[2] The national poverty line lies at CFAF 453 (about $1) per day of household consumption.

Table 1: Mali: Determinants of Household Consumption

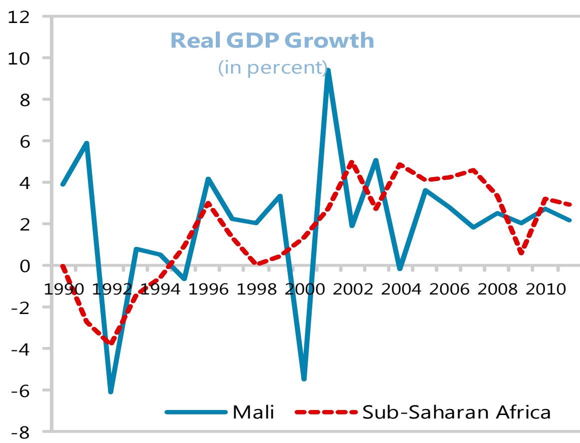
	(1)	(2)	(3)
Household size	-0.0161***	-0.0161***	-0.0161***
Age	-0.0587***	-0.0629***	-0.0632***
Sex	-0.00994	-0.00725	-0.00403
Urban	0.284***	0.283***	0.284***
Farmer	-0.279***	-0.327***	-0.282***
Civil servant	0.299***	0.307***	0.297***
Self employed	0.0203	0.0244	0.0194
Unemployed	-0.0714***	-0.0659***	-0.0676***
Year 2006	0.0337***	-0.00283	0.012
Year 2010	0.171***	0.116***	0.191***
Farmer*2006		0.0553***	
Farmer*2010		0.0868***	
Urban*2006			0.0805***
Urban*2010			-0.0879***
Constant	12.33***	12.37***	12.34***
Observations	18454	18454	18454

Notes: * , ** , and *** indicate statistical significance at the 90, 95 and 99 percent confidence interval respectively.

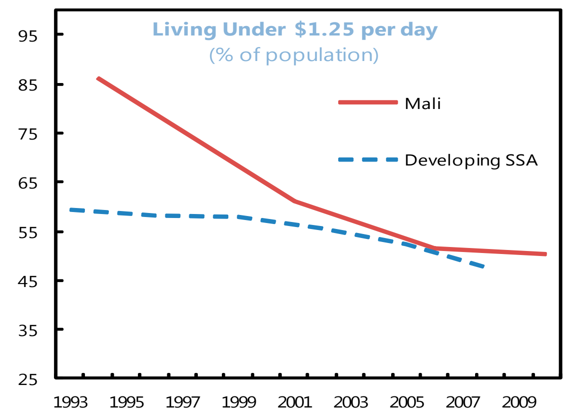
Sources: IMF staff calculations, Malian authorities.

Figure 1: Inclusiveness of Growth in Mali

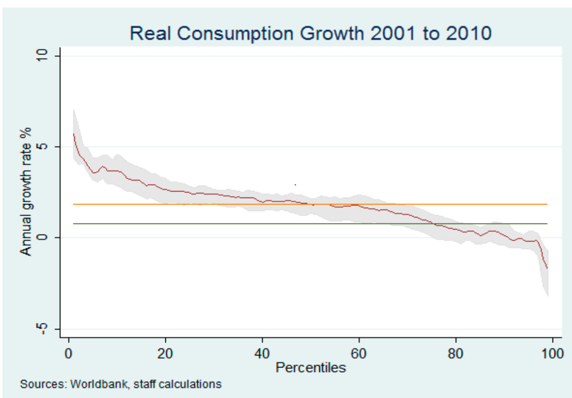
Growth was volatile but relatively high from 2001 to 2011...



... and poverty has been reduced substantially.

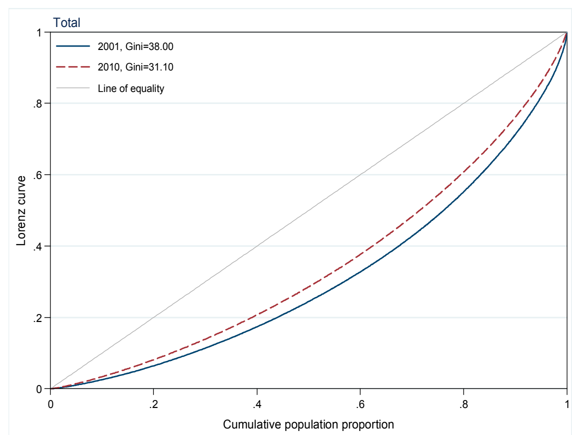


Mali's economic development was inclusive: poorer households experienced higher consumption growth...



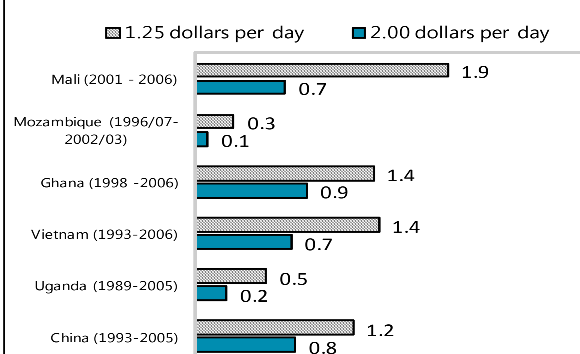
Note: The shaded area depicts the 90 percent confidence interval.

...and inequality decreased.



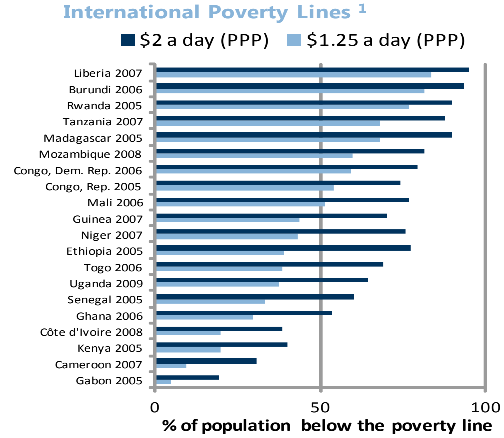
GDP per capita growth was more inclusive than in other comparable countries...

Elasticity of headcount poverty rate with respect to growth in real GDP per capita



...but Mali is still one of the poorest countries.

Poverty Headcount Rate at International Poverty Lines [1]



1/ Latest available year after 2005

Sources: IMF Staff Estimates, Malian authorities, WEO, World Bank Staff Estimates, and World Development

B. Agricultural Growth Helped the Very Poor While Balanced Growth in All Sectors Reduced Overall Poverty

4. **Poverty reduction was higher in the first part of the decade (2001–06) than during the second part (2006–10).** While the magnitude of real GDP growth was broadly comparable throughout the decade, the number of households below the poverty line decreased more strongly during the first part. This is also reflected in a higher elasticity of poverty reduction to economic growth (Table 2). Moreover, in the first part of the decade Mali made more substantial progress towards achieving the Millennium Development Goals than in the second part of the decade.

5. **Consumption of the poorest rose and inequality decreased more strongly during 2006–10**. As depicted in the growth incidence curves in Figure 2, the slope of the 2006–10 curve features a pronounced downward slope with steepening tails. Hence, the poorest quintile of the population benefitted most while the richest quintile lost relative to the rest of the population. The growth incidence curve of 2001–06 still implies higher consumption growth for the bottom half of households, but it is flatter and the poorest households are not better off than the average.

6. **During 2001–06, the economy grew at equal pace in all three sectors while manufacturing contracted and agricultural production boomed during 2006–10.** Particularly good weather conditions helped agricultural output in 2006–10 to increase by 8 percent on average per year. Since the very poor are mostly farmers, their consumption basket expanded during this part of the decade. But as most farmers produce on a subsistence level, these gains in agricultural production could not be translated into an overall increase in production and employment elsewhere. Hence, the impressive growth in agriculture during 2006-10 allowed the very poor to improve their lives relative to the rest of the population, but the balanced growth during 2001–06 helped more households to escape poverty.

Table 2: Mali: National Accounts and Household Survey Data

	2001	2006	2010
National Accounts			
	(period average annual growth rates)		
real GDP		5.1	4.9
real GDP per capita		2.6	2.3
real agricultural output		4.6	8.2
real industry output		5.9	-1.9
real services output		5.7	5.7
Household Surveys	(in percent)		
Poverty incidence (national poverty line)	55.6	47.4	43.6
Elasticity of poverty w.r.t growth		-1.8	-1.5
WDI			
Mortality rate' under-5 (per 1'000)	217.3	199.5	191.1
School enrollment' primary (% net)	44.4	63.1	72.9

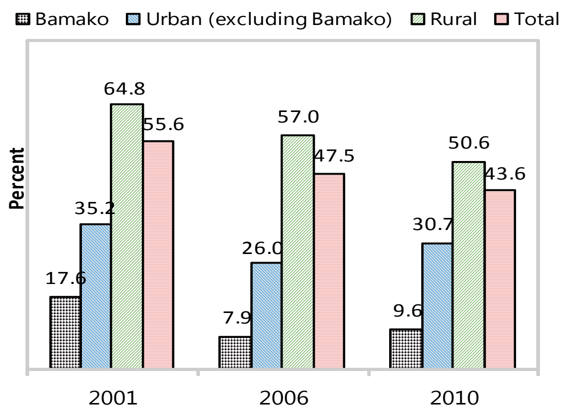
Notes: school enrollment 1999 and 2009, mortality rate 2009.

Sources: IMF, Malian authorities, WDI.

Figure 2: Mali: Patterns of Poverty, Poverty Reduction and Obstacles

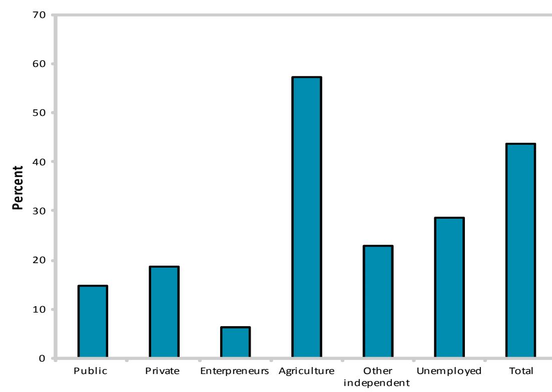
Poverty has declined in rural areas but increased recently in urban areas.

Incidence of Poverty by Region, 2001–10

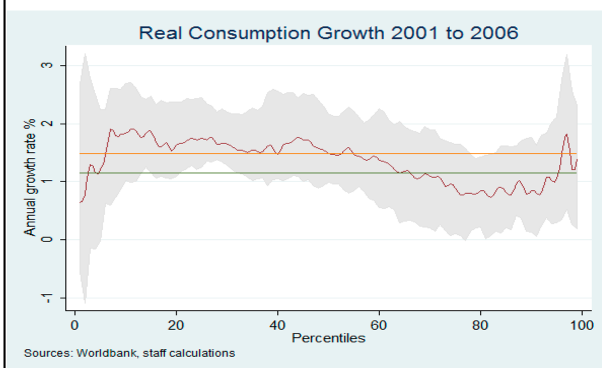


Poverty is most pronounced among agricultural workers.

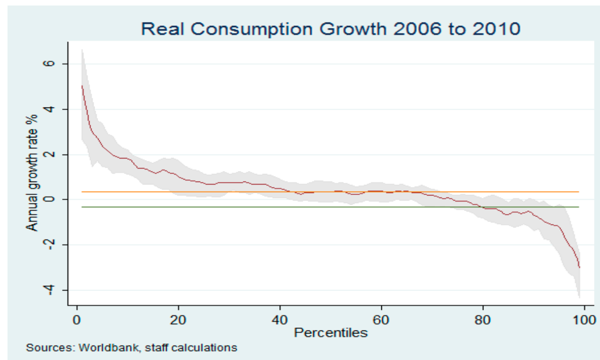
Poverty by Type of Employment, 2010



While consumption growth was slightly higher for the bottom half of the population from 2001 to 2006…

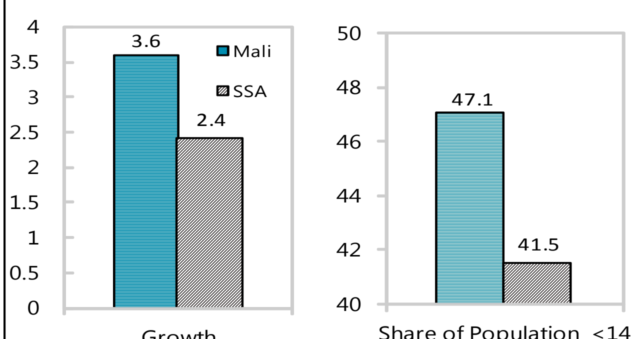


…it was it was mainly beneficial to the very poor from 2006 to 2010.



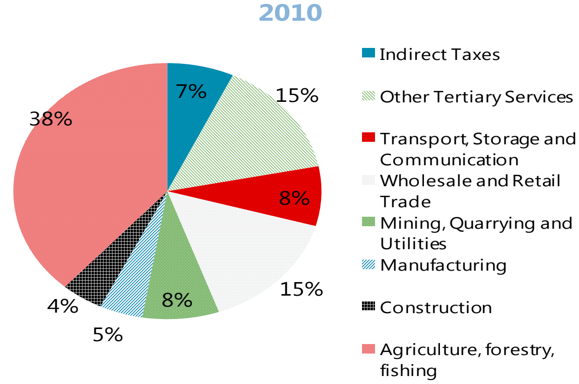
High population growth and demographics pose a huge challenge to maintain inclusive growth…

Population, Average 2000-2010
(Percent of Total)



…as well as the reliance on subsistence agriculture.

Value Added by Economic Activity as Share of Real GDP, 2010



Sources: Malian authorities, IMF Staff Estimates, World Development Indicators.

C. Policy Implications

7. Improving agricultural production is key to helping the poorest of the poor. Given the current opportunities – high commodity prices, urbanization with increasing demand for food and away from subsistence, climate change and Mali's potential of irrigated land —investments in agriculture can diminish the poverty gap and promote poverty reduction. Possible measures include (IMF et al. 2011):

- building and maintaining irrigation infrastructure (less than 15 percent of potentially irrigated land is actually irrigated);
- modernizing family farming and subsistence agriculture to agri-businesses and food processing;
- making public sector support to agriculture more efficient; and
- improving access to finance.

8. Balanced and diversified growth, however, is key to sustained inclusive growth and overall poverty reduction. To achieve sustained growth, Mali's infrastructure bottlenecks need to be removed and urban employment and labor mobility enhanced. As productivity in urban areas is usually higher than in rural areas, some studies suggest building geographical clusters and focusing on a few urban centers with pilot policies (Otsuka et al. 2011). Further, an important challenge remains the two-dimensional diversification of exports: the export base – from mainly gold and cotton to mangos, cereals and cattle – as well as export directions expanding from local to urban and regional markets.

References

International Monetary Fund, 2010, Regional Economic Outlook: Asia and Pacific, Consolidating the Recovery and Building Sustainable Growth, Washington, October.

International Monetary Fund et al., 2011, March, Conference on Challenges and Opportunities of Mali (Bamako), http://www.imf.org/external/french/np/seminars/2011/mali/index.htm

International Monetary Fund, 2011, Regional Economic Outlook: Sub-Saharan Africa, Sustaining the Expansion, Washington, October.

Otsuka, Keijiro and Tetsushi Sonobe 2011, A cluster-based industrial development policy for low-income countries, Policy Research Working Paper, WPS5703, The World Bank, Washington, June.

Rauniyar, Ganesh P. and Kanbur, Ravi, 2010. Inclusive Development: Two Papers on Conceptualization, Application, and the ADB Perspective, Working Papers 57036, Cornell University, Department of Applied Economics and Management.

ANNEX II—REFORMING THE MECHANISM OF DOMESTIC PETROLEUM PRICE SETTING[1]

Fuel tax revenues in Mali have been shrinking since 2009 following the government's policy of not adjusting retail prices to changes in international oil prices. This note discusses the available options to align domestic fuel price changes with international oil price variations, while striking a balance between preserving fiscal revenues and avoiding large changes in domestic fuel prices. It also provides a roadmap of supporting measures and effective public campaigns, with examples implemented in middle and low-income countries, to build public consensus for adjusting domestic oil prices.

A. Background

1. Mali's current domestic oil pricing policy weighs negatively on the budget while benefiting mainly the well-off (Figure 1). Taxes on oil have been used in Mali as a buffer to limit the extent of international fuel price pass-through, even more so than in other WAEMU countries. As international import prices increased rapidly in 2008, and subsequently in early 2010, domestic retail prices were held fixed for extended periods through a reduction of fuel taxes[2]. As a result, the net fiscal contribution of fuel taxes has decreased from 2.2 percent of GDP in 2006 to a low of 1 percent of GDP in 2011, depriving the budget of sizeable resources that could have been used for growth enhancing or poverty reducing policies. Fuel tax revenue is set to increase again in 2012 because the authorities have raised prices by 5.6% since March. In addition, the current domestic oil pricing policy does not benefit the poor, since oil products carry a very small weight in the consumption basket of low-income groups; 43.5 percent of these lost fiscal revenues accrue to the top quintile, nearly four times the amount accruing to the lowest quintile. The bottom two quintile's share of the tax expenditure was 22.7 percent, or about FCFA 11 billion (0.2 percent of GDP) of the implicit subsidy over the past 2 years.

B. Options for Price Adjustment

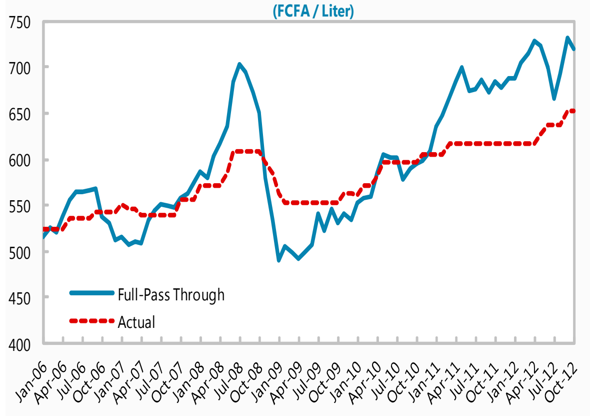
2. The price band and moving averages are two available automatic mechanisms for smoothing the variability of international oil prices. The price band mechanism (PB) sets the maximum limit on the magnitude of retail price changes as a proportion of the current retail price or in absolute amounts. For example, at the start of each month, the retail price according to the full pass-through mechanism is determined based on last month's average import cost. If the required retail price hike is above the maximum allowed increase (i.e., the cap), then the maximum allowed

[1] Prepared by Nazim Belhocine and Salvatore Dell'Erba (FAD).

[2] As the rates of fuel taxes are set at the WAEMU level, the Malian authorities reduce fuel prices by lowering the fuel excise tax at customs and at times by decreasing the tax base for petroleum products.

Figure 1. Mali: Background on Developments in Oil Pricing

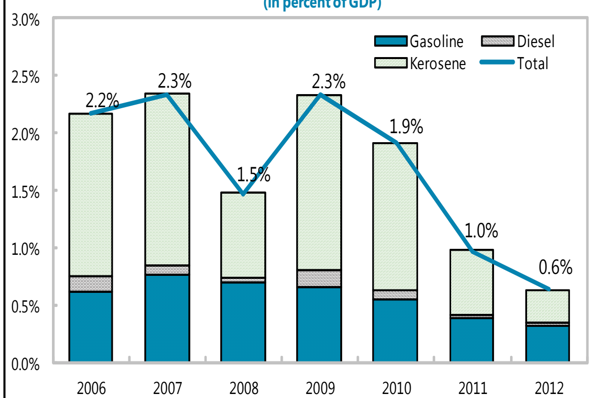
Mali: Retail and Full Pass-Through Prices of the Basket of Oil Products[1]
(FCFA / Liter)



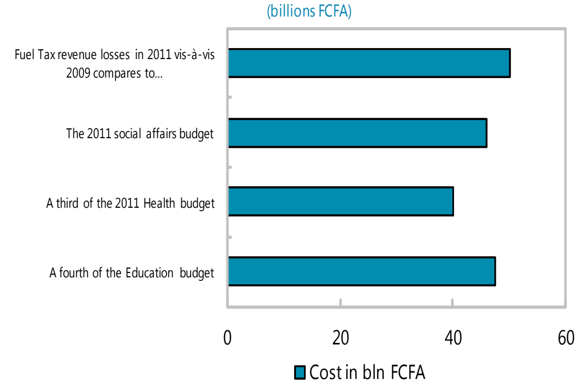
WAEMU : Fuel Price Pass-Through Rates in 2008-2011[2]
(in percentage)

	Gasoline		Kerosene		Diesel	
	2008	2010-11	2008	2010-11	2008	2010-11
Bénin	71	71	19	51	84	31
Burkina Faso	20	33	12	0	37	28
Côte d'Ivoire	73	12	101	104	57	3
Guinée Bissau	78	106	59	122	83	137
Mali	24	21	12	13	12	18
Niger	32	94	12	63	8	102
Sénégal	105	111	41	119	81	140
Togo	39	22	0	19	38	39
WAEMU average (unweighted)	55	59	32	61	50	62

Mali: Fuel Tax Revenue
(in percent of GDP)



Mali: Comparison between Fuel Revenue Losses and Other Budgetary Items
(billions FCFA)



Mali : Distribution of oil subsidies by quantile, 2001[3]

Quintile	Expenditure in oil products per capita (CFAF thousands)	Subsidy share (%)			
		Kerosene	Gasoline	Diesel	All oil Products
Top	316	19.2	59.0	71.1	43.5
Fourth	152	22.4	18.3	17.0	19.9
Third	100	23.0	8.3	2.5	14.1
Second	70	17.6	7.6	3.3	11.5
Bottom	42	17.8	6.7	6.1	11.2
All	136	100.0	100.0	100.0	100.0

WAEMU: Regional Comparison of Pump Prices, 2012
(FCFA)

	2012M1	2012M2	2012M3	2012M4	2012M5	2012M6	2012M7
Gasoline							
Burkina Faso (super)	682	682	682	732	732	732	732
Côte d'Ivoire	774	774	774	774	774	774	774
Mali	695	695	695	695	705	715	715
Sénégal (super)	814	814	814	814	836	814	811
Kerosene							
Burkina Faso	460	460	460	610	610	610	610
Côte d'Ivoire	617	617	617	617	617	617	617
Mali	510	510	510	510	520	530	530
Sénégal	739	637	637	637	646	636	588
Diesel							
Burkina Faso	606	606	606	656	656	656	656
Côte d'Ivoire	615	615	615	615	615	615	615
Mali	610	610	610	610	620	630	630
Sénégal	706	798	798	798	783	789	760

Sources: IMF Staff Estimates, Malian authorities.
[1] Weighted average of three main oil products.
[2] Absolute price increase from min to max in percent of world price increase.
[3] Quantiles are based on the national distribution of consumption per adult equiavlent.

increase is implemented. If the implied price increase is below this threshold, then the full adjustment is allowed. On the other hand, the moving average mechanism (MA) bases retail price adjustments on changes in the average of past import prices. For example, at the start of the month, the retail price under the formula is calculated using an average of past import prices (say, the average of import prices for the last three months). Retail prices are then allowed to fully adjust to the smoothed import price.

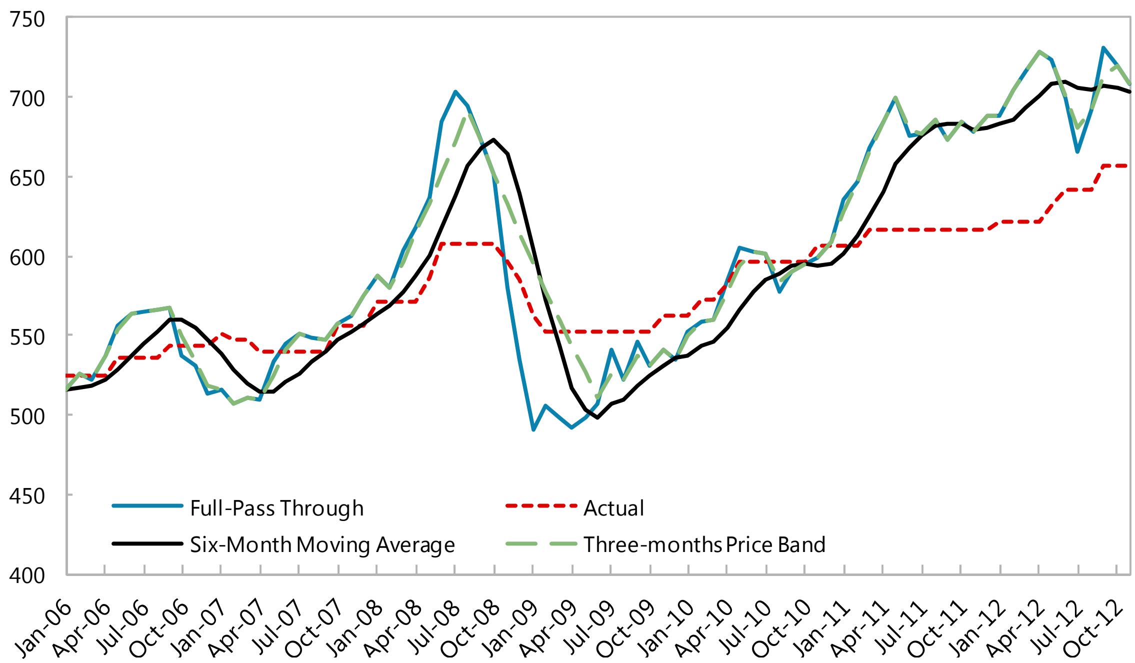
3. A large number of countries have found it useful to use such mechanisms to adjust domestic oil prices. Given that the full pass-through involved in a liberalized regime of pricing can lead to wide fluctuations in domestic oil prices, many countries have favored the use of automatic oil price mechanisms[3]. Such mechanisms, when understood and accepted by the population, offer the advantage of removing a politically charged decision from the government's agenda.

4. Alternative specifications of the two automatic pricing mechanisms in Mali over the past 5 years would have resulted in lower volatility of taxes compared to the current pricing policy and in lower retail fuel price variability compared to full-pass through. Six smoothing mechanisms are considered: (i) 2-month, 4-month, and 6-month moving averages; and (ii) 3 percent, 5 percent, and 10 percent price bands. These mechanisms are compared to historical (actual) retail prices and to a full pass-through of international oil prices into retail fuel prices.[4] By definition, all smoothing mechanisms considered would have reduced the volatility of oil prices compared to full pass through (Figure 2 and Table 1). They also would have reduced the volatility of tax revenue compared to the historical retail prices (Figure 3 and Table 1).

[3] Recent examples include Jordan in 2008, Gabon in 2009 and Niger in 2011.

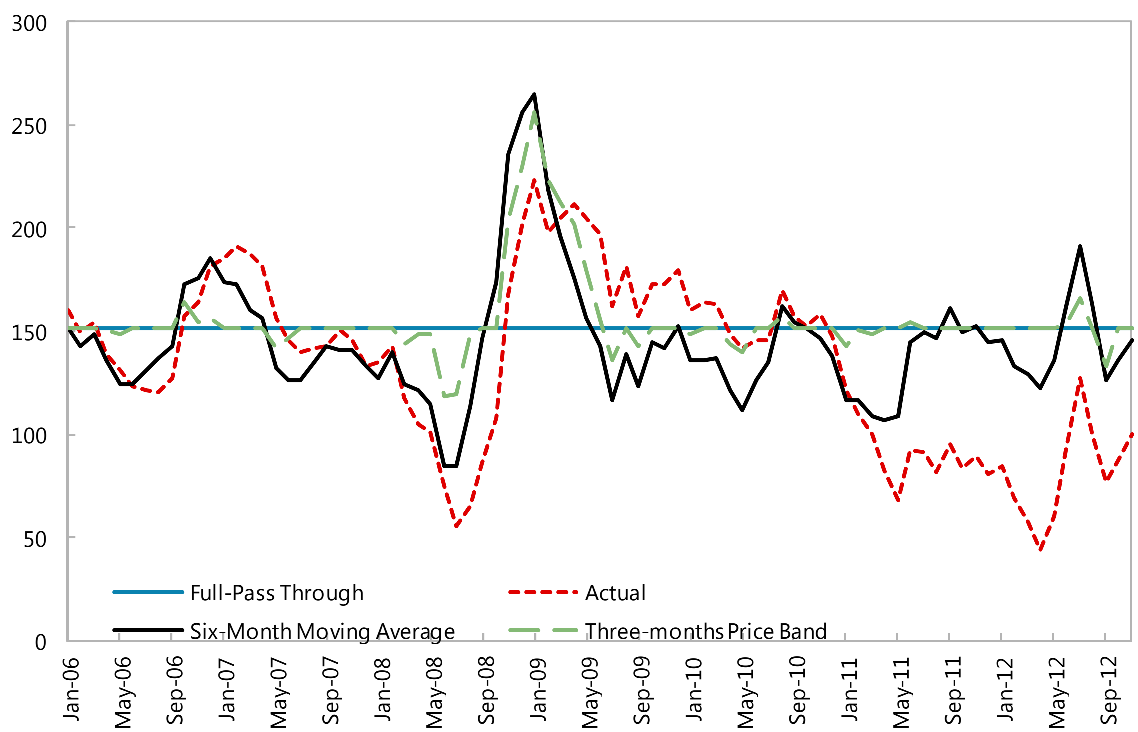
[4] The simulations assume constant margins equal to the average level between January 2006 and December 2009 (i.e., FCFA 78 per liter). Initial net taxes are also set at a level consistent with the average level between January 2006 and December 2009 (i.e., FCFA 151 per liter).

Figure 2. Mali: Prices of the Basket of Oil Products Under Alternative Pricing Mechanisms
(FCFA per liter)



Source: Malian authorities and IMF staff estimates.

Figure 3. Fuel Taxes of the Basket of Oil Products Under Alternative Pricing Mechanisms
(FCFA per liter)



Source: Malian authorities and IMF staff estimates.

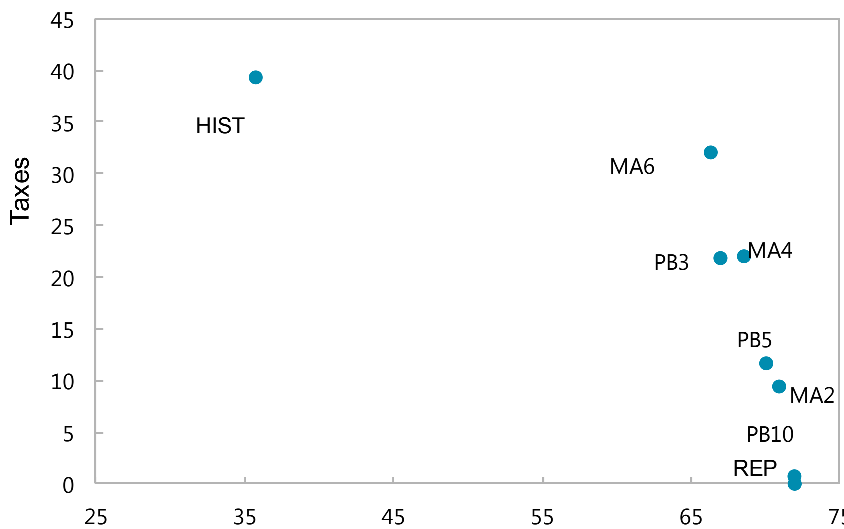
Table 1. Summary of Prices and Taxes

	FPT	HIST	MA2	MA4	MA6	PB3	PB5	PB10
Standard deviation of taxes	0.0	39.3	9.4	22.0	32.1	21.8	11.7	0.7
Rank	1	8	3	6	7	5	4	2
Standard deviation of prices	62.5	30.5	61.3	58.7	55.5	57.2	60.6	62.5
Rank	7	1	6	4	2	3	5	8

Note: Rank of (1) refers to the lowest level. FPT: full pass-through, HIST: historical, MA2: two-month moving-average, MA4: four-month moving-average, MA6: six-month moving-average, PB3: three percent price band, PB5: five percent price band, PB10: ten percent price band.

Source: Malian authorities and IMF staff estimates.

Figure 4. Mali: Volatility of Fuel Taxes and Prices Measured by the Standard Deviation (FCFA)



Source: Malian authorities and IMF staff estimates.

Key Steps to Put in Place a Pricing Mechanism

5. To begin the transition to an automatic adjustment mechanism, the following steps could be taken:

- *Decide on the desired level of fuel taxes and the distributors' components of the price formula.* The tax level on fuels could reflect medium-term fiscal objectives or environmental considerations which would underscore more generally the total revenue requirements of the government and the importance of indirect taxes in total revenues. The higher the revenue requirements from indirect taxes, the higher should be the tax rate on all goods and services, including fuels. On the other hand, import and distribution costs as well as margins should be based on efficient operations by suppliers and set in coordination with these stakeholders.

- *Following a decision on the price components' levels, specify a price structure (i.e., formula) by product*. This structure establishes a clear link between retail prices and international prices based on import costs, distribution margins, and tax levels. As discussed in the previous section, this decision is based on the desired trade-off between price volatility and fuel revenues volatility.

- *Decide on the timeline for adopting the mechanism and for phasing in the price adjustment.* If the existing tax level is below the desired level over the medium term, then current prices need to be adjusted to achieve the desired level before adopting the mechanism. A gradual adjustment of domestic prices to international price levels, backed by an explicit timeline, is usually warranted if the fiscal needs are not urgent and if the differential between domestic and international oil price levels is very high.[5]

- *Specify a timeline for updating the components of the price structure*. The different components of the price structure should be updated according to an explicit and agreed timeline and requires specification of the frequency with which the price structure is reassessed. For example, the import cost could be updated on a monthly basis. Distribution costs could be updated semi-annually based on a simple rule linked to validated changes in costs such as wages, transport costs, and financing costs. More rigorous updates could be done on a 3–5 year cycle based on a detailed market study. Of course, less frequent adjustments would imply larger price fluctuations.

C. Impact on Inflation

6. The potential inflationary impact of implementing a partial pass-through mechanism is estimated to be small as long as the authorities act to prevent secondary round effects. The first round effect is likely to have a small impact on inflation given the small weight of oil products in household budgets, about 3 percent (Table 2), and the fact that the indirect impact of a rise in oil prices is estimated to be double the share of oil products (Kpodar and Djiofack, 2009).[6] Since the total direct and indirect share of oil in household budgets is 9 percent and given that domestic oil prices are 11 percent lower than what would have prevailed under a full pass-through (Figure 2), inflation would increase by about 1 percentage point if domestic oil prices were increased to pass through the increase of international prices in full since 2009. The authorities should however closely monitor potentially larger secondary round effects by refraining from a generalized wage increase in the public sector that would exacerbate the wage-price spiral. At the same time, the authorities should cushion the impact of this price increase on the most vulnerable groups of the population (see Sections V and VI).

[5] See for example the Nigerian case study in Box 1.

D. Addressing Social Tensions

7. Although fuel subsidies are an inefficient and a fiscally expensive approach to protecting the poor from rising international fuel prices, eliminating them often causes social tensions. Arze del Granado et al. (2010) find that, in the case of Mali, a FCFA 100 per liter increase in domestic fuel prices would decrease household real incomes by 2.3 percent, on average. Therefore, it is important that reform strategies include measures to mitigate this adverse impact on the poor households.

8. Countries have implemented a range of mitigating measures when adjusting oil prices. Compensating the poor for adjusting domestic fuel prices requires a system to deliver compensation to the needy. Because it may not be feasible to quickly put in place efficient safety nets based on targeted cash transfers, a gradual reform strategy may initially be sought. This could include the following steps (see Box 1 for country specific examples):

- Temporarily maintaining the implicit subsidies on commodities that are more important in the budgets of the poor. For example, the Nigerian authorities left kerosene prices unchanged when they recently raised oil prices. Coady et al. (2004) show that kerosene subsidies are relatively better targeted although in Africa, more than 45 percent of kerosene subsidies accrue to the top two income quintiles (Coady et al. (2010)).[6] As shown in Table 2, because the share of kerosene in Malian household budgets is spread equally across quintiles, this policy would still be relatively inefficient at targeting exclusively the lowest quintiles. In addition, there is a limit to how much can be achieved through lower kerosene prices without severe disruption of petroleum product markets (for example, redirection of kerosene from the household sector to the transport sector for mixing with diesel, or cross-border trade).

  - *Introducing a package of short-term measures to mitigate the adverse impact of price increases on the poor while preventing social tensions.* For instance:

    - Increase the budget of government programs that benefit mainly the poor, the elderly and the children. These programs manifest themselves through national funds (health care programs in poorest areas, etc.) or social sector programs (social housing, micro-credit programs, etc.). Examples of countries that have used these schemes include Ghana, Jordan and Nigeria.

    - Provide a one-time bonus to low-income government employees and pensioners, as was done for instance in Jordan.

[6] For example, Gabon excluded kerosene products from the automatic price adjustment mechanism that it adopted in January 2009.

- Subsidize consumption of alternative energies such as water and electricity below a specified threshold. This policy was also pursued in Jordan.

- Subsidize mass urban transport and increase the provision of mass urban transport. Temporary support for public transport either via subsidizing fares or increasing the size of mass urban transport might provide a cushion for urban low income consumers and ease social tensions, as it was done in Ghana and Niger

- Lower prices of school meals, education and health user fees. This policy was implemented in the education sector in Ghana.

- *Increasing high-priority public expenditures that benefit the poor.* These include education and health expenditures as well as infrastructure expenditures such as irrigation, drinking water supplies and rural electrification schemes, which provide alternative energy consumption means and are energy-saving investments. These policies were implemented in Ghana, Indonesia, Niger, and Nigeria.

Table 2. Mali: Household Budget Shares of Energy Spending by Product (Percentage of Total Spending)

Quintile	Kerosene	Gasoline	Diesel	Charcoal	Electricity
Top	1.5	1.4	0.1	1.6	1.2
Fourth	1.5	1.1	0.1	1.8	1.0
Third	1.7	0.7	0.0	1.8	0.8
Second	1.5	0.7	0.0	1.6	0.7
Bottom	1.7	0.6	0.0	1.2	0.8
All	1.5	1.1	0.0	1.7	1.1

Source: 2009-10 household survey. Diesel shares are taken from the 2000-01 survey.

9. **Over time, the government should improve the design of safety net programs that could be intensified in times of surges in fuel prices.** The authorities should aim to improve targeting methods which include: (1) targeting by using socioeconomic and demographic characteristics, such as the elderly, children, or the unemployed (categorical targeting), or those living in specific areas (geographic targeting); and (2) linking subsidies or cash benefits to a self-targeting work or schooling requirement.

Box 1. Country Reform Experiences

Niger's explicit subsidy was projected to reach 1.3 percent of GDP in 2010. The government was committed to eliminate these subsidies and implement an automatic price adjustment mechanism by mid-2011. To mitigate the adverse effect of price increases on the poor, the authorities have used the budgetary resources freed by the elimination of these subsidies to increase funding to the health, education, and rural development sectors. It has also provided direct transfers to public transportations in the capital, which amounted to less than 0.1 percent of GDP, to cushion the impact of the rise in oil prices on fares. In addition, public information campaigns pointed out to the drawbacks of the *ad hoc* pricing policy and linked the savings from petroleum price increases to priority social spending, which helped overcoming vested interests and gaining support from civil society. As part of raising awareness over the cost of the subsidy, the government initiated the systematic reporting in the budget of the oil tax subsidies.

***Ghana*'s** oil subsidy amounted to 2.2 percent of GDP in 2004. As international prices began to increase, an automatic price mechanism was used beginning in February 2005 along with a 50 percent average increase in domestic fuel prices. This was accompanied by a communication campaign explaining the need for price reforms, which emphasized the fact that the richest households gain most from fuel subsidies (Laan, Beaton, and Presta, 2010). In addition, several mitigating measures were implemented including: (i) eliminating fees for attending primary and junior-secondary school, (ii) increasing funds for primary health care programs concentrated in the poorest areas through the existing Community Health Compound Scheme, (iii) increasing investment in the provision of mass urban transport, and (iv) increasing funds allocated to expand a rural electrification scheme. These expenditures were partly financed by an explicit earmarked social mitigation tax incorporated into the pricing formula. Responsibility for implementing the pricing mechanism was given to a new National Petroleum Authority (NPA) in an attempt to separate the pricing decisions from the government.

***Indonesia*'s** fuel subsidy bill amounted to 3 percent in 2004. In 2005, the government announced price increases and embarked before that in a public information campaign that included newspapers, TV talk shows, village notice boards, and the distribution of pamphlets and brochures (Bacon and Kojima, 2006). In May 2008, the government announced another round of price increases. Some of the budgetary savings from reducing subsidies were reallocated to existing education, health and infrastructure programs that benefit low-income and middle-income households. The central government also introduced a temporary targeted nation-wide cash transfer program covering more than 19 million poor families who received a transfer of approximately US$120 per household per year. These measures were seen as key to minimizing social unrest and political opposition (Beaton and Lontoh, 2010).

Jordan's *fuel* price subsidies amounted to 3.6 percent of GDP in 2004 and were gradually eliminated in 2005. The government used some of the budgetary savings to finance increases in spending on social safety nets and implemented a series of measures to mitigate the impact of price increases which included: (i) cash transfers to low-income households whose head is a non-government worker or pensioner, (ii) a one-time bonus to low-income government employees and pensioners, (iii) an increase in monthly wages of government employees, and (iv) an increase in the budget of the National Aid Fund to finance expanded coverage of transfers to low-income households. In addition, the government maintained an electricity lifeline tariff to households who consumed less than 160 kilowatt per month and exempted 13 essential commodities, energy saving products, and agricultural production inputs from custom duties (IMF, 2010).

Box 1. Country Reform Experiences (continued)

Nigeria's fuel subsidy costs reached 4.1 percent of GDP in 2011. On January 1, 2012, the government more than doubled the price of gasoline, while retaining the subsidy for kerosene. Some of the ensuing savings were expected to be used for targeted social safety net programs and key infrastructure projects. The authorities mounted a significant public information campaign. However, the fuel price increase set off widespread criticism and protests across the country, led mainly by labor unions, which was driven mostly by a fundamental lack of public trust in the government and by the sharp price hike. As a result, the authorities lowered by half the original price increase, adopting *de facto* a more gradual approach, and begun to address issues raised by the stakeholders such as launching an investigation into possible irregular practices in the petroleum importing sector. In addition, to address government's credibility gap, the authorities appointed a board made up of government officials and representatives from a wide cross-section of civil society to oversee the calculation of the subsidy saving amounts, monitor the allocation of those funds, and evaluate the execution of the funded projects.

E. Effective Public Information Campaign

10. Increasing retail prices to reduce fuel subsidies is often a politically sensitive issue that requires an effective public information campaign to gain public support. Informing the potential beneficiaries (consumers and taxpayers) about the drawbacks of existing subsidies and the benefits of reform would help increase public support for the automatic mechanism. Indeed, the recent elimination of oil price subsidies in Nigeria and the ensuing protests highlights the importance of building wide support among the main stakeholders (political parties, unions, etc.) Successful public campaigns have highlighted the following elements (see Box 1 for specific country examples):

- *Price increases reflect fluctuations in international prices, which are out of the control of the government, and help the economy adjust to shocks.* All importing countries face price fluctuations and need to adjust to this reality. Passing through higher international prices to domestic prices provides the appropriate incentive to consumers to reduce fuel consumption and thus mitigate the adverse terms-of-trade impact on the economy as a whole.

- *Higher income groups capture most of the benefits from fuel subsidies.* As discussed in the introduction section, this is due to the low share of fuel products in households at the bottom of the income distribution. As shown in Figure 1, the weights of gasoline and diesel consumption, which represents about 95 percent of domestic oil consumption, in the basket of the bottom quintiles are very small. In addition, the indirect effect of rising fuel prices is estimated to be about double the direct effect (see Kpodar and Djiofack, 2009), leading to an overall small impact of a change in fuel prices on the lower quintiles. The emphasis on the fact that the richest households gain most from fuel subsidies was followed by Ghana.
- *Holding domestic oil prices low results in fiscal leaks to neighboring countries.* Citizens in neighboring countries where fuel is more expensive, such as Côte d'Ivoire and Senegal, have an incentive to purchase fuel in Mali (Figure 1). As a result, the current implicit fuel subsidy policy benefits citizens in neighboring countries.
- *Fuel subsidies promote the over-utilization of oil which damages the environment.* The artificially depressed price of fuel stimulates road traffic and the emission of green house gases which results in excessive pollution and lasting damages to the environment.

References

Arze del Granado Javier, David Coady and Robert Gilingham (2010). The Unequal Benefits of Fuel Subsidies: A Review of Evidence for Developing Countries. IMF WP/10/202. (Washington: International Monetary Fund).

Bacon, K. & Kojima, M. (2006). Coping with higher oil prices. (Washington: World Bank).

Beaton, C. and Lontoh, L. (2010). Lessons Learned from Indonesia's Attempts to Reform Fossil-Fuel Subsidies. International Institute for Sustainable Development (IISD).

Coady David, Margaret Grosh, and John Hoddinott (2004). Targeting of Transfers in Developing Countries: Review of Lessons and Experience. Regional and Sectoral Studies (Washington: World Bank).

Coady, David, Moataz El-Said, Robert Gillingham, Kangni Kpodar, Paulo Medas, and David Newhouse (2006). The Magnitude and Distribution of Fuel Subsidies: Evidence from Bolivia, Ghana, Jordan, Mali, and Sri Lanka. IMF Working Paper 06/247. (Washington: International Monetary Fund).

Coady David, Robert Gillingham, Rolando Ossowski, John Piotrowski, Shamsuddin Tareq, and Justin Tyson (2010). Petroleum Product Subsidies: Costly, Inequitable, and Rising. IMF Staff Position Note, SPN/10/05.

Kpodar Kangni, and Calvin Djiofack (2009). The Distributional Effects of Oil Price Changes on Household Income: Evidence from Mali. Journal of African Economies, Vol. 19, number 2, pp. 205–236.

International Monetary Fund (2010). Jordan Staff Report for the 2010 Article IV Consultation. IMF Country Report No. 10/297 September, 2010.

Laan, T., Beaton C., and Presta, B. (2010). Strategies for Reforming Fossil-Fuel Subsidies: Practical Lessons from Ghana, France, and Senegal. Global Subsidies Initiative. Geneva, Switzerland.

ANNEX III.—A NOTE ON FINANCIAL SECTOR STABILITY AND DEVELOPMENT[1]

The financial system in Mali plays an increasing but limited role in supporting economic development. Financial intermediation remains low, compared to other countries in the region. At the same time, while the banking sector is well capitalized, the system continues to be burdened with large non performing loans (NPLs), and stress tests indicate that credit concentration is an important source of vulnerability. Concerted efforts will be needed to remove both economy-wide and banking sector's specific characteristics that hamper financial deepening and maintain stability. A new program Financial Sector Development Strategy (FSDS) is needed that would build on the authorities' achievements thus far. The authorities should also work with the regional oversight entities to align regulations with the best international practices and improve supervision of both bank and non-bank financial intermediaries.

A. Background

1. The financial sector in Mali plays an increasing, but limited role in supporting economic development and intermediating resources. The 2008 Financial Sector Assessment Program (FSAP) identified a number of weaknesses, including limited access to financial services, government's substantial involvement in the banking sector, large NPLs, inadequate prudential regulations, and vulnerabilities to sectoral shocks (Box 1).

2. In 2008, the authorities developed a three-year FSDS to address shortcoming identified by the FSAP. The FSDS aimed at: (i) enhancing performance and quality of banks and the non-banking institutions; (ii) broadening access to the financial institutions and products, in particular in rural areas and for small and middle sized enterprises (SMEs); (iii) restructuring and privatizing state-owned banks; and (iv) strengthening the legislative framework (including the land code, civil code and commercial code) in line with FSAP recommendations.

3. Building on the achievements made thus far and the lessons learned from the March 2011 conference on Mali's challenges and opportunities, the authorities will need to develop a new FSDS in order to complete the implementation of the 2008 FSAP recommendations. In anticipation of the new efforts, the following sections provide an overview of the state of the banking sector and microfinance in Mali as of end-2011, and make recommendations for further reforms going forward.

[1] Prepared by Mitra Farahbaksh and Aleksandra Zdzienicka.

Box 1. Key 2008 FSAP Recommendations and Implementation

Areas	Recommendations	Status
Financial sector stability	Ensure that banks have the necessary information to identify, measure, and mange risks during the transition phase leading to the breakup and privatization of the state-owned cotton ginning company (CMDT).	Ongoing
Bank restructuring	Monitor developments in one public bank to ensure that the conditions are right for its successful privatization and restructure and privatize another as soon as possible.	Completed for one bank, and ongoing for another.
	Study the financial implications of a sustainable recovery of one bank, which may require substantial capital injection.	Completed.
Cash flow and public debt management	Hold regular meetings of the public debt sustainability monitoring committee.	Ongoing
	Improve cash flow planning capacity by consolidating the information necessary for a single Treasury Account and holding buffer funds at the regional central bank (BCEAO)	Incomplete.
Access to financial services	Modernize the financial infrastructure to remove obstacles to broader provision of SME and rural finance.	Ongoing
Microfinance	Conduct supervision on an individual as well as consolidated basis.	Ongoing
	Encourage increased professionalism among microfinance institutions (MFIs) and improvement of their information and management system.	Ongoing
Housing finance	Entrust the responsibility for the financing, distribution, and management of loans currently handled by the government through the housing bank and the mortgage guarantee fund to banks.	Ongoing
	Strengthen property title management system, and support the establishment of a regional long-term financing system.	Incomplete
Legal and judicial	Follow up on cooperation and integration issues related to regional harmonization of the business law.	NA
	Review the land code to facilitate access to land titles and credit.	Incomplete
	Computerize the credit registry, and increase access to information.	Ongoing

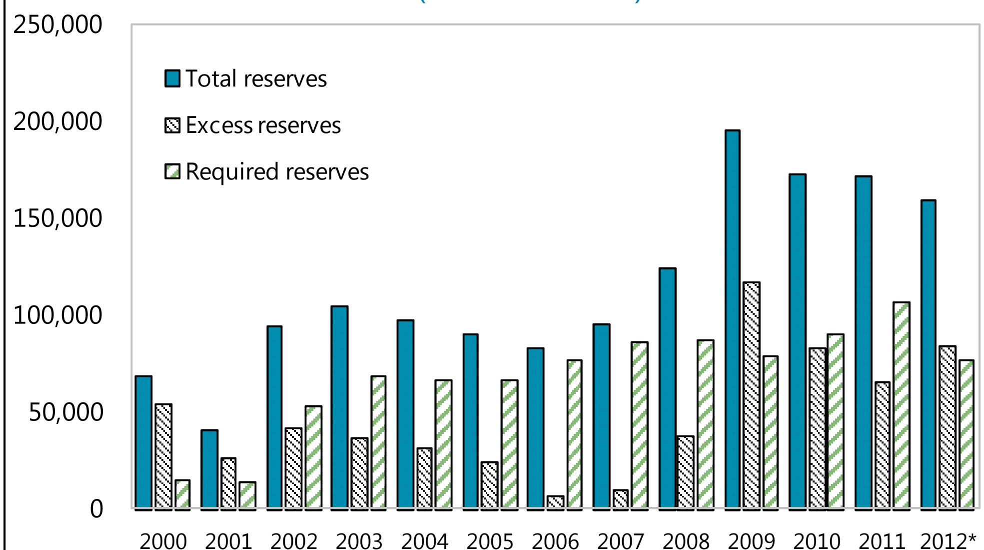
B. Financial Sector Structure and Performance

Structure and Intermediation

4. **The financial sector is dominated by banks.** As of end- 2012, there were 13 banks, of which eleven were foreign owed, holding over 80 percent of total sector's assets. The banking sector is relatively concentrated, with five banks accounting for two-thirds of assets and over 70 percent of deposits. Microfinance institutions (MFIs) are growing (1.15 million members in 2011, compared with 0.8 million in 2005), but are not systemically important. Other financial institutions include 9 insurance companies, 2 financial establishments, 2 life insurance companies, and a pension system comprised of social security and pension fund for private sector employees and another for civil servants.

5. **Banks' resources have been growing, but remain insufficiently diversified**. While deposits have grown by about 40 percent since 2008, over 60 percent of which are in short-term demand deposits, which are highly seasonal. Banks hold considerable excess liquidity (Figure 1) in part due to the lack of loanable projects and problems with loan recovery.

Figure 1. Mali: Reserves at the BCEAO, 2000-12
(in millions CFAF)



Source: Malian authorities; and IMF staff estimates
*** At the end of October.**

6. **Banks' portfolios are composed mainly of loans to large private and public enterprises specializing in cash crops (cotton), trade financing, and energy sector**. Lending is mostly limited to short-term financing, and is geared towards a few large borrowers. Over time, the energy sector, construction, and trade have replaced the agricultural sector as the main destination of lending (Table 2). Crop loans are mainly extended to the state-owned cotton ginning company

(CMDT), which has led to frequent breaching of large exposure limits, and loans are highly seasonal in nature.

7. While the public sector's share in banks' capital has declined since 2008, the government continues to play a significant role in the sector. Of the 5 domestic banks, the government has minority holdings in four, and is a major shareholder in the housing bank BHM and the development bank BMS. As of January 2011, the government and public entities held about 30 percent of total deposits of the banking sector, and accounted for 10 percent of total loans granted by banks. The Treasury and the administrative public entities (EPAs) held over 3,400 accounts in the banking system.

8. Bank intermediation has been increasing, but remains low (Figure 2). The ratio of credit-to-GDP increased from 15 percent in 2000 to 20 percent in 2011. Also, currency-to-deposit ratio declined from 57 percent to 33 percent during the same period, reflecting financial deepening. Interest rates do not appear to have adversely affected bank intermediation, as they seem to reflect cost of doing business. At end-2011, the average spread between deposit and lending rate was about 4.5 percent (Table 2). Nonetheless, intermediation remains low, compared with some other sub-Saharan countries (Senegal, Kenya). Only about 10 percent of the population has banks accounts, and rural populations remain particularly underserved by commercial banks.

Constraints to Increased Financial Intermediation

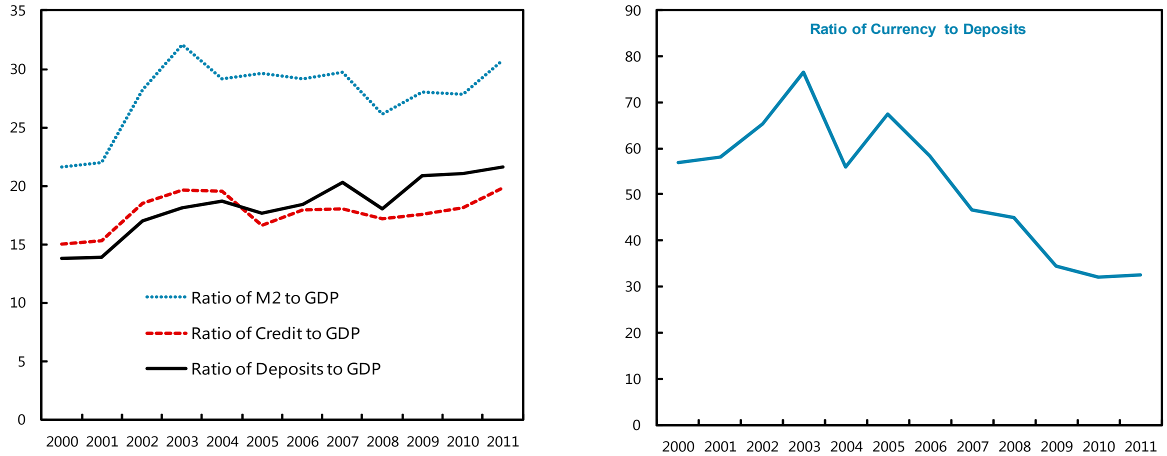
9. Economy-wide constraints help explain the slow progress in financial deepening and financial sector outreach. These include weaknesses in the legal framework and judicial system that result in a slowdown in loan recovery, shortcomings in the financial reporting of SMEs, and lack of collateral for bank loans due to problems in land tenure and land registry. Also, poor physical access and infrastructure, including limited electricity supply, poor road conditions, and distance from central bank offices, which deter rural branch expansion, along with difficulty finding skilled human resources increase the costs of extending credit or offering financial services.

10. Specific structural characteristics of the financial system also hamper financial deepening. These include: (i) limited coverage of small and medium-enterprises of the credit registry system at the regional central bank (BCEAO) [2]; (ii) the underdevelopment of leasing, venture capital, and investment capital, which can provide alternatives to bank financing; and (iii) the continuous availability of large government deposits, which reduces banks' incentives to compete for private sector resources. The latter also does not allow for the development of the interbank market, given that banks are awash in government resources.

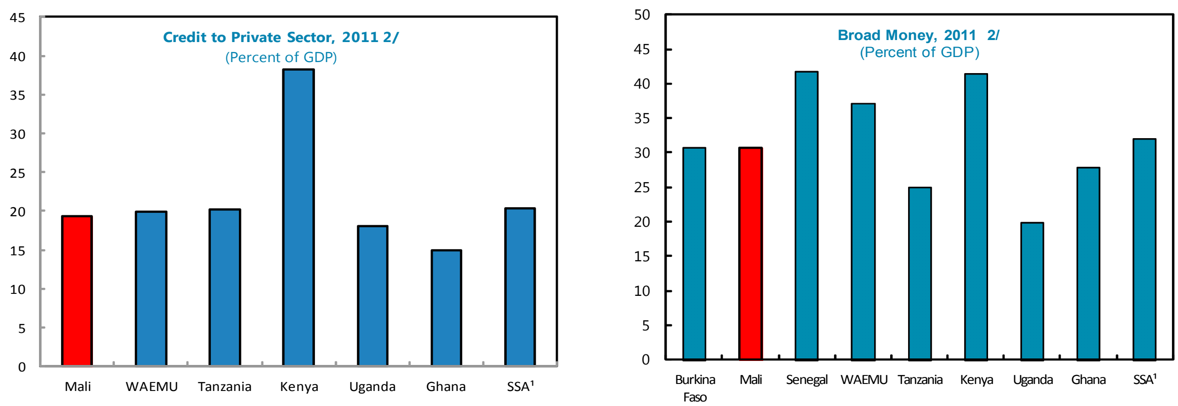
[2] Presentation at the Bamako Conference on Challenges and Economic Opportunities, High-Level Conference Organized co-hosted by the Government of Mali and the IMF in Bamako on March 17-18, 2011 (http://www.imf.org/external/french/np/seminars/2011/mali/index.htm).

Figure 2. Mali: Banking Sector Financial Intermediation, 2000-2011

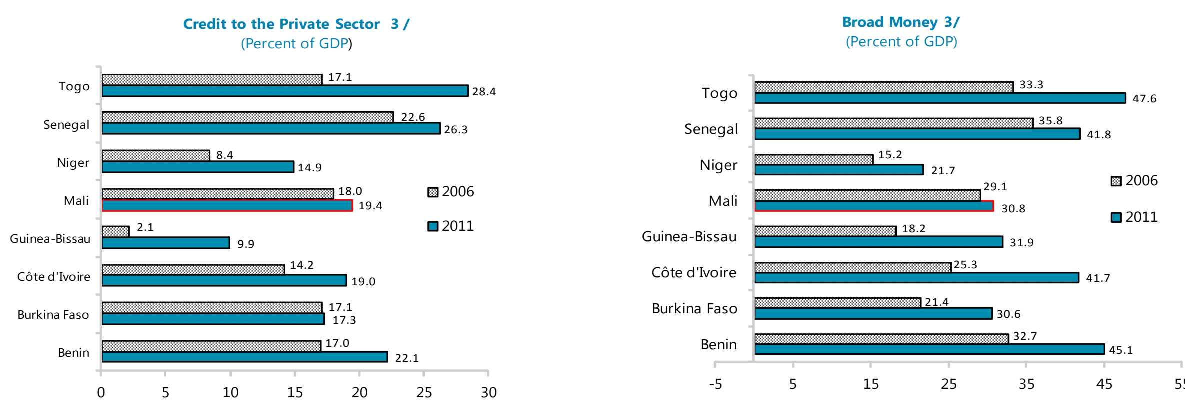
Bank intermediation has been increasing...



...but remains relatively low,...



...even relative to some other WAEMU countries.



Source: Malian authorities; and IMF staff estimates

[1] SSA oil importing countries.

[2] Calculated using latest available data.

[3] Latest available data.

C. Banking Sector Soundness and Stability

Legal Framework and Banking Supervision

11. Mali is subject to the unified regional prudential system for credit institutions and a single supervisor (Banking Commission-WAEMU) with substantial support from the BCEAO. In practice, banking supervision is governed by provisions at the community and national levels, and the implementation is shared among four oversight authorities:

- The Council of Ministers of the West African Economic and Monetary Union (WAEMU), which establishes the general regulatory and legal framework applicable to credit activity;
- Mali's Finance ministry (MOF), who has powers to issue and withdraw licenses for banks and financial institutions and to address their problems;
- The BCEAO, whose main powers are to prepare and technically transpose accounting and prudential regulations applicable to banks and financial institutions, and to contribute, through its national directorates, to the supervision of the banking system;
- The Banking Commission-WAEMU, chaired by the Governor of the BCEAO, which is responsible for organizing and supervising banks and financial institutions established in the eight states of the union and that has the authority to issue administrative and disciplinary penalties for that purpose.

12. Reforms in banking supervision are needed. According to the 2008 FSAP findings, supervision is broadly based on compliance with the regulations. Accordingly, it lags behind developments in the international prudential approach based on risks and market discipline. The BC-WAEMU does not have complete control in addressing banks' problems, particularly in light of the supranational nature of banking supervision, which means shared authority with the MOF. There is no strong bank crisis resolution mechanism in place. Prudential information submitted periodically by banks is insufficiently automated, and analysis of this information is a source of excessive processing delays. The financial statements produced and published by banks are based on the required chart of accounts implemented in 1996, which has not been updated to reflect recent changes in the international accounting standards. While the regulation provides that banking groups must prepare consolidated accounts, they are not subject to specific supervision, and compliance with prudential ratios is not on a consolidated basis. Finally, forbearance regarding the regulatory and governance environments appears to be high.

Financial Soundness Indicators

13. Some of the prudential regulations are not in accordance with the international standards (Table 1). Overall, the prudential system is incomplete, as it does not cover market risks, country risk, or interest rate risk. The regulation establishing a ceiling on maximum lending to a given counterpart (75 percent of capital and reserves) is much higher than the limit prescribed by best practices (25 percent), and is a source of excessive risk concentration. Similarly, the regulation on medium and long-term transformation (ratio of financing medium or long-term assets with the same type of resources) is not in line with the best international practices, and can hold back the granting of medium- and long-term loans. The portfolio structure ratio is also overly restrictive and may deter bank lending if the BC-WAEMU were to enforce it.[3] Also, according to the 2008 FSAP findings, risk management in banks remains inadequate.

Table 1. WAEMU: Prudential Ratios

Requirement	Quantitative Indicator
Minimum capital requirment 1/	CFAF 5 billion ($10 million)
Capital adequacy ratio 2/	>= 8 percent
Limit on lending to single borrower or group	<=75 percent of regulatory capital
Limit on loans greater than 25 percent of capital	<=8 times the capital
Liquidity ratio 3/	> 75 percent
Limit on off-balance sheet fixed assets	<=15 percent of capital
Limit on exposure to enterprises' capital	<=15 percent of capital
Transformation ratio 4/	>=75 percent
Limit on fixed assets and equity investment	<=100 percent of capital
Limit on insider lending	<=20 percent of total lending
Portfolio structure ratio 5/	>=60 percent

Source: BCEAO

1/ As of end-Dec. 2010.

2/ Regulatory capital/risk-weighted assets.

3/ Liquid assets to short-term liabilities.

4/ Measured as the ratio of medium- or long-term assets financed with the same types of resources.

5/ At least 60 percent of bank loans should have a positive rating from the BCEAO.

14. The level of NPLs is likely underestimated (Table 2). According to the WAEMU regulations, loans are classified as non-performing when they are past due 6 months, and not 3 months, which is the international practice. With an average gross NPLs ratio of 18.7 percent at end-2011 and increasing to 19.7 percent at end-June 2012, the quality of bank portfolio varies with NPLs ratios diverging from low to more than half the portfolio in the case of the housing bank (BHM). The provisioning rate, at 67.3 percent at end-June, remains insufficient and below the WAEMU average. The high level of the NPLs is a reflection of the unfavorable business environment, and, in particular, of the many difficulties encountered in recovery procedures.

[3] Presentation at the Bamako Conference on Challenges and Economic Opportunities, High-Level Conference Organized co-hosted by the Government of Mali and the IMF in Bamako on March 17-18, 2011(http://www.imf.org/external/french/np/seminars/2011/mali/index.htm).

Table 2. Mali: Financial Soundness Indicators for the Banking Sector, 2007-12[1]

	2007	2008	2009	2010	2011	2012[2]
			(in percent)			
Capital						
Capital to risk-weighted assets	10.8	11.4	9.9	16.9	13.4	14.8
Tier 1 capital to risk-weighted assets	9.9	10.5	9.4	15.4	11.7	13.5
Capital (net worth) in percent of assets	5.6	6.0	5.7	9.2	8.5	9.6
Sectoral distribution of credit to the economy						
Agriculture and fishing	7.7	11.6	7.5	3.0	11.7	3.2
Minining sector	1.0	0.1	0.1	0.3	0.1	3.5
Manufacturing	7.6	8.0	6.9	8.0	8.0	11.4
Electricity, gas, and water	5.0	4.3	5.9	11.3	10.0	11.1
Building and construction	2.0	2.0	2.4	4.3	4.5	4.9
Wholesale and retail trade, hotels and restaurants	43.6	40.6	43.8	42.0	43.2	41.5
Transportation, warehouses, communications	15.0	14.7	12.7	9.0	7.2	6.5
Insurance, real estate, and services for enterprises	6.4	6.7	7.7	11.0	7.0	8.5
Collectives and social services	2.8	3.4	4.0	5.0	3.8	3.9
Other activities	8.9	8.6	9.0	6.1	4.5	5.5
Asset quality						
Non-performing loans to total loans	25.1	25.3	21.9	21.5	18.7	19.7
Non-performing loans to total loans (net of provisioning)	10.7	9.3	9.1	8.8	6.4	7.5
Provisions to gross non-performing loans	65.5	66.9	59.5	64.0	69.4	67.3
Provisions to gross loans	16.1	15.4	14.8	13.5	12.7	13.3
Earnings and profitability						
Return on assets (ROA)	-0.8	0.8	0.6	1.4	1.3	...
Return on equity (ROE)	-14.0	12.9	10.0	15.2	15.6	...
Liquidity						
Liquid assets to total assets	40.7	43.8	48.9	50.6	47.4	49.1
Liquid assets to short term liabilities	81.5	84.0	61.2	92.9	89.4	88.8
Ratio of deposits to assets	81.4	73.6	73.0	75.4	71.8	70.4
Ratio of loans to deposits	83.7	90.7	71.1	69.8	77.0	80.7
Memorandum items[3]						
Deposit rate	4.8	5.0	4.7	4.9	4.9	...
Lending rate	10.0	9.8	9.4	9.3	9.4	...

Source: BCEAO, and IMF staff estimates.

[1] Ratios calculated on the basis of average stocks of the period.

[2] at the end-June 2012

[3] Average.

15. Banks are well-capitalized and appear profitable, but relatively low provisioning remains a problem. With the increase in the minimum statutory capital requirement to CFAF 5 billion at end-2010, sector's capital adequacy ratio (CAR) remained comfortable at 13 percent at end-2011 and has continued to increase to 14.8 percent at end-June 2012, indicating all foreign, domestic private, government-owned bank groups at healthy capital position, except for two banks that do not meet the minimum requirement. As of end-2011, the average return on assets and equity was 1.3 percent and 15.6 percent, respectively, yet with significant disparity between banks, since the housing bank's negative results weigh heavily on the sector's average. However, low provisioning inflates profits, and is likely to overestimate bank capitalization.

16. With the establishment of a single Treasury account and the transfer of Treasury deposits to the BCEAO, six banks would be in breach of the liquidity ratio norm. Of these six banks, two are already in breach of this prudential norm prior to the transfer of Treasury deposits. None of the other prudential regulations would be breached with the removal of these deposits.

Stress Test

17. The stress tests were conducted to apply shocks to end-2010 data of individual banks. The preliminary results are in line with the 2008 FSAP findings:

- Loan concentration continues to be a major source of vulnerability due to the economy's lack of diversification. Banks are highly vulnerable to sectoral shocks, especially in the cotton sector. Loans to CMDT represent 8 percent of total loans, and default of this single borrower would cause a significant damage to the banking system. The banking sector would be severely affected by an increase in the bad debts of its five largest borrowers (among which CMDT and the state utility company EDM) who represent more than 30 percent of total loans. This is symptomatic of the very heavy concentration of risks in the banking sector.

- A 50 percent increase in NPLs would have a significant impact on Malian banks, given the already high level of such debt. The system-wide CAR would decline to below the minimum 8 percent requirement.

- Banks are liquid and are resilient to simulated deposit runs.

D. Microfinance Sector

18. As of end-2012, there were 125 licensed institutions. These were classified as the Mutuals or Cooperatives, the Associations, and the Anonym Societies (single ownership). As of end-2011, the Micro Finance Institutions (MFIs) extended credit equivalent to CFAF 73 billion (1.5 percent of GDP), compared to CFAF 45 Billion (1.5 percent of GDP) in 2005 (Table 3). Recent political developments and deterioration in economic activity have significantly affected the MFIs, lowering extended loans to CFAF 68 billion at end-June 2012.

19. Despite an improvement in 2011, the quality of MFI portfolio appears to have deteriorated over time. At end-2011, their NPLs decreased from 7.6 percent in 2010 to 5 percent of total loans. Since March 2012, however, the percentage of NPLs has continued to increase and reached at end-June 5.3 percent at end-June. The supervisors in the MOF appear to be inexperienced and capacity seems low. Thus far, 15 MIFs have been identified as having significant financial difficulties and 11 were declared bankrupt. The government reimbursed CFAF 1.5 billion in 2010–11.

Table 3. Mali: Microfinance, 2005-12

	2005	2006	2007	2008	2009	2010	2011	2012 [1]
Members (in thousands)	751.3	835.1	934.9	1,006.2	1,050.7	1,069.4	1,071.0	1081.0
Deposits	33.2	38.3	43.1	48.3	52.1	54.9	59.0	56.6
Loans	45.4	56.8	65.9	71.4	73.5	71.4	73.0	68.3
NPLs	2.3	2.6	3.2	4.5	4.7	5.4	3.6	3.6
NPL as percent of total loans	5.1	4.5	4.9	6.3	6.5	7.6	4.9	5.3

Source: Malian authorities; and Fund staff estimates.

[1] As of end-June.

20. A new WAEMU wide microfinance law came into effect in July 2010. All MIFs will have to abide by the provisions of the new law by July 2012. Below are some of the important points of the law:

1. All MFIs are under the licensing agreement of the BCEAO.
2. According to Article 44: any MFI with deposits or assets over CFAF 2 billion in consecutive years will have to be supervised by the BCEAO. There are about 20 such institutions. All other institutions will have to be supervised by the MOF.
3. In response to an application for the establishment of a new microfinance, MOF has 3 months to verify the application and the BCEAO also needs to verify within 3 months. If no verification is made, the institution cannot be created.
4. Prudential regulations were improved under the law.
5. All institutions with above CFAF 2 billion will have to provide monthly reports to the BCEAO. Others will have to provide annual reports to the MOF.
6. On sight supervision of the MIFs will need to be done once every 3 years.
7. A new accounting framework, modeled after that of the banks will need to be adopted by the MIFs. At this time, the accounting framework used by MIFs does not meet the International Accounting Standards.

21. Recent developments have delayed the introduction of the MFI restructuring program. The Ministry of Finance in cooperation with the MFIs, the BCEAO and development partners initiated a one-year restructuring program in March 2012. The purpose of the program has been to assess the MFI situation, define restructuring measures and elaborate a re-financing scheme for the sector.

E. Reform Strategy Going Forward

22. Improving financial intermediation and maintaining stability will require concerted and coordinated efforts from both regional and Malian authorities. While changes in the supervision and regulatory framework, including the updating of the prudential norms will require agreement on the WAEMU level, Malian authorities can take actions to remove impediments to financial intermediation and maintain stability of the system in a number of areas that fall within their purview.

23. A new FSDS is needed to build on the achievements of the last FSDS and complete the implementation the remaining agenda, including the 2008 FSAP recommendations, taking lessons learned from the March 2011 conference on Mali's challenges and opportunities. Some of the reforms that can be implemented by the Malian authorities in the near future include:

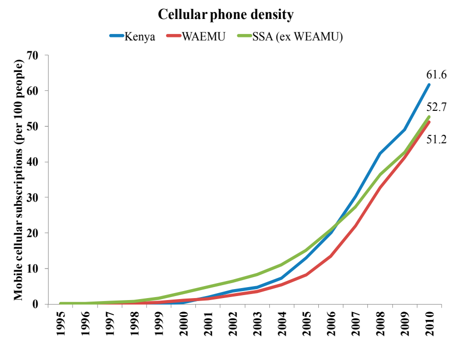
- ***On the legal front***: (i) reviewing the land code, and improving the land tenure and land registration regime, with a view to establishing land titles that could be used for obtaining bank loans; (ii) adopting a financing reporting legislation, covering all regulatory aspects of accounting and auditing; (iii) enacting legislation to promote leasing, venture capital, and investment capital, which can provide alternatives to direct bank lending; (iv) adopting regulations that requires banks to implement international accounting standards; and (v) enhancing the capacity of courts.
- ***On the institutional infrastructure and provision of better information:*** (i) improving the scope of the credit information at the BCEAO to cover a greater range of information and potential borrowers, particularly the largest SMEs; and (ii) creating a registry for bank guarantees, that can be accessed by all, and can serve as a tool to facilitate the speedy realization of guarantees in case of nonpayment of bank loans.
- ***On deepening financial intermediation***: (i) strengthening and developing the microfinance by improving their monitoring and supervision, requiring improved managerial capacity and governance; (ii) removing government deposits, which reduces banks' incentives to compete for private sector resources; and (iii) increasing access to payment services through facilitating the development of banking services via mobile phones similar to Kenya (see Box 2).

24. The authorities will need to devise a strategy to address shortcomings in banks in the aftermath of transfer of public resources to the BCEAO. One option will be to give banks a grace period to improve their product line and increase their deposit taking to capture private resources to replace the public funds. Banks that will be in the breach of the prudential norms after the passage of the deadline would have to come under close supervision of the Banking Commission, and administrative decisions will need to be taken to address the breach of prudential norms.

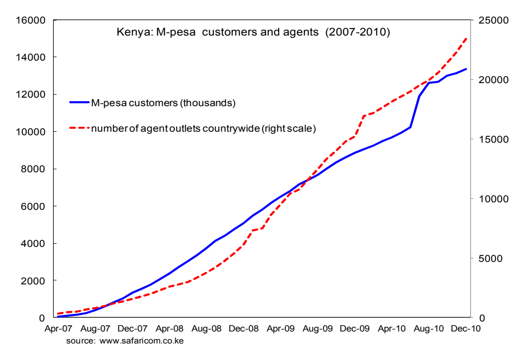
25. Finally, completing the privatization of the loss making housing bank BHM and development bank BRS as soon as possible will allow the authorities to focus on the remaining large agenda of developing the financial sector. In addition to reforms noted above, such an agenda should also entail working with the regional oversight authorities on aligning prudential regulations with the best international practices.

Box 2. Kenya : Mobile Money and Financial Sector Deepening[1]

- **The mobile-banking revolution has accelerated financial deepening in Kenya, and can be replicated in the WAEMU countries, including Mali**:
- M-Pesa is a mobile-phone based electronic retail payment system introduced in Kenya in March 2007 by Safaricom, the largest mobile phone operator in the country. The M-Pesa system allows users to deposit and withdraw cash by exchanging currency for electronic value through its network of retail stores, transfer funds electronically to other users and make payments. In some cases users can also repay loans made by microfinance institutions, and make deposits in their bank accounts. While the M-Pesa system records and stores all transactions electronically, Safaricom deposits the full value of its customers' balances in the system in pooled accounts in two regulated banks. These deposits do not produce yields for users.



- Since its inception, it has grown to nearly 15 million clients representing more than 30 percent of the country's population and has a network of close to 32,000 agents, making it the most widely used mobile-phone based money service in the world. Similar schemes have emerged in other countries of the East African Community, including Uganda and Tanzania.
- The WAEMU member countries, including Mali, have the necessary basic infrastructure to replicate such a mobile payment system. They have on average penetration of cellular phone subscribers, which is similar to that registered in Kenya and the average for SSA. In 2010 the WAEMU region had a cellular phone density of 51 subscriptions for every 100 people, while Kenya had 62 and the average for SSA was 53.



- The expansion of mobile banking can be consistent with continued financial stability. The authorities will need to ensure that an adequate regulatory and supervisory safeguards, and a conducive environment for business (avoiding in particular the dominance of early entrants) are in place. Also, the authorities will need to maintain a close dialogue with the private sector to ensure its active involvement in policy formulation and enforcement.
- Mobile banking offers the possibility of greatly increasing access to a range of payment services at moderate costs, since financial institutions do not need to incur the high costs of building and operating branches. Therefore, it also has the potential to become a convenient savings instrument for low-income households.

[1]This Box is based on the April 2011 Regional Economic Outlook for Sub-Saharan Africa, and a study by Rodrigo Garcia-Verdu (2011).

References

Association Professionnelle des Banques et Etablissements Financiers du Mali, Financement de l'Economie du Mali par les Banques, Bamako, Mali, 2011.

Banque de France, Rapport annuel de la zone franc, 2010.

Beck, Thorsten, Samuel Munzele Maimbo, Issa Faye, and Thouraya Triki (2011), Financing Africa: Through the Crisis and Beyond, Washington, DC: The World Bank.

Communication du President de l'Association Professionnelle des Banques et Etablissement Financiers du Mali, Presentation of the Bamako Conference on Challenges and Economic Opportunities, High-Level Conference Organized co-hosted by the Government of Mali and the IMF in Bamako on March 17-18, 2011, Grands Défis et Opportunités Economiques du Mali.

Government of Mali, Financial Sector Development Strategy, 2008–11, April 2008.

Government of Mali, Presentation of the Report on the 2010 Review of the Strategy Framework for Growth and Poverty Reduction (G-PRSP), September 2011, http://www.imf.org/external/pubs/cat/longres.aspx?sk=25464.0.

International Monetary Fund, Appui Au Recensement des Comptes Bancaires Publics et a l'élaboration d'une Stratégie de Mise en Place du Compte Unique du Trésor, Technical Assistance Report, Washington, DC, October 2011.

International Monetary Fund, Mali—Financial System Stability Assessment, 2008.

International Monetary Fund, Regional Economic Outlook, Sub-Saharan Africa, April 2011: Recovery and New Risks, Washington, DC, April 2011.

Rodrigo Garcia-Verdu, Financial Development in the West African Economic and Monetary Union (WAEMU) since 2006, Washington, DC., February 2011,

ANNEX IV. EXTERNAL STABILITY ASSESSMENT[1]

This note undertakes an assessment of the external stability of the Malian economy through focusing on price and non-price indicators. The real exchange rate appears broadly in line with fundamentals, while export performance has been stable, but export diversification has decreased due to overreliance on gold, and qualitative competitiveness indicators point at significant structural bottlenecks. Mali needs to improve its business environment in order to enhance competitiveness.

A. Composition of the Balance of Payments

1. Mali is a low income country with a significant current account deficit (excluding official grants) that over the last decade averaged at about 10 percent of GDP (Table 1), and was financed by aid and foreign direct investment inflows, mainly in the gold and telecommunications sectors, resulting in a modest net positive contribution to the foreign exchange reserves of the Central Bank of West African States (BCEAO).

Table 1. Mali: Balance of Payments Selected Items

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	(in percent of GDP, unless otherwise indicated)											
Current account balance (excluding official grants)	-12.0	-12.8	-4.5	-9.8	-9.8	-10.6	-6.8	-8.7	-13.4	-9.2	-14.8	-11.5
Official aid flows (including grants)	6.8	5.7	6.0	7.3	5.1	6.2	7.1	5.3	3.8	6.7	5.4	4.5
Capital and financial account (excluding aid flows)	6.7	5.5	2.8	7.1	1.1	6.1	0.5	3.1	8.8	9.8	7.3	7.4
of which : FDI	3.0	3.4	2.2	3.1	1.8	2.7	1.2	2.3	2.1	8.4	4.2	2.8
Change in reserves (-, increase)	-1.5	1.6	-4.3	-4.7	3.6	-1.7	-0.8	0.3	0.8	-7.2	2.1	-0.6
	(millions USD)											
Imputed reserves	369.2	353.0	574.7	927.7	838.9	862.6	969.2	1070.9	1055.9	1621.1	1298.6	1409.3

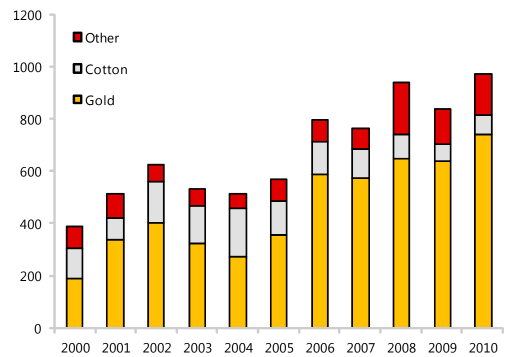
Source: Malian authorities and IMF staff calculations.

B. Export Performance

2. Mali's exports are heavily concentrated on gold, and have thus benefitted from the rapid gold price increase in recent years (Figure 1). However, in spite of favorable terms of trade change, Mali's share of world exports has remained virtually stagnant over the past decade. (Figure 2).

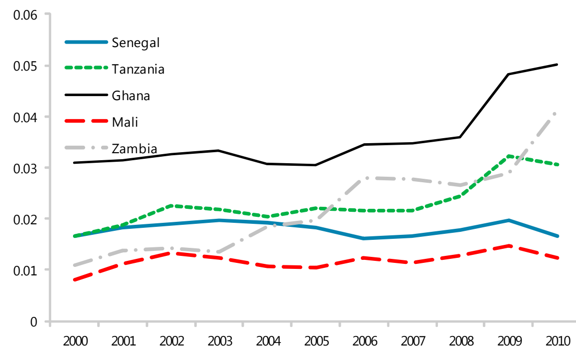
[1] This note was prepared by Ermal Hitaj, with research assistance from Douglas Shapiro.

Figure 1. Mali Export Structure
(billions CFAF)



Sources: Comtrade database and IMF staff calculations.

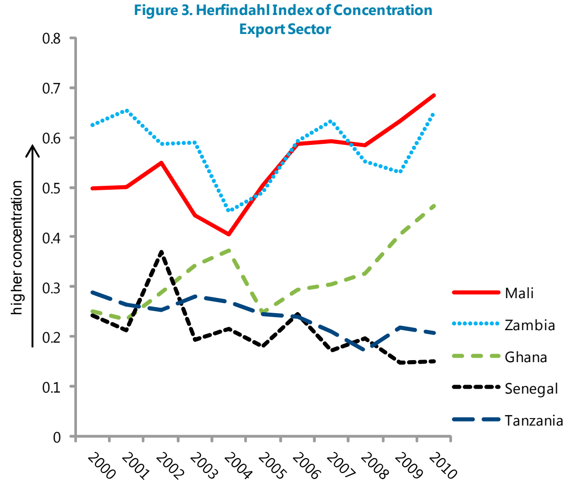
Figure 2. Share of GNFS Exports in Selected SSA Countries
(in percent of World GNFS exports)



Sources: Comtrade database and IMF staff calculations.

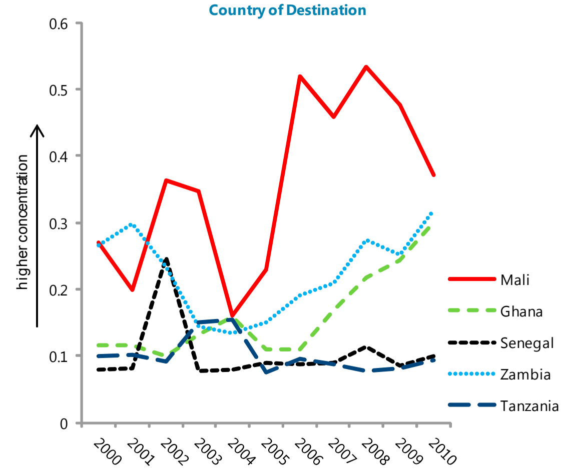
3. Given the limited gold reserves, Mali's future export performance will depend crucially on export diversification, which is also an important competitiveness indicator. This note calculates a Herfindahl-Hirschman Index[2] (HHI) of concentration across sectors and countries of destination for select Sub-Saharan countries (Figures 3 and 4), which shows that Mali has a relatively high HHI of export concentration across sectors as well as destination countries, as most of the gold is exported to South Africa. The increase in export concentration, combined with the stagnant export share, points to a loss of competitiveness, the effect of which will be felt more once the gold reserves start to dwindle down. Mali needs to intensify export diversification through exporting new products, increasing the share of currently minor export sectors, and exporting to new markets.

Figure 3. Herfindahl Index of Concentration
Export Sector



Sources: Comtrade database and IMF staff calculations.

Figure 4. Herfindahl Index of Concentration
Country of Destination



Sources: Comtrade database and IMF staff calculations.

[2] This note uses the usual HHI, defined as the sum of the squares of the export shares by sector or country of destination.

C. Structural Competitiveness Criteria

4. The challenging business environment is a major impediment to private sector development, which is crucial for product and export diversification away from the gold sector. Survey data collected by the World Bank[3] (WB) and the World Economic Forum[4] (WEF) indicate that, while the macroeconomic environment is deemed favorable, Mali's overall structural competitiveness appears relatively low (Tables 2 and 3). Mali's business environment is notably hampered by inadequate investor protection, low financial market development, insufficient access to electricity, difficulties in paying taxes, and low health and education standards. The present political and security crisis, if protracted, is also likely to have a negative impact on the business environment.

Table 2. Mali 2011 GCI Rankings

(out of 142 countries, best=1)

Mali ranks less favorably on health and primary education, and financial market development, but "better" on the macroeconomic environment.

Overall ranking	128
Subcategories	
Macroeconomic environment	66
Innovation	87
Institutions	108
Infrastructure	113
Market size	117
Technological readiness	127
Higher education and training	128
Business sophistication	131
Financial market development	133
Health and primary education	137

Source: World Economic Forum.

Table 3. Mali 2011 DBI Rankings

(out of 183 countries, best=1)

Mali ranks less favorably on paying taxes and protecting investors, but better on registering property and dealing with construction permits.

Overall Ranking	146
Subcategories	
Registering Property	91
Dealing with Construction	95
Resolving Insolvency	111
Getting Electricity	113
Starting a Business	115
Getting Credit	126
Enforcing Contracts	132
Trading Across Borders	146
Protecting Investors	147
Paying Taxes	163

Source: World Bank.

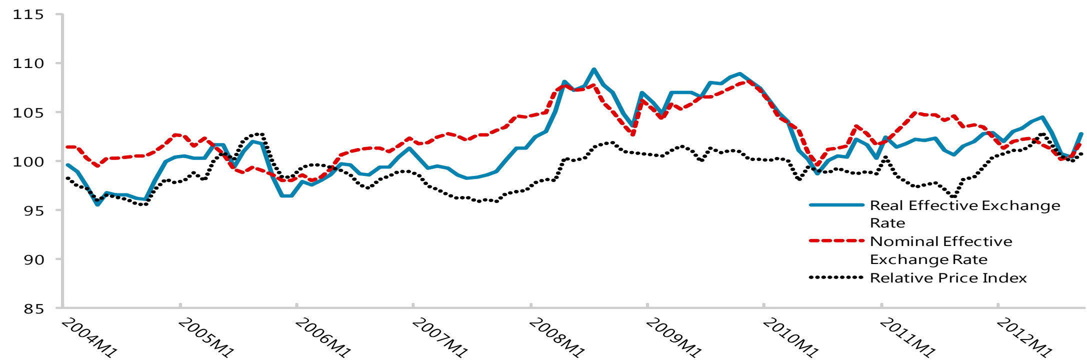
[3] World Bank Doing Business Indicators 2012.

[4] World Economic Forum Global Competitiveness Index 2012.

D. Alignment of Real Exchange Rate with Macroeconomic Fundamentals

5. After a sharp depreciation during the first half of 2010, the real effective exchange rate (REER) has been on a slight appreciation trend, which continued into 2011 (Figure 5). While during the second half of the last decade REER appreciation has been caused primarily by the appreciation of the nominal effective exchange rate (NEER), relative price increases have had a stronger effect over the last year. The periods when relative price movements have been the driving force behind REER fluctuations have been characterized by sharp changes in food prices due to local and global dynamics, suggesting no evidence of Dutch-disease induced by aid inflows or gold exports receipts.

Figure 5. Mali: Trends in the Real and Nominal Effective Exchange Rates (Index 2005 =100)



Source: IMF staff calculations.

6. **Real exchange rate assessments** based on all three Consultative Group on Exchange Rates (CGER) approaches[5] suggest that Mali's real exchange rate is broadly in line with fundamentals (Table 4).

Table 4. Mali: Quantitative Exchange Rate Assessment Results

	Current Account (in percent of GDP)		CA Elasticity[1,2]	REER misalignment[3]
	Norm	Underlying		
Equilibrium Real Effective Exchange Rate	…	…		-5.8
Macroeconomic Balance	-4.2	-6.3	-0.22	9.6
External Sustainability	-3.3	-6.3	-0.22	11.1

[1]CA elasticity=Export elasticity*Share of exports in GDP-((Import elasticity-1)*Share of Imports in GDP).
[2]Tokarick (2010) estimates Mali's export and import elasticities as 0.363 and 1.41, respectively.
[3]In percentage, "+" = overvaluation.

Source: IMF staff estimates.

The Equilibrium Real Exchange Rate Approach

[5] Lee, J., Milesi-Ferretti, G.M., Ostry J., Prati A., and L. Ricci, 2008.

7. The equilibrium real exchange approach estimates the equilibrium REER as a function of economic variables that cause persistent deviations from long-run purchasing power parity. The coefficients in equation (2) below are obtained using a panel regression on a dataset that includes 22 non-oil-exporting Sub-Saharan countries over the 1990–2010 period.[6]

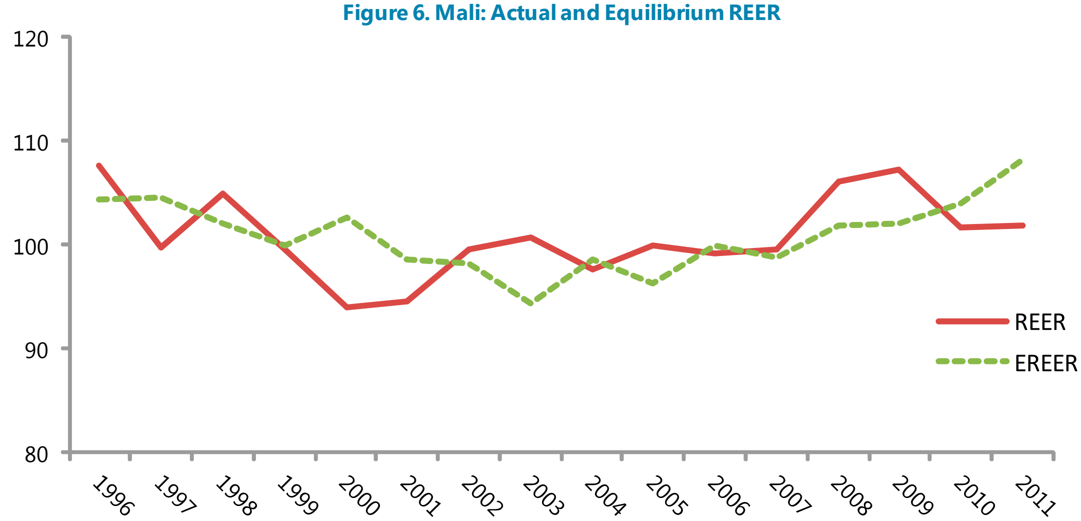
$$EREER = -0.47 + 0.1^{*}LTOT - 0.26^{**}PROD - 0.97^{***}AID, \quad (1)$$

$$\qquad (1.91) \qquad (-1.72) \qquad (-2.18)$$

where LTOT denotes the natural logarithm of the terms of trade, PROD denotes relative productivity and AID denotes aid inflows as a percent of GDP.

8. Comparing the actual REER with the EREER estimated in equation (2) above suggests that Mali's REER has fluctuated around its equilibrium value since the mid 1990's, and at the end of 2011 was modestly undervalued by about 5.8 percent (Figure 7).

Figure 6. Mali: Actual and Equilibrium REER



Source: IMF staff calculations.

[6] Equation (1) includes only the variables whose coefficients were significant at the 20 percent level or above. The t-statistics of the estimators are displayed in brackets. 4, 3, 2 and 1 stars indicate statistical significance at the 1 percent, 5 percent, 10 percent and 20 percent levels, respectively.

The Macroeconomic Balance Approach

9. The macroeconomic balance (MB) approach uses the projected value of economic fundamentals to generate a norm of the current account-to-GDP ratio (current account norm) for the 2012–16 period based on coefficient estimates from Vitek (2012), where aid inflows are included for emerging and developing countries in addition to the explanatory variables used by Lee et al (2008). The coefficients used to project the current account norm are obtained using a panel regression on a dataset that includes 116 countries over the 1990–2010 period (Table 5). Mali's current account norm is estimated at a deficit of 4.1 percent, whereas the projected underlying current account deficit is 6.3 percent, suggesting a slight overvaluation of the REER. Based on estimates of Mali's trade elasticities from Tokarick (2010), a real depreciation of about 9.6 percent would be necessary to close the gap between the underlying current account and the norm.

Table 5. Mali: Estimation Results for the MB Approach

	Medium term value [A]	Coefficient [B]	Impact [A]*[B]
Relative old age dependency ratio (in percent)	-7	–0.14**	1.0
Relative population growth rate	2.96	–0.57*	-1.7
Relative output growth rate	-0.50	–0.87****	0.4
Oil trade balance (in percent of GDP)	-7.97	0.29****	-2.3
Relative fiscal balance (in percent of GDP)	1.33	0.34***	0.5
Initial net foreign assets (in percent of GDP)	-21.54	0.03****	-0.7
Aid inflows (in percent of GDP)	6	–0.21****	-1.2
Observations		936	
R Squared		0.382	
Norm (in percent of GDP)			-4.1

Note: 4, 3, 2 and 1 stars indicate statistical significance at the 1 percent, 5 percent, 10 percent and 20 percent levels, respectively.

Source: WEO database and IMF staff calculations

The External Sustainability Approach

10. Under the external sustainability (ES) approach the current account norm is equated to the ratio that stabilizes the medium-run ratio of net foreign assets (NFA) to GDP. This paper uses the NFA-to-GDP ratio estimated for Mali estimated by Vitek (2012)[7] as the equilibrium NFA ratio. The steady state relationship between the current account and the NFA ratio is described as:[8]

[7] Vitek (2012) estimates the equilibrium NFA ratio as a function of per capita GDP differential from trade partners and public debt-to-GDP ratio through a panel regression on a dataset that includes 69 countries over a 31 year period.

[8] Lee, J., Milesi-Ferretti, G.M., Ostry J., Prati A., and L. Ricci, 2008.

$$ca_i^n = \frac{g_i}{(1+g_i)} nfa_i^n, \tag{2}$$

where $\boldsymbol{ca_i^n}$ denotes a country's steady state equilibrium ratio of the current account balance to GDP, $\boldsymbol{nfa_i^n}$ denotes the steady state equilibrium NFA-to-GDP ratio, and $\boldsymbol{g_i}$ denotes the steady state growth rate of nominal output, which is estimated at 8 percent for Mali.

The current account norm obtained from the equilibrium relationship above is 3.3 percent, which means that the REER would need to depreciate by about 11 percent to stabilize the NFA-to-GDP ratio.

E. Conclusion

11. This note seeks to evaluate the external stability of the Malian economy by focusing both on price and non-price criteria. The exchange rate assessment suggests that the real exchange rate is broadly in line with fundamentals. Export performance has been stable, but overly reliant on gold, and export diversification has decreased. Competitiveness indicators developed by the World Bank and the World Economic Forum suggest that the Malian economy faces significant structural and institutional bottlenecks.

12. In a context of low inflation and a fixed exchange rate, the burden of enhancing competitiveness rests on Mali's improving non-price competitiveness indicators. Mali needs to better diversify its exports across products and markets, expand electricity coverage, and improve the business environment by enhancing access to finance, protecting investors, making it easier for businesses to pay taxes, and improve health and education standards.

References

Lee, J., Milesi-Ferretti, G.M., Ostry J., Prati A., and L. Ricci (2008), Exchange Rate Assessments: CGER Methodologies, International Monetary Fund Occasional Paper 261.

Tokarick, S. (2010), A Method for Calculating Export Supply and Import Demand Elasticities, International Monetary Fund Working Paper 180.

Vitek, F. (2012), Exchange Rate Assessment Tools for Advanced, Emerging, and Developing Economies, International Monetary Fund, unpublished.

World Bank, Doing Business 2012.

World Economic Forum, Global Competitiveness Indicators 2012.

APPENDIX V—LETTER OF INTENT

Bamako, Mali
January 10, 2013

Mrs. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C, 20431
USA

Dear Madame Managing Director:

1. On December 27, 2011, the Executive Board of the International Monetary Fund (IMF) approved a new three-year arrangement amounting to SDR 30 million under the Extended Credit Facility (ECF) in favor of Mali in support of the country's poverty reduction and growth strategy.

2. Since then, the Malian economy has undergone a variety of shocks. First, the poor harvest in 2011 resulted in a food crisis, with 3.6 million people at risk from malnutrition. Next, the attacks perpetrated in the north of Mali by rebels claiming independence for the zone comprising the three regions in the North, as well as terrorist activities by organizations affiliated with Al-Qaeda, triggered a humanitarian crisis for 420,000 people who fled the North of the country, with approximately half seeking refuge in neighboring countries. Finally, beginning in March 2012, Mali underwent a period of violence and upheaval that lasted for several months, until the formation of a transition government of national union that could concentrate on regaining control of the northern region with assistance from the international community and with the organization of presidential and legislative elections.

3. Unfortunately, as a result of these shocks, the ECF-supported program has gone off track and the cumulative overall balance of payments deficit for 2012–13 has worsened to US$380 million. The government has thus decided to cancel the three-year arrangement under the ECF with immediate effect and request a SDR 12 million disbursement under the Rapid Credit Facility (RCF) with a view to covering part of the anticipated balance of payments deficit.

4. The attached Memorandum of Economic and Financial Policies (MEFP) describes recent developments in the Malian economy and the progress made in implementing our program in 2011 and 2012. This memorandum also sets out the economic and financial policies that the Malian government intends to pursue over the next 12 months. For 2013, the government has designed a program of economic and financial policies for implementing a budget policy aimed at safeguarding macroeconomic stability and further improving public financial management.

5. The government believes that the measures and policies described in the attached MEFP are adequate for attaining the objectives of its program for the next 12 months. It will take additional measures as appropriate. Mali will consult with the IMF on the adoption of such measures and before any revision of the policies described in the attached MEFP. The government will provide Fund staff with any required information referred to in the Technical Memorandum of Understanding (TMU) concerning progress made under the program. During the program, the government will not introduce or strengthen any exchange controls, multiple exchange rate practices, or import restrictions for balance of payments purposes, or conclude any bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement.

6. In the case of a protracted balance-of-payments deficit, and with a satisfactory performance with respect to the objectives under the program as outlined in the MEFP, the government envisages requesting additional disbursements under the RCF supported by new commitments in the areas of macroeconomic policy and public finance management. This way, the government intends to continue to demonstrate to its development partners its commitment to sound policies, until the circumstances are ripe for requesting a new three-year arrangement under the ECF.

7. The government intends to make public the contents of the IMF staff report, including this letter, the attached MEFP, the TMU, as well as the informational annex and the debt sustainability analysis. It therefore authorizes the IMF to publish these documents on its website once the IMF Executive Board approves the disbursement under the RCF.

Very truly yours,

/s/

Tièna Coulibaly
Minister of Economy, Finance, and Budget

Attachments:
- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

ATTACHMENT I—MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. This memorandum of economic and financial policies (MEFP) presents recent developments and performance with respect to the program supported by the Extended Credit Facility (ECF) in 2011 and 2012 and Mali's economic and financial policies in 2013 in the context of the request for a disbursement under the Rapid Credit Facility (RCF).

RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE WITH RESPECT TO PROGRAM SUPPORTED BY THE EXTENDED CREDIT FACILITY

A. Recent Economic Developments

Economic Developments in 2011

2. In 2011, real GDP growth slowed to 2.7 percent. Agricultural production contracted by 4.5 percent, reflecting a 10 percent decline in cereal production due to uneven distribution of rainfall in the Sahel region. Solid performance in manufacturing increased the sector’s value added by 20.8 percent, attenuating the slowdown of GDP growth. Inflation was contained at an annual average of 3.1 percent, as the cereal crisis did not begin to impact food prices until the end of the year.

3. The current account deficit (including grants) was reduced to 10.4 percent of GDP in 2011 due to the favorable impact of increased gold and cotton prices. The deficit was more than offset by net inflows of capital, primarily in the form of external assistance and foreign direct investment (FDI). As a result, the overall balance of payments recorded a surplus of CFAF 29 billion (US$60 million), which contributed to the accumulation of international reserves of the Central Bank of West African States (BCEAO).

4. The money supply expanded by 15 percent in 2011, driven by credit to the economy. Nearly half of bank credits were absorbed by the wholesale and retail trade and restaurant and hotel sectors, well ahead of the energy sector, whose relative share increased due to loans contracted by the Malian energy concern EDM.

5. The public finance deficit (cash basis) stood at 3.8 percent of GDP, a decrease of 0.6 percent of GDP compared to 2010. Gross tax revenue totaled 15.3 percent of GDP, representing an increase of 0.6 percent of GDP relative to the previous year. Net tax revenue was maintained at 14.6 percent of GDP due to the government's decision to value refunds of VAT credits—payable mostly to gold exporters—at fair cost and to accelerate the refund of those credits. Total expenditure and net lending increased by 2 percent of GDP, to 24.8 percent of GDP. The deficit of 3.8 percent of GDP was

financed through foreign-currency-denominated loans made under concessional terms equivalent to 2.7 percent of GDP and by domestic financing equivalent to 1.1 percent of GDP, including utilization of SOTELMA privatization receipts equivalent to 0.6 percent of GDP.

Economic Developments in 2012

6. In 2012, the Malian economy suffered a multitude of shocks. The poor harvest in 2011 (¶2) provoked a food crisis. The February 2012 final assessment report of the early warning system (SAP) estimated that 196 communities and their estimated 3.6 million inhabitants should be considered at risk for malnutrition. Those communities are located on the Mauritanian border, along the Niger River, and in the north (Kayes, Koulikouro, Nara, Mopti, and Timbuktu regions). As soon as the results of the initial SAP assessment were announced in November 2011, the government prepared an emergency plan to respond to the food crisis. The plan provides for the free distribution of food, grain sales at subsidized prices, activities associated with social transfers, the reconstitution of grain inventories, and support in the areas of agriculture, stock farming, and nutrition. The total cost of the emergency food security plan is CFAF 131 billion (US$260 million, or 2.5 percent of GDP), of which approximately CFAF 66 billion (US$130 million) was covered, until now, by different donors, including several NGOs, and CFAF 19 billion (US$37 million) by the government, according to the United Nations Office for the Coordination of Humanitarian Affairs (OCHA).

7. In addition to the cereal crisis, Mali faces a humanitarian crisis provoked by attacks in the north by rebels claiming independence for an area comprising the three northern regions, and terrorist activities of organizations affiliated with Al Qaeda. These attacks and the humanitarian crisis have displaced approximately 420,000 persons, of whom roughly 210,000 have fled to neighboring countries (109,000 in Mauritania, 65,000 in Niger, and 36,000 in Burkina Faso).

8. In March, the country suffered a period of violence and confusion. In April, the president resigned and was succeeded by the president of the National Assembly, whose term will run until the next presidential elections. A prime minister was appointed, a government was formed, and the National Assembly resumed its work. On August 20, the president expanded the composition of the government to establish a national unity government whose priority objective is to reclaim northern Mali and organize presidential and legislative elections. On December 15, 2012, a new prime minister was appointed and the government was reshuffled to make it more inclusive. The national unity government has requested assistance from the United Nations, the African Union, and the Economic Community of West African States to recapture northern Mali. Preparations are under way to deploy an intervention force of several thousand soldiers to support the Malian army in this operation.

9. These shocks weakened the foundations of the economy. While real GDP growth in 2012 had been estimated at 5.6 percent at the time the 2012 budget law was being prepared, all signs now point to real GDP contracting by 1.5 percent. This contraction of GDP is explained by a general decline of activities in the secondary and tertiary sectors. With the exception of gold production, cotton ginning, and textiles, which have continued to hold up, all other sub sectors have suffered

from the crisis. The building and public works sector and hotel and restaurant sector were severely affected by the suspension of budget support from Mali's technical and financial partners (TFPs) following the March events, the sharp reduction of project assistance, and plummeting business tourism. Abundant, well-distributed rainfall is expected to produce strong growth in the primary sector (8 percent), which should limit the contraction of total GDP to a moderate level. The poor harvest in 2011 drove up food prices, which in turn pushed inflation to an annual average of 5.6 percent at end-October 2012, or close to twice the objective established in the West African Economic and Monetary Union (WAEMU).

10. The data on the monetary situation at end-September indicate that the overall balance of payments deficit will be high in 2012. The BCEAO international reserves imputed to Mali have declined by CFAF 110 billion (US$220 million) since the start of the year, pointing to an overall balance of payments deficit of at least that amount at year-end. For the 12 months of 2012, the current account deficit (including grants) is expected to fall to 5.8 percent of GDP due to the sharp increase in gold and cotton exports. However, the improved current account may not suffice to offset the deterioration of the capital and financial operations account in light of the sharp reduction of external aid. As a result, Mali may need to use roughly CFAF 130 billion (US$260 million) of BCEAO international reserves to finance its balance of payments deficit in 2012.

11. At end-September 2012, the money supply increased by 11 percent on an annual basis, driven by the government's use of deposits to finance the budget deficit. Credit to the economy and deposits declined slightly with respect to the beginning of the year, while currency in circulation increased sharply.

12. Following the invasion by terrorist groups in northern Mali, banks were forced to close offices in that region and withstood damage estimated at CFAF 18 billion (US$ 36 million, or 0.3 percent of GDP), including CFAF 2.8 billion in stolen cash, CFAF 11.9 billion in impaired loan receivables, and CFAF 2.1 billion in property damage. The impact of the crisis had only begun to be seen in the most recent data available on banking sector stability (end-June 2012). In fact, the risk-weighted capital ratio increased during the first half, to 14.8 percent. All but one bank met the new minimum 8 percent capital adequacy ratio. Nonperforming loans (after deducting provisions) increased slightly to 7.5 percent of total credits (after deducting provisions), but a larger increase is expected by year-end, when a good number of outstanding receivables will not have been paid in over 6 months due to the crisis, increasing the proportion of nonperforming loans as defined by prudential regulations.

13. In the fiscal area, the government quickly reduced expenditures to maintain spending levels compatible with revenue and available bank deposits. In doing so, the government sought to give priority to payment of salaries, pensions, scholarships, the army and security forces, and, to the extent possible, priority spending on education, health, and social protection. Accordingly, despite a shortfall of CFAF 67 billion in tax revenue (1.3 percent of GDP) at end-September 2012 and the suspension of budget support from the TFPs since the events of March, the government managed to contain the budget deficit at CFAF 40 billion (0.7 percent of GDP), at the cost of drastic cuts in

domestically financed investment spending and the accumulation of CFAF 29 billion (US$58 million, or 0.5 percent of GDP) in external debt payment arrears at mid-November 2012. The government contacted all external creditors towards which it accumulated arrears to reaffirm its commitment to honor all of its payment obligations as soon as its cash flow situation permits. The government also contacted banks in the WAEMU area to secure refinancing of its treasury bills and bonds maturing in 2012 in order to renew them under the same terms, which has been agreed at this point.

14. After a period of uncertainty following the March events, the revenue administrations redoubled their efforts to collect tax revenue to enable the government to continue functioning. To support this effort, the government implemented three tax increases on petroleum products in order to end the erosion of tax revenue on petroleum products observed since 2009.[1] The increases in petroleum taxes will increase revenues by CFAF 7.8 billion in 2012. In the same vein, the government decided to reduce the butane gas subsidy, which generated savings of CFAF 2.9 billion in 2012.

B. Performance with Respect to the ECF-Supported Program

15. The ECF-supported program approved in December 2011 began well but has lost ground since March 2012 due to the multiple shocks that have affected Mali since the start of the year (Table 1). In December 2011, all but one of the performance criteria were met as a result of solid tax revenue performance and control of spending. Only the zero ceiling on accumulation of arrears on external debt was not met due to the difficulty in identifying interlocutors for the purpose of servicing one debt, to Libya (in the amount of CFAF 3.4 billion, or US$6.8 million) since the change of regime in that country. Beginning in March 2012, public financial performance no longer met the program objectives, as tax receipts fell short of targets due to the contraction of economic activity and destruction of IT equipment at the Directorate General of Customs (DGD) during the events of March, and the use of bank and market financing exceeded targets due to shortfalls in tax receipts and the suspension of budget support (¶13).

16. The crisis also affected the implementation of structural measures for which structural benchmarks were established (Table 2). During the first half year, three out of four measures were implemented (the preparation of petroleum product and electricity price adjustment formulas, the startup of a multidisciplinary unit to expand the tax base by identifying taxpayers who may have underreported their income, and the analysis of strengths and weaknesses in the process of selecting and monitoring investment expenditures). During the second half, only one out of four measures was implemented on time (the commitment and payment appropriation authorizations procedure used in accounting for investment projects in the proposed 2013 budget law), but all were implemented by year-end.

[1] Oil tax revenue shrank from CFAF 97 billion (2.3 percent of GDP) in 2009 to CFAF 50 billion (1 percent of GDP) in 2011.

ECONOMIC AND FINANCIAL POLICIES FOR END-2012 AND 2013

A. Formulate Policies on the Basis of a Realistic Macroeconomic Framework

17. After a 1.5 percent contraction of economic activity in 2012 (¶9), real GDP is expected to increase by 4.8 percent in 2013, reflecting increased gold production and recovered activity in the other sectors following a return to normalcy in southern Mali and the gradual resumption of projects financed by the TFPs. Inflation is expected to decline to 3 percent in 2013 if rainfall is favorable. The current account deficit (including grants) is expected to widen to 8 percent of GDP in 2013 as economic activity recovers. Only a portion of the deficit could be financed by direct investment and anticipated disbursements of project loans financed by the TFPs. The use of BCEAO international reserves, in the amount of CFAF 83 billion (US$160 million) may again prove necessary.

18. Although these prospects are favorable, the Malian economy remains exposed to vagaries of the climate and the volatility of gold and cotton prices, which represent most of Mali's exports. Moreover, renewed political tension in the south during the transition toward democratic elections and the re-conquest of the north could once again weigh on consumer and investor confidence. Finally, the prospects do not take account of the effects of the forthcoming military intervention in northern Mali, the impacts of which will be integrated in the government's macroeconomic framework as information becomes available.

B. Implement a Fiscal Policy Focused on Maintaining Macroeconomic and Financial Stability

19. In the fiscal area, while awaiting the resumption of budget support from the TFPs, the government will continue to conduct a prudent policy aimed at maintaining expenditures under its control in balance with the resources on which it may reasonably rely. From that perspective, in October 2012 the government introduced a 2012 supplementary budget proposal (LFR) and proposed 2013 budget law, which are both based on ambitious efforts to mobilize domestic resources but do not assume resumption of assistance from the TFPs in 2012 and 2013.

The Fiscal Program in 2012

20. The proposed 2012 LFR assumes revenue and grants representing 18.0 percent of GDP (20.5 percent of GDP in the initial budget law), net tax revenue of 15.0 percent of GDP (15.1 percent of GDP in the initial law), total expenditure and net lending of 18.5 percent of GDP (23.4 percent of GDP in the initial law), a total deficit (cash basis, including grants) of 0.8 percent of GDP (3.1 percent

of GDP in the initial law), and a basic fiscal deficit[2] of 1.0 percent of GDP (1.2 percent of GDP in the initial law).

21. During a November budget review conducted with IMF staff, several risks were identified with respect to the amounts shown in several 2012 LFR line items:

- a CFAF 10 billion shortfall in domestic VAT revenue (with respect to the CFAF 130 billion provided in the LFR);
- a likely CFAF 10 billion underestimation of VAT credits to be refunded (with respect to the CFAF 25 billion provided);
- the need to increase the transfer to EDM by CFAF 10 billion (above the CFAF 20 billion provided); EDM suffers from a structural imbalance between the selling price of electricity and the production cost, and is in urgent need of cash to settle its arrears vis-à-vis petroleum suppliers;[3] and
- the need to increase external debt service by CFAF 5 billion (with respect to the CFAF 49.8 billion provided).

22. Accordingly, the government decided to increase transfers to EDM by CFAF 10 billion, audit the company to identify potential approaches to improving the company's management, and gradually increase electricity prices to eliminate the subsidy on electricity consumption, following the example of the gradual elimination of cooking gas subsidies and increased petroleum taxes undertaken in 2012 (¶14). It also identified CFAF 25 billion in expenditure (CFAF 20 billion in current expenditure and CFAF 5billion in capital expenditure) in the 2012 LFR to be reduced in case the risks identified should materialize.

23. At the time of the budget review, it was also determined that the TFPs were executing expenditures in the form of projects for amounts well in excess of the amounts provided in the 2012 LFR. In fact, the expenditures executed in the form of projects are now estimated at 1.2 percent of GDP (of which 0.3 percent of GDP are financed by grants and 0.9 percent of GDP by loans) compared to 0.1 percent of GDP provided in the 2012 LFR. The government will include the amounts executed in the form of projects in 2012 in the draft law reporting on the 2012 budget execution.

24. The government commits not to increase external arrears beyond CFAF 29 billion (¶13), the stock outstanding at mid-November 2012 (indicative target, Table 3).

[2] Since 2012, the definition of the basic fiscal balance under the program has been aligned with the new WAEMU definition of the basic fiscal balance, namely revenue including resources from the Enhanced Initiative for Heavily Indebted Poor Countries plus grants intended for general budgetary assistance less current expenditure and domestically financed expenditure.

[3] In 2012, the average of sales price of electricity was CFAF 91 FCFA per kWh and the production cost was CFAF 119 per kWh.

The fiscal program in 2013

25. The proposed 2013 budget law provides for a total of expenditure and net lending of 18.2 percent of GDP, in balance with tax and non-tax revenue, and comes very close to an overall fiscal balance. Net tax revenue is estimated to increase from 14.6 percent of GDP in 2012 to 15.3 percent of GDP in 2013, reflecting a 25 percent increase in petroleum taxes compared to those in place at end-2012, and renewed efforts to improve the collection of tax, customs, and property revenue (¶¶31-34).

26. During the budget review conducted with IMF staff, it also became apparent that a financing gap remained in the amount of CFAF 55 billion (US$110 million, or 1.0 percent of GDP) in 2013, primarily due to the following conclusions relating to the review of assumptions underlying the proposed 2013 budget law:

- downward revisions of revenue targets for the General Tax Directorate (DGI) by CFAF 6 billion (compared to the CFAF 521 billion provided);
- upward revision of CFAF 10 billion in VAT credits to be refunded (compared to the CFAF 30 billion provided); and
- upward revision of external debt service by CFAF 23 billion (with respect to the CFAF 35 billion provided).

27. The government hopes to count on resumed budget support from donors to cover the financing gap in 2013. While awaiting confirmation of budget support in that amount, the government will freeze capital expenditures provided in the 2013 budget law by the same amount, and provided the National Assembly with a list of those expenditures prior to the vote on the 2013 budget law.

28. At the time of the budget audit, it was also determined that Mali's TFPs were preparing to execute expenditures in the form of projects in amounts well in excess of those provided in the 2013 budget law. In fact, expenditures executed in the form of projects are now projected at 3.1 percent of GDP (of which 1.1 percent of GDP are financed by grants and 2.0 percent of GDP by loans) compared to zero in the 2013 budget law. The government will increase the amounts of those expenses in a 2013 supplementary budget to be introduced in the National Assembly as soon as possible.

29. In the difficult circumstances that led to an increase in military spending by one-third in the proposed 2013 budget law with respect to the 2012 LFR, the government will nonetheless accord priority to expenditures of the ministries of basic education, secondary education, higher education and scientific research, health, and social development, in accordance with the 2011–17 Growth and Poverty Reduction Strategy adopted in December 2011. Accordingly, the government is committed to maintaining these expenditures above a floor in 2013 (Table 3).

30. To ensure the quality of the sharp increase in projected military spending, the government, with the assistance of World Bank public financial management experts, will conduct an evaluation of the defense and security forces' public expenditures and financial management in order to improve management performance, increase the forces' effectiveness in this area, and reduce fiduciary risks.

31. The government commits not to accumulate fresh external arrears in 2013 (indicative targets, Table 3). It furthers commits to clear the outstanding external arrears (¶24) as soon as its financial situation permits.

C. Maintain Focus on Improving Public Financial Management

32. While awaiting the resumption of technical assistance, the government will continue to improve public financial management, in particular by remedying the weaknesses revealed by the public expenditure and financial accountability assessment (PEFA) conducted in 2011. The assessment indicated progress in Mali's public financial management system in terms of the credibility, comprehensiveness, and transparency of the budget and the preparation and execution of budget laws. However, it highlighted persistent weaknesses concerning tax collection, domestic debt service, cash flow management, accounting, reporting, and external control. The government is continuing implementation of the 2011–15 Government Action Plan to Improve and Modernize Public Financial Management (PAGAM/GFP II), albeit with more targeted priorities and a substantially reduced budget (from CFAF 11 billion, or US$22 million, to CFAF 2.2 billion, or US$4.4 million).

Reform tax policy

33. In the country's current fragile context, the government plans to prepare the way for the gradual implementation of the following fiscal measures:

- *Identification and gradual reduction of exemptions*:

  - beginning with the proposed 2013 budget law, the inclusion of a table annexed to the budget bill identifying all exemptions provided in the General Tax Code, Customs Code, Investment Code, Mining Code, and all other laws or government decisions establishing tax benefits; the legal bases for the exemptions and effective dates; and an estimate of the forgone revenue they represent (structural benchmark, Table 2);

  - gradual reduction of exemptions to the extent possible.

- *Preparation of a strategy to adjust domestic energy prices (petroleum products and electricity) to international oil prices movements*. This strategy includes the following elements:

- beginning with the 2013 budget law, the inclusion in budget bills of a presentation of the estimated consequences of the lack of petroleum and electricity price adjustment mechanism for the government budget (structural benchmark, Table 2)

- by end-February 2013, development of proposals for adjustment of domestic energy prices (petroleum products and electricity) to international prices:

  - preparation by the National Petroleum Office (ONAP), the DGD, and other units concerned of different options to adjust petroleum product prices, accompanying measures to minimize social consequences, and a communication policy in respect of public opinion, taking account of the ONAP proposals of February 2010, the recommendations of the IMF Fiscal Affairs Department provided during the September 2011 WAEMU Commission seminar, and the report presented by the IMF mission in March 2012;

  - commitment by the Malian authorities, EDM, and the Water and Electricity Regulatory Commission (CREE), within the scope of their respective functions and responsibilities, to adopt the public electricity tariff indexing formula, launch a communication campaign to enlist public support and introduce electricity tariff adjustment by end-February 2013.

- *development, with assistance from World Bank staff, of a system of transfers to limit social tension* that could result from increased food or energy price; the transfers would target the most vulnerable segments of the population and could be increased if those prices rise.

Reform the Tax, Customs, and Government Property Administrations

34. Priority will be given to implementing the reforms undertaken in 2011 to sustainably improve the functioning and yield of the VAT, which account roughly for 40 percent of tax revenue. The following measures have been implemented to that end:

- On January 18, 2011, a Treasury account was opened at the BCEAO to receive all VAT receipts paid by mining companies on imports, and 10 percent of domestic VAT receipts. The DGI and DGD began to deposit monthly receipts to the account on June 1, 2011. The use of the account is restricted to VAT credit refunds. This mechanism will ensure that VAT credits are duly refunded on a regular basis in accordance with WAEMU law to gold exporters and all other companies that generate VAT credits. The amount of VAT credits payable to gold mining companies is estimated at CFAF 35.6 billion in 2012 and CFAF 38.5 billion in 2013. The DGI prepared an estimate of accumulated VAT credits as at December 31, 2011 to be refunded by the government in 2012, which came to CFAF 11 billion. These amounts will be reviewed in March 2013 during the budget review to be conducted with IMF staff.

- To continue to decrease the time required to refund VAT credits, between now and February 2013, the government will analyze the option of refunding VAT credits to mining companies by a simplified procedure in accordance with public accounting rules, beginning on January 1, 2014. Under this approach, the VAT on mining companies would be collected, refunded, and recorded as follows:

- ➢ The DGD and DGI collect the VAT from non-exempt mining companies;
- ➢ The Treasury refunds VAT credits directly from the account maintained at the BCEAO (without prior issuance of payment orders); and
- ➢ The amount of VAT collected from mining companies is excluded from DGD receipts, and the amount of mining company VAT credits attributable to their domestic transactions is excluded from DGI revenue.

- The system of withholding VAT at the source was eliminated on December 31, 2011 except for the Treasury, for which it will be eliminated gradually beginning on January 1, 2013. From that date, the Treasury will withhold only 40 percent of the VAT at the source, and the withholding will be eliminated entirely as of January 1, 2014. In April 2012, the DGI sent a letter to all companies no longer subject to VAT withholding at the source as at January 1, 2012 to remind them of their obligations in regard to reporting and paying VAT. The DGI will verify those companies' compliance with their VAT reporting obligations on a monthly basis (two weeks after the close of the month) and report each quarter to the Minister of Economy, Finance, and Budget on compliance with their reporting obligations.

- To simplify the collection of VAT, the revenue threshold for payment of VAT will be increased from CFAF 30 million to CFAF 50 million beginning on January 1, 2013 (structural benchmark, Table 2). On January 1, 2014, the threshold will be raised to CFAF 100 million after consultation with the WAEMU Commission, coordinating with the change of revenue thresholds established by the Directorate of Large Enterprises (DGE) and the Directorate of Medium-Sized Enterprises (DME) explained below.

35. The DGI, the DGD, the National Directorate of Public Property and Lands (DNDC), and the Directorate of Government Property Administration (DGABE) will continue their efforts to improve tax, customs, and property administration:

- *Modification of revenue thresholds used by the DGE and DME in order to rationalize taxpayer administration*. To improve management of taxpayers and expand the number of taxpayers managed by the DGE and the DME, the threshold for the DGE will be increased from CFAF 500 million to CFAF 1 billion, and will be lowered for the DME from CFAF 150 million to CFAF 100 million beginning on January 1, 2013 (structural benchmark, Table 2). This adjustment will improve the DGE's management and control of companies, quickly increase the number of taxpayers managed by the DME, and improve the management of VAT by assigning all responsibility for VAT to the DGE and DME effective January 1, 2014.

- *Improvement of the SIGTAS taxpayer data base*. The SIGTAS database contains numerous data entry errors to be corrected by end-2013. Regular reports will be produced for this purpose.

- *Improved administration of taxpayers managed by the DGE*. The DGI will take all steps necessary to increase the number of taxpayers paying taxes by bank transfers for all companies managed by the DGE by January 1, 2013.

- *Improved administration of taxpayers managed by the DME*. The DGI will continue to pay special attention to the operations of the DME, which will implement the following measures: (i) expand its portfolio to increase the number of taxpayers to at least 2,000 by January 1, 2014; (ii) reduce the VAT non-filer rate to less than 10 percent by end-2013 and less than 5 percent by end-2014; and (iii) increase the tax audit coverage rate for year 2012 to at least 20 percent of its portfolio by end-February 2013. The DGI will give special attention to upgrading the DME offices and expanding its staff. The DME will move into its new offices by end-February 2013.

- *Strengthening of tax payment compliance*. In October 2011, the DGI began publishing and regularly updating lists of the taxpayers managed by the DGE and DME, respectively, on the MEFB website, in order to inform the public of the results of efforts to broaden the taxable base.

- *Implementation of automated selection for customs inspections* as soon as possible. To this end, the DGD established a technical risk management unit, which had completed the necessary preparatory tasks at the time of the March 2012 events.

- *Modernization of the DNDC*. In 2011, the DNDC conducted a study to determine the potential public property receipts and improve collection of that revenue, and a study to prepare and implement an automation scheme. The DNDC has collected capital gains taxes on real property sold by private individuals since October 1, 2011. It is continuing efforts to establish a land registry and will implement a secure data storage system.

- *Modernization of the DGABE*. The MEFB will modernize the DGABE through the introduction of modern management tools such as results-based management, greater utilization of automation (use of materials accounting software in the accounting offices of ministries and public institutions), and the implementation of reforms to better monitor and optimize the government portfolio.

- *Multidisciplinary tax control*. The Joint Economic and Financial Intelligence Committee (CMRIEF) was established on March 15, 2012 to strengthen the effectiveness of tax audits and identify new taxpayers by using, notably, all databases of taxpayers or economic operators available at the DGI, the DGD, the DNDC, the DGABE, and the directorate responsible for public procurement. The CMRIEF identified potential tax deficiencies estimated at CFAF 7 billion in the hydrocarbon sector and the automotive spare parts sector, which the DGI or the DGD will process. In parallel with the sector-based approach, the CMRIEF will compare the values of imports reported by operators in the DGD ASYCUDA database with the revenue figures reported to the DGI to identify taxpayers who might have underestimated their taxable earnings, and report the results of this investigation by end-February 2013 (structural benchmark, Table 4).

- *Improved accounting of tax revenue*. The new Treasury integrated accounting application (AICE) and its interface with DGD applications (ASYCUDA) and DGI applications (SIGTAS) was put in operation in the Bamako District General Revenue Office (RGD) on January 3, 2012. The interface with ASYCUDA was interrupted following the destruction of DGD IT equipment during the events of March 2012, and will be restored to operation as soon as possible.

36. To consolidate its efforts to reform the tax system and the tax, customs, and property administrations, by end-February 2013 the government will request the IMF's intervention through the Fund’s Topical Trust Fund on Tax Policy and Tax Administration to develop a multi-year technical assistance program linked to the achievement of results. In order to develop its capacities in the control of mining companies and review the possibility of introducing a surcharge on profits generated by exceptionally high prices as part of the tax provisions applicable to mining companies, the government will also request the IMF's intervention through the Fund’s Topical Trust Fund on Managing Natural Resource Wealth.

Improve Expenditure Management and Transparency in Public Finance

37. The government has agreed to incorporate the WAEMU directives 5/2009 through 10/2009 concerning transparency, budget laws, public accounting, budget nomenclature, the government chart of accounts, and the government financial operations table (TOFE) in Mali’s laws and regulations. The administration has elaborated drafts of the relevant amendments to domestic legislation and regulation and has submitted those to the WAEMU Commission for opinion. The Council of Ministers approved the proposed regulation for incorporation of Directive No. 05 covering the budget laws.

38. Pursuant to these directives, the following cutoff dates have been established for 2012 budget execution: ordinary operating and capital expenditures to be committed by November 30, 2012; commitments of other expenditures by December 20; payment orders issued by December 31, 2012; and accountants’ payment order acceptances, approvals, and regularization of expenditures by January 31, 2013. Accordingly, the carryover period will be limited to accounting operations, and a circular on the annual closing was published on October 10, 2012 setting the deadlines for commitment and validation so as to allow payment orders to be closed as at December 31, 2012.

39. In the context of the program, the government also intends to complete the following actions undertaken to improve cash management, accounting, and public finance statistics:

- *The Treasury single account (TSA) will be gradually implemented at the BCEAO*. A study of the impact of transferring all 3,415 government accounts as defined in the TOFE (other than project accounts established pursuant to explicit provisions of agreements signed with TFPs) from commercial banks to the BCEAO was completed on September 15, 2011. The study concluded that seven banks could withstand the immediate transfer of these accounts to the BCEAO without compromising their liquidity ratios, but six banks would see their ratios fall below the minimum required. Accordingly, the authorities transferred the accounts (other than project accounts) of the RGD, the Treasury Payment Office (PGT), the Treasury Central Accounting Agency (ACCT), and the accounting offices of the regional treasurers-paymasters (TPR) in Mopti and Sikasso at the seven commercial banks to the BCEAO in December 2011. The authorities will take additional time to determine the strategy for transferring those entities' accounts at the other six commercial banks, as well as accounts (other than project accounts) of other public administrations and specialized agencies (EPA) held at any commercial bank, to the BCEAO. However, following the events of March 2012 and the suspension of access to its accounts at the BCEAO, the government decided to reopen the accounts of the above entities at the seven commercial banks. The government decided to await resolution of the political-military crisis before taking further steps to implement the TSA. In the meantime, the dormant government accounts in the banking sector will be transferred to the TSA by end-February 2013. The Minister of Economy, Finance and Budget will determine the conditions for the opening, operation, and closing of public entities' bank accounts. An agreement between the MEFB and the BCEAO governing the operation of the TSA will be finalized.

- *The implementation of the new accounting software at the Treasury (AICE) will go on*. The application will be deployed at the Koulikoro treasurer general's office by end-January 2013 and at the ACCT by end-2013. The AICE deployment at the ACCT will allow the production of all consolidated accounting statistical reports of government entities connected to the system, including the Treasury balance and TOFE.

- *The quality of the accounts will be gradually improved*. Efforts have begun to review and correct the unusually high balances observed in reciprocal accounts, third-party accounts, and the financial accounts of the ACCT, PGT, and RGD.

- *The government will continue efforts to improve public finance statistics*. The TOFE was modified as specified in the technical memorandum of understanding (TMU, ¶25) as of May 31, 2011. Efforts will continue to reduce the statistical error required to reconcile the total balance recorded and it's financing. The MEFB and the BCEAO will continue to work closely to ensure that the BCEAO continues to produce a narrow net government position covering the transactions reflected in the TOFE (TMU, ¶6).

- *Monitoring of the net government position (NGP) in the banking system will be stepped up*. By February 28, 2013, the National Directorate of Treasury and Public Accounting (DNTCP) will conduct a detailed review of all broad NGP components, as the term is applied by the BCEAO pursuant to community provisions; all items constituting the narrow NGP (TMU, ¶6), including government assets in the banking system available for treasury operations in 2013 (structural benchmark, Table 4).

- *Payment dates will be monitored more closely in order to avoid accumulation of arrears*. The expenditure management software (PRED5) will be used to monitor the time taken to execute payment orders and ensure that payments are made in less than 90 days after validation of the expenditures if possible. Monthly tables will be produced for this purpose (structural benchmark, Table 4).

- *Projected cash flow plans will be prepared each month*. Beginning in January 2013, the DNTCP will prepare a projected cash flow plan covering the following 12 months.

40. The following measures will be taken to gradually improve budget procedures and monitoring of the execution of investment appropriations:

- *The draft 2013 budget law introduced the budgeting of commitment authorizations (CA) and payment appropriations (PA) relating to triennial public investment expenditures*. On that basis, the MEFB will arrange to monitor the utilization of CA and PA in the PRED5 expenditure management application.

- *The procedure for carryover of PA will take effect on a transitional basis to prepare for full application of the carryover provisions established by WAEMU directives*. The transitional system authorizes PA to be carried over provided they are secured (i.e., covered by corresponding financing or budget savings the following year) and provided for in the following year's cash flow plan. Unsecured payment appropriations may also be carried over, up to a limit of 10 percent of the initial appropriations provided in the investment budget from domestic resources, provided the financing is established in the following year's cash flow plan. Payment appropriations associated with validated expenditures not yet authorized are carried over on a priority basis, subject to the same ceiling; for amounts above the ceiling, the authorities must prepare a supplemental budget bill (LFR). The terms of implementation of carryovers will include an executive order adopted by the Council of Ministers no later than March 31 of the following year identifying: (i) PA for which payment authorizations were not issued as at December 31 that were canceled for the preceding fiscal year and carried over to the following fiscal year in accordance with the preceding terms; and (ii) canceled PA that were not carried over

- *The procedure for carrying over payment appropriations will take effect by 2014 under a mechanism that provides for full application of the carryover provisions established by WAEMU directives* and allows only secured payment appropriations included in the cash flow plan to be carried over.

Strengthen Internal and External Control

41. *Internal control structures will be strengthened*. The internal and external control structures revealed numerous administrative weaknesses in public financial management in Mali. With respect to internal control, the Government Comptroller's Office (CGSP) noted the shortage of and inadequate use of procedures manuals in the administration. To correct these weaknesses, in

August 2011 the government adopted a 2011–15 national internal control strategy, which it will implement with the support of several of its TFPs. With respect to external control, the Auditor General's Bureau (BVG) directed attention to significant amounts pending collection for the Treasury. The staffing of the Supreme Court accounting section will be increased, and the section will be converted into a Court of Accounts in accordance with the applicable WAEMU directives as soon as possible.

42. *The production and audit of the annual government accounts will be expedited*. The Supreme Court accounting section is implementing a strategy of reviewing accounts based on the assessment of account positions produced by the DNTCP. For government accounts prior to 1992, the government enacted a proposed validation law on June 29, 2011 and submitted it to the National Assembly that approved it on January 3, 2013. The accounting section reviewed the government accounts for fiscal years 1992 through 2008. The National Assembly approved the budget execution laws for 2008 and 2009. The government submitted proposed budget execution laws for fiscal years 2010 and 2011 to the National Assembly. The government will adopt the draft budget execution law for fiscal year 2012 by end-2013, in accordance with WAEMU directives.

Conduct a Sustainable Borrowing Policy

43. The most recent debt sustainability analysis conducted by IMF and World Bank staff concluded that the risk of debt distress remains moderate. The analysis also confirmed that the sustainability of the debt remains highly sensitive to gold prices (gold represents three-fourths of exports, and gold production will decrease in the medium term), the financial terms of the debt, and the pursuit of sustainable fiscal policies. Accordingly, the government reiterates its commitment to cover its external financing needs with grants and the balance with loans having a minimum grant element of 35 percent (continuous indicator, Table 3).

44. Management of domestic debt will be improved. To this end, the MEFB tasked the Directorate General of Public Debt (DGDP) with compiling an inventory of all domestic borrowing agreements signed by the government and all government domestic debt guarantees in order to include to payment schedules in the public debt data and the budget laws. The DGDP has begun the inventory effort with local banks. The project has already served to identify CFAF 238.1 billion in direct and indirect government commitments vis-à-vis the banking sector, representing 4.7 percent of GDP, as at December 31, 2011, of which CFAF 32.3 billion (0.7 percent of GDP) in payments past due. A payment schedule is being negotiated with the creditors, and CFAF 7.5 billion is included in the proposed 2012 LFR and CFAF 9.2 billion in the 2013 budget proposal to cover these payments.

PROGRAM MONITORING

45. The program will be evaluated based on the indicators as at December 31, 2012 and as at March 31, June 30, September 30, and December 31, 2013 (Table 3) as well as continuous indicators and structural benchmarks (Table 4). The indicators are defined in the TMU, which also identifies the nature and frequency of reports to be provided for program monitoring purposes.

Table 1. Mali: Quantitative Performance Criteria and Indicative Targets for December 2011 and 2012 [1]

	2011																
	Dec.				March				June				Sep.				Dec.
	Perf. criteria [2]	Adjusted targets	Est.	Status	Indicative targets [2]	Adjusted targets	Est.	Status	Perf. criteria [2]	Adjusted targets	Est.	Status	Indicative targets [2]	Adjusted targets	Est.	Status	Perf. criteria [2]
	(in CFAF billions)																
Performance criteria																	
Government bank and market financing (ceiling) [3]	74.1	70.1	64.1	Met	63.4	-16.3	72.8	Not met	70.7	92.4	100.0	Not met	82.8	63.9	132.6	Not met	63.8
Cumulative increase in external payments arrears (ceiling) [4]	0.0		3.5	Not met	0.0		5.3	Not met	0.0		14.1	Not met	0.0		20.6	Not met	0.0
New external borrowing contracted or guaranteed by the government on nonconcessional terms (ceiling) [4 5]	0.0		0.0	Met	51.1		0.0	Met	51.1		0.0	Met	51.1		0.0	Met	51.1
Gross tax revenue (floor)	768.0		768.3	Met	219.1		178.5	Not met	438.1		394.1	Not met	657.2		587.2	Not met	876.2
Indicative targets																	
Basic fiscal balance (floor)	-129.4		-112.2	Met	-0.8	-18.1	-53.7	Not met	-7.9	-32.9	13.9	Met	-6.2	-31.2	8.6	Met	-21.1
Basic fiscal balance, underlying (floor)	-73.5		-79.7	Not met	3.2	-14.1	-44.9	Not met	0.1	-24.9	28.8	Met	5.8	-19.2	24.4	Met	-5.1
Priority spending (floor)	352.0		358.7	Met	61.2		75.5	Met	135.4		148.6	Met	250.1		234.8	Not met	405.3
Memorandum items:																	
External budget support	140.5		141.9		17.3		0.0		27.1		0.0		80.4		0.0		88.5
General budgetary grant	49.2		55.7		17.3		0.0		27.1		0.0		46.4		0.0		46.4
Net change in pending bills (– = reduction)	4.2		2.2		-41.3		45.6		-20.3		-14.4		-46.9		-6.0		0.0
Tax refunds (–)	-37.0		-34.1		-10.0		-3.5		-20.0		-20.2		-30.0		-27.3		-40.0
Net change in arrears (– = reduction)	-12.3		-9.2		-3.6		0.0		-7.1		-9.4		-10.7		-10.4		-14.2

Sources: Malian authorities; and IMF staff projections.

[1] Cumulative figures from the beginning of the year. Noncontinuous targets at end-March and end-September are indicative targets. See Technical memorandum of understanding (TMU) of November 23, 2011 for definitions.
[2] IMF Country Report No. 12/3: Mali —Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.
[3] The targets for this performance criterion or indicative target are subject to adjustment for external budget support, reduction of pending bills, tax refunds, and arrears payment. See TMU of November 23, 2011 for more details.
[4] These performance criteria will be monitored on a continuous basis since the beginning of the year.
[5] Ceiling starts in 2012 and applies for the period 2012-14.

Table 2. Mali: Structural Benchmarks for the First and Second ECF Program Reviews

Measures	Timing	Macroeconomic rationale	Status
In the context of the first review of the program			
Transfer the accounts (except the project-accounts) from the District of Bamako's tax collections office (RGD), the General Payments Office (PGT), the Central Accounting Agency of the Treasury (ACCT) and the accounting units of the Regional Treasurers-Paymasters (TPR) in Mopti and Sikasso, that are held in commercial banks, to the BCEAO, as indicated in ¶33, third indent, of the MEFP.	31-Dec-11	Improve cash management	Partially met
Prepare formulas to adjust domestic oil and electricity prices to international oil prices.	29-Feb-12	Increase tax revenue	Met
Set up a tax intelligence unit which brings together staff from the Directorate General of Taxes (DGI) and the Directorate General of Customs (DGD) to collect information and conduct joint inspections using, in particular, the databases of the tax and customs authorities as well as the public spending agencies, in order to audit tax returns and identify new taxpayers.	29-Feb-12	Increase tax revenue	Met
Analyse the strengths and weaknesses of the current process of selection, budgeting, implementation monitoring, and ex-post evaluation of public infrastructure invesment projects, and make recommendations to improve this process.	29-Feb-12	Improve public investment management	Met
In the context of the second review of the program			
Introduce in the draft budget law for 2013 submitted to Parliament a Table listing: (i) all the exemptions included in the General Tax Code, the Customs Code, the Investment Code, the Mining Codes and all other laws and government decisions which provide tax advantages; (ii) their legal basis and date of enactment; and (iii) an	30-Sep-12	Increase tax revenue	Met in November 2012
Introduce in the draft budget law for 2013 submitted to Parliament a Table presenting an estimate of the fiscal cost of not adjusting oil and electricity prices to international oil prices.	30-Sep-12	Increase tax revenue and reduce transfers	Met in November 2012
Implement the budgeting of commitment authorizations (AE) and payment appropriations (CP) pertaining to the three-year public investment expenditures, consistent with the modalities explained in ¶28, indents one and two, of the MEFP.	30-Sep-12	Improve public investment management	Met
Adopt the regulatory texts which would establish the business turnover threshold at the Large-sized Taxpayers Office (DGE) at CFAF 1 billion and at the Medium-sized Taxpayers Office (DME) at CFAF 50 million and raise the VAT threshold to CFAF 50 million starting January 1st, 2013.	31-Oct-12	Increase tax revenue	Met in November 2012

Source: Malian authorities.

Table 3. Mali: Indicative Targets 2012-13 [1]

	2012	2013			
	Dec.	March	June	Sep.	Dec.
		(in CFAF billions)			
Government bank and market financing (ceiling) [2]	107	29	28	8	7
Cumulative increase in external payments arrears (ceiling) [3]	29	0	0	0	0
New external borrowing contracted or guaranteed by the government on nonconcessional terms (ceiling) [3]	0	0	0	0	0
Gross tax revenue (floor)	807	182	413	671	909
Basic fiscal balance (floor) [4]	-55	-15	20	0	-5
Priority spending (floor)	243	38	89	175	296
Memorandum items:					
External budget support	4	0	0	0	0
General budgetary grant	4	0	0	0	0
Net change in pending bills (– = reduction)	4	0	-20	-20	0
Tax refunds (–)	-41	-9	-20	-32	-44
Net change in arrears (– = reduction)	-21	-4	-8	-11	-15

Sources: Malian authorities; and IMF staff projections.

[1] Cumulative figures from the beginning of the year. See Technical memorandum of understanding (TMU) for definitions.
[2] The targets for this indicative target are subject to adjustment for external budget support, reduction of pending bills, tax refunds, and arrears payment. See TMU for more details.
[3] These indicative targets will be monitored on a continuous basis since the beginning of the year.
[4] The targets for this indicative target are subject to adjustment for budgetary grants and tax refunds.

Table 4. Mali: Proposed Structural Benchmarks for 2013

Measures	Timing	Macroeconomic rationale
Produce, using the expenditure management software PRED 5, monthly reports tracking the time elapsed between the issuance of payment orders and actual payment.	28-Feb-13	Prevent the accumulation of arrears
Produce a report, by the Joint Economic and Financial Intelligence Committee (CMRIEF), comparing the value of imports declared by operators in the ASYCUDA database of the DGD with the turnover declared to the DGI to identify taxpayers who might have underestimated their taxable earnings.	28-Feb-13	Increase tax revenue
Preparate a report, by the National Directorate of the Treasury and Public Accounting (DNTCP), on the net government position vis-à-vis the banking system (NGP) at December 31, 2012, examining in detail all the items of the NGP and identifying—within all the items included in the NGP in the broad sense as used by the BCEAO pursuant to Community provisions—all those that are included in the narrow NGP and, within these, government assets in the banking system that are available for cash operations in 2013.	28-Feb-13	Improve cash management

Table 5. Mali: Central Government Consolidated Financial Operations, 2013

	March	June	September	December
		(in CFAF billions)		
Revenue and grants	219.6	495.7	793.4	1,079.2
Total revenue	204.4	465.3	747.7	1,018.3
Budgetary revenue	179.4	415.2	672.6	918.1
Tax revenue	172.5	392.9	638.7	865.2
Direct taxes	53.6	128.4	196.6	265.4
Indirect taxes	118.9	264.6	442.1	599.8
VAT	67.3	154.3	247.3	336.7
Excises on petroleum products	4.2	9.6	14.7	19.9
Import duties	24.4	55.8	85.4	115.3
Other indirect taxes	32.1	64.9	126.9	171.4
Tax refund	-9.2	-20.1	-32.2	-43.5
Nontax revenue	6.9	22.3	33.9	52.9
Special funds and annexed budgets	25.1	50.1	75.2	100.2
Grants	15.2	30.4	45.6	60.8
Projects	15.2	30.4	45.6	60.8
Budgetary support	0.0	0.0	0.0	0.0
Of which: general	0.0	0.0	0.0	0.0
Of which: sectoral	0.0	0.0	0.0	0.0
Total expenditure and net lending (payment order basis)	265.4	537.5	885.8	1,207.6
Budgetary expenditure	240.8	488.3	812.1	1,109.3
Current expenditure	197.5	398.8	587.5	772.6
Wages and salaries	78.0	155.9	233.9	311.8
Goods and services	64.4	128.8	178.0	232.6
Transfers and subsidies	47.3	98.3	152.0	196.6
Interest	7.9	15.8	23.6	31.5
Of which: domestic	2.9	5.8	8.6	11.5
Capital expenditure	43.3	89.5	224.6	336.8
Externally financed	43.3	86.6	130.0	173.3
Domestically financed	0.0	2.9	94.6	163.5
Special funds and annexed budgets	25.1	50.1	75.2	100.2
Net lending	-0.5	-1.0	-1.4	-1.9
Overall fiscal balance (excl. grants)	-61.0	-72.2	-138.1	-189.3
Overall fiscal balance (incl. grants)	-45.7	-41.8	-92.5	-128.5
Variation of arrears	-3.8	-7.6	-11.3	-15.1
Adjustment to cash basis	0.0	-20.0	-20.0	0.0
Overall balance (cash basis, incl. grants)	-49.5	-69.3	-123.8	-143.6
Financing	49.6	69.3	69.2	89.0
External financing (net)	18.7	37.4	56.0	74.7
Loans	28.1	56.2	84.3	112.5
Project loans	28.1	56.2	84.3	112.5
Of which: non-concessional	0.0	0.0	0.0	0.0
Budgetary loans	0.0	0.0	0.0	0.0
Amortization	-12.3	-24.6	-36.8	-49.1
Debt relief	2.8	5.7	8.5	11.4
Domestic financing (net)	30.9	31.9	13.1	14.3
Banking system	29.1	28.3	7.7	7.0
Central bank	7.3	4.9	2.6	0.3
Commercial banks	21.8	23.4	5.1	6.8
Net credit to the government	9.0	8.4	7.9	7.3
IMF (net)	9.0	8.4	7.9	7.3
Central bank credit (net)	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Other domestic financing	0.0	0.0	0.0	0.0
Privatization receipts	5.5	11.0	16.5	22.0
Non-bank financing	-3.7	-7.4	-11.1	-14.7
Financing gap	0.0	0.0	54.6	54.6
Memorandum items				
Basic fiscal balance[2]	-14.8	20.1	0.4	-4.7
External budget support	0.0	0.0	0.0	0.0
Government bank and market financing	29.1	28.3	7.7	7.0

Sources: Ministry of Finance; and IMF staff projections.

[1]IMF Country Report No. 12/3 Mali — Seventh Review Under the ECF and Request for a New Three-Year Arrangement Under the ECF.

[2]Total revenue, plus general budgetary grants, plus revenue from HIPC debt relief, minus total expenditure and net lending, excluding externally financed capital spending.

ATTACHMENT II—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This technical memorandum of understanding defines the program indicators accompanying the request for disbursement under the Rapid Credit Facility (RCF) presented in Table 3 of the Memorandum on Economic and Financial Policies (MEFP). It also specifies the frequency and deadlines for reporting data 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 government of the Republic of Mali and does not include local governments, the central bank, or any other public entity with autonomous legal personality that is not included in the Central Government Financial Operations Table (TOFE). The National Directorate of the Treasury and Public Accounting (DNTCP) reports the scope of the TOFE in accordance with the presentation of the accounts nomenclature provided by the BCEAO and forwards it to the Central Bank and IMF staff.

II. INDICATORS

3. Except as noted, the following financial targets will constitute indicators for end-December 2012 and end-March, end-June, end-September, and end-December 2013.

A. Ceiling on Net Domestic Financing of the Government by Banks and the Financial Market

4. Net domestic financing of the government by banks and the financial market is defined as the sum of (i) the narrow net government position as defined below, and (ii) financing of the government through the issuance (net of redemptions) of securities to legal entities or individuals outside the banking system or to nonresident banks domiciled in the West African Economic and Monetary Union (WAEMU).

5. The broad net government position is defined as the difference between government debts and claims vis-à-vis the central bank and commercial banks. The scope of the net government position is that used by the Central Bank for West African States (BCEAO) pursuant to Community provisions. It implies a broader definition of the government than that specified in paragraph 2 and includes local governments and certain government administrative agencies and projects. Government claims include the CFAF cash balance, postal checking accounts, secured liabilities, and

all deposits of government agencies with the BCEAO and commercial banks, with the exception of government industrial and commercial agencies (EPIC) 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 the net government position. The net government position is calculated by the BCEAO.

6. The narrow net government position is defined as the difference between government debts and claims vis-à-vis the central bank and commercial banks. The scope of the narrow net government position is defined and explained in paragraph 2. The narrow NGP is calculated by the BCEAO.

Adjusters

7. The ceiling on net domestic financing of the government by banks and the [financial] market will be adjusted upward if external budget support falls short of program projections. External budget support is defined as grants, loans, and debt relief operations (excluding project loans and grants, sectoral budget grants, IMF resources, and debt relief under the HIPC Initiative, but including general budget support). The adjustment factor will be applied at the rate of 100 percent up to a threshold of CFAF 25 billion and at the rate of 0 percent for larger amounts.

8. The ceiling on net domestic financing of the government by banks and the financial market will be adjusted upward (downward) if the net reduction in outstanding bills exceeds (is less than) the programmed amounts (MEFP, Table 3). Outstanding bills are defined as payment orders not paid by the DNTCP in the context of budget execution or on miscellaneous correspondent and depositor accounts, regardless of their age.

9. Finally, the ceiling on net domestic financing of the government by banks and the financial market will be adjusted upward (downward) for the payment of VAT credits, other tax refunds, and audited arrears from previous fiscal years exceeding (under) the programmed amounts (MEFP, Table 3).

B. Non-accumulation of External Public Payments Arrears

10. The stock of external payments arrears is defined as the sum of obligations due but not paid on external liabilities of the government and the external debt owed or guaranteed by the government. The definition of external debt provided in paragraph 11(a) applies here.

11. During the program, the government undertakes not to accumulate external payments arrears (except on debts that are being renegotiated or rescheduled). The performance criterion on the non-accumulation of external payments arrears will be applied on a continuous basis throughout the program period.

C. Ceiling on Non-Concessional External Debt with a Maturity of One Year or More and on Short-Term External Debt Contracted or Guaranteed by the Government and/or Public Enterprises

12. Definition of debt. For the purposes of the relevant assessment criteria, the definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91):

(a) Debt is understood to mean a direct, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

13. Debt guarantees. For the purposes of the relevant assessment criteria, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

14. Debt concessionality. A debt is considered concessional if it includes a grant element of at least 35 percent; the grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.

The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by OECD. For debt with a maturity of at least 15 years, the ten-year-average CIRR is used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR is used. The margins for differing repayment periods (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more) are added to the ten-year and six-month CIRR averages.

15. External debt. For the purposes of the relevant assessment criteria, external debt is defined as debt denominated, or requiring repayment, in a currency other than the CFA franc. This definition also applies to such debt to WAEMU countries.

16. Debt-related assessment criteria. The relevant assessment criteria apply to the contracting and guaranteeing of new nonconcessional external debt by the government, Energie du Mali (EDM), and the Compagnie Malienne des Textiles (CMDT), insofar as the government is a majority shareholder. The criteria apply to debt and commitments contracted or guaranteed for which value has not yet been received. The criteria also apply to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government. These program indicators are monitored on a continuous basis. No adjuster will be applied to these program indicators.

17. Special provisions. The program indicators do not apply to: (i) debt rescheduling transactions of debt existing at the time of the approval of the arrangement; (ii) short-term external debt (maturity of less than one year) related to imports; (iii) external debt of the CMDT guaranteed by cotton export proceeds; and iv) short-term external debt (maturity of less than one year) contracted by EDM to finance the purchase of petroleum products.

18. Reporting requirements. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

D. Floor on Gross Tax Revenue

19. Gross tax revenue of the government is defined as the revenue appearing in the TOFE and includes all tax revenue in the national budget, before deduction of tax refunds generated during the year, particularly accumulated VAT credits.

E. Floor on the Basic Fiscal Balance

20. The basic fiscal balance is defined as the difference between total net revenue, plus budgetary grants (general budget support) and HIPC resources, and total expenditure cleared for payment plus net lending, excluding capital expenditure financed by creditors or donors, pursuant to the definition of basic fiscal balance in the WAEMU texts (WAEMU Additional Act No. 05/2009/CCEG/UEMOA of March 17, 2009, amending Act No. 4/1999 pertaining to the Convergence, Stability, Growth, and Solidarity Pact).

Adjuster

21. The floor on the basic fiscal balance will be adjusted downward if budgetary grants (general budget support) fall short of program projections. The adjuster will be applied at the rate of 100 percent up to a threshold of CFAF 25 billion and at a rate of 0 percent for larger amounts.

22. Finally, the floor on the basic fiscal balance will be adjusted downward (upward) for the payment of VAT credits and other tax refunds exceeding (under) the programmed amounts (MEFP, Table 3).

F. Floor on Priority Poverty-Reducing Expenditure

23. Priority poverty-reducing expenditure is defined as the sum of the expenditure in the sectors of elementary education, secondary and higher education, scientific research, health, and social development. It excludes capital expenditure financed by external technical and financial partners in the form of projects.

III. STRUCTURAL MEASURES

24. Information on the introduction of measures constituting structural benchmarks will be sent to IMF staff no later than two weeks after the date set for their implementation.

25. As of May 31, 2011, changes have been made to the Central Government Consolidated Financial Operations Table (TOFE) as described below. Revenues and expenditures recorded in suspense accounts are recorded above the line as revenues or expenditures without being broken down. As part of the adjustment to cash basis, a distinction is made between transactions under previous fiscal years and transactions under the current fiscal year, as well as, in the latter case, a distinction between the “float” (less than three months) and types of arrears (more than three months) with respect to budget expenditures (including VAT credits and calls upon guarantees and pledges). Within the entry “net domestic financing,” a distinction will be made between bank

financing, privatization income, and other financing sources. Bank financing includes changes in the net government position vis-à-vis the central bank, the IMF, and resident commercial banks. In showing operations with commercial banks, a distinction is made between the Treasury, the National Social Insurance Administration (INPS), and other government entities. Within Treasury transactions, deposits and withdrawals on the SOTELMA privatization income account are specifically identified. Other financing will consist mainly of checks that have not been cashed, advance tax installments received in the current year for the following year, the regularization of advance tax installments received the previous year for the current year, operations with nonresident WAEMU creditors, and changes in deposits from Treasury correspondents.

IV. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

26. To facilitate program monitoring, the government will provide IMF staff with the information indicated in the following summary table.

Summary of Reporting Requirements

Type of data	Tables	Frequency	Reporting deadline
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	Broad net government position (including the position of other government agencies' accounts with the banking system); narrow NGP; and breakdown of nonbank financing	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	Balance of the account recording SOTELMA privatization receipts on deposit with the BCEAO	Monthly	End of month + 3 weeks
	Central government TOFE 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 the revenue and expenditure recorded in the TOFE	Monthly	End of month + 6 weeks
	Separate report on HIPC resources	Monthly	End of month + 6 weeks
	Execution of the capital budget	Quarterly	End of quarter + 8 weeks
	Tax revenue as recorded in the TOFE showing tax refunds (including VAT credits)	Monthly	End of month + 6 weeks
	Wage bill as recorded in the TOFE	Monthly	End of month + 6 weeks
	Basic fiscal balance as recorded in the TOFE	Monthly	End of month + 6 weeks
	Customs and tax exemptions	Monthly	End of month + 4 weeks
	Order setting the prices of petroleum products, tax revenue from petroleum products, and total exemptions granted	Monthly	End of month
	Imports of petroleum products by type and point of entry	Monthly	End of month + 2 weeks
	Expenditure cleared for payment but not paid 90 days after issuance of the payment order	Monthly	End of month + 1 week

Type of data	Tables	Frequency	Reporting deadline
Monetary and financial data	Summary accounts of the BCEAO, summary accounts of banks, accounts of monetary institutions	Monthly	End of month + 4 weeks (provisional); end of month + 8 weeks (final)
	Foreign assets and liabilities and breakdown of other items net of the BCEAO and of commercial banks	Monthly	End of month + 8 weeks
	Lending and deposit interest rates, BCEAO policy rate, 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
	Revisions of the balance of payments	Variable	8 weeks following each revision
External debt	Breakdown of all new external borrowing	Monthly	End of month + 4 weeks
	Debt service, indicating amortization, interest expenses, and relief obtained under the HIPC Initiative	Monthly	End of month + 4 weeks
Budget Directorate	Priority poverty-reducing expenditure as defined in ¶23	Quarterly	End of quarter + 4 weeks

INTERNATIONAL MONETARY FUND

MALI

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY, AND CANCELLATION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT —JOINT IDA/IMF DEBT SUSTAINABILITY ANALYSIS UNDER THE DEBT SUSTAINABILITY FRAMEWORK FOR LOW-INCOME COUNTRIES

January 18, 2013

Approved By
Roger Nord and Peter Allum (IMF) and Marcelo Giugale and Jeffrey Lewis (World Bank)

Prepared by
The International Monetary Fund
The International Development Association

Mali's risk of debt distress continues to be assessed as moderate—unchanged from the previous Debt Sustainability Analysis (DSA). Debt sustainability remains mostly sensitive to a hardening of financial terms or an export shock stemming from the concentration of exports on gold.

I. BACKGROUND

A. Recent Developments in Public External Debt

1. **As a result of the enhanced Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), Mali's stock of external debt has declined significantly.** Mali's stock of public and publicly guaranteed external debt declined from 103 percent of GDP in 2000 to 19 percent in 2006 owing to enhanced HIPC debt relief in 2002 and MDRI debt relief in 2006 (Text Table 1). At end-2011, it had increased to 28.1 percent of GDP owing mainly to new loans by the International Development Association (IDA), the African Development Bank (ADB), the Islamic Development Bank (IsDB), and the IMF (mainly through an allocation of SDR 74 million in 2009). All of Mali's external debt is public and the bulk is owed to multilateral creditors, mainly IDA, AfDB and IsDB.

Text Table 1: Mali: External Debt Stock at Year-End, 2001–11
(billions of CFAF)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total	1939.7	1968.6	1156.1	1169.4	1184.5	1474.3	606.4	643.4	810.8	955.2	1134.1	1414.4
(percent of GDP)	102.6	89.0	52.0	47.7	45.0	50.9	18.9	18.8	20.7	22.6	24.3	28.1
Multilateral	1434.9	1503.9	824.5	741.5	878.3	1198.8	357.3	447.6	615.9	766.8	895.8	1141.4
IMF [1]	105.9	110.1	100.1	94.5	78.8	65.7	4.1	6.1	18.6	67.6	72.1	92.4
World Bank/IDA	327.6	343.3	106.0	176.5	268.3	383.5	83.8	216.3	262.5	313.2	413.6	493.5
African Development Bank	391.8	328.9	116.0	239.2	289.4	379.7	121.4	133.7	112.3	136.3	157.7	257.0
Islamic Development Bank	50.0	45.0	40.5	36.4	54.7	63.9	31.4	57.3	96.3	111.8	113.8	124.1
Others	559.6	676.5	461.9	154.9	187.0	290.6	64.0	109.1	129.1	137.9	138.6	174.4
Bilateral	498.2	459.0	328.4	423.5	301.9	270.0	246.9	193.3	149.7	188.4	235.8	271.4
Paris Club official debt	141.7	127.4	30.6	7.6	16.9	17.7	13.0	15.6	4.4	4.4	10.2	13.2
Non-Paris Club official debt	356.5	331.6	297.8	415.9	285.0	252.3	233.8	177.7	145.3	184.0	225.5	258.2
Other Creditors	7.3	7.4	4.3	4.4	4.4	5.5	2.3	2.5	2.8	2.9	2.6	1.7

Source: Malian authorities, staff estimates.

[1] Includes August 2009 SDR allocation.

B. Recent Developments in Public Domestic Debt

2. Mali's domestic public debt is small (4.7 percent of GDP in 2011, Text Table 2). It consists of treasury bills and bonds issued on the regional market of the West African Economic and Monetary Union (WAEMU), and commercial bank loans. Domestic debt has more than doubled between 2009 and 2011 mainly as a result of new issuances of treasury bills and bonds (CFAF 137 billion at the end of 2011), but also owing to an inventory of all loans contracted or guaranteed by the government that the authorities have been conducting as part of their plan to strengthen debt management.

Text Table 2: Mali: Public Domestic Debt Stock at Year-End, 2001–11
(billions of CFAF)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total	20.8	58.5	48.7	37.5	36.0	61.6	45.4	80.2	74.1	90.3	203.4	238.1
(percent of GDP)	1.1	2.6	2.2	1.5	1.4	2.1	1.4	2.3	1.9	2.1	4.4	4.7
Debt to the Central Bank	3.0	25.8	25.1	23.1	20.3	17.9	15.3	13.1	10.7	8.3	5.8	3.3
Central Bank Statutory Advances	0.0	23.2	23.2	21.7	19.7	17.5	15.3	13.1	10.7	8.3	5.8	3.3
Other debt to the Central Bank	3.0	2.6	1.9	1.4	0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Debt to the banking sector	17.8	32.7	23.6	14.4	15.7	43.6	30.0	67.1	63.4	82.0	197.5	234.8

Source: Malian authorities, staff estimates.

C. Debt Burden Thresholds Under the Debt Sustainability Framework

3. Mali is a medium policy performer for the purpose of determining the debt burden thresholds under the Debt Sustainability Framework (DSF). Mali's rating on the World Bank's Country Policy and Institutional Assessment (CPIA) averaged 3.65 (on a scale of 1 to 6) during 2009–11, making it a medium policy performer. The corresponding external public debt burden thresholds are shown in Text Table 3.

Text Table 3. External Public Debt Thresholds for "Medium Policy Performers" under the Debt Sustainability Framework	
Present value of external debt in percent of:	
GDP	40
Exports	150
Revenue	250
External debt service in percent of:	
Exports	20
Revenue	20

II. BASELINE SCENARIO UNDERLYING THE DEBT SUSTAINABILITY ANALYSIS

4. **The central feature of Mali's medium- and long-term macroeconomic outlook is the steady decline of annual gold production expected to be compensated only in part by other exports**. The baseline scenario assumes a continuation of trend GDP growth as agriculture offsets the steady decline of gold production (Box 1). Inflation is expected to remain moderate as prudent fiscal policies are implemented with no recourse to domestic borrowing. The current account deficit is expected to remain stable, as the decline in gold exports is compensated by an increase of other exports including agricultural products and other minerals, and a deceleration in import growth.

Box 1. Mali: Macroeconomic Assumptions Underlying the Baseline Scenario, 2012–32

- **Real GDP** growth is expected to pick up after a 1.5 percent decline caused by the political and security challenges in 2012, and average 5 percent per year, slightly above the trend observed during the last 10 years (4.8 percent). Near term growth is assumed to be slightly higher than average owing to an expected rebound from the current crisis. Gold output is projected to decline by about 2 percent annually starting in 2014. Higher agricultural production is expected to outweigh this decline over time owing to cotton and other agricultural sector reforms. With a projected rapid population growth, the baseline scenario thus assumes low per capita income growth (and therefore no access to middle income status which would reduce concessional financing).
- **Consumer price inflation** is projected to remain below the WAEMU convergence criterion of 3 percent.
- **Fiscal policy.** The basic fiscal balance (revenue plus budgetary grants minus domestically financed expenditure) is expected to be equal to or greater than zero in order to meet the WAEMU convergence criterion. Tax revenue and domestically financed expenditure are expected to increase in sync by about 4 percent of GDP during 2012–32. Therefore, there is no recourse to domestic borrowing to finance the budget, except for rolling over current stock of domestic debt at market rates. In 2012, the overall fiscal deficit (excluding grants) shrinks to 2.9 percent owing to the suspension of donor budget support after the military coup of March 2012; the deficit is financed by donor project support and the use of government deposits in the banking system. With the resumption of budget support, the overall fiscal deficit (excluding grants) is projected to hover around 5.5 percent of GDP from 2014 onward, and to be financed by external loans for 50 percent and grants for the balance.
- **The non-interest current account deficit** is projected to stay at around 5.3 percent, slightly above the historic average (4.7 percent of GDP). Gold exports volumes are expected to decline steadily over time, and the share of gold in total exports is projected to fall from 74 percent in 2012 to about 32 percent in 2032. This decline is projected to be compensated by a gradual increase of other exports (including food, cotton, and other minerals such as cement, phosphate, uranium, bauxite, iron ore, copper, nickel, oil) ,and a deceleration of import growth. Remittances (in percent of GDP) are projected to remain close to historical average.
- **External arrears.** Debt service in 2012 was hampered by the political instability, which contributed to the suspension of budget aid and a weak revenue performance, causing the government to only serve part of the external debt and accumulate arrears to the amount of USD 58 million. The government has duly informed the creditors of its inability to serve its external debt in full for the time being and reiterated its willingness to clear all its arrears as soon as possible. The DSA assumes that these arrears will be paid in five annual installments over the 2014–18 period.

III. DEBT SUSTAINABILITY ANALYSIS

A. External Debt

5. **Under the baseline assumptions, all external debt and debt-service ratios remain below the policy-dependent thresholds throughout the projection period** (Figure 1). The present value (PV) of external debt is expected to slightly climb from 24 percent of GDP in 2011 to 25 percent in 2032 (Table 1a). As production from existing gold mines declines starting in 2014 and other exports' growth

only partly compensates for that decline, the PV of the external debt-to-exports ratio is projected to increase from 76 percent in 2012 to 143 percent in 2032, below the threshold of 150 percent (Figure 1c). With a projected increase in tax revenue by 4 percent of GDP during the projection period, the PV of the external debt-to-revenue ratio is expected to decline from 135 percent in 2012 to 122 percent in 2032, remaining significantly below the threshold of 250 percent (Figure 1d, Table 1a).

6. **Mali's external debt sustainability is mostly sensitive to an export shock and a hardening of financial terms, limiting the scope for non-concessional borrowing**. Under a bound test that reduces exports *growth* temporarily in 2013–14 with the effect of reducing exports *levels* permanently by 25 percent, the PV of the debt-to-exports ratio would exceed the threshold in the year 2024 and remain high until the end of the projection period (Figure 1c, Table 1b, Scenario B2). Under a hardening of financial terms, the PV of debt-to-exports ratio would breach the threshold by a large margin in the second half of the projection period and for a protracted period of time (Table 1b, Scenario A2).

B. Public Debt

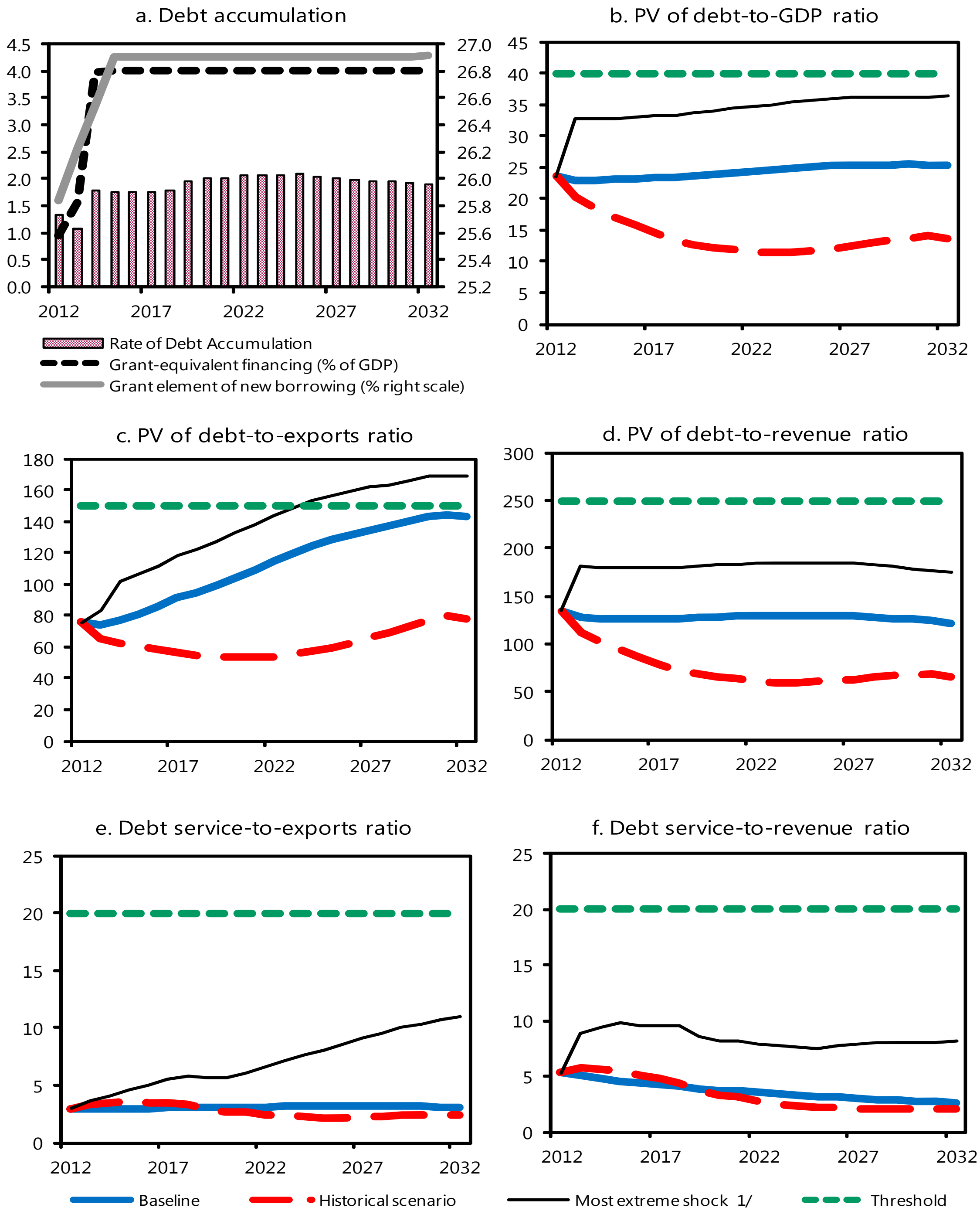
7. **The inclusion of domestic debt does not alter the assessment of Mali's debt sustainability.** Given the small size of Mali's domestic debt and the absence of recourse to domestic borrowing in the base line scenario, the public debt sustainability analysis closely mirrors the external debt sustainability analysis (Figure 2 and Table 2a). The PV of debt-to-GDP ratio slightly decreases from 29 percent in 2012 to 27 percent in 2032.

8. **Mali's total public debt sustainability is most sensitive to a growth shock.** In particular, a permanent decline in long-term GDP growth from 5 percent to 4.7 percent would increase the PV of debt-to-GDP ratio to 37 percent in 2032 (Figure 2; Table 2b, Scenario A3).

IV. DEBT DISTRESS CLASSIFICATION AND CONCLUSIONS

9. **The DSA indicates that Mali remains at moderate risk of debt distress based on the external debt burden indicators.** As in last year's DSA, none of the debt burden thresholds are breached over the 20-year projection period under the baseline scenario, and debt sustainability remains mostly sensitive to an export shock and to a hardening of financing terms. However, given the expected decline in gold exports in the medium term, the uncertain prospects for export diversification, and the present political and security situation, Mali's debt sustainability needs to remain under close scrutiny. The above mentioned factors necessitate recommending that the government continue to limit its external financing to grants and concessional loans.

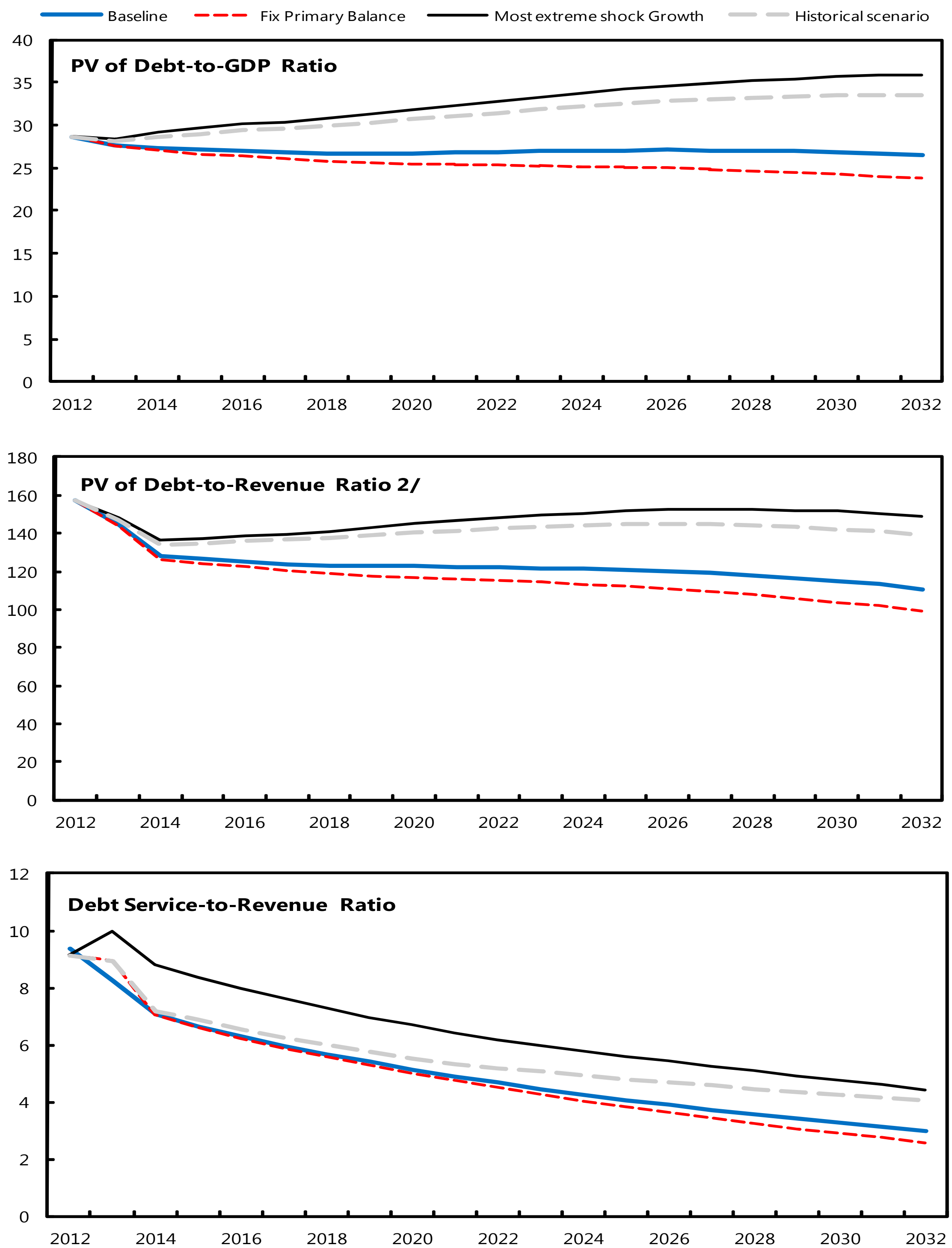
Figure 1. Mali: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a One-time depreciation shock

Figure 2. Mali: Indicators of Public Debt Under Alternative Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenues are defined inclusive of grants.

Table 1a.Mali: External Debt Sustainability Framework, Baseline Scenario, 2009-2032 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	**22.6**	**24.3**	**28.1**			**29.9**	**29.0**	**29.0**	**29.2**	**29.5**	**29.6**		**31.1**	**32.4**	
of which: public and publicly guaranteed (PPG)	22.6	24.3	28.1			29.9	29.0	29.0	29.2	29.5	29.6		31.1	32.4	
Change in external debt	1.8	1.7	3.8			1.7	-0.9	0.0	0.2	0.3	0.1		0.3	-0.1	
Identified net debt-creating flows	-4.9	5.6	2.0			3.1	1.9	1.5	1.6	1.6	2.0		1.6	0.7	
Non-interest current account deficit	**3.6**	**10.8**	**7.4**	**4.7**	**3.7**	**5.0**	**6.5**	**6.3**	**6.3**	**5.8**	**6.5**		**5.2**	**4.4**	4.7
Deficit in balance of goods and services	7.6	13.9	10.0			4.9	6.0	7.6	7.7	7.8	8.6		8.9	9.7	
Exports	23.7	26.0	26.1			31.2	30.8	29.8	28.4	27.0	25.5		21.3	17.7	
Imports	31.4	39.9	36.1			36.1	36.8	37.4	36.0	34.8	34.1		30.1	27.5	
Net current transfers (negative = inflow)	-5.4	-5.7	-4.3	-4.9	0.6	-4.8	-3.8	-4.2	-3.9	-3.7	-3.6		-3.7	-3.9	-3.8
of which: official	-1.9	-2.1	-1.3			-1.6	-0.8	-1.4	-1.2	-1.2	-1.2		-1.2	-1.2	
Other current account flows (negative = net inflow)	1.4	2.6	1.7			4.9	4.3	2.9	2.5	1.8	1.4		0.1	-1.4	
Net FDI (negative = inflow)	**-8.4**	**-4.2**	**-2.8**	**-3.1**	**2.0**	**-2.8**	**-3.6**	**-3.7**	**-3.6**	**-3.2**	**-3.5**		**-2.6**	**-2.6**	-2.8
Endogenous debt dynamics 2/	**-0.2**	**-0.9**	**-2.5**			**0.8**	**-1.0**	**-1.2**	**-1.0**	**-1.0**	**-1.0**		**-1.0**	**-1.1**	
Contribution from nominal interest rate	0.3	0.1	0.3			0.4	0.4	0.4	0.4	0.4	0.4		0.4	0.4	
Contribution from real GDP growth	-0.9	-1.3	-0.6			0.4	-1.4	-1.6	-1.4	-1.4	-1.4		-1.4	-1.5	
Contribution from price and exchange rate changes	0.4	0.2	-2.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**6.8**	**-3.9**	**1.8**			**-1.3**	**-2.8**	**-1.4**	**-1.4**	**-1.3**	**-1.9**		**-1.3**	**-0.8**	
of which: exceptional financing	-0.3	-0.2	-0.3			-0.2	-0.2	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	21.6			23.6	23.0	23.0	23.1	23.2	23.3		24.4	25.4	
In percent of exports	...	...	82.9			75.6	74.5	77.2	81.3	86.0	91.4		114.6	143.2	
PV of PPG external debt	**...**	**...**	**21.6**			**23.6**	**23.0**	**23.0**	**23.1**	**23.2**	**23.3**		**24.4**	**25.4**	
In percent of exports	**...**	**...**	**82.9**			**75.6**	**74.5**	**77.2**	**81.3**	**86.0**	**91.4**		**114.6**	**143.2**	
In percent of government revenues	**...**	**...**	**125.6**			**134.7**	**127.2**	**126.4**	**126.1**	**126.3**	**126.2**		**129.6**	**122.0**	
Debt service-to-exports ratio (in percent)	**1.2**	**2.2**	**3.8**			**3.0**	**3.0**	**2.9**	**2.9**	**3.0**	**3.1**		**3.1**	**3.1**	
PPG debt service-to-exports ratio (in percent)	**1.2**	**2.2**	**3.8**			**3.0**	**3.0**	**2.9**	**2.9**	**3.0**	**3.1**		**3.1**	**3.1**	
PPG debt service-to-revenue ratio (in percent)	**1.7**	**3.3**	**5.7**			**5.3**	**5.1**	**4.8**	**4.6**	**4.4**	**4.2**		**3.5**	**2.6**	
Total gross financing need (Billions of U.S. dollars)	-0.4	0.7	0.6			0.3	0.4	0.4	0.4	0.4	0.5		0.7	1.0	
Non-interest current account deficit that stabilizes debt ratio	1.8	9.1	3.6			3.3	7.4	6.3	6.1	5.5	6.4		4.9	4.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.5	5.8	2.7	4.8	1.6	-1.5	4.8	5.8	5.3	5.0	5.0	4.1	5.0	4.9	5.0
GDP deflator in US dollar terms (change in percent)	-2.0	-0.7	10.0	8.6	8.2	-3.7	0.3	1.9	1.8	1.8	2.4	0.7	2.4	1.7	2.4
Effective interest rate (percent) 5/	1.6	0.7	1.2	1.3	0.4	1.3	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4
Growth of exports of G&S (US dollar terms, in percent)	-16.8	15.0	13.4	13.6	15.8	13.3	3.9	4.1	2.2	1.8	1.3	4.4	3.8	7.0	4.9
Growth of imports of G&S (US dollar terms, in percent)	-25.3	33.6	2.1	14.8	21.8	-5.1	7.2	9.5	3.4	3.2	5.4	3.9	5.0	9.5	5.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	25.8	26.2	26.5	26.9	26.9	26.9	26.6	26.9	26.9	26.9
Government revenues (excluding grants, in percent of GDP)	17.1	17.3	17.2			17.5	18.0	18.2	18.3	18.4	18.4		18.8	20.8	19.4
Aid flows (in Billions of US dollars) 7/	0.8	0.6	0.8			0.2	0.3	0.7	0.8	0.8	0.9		1.3	2.6	
of which: Grants	0.4	0.3	0.4			0.1	0.1	0.4	0.4	0.4	0.4		0.6	1.3	
of which: Concessional loans	0.4	0.3	0.3			0.1	0.2	0.4	0.4	0.4	0.5		0.6	1.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.0	1.6	4.0	4.0	4.0	4.0		4.0	4.0	4.0
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			57.6	53.0	64.2	64.1	64.1	64.1		64.1	64.1	64.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	9.0	9.4	10.7			10.1	10.6	11.5	12.3	13.1	14.1		20.1	41.5	
Nominal dollar GDP growth	2.4	5.0	13.0			-5.1	5.1	7.8	7.2	6.9	7.5	4.9	7.5	6.8	7.5
PV of PPG external debt (in Billions of US dollars)			2.2			2.3	2.4	2.6	2.8	3.0	3.3		4.9	10.6	
(PVt-PVt-1)/GDPt-1 (in percent)						1.3	1.1	1.8	1.8	1.8	1.8	1.6	2.1	1.9	2.0
Gross workers' remittances (Billions of US dollars)	0.5	0.5	0.5			0.5	0.5	0.5	0.5	0.5	0.5		0.8	1.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	20.7			22.5	22.0	22.0	22.1	22.3	22.4		23.4	24.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	70.6			65.6	65.0	67.4	70.9	74.9	79.4		96.5	115.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.2			2.6	2.6	2.6	2.6	2.6	2.7		2.6	2.5	

Sources: Country authorities; and staff estimates and projections.
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. For projections also includes contribution from price and exchange rate changes
4/ Assumes that PV 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 PV of new debt).

Table 1b.Mali: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	24	23	23	23	23	23	**24**	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	24	20	19	17	16	15	**11**	14
A2. New public sector loans on less favorable terms in 2012-2032 2	24	24	22	23	24	25	**30**	38
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	24	23	24	24	24	24	**25**	27
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	24	24	27	27	27	27	**27**	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	24	23	23	23	24	24	**25**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	24	25	26	26	26	26	**27**	26
B5. Combination of B1-B4 using one-half standard deviation shocks	24	22	22	22	22	22	**23**	25
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	24	33	33	33	33	33	**35**	36
PV of debt-to-exports ratio								
Baseline	76	75	77	81	86	91	**115**	143
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	76	66	63	60	59	57	**54**	78
A2. New public sector loans on less favorable terms in 2012-2032 2	76	76	74	81	90	99	**143**	214
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	76	74	77	81	86	91	**114**	144
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	76	84	102	107	112	118	**144**	169
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	76	74	77	81	86	91	**114**	144
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	76	80	89	93	98	103	**125**	149
B5. Combination of B1-B4 using one-half standard deviation shocks	76	73	75	79	83	88	**111**	140
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	76	74	77	81	86	91	**114**	144
PV of debt-to-revenue ratio								
Baseline	135	127	126	126	126	126	**130**	122
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	135	112	102	94	86	79	**61**	66
A2. New public sector loans on less favorable terms in 2012-2032 2	135	130	121	126	132	137	**162**	183
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	135	129	131	131	131	131	**135**	128
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	135	135	148	146	146	145	**144**	128
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	135	127	128	128	128	128	**131**	125
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	135	136	145	144	143	142	**142**	127
B5. Combination of B1-B4 using one-half standard deviation shocks	135	123	121	121	121	121	**124**	118
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	135	181	180	180	180	180	**185**	176

Table 1b.Mali: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032 (continued)

(In percent)

Debt service-to-exports ratio								
Baseline	3	3	3	3	3	3	**3**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	3	3	3	4	3	3	**2**	2
A2. New public sector loans on less favorable terms in 2012-2032 2	3	4	4	5	5	5	**7**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	3	4	4	4	5	5	**5**	7
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	3	4	5	5	5	6	**6**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	3	4	4	4	5	5	**5**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	3	4	4	5	5	5	**5**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	4	4	4	5	**5**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	3	4	4	4	5	5	**5**	7
Debt service-to-revenue ratio								
Baseline	5	5	5	5	4	4	**4**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	5	6	6	6	5	5	**3**	2
A2. New public sector loans on less favorable terms in 2012-2032 2	5	6	7	7	7	8	**7**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	5	6	7	7	7	7	**6**	6
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	5	6	7	7	7	7	**6**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	5	6	7	7	7	7	**6**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	5	6	7	7	7	7	**6**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	5	6	6	7	6	6	**5**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	5	9	9	10	10	10	**8**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	24	24	24	24	24	24	**24**	24

Sources: Country authorities; and staff estimates and projections.

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 assuming 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.

Table 2a. Mali: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-2032

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2009	2010	2011	Average 5/	Standard Deviation 5/	2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	24.7	28.7	32.9			34.9	33.7	33.4	33.2	33.2	33.1		33.5	33.5	
of which: foreign-currency denominated	22.6	24.3	28.1			29.9	29.0	29.0	29.2	29.5	29.6		31.1	32.4	
Change in public sector debt	2.1	4.0	4.2			2.1	-1.2	-0.3	-0.1	0.0	-0.1		0.1	-0.2	
Identified debt-creating flows	-4.4	1.7	0.5			1.7	-0.6	-0.8	-0.6	-0.5	-0.7		-0.7	-0.8	
Primary deficit	3.9	2.3	3.1	2.4	0.9	1.5	1.7	1.7	1.7	1.8	1.8	1.7	1.8	1.8	1.8
Revenue and grants	21.7	20.1	21.1			18.2	19.1	21.4	21.5	21.6	21.6		22.0	24.0	
of which: grants	4.6	2.9	3.9			0.7	1.1	3.2	3.2	3.2	3.2		3.2	3.2	
Primary (noninterest) expenditure	25.6	22.4	24.2			19.7	20.8	23.1	23.2	23.3	23.4		23.8	25.8	
Automatic debt dynamics	-2.6	0.1	-1.5			1.0	-1.7	-1.9	-1.7	-1.6	-1.8		-1.8	-2.0	
Contribution from interest rate/growth differential	-0.8	-1.3	-0.7			0.4	-1.5	-1.8	-1.7	-2.4	-1.7		-1.7	-1.3	
of which: contribution from average real interest rate	0.1	0.0	0.1			-0.1	0.1	0.0	0.0	-0.8	-0.1		-0.1	0.2	
of which: contribution from real GDP growth	-1.0	-1.4	-0.8			0.5	-1.6	-1.9	-1.7	-1.6	-1.6		-1.6	-1.6	
Contribution from real exchange rate depreciation	-1.8	1.5	-0.8			0.6	-0.3	0.0	0.0	0.7	-0.1		...	...	
Other identified debt-creating flows	-5.6	-0.7	-1.1			-0.9	-0.6	-0.7	-0.7	-0.7	-0.7		-0.7	-0.7	
Privatization receipts (negative)	-4.3	0.0	0.0			-0.6	-0.4	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	
Debt relief (HIPC and other)	-1.4	-0.7	-1.1			-0.2	-0.2	-0.7	-0.7	-0.7	-0.7		-0.7	-0.7	
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	
Residual, including asset changes	6.5	2.3	3.7			0.4	-0.6	0.5	0.5	0.5	0.5		0.8	0.7	
Other Sustainability Indicators															
PV of public sector debt	...	...	26.4			28.6	27.7	27.3	27.1	27.0	26.8		26.8	26.6	
of which: foreign-currency denominated	...	...	21.6			23.6	23.0	23.0	23.1	23.2	23.3		24.4	25.4	
of which: external	...	...	21.6			23.6	23.0	23.0	23.1	23.2	23.3		24.4	25.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.8	4.2	6.2			5.5	5.4	5.2	5.0	4.8	4.6		3.9	3.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	125.0			157.2	144.6	127.9	126.2	125.2	123.9		122.0	110.8	
PV of public sector debt-to-revenue ratio (in percent)	...	...	153.0			163.6	153.3	150.3	148.2	146.8	145.2		142.7	127.7	
of which: external 3/	...	...	125.6			134.7	127.2	126.4	126.1	126.3	126.2		129.6	122.0	
Debt service-to-revenue and grants ratio (in percent) 4/	1.7	6.3	9.8			9.4	8.3	7.1	6.7	6.3	6.0		4.7	3.0	
Debt service-to-revenue ratio (in percent) 4/	2.2	7.3	12.0			9.8	8.7	8.3	7.8	7.4	7.0		5.5	3.4	
Primary deficit that stabilizes the debt-to-GDP ratio	1.8	-1.7	-1.1			-0.5	3.0	2.0	1.9	1.7	1.9		1.7	2.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.5	5.8	2.7	4.8	1.6	-1.5	4.8	5.8	5.3	5.0	5.0	4.1	5.0	4.9	5.0
Average nominal interest rate on forex debt (in percent)	1.6	0.7	1.2	1.3	0.4	1.3	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4
Average real interest rate on domestic debt (in percent)	0.9	2.5	1.7	0.2	3.1	-1.6	3.2	1.5	1.5	1.5	1.3	1.2	1.3	1.0	1.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.1	6.9	-3.2	-4.8	9.2	2.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.6	4.2	4.9	3.7	3.1	5.9	2.7	2.2	2.2	2.2	2.4	2.9	2.4	2.7	2.4
Growth of real primary spending (deflated by GDP deflator, in percent)	28.3	-7.3	10.9	7.1	11.3	-19.6	10.7	17.2	5.9	5.5	5.2	4.2	5.5	6.4	5.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	25.8	26.2	26.5	26.9	26.9	26.9	26.6	26.9	26.9	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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 2b.Mali: Sensitivity Analysis for Key Indicators of Public Debt 2012-2032

		Projections						
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	29	28	27	27	27	27	27	27
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	28	29	29	29	30	31	33
A2. Primary balance is unchanged from 2012	29	28	27	27	26	26	25	24
A3. Permanently lower GDP growth 1/	29	28	28	28	28	28	30	37
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	29	28	29	30	30	30	33	36
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	29	29	30	29	29	29	29	28
B3. Combination of B1-B2 using one half standard deviation shocks	29	29	30	30	30	30	31	33
B4. One-time 30 percent real depreciation in 2013	29	37	36	35	35	34	31	28
B5. 10 percent of GDP increase in other debt-creating flows in 2013	29	36	35	34	34	34	32	30
PV of Debt-to-Revenue Ratio 2/								
Baseline	157	145	128	126	125	124	122	111
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	157	147	134	135	136	137	142	139
A2. Primary balance is unchanged from 2012	157	144	126	124	122	120	115	99
A3. Permanently lower GDP growth 1/	157	145	129	129	129	129	137	153
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	157	148	136	137	139	140	148	149
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	157	151	139	137	136	134	130	115
B3. Combination of B1-B2 using one half standard deviation shocks	157	150	139	138	139	139	142	137
B4. One-time 30 percent real depreciation in 2013	157	195	169	164	160	156	143	119
B5. 10 percent of GDP increase in other debt-creating flows in 2013	157	187	164	161	158	155	146	124
Debt Service-to-Revenue Ratio 2/								
Baseline	9	8	7	7	6	6	5	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	9	7	7	7	6	5	4
A2. Primary balance is unchanged from 2012	9	9	7	7	6	6	5	3
A3. Permanently lower GDP growth 1/	9	9	7	7	6	6	5	4
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	9	9	7	7	7	6	5	4
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	9	9	7	7	7	6	5	3
B3. Combination of B1-B2 using one half standard deviation shocks	9	9	7	7	7	6	5	4
B4. One-time 30 percent real depreciation in 2013	9	10	9	8	8	8	6	4
B5. 10 percent of GDP increase in other debt-creating flows in 2013	9	9	8	8	7	7	6	4

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

INTERNATIONAL MONETARY FUND

MALI

January 18, 2013

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY, AND CANCELLATION OF THE EXTENDED CREDIT FACILITY ARRANGEMENT—INFORMATIONAL ANNEX

Prepared By

Staff of the International Monetary Fund in Consultation with the World Bank

CONTENTS

RELATIONS WITH THE FUND

(As of November 30, 2012)

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

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	93.30	100.00
Fund holdings of currency (Exchange Rate)	83.30	89.28
Reserve Tranche Position	10.00	10.72

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	89.36	100.00
Holdings	73.38	82.11

IV. Outstanding Purchases and Loans	**SDR Million**	**% Quota**
ECF Arrangements	65.13	69.80

V. Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Dec 27, 2011	Dec 26, 2014	30.00	6.00
ECF [1/]	May 28, 2008	Dec 22, 2011	52.99	52.99
ECF [1/]	Jun 23, 2004	Nov 30, 2007	9.33	9.33

[1/] Formerly PRGF.

VI. Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2012	2013	2014	2015	2016
Principal		2.90	5.20	5.67	8.17
Charges/Interest		0.02	0.16	0.15	0.14
Total		2.91	5.36	5.82	8.30

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative

I. Commitment of HIPC assistance	Original Framework	Enhanced Framework	Total
Decision point date	Sep 1998	Sep 2000	
Assistance committed			

by all creditors (US$ Million) [1/]	121.00	417.00	
Of which: IMF assistance (US$ million)	14.00	45.21	
(SDR equivalent in millions)	10.80	34.74	
Completion point date	Sep 2000	Mar 2003	
II. Disbursement of IMF assistance (SDR Million)			
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.

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI)

I. MDRI-eligible debt (SDR Million)[1/]	75.07
Financed by: MDRI Trust	62.44
Remaining HIPC resources	12.63

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
January 2006	N/A	75.07	75.07

[1/] The MDRI provides 100 percent debt relief to eligible member countries that qualified 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. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

---

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).

X. 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 (WAMU). The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework should nonetheless be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. The completion of the Institutional Reform of the WAMU and the BCEAO in the beginning of 2010 should help to correct that situation. Efforts to implement fully the International Financial Reporting Standards reporting framework should also be pursued.

XI. Exchange Rate Arrangements

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 = FF 1 from 1948 until early 1994. Effective January 12, 1994, the CFA franc was devalued, and the new parity set at CFAF 100 = FF 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. Between 1997 and 2003, WAEMU tariff reform reduced the simple average custom duty from 22 percent to 15 percent; the maximum rate is currently 20 percent. Imports to Mali are not subject to quantitative restrictions.

Mali's exports to the European Union generally enjoy non-reciprocal preferential treatment in the form of exemption from import duties under the Everything but Arms initiative. 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. Mali imposes no de jure restrictions on exports.

XII. Article IV Consultations

Mali's Article IV consultation cycle is governed by the provisions of the decision on consultation cycles, Decision No. 14747-(10/96) (9/28/2010). The Executive Board completed the last Article IV consultation (EBS/10/132) on July 16, 2010.

XIII. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Expert	Feb 2012	Tax Administration
FAD	Expert	Jan 2012	Tax Administration
FAD	Expert	Dec 2011	Public Finance Management
FAD	Expert	Nov 2011	Tax Administration
FAD	Expert	Feb, Apr, June, Sep 2011	Treasury Management
FAD	Expert	Jul 2011	Tax Administration
AFRITAC	Expert	May 2011	National Accounts
AFRITAC	Expert	May 2011	Government Finance Statistics
FAD	Expert	May 2011	Tax Reform
AFRITAC	Expert	Jan 2011	National Accounts
FAD	Expert	Sep 2010	Tax System Simplification
FAD	Expert	Jun 2010	Treasury Management
MCM	Staff	Apr 2010	Public Debt Management
FAD	Expert	Apr 2010	Tax Administration
FAD	Expert	Mar 2010	Expenditure Administration
FAD	Expert	Jun 2009	Tax Administration
FAD	Expert	Nov 2008	Help establish medium-size taxpayer unit
FAD	Expert	Oct 2008	Assist Treasury computerization

Technical Assistance (continued)

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	Expert	Sep 2008	Prepare the source data for the 2006 national accounts
AFRITAC	Expert	Jun 2008	Strengthen real sector statistics in Mali
FAD	Staff	Apr 2008	Strengthening of public accounts
FAD	Expert	Mar 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	Sep 2007	Control of microfinance institutions
FAD/ AFRITAC	Staff	Sep 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

Technical Assistance (concluded)

Department	Type of Assistance	Time of Delivery	Purpose
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)

JOINT MANAGEMENT ACTION PLAN IMPLEMENTATION

Title	Products	Provisional Timing of Missions	Provisional Delivery Dates
		A. Mutual Information on Relevant Work Programs	
Bank Work Program	Emergency Safety net operation	October 20–26 and Dec. 7–14, 2012	March 28, 2013
	Emergency Education Operation	August—November 2012	Mid-December 2012
	Reproductive Health Project	October 18—November 2, 2012	February 2013
	Public Expenditure Review (PER) of military and security spending	November 22—December 13 2012, February 2013	May 30, 2013
	Policy note on impact of the crisis on social sectors	October 2012; February 2013	June 2013
	Possibly Development Policy Operation		May 30 2013
Fund Work Program	Article IV Consultation/ possibly disbursement under the Rapid Credit Facility	November 1–14, 2012	January 28, 2013
	Possibly disbursement under the Rapid Credit Facility	March 2013	May 2013
	Possibly disbursement under the Rapid Credit Facility	September 2013	December 2013
		B. Requests for Work Program Inputs	
Fund request to the Bank	Comments on the composition of the 2013 Budget and linkages between budget allocations and the G-PRSP	November 1–14, 2012	January 28, 2013
	Budgetary implications of developments and reforms engaged in safety net, electricity, and agricultural sectors	November 1–14, 2012 March 2013	January 28, 2013 May 2013
Bank request to the Fund	Information on recent macroeconomic developments, macroeconomic projections and analysis for 2013 and the medium term	November 1–14, 2012 March 2013 September 2013	January 28, 2013 May 2013 December 2013
		C. Agreement on Joint Products	
Joint Work Program	Joint Bank-Fund Debt Sustainability Analysis	November 1–14, 2012	January 28, 2013
	Joint Bank-Fund Staff Advisory Note on G-PRSP III	March 2013	June 2013

STATISTICAL ISSUES

Statistical Issues Appendix

(As of November 30, 2012)

Data provision has some shortcomings, but is broadly adequate for surveillance. 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 has been posted on the Dissemination Standards Bulletin Board (DSBB), since June 2003.

Real sector

The economic accounts of Mali are prepared by the National Directorate of Statistics and Data Processing (*DNSI*), in accordance with the *System of National Accounts 1968 (SNA68)* and adapted to certain characteristics specific to Mali. They are compiled on an annual basis. There are, however, weaknesses in the accuracy, coverage, and timeliness of national accounts data. The main reason has been the inadequacy of source data, along with insufficient funding and technical staffing of the DNSI. The work on implementing the *System of National Account*s 1993 (1993 SNA) is ongoing, with the support of the West African Economic and Monetary Union (WAEMU) Commission and AFRITAC West. At this time, the new base year, 2006, has been completed, and 2007 is near completion.

In concert with other WAEMU member countries, the DNSI has been compiling and publishing a harmonized consumer price index (CPI) for Bamako on a monthly basis since early 1998.

Government finance statistics

As part of the process of economic integration among the member countries of the WAEMU, the country 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, further efforts are needed to improve the timeliness and coverage of the TOFE. Work is progressing with the assistance of STA, AFRITAC West and AFRISTAT to expand the coverage of the TOFE to public agencies and local governments, as well as to strengthen coverage of domestic financing items. Quarterly budget execution reports are posted on the Ministry of Finance website on a timely basis.

In July 2007, a GFS mission visited Bamako to advance further the implementation of the *Government Finance Statistics Manual 2001*, and subsequently a country page 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 nonfinancial assets. In July 2008, STA AFRITAC West staff visited Bamako for a short follow-up mission and was provided with complete data on both social security agencies.

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 presentation as well as the coverage of debt relief (multilateral and bilateral). A Debt Management Performance Assessment (DeMPA) was finalized in late 2009, and the authorities are working to strengthen debt data in line with the DeMPA report's recommendations.

Monetary data

Monetary and financial statistics:

Monetary and financial statistics, compiled and disseminated by the regional Central Bank of West African States (BCEAO), are broadly adequate and their institutional coverage is comprehensive. The dissemination of monthly monetary data from the BCEAO takes four to six weeks consistent with GDDS recommendations. Data are posted on the BCEAO website with a considerably longer lag. Accuracy is somewhat hampered by the use of 1990 sorting coefficients to estimate cross border amounts of banknotes among BCEAO countries, which in turn are used to estimate currency in circulation and to adjust the net foreign assets of each member country. Standardized Report Forms (in line with the *Monetary and Financial Statistical Manual*) are still not regularly used to report monetary data to the IMF.

Balance of payments

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 finalizes the data toward mid-November of the following year, and publishes immediately thereafter in the form of a brochure, which however are not sufficiently robust.

In general, the external sector statistics in Mali exhibit serious deficiencies. Concepts and definitions used to compile the balance of payments statistics are in broad conformity with the guidelines presented in the fifth edition of the *Balance of Payments Manual* (*BPM5).* The adoption of BPM6 methodology is not required before 2013/2014, except for the recording of SDR allocations as debt liabilities. The Mali balance of payments metadata should also be updated.

The BCEAO set up a subregional unit responsible for reconciling intra-WAEMU trade data, which is responsible for harmonizing the bilateral statistics of member states to eliminate asymmetries before these data on internal transactions in the Union are consolidated to prepare the WAEMU regional balance of payments. The corrections made are retroactive to national data and help to improve them.

Balance of payments data remain weak in a number of key areas. Data on remittances, foreign direct investment and portfolio flows are similarly weak. Project aid is currently classified as current transfers rather than in the capital account, and several large in-kind projects are not captured in the balance of payments data properly.

Data on international investment position is published in IFS and BOPSY up to 2007. A foreign private capital survey (FPC) from DFI called “PRC CPE” is underway as in all Franc Zone countries. However, foreign assets of the private non banking sector are not well covered in the financial accounts as the surveys of residents’ foreign assets remain very partial, and no use is made of an existing alternative source, e.g., BIS statistics.

The April-May 2003 multi sector statistics mission 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. The first of these recommendations remains pending. Annual statistics on balance of payments are reported to STA on a regular basis, but with some delay.

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 November 30, 2012)

	Date of latest observation	Date received	Frequency of data	Frequency of reporting	Frequency of publication
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	October 2012	October 2012	M	M	M
Reserve/Base Money	October 2012	October 2012	M	M	M
Broad Money	October 2012	October 2012	M	M	M
Central Bank Balance Sheet	October 2012	October 2012	M	M	M
Consolidated Balance Sheet of the Banking System	October 2012	October 2012	M	M	M
Interest Rates[2]	Current	Current	I	W	M
Consumer Price Index	October 2012	November 2012	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	N/A	N/A			
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	October 2012	November 2012	M	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2011	February 2012	M	I	A
External Current Account Balance	2011	March 2012	A	A	A
Exports and Imports of Goods and Services	2011	March 2012	A	A	A
GDP/GNP	2011	March 2012	A	A	Semi-A
Gross External Debt	2011	March 2012	A	A	A
International Investment Position[6]	2010	April 2012	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] Includes external gross financial asset and liability position vis-à-vis nonresidents.

Note: Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 13/xxx
FOR IMMEDIATE RELEASE
January 28, 2013

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

IMF Executive Board Concludes 2012 Article IV Consultation with Mali

On January 28, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mali.[1] The Board also approved a disbursement under the Rapid Credit Facility (RCF) during the same meeting (See Press Release No. 13/xxx).

Background

Mali's economy is struggling under a series of shocks. The poor harvest in 2011, loss of government control over the north part of the country following attacks by rebel groups; and the military coup in March 2012 have all taken a heavy toll. Donors have suspended budgetary support, while awaiting a clear road map toward free elections. It is estimated that GDP declined by 1.5 percent in 2012, while average annual inflation reached 5.3 percent by December 2012 on the back of food price increases. A large balance-of-payments deficit emerged, reflecting higher food imports and the reduction in donor support.

The fiscal position came under pressure in 2012. The government tightened spending to partly offset the revenue losses. Cuts were made in public investment and in implicit subsidies on petroleum products and cooking gas. As a result, the basic budget deficit (revenue and budget grants minus domestically financed spending) was contained at 1 percent of GDP. Despite these efforts, and heavy reliance on net domestic bank financing, Mali ran up arrears on external debt service in the amount of 0.5 percent of GDP.

The financial soundness of the banking sector has weakened in the worsening economic environment. Overall, banks remain well capitalized, but the situation is uneven, and nonperforming loans are on the rise. In the north, banks sustained financial and property damage estimated at 0.3 percent of GDP.

[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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Executive Board Assessment

Executive Directors commended the authorities' continued commitment to prudent policies despite severe economic and political shocks. Taking note of the challenging internal and external environment for the period ahead, Directors agreed that a new Fund-supported program under the Rapid Credit Facility will help Mali safeguard macroeconomic stability and re-engage with donors. Directors also agreed that, over the medium-term, polices should focus on strengthening the prospects for higher growth and further poverty reduction.

Directors considered that a tight fiscal stance is necessary in the near term. They noted that, while the 2013 budget is consistent with this objective, prudence suggests freezing part of the budgeted capital spending until donor support resumes. More broadly, Directors encouraged the authorities to prioritize expenditures and keep them in line with available resources, while protecting social spending. They also endorsed the plan to increase revenues through tax reforms in a variety of areas and the envisaged adjustment in oil and electricity prices. In this regard, Directors stressed that careful communication and targeted measures to protect the poor will be essential to gain public support.

While acknowledging the difficult financing constraints facing Mali, Directors regretted the accumulation of external arrears and encouraged the authorities to clear them as soon as possible. Welcoming Mali's intention to meet all current debt service obligations, Directors agreed that strengthening public financial management, especially expenditure management, and implementing WAEMU directives will support arrear resolution and prevent their recurrence.

Directors underscored that, as the political situation stabilizes, economic policies should focus on fostering strong sustainable growth and further reducing poverty. Priority should be given to strengthening the financial sector, addressing the underlying weaknesses arising from non performing loans and loan concentration in the banks' portfolios. Improving the business climate and removing structural and institutional bottlenecks will play an important role in boosting competitiveness and diversifying the economy. More investment in roads, irrigation, and education is needed to fully develop Mali's agricultural potential. A few Directors also pointed to the possible benefits from a reduction in production subsidies in some cotton-producing countries.

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 Indicators, 2009–12

	2009	2010	2011	2012 Est.
(Percent change)				
Income and Prices				
GDP at constant prices	4.5	5.8	2.7	–1.5
Consumer price index (average)	0.0	1.4	3.1	5.4
Real effective exchange rate (minus = depreciation)	0.3	–5.2	2.6	…
Money and credit				
Credit to government [1]	–13.9	2.5	5.1	7.4
Credit to economy [1]	7.2	8.4	15.7	6.3
Broad money (M2)	16.0	9.0	15.3	11.6
(Percent of GDP)				
Investment and Saving				
Gross investment	20.3	18.4	20.2	16.3
Gross national saving	13.0	5.8	10.0	10.6
External sector				
Current account balance	–7.3	–12.7	–10.4	–5.8
Overall balance of payments	7.2	–2.1	–0.6	–2.5
Central government finance				
Revenue and grants	21.7	20.1	21.1	17.9
Expenditure and net lending	25.9	22.8	24.8	20.0
Primary balance	–3.3	–1.9	–3.3	–1.6
Overall fiscal balance [2]	–4.2	–2.7	–3.7	–2.1

Sources: Malian authorities; IMF staff estimates.

[1] Change in percent of beginning-of-period broad money.
[2] Payment order basis.

Press Release No. 13/24
FOR IMMEDIATE RELEASE
January 28, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$18.4 Million Disbursement Under the Rapid Credit Facility for Mali

The Executive Board of the International Monetary Fund (IMF) today approved a disbursement of an amount equivalent to SDR 12 million (about US$18.4 million) for Mali under the Rapid Credit Facility (RCF) to support the authorities with policy advice and financial support to maintain macroeconomic stability and growth during the next twelve months, as part of a broad-based support by Mali's development partners. The RCF provides rapid concessional financial assistance with limited conditionality to low-income countries facing an urgent balance of payments need.

The Executive Board also noted the authorities' cancellation of the previous arrangement under the Extended Credit Facility (ECF), which was approved in 2011 for the equivalent of SDR 30 million (then about US$46.3 million; see Press Release No. 11/487), which had been designed to cover 2012-14, but was derailed by the March 2012 coup d'état and its aftermath.

In November 2012, an IMF mission reached understandings ad referendum on the components of an economic program that could be supported by the Rapid Credit Facility (See Press Release No.12/437). The RCF will also pave the way for renewed donor support following the events of early 2012.

Following the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, made the following statement:

"Mali's economy is traversing a particularly difficult period as a result of the 2011 drought, insurgent attacks in the north of the country and political instability in the wake of the military coup in March 2012. Economic activity contracted by 1.5 percent in 2012, inflation was pushed up by escalating food prices, and a balance of payments deficit has emerged. Fiscal stress intensified as a result of weakening tax revenues, the suspension of donor budget support, and upward pressure on social and military spending. The government responded with fiscal austerity. The tight liquidity situation has led to the accumulation of arrears to external creditors in the amount of 0.5 percent of GDP.

"The authorities' 2013 program appropriately reflects near-term priorities. It aims to maintain macroeconomic and financial stability by keeping spending in line with available revenues and avoiding the emergence of new arrears.

"Steadfast implementation of tax policy, tax administration, cash flow management, and energy policy reforms will be essential to maintain macroeconomic stability. The ambitious tax revenue targets in 2013 will need to come from an increase in taxes on oil products and progress in tax administration through systematic cross-checking of information by the tax, customs, and procurement administrations. Prudent expenditure execution and tight cash management will be needed to meet the deficit target and avoid the accumulation of arrears. While electricity tariff adjustments are needed to bring the sector back to a sustainable path, a clear reform, a public communication strategy, and targeted measures to protect the poor will be essential to gain the population's acceptance.

"The disbursement under the Rapid Credit Facility is designed to help Mali deal with urgent balance of payments need and catalyze financial support from Mali's international partners, which is critical to Mali's economic recovery."

Statement by Kossi Assimaidou, Executive Director for Mali

January 28, 2013

On behalf of the Malian authorities, I would like to thank the Executive Board, Management and staff for the long-standing support of the Fund to Mali, including during periods of severe difficulties. My Malian authorities view the current episode of adversity as another moment when the Fund can play a critical role in restoring macroeconomic stability and bringing the country back to a path of stronger growth and poverty reduction. Already, the international community has extended its support to Mali in efforts to combat terrorism, restore the country's territorial integrity, and alleviate the suffering of the populations severely affected by the situation in Northern Mali, which has considerable spillover effects to the whole country and potentially large regional implications. In this regard, my Malian authorities are particularly thankful to all countries that are contributing to these efforts in restoring stability.

My Malian authorities are appreciative of the valuable technical and policy advice received from the Fund in the context of the 2012 Article IV consultation and discussions for possible support under the Rapid Credit Facility (RCF). The economic program supported by the current ECF, which was approved in December 2011 started well but was derailed since March 2012 by various shocks which took a heavy toll on the Malian economy. The authorities have decided therefore to end the current ECF program which has lost ground and to request assistance under the RCF. The new arrangement is expected to finance part of the balance-of-payments deficit anticipated for the period 2012-2013, and catalyze budget support from other donors. Despite the challenges, my authorities are committed to implement policies anchored on fiscal policy designed to preserve macroeconomic stability and consolidate key improvements in public financial management.

RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE CURRENT ECF ARRANGEMENT

Economic Developments in 2012

In 2012, the Malian economy was subject to various shocks, notably: (i) the unfavorable agricultural campaign in 2011 and the resulting food crisis which affected an estimated 3.6 million people; (ii) the insecurity and humanitarian crisis in the northern regions of the country following the attacks perpetrated by rebels and terrorist groups. An estimated 420,000 people fled the country to find refuge in neighboring countries; (iii) episodes of political and social unrest since March 2012, which lasted several months before a transitional government of national unity was formed with the priority to win back the occupied regions with the help of the international community, and organize presidential and legislative elections.

While GDP growth was expected to reach 5.6 percent in 2012 during the preparation of the State budget, it is now believed that GDP will contract by 1.5 percent as a result of the slowdown of activities in the secondary sector–with the exception of gold and cotton production--as well as the tertiary sector. The suspension of aid by donors severely impacted construction, hotels, and tourism activities. Overall, GDP contraction was limited by abundant and well spread rainfalls which boosted agricultural output by 8 percent. Annual average inflation reached 5.6 percent by end-October 2012—double of the target pursued in the West African Economic and Monetary Union (WAEMU)–-notably as a result of the bad harvest in 2011.

The overall deficit of the balance of payments is expected to be elevated in 2012. While the current account deficit should improve as a result of gold and cotton exports, the improvement is not expected to compensate for the deterioration of the capital and financial accounts resulting from the sharp drop in foreign aid.

At end-September 2012, money supply grew by 11 percent on an annual basis, due to the use by the government of its deposits to finance the budget deficit. Banks which suffered damages and losses closed their subsidiaries in the northern part of the country following attacks and lootings. However, the stability of the banking sector has not been significantly affected as of September 2012. All the banks except one were in compliance with the minimum capital adequacy ratio of 8 percent. Nonperforming loans increased slightly to 7.5 percent of the total. Loans which were not repaid for more than six months because of the crisis will be included in the amount of nonperforming loans, in accordance with prudential regulations.

With regards to fiscal policy, the government's prompt actions help contain spending at a level compatible with revenue and available cash flow. Priority was given to the payment of salaries, pensions, scholarships, military and security expenditures, and to the extent possible to social expenditures in health, education and social protection. The authorities also reduced subsidies on energy (petroleum products and cooking gas). Despite the shortfall in fiscal revenue and the suspension of foreign aid, the government managed to contain the fiscal deficit at 0.7 percent of GDP, as a result of drastic cuts in domestically-financed investment expenditures and an accumulation of arrears on foreign debt servicing. However, the government has contacted all the foreign creditors with whom it accumulated arrears to inform them of the situation and the financial difficulties that the country is facing, and that it intends to meet its obligations as soon as it can. The authorities have also successfully contacted WAEMU banks to request the refinancing on the same terms of the treasury bills and bonds that will mature in 2012.

Performance under the ECF

The economic program supported by the ECF started on sound footing before losing ground since March 2012 due to a series of adverse shocks described above. In December 2011, all performance criteria, except one, were met thanks to strong performance in terms of revenue collection and expenditure control. The only exception was the zero ceiling on the non-accumulation of external public payments arrears. However, since

March 2012, some of the objectives of the program supported by the ECF could not be reached because of the effects of the shocks, notably a deterioration of the fiscal performance, the destruction of equipment at the customs administration, the contraction of economic activity, and the suspension of budget support grants by donors. Notwithstanding these challenging events, the authorities pressed on the implementation of structural measures, particularly during the second half of the year. Indeed, albeit with some delays, the authorities managed to meet all the structural benchmarks for that period.

POLICIES FOR 2013 UNDER THE RCF

While awaiting the resumption of budget support grants by donors, the authorities will continue to implement a prudent fiscal policy aimed at containing expenditures below available revenue and deposits in the banking sector, in order to avoid new arrears on domestic and foreign debts. In that context, the 2013 budget submitted by the government to the National Assembly in October 2012 does not envisage any budget support for 2013. However, if budget support were to materialize, the authorities will submit an amended budget to the National Assembly. The Government will continue to give priority to spending in education, health and social protection in compliance with the strategic framework for growth and poverty reduction (CSCRP) for the period 2012-2017 which was adopted in December 2011.

The authorities will also continue to improve the management and transparency of public finances and address the weaknesses identified in the public expenditures and financial accountability (PEFA) review of 2011, notably revenue collection, domestic debt management, and public accounting and external control of public finances. In this regard, the authorities will pursue the implementation of the governmental action plan aimed at modernizing the management of public finances during the period 2011-2015, albeit with better targeting of priorities and less resources. In order to increase revenue performance, the authorities are committed to reforming the tax, customs and government property administrations and policies. Among the actions planned are the identification and gradual elimination of tax exemptions, the preparation of a strategy to bring domestic energy prices in line with the evolution of international prices, and efforts to enhance the functioning and performance of the value-added tax (VAT) which accounts for about 40 percent of tax revenue.

With regards to the management and transparency of public expenditures, the Government will transcribe in the Malian legislation and regulations, the WAEMU directives related to transparency, public accounting, budgetary nomenclature and flow of fund table for the public administration. The draft laws and regulations have already been submitted to the WAEMU Commission for review. The authorities will also continue their efforts towards establishing the single Treasury account--which were interrupted by the events of March 2012--in line with the study completed in September 2011. To date, the authorities have already transferred the accounts of public entities in seven banks (with the exception of project accounts) to the Central Bank of Western African States (BCEAO). With external assistance, the authorities will pursue the implementation of the national strategy for internal control of public finances for the period 2011-15 adopted in 2011. In this respect, the staffing of the accounting section of the Supreme Court will be increased and this accounting body will be transformed into a Government Accounting Office as soon as possible, in accordance with the WAEMU directives.

The authorities continue to attach high importance to the preservation of debt sustainability. Despite the government's fiscal austerity efforts, the current difficult economic conditions have led to the accumulation of about $58 million of external arrears at end-2012. The authorities have sent letters to Mali's creditors to explain the current constraints on public finances and to reaffirm their commitment to clear these arrears as soon as possible.

CONCLUSION

In order to restore and preserve macroeconomic stability, my Malian authorities are requesting Fund support under the RCF. The RCF is critical to providing my authorities with the means to sustain their adjustment efforts in a context of tremendous and exceptional economic and security challenges, and to catalyze other donors' budget support.

Mali's past performance under Fund programs has been generally satisfactory, and my authorities are committed to continue to implement policies that would not aggravate the current economic problems, to restore macro-stability and to renew with their track record of good economic performance. I would therefore appreciate Directors' favorable consideration of my authorities' request for Fund support under the RCF.