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Mali: 2005 Article IV Consultation and Second and Third Reviews Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criteria—Staff Report; Staff Supplement on Debt Sustainability Analysis; Press Releases on the Executive Board Discussion; and Statement by the Executive Director for Mali

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2005 Article IV consultation with Mali and the second and third reviews under the Poverty Reduction and Growth Facility, and request for a waiver of nonobservance of performance criteria, the following documents have been released and are included in this package:

- the staff report for the combined 2005 Article IV consultation and Second and Third Reviews Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on November 1, 2005, 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 December 8, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Debt Sustainability Analysis of December 15, 2005.
- Press Releases summarizing the views of the Executive Board as expressed during its December 19, 2005, discussion of the staff report concluding the Article IV consultation and on the IMF arrangement, respectively.
- a statement by the Executive Director for Mali.

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

Joint Staff Advisory Note on the Poverty Reduction Strategy Paper
Implementation Report
Letter of Intent sent to the IMF by the authorities of Mali*
Poverty Reduction Strategy Paper Implementation Report
Selected Issues Paper and Statistical Appendix
Technical Memorandum of Understanding*
*May also be included in Staff Report

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

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INTERNATIONAL MONETARY FUND

MALI

Staff Report for the 2005 Article IV Consultation, Second and Third Reviews Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criteria

Prepared by the African Department
in consultation with other departments

Approved by Benedicte Vibe Christensen and Mark Plant

December 8, 2005

- **Discussions**. During April 28-May 12, August 28-September 1, and October 18-November 1, 2005, missions visited Bamako and met with Prime Minister Maïga, Finance Minister Traoré, BCEAO National Director Traoré, and other senior officials. The mission also met with representatives from the banking and business communities, and civil society. Mission members comprised of Mr. Lane (head), Messrs. Ellyne, Mills, Nachega, Thomas and Ms. Le (all AFR), and Mr. Wane (Resident Representative).

- **PRGF Arrangement**. The Fund supports Mali's economic program for 2004-07 under a PRGF approved in June 2004. Total access under the arrangement is SDR 9.33 million, or 10 percent of quota, of which SDR 2.66 million has been disbursed (Appendix I). A further SDR 2.66 million becomes available on the completion of this review. The World Bank is also supporting Mali's program through both project and adjustment credits (Appendix II). Statistical issues are discussed in Appendix III. Attachment I is the Letter of Intent from the Minister of Economy and Finance with the Technical Memorandum of Understanding.

- The second and third reviews under the arrangement have been combined because of delays in reaching understandings on fuel taxes. Understandings on the broad outlines of the 2006 budget were reached in a staff visit at end-August 2005, and the 2006 structural reform program was discussed in October 2005. The authorities request a waiver for the nonobservance of three structural performance criteria.

- **Political and Regional Developments**. The domestic political situation remains stable. In the National Assembly, the governing coalition is beginning to separate into two blocs ahead of the 2007 presidential and legislative elections. The political situation in neighboring Côte d'Ivoire remains unsettled, however, hindering a normalization of trade relations and flows.

- **Article VIII obligations**. Mali has accepted the obligations of Article VIII and maintains an exchange system that is free of restrictions on current transactions.

- **Publication**. The authorities intend to publish this report.

Contents

EXECUTIVE SUMMARY

Political and economic context

- Mali's democratic political system remains stable, with legislative and presidential elections scheduled for 2007. Instability in Côte d'Ivoire continues, however.
- Adverse exogenous shocks during 2004-05 weakened economic growth, budget finances, and the performance of several significant state enterprises. Agriculture is beginning to recover from drought and locusts in 2004, while the terms of trade declined 13 percent in 2005 to a 25-year low.

The Article IV Consultation. The discussions with the authorities focused on the management of recent exogenous shocks and progress toward accelerating growth and poverty reduction. The policy response to shocks has been broadly appropriate and helped maintain macroeconomic stability. Measured progress is being made toward growth and poverty reduction goals.

- **Cotton sector**. Following substantial losses at the state-controlled cotton company in the 2004/05 season, the authorities reduced producer prices 24 percent for the 2005/06 season, following the adoption of a flexible pricing mechanism. However, progress toward privatization of CMDT has stalled.
- **Oil prices**. There has been a partial pass-through of international oil prices to domestic prices, along with fuel tax revenue losses. A formula for full but gradual pass-through and measures to protect the poor could better balance consumer and revenue objectives.
- **Food security**. Sales and distribution of food stocks limited the risks of famine, but nonetheless there were large food price increases. Internal and regional impediments to trade merit further attention to lessen price volatility.
- **Enabling growth**. The staff view an acceleration of growth as unlikely unless the vulnerability to shocks is reduced and structural reforms, particularly private sector development, are accelerated. A more explicit growth strategy is needed.
- **Fiscal space and poverty reduction**. Economic growth, more efficient revenue collection, and eliminating unproductive spending will be decisive in creating fiscal space for poverty reduction over the medium-term. Increased external aid and multilateral debt relief could also contribute.

Program issues. The PRGF-supported program is broadly on track. Performance on quantitative aspects remains strong. Although the record on the structural program has been disappointing, the program for 2006 would mark significant progress on addressing key challenges. The staff supports the authorities' request for completion of the second and third reviews under the arrangement and waivers for nonobservance of three structural performance criteria.

I. Introduction

1. **The 2005 Article IV consultation is taking place at an opportune time**. First, the current program is at the half-way mark, offering the opportunity to take stock of what has been achieved. Second, the authorities are beginning preparations for their next poverty reduction strategy (PRS) beginning in 2007, against a backdrop of higher aid and debt reduction, and in this context are considering reform priorities ahead. Finally, there have been several exogenous shocks that the authorities have tackled, with varying degrees of success, that serve as a useful reminder that Mali's economic performance remains vulnerable to sharp swings in the terms of trade and climatic factors.

2. **Looking back to the 2003 Article IV consultation recommendations, the record of follow-through on policy recommendations has been mixed, as discussed further in this report (Box 1)**. The overall conduct of fiscal policy remains good, particularly public expenditure management compared to peer standards. Nonetheless, substantial issues remain particularly with respect to proliferating tax exemptions, and the potentially high liabilities of the pension systems. The privatization agenda, key to raising investment and productivity while reducing fiscal risks, has also experienced several setbacks.

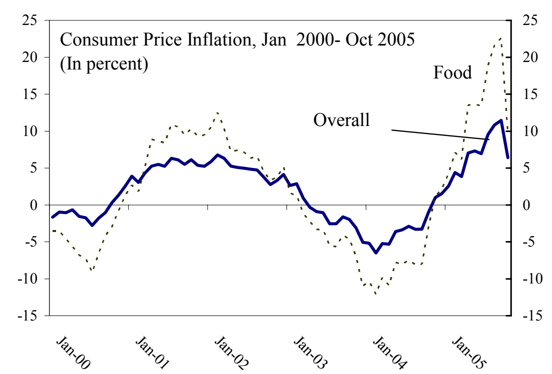
Box 1. Checklist of Key 2003 Article IV Recommendations

Advice	Status
• Strengthen public expenditure management (PEM).	PEM is good compared to peers, and public finance management continues to improve.
• Rein in public sector wage growth.	Increased employment in health and education has boosted the wage bill. Rising pressure for base salary increases after several years of restraint.
• Reduce the deficit of the civil service retirement scheme.	Reform of pension system parameters under discussion.
• Reduce the fiscal deficit over the medium term and increase reliance on external grants	Domestic borrowing only for cash management purposes, and to cover shortfalls of external assistance. Rising share of grants.
• Refrain from granting tax exemptions or offering subsidies	Ad hoc exemptions continue, though subsidies have been generally held back.
• Streamline the regulatory framework	Investors' Council proposals under consideration, regional-level impetus is needed.
• Complete the privatization program, including in the cotton sector	Delays in sale program for cotton company, banks, and telecommunications.

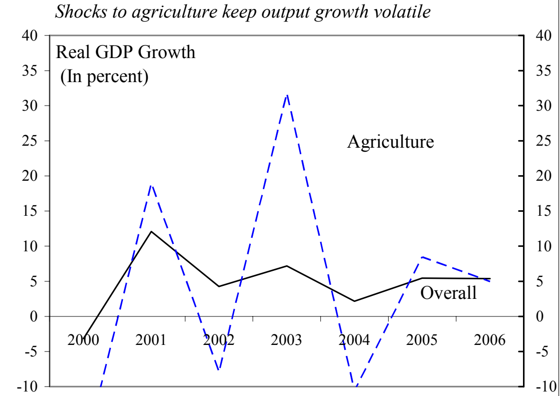
II. Recent Developments

3. **Changes in agricultural output have been the primary determinant of output and inflation developments** since 2002 (Tables 1-2). Due to changes in weather conditions the agricultural sector has not posted two successive years of positive growth since 1998–99. GDP growth fell to 2.3 percent in 2004, as inadequate rainfall and a locust infestation cut 2004/05 agricultural production by an estimated 10 percent (Table 2).[1] Bolstered by good rains, agricultural output is expected to recover in 2005/06 raising GDP growth to 5.4 percent in 2005. In addition, increased gold output in 2005 also supports growth, as technical problems experienced in 2004 were overcome, though growth in the secondary and tertiary sectors has slowed reflecting weaker private consumption demand. The food production shortfall pushed 12-month inflation to a 10-year high of 11½ percent in September 2005, on account of food price inflation of 22½ percent. Nonfood inflation was 2 percent during the same period. In October 2005, prices moderated substantially as food supply improved.

Food prices the key determinant of consumer price inflation

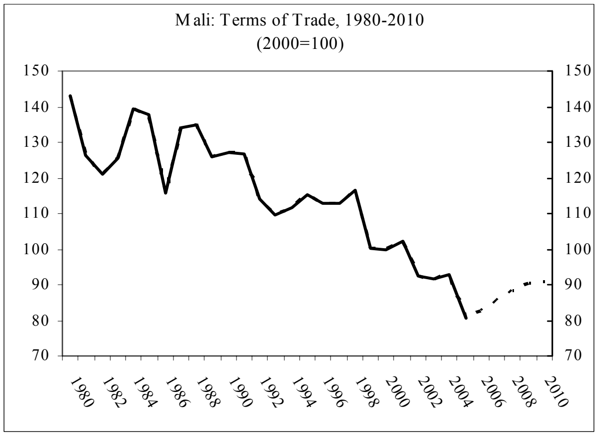


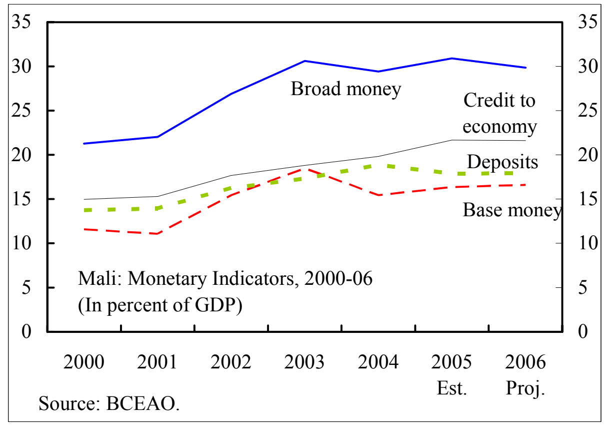
Shocks to agriculture keep output growth volatile



4. **The external position has weakened since 2002, on account of both price and volume developments** (Table 3). During 2003–04, the current account deficit (excluding grants) weakened by 4 percentage points to 9½ percent of GDP, principally due to a fall in gold export volumes. In 2005, a 13 percent projected decline in the terms of trade to a 25-year low, led to a further weakening of the current account deficit to 11 percent of GDP. The specific shocks to cotton and oil prices are discussed in the following section. External reserves, which had increased rapidly during 2000–03, fell modestly in 2004 and stabilized in 2005, at a level of six months import coverage.

[1] The crop year runs from June to May. In the national accounts, production is registered in the year of planting (mostly as a change in inventories).





5. **As a result of the less favorable external environment, money growth slowed in 2004 and 2005, after robust growth in 2002 and 2003** (Table 4). Broad money fell 2 percent in 2004 and rose 6 percent in 2005.[2] Private sector credit growth also slowed from near 20 percent during 2002–03 to just above 5 percent over 2004–05, partly reflecting banks' efforts to improve credit portfolios. Liquidity remains high in the banking system as a whole, possibly reflecting undercapitalization, while compliance with prudential norms is only partial (Table 5). The government has decided to recapitalize the housing bank (Banque de l'Habitat du Mali) through a conversion of government deposits into equity (equivalent to 0.6 percent of GDP) while also strengthening its management and operations. A review of commercial bank loan portfolios is nearing completion and will provide the basis for a broader strengthening of bank soundness and adherence to prudential regulations.

6. **Budget implementation in recent years has resulted in a steady increase of revenues and an upward trend in current spending, both from low levels**. Revenue strengthening derives principally from improved tax administration of both direct and indirect tax bases. Increases in current spending have been broad based, reflecting higher levels of employment, as well as transfers. Changes in external grants and loans explain a considerable share of movements in fiscal balances since 2000. In 2005, fiscal policies weakened: spending increased principally due to net lending of 1 percent of GDP to cover losses at the state-owned cotton ginning company (CMDT) and higher foreign-financed investment, while revenues were stable. The overall fiscal deficit (on a commitment basis, excluding grants) is estimated to increase to 8½ percent of GDP (2 percent of GDP increase on 2004).

[2] In June 2005, the monetary authorities introduced substantial revisions to monetary and related balance of payments statistics following a revision of methodology for estimating intra-monetary union banknote movements (see statistical issues, Appendix IV).

Mali: Fiscal Indicators, 2000-05
(In percent of GDP)

	2000	2001	2002	2003	2004	2005 (proj)
Revenue and grants	18.5	17.8	19.6	20.9	21.4	22.2
Of which: revenue	13.8	14.1	15.9	16.4	17.4	17.6
Expenditure and net lending	21.5	21.1	23.2	22.2	24.0	26.3
Of which: current expenditure	10.5	12.6	13.2	12.3	13.4	13.8
capital spending	9.8	7.7	8.7	8.5	9.3	10.2
Basic balance 1/	-0.6	-1.7	-1.3	-0.2	-0.7	-2.0
Overall balance, commitment basis, excl. grants	-7.7	-7.0	-7.3	-5.7	-6.6	-8.7
Overall balance, commitment basis, incl. grants	-2.9	-3.2	-3.6	-1.3	-2.6	-4.1

1/ Excluding grants and foreign financed capital spending.

7. **The progress of structural reforms was mixed in 2004-05, with both achievements and setbacks in private sector development**. In the cotton sector, the government privatized a controlling stake in the cottonseed oil company, HUICOMA, with proceeds of 0.3 percent of GDP, although issues relating to the outstanding liabilities of the privatized company remain unresolved. The privatization of the cotton ginning company (CMDT) into regional operating units was pushed back from 2006 to 2008 to allow more time for preparatory work on the regulatory framework and to strengthen producer associations. Electricité du Mali returned to majority state ownership in October 2005, as a strategic foreign owner sold out over disputes concerning tariff setting and investment levels. The sale of government stakes in two banks was delayed by a legal challenge to one sale and difficulties in mobilizing other official shareholders to join in the sale of a controlling shareholding in the other.

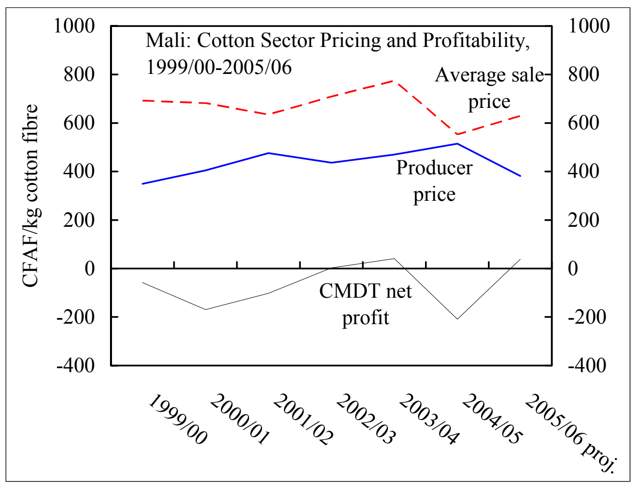
8. **Public sector institution-building progressed at a measured pace.** The government continued implementation of a comprehensive plan to strengthen public finance management. Significant progress has already been achieved on expenditure management and control, especially the organizational changes in the Ministry of Economy and Finance, initiation of computerization and completion of the audits of the 2003 and 2004 budgets. Delays have developed on some aspects of financial controls, in particular the creation of a Supreme Court of Auditors. The authorities completed a study of the criteria for the allocation of social safety net resources (structural benchmark), albeit with some delay, that recommends ways to improve the targeting of assistance. A planned study on improving the efficiency and yield of property taxes (structural benchmark) has not yet been initiated, pending the availability of the required technical assistance from donors. Plans for decentralization and deconcentration of government functions, which is also proceeding, hold out promise of improvements in service delivery. Overall, Mali has satisfied 11 of the 16 Public Expenditure Management AAP indicators, an above average achievement for the region.

III. Policy Discussions

A. Coping with Exogenous Shocks

9. **Adverse exogenous shocks have unambiguously framed Mali's economic performance during 2004-05**. The shocks have weakened household balance sheets, budget finances, and the performance of several significant state enterprises. These developments have also detracted from longer-term reform objectives. The Article IV consultation discussions focused on the authorities' policy responses to a sharp drop in international cotton prices, rising oil prices, low rainfall and a locust infestation that cut agricultural production.

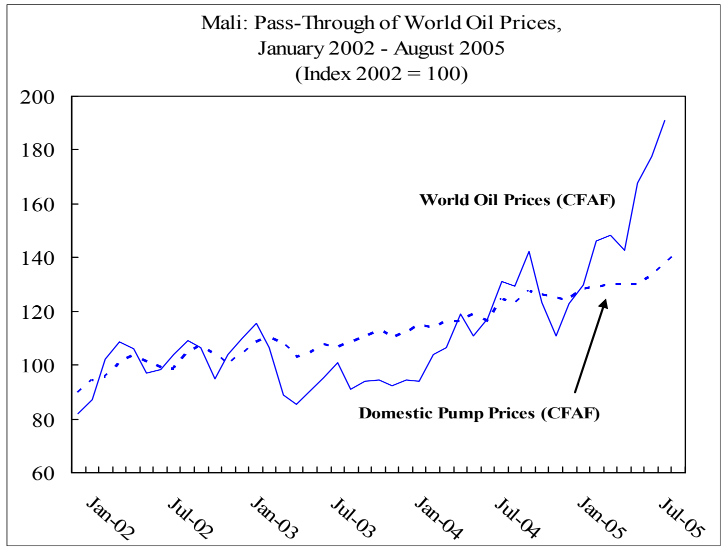
10. **The state-controlled cotton company (CMDT) posted an operating loss of 1.7 percent of GDP in the 2004/05 season.**[3] The authorities recognize that a combination of declining international cotton prices and an ill-judged increase of producer prices contributed to this outcome. To cover the 2004/05 losses the government has lent the CMDT 1 percent of GDP (CFAF 28 billion) in 2005, and a further CFAF 14 billion is covered by CMDT and cotton producer resources. Residual financing needs will need to be covered in 2006 by shareholders (the government and/or a foreign shareholder) based on 2005 audited accounts. The staff and authorities agree that close surveillance of CMDT cashflow is warranted in order to clear payment arrears (Letter of Intent ¶31).



11. **The staff support the authorities' efforts to bring CMDT back to profit in 2006**. Central to this strategy has been the implementation of a producer price protocol linking to world prices. Consistent with the price mechanism, producer prices were reduced by 24 percent for the 2005/06 season, while cotton producers have maintained planted areas, with the result that the CMDT is projected to at least break even in the current season. In the Doha Round, Mali and other African cotton producing countries are seeking the elimination by developed countries of trade-distorting cotton subsidies and have called for the establishment of a compensation fund for producers until such subsidies are eliminated. While supporting these efforts, the staff have also pressed for concrete progress toward the

[3] The cotton season runs from June to May.

objective of privatizing CMDT in 2008 in order to bolster investment and productivity improvements, as yields have stagnated against a backdrop of improvements in other major cotton producing countries.



12. **The staff and authorities discussed how best to respond to the continuing increase of international oil prices**. A partial pass-through to domestic pump prices has given consumers time to adjust, and has significantly reduced fuel excise revenues. The staff recommends the adoption of a pricing formula for fuel products that would pass through international price increases fully but gradually, e.g., over three months, to balance consumer and revenue objectives. This recommendation is supported by conclusions of a study of the distributional effects of fuel price increases that over 40 percent of a fuel price increase is borne by the top quintile of consumers and less than 10 percent by the lowest quintile.[4] The authorities have concerns about the social impact of higher fuel prices, particularly in light of sharply higher food prices in 2005, already high costs of transport, and the impact of rising kerosene prices on the poor. Staff agreed that studies of the impact of various pricing formulae, and the modalities of protecting low-income consumers would be desirable prior to the introduction of a pricing formula in 2006 (LoI, ¶18).

13. **The cereal production shortfall in 2004/05 along with its inflationary effects have been a major issue for the Malian authorities in 2005**. Cereal production declined by between 16 and 40 percent according to different methodologies used by the authorities. The combined efforts of the authorities and donor agencies appear to have been effective in limiting the human costs of drought and locusts through timely distribution or sale of food stocks. However, cereal prices increased by over 50 percent in the 12 months through September 2005, driving food price inflation up to 23 percent. Rising inflation has increased pressure for compensatory measures, including compensatory wage increases in the public sector.

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[4] The distributional impact of fuel price rises and possible palliative actions is discussed in an accompanying selected issues paper.

14. **The staff noted that as the price rises are temporary, only short-lived measures would be appropriate.** The authorities concurred, though temporary measures including import VAT exemptions for rice and maize appear to have been largely ineffective (possibly owing to re-exports to neighboring food deficit countries). Proposals to introduce price controls for rice were proposed but not implemented. Moreover, the authorities agreed that all temporary measures would be removed as food prices revert to more normal levels in order not to penalize farmers (LoI, ¶12). The staff considers that high transport costs and regional trade restrictions have exacerbated food price variability and have supported high cross-country and regional differences in cereal prices. As trade cannot quickly cover food deficits, there is a close correlation between food deficits and inflation (Box 2). Accordingly, efforts in future should be directed to addressing these constraints to trade both within Mali and vis-à-vis trading partners. The authorities have stressed the importance of increasing food reserves, which donors are considering financing at least in part, and are creating a network of food banks that may help to reduce seasonal variability of prices, if well managed.

B. Enabling Faster Growth and Poverty Reduction

Medium-Term Growth and Competitiveness Issues

15. **The authorities' aim at maintaining macroeconomic stability – by meeting economic and monetary union macroeconomic convergence criteria – while accelerating growth and poverty reduction through policies to increase diversification and productivity**. Staff and authorities agreed that the impact of macroeconomic shocks had contributed to the nonobservance of convergence criteria for inflation and the basic fiscal balance in 2005, and that the unwinding of the shocks would very likely bring inflation under the 3 percent ceiling in 2006, and bring the basic balance back to surplus in 2007 (Table 7). The staff noted a potential tension between increases of aid-financed current spending and observing the basic balance criterion, an issue that is under review at the Union level.

16. An updated debt sustainability analysis (DSA) produced by Bank and Fund staffs (to be issued as a Supplement to this report) indicates that Mali broadly meets debt indicator thresholds (defined by country policy and institutions assessment rating) for debt stock and debt service in the baseline scenario but not for some alternative scenarios.[5] A DSA scenario incorporating the multilateral debt relief initiative (MDRI) in 2006 brings debt indicators well below these thresholds through the medium-term, and would ensure that the WAEMU

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[5] Four creditors accounting for 0.2 percent of Mali's end-2004 external debt stock (before HIPC relief) have not yet agreed to provide HIPC relief. Also, one non-Paris Club bilateral creditor, accounting for 6.1 percent of 2004 debt outstanding, that is not participating in the HIPC Initiative, has been providing 100 percent relief on debt service falling due on a rolling basis.

ceiling of nominal debt to GDP ratio would also be observed going forward.[6] The authorities indicated that MDRI would not change their financing strategy of seeking a rising share of grant financing, and restricting loan financing to highly concessional terms. They indicated that a Fund-supported arrangement provided useful leverage in improving debt concessionality.

17. **Projections of the medium-term balance of payments show a steady improvement in the current account balance (before grants) through 2010**, based on a terms of trade improvement (easing of oil prices and increased cotton and gold prices). The overall balance of payments position would also strengthen, reflecting the improving current account, projected increases of official external financing and private investment inflows, including in the gold sector. The authorities stressed that ongoing efforts to decrease the volatility of donor assistance would lessen vulnerability to aid fluctuations. Mali's contribution to monetary union international reserves would remain at six months import coverage (the current level for the West African Monetary Union).

Mali: Estimated External Debt Burden Indicators Prior to and Post MDRI, end-2006
(In percent, unless otherwise indicated)

	Post HIPC	Post MDRI	HIPC threshold	Low Income DSA Threshold
NPV of debt to exports	95.6	50.4	150	150
NPV of debt to revenues	149.0	79.2	250	250
Debt service to exports	6.8	4.4	20	20
Nominal debt to GDP ratio	66.5	26.7	...	...

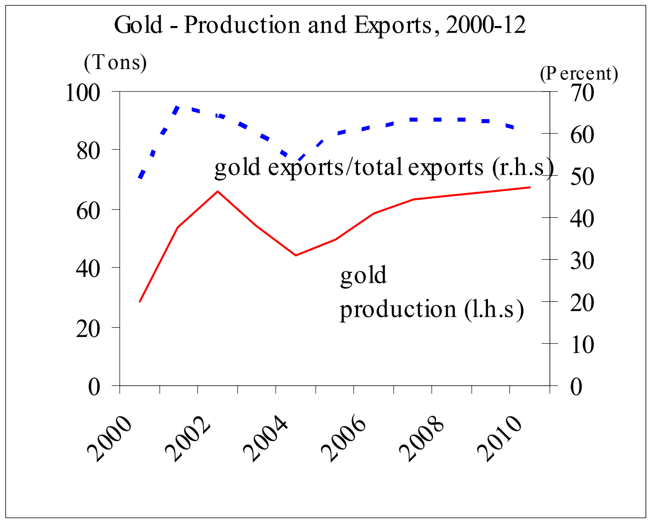
18. **The authorities' medium-term GDP growth objectives are set at 6.7 percent in the current PRS (through 2006) and 7 percent in the framework document for the next PRS** (2007–11).[7] Staff and authorities agreed that shocks to agriculture had contributed to the recent growth slowdown. Over the medium term, growth potential would depend on policies to encourage diversification, the quality of the investment environment (including the strength of the financial system) and raising productivity. Staff expressed the opinion that the authorities' forthcoming growth strategy would need to clearly articulate a rationale for raising growth above current PRGF projections, while taking into account the slow progress of structural reforms and evidence of a difficult investment environment, that may also act as a brake on growth. The staff medium-term macroeconomic outlook assumes average GDP growth of 5.6 percent through 2010, stable inflation at 2½ percent per year from 2007, and a

[6] After MDRI is approved and the final terms are known, it would be incorporated in the program baseline as discussed in section IV.

[7] The 2004–07 PRGF, prepared after the PRS, projects GDP growth of 5.7 percent.

significant improvement in the terms of trade, with the current account deficit improving from 11 percent to 7 percent of GDP between 2005 and 2010 (Tables 8-9).

19. **The authorities recognize the importance of the policy framework for growth, while also stressing the supply side potential of the economy**. Key bases for growth identified are: the development of rural infrastructure, particularly irrigation; agricultural diversification (fruits and vegetables); the development of agro-industry (sugar, meat, yarn); and expansion of transport, telecommunications and tourism service. The authorities emphasized that their diversification strategy would benefit from the elimination of agricultural subsidies in industrialized countries (by improving the terms of trade).



20. **The gold sector is unlikely to be a major motor for future growth, but does lessen vulnerability**. Given reasonably reliable production projections and the comparatively low volatility of gold prices, staff and authorities concurred that the outlook sector was for steady yet modest gold sector growth through 2010. While the contribution of gold to GDP and exports is significant (10 percent of GDP and over half of exports), links to the rest of the economy are limited: tax and dividend payments are 1-2 percent of GDP (after allowing for tax exemptions), most inputs are imported, and labor use is low.

21. **The staff noted that accelerating growth would require raising investment and productivity significantly above recent levels**. Historical evidence in explaining growth pointed to a predominance of factor accumulation in explaining growth over increases in total factor productivity, although there are signs of some improvement in productivity since 2000.[8] Moreover, the performance of several key sectors was not particularly

[8] See selected issues paper: *Economic Growth and Total Factor Productivity*.

Box 2. Mali: Food Security and the Macroeconomy

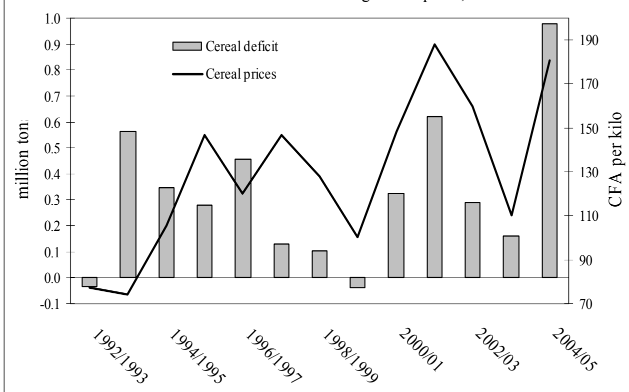
Mali recently faced the challenge of rising food prices and food insecurity. Food constitutes 50 percent of the weight in the overall price index (Bamako), and cereals make up more than one-third of the food basket. Thus food price inflation is a major determinant of overall inflation.

Rising food prices have an impact on the macroeconomy and the poor in particular. In Mali, the bottom quintile spent 84 percent of their expenditure on food; thus, high food price inflation has a significant impact on living standards and on economy-wide demand. Inflationary pressures can have a negative effect on growth and competitiveness and on the budget through tax exemptions and wage pressure.

The combined effects of inadequate rainfall and the locust invasion in 2004/05 increased the food deficit in Mali. The cereal deficit in 2004/05 is estimated at one third to one fifth of cereal production, depending on the assumption used for dietary requirements. The size of the cereal deficit is closely linked to the level of cereal prices (see chart).

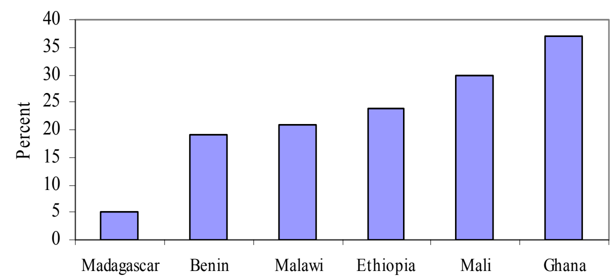
There are several impediments to external and internal food trade as geography plays an important role in market integration. Food trade is primarily regional and conducted by small traders. On the external front, food export restrictions in other West African countries have contributed to high spatial and temporal price spreads in food markets. Mali's internal markets are not integrated due to weak information and transport infrastructure. Private sector traders are characterized by limited capital, a low degree of specialization, little long-term investment. Market failures due to lack of access to credit, storage markets, and information have impeded the private trader operations.

Mali: Cereal deficit and average cereal prices, 1992-2005



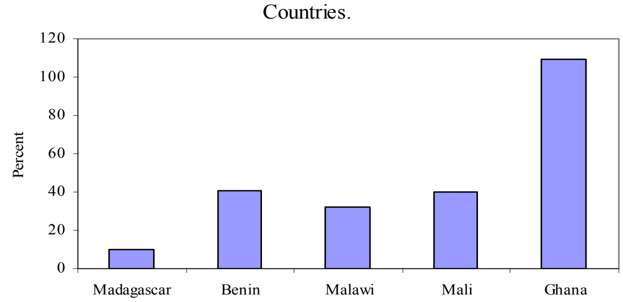
Note: Cereal deficit is based on the FAO minimum dietary requirements of 198 kg per person

Spatial Marketing Margins for Maize in Selected SSA Countries.

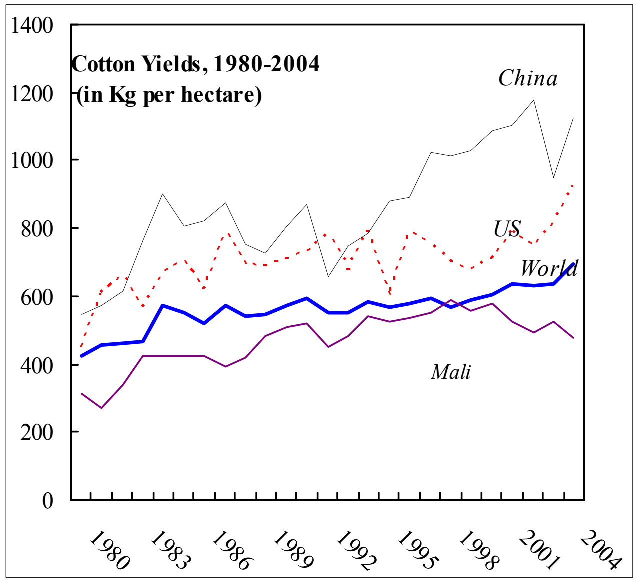


Source: IFPRI; For Mali, spatial margins are the price spread between Bamako and Kayes region

Temporal price spread for Maize in Selected SSA Countries.



Source: IFPRI; For Mali, spatial margins are the avearge price spread between the minimum and maximum price.

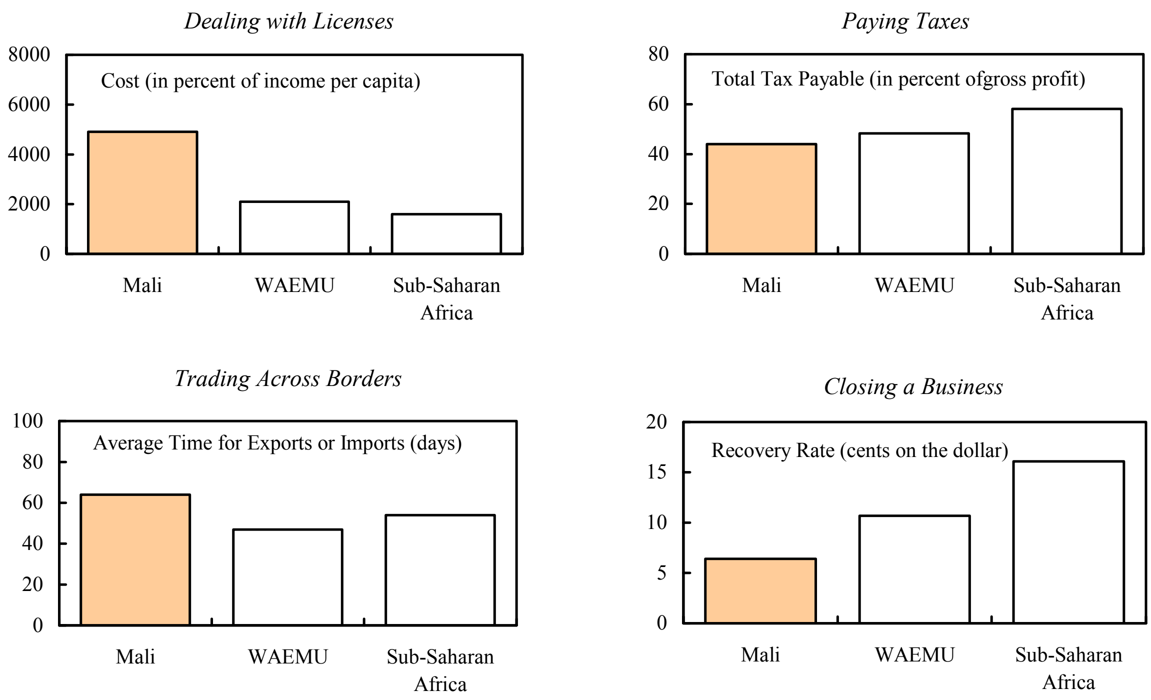


encouraging: cotton yields had stagnated in recent years, indicating a lack of investment in new technology and the use of more marginal land, while worldwide yields have risen; and rice yields in the irrigated region of Office du Niger are stable.

22. **The authorities have identified the main impediments to investment as the basis for developing a strategy to improve the investment environment**. Key impediments that the authorities identified (in consultation with an Investors' Council) include high operating costs (owing to poor infrastructure, excessive cost of energy and telecommunications), the proliferation of tax incentives in neighboring countries, and distance from ports in the region. The crisis in Côte d'Ivoire may also have deterred some investors. Private sector representatives also noted that the lack of a skilled workforce was a major impediment. They also stressed that governance was an issue, especially procurement procedures, the weak judicial system, and access to financing. An Investment Climate Assessment conducted by the World Bank confirms the significant impediments to private investment compared to peers. The staff underscored the importance of maintaining cost-recovery tariffs for utilities, while improving productivity through private management within an independent regulatory framework. The staff also cautioned against the use of broad investment incentives and urged that the application of Investment Code incentives be scrutinized carefully with a view to minimizing revenue losses. The staff agreed that transport costs are a major issue, and indicated that effective operation and funding of the newly-created Road Agency is key, and that reduced fuel taxes on specific import routes was an inefficient method of reducing costs.

23. **Trade reforms, especially unilateral tariff reductions in the context of WAEMU, have advanced.** The authorities indicated enhancing Mali's contribution to and benefits from global trade would require (i) strengthening technical assistance with a view to better understand multilateral trade agreements, (ii) implementing swiftly the Integrated Framework so as to improve and diversify Mali's exports, and (iii) a sound and equitable implementation of WTO agreements, notably a rapid elimination of subsidies and non justified technical obstacles to trade. Mali implemented WAEMU anti-competitive practices legislation in January 2003, complementing national legislation. Mali also implemented the principle of transactional value to determine the custom value of imported goods effective January 1,

Figure 1. Selected Doing Business Indicators, 2005
Mali has high business costs and low tax compared to the WAEMU and Sub-Saharan Africa



Source: World Bank Doing Business Indicators

2004. Mali is eligible for AGOA and was granted the visa for textile products in December 2003. As regards anti-dumping, pending adoption of the relevant WAEMU code, reference values under a 2003 decree apply for selected products.

24. **The slowdown in growth in 2004 has also impacted on the banking sector after several years of rapid credit growth**. Given less than full compliance with prudential ratios, and evidence of a degradation of the quality of credit portfolios, the authorities have strengthened surveillance of lending operations, in part spurred by the recommendations of supervision reports. In this regard, the Malian authorities' actions to address liquidity and portfolio problems in the housing bank are commendable, although prompter action would have significantly reduced the budgetary costs of recapitalization. A process is under way to review necessary actions in other banks. The staff also requested additional information for financial sector surveillance to better gauge the strength of the system and identify priorities for improving intermediation and raising bank efficiency.

25. **Staff and authorities agreed that exchange rate competitiveness indicators gave mixed signals** (Box 3). The appreciation of the real exchange rate by 10-15 percent over the past five years (depending on the method of calculation), mainly on account of the depreciation of the US dollar against the CFA franc, has pressured cotton sector incomes while also lessening the price increase of dollar-denominated imports, particularly fuel. Export market shares, as a share of world exports and developing Africa exports, have weakened (principally on account of price developments in its two largest export sectors: Mali's share of world gold production is increasing and share of cotton production is broadly stable). At the regional level, the exchange rate is consistent with comfortable reserve adequacy indicators, in relation to imports, broad money and short-term debt, and in relation to external shocks, indicating limited vulnerabilities. Nonetheless, the staff pointed toward analysis that the long-run equilibrium exchange rate in Mali has depreciated, in part due to a terms of trade decline, and that the adjustment of the actual real exchange rate to the equilibrium is relatively slow.[9] This in turn, emphasizes the need for flexibility of factor prices to maintain a real exchange rate close to the equilibrium rate. Debt cancellation coupled with higher government spending would however likely lead to an appreciation of the equilibrium exchange rate, and equilibrium exchange rate estimates should be treated with caution.

International Reserve Coverage, 2004

			Ratio to:		
	Months of imports	Import coverage needed for 2 S.D. current account shock	Broad money	Reserve money	Short-term debt
WAEMU	5.7	2.6	0.6	1.4	5.7
CEMAC 1/	2.4	6.6	0.5	1.0	1.7
ECCU 2/	4.3	1.8	0.2	1.0	2.0

1/ Communauté Economique et Monétaire de l'Afrique Centrale.
2/ East Caribbean Currency Union.

Fiscal Space and Poverty Reduction

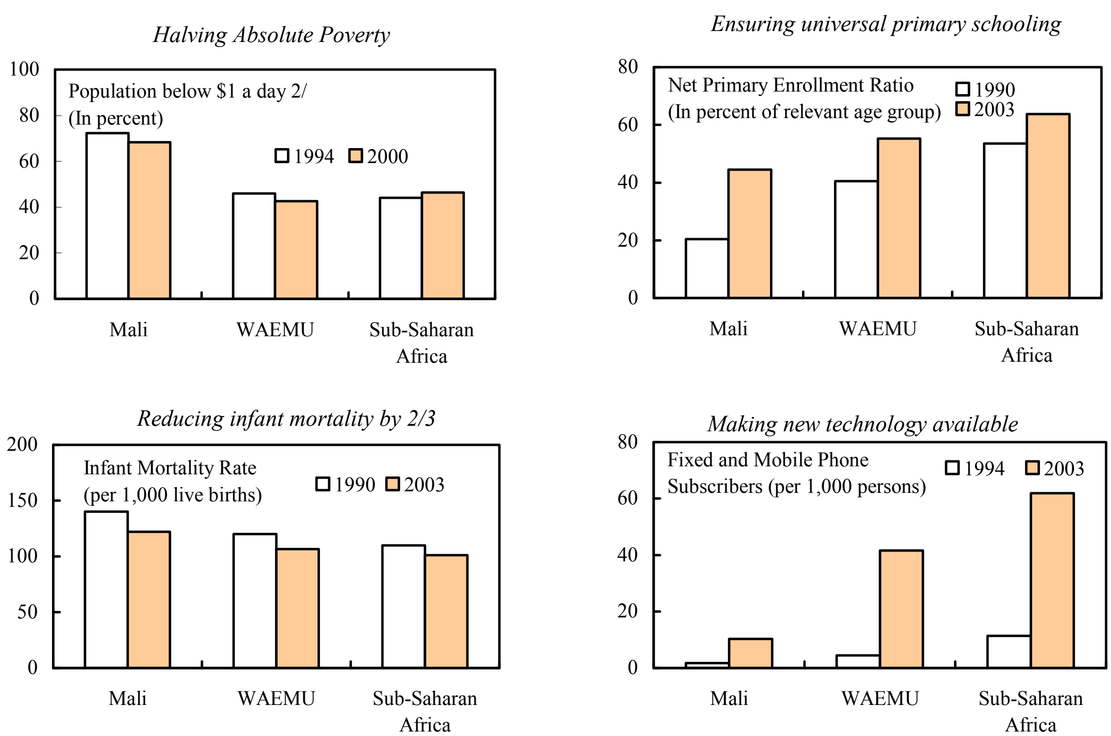
26. **Poverty remains widespread in Mali notwithstanding prudent economic policies, and positive growth over the past decade.** There are significant structural barriers to development, including high illiteracy, low health indicators, undeveloped infrastructure and distant markets and Mali's progress toward achieving MDGs is mixed (Figure 2 and Table 10). Progress is more marked in access to health and education, and the spread of communications technology. Clearly, accelerating progress would require both faster growth and substantially higher spending on MDG-related objectives.

[9] See selected issues paper "*Estimation of the Equilibrium Exchange Rate for Mali*".

27. **The discussion of medium-term fiscal issues focused on factors that could create fiscal space for pursuing poverty reduction objectives**.[10] The authorities agreed that the key factors that help to create fiscal space were GDP growth (leading to revenue increases with unchanged revenue yield), raising revenue yields, eliminating unproductive spending and more generally improving the efficiency of spending, while additional external grant assistance could also make a significant contribution if aligned to PRS spending priorities.

Figure 2. Selected Millennium Development Goals for 2015 1/

Mali is making progress on MDGs but continues to lag behind the WAEMU region and Sub-Saharan Africa

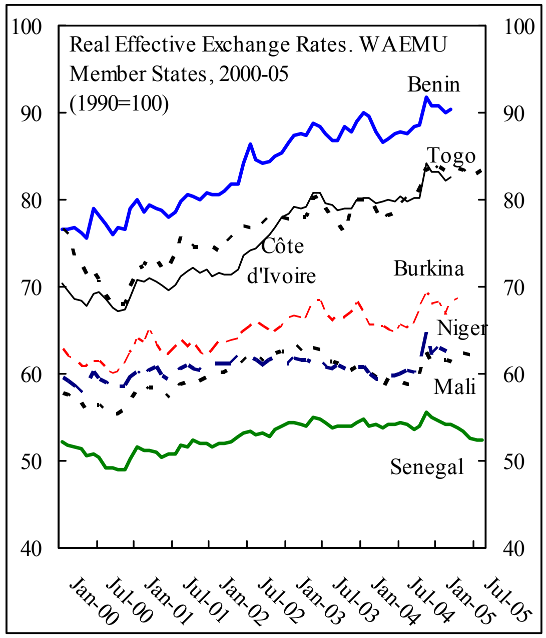


Source: World Bank, World Development Report.
1/ When data were not available for the specific year, the charts use the data from the closest available year.
2/ The WAEMU comparator for poverty in 2003 is composed of only 2 countries -- Côte d'Ivoire and Burkina Faso.

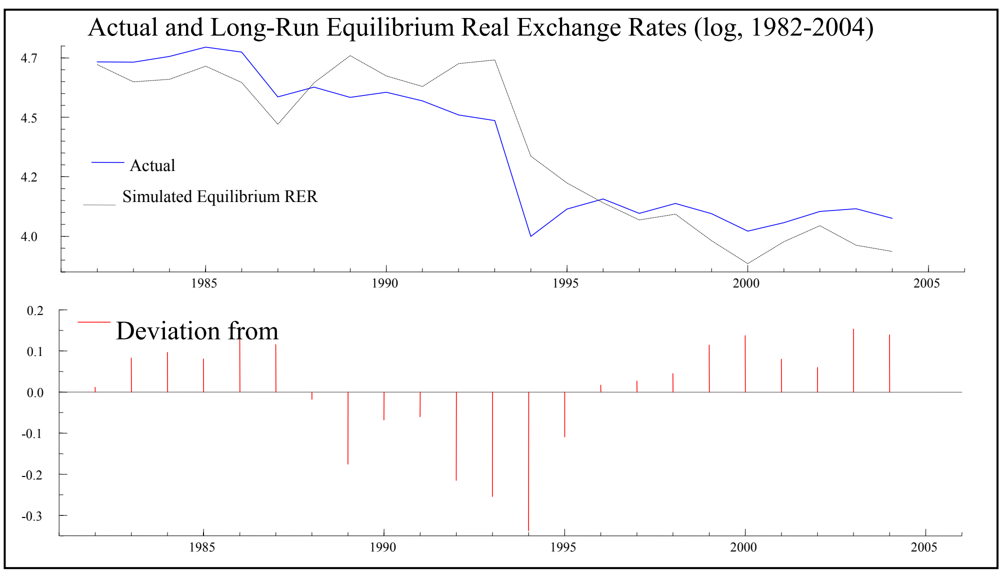
[10] See selected issues paper "*Mali: Creating Fiscal Space*". The term fiscal space refers to the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position.

Box 3. Exchange Rate Developments

Mali's real effective exchange rate or REER (trade weighted, CPI based) has consistently been amongst the least appreciated in the West African Monetary Union, and tracks neighboring Sahel countries REER's. Since 2000, REERs have appreciated modestly across the union on account of CFA appreciation against the dollar. The appreciation is slightly more marked if the REER is calculated using currency denomination of trade weights rather than origin and destination of trade weights.



Over the longer term, Mali's actual and equilibrium real exchange rate have depreciated. The depreciation of the theoretical equilibrium rate (consistent with macroeconomic balance) is particularly influenced by the declining terms of trade. Debt reduction would however support an appreciation of the equilibrium exchange rate, or equivalently increase the sustainable level of the current account deficit.

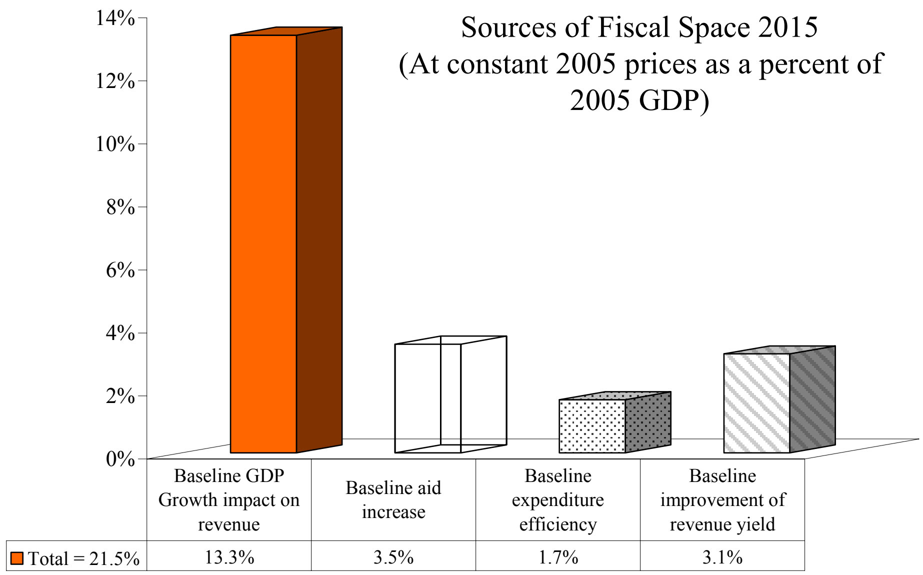


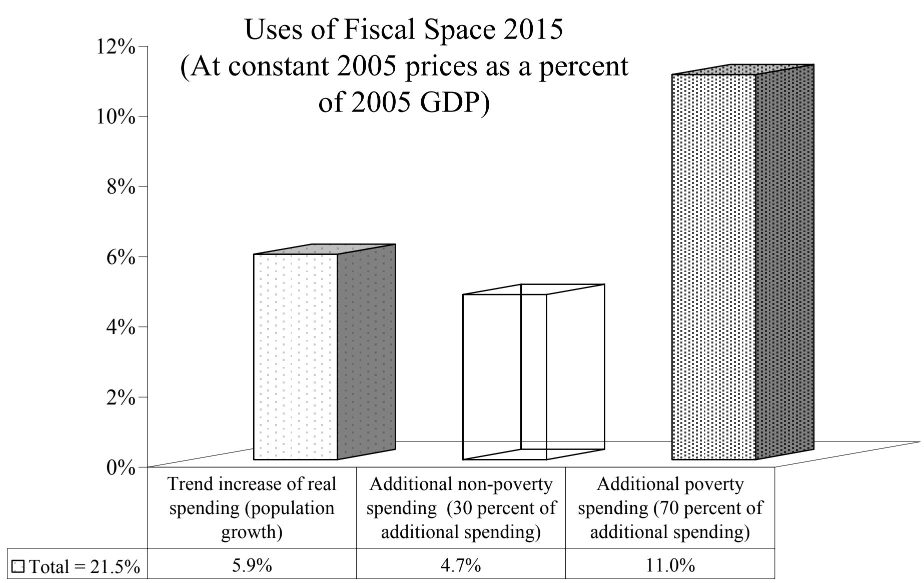
28. **The mission illustrated that the fiscal space created under the program medium-term framework by 2015 could amount to the equivalent of 20 percent of current GDP.** Staff agreed that the projections of fiscal space were sensitive to the underlying assumptions: lower GDP growth (4 percent rather than 5½ percent per year) and weaker reform could cut fiscal space created by 2015 in half. Nonetheless across most scenarios, the most important factor, accounting for over half the projected fiscal space, is additional revenue resulting from expansion of the economy. The implementation of the multilateral debt reduction initiative (MDRI) frees up an additional 0.6 percent of GDP per year in constant 2005 prices (about 1 percent of current GDP over the medium-term), while a doubling of aid levels by 2010 (consistent with, for example, a number of recent bilateral donor commitments) would create fiscal space of 2 percent of GDP in constant 2005 prices (with the caveat that aid flows are volatile and often performance-based). The authorities agreed that maximizing internal sources of revenue was of paramount importance, while public finance management reforms were directed at producing revenue yield increases without increasing marginal tax rates, as assumed in the program. Moreover, eliminating fiscal risks such as cotton sector support, pension fund losses, and recapitalization of banks could also help create or preserve fiscal space. While the bulk of projected fiscal space is generated internally, staff noted that substantially increased net external resource flows could also affect inflation and competitiveness.

29. **Linking fiscal space created to poverty reduction requires both discipline in the use of the space and an analysis of the impact of spending on poverty reduction objectives**. Illustrative projections of the uses of fiscal space showed that only about half would be available for additional poverty reduction spending even under optimistic assumptions, specifically 10 percent of 2005 GDP by 2015 in the baseline scenario.[11] The potential impact of such additional poverty spending could in principle be estimated by sector specialists in the context of the PRSP elaboration. For example, based on UN Commission

[11] This result is derived by assuming that underlying real spending increases at the same rate of population growth for an unchanged level of public services per capita, thus reducing the amount of fiscal space, and that of the remaining fiscal space 70 percent is allocated to poverty reducing spending, slightly higher than the share in the 2005 budget of 65 percent.

for Macroeconomics and Health estimates, the cost of providing minimum essential health services in Mali would require additional expenditure of about 6.3 percent of 2005 GDP (three times the current level of public health expenditure).





30. **The authorities found the analytical approach of fiscal space to be a useful concept for linking fiscal and poverty reduction policies, particularly in the context of developing the second generation of the Poverty Reduction Strategy (PSRP II)**. In the 2003-04 progress report on the Poverty Reduction Strategy, the authorities noted both

considerable progress toward some poverty reduction goals and significant shortfalls in reaching key Millennium Development Goals. In this connection, the Joint Staff Advisory Note stresses the need for the PRSP II to include both a growth strategy and action plan and an analysis linking the creation of fiscal space with the costing and prioritization of targeting poverty reduction objectives. Constraints on absorption capacity, at the institutional and macroeconomic levels, also require attention and, if necessary, plans for mitigating actions.

IV. Program Issues

31. The attached Letter of Intent describes the authorities program implementation in 2005, specifies policy plans for 2005 and 2006, and requests completion of the second and third reviews under the arrangement.

32. **The authorities met all quantitative performance criteria, indicative targets and financial performance indicators through September 2005** (Attachment I, Table 1).

33. **The quantitative program for 2006 envisages a substantial strengthening of the fiscal position** (defined by the regional convergence criterion on the basic balance), while net domestic financing is negative, reflecting the repayment of 2005 bridge financing. Budgetary revenue is projected to increase by about 1 percent of GDP, on account of policy and administrative measures (see ¶15 letter of intent), which is ambitious but achievable in light of the upward trend of recent years. Containing the increase in current expenditures is also feasible, given the track record of spending control, though pressure for public sector wage increases constitutes a significant risk ahead. Staff view the 2006 budget as fully financed on the assumption the envisaged external budgetary support is delivered. Such support has been volatile in past years, in part due to variable reform performance, and also poses a budgetary risk. Nonetheless, the program adjustor for shortfalls in budget support is adequate for addressing short-term aid volatility.

34. **The structural reforms covered by the authorities' program continue to advance, although with a number of delays** (Attachment I, Annex II). The authorities have implemented three prior actions for completion of the second and third reviews concerning submission to the National Assembly of a fully financed 2006 budget, a revision of fuel excise taxation and the termination of food import VAT exemptions. Of the four structural performance criteria applicable for the review, one was met (adjusting cotton producer price), two were completed with delay (announcement of a cotton producer price consistent with agreed mechanism and beginning actuarial studies and audits of pension funds), and one has not been completed owing to a court challenge (closing date for acceptance of final bids for BIM). Accordingly, the authorities request waivers for nonobservance of three structural performance criteria. Staff supports the request for waivers on the basis that two measures are now completed after temporary delays, while the third measure (concerning privatization of BIM) has been delayed by a legal challenge beyond the authorities' control and they remain committed to implementation as soon the legal impediment is lifted. None of the four structural benchmarks through end-September were met on schedule: a review of the social safety net program was completed with a delay, while the assessment of the impact of

parametric reforms of the public sector pension fund has begun and is expected to be completed with a six-month delay. The study of electricity rates has been postponed to May 2006, following the withdrawal of a strategic foreign partner, while the tender for BIM was also delayed by the court case, and is now scheduled to be implemented by March 2006, nearly a year behind schedule.

35. **The structural reform program for 2006 makes further progress in addressing the key challenges, particularly relating to privatization and addressing fiscal risks**. Approval by the Council of Ministers of pension reforms aimed at progressively reducing the projected deficit of the civil service pension fund is a performance criterion for end-March 2006. A number of structural benchmarks are also set under the program for 2005–06: (i) submission of legislation authorizing parametric reforms to the civil service pension fund to the National Assembly together with an implementing draft decree; (ii) creation of commission for regular surveillance of cashflow to address short-term financing issues at the CMDT; (iii) approval of a privatization strategy for CMDT by 2008 by CMDT shareholders; (iv) approval by the Council of Ministers of a detailed operational plan for CMDT privatization; (v) launch of the privatization tender for BIM (provided no substantive legal obstacles remain); (vi) completion of the recapitalization of BHM, with a view to ensuring significant private sector involvement; and, (vii) in the electricity sector, completion of a management audit, a financial assessment and review of the electricity tariff-setting mechanism for Electricité du Mali.

36. **The Multilateral Debt Relief Initiative (MDRI) is likely to occur in 2006.** Staff is of the view that Mali meets the macroeconomic performance criterion to qualify given the completion of the first review under the PRGF arrangement in March, 2005, the impending consideration of the second and third reviews by the Board, and the recent track record of satisfactory macroeconomic performance. In addition, staff is of the view that Mali meets the criteria for poverty reduction policies and public expenditure management systems and recommends that the Board determine that Mali qualifies for MDRI debt relief, subject to continued satisfactory performance in implementation in those areas. The authorities intend to program the resources to support their poverty reduction efforts, through either submission of supplementary spending programs to the National Assembly or increasing provisions in the budget. Resources freed up by MDRI could also serve to cover possible external assistance shortfalls in 2006.

37. The proposed schedule of reviews and disbursements under the PRGF arrangement remains unchanged, with disbursements of SDR 1.33 million available on April 15, 2006 for the fourth review and October 15 for the fifth review (Table 11).

V. Other Issues

38. **Capacity Building**. Staff and authorities concurred that capacity building is an important medium-term objective that will strengthen program implementation. The staff stressed the need for a contact point that would play a key role in identifying and matching technical assistance needs that are Fund core competences. The staff, including through West

AFRITAC, will work with the authorities to identify assistance in priority areas identified by the authorities: (i) tax administration, including taxpayers' declarations; (ii) computerization of Ministry of Finance departments; (iii) strengthening the land and property department in the context of the creation of a land cadastre; (iv) support for the large taxpayer unit (LTU) to improve service provision; (v) petroleum product pricing formula's linking to world prices and design of measures to protect vulnerable groups from fuel price increases; and, (vi) wage policy. The authorities have also requested a Financial Sector Assessment (FSAP). The proposal is under consideration by Bank and Fund staffs either in the form of a country-focused development FSAP, or an assessment of the financial system in BCEAO members.

39. **Mali's statistical data is adequate for program monitoring and surveillance purposes**. Although the quality of data could be improved the existing deficiencies have not significantly affected the staff's analysis of key issues (Appendix III).

VI. Staff Appraisal

40. **The Malian authorities have put in place broadly appropriate policies to address the terms of trade shocks that have contributed to weaker income growth and threatened budgetary objectives.** Central to these efforts is the successful implementation of a flexible cotton producer price mechanism in full consultation with producers. The new mechanism protects farmer interests while also limiting risks of budget support to the cotton sector. The decision to set seed cotton prices at the floor of the price range for the 2005/06 season tackles a significant risk that was hanging over the 2006 budget. Further, the authorities have continued to pass through increases of international oil prices to pump prices to protect budgetary revenue, albeit partially and with some delay. To safeguard 2006 revenue objectives, the staff supports timely implementation of a pricing formula for fuel, once the necessary preparatory steps are complete.

41. **Mali will remain vulnerable to further shocks, linked to weather conditions and deteriorating terms of trade, and needs to be prepared to strengthen adjustment efforts if necessary**. While the policy response to food shortages was commendable, and contributed to a narrow avoidance of widespread food insecurity, the efficiency of food markets remains in doubt, with substantial spatial and temporal price differences. More attention should be focused on impediments to food trade, particularly at a regional level. Further increases in oil prices, and declines in cotton or gold prices, in the context of an undiversified economic base and a pegged exchange rate, are also major challenges to continued macroeconomic stability and growth. Stronger adjustment efforts may be needed, in particular maintaining a prudent fiscal position and allowing prices to adjust.

42. **The continued support of development partners has contributed to a relatively smooth adjustment to the difficult external circumstances**. While some donor budget support has been delayed into early 2006 for procedural reasons, other donors have increased their support in 2005. Nonetheless, the staff believes that continued increases in donor support are contingent on concrete steps to open up the cotton sector to private capital, financial management reform, and other operational reforms. The initial steps taken by the

authorities to improve surveillance of the financial operations of the state-owned cotton company, CMDT, are welcome. To build on this success, a comprehensive business plan is required to chart the course to privatization, a clear strategy to disengage the government from the cotton sector while protecting farmers' interests, and firm evidence that this strategy is being implemented.

43. **The staff recommend closer surveillance of the financial sector in Mali**, and in particular a significant reduction of forbearance as regards observance of prudential ratios, taking into account the unavoidably high levels of exposure to the cotton sector. Increased vigilance is called for on the part of the supervisory authorities, notwithstanding ample system-wide liquidity. Within the constraints of prudential norms, the authorities should examine ways of reinvigorating financial intermediation and private sector lending.

44. **As a member of the West African Economic and Monetary Union, Mali does not independently determine its exchange rate policy**. Nonetheless, the staff is of the view that the fixed peg of the CFA franc to the euro remains an important nominal anchor for inflation and remains credible in light of the levels of reserve coverage. Moreover, the Union has succeeded in substantially reforming the trade regime while economic convergence criteria are useful discipline on the conduct of fiscal policies. Competitiveness issues are best addressed through reforms that will reduce the costs of doing business and factor price flexibility.

45. **Implementation of other structural reforms under the program has been generally disappointing and risks undermining both the program's medium-term growth objective and poverty reduction objectives**. Although the privatization of the cottonseed oil company is a move in the right direction, the broader picture appears to be a waning commitment to pursue private sector development characterized by continued delays in the disengagement from the banking and telecommunications sectors. Further, the deterioration of relations with companies in recently privatized sectors, notably electricity and water, does not augur well for attracting future investment. Implementation of the 2006 program of structural reforms regarding privatization and management of state enterprises would provide a clear signal of the authorities policy priorities.

46. **The authorities need to complement their clear vision of the growth potential of various sectors, with determined implementation of reforms to improve the investment environment and boost productivity**. Much of the diagnostic work is in place, and the next Poverty Reduction Strategy should, in the view of the staff, make explicit the link between a growth strategy and poverty reduction, as well as maintaining a realistic assessment of the growth potential. The discussions of exchange rate competitiveness in the context of a fixed peg underscore the importance of increasing the flexibility of other prices, notably wages and key product market prices (cotton, fuel) to send market signals to producers and consumers and improve the efficiency of resource allocation.

47. **The concept of creating and using fiscal space is a useful term for analyzing the medium-term budgetary outlook and the scope for poverty reduction in Mali.** While

public finance management reforms continue to progress and are likely to support revenue growth over the medium term, the specifics of key budgetary policies relating to pensions, the efficiency of spending, and social safety net payments have not received the attention commensurate with their potential impact on fiscal space. The staff will continue to focus on policy advice in these areas in the remainder of the PRGF. Nonetheless, economic growth remains the key factor in creating fiscal space for poverty reducing spending over the medium term, even in the context of MDRI and higher than projected external assistance. This, in turn, underscores the importance of accelerating structural reforms, particularly relating to private sector and financial market development, while addressing the numerous impediments to doing business.

48. **In light of the difficult circumstances and the authorities efforts to maintain macroeconomic stability, and continuing advances in institution building, the staff supports the requested waivers for nonobservance of three structural performance criteria and recommends completion of the second and third reviews under the PRGF arrangement**. The staff recommends that the next Article IV consultation with Mali be held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

Table 1. Mali: Selected Economic and Financial Indicators, 2002-06 1/

	2002	2003	2004	2005		2006
			Prel.	First Review	Rev.	Proj.
	(Annual percentage change)					
National income and prices						
Real GDP	4.3	7.2	2.3	5.8	5.4	5.4
Nominal GDP (in billions of CFA francs)	2,330	2,568	2,610	2,753	2,761	2,905
GDP deflator	1.0	2.8	-0.6	0.0	0.3	-0.2
Consumer price index (annual average)	5.0	-1.3	-2.8	2.5	5.0	-1.5
External sector						
Exports, f.o.b.	17.6	-13.6	-5.0	-4.7	7.3	22.9
Imports, f.o.b	-8.5	16.5	-3.0	7.8	16.7	12.3
Export volume	31.7	-15.0	-6.8	4.2	8.7	11.3
Of which: nonmining	47.3	-11.4	10.0	-3.9	5.6	4.8
Import volume	-10.4	13.5	-2.7	6.3	3.7	4.0
Terms of trade	-9.5	-1.1	1.4	-9.8	-13.4	2.7
Nominal effective exchange rate (average)	1.5	4.4	1.7	…	…	…
Real effective exchange rate (average)	4.8	1.1	-3.9	…	…	…
Central government finance						
Total revenue	19.2	13.7	7.8	12.6	7.1	10.0
Total expenditure and net lending 2/	16.0	5.3	10.0	15.5	16.2	9.8
Current expenditure	10.3	2.5	10.6	9.1	8.6	10.1
Capital expenditure and net lending 2/	24.6	9.0	9.2	23.4	25.9	9.6
Money and credit						
Credit to the government	-1.8	-7.6	1.9	-3.9	1.3	-2.9
Credit to the rest of economy	21.6	17.3	7.1	14.2	4.0	7.3
Broad money (M2)	28.4	25.5	-2.4	5.9	6.5	6.2
Velocity (GDP/M2)	3.7	3.3	3.4	3.2	3.4	3.3
Interest rate (in percent; end of period) 3/	6.5	5.0	5.0	…	…	…
	(In percent of GDP; unless otherwise indicated)					
Investment and saving						
Gross domestic investment 4/	18.5	20.4	20.7	21.1	23.1	23.7
Government	7.0	6.8	7.4	8.2	8.2	9.5
Nongovernment	11.6	14.3	13.3	12.9	15.0	14.3
Gross domestic saving	18.5	14.0	13.3	13.1	13.5	16.0
Government	0.0	1.2	1.1	-0.4	-0.3	0.4
Nongovernment	18.4	12.7	12.3	13.5	13.8	15.5
Central government finance						
Total revenue	15.9	16.4	17.4	18.3	17.6	18.4
Total expenditure and net lending 2/	23.2	22.2	24.0	27.0	26.3	27.5
Overall balance (payment order basis, excluding grants	-7.3	-5.7	-6.6	-8.8	-8.7	-9.1
Basic fiscal balance 5/	-1.3	-0.2	-0.7	-2.1	-2.0	-0.9
Basic fiscal balance 6/	0.1	1.1	0.4	-0.9	-0.9	0.1
External sector						
Current external balance, including official transfers	-3.0	-6.1	-7.7	-5.9	-9.1	-8.1
Current external balance, excluding official transfers	-4.3	-8.7	-9.5	-9.0	-11.1	-9.5
Debt-service ratio 7/						
Before debt relief	10.0	10.3	10.8	10.4	10.9	9.2
After HIPC debt relief	6.3	5.8	6.4	6.9	6.4	6.2
	(In millions of U.S. dollars; unless otherwise indicated)					
Overall balance of payments	138.2	198.5	-169.7	-29.3	81.6	19.2
Gross international reserves	594.5	952.5	870.3	1,041.8	937.8	1,004.3
(In months of next year's imports)	5.2	7.1	6.4	6.8	6.1	6.1
Exports (in percent of GDP)	31.9	26.1	24.6	25.4	25.1	28.7
Imports (in percent of GDP)	32.0	33.3	32.0	33.3	34.7	36.5
U.S. dollar exchange rate (end of period)	625.5	519.4	481.6	…	…	…

Sources: Malian authorities; and staff estimates and projections.

1/ Data for 2003 and 2004 reflect substantial downward revisions to the current account balance and net foreign assets following a revision by the BCEAO of the method of calculating foreign assets and the counterpart currency in circulation. As a result, the savings-investment balances for 2003 and 2004 are also revised downwards.
2/ Data on a payment order basis.
3/ End-of-period interest rate in the West African Monetary Union money market.
4/ Excluding PESAP; series therefore is slightly different from national accounts series on investment.
5/ Total revenue (excluding grants) minus total expenditures and net lending (excluding foreign-financed investment).
6/ Footnote 5 also excluding HIPC Initiative-related expenditure and exceptional expenditure financed by World Bank.
7/ In percent of exports of goods and services.

Table 2. Mali: National Accounts, 2002-06 1/

	Composition of GDP in 2002 (In percent)	1994-2003	2002	2003	2004 Prel.	2005 First Review	2005 Revised	2006 Proj.
	(Annual percentage changes, at constant prices)							
Primary sector	32.3	4.4	-3.6	17.9	-3.9	3.0	5.5	4.5
Agriculture	17.4	6.0	-7.9	31.8	-10.1	2.5	7.9	5.0
Food crops, excluding rice	10.7	4.6	3.2	32.0	-11.6	5.0	10.0	5.0
Rice	3.5	10.2	-24.4	36.1	-12.9	6.0	6.0	7.3
Industrial agriculture, excluding cotton	0.9	2.5	2.8	7.7	-11.4	6.0	4.0	4.0
Cotton	2.4	16.7	-23.0	33.1	0.8	-13.0	3.4	2.0
Livestock	9.8	2.9	1.6	1.0	7.3	3.8	1.6	4.0
Fishing and forestry	5.1	3.1	2.6	2.6	2.6	3.8	3.8	3.8
Secondary sector	25.4	7.1	18.4	-8.6	1.8	7.7	7.4	9.8
Mining	11.4	29.7	22.5	-18.9	-17.3	13.2	12.1	17.2
Industry	7.6	0.7	22.7	-5.5	18.6	2.9	5.6	6.2
Energy	1.9	9.3	15.1	9.0	15.0	7.0	4.0	10.0
Construction and public works	4.4	4.4	4.4	5.1	8.0	8.0	5.0	4.0
Tertiary sector	34.5	4.3	1.1	7.6	7.5	5.9	4.1	3.3
GDP (at factor cost)	92.1	4.7	3.5	6.7	1.7	5.3	5.4	5.3
Indirect taxes	7.9	10.5	14.4	12.5	8.0	10.5	6.0	6.9
GDP (at market prices)	100.0	5.0	4.3	7.2	2.3	5.8	5.4	5.4
Nonmining real GDP	88.6	4.3	2.3	10.5	4.1	5.2	4.9	4.5
	(In percent of GDP, unless otherwise indicated)							
Gross national saving		16.3	15.6	15.0	13.0	15.3	14.1	15.6
Of which : domestic saving		12.8	18.5	14.0	13.3	13.2	13.5	16.0
Gross domestic investment		23.3	18.6	21.1	20.7	21.2	23.1	23.7
Memorandum items:								
External current account balance 2/		-7.1	-3.0	-6.1	-7.7	-5.9	-9.1	-8.1
Nominal GDP (in billions of CFA francs)		1,827	2,330	2,568	2,610	2,753	2,761	2,905

Sources: Malian authorities; and staff estimates and projections.

1/ Data for 2003 and 2004 reflect substantial downward revisions to the current account balance and net foreign assets following a revision by the BCEAO, of the method of calculating foreign assets and the counterpart currency in circulation. As a result, the savings-investment balance for 2003 and 2004 is also revised downwards

2/ Including official transfers.

Table 3. Mali: Balance of Payments, 2002-06 1/ 2/

(In billions of CFA francs, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
			Prel.	Revised			Projections		
Current account balance									
Excluding official transfers	-100	-224	-247	-306	-277	-255	-263	-276	-292
Including official transfers	-69	-157	-201	-250	-237	-250	-258	-271	-285
Exports, f.o.b.	625	540	513	550	676	751	792	844	906
Cotton fiber	155	141	181	150	176	182	184	195	221
Gold	400	327	270	329	417	477	503	529	549
Other	69	72	61	71	83	93	106	120	136
Imports, f.o.b.	-493	-574	-557	-650	-730	-765	-807	-856	-910
Petroleum products	-87	-103	-120	-177	-223	-229	-205	-214	-223
Trade balance	132	-34	-44	-100	-54	-14	-15	-13	-4
Services (net)	-136	-150	-148	-167	-172	-174	-170	-176	-194
Credit	118	130	130	142	159	173	185	199	215
Debit	-254	-280	-278	-309	-331	-347	-355	-375	-409
Income (net)	-167	-93	-96	-93	-106	-125	-140	-153	-162
Of which: interest due on public debt	-17	-16	-16	-18	-20	-21	-22	-24	-25
Private transfers (net)	71	53	41	53	55	58	62	65	69
Official transfers (net)	31	67	46	56	40	5	5	6	6
Of which: budgetary grants	17	52	45	52	36	0	0	0	0
Capital and financial account	196	226	118	293	247	165	185	221	269
Capital account (net)	73	66	75	80	86	92	99	107	116
Of which : project grants	69	63	70	75	81	87	94	102	111
Financial account	123	160	43	213	161	73	86	114	154
Private (net) 3/	62	84	-3	104	47	14	17	34	55
Direct investment (net)	169	76	31	32	20	26	29	32	33
Portfolio investment private (net)	37	8	8	7	7	7	7	7	7
Other private capital flows	-143	0	-41	65	20	-19	-18	-4	15
Official (net)	61	76	46	109	114	60	69	80	99
Disbursements	103	113	83	152	159	126	138	150	163
Amortization due on public debt	-42	-37	-37	-43	-46	-66	-69	-70	-64
Debt relief	0	0	0	0	0	0	0	0	0
Errors and omissions	-30	47	-7	0	0	0	0	0	0
Overall balance	96	115	-90	43	10	-83	-71	-48	-15
Financing	-96	-115	90	-43	-10	83	71	48	15
Foreign assets (net)	-124	-145	61	-74	-35	-25	-25	-25	-25
Of which: IMF (net)	-10	-6	-16	-12	-9	-9	-9	-7	-5
HIPC Initiative assistance 4/	28	30	29	31	25	27	24	23	22
Financing gap	0	0	0	0	0	82	72	50	18

Table 3 (cont'd.). Mali: Balance of Payments, 2002-06 1/ 2/

	2002	2003	2004	2005	2006	2007	2008	2009	2010
			Prel.	Revised	Projections				
Memorandum items:									
	(Annual percentage change)								
External trade									
Export volume index	31.7	-15.0	-6.8	8.7	11.3	6.8	1.9	3.4	5.8
Import volume index	-10.4	13.5	-2.7	3.7	4.0	4.1	5.3	5.3	5.5
Export unit value	-10.7	1.6	1.9	-1.3	10.4	4.1	3.5	3.0	1.5
Import price	-1.3	2.8	0.5	14.0	7.5	0.2	0.1	0.9	0.9
Terms of trade	-9.5	-1.1	1.4	-13.4	2.7	3.9	3.4	2.1	0.6
	(In percent of GDP; unless otherwise indicated)								
External current account balance									
Excluding official transfers	-4.3	-8.7	-9.5	-11.1	-9.5	-8.0	-7.6	-7.3	-7.2
Including official transfers	-3.0	-6.1	-7.7	-9.1	-8.1	-7.9	-7.4	-7.2	-7.0
External public debt	90.2	64.0	63.1	67.5	66.5	66.1	66.0	65.6	66.1
Debt-service ratio 5/									
Before debt relief	10.0	10.3	10.8	10.9	9.2	10.5	10.2	9.6	8.4
After HIPC Relief	6.3	5.8	6.4	6.4	6.2	7.6	7.7	7.5	6.4
Commodity prices:									
Petroleum (crude spot; US$/barrel)	25.0	28.9	37.8	54.3	61.8	60.0	58.0	57.3	56.5
Gold (US$/ounce)	310.0	363.5	408.2	433.6	452.5	475.0	495.0	504.4	513.9
Cotton (US cents/pound)	42.4	53.5	63.5	50.0	55.5	56.3	55.6	62.5	63.7

Sources: Malian authorities; and staff estimates and projections.

1/ Presented according to the *Balance of Payments Manual* (5th ed).

2/ Data for 2003 and 2004 reflect substantial downward revisions to the current account balance and net foreign assets following a revision by the BCEAO of the method of calculating foreign assets and the counterpart currency in circulation.

3/ Includes short-term capital inflows.

4/ Sum of the original and enhanced HIPC Initiative assistance.

5/ In percent of exports of goods and services.

Table 4. Mali : Monetary Survey, 2002-06 1/

	2002	2003	2004	2005				2006			
	Dec.	Dec.	Dec.	Jun.	Sep.		Dec.	Mar.	Jun.	Sep.	Dec.
				Prel.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.
	(In billions of CFA francs)										
Net foreign assets	271.6	423.2	372.0	405.7	430.2	451.9	407.0	417.0	422.0	425.0	442.0
Central Bank of West African States (BCEAO)	226.0	384.7	323.8	373.2	381.9	418.7	397.8	407.8	412.8	415.8	432.8
Commercial banks	45.6	38.5	48.2	32.5	48.2	33.2	9.2	9.2	9.2	9.2	9.2
Net domestic assets	341.4	371.8	395.2	355.0	372.0	342.2	410.0	424.6	423.6	432.9	425.7
Credit to the government (net)	-27.5	-74.9	-59.7	-50.1	-18.8	-40.6	-49.4	-32.9	-5.2	-0.2	-72.9
BCEAO, net	107.4	91.8	95.4	93.9	…	100.5	…	…	…	…	…
Commercial banks	-134.9	-166.1	-166.9	-161.9	…	-162.1	…	…	…	…	…
Other	0.0	-0.6	11.9	18.0	…	21.0	…	…	…	…	…
Credit to the economy	411.5	482.8	517.2	483.3	469.0	472.1	537.7	535.6	507.1	511.3	576.8
Other items (net)	-42.6	-44.9	-62.3	-78.2	-78.2	-89.3	-78.2	-78.2	-78.2	-78.2	-78.2
Money supply (M2)	626.3	786.2	767.2	760.7	802.1	794.1	817.1	841.6	845.7	857.9	867.7
Currency outside banks	247.4	340.9	275.4	310.4	327.3	330.9	293.3	...	...	...	...
Bank deposits	378.9	445.2	491.8	450.3	474.8	463.1	523.8	...	...	...	...
Base Money (M0)	359.3	474.2	402.7	466.7	471.9	458.8	480.7	495.1	488.6	504.7	510.5
	(In percent of beginning-of-period broad money)										
Contribution to the growth of broad money											
Net foreign assets	15.1	22.1	-6.5	4.4	7.6	10.4	4.6	5.5	6.0	5.1	4.3
Net domestic assets	10.6	3.4	4.1	-5.2	-3.0	-6.9	1.9	5.0	-0.2	1.5	1.9
Of which : credit to the central government	-1.8	-7.6	1.9	1.3	5.3	2.5	1.3	3.5	5.2	5.6	-2.9
Money supply (M2)	28.4	25.5	-2.4	-0.8	4.6	3.5	6.5	3.0	3.5	5.0	6.2
	(Annual perecentage change, unless otherwise indicated)										
Memorandum items:											
Money supply (M2)	28.4	25.5	-2.4	-6.0	4.5	-1.9	6.5	10.5	5.8	6.6	6.2
Base Money (M0)	46.6	32.0	-15.1	11.1	17.2	14.0	19.4	23.0	21.4	25.4	6.2
Credit to the economy	21.6	17.3	7.1	-2.6	-3.1	-4.9	4.0	3.3	-5.9	-6.2	7.3
Velocity (GDP/M2)	3.7	3.4	3.4	...	…	...	3.4	3.4	3.4	3.4	3.4
Money Multiplier (M2/M0)	1.7	1.7	1.9		1.7	1.7	1.7	1.7	1.7	1.7	1.7
Currency outside banks / M2 (in percent)	39.5	43.4	35.9	40.8	40.8	41.7	35.9	40.8	40.8	40.8	35.9

Sources: BCEAO; and staff estimates and projections.

1/ Data for 2003 and 2004 reflect substantial downward revisions to the net foreign assets following a revision by the BCEAO of the method of calculating foreign assets and the counterpart currency in circulation.

Table 5: Mali: Bank's Compliance with Selected Prudential Norms, 2003-04

Prudential Ratios	Compliance Limits and Ratios	Number of Banks Complying				
		Dec. 2003	Jun. 2004	Dec. 2004	Mar. 2005	Jun. 2 005
Effective capital	> CFAF 1 billion	12/12	13/13	11/13	13/14	12/14
Risk-weighted capital adequacy ratio	> 8 percent	11/12	12/13	11/13	12/14	11/14
Liquidity coefficient ratio (liquid assets to short term liabilities)	> 75 percent	3/9	7/11	8/11	10/14	9/14
Division of risk (total and individual)	Total: 8 times Capital. Individual : 75 percent capital	4/12	12/13	12/13	6/14	5/14
Transformation ratio (stable resources to fixed assets & medium & long-term loans.)	> 75 percent	5/12	10/13	11/13	10/14	8/14
Participation in nonbank companies/effective capital	< 15 percent	12/12	13/13	13/13	14/14	14/14
Nonoperational fixed assets/effective capital	< 15 percent	10/12	11/13	11/13	12/14	12/14
Fixed assets/effective capital	< 100 percent	12/12	13/13	12/13	14/14	14/14
Credit to management /effective capital	< 20 percent	10/12	10/13	7/13	10/14	10/14
Risk-concentration ratio	< 60 percent	0/12	0/13	0/13	0/14	0/14

Table 6. Mali: Central Government Consolidated Financial Operations, 2002-06

	2002	2003	2004	2005	2005	2006
				1st Review	Revised program	Program
	(In billions of CFAF, unless otherwise indicated)					
Revenue and grants	456.7	536.5	558.0	648.3	613.5	698.2
Total revenue	370.9	421.8	454.7	502.7	486.8	535.6
Budgetary revenue 1/	337.2	384.4	412.0	462.7	445.8	493.1
Tax revenue	306.0	349.2	393.3	434.1	430.0	469.9
Direct taxes	51.9	73.1	76.6	81.3	81.3	89.9
Indirect taxes	254.1	276.1	316.7	352.9	348.8	380.0
of which: VAT	126.7	139.4	178.0	177.5	180.8	216.2
Nontax revenue	31.2	35.2	18.7	28.5	15.8	23.2
Special funds and annexed budgets	33.7	37.4	42.6	40.0	41.0	42.5
Grants	85.8	114.8	103.3	145.6	126.7	162.6
Projects	69.2	63.1	70.0	75.2	75.2	81.3
Sectoral	…	…	…	…	…	45.5
General	16.6	51.7	33.3	70.4	51.6	35.8
Total expenditure and net lending	540.6	569.0	625.8	744.4	727.4	798.9
Budgetary expenditure	511.7	535.5	592.2	670.9	662.8	762.0
Current expenditure	308.7	316.3	350.0	388.2	380.1	418.4
Wages and salaries 2/	93.5	106.2	121.7	140.2	140.2	149.0
Goods and Services	109.0	107.6	136.5	143.3	140.2	153.9
Transfers and subsidies	87.8	83.8	74.5	85.1	80.0	97.3
Interest	18.4	18.8	17.2	19.6	19.7	18.2
Capital expenditure	203.1	219.2	242.2	282.7	282.70	343.6
Externally financed	140.3	140.9	152.8	185.2	185.2	237.6
Domestically financed	62.7	78.3	89.4	97.5	97.5	106.0
Special funds and annexed budgets	33.7	37.4	42.6	40.0	41.0	42.5
Net lending	-4.9	-3.9	-9.0	33.5	23.5	-5.6
of which : CMDT	0.0	0.0	0.0	38.4	28.5	0.0
Overall fiscal balance, commitment basis						
Excluding grants	-169.7	-147.2	-171.2	-241.7	-240.5	-263.3
Including grants	-83.9	-32.5	-67.9	-96.1	-113.8	-100.7
Adjustment to cash basis	-1.3	10.8	7.9	0.0	-11.1	0.0
Overall fiscal balance, cash basis						
Excluding grants	-171.0	-136.4	-163.3	-241.7	-251.6	-263.3
Including grants	-85.2	-21.7	-60.0	-96.1	-125.0	-100.7
Financing	85.2	21.7	60.0	96.1	125.0	100.7
External financing (net)	88.5	106.1	74.5	141.5	127.0	138.2
Loans	102.6	112.7	82.8	153.2	138.7	159.3
Project loans	71.1	77.8	82.8	110.0	110.0	110.8
Budgetary loans	31.5	34.9	0.0	43.2	28.7	48.5
Amortization	-41.6	-36.8	-37.0	-42.9	-42.9	-45.7
Debt relief, HIPC Initiative	27.5	30.1	28.7	31.2	31.2	24.6
Domestic financing (net)	-3.4	-84.4	-14.6	-45.4	-2.0	-37.5
Banking system	-9.9	-49.6	14.5	-32.0	9.7	-24.0
of which: IMF (net)	-10.0	-5.7	-15.6	-12.6	-12.6	-9.2
Privatization receipts	29.4	1.0	1.2	4.5	11.5	14.1
Other financing	-22.9	-35.8	-30.2	-17.9	-23.2	-27.6
Unidentified budgetary assistance	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Table 6. Mali: Central Government Consolidated Financial Operations, 2002-06 (concluded)

	2002	2003	2004	2005	2005	2006
				1st Review	Revised Program	Program
	(In percent of GDP)					
Revenue and grants	19.6	20.9	21.4	23.5	22.2	24.0
Total revenue	15.9	16.4	17.4	18.3	17.6	18.4
Budgetary revenue	14.5	15.0	15.8	16.8	16.1	17.0
Special funds and annexed budgets	1.4	1.5	1.6	1.5	1.5	1.5
Grants	3.7	4.5	4.0	5.3	4.6	5.6
Total expenditure and net lending	23.2	22.2	24.0	27.0	26.3	27.5
Current expenditure	13.2	12.3	13.4	14.1	13.8	14.4
Wages and salaries	4.0	4.1	4.7	5.1	5.1	5.1
Interest payments	0.8	0.7	0.7	0.7	0.7	0.6
Capital expenditure	8.7	8.5	9.3	10.3	10.2	11.8
Externally financed	6.0	5.5	5.9	6.7	6.7	8.2
Domestically financed	2.7	3.0	3.4	3.5	3.5	3.6
Net lending, special funds & annexed budgets	1.2	1.3	1.3	2.7	2.3	1.3
Overall fiscal balance (commitment basis)						
Including grants	-3.6	-1.3	-2.6	-3.5	-4.1	-3.5
Excluding grants	-7.3	-5.7	-6.6	-8.8	-8.7	-9.1
Overall fiscal balance (cash basis, incl. grants)	-3.7	-0.8	-2.3	-3.5	-4.5	-3.5
External financing	3.8	4.1	2.9	5.1	4.6	4.8
Domestic financing	-0.1	-3.3	-0.6	-1.6	-0.1	-1.3
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items						
Budgetary assistance	3.2	4.5	2.4	5.3	4.0	3.7
Public saving	3.6	4.9	5.0	3.6	3.7	4.8
Wages and salaries/fiscal revenues (percent)	30.6	30.4	30.9	32.3	32.6	31.7
Primary balance, excluding grants	-6.5	-5.0	-5.9	-8.1	-8.0	-8.4
Primary balance, including grants	-2.8	-0.5	-1.9	-2.8	-3.4	-2.8
Basic fiscal balance 3/	-1.3	-0.2	-0.7	-2.1	-2.0	-0.9
	(In billions of CFA francs)					
Primary balance, excluding grants	-151.3	-128.4	-154.0	-222.1	-220.9	-245.1
Primary balance, including grants	-65.5	-13.7	-50.7	-76.5	-94.2	-82.5
Basic fiscal balance 3/	-29.4	-6.3	-18.4	-56.5	-55.3	-25.7
Budgetary Assistance	75.7	116.6	62.0	144.8	111.4	108.9
Public Saving	83.9	125.2	129.7	99.0	101.1	139.9
Nominal GDP	2,330	2,568	2,610	2,753	2,761	2,905

Sources: Ministry of Economy and Finance; and staff estimates and projections

1/ For 2006, VAT refunds and rebates of tax exemptions are reclassified from domestic financing to negative domestic revenue.
2/ Excluding administrative public institutions.
3/ Excluding grants and externally financed capital expenditures.

Table 7. Mali: Compliance with WAEMU Convergence Criteria, 2004-07

(Ratios in percent, unless otherwise indicated)

	Ratio	2004	2005	2006	2007
		Rev. proj.	Projections		
Primary criteria					
Basic fiscal balance / GDP	>=0	0.4	-2.0	-0.9	0.3
Inflation (annual average percentage change)	<=3	-2.8	5.0	-1.5	2.5
Total nominal debt / GDP	<=70	63.1	67.5	66.5	66.1
Domestic arrears accumulation (in billions of CFA francs)	<=0	0.0	0.0	0.0	0.0
External arrears accumulation (in billions of CFA francs)	<=0	0.0	0.0	0.0	0.0
Secondary criteria					
Wages / fiscal revenue	<=35	30.9	32.6	31.7	29.3
Domestically financed investment / fiscal revenue	>=20	22.7	22.7	17.3	18.0
Current account deficit, excl. current official transfers / GDP	<=5	9.5	11.1	9.5	8.0
Fiscal revenue / GDP	>=17	15.1	15.6	16.2	16.4

Sources: Malian authorities; and staff estimates and projections.

Table 8. Mali: Medium-Term Outlook, 2004-10

	1999-2003	2004	2005	2006	2007	2008	2009	2010
			Est.	Projections				
	(Annual percentage change)							
Output supply and demand								
Real GDP	4.7	2.3	5.4	5.4	6.1	5.4	5.6	5.7
Primary sector	4.6	-3.9	5.5	4.5	4.7	4.8	5.2	5.2
Secondary sector	5.2	1.8	7.4	9.8	8.6	6.0	6.2	6.4
Tertiary sector	4.9	7.5	4.1	3.3	6.0	4.7	4.8	4.9
Aggregate demand (contribution to output growth)								
Consumption	3.5	2.6	4.5	2.1	4.4	3.9	4.5	4.8
Gross investment	1.2	0.0	3.7	1.9	0.2	1.2	1.1	1.1
Of which : changes in inventories	1.0	-2.0	2.9	0.0	0.0	0.0	0.0	0.0
Net foreign balance	0.0	-0.4	-2.8	1.5	1.5	0.3	0.0	-0.1
Prices, period average								
GDP deflator	3.0	-0.6	0.3	-0.2	3.3	3.3	2.7	2.3
CPI inflation	1.4	-2.8	5.0	-1.5	2.5	2.5	2.5	2.5
Terms of trade	-1.3	1.4	-13.4	2.7	3.9	3.4	2.1	0.6
	(In percent of GDP; unless otherwise indicated)							
Investment and saving								
Gross domestic investment 1/	20.8	20.7	23.1	23.7	22.4	22.4	22.3	22.1
Government	7.3	7.4	8.2	9.5	8.4	8.4	8.4	8.4
Nongovernment	13.8	13.3	15.0	14.3	14.2	14.2	14.0	13.8
Gross domestic saving	13.5	13.3	13.5	16.0	16.7	17.3	17.4	17.3
Government	0.4	1.1	-0.3	0.4	1.3	1.4	2.0	2.5
Nongovernment	13.1	12.3	13.8	15.5	15.4	15.9	15.3	14.8
Central government finance								
Total revenue and grants	19.3	21.4	22.2	24.0	21.5	21.8	21.9	22.0
Fiscal revenue	12.7	15.1	15.6	16.2	16.4	16.7	16.9	17.1
Non-tax revenue and special accounts	2.3	2.3	2.1	2.3	2.4	2.3	2.3	2.2
Grants 2/	4.3	4.0	4.6	5.6	2.7	2.7	2.7	2.7
Total expenditure and net lending 3/	22.1	24.0	26.3	27.5	26.0	26.3	25.8	25.4
Current expenditure	11.9	13.4	13.8	14.4	14.3	14.6	14.2	13.8
Capital expenditure	9.1	9.3	10.2	11.8	10.5	10.5	10.5	10.6
Overall balance (payment order basis, excl. grants)	-7.1	-6.6	-8.7	-9.1	-7.3	-7.2	-6.6	-6.1
Basic fiscal balance 4/	-0.7	-0.7	-2.0	-0.9	-0.6	-0.5	0.1	0.7
External sector								
Current external balance, including official transfers	-7.5	-7.7	-9.1	-8.1	-7.9	-7.4	-7.2	-7.0
Current external balance, excluding official transfers	-9.4	-9.5	-11.1	-9.5	-8.0	-7.6	-7.3	-7.2
Exports of goods and nonfactor services	26.9	24.6	25.1	28.7	29.0	28.2	27.7	27.6
Imports of goods and nonfactor services	34.4	32.0	34.7	36.5	34.9	33.5	32.8	32.4
Debt service ratio after HIPC debt relief	8.5	6.4	6.4	6.2	7.6	7.7	7.5	6.4
Gross international reserves								
(In millions of US$)	455	870	938	1,004	1,053	1,103	1,151	1,199
(In months of next year's imports)	4.9	6.4	6.1	6.1	6.1	6.0	5.8	5.7
External public debt	87.7	63.1	67.5	66.5	66.1	66.0	65.6	66.1

Sources: Malian authorities; and staff estimates and projections.

1/ Data on a payment order basis.

2/ Excludes general budgetary grants from 2007 onwards.

3/ Excluding PESAP; series therefore is slightly different from national accounts series on investment.

4/ Total revenue (excluding grants) minus total expenditures and net lending (excluding foreign-financed investment).

Table 9. Mali: External Financing Requirements and Resources, 2004–10
(In billions of CFA francs, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010
		Est.	Projections				
Requirements	231.2	425.2	359.8	347.3	358.1	373.5	383.6
Current account deficit, excluding official transfers	247.5	306.0	277.0	255.1	263.0	276.3	291.6
Debt amortization	37.0	42.9	45.7	66.1	69.1	70.2	64.0
IMF repurchases	16.7	14.8	11.3	9.8	8.6	6.7	4.9
Change in the net foreign assets (increase +) 1/	-76.5	61.4	25.8	16.3	16.4	18.3	20.1
Adjustment 2/	6.5	0.0	0.0	0.0	0.0	0.0	0.0
Resources	231.2	425.2	359.8	347.3	358.1	373.5	383.6
Official transfers 3/	46.5	55.8	40.3	4.9	5.3	5.8	6.3
Official project grants 3/	70.0	75.2	81.3	86.7	94.4	102.4	110.7
Long-term public loan disbursement 3/	82.8	151.8	159.3	126.0	137.6	150.0	163.2
Budgetary	0.0	41.8	48.5	0.0	0.0	0.0	0.0
Project related	82.8	110.0	110.8	126.0	137.6	150.0	163.2
Private capital (net) 4/	2.1	109.0	52.2	18.6	22.2	39.1	59.6
Debt relief, including HIPC Initiative assistance 5/	28.7	31.2	24.6	26.9	24.5	22.8	22.1
Debt under negotiation/moratorium	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of IMF resources: ESAF and PRGF	1.1	2.2	2.1	1.0	0.0	0.0	0.0
Unidentified budgetary assistance	0.0	0.0	0.0	83.1	74.0	53.5	21.7
Memorandum item:							
Exchange rate: CFA francs per SDR	781.5	...	….	….	….		

Sources: Malian authorities; and Fund and World Bank staff estimates and projections.

1/ Excluding the change in the net position vis-à-vis the Fund.
2/ Errors and omissions.
3/ Includes both existing and expected new commitments.
4/ Includes private capital grants.
5/ Sum of original and enhanced HIPC Initiative framework for the 2000 estimate and 2001 projection; original HIPC Initiative only for the program

Table 10. Mali: Millennium Development Goals 1990-2003

	1990	1994	1997	2000	2003
Goal 1: Eradicate extreme poverty and hunger	2015 target = halve 1990 $1 a day poverty and malnutrition rates				
Percentage share of income or consumption held by poorest 20%	..	4.6	..	..	..
Population below $1 a day (%)	*16.5*	72.3	..	..	..
Population below minimum level of dietary energy consumption (%)	..	..	32	..	*29*
Poverty gap ratio at $1 a day (incidence x depth of poverty)	*3.9*	37.4	..	..	..
Poverty headcount, national (% of population)	..	..	*63.8*	..	..
Prevalence of underweight in children (under five years of age)	..	..	*26.9*	*33.2*	..
Goal 2: Achieve universal primary education	2015 target = net enrollment to 100				
Net primary enrollment ratio (% of relevant age group)	20.4	..	*38.3*	*44.5*	*44.5*
Primary completion rate, total (% of relevant age group)	12	15	25	35	40
Proportion of pupils starting grade 1 who reach grade 5	69.7	..	*78.3*	84.1	..
Youth literacy rate (% ages 15-24)	27.6	30.9	33.5	24.2	..
Goal 3: Promote gender equality and empower women	2015 target = education ratio to 100				
Proportion of seats held by women in national parliament (%)	..	..	2	12	10
Ratio of girls to boys in primary and secondary education (%)	58.2	..	*67.5*	..	*71.3*
Ratio of young literate females to males (% ages 15-24)	44.7	48	50.5	52.3	..
Share of women employed in the nonagricultural sector (%)	35.6	..	..	..	..
Goal 4: Reduce child mortality	2015 target = reduce 1990 under 5 mortality by two-thirds				
Immunization, measles (% of children ages 12-23 months)	43	46	56	49	68
Infant mortality rate (per 1,000 live births)	140	*131*	..	124	122
Under 5 mortality rate (per 1,000)	250	*233*	..	224	220
Goal 5: Improve maternal health	2015 target = reduce 1990 maternal mortality by three-fourths				
Births attended by skilled health staff (% of total)	..	..	*23.7*	*40.6*	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	1200	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases	2015 target = halt, and begin to reverse, AIDS and other major diseases				
Contraceptive prevalence rate (% of women ages 15-49)	..	..	*6.7*	*8.1*	..
Incidence of tuberculosis (per 100,000 people)	297.2	294.3	292.2	290.2	288.1
Number of children orphaned by HIV/AIDS	..	..	..	*59000*	75000
Prevalence of HIV, total (% of population aged 15-49)	..	..	..	*1.7*	1.9
Tuberculosis cases detected under DOTS (%)	..	*13.9*	17.5	14.5	18.2
Goal 7: Ensure environmental sustainability	2015 target = various				
Access to an improved water source (% of population)	34	..	..	..	*48*
Access to improved sanitation (% of population)	36	..	..	..	*45*
Access to secure tenure (% of population)	..	..	..	..	..
CO2 emissions (metric tons per capita)	0	0	0.1	0.1	..
Forest area (% of total land area)	11.6	..	..	10.8	..
GDP per unit of energy use (2000 PPP $ per kg oil equivalent)	..	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	..	3.7
Goal 8: Develop a global partnership for development	2015 target = various				
Aid per capita (current US$)	56.9	46.9	42.5	33.2	45.3
Debt service (% of exports)	..	..	..	..	..
Fixed line and mobile phone subscribers (per 1,000 people)	1.4	1.7	2.8	4.9	*10.3*
Internet users (per 1,000 people)	..	..	0.1	1.5	*2.4*
Personal computers (per 1,000 people)	..	*0.3*	0.7	1.3	*1.4*
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..

Table 10. (cont'd.) Mali: Millennium Development Goals 1990-2003

	1990	1994	1997	2000	2003
Other					
Fertility rate, total (births per woman)	*6.9*	6.7	6.6	..	6.4
GNI per capita, Atlas method (current US$)	270	250	260	240	290
GNI, Atlas method (current US$) (billions)	2.3	2.4	2.6	2.6	3.4
Gross capital formation (% of GDP)	23	27.3	20.6	22.3	23.4
Life expectancy at birth, total (years)	45	..	44	*42.6*	40.6
Literacy rate, adult total (% of people ages 15 and above)	18.8	21.4	23.5	19	..
Population, total (millions)	8.5	9.4	10.1	10.8	11.7
Trade (% of GDP)	50.9	65.9	62.9	66.2	57.2

Source: World Bank, World Development Indicators (http://www.developmentgoals.org).

1/ DOTS is the Directly Observed Therapy Short-course.

Table 11. Mali: Schedule of Disbursements Under the PRGF Arrangement, 2004-07

Amount	Available date	Disbursement date	Conditions necessary for disbursement 1/
SDR 1.333 million	June 1, 2004	July 2004	Executive Board approval of the three-year PRGF arrangement.
SDR 1.333 million	October 15, 2004	March 2005	Observance of the performance criteria for September 30, 2004 and completion of the first review under the arrangement.
SDR 1.333 million	April 15, 2005		Observance of the performance criteria for March 31, 2005 and completion of the second review under the arrangement
SDR 1.333 million	October 15, 2005		Observance of the performance criteria for September 30, 2005 and completion of the third review under the arrangement
SDR 1.333 million	April 15, 2006		Observance of the performance criteria for March 31, 2006 and completion of the fourth review under the arrangement
SDR 1.333 million	October 15, 2006		Observance of the performance criteria for September 30, 2006 and completion of the fifth review under the arrangement
SDR 1.333 million	April 15, 2007		Observance of the performance criteria for March 31, 2006 and completion of the sixth review under the arrangement

Source: International Monetary Fund

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

Appendix I. Mali: Relations with the Fund

(As of October 31, 2005)

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

II. General Resources Account:	SDR Millions	%Quota
Quota	93.30	100.00
Fund holdings of currency	84.19	90.24
Reserve position	9.12	9.77
Holdings Exchange Rate		

III. SDR Department:	SDR Millions	%Allocation
Net cumulative allocation	15.91	100.00
Holdings	0.18	1.11

IV. Outstanding Purchases and Loans:	SDR Millions	%Quota
PRGF arrangements	79.50	85.20

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Millions)	Amount Drawn (SDR Millions)
PRGF	Jun 23, 2004	Jun 22, 2007	9.33	2.66
PRGF	Aug 06, 1999	Aug 05, 2003	51.32	51.32
PRGF	Apr 10, 1996	Aug 05, 1999	62.01	62.01

VI. Projected Payments to Fund (without HIPC Assistance)

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

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	3.10	14.07	13.57	12.49	11.43
Charges/interest	0.31	0.81	0.73	0.67	0.61
Total	3.41	14.88	14.30	13.16	12.04

Projected Payments to Fund; (with Board-approved HIPC Assistance)

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

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	1.93	8.82	9.58	9.87	11.43
Charges/Interest	0.31	0.81	0.73	0.67	0.61
Total	2.25	9.63	10.31	10.53	12.04

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$ millions) [1/]	121.00	417.00	
Of which: IMF assistance (US$ millions)	14.00	45.21	
(SDR equivalent in millions)	10.80	34.74	
Completion point date	Sep 2000	Mar 2003	
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.

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 preagreed key structural reforms (i.e., floating completion point).

VIII. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union. A new safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment found that progress has been made in strengthening the BCEAO's safeguards framework of the bank since 2002 when the last safeguards assessment took place.

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

The new assessment identified a number of areas where further steps would help solidify the progress made. The main recommendations relate to improvements in the external audit process (including the adoption of a formal rotation policy), further enhancement of the transparency of the financial statements by fully adopting IFRS, and further strengthening of the effectiveness of the internal audit function.

IX. Exchange Rate Arrangements and Summary of Exchange Restrictions

Mali is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the union, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, was pegged to the French franc at the rate of CFAF 50 = F 1 from 1948 until early 1994. Effective January 12, 1994, the CFA franc was devalued, and the new parity set at CFAF 100 = F 1. Effective January 1, 1999, the CFA franc was pegged to the euro at a rate of CFAF 655.96 = EUR 1. On June 24, 2005, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 794.35.

As of June 1, 1996, and in conjunction with its WAEMU partners, Mali accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. Mali’s exchange system is free of restrictions on making payments or transfers for current international transactions. In addition Mali does not engage in multiple currency practices.

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

Mali is a signatory of the Cotonou Convention, and as such Malian exports to the European Union generally enjoy non-reciprocal preferential treatment in the form of exemption from import duties. Malian goods enjoy nonreciprocal preferential access to the markets of developed countries other than the European Union under the Generalized System of Preferences. Mali is also eligible for the benefits of the United States’ African Growth and Opportunity Act. At the WAEMU level, Mali does not officially experience legal or regulatory impediments to its exports.

X. Article IV Consultations

Mali's Article IV consultation cycle is governed by the provisions of the July 2002 decision on consultation cycles. The 2003 Article IV consultation was completed by the Executive Board on December 15, 2003 (Country Report No. 04/11, 1/12/04).

XI. ROSC/AAP

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

XII. Technical Assistance

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	July 2001	Assisting in completion of the fiscal module of Report on the Observance of Standards and Codes (ROSC), and drafting an Assessment and Action Plan (AAP), as well as of the capacity of the public expenditure management system to track and report on the uses of HIPC Initiative assistance and all poverty-reducing expenditures.
FAD		February – March 2002	Assisting the authorities in improving the existing expenditure classifications.
STA	Expert	May 2002	Assessing government finance statistics under the General Data Dissemination System (GDDS) West Africa project.
STA	Expert	June-July 2002	Providing government finance statistics technical assistance under the GDDS West Africa project.

Department	Type of Assistance	Time of Delivery	Purpose
STA	Expert (regional statistical office (AFRISTAT)	August 2002	Assessing real sector statistics assessment under the GDDS West Africa project.
STA	Expert	September 2002	Providing government finance statistics technical assistance under the GDDS West Africa project.
STA	Staff and experts	April 2003	Undertaking a multisector statistics mission.
AFRITAC	Debt Advisor	November 2003 February 2004 April 2005	External and domestic debt management and assistance in government securities issuance
AFRITAC	MF Advisor	June 2003 September 2004	Assisting the MOF to develop a MF supervision strategy
FAD	Staff	Jan 2004	Assisting the authorities in improving revenue mobilization, especially as regards revenue from the mining sector.
AFRITAC	PEM Advisor	April 2004	Participation at the HIPC/AAP assessment Mission
AFRITAC	Multisector statistical advisor	June 2005	GFS technical assistance
LEG	Expert	August 2005	Assisting in drafting anti-money laundering law.
AFRITAC	PEM Advisor and expert	August 2005	Treasury Accounting
AFRITAC	MF Advisor	September 2005	Providing assistance to CAS/SFD in improving its capacity in terms of function, control and inspection.

XIII. Resident Representative

Mr. Wane, the current Resident Representative, took up this assignment in February 2005. The previous Resident Representative, Mr. Tazi, was stationed in Bamako for the period September 2002 through October 2004.

Appendix II. Mali: World Bank-IMF Relations

(As of December 6, 2005)

A. Partnership in Mali's development strategy

1. Mali's development strategy increasingly emphasizes growth and poverty reduction. Its PRSP (adopted by the government in May 2002) highlights growth as a precondition for poverty reduction, and outlines programs for (i) institutional development and improved governance, (ii) human development and access to basic social services, and (iii) infrastructure development and support for key productive sectors. Mali's growth strategy aims to be private sector led and market oriented toward the West Africa region as well as the global market.

2. The IMF and World Bank staffs maintain a collaborative relationship in supporting the government's macroeconomic and structural reforms, in line with the guidelines for enhanced Bank-Fund collaboration. This includes regular participation of Bank staff in the meetings with the government on the Fund's program review missions, IMF staff participation in Bank development policy missions and Bank internal review meetings. The IMF takes the lead in macroeconomic stabilization and the World Bank in social and structural areas, with close collaboration on a few structural areas that have a particular impact on macroeconomic stability. The Fund's dialogue and conditionality are consistent with the structural programs agreed with the Bank, and the Bank's dialogue and conditionality have maintained consistency with the macroeconomic framework endorsed by the Fund.

B. World Bank Group strategy

3. The World Bank Group's strategy, outlined in the Country Assistance Strategy (CAS) discussed by the Board of Directors on July 31, 2003, emphasizes three broad themes in line with the country's PRSP: (i) promotion of economic growth; (ii) human resources development; and (iii) public finance management and governance. Mali also benefits under the Bank's Regional Integration Assistance Strategy (2001), notably a program for connection to the West Africa Power Pool, harmonization of country policies and/or regulatory frameworks (telecommunications, agriculture, financial sectors), water resource development of the Niger and Senegal Rivers, strengthening of road transport corridors, and strengthening the regional payments system.

4. Support to Mali during fiscal years 2004-06 amounts to US$400 million in the base case, with about 30 percent in grants. Budget support of $25 million is provided annually through development policy credits (DPCs), subject to satisfactory macroeconomic management. This is complemented by selected investment operations (targeting education, support to growth, and infrastructure development) and a community-driven development operation. The Bank will prepare a new CAS in the course of FY07 in support of Mali's next PRSP (under preparation in the first half of 2006). In that context, the Bank envisions aligning its annual budget support with Mali's budget cycle during 2007, possibly in the form of programmatic lending along the lines of a PRSC.

5. The CAS also includes non-lending activities. Recently completed activities include a Country Financial Accountability Assessment, Macroeconomic Growth and Water Variability study, first phase Poverty Assessment, Country Procurement Assessment Review, and an Integrated Framework Trade Diagnostic Study. A Poverty and Social Impact Analysis of the cotton sector is nearing completion. The Bank has also assisted with development of medium-term expenditure frameworks (MTEF) for health, education, and transport, and MTEF support is envisioned for the

agriculture-livestock-fisheries sector. Planned activities during FY06-07 include a Country Economic Memorandum on growth and a Public Expenditure Review.

C. IMF-World Bank collaboration

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

7. **Areas in which the Bank leads.** The Bank takes the lead in structural areas where both institutions have conditionality, including cotton sector reform, privatization and regulatory reform (telecommunications, banking, financial and energy sectors), and pension reform. The Bank also leads in other areas such as: agricultural competitiveness/diversification; rural development (irrigation, roads, support to producer organizations); private sector development (strengthening the investment climate, access to business services, support to small/medium enterprises); urban development (historic rehabilitation/ preservation, land/housing market development, water/road infrastructure); transportation policy/infrastructure; energy sector reforms; and social sectors (health, education and social protection, including HIV/AIDS). The Bank's work in structural areas includes analytical work and dialogue on trade and growth policies, which form part of the overall economic policy dialogue. The Bank collaborates with other donors whenever possible (notably in health, education, agriculture and cotton sectors), and is pursuing a harmonized approach for donor support to health and education reforms as well as on budget support more broadly.

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

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

Area	**Specialized Advice from Fund**	**Specialized Advice from Bank**	**Key Instruments**
Economic Framework/Management	Fiscal/monetary policy, Economic statistics	Economic growth analysis.	*IMF*: PRGF performance criteria and benchmarks on fiscal and monetary targets; technical assistance. *Bank*: Analytical studies
Budgetary and Public Expenditure Reforms	Overall budget envelope, Expenditure management, Enhancement of tax and non-tax revenue, Pension reform	Sector MTEFs (Transport and Rural Sectors), Integrated information system, Improved reporting on budget execution, CFAA, CPAR, Public expenditure tracking survey (education sector).	*IMF*: PRGF performance criteria and benchmarks on overall fiscal balance and on pension system viability; technical assistance. *Bank*: Policy framework actions in successive development policy operations; Support to capacity building (MTEFs), Financial sector development project.
Agriculture and Rural Development (incl. Cotton)		Rural development strategy, Agricultural export promotion, Irrigation, Rural roads, Community driven development. Cotton: privatization strategy, liberalization of critical functions, capacity building of producer organizations.	*IMF*: PRGF performance criteria on cotton pricing and benchmarks on preparations on privatization. *Bank*: Policy framework actions for cotton and Office de Niger in successive development policy operations; Agricultural services and producer organizations project (for agriculture and rural sector develop-ment); Agriculture diversification and competitiveness project (for agriculture development and export promotion); National rural infrastructure project (for rural roads and irrigation).
Social Sector Reforms/Poverty Monitoring		Reforms in education and health, HIV/AIDS program, Poverty assessment, Cotton PSIA.	*Bank*: Integrated health sector investment project (ongoing and next phase); Education sector expenditure program (ongoing and next phase); HIV/AIDS MAP project.
Privatization and Private Sector Development		Privatization strategy (telecommunications, banking, energy), Pricing policy, Revenue management (mining), Business development services (incl. to SMEs).	*IMF:* PRGF benchmarks on bank and telecom privatization processes. *Bank*: The policy framework under successive development policy operations (actions on the financial and cotton sectors); Financial sector development project (policy framework condition on State ownership of banks); Sources of growth project (telecom, mining, investment climate, SMEs); Household energy project, and advice on electricity utility.
Infrastructure and Other Sectors		Strategy and investment program (transport, energy, water), Urban sector study.	*Bank*: Transport corridor project, Rural infrastructure project, Household energy and universal access project.

Prepared by World Bank staff. Questions may be referred to Ms. Gaye (Acting Country Director, (229) 21 30 17 44), Ms. Wood (Sr. Economist, 473-5829), or Ms. Hader (Sr. Operations Officer, 458-8414).

MALI: STATISTICAL ISSUES

(As of November 21, 2005)

1. Mali's statistical database is adequate for program monitoring. However, there is considerable scope for improving the quality, timeliness, and availability of economic and financial data. Mali has been participating in the General Data Dissemination System (GDDS) since September 2001 and has advanced the implementation of its short- and medium-term plans for improvement. The metadata posted on the Dissemination Standards Bulletin Board (DSBB), last certified in June 2003, require updating.

Real sector

2. There are weaknesses in the accuracy, coverage, and timeliness of national accounts data. The main reason is the inadequacy of the real sector databases, owing to the inadequate funding and technical staffing of the National Directorate of Statistics and Data Processing (DSDP). Staff have discussed revisions to the calculation of GDP deflators, the treatment of agricultural stocks and expenditure estimates of GDP.

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

Government finance statistics

4. As part of the process of economic integration among the member countries of the WAEMU, Mali has made 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, efforts need to be made to improve the timeliness of the TOFE. Work is progressing with the assistance of AFRISTAT to expand the coverage of the TOFE to public agencies and local governments. Staff have begun discussions with the Ministry of Finance on issues relating to the adoption of the revised 2001 GFS methodology.

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

6. Fiscal data are posted on the BCEAO website, but not on a timely basis. The Ministry of Economy and Finance is preparing to launch a website in 2006.

Monetary data

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

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

Balance of payments data

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

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

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

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

Poverty Statistics

13. 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 21, 2005)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]					
Reserve/Base Money	Aug 2005	Nov 2005	M	M	M
Broad Money	Aug 2005	Nov 2005	M	M	M
Central Bank Balance Sheet	Aug 2005	Nov 2005	M	M	M
Consolidated Balance Sheet of the Banking System	Aug 2005	Nov 2005	M	M	M
Interest Rates[2]	Oct 2005	Nov 2005	I	W	M
Consumer Price Index	Mar 2005	Jun 2005	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government					
Stocks of Central Government and Central Government-Guaranteed Debt[5]					
External Current Account Balance	2003	Feb 2005	A	A	A
Exports and Imports of Goods and Services	2003	Feb 2005	A	A	A
GDP/GNP	2004	Jul 2005	A	A	Semi-A
Gross External Debt	2002	Feb 2004	A	A	A

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

Bamako, December 7, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. **The Malian economy has experienced exogenous shocks that affected cotton and oil product prices over the past year**, and the 2004/05 production of food crops was far from adequate, resulting in lower growth and higher inflation than envisioned under the program. With the assistance of our external partners, we have put in place decisive policies to adjust to these shocks and ensure macroeconomic stability and food security in the medium term.

2. **The outlook for 2006 and for the medium term is encouraging**. Agricultural production, particularly cereals, should rebound in 2005/06 following adequate rainfall, resulting in a reversal of recent inflation. The terms of trade have begun to improve, notably with respect to gold prices. We remain fully committed to completing the privatization of the Malian textile development company (CMDT) by 2008 and attach high priority to the financial sector reforms, to strengthening fiscal policies and increasing the role of the private sector in the economy.

Macroeconomic Framework

3. **Recent macroeconomic developments remain broadly consistent with projections in the previous program review, although inflation has increased in 2005 because of the food supply reduction**. We expect a recovery of GDP growth from 2 percent in 2004 to about 5.5 percent in 2005 on the basis of a normal 2005/06 harvest, rising gold production, and modestly increased cotton production levels. Owing to good rainfall the risks to growth are on the upside. Reduced cereal supply substantially increased food prices in 2005, leading to average consumer price inflation of 5 percent and projected year-end inflation of zero percent. In addition to the effects of the food shock, the upsurge in petroleum product prices has reduced the current account balance. The fiscal position, before grants, weakened temporarily, as we increased public spending to address losses in the cotton sector and at the same time cushion the impact of lower international cotton prices.

4. **For 2006, we expect economic growth to remain at 5-6 percent,** underpinned by improvements in the terms of trade, a narrowing of the current account deficit, low inflation, and increased levels of public investment.

5. **Strict fiscal management has led to the maintenance, at end-2004 and end-September 2005, of an overall fiscal balance consistent with program projections**. The overall fiscal deficit, before grants, in 2004 stood at 6.6 percent of GDP, or 1 percent of GDP less than estimated in the program, and is expected to rise to 8.8 percent GDP in 2005, financed by increases in concessional loans and budgetary grants. Revenue objectives were generally met, except shortfalls in nontax revenue (dividends and property taxes) and fuel excises. Expenditure increased in 2005, reflecting higher investment, wages including HIPC-financed wages, and lending to CMDT.

Mali: Economic Developments, 2003-06

	2003	2004	2005		2006
	Estimate	Estimate	1st Review	Revised Projection	Program
Real GDP (percent change)	7.2	2.3	5.8	5.4	5.4
Nominal GDP (in billions of CFA francs)	2,568	2,610	2,753	2,761	2,905
Average inflation rate	-1.3	-2.8	2.5	5.0	-1.5
(In percent of GDP)					
Total revenue and grants	20.9	21.4	23.5	22.2	24.0
Total expenditure and net lending	22.2	24.0	27.0	26.3	27.5
Overall fiscal balance (before grants)	-5.7	-6.6	-8.8	-8.7	-9.1
Overall fiscal balance (including grants)	-1.3	-2.6	-3.5	-4.1	-3.5
Current account balance 1/	-6.1	-7.7	-5.9	-9.1	-8.1

Sources: Malian authorities and IMF estimates and projections.
1/ Includes upwards revision of current account deficit in 2003 and 2004 on the basis of BCEAO data.

6. **Monetary growth has slowed as a result of the less favorable external environment**. Following two years of rapid growth, the level of reserves declined in 2004, reflecting current account weakness. Meanwhile, growth of credit to the economy declined in 2004. This tendency could continue in 2005, partly reflecting efforts to strengthen the credit portfolio. Based on data available through the third quarter of 2005, broad money is expected to increase by about 6.5 percent in 2005 and 6.2 percent in 2006.

7. **In the banking sector, system-wide liquidity remains high, even though there is only partial compliance with the prudential ratios**. Credit is still concentrated in the cotton sector. Moreover, the quality of loan portfolios should be improved, particularly in the area of real-estate loans. Steps are under way to restructure the housing bank to protect its depositors, and the audit of the loan portfolios of other commercial banks is nearing completion.

8. **To sustain GDP growth at an average of approximately 6 percent per annum over the medium term**, we will focus our policies and reforms mainly on improving efficiency and competitiveness, particularly through structural reforms in the cotton and banking sectors and the strengthening of public finances and public institutions. The

successful implementation of these reforms will rest on broad consultation with the stakeholders and on technical and financial support from our development partners. We expect the current account deficit to narrow after 2005 as the terms of trade gradually improve and gold exports increase as a result of the opening of new mines. With the recovery of exports and growth, our external debt sustainability indicators will continue to improve.

9. **The second progress report on implementation of the Poverty Reduction Strategy Paper (PRSP)**, approved in August 2005 and drafted in consultation with external partners and other stakeholders, emphasizes the need to ensure coherence between the annual budget and the medium-term expenditure framework for poverty reduction spending under the PRSP. Preparation of our second PRSP, covering 2007–11, is under way, and will be submitted to the National Assembly. The PRSP will focus on matching identified budgetary space with the costs of those interventions that will enable us to make concrete progress toward achievement of the Millennium Development Goals (MDGs). Account will be taken in the 2007 Budget Law of the PRSP objectives.

Performance Under the Program

10. **Financial program performance at end- September 2005**. Program implementation at end-September was satisfactory. We met the quantitative performance criteria regarding net domestic financing, nonaccumulation of external payment arrears, and external borrowing terms and maturities at end-September. We also met the performance indicators with respect to the floor on tax revenues and the ceiling on the wage bill, and exceeded the basic balance, excluding HIPC-financed expenditure (Annex I).

11. **Our structural reform program experienced a number of delays** (Annex II), as follows:

- We conducted an actuarial study of the civil service pension fund (CRM) in July 2005, with a six-month delay owing to bidding procedure issues. The draft study is now complete, and we will start a consultative process as soon as possible on the parametric reforms, with a view to placing the pertinent draft law before the National Assembly along with the 2007 Budget Law.

- On May 2, 2005 we announced a base seed cotton purchaser price for 2005/06 of CFAF 160/kg, pursuant to the government-CMDT-producers memorandum of understanding on the cotton pricing mechanism, to minimize budgetary risks and taking into account world price projections. We maintained the base cotton price in August 2005 in accordance with the memorandum of understanding. In addition, steps are being taken to bring CMDT accounts into balance.

- The plan to complete the sale of the government's shares in the Banque Internationale du Mali (BIM) was delayed by circumstances beyond our control, in particular a court case contesting the validity of the government's shareholding in the Bank. The privatization process will resume immediately after the Supreme Court ruling on the case, expected in November 2005. Our PRGF-supported structural reform program for 2006 is also attached to this letter.

12. On the basis of the policies described in this supplementary letter of intent and its annexes, we request the completion of the second and third reviews of the PRGF-supported program. The following prior actions were undertaken in anticipation of the review: (i) the revision of aspects of the taxation on petroleum products, in order to reduce the differentiation of excise taxes by route of importation, in accordance with regional policies (adopted by decree on July 11); (ii) submission of a fully financed draft 2006 Budget Law to the National Assembly, in accordance with the macroeconomic framework of the PRGF (submitted September 18); and (iii) elimination of the temporary VAT exemptions for rice and maize.

13. We request a waiver for nonobservance of the structural performance criterion related to beginning an actuarial study of the civil service pension fund (CRM), for the announcement of a base cotton producer price for 2005/06, and for the acceptance of financial bids for the sale of the government's shares in the BIM. The fifth and sixth disbursements under PRGF will be subject to reviews expected to be completed on or after April 15, 2006 and October 15, 2006 respectively. We will continue to consult the Fund in advance of any change to our policies that could affect the implementation of our economic and financial program.

Program Policies for 2005–06

2005 Budget

14. We remain committed to fiscal discipline and to not seeking financing through the use of domestic credit and treasury bills, except where necessary to meet within-year requirements and unforeseen shortfalls in budgetary grants or loans.

15. **The risks to the 2005 revenue outlook include weak nontax revenue mobilization, lower hydrocarbon taxes, delays in payment West African Economic and Monetary Union duty compensation, and delays in the implementation of fiscal measures**. To cover budgeted spending, particularly for poverty reduction, we have:

- Reduced the differentiation across petroleum product excise taxes with a view to improving revenue efficiency, in accordance with the regional legislation (prior action);

- Strengthened administrative measures. The Tax Department's action plan will be given high priority, and the on-site audit system was strengthened in the last quarter. We have requested but not yet identified technical assistance to strengthen the Land and Property Department (DNDC). The Customs Department has increased import inspection and fraud detection;

- Eliminated the temporary VAT exemptions for rice and maize imports as products from the latest harvest arrive on the market; and

- Made every effort to ensure the collection of dividends in respect of profitable state enterprises, notably the telecommunications company (SOTELMA).

16. **On the expenditure side, we will submit to the National Assembly revisions to the 2005 budget that take account of net lending to the CMDT**. The pertinent amount budgeted will be increased from CFAF 13.8 billion to CFAF 28.5 billion. This increase is less than estimated in the program, partly because the operating deficit for the 2004/05 season was narrower than anticipated. We also expect to realize savings of CFAF 8 billion relative to the estimates for a number of items (in particular, elections and electricity subsidies) in the 2005 budget.

17. To cover shortfalls in nontax revenues, hydrocarbon taxes, and higher spending needs, we have identified additional budgetary assistance of CFAF 9 billion for 2005, thereby closing the expected financing gap.

2006 Budget

18. **We submitted a fully financed 2006 Budget to the National Assembly in September 2005**. The principal measures underpinning the 2006 budget revenues are: (i) computerization of the Tax Department, leading to improved domestic VAT collections; (ii) full-year effects of measures implemented in late 2005, notably elimination of the VAT exemption on new vehicles effective November 1, 2005, introduction of a simplified tax regime for small and medium-sized businesses, and elimination of the agricultural bank tax exemptions; (iii) taxation of imports from WAEMU countries produced under economic or conditional relief arrangements; (iv) the introduction of regulations for prudent implementation of the revised investment code to limit tax losses. We will study, with technical assistance, different options to reform the petroleum product pricing mechanism and palliative measures to protect vulnerable groups of the population. On this basis, we will introduce a price mechanism before end-March 2006 linking pump prices to international prices, compatible with fuel excise estimates in the 2006 Budget (new structural benchmark). In the meantime, the fuel excise will be broadly compatible with 2006 budget projections.

19. **Our spending is aimed at increasing investment financed by higher aid inflows**. Nominal wage spending increases by 6.2 percent on account of HIPC-financed wages and wage adjustments, while spending on goods and services increased by 7.4 percent. The capital budget is intended to cover increased appropriations for [health, education, roads, and institutional capacity building. The budget also includes provisions totaling CFAF 8.2 billion that could be spent in the event realized fiscal revenue were to exceed the estimates. These provisions would be used to deal with unexpected exogenous shocks. Pursuant to the provisions of the Budget Law, the government will reduce spending if the rate of revenue realization is unsatisfactory.

20. **Projected gross financing from external grants and loans will increase substantially in 2006**. Largely on account of a shift toward sectoral budget support (1.6 percent of GDP), which will help increase assistance execution rates. Total aid support is projected to reach 11.1 percent of GDP, including the equivalent of 2.8 percent of GDP (CFAF 80 billion) in general budget support linked to implementation of the economic reform program, particularly in the cotton sector, and the maintenance of macroeconomic stability.

21. **We welcome the proposals for multilateral debt cancellation from the IMF, the World Bank and the African Development Fund**. Such cancellation and the potential increase in external assistance would help create additional budgetary space and progress toward the achievement of the MDGs. Cancellation would also reduce debt service by about 0.6 percent of GDP per year over the medium term. Should cancellation occur in 2006, we will either submit supplementary spending programs to the National Assembly or increase the unallocated provisions in the budget. Debt cancellation could also serve to cover possible external assistance shortfalls.

Fiscal structural measures

22. **As we work with international partners to move from project support to sectoral and general budget support, we are reforming public finance management.** The government has adopted an action plan for improving and modernizing public finance management. We will focus on strengthening the revenue collection agencies (taxes, customs), the audit function, procurement, extending the Treasury's computer network, broadening the scope of the budget accounts to local governments and autonomous public agencies, and increasing accountability.

23. **Concerning expenditure management**, we began a study of the system of salary allowances and bonuses in October 2005 to assess incentives for the deconcentration of government services; we expect the study to be completed by year-end. With a slight delay, we completed a report in October 2005 on the review of the criteria used for allocating resources for the principal social safety net.

24. **The provisional actuarial study of the civil service pension scheme** (CRM) shows that without reform the operating deficit will rise to unsustainable levels from the 2005 budget level of 0.6 percent of GDP. We have begun consultations with the stakeholders on a range of parametric reform options that will restore the CRM to equilibrium. We have asked the consultant to provide a wide range of options, including simulations for reaching operational balance after 10 years, 15 years, and 20 years. In view of the importance of the parametric reforms to the CRM for the medium-term budgetary outlook, the government will identify a package of parametric reforms that will gradually reduce the projected deficit of the CRM from the present level over the medium term (**new performance criteria for end-March 2006**). In addition, the government will submit to the National Assembly, in the context of the 2007 Budget Law and by end-September 2006, a

draft law authorizing the above mentioned package of parametric reforms (new structural benchmark).

Strengthening the financial system

We remain committed to our program of strengthening the financial system by increasing the role of the private sector in the banking system and improving presentation of the balance sheets of banks and nonbank institutions.

25. **Preparations for the sale of government shares in the commercial banks have taken longer than expected:**

- **Banque Internationale du Mali (BIM).** We have received expressions of interest for the acquisition of the government's 61.5 percent stake in this bank. The tender offer for a majority shareholding in this bank (end-April 2005 benchmark) has been delayed by a Supreme Court case contesting the validity of the government shareholding. Once the Court has ruled on the matter (expected in November 2005), and providing no legal impediments remain, we expect to launch a tender by end-March 2006 (reset structural benchmark).

- **Banque de Développement du Mali (BDM)**. Pending agreement on the parallel sale of the shares held by the Central Bank of West African States (BCEAO), the divestiture of the government's 20 percent share in Mali's largest bank is on hold. The BDM remains profitable and plays a pivotal role in the banking consortium for cotton export financing.

26. **We are implementing, with World Bank support, a plan to restructure the housing bank, Banque de l'Habitat du Mali (BHM)**. The audit of the BHM portfolio by a firm of external auditors has been used as the basis for the measures in the restructuring plan. The plan centers on a recapitalization operation led by the government, to be completed by end-June 2006, with the objective of ensuring significant private sector involvement (new structural benchmark). To succeed, the above-mentioned recapitalization is preceded by measures aimed at strengthening the financial position of the bank. The recapitalization will take the form, in the short term, of a conversion of the government deposits into equity. The government will sell equity as new shareholders are identified and the financial position of the bank improves.

27. **An audit of the nonperforming loan portfolio of commercial banks has begun to yield results**. The proposals for the settlement of these claims, recommended in the final report, will be examined by the parties (government-banks-World Bank) during the first quarter of 2006, in a consultative framework.

28. **As regards microfinance, the task of supervising microfinance institutions has been transferred to the Ministry of Economy and Finance** in conformity with the WAEMU law governing microfinance institutions. In addition, the high level of

nonperforming loans in the microfinance sector indicates there is a need to strengthen the supervisory capacity of the Ministry of Economy and Finance.

Cotton Sector Reforms and Privatization

29. **A revised timetable for the cotton sector reform process, postponing privatization of the CMDT to 2008, was approved by the Council of Ministers in February 2005.** This timetable announces the signing of a memorandum of understanding by the government-CMDT-producers on the producer price mechanism. It provides for a series of measures aimed at completing privatization of the CMDT in 2008.

30. **A base price for cottonseed purchases from producers for the 2005/06 season has been set at CFAF 160/kg**, in accordance with the memorandum of understanding on the pricing mechanism signed in January 2005, with a view to keeping to a minimum the risks related to budget support to the cotton sector for the 2005/06 season. This price is at the floor of the range for the base price and was reaffirmed in August 2005. In light of the program estimates regarding international cotton prices and exchange rates, we expect the CMDT operating balance to move from a loss of 1.8 percent of GDP (CFAF 50.3 billion) in 2004/05 to a gross profit equivalent to 0.6 percent of GDP (CFAF 16 billion) in 2005/06 (subject to a considerable margin of forecasting error).

31. **The short-term financial situation of the CMDT remains difficult and poses a fiscal risk**. These difficulties result from the partial recapitalization for 2004/05 losses (incurred in 2004) and receivables for cottonseed sales. Arrears with respect to external payments on medium- and long-term loans have been accumulating since April 2005. The finalization of the 2005 accounts by end-June 2006 will be key in resolving the financial problems. In the interim, the government, as the major shareholder, will set up a committee for the regular surveillance of cash flow operations (structural benchmark for end-December 2005) with a view to progressively reducing payment arrears. Such monitoring will be based on an audit and a payment plan for receivables, cost savings, and disposal of noncore assets, efforts to increase shareholder capital, and refinancing. In the interests of financial transparency, a plan will be submitted to the relevant stakeholders.

32. **We continue to reflect on the best approach to privatization of the CMDT**. The discussions center on whether to sell assets by zoning or equity in new subsidiary companies, creating a regulatory framework, and strengthening the role of cotton producers in downstream activities. In light of these discussions and delays in implementing the reforms planned in the revised privatization timetable, we recognize that a new political impetus is needed to move forward on the reforms, with the support of external partners. Accordingly, by end-December 2005 a definitive strategy for privatization will be adopted by CMDT shareholders (new structural benchmark). The strategy will be based on the agreed positions of shareholders concerning the management of the privatization procedure, notably the number of private companies to be created, shareholder interests, as well as the proposed management of privatization receipts and the clearance of CMDT liabilities. By

end-September 2006, a detailed technical operational plan for privatization will be adopted by the Council of Ministers (new structural benchmark).

33. **The privatization of other nonfinancial sector companies is proceeding, albeit with some technical delays:** In June 2005, the sale of the bulk of the government's shares in the cottonseed mill (HUICOMA) to a private operator was finalized against a payment equivalent to CFAF 9 billion or 0.3 percent of GDP. Preparations are continuing for the sale of 80 percent of the government's shares in the national telecommunications company (SOTELMA), and we expect to conclude this transaction in the fourth quarter of 2006. A medium-term privatization plan for the period through 2008 will be devised by end-2006.

34. **In the electricity sector, we agreed in October 2005 with the strategic partner to restructure ownership, with the government taking a controlling stake of 66 percent**. By January 1, 2006 we will recruit specialized international experts to support the new management team. By end-May 2006, we will conduct a management audit, an assessment of the financial situation, and a review of the pricing mechanism, with a view to resolving the cash flow operating problems (new structural benchmark). We remain committed to private management of the company, based on the above-mentioned studies and reports.

Very truly yours,

/s/

Abou-Bakar Traoré
Minister of Economy and Finance

Mali: Quantitative Performance Criteria and Indicative Targets for December 2004-December 2005 1/

(In billions of CFA francs)

	2004		2005							
	December		March		June		September		December	
	Indicative targets EBS/04/64	Actual	Performance criteria EBS/04/64	Actual	Indicative targets EBS/05/20	Actual	Performance criteria EBS/05/20	Actual	Indicative targets	Actual
Quantitative performance criteria and indicative targets										
Net domestic financing of the government, program ceiling 2/	-23.9		19.9		-14.9		-4.5		-2.0	
Net domestic financing, adjusted ceiling and actual 2/	0.4	-14.6	12.1	6.4	10.4	-1.2	15.3	-3.3	..	..
Cumulative change in government external payments arrears 2/ 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
New external borrowing at terms of one year or more contracted or guaranteed by the government on nonconcessional terms 2/ 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
New short-term external debt (less than one year) contracted or guaranteed by the government 2/ 3/ 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	..
Financial performance indicators										
Cumulative tax revenue 5/	383.7	393.3	94.4	100.3	198.1	206.9	318.4	322.0	430.0	..
Cumulative wage bill 2/	122.0	121.7	33.9	31.9	70.1	64.7	105.2	96.9	140.2	..
Overall basic fiscal balance 5/	-2.6	10.4	5.9	20.0	-8.4	23.1	-18.0	14.1	-28.6	..
Memorandum items:										
External budgetary assistance during the year 6/	75.0	40.0	0.0	10.5	60.5	23.3	70.5	43.6	80.2	..
HIPC Initiative debt relief	29.6	28.7	6.6	7.0	15.6	14.6	23.4	21.9	31.2	..
Expenditure financed with HIPC Initiative resources	29.6	28.8	6.3	4.0	14.8	13.9	22.2	15.4	26.8	..
Balance of HIPC Initiative resources	0.0	-0.1	0.2	2.9	0.8	0.6	1.2	6.4	4.3	..

1/ For definitions and explanations, please see Technical Memorandum of Understanding. All numbers are cumulative, starting at the beginning of each year.
2/ Maximum.
3/ These performance criteria will be monitored on a continuous basis.
4/ Excluding debt relief obtained in the form of rescheduling or refinancing.
5/ Minimum.
6/ Excluding use of Fund resources.

Mali: Quantitative Performance Criteria and Indicative Targets for 2006 1/

(In billions of CFA francs)

	2006							
	March		June		September		December	
	Performance criteria	Actual	Indicative targets	Actual	Performance criteria	Actual	Indicative targets	Actual
Quantitative performance criteria and indicative targets								
Net domestic financing of the government, program ceiling 2/	-23.0		-29.7		-47.5		-37.5	
Net domestic financing, adjusted ceiling and actual 2/	..	..	..	..	..	..	..	..
Cumulative change in government external payments arrears 2/ 3/	0.0	..	0.0	..	0.0	..	0.0	..
Domestic	0.0	..	0.0	..	0.0	..	0.0	..
External	0.0	..	0.0	..	0.0	..	0.0	..
New external borrowing at terms of one year or more contracted or guaranteed by the government on nonconcessional terms 2/ 3/	0.0	..	0.0	..	0.0	..	0.0	..
New short-term external debt (less than one year) contracted or guaranteed by the government 2/ 3/ 4/	0.0	..	0.0	..	0.0	..	0.0	..
Financial performance indicators								
Cumulative tax revenue 5/	109.3	..	218.7	..	350.0	..	469.9	..
Cumulative wage bill 2/	29.8	..	67.1	..	104.3	..	149.0	..
Overall basic fiscal balance 5/	36.0	..	33.4	..	43.1	..	8.5	..
Memorandum items:								
External budgetary assistance during the year 6/	18.4	..	43.1	..	63.4	..	84.3	..
HIPC Initiative debt relief	4.9	..	11.1	..	17.2	..	24.6	..
Expenditure financed with HIPC Initiative resources	7.2	..	15.8	..	24.3	..	34.2	..
Balance of HIPC Initiative resources	-2.3	..	-4.7	..	-7.1	..	-9.6	..

1/ For definitions and explanations, please see Technical Memorandum of Understanding. All numbers are cumulative, starting at the beginning of each year.
2/ Maximum.
3/ These performance criteria will be monitored on a continuous basis.
4/ Excluding debt relief obtained in the form of rescheduling or refinancing.
5/ Minimum.
6/ Excluding use of Fund resources.

Mali: Structural Measures, 2004-06

Measures	Date	Status
Prior Actions for Second and Third Reviews		
Revision of the structure of petroleum product prices with a view to reducing the differences in excise taxes levied on imports		Adopted by decree on July 11, 2005. Met.
Submission of a fully financed 2006 Budget to the National Assembly		Draft submitted to the National Assembly September 18 for approval. Met.
Elimination of temporary VAT exemption for imported rice and maize		Elimination put into place October 10. Met.
Performance Criteria for Second and Third Reviews		
1. Beginning of actuarial studies on the CRM and audit of the files on INPS contributions and beneficiaries	End-December 2004	Completed, with delay, in July 2005. Not met.
2. Announcement of a base cotton producer price for 2005/06 that reduces to a minimum the risks for the budget within the framework of the memorandum of understanding on the pricing mechanism	End-April 2005	Completed with a slight delay, May 2, 2005. Not met.
3. Closing date for acceptance of final bids for sale of the government's shares in the BIM	End-June 2005	Delayed by court case contesting the validity of government shareholding. Not met.
4. Lowering of the cotton producer price in the event that projected payments to producers are less than the base producer price as envisaged in the memorandum of understanding on the pricing mechanism (3rd Review Condition)	End-August 2005	The price was maintained. The CMDT is expected to make a modest profit on the basis of ICAC cotton price projections. Met.
Structural Benchmarks for 2005		
1. Publication of a call for bids for the sale of the government's shares in the BIM	End-April 2005	Delayed by court case contesting the validity of the government shareholding. Postponed to March 2006. Not met.
2. Review of the criteria for the allocation of resources for the principal social safety net	End-June 2005	Report completed in October 2005. Not met.
3. Completion of a study on electricity rates with a view to describing appropriate rate structures and proposing a mechanism targeted to support the most vulnerable segments of the population	End-September 2005	Scope broadened. Postponed to May 2006. Not met.

Measures	Date	Status
4. Completion of a study to strengthen Ministry of Property and Land Affairs collection of nontax revenues with a view to improving overall efficiency and raising the yield of property taxes	End-September 2005	Required technical assistance from donors not available. Not met.
5. Assessment of the impact of parametric reforms on the financial position of the CRM over the medium term	End-December 2005	Work began October 2005 following completion of the draft actuarial study on the CRM.
6. Creation of a committee for regular surveillance of the cash flow operations of the CMDT	End-December 2005	
7. Approval by CMDT shareholders of a strategy for privatization of the CMDT in 2008 as defined in paragraph 32 of the letter of intent	End-December 2005	
Structural Performance Criterion for 2006		
1. Identification by the government of a specific package of parametric reforms that will gradually reduce the projected deficit of the CRM from the present level over the medium term as described in paragraph 24 of the letter of intent	End-March 2006	
Structural Benchmarks for 2006		
1. Introduction by decree of a petroleum product pricing mechanism linked to world prices, in accordance with the hydrocarbon excise tax estimates in the 2006 Budget	End-March 2006	
2. Publication of a call for bids related to the sale of the government's shares in the BIM, providing no legal impediments remain	End-March 2006	
3. Completion of a management audit of the power company, Energie du Mali, as well as an assessment of the financial situation and a review of the mechanism for setting the rates, with a view to resolving the cash management problems	End-May 2006	
4. Completion of the recapitalization of the housing bank (BHM), with a view to ensuring significant private sector involvement	End-June 2006	
5. Approval by the Council of Ministers of an operational plan for privatization of the CMDT in 2008	End-September 2006	
6. Presentation to the National Assembly, with the 2007 Budget, of a draft law authorizing the parametric reforms and a draft decree that will gradually reduce the projected CRM deficit over the medium term.	End-September 2006	Reset from December 2005, so as to take account of the delays related to the preparatory activities.

INTERNATIONAL MONETARY FUND

MALI

Technical Memorandum of Understanding (TMU) [12]

December 7, 2005

1. This technical memorandum of understanding defines the performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement. It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program-monitoring purposes. This memorandum consolidates the TMU in Country Report No. 04/184 and its addendum in Country Report No. 05/129, from 2005 onwards. It also adds a data requirement relating to the CMDT treasury operations in the data provision summary table.

DEFINITIONS

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

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

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

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

[12] This memorandum consolidates the TMU in Country Report No. 04/184 and its addendum in Country Report No. 05/129. It adds a data requirement relating to the CMDT treasury operations in the data provision summary table.

I. Quantitative Performance Criteria

A. Ceiling on Net Domestic Financing of the Government

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

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

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

7. Nonbank financing of the government include, in particular, government bills and bonds held outside national banking institutions and proceeds from the sale of government assets. The receipts from sale of government assets are defined as the proceeds from the sale, effectively received by the government during the fiscal year, of all or part of the shares held by the government in privatized enterprises. In the event that payments in respect of these sale transactions are expected to extend beyond the fiscal year, the residual will be included in the calculation of nonbank financing of the government in each of the subsequent years, in accordance with the annual scheduling of the expected payments.

Adjustment factor

8. The ceiling on the change in net domestic financing of the government will be adjusted if external budgetary assistance exceeds or falls short of the program amount. Budgetary assistance is defined as grants, loans, and debt relief (excluding project loans and grants, IMF resources, and debt relief under the Initiative for Heavily Indebted Poor Countries). The adjustment factor is capped at CFAF 25 billion. These ceilings and program budgetary assistance are set in Annex I to the December Letter.

9. The ceiling on the change in net bank credit to government and net domestic financing will be adjusted by the difference between the amount of HIPC Initiative resources in the program and the amount actually spent. If the amount actually spent exceeds (or falls short of) the program amount, the ceiling will be reduced (increased) by the difference between the actual amount and the program amount.

B. Nonaccumulation of External Public Payments Arrears

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

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

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

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

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

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

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

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

16. The definition in paragraph 12 applies to this performance criterion.

17. Short-term external debt is debt with a contractual term of less than one year. Import-related credit, CMDT foreign borrowing secured by the proceeds of cotton exports, and debt-relief operations are excluded from this performance criterion. Treasury bills issued in CFA francs on the WAEMU regional market are also excluded.

18. In the context of the program, the government and public enterprises will not contract, or guarantee, short-term external debt.

19. This performance criterion is monitored on a continuous basis.

II. Quantitative Performance Indicators

20. The program also includes indicators on government tax revenues, the civil service wage bill, and the basic fiscal balance.

A. Floor for Tax Revenues

21. Government tax revenues are defined as those that figure in the Table on government financial operations (TOFE). The government shall report tax revenues to IMF staff each month in the context of the TOFE. Quantitative performance indicators for tax revenues are set in Annex I to the December Letter.

B. Ceiling on the Wage Bill

22. The wage bill includes all public expenditure on wages, bonuses, and other benefits or allowances granted civil servants employed by the government, the military, and other security forces, and includes expenditure with respect to special contracts and other permanent or temporary employment with the government. The government shall report the wage bill to IMF staff each month in the context of the TOFE. The quantitative performance indicators for the wage bill are set in Annex I to the December Letter.

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

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

III. Structural Measures

24. Annex II of the supplementary letter of intent describes the structural measures identified as prior actions, performance criteria, and structural benchmarks for 2004–06. This table provides information regarding the implementation dates for the structural reforms envisaged.

25. Data on the introduction of the structural benchmarks and performance criteria will be sent to Fund staff within two weeks of the date of their scheduled implementation.

IV. Additional Information for Program Monitoring

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

SUMMARY OF DATA TO BE REPORTED

Data Type	Tables	Frequency	Time Frame
Real sector	National accounts	Annual	End of year + 9 months
	Revisions of the national accounts	Variable	8 weeks following the revision
	Disaggregated consumer price indexes	Monthly	End of month + 2 weeks
Government finances	Net government position (including the list of accounts of other public entities with the banking system) and breakdown of nonbank financing	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	TOFE of the central government and consolidated TOFE	Monthly	End of month + 3 weeks (provisional); end of month + 6 weeks (final)
	Breakdown of fiscal revenue and expenditure in the context of the TOFE	Monthly	End of month + 6 weeks (TOFE)
	Separate report on outlays financed with HIPC resources	Monthly	End of month + 6 weeks
	Execution of capital budget	Quarterly	End of quarter + 8 weeks
	Tax revenues in the context of the TOFE	Monthly	End of month + 6 weeks
	Wage bill in the context of the TOFE	Monthly	End of month + 6 weeks
	Basic fiscal balance in the context of the TOFE	Monthly	End of month + 6 weeks
	Formula for setting prices of petroleum products, tax revenues from petroleum products, and subsidies paid	Monthly	End of month + 4 weeks
	Treasury operations of the CMDT	Monthly	End of month + 4 weeks
Monetary and financial data	Summary accounts of the BCEAO, summary accounts of banks, and accounts of the banking system	Monthly	End of month + 4 weeks (provisional); end of month + 8 weeks (final)
	Foreign assets and liabilities of the BCEAO	Monthly	End of month + 8 weeks
	Lending and deposit interest rates, BCEAO intervention rates, and BCEAO reserve requirements	Monthly	End of month + 4 weeks
	Bank prudential ratios	Monthly	End of month + 6 weeks
Balance of payments	Balance of payments	Annual	End of year + 12 months
	Revisions of balance of payments	Variable	8 weeks following each revision
External debt	Breakdown of all new external borrowing terms	Monthly	End of month + 4 weeks
	Debt service, indicating amortization, interest payments, and relief obtained under the HIPC Initiative	Monthly	End of month + 4 weeks
PRSP	Share of poverty-reducing expenditure	Quarterly	End of quarter + 4 weeks
	Share of primary education in total outlays of the education sector	Quarterly	End of quarter + 4 weeks
	Gross enrollment ratio in the primary education, with its breakdown between girls and boys	annual	Beginning of the next academic year +1 month (final)
	Percentage of the population having access to health care facilities within a radius of 15 kilometers	annual	End of year + 2 months
	Rate of assisted births	annual	End of year + 2 months
	Data on immunization rate DTCP3 of child below 1 year	Annual	End of year + 2 months

INTERNATIONAL MONETARY FUND

MALI

Debt Sustainability Analysis

Prepared by a staff team from the Afican and
Policy Development and Review Departments, and the World Bank

Approved by Benedicte Vibe Christensen and Matthew Fisher

December 15, 2005

External Debt Sustainability Assessment

1. Since the 1994 CFA franc devaluation, which increased debt and debt service indicators substantially, Mali has benefited from a series of debt relief measures that have reduced debt service, including the Highly Indebted Poor Country (HIPC) Initiative. The HIPC Initiative reduced debt service to sustainable levels as defined by a specific threshold for the NPV of debt to exports (200 percent original HIPC Initiative and 150 percent for the enhanced HIPC Initiative). Despite the implementation of sound macroeconomic policies and prudent debt management, the capacity to repay debt remains subject to moderate risks from natural and commodity price shocks. Accordingly, lessening the exposure to such shocks through diversification and improving productivity remains key to lessening medium-term debt vulnerabilities.

2. This DSA applies the low income country template to the staff's baseline projections, and applies various robustness checks.[1] The analysis shows that external debt sustainability is broadly achieved under baseline projections in relation to the policy dependent debt burden thresholds. However, adverse external and internal shocks could result in breaching debt-to-exports and debt-to-GDP thresholds over the medium term. Accordingly Mali is assessed as a having a moderate risk of debt distress. Accelerating export growth and maintaining highly concessional loan assistance are important factors in maintaining debt

[1] The low income debt sustainability framework compares debt burden indicators to indicative policy-based thresholds. The thresholds are based on the empirical finding that low-income countries with stronger policies and institutions tend to have a higher debt carrying capacity. See IDA and IMF, "Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations" (IDA/R2005-0056), April 2005.

sustainability. The multilateral debt reduction initiative (MDRI) expected to be implemented in 2006 is also projected to improve the debt ratios significantly over the medium term.

A. Baseline projections

3. The DSA focuses on the external debt situation, since the existing domestic debt stock is negligible (less than 2 percent of GDP) while projected budgetary financing needs are likely to be covered by external grant and concessional loan assistance for the foreseeable future.

Mali. Stock of Domestic Debt, 2002-2005

	2002	2003	2004	2005 September
	(billions of CFAF unless otherwise noted)			
Gross debt to the banking sector	49.8	44.9	34.0	28.7
Government Securities	18.3	8.0	7.5	7.5
Non-bank debt	39.0	25.3	12.4	17.5
Total domestic public debt	107.1	78.2	53.9	53.7
Total domestic public debt (percent of GDP)	4.6	3.0	2.1	1.9

Source: Malian authorities.

4. Mali's external debt ratios have improved compared to the projections made at the completion point (2003) mainly reflecting a CFA franc appreciation against the U.S. dollar that has lowered the ratio of external debt to GDP, and better-than-expected US dollar-denominated exports in 2004 that has improved the debt service ratio and the NPV of debt-to-exports ratio. The NPV of debt-to-GDP in 2004 has dropped from 33 percent at the completion point to 25 percent in the DSA. The NPV of debt-to-exports in 2005 is reduced from 118 percent to 106 percent while the debt service ratio is unchanged at 6 percent in both analyses.

5. Macroeconomic projections are based on 2004 actual data, 2005 estimates for debt and the principal macroeconomic indicators. Projections for key macroeconomic variables have not been substantively changed compared to enhanced HIPC Initiative completion point projections made in March 2003. Under the baseline scenario, projected GDP growth rises gradually compared to the ten-year average of 5.5 percent (1995-2004), from 5.6 percent during 2005-10 to 6 percent during 2011-25. The improvement in growth reflects an assumption that a gradually increasing role of the private sector leads to more efficient investment and production decisions, as well as gradual improvements in the quality of human capital. The key sector developments incorporated in this scenario are: (i) broad-based production growth—agriculture (reflecting both increased planted area and yield),

cotton processing, energy, trade, and services; (ii) a projected decline in gold output after 2008, followed by an assumed leveling off of production from 2014 onward (at 50 tons per year equivalent to 2005 estimated production); and (iii) increased growth in nonmining exports over the longer term, helping to offset the substantial slowdown in export growth in 2010 and subsequent years as a result of the fall in gold production (Box 1). This improvement results from diversification engendered by removing impediments to trade and investment at the country and sub-regional level, and a gradual improvement of financial intermediation by the banking system.

Box 1. Mali: Debt Sustainability Analysis: Macroeconomic Assumptions, 2005-25

- Real GDP is projected to grow by 5.6 percent per annum 2005-10 and 6.0 percent on average during 2011-25.
- Inflation remains at about 2.5 percent during the projection period.
- Government revenue is stable at about 19 percent of GDP.
- The fiscal deficit, excluding grants, declines to 6.3 percent of GDP in 2010 and to less than 6 percent thereafter. Including grants, the deficit declines to less than 3.7 percent of GDP.
- The noninterest current account deficit averages 8.0 percent of GDP during 2005-10 then weakens to 9.3 percent of GDP during 2011-25.
- The volume of exports grows by about 9 percent during 2005-10; given the expected decline in gold exports, it averages 4 percent thereafter. The terms of trade and real exchange rate are projected to remain unchanged from 2010 onwards.
- The volume of imports is projected to grow in line with real GDP.
- Public sector external borrowing averages 4-5 percent of GDP a year; loans are assumed to have an average maturity of 28 years, a grace period of 7 years, an average interest rate of 0.7 percent, and a grant element of 50 percent. It is assumed that 65 percent of the new borrowings will come from multilateral sources and the remaining 35 percent from bilateral sources. IDA disbursements are assumed to be loans.
- Net private capital inflows are assumed to average 2½ percent of GDP a year (compared to 2.3 percent over the period 1995-2003).
- A uniform discount rate of 5 percent is used for NPV calculations.

6. **Mali's external debt ratios are projected to remain below, or close to, applicable debt thresholds over the period 2005-25** (Box 2, Figure 1, Table 1). Based on the 2004 World Bank Country Policy Institutional Assessment (CPIA) ratings, Mali is classified as a medium performer, which determines the relevant debt thresholds. In particular:

- the NPV of debt-to-GDP ratio is projected to fall from an average of 28 percent during 2005-10 to 22 percent in 2025, as a result of steady GDP growth;

- the NPV of the debt-to-exports ratio increases over the projection period, particularly after 2010 as export growth slows, and breaches the threshold level of 150 percent by a moderate amount at the end of the projection period; and,

- the debt service-to-export ratio is projected to decline marginally during the period 2005-2010, and is projected to stabilize from 2010 onwards;

Box 2: Policy-Based External Debt Burden Indicators

	Thresholds[1/]	Mali: Baseline Scenario Ratios		
		2004	2005-10[2/]	2011-25[2/]
		(In percent)		
NPV of debt-to-exports	150	106	100	136
NPV of debt-to-GDP	40	25	28	28
Debt service-to-exports	20	6.4	6.5	5.5

1/ Shows policy indicative thresholds as used in the joint IMF-World Bank low-income country DSA framework for a medium policy performer.
2/ Simple average.

B. Standard and bound tests for baseline

7. **The standard set of sensitivity checks on the evolution of debt ratios suggest that Mali continues to be vulnerable to external shocks over the period 2005–25** (Figure 2, Table 2). Under an alternative scenario which sets key parameters to their historical average values, debt to GDP and the NPV of debt to exports rise above the relevant threshold levels by 2010, although owing to a high degree of concessional loan assistance, the debt service ratio remains below the threshold. The key factor in the historical scenario is the high noninterest current account deficit (14.3 percent of GDP compared to projections of around 9 percent of GDP). In a second scenario, with public sector loans at less favorable terms, the external debt stock ratio indicates that Mali becomes at risk of debt distress by the end of the projection period, underscoring the importance of retaining high levels of concessional assistance (Tables 1 and 2, Figure 1).

8. **The *bound* sensitivity tests, assume adverse shocks to key parameters first separately, and in some cases jointly**. The main results of these sensitivity tests are that despite improved GDP growth and containment of inflation, Mali remains vulnerable to exogenous shocks, particularly:

- a one-time 30 percent nominal depreciation relative to the baseline would result in a sharp increase in the NPV of debt-to-GDP ratio in 2006, which would cross the threshold by 2007 placing Mali at risk of debt distress until 2022; and,

- a temporary shock on export growth of one standard deviation is significant in magnitude owing to the high standard deviation of exports. The NPV of debt-to-exports ratio reaches 153 percent in 2007.

9. **Based on these findings, this analysis suggests that Mali has a moderate risk of debt distress**. The baseline scenario indicates that the debt-to-exports ratio is marginally above the debt burden threshold toward the end of the projection period. Stress testing results in the debt-to-GDP and debt-to-exports indicators exceeding thresholds over the medium term (for export shocks, a 30 percent devaluation scenario and using historical averages of key data), though the debt service-to-exports indicator remains well below the 20 percent threshold in all cases. The low level of the debt service-to-exports indicator in both the baseline and the stress testing highlights the importance of maintaining a high degree of concessionality in future lending to Mali. Risks would clearly increase if, over the medium term, the level of concessionality were to decrease.

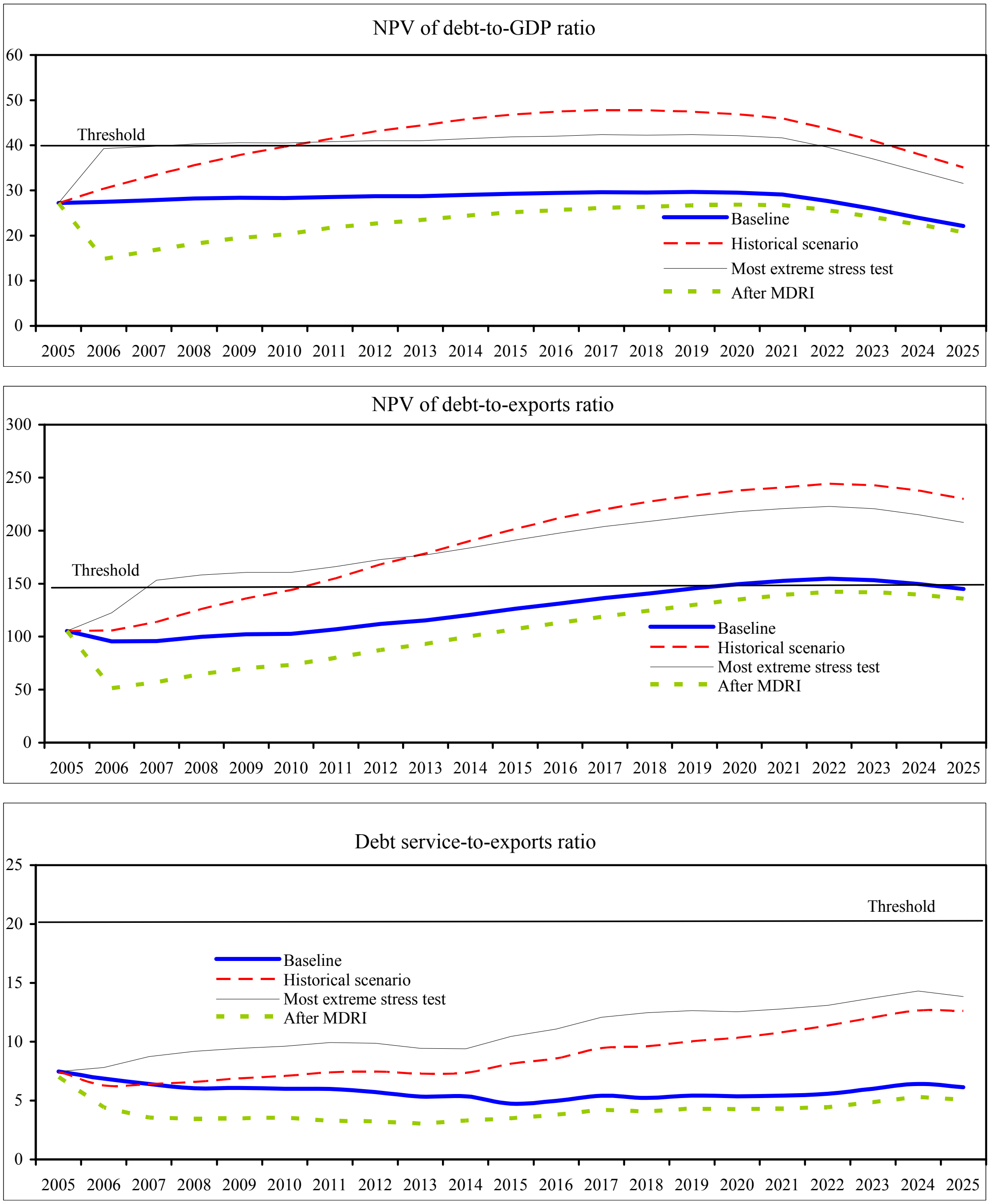
C. Multilateral Debt Relief Initiative

10. **Debt sustainability was also assessed under a Multilateral Debt Relief Initiative (MDRI) scenario**. The MDRI scenario assumes a cut-off date of January 1, 2005 for IMF and African Development Fund debt, and January 1, 2004 for IDA (International Development Association) loans. The scenario assumes an implementation date of January 1, 2006 for IMF and AfDB and July 1, 2006 for IDA. The projected loan disbursements from multilaterals are assumed to be somewhat lowered relative to the baseline as a result of MDRI, reflecting the amount and distribution of compensatory financing for IDA and the AfDB relative to debt service relief. Nonetheless, net transfers from multilaterals would increase as a result of MDRI over the medium term. This scenario results in a halving of the debt-to-GDP ratio in 2006 and reduces the debt service ratio by half over the medium term to a range of 3-5 percent of exports. However, over the longer term (twenty years) the MDRI scenario debt indicators approach those in the baseline scenario (determined by new borrowing over the period 2005-25). The risk of debt distress in the MDRI scenario is low over the medium term, but in the long term would return towards the moderate risk level assessed in the baseline scenario. The scenario is based on current assumptions and may need to be revised when the institution-specific terms of MDRI are finalized.

D. Conclusion

11. The analysis indicates that external debt sustainability is broadly achieved under baseline projections in relation to the policy dependent debt burden thresholds. However, adverse external and internal shocks could result in breaching debt-to-exports and debt-to-GDP thresholds over the medium term. Accordingly Mali is assessed as a having a moderate risk of debt distress. Accelerating export growth and maintaining highly concessional loan assistance are important factors in maintaining debt sustainability. The multilateral debt reduction initiative (MDRI) expected to be implemented in 2006 is also projected to improve the debt ratios significantly over the medium term.

Figure 1. Mali: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2005-2025
(In percent)



Source: Staff projections and simulations.

Table 1. Mali: External Debt Sustainability Framework, Baseline Scenario, 2002-2025 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Estimate	Projections								
	2002	2003	2004			2005	2006	2007	2008	2009	2010	2005-10 Average	2015	2025	2011-25 Average
External debt (nominal) 1/	**90.2**	**64.0**	**63.1**	91.1	16.6	**67.5**	**66.5**	**66.1**	**66.0**	**65.6**	**65.0**	**66.1**	**61.2**	**39.4**	**55.9**
Of which : public and publicly guaranteed (PPG)	90.2	64.0	63.1	90.3	16.3	67.5	66.5	66.1	66.0	65.6	65.0	66.1	61.2	39.4	55.9
Change in external debt	1.5	-26.3	-0.9	-5.3	10.8	4.4	-0.9	-0.4	-0.1	-0.3	-0.7	0.3	-0.8	-3.7	-1.7
Identified net debt-creating flows	-11.6	-16.2	-2.2	5.1	15.7	6.7	5.3	3.5	3.4	3.1	2.9	4.1	4.5	9.3	6.0
Non-interest current account deficit	**3.4**	**8.2**	**8.2**	**14.2**	**5.5**	**10.9**	**8.8**	**7.4**	**7.1**	**6.8**	**6.7**	**7.9**	**8.3**	**11.8**	**9.3**
Deficit in balance of goods and services	0.2	7.2	7.0	11.3	8.6	10.0	7.8	5.9	5.3	5.0	4.9	6.5	7.5	12.6	9.0
Exports	31.9	26.1	23.2	24.0	4.3	25.9	28.7	29.0	28.2	27.8	27.6	27.9	23.2	15.2	21.0
Imports	32.0	33.3	30.2	35.2	8.6	35.8	36.5	34.9	33.6	32.8	32.5	34.3	30.7	27.8	29.9
Net current transfers (negative = inflow)	-3.6	-3.6	-3.2	-5.2	1.6	-4.1	-3.3	-2.0	-1.9	-1.9	-1.8	-2.5	-1.6	-1.3	-1.5
Other current account flows (negative = net inflow)	6.8	4.6	4.4	8.1	6.9	5.0	4.3	3.5	3.7	3.7	3.6	4.0	2.4	0.4	1.9
Net FDI (negative = inflow)	**-7.2**	**-3.0**	**-1.1**	**-2.3**	**2.0**	**-1.2**	**-0.7**	**-0.8**	**-0.8**	**-0.8**	**-0.8**	**-0.9**	**-0.6**	**-0.2**	**-0.5**
Endogenous debt dynamics 2/	**-7.7**	**-21.4**	**-9.3**	-6.8	11.6	**-3.0**	**-2.8**	**-3.1**	**-2.8**	**-2.9**	**-3.0**	**-2.9**	**-3.2**	**-2.3**	**-2.9**
Contribution from nominal interest rate	0.9	0.5	0.7	0.6	0.3	0.6	0.7	0.6	0.5	0.5	0.5	0.6	0.3	0.1	0.3
Contribution from real GDP growth	-3.4	-4.9	-1.2	-4.8	4.0	-3.5	-3.5	-3.7	-3.3	-3.4	-3.5	-3.5	-3.5	-2.4	-3.2
Contribution from price and exchange rate changes	-5.2	-17.1	-8.8	-2.6	10.3	…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**13.1**	**-10.1**	**1.3**	-10.5	11.2	**-2.3**	**-6.3**	**-3.9**	**-3.6**	**-3.4**	**-3.5**	**-3.8**	**-5.3**	**-13.0**	**-7.7**
Of which : exceptional financing	-1.0	-0.8	-0.6	-2.3	3.7	-0.7	-0.6	-0.5	-0.5	-0.4	-0.4	-0.5	-0.3	-0.1	-0.2
NPV of external debt 4/	...	...	24.7	24.7		27.2	27.5	27.8	28.2	28.4	28.3	27.9	29.3	22.1	28.0
In percent of exports	...	...	106.4	106.4		105.2	95.6	95.8	99.9	102.3	102.8	100.3	126.3	144.9	136.0
NPV of PPG external debt	**...**	**...**	**24.7**	24.7		**27.2**	**27.5**	**27.8**	**28.2**	**28.4**	**28.3**	**27.9**	**29.3**	**22.1**	**28.0**
In percent of exports	...	...	106.4	106.4		105.2	95.6	95.8	99.9	102.3	102.8	100.3	126.3	144.9	136.0
Debt service-to-exports ratio (in percent)	6.3	5.8	6.4	14.2	8.9	7.4	6.8	6.4	6.0	6.1	6.0	6.5	4.7	6.1	5.5
PPG debt service-to-exports ratio (in percent)	6.3	5.8	6.4	13.7	9.1	7.4	6.8	6.4	6.0	6.1	6.0	6.5	4.7	6.1	5.5
Total gross financing need (billions of U.S. dollars)	-0.1	0.3	0.5	0.4	0.2	0.6	0.5	0.5	0.5	0.5	0.6	0.5	1.0	3.2	1.6
Non-interest current account deficit that stabilizes debt ratio	1.8	34.5	9.1	19.5	10.8	6.5	9.7	7.8	7.2	7.2	7.3	7.6	9.1	15.5	11.0
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.3	7.2	2.3	5.5	4.2	5.4	5.4	6.1	5.4	5.6	5.7	5.6	6.1	6.1	6.0
GDP deflator in US dollar terms (change in percent)	6.2	23.3	15.9	4.3	11.9	-7.7	-0.1	3.4	3.2	2.7	2.3	0.6	2.2	2.7	2.5
Effective interest rate (percent) 5/	1.2	0.8	1.3	0.7	0.4	0.9	1.1	1.0	0.8	0.8	0.8	0.9	0.5	0.3	0.5
Growth of exports of G&S (US dollar terms, in percent)	21.7	8.2	5.6	12.4	13.8	8.3	17.1	10.9	5.8	6.7	7.4	9.4	4.5	3.8	4.4
Growth of imports of G&S (US dollar terms, in percent)	-15.0	37.2	7.6	8.8	22.3	15.4	7.4	5.1	4.5	6.0	7.1	7.6	7.5	7.9	7.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	52.1	52.1	52.2	52.3	52.3	52.3	52.2	52.3	58.2	53.1
Memorandym item:															
Nominal GDP (billions of US dollars)	3.3	4.4	5.2	3.3	0.9	5.1	5.4	5.9	6.4	7.0	7.5	6.2	11.2	25.9	15.4

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Mali: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005-25
(In percent)

	Estimate	Projections						
	2005	2006	2007	2008	2009	2010	**2015**	2025
NPV of debt-to-GDP ratio								
Baseline	27	27	28	28	28	28	29	22
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	27	30	33	36	38	40	**47**	35
A2. New public sector loans on less favorable terms in 2006-25 2/	27	28	29	30	31	31	**34**	28
A3. MDRI Relief from 2006	27	15	17	18	20	20	25	21
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	27	29	30	31	31	31	**32**	24
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	27	30	33	33	33	33	**33**	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	27	30	34	34	34	34	**35**	27
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	27	28	28	28	28	28	**29**	22
B5. Combination of B1-B4 using one-half standard deviation shocks	27	29	33	34	34	34	**34**	25
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	27	39	40	40	41	41	**42**	32
NPV of debt-to-exports ratio								
Baseline	105	96	96	100	102	103	**126**	145
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	105	106	114	126	136	144	**202**	230
A2. New public sector loans on less favorable terms in 2006-25 2/	105	97	100	106	111	113	**147**	181
A3. MDRI Relief from 2006	105	51	57	64	70	73	107	136
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	105	96	96	100	102	103	**126**	145
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	105	122	153	158	161	161	**191**	208
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	105	96	96	100	102	103	**126**	145
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	105	96	95	99	101	102	**125**	144
B5. Combination of B1-B4 using one-half standard deviation shocks	105	110	120	124	127	127	**154**	173
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	105	96	96	100	102	103	**126**	145
Debt service ratio								
Baseline	7	7	6	6	6	6	5	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2006-25 1/	7	6	6	7	7	7	**8**	13
A2. New public sector loans on less favorable terms in 2006-25 2/	7	7	6	7	7	8	**8**	12
A3. MDRI Relief from 2006	7	4	4	3	4	4	3	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2006-07	7	7	6	6	7	7	**8**	10
B2. Export value growth at historical average minus one standard deviation in 2006-07 3/	7	8	9	9	9	10	**10**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07	7	7	6	6	7	7	**8**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/	7	7	6	6	7	7	**7**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	8	8	8	8	**9**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/	7	7	6	6	7	7	**8**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	53	53	53	53	53	53	**53**	53

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assumi 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.

Press Release No. 05/283
FOR IMMEDIATE RELEASE
December 20, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second and Third Reviews Under Mali's PRGF Arrangement and Approves US$3.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed the second and third reviews of Mali's economic performance under an SDR 9.3 million (about US$13.5 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 05/55). The completion of the reviews enables the release of a further SDR 2.7 million (about US$3.8 million), which will bring the total amount drawn under the arrangement to SDR 5.3 million (about US$ 7.7 million).

In completing the review, the Executive Board granted waivers for the nonobservance of performance criteria.

Following the Board discussion of Mali on December 19, 2005, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

“The Malian authorities are to be commended for the continued implementation of sound macroeconomic policies in the face of significant exogenous shocks. These policies have supported macroeconomic stability, limited the deterioration of public finances, and maintained a focus on reducing the incidence of poverty. The gradual pace of structural reform implementation does give rise to some concern, however, since it could constrain Mali’s potential for robust economic growth and accelerated progress toward the Millennium Development Goals.

“Mali remains vulnerable to further shocks, linked to weather conditions and a volatile terms of trade. Accordingly, it may be necessary to further strengthen adjustment efforts, in particular by maintaining a prudent fiscal position and allowing domestic prices to adjust to changes in international prices. This will require the continued pass-through of increases of international oil prices to pump prices and the continued implementation of a flexible producer price mechanism for cotton that limits the risks of budget support to the sector, while also protecting farmer interests. While the policy response to food shortages in 2005 was commendable, the authorities need to examine impediments to food trade, particularly at a regional level.

”Ongoing public finance management reforms need to forge ahead, and medium-term budgetary policies relating to pensions, the efficiency of spending, and social safety net payments will continue to require attention.

“Despite the privatization of the cottonseed oil company, continued delays in the government’s disengagement from the cotton, banking, and telecommunications sectors raise concerns over its commitment to private sector development. The long-term development of the cotton sector requires concrete steps to open up the sector to private capital, strengthen financial management, and other operational reforms. The 2006 program of structural reforms regarding privatization and management of state enterprises appropriately addresses the key challenges. The full implementation would provide a clear signal of the authorities’ policy priorities.

“Determined reforms to improve the investment environment and competitiveness are needed to boost productivity and the growth potential of the economy. Indeed, the authorities may wish to include an explicit growth strategy in the Poverty Reduction Strategy being developed next year.

“The CFA franc peg to the euro continues to underpin low inflation and interest rates in Mali. Moreover, the West African Economic and Monetary Union’s economic convergence criteria are a useful discipline on the conduct of fiscal and monetary policies. Surveillance of the financial sector needs to be strengthened while, at the same time, steps need to be considered to reinvigorate financial intermediation and private sector lending.

“Mali’s eligibility for the Multilateral Debt Relief Initiative will substantially reduce the risk of debt distress over the medium term. In view of the country’s continued vulnerability to shocks and substantial external financing needs, preserving debt sustainability will require limiting new borrowing to highly concessional loans,” Mr. Carstens said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper, or PRSP. This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies, to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 06/32
FOR IMMEDIATE RELEASE
February 15, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2005 Article IV Consultation with Mali

On December, 19, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mali.

Under Article IV of the IMF's Articles of Agreement, the IMF has a mandate to exercise surveillance over the economic, financial and exchange rate policies of its members in order to ensure the effective operation of the international monetary system. The IMF's appraisal of such policies involves a comprehensive analysis of the general economic situation and policy strategy of each member country aimed at helping member countries achieve orderly macroeconomic and financial conditions and sustainable economic growth. IMF economists visit the member country, usually once a year, to collect and analyze data and hold discussions with government and central bank officials. Upon its return, the staff submits a report to the IMF's Executive Board for discussion. The Board's views are subsequently summarized and transmitted to the country's authorities.

Statement by Damian Ondo Mañe, Executive Director for Mali
December 19, 2005

I. Introduction

I would like to thank staff for a comprehensive set of papers on Mali's recent economic developments and prospects. Mali has demonstrated over the years strong political will to achieve high and sustainable economic growth through the implementation of a wide range of reforms notwithstanding repeated adverse economic shocks. My Malian authorities are very appreciative of the assistance provided by its development partners. Going forward, external assistance remains crucial for the successful implementation of well-conceived and designed poverty-reducing measures. In this regard, my authorities are thankful to the G-8 member countries, the IMF, and the international community for the adoption of the Multilateral Debt Relief Initiative (MDRI). The implementation of this initiative scheduled to take place early in 2006 will contribute to assist Mali in its efforts to implement sound policies, while further reducing the country's debt burden, and enabling the authorities to make more tangible progress toward achieving the MDGs.

Following a difficult year of low cotton prices, high oil product prices, and insufficient production of food crops in 2005, more recent macroeconomic developments are encouraging. The economy is recovering with a likely outturn of real GDP growth of 5.5 percent in 2005, owing to a return to normal harvest in the second half of the year and increasing production of both gold and cotton. However, inflation has risen, notably on account of reduced food supply and skyrocketing oil product prices. The fiscal outlook has slightly deteriorated, but only temporary and on account of fiscal efforts to curb the effects of adverse shocks in the cotton sector.

Looking forward, the economic outlook is positive, and with good rainfall, agricultural production should rebound and inflation decline in 2006. Improving terms of trade, closing current account deficit and increased public investment will add to the authorities' reform program aimed at strengthening the banking sector and promoting the development of the private sector to give a new impetus to Mali's growth prospects. It is important that the Fund and the international community continue and strengthen their support to Mali. Increases in concessional loans and budget grants, which have proved critical to the country's fiscal sustainability efforts, should be maintained and supplemented by innovative sources of financing that do not undermine the country's economic fundamentals. On their part, my authorities will continue to do their utmost efforts to mobilize non-banking domestic resources to meet their macroeconomic and development objectives.

II. Performance Under the Program

Fiscal Performance

Despite an adverse environment that has necessitated significant budget outlays, my authorities have managed to maintain an overall prudent fiscal management, which has resulted in a fiscal position in 2004 and 2005, consistent with the program objectives. All quantitative performance criteria at end-June and end-September 2005 have been met, including on the ceiling on net domestic financing, the nonaccumulation of external payments arrears, external borrowing concessionality and short-term external borrowing. In addition, they have observed all three financial performance indicators on cumulative tax revenues, cumulative wage bill and overall basic fiscal balance.

Monetary Policy and Financial Sector

Mali's monetary policy, which is conducted at the regional level by the Central Bank of West African States (BCEAO), in the context of a fixed exchange rate regime, continues to serve the country's economy well. Inflation is kept at sustainable levels, despite the supply shocks and high oil product prices.

As regards the banking sector, liquidity remains high. Indeed, bankable projects being limited, credit is consequently concentrated in a few sectors, notably the cotton sector which experiences some difficulties with the decline in exports prices. With regard to compliance with prudential norms, my authorities are aware that some banks are falling short of prudential requirements set out by the regional supervisory body. As a measure to deal with this issue, they have undertaken a review of commercial banks' loan portfolios which will provide the basis for actions to strengthen the banks. Steps have also been taken, in order to restructure the housing bank.

External Sector

The deterioration of the external environment due in particular to the surge of oil prices, and the slump in cotton exports has led to a further weakening of the current account deficit. Moreover, the protracted crisis in Côte d'Ivoire continues to impact negatively on regional trade in general and affecting Mali, in particular. However, due to the authorities' persistent pursuit of good policies, the external sector remains fairly resilient with external reserves stabilized at a level of 6 months of imports coverage.

Structural Reforms

The structural reform program has experienced delays, many of which are results of factors which are out of the government's control. Indeed, while all structural prior actions for the second and third reviews of the program were executed, the implementation of structural performance criteria and benchmarks has been less successful. The criterion on the cotton producer price was met, and that on the announcement of a base cotton producer price for 2005/06 aimed at reducing the risks for the budget was observed just two days after the intended day. The beginning of actuarial studies on the Caisse des Retraités du Mali (CRM) and audit of INPS contributions and beneficiaries – criterion not met on time – was subsequently observed, as was the benchmark on the social safety net. In addition, three criteria and benchmarks were not observed on account of factors that are not under the authorities' control: (1) a court case contesting the government shareholding has delayed the closing date for acceptance of final bids for the sale of the government's share in the Banque

Internationale du Mali (BIM), and (2) the required technical assistance to complete a study aimed at strengthening the collection of nontax revenues by the Ministry of Property and Land Affairs was not available. Finally, the completion of a study intended to describe the appropriate rate structures of electricity rates and to propose a mechanism to support the poor has been postponed to May 2006, with a larger scope for the study.

In view of the overall good track record of Mali, and given the adverse economic environment faced by this economy as well as the country's capacity constraints, my authorities are requesting a waiver for nonobservance of structural performance criteria. They are fully aware of the need to improve Mali's administrative capacity, in order to strengthen structural program implementation. T/A is highly needed.

III. Program Policies Looking Forward

Cognizant of the challenges still lying ahead, my authorities remain committed to the implementation of their comprehensive medium-term economic program. They intend to put emphasis on policies and reforms aimed at improving economic efficiency and competitiveness through strict fiscal management, structural reforms in the cotton and banking sectors, and the strengthening of public institutions as well as other capacity building. This will sustain GDP growth at levels consistent with poverty reduction objectives and the attainment of the MDGs. The program laid out in their previous Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) is reinforced in the current LOI. This program is ambitious, including in the cotton sector reform, but remains realistic and reflects my authorities' determination to move forward.

Fiscal Policy

Fiscal discipline, even though difficult in the context of the adverse economic environment, remains the motto of the fiscal policy stance over the medium-term. The budget will not be supported by use of domestic credit or treasury bills, except if required to counter unforeseen shortfalls in budgetary grants or concessional loans and meet current-year obligations. Already for ending 2005, the authorities have identified additional budgetary assistance of CFA Francs 9 billion to cover shortfalls in revenue and higher spending needs with a view to close the previously anticipated financing gap.

As regards 2006, a fully financed draft budget was submitted to the National Assembly in September 2005. This budget contains important measures meant to improve revenue, including the strengthening of collection units and import taxation as well as regulatory steps for a prudent implementation of the revised investment code that will prevent tax losses. The authorities also envisage to establish a petroleum product price mechanism by end-March 2006 allowing a certain pass-through of the international oil prices to pump prices.

On the spending front, the authorities aim to focus on health, and education sectors, as well as roads and institutional capacity building. They stand ready to cut back on spending, should revenue realization falls below target. Gross financing from external partners is expected to increase substantially in 2006. As stated above, this assistance is crucial for Mali and we call on the donor community to meet their financing commitments. In the same vein, the upcoming multilateral debt cancellation under the MDRI debt relief to which Mali is eligible and qualifies will create budgetary leeway enabling further progress towards the MDGs.

Financial Sector Strengthening

My Malian authorities have made clear that they will keep focus on the strengthening of the financial system through increasing the weight of the private sector in the banking system and improving banks and non-banks' management. The government divestiture from two important banks, namely Banque Internationale du Mali (BIM) and Banque de Développement du Mali (BDM) is waiting court ruling and an agreement on the parallel sale of shares by the Central bank of West African States (BCEAO). As regards the housing bank (Banque de l'Habitat du Mali, BHM), the authorities are implementing a restructuring plan centered on recapitalization following measures to enhance its financial position. This restructuring will be followed by a sale of government's equity to the shareholders. Other efforts to revitalize financial intermediation will include a settlement of claims of commercial banks on government as well as the strengthening of the supervision of microfinance institutions which has been transferred to the Ministry of Economy and Finance and , thus, requires the improvement of the latter's supervision capacity.

Structural Reform Program

In light of past fiscal shortfalls, the authorities are reforming public finance management. Notably, they will firmly implement an action plan with a focus on strengthening the agencies in charge of collecting taxes and customs, improving procurement, extending the computer network of the Treasury, and improving accountability.

While privatization of the Compagnie Malienne pour le Développement du Textile (CMDT) has been slower than planned, it is important to seek for the best approach possible and take into account the interest of Malian cotton producers. Progress has been made with the adoption by CMDT's shareholders for a definition of a strategy for privatization by end-December 2005. The privatization of other non-financial companies is also ongoing, notably the cottonseed oil company (HUICOMA) which was completed in June 2005 and the telecommunications company (SOTELMA) which conclusion is expected by the fourth quarter of 2006. The authorities are committed to design by end-2006 a medium-term progress through 2008.

Finally in the electricity sector, the authorities confirm their commitment to private management of the electricity company, although the government will keep a strategic majority stake.

IV. Poverty Reduction Strategy Paper

The fiscal leeway that will be derived from the expected debt relief under the MDRI will enable further progress in poverty reduction and more broadly in achieving the MDGs. The authorities are preparing their second PRSP covering the period 2007-11, which will focus on matching identified budget room with the costs of poverty reducing efforts.

V. Other Important Issues

In addition to the debt cancellation under the MDRI, other actions are highly needed to enable Mali to meet its economic growth and socio-development objectives, notably capacity building and improved conditions for free and equitable trade.

Difficulties in implementing the structural reform program have highlighted the crucial need to strengthen capacity building in Mali. My authorities are very much appreciative of donors' support through technical assistance, which nevertheless requires to be increased and well focused. We also call on the rapid decision regarding the request made by the authorities for a FSAP. Finally, the selected issues paper makes evidence on the importance for growth of infrastructure building, which is a crucial component of capacity building.

On the trade issue, we would like to renew our call for international trade, free of subsidies, including in the agricultural sector and quantitative impediments to market access. Countries like Mali have been harshly affected by such restrictions and shocks to the cotton sector. We call on a successful conclusion of the Doha Round.

VI. Conclusion

My Malian authorities are strongly committed to continue implementing their program of sound macroeconomic policies and structural reforms, with a view to make important steps towards sustainable growth, poverty reduction and the achievement of the MDGs. In this regard, they appreciate the support provided by the international community, which is crucial to the success of their development efforts, and they call on the continuing financial and technical assistance from the country's development partners.

In light of the progress made thus far and taking into account the tremendous difficulties facing Mali, I call on the Executive Board to support my Malian authorities' request for waivers for non observance of structural performance criteria and conclude the second and third reviews under the PRGF-supported program.