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Mali—Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waivers and Modifications of Performance Criteria—Staff Report; Press Release; and Statement by the Executive Director for Mali

In the context of the second review under the three-year Arrangement Under the Poverty Reduction and Growth Facility for Mali, and its request for waivers and modifications of performance criteria, the following documents have been released and are included in this package:

- The staff report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waivers and Modifications of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on May 19, 2009 with Malian officials on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 22, 2009. 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 Press Release summarizing the views of the Executive Board as expressed during its July 6, 2009 discussion of the staff report that completed the review and request.
- A statement by the Executive Director for Mali

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

Letter of Intent sent to the IMF by Malian authorities.*
Technical Memorandum of Understanding*
*Also included in the Staff Report

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

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MALI

Second Review Under the Three-Year Arrangement
Under the Poverty Reduction and Growth Facility and
Request for Waivers and Modifications of Performance Criteria

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

Approved by Roger Nord and Anthony Boote

June 22, 2009

Discussions: The discussions were held in Bamako during May 5–19, 2009. The staff team comprised Mr. Maret (head), Mr. Camard, Mr. Ghazanchyan, and Ms. Gerling (all AFR). Mr. Féler has been the resident representative since November 2008. The team met Prime Minister Modibo Sidibe, Minister of Finance and Economy Sanoussi Touré, National Director of the Central Bank of West African States (BCEAO) Tatam Ly, other ministers and senior officials, and Mali's development partners.

PRGF arrangement: The three-year Poverty Reduction and Growth Facility (PRGF) arrangement was approved on May 28, 2008, in the amount of SDR 27.99 million (30 percent of quota). The first review was completed on December 10, 2008.

Second review: Staff recommends completion of the second review, despite some delays in implementation of structural reforms and the need for two waivers. This is based on satisfactory economic performance through early 2009, strong corrective action to address the slippages in structural reforms and nonconcessional borrowing, and significant commitments to address domestic debt issues and reduce the domestic payment float.

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ACRONYMS

BCEAO	Central Bank of West African States
BDM	*Banque de Développement du Mali* (Development Bank of Mali)
BHM	*Banque de l'Habitat du Mali* (Housing Bank of Mali)
BIM	*Banque Internationale du Mali* (International Bank of Mali)
CRM	*Caisse des Retraites du Mali* (Civil Service Pension Fund)
CEMAC	Economic and Monetary Community of Central Africa
CMDT	*Compagnie Malienne pour le Développement des Textiles* (Cotton Ginning Company of Mali)
EdM	*Énergie du Mali* (Energy Company of Mali)
EITI	Extractive Industries Transparency Initiative
FSAP	Financial Sector Assessment Program
FSDS	Financial Sector Development Strategy
MEFP	Memorandum of Economic and financial policies
MDRI	Multilateral Debt Relief Initiative
MDGs	Millennium Development Goals
OdN	*Office du Niger* (Authority in charge of irrigation and extension services in the Niger river inland delta)
PAGAM-GFP	*Programme d'action gouvernementale d'amélioration et de modernisation de la gestion des finances publiques* (Government Action Program for Improving and Modernizing Public Finance)
PC	Performance criterion
PEFA	Public expenditure and financial accountability
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
REER	Real effective exchange rate
SOTELMA	*Société de Télécommunications du Mali* (Telephone Company of Mali)
TMU	Technical Memorandum of Understandings
VAT	Value-added tax
WAEMU	West African Economic and Monetary Union

EXECUTIVE SUMMARY

Performance under the PRGF-supported program has been generally satisfactory, but there have been delays in implementing structural reforms and the performance criterion on nonconcessional debt was breached in April 2009 when the authorities used loan financing instead of the envisaged bond financing for the programmed reduction in value-added tax (VAT) credit arrears. All other quantitative targets set for the second review were met, and the authorities have taken corrective measures to restore the track record of structural reforms and address the nonconcessional borrowing. The structural reform program for the second half of 2009 entails refocusing reforms on revenue mobilization and public financial management, improving public sector governance and transparency, and strengthening the banking and cotton sectors.

The impact of the global crisis on Mali has been modest so far. Buoyant prices for gold, Mali's main export, and falling food and fuel prices have largely offset the slowing of foreign direct investment. The banks have little exposure to troubled credit markets elsewhere, and there is no evidence yet of much decline in remittances, though that remains likely. Under the circumstances, government policies have been prudent; they aim at achieving a growth rate of about 4 percent in 2009 while reducing inflation further. Slower growth associated with a worsening global environment, underperformance of revenues, and shortfalls in external assistance are the main risks to the program objectives of maintaining macroeconomic stability and reducing poverty.

The revised 2009 macroeconomic program takes into account the global crisis, the better than projected performance at end-2008, and the need to reduce the payment float and VAT credit arrears. Compared with the original program, the authorities will limit the basic fiscal deficit to 1½ percent of GDP in order to free up resources to reduce the payment float while addressing expenditure pressures related to support of the agricultural sector and strengthening of the banking sector. The expansionary fiscal stance is projected to support economic growth in 2009 and improve the business climate during the global slowdown.

Staff recommends completion of the review on the following basis:

- All quantitative performance criteria at the end of December 2008 were met and program implementation is generally satisfactory.

- The authorities have taken corrective action to restore the momentum of structural reforms and to support requested waivers for nonobservance of the performance criteria on a restructuring plan for the Housing Bank of Mali (BHM) and on nonconcessional borrowing.

- While cash management weaknesses lengthened domestic payment delays, the problem is now being vigorously addressed. Fiscal discipline is appropriate to achieve program objectives.

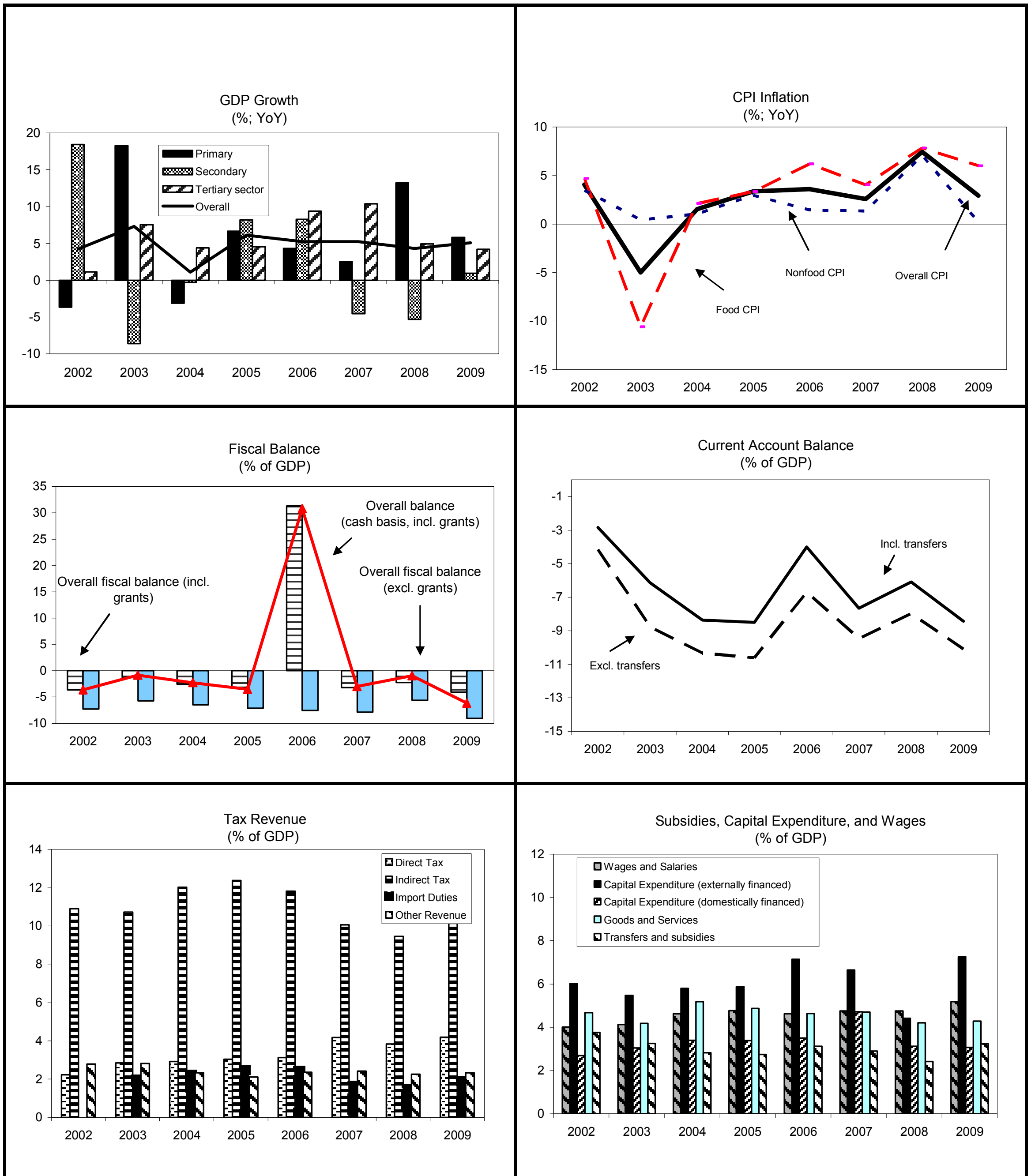
I. Background

1. **Mali's fifth PRGF arrangement was approved in the context of the 2008 food and fuel crisis.** Previous arrangements had sought to strengthen the country's public finances and support a broad range of structural reforms. Considerable progress was made: the tax-to-GDP ratio rose from 9.2 percent in 1995 to 14.2 percent in 2007, with public financial management capacity improving apace, and the basic fiscal balance has seldom been far from its zero target. Many public enterprises were shifted to private ownership, and advances were made in social security reform and other areas. Yet poverty remains high, and progress toward the Millennium Development Goals is slow. The 2008 PRGF program aims to support the government's efforts to achieve higher rates of growth and reduce poverty in a stable macroeconomic context. The program therefore supports prudent macroeconomic policies and a strengthening of structural reforms to reduce Mali's vulnerability to external and climatic shocks.

II. Recent Economic Developments and Program Implementation

2. **Despite the oil and food crisis, economic performance was generally satisfactory in 2008** (Tables 1 and 5–11). Economic growth reached 5.1 percent, mainly reflecting the impact of favorable climatic conditions on agricultural production, notwithstanding a further decline in cotton output. Annual inflation surged as world oil and food prices spiked but has since declined steadily from 12.9 percent at the end of September 2008 to 2.3 percent in May 2009. The difficult external environment led to both a moderate widening of the current account balance and, despite privatization revenue, a slight decline in official international reserves, but these still amounted to 4.9 months of import coverage at the end of 2008. These outcomes were fed by year-on-year nominal appreciation of 6.9 percent against the dollar. Mali's nominal effective exchange rate appreciated by 3.5 percent and the real effective exchange rate by 8.0 percent. A combination of revenue and expenditure measures limited the basic fiscal deficit (revenue less expenditure, excluding foreign-financed investment projects and HIPC Initiative spending) to 1.2 percent of GDP, compared with the program target of 1.8 percent of GDP. In particular, the authorities restored petroleum product taxation to its precrisis level in the last quarter of 2008. Broad money was largely unchanged in the year to December, despite an 8½ percent increase in credit to the economy.

Figure 1. Mali: Recent Macroeconomic Developments, 2002–09



Sources: BCEAO; and IMF staff estimates.

3. **All quantitative targets were met at the end of 2008, but progress on structural reform has been uneven**. Moreover, the continuous performance criterion setting a zero ceiling on nonconcessional external borrowing was breached in April and May 2009 as a result of a syndicated loan agreement involving banks resident in the West African Economic and Monetary Union (WAEMU) and the Economic and Monetary Community of Central Africa (CEMAC) — see ¶ 5. As explained in the authorities's letter of intent (LOI), the structural conditionality regarding the absence of new customs exemptions without a firm legal basis, privatization of the telecommunications parastatal SOTELMA, and the development of the Niger River Authority (OdN) was met. As a result, two of three structural performance criteria (PCs) and one of four structural benchmarks set for the second review were observed (Tables 2 and 3). The delays observed during the first review have continued to affect other reforms subject to structural conditionality, reflecting weaknesses in institutional capacity and the complexity of the problems to be addressed more than a lack of ownership of the reforms. However, the authorities have taken corrective actions to bring the program back on track:

LOI Para 6

- The end-March PC related to a restructuring plan for the Housing Bank of Mali (BHM) was not observed on time. However, with technical assistance from the World Bank and the Fund, the authorities have transmitted to the Central Bank of West African States (BCEAO) and the Banking Commission of the West African Monetary Union (WAMU) an updated restructuring strategy with several options for the BHM. They have also started to recapitalize the bank and intend to formalize the next restructuring measures and adopt a strategy of disengagement from the bank by year-end.

- The end-December 2008 structural benchmark on a new timetable for privatizing the cotton state enterprise (CMDT) and financing the 2009/10 cotton campaign was not observed until June 2009. The authorities are still committed to privatizing CMDT in early 2010 and are in the process of renewing the contract of their current privatization advisor. Finally, conditions for the 2009/10 campaign were completed in mid-May with the setting of producer and input prices.

- The end-March benchmark on adoption of a new electricity tariff aimed at restoring the profitability and viability of the energy sector was met only on May 26, with an average 4 percent increase effective July 1.

- The Council of Ministers has discussed a new institutional public service framework for water and electricity, also an end-March benchmark, but a decision remains linked to completion of an external study and will be addressed in the context of a World Bank sector operation.

4. **Performance under the program has remained generally satisfactory in early 2009**. A bond issue planned for December 2008 was only completed and recorded on January 2, 2009, which prevented the observance of the end-March domestic financing benchmarks

by small margins.[1] All other quantitative benchmarks were observed. With revenue buoyant through May and strict regulation of spending, the basic budget balance was much better than programmed and has made it possible to significantly reduce the end-2008 payment float. To palliate any negative effects of the global recession, the regional monetary authorities have relaxed the monetary stance, following the lead of the European Central Bank. The BCEAO has injected liquidity as needed, and, on June 11, it cut Mali's bank reserve requirement from 9 percent to 7 percent and reduced its main interest rate to 4.25 percent.

5. **The intention of the authorities to finance the payment of VAT credit arrears (1½ percent of GDP) through a bond issue was confounded by tight conditions in the regional market** (LOI of 11/18/08, ¶ 8). Because it was important to settle these arrears quickly, the authorities turned to a local bank for a loan, and the mining companies agreed to bear the interest costs of this loan through a partial write-off of their claims. However, for prudential reasons the local bank could not provide all the necessary financing, so it arranged two syndicated loans, signed in April and May 2009 for a total of CFAF 38 billion, with banks from other CFA franc zone countries. This meant the PC on nonconcessional external borrowing was not observed.[2] The authorities are pursuing removal of the non-WAEMU banks (holding CFAF 3.5 billion of the loans) from the syndicate and improving internal controls to avoid contracting further debt inconsistent with program targets.

LOI Paras 8-9

6. **Mali's poverty reduction strategy paper (PRSP) was transmitted to the IMF Board more than 18 months ago**. The 2008 annual performance report is being finalized and will be transmitted by the end of September.

III. Program Discussions

A. The Impact of the Global Financial Crisis on the Macroeconomic Framework

7. **Real growth is projected to decline from 5.1 percent in 2008 to 4.1 percent in 2009.** The primary sector would benefit from stabilization of the cotton sector. Renewed expansion of the mining sector and a buoyant construction sector supported by public investment will engineer a slight recovery of the secondary sector. Sluggish economic activities and demand will, however, cause a slowdown of the services sector. Growth is projected to rebound to 4.5 percent in 2010 as the global environment improves and the reforms to support agricultural and private sector development take hold.

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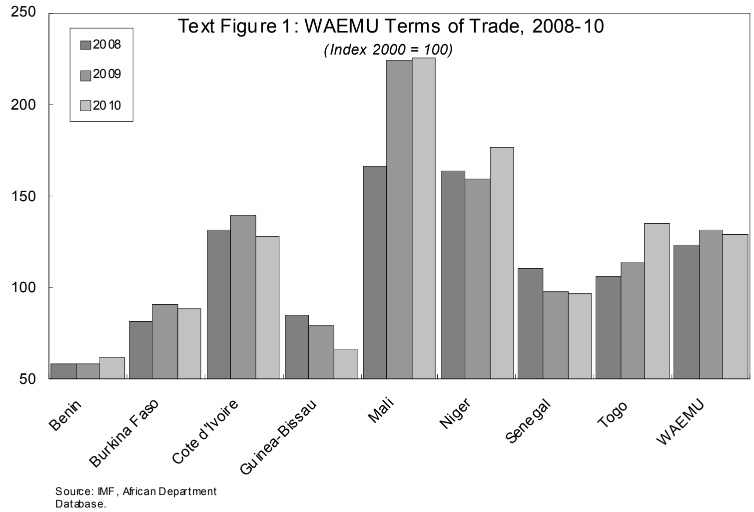
[1] The bond issue was programmed in the end-December 2008 benchmark for domestic financing. Recording of the bonds effective in January thus led to an overrun of the March limit.

[2] Although economically equivalent, regional financing through bank loans—rather than through T-bills or bonds—is not exempted under the Technical Memorandum of Understanding. This will be changed going forward (¶ 18).

8. **The impact of the global recession on Mali is expected to be limited, but the economy is vulnerable to new external shocks**. In particular, the balance of payments in 2009–10 will strengthen because of a sharp improvement in the terms of trade, the largest in the subregion (Text figure 1). The balance of trade is projected to improve by more than 2½ percentage points of GDP in 2009, reflecting buoyant world prices for gold (80 percent of exports) and the fall of international food and oil prices. However, this will mostly be offset by a projected decline in remittances and tourism receipts and higher transfers of gold mining profits. The resulting current account balance deficit, excluding grants, would improve by half a percentage point to 9½ percent of GDP. On the financing side, a slowdown of private capital inflows will more than outweigh an increase in foreign assistance, but official reserves will remain stable. The external sector, however, is vulnerable to a reversal of the terms of trade gains, a larger drop of remittances, and a decline in external aid (Text Table 1).



Text Table 1. Mali: Impact of an Adverse Shock to Selected Flows of the 2009 Balance of Payments

	2008		2009			
	Prel.		Proj.		Impact of a 10 percent adverse shock	
	Billions of CFAF	Percent of GDP	Billions of CFAF	Percent of GDP	Billions of CFAF	Percent of GDP
Current accout balance (excl. grants)	-394.5	-10.1	-405.7	-9.7		
Trade balance	-230.2	-5.9	-135.8	-3.2		
Inflows:	1,247.6	29.8	1,423.5	34.0	-142.3	-3.4
Gold exports	589.2	14.1	679.8	16.3	-68.0	-1.6 1/
Cotton exports (fiber)	65.6	1.6	60.7	1.5	-6.1	-0.1 1/
Tourism receipts	116.5	2.8	99.9	2.4	-10.0	-0.2
Private transfers (remittances)	188.2	4.5	150.6	3.6	-15.1	-0.4 2/
External aid	288.1	6.9	432.5	10.3	-43.2	-1.0 3/
Outflows:	-790.8	-18.9	-743.9	-17.8	74.4	1.8
Petroleum products imports	-258.0	-6.2	-180.3	-4.3	18.0	0.4 1/
Food imports	-151.6	-3.6	-144.0	-3.4	14.4	0.3 1/
Insurance and freight	-247.2	-5.9	-237.6	-5.7	23.8	0.6 1/
Mining sector profits	-134.0	-3.2	-181.9	-4.3	18.2	0.4

Source: IMF staff estimates and projections.
1/ Assumes price shock.
2/ Assumes that 60 percent of remittances finance imports.
3/ Assumes that 75 percent of foreign assistance finance imports.

9. **Because Mali's financial sector has few claims on world financial markets, it is not directly exposed to the financial crisis**. However, with 5 of 16 financial and banking

institutions under close surveillance by the monetary authorities and a major exposure to the cotton sector, the sector remains fragile. The increase of the minimum bank capital requirement to CFAF 5 billion (US$10.5 million) by the end of 2010 is expected to result in a restructuring and strengthening of the sector.

B. Fiscal Policy and the Management of Domestic Debt

10. **The original 2009 budget aimed at supporting higher growth**. The fiscal stance was expansionary, reversing the spending cuts that were used in 2008 to address the fuel and food crisis, and making use of higher foreign financing and privatization receipts. The better than expected budgetary outcome at the end of 2008 gave the 2009 stance an even more expansionary cast. The basic balance deficit, which serves as the anchor for fiscal policy, was set to rise from 1.2 percent of GDP in 2008 to 2.0 percent in 2009. However, a significant build-up of the budgetary payment float at year-end 2008, which increased from the equivalent of 6 weeks of nonwage domestic budgetary expenditure at the end of 2007 to 13 weeks, necessitated corrective actions to avoid accumulation of domestic arrears. Moreover, the settlement of VAT credit arrears, initially planned for late 2008, was delayed to the first half of 2009; claims of two mines, equivalent to 1 percent of GDP, were settled through a combination of tax offsets and bank loans.

11. **The substantial build-up of the payment float last year increased pressures on the Treasury in early 2009.** [3] Staff shared the concern of the authorities about the float and supported their decision to reduce it concurrently with the regularization of VAT credits owed to the mining sector. To better understand the problem of the payment float, the government commissioned the Office of the Auditor General and the Comptroller's Office to evaluate the domestic payment float at end-March 2008 and 2009. The program targets a net reduction in the payment float by CFAF 30 billion (0.7 percent of GDP) in 2009, buttressed by improved Treasury management. The implementation in early 2009 of an improved treasury plan designed to regulate budgetary execution to reduce the payment float is a key instrument in this regard. Moreover, the extension of the budget tracking system to nearly all ministries and administrative entities covered by the budget is now providing timely and previously unavailable information that should also help control the emergence of new unpaid bills. The reform program for the remainder of 2009 aims to build upon these measures (Table 4). The measures taken to date, if sustained, should be sufficient to restore order to the fiscal accounts during 2009.

12. **To address the payment float and to prevent the emergence of a financing gap, the fiscal impulse approved during the first review has been curtailed on a commitments basis.** Reductions in the basic and overall budget deficits (excluding grants) by about ½ percentage point of GDP, to 1½ percent and 9 percent of GDP, respectively, are

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[3] Weaknesses in treasury management and a backloading of 2008 spending linked to the supplementary budget law helped raise the payment float at treasury from 1½ percent of GDP at the end of 2007 to about 2½ percent a year later. In addition, there was an amount equivalent to 1¼ percent of GDP in deposits at the treasury that can be withdrawn at any time and a stock of unpaid VAT credits to the mining sector estimated at 1½ percent of GDP.

now being targeted. The revised projections reflect spending cuts equivalent to 1.2 percent of GDP (mostly in domestically financed capital expenditure) that are only partially offset by new spending for agriculture (0.5 percent of GDP) and the housing bank (0.2 percent). The resulting expenditure level is still much higher than in 2008 and will help increase aggregate demand and support economic activity. Revenue is projected to meet annual targets based on sustained performance in the first five months of 2009. Taking into account the planned reduction in the payment float (0.7 percent of GDP) and a slight increase in grant financing, the budget deficit, on a cash basis and including grants, would remain in line with the original target of 4.8 percent of GDP. With the additional regularization of unpaid VAT credits, it is projected to reach 6.2 percent of GDP and the domestic financing requirement will increase to 2.2 percent of GDP, compared with a program target of 1 percent.[4]

13. **Given the downside risks to the current macroeconomic framework, the authorities have decided to curtail spending in the first three quarters of the year to create a precautionary budget reserve.** This is to be achieved through the additional sequestering of some non-priority budget allocations and a careful regulation of budget execution. This buffer would be used in the last quarter of 2009 if the annual fiscal objectives are no longer considered at risk.

LOI Para 19

14. **The government has drawn on significant amounts of bank financing to reduce the domestic payment float, settle VAT credit arrears, and finance structural reforms.** This is raising concerns about domestic indebtedness and its cost. The authorities began issuing securities on the regional money market in 2008, raising the equivalent of 1 percent of GDP, and expect to do the same in 2009. A new debt sustainability analysis is being prepared for the third review to revisit these concerns and assess whether Mali is still at low risk of debt distress. Simulations on the previous data suggest that, with lower official disbursements than had been projected and an expected downward shift in the path of official lending, the estimate for the NPV of external debt/GDP at end-2008 could drop significantly from the previous 16.8 percent projection.

15. **Given the projected improvement in the global environment, a tighter fiscal stance will be targeted in 2010.** Fiscal revenues will be sustained by higher growth and revenue mobilization efforts, and spending policies will remain prudent in order to lower the basic deficit below 1 percent of GDP.

C. Structural Reforms and Management of State-Owned Enterprises

16. **The authorities have advanced on a range of structural reform issues**. They have adopted a financial sector development strategy, which reflects the recommendations of the FSAP conducted in January 2008, and started its implementation. Private sector development should also start benefiting from the recent adoption of an action plan to improve the business environment and the opening of a one-stop window to facilitate creation of new enterprises. Finally, the authorities launched a

LOI Para 26

[4] The elimination of domestic arrears related to VAT credits was originally planned for 2008.

successful call for tenders for the privatization of SOTELMA, but they are still negotiating with the winning bidder.[5] Despite these advances, progress has been uneven. In particular, reform of the public sector is lagging. (Box 1)

Box 1. Budgetary Exposure to Parastatals

In addition to a budget subsidy for payment of its external debt, the cotton parastatal, CMDT, has financing needs equivalent to 1 percent of GDP for the 2008/09 and 2009/10 cotton campaigns and ¾ percent of GDP for restructuring and clearance of arrears. The water and electricity utility, EDM, has also required public subsidies since its failed privatization in 2005; its cash liability and payment arrears are estimated at the end of 2008 at ½ percent of GDP. The Housing Bank of Mali, BHM, is insolvent and experiencing severe liquidity problems. As of 2007, the bank had negative net worth (½ percent of GDP), 40 percent of its loans were nonperforming, and it had a large operating loss. Its upcoming restructuring plan is expected to have budgetary implications beyond the recent recapitalization (almost 1 percent of GDP). SOTELMA's privatization revenue would provide sufficient resources to finance the structural reforms, but the transaction has yet to be finalized and the budgetary constraint remains tight.

17. **Reform of the parastatal sector is now receiving renewed focus**. Work is going forward on privatizing CMDT, and on restructuring, and possibly privatizing, BHM. Regulation of EDM, the electricity company, is being reinforced, and the water division may be spun off. The fertilizer and irrigation programs (notably at the Niger River Authority) are also being looked at for efficiency gains. These are difficult reforms: progress continues to be slow and setbacks are common, as was the case during the previous PRGF arrangement. Nevertheless, the work will continue over the next year, with benchmarks on this and on public financial management reform for the third and fourth reviews (Box 2).

LOI Paras 28-32

[5] The macroframework for 2009 does not take into account the privatization revenue of SOTELMA. Should the operation be completed, the authorities will consult the Fund regarding the use of these receipts.

Box 2. Structural Conditionality for the Third and Fourth Reviews

Structural conditionality, limited to four benchmarks for each review, is being refocused on revenue mobilization and public financial management and on macroeconomic aspects of key economic sectors.

Reforms of public financial management will aim at improving budget execution and treasury management, and statistical reporting, with a view to ensuring better coordination between the budget and the Treasury and preventing domestic payment arrears.

Finalizing a disengagement strategy from the Housing Bank of Mali will ensure the bank's return to profitability and its long-term viability while reducing systemic risk to the banking sector. Implementation of a financial plan covering the activities of the cotton sector will improve governance and transparency and help limit budgetary exposure—and potential slippages—until CMDT is privatized. Similarly, a targeted system of agricultural subsidies with a monitoring and evaluation system will promote the effectiveness and efficiency of a high-profile component of public spending. Finally, a macroeconomic analysis of the mining sector will support policy formulation as this important sector (80 percent of export revenue) faces the challenge of declining production and reserves.

D. Program Modalities

18. **A number of modifications are proposed to the modalities of the PRGF arrangement because of changes in the policy environment and the monitoring needs of the Mali program**. These changes, requested in the authorities' LOI and detailed in the TMU, are focused in four areas:

- To keep pace with the development of the regional WAEMU capital market, it is proposed to expand the exceptions to the PC on nonconcessional borrowing. Following the example of programs in regional money centers Senegal and Côte d'Ivoire, local currency financing from WAEMU-resident banks is to be permitted not only through bond and bill issuance (as at present) but also through direct lending to the government.

- The authorities are targeting a substantial reduction in the payment float in 2009. As part of program monitoring, the staff is proposing a symmetric adjuster to revise the ceiling on domestic financing, and the subceiling on bank and bond financing, upward for reductions in the payment float greater than the amount targeted under the program, and downward for lesser reductions.

- It is proposed that the structural PC restricting the introduction of new customs exemptions be removed. This reflects not only the change in Fund policy on structural PCs but also the introduction of a quantitative PC on government revenue during the first review, which adequately safeguards fiscal revenue. Staff are not aware of any exemptions contravening the PC during the first year of the program.

- To reflect both the lower accrual deficit and the additional domestic financing occasioned by the reduction in payment float, recapitalization of BHM, and delayed settlement of the December 2008 bond issuance, staff supports the authorities' request for modification of the end-June 2009 quantitative PCs and benchmarks.

IV. Staff Appraisal

19. **Economic performance under the PRGF program has been broadly satisfactory, though structural reforms lost momentum.** All quantitative targets were met at end-December 2008. However, with one of three structural PCs and three of four structural benchmarks not observed, there is a clear need for increased attention to the structural reform elements of the program. The actions the authorities have taken to restore the track record of structural reforms is a commendable start. Moreover, for BHM, whose incomplete restructuring plan led to the request for a waiver, the government has already undertaken key parts of the restructuring, including recapitalization, and has initiated work towards privatization. On this as in other areas, consistent follow-up will be critical to achieving program objectives and raising growth to levels that would reduce poverty faster.

20. **Despite slower growth prospects in 2009, revisions to the macroeconomic framework are modest in the absence of a deterioration of the balance of payments.** Inflation is expected to subside further. Robust fiscal revenue in the first five months of 2009 bodes well for attainment of the annual revenue targets. Fiscal policy is reducing the payment float and VAT credit arrears while sustaining a strong fiscal impulse and responding prudently to new expenditure pressures. While the nonobservance of the PC on nonconcessional external borrowing was due to an unfortunate confluence of factors, it highlights the risks of reliance on bank financing. Given the high cost of domestic borrowing, it will be especially important to closely monitor the government's cash flow to avoid excessive recourse to such financing.

21. **Since the recovery of major economies from their current recession is expected to be slow, returning to the more rapid growth necessary to reduce poverty will require redoubled efforts to enhance productivity**. The Malian authorities are addressing some weaknesses in critical sectors, notably with regard to the major state enterprises and public finance management. The impetus of the structural reform program must be sustained, particularly for reforms aimed directly at competitiveness, if Mali's growth trajectory is to be shifted upward.

22. **The global crisis has had a limited impact so far on Mali.** While the country is still projected to benefit from a sharp improvement of its terms of trade in 2009, risks remain. The principal sources of risk are linked to remittances, a wait-and-see attitude in the private sector, a possible reversal of the terms of trade, and adverse climatic conditions.

23. **On the basis of the satisfactory record of the authorities so far, staff recommends completion of the second review of the current PRGF arrangement and approval of the requests for two waivers and modifications of performance criteria.**

Table 1. Mali: Selected Economic and Financial Indicators, 2006-10

	2006[1]	2007	2008		2009		2010
			Rev. Prog.	Est.	Rev. Prog.	Proj.	Proj.
			(in percent of GDP)				
National income and prices							
Real GDP	5.3	4.3	4.9	5.1	5.3	4.1	4.5
GDP deflator	5.1	2.6	8.5	8.7	3.3	2.7	1.8
Consumer price inflation (average)	1.5	1.5	9.2	9.1	2.5	2.5	2.1
External sector (percent change)							
Terms of trade (deterioration -)	29.4	0.0	3.3	5.6	-0.1	35.0	-5.5
Real effective exchange rate (depreciation -)	-1.3	0.5	…	8.0	…	…	…
Money and credit (contribution to broad money growth)							
Credit to the government	-11.6	0.5	7.2	-3.2	7.0	10.2	-1.2
Credit to the economy	10.9	4.6	0.4	5.2	0.9	0.2	4.4
Broad money (M2)	8.8	9.3	3.2	0.5	9.1	9.9	5.4
			(in percent of GDP, unless otherwise indicated)				
Investment and saving							
Gross domestic investment	20.9	21.0	24.9	20.5	25.2	19.3	19.3
Of which : government	8.0	8.5	7.2	5.4	8.4	7.7	6.8
Gross national savings	16.8	13.3	18.4	12.0	17.1	11.4	11.6
Of which : government	3.1	2.9	2.2	2.2	2.6	3.0	0.4
Gross domestic savings	15.7	12.0	15.3	9.3	15.3	10.5	9.6
Central government finance							
Revenue	17.3	16.6	16.0	15.5	17.1	16.7	17.0
Grants	38.9	4.7	4.3	3.4	4.9	5.0	4.4
Total expenditure and net lending	24.9	24.5	24.7	21.2	26.7	25.8	23.8
Overall balance (payment order basis, excluding grants)	-7.6	-7.9	-8.6	-5.6	-9.7	-9.1	-6.8
Basic fiscal balance[2]	0.3	-0.9	-1.8	-1.2	-2.0	-1.6	-0.6
External sector							
Current external balance, including official transfers	-4.0	-7.7	-6.1	-8.4	-6.7	-7.9	-7.8
Current external balance, excluding official transfers	-6.7	-9.5	-8.0	-10.1	-8.0	-9.7	-9.5
Exports of goods and services	30.0	26.6	25.1	24.8	23.6	24.6	24.1
Imports of goods and services	-35.1	-35.6	-34.7	-35.9	-33.5	-33.5	-33.8
Debt service to exports of goods and services	3.7	3.4	3.4	4.2	3.6	4.5	4.5
External debt (end of period)	18.9	22.9	25.2	23.0	27.1	25.0	27.3
Memorandum items:							
Nominal GDP (CFAF billions)	3,201	3,425	3,779	3,911	4,111	4,183	4,450
Overall balance of payments (US$ millions)	120.2	-21.2	-15.1	-10.3	1.7	-3.1	-9.7
Money market interest rate in percent (end of period)	4.8	4.8	...	6.8	...	...	...
Gross international reserves (US$ millions)	1,176	1,298	1,205	1,226	1,235	1,258	1,286
in months of next year's imports	5.6	4.8	5.0	4.9	4.9	4.6	4.8
US$ exchange rate (end of period)	496.5	449.9	...	481.5	...	...	...

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

[1] 2006 data after adjustment for MDRI.
[2] Revenue (excluding grants) less total expenditure (excl. foreign financed investment projects and HIPC Initiative spending).

Table 2. Mali: Quantitative Performance Criteria and Indicative Targets for 2008-09[1]

	2008			2009								
	Dec.			March			June		Sep.		Dec.	
	Perf. Criteria	Adjusted	Actual	Indic. Targets	Adjusted Targets	Prel. [7]	Perf. Criteria	Rev. Perf. Criteria	Indic. Targets	Rev. Ind. Targets	Indic. Targets	Perf. Criteria
Quantitative performance criteria [1]						(CFAF billions)						
Net domestic financing of the Government (ceiling) [2]	40.3	40.3	-8.1	10.0	11.8	13.1	25.0	45.0	35.0	50.0	43.0	33.4
Of which: Bank and market financing [2]	49.7	49.7	-28.4	15.0	16.8	22.3	25.0	80.0	30.0	90.0	35.0	62.5
Cumulative increase in external payments arrears (ceiling) [3]	0.0	0.0	0.0	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 [3, 4]	0.0	0.0	0.0	0.0	0.0	17.5 [8]	0.0	0.0	0.0	0.0	0.0	0.0
New short-term external credits (less than one year) contracted or guaranteed by the government (ceiling) [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net tax revenue [5]	514.7	514.7	519.4	140.0	140.0	143.5	290.0	290.0	430.0	430.0	603.0	603.0
Financial indicators (floors)												
Basic fiscal balance	-67.0	-67.0	-48.1	-10.0	-10.0	17.1	-30.0	-20.0	-50.0	-40.0	-82.0	-62.0
Memorandum items:												
External budgetary assistance during the year [1 6]	55.7		54.1	20.0		6.4	40.0	48.0	60.0	32.0	86.0	92.0
HIPC Initiative debt relief [1]	12.7		10.9	1.0		1.8	...	6.3	...	8.1	11.2	11.2

[1] Cumulative figures from the beginning of each year. Noncontinuous performance criteria at end-March and end-September 2009 are quantitative benchmarks. See technical memorandum of understandings for definitions.

[2] These quantitative targets are before payment of VAT credits in arrears. The revised targets for the end-June, end-September, and end-December 2009 reflect the recapitalization of the Housing Bank of Mali (BHM) for CFAF 19.1 billion in May 2009 and net projected reductions of the payment float by CFAF 45 billion at end-June and end-September 2009, and CFAF 30 billion at end-December 2009 (the program includes an adjustor for any deviations from the targets on the reduction of the payment float).

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

[4] Grant component equal to or higher than 35 percent.

[5] The program documents for the first review included an error with respect to the figure for the end-December 2008 performance criterion (PC) on net tax revenue and thus the Board set the PC incorrectly on the basis of the staff report. While Mali did not meet the target on the end-December 2008 PC on net tax revenue, this fact did not cause a nonobservance of that PC because Mali relied on understandings with Fund staff prior to the first review that the target would be "514.7," as set in the letter of intent signed by the authorities in French. Mali met this target of "514.7" for end-December 2008. Hence, no waiver of nonobservance is needed.

[6] Excluding Fund resources.

[7] The nonobservance of the quantitative indicators for net domestic financing and bank and market financing results from a bond issue that was initiated in December 2008 but effective on January 2, 2009, leading to a downward correction of CFAF 12.3 billion at end-December 2008 and an upward revision of the same amount at end-March 2009 in market financing.

[8] Part of two CFAF syndicated loans that were signed in April and May 2009 for a total of CFAF 38 billion for the payment of VAT credit arrears and that involved non-Malian banks in the WAEMU and CEMAC CFA franc zones.

Table 3. Mali: Structural Conditionality for Second Review of the PRGF-Supported Program

Measures	Test Date	Status: At test date	Status: On June 15, 2009	Macroeconomic rationale
Prior actions				
1 Transmittal of the report for the restructuring of the BHM to the Banking Commission for review and to the Central Bank BCEAO for guidance			Done (June 11, 2009)	Increase confidence in and resilience of the banking system and avoid more costly rescue package.
2 Publication of a directive by the water and energy regulating body (CREE) that sets the conditions for the implementation of a 4 percent average increase in the electricity tariff on July 1, 2009.			Done (May 26, 2009)	Necessary intermediate step towards supply of power and water supply on a commercial basis.
Performance criteria				
1 Elimination of all customs exemptions not explicitly provided for by law (unless approved by Cabinet of Ministers)	Continuous PC	Observed	Observed	To protect tax revenue, level playing field for investors.
2 Launch of a call for tenders for the sale of Government shares in SOTELMA	End-December 2008	Observed	Observed	To reduce communication costs through increased private sector investment.
3 Submission to the Regional Banking Commission of a restructuring plan for BHM, raising capital and liquidity ratios to WAEMU prudential norms	End-March 2009	Not observed	Observed (see prior actions)	Increase confidence in and resilience of the banking system and avoid more costly rescue package.
Benchmarks				
1 Adoption by the Council of Ministers of the reform master plan and of a development contract at the Niger Authority	End-December 2008	Observed	Observed	To encourage additional agricultural investment (small-holder and agro industrial) to strengthen food security.
2 Government announcement of a new timetable for the transition phase before privatization of the CMDT clearly assigning roles for financing the 2009/10 harvest beginning January 2009	End-December 2008	Not observed	Observed	Support financing of cotton production and sale.
3 Adoption of a new tariff formula for electricity pricing	End-March 2009	Not observed	Observed (see prior actions)	Necessary intermediate step towards supply of power and water supply on a commercial basis.
4 Adoption by the Council of Ministers of a new institutional public service framework for water and electricity	End-March 2009	Not observed	Not observed (delay in completion of external study; reform to be followed by World Bank)	Necessary intermediate step towards supply of power and water supply on a commercial basis.

Table 4. Mali: Structural Benchmarks for the Third and Fourth Reviews Under the PRGF Program

	Measures	Macroeconomic rationale
For end-September 2009 (in the context of the 3rd program review)		
1	Put in place the tax center for medium-sized enterprises (CIME) and start up its activities.	Strengthen revenue mobilization.
2	Prepare a government cash flow plan consistent with budget nomenclature (section, economic code) to facilitate (i) quarterly monitoring of budget execution in terms of commitment, validation, payment authorization, and payment of expenditure, and (ii) better alignment of budget execution with available resources.	Strengthen public financial management, budget execution, and treasury management.
3	Regarding monitoring of the cotton sector and in consultation with the IMF, prepare a monthly financial plan for the 2009/10 crop season of the financial operations (revenue, commitments, payment, debt, amounts unpaid) of the various participants in the sector (producers, CMDT, suppliers, banks, the government).	Improve governmence and transparency in the cotton sector with the view to ensuring smooth cottn campaign in 2009-2010 and limit budgetary risks.
4	Regarding government support for the agricultural sector and preparation of the 2010 budget, put in place a dedicated, targeted input subsidization system for grain and cotton crops, including modalities for implementation, follow-up, and assessment.	Increase effectiveness and transparency of agricultural policy, prevent open-ended budgetary contributions and ensure monitoring and evaluation of subsidies.
For end-December 2009 (in the context of the 4th program review)		
1	On the basis of the evaluation of the budgetary payment float at end-March 2008 by the Auditor General and the evaluation of the payment float at end-March 2009 by the Controller General's Office and the Inspectorate General of Finance, put in place a system to monitor budgetary float supported by improvements in the Treasury's accounting, cash flow management, and information systems, in consultation with IMF staff.	Improve transparency, measurability and management of domestic debt, and prevent occurance of domestic payment arrears.
2	By government decision, adopt a strategy and timeframe for government divestment of the Banque de l'Habitat du Mali (BHM).	Increase confidence in and resilience of the banking system, and avoid more costly rescue packages.
3	Finalize the government study on the macroeconomic impact of the gold mining sector (balance of payments, growth, employment, budget) and its medium-term prospects.	To help policy and decision making in the context of a declining sector (known reserves are equivalent to 10 years of exploitation)
4	In conjunction with the BCEAO, prepare (i) an exhaustive inventory of the bank accounts taken into account in the net government position, and (ii) an appropriate methodology for recording movements on these accounts, based on an accepted classification (such as projects, correspondents, etc.), in the government flow of funds table (TOFE).	Improve public finance statistics.

Table 5. Mali: National Accounts, 2006–10

	2006	2007	2008 Rev. Prog.	2008 Est.	2009 Rev. Prog.	2009 Proj.	2010 Proj.
				(in percent of GDP)			
Primary sector	4.3	2.5	9.1	13.2	4.9	5.8	5.3
Agriculture	4.6	1.0	12.1	20.2	5.5	6.5	6.0
Food crops, excluding rice	10.0	6.4	6.0	14.4	5.0	6.1	4.0
Rice	6.0	2.6	39.5	48.5	5.0	6.6	8.5
Industrial agriculture, excluding cotton	3.0	8.0	9.2	22.0	4.3	11.9	9.5
Cotton	-21.6	-41.1	-13.6	-17.0	18.0	5.0	15.0
Livestock	4.0	4.6	5.0	4.0	4.0	4.2	4.3
Fishing and forestry	3.9	4.5	5.4	3.7	4.2	5.7	4.6
Secondary sector	8.3	-4.6	-5.3	-5.3	4.2	0.9	4.5
Mining	17.8	-8.4	-4.9	-8.3	3.1	-2.4	1.9
Industry	0.9	-12.0	-22.4	-14.4	-0.6	-4.2	3.1
Agrobusiness	1.0	0.7	-20.0	-20.0	1.5	-5.0	2.0
Textile	1.0	-19.9	-33.5	-34.0	2.8	-10.5	1.6
Others	0.9	-19.1	-18.5	16.2	-2.0	0.7	5.0
Energy	10.0	9.7	11.2	10.0	10.0	9.0	9.0
Construction and public works	3.0	8.7	8.0	4.5	7.0	7.5	7.0
Tertiary sector	9.4	10.4	7.3	4.9	4.7	4.2	4.7
Transportation and telecommunications	16.0	20.9	15.2	9.2	8.5	7.3	7.5
Trade	14.0	12.0	8.6	4.4	5.0	3.5	4.5
Financial services	6.0	5.0	7.3	7.3	5.0	4.5	5.0
Other nonfinancial services	4.0	7.9	5.4	5.4	5.0	5.1	5.5
Public administration	2.4	2.1	0.2	1.5	0.2	1.8	1.5
GDP (factor cost)	7.2	3.9	5.1	5.7	4.7	4.2	4.9
Indirect taxes	-15.0	9.5	0.8	-2.0	14.6	3.0	-0.7
GDP (market prices)	5.3	4.3	4.9	5.1	5.3	4.1	4.5
Nonmining real GDP	4.2	5.5	5.7	6.2	5.4	4.6	4.7
				(Percentage of GDP, unless otherwise indicated)			
Aggregate demand							
Consumption	84.3	88.0	84.3	90.7	82.7	89.5	90.4
Private consumption	70.8	73.9	76.3	78.2	73.9	75.4	76.8
Public consumption	13.5	14.1	8.0	12.5	8.8	14.1	13.6
Gross investment	20.9	21.0	24.9	20.5	25.2	19.3	19.3
Government	8.0	8.5	7.2	5.4	8.4	7.7	6.8
Non-government	12.8	12.5	17.7	15.1	16.8	11.6	12.5
Net investment	8.9	10.3	15.0	11.5	14.5	9.5	10.5
Changes in inventories	3.9	2.2	2.7	3.6	2.3	2.1	2.0
Net foreign balance	-5.1	-9.0	-9.2	-11.1	-8.0	-8.9	-9.7
Gross national saving	16.8	13.3	18.4	12.0	17.1	11.4	11.6
Of which : domestic saving	15.7	12.0	15.3	9.3	15.3	10.5	9.6
Memorandum items:							
External current account balance[1]	-4.0	-7.7	-6.1	-8.4	-6.7	-7.9	-7.6
Nominal GDP (CFAF billions)	3,201	3,425	3,779	3,911	4,111	4,183	4,450

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

[1] Including official transfers.

Table 6. Mali: Balance of Payments, 2006–10 [1]

	2006	2007	2008		2009		2010
		Est.	Rev. Prog.	Est.	Rev. Prog.	Proj.	Proj.
				(CFAF billions)			
Current account balance							
Excluding official transfers	-214	-324	-302	-395	-331	-406	-422
Including official transfers	-128	-262	-230	-329	-277	-332	-345
Trade balance	25	-114	-145	-230	-162	-136	-208
Exports, f.o.b.	796	734	758	759	766	845	863
Cotton fiber	125	110	66	66	57	61	47
Gold	587	546	594	589	598	680	707
Other	83	78	98	104	112	105	109
Imports, f.o.b.	-770	-847	-903	-989	-928	-981	-1071
Petroleum products	-189	-188	-251	-258	-172	-180	-232
Foodstuffs	-139	-126	-153	-152	-148	-144	-150
Other	-443	-534	-498	-579	-608	-657	-688
Services (net)	-189	-194	-202	-206	-166	-235	-223
Credit	164	177	191	211	204	184	209
Debit	-353	-370	-393	-417	-370	-420	-432
Of which : freight and insurance	-171	-189	-212	-247	-174	-238	-243
Income (net)	-135	-143	-95	-109	-176	-147	-140
Of which: interest due on public debt	-15	-11	-13	-13	-12	-12	-13
Transfers (net)	170	188	211	216	227	186	226
Private transfers (net)	84	126	139	151	173	112	148
Official transfers (net)	86	62	71	65	54	74	77
Of which: budgetary grants	36	28	29	25	37	47	47
Capital and financial account	219	252	223	312	278	330	340
Capital account (net)	1,218	142	146	125	171	181	167
Capital transfers	1,218	142	146	125	171	181	167
Debt forgiveness	1,085	0	0	0	0	0	0
Project grants	127	134	138	109	163	164	147
Financial account	-999	104	77	186	107	149	174
Private (net) [2]	-64	17	-26	115	-8	-3	37
Direct investment (net)	37	79	51	82	44	32	39
Portfolio investment private (net)	5	-1	2	2	2	4	4
Other private capital flows	-106	-61	-79	30	-55	-39	-7
Official (net)	-913	87	103	72	115	152	137
Disbursements	141	119	132	100	149	186	172
Budgetary	40	18	20	29	75	46	46
Project related	101	101	112	71	75	140	126
Amortization due on public debt	-1053	-31	-29	-28	-34	-34	-35
Errors and omissions	-28	6	-32	13	0	0	0
Overall balance	63	-10	-8	-5	1	-2	-5
Financing	-63	10	8	5	-1	2	5
Foreign assets (net)	-85	-1	-5	-6	-13	-10	-15
Of which: IMF (net)	-61	2	13	13	3	3	3
HIPC Initiative assistance	22	11	13	11	12	12	20
Financing gap	0	0	0	0	0	0	0
Memorandum items:							
External trade							
Export volume index	2.7	-10.8	-13.3	-13.2	1.4	-3.5	-1.2
Import volume index	10.6	6.4	-3.0	3.5	9.8	16.0	-0.2
Export unit value	37.3	3.4	15.4	19.1	-0.3	15.5	3.4
Import price	6.2	3.4	9.9	12.8	-6.3	-14.5	9.4
Terms of trade	29.4	0.0	5.0	5.6	6.5	35.0	-5.5
External current account balance							
Including official transfers	-4.0	-7.7	-6.1	-8.4	-6.7	-7.9	-7.8
Excluding official transfers	-6.7	-9.5	-8.0	-10.1	-8.0	-9.7	-9.5
External public debt	18.9	22.9	18.9	23.0	19.4	25.0	27.3
Debt service to exports ratio (in percent)	3.7	3.4	108.6	4.2	3.5	4.5	4.5
NPV of debt-to-exports (percent)	40.6	47.9	47.9	54.6	59.0	59.0	64.1
Commodity prices:							
Petroleum (crude spot; US$/barrel)	64.3	71.1	71.1	97.0	74.8	60.5	74.5
Gold (US$/ounce)	604.3	696.7	696.7	871.7	845.0	913.8	986.3
Cotton (US cents/pound), f.o.b	54.1	59.3	59.3	71.4	69.0	57.3	58.0

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

1 Presented according to the *Balance of Payments Manual (5th edition)*; 2006–2010 data after adjustment for MDRI.

2 Reflects mainly investments in the gold sector; includes short-term capital flows.

Table 6. Mali: Balance of Payments, 2006–10[1] (concluded)

	2006	2007	2008		2009		2010
			Rev. Prog.	Est.	Rev. Prog.	Proj.	Proj.
	(in percent of GDP)						
Current account balance							
Excluding official transfers	-6.7	-9.5	-8.0	-10.1	-8.1	-9.7	-9.5
Including official transfers	-4.0	-7.7	-6.1	-8.4	-6.7	-7.9	-7.8
Trade balance	0.8	-3.3	-3.8	-5.9	-3.9	-3.2	-4.7
Exports, f.o.b.	24.9	21.4	20.1	19.4	18.6	20.2	19.4
Cotton fiber	3.9	3.2	1.8	1.7	1.4	1.5	1.1
Gold	18.3	15.9	15.7	15.1	14.5	16.3	15.9
Other	2.6	2.3	2.6	2.7	2.7	2.5	2.4
Imports, f.o.b.	-24.1	-24.7	-23.9	-25.3	-22.6	-23.5	-24.1
Petroleum products	-5.9	-5.5	-6.7	-6.6	-4.2	-4.3	-5.2
Foodstuffs	-4.3	-3.7	-4.1	-3.9	-3.6	-3.4	-3.4
Other	-13.8	-15.6	-13.2	-14.8	-14.8	-15.7	-15.5
Services (net)	-5.9	-5.7	-5.3	-5.3	-4.0	-5.6	-5.0
Credit	5.1	5.2	5.1	5.4	5.0	4.4	4.7
Debit	-11.0	-10.8	-10.4	-10.7	-9.0	-10.0	-9.7
Of which : freight and insurance	-5.3	-5.5	-5.6	-6.3	-4.2	-5.7	-5.5
Income (net)	-4.2	-4.2	-2.5	-2.8	-4.3	-3.5	-3.1
Of which: interest due on public debt	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Transfers (net)	5.3	5.5	5.6	5.5	5.5	4.4	5.1
Private transfers (net)	2.6	3.7	3.7	3.9	4.2	2.7	3.3
Official transfers (net)	2.7	1.8	1.9	1.7	1.3	1.8	1.7
Of which: budgetary grants	1.1	0.8	0.8	0.6	0.9	1.1	1.0
Capital and financial account	6.8	7.4	5.9	8.0	6.8	7.9	7.6
Capital account (net)	38.0	4.1	3.9	3.2	4.2	4.3	3.7
Capital transfers	38.0	4.1	3.9	3.2	4.2	4.3	3.7
Debt forgiveness	33.9	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	4.0	3.9	3.7	2.8	4.0	3.9	3.3
Financial account	-31.2	3.0	2.0	4.8	2.6	3.6	3.9
Private (net) [2]	-2.0	0.5	-0.7	2.9	-0.2	-0.1	0.8
Direct investment (net)	1.2	2.3	1.3	2.1	1.1	0.8	0.9
Portfolio investment private (net)	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Other private capital flows	-3.3	-1.8	-2.1	0.8	-1.3	-0.9	-0.2
Official (net)	-28.5	2.6	2.7	1.8	2.8	3.6	3.1
Disbursements	4.4	3.5	3.5	2.6	3.6	4.4	3.9
Budgetary	1.3	0.5	0.5	0.7	1.8	1.1	1.0
Project related	3.1	2.9	3.0	1.8	1.8	3.3	2.8
Amortization due on public debt	-32.9	-0.9	-0.8	-0.7	-0.8	-0.8	-0.8
Errors and omissions	-0.9	0.2	-0.8	0.3	0.0	0.0	0.0
Overall balance	2.0	-0.3	-0.2	-0.1	0.0	0.0	-0.1
Financing	-2.0	0.3	0.2	0.1	0.0	0.0	0.1
Foreign assets (net)	-2.7	0.0	-0.1	-0.2	-0.3	-0.2	-0.3
Of which: IMF (net)	-1.9	0.1	0.4	0.3	0.1	0.1	0.1
HIPC Initiative assistance	0.7	0.3	0.3	0.3	0.3	0.3	0.4
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:							
GDP (in billions of CFAF)	3,201	3,425	3,779	3,911	4,111	4,183	4,450

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

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

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

Table 7. Mali: Central Government Consolidated Financial Operations, 2006-10

	2006	2007	2008		2009		2010
			Rev. Prog	Est.	Rev. Prog	Proj.	Proj.
	(in CFAF billions)						
Revenue and grants	1,798.7	730.3	769.0	741.5	901.3	907.3	951.0
Total revenue	554.2	569.9	606.2	607.3	701.0	697.1	757.1
Budgetary revenue	504.5	509.4	539.9	540.6	629.5	625.6	681.1
Tax revenue	478.6	487.2	504.7	519.4	603.5	599.6	653.4
Direct taxes	100.1	142.8	151.1	149.7	170.4	175.4	172.2
Indirect taxes	378.5	344.4	353.6	369.7	433.1	424.2	486.2
VAT	202.6	194.4	200.0	200.8	242.9	230.2	256.3
Excises on petroleum products	21.6	36.6	29.7	35.2	32.7	37.7	40.3
Import duties	83.2	62.4	53.1	64.3	87.7	86.5	103.2
Other indirect taxes	92.5	85.1	95.0	91.9	77.3	77.3	86.4
Tax refund	-21.4	-34.1	-24.2	-22.5	-7.5	-7.5	-5.0
Nontax revenue	25.9	22.2	35.2	21.2	26.0	26.0	27.7
Special funds and annexed budgets	49.7	60.5	66.3	66.7	71.5	71.5	76.1
Grants	1,244.5	160.4	162.8	134.2	200.3	210.2	193.8
Projects	75.5	79.6	69.8	54.6	117.5	117.5	105.8
Sectoral	39.8	50.6	64.4	54.6	45.9	46.1	41.5
General	44.0	27.9	28.6	25.0	36.9	46.6	46.6
MDRI grants	1,085.2	2.3	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	796.3	839.0	932.2	828.2	1,099.1	1,077.1	1,058.1
Budgetary expenditure	752.6	826.1	856.3	753.9	1,016.6	994.6	986.0
Current expenditure	411.8	437.1	475.4	459.1	554.6	562.4	584.2
Wages and salaries	147.9	162.9	194.2	186.0	217.1	217.1	228.0
Goods and services	148.4	161.3	168.7	164.7	204.6	179.1	198.7
Transfers and subsidies	100.0	99.1	97.8	94.3	118.5	135.7	139.2
Interest	15.5	13.9	14.7	14.1	14.4	14.8	18.3
Of which: domestic	1.0	2.7	1.8	1.6	1.9	2.3	5.1
Capital expenditure	340.8	389.0	380.9	294.9	462.0	432.2	401.8
Externally financed	228.7	227.6	246.3	172.8	303.5	303.7	273.3
Domestically financed	112.1	161.4	134.6	122.1	158.5	128.5	128.5
Special funds and annexed budgets	49.7	60.5	66.3	66.7	71.5	71.5	76.1
Net lending	-6.0	-47.6	9.6	7.6	11.0	11.0	-4.0
Overall fiscal balance (excl. grants)	-242.1	-269.1	-326.0	-220.9	-398.1	-380.1	-301.0
Overall fiscal balance (incl. grants)	1,002.4	-108.7	-163.2	-86.7	-197.8	-169.9	-107.1
Adjustment to cash basis	-15.6	5.2	-62.0	49.2	0.0	-87.6	-15.0
Overall balance (cash basis, incl. grants)	986.8	-103.5	-225.2	-37.5	-197.8	-257.5	-123.1
Financing	-1,001.4	103.5	225.2	37.5	197.8	257.5	123.1
External financing (net)	-890.5	98.0	125.5	82.5	155.3	163.6	156.5
Loans	140.6	118.7	141.9	99.9	177.7	186.0	172.0
Project loans	100.5	100.7	112.4	70.8	140.1	140.1	126.1
Budgetary loans	40.1	18.0	29.5	29.1	32.4	45.9	45.9
Amortization	-1,053.3	-31.4	-29.1	-28.3	-33.9	-33.9	-35.1
Debt relief	22.2	10.7	12.7	10.9	11.5	11.5	19.6
Domestic financing (net)	-110.9	5.5	99.7	-45.0	42.5	93.9	-33.4
Banking system	-99.2	11.5	73.5	-32.6	34.0	104.6	-13.4
Net credit to the government	-98.8	11.5	73.5	-32.6	34.0	104.6	-13.4
IMF (net)	-60.6	1.9	12.4	12.5	3.0	3.0	3.0
Statutory advances	-1.6	-1.1	-2.4	-2.3	-2.4	-2.4	-2.1
Other	-36.6	10.6	63.5	-42.8	33.4	104.0	-14.3
Other domestic financing	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts	0.9	0.7	42.0	39.1	13.0	13.0	5.0
Other financing	-12.6	-6.7	-15.8	-51.5	-4.5	-23.7	-25.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items							
Basic fiscal balance [1]	8.8	-30.8	-67.0	-48.2	-83.1	-64.9	-27.6
Domestic government saving	92.7	72.3	64.5	81.5	74.9	63.1	96.9
External budgetary assistance	98.7	45.9	58.1	54.1	74.5	92.5	92.5
Wage bill over tax revenue	30.9	33.4	38.5	35.8	36.0	36.2	34.9
Nominal GDP	3,201	3,425	3,779	3,911	4,111	4,183	4,450

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

[1] Total revenue less expenditure, excluding externally financed capital expenditures and and HIPC-financed spending.

Table 7. Mali: Central Government Consolidated Financial Operations, 2006-10 (concluded)

	2006	2007	2008		2009		2010
			Rev. Prog.	Est.	Rev. Prog.	Proj.	Proj.
	(in percent of GDP)						
Revenue and grants	56.2	21.3	20.3	19.0	21.9	21.7	21.4
Total revenue	17.3	16.6	16.0	15.5	17.1	16.7	17.0
Budgetary revenue	15.8	14.9	14.3	13.8	15.3	15.0	15.3
Tax revenue	14.9	14.2	13.4	13.3	14.7	14.3	14.7
Direct taxes	3.1	4.2	4.0	3.8	4.1	4.2	3.9
Indirect taxes	11.8	10.1	9.4	9.5	10.5	10.1	10.9
VAT	6.3	5.7	5.3	5.1	5.9	5.5	5.8
Excises on petroleum products	0.7	1.1	0.8	0.9	0.8	0.9	0.9
Import duties	2.6	1.8	1.4	1.6	2.1	2.1	2.3
Other indirect taxes	2.9	2.5	2.5	2.3	1.9	1.8	1.9
Tax refund	-0.7	-1.0	-0.6	-0.6	-0.2	-0.2	-0.1
Nontax revenue	0.8	0.6	0.9	0.5	0.6	0.6	0.6
Special funds and annexed budgets	1.6	1.8	1.8	1.7	1.7	1.7	1.7
Grants	38.9	4.7	4.3	3.4	4.9	5.0	4.4
Projects	2.4	2.3	1.8	1.4	2.9	2.8	2.4
Sectoral	1.2	1.5	1.7	1.4	1.1	1.1	0.9
General	1.4	0.8	0.8	0.6	0.9	1.1	1.0
MDRI grants	33.9	0.1	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	24.9	24.5	24.7	21.2	26.7	25.8	23.8
Budgetary expenditure	23.5	24.1	22.7	19.3	24.7	23.8	22.2
Current expenditure	12.9	12.8	12.6	11.7	13.5	13.4	13.1
Wages and salaries	4.6	4.8	5.1	4.8	5.3	5.2	5.1
Goods and services	4.6	4.7	4.5	4.2	5.0	4.3	4.5
Transfers and subsidies	3.1	2.9	2.6	2.4	2.9	3.2	3.1
Interest	0.5	0.4	0.4	0.4	0.3	0.4	0.4
Of which: domestic	0.0	0.1	0.0	0.0	0.0	0.1	0.1
Capital expenditure	10.6	11.4	10.1	7.5	11.2	10.3	9.0
Externally financed	7.1	6.6	6.5	4.4	7.4	7.3	6.1
Domestically financed	3.5	4.7	3.6	3.1	3.9	3.1	2.9
Special funds and annexed budgets	1.6	1.8	1.8	1.7	1.7	1.7	1.7
Net lending	-0.2	-1.4	0.3	0.2	0.3	0.3	-0.1
Overall fiscal balance (excl. grants)	-7.6	-7.9	-8.6	-5.6	-9.7	-9.1	-6.8
Overall fiscal balance (incl. grants)	31.3	-3.2	-4.3	-2.2	-4.8	-4.1	-2.4
Adjustment to cash basis	-0.5	0.2	-1.6	1.3	0.0	-2.1	-0.3
Overall balance (cash basis, incl. grants)	30.8	-3.0	-6.0	-1.0	-4.8	-6.2	-2.8
Financing	-31.3	3.0	6.0	1.0	4.8	6.2	2.8
External financing (net)	-27.8	2.9	3.3	2.1	3.8	3.9	3.5
Loans	4.4	3.5	3.8	2.6	4.3	4.4	3.9
Project loans	3.1	2.9	3.0	1.8	3.4	3.3	2.8
Budgetary loans	1.3	0.5	0.8	0.7	0.8	1.1	1.0
Amortization	-32.9	-0.9	-0.8	-0.7	-0.8	-0.8	-0.8
Debt relief	0.7	0.3	0.3	0.3	0.3	0.3	0.4
Domestic financing (net)	-3.5	0.2	2.6	-1.2	1.0	2.2	-0.8
Banking system	-3.1	0.3	1.9	-0.8	0.8	2.5	-0.3
Net credit to the government	-3.1	0.3	1.9	-0.8	0.8	2.5	-0.3
IMF (net)	-1.9	0.1	0.3	0.3	0.1	0.1	0.1
Statutory advances	0.0	0.0	-0.1	-0.1	-0.1	-0.1	0.0
Other	-1.1	0.3	1.7	-1.1	0.8	2.5	-0.3
Other domestic financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts	0.0	0.0	1.1	1.0	0.3	0.3	0.1
Other financing	-0.4	-0.2	-0.4	-1.3	-0.1	-0.6	-0.6
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items							
Basic fiscal balance	0.3	-0.9	-1.8	-1.2	-2.0	-1.6	-0.6
Domestic government saving	2.9	2.1	1.7	2.1	1.8	1.5	2.2
External budgetary assistance	3.1	1.3	1.5	1.4	1.8	2.2	2.1
Nominal GDP	3,201	3,425	3,779	3,911	4,111	4,183	4,450

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

Table 8. Mali: WAEMU Convergence Criteria, 2006-10

	Criterion	2006	2007	2008 Est.	2009 Proj.	2010 Proj.
	(Ratios in percent, unless otherwise indicated)					
Primary criteria						
Basic fiscal balance / GDP	>=0	0.3	-0.9	-1.2	-1.6	-0.6
Inflation (annual average percentage change)	<=3	1.5	1.5	9.1	2.5	2.1
Total nominal debt / GDP	<=70	39.9	39.7	37.5	38.7	39.4
Domestic arrears accumulation (CFAF billions)	<=0	0.0	0.0	0.0	0.0	0.0
External arrears accumulation (CFAF billions)	<=0	0.0	0.0	0.0	0.0	0.0
Secondary criteria						
Wages / fiscal revenue	<=35	30.9	33.4	35.8	36.2	34.9
Domestically financed investment / fiscal revenue	>=20	22.2	31.7	22.6	20.5	18.9
Current account deficit, excl. current official transfers / GDP	<=5	-6.7	-9.5	-10.1	-9.7	-9.5
Tax revenue / GDP	>=17	14.9	14.2	13.3	14.3	14.7

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

Table 9: Monetary Survey, 2006-10

	2006	2007	2008		2009		2010
	Dec	Dec	Dec	Dec	Dec	Dec	Dec.
			Rev.Prog.	Prel.	Rev. Prog.	Proj.	Proj.
			(In billions of CFA francs)				
Net Foreign Assets	524.0	526.4	517.4	496.2	530.4	516.2	541.2
BCEAO	460.0	460.5	465.5	466.8	478.6	476.8	491.8
Commercial Banks	64.0	65.9	51.9	29.4	51.9	39.4	49.4
Net Domestic Assets	408.0	491.9	533.4	527.4	616.2	609.2	645.5
Credit to the government (net)	-128.2	-123.5	-50.0	-156.2	23.5	-51.6	-65.0
BCEAO, net	-10.5	-0.1	…	5.5	…	…	…
Commercial banks	-117.3	-122.9	…	-161.7	…	…	…
Other	-0.4	-0.5	…	0.0	…	…	…
Credit to the economy	575.2	618.3	622.5	671.2	631.8	673.7	723.4
Other items (net)	-39.1	-2.9	-39.1	12.4	-39.1	-12.9	-12.9
Money supply (M2)	932.0	1,018.3	1,050.8	1,023.6	1,146.6	1,125.4	1,186.7
Currency outside banks	343.7	323.9	377.1	317.1	411.5	348.6	367.6
Bank deposits	588.2	694.4	673.6	706.6	735.1	776.8	819.1
Memorandum item:							
Base Money (M0)	449.4	467.5	519.5	491.1	520.6	515.2	543.2
Contribution to the growth of broad money			(In percent)				
Money supply (M2)	8.8	9.3	3.2	0.5	9.1	9.9	5.4
Net foreign assets	11.4	0.3	-0.9	-3.0	1.2	2.0	2.2
BCEAO	7.0	0.1	0.5	0.6	1.1	1.0	1.3
Commercial banks	4.4	0.2	-1.4	-3.6	2.2	1.0	0.9
Net domestic assets	-2.7	9.0	4.1	3.5	7.9	8.0	3.2
credit to the central government	-11.6	0.5	7.2	-3.2	7.0	10.2	-1.2
Credit to the economy	10.9	4.6	0.4	5.2	0.9	0.2	4.4
Other items net	-1.9	3.9	-3.5	1.5	0.0	-2.5	0.0
Memorandum items:			(Variation in percent, unless otherwise specified)				
Money supply (M2)	8.8	9.3	3.2	0.5	9.1	9.9	5.4
Base money (M0)	-2.8	4.0	11.1	5.0	3.6	4.9	5.4
Credit to the economy	19.3	7.5	0.7	8.5	1.5	0.4	7.4
Velocity (GDP/M2)	3.4	3.4	3.6	3.8	3.6	3.7	3.8
Money Multiplier (M2/M0)	2.1	2.2	2.0	2.1	2.2	2.2	2.2
Currency outside banks / M2	36.9	31.8	35.9	31.0	35.9	31.0	31.0

Sources: BCEAO; and Fund staff estimates and projections.

Table 10. Mali: Medium-Term Outlook, 2006–13

	2006 [1]	2007	2008 Est.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.
	(Annual percentage change)							
Output supply and demand								
Real GDP	5.3	4.3	5.1	4.1	4.5	4.8	5.0	5.0
Aggregate demand (contribution to output growth)								
Consumption	1.9	7.5	7.3	2.5	4.9	4.6	3.2	3.7
Private consumption	1.2	6.3	8.3	0.3	4.9	3.8	2.2	3.0
Public consumption	0.7	1.2	-1.0	2.3	0.0	0.8	1.0	0.7
Gross investment	-0.1	1.0	0.5	-0.3	0.8	2.3	2.3	2.1
Government	1.5	0.8	-2.9	2.7	-0.7	0.7	0.7	0.4
Nongovernment	-1.6	0.2	3.4	-3.0	1.5	1.6	1.6	1.7
Changes in inventories	-2.5	-1.6	1.6	-1.4	0.0	0.0	0.0	0.0
Net foreign balance	3.5	-4.3	-2.7	1.9	-1.3	-2.1	-0.6	-0.8
Prices, period average								
GDP deflator	5.1	2.6	8.7	2.7	1.8	1.9	2.5	2.2
CPI inflation	1.5	1.5	9.1	2.5	2.1	2.0	2.1	2.0
Terms of Trade	29.4	0.0	5.6	35.0	-5.5	-3.1	-1.3	-3.7
	(Percent of GDP; unless otherwise indicated)							
Investment	20.9	21.0	20.5	19.3	19.3	20.6	21.8	22.8
Government	8.0	8.5	5.4	7.7	6.8	7.2	7.5	7.5
Nongovernment	12.8	12.5	15.1	11.6	12.5	13.4	14.4	15.3
Gross national savings	16.8	13.3	12.0	11.4	11.6	11.5	13.2	14.3
Gross domestic saving	15.7	12.0	9.3	10.5	9.6	9.4	10.6	11.3
Government	0.4	1.1	1.9	-1.0	0.4	1.1	1.3	1.5
Nongovernment	15.3	10.9	7.4	11.4	9.2	8.2	9.3	9.9
Saving-investment balance	-5.1	-9.0	-11.1	-8.9	-9.7	-11.2	-11.3	-11.5
Government	-7.6	-7.5	-3.5	-8.7	-6.4	-6.0	-6.2	-6.1
Nongovernment	2.5	-1.5	-7.7	-0.1	-3.3	-5.2	-5.1	-5.4
Central government finance								
Revenue and grants	56.2	21.3	19.0	21.7	21.4	22.1	22.6	22.7
Total revenue	17.3	16.6	15.5	16.7	17.0	17.7	18.2	18.2
Fiscal revenue	14.9	14.2	13.3	14.3	14.7	15.4	15.8	15.9
Non-tax revenue and special accounts	2.4	2.4	2.2	2.3	2.3	2.3	2.4	2.4
Grants	38.9	4.7	3.4	5.0	4.4	4.3	4.4	4.5
Total expenditure and net lending	24.9	24.5	21.2	25.8	23.8	24.1	24.7	24.6
Of which : Current expenditure	12.9	12.8	11.7	13.4	13.1	13.0	13.1	12.9
Capital expenditure	10.6	11.4	7.5	10.3	9.0	9.5	10.0	10.0
Overall balance (payment order basis, excl. grants)	-7.6	-7.9	-5.6	-9.1	-6.8	-6.4	-6.6	-6.4
Basic balance[4]	0.3	-0.9	-1.2	-1.6	-0.6	0.1	0.0	0.1
External sector								
Current external balance, including official transfers	-4.0	-7.7	-8.4	-7.9	-7.8	-9.2	-8.6	-8.5
Current external balance, excluding official transfers	-6.7	-9.5	-10.1	-9.7	-9.5	-8.9	-10.6	-10.5
Exports of goods and nonfactor services	24.9	21.4	19.4	20.2	19.4	17.7	17.2	16.2
Imports of goods and nonfactor services	-24.1	-24.7	-25.3	-23.5	-24.1	-23.8	-23.4	-22.7
Debt service ratio after debt relief	3.7	3.4	4.2	4.5	4.5	5.0	4.4	4.5
Gross international reserves								
US$ millions	1,176	1,298	1,226	1,258	1,286	1,341	1,394	1,444
In Months of next year's imports	5.6	4.8	4.9	4.6	4.8	4.3	4.3	4.2

Source: Malian authorities; and IMF staff estimates and projections

[1] Includes MDRI.

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

Amount	Available date	Disbursement date	Conditions for disbursement [1]
SDR 12.99 million	May 28, 2008	June 18, 2008	Executive Board approval of the three-year PRGF arrangement.
SDR 5.00 million	December 3, 2008	December 10, 2008	Observance of the performance criteria for June 30, 2008, and completion of the first review under the arrangement
SDR 2.00 million	May 15, 2009	June 1, 2009	Observance of the performance criteria for December 31, 2008, and completion of the second review under the arrangement
SDR 2.00 million	October 15, 2009	November 1, 2009	Observance of the performance criteria for June 30, 2009, and completion of the third review under the arrangement
SDR 2.00 million	April 15, 2010	May 1, 2010	Observance of the performance criteria for December 31, 2009, and completion of the fourth review under the arrangement
SDR 2.00 million	October 15, 2010	November 1, 2010	Observance of the performance criteria for June 30, 2010, and completion of the fifth review under the arrangement
SDR 2.00 million	April 15, 2011	May 1, 2011	Observance of the performance criteria for December 31, 2010, 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.

Attachment I

Letter of Intent for the 2nd Review

Bamako, Mali
June 19, 2009

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

Dear Mr. Strauss-Kahn:

1. As indicated in detail in the Letter of Intent dated November 18, 2008, macroeconomic management by the Malian authorities in 2008 was geared primarily toward mitigating the impact of soaring international energy and food prices. Whereas government policies in that regard helped safeguard social peace and satisfactory implementation of the economic program, structural reform measures encountered a number of delays that the authorities made every effort to remedy in the first half of 2009.

2. Mali's real GDP increased by 5.1 percent in 2008, particularly owing to the vibrancy of the primary and tertiary sectors. The strong performance of rice and cereal production, mainly as a result of good rainfall, largely made up for the downturn in cotton production associated with the sector's structural problems. The tertiary sector was propelled by telecommunications, transportation, and financial services in particular. By contrast, the value-added of the secondary sector fell by 5.3 percent as a result of a slight drop in gold production and the slowdown in food processing and textiles.

3. Annual inflation was brought to 7.5 percent at end-2008, after climbing to 13 percent in September 2008 due to pressures from global food and oil markets, and receded to 3.2 percent at end-April 2009. The difficult external environment contributed to a very slight increase in the balance of payments current account deficit in 2008 and to a decline in foreign reserves, partly offset by the privatization of the Banque internationale du Mali (BIM).

4. The basic government budget deficit was limited to 1.2 percent of GDP, compared with the program target of 1.8 percent. Indeed, to maintain macroeconomic stability, and in the face of uncertainties about how long the food and energy crisis would last, the government cut budgetary spending by nearly 1 percent of GDP, mainly curtailing domestically-financed capital expenditure. The savings so achieved more than made up for the revenue losses generated by the customs duty exemptions granted on a number of food products and by the adjustments made in the taxation of oil products to lower the social cost of the spike in world prices for these goods. However, the improvement in the basic fiscal

balance was accompanied by cash flow problems and a marked increase in the government's pending payments to its suppliers, which totaled CFAF 96 billion at end-2008.

5. In this context, we observed all of the quantitative performance criteria under the program for end-2008 (see table). We also observed the two structural performance criteria on not granting new customs exemptions unless prescribed by law and on issuing the invitations to bid for the privatization of the national telecommunications company (SOTELMA) by end-December 2008, as well as the structural benchmark regarding the adoption in Council of Ministers of the blueprint for the Niger River Authority.

6. There were a number of delays in implementing the other structural reforms subject to conditionality, but corrective action has been taken to remedy these delays.

- In the context of the performance criterion regarding the plan to restructure the national housing bank (BHM), a memorandum on the status of BHM restructuring was forwarded to the Banking Commission in March 2009. Although that memorandum did not meet all the conditions of the criterion established for end-March, it was supplemented in June 2009 with a report, prepared in collaboration with Bank and Fund staff, that was forwarded (as a prior action) to the Banking Commission and the Central Bank of West African States (BCEAO). The report presents several scenarios for further restructuring aimed at restoring the bank's solvency and profitability, in particular through changes in the principal prudential ratios. Accordingly, the formal conditions for observing the criterion were met only in early June, but the studies conducted should help us to take a decision by end-2009 regarding government divestiture of the BHM. Moreover, we already recapitalized the bank in March 2009 by transferring government deposits there to it and by moving a part of the portfolio of the national housing office (OMH), two of the measures envisaged in our previous Letter of Intent. In light of the corrective actions taken, we request a waiver for non-observance of the performance criterion concerning the BHM.

- In the cotton sector, the government remains committed to privatization of the Malian Textile Development Company (CMDT) in 2010. In that regard, it has pursued reforms to reorganize the sector and restructure the CMDT, and the committee for the restructuring of the cotton sector is in the process of renewing the contract of the privatization consultant to ensure continued technical support for the privatization. The highly precarious financial position of the CMDT and the uncertainties related to the reform of the sector in a challenging international context have continued to affect performance in the 2008/09 crop season, the main results of this being delays in making decisions about the 2009/10 crop season. The decisions setting the producer price at CFAF 170 a kilo by the commission in charge of implementing the pricing mechanism for cotton and the price of fertilizers with an implicit subsidy were only taken in mid-May 2009. To ensure a proper start of the 2009/10 crop season, the government also decided to pay the remaining balance owed to producers for the 2008/09 crop season, reactivated the cash flow monitoring committee for the sector, and confirmed the allocation of roles for financing this next crop season. Despite these measures, delays in orders and in deliveries of inputs as well as the longstanding problems of the sector could make a substantial short-term increase in production more difficult.

- The principle of an average adjustment of 4 percent in electricity rates as of July 1, 2009, which does not affect the lowest brackets of the lifeline tariff, was adopted by an interministerial committee in March with a view to securing electricity sector viability, but the directive from the Water and Electricity Regulatory Board (CREE) specifying the terms under which that measure would be implemented and the new applicable rates was issued only on May 26 (prior action).

- The adoption of a new institutional framework for water and electricity, which was scheduled to occur by end-March, is awaiting the completion of an external study by an international consultant. The first phases of the study have helped reduce the scope of decision making to a limited number of scenarios that are still subject to more in-depth analyses and will be discussed in the context of workshops with the participation of the various stakeholders. The next phases of this reform will be the subject of consultations with the World Bank, particularly as part of the new energy program recently negotiated with the Bank.

7. Performance under the program has continued to be satisfactory in 2009. Quantitative benchmarks at end March 2009 have been met except for the ceiling on domestic financing and the sub ceiling on bank and market financing which were breached by small margins because a bond issue launched at end-December 2008 was recorded on January 2, 2009. Revenue collection was sustained and in line with the program, while an effective budget regulation has allowed for a substantial reduction in the payment float.

8. The Government have taken measures to refund the stock of VAT credits accumulated at end June 2008 by the mining companies. However, the unfavorable conditions on the regional financial market did not allow for this refund to be financed through a bond issue, as envisaged in our previous Letter of Intent. The government therefore asked Ecobank's Malian subsidiary to raise the necessary funding as a lead bank. Thus, the government signed in April and May 2009 two loan conventions in an amount of CFAF 37.3 billion, with several banks, including Ecobank Mali acting as lead and other Malian banks, but also Ecobank subsidiaries headquartered in other member countries of the WAEMU as well as in CEMAC. In doing so, the government did not realize, in good faith, that the amounts thus borrowed with banks non residents in Mali are subject to the continuous performance criterion prohibiting the contracting and guaranteeing nonconcessional external debt. In addition, the loans were contracted without an evaluation of their grant element which turns out to be lower than 35 percent, even without taking into account interest costs that the mining companies have accepted to bear through an equivalent reduction of their claims on the government.

9. Against this background, we request a waiver for the non observance of the continuous performance criterion on non concessional external borrowing, based on: (i) our commitment to eliminate or refinance within the WAEMU before the completion of the third review, the part of the above mentioned loans granted by banks from the CEMAC

(CFAF 3.5 billion); (ii) measures taken to ensure a more systematic evaluation of the grant element of all loans that the government considers contracting or guaranteeing; and (iii) the fact that bank debt contracted by the government within WAEMU are economically equivalent to the bonds that we had intended to issue on the regional financial market, as permitted under the exclusion provided for in the Technical Memorandum of Understanding (TMU). From this standpoint, the recourse to bank financing rather than bond financing can be considered as constituting a minor deviation with regard to the performance criterion on nonconcessional external borrowing. Looking forward, we request an amendment to the TMU with a view to exclude from the scope of the performance criterion on non concessional borrowing, not only drawing on IMF facilities, and bills or bonds issued on the regional financial market but also loans CFA franc loans contracted with WAEMU residents.

Outlook for 2009

10. The decline in world prices for petroleum and foodstuffs since September-October 2008 allowed us to turn our attention to the potential impact of the global recession on Mali. The government's priority remains to maintain a stable macroeconomic and fiscal framework, notwithstanding the current world economic problems. Accordingly, the government will deepen structural reforms with a view to achieving its medium-term growth and poverty reduction objectives. The need for this deepening reflects the progress and shortfalls noted in a report on the implementation of our Poverty Reduction Strategy Paper (PRSP) in 2008; we expect to finalize the report and forward it to the IMF by end-September. The support of our development partners remains key to the pursuit of our efforts in the implementation of the PRSP.

11. Our external position is expected to improve in 2009 owing to positive developments in our terms of trade, driven both by the favorable expected price of gold, which provides more than two-thirds of our export receipts, and by the downtrend in oil and food prices in a context of global recession. Nevertheless, these encouraging effects may well be partly negated by a fall in our receipts from cotton exports and a slump in revenue from tourism and migrants' remittances. Moreover, our economy remains particularly dependent on rainfall levels and is vulnerable to a reversal in the terms of trade and to further external shocks. As a result, although the access to Fund resources under the PRGF seems appropriate for the time being, a future request for augmentation cannot be ruled out.

12. Under current circumstances, real GDP growth is expected to remain at about 4 percent, especially if our efforts to support agriculture are accompanied by good rainfall. It is anticipated that growth in the secondary sector will slow, as the expected decline in gold and manufacturing production is unlikely to be offset by the buoyancy of a the construction sector driven by public investment. The tertiary sector, for its part, may well suffer from a wait-and-see attitude from consumers and producers in light of the global recession.

13. The Central Bank of West African States (BCEAO) will continue to conduct prudent monetary policy at the regional level, with a view to anchoring expectations and paving the way for the continued rollback of inflation to a level projected at 2.5 percent for Mali at end-

2009. The BCEAO will continue ensuring that there is adequate liquidity in the banking sector of the West African Economic and Monetary Union (WAEMU) by pursuing operations to inject liquidity at different maturities.

Fiscal policy

14. Fiscal policy for 2009 is complicated by the uncertainties related to the global crisis and its potential impact on Mali, by the burden of a large payment float at end-2008, and by new fiscal pressures related to implementation of structural reforms and to government decisions to support the agricultural sector. Moreover, the ongoing recapitalization of the BHM and the refund of VAT credits accumulated by the mining companies in recent years are generating substantial financing requirements.

15. In this context, the government will pursue prudent fiscal management by containing the basic government budget deficit in 2009 at 1½ percent of GDP. This target, which is 0.3 percentage points of GDP above the 2008 level, will be accompanied by a substantial increase in execution of the externally financed capital budget, the aim being to support the national economy through the global crisis. However, this level is below the previous program target, as we seek to achieve a net reduction in the government’s pending payments of up to CFAF 30 billion, or 0.7 percentage points of GDP.

16. Budget revenue was strong in the first five months of this year. This good performance, which is consistent with program objectives, is a sign of the progress made in tax administration and the government’s decision to restore the level of oil taxation as of end-2008 to what it was before the 2008 oil shock. In light of our firm intention to maintain oil taxation at its current level and to pass on international price changes to the domestic market, this performance leads us to maintain our budget revenue targets for 2009 at the level indicated in the Budget Law. Revenue developments will, however, be monitored carefully in coming months, given the uncertainties of the domestic and international economic situation.

17. We have reduced the 2009 budget expenditure target by nearly one-half of a percentage point of GDP (CFAF 22 billion) so as to free up most of the resources necessary for reducing the payment float mentioned above. The latest expenditure program also takes into account new spending on transfers and subsidies to support the restructuring of the BHM (CFAF 1.8 billion) and ensure a successful 2009/10 cotton crop season (CFAF 15.4 billion), as well as the reallocation of certain budget headings to finance the subsidies for agricultural inputs decided by the government for 2009 (CFAF 10 billion). The new transfers require savings of about CFAF 9 billion on goods and services and of CFAF 30 billion on domestically-financed capital expenditure. Despite these budgetary adjustments, the level of self-financed capital expenditure as a percentage of GDP remains similar to that of previous years (about 3 percent of GDP), whereas current budget spending and externally financed capital expenditure will increase to 13.4 and 7.3 percent of GDP, respectively. This is not expected to hinder proper functioning of the government or implementation of the government’s poverty reduction policies.

18. The overall budget deficit (on a commitment basis and excluding grants) is therefore expected to represent 9 percent of GDP in 2009, compared with 5.6 percent in 2008. In light of the modest increase in external financing, the programmed reduction in pending payments, and the planned refund of VAT credits to the mining sector, domestic financing will rise to nearly 2½ percent of GDP.

19. In light of global uncertainties, the government stands ready to take any steps necessary, in consultation with the IMF, to ensure that it meets its fiscal objectives in 2009. In this regard, fiscal policy for 2009 is supported by an effort to regulate budget execution so as to prevent and limit potential slippages. We have thus drawn up a cash flow plan involving a temporary freeze on certain non-priority expenditure in the first three quarters of the year, with a view to generating a margin of safety that could be used in the last quarter, circumstances permitting, thereby avoiding a new rise in the payment float at end-2009. This plan will be aligned with the budget classification by end-September 2009, with a view to ensuring: (i) the quarterly monitoring of budget execution in terms of commitment, validation, payment order authorization, and actual payment of expenditures; and (ii) better regulation of budget execution on the basis of resource availability and the priority status of public expenditure (structural benchmark).

20. With a view to strengthening domestic debt management, an evaluation of the payment float at end-March 2008 was made by the Auditor General's office and one at end-March 2009 was made by the Controller-General's Office and the Inspectorate-General of Finance. These will be built upon, by end-2009, through the implementation of a system to monitor budgetary float in the context of improvements in the Treasury's accounting, cash flow management, and information systems, in consultation with IMF staff (structural benchmark). The Government intends to request IMF technical assistance in this regard. The above-mentioned evaluation of the unpaid bills at end-March 2009 will be updated at end-2009. This update will lead to a report that will mention payments effected on the stock of unpaid bills at end-March 2009 and will be transmitted to the IMF before end-January 2010.

21. We have continued our efforts to improve fiscal management supported by our external partners in the context of the action plan for improving and modernizing public finance (PAGAM/GFP). The 2008 implementation of the PAGAM was reviewed positively by our development partners in May 2009 and will subject to an evaluation by an international consultancy firm, whose recruitment is expected to follow a call for interest in April 2009.This first generation of the PAGAM/GFP has allowed, in particular, for the interconnection of spending authorities, the revision of the Public Procurement Code, the implementation of the Public Procurement Regulatory Authority, and the adoption by the Government of a draft law to reinforce the Accounts Section of the Supreme Court. To consolidate these achievements, the government will formulate a second generation of reforms based on the norms of the Public Expenditure and Financial Accountability (PEFA) framework.

22. Improving domestic resource mobilization remains a major priority of the Government. To that end, the Directorate-General of Taxes (DGI) has conducted studies in preparation for the creation of a tax center for medium-sized enterprises, the start-up of

which is planned by end-September, 2009 (structural benchmark). In addition, to refocus the management of overdue taxes, the DGI has committed to compiling a separate inventory of unrecoverable claims. However, the tax administration is finding it difficult to implement the pertinent procedures as well as to manage and monitor tax exemptions because of frequent taxpayer challenges to the interpretation of the procedures and documents in question. Finally, in the context of the second memorandum of understanding with the mining companies, the government has taken temporary measures to prevent the accumulation of VAT credits but has started discussions on a definitive and sustainable approach to the problem of managing VAT credits. The government is seeking technical assistance from the Fund to support the reforms and discussions initiated by the DGI on these various fronts.

23. The reform of the Directorate-General of Customs (DGD) will also be continued in 2009, through better monitoring of exemptions in accordance with the government's commitments and through the creation of nine mobile offices and teams in the context of a four-year program to change the customs surveillance map. In addition, the DGD will strengthen the X-ray scanning of imported merchandise and the import pre-shipment inspection program. It will also implement the new automobile transit procedure and will continue to expand the application of ASYCUDA ++ to include additional frontier posts and its offices in the ports of Dakar and Abidjan.

24. Also, to improve government finance statistics in collaboration with the BCEAO, by end-2009 the authorities will draw up: (i) a complete inventory of the accounts included in the banking system's net credit to government; and (ii) a methodology for recording of those accounts, based on the appropriate classification for them in the fiscal reporting table (structural benchmark).

25. In addition, important steps have been taken over the past few years to improve strategic planning through the medium-term budgetary framework (MTBF), the medium-term expenditure framework (MTEF), and the program budget. This results-oriented management approach involving a closer link between the budget and sectoral and national strategies will be further developed. In this context, work will begin on an analysis of the methodologies used for preparing the MTEF. The government also intends to implement the 2009–2015 action plan to better implement program budgeting that was prepared with IMF technical assistance and in particular: (i) realigning normative, budgetary, and accounting systems on the program budgeting framework; (ii) making managers accountable and redefining the roles of program budget operators; and (iii) improving the public financial management system.

Structural reforms

Financial sector

26. In July 2008, the cabinet approved the Financial Sector Development Strategy, which reflected recommendations of the Financial Sector Assessment conducted jointly by the Bank and the Fund. The committee created to monitor its implementation will be operational by end-September 2009. Among the recommendations already implemented, particularly

noteworthy are the following: (i) the privatization of the International Bank of Mali (BIM); (ii) the restructuring of Initiative Credit, LLC (CI-SA) through its merger with the Solidarity Bank of Mali (BMS SA); and (iii) the adoption by the Government of a new regulatory framework for microfinance.

27. Our financial system has remained virtually unaffected by the global financial crisis, due mainly to its low level of integration into international financial markets. To increase the soundness of the regional banking system, the Council of Ministers of the West African Monetary Union decided in September 2007 to raise the minimum capital required of banks and financial institutions by end-2010 to CFAF 5 billion and CFAF 1 billion, respectively. Following this first phase, a timetable will be established to raise the minimum capital requirement to CFAF 10 billion for banks and CFAF 3 billion for financial institutions. The monetary authorities have also decided to strengthen banking supervision.

28. The restructuring of the BHM is a top priority for the authorities. Repairing the bank's profit and loss statement will require the injection of new resources to permit the resumption of lending on a sustainable basis. Based on the restructuring plan finalized with technical assistance and on the advice we have recently requested from the BCEAO, the Government will decide by end-2009 on the strategy to be adopted and a timetable for government divestiture from the BHM (structural benchmark). Additional technical assistance may be needed to establish the method and the timetable for implementation of our decision. Meanwhile, the government will assume responsibility for the interest arrears due to a syndicate of banks (CFAF 1 billion) and the cost of staff redundancies, estimated at CFAF 0.8 billion and aimed at reducing personnel costs by 25 percent.

29. In the context of improving the financial position and management of the social security institutions (notably by the parametric reform of the Malian Retirementment Fund, CRM), the government has forwarded to Parliament the draft law establishing a Pension Code for civil servants, military personnel, and members of parliament. The National Assembly plans to debate this legislation in June and July 2009.

30. Furthermore, some microfinance institutions are in need of stronger management and information systems. Assistance will be sought from the World Bank to conduct activities for monitoring the national microfinance development action plan.

Agricultural sector

31. The government considers development of agriculture a major objective, given this sector's potential for generating economic growth and poverty reduction. In the wake of the Rice Initiative, the government has decided to maintain its support for the rice sector and to extend that support to wheat, maize, and cotton, so as to ensure improved food security and the recovery of cotton. Within the framework of its support for this sector and preparation of the 2010 budget, the government will set up, by end-September 2009, a system for providing subsidies for inputs to cereal and cotton farming. These subsidies will be targeted, limited, and supported by a monitoring and evaluation mechanism (structural benchmark). The annual budgetary cost will not exceed an amount equivalent to 0.5 percentage points of GDP

in 2009 and 2010. Improving the management of natural resources in the area covered by the Niger River Authority is also an important concern for the government. The recent establishment of a ministerial-level secretariat in the Office of the Prime Minister should provide a greater understanding of government policy and facilitate the dialogue with our development partners.

32. Cotton sector recovery remains a major government priority, given the importance of this sector for employment, agricultural development, and economic growth. To this end, a financial road map for the 2009/10 crop season will be formulated by end-September 2009, to facilitate effective monitoring of the financial operations of the CMDT (revenue, obligations, payments, indebtedness, and past-due balances vis-à-vis other actors in the sector). This road map will be updated on a monthly basis and forwarded to Fund staff (structural benchmark). Recovery of the sector is also dependent on extensive restructuring of the sector and of the CMDT with a view to its upcoming privatization. To that end, the CMDT has been split into a holding company and four regional subsidiaries, each endowed with positive net assets. In addition, two management and monitoring bodies (Cotton Classification Office and Cotton Interprofessional Association) have been set up, and an Economic Interest Group that includes the CMDT, the Producers Union, and the Office of the Upper Niger Valley has been formed to manage inputs.

Gold sector

33. The mining of our gold resources has, for the past several years, provided a large portion of our budgetary revenue and our export receipts. Our economy is therefore vulnerable to fluctuations in world gold prices. Moreover, our principal gold mines will probably be exhausted within a few years. In this context, an interdisciplinary government team will conduct, by end-2009, a study on the macroeconomic impact (balance of payments, employment, growth, budget) of this sector and on its medium-term outlook (structural benchmark). In addition, in the context of Mali's candidacy to join the Extractive Industries Transparency Initiative (EITI), a report has been completed to compare the information provided by the mining companies regarding their net tax contributions with the data in the government accounts. The preliminary draft report is being reviewed by both parties to reconcile differences.

Telecommunications sector

34. The government is continuing its discussions with the entity submitting the best bid among the offers received last January for privatizing the national telecommunications company (SOTELMA) at the earliest opportunity. The macroeconomic impact of that operation will depend largely on how the expected receipts are used. The government will consult with Fund staff on this matter.

Program modalities

35. The discussions for the third review under the PRGF arrangment will focus on the implementation of strucural reforms and the draft 2010 budget, taking into account the

anchoring of public finances on convergence towards the relevant WAEMU norms. These discussions will also cover a debt sustainability analysis to be prepared by the staffs of the IMF and the World Bank in collaboration with the Public Debt Office.

36. Performance under the program will be assessed as per Tables 1 and 2 and the attached technical memorandum of understanding. In this context, we request: (i) the addition of a new adjustor for the quantitative performance criteria on the net domestic financing and the net bank and market financing of the budget to take into account deviations from the targeted reduction of the domestic float; (ii) the removal of the structural performance criterion barring customs exemptions that are not explicitly provided by law or approved by the Council of Ministers, in line with the new Fund policy on structural conditionality and in light of the existing indicator on net tax revenue; (iii) the exclusion of bank loans originating in the WAEMU region from the definition of external debt and from the zero ceiling on nonconcessional borrowing; and (iv) a modification of the performance criteria for end-June 2009 to take into account the increased bank financing needed for the reduction of the payment float and the recapitalization of the BHM. The third review is scheduled to be completed by end-December 2009, on the basis of performance criteria for end-June 2009, and the fourth review is scheduled to be completed by end-May 2010 on the basis of the performance criteria at end-December 2009.

37. The Government believes that the policies set forth in the letter are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. Mali will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained in the letter, in accordance with the Fund's policies on such consultation. The Government will provide Fund staff with any information required on progress made in implementing the economic and financial policies and monitoring program objectives. During the program, the Government will not introduce or intensify any exchange restrictions, multiple currency practice, or import restriction for balance of payments of purposes, nor conclude any bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement. The government authorizes the Fund to publish this letter and the staff report relating to this request.

Sincerely yours,

/s/

Mr. Sanoussi Touré
Minister of Economy and Finance
Republic of Mali

Table 1. Mali: Quantitative Performance Criteria and Indicative Targets for 2008-09[1]

	2008			2009								
	Dec.			March			June		Sep.		Dec.	
	Perf. Criteria	Adjusted	Actual	Indic. Targets	Adjusted Targets	Prel. [6]	Perf. Criteria	Rev. Perf. Criteria	Indic. Targets	Rev. Ind. Targets	Indic. Targets	Perf. Criteria
Quantitative performance criteria [1]						(CFAF billions)						
Net domestic financing of the Government (ceiling) [2]	40.3	40.3	-8.1	10.0	11.8	13.1	25.0	45.0	35.0	50.0	43.0	33.4
Of which: Bank and market financing [2]	49.7	49.7	-28.4	15.0	16.8	22.3	25.0	80.0	30.0	90.0	35.0	62.5
Cumulative increase in external payments arrears (ceiling) [3]	0.0	0.0	0.0	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 [3, 4]	0.0	0.0	0.0	0.0	0.0	17.5 [7]	0.0	0.0	0.0	0.0	0.0	0.0
New short-term external credits (less than one year) contracted or guaranteed by the government (ceiling) [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net tax revenue [5]	514.7	514.7	519.4	140.0	140.0	143.5	290.0	290.0	430.0	430.0	603.0	603.0
Financial indicators (floors)												
Basic fiscal balance	-67.0	-67.0	-48.1	-10.0	-10.0	17.1	-30.0	-20.0	-50.0	-40.0	-82.0	-62.0
Memorandum items:												
External budgetary assistance during the year [1 5]	55.7		54.1	20.0		6.4	40.0	48.0	60.0	32.0	86.0	92.0
HIPC Initiative debt relief [1]	12.7		10.9	1.0		1.8	...	6.3	...	8.1	11.2	11.2

[1] Cumulative figures from the beginning of each year. Noncontinuous performance criteria at end-March and end-September 2009 are quantitative benchmarks. See technical memorandum of understandings for definitions.
[2] These quantitative targets are before payment of VAT credits in arrears. The revised targets for the end-June, end-September, and end-December 2009 reflect the recapitalization of the Housing Bank of Mali (BHM) for CFAF 19.1 billion in May 2009 and net projected reductions of the payment float by CFAF 45 billion at end-June and end-September 2009, and CFAF 30 billion at end-December 2009 (the program includes an adjustor for any deviations from the targets on the reduction of the payment float).
[3] These performance criteria will be monitored on a continuous basis.
[4] Grant component equal to or higher than 35 percent.
[5] Excluding Fund resources.
[6] The nonobservance of the quantitative indicators for net domestic financing and bank and market financing results from a bond issue that was initiated in December 2008 but effective on January 2, 2009, leading to a downward correction of CFAF 12.3 billion at end-December 2008 and an upward revision of the same amount at end-March 2009 in market financing.
[7] Part of two CFAF syndicated loans that were signed in April and May 2009 for a total of CFAF 38 billion for the payment of VAT credit arrears and that involved non-Malian banks in the WAEMU and CEMAC CFA franc zones.

Table 2. Mali: Structural Conditionality for Second Review of the PRGF-Supported Program

	Measures	Test Date	Status	
			At test date	On June 15, 2009
Prior actions				
1	Transmittal of the report for the restructuring of the BHM to the Banking Commission for review and to the Central Bank BCEAO for guidance			Done (June 11, 2009)
2	Publication of a directive by the water and energy regulating body (CREE) that sets the conditions for the implementation of a 4 percent average increase in the electricity tariff on July 1, 2009.			Done (May 26, 2009)
Performance criteria				
1	Elimination of all customs exemptions not explicitly provided for by law (unless approved by Cabinet of Ministers)	Continuous PC	Observed	Observed
2	Launch of a call for tenders for the sale of Government shares in SOTELMA	End-December 2008	Observed	Observed
3	Submission to the Regional Banking Commission of a restructuring plan for BHM, raising capital and liquidity ratios to WAEMU prudential norms	End-March 2009	Not observed	Observed (see prior actions)
Benchmarks				
1	Adoption by the Council of Ministers of the reform master plan and of a development contract at the Niger Authority	End-December 2008	Observed	Observed
2	Government announcement of a new timetable for the transition phase before privatization of the CMDT clearly assigning roles for financing the 2009/10 harvest beginning January 2009	End-December 2008	Not observed	Observed
3	Adoption of a new tariff formula for electricity pricing	End-March 2009	Not observed	Observed (see prior actions)
4	Adoption by the Council of Ministers of a new institutional public service framework for water and electricity	End-March 2009	Not observed	Not observed (delay in completion of external study; reform to be followed by World Bank)

Table 3: Mali, Structural Benchmarks for the Third and Fourth Reviews Under the PRGF Program

For end-September 2009 (in the context of the 3rd program review)

1. Regarding revenue mobilization, put in place the tax center for medium-sized enterprises (CIME) and start up its activities.
2. Regarding government cash flow management, prepare a government cash flow plan consistent with budget nomenclature (section, economic code) to facilitate (i) quarterly monitoring of budget execution in terms of commitment, validation, payment authorization, and payment of expenditure, and (ii) better alignment of budget execution with available resources.
3. Regarding monitoring of the cotton sector, and in consultation with the IMF, prepare a monthly financial chart for the 2009/10 crop season to promote the effective monitoring of financial operations (revenue, commitments, payment, debt, amounts unpaid) of the various participants in the sector (producers, CMDT, suppliers, banks, the government).
4. Regarding government support for the agricultural sector and preparation of the 2010 budget, put in place a dedicated, targeted input subsidization system for grain and cotton crops, including modalities for implementation, follow-up, and assessment.

For end-December 2009 (in the context of the 4th program review)

1. Regarding domestic debt management, on the basis of the Auditor General's report on the budgetary float at end-March 2008 and the report to be produced by the Controller General's Office and the Inspectorate General of Finance at end-March 2009, put in place a system to monitor budgetary float supported by improvements in the Treasury's accounting, cash flow management, and information systems, in consultation with IMF staff.
2. Regarding strengthening the banking sector, by government decision, adopt a strategy and timeframe for government divestment of the Banque de l'Habitat du Mali (BHM).
3. Regarding growth, finalize the government study on the macroeconomic impact of the gold mining sector (balance of payments, growth, employment, budget) and its medium-term prospects.
4. Regarding public finance statistics, in conjunction with the BCEAO, prepare (i) an exhaustive inventory of the bank accounts taken into account in the net government position, and (ii) an appropriate methodology for recording movements on these accounts, based on an accepted classification (such as projects, correspondents, etc.), in the government flow of funds table (TOFE).

Attachment I, Annex I

Technical Memorandum of Understanding

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

I. Definitions

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

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

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

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

II. Quantitative Performance Criteria and Financial Indicators

Except as noted, the following financial variables shall constitute performance criteria at end-June and End-December and financial indicators otherwise. The basic fiscal balance is a financial indicator at all test dates.

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

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

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

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

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

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

Adjustment factors

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

CFAF 10 billion; 50 percent for amounts from CFAF 10 billion up to CFAF 25 billion; and 75 percent for amounts in excess of CFAF 25 billion.

10. The ceiling on the change in net domestic financing of the Government and the sub-ceiling on bank and market financing will be adjusted up in the amount of the face value of the securities issued relating to VAT and duty refund payments accrued during 2006 and 2007 up to a maximum of CFAF 62 billion.

11. The ceiling on the change in net domestic financing of the Government and the sub-ceiling on bank and market financing will be adjusted up (down) if the actual net reduction of the payment float exceeds (falls short) of the programmed amounts (CFAF 45 billion at end-June and end-September 2009, and CFAF 30 billion at end-December 2009.

B. Nonaccumulation of External Public Payments Arrears

12. 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.

13. 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

14. 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.

15. 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.

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

17. 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, the criterion does not apply to (i) financing granted by the IMF, (ii) debt rescheduling transactions of debt existing at the time of the approval of the PRGF arrangement, and (iii) CFA debt contracted or guaranteed by the Government with West African Economic and Monetary Union (WAEMU) residents (including CFA debt initially contracted or guaranteed by the Government with WAEMU residents and subsequently acquired by nonresidents).

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

18. The definition in paragraph 2 and 3 of this TMU applies to this performance criterion. Short-term external debt is debt with a contractual term of less than one year. Import- related credit, CMDT foreign borrowing secured by the proceeds of cotton exports, and debt-relief operations are excluded from this performance criterion. Treasury bills issued in CFA francs on the WAEMU regional market are also excluded. In the context of the program, the Government and public enterprises will not contract, or guarantee, short-term external debt. This performance criterion is monitored on a continuous basis.

E. Floor on Cumulative Net Tax Revenues

19. Government tax revenues are defined as those that figure in the Table on Government financial operations (TOFE), and include all tax revenues accruing to the ordinary budget. Net tax revenues are gross tax revenues less tax refunds, notably on VAT; however, refunds from prior fiscal years settled under a formal agreement are excluded from this definition. The Government shall report cumulative tax revenues from the start of each year to IMF staff each month in the context of the TOFE. Performance criteria and quantitative performance indicators for cumulative net tax revenues are set in Table 1 attached to the Letter of Intent.

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

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

III. Structural Measures

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

IV. Additional Information for Program Monitoring

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

Summary of Data to be Reported

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

Data Type	Tables	Frequency	Time Frame
	Customs exemptions	Monthly	End of month + 4 weeks
	Treasury operations of the CMDT	Monthly	End of month + 4 weeks
Monetary and financial data	Summary accounts of the BCEAO, summary accounts of banks, and accounts of the banking system	Monthly	End of month + 4 weeks (provisional); end of month + 8 weeks (final)
	Foreign assets and liabilities and other items net of the BCEAO and the commercial banks.	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 education outlays	Quarterly	End of quarter + 4 weeks
	Gross enrollment ratio in primary education, by gender	Annual	Beginning of the next academic year +1 month (final)
	Percentage of the population having access to health care facilities within a radius of 15 kilometers	Annual	End of year + 2 months
	Rate of assisted births	Annual	End of year + 2 months
	Data on immunization rate DTCP3 of child below 1 year	Annual	End of year + 2 months

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under PRGF Arrangement for Mali

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Mali's economic performance under a program supported by the Poverty Reduction and Growth Facility (PRGF), opening the way for the government to request a further disbursement amounting to SDR 2 million (about US$3.08 million) under the three-year arrangement. As a result, total disbursements to Mali will amount to SDR 19.99 million (about US$30.79 million).

The Executive Board also approved the authorities' request for waivers of nonobservance of two structural performance criteria concerning the restructuring plan of a bank and the continuous quantitative performance criterion on new external credits.

The PRGF arrangement with Mali was approved on May 28, 2008 (see Press Release No. 08/126) for an amount of SDR 27.99 million (about US$43.11 million).

Following the Executive Board's discussion of Mali's performance, Mr. Takatoshi, Deputy Managing Director and Acting Chair, said:

" The Malian authorities are to be commended for their recent economic achievements despite a difficult global environment. Overall performance under the PRGF-supported program has been broadly satisfactory. The authorities have taken corrective measures to reduce the payment float and restore the track record of structural reforms.

" While the global crisis has had a limited impact on Mali, it nevertheless poses a new set of challenges. Growth projections have been revised downward, on account of lower-than-expected remittances, declining private foreign investment, and a cautious stance of both consumers and businesses. Notwithstanding the improved terms of trade, which reflect buoyant gold prices and declining world oil and food prices, the external position remains vulnerable to shocks. The banking sector, though having limited exposure to troubled credit markets elsewhere, could be affected negatively by a protracted economic slowdown.

" The authorities remain committed to prudent macroeconomic policies. The revised fiscal stance for 2009 appropriately targets a reduction in the payment float and the elimination of value-added-tax credit arrears, while maintaining a strong fiscal impulse to support economic growth. It also responds prudently to new expenditure pressures in support of the agricultural and banking sectors. The higher recourse to regional bank financing linked to the elimination of value-added-tax credit arrears puts pressures on the budget and will have to be repaid over the medium term. Ongoing reforms to increase revenue mobilization and improve debt and public financial management will help alleviate these pressures and strengthen public finances.

" Raising the growth path and reducing poverty require a new impetus to structural reforms. The program for the second half of 2009 focuses not only on fiscal and budgetary reforms but also on a strengthening of the banking and cotton sectors. The authorities remain committed to deepening the reform program with the support of the donor community, and to proceeding with the privatization of key parastatals, including the cotton parastatal CMDT, the Housing Bank of Mali, and the telecommunication company SOTELMA", added Mr. Kato.

Statement by Laurean Rutayisire, Executive Director for Mali
July 6, 2009

1. My Malian authorities are appreciative of the policy dialogue that the Fund continues to hold with them, particularly in the context of the current PRGF. They consent to the publication of their letter of intent and the staff report.

2. Since the last review of the PRGF-supported program, the authorities have continued to make progress in the implementation of their policy and reform agenda, notwithstanding the daunting challenges arising from the difficult external environment. In this process, delays were noted in the implementation of some reforms subjected to conditionality, but asrightly noted by the staff, these are reflective of weaknesses in institutional capacity and the complexity of the problems to be addressed. Going forward, the authorities will continue to work toward achieving the program objectives and they will value Fund's continued support in this endeavor.

Recent Developments and Program Performance

3. Recently, economic performance in Mali has been strong largely on account of the significant increase in agricultural output and the dynamism of the tertiary sector. In 2008, GDP growth is estimated to have amounted about 5.1 percent, sharply exceeding average growth in the WAEMU region. After reaching double-digit levels in the last quarter of 2008, inflation has since been subdued, exceeding barely 3 percent at end-April 2009.

4. Program performance continues to be satisfactory. On the quantitative front, the authorities' prudent macroeconomic policies helped them meet all end-2008 quantitative performance criteria related to net domestic financing, external borrowing and payment arrears, short-term external credits, and net tax revenues. At the same time, the authorities were able to contain the basic fiscal deficit to 1.2 percent of GDP, well below the program target. In 2009, program performance remains strong, notably with all end-March quantitative performance criteria being met except for the one related to domestic financing whose nonobservance stemmed from the belated completion of a government bond issued last December.

5. With the aim at financing the refund of the stock of VAT credits accumulated by the mining companies, the authorities contracted some loans in local currency from a number of banks based in Mali, WAEMU and CEMAC. After the signing of related conventions, it was brought to the authorities' attention that recourse to such bank financing constituted a breach of the performance criterion on nonconcessional external borrowing. Going forward, the authorities are hopeful that their Technical Memorandum of Understanding with the Fundwill be amended as appropriate to enable borrowing from WAEMU resident banks

without breaching the latter performance criterion. They also call on Directors to consider favorably their request of waiver for the nonobservance of this criterion.

6. With regard to structural conditionality, the authorities were successful in meeting the performance criteria related to the elimination of all customs exemptions not explicitly provided for by law and the launch of a call for tenders for the sale of government shares in the telecommunication company, SOTELMA. At the same time, the authorities have taken steps to address delays that were noted in the implementation of some other structuralreforms erected as program conditionality. In particular, the end-March 2009 performancecriterion on the submission to the Regional Banking Commission (RBC) of a restructuringplan for the housing bank, BHM, was fully met last month although actions were taken inMarch to start recapitalizing the bank and to update the RBC on the status of the restructuringprocess. Going forward, the studies prepared by the authorities, in collaboration with Fundand World Bank staffs, will be key in guiding the future decision to be made by thegovernment about its disengagement from BHM. My authorities would thus welcomeDirectors' support of their request of waivers for the nonobservance of the performancecriteria on the restructuring plan for the BHM.

7. Moreover, the authorities have advanced their reform agenda, notably by observing most structural benchmarks. Most notably, the decision has been taken by the authorities to proceed to an upward adjustment of electricity tariffs effective from July 1 with the aim at better reflecting market conditions in the setting of these tariffs. In addition, the Cabinet adopted a reform master plan for the Office du Niger and approved a development contract between the State, farmers, and the Office du Niger.

8. Going forward, the proposed streamlining of conditionality is welcome, as are the steps taken to ensure clearer delineation of responsibilities between the Fund and the WorldBank. That the World Bank will be primarily responsible for monitoring the next phases of the design and adoption of a new institutional framework for water and electricity is a step in the right direction. Similarly, we expect that Fund's involvement in the cotton sector will belimited to managing fiscal risks associated with the reform of the sector. This will befacilitated by the authorities' intention to keep Fund staff regularly informed about the financial operations of the cotton ginning company, CMDT.

Reform Agenda for the Rest of 2009

9. The authorities will continue to demonstrate prudence in the conduct of fiscal policy. In this endeavor, they will aim to limit the basic fiscal deficit to about 1½ of GDP, which will help reduce significantly the large budgetary float accumulated as of end-2008. As part of the authorities' plan for improving cash flow management, some non-priority expenditures are subjected to a temporary freeze during the first three quarters of the current year, which also runs towards the objective of avoiding a build-up of the budgetary float at end-2009. This plan is also expected to contribute to welcome improvements in the monitoring and regulation of budget execution. Going forward, domestic debt management will be strengthened notably through improved monitoring of the budgetary float. To that resolve, the authorities will welcome Fund technical assistance.

10. The decision taken last year by the authorities to raise the minimum level of taxation of oil products above original program targets and the steps they have taken to strengthen tax and customs administration seem to have paid off by largely contributing to the strong revenue performance registered in the first half of 2009. While aiming to consolidate these achievements, the authorities will stand ready to take any other necessary actions to ensure continuously strong revenue mobilization. In this connection, it is expected that a tax center for medium-sized enterprises will be established by end-September 2009.

11. As reported in my previous statement on Mali, key progress has already been made in public financial management notably through the implementation of the authorities' action plan for improving and modernizing public finance (PAGAM/GFP). It is expected that these achievements will be complemented by additional reforms to be identified on the basis of the Public Expenditure and financial Accountability (PEFA) framework. Concurrently, efforts will be made to improve public finance statistics notably through more exhaustive inventory of bank accounts included in the net government position while devising an appropriate methodology for recording of movements on these accounts in the fiscal tables (TOFE).

12. So far, implementation of the authorities' Financial Sector Development Strategy (FSDS) has materialized into a number of actions consistent with the FSAP recommendations, including increased private sector involvement in banking sector and improved regulation of microfinance institutions. Going forward, it will continue to proceed as expected and will be facilitated by the work of a monitoring committee which is expected to become operational by end-September 2009.

13. While the Malian financial system has been spared by the global financial turmoil thus far, the authorities will continue to closely monitor compliance with financial soundness indicators in collaboration with the BCEAO and relevant regional authorities. On its part, the BCEAO will continue to ascertain that banks avail themselves from adequate liquidity to meet private sector's credit needs. In this connection, the central bank has recently reduced the required reserve ratios applicable to Malian banks from 9 to 7 percent.

14. In view of the authorities' demonstrated commitment to the program and the significant progress achieved toward the program objectives, I would appreciate Directors' support of the requested waivers and the completion of the second review under the PRGF arrangement.