WEST AFRICAN MONETARY AGENCY
(WAMA)

ECOWAS MONETARY COOPERATION PROGRAMME

MACROECONOMIC CONVERGENCE REPORT
2007 MALI

FREETOWN, JUNE 2008

Difficulties encountered in the cotton sector weighed on economic achievements in 2006. Indeed, the collapse of world prices of this commodity led to a drop in producer prices and brought about considerable shortfalls in the sector. Expectations of price recovery in 2007 raised prospects for a boost in production, and hence the convincing target of economic growth in 2007. These prospects were reinforced with the pick up of activity, particularly in the mining sector. It was against this background that a target of 5.4% of real GDP growth was set for 2007. This achievement was to be reflected at the budget level through increase in fiscal revenue mobilization, and hence an improvement of the major balance characteristics.

At the end of December 2007, achievements in economic management revealed contrasting results. The unfavourable turn round in the economic situation on the commodities market, particularly cotton, led to a decline in production and worsened the crisis in the cotton sector. The rate of growth was thus 4.3%, well below initial forecasts. This achievement was realized within a context of relative price stability, since the rate of inflation at the end of the period was 2.2 %.

1. Sector Analysis

1.1 Real Sector

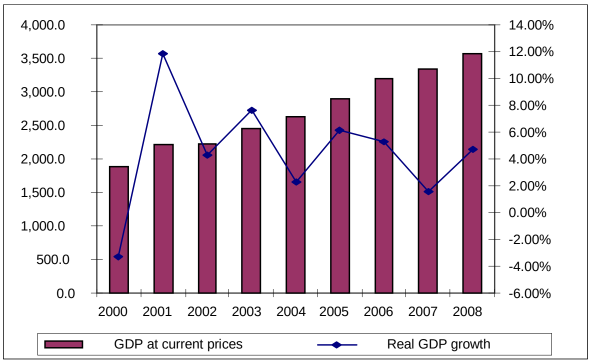
In 2007, economic growth was 4.3% compared to 5.3% in 2006 for an initial forecast of 5.4%. This trend is due primarily to a relatively satisfactory agricultural production and the dynamism in the service sector.

The primary sector recorded a 4.3% growth in line with an increase of 2.4% in agricultural production, and in spite of a 27.2% drop in cotton production. This drop in cotton production for the fourth year running is due to the gradual neglect of this crop, particularly as a result of the underlying slump in international market prices and producer price, which do not encourage production. The growth in agricultural production growth was therefore fuelled by cereal production, which increased by 5.7% in line with implementation of the farmland irrigation programme and favourable climatic conditions.

In the secondary sector, activities increased by 0.5%. These activities are especially marked by a marginal growth in production in the extractive industry. Gold production was 57.3 tonnes compared to 56.9 tonnes in 2006. Production in agro-processing industries grew by 1.5 %. Likewise, the production in textile industries declined by 10.7%, following a drop in ginning; this show the negative effects of the continuous downturn in cotton production. On the other hand, the “Energy” and “Construction” sectors expanded by 8% and 3.2% respectively, primarily due to electricity extension works in the country and infrastructure development.

The tertiary sector recorded a 7.0% growth, primarily driven by the buoyancy of “transport and communications” which grew by 8.1%. This trend is due primarily to cellular telephone network expansion and the implementation of the Transport Corridor Improvement Project.

Graph 3.17: Trends in Nominal GDP and Real Growth Rate



In the area of demand, economic growth was propelled by investments. The Gross Fixed Capital Formation (GFCF) increased by 10.3%, driven by its private and public components. Private GFCF grew by 12.9%, thanks to the construction sector, particularly the construction of a fertilizer plant and hydro-agricultural infrastructure. Improvement in public GFCF is mainly due to basic infrastructure works and the construction of the administrative city and housing projects. Likewise, total final consumption went up by 3.9% in line mainly with a 4.1% growth in general government consumption, in view of recruitments into the civil service, particularly in the teaching, health and security sectors.

With regard to external trade, imports declined by 1.6%. In the same vein, exports dropped by 0.7% due to a significant plunge in cotton exports.

In nominal terms, investment rate improved slightly to 20.9% compared to 20.3% in 2006. Likewise, domestic savings rate went up to 17.9% compared to 17.4% in 2006.

The end of period inflation was 2.2% at the end of December, compared to3.6% 2006. Prices of foodstuffs rose by 1.9%; also prices under the heading “housing, water, gas, electricity and other fuels” increased by 2%. Prices of petroleum products increased by 1.9% compared to 3.6% in 2006.

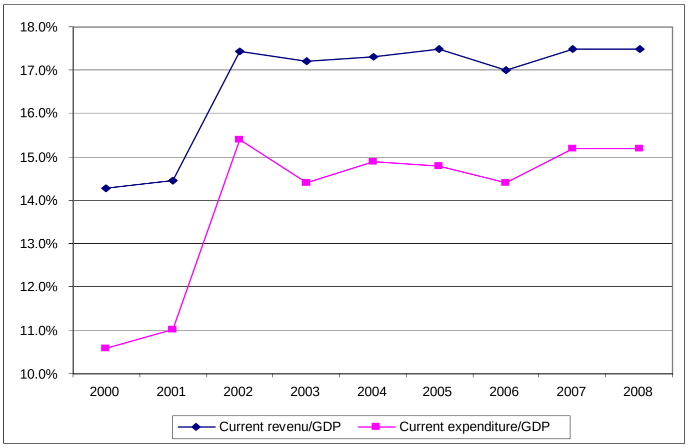
1.2 Public Finances

Financial operations of the State showed diverse trends in the major budget balances. The overall balance, excluding grants in relation to nominal GDP was -7.8%, compared to -7.6% in 2006. On the other hand, the overall balance as a ratio of nominal GDP was -3.1%, compared to -3.5% in 2006. This situation reflects a disproportionate increase in budget revenues in relation to total expenditure.

Indeed, the level of tax revenues and grant mobilization recorded a modest increase of 3.7% in 2007, just the minimum required to stabilize the ratio in relation to the nominal GDP, which was 17.2% compared to 17.3% in 2006. This situation stems from the modest increase of 2.8% recorded in fiscal revenues, which is almost absorbed by the decrease in non-tax revenues of 14.7%, mainly due to the drop in the level of dividends collected from mining companies. The increase in fiscal revenues by 8.3% is attributed to the effects of measures introduced to expand the tax base, reduce exemptions, improve efficiency in the operations of tax collection departments and reorganize the Internal Revenue Department. Capital revenue increased by 21.7%. Likewise, grants estimated at 155.9 billion increased by 20.6%, boosted by project grants and targeted budgetary support.

With regard to expenditure, total expenditure and net borrowings recorded a modest increase of 4.9%, accounting for 25.0% of nominal GDP. This situation is justified primarily by the increase in capital expenditure in infrastructure works and State actions in the social sectors, with a view to achieving the targets set under Poverty Reduction Strategy Framework. Capital expenditure increased by 16.4%, to settle at 11.9% of nominal GDP in line with the upward trend in external resources, reinforced by grants and budgetary support, and particularly efforts to strengthen internally funded capital expenditures. (+61.5%).

Table 3.18: Current Revenue and Expenditure



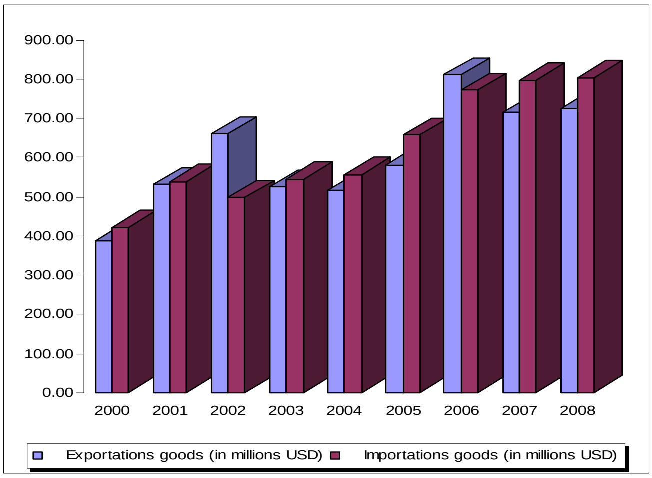
During the same period, current expenditures rose by 3.4% to 12.7% of nominal GDP. This trend in current expenditures is explained primarily by increase in grants to run public services, expenditures on transfers and subsidies for the Mali Pension Fund and increases in wage bill. The 9.3% rise in the wage bill is attributed to the financing of statutory promotions, harmonization of salary scales of civil servants and new recruitments.

Concerning debt, the cancellation of multilateral debt as part of the G8 Initiative has led to a substantial reduction the overall public debt. The country's outstanding debt stood at 24.3% of nominal GDP, compared to 23.7% in 2006. The total public debt servicing accounted for 123.7% of budget revenue.

1.3 External Sector

Under balance of payments, the overall balance has dropped from a surplus of 85.0 billion in 2006 to 10 billion in 2007, in line with a drop in trade performance. The position of the trade balance has worsened from a surplus of 39.2 billion to a deficit of -82.3 billion due to an 11.8 % drop in exports estimated at 714.7 billion and to a 3.3 % parallel rise in imports. The drop in exports is due, on the one hand, to the fall in the estimated gold production and the fall in the volume of cotton fibre exports, on the other hand. Imports reached 798.8 billion, propelled by increased procurement of capital equipment and hydrocarbons.

Graph 3.19: Trends in Exports and Imports



Services deficit declined 4.8%, in view of the dynamism in the tourism sector. Likewise, revenue shortfall went down by 3.6% in line with rise in foreign investment revenue. Current transfers registered a significant drop of 30.3% in view of a reduction in budgetary aid.

In all, the current transactions deficit widened by 159.1 billion compared to achievements in 2006 to settle at 273.4 billion.

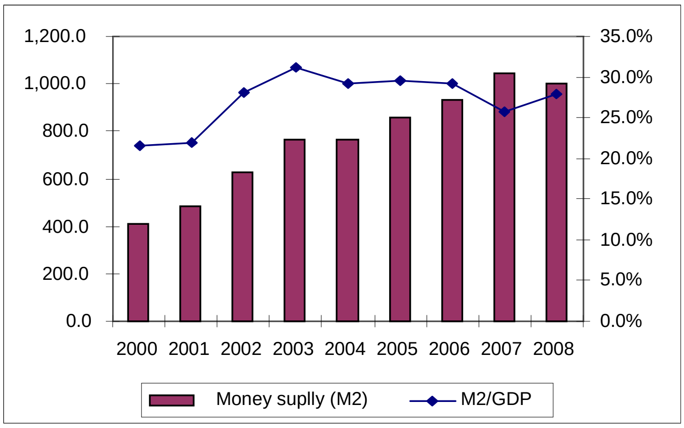
According to estimates, the surplus of capital and financial operations account stood at 266.9 billion, an increase of 41.8 billion compared to that of 2006, in view particularly of drop in offshore retentions of mining companies.

1.4 Monetary Sector

Within the UEMOA region, currency and credit management is based on interest rate policy and the mandatory reserves system. In a context of relative inflation control, the Central Bank has maintained its key rates unchanged at 4.25% for pensions and 4.75% for discount rates. The mandatory reserve coefficient remained at 9.0% in Mali. This situation led to increases in the main monetary aggregates at the end of December 2007.

Indeed, net external assets increased by 4.0% to stand at 544.7 billion. Likewise, domestic credit increased by 9.6% to settle at 489.9 billion in line with increase in credits in favour of the economy. Outstanding credits in favour of the economy increased by 7.6% especially to the benefit of companies in the telecommunications, energy, petroleum products distribution, mining and general trade sectors, as well as cotton companies and peasant associations within the framework of input orders for the 2008/2009 farming season. The net creditor position of the government improved by 0.9%, in line with an increase of 37.2 billion of State debt obtained from the banking system, whose impact has been reduced through an increase of 36.2 billion of its commitments. Reflecting trends in the various counterparts, money supply grew by 11.8% to 1,041.9 billion. This increase is the result of the combined effects of a drop (-4.7 %) in cash circulation and increases in deposits (7.2%), especially in the quasi-money (43.4%).

Graph. 3.20 : Trends in Money Supply



2 Performance under Macro-economic Convergence

There was a slight change in the convergence situation. Overall performance improved with a total of seven (07) targets achieved, compared to six (06) in 2006. This favourable trend is due to a drop in inflation rate which led to the emergence of positive real interest rates. The fall in tax revenue did not have any major effects on expenditure structure indicators. However, this led to a slight decline in the patterns of certain criteria, particularly the budget deficit ratio as well as wage bill /tax revenue ratio.

From the viewpoint of analysis by sector, the numerical performance in respect of primary criteria has not changed, compared the targets achieved in 2006. Three (03) targets were achieved. On the other hand, four (04) targets were achieved in 2007 compared to three (03) in 2006 as far as secondary criteria are concerned. There is consistency, particularly in efforts at controlling expenditures by giving priority to capital investments, as shown by the almost consistent trend of the ratio in relation to increasing fiscal revenues.

MALI : CONVERGENCE SITUATION	Standard	2003	2004	2005	2006	2007	2008. (*)
Primary Criteria							
Budget deficit/GDP	≤.4%	5.3	7.0	7.3	7.6	7.8	8.3
Rate of inflation	≤.5%	-0.1	15	3.4	3.6	2.2	2.6
Monetary financing of budget deficit /Previous year tax revenue	≤.10%	0.0	0.0	0.0	0.0	0.0	0.0
Gross external reserves in months of imports	≥.6	6.0	8.5	8.7	7.5	7.3	8.0
Secondary criteria							
Tax revenues/GDP	≥ 20%	14.2	14.8	15.4	14.9	14.7	16.1
Wage bill/tax revenues	≤ 35%	30.4	31.2	31.0	30.9	32.9	33.2
Private Invest./tax revenues	≥ 20%	22.4	22.8	21.8	23.4	34.5	28.2
Real interest rates	≥ 0	36	20	0.1	-0.1	1.3	0.9
Real exchange rate stability	± 5%	1.2	-3.0	3.0	-2.0	0.8	-0.3
Total # of criteria met		7	6	6	6	7	7

Source WAMA, BCEAO. *(*): Annual estimates*

3 Prospects for 2008

On the whole, average results were achieved in 2007. Economic slowdown that affected the pace of activity was one of the main sources of constraints. This disappointing situation does not strictly stem from the fact that the 4.3% real GDP growth rate constitutes a rather poor result, but because a higher rate was expected. Indeed, in order to eliminate massive poverty facing the population, a growth rate of at least 7% per annum is required. That is why the government has undertaken to reshape its future economic policies, particularly in 2008 by following strictly the orientations under the poverty reduction strategy. To that end, measures will be taken to strengthen the productive sector and consolidate public sector reforms. In view of this, projects planned as part of the Millennium Challenge initiative would help to mobilize large investments and consequently boost economic growth. The GDP real growth rate should reach 4.7% in 2008 and aim at 8.0% by the year 2010.

In the primary sector, the development of 16,000 hectares of land in the *Office du Niger* zone at Alatona will help to increase total farm lands by 20%. Agricultural production, mainly supported by food crop farming will increase during the period under review by 6.5% yearly on the average. The secondary sector would see considerable investment, particularly the establishment of an industrial estate around the airport zone. The emergence of new production units, particularly in the food processing industry, would help the manufacturing sector to make up for shortfalls in the extractive industry. Besides, the effective implementation of the transport and communication infrastructure expansion projects, as well as reforms planned to promote an enabling business environment would help to maintain the dynamic nature of the service sector.

With regard to prices, the marked escalation of oil prices on the world market in 2007 should not compromise the compliance with the inflation criterion.

As regards public finances, the budget policy would be implemented, taking into account requirements relating especially to financial governance improvement. In this regard, measures to enhance the financial capacity of the State and improve the quality of public expenditure would be pursued and strengthened.

4 Conclusions and Recommendations

Poor economic achievements noted in the assessment of Mali's economic circumstances should not conceal constant efforts to streamline public finances. Indeed, budget indicators have improved over the past few years. The targets set for 2008 are in line with this trend. Efforts should therefore be made to strengthen this trend, and this should be done through achieving the projected performances by, among other things:

- maintaining revenue mobilization efforts and controlling current expenditures;
- implementing actions identified as part of the budget and financial reforms project;
- Implementing the various sector reforms, especially in the cotton, banking, telecommunications, water and electricity sectors;
- Pursuing the restructuring of State enterprises and the financial sector;
- Implementing the necessary measures in order to re-establish the financial equilibrium of the Mali Pension Fund (CRM).