



Mali's experiences in addressing the problem of the recent sharp rise in food and energy prices

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Presentation plan

- Background
- Recent policy responses to price volatility
- Summary of lessons learned
- Outlook and challenges

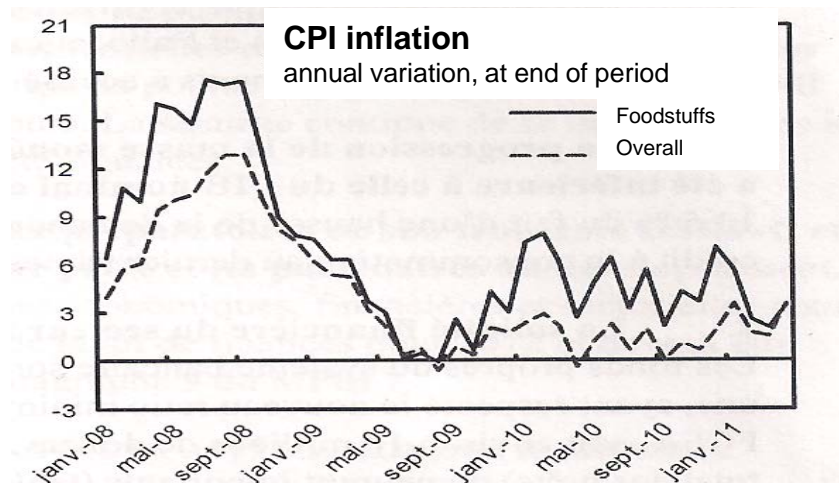
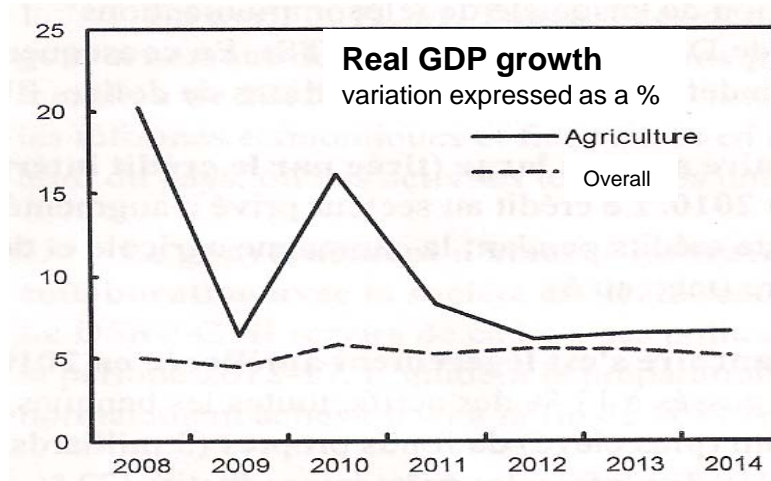
Background(1)

- Mali's economy relies heavily on the prices of (3) raw materials: gold and cotton for exports, petroleum products for imports.
- As well as these three products, one must also add, to a lesser extent and still on the import side, foodstuffs.

Background (2)

- Mali currently imports the totality of its annual consumption of petroleum products. Over the last three years, these products accounted for more than 20% of the country's imports, far more than food imports (approximately 10%).
- The soaring price of foodstuffs and fuel in 2008 resulted in a 13% increase in inflation with a 5% growth rate thanks to a good agricultural season.

Trends in economic growth and prices



Recent policy responses to price volatility

- In order to address the problem of price volatility, the Government has developed policies that aim to minimise the impact of these fluctuations (1) on the State budget, (2) on economic activities, and (3) on the purchasing power of households, particularly the poorest households.

In regard to Energy

- Thus, in order to protect the domestic price of fuel from the increase in international prices, the government regularly adjusts taxes on petroleum product imports, in order to maintain the relative stability of prices at the pump.
- Although this policy has enabled the government to maintain a certain level of price stability in the energy and transport sectors, it has led to significant shortfalls for the State budget, which are estimated at 62 billion CFAF (1,6 percent of the GDP) in 2008, 7 billion CFAF (0,2 percent of the GDP) in 2009 and **13 billion CFAF (0,3 percent of the GDP)** in 2010.

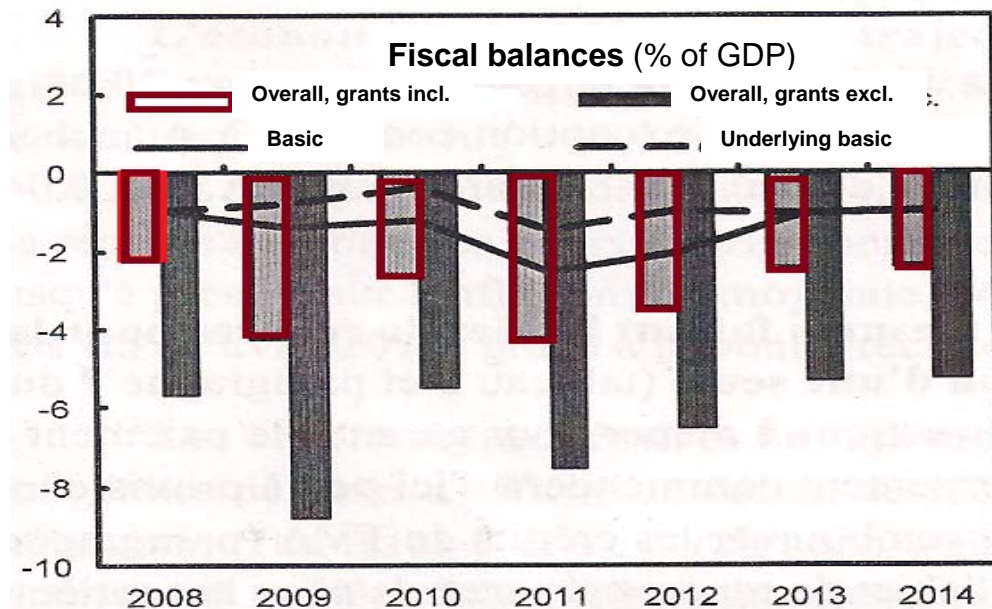
In regard to Energy

- Nevertheless, in December 2010, the government adopted a mechanism to mitigate the impact of international oil prices on domestic prices, that will ensure tax revenue security while at the same time moderating the sudden and unexpected increases in the price of petrol at the pumps.
- Similarly, the government, with the assistance of the World Bank, is currently finalising an indexation scheme for the indexation of electricity prices. In order to stabilise the price of energy in the medium-term, the government prefers to focus on the development of alternative energy sources, such as the hydroelectric potential and connecting to the sub-regional network, etc.

In regard to foodstuffs

- As to the price of foodstuffs, the agricultural production of cereals compensates for the economic shocks.
- However, it should be noted that it cost the government 21.7 billion CFAF in 2010 to provide subsidies for agricultural inputs during the 2010-2011 crop-year.
- Generally speaking, the policy applied in regard to foodstuffs is to encourage domestic production.

Summary of lessons learned (1)



Summary of lessons learned (2)

- Price subsidies have a high budgetary cost;
- The mitigation of the energy and food shocks of 2008, allowed inflation to drop to 2.2% in 2009, and in the same year economic growth was greater than expected (4.5%) thanks to the recovery of domestic agricultural production.
- Reform strategies can be strengthened by :
 - A clear statement of what the budgetary cost of the subsidies amounts to.
 - a specific reallocation programme for the budgetary savings in order to boost public investment in certain sectors (education, health, infrastructure)
 - The drafting and implementing of social welfare measures targeting poor households
 - The adoption of an automatic price adjustment mechanism

Outlook and challenges

- Our overall objective, regarding the variability of food and fuel prices, is to apply a viable medium-term fiscal policy by restricting subsidies.
- nevertheless, when one is confronted by various and often **opposite** shocks of a comparable magnitude, what can be done?
- one solution is of course, diversification, particularly as regards exports but also in regard to public revenue sources.
- But this is only possible in the medium-term. We would welcome any suggestions you might have in this regard.

Thank you for your kind attention