

**STATEMENT BY THE INTERNATIONAL MONETARY FUND STAFF  
MADAGASCAR DONORS' MEETING  
DECEMBER 1, 2016**

*This statement provides an assessment of recent economic developments and the outlook for Madagascar, including performance under the Extended Credit Facility (ECF) arrangement approved in July 2016 (IMF Country Report No. 16/273). The assessment has been informed by discussions during a staff visit on September 7-15, 2016, and during the IMF/World Bank Annual Meetings in October. Preliminary data for end-September suggest that the program remains broadly on track. In March 2017, an IMF mission will visit Madagascar to conduct the first review under the ECF-supported program.*

### **Recent Economic Developments**

1. **The economy is gradually recovering from the political turmoil and international isolation that ended in 2014.** Growth is expected to rise to 4.1 percent in 2016. Inflation remains stable at around 7 percent. External developments have been mildly positive on balance, with the current account deficit projected to fall modestly in 2016. Although low world commodity prices continue to depress mining revenues, total export receipts have been boosted by higher sales from the export processing zones and a sharp increase in vanilla prices. As a result, the real exchange rate appreciated in the third quarter, and the Central Bank of Madagascar was able to build its reserves considerably.
2. **Implementation of fiscal and monetary policy was broadly appropriate, although losses at the state-owned utility remain problematic.** Tax revenues are on track to meet targets this year. Spending is also expected to remain within budgeted amounts, with unexpected needs accommodated through offsetting savings. In this regard, ongoing actions to limit the need for transfers to the public utility JIRAMA are key. Monetary policy implementation was consistent with program objectives. In particular, the central bank responded appropriately to a temporary liquidity shortfall in the third quarter—that arose from vanilla producers holding onto the cash they received from the price windfall—with prudent liquidity operations.
3. **Initial performance under the ECF arrangement appears to be broadly satisfactory.** Based on preliminary data, Madagascar is expected to meet nearly all indicative targets for end-September. International reserves (net foreign assets) amply exceeded the minimum targeted, while the floor on the primary fiscal balance and the ceiling on the central bank's net domestic asset holdings also appear to have been observed. The program's indicative target for social spending in September may have been missed by a small amount, but this is expected to be recouped by end-year. Staff considers that the authorities remain on track to observe all end-December quantitative performance criteria. Moreover, the structural reform agenda is also progressing, although with some delays relative to plans under the program. Prior actions completed for the ECF-supported program focused on the electricity sector and the fight against corruption. In addition, the authorities are expected to submit a draft law to parliament that

enhances asset recovery in criminal cases (structural benchmark for end-October 2016) by mid-December, when the current legislative session ends, and to strengthen the accountability of senior government officials by making the Council of Budget and Financial Discipline operational by end-December (structural benchmark for end-September 2016).

## Outlook

### 4. **The gradual improvement in economic performance is expected to continue in 2017, supported by the appropriate macroeconomic and structural policies being pursued.**

Implementation of budget plans and a prudent monetary policy should strengthen macroeconomic stability and build the foundations for sustained growth.

- Growth is expected to accelerate to 4½ percent as public investment and private sector activity expand. Private sector growth is dependent, however, on continuing improvements in macroeconomic stability, governance and the business climate. Implementation of planned reforms to strengthen the judicial system, fight corruption, and address problems in the electricity sector is particularly important for the business climate.
- Year-on-year inflation is expected to remain around 7 percent in 2017, although the recent liquidity expansion needs to be re-absorbed carefully.
- On fiscal policy, the authorities' draft 2017 budget is broadly consistent with the program's objectives and targets. Successful execution, however, will require continued improvement in revenue generation and containment of non-priority expenditure, especially determined implementation of reforms at JIRAMA.

5. **The authorities' plans to scale up public investment over the medium term are consistent with program objectives and debt sustainability.** Madagascar faces substantial social and infrastructure needs, which received inadequate attention prior to re-engagement with the international community in 2014. The authorities appropriately stress the need to build capacity to manage and prioritize increased public investment and underwent a Public Investment Management Assessment by World Bank and IMF staff earlier this year. At the same time, they are committed to keeping Madagascar's risk of external debt distress at a moderate level. The authorities are seeking to mobilize disbursements of around US\$2.9 billion (about 24 percent of 2019 GDP) in total external financing during 2017-19. So far, they have signed loan and grant agreements for US\$1.2 billion in disbursements for this period, primarily in the infrastructure, energy, agricultural, and social sectors. External financing contracted so far in 2016 consists of grants and concessional loans, with the exception of one US\$10 million loan on semi-concessional terms (which is well within program limits). The authorities aim to secure an additional US\$1.2 billion in concessional borrowing and US\$500 million in grants. IMF staff assess that these plans remain compatible with debt sustainability provided they rely on the intended mix of grants and concessional loans. The authorities recognize the need to adjust the implementation of the scaling up to safeguard debt sustainability and macroeconomic stability in the event of unforeseen developments.

## Risks

6. **As a low-income, fragile country, Madagascar remains vulnerable to considerable risks.** Exogenous risk factors include adverse weather and a deterioration in the terms of trade. In addition, the prolonged drought in the south is generating growing social costs and needs. The success of the program would also be jeopardized by political instability or lack of progress in planned reforms, including most notably in revenue generation, governance, and JIRAMA.

## IMF relations

7. **The IMF will continue its close engagement with Madagascar.** The current ECF arrangement has access of 180 percent of quota, or about USD300 million, and lasts until mid-2019. The IMF is also engaged in providing intensive policy advice and substantial technical assistance. Discussions for the first review and the Article IV consultations are scheduled for March 2017.