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REPUBLIC OF MADAGASCAR

March 2022

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF MADAGASCAR

In the context of the First Review Under the Extended Credit Facility Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 7, 2022, following discussions that ended in February 2022, with the officials of Republic of Madagascar on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on February 25, 2022.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Republic of Madagascar.

The document listed below will be separately released:

Letter of Intent sent to the IMF by the authorities of Republic of Madagascar*
Memorandum of Economic and Financial Policies by the authorities of Republic of Madagascar*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Completes First Review of the Extended Credit Facility Arrangement for the Republic of Madagascar, and Approves $67.5 Million Disbursement

FOR IMMEDIATE RELEASE

- The Executive Board decision enables the immediate disbursement of about US$ 67.5 million and supports the implementation of the authorities' reforms to raise growth and reduce poverty.
- Raising revenue and actively managing fiscal risks are key to create fiscal space for social spending and investment.
- Continued efforts are needed to advance the anti-corruption and governance agenda along with improvements in the budget transparency and accountability of COVID-19 spending.

Washington, DC, March 7, 2022 – Today, the Executive Board of the International Monetary Fund (IMF) completed the first review of Madagascar's economic program under the Extended Credit Facility (ECF) arrangement. The completion of this review enables the immediate disbursement of SDR 48.88 million (about US$ 67.5 million) to cover external and fiscal financing needs, bringing total disbursements under the arrangement to SDR 97.96 (about US$ 135 million).

The 40-month ECF arrangement was approved by the IMF Executive Board on March 29, 2021, with a total access of SDR 219.96 million (about US$312.4 at the time, or 90 percent of quota). The arrangement aims to support Madagascar's recovery from the pandemic and revive the authorities' reform momentum to raise and sustain growth and reduce poverty (see Press Release 21/91).

Since the onset of the COVID-19 pandemic, Madagascar benefitted from two IMF Rapid Credit Facility (RCF) disbursements of SDR 122.2 million (about US$ 165.99 million or 50 percent of quota) in April 2020 and SDR 122.2 million (about US$ 171.9 million or 50 percent of quota) in July 2020, and received an SDR allocation of SDR 234.2 million (about US$ 322 million) in August 2021.

Madagascar continues to be affected by the COVID-19 pandemic and is going through a severe cyclone season. After a contraction of GDP estimated at 7.1 percent in 2020, the recovery has been sluggish with growth estimated at 3.5 percent in 2021, in part reflecting a delayed reopening of the economy. Growth is projected to rebound more vigorously to 5.4 percent in 2022. Downside risks are high, as COVID-19 vaccination rates remain low, and Madagascar remains vulnerable to severe natural disasters.

Following the Executive Board discussion, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, made the following statement:

"Madagascar's performance under the Fund-supported program for the first half of 2021 was broadly satisfactory despite the ongoing COVID-19 pandemic and recent cyclones, which took a severe human and economic toll on the country. The continuation of prudent policies and implementation of the reform agenda under the Extended Credit Facility arrangement will support the economic recovery and should help achieve more sustainable and inclusive growth.

“The authorities are implementing a gradual fiscal consolidation while boosting much-needed social and investment spending. The 2022 Budget includes measures to increase domestic revenue mobilization and create the fiscal space for growth-enhancing spending. Progress in the execution of social spending is a key program objective and requires better planning and a streamlined authorization process. Given Madagascar’s moderate risk of debt distress, it is recommended that the authorities follow a prudent debt management strategy that relies on grants and concessional financing for scaling-up investment.

“Stronger efforts are needed to improve budget transparency and reporting. The authorities recently published four audit reports by the *Cour des Comptes* on the response to the COVID-19 pandemic. It will be essential to address the findings of those reports in order to strengthen governance and transparency. The prompt publication of an independent third-party audit of COVID-19-related public procurement contracts is also important. The authorities are working on further strengthening public financial management. The effective enforcement of the anti-corruption legal framework is also necessary.

“Reforms to mitigate fiscal risks include the preparation of a timetable for the transition toward an automatic fuel pricing mechanism along with the development of adequate social safety nets to protect the most vulnerable groups. Improving the financial situation of the public utility JIRAMA is also essential. The authorities are also strengthening the disaster risk management system to address climate-related risks with technical assistance from the Fund.

“The authorities are committed to continue enhancing the monetary policy framework, protecting central bank autonomy, and fostering financial sector development and financial inclusion.”

Table 1. Selected Economic Indicators, 2019-24

	2019	2020	2021	2022	2023	2024
	Est.		Proj.			
	(Percent change; unless otherwise indicated)					
National account and prices						
GDP at constant prices	4.4	-7.1	3.5	5.4	5.1	5.0
GDP deflator	6.5	4.4	6.1	6.1	6.9	5.6
Consumer prices (end of period)	4.0	4.6	6.2	6.3	6.1	5.9
Money and credit						
Broad money (M3)	7.3	12.1	19.0	16.5	10.7	13.3
	(Growth in percent of beginning-of-period money stock (M3))					
Net foreign assets	-2.6	2.1	1.4	7.9	-1.0	3.8
Net domestic assets	9.9	10.0	17.6	8.6	11.7	9.4
of which: Credit to the private sector	10.3	5.6	8.6	8.3	8.1	7.2
	(Percent of GDP)					
Public finance						
Total revenue (excluding grants)	10.8	9.9	10.8	11.9	12.5	12.9
of which: Tax revenue	10.6	9.5	10.4	11.6	12.2	12.6
Grants	3.1	2.5	1.7	2.1	2.0	1.2
of which: budget grants	0.7	0.9	0.0	0.0	0.3	0.3
Total expenditures	15.4	16.3	18.7	19.7	18.2	17.9
Current expenditure	9.5	9.6	11.4	10.5	10.1	10.0
Capital expenditure	5.8	6.8	7.4	9.2	8.2	7.9
Overall balance (commitment basis)	-1.4	-4.0	-6.3	-5.8	-3.8	-3.8
Domestic primary balance[1]	0.3	-1.9	-2.5	-0.9	0.0	0.4
Total financing	1.3	3.5	6.4	5.8	4.1	4.0
Foreign borrowing (net)	1.3	1.8	3.6	3.3	2.6	3.0
Domestic financing	0.0	1.7	2.9	2.5	1.5	1.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Savings and investment						
Investment	18.3	15.0	16.6	19.3	19.1	19.4
Gross national savings	17.5	8.2	11.2	14.3	14.5	15.3
External sector						
Exports of goods, f.o.b.	18.5	15.0	18.9	18.3	17.9	18.0
Imports of goods, c.i.f.	26.9	24.3	29.2	27.3	27.6	27.6
Current account balance (exc. grants)	-5.4	-7.9	-7.1	-7.1	-6.6	-5.3
Current account balance (inc. grants)	-2.3	-5.4	-5.5	-5.0	-4.6	-4.1
Public debt	38.5	49.0	53.1	52.9	52.0	51.9
External Public Debt	27.0	36.7	41.4	41.9	41.2	41.3
Domestic Public Debt	11.5	12.3	11.7	11.0	10.7	10.6
	(Units as indicated)					
Gross official reserves (millions of SDRs)	1196	1338	1633	1723	1665	1754
Months of imports of goods and services	4.2	6.0	6.0	5.7	5.0	5.0
GDP per capita (U.S. dollars)	512	457	502	525	565	592

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

[1] Primary balance excl. foreign-financed investment and grants. Commitment basis.

REPUBLIC OF MADAGASCAR

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

February 25, 2022

EXECUTIVE SUMMARY

Context. Madagascar continues to be severely affected by the COVID-19 pandemic. After a contraction of GDP estimated at 7.1 percent in 2020, the economic recovery has been sluggish, partly reflecting a delayed reopening of the economy. Postponement of some external budget support, following delays in structural reforms, will open a fiscal financing gap in 2022.

Program Performance. The macroeconomic program is on track. All quantitative performance criteria and most indicative targets were met in June 2021, with the notable exception of the one on social spending, partly because of delays in obtaining spending authorizations above certain thresholds. Mixed progress was achieved on the structural reform agenda. The implementation decree for the law on illicit asset recovery (structural benchmark at end-June 2021) was adopted in September and the full implementation of the commitments made at the time of the RCF requests will require further monitoring. A revised law on the anti-corruption courts, broadly in line with program commitments, was adopted in July.

Program Policies. To create fiscal space for growth-enhancing spending, the authorities will continue to strengthen the tax and customs administrations and have adopted new tax measures in the 2022 budget law while strictly prioritizing expenditures. It is proposed to relax the target for the domestic primary deficit in 2022 to limit the contractionary effect of fiscal consolidation. Structural reforms in the energy and transport sectors are to resume to contain fiscal risks. Improvement in budget transparency is critically needed to restore confidence of the public and attract foreign financing. The central bank will continue strengthening its monetary and financial policy framework.

Outlook and risks. The macroeconomic outlook is favorable with growth projected to rebound to 5.4 percent in 2022, but downside risks from new COVID-19 outbreaks and rising oil prices are significant.

Approved By
Vivek Arora and Geremia Palomba

Discussions were held remotely from Washington, DC during September 22–October 25, 2021. Discussions continued remotely during November 2021–February 2022. The staff team comprised Frederic Lambert (head), Cristina Cheptea, Dominique Fayad, Samah Mazraani (all AFR), Tim Willems (SPR), Marc Gerard (Resident Representative) and Ialy Rasoamanana (local economist). Aivo Andrianarivelo and Onintsoa Raoilisoa Andrianometiana (OEDAF) participated in the discussions. The team met Minister of Economy and Finance Rindra Hasimbelo Rabarinirinarison, Minister of Justice Herilaza Imbiki, Minister of Energy and Hydrocarbons Andry Ramaroson, Minister of Public Health Zely Arivelo Randriamanantany, Central Bank Governor Henri Edmond Rabarijohn, and other officials. Loic Lanci, Tebo Molosiwa, and Fausa Aliu (all AFR) contributed to the preparation of this report.

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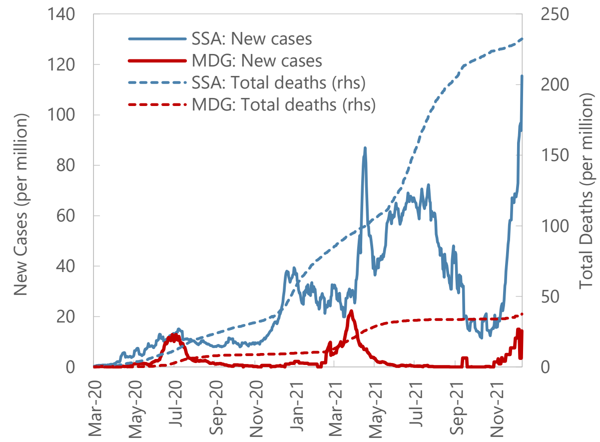
CONTEXT

1. Madagascar has been severely impacted by the global COVID-19 pandemic. The pandemic and economic shutdown in 2020 contributed to a real GDP contraction of over 7 percent. After a first wave of infections in mid-2020, a second wave hit the country in early 2021. Cases have been rising again since borders reopened in November 2021 although it is still unclear whether the surge comes from the Delta or the Omicron variant and the economic effects have so far been limited. Because of vaccine hesitancy and distribution capacity constraints, less than 2.5 percent of the population was fully vaccinated as of end-December.

Madagascar: New COVID-19 Cases and Total Deaths
(Moving 7-day average)



Sources: Our World in Data COVID-19 Database, University of Oxford; and IMF Staff Calculations.

2. The impact of the pandemic has added to structural development challenges. Madagascar is a fragile country afflicted by recurrent political crises and natural disasters and is the sixth poorest country in the world in terms of GDP per capita with 75 percent of the population living on less than US$1.90 per day. Alongside the pandemic, Madagascar has experienced its most severe drought since 1981 and was hit by two cyclones in January and February 2022, which caused more than 150 fatalities and extensive infrastructure damage. Over 1.4 million people in the South are in urgent need of food assistance (IPC3+), according to the World Food Program.[1]

RECENT DEVELOPMENTS

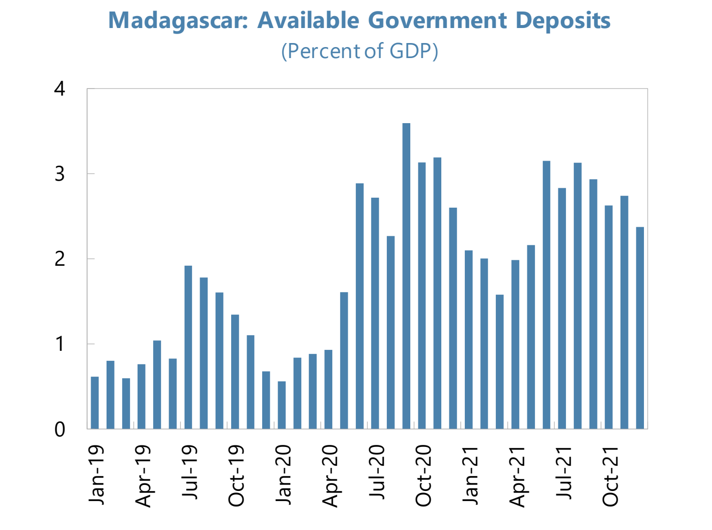
3. Following a deep recession in 2020, economic activity is gradually picking up, accompanied by price pressures. Collapsing tourism and mining production, along with dampened private demand due to lockdown measures, contributed to the GDP contraction in 2020. Since mid-2021, activity has started to recover, supported by textile and mining exports. Inflation declined to 4.2 percent in 2020 but has increased to 6.2 percent y-o-y in December 2021 driven by food and health care prices.

4. The external position has weakened with the pandemic. The current account deficit increased to 5.4 percent of GDP in 2020 and 5.5 percent in 2021 (from 2.3 percent in 2019), owing to low exports of travel services, minerals, and vanilla (reflecting a decline in prices by over 20 per-

[1] The Integrated Food Security Phase Classification (IPC) distinguishes between five distinct phases: (1) Minimal/ None, (2) Stressed, (3) Crisis, (4) Emergency, (5) Catastrophe/Famine.

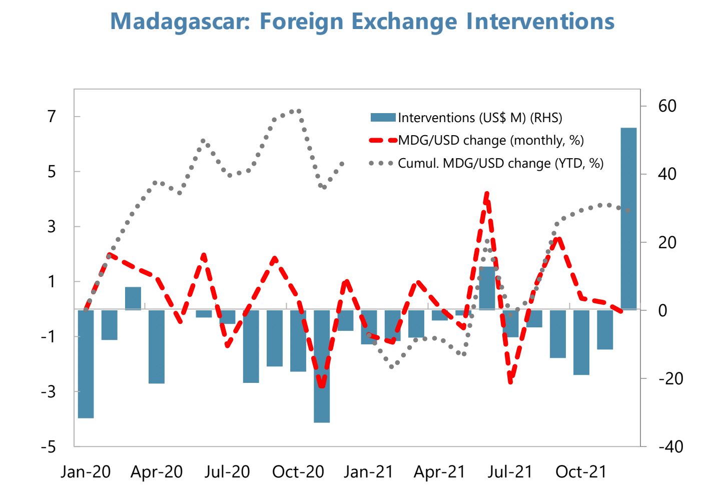
cent) partly compensated by lower imports of fuel products and investment goods. The export recovery in 2021 has been partly offset by higher fuel prices and food and intermediate goods imports. After depreciating by 5 percent against the U.S. dollar in 2020, the exchange rate broadly stabilized through May 2021, but has since resumed its depreciating trend (some 5.3 percent vis-à-vis the U.S. dollar over June-December 2021) amidst limited FX supply due to low export revenues.

5. **The fiscal balance deteriorated in 2020 due to a large shortfall in revenue.** Tax revenue declined to 9.5 percent of GDP in 2020 and, combined with stable current expenditure and higher domestically financed investment, resulted in a deterioration of the domestic primary deficit (commitment basis) to 1.9 percent of GDP.[2] At the same time, the countercyclical impact of the fiscal expansion was limited by significant budget under-execution, especially for social sectors. Spending under-execution and increased external budget support have resulted in a significant buildup of government deposits through mid-2021.



Source: Malagasy Authorities.

6. **Monetary policy has continued to focus on managing bank liquidity while smoothing undue exchange rate volatility in the face of depreciation pressures.** The central bank has bolstered the banking system through continued liquidity injections, of MGA 299 billion during 2020 and MGA 594 billion during 2021. However, all exceptional support measures to the financial sector were lifted in early 2021. In light of the recent inflationary pressures, the central bank (BFM) increased the deposit



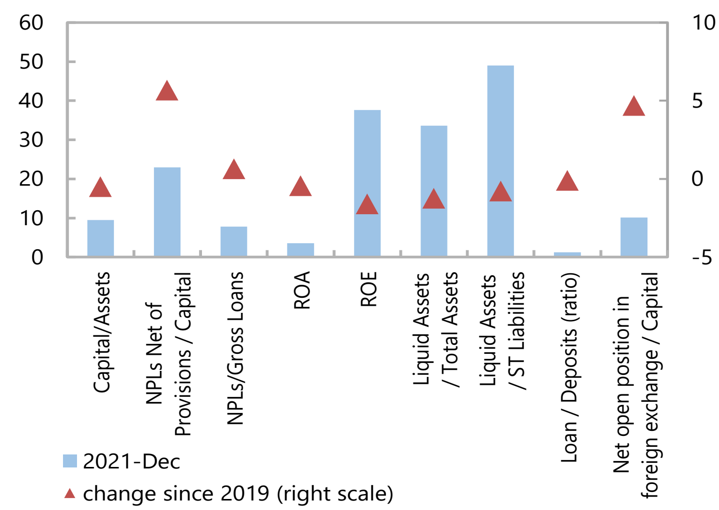
Source: BFM.

[2] The domestic primary balance (program definition) is equal to the primary balance excluding foreign financed capital expenditures and grants. On a commitment basis, expenditures are recognized when incurred, but not necessarily paid.

facility rate by 100 and 130 basis points on November 2, 2021, and February 1st, 2022, respectively, narrowing the interest rate corridor. The exchange rate depreciation in 2020 prompted net FX interventions of US$156 million, which have been reduced in recent months. Official reserves increased to cover 6 months of imports at end-2020 thanks to emergency financial assistance from the IMF and other development partners totaling about US$446 million (equivalent to 2 months of imports; 3.4 percent of GDP). At end-December 2021, reserves stood at SDR 1,633 million (6 months of imports) and are assessed as adequate.

7. **While banks were able to preserve their solvency, non-performing loans (NPLs) have risen, and risks have increased**. To maintain their solvency, many banks suspended dividend payments in 2020 and 2021. While NPLs rose to 7.8 percent of total loans in December 2021, compared to 7.2 percent before the pandemic, they are declining from March high of 7.9 percent. Although all microfinance institutions comply with prudential requirements, half of them are seeing rising NPLs. However, the overall NPL ratio declined to 9.9 percent in October (from a peak of 10.9 percent in September) while lending has resumed.

Madagascar: Financial Soundness Indicators
(Percent)



Sources: Malagasy authorities; and IMF staff calculation.

8. **Amid social unrest, the authorities announced in end-July they had foiled an assassination attempt on the President**. Six people were convicted after a trial in December. Under the continued leadership of Prime Minister Ntsay, a new government, including a new Finance Minister, was appointed in August.

OUTLOOK AND RISKS

9. **The medium-term outlook is favorable.** The real growth rate is projected to have reached 3.5 percent in 2021, compared to 3.2 percent envisaged at program approval, with a stronger recovery to 5.4 percent in 2022, before converging to its 5 percent potential path. The stronger short-term outlook reflects a lower base for 2020 as well as a later recovery. Public finance developments would remain sustainable in the medium run, with a domestic primary deficit of 2.5 percent of GDP in 2021 (as envisaged in the program) before settling close to balance as of 2023. Assuming some ramp-up in externally financed investment, public debt

would reach 51.6 percent of GDP in 2026. A new Debt Sustainability Analysis shows that Madagascar remains at moderate risks of external debt and overall public debt distress.

10. This outlook remains subject to significant risks. Recurring COVID-19 outbreaks linked to new variants and low vaccination rates could adversely affect growth. New cyclones could cause losses of real and human capital, disrupt trade and lower potential growth. Further increases in oil prices, notably in light of recent geopolitical developments, would raise fuel and electricy production costs, weighing on government transfers and complicating reforms in the energy sector. Continued under-execution of social spending and reversals in the governance reform agenda could trigger social volatility, while weak investment implementation would curtail growth. Upside risks include the unlocking of large-scale projects in the energy and mining sectors with positive spillovers to the rest of the economy.

PERFORMANCE UNDER THE PROGRAM

11. Implementation of the program has been broadly satisfactory, except for under-execution of social spending and some delays in structural reforms. The June quantitative performance criteria (QPC) on the central bank's net domestic assets and net foreign assets and on the domestic primary balance were met, as were the continuous QPCs related to the non-accumulation of new external arrears and to the ceiling on new external debt. The indicative target (IT) on customs tax collection was met while the IT on domestic tax collection was only slightly missed at end-June and did not cause a non-observance of the domestic primary deficit QPC. However, the IT on social spending was missed by almost half, as scrutiny of spending above certain thresholds reportedly delayed commitment procedures, notably for capital expenditures on social projects.

12. Delays in structural reforms have affected the policy dialogue with donors. The presidential development program (*'Plan Emergence Madagascar'*) has not yet been released. Meanwhile, noting the structural reform delays, development partners have reduced 2021 budget support from US$273 million envisaged at program approval to US$144 million. The structural benchmarks (SB) on the collection of tax arrears, the coverage extension of cash transfers, and the limit to government liabilities to oil distributors were met, but the implement-tation decree for the law on illicit asset recovery was adopted late (in September rather than June) and the draft quarterly budget execution reports need further improvement especially regarding payment coverage. Staff were notified late of budget transfers to JIRAMA's suppliers and not within one week of payment as envisaged. The publication of the audit report by the supreme audit institution (*Cour des Comptes)* of the financial flows related to the response to the COVID-19 pandemic announced for end-2021 was delayed until February 2022 (prior action). Similarly, the third-party audit of COVID-19-related contracts (SB at end-December 2021) was postponed to early 2022.

13. In part, the reform delays reflect concerns about the fragile political and social situation and nascent recovery. New structural benchmarks were defined with the authorities to support their reform effort and set small steps to facilitate the introduction of difficult reforms such as the implementation of an automatic fuel pricing mechanism, which the previous program first envisaged.

POLICY DISCUSSIONS

14. Achieving the objectives of the '*Plan emergence Madagascar*' (PEM) will require significant investments in human capital and infrastructure, as well as strengthening governance and financial sector development. Policy discussions focused on four objectives: (i) creating fiscal space for growth-enhancing spending, (ii) reducing fiscal risks in the short and medium term, (iii) improving public financial management and governance, and (iv) strengthening the monetary and financial policy framework.

A. Mobilizing Fiscal Policy to Address Economic and Social Needs

15. Staff and the authorities agreed on a revised fiscal framework for 2021 based on common macroeconomic assumptions, with the same domestic primary deficit of 2.5 percent of GDP as at program approval (text table)**.** Compared with the supplementary budget (*Loi de Finances Rectificative* or LFR), the revised framework for 2021 assumes less optimistic growth and lower revenue and capital spending, while preserving social spending. The authorities planned to continue their efforts towards more tax arrears collection in 2021 (SB at end-December) and beyond.

16. The 2022 budget envisages a gradual reduction in the deficit compared to 2021, supported by measures to raise tax revenue by 24 percent. To support the economic recovery in an uncertain health environment while maintaining program objectives, the 2022 fiscal target accommodates higher social spending and public investment with a domestic primary deficit of 0.9 percent of GDP, compared to 0.4 percent of GDP at program approval.

17. The authorities are undertaking significant revenue measures in the context of the 2022 budget to durably raise tax revenue by 1.2 percent of GDP. Beyond higher tax collection accompanying the economic recovery, the 2022 budget includes measures to: (i) raise and effectively enforce tobacco and alcohol excises, and tackle fraud in the tobacco sector (0.3 percent of GDP); (ii) introduce a new excise tax on gold exports (0.1 percent of GDP); (iii) remove inefficient tax incentives for investment, including the grace period for free-zone companies, and remove selected VAT exemptions (0.1 percent of GDP); (iv) further improve tax arrears collection (one-off measures amounting to 0.5 percent of GDP); (v) pursue administrative reforms to strengthen the reliability of the taxpayer database, digitalize tax procedures, and optimize tax control (0.4 percent of GDP); and (vi) strengthen audit controls and the fight against customs fraud (SB for the first half of 2022) and align tariff lines with legal codes (0.3 percent of GDP). Should these proposed measures not generate the expected revenue gains, the authorities intend to take new tax policy measures in the revised budget law. To that end, they will prepare impact studies of possible tax reforms to address costly exemption regimes, including for VAT (MEFP, ¶14).

Text Table 1. Madagascar: ECF Fiscal Framework, Supplementary Budget (LFR), and Revised Projections (Billions of Ariary)

	2021		
	ECF	LFR	Current framework
Total revenue and grants	7,148	7,565	6,761
Total revenue	5,859	6,258	5,841
Tax revenue	5,694	6,093	5,676
Non-tax revenue	165	165	165
Grants	1,289	1,308	920
Total expenditure and lending minus repayments	10,432	10,819	10,165
of which: Social priority spending [1]	*514*	*345*	*299*
Current expenditure	6,088	6,280	6,168
Wages and salaries	3,182	3,152	3,049
Interest payments	482	436	375
Goods and services	436	457	421
Transfers and subsidies	1,494	1,743	1,830
Treasury operations (net)	493	493	493
Capital expenditure	4,344	4,539	3,998
Overall balance (commitment basis)	-3,284	-3,254	-3,404
Overall balance (including grants, cash basis)	-3,745	-3,715	-3,492
Domestic primary balance[2]	-1,426	-1,426	-1,347

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

[1] Domestically financed spending of four social ministries, excluding salaries. The revised budget amount excluded potential funds of 285 billion which were unallocated to specific budget programs.

[2] Primary balance excl. foreign-financed investment and grants. Commitment basis.

Text Table 2. Madagascar: Sources of Expected Tax Revenue Gains in 2022

	2021		2022 Proj.				
	Proj.	Excluding One-Offs	Economic Factors	Administrative Measures	Policy Measures	One-off Factors	Total
			(in billions of Ariary)				
Total tax revenue, net of VAT reimbursement	5,676	5,468					7,045
Total tax revenue, gross	5,882	5,674	6,275	468	206	333	7,282
Domestic taxes	3,225	3,017	3,373	363	150	333	4,219
Taxes on international trade and transactions	2,657	2,657	2,902	105	56	0	3,063
			(in percent of GDP)				
Total tax revenue, net of VAT reimbursement	10.4	10.1					11.6
Total tax revenue, gross	10.8	10.4	10.3	0.8	0.3	0.5	12.0
Domestic taxes	5.9	5.6	5.6	0.6	0.2	0.5	6.9
Taxes on international trade and transactions	4.9	4.9	4.8	0.2	0.1	0.0	5.0

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

18. **The 2022 budget aims to adjust the composition of spending to support social priorities and the economic recovery.** Preliminary data suggest social spending reached 70 percent of the program indicative target (IT) in 2021. The 2022 budget envisages an increase in social spending to 1.2 percent of GDP (IT definition), 0.2 and 0.5 percentage points above the

initial 2021 budget and actual spending respectively. To facilitate spending execution in 2022, the four key social ministries (education, health, water, and social protection) will prepare within-year spending commitment plans, on which basis the Ministry of Finance will release corresponding appropriations in a timely manner (new SB). With EU support, the authorities are endeavoring to address the root causes of the chronic under-execution of social spending. With World Bank support, they are working to include a functional classification of social spending in the 2022 budget[3] and to expand the targeting of cash transfer programs[4] (MEFP ¶22).

Madagascar: Spending of the Four Social Ministries, 2021 (Program Definition)

	2021 LFI	2021 LFR	2021 Q2			2021 Q4			2022
			Act.	Proj.	%	Prel.	Proj.	%	LFI
(in billions of Ariary, unless otherwise indicated)									
IT Definition: excluding salaries and foreign financed investment	532	345	81	154	52	299	514	58	713
o/w Goods and Services	93	76	15			42	76	56	72
o/w Transfers	143	153	33			153	143	107	209
o/w Domestically financed investment	297	115	32			104	294	35	432
Memo 1: including salaries	1,746	1,545	654	754	87	1,385	1,713	81	2,016
Memo 2: including salaries and foreign financed investment	2,394	2,061	897	953	94	1,856	2,361	79	2,666
Memo 3: wage bill of public workers - education	957	948	455	474	96	873	948	92	1,027
Memo 4: wage bill of public workers - health	242	239	112	120	93	201	240	84	263
Social spending by other ministries									
Domestically financed	22	22	5.6			14.1			15.5
Externally financed investment	207	208	389			428			108

Sources: Ministry of Economy and Finance, and IMF staff estimates

19. The authorities plan to significantly scale up public investment, which will require improved prioritization and execution rates. Public investment increased to 6.8 in 2020 and is projected to increase to 7.4 percent in 2021 and 9.2 percent of GDP in 2022, largely comprising externally financed projects on concessional terms and new investment projects. Efforts are being made, following IMF technical assistance recommendations, to finalize a public investment manual (SB) and to increase execution rates (MEFP ¶23-24). Staff emphasized that the ambitious public investment objectives of the PEM should be further prioritized and properly costed taking into account efficiency and financing constraints.

20. In addition to revenue measures, savings in lower-priority current spending would help reduce the domestic primary deficit to 0.9 percent of GDP in 2022. The 2022 budget includes measures to contain current spending at 10.5 percent of GDP including through: (i) better planning and monitoring of the wage bill with the generalization of new IT tools (MEFP ¶20); (ii) gradual reforms to contain the deficit of the civil servants' pension fund (MEFP ¶21); and importantly (iii) the reduction of transfers related to SOEs (MEFP ¶30-31). Given the anticipated

[3] These efforts might ultimately allow a revision of the definition of the social spending IT under the program to include domestically financed social spending outside the four main social ministries, such as cash transfers to vulnerable households administered by the Development Intervention Fund under the Prime Minister's Office.

[4] For example, the cash transfer program *Tosika Fameno* was extended to four new regions reaching 545,278 beneficiaries by end-September 2021 (SB).

reduction in external budget support and larger domestic deficit than envisaged at program approval, the authorities intend to use up to MGA 1,100 billion (about 85 percent) of the recent SDR allocation to fill the resulting financing gap (Box 1). The 2022 budget approved by Parliament reflects the program's targets and objectives (prior action).

Box 1. Madagascar: Modalities of the Use of the SDR Allocation for Budget Financing

As part of the general SDR allocation implemented by the IMF last August, Madagascar received 234.2 million SDRs (US$322 million) on August 23, 2021.[1]

The new allocation was recorded as an increase in the central bank's gross international reserves (holdings of SDRs)[2], with an equal increase in Madagascar's long-term debt liabilities to the participants of the SDR Department (allocations of SDRs).

Compliance with the Malagasy legal framework

Article 19 of the 2016 Central Bank Law stipulates that SDRs allocated by the IMF are the property of the central bank, while Article 28 forbids all credit from the central bank to the government except for temporary advances, specific repo operations of guaranteed government claims, and loans of last resort to credit institutions that require the participation of the Treasury.

In order for the SDR allocation to be used for budget financing, while respecting the Malagasy legal framework, part of allocation will be ceded[3] to the central government and subsequently converted into a local currency credit on the Treasury's account at the central bank. These operations and the associated financing terms will be defined in a convention between the central bank and the Government, with the Treasury carrying the exchange rate risk related to the conversion of the SDR allocation in local currency.

Statistical recording and balance sheet impacts

The impact of the cession/conversion on the government and BFM balance sheets is as follows:

1. The allocation is recorded as assets and liabilities in the central bank's balance sheet. SDR holdings directly increases gross international reserves. The allocation has no impact on net foreign assets (NFA) because both foreign assets and liabilities increase.
2. The SDR allocation (asset and associated liability) is retroceded to the central government balance sheet.
3. The retroceded SDRs are converted into ariary or foreign currency and the corresponding amount is credited onto the Treasury's account at the BFM. As a result, the BFM' s net credit to the government (and hence, everything else equal, net domestic assets) decreases and, in the case of a conversion into ariary, NFA increase by the same amount.

[1] Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations

[2] Following the Balance of Payments and International Investment Position Manual—Sixth Edition (BPM6).

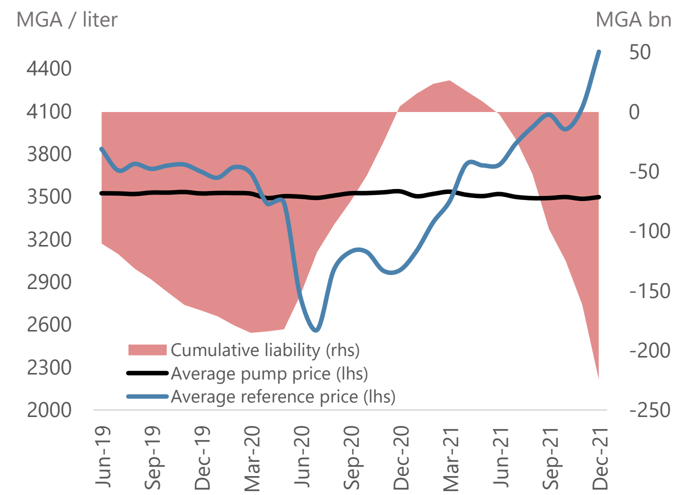
[3] The cession implies a transfer by the central bank to the government of both the SDRs and the associated liability to the participants of the SDR Department.

B. Resuming the Structural Reform Agenda to Contain Short and Medium-Term Fiscal Risks

21. The government liability to oil distributors reappeared in mid-2021 amid increasing international oil prices. It will require adjustments to the price structure to limit risks to the budget.

- The government liability to oil distributors was cleared at end-2020 with a positive balance peaking at MGA 26.6 billion in March 2021 as the authorities did not adjust pump prices in the face of lower international oil prices. However, the increase in international prices since April 2021 led the reference price to exceed the still-fixed pump prices implying a new growing cumulative government liability towards oil distributors from June 2021.

Madagascar: Fuel Prices and Gross Liability to Distributors



Sources: Malagasy authorities and IMF staff calculations.

- After deducting oil distributors' arrears to the Road maintenance Fund (*Fonds d'Entretien Routier*—FER) and to the Ministry of Energy and Hydrocarbons (*Redevance de Développement du Secteur*—RDS), the authorities reported that the net cumulative liability towards oil distributors remained below the MGA 100 billion continuous SB ceiling at MGA 86.4 billion at end-December 2021.

- The authorities launched an audit of the current price structure to be communicated to staff before the conclusion of the review (prior action) and will set up a new price structure by March 2022 (SB) based on the audit and after consultation with distributors. The authorities are preparing a step-by-step calendar for the implementation of an automatic fuel pricing mechanism by 2024Q1 (prior action) and will develop measures to mitigate the potential impact of the automatic fuel price adjustment mechanism on the most vulnerable by June 2022 (SB).

22. Budget transfers to JIRAMA will remain contained in 2022 and a new recovery plan should lead to improvements in the loss making SOE's business model. Government's transfers to JIRAMA will reach MGA 380 billion in 2021, below the MEFP ceiling commitment, and remain capped at MGA 380 billion in the 2022 budget. The authorities are committed to launch a gradual arrears repayment process with the support of the World Bank in 2022. Following the renegotiation of large contracts in 2020, the authorities plan to renegotiate smaller size contracts with suppliers to reduce production costs. Tariff optimization reform is set to continue with the implementation of a new tariff structure for business customers by March 2022 (SB). The above measures should be reflected in the '*Plan de development 2025*' to be approved by JIRAMA's Board and the Council of Ministers by March 2022, after consultation with the World Bank and the IMF.

23. Prospects for Air Madagascar remain uncertain, posing a major fiscal risk. The financial situation of the company has continued to deteriorate following the suspension of international flights until October 2021. The company's financing needs are estimated to be at least US$69 million. A restructuring plan elaborated by an audit company including debt write-offs and the creation of a new company was recently approved by shareholders and needs to be endorsed by the Council of Ministers. The authorities committed to consult with staff prior to any public financing of the company which may be required for its continuous operation (MEFP ¶31).

24. The authorities continue to strengthen their disaster risk management system and design policies to improve climate resilience. Madagascar applied to be a pilot case for the new IMF Climate Macroeconomic Assessment Program (CMAP) that will help assess climate policies in the macroeconomic policy framework, including for debt sustainability, and inform future policy advice.

C. Strengthening Public Financial Management and Governance to Restore Confidence

25. The authorities have made mixed progress with publishing information on COVID-19 related spending and need to make more efforts to fulfill the transparency commitments made in their requests for disbursement under the Rapid Credit Facility (RCF) in 2020. As of February 14, 2022, the authorities had published online information on COVID-19 related committed spending representing 3.6 percent of GDP in 2020 (MGA 1,789 billion). COVID spending data for 2021 is still preliminary, with domestically financed commitments accounting so far for only 0.25 percent of GDP (MGA 137 billion) of which 0.04 percent of GDP paid through the COVID Response Fund.[5] As for public procurement contracts, links to 106 direct award contracts, representing about 1.2 percent of total paid 2021 COVID spending excluding transfers and subsidies, have been published, along with 93 delivery reports. Details about contracts concluded following a competitive process in 2020, but not the contracts themselves, are posted on the website of the public procurement regulatory agency (ARMP). Pursuant to RCF commitments, the *Cour des Comptes* completed an audit of the financial flows related to the fight against COVID-19 which was published on February 17th, 2022 (prior action). In addition, an independent third-party audit of COVID-19 contracts is expected to be publicly released in early 2022 (SB) after the belated hiring of a private auditing firm. The authorities are working on improving the identification of the beneficial owners of public procurement contracts, including for contracts executed through the COVID Fund.

26. Reforms to better monitor the expenditure chain are needed to improve public financial management and restore confidence. The authorities released a budget execution report for 2020 and the first three quarters of 2021 (continuous SB). Further improvements to the quarterly reports are needed to fill remaining data gaps about payments and COVID spending, and to bridge discrepancies with monthly fiscal data released by the Treasury. These efforts are

[5] Created in July 2020, the COVID-19 Response Fund was only operationalized in April 2021, with a total budget of MGA 265 billion (0.5 percent of GDP). Given the COVID Fund's recent exemption from normal procurement rules allowing for direct purchases, the authorities are preparing a decree to clarify and restrict the nature of emergency spending that would go through the Fund and to limit the use of direct purchases (MEFP ¶36).

supported by a long-term IMF expert since December 2021. Reforms are ongoing on active cash management and the Treasury singe account (TSA). Finally, the draft law on the status of public accountants will soon be submitted to Parliament (MEFP ¶36).

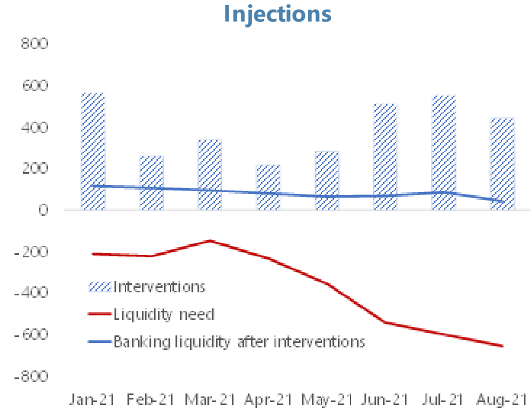
27. The operationalization of a new sovereign wealth fund, the Malagasy Sovereign Fund (FSM), created in August 2021 needs to manage associated risks, such as the possible diversion of fiscal resources to the fund and a debt build-up with contingent liabilities for the government. It is important to clarify the FSM's objectives, its financing structure to avoid potential infringements on the principle of budget unity, and its governance, which the authorities committed to address in the implementation decrees (MEFP ¶33).

28. Progress to effectively enforce the anti-corruption legal framework should continue. The amendments to the new law on the anti-corruption courts eventually adopted in July 2021 seek to protect their mandate by maintaining jurisdiction on corruption related economic crimes. Full institutional and operational independence of the anti-corruption courts (PACs) remains a challenge despite the establishment of a Monitoring and Supervisory Commission with a more diverse composition. Following the adoption of the implementation decree for the 2019 law on illicit asset recovery, a new agency will be operationalized in early 2022 with a dedicated budget allocation (SB). The authorities are also working on upgrading their AML/CFT legislation following the mutual evaluation by the Eastern and Southern Africa Anti-Money Laundering Group.

D. Strengthening the Monetary and Financial Policy Framework to Ensure Macroeconomic Stability

29. The monetary policy stance is appropriate. Monetary policy continues to aim at maintaining single digit inflation through money market and foreign exchange operations, and an adequate international reserve position. Since the onset of the pandemic, the money market has experienced a liquidity deficit, which the BFM has been filling in the absence of active interbank lending. At the same time, the BFM has narrowed the interest rate corridor while increasing its main policy rates to address inflationary pressures and stabilize the short-term interest rate on the money market, and remains ready to tighten the policy stance.

Madagascar: Banking Liquidity and BFM Liquidity Injections



Sources: Malagasy authorities and IMF staff calculations.

30. Reforms to gradually transition monetary policy to interest rate targeting continue. Recent moves include a switch from strict monetary aggregates targeting to more flexible targeting in July 2021, the development of a forecasting model to anchor the policy rate determination on macroeconomic fundamentals which will be further enhanced with technical assistance (TA) in 2022, and the recent operationalization of the repurchase operations law. Next steps include the issuance of fixed term deposit certificates to support the construction of a yield curve (second half of 2022) and the publication of official medium-term inflation forecasts (2023). To reflect the ongoing change in the monetary policy framework and resulting increased volatility of reserve money and its counterparts, the compliance assessment of the ceiling on net domestic assets (QPC) has been revised from end-of-period amounts to quarterly averages (TMU, ¶19).

31. The authorities' foreign exchange intervention strategy continues to be based on the algorithm introduced in 2018, following Fund TA. The algorithm aims to limit fluctuations in the nominal exchange rate while allowing for FX reserves accumulation when movements in the exchange rate remain within the tolerance band. Recent FX interventions have predominantly taken the form of FX sales (US$65 million over January-October 2021), to smooth the depreciating trend without resisting underlying market forces. Once underlying pressures subside and exchange rate movements are more likely to remain within the tolerance band, the algorithm is programmed to reverse course—giving rise to net FX purchases (working to rebuild reserves). The new FX Law is still pending the Council of Minister's examination and approval. Meanwhile the authorities remain committed to phasing out the surrender requirement on export proceeds (which is considered a capital flow management measure on outflows), once the FX Law has been adopted and market conditions allow for it (MEFP ¶41). Amid market tensions arising from disruptions caused by the COVID pandemic, the central bank set up differentiated reserve requirements for deposits in ariary and in foreign currency aiming at incentivizing FX sales on the market and increase supply, before reverting to a single reserve requirement of 13 percent in November 2021 because of limited results. Fund TA was requested to improve the functioning of the FX market.

32. The central bank will update its reserves management strategy and clarify the operational strategy for the inclusion of gold in official reserves. A recent program by BFM to purchase and refine one ton of unrefined gold from local operators in order to diversify reserves has raised safeguard concerns for being tantamount to quasi-fiscal operations and creating risks to the BFM' s autonomy, financial position, and reputation. To mitigate those risks, the BFM committed to revise its reserves management strategy and design an operational strategy for gold purchases, refining, and storage with support from Fund TA, before resuming gold purchases (MEFP ¶42). In parallel, the Ministry of Mining is enforcing regulations to ensure the sustainability and traceability of gold production and recently completed a census of licensed operators. The authorities will remove the export ban on gold by operators whose activities comply with regulations once illicit trade flows are better controlled.

33. The new financial stability law, which will be submitted to Parliament in the coming months, will help address systemic risks and improve the management of financial crises.

The law will be key to remediate the remaining vulnerabilities of the macroprudential framework identified in the 2016 FSAP. The new banking law has been effective since March 2021 and new regulations relating to banks' capital, solvency, liquidity, and risk provisioning are being prepared. The authorities are also strengthening risk-based supervision

PROGRAM MODALITIES AND FINANCING ASSURANCES

34. New program targets, including performance criteria, have been proposed through end-December 2022, and modifications of indicative targets are proposed for March 2022. For end-2022, the floor on the domestic primary balance targets a deficit of 0.9 percent of GDP, a widening compared to program approval (of 0.4 percent of GDP) justified by the need to better support the recovery through higher social spending and domestically financed investment. The ceiling on the central bank's net domestic assets and floor on net foreign assets reflect the assumed cession of the 2021 SDR allocation from the BFM to the government and will be adjusted in case this cession does not take place as expected (TMU, ¶27). The proposed changes to indicative targets include (i) a reduction in the social spending floor at end-March 2022 to better reflect the intra-annual spending profile, and (ii) an upward revision of the floors for domestic tax revenue and customs revenue at end-March 2022 to be consistent with the plans for the full year.

35. Additional structural benchmarks for 2022 are also proposed. Four structural benchmarks (on tax arrears collection in late 2021, on the operationalization of the agency for illicit asset recovery, on the publication of the third-party audit of COVID contracts, and on the adoption of a decree to create a coordination and orientation committee on AML/CFT) are proposed to correct for shortcomings in the implementation of previous program commitments. Six new structural benchmarks for 2022 will support the program objectives of increasing customs revenue, increasing social spending, strengthening the financial recovery of JIRAMA, and addressing the risks from the current fuel pricing mechanism.

36. The program is fully financed, with firm financing assurances from donors for the next 12 months and good prospects for the remainder of the program. For 2022, the EU is expected to provide US$12 million in budget support grants. While the World Bank's updated Country Partnership Framework and IDA 2023-25 allocation are currently being finalized and will only become available in July 2022, the current framework does not assume any World Bank-provided budget loans beyond 2021. Projected external financing sources are sufficient to satisfy external financing requirements until 2024 (Table 9).

37. The 2022 budget is fully financed and prospects for full financing in 2023 and 2024 are also good. For 2022, the financing gap resulting from the deficit and the shortfall in external budget support will be filled by mobilizing part of the 2021 SDR allocation. Progress in the implementation of reforms supported by the program is expected to catalyze additional budget support from donors in 2023 and 2024, bringing budget support grants and loans back to their historical average. However, given the limited room for additional domestic bank financing, future ECF disbursements are proposed to be redirected to the budget. The Memorandum of Understanding between the BFM and the government, used for IMF financing redirected to the budget, will be updated accordingly.

Madagascar: Fiscal Financing Gap and Sources of Financing[1/]

	2021		2022		2023	2024
	ECF	Proj.	ECF	Proj.	Proj.	Proj.
			(in US$ million)			
Total fiscal financing needs (1)	-1,425	-1,249	-1,217	-1,357	-1,211	-1,149
Budget deficit (cash basis, excl. grants)	-1,315	-1,152	-1,061	-1,198	-1,017	-953
Domestic amortization (excl. T-bills)	-18	-18	-18	-18	-16	-16
External amortization	-93	-79	-138	-141	-179	-180
Financing (2)	1,425	1,249	1,107	1,357	1,211	1,149
External borrowing	632	583	696	645	613	724
Of which: Budget support loans	197	144	57	49	50	50
Of which: Project loans	435	439	639	596	563	674
Grants	337	240	293	314	337	220
Of which: Budget support grants	76	0	50	0	57	58
Of which: World Bank	50	0	50	0	0	0
Of which: EU	25	0	0	0	13	0
Of which: Project grants	261	240	243	314	280	162
Of which: World Bank	77	135	74	130	110	97
Of which: EU	23	22	16	39	40	18
Domestic borrowing (net for T-bills)	456	426	117	398	262	206
Of which: On-lending of IMF ECF program	145	69	69	138	70	35
Of which: Cession of IMF SDR allocation	0	0	0	276	0	0
Of which: Other	311	357	48	-16	192	170
Residual financing need (1+2, "-" means gap to be filled)	0	0	-110	0	0	0

Sources: Malagasy authorities; International donors; and IMF staff.
1/ All numbers are converted from Ariary to US$ using the current projected MGA/US$ average annual exchange rate including for ECF numbers.

38. Capacity to repay the Fund remains adequate (Table 12). Madagascar has an adequate capacity to repay the Fund, with annual planned repayments peaking in 2026 at 0.7 percent of GDP, 5.4 percent of government revenue and 2.6 percent of exports. Existing and prospective Fund credit peak at 6.4 percent of GDP and 59.2 percent of government revenue in 2021 but is expected to decline thereafter.

39. The 2021 safeguards assessment update found broad improvements. The BFM maintains strong external audit arrangements and the audit opinions on its 2019 and 2020 financial statements are unmodified. Governance and oversight arrangements are now well-established following amendments to the BFM Law in 2016, and the central bank continues to reinforce its control systems and has adopted International Financial Reporting Standards for the first time in 2020. The BFM should continue to strengthen the internal audit function and phase out its unrefined gold purchase program, while implementing robust foreign reserves management and operational strategies to safeguard its autonomy (see MEFP ¶42).

STAFF APPRAISAL

40. The social cost of the COVID-19 pandemic in Madagascar has been high, reversing recent progress in per capita income and poverty reduction. The authorities have struggled to respond quickly to the pandemic, which compounded the effects of a protracted drought in the South, raising the risk of a large-scale famine, and highlighted Madagascar's fragility and vulnerability to shocks.

41. The Malagasy economy is gradually recovering from the deep recession triggered by the pandemic. After a contraction of 7.1 percent in 2020 and an estimated rebound to 3.5 percent in 2021, growth is projected to increase to 5.4 percent in 2022. Textile and mining exports have resumed, and tourism is expected to pick up in 2022, improving the current account balance. The reopening of the economy and revival of reforms will feed an increase in domestic revenue allowing for more public spending to support the recovery. However, downside risks from new COVID-19 outbreaks, natural disasters, and rising oil prices remain significant and justify a cautious approach to fiscal consolidation.

42. Madagascar has broadly met the targets envisaged under the ECF arrangement, although a pick-up in structural reforms is warranted. All end-June 2021 QPCs were met. However, two of the three ITs on domestic tax collection and social spending were missed. The execution of social spending will need to have picked up significantly in the second half of the year in order to meet the end-year IT. Four out of seven structural benchmarks at end-June were fully met. Progress is still required to improve fiscal transparency and operationalize the new agency for illicit assets recovery.

43. The 2022 budget is aligned with the program's objectives. The authorities' agenda, developed in the *Plan Emergence Madagascar*, appropriately aims to rebuild fiscal space, prioritize investment in human capital and infrastructure, and advance structural and governance reforms. The 2022 fiscal strategy envisages a gradual consolidation to support the recovery while maintaining fiscal sustainability. The budget includes credible measures to boost revenue, rebalance spending towards social spending and investment, and limit fiscal risks from JIRAMA such as arrears accumulation and operational transfers. Part of the August 2021 SDR allocation can be used to finance the deficit.

44. Raising revenue and containing non-discretionary spending are key to create fiscal space for social spending and investment. Notwithstanding the administrative and tax policy measures identified in the 2022 budget, and considering the ambitious goals in terms of domestic revenue mobilization, staff welcome the authorities' intention to implement contingency measures if revenue targets do not materialize in the first half of the year. Removing costly tax exemption regimes will be necessary to further increase tax revenue. Sustained efforts are needed to contain lower-priority spending including through parametric reforms of pension regimes to avoid recurrent budget transfers.

45. Greater spending execution would be helpful for achieving program objectives. While the authorities' decision to increase the social spending budget in 2022 is welcome, more streamlined execution procedures are needed to ensure social objectives are met. Better prioritization of investment projects and public investment management would be important for strengthening efficiency while preserving debt sustainability. The timely production of quarterly execution reports will contribute to improve transparency and accountability.

46. To strengthen fiscal prospects, risks from loss-making SOEs and fuel subsidies need to be addressed. Implementation of JIRAMA's '*Plan de développement 2025*' as well as addressing the situation of Air Madagascar will be important. The resurgence of a growing liability of the government vis-à-vis fuel distributors warrants the rapid implementation of an automatic fuel pricing mechanism accompanied by stronger social safety nets.

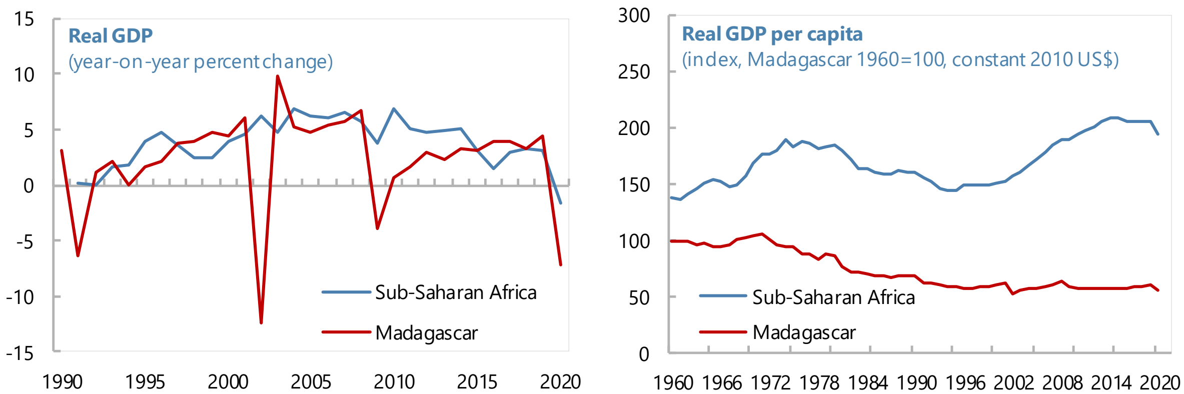
47. A further strengthening of the anti-corruption framework and continued PFM reforms would help build on the recent progress made with governance reforms. Effective enforcement of the anti-corruption legal framework is crucial to attract higher private investment. The agency in charge of illicit assets recovery needs to be operationalized with a dedicated budget and sufficient human resources, more granular information published on COVID spending, and a third-party audit of COVID-related contracts finalized and published. It will be important to clarify the new Malagasy sovereign fund's objectives, financing structure, and governance.

48. The ongoing transition to an interest targeting framework and completion of the macroprudential legal framework will support financial market development. The operationalization of the law on repo transactions will facilitate the development of the interbank market, while the approval of a new FX law would help improve the functioning of the FX market. The new financial stability law will allow for better monitoring of systemic risks and management of financial crises.

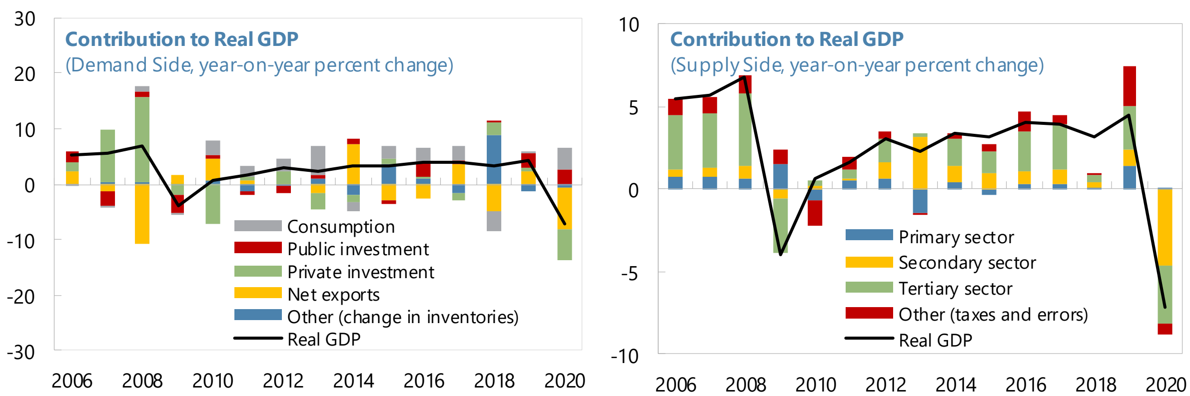
49. Based on Madagascar's performance and commitments under the program, staff recommends the completion of the first review under the ECF arrangement.

Figure 1. Madagascar: Real Sector Developments

Recent growth improvements were reversed by the COVID-19 pandemic.

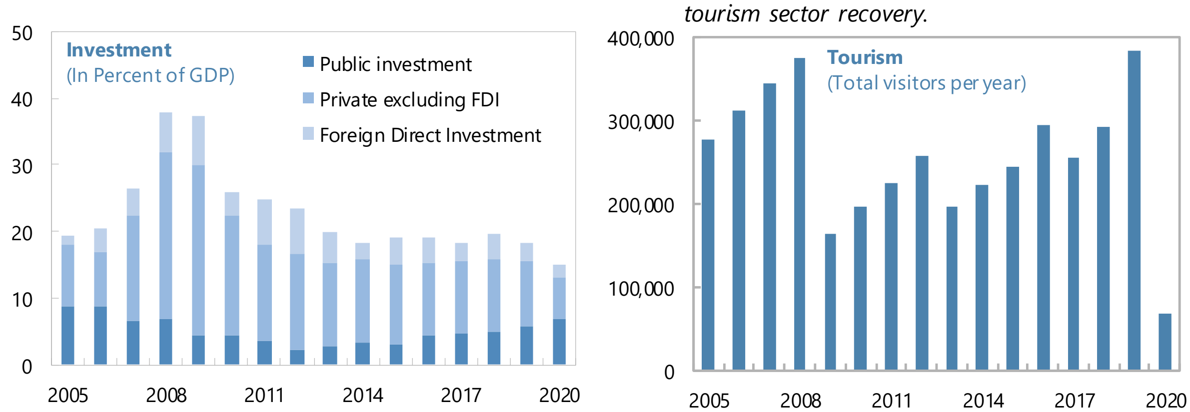


Private investment and net exports drove the recession in 2020, as the mining, manufacturing, construction and tourism sectors were the most impacted by the pandemic.



Investment is well below 2008 levels…

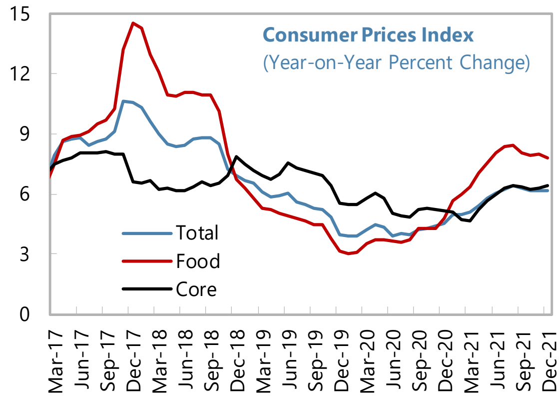
… while the pandemic brought an end to the tourism sector recovery.

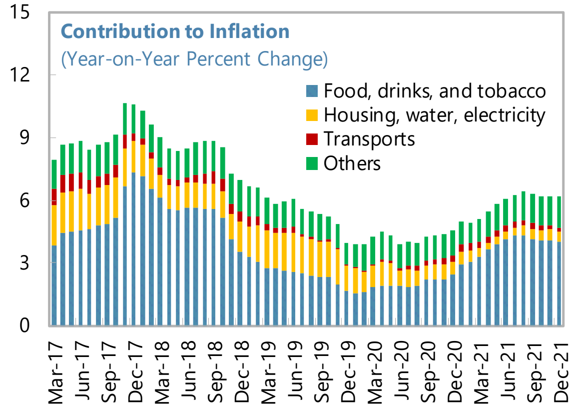


Sources: Malagasy Authorities; and IMF staff estimates.

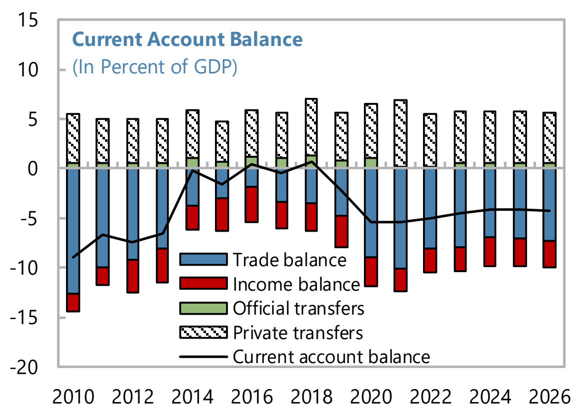
Figure 2. Madagascar: Inflation and External Developments

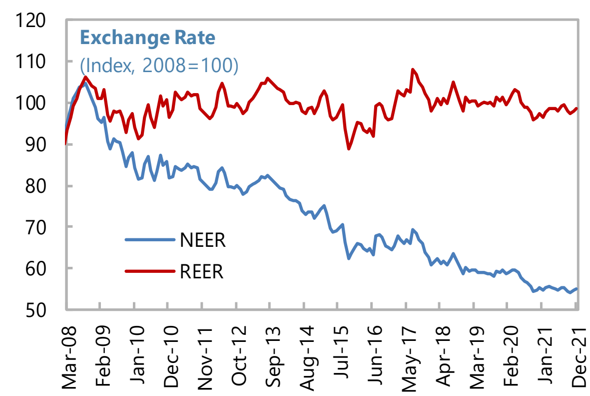
Total inflation has been on the rise since mid-2020, driven by food and health care prices.



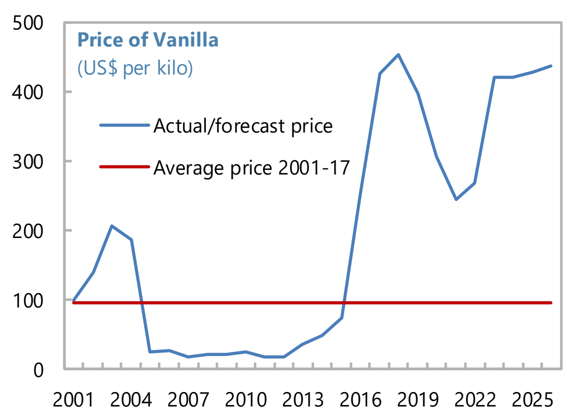


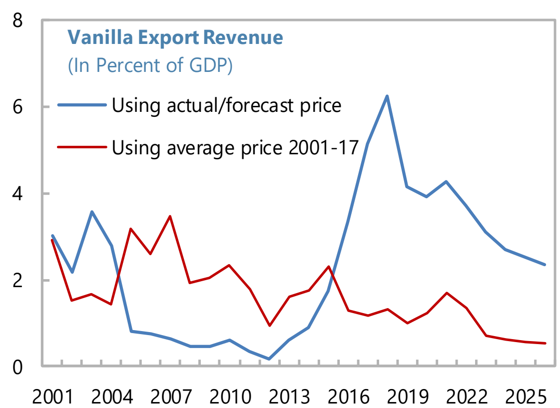
The current account deficit widened in 2020 due to the collapse in tourism receipts and is expected to decline slowly in the medium term. The real effective exchange rate has remained relatively stable in recent years.





Vanilla export revenue has dropped since end-2019 due to muted demand and increased global competition.

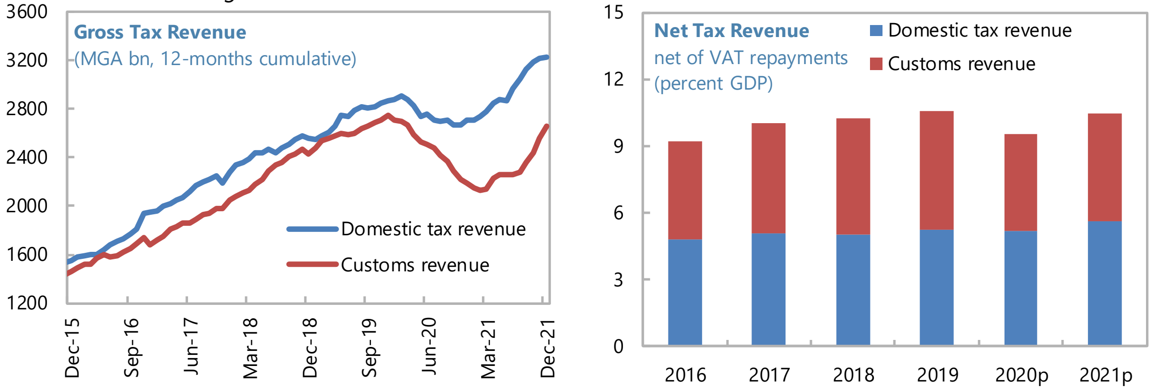




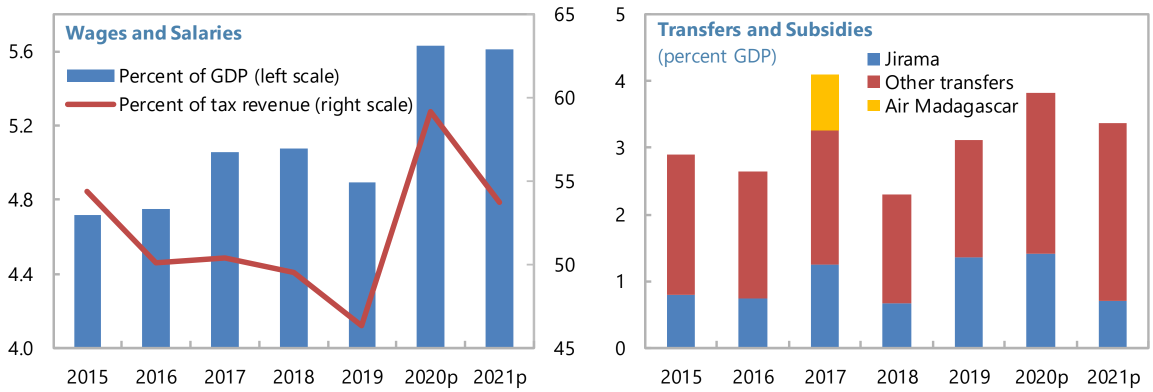
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 3. Madagascar: Government Revenue and Spending

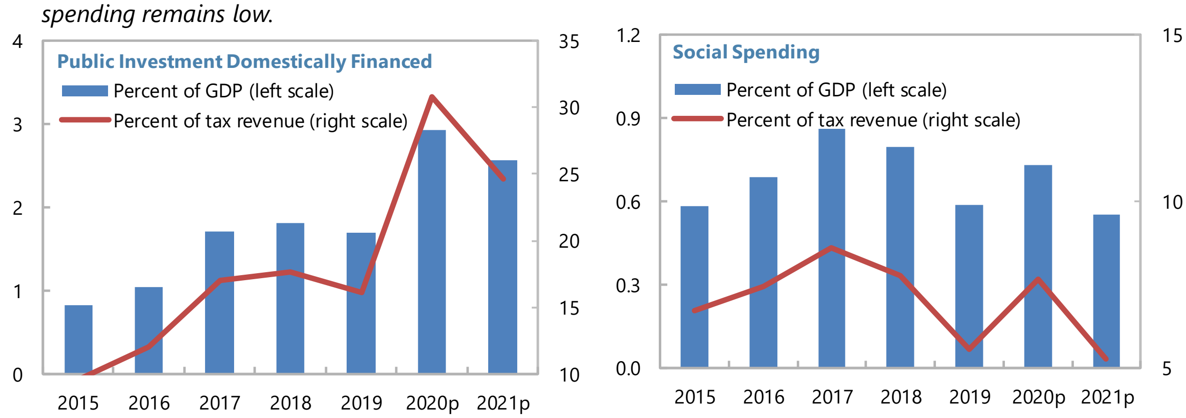
After increasing between 2016 and 2019, tax revenue has been hit hard by the pandemic shock and has only started recovering since mid-2021.



The wage bill jumped to more than 60 percent of tax revenue in 2020 but it is projected to stay stable in 2021. While transfers increased in 2020, they are projected to decline starting 2021 due to lower transfers to JIRAMA.



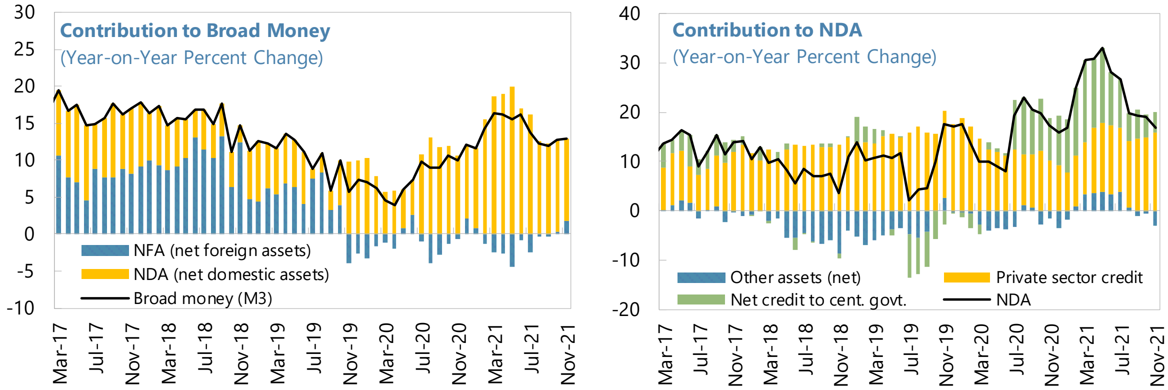
Domestically financed public investment increased significantly in 2020, but is projected to fall in 2021. Social spending remains low.



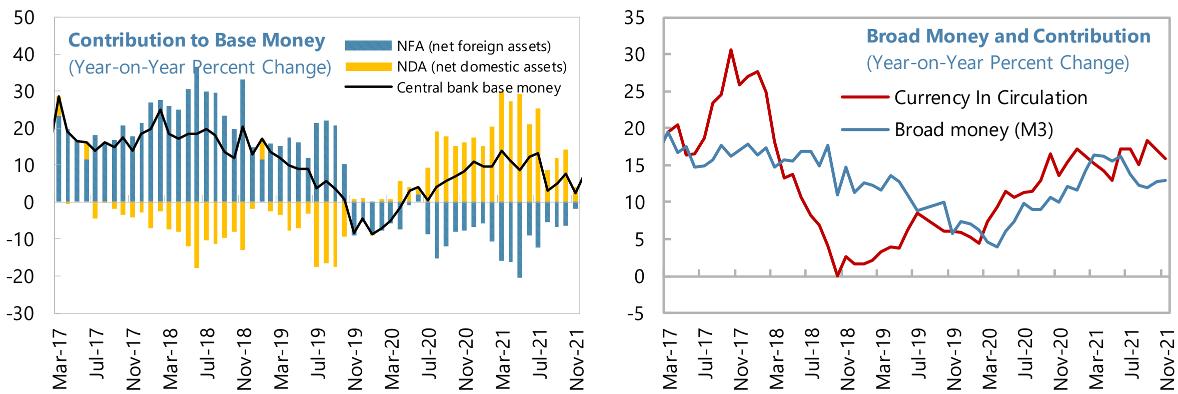
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 4. Madagascar: Monetary Developments

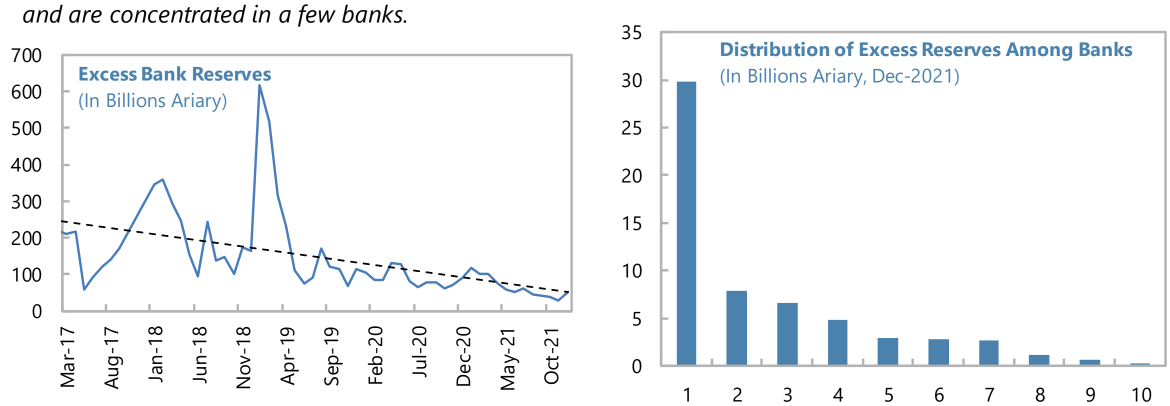
Until the pandemic, broad money growth was driven by the accumulation of net foreign assets and credit to the private sector. Since the Covid-19 crisis, net domestic credit to governement has been on the rise.



Base money growth has also been driven by net dometic credit to government.



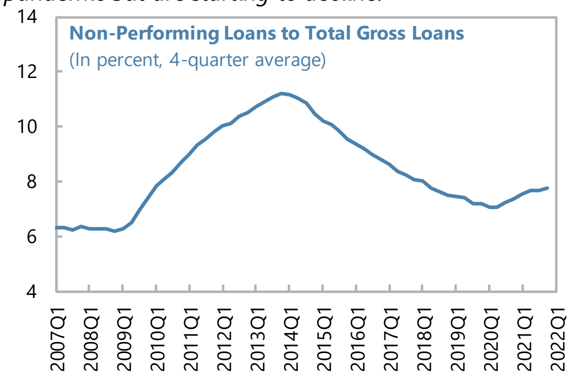
Excess bank reserves, usually volatile with strong seasonal effects related to the vanilla cycle, have been declining and are concentrated in a few banks.



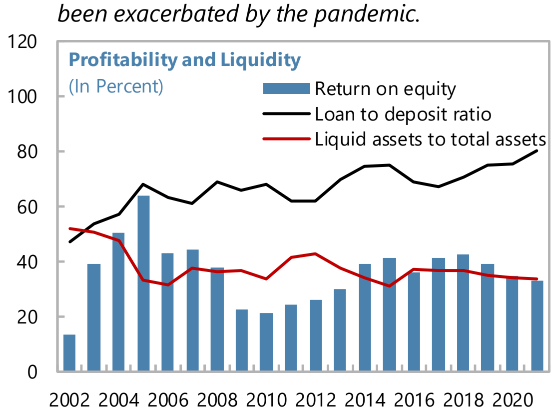
Sources: Malagasy Authorities; and IMF staff estimates.

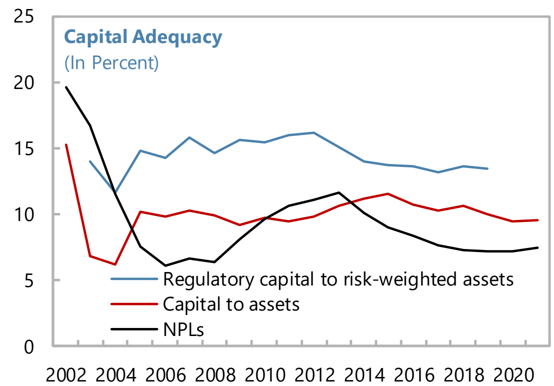
Figure 5. Madagascar: Financial Sector Developments

Despite the pandemic, credit growth remained at a reasonable level so far. NPLs declined significantly since their peak in late 2013, increased slightly during the pandemic but are starting to decline.

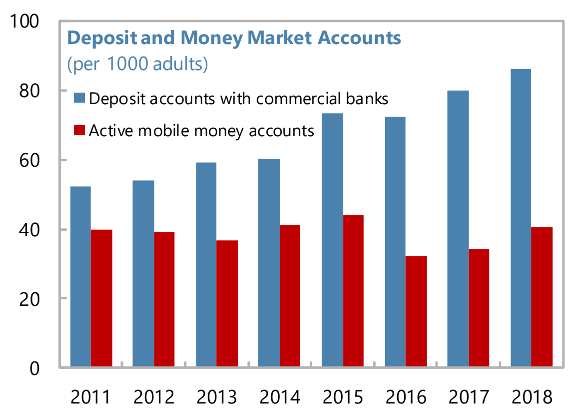


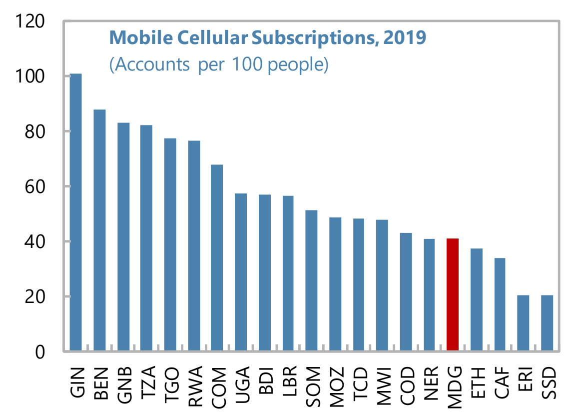
Overall, banks are well capitalized, liquid, and profitable, but the significant heterogeneity among them has been exacerbated by the pandemic.





Mobile banking activities are slowly increasing, but Madagascar lags most SSA low-income countries.

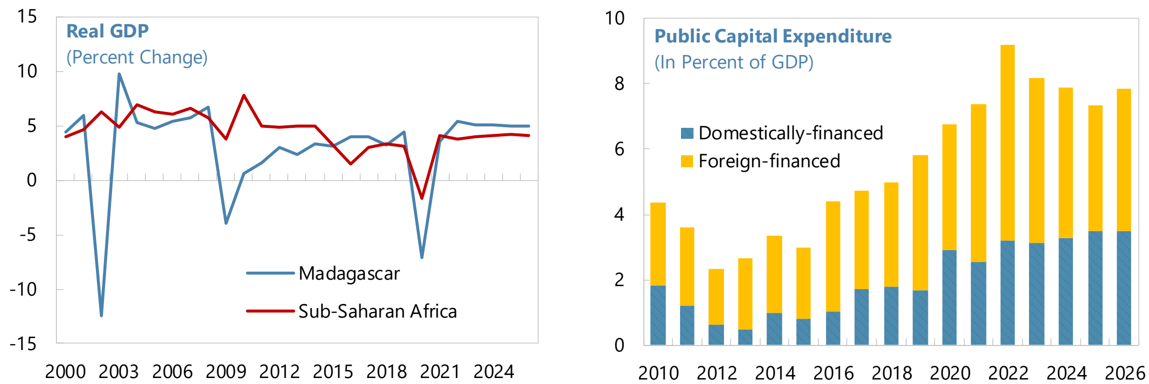




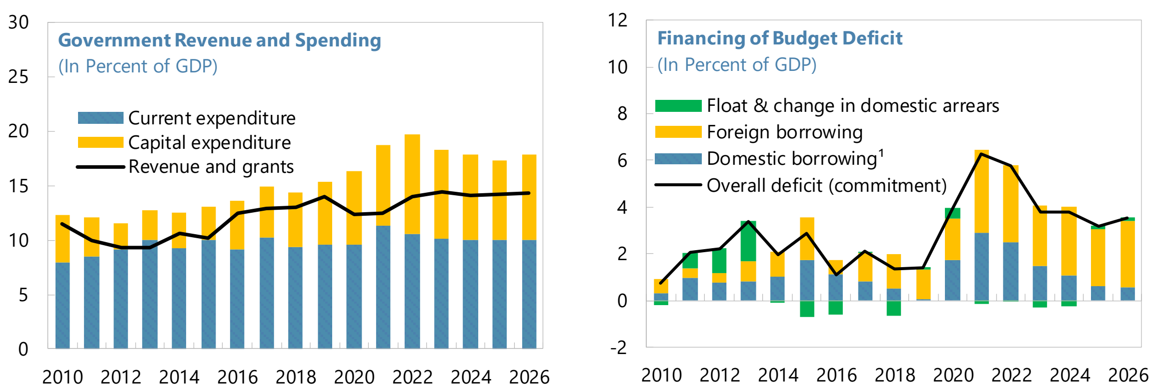
Sources: Malagasy Authorities; IMF Financial Access Survey; World Bank; and IMF staff estimates.

Figure 6. Madagascar: Medium-Term Macroeconomic Prospects

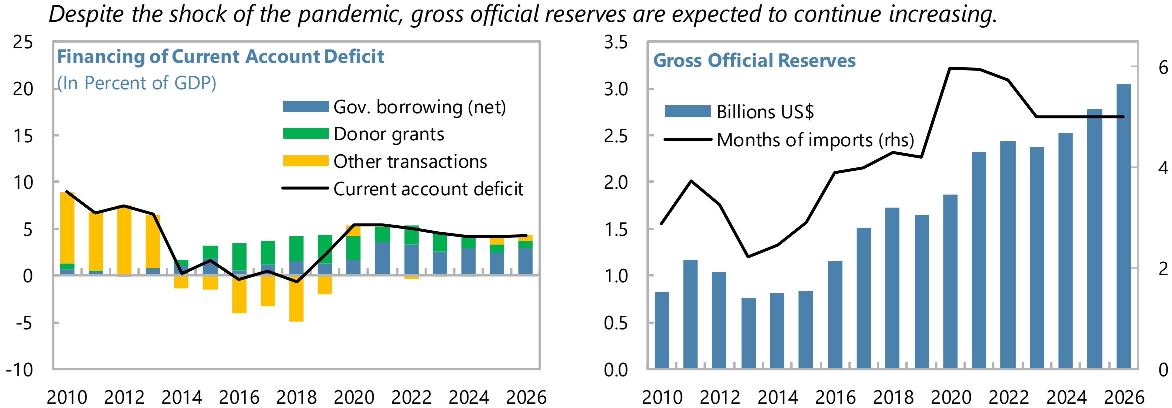
Growth is expected to remain slightly above the SSA average, sustained by scaled-up public investment.



Despite the pandemic, public investment scaling-up is ongoing. Deficits are mostly externally financed.



Investment-driven increases in the current account deficit are expected to be financed by concessional borrowing. Despite the shock of the pandemic, gross official reserves are expected to continue increasing.



Sources: Malagasy Authorities; and IMF staff estimates.

[1] Domestic borrowing is net, not showing short-term T-bills rollover, and including net on-lending of IMF financing by the central bank.

Table 1. Madagascar: Selected Economic Indicators, 2018-26

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Actuals	Est.	ECF	Est.	ECF	Proj.	Projections				
			(Percent change; unless otherwise indicated)								
National account and prices											
GDP at constant prices	3.2	4.4	-4.2	-7.1	3.2	3.5	5.4	5.1	5.0	5.0	5.0
GDP deflator	8.3	6.5	4.2	4.4	5.4	6.1	6.1	6.9	5.6	5.4	5.3
Consumer prices (end of period)	6.9	4.0	4.6	4.6	5.4	6.2	6.3	6.1	5.9	5.7	5.5
Money and credit											
Reserve money	13.0	-4.4	10.8	10.8	17.1	7.3	33.2	4.0	13.8	17.0	17.6
Broad money (M3)	11.2	7.3	12.1	12.1	21.8	19.0	16.5	10.7	13.3	15.5	14.9
			(Growth in percent of beginning of period money stock (M3))								
Net foreign assets	4.8	-2.6	2.1	2.1	2.2	1.4	7.9	-1.0	3.8	6.8	7.1
Net domestic assets	6.4	9.9	10.0	10.0	19.6	17.6	8.6	11.7	9.4	8.7	7.8
of which: Credit to the private sector	8.7	10.3	5.6	5.6	8.0	8.6	8.3	8.1	7.2	7.6	7.2
					(Percent of GDP)						
Public finance											
Total revenue (excluding grants)	10.5	10.8	9.2	9.9	10.3	10.8	11.9	12.5	12.9	13.3	13.5
of which: Tax revenue	10.3	10.6	8.9	9.5	10.0	10.4	11.6	12.2	12.6	13.0	13.2
Grants	2.5	3.1	1.8	2.5	2.3	1.7	2.1	2.0	1.2	0.9	0.8
of which: budget grants	0.9	0.7	0.8	0.9	0.5	0.0	0.0	0.3	0.3	0.3	0.3
Total expenditures	14.4	15.4	15.1	16.3	18.3	18.7	19.7	18.2	17.9	17.3	17.9
Current expenditure	9.4	9.5	9.5	9.6	10.7	11.4	10.5	10.1	10.0	10.0	10.0
Capital expenditure	5.0	5.8	5.6	6.8	7.6	7.4	9.2	8.2	7.9	7.3	7.8
Domestic financed	1.8	1.7	2.9	2.9	2.9	2.6	3.2	3.1	3.3	3.5	3.5
Foreign financed	3.2	4.1	2.7	3.8	4.7	4.8	6.0	5.0	4.6	3.8	4.3
Overall balance (commitment basis)	-1.3	-1.4	-4.2	-4.0	-5.8	-6.3	-5.8	-3.8	-3.8	-3.2	-3.5
Float (variation of accounts payable, + = increase)	-0.2	0.3	1.3	0.5	-0.8	-0.1	0.0	-0.3	-0.3	-0.1	0.0
Variation of domestic arrears (+ = increase)	-0.5	-0.2	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-2.0	-1.3	-2.9	-3.5	-6.6	-6.4	-5.8	-4.1	-4.0	-3.3	-3.5
Domestic primary balance[1]	0.1	0.3	-2.6	-1.9	-2.5	-2.5	-0.9	0.0	0.4	0.6	0.8
Total financing	2.0	1.3	2.9	3.5	6.6	6.4	5.8	4.1	4.0	3.1	3.4
Foreign borrowing (net)	1.5	1.3	1.4	1.8	3.6	3.6	3.3	2.6	3.0	2.4	2.9
Domestic financing	0.5	0.0	1.5	1.7	2.9	2.9	2.5	1.5	1.0	0.6	0.5
of which: onlending of IMF financing[2]			2.4	2.5	1.0	0.5	0.9	0.4	0.2		
of which: cession of new IMF SDR allocation						0.0	1.8				
Fiscal financing need[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.1
Savings and investment											
Investment	19.5	18.3	15.1	15.0	18.4	16.6	19.3	19.1	19.4	19.1	19.8
Gross national savings	19.9	17.5	8.5	8.2	21.5	11.2	14.3	14.5	15.3	15.0	15.5
External sector											
Exports of goods, f.o.b.	22.0	18.5	14.0	15.0	16.5	18.9	18.3	17.9	18.0	18.3	18.5
Imports of goods, c.i.f.	27.8	26.9	22.8	24.3	25.2	29.2	27.3	27.6	27.6	28.7	29.7
Current account balance (exc. grants)	-1.9	-5.4	-9.6	-7.9	-7.2	-7.1	-7.1	-6.6	-5.3	-5.0	-5.1
Current account balance (inc. grants)	0.7	-2.3	-6.5	-5.4	-5.0	-5.5	-5.0	-4.6	-4.1	-4.1	-4.3
Public debt	40.4	38.5	43.6	49.0	46.9	53.1	52.9	52.0	51.9	51.6	51.6
External Public Debt	26.8	27.0	32.0	36.7	34.7	41.4	41.9	41.2	41.3	41.0	41.0
Domestic Public Debt	13.6	11.5	11.6	12.3	12.2	11.7	11.0	10.7	10.6	10.6	10.6
					(Units as indicated)						
Gross official reserves (millions of SDRs)	1221	1196	1338	1338	1449	1633	1723	1665	1754	1917	2081
Months of imports of goods and services	4.3	4.2	5.9	6.0	5.4	6.0	5.7	5.0	5.0	5.0	5.0
Real effective exchange rate (pa, percent change)	-2.3	-0.5	-0.8	-0.8	…	…	…	…	…	…	…
Terms of trade (percent change, deterioration -)	5.6	-15.5	-8.5	-8.6	6.2	-13.6	16.3	13.7	1.1	1.0	1.2
Memorandum items											
GDP per capita (U.S. dollars)	518	512	502	457	521	502	525	565	592	630	664
Nominal GDP at market prices (billions of ariary)	45,886	51,035	52,413	49,453	57,024	54,324	60,744	68,237	75,658	83,718	92,545

Sources: Malagasy Authorities; and IMF staff estimates and projections.

[1]Primary balance excl. foreign-financed investment and grants. Commitment basis.

[2]RCF disbursements in 2020 and ECF disbursements onlent by the central bank to the Treasury.

[3]A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.

Table 2. Madagascar: National Accounts, 2018-26

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Actuals	Est.	ECF	Est.	ECF	Proj.	Projections				
					(Percent change)						
Real supply side growth											
Primary sector	0.4	5.9	2.0	0.6	2.6	3.4	4.1	4.1	4.2	4.3	4.3
of which: Agriculture	3.2	7.6	2.3	0.6	3.0	4.0	5.0	4.8	4.8	4.8	4.8
Secondary sector	2.0	6.8	-16.0	-29.5	4.9	9.6	9.3	7.2	6.9	6.6	6.3
of which:											
Manufacturing	3.4	8.2	-4.0	-15.7	2.0	16.4	6.6	5.6	5.3	5.0	4.8
Energy	4.4	3.7	5.0	-0.1	5.0	3.3	5.0	6.2	6.5	6.7	6.9
Extractive industry	-0.8	9.9	-36.3	-49.3	8.1	21.2	17.3	11.2	10.4	9.6	8.8
Tertiary sector	0.8	5.0	-1.1	-6.5	2.8	2.6	5.0	5.1	5.0	5.0	4.9
of which:											
Trade	2.5	2.3	-3.9	-2.7	1.0	3.4	3.9	4.1	3.7	3.5	3.3
Services	-0.4	2.9	2.2	-8.1	2.5	2.0	2.5	2.6	2.8	2.9	3.1
Transportation	-3.6	4.8	-1.0	-6.4	1.5	4.8	6.8	7.8	8.2	8.6	9.0
Indirect taxes	24.0	-1.1	-0.5	13.3	5.4	2.9	6.4	6.2	6.1	5.9	5.7
Real GDP at market prices	3.2	4.4	-4.2	-7.1	3.2	3.5	5.4	5.1	5.0	5.0	5.0
					(Percent of GDP)						
Nominal demand side composition											
Resource balance	-3.5	-4.7	-9.1	-9.0	-8.8	-10.2	-8.1	-8.0	-7.0	-7.1	-7.3
Imports of goods and nonfactor services	35.1	33.4	27.4	28.7	31.8	33.0	33.4	34.0	33.4	34.0	34.5
Exports of goods and nonfactor services	31.7	28.7	18.3	19.7	23.1	22.9	25.3	26.0	26.4	27.0	27.2
Current account balance (including grants) = (S-I)	0.7	-2.3	-6.5	-5.4	-5.0	-5.5	-5.0	-4.6	-4.1	-4.1	-4.3
Consumption	85.6	86.0	94.8	95.1	91.4	93.2	88.4	88.5	87.2	87.6	87.1
Government	14.8	15.1	15.1	15.2	16.9	18.0	16.6	15.9	15.8	15.8	15.8
Private	70.8	70.9	79.7	80.0	74.5	75.3	71.8	72.6	71.4	71.8	71.3
Investment (I)	19.5	18.3	15.1	15.0	18.4	16.6	19.3	19.1	19.4	19.1	19.8
Government	5.0	5.8	5.6	6.8	7.6	7.4	9.2	8.2	7.9	7.3	7.8
Private	14.5	12.5	9.5	8.2	10.7	9.3	10.2	11.0	11.5	11.8	12.0
of which: foreign direct investment	3.6	2.6	1.8	1.9	2.2	1.5	1.9	2.1	2.5	2.6	2.5
National savings (S)	19.9	17.5	8.5	8.2	13.4	11.2	14.3	14.5	15.3	15.0	15.5
Government	2.9	3.7	0.7	2.1	1.0	0.4	2.5	3.6	3.3	3.3	3.5
Private	17.0	13.8	7.9	6.1	12.4	10.8	11.8	10.9	11.9	11.6	12.1
Memoranda items:					(Billions of Ariary)						
Nominal GDP (at market prices)	45,886	51,035	52,413	49,453	57,024	54,324	60,744	68,237	75,658	83,718	92,545

Sources: Malagasy Authorities; and IMF staff estimates and projections.

Table 3a. Madagascar: Fiscal Operations of the Central Government, 2018-26

(Billions of Ariary)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Actuals	Est.	ECF	Est.	ECF	Proj.	Projections				
Total revenue and grants	5,971	7,115	5,718	6,129	7,148	6,761	8,472	9,867	10,658	11,843	13,253
Total revenue	4,837	5,528	4,799	4,886	5,859	5,841	7,220	8,497	9,743	11,130	12,509
Tax revenue	4,706	5387.2	4,654	4,707	5,694	5,676	7,045	8,301	9,526	10,889	12,253
Domestic taxes	2,315	2,666	2,526	2,579	3,204	3,050	4,034	4,774	5,582	6,393	7,243
Taxes on international trade and transactions	2,391	2,721	2,128	2,128	2,490	2,626	3,011	3,527	3,944	4,496	5,010
Non-tax revenue	131	140	146	180	165	165	175	196	217	241	256
Grants	1,134	1,587	918	1,243	1,289	920	1,252	1,370	915	713	744
Current grants	414	365	434	435	290	0	0	232	240	248	256
Capital grants	720	1,222	484	808	999	920	1,252	1,138	675	465	489
Total expenditure and lending minus repayments	6,585	7,840	7,915	8,085	10,432	10,165	11,969	12,434	13,512	14,505	16,530
of which: Social priority spending [1]	*365*	*299*	*361*	*361*	*514*	*299*	*713*	…	…	…	…
Current expenditure	4,298	4,874	4,999	4,743	6,088	6,168	6,392	6,867	7,559	8,364	9,274
Wages and salaries	2,330	2,497	2,715	2,786	3,182	3,049	3,511	3,890	4,237	4,605	4,997
Interest payments	353	356	355	362	482	375	548	541	581	684	785
Foreign	105	107	109	115	173	114	238	202	243	294	344
Domestic	248	249	246	246	309	261	310	340	338	390	441
Other	1,404	1,911	2,247	2,230	1,931	2,251	2,153	2,284	2,572	2,888	3,285
Goods and services	349	323	351	338	436	421	514	580	681	837	1,018
Transfers and subsidies	1,055	1,587	1,896	1,892	1,494	1,830	1,639	1,704	1,891	2,051	2,267
of which: JIRAMA [2]	*309*	*720*	*702*	*702*	*400*	*380*	*370*	…	…	…	…
Treasury operations (net)	211	110	-317	-635	493	493	180	152	169	187	206
Capital expenditure	2,287	2,966	2,915	3,343	4,344	3,998	5,577	5,567	5,953	6,141	7,256
Domestic financed	831	866	1,494	1,450	1,680	1,396	1,947	2,140	2,473	2,935	3,250
Foreign financed	1,456	2,100	1,421	1,893	2,664	2,602	3,629	3,427	3,480	3,206	4,006
Identified financing	1,455	2,100	1,421	1,893	2,428	2,426	3,331	2,540	1,693	1,075	1,029
of which: financing to be programmed	0	0	0	0	236	176	299	887	1,788	2,132	2,977
Lending minus repayments	0	0	0	0	0	0	0	0	0	0	0
Overall balance (commitment basis)	-614	-725	-2,197	-1,956	-3,284	-3,404	-3,497	-2,566	-2,854	-2,662	-3,277
Float (variation of accounts payable, + = increase)	-80	176	683	241	-432	-57	0	-200	-200	-100	0
Variation of domestic arrears (+ = increase)	-225	-116	-22	-22	-30	-30	-30	0	0	0	0
Overall balance (including grants, cash basis)	-918	-665	-1,536	-1,737	-3,745	-3,492	-3,527	-2,766	-3,054	-2,762	-3,277
Domestic primary balance[3]	60	144	-1,340	-944	-1,426	-1,347	-571	32	292	515	770
Total financing	918	664	1,536	1,737	3,745	3,492	3,527	2,766	3,054	2,561	3,173
Foreign borrowing (residency principle)	675	649	745	885	2,066	1,929	2,010	1,766	2,264	2,051	2,676
External borrowing, Gross	911	883	1,014	1,161	2,422	2,232	2,574	2,493	3,014	2,954	3,736
Budget support loans	176	5	77	77	756	551	197	203	208	213	219
of which: Air Madagascar	133	0	0	0	0	0	0	0	0	0	0
Project loans	735	878	937	1,085	1,665	1,682	2,377	2,290	2,806	2,741	3,517
Amortization on a due basis (-)	-236	-234	-269	-276	-355	-304	-564	-727	-750	-903	-1,060
Domestic borrowing (residency principle)	243	15	791	851	1,679	1,563	1,516	1,000	791	511	498
Monetary sector	220	-31	590	597	1,685	1,340	1,518	932	753	469	452
of which: onlending of IMF financing [4]			*1,238*	*1,238*	*556*	*264*	*549*	*284*	*147*		
of which: cession of new IMF SDR allocation						*0*	*1,100*	*0*	*0*	*0*	*0*
Non-monetary sector	-67	-13	-94	-72	-7	-49	-2	68	38	42	46
Other incl. Treasury correspondent accounts (net)	77	59	294	308	0	272	0	0	0	0	0
Fiscal financing balance[5]	0	0	0	0	0	0	0	0	0	-201	-103

Sources: Malagasy Authorities; and IMF staff estimates and projections.

[1]Domestically financed spending of social ministries, excluding salaries, representing a limited share of total social spending.

[2]Operating subsidies and arrears repayment.

[3]Primary balance excl. foreign-financed investment and grants. Commitment basis.

[4]RCF disbursement in 2020 and ECF disbursements onlent by the central bank to the Treasury.

[5]A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.

Table 3b. Madagascar: Fiscal Operations of the Central Government, 2018-26

(Percent of GDP)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Actuals	Est.	ECF	Est.	ECF	Proj.	Projections				
Total revenue and grants	13.0	13.9	10.9	12.4	12.5	12.4	13.9	14.5	14.1	14.1	14.3
Total revenue	10.5	10.8	9.2	9.9	10.3	10.8	11.9	12.5	12.9	13.3	13.5
Tax revenue	10.3	10.6	8.9	9.5	10.0	10.4	11.6	12.2	12.6	13.0	13.2
Domestic taxes	5.0	5.2	4.8	5.2	5.6	5.6	6.6	7.0	7.4	7.6	7.8
Taxes on international trade and transactions	5.2	5.3	4.1	4.3	4.4	4.8	5.0	5.2	5.2	5.4	5.4
Non-tax revenue	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	2.5	3.1	1.8	2.5	2.3	1.7	2.1	2.0	1.2	0.9	0.8
Current grants	0.9	0.7	0.8	0.9	0.5	0.0	0.0	0.3	0.3	0.3	0.3
Capital grants	1.6	2.4	0.9	1.6	1.8	1.7	2.1	1.7	0.9	0.6	0.5
Total expenditure and lending minus repayments	14.4	15.4	15.1	16.3	18.3	18.7	19.7	18.2	17.9	17.3	17.9
of which: Social priority spending [1]	*0.8*	*0.6*	*0.7*	*0.7*	0.9	*0.6*	*1.2*	...	...	...	...
Current expenditure	9.4	9.5	9.5	9.6	10.7	11.4	10.5	10.1	10.0	10.0	10.0
Wages and salaries	5.1	4.9	5.2	5.6	5.6	5.6	5.8	5.7	5.6	5.5	5.4
Interest payments	0.8	0.7	0.7	0.7	0.8	0.7	0.9	0.8	0.8	0.8	0.8
Foreign	0.2	0.2	0.2	0.2	0.3	0.2	0.4	0.3	0.3	0.4	0.4
Domestic	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5	0.5
Other	3.1	3.7	4.3	4.5	3.4	4.1	3.5	3.3	3.4	3.5	3.6
Goods and services	0.8	0.6	0.7	0.7	0.8	0.8	0.8	0.9	0.9	1.0	1.1
Transfers and subsidies	2.3	3.1	3.6	3.8	2.6	3.4	2.7	2.5	2.5	2.5	2.5
of which: JIRAMA [2]	*0.7*	*2.4*	*1.3*	*2.5*	*0.7*	*0.7*	*0.6*	...	...	...	...
Treasury operations (net)	0.5	0.2	-0.6	-1.3	0.9	0.9	0.3	0.2	0.2	0.2	0.2
Capital expenditure	5.0	5.8	5.6	6.8	7.6	7.4	9.2	8.2	7.9	7.3	7.8
Domestic financed	1.8	1.7	2.9	2.9	2.9	2.6	3.2	3.1	3.3	3.5	3.5
Foreign financed	3.2	4.1	2.7	3.8	4.7	4.8	6.0	5.0	4.6	3.8	4.3
Overall balance (commitment basis)	-1.3	-1.4	-4.2	-4.0	-5.8	-6.3	-5.8	-3.8	-3.8	-3.2	-3.5
Float (variation of accounts payable, + = increase)	-0.2	0.3	1.3	0.5	-0.8	-0.1	0.0	-0.3	-0.3	-0.1	0.0
Variation of domestic arrears (+ = increase)	-0.5	-0.2	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance (including grants, cash basis)	-2.0	-1.3	-2.9	-3.5	-6.6	-6.4	-5.8	-4.1	-4.0	-3.3	-3.5
Domestic primary balance [3]	0.1	0.3	-2.6	-1.9	-2.5	-2.5	-0.9	0.0	0.4	0.6	0.8
Total financing	2.0	1.3	2.9	3.5	6.6	6.4	5.8	4.1	4.0	3.1	3.4
Foreign borrowing (residency principle)	1.5	1.3	1.4	1.8	3.6	3.6	3.3	2.6	3.0	2.4	2.9
External borrowing, Gross	2.0	1.7	1.9	2.3	4.2	4.1	4.2	3.7	4.0	3.5	4.0
Budget support loans	0.4	0.0	0.1	0.2	1.3	1.0	0.3	0.3	0.3	0.3	0.2
of which: Air Madagascar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	1.6	1.7	1.8	2.2	2.9	3.1	3.9	3.4	3.7	3.3	3.8
Amortization on a due basis (-)	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.9	-1.1	-1.0	-1.1	-1.1
Domestic borrowing (residency principle)	0.5	0.0	1.5	1.7	2.9	2.9	2.5	1.5	1.0	0.6	0.5
Monetary sector	0.5	-0.1	1.1	1.2	3.0	2.5	2.5	1.4	1.0	0.6	0.5
of which: onlending of IMF financing [4]			2.4	2.5	1.0	0.5	0.9	0.4	0.2		
of which: cession of new IMF SDR allocation						0.0	1.8	0.0	0.0	0.0	0.0
Non-monetary sector	-0.1	0.0	-0.2	-0.1	0.0	-0.1	0.0	0.1	0.1	0.1	0.1
Other incl. Treasury correspondent accounts (net)	0.2	0.1	0.6	0.6	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Fiscal financing balance [5]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.1

Sources: Malagasy Authorities; and IMF staff estimates and projections.

[1] Domestically financed spending of social ministries, excluding salaries, representing a limited share of total social spending.

[2] Operating subsidies and arrears repayment.

[3] Primary balance excl. foreign-financed investment and grants. Commitment basis.

[4] RCF disbursement in 2020 and ECF disbursements onlent by the central bank to the Treasury.

[5] A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.

Table 4. Madagascar: Fiscal Operations of the Central Government

Quarterly Projections for 2021-22 (Billions of Ariary)

	2021								2022			
	Mar		Jun		Sept		Dec		Mar	Jun	Sept	Dec
	ECF	Prel.	ECF	Prel.	ECF	Prel.	ECF	Proj.	Projections			
Total revenue and grants	1,268	1,440	2,968	2,896	4,765	4,468	7,149	6,761	1,724	3,811	5,950	8,472
Total revenue	1,176	1,264	2,670	2,666	4,181	4,171	5,859	5,841	1,630	3,463	5,257	7,220
Tax revenue	1,152	1,244	2,588	2,607	4,058	4,082	5,694	5,676	1,616	3,424	5,167	7,045
Domestic taxes	657	685	1,470	1,458	2,318	2,271	3,204	3,050	917	1,998	2,956	4,034
Taxes on international trade and transactions	495	558	1,118	1,149	1,740	1,812	2,490	2,626	698	1,425	2,211	3,011
Non-tax revenue	23	20	82	59	123	89	165	165	15	40	90	175
Grants	92	176	298	231	583	297	1,290	920	94	348	693	1,252
Current grants	0	0	47	1	47	1	291	0	0	0	0	0
Capital grants	92	176	251	230	536	296	999	920	94	348	693	1,252
Total expenditure and lending minus repayments	2,338	1,688	4,714	3,630	7,591	5,226	10,432	10,165	2,547	5,449	8,492	11,969
of which: Social priority spending [1]	*77*	*7*	*154*	*81*	*282*	*140*	*513*	*299*	*71*	*178*	*357*	*713*
Current expenditure	1,530	1,283	2,936	2,665	4,595	3,899	6,088	6,168	1,519	3,195	4,801	6,392
Wages and salaries	796	615	1,591	1,342	2,387	2,061	3,182	3,049	843	1,755	2,633	3,511
Interest payments	110	90	226	166	320	234	482	375	126	260	392	548
Foreign	29	24	80	55	116	84	173	114	55	117	174	238
Domestic	82	67	146	111	205	150	309	261	71	143	217	310
Other	270	339	713	776	1,453	1,075	1,931	2,251	431	918	1,507	2,153
Goods and services	68	34	175	113	327	206	436	421	103	221	360	514
Transfers and subsidies	202	305	538	663	1,126	870	1,494	1,830	328	697	1,147	1,639
of which: JIRAMA [2]	*24*	*76*	*103*	*207*	*241*	*370*	*413*	*672*	…	…	…	…
Treasury operations (net)	354	239	406	382	435	529	493	493	120	262	270	180
Capital expenditure	808	404	1,778	965	2,996	1,326	4,344	3,998	1,027	2,254	3,691	5,577
Domestic financed	305	42	712	298	1,231	369	1,680	1,396	389	816	1,272	1,947
Foreign financed	503	363	1,066	668	1,765	957	2,664	2,602	638	1,438	2,419	3,629
Overall balance (commitment basis)	-1,070	-248	-1,747	-734	-2,826	-758	-3,283	-3,404	-823	-1,638	-2,542	-3,497
Float (variation of accounts payable, + = increase)	-674	-252	-458	-223	58	-245	-432	-57	0	0	0	0
Variation of domestic arrears (+ = increase)	-24	0	-30	0	-30	0	-30	-30	0	0	0	-30
Overall balance (including grants, cash basis)	-1,768	-500	-2,235	-957	-2,797	-1,003	-3,745	-3,492	-823	-1,638	-2,542	-3,527
Domestic primary balance [3]	-549	29	-752	-131	-1,324	136	-1,426	-1,347	-152	-288	-425	-571
Total financing	1,768	499	2,235	957	2,797	1,010	3,745	3,492	823	1,638	2,542	3,527
Foreign borrowing (residency principle)	894	84	1,190	731	1,529	940	2,066	1,929	516	869	1,375	2,010
External borrowing, Gross	940	187	1,345	918	1,758	1,209	2,422	2,232	643	1,189	1,824	2,574
Budget support loans	530	0	530	480	530	547	756	551	98	98	98	197
Project loans	410	187	815	438	1,228	662	1,665	1,682	544	1,090	1,726	2,377
Amortization on a due basis (-)	-46	-103	-156	-186	-229	-268	-355	-304	-127	-320	-449	-564
Domestic borrowing (residency principle)	874	416	1,045	225	1,269	70	1,679	1,563	307	769	1,167	1,516
Monetary sector	1,004	488	1,103	131	1,252	52	1,685	1,340	307	769	1,167	1,518
of which: onlending of IMF financing [4]	*0*	*264*	*275*	*264*	*275*	*264*	*556*	*264*	*272*	*416*	*416*	*549*
of which: cession of new IMF SDR allocation	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*0*	*0*	*0*	*0*	*283*	*568*	*943*	*1,100*
Non-monetary sector	-30	-39	-8	-21	17	-51	-7	-49	0	0	0	-2
Other incl. Treasury correspondent accounts (net)	0	-34	0	115	0	69	0	272	0	0	0	0
Fiscal financing balance [5]	0	-1	0	0	0	7	0	0	0	0	0	0

Sources: Malagasy Authorities; and IMF staff estimates and projections.

[1] Domestically financed spending of social ministries, excluding salaries, representing a limited share of total social spending.

[2] Operating subsidies and arrears repayment.

[3] Primary balance excl. foreign-financed investment and grants. Commitment basis.

[4] RCF disbursement in 2020 and ECF disbursements onlent by the central bank to the Treasury.

[5] A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.

Table 5a. Madagascar: Balance of Payments, 2018-26

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Actuals	Est.	ECF	Est.	ECF	Proj.	Projections				
					(Millions of SDRs)						
Current account	70	-234	-651	-504	-503	-543	-541	-537	-517	-557	-620
Goods and services	-335	-482	-901	-841	-891	-1,011	-870	-939	-881	-957	-1,055
Trade balance of goods	-324	-611	-654	-645	-647	-588	-683	-827	-866	-1,029	-1,198
Exports, f.o.b.	2,143	1,891	1,387	1,402	1,673	1,884	1,973	2,099	2,277	2,468	2,685
of which: Mining	594	551	257	262	441	542.5	637	739	803	824	883
of which: Vanilla	605	423	366	367	371	423	401	364	341	341	342
Imports, f.o.b.	-2,467	-2,502	-2,041	-2,046	-2,320	-2,472	-2,656	-2,925	-3,143	-3,496	-3,883
of which: Petroleum products	*-387*	*-403*	*-256*	*-256*	*-337*	*-339*	*-424*	*-430*	*-398*	*-485*	*-535*
of which: Food	*-373*	*-327*	*-323*	*-324*	*-363*	*-455*	*-436*	*-407*	*-437*	*-450*	*-464*
of which: Intermediate goods and capital	*-997*	*-1,014*	*-805*	*-810*	*-852*	*-1,056*	*-987*	*-1,213*	*-1,288*	*-1,517*	*-1,745*
Services (net)	-11	129	-247	-197	-245	-423	-187	-112	-15	71	143
Receipts	935	1,036	436	444	669	396	755	958	1,052	1,175	1,255
of which: Travels	*489*	*538*	*103*	*103*	*291*	*42*	*339*	*425*	*448*	*473*	*497*
Payments	-946	-907	-683	-641	-914	-819	-942	-1,070	-1,067	-1,104	-1,112
Income (net)	-281	-329	-300	-276	-154	-217	-261	-275	-358	-371	-389
Receipts	40	44	35	32	43	32	40	41	47	54	62
Payments	-321	-373	-335	-308	-197	-249	-301	-316	-406	-426	-452
of which: interest on public debt	*-22*	*-29*	*-22*	*-22*	*-21*	*-21*	*-42*	*-35*	*-40*	*-47*	*-54*
Current transfers (net)	686	578	550	613	543	685	590	677	722	772	824
Official transfers	126	86	97	105	70	22	24	66	67	69	71
of which: Budget aid [1]	*85*	*73*	*83*	*83*	*54*	*0*	*0*	*40*	*40*	*40*	*40*
Private transfers	560	491	453	509	472	662	566	611	655	702	753
Capital and financial account	41	150	517	370	508	769	545	467	618	755	874
Capital account[1]	171	241	221	153	178	169	222	196	113	75	76
of which: Project grant [1]	*171*	*241*	*221*	*153*	*178*	*169*	*222*	*196*	*113*	*75*	*76*
Financial account	-14	-52	296	172	330	600	323	271	506	680	798
Foreign direct and portfolio investment	351	270	176	180	225	153	203	247	320	349	361
Other investment	-364	-322	120	-9	105	447	120	25	186	331	437
Government	154	131	107	158	366	354	357	304	378	331	419
Drawing	204	182	165	216	430	409	457	429	503	477	585
Project drawings [1]	167	177	151	201	297	308	422	394	468	442	550
Budgetary support [1]	37	5	14	15	133	101	35	35	35	34	34
Amortization	-50	-50	-58	-58	-64	-56	-100	-125	-125	-146	-166
Monetary authority and private sector	-156	-244	-121	-122	-98	347	-246	-249	-146	-143	-139
Banks	38	-12	-37	-95	0	4	0	0	0	0	0
Other (inc. unrepatriated export revenues)	-407	-221	171	50	-163	-249	9	-31	-46	142	157
Errors and omissions	-116	-38	0	45	0	0	0	0	0	0	0
Overall balance	110	-83	-134	-134	5	226	4	-70	101	198	254
Financing	-110	83	134	134	-5	-226	-4	70	-101	-230	-271
Use of IMF credit (net)	24	59	25	25	85	49	82	12	-10	-65	-104
Other assets, net (increase = –)[2]	-135	25	-141	-141	-111	-296	-90	58	-90	-163	-164
Exceptional financing-Grant for debt relief under CCRT [3]	*0*	*0*	*6*	*6*	*12*	*12*	*3*				
Exceptional financing-G-20 DSSI			*0*	*0*	*9*	*9*	*0*	*0*	*-2*	*-2*	*-2*
Exceptional financing-RCF disbursement			*244*	*244*							
Residual financing gap (unidentified financing)	0	0	0	0	0	0	0	0	0	32	16
					(Percent of GDP; unless otherwise indicated)						
Memorandum items:											
Grants	2.6	3.1	3.1	2.5	2.3	1.7	2.1	2.0	1.2	0.9	0.8
Loans	2.1	1.8	1.7	2.3	4.2	4.1	4.2	3.7	4.0	3.5	4.0
Direct investment	3.6	2.6	1.8	1.9	2.2	1.5	1.9	2.1	2.5	2.6	2.5
Current account											
Excluding net official transfers	-1.9	-5.4	-9.6	-7.9	-7.2	-7.1	-7.1	-6.6	-5.3	-5.0	-5.1
Including net official transfers	0.7	-2.3	-6.5	-5.4	-5.0	-5.5	-5.0	-4.6	-4.1	-4.1	-4.3
Debt service (percent of exports of goods)	1.7	3.6	2.5	2.6	2.3	2.4	3.8	3.7	2.7	2.7	2.6
Export of goods volume (percent change)	-4.8	6.5	-19.4	-18.5	9.5	36.9	-13.7	-3.5	9.2	8.0	8.1
Import of goods volume (percent change)	-0.2	3.4	-17.9	-17.8	9.5	6.3	3.0	13.6	9.4	11.9	11.7
Gross official reserves (millions of SDR)[4]	1,221	1,196	1,338	1,338	1,449	1,633	1,723	1,665	1,754	1,917	2,081
Months of imports of goods and nonfactor services	4.3	4.2	5.9	6.0	5.4	6.0	5.7	5.0	5.0	5.0	5.0
Terms of trade (percent change, deterioration -)	5.6	-15.5	-8.5	-8.6	6.2	-13.6	16.3	13.7	1.1	1.0	1.2
Exchange rate (ariary/US$, period average)	3,335	3,618	3,788	3,788	…	…	…	…	…	…	…

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

[1]Includes official external financial support only with a disbursement schedule.

[2]Includes reserve accumulation.

[3]Debt relief assumed through April 2022, but subject to availability of CCRT resources for the last 18 months.

[4]2021 gross official reserves projection includes the IMF SDR allocation.

Table 5b. Madagascar: Balance of Payments, 2018-26

(Percent of GDP)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Actuals	Est.	ECF	Est.	ECF	Proj.	Projections				
Current account	0.7	-2.3	-6.5	-5.4	-4.9	-5.5	-5.0	-4.6	-4.1	-4.1	-4.3
Goods and services	-3.5	-4.7	-9.1	-9.0	-8.6	-10.2	-8.1	-8.0	-7.0	-7.1	-7.3
Trade balance of goods	-3.3	-6.0	-6.6	-6.9	-6.2	-5.9	-6.3	-7.0	-6.9	-7.6	-8.3
Exports, f.o.b.	22.0	18.5	14.0	15.0	16.2	18.9	18.3	17.9	18.0	18.3	18.5
of which: Mining	6.1	5.4	2.6	2.8	4.3	5.4	5.9	6.3	6.4	6.1	6.1
of which: Vanilla	6.2	4.1	3.7	3.9	3.6	4.2	3.7	3.1	2.7	2.5	2.4
Imports, f.o.b.	-25.4	-24.5	-20.5	-21.8	-22.4	-24.8	-24.6	-24.9	-24.9	-25.9	-26.8
of which: Petroleum products	-4.0	-4.0	-2.6	-2.7	-3.3	-3.4	-3.9	-3.7	-3.2	-3.6	-3.7
of which: Food	-3.8	-3.2	-3.3	-3.5	-3.5	-4.6	-4.0	-3.5	-3.5	-3.3	-3.2
of which: Intermediate goods and capital	-10.3	-9.9	-8.1	-8.6	-8.2	-10.6	-9.2	-10.3	-10.2	-11.2	-12.0
Services (net)	-0.1	1.3	-2.5	-2.1	-2.4	-4.2	-1.7	-1.0	-0.1	0.5	1.0
Receipts	9.6	10.1	4.4	4.7	6.5	4.0	7.0	8.2	8.3	8.7	8.7
of which: Travels	5.0	5.3	1.0	1.1	2.8	0.4	3.1	3.6	3.5	3.5	3.4
Payments	-9.7	-8.9	-6.9	-6.8	-8.8	-8.2	-8.7	-9.1	-8.5	-8.2	-7.7
Income (net)	-2.9	-3.2	-3.0	-2.9	-1.5	-2.2	-2.4	-2.3	-2.8	-2.7	-2.7
Receipts	0.4	0.4	0.4	0.3	0.4	0.3	0.4	0.3	0.4	0.4	0.4
Payments	-3.3	-3.7	-3.4	-3.3	-1.9	-2.5	-2.8	-2.7	-3.2	-3.2	-3.1
of which: interest on public debt	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.4	-0.3	-0.3	-0.4	-0.4
Current transfers (net)	7.1	5.7	5.5	6.5	5.2	6.9	5.5	5.8	5.7	5.7	5.7
Official transfers	1.3	0.8	1.0	1.1	0.7	0.2	0.2	0.6	0.5	0.5	0.5
of which: Budget aid [1]	0.9	0.7	0.8	0.9	0.5	0.0	0.0	0.3	0.3	0.3	0.3
Private transfers	5.8	4.8	4.6	5.4	4.6	6.7	5.3	5.2	5.2	5.2	5.2
Capital and financial account	0.4	1.5	5.2	3.9	4.9	7.7	5.1	4.0	4.9	5.6	6.0
Capital account[1]	1.8	2.4	2.2	1.6	1.7	1.7	2.1	1.7	0.9	0.6	0.5
of which: Project grant [1]	1.8	2.4	2.2	1.6	1.7	1.7	2.1	1.7	0.9	0.6	0.5
Financial account	-0.1	-0.5	3.0	1.8	3.2	6.0	3.0	2.3	4.0	5.0	5.5
Foreign direct and portfolio investment	3.6	2.6	1.8	1.9	2.2	1.5	1.9	2.1	2.5	2.6	2.5
Other investment	-3.7	-3.2	1.2	-0.1	1.0	4.5	1.1	0.2	1.5	2.4	3.0
Government	1.6	1.3	1.1	1.7	3.5	3.6	3.3	2.6	3.0	2.4	2.9
Drawing	2.1	1.8	1.7	2.3	4.2	4.1	4.2	3.7	4.0	3.5	4.0
Project drawings [1]	1.7	1.7	1.5	2.1	2.9	3.1	3.9	3.4	3.7	3.3	3.8
Budgetary support [1]	0.4	0.0	0.1	0.2	1.3	1.0	0.3	0.3	0.3	0.3	0.2
Amortization	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6	-0.9	-1.1	-1.0	-1.1	-1.1
Monetary authority and private sector	-1.6	-2.4	-1.2	-1.3	-0.9	3.5	-2.3	-2.1	-1.2	-1.1	-1.0
Banks	0.4	-0.1	-0.4	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (inc. unrepatriated export revenues)	-4.2	-2.2	1.7	0.5	-1.6	-2.5	0.1	-0.3	-0.4	1.1	1.1
Errors and omissions	-1.2	-0.4	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.1	-0.8	-1.3	-1.4	0.0	2.3	0.0	-0.6	0.8	1.5	1.8
Financing	-1.1	0.8	1.3	1.4	0.0	-2.3	0.0	0.6	-0.8	-1.7	-1.9
Use of IMF credit (net)	0.3	0.6	0.2	0.3	0.8	0.5	0.8	0.1	-0.1	-0.5	-0.7
Other assets, net (increase = –)[2]	-1.4	0.2	-1.4	-1.5	-1.1	-3.0	-0.8	0.5	-0.7	-1.2	-1.1
Exceptional financing-Grant for debt relief under CCRT [3]	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Exceptional financing-G-20 DSSI			0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Exceptional financing-RCF disbursement			2.5	2.6							
Residual financing gap (unidentified financing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1

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

[1]Includes official external financial support only with a disbursement schedule.

[2]Includes reserve accumulation.

[3]Debt relief assumed through April 2022, but subject to availability of CCRT resources for the last 18 months.

Table 6. Madagascar: Monetary Accounts, 2018-26[1]

(Billions of Ariary; unless otherwise indicated)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Actuals		ECF	Actuals	ECF	Proj.	Projections				
Net foreign assets	4,927	4,614	4,876	4,876	5,194	5,073	6,408	6,213	7,043	8,724	10,740
Net foreign assets (BCM)	4,207	3,925	3,597	3,597	3,870	3,682	4,959	4,703	5,466	7,079	9,029
Net foreign assets (deposit money banks)	720	689	1,279	1,279	1,323	1,391	1,450	1,510	1,577	1,645	1,711
Net domestic assets	6,871	8,045	9,314	9,314	12,091	11,811	13,264	15,561	17,617	19,759	21,987
Domestic credit	7,935	9,125	10,624	10,685	13,551	13,352	14,878	17,415	19,724	22,088	24,593
Net credit to government	2,099	2,074	2,831	2,893	4,651	4,368	4,495	5,440	6,207	6,688	7,152
BCM[2]	947	757	982	1,044	2,514	2,107	2,680	3,286	3,653	3,601	3,513
DMBs	1,096	1,256	1,565	1,565	1,718	1,841	1,383	1,709	2,096	2,617	3,156
Other credits	55	62	285	285	418	420	432	445	459	471	483
Credit to the economy	5,836	7,051	7,792	7,792	8,900	8,984	10,383	11,975	13,517	15,400	17,441
Credit to public enterprises	40	43	59	59	59	59	59	59	61	63	67
Credit to private sector	5,765	6,980	7,687	7,687	8,821	8,905	10,304	11,896	13,456	15,336	17,374
Other credits	31	28	46	46	20	20	20	20	0	0	0
Other items (net)	-1,064	-1,080	-1,310	-1,371	-1,260	-1,540	-1,614	-1,854	-2,107	-2,329	-2,607
BCM	269	281	245	183	298	290	334	274	254	254	284
Other	-1,332	-1,361	-1,554	-1,554	-1,558	-1,830	-1,948	-2,129	-2,362	-2,584	-2,891
Money and quasi-money (M3)	11,798	12,659	14,190	14,190	17,285	16,885	19,673	21,774	24,660	28,483	32,727
Foreign currency deposits	1,202	1,111	1,472	1,472	1,516	1,584	1,629	1,690	1,807	2,094	2,361
Short term obligations of commercial banks	60	73	87	87	51	51	51	51	51	51	51
Broad money (M2)	10,536	11,476	12,632	12,632	15,718	15,250	17,993	20,033	22,802	26,338	30,315
Currency in circulation	3,391	3,315	3,570	3,570	3,827	4,077	4,663	4,971	5,610	6,440	7,549
Demand deposits in local currency	3,687	4,426	4,866	4,866	6,313	5,917	7,096	7,896	8,819	10,054	11,317
Quasi-money including time deposits	3,458	3,735	4,196	4,196	5,578	5,256	6,233	7,166	8,272	9,744	11,349
Reserve money	5,153	4,927	5,459	5,459	6,391	5,856	7,801	8,113	9,232	10,803	12,704
			(Percentage change relative to broad money at beginning of the year)								
Net foreign assets	5.3	-3.0	2.3	2.3	2.5	1.6	8.8	-1.1	4.1	7.4	7.7
Net foreign assets (BCM)	7.1	-2.7	-2.9	-2.9	2.2	0.7	8.4	-1.4	3.8	7.1	7.4
Net foreign assets (deposit money banks)	-1.8	-0.3	5.1	5.1	0.4	0.9	0.4	0.3	0.3	0.3	0.3
Net domestic assets	7.1	11.1	11.1	11.1	22.0	19.8	9.5	12.8	10.3	9.4	8.5
Domestic credit	9.8	11.3	13.1	13.6	23.2	21.1	10.0	14.1	11.5	10.4	9.5
Net credit to government	0.1	-0.2	6.6	7.1	14.4	11.7	0.8	5.3	3.8	2.1	1.8
BCM	0.6	-1.8	2.0	2.5	12.1	8.4	3.8	3.4	1.8	-0.2	-0.3
DMBs	1.7	1.5	2.7	2.7	1.2	2.2	-3.0	1.8	1.9	2.3	2.0
Other credits	-2.2	0.1	1.9	1.9	1.1	1.1	0.1	0.1	0.1	0.1	0.0
Credit to the economy	9.7	11.5	6.5	6.5	8.8	9.4	9.2	8.8	7.7	8.3	7.7
Credit to public enterprises	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	9.6	11.5	6.2	6.2	9.0	9.6	9.2	8.8	7.8	8.2	7.7
Other credits	0.1	0.0	0.2	0.2	-0.2	-0.2	0.0	0.0	-0.1	0.0	0.0
Other items (net; asset = +)	-2.7	-0.2	-2.0	-2.5	0.4	-1.3	-0.5	-1.3	-1.3	-1.0	-1.1
					(Percentage change year-on-year)						
Broad money (M2)	10.3	8.9	10.1	10.1	24.4	20.7	18.0	11.3	13.8	15.5	15.1
Currency in circulation	9.4	-2.2	7.7	7.7	7.2	14.2	14.4	6.6	12.8	14.8	17.2
Demand deposits in local currency	5.2	20.0	9.9	9.9	29.7	21.6	19.9	11.3	11.7	14.0	12.6
Quasi-money in local currency	17.5	8.0	12.3	12.3	32.9	25.3	18.6	15.0	15.4	17.8	16.5
Credit to the private sector (in nominal terms)	19.0	21.1	10.1	10.1	14.7	15.8	15.7	15.4	13.1	14.0	13.3
Credit to the private sector (in real terms)	12.0	17.1	5.6	5.6	9.3	9.7	9.4	9.3	7.2	8.3	7.8
Memorandum items:											
Credit to private sector (percent of GDP)	12.6	13.7	14.7	15.5	15.5	16.4	17.0	17.4	17.8	18.3	18.8
Money multiplier (M3/reserve money)	2.3	2.6	2.6	2.6	2.7	2.9	2.5	2.7	2.7	2.6	2.6
Velocity of money (GDP/end-of-period M3)	3.9	4.0	3.7	3.5	3.3	3.2	3.1	3.1	3.1	2.9	2.8

Sources: Malagasy Authorities; and IMF staff estimates and projections.

[1]End of period.

[2]Large increases in 2020 and 2021 reflect RCF disbursements and ECF disbursements onlent by the central bank to the Treasury.

Table 7. Madagascar: Balance Sheet of the Central Bank, 2019–22[1]

(Billions of Ariary; unless otherwise indicated)

	2019	2020	2021								2022			
	Dec	Dec	Mar		Jun		Sep		Dec		Mar	Jun	Sep	Dec
	Actuals	Est.	ECF	Actuals	ECF	Actuals	ECF	Proj.	ECF	Proj.	Projections			
Net foreign assets	3,925	3,597	3,936	3,177	3,811	3,767	3,647	3,638	3,870	3,682	4,910	4,844	4,926	4,959
Gross foreign assets	5,977	7,370	7,986	6,868	7,835	7,853	7,690	9,037	8,260	9,045	9,497	9,579	9,691	9,845
Gross foreign liabilities	-2,052	-3,772	-4,050	-3,691	-4,024	-4,085	-4,044	-5,398	-4,390	-5,363	-4,586	-4,735	-4,765	-4,886
Net domestic assets	1,002	1,862	1960	2,214	2,096	1,782	2,364	1,762	2,521	2,174	1,683	2,135	2,528	2,843
Credit to government (net)	757	1,044	1911	1,422	1,982	898	2,119	1,001	2,514	2,107	1,586	2,018	2,401	2,680
Claims on central government	1,103	2,331	2322	2,280	2,615	2,609	2,707	2,596	3,021	2,585	2,861	3,011	3,023	3,160
Statutory advances	85	0	71	0	100	0	200	0	250	0	0	0	0	0
Securitized debt (T-bonds and bills)	701	658	640	647	628	636	640	626	628	615	604	594	582	572
Discounted bills of exchange	8	0	0	0	0	0	0	0	0	0	0	0	0	0
On-lending of funds	308	1,671	1610	1,631	1,886	1,972	1,886	1,969	2,155	1,969	2,256	2,416	2,440	2,587
Other credits	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Government deposits	-347	-1,287	-411	-858	-634	-1,711	-589	-1,595	-507	-478	-1,275	-993	-623	-480
Claims on other sectors	23	-187	-1	71	-36	-89	-4	-132	-127	-67	-47	-47	-47	28
Claims on banks: Liquidity operations (+ = injection)	-58	609	-250	338	-250	512	-200	475	-250	-250	-240	-220	-210	-200
Other items (net; asset +)	281	397	300	383	400	461	450	418	383	383	383	383	383	334
Reserve money	4,927	5,459	5897	5,391	5,907	5,550	6,011	5,400	6,392	5,957	6,593	6,979	7,454	7,802
Currency in circulation	3,315	3,570	3265	3,479	3,367	3,792	3,464	3,687	3,827	4,077	4,406	4,519	4,619	4,663
Bank reserves	1,561	1,823	2565	1,839	2,474	1,682	2,480	1,636	2,498	1,813	2,120	2,393	2,769	3,085
Currency in banks	335	354	354	306	354	309	354	314	354	386	389	354	354	540
Deposits	1,226	1,469	1633	1,533	2,120	1,373	2,127	1,322	2,144	1,427	1,732	2,039	2,415	2,544
Resident deposits	51	66	66	73	66	76	66	76	66	66	66	66	66	54
			(Cumulative annual flows, unless otherwise stated)											
Memorandum items:														
Net foreign assets	-282	-328	339	-420	214	170	49	41	273	85	1,228	1,161	1,244	1,277
Net foreign assets (Millions of SDRs)	-90	-131	60	-60	36	21	3	0	26	12	215	194	200	203
Net domestic assets	57	860	98	352	234	-80	502	-100	659	312	-491	-39	354	669
Credit to government (net)	-191	287	929	378	1,000	-146	1,137	-43	1,532	1,064	-521	-89	294	573
Reserve money	-225	532	437	-68	448	90	552	-59	932	497	637	1,022	1,497	1,845
Exchange Rate (MDG/SDR, end of period)	5,006	5,509	...	...	...	...	...	...	...	...	...	...	...	...
Net foreign assets (Millions of SDRs, stock)	784	653	713	593	689	674	656	653	679	665	880	859	865	868

Sources: Malagasy Authorities; and IMF staff estimates and projections.

[1]End of period.

Table 8. Madagascar: Selected Financial Soundness Indicators, 2018–21[1]

(Ratios, percent; unless otherwise indicated)

	2018 Dec	2019 Dec	2020 Dec	2021 Mar	2021 Jun	2021 Sep	2021 Dec
Capital Adequacy							
Regulatory capital to risk-weighted assets	13.7	13.4					
Capital to assets	10.6	10.0	9.4	9.8	9.1	9.3	9.5
Regulatory Tier 1 capital to risk-weighted assets	13.6	13.4					
Tier 1 to assets	7.8	7.8					
Non-performing loans net of provisions to capital	15.7	17.3	19.8	18.3	20.0	19.9	22.9
Net open position in equities to capital	4.1	4.0	3.8	3.5	3.8	3.6	3.1
Asset Quality							
Non-performing loans to total gross loans	7.3	7.2	7.6	7.9	7.7	7.6	7.8
Earnings and Profitability							
Return on assets	4.3	4.0	3.2	3.2	3.2	3.4	3.5
Return on equity	42.6	39.2	32.3	32.9	34.2	35.6	37.6
Interest margin to gross income	61.0	60.6	60.5	59.9	58.7	58.2	51.8
Non-interest expenses to gross income	54.2	54.2	57.7	56.5	56.5	55.8	58.7
Trading income to total income	4.9	5.7	6.6	6.4	9.1	9.1	8.1
Personnel expenses to non-interest expenses	31.7	32.9	30.8	32.1	31.5	31.2	26.2
Liquidity							
Liquid assets to total assets (liquid asset ratio)	36.9	34.9	35.2	37.1	35.0	32.9	33.6
Liquid assets to short-term liabilities	54.8	49.8	49.1	53.3	49.5	47.1	49.0
Customer deposits to total (non-interbank) loans	141.1	136.7	139.4	145.9	142.8	135.5	127.3
Sensitivity to Market Risk							
Net open position in foreign exchange to capital	5.6	5.4	7.1	5.4	11.6	2.8	10.1
Spread between reference lending and deposit rates (basis point)	1,144	1,073	1,023	949	946	942	926
Foreign currency-denominated loans to total loans	12.1	11.5	12.9	11.5	12.8	11.0	11.5
Foreign currency-denominated liabilities to total liabilities	13.8	13.4	15.0	14.5	13.4	13.0	13.6

Source: Malagasy authorities.

[1]Ratios only concern banking sector.

Table 9. Madagascar: External Financing Requirements and Sources, 2019-24
(Millions of US Dollars)

	2019	2020	2021	2022	2023	2024
Total financing requirements	1,044	1,264	1,109	1,384	1,371	1,439
Current account deficit (excl. budget grants)	323	817	774	764	824	801
Net repayment of private sector and monetary authority debt	337	170	-494	348	355	210
of which: SDR allocation		0	-332	0	0	0
Repayment of government debt	69	81	79	141	179	180
Gross reserves accumulation (+ = increase)	-34	197	421	127	-83	129
IMF repayments	6	9	0	22	53	49
Other (inc. unrepatriated export revenues)	342	-9	329	-17	44	69
Available financing	1,044	1,264	1,109	1,384	1,371	1,439
Foreign direct and portfolio investment	373	251	218	287	352	461
Budget support grants		115	0	0	57	58
Budget support loans	7	20	144	49	50	50
Project support	577	494	679	910	842	836
Project grants	332	214	240	314	280	162
Project drawings	244	280	439	596	563	674
IMF: RCF disbursements and ECF arrangement	87	383	69	138	70	35
Budget support to be programmed	0	0	0	0	0	0
Memorandum items:						
Gross official reserves	1,653	1,863	2,327	2,432	2,377	2,525

Sources: Malagasy Authorities; and IMF staff estimates and projections.

Table 10. Madagascar: Projected External Borrowing Program, on a Contractual Basis
(Millions of US Dollars)

Public and publicly-guaranteed external debt contracted	Volume of new debt in 2022		PV of new debt in 2022 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**432**	**100**	**290**	**100**
Concessional debt, of which	***63***	***15***	***19***	***6***
Multilateral debt	7	2	3	1
Bilateral debt	56	13	16	5
Other	0	0	0	0
Non-concessional debt, of which	***370***	***85***	***272***	***94***
Grant element between 0 and 35 percer	340	79	242	83
Commercial terms	30	7	30	10
By Creditor Type	**432**	**100**	**290**	**100**
Multilateral	107	25	76	26
Bilateral - Paris Club	109	25	53	18
Bilateral - Non-Paris Club	178	41	124	43
Other	39	9	38	13
Uses of debt financing	**432**	**100**	**290**	**100**
Infrastructure	247	57	164	56
Budget Financing	7	2	3	1
Social Spending	0	0	0	0
Other[1]	178	41	124	43

Sources: Malagasy authorities; and IMF staff projections.

Table 11. Madagascar: Proposed Schedule of Disbursements and Timing of ECF Arrangement Reviews

Availability Date	Disbursement (In percent of quota)	Disbursement (In SDR millions)	Conditions for Disbursement
March 29, 2021	20.0	48.88	Board approval of the arrangement
November 15, 2021	20.0	48.88	Board completion of first review based on observance of performance criteria for end-June 2021
May 16, 2022	10.0	24.44	Board completion of second review based on observance of performance criteria for end-December 2021
November 15, 2022	10.0	24.44	Board completion of third review based on observance of performance criteria for end-June 2022
May 15, 2023	10.0	24.44	Board completion of fourth review based on observance of performance criteria for end-December 2022
November 15, 2023	10.0	24.44	Board completion of fifth review based on observance of performance criteria for end-June 2023
May 15, 2024	10.0	24.44	Board completion of sixth review based on observance of performance criteria for end-December 2023
Total	90.0	219.96	

Source: IMF.

Table 12. Madagascar: Indicators of Capacity to Repay the Fund, 2022-36

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
							(Millions of SDRs)								
Fund obligations based on existing credit															
Principal	15.4	37.2	43.6	65.3	103.9	102.5	83.8	74.4	49.6	4.9	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit															
Principal	15.4	37.2	43.6	65.3	103.9	109.8	105.8	106.1	83.8	39.1	26.9	12.2	2.4	0.0	0.0
Charges and interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations based on existing and prospective credit															
Millions of SDRs	15.4	37.3	43.6	65.4	103.9	109.9	105.9	106.2	83.9	39.2	26.9	12.3	2.5	0.1	0.1
Billions of Ariary	87	216	261	405	664	722	712	730	589	281	197	92	19	0	0
Percent of exports of goods and services	0.6	1.2	1.3	1.8	2.6	2.6	2.3	2.1	1.5	0.7	0.4	0.2	0.0	0.0	0.0
Percent of debt service	7.8	17.1	19.6	25.5	36.0	35.1	31.0	27.8	20.0	8.9	4.6	2.2	0.4	0.0	0.0
Percent of GDP	0.1	0.3	0.3	0.5	0.7	0.7	0.6	0.6	0.4	0.2	0.1	0.1	0.0	0.0	0.0
Percent of government revenue	1.2	2.5	2.7	3.6	5.3	5.2	4.6	4.2	3.1	1.3	0.8	0.4	0.1	0.0	0.0
Percent of quota	6.3	15.2	17.8	26.7	42.5	45.0	43.3	43.5	34.3	16.0	11.0	5.0	1.0	0.0	0.0
Outstanding IMF credit based on existing and prospective drawings															
Millions of SDRs	666.0	677.6	658.5	593.2	489.3	379.5	273.7	167.6	83.8	44.7	17.8	5.6	3.2	3.2	3.2
Billions of Ariary	3,751	3,936	3,948	3,675	3,127	2,494	1,840	1,152	589	321	130	42	24	24	25
Percent of exports of goods and services	24.4	22.2	19.8	16.3	12.4	8.9	5.9	3.3	1.5	0.8	0.3	0.1	0.0	0.0	0.0
Percent of debt service	337.2	310.4	296.6	231.5	169.4	121.3	80.1	43.9	20.0	10.1	3.0	1.0	0.5	0.5	0.5
Percent of GDP	6.2	5.8	5.2	4.4	3.4	2.4	1.6	0.9	0.4	0.2	0.1	0.0	0.0	0.0	0.0
Percent of government revenue	52.0	46.3	40.5	33.0	25.0	17.8	11.9	6.7	3.1	1.5	0.6	0.2	0.1	0.1	0.1
Percent of quota	272.5	277.3	269.4	242.7	200.2	155.3	112.0	68.6	34.3	18.3	7.3	2.3	1.3	1.3	1.3
Net use of IMF credit (millions of SDRs)	33.5	11.7	-19.1	-65.3	-103.9	-109.8	-105.8	-106.1	-83.8	-39.1	-26.9	-12.2	-2.4	0.0	0.0
Disbursements	48.9	48.9	24.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	15.4	37.2	43.6	65.3	103.9	109.8	105.8	106.1	83.8	39.1	26.9	12.2	2.4	0.0	0.0
Memorandum items:							(Billions of Ariary; unless otherwise indicated)								
Exports of goods and services (millions of SDRs)	2,728	3,056	3,329	3,643	3,940	4,271	4,631	5,009	5,419	5,862	6,341	6,860	7,420	8,019	8,666
Debt service	1,112.4	1,268.0	1,330.9	1,587.8	1,845.2	2,056.7	2,296.2	2,626.4	2,943.7	3,163.0	4,310.1	4,235.6	4,398.3	4,866.5	5,535.4
Nominal GDP (at market prices)	60,744	68,237	75,658	83,718	92,545	102,172	112,770	124,407	137,187	151,251	166,647	183,532	201,929	221,474	242,776
Government revenue	7,220	8,497	9,743	11,130	12,509	14,004	15,515	17,181	19,018	21,048	23,281	25,813	28,592	31,571	34,841
Quota (millions of SDRs)	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	245.4

Source: IMF.

Annex I. Risk Assessment Matrix[1]

Risks	Likelihood	Impact	Policy Response
		Conjunctural shocks and scenarios	
Uncontrolled Covid-19 local outbreaks and global resurgence of the Covid-19 pandemic.	High	**High.** More containment measures are required, domestically and abroad. Economic growth further slows, increasing fiscal pressure.	Enhance health and social protection spending. Limit the damage by cushioning income losses for people and firms. Follow global public health guidance, including vaccination, testing and care for cases. If required, use additional periods of stringent containment measures to build health system capacity.
Rising commodity prices amid bouts of volatility.	Medium	**Medium.** Lower external demand and commodities prices reduce metal and vanilla export values. Oil price increases raise fuel and electricity costs weighing on government transfers and complicating ongoing energy reforms. Uncertainty leads to bouts of volatility.	Finalize the fuel price adjustment mechanism. Maintain exchange rate flexibility to cushion the impact of related shocks. Accelerate structural reforms to improve economic efficiency and enhance diversification.
Widespread social discontent and political instability.	Medium	**Low.** Higher unemployment and increasing prices of essentials trigger social protests and disrupt economic activity; growing political polarization ahead of 2023 presidential elections and instability weaken policymaking and confidence.	Encourage authorities and development partners to increase social safety nets and avoid early withdrawal of financial support to households and companies. Step-up anti-corruption and AML/CFT efforts.
Banking sector stress.	Low	**Medium.** Deterioration in asset quality and liquidity shortfalls leading banks to contract credit supply.	Enhance regulation and supervision. Strengthen the resolution and crisis management frameworks.
		Structural risks	
Larger than anticipated transfers to SOEs (e.g., JIRAMA and Air Madagascar).	High	**Medium.** Transfers to SOEs reduce other priority expenditures. Potential economic disruption if SOEs' operations are affected.	Identify options to protect key public services. Encourage authorities and development partners to protect social priority spending. Strengthen governance structures, including government oversight of key SOEs. Adopt a medium-term fiscal framework.
Stall or reversals in corruption and governance reforms, especially for SOEs.	High	**High.** A lack of transparency and evenhandedness may compromise additional concessional support, hinder private investment (incl. PPPs), and harm negotiations with fuel suppliers.	Undertake promised reforms and renew commitment to operating SOEs (e.g., JIRAMA) in a transparent and equitable manner. Step-up anti-corruption and AML/CFT efforts.
Weak investment implementation capacity.	High	**Medium.** Slower economic growth.	Monitor available domestic capacity and prioritize investments with highest returns.
Higher frequency and severity of natural disasters related to climate change.	Medium	**High.** Loss of real and human capital, disruptions in trade and lower growth.	Reallocate fiscal spending to finance recovery work and appeal to donors for post-disaster financing. Address infrastructure gaps and invest (public and private) in climate resilient infrastructure and agriculture.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Appendix I. Letter of Intent

Antananarivo (Madagascar)
February 24, 2022

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431 (USA)

Dear Madam Managing Director:

1. In a challenging economic environment, the Republic of Madagascar is making major efforts to implement the economic reform program supported since March 2021 through an arrangement with the IMF under the Extended Credit Facility (ECF). The attached Memorandum of Economic and Financial Policies (MEFP) outlines the policy measures and structural reforms envisaged to arrive at stronger, more sustainable and more inclusive growth, as detailed in the '*Plan Emergence Madagascar*', while maintaining macroeconomic stability.

2. We remain focused on strengthening fiscal space required to allow for much needed expenditure on health and education, and for public investment. The budget law for 2022 makes provision for an increase in social spending as well as a major investment effort, partly funded by an increase in revenue resulting from a number of tax reforms as well as strengthened tax and customs administration measures. These reforms are expected to usher in long-term increases in the rate of tax pressure and thereby enable us to finance our development plan. Furthermore, we are continuing to improve the composition of expenditure, including through further restructuring of non-profitable state-owned enterprises, and we are strengthening public financial management by focusing on fiscal transparency. In regard to monetary policy, we are moving toward the implementation of an interest rate targeting framework, while maintaining a comfortable level of foreign exchange reserves as a condition for exchange rate stability. Last but not least, we have been advancing the governance and anti-corruption agenda with the recent adoption of several laws and regulations.

3. As prior actions for the completion of the review, we published the *Cour des Comptes* audit report of the financial flows related to the fight against the COVID-19 pandemic and prepared a timetable for the implementation of an automatic adjustment mechanism of fuel prices before the end of the first quarter of 2024.

4. As indicated in the MEFP, we have observed all the performance criteria as well as one third of the quantitative targets for end-June 2021 under the program. Given the challenging economic situation and the disruptions caused by the second wave of the pandemic in the second quarter of 2021, we nonetheless fell behind in implementing the structural reforms envisaged in March, and just four out of the seven structural benchmarks had been fully met at end-September 2021. However, we are pursuing our efforts to strengthen fiscal transparency and combat corruption,

as well as accelerate the execution of social expenditure and expedite the coverage of cash transfer programs.

5. In accordance with the announcements made at the time the program was approved, we intend to use the second disbursement requested under the ECF arrangement for budget support purposes, through on-lending by the central bank to the Treasury. Accordingly, we will update the existing Memorandum of Understanding (MoU) between the central bank and the government used for similar operations (first disbursement under the ECF in March 2021 and the two RCF disbursements in 2020).

6. The MEFP describes the public policies which in 2022 will contribute toward the attainment of the program targets under the ECF arrangement. We stand ready to take any further measures that may prove necessary to meet our program objectives, and we will consult with IMF staff prior to the adoption of any changes to the policies set forth in this Memorandum. The government does not intend to introduce measures or policies that would exacerbate Madagascar's balance-of-payments difficulties. We undertake to ensure the timely delivery of data for program monitoring. Furthermore, in line with IMF safeguards policy, the central bank commits to complying with recommendations of the 2021 update of the safeguards assessment of the BFM, including by restraining its gold purchase program, and will continue to provide IMF staff with access to its most recent audit reports and to authorize the external auditors to hold discussions with Fund staff.

7. Given the results achieved in relation to the targets set for end-June 2021 and the progress in program implementation, we are requesting that the IMF Executive Board approve our request that the first review be completed. In this context, the total financial support requested from the IMF under the first review amounts to SDR 48.88 million (20.0 percent of quota).

8. We agree that this Letter of Intent (LOI) and the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU), as well as the IMF staff report related to the first review under the ECF arrangement and the Debt Sustainability Analysis (DSA), should be published upon completion of the review by the IMF Executive Board.

Sincerely yours,

/s/

Ms. Rindra Hasimbelo Rabarinirinarison
Minister of Economy and Finance

/s/

Mr. Henri Rabarijohn
Governor of the Central Bank of Madagascar

Attachments:
- Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

Attachment I. Memorandum of economic and financial policies 2021-2024

This Memorandum of Economic and Financial Policies (MEFP) updates the version prepared for the IMF Executive Board's March 29, 2021 approval of the arrangement supported by the Extended Credit Facility (ECF). It reviews recent economic developments, the implementation of the government's commitments, the economic outlook and risks, and the macroeconomic and structural policies pursued.

RECENT DEVELOPMENTS

1. **After a lull in late 2020, Madagascar was hit hard by the second wave of the COVID-19 pandemic.** Based on the low official count of positive cases (17,777 cases out of 101,223 tests at end-December 2020), the government lifted the national health emergency beginning end-October 2020 and relaxed the majority of the confinement measures during fourth quarter 2020, while at the same time imposing a ban on international flights. However, a second wave violently hit the country from February to April 2021. In that context, we rejoined the COVAX initiative in the first quarter of 2021, which paved the way for the launch of a vaccination campaign with support from the World Bank. Since then, the country received 250,000 doses of Covishield vaccines in the context of the COVAX initiative in June, of which 70 percent were effectively administered, primarily to healthcare personnel; as well as 300,000 doses of the Janssen vaccine from USAID at end-July. At end-August, roughly 0.7 percent of the population had been vaccinated, which is still far from the 50 percent targeted by the government for the first half of 2023. A cumulative total of 42,847 positive cases have been reported since the start of the pandemic, based on 237,617 tests.

2. **In addition to the pandemic, the south of Madagascar faces a severe drought-related hunger crisis ("kéré")**. Some 1.5 million persons have lived in a situation of food insecurity since 2019 following a prolonged drought, and half a million persons will require emergency food assistance during the coming period between the harvests.

3. **The recession has been deeper than anticipated**. The collapse of tourist and mining activities – and of private demand, impacted by confinement measures – has led us to revise our estimated contraction of real activity to 7.1 percent in 2020 compared to the 4.2 percent anticipated at the time of the ECF agreement. Economic activity has recovered gradually since the start of 2021, accompanied by pressure on prices. Inflation increased to 6.4 percent year-on-year in August, driven by higher food and healthcare prices.

4. **The external position has been weakened by the pandemic.** The current account deficit increased to 5.4 percent of GDP in 2020, the result of weak exports of services related to tourism, minerals, and vanilla, partly offset by lower imports of petroleum products and capital goods. Except for increased imports of petroleum products, similar trends have been observed since the start of

2021. After a depreciation of 5. 5 percent with respect to the dollar in 2020, the exchange rate stabilized (depreciation of about 0.4 percent) between January and August 2021.

5. The fiscal balance has deteriorated following a substantial decline in tax revenue. Tax revenue fell to 9.5 percent of GDP in 2020 which, combined with stable current spending and increased investment financed with domestic resources, resulted in a deterioration of the domestic primary deficit (commitment basis) to 1.9 percent of GDP, despite under execution of the budget, in particular for the social sectors.

6. The monetary policy continued to focus on managing bank liquidity by means of substantial liquidity injections and exceptional measures. In parallel with the relaxing of mandatory reserve requirements for banks, the Central Bank of Madagascar (Banky Foiben'i Madagasikara, BFM) supported the banking system by means of regular liquidity injections, totaling MGA 299 billion in 2020 and MGA 444 billion during the period January-October 2021. Although the domestic commercial banks were able to preserve solvency, the proportion of nonperforming loans increased to 7.7 percent of total loans in June 2021. In 2020, the depreciation of the exchange rate resulted in net exchange interventions of US$156 million. Interventions have stabilized in recent months, and the BFM supports the depreciation movement of the ariary by smoothing excess volatility. Official reserves increased, however, to cover six months of imports at end-2020, boosted by emergency financial assistance from the development partners. Reserves stood at SDR 1.622 billion at end-September 2021 following the general SDR allocation received in August.

PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM

7. Macroeconomic management in the context of the program was broadly satisfactory with the exception of the social spending target, and all of the quantitative performance criteria were met.

- Following a modest surplus in March, the domestic primary balance, the anchor of the fiscal program, was fully within the established limit set at -MGA 752 billion for end-June 2021, but reflected substantial under-execution of expenditure despite disappointing performance in the area of revenue collection. The indicative target for collection of customs taxes was met in March and June. On the other hand, overall collection of domestic tax revenue was slightly below the targets at end-June 2021. The indicative targets for social spending were missed by close to half, due to the reorganization of budget staff and control procedures that delayed the commitment of expenditures exceeding certain thresholds, particularly for capital spending. Aware of the negative impacts of this under execution, the government is committed to implementing a series of measures to remedy it (see ¶ 36).

- With respect to the central bank, the quantitative performance criteria for June 2021 for the accumulation of net domestic and foreign assets were met, as well as the indicative targets at end-September. The indicative target for net domestic assets at end-March was also met, with an adjustment reflecting delayed external financing. However, the adjusted net foreign assets indicative target at end-March was missed.

- The continuous quantitative performance criteria concerning the present value of newly contracted external debt and the accumulation of external arrears were met.

8. **However, the implementation of a few structural reforms was delayed.**

- The structural benchmark on the collection of outstanding tax arrears at end-June 2021 was largely exceeded, with 66 percent of the annual target achieved. The stock of recoverable arrears at end-July 2021 is estimated at MGA 212 billion, of which 37.7 percent (MGA 80 billion) will be collected before year-end.

- The structural benchmark on the number of beneficiaries of cash transfer programs was met at end-September 2021, with 545,278 beneficiaries compared to a target of 540,000. We expect to reach the target of 590,000 beneficiaries at end-December.

- The ceiling on government liabilities to petroleum product distributors (continuous benchmark) was also met. However, the increase in international oil prices since end-2020 without the adjustment of pump prices suggests that the ceiling will be exceeded early 2022.

- Regarding fiscal transparency, the draft quarterly reports on budget execution require further improvements (continuous benchmark beginning first quarter 2021). Details on direct government payments to suppliers of JIRAMA were provided with delays to IMF and World Bank staff (continuous benchmark).

- In the area of governance, the decree implementing the illicit assets recovery law was adopted with some delay, and the agency in charge of recovering the assets will not be established until 2022 after approval of a dedicated budget in the LFI.

ECONOMIC OUTLOOK AND RISKS

9. **We anticipate a rebound of economic growth in 2021 and 2022 and acceleration in the medium term as the pandemic subsides and external demand recovers.** We expect GDP growth to recover to 3.5 percent in 2021 and 5 percent in 2022. The delayed recovery of growth in 2021 relative to the estimate of 4.1 percent provided in the 2021 supplementary budget law (LFR) is mainly due to the delayed recovery of activity in the construction, transportation, and agriculture sectors. In the medium term, we anticipate accelerated growth, driven by increased private capital expenditure and by the expansion of agriculture, tourism, industry, and mining. Madagascar will rely on the development of several promising sectors such as agroindustry, textiles, new technologies, and tourism, and on its substantial mineral reserves, in particular gold, nickel, cobalt, chrome, and graphite. To achieve our objectives of strong and sustainable growth, Madagascar must make substantial progress in improving its physical and human capital, which will require substantially increased investment and social spending. We count on improved tax revenue (partly facilitated by

fiscal policy measures – see ¶14) and improved expenditure quality to stimulate public investment (¶23), enabling us to successfully mobilize private investment. We expect that exports will gradually recover from the crisis and imports will increase given that capital expenditures are expected to increase in the context of the *Plan Emergence Madagascar* (PEM), with the current account deficit stabilizing around 4.5 percent of GDP in the medium term, facilitating the accumulation of international reserves. We anticipate that the public debt-to-GDP ratio will remain around 53 per-cent, while investments financed with external resources and the PEM reforms bear fruit and prospects for economic growth continue to improve.

10. We adopted a supplementary budget in June 2021 with an overall deficit and domestic primary balance in line with those projected in the context of the ECF-supported program in nominal terms, albeit based on different macroeconomic assumptions. Based on projected growth of 4.1 percent, the LFR aims for a primary deficit of 2.6 percent of GDP (MGA 1426 billion, the amount provided in the program) achieved through increased revenue collection as well as larger transfers and capital expenditures than projected in the program, offset in part by a reduction of social spending. However, the LFR includes no significant new revenue-related measures to support these projections. Compared to the fiscal framework of the initial ECF program and the LFR, the recently revised framework assumes a reduction of both revenue and capital expenditure while preserving social spending. We are committed to ensuring that the macroeconomic assumptions, revenue projections, and spending limits provided in the 2022 LFI are aligned with the program objectives. A 2022 budget consistent with the program objectives was approved by Parliament in December.

11. The outlook remains uncertain, with downside risks. The main risks concern a resurgence of the COVID-19 epidemic, driven by new variants, as well as increased oil prices, supply chain disruptions, and natural disasters. The banking sector position could deteriorate modestly in light of nonperforming loans and dwindling external budget support oblige us to speed the implementation of our program to strengthen governance. Delays in implementing public investment could continue to constrain growth. The upside risks include clearance to proceed with large-scale projects in the energy and mining sectors contemplated by the PEM, which will have positive effects on the rest of the economy.

MACROECONOMIC AND STRUCTURAL POLICIES

A. Strengthen Fiscal Policy to Respond to the Economic and Social Crisis

12. Consistent with the program objectives of supporting the post-pandemic recovery of economic activity, the fiscal consolidation effort will be moderate in 2022. The domestic primary balance will continue to anchor the fiscal program and is expected to become positive only in 2023, based on efforts deployed to increase domestic tax and customs revenue (both monitored as quantitative objectives).

Raise tax revenue

13. The 2022 Initial Budget Law (LFI) provides for ambitious tax policy and administration measures to create the fiscal space required to expand social spending and public investment. The PEM provides for a target tax ratio (tax revenue to GDP) of 14.5 percent of GDP in 2023. To this end, domestic tax revenue should increase by 0.8 percentage points of GDP (MGA 858 billion) in 2022 (or more than double the average annual increase of 0.3 percentage points observed from 2017 through 2019). Customs revenue is expected to increase by MGA 453 billion or 0.3 percent of GDP in 2022. These efforts should bring total tax revenue to 11.7 percent of GDP in 2022. These ambitions call for innovative policies to improve social justice by remedying a number of tax-related distortions and revenue losses identified long ago.

14. The tax policy reforms to be undertaken are as follows:

- *Changes to the VAT.* Regional comparisons suggest substantial potential gains generated by value added and excise taxes. We have already raised the VAT threshold to MGA 400 million, which is expected to produce estimated revenue gains of close to MGA 40 billion in supplemental revenue in 2021, of which MGA 30.87 billion were realized at end-August 2021. In the context of the proposed 2022 budget law, we suggest eliminating the reduced VAT rate on pasta and the VAT exemption for annuity/life insurance hybrid contracts and life insurance contracts. These measures are expected to generate additional revenue estimated at no less than MGA 20.9 billion. Before the next review, we will prepare a detailed impact study of the potential elimination of VAT exemptions on cereals (rice, wheat, maize), agricultural products, and the first tranches of households' water and electricity consumption. In the event that revenue projections do not materialize, new measures will be considered in the context of the supplementary budget law.

- *Increased excise tax on tobacco and alcohol.* After the increase of past years in taxes on certain products (such as fruit juice, tea, salt, and candy), excise taxes on tobacco will be raised once again, from MGA 1390 to MGA 1430 in 2022, generating an estimated MGA 20.5 billion in additional revenue. Excise taxes on alcohol will be increased from MGA 2500 to MGA 2750 per liter, for an estimated MGA 2.3 billion in additional revenue. To limit the induced risk of fraud and help increase revenue, these measures will be accompanied by the creation of a system ensuring strict traceability of tobacco and alcohol prior to June 2022 (additional revenue of MGA 25 billion).

- *Measures concerning direct taxation.* The proposed 2022 budget law also provides for (i) increasing the minimum amount payable under the tax on salaried and similar income by 50 percent; (ii) eliminating the tax exemption for income from reinsurance premiums ceded by Malagasy insurance companies to foreign reinsurers; and (iii) eliminating the income tax exemption and minimum tax applicable to mutual and non-mutual microfinance institutions, for an estimated revenue gain of MGA 19.5 billion.

- *Corporate income tax*. We will eliminate the tax deduction for investment (supplemental revenue of MGA 15 billion) and eliminate the grace period (of 2, 5, or 15 years) on corporate income tax for free zone enterprises (additional revenue of MGA 22.5 billion anticipated).

- *Alignment of the customs tariff policy*. An alignment of the customs tariff with the tariff policy will be presented in the proposed 2022 LFI. A tariff of 5 percent will be imposed on raw goods and equipment not already subject to that rate, and intermediate and finished goods will be taxed at 10 percent and 20 percent, respectively, for an estimated revenue gain of MGA 107 billion in 2022.

- *Reform of mining taxation*. The objective of the reform, to be finalized based on the technical assistance delivered in June 2021 and in the context of sustainably increasing revenue collection, is to (i) stabilize the major mining investments, particularly in the context of existing contracts, possibly renegotiated, in order to reduce the risks perceived by investors and thereby encourage the sector's development; (ii) extend the anti-tax avoidance provisions of the General Tax Code to the Large-Scale Mining Investments Act (LGIM); and (iii) ensure that all tax receipts are collected by the tax administration (DGI) through the Directorate of Large Business Taxpayers (DGE) and deposited on the Treasury Single Account, in application of the principle of budget unity. As recommended by the June 2021 IMF technical assistance mission, the DGI and the Ministry of Mines and Strategic Resources will jointly propose amendments and prepare a draft codification of the new tax provisions in specific laws (the Mining Code, the LGIM, and mining exploration and development contracts), which will be submitted for opinion to the IMF prior to consideration by the Council of Ministers.

15. In the area of tax administration, the DGI reforms of recent years will be continued and strengthened.

- We launched an important *anti-tax fraud plan*, notably in the tobacco sector, which will facilitate the collection of at least MGA 150 billion of additional revenue.

- We will continue *efforts to digitalize the tax administration*, in particular with the development of e-declaration for VAT, and the management of salaried income tax through the *e-salarié* (e-salaried) platform. Some 2,135 businesses currently use electronic payments, which corresponds to 85 percent of total DGI revenue, and the financial statements of 2,963 businesses are already available on the electronic balance sheet platform *(e-bilan)*. The additional efforts planned are expected to boost revenue by roughly MGA 36.5 billion.

- We will strengthen our *taxpayer identification efforts*. We plan to update the taxpayer database, in particular based on information provided by new staff assigned to the regional tax administrations. Our efforts to reduce the informal sector through the *Anjara Hetrako* (My Share of Taxes) campaign will continue in other regions. The number of taxpayers identified at end-September 2021 was 515,272 (compared to 455,206 at end-2020). The objective for end-2021 is to meet the threshold of more than 700,000 taxpayers.

- We will institute *tax withholding for beverage wholesalers*, for an expected revenue gain of roughly MGA 5 billion.

- *Performance contracts*, which are currently in use in 113 operational directorates and tax centers, will be extended to all units, and at the same time we will strengthen our individual performance evaluation system by applying disciplinary measures as necessary.

- *The development of the Integrated Tax Administration System (SAFI)*, supported by the World Bank Public Sector Performance Support Project (PSPP), is slated to begin in 2022. The project will support the improvement of internal management processes and the operational efficiency of collection agencies.

- *Tax audit optimization, targeting the largest companies first*, is expected to increase revenue by MGA 40 billion in 2022. Specific efforts are planned to cross check VAT declarations, import declarations, and public contracts awarded. We also plan to conduct joint audit operations with the customs department. In 2021, 30.8 percent of large companies were audited or are in the process of being audited.

- Our *objective for collection of outstanding tax arrears* for 2022 was set at MGA 215 billion (or 0.33 percent of GDP). During the pandemic, the tax administration gave preference to more lenient methods, engaging in a dialogue with debtors; establishing repayment schedules, and ensuring regular follow-up. In the specific case of financially troubled state-owned enterprises (Air Madagascar, JIRAMA, and maritime engineering and construction firm SECREN), the solutions under consideration include the accounting recognition of cross-liabilities through clearing of debts between the government and public corporations and capitalization of debt. In addition to the usual procedures provided by applicable laws for recovery of arrears, the DGI may rely on other means such as write-off procedures, notice of tax liens based on data in the master bank account file (FICOBAM), and strengthening of collection mechanisms applicable to partial non-payment of tax liabilities.

- *Implementation of the public procurement tax (IMP)*. After delays in implementation despite its introduction as part of the 2020 budget law, the withholding of the tax on government procurement contracts has started to be applied. The corresponding receipts collected at end-August 2021 totaled MGA 26.7 billion. While the annual amount collected will no doubt be well below the MGA 200 billion projected at the time of program approval, due to delays in registering these proceeds as tax revenue, the DGI is confident it will be able to recover IMP arrears of roughly MGA 113 billion in 2022.

16. Regarding the customs administration, we are planning the following actions in the context of implementing our reform plan for the 2020-2023 period. These administrative measures are expected to generate total estimated revenue gains of MGA 110 billion in 2022.

- *Centralization of collection activities and payment recovery monitoring*¸ for improved collections resulting from better access to all statistical data and improved monitoring.

- *Strengthened control of the import values declared to customs*. With the complete withdrawal of GasyNet from the analysis of value through Valitrade in August 2021, we are insourcing the analysis of value and have put in place our i-value system. In the short term, a value center will be established to provide a relevant and reliable basis of reference for goods values. We plan to rigorously monitor the adjustments generated by the application of values provided by the value center and recover 100 percent of the difference between the calculated value and the declared value in case of manifest fraud. The results of value controls will be distinguished from those of other types of violations, and the amounts collected following those controls will be communicated to IMF staff on a quarterly basis, to serve as a basis for the implementation of corrective measures if necessary.

- *Strengthened non-intrusive inspections of imports and exports* through the 100 percent scanning project, which is expected not only to increase the administration's efficiency in regard to customs control of descriptions and quantities but also to considerably reduce delays associated with clearance procedures.

- *Improvement and better targeting of ex ante, on-site, and ex post controls* based on dynamic risk analysis. Ex ante control will be strengthened by the analysis of manifests, which are captured in our IT system at the time of shipment, and by scanning all cargo, given that the scanned image will be analyzed whenever necessary. Finally, in regard to on-site inspections, a control unit will remotely support visits and inspections of areas under customs control in order to optimize clearance times as well control quality. In July 2021 we established a shared platform with the DGI to facilitate data sharing and improve targeting of inspections.

- *Intensifying the control of the companies benefitting from special economic regimes such as free-trade zones, temporary admission regimes, or other exemption agreements*. In regard to customs warehousing and temporary admission regimes, the customs code was reformed and regulatory texts were adopted in the interest of consolidation and simplification and also to clarify the monitoring and control measures, sanctions, responsibilities, eligible merchandise, and the terms and conditions of exemptions. Regarding tax-exempt enterprises, an amendment to Law 2007-037 will be presented in the draft 2022 budget law to distinguish the free-trade zone regime from the tax-exempt enterprise regime, and to provide details of the mechanism for authorization of creation and accreditation under each regime and clarify the stability clauses.

- *Improved accountability* through strengthening of the audit and performance culture by establishing key performance indicators for individuals, departments, or offices.

17. We are ready to take further action if necessary. In the event the measures to strengthen the tax and customs administrations do not generate the expected revenue gains, we will take new tax policy measures, such as the removal of VAT exemptions which are costly for the budget.

Improve the quality of expenditure

18. The 2022 LFI provides for measures to rationalize and reorient expenditure within a slightly smaller budget as a share of GDP than the 2021 supplementary budget. Current expenditure is expected to be contained at 10.6 percent of GDP, partially through measures to control the wage bill (see ¶¶ 19-20), and most notably by reducing current transfers to 2.7 percent of GDP and restructuring the public corporations JIRAMA and Air Madagascar (see ¶¶ 30 and 31).

19. We are committed to limiting relatively non-priority expenditures in order to increase fiscal space for development expenditure and to promote sustainable, inclusive growth. Our priorities are social spending and capital expenditures for infrastructure. In the proposed 2022 budget law, these expenditures will be at least equal as a ratio to GDP to those in the 2021 LFI. Expenditures that can be classified as relatively non-priority are the government's normal operating expenditures and expenditures such as the construction of sports facilities, as well as expenditures relating to the organization of festivals and ceremonies.

20. We will continue reforms in the objective of rationalizing the financial management of civil servants to ensure that the wage bill remains at a sustainable level. We are currently working on the update of the wage bill management IT tool (Pilotage de la Masse Salariale, PMS), which is expected to be integrated in version 2 of AUGURE, the platform on which the government's human resources management system is based. The upgrade will improve the forecasting and execution of payroll and pension expenditures. A workshop to identify anomalies in payroll calculations and propose improvements and corrections was conducted in September 2021; that effort was a prerequisite for continued efforts to address recommendations issued by the Court of Audit. Detailed, complete documentation was prepared and an action plan established to address all irregular situations. The AUGURE 2 system will support the management of all civil servants, including personnel of the Ministry of National Defense, the Secretariat of State for the Gendarmerie, National Public Establishments (*établissements publics nationaux*, EPNs), as well as decentralized regional authorities, volunteer workers, and staff of the technical and financial partners (through financing provided to the government) by 2023. With the deployment of AUGURE 2, all ghost workers identified during 2020 and early 2021 audits will be eliminated from the system prior to end-2022.

21. We will gradually reform the civil servant pension system to control the need for public transfers allocated to replenishment of the civil service and military retirement fund (CRCM) and ensure the system's viability in the long term. We have prepared a strategy document considering a number of options. The options include systemic reforms (e.g., transfer of funds from the non-civil-service retirement and pension fund (CPR) to the CRCM, consolidation of CPR and CRCM special appropriations accounts), parametric reforms (e.g., revision of the annuity rate, increasing the retirement age to 62), and management measures (e.g., effective use of the software to monitor payments between the Directorate General of Treasury (DGT) and the Directorate General of Finance and Budget (DGFAG), physical verification of retirees and beneficiaries). The document was lodged with the Prime Minister's Office on July 20, 2021 for decision by the Council of Ministers in 2022.

22. We will continue to prioritize expenditures in the social sectors, which remains one of the main objectives of the program, particularly in response to the pandemic and hunger crisis in the south, and a key priority for the government in general:

- In regard to social spending, the four social ministries will receive support at every step to speed the pace of execution in the fourth quarter of 2021, to achieve the objectives established in the context of the program (indicative target). The Ministry of Economy and Finance transmitted a note to the Presidency, the Prime Minister's Office, the National Contracts Commission, the Office of the Financial Inspector, and the Treasury to accord absolute priority to expenditures by the social ministries.

- A better appreciation and classification of social expenditures will be initiated in the 2022 LFI. An initial test of functional classification of public expenditures will be included in the 2022 LFI with support from a World Bank technical assistance mission. Apart from the expenditures of the so-called "social" ministries, some funds are indeed allocated to social programs implemented by other ministries and institutions such as the National Council on AIDS (CNLS) within the Presidency, the National Risk and Disaster Management Bureau (BNGRC) within the Ministry of Interior and Decentralization, the National Office on Nutrition (ONN), the Emergency Prevention and Management Unit (CPGU), and the Intervention for Development Fund (FID) within the Prime Minister's Office. Those budgets represented MGA 68.2 billion in 2021, compared to MGA 532 billion of the IT envelope in the context of the program (MGA 2,394 billion when including wages and foreign-financed investments), according to the initial budget law for 2021, and will now be monitored in the form of memorandum items (see Table 1 and TMU for further details).

- The proposed 2022 LFI provides for an increase in the number of medical personnel to 15,565 in 2022 compared to 13,067 in 2021, and an increase in the number of teachers to 88,060 compared to 79,734. We are also working actively with our technical and financial partners to increase the amount and accelerate the implementation of social investments financed from external resources.

- We are continuing to develop the existing social safety net programs that have played a critical role in recent years, with technical and financial support from partners such as the World Bank. With the expansion, inter alia, of the *Tosika Fameno* program to four new regions, the number of households benefiting from cash transfer programs increased from 250,000 in June 2020 to 483,428 in December 2020, and stood at 545,278 at end-September 2021. We expect to achieve the target of 590,000 beneficiaries by December 2021 (structural benchmark). To ensure the funding of these programs beyond the financing granted by development partners, the Ministry of Economy and Finance and the FID signed a memorandum of understanding on January 24, 2020 to program an annual, dedicated budget appropriation (financed from domestic resources) for the FID for a minimum of US$5 million per year, equivalent to MGA 18 billion, from 2021 to 2023.

- In the education sector, the government cancelled registration fees in public schools beginning in October 2020, and increased transfers to schools (*caisses écoles*) provided in the budget. All of these transfers are published, by individual school, on the Ministry of Education website (https://www.education.mg/caisse-ecole/index.php/c_etat).

23. The planned increase in public investment will be accompanied by better prioritization and execution. Our ambitious objectives for public investment under the PEM were clarified in estimating the costs of projects principally from external financing (foreign direct investment and public-private partnerships). We are now working to establish the hierarchy of projects considering implementation and absorptive capacity constraints; monitoring of implementation progress; and ensuring proper costing and sufficient funding to complete the projects. We will continue to prioritize the use of external grants and concessional financing. We are finalizing the public investment manual according to the recommendations of the technical assistance mission from the IMF Fiscal Affairs Department (FAD), in particular to clarify institutional aspects (structural benchmark for December 2021). Finally, we will strengthen the effectiveness of our public investments, as measured in particular by the incremental capital output ratio (ICOR). This ratio declined from an average of 10.7 in 2007-2019 to 7.5 over the last three years, indicating improved efficiency of investment.

24. To improve the execution of public investment projects, we are committed to increasing the ratio of commitments relative to the respective appropriations to at least 60 percent in October 2022.The "Rafitra" dashboard is being finalized for delivery by end-October 2021 and will facilitate improved financial and physical monitoring of projects in real time. In the context of improving and harmonizing the system of monitoring and collecting data on public investments, cooperation agreements were signed this year between the Investments and Financing Coordination and Monitoring Agency (OCSIF) and the departments involved in public investment management, which will provide for systematic input of information to the centralized national dashboard (TNC). The TNC, which has been in operation and available since 2019, supports the physical and financial monitoring of public investment projects as well as the mapping of actions by public entities and the technical and financial partners. Currently an internal working tool, the TNC will be available for consultation by the public beginning in 2022.

25. Given the curtailment of external budget support, we propose using MGA 1,100 billion of the August 23, 2021 IMF SDR allocation to finance new investment projects in 2022, in particular to improve road and water supply infrastructures in the south of the country. This utilization will entail the BFM's transferring the SDR allocation and the associated commitments vis-à-vis the IMF to the government. A convention between the BFM and the government will establish the terms and conditions of the transfer.

B. Continue Structural Reforms to Reduce Fiscal Risks

26. We are continuing the good practice instituted with the 2018 budget law of including an annex on fiscal risks in the budget. With technical assistance from the IMF, we will continually enrich the Annex, in particular by quantifying the risks. In the context of the most recent Annex to the 2021 budget law, we published an analysis of budget risks associated with (i) natural disasters,

(ii) public-private partnerships, (iii) imbalances in the civil service pension system, and (iv) public debt sustainability, including public guarantees.

27. We are continuing to strengthen our disaster risk management system. Our country is highly exposed to a broad range of adverse natural events, with drought and floods caused by cyclones having the greatest impact. The phenomenon of climate change will increase the severity and frequency of these disasters in the future. In that context, we are continuing to develop our disaster risk management system, basing our actions on our national risk and disaster management strategy. The strategy includes financial protection to assist in meeting unanticipated budget costs or potential liabilities associated with natural disasters. Since 2019, we have been the beneficiary of a development policy operation on disaster risk management, for a term of three years with the option of renewal for an additional three years, and a deferred disbursement option in case of disaster. This joint operation by the World Bank and the French Development Agency is accompanied by financing of US$50 million and EUR 25 million, respectively (initially EUR 10 million, increased by an additional EUR 15 million in the context of the COVID-19 pandemic), disbursable in case of natural disaster. Disbursements in the amount of US$15 million and EUR 3 million were released in February 2020. We also strengthened financial resilience through the creation of the National Contingency Fund (FNC) under the auspices of the National Office for Risks and Disasters Management (BNGRC), and the development of the drought insurance mechanism with the African Risk Capacity (ARC). The procedures manual for implementation of the FNC is currently being finalized.

28. We are pursuing policies designed to improve our climate resilience. We developed a guide to integrate climate resilience in the regions' territorial organization plans (*schémas régionaux d'aménagement du territoire*, SRAT) and the Regional Development Plan (PRD). In response to food insecurity in the south, we have begun construction of nutritional and medical recovery centers (CRNM) in the Amboasary and Ambovombe districts to eradicate *kéré* once and for all in the areas most affected by the drought. To integrate the different strategies to adapt and improve resilience to climate change, and the respective financing, in a framework of national economic policy management and analyze the economic implications of climate policies in particular for the sustainability of domestic and external debt, we will benefit from the new IMF evaluation of macroeconomic policies for the climate (CMAP) in 2022.

29. We are implementing a plan that provides for the application of an automatic fuel price adjustment mechanism, which will avoid the risk of future budget costs. To facilitate implementation of the plan, we will agree on a timetable with IMF staff before the conclusion of the review (prior action). The rebound of international oil prices since April 2021 has resulted in the calculated reference prices (PRC) exceeding pump prices, which have remained unchanged, and the reappearance of a government liability to fuel distributors.

- As at end-June 2021 we had contained the gross cumulative liability at MGA 2 billion, and our projections indicate that the net cumulative liability should remain below the ceiling of MGA 100 billion in 2021 (continuous structural benchmark).

- To avoid exceeding the ceiling in 2022, we are committed to implementing a new price structure before March 2022, after discussions with the oil distributors (structural benchmark). The new structure will serve to reduce the gap between the PRC and pump prices, potentially via an increase in pump prices as a last resort.

- We launched an audit of the current fuel price structure, which will be finalized in November 2021. The audit will be communicated to IMF staff prior to the conclusion of the review.

- In parallel, we are working on the design of measures to mitigate rising prices for the most vulnerable, including by strengthening social protection programs based on existing studies (structural benchmark for June 2022) with support from the World Bank.

- The finalization of a new price structure and a fuel price adjustment mechanism were a commitment at end-June 2021 in the MEFP of the ECF arrangement. The delay in implementation was due to the need to finalize the audit of the current price structure and delays relating to the reorganization of staff following the ministerial restructuring of August 2021.

30. We will continue implementation of the JIRAMA recovery plan. As of September 30, 2021, JIRAMA's total debt stood at MGA 1,116 billion.

- JIRAMA’s financial position deteriorated during the pandemic due to the decline of economic activity; rescheduling of electricity payments in connection with the social emergency plan in response to the pandemic (representing a cost of MGA 75 billion); payment of supplier arrears (MGA 424 billion); and the cost of critical improvements to the electricity and drinking water systems, particularly for the city of Antananarivo and hospitals. The result was a deficit of roughly MGA 400 billion (approximately US$100 million) in 2020, or MGA 155 billion more than initially projected in the multiyear activity plan. In 2021, the impact of higher international oil prices on fuel expenses resulted in an unforeseen increase in JIRAMA's operating expenses (on the order of MGA 273 billion). However, the most recent projections point to an operational deficit contained around MGA 221 billion in 2021.

- The institution of the OPTIMA3 tariff optimization on July 1, 2021, redoubled collection efforts, and strengthened anti-fraud measures consolidated the company's revenue, which is expected to approach MGA 1,000 billion at end-2021. A tariff optimization for nonresidential customer is being finalized (OPTIMA Business plan) and should be implemented no later than March 2022 (structural benchmark) after consultation with the World Bank. In addition, the government has agreed to pay the MGA 28 billion provided in the 2021 LFR for payment of government electricity invoices. As of October 21, 2021, MGA 24 billion had already been paid.

- We continued the implementation of measures such as programs to address electricity outages (‘One week, one neighborhood’ program) and restore public lighting in Madagascar's district capitals (‘Hazavana ho an’ny Tanana’ program). Program implementation will continue in all the urban and suburban communes bordering the national highways. We are also working to improve aging production infrastructures in order to ensure 24/7 operations in all the district capitals (2424 program). In addition, investments on water distribution infrastructures are continuing (expansion of the principal drinking water production station in Mandroseza, installation of eight containerized satellite production stations, renovation of aging water lines).

- JIRAMA's 2025 Development Plan, which includes measures to be taken from a technical, commercial, and financial standpoint, was the subject of an initial presentation to the JIRAMA Board of Directors and supplemented by a road map approved by the Board. The financial component of the plan was developed in partnership with the company's stakeholders, including the World Bank. Additionally, it incorporates a new JIRAMA reorganization plan, including the institution of a new performance contract, the terms of which were established by the Ministry of Energy. The business plan will be approved by the JIRAMA Board and validated by the Council of Ministers before March 2022, after consultation with the World Bank and the IMF.

- The government's commitment to limit the subsidy provided to JIRAMA to MGA 380 billion will be respected in 2021. The amount will cover the expected operating results and clearing of arrears to certain suppliers. For 2022, the ceiling on transfers to JIRAMA remains set at MGA 380 billion. We will continue to advise IMF staff of the details of any budget transfers to JIRAMA suppliers and will share the related documents from the start of the commitment process for the associated expenditures (continuous structural benchmark).

- The payment of arrears to suppliers combined with renegotiation of contracts under terms more favorable to JIRAMA continues to be an important component of our strategy. A more comprehensive plan for restructuring and repayment of JIRAMA's arrears will be launched with the World Bank in 2022. After the largest contracts in 2020, which led to the payment of MGA 580 billion for the reimbursement of arrears, we plan to finish renegotiating contracts for intermediate amounts, which will begin in November 2021, in January 2022, and for small contracts in June 2022, in order to reduce a stock of cumulative arrears estimated at MGA 1,031 billion.

31. Air Madagascar was hard hit by the pandemic, aggravating its pre-existing financial troubles, and has become significant fiscal risk that the government is determined to control. Preliminary estimates indicate a financing need of at least US$69 million and the need for debt write-offs and restructuring of Air Madagascar and its subsidiary for domestic activities, Tsaradia. At the request of the national social security fund (CNAPS), the second-largest shareholder after the Malagasy State, a business plan was prepared, including a medium-term recovery plan. We are committed to consulting with the IMF and the World Bank prior to any public financing of the company.

32. A review of the institutional and legal framework for public-private partnerships (PPP) should facilitate the improved integration of PPP management in investment programming and execution, as well as control of the associated financial and fiscal risks. The law of February 3, 2016 defines the legal and institutional framework for PPPs. We are committed to the operationalization of the PPP management framework by launching operations of the national committee instituted by that law by end-December 2022 at the latest. The final version of the national PPP strategy, which governs the execution of PPP investment projects, will be adopted by the end of June 2023. We will fully incorporate the management of PPPs and the associated risks in the public investment management process by (i) detailing the procedures applicable to PPPs in the public investment management manual, now under development with support from AFRITAC South (¶¶ 23-24), (ii) integrating PPP projects in the recording and monitoring framework of investments by the OCSIF, and (iii) developing capacities to analyze risks associated with PPPs via the PPP unit, which is in charge of validating feasibility studies, and the Directorate of Public-Private Partnership Promotion (DP3P), which reviews project financial and budget sustainability studies. We are also committed to improving the transparency of public transactions in PPP projects (structural benchmark).

33. We will be sure to limit fiscal risks that could arise from the implementation of the new sovereign fund. In early August, the legislature adopted a law providing for the creation of the Malagasy Sovereign Fund (FSM). The law adopted the Santiago principles on the legal framework, establishing the fund's basic structure, operations, and financing in accordance with the objectives of transparency and risk management. The FSM will be managed by a corporation in which 100 per-cent of the share capital is held by the government, potentially through its instrumentalities or public entities, with the government directly holding a minimum of 70 percent of the share capital in any event. The corporation will be placed under the technical supervision of the Presidency of the Republic and the Ministry of Economy and Finance (MEF) and the financial supervision of the MEF. The decrees implementing the law, which will be prepared with financial support from the United Nations Development Program (UNDP) for South-South technical cooperation notably between the FSM and the Senegalese FONSIS, should:

- Clarify the primary objective and priorities of the FSM to avoid potentially conflicting objectives and maximize the fund's effectiveness.
- Detail the modalities of the fund's financing to avoid creating the risk of contingent debt or violating the principle of budget unity, in particular by avoiding the earmarking of fiscal revenue to the fund. The first appropriation of funds comes from a budget allocation of MGA 114 billion in 2021. Any supplemental appropriations will be subject to the implementation of an adequate financing structure which will be discussed in advance with IMF staff. We will also make sure to limit the potential ability of the fund to commit the government to investment projects or PPPs involving public payments, taking into account the associated contingent liabilities.
- Ensure transparency and good governance of the fund by specifying the investment strategy, which will define, inter alia, the types and terms of investments and risk profile; establishing transparent, clear rules for use of the fund and verifying compliance with public contracting rules in the context of a specific investment manual submitted for approval by the Public Contracts Regulatory Authority (ARMP); imposing regular reporting via the submission of an annual report to the legislature; and appointing competent experts to manage the fund. The transparency of

the fund will be evaluated by registering the FSM with the IFSWS Institute and monitoring the Linaburg-Maduell transparency index.

C. Strengthen Public Financial Management and Economic Governance

34. Governance is central to the *Plan Emergence Madagascar* (PEM). Our PEM presents governance as the central pillar and cross-cutting theme inherent to all aspects of the country's sustainable development: strengthening public safety and political stability, peace and security, the rule of law, human rights, combating corruption, and the effectiveness of government and institutions.

35. We will continue our efforts to improve budget transparency, particularly in regard to expenditures for the response to the COVID-19 pandemic:

- We will publish and regularly update information on COVID-19 expenditures on the MEF website (http://www.mefb.gov.mg/reportingcovid). On November 1st 2021, the published amount of expenditures committed in the context of COVID-19 stood at MGA 1789 billion (roughly US$500 million, or 3.6 percent of GDP), of which over 90 percent been had been paid or ordered to be paid. The website provides information on expenditures by ministry, category of expenditure, and detailed subcategory (for example, transfers for hospitalization, treatment, and care).

- Regarding the portion of COVID-19 expenditures relating to public procurement contracts awarded without a competitive procedure, information on those contracts (including the amount of the financial transfer and beneficiary names, for individuals as well as businesses) are published on the same website. Regarding beneficiary companies, we published the required information, including the tax ID and business registration number and, in the contract itself, the name of the authorized representative or agent signing on the company's behalf. On November 1st, the links to 99 of a total of 111 contracts were published. In addition, 93 ex-post reports on the delivery of these procurement contracts were also published in the form of certificates of acceptance (*Procès-verbaux de réception*). We will continue this process, and all remaining ex-post delivery reports will gradually be published for the fully executed contracts. We are working on improving the transparency of public procurements, including through the identification of the beneficial owners of the companies or other legal persons to which contracts are awarded. The identification process is currently complicated by the fact that the law currently in effect does not require the collection of this information.

- We will continue to implement all the commitments of the Letter of Intent prepared in the context of the second disbursement under the Rapid Credit Facility in July 2020, including our commitments to publish an audit of the financial flows related to the response to COVID-19 by the *Cour des Comptes* (prior action) and an independent, third-party audit of COVID-related contracts (by December 2021, structural benchmark). The later benchmark was not met due to the delayed hiring of an external audit firm and will be the focus of a new structural benchmark at end-March 2022.

36. Efforts are under way to revive the public financial management reform agenda and remedy its weaknesses:

- Based on technical assistance from FAD, we have made progress in strengthening public financial management (PFM) in the context of the 2018-2026 strategic modernization plan. Improvements were made to the management of national public institutions, budgeting, the debt management strategy, the transparency and efficiency of public procurement, cash flow management, implementation of the Treasury Single Account (TSA), reporting and statistics, and strengthening of internal audit and inspection bodies. To take stock of progress and refine or adjust plans, we are in the process of conducting a self-assessment of PFM performance based on the PEFA methodology. The final report will be published prior to the close of 2021.

- The reorganization of the Inter-ministerial Steering Committee (COPIL) for public finance reforms was adopted on February 16, 2021 with the aim of coordinating and leading our PFM reform strategy. To promote exchange of information among all stakeholders of the reforms, an online portal dedicated to PFM reforms was created on the MEF website (http://www.mef.gov.mg/page_personnalisee/index/reformes/44), and provides, inter alia, information on the PEFA self-assessment process and the work of the COPIL.

- To accelerate the expenditure process and reduce chronic under-execution of particular budget line items, we are working to develop a new module of the Integrated Automated Public Financial Management System (SIIGFP) to facilitate the grant of expenditure authorizations by the Executive during execution of the 2022 budget. To facilitate the execution of expenditures, the one-stop window covering the entire expenditure chain, instituted within the MEF at the end of 2020 and 2021, will continue on a permanent basis.

- Regarding more specifically the execution of social spending, we are working with the help of the European Union to identify ways to remedy the chronic under-execution observed in recent years. In order to facilitate the execution of the 2022 budget, the key social ministries (Health, Education, Water and Population) will prepare, before the end of January 2022, an annual expenditure commitment plan based on their 2022 work plan and the budget law approved by Parliament, which will serve as the basis for the commitment of the Ministry of the Economy and Finance to release the related appropriations on the dates indicated in this plan (structural benchmark).

- Improving the efficiency and transparency of the public expenditure chain remains a priority. A new proposed law on cash flow management was submitted for first reading to the government and returned to the MEF for revision of specific provisions before being presented again to the Council of Ministers and to the National Assembly thereafter for adoption before the end of the year. The law defines the organization, methods, and process of cash flow management in order to facilitate active cash management. This represents a significant step toward implementation of the TSA. With the same objective, we inventoried 234 active accounts for 55 public entities for which legal constraints still pose obstacles to integration within the TSA. Another proposed law on the status of public accountants that clarifies their legal liability for any irregularities will also soon be submitted to Parliament. The primary aim of the reform is to redefine the responsibilities of public accounting officers by amending the respective provisions of Order 62-081 of September 29, 1962.

- In the context of our efforts to improve budget transparency, we have published, via the *Salohy* online platform, data on public expenditures by sector, ministry, and even program, with the amounts of actual payments, available at the following address: http://app.tresorpublic.mg/dpp.mef.mg/. Based on this information, we began publication of a quarterly budget execution report on a payment basis in June 2021, including information on COVID-related expenditures and social expenditures (continuous structural benchmark). We are committed to working closely with the long-term expert from FAD assigned to the MEF to improve the coverage of reported payments and facilitate reconciliation with the consolidated Treasury operations (OGT) table.

- We will continue to strengthen ex-post controls and enhance the PFM system's contribution to the fight against corruption. We will strengthen internal audit and inspection bodies, including the Court of Audit (*Cour des Comptes*), and will publish a progress update on the implementation of the Court's recommendations for AUGURE, including on the payroll payment chain (structural benchmark, November 2021).

- With respect to public procurement, over the counter (OTC) contracts were necessitated by the emergency conditions related to the COVID-19 pandemic. A decree was prepared to clarify the concept of emergency. We remain committed to limit the use of these contracts. Furthermore, a decree on the Code of Ethics was updated to provide for sanctions in case of violation of the procurement code. Lastly, we are developing in cooperation with the UNDP a project for digitalization of procurement (E-government Procurement).

37. We are determined to ensure that the new legal framework on anticorruption is effectively enforced:

- We are determined to allocate sufficient human, financial, and material resources to institutions of the anti-corruption system, with a specific budget appropriation in the 2022 LFI, to enable them to perform their functions and ensure that all appropriate powers remain in place. A proposed amendment to the law on anti-corruption centers (PACs) was adopted by the National Assembly in July 2020 and considered and amended by the Senate on June 22, 2021. Since the law does not conflict with the current legal framework or international conventions, it was promulgated on August 5, 2021 after constitutional review by the High Constitutional Court. The establishment of PACs is moving forward in the provinces: the Mahajanga PAC has been in operation since October 22, and hiring for the Fianarantsoa province is under way. Three additional PACs will be established prior to end-2023, of which at least one will be in operation prior to end-2022.

- The updated national anti-corruption strategy and the national good governance policy, both harmonized with the PEM, were finalized in 2020 and presented to the Council of Ministers on September 15, 2021. Sector policies will be developed for the priority sectors with support from the Committee to Safeguard Integrity (CSI). In the context of Madagascar's efforts to conform to international standards on financial transparency, the decree establishing the agency in charge of recovering illicit assets was adopted by the Council of Ministers on September 29, 2021 and a specific budget will be allocated in the 2022 LFI to support the launch of the agency's operations, planned in January 2022 (structural benchmark, June 2021).

- To speed implementation of the *anti-money laundering and terrorist financing (AML/TF) law*, which further aligns our AML/TF framework on international standards and those of the Financial Action Task Force (FATF), we plan to submit the implementing decree to the Council of Ministers for a second reading. The AML/TF law itself is currently being revised following the results of the national risk evaluation and mutual evaluation by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) with respect to the conformity of the AML/TF legal framework with international standards, including the FATF recommendations. The preliminary draft law is being prepared with support from the World Bank. It will be submitted for adoption to the National Assembly during the next legislative session. Additional regulatory texts will follow pursuant to the law to strengthen the technical conformity of the AML/TF legal framework. The amendments to the AML/TF law primarily concern the review of specific terminology and definitions, the criminalization and prosecution of financing relating to the proliferation of weapons of mass destruction, more rigorous obligations for covered institutions in the context of implementing the vigilance measures incumbent upon them, strengthening of risk-based supervision by regulatory bodies and oversight authorities and supervision of covered institutions, the protection of AML/TF informants and whistleblowers, the Malagasy government's involvement in the establishment of a national register of beneficial owners, strengthening of the mechanism implementing the United Nations Security Council resolutions on terrorism, and increased monetary sanctions and harsher sentencing for AML/TF violations.

- The five-year strategy for Madagascar's financial intelligent unit, SAMIFIN, is being prepared in cooperation with the World Bank to cover the 2022-2027 period. The new version of the national AML/TF strategy paper was forwarded to the World Bank for review following consultation with the stakeholders, in particular to solicit suggestions from institutions covered by SAMIFIN.

- Quarterly statistics on corruption matters, based on investigations conducted by the anti-corruption agency (BIANCO) and SAMIFIN, have been published regularly since April 2018, with statistics covering the period through December 2020. In the context of recovering illicit assets, BIANCO plans to fully leverage the potential of the new system of dynamic management of the asset disclosures provided by the anti-corruption law to improve corruption investigations and punish offenses relating to unlawful enrichment and other underlying offenses. In that context, an implementing decree under the anti-corruption law concerning dynamic management of asset disclosures is expected to be adopted by the government no later than December of this year, which will not only complete the legal reforms recommended by the national anti-corruption strategy but also ensure greater consistency and increased synergies among anti-corruption actions in Madagascar in the context of launching the Illicit Assets Recovery Agency (ARAI).

38. We will continue our efforts to promote a favorable business climate, which is essential to stimulate private investment as contemplated in our PEM. We have made important progress in the automation of tax payments for businesses, the issuance of work permits, registration of new businesses, and the establishment of a credit reporting bureau. In the context of a new law on investments, we intend to cap tariffs, reinforce equal treatment of national and foreign investors, and clarify investors' social and environmental responsibilities as well as issues of access to land and enforcement of contracts and property rights. Access to electricity and water and high transportation and logistics costs remain the principal obstacles to the development of businesses.

D. Strengthen the Stability and Development of the Financial Sector

39. The reform of the operational framework for the monetary policy continues despite slowed progress in 2020 due to the COVID-19 pandemic. The BFM objective continues to be the transition to interest rate targeting by 2023. To that end, the BFM formally instituted a symmetric interest rate corridor; established intraday deposit and lending facilities while discontinuing the publication of the policy rate to avoid confusion with the new reference rates; and worked to align interbank market rates on the maturity of operations, risks, and the overall liquidity level. We modified the system of mandatory reserves with more reliable and stable calculation rules as well as a new reserves holding calendar (better synchronized with BFM monetary operations). We also developed a macroeconomic forecasting model based on the IMF Forecasting and Policy Analysis System (FPAS) to estimate the target rate according to macroeconomic objectives. The law on securities repurchase operations was published in February 2021 and was implemented in December 2021. The law is designed to encourage longer-term interbank loans and support the construction of a yield curve. In 2022, we will work on the launch of BFM investment certificates (*certificats de placement*) at fixed terms and the development of a continuous interbank market in ariary. The publication of the BFM's first official medium-term inflation forecast (which will serve as the basis and target for implementation of the monetary policy) is also planned. We will strengthen transparency and communication regarding the monetary policy.

40. Modernization of the BFM is continuing, with a program of reforms aimed at increasing its transparency and strengthening its autonomy and independence. The BFM has been committed to full adoption of the International Financial Reporting Standards (IFRS) as of the 2020 financial statements. The action plan instituted by the BFM, and supported by the IMF technical assistance for the migration to IFRS, has been implemented in accordance with the timetable defined by the road map approved by the board of directors. The annual financial statements for the fiscal year, the first financial statements formally declared to be consistent with the IFRS, were certified by the external auditors and received the board of directors' unqualified approval on April 22, 2021. More generally, we will continue our efforts to strengthen our internal and external audit mechanisms, consistent with the recommendations of the safeguards mission. Our controls are being strengthened in the area of exchange operations, a risk-management framework has been implemented, and efforts are continuing to strengthen lending operations, including by way of directives approved by the Board of BFM in December 2021 to implement the emergency lending framework.

41. We are also working to improve the functioning of currency market operations and the management of international reserves. The BFM is currently reviewing the parameters of the algorithm (developed with technical assistance from the IMF) after recent applications suggested several interventions that could have exerted additional pressure on the interbank currency market (MID) at end-2020. In addition, the BFM is undertaking a number of reforms to improve the functioning of the MID, in particular the forthcoming adoption of the currency exchange law (drafted with the support of IMF technical assistance), which clarifies the division of responsibilities between the MEF and the BFM; improved surveillance and regulation of accounts in foreign currency; more rigorous monitoring of compliance with repatriation requirements, especially the surrender of export receipts; higher required reserves ratios for deposits in foreign currency, in collaboration with the MEF External Finance Unit (in connection with the strategy to increase the supply of currency and competitions on the MID); and improved MID communications. The various measures implementing the new currency exchange law will be published following adoption of the new legislative framework. A new plan to gradually eliminate the obligation to surrender foreign currency will be developed if conditions do not destabilize the market. A number of other avenues for reform were also identified, including the quotation of a single currency on the MID and the expansion of the MID to other non-bank financial participants. Technical assistance has been requested of the IMF in the area of improving the efficiency of the currency market.

42. The Central Bank of Madagascar (BFM) plans to diversify its reserves by adding gold to its international reserve assets. In late 2020, in line with the Board's strategy goals, the BFM launched a joint program with the Ministry of Mines and Strategic Resources (MMRS) to purchase unrefined gold, better known as *doré*, from local operators (subject to a limit of one ton in 2021) with the aim of refining it to bring it to monetary quality. The program of purchasing non-monetary gold on the local market began implementation on December 15, 2020 and was suspended April 8, 2021 because the target of one ton of gold had been reached. We requested technical assistance from the IMF to help us achieve the objective of incorporating gold in the international reserves while preserving the BFM's autonomy. Accordingly, the purchase of *doré* will not resume until:

i. The adoption of an updated international reserves management strategy to include gold (structural benchmark for end-December 2021). An amended directive was approved by the Board of BFM on December 16th, 2021 and explains the approach adopted by BFM to evaluate the appropriate share of monetary gold in reserves based on liquidity needs and the level of reserves held. The creation of a new standalone gold tranche, composed of monetary gold and amounting to 8 percent of overall reserve assets (+/- 2 percent), has been acted, with an horizon set at 10 years.

ii. The implementation of an operational strategy of including gold in international reserves. The strategy will be approved by the BFM board after review by IMF staff in charge of safeguards (structural benchmark for end-March 2022). The strategy is based on six pillars, i.e., governance, gold purchases, refining, storage, active management, and the financial presentation of gold assets. The strategy must specify an algorithm for determining *doré* purchase prices that considers, inter alia, exchange rate risk and the fluctuation of gold prices, and the guarantees (for example, a due diligence process) to be implemented to reduce operational and reputational risks for the BFM. We are committed to purchasing *doré* gold at a fair price without subsidies of any kind for operators. Our objective is to transform locally purchased *doré* to London Good Delivery ingots meeting standards set by the London Bullion Market Association (LBMA). The selection of the refiner will be based on criteria such as LBMA accreditation, location at or near a market location, storage facilities, and the evaluation of the bid, given that security outweighs all other considerations. The sale of *doré* to purchase monetary gold is also foreseeable. Efforts to identify the refiner and a bank ready for such a transaction have already begun.

iii. The revision of the memorandum of understanding (MOU) between the BFM and the MMRS to more clearly define the two institutions' respective responsibilities and provide for suspension of the MOU at the expiration date. Diversification of the international reserves portfolio remains the BFM's ultimate objective, with the corollary objective of developing Madagascar's gold resources.

43. The MMRS is working actively to ensure the traceability of gold and respect for human rights and the environment. The formalization of exports will serve to improve our balance of payments through the repatriation of revenue, as well as increased liquidity on the foreign exchange market. To permit the resumption of gold exports by responsible operators who have signed an agreement operate in accordance with applicable laws and regulations, we conducted a review of sector practices to fully comply with all regulations, including tax regulations, and an extensive census of accredited operators in the gold sector. The review and census were completed in July 2021, and we are committed to lifting the prohibition on exports of gold by operators whose activities comply with regulations when illicit trade flows will be better controlled.

44. We will improve financial inclusion with mobile banking services and digitization, including development of the financial activities of the *Caisse d'Epargne de Madagascar* (CEM) and postal services operator PAOMA (Paositra Malagasy):

- Mobile money operations have developed rapidly over the past decade but are still limited in comparison with traditional bank operations. We support their development to remedy bottlenecks for financial inclusion, in particular through individual initiatives by banks and microfinance institutions sponsored by the government and in the context of the activities planned in the national financial inclusion strategy. The initiatives aimed to expand access to credit to additional segments of the population, particularly in rural zones, by means of electronic payment platforms developed with mobile telephone service operators. The existing electronic payment network played a critical role in the response to the pandemic in 2020, when it was used in providing financial assistance to 243,886 vulnerable households in the cities of Antananarivo, Toamasina, and Fianarantsoa over a period of six months. Another 447,020 beneficiaries received transfers via Paositra Money, including the payment of student grants in 2021.

- To support the financial inclusion of micro, small, and medium-size enterprises (MSMEs) and microfinance institutions (MFIs) impacted by the health crisis, we increased the capital of the partial portfolio guarantee fund. Two special COVID-19 windows were created – a restructured credits window and a window for emergency assistance to small and medium-size enterprises (SMEs) and MFIs – in the context of the Madagascar Financial Inclusion Project (PIFM) financed by the World Bank for an amount of US$24 million, of which US$18 million from the Contingent Emergency Response Component (CERC) of the Madagascar Integrated Growth Poles and Corridor (PIC2.2) fund; US$4.5 million from the PIFM; and US$1.5 million from the Agricultural Growth and Land Security (CASEF) project.

- As a pilot project, the government, represented by the MEF, guaranteed the loan agreement between the BFM and the cooperative UNICECAM in the amount of MGA 400 million, which will be used to finance rice operators in the Bongolava region. This loan was repaid on time and in full to BFM in October 2021.

- The CEM manages 1.2 million savings accounts in Madagascar representing a total of MGA 407 billion (0.8 percent of GDP). The CEM is also planning to provide electronic money services (prepaid payment service). The accreditation formalities are in process. In the same vein, the PAOMA, which manages roughly 500,000 savings accounts in addition to its postal activities, plans to develop financial activities based on its network of over 250 branch offices throughout the country. PAOMA will serve as the distributor for a partner local bank authorized to conduct electronic money activities through the issuance of a Visa payment card. The card will be used for the payment of invoices and payroll (civil service salaries, student grants, retirement pensions, etc.) and cover international transfers, along with traditional electronic money transactions.

- We are implementing the e-Ariary digital payment project to improve the reliability of and access to the financial system. The digital payment system will be secure, accessible, easy to use, and lawful throughout the national territory, and will be subject to regulation and oversight by the monetary authority. The e-Ariary project will support the objective of financial inclusion, improve control of currency in circulation, and enhance the effectiveness, security, and robustness of the national payment system.

- A low level of financial inclusion is often associated with low levels of financial education. To address this issue, the BFM developed a dedicated module on its website (https://www.banky-foibe.mg/education-financiere) and we will conduct informational and outreach campaigns in the regions.

- The government is currently preparing a strategy paper and national program on financial education with support from the PIFM project.

45. We will strengthen risk-based surveillance and prudential regulation, and our efforts to combat money laundering and terrorist financing (AML/TF):

- The banking sector remains well capitalized despite a number of vulnerabilities. There is considerable heterogeneity between banks in terms of liquidity ratios and returns on equity.

Support measures were maintained throughout the pandemic, in particular the relaxing of rules on mandatory reserves, a six-month deferral on loan repayments for SMEs and households, authorization to deduct restructured loans to SMEs from mandatory reserves, the extension of lines of credit to banks to enable them to preserve their liquid assets, and the extension of existing partial portfolio credit guarantee schemes (PPCG) for businesses impacted by the crisis. The provisions authorizing the deduction of restructured loans from mandatory reserves were repealed at end-December 2020.

- The proposed financial stability law is pending review by the Council of Ministers and will then be submitted to the legislature. The law will create a national unit responsible for the analysis, identification, and prevention of systemic risk and the management and resolution of financial crises. This is crucial to remedy several vulnerabilities revealed by the 2016 FSAP on the macroprudential framework, crisis management and financial development, given the expected increase in nonperforming loans in the coming months. The proposed law in question will be submitted again to the Council of Government and the Council of Ministers following the change of administration in August 2021.

- The banking law was communicated to the public as required by law and entered into force on March 5, 2021. In the context of implementing the law, directives are being prepared on the issues deemed priorities, i.e., banks' capital, solvency, liquidity, risk concentration, and the provisioning of credit risks.

- MFIs were hard hit by the effects of the pandemic, with a contraction of their activity, a decline in deposits, and significant deterioration of their portfolios. In that context, the BFM temporarily instituted an exceptional refinancing instrument that channeled support MFIs and SMEs exclusively through commercial banks. In 2020, the BFM disbursed MGA 214.7 billion to finance SMEs and MGA 26.0 billion for MFIs. The banks used 92.8 percent and 90.4 percent of the funds to extend credit to SMEs and MFIs, respectively. The use of exceptional refinancing instruments was suspended in early 2021 and will not resume except in case of a new crisis.

- We strengthened risk-based prudential surveillance. The Banking and Financial Supervision Committee (CSBF) worked to implement the new risk-based supervision mechanism, in particular by conducting annual inspection programs, giving priority to institutions of systemic importance and entities with vulnerabilities. Risk-based supervision in the AML/TF area is planned in accordance with the objectives of the 2018-2022 national strategy. The establishment of the unit in charge of the insurance sector is being finalized with the hiring of management personnel.

OTHER AND PROGRAM MONITORING

46. We greatly appreciate technical assistance received from the IMF, coordinated with the assistance received from other partners. The delivery of technical assistance was critical to the progress on reforms in recent years, and we hope the effort will continue in the coming years to meet new requirements and challenges arising in the implementation of the new economic reform program in the context of the PEM.

47. We are committed to observing the requirements of the IMF safeguards policy.

48. While the data being reported are broadly adequate for the surveillance and monitoring of programs, we remain determined to allocate sufficient human, financial, and material resources to the production of statistics. The government will continue to support the National Statistics Institute (INSTAT) in fulfilling its functions, and we are counting on continued technical and financial assistance from our partners. To remedy gaps and strengthen our data reporting, our priorities are as follows:

- Ratify, publish, and capitalize on the results of the most recent General Population and Housing Census (RGPH) conducted in 2018, for which the results and microdata were validated February 15, 2021. Projections still based on the 1993 RGPH-2 will be replaced by macroeconomic aggregates using the populations as the denominator, in particular per capita GDP, GNP, and GNI.

- Update the basket of goods for the CPI and the parameters for estimating household end consumption, and update the data on poverty and household living conditions by conducting the *2021 National Household Survey*.

- Conduct a series of surveys on transfers, including formal and informal transfers, from the diaspora, which will represent a major advance in terms of input to the BFM and INSTAT financial statistics, enabling us to identify the volume of currency and financing inflows and their contribution to the creation of national wealth (GDP).

- Improve the national accounting system and the consumer price index. This will require a survey to provide a basis for calculating the index of producer prices (IPP), expanded geographic coverage of the CPI, and the calculation and publication of the disaggregation or breakdown of national accounts (quarterly accounts, regional accounts, and satellite sector accounts).

- Support the implementation of the general agricultural census, which will begin in 2022 as soon as financing from the World Bank, in the context of the Statistical Capacity Building Project (StatCap-II) is confirmed toward the end of 2021. Then it will be at least two years from the start of activities before the initial results of the census are available.

- In regard to monetary and financial statistics, we have consolidated the balance sheets of MFIs and the CEM in the 2018 monetary survey, as recommended by the IMF technical assistance mission. Once the CSBF launches surveillance of the insurance sector, the BFM, with the support of IMF technical assistance, will incorporate the insurance companies' balance sheets in the monetary statistics so as to comply with the Monetary and Financial Statistics Manual and Compilation Guide. Finally, in regard to external statistics, the BFM will continue to monitor the level of private debt and improve FDI statistics, in partnership with INSTAT. The survey on private external debt and FDI is expected to resume in 2022.

49. The program is evaluated on the basis of quantitative performance criteria and structural benchmarks (see tables) and semiannual reviews. The definitions of key concepts and indicators as well as reporting requirements are set out in the accompanying Technical Memorandum of Understanding (TMU). The second, third, and fourth reviews are expected to be completed on or after May 16, 2022, November 15, 2022, and May 15, 2023, respectively, based on the test dates for the periodic performance criteria for end-December 2021, end-June 2022, and end-December 2022 respectively.

Table 1. Madagascar: Quantitative Performance Criteria and Indicative Targets

(Billions of Ariary; unless otherwise indicated)

	Mar-21			Jun-21			Sep-21			Dec-21	Mar-22		Jun-22	Sep-22	Dec-22
	Target	Actual	Status	Target	Actual	Status	Target	Actual	Status	Target	ECF Target	Current Target	Target	Target	Target
Continuous Performance Criteria															
Ceiling on accumulation of new external payment arrears	0	0	**Met**	0	0	**Met**	0	0	**Met**	0	0	0	0	0	0
Ceiling on new external debt contracted or guaranteed by the central government or BFM, in present value terms (US$ millions)[1]	800	12.4	**Met**	800	81	**Met**	800	246.3	**Met**	800	800	800	800	800	800
Performance Criterion	**IT**			**PC**			**IT**			**PC**	**IT**	**IT**	**PC**	**IT**	**PC**
Floor on domestic primary balance[2]	-550	29	**Met**	-752	-131	**Met**	-1,324	136	**Met**	-1,426	-120	-157	-293	-430	-571
Ceiling on net domestic assets (NDA) of BFM	2,165	2,214	**Met with adjustor**	2,301	1,782	**Met**	2,578	1,794	**Met**	2,838	3,285	1,685	2,135	2,530	2,845
Floor on net foreign assets (NFA) of BFM (millions of SDRs)	677	578	**Not met with adjustor**	655	664	**Met**	623	633	**Met**	645	650	836	816	822	825
Indicative Targets															
Floor on gross domestic tax revenue	693	717	**Met**	1,556	1,519	**Not met**	2,453	2,373	**Not met**	3,384	841	942	2,068	3,080	4,219
Floor on gross customs tax revenue	510	563	**Met**	1,147	1,161	**Met**	1,785	1,829	**Met**	2,550	621	704	1,439	2,236	3,063
Floor on social spending[3]	77	7	**Not met**	154	81	**Not met**	282	140	**Not met**	513	111	71	178	357	713
Memorandum Items															
Social spending, including salaries[4]	377	265		754	654		1,182	949		1,713	420	403	806	1,311	2,016
Social spending, including salaries and externally financed investments	480	265		953	897		1,514	1,260		2,361	536	533	1,067	1,733	2,666
Social spending, outside of Ministries: education, health, water and population	-	-		-	-		-			68		-	-	-	-
Wage bill of public workers-Education	237	207		474	455		711	650		948	232	257	513	770	1,027
Wage bill of public workers-Health	60	48		120	112		180	150		240	65	66	132	198	263
Official external budget support (grants, millions of SDRs)	0	0		9	0		0			0	54	0	0	0	0
Official external budget support (loans, millions of SDRs)	95	0		95	87		99			99	133	9	9	9	27
Program exchange rate (MGA/SDR)	5,509	5,509		5,509	5,509		5,509			5,509	5,509	5,509	5,509	5,509	5,509

Sources: Madagascar authorities; and IMF staff projections.

[1] Cumulative ceiling that will be monitored on a continuous basis starting from January 1 of each year.

[2] Primary balance excluding foreign-financed investment and grants. Commitment basis.

[3] Domestically financed spending, excluding salaries, of the following ministries: Health, Education, Water and Sanitation, and Population.

[4] IT definition of social spending, plus salaries.

Table 2. Madagascar: Structural Benchmarks Through end-June 2022

Measure	Due date(s)	Implementation status	Rationale
Prior actions			
1. Adoption of a 2022 budget law in line with program objectives.		**Met**	Improve economic governance, raise tax revenue, and improve the composition and quality of budget expenditures
2. Communication to IMF staff of the results of the audit of the fuel pricing structure and of a timetable for the implementation of an automatic fuel price adjustment mechanism by 2024Q1.		**Met**	Preserve and strengthen fiscal space
3. Publication of the *Cour des Comptes* audit of the financial flows related to the fight against COVID-19.		**Met**	Improve economic governance
Structural benchmarks			
Mobilizing fiscal policy to address economic and social needs			
4. Improve the collection of outstanding tax arrears by recovering at least MGA 80 billion in tax arrears during the first half of 2021.	June 2021	**Met**	Increase tax revenue
5. Increase the number of beneficiaries of cash transfer programs from 483,428 in December 2020 to 540,000 in September 2021.	September 2021	**Met**	Improve the composition and quality of budget expenditures
6. Continue to improve the recovery of outstanding tax arrears by collecting at least MGA 80 billion in tax arrears between July and December 2021.	December 2021		Increase tax revenue
7. Collect at least MGA 50 billion an additional customs revenue between January and June 2022 from improved customs controls, including controls of value.	June 2022		Preserve and strengthen fiscal space
Containing short and medium term fiscal risks			
8. Provide IMF and World Bank staff with the details of any budget transfers to Jirama suppliers and share the related documentation within one week after payment.	Continuous	**Not met**. IMF staff were informed and received the related documentation after several weeks' delay, in the context of responses to the mission questionnaire.	Improve economic governance and improve the composition and quality of budget expenditures
9. Keep the government's liability to oil distributors below MGA 100 billion with no direct budget offset.	Continuous	**Met**	Preserve and strengthen fiscal space
10. Establish a new fuel price structure, following consultation with distributors, in order to reduce the gap between the *prix de référence calculé* and pump prices based on the results of the price structure audit.	March 2022		Preserve and strengthen fiscal space
11. Based, inter alia, on existing studies, formulate policies to mitigate the impact of the fuel price adjustment on vulnerable populations.	June 2022		Preserve and strengthen fiscal space and improve the composition and quality of budget expenditures
12. Institute tariff optimization for Jirama business and industrial customers.	March 2022		Preserve and strengthen fiscal space
Strenghtening public finance management and governance to restore confidence			
13. Adopt the decree implementing the law on recovery of illicit assets, including the creation of the asset recovery agency, with a dedicated budget allocation provided in the revised 2021 budget.	June 2021	**Not met**. The Council of Ministers adopted the decree providing for creation of the asset recovery agency on September 29, 2021. A specific budget will be allocated in the 2022 LFI to provide for the agency's implementation, planned for January 2022.	Improve economic governance
14. Publish the implementation status of the Court of Audit's AUGURE recommendations, including recommendations on the payroll payment process.	November 2021	**Met**	Improve the composition and quality of budget expenditures
15. Finalize and publish a public investment manual consistent with the recommendations of the DAT technical assistance, in particular to clarify institutional aspects.	December 2021	**Not met.** The reorganisation of the investment agency (OCSIF) has led to delays in the finalization of the investment manual.	Support growth through reforms and by tackling the sources of fragility
16. Public release of an independent, third-party audit of contracts relating to COVID-19.	December 2021	**Not met.** The audit is expected to take place in January 2022 and finalized before end March 2022 (see new SB #20).	Improve economic governance
17. Publish the terms and conditions of all PPP contracts within one month from the date of signature on the ARMP website.	Continuous	**Met**	Improve economic governance
18. Publish (prior to the close of the following quarter) a quarterly budget execution report on a payment basis, including expenditures for COVID-19 and social expenditures.	Continuous, beginning first quarter 2021	**Not met.** Reports were prepared for the first three quarters of 2021, but significant improvements are needed to include all data on a payment basis, including data on COVID-19-related expenditures and social expenditures.	Improve fiscal transparency
19. Preparation of an annual expenditure commitment plan by key social ministries based on their 2022 work plan and the budget approved by the legislature, and commitment by the Ministry of Economy and Finance to release the appropriations indicated in that plan on the dates provided.	January 2022		Improve the composition and quality of budget expenditures
20. Public release of an independent, third-party audit of contracts relating to COVID-19.	March 2022		Improve economic governance
21. Publish the decree creating the coordination and orientation committee for AML/CFT under the 2018 AML/CFT law.	March 2022		Improve economic governance
22. Launch the operations of the illegal assets recovery agency, including with a dedicated budget allocation in the 2022 LFI.	March 2022		Improve economic governance

Note: Proposed new structural benchmarks are indicated in blue.

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) contains definitions and adjuster mechanisms that clarify the measurement of quantitative performance criteria and indicative targets in Tables 1 and 2, which are attached to the Memorandum of Economic and Financial Policies for 2021-2024. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

DEFINITIONS

2. For purposes of this TMU, **external** and **domestic** shall be defined on a residency basis.

3. Government is defined for the purposes of this TMU to comprise the scope of operations of the treasury shown in the *opérations globales du Trésor* (or OGT). The government does not include the operations of state-owned enterprises and sub-national authorities.

4. The program exchange rates for the purposes of this TMU[1] are as follows:

Program Exchange Rates	
Malagasy Ariary (MGA)/SDR	5508.800000
U.S. Dollar/SDR	1.440269
Euro/SDR	1.175341
Australian dollar/SDR	1.878406
Canadian dollar/SDR	1.840229
Japanese Yen/SDR	148.565264
Swiss Franc	1.274206
U.K. Pound Sterling/SDR	1.058243

5. Foreign currency accounts denominated in currencies other than the SDR will first be valued in SDRs and then be converted to MGA. Amounts in other currencies than those reported in the table above and monetary gold will first be valued in SDRs at the exchange rates and gold prices that prevailed on December 30, 2020, and then be converted to MGA.

6. Performance criteria included in the program, as defined below, refer to the net foreign assets and net domestic assets of the central bank, external payments arrears, new external debt owed or guaranteed by the central government and/or the central bank, and the domestic primary balance (commitment basis). Performance criteria are set for end-June 2021 and end-December 2021 while indicative targets are set for end-March 2021, end-September 2021, and end-March 2022.

[1] Data refer to the mid-point reference exchange rates published on the CBM's webpage for December 30, 2020.

7. In addition to the specific PCs listed in paragraph 6, as for any Fund arrangement, continuous PCs also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, continuous conditionality covers (i) imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) introduction or modification of multiple currency practices; (iii) conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) imposition or intensification of import restrictions for balance of payments reasons. These continuous PCs, given their non-quantitative nature, are not listed in the PC table annexed to the MEFP.

8. Total government revenue is comprised of tax and nontax budget revenue (as defined under Chapter 5 of GFSM 2001, but excluding revenue from Treasury operations) and grants. Revenue is recorded in the accounting system on a cash basis. Taxes on the import of petroleum products, paid through the issuance of promissory notes, are recorded under revenue at the time of the issuance of the promissory notes: to reconcile the difference in timing between the issuance of the promissory note and its actual payment to the Treasury, an equivalent amount is recorded (negatively) under the line "other net transactions of the Treasury" until the actual payment.

PROVISION OF DATA TO THE FUND

9. The following information will be provided to the IMF staff for the purpose of monitoring the program (see Table 1 for details):

- Data with respect to all variables subject to quantitative performance criteria and indicative targets will be provided to Fund staff monthly with a lag of no more than four weeks for data on net foreign assets (NFA) and net domestic assets (NDA) of the Central Bank of Madagascar (CBM) and eight weeks for other data. The authorities will promptly transmit any data revisions to the Fund.

- The Financial Intelligence Unit (SAMIFIN) will continue to publish, on a website that is freely available to the public, quarterly data (no later than the end of the month following the quarter) on reports sent to BIANCO in relation to suspicions of laundering of the proceeds of corruption.

- The BIANCO will continue to publish on a website, that is freely available to the public, quarterly data (no later than at the end of the month following the quarter) on the number of persons indicted, the number of persons convicted by a first instance court decision, the number of persons convicted pursuant a final court decision, and the number of verifications of assets disclosures of public officials.

- For variables assessing performance against program objectives but which are not specifically defined in this memorandum, the authorities will consult with Fund staff as needed on the appropriate way of measuring and reporting.

QUANTITATIVE PERFORMANCE CRITERIA

A. Fiscal Aggregates

Floor on Primary Balance (commitment basis)

10. The domestic primary balance (commitment basis) is measured as follows:

- Domestic tax and non-tax revenue less domestically-financed capital expenditures and current spending excluding interest payments (as defined in the authorities' table of government financial operations – OGT or *Operations Globales du Trésor*).

- For the purposes of calculating the primary balance, tax revenues are measured on a net basis, i.e., net of the refund of VAT credits. Current spending excluding interest payments is the sum of expenditures on wages and salaries, goods and services, transfers and subsidies, and treasury operations (net) excluding the refund of VAT credits. The primary balance will be calculated cumulatively from the beginning of the calendar year. For reference, using data at end-September 2020, the value of the primary balance would be as follows:

Primary Balance Excluding Foreign Financed Investment and Grants (commitment basis)	**-269**
Gross Tax revenue	3,613
of which gross domestic tax revenue	*1,953*
of which gross custom tax revenue	*1,660*
VAT refunds	115
Tax revenue (net of VAT refunds)	3,498
Domestic non-tax revenue	91
Less:	
Domestically-financed capital expenditures	453
Current expenditures	3,405
Wages and salaries	2,008
Goods and services	182
Transfers and subsidies	1,134
Treasury operations (net of VAT refunds)	81

B. External Debt

Ceiling on Accumulation of New External Payment Arrears

11. These arrears consist of overdue debt-service obligations (i.e., payments of principal and interest) related to loans contracted or guaranteed by the government or CBM. Debt service obligations (including unpaid penalties and interest charges) are considered overdue if they have not been paid 30 days after the due date or after the end of a grace period agreed with, or unilaterally granted by, each creditor before the due date. They exclude arrears resulting from nonpayment of debt service for which the creditor has accepted in writing to negotiate alternative payment schedules, as well as debt service payments in conformity with contractual obligations that fail to materialize on time for reasons beyond the control of the Malagasy authorities. This monitoring target should be observed on a continuous basis from the IMF Executive Board's approval of the request for the ECF arrangement.

Ceiling on New External Debt

12. For program monitoring purposes, the present value (PV) of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

13. Where an external loan agreement contains multiple disbursements and where the interest rate for individual disbursement are linked to the evolution of a reference rate since the date of signature, the interest rate at the time of signature will apply for the calculation of the PV and grant element for all disbursements under the agreement.

14. For program monitoring purposes, the definition of debt is set out in *Point 8, Guidelines on Public Debt Conditionality in Fund Arrangements, Executive Board Decision No. 15688-(14/107), adopted December 5, 2014* (see Annex 1). External debt is defined by the residency of the creditor.

15. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD LIBOR is 0.42 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR or 3-month Euribor over six-month USD LIBOR is -50 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -50 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is 0 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -50 basis points.[2] Where the variable rate is linked to a different benchmark interest rate, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

16. A performance criterion (ceiling) applies to the PV of new external debt, contracted or guaranteed by the government or CBM. The cumulative ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. The PV is determined using the Fund's concessionality calculator or excel template available online. These monitoring targets should be calculated by calendar year from end-March 2021 and observed on a continuous basis from the IMF Executive Board's approval of the request for the ECF arrangement until end-2021, at which point it will be renewed and potentially adjusted. The ceiling is subject to an adjustor defined below.

[2] The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Fall 2020 World Economic Outlook (WEO).

17. Excluded from the ceiling in paragraph 16 is (i) the use of IMF resources; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt (this also applies to liabilities of Air Madagascar assumed by the government in the context of a strategic partnership agreement); and (iii) debts classified as international reserve liabilities of CBM.

C. Monetary Aggregates

Floor on Net Foreign Assets of the Central Bank of Madagascar

18. The target floor for NFA of the CBM is evaluated using the end-period stock, calculated using program exchange rates. The NFA of CBM is defined as the difference between CBM's gross foreign assets and total foreign liabilities, including debt owed to the IMF. All foreign assets and foreign liabilities are converted to SDRs at the program exchange rates, as described in paragraph 4. For reference, at end-December 2020, NFA was SDR 653 million, calculated as follows:

Foreign Assets	
MGA billions, end-2020 exchange rates (A)	7,369.6
SDR millions, end-2020 exchange rates (B)	1,337.8
SDR millions, program exchange rates (C)	1,337.8
Foreign Liabilities	
MGA billions, end-2020 exchange rates (D)	3,772.3
SDR millions, end-2020 exchange rates (E)	684.8
Net Foreign Assets	
SDR millions, program exchange rates (F) = (C) – (E)	653.0

Ceiling on Net Domestic Assets of the Central Bank of Madagascar

19. The target ceiling on NDA of the CBM is evaluated using the average of ten-day stocks over the quarter, calculated at program exchange rates. It includes net credit to the government, credit to the economy, claims on banks, liabilities to banks (including the proceeds of CBM deposit auctions—*appels d'offres négatifs,* and open market operations), and other items (net). For reference, at end-December 2020, NDA was MGA 1,862 billion, calculated as follows:

Net Domestic Assets	
Net credit to government (A)	1043,7
Net claims on commercial banks (B)	608,9
Credit to private sector(C)	26.2
Other items net (D)	183.1
Net Domestic Assets	
MGA billions (E) = (A) + (B) + (C) + (D)	1861.9

INDICATIVE TARGETS

A. Floor on Priority Social Spending

20. Priority social spending includes domestic spending primarily related to interventions in nutrition, education, health, and the provision of social safety nets. The indicative target for the floor on priority social spending by the central government will be calculated cumulatively from the beginning of the calendar year. The floor is set as the sum of the budget allocations in the *Loi de Finance* to the Ministries of Health, Education, Population and Water, excluding salaries and externally financed investment.

B. Floors on Gross domestic Tax Revenue and gross custom tax revenue

21. Government tax revenue is measured on a gross basis, that is, before the refund of VAT credits. It comprises all domestic taxes and taxes on foreign trade received by the central government treasury. Tax revenue excludes: (1) the receipts from the local sale of in-kind grants, and (2) any gross inflows to the government on account of signature bonus receipts from the auction of hydrocarbon and mining exploration rights. Revenue will be measured on a cash basis as reported in the table of government financial operations prepared by the Directorate of Budget and the Directorate of Treasury in the Ministry of Finance and Budget. The floors on gross tax revenue will be calculated cumulatively from the beginning of the calendar year. For reference, for the year ending December 2020, gross domestic tax revenue was MGA 2,658 billion, comprised of net domestic tax revenue of MGA 2,526 billion and VAT refunds of MGA 132 billion, and gross custom tax revenue was MGA 2,187 billion, comprised of net custom tax revenue of MGA 2,128 billion and VAT refunds of MGA 59 billion.

STRUCTURAL BENCHMARKS

22. For the purposes of the structural benchmark on enforcing the collection of outstanding tax arrears, the collection refers to the "recouvrements des restes à recouvrer" monitored by the Direction Générale des Impôts.

23. Regarding the structural benchmark on notifying IMF and World Bank staff of details of any budget transfer to JIRAMA's suppliers and sharing associated documentation within one week of payment, the information to be shared is: (1) the details of each transfer, as published for 2020 at http://www.mef.gov.mg/reportingcovid, including the "reference d'engagement", the beneficiary enterprise, the purpose of the transfer ("objet") the "date d'engagement", and the amount of the transfer, and (2) the agreement or "convention" signed with the supplier in relation with the transfer.

24. For the purposes of the structural benchmark on fuel pricing, and until the adoption of a fuel pricing mechanism, the authorities will set prices in a manner that prevents total estimated net liabilities to fuel distributors from rising above MGA 100 billion (measured as a cumulative stock). The estimated total net liability is calculated by the Malagasy Office for Hydrocarbons (OMH), using the fuel price structure in place or any new fuel price structure established in accordance with prevailing laws and regulations. The authorities will provide to IMF staff the calculations for the estimate of the monthly flow and stock for these net liabilities, within four weeks of the end of each month.

MEMORANDUM ITEMS

25. Official external budget support is defined as grants and loans, including in-kind aid when the products are sold by the government and the receipts are earmarked for a budgeted spending item, and other exceptional financing provided by foreign official entities and the private sector and incorporated into the budget. Official external support does not include grants and loans earmarked to investment projects. Official external budget support is calculated as a cumulative flow from January 1, 2021.

26. Additional monitoring of social spending will take the form of the following memorandum items: (i) social spending, including salaries of the four social ministries; (ii) social spending, including salaries and externally financed investments; (iii) domestically financed spending implemented by the National Council on AIDS (CNLS), the National Risk and Disaster Management Bureau (BNGRC), the National Office on Nutrition (ONN), the Emergency Prevention and Management unit (CPGU), and the Intervention for Development Fund (FID), (iv) wage bill of public workers in education (*masse salariale des employés publics dans le Secteur Education*, provided by the DGT) and (v) wage bill of public workers in health (*masse salariale des employés publics dans le Secteur Santé*, provided by the DGT).

USE OF ADJUSTERS

27. The performance criteria on net foreign assets of the CBM and net domestic assets of the CBM will be adjusted in line with deviations from amounts projected in the program for official external budget support and in the event that the cession by the central bank of SDRs allocated in August 2021 (totaling SDR 234.2 million in case of Madagascar) does not take place as planned in the first quarter of 2022. These deviations will be calculated cumulatively from January 1, 2021. The following is an explanation of these adjustments:

- The floor on NFA will be adjusted *downward (upward)* by the cumulative deviation downward (upward) of actual from projected budget support (official external budget support). This adjustment will be capped at the equivalent of SDR 100 million, evaluated at program exchange rates as described in paragraph 4. Any cession of the SDR allocation by the central bank to the government above (below) SDR 192.5 million (equivalent to MGA 1,100 billion) will increase (decrease) the NFA target by the excess above (shortfall below) SDR 192.5 million. In addition, any conversion in foreign currency by the central bank of the SDR allocation projected to be ceded to the government will prompt a downward adjustment in the NFA floor by the same amount.[1]

- The ceiling on NDA will be adjusted *upward (downward)* by the cumulative deviation downward (upward) of actual from projected budget support (official external budget support). This adjustment will be capped at the equivalent of SDR 100 million, evaluated at program exchange rates as described in paragraph 4. Any cession of the SDR allocation by the central bank to the government above (below) MGA 1,100 billion will prompt an equivalent adjustment of the NDA target downward (upward) by the excess above (shortfall below) MGA 1,100 billion.

28. The performance criteria on the primary balance will be adjusted in line with deviations from amounts projected in the program for official external budget support. These deviations will be calculated cumulatively from the beginning of each calendar year. The following is an explanation of these adjustments:

- The floor on the primary balance excluding foreign-financed investment and grants (commitment basis) will be adjusted downward by the cumulative upward deviation of actual from projected official external budget support (grants or loans on concessional terms), calculated at quarterly period-average actual exchange rates as described in paragraph 4.

29. Two adjustment factors can be applied to the external debt ceiling fixed at present value:

- An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies in case deviations are prompted by a change in the financing terms. Changes in interest rates, maturity, grace period, payment schedule, commissions, fees of a debt or debts are candidate triggers for the adjuster. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed and are subject to debt sustainability.

- The external debt ceiling at present value will be adjusted *downwards* to a maximum of $140 million if loans linked to projects financed by the World Bank in 2022 do not materialize.

[1] The cession of the SDR allocation from the central bank to the government involves the cession of both the SDRs and the liabilities vis-à-vis the IMF associated with those SDRs. If the government requests the conversion of the SDRs into ariary, the central bank recovers the SDRs in its assets (which increases its NFA) while the associated liabilities remain on the central government's balance sheet. In contrast, a conversion into foreign currency leaves the central bank's NFA unchanged since it implies the provision of foreign currency by the central bank to the government in exchange for the SDRs. The conversion of the SDRs into ariary or foreign currency results in an increase in government deposits at the central bank (hence a decrease in NDA if the proceeds from the conversion are not used to pay for spending).

Table 1. Madagascar: Data Reporting Requirements

Item	Periodicity
Exchange rate data	
Central Bank of Madagascar (CBM)	
Total daily CBM gross purchases of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of CBM gross purchases, the highest traded exchange rate, and the lowest traded exchange rate –break down by currency purchased	Daily, next working day
Total daily CBM gross sales of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of CBM gross sales, the highest traded exchange rate, and the lowest traded exchange rate – break down by currency purchased	Daily, next working day
Total CBM net purchases/sales of foreign exchange - break down by currency purchased	Daily, next working day
Total interbank foreign exchange transactions (net of CBM transactions) - break down by currency purchased	Daily, next working day
Total interbank and retail foreign exchange transactions (net of CBM transactions) - break down by currency purchased	Daily, next working day
Monetary, interest rate, and financial data	
Central Bank of Madagascar (CBM)	
Foreign exchange cash flow, including foreign debt operations	Monthly
Stock of gross international reserves (GIR) and net foreign assets (NFA), both at program and market exchange rates	Monthly
Detailed data on the composition of gross international reserves (GIR), including currency composition	Monthly
Market results of Treasury bill auctions, including the bid level, bids accepted or rejected, and interest rates	Monthly
Stock of outstanding Treasury bills	Monthly
Data on the secondary market for Treasury bills and other government securities	Monthly
Bank-by-bank data on excess/shortfall of required reserves	Monthly
Money market operations and rates	Monthly
Bank lending by economic sector and term	Monthly
Balance sheet of CBM	Every ten days, within one week after the end of each ten-day period
Balance sheet (aggregate of deposit money banks)	Monthly, within six weeks of the end of each month
Monetary survey	Monthly, within six weeks of the end of each month
Financial soundness indicators of deposit money banks	Quarterly, within eight weeks of the end of the quarter

Table 1. Madagascar: Data Reporting Requirements (continued)

Item	Periodicity
Fiscal data	
Ministry of Finance and Budget (MFB)	
Preliminary revenue collections (customs and internal revenue)	Monthly, within three weeks of the end of each month
Treasury operations (OGT)	Monthly, within eight weeks of the end of each month
Stock of domestic arrears, including arrears on expenditure and VAT refunds	Monthly, within eight weeks of the end of each month
Results of customs value controls and amounts collected following those controls	Quarterly, by the end of the subsequent quarter.
Priority social spending as defined by the indicative target	Monthly, within eight weeks of the end of each month
Subsidies to JIRAMA's suppliers	Within one week of each transfer payment, as specified in continuous SB.
State-owned enterprise data	
Data summarizing the operational and financial position of JIRAMA	Monthly, within four weeks of the end of each month, for operational and financial data. Quarterly, by the end of the following month, for the Table on "Total impayés fournisseurs"
Data summarizing the financial position of AIR MADAGASCAR	Quarterly, by the end of the subsequent quarter.
Debt data	
Ministry of Finance and Budget (MFB)	
Public and publicly-guaranteed debt stock at end of month, including: (i) by creditor (official, commercial domestic, commercial external); (ii) by instrument (Treasury bills, other domestic loans, external official loans, external commercial loans, guarantees); and (iii) in case of new guarantees, the name of the guaranteed individual/institution. External public or publicly guaranteed loans signed since January 1, 2021, specifying the nominal value; calculated grant element and PV; and terms, including the interest rate (using the program reference rate for variable rate loans), maturity, commissions/fees, grace period, repayment profile, and grant component.	Monthly, within four weeks of the end of each month Quarterly
External data	
Central Bank of Madagascar (CBM)	
Balance of payments	Quarterly, by the end of the subsequent quarter

Table 1. Madagascar: Data Reporting Requirements (concluded)	
Real sector and price data	
INSTAT	
Consumer price index data (provided by INSTAT)	Monthly, within four weeks of the end of each month
Details on tourism	Monthly, within twelve weeks of the end of each month
Electricity and water production and consumption	Monthly, within twelve weeks of the end of each month
Other data	
OMH	
Petroleum shipments and consumption	Monthly, within four weeks of the end of each month
Cumulative net liability to fuel distributors, with details on fuel distributors contributions and fees arrears towards the State and other public bodies (e.g., FER, RDS)	Monthly, within four weeks of the end of each month
Decree or *Arrêté* relating to the fuel reference prices formula and fixing the pump prices	Variable, within one week of publication

Annex I. Guidelines on Performance Criteria with Respect to External Debt

Excerpt from paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

1. (a) For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

REPUBLIC OF MADAGASCAR

February 25, 2022

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)[1]

Madagascar ***Joint Bank-Fund Debt Sustainability Analysis***	
Risk of external debt distress	*Moderate*[2]
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Some space to absorb shocks*
Application of judgment	*No*

Madagascar, classified as having a medium debt carrying capacity, is still assessed at moderate risk of external debt distress with some space to absorb shocks and moderate risk of overall (external plus domestic) debt distress, in line with the assessment at the time of the program request. While no external public and publicly guaranteed (PPG) debt ratios breach their thresholds under the baseline, the present value (PV) of the debt-to-exports ratio, as well as both debt service ratios, breach their thresholds under an exports shock. Overall risk of debt distress remains moderate because of the moderate external PPG debt rating and possible materialization of liquidity pressures. The debt-service-to-revenue ratio could rise to 77 percent within the medium term under the baseline. The government has some space to scale-up investment, assuming ongoing efforts to improve domestic resource mobilization, continued and disproportionate reliance on concessional external financing, and progress in developing domestic bond markets and in the implementation of the governance reform agenda. The current assessment reflects an SDR allocation partly ceded by the central bank to the government as well as debt relief under the Debt Service Suspension Initiative (DSSI), supported by the G-20 and Paris Club, and the IMF's Catastrophe Containment and Relief Trust (CCRT). Updates with respect to the economic impact of COVID-19 (both domestically and externally) and policy response are rapidly evolving and risks remain tilted to the downside, including the heightened risk of a materialization of contingent liabilities, which could lead to a faster than expected deterioration in external and public debt indicators. However, the distance to risk thresholds under current baseline projections suggests some space to absorb additional shocks.

[1] Prepared by the IMF and the World Bank. This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018.
[2] Madagascar's Composite Indicator (CI) is 2.82, which corresponds to a medium debt-carrying capacity as confirmed by the October 2021 WEO data and the 2020 Country Policy and Institutional Assessment (CPIA).

PUBLIC DEBT COVERAGE

1. **The DSA includes public and publicly guaranteed external and domestic debt.** Public and publicly guaranteed (PPG) debt comprises external and domestic debt in a fairly comprehensive manner, including: all external liabilities held by the central bank; all borrowing from the IMF; non-guaranteed domestic debts owed by state-owned enterprises (SOEs) in cases where the government has at least 50 percent of the shares (e.g., JIRAMA and Air Madagascar);[3] domestic arrears (which are small at about 0.2 percent of GDP[4]); and direct guarantees provided by the central government (Text Table 1). Borrowing by local governments requires the authorization from the Ministry of Finance and no request for such authorization has been submitted to date. The measure of debt is on a gross basis and the currency criterion is used to distinguish between domestic and external debt.[5] The authorities publish data on a quarterly basis on both domestic and external debt. Reporting of debt statistics on public enterprises needs to be strengthened further, particularly by: (i) requiring all public enterprises to submit financial statements to the Ministry of Finance within legal limits; (ii) compiling information about public enterprises including debt statistics and monitoring-related risks; and (iii) publishing this information online in budget documents and fiscal risk statements.

Text Table 1. Madagascar: Public Debt Coverage Under the Baseline Scenario

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

2. **Notwithstanding the comprehensive coverage of debt statistics, a contingent liability shock of 7.6 percent of GDP is simulated to account for potential liabilities.** This reflects the default setting for PPPs and financial markets and a country-specific calibration for possible additional SOE liabilities (Text Table 2).

- While estimated domestic debt for SOEs in which the government has a majority stake is incorporated in the baseline (i.e., debt of 2.2 percent of GDP for JIRAMA and of 2.2 percent for other SOEs),[6] government recognition of some SOE short-term liabilities could also materialize (e.g., if large exchange rate fluctuations require that the government offers assistance in paying external

[3] Although legislation allows it, public enterprises do not hold direct external non-guaranteed debt.
[4] These arrears do not trigger an "in distress"-rating given their domestic nature.
[5] Locally issued debt denominated in local currency held by non-residents and locally issued debt denominated in foreign currency held by residents are insignificant, meaning that results would be similar if done on a residency basis.
[6] While JIRAMA is working with the World Bank on the implementation of its recovery plan, to be conservative, we do not account for the potential benefits of this plan on the domestic debt forecast owing to its long horizon. In particular, we assume that JIRAMA's debts remain at the same ratio to GDP through the entire forecast horizon (2.3 percent of GDP). This implies that successful implementation of the plan is an upside risk for the baseline, while non-implementation of the plan could result in still-high arrears and larger projected operational transfers.

suppliers). In addition, Air Madagascar has accumulated debt to external suppliers of US$29 million due to COVID-19 related pressures, and there is ongoing litigation with amounts in dispute of EUR 48 million (previously expected to be EUR 20 million). Therefore, the default amount of 2 percent of GDP (which captures risks associated with JIRAMA and other SOEs) was adjusted upwards to reflect Air Madagascar's potential liabilities (US$85 million or 0.6 percent of GDP), bringing the total to 2.6 percent of GDP. Relative to the previous DSA, future recapitalization of the postal savings scheme and the Madagascar Savings Fund (previously at about 1 percent of GDP) is no longer reckoned with given improved outlooks.

- Exposures to PPPs are set to zero since estimates of the PPP-related capital stock fall below 3 percent of GDP, the threshold for the PPP shock to be activated (the stock related to the Ravinala Airport is estimated at only 1.8 percent of GDP). The authorities may develop more PPPs going forward, especially in the area of hydroelectric power, and the potential vulnerabilities associated with such PPPs could increase rapidly, at which point the PPP shock may be triggered.

- The default value of 5 percent is programmed for financial markets. Most banks are financially solid with deposits exceeding loans and majority foreign shareholders. Dollarization of deposits and credits is not pronounced, and banks' foreign assets generally exceed their foreign liabilities.

Text Table 2. Madagascar: Coverage of the Contingent Liabilities' Stress Test

1	**The country's coverage of public debt**	The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.6	Captures potential additional contingent liabilities, including a potential external liability of US$ 85 million (0.6 percent of GDP) associated with Air Madagascar.
4	PPP	35	percent of PPP stock	0.0	Exposures through PPPs are set to zero as PPPs comprise less than 3 percent of GDP.
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			7.6	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

3. **Madagascar is benefitting from an SDR allocation and recent debt service relief initiatives, which are covered in the DSA.** The current assessment reflects the authorities' recent receipt of SDR 234.2 million from the SDR allocation, without envisaging a conversion into hard currency;[7] it also reflects the authorities' request for an extension of the Debt Service Suspension Initiative (DSSI), supported by the G-20 and Paris Club through June 2021 (approximately US$ 5.6 million or less than 0.1 percent of GDP). The current assessment furthermore reflects debt relief from the IMF under the Catastrophe Containment window of the IMF's Catastrophe Containment and Relief Trust (CCRT) through April 2022 (subject to the availability of CCRT resources for the next 18 months and amounting to US$ 32 million or 0.2 percent of GDP). In 2021, the World Bank delivered an emergency budget support operation amounting to US$75 million and a total of US$272 million in

[7] The planned use of SDR 190 million for budget financing in 2022 is recorded as external debt with associated interest expenses.

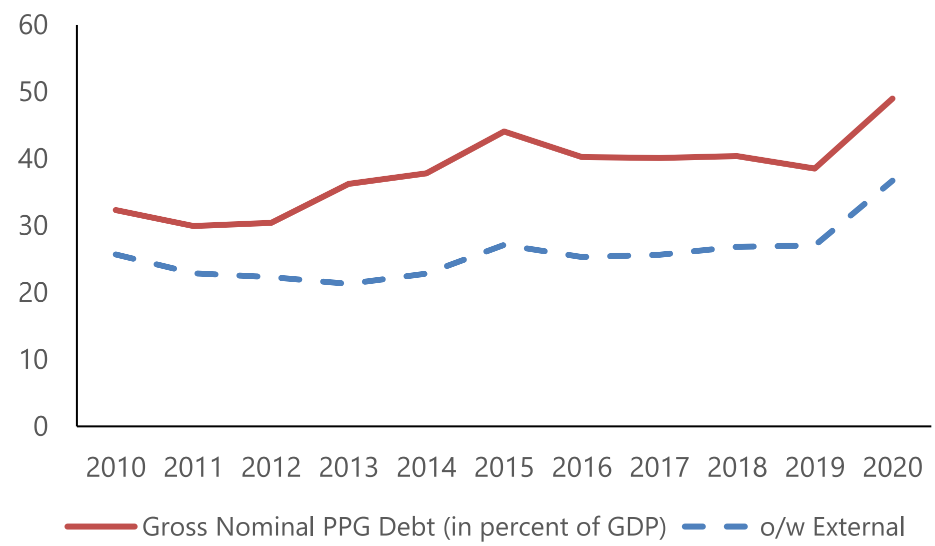
lending, including US$197 million for project financing with an increased focus on the South of Madagascar where a large-scale humanitarian crisis is unfolding. The disbursement of IDA lending is assumed to moderate in coming years to an annual average of US$210 million by 2024, considering a disbursement rate of somewhat less than 20 percent of outstanding commitments per annum.

BACKGROUND

A. Recent Debt Developments

4. The 2020 PPG debt ratio is projected to have reached 49.0 percent, up over 10 percent of GDP relative to 2019. The increase is owed to a large extent to an increase in the primary deficit and a decline in GDP growth due to the COVID-19 pandemic, occurring on the back of relative stability in this ratio since 2014 (see Text Figure 1 and Table 2). Domestic and external public debt have increased by 0.8 and 9.7 percent of GDP, respectively. External sources continue to account for almost three-quarters of PPG debt, with almost 60 percent of external debt owed to multilateral sources including the World Bank, African Development Bank, and IMF.

Text Figure 1. Madagascar: PPG Debt-to-GDP ratio, 2010-2020



B. Macroeconomic Assumptions

5. The COVID-19 pandemic continues to weigh heavily on Madagascar's economic prospects in the near and medium term, causing scarring. The contraction of real GDP in 2020 by about 7 percent implies a downward revision of almost 3 percentage points compared to the previous projection made at the time of the 2021 ECF request (see Table 3).[8] Staff expects a partial recovery in 2021 (+3.5 percent), driven by a broad-based resumption of economic activity in the manufacturing, mining, and service sectors (excluding tourism). Output per capita will surpass its

[8] IMF Country Report No. 21/75, April 2021.

2019 level only in 2024-25 and remain well below pre-shock forecast levels through the medium term. Staff expects a gradual decline in fiscal imbalances during the medium-term and a slow increase in public debt. Based on a gradual tax revenue recovery and an increase in capital spending, the primary deficit would remain large in 2021 (at 5.6 percent of GDP), gradually improving over the medium term. Under these assumptions, public debt would stabilize at around 50 percent of GDP over the medium term, similar to the level implied by the DSA projections at the time of the ECF request.

- Growth is expected to peak over the medium-term at 5.4 percent in 2022, with some deceleration thereafter. In 2030, it is expected to hit 5.0 percent. Estimates are in line with the prior forecast (Text Table 3). Growth will be supported by a scale-up of public investment (e.g., transportation and energy infrastructure, health, and education) and good prospects for private investment with the implementation of the current governance reform agenda (e.g., hydroelectric projects, canal construction, and tourism).
- Both government and private investment rates over the medium term were revised slightly upward relative to the prior DSA (Figure 4).[9]
- 2020 inflation estimates met their expectation but rates are expected to be somewhat higher than prior projections over the forecast horizon (hovering around 5.5 percent per year).
- The non-interest current account deficit was lower than expected in 2020 (by about 1 percent of GDP), owing to higher net current transfers, but has been revised up by 0.4 percent in 2021 reflecting the ongoing effects of the COVID-19 pandemic on tourism and external demand (with downward pressure on vanilla prices and metals volumes). As in prior forecasts, the deficit is expected to shrink over the medium term.
- The primary deficit is expected to be lower than prior estimates in 2022 and 2023; over the medium term, projections are in line with the ECF request. Primary deficits are expected to be kept in check going forward, reflecting gains in revenue mobilization including: (i) continued streamlining of VAT and free-zone companies' exemptions; (ii) improvements to the taxpayers' database; (iii) strengthening controls in customs administration; (iv) broader use of electronic tax declarations and payments and the digitalization of related procedures; and (v) continued clearance of tax arrears.

Text Table 3. Madagascar: Baseline Macroeconomic Assumptions for DSA

	2020			2025			2030		
(In percent of GDP, unless otherwise indicated)	Aug 2020	April 2021	Current	Aug 2020	April 2021	Current	Aug 2020	April 2021	Current
Real GDP growth (percent)	-1.0	-4.2	-6.1	5.5	5.0	5.0	5.2	5.0	5.0
Inflation, GDP Deflator (percent)	4.6	4.2	4.2	5.4	5.5	5.9	5.2	5.2	5.5
Non-interest CA deficit	3.1	6.1	4.8	2.6	3.2	3.0	3.3	3.6	3.3
Primary deficit	4.3	3.5	3.6	3.4	2.6	2.6	2.8	2.9	2.9

Sources: Malagasy authorities, World Bank and IMF.

6. **Financing assumptions broadly reflect the authorities' 2021-23 Medium Term Debt Strategy but are conservative with respect to external financing.** One of the main targets of the strategy for end-2023 includes a limit on the share of external public debt relative to total public

[9] Our forecasted estimates of investment are far more conservative than those envisaged by the *Plan Emergence Madagascar (PEM)* reflecting partly current constraints on implementation capacity.

debt that should not exceed a maximum of 86 percent (it is estimated at around 75 percent in 2020, where it is expected to remain over the projection horizon).[10] The financing assumptions of this sustainability analysis deviate from the medium-term debt strategy on domestic financing due to the more conservative approach on the volumes of available budget support and externally-financed investment projects.[11] The resulting increased reliance on domestic financing along with SOE debt (recall ¶1) gives rise to higher financing costs. To mitigate the potential liquidity pressures, the authorities will continue to develop the domestic debt market and will prioritize securing external financing on concessional terms (including grants), which would keep debt servicing costs at manageable levels and is in line with their debt strategy.[12] External commercial borrowing is expected to slowly scale back up from 2031 onwards as Madagascar's fundamentals strengthen.

7. **Realism tools suggest that our assumptions are in line with reasonable bounds.** Across a range of realism checks (Figure 4) that point to the projected 3-year adjustment for the primary balance and public investment plans, underlying assumptions appear to not raise any flags. Projected growth in 2021 is below the range of potential growth paths under various fiscal multipliers; however, as for all countries, the magnitude and multifaceted effects of the COVID-19 pandemic are not well-captured by that aspect of the analysis. While the bottom-right panel of Figure 4 may give the impression of over-optimism in growth projections, the picture is distorted by the sharp pandemic-induced swings in real GDP growth—rendering comparisons with Madagascar's history and the previous DSA (which averaged over 2020-24) less relevant.

8. **The outlook remains highly uncertain with risks tilted to the downside.** The main risks pertain to reoccurring COVID-19 outbreaks linked to the arrival of new variants in a context of insufficient vaccination, negatively impacting trade and delaying the recovery in tourism; rising oil prices amid a recovery in some trading partners with bouts of volatility weighing on government transfers; disruptions in supply chain; and natural disasters (mainly cyclones for the north and droughts for the south), resulting in losses in lives, livelihoods, and physical capital. Protracted weak budget execution in health and education spending and reversals in the governance reform agenda could also result in social and political volatility especially ahead of the 2023 presidential elections, while weak investment implementation capacity could curtail growth. All downside risks would have negative implications for the debt sustainability of the country. Upside potential includes the unlocking of large-scale projects in the energy sector and extractive industry, which could improve the growth potential and attract additional investment.

[10] The other main targets consist of (i) the average maturity of locally-issued debt being over 10 months (estimates put it around 11 months for 2020); (ii) the share of new external debt falling due within a year should be less than 25 percent of the stock of external debt (it is estimated to be around 10 percent in 2020); and (iii) the share of new domestic debt falling due within a year should be less than 75 percent of the stock of domestic debt (it is estimated at almost 69 percent in 2020).

[11] Together, the conservative assumptions on external financing and a program framework with no financing gaps mean that domestic financing closes the gap, with higher associated borrowing costs than external financing.

[12] To reflect recent increased use of medium-term locally-issued debt instruments and further developments in the debt market, the local financing share of medium-term bonds has been revised upwards to 30 percent from 2020-2025 (close to its current share based on end-2020 estimates), with continued growth thereafter, and longer-term bonds (e.g., between 4-7 years) are assumed to reach a share of 3 percent in 2026-30, which rises to 9 percent by 2036-40. On the external front, concessional financing dominates all other types of sources throughout the projected period, albeit declining as of 2027.

C. Drivers of Debt Dynamics

9. Over the medium term, scaling up of foreign-financed public investment drives an increase in debt compared with the 5-year historical average (Figure 3). Relative to the period between 2014 to 2019, external and total public debt to GDP ratios are expected to rise faster (by an additional 10 and 11 percentage points, respectively) over the medium term, reflecting pandemic-related borrowing, a gradual nominal increase in borrowing costs, and higher capital investments leading to increasing deficits. Growth (albeit weaker than pre-pandemic averages) and trends in prices and the exchange rate help offset such factors (the framework assumes some real appreciation over the medium term driven by the Balassa-Samuelson effect).

10. Public and private capital spending are revised upward, but average 5-year real growth is nonetheless expected to fall relative to prior forecasts due the pandemic's effects (Figure 4). Post-pandemic, the authorities still plan to scale up infrastructure spending accompanied with institutional reforms to better prioritize projects and improve execution rates. Given Madagascar's large infrastructure needs, the conservative assumed baseline fiscal multiplier—flagged in the Realism Tools (Figure 4)—suggests that growth may surprise to the upside. While private investment is estimated to have dropped precipitously in 2020, it is forecasted to rise thereafter as the government reform agenda unfolds and public investment helps crowd-in additional private investment. Therefore, the projected contribution of public investment to real GDP growth over the next 5 years is expected to be higher than suggested by the previous DSA, despite the fall in the 5-year average projected growth due to the pandemic.

D. Country Classification and Determination of Stress Test Scenarios

11. Madagascar's debt carrying capacity continues to be classified as medium, although its composite indicator score remains near the cutoff for weak carrying capacity. Based on a calculation of a composite indicator reflecting factors such as the CPIA index, real growth rates, reserve coverage, remittances, and world growth, Madagascar continues to be rated as having medium debt-carrying capacity (Text Table 4). The CI score is at 2.82 and is estimated using October 2021 WEO and 2020 CPIA WB. Text Figure 2 highlights the differences in composite indicator cut-off values and the corresponding external debt burden thresholds and public debt benchmarks at different debt-carrying capacities.

Text Table 4. Madagascar: Calculation of Debt-Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.240	1.25	44%
Real growth rate (in percent)	2.719	3.218	0.09	3%
Import coverage of reserves (in percent)	4.052	43.475	1.76	63%
Import coverage of reserves^2 (in percent)	-3.990	18.901	-0.75	-27%
Remittances (in percent)	2.022	2.521	0.05	2%
World economic growth (in percent)	13.520	3.137	0.42	15%
CI Score			2.82	100%
CI rating			**Medium**	

Note: 10-year average values are based on an average over 2016-2025.

Text Figure 2. Composite Indicator Cut-off Values and Respective Debt Burden Thresholds & Benchmarks

Cut-off values			
Weak	CI <	2.69	
Medium	2.69	≤ CI ≤	3.05
Strong	CI >	3.05	

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23
TOTAL public debt benchmark			
PV of total public debt in percent of GDP	35	55	70

12. **Stress tests generally follow standardized settings, with one exception—the growth shock—and include tailored shocks for natural disasters and commodity export prices.** The contingent liability stress test is based on the quantification of potential contingent liabilities (including SOE-related concerns that extend beyond the baseline SOE debt coverage as detailed in ¶12), and the standardized stress tests apply the default settings. However, the growth test continues to warrant adjustment, as done in prior DSAs. Given the high levels of uncertainty and with risks tilted heavily towards the downside, the growth shock simulates a two standard deviation shock instead of one (i.e., a reduction of 3.4 percentage points).[13] Madagascar also remains exposed and vulnerable to natural disasters, like cyclones and droughts, whose impact is captured by the natural disaster shock. [14] Since commodities (e.g., vanilla, nickel, cobalt) comprise about half of goods and services exports, we also include a commodity shock stress test. The standardized settings of this stress test are customized to better reflect Madagascar's country-specific circumstances. In particular, we assume an illustrative fall in prices equivalent to 10 percent of commodity exports, with no mitigating effect on imports, alongside declines in real GDP growth of 0.5 percent and in fiscal revenue of 0.25 percent of GDP. The shock occurs in 2021 and unwinds gradually by 2030. Residual financing is assumed to be at less favorable terms than under the baseline. For external debt, the interest rate and maturities are assumed to be 25 percent higher and lower, respectively. For overall public debt stress tests, limited recourse to domestic sources in the short run prompts us to assume that 65 percent of additional financing would come from external sources and that the interest rate for residual domestic financing would be 100 basis points above baseline.[15]

[13] The magnitude of the shock to growth in the second and third years of the projection is comparable to the prior DSA.

[14] We apply the default settings for this one-off shock in the template, namely a 10 percentage-point rise in the public external debt-to-GDP ratio alongside a fall in real GDP growth (1.5 percent) and exports (3.5 percent), in 2021.

[15] We view this as reasonable given the current development of Madagascar's domestic bond market and its ongoing engagement with international donors and investors.

DEBT SUSTAINABILITY RESULTS

A. External Debt Sustainability

13. Under the baseline, rising external PPG debt remains well below thresholds (Table 1, Figure 1). External PPG debt is projected to rise from just over 36 percent of GDP in 2020 to about 41 percent of GDP in 2031 before reaching 45.4 percent of GDP in 2041 (versus 48 percent in the prior DSA). Debt-creating flows include sizable current account deficits over the medium term (owing to declines in the trade balance and falling inflows from official transfers) and less advantageous endogenous debt dynamics (due to higher interest rates).[16] In PV terms, external PPG debt is projected to rise from 20.5 percent of GDP in 2020 to 26.9 percent of GDP in 2031 and 32.3 percent in 2041. The long-term rise in PV terms is the result of our assumption that borrowing will become less concessional over time, as well as sizeable gross financing needs. Together with expiring grace periods for some loans (including prior IMF financing), this explains why debt service indicators rise substantially off their low base. For example, the projected debt-service-to-exports ratio rises gradually from 4 percent in 2020 to around 8 percent in 2041. Nonetheless, all indicators remain well below the applicable thresholds for Madagascar (Figure 1).

14. The exports shock scenario gives rise to three breaches of the medium-carrying capacity external thresholds applicable to Madagascar within the forecast horizon (Table 3; Figure 1). Under the exports shock, the applicable thresholds for Madagascar's medium debt-carrying capacity is breached for the PV of debt-to-exports in 2022; the same holds for the two debt service ratios towards the end of the applicable horizon. Under the same shock, the PV of external-debt-to-GDP rises to 37 percent of GDP, just below the threshold of 40 percent.[17]

15. The granularity assessment suggests that Madagascar has some space to absorb shocks. All baseline debt indicators remain well below their thresholds under a median composite debt shock, but two indicators (PV of external PPG debt-to-GDP and debt-service-to-revenue) would exceed them under a more extreme scenario. This suggests that Madagascar has some space to absorb shocks (Figure 5).

16. External private sector debt is not assessed to pose a significant threat to external sustainability (Table 1). The risks associated with the levels of external private debt, which was recently revised upward, appear contained.[18] Around 80 percent of the private debt is associated with the mining sector, whose income is in foreign currency (providing it with a natural hedge); the majority of its debt is medium-to-long term; and a sizeable portion of its debt is with its affiliated

[16] The residual includes reserve accumulation, unrepatriated mining receipts, and potentially other misclassified BOP entries.

[17] The PV of external debt-to-GDP would breach the threshold of 30 percent for countries with weak debt-carrying capacity.

[18] In 2020 INSTAT completed a survey on the external private sector, including on its external debt obligations. The last survey had been conducted in 2013 and covered a smaller sample of firms and only included debts reported by companies' headquarters offices, which did not offer a complete view of the debt obligations of their Malagasy operations. The results uncovered large deviations relative to prior forecasts; prior IMF forecasts had estimated there was SDR 2 billion in external private debt at end-2018; the new data estimated that it had reached SDR 4 billion.

headquarters or global groups. Moreover, much of mining companies' loans do not bear large interest payments and many of the debt instruments are not required to be fully reimbursed to parent companies until liquidation. Private external debt is projected to rapidly decline as the loans related to major mining projects are repaid, with the stock of external private debt falling by over half by 2030. Still, such debts will be closely monitored going forward for potential risks and, in line with recent DSAs, we have conservatively assumed that more borrowing would be needed to sustain mining exports towards the end of the DSA horizon, contributing to private debt equivalent to about 5 percent of GDP in 2040.

B. Total Public Debt Sustainability

17. Under the baseline, total public debt levels are projected to remain well below the benchmark (Table 2). Total public debt (both external and domestic) is projected to remain at around 50 percent of GDP over the medium-term horizon, increasing to just over 55 percent by 2041 (versus 59 percent in the prior DSA). In PV terms, total public debt/GDP is expected to rise from 33 percent in 2020 to 38 percent in 2031 and 42 percent in 2041, below the benchmark of 55 percent for medium-capacity countries. The projected primary deficit is higher than previously assumed in 2021 (5.6 vs. 4.9 in the prior DSA), but lower in several years over the medium-term horizon. Ongoing revenue mobilization and PFM reforms are expected to continue; this is partly reflected in the decrease in the PV of debt-to-revenue-and-grants compared to a rise in PV of debt-to-GDP since the share of tax revenue in GDP is projected to rise in the medium term.

18. The rise in the PPG debt-service-to-revenue-and-grants ratio could introduce liquidity risks. The PPG debt-service-to-revenue-and-grants ratio is forecasted to peak at 72 percent by 2026 and reflects the repayment of prior IMF loans and conservative financing assumptions in the baseline framework that place a high reliance on domestic financing during the program horizon. Although no explicit benchmark exists for this ratio, the projections point to potential debt service and liquidity difficulties within the medium term. The authorities should prioritize securing ongoing external concessional financing, as done in recent years and in line with their medium-term debt strategy, as well as continuing to accelerate domestic debt market development to bring down borrowing costs. If strong donor support continues, liquidity risks can be mitigated.

19. Total public debt is vulnerable to commodity price and growth shocks and such stress tests lead to a breach of its benchmark (Figure 2; Table 4). Under both the growth shock and the commodity price shock, the PV of debt to GDP breaches 80 percent of GDP (well above the 55 percent benchmark for medium capacity countries like Madagascar).

RISK RATING AND VULNERABILITIES

20. Madagascar is classified as being at moderate risk of external debt distress. Under the baseline, no thresholds are breached. However, an export shock leads to a breach in the PV of debt-to-exports threshold. A granularity assessment suggests that Madagascar has some space to absorb shocks.

21. The overall assessment is that Madagascar is at moderate risk of overall debt distress. The PPG external debt has a moderate risk signal, while the PV of debt-to-GDP indicator breaches its benchmark following a growth or commodity price shock. Moreover, liquidity pressures could arise if more concessional external financing is not secured or if domestic debt market development is delayed, including under the baseline and under a natural disaster shock. Both the overall and external debt distress risk assessments are in line with the authorities' most recent April 2021 debt sustainability analysis.

22. Conditional on the mobilization of continued concessional external financing, this assessment is supportive of Madagascar's current plans to scale up its borrowing. A steeper-than-expected increase in borrowing in line with a rapid execution of the government's ambitious medium-term borrowing plan would carry significant risks, especially in the absence of securing additional external concessional financing. Also, poorly selected public investments and less favorable financing terms could affect debt vulnerability. The state of SOE liabilities could also influence future assessments. Less grant financing and a switch to a less concessional mix of borrowing would raise the debt burden, especially when measured in PV terms, as well as debt service risks. The domestic debt market should continue to be developed in order to lower borrowing costs. Finally, external private debt could increase in less ringfenced sectors (e.g., banking) that would increase the vulnerabilities associated with such debt. As mentioned in prior DSAs, in addition to debt sustainability, other crucial considerations for the pace of borrowing include the economy's vulnerability to terms-of-trade shocks, natural disasters, general absorptive capacity, public financial management, and public investment management.

23. Structural reforms and improvements in debt coverage statistics remain paramount, especially in light of the CI score, which is near the weak carrying capacity threshold. Efforts to enhance external statistics could improve private debt coverage. Also, Madagascar's ability to preserve and build its debt-carrying capacity rely on strengthening the capacity and quality of its institutions, including on the Public Financial Management-front where identification and mitigation of fiscal risks (relating to fuel subsidies, SOEs, PPPs, and pensions), the transparency and accountability of public sector institutions, and more effective and rules-based management of public investment within a credible medium-term expenditure framework are key. If Madagascar's CI score were to drop by more than 0.13 points (below 2.69), it would be assessed to have weak debt-carrying capacity. In that event, the baseline PV of public debt-to-GDP would likely be pushed above its benchmark leading to a "high overall risk of debt distress"-rating.

AUTHORITIES' VIEWS

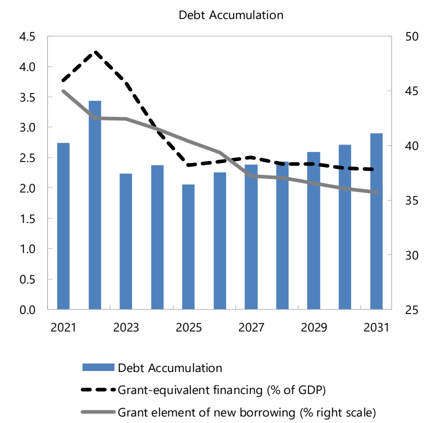
24. The authorities agreed that Madagascar remains at moderate risk of debt distress. They acknowledged the need to mobilize more revenue and strengthen public financial management, both to mitigate fiscal risks and to improve their ability to weather shocks. They emphasized their goal to increase public investment, potentially financed by larger external debt, but remain committed to prioritize concessional financing to safeguard debt sustainability.

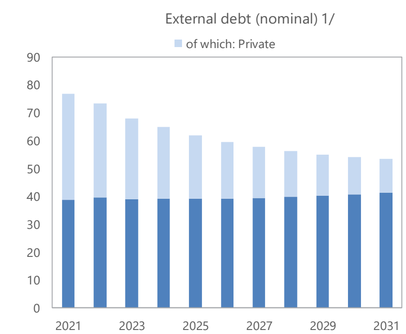
Table 1. Madagascar: External Debt Sustainability Framework, Baseline Scenario, 2018-2041

(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	70.5	67.0	80.5	76.8	73.3	67.8	64.9	61.9	59.5	53.4	50.3	50.7	61.9
of which: public and publicly guaranteed (PPG)	26.8	27.0	36.7	38.6	39.5	39.0	39.2	39.1	39.2	41.4	45.4	25.8	39.6
Change in external debt	20.3	-3.5	13.4	-3.7	-3.5	-5.5	-2.9	-3.0	-2.4	-0.6	-2.0		
Identified net debt-creating flows	-6.5	-2.1	8.8	1.3	-0.7	-0.9	-1.6	-1.5	-1.1	-1.4	-2.9	-1.6	-1.0
Non-interest current account deficit	-1.2	1.8	4.9	4.9	4.5	4.0	3.5	3.4	3.6	2.6	0.5	2.6	3.5
Deficit in balance of goods and services	3.5	4.7	9.0	10.2	8.1	8.0	7.0	7.1	7.3	6.4	4.5	5.6	7.4
Exports	31.7	28.7	19.7	22.9	25.3	26.0	26.4	27.0	27.2	27.8	29.1		
Imports	35.1	33.4	28.7	33.0	33.4	34.0	33.4	34.0	34.5	34.2	33.7		
Net current transfers (negative = inflow)	-7.1	-5.7	-6.5	-6.9	-5.5	-5.8	-5.7	-5.7	-5.7	-5.3	-4.8	-5.6	-5.7
of which: official	-2.6	-3.1	-2.5	-1.7	-2.1	-2.0	-1.2	-0.9	-0.8	-0.6	-0.1		
Other current account flows (negative = net inflow)	2.4	2.7	2.4	1.6	1.9	1.8	2.2	2.1	2.0	1.5	0.8	2.6	1.8
Net FDI (negative = inflow)	-3.6	-2.6	-1.9	-1.5	-1.9	-2.1	-2.5	-2.6	-2.5	-2.5	-2.5	-3.9	-2.3
Endogenous debt dynamics 2/	-1.6	-1.2	5.9	-2.0	-3.3	-2.8	-2.5	-2.3	-2.1	-1.6	-0.9		
Contribution from nominal interest rate	0.5	0.5	0.5	0.6	0.5	0.6	0.6	0.7	0.7	0.9	1.3		
Contribution from real GDP growth	-1.5	-3.0	5.2	-2.6	-3.8	-3.4	-3.2	-3.0	-2.9	-2.5	-2.2		
Contribution from price and exchange rate changes	-0.6	1.3	0.2	...	...	...	...	...	...	...	...		
Residual 3/	26.7	-1.4	4.6	-5.0	-2.8	-4.5	-1.3	-1.5	-1.3	0.9	0.8	7.1	-1.5
of which: exceptional financing	0.0	0.0	-0.1	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	20.5	21.4	23.2	23.1	23.5	23.7	24.0	26.9	32.3		
PV of PPG external debt-to-exports ratio	...	...	104.3	93.6	91.6	88.6	89.0	87.8	88.3	96.9	110.9		
Total external debt service-to-exports ratio	...	...	207.9	199.3	194.9	185.2	182.4	178.0	177.7	193.6	217.8		
PPG debt service-to-exports ratio	2.9	11.1	4.2	4.2	4.4	5.2	5.0	5.3	5.6	5.7	7.9		
PPG debt service-to-revenue ratio	8.9	29.4	8.4	9.0	9.4	10.9	10.2	10.8	11.2	11.4	15.4		
Gross external financing need (Million of U.S. dollars)	-488.0	699.6	1036.8	933.9	1297.0	1300.4	899.4	943.8	1044.7	1013.7	895.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.2	4.4	-7.1	3.5	5.4	5.1	5.0	5.0	5.0	5.0	4.5	2.2	4.9
GDP deflator in US dollar terms (change in percent)	1.2	-1.8	-0.3	4.9	1.9	4.8	3.1	2.8	2.8	2.8	2.5	0.8	3.1
Effective interest rate (percent) 4/	1.1	0.7	0.7	0.8	0.8	0.9	1.0	1.1	1.3	1.9	2.7	0.9	1.3
Growth of exports of G&S (US dollar terms, in percent)	7.0	-7.2	-36.4	26.3	18.6	13.3	9.8	10.3	8.9	8.2	7.9	3.4	11.7
Growth of imports of G&S (US dollar terms, in percent)	7.1	-2.5	-20.5	25.3	8.4	12.3	6.2	10.2	9.3	7.5	7.0	1.7	10.0
Grant element of new public sector borrowing (in percent)	...	...	...	45.0	42.5	42.4	41.5	40.4	39.4	35.7	33.6	...	39.4
Government revenues (excluding grants, in percent of GDP)	10.5	10.8	9.9	10.8	11.9	12.5	12.9	13.3	13.5	13.9	14.8	9.3	13.1
Aid flows (in Million of US dollars) 5/	597.5	714.1	622.9	702.0	746.0	828.1	843.7	812.5	944.8	1356.2	1785.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.8	4.2	3.7	2.9	2.4	2.4	2.3	1.2	...	2.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	59.7	58.9	61.5	54.6	51.4	49.2	42.9	36.3	...	51.3
Nominal GDP (Million of US dollars)	13,760	14,105	13,056	14,184	15,226	16,774	18,167	19,610	21,158	30,940	64,195		
Nominal dollar GDP growth	4.4	2.5	-7.4	8.6	7.3	10.2	8.3	7.9	7.9	7.9	7.1	3.0	8.2
Memorandum items:													
PV of external debt 7/	...	...	64.3	59.6	57.0	51.9	49.2	46.5	44.3	39.0	37.3		
In percent of exports	...	...	326.4	260.3	225.3	199.6	186.4	172.6	162.9	140.2	127.9		
Total external debt service-to-exports ratio	4.1	20.3	25.4	14.2	23.4	22.5	15.2	14.7	14.2	11.4	11.5		
PV of PPG external debt (in Million of US dollars)			2681.5	3039.5	3526.6	3867.6	4266.7	4639.9	5083.0	8335.8	20739.5		
(PVt-PVt-1)/GDPt-1 (in percent)				2.7	3.4	2.2	2.4	2.1	2.3	2.9	1.4		
Non-interest current account deficit that stabilizes debt ratio	-21.5	5.2	-8.6	8.5	8.0	9.5	6.4	6.4	6.0	3.2	2.6		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

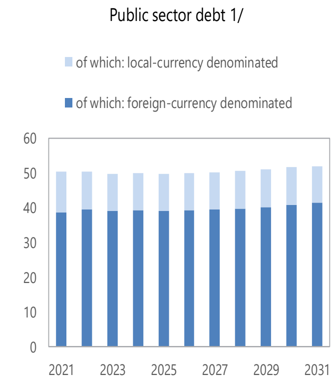
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

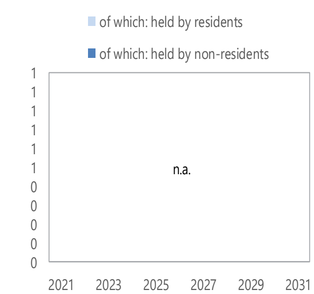
Table 2. Madagascar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018-2041

(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	40.4	38.5	49.0	50.3	50.4	49.7	49.8	49.8	49.9	52.0	55.0	38.7	50.5
of which: external debt	26.8	27.0	36.7	38.6	39.5	39.0	39.2	39.1	39.2	41.4	45.4	25.8	39.6
Change in public sector debt	0.3	-1.9	10.5	1.3	0.1	-0.7	0.1	-0.1	0.2	0.4	-1.7		
Identified debt-creating flows	-1.7	-2.5	6.5	3.5	1.6	0.0	0.7	0.2	0.6	0.8	0.7	0.1	0.9
Primary deficit	0.6	0.7	3.2	5.6	4.9	3.0	3.0	2.4	2.7	3.1	2.6	1.6	3.2
Revenue and grants	13.0	13.9	12.4	12.4	13.9	14.5	14.1	14.1	14.3	14.5	15.0	11.4	14.2
of which: grants	2.5	3.1	2.5	1.7	2.1	2.0	1.2	0.9	0.8	0.6	0.1		
Primary (noninterest) expenditure	13.6	14.7	15.6	18.0	18.8	17.4	17.1	16.5	17.0	17.6	17.6	13.0	17.4
Automatic debt dynamics	-2.2	-2.7	3.0	-2.5	-3.6	-3.4	-2.7	-2.6	-2.5	-2.6	-2.3		
Contribution from interest rate/growth differential	-2.3	-2.7	2.0	-2.2	-2.3	-2.3	-2.3	-2.2	-2.2	-2.3	-2.2		
of which: contribution from average real interest rate	-1.1	-1.0	-1.0	-0.5	0.3	0.1	0.1	0.1	0.2	0.2	0.3		
of which: contribution from real GDP growth	-1.2	-1.7	3.0	-1.7	-2.6	-2.5	-2.4	-2.4	-2.4	-2.5	-2.5		
Contribution from real exchange rate depreciation	0.1	0.0	1.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	-0.5	0.2	0.4	0.4	0.5	0.4	0.4	0.4	0.3	0.4	0.0	0.4
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	-0.5	0.2	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.4		
Residual	1.9	0.6	4.0	-2.4	-2.8	-1.8	-1.0	-0.6	-0.8	-0.7	-2.5	1.6	-1.0
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	33.0	33.8	34.3	34.1	34.4	34.6	35.0	37.8	42.2		
PV of public debt-to-revenue and grants ratio	...	...	266.3	271.8	246.0	235.5	244.1	244.9	244.3	260.2	282.2		
Debt service-to-revenue and grants ratio 3/	6.4	37.5	6.7	41.5	51.0	63.0	67.2	71.5	72.4	67.4	66.4		
Gross financing need 4/	1.4	5.5	4.3	11.3	12.4	12.8	13.2	13.0	13.5	13.1	12.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.2	4.4	-7.1	3.5	5.4	5.1	5.0	5.0	5.0	5.0	4.5	2.2	4.9
Average nominal interest rate on external debt (in percent)	1.1	1.0	0.9	0.8	0.8	0.8	0.9	1.0	1.0	1.3	1.6	0.8	1.0
Average real interest rate on domestic debt (in percent)	-7.7	-6.1	-4.2	-1.5	2.0	3.4	4.3	4.7	4.8	4.4	5.5	-6.3	3.7
Real exchange rate depreciation (in percent, + indicates depreciation)	0.2	0.0	3.5	...	...	...	...	...	...	...	...	1.1	...
Inflation rate (GDP deflator, in percent)	8.3	6.5	4.4	6.1	6.1	6.9	5.6	5.4	5.3	5.0	4.6	6.8	5.5
Growth of real primary spending (deflated by GDP deflator, in percent)	-1.6	12.7	-1.1	19.5	9.9	-2.6	3.0	1.4	8.2	6.0	3.2	5.4	6.2
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.3	2.6	-7.3	4.2	4.8	3.7	2.9	2.4	2.5	2.6	4.3	-1.5	2.9
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

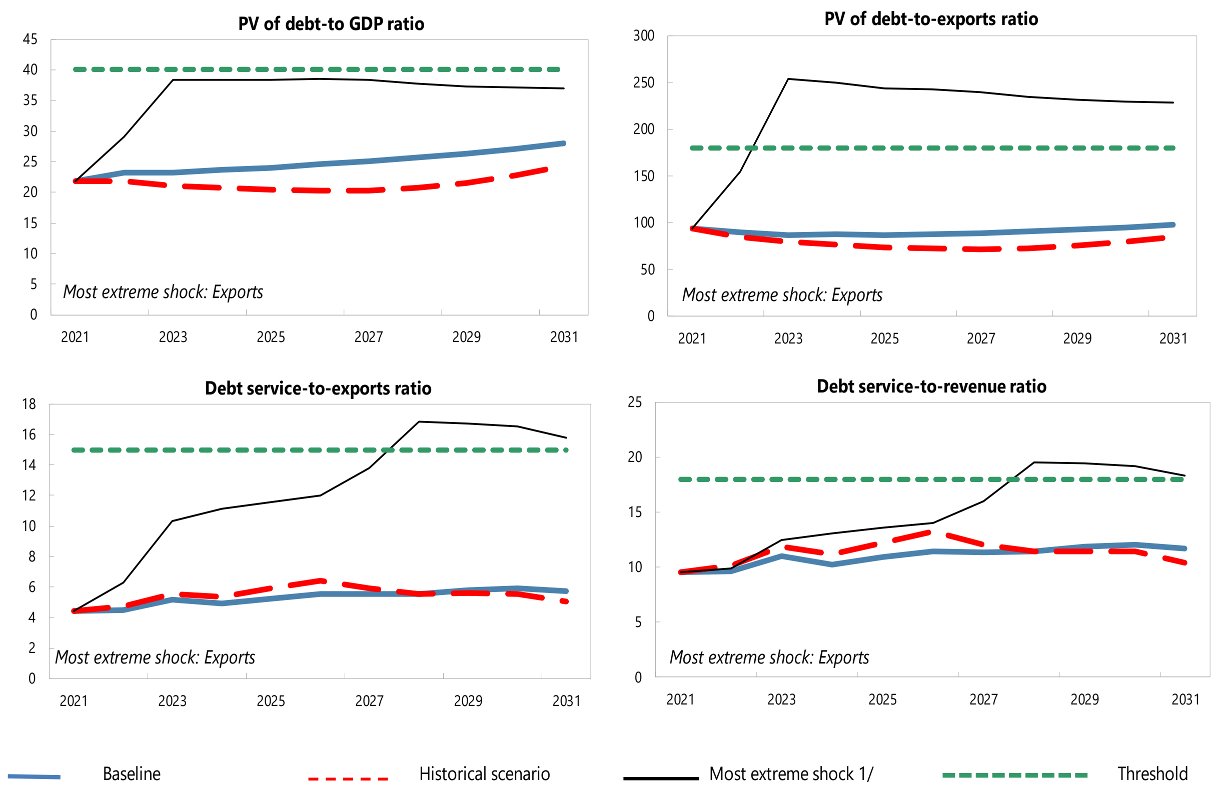
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Madagascar: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2021-2031



Customization of Default Settings	Size	Interactions
Standardized Tests	Yes	
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	Yes	Yes
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	21
Avg. grace period	4	4

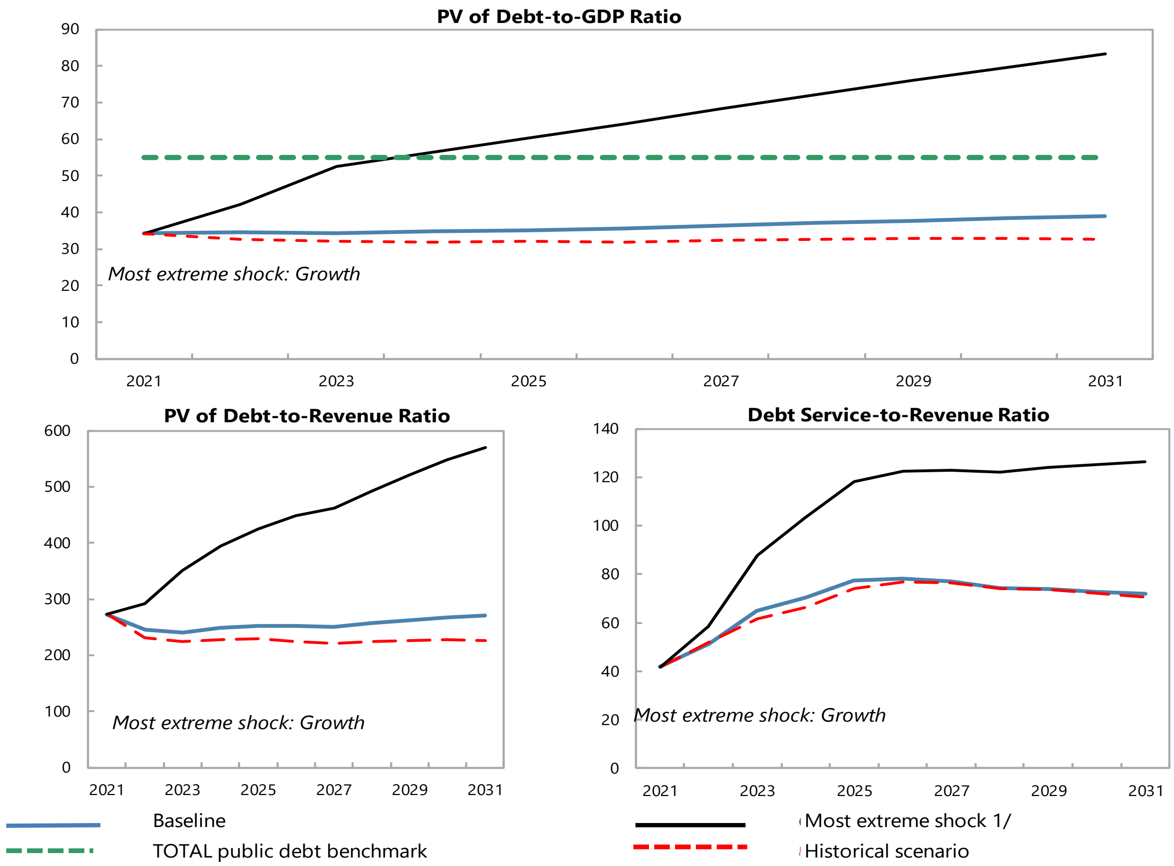
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Madagascar: Indicators of Public Debt Under Alternative Scenarios, 2021-2031



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	34%	65%
Domestic medium and long-term	21%	15%
Domestic short-term	45%	20%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.3%	1.7%
Avg. maturity (incl. grace period)	28	21
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.9%	8.9%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	3.3%	3.5%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Madagascar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021-2031

(In percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	21	23	23	23	24	24	24	25	26	26	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	21	21	21	21	20	20	20	21	22	23	24
B. Bound Tests											
B1. Real GDP growth	21	27	32	32	32	33	33	34	35	36	37
B2. Primary balance	21	23	24	24	24	25	25	26	26	27	27
B3. Exports	21	29	38	38	37	37	37	36	36	36	36
B4. Other flows 3/	21	25	26	27	27	27	27	27	28	28	29
B5. Depreciation	21	29	26	27	27	28	28	29	30	31	32
B6. Combination of B1-B5	21	31	33	34	34	34	34	34	34	35	35
C. Tailored Tests											
C1. Combined contingent liabilities	21	27	27	28	28	28	28	29	29	30	31
C2. Natural disaster	21	28	29	30	30	30	31	31	32	32	33
C3. Commodity price	21	24	24	25	25	25	25	26	26	27	27
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	94	92	89	89	88	88	89	90	92	94	97
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	94	85	79	78	76	74	74	75	78	82	88
B. Bound Tests											
B1. Real GDP growth	94	92	89	89	88	88	89	90	92	94	97
B2. Primary balance	94	93	91	92	90	91	91	93	94	96	99
B3. Exports	94	153	**252**	**248**	**241**	**239**	**235**	**230**	**227**	**224**	**223**
B4. Other flows 3/	94	98	101	101	99	99	99	99	100	101	103
B5. Depreciation	94	92	80	81	80	81	82	84	86	89	92
B6. Combination of B1-B5	94	139	106	159	156	156	154	154	155	156	158
C. Tailored Tests											
C1. Combined contingent liabilities	94	105	103	105	103	103	104	104	106	108	110
C2. Natural disaster	94	112	112	114	113	113	114	115	117	119	121
C3. Commodity price	94	96	95	95	93	93	94	94	95	97	99
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	4	4	5	5	5	6	6	6	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	4	5	6	5	6	6	6	6	6	6	5
B. Bound Tests											
B1. Real GDP growth	4	4	5	5	5	6	6	6	6	6	6
B2. Primary balance	4	4	5	5	5	6	6	6	6	6	6
B3. Exports	4	6	10	11	11	12	14	16	16	16	15
B4. Other flows 3/	4	4	5	5	6	6	6	6	7	7	6
B5. Depreciation	4	4	5	5	5	5	5	5	5	5	5
B6. Combination of B1-B5	4	6	8	8	8	9	10	10	10	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	4	4	6	5	6	6	6	6	6	6	6
C2. Natural disaster	4	5	6	6	6	6	6	6	6	7	6
C3. Commodity price	4	5	5	5	6	6	6	6	6	6	6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	9	9	11	10	11	11	11	11	12	12	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	9	10	12	11	12	13	12	11	11	11	10
B. Bound Tests											
B1. Real GDP growth	9	11	15	14	15	15	15	15	16	16	16
B2. Primary balance	9	9	11	10	11	11	11	12	12	12	12
B3. Exports	9	10	12	13	13	14	16	**19**	**19**	**19**	18
B4. Other flows 3/	9	9	11	11	11	12	12	13	13	13	13
B5. Depreciation	9	12	14	12	13	14	14	13	13	14	13
B6. Combination of B1-B5	9	11	14	13	14	14	16	16	17	17	16
C. Tailored Tests											
C1. Combined contingent liabilities	9	9	12	11	11	12	12	12	12	12	12
C2. Natural disaster	9	9	12	11	12	12	12	12	12	13	12
C3. Commodity price	9	10	11	11	11	12	12	12	12	12	12
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

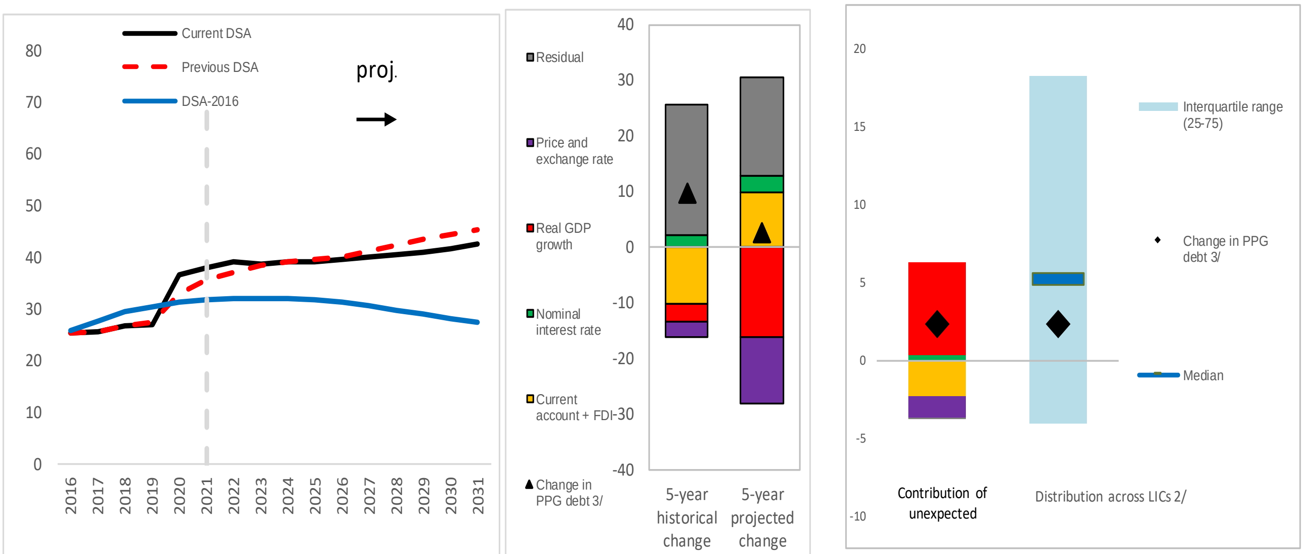
Table 4. Madagascar: Sensitivity Analysis for Key Indicators of Public Debt, 2021-2031
(In percent)

	Projections 1/										
	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
PV of Debt-to-GDP Ratio											
Baseline	34	34	34	34	35	35	35	36	37	37	38
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	34	32	32	32	32	32	32	33	33	33	33
B. Bound Tests											
B1. Real GDP growth	34	42	52	**56**	**59**	**63**	**67**	**70**	**74**	**78**	**81**
B2. Primary balance	34	35	36	36	36	36	37	37	38	38	39
B3. Exports	34	39	47	47	47	47	46	46	46	45	45
B4. Other flows 3/	34	36	37	38	38	38	38	39	39	39	40
B5. Depreciation	34	38	36	35	35	34	33	32	32	32	31
B6. Combination of B1-B5	34	35	36	37	38	38	39	40	40	41	41
C. Tailored Tests											
C1. Combined contingent liabilities	34	40	40	40	40	40	40	40	41	41	42
C2. Natural disaster	34	43	42	42	42	43	43	43	44	44	45
C3. Commodity price	34	37	42	48	53	**57**	**62**	**66**	**70**	**74**	**78**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	272	246	236	244	245	244	242	247	252	257	260
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	272	232	221	226	227	224	220	223	224	226	224
B. Bound Tests											
B1. Real GDP growth	272	292	341	384	411	431	445	474	501	527	550
B2. Primary balance	272	252	246	254	255	253	250	255	259	263	266
B3. Exports	272	281	325	333	330	326	317	315	313	312	309
B4. Other flows 3/	272	258	258	267	267	265	261	264	267	271	272
B5. Depreciation	272	278	255	254	245	236	226	223	221	219	216
B6. Combination of B1-B5	272	251	249	263	267	268	265	271	276	281	284
C. Tailored Tests											
C1. Combined contingent liabilities	272	290	275	282	281	278	274	278	281	285	287
C2. Natural disaster	272	308	292	300	299	297	292	297	301	305	308
C3. Commodity price	272	272	298	345	376	404	425	452	481	509	534
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	42	51	63	67	72	72	72	69	69	68	67
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	42	52	60	64	69	72	72	70	70	68	67
B. Bound Tests											
B1. Real GDP growth	42	58	85	98	109	113	114	114	116	118	119
B2. Primary balance	42	51	64	69	73	73	72	70	70	69	68
B3. Exports	42	51	64	69	73	74	75	76	75	74	73
B4. Other flows 3/	42	51	63	68	72	73	73	71	71	70	69
B5. Depreciation	42	49	62	64	69	71	70	67	67	66	65
B6. Combination of B1-B5	42	51	66	70	76	77	77	75	75	74	73
C. Tailored Tests											
C1. Combined contingent liabilities	42	51	75	77	75	75	73	70	70	69	68
C2. Natural disaster	42	52	79	82	78	78	76	73	72	71	70
C3. Commodity price	42	52	70	85	96	100	102	101	104	106	108
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

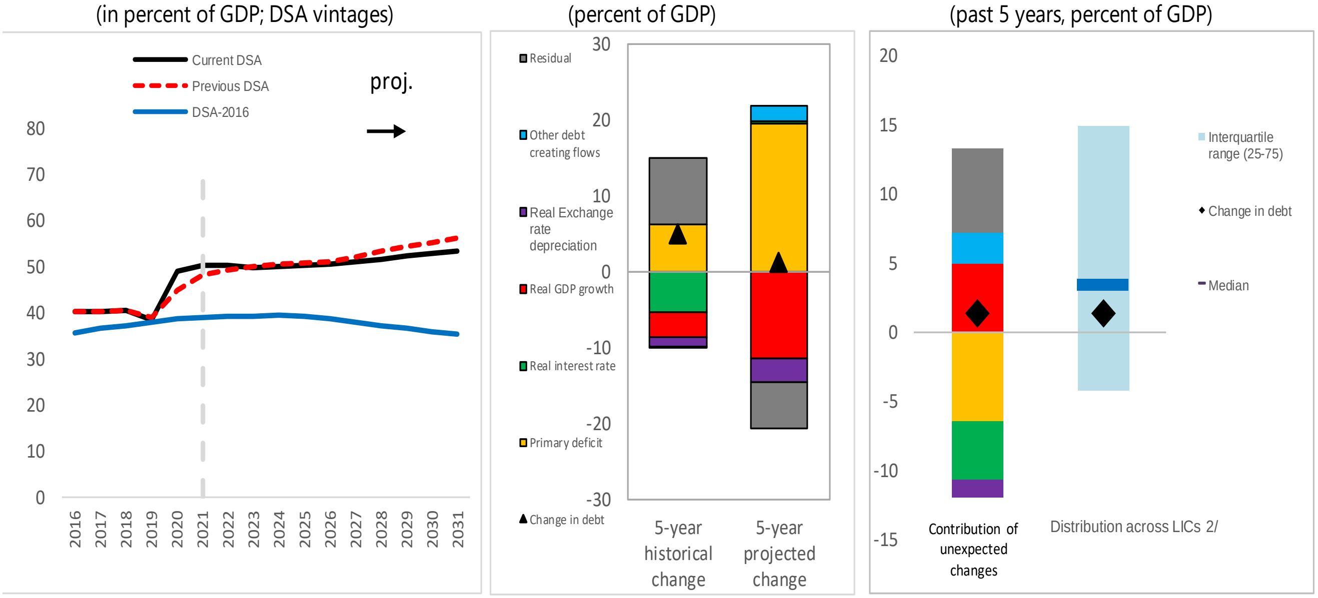
Figure 3. Madagascar: Drivers of Debt Dynamics – Baseline Scenario

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)

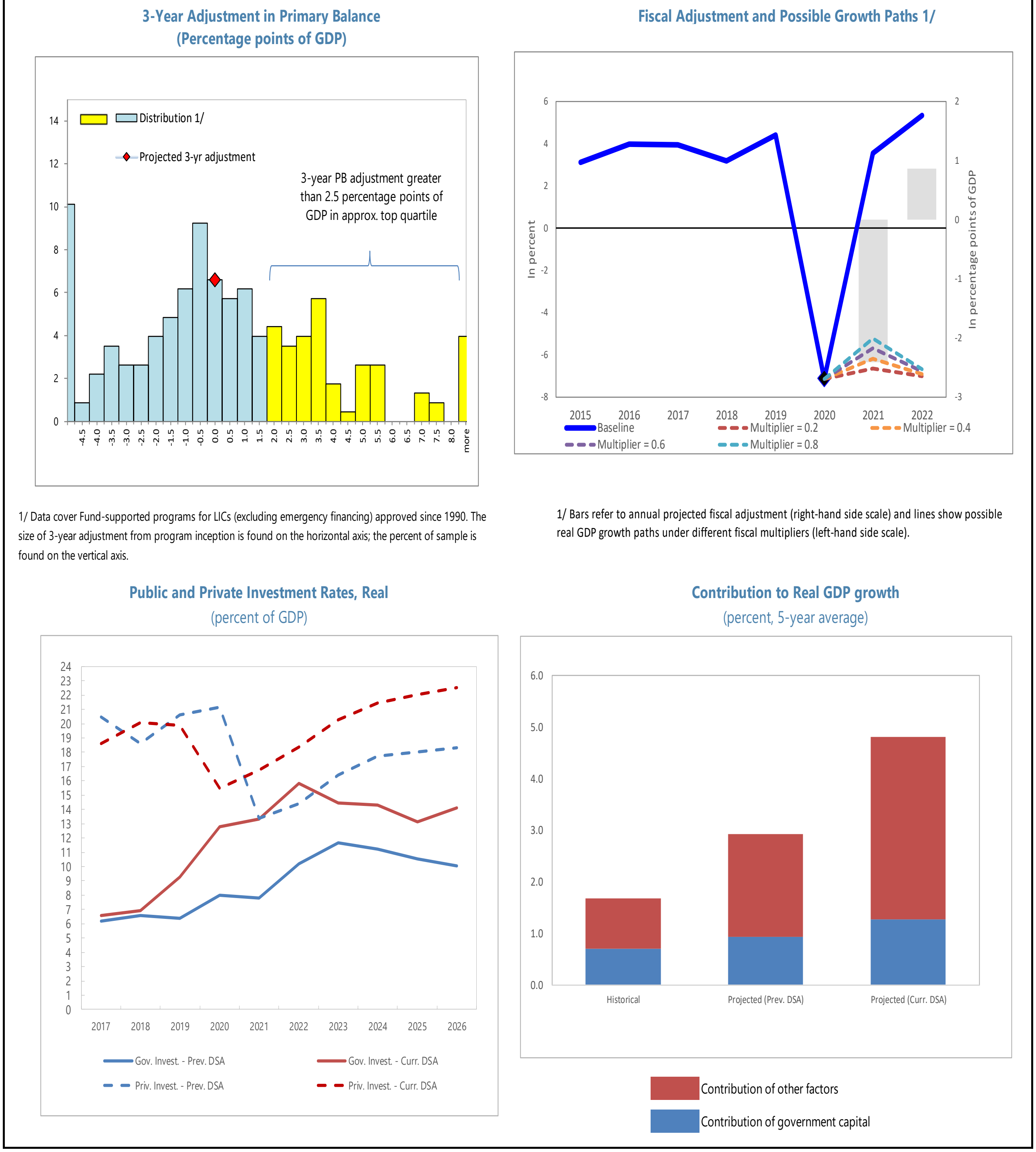


1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

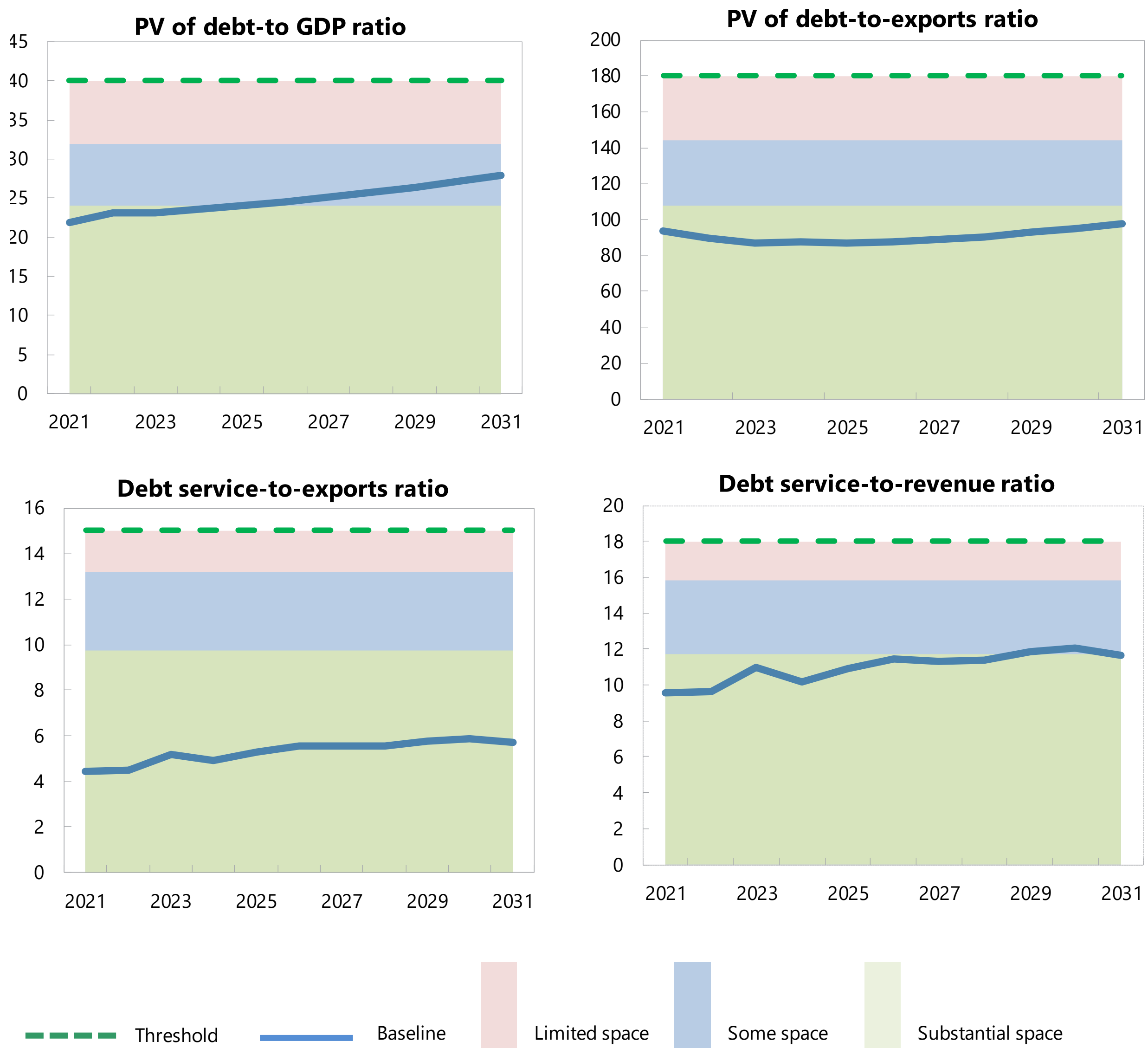
Figure 4. Madagascar: Realism Tools



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Figure 5. Madagascar: Qualification of the Moderate Category, 2021-2031



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Table 5. Madagascar: Decomposition of Public Debt and Debt Service by Creditor 2020-22[1]

	Debt Stock (end of period)			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	**5,464,427,929**	**100.00**	**41.85**	**807,518,266**	**949,878,808**	**952,039,887**	**6.18**	**6.70**	**6.25**
External	**4,304,316,147**	**78.77**	**32.97**	**101,722,272**	**140,517,781**	**201,832,067**	**0.78**	**0.99**	**1.33**
Multilateral creditors[2]	3,533,920,247	64.67	27.07	61,474,886	75,288,143	97,662,125	0.47	0.53	0.64
IMF	786,475,955	14.39	6.02						
World Bank	1,877,097,914	34.35	14.38						
ADB/AfDB/IADB	519,496,914	9.51	3.98						
Other Multilaterals	350,849,464	6.42	2.69						
o/w: Intern'l Fund for Agricultural Dev.	176,576,590	3.23	1.35						
European Investment Bank	82,230,776	1.50	0.63						
Bilateral Creditors	671,919,443	12.30	5.15	23,282,316	33,023,359	41,396,061	0.18	0.23	0.27
Paris Club	282,916,913	5.18	2.17	11,412,639	14,791,710	17,981,852	0.09	0.10	0.12
o/w: Agence Française de Développement	109,470,493	2.00	0.84						
Japan International Cooperation Agency	76,722,023	1.40	0.59						
Non-Paris Club	389,002,530	7.12	2.98	11,869,677	18,231,648	23,414,209	0.09	0.13	0.15
o/w: Export-Import Bank of China	153,025,045	2.80	1.17						
Kuwait Fund	20,575,821	0.38	0.16						
Bonds	0	0	0						
Commercial creditors	98,476,457	1.80	0.75	16,965,070	32,206,279	62,773,881	0.13	0.23	0.41
o/w: Deutsche Bank	79,969,646	1.46	0.61						
Consorz GIFIEX	15,504,629	0.28	0.12						
Other international creditors	0	0	0	0	0				
Domestic	**1,160,111,782**	**21.23**	**8.89**	**705,795,994**	**809,361,027**	**750,207,819**	**5.41**	**5.71**	**4.93**
Held by residents, total	1,160,111,782	21.23	8.89	705,795,994	809,361,027	750,207,819	5.41	5.71	4.93
Held by non-residents, total	0	0	0						
T-Bills	261,012,812	4.78	2.00	438,001,076	366,280,649	416,577,643	3.35	2.58	2.74
Bonds	531,496,313	9.73	4.07	219,182,326	254,390,922	237,170,300	1.68	1.79	1.56
Loans	367,602,657	6.73	2.82	48,612,591	188,689,456	96,459,876	0.37	1.33	0.63
Memo items:									
Collateralized debt[3]	0								
o/w: Related	0								
o/w: Unrelated	0								
Contingent liabilities	N/A								
o/w: Public guarantees	N/A								
o/w: Other explicit contingent liabilities[4]	N/A								
Nominal GDP	13,056,080,127			13,056,080,127	14,183,881,667	15,225,569,061			

Sources: Country authorities; and IMF staff estimates.

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Entries showing "N/A" are not yet available and are in the process of being collected with the aim of adding them at the time of the next review.

Statement by Mr. Andrianarivelo, Executive Director for Madagascar, Mr. Sylla, Alternate Executive Director, and Mrs. Andrianometiana, Senior Advisor to Executive Director
March 7, 2022

Our Malagasy authorities wish to thank IMF Executive Board, Management, and Staff for their continued support to Madagascar. The authorities particularly appreciate the candid discussions held with staff virtually in September and October 2021, in the context of the first review under the Extended Credit Facility (ECF) arrangement.

Fund support has been essential to mitigate the impact of the pandemic and support the country's recovery. In particular, the emergency financing under the Rapid Credit Facility (RCF) in 2020 has helped the country cope with the economic and social fallout of the Covid-19 crisis. This was followed by the first disbursement under the ECF approved in March 2021 and the SDR allocation in August 2021, which have been instrumental in strengthening the country's external position while providing additional fiscal space for scaling up priority health, social and investment spending. The country has also benefited from debt service relief under the G-20's Debt Service Suspension Initiative (DSSI) and the Fund's Catastrophe Containment and Relief Trust (CCRT).

Madagascar continues to face significant economic and social challenges, compounded by the impacts of climate change. Four severe cyclones hit the country in the past two months. The government declared a state of national disaster in late January 2022. In addition to the humanitarian crisis caused by the floods in several regions of the country with thousands of displaced people and hundreds of fatalities–thousands of students were prevented from attending school. Moreover, several infrastructures were damaged and/or flooded, including roads, bridges, and hydroelectric and hydro agricultural equipment. The livelihoods and health conditions of the population living in the most impacted areas are increasingly precarious. These cyclones of major magnitude have hit the island after a period of drought that Madagascar has rarely experienced. The succession of these climatic disasters makes Madagascar one of the most affected countries by the climate change effects. It is in this context that the authorities' efforts to implement the ECF-supported program should be assessed.

Despite the above-mentioned challenges, Madagascar has made significant efforts to preserve macroeconomic stability and advance the reform program supported by the ECF arrangement. Our Malagasy authorities remain dedicated to achieving the objectives of their medium-term program which aims to increase fiscal space to accommodate priority development and social spending, strengthen the monetary policy framework, sustain financial stability, and promote governance and transparency to restore confidence. The program will also seek to address the country's fragilities that hinder sustainable growth and equitable social outcomes.

Recent Developments and Outlook

Following a deeper-than-anticipated recession in 2020, Madagascar's economy started to recover since the beginning of 2021 albeit slowly. Activities in the agriculture, tourism, and mining sectors have gradually improved. Exports are expected to increase steadily as external demand recovers. Inflation should be contained at about 6 percent. Measures to cushion the effects of the pandemic resulted in a deterioration of the fiscal balance, notably through lower tax revenue collection and additional pressure on current and investment expenditures. Despite higher exposure to non-performing loans (NPLs), the banking sector remains robust. The central bank has provided liquidity support and it has used foreign currency net sales to limit the depreciation of the Ariary. The authorities have also made efforts to fight against illicit exports and improved export declaration computerization. International reserves have increased owing to external support from development partners.

The economic outlook remains favorable despite high uncertainty stemming from the evolution of the pandemic, increased oil prices, and exposure to natural disasters. Growth is expected to recover and exceed 5 percent in 2022 and accelerate over the medium term. This expansion is driven by increased private capital expenditure and favorable developments in agriculture, tourism, and mining. In the context of the Plan Emergence Madagascar (PEM), the authorities count on higher tax revenue and improved expenditure quality to stimulate public investment, enabling a spillover effect to successfully mobilize private investment.

Program Performance

Program implementation in the period under review has been broadly satisfactory, with almost all conditionality met, although some structural measures were implemented with small delays. Amid a challenging socioeconomic situation and protracted global health crisis, all quantitative performance criteria (QPC), and all but two indicative targets (ITs) were met. Despite the slightly missed IT on the domestic tax revenue, the QPC on primary balance was observed. The continuous performance criteria on the accumulation of new external arrears and the one on new external debt were met. The IT on social spending was missed due to the reorganization of budget staff and control procedures that delayed the execution of capital spending exceeding certain thresholds. However, it is important to note that the definition of social spending doesn't capture all the social outlays executed under the budget. Indeed, some funds allocated to social programs are implemented by other line ministries and institutions.

Due to the difficult socio-economic situation aggravated with the extreme weather conditions, the implementation of structural reforms advances, albeit with delays. All prior actions under the first review were observed. The 2022 budget law is in line with the program objectives, and the government has published the audit report of the financial flows related to the fight against the pandemic. An independent third-party audit of the covid-related contracts is underway and is expected to be finalized by March 2022. Besides, the authorities have completed the audit of the fuel pricing structure and finalized a timetable for the implementation of an automatic fuel price adjustment mechanism. Five out of ten structural benchmarks (SBs) were met, and two SBs were met with delays, including the adoption of the decree implementing the law on illicit asset recovery and the transmission to the IMF and World Bank staff of information related to budget transfers to the national electric-utility and water services company, JIRAMA. The SB on the quarterly budget execution reports, including social and covid-related expenditures, were prepared for the first three quarters of 2021, but required improvements to incorporate all data on a payment basis. Likewise, the finalization of the public investment management manual has taken longer than expected, due to some institutional reorganization.

Policies for 2022 and Beyond

The Malagasy authorities will pursue macroeconomic policies aimed to expand fiscal space, through increased revenue mobilization and improved spending efficiency, enhance public financial management and strengthen the monetary and financial policy framework. They will pursue structural reforms focusing on governance, transparency, and the fight against corruption. Fund technical assistance remains essential to accelerate the implementation of reforms, primarily in tax policy and revenue administration, public financial management, as well as monetary and financial policies.

Fiscal Policy and Reforms

The authorities will maintain a prudent fiscal policy to address the pandemic and support the economic recovery. In this regard, they are committed to a gradual fiscal consolidation as the recovery firms up. In 2022, their goal is to achieve 11.7 percent for the tax-to-GDP ratio and contain the primary deficit to 0.9 percent of GDP. To this end, the 2022 budget has introduced ambitious measures to increase the revenue required to scale up social spending and priority public investment.

On the revenue side, the authorities are determined to implement both tax policy and revenue administration measures. The authorities believe that improving revenue mobilization is not limited to the expansion of tax policy, but also through strengthened administrative measures to limit tax evasion and fight against informal sector. In this vein, they will redouble efforts to improve tax collection (including from outstanding tax arrears) and combat tax evasion and fraud. At the same time, they are strengthening the reliability of the taxpayer database, pursuing efforts to digitalize the tax administration, and optimizing tax control. Measures are also being undertaken to enhance taxpayer identification and reduce informality. As regards custom revenue, the authorities are pursuing actions to strengthen and intensify control, including on the import values declared to customs over the companies benefiting from special regimes such as free trade zones.

On the spending front, the authorities' plan to enhance spending efficiency will help increase fiscal space essential to addressing key social and infrastructure needs. To this end, they will limit non-priority expenditures and strengthen the selection and prioritization of public investment projects. They are also updating the wage bill management system which will improve the forecast and execution of payroll and pension expenditures and help maintain the wage bill at a sustainable level. In addition, the government is gradually reforming the civil servant pension system. On the other hand, the authorities are fully committed to implementing a series of measures to increase social spending. In this regard, the 2022 budget has established a significant increase in health, education, and social protection spending as well as in expenses related to the assistance to the victims of cyclones. In addition, the recent SDR allocation will be used to finance Madagascar's significant investment efforts, including in the social sectors. With technical support from the Fund and the World Bank, the government plans to implement a functional classification of public expenditure, with the view to improve the identification of social spending.

Reforms to Reduce Fiscal Risks

Madagascar's risk of debt distress remains moderate for both external and overall public debt. The authorities are determined to pursue their efforts to contain fiscal risks and preserve debt sustainability. As Madagascar is highly exposed to a wide range of adverse natural events, the government will continue to improve its disaster risk management strategy. The authorities are also determined to pursue policies designed to enhance climate resilience. In this regard, they highly value the outcome and recommendations from the ongoing CMAP mission.

The authorities have finalized a timeline towards a fuel pricing mechanism to reduce potential liabilities to oil distributors. Based on this timeline, they will design and gradually implement supporting measures to limit negative effects on the most vulnerable population. They remain prudent in implementing this reform and will develop a communication strategy with all stakeholders.

Furthermore, the government recognizes the significant fiscal risks stemming from SOEs, notably JIRAMA and the airline company Air Madagascar. They are determined to pursue the implementation of the recovery plan for JIRAMA and will limit transfers to the society to levels allocated in the budget law. On Air Madagascar, they are implementing gradually the business plan that has been approved in late 2021.

Monetary and Financial Sector Policies

The monetary policy continues to focus on managing bank liquidity through regular liquidity injections. The central bank (BFM) is committed to its core mandate of price stability while continuing to allow the exchange rate to adjust flexibly, with interventions limited to containing excessive volatility. As such, monetary policy will continue to aim at maintaining low inflation through money market and foreign exchange operations. Plans are underway to launch an ambitious reform to enhance the effectiveness of monetary policy and strengthen financial sector stability. Supported by Fund TA, the reform aims at transitioning gradually from a framework relying on reserve money aggregates to interest rate targeting, with a view to ensuring price stability. The central bank is also adopting the IFRS for the 2020 accounts and enhancing its autonomy and independence. BFM has stated its commitment to comply with the recommendations of the 2021 update of safeguards assessment.

The banking and financial sectors remain broadly resilient and sufficiently capitalized. The BFM will continue its liquidity support of the banking sector and is committed to closely monitoring financial stability indicators as non-performing loans are rising due to the pandemic fallout.

Governance and Transparency

The authorities are cognizant that steadfast implementation of structural reforms, including on governance, remains critical to support the recovery and promote strong and inclusive growth.

The authorities continue to follow through and have demonstrated their strong commitment to ensuring transparency and accountability of COVID-related expenditures, with notably the publication of related information, including the list of procurement contracts as well as the beneficiaries. They have also published the audit report on pandemic-related financial flows and remain committed to fully implementing its recommendations. They are particularly determined to strengthen the expenditure chain control during emergency situations.

Moreover, it is the authorities' intention to effectively enforce the new anti-corruption legal framework and allocate sufficient human, financial and material resources to the institutions in charge of the fight against corruption for their full operationalization.

Conclusion

Despite a challenging environment, our Malagasy authorities have made progress in the implementation of their medium-term program. They reiterate their commitment to the program objectives of strengthening macroeconomic stability, advancing structural reforms, and firming up strong and inclusive growth. They highly value the strong relationship with the Fund and would appreciate Directors' support for the completion of the first review under the ECF-supported program.