INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/316

# REPUBLIC OF MADAGASCAR

September 2022

## SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF MADAGASCAR

In the context of the Second Review Under the Extended Credit Facility Arrangement and Request for Modification of Performance Criteria, 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 September 12, 2022, following discussions that ended on June 2, 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 August 26, 2022.
- A **Statement by the Executive Director** for Republic of Madagascar.

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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**International Monetary Fund**
**Washington, D.C.**

PR22/303

# IMF Executive Board Completes Second Review Under the Extended Credit Facility Arrangement for the Republic of Madagascar

**FOR IMMEDIATE RELEASE**

- Program implementation has been mixed amid natural disasters and the fallout of the war in Ukraine.
- More efforts are needed to enhance the effectiveness of fiscal policy, improve governance, and support higher private investment.
- The Executive Board decision allows the authorities to draw SDR 24.44 million (US$31.9 million).

**Washington, DC, September 12, 2022 –** The Executive Board of the International Monetary Fund (IMF) completed today the second review of Madagascar's economic program under the Extended Credit Facility (ECF). The completion of this review enables the immediate disbursement of SDR 24.44 million (about US$31.9 million) to cover external and fiscal financing needs, bringing total disbursements under the arrangement to SDR 122.2 (about US$159.7 million).

Madagascar's recovery from the pandemic has been hindered by a severe cyclone season and the spillovers from Russia's war in Ukraine. While 2021 growth was revised up to 4.3 percent, 2022 growth is projected to stall at 4.2 percent. Annual average inflation is projected to accelerate to 9.8 percent fueled by the surge in international oil and food prices. Lower growth and higher commodity prices will weigh on the budget, widening the fiscal deficit.

The outlook remains subject to significant uncertainty and risks. New COVID outbreaks in a context of slow vaccination uptake, a further slowdown in global growth and higher oil prices would adversely affect the near-term outlook. On the upside, implementation of the reform agenda envisaged in the *Plan Emergence Madagascar* along with an increase in investment could boost productivity and growth.

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 has been broadly satisfactory despite delays in structural reforms and a challenging external environment. Continuation of prudent policies and a more proactive stance to support structural performance are needed to maintain macroeconomic stability, boost investment, and help achieve more sustainable and inclusive growth.

The 2022 revised budget envisages a larger domestic primary deficit than previously contemplated. Higher international oil prices imply an increase in budget transfers to oil distributors and public utility companies. Strengthening the fight against tax fraud and improving tax arrears collection will be key to offset any drop in domestic revenue collection. Further efforts will be needed in the 2023 budget to increase domestic revenue mobilization, reach fiscal balance, and create additional fiscal space for social spending and priority public investment.

Improving budget execution is crucial to increase the effectiveness of fiscal policy and achieve program objectives. In the current context of rising food and fuel prices, it is especially important to raise the execution of social spending and build stronger safety nets to protect the most vulnerable.

The recent increase in retail fuel prices is a step toward the implementation of an automatic fuel pricing mechanism which will remove costly and regressive subsidies. Improving the financial situation of public utility companies is also essential to reduce the need for fiscal transfers.

The authorities are encouraged to continue their efforts to improve budget transparency and strengthen accountability, including through more effective enforcement of the anti-corruption legal framework. To enhance ex-post controls of public finances, the Cour des Comptes is being given full access as controller to the Ministry of Finance's information systems. The Cour will also produce a follow-up report on the implementation of its recommendations in its audit reports on the response to the COVID-19 pandemic.

The central bank continues to enhance its monetary policy framework and should stand ready to further raise interest rates to contain inflationary pressures.

**Table 1. Selected Economic Indicator, 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 | 4.3 | 4.2 | 5.2 | 5.2 |
| GDP deflator | 6.5 | 4.4 | 6.1 | 9.1 | 8.3 | 6.8 |
| Consumer prices (end of period) | 4.0 | 4.6 | 6.2 | 12.0 | 9.7 | 8.7 |
| **Money and credit** | | | | | | |
| Broad money (M3) | 7.3 | 12.1 | 12.2 | 32.5 | 12.9 | 13.2 |
| | (Growth in percent of beginning-of-period money stock (M3)) | | | | | |
| Net foreign assets | -2.6 | 2.1 | 1.0 | 4.4 | 0.4 | 3.0 |
| Net domestic assets | 9.9 | 10.0 | 11.2 | 28.1 | 12.5 | 10.2 |
| *of which:* Credit to the private sector | 10.3 | 5.6 | 11.1 | 9.0 | 7.6 | 7.9 |
| | (Percent of GDP) | | | | | |
| **Public finance** | | | | | | |
| Total revenue (excluding grants) | 10.8 | 9.9 | 10.7 | 11.6 | 12.2 | 12.8 |
| *of which:* Tax revenue | 10.6 | 9.5 | 10.4 | 11.3 | 11.9 | 12.6 |
| Grants | 3.1 | 2.5 | 0.6 | 2.5 | 2.0 | 2.0 |
| *of which:* budget grants | 0.7 | 0.9 | 0.0 | 0.0 | 0.1 | 0.3 |
| Total expenditures | 15.4 | 16.3 | 14.1 | 20.5 | 19.0 | 19.5 |
| Current expenditure | 9.5 | 9.6 | 8.9 | 11.2 | 10.0 | 10.0 |
| Capital expenditure | 5.8 | 6.8 | 5.2 | 9.3 | 9.0 | 9.5 |
| Overall balance (commitment basis) | -1.4 | -4.0 | -2.9 | -6.5 | -4.8 | -4.7 |
| Domestic primary balance[1] | 0.3 | -1.9 | -0.3 | -1.4 | 0.0 | 0.3 |
| Total financing | 1.3 | 3.5 | 3.1 | 6.5 | 5.1 | 5.0 |
| Foreign borrowing (net) | 1.3 | 1.8 | 2.2 | 3.7 | 3.4 | 3.9 |
| Domestic financing | 0.0 | 1.7 | 0.9 | 2.8 | 1.7 | 1.0 |
| Financing gap[2] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Savings and investment** | | | | | | |
| Investment | 18.3 | 15.0 | 14.9 | 19.4 | 20.4 | 22.2 |
| Gross national savings | 17.5 | 8.2 | 9.9 | 14.0 | 15.3 | 17.1 |
| **External sector** | | | | | | |
| Exports of goods, f.o.b. | 18.5 | 15.0 | 19.0 | 21.3 | 21.5 | 20.9 |
| Imports of goods, c.i.f. | 26.9 | 24.3 | 29.2 | 30.2 | 28.5 | 28.6 |
| Current account balance (exc. grants) | -5.4 | -7.9 | -5.5 | -7.9 | -7.1 | -7.0 |
| Current account balance (inc. grants) | -2.3 | -5.4 | -4.9 | -5.4 | -5.1 | -5.1 |
| **Public debt** | 40.6 | 50.8 | 53.1 | 53.8 | 53.1 | 53.6 |
| External Public Debt (inc. BFM | 27.0 | 36.7 | 39.2 | 41.5 | 42.3 | 43.4 |
| Domestic Public Debt | 13.6 | 14.1 | 13.9 | 12.3 | 10.8 | 10.2 |
| | (Units as indicated) | | | | | |
| Gross official reserves (millions of SDRs) | 1196 | 1338 | 1630 | 1677 | 1641 | 1696 |
| Months of imports of goods and services | 4.2 | 6.0 | 5.8 | 5.1 | 4.8 | 4.7 |
| GDP per capita (U.S. dollars) | 532 | 478 | 507 | 522 | 540 | 562 |

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

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

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

INTERNATIONAL MONETARY FUND

# REPUBLIC OF MADAGASCAR

August 26, 2022

## SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

## EXECUTIVE SUMMARY

**Context.** Madagascar has not yet recovered from the pandemic and is struggling with the aftermath of a severe cyclone season and the fallout of Russia's war in Ukraine. After a sharp contraction of GDP in 2020 (-7.1 percent) and a modest recovery in 2021 (4.3 percent), growth is projected to stall in 2022. Lower demand from trading partners, higher fuel and food prices, and recent weather events are weighing on economic activity and leading to widening fiscal and external deficits in the short term.

**Program Performance.** All QPCs and most ITs were met in December 2021, with the notable exception of the ITs on domestic tax revenue and social spending. Mixed progress was achieved on the structural reform agenda and a more proactive stance is needed to improve structural performance.

**Program Policies.** It is proposed to relax the domestic primary deficit target for 2022 to accommodate higher spending in the energy sector while preserving social and investment spending without jeopardizing medium-term debt sustainability. Related modifications of other quantitative performance criteria are also proposed. Program ceilings for government's gross liabilities to fuel distributors and transfers to public utility JIRAMA were revised up, after the government increased pump prices by 43 percent on average in July 2022 and decided to implement electricity tariff optimization for corporate customers. Improvement in budget transparency and governance is critically needed to restore confidence of the public and attract foreign financing.

**Outlook and Risks.** The outlook is highly uncertain with risks tilted to the downside. As a fragile, low-income country, Madagascar continues to face risks associated with weak implementation capacity, potential fiscal slippages, social fragility in a context of widespread poverty, and vulnerability to exogenous shocks including to terms of trade and natural disasters.

Approved By
**Costas Christou (AFR) and Geremia Palomba (SPR)**

Discussions on the authorities' economic and financial program took place in Antananarivo during May 23 – June 2, 2022. The IMF team comprised Frederic Lambert (head), Cristina Cheptea, Dominique Fayad, Samah Mazraani (all AFR), Veronique Salins (FAD), Tim Willems (SPR), Mokhtar Benlamine (Resident Representative) and Ialy Rasoamanana (local economist). Aivo Andrianarivelo and Onintsoa Raoilisoa Andrianometiana (OEDAF) participated in the discussions. The team met with President Rajoelina, Prime Minister Ntsay, Minister of Economy and Finance Rabarinirinarison, Central Bank Governor Rabarijohn, other senior officials, development partners, as well as representatives of the private sector and the civil society. Fausa Aliu and Tebo Molosiwa (AFR) contributed to the preparation of this report.

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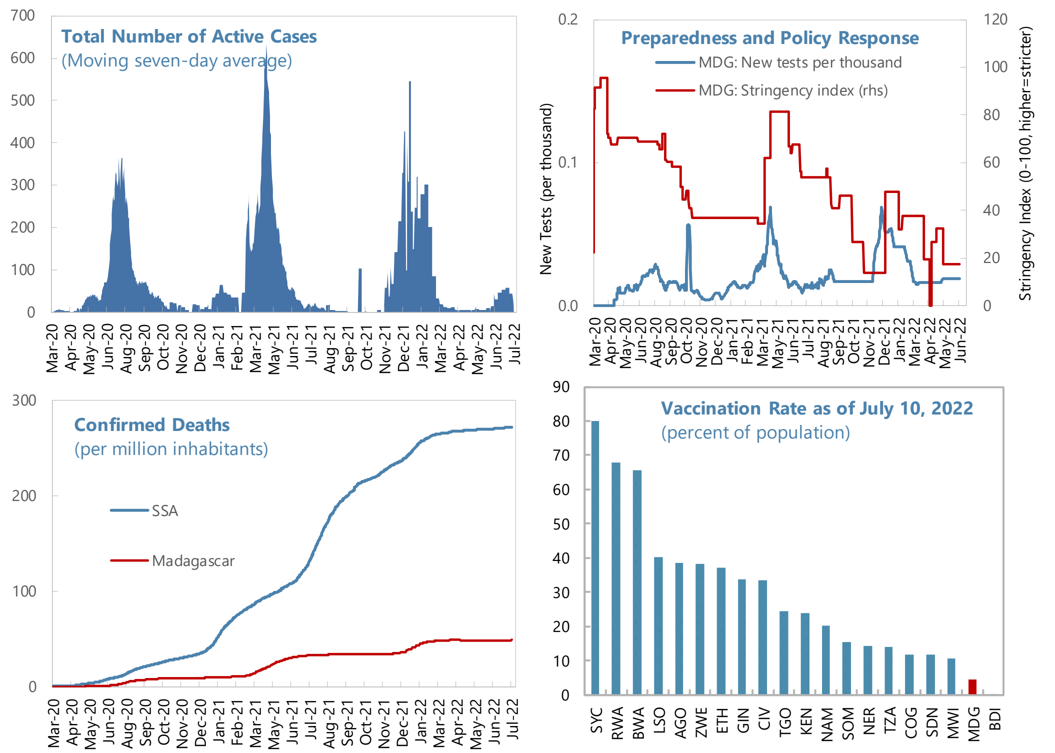
# CONTEXT

1. **Recent cyclones and the spillovers from Russia's war in Ukraine are affecting Madagascar's recovery from the pandemic.** A third wave of COVID-19 infections and a string of tropical storms and cyclones have stifled the economy in early 2022. Direct trade and financial links with Russia and Ukraine are limited, but the surge in commodity prices combined with tighter financial conditions and elevated uncertainty, are weighing on economic activity and contributing to rising inflation and a widening of external and fiscal deficits.

**Madagascar: COVID-19 Recent Developments**




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

2. **Food security remains precarious**. In April 2022, more than one million people relied on food assistance from the World Food Program under the drought response in the South and in the aftermath of the cyclone season. Rice imports increased by about 33 percent y-o-y over January-May during the lean season despite a projected production increase in the second quarter of the year. While wheat consumption represents only 8 percent of total cereal consumption, 60 percent of it was imported from Russia in 2021, which may pose supply issues.

3. **Those shocks exacerbate considerable development challenges.** The World Bank projects the poverty rate to remain close to 80 percent over the next three years, significantly above an average of 42 percent for the rest of Sub-Saharan Africa. Reducing poverty will require accelerating growth, increasing access to basic services, as well as urgent reforms supporting private investment, infrastructure building, and better governance.

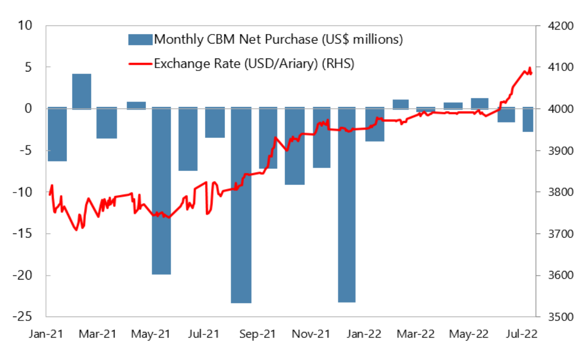
4. **The *Plan Emergence Madagascar* (PEM) aims to address long-standing development issues through a massive increase in investment**. Several versions of the PEM have been presented to the donor community and private investors since 2019. A final version was approved by the Council of Government in June 2022 and will be publicly released in October before being circulated to the IMF Executive Board. The PEM includes 13 commitments (*velirano*) around three pillars (social, economic, and environmental) with governance as a cross-cutting theme. The plan seeks a reduction of the poverty rate to 35 percent by 2040. While the underlying macroeconomic assumptions and costing seem overly ambitious, the plan includes a strategy to mobilize public and private resources for investment, sets clear result indicators, discusses measures to strengthen the dialogue with development partners, the private sector and the civil society, and includes a section on risks, including climate change, and mitigation measures.

# RECENT ECONOMIC DEVELOPMENTS

5. **While some sectors are recovering, tourism activity remains subdued.** Real GDP growth is estimated to have rebounded to 4.3 percent in 2021, from a 7.1 percent contraction in 2020, supported by a strong recovery in mining, manufacturing, net exports, and resilient financial services, despite the negative impact of a delayed border reopening on tourism and very low public investment execution. However, a third wave of COVID and extreme weather events at the beginning of the year, plus the fallout from the war in Ukraine have impeded a full recovery. While direct exposure to Russia and Ukraine is low (about 0.6 percent of imports and exports), the conflict has been affecting Madagascar through slower global demand, rising commodity prices, import disruptions of fertilizers, rising interest rates and growing fiscal pressures.

6. **Inflation is picking up.** After a deceleration since July 2021, inflation rose to 6.9 percent y-o-y in June 2022, owing to higher food prices (reflecting damage to crops caused by weather events and international prices) and health care costs. Core inflation, excluding rice and energy, jumped to 8.3 percent, driven by higher prices of health, household furniture and appliances, beverages, and restaurant services. To contain the surge in inflation, the central bank has been tightening monetary policy (see ¶11) and the government has imposed price ceilings on three basic products: rice, sugar, and cement, since April 2022. VAT on fuel was reduced from 20 to 15 percent in July.

**Foreign Exchange Interventions**




Sources: BFM

7. **The current account deficit stood at 4.9 percent of GDP in 2021 (versus 5.4 percent over 2020).** This constitutes a widening relative to the pre-pandemic situation, mostly stemming from a nearly complete stop of tourism revenues which more than offset higher remittance inflows. Over the first half of 2022, export revenues for goods rose by close to 80 percent y-o-y, while spending on imported goods rose by 35 percent—signalling a strong rebound in net goods exports. However, this rebound will likely be transitory in nature, as it is mostly driven by

a resumption of mining activity. Following a depreciation of 3.4 percent against the U.S. dollar over 2021, the exchange rate has been broadly stable over January-April 2022, after which it has depreciated by some 2.4 percent. Madagascar's external position at end-2021 is assessed as being moderately stronger than the level implied by fundamentals and desirable policies.

8. **The 2021 fiscal deficit came in much lower than expected.** Net tax revenue almost recovered to pre-crisis levels and reached the program target of 10.4 percent of GDP. However, all categories of spending, including for social sectors and externally financed public investment, were substantially under-executed. As a result, the domestic primary balance (commitment basis) came in at -0.3 percent of GDP (well above the -2.5 percent of GDP program floor), improving significantly relative to 2020 (-1.9 percent of GDP). The government cash-flow situation remained stable with government deposits reaching 2.4 percent of GDP at end-2021.

9. **The central bank (BFM) has aimed to reduce liquidity and tighten monetary policy amid inflationary pressures**. Liquidity needs have remained stable since the beginning of the year and injections stood at MGA 689 billion at end-June 2022 while credit to the private sector grew steadily (by 18 percent y-o-y in May 2022). On May 3, 2022, the BFM narrowed the interest rate corridor for the third consecutive time since November 2021 with a cumulative increase of the deposit rate of 320 basis points and increased the marginal lending facility rate by 80 basis points to contain supply-driven inflationary pressures, while keeping the reserve requirement rate unchanged. Both policy rates were further increased by 90 basis points in August. Net FX interventions have sharply declined since 2020 (when they totaled -US$155.9 million) and summed to -US$22.5 million over 2021. The first six months of 2022 have brought an increase in FX purchases, with all interventions amounting to US$74.6 million on a net basis. At end-June 2022, official reserves remained stable relative to end-2021 at SDR 1,687 million (over 6 months of goods and services imports) and are assessed as adequate.

10. **Overall, banks have maintained adequate capitalization and preserved the quality of their portfolios, despite an erosion in their profitability.** To maintain their solvency, many banks suspended dividend payments in 2020 and 2021. With NPLs stabilizing at 7.8 percent at end-2021 thanks to healthy credit growth, the banking sector remains broadly sound.

## OUTLOOK AND RISKS

11. **The short-term outlook has worsened compared to the first review due to increasing external risks and domestic factors.** Staff projects real GDP growth of 4.2 percent in 2022 (vs. 5.4 percent in the first review). Annual average inflation is projected to accelerate to 9.8 percent following the recent increase in pump prices (see below) and would reach double digits in the second semester due to second round effects from higher real wage growth in the public sector. The revised budget—adopted by Parliament in June—envisages a widening of the

**Madagascar: Growth Revisions**


Sources: Malagasy Authorities; and IMF staff projections.

domestic primary deficit to 1.4 percent of GDP compared to 0.9 percent in the initial budget and first review. The current account deficit is expected to worsen relative to the first review, by an average 0.6 percent of GDP per year through 2024, mostly due to lower tourism inflows and higher projected import values for food and petroleum products.

**12. Risks stemming from Madagascar's public and external debt continue to be contained.** At the time of the first review Madagascar's risk of overall and external debt distress was deemed to be "moderate". Since then, the medium-term projection for public debt-to-GDP has been revised up by 1.5 percentage points—mostly due to a worsening economic and fiscal performance. But since Madagascar was assessed to have some space to absorb shocks at the time of the first review, staff continues to assess public and external debt as sustainable.

**13. The outlook remains subject to significant uncertainty and risks.** Like other countries, Madagascar remains exposed to new COVID-19 waves that could undermine the ongoing recovery, with the extremely low vaccination rate impeding tourism recovery. A further slowdown in global growth and higher oil prices could also weigh on the near-term outlook by reducing exports and tourism flows and further raising government transfers to the energy sector. Madagascar remains highly vulnerable to climate shocks. Continued under-execution of social spending and infrastructure investments and slower-than-expected governance reforms could increase social tensions ahead of the 2023 elections. On the upside, implementation of the reform agenda envisaged in the PEM along with new investment projects in the energy and mining sectors would have significant effects on productivity and growth.

## PERFORMANCE UNDER THE PROGRAM

**14. All end-December 2021 performance criteria (QPC) were met.** The floor on the central bank's net foreign assets and the ceiling on net domestic assets were achieved as well as the external debt QPCs. The QPC on the domestic primary balance was met with a very wide margin due to significant spending under-execution. The under-performance in the indicative target (IT) on domestic tax collection, in part because of slower-than-expected activity, almost exactly offset the over-performance in the IT on customs tax collection supported by high imported oil prices.[1] The IT on social spending was missed despite a significant spending acceleration during 2021Q4.

**15. There was mixed progress on the program's structural reform agenda.** None of the nine non-continuous structural benchmarks (SB) to be assessed since the completion of the first review were met, although five benchmarks were subsequently implemented.[2] The SB on recovery of outstanding tax arrears in 2021 was missed by close to half and additional customs revenue collection due to improved controls fell short the MGA 50 billion amount set for June 2022. A new fuel price structure was adopted only in July and the government is still working on designing

[1] Because of the administered retail fuel prices, higher VAT on oil paid at customs (due to higher import prices) also implies higher VAT credits and a reduction in the net VAT collected by the domestic tax administration.

[2] The structural benchmark regarding the finalization and publication of an investment manual was assessed in the first review.

policies to mitigate the impact of the recent increase in fuel prices. The tariff optimization for JIRAMA's corporate customers will only be effective in August. Social ministries did not prepare formal annual expenditure commitment plans. The dissolution of the investment agency OCSIF prevented the finalization of a public investment manual. The decree creating the coordination and orientation committee for anti-money laundering and countering the financing of terrorism (AML/CFT) was adopted only in June 2022 and published in August, while the director for the new agency for illicit asset recovery was appointed in May. The publication of an independent, third-party audit report of public procurement contracts relating to the response to the COVID-19 pandemic, was completed on July 6, 2022, as a prior action for this review. As far as continuous SBs are concerned, the ceiling on the government's net liabilities vis-à-vis fuel distributors was breached in early 2022. Improvements are still needed to increase the payment coverage and presentation of the quarterly budget execution reports and staff has not been informed of budget transfers to JIRAMA's suppliers within one week of payment as envisaged. A more proactive stance is thus needed to improve structural reform performance.

### Structural Benchmarks Since December 2021

| Measure | Due date(s) | Implementation status |
|---|---|---|
| **Mobilizing fiscal policy to address economic and social needs** | | |
| 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 | **Not met.** Collected arrears amounted to MGA 52 billion in the second semester of 2021. However, the authorities had largely exceeded the benchmark that had been set for the first semester of the year. |
| 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 | **Not met.** Improved controls yielded MGA 41 billion in the first semester of 2022. |
| **Containing short and medium term fiscal risks** | | |
| 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 the mission. |
| Keep the government's liability to oil distributors below MGA 100 billion with no direct budget offset. | Continuous | **Not met.** The ceiling was exceeded in April 2022. The authorities announced a 43-percent average price increase in July 2022 to contain further increases in liabilities. |
| 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 | **Not met. Subsequently implemented.** The new price structure was approved in July 2022. |
| Implement tariff optimization for JIRAMA's business and industrial customers. | March 2022 | **Not met. Subsequently implemented.** JIRAMA's new tarif structure for non-residential customers was adopted in August 2022. |
| Based, inter alia, on existing studies, formulate policies to mitigate the impact of the fuel price adjustment on vulnerable populations. | June 2022 | **Not met.** The authorities are still working on the formulation and design of mitigation policies pending the release of the new household survey by end-2022. This SB was **rescheduled to June 2023**. |
| **Strenghtening public finance management and governance to restore confidence** | | |
| 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 dissolution of the investment agency (OCSIF) has led to delays in the finalization of the investment manual. This SB was **rescheduled to March 2023**. |
| Publish the terms and conditions of all PPP contracts within one month from the date of signature on the ARMP website. | Continuous | **Met** |
| 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.** Quarterly reports were prepared in 2021 and the first quarter of 2022, but significant improvements are needed to include all data on a payment basis, including data on social expenditures. |
| 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 | **Not met.** The authorities intend to strengthen the cooperation between the ministry of finance and social ministries to help with the preparation of expenditure commitment plans in 2023. This SB was **rescheduled to January 2023** for the 2023 engagement plans by the Ministries of Health and Education. |
| Public release of an independent, third-party audit of contracts relating to COVID-19. | March 2022 | **Not met. Subsequently implemented.** The report was published on July 6, 2022 as a prior action for completion of the review. |
| Publish the decree creating the coordination and orientation committee for AML/CFT under the 2018 AML/CFT law. | March 2022 | **Not met. Subsequently implemented.** The decree was adopted in June 2022 and published in August 2022. |
| Launch the operations of the illegal assets recovery agency, including with a dedicated budget allocation in the 2022 LFI. | March 2022 | **Not met. Subsequently implemented.** The first General Director of the agency was sworn in in June 2022 and an operating budget was approved in the revised budget for 2022. |

**16. While capacity constraints have delayed the completion of the review, the authorities remain committed to the program**. The domestic and external shocks which hit Madagascar in the first semester and a third government reshuffle since 2019 in March have strained the authorities' capacity to implement reforms, while protracted discussions with oil distributors and JIRAMA and consultations with the private sector and civil society have delayed decision making, which is the main reason behind the late completion of this review. Efforts to improve transparency on COVID spending and recent decisions on fuel prices and JIRAMA, however, demonstrate the authorities' commitment to the program.

# POLICY DISCUSSIONS

## A. Responding to Shocks while Ensuring Medium-Term Fiscal Sustainability

**17. Parliament approved a revised budget law for 2022 with a larger domestic primary deficit of 1.4 percent of GDP (compared to 0.9 percent in the first review).** The impact of the cyclones and the war in Ukraine has created new pressures which required relaxing the planned consolidation effort in 2022. The revised budget law assumes lower tax revenue while redirecting spending to accommodate higher transfers to JIRAMA and to accelerate the commitment of capital projects' appropriations.[3] The authorities are working to improve budget execution including of social spending and plan to strengthen their efforts to meet their revenue collection targets.

**18. Commodity price developments imply an increase in transfers to oil distributors and JIRAMA.** Elevated fuel prices have led to a breach of the program target on the net liabilities to oil distributors and an accumulation of tax arrears as oil distributors have stopped paying import taxes since end-2021.[4] Bringing liabilities back under the program ceiling will require additional transfers from the government. Higher transfers to JIRAMA to cover rising operational deficits and arrears will also be needed. Additional expenditures to the energy sector are estimated at around 0.9 percent of GDP.

- 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 exceeded the MGA 100 billion continuous SB ceiling. *Net* liabilities at end-May 2022 are estimated between MGA 237 to 347 billion, pending an agreement with the Group of Fuel Distributors in Madagascar (GPM).
- The authorities defined a new price structure to compute the market reference price in July 2022 in consultation with oil distributors and increased pump prices by 43 percent on average on July 11, 2022, to reduce the price gap to about 25 percent. The price increase for kerosene which is

[3] The increase in net Treasury operations in the fiscal framework reflecting the revised budget corresponds to the planned use of uncommitted appropriations from previous years. Future reviews will insist on the importance of respecting budget annuality.

[4] Assessed taxes are recorded in the fiscal operations of the central government (Tables 3a, 3b and 4).

mostly consumed by low-income households and represents about 6 percent of total fuel consumption was limited to 14 percent.

**Madagascar: ECF Fiscal Framework, Initial Budget (LFI), and Revised Projections**
(Billions of Ariary)

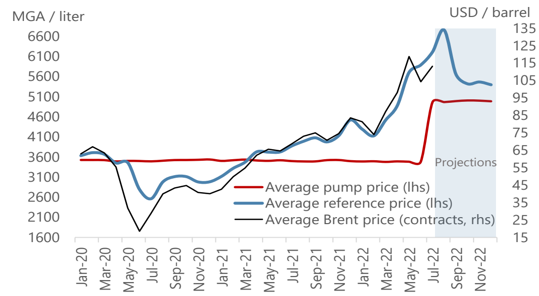
| | 2022 | | | |
|---|---|---|---|---|
| | ECF 1st Rev. | Initial Budget Law (LFI) | Revised Budget Law (LFR) | Current framework |
| Total revenue and grants | 8,472 | 8,505 | 8,951 | 8,742 |
| Total revenue | 7,220 | 7,220 | 7,198 | 7,200 |
| Tax revenue | 7,045 | 7,045 | 7,024 | 7,025 |
| Domestic taxes | 4,034 | 4,034 | 3,664 | 3,664 |
| Taxes on international trade and transactions | 3,011 | 3,011 | 3,360 | 3,361 |
| Non-tax revenue | 175 | 175 | 175 | 175 |
| Grants | 1,252 | 1,285 | 1,753 | 1,543 |
| Total expenditure and lending minus repayments | 11,969 | 11,928 | 12,729 | 12,773 |
| *of which: Social priority spending* [1] | *713* | *713* | *527* | *527* |
| Current expenditure | 6,392 | 6,394 | 6,994 | 6,994 |
| Wages and salaries | 3,511 | 3,511 | 3,492 | 3,492 |
| Interest payments | 548 | 550 | 466 | 466 |
| Goods and services | 514 | 514 | 517 | 517 |
| Transfers and subsidies | 1,639 | 1,639 | 1,538 | 1,938 |
| Treasury operations (net) | 180 | 180 | 979 | 579 |
| Capital expenditure | 5,577 | 5,533 | 5,735 | 5,780 |
| Overall balance (commitment basis ) | -3,497 | -3,423 | -3,777 | -4,031 |
| Overall balance (including grants, cash basis) | -3,527 | -3,453 | -3,777 | -4,061 |
| Domestic primary balance[2] | -571 | -572 | -885 | -883 |

Sources: Malagasy authorities; and IMF staff estimates and projections.
[1] Domestically financed spending of four social ministries,
[2] Primary balance excl. foreign-financed investment and grants. Commitment basis.

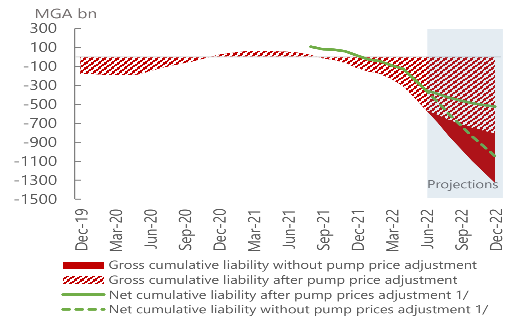
- Staff and the authorities agreed to replace the program ceiling on *net* commitments (continuous structural benchmark) of MGA 100 billion with a new ceiling on *gross* commitments of MGA 300 billion which would help increase transparency and prevent the offset of fuel subsidies with tax arrears while keeping contingent liabilities below 0.5 percent of GDP. The materialization of those liabilities if international oil prices continue increasing in 2023-24 would require fiscal consolidation efforts through higher revenue collection and/or spending reallocation to keep debt sustainable.
- Transfers from the government to oil distributors will be needed in 2022 to: (i) clear the existing *net* liabilities at end-2021; and (ii) keep *gross* liabilities below the new ceiling of MGA 300 billion in the absence of further pump price increases. While the revised budget law did not explicitly budget for these transfers (projected by staff at around MGA 400 billion), the authorities are committed to re-allocate spending (e.g., from 2021 un-allocated credits reflected in net Treasury operations or from the domestic capital budget) towards meeting those liabilities (MEFP, ¶25).
- The authorities are working on developing measures to mitigate the impact of price increases on the most vulnerable with the goal to implement an automatic fuel pricing mechanism by 2024Q1.
- The revised budget law increased transfers to JIRAMA from 380 billion to 500 billion in 2022. The implementation of tariff optimization for corporate customers in August will increase JIRAMA's revenue and limit the need for operational subsidies in the future. A new business plan is being finalized in consultation with the World Bank and will need to be approved by the end of the year (new SB). The authorities remain committed to implement a gradual repayment process for JIRAMA's arrears over the next three years (MEFP, ¶26).

## Market and Administered Fuel Prices and Government's Liabilities to Fuel Distributors

**Fuel prices**




**Cumulative liability to distributors**




Sources: Malagasy authorities and IMF staff calculations.
[1]The net liability is the gross liability net of distributors' arrears to the FER and the RDS

19. **Measures were taken to mitigate the impact of the fuel price increase, but significant reforms are needed to improve the execution and expansion of social spending**. Public sector wages are projected to increase by 17 percent on average, partly reflecting a delayed salary increase from last year. The government also budgeted for a subsidy to the private sector to raise the minimum wage. Moreover, the authorities are working with the World Bank to increase cash transfers to the poorest households. However, the budget for social spending as monitored by the program IT was revised down to 0.8 percent of GDP. Social spending reached only 58 percent of the IT in 2021 and 42 percent of the IT in the second quarter of 2022. Frequent ministerial reorganizations and excessive turnover of budget actors along with an excessively centralized spending commitment authorization process have been identified as the main obstacles to better budget execution. The authorities are strengthening the Ministry of Finance's support to budget actors in social ministries and improving their capacity to deliver annual expenditure commitment plans for 2023 (MEFP, ¶33). To facilitate and expedite the spending commitment authorization process, they are rolling out a new IT module and committed to responding to social ministries' requests within 7 business days. They also committed to compile a monthly dashboard to allow staff to monitor the effectiveness of the new process (new SB) and inform a discussion of required follow-up actions at the next review.

## Madagascar: Spending of the Four Social Ministries, 2021-22
(Program Definition)

| | 2021 | | | 2022 | | | | |
|---|---|---|---|---|---|---|---|---|
| | ECF | Prel. | % | LFI | LFR | H1 Proj. | H1 Prel. | % |
| (in billions of Ariary, unless otherwise indicated) | | | | | | | | |
| IT Definition: excluding salaries and foreign financed investment | 514 | 299 | 58 | 713 | 527 | 178 | 75 | 42 |
| o/w Ministry of Education | 303 | 161 | 53 | 285 | 232 | 71 | 48 | 68 |
| o/w Ministry of Health | 134 | 97 | 73 | 211 | 118 | 53 | 19 | 36 |
| o/w Ministry of Population and Social Protection | 17 | 22 | 129 | 36 | 28 | 9 | 5 | 50 |
| o/w Ministry of Water | 60 | 19 | 32 | 181 | 149 | 45 | 2 | 5 |
| Memo 1: including salaries | 1,713 | 1,385 | 81 | 2,016 | 1,888 | 806 | 716 | 89 |
| Memo 2: including salaries and foreign financed investment | 2,361 | 1,856 | 79 | 2,666 | 2,787 | 1,067 | 1,049 | 98 |
| Memo 3: wage bill of public workers - education | 948 | 873 | 92 | 1,027 | 1,127 | 513 | 527 | 103 |
| Memo 4: wage bill of public workers - health | 240 | 201 | 84 | 263 | 222 | 132 | 108 | 82 |
| Social spending by other ministries | | | | | | | | |
| Domestically financed investment | 68 | 14 | | 15 | 28 | | 3 | |
| Externally financed investment | | 325 | | 108 | 104 | | 479 | |
| Transfers to FID | | | | | 18 | | n.a. | |
| Transfers to BNGRC | | | | | 15 | | 15 | |

Note: LFI= Loi de Finances Initiale (Initial Budget Law); LFR= Loi de Finances Rectificative (Revised Budget Law).
Sources: Ministry of Economy and Finance, and IMF staff estimates

**20. The authorities need to strengthen their efforts to implement the revenue reforms envisaged in the 2022 initial budget law to durably raise revenue collection**. Partly because of slower economic activity, domestic tax collection significantly underperformed beginning-of-the-year targets, while custom taxes were supported by higher oil prices. Besides, the reduction of the VAT rate on gasoline and diesel from 20 to 15 percent in the revised budget is expected to cost around MGA 35 billion this year and should not be extended in 2023. Nevertheless, measures included in the initial budget law have started to yield additional revenue. More efforts will be needed in the second half of 2022 to tackle fraud in the tobacco sector, strengthen audit controls and the fight against customs fraud, and improve tax arrears collection as envisaged in the budget law. The authorities have also started consultations to revise the mining code, which could provide significant revenue in the medium term. Additional measures such as a further reduction of tax expenditures will be needed in 2023 to mobilize domestic revenue in line with program targets.

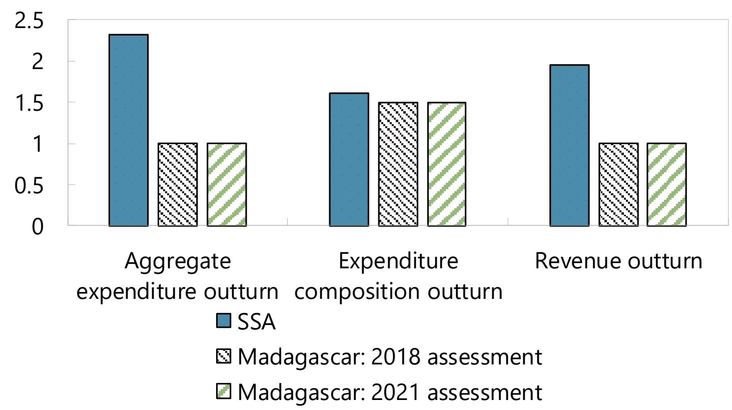
**21. Better oversight of public corporations is key to contain medium-term fiscal risks**. Beyond JIRAMA, the increase in world oil prices is expected to affect Air Madagascar whose debt (excluding the disputed amount with Air France) was estimated at around US$ 50 million at end-March 2022. A recovery plan still awaits approval by the Council of Ministers. The authorities remain committed to consult with staff prior to any public financing of the company.

## B. Strengthening Public Financial Management and Governance and Fighting Corruption

**22. The authorities progressed and mostly met their COVID-19 transparency commitments, but further efforts are needed, including to address the recommendations and findings of the audit reports**. The authorities have published online detailed information regarding COVID-19 related procurement contracts, but this does not include information on the beneficial owners of entities being awarded contracts. The third-party audit report emphasizes the difficulty to assess the completeness of the list of contracts/expenditures due to inadequate classification and record-keeping systems, staff turnover, and a reluctance to share sensitive information. The authorities are committed to improving available information on public procurements and to amending the legal framework before June 2023 to require the identification of the beneficial owners for future contracts (MEFP, ¶37). In another audit report, the *Cour des Comptes* recommends that the use of non-competitive procurement remain strictly limited to specific circumstances and that public procurement remain in line with the Procurement Code (Annex II). This recommendation should apply to the operations of the Malagasy Sovereign Fund and the State Procurement of Madagascar. The authorities have adopted an action plan to address the findings of the reports which aims to: (i) implement a legal framework for emergency spending; (ii) improve communication/education on the spending process; and (iii) improve the IT system used in the spending process. A follow-up report by the *Cour des Comptes* on the implementation of its recommendations, including information on the actions undertaken to ensure accountability for the irregularities in emergency spending, will be published by March 2023 (new SB).

**23. PFM reforms have stalled but remain critical to enhance budget transparency and credibility and strengthen ex post controls.** The PEFA self-assessment that was published in

PEFA Budget Reliability Scores




Note: The SSA group includes 31 SSA countries that had a published PEFA between 2016 and 2021.
Source: PEFA and IMF staff calculations.

February 2022 points to a lack of progress on PFM since the last assessment in 2018 and to a deterioration of budget execution and transparency as well as a decrease in the number of audits carried out to assess control systems. The authorities have been releasing quarterly budget execution reports since 2021 (continuous SB). However, further efforts are needed to improve their coverage and accuracy. The support of an IMF long-term expert on budget classification since December 2021 will help filling some of these gaps. Moreover, the authorities are committed to strengthen ex post audits and controls of public finance management and have released an implementation status of the *Cour des Comptes* recommendations to strengthen the payroll payment process (AUGURE). To facilitate controls, the authorities are granting direct and unrestricted access to the Ministry of Finance's information systems to the *Cour des Comptes*. They also agreed to increase the *Cour*'s financial independence by giving it a "budgetary mission" in the 2023 budget law (new SB).

**24. Public investment management needs to be strengthened to execute the ambitious authorities' investment plan in the PEM.** The recent PEFA points to a deterioration in public investment management as the framework adopted in 2018 is no longer used. Notably, the dismantling of investment agency (OCSIF) has led to significant delays in finalizing an investment manual (SB, December 2021).

**25. Effective enforcement of the anti-corruption legal framework is slow and should be accelerated.** Full institutional and operational independence of the anti-corruption courts (PACs) remains a challenge. Limited budget allocation and staff shortages have delayed the opening of an additional PAC, initially planned for December 2021. The term of the national coordinator of the PACs expired without a replacement being appointed. On the other hand, the five-year strategy for Madagascar's financial intelligence unit, SAMIFIN, was approved by the Council of Ministers in June 2022. The operationalization of the agency for illicit asset recovery is effective since June 2022 with the swearing-in of its general director and an operational budget allocation included in the 2022 revised budget law. The government also adopted both the national AML/CFT strategy and the decree creating the Coordination and Orientation Committee for AML/CFT in June 2022.

## C. Strengthening the Monetary Policy Framework to Ensure Macroeconomic Stability

**26. The central bank (BFM) should stand ready to further tighten monetary policy to contain second round effects on inflation from higher commodity prices.** Monetary policy remains committed to maintain single digit inflation through money market and foreign exchange operations, while keeping an adequate international reserve position, and continues to support bank liquidity amid massive public spending under-execution.

**27. Reforms to gradually transition the monetary policy framework to interest rate targeting are ongoing.** Recent progress, supported by Fund TA, include the development a macroeconomic forecasting model based on the Forecasting and Policy Analysis System (FPAS), and the implementation of the securities repurchase operations law since December 2021 that encourages longer-term interbank loans. Efforts to narrow the interest rate corridor contribute to stabilize the short-term interest rate on the money market. BFM is preparing to issue fixed term deposit certificates to complete the short-term maturity yield curve. The first official medium-term inflation projection by BFM will be included in the 2023 budget law.

**28. The authorities have been reviewing their foreign exchange intervention strategy and the algorithm introduced in 2018.** In addition, BFM is undertaking reforms to improve the functioning of the interbank currency market (MID), with the forthcoming adoption of the FX law, improved regulation of accounts in foreign currency, and more rigorous monitoring of compliance with repatriation and surrender requirements (the former calls for repatriation of merchandise (service) export receipts within 90 (30) days; the latter requires exporters to surrender 70 percent of export receipts within 30 days through the interbank foreign exchange market).[5] Over the medium term, the authorities are still committed to implement a gradual phase out of the FX surrender requirement on export receipts, but only when conditions are sufficiently favorable so as not to endanger exchange rate stability.

**29. BFM is revising its reserves management strategy and designing an operational strategy for gold purchases, refining, and storage with support from Fund TA.** Staff noted that the strategy lacks adequate consideration of governance arrangements at the BFM over those operations, and envisaged controls to ensure the appropriate quantity and quality of *doré* purchases. The operational reserve management strategy has been approved by BFM's Board in April 2022. In parallel, the Ministry of Mining is working to enforce regulations to ensure the sustainability and traceability of gold production and recently completed a census of licensed operators. The authorities plan to remove the export ban on gold by compliant operators in August 2022.

[5] This surrender requirement is considered a capital flow management measure on outflows. See IMF Country Report No. 22/79.

# PROGRAM MODALITIES AND FINANCING ASSURANCES

**30. Modifications of program targets, including performance criteria, are proposed for 2022.** For end-2022, the floor on the domestic primary balance targets a deficit of 1.4 percent of GDP, a widening compared to the first review (0.9 percent of GDP) justified by the need to accommodate additional spending pressures for recent external shocks. The ceiling on the central bank's net domestic assets and floor on net foreign assets were adjusted partly to reflect a lower use of the 2021 SDR allocation than previously assumed. Other proposed modifications account for the significant changes in the external environment since the first review. All targets have also been extended until end-June 2023.

**31. New structural benchmarks focus on strengthening existing commitments.** In line with the Board's guidance at the time of the first review, additional structural conditionality is parsimonious with only four new benchmarks over the next three quarters aiming at supporting better budget execution, reducing fiscal risks from JIRAMA and strengthening budget transparency and accountability. Three missed benchmarks were rescheduled to January, March, and June 2023. Beyond June 2023, structural conditionality will continue to focus on strengthening public financial management and governance and containing fiscal risks.

**32. Projected external financing sources are sufficient to satisfy external financing requirements until 2024** (Tables 9 and 10). Pending approval of the World Bank's updated Country Partnership Framework, the current framework assumes a level of budget support over 2022-23 in line with the historical average. The program is fully financed, with firm commitments for the next 12 months, and good prospects for full financing in 2023 and 2024. Future ECF disbursements will be redirected to the budget.

**33. Capacity to repay the Fund is adequate** (Table 12). Annual planned repayments to the Fund would peak in 2026 at 0.7 percent of GDP, 5.2 percent of government revenue and 2.6 percent of exports. Existing and prospective Fund credit is expected to peak in 2022 at 6.0 percent of GDP and gradually decline thereafter.

**34. The 2021 safeguards assessment update found broad improvements.** The BFM maintains strong external audit arrangements, governance arrangements are now well-established following amendments to the BFM Law in 2016, and the central bank adopted International Financial Reporting Standards for the first time in 2020. Efforts are being made to safeguard the BFM in the unrefined gold purchase program (MEFP, ¶46) ahead of phasing out aspects of its involvement that are outside the core mandate of a central bank.

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

| | 2021 | 2022 | | 2023 | 2024 |
|---|---|---|---|---|---|
| | Est. | 1st Rev. | Proj. | Proj. | Proj. |
| | | (in US$ million) | | | |
| **Total fiscal financing needs (1)** | -619 | -1,315 | -1,485 | -1,315 | -1,371 |
| Budget deficit (cash basis, excl. grants) | -523 | -1,161 | -1,361 | -1,141 | -1,190 |
| Domestic amortization (excl. T-bills) | 0 | -17 | -17 | -15 | -14 |
| External amortization | -96 | -137 | -106 | -160 | -167 |
| | | | | | |
| **Financing (2)** | 619 | 1,315 | 1,485 | 1,315 | 1,371 |
| External borrowing | 415 | 625 | 663 | 704 | 839 |
| *Of which: Budget support loans* | 143 | 48 | 11 | 50 | 50 |
| *Of which: Project loans* | 272 | 578 | 652 | 654 | 789 |
| Grants | 80 | 304 | 375 | 320 | 339 |
| *Of which: Budget support grants* | 0 | 0 | 1 | 12 | 54 |
| *Of which: World Bank* | 0 | 0 | 0 | 0 | 0 |
| *Of which: EU* | 0 | 0 | 0 | 12 | 0 |
| *Of which: Project grants* | 80 | 304 | 374 | 308 | 285 |
| *Of which: World Bank* | … | 126 | 200 | 146 | 90 |
| *Of which: EU* | … | 38 | 54 | 45 | 49 |
| Domestic borrowing (net for T-bills) | 124 | 385 | 447 | 291 | 193 |
| *Of which: On-lending of IMF ECF program* | 69 | 133 | 97 | 64 | 65 |
| *Of which: Cession of IMF SDR allocation* | 0 | 267 | 194 | 0 | 0 |
| *Of which: Other* | 56 | -15 | 156 | 226 | 128 |
| | | | | | |
| **Residual financing need (1+2, "-" means gap to be filled)** | 0 | 0 | 0 | 0 | 0 |

Sources: Malagasy authorities; and Fund staff estimates and projections.
1/ All numbers are converted from Ariary to $ using the current projected MGA/$ average annual exchange rate.

# STAFF APPRAISAL

**35. Madagascar's recovery from the pandemic has been hindered by climate shocks and global developments following Russia's invasion of Ukraine**. After a third wave of COVID at the turn of the year, the economy was hit by a series of cyclones and tropical storms in January-February which led to a growth downgrade. The rise in international food and oil prices in the wake of the war in Ukraine has fueled a surge in inflation and contributed to a widening of the current account deficit. Social tensions aggravated by the recent increase in domestic fuel prices have exacerbated the country's fragility.

**36. Despite the shocks, Madagascar's performance under the program is mixed**. All end-December 2021 QPCs were met. Nevertheless, the significant over performance of the domestic primary deficit conceals disappointing domestic tax collection and continued under-execution of social spending. The implementation of structural reforms remains slow, and few structural benchmarks were met on time. The authorities remain committed to advance their reform agenda, including to improve governance as demonstrated by the publication of an independent report on COVID contracts and of an action plan to address the recommendations of previous audit reports by the *Cour des Comptes*. However, a more proactive stance is needed to support structural performance.

**37. The downward revision of growth justifies a relaxation of the domestic primary deficit target for 2022.** Tax revenue collection has slowed, while higher food and oil prices are creating new spending pressures and increasing fiscal risks related to the implicit fuel subsidy and JIRAMA. The spending envelope approved in the context of the revised budget law provides for higher transfers to JIRAMA to cover increasing operational costs and arrears to suppliers and should accommodate additional transfers to fuel distributors. Public debt remains sustainable.

**38. The authorities should strive to offset the drop in domestic revenue collection by increasing the fight against tax fraud and improving tax arrears collection.** The seeming overperformance of customs revenue due to higher import prices is not enough to compensate for lower domestic tax collection aggravated by measures such as the reduction in VAT on fuel. Staff urge the authorities to revert this measure and to consider new tax policy measures in the budget law for 2023.

**39. Staff welcome the authorities' decision to raise fuel prices to contain the government's liabilities vis-à-vis fuel distributors and stress the need for mitigating social measures**. The decision was preceded by an increase in public sector wages and the announcement of a subsidy to raise the minimum wage. While those measures will help mitigate the impact of the rise in prices on formal sector workers, staff encourage the authorities to scale up social safety nets and extend cash transfers to most vulnerable households in the informal sector.

**40. Reforms of JIRAMA are overdue**. After implementing tariff optimization for retail customers in 2021, the authorities belatedly decided to adjust tariffs for corporate customers in August 2022. The approval of JIRAMA's business plan is still pending despite technical support from the World Bank. The financial recovery of JIRAMA would strengthen debt sustainability.

**41. Improving budget execution is key to increase the effectiveness of fiscal policy and achieve program objectives**. Staff urge the authorities to reform the spending commitment authorization process which is excessively centralized. Less turnover among budget actors and closer collaboration between the ministry of finance and sectoral ministries would also help accelerate budget execution, including for social spending. Better public investment management would be important for fulfilling the ambitious targets of the *Plan Emergence*. Staff support the circulation of this plan to the Executive Board after its official release in October 2022 to satisfy the PRGS requirement.

**42. The authorities should continue progress on budget transparency and strengthen accountability**. They have broadly met their commitments on transparency of COVID spending by publishing detailed information on procurement contracts and releasing several audit reports by the *Cour des Comptes* and an independent firm. Going forward, staff support their efforts to improve the transparency of public procurement contracts and strengthen the *Cour des Comptes* in its mission of public finances control and evaluation of public policies.

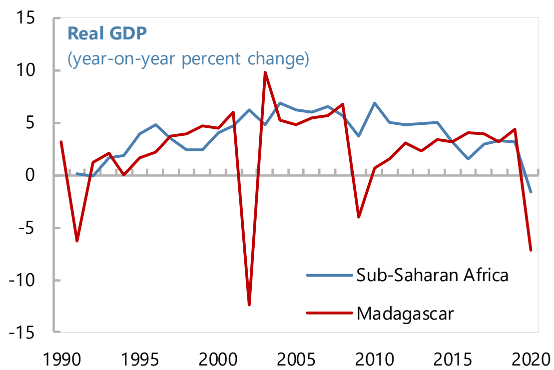
**43. Staff caution against any weakening of the anti-corruption framework**. Delays in operationalizing the agency in charge of illicit asset recovery, creating the Coordination and Orientation Committee for AML/CFT, and recruiting a new national coordinator for the Anti-Corruption Courts have undermined the confidence of private investors and development partners.

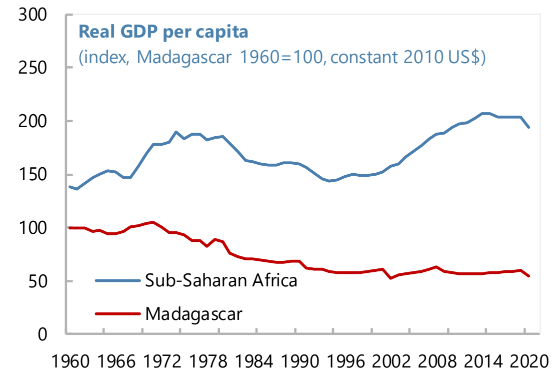
**44. The central bank should stand ready to further raise interest rates to contain inflationary pressures.** Wage increases in the public and private sectors create the risk of second-round effects calling for BFM's vigilance. Staff welcome progress towards an interest targeting framework and encourage the central bank to continue building its forecasting capacity, develop a short-term yield curve, and foster the growth of the interbank market. Improvements in the functioning of the FX markets supported by a new FX law would pave the way toward a gradual phasing out of the surrender requirement.

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

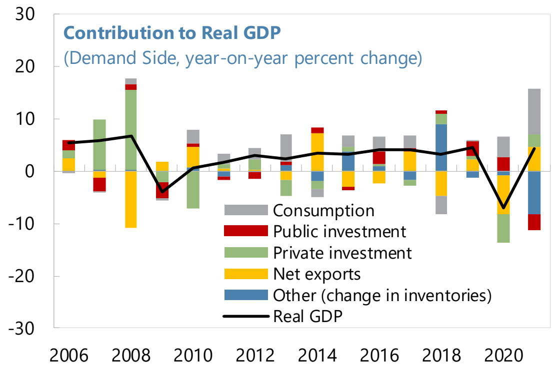
## Figure 1. Madagascar: Real Sector Developments

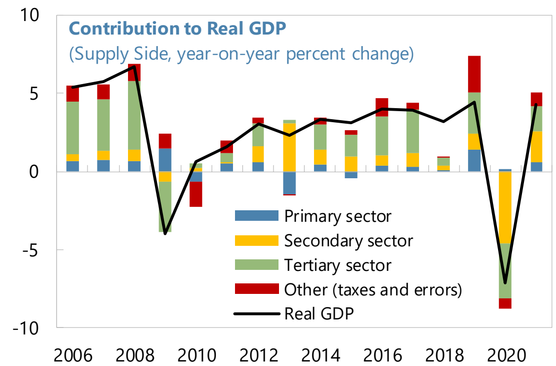
*Recent growth improvements were reversed by the COVID-19 pandemic.*



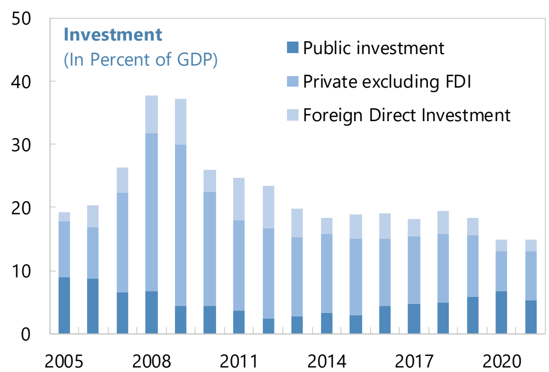




*A strong recovery in consumption, mining, manufacturing, and net exports supported the growth rebound in 2021, despite the negative impact of a delayed border reopening on tourism and very low investment.*

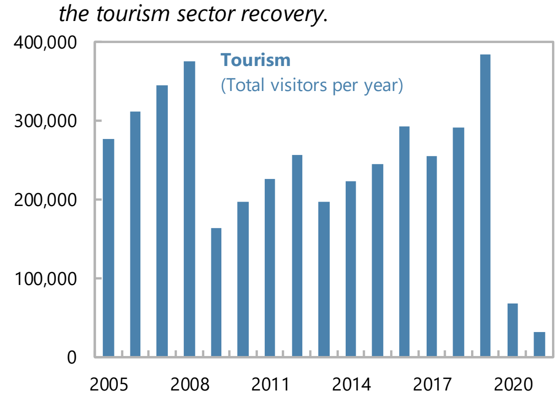



*Investment is well below 2008 levels...*



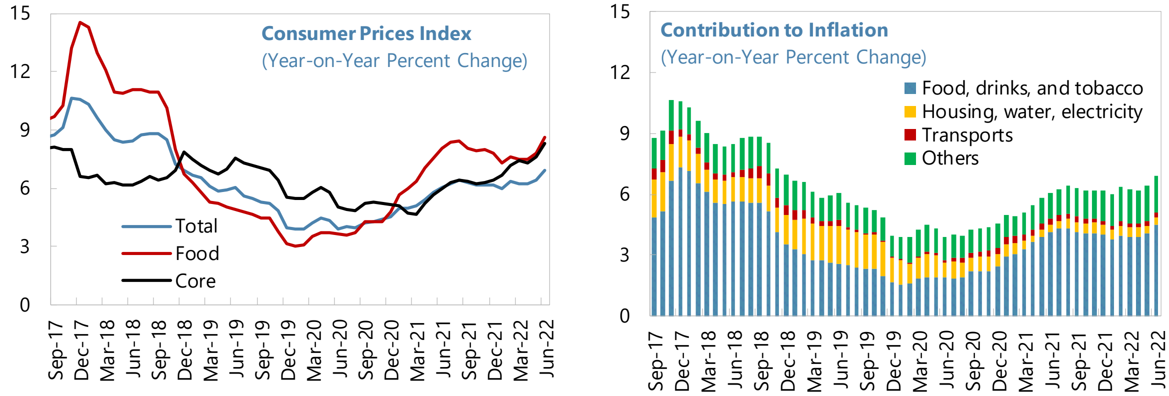

*... while multiple waves of the pandemic interrupted the tourism sector recovery.*



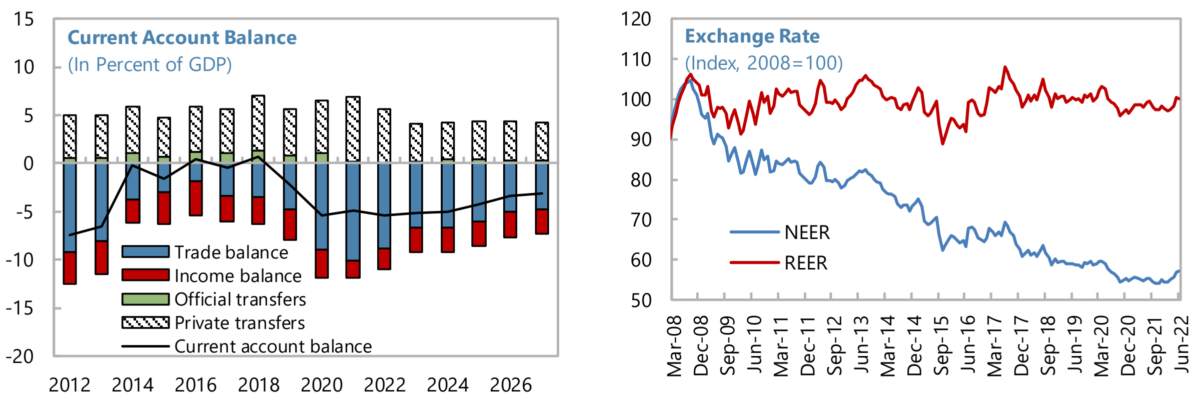

Sources: Malagasy Authorities; and IMF staff estimates.

## Figure 2. Madagascar: Inflation and External Developments

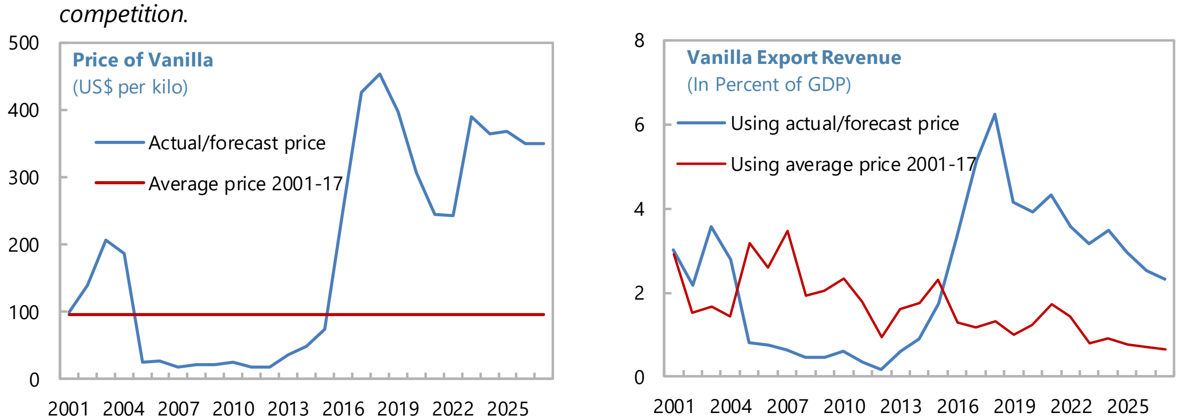
*Total inflation has been on the rise since mid-2020, driven by food and health care prices.*




*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.*



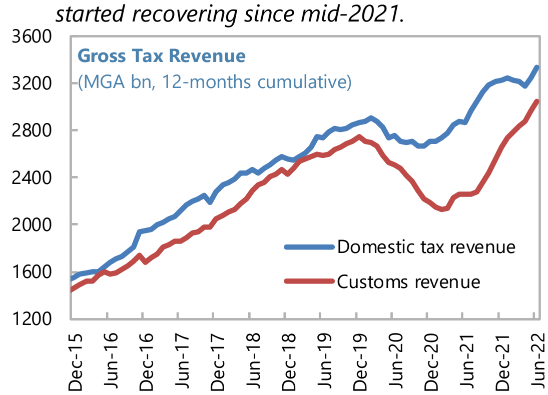

*Vanilla export revenue has dropped since end-2019 due to muted demand and increased global competition.*

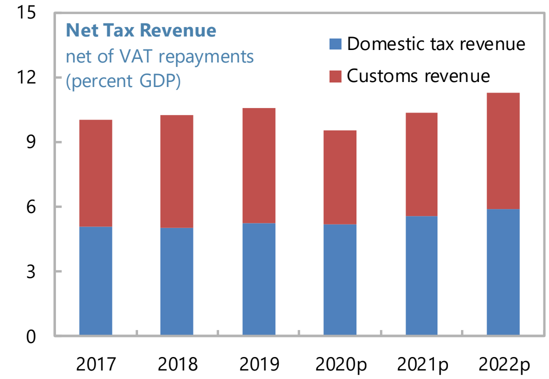



Sources: Malagasy Authorities; and IMF staff estimates.

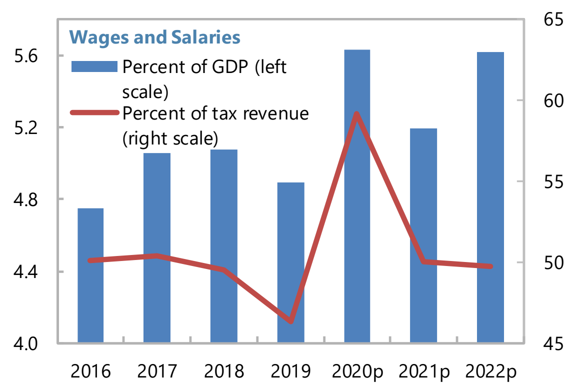
## Figure 3. Madagascar: Government Revenue and Spending

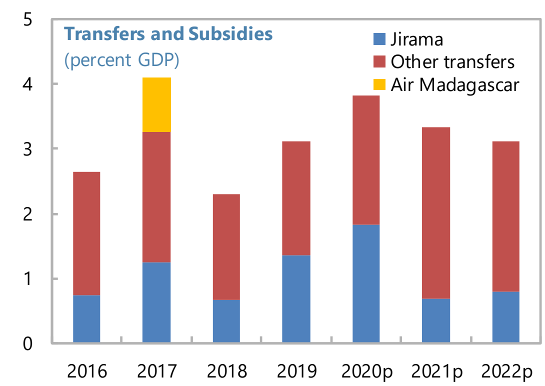
*After increasing between 2016 and 2019, tax revenue has been hit hard by the pandemic shock and has only started recovering since mid-2021.*



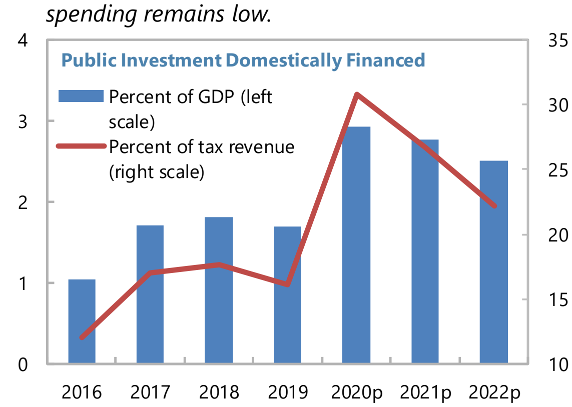



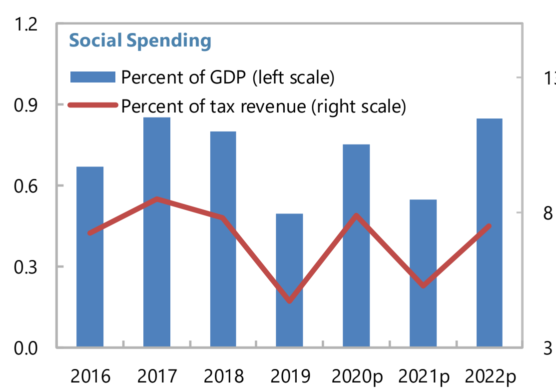

*The wage bill jumped to close to 60 percent of tax revenue in 2020 but it declined in 2021. While transfers increased in 2020, they declined starting 2021 due to lower transfers to JIRAMA.*




*Domestically financed public investment increased significantly in 2020, but it stayed stable in 2021. Social spending remains low.*

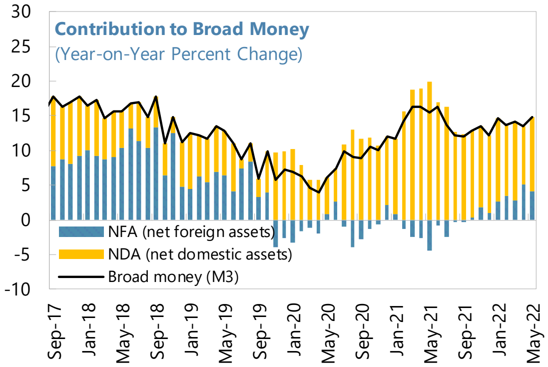


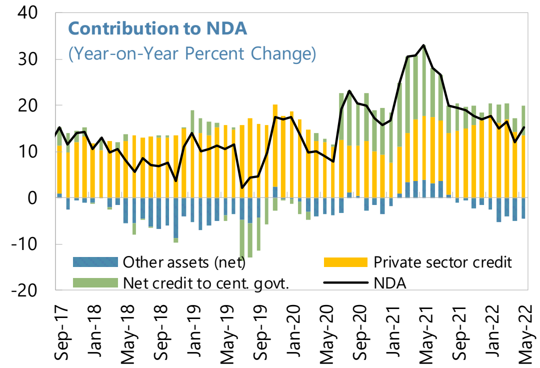




Sources: Malagasy Authorities; and IMF staff estimates.

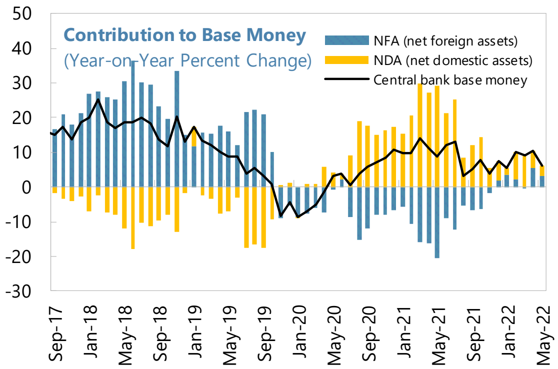
## Figure 4. Madagascar: Monetary Developments

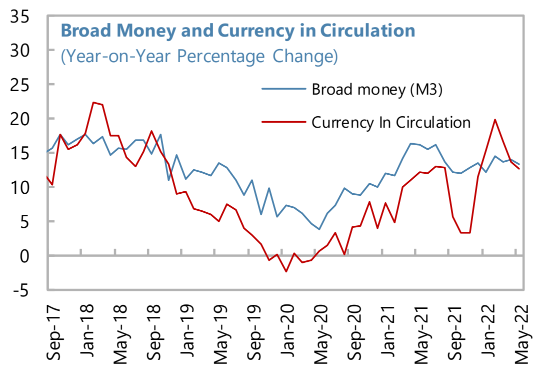
*Until the pandemic, broad money growth was driven by the accumulation of net foreign assets and credit to the private sector. Since the Covid-19 crisis, net domestic credit to governement has been on the rise.*



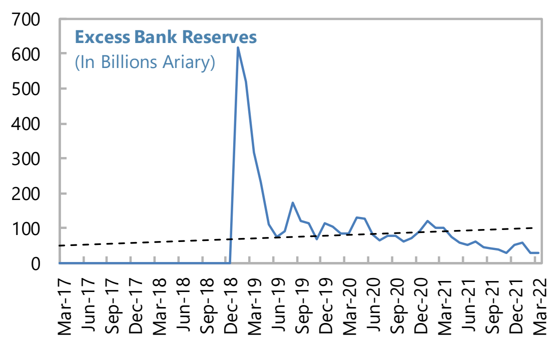



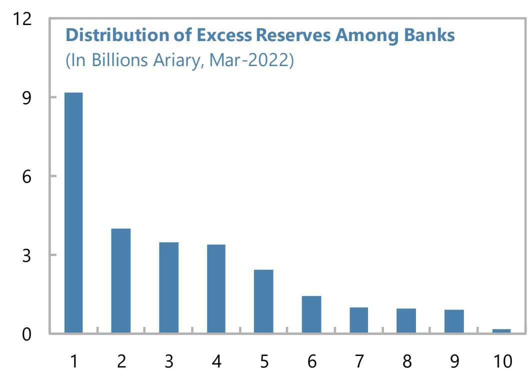

*Base money growth has also been driven by currency in circulation and liquidity injections.*




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

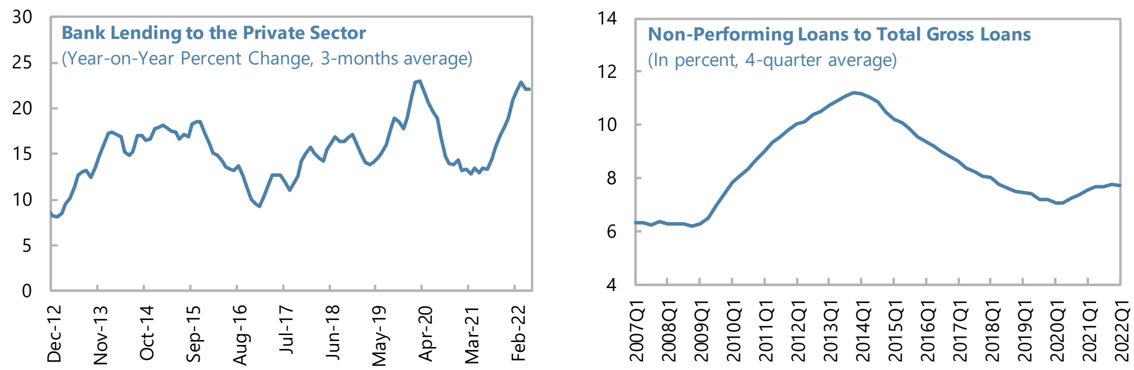


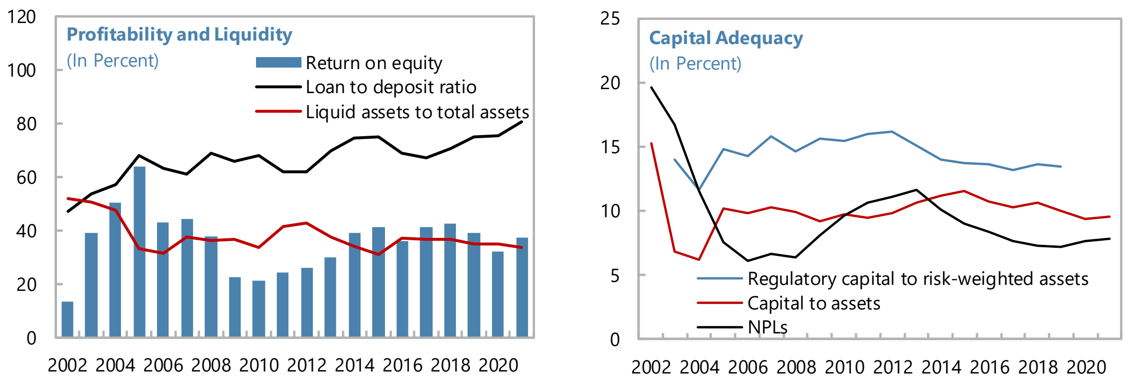

Sources: Malagasy Authorities; and IMF staff estimates

## Figure 5. Madagascar: Financial Sector Developments

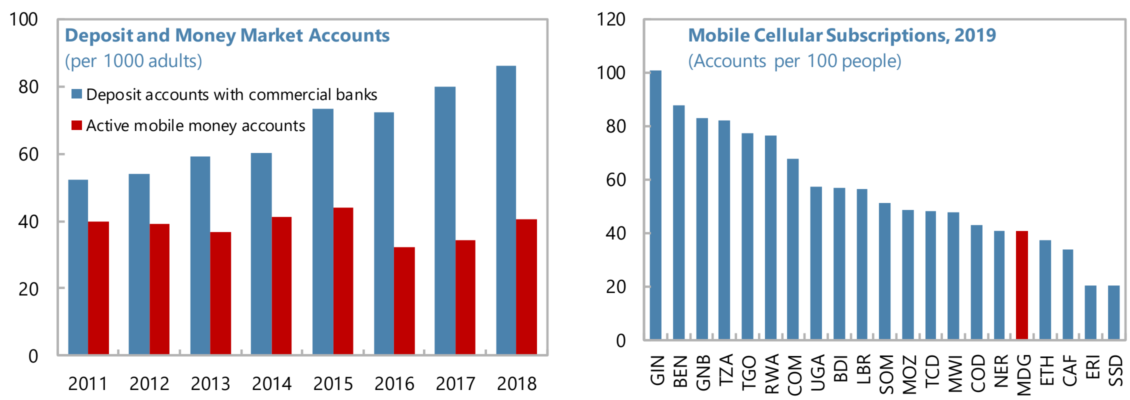
*Despite the pandemic, credit growth remained at a reasonable level so far and NPLs have only slightly increased.*




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



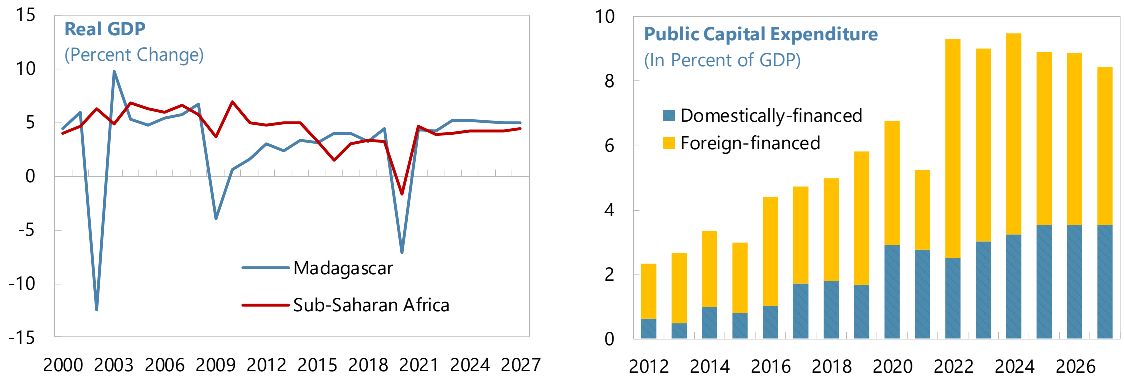

*Mobile banking activities are slowly increasing, but Madagascar lags most SSA low-income countries.*



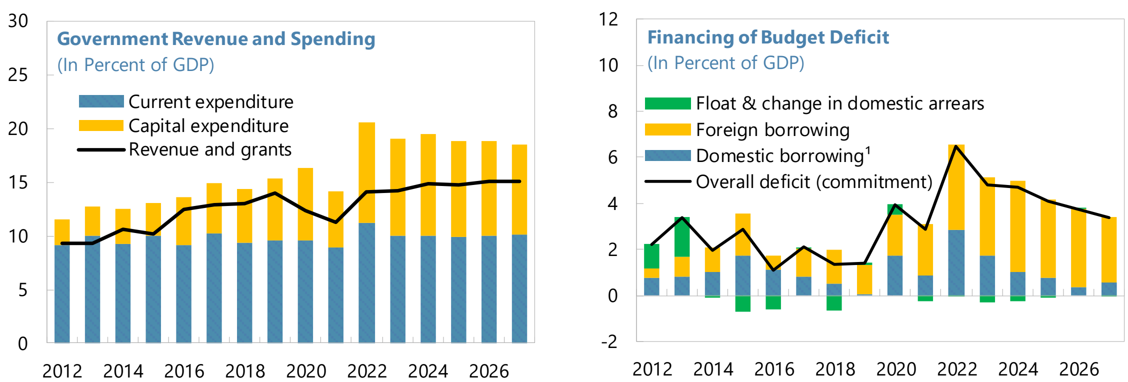

Sources: Malagasy Authorities; IMF Financial Access Survey; World Bank; and IMF staff estimates.

## Figure 6. Madagascar: Medium-Term Macroeconomic Prospects

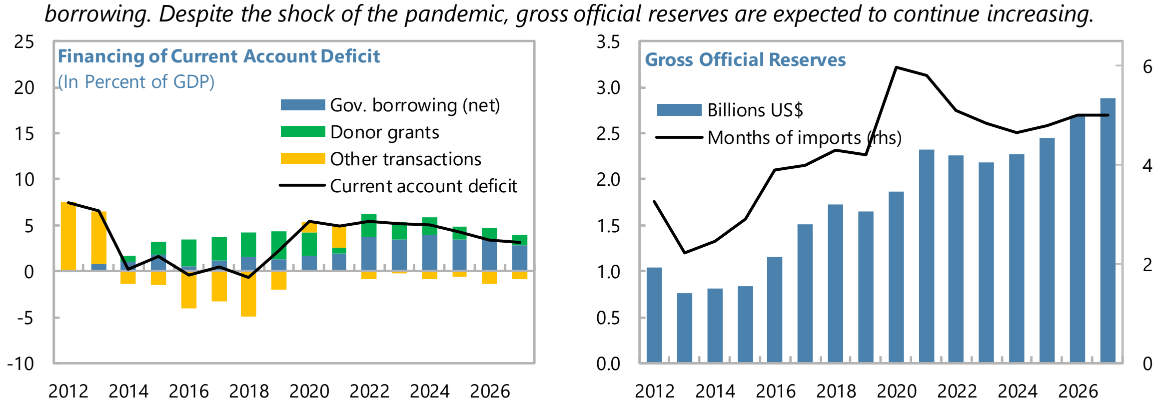
*Growth is expected to remain slightly above the SSA average, sustained by scaled-up public investment.*




*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, 2020-27

| | 2020 | 2021 | | | 2022 | | | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Program approval | 1st review | Est. | Program approval | 1st review | Proj. | Projections | | | | |
| | | | | | (Percent change; unless otherwise indicated) | | | | | | | |
| National account and prices | | | | | | | | | | | | |
| GDP at constant prices | -7.1 | 3.2 | 3.5 | 4.3 | 5.0 | 5.4 | 4.2 | 5.2 | 5.2 | 5.1 | 5.0 | 5.0 |
| GDP deflator | 4.4 | 5.4 | 6.1 | 6.1 | 5.7 | 6.1 | 9.1 | 8.3 | 6.8 | 6.4 | 5.7 | 5.1 |
| Consumer prices (end of period) | 4.6 | 5.4 | 6.2 | 6.2 | 6.0 | 6.3 | 12.0 | 9.7 | 8.7 | 7.7 | 6.7 | 5.7 |
| Money and credit | | | | | | | | | | | | |
| Reserve money | 10.8 | 17.1 | 7.3 | 7.4 | 4.4 | 33.2 | 25.6 | 8.0 | 12.2 | 14.3 | 17.7 | 12.1 |
| Broad money (M3) | 12.1 | 21.8 | 19.0 | 12.2 | 10.4 | 16.5 | 32.5 | 12.9 | 13.2 | 15.5 | 13.6 | 10.9 |
| | | | | | (Growth in percent of beginning of period money stock (M3)) | | | | | | | |
| Net foreign assets | 2.1 | 2.2 | 1.4 | 1.0 | 3.1 | 7.9 | 4.4 | 0.4 | 3.0 | 5.4 | 6.8 | 5.0 |
| Net domestic assets | 10.0 | 19.6 | 17.6 | 11.2 | 7.3 | 8.6 | 28.1 | 12.5 | 10.2 | 10.0 | 6.8 | 5.9 |
| of which: Credit to the private sector | 5.6 | 8.0 | 8.6 | 11.1 | 4.5 | 8.3 | 9.0 | 7.6 | 7.9 | 8.4 | 6.6 | 5.9 |
| | | | | | (Percent of GDP) | | | | | | | |
| Public finance | | | | | | | | | | | | |
| Total revenue (excluding grants) | 9.9 | 10.3 | 10.8 | 10.7 | 11.4 | 11.9 | 11.6 | 12.2 | 12.8 | 13.3 | 13.7 | 13.9 |
| of which: Tax revenue | 9.5 | 10.0 | 10.4 | 10.4 | 11.1 | 11.6 | 11.3 | 11.9 | 12.6 | 13.0 | 13.5 | 13.7 |
| Grants | 2.5 | 2.3 | 1.7 | 0.6 | 1.8 | 2.1 | 2.5 | 2.0 | 2.0 | 1.4 | 1.4 | 1.2 |
| of which: budget grants | 0.9 | 0.5 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.1 | 0.3 | 0.3 | 0.3 | 0.2 |
| Total expenditures | 16.3 | 18.3 | 18.7 | 14.1 | 18.1 | 19.7 | 20.5 | 19.0 | 19.5 | 18.8 | 18.8 | 18.5 |
| Current expenditure | 9.6 | 10.7 | 11.4 | 8.9 | 9.5 | 10.5 | 11.2 | 10.0 | 10.0 | 9.9 | 10.0 | 10.1 |
| Capital expenditure | 6.8 | 7.6 | 7.4 | 5.2 | 8.6 | 9.2 | 9.3 | 9.0 | 9.5 | 8.9 | 8.9 | 8.4 |
| Domestic financed | 2.9 | 2.9 | 2.6 | 2.8 | 3.0 | 3.2 | 2.5 | 3.0 | 3.2 | 3.5 | 3.5 | 3.5 |
| Foreign financed | 3.8 | 4.7 | 4.8 | 2.5 | 5.6 | 6.0 | 6.8 | 6.0 | 6.3 | 5.3 | 5.3 | 4.9 |
| Overall balance (commitment basis ) | -4.0 | -5.8 | -6.3 | -2.9 | -4.8 | -5.8 | -6.5 | -4.8 | -4.7 | -4.1 | -3.7 | -3.4 |
| Float (variation of accounts payable, + = increase) | 0.5 | -0.8 | -0.1 | -0.2 | 0.0 | 0.0 | 0.0 | -0.3 | -0.3 | -0.1 | 0.0 | 0.0 |
| Variation of domestic arrears ( + = increase) | 0.0 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (cash basis) | -3.5 | -6.6 | -6.4 | -3.1 | -4.8 | -5.8 | -6.5 | -5.1 | -5.0 | -4.2 | -3.7 | -3.4 |
| Domestic primary balance[1] | -1.9 | -2.5 | -2.5 | -0.3 | -0.4 | -0.9 | -1.4 | 0.0 | 0.3 | 0.6 | 1.0 | 1.1 |
| Total financing | 3.5 | 6.6 | 6.4 | 3.1 | 4.1 | 5.8 | 6.5 | 5.1 | 5.0 | 4.2 | 3.7 | 3.4 |
| Foreign borrowing (net) | 1.8 | 3.6 | 3.6 | 2.2 | 3.5 | 3.3 | 3.7 | 3.4 | 3.9 | 3.4 | 3.4 | 2.8 |
| Domestic financing | 1.7 | 2.9 | 2.9 | 0.9 | 0.6 | 2.5 | 2.8 | 1.7 | 1.0 | 0.8 | 0.4 | 0.6 |
| *of which: onlending of IMF financing* [2] | 2.5 | 1.0 | 0.5 | 0.5 | | 0.9 | 0.6 | 0.4 | 0.4 | | | |
| *of which: cession of new IMF SDR allocation* | | | 0.0 | 0.0 | | 1.8 | 1.3 | | | | | |
| Fiscal financing need[3] | 0.0 | 0.0 | 0.0 | 0.0 | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Savings and investment | | | | | | | | | | | | |
| Investment | 15.0 | 18.4 | 16.6 | 14.9 | 20.6 | 19.3 | 19.4 | 20.4 | 22.2 | 22.7 | 23.8 | 23.5 |
| Gross national savings | 8.2 | 21.5 | 11.2 | 9.9 | 16.2 | 14.3 | 14.0 | 15.3 | 17.1 | 18.5 | 20.4 | 20.4 |
| External sector | | | | | | | | | | | | |
| Exports of goods, f.o.b. | 15.0 | 16.5 | 18.9 | 19.0 | 18.0 | 18.3 | 21.3 | 21.5 | 20.9 | 19.8 | 19.4 | 19.0 |
| Imports of goods, c.i.f. | 24.3 | 25.2 | 29.2 | 29.2 | 26.2 | 27.3 | 30.2 | 28.5 | 28.6 | 27.1 | 26.6 | 26.2 |
| Current account balance (exc. grants) | -7.9 | -7.2 | -7.1 | -5.5 | -6.2 | -7.1 | -7.9 | -7.1 | -7.0 | -5.7 | -4.7 | -4.3 |
| Current account balance (inc. grants) | -5.4 | -5.0 | -5.5 | -4.9 | -4.4 | -5.0 | -5.4 | -5.1 | -5.1 | -4.2 | -3.4 | -3.2 |
| Public debt | 50.8 | 46.9 | 53.1 | 53.1 | 47.8 | 52.9 | 53.8 | 53.1 | 53.6 | 53.5 | 53.5 | 52.9 |
| External Public Debt (inc. BFM liabilities) | 36.7 | 34.7 | 41.4 | 39.2 | 36.1 | 41.9 | 41.5 | 42.3 | 43.4 | 43.6 | 43.6 | 42.8 |
| Domestic Public Debt | 14.1 | 12.2 | 11.7 | 13.9 | 11.7 | 11.0 | 12.3 | 10.8 | 10.2 | 9.9 | 9.9 | 10.1 |
| | | | | | (Units as indicated) | | | | | | | |
| Gross official reserves (millions of SDRs) | 1338 | 1449 | 1633 | 1630 | 1540.1 | 1723 | 1677 | 1641 | 1696 | 1816 | 1986 | 2115 |
| Months of imports of goods and services | 6.0 | 5.4 | 6.0 | 5.8 | 5.1 | 5.7 | 5.1 | 4.8 | 4.7 | 4.8 | 5.0 | 5.0 |
| Real effective exchange rate (pa, percent change) | -0.8 | … | … | … | … | … | … | … | … | … | … | … |
| Terms of trade (percent change, deterioration -) | -8.6 | 6.2 | -13.6 | -13.8 | 1.8 | 16.3 | 7.3 | 11.3 | 0.8 | 1.4 | -0.3 | -1.2 |
| *Memorandum items* | | | | | | | | | | | | |
| GDP per capita (U.S. dollars) | 478 | 521 | 502 | 507 | 551 | 525 | 522 | 540 | 562 | 591 | 621 | 657 |
| Nominal GDP at market prices (billions of ariary) | 49,453 | 57,024 | 54,324 | 54,706 | 63300 | 60,744 | 62,177 | 70,846 | 79,569 | 88,915 | 98,716 | 108,922 |

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, 2018-27

| | 2018 | 2019 | 2020 | 2021 | | | 2022 | | | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | Est. | Est. | Program approval | 1st review | Est. | Program approval | 1st review | Proj. | Projections | | | | |
| | | | | | | (Percent change) | | | | | | | | |
| Real supply side growth | | | | | | | | | | | | | | |
| Primary sector | 0.4 | 5.9 | 0.6 | 2.6 | 3.4 | 2.3 | 3.0 | 4.1 | 3.3 | 3.5 | 3.5 | 3.6 | 3.6 | 3.6 |
| *of which:* Agriculture | 3.2 | 7.6 | 0.6 | 3.0 | 4.0 | 2.5 | 3.5 | 5.0 | 3.9 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Secondary sector | 2.0 | 6.8 | -29.5 | 4.9 | 9.6 | 16.6 | 9.5 | 9.3 | 8.2 | 7.6 | 7.5 | 7.0 | 6.6 | 6.5 |
| *of which:* | | | | | | | | | | | | | | |
| Manufacturing | 3.4 | 8.2 | -15.7 | 2.0 | 16.4 | 29.8 | 4.5 | 6.6 | 6.0 | 7.1 | 7.1 | 6.9 | 6.7 | 6.4 |
| Energy | 4.4 | 3.7 | -0.1 | 5.0 | 3.3 | 2.2 | 5.8 | 5.0 | 2.2 | 3.9 | 4.8 | 4.7 | 4.7 | 4.4 |
| Extractive industry | -0.8 | 9.9 | -49.3 | 8.1 | 21.2 | 40.1 | 19.3 | 17.3 | 15.7 | 12.3 | 11.3 | 10.3 | 9.4 | 9.2 |
| Tertiary sector | 0.8 | 5.0 | -6.5 | 2.8 | 2.6 | 3.0 | 4.3 | 5.0 | 3.9 | 5.2 | 5.3 | 5.2 | 4.9 | 4.8 |
| *of which:* | | | | | | | | | | | | | | |
| Trade | 2.5 | 2.3 | -2.7 | 1.0 | 3.4 | 3.0 | 1.9 | 3.9 | 3.7 | 3.9 | 3.5 | 3.3 | 3.2 | 2.6 |
| Services | -0.4 | 2.9 | -8.1 | 2.5 | 2.0 | 2.0 | 4.3 | 2.5 | 2.0 | 2.5 | 2.6 | 2.7 | 2.9 | 2.9 |
| Transportation | -3.6 | 4.8 | -6.4 | 1.5 | 4.8 | 8.1 | 3.5 | 6.8 | 6.0 | 8.2 | 8.2 | 8.1 | 7.9 | 7.9 |
| Indirect taxes | 24.0 | -1.1 | 13.3 | 5.4 | 2.9 | 2.9 | 5.7 | 6.4 | 3.9 | 8.0 | 7.4 | 6.9 | 6.3 | 5.8 |
| Real GDP at market prices | 3.2 | 4.4 | -7.1 | 3.2 | 3.5 | 4.3 | 5.0 | 5.4 | 4.2 | 5.2 | 5.2 | 5.1 | 5.0 | 5.0 |
| | | | | | | | (Percent of GDP) | | | | | | | |
| Nominal demand side composition | | | | | | | | | | | | | | |
| Resource balance | -3.5 | -4.7 | -9.0 | -8.8 | -10.2 | -10.1 | -6.9 | -8.1 | -8.8 | -6.7 | -6.7 | -6.0 | -5.0 | -4.8 |
| Imports of goods and nonfactor services | 35.1 | 33.4 | 28.7 | 31.8 | 33.0 | 33.6 | 33.2 | 33.4 | 35.2 | 33.6 | 34.1 | 32.9 | 32.2 | 31.7 |
| Exports of goods and nonfactor services | 31.7 | 28.7 | 19.7 | 23.1 | 22.9 | 23.5 | 26.3 | 25.3 | 26.4 | 27.0 | 27.4 | 26.9 | 27.2 | 26.9 |
| Current account balance (including grants) = (S-I) | 0.7 | -2.3 | -5.4 | -5.0 | -5.5 | -4.9 | -4.4 | -5.0 | -5.4 | -5.1 | -5.1 | -4.2 | -3.4 | -3.2 |
| Consumption | 85.6 | 86.0 | 95.1 | 91.4 | 93.2 | 94.9 | 87.3 | 88.4 | 89.0 | 85.9 | 84.1 | 82.9 | 80.8 | 80.9 |
| Government | 14.8 | 15.1 | 15.2 | 16.9 | 18.0 | 14.0 | 15.0 | 16.6 | 17.8 | 15.8 | 15.8 | 15.7 | 15.8 | 15.9 |
| Private | 70.8 | 70.9 | 80.0 | 74.5 | 75.3 | 80.9 | 72.2 | 71.8 | 71.2 | 70.0 | 68.2 | 67.2 | 65.0 | 64.9 |
| Investment (I) | 19.5 | 18.3 | 15.0 | 18.4 | 16.6 | 14.9 | 20.6 | 19.3 | 19.4 | 20.4 | 22.2 | 22.7 | 23.8 | 23.5 |
| Government | 5.0 | 5.8 | 6.8 | 7.6 | 7.4 | 5.2 | 8.6 | 9.2 | 9.3 | 9.0 | 9.5 | 8.9 | 8.9 | 8.4 |
| Private | 14.5 | 12.5 | 8.2 | 10.7 | 9.3 | 9.6 | 12.1 | 10.2 | 10.2 | 11.4 | 12.7 | 13.8 | 14.9 | 15.1 |
| *of which:* foreign direct investment | 3.6 | 2.6 | 1.9 | 2.2 | 1.5 | 1.7 | 2.4 | 1.9 | 1.7 | 1.9 | 2.3 | 2.3 | 2.4 | 2.5 |
| National savings (S) | 19.9 | 17.5 | 8.2 | 13.4 | 11.2 | 9.9 | 16.2 | 14.3 | 14.0 | 15.3 | 17.1 | 18.5 | 20.4 | 20.4 |
| Government | 2.9 | 3.7 | 2.1 | 1.0 | 0.4 | 1.7 | 3.0 | 2.5 | 2.1 | 3.4 | 4.0 | 4.0 | 4.3 | 4.2 |
| Private | 17.0 | 13.8 | 6.1 | 12.4 | 10.8 | 8.2 | 13.2 | 11.8 | 12.0 | 11.9 | 13.1 | 14.4 | 16.1 | 16.2 |
| *Memoranda items:* | | | | | | | (Billions of Ariary) | | | | | | | |
| Nominal GDP (at market prices) | 45,886 | 51,035 | 49,453 | 57,024 | 54,324 | 54,706 | 63,300 | 60,744 | 62,177 | 70,846 | 79,569 | 88,915 | 98,716 | 108,922 |

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

## Table 3a. Madagascar: Fiscal Operations of the Central Government, 2018-27
(Billions of Ariary)

| | 2018 | 2019 | 2020 | 2021 | | | 2022 | | | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | Actuals | Actuals | Program approval | 1st review | Est. | Program approval | 1st review | Proj. | Projections | | | | |
| Total revenue and grants | 5,971 | 7,115 | 6,129 | 7,148 | 6,761 | 6,148 | 8,375 | 8,472 | 8,742 | 10,054 | 11,784 | 13,110 | 14,904 | 16,461 |
| Total revenue | 4,837 | 5,528 | 4,886 | 5,859 | 5,841 | 5,842 | 7,206 | 7,220 | 7,200 | 8,640 | 10,215 | 11,835 | 13,568 | 15,178 |
| Tax revenue | 4,706 | 5387.2 | 4,707 | 5,694 | 5,676 | 5,676 | 7,023 | 7,045 | 7,025 | 8,441 | 9,992 | 11,585 | 13,301 | 14,894 |
| Domestic taxes | 2,315 | 2,666 | 2,579 | 3,204 | 3,050 | 3,050 | 3,986 | 4,034 | 3,664 | 4,511 | 5,471 | 6,419 | 7,448 | 8,340 |
| Taxes on international trade and transactions | 2,391 | 2,721 | 2,128 | 2,490 | 2,626 | 2,626 | 3,036 | 3,011 | 3,361 | 3,930 | 4,521 | 5,166 | 5,853 | 6,554 |
| Non-tax revenue | 131 | 140 | 180 | 165 | 165 | 166 | 183 | 175 | 175 | 199 | 223 | 250 | 267 | 285 |
| Grants | 1,134 | 1,587 | 1,243 | 1,289 | 920 | 306 | 1,169 | 1,252 | 1,543 | 1,414 | 1,569 | 1,275 | 1,336 | 1,282 |
| Current grants | 414 | 365 | 435 | 290 | 0 | 1 | 198 | 0 | 2 | 53 | 248 | 258 | 266 | 272 |
| Capital grants | 720 | 1,222 | 808 | 999 | 920 | 305 | 971 | 1,252 | 1,540 | 1,361 | 1,321 | 1,017 | 1,069 | 1,010 |
| Total expenditure and lending minus repayments | 6,585 | 7,840 | 8,085 | 10,432 | 10,165 | 7,719 | 11,440 | 11,969 | 12,773 | 13,471 | 15,525 | 16,726 | 18,602 | 20,149 |
| *of which: Social priority spending* [1] | *367* | *253* | *371* | *514* | *299* | *299* | … | *713* | *527* | … | … | … | … | … |
| Current expenditure | 4,298 | 4,874 | 4,743 | 6,088 | 6,168 | 4,855 | 6,018 | 6,392 | 6,994 | 7,087 | 7,976 | 8,817 | 9,852 | 10,977 |
| Wages and salaries | 2,330 | 2,497 | 2,786 | 3,182 | 3,049 | 2,842 | 3,486 | 3,511 | 3,492 | 3,868 | 4,376 | 4,801 | 5,331 | 5,806 |
| Interest payments | 353 | 356 | 362 | 482 | 375 | 354 | 437 | 548 | 466 | 579 | 611 | 703 | 794 | 904 |
| Foreign | 105 | 107 | 115 | 173 | 114 | 123 | 106 | 238 | 193 | 262 | 301 | 348 | 396 | 457 |
| Domestic | 248 | 249 | 246 | 309 | 261 | 231 | 331 | 310 | 274 | 317 | 309 | 355 | 399 | 447 |
| Other | 1,404 | 1,911 | 2,230 | 1,931 | 2,251 | 2,182 | 1,986 | 2,153 | 2,456 | 2,480 | 2,809 | 3,112 | 3,504 | 4,022 |
| Goods and services | 349 | 323 | 338 | 436 | 421 | 355 | 503 | 514 | 517 | 567 | 716 | 889 | 1,086 | 1,266 |
| Transfers and subsidies | 1,055 | 1,587 | 1,892 | 1,494 | 1,830 | 1,827 | 1,483 | 1,639 | 1,938 | 1,913 | 2,093 | 2,223 | 2,419 | 2,756 |
| *of which: JIRAMA* [2] | *309* | *720* | *702* | *400* | *380* | *380* | *80* | *370* | *500* | … | … | … | … | … |
| Treasury operations (net) | 211 | 110 | -635 | 493 | 493 | -523 | 110 | 180 | 579 | 160 | 180 | 201 | 223 | 246 |
| Capital expenditure | 2,287 | 2,966 | 3,343 | 4,344 | 3,998 | 2,864 | 5,421 | 5,577 | 5,780 | 6,385 | 7,549 | 7,910 | 8,750 | 9,172 |
| Domestic financed | 831 | 866 | 1,450 | 1,680 | 1,396 | 1,518 | 1,900 | 1,947 | 1,556 | 2,140 | 2,573 | 3,155 | 3,480 | 3,856 |
| Foreign financed | 1,456 | 2,100 | 1,893 | 2,664 | 2,602 | 1,346 | 3,521 | 3,629 | 4,224 | 4,245 | 4,976 | 4,755 | 5,270 | 5,316 |
| Identified financing | 1,455 | 2,100 | 1,893 | 2,428 | 2,426 | 1,147 | 2,815 | 3,331 | 3,861 | 3,518 | 2,972 | 1,918 | 1,506 | 1,278 |
| *of which: financing to be programmed* | 0 | 0 | 0 | 236 | 176 | 199 | 706 | 299 | 363 | 727 | 2,004 | 2,836 | 3,764 | 4,038 |
| Lending minus repayments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance (commitment basis ) | -614 | -725 | -1,956 | -3,284 | -3,404 | -1,571 | -3,065 | -3,497 | -4,031 | -3,417 | -3,741 | -3,616 | -3,699 | -3,688 |
| Float (variation of accounts payable, + = increase) | -80 | 176 | 241 | -432 | -57 | -126 | 0 | 0 | 0 | -200 | -200 | -100 | 0 | 0 |
| Variation of domestic arrears (+ = increase) | -225 | -116 | -22 | -30 | -30 | 0 | 0 | -30 | -30 | 0 | 0 | 0 | 0 | 0 |
| Overall balance (including grants, cash basis) | -918 | -665 | -1,737 | -3,745 | -3,492 | -1,697 | -3,065 | -3,527 | -4,061 | -3,617 | -3,941 | -3,716 | -3,699 | -3,688 |
| Domestic primary balance[3] | 60 | 144 | -944 | -1,426 | -1,347 | -178 | -276 | -571 | -883 | -7 | 277 | 566 | 1,030 | 1,249 |
| Total financing | 918 | 664 | 1,737 | 3,745 | 3,492 | 1,697 | 2,624 | 3,527 | 4,061 | 3,617 | 3,941 | 3,716 | 3,699 | 3,688 |
| Foreign borrowing (residency principle) | 675 | 649 | 885 | 2,066 | 1,929 | 1,221 | 2,226 | 2,010 | 2,291 | 2,400 | 3,112 | 3,037 | 3,349 | 3,086 |
| External borrowing, Gross | 911 | 883 | 1,161 | 2,422 | 2,232 | 1,588 | 2,778 | 2,574 | 2,729 | 3,104 | 3,887 | 3,976 | 4,447 | 4,306 |
| Budget support loans | 176 | 5 | 77 | 756 | 551 | 547 | 228 | 197 | 45 | 221 | 232 | 239 | 246 | 0 |
| *of which: Air Madagascar* | 133 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Project loans | 735 | 878 | 1,085 | 1,665 | 1,682 | 1,041 | 2,550 | 2,377 | 2,684 | 2,884 | 3,655 | 3,737 | 4,201 | 4,306 |
| Amortization on a due basis (-) | -236 | -234 | -276 | -355 | -304 | -367 | -552 | -564 | -438 | -705 | -775 | -939 | -1,097 | -1,220 |
| Domestic borrowing (residency principle) | 243 | 15 | 851 | 1,679 | 1,563 | 477 | 399 | 1,516 | 1,771 | 1,217 | 829 | 679 | 349 | 602 |
| Monetary sector | 220 | -31 | 597 | 1,685 | 1,340 | 232 | 310 | 1,518 | 1,876 | 1,173 | 822 | 638 | 305 | 554 |
| *of which: onlending of IMF financing* [4] | | | *1,238* | *556* | *264* | *263* | | *549* | *400* | *284* | *303* | | | |
| *of which: cession of new IMF SDR allocation* | | | | | *0* | *0* | | *1,100* | *800* | *0* | *0* | *0* | *0* | *0* |
| Non-monetary sector | -67 | -13 | -72 | -7 | -49 | -87 | 89 | -2 | -105 | 44 | 7 | 41 | 44 | 48 |
| Other incl. Treasury correspondent accounts (net) | 77 | 59 | 308 | 0 | 272 | 307 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Fiscal financing balance[5] | 0 | 0 | 0 | 0 | 0 | 0 | -441 | 0 | 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 3b. Madagascar: Fiscal Operations of the Central Government, 2018-27
(Percent of GDP)

| | 2018 | 2019 | 2020 | 2021 | | | 2022 | | | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | Est. | Est. | Program approval | 1st review | Est. | Program approval | 1st review | Proj. | Projections | | | | |
| Total revenue and grants | 13.0 | 13.9 | 12.4 | 12.5 | 12.4 | 11.2 | 13.2 | 13.9 | 14.1 | 14.2 | 14.8 | 14.7 | 15.1 | 15.1 |
| Total revenue | 10.5 | 10.8 | 9.9 | 10.3 | 10.8 | 10.7 | 11.4 | 11.9 | 11.6 | 12.2 | 12.8 | 13.3 | 13.7 | 13.9 |
| Tax revenue | 10.3 | 10.6 | 9.5 | 10.0 | 10.4 | 10.4 | 11.1 | 11.6 | 11.3 | 11.9 | 12.6 | 13.0 | 13.5 | 13.7 |
| Domestic taxes | 5.0 | 5.2 | 5.2 | 5.6 | 5.6 | 5.6 | 6.3 | 6.6 | 5.9 | 6.4 | 6.9 | 7.2 | 7.5 | 7.7 |
| Taxes on international trade and transactions | 5.2 | 5.3 | 4.3 | 4.4 | 4.8 | 4.8 | 4.8 | 5.0 | 5.4 | 5.5 | 5.7 | 5.8 | 5.9 | 6.0 |
| Non-tax revenue | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Grants | 2.5 | 3.1 | 2.5 | 2.3 | 1.7 | 0.6 | 1.8 | 2.1 | 2.5 | 2.0 | 2.0 | 1.4 | 1.4 | 1.2 |
| Current grants | 0.9 | 0.7 | 0.9 | 0.5 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.1 | 0.3 | 0.3 | 0.3 | 0.2 |
| Capital grants | 1.6 | 2.4 | 1.6 | 1.8 | 1.7 | 0.6 | 1.5 | 2.1 | 2.5 | 1.9 | 1.7 | 1.1 | 1.1 | 0.9 |
| Total expenditure and lending minus repayments | 14.4 | 15.4 | 16.3 | 18.3 | 18.7 | 14.1 | 18.1 | 19.7 | 20.5 | 19.0 | 19.5 | 18.8 | 18.8 | 18.5 |
| *of which: Social priority spending* [1] | *0.8* | *0.5* | *0.8* | 0.9 | *0.6* | *0.5* | … | *1.2* | *0.8* | … | … | … | … | … |
| Current expenditure | 9.4 | 9.5 | 9.6 | 10.7 | 11.4 | 8.9 | 9.5 | 10.5 | 11.2 | 10.0 | 10.0 | 9.9 | 10.0 | 10.1 |
| Wages and salaries | 5.1 | 4.9 | 5.6 | 5.6 | 5.6 | 5.2 | 5.5 | 5.8 | 5.6 | 5.5 | 5.5 | 5.4 | 5.4 | 5.3 |
| Interest payments | 0.8 | 0.7 | 0.7 | 0.8 | 0.7 | 0.6 | 0.7 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Foreign | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Domestic | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Other | 3.1 | 3.7 | 4.5 | 3.4 | 4.1 | 4.0 | 3.1 | 3.5 | 3.9 | 3.5 | 3.5 | 3.5 | 3.6 | 3.7 |
| Goods and services | 0.8 | 0.6 | 0.7 | 0.8 | 0.8 | 0.6 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 | 1.0 | 1.1 | 1.2 |
| Transfers and subsidies | 2.3 | 3.1 | 3.8 | 2.6 | 3.4 | 3.3 | 2.3 | 2.7 | 3.1 | 2.7 | 2.6 | 2.5 | 2.5 | 2.5 |
| *of which: JIRAMA* [2] | *0.7* | *2.4* | *2.5* | *0.7* | *0.7* | *0.7* | *0.1* | *0.6* | *0.8* | … | … | … | … | … |
| Treasury operations (net) | 0.5 | 0.2 | -1.3 | 0.9 | 0.9 | -1.0 | 0.2 | 0.3 | 0.9 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Capital expenditure | 5.0 | 5.8 | 6.8 | 7.6 | 7.4 | 5.2 | 8.6 | 9.2 | 9.3 | 9.0 | 9.5 | 8.9 | 8.9 | 8.4 |
| Domestic financed | 1.8 | 1.7 | 2.9 | 2.9 | 2.6 | 2.8 | 3.0 | 3.2 | 2.5 | 3.0 | 3.2 | 3.5 | 3.5 | 3.5 |
| Foreign financed | 3.2 | 4.1 | 3.8 | 4.7 | 4.8 | 2.5 | 5.6 | 6.0 | 6.8 | 6.0 | 6.3 | 5.3 | 5.3 | 4.9 |
| Overall balance (commitment basis ) | -1.3 | -1.4 | -4.0 | -5.8 | -6.3 | -2.9 | -4.8 | -5.8 | -6.5 | -4.8 | -4.7 | -4.1 | -3.7 | -3.4 |
| Float (variation of accounts payable, + = increase) | -0.2 | 0.3 | 0.5 | -0.8 | -0.1 | -0.2 | 0.0 | 0.0 | 0.0 | -0.3 | -0.3 | -0.1 | 0.0 | 0.0 |
| Variation of domestic arrears (+ = increase) | -0.5 | -0.2 | 0.0 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (including grants, cash basis) | -2.0 | -1.3 | -3.5 | -6.6 | -6.4 | -3.1 | -4.8 | -5.8 | -6.5 | -5.1 | -5.0 | -4.2 | -3.7 | -3.4 |
| Domestic primary balance[3] | 0.1 | 0.3 | -1.9 | -2.5 | -2.5 | -0.3 | -0.4 | -0.9 | -1.4 | 0.0 | 0.3 | 0.6 | 1.0 | 1.1 |
| Total financing | 2.0 | 1.3 | 3.5 | 6.6 | 6.4 | 3.1 | 4.1 | 5.8 | 6.5 | 5.1 | 5.0 | 4.2 | 3.7 | 3.4 |
| Foreign borrowing (residency principle) | 1.5 | 1.3 | 1.8 | 3.6 | 3.6 | 2.2 | 3.5 | 3.3 | 3.7 | 3.4 | 3.9 | 3.4 | 3.4 | 2.8 |
| External borrowing, Gross | 2.0 | 1.7 | 2.3 | 4.2 | 4.1 | 2.9 | 4.4 | 4.2 | 4.4 | 4.4 | 4.9 | 4.5 | 4.5 | 4.0 |
| Budget support loans | 0.4 | 0.0 | 0.2 | 1.3 | 1.0 | 1.0 | 0.4 | 0.3 | 0.1 | 0.3 | 0.3 | 0.3 | 0.2 | 0.0 |
| *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 | 0.0 | 0.0 | 0.0 |
| Project loans | 1.6 | 1.7 | 2.2 | 2.9 | 3.1 | 1.9 | 4.0 | 3.9 | 4.3 | 4.1 | 4.6 | 4.2 | 4.3 | 4.0 |
| Amortization on a due basis (-) | -0.5 | -0.5 | -0.6 | -0.6 | -0.6 | -0.7 | -0.9 | -0.9 | -0.7 | -1.0 | -1.0 | -1.1 | -1.1 | -1.1 |
| Domestic borrowing (residency principle) | 0.5 | 0.0 | 1.7 | 2.9 | 2.9 | 0.9 | 0.6 | 2.5 | 2.8 | 1.7 | 1.0 | 0.8 | 0.4 | 0.6 |
| Monetary sector | 0.5 | -0.1 | 1.2 | 3.0 | 2.5 | 0.4 | 0.5 | 2.5 | 3.0 | 1.7 | 1.0 | 0.7 | 0.3 | 0.5 |
| *of which: onlending of IMF financing* [4] | | | 2.5 | 1.0 | 0.5 | 0.5 | | 0.9 | 0.6 | 0.4 | 0.4 | | | |
| *of which: cession of new IMF SDR allocation* | | | | | 0.0 | 0.0 | | 1.8 | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-monetary sector | -0.1 | 0.0 | -0.1 | 0.0 | -0.1 | -0.2 | 0.1 | 0.0 | -0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other incl. Treasury correspondent accounts (net) | 0.2 | 0.1 | 0.6 | 0.0 | 0.5 | 0.6 | 0.0 | 0.0 | 0.0 | 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 | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 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 4. Madagascar: Fiscal Operations of the Central Government
### Quarterly Projections for 2021-2023 (Billions of Ariary)

| | 2021 | | | | | 2022 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar | Jun | Sept | Dec | | Mar | Jun | Sept | Dec | Mar | Jun | Sept | Dec |
| | Est. | Est. | Est. | 1st Review | Est. | Projections | | | | Projections | | | |
| Total revenue and grants | 1,440 | 2,896 | 4,468 | 6,761 | 6,148 | 1,450 | 3,483 | 5,898 | 8,742 | 2,022 | 4,348 | 6,699 | 10,054 |
| Total revenue | 1,264 | 2,666 | 4,171 | 5,841 | 5,842 | 1,412 | 3,140 | 5,062 | 7,200 | 1,928 | 4,059 | 6,249 | 8,640 |
| Tax revenue | 1,244 | 2,607 | 4,082 | 5,676 | 5,676 | 1,398 | 3,101 | 4,972 | 7,025 | 1,912 | 4,004 | 6,145 | 8,441 |
| Domestic taxes | 685 | 1,458 | 2,271 | 3,050 | 3,050 | 656 | 1,563 | 2,574 | 3,664 | 964 | 2,189 | 3,306 | 4,511 |
| Taxes on international trade and transactions | 558 | 1,149 | 1,812 | 2,626 | 2,626 | 743 | 1,538 | 2,398 | 3,361 | 948 | 1,814 | 2,839 | 3,930 |
| Non-tax revenue | 20 | 59 | 89 | 165 | 166 | 14 | 40 | 90 | 175 | 17 | 55 | 104 | 199 |
| Grants | 176 | 231 | 297 | 920 | 306 | 38 | 343 | 837 | 1,543 | 93 | 289 | 451 | 1,414 |
| Current grants | 0 | 1 | 1 | 0 | 1 | 1 | 1 | 1 | 2 | 13 | 13 | 13 | 53 |
| Capital grants | 176 | 230 | 296 | 920 | 305 | 38 | 343 | 836 | 1,540 | 81 | 276 | 438 | 1,361 |
| Total expenditure and lending minus repayments | 1,682 | 3,923 | 5,237 | 10,165 | 7,719 | 1,794 | 5,258 | 8,673 | 12,773 | 2,274 | 5,744 | 8,914 | 13,471 |
| *of which: Social priority spending* [1] | *7* | *81* | *140* | *299* | *299* | *7* | *75* | *300* | *527* | *96* | *240* | *480* | *960* |
| Current expenditure | 1,283 | 2,665 | 3,899 | 6,168 | 4,855 | 1,549 | 3,290 | 5,122 | 6,994 | 1,611 | 3,470 | 5,178 | 7,087 |
| Wages and salaries | 615 | 1,342 | 2,061 | 3,049 | 2,842 | 604 | 1,746 | 2,619 | 3,492 | 928 | 1,934 | 2,901 | 3,868 |
| Interest payments | 90 | 166 | 234 | 375 | 354 | 113 | 217 | 339 | 466 | 125 | 229 | 272 | 579 |
| Foreign | 24 | 55 | 84 | 114 | 123 | 30 | 91 | 148 | 193 | 52 | 83 | 50 | 262 |
| Domestic | 67 | 111 | 150 | 261 | 231 | 82 | 126 | 192 | 274 | 73 | 146 | 222 | 317 |
| Other | 339 | 776 | 1,075 | 2,251 | 2,182 | 346 | 1,046 | 1,693 | 2,456 | 458 | 1,057 | 1,736 | 2,480 |
| Goods and services | 34 | 113 | 206 | 421 | 355 | 56 | 222 | 336 | 517 | 113 | 244 | 397 | 567 |
| Transfers and subsidies | 305 | 663 | 870 | 1,830 | 1,827 | 290 | 824 | 1,357 | 1,938 | 344 | 813 | 1,339 | 1,913 |
| *of which: JIRAMA* [2] | *76* | *207* | *370* | *672* | *672* | … | … | … | … | … | … | … | … |
| Treasury operations (net) | 239 | 382 | 529 | 493 | -523 | 487 | 280 | 470 | 579 | 100 | 250 | 270 | 160 |
| Capital expenditure | 398 | 1,258 | 1,338 | 3,998 | 2,864 | 245 | 1,969 | 3,552 | 5,780 | 663 | 2,274 | 3,735 | 6,385 |
| Domestic financed | 42 | 298 | 369 | 1,396 | 1,518 | 34 | 652 | 934 | 1,556 | 321 | 856 | 1,284 | 2,140 |
| Foreign financed | 357 | 960 | 969 | 2,602 | 1,346 | 212 | 1,317 | 2,618 | 4,224 | 342 | 1,418 | 2,451 | 4,245 |
| Overall balance (commitment basis ) | -242 | -1,026 | -769 | -3,404 | -1,571 | -344 | -1,775 | -2,775 | -4,031 | -252 | -1,396 | -2,214 | -3,417 |
| Float (variation of accounts payable, + = increase) | -252 | -223 | -245 | -57 | -126 | 4 | 0 | 0 | 0 | -50 | -100 | -150 | -200 |
| Variation of domestic arrears (+ = increase) | 0 | 0 | 0 | -30 | 0 | 0 | 0 | 0 | -30 | 0 | 0 | 0 | 0 |
| Overall balance (including grants, cash basis) | -494 | -1,249 | -1,014 | -3,492 | -1,697 | -340 | -1,775 | -2,775 | -4,061 | -302 | -1,496 | -2,364 | -3,617 |
| Domestic primary balance[3] | 29 | -131 | 136 | -1,347 | -178 | -58 | -584 | -654 | -883 | 121 | -38 | 58 | -7 |
| Total financing | 493 | 1,249 | 1,021 | 3,492 | 1,697 | 340 | 1,775 | 2,775 | 4,061 | 302 | 1,496 | 2,364 | 3,617 |
| Foreign borrowing (residency principle) | 78 | 1,024 | 952 | 1,929 | 1,221 | 106 | 738 | 1,412 | 2,291 | 77 | 902 | 1,688 | 2,400 |
| External borrowing, Gross | 181 | 1,210 | 1,220 | 2,232 | 1,588 | 174 | 974 | 1,782 | 2,729 | 262 | 1,335 | 2,234 | 3,104 |
| Budget support loans | 0 | 480 | 547 | 551 | 547 | 0 | 0 | 0 | 45 | 0 | 192 | 220 | 221 |
| Project loans | 181 | 730 | 673 | 1,682 | 1,041 | 174 | 974 | 1,782 | 2,684 | 262 | 1,142 | 2,014 | 2,884 |
| Amortization on a due basis (-) | -103 | -186 | -268 | -304 | -367 | -68 | -236 | -370 | -438 | -185 | -433 | -546 | -705 |
| Domestic borrowing (residency principle) | 416 | 225 | 70 | 1,563 | 477 | 234 | 1,036 | 1,363 | 1,771 | 225 | 594 | 676 | 1,217 |
| Monetary sector | 488 | 131 | 52 | 1,340 | 257 | 547 | 1,036 | 1,366 | 1,876 | 225 | 594 | 677 | 1,173 |
| *of which: onlending of IMF financing* [4] | *264* | *264* | *264* | *264* | *264* | *0* | *263* | *400* | *400* | *138* | *138* | *284* | *284* |
| *of which: cession of new IMF SDR allocation* | *n.a.* | *n.a.* | *0* | *0* | *0* | *0* | *0* | *0* | *800* | *0* | *0* | *0* | *0* |
| Non-monetary sector | -39 | -21 | -51 | -49 | -87 | -4 | 0 | -3 | -105 | 0 | 0 | -1 | 44 |
| Other incl. Treasury correspondent accounts (net) | -34 | 115 | 69 | 272 | 307 | -309 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Fiscal financing balance[5] | -1 | 0 | 7 | 0 | 0 | 0 | 0 | 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, 2018-27

| | 2018 | 2019 | 2020 | | 2021 | | | 2022 | | | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | Est. | ECF | Est. | Program approval | 1st review | Est. | Program approval | 1st review | Proj. | Projections | | | | |
| | | | | | | | (Millions of SDRs) | | | | | | | | |
| Current account | 70 | -234 | -651 | -504 | -503 | -543 | -494 | -478 | -541 | -606 | -620 | -651 | -587 | -498 | -506 |
| Goods and services | -335 | -482 | -901 | -841 | -891 | -1,011 | -1,011 | -749 | -870 | -985 | -805 | -857 | -829 | -739 | -766 |
| Trade balance of goods | -324 | -611 | -654 | -645 | -647 | -588 | -679 | -631 | -683 | -640 | -514 | -628 | -633 | -679 | -775 |
| Exports, f.o.b. | 2,143 | 1,891 | 1,387 | 1,402 | 1,673 | 1,884 | 1,904 | 1,963 | 1,973 | 2,390 | 2,592 | 2,686 | 2,735 | 2,877 | 3,035 |
| *of which: Mining* | 594 | 551 | 257 | 262 | 441 | 542 | 542.5 | 633 | 637 | 809 | 874 | 810 | 819 | 861 | 946 |
| *of which: Vanilla* | 605 | 423 | 366 | 367 | 371 | 423 | 434 | 383 | 401 | 399 | 382 | 445 | 409 | 373 | 373 |
| Imports, f.o.b. | -2,467 | -2,502 | -2,041 | -2,046 | -2,320 | -2,472 | -2,583 | -2,594 | -2,656 | -3,029 | -3,106 | -3,314 | -3,368 | -3,557 | -3,810 |
| *of which: Petroleum products* | *-387* | *-403* | *-256* | *-256* | *-337* | *-339* | *-339* | *-337* | *-424* | *-525* | *-494* | *-478* | *-491* | *-490* | *-515* |
| *of which: Food* | *-373* | *-327* | *-323* | *-324* | *-363* | *-455* | *-464* | *-379* | *-436* | *-500* | *-477* | *-547* | *-559* | *-569* | *-601* |
| *of which: Intermediate goods and capital* | *-997* | *-1,014* | *-805* | *-810* | *-852* | *-1,056* | *-1,063* | *-1,055* | *-987* | *-1,247* | *-1,235* | *-1,316* | *-1,316* | *-1,439* | *-1,548* |
| Services (net) | -11 | 129 | -247 | -197 | -245 | -423 | -332 | -119 | -187 | -345 | -291 | -229 | -196 | -60 | 9 |
| Receipts | 935 | 1,036 | 436 | 444 | 669 | 396 | 449 | 910 | 755 | 573 | 666 | 834 | 976 | 1,150 | 1,274 |
| *of which: Travels* | *489* | *538* | *103* | *103* | *291* | *42* | *69* | *483* | *339* | *166* | *242* | *377* | *470* | *587* | *639* |
| Payments | -946 | -907 | -683 | -641 | -914 | -819 | -781 | -1,029 | -942 | -918 | -957 | -1,063 | -1,171 | -1,210 | -1,266 |
| Income (net) | -281 | -329 | -300 | -276 | -154 | -217 | -180 | -286 | -261 | -251 | -306 | -335 | -363 | -398 | -414 |
| Receipts | 40 | 44 | 35 | 32 | 43 | 32 | 30 | 45 | 40 | 31 | 34 | 39 | 45 | 52 | 60 |
| Payments | -321 | -373 | -335 | -308 | -197 | -249 | -210 | -331 | -301 | -283 | -340 | -374 | -408 | -450 | -474 |
| *of which: interest on public debt* | *-22* | *-29* | *-22* | *-22* | *-21* | *-21* | *-20* | *-18* | *-42* | *-38* | *-45* | *-49* | *-54* | *-59* | *-67* |
| Current transfers (net) | 686 | 578 | 550 | 613 | 543 | 685 | 698 | 557 | 590 | 630 | 491 | 541 | 605 | 639 | 675 |
| Official transfers | 126 | 86 | 97 | 105 | 70 | 22 | 22 | 51 | 24 | 9 | 19 | 51 | 51 | 52 | 53 |
| *of which: Budget aid* [1] | *85* | *73* | *83* | *83* | *54* | *0* | *0* | *34* | *0* | *0* | *9* | *40* | *40* | *40* | *40* |
| Private transfers | 560 | 491 | 453 | 509 | 472 | 662 | 675 | 507 | 566 | 621 | 472 | 490 | 554 | 587 | 622 |
| Capital and financial account | 41 | 150 | 517 | 370 | 508 | 769 | 677 | 536 | 545 | 568 | 571 | 718 | 774 | 775 | 742 |
| Capital account[1] | 171 | 241 | 221 | 153 | 178 | 169 | 56 | 167 | 222 | 278 | 232 | 213 | 158 | 160 | 149 |
| *of which: Project grant* [1] | *171* | *241* | *221* | *153* | *178* | *169* | *56* | *167* | *222* | *278* | *232* | *213* | *158* | *160* | *149* |
| Financial account | -14 | -52 | 296 | 172 | 330 | 600 | 622 | 368 | 323 | 290 | 339 | 505 | 616 | 614 | 593 |
| Foreign direct and portfolio investment | 351 | 270 | 176 | 180 | 225 | 153 | 171 | 265 | 203 | 186 | 226 | 298 | 324 | 351 | 397 |
| Other investment | -364 | -322 | 120 | -9 | 105 | 447 | 450 | 103 | 120 | 105 | 113 | 207 | 292 | 263 | 196 |
| Government | 154 | 131 | 107 | 158 | 366 | 354 | 197 | 378 | 357 | 417 | 409 | 502 | 472 | 503 | 454 |
| Drawing | 204 | 182 | 165 | 216 | 430 | 409 | 255 | 474 | 457 | 493 | 530 | 627 | 617 | 667 | 633 |
| Project drawings [1] | 167 | 177 | 151 | 201 | 297 | 308 | 154 | 440 | 422 | 484 | 492 | 590 | 580 | 631 | 633 |
| Budgetary support [1] | 37 | 5 | 14 | 15 | 133 | 101 | 101 | 34 | 35 | 8 | 38 | 37 | 37 | 37 | 0 |
| Amortization | -50 | -50 | -58 | -58 | -64 | -56 | -58 | -95 | -100 | -76 | -120 | -125 | -146 | -165 | -179 |
| Monetary authority and private sector | -156 | -244 | -121 | -122 | -98 | 347 | 247 | -245 | -246 | -121 | -219 | -93 | -29 | -25 | -18 |
| Banks | 38 | -12 | -37 | -95 | 0 | 4 | 8 | 0 | 0 | 50 | 0 | 0 | 0 | 0 | 0 |
| Other (inc. unrepatriated export revenues) | -407 | -221 | 171 | 50 | -163 | -249 | 13 | -30 | 9 | -141 | -77 | -203 | -150 | -214 | -239 |
| Errors and omissions | -116 | -38 | 0 | 45 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 110 | -83 | -134 | -134 | 5 | 226 | 184 | 57 | 4 | -38 | -48 | 67 | 187 | 277 | 236 |
| Financing | -110 | 83 | 134 | 134 | -5 | -226 | -228 | -57 | -4 | 38 | 48 | -67 | -187 | -277 | -236 |
| Use of IMF credit (net) | 24 | 59 | 25 | 25 | 85 | 49 | 49 | 30 | 82 | 82 | 12 | -10 | -65 | -104 | -107 |
| Other assets, net (increase = –)[2] | -135 | 25 | -141 | -141 | -111 | -296 | -292 | -91 | -90 | -48 | 36 | -55 | -120 | -171 | -129 |
| *Exceptional financing-Grant for debt relief under CCRT* [3] | *0* | *0* | *6* | *6* | *12* | *12* | *6* | *3* | *3* | *3* | | | | | |
| *Exceptional financing-G-20 DSSI* | | | *0* | *0* | *9* | *9* | *9* | | *0* | *0* | *0* | *-2* | *-2* | *-2* | *-2* |
| *Exceptional financing-RCF disbursement* | | | *244* | *244* | | | | | | | | | | | |
| Residual financing gap (unidentified financing) | 0 | 0 | 0 | 0 | 0 | 0 | 44 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| | | | | | | | (Percent of GDP; unless otherwise indicated) | | | | | | | | |
| *Memorandum items:* | | | | | | | | | | | | | | | |
| Grants | 2.6 | 3.1 | 3.1 | 2.5 | 2.3 | 1.7 | 0.6 | 1.8 | 2.1 | 2.5 | 2.0 | 2.0 | 1.4 | 1.4 | 1.2 |
| Loans | 2.1 | 1.8 | 1.7 | 2.3 | 4.2 | 4.1 | 2.5 | 4.3 | 4.2 | 4.4 | 4.4 | 4.9 | 4.5 | 4.5 | 4.0 |
| Direct investment | 3.6 | 2.6 | 1.8 | 1.9 | 2.2 | 1.5 | 1.7 | 2.4 | 1.9 | 1.7 | 1.9 | 2.3 | 2.3 | 2.4 | 2.5 |
| Current account | | | | | | | | | | | | | | | |
| Excluding net official transfers | -1.9 | -5.4 | -9.6 | -7.9 | -7.2 | -7.1 | -5.5 | -6.2 | -7.1 | -7.9 | -7.1 | -7.0 | -5.7 | -4.7 | -4.3 |
| Including net official transfers | 0.7 | -2.3 | -6.5 | -5.4 | -5.0 | -5.5 | -4.9 | -4.4 | -5.0 | -5.4 | -5.1 | -5.1 | -4.2 | -3.4 | -3.2 |
| Debt service (percent of exports of goods) | 1.7 | 3.6 | 2.5 | 2.7 | 2.3 | 2.4 | 6.3 | 3.7 | 3.8 | 3.6 | 2.7 | 2.6 | 3.7 | 3.0 | 2.5 |
| Export of goods volume (percent change) | -4.8 | 6.5 | -19.4 | -18.5 | 9.5 | 36.9 | 38.7 | 17.3 | -13.7 | 4.4 | 0.2 | 4.7 | 1.2 | 6.2 | 5.3 |
| Import of goods volume (percent change) | -0.2 | 3.4 | -17.9 | -17.8 | 9.5 | 6.3 | 11.1 | 13.8 | 3.0 | 4.7 | 5.4 | 8.7 | 2.4 | 6.3 | 5.7 |
| Gross official reserves (millions of SDR)[4] | 1,221 | 1,196 | 1,338 | 1,338 | 1,449 | 1,633 | 1,630 | 1,540 | 1,723 | 1,677 | 1,641 | 1,696 | 1,816 | 1,986 | 2,115 |
| Months of imports of goods and nonfactor services | 4.3 | 4.2 | 5.9 | 6.0 | 5.4 | 6.0 | 5.8 | 5.1 | 5.7 | 5.1 | 4.8 | 4.7 | 4.8 | 5.0 | 5.0 |
| Terms of trade (percent change, deterioration -) | 5.6 | -15.5 | -8.5 | -8.6 | 6.2 | -13.6 | -13.8 | 1.8 | 16.3 | 7.3 | 11.3 | 0.8 | 1.4 | -0.3 | -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.

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

## Table 5b. Madagascar: Balance of Payments, 2018-27
(Percent of GDP)

| | 2018 | 2019 | 2020 | 2021 | | | 2022 | | | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | Est. | Est. | Program approval | 1st review | Est. | Program approval | 1st review | Proj. | Projections | | | | |
| Current account | 0.7 | -2.3 | -5.4 | -4.9 | -5.5 | -4.9 | -4.4 | -5.0 | -5.4 | -5.1 | -5.1 | -4.2 | -3.4 | -3.2 |
| Goods and services | -3.5 | -4.7 | -9.0 | -8.6 | -10.2 | -10.1 | -6.9 | -8.1 | -8.8 | -6.7 | -6.7 | -6.0 | -5.0 | -4.8 |
| Trade balance of goods | -3.3 | -6.0 | -6.9 | -6.2 | -5.9 | -6.8 | -5.8 | -6.3 | -5.7 | -4.2 | -4.9 | -4.6 | -4.6 | -4.8 |
| Exports, f.o.b. | 22.0 | 18.5 | 15.0 | 16.2 | 18.9 | 19.0 | 18.0 | 18.3 | 21.3 | 21.5 | 20.9 | 19.8 | 19.4 | 19.0 |
| *of which: Mining* | 6.1 | 5.4 | 2.8 | 4.3 | 5.4 | 5.4 | 5.8 | 5.9 | 7.2 | 7.2 | 6.3 | 5.9 | 5.8 | 5.9 |
| *of which: Vanilla* | 6.2 | 4.1 | 3.9 | 3.6 | 4.2 | 4.3 | 3.5 | 3.7 | 3.6 | 3.2 | 3.5 | 3.0 | 2.5 | 2.3 |
| Imports, f.o.b. | -25.4 | -24.5 | -21.8 | -22.4 | -24.8 | -25.8 | -23.8 | -24.6 | -27.0 | -25.7 | -25.8 | -24.4 | -24.0 | -23.8 |
| *of which: Petroleum products* | -4.0 | -4.0 | -2.7 | -3.3 | -3.4 | -3.4 | -3.1 | -3.9 | -4.7 | -4.1 | -3.7 | -3.6 | -3.3 | -3.2 |
| *of which: Food* | -3.8 | -3.2 | -3.5 | -3.5 | -4.6 | -4.6 | -3.5 | -4.0 | -4.5 | -3.9 | -4.3 | -4.0 | -3.8 | -3.7 |
| *of which: Intermediate goods and capital* | -10.3 | -9.9 | -8.6 | -8.2 | -10.6 | -10.6 | -9.7 | -9.2 | -11.1 | -10.2 | -10.2 | -9.5 | -9.7 | -9.7 |
| Services (net) | -0.1 | 1.3 | -2.1 | -2.4 | -4.2 | -3.3 | -1.1 | -1.7 | -3.1 | -2.4 | -1.8 | -1.4 | -0.4 | 0.1 |
| Receipts | 9.6 | 10.1 | 4.7 | 6.5 | 4.0 | 4.5 | 8.3 | 7.0 | 5.1 | 5.5 | 6.5 | 7.1 | 7.8 | 8.0 |
| *of which: Travels* | 5.0 | 5.3 | 1.1 | 2.8 | 0.4 | 0.7 | 4.4 | 3.1 | 1.5 | 2.0 | 2.9 | 3.4 | 4.0 | 4.0 |
| Payments | -9.7 | -8.9 | -6.8 | -8.8 | -8.2 | -7.8 | -9.4 | -8.7 | -8.2 | -7.9 | -8.3 | -8.5 | -8.2 | -7.9 |
| Income (net) | -2.9 | -3.2 | -2.9 | -1.5 | -2.2 | -1.8 | -2.6 | -2.4 | -2.2 | -2.5 | -2.6 | -2.6 | -2.7 | -2.6 |
| Receipts | 0.4 | 0.4 | 0.3 | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |
| Payments | -3.3 | -3.7 | -3.3 | -1.9 | -2.5 | -2.1 | -3.0 | -2.8 | -2.5 | -2.8 | -2.9 | -3.0 | -3.0 | -3.0 |
| *of which: interest on public debt* | -0.2 | -0.3 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.4 | -0.3 | -0.4 | -0.4 | -0.4 | -0.4 | -0.4 |
| Current transfers (net) | 7.1 | 5.7 | 6.5 | 5.2 | 6.9 | 7.0 | 5.1 | 5.5 | 5.6 | 4.1 | 4.2 | 4.4 | 4.3 | 4.2 |
| Official transfers | 1.3 | 0.8 | 1.1 | 0.7 | 0.2 | 0.2 | 0.5 | 0.2 | 0.1 | 0.2 | 0.4 | 0.4 | 0.4 | 0.3 |
| *of which: Budget aid* [1] | 0.9 | 0.7 | 0.9 | 0.5 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.1 | 0.3 | 0.3 | 0.3 | 0.2 |
| Private transfers | 5.8 | 4.8 | 5.4 | 4.6 | 6.7 | 6.7 | 4.6 | 5.3 | 5.5 | 3.9 | 3.8 | 4.0 | 4.0 | 3.9 |
| Capital and financial account | 0.4 | 1.5 | 3.9 | 4.9 | 7.7 | 6.8 | 4.9 | 5.1 | 5.1 | 4.7 | 5.6 | 5.6 | 5.2 | 4.6 |
| Capital account[1] | 1.8 | 2.4 | 1.6 | 1.7 | 1.7 | 0.6 | 1.5 | 2.1 | 2.5 | 1.9 | 1.7 | 1.1 | 1.1 | 0.9 |
| *of which: Project grant* [1] | 1.8 | 2.4 | 1.6 | 1.7 | 1.7 | 0.6 | 1.5 | 2.1 | 2.5 | 1.9 | 1.7 | 1.1 | 1.1 | 0.9 |
| Financial account | -0.1 | -0.5 | 1.8 | 3.2 | 6.0 | 6.2 | 3.4 | 3.0 | 2.6 | 2.8 | 3.9 | 4.5 | 4.1 | 3.7 |
| Foreign direct and portfolio investment | 3.6 | 2.6 | 1.9 | 2.2 | 1.5 | 1.7 | 2.4 | 1.9 | 1.7 | 1.9 | 2.3 | 2.3 | 2.4 | 2.5 |
| Other investment | -3.7 | -3.2 | -0.1 | 1.0 | 4.5 | 4.5 | 0.9 | 1.1 | 0.9 | 0.9 | 1.6 | 2.1 | 1.8 | 1.2 |
| Government | 1.6 | 1.3 | 1.7 | 3.5 | 3.6 | 2.0 | 3.5 | 3.3 | 3.7 | 3.4 | 3.9 | 3.4 | 3.4 | 2.8 |
| Drawing | 2.1 | 1.8 | 2.3 | 4.2 | 4.1 | 2.5 | 4.3 | 4.2 | 4.4 | 4.4 | 4.9 | 4.5 | 4.5 | 4.0 |
| Project drawings [1] | 1.7 | 1.7 | 2.1 | 2.9 | 3.1 | 1.5 | 4.0 | 3.9 | 4.3 | 4.1 | 4.6 | 4.2 | 4.3 | 4.0 |
| Budgetary support [1] | 0.4 | 0.0 | 0.2 | 1.3 | 1.0 | 1.0 | 0.3 | 0.3 | 0.1 | 0.3 | 0.3 | 0.3 | 0.2 | 0.0 |
| Amortization | -0.5 | -0.5 | -0.6 | -0.6 | -0.6 | -0.6 | -0.9 | -0.9 | -0.7 | -1.0 | -1.0 | -1.1 | -1.1 | -1.1 |
| Monetary authority and private sector | -1.6 | -2.4 | -1.3 | -0.9 | 3.5 | 2.5 | -2.2 | -2.3 | -1.1 | -1.8 | -0.7 | -0.2 | -0.2 | -0.1 |
| Banks | 0.4 | -0.1 | -1.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other (inc. unrepatriated export revenues) | -4.2 | -2.2 | 0.5 | -1.6 | -2.5 | 0.1 | -0.3 | 0.1 | -1.3 | -0.6 | -1.6 | -1.1 | -1.4 | -1.5 |
| Errors and omissions | -1.2 | -0.4 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 1.1 | -0.8 | -1.4 | 0.0 | 2.3 | 1.8 | 0.5 | 0.0 | -0.3 | -0.4 | 0.5 | 1.4 | 1.9 | 1.5 |
| Financing | -1.1 | 0.8 | 1.4 | 0.0 | -2.3 | -2.3 | -0.5 | 0.0 | 0.3 | 0.4 | -0.5 | -1.4 | -1.9 | -1.5 |
| Use of IMF credit (net) | 0.3 | 0.6 | 0.3 | 0.8 | 0.5 | 0.5 | 0.3 | 0.8 | 0.7 | 0.1 | -0.1 | -0.5 | -0.7 | -0.7 |
| Other assets, net (increase = –)[2] | -1.4 | 0.2 | -1.5 | -1.1 | -3.0 | -2.9 | -0.8 | -0.8 | -0.4 | 0.3 | -0.4 | -0.9 | -1.2 | -0.8 |
| *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 | 0.0 | 0.0 | 0.0 |
| *Exceptional financing-G-20 DSSI* | | | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Exceptional financing-RCF disbursement* | | | 2.6 | | | | | | | | | | | |
| Residual financing gap (unidentified financing) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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.

## Table 6. Madagascar: Monetary Accounts, 2018-27[1]

(Billions of Ariary; unless otherwise indicated)

| | 2018 | 2019 | 2020 | | 2021 | | | 2022 | | | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | | ECF | Actuals | Program approval | 1st review | Est. | Program approval | 1st review | Proj. | Projections | | | | |
| Net foreign assets | 4,927 | 4,614 | 4,876 | 4,876 | 5,194 | 5,073 | 5,018 | 5,729 | 6,408 | 5,715 | 5,800 | 6,518 | 7,983 | 10,087 | 11,860 |
| Net foreign assets (BCM) | 4,207 | 3,925 | 3,597 | 3,597 | 3,870 | 3,682 | 3,691 | 4,360 | 4,959 | 4,356 | 4,341 | 4,969 | 6,360 | 8,397 | 10,143 |
| Net foreign assets (deposit money banks) | 720 | 689 | 1,279 | 1,279 | 1,323 | 1,391 | 1,327 | 1,369 | 1,450 | 1,360 | 1,459 | 1,549 | 1,623 | 1,690 | 1,717 |
| Net domestic assets | 6,871 | 8,045 | 9,314 | 9,314 | 12,091 | 11,811 | 10,901 | 13,361 | 13,264 | 15,374 | 18,003 | 20,431 | 23,138 | 25,260 | 27,345 |
| Domestic credit | 7,935 | 9,125 | 10,624 | 10,685 | 13,551 | 13,352 | 12,411 | 14,653 | 14,878 | 16,816 | 19,711 | 22,400 | 25,321 | 27,706 | 30,348 |
| Net credit to government | 2,099 | 2,074 | 2,831 | 2,893 | 4,651 | 4,368 | 3,072 | 4,972 | 4,495 | 6,049 | 7,337 | 8,174 | 8,826 | 9,144 | 9,710 |
| BCM[2] | 947 | 757 | 982 | 1,044 | 2,514 | 2,107 | 1,271 | 2,530 | 2,680 | 2,470 | 3,152 | 3,520 | 3,414 | 3,157 | 2,874 |
| DMBs | 1,096 | 1,256 | 1,565 | 1,565 | 1,718 | 1,841 | 1,567 | 2,012 | 1,383 | 3,154 | 3,745 | 4,200 | 4,943 | 5,506 | 6,343 |
| Other credits | 55 | 62 | 285 | 285 | 418 | 420 | 234 | 430 | 432 | 425 | 440 | 455 | 468 | 481 | 493 |
| Credit to the economy | 5,836 | 7,051 | 7,792 | 7,792 | 8,900 | 8,984 | 9,339 | 9,681 | 10,383 | 10,767 | 12,374 | 14,226 | 16,495 | 18,562 | 20,637 |
| Credit to public enterprises | 40 | 43 | 59 | 59 | 59 | 59 | 54 | 59 | 59 | 54 | 54 | 54 | 54 | 54 | 54 |
| Credit to private sector | 5,765 | 6,980 | 7,687 | 7,687 | 8,821 | 8,905 | 9,263 | 9,601 | 10,304 | 10,692 | 12,299 | 14,172 | 16,441 | 18,508 | 20,583 |
| Other credits | 31 | 28 | 46 | 46 | 20 | 20 | 22 | 20 | 20 | 20 | 20 | 0 | 0 | 0 | 0 |
| Other items (net) | -1,064 | -1,080 | -1,310 | -1,371 | -1,260 | -1,540 | -1,510 | -1,162 | -1,614 | -1,442 | -1,708 | -1,970 | -2,183 | -2,446 | -3,003 |
| BCM | 269 | 281 | 245 | 183 | 298 | 290 | 161 | 283 | 334 | 310 | 250 | 230 | 230 | 260 | 260 |
| Other | -1,332 | -1,361 | -1,554 | -1,554 | -1,558 | -1,830 | -1,672 | -1,445 | -1,948 | -1,752 | -1,958 | -2,200 | -2,413 | -2,706 | -3,263 |
| Money and quasi-money (M3) | 11,798 | 12,659 | 14,190 | 14,190 | 17,285 | 16,885 | 15,919 | 19,089 | 19,673 | 21,090 | 23,803 | 26,949 | 31,121 | 35,347 | 39,205 |
| Foreign currency deposits | 1,202 | 1,111 | 1,472 | 1,472 | 1,516 | 1,584 | 1,519 | 1,548 | 1,629 | 1,529 | 1,628 | 1,737 | 2,013 | 2,240 | 2,595 |
| Short term obligations of commercial banks | 60 | 73 | 87 | 87 | 51 | 51 | 82 | 51 | 51 | 51 | 51 | 51 | 51 | 51 | 51 |
| Broad money (M2) | 10,536 | 11,476 | 12,632 | 12,632 | 15,718 | 15,250 | 14,318 | 17,490 | 17,993 | 19,510 | 22,124 | 25,161 | 29,057 | 33,056 | 36,559 |
| Currency in circulation | 3,391 | 3,315 | 3,570 | 3,570 | 3,827 | 4,077 | 4,117 | 4,151 | 4,663 | 4,649 | 5,247 | 5,441 | 6,283 | 7,076 | 7,848 |
| Demand deposits in local currency | 3,687 | 4,426 | 4,866 | 4,866 | 6,313 | 5,917 | 5,509 | 7,102 | 7,096 | 7,942 | 8,879 | 10,162 | 11,551 | 12,958 | 15,524 |
| Quasi-money including time deposits | 3,458 | 3,735 | 4,196 | 4,196 | 5,578 | 5,256 | 4,691 | 6,236 | 6,233 | 6,919 | 7,998 | 9,459 | 11,123 | 12,923 | 13,187 |
| Reserve money | 5,153 | 4,927 | 5,459 | 5,459 | 6,391 | 5,856 | 5,863 | 6,671 | 7,801 | 7,365 | 7,953 | 8,921 | 10,199 | 12,001 | 13,457 |
| (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 | 1.1 | 3.4 | 8.8 | 4.9 | 0.4 | 3.2 | 5.8 | 7.2 | 5.4 |
| Net foreign assets (BCM) | 7.1 | -2.7 | -2.9 | -2.9 | 2.2 | 0.7 | 0.7 | 3.1 | 8.4 | 4.6 | -0.1 | 2.8 | 5.5 | 7.0 | 5.3 |
| Net foreign assets (deposit money banks) | -1.8 | -0.3 | 5.1 | 5.1 | 0.4 | 0.9 | 0.4 | 0.3 | 0.4 | 0.2 | 0.5 | 0.4 | 0.3 | 0.2 | 0.1 |
| Net domestic assets | 7.1 | 11.1 | 11.1 | 11.1 | 22.0 | 19.8 | 12.6 | 8.1 | 9.5 | 31.2 | 13.5 | 11.0 | 10.8 | 7.3 | 6.3 |
| Domestic credit | 9.8 | 11.3 | 13.1 | 13.6 | 23.2 | 21.1 | 13.7 | 7.0 | 10.0 | 30.8 | 14.8 | 12.2 | 11.6 | 8.2 | 8.0 |
| Net credit to government | 0.1 | -0.2 | 6.6 | 7.1 | 14.4 | 11.7 | 1.4 | 2.0 | 0.8 | 20.8 | 6.6 | 3.8 | 2.6 | 1.1 | 1.7 |
| BCM | 0.6 | -1.8 | 2.0 | 2.5 | 12.1 | 8.4 | 1.8 | 0.1 | 3.8 | 8.4 | 3.5 | 1.7 | -0.4 | -0.9 | -0.9 |
| DMBs | 1.7 | 1.5 | 2.7 | 2.7 | 1.2 | 2.2 | 0.0 | 1.9 | -3.0 | 11.1 | 3.0 | 2.1 | 3.0 | 1.9 | 2.5 |
| Other credits | -2.2 | 0.1 | 1.9 | 1.9 | 1.1 | 1.1 | -0.4 | 0.1 | 0.1 | 1.3 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Credit to the economy | 9.7 | 11.5 | 6.5 | 6.5 | 8.8 | 9.4 | 12.2 | 5.0 | 9.2 | 10.0 | 8.2 | 8.4 | 9.0 | 7.1 | 6.3 |
| 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 | 0.0 | 0.0 | 0.0 | 0.0 |
| Credit to private sector | 9.6 | 11.5 | 6.2 | 6.2 | 9.0 | 9.6 | 12.5 | 5.0 | 9.2 | 10.0 | 8.2 | 8.5 | 9.0 | 7.1 | 6.3 |
| Other credits | 0.1 | 0.0 | 0.2 | 0.2 | -0.2 | -0.2 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 |
| Other items (net; asset = +) | -2.7 | -0.2 | -2.0 | -2.5 | 0.4 | -1.3 | -1.1 | 0.6 | -0.5 | 0.5 | -1.4 | -1.2 | -0.8 | -0.9 | -1.7 |
| (Percentage change year-on-year) | | | | | | | | | | | | | | | |
| Broad money (M2) | 10.3 | 8.9 | 10.1 | 10.1 | 24.4 | 20.7 | 13.3 | 11.3 | 18.0 | 36.3 | 13.4 | 13.7 | 15.5 | 13.8 | 10.6 |
| Currency in circulation | 9.4 | -2.2 | 7.7 | 7.7 | 7.2 | 14.2 | 15.3 | 8.5 | 14.4 | 12.9 | 12.9 | 3.7 | 15.5 | 12.6 | 10.9 |
| Demand deposits in local currency | 5.2 | 20.0 | 9.9 | 9.9 | 29.7 | 21.6 | 13.2 | 12.5 | 19.9 | 44.2 | 11.8 | 14.5 | 13.7 | 12.2 | 19.8 |
| Quasi-money in local currency | 17.5 | 8.0 | 12.3 | 12.3 | 32.9 | 25.3 | 11.8 | 11.8 | 18.6 | 47.5 | 15.6 | 18.3 | 17.6 | 16.2 | 2.0 |
| Credit to the private sector (in nominal terms) | 19.0 | 21.1 | 10.1 | 10.1 | 14.7 | 15.8 | 20.5 | 8.9 | 15.7 | 15.4 | 15.0 | 15.2 | 16.0 | 12.6 | 11.2 |
| Credit to the private sector (in real terms) | 12.0 | 17.1 | 5.6 | 5.6 | 9.3 | 9.7 | 14.3 | 2.9 | 9.4 | 3.4 | 5.3 | 6.5 | 8.3 | 5.9 | 5.5 |
| *Memorandum items:* | | | | | | | | | | | | | | | |
| Credit to private sector (percent of GDP) | 12.6 | 13.7 | 14.7 | 15.5 | 15.5 | 16.4 | 16.9 | 15.2 | 17.0 | 17.2 | 17.4 | 17.8 | 18.5 | 18.7 | 18.9 |
| Money multiplier (M3/reserve money) | 2.3 | 2.6 | 2.6 | 2.6 | 2.7 | 2.9 | 2.7 | 2.9 | 2.5 | 2.9 | 3.0 | 3.0 | 3.1 | 2.9 | 2.9 |
| Velocity of money (GDP/end-of-period M3) | 3.9 | 4.0 | 3.7 | 3.5 | 3.3 | 3.2 | 3.4 | 3.3 | 3.1 | 2.9 | 3.0 | 3.0 | 2.9 | 2.8 | 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, 2019–23[1]

(Billions of Ariary; unless otherwise indicated)

| | 2019 | 2020 | 2021 | | 2022 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec | Dec | Dec | | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec |
| | Actuals | Actuals | 1st Review | Est. | Projections | | | | Projections | | | |
| Net foreign assets | 3,925 | 3,597 | 3,682 | 3,691 | 3,169 | 3,694 | 3,748 | 4,356 | 4,151 | 4,704 | 5,944 | 4,341 |
| Gross foreign assets | 5,977 | 7,370 | 9,045 | 9,024 | 8,733 | 9,163 | 9,622 | 9,420 | 9,363 | 10,068 | 11,042 | 9,793 |
| Gross foreign liabilities | -2,052 | -3,772 | -5,363 | -5,333 | -5,563 | -5,469 | -5,874 | -5,065 | -5,212 | -5,364 | -5,098 | -5,452 |
| Net domestic assets | 1,002 | 1,862 | 2,174 | 2,172 | 2,705 | 2,739 | 2,621 | 3,009 | 2,608 | 2,946 | 3,042 | 3,612 |
| Credit to government (net) | 757 | 1,044 | 2,107 | 1,271 | 1,779 | 1,882 | 2,181 | 2,470 | 2,643 | 2,972 | 2,955 | 3,152 |
| Claims on central government | 1,103 | 2,331 | 2,585 | 2,576 | 2,556 | 2,779 | 3,023 | 2,966 | 3,137 | 3,230 | 3,285 | 3,360 |
| Statutory advances | 85 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Securitized debt (T-bonds and bills) | 701 | 658 | 615 | 615 | 604 | 593 | 582 | 572 | 561 | 550 | 540 | 529 |
| Discounted bills of exchange | 8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| On-lending of funds | 308 | 1,671 | 1,969 | 1,960 | 1,950 | 2,184 | 2,440 | 2,393 | 2,574 | 2,678 | 2,744 | 2,830 |
| Other credits | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Government deposits | -347 | -1,287 | -478 | -1,305 | -777 | -897 | -842 | -496 | -494 | -257 | -329 | -208 |
| Claims on other sectors | 23 | -187 | -67 | -169 | -17 | -112 | -115 | 29 | 29 | 29 | 29 | -30 |
| Claims on banks: Liquidity operations (+ = injection) | -58 | 609 | -250 | 711 | 640 | 624 | 210 | 200 | -200 | -200 | -200 | 180 |
| Other items (net; asset +) | 281 | 397 | 383 | 359 | 303 | 345 | 345 | 310 | 135 | 145 | 257 | 310 |
| Reserve money | 4,927 | 5,459 | 5,957 | 5,863 | 5,875 | 6,433 | 6,369 | 7,365 | 6,759 | 7,651 | 8,986 | 7,954 |
| Currency in circulation | 3,315 | 3,570 | 4,077 | 4,117 | 3,958 | 4,229 | 4,270 | 4,649 | 4,769 | 5,129 | 5,709 | 5,247 |
| Bank reserves | 1,561 | 1,823 | 1,813 | 1,669 | 1,840 | 2,125 | 2,033 | 2,663 | 1,936 | 2,468 | 3,224 | 2,653 |
| Currency in banks | 335 | 354 | 386 | 366 | 340 | 328 | 359 | 512 | 459 | 453 | 477 | 523 |
| Deposits | 1,226 | 1,469 | 1,427 | 1,303 | 1,500 | 1,797 | 1,674 | 2,150 | 1,477 | 2,015 | 2,747 | 2,130 |
| Resident deposits | 51 | 66 | 66 | 76 | 77 | 79 | 66 | 54 | 54 | 54 | 54 | 54 |
| | | | | | (Cumulative annual flows, unless otherwise stated) | | | | | | | |
| *Memorandum items:* | | | | | | | | | | | | |
| Net foreign assets | -282 | -328 | 85 | 94 | -521 | 3 | 57 | 665 | 460 | 1,013 | 2,253 | 650 |
| Net foreign assets (Millions of SDRs) | -90 | -131 | 12 | 13 | -90 | 14 | -12 | 109 | 61 | 126 | 311 | 61 |
| Net domestic assets | 57 | 860 | 312 | 310 | 533 | 567 | 449 | 838 | 436 | 775 | 870 | 1,440 |
| Credit to government (net) | -191 | 287 | 1,064 | 227 | 508 | 611 | 910 | 1,199 | 1,372 | 1,701 | 1,684 | 1,881 |
| Reserve money | -225 | 532 | 497 | 403 | 12 | 570 | 506 | 1,503 | 896 | 1,788 | 3,124 | 2,091 |
| Exchange Rate (MDG/SDR, end of period) | 5,016 | 5,509 | … | … | … | … | … | … | … | … | … | … |
| Net foreign assets (Millions of SDRs, stock) | 784 | 653 | 665 | 666 | 576 | 680 | 655 | 775 | 727 | 792 | 977 | 727 |

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 |

Sources: 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 |
|---|---|---|---|---|---|---|
| **External financing needs** | **1,216** | **1,055** | **622** | **1,471** | **1,417** | **1,464** |
| Current account deficit (excl. budget grants) | 423 | 817 | 704 | 817 | 836 | 924 |
| Net repayment of private sector and monetary authority debt | 337 | 170 | -20 | 163 | 291 | 124 |
| Repayment of government debt (excl. IMF) | 69 | 81 | 82 | 102 | 160 | 167 |
| Other (incl. unrepatriated export revenues) | 385 | -13 | -143 | 389 | 131 | 248 |
| **External financing sources** | **950** | **745** | **543** | **1,276** | **1,263** | **1,473** |
| Foreign direct and portfolio investment | 373 | 251 | 244 | 250 | 300 | 399 |
| Project support | 577 | 494 | 299 | 1,026 | 962 | 1,075 |
| *Grants* | *332* | *214* | *80* | *374* | *308* | *285* |
| *Loans* | *244* | *280* | *219* | *652* | *654* | *789* |
| **Use of international reserves ("-" is accumulation)** | **76** | **-210** | **-458** | **64** | **76** | **-88** |
| **External financing gap** | **190** | **520** | **537** | **131** | **78** | **78** |
| **Use of IMF credit** | **83** | **384** | **61** | **119** | **16** | **-26** |
| Disbursements | 87 | 384 | 70 | 132 | 65 | 33 |
| Repayments | 4 | 0 | 9 | 12 | 49 | 58 |
| **SDR allocation** | **0** | **0** | **332** | **0** | **0** | **0** |
| **Other exceptional financing** | **107** | **136** | **144** | **12** | **62** | **104** |
| Budget support loans | 7 | 20 | 144 | 11 | 50 | 50 |
| Budget support grants | 101 | 115 | 0 | 1 | 12 | 54 |
| *Memorandum items:* | | | | | | |
| Gross official reserves | 1,653 | 1,863 | 2,321 | 2,257 | 2,181 | 2,269 |

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

**Table 10. Madagascar: Projected External Borrowing Program, on a Contractual Basis**
(Millions of U.S. 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** | **1,156** | **100** | **651** | **100** |
| ***Concessional debt, of which*** | ***847*** | ***73*** | ***418*** | ***64*** |
| Multilateral debt | 625 | 54 | 297 | 46 |
| Bilateral debt | 222 | 19 | 122 | 19 |
| Other | 0 | 0 | 0 | 0 |
| ***Non-concessional debt, of which*** | ***309*** | ***27*** | ***233*** | ***36*** |
| Grant element between 0 and 35 percent | 279 | 24 | 203 | 31 |
| Commercial terms | 30 | 3 | 30 | 5 |
| **By Creditor Type** | **1,156** | **100** | **651** | **100** |
| Multilateral | 632 | 55 | 302 | 46 |
| Bilateral - Paris Club | 103 | 9 | 49 | 8 |
| Bilateral - Non-Paris Club | 382 | 33 | 262 | 40 |
| Other | 39 | 3 | 38 | 6 |
| **Uses of debt financing** | **1,156** | **100** | **651** | **100** |
| Infrastructure | 483 | 42 | 262 | 40 |
| Budget Financing | 149 | 13 | 70 | 11 |
| Social Spending | 0 | 0 | 0 | 0 |
| Other | 524 | 45 | 319 | 49 |

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

## Table 11. Madagascar. Decomposition of Public Debt and Debt Service by Creditor, 2021-23[1]

| | Debt Stock (end of period) 2021 | | | Debt Service | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| | *(In US$)* | *(Percent total debt)* | *(Percent GDP)* | *(In US$)* | | | *(Percent GDP)* | | |
| **Total** | **5,685,484,868** | **100.00** | **40.90** | **761,948,438** | **778,653,371** | **391,476,351** | **5.48** | **5.17** | **2.41** |
| **External** | **4,595,513,502** | **80.83** | **33.06** | **124,531,081** | **134,602,634** | **139,969,554** | **0.90** | **0.89** | **0.86** |
| Multilateral creditors[2] | 3,772,196,289 | 66.35 | 27.13 | 72,755,792 | 83,296,336 | 90,424,275 | 0.52 | 0.55 | 0.56 |
| IMF | 815,587,919 | 14.35 | 5.87 | | | | | | |
| World Bank | 2,007,273,546 | 35.31 | 14.44 | | | | | | |
| ADB/AfDB/IADB | 567,628,114 | 9.98 | 4.08 | | | | | | |
| Other Multilaterals | 381,706,710 | 6.71 | 2.75 | | | | | | |
| *o/w:* Intern'l Fund for Agricultural Dev. | 179,621,152 | 3.16 | 1.29 | | | | | | |
| European Investment Bank | 113,496,725 | 2.00 | 0.82 | | | | | | |
| Bilateral Creditors | 753,155,230 | 13.25 | 5.42 | 23,986,718 | 30,195,654 | 29,488,619 | 0.17 | 0.20 | 0.18 |
| Paris Club | 315,219,245 | 5.54 | 2.27 | 11,663,878 | 17,236,416 | 17,187,482 | 0.08 | 0.11 | 0.11 |
| *o/w:* Agence Française de Développement | 138,830,105 | 2.44 | 1.00 | | | | | | |
| Japan International Cooperation Agency | 82,852,470 | 1.46 | 0.60 | | | | | | |
| Non-Paris Club | 437,935,985 | 7.70 | 3.15 | 12,322,840 | 12,959,238 | 12,301,136 | 0.09 | 0.09 | 0.08 |
| *o/w:* Export-Import Bank of China | 202,049,191 | 3.55 | 1.45 | | | | | | |
| Kuwait Fund | 18,916,694 | 0.33 | 0.14 | | | | | | |
| Bonds | 0 | 0 | 0 | | | | | | |
| Commercial creditors | 70,161,983 | 1.23 | 0.50 | 27,788,571 | 21,110,644 | 20,056,660 | 0.20 | 0.14 | 0.12 |
| *o/w:* Deutsche Bank | 52,269,957 | 0.92 | 0.38 | | | | | | |
| Consorz GIFIEX | 14,954,258 | 0.26 | 0.11 | | | | | | |
| Other international creditors | 0 | 0 | 0 | 0 | 0 | 0 | 0.00 | 0.00 | 0.00 |
| **Domestic** | **1,089,971,366** | **19.17** | **7.84** | **637,417,357** | **644,050,737** | **251,506,797** | **4.58** | **4.28** | **1.55** |
| Held by residents, total | 1,089,971,366 | 19.17 | 7.84 | 637,417,357 | 644,050,737 | 251,506,797 | 4.58 | 4.28 | 1.55 |
| Held by non-residents, total | 0 | 0 | 0 | | | | | | |
| T-Bills | 201,344,537 | 3.54 | 1.45 | 355,945,963 | 201,344,537 | 0 | 2.56 | 1.34 | 0.00 |
| Bonds | 684,767,359 | 12.04 | 4.93 | 265,517,080 | 266,829,278 | 244,021,772 | 1.91 | 1.77 | 1.50 |
| Loans | 203,859,470 | 3.59 | 1.47 | 15,954,314 | 175,876,922 | 7,485,025 | 0.11 | 1.17 | 0.05 |
| **Memo items:** | | | | | | | | | |
| Collateralized debt[3] | 0 | | | | | | | | |
| *o/w:* Related | 0 | | | | | | | | |
| *o/w:* Unrelated | 0 | | | | | | | | |
| Contingent liabilities | 6,542,737.47 | | | | | | | | |
| *o/w:* Public guarantees | 6,542,737.47 | | | | | | | | |
| *o/w:* Other explicit contingent liabilities[4] | 0 | | | | | | | | |
| Nominal GDP | 13,902,470,347 | | | 13,902,470,347 | 15,051,784,563 | 16,277,541,509 | | | |

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).

**Table 12. Madagascar: 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 13. 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 | 9.3 | 37.2 | 43.6 | 65.3 | 103.9 | 107.4 | 93.6 | 84.2 | 59.4 | 14.7 | 4.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Charges and interest | 0.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Fund obligations based on existing and prospective credit | | | | | | | | | | | | | | | |
| Principal | 9.3 | 37.2 | 43.6 | 65.3 | 103.9 | 107.4 | 105.8 | 106.1 | 83.8 | 39.1 | 29.3 | 12.2 | 2.4 | 0.0 | 0.0 |
| Charges and interest | 0.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 |
| Total obligations based on existing and prospective credit | | | | | | | | | | | | | | | |
| Millions of SDRs | 9.9 | 38.8 | 45.1 | 66.9 | 105.5 | 109.0 | 107.4 | 107.7 | 85.4 | 40.7 | 30.9 | 13.8 | 4.0 | 1.6 | 1.6 |
| Billions of Ariary | 55 | 227 | 280 | 431 | 703 | 741 | 741 | 755 | 607 | 294 | 227 | 103 | 30 | 12 | 12 |
| Percent of exports of goods and services | 0.3 | 1.2 | 1.3 | 1.8 | 2.6 | 2.5 | 2.3 | 2.2 | 1.6 | 0.7 | 0.5 | 0.2 | 0.1 | 0.0 | 0.0 |
| Percent of debt service | 2.0 | 7.0 | 8.0 | 11.1 | 14.8 | 13.6 | 11.5 | 10.0 | 7.1 | 3.1 | 2.1 | 0.9 | 0.3 | 0.1 | 0.1 |
| Percent of GDP | 0.1 | 0.3 | 0.4 | 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 | 0.8 | 2.6 | 2.7 | 3.6 | 5.2 | 4.9 | 4.4 | 4.0 | 2.9 | 1.3 | 0.9 | 0.4 | 0.1 | 0.0 | 0.0 |
| Percent of quota | 4.0 | 15.9 | 18.5 | 27.4 | 43.2 | 44.6 | 43.9 | 44.1 | 34.9 | 16.6 | 12.6 | 5.6 | 1.6 | 0.6 | 0.6 |
| Outstanding IMF credit based on existing and prospective drawings | | | | | | | | | | | | | | | |
| Millions of SDRs | 668.9 | 680.6 | 661.5 | 596.2 | 492.3 | 384.9 | 279.1 | 173.0 | 89.2 | 50.1 | 20.8 | 8.5 | 6.1 | 6.1 | 6.1 |
| Billions of Ariary | 3,706 | 3,990 | 4,097 | 3,839 | 3,280 | 2,618 | 1,927 | 1,212 | 634 | 362 | 152 | 64 | 46 | 47 | 47 |
| Percent of exports of goods and services | 22.6 | 20.9 | 18.8 | 16.1 | 12.2 | 8.9 | 6.1 | 3.5 | 1.7 | 0.9 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 |
| Percent of debt service | 132.6 | 122.4 | 117.4 | 99.0 | 69.2 | 48.1 | 29.9 | 16.1 | 7.4 | 3.9 | 1.4 | 0.6 | 0.4 | 0.4 | 0.3 |
| Percent of GDP | 6.0 | 5.6 | 5.1 | 4.3 | 3.3 | 2.4 | 1.6 | 0.9 | 0.4 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Percent of government revenue | 51.5 | 46.2 | 40.1 | 32.4 | 24.2 | 17.2 | 11.4 | 6.5 | 3.1 | 1.6 | 0.6 | 0.2 | 0.1 | 0.1 | 0.1 |
| Percent of quota | 273.7 | 278.5 | 270.7 | 243.9 | 201.4 | 157.5 | 114.2 | 70.8 | 36.5 | 20.5 | 8.5 | 3.5 | 2.5 | 2.5 | 2.5 |
| Net use of IMF credit (millions of SDRs) | 88.5 | 11.7 | -19.1 | -65.3 | -103.9 | -107.4 | -105.8 | -106.1 | -83.8 | -39.1 | -29.3 | -12.2 | -2.4 | 0.0 | 0.0 |
| Disbursements | 97.8 | 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 | 9.3 | 37.2 | 43.6 | 65.3 | 103.9 | 107.4 | 105.8 | 106.1 | 83.8 | 39.1 | 29.3 | 12.2 | 2.4 | 0.0 | 0.0 |
| *Memorandum items:* | | | | | | (Billions of Ariary, unless otherwise indicated) | | | | | | | | | |
| Exports of goods and services (millions of SDRs) | 2,963 | 3,258 | 3,520 | 3,711 | 4,028 | 4,310 | 4,606 | 4,954 | 5,327 | 5,728 | 6,159 | 6,621 | 7,116 | 7,638 | 8,197 |
| Debt service | 2,794.4 | 3,260.5 | 3,491.1 | 3,876.7 | 4,741.7 | 5,441.9 | 6,436.5 | 7,533.0 | 8,567.7 | 9,341.4 | 11,017.6 | 11,382.8 | 12,110.3 | 13,189.1 | 14,492.1 |
| Nominal GDP (at market prices) | 62,177 | 70,846 | 79,569 | 88,915 | 98,716 | 108,922 | 120,387 | 132,994 | 146,859 | 162,138 | 178,888 | 197,286 | 217,361 | 238,421 | 261,377 |
| Government revenue | 7,200 | 8,640 | 10,215 | 11,835 | 13,568 | 15,178 | 16,838 | 18,671 | 20,696 | 22,936 | 25,403 | 28,203 | 31,280 | 34,540 | 38,117 |
| 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. External Sector Assessment

***Overall Assessment:*** *The external position of Madagascar in 2021 was moderately stronger than the level implied by fundamentals and desirable policies based on the current account model. This assessment is in line with the April 2021 assessment. International reserves stand at an adequate level.*

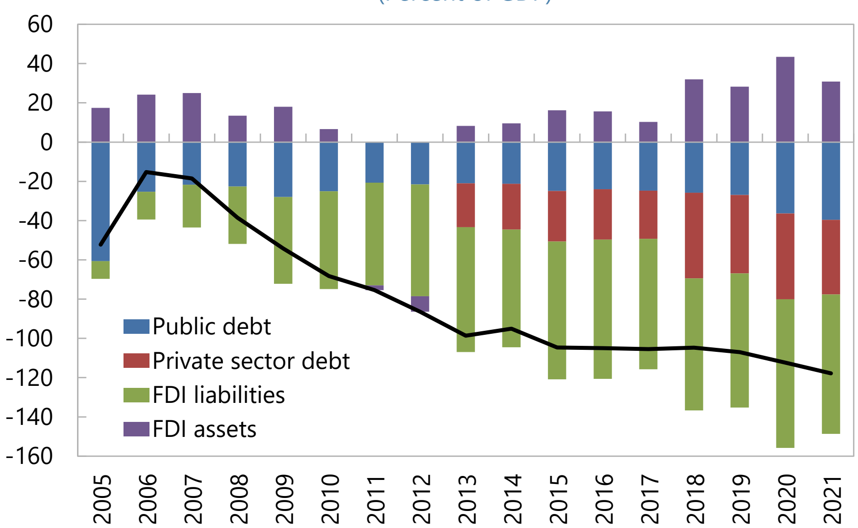
***Potential Policy Responses:*** *To cope with external shocks, the exchange rate should be left to flexibly adjust, while ongoing use of the FXI algorithm to passively build reserves and avoid exceptional volatility would continue to promote stability, both in the present and future in case of adverse shocks. Efforts to formalize the mining sector should continue, but the existing surrender requirement on export proceeds should be gradually phased out while Madagascar's external position allows for it. Any gold purchases implemented as part of the push to diversify reserve holdings should be implemented in line with Fund TA recommendations.*

## Foreign Assets and Liabilities: Position and Trajectory

**Background.** The estimate Net International Investment Position (NIIP) remains negative, having decreased from -15 percent of GDP in 2006 to -118 percent of GDP at end-2021. This development includes a structural break in the series in 2018 (when estimates of private sector assets and liabilities were revised up, following an INSTAT survey). More generally, Madagascar's NIIP position has been on a declining path on the back of private external borrowing by Madagascar's mining sector. The position has remained broadly stable in recent years, following a steeper downward trajectory between 2007-2013. Over 80 percent of external public debt is held by official creditors and is concessional in nature. Private external debts are mostly (around 80 percent) accounted for by mining companies.

**Net International Investment Position**

(Percent of GDP)




Sources: Malagasy authorities and IMF staff calculations

**Assessment.** The negative NIIP is not thought to represent a critical vulnerability to external sustainability. Public external liabilities are 80 percent official (and concessional) in nature, which tends to make for a relatively stable source of funding; private external liabilities are mostly long-term in nature with 80 percent accounted for by the mining sector, which receives income in foreign currency while having a sizable portion of the debt placed with its affiliated headquarters or global group. This relatively benign assessment is however subject to risks, as the mining sector has proved to be sensitive to further COVID-lockdowns and regulatory uncertainty related to a new mining code.

| 2021 (% GDP) | NIIP: -118 | Gross Assets: 31 | Debt Assets: 0 | Gross Liab.: 149 | Debt Liab.: 78 |
|---|---|---|---|---|---|

## Current Account

**Background.** As Madagascar is a country with large investment needs (and limited saving possibilities), the current account continues to stand in deficit—in line with Madagascar's historical experiences. As COVID-19 induced lockdowns have weighed on tourism inflows and mining activity, the current account deficit has widened substantially since the outbreak of the pandemic (from -2.3 percent in 2019 to -5.4 percent in both 2020 and 2021). For 2022, while Madagascar gets to benefit from higher prices for nickel, cobalt, and vanilla, plus a partial recovery of tourism inflows, the dominant effect comes from higher prices for energy and food imports, combined with lower external demand. These developments are expected to widen the current account deficit to 6.5 percent of GDP.

**Assessment.** The Current Account (CA) model suggests a current account gap of 1.0 percent of GDP for 2021, implying that Madagascar's external position is moderately stronger than implied by fundamentals and desirable policies. This assessment incorporates a COVID-19 adjustor to account for the lockdown-induced cessation in tourism flows. The policy gap is significantly positive (2.8 percent of GDP), implying that a move of relative policies towards desired settings would lower the CA gap.

### Madagascar: EBA-lite Model Results, 2021 (in percent of GDP)

| | **CA model** 1/ | **REER model** 1/ |
|---|---|---|
| | (in percent of GDP) | |
| **CA-Actual** | **-5.4** | |
| Cyclical contributions (from model) (-) | 0.6 | |
| COVID-19 adjustor (-) 2/ | -1.8 | |
| Additional temporary/statistical factors (-) | 0.0 | |
| Natural disasters and conflicts (-) | -0.2 | |
| **Adjusted CA** | **-4.0** | |
| **CA Norm** (from model) 3/ | **-5.0** | |
| Adjustments to the norm (-) | 0.0 | |
| **Adjusted CA Norm** | **-5.0** | |
| **CA Gap** | **1.0** | **0.1** |
| o/w Relative policy gap | 2.8 | |
| Elasticity | -0.21 | |
| **REER Gap** (in percent) | **-4.6** | **-0.6** |

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (which reduced tourism inflows by 90 percent relative to 2019).
3/ Cyclically adjusted, including multilateral consistency adjustments.

## Real Exchange Rate

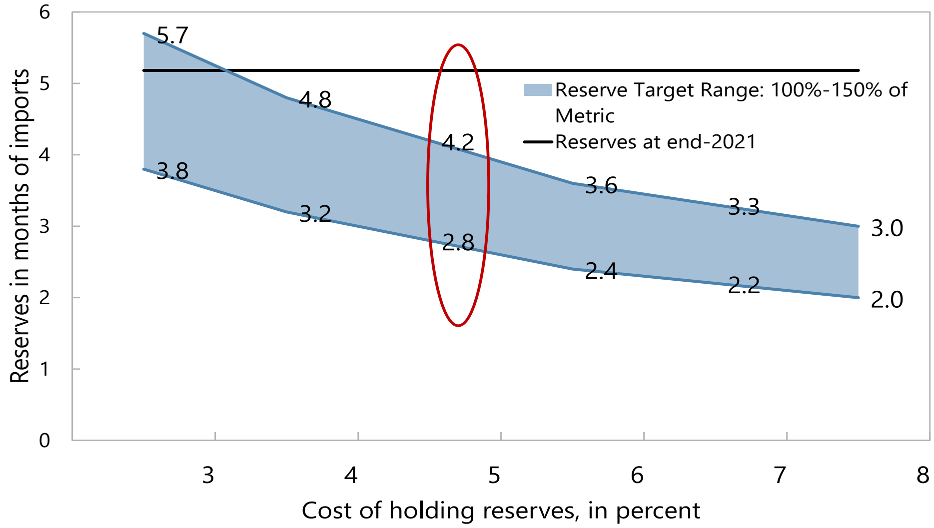
**Background.** Madagascar's Real Effective Exchange Rate (REER) depreciated by 1.4 percent over 2021, broadly in line with developments seen in earlier years. In nominal terms, 2021 saw the Ariary depreciate 3.5 percent against the US dollar. Such deprecation is to be expected given the external forces (related mostly to COVID-19) weighing on the current account balance.

**Assessment.** Based on the CA model, the estimated REER gap was -4.6 percent end-2021, while the REER model suggests a REER gap of -0.6 percent. Both methods thus point towards undervaluation of the real effective exchange rate.

| Capital and Financial Accounts: Flows and Policy Measures |
|---|
| **Background.** Inflows stemming from capital grants totaled some 1.7 percent of GDP over 2021. This reflects a longer running downward trend in this item, which is expected to continue as further development of the local economy is thought to decrease the supply of grant financing. Net FDI inflows have been subdued since the pandemic, equaling 1.5 percent of GDP over 2021 (versus a pre-pandemic average over 2015-2019 of 7.4 percent). Going forward, as COVID-conditions normalize, FDI inflows are expected to increase to a new steady state value just over 2 percent of GDP. Following adoption of the FX Law, the BFM plans to develop a plan to gradually phase out the existing surrender requirement on export proceeds, considered a capital flow management measure (CFM) under the IMF's Institutional View on the Liberalization and Management of Capital Flows in a way that will not destabilize or put further pressure on the exchange market.<br>**Assessment.** Risks related to the capital and financial account are minimal, mostly since there is no portfolio investment. However, while modest in nature, projected FDI inflows are at risk in case of major setbacks or delays in envisioned structural reforms, or a more protracted global crisis. |
| **FX Intervention and Reserves Level** |
| **Background.** Madagascar has a *de jure* free floating exchange rate regime and intervenes (according to an algorithm) to smooth volatility while gradually building reserves on average. End-2021, FX reserves stood at SDR 1,633 million (16.4 percent of GDP) or 5.2 months of next year's imports and up from their 2020 level of SDR 1,338 million. FX interventions were modest over 2021 (about a third of the volume seen in 2020) and only slightly biased towards FX sales (with FX sales exceeding FX purchases by SDR 19.6 million).<br>**Assessment.** International reserves are assessed as adequate. Reserve coverage is relatively stable at around 5 months of next year's imports compared to historical levels of around (or even below) 4 months. The projected level of reserves coverage exceeds the traditional three-month rule, as well as the upper bound of 4.2 from an ARA model for credit-constrained economies that compares the marginal costs of holding reserves against marginal benefits (assuming a cost of holding reserves equal to 5 percent; see Figure). Reserve coverage is expected to fall back towards the adequacy bound in 2022 as imports rise more rapidly than reserve levels. Finally, Madagascar remains highly vulnerable to additional external shocks, including term-of-trade shocks and natural disasters that could put Madagascar's reserve path at risk. Moreover, coverage risks could also arise should government spending accelerate faster than anticipated in the context of a shortfall in external financing. |

**Madagascar: Optimal Reserve Levels**

(Target range and current levels, in months of future imports)




*Source:* IMF staff calculations.

# Annex II. The *Cour des Comptes* Audit Reports on the COVID-19 Response

In March 2022, the Malagasy *Cour des Comptes* released four audit reports on (i) financial flows related to the response to the COVID-19 pandemic, (ii) related public procurement contracts; (iii) the overall management of the COVID-19 crisis, and (iv) social measures put in place in response to the pandemic.

**1. The audit report on financial flows related to the fight against COVID-19 whose publication was an RCF-related commitment and a prior action for the completion of the first review, pointed to a number of irregularities in the management of those flows.**

The audited financial flows included (i) foreign project financing dedicated to the response to the pandemic (about 20 percent of the total), (ii) budget support provided by the IMF (RCF), the World Bank and the French Development Agency (CAT-DDO) (80 percent of the total), and (iii) national contributions/gifts by the population and domestic NGOs (less than 0.05 percent of the total). The total disbursements covered by the report amount to US$ 442 million (MGA 1,677 billion). Those flows helped finance COVID-related spending estimated by the *Cour des Comptes* to MGA 1,818 billion in 2020.

JIRAMA and its suppliers were the main beneficiaries of COVID-related spending. 80 percent of spending took the form of transfers and subsidies (MGA 1,452 billion), with subsidies to the private sector representing MGA 938 billion (that is, half of all COVID-related spending). JIRAMA and its suppliers received more than 55 percent of all transfers (MGA 807 billion) or 44 percent of total COVID-related spending. In comparison, spending by the Ministry of Health reached MGA 139 billion.

**Many expenditures were done outside the regular spending process**. Irregularities include payments done in cash despite legal requirements to use checks or wire transfers, domestic purchases quoted in foreign currency despite a legal requirement to set prices in ariary and payments made without any legal basis (e.g., special benefits to some medical staff or public employees) or without invoices or receipts. The *Cour des Comptes* also found evidence of double payments for the same purchases, suspicions of conflicts of interest, and suspicions of fictitious purchases. While the amounts mentioned in the report seem relatively low in comparison to total COVID-related spending (for instance, the *Cour* provides evidence of MGA 1.9 billion payments in cash or 0.1 percent of total spending), the *Cour des Comptes* concludes that "the global compliance level of spending was very low".

**Internal controls were circumvented with the involvement of new actors with little legal justification**. In particular, the Presidency played a significant role in the spending process, acting as the *de facto* authorizing officer for expenditures. This led to a confusion of responsibilities and to a departure from good PFM practices regarding separation of duties.

**2. Most COVID-19 related contracts were directly awarded contracts, without competitive calls for tender.** While this process was sometimes deemed necessary in the emergency of the crisis, the *Cour des Comptes* found several irregularities in the public procurement process, including a lack of financial controls, the cumulation of incompatible functions, a lack of a clear formulation of the needs, a late delivery of services, and a lack of financial and physical beneficiary owner information. Except in a few cases (expenditures made for the Ministry of Water and Sanitation and the Ministry of Health), procurements have not followed public procurement rules, were not subject to controls from an authorizing officer or the National Public Procurement Commission and were not recorded by the tax administration. Similar irregularities were reported for procurement contracts paid by imprest accounts.

These findings were corroborated by the third-party audit of procurement contracts released in July. Both audits also noted that a few contracts were not included in the list published on the Ministry of Finance's website and auditors reported significant difficulties to access information.

**3. The management of the COVID-19 crisis was severely criticized by the *Cour des Comptes* for its centralized processes amid a protracted and exceptional emergency context**.

The report highlights a lack of planning. Many ministries had no emergency plans, and existing action plans, including for the Ministry of Health, were suspended when the state of emergency was declared. The multisectoral emergency plan (*Plan Multisectoriel d'Urgence*, PMDU) was only adopted in July 2020.

The management of the pandemic was entrusted to a newly created CCO (*Centre de Commandement Opérationel*) directly reporting to the Presidency, which resulted in an excessive centralization of the decision-making process and a confusion of responsibilities, underscored in the three other reports. At the same time, communication plans were not harmonized.

The report also mentions operational difficulties such as: lack of medical staff, laboratories and testing capacities, lack of protective equipment, structures to treat patients and to isolate quarantined people. Electricity cuts, related to JIRAMA's operational difficulties, were also a huge challenge for intensive care.

In response to these shortcomings, the *Cour des Comptes* recommends amending the legal framework (in particular, Article 61 of the Constitution) to limit the magnitude and the scope of Presidential powers in times of exceptional situation.

**4. The fourth audit report on social measures taken in 2020 to combat the effects of the COVID-19 pandemic focuses on two safety net programs:** Vatsy Tsinjo (distribution of basic food packs: $10m) and Tosika Fameno (unconditional cash transfers: $12m). Overall, the audit found that the management of Tosika Fameno was much more efficient and transparent than Vatsy Tsinjo. However, the two programs were complementary rather than substitutes as the most vulnerable households (such as the elderly and the disabled) could not be reached easily with cash transfers.

Vatsy Tsinjo suffered from the incomplete legal framework governing the CCO which was supposed to coordinate all COVID-19 actions, uncertain procurement rules with direct awards, and the absence of clear institutional responsibilities along the distribution chain leading to slow execution. It was also affected by insufficient financial resources and the lack of payments to local authorities to cover the transportation costs to beneficiaries.

Among the *Cour des Comptes*'s recommendations are the definition of clear and better targeted eligibility criteria, the implementation of a complaints management system, and the creation of a social registry to be periodically updated. These improvements should be part of a coherent government social protection strategy to anticipate future shocks and provide predictable budget allocations for social programs.

# Annex III. Risk Assessment Matrix[1]

| Risks | Likelihood | Impact | Policy Response |
|---|---|---|---|
| **Conjunctural shocks and scenarios** | | | |
| **Uncontrolled Covid-19 local outbreaks; persistence of the pandemic.** | **Medium** | **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. |
| **Adverse commodity price developments fueling higher inflation.** | **High** | **Medium.** Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral. Oil price increases raise fuel and electricity costs weighing on government transfers and complicating ongoing energy reforms. | Finalize the fuel price adjustment mechanism. Maintain exchange rate flexibility to cushion the impact of related shocks. Tighten monetary policy stance to prevent second-round effects. Increase transfers to most vulnerable households. |
| **Widespread social discontent and political instability.** | **High** | **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. |
| **Abrupt gobal slowdown or recesion** | **Medium** | **Medium.** Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, and spillovers through trade and financial channels. | Maintain exchange rate flexibility to cushion the impact of related shocks. Accelerate structural reforms to improve economic efficiency and enhance diversification. |
| **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)
August 25, 2022

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

Dear Madam Managing Director:

1. Despite a challenging and uncertain international environment, the Republic of Madagascar remains committed to advance in the implementation of its economic reform program supported by an arrangement with the IMF under the Extended Credit Facility (ECF) since March 2021. Policy measures and structural reforms outlined in the attached Memorandum of Economic and Financial Policies (MEFP) will help achieve stronger, more sustainable, and more inclusive growth, as detailed in the '*Plan Emergence Madagascar*', while maintaining macroeconomic stability. A final version of the '*Plan Emergence*' approved by the Council of Government was shared with IMF staff to satisfy the PRGS requirement under IMF policy. However, as this plan has not been published, we propose to circulate it to the IMF Executive Board ahead of the third review under the ECF arrangement, after its official presentation by the President of the Republic in October 2022.

2. The year 2022 is proving particularly difficult. In addition to the pandemic, the drought in the south of the island, and the repercussions of the war in Ukraine, our country was hit by several cyclones during the first months of the year. Against this background, we have revised our forecasts for economic growth downwards and inflation upwards for this year. We expect that a widening of the current account deficit will create additional external financing needs. The revised finance law (LFR), in line with the objectives of the program, provides for an easing of fiscal policy to respond to the impact of the shocks and support the post-pandemic recovery. The law includes measures to rationalize and redirect non-priority spending in order to limit the domestic primary deficit and maintain debt sustainability.

3. The quantitative performance of the program at end-December 2021 is satisfactory overall, with the achievement of all the quantitative criteria and indicative objectives, except for the objectives of social spending and domestic tax revenue. The continuous performance criteria relating to the present value of newly contracted external debt and the accumulation of external arrears were also respected. Our structural reform agenda is progressing despite delays in implementing some reforms. Out of fourteen continuous or expired structural benchmarks since December 2021, one was met on time and five late. As a prior action for the completion of the review we published an independent audit report of public procurement contracts related to the response to the COVID-19 pandemic.

4. As indicated in the attached MEFP, we remain determined to create fiscal space to increase social and investment spending. We are working to improve the spending process to reduce chronic budget under-execution. We have increased fuel pump prices, which had been fixed since 2019, to contain the growing liabilities of the government vis-à-vis fuel distributors and implemented electricity tariff optimization for non-residential customers to increase JIRAMA's revenue and limit fiscal risks. As part of our efforts to improve transparency and governance, we are implementing an action plan to address the recommendations of the *Cour des Comptes* audit reports on COVID-19 spending. To support the *Cour* in its control mission of public finances, we are granting it access to all the information systems of the Ministry of Finance. We also continue the modernization of the monetary policy framework and the improvement of foreign exchange operations and international reserve management. Based on the recommendations of the recent Climate Macroeconomic Assessment Program (CMAP), we are working on strengthening policies to respond to climate change and build resilience.

5. The attached MEFP describes government policies for the rest of 2022 and the medium term. We stand ready to take any further measures that may prove necessary to meet our objectives and will consult with IMF staff prior to the adoption of any changes to the policies set forth in the MEFP. The government also undertakes to cooperate fully with the IMF to achieve its policy objectives and not to introduce measures or policies that would compound Madagascar's balance of payment difficulties. We are committed to provide timely monitoring information.

6. Given the results achieved in relation to the targets set for end-December 2021 and the progress in program implementation, we are requesting that the IMF Executive Board approve our request that the second review be completed. In this context, the total financial support requested from the IMF under the second review amounts to SDR 24.44 million (10.0 percent of quota). We intend to use this disbursement for budget support purposes, through on-lending by the central bank to the Treasury and will update the existing Memorandum of Understanding (MoU) between the central bank and the government accordingly.

7. We agree that this Letter of Intent and the attached Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding, as well as the IMF staff report related to the second review under the ECF arrangement, should be published upon completion of the review by the IMF Executive Board.

Sincerely yours,

| | |
|---|---|
| /s/ | /s/ |
| Ms. Rindra Hasimbelo Rabarinirinarison<br>Minister of Economy and Finance | Mr. Henri Rabarijohn<br>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 Policy

*This Memorandum of Economic and Financial Policy (MPEF) updates the version prepared during the 1st review of the arrangement supported by the Extended Credit Facility (ECF) approved by the IMF Executive Board on 7 March 2022. It describes the implementation of the government's commitments and how the program contributes to Madagascar's growth and poverty reduction objectives and discusses relevant macroeconomic and structural policies.*

## Recent Developments and Outlook

1. **After a significant recession in 2020 (-7.1 percent) the Malagasy economy recovery was stronger than projected last year.** Despite two additional COVID-19 waves and a severe drought in the South, GDP grew by an estimated 4.3 percent in 2021, supported by a rebound in the extractive and textile sectors, exports and resilient financial services. Activity remained subdued in agriculture, the main source of income for the majority of the population, and tourism due to delayed border reopening. After decelerating through the first half of the year, inflation jumped to 6.2 percent by end 2021 due to higher health and food prices. The current account deficit stood at 5.1 percent of GDP, close to 2020 levels. While rising international prices of nickel and cobalt contributed to higher export revenues, higher remittance inflows did not offset the nearly complete stop of tourism revenues.

2. **The recovery continues in 2022 with a projected growth rate of around 4.2 percent despite the impact of four tropical storms.** Madagascar's economy, like other ones, faces a more uncertain external environment in the short-term. In particular, rising oil and food prices as a result of the war in Ukraine and new pandemic waves imply a slowdown in international demand and a deterioration of the trade balance that put more pressure on public finances. Annual average inflation is projected to accelerate to 9.8 percent.

## Performance Under the Extended Credit Facility Program

3. **Macroeconomic management under the program was marked by strong under-execution of spending while the majority of Quantitative Performance Criteria (QPCs) and Indicative Targets (ITs) were met.**

- Due to a significant under-execution of the budget, the domestic primary balance, the anchor of the fiscal program, reached MGA -178 billion in December 2021, which is one eighth of the amount envisaged. The indicative target for collection of customs revenue was met for every quarter in 2021. On the other hand, the level of domestic tax revenue collection was slightly below targets at the end of June, September and December 2021. The indicative target for social expenditure has been missed by more than 40 percent. This structural under-execution of the social ministries' budgets requires a reform of the expenditure process (see ¶33).

- With regard to the central bank, the quantitative performance criteria at the end of December 2021 on the accumulation of net domestic and foreign assets have been met, as well as the indicative targets at the end of September. The end-March indicative target for net domestic assets was also met with an adjustment reflecting a delayed cession of a portion of the August 2021 SDR allocation relative to the macroeconomic framework assumptions of the first review. The indicative target of net foreign assets was missed due to higher foreign currency-denominated payments, and lower revenues, than anticipated.

- Continuous QPCs relating to the present value of newly contracted external debt and the accumulation of external arrears were met.

**4. On the other hand, there are several delays in the implementation of structural reforms**.

- The structural benchmark on the collection of tax arrears over the period June-December 2021 has not been met despite strong performance in the first half of the year and the collection of MGA 152.6 billion during the year. Preliminary data at the end of June suggest that the benchmark of collecting an additional MGA 50 billion of customs revenue in the first half of 2022 was not achieved either.

- The sharp increase in global oil prices over the past several months without adjustment of prices at the pump has resulted in the limit on the government's liability to oil distributors (continuous benchmark) being exceeded in January 2022. A new fuel price structure was approved with a delay in July 2022, with a pump price increase of 43 percent on average to narrow the gap with the calculated reference prices. Policy measures to accompany the implementation of an automatic price adjustment mechanism by the first quarter of 2024 are under development (structural benchmark at the end of June 2022).

- The new tariff structure for JIRAMA's corporate customers for electricity purchases (structural benchmark at end-March 2022) will be implemented in August 2022, with a delay of five months compared to the date initially envisaged. Details of the government's payments to JIRAMA's suppliers also continued to be provided to the IMF and World Bank with delays (continuous benchmark).

- The expenditure commitment plans of the social ministries expected before 31 January 2022 were not produced.

- Regarding budget transparency, various efforts have been launched to improve the draft quarterly budget execution reports (continuous benchmark from Q1 2021). The publication of the independent audit report on public procurement contracts related to the government's response to the COVID-19 pandemic was published late in July 2022.

- In terms of governance, the decree for the creation of the coordination and orientation committee provided for in the Anti-Money Laundering Act of 2018 was adopted in June

2022. A director general for the agency for the recovery of illicit assets has been appointed in May 2022 which will allow for the operationalization of the agency with several months of delay relative to the initial timetable.

## Expected Contribution of the Program to Growth and Poverty Reduction

**5. The program's priorities are consistent with the objectives of the *Plan Emergence Madagascar* (PEM)**. The PEM aims to make Madagascar an emerging nation, strong, united and attentive to the well-being of the population. The objective is to increase GDP per capita to US$4,000 in 2040 (compared to US$522 in 2019) and the human capital index to 0.60 (0.39 in 2020), while at the same time bringing the poverty rate down to 35 percent (compared to 78.8 percent in 2012). The PEM is structured around 13 commitments in the areas of governance, social and human capital, economy, and environment. According to our estimates, the fulfilment of these commitments requires an investment effort of 13.7 billion dollars through 2030 (with 64 percent in private investment) and 74.3 billion dollars through 2040 (with 85 percent in private investment).

**6. The program contributes to enhancing the effectiveness of economic policies**. The increase in public revenues made possible by reforms in tax policy and administration and the reduction of fiscal risks through the restructuring of non-profitable SOEs and the introduction of an automatic fuel price adjustment mechanism should provide the fiscal space needed to implement the public investment and human capital development plan envisaged in the PEM. Improved budget execution and public financial management in general is also a prerequisite for more effective fiscal policy, particularly in responding to shocks. Similarly, the transition to a new monetary policy framework should enhance the effectiveness of monetary policy.

**7. The priority given to social expenditures under the program is consistent with our efforts to reduce poverty and develop human capital.** Strengthening social safety nets and social policy management tools are important objectives of the program. The development of a shock-responsive cash transfer program will make the economy more resilient to shocks, including those related to climate change.

**8. By strengthening macroeconomic stability and improving governance, the program is also helping to create a climate conducive to private investment and growth**. Reforms to improve fiscal transparency and public financial management, and to strengthen the anti-corruption and anti-money laundering framework, are essential to maintaining the public and investor confidence that is required for strong and sustainable growth.

## Macroeconomic and Structural Policies

### A. Strengthening Fiscal Policy in Response to the Economic and Social Crisis.

**9. Fiscal policy will be softened in 2022 to respond to the impact of the war in Ukraine and the cyclones earlier this year, and in line with the program's objectives of supporting the post-pandemic recovery**. The domestic primary balance remains the fiscal anchor of the program and is expected to turn positive only in 2024, based on the efforts to increase domestic tax and customs revenue mobilization (both monitored as quantitative targets).

**Mobilizing Tax Revenue**

**10. The *Plan Emergence Madagascar* sets a target tax-to-GDP ratio (tax revenue to GDP) of 14 percent of GDP in 2023**. To this end, domestic tax revenues are expected to increase by 0.3 points of GDP (MGA 624 billion) in 2022. Customs revenues are expected to increase by MGA 737 billion or 0.6 percent of GDP in 2022. These efforts are expected to bring the overall tax ratio to GDP to 11.3 percent in 2022. These ambitions require innovative policies to improve social justice by addressing a number of long-identified gaps and distortions in taxation.

**11. The tax policy reforms undertaken are as follows**:

- *Changes regarding VAT*. In the initial budget law (LFI) for 2022, we eliminated the VAT reduction on pasta, as well as the VAT exemption for annuity/life insurance hybrid contracts and life insurance contracts. These measures should generate additional revenues of at least MGA 20.9 billion. The revised budget law (LFR) however includes a reduction of the VAT rate on fuel from 20 to 15 percent, with a cost estimated at MGA 35 billion. We are continuing our work to evaluate the impact on the potential elimination of VAT exemptions on cereals (rice, wheat, maize), agricultural products and the first tranches of households' water and electricity consumption.

- *Increase in excise duties on tobacco and alcohol*. After the increase in past years of duties on certain products, the excise duty on tobacco has been raised again, from MGA 1,390 to MGA 1,430 in 2022, generating additional revenues estimated at MGA 20.5 billion. Excise duties on alcohol were increased from MGA 2,500 to MGA 2,750 per liter, for an additional revenue estimated at MGA 2.3 billion. To limit the risks of fraud and contribute to the increase in revenue, these measures will be supported by the implementation of a strict system of traceability of tobacco and alcohol before end-July 2022 (MGA 25 billion of additional revenue).

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

- *Regarding corporate income tax,* we have eliminated the tax deduction for investment (MGA 15 billion of additional revenue) and abolished the grace period (of 2, 5 or 15 years) for corporate income tax for free zone enterprises (MGA 22.5 billion of expected additional revenue).

- *Alignment of customs tariff policy*. An alignment of the customs tariff with tariff policy is included in LFI 2022. Thus, primary goods and equipment that were not already taxed are now taxed at 5 percent, intermediate goods at 10 percent, and final consumer goods at 20 percent for an estimated revenue gain of MGA 107 billion in 2022.

- *Revision of mining taxes.* The objective of the reform to be finalized, based on the technical assistance delivered in June 2021 and with a view to increasing revenue collection in a sustainable manner, is to (i) stabilize large-scale mining investments, particularly under existing contracts, possibly renegotiated, in order to reduce the risks perceived by investors and thus encourage the development of the sector (ii) extend the anti-abuse measures of the General Tax Code to the Large-Scale Mining Investment Act (LGIM); and (iii) ensure that all revenues are collected through the *Direction Générale des Impôts* (DGI)'s Directorate of Large Taxpayers (DGE) and deposited into the Treasury's single account, in application of the principle of budgetary unity. Following the recommendations of the June 2021 IMF technical assistance mission, the DGI will propose changes jointly with the Ministry of Mining and Strategic Resources (MMRS) and develop a draft codification of the new tax provisions in specific laws (Mining Code, LGIM, and mining exploration and development contracts), which will be submitted to the IMF for comments prior to consideration by the Council of Ministers.

**12. As regards tax administration, the reforms of recent years within the DGI will continue and will be strengthened.**

- We have launched an important *plan to combat tax evasion*, particularly in the tobacco sector, which will raise an additional amount of revenue of at least MGA 150 billion.

- We will continue our *efforts to digitize the tax administration*, notably with the development of *e-declaration* for VAT, and the management of employees' income tax through the *e-salarié* platform. 2,224 companies currently use electronic payment, which corresponds to 85 percent of DGI's total revenue, and 3,780 financial statements are already available on the e-balance sheet platform (*e-bilan*). The additional efforts envisaged should allow an increase in revenue of around MGA 36.5 billion.

- We will strengthen *efforts to identify taxpayers.* We plan to update the taxpayer database, especially with information provided by the new personnel assigned to regional tax administrations. Our efforts to reduce the informal sector through the *Anjara Hetrako* campaign ("My Tax Share") will continue in other regions. At the end of 2021, the number of registered taxpayers was 751,240 (455,206 at the end of 2020). The objective for end of 2022 is to reach the threshold of 1.25 million taxpayers.

- We will establish a *withholding tax on beverage wholesalers for* an expected revenue gain of MGA 5 billion.

- *Performance contracts,* which are currently in use in 113 operational directorates and tax centers, are being generalized, while at the same time we are strengthening our individual performance evaluation system, applying disciplinary measures where necessary.

- *The development of the Integrated Tax Administration System (SAFI),* supported by the World Bank's Public Sector Performance Support Project (PAPSP), has started. The core module should be operational starting in November 2022 and the complete version will be finalized by February 2023. This project will contribute to improving the internal management processes and operational efficiency of collection agencies.

- *The optimization of tax audits, targeted primarily at the largest companies,* should allow an increase in revenues of MGA 40 billion in 2022. Specific efforts are planned to cross-check VAT declarations, import declarations and awarded public contracts. We also plan to carry out joint audits with the customs administration. In 2022, 30.8 percent of large taxpayers were audited or are in the process of being audited.

- Our *tax arrears collection target* for 2022 has been set at MGA 215 billion. In addition to the usual procedures provided for by the legislation in force to recover arrears, the tax administration will be able to rely on other means such as write-offs, notice of tax liens based on bank account files (FICOBAM), as well as the reinforcement of the collection mechanisms for non-compliant taxpayers.

- *Implementation of the public procurement tax (IMP).* After collecting revenues of MGA 55 billion in 2021 and of 27.1 billion over January to May 2022, the DGI expects to collect about MGA 100.8 billion in 2023.

**13. With regard to customs administration, the following actions are part of the implementation of our reform plan for the period 2020-2023.** These administrative measures are expected to generate total revenue gains estimated at MGA 110 billion in 2022.

- *Centralization of collection and payment recovery monitoring,* for better collection through improved access to all statistical information and better monitoring.

- *Reinforcement of the control of the import values declared to customs.* With the total withdrawal of GasyNet from value analysis through Valitrade in August 2021, we have internalized value analysis and have implemented our i-value system. A value center was set up in August 2021 to provide a relevant and reliable basis of reference for goods values. We plan to closely monitor the adjustments generated by the calculation of the values provided by the value center and to recover 100 percent of the difference between the calculated value and the declared value in case of demonstrated fraud. The results of controls on values will be distinguished from those on other types of violations, and the amounts collected as a result of these controls will be shared on a quarterly basis with the IMF staff, as a basis for implementing corrective measures if necessary.

- Strengthening the *non-intrusive control of imports and exports* through the 100 percent scanning project, which not only increases the efficiency of the administration in terms of customs control over types and quantities, but also considerably reduces the time required for customs clearance with the objective of taking no more than 3 hours to clear goods under the "yellow" regime and 8 hours for goods under the "red" regime.

- *Improvement and better targeting of ex-ante, on-site and ex-post controls,* based on dynamic risk analysis. The ex-ante control will be reinforced by the review of the manifests that are captured in our computer system upon boarding and by the scanning of all cargoes. Finally, in terms of on-site controls, a control center will remotely assist visits and inspections of areas under customs control in order to optimize both the clearance time and the quality of controls. The establishment since July 2021 of a common platform with the DGI facilitates data sharing and better targeting of controls.

- *Intensification of controls on companies benefiting from special economic regimes such as free-trade zones, temporary admission regimes or other exemption agreements*. With regard to the warehousing and temporary admission regimes, the customs code has been amended and regulations have been adopted with a view to simplification, on the one hand, and more precise monitoring and control measures, penalties, responsibilities, eligible goods and conditions of award, on the other. With regard to tax-exempt companies, an amendment to Law 2007-037 is being finalized, in order to distinguish the free-trade zone regime from the tax-exempt enterprise regime, and to clarify the authorization system for the creation and approval of the regime as well as the stability clauses.

- *Strengthening accountability* by improving the audit and performance culture by introducing key performance indicators for individuals, departments or offices.

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

### Improving the Quality of Expenditures

**15. The LFR 2022 provides for measures to rationalize and redirect expenditure in order to limit the domestic primary deficit to 1.4 percent of GDP while mitigating the impact of climate shocks and of the war in Ukraine on the population**. Current expenditures are expected to reach 11.2 percent of GDP despite measures to control the payroll (see ¶17), because of higher spending in the energy sector (see ¶26 and 27). In addition, the LFR 2022 maintains transfer spending to households (notably via the FID). We are committed to reallocating the credits voted in the LFR 2022 as needed to finance the transfers necessary to meeting our commitments regarding the liabilities to fuel distributors (¶26) and the payment of the State's bills to JIRAMA.

**16. We will pursue reforms with a view to rationalizing the financial management of public servants so that the wage bill remains at a sustainable level**. The LFR 2022 includes an increase in the salary of civil servants from the month of May 2022 to compensate for the loss of purchasing power due to inflation, particularly for the lowest salaries. The reduction in the number of recruitments and delay in appointing ambassadors and diplomatic staff should allow to keep the State's wage bill within the envelope envisioned in the LFI (MGA 3,237.6 billion, i.e., 29.1 billion less than in the LFI). The development of AUGURE version 2 will be completed by the end of 2022. This upgrade of the State's Human Resources Management Information System, of which AUGURE is the core, will improve the forecasting and execution of payroll and pension expenditures. A detailed and exhaustive documentation of pay calculations has been prepared and an action plan for the correction of all irregular situations has been developed. The AUGURE 2 system will include the management of all State personnel, including the personnel of the Ministry of National Defense, the personnel of the Secretariat of State in charge of the Gendarmerie, the employees of other National Public Establishments (EPNs), as well as the civil servants in the Decentralized Territorial Collectivities, the volunteers and the employees of the technical and financial partners (through financing granted to the State) by 2023. With the deployment of AUGURE 2, all ghost employees identified in audits conducted in 2020 and early 2021 will be eliminated from the system by the end of 2022.

**17. We will gradually reform the public pension system to control the need for public transfers to replenish the civil service and military retirement fund (CRCM) and ensure the long-term sustainability of the system**. We have developed a strategy paper considering several options. These options consist of systemic reforms (e.g., transfer of surpluses from the non-civil service retirement and pension fund CPR to the CRCM, consolidation of the CPR and CRCM appropriation accounts), parametric reforms (e.g., raising the retirement age, limiting to 3 the number of children taken into account for the children-related pension increase), and management measures (e.g., operationalization of the software to monitor payments between the Directorate General of the Treasury (DGT) and the Directorate General of Finance and Budget (DGFAG), and physical verification of pensioners and beneficiaries). This document will be examined by the Council of Ministers in the second semester of 2022.

**18. We will continue to prioritize expenditures in the social sectors**, which remains one of the main objectives of the program, especially in response to the pandemic and the food crisis in the South, and a key priority of the government in general.

- A better assessment and classification of social expenditures has been initiated in the LFI 2022. A transition matrix between the current classification and the functional classification has been elaborated and will be validated by end-June 2022. From July 1, 2022 onwards, we will try out a presentation of the execution of social expenditures under the functional classification. In addition to the expenditures of the "social" ministries, domestic resources (excluding foreign financing) are allocated to social programs implemented by agencies in other ministries and institutions, such as the National AIDS Council (CNLS) under the Presidency, the National Risk and Disaster Management Bureau (BNGRC) under the Ministry of Interior and Decentralization, the National Nutrition Office (ONN), the Emergency Management and Prevention and Unit (CPGU), and the Intervention Fund for Development (FID) under the Prime Minister's Office. These budgets represent MGA 60.9 billion in 2022.

- We continue to expand existing social safety net programs that have been instrumental in recent years, with technical and financial assistance from partners such as the World Bank. 590,000 households received cash transfers between January 2020 and December 2021. To ensure funding for these programs beyond the resources provided by development partners, the Ministry of Finance and the FID signed a memorandum of understanding on January 24, 2020 to allocate a dedicated annual budget (from domestic resources) of a minimum of US$5 million per year to the FID, equivalent to MGA 18 billion annually from 2021 to 2023. The extension of the coverage of social protection programs is coupled with the establishment of a single social registry. The current registry of beneficiaries, which consists of around 750,000 households, will be expanded through surveys to cover 17 percent of the vulnerable population by the end of 2022 (15 percent currently).

- Under the supervision of the Directorate General of Social Protection in the Ministry of Population, Social Protection and Promotion of Women (MPPSPF), we started the public and stakeholders' consultations in May 2022 to update the 2019-2023 Social Protection Strategy. The new Strategy will be proposed to the Council of Government for approval in November 2023.

- In the education sector, the government cancelled public school enrolment fees as of October 2020 and increased budgeted transfers to schools (school funds). All of these transfers are published, for each individual school, on the Ministry of Education's website (https://www.education.mg/caisse-ecole/index.php/c_etat).

**19. The planned increase in public investment will be combined with better prioritization and execution**. Our ambitious public investment targets under the PEM have been clarified in the costing of projects mainly on external financing (FDI and PPP) and we are working on prioritizing projects by considering implementation and absorptive capacity constraints, monitoring implementation progress, and ensuring appropriate costing and sufficient funding to complete the projects. We will continue to primarily rely on external grants and concessional financing. The abolition of the Investments and Financing Coordination and Monitoring Agency (OCSIF) has led to delays in finalizing the IMF Fiscal Affairs Department's recommended public investment manual (structural benchmark, December 2021), which should, however, be ready by the end of 2022.

**20. To improve the execution of public investment projects, we undertake to put in place new systems to support ministries in accelerating the pace of budget execution**. To that end, all public investment credits have been released in the first quarter of the year (*taux de regulation* of 100 percent); a new form of support to budget actors in social ministries (focused on proximity) was initiated in the first semester; a new IT module to manage spending commitment authorization requests will be rolled out in the second semester (see ¶33) and a new financial and physical monitoring system of public investment is under study.

**21. With external budget support running out in 2022, the special drawing rights (SDRs) allocation made by the IMF on August 23, 2021, will be used to finance investment projects, including improvements to road infrastructure and water supply in the south**. This use entails the surrender of the allocation and the relevant commitments vis-a-vis the IMF by the central bank to the government. A Memorandum of Understanding between the BFM and the Government sets out the terms and conditions of this surrender.

## B. Continuing Structural Reforms to Reduce Fiscal Risks

**22. We are continuing the good practice, initiated with the 2018 budget law, of including a fiscal risk annex in the budget.** Under the last annex of the 2022 budget law, we published an analysis of fiscal risks related to (i) public debts, (ii) public guarantees, (iii) medium-term inflation developments, (iv) imbalances in the civil service pension system, and (v) exchange rate fluctuations.

**23. We continue to strengthen our disaster risk management system.** Our country is highly exposed to a wide range of adverse natural events, with drought and floods caused by hurricanes having the greatest impact. The phenomenon of climate change will increase the severity and frequency of these disasters in the future. In this context, we continue to develop our disaster risk management system based on our national disaster risk management strategy. This strategy includes financial protection to help meet unforeseen fiscal costs or contingent liabilities relating to natural disasters. Since 2019, we have benefited for three years, with the possibility of renewal for another three years, from a disaster risk management development policy operation with the option of deferred disbursement in the event of a disaster. This joint operation of the World Bank and the French Development Agency is coupled with fundings of US$50 million and EUR 25 million respectively (10 million initially, increased by 15 million in the context of the COVID-19 pandemic) to be disbursed in the event of a natural disaster. US$15 million and EUR 3 million were disbursed in February 2020. We have also strengthened financial resilience through, on the one hand, the establishment of the National Contingency Fund (FNC) at the National Risk and Disaster Management Bureau (BNGRC), the procedures manual of which has been finalized, and, on the other hand, the development of the drought insurance mechanism with the African Risk Capacity (ARC).

**24. We are implementing policies to improve our climate resilience**. We have developed a guidebook for the integration of climate resilience into 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 undertaken the construction of Nutritional and Medical Recovery Centers or CRNMs in the Districts of Amboasary and Ambovombe in order to put an end to the *kere* (famine) on a permanent basis in the localities most affected by the drought. In order to integrate these different climate change adaptation and resilience strategies, as well as their financing, into a comprehensive economic policy management framework and to analyze the economic implications of climate policies in particular for domestic and external debt sustainability, we benefited in 2022 from the new IMF Climate Macroeconomic Policy Assessment program currently under review by the Ministry of Finance (MEF) and the Ministry of Environment and Sustainable Development (MEDD). The *Plan Emergence Grand Sud* has identified 13 new transformative priority projects designed to reinforce the resilience of local communities and promote sustainable development, to be implemented by the end of December 2022.

**25. We are following the plan to implement an automatic fuel price adjustment mechanism, which will avoid the risk of budget costs in the future**. To facilitate the implementation of this plan, we have proposed a timeline to IMF staff (structural benchmark at the end of December 2021). The rise in global oil prices since April 2021 has created a growing gap between calculated reference prices (CRP) and administered pump prices, and the accumulation of a government liability to fuel distributors.

- The amount of *gross* liabilities of the government vis-à-vis fuel distributors at end-2021 is disputed between the government and the Group of Fuel Distributors in Madagascar (GPM). Once the ongoing negotiation is concluded, the clearance of this liability will imply recording additional transfer spending in the Treasury operations table (OGT), corresponding to the *net* liabilities of the government to fuel distributors after deducting unpaid contributions to the Road Maintenance Fund and arrears of the sector development levy.

- In order to limit the accumulation of new liabilities, we agreed in July on a new price structure, after discussions with the fuel distributors, and increased pump prices by 43 percent on average on July 11, 2022. Increases were differentiated by fuel type to limit the impact on the most vulnerable. Wage increases in the public and private sectors announced in April 2022 are expected to help mitigate the impact of these price increases on household purchasing power.

- The government's *gross* commitments to fuel distribution companies *excluding VAT* are now subject to a new ceiling of MGA 300 billion, replacing the previous ceiling on *net* commitments (continuous structural benchmark). In the absence of further pump price increases, any breach of ceiling will trigger additional transfers from the government to oil distributors to bring liabilities back under the ceiling.

- We continue to work on the design of price increase mitigation measures for the most vulnerable, including the enhancement of social protection programs based on existing studies (structural benchmark, June 2022) and with the support of the World Bank.

**26. We are determined to bringing JIRAMA back on track**.

- JIRAMA's financial situation has further worsened since 2020 due to the increase in the price of fuel for the thermal power plants as well as a breakdown that affected the Andekaleka hydroelectric plant at the beginning of 2022. As of December 31, 2021, JIRAMA's operational deficit reached MGA 360 billion and its total debt amounted to MGA 1,947 billion.

- The implementation of the OPTIMA3 tariff optimization on July 1, 2021, the intensification of collection efforts, and the strengthening of the fight against fraud have, however, allowed the company's revenues to recover, approaching MGA 1,000 billion in 2021. After consultation with the World Bank, we decided to implement tariff optimization for corporate customers (OPTIMA Business project) in August 2022, five months behind the schedule planned during the 1st review (structural benchmark).

- We have continued to implement measures such as programs to deal with power outages (“One week, one neighborhood” program) and to restore public lighting in Madagascar's district capitals (“Hazavana ho an'ny Tanana” program). This program will continue in all urban and suburban municipalities along national roads. We are also working to improve the outdated generation infrastructure in order to guarantee the 24-hour operation of our services in all district capitals ("2424" program). Furthermore, investments in water infrastructure have continued (extension of the main drinking water production station in Mandroseza, installation of 10 subsidiary containerized production stations, renewal of obsolete water pipes).

- JIRAMA's new business plan, which incorporates the measures to be taken from a technical, commercial and financial point of view, is being validated by the highest authorities of the State.

- The State's commitment to limit the subsidy paid to the company to MGA 380 billion in 2021 was respected. For 2022, the ceiling for transfers to JIRAMA has been revised to MGA 500 billion in the LFR to account for the rise in generation costs following the increase in world oil prices. We will also continue to inform the World Bank and IMF of the details of any budget transfers to JIRAMA suppliers.

- Independently from this operational subsidy, the State is committed to paying all its water and electricity bills, once audited, estimated around MGA 30 billion in 2022. JIRAMA estimates that the administration has arrears linked to unpaid bills of MGA 305 billion. The payment schedule of those arrears is contingent on the provision of audited bills. We are considering installing prepaid meters as part of the new business plan to limit future risks of unpaid bills.

- The repayment of arrears to suppliers associated with the renegotiation of contracts on more favorable terms for JIRAMA remain an important element of our strategy. A repayment plan for JIRAMA's arrears, which amount to MGA 1257 billion as of December 31, 2021, will be implemented over the next three years.

**27. Air Madagascar has been severely hit by the pandemic, aggravating pre-existing financial difficulties, and it has become a 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 restructuration for Air Madagascar and its subsidiary on domestic activity, Tsaradia. At the request of the Social Security Fund CNAPS, second shareholder after the Malagasy Government, a business plan has been drawn up, including a medium-term recovery plan. We are committed to consulting the IMF and the World Bank before any public financing of the company.

**28. We are working toward strengthening the oversight of all state-owned enterprises to contain fiscal risks.** To that end, a special unit in charge of SOEs within the Ministry of Economy and Finance regularly monitors the financial situation and the debt of SOEs.

**29. A review of the institutional and legal framework for Public Private Partnerships (PPPs) should make it possible to better integrate PPP management into the programming and execution of investments, and to control the financial and budgetary risks.** The law of February 3rd, 2016 defines the legal and institutional framework for PPPs. We are committed to making the PPP management framework operational by making the National Committee established by the law active by the end of December 2022. The finalized national PPP strategy, which provides a framework for the implementation of PPP investment projects, will be adopted by the end of June 2023. We are also committed to improving the transparency of public transactions in PPPs.

**30. We will be careful to limit the fiscal risks that may arise from the establishment of the new Sovereign Fund.** The creation of the Malagasy Sovereign Fund (*Fond Souverain Malagasy* - FSM) was endorsed by a law passed by Parliament in early August 2021. The FSM will be managed by a public limited company, with the state holding at least 70 per cent of the share capital directly. This company will be placed under the technical supervision of the Presidency of the Republic and the Ministry of Economy and Finance and under the financial supervision of the Ministry of Economy and Finance. The decrees implementing the law must:

- Clarify the primary purpose and priorities of the FSM to avoid conflicting objectives and maximize the effectiveness of the fund.
- To specify the financing methods of the fund so as not to create a risk of contingent debt, nor infringe on the principle of budgetary unity, notably by avoiding the allocation of budgetary revenue. The first endowment of the fund comes from a budget allocation of MGA 142 billion in 2021, and of 58 billion in 2022. We will ensure that the fund's ability to commit the government's signature on investment projects or PPPs involving public payments is well regulated, given the associated contingent liabilities.

- Ensuring transparency and good governance of the fund by specifying the investment strategy, including the types and time horizon of investments and the risk profile, by establishing transparent and clear rules for the use of funds and by verifying compliance with public procurement regulations through a specific investment manual submitted to the Public Procurement Regulatory Authority for its opinion, by requiring regular reporting through the submission of an annual report to Parliament, and by entrusting the management of the fund to competent experts. The transparency of the fund will be assessed by registering the FSM with the IFSWF and monitoring the Linaburg-Maduell transparency index.

## C. Strengthening Public Financial Management and Economic Governance

**31. We have met most of our commitments for transparency of expenditures related to the COVID-19 pandemic response**:

- We have published all available information on COVID-19 spending on the Ministry of Economy and Finance website (http://www.mefb.gov.mg/reportingcovid). The site reports an amount of COVID-19 committed spending of MGA 1789 billion (around US$500 million or 3.6 percent of GDP), of which more than 90 percent has been either paid or given the order to be paid. The website provides information on spending by ministries, by category of spending, and by detailed subcategory (for example, transfers for hospitalization, treatment, and care). All executed public procurement contracts related to the pandemic response have been published, as well as the corresponding certificates of acceptance or "*procès-verbaux de réception*" and the names of the beneficiaries, whether individuals or companies.

- We also published four audit reports from the *Cour des Comptes* on the government's response to the pandemic. The independent audit of the COVID-19 contracts (originally scheduled for December 2021, structural benchmark) was published on July 6, 2022 (prior action), thus completing the fulfillment of our commitments made in the letter of intent at the time of the second disbursement under the Rapid Credit Facility in July 2020.

- We have adopted an action plan to respond to the recommendations of the Court of Auditors, which will prepare a follow-up report. This report will be published by March 2023 and include information on actions undertaken to ensure accountability for the irregularities identified in emergency spending (structural benchmark).

**32. Efforts are ongoing to revive the public financial management (PFM) reform agenda and address its weaknesses**:

- Building on technical assistance from the Fiscal Affairs Department (FAD), we progressed on strengthening PFM under the 2018-2026 Strategic Modernization Plan. The finalization of the self-assessment according to the PEFA methodology in December 2021 and the official publication of the report in March 2022 have enabled us to initiate an update of the PFM

Strategic Modernization Plan. We are working to remedy the weaknesses identified by the evaluation and a mid-term review of the reform progress is planned for the end of 2022.

- The reorganization of the Interministerial Steering Committee (*Comité interministériel de Pilotage* - COPIL) for public finance reforms was adopted on February 16th, 2021, with the aim of improving the coordination and command of our PFM reform strategy. In order to promote the exchange of information between all reform actors, a portal dedicated to PFM reforms on the website of the Ministry of Economy and Finance has been put online, (www.mef.gov.mg/page_personnalisee/index/reformes/44), including information on the PEFA self-assessment and the work of the COPIL. In addition, a PFM reform monitoring unit, composed of those responsible for the steering and coordination within each department, was created in April 2022 to serve as a framework for dialogue.

**33. In order to accelerate the expenditure process and reduce the chronic under-execution of certain budgetary items**:

- We have developed a new module within the Integrated Automated Public Finance Management System (*Système Intégré Informatisé de Gestion des Finances Publiques* - SIIGFP) to facilitate the granting of expenditure commitment authorizations by the Prime Minister and President. The conditions of use of this new module are determined by a circular from the Ministry of Economy and Finance dated July 18, 2022. We have asked sectoral ministries to submit all their authorization requests before mid-September to facilitate the commitment of expenditures during the year. In the future, authorization requests will be examined by a tripartite committee at the level of the *Direction Génerale du Contrôle Financier* of the Ministry of Economy and Finance, with representatives of the Prime Minister's Office and the Presidency. The Prime Minister's Office and the Presidency are committed to respond to authorization requests within 7 days. Pending a deep analysis of the expenditure chain, we will send a monthly dashboard to the IMF tracking the number and amounts of requests and average response time for commitment authorizations, starting in September 2022 (structural benchmark). The data may be used in the next reviews to assess the effectiveness of the current system and decide on any required changes.

- We have also made permanent the single window covering the entire expenditure circuit set up at the end of the year in 2020 and 2021 at the Ministry of Economy and Finance.

- Finally, as part of the update of our PFM Modernization plan, we will work to ensure the interoperability of our information systems (SIIGFP, SIGMP, SIGRNF, SIGTAS, SALOHY, AUGURE). A stocktaking and security audit of these systems will be conducted before March 2023 in order to establish an action plan.

**34. More specifically, with respect to the execution of social spending,** the preparation by, the key social ministries (Health, Education, Water and Population) before the end of January 2022 of an annual expenditure commitment plan based on their 2022 work plan and the LFI approved by Parliament, scheduled before the end of January 2022 (structural benchmark), which was to serve as the basis for the commitment of the Ministry of Economy and Finance to release the credits indicated on the dates indicated has not been carried out. In 2022, we will strengthen the collaboration between the Ministry of Finance and the Social Ministries for the preparation of the plans for 2023, as soon as the initial budget law is approved. We are also committed to releasing operational budget credits (excluding fuel and telecommunication credits) at the beginning of the year and to limiting the impact of changes in organizational charts on the expenditure chain.

**35. Improving the efficiency and transparency of the public expenditure chain remains a priority.** A new draft law on cash flow management will be presented at the National Assembly for adoption before the end of the year. It is an important progress towards the implementation of the Treasury Single Account (TSA). With the same objective, we inventoried 234 active accounts for 55 public establishments whose integration in the TSA is still subject to legal constraints. Another draft law on the status of public accountants, specifying their legal liability in the event of irregularities, will also be submitted to the Parliament before end-2022. The main purpose of this reform is to redefine the responsibilities of public accountants by updating the provisions of Ordinance 62-081 of September 29th, 1962 on the status of public accountants.

**36. As part of our efforts for improved budget transparency, we published online through the *Salohy* platform the data on public expenditure by sector, ministry, and even program, with the actual payment amounts**, available at the address: http://app.tresorpublic.mg/dpp.mef.mg/ . Based on this information, we publish since the month of June 2021 a quarterly budget execution report on a payment basis, including information on social expenditures (continuous structural benchmark). We are committed to working closely with the long-term expert assigned to the Ministry by the Fiscal Affairs Department of the IMF to improve the coverage of deferred payments and to facilitate reconciliations with the OGT tables.

**37. We are strengthening transparency and governance in public procurement.** Lists containing market prices have been established to serve as reference prices for public procurement contracts. We commit to improve the availability of all public procurement contracts on the website of the Authority of Regulation of Public Procurements (ARMP) and, before June 2023, to modify the legal framework for public procurement to allow the collection of information on the beneficial owners of bidding companies or other legal persons. This information will also be published on the ARMP website for all beneficiaries of public contracts awarded with or without competitive bidding. Furthermore, several draft decrees have been submitted to the Council of Ministers: (i) a draft decree on the Code of Ethics has been updated to specify the sanctions for violations of the Public Procurement Code; (ii) a draft decree on the person responsible for public procurement reinforcing the professionalization of the profession and defining the modalities of appointment; (iii) a draft decree aimed at bringing the Tender Commission into compliance with the Public Procurement Code; and (iv) a draft decree defining the general mechanism and the mode of operation of the National Procurement Commission (*Commission Nationale des Marchés* - CNM). Finally, we have developed the dematerialization of public procurement (*e-Governance Procurement*, operational since September 2021, and

*Procurement Review System*, launched in February 2022). We are considering the establishment of "Integrity Pacts" with the participation of civil society to ensure the integrity of the most important public contracts.

**38. We will continue to reinforce ex post controls and the PFM system's contribution in the fight against corruption.** We are strengthening audit bodies and internal inspections, especially the *Cour des Comptes*, by providing permanent access in real time to all the information systems of the Ministry of the Economy and Finance (SIIGFP, SIGMP, AUGURE, SIGRNF, and SIGTAS) as necessary in order to fulfill their control mandate. We will reinforce the budgetary autonomy of the *Cour des Comptes* by creating, in accordance with the procedures provided for in article 9 of the Organic Law on Budget Laws, a budgetary mission for the *Cour des Comptes* (structural benchmark at end-December 2022).

**39. We are committed to the effective enforcement of the new anti-corruption legal framework**:

a. We remain dedicated to allocating sufficient human, financial, and material resources to institutions of the anti-corruption system, with a supplementary budget allocation (for operation and investment expenses) in the initial budget law for 2023 higher than in 2022, enabling them to carry out their missions. The opening of anti-corruption courts (*pôles anticorruption* – PAC) will be accelerated. Recruitment for the PAC in Fianarantsoa is still underway despite an opening initially planned for December 2021. Three additional PACs will be set up before the end of 2023. In the meantime, the means required to extend the competency of existing PACs will be provided and the renewal of the terms of magistrates and clerks of the PAC of Antananarivo will be officialized.

b. The updated national anti-corruption strategy and the national good governance policy, both harmonized with the PEM, were finalized in 2020. The national strategy for anti-money laundering and combating the financing of terrorism (AML/CFT) was adopted by the Council of Ministers in June 2022. This strategy takes into account the results of the national evaluation of risks and the shortcomings identified during the mutual evaluation of Madagascar by the Financial Action Task Force (FATF). Sectoral governance policies will be developed by priority sectors with the support of the Committee to Safeguard Integrity (*Comité pour la Sauvegarde de l'Intégrité* - CSI).

c. In line with Madagascar's efforts to comply with international standards, the decree establishing the agency in charge of illicit asset recovery was adopted by the Council of Ministers on September 29th, 2021. Its operationalization, scheduled for January 2022, has been delayed but the Director General was appointed by the Council of Ministers on May 11th, 2022. A specific budget was allocated in the 2022 LFR for the operationalization of the agency scheduled for June 2022.

**40. A law modifying and completing Law 2018-043 of February 13, 2019 on AML/CFT, which aligns our AML/CFT framework with FATF international standards, will be submitted**

**for adoption by the National Assembly in the fall of 2022.** The law will cover key FATF recommendations about money laundering offence, terrorism financing offence, financial sanctions related to terrorism and terrorism financing, customer due diligence, record-keeping, and reporting of suspicious transactions. In June 2022, the Council of Ministers adopted a decree creating a National Committee of Orientation and Coordination (NCOC) of the fight against money laundering and terrorism financing. Other regulatory texts will follow in implementation of Law 2018-043 to strengthen the technical compliance of the AML/CFT legal framework. In this context, a new instruction 001/2022-CSBF modifying and completing some provisions of instruction 006/2007-CSBF related to money laundering and terrorism financing prevention was adopted by the Banking and Financial Supervision Committee (*Comité de Supervision Bancaire et Financière* - CSBF) on June 27, 2022. The instruction includes new provisions addressing certain FATF recommendations which were not properly reflected in the previous instruction.

**41. Quarterly statistics on corruption matters based on investigations led by the anti-corruption agency (BIANCO) and the financial intelligence unit (SAMIFIN) have been regularly published since April 2018,** with statistics going up to 2022Q1 for SAMIFIN. With a view to recovering illicit assets, BIANCO intends to fully exploit the potential of the new dynamic management regime of asset declarations provided for in the anti-corruption law to improve corruption investigations and to crack down on offenses related to illicit enrichment and other underlying offenses. In this respect, a implementing decree for the anti-corruption law on the dynamic management of asset declarations should be issued by the government by December of this year at the latest, not only to complete the legal reforms recommended by the national anti-corruption strategy, but also to ensure greater consistency and synergy in anti-corruption actions in Madagascar in the context of the operationalization of the Illicit Assets Recovery Agency of (*Agence de Recouvrement des Avoirs Illicites* - ARAI).

**42. We will continue our efforts to promote a favorable business climate, which is essential to stimulate private investment as envisioned in our PEM.** We have made significant progress in digitizing tax payments for businesses, issuing work permits, registering new businesses, and setting up a credit bureau. In a new law on investments, we intend to cap tariffs, strengthen the equal treatment of national and foreign investors, clarify the social and environmental responsibilities of investors, and address the issue of access to land. Access to electricity, water, and the high costs of transportation and logistics remain the main obstacles to business development.

## D. Strengthening Financial Sector Stability and Development

**43. The reform of the operational framework for monetary policy is on track** for a shift to interest rate targeting by 2023. To this end, the BFM formally implemented a symmetric interest rate corridor system in 2021, established overnight deposit and lending facilities while discontinuing the publication of the policy rate to avoid confusion with these new reference rates, and worked to align interbank market rates with the maturity of operations, the risks, and the overall level of liquidity. We modified the reserve requirement system with more reliable and stable calculation rules and a new schedule for reserve build-up (better synchronized with the BFM's monetary operations). We also developed a macroeconomic forecasting model based on the IMF's Forecasting and Policy Analysis System (FPAS) process to estimate the target rate according to macroeconomic objectives. The repo law was published in February 2021 and operations started on December 6, 2021. This law aims to encourage longer-term interbank lending and support the construction of a yield curve. With the same objective, we are working on the launch of BFM investment certificates (*certificats de placement*) at fixed maturity, and the development of a continuous interbank market in ariary, with the help of IMF technical assistance, at the same time as the implementation of the new BFM information system scheduled for July 2023. The publication of the first official medium-term inflation forecast produced by the BFM (which will serve as the basis and target for the implementation of monetary policy) is also planned for inclusion in the 2023 budget law. We will strengthen transparency and communication regarding monetary policy.

44. **The modernization of the BFM continues, with a program of reforms aimed at increasing its transparency and strengthening its autonomy and independence**. We will continue our efforts to strengthen our internal and external audit mechanisms in line with the recommendations of the safeguards mission. Our controls are being strengthened in the area of foreign exchange operations, a risk management framework is being implemented, and efforts will continue to strengthen our lending operations, including through guidelines approved by the BFM Board in December 2021, to operationalize the emergency lending framework. We are pursuing compliance with the Basel II and Basel III frameworks and anticipate adoption of the regulatory texts in the second half of 2022.

45. **We are also working to improve the functioning of foreign exchange market operations and the management of foreign exchange reserves**. The central bank is reviewing the parameters of the algorithm (developed with IMF technical assistance) after recent applications suggested that several interventions could have exerted additional pressure on the interbank foreign exchange market (MID) in late 2020. In addition, the central bank is undertaking several reforms to improve the functioning of the MID, notably with the adoption before the end of 2022 of the Foreign Exchange Law (drafted with the support of IMF technical assistance), which clarifies the division of responsibilities between the Ministry of Finance and the central bank; improved monitoring and regulation of foreign currency accounts; more rigorous monitoring of compliance with repatriation requirements and in particular the surrender of export earnings; and improved MID communications. The various implementing measures for the new foreign exchange law will be published after the new legal framework is adopted. A new plan to gradually phase out the foreign currency surrender requirement will be developed if conditions do not destabilize the market. Furthermore, several other avenues of reform have been identified, including the listing of a single currency on the MID and the expansion of the MID to include other non-bank financial participants. A request for IMF technical assistance has been made to improve the efficiency of the foreign exchange market.

**46. The BFM is pursuing its plan to include gold in its international reserves.** In late 2020, in accordance with the Board of Directors' strategic directions, the BFM launched a program, in conjunction with the Ministry of Mines and Strategic Resources (MMRS), to purchase unrefined gold, better known as *doré*, from local operators (maximum of one ton in 2021) with the intention of refining it to monetary grade. The local market non-monetary gold purchase program began on December 15th, 2020, and was suspended on April 8th, 2021, when the one-ton gold target was reached. Before we resume our *doré* purchases:

i. We have updated our international reserves management strategy to include gold. This strategy was approved by the BFM Board of Directors in December 2021.

ii. We are implementing our operational strategy of incorporating gold into foreign exchange reserves. This strategy was approved by the BFM Board of Directors on April 14th, 2022, and transmitted to IMF staff for remarks and comments. Primarily, staff found that the strategy requires additional considerations over governance arrangements of the program, and a clearer delineation of the BFM's role vis-à-vis efforts to reform the mining sector. The strategy revolves around six pillars, including governance, gold purchasing, refining, storage, active management, and the financial presentation of gold. The strategy specifies an algorithm to determine *doré* purchase prices that takes into account exchange rate risks and gold price fluctuations and safeguards (e.g., due diligence process) that are implemented to reduce operational and reputational risks for the BFM. We are committed to purchasing *doré* at a fair price, excluding any form of subsidy to operators. Our goal is to process locally purchased *doré* into London Good Delivery (LGD) bullion that meets the London Bullion Market Association (LBMA) standards. We are finalizing the contract with the refiner selected in collaboration with IMF technical assistance. The choice of the refiner is based on criteria such as LBMA accreditation, location in a marketplace or proximity to the storage location, and evaluation of the offer, knowing that security comes before all other considerations. A sale of *doré* to buy monetary gold is also foreseeable. The prospecting of a bank ready for such a transaction is already underway.

iii. The Memorandum of Understanding between the BFM and the MMRS will be revised to further define the respective responsibilities of the two institutions and allow for a suspension of the MOU upon its expiration. Diversification of the foreign exchange reserve portfolio remains the ultimate goal of the BFM, in conjunction with the development of Madagascar's gold resources.

**47. The MMRS is actively working to ensure the traceability of gold and respect for human rights and the environment**. We are in the process of implementing procedures for traceability and evaluation of environmental and social practices. A working meeting with NGO Swissaid, the MMRS, and the BFM took place in Zurich in May regarding a responsible supply chain. The formalization of exports will help improve our balance of payments through the repatriation of revenues, as well as increase liquidity in the foreign exchange market. To enable the resumption of gold exports by responsible operators who have signed a commitment to operate legally and in compliance with regulations, we have conducted a review of industry practices to ensure full compliance with all regulations, including tax regulations, and an extensive census of licensed gold operators. This review and this census were completed in July 2021 and submitted to the Council of Ministers by the Ministry of Mines and Strategic Resources in early May 2022. The ban on gold exports for operators whose activities are in compliance with regulations will be lifted by the end of August 2022.

**48. We improve financial inclusion through mobile banking services and digitalization**:

- In order to promote greater access and better use of financial services, several microfinance institutions (MFIs) have received support in extending their access points in underserved areas and in implementing remote banking solutions (agency banking, mobile money and mobile banking). Furthermore, 4 MFIs were able to strengthen and adapt their information systems to new technologies by setting up a shared information and management system (*Système d'information et de Gestion* - SIG). In addition, a guarantee fund for micro-enterprises and agricultural entrepreneurs, including start-ups, has been set up with the participation of 6 banks and 2 MFIs.

- Regarding last year's pilot project, a large MFI benefited from a BFM loan of MGA one billion, of which 400 million was earmarked to finance rice operators in Ifanja Analavory, and 600 million for sugarcane growers in Brickaville. This loan was repaid in its entirety in October 2021.

- The Malagasy Savings Bank (*Caisse d'Epargne de Madagascar* - CEM) continues to expand its financial activities. The CEM manages 1.2 million savings accounts in Madagascar, totaling MGA 407 billion (0.8 percent of GDP) and is considering an electronic money business (prepaid payment service). The formalities for approval are underway. In the same spirit, the PAOMA (Paositra Malagasy), beyond its postal activities and the management of approximately 500,000 savings accounts, plans to develop financial activities by relying on its network of more than 250 branches throughout the country. The PAOMA is a partner, as a distributor, of a local bank authorized to carry out electronic money activities, via a Visa payment card. This instrument will be used for bills and wage payments (civil servants' salaries, students' scholarships, pensioners' pensions, etc.) and for international transfers, in addition to traditional electronic money operations.

- We are implementing the project of a national payment Switch scheduled for end-2022 which will allow the interoperability of all electronic payments, leading to a reduction in transaction costs and contributing to an improvement in financial inclusion and better effectiveness, security, and resilience of the national payment system.

- We are implementing the e-Ariary digital payment project to improve reliability and access to the financial system. This digital payment system will be secure, accessible, easy to use and lawful throughout the national territory, and will be subject to regulation and control by the Monetary Authority. The e-Ariary will support financial inclusion objectives, improve control of currency in circulation, and enhance, along with the national Switch, the efficiency, security, and robustness of the national payment system.

- The FINSCOPE survey, planned by Madagascar's National Strategy for Financial Inclusion (*Stratégie Nationale d'Inclusion Financière de Madagascar* - SNIM 2018-2022), should be launched this year and will measure the number of adults with access to formal financial services.

- Low levels of financial inclusion are often associated with low levels of financial literacy. To address this issue, the BFM has developed a dedicated module on its website (https://www.banky-foibe.mg/education-financiere) and conducted several awareness and communication campaigns (Global Money Week, Global Entrepreneurship Week, online financial education messages on telephony, …). The strategic framework document and the national financial education program were validated by stakeholders and partners in October 2021.

**49. We are strengthening risk-based supervision and prudential regulation and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)**:

- The composition of the banking sector has changed slightly with twelve territorial banks following the approval of MVOLA SA as a bank in September 2021. The banking sector remains well capitalized despite a few vulnerabilities. All banks were in compliance with prudential regulations at the end of March 2022. However, there is considerable heterogeneity among banks with respect to liquidity ratios and return on equity. In the course of 2021, a few one-off breaches were noted in the risk-splitting (3 banks) and foreign exchange position (2 banks) ratios, which were promptly rectified. The recurrent deficiencies noted at one bank were also normalized thanks to efforts to strengthen its capital base. In terms of profitability, the banking sector remains largely profitable thanks to the increase in net banking income supported in particular by the rise in net commission income and foreign currency transactions. Since 2021, there has been an expansion in the granting of loans and the mobilization of deposits for investment in income-generating activities. The non-performing loan rate has stabilized at its pre-crisis level. The Financial Stability Law has been reviewed by the Council of Ministers and will be submitted to Parliament. The law will establish a national structure responsible for analyzing, identifying, and preventing systemic risks and managing and resolving financial crises.

- Regarding the legal, regulatory, and institutional framework, the banking law, the insurance law, the law on electronic money and electronic money institutions and the microfinance law have been promulgated. The instructions relating to the capital of banks, solvency, liquidity, risk concentration and the provisioning of credit risks of banks, considered as priorities, have already been developed or are being developed.

- Microfinance institutions (MFIs) were strongly affected by the effects of the pandemic, with a slowdown in their activity, a drop in deposits, and a significant deterioration in their portfolio.

The situation gradually improved in early 2021 as lending activity resumed and net income rebounded to positive levels; however, portfolio quality remained poor. In this context, BFM has allowed some flexibility in complying with prudential standards, but no institution has used waivers.

- We have strengthened risk-based prudential supervision. The Banking and Financial Supervision Committee (*Comité de Supervision Bancaire et Financière* - CSBF) is working on the implementation of the new risk-based supervision mechanism, including the conduct of annual inspection programs prioritizing systemically important institutions as well as those with vulnerabilities. Risk-based supervision in the area of AML/CFT is planned, in line with the objectives of the 2018-22 national strategy. The establishment of the unit in charge of the insurance sector is being finalized with the recruitment of staff in charge.

## Statistical Data and Program Monitoring

**50. While the provision of data is generally adequate for program monitoring and follow-up, we remain committed to allocating sufficient human, financial and material resources to the production of statistics**. The government will continue to support the National Statistics Institute (INSTAT) in carrying out its missions, and we rely on the continued technical and financial assistance of our partners. To address some of the gaps and strengthen our data provision, our priorities are to:

- Capitalize on the results of the latest General Census of Population and Housing (*Recensement Général de la Population et de l'Habitat* - RGPH) conducted in 2018 and for which the results and micro-data were made official on February 15, 2021. Projections still based on the 1993 RGPH-2 data have been replaced by macroeconomic aggregates using population size as the denominator, including GDP, GNP, and GNI per capita.

- Update the consumer basket for the CPI and the parameters for estimating final household consumption, and update data on poverty and household living conditions by conducting the 2021 Permanent Household Survey (*Enquête Permanente auprès des Ménages 2021*).

- Conduct a series of surveys on remittances - formal and informal - from the diaspora which will be a major step forward in feeding the financial statistics of the BFM and INSTAT, thus allowing the identification of the volume of foreign exchange financing inflows, as well as its contribution to wealth creation at the national level (GDP).

- Improve the national accounting system and the consumer price index. This requires a survey for the calculation of the Producer Price Index (PPI), an extension of the geographical coverage of the CPI, the calculation and publication of the disaggregation or decomposition of the national accounts (quarterly accounts, regional accounts, and sectoral satellite accounts). To that end, INSTAT plans to release two other indices to improve macroeconomic projections: a Foreign Trade Index (ICE) and an Industrial Production Index (IPP) whose first values are already available.

- Contribute to the realization of the general agricultural census that will begin in 2023, as soon as the financing of the World Bank within the framework of the StatCap-II Project, Statistical Capacity Building, is confirmed in September 2022. After that, it will take at least two years after the beginning of the activities to have the first results of this census.

- Regarding monetary and financial statistics, we have consolidated the balance sheets of microfinance institutions and those of the CEM in the monetary survey in 2018, as recommended by IMF technical assistance. Once the CSBF's supervision of the insurance sector is effective, the BFM will include, with the support of IMF technical assistance, the balance sheets of insurance companies in the monetary statistics to comply with the Manual on Monetary and Financial Statistics and the Compilation Guide. Finally, with respect to external statistics, BFM will continue to monitor the level of private debt and strengthen FDI statistics, in partnership with INSTAT. The survey on private external debt and FDIs is expected to resume in 2022.

**51. We greatly appreciate the technical assistance received from the IMF, articulated with the one received from other partners.** The provision of technical assistance has been instrumental in advancing certain reforms in recent years and we hope that this effort will continue in the coming years to meet the new needs and challenges arising from the implementation of the new economic reform program under the PEM.

**52. We are committed to respecting the requirements of the IMF Safeguard Policy**.

**53.** The program is assessed based on quantitative performance criteria and structural benchmarks (Tables 1 and 2) and semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are defined in the accompanying Technical Memorandum of Understanding (TMU). The third, fourth and fifth reviews are expected to be completed on or after the following dates: November 15, 2022, March 15, 2023, and November 15, 2023, respectively, based on the test dates for the periodic performance criteria for end-June 2022, end-December 2022, and end-June 2023 respectively.

## Table 1. Madagascar: Quantitative performance criteria and indicative targets, September 2021-June 2023

(Billions of MGA, unless otherwise specified)

(Billions of Ariary; unless otherwise indicated)

| | Sep-21 | | | Dec-21 | | | Mar-22 | | | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Target | Actual | Status | Target | Actual | Status | Target | Actual | Status | Target | 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 |
| Ceiling on new external debt contracted or guaranteed by the central government or BFM, in present value terms (US$ millions)[1] | 800 | 246 | **Met** | 800 | 518 | **Met** | 800 | 551 | **Met** | 800 | 800 | 800 | 800 | 800 |
| **Performance Criterion** | **IT** | | | **PC** | | | | **IT** | | **PC** | **IT** | **PC** | **IT** | **PC** |
| Floor on domestic primary balance[2] | -1,324 | 136 | **Met** | -1,426 | -178 | **Met** | -157 | -59 | **Met** | -293 | -660 | -888 | 115 | -45 |
| Ceiling on net domestic assets (NDA) of BFM | 2,578 | 1,794 | **Met** | 2,838 | 2,148 | **Met** | 1685<br>Adjusted: 2795 | 2,472 | **Met with adjustor** | 2,135 | 2,630 | 3,010 | 2,610 | 2,950 |
| Floor on net foreign assets (NFA) of BFM (millions of SDRs) | 623 | 633 | **Met** | 645<br>Adjusted: 559 | 634 | **Met** | 836<br>Adjusted: 635 | 532 | **Not met** | 816 | 571 | 686 | 727 | 727 |
| **Indicative Targets** | | | | | | | | | | | | | | |
| Floor on gross domestic tax revenue | 2,453 | 2,373 | **Not met** | 3,384 | 3,225 | **Not met** | 942 | 706 | **Not met** | 2,068 | 2,600 | 3,800 | 990 | 2,250 |
| Floor on gross customs tax revenue | 1,785 | 1,829 | **Met** | 2,550 | 2,657 | **Met** | 704 | 746 | **Met** | 1,439 | 2,400 | 3,380 | 950 | 1,800 |
| Floor on social spending[3] | 282 | 140 | **Not met** | 513 | 299 | **Not met** | 71 | 7 | **Not met** | 178 | 300 | 527 | 96 | 240 |
| **Memorandum Items** | | | | | | | | | | | | | | |
| Official external budget support (grants, millions of SDRs)[4] | | 0 | | | 0 | | 0 | 0 | | 0 | 1 | 1 | 3 | 5 |
| Official external budget support (loans, millions of SDRs)[4] | | 101 | | | 101 | | 110 | 101 | | 110 | 101 | 109 | 109 | 142 |
| Program exchange rate (MGA/SDR) | 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 ceilings that will be monitored on a continuous basis starting from January 1, 2021; from June 2022 onwards, the target is measured cumulatively since the beginning of each calendar 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] Measured cumulatively since program inception.

## Table 2. Madagascar: Structural benchmarks until the end of June 2023

| Measure | Due date(s) | Implementation status | Rationale |
|---|---|---|---|
| **Prior action** | | | |
| 1. Public release of an independent, third-party audit of contracts relating to COVID-19. | | **Met** | Improve economic governance |
| **Mobilizing fiscal policy to address economic and social needs** | | | |
| 2. 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 |
| 3. 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 | **Not met.** Collected arrears amounted to MGA 52 billion in the second semester of 2021. | Increase tax revenue |
| 4. 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 | **Not met.** Improved controls yielded MGA 41 billion in the first semester of 2022. | Preserve and strengthen fiscal space |
| 5. Prepare and transmit to IMF staff a dashboard allowing to monitor and assess on a monthly basis the effectiveness of the spending commitment authorization process. | September 2022 | | Improve budget execution |
| **Containing short and medium term fiscal risks** | | | |
| 6. 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 the mission. | Improve economic governance and improve the composition and quality of budget expenditures |
| 7. Keep the government's liability to oil distributors below MGA 100 billion with no direct budget offset.<br>To be replaced by: Keep the government's gross liabilities to oil distributors below MGA 300 billion. | Continuous | **Not met.** The ceiling was exceeded in January 2022. | Preserve and strengthen fiscal space |
| 8. 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 | **Not met. Subsequently implemented.** The new price structure was approved in July 2022. | Preserve and strengthen fiscal space |
| 9. Implement tariff optimization for JIRAMA's business and industrial customers. | March 2022 | **Not met. Subsequently implemented.** JIRAMA's new tarif structure for non-residential customers was implemented in | Preserve and strengthen fiscal space |
| 10. Based, inter alia, on existing studies, formulate policies to mitigate the impact of the fuel price adjustment on vulnerable populations. | June 2022<br>June 2023 | **Not met.** The authorities are still working on the formulation and design of mitigation policies pending the release of the new household survey by end-2022.<br>Rescheduled to June 2023. | Preserve and strengthen fiscal space and improve the composition and quality of budget expenditures |
| 11. Finalize and have the Council of Ministers approve JIRAMA's recovery plan. | December 2022 | | Preserve and strengthen fiscal space |
| **Strenghtening public finance management and governance to restore confidence** | | | |
| 12. 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 |
| 13. Finalize and publish a public investment manual consistent with the recommendations of the DAT technical assistance, in particular to clarify institutional aspects. | December 2021<br>March 2023 | **Not met.** The dissolution of the investment agency (OCSIF) has led to delays in the finalization of the investment manual.<br>Rescheduled to March 2023. | Support growth through reforms and by tackling the sources of fragility |
| 14. 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 |
| 15. 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.** Quarterly reports were prepared in 2021 and the first quarter of 2022, but significant improvements are needed to include all data on a payment basis, including data on social expenditures. | Improve fiscal transparency |
| 16. 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<br>January 2023 | **Not met.** The authorities intend to strengthen the cooperation between the ministry of finance and social ministries to help with the preparation of expenditure commitment plans in 2023.<br>Rescheduled to January 2023 for the 2023 commitment plans by the Ministries of Health and Education. | Improve the composition and quality of budget expenditures |
| 17. Public release of an independent, third-party audit of contracts relating to COVID-19. | March 2022 | **Not met. Subsequently implemented.** The report was published on July 6, 2022 as a prior action for completion of the review. | Improve economic governance |
| 18. Publish the decree creating the coordination and orientation committee for AML/CFT under the 2018 AML/CFT law. | March 2022 | **Not met. Subsequently implemented.** The decree was adopted in June 2022 and published in August 2022. | Improve economic governance |
| 19. Launch the operations of the illegal assets recovery agency, including with a dedicated budget allocation in the 2022 LFI. | March 2022 | **Not met. Subsequently implemented.** The first General Director of the agency was sworn in in June 2022 and an operating budget was approved in the revised budget for | Improve economic governance |
| 20. Establish a budgetary mission for the *Cour des Comptes* in the 2023 budget law. | December 2022 | | Improve economic governance |
| 21. Prepare and publish a follow-up report by the *Cour des Comptes* on its recommendations following the audit reports on COVID spending published in March 2022. | March 2023 | | Improve economic governance |

Note: Proposed new structural benchmarks are indicated in blue.

# Attachment II. Technical Memorandum of Understanding

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

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

- 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.

- 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 |

- 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.

- 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.

- 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.

- 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

**1.** 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)

**2.** 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

**3.** 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

**4.** 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.

**5.** 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.

**6.** 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.

**7.** 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.

**8.** 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.

**9.** 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

[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).

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

**10.** 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

**11.** 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 net (D) | 183.1 |
| Net Domestic Assets | |
| MGA billions (E) = (A) + (B) + (C) + (D) | 1861.9 |

# INDICATIVE TARGETS

## A. Floor on Priority Social Spending

**12.** 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

**13.** 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

**14.** 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.

**15.** 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.

**16.** For the purposes of the structural benchmark on fuel pricing, and until the adoption of a fuel pricing mechanism, the authorities will prevent total estimated gross liabilities to fuel distributors excluding VAT from rising above MGA 300 billion (measured as a cumulative stock). The estimated total gross 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

**17.** 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.

**18.** 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

**19.** 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) MGA 800 billion (equivalent to SDR 145.2 million at the program exchange rate) will increase (decrease) the NFA target by the excess above (shortfall below) MGA 800 billion. 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.[3]

- 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

[3] 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).

government above (below) MGA 800 billion will prompt an equivalent adjustment of the NDA target downward (upward) by the excess above (shortfall below) MGA 800 billion.

**20.** 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.

**21.** 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 US$140 million if loans linked to projects financed by the World Bank in 2022 do not materialize.

**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 |

| Table 1. Madagascar: Data Reporting Requirements (continued) | |
|---|---|
| **Item** | **Periodicity** |
| Autonomous drivers of liquidity | 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 |
| **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.<br>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.<br>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<br>Quarterly |

**Table 1. Madagascar: Data Reporting Requirements (concluded)**

| | |
|---|---|
| **External data** | |
| **Central Bank of Madagascar (CBM)** | |
| Balance of payments | Quarterly, by the end of the subsequent quarter |
| **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 gross liability to fuel distributors, with information on fuel distributors contributions and fees due to 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.

(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.

**Statement by Mr. Andrianarivelo, Executive Director for Madagascar, Mr. N'Sonde, Alternate Executive Director, and Mrs. Raoilisoa Andrianometiana, Senior Advisor to Executive Director**
**September 12, 2022**

Our Malagasy authorities wish to express their gratitude to the Executive Board, Management, and Staff for their continued support to Madagascar. They appreciate the productive discussions held with staff during the second review of the ECF-supported program. They highly value the quality of Fund's engagement with the country and its policy advice which are helpful in improving macroeconomic management.

Madagascar continues to face significant economic and social challenges, exacerbated by several recent natural disasters and the impacts of the war in Ukraine. Nonetheless, the authorities have made significant efforts to preserve macroeconomic stability and push forward the structural and governance reform agenda. In this vein, they have shown strong commitment to ensuring transparency of the Covid-related expenditure and strengthening the anti-corruption and AML/CFT frameworks. The authorities are also mindful of the significant risk to fiscal sustainability posed by higher international oil price. They established a new price structure and proceeded with a significant increase in fuel pump prices to contain the government's liabilities vis-à-vis fuel distributors and implemented a new tariff structure for corporate customers to increase the revenues of the national electricity company, JIRAMA. To mitigate the impact of the rise in fuel price on the vulnerable population, the authorities are strengthening the existing social safety net programs with the support of the World Bank and working on more appropriate targeted measures.

The authorities remain committed to the program's objectives, including through advancing the reform agenda, with a view to achieving sustainable and inclusive growth. Those objectives are well aligned with the national development strategy—*Plan Emergence Madagascar* (PEM)—which will be published in the coming months.

Against this background, the authorities are requesting the completion of the second review under the ECF-supported program. They are also requesting the modification of performance criteria to accommodate higher priority social and investment spending envisaged in the PEM. In addition, given the high exposure of the country to negative externalities from climate change and following the findings and recommendations of the recent Climate Macroeconomic Assessment Program (CMAP), the authorities would like to express their interest in accessing the Resilience and Sustainability Trust (RST) as soon as it is operationalized. The authorities are also seeking for the Fund financial support to address food insecurity in the south region of the country.

**Recent Macroeconomic Developments and Prospects**

Following a deep contraction in 2020 on the back of the pandemic (-7.1 percent), economic activity recovered partially in 2021 (+4.3 percent), supported by buoyant extractive and textile sectors, and resilient financial services. In this environment, exports bounced back. The domestic primary fiscal balance improved to -0.3 percent of GDP (commitment basis) owing to increased tax revenue and under-execution of social spending and externally financed public investment. Inflation has picked up from 6.2 percent in 2021 to 6.9 percent at end-June 2022, due to higher oil and food prices. To contain rising inflation, the central bank (BFM) has further tightened monetary policy, and the government has set price ceilings for a range of essential goods such as rice, sugar, and flour.

Despite challenging and uncertain domestic and international environment, GDP growth is expected to reach 4.2 percent in 2022 and will accelerate over the medium term (above 5 percent). This expansion is driven by increased private capital expenditure and favorable developments in agriculture, tourism, and mining. However, current account imbalances are projected to widen substantially in 2022 mainly due to the external environment and to remain in negative territories over the medium term.

**Program Performance**

Amid a challenging domestic and external context, program implementation has progressed with all quantitative performance criteria (QPC) and most indicative targets (ITs) met. The ITs on domestic tax revenue and social spending were missed due to slower-than-expected activity and delayed budget execution. Nonetheless, the authorities are redoubling their efforts to strengthen domestic revenue collection. They are also working to improve the spending process to reduce chronic budget under-execution, and a new structural benchmark (SB) has been introduced in this regard. At the same time, the government's plan to implement a functional classification of public expenditure is progressing, with the view to improve the identification of social spending. It is also in their intention to strengthen the cooperation between the ministry of finance and line ministries to help with the preparation of expenditure commitment plans for FY 2023.

The implementation of structural measures under the program is also proceeding albeit at a slower pace than initially expected. The prior action related to the publication of an independent third-party audit of the Covid-related contracts was observed. The 2022 revised budget law is in line with the program objectives, and the government has met all its commitments regarding the transparency of the Covid-related expenditure. They remain dedicated to budget transparency and are working to improve the quarterly budget execution reports. Moreover, the authorities established a new fuel price structure in July 2022 and increased by 43 percent on average the fuel pump prices. This is consistent with the timeline agreed for the implementation of an automatic fuel price adjustment mechanism. As regard public investment management, the finalization of the related manual has taken longer than expected, due to some institutional reorganization.

**Policy and Reform Priorities Going Forward**

The Malagasy authorities intend to pursue their objectives set forth under ECF program discussions. Recognizing the downside risks around the program, notably stemming notably from constrained implementation capacity, fragility, and exposure to natural disasters and other shocks, they remain steadfast on their agenda and carefully manage fiscal risks while improving capacities with the support of partners.

***Fiscal Policy and Reforms***

The authorities will maintain a prudent fiscal policy geared toward creating more space to continue increasing social spending and priority public investment. They will step up efforts towards mobilizing more revenue and improving the quality of expenditures while strengthening the public financial management, including public investment management. Consistent with the program and the 2022 revised budget, the government aims to achieve 11.3 percent for the tax-to-GDP ratio and contain the primary deficit to 1.4 percent of GDP.

On the revenue side, the authorities are determined to collect higher revenue and implement the reforms outlined in the revised budget law. They will pay particular attention to the fight against fraud as well as the improvement of tax arrears collection. At the same time, they are strengthening the reliability of the taxpayer database, pursuing efforts to digitalize the tax administration, and optimizing tax control. 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 concur with staff that improved budget execution and public financial management are critical for fiscal policy effectiveness. They agree on the main obstacles identified to better budget execution, including frequent ministerial reorganizations and high turnover of budget actors along with a centralized spending commitment authorization process. The authorities have taken several actions to accelerate the expenditure process, including the development of a new module in the IT system to facilitate the granting of authorization by the President and the Prime Minister. The President and Prime Minister's Offices will provide their authorization within seven days following the reception of request from line ministries. A new SB aiming at monitoring and assessing monthly the effectiveness of the spending commitment authorization process has been introduced. In addition, the ministry of finance is strengthening the collaboration with, and support to, line ministries, including social ministries, with the view to improve budget execution. As regards to capital spending, a new financial and physical monitoring system for public investment projects is under study. The quarterly limitation to capital spending commitments was removed to allow public investment credits released at 100 percent in the first quarter of the fiscal year. Moreover, the authorities will continue to strengthen the appraisal, selection, and prioritization of public investment projects, in line with the PIMA recommendations.

***Management of Fiscal Risks***

Madagascar's risk of debt distress remains moderate for both external and overall public debt as assessed during the first review. The authorities will 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 is fully committed to improving its disaster risk management strategy. The authorities are also determined to pursue policies designed to enhance climate resilience.

To address fiscal risks stemming from the administration of fuel prices, the authorities have proposed in January 2022 a timeline towards an automatic fuel price adjustment 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 will develop a communication strategy with all stakeholders regarding the reform and accompanying measures to ensure adequate buy-in.

The rise in global oil prices has created a growing gap between the calculated reference prices and the administered pump prices, and an accumulation of government liabilities to fuel distributors. It is against this background that they implemented a new price structure and increased pump prices. To mitigate the impact on the most vulnerable, the increases were differentiated and wage augmentations in public and private sectors were announced. The authorities will also continue to expand the existing social safety net programs with technical and financial assistance from development partners, notably the World Bank. Additional mitigation policies to protect the most vulnerable are expected, pending the release of the new household survey by end-2022.

Regarding fiscal risks stemming from SOEs, the authorities maintain their recovery plan for JIRAMA to put the company on a sound financial footing. With the objective to further increase the company's revenue, they decided in early August 2022 to implement new tariff optimization for corporate customers.

***Monetary and Financial Sector Policies***

Preserving price stability and strengthening international reserves remain the central objectives of the monetary authorities. The BFM is closely monitoring the inflationary pressures and stand ready to tighten further monetary policy, as needed, to keep inflation contained. The reform aiming at transitioning gradually to interest targeting framework is advancing. The authorities are also working to improve the functioning of foreign exchange market and the management of foreign reserves, including a more rigorous monitoring of compliance with repatriation requirements and improved market communications. Fund technical assistance remains essential to accelerate the implementation of reforms.

The banking and financial sectors remain broadly resilient and sufficiently capitalized. Nonetheless, the BFM is committed to closely monitoring financial stability indicators. They are working on the implementation of the new risk-based supervision mechanism, including the conduct of annual inspection programs prioritizing important institutions and those facing vulnerabilities.

***Governance and Transparency***

The authorities fully agree that steadfast implementation of governance reforms remains critical to enhance fiscal outcomes and promote strong and inclusive growth.

Transparency in Covid-related spending under the RCF arrangements has improved, with the publication of all procurement contracts and the audit reports by the *Cour des Comptes* on pandemic-related financial flows. The authorities have also adopted an action plan to address the findings and recommendations of the reports and will publish a follow-up report on the implementation of the recommendations. In addition, an independent third-party audit of contracts related to Covid-19-related spending has been published. Going forward, the authorities are determined to improve the transparency of all public procurement contracts and strengthen the expenditure chain control, including during emergency situations. To this end, the authorities are granting the *Cour des Comptes* access to all the information systems of the Ministry of Finance and are determined to strengthen its budget autonomy through the creation of a dedicated budget mission. They are also fully committed to improve budget transparency, and reporting, including the publication of budget execution reports.

Important steps have been taken to enforce the AML/CFT frameworks, including the adoption of the national strategy for AML/CFT, as well as the adoption of a decree creating a National Committee of Orientation and Coordination (NCOC) for the fight against money laundering and terrorism financing. In addition, a law modifying and completing the 2018 AML/CFT law, aligned with FATF international standards, will be submitted for adoption by the Parliament during its next session.

Moreover, the authorities are strongly committed 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. In addition, the agency in charge of illicit assets is fully operational, with a specific budget allocated in the revised 2022 budget.

**Conclusion**

The Malagasy authorities remain committed to the program objectives and stand ready to take additional measures if necessary to keep the program on track. They are requesting the completion of the second review under the ECF arrangement. They are also requesting the modification of quantitative performance criteria while preserving debt sustainability. They hope to continue to count on the support of the Fund.