



REPUBLIC OF MADAGASCAR

July 2024

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND CANCELLATION OF THE CURRENT ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENTS; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF MADAGASCAR

In the context of the Request for an Arrangement Under the Extended Credit Facility and Cancellation of the Current Arrangement Under the Extended Credit Facility and Request for an Arrangement Under the Resilience and Sustainability Facility, 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 June 21, 2024, following discussions that ended on May 3, 2024, with the officials of Republic of Madagascar on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility and the Resilience and Sustainability Facility. Based on information available at the time of these discussions, the staff report was completed on June 7, 2024.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank.
- A **World Bank Assessment Letter for the Resilience and Sustainability Facility**.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Republic of Madagascar.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Republic of Madagascar*
Memorandum of Economic and Financial Policies by the authorities of Republic of Madagascar*

Technical Memorandum of Understanding*

*Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.



IMF Executive Board Approves US\$337 million Under the Extended Credit Facility, and US\$321 million Under the Resilience and Sustainability Facility for Madagascar

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved today an arrangement under the Extended Credit Facility (ECF) in the amount of US\$337 million for Madagascar, in addition to a Resilience and Sustainability Facility (RSF) arrangement in the amount of US\$321 million.
- The ECF and RSF-supported programs are aligned with the authorities' objectives highlighted in the new General State Policy (PGE) adopted in early 2024 and aim to increase Madagascar's economic resilience and foster long-term inclusive growth.
- The RSF arrangement will underpin reforms to strengthen adaptation to climate change and resilience against natural disasters, support climate change mitigation efforts, enhance the protection of ecosystems, and create conditions for green private sector investment.

Washington, DC – June 21, 2024: The Executive Board of the International Monetary Fund (IMF) approved today a 36-month arrangement under the Extended Credit Facility (ECF) of SDR 256.62 million (about US\$337 million) with Madagascar. The Executive Board also approved an arrangement Under the Resilience and Sustainability Facility (RSF) of SDR 244.4 million (about US\$321 million). Furthermore, the Executive Board took note of Madagascar's cancellation of the [40-month arrangement under the ECF which had been approved on March 29, 2021](#). The ECF-supported program will provide critical help to increase Madagascar's economic resilience by anchoring fiscal sustainability, strengthening governance, buttressing monetary and financial stability, and advancing reform to support industrialization and human capital development. The RSF arrangement aims to address climate vulnerabilities through the implementation of appropriate climate policies.

This decision enables an immediate disbursement equivalent to SDR 36.66 million (about US\$48 million) under the ECF.

Madagascar's growth eased to 3.8 percent in 2023, while inflation pressures have waned. Weak revenue mobilization and JIRAMA's losses have continued to weigh on the fiscal balance. The current account deficit narrowed, owing primarily to a decline in imports and reflecting the slowdown in economic activity.

The authorities are committed to stabilize debt below 60 percent of GDP and bring the primary deficit to around 3 percent of GDP during the program. They intend to undertake revenue measures and to reduce transfers to the energy sector, including by a progressive phasing-out of fuel subsidies. These efforts should help create fiscal space for investment in human and physical capital. The authorities are also committed to strengthening governance, transparency, and the fight against corruption, continuing the implementation of the interest rate targeting operational monetary policy framework, and building resilience, especially through stronger social safety nets.

Medium-term growth prospects appear favorable, bolstered by the reforms supported by the RSF and the ECF, including government programs aimed at boosting agricultural productivity, increasing access to electricity, and improving road infrastructure. Risks to the outlook are tilted to the downside, amid an uncertain global environment. Madagascar also remains vulnerable to climate shocks.

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

Madagascar continues to face challenges, with economic growth easing in a context of weak fiscal performance and gradual reform progress. Going forward, climate change poses significant risks to Madagascar's economy. The new arrangements under the Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF) will support the authorities' program focused on strengthening human capital, accelerating economic development, and improving governance.

The authorities are implementing measures to create fiscal space for much needed social spending and investment. These include medium-term revenue mobilization efforts through tax policy and revenue administration measures. The implementation of an automatic fuel pricing mechanism and the preparation of a recovery plan for JIRAMA should enable to gradually reduce government transfers to the energy sector. These efforts should allow to stabilize public debt below 60 percent of GDP in the medium-term.

The authorities are preparing a new anti-corruption strategy, which, together with a Governance Diagnostic Assessment by the IMF, will support further efforts to fight corruption, promote transparency and improve governance [Governance and Anti-Corruption \(imf.org\)](https://www.imf.org/en/Topics/anti-corruption). They are also working on the implementation of a new monetary policy operational framework, focusing on strengthening liquidity management and the central bank's communication.

Tackling climate change challenges will be critical for Madagascar's medium-term macroeconomic resilience. The RSF-supported reforms should reinforce climate governance and mainstream climate into public financial and investment management processes, strengthen adaptation to climate change and resilience against natural disasters, curb the growth of greenhouse gas emissions, reinforce the protection of forest and biodiversity, and mobilize climate finance. The authorities should take full advantage of the support provided by the Fund and the World Bank through the [Enhanced Cooperation Framework for Climate Action](#), and by other development partners to catalyze private climate financing

Table 1. Selected Economic Indicators, 2021–25

	2021	2022	2023	2024	2025
	Est.			Proj.	
(Percent change; unless otherwise indicated)					
National Account and Prices					
GDP at constant prices	5.7	4.0	3.8	4.5	4.6
GDP deflator	6.6	6.9	8.7	6.9	7.6
Consumer prices (end of period)	6.2	10.8	7.5	7.8	7.5
Money and Credit					
Broad money (M3)	12.2	13.8	8.6	12.3	12.1
(Growth in percent of beginning-of-period money stock (M3))					
Net foreign assets	1.0	0.8	18.2	5.7	2.5
Net domestic assets	11.2	13.0	-9.7	6.7	9.6
<i>of which:</i> Credit to the private sector	11.1	9.8	0.7	6.3	6.3
(Percent of GDP)					
Public Finance					
Total revenue (excluding grants)	10.3	9.6	11.4	11.2	11.2
<i>of which:</i> Tax revenue	9.9	9.4	11.1	10.8	10.9
Grants	0.7	1.3	2.3	1.8	0.6
<i>of which:</i> budget grants	0.0	0.0	0.0	0.0	0.0
Total expenditures	13.7	16.5	17.9	16.7	15.7
Current expenditure	8.4	11.0	10.9	10.3	9.7
Capital expenditure	5.3	5.5	7.0	6.4	6.0
Overall balance (commitment basis)	-2.8	-5.5	-4.3	-3.8	-3.8
Domestic primary balance ¹	-0.1	-1.8	-0.4	0.2	0.7
Total financing	3.2	4.7	4.2	4.1	4.1
Foreign borrowing (net)	2.3	2.5	3.0	3.2	3.4
Domestic financing	0.8	2.3	1.2	1.0	0.7
Financing gap ²	0.0	0.0	-0.1	0.0	0.0
Savings and Investment					
Investment	23.2	20.8	21.6	22.3	21.3
Gross national savings	10.2	15.4	17.1	17.7	16.5
External Sector					
Exports of goods, f.o.b.	18.6	23.3	19.6	16.3	18.8
Imports of goods, c.i.f.	28.7	34.2	28.2	25.3	28.2
Current account balance (exc. grants)	-5.5	-6.7	-6.8	-6.4	-5.4
Current account balance (inc. grants)	-4.9	-5.4	-4.5	-4.6	-4.8
Public Debt					
External Public Debt (inc. BFM liabilities)	51.9	53.9	55.6	53.4	52.9
Domestic Public Debt	34.3	36.5	35.7	34.8	36.5
	17.7	17.4	19.9	18.6	16.4
(Units as indicated)					
Gross official reserves (millions of SDRs)	1630	1601	1972	2130	2250
Months of imports of goods and services	5.8	4.2	5.7	6.3	5.8
GDP per capita (U.S. dollars)	517	523	530	563	577

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

¹ Primary balance excl. foreign-financed investment and grants.

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



REPUBLIC OF MADAGASCAR

June 7, 2024

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND CANCELLATION OF THE CURRENT ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. Real GDP growth stalled at 3.8 percent in 2023, dampened by the deterioration of global economic prospects and the negative effect of electoral uncertainty on investment. After peaking in March 2023, inflationary pressures have eased. Led by a new presidential mandate, the authorities are requesting a cancellation of the current Extended Credit Facility (ECF) that ends in July 2024, and new ECF and Resilience and Sustainability Facility (RSF) arrangements. Cumulative disbursements under the current ECF reached SDR 171.08 million (70 percent of quota, about 78 percent of the total approved amount).

Program objectives and modalities. The authorities have requested a 36-month ECF arrangement with access at 105 percent of quota (SDR 256.62 million). The ECF arrangement is justified by the need to buffer international reserves, which are projected to fall to 4.7 months of imports by 2027 in the absence of Fund financing. To bolster Madagascar's climate resilience, the authorities have also requested a 36-month RSF arrangement with access at 100 percent of quota (SDR 244.40 million), concomitant with the ECF. The programs will be subject to semi-annual reviews. Disbursements under the RSF will be equally split among twelve reform measures to be completed over six reviews. Under the program baseline, Madagascar's risk of external and overall public debt distress remains moderate and its capacity to repay the Fund is adequate but subject to significant risks.

Program policies. Recognizing the importance of program ownership, the priorities of the ECF and RSF arrangements are closely aligned with those of the new General State Policy. The ECF arrangement aims to (i) anchor fiscal sustainability by increasing domestic revenue, reducing fiscal risks, building buffers to enhance resilience to shocks, and strengthening fiscal institutions and public financial management, (ii) strengthen governance and the fight against corruption, (iii) consolidate monetary and financial stability, and (iv) foster stronger and more inclusive growth. Energy sector reforms, including the overhaul of JIRAMA, underpin progress towards all four goals. RSF reforms will support climate change adaptation and mitigation with ongoing assistance from development partners.

Staff views. Staff supports the authorities' request to cancel the current ECF arrangement, as well as their requests for new ECF and RSF arrangements. The Letter of Intent and Memorandum of Economic and Financial Policies demonstrate strong program ownership. Targeted capacity development will be key to the achievement of program objectives.

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

Discussions were held in Antananarivo during April 21–May 3, 2024. The IMF team comprised Frederic Lambert (head), Constance de Soyres, Thibault Lemaire, Joanne Tan (all AFR), Kodjovi Eklou (APD), Claude Wendling (FAD), Yipei Zhang (SPR), Timila Dhakhwa (MCM), Mokhtar Benlamine (Resident Representative) and Ialy Rasoamanana (local economist). Thierry Nguema (Senior Advisor to the Executive Director) attended most of the meetings. Joep Verhagen and Adèle Cadario from the Global Center on Adaptation (GCA) also joined part of the mission. The mission also benefited from discussions with Jamal Saghir (Senior Advisor at the GCA). The team met with President Rajoelina, President of the Senate Ravalomanana, Prime Minister Ntsay, Minister of Economy and Finance Rabarinirinarison, Minister of Environment and Sustainable Development Fontaine, Minister of Energy and Hydrocarbons Jean-Baptiste, Minister of Transportation Ramonjavelo, Minister of Water, Sanitation and Hygiene Ravokatra, Central Bank Governor Andrianarivelo (virtually), other senior officials, development partners, as well as representatives of the private sector, non-governmental organizations and the civil society. Hatem Alsokhebr and Vaishali Ashtakala (AFR) contributed to the preparation of this report.

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CONTEXT

1. President Rajoelina was reelected for a second term and a new government was announced on January 14. Prime Minister Christian Ntsay was re-appointed in January and a new government formed. The General State Policy (PGE) released in January 2024 sets three policy priorities for the new mandate: (i) strengthening human capital, with a focus on education, health, and social protection, (ii) accelerating industrialization and economic development, and (iii) improving governance. Parliamentary elections took place on May 29, while communal elections are expected on November 6, 2024.

2. The objectives of Madagascar's current arrangement under the Extended Credit Facility (ECF), approved in March 2021, have been partially achieved (Annex I). While growth in 2020 (-7.1 percent) declined more than estimated at program approval (-4.2 percent), the subsequent rebound was also stronger. Fiscal performance was marked by some progress in domestic revenue mobilization and moderate fiscal consolidation. Budget under-execution in 2021, smaller-than-projected tax revenue increases in 2021-23, and a protracted conflict with oil distributors resulted in a volatile domestic primary balance, with higher deficits in 2022-23. International reserves at end-2023 came out higher than envisaged at program approval. Public financial management (PFM) reforms showed good progress, while energy sector reforms (implementation of an automatic fuel pricing mechanism and recovery of the public utility JIRAMA) have been slow.

3. The authorities are seeking a new 36-month arrangement under the ECF to support the continuation of reforms. The authorities' request for cancellation of the current ECF-supported arrangement (that expires in July 2024) and the request of a new arrangement are motivated by the start of a new presidential mandate and the limited time remaining on the current arrangement, the persistence of balance of payments problems over a longer period, and the will to align the new program priorities with the new PGE. The new program aims to increase economic resilience and foster long-term inclusive growth by anchoring fiscal sustainability, strengthening governance and the fight against corruption, consolidating monetary and financial stability, and advancing reform to support industrialization and human capital development.

4. The authorities are also requesting an arrangement under the Resilience and Sustainability Facility (RSF) to help address climate vulnerabilities. Those stem from higher average temperatures, more variable rainfalls, and more intense cyclones affecting water supply, food security, and infrastructure resilience. The RSF will underpin ambitious reforms over three years to strengthen adaptation to climate disasters, support mitigation efforts, enhance the protection of ecosystems, and create conditions for green private sector investment.

RECENT ECONOMIC DEVELOPMENTS

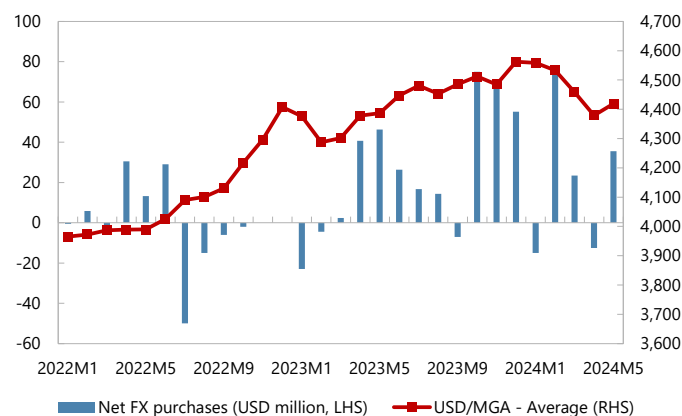
5. Growth is estimated to have eased to 3.8 percent in 2023 from 4 percent in 2022, partly reflecting lower private investment due to the uncertainty around the 2023 presidential elections

and a sharp decline in the textile industry.¹ Tourist arrivals increased by 97 percent in 2023 but remain 10.6 percent below the pre-pandemic level. In late March 2024, tropical cyclone Gamane made landfall in the north-east region, damaging infrastructure and agricultural crops, and displacing over 80,000 people.

6. Inflation pressures have waned. The headline inflation rate eased to 7.3 percent year-on-year in April 2024, after a peak of 12.4 percent in March 2023. The decline was mostly driven by the dissipated impact of a 43-percent increase in fuel prices in July 2022, a good local rice harvest, and a slowdown in private credit following a tightening of monetary policy. Core inflation, which excludes rice and energy, fell to 8 percent year-on-year in April 2024, from a peak of 12.3 percent in March 2023.

7. The current account deficit is estimated to have narrowed to 4.5 percent of GDP in 2023 from 5.4 percent in 2022, owing primarily to a decline in imports rather than an increase in exports and reflecting the slowdown in economic activity. While vanilla exports rebounded in July and August 2023 following the liberalization of the sector, they underperformed in the last quarter of 2023 and first quarter of 2024, hinting at potential scarring effects of the 2022 botched reform on worldwide demand for Malagasy vanilla.² Food imports dropped significantly in 2024Q1, following a good rice harvest, while mining exports were adversely affected by lower nickel and cobalt prices. The ariary appreciated by about 5 percent in the first three months of the year. Estimated gross international reserves increased to 5.7 months of imports at end-2023 (vs. 4.2 months in 2022) driven by the central bank's (BFM) interventions as well as lower imports. Madagascar's external position at end-2023 remained broadly in line with the level implied by fundamentals and desirable policies (Annex III).

Madagascar: MGA/USD Exchange Rate and FX Interventions



Sources: Malagasy Authorities; and IMF staff calculations.

Note: May 2024 represents data up to May 28, 2024

8. BFM further increased rates in August 2023 by 50 basis points to 9 percent (deposit facility rate) and 11 percent (marginal lending rate), bringing real rates above zero for the first time since June 2022. In February 2024, BFM completed its transition to an interest rate-targeting monetary policy framework and increased the minimum reserve requirements from 9 to

¹ Textile suppliers in Madagascar were adversely affected by the collapse of two major French clothing retailers in 2023.

² The government's attempt to enforce a minimum export price in 2022 has led to a drop in demand in a context of very good harvests in 2022 and 2023, leading to oversupply of high-quality beans and a collapse in world prices. The emergence of new players (e.g., Uganda, Papua New Guinea) is also threatening Madagascar's dominant market position.

12 percent, partly reversing the April 2023 relaxation, to maintain a structural liquidity deficit in a context of lower private credit and deposit growth. BFM maintained rates unchanged in May 2024.

9. Fiscal performance has been affected by weaker-than-expected revenue collection and higher-than-expected transfer spending. The delayed implementation of a new agreement with oil distributors to settle cross-liabilities resulted in a customs revenue shortfall of about 0.6 percent of GDP in 2023, which compounded a lower collection implied by lower-than-expected imports. Spending cuts on wages and goods and services did not offset an increase in transfers to JIRAMA, resulting in an estimated 2023 domestic primary deficit of 0.4 percent of GDP compared with a 0.7 percent surplus target under the fourth review of the 2021 ECF arrangement.

OUTLOOK AND RISKS

10. Economic growth is expected to rebound to 4.5 percent in 2024, mostly driven by private investment and strong growth in tourism. The impact of cyclone Gamane on agricultural production is mitigated by the better than anticipated local rice production in the first quarter of 2024. Growth in the manufacturing and extractive industries, aided by a rebound in textile manufacturing and rise in graphite production respectively, is projected to accelerate in 2024.³ Medium-term potential growth was revised up to 5 percent, bolstered by the reforms supported by the RSF and the ECF, including government programs aimed at boosting agricultural productivity, increasing access to electricity, and improving road infrastructure. Inflation is projected to gradually converge to 6 percent by 2028, while the current account deficit would stabilize just under 5.0 percent of GDP, partly driven by higher investment to increase resilience to climate change-related risks.

11. Risks to the outlook are tilted to the downside (Annex II). The main risks come from persistent governance issues and food insecurity potentially fueling popular discontent and delaying longstanding policy reforms. Higher international oil prices combined with an uncertain global growth environment would exacerbate existing fiscal and external imbalances. An intensification of regional conflicts could lead to supply chain disruptions, higher inflation, and lower growth. Madagascar remains vulnerable to extreme climate events affecting infrastructure and food security. Lack of progress on structural and governance reforms (notably for JIRAMA) would continue weighing on public finances and affect external confidence and investment. On the upside, a new economic agenda and renewed reform momentum focusing on building resilient infrastructure and social protection could boost growth.

³ Madagascar's African Growth and Opportunity Act (AGOA) status was renewed in 2024, maintaining the textile industry's duty-free access to the U.S. market, the largest market for Madagascar's textile exports. Madagascar's mining industry, which is the world's third largest supplier of graphite, is also expected to benefit from China's decision to halt global exports of the mineral in end-2023.

12. The external and overall risk of debt distress continues to be assessed as “moderate” and the government has some space to absorb shocks.⁴ The Debt Sustainability Analysis (DSA) finds that none of Madagascar’s debt indicator thresholds were breached under the baseline projections up to 2044. However, stress test results show breaches of debt indicator thresholds for external and overall public debt under some scenarios. While Madagascar’s debt-carrying capacity is currently assessed as “medium”, the country’s rating lies close to the minimum threshold. Any further deterioration in Madagascar’s fundamentals could result in a downgrade of the country’s assessed debt-carrying capacity, thereby raising the risk of debt distress. Likewise, a pessimistic climate scenario with no adaptation and mitigation measures would also lead to an elevated risk of debt distress.

POLICIES UNDER THE NEW ARRANGEMENTS

13. The new ECF and RSF arrangements are key to strengthening fiscal sustainability and addressing structural issues. Building on the experience of the previous program, the priorities of the new arrangements are closely aligned with those of the new administration, presented in the PGE. The ECF-supported arrangement focuses on four pillars: (i) anchoring fiscal sustainability by increasing domestic revenue, reducing fiscal risks, building buffers to enhance resilience to shocks, and strengthening fiscal institutions and public financial management, (ii) strengthening governance and the fight against corruption, (iii) consolidating monetary and financial stability, and (iv) fostering stronger and more inclusive growth. Energy sector reforms, especially JIRAMA’s overhaul, are essential for progress under the four pillars.

A. Anchoring Fiscal Sustainability (ECF Pillar I)

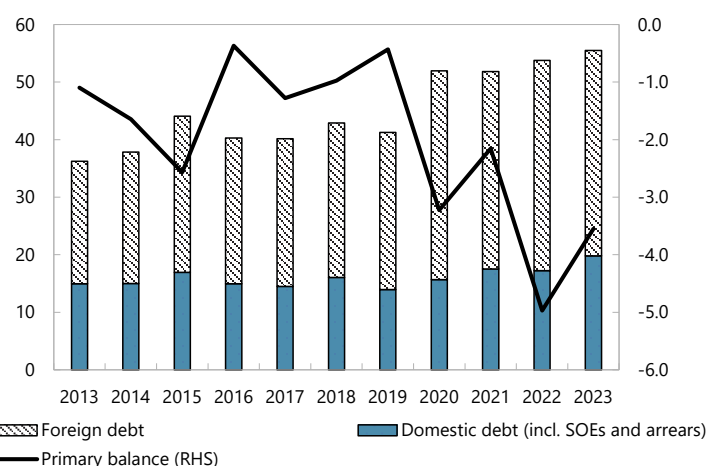
14. The new program aims to stabilize debt below 60 percent of GDP in the medium term. Public debt has increased significantly over the past five years, from 41.2 percent of GDP in 2019 to an estimated 55.6 percent in 2023, partly driven by higher foreign-financed public investment and larger SOE debt. Staff estimate that a medium-term debt anchor of 60 percent of GDP is consistent with maintaining Madagascar’s debt servicing capacity (Annex IV) and recommend this debt anchor be used to design and adopt a medium-term fiscal strategy. Given the current debt level and absent any shock, this anchor implies a primary deficit of 2.9 percent of GDP. The 2023 primary deficit is estimated at 3.6 percent of GDP and 4.5 percent when excluding the collection of customs revenue arrears from 2021–22. While public debt is expected to increase to 58 percent of GDP in 2032 before

⁴ Madagascar has long-standing arrears to Algeria and Angola (for a total of US\$ 188 million) which continue to be deemed away under the policy on arrears to official bilateral creditors, as the underlying Paris Club agreement is adequately representative, and the authorities are making best efforts to resolve the arrears. In addition, Madagascar owes US\$ 18 million to private external creditors. The authorities are pursuing appropriate policies and continue to make good faith efforts to reach a collaborative agreement with these creditors on terms consistent with the relief expected under the HIPC initiative. Prompt Fund support is considered essential for the successful implementation of the program.

declining, it will be important to continue with consolidation over the medium-term and long-term to reduce the risk of deviations above the anchor and preserve fiscal space.

15. To bring the primary deficit to around 3 percent of GDP, the program envisages a consolidation effort (i.e., improvement in the primary balance on an accrual basis, excluding exceptional customs revenue) of 1.6 percentage points of GDP by 2027. The adjustment would result from an increase in net tax revenue on an accrual basis of 2.4 percentage points of GDP and contraction of non-interest current expenditures by 1.6 percentage points partly driven by smaller transfers to JIRAMA or its suppliers, whereas domestically financed capital expenditures would grow by 0.8 percentage points of GDP and investment financed by foreign loans (project loans) would increase by 1.6 percentage points (Text Table 1).

Madagascar: Total Public Debt and Primary Balance
(In Percent of GDP)



Sources: Malagasy Authorities; and IMF staff estimates.

Text Table 1. Madagascar: Envisaged Fiscal Consolidation Effort
(In percent of GDP)

	2022	2023	2024	2025	2026	2027
	Est.	Est.	Proj.	Proj.	Proj.	Proj.
Net tax revenue (cash basis)	9.4	11.1	10.8	10.9	11.6	12.5
Net tax revenue (accrual basis)	11.0	10.1	10.0	10.9	11.6	12.5
Net domestic tax revenue (accrual=cash basis)	5.4	5.4	5.4	5.6	6.0	6.6
Net customs revenue (accrual basis)	5.6	4.7	4.6	5.3	5.6	5.9
<i>Net customs revenue (accrual basis), in percent of imports</i>	<i>18.7</i>	<i>18.5</i>	<i>20.3</i>	<i>20.8</i>	<i>21.5</i>	<i>22.3</i>
Non-tax revenue	0.3	0.3	0.4	0.3	0.3	0.4
Grants	1.3	2.3	1.8	0.6	0.5	0.3
Total current expenditure, excl. interest payments	10.4	10.2	9.5	8.8	8.8	8.6
<i>of which: transfers to JIRAMA and its suppliers</i>	<i>1.4</i>	<i>1.3</i>	<i>1.0</i>	...	...	...
Domestically financed capital expenditure	1.0	1.6	1.5	1.8	2.0	2.4
Foreign financed capital expenditure	4.4	5.4	4.9	4.2	4.8	5.1
Project grants	1.3	2.3	1.8	0.6	0.5	0.3
Project loans	3.2	3.2	3.1	3.6	4.3	4.8
Primary balance	-5.0	-3.6	-2.9	-2.9	-3.1	-2.9
Primary balance with revenue on an accrual basis	-3.3	-4.5	-3.6	-2.9	-3.1	-2.9

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

17. In the short term, the deficit target is determined by the availability of financing and the need to clear past domestic arrears. While foreign-financed investment has increased in recent years, low revenue collection and limited domestic financing have constrained the ability of the government to spend more for development. Liquidity pressures resulting from the delayed payment of oil customs taxes by fuel distributors in 2022 and 2023 and the need for additional transfers to JIRAMA have resulted in the accumulation of domestic arrears to an estimated MGA 796.3 billion or 1.1 percent of GDP at end-2023. To support the gradual clearance of those arrears and avoid further accumulation, the program sets a ceiling on outstanding domestic arrears as an indicative target (IT).

Text Table 2. Madagascar: 2024 Fiscal Projections Based on Revised Budget Law
(Billions of Ariary, unless otherwise indicated)

	2023 outturn (preliminary)	2023 outturn (%GDP)	2024 budget law	2024 projections (based on a revised budget)	2024 projections (%GDP)
Total revenue and grants	9,542	13.6	12,262	10,104	12.9
Total revenue	7,956	11.4	9,967	8,713	11.2
Net tax revenue	7,762	11.1	9,735	8,405	10.8
Domestic taxes	3,773	5.4	5,108	4,228	5.4
Taxes on international trade and transactions	3,990	5.7	4,627	4,177	5.3
<i>o/w exceptional revenue (net payment of oil customs tax arrears)</i>	681	1.0	412	577	0.7
Non-tax revenue	194	0.3	231	308	0.4
Grants	1,586	2.3	2,295	1,390	1.8
Total expenditure	12,522	17.9	15,888	13,037	16.7
Current expenditure	7,624	10.9	7,722	8,065	10.3
Wages and salaries	3,717	5.3	4,339	4,062	5.2
Interest payments	496	0.7	655	663	0.8
Goods and services	451	0.6	616	566	0.7
Transfers and subsidies	2,932	4.2	1,957	2,252	2.9
<i>o/w JIRAMA and its suppliers</i>	895	1.3	557	793	1.0
<i>o/w fuel price subsidy</i>	1,038	1.5		239	0.3
Treasury operations (net)	28	0.0	156	522	0.7
Capital expenditure	4,898	7.0	8,166	4,972	6.4
Domestic financed	1,094	1.6	2,488	1,183	1.5
Foreign financed	3,804	5.4	5,678	3,789	4.9
Overall balance (commitment basis)	-2,980	-4.3	-3,626	-2,934	-3.8
Variation of domestic arrears (+ = increase)	18	0.0	0	-300	-0.4
Overall balance (cash basis)	-2,961	-4.2	-3,626	-3,234	-4.1
Domestic primary balance ¹	-266	-0.4	411	128	0.2
<i>excluding exceptional revenue</i>	-947	-1.4	-1	-448	-0.6
Primary balance	-2,484	-3.6	-2,971	-2,271	-2.9
<i>excluding exceptional revenue</i>	-3,165	-4.5	-3,383	-2,848	-3.6

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

¹ Primary balance excluding foreign-financed investment and grants.

18. The Council of Ministers approved a revised budget for 2024 in line with program projections.⁵ This budget is expected to be adopted by Parliament in June (**prior action (PA)**). The revised budget targets a domestic primary surplus of 0.2 percent of GDP. Based on current projections for capital grants and externally financed investment, this domestic primary surplus would imply a 3.6 percent-of-GDP primary deficit on an accrual basis, that is, excluding the exceptional collection of 2023 oil customs tax arrears received in early 2024, or a 2.9 percent of GDP primary deficit on a cash basis (Text Table 2). The improvement compared to 2023 is mainly driven by a reduction in public expenditures, including transfers to oil distributors from their 2023 peak. Given the program objective to stabilize debt, the primary balance is used as the new program fiscal anchor. The domestic primary balance will continue to be monitored as an **IT**.⁶

19. Credible measures are needed to boost domestic revenue mobilization over 2024–27. The envisaged reduction of the primary deficit requires a sustainable increase in tax revenue, supported by quantifiable measures. The revenue package to support program objectives includes both tax policy and revenue administration measures (Text Table 3). The early implementation of some of those measures could increase 2024 revenue above current projections.

- **Tax policy.** The authorities are committed to reforming taxes on wages (IRSA), including by increasing the upper marginal tax rate from 20 to 25 percent, and possibly the rates of intermediate brackets, following Fund capacity development (CD) recommendations.⁷ They will review excise taxes, with a view to increasing their efficiency. Notably, they intend to align the excise rates applicable on local alcohol and tobacco products to rates on imported products. Finally, the authorities committed to reduce tax expenditures (estimated around 3.2 percent of GDP in 2022) by MGA 280 billion per year in each budget law, building on work by the African Development Bank, the World Bank and IMF CD.
- **Revenue administration.** The authorities commit to monitor improvements on tax and customs administration through the provision to staff of a monthly dashboard prepared with Fund CD, focusing on indicators related to compliance management (notably for VAT administration) and controls (**continuous structural benchmark (SB)**). The authorities will pursue their digitalization efforts to increase the tax base and to strengthen VAT administration, controls, and collection, building on Tax Administration Diagnostic Assessment Tool (TADAT) recommendations (MEFP, ¶15). They will continue to improve customs controls, notably the control of transfer prices in the mining sector thanks to ongoing Fund CD in this area (MEFP, ¶16).

⁵ Despite a significant downward revision in revenue projections towards more realistic levels between the initial and revised budget law, staff's revenue projections remain slightly lower than the authorities by 0.2 percentage points of GDP, because of more conservative assumptions following weaker-than-expected collection in the first quarter of 2024. Those lower revenue imply slightly lower capital expenditures in staff's projections to reach a similar primary deficit target.

⁶ It is important to keep monitoring the domestic primary balance excluding foreign-financed investment and grants, which are not fully under the control of the government.

⁷ The wage tax or *impôt sur les revenus salariés et assimilés* (IRSA) is withheld every month by employers on earned income including salaries and benefits.

Text Table 3. Madagascar: Fiscal Measures over 2024-27, Cumulative Gains
(In percent of GDP)

Tax Policy Measures	1.5
Reform of the tax on wage income, including an increase of the upper marginal tax rate of 20 to 25 percent	0.1
Excise tax reforms, including aligning the rates applicable on local products to rates on imported products for alcohol and tobacco	0.5
Reduction of tax exemptions by 280 billions of Ariary per year, including VAT and import tax exemptions	0.9
Administrative Measures	0.9
Improvement of VAT administration, control and collection	0.3
Reinforcement of customs controls	0.3
Performance improvement through digitalization and extension of the tax base (SAFI)	0.3
TOTAL	2.4

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

20. Reforms to turn around JIRAMA are key to more effective spending. Transfers to JIRAMA and its suppliers represented 1.3 percent of GDP in 2023. The authorities appointed a new CEO in May 2024 following an international recruitment process initiated in 2023 with the support of the World Bank (**PA**). The next step is to finalize the recruitment process for the company's other senior executives, including the Chief Financial Officer. JIRAMA's recovery plan will need to enable a significant gradual reduction in government transfers, consistent with the planned fiscal adjustment under the program, leaving space to finance other transfers, including social ones. The authorities have committed to have this plan approved by the Council of Ministers by end-November 2024 (**SB**). JIRAMA will continue to provide Fund staff a monthly dashboard to monitor recovery efforts and publish all fuel purchase contracts (**continuous SBs**).

21. The implementation of an automatic fuel pricing mechanism (PA) should further reduce fiscal risks (Annex VII). The mechanism allows pump prices for gasoline, diesel, and kerosene to fluctuate with reference prices (proxy for market prices) on a monthly basis. It is designed as a "price band" mechanism, with two main characteristics: (i) pump prices in month M are automatically adjusted by the change in the reference price between month M-2 and month M-1, capped at 200 ariary/liter, and (ii) any change in the reference price beyond 200 ariary would be postponed to the next month until the change in pump prices fully reflects that of the reference price. The subsidy resulting from the initial gap between the pump and reference prices and the delayed adjustment would be paid to oil distributors within a month after the end of every quarter. A timely settlement of the subsidy is key to limit pressure on the cash flow of oil distributors and avoid the accumulation of cross-liabilities as observed in the past. For 2024, the estimated subsidy (around MGA 239 billion or 0.31 percent of GDP) has been budgeted for in the revised budget law.

22. The program aims to reinforce fiscal institutions and PFM processes building on ongoing efforts (with FAD resident PFM expert) to improve budget execution and traceability (Annex IV). Commitment plans will be extended to all ministries (**SB**), following up on efforts during the previous program to pilot commitment plans in some ministries, and enable progress in cash management via improved cash flow projections. The adoption of a new cash flow management legislation will introduce more robust tools to reinforce the Treasury Single Account (**SB**). To support the proposed debt anchor, the program also aims to strengthen the budget preparation process

through better macro-fiscal forecasting. The introduction of commitment appropriations to better monitor multi-year investment projects and a more structured process for public investment project evaluation, selection, and budgeting (RSF **RM02**) will improve the budget medium-term focus. Lastly, efforts will continue to enhance the management of fiscal risks, in particular arising from state owned enterprises (SOEs). The authorities commit to publish an annual report on SOEs, highlighting their financial results, implications for the budget and realized governance efforts (MEFP, ¶132).

B. Strengthening Governance and the Fight Against Corruption (ECF Pillar II)

23. The authorities have made good governance one of the three pillars of the new PGE and requested a Governance Diagnostic Assessment (GDA). The GDA will support the elaboration and operationalization of a new anti-corruption strategy for 2025-2035, whose adoption and publication should happen before end-January 2025 (**SB**). Some measures can be rapidly implemented such as adequate budgeting and staffing of anti-corruption institutions, and a better enforcement of the asset declaration requirements for government officials. The adoption of a legal framework to protect whistleblowers is a key reform that would need more preparation and CD support, possibly over the course of the GDA. The GDA report will be finalized and published in 2025 (MEFP ¶138).

24. Better government transparency is crucial to improve accountability. The authorities have started publishing ultimate beneficial ownership (UBO) information for new public procurement contracts but contracts themselves are not systematically released and the identification of UBO needs to be enhanced. The financial accounts of SOEs are generally not published. The authorities agreed to consider the adoption of a “Freedom of Information Act” that would enshrine the right of citizens to know about public affairs and the creation of a dedicated watchdog to enforce that right before the end of the program (MEFP ¶144). Madagascar’s accession to the Open Government Partnership Initiative would further demonstrate its commitment to greater transparency and stronger governance. These reforms would also help increase transparency on the use of natural resources, henceforth enhancing the impact of policies to protect forestry and biodiversity, including those supported by the RSF.

25. Further reforms would improve fiscal governance. Governance issues in the customs and tax administrations call for strengthening internal controls.⁸ The tax and customs administrations’ monthly performance dashboard to be produced under the program (¶119) should help to strengthen internal controls and monitor improvements with a focus on indicators related to compliance management and controls. In addition, the GDA will help identify measures to further strengthen internal controls and reduce vulnerabilities to corruption.

26. The ongoing operationalization of the Malagasy Sovereign Wealth Fund (FSM) created in 2021 still requires clarifications. The authorities adopted in May a first implementing decree of

⁸ Chalendar, Cyril, Ana Fernandes, Gael Raballand, and Bob Rijkers, 2023 “Corruption in Customs”, Quarterly Journal of Economics, Vol.138 (1), February, pages 575–636.

the August 2021 law creating the FSM. However, some elements require more clarity, such as the regulation of the Fund's capacity to engage the State's signature in investment projects or PPPs, and the guarantee of its transparency and independence through the publication of annual reports and financial statements (MEFP, ¶49).

27. The independence and financial autonomy of the central bank must be preserved and strengthened. Priority reform areas to fortify BFM independence include: (i) limiting BFM's involvement in the gold sector by adopting an operational strategy for non-monetary gold purchases in line with recommendations of Fund staff, (ii) reviewing the remuneration of Treasury deposits, (iii) moving towards a clear, transparent, and market-based debt management framework through a single central securities depository (CSD) for public debt securities, and (iv) strengthening the institutional framework for financial stability (see below). A new safeguards assessment of the BFM was initiated and will be completed by the first program review. The last assessment was completed in 2021 and most recommendations have since been implemented, with the exception of completing an external assessment of the internal audit function and safeguarding BFM's purchases of unrefined gold for the ultimate diversification of its foreign reserves.

28. Better market regulation should help prevent state capture. Beyond the operationalization or reinforcement of regulators in specific sectors (some of them crucial from a climate perspective, such as the water or electricity regulators), efforts to reform the vanilla and clove sectors could help prevent and curb monopolistic practices. The implementation of the *Conseil Economique, Social et Culturel*, provided for in the 2010 Constitution would encourage public debate and civil society's involvement in policy making.

29. The program will support efforts to enhance the effectiveness of implementation of the anti-money laundering and combating the financing of terrorism (AML/CFT) framework. The newly adopted AML/CFT law (Law 2023-026) amended the 2018 AML/CFT law to improve conformity with international standards, and the authorities committed to adopt the associated decree by end-June 2024. An additional decree establishing the mechanism for implementing targeted financial sanctions related to terrorism, the financing of terrorism, and the financing of mass destruction weapons proliferation should be adopted by end-June 2024, and the report of the national assessment of the risks of money laundering and terrorist financing should be validated by the Council of Ministers by that date. The authorities will continue ongoing work on the designation and operationalization of supervisors of designated non-financial establishments and professions (MEFP, ¶40).

C. Consolidating Monetary and Financial Stability (ECF Pillar III)

30. The program will support the implementation of the new monetary policy operational framework (Box 1). A monetary policy consultation clause (MPCC) will help monitor BFM's performance in implementing the new framework and keeping inflation under control. The review-based approach to monetary policy conditionality is deemed appropriate as BFM has been transitioning under the previous program to a more forward-looking monetary policy framework

ascribing a greater role to policy interest rates.⁹ Fiscal dominance is minimal as the 2016 central bank law strictly limits central bank lending to the government; average annual inflation has remained in the single digits; and the central bank is committed to continuing the strengthening of its policy framework. The increased use of repo operations by banks would contribute to strengthening monetary policy transmission. BFM aims to encourage such operations (MEFP ¶151), and the authorities have committed to implement a Central Securities Depository (CSD) by end-December 2024 (**SB**).

31. BFM should stand ready to raise its policy rates to keep inflation on a downward path.

The projected path for M3 (MPCC) has been set to support the decline in inflation. While the current policy stance is appropriate, BFM should be ready to raise interest rates as needed to drive inflation down if price pressures were to reappear, continue to manage bank liquidity through open market operations, and communicate more predictably and transparently about its interest rate policy and liquidity management to enhance credibility and accountability. Continued improvement of monetary policy decision communication, including through the development of a quarterly monetary report, would help better anchor expectations.

32. Maintaining a flexible exchange rate regime remains the best way to absorb external shocks.

While restrictions on residents' holding of bank accounts in foreign currency were lifted before becoming effective, FX repatriation and surrender requirements on export proceeds, considered capital flow management measures (CFMs), remain in place. The phasing out of CFMs should be done in a properly timed and sequenced manner. This would require considering external vulnerability risks and progress made with reforms to foster necessary institutional and financial development, including macroprudential reforms, and in line with the IMF's Institutional View on Liberalization and Management Capital Flows and Integrated Policy Framework. Meanwhile, BFM is reviewing its FX intervention strategy to move away from fixed-volatility triggers towards more risk-based triggers (MEFP ¶154).

33. Bolstering financial stability is key to the development of credit markets. Overall, the banking sector remains profitable, liquid, and resilient. The definition and requirements of minimal capital adequacy, as well as liquidity ratios, are being adapted to follow Basel III recommendations. The effective implementation of the 2020 banking law would also reinforce financial stability (MEFP ¶160). At the macroprudential level, the authorities committed to adopt the long-awaited financial stability law by end-June 2025 to strengthen the supervision of the financial system (**SB**). The forthcoming Financial Sector Stability Review (FSSR) will provide a comprehensive diagnostic of gaps in the oversight of the financial sector to be addressed in subsequent reviews, including through capacity development.

⁹ [Operational Guidance on Program Design and Conditionality](#), January 2024. In the present case, the review-based approach to monetary policy conditionality involves assessing changes in M3 growth compared to the set band in the context of the evolution of other key macroeconomic variables.

Box 1. Strengthening the Monetary Policy Operational Framework

Madagascar's central bank (BFM) officially transitioned to an interest rate targeting operational framework in February 2024. The transition was supported by multiple IMF technical assistance missions. With the new framework, BFM aims to manage demand through changes in interest rates rather than through adjustments to reserve money M0.

Under the new framework, BFM aims to stabilize the overnight interbank rate around the middle of the interest rate corridor determined by its deposit and marginal lending facility rates. Liquidity forecasting and management operations play a key role in achieving that operational target, with broad money being downgraded to an intermediary target.

The new framework is not a fully-fledged inflation targeting framework. It represents a transitional framework featuring more forward-looking monetary policy and falls under the category of *evolving monetary policy regimes*.

The program supports the new monetary policy framework by defining a Monetary Policy Consultation Clause (MPCC).¹ The MPCC is based on a specified path for broad money (M3) consistent with the central bank's implicit inflation objective over 12 months. The choice of M3 growth over inflation as MPCC target was motivated by the lack of an announced inflation target and very recent transition to interest rate targeting. Besides M3 growth, reviews would also look at other macroeconomic variables, including inflation and growth, and pay particular attention to the interactions between fiscal and monetary policies.

The path for M3 was calibrated based on nominal GDP growth, following the quantity theory of money. The range was set based on observed past volatility of M3 growth.

¹ IMF policy paper, 2014 "[Conditionality in Evolving Monetary Policy Regimes](#)".

D. Fostering Stronger and More Inclusive Growth (ECF Pillar IV)

34. In a context of high social fragility and vulnerability to climate disasters, sustained efforts are needed to build resilience and increase potential growth. This fourth pillar of the program will closely align with the PGE's priorities on human capital and industrialization.

35. The program will support stronger social safety nets. Drawing lessons from past analyses,¹⁰ the program envisages an increase in spending for education and health and continued improvements in the social safety net coverage. In this context, the program sets a floor on social spending, using the new functional classification developed with Fund CD support (**IT**). Additionally, the authorities committed to (i) expand the social registry to 600,000 households (**SB**), from the initial pilot program which covered 81,278 households in 2 regions, and continue to work on measures to mitigate the planned increases in fuel prices (RSF **RM07** and **RM08**) (ii) adapt the legal framework of the national Social Security Fund (CNAPS) to extend contributory coverage to self-employed workers, and (iii) extend the food bank program (**SB**) (MEFP ¶156).

¹⁰ IMF. 2023. Social Spending and Outcomes in Madagascar, *IMF Country Report 23/118*.

World Bank. 2023. Madagascar Public Expenditure and Institutional Review 2010-22: Boosting Infrastructure and Social Service Delivery.

36. Digitalization can accelerate financial inclusion and the development of social protection programs. The authorities have introduced the possibility to file and pay taxes online and started processing some payments via mobile money (e.g., salaries, scholarships). Digital payments and mobile money providers are governed by law, including the banking law and the 2017 law on electronic money and electronic money providers. Most digital financial services are currently provided by institutions supervised by the Banking and Financial Supervision Commission (CSBF). The authorities committed to work on a new strategy for financial inclusion, updating the previous strategy that expired in 2022, and to upgrade regulations to mitigate new potential risks (MEFP ¶158). They are working on the implementation by BFM of a national switch, which aims to facilitate and secure electronic transactions between different players in the financial system and businesses (MEFP ¶159).

37. Industrialization will benefit from a more reliable supply of electricity following JIRAMA’s recovery and a greater formalization of the economy. Allowing informal and self-employed workers to voluntarily contribute to the social protection system will increase workforce formalization. Reforms to support industrialization efforts include updating the 2014 industrialization strategy and improving the business environment through governance reforms. The GDA would allow to identify more specific actions in this regard.

E. Combatting Climate Change (RSF)

38. Madagascar faces significant risks to balance of payments stability given its high vulnerability to climate hazards (Annex V). Weather-related shocks (notably cyclones, droughts, and floods) could reduce agricultural exports and disrupt port activity – a major factor for an island country. Erosion linked to deforestation could also hamper hydropower production and lead to additional needs for fuel imports and / or power outages harmful to the industrial sector – as seen with the loss in production from the Andekaleka dam, a major source of power for the Antananarivo urban area. Climate change could also have serious implications on debt sustainability (see DSA).

39. Failing to address climate change would have severe economic and human costs. According to the World Bank’s forthcoming Climate Change and Development Report (CCDR), direct losses from cyclones and impact on tourism and fisheries are likely to be the primary drivers of climate-related losses. The CCDR also shows a robust correlation between climate shocks and economic growth and points out that as the risk of climate shocks increases, the probability of Madagascar experiencing strong economic growth diminishes. Climate change disproportionately affects some population groups, with poor households and women being the most exposed given their higher employment in the informal sector and agriculture. This is compounded by specific regional vulnerabilities, notably in Madagascar’s Southern regions (“Grand Sud”), which have been suffering from an acute drought for several years.

40. Financing needs related to climate change are enormous (especially for adaptation). According to the implementation plan of its updated Nationally Defined Contribution (NDC2), Madagascar’s financing needs (“conditional contributions”) total US\$24.4 billion over the period 2022-2030. With a focus on disaster risk management and five priority climate-sensitive

development sectors (agriculture, land, and blue economy; hydropower; urban resilience; resilient transport; social protection, health, and education), the CCDR identifies priority near- and medium-to-long term climate resilience investments for a combined cost of nearly US\$10 billion by 2050 (about 67 percent of 2022's GDP), of which US\$3.5 billion would be required by 2030. These investments would generate higher import needs in the near term but would help mitigate risks to balance of payments stability in the medium-to-long term. The needs far outstrip current financial flows, despite ongoing efforts to secure support by international actors like the Green Climate Fund (GCF).

41. Madagascar's RSF request is grounded in the analysis of climate challenges made in the 2022 Climate Macroeconomic Assessment Program (CMAP) and in the CCDR. Proposed reform measures (RMs) aim to complement existing support by development partners (Text Table 4). Their sequencing is intended to put in place the institutions and mechanisms required to advance the climate agenda in the first three reviews and prepare further reforms towards the end of the RSF arrangement.

Text Table 4. Madagascar: Climate-Related Priorities Supported by Development Partners			
Key Country Challenge	Reform Priority	Diagnostic Reference	Development Partner Involvement
Elevated disaster risks	Put in place a fully-fledged Early Warning System against cyclones and other climate hazards	WB CCDR	WB, UN, AfDB, USAID
Inadequate social safety nets	Expand the social safety nets and make them responsive to climate shocks	WB CCDR	WB, UNICEF, EU, USAID
Cities exposed to natural hazards	Ensure effective implementation of climate-resilient urban planning and construction regulations	WB CCDR	WB, AFD
Roads poorly maintained and highly vulnerable to climate shocks	Support implementation of shock-resistant road design standards and support road maintenance through a reenergized Road Fund	WB CCDR	WB DPO, EU
Need to scale up renewable energy sources	Adopt a regulatory framework on the implementation of the Least Cost Development Plan, on strengthening competition in the electricity market and on promoting renewable energy	WB CCDR	WB DPO, AfDB
Vulnerable agricultural sector	Pilot and expand climate-smart agricultural practices	WB CCDR	WFP, FAO, EU, USAID

42. The RSF discussions placed great emphasis on implementation capacity and cooperation among development partners. Discussions with the authorities and with donors confirmed assistance for implementing RMs in the few areas not covered by IMF core expertise and CD capabilities. Reform ideas that still required time and efforts to mature have been identified as MEFP commitments (e.g., clean cooking, agricultural insurance, development of environmental taxation). The proposed RSF revolves around the following five priorities:

RSF Priority 1. Reinforcing Governance and Mainstreaming the Climate Agenda into PFM/PIM Processes

43. Climate governance issues will be addressed at the start of the RSF-supported arrangement to advance the effective implementation of the national climate change agenda.

Both the CMAP and the CCDD note that the institutional and political fragmentation of the national climate change agenda results in delays in reform implementation. The longstanding Inter-ministerial Committee for Environment (CIME) chaired by the Minister of Environment on behalf of the Prime Minister is devoid of specific competences on climate change issues and has been largely inactive over the last few years. While the national bureau for coordination of climate issues and the REDD+ strategy (BNCC-REDD+), an agency under the Ministry of Environment, has been entrusted with a broad mandate for the definition and operationalization of overall climate-related policies and commitments, the absence of a functional decision-making mechanism hampers its efforts. To address these challenges, the CIME will be reactivated under the leadership of the Prime Minister with a mandate to lead and supervise all climate-related policies **(RM01)**.

44. The RSF will build on past reforms of the public investment management (PIM) framework to make it climate-sensitive, with a strong focus on actual implementation.

Madagascar has one of the lowest public investment efficiency rates in the sub-Saharan Africa (SSA) region, highlighting considerable room for improvement. A more robust PIM framework has been adopted in early 2023 with IMF and World Bank support, but its implementation is barely starting, and the framework does not yet include climate considerations. The 2004 decree on environmental impact assessments is outdated and does not mention climate considerations either. The RSF will support in a sequenced manner the integration of climate change concerns into the public investment projects evaluation and selection process **(RM02)** and ensure effective and transparent implementation **(RM03)**.

45. Madagascar is still at an early stage in the integration of climate considerations in PFM. The budget does not allow the tracking of expenditures that would contribute to the transition to a more resilient and low-carbon development model, complicating both decision making and access to climate financing. The RSF would take advantage of the work of the FAD resident advisor – currently working on the reform of the budget classification, a major enabler to track climate-related expenditures – and support the production of a first Climate Budget Statement appended to the 2026 budget **(RM04)**.

RSF Priority 2. Enhancing Adaptation to Climate Change and Resilience Against Natural Disasters

46. Climate change increases the need for adequate governance of the water sector, as the availability of water resources is crucial for the economy and for overall development. While Madagascar is currently subject to acute water stress only in its Southern region (“Grand Sud”), climate change combined with urbanization and agricultural expansion puts pressure on water resources and raises the risk of water scarcity for agriculture, drinking, and other domestic resources (set to increase if the country improves water services access – currently at only 53 percent of the

population, lower than the SSA average of 65 percent). Risks to agriculture are macro-critical since food exports are about 40 percent of merchandise exports (versus about 15 percent on average in SSA). The expected development of hydropower could also be undermined by changes in precipitation patterns and related impacts on river basins, compounded by deforestation: the Andekaleka hydroelectric dam has seen its capacity reduced by 78 percent due to the decline of water flows, thereby contributing to frequent power outages in the capital region¹¹.

47. Adopting and ensuring the effective implementation of an integrated water resource management (IWRM) approach is key to addressing the challenges of the “water, energy and food” nexus. The current Water Code (Law 98-029) fails to consider the environmental and climate change dimensions. There is no effective IWRM at the level of the twelve main Madagascar river basins, some of which are heavily exposed to climate change.¹² This leaves the country poorly equipped to face water stress, tackle possible conflicts between different water uses, and take preventive measures (protection of forested areas or reforestation, creation of reservoir dams). The RSF suggests addressing this challenge through the adoption of a new Water Code (**RM05**), as a first step towards the operationalization of IWRM plans at the level of those river basins most exposed to climate change. CD support (European Union and World Bank) will be essential to achieve the objectives under this RM, notably to help put in place adequate institutional arrangements as the authority in charge of water and sanitation created under the 1998 law has not been able to fulfil its mandate effectively.

48. Given its major exposure to natural disasters, Madagascar has already put in place many elements of an overall disaster risk management framework. Madagascar has developed a national disaster risk management strategy (2016). It has also adopted in 2019 a series of regulations outlining norms for resilient construction and land planning. Climate-responsive social protection is being developed with the support of the World Bank and UNICEF, in connection with the extension of the Unified Social Register. Work to improve and extend the early warning system is ongoing with UN support.

49. The RSF proposes to support improvements in financing instruments to respond to natural disasters. Madagascar has adopted in 2023 a national disaster risk financing and insurance strategy (prepared with the support of AfDB) outlining a layered disaster risk financing model, and already possesses some elements of this financing model, notably through the ARC financing mechanism (insurance policy on droughts and cyclones). It has also already made use of a World Bank CAT DDO. However, while a national contingency fund (FNC) has been created as a conduit for emergency response, it remains to be operationalized and properly budgeted (current budget allocation is only MGA 2 billion) to enable swift disbursement of emergency spending: the CCDR notes that disbursements made by the African Risk Capacity took up to six months to reach the end beneficiaries due to cumbersome internal procedures. The RSF will henceforth support adequate budgeting and operationalization of the FNC, as well as improvements in process for emergency

¹¹ Cooke *et alii*, 2022, “The Economic Contribution of Madagascar’s Protected Areas – A review of the Evidence”.

¹² [Harifidy, R.Z.; Hiroshi, I. “Analysis of River Basin Management in Madagascar and Lessons Learned from Japan.” *Water* 2022, 14, 449.](#)

expenditure, including adequate transparency and reporting mechanisms **(RM06)**. This action will benefit from World Bank support and will also be able to build on the experience gathered by IMF (FAD) CD, notably through the recent audit of the expenditure chain (2023) and through previous work on COVID spending.

RSF Priority 3. Supporting Efforts to Curb the Increase of Greenhouse Gas (GHG) Emissions

50. While carbon emissions per capita remain very low compared to other SSA countries, the RSF would support efforts to convey the right price signals in the energy sector.

Madagascar's emissions are increasing, albeit from a low level and with a composition skewed towards land use, land use change and forestry (LULUCF) and agriculture (80 percent of emissions). Reforms under the ECF (automatic fuel pricing mechanism) would go a long way towards reducing fuel subsidies – already relatively modest at 1.6 percent of GDP cumulatively over 2021-23 and expected to decrease to 0.3 percent of GDP in 2024. The full elimination of fuel price subsidies by May 2026 **(RM07)** would complement these efforts, increase incentives for conservation and create fiscal space to finance social safety nets and/or investment in climate-resilient infrastructure. Similarly, an increase in the diesel excise tax would reduce the tax advantage of using diesel over gasoline with a positive mitigation impact **(RM08)**.

51. Initiatives to promote the development of renewable electricity will also be encouraged under the RSF. The 2015-2030 New Energy Policy and the 2022 SDG7 implementation plan aim to raise the share of renewable energy in electricity generation from 40 percent currently to about 85 percent in 2030 while increasing household access to electricity from 33 percent to 70 percent by 2030. While most of this increase is expected to accrue from large hydropower projects (Sahofika and Volobe), there is scope to develop mini-grid and off-grid solar or hydropower solutions notably to enhance electricity access in rural areas. Progress in this field could be achieved through the creation of a dedicated financing vehicle called National Sustainable Energy Fund (FNED), which could leverage State contribution and support from donors to support renewable energy projects in rural areas **(RM09)**.

RSF Priority 4. Reinforcing the Protection of Forests and Biodiversity

52. Deforestation has major negative consequences in terms of water resources, agriculture, biodiversity, and resilience to natural disasters. Forest coverage has declined from 29 percent to 21 percent between 2000 and 2020 (CCDR). Deforestation leads to high erosion rates, increased flood risks, and reduced water resources for agricultural and household usage. It also impacts biodiversity – a major source of natural capital and attraction for Madagascar's tourism sector.

53. The effectiveness of current efforts to protect forests could be enhanced through a framework more conducive to private initiative and supportive of reforestation projects. Madagascar is equipped since 2018 with a national REDD+ strategy, implemented notably through a 2021 decree regulating access to the forest carbon market. Madagascar has implemented an effective Measurement, Reporting and Verification (MRV) mechanism under the World Bank Forest

Carbon Partnership Facility (FCPF), which covers public projects only. Extending the scope of this mechanism to reforestation schemes would tap into significant private interest (**RM10**). World Bank CD support would help make sure that this new framework is conducive to high-quality projects, not just in terms of mitigation but also in terms of adaptation to climate change (fighting soil erosion for example) and benefits for local communities.

RSF Priority 5: Mobilizing Climate Finance

54. Current climate financing flows to Madagascar are well below estimated needs. As a low-GHG emitting country frequently hit by climate shocks (cyclones, droughts, floods, sea level rise), most of Madagascar's climate finance needs are on adaptation. The AfDB estimates that Madagascar mobilized around USD 420 millions of climate financing per year on average in 2019-20, covering 16 percent of its estimated needs. The private sector share was around 5 percent and 70 percent of these private financing flows went to the energy sector. However, Madagascar has the potential to be an attractive destination for climate investments with multiple adaptation and mitigation co-benefits, building on the financial sector reforms under the ECF. The upcoming CCDR points to several private sector investment opportunities. Reforms under this priority area focus on addressing two key structural challenges.

55. Given Madagascar's abundant natural capital endowment, the proposed adoption of a National Climate Finance Mobilization Strategy (RM11) will strengthen Madagascar's position on the global as well as domestic stage as an attractive destination for climate investments. This RM addresses the fragmented climate agenda identified by the CCDR and the CMAP and brings a sharpened focus on developing a strategy that includes the private sector and prioritizes key investment areas with a tentative budget, options for innovative blended financing mechanisms and a timeline. The strategy will be developed after extensive consultations and adopted as a decree – thus ensuring its publication and giving it a strong legal standing vis-à-vis various stakeholders, especially within the administration.

56. In addition, a national green taxonomy (RM12) will bring clarity and transparency to financial market participants keen on investing in green projects and/or projects with clearly defined climate outcomes.¹³ It will help financial actors and others (climate funds) make an informed investment decision and prevent greenwashing. Clearly defined outcomes in the fields of adaptation, mitigation and biodiversity can also incentivize investors interested in supporting Madagascar's climate policies and support tracking and monitoring of climate finance flows in the country.

PROGRAM MODALITIES

57. The authorities have requested a 36-month arrangement under the ECF with access at 105 percent of quota (SDR 256.62 million) (Table 12). This arrangement is justified by the need to

¹³ Hussain, Farah Imrana, Tlaiye, Laura E.; Jordan Arce, Rolando Marcelo, 2020. Developing a National Green Taxonomy: A World Bank Guide. Washington, D.C.: World Bank Group.

support external buffers that would otherwise decline, barring significant fiscal contraction, in a shock-prone environment given Madagascar's exceptional vulnerability to natural disasters. In the absence of Fund financing, international reserves would decline to 4.7 months of imports by 2027 from 5.7 months in 2023, as import growth is expected to exceed that of reserves. As budget execution contributes to balance of payments need, the first four disbursements will be used as budget support. The memorandum of understanding between both BFM and the government, used for IMF financing on-lent to the budget, will be updated accordingly. The proposed arrangement will be key to catalyze budget support by other development partners and close the fiscal financing gap during the program period (Text Table 5). The Fund-supported program is fully financed with firm commitments for the next 12 months, and good prospects that financing will be adequate for the remaining program period beyond the upcoming 12 months.¹⁴

Text Table 5. Madagascar: Projected Budget Financing, 2024–2027
(Billions of Ariary)

	2024	2025	2026	2027
Overall fiscal balance (commitment basis)	-2,934	-3,348	-4,052	-4,106
Change in accounts payable/arrears	-300	-300	-196	0
Total financing, excluding RSF	3,234	3,648	4,248	4,106
Net foreign financing	2,487	3,015	3,392	4,508
of which: budget support loans	749	802	374	385
Net domestic financing, excluding RSF	747	634	856	-402
ECF disbursements	442	473	0	0
ECF repayments	-52	-76	-591	-633
Deposit withdrawal, excluding RSF	115	21	991	19
Net T-bill issuances	5	0	250	0
Other net domestic financing	196	201	206	212
RSF	246	657	542	140
Financing gap	0	0	0	0

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

58. The arrangement would be subject to semi-annual reviews. Performance criteria (PCs) for the primary fiscal balance, new external payment arrears and new external debt on a contractual basis will facilitate the reduction of fiscal financing needs and limit debt expansion.¹⁵ A PC on the central bank's net foreign assets will ensure that reserves remain adequate. A review based MPCC based on the projected path for broad money would provide flexibility and incentives for strengthening the new monetary policy operational and analytical framework. Prior actions were set to support governance reforms at JIRAMA, ensure the consistency of the 2024 budget with program objectives, and demonstrate the authorities' strong commitment to fuel pricing reform. Structural benchmarks aim to support domestic revenue mobilization, contain fiscal risks, strengthen

¹⁴ The World Bank approved a 3-year programmatic Development Policy Operation (DPO) in June 2023 with three annual disbursements of US\$ 100 million each. There are also firm commitments from the African Development Bank on a two-year budget support operation with financing of SDR 50 million in both 2024 and 2025.

¹⁵ The continuous PC for new external debt on a contractual basis will be reevaluated each year with the objective to stabilize the debt-to-GDP ratio at 60 percent in the medium-term.

governance and fiscal institutions, consolidate the monetary and financial policy framework, and foster more inclusive growth.

59. The authorities have requested a 36-month RSF arrangement with access at 100 percent of quota (SDR 244.4 million). Madagascar meets the RSF eligibility based on its per capita GNI, as part of Group A for the purpose of interest charges. The proposed access is based on staff's assessment that: (i) the proposed package is exceptionally strong considering the country's starting position and implementation capacity, (ii) the country authorities have shown a strong commitment to support a successful RSF, (iii) Madagascar's debt is sustainable and capacity-to-repay adequate even if subject to significant risks (¶160). The duration of the requested RSF is aligned with the duration of the ECF arrangement (36 months) to give the authorities the necessary time to implement strong outcome-oriented reforms that are expected to strengthen the country's resilience to climate change and thus contribute to long-term prospective external stability. Given past challenges in reform implementation, the proposed reform package is more strictly focused on the areas where the Fund has direct expertise and can directly support implementation through technical assistance. This is commensurate with the proposed 100 percent of quota access. RSF disbursements will be used as budget support and substitute for deposit withdrawal or more expensive financing sources (Text Table 5). The resulting increased policy space will support climate-related investments, which will enhance resilience and adaptation to natural disaster shocks (Annex V). Disbursements will be equally split among twelve reform measures (RMs) expected to be completed over six reviews.

60. Madagascar's capacity to repay (CtR) the Fund remains adequate but is subject to significant risks. Annual repayments are expected to peak in 2027 and reach 0.8 percent of GDP, 6.2 percent of government revenue and 3.0 percent of exports. Outstanding credit is expected to peak in 2026 at 360.6 percent of quota (268.9 percent owed to the PRGT and 91.7 percent to the RST), 6.0 percent of GDP or 50.0 percent of government revenue, and expected to decline thereafter. While outstanding credit as a share of GDP and debt service to the Fund indicators are projected to be well above the 75th percentile of the comparator group, adherence to program targets and the programs' ability to catalyze donor support would ensure that risks are somewhat mitigated during peak years. In addition, CtR risks are mitigated by the authorities' strong commitment to reforms, track record of paying the Fund, and an appropriately sequenced phasing between ECF and RSF that takes the authorities' capacity into consideration.

61. Risks to the program are moderate but manageable. A deterioration of the global outlook and renewed surge in global oil and food prices would complicate the envisaged energy sector reforms, including the planned reduction in the fuel subsidy and transfers to JIRAMA, as well as the conduct of monetary policy. Capacity constraints could delay the implementation of key policy measures. Nevertheless, risks are mitigated by the authorities' strong ownership of the program. Planned technical assistance from the Fund and other development partners will bolster the country's capacity to implement reforms. Extensive engagement with civil society, the private sector, and other multilateral and bilateral partners will help to flexibly adjust the design of reforms and strengthen accountability.

STAFF APPRAISAL

62. Madagascar’s growth eased amid declining inflationary pressures in 2023, but prospects are affected by the prevalence of natural disasters. Economic growth slowed, while inflation declined. Fiscal performance has been weak in a context of slow reform progress, with lower tax collection on an accrual basis relative to GDP than in 2022 and continuing high transfers to JIRAMA. Growth prospects in 2024 and beyond are likely to be impacted by natural disasters related to climate change. In early 2024, tropical cyclone Gamane struck the northern region, affecting more than 80,000 people and destroying houses and infrastructure. Spikes in food and energy prices due to worsening geopolitical tensions could further dampen the economic outlook for 2024.

63. In this context, the authorities have requested a cancellation of the 2021 ECF arrangement, to replace it with new ECF and RSF arrangements. Considering the short time left before the end of the 2021 ECF, its cancellation allows to combine a three-year RSF with a successor ECF. The authorities’ request is motivated by the start of a new presidential mandate, the persistence of balance of payments problems over a longer period, and the will to align program priorities with the new General State Policy (PGE).

64. The priorities of the ECF arrangement are consistent with the government’s reform agenda and will be supported by appropriate capacity development. The new ECF aims to increase economic resilience and foster long-term inclusive growth by anchoring fiscal sustainability, strengthening governance and the fight against corruption, buttressing monetary and financial stability, and advancing reform to support industrialization and human capital development. The RSF will help address climate vulnerabilities coming from higher average temperatures, more variable rainfalls, and more intense cyclones affecting water supply, food security, and infrastructure resilience. It will underpin ambitious reforms to strengthen resilience and adaptation to climate disasters, support mitigation efforts, enhance the protection of ecosystems, and create conditions for green private sector investment. Capacity development, tailored and focused on program objectives, will be crucial.

65. The program macro-framework is based on a gradual convergence of economic growth to 5 percent thanks to the reforms supported by the ECF and RSF. Inflation is projected to gradually converge to 6 percent by 2028, while the current account deficit would stabilize under 5 percent of GDP, partly driven by higher investment to increase resilience to climate change related risks. Tax revenue would gradually increase, creating space for investment and additional social spending. Gross official reserves would be maintained at a level consistent with reserve adequacy.

66. Creating additional fiscal space for priority spending requires raising government revenue and containing fiscal risks. Revenue mobilization, a key objective of the program, needs to be supported by a comprehensive revenue administration and tax policy strategy. It is crucial to contain fiscal risks from potential budget implications of administered fuel prices, and the longstanding issue of transfers to SOEs, notably JIRAMA. In this context, the implementation of an automatic fuel pricing mechanism should help contain the subsidy resulting from the initial gap between the pump and reference prices. The newly recruited CEO of JIRAMA will prepare a recovery

plan that should enable a gradual reduction in government transfers, creating fiscal space for other transfers, including social ones.

67. The program intends to reinforce fiscal institutions and PFM processes to improve budget execution and traceability. The authorities made progress by implementing commitment plans in selected ministries. They will extend them to all ministries and are working on adopting a new cash flow management legislation and improving cash flow projections. The program will also strengthen the budget preparation process through better macro-fiscal forecasting. The introduction of commitment appropriations to better monitor multi-year investment projects and a more structured process for public investment project evaluation, selection, and budgeting will improve the budget medium-term focus. Staff recommend that the authorities consider formally adopting a medium-term fiscal strategy with a debt anchor of 60 percent of GDP.

68. The program will support stronger social safety nets to meet Madagascar's substantial needs. The program seeks to ensure adequate levels of social spending based on the new functional classification as well as improved efficiency and execution of such spending through strengthened planning, execution, and monitoring. The program will support an increase in spending for education and health and continued improvements in the social safety net coverage. Digitalization will also be key to accelerate financial inclusion and the development of social protection programs.

69. The program, together with the requested Governance Diagnostic Assessment, will support further efforts to fight corruption, promote transparency, and improve governance. The authorities are preparing a new anti-corruption strategy for 2025-2035. To enhance transparency, they have started publishing UBO information for new public procurement contracts. Strengthening internal controls in the customs and tax administrations and clarifying the functioning and governance of the Malagasy Sovereign Wealth Fund (FSM) are important steps to improve governance. More work is also needed to further improve the AML/CFT framework and implement it. Looking forward, strengthening citizens' access to information and legal protections of whistleblowers will be key reforms to improve government accountability over the course of the program. The implementation of the *Conseil Economique, Social et Culturel*, provided for in the 2010 Constitution would bolster civil society's involvement in policy making and oversight.

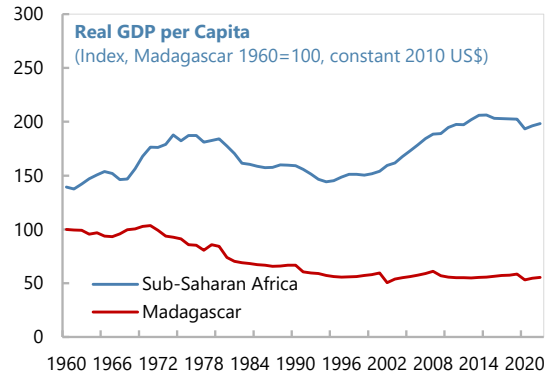
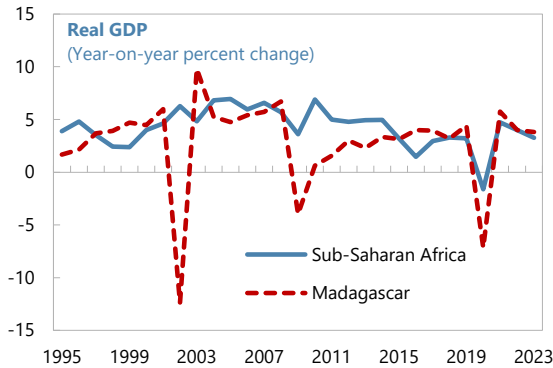
70. The program will support the implementation of the new monetary policy operational framework. A monetary policy consultation clause anchored on the projected path for M3 will guide the central bank to drive inflation down. While the current policy stance is appropriate, BFM should stand ready to raise interest rates as needed to support the decline in inflation, continue to manage bank liquidity through open market operations, and communicate more predictably and transparently about its interest rate policy and liquidity management to enhance credibility and accountability. The adoption of an operational strategy in line with Fund staff advice to limit BFM's involvement in the gold sector is crucial to preserve the independence and financial autonomy of the central bank. Maintaining a flexible exchange rate regime remains the best way to absorb external shocks.

72. The RSF will build on the authorities' climate agenda to support reforms with five priorities: (i) reinforcing climate governance and mainstreaming climate into PFM/PIM processes, (ii) strengthening adaptation to climate change and resilience against natural disasters, (iii) curbing the growth of GHG emissions, (iv) reinforcing the protection of forest and biodiversity, and (v) mobilizing climate finance. Reforms under the RSF aim to complement existing support by development partners.

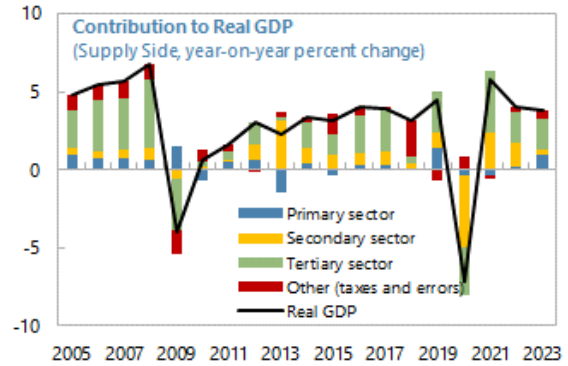
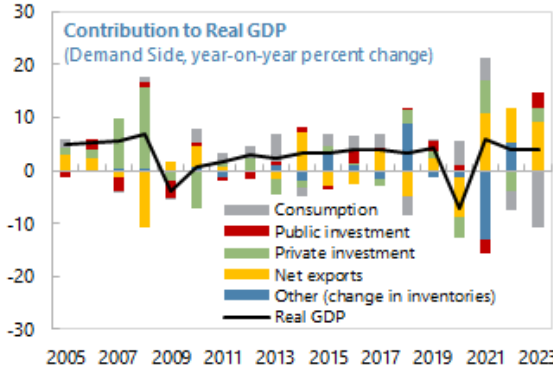
73. Staff support the authorities' request to cancel the current ECF arrangement, as well as their request for new 36 month-arrangements under the ECF and the RSF, with access equivalent to respectively 105 and 100 percent of Madagascar's quota (SDR 256.62 million and SDR 244.40 million).

Figure 1. Madagascar: Real Sector Developments

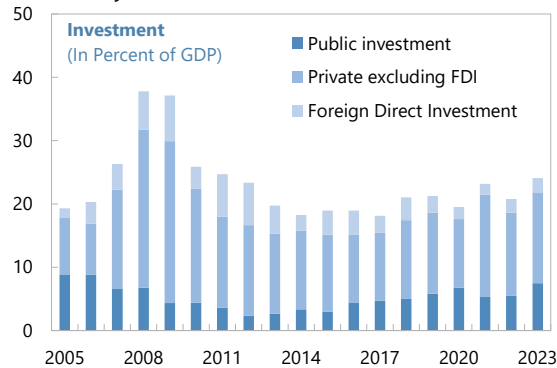
Growth has slowed down in 2023 but was slightly above SSA average.



The slowdown in economic activity in 2023 was driven by a decline in mining and textile production.



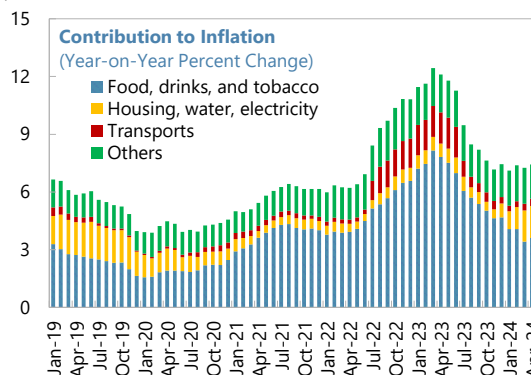
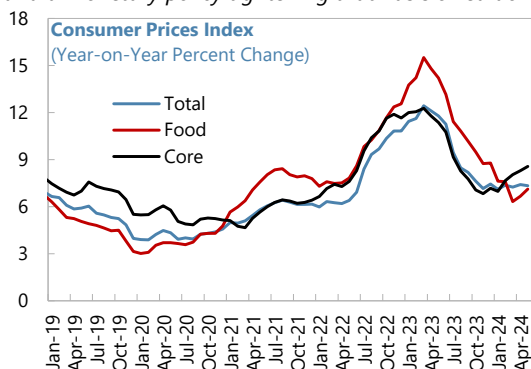
Despite the uncertainty surrounding the presidential elections, FDI inflows have continued, and tourist arrivals have substantially increased.



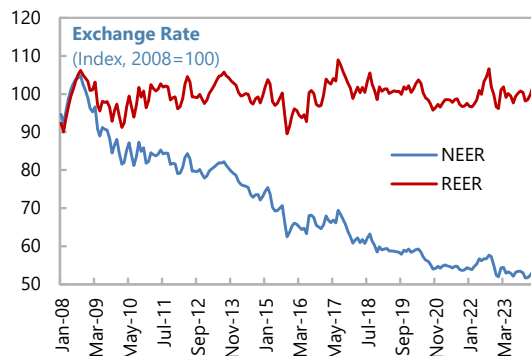
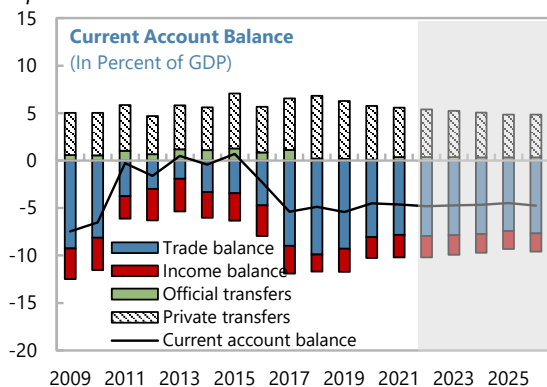
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 2. Madagascar: Inflation and External Developments

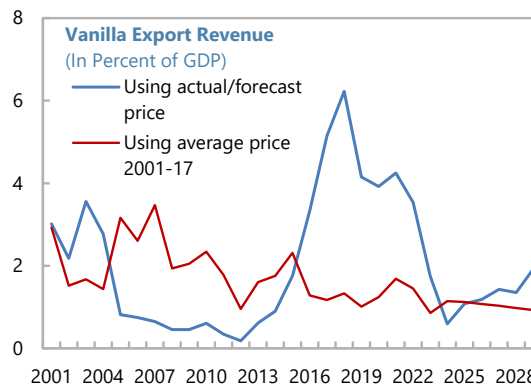
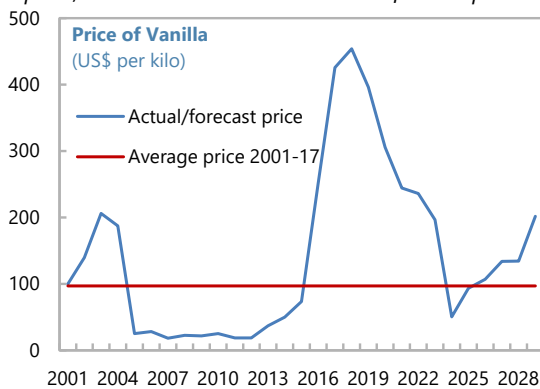
Inflation has declined since March 2023, thanks to the dissipated impact of a 43 percent increase in fuel prices in July 2022 and a monetary policy tightening that has slowed down demand.



The current account deficit is projected to stabilize around 5 percent of GDP. The nominal exchange rate has continued to depreciate in 2023.



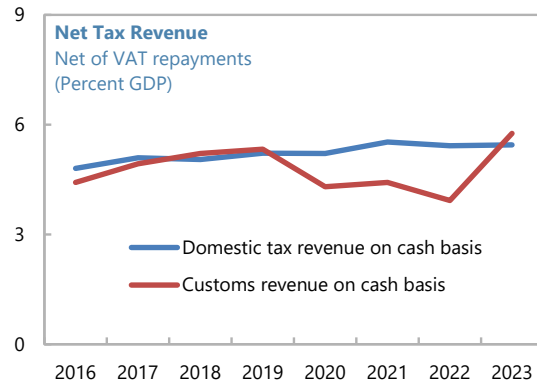
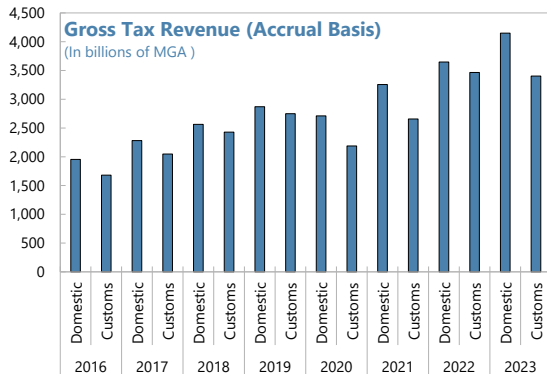
Vanilla sector exports are unlikely to recover in the medium-term from the temporary imposition of a price floor on exports, amid lower worldwide demand for the spice.



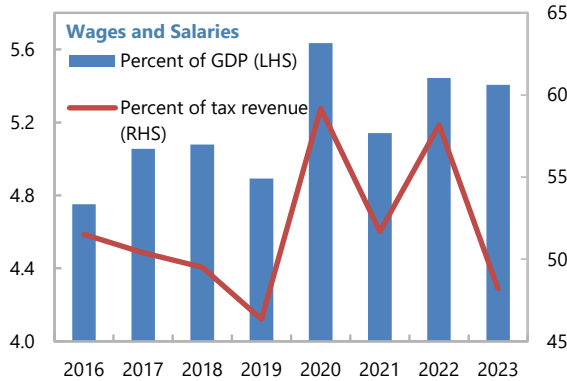
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 3. Madagascar: Government Revenue and Spending

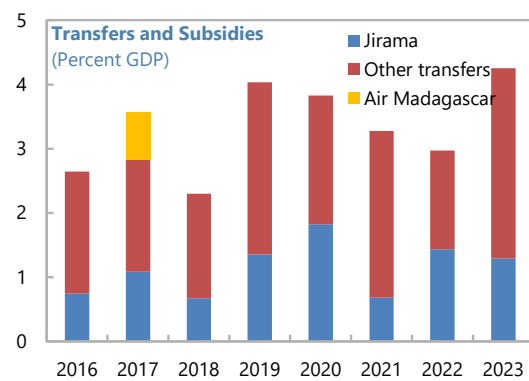
Effectively collected customs revenue were negatively affected by the trade slowdown during the pandemic and dispute with oil distributors in 2021 and 2022.



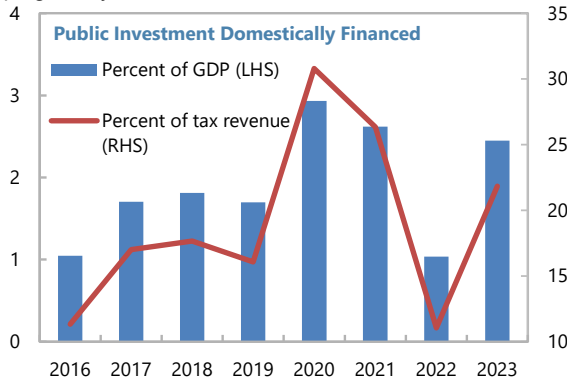
The wage bill has remained between 50 and 60 percent of net tax revenue since 2020.



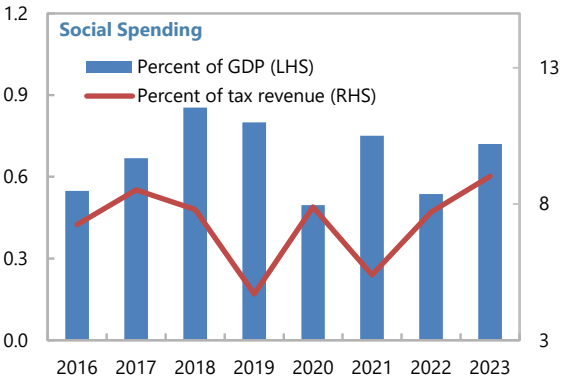
Transfers to JIRAMA and oil distributors drove the 2023 increase in transfers.



Domestically financed public investment has significantly increased as a share of GDP since 2019 but remains plagued by execution issues.



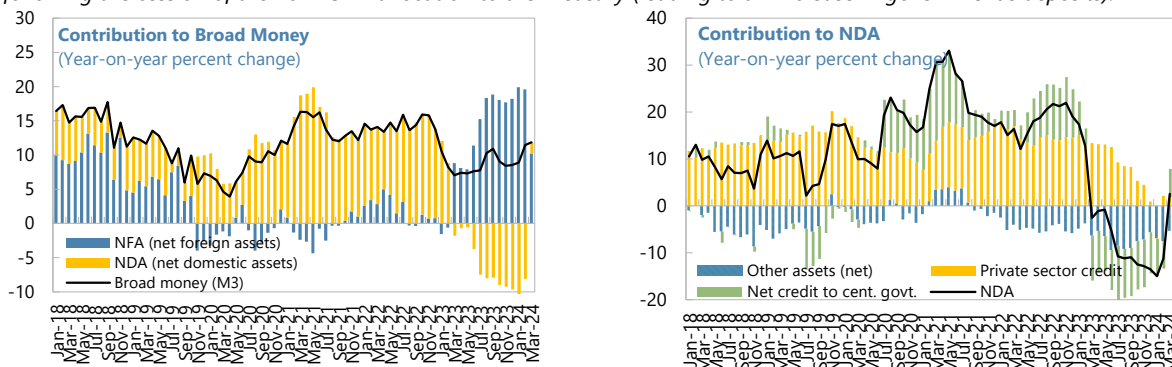
A growing share of tax revenue has been going to social spending.



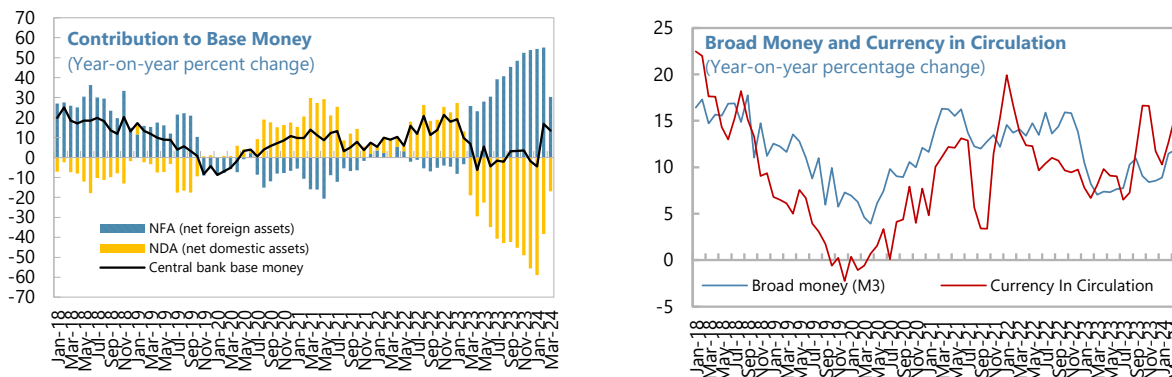
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 4. Madagascar: Monetary Developments

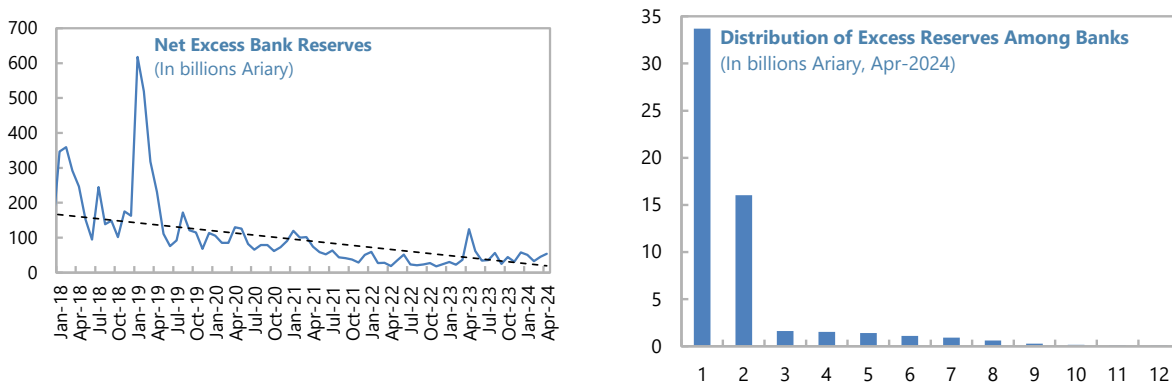
In 2023, broad money growth was driven by the increase in NFAs, while net credit to the government has declined following the cession of the 2021 SDR allocation to the Treasury (leading to an increase in government's deposits).



Base money growth has slowed following the tightening of monetary policy.



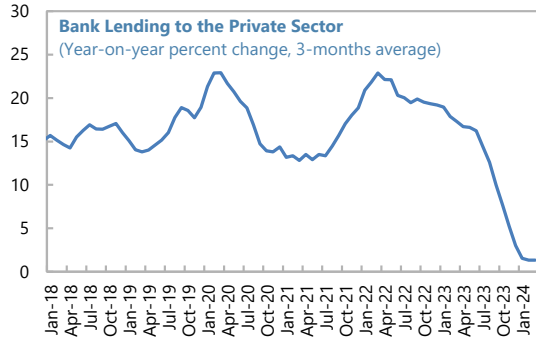
Bank excess reserves have stopped declining in 2023 but remain unevenly distributed across banks.



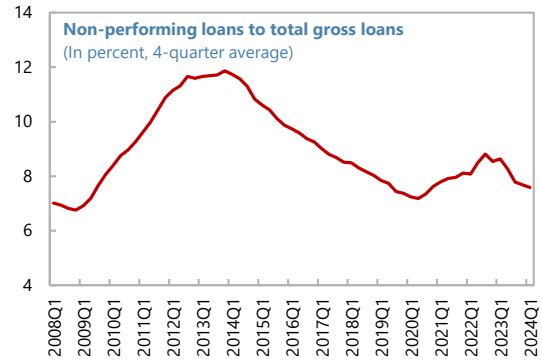
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 5. Madagascar: Financial Sector Developments

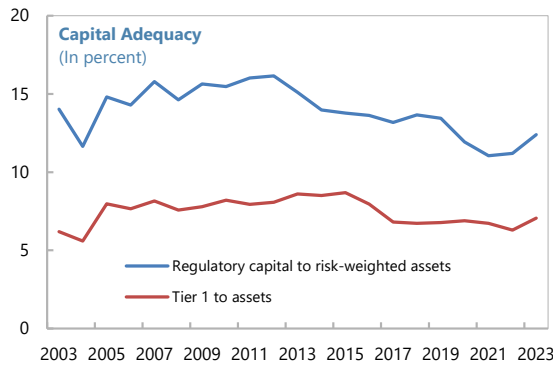
Credit growth has sharply dropped toward the end of 2023...



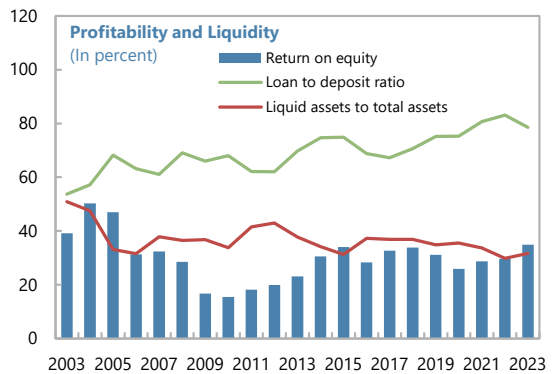
...with the quality of assets further improving as NPLs continue to decline.



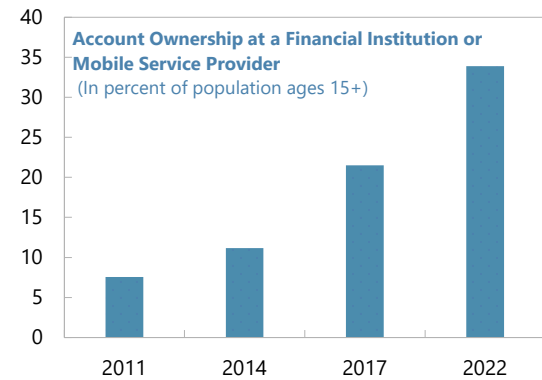
Overall, the banking system remains adequately capitalized...



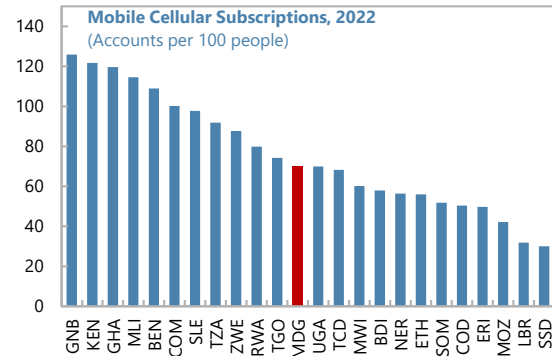
...and continues to remain profitable and liquid despite the business slowdown.



Mobile banking activities continue to grow at a steady pace....



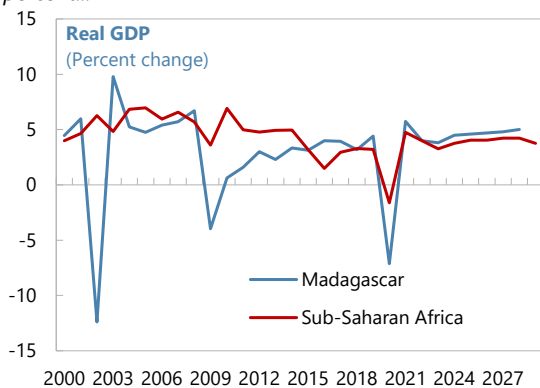
...although the country continues to lag comparable countries.



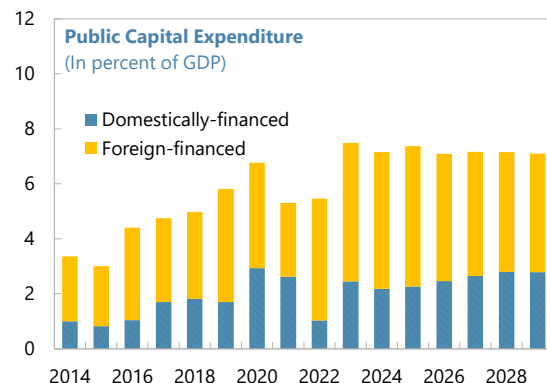
Sources: Malagasy Authorities; IMF Financial Access Survey; World Bank; and IMF staff estimates.

Figure 6. Madagascar: Medium-Term Macroeconomic Prospects

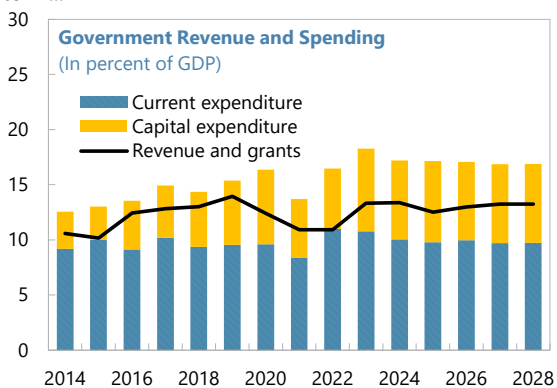
Medium-term potential growth is estimated around 5 percent...



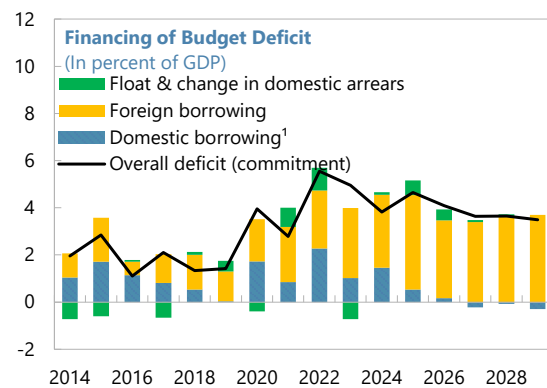
... supported by an increase in public capital expenditure.



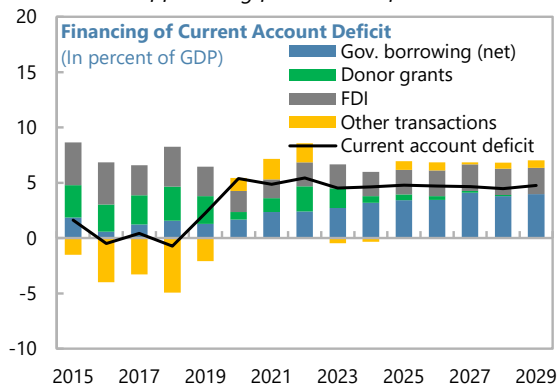
The budget deficit is expected to improve in the medium-term...



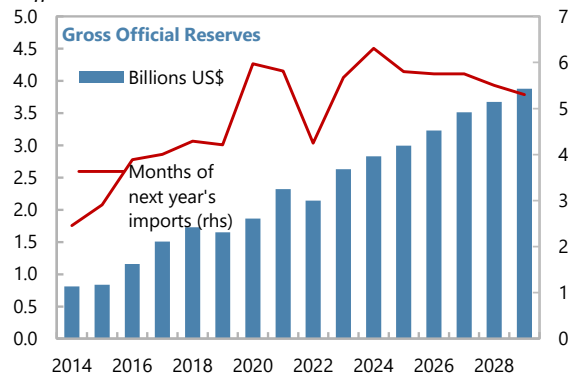
... financed increasingly by foreign borrowing.



Government borrowing and FDI are projected to be the main sources of financing for the CA deficit.



The new program will help preserve external reserve buffers.



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	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Est.	Est.	Est.	4th review	Est.	Projections					
	2021 ECF										
(Percent change; unless otherwise indicated)											
National account and prices											
GDP at constant prices	-7.1	5.7	4.0	4.0	3.8	4.5	4.6	4.7	4.8	5.0	5.0
GDP deflator	4.3	6.6	6.9	9.1	8.7	6.9	7.6	6.8	6.3	5.7	4.9
Consumer prices (period average)	4.2	5.8	8.2	10.5	9.9	7.9	7.4	6.9	6.5	6.0	6.0
Consumer prices (end of period)	4.6	6.2	10.8	9.3	7.5	7.8	7.5	7.1	6.6	6.2	6.0
Money and credit											
Reserve money	10.8	7.4	17.9	16.0	-1.8	16.7	13.3	16.6	16.5	12.7	14.5
Broad money (M3)	12.1	12.2	13.8	15.8	8.6	12.3	12.1	12.3	11.9	12.1	11.8
(Growth in percent of beginning of period money stock (M3))											
Net foreign assets	2.1	1.0	0.8	6.5	18.2	5.7	2.5	4.9	7.7	5.7	6.1
Net domestic assets	10.0	11.2	13.0	9.3	-9.7	6.7	9.6	7.5	4.2	6.4	5.7
of which: Credit to the private sector	5.6	11.1	9.8	8.7	0.7	6.3	6.3	4.1	4.8	7.5	6.4
(Percent of GDP)											
Public finance											
Total revenue (excluding grants)	9.9	10.3	9.6	13.1	11.4	11.2	11.2	11.9	12.8	13.0	13.0
of which: Tax revenue	9.5	9.9	9.4	12.8	11.1	10.8	10.9	11.6	12.5	12.6	12.7
Grants	2.5	0.7	1.3	1.7	2.3	1.8	0.6	0.5	0.3	0.1	0.1
of which: budget grants	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditures	16.4	13.7	16.5	18.6	17.9	16.7	15.7	16.6	16.9	16.8	16.9
Capital expenditure	6.8	5.3	5.5	7.5	7.0	6.4	6.0	6.8	7.5	7.1	7.2
Overall balance (commitment basis)	-4.0	-2.8	-5.5	-3.8	-4.3	-3.8	-3.8	-4.1	-3.8	-3.7	-3.8
Variation of domestic arrears (+ = increase)	0.4	-0.4	0.8	-1.3	0.0	-0.4	-0.3	-0.2	0.0	0.0	0.0
Overall balance (cash basis)	-3.5	-3.2	-4.7	-5.0	-4.2	-4.1	-4.1	-4.3	-3.8	-3.7	-3.8
Domestic primary balance ¹	-1.9	-0.1	-1.8	0.7	-0.4	0.2	0.7	1.2	1.9	1.5	1.4
Primary balance	-3.2	-2.2	-5.0	-2.9	-3.6	-2.9	-2.9	-3.1	-2.9	-2.9	-3.0
Total financing	3.5	3.2	4.7	5.0	4.2	4.1	4.1	4.3	3.8	3.7	3.8
Foreign borrowing (net)	1.8	2.3	2.5	3.1	3.0	3.2	3.4	3.5	4.1	3.8	4.0
Domestic financing	1.7	0.8	2.3	2.0	1.2	1.0	0.7	0.9	-0.4	-0.1	-0.2
of which: onlending of IMF financing ²	2.9	0.5	0.6	0.6	0.4	0.9	1.3	0.6	0.1	0.0	0.0
of which: cession of August 2021 SDR allocation				1.6	2.0						
Fiscal financing need ³	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Savings and investment											
Investment	19.5	23.2	20.8	24.1	21.6	22.3	21.3	22.4	23.0	22.7	23.0
Gross national savings	12.3	10.2	15.4	19.8	17.1	17.7	16.5	17.7	18.3	18.2	18.3
External sector											
Exports of goods, f.o.b.	15.0	18.6	23.3	23.3	19.6	16.3	18.8	18.7	18.9	18.9	18.6
Imports of goods, c.i.f.	24.3	28.7	34.2	32.8	28.2	25.3	28.2	28.8	29.3	29.3	29.1
Current account balance (exc. grants)	-7.9	-5.5	-6.7	-6.1	-6.8	-6.4	-5.4	-5.2	-5.0	-4.6	-4.9
Current account balance (inc. grants)	-5.4	-4.9	-5.4	-4.4	-4.5	-4.6	-4.8	-4.7	-4.6	-4.5	-4.7
Public debt											
Public debt	51.9	51.9	53.9	56.1	55.6	53.4	52.9	53.9	54.7	55.6	56.4
External Public Debt (inc. BFM liabilities)	36.3	34.3	36.5	39.6	35.7	34.8	36.5	38.4	39.8	41.0	42.2
Domestic Public Debt	15.7	17.7	17.4	16.5	19.9	18.6	16.4	15.5	14.9	14.5	14.2
(Units as indicated)											
Gross official reserves (millions of SDRs)	1,338	1,630	1,601	1,588	1,972	2,130	2,250	2,417	2,625	2,736	2,887
Months of imports of goods and services	6.0	5.8	4.2	4.0	5.7	6.3	5.8	5.8	5.8	5.5	5.3
Real effective exchange rate (pa, percent change)	-1.3	-1.9	2.5	...	-0.7	...	...	...	...	...	...
Terms of trade (percent change, deterioration -)	-8.6	-13.8	-4.1	-3.5	-13.5	-12.6	11.1	3.7	2.4	0.3	2.4
Memorandum items											
GDP per capita (U.S. dollars)	477	517	523	536	530	563	577	610	644	692	739
Nominal GDP at market prices (billions of ariary)	49,436	55,744	61,993	70,407	69,943	78,106	87,911	98,285	109,460	121,502	133,864

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

¹ Primary balance excl. foreign-financed investment and grants.

² RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF and RSF disbursements in 2024-2027 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

	2019	2020	2021	2022		2023		2024	2025	2026	2027	2028	2029
	Est.	Est.	Est.	4th review 2021 ECF	Est.	4th review 2021 ECF	Est.	Proj.					
	(Percent change)												
Real supply side growth													
Primary sector	5.9	-1.4	-1.6	0.6	0.9	2.2	4.1	4.0	4.3	4.3	4.5	4.9	4.9
of which: Agriculture	7.6	-2.3	-0.3	0.6	1.0	2.7	2.0	3.5	3.9	3.9	4.1	4.7	4.7
Secondary sector	6.8	-29.5	19.7	9.4	11.2	7.0	2.4	4.6	4.6	4.7	4.7	4.8	4.6
of which:													
Manufacturing	8.2	-15.7	30.2	7.6	7.6	3.8	-2.4	5.6	5.6	5.6	5.6	5.6	5.6
Energy	3.7	-0.1	2.9	-0.4	-0.4	0.5	-0.4	2.6	2.6	2.6	2.6	2.7	2.7
Extractive industry	9.9	-49.3	51.9	17.5	21.6	11.0	2.8	5.6	5.6	5.6	5.5	5.6	5.1
Tertiary sector	5.0	-5.7	7.4	4.7	3.6	3.7	3.6	4.2	4.2	4.3	4.4	4.5	4.6
of which:													
Trade	2.3	-2.7	1.0	2.0	2.0	1.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Services	2.9	-8.1	2.9	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Transportation	4.8	-6.4	5.1	5.1	5.1	5.4	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Indirect taxes	-1.1	13.3	0.5	4.1	4.1	9.5	5.9	6.7	6.9	7.1	7.3	7.4	7.4
Real GDP at market prices	4.4	-7.1	5.7	4.0	4.0	4.0	3.8	4.5	4.6	4.7	4.8	5.0	5.0
	(Percent of GDP)												
Nominal demand side composition													
Resource balance	-4.7	-9.0	-9.9	-9.1	-9.3	-7.4	-8.1	-7.8	-8.0	-7.8	-7.7	-7.4	-7.7
Exports of goods and nonfactor services	28.7	19.7	23.0	30.8	30.7	32.6	27.2	23.5	26.2	26.3	26.5	26.5	26.2
Current account balance (including grants) = (S-I)	-2.3	-5.4	-4.9	-5.5	-5.4	-4.4	-4.5	-4.6	-4.8	-4.7	-4.6	-4.5	-4.7
Consumption	86.0	95.7	93.8	86.6	87.3	82.1	85.5	84.6	85.7	84.4	83.8	83.8	83.7
Government	15.1	18.7	17.2	23.2	22.5	22.7	22.3	21.1	19.8	20.0	19.2	19.7	19.8
Private	70.9	77.0	76.6	63.5	64.8	59.3	63.1	63.4	65.9	64.4	64.5	64.0	63.9
of which: foreign direct investment	2.6	1.9	1.7	2.1	2.2	1.6	2.2	2.2	2.2	2.3	2.4	2.4	2.4
National savings (S)	20.4	12.3	10.2	15.8	15.4	19.8	17.1	17.7	16.5	17.7	18.3	18.2	18.3
Government	3.7	2.1	1.9	-1.0	-0.6	2.8	2.0	1.8	1.3	1.7	3.0	2.8	2.7
Private	16.7	10.3	8.4	16.8	16.0	16.9	15.0	15.9	15.2	16.0	15.4	15.4	15.5
<i>Memoranda items:</i>	(Billions of Ariary)												
Nominal GDP (at market prices)	51,035	49,436	55,744	62,053	61,993	70,407	69,943	78,106	87,911	98,285	109,460	121,502	133,864

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

Table 3a. Madagascar: Fiscal Operations of the Central Government
(Billions of Ariary)

	2019	2020	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Actuals	Actuals	Est.	Est.	4th review 2021 ECF		Projections					
					Est.	Est.						
Total revenue and grants	7,115	6,129	6,086	6,772	10,448	9,542	10,104	10,411	12,241	14,405	15,963	17,573
Total revenue	5,528	4,886	5,715	5,979	9,220	7,956	8,713	9,885	11,730	14,037	15,794	17,433
Tax revenue	5,387	4,707	5,545	5,797	9,030	7,762	8,405	9,613	11,405	13,643	15,356	16,951
Domestic taxes	2,666	2,579	3,081	3,360	3,956	3,773	4,228	4,966	5,929	7,199	7,978	8,789
Taxes on international trade and transactions	2,721	2,128	2,464	2,436	5,074	3,990	4,177	4,647	5,476	6,444	7,378	8,162
Non-tax revenue	140	180	170	182	190	194	308	272	325	394	438	482
Grants	1,587	1,243	371	793	1,228	1,586	1,390	526	511	367	169	140
Current grants	365	435	1	3	0	0	0	0	0	0	0	0
Capital grants	1,222	808	370	791	1,228	1,586	1,390	526	511	367	169	140
Total expenditure and lending minus repayments	7,840	8,085	7,641	10,200	13,117	12,522	13,037	13,759	16,293	18,511	20,399	22,607
Current expenditure	4,874	4,743	4,686	6,811	7,811	7,624	8,065	8,490	9,588	10,275	11,716	12,940
Wages and salaries	2,497	2,786	2,866	3,364	3,844	3,717	4,062	4,615	5,209	5,801	6,440	7,095
Interest payments	356	362	354	346	649	496	663	769	969	880	890	1,012
Foreign	107	115	123	142	327	187	296	265	258	262	257	429
Domestic	249	246	231	204	323	309	367	505	711	618	633	583
Other	1,911	2,230	2,164	2,272	3,154	3,383	2,818	2,888	3,194	3,406	4,180	4,605
Goods and services	323	338	338	428	507	451	566	545	639	711	899	991
Transfers and subsidies	1,587	1,892	1,827	1,844	2,647	2,932	2,252	2,342	2,556	2,694	3,281	3,614
<i>of which: JIRAMA and its suppliers</i> ¹	691	845	380	889	722	895	793	...	...	...	...	...
Treasury operations (net) ²	110	-635	-698	829	163	28	522	218	215	188	206	228
Capital expenditure	2,966	3,343	2,955	3,389	5,307	4,898	4,972	5,269	6,705	8,236	8,683	9,668
Domestic financed	866	1,450	1,461	644	1,589	1,094	1,183	1,582	1,966	2,605	3,159	3,614
Foreign financed	2,100	1,893	1,494	2,745	3,718	3,804	3,789	3,686	4,739	5,630	5,524	6,054
Overall balance (commitment basis)	-725	-1,956	-1,554	-3,428	-2,669	-2,980	-2,934	-3,348	-4,052	-4,106	-4,436	-5,035
Variation of domestic arrears (+ = increase)	-116	219	-222	493	-884	18	-300	-300	-196	0	0	0
Overall balance (including grants, cash basis)	-665	-1,737	-1,776	-2,935	-3,554	-2,961	-3,234	-3,648	-4,248	-4,106	-4,436	-5,035
Domestic primary balance ³	144	-944	-78	-1,130	469	-266	128	582	1,145	2,037	1,809	1,891
Primary balance	-369	-1,595	-1,201	-3,081	-2,020	-2,484	-2,271	-2,579	-3,083	-3,226	-3,546	-4,023
Total financing	664	1,737	1,776	2,936	3,554	2,925	3,234	3,648	4,248	4,106	4,436	5,035
Foreign borrowing (residency principle)	649	885	1,304	1,525	2,178	2,092	2,487	3,015	3,392	4,508	4,606	5,313
External borrowing, Gross	883	1,161	1,671	1,954	2,926	2,665	3,149	3,962	4,601	5,648	5,743	6,304
Budget support loans	5	77	547	0	437	447	749	802	374	385	388	390
Project loans	878	1,085	1,124	1,954	2,489	2,218	2,399	3,161	4,228	5,263	5,355	5,914
Amortization on a due basis (-)	-234	-276	-367	-430	-748	-572	-662	-948	-1,209	-1,139	-1,137	-991
Domestic borrowing (residency principle)	15	851	473	1,412	1,376	832	747	634	856	-402	-169	-278
Monetary sector	-31	597	230	950	1,323	167	551	433	650	-614	-387	-502
<i>of which: onlending of IMF PRGT financing</i> ⁴		1,452	267	402	431	289	442	473	0	0	0	0
<i>of which: onlending of IMF RST financing</i>							246	657	542	140	0	0
<i>of which: cession of 2021 SDR allocation</i>					1,100	1,384						
Non-monetary sector	-13	-72	-87	-16	53	364	39	44	49	55	61	67
Other incl. Treasury correspondent accounts (net)	59	327	330	478	0	302	157	157	157	157	157	157
Fiscal financing balance ⁵	0	0	0	2	0	-36	0	0	0	0	0	0

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

¹ Operating subsidies and arrears repayment.

² Includes third party accounts, trade accounts, and other operations to be regularized.

³ Primary balance excl. foreign-financed investment and grants.

⁴ RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF disbursements in 2024-2025 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
(Percent of GDP)

	2019	2020	2021	2022	2023		2024	2025	2026	2027	2028	2029
			Est.	Est.	4th review				Projections			
					2021 ECF	Est.						
Total revenue and grants	13.9	12.4	10.9	10.9	14.8	13.6	12.9	11.8	12.5	13.2	13.1	13.1
Total revenue	10.8	9.9	10.3	9.6	13.1	11.4	11.2	11.2	11.9	12.8	13.0	13.0
Tax revenue	10.6	9.5	9.9	9.4	12.8	11.1	10.8	10.9	11.6	12.5	12.6	12.7
Domestic taxes	5.2	5.2	5.5	5.4	5.6	5.4	5.4	5.6	6.0	6.6	6.6	6.6
Taxes on international trade and transactions	5.3	4.3	4.4	3.9	7.2	5.7	5.3	5.3	5.6	5.9	6.1	6.1
Non-tax revenue	0.3	0.4	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.4	0.4	0.4
Grants	3.1	2.5	0.7	1.3	1.7	2.3	1.8	0.6	0.5	0.3	0.1	0.1
Current grants	0.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital grants	2.4	1.6	0.7	1.3	1.7	2.3	1.8	0.6	0.5	0.3	0.1	0.1
Total expenditure and lending minus repayments	15.4	16.4	13.7	16.5	18.6	17.9	16.7	15.7	16.6	16.9	16.8	16.9
Current expenditure	9.5	9.6	8.4	11.0	11.1	10.9	10.3	9.7	9.8	9.4	9.6	9.7
Wages and salaries	4.9	5.6	5.1	5.4	5.5	5.3	5.2	5.3	5.3	5.3	5.3	5.3
Interest payments	0.7	0.7	0.6	0.6	0.9	0.7	0.8	0.9	1.0	0.8	0.7	0.8
Foreign	0.2	0.2	0.2	0.2	0.5	0.3	0.4	0.3	0.3	0.2	0.2	0.3
Domestic	0.5	0.5	0.4	0.3	0.5	0.4	0.5	0.6	0.7	0.6	0.5	0.4
Other	3.7	4.5	3.9	3.7	4.5	4.8	3.6	3.3	3.3	3.1	3.4	3.4
Goods and services	0.6	0.7	0.6	0.7	0.7	0.6	0.7	0.6	0.7	0.7	0.7	0.7
Transfers and subsidies	3.1	3.8	3.3	3.0	3.8	4.2	2.9	2.7	2.6	2.5	2.7	2.7
of which: JIRAMA and its suppliers ¹	1.4	1.7	0.7	1.4	1.0	1.3	1.0	...	...	...	...	...
Treasury operations (net) ²	0.2	-1.3	-1.3	1.3	0.2	0.0	0.7	0.2	0.2	0.2	0.2	0.2
Capital expenditure	5.8	6.8	5.3	5.5	7.5	7.0	6.4	6.0	6.8	7.5	7.1	7.2
Domestic financed	1.7	2.9	2.6	1.0	2.3	1.6	1.5	1.8	2.0	2.4	2.6	2.7
Foreign financed	4.1	3.8	2.7	4.4	5.3	5.4	4.9	4.2	4.8	5.1	4.5	4.5
Overall balance (commitment basis)	-1.4	-4.0	-2.8	-5.5	-3.8	-4.3	-3.8	-3.8	-4.1	-3.8	-3.7	-3.8
Variation of domestic arrears (+ = increase)	-0.2	0.4	-0.4	0.8	-1.3	0.0	-0.4	-0.3	-0.2	0.0	0.0	0.0
Overall balance (including grants, cash basis)	-1.3	-3.5	-3.2	-4.7	-5.0	-4.2	-4.1	-4.1	-4.3	-3.8	-3.7	-3.8
Domestic primary balance ³	0.3	-1.9	-0.1	-1.8	0.7	-0.4	0.2	0.7	1.2	1.9	1.5	1.4
Primary balance	-0.7	-3.2	-2.2	-5.0	-2.9	-3.6	-2.9	-2.9	-3.1	-2.9	-2.9	-3.0
Total financing	1.3	3.5	3.2	4.7	5.0	4.2	4.1	4.1	4.3	3.8	3.7	3.8
Foreign borrowing (residency principle)	1.3	1.8	2.3	2.5	3.1	3.0	3.2	3.4	3.5	4.1	3.8	4.0
External borrowing, Gross	1.7	2.3	3.0	3.2	4.2	3.8	4.0	4.5	4.7	5.2	4.7	4.7
Budget support loans	0.0	0.2	1.0	0.0	0.6	0.6	1.0	0.9	0.4	0.4	0.3	0.3
Project loans	1.7	2.2	2.0	3.2	3.5	3.2	3.1	3.6	4.3	4.8	4.4	4.4
Amortization on a due basis (-)	-0.5	-0.6	-0.7	-0.7	-1.1	-0.8	-0.8	-1.1	-1.2	-1.0	-0.9	-0.7
Domestic borrowing (residency principle)	0.0	1.7	0.8	2.3	2.0	1.2	1.0	0.7	0.9	-0.4	-0.1	-0.2
Monetary sector	-0.1	1.2	0.4	1.5	1.9	0.2	0.7	0.5	0.7	-0.6	-0.3	-0.4
of which: onlending of IMF PRGT financing ⁴			2.9	0.6	0.6	0.4	0.6	0.5	0.0	0.0	0.0	0.0
of which: onlending of IMF RST financing						0.0	0.3	0.7	0.6	0.1	0.0	0.0
of which: cession of 2021 SDR allocation					1.6	2.0						
Non-monetary sector	0.0	-0.1	-0.2	0.0	0.1	0.5	0.1	0.0	0.1	0.1	0.1	0.1
Other incl. Treasury correspondent accounts (net)	0.1	0.7	0.6	0.8	0.0	0.4	0.2	0.2	0.2	0.1	0.1	0.1
Fiscal financing balance ⁵	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0

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

¹ Operating subsidies and arrears repayment.

² Includes third party accounts, trade accounts, and other operations to be regularized.

³ Primary balance excl. foreign-financed investment and grants.

⁴ RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF disbursements in 2024-2025 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 (Billions of Ariary)

	2021	2022	2023			2024				
	Dec	Dec	Mar	Jun	Sept	Dec	Mar	Jun	Sept	Dec
	Est.	Est.	Estimates			Projections				
Total revenue and grants	6,086	6,772	3,341	4,293	5,812	9,542	2,316	4,983	7,408	10,104
Total revenue	5,715	5,979	3,341	4,292	5,811	7,956	1,970	4,297	6,375	8,713
Tax revenue	5,545	5,797	3,337	4,248	5,720	7,762	1,946	4,202	6,217	8,405
Domestic taxes	3,081	3,360	1,374	1,762	2,654	3,773	924	2,073	3,042	4,228
Taxes on international trade and transactions	2,464	2,436	1,962	2,486	3,065	3,990	1,022	2,129	3,176	4,177
Non-tax revenue	170	182	4	44	92	194	24	96	157	308
Grants	371	793	0	0	0	1,586	346	686	1,033	1,390
Current grants	1	3	0	0	0	0	0	0	0	0
Capital grants	370	791	0	0	0	1,586	346	686	1,033	1,390
Total expenditure and lending minus repayments	7,641	10,200	2,686	5,657	8,429	12,522	2,719	5,813	8,952	13,037
Current expenditure	4,686	6,811	2,197	4,206	5,972	7,624	1,586	3,529	5,392	8,065
Wages and salaries	2,866	3,364	861	1,791	2,703	3,717	873	1,900	2,901	4,062
Interest payments	354	346	136	285	387	496	179	345	493	663
Foreign	123	142	38	89	125	187	75	148	223	296
Domestic	231	204	99	196	262	309	104	197	270	367
Other	2,164	2,272	447	1,620	2,234	3,383	402	1,001	1,615	2,818
Goods and services	338	428	81	244	326	451	72	201	352	566
Transfers and subsidies	1,827	1,844	367	1,375	1,909	2,932	330	800	1,263	2,252
Treasury operations (net)	-698	829	753	65	647	28	133	283	383	522
Capital expenditure	2,955	3,389	488	1,451	2,457	4,898	1,133	2,284	3,559	4,972
Domestic financed	1,461	644	175	291	713	1,094	177	414	745	1,183
Foreign financed	1,494	2,745	313	1,160	1,744	3,804	955	1,870	2,814	3,789
Overall balance (commitment basis)	-1,554	-3,428	655	-1,365	-2,617	-2,980	-403	-830	-1,544	-2,934
Variation of domestic arrears (+ = increase)	-222	493	-79	75	461	18	-30	-68	-158	-300
Overall balance (including grants, cash basis)	-1,776	-2,935	576	-1,290	-2,156	-2,961	-433	-897	-1,702	-3,234
Domestic primary balance ¹	-78	-1,130	1,105	80	-487	-266	385	699	730	128
Primary balance	-1,201	-3,081	792	-1,080	-2,231	-2,484	-225	-485	-1,051	-2,271
Total financing	1,776	2,936	640	1,237	2,071	2,925	433	897	1,702	3,234
Foreign borrowing (residency principle)	1,304	1,525	192	881	1,781	2,092	446	851	2,033	2,487
External borrowing, Gross	1,671	1,954	313	1,160	2,191	2,665	609	1,184	2,530	3,149
Budget support loans	547	0	0	0	447	447	0	0	749	749
Project loans	1,124	1,954	313	1,160	1,744	2,218	609	1,184	1,781	2,399
Amortization on a due basis (-)	-367	-430	-121	-279	-410	-572	-163	-333	-496	-662
Domestic borrowing (residency principle)	473	1,412	447	356	291	832	-13	46	-331	747
Monetary sector	230	950	-237	122	-83	167	-68	37	-367	551
of which: onlending of IMF PRGT financing ²	264	400	142	286	286	286	0	216	216	442
of which: onlending of IMF RST financing	0	0	1,384	1,384	1,384	1,384	0	0	0	0
of which: cession of 2021 SDR allocation	0	0	0	0	0	0	0	0	0	0
Non-monetary sector	-87	-16	520	83	335	364	56	9	36	39
Other incl. Treasury correspondent accounts (net)	330	478	164	152	39	302	0	0	0	157
Fiscal financing balance ³	0	2	1,216	-52	-85	-36	0	0	0	0

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

¹ Primary balance excl. foreign-financed investment and grants.

² RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF disbursements in 2024-2025 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 5a. Madagascar: Balance of Payments
(Millions of SDRs)

	2019	2020	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Actuals	Actuals	Actuals	Est.	4th review 2021 ECF		Est.	Projections				
	(Millions of SDRs)											
Current account	-234	-504	-497	-614	-522	-535	-600	-654	-695	-742	-790	-916
Goods and services	-482	-841	-1,012	-1,049	-880	-956	-1,014	-1,085	-1,160	-1,234	-1,310	-1,482
Trade balance of goods	-611	-645	-679	-735	-664	-713	-825	-907	-1,073	-1,193	-1,327	-1,500
Exports, f.o.b.	1,891	1,402	1,904	2,641	2,790	2,318	2,113	2,558	2,757	3,023	3,326	3,592
of which: Mining	551	262	542.5	941	1,091	856	724	921	937	985	1,053	1,110
of which: Vanilla	423	367	434	400	262	206	77	147	175	228	239	372
Imports, f.o.b.	-2,502	-2,046	-2,583	-3,376	-3,454	-3,031	-2,938	-3,465	-3,830	-4,216	-4,654	-5,093
of which: Petroleum products	-403	-256	-339	-599	-546	-479	-493	-516	-540	-594	-654	-686
of which: Food	-327	-324	-464	-525	-501	-432	-442	-474	-510	-550	-593	-592
of which: Intermediate goods and capital	-1,014	-810	-1,063	-1,487	-1,609	-1,336	-1,247	-1,539	-1,719	-1,869	-2,051	-2,138
Services (net)	129	-197	-333	-315	-216	-243	-189	-177	-87	-41	17	19
Receipts	1,036	444	449	836	1,119	898	928	1,013	1,124	1,221	1,334	1,461
of which: Travels	538	703	69	274	437	432	447	497	560	604	659	722
Payments	-907	-641	-782	-1,151	-1,335	-1,141	-1,117	-1,190	-1,211	-1,262	-1,317	-1,443
Income (net)	-329	-276	-182	-276	-314	-259	-307	-305	-308	-318	-330	-367
Receipts	44	32	30	37	41	64	76	83	90	98	107	118
Payments	-373	-308	-213	-313	-355	-323	-384	-388	-398	-416	-437	-484
of which: interest on public debt	-29	-22	-22	-26	-56	-31	-49	-41	-39	-38	-37	-62
Current transfers (net)	578	613	697	711	672	680	721	736	772	810	851	932
Official transfers	86	105	22	19	26	11	47	49	52	55	58	64
Capital and financial account	150	370	676	524	472	840	688	664	812	1,000	1,005	1,169
Capital account ¹	241	153	68	145	209	268	231	82	77	54	25	20
of which: Project grants ¹	241	153	68	145	209	268	231	82	77	54	25	20
Financial account	-52	172	635	395	263	595	458	582	735	946	980	1,149
Foreign direct and portfolio investment	270	180	171	245	194	256	284	304	344	386	420	460
Other investment	-322	-9	464	150	69	338	173	278	391	560	560	689
Government	131	158	240	273	370	323	413	468	510	658	668	766
Drawing	182	216	307	351	498	421	522	614	692	825	832	909
Project drawings ¹	177	201	206	351	423	346	398	490	636	769	776	852
Budgetary support ¹	5	15	101	0	74	74	124	124	56	56	56	56
Amortization	-50	-58	-67	-79	-127	-98	-110	-147	-182	-166	-165	-143
Monetary authority and private sector	-244	-122	247	-93	-133	-149	-105	-96	-92	-85	-83	-91
Banks	-12	-95	8	50	54	-78	0	0	0	0	0	0
Other (inc. unrepatriated export revenues)	-221	50	-16	21	-115	87	-134	-94	-27	-13	-24	14
Errors and omissions	-38	45	-27	-16	0	-23	0	0	0	0	0	0
Overall balance	-83	-134	180	-90	-49	305	88	10	117	257	215	253
Financing	83	134	-180	90	49	-305	-88	-10	-117	-257	-215	-253
Use of IMF credit (net)	59	25	34	58	36	12	30	8	-31	-71	-103	-102
Other assets, net (increase = -) ²	25	-141	-228	29	13	-371	-158	-120	-167	-207	-112	-150
Other assets, net (increase = -) ² without RSF				29		-371	-118	-18	-86	-187	-112	-150
Exceptional financing-Grant for debt relief ³	0	6	15	3	0	0	0	0	0	0	0	0
Exceptional financing-RCF disbursement		244										
Residual financing gap (unidentified financing)	0	0	0	0	0	0	0	0	0	0	0	0
RSF (net)							41	102	81	20	0	0
	(Percent of GDP; unless otherwise indicated)											
Memorandum items:												
Grants	3.1	2.5	0.7	1.3	1.7	2.3	1.8	0.6	0.5	0.3	0.1	...
Loans	1.8	2.3	3.0	3.1	4.2	3.6	4.0	4.5	4.7	5.2	4.7	...
Direct investment	2.6	1.9	1.7	2.2	1.6	2.2	2.2	2.2	2.3	2.4	2.4	...
Current account												
Excluding net official transfers	-5.4	-7.9	-5.5	-6.7	-6.1	-6.8	-6.4	-5.4	-5.2	-5.0	-4.6	...
Including net official transfers	-2.3	-5.4	-4.9	-5.4	-4.4	-4.5	-4.6	-4.8	-4.7	-4.6	-4.5	...
Debt service (percent of exports of goods)	3.6	2.7	9.1	3.7	2.9	2.9	2.6	3.5	2.9	2.5	2.3	...
Export of goods volume (percent change)	6.5	-18.5	38.7	14.2	15.5	6.6	2.6	11.0	4.9	5.7	8.4	2.0
Import of goods volume (percent change)	3.4	-17.8	11.1	3.2	7.7	-5.7	-4.7	20.2	11.5	8.7	8.6	6.3
Gross official reserves (millions of SDR) ⁴	1,196	1,338	1,630	1,601	1,588	1,972	2,130	2,250	2,417	2,625	2,736	2,887
Months of imports of goods and nonfactor services	4.2	6.0	5.8	4.2	4.0	5.7	6.3	5.8	5.8	5.8	5.5	5.3
Gross official reserves (millions of SDR) ⁴ (without RSF)							2,090	2,107	2,193	2,380	2,492	2,642
Months of imports of goods and nonfactor services (without RSF)							6.2	5.4	5.2	5.2	5.0	4.9
Terms of trade (percent change, deterioration -)	-15.5	-8.6	-13.8	-4.1	-3.5	-13.5	-12.6	11.1	3.7	2.4	0.3	2.4
Exchange rate (ariary/US\$, period average)	3,618	3,788	3,830	4,096	...	4,430	...	...	...	...	...	...

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 include the IMF SDR allocation

Table 5b. Madagascar: Balance of Payments
(Percent of GDP)

	2019	2020	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Actuals	Actuals	Actuals	Est.	4th review 2021 ECF	Est.	Projections					
Current account	-2.3	-5.4	-4.9	-5.4	-4.4	-4.5	-4.6	-4.8	-4.7	-4.6	-4.5	-4.7
Goods and services	-4.7	-9.0	-9.9	-9.3	-7.4	-8.1	-7.8	-8.0	-7.8	-7.7	-7.4	-7.7
Trade balance of goods	-6.0	-6.9	-6.6	-6.5	-5.5	-6.0	-6.4	-6.7	-7.3	-7.5	-7.5	-7.8
Exports, f.o.b.	18.5	15.0	18.6	23.3	23.3	19.6	16.3	18.8	18.7	18.9	18.9	18.6
<i>of which: Mining</i>	5.4	2.8	5.3	8.3	9.1	7.2	5.6	6.8	6.3	6.2	6.0	5.8
<i>of which: Vanilla</i>	4.1	3.9	4.2	3.5	2.2	1.7	0.6	1.1	1.2	1.4	1.4	1.9
Imports, f.o.b.	-24.5	-21.8	-25.3	-29.8	-28.8	-25.6	-22.7	-25.4	-25.9	-26.4	-26.4	-26.4
<i>of which: Petroleum products</i>	-4.0	-2.7	-3.3	-5.3	-4.6	-4.0	-3.8	-3.8	-3.7	-3.7	-3.7	-3.6
<i>of which: Food</i>	-3.2	-3.5	-4.5	-4.6	-4.2	-3.7	-3.4	-3.5	-3.5	-3.4	-3.4	-3.1
<i>of which: Intermediate goods and capital</i>	-9.9	-8.6	-10.4	-13.1	-13.4	-11.3	-9.6	-11.3	-11.6	-11.7	-11.6	-11.1
Services (net)	1.3	-2.1	-3.3	-2.8	-1.8	-2.1	-1.5	-1.3	-0.6	-0.3	0.1	0.1
Receipts	10.1	4.7	4.4	7.4	9.3	7.6	7.2	7.4	7.6	7.6	7.6	7.6
<i>of which: Travels</i>	5.3	1.1	0.7	2.4	3.6	3.6	3.5	3.6	3.8	3.8	3.7	3.7
Payments	-8.9	-6.8	-7.6	-10.2	-11.1	-9.6	-8.6	-8.7	-8.2	-7.9	-7.5	-7.5
Income (net)	-3.2	-2.9	-1.8	-2.4	-2.6	-2.2	-2.4	-2.2	-2.1	-2.0	-1.9	-1.9
Receipts	0.4	0.3	0.3	0.3	0.3	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Payments	-3.7	-3.3	-2.1	-2.8	-3.0	-2.7	-3.0	-2.8	-2.7	-2.6	-2.5	-2.5
<i>of which: interest on public debt</i>	-0.3	-0.2	-0.2	-0.2	-0.5	-0.3	-0.4	-0.3	-0.3	-0.2	-0.2	-0.3
Current transfers (net)	5.7	6.5	6.8	6.3	5.6	5.7	5.6	5.4	5.2	5.1	4.8	4.8
Official transfers	0.8	1.1	0.2	0.2	0.2	0.1	0.4	0.4	0.4	0.3	0.3	0.3
Capital and financial account	1.5	3.9	6.6	4.6	3.9	7.1	5.3	4.9	5.5	6.3	5.7	6.1
Capital account ¹	2.4	1.6	0.7	1.3	1.7	2.3	1.8	0.6	0.5	0.3	0.1	0.1
<i>of which: Project grants¹</i>	2.4	1.6	0.7	1.3	1.7	2.3	1.8	0.6	0.5	0.3	0.1	0.1
Financial account	-0.5	1.8	6.2	3.5	2.2	5.0	3.5	4.3	5.0	5.9	5.6	6.0
Foreign direct and portfolio investment	2.6	1.9	1.7	2.2	1.6	2.2	2.2	2.2	2.3	2.4	2.4	2.4
Other investment	-3.2	-0.1	4.5	1.3	0.6	2.9	1.3	2.0	2.6	3.5	3.2	3.6
Government	1.3	1.7	2.3	2.4	3.1	2.7	3.2	3.4	3.5	4.1	3.8	4.0
Drawing	1.8	2.3	3.0	3.1	4.2	3.6	4.0	4.5	4.7	5.2	4.7	4.7
Project drawings ¹	1.7	2.1	2.0	3.1	3.5	2.9	3.1	3.6	4.3	4.8	4.4	4.4
Budgetary support ¹	0.0	0.2	1.0	0.0	0.6	0.6	1.0	0.9	0.4	0.4	0.3	0.3
Amortization	-0.5	-0.6	-0.7	-0.7	-1.1	-0.8	-0.8	-1.1	-1.2	-1.0	-0.9	-0.7
Monetary authority and private sector	-2.4	-1.3	2.4	-0.8	-1.1	-1.3	-0.8	-0.7	-0.6	-0.5	-0.5	-0.5
Banks	-0.1	-1.0	0.1	0.4	0.4	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Other (inc. unrepatriated export revenues)	-2.2	0.5	-0.2	0.2	-1.0	0.7	-1.0	-0.7	-0.2	-0.1	-0.1	0.1
Errors and omissions	-0.4	0.5	-0.3	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.8	-1.4	1.8	-0.8	-0.4	2.6	0.7	0.1	0.8	1.6	1.2	1.3
Financing	0.8	1.4	-1.8	0.8	0.4	-2.6	-0.7	-0.1	-0.8	-1.6	-1.2	-1.3
Use of IMF credit (net)	0.6	0.3	0.3	0.5	0.3	0.1	0.2	0.1	-0.2	-0.4	-0.6	-0.5
RSF (net)							0.3	0.7	0.6	0.1	0.0	0.0
Other assets, net (increase = -) ²	0.2	-1.5	-2.2	0.3	0.1	-3.1	-1.2	-0.9	-1.1	-1.3	-0.6	-0.8
Other assets, net (increase = -) ² without RSF							-0.9	-0.1	-0.6	-1.2	-0.6	-0.8
Exceptional financing-Grant for debt relief ³	0.0	0.1	0.2	0.0	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	0.0	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 5c. Madagascar: Balance of Payments
(Millions of U.S. Dollars)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Est.	Est.	Est.	Est.	Proj.			Projections			
	(Millions of USD)										
Current account	-323	-701	-707	-822	-714	-798	-871	-928	-993	-1,059	-1,231
Goods and services	-666	-1,172	-1,441	-1,403	-1,275	-1,348	-1,444	-1,549	-1,651	-1,758	-1,991
Trade balance of goods											
Exports, f.o.b.	2,612	1,952	2,712	3,532	3,092	2,808	3,406	3,681	4,044	4,463	4,826
Imports, f.o.b.	-3,456	-2,850	-3,679	-4,514	-4,043	-3,905	-4,614	-5,114	-5,640	-6,244	-6,842
Services (net)	178	-274	-474	-421	-324	-251	-236	-116	-55	23	25
Receipts	1,431	618	640	1,118	1,198	1,233	1,348	1,501	1,633	1,790	1,963
Payments	-1,253	-892	-1,113	-1,539	-1,522	-1,484	-1,584	-1,617	-1,688	-1,767	-1,938
Income (net)	-455	-384	-260	-369	-345	-408	-406	-411	-426	-443	-493
Receipts	61	45	43	49	86	101	110	120	131	144	158
Payments	-516	-429	-303	-419	-431	-510	-516	-531	-557	-587	-651
Current transfers (net)	798	854	993	951	907	958	979	1,031	1,084	1,142	1,252
Official transfers	119	146	32	26	15	62	66	70	73	78	86
Private transfers	679	709	962	925	892	896	914	961	1,011	1,063	1,166
Capital and financial account	208	515	963	701	1,120	915	884	1,084	1,337	1,348	1,570
Capital account ¹	332	214	97	193	358	306	109	103	72	33	27
of which: Project grant ¹	332	214	97	193	358	306	109	103	72	33	27
Financial account	-72	239	905	528	793	608	775	981	1,266	1,315	1,543
Foreign direct and portfolio investment	373	251	244	327	342	378	405	459	516	563	618
Other investment	-445	-12	661	201	451	230	370	522	750	752	925
Government	182	220	341	364	430	548	622	681	881	896	1,029
Drawing	251	301	437	470	561	694	818	924	1,103	1,117	1,221
Project drawings ¹	244	280	294	470	462	529	653	849	1,028	1,041	1,145
Budgetary support ¹	7	20	144	0	99	165	165	75	75	75	75
Amortization	-69	-81	-96	-106	-131	-146	-196	-243	-223	-221	-192
Monetary authority and private sector	-337	-170	353	-125	-199	-139	-128	-122	-114	-111	-123
Banks	-16	-132	11	67	-104	0	0	0	0	0	0
Other (inc. unrepatriated export revenues)	-306	70	-23	28	116	-178	-125	-36	-17	-32	19
Errors and omissions	-53	62	-38	-21	-31	0	0	0	0	0	0
Overall balance	-115	-186	256	-121	407	117	13	156	344	289	339
Financing	115	186	-256	121	-407	-117	-13	-156	-344	-289	-339
Use of IMF credit (net)	81	375	48	77	16	40	11	-41	-95	-139	-138
Other assets, net (increase = -) ²	34	-197	-325	39	-495	-211	-159	-224	-277	-150	-202
Other assets, net (increase = -) ² without RSF					-495	-156	-24	-115	-250	-150	-202
Exceptional financing-Grant for debt relief ³	0.0	8.5	21.9	4.0	0	0	0	0	0	0	0
Exceptional financing-RCF disbursement		340.4									
Residual financing gap (unidentified financing)	0	0	0	0	0	0	0	0	0	0	0
RSF (net)						54	136	109	27	0	0
<i>Memorandum items:</i>											
Gross official reserves (millions of USD) ⁴	1,650	1,923	2,278	2,128	2,630	2,832	3,001	3,230	3,517	3,674	3,881
Gross official reserves (millions of USD) ⁴ without RSF						2,777	2,811	2,930	3,190	3,346	3,552
Exchange rate (ariary/US\$, period average)	3,618	3,788	3,830	4,096	...	...	...	...	...	...	...
Nominal GDP (US\$ million)	14,105	13,051	14,555	15,135	15,790	17,218	18,152	19,727	21,385	23,630	25,921

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 include the IMF SDR allocation

Table 6. Madagascar: Monetary Accounts¹
(Billions of Ariary, unless otherwise indicated)

	2019	2020	2021	2022	2023		2024	2025	2026	2027	2028	2029
	Actuals	Actuals	Est.	Est.	4th review 2021 ECF		Projections					
Net foreign assets	4,614	4,876	5,018	5,139	6,318	8,437	9,550	10,097	11,301	13,450	15,233	17,358
Net foreign assets (BCM)	3,925	3,597	3,691	3,417	4,559	7,134	7,809	8,253	9,366	11,456	13,202	15,289
Net foreign assets (deposit money banks)	689	1,279	1,327	1,722	1,758	1,303	1,741	1,844	1,935	1,994	2,031	2,069
Net domestic assets	8,045	9,314	10,901	12,976	14,656	11,227	12,542	14,668	16,522	17,694	19,695	21,701
Domestic credit	9,125	10,685	12,411	15,122	16,300	14,106	15,921	18,047	20,100	21,272	23,273	25,279
Net credit to government	2,074	2,893	3,072	4,195	3,792	3,058	3,663	4,392	5,430	5,279	4,943	4,710
BCM ²	757	1,044	1,271	2,407	2,127	784	1,374	2,088	2,863	2,697	2,247	1,901
DMBs	1,256	1,565	1,567	1,380	1,224	1,816	1,821	1,821	2,071	2,071	2,171	2,271
Other credits	62	285	234	407	441	459	468	483	497	511	525	538
Credit to the economy	7,051	7,792	9,339	10,927	12,508	11,048	12,257	13,655	14,670	15,993	18,331	20,569
Credit to public enterprises	43	59	54	37	39	37	32	32	32	32	32	32
Credit to private sector	6,980	7,687	9,263	10,816	12,389	10,943	12,182	13,580	14,595	15,918	18,256	20,494
Other credits	28	46	22	73	80	68	43	43	43	43	43	43
Other items (net)	-1,080	-1,371	-1,510	-2,146	-1,644	-2,879	-3,374	-3,374	-3,574	-3,574	-3,574	-3,578
BCM	281	183	161	-130	454	-800	-1,002	-1,002	-1,002	-1,002	-1,002	-1,002
Other	-1,361	-1,554	-1,672	-2,016	-2,098	-2,078	-2,372	-2,372	-2,572	-2,572	-2,572	-2,577
Money and quasi-money (M3)	12,659	14,190	15,919	18,115	20,974	19,664	22,092	24,766	27,823	31,144	34,928	39,058
Foreign currency deposits	1,111	1,472	1,519	1,959	1,996	1,854	2,288	2,391	2,482	2,541	2,578	2,616
Broad money (M2)	11,476	12,632	14,318	16,043	18,852	17,678	19,678	22,248	25,215	28,477	32,224	36,316
Demand deposits in local currency	4,426	4,866	5,509	6,539	7,640	7,140	7,460	8,454	9,487	10,588	12,035	13,249
Quasi-money including time deposits	3,735	4,196	4,691	4,986	5,969	5,490	6,325	7,121	7,947	8,826	9,977	11,374
Reserve money	4,927	5,459	5,863	6,912	8,021	6,788	7,923	8,974	10,462	12,187	13,732	15,723
	(Percentage change relative to M2 at beginning of the year)											
Net domestic assets	11.1	11.1	12.6	14.5	10.5	-10.9	7.4	10.8	8.3	4.6	7.0	6.2
Domestic credit	11.3	13.6	13.7	18.9	7.3	-6.3	10.3	10.8	9.2	4.6	7.0	6.2
Net credit to government	-0.2	7.1	1.4	7.8	-2.5	-7.1	3.4	3.7	4.7	-0.6	-1.2	-0.7
BCM	-1.8	2.5	1.8	7.9	-1.7	-10.1	3.3	3.6	3.5	-0.7	-1.6	-1.1
DMBs	1.5	2.7	0.0	-1.3	-1.0	2.7	0.0	0.0	1.1	0.0	0.4	0.3
Other credits	0.1	1.9	-0.4	1.2	0.2	0.3	0.1	0.1	0.1	0.1	0.0	0.0
Credit to the economy	11.5	6.5	12.2	11.1	9.9	0.8	6.8	7.1	4.6	5.2	8.2	6.9
Credit to public enterprises	0.0	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	11.5	6.2	12.5	10.8	9.8	0.8	7.0	7.1	4.6	5.2	8.2	6.9
Other credits	0.0	0.2	-0.2	0.4	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Other items (net; asset = +)	-0.2	-2.5	-1.1	-4.4	3.1	-4.6	-2.8	0.0	-0.9	0.0	0.0	0.0
Broad money (M2)	8.9	10.1	13.3	12.0	17.5	10.2	11.3	13.1	13.3	12.9	13.2	12.7
Currency in circulation	-2.2	7.7	15.3	9.7	16.0	11.7	16.7	13.3	16.6	16.5	12.7	14.5
Demand deposits in local currency	20.0	9.9	13.2	18.7	16.8	9.2	4.5	13.3	12.2	11.6	13.7	10.1
Quasi-money in local currency	8.0	12.3	11.8	6.3	19.7	10.1	15.2	12.6	11.6	11.1	13.0	14.0
Credit to the private sector (in nominal terms)	21.1	10.1	20.5	16.8	14.5	1.2	11.3	11.5	7.5	9.1	14.7	12.3
Credit to the private sector (in real terms)	17.1	5.6	14.3	5.9	5.2	-6.3	3.5	4.0	0.4	2.4	8.5	6.3
<i>Memorandum items:</i>												
Credit to private sector (percent of GDP)	13.7	15.6	16.6	17.4	17.6	15.6	15.6	15.4	14.8	14.5	15.0	15.3
Money multiplier (M3/reserve money)	2.6	2.6	2.7	2.6	2.6	2.9	2.8	2.8	2.7	2.6	2.5	2.5
Velocity of money (GDP/end-of-period M3)	4.0	3.5	3.5	3.4	3.4	3.6	3.5	3.5	3.5	3.5	3.5	3.4

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 on lent by the central bank to the Treasury.

Table 7. Madagascar: Balance Sheet of the Central Bank¹
(Billions of Ariary, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024			
	Dec	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec
	Actuals	Actuals	Actuals	Actuals	Estimates	Estimates	Projections		
Net foreign assets	3,925	3,597	3,691	3,417	7,134	6,593	6,858	7,694	7,809
Gross foreign assets	5,977	7,370	9,024	9,508	12,098	11,212	11,804	12,655	13,292
Gross foreign liabilities	-2,052	-3,772	-5,333	-6,091	-4,965	-4,619	-4,946	-4,961	-5,483
Net domestic assets	1,002	1,862	2,172	3,495	-346	530	520	82	114
Credit to government (net)	757	1,044	1,271	2,407	784	1,244	1,580	1,342	1,374
Claims on central government	1,103	2,331	2,576	3,379	3,693	3,183	3,735	3,861	4,414
Statutory advances	85	0	0	287	344	49	285	385	385
Securitized debt (T-bonds and bills)	701	658	615 ¹	572 ¹	529	518	508	498	488
Discounted bills of exchange	8	0	0	0	0	0	0	0	0
On-lending of funds	308	1,671	1,960	2,519	2,614	2,614	2,941	2,976	3,539
Other credits	1	1	1	1	1	1	1	1	1
Government deposits	-347	-1,287	-1,305	-972	-2,909	-1,939	-2,155	-2,518	-3,039
Claims on other sectors	23	26	28	34	35	35	35	35	35
Claims on banks: Liquidity operations (+ = injection)	-58	609	711	1,185	-365	-293	-293	-293	-293
Other items (net; asset +)	281	183	161	-130	-800	-456	-802	-1,002	-1,002
Reserve money	4,927	5,459	5,863	6,912	6,788	7,128	7,382	7,781	7,928
Currency in circulation	3,315	3,570	4,117	4,518	5,048	4,939	5,487	5,783	5,892
Currency in banks	335	354	366	419	474	411	517	547	558
Resident deposits	51	66	76	87	90	91	91	91	91
	(Cumulative annual flows, unless otherwise stated)								
<i>Memorandum items:</i>									
Net foreign assets	-282	-328	94	-274	3,717	2,902	3,167	4,003	4,118
Reserve money	-225	532	403	1,050	-124	1,265	1,520	1,919	2,065
Exchange Rate (MDG/SDR, end of period)	5,016	5,509	5,538	5,938	6,135	...	...	...	...
Net foreign assets (Millions of SDRs, stock)	784	653	666	575	1,163	1,143	1,141	1,257	1,252

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

¹ End of period.

Table 8. Madagascar: Selected Financial Soundness Indicators¹
(Ratios, percent, unless otherwise indicated)

	2019	2020	2021	2022	2023	2023	2023	2023	2024
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar
Capital Adequacy									
Regulatory capital to risk-weighted assets	13.4	11.9	11.0	11.2	11.2	11.9	12.6	12.4	12.8
Regulatory Tier 1 capital to risk-weighted assets	11.6	11.9	11.0	10.4	10.4	11.1	11.6	11.4	11.8
Tier 1 to assets	6.8	6.9	6.7	6.3	6.4	6.8	7.1	7.1	7.1
Non-performing loans net of provisions to capital	22.0	32.6	42.0	36.4	36.7	33.4	24.0	24.3	26.7
Asset Quality									
Non-performing loans to total gross loans	7.3	8.5	9.1	8.0	8.2	7.9	7.0	7.6	7.9
Earnings and Profitability									
Return on assets	4.0	3.2	3.5	3.6	3.9	4.2	4.4	4.5	4.7
Return on equity	31.1	25.9	28.7	29.7	30.9	33.2	34.8	34.9	31.3
Interest margin to gross income	60.6	60.2	51.3	50.8	51.2	51.3	55.0	54.7	56.8
Non-interest expenses to gross income	54.2	56.0	58.4	57.4	54.8	54.1	52.3	53.0	55.5
Trading income to total income	5.7	6.5	8.3	8.7	7.8	7.7	7.4	7.6	7.7
Personnel expenses to non-interest expenses	32.9	31.9	26.1	25.6	26.2	26.5	26.4	25.6	25.0
Liquidity									
Liquid assets to total assets (liquid asset ratio)	34.9	35.5	33.7	29.8	29.2	29.6	29.6	31.7	32.3
Liquid assets to short-term liabilities	49.8	49.7	48.9	43.4	43.6	44.5	44.7	47.9	49.5
Customer deposits to total (non-interbank) loans	131.1	131.9	121.8	116.8	116.8	121.9	123.8	123.6	126.9
Sensitivity to Market Risk									
Net open position in foreign exchange to capital	53.8	7.5	7.8	7.9	10.2	10.7	14.0	9.1	11.1
Spread between reference lending and deposit rates (basis point)	1,065	1,025	934	966	923	944	1,022	1,037	1,074
Foreign currency-denominated loans to total loans	11.7	11.8	11.6	18.3	14.9	16.5	17.2	15.6	16.1
Foreign currency-denominated liabilities to total liabilities	14.9	15.9	14.9	17.6	16.6	16.6	16.7	15.5	16.2

Source: Malagasy authorities.

¹ Ratios only concern banking sector.

Table 9. Madagascar: External Financing Requirements and Sources, 2022–27
(Millions of U.S. Dollars)

	2022	2023	2024	2025	2026	2027
External financing needs	1,132	904	1,319	1,406	1,468	1,490
Current account deficit (excl. budget grants)	822	714	798	871	928	993
Net repayment of private sector and monetary authority debt	192	95	139	128	122	114
Repayment of government debt (excl. IMF)	106	131	146	196	243	223
Repayments to the IMF	21	50	58	87	139	144
Other (incl. unrepatriated export revenues) and errors/omissions	-7	-85	178	125	36	17
External financing sources	995	1,162	1,213	1,166	1,410	1,616
Foreign direct and portfolio investment	327	342	378	405	459	516
Project support	663	820	835	761	951	1,100
<i>Grants</i>	193	358	306	109	103	72
<i>Loans</i>	470	462	529	653	849	1028
Debt forgiveness	4	0	0	0	0	0
Financing gap before reserves accumulation	137	-258	106	239	58	-126
Net change in foreign assets (without RSF)	-39	495	156	24	115	250
External financing gap after reserve accumulation	98	237	263	263	173	124
Use of IMF credit - PRGT	98	65	97	98	98	49
Other exceptional financing	0	99	165	165	75	75
Budget support loans	0	99	165	165	75	75
Budget support grants	0	0	0	0	0	0
<i>Memorandum items:</i>						
Burden sharing - Share of IMF	100%	28%	37%	37%	57%	39%
RSF			54	136	109	27
Gross official reserves	2141	2631	2831	2996	3228	3511
Gross official reserves (without RSF)	2141	2631	2777	2806	2929	3184

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

Table 10. Madagascar: Decomposition of Public Debt and Debt Service by Creditor¹

	Debt Stock (end of period)			2023	Debt Service			2023	2024	2025
	2023				2024					
	(In US\$)	(Percent total debt)	(Percent GDP)		(In US\$)	(Percent GDP)				
Total	8,499,846,294	100.00	55.57	974,286,866	901,726,750	475,677,394	6.37	5.91	3.05	
External	5,457,522,579	64.21	35.68	199,828,964	212,935,309	231,029,546	1.31	1.40	1.48	
Multilateral creditors ²	4,290,082,396	50.47	28.05	135,971,773	156,083,577	174,119,603	0.89	1.02	1.12	
IMF	1,085,675,471	12.77	7.10	-	-	-	-	-	-	
World Bank	2,213,755,002	26.04	14.47	-	-	-	-	-	-	
ADB/AfDB/IADB	550,999,304	6.48	3.60	-	-	-	-	-	-	
Other Multilaterals	439,652,620	5.17	2.87	-	-	-	-	-	-	
o/w: Intern'l Fund for Agricultural Dev.	140,309,167	1.65	0.92	-	-	-	-	-	-	
European Investment Bank	121,227,388	1.43	0.79	-	-	-	-	-	-	
Bilateral Creditors	903,743,341	10.63	5.91	28,442,047	28,127,058	37,518,970	0.19	0.18	0.24	
Paris Club	363,823,510	4.28	2.38	-	-	-	0.00	0.00	0.00	
o/w: Agence Française de Développement	144,924,062	1.71	0.95	-	-	-	-	-	-	
Japan International Cooperation Agency	161,976,857	1.91	1.06	-	-	-	-	-	-	
Non-Paris Club	539,919,830	6.35	3.53	-	-	-	0.00	0.00	0.00	
o/w: Export-Import Bank of China	311,602,808	3.67	2.04	-	-	-	-	-	-	
Kuwait Fund	16,660,154	0.20	0.11	-	-	-	-	-	-	
Bonds	0	0	-	-	-	-	-	-	-	
Commercial creditors	79,809,716	0.94	0.52	35,415,144	28,724,673	19,390,973	0.23	0.19	0.12	
o/w: Deutsche Bank	67,193,514	0.79	0.44	-	-	-	-	-	-	
Consorz GIFIEX	18,980,390	0.22	0.12	-	-	-	-	-	-	
Other international creditors (SOE debt)	181,000,000	2	1.18	-	-	-	-	-	-	
Domestic	3,042,323,715	35.79	19.89	774,457,902	688,791,442	244,647,848	5.06	4.51	1.57	
Held by residents, total	3,042,323,715	35.79	19.89	774,457,902	688,791,442	244,647,848	5.06	4.51	1.57	
Held by non-residents, total	0	0	-	-	-	-	-	-	-	
T-Bills	126,578,333	1.49	0.83	253,098,010	108,491,514	-	1.65	0.71	0.00	
Bonds	860,154,226	10.12	5.62	262,806,502	481,161,770	230,567,475	1.72	3.15	1.48	
Loans	183,592,903	2.16	1.20	84,421,537	99,138,157	14,080,373	0.55	0.65	0.09	
Arrears	174,131,853	2.05	1.14	174,131,853	-	-	1.14	0.00	0.00	
SOE	1,697,866,400.43	19.98	11.10	-	-	-	-	-	-	
Memo items:										
Collateralized debt ³	0									
o/w: Related	0									
o/w: Unrelated	0									
Contingent liabilities	3,209,193.02									
o/w: Public guarantees	3,209,193.02									
o/w: Other explicit contingent liabilities ⁴	0									
Nominal GDP	15,789,874,739			15,789,874,739	17,218,104,496	18,151,672,464				

Sources: Country authorities; and IMF staff estimates.

¹ As reported by Country authorities according to their classification of creditors, including by official and commercial.

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-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 11. 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 2024		PV of new debt in 2024 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	1338	100	681	100
<i>Concessional debt, of which</i>	896	67	358	53
Multilateral debt	737	55	291	43
Bilateral debt	159	12	68	10
Other	0	0	0	0
<i>Non-concessional debt, of which</i>	442	33	322	47
Grant element between 0 and 35 percent	358	27	239	35
Commercial terms	83	6	83	12
By Creditor Type	1338	100	681	100
Multilateral	855	64	397	58
Bilateral - Paris Club	156	12	66	10
Bilateral - Non-Paris Club	327	24	218	32
Other	0	0	0	0
Uses of debt financing	1338	100	681	100
Infrastructure	0	0	0	0
Social Spending	0	0	0	0
Budget Financing	167	12	52	8
Other	1171	88	629	92

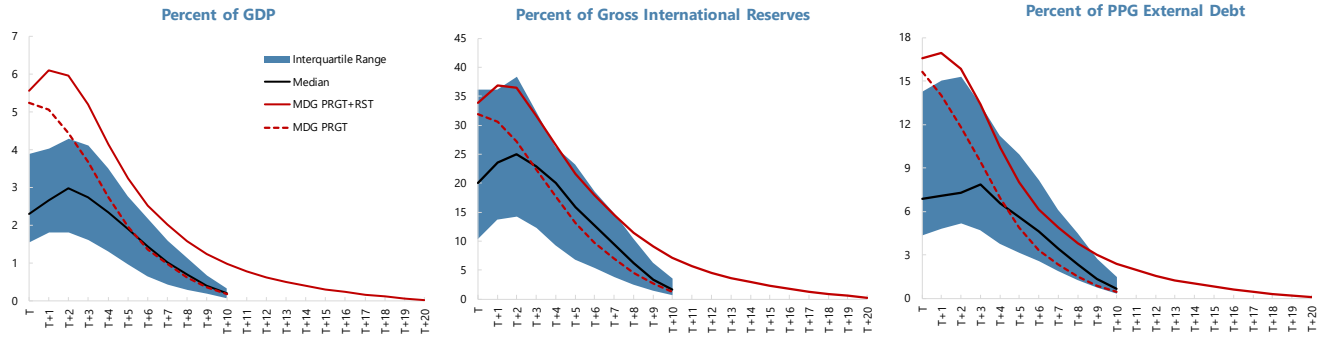
Sources: Malagasy authorities; and IMF staff projections.

Table 12. Madagascar: Proposed Schedule of Disbursements and Timing of Reviews Under the ECF and RSF Arrangements

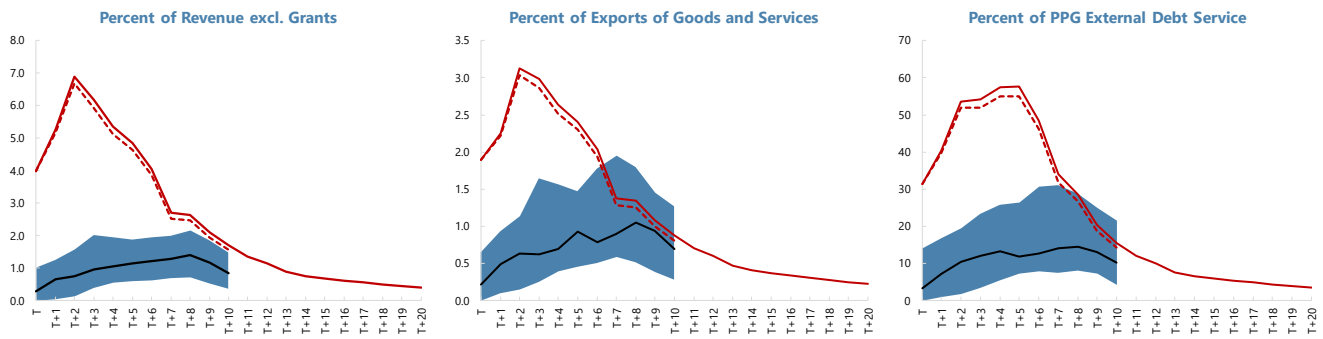
Availability Date	ECF Disbursement		Conditions for Disbursement
	(In percent of quota)	(In SDR millions)	
June 21, 2024	15.0	36.66	Board approval of the arrangement
November 30, 2024	15.0	36.66	Board completion of first review based on observance of performance criteria for end-June 2024
May 30, 2025	15.0	36.66	Board completion of second review based on observance of performance criteria for end-December 2024
November 30, 2025	15.0	36.66	Board completion of third review based on observance of performance criteria for end-June 2025
May 30, 2026	15.0	36.66	Board completion of fourth review based on observance of performance criteria for end-December 2025
November 30, 2026	15.0	36.66	Board completion of fifth review based on observance of performance criteria for end-June 2026
May 30, 2027	15.0	36.66	Board completion of sixth review based on observance of performance criteria for end-December 2026
Total	105.0	256.62	
<hr/>			
Availability Date	RSF Disbursement		Conditions for Disbursement
	(In percent of quota)	(In SDR millions)	
November 30, 2024	8.333	20.366	Implementation of reform measure 1
	8.333	20.366	Implementation of reform measure 2
May 30, 2025	8.333	20.366	Implementation of reform measure 6
	8.333	20.366	Implementation of reform measure 10
November 30, 2025	8.333	20.366	Implementation of reform measure 4
	8.333	20.366	Implementation of reform measure 5
	8.333	20.366	Implementation of reform measure 11
May 30, 2026	8.333	20.366	Implementation of reform measure 7
	8.333	20.366	Implementation of reform measure 9
November 30, 2026	8.333	20.366	Implementation of reform measure 3
	8.333	20.366	Implementation of reform measure 8
May 30, 2027	8.333	20.374	Implementation of reform measure 12
Total	100.0	244.40	
<hr/>			
<i>Memo item:</i>			
Quota		244.40	
<hr/>			
Source: IMF staff.			

Table 13. Madagascar: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries
Countries
 (In percent of the indicated variable)

A. Total Fund Credit Outstanding

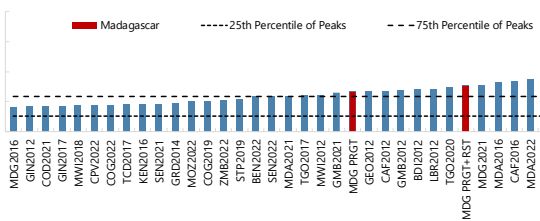


B. Total Debt Service to the Fund

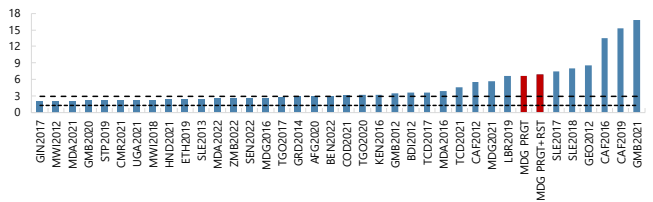


C. Largest Peaks

38 Largest Peaks for Fund Credit Outstanding (Percent of GDP)



38 Largest Peaks for Total Debt Service to the Fund (Percent of revenue excl. grants)



Notes:

- 1) T = date of arrangement approval. PPG = public and publicly guaranteed.
- 2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
- 3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
- 4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
- 5) Comparator series is for PRGT arrangements only and runs up to T+10.
- 6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
- 7) In the case of blenders, the red lines/bars refer to PRGT+GRA. In the case of RST, the red lines/bars refer to PRGT+GRA+RST.

Table 14. Madagascar: Indicators of Capacity to Repay the Fund

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
(Millions of SDRs)																					
Fund obligations based on existing credit																					
Principal	43.6	65.3	103.9	107.4	103.4	98.8	74.0	29.3	19.6	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	14.0	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9
Fund obligations based on existing and prospective credit																					
Principal	43.6	65.3	103.9	107.4	103.4	102.5	92.3	62.3	67.2	56.2	47.7	39.1	34.6	27.1	24.4	24.4	24.4	24.4	24.4	24.4	24.4
PRGT	43.6	65.3	103.9	107.4	103.4	102.5	92.3	62.3	67.2	56.2	47.7	33.0	18.3	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.1	16.3	23.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
Charges and interest	14.0	15.2	17.5	19.1	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.4	19.2	18.8	18.3	17.7	17.2	16.6	16.1	15.5	15.0
Total obligations based on existing and prospective credit																					
Millions of SDRs	57.6	80.5	121.4	126.5	122.8	121.9	111.8	81.7	86.6	75.6	67.1	58.5	53.9	45.9	42.7	42.2	41.6	41.1	40.5	40.0	39.4
Billions of Ariary	347	519	807	866	847	846	779	572	609	534	476	417	385	330	308	306	303	300	297	295	292
Percent of exports of goods and services	1.9	2.3	3.1	3.0	2.6	2.4	2.0	1.4	1.3	1.1	0.9	0.7	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.2
Percent of debt service	8.1	13.3	16.5	18.9	17.8	15.3	13.8	9.4	8.7	6.7	5.3	4.1	3.5	2.7	2.3	2.0	1.8	1.7	1.5	1.4	1.2
Percent of GDP	0.4	0.6	0.8	0.8	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Percent of government revenue	4.0	5.3	6.9	6.2	5.4	4.9	4.1	2.7	2.6	2.1	1.7	1.4	1.1	0.9	0.8	0.7	0.6	0.6	0.5	0.5	0.4
Percent of quota	23.6	32.9	49.7	51.8	50.2	49.9	45.7	33.4	35.5	30.9	27.4	23.9	22.0	18.8	17.5	17.3	17.0	16.8	16.6	16.4	16.1
Outstanding IMF credit based on existing and prospective drawings																					
Millions of SDRs	720.5	830.4	881.3	831.0	727.6	625.1	532.8	470.5	403.3	347.0	299.4	260.3	225.7	198.6	174.1	149.7	125.3	100.8	76.4	51.9	27.5
PRGT	679.8	687.8	657.3	586.6	483.2	380.7	288.4	226.1	158.9	102.6	55.0	22.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	40.7	142.6	224.0	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	238.3	222.0	198.6	174.1	149.7	125.3	100.8	76.4	51.9	27.5
Billions of Ariary	4,343	5,355	5,863	5,690	5,020	4,337	3,713	3,293	2,835	2,450	2,123	1,854	1,614	1,427	1,256	1,085	912	737	561	383	204
Percent of exports of goods and services	23.7	23.3	22.7	19.6	15.6	12.4	9.7	7.9	6.3	5.0	3.9	3.2	2.5	2.1	1.7	1.3	1.0	0.8	0.5	0.3	0.2
Percent of debt service	101.5	136.8	120.1	124.3	105.3	78.6	65.8	54.0	40.4	30.5	23.5	18.5	14.5	11.5	9.3	7.2	5.5	4.1	2.9	1.8	0.9
Percent of GDP	5.6	6.1	6.0	5.2	4.1	3.2	2.5	2.0	1.6	1.3	1.0	0.8	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.0
Percent of government revenue	49.8	54.2	50.0	40.5	31.8	24.9	19.4	15.6	12.3	9.6	7.6	6.0	4.8	3.9	3.1	2.4	1.9	1.4	0.9	0.6	0.3
Percent of quota	294.8	339.8	360.6	340.0	297.7	255.8	218.0	192.5	165.0	142.0	122.5	106.5	92.3	81.3	71.3	61.3	51.3	41.3	31.3	21.3	11.3
PRGT	278.2	281.4	268.9	240.0	197.7	155.8	118.0	92.5	65.0	42.0	22.5	9.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	16.7	58.3	91.7	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	97.5	90.8	81.3	71.3	61.3	51.3	41.3	31.3	21.3	11.3
Net use of IMF credit (millions of SDRs)																					
Disbursements	114.1	175.2	154.8	57.0	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	0.0	0.0	0.0	0.0
PRGT	73.3	73.3	73.3	36.7	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	0.0	0.0	0.0
RST	40.7	101.8	81.5	20.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	43.6	65.3	103.9	107.4	103.4	102.5	92.3	62.3	67.2	56.2	47.7	39.1	34.6	27.1	24.4	24.4	24.4	24.4	24.4	24.4	24.4
PRGT	43.6	65.3	103.9	107.4	103.4	102.5	92.3	62.3	67.2	56.2	47.7	33.0	18.3	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.1	16.3	23.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
Memorandum items:																					
(Billions of Ariary, unless otherwise indicated)																					
Exports of goods and services (millions of SDRs)	3,041	3,571	3,881	4,244	4,660	5,054	5,480	5,943	6,445	6,990	7,581	8,223	8,919	9,675	10,495	11,385	12,351	13,399	14,538	15,773	17,125
Debt service	4,278.9	3,913.0	4,882.1	4,576.5	4,767.9	5,519.8	5,640.9	6,094.8	7,007.8	8,021.1	9,020.3	10,045.5	11,131.0	12,362.0	13,569.1	15,028.5	16,452.4	18,136.4	19,365.6	21,274.4	23,393.7
Nominal GDP (at market prices)	78,106	87,911	98,285	109,460	121,502	133,864	147,247	161,987	178,183	195,998	215,595	237,151	260,863	286,946	315,637	347,198	381,914	420,101	462,107	508,313	560,159
Government revenue	8,713	9,885	11,730	14,037	15,794	17,433	19,152	21,050	23,125	25,402	27,904	30,655	33,677	36,994	40,638	44,640	49,032	53,860	59,161	64,983	71,462
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	244.4	244.4	244.4	244.4	244.4	244.4	244.4

Source: IMF staff projections.

Table 15. Madagascar: Timeline of the Proposed Reform Measures Under the RSF

	1 st ECF/RSF Review (November 2024)	2 nd ECF/RSF Review (May 2025)	3 rd ECF/RSF Review (November 2025)	4 th ECF/RSF Review (May 2026)	5 th ECF/RSF Review (November 2026)	6 th ECF/RSF Review (May 2027)	World Bank Synergic Operations Development Policy Operation Investment Project Financing
<p>Reform Area 1: Reinforce governance and mainstream the climate agenda into PFM/PIM processes.</p>	<p>RM1 (Climate governance). Adopt a decree clarifying the mandate of the Interministerial Committee for Environment (CIME) to cover all climate policies. This decree would provide notably for (i) chairmanship at the level of the Prime Minister (ii) meetings twice a year with publicly disclosed reports to monitor implementation (iii) a technical secretariat shared between MEDD and MEF.</p> <p>RM2 (PIM Framework). Adopt a new decree on environmental impact assessments (EIA) to replace the 2004 MECIE decree [Mise en compatibilité des investissements avec l'environnement] and adopt and publish criteria for prioritization and selection of investment projects, including climate change (adaptation, mitigation and resilience) related elements.</p>		<p>RM4 (Climate Budget Tagging) Adapt the budget classification to enable the tagging of climate-related adaptation and mitigation expenditures and append a first Climate Budget Statement (CBS) to the 2026 Executive Budget Proposal.</p>		<p>RM3 (PIM Implementation). Adopt a [decree] making it compulsory to produce every year a budget document listing the investment projects selected for the public investment program and explaining how the selection criteria have been applied, notably with respect to effective application of criteria related to climate adaptation and mitigation, and produce a first report in accordance with this obligation.</p>		<p>Madagascar Equitable and Resilient Growth Programmatic DPO (2023-2025): aims to mitigate Madagascar's climate risks through climate-smart and decentralized fiscal management. The DPO supports reforms to strengthen macro-resilience, including the adoption and enhancement of a decree to establish selection criteria - including climate change - for the prioritization of public investment projects.</p>
<p>Reform Area 2: Enhance adaptation to climate change and strengthen resilience against natural disasters.</p>		<p>RM6 (Disaster Risk Management). Approve the necessary implementation regulations to simplify PFM processes for disaster-related expenditures and operationalize the National Contingency Fund (FNC) while ensuring adequate transparency and reporting of expenditures for each selected type of hazard.</p>	<p>RM5 (Water Governance). Approve in Cabinet a bill to update the 1998 Water Code, with a view to integrating climate change in the overall water policy and reinforcing the overall policy framework for Integrated Water Resource Management (IWRM), including by strengthening the National Authority for Water and Sanitation's (ANDEA) institutional framework.</p>	<p>RM7 (Energy prices and subsidies). Fully eliminate all fuel price subsidies.</p>			<p>The Safety Nets and Resilience Project (P179466) supports climate change adaptation including agroforestry, landscape management, irrigation, and reforestation, as well as rapid safety net response to climate shocks.</p> <p>The Support to Resilient Livelihoods in Southern Madagascar Project (P171056) covers a range of resilience measures including resource and landscape management.</p> <p>The Madagascar National Water Project (P174477) is financing investments in water supply in major cities across the country and several cyclone-affected areas.</p> <p>The Regional Climate Resilience Project (P180171) will fund the remaining stages of the preliminary drafts study of the Mandrare Multipurpose Transformative Project.</p> <p>The Madagascar Ethanol Clean Cooking Climate Finance Program (P154440) aims to increase household use of ethanol cooking stoves for reduced GHG emissions in Madagascar.</p> <p>The Atiala-Atsinanana Emission Reductions Program Project (P167725) aims to make payments to the program entity for measured, reported and verified Emission Reductions (ER payments) related to reduced deforestation, forest degradation and the enhancement of forest carbon stocks (REDD+) at the national level in Madagascar, and distribution of ER payments in accordance with agreed Benefit Sharing Plan.</p> <p>The Madagascar - Least-Cost Electricity Access Development Project - LEAD (P163870) and the Digital and Energy Connectivity for Inclusion in Madagascar Project (P178701) are implementing grid-based renewable energy solutions.</p> <p>The Atiala-Atsinanana Emission Reductions Program Project (P167725) aims to make payments to the program entity for measured, reported and verified Emission Reductions (ER payments) related to reduced deforestation, forest degradation and the enhancement of forest carbon stocks (REDD+) at the national level in Madagascar, and distribution of ER payments in accordance with agreed Benefit Sharing Plan.</p> <p>Madagascar Ethanol Clean Cooking Climate Finance Program (2016-2025) provides technical assistance to establish the institutional and regulatory framework to enable Madagascar's readiness to implement Art. 6 of Paris Agreement</p> <p>The Atiala-Atsinanana Emission Reduction Program (AA-ERP, 2022-2025), aims to reduce deforestation and forest degradation in its area of intervention through carbon market mechanism. The AA-ERP supported the elaboration and adoption of the decree on forest carbon market regulation in Madagascar.</p>
<p>Reform Area 3: Support efforts to curb the growth of GHG emissions.</p>				<p>RM9 (Renewable energy production). Adopt the FNED (Fonds National de l'Energie Durable) decree and operationalize the FNED financing mechanism to support off-grid and mini-grid electrification with at least a total of 11.5 MW in newly installed renewable energy production capacity arising from operations supported by FNED.</p>	<p>RM8 (Fuel taxation). Gradually raise excise taxes and other levies on diesel fuel to align them to the level applicable to gasoline.</p>		
<p>Reform Area 4: Reinforce the protection of forests and biodiversity</p>		<p>RM10 (Carbon storage in forests). Adopt a new decree to improve the participation of the private sector and extend the scope of the REDD+ mechanism to reforestation schemes.</p>					
<p>Reform Area 5: Mobilize climate finance</p>			<p>RM11 (National Climate Finance Strategy). Adopt an inter-ministerial decree on a climate finance mobilization strategy that prioritizes key investment areas as stipulated in national framework documents, with a tentative budget, options for innovative blended financing mechanisms and a timeline.</p>			<p>RM12 (National Green Taxonomy). Adopt a decree on implementing a national green taxonomy to inform all green/climate investments.</p>	

Annex I. Performance Under the 2021 ECF Arrangement

This annex provides an assessment of Madagascar's performance under the 2021 ECF arrangement and draws lessons from the policy slippages and delays observed over the last three years.

- 1. Madagascar completed four reviews under the 2021 ECF arrangement with broadly satisfactory performance, albeit mixed in the latest reviews.** The arrangement was approved by the IMF Executive Board on March 29, 2021, for a duration of 40 months, with a total access of SDR 219.96 million (90 percent of quota). While the first review was delayed by 4 months, the authorities gradually caught up with the initial program schedule and the 4th review was successfully completed last June according to schedule. Cumulative disbursements reached SDR 171.08 million (70 percent of quota, about 78 percent of the total approved amount) and were fully used for budget support.
- 2. Macroeconomic performance under the program was affected by multiple exogenous shocks** (Figure A.I.1). Growth and inflation underperformed initial program projections in a context of lower global growth, a slow reopening of international air routes after the pandemic, rising commodity prices, and a series of climate shocks in January-March 2022 and 2023. While under-execution of public expenditures led to the domestic primary balance target being comfortably met in 2021, the program accommodated higher fiscal deficits in 2022-23. As a result of lower growth, a depreciated exchange rate, higher fiscal deficits, higher JIRAMA debt, and the decision of the government to mobilize the 2021 SDR allocation, total public debt is estimated to be higher than initially projected (around 55 percent of GDP in 2023). International reserves are very close to initial program targets and remain adequate although below the regional SADC target of 6 months import cover.
- 3. While satisfactory in the first two reviews, quantitative performance has been mixed in the latest reviews** (Table A.I.1). Continuous performance criteria have always been met throughout the program. A protracted dispute with oil distributors and recurrent tax revenue underperformance contributed to several breaches of the domestic primary balance quantitative performance criterion (QPC) and the revenue indicative targets (ITs) in 2022 and 2023. The QPC on the central bank's net foreign assets was breached twice in 2022, but the deviations were small and transitory in a context of a volatile foreign exchange market. The ceiling on net domestic assets was breached only once (IT) as the central bank (BFM) transitioned to a new interest-targeting operational monetary framework. After significant efforts to improve budget execution, the authorities increased social spending execution over time and the social spending IT was met for the first time in March 2023.

Table AI.1. Madagascar: Quantitative Performance Criteria and Indicative Targets
(March 2021 – June 2023)

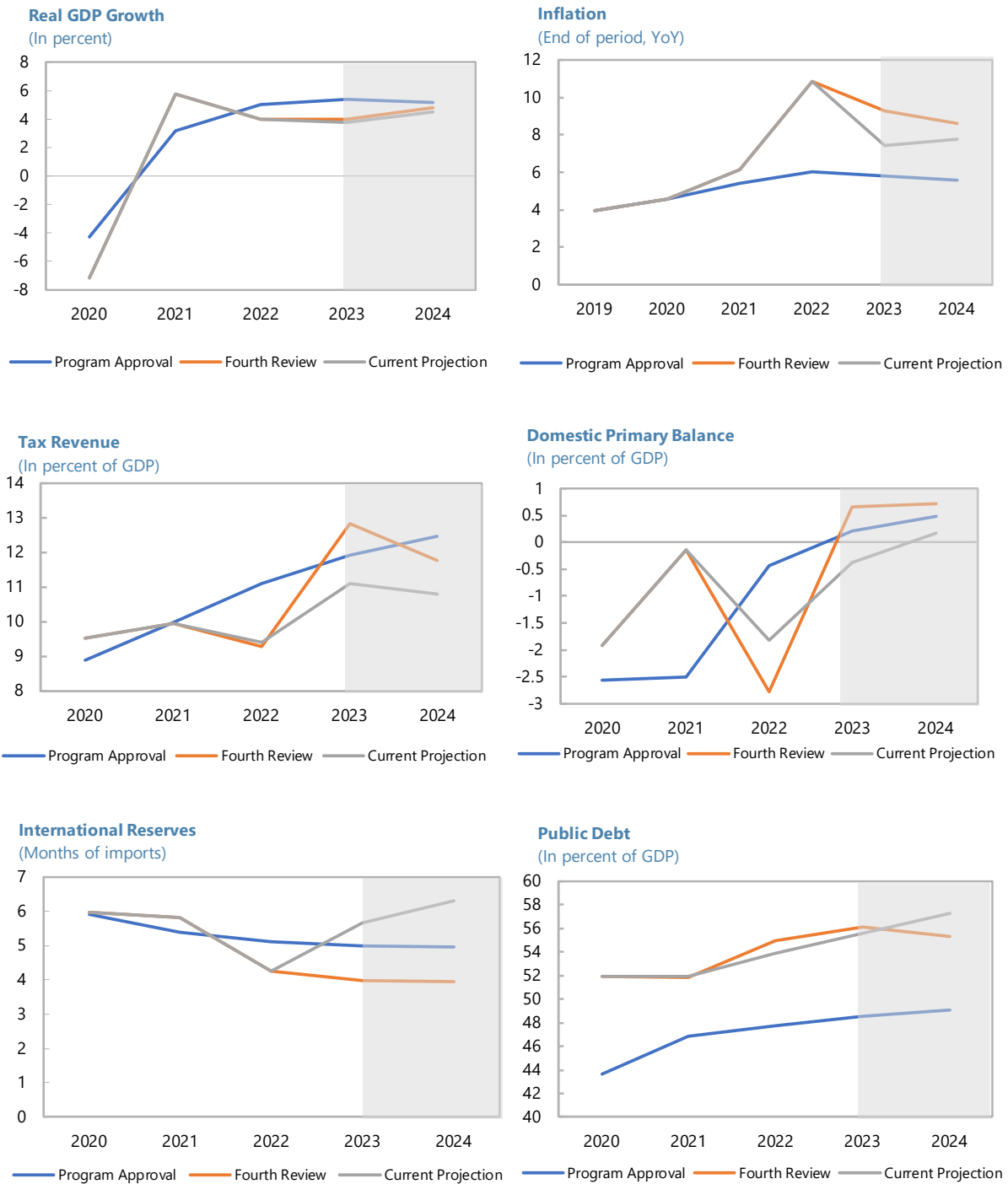
	First Review		Second Review		Third Review		Fourth Review		Fifth Review (canceled)	
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Continuous Performance Criteria										
Ceiling on accumulation of new external payment arrears	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Ceiling on new external debt contracted or guaranteed by the central government or BFM, in present value terms	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Performance Criteria										
	IT	PC	IT	PC	IT	PC	IT	PC	IT	PC
Floor on domestic primary balance	Green	Green	Green	Green	Green	Red	Green	Red	Green	Red
Ceiling on net domestic assets (NDA) of BFM	Green	Green	Green	Green	Green	Green	Green	Green	Yellow	Green
Floor on net foreign assets (NFA) of BFM	Red	Green	Green	Green	Red	Yellow	Green	Yellow	Green	Green
Indicative Targets										
Floor on gross domestic tax revenue	Green	Yellow	Yellow	Yellow	Red	Red	Yellow	Yellow	Red	Green
Floor on gross customs tax revenue	Green	Green	Green	Green	Red	Red	Red	Red	Red	Red
Floor on social spending	Red	Red	Red	Red	Red	Red	Red	Red	Green	Green
Note: Green = target/criterion met; Orange = missed by less than 10 percent; Red = missed by more than 10 percent.										

4. The structural reform agenda saw adequate progress, although much remains to be done (Figure A.I.2). The assessment of structural benchmarks (SBs) since program approval shows that 20 out of 26 distinct non-continuous SBs were implemented (77 percent), of which 9 were met with delays. The authorities also implemented 6 prior actions (PAs). 4 out of 6 continuous SBs have been met since June 2023. The pending and still unmet SBs mostly involve structural reforms in the energy sector which stalled during the electoral period.

5. Delays in meeting some SBs point to the need for strong ownership and more streamlined structural conditionality. While currently not on the World Bank list of Fragile and Conflict-Afflicted States (FCS), Madagascar shares many of the characteristics of FCS, including weak institutions, a very centralized power, and limited capacity.

- The centralized and concentrated power structure at the highest level of the executive branch requires regular engagement with both the President and the Prime Minister to ensure strong ownership of program reforms. This can be better done through in-person missions and through the Resident Representative. Of the 9 delayed SBs, 7 were set either at program approval or in the first review when missions were still fully virtual, with no opportunity to meet with the President or the Prime Minister (the Res Rep relocated to the country only during the first review mission). Similarly, of the 6 unmet SBs, 3 were set at the time of the first review.
- Madagascar's limited capacity calls for a more parsimonious use of SBs in line with the IMF engagement strategy with FCS. Staff's approach to break down big reforms in small steps has helped to make progress in the areas of budget execution (SB 5, 20, 21, 26 and PA 5) and energy sector reform (SB 10, 11, 12, 13, 14, 15, and 16, continuous SB 1, 2 and 3, PA 2 and 6), but also resulted in a couple of unmet benchmarks. Two unmet SBs (SB 3 and 4) were additional quantitative targets on revenue which did not address structural impediments to better revenue performance and should have been avoided.

Figure AI.1. Madagascar: Macroeconomic Performance under the ECF Program (2021–2024)



Source: IMF staff calculations.
 Note: Shaded areas are projections.

Figure AI.2. Madagascar: Structural Performance under the ECF Program (2021–2024)

	Measure	Date set	Due date(s)	Implementation status
Prior actions				
1	Adoption of a 2022 budget law in line with program objectives.	1st review	March 2022	Met
2	Communication to IMF staff of the results of the audit of the fuel pricing structure and of a timetable for the implementation of an automatic fuel price adjustment mechanism by 2024Q1.	1st review	March 2022	Met
3	Publication of the <i>Cour des Comptes</i> audit of the financial flows related to the fight against COVID-19.	1st review	March 2022	Met
4	Adopt a 2023 budget law in line with program objectives.	3rd review		Met
5	Remove the spending authorization requirement through which the President and the Prime Minister authorize any expenditure above MGA 200 million.	3rd review		Met
6	Adopt and publish the arrêtés setting the fuel price structure for the first and second semesters of 2023.	4th review		Met
Non-continuous structural benchmarks				
1	Improve the collection of outstanding tax arrears by recovering at least MGA 80 billion in tax arrears during the first half of 2021.	Approval	June 2021	Met
2	Increase the number of beneficiaries of cash transfer programs from 483,428 in December 2020 to 540,000 in September 2021.	Approval	September 2021	Met
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.	1st review	December 2021	Not met
4	Collect at least MGA 50 billion an additional customs revenue between January and June 2022 from improved customs controls, including controls of value.	1st review	June 2022	Not met
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.	2nd review	September 2022	Met
6	Finalize and submit to Parliament a new mining code in line with the recommendations of IMF's technical assistance and World Bank's advice	3rd review	June 2023	Met
7	Adopt a decree/ordinance/manual detailing the functionality of the social registry, the procedures for sharing registry information inside the administration and with external partners, and data protection and privacy measures that will apply to registry data	3rd review	October 2023	Met
8	Finalize information collection to integrate 60,000 households (about 300,000 individuals) in the social registry	3rd review	December 2023	Met
9	Operationalize and provision a system of 10 food banks	4th review	March 2024	Not met
10	Establish a new fuel price structure, following consultation with distributors, in order to reduce the gap between the prix de référence calculé and pump prices based on the results of the price structure audit.	1st review	March 2022	Met with delay
11	Implement tariff optimization for JIRAMA's business and industrial customers.	1st review	March 2022	Met with delay
12	Based, inter alia, on existing studies, formulate policies to mitigate the impact of the fuel price adjustment on vulnerable populations.	1st review	June 2022 Septembre 2023	Not met
13	Finalize and have the Council of Ministers approve JIRAMA's recovery plan.	2nd review	December 2022	Not met
14	Install prepaid electricity meters in all public administrations.	3rd review	December 2023	Met with delay
15	Publish JIRAMA's financial accounts for 2020, 2021, and 2022.	4th review	June 2023	Met

Figure AI.2. Madagascar: Structural Performance under the ECF Program (2021–2024)
(Concluded)

	Measure	Date set	Due date(s)	Implementation status
16	Implement an automatic fuel pricing mechanism.	4th review	March 2024	Not met
17	Adopt the decree implementing the law on recovery of illicit assets, including the creation of the asset recovery agency, with a dedicated budget allocation provided in the revised 2021 budget.	Approval	June 2021	Met with delay
18	Public release of an independent, third-party audit of contracts relating to COVID-19.	1st review	March 2022	Met with delay
19	Publish the implementation status of the Court of Audit's AUGURE recommendations, including recommendations on the payroll payment process.	Approval	November 2021	Met
20	Finalize and publish a public investment manual consistent with the recommendations of the DAT technical assistance, in particular to clarify institutional aspects.	Approval	December 2021 March 2023	Met with delay
21	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.	1st review	January 2022 January 2023	Met with delay
22	Publish the decree creating the coordination and orientation committee for AML/CFT under the 2018 AML/CFT law.	1st review	March 2022	Met with delay
23	Establish a budgetary mission for the Cour des Comptes in the 2023 budget law.	2nd review	December 2022	Met
24	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.	2nd review	March 2023	Met with delay
25	Change the legal or regulatory framework to allow the collection and publication of the UBO for public procurement contracts.	3rd review	June 2023	Met
26	Preparation of an annual expenditure commitment plan by 5 ministries based on their 2023 work plan and the budget approved by the legislature (Ministry of Agriculture, Public Works, Land Development, Ministry in charge of New Cities, and Ministry of Finance for its own budget), and commitment by the Ministry of Economy and Finance to release the appropriations indicated in that plan on the dates provided.	4th review	January 2024	Met
Continuous structural benchmarks				
1	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.	Approval	Continuous	Not met 1st, 2nd, 4th reviews/ Met 3rd review
2	Keep the government's liability to oil distributors below MGA 100 billion with no direct budget offset (SB changed in the 2nd review to a MGA 300-billion limit on gross liabilities)	Approval	Continuous	Met 1st review/ Not met 2nd review and 4th reviews
3	Provide IMF staff with monthly reports on JIRAMA's revenue and costs within 30 days after the end of each month, and publish the results of all calls for tender for fuel purchases within 30 days after acceptance of an offer.	4th review	Continuous	Not met
4	Publish the terms and conditions of all PPP contracts within one month from the date of signature on the ARMP website.	Approval	Continuous	Met
5	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.	Approval	Continuous, beginning first quarter 2021	Not met, met since 4th review

Annex II. Risk Assessment Matrix¹

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
External Risks			
Intensification of regional conflict. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	Medium. Madagascar could be affected through commodity price volatility leading to spending pressures, supply chain disruptions, higher inflation, and lower growth in trading partners limiting tourism flows and remittances.	Maintain exchange rate flexibility to cushion balance of payment stress while focusing monetary policy on containing inflation. Reduce non-priority spending and continue targeting a medium-term fiscal consolidation path. Tighten monetary policy to contain inflation. Implement policies to cope with commodity price shocks as described below.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops.	Medium	Medium. A global slowdown would spillover to Madagascar through trade and financial channels exacerbating fiscal and external imbalances.	Maintain exchange rate flexibility to preserve external buffers. Create fiscal space and identify additional sources of concessional financing. Accelerate broad-based reforms to boost competitiveness and diversify the economy to build resilience against external shocks.
Commodity price volatility. A succession of supply disruptions and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures, cross-border spillovers, and social and economic instability.	High	Medium. Lower external demand and commodity prices for metal and vanilla could reduce export revenues and mining production. Rising food and energy prices could lead to greater food insecurity and fuel inflation. Higher energy prices would also raise fuel and electricity costs and complicate the implementation of planned energy reforms.	Allow greater exchange rate flexibility to buffer external price shocks. Accelerate structural reforms to improve economic efficiency and enhance diversification. Support vulnerable households with additional targeted measures within the existing budget.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	Medium	High. Loss of real and human capital, disruptions in trade and lower growth. Extreme precipitation and drought could affect food production and availability. Damaged roads and bridges could further affect food distribution.	Provide effective support to vulnerable populations and appeal to donors for post-disaster financing. Enhance adaptation to climate change in the agricultural and water sectors and reinforce capabilities to respond to natural disasters by strengthening disaster risk management and preparedness.

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 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 at the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios 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.

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
Domestic Risks			
Social discontent and political instability. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies. This exacerbates imbalances, slows growth, and triggers market repricing.	Medium	High. Persistent governance issues, food insecurity, and the lack of progress on structural reforms could fuel popular discontent and trigger social unrest again ahead of the Parliamentary elections.	Maintain appropriate macroeconomic policies to safeguard stability. Improve inclusiveness of government policies by freeing fiscal space to strengthen social safety nets. Improve transparency and accountability in public spending and step-up anti-corruption and AML/CFT efforts.
Lack of progress on structural reforms, especially for SOEs.	High	High. Lack of progress on structural reforms (notably for JIRAMA) would continue putting pressure on public finances, compromise additional concessional support, and harm negotiations with fuel suppliers leading to continued accumulation of cross-arrears.	Undertake promised reforms and renew commitment to ensuring efficiency, sustainability, and good management of SOEs (e.g., JIRAMA) in a transparent and equitable manner.
Monetary policy miscalibration.	Low	Medium. A lack of clear nominal anchor and loosening of the policy stance prematurely could hinder disinflation and cause a rapid de-anchoring of inflation expectations.	The central bank should remain vigilant and tighten monetary policy as needed. Maintain exchange rate adjustment and strengthen independence of the central bank.
Slower pace of governance reforms.	Medium	Medium. Poor governance, increased corruption, state capture in key sectors, and lack of transparency and evenhandedness lower confidence, private investment (incl. PPPs) and growth, and reduces external financing.	Build consensus on reforms. Improve communication. Adhere to governance reforms. Invest in human capital and institutions. Step-up anti-corruption and AML/CFT efforts.

Annex III. External Sector Assessment

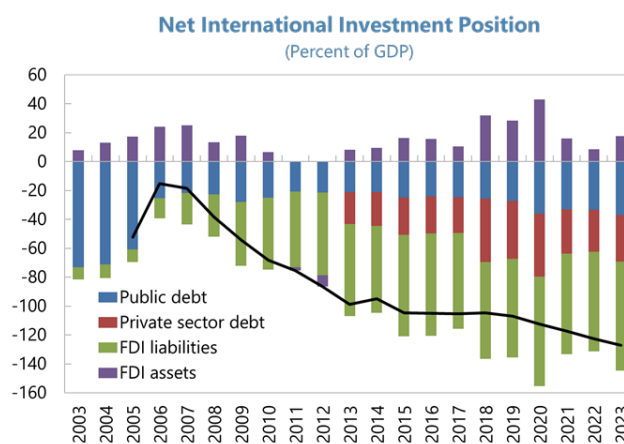
Overall Assessment: The external position of Madagascar in 2023 was broadly in line with the level implied by fundamentals and desirable policies. International reserves stand at an adequate level.

Potential Policy Responses: Foreign exchange interventions should be limited to smoothing volatility to cope with external shocks and building external buffers, without resisting underlying market forces. Existing surrender requirements on export proceeds should be gradually phased out while considering external vulnerability risks and progress made with reforms to foster necessary institutional and financial development. Any gold purchases implemented as part of the push to diversify reserve holdings should be implemented in line with Fund staff's advice¹. The reforms supported by the RSF will help increase Madagascar's resilience to climate shocks and maintain a "broadly in line" external position.

Foreign Assets and Liabilities: Position and Trajectory

Background. The Net International Investment Position (NIIP) remains negative, having decreased from -15 percent of GDP in 2006 to -127 percent of GDP at end-2023. This development includes a structural break in the series in 2018 (when estimates of private sector assets and liabilities were revised up, following a survey by the statistical institute INSTAT). 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. Almost all external public debt at end-2023 was held by official creditors and is concessional in nature. Private external debts are mostly (around 80 percent) accounted for by mining companies.

Assessment. The negative NIIP is not thought to represent a critical vulnerability to external sustainability. Public external liabilities are almost entirely 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.



2023 (% GDP)	NIIP: -127	Gross Assets: 14	Debt Assets: 0	Gross Liab.: 142	Debt Liab.: 67
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¹ While a first operational strategy was approved by its board, the central bank has not resumed its gold purchases.

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 -4.5 percent in 2023. For 2024, Madagascar gets to benefit from a recovery of tourism inflows and is expected to resume gold export in 2024Q2. However, its vanilla and nickel exports are projected to remain depressed in the short run². Imports are also expected to stay low for energy, equipment, and raw materials based on Q1 performance. Altogether, the current account balance is expected to slightly deteriorate to -4.6 percent of GDP in 2024, a deficit that is expected to persist in the medium-term.

Madagascar: EBA-lite Model Results, 2023		
	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	-4.5	
Cyclical contributions (from model) (-)	0.2	
Additional temporary/statistical factors (-) 2/	-1.2	
Natural disasters and conflicts (-)	2.0	
Adjusted CA	-5.5	
	0.0	
CA Norm (from model) 3/	-4.6	
Adjustments to the norm (-)		
Adjusted CA Norm	-4.6	
CA Gap	-0.9	-0.1
o/w Relative policy gap	3.5	
Elasticity	-0.2	
REER Gap (in percent)	4.0	0.4
1/ Based on the EBA-lite 3.0 methodology		
2/ Additional adjustment to account for the scarring effect of the pandemic on tourism (3.6 percent of GDP in 2023 versus 5.3 percent of GDP in 2019) and for damage from cyclone-induced flood in the north-east and drought in the south.		
3/ Cyclically adjusted, including multilateral consistency adjustments.		

Assessment. The Current Account (CA) model suggests a current account gap of -0.9 percent of GDP for 2023, implying that Madagascar’s external position is broadly in line with the level implied by fundamentals and desirable policies. This assessment incorporates an adjustor to account for the scarring effect of the pandemic on tourism (2023 tourist arrivals were still 10.6 percent below pre-pandemic levels) and an adjustor for damage from cyclone-induced flood in the north-east and drought in the south. The policy gap remains positive (3.5 percent of GDP), significantly higher than in the 2022 ESA (0.8 percent).

² There was overproduction of nickel in Indonesia in 2023. The excess supply combined with saturation of demand for electric cars led to a temporary drop in nickel prices in 2023. The authorities expect this to be corrected in 2024. As to vanilla, prices are expected to rise as around 50 percent of vanilla plantations were destroyed due to flooding induced by cyclone Gamane, although the global price cycle would limit the recovery.

Real Exchange Rate

Background. Madagascar's Real Effective Exchange Rate (REER) remained stable over 2023, a marked change with the 2017-2021 period that saw a depreciation of the REER. In nominal terms, the Ariary depreciated by 8 percent in 2023 relative to the US dollar. As of end-March 2024, the REER appreciated by 0.54 percent compared to the 2023 average. This appreciation is expected to be temporary.

Assessment. Based on the CA model, the estimated REER gap was 4.0 percent end-2023, while the REER model suggests a REER gap of 0.4 percent. The first method point towards a slight overvaluation of the real effective exchange rate.

Capital and Financial Accounts: Flows and Policy Measures

Background. Capital grants totaled some 2.3 percent of GDP in 2023. The jump from 2022 is expected to be temporary as further development of the local economy and changes in IDA project loan terms should decrease the supply of grant financing. Net FDI inflows have been subdued since the pandemic, equaling 2.2 percent of GDP over 2023 (versus a pre-pandemic average over 2016-2019 of just under 3.2 percent). Going forward, FDI inflows are expected to increase to a new steady state value just over 2.4 percent of GDP. While the adoption of a new FX law remains pending, BFM is working to increase the liquidity and depth of the foreign exchange market. The success of these efforts would allow a gradual loosening of 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.

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 an abrupt global slowdown.

FX Intervention and Reserves Level

Background. Madagascar has a *de jure* floating exchange rate regime but intervenes to smooth volatility while gradually building reserves. End-2023, FX reserves stood at SDR 1,972 million (16.7 percent of GDP) or 5.8 months of next year's imports, up from the end-2022 stock of reserves (SDR 1,601 million) and more so from their 2020 level of SDR 1,338 million. FX interventions in 2023 increased by 110 percent compared to 2022 and FX purchases outweighed FX sales (SDR 275.7 million and SDR 47.2 million respectively)³.

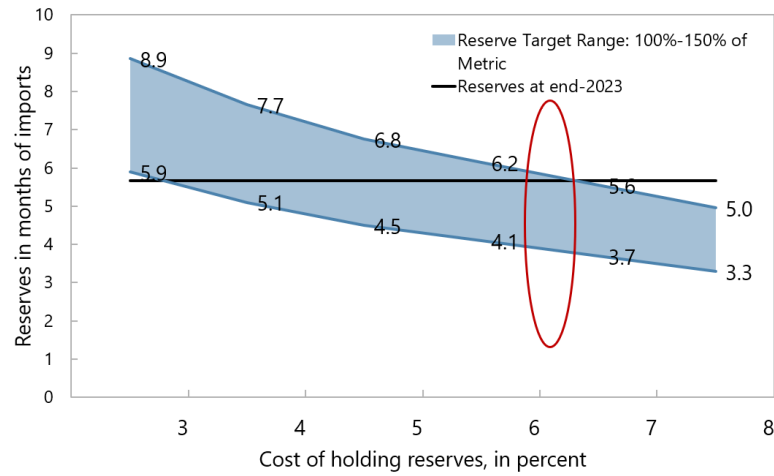
Assessment. International reserves are assessed as adequate. Reserve coverage has gone up since 2020, from 4.8 months of next year's imports to 5.8 months of next year's imports in 2023. The projected level of reserves coverage remains above the traditional three-month rule and slightly below the upper bound of 6 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 6.2 percent; see Figure), as declines in imports imply higher coverage. Finally, Madagascar remains highly vulnerable to additional

³ The comparison is based on gross FX interventions (both sales and purchases). FX interventions (FXIs) are in line with the recommended strategy to build up reserves at a level closer to southern African Development Community 6-month target. Net FXIs in 2023 amounted to 1.93 percent of GDP.

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 IV. Towards a Stronger Fiscal Framework

1. This annex describes how to calibrate a medium-term debt anchor that would preserve Madagascar’s debt servicing capacity. It also proposes measures to strengthen public financial management (PFM) institutions supportive of the overall fiscal framework. The debt anchor can be used to derive a primary balance target and estimate fiscal adjustment needs. Details on the methodology used are provided in a 2023 paper by the IMF African Department, and in a 2018 Staff Discussion Note by the IMF Fiscal Affairs Department.¹

A. Fiscal Anchor to Preserve Debt-Servicing Capacity

2. Based on the methodology defined in the 2023 and 2018 papers mentioned above, the estimation of a medium-term debt anchor is done in three steps:

- **Calibration of a debt limit** above which fiscal sustainability is jeopardized and the primary surpluses needed to offset debt dynamics cannot be sustained. While the literature does not offer an exact point estimate, typical limits for developing countries range between 30 and 70 percent of GDP and depend on country-specific factors such as the quality of institutions and access to concessional financing. Calculations using an effective interest rate of 1.6 percent (average over 2019-2023), a debt maturity of 22 years, and conservative thresholds for the interest spending-to-revenue and debt service-to-revenue ratios (16 and 45 percent respectively), suggest a debt limit for Madagascar between 85 and 115 percent of GDP.
- **Definition of a safety buffer** below the debt ceiling to ensure that the debt limit is not exceeded in the face of shocks. The size of the buffer depends on country-specific exposure to macroeconomic and fiscal shocks (e.g., shocks to exchange rate, economic growth, contingent liabilities, etc.) with empirical estimates ranging from 10 to 30 percent of GDP.² A sufficiently large buffer increases the government’s ability to pursue countercyclical fiscal policies and seems justified for a country highly vulnerable to natural disasters such as Madagascar.
- **Calculation of the debt anchor** as the difference between the debt limit and the safety buffer. The median debt anchor for SSA countries is estimated around 55 percent of GDP. In the case of Madagascar, applying a 30 percent buffer to the above calibrated limits yields a debt anchor of 55 to 85 percent of GDP.³ A debt anchor of 60 percent of GDP would provide

¹ David and others, 2023, “Navigating Fiscal Challenges in Sub-Saharan Africa: Resilient Strategies and Credible Anchors in Turbulent Waters”, IMF Departmental Paper 2023/007; Eyraud and others, 2018, “Second-Generation Fiscal Rules: Balancing Simplicity, Flexibility and Enforceability”, IMF Staff Discussion Note 2018/004.

² For an estimation of buffers for low-income countries derived from a risk-based approach, see notably Caselli and others, 2022, “The Return to Fiscal Rules”, IMF Staff Discussion Note 2022/002; Eyraud and others, 2018, “Second-Generation Fiscal Rules: Balancing Simplicity, Flexibility and Enforceability”, IMF Staff Discussion Note 2018/004; and Baum and others, 2017, “Can They Do It All? Fiscal Space in Low-Income Countries” IMF Working Paper 17/110.

³ A lower buffer could be applied to the debt limit computed from the debt-service-to-revenue ratio, given the limited risk that the government would not be able to rollover domestic debt (about 35 percent of total public debt).

enough room for further borrowing at concessional terms to finance development projects while being consistent with the DSA rating of moderate risk of debt distress with some space to accommodate shocks.⁴

3. One can then compute the target primary balance that would stabilize debt at this level at a given horizon in the absence of shocks. Finally, the **primary gap**, defined as the difference between the target primary balance and the current cyclically adjusted primary balance determines the adjustment needs.

B. A Stronger Institutional Fiscal Framework to Support the Debt Anchor

4. An institutional framework with clear and transparent PFM processes is key for the conduct of fiscal policy. While numerical rules (e.g., debt anchor and target primary balance) are useful to ensure fiscal sustainability, their effectiveness is greatly undermined if they are not underpinned by a strong institutional framework and adequate PFM institutions and processes.

5. A functioning *medium-term fiscal framework (MTFF)* is necessary to support the medium-term orientation of fiscal policy and anchor annual budget preparation. A MTFF can be defined as a set of institutional arrangements for prioritizing, presenting, reporting, and managing fiscal aggregates (revenue, expenditure, fiscal balance, and public debt), generally over a three-to-five-year period. While Madagascar is equipped with a MTFF presented each year alongside the annual budget and covering a three-year time horizon, this MTFF remains a largely formal exercise and does not really inform annual budget preparation. Medium-term fiscal projections need to be based on more realistic macroeconomic forecasts to serve as a credible and predictable forward guidance tool. A credible MTFF informing budget choices made in the annual budget preparation will help restore the credibility of the annual budget, currently undermined by overly optimistic growth projections, overestimated tax revenue projections, over-execution of spending in the energy sector, and under-execution of investment spending (which becomes a residual given available financing).⁵ Strong macro-fiscal forecasting capacity, the ability to monitor multi-year commitments, and the prioritization and adequate costing of investment projects are all requirements for a credible MTFF. Recent and ongoing CD delivered by IMF and the World Bank on public investment may support progress in this field.

6. Adequate *fiscal risk management* can bolster credibility of the MTFF in the face of shocks and unexpected events. Madagascar's recent experience with the COVID-19 pandemic, rising fuel prices, and multiple climate shocks highlights the importance of building fiscal buffers to flexibly respond to unexpected shocks. While the annual budget law includes an annex on debt sustainability and a fiscal risk statement, FAD technical assistance recommended establishing a dedicated risk analysis and management unit, improving fiscal risk analysis and disclosure, and

⁴ The median debt-to-GDP level in existing fiscal rules in sub-Saharan African countries is 70 percent of GDP.

⁵ See IMF Country Report No. 23/117, Box 3. Strengthening Budget Credibility.

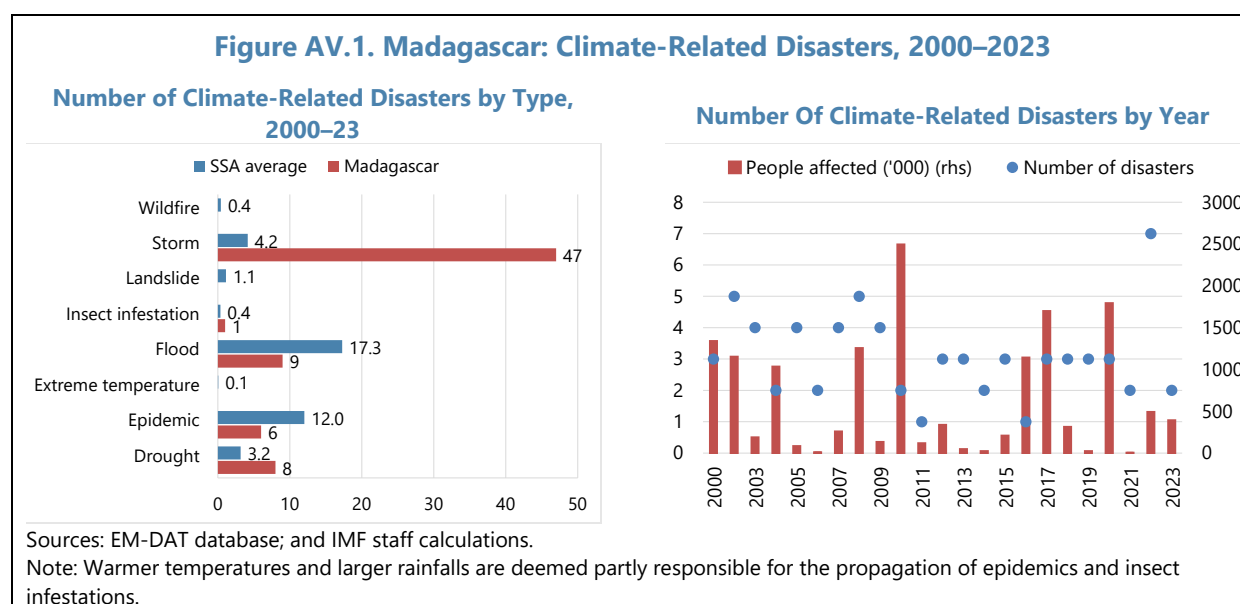
incorporating the results into the budgetary process and the MTF (e.g., by identifying specific mitigation measures and adequately calibrating contingency reserves).

7. In the case of Madagascar, streamlining the *expenditure chain* would also significantly contribute to a stronger fiscal framework. The current situation is characterized by bottlenecks that hamper execution and undermine the credibility of budget figures, leading to very strong variability between the initial budget and the actual execution both in terms of aggregate numbers and composition of spending. Pervasive ex-ante controls lead to a concentration of spending at the end of the year (most notably for investment spending), thereby increasing fraud potential, complicating cash management, and leading to arrears accumulation. The recent removal of the spending commitment authorization requirement (by the President and Prime Minister) in 2023 was a step in the right direction, but there is a need to further fluidify spending execution, better structure actors in the expenditure chain, and further rationalize ex-ante spending controls, building on the recommendations of the 2023 audit of the expenditure chain conducted with IMF CD.

Annex V. Combatting Climate Change

A. Madagascar and Climate Change

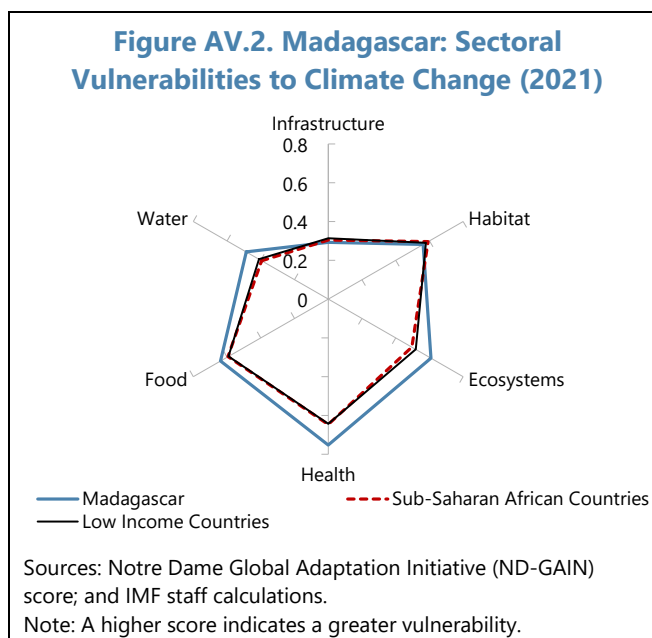
- 1. Madagascar is one of the most vulnerable countries to climate change and climate hazards worldwide.** Specifically, it ranks as the 21st most vulnerable out of 185 countries according to the 2021 ND-GAIN vulnerability score, with acute vulnerabilities notably in terms of agricultural capacity.¹
- 2. Madagascar is already prone to climate-related disasters due to its geographical location and topography.** Madagascar is hit on average by three climate-related disasters every year, affecting close to 6 percent of the population. Based on fatalities and losses arising from extreme weather events over 2000-2019, Madagascar was ranked 12th most impacted country out of 180 countries according to the 2021 Climate Risk Index (CRI).²
- 3. Given the size of the island and its geography, the exposure to climate hazards is subject to significant regional variation.** Droughts are more frequent in the south-west, whereas cyclones predominate in the east and parts of the north, and floods in the east and central regions (IMF CMAP, 2022). Storms, including cyclones, are by far the most frequent disasters and have affected Madagascar ten times more than the average sub-Saharan African (SSA) country since 2000 (Figure AV.1).



¹ See <https://gain-new.crc.nd.edu/country/madagascar#vulnerability>.

² The Global Climate Risk Index (CRI) developed by Germanwatch analyses quantified impacts of extreme weather events both in terms of fatalities as well as economic losses that occurred. The countries ranking highest are the ones most impacted.

4. Climate conditions are expected to deteriorate, with more frequent and intense extreme events. Table AV.1 outlines the climate hazard profile for Madagascar based on ongoing and forecast climate developments. *Average temperatures* have been steadily increasing in the past twenty years and this trend is expected to continue in the future. Winter and spring *rainfalls* have been decreasing with longer dry spells in some regions. *Cyclones* are expected to increase in intensity. Anecdotally, Madagascar was hit by a record number of 6 storms in 2022. More intense cyclones and concentrated rainfalls would increase the risk of *floods* and landslides in affected regions.



5. Sectoral vulnerabilities are generally higher than in other SSA countries, with specific vulnerabilities linked to the Water-Energy-Food nexus. This is clearly shown by Figure AV.2. More specifically, areas of vulnerability are as follows:

- Water.** Growing irrigation needs and the salinization of groundwater in coastal areas resulting from the increase in sea levels threaten access to drinking water. This may threaten progress towards better access to basic drinking water services – currently at a level of 53 percent of the population, significantly lower than the average of 65 percent in SSA (Source: World Bank, upcoming CCDR). Prolonged droughts affect agriculture but may also constrain the hydropower generation capacity, which currently represents 40 percent of Madagascar’s energy mix and is expected to increase significantly. Even with good site selection, the increase in dry spells linked to climate change may lead to a greater variability of hydropower production.
- Food.** The rise in temperatures and change in rainfall patterns reduce agricultural yields, increasing the need for irrigation against a backdrop of scarcer water resources and raising the risk of food insecurity. The primary sector (including fisheries) represents 22 percent of Madagascar’s GDP and food exports are about 40 percent of merchandise exports (versus about 15 percent on average in SSA). The primary sector also accounts for 74 percent of employment. Hence, the potential effects of climate change are very large.
- Ecosystems.** Damage to ecosystems harms tourism which is mostly driven by Madagascar’s unique biodiversity and landscapes and accounts for 17 percent of exports in 2019. Cyclones and resulting floods and landslides have a devastating impact on ecosystems and natural capital, but also damage infrastructure and destroy people’s habitat.

Table AV.1. Madagascar: Climate Hazard Profile

Climate Condition and Hazardous Events	Hazard Profile
Temperature and heatwave	<ul style="list-style-type: none"> Compared to the 30-year average (1960-1990), the average temperature between 1991-2020 increased by 0.53°C. The number of hot days (daily maximum temperature higher than 35°C) and tropical nights (overnight minimum temperature higher than 20°C) has been steadily increasing since 1961. By mid-century, mean annual temperature increase likely to be between 0.87°C and 1.67°C in an RCP 4.5 climate change scenario The duration of warm spells¹ is projected to increase by 70 days a year (median value) in an RCP 4.5 climate change scenario.
Precipitation and drought	<ul style="list-style-type: none"> The precipitation pattern has seen regional and seasonable variability since 1961. The annual rainfall has been steadily declining in the central and east coastal regions between 1961 and 2005. Reduction of winter and spring rainfall is seen in most parts of the country. The rainfall decline in the central and east coastal regions has been accompanied by an increased length of dry spells. By mid-century, the annual precipitation is not expected to decline much but in some already drought-prone areas, the maximum number of consecutive dry days is expected to rise significantly even under the RCP 4.5 climate change scenario. Recent observation: The 2021/2022 drought affected much of the country, with 70 percent less than normal rainfall in the south.
Flooding	<ul style="list-style-type: none"> By mid-century, in an RCP 4.5 climate scenario Madagascar is going to have higher intensity of single-day rainfall, compared to the 1961-2015 baseline, causing higher chance of hydrological flooding. Land degradation interacts with the elevated flood hazard, likely to cause more devastating impacts. Recent observation: The flood in January 2022, caused by intense rainfall has caused landslides, destruction of infrastructure and loss of life, affecting Antananarivo and other areas of Analamanga Region.
Cyclone	<ul style="list-style-type: none"> The projected frequency of cyclones is subject to uncertainty, but the intensity is likely to increase. Recent observation: Major tropical cyclones have hit Madagascar about once every three years since 1998. In early 2022, however, four cyclones have hit Madagascar, two of which are category 3-4 events.
<p>Source: IMF Country Report 22/342, Climate Macroeconomic Assessment Program, November 2022.</p>	
<p>¹ The warm spell duration index counts the number of days with at least 6 consecutive days when the daily maximum temperature exceeds the 90th percentile in the calendar 5-day window for the base period 1979–2009.</p>	

6. Deforestation is a major threat to Madagascar's natural capital and has negative consequences in terms of water resources, agriculture, and resilience to natural disasters.

Forest coverage has declined from 29 percent to 21 percent between 2000 and 2020 (source: World Bank, upcoming CCDR). Key drivers of deforestation include land clearing for subsistence agriculture ("slash and burn") or cash crops, firewood and charcoal use, logging, or artisanal mining. Shortfalls in forest governance, attested by the importance of illicit trade in precious woods, are also a

significant factor³. Deforestation results in high erosion rates, increased flood risks and reduced water yield for agricultural or household usage. As natural and productive ecosystems declined, Madagascar's renewable natural capital per capita dropped by 31 percent between 1995 and 2018 (Source: upcoming CCDR).

7. Climate change in Madagascar is likely to affect women, poor and rural dwellers disproportionately. Regarding gender equality, Madagascar ranks 143 out of 170 countries in the 2021 edition of UNDP's Gender Inequality Index. Gender disparities notably limit women farmers' access to productive assets (e.g., land, equipment) and services (e.g., finance)⁴. This has an impact on their ability to develop resilience against climate change. Children in Madagascar are also the 10th most exposed to climate risks in the world⁵. This is likely to reinforce the impact of poverty and deprivation, with already a 42 percent stunting rate among children under age 5 – with a negative impact on productivity of Malagasy children when they grow up compared to their full potential, aggravated by the negative fallout of climate shocks on school dropout rates⁶. These fragilities are compounded by the poor state of the road network, with half of rural households living more than 10 km away from a basic health center, and a quarter of households nationwide disconnected from the road network. Conversely, only 11 percent of the population has access to a good road (i.e., passable in all seasons) in rural Madagascar.

8. Madagascar's southern "Grand Sud" region is particularly vulnerable, with droughts having major consequences in terms of food insecurity and social exclusion. As of January 2024, the World Food Programme said 334,000 inhabitants in the "Grand Sud" faced emergency levels of food insecurity, as the region faces its worst drought in 40 years. Moreover, droughts in the Grand Sud are associated with a high incidence of gender-based violence and school dropouts, attesting to the close links between climate change and social exclusion.

9. While carbon emissions per capita remain very low compared to other SSA countries, CO2 emissions have significantly increased in the last decade. Average greenhouse gas (GHG) emissions per capita in Madagascar are less than half those in SSA and low-income countries (LICs). However, annual emissions have increased by about 40 percent since 2011, driven by population growth but also by an increase in carbon intensity (Figure AV.3). The increase of fossil fuels in electricity generation and the persistence of wood and charcoal cooking are major factors in this increase of emissions.

³ See notably Waeber *et alii*, 2019, "Uplisting of Malagasy precious woods critical for their survival," *Biological Conservation*.

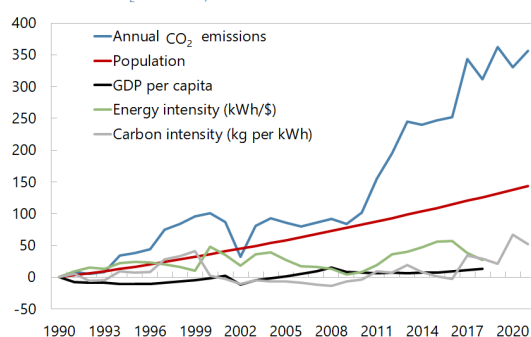
⁴ World Bank, upcoming CCDR.

⁵ See UNICEF (2021): <https://www.unicef.org/media/105376/file/UNICEF-climate-crisis-child-rights-crisis.pdf>.

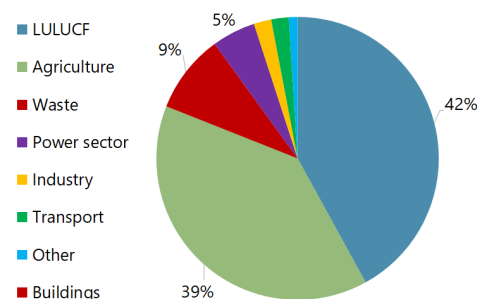
⁶ See Marchetta, 2019, "The Role of Weather on Schooling and Work of Young Adults in Madagascar." *American Journal of Agricultural Economics*, Wiley Online Library.

Figure AV.3. Madagascar: Drivers of CO₂ Emissions

(Percentage change of the four parameters of the Kaya identity, which determine total CO₂ emissions)



Sources: Our World in Data; World Bank; and IMF staff calculations.

Figure AV.4. Madagascar: Composition of GHG Emissions (2020)

Source: 2022 CMAP, on the basis of the Carbon Pricing Assessment Tool (CPAT)

10. The composition of GHG emissions remains largely skewed towards land use, land use change and forestry (LULUCF) as well as agriculture. Taken together, these two sectors represent more than 80 percent of GHG emissions in 2020 (See Figure AV.4). This highlights the need for action on deforestation and climate-smart agricultural practices.

11. The potential for clean electricity remains underexploited. While Madagascar has the third-largest hydropower potential in Africa, it currently taps into less than 1 percent of this vast potential, whose size provides a hedge against climate-induced changes in rain or weather patterns. Delays in launching new large-scale hydropower plants, partly explained by the poor financial health of the State-owned utility JIRAMA, have resulted in an increased need for fossil fuels for electricity generation⁷. Increasing the electricity access rate (currently at 33 percent of households) would also require a wider recourse to off-grid or small-grid developments (based on small hydropower plants or solar energy – with Madagascar also a prime location for developing solar power).

12. Mitigation actions would also bring significant co-benefits in terms of reduction of air pollution. Madagascar's households rely overwhelmingly (more than 97 percent in 2020, according to the 2022 updated NDC) on firewood and charcoal for their cookstoves. Transitioning to clean cooking would not only produce sizeable emission reductions, but would also reduce air pollution, thereby saving an estimated 12,000 lives annually by 2030 (source: World Bank, 2011). Benefits in terms of gender impact would also accrue as women are most exposed to indoor air pollution linked to cooking activities.

13. An overview of climate challenges in Madagascar was provided by the 2022 Climate Macroeconomic Assessment Program (CMAP) undertaken by IMF technical assistance. The main findings from the CMAP are summarized in Box AV.1.

⁷ The new General State Policy announced in January 2024 provides for the two large hydropower projects in Sahofika and Volobe to enter construction phase in 2024.

Box AV.1. Takeaways from the 2022 Madagascar CMAP

A team from the IMF's Fiscal Affairs, African and Research Departments conducted in March-April 2022 a hybrid mission for a Climate Macroeconomic Assessment Program of Madagascar.

The report took stock of Madagascar's high vulnerability to climate hazards, with a significant risk of undermining the country's development agenda. It noted efforts to update the national framework for climate change building on the 2016 Nationally Determined Contribution (NDC) and on the 2019 National Adaptation Plan but identified persistent strategic gaps as well as difficulties in implementation.

With respect to Madagascar's mitigation goals as covered in the NDC, the report advocated carbon and energy pricing reforms focused on key emitting sectors, notably energy and land use, land use change and forestry. With respect to disaster risk management, the report highlighted progress made in several areas and gaps that remained to be addressed, notably in terms of ex ante financing mechanisms. In the field of adaptation, the report noted first efforts to develop and implement adaptation measures in various policy domains but regretted the lack of a clear prioritization framework superseding fragmented external financing initiatives. The CMAP report stressed that ongoing public financial management and public investment management reforms could provide an opportunity to increase the hitherto very limited focus on climate.

Lastly the report called for efforts to quantify the impact of climate and climate change on growth and fiscal aggregates and proposed a first methodology to that effect. The report advised that policy responses should aim to design a comprehensive package of measures going beyond adaptation investments only and target more broadly Sustainable Development Goals (SDGs). In the report's analysis, an approach combining investments to scale up resilient infrastructure and to build human capital as well as revenue measures from mitigation and additional grants or concessional finance would significantly increase potential growth while preserving fiscal sustainability.

B. Macroeconomic Impact of Climate Change

14. DIGNAD simulations⁸ show that natural disasters have a significant short run impact on the balance of payments and the fiscal deficit, and a long-term impact on debt. Natural disasters are expected to damage physical capital and reduce productivity in the tradable and non-tradable sectors, leading to a calibrated loss of 6 percent in real GDP in the year of the shock. As a result of the reconstruction cost of the destroyed physical capital and lower real GDP, the fiscal deficit to GDP ratio is expected to increase by 2.5 percentage points one year later⁹. The current account deficit to GDP ratio is projected to increase by about 1.4 percentage points due to larger imports of goods and services for the reconstruction with a simultaneous increase in external debt to finance the fiscal deficit. While the twin deficits – fiscal deficit and current account deficit – are projected to gradually revert to pre-disaster levels over 12 years, persistent high public debt poses a risk for debt sustainability.

⁸ The Debt-Investment-Growth, and Natural Disasters (DIGNAD) model, developed by the Research Department of the International Monetary Fund, is a dynamic general equilibrium model designed to study the macroeconomic impact of an exogenous one-off natural disaster shock (cyclone, drought, flood). See Annex VI for full details of the model.

⁹ Although reconstruction starts immediately, most of the fiscal impact is observed one year later.

15. Improving public investment efficiency and scaling up public adaptation investment could enhance the resilience to natural disaster shocks. Madagascar has one of the lowest public investment efficiency rates in the Sub-Saharan Africa (SSA) region, highlighting considerable room for improvement. The model suggests that investing 6 percent of GDP over four years in more resilient infrastructure and improving public investment efficiency would yield substantial gains. Following investment in adaptation and increase in efficiency, the loss in real GDP would be limited to about 0.6 percent the year of the disaster and the cumulative output gain would amount to 27 percent of the baseline's real GDP after 12 years. The fiscal deficit to GDP ratio would improve by 1 percentage point compared to the baseline scenario the year after the shock. Furthermore, public debt would follow a slightly declining trajectory, being 2 percentage points lower than in the baseline scenario 12 years after the shock.

16. Natural disasters affect more vulnerable households. Simulations show that the consumption of poor households declines more in percentage than that of the rich, resulting in greater consumption inequality. Weak economic infrastructure, poverty, and heavy reliance on rainfed subsistence agriculture, in a context of limited access to insurance, amplifies the impact of adverse weather conditions on vulnerable households. This impact is attenuated by higher public adaptation investment and public investment efficiency.

C. National Policies and Institutions to Combat Climate Change

17. Madagascar has a longstanding commitment to environmental protection and fighting climate change. With a high awareness of climate-related disasters and of its unique natural capital linked to biodiversity, Madagascar has enshrined in the Preamble of its 2010 Constitution the need to preserve the exceptional wealth of fauna and flora for the future generations.

18. Improving resilience is a key priority of Madagascar's Plan Emergence (PEM). The plan relies on three pillars (social and human capital, economic, and environmental) which include measures to strengthen energy, water, and road infrastructure, improve healthcare and education, and achieve food self-sufficiency. The plan also touches on several areas of mitigation measures, including the promotion of electricity production from renewable resources and the sustainable management of natural resources.

19. Madagascar can build upon several strategic documents in the field of climate change (Table AV.2). The revised national policy for fighting climate change (PNLCCR) remains a high-level document which includes a long list of general actions but few concrete and specific measures. However, specific programs are described in the authorities' action plan for fighting climate change (PANLCC) and national adaptation (PNA) plan (both documents overlap substantially with similar programs ranked differently) and in the 2022 second Nationally Determined Contribution (CDN2), officially submitted in January 2024 to replace CDN1 (2016). CDN2 increased mitigation objectives from emissions (reduction of 48 MtCO_{2e} vs 30 Mt CO_{2e} in CDN1) and extended coverage, but targets in absorption became less ambitious (37.8 MtCO_{2e} of absorption by carbon sinks vs 61 Mt CO_{2e} in CDN1). The adaptation section of CDN2 clearly links PEM priorities and PNLCCR strategic

axis with programs from the national adaptation plan. A 2022 CDN2 Implementation Plan provides more specific details, including in terms of financing needs. Madagascar is also equipped since 2018 with a national Reduction of Emission due to Deforestation and Degradation (REDD+) strategy to fight deforestation and since 2016 with a national strategy for the clean development mechanism (SNMDP), covering mitigation aspects.

20. The importance of forestry for Madagascar is reflected in the role assigned to the BNCC-REDD+. The national bureau for coordination of climate issues and the REDD+ strategy (BNCC-REDD+), an agency under the Ministry of Environment, has been entrusted with a broad mandate not only to monitor the implementation of the REDD+ strategy but also to play a pivotal role in the definition and operationalization of overall climate-related policies and commitments. Its effectiveness is however limited by the lack of high-level coordination on climate policies – with a longstanding inter-ministerial committee on environment (CIME) devoid of specific competences on climate change and having been largely inactive over the past few years, while a national committee on climate change (CNCC) remains a forum for discussions at technical level.

21. The national risk and disaster management strategy is a reference document for managing climate risks and responding to natural disasters. Institutionally, disaster risk management efforts are driven by the emergency prevention and management unit (CGPU) within the Prime Minister’s Office and by the national risk and disaster management office (BNGRC) at the operational level. The latter manages the national contingency fund (FNC) still to be operationalized. A national disaster risk financing and insurance strategy has been adopted in 2023 to complete the disaster risk management framework and coordinate the various financing instruments already in place.

22. Building upon these strategies and institutional elements, Madagascar has made some progress in addressing challenges related to climate change and natural disasters. Already in 2019, several decrees prepared with WB support adopted norms for resilient construction and land planning. Efforts have started to develop a framework more favorable to renewable energy. A national strategy for the rice sector – a key part of agriculture – includes climate-smart interventions. Small-scale pilot agricultural insurance schemes supported by IFC, GIZ and the World Food Program have taken place but need to be scaled up to provide a real safety net for subsistence farmers exposed to climate hazards and an alternative to “slash and burn” agriculture on new land claimed from forested areas, which may require a significant subsidy to ensure the success of the scheme.

23. However, much remains to be done, as evidenced in the 2022 CMAP and in the World Bank’s upcoming CCDR. Climate governance is scattered. Even though it is a member of the Coalition of Finance Ministers for Climate Action, Madagascar has yet to mainstream climate change into its PFM and PIM processes – an evolution which would be particularly relevant for one of the most disaster-prone countries in SSA and which could build on some first efforts, notably in the road sector.¹⁰ Adaptation policies, especially for the protection and use of the water resource and

¹⁰ Adoption in 2020 of a National Standard on Road Infrastructures Resilient to Flooding and Geological Phenomena in Madagascar (NIRIPG – Norme sur les Infrastructures Routières Résistantes aux Inondations et Phénomènes Géologiques).

Box AV.2. Main Findings from the 2024 Madagascar CCDR

The Madagascar Country Climate and Development Report (CCDR) was prepared by a World Bank Group team in 2023 and is expected to be published by the end of June 2024.

This report presents the national policies and strategies related to climate change and development in Madagascar, along with priority reforms aimed at enhancing climate governance. It outlines the key challenges faced by the country and identifies important investments and reforms necessary for addressing them. The CCDR emphasizes near- and medium-term priorities, including food-water-energy resilience, urban resilience, resilient transport, human dimensions of climate change, and the blue economy. Additionally, it includes an analysis of the macroeconomic impacts of climate change and concludes with an estimation of the climate finance needs.

In terms of the institutional framework, the CCDR acknowledges Madagascar's dedication to combating climate change. However, it emphasizes a notable lack in coordination when implementing climate policies. To address this issue, the report proposes a new Governance Framework for the Climate Change agenda. This framework would establish a robust high-level mandate responsible for designing and overseeing climate policy, to be housed within the Prime Minister's office. Furthermore, the CCDR advocates for the integration of climate considerations into both public procurement and public financial management.

The CCDR emphasized the necessity of bolstering agricultural resilience by enhancing access to drought-resistant seed varieties and establishing stable irrigation systems in drought-prone areas and the water catchment for aquaculture fish farming and livestock. It recommended investing in Clean and Resilient Energy Access by rehabilitating and reinforcing the existing hydroelectric power plants to ensure a reliable energy supply. Additionally, it proposed setting up a watershed protection program that includes regulating mining and agricultural activities within the watershed. Regarding the blue economy, Madagascar needs continued support to a growing network of marine protected areas and to the development of blue carbon credit projects, such as mangrove restoration initiatives.

The report also analyzes the impacts of climate change on GDP, debt, and inequality, as well as its effects on various sectors such as agriculture, fishing, mining, and others. The modeling demonstrates that structural reforms and adaptation strategies can substantially mitigate the adverse effects of climate change. Through input-output models, significant vulnerabilities in key sectors such as fishing, agriculture, recycling, mining, maintenance, and construction are uncovered, underscoring the importance of understanding sectoral interdependencies to better anticipate the extensive effects of climate shocks. Additionally, the report illustrates that climate change exacerbates inequality.

Finally, the report estimates Madagascar's priority climate finance needs in the areas covered by the CCDR to be around \$10 billion, with one-third allocated for short-term actions by 2030. While the majority of the country's current climate finance is sourced from public funds, there are numerous opportunities to mobilize additional climate finance from various sources. These opportunities include developing markets for green finance and climate resilience, defining a regulatory framework for renewable energy certificate origination, registration, and issuance, leveraging carbon markets, and establishing regulatory frameworks for financial markets compliant with the International Organization of Securities Commissions standards.

for agriculture, need to be stepped up. With respect to mitigation, there is scope to improve price signals on fossil fuels and to encourage renewable energy and cleaner appliances. Improving the governance of the State-owned electricity utility – a priority under the ECF program - will be a prerequisite for creating a market more conducive to clean energy. Lastly, deforestation (with a decrease in the forest coverage from 29 percent to 20 percent of the territory between 2000 and 2020) calls for a response in terms of forest governance and expansion of the REDD+ mechanism.

Table AV.2. Madagascar Strategic Documents Related to Climate Change

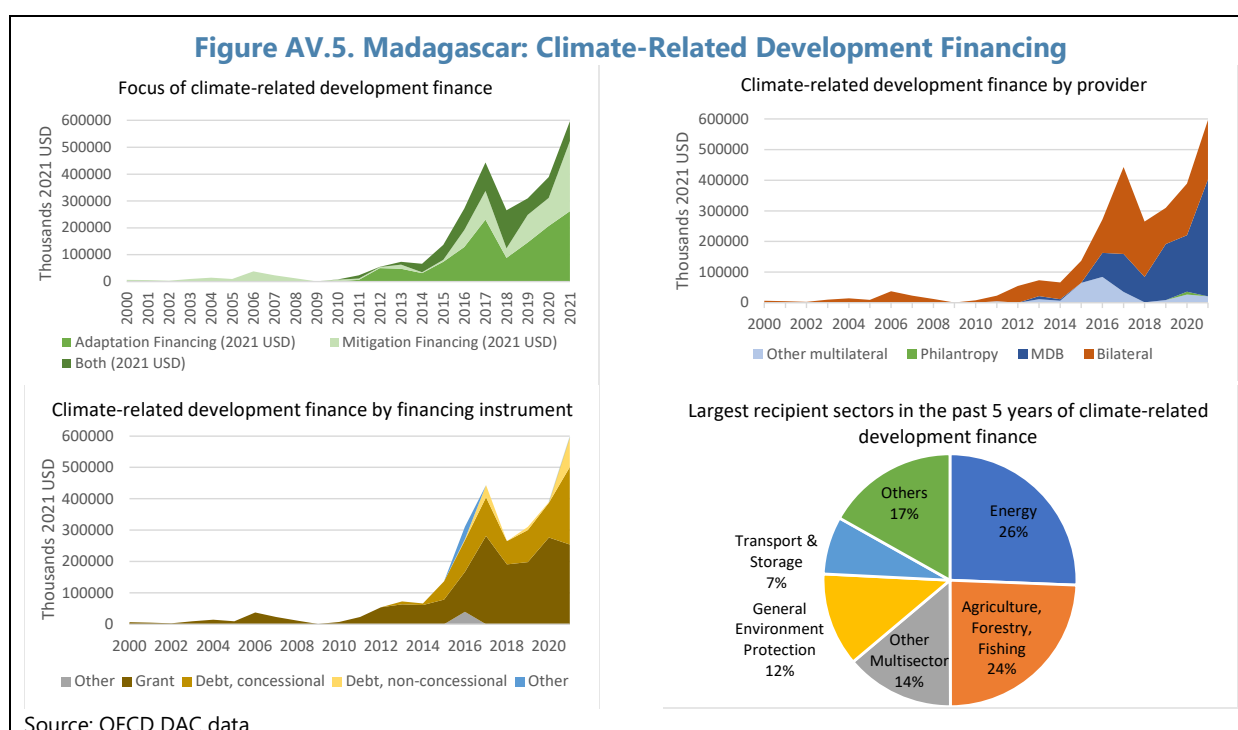
Key Documents	Description
Politique Nationale de Lutte contre les Changements Climatiques Révisée 2021 (PNLCCR)	First adopted in 2011, the national policy for fighting climate change was revised in 2021. Its goals are to 1) increase socioeconomic resilience and ensure the population's access to essential resources; 2) reduce greenhouse gas emissions and strengthen carbon sinks; 3) implement national frameworks to strengthen climate actions.
Plan d'Action National de Lutte contre le Changement Climatique 2019 (PANLCC)	The national action plan for fighting climate change details the measures to be implemented over 2020-29 to reduce greenhouse emissions and improve climate resilience. It is organized around five strategic axes: 1) Strengthen climate change adaptation efforts while taking the actual needs of the country into account; 2) Implement mitigation measures in favor of sustainable development; 3) Integrate climate change at all levels; 4) Develop perennial financing instruments; and 5) Boost research and technology development and transfer.
Plan National d'Adaptation 2021 (PNA)	The national adaptation plan repeats and updates part of the PANLC, focusing solely on adaptation. It identifies 12 multisectoral priority programs to be implemented over 2021-30, along with cross-cutting activities to ensure execution. It also provides a methodology to monitor implementation.
Contribution déterminée au niveau national 2022 (CDN2)	The updated Nationally Determined Contribution aims to reduce greenhouse gas emission by 24 percent by 2030 (vs. 14 percent in the initial NDC) and to strengthen the absorption capacity through carbon sinks by 20 percent. The cost of the CDN2 implementation is estimated at US\$ 23.9 billion.
Plan de mise en œuvre de la CDN2 2022	Adopted in November 2022, the CDN2 Implementation Plan exposes in detail governance, implementation mechanisms, financing and capacity development needs for the implementation of the NDC2. Financing needs are slightly revised upwards compared to NDC2 itself (US\$24.4 billion over the period 2022-2030 vs. 23.9 in NDC2).
Stratégie Nationale REDD+	Adopted in 2018, the National Strategy for Reduction of Emissions due to Deforestation and Degradation of Forests covers the period 2018-2030 and lists a series of tools to reduce GHG emission from the forestry sector, including financing mechanisms benefiting stakeholders.
Stratégie Nationale du Mécanisme de Développement Propre (SNMDP) 2016	Adopted in September 2016, the National Strategy for Clean Development Mechanism aims at facilitating investments that decrease GHG emissions through advantages originating from the sale of reduction in GHG emissions as per the Kyoto Protocol.
Stratégie Nationale de Gestion des Risques et des Catastrophes 2016-2030	The national risk and disaster management strategy approved in 2016 for a period of 15 years guides policies in the area of disaster risk reduction and management.
Stratégie de Financement de la Gestion des Risques et des Catastrophes	Adopted in July 2023, the disaster risk financing strategy is articulated around five axes (adequate financing mechanisms, efficient disbursement mechanisms, multisectoral governance, identification of vulnerable populations and local government participation for local resiliency).

Source: IMF Staff, on the basis of 2022 CMAP and documents shared by the authorities

D. Climate Finance

24. According to Madagascar’s NDC2 Implementation Plan (November 2022), financing needs (“conditional contributions”) total US\$ 24.406 billion over the period 2022-2030. This breaks down into US\$ 11.625 billion for adaptation, US\$ 7.290 billion for mitigation and US\$ 2.8 billion for compensation of irreversible loss and damage¹¹ linked to climate change, with the remainder (US\$ 2.69 billion) covering cross-cutting aspects such as coordination, capacity development, monitoring, and evaluation. The most significant financing needs have to do with agriculture (US\$ 5.6 billion), forestry and biodiversity (US\$ 6.6 billion), water and sanitation (US\$ 3.7 billion), in consistency with the country’s foremost priorities of food security and management of natural resources. Unmet needs related to energy are comparatively smaller (US\$ 1.7 billion).

25. Against this backdrop, climate financing flows are increasing but remain modest. Climate-related finance increased from US\$ 265 million in 2018 to US\$ 597 million in 2021, thereby reaching around 4.1 percent of GDP in 2021. Multilateral development banks provided 57 percent of climate-related financing in 2021. 84 percent of the flows were at concessional terms (41 percent) or in the form of grants (43 percent). Over the past 5 years, the energy and agriculture sectors were the main recipients of climate-related development finance.



26. Private climate finance in Madagascar remains very limited. A 2023 report from the African Development Bank (2023 Country Report – Mobilizing private sector financing for climate and green growth) points out that in 2019-2020 private sector financing represented only 5 percent of total annual climate financing flows (US\$ 21.45 million out of US\$ 424.04 million), with total

¹¹ Not addressed under the RSF.

climate financing flow covering only 16 percent of needs expressed by Madagascar. Moreover, private sector financing flows are heavily concentrated in the energy sector with more than 70 percent of the total. According to the African Development Bank, this shortfall in private financing needs to be bridged with innovative financing mechanisms (green bonds, carbon markets, debt for climate swaps) to harness private sector financing for climate goals.

27. While Madagascar is not present in international debt markets, the sovereign has strived to obtain concessional financing in support of its climate and disaster risk management goals. The AfDB-funded Africa Disaster Risk Financing Programme (ADRFi) has contributed to the payment of annual premia for drought insurance (around US\$ 0.5 million/year) and for tropical cyclone insurance (US\$ 2 million/year) provided by the African Risk Capacity. Madagascar benefitted from a catastrophe drawdown option (Cat-DDO) by the World Bank following floods in 2020. The World Bank has also activated its Immediate Response Mechanism (IRM), Contingency Response Components (CERC) of existing projects, and Crisis Response Window (CRW) to respond to the drought in the South of the country and after a series of cyclones in early-2022.

28. The World Bank's upcoming CCDR emphasizes the need to design a multi-faceted national strategy for climate finance mobilization and opportunities for private financing. The CCDR emphasizes that the Central Bank of Madagascar needs to comprehensively integrate climate-related risks in their governance and operations, especially climate risks related to fossil fuel imports and the booming mining sector and its impact on Madagascar's natural capital. Collecting and disclosing data on the financial sector's exposure to climate risks is identified as a first step. The CCDR also points out opportunities for Madagascar to restore carbon sinks by drawing additional resources from the forest carbon market and using them to finance REDD+ initiatives and addressing the governance requirements for such carbon-based finance to translate into resilience-building opportunities for beneficiary local communities and businesses. It points out that large mining companies can also undertake large-scale reforestation and forest restoration activities to boost their corporate social responsibility efforts and tap into carbon finance. It underscores the potential revenues from Renewable Energy Certificates, accruing from the expected increase in renewable energy production linked to the transition towards hydropower. It also insists on risk sharing mechanisms, notably to encourage renewable energy or energy efficiency investments. Lastly, the CCDR advocates in the medium term the issuance of sovereign green bonds for renewable energy and reforestation by the Madagascar State.

E. Collaboration with Bilateral and Multilateral Partners

29. Madagascar has been working closely with development partners including bilateral and multilateral partners and NGOs to support its climate policies. World Bank and UN institutions as well as EU institutions or individual countries have been a major source of concessional funding and capacity development.

30. A Development Policy Operation (DPO) has been agreed between Madagascar and the World Bank in 2023 with a strong focus on climate resilience. The DPO is expected to provide

three tranches of US\$ 100 million each in budget support over 2023-2025, with the first tranche already disbursed in June 2023. The DPO includes climate-related prior actions or triggers in the field of public financial management / public investment management (adoption of the PIM decree in 2023) and in the field of energy (JIRAMA governance, adoption of the electricity Least Cost Development Plan, more effective regulation of the electricity market for increased competition and faster development of renewable energy).

31. Support for adaptation policies includes notably agriculture and water. The World Food Program has helped respond to food insecurity in the South triggered by recurring droughts and supported first experiments with small-scale agricultural insurance mechanisms. The EU is working on a “Green Compact” (Pacte Vert) to support local agriculture, with a strong focus on climate-smart agriculture, notably through use of climate-resilient seeds. The World Bank is providing support for the water sector and for urban resilience. It is also supporting the transport sector, with support for the maintenance and rehabilitation of the road network channeled through the Madagascar Road Agency and a strong emphasis on designing infrastructures more resistant to climate hazards. Bilateral donors such as France (AFD project on urban resilience in Antananarivo) are also involved.

32. On mitigation, support provided by donors is focused mostly on renewable energy, especially hydropower. The AfDB and World Bank have supported efforts to increase electricity production from renewable energy sources, through direct involvement in large hydropower projects, support for solar projects, or capacity development and institution-building in the energy sector. Renewable energy and energy efficiency are also supported by other partners such as AFD through the SUNREF fund, UNDP through the recently launched FIER (Integrated Financing for Renewable Energies), or USAID through the Empower Southern Africa (ESA) program. The OPEC development fund is also supporting clean cooking with a US\$ 36.5 million program launched in 2023, while UNIDO is helping in the preparation of a clean cooking strategy. Lastly, support against deforestation is provided notably by the World Bank, which supports the REDD+ mechanism, with up to US\$ 50 million in financing until 2024 contingent on progress in reduction of emissions, and a first disbursement of US\$ 8.8 million in December 2023.

33. Development partners have provided crucial support to strengthen response to natural disasters. Apart from AfDB and World Bank efforts mentioned above with respect to insurance and risk financing strategy, the World Bank is providing financing and technical assistance to develop social safety nets. This includes – also with support from UNICEF – a very active workstream on developing climate-responsive social protection. Madagascar also benefits from support under the UN-led “Early Warning System for All” initiative, which aims at remedying gaps in the early warning system against natural disasters, and from support under the CREWS (Climate Risks and Early Warning Systems) joint initiative by the World Meteorological Organization, the World Bank and the United Nations Office for Disaster Risk Reduction (UNDRR). UNDRR also initiated work in early 2024 on a roadmap to increase the resilience of infrastructure against climate-related and other disasters.

34. Madagascar is a pilot country for the IMF-World Bank enhanced cooperation framework for scaled-up climate action. The framework takes into account the specific mandates and relative

expertise of each institution and aims to support countries to mobilize both private and public funding for climate action. During and prior to the staff visit, multiple consultations were organized with the World Bank across all reform areas to identify synergies and opportunities and push for ambitious policies as well as technical assistance for implementation. These synergies as well as the catalytic potential for private climate finance are identified in the tables below.

Table AV.3 Madagascar: Jointly Identified Challenges, Reform Objectives, CD Support and Catalytic Potential

KEY CHALLENGE	DIAGNOSTIC REFERENCES	KEY OBJECTIVES OF PROPOSED REFORMS	EXPECTED CD/TA INPUT	ROLE OF OTHER DEVELOPMENT PARTNERS	CATALYTIC POTENTIAL FOR PRIVATE CLIMATE FINANCE
Reinforcing climate governance and promoting climate-sensitive investments	WB CCDR (2024) IMF CMAP (2022) WB Public Expenditure and Institutional Review (PEIR, 2023) WB Systematic Country Diagnostic Update (SCD, 2022)	Mainstream climate governance. Promote climate-sensitive public and private investments. Establish an attractive investment framework for the mining sector.	IMF FAD resident advisor to support the work on climate budget tagging (until October 2024).	UNDRR to support identification of disaster risk reduction spending	Complement public investment and mobilize climate-friendly private investment including in the mining sector
Enhancing adaptation to climate change and resilience against natural disasters	WB CCDR (2024) IMF CMAP (2022) WB Madagascar Country Environmental Analysis (2022) WB Global Rapid Damage Estimation (2021)	Integrate climate change in overall water policy, reinforce Integrated Water Resource Management. Strengthen the national system for disaster risk management and implement disaster risk financing and insurance strategy. Expand access to social safety net for the most vulnerable.	WB REPAIR program to strengthen the financial preparedness of governments, vulnerable households and MSMEs against climate shocks. WB to help with the operationalization of the National Contingency Fund (FNC) IMF to assist in link with the conclusions of the overall audit of the expenditure chain (2023) WB investment project financing supporting the implementation of social protection policies (e.g., social registry)	EU to support redrafting the water code. GCA AfDB	Incentive for private investment in climate-proofing infrastructure investments. Regional implementation of REPAIR program increases the likelihood of mobilizing private capital from international capital and insurance markets.

Table AV.3 Madagascar: Jointly Identified Challenges, Reform Objectives, CD Support and Catalytic Potential (concluded)

KEY CHALLENGE	DIAGNOSTIC REFERENCES	KEY OBJECTIVES OF PROPOSED REFORMS	EXPECTED CD/TA INPUT	ROLE OF OTHER DEVELOPMENT PARTNERS	CATALYTIC POTENTIAL FOR PRIVATE CLIMATE FINANCE
Expanding access to renewable energy and supporting efforts to curb the growth of GHG emission	WB SCD (2022) WB CDDR (2024) IMF CMAP (2022) WB Madagascar Urbanization Review (2024)	Restore the financial viability of the utility company JIRAMA. Provide price signal to limit non-renewable energy use. Promote renewable energy production.	WB to advise on JIRAMA recovery plan and support the adoption of the Least Cost development Plan (DPO). WB Atiala-Atsinanana Emission Reductions Program WB Ethanol clean cooking climate finance program to support increased use of ethanol cooking stoves.	GIZ to support the operationalization of the FNED and rural electrification. AFD to support SUNREF Fund	Opportunity for de-risking power purchasing agreement from private generation of renewable electricity; more conducive business environment to private investments, including in sustainable activities. Incentive for private funding for off-grid and mini-grid electrification.
Improving natural resource management and reinforcing the protection of forests and biodiversity	WB CDDR (2024) WB Madagascar Country Environmental Analysis (2022)	Expand the currently limited scope of the REDD+ decree to allow for private sector participation	WB Forest Carbon Partnership Facility (FCPF) Program		Opportunity for private sector participation in reforestation
Mobilizing climate finance	WB CDDR (2024)	Address fragmentation of the climate finance flows. Create opportunities to develop options for blended finance instruments and provide transparency and clarity to private sector.	Potential support from WB and IMF MCM	GCA-AfDB support from Africa Adaptation Acceleration Program (AAAP)	Opportunity for private sector to provide input in the climate finance strategy and invest in climate priorities

Table AV.4. Madagascar: Timeline of Proposed Reforms and Synergies

REFORM AREA 1: Reinforcing Climate Governance and Promoting Climate-Sensitive Investments					
EXPECTED COMPLETION DATE	OCTOBER 2024	APRIL 2025	OCTOBER 2025	APRIL 2026	OCTOBER 2026
MEASURES	<p>RM01: Climate governance. Adopt a decree clarifying the mandate of the Inter-ministerial Committee for Environment (CIME) to cover all climate policies.</p> <p>RM02: Public investment management (PIM) framework Adopt a new decree on environmental impact assessments (EIA) to replace the 2004 MECIE decree.</p> <p>WB DPO: Adoption of the implementing decree of the mining code, including regulations to address social and environmental impacts consistent with good international practice</p>		<p>RM04: Climate budget tagging (CBT). Adapt the budget classification to enable the tagging of climate-related expenditures</p>		<p>RM03: Public investment management (PIM) implementation. Adopt a decree making it compulsory to produce every year a budget document listing the investment projects selected for the public investment program.</p>
SUPPORTING CD	WB IMF FAD/FS		IMF FAD UNDRR		IMF FAD/AFS
SUPPORTING INSTRUMENT	IMF RSF WB DPO		WB DPO IMF RSF		WB DPO IMF RSF

Table AV.4. Madagascar: Timeline of Proposed Reforms and Synergies (continued)

REFORM AREA 2: Enhancing Adaptation to Climate Change and Resilience Against Natural Disasters					
EXPECTED COMPLETION DATE	OCTOBER 2024	APRIL 2025	OCTOBER 2025	APRIL 2026	OCTOBER 2026
MEASURES		RM05: Water governance. Approve in Cabinet a bill to update the 1998 Water Code	RM06: Disaster risk management. Approve regulations to simplify PFM processes for disaster-related expenditures and to operationalize the National Contingency Fund (FNC)		
SUPPORTING CD		EU WB GCA	AfDB		
SUPPORTING INSTRUMENT		IMF RSF	IMF RSF WP Regional MPA (REPAIR)		
REFORM AREA 3: Expanding Access to Renewable Energy and Supporting Efforts to Curb the Growth of GHG Emissions					
EXPECTED COMPLETION DATE	OCTOBER 2024	APRIL 2025	OCTOBER 2025	APRIL 2026	OCTOBER 2026
MEASURE	WB DPO: Adoption of a decree related to the modalities of implementation of the least-cost development plan (PDMC) for the selection/prioritization of generation and transmission projects, and conditioning all concessions and Purchasing Power Agreements contracts			RM07: Energy prices and subsidies. Fully eliminate all fuel price subsidies RM9: Renewable energy production. Adopt the FNED decree and operationalize the FNED financing mechanism	RM8: Fuel Taxation. Gradually raise excise taxes and other levies on diesel fuel to align them to the level applicable to gasoline.
SUPPORTING CD	WB			Possible IMF FAD Support WB, GIZ	Possible IMF FAD Support WB
SUPPORTING INSTRUMENT	WB DPO			IMF RSF WB Investment Project Financing (IPF)	IMF RSF

Table AV.4. Madagascar: Timeline of Proposed Reforms and Synergies (concluded)

REFORM AREA 4: Reinforcing the Protection of Forests and Biodiversity					
EXPECTED COMPLETION DATE	OCTOBER 2024	APRIL 2025	OCTOBER 2025	APRIL 2026	OCTOBER 2026
MEASURE		RM10: Carbon storage in forests. Revise decree 2021-1113 to improve the participation of the private sector and extend the scope of the REDD+ mechanism			
SUPPORTING CD		WB			
SUPPORTING INSTRUMENT		WB FCPF IMF RSF			
REFORM AREA 5: Mobilizing Climate Finance					
EXPECTED COMPLETION DATE	OCTOBER 2024	APRIL 2025	OCTOBER 2025	APRIL 2026	OCTOBER 2026
MEASURE			RM11: National Climate Finance Strategy. Adopt an inter-ministerial decree on a climate finance mobilization strategy		RM12: National Green Taxonomy Adopt a decree on implementing a national green taxonomy to inform all green/climate investments.
SUPPORTING CD			Possible WB Support AfDB and GCA Africa Adaptation Acceleration Program (AAAP)		IMF MCM
SUPPORTING INSTRUMENT			IMF RSF		IMF RSF

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World Bank Group, *forthcoming*, Country Climate and Development Report for Madagascar

Annex VI. Macroeconomic Effects of Climate Change

1. Staff used the Debt-Investment-Growth, and Natural Disasters (DIGNAD) model to assess the impact of climate change on economic growth, the balance of payments, and fiscal accounts in Madagascar. The DIGNAD model, developed by the Research Department of the International Monetary Fund, is a dynamic general equilibrium model designed to study the macroeconomic impact of an exogenous one-off natural disaster shock (cyclone, drought, flood)¹. The model allows for investment in public adaptation infrastructure that is more resilient to climate shocks, featuring a lower depreciation rate but higher costs compared to standard infrastructure.

2. In the DIGNAD model, a natural disaster shock affects the economy through 5 channels: (i) damage to public capital, (ii) damage to private capital, (iii) a temporary productivity loss, (iv) a decline in public investment efficiency, and (v) a loss in credit worthiness. Among these five channels, damage to capital and loss in productivity are the main channels.

3. The model is calibrated to the Malagasy economy. The public investment to GDP ratio is set to its 2023–2029 average of 7.7 percent. Consumption and labor income tax rates are set to 20 percent and 13 percent, respectively². The steady state public domestic debt to GDP ratio is set to 15.2 percent, which corresponds to the projected average over 2023–2029. The external public debt to GDP ratio is set to 44.8 percent, which is the average projected over 2023–2029. About 89 percent of external debt is assumed to be at concessional terms. The remittance to GDP ratio is set to 2.4 percent (10-year average). The GDP growth in the absence of natural disaster is set to 5 percent³. Public investment efficiency (PIE) is set to 31 percent.

4. Staff considered three scenarios with varying level of public adaptation investment and PIE improvement before a disaster hits.

- **Scenario 1: Baseline.** The baseline scenario assumes that authorities maintain their investment in standard capital infrastructure without scaling up for adaptation infrastructure during 2024–2027. A simulated natural disaster is projected to occur in 2028, calibrated to result in a 6 percent decline in GDP⁴. Recovery is assumed to begin in the same year as the shock and to be concluded by 2033.

¹ In the simulation, we did not separate the effect of a cyclone from a drought. The latter would further reduce productivity whereas the former would cause more damage to infrastructures.

² The labor income tax rate is between 0–20 percent with 4 brackets.

³ The assumed GDP growth ignores productivity losses associated with natural disasters which are estimated around 0.5 percentage point in the current macroframework.

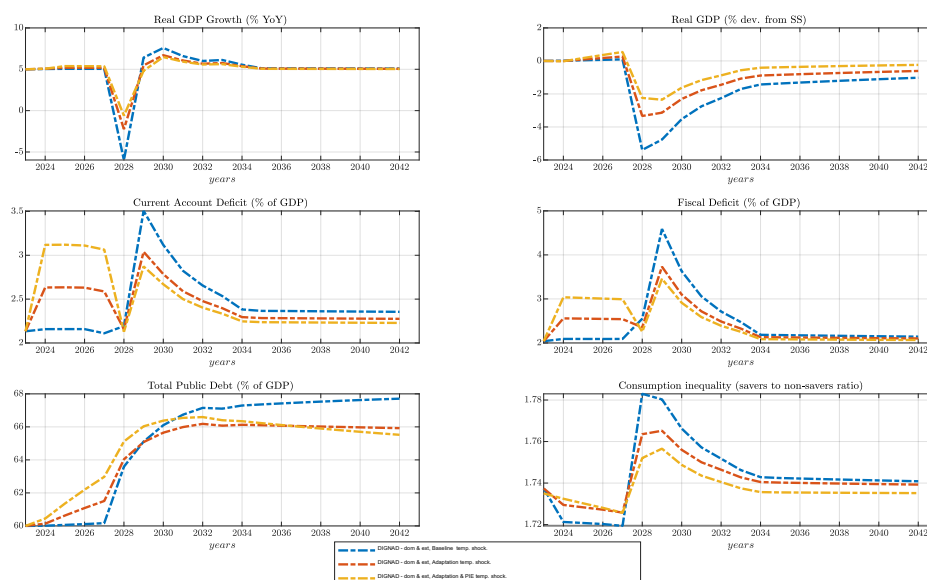
⁴ Madagascar has experienced only four episodes of negative GDP growth below -5 percent since 1980, which corresponded to a combination of natural disasters, political crises, and pandemics. The calibrated 6 percent decline in GDP would correspond to a 11-percent loss in GDP compared to a situation with no disaster, where the economy would have grown at 5 percent. The 2022 Climate Macroeconomic Assessment Program (CMAP) report pointed out that a typical tropical cyclone causes losses of 1.8 percent of GDP, average floods imply losses of 2.4 percent of GDP (EM-DAT, 2022) and an average drought reduces yearly real growth by 0.3 percentage point. The [World Bank disaster risk profile](#) indicates that the average annual direct loss from earthquakes, floods, and tropical cyclones is approximately \$100 million, which is around 0.6 percent of GDP. Given those estimates, the calibrated decline in GDP looks prudent.

- **Scenario 2:** *some adaptation investment is considered*, where 1 percent of GDP per year is allocated for adaptation investment from 2024 to 2027. Half of this investment is financed through concessional public borrowing. Additionally, the authorities are assumed to strengthen their capacity to attract climate financing, securing a total of 2 percent of GDP in grants over the four years.
- **Scenario 3:** *adaptation investment with an increasing PIE*. Scenario 3 assumes adaptation investment scale-up by 1.5 percent per year over 2024-2027 and financed through concessional public borrowing of about 1 percent of GDP. Like scenario 2, the authorities are assumed to strengthen their capacity to attract climate financing, securing a total of 2 percent of GDP in grants over the four-year period. Notably, Scenario 3 differs from previous scenarios by assuming an improvement in PIE from 31 percent to 51 percent, although still below the Sub-Saharan African average PIE of 61 percent.

5. Natural disasters have a significant short run impact on the balance of payments and the fiscal deficit, and a long-term impact on debt. Natural disasters are expected to damage physical capital and reduce productivity in the tradable and non-tradable sectors, leading to a calibrated loss of 6 percent in real GDP in the year of the shock. As a result of the reconstruction cost of the destroyed physical capital and lower real GDP, the fiscal deficit to GDP ratio is expected to increase by 2.5 percentage points one year later⁵. The current account deficit to GDP ratio is projected to increase by about 1.4 percentage points due to larger imports of goods and services for the reconstruction with a simultaneous increase in external debt to finance the fiscal deficit. While the twin deficits – fiscal deficit and current account deficit – are projected to gradually revert to pre-disaster levels over 12 years, persistent high public debt poses a risk for debt sustainability.

6. Investing in public adaptation investment as in scenario 2, reduces the short run impact of natural disasters on the fiscal and current account deficits while GDP is higher by 4 percent in 2028, and by 16 percent 12 years after the shock, in 2040. While investing in public adaptation between 2024-2027 increases the fiscal and current account deficits compared to the baseline scenario, this helps to mitigate the short-term impact of natural disasters on both deficits. As the government incurs lower costs during reconstruction, the current account deficit to GDP improves by 0.5 percentage point, and the fiscal deficit to GDP ratio by 0.8 percentage point in 2029. The loss in real GDP is limited to about 2.2 percent in 2028, and thanks to previous investments in adaptation, real GDP is nearly 4 percent higher than the baseline in the same year. The cumulative gain amounts to 16 percent of the 2040 baseline's real GDP by 2040.

⁵ Although reconstruction starts immediately, most of the fiscal impact is observed one year later.

Figure VI.1. Madagascar: Macroeconomic Impacts of Climate Change

Sources: DIGNAD Simulation; and IMF staff estimates.

7. Improving public investment efficiency and scaling up public adaptation investment could further strengthen the resilience to natural disasters shock. Madagascar has one of the lowest public investment efficiency rates in the Sub-Saharan Africa (SSA) region, highlighting considerable room for improvement. The model suggests that investing 6 percent of GDP over four years in more resilient infrastructure and improving public investment efficiency would yield substantial gains. Following investment in adaptation and increase in efficiency, the loss in real GDP would be limited to about 0.6 percent the year of the disaster and the cumulative output gain would amount to 27 percent of the baseline's real GDP after 12 years. The fiscal deficit to GDP ratio would improve by 1 percentage point compared to the baseline scenario the year after the shock. Furthermore, public debt would follow a slightly declining trajectory, being 2 percentage points below the baseline scenario 12 years after the shock.

8. Natural disasters affect more vulnerable households. Simulations show that the consumption of poor households declines more than that of the rich, whereas improving public investment efficiency and scaling up public adaptation investment help limit the rise in consumption inequality.

Annex VII. Automatic Fuel Pricing Mechanism and Fuel Pricing Issues

1. The authorities committed to implement an automatic fuel pricing adjustment mechanism.

The mechanism, which results in monthly adjustments to the market prices of gasoline, diesel and kerosene, has three main characteristics: (i) pump prices in month M are automatically adjusted by the change in the reference prices (proxy for market prices) between month M-2 and month M-1, capped at 200 ariary/liter, (ii) the adjustment takes place to the extent that it closes the gap between the pump and the reference prices, and (iii) any change in the reference prices beyond 200 ariary would be postponed to the next month until changes in pump prices fully reflect those of reference prices. The subsidy resulting from the initial gap between pump and reference prices and the delayed adjustment will be paid to oil distributors after the end of every quarter.

2. As part of the RSF program, the authorities agreed to fully close the gap between pump and reference prices by May 2026 and to align diesel taxes with those on gasoline by November 2026.

- Closing the gap between pump and reference prices** would require an increase in pump prices by about 25 percent on average, based on the current price structure.¹ The required change would vary across the three types of fuel, with the increase in the pump price being the highest for kerosene whose subsidy is currently the largest (49 percent), and the increase in diesel prices the second highest (29 percent). Given that the administered price for gasoline is currently above the reference price, gasoline prices could even decrease. The change can be implemented gradually, over several months, to smooth the impact on households' budget. The pace of price increases could also differentiate across the types of fuel, with kerosene prices being increased more gradually than diesel prices, to allow for the implementation of measures to mitigate the impact on poorest households, such as the distribution of solar kits.
- Aligning diesel taxes with those on gasoline** would require an increase of both the excise tax and of the contribution to the road maintenance fund by a total of 515 ariary/liter, which would increase the pump price for diesel by the same amount.² The tax increase could be included in the 2027 budget law and would be effective on January 1, 2027. This reform would address two concerns: (i) increasing excise taxes on diesel to reach those on gasoline would be a way to correct the comparatively larger negative externalities associated with

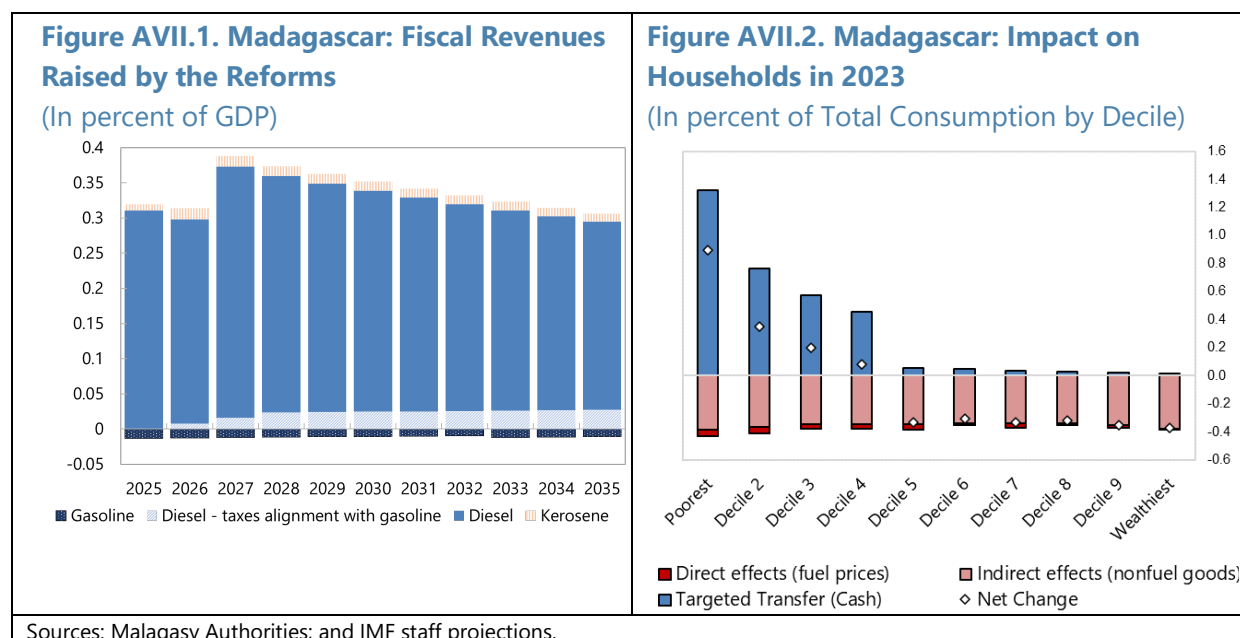
¹ Estimates are based on the methodology used in the Climate Assessment Policy Tool (CPAT). To use the tool, reference prices in local currency are converted in constant 2021 USD and the required change in pump prices to close the gap between pump and reference prices is inferred from 2024 prices expressed in constant 2021 USD under a no change scenario. The resulting required change in pump prices is spread over several years as needed to allow for a gradual implementation of the reforms.

² Based on the current price structure, the excise tax on diesel amounts to 228 ariary/liter and the contribution to the road maintenance fund to 134 ariary/liter, while they amount to 503 ariary/liter and to 288 ariary/liter respectively for gasoline. With the 20 percent VAT, the increase in diesel taxes required to align the tax structures between diesel and gasoline amounts to 515 ariary/liter.

diesel consumption, and (ii) aligning the contribution to the road maintenance fund of diesel with gasoline would compensate for the fact that vehicles using diesel fuel tend to be heavier, and to increase the need for road maintenance.

3. A plan to communicate about planned fuel price increases to the public should be prepared in a timely manner. It should be released ahead of the price increases implementation, explain the reasons behind the increases, and communicate about the path for price increases, potentially differentiated across the types of fuel, and about the mitigating measures put in place.

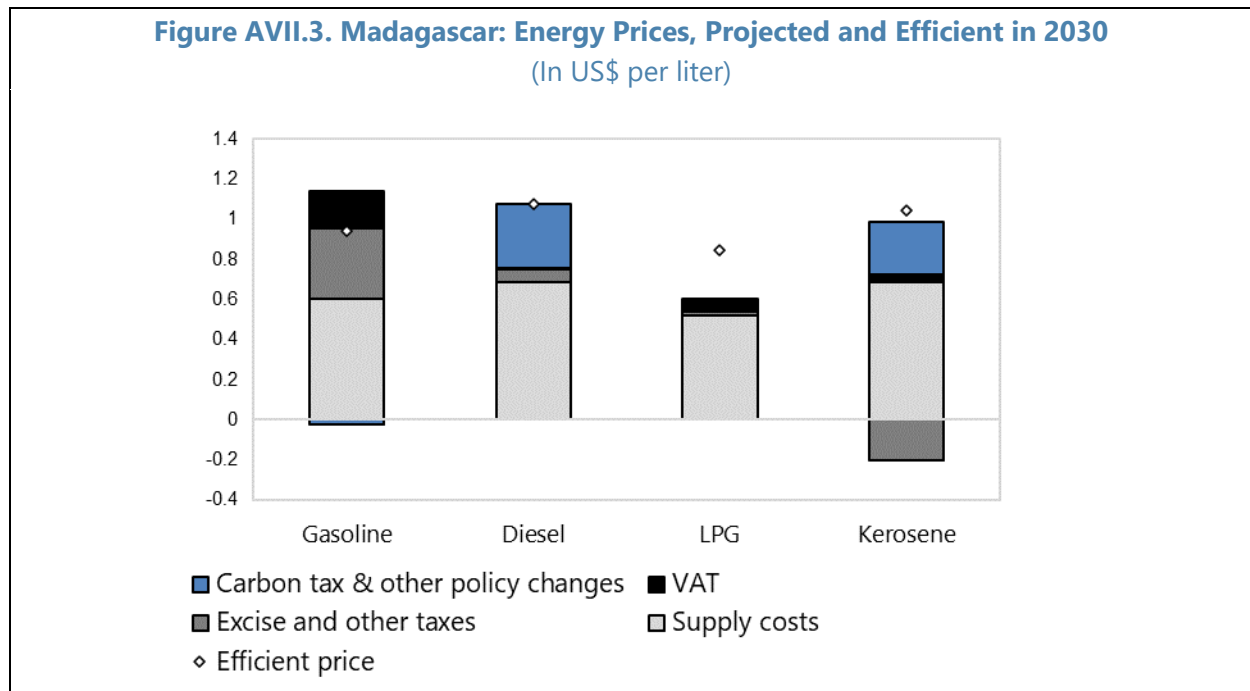
4. The two reforms could generate 0.38 percent in GDP in savings or additional tax revenue in 2027, with a potentially positive impact on most vulnerable households through targeted transfers (Figures AVII.1 and AVII.2). On the one hand, closing the gap between the pump and reference prices could lead to 0.29 percent of GDP in budget savings. On the other hand, the alignment of diesel taxes with those on gasoline could generate 0.09 percent of GDP in tax revenue. The additional fiscal space from the reforms could be used to increase transfers to most vulnerable households (30 percent) and to support public investment, mostly through the road maintenance fund (20 percent), with the rest being allocated to the budget.³ Thanks to the transfers, the impact on the 40 percent most vulnerable households could be positive.



4. The two reforms would bring the pump prices for diesel and kerosene close to their efficient level (Figure AVII.3). The efficient level covers the social cost of fuel consumption, which accounts for externalities generated from their use (notably environmental externalities). The gasoline price is above its efficient price, while the LPG / kerosene price remains below its efficient price. With a large share of the population relying on firewood and charcoal for cooking, greater

³ For transfers to households, CPAT assumptions are used: (i) transfers are directed to the 40 percent poorest households, (ii) 70 percent of targeted households would effectively receive transfers, and (iii) 10 percent of the transfers would not reach their target.

access to LPG is an important element of the transition to a low-carbon economy, together with an increased use of solar energy thanks to the distribution of solar kits.



Annex VIII. Capacity Development Strategy

A. Context

1. **Madagascar has been an intensive user of IMF technical assistance (TA) and training over the past decade.** Priorities have been closely aligned with the objectives of the ECF arrangement and have included reforms at the central bank (BFM), tax policy and revenue administration, Public Financial Management (PFM), financial sector, and the anti-corruption legal framework. Fund TA departments and the country team have maintained close interaction with the Malagasy authorities and leveraged the proximity of AFRITAC South (AFS) to ensure that TA needs and activities are always aligned, and capacity development (CD) is more relevant, effective, and efficient.
2. **FAD headquarters (HQ) and AFS engagement with Madagascar has been intense both on the revenue (tax and customs administration, tax policy) and the expenditure side (PFM).** Recommendations in tax and customs administration have helped reverse the decline in revenue collection in the aftermath of the COVID-19 crisis and support the administration modernization process, notably (for tax administration) based on the 2022 Tax Administration Diagnostic Assessment Tool (TADAT) mission and the action plan subsequently adopted. On the tax policy side, a 2021 TA mission advised on reforms to boost domestic revenue collection in line with the program's objectives, however with limited implementation so far given the political sensitivity of some recommendations. With respect to PFM reforms, activities over the last three years have focused on developing a functional budget classification, streamlining the expenditure chain and improving reporting on budget execution; they have benefitted since January 2022 from the support of a resident advisor located in the Ministry of Finance (Budget Directorate)¹. AFS-led missions have also provided support on fiscal risk management and on transition to accrual accounting. After a period of backsliding linked to institutional changes, renewed efforts have also started on public investment management (PIM) – a major area of focus under the previous program. FAD has also supported a stocktaking and updating of the Strategic Plan for Modernization of Public Finance, which serves as a lodestar for the public finance reform agenda and for aligning support from various development partners.
3. **Madagascar was a pilot for a Climate Macroeconomic Assessment Program (CMAP) in early 2022.** Led by FAD, the CMAP helped assess the macro-fiscal impact of climate plans on growth and debt sustainability, and to identify green PFM priorities (see Annex V for more detail). Recommendations from the CMAP fed into the preparation of discussions for the RSF.
4. **Based on the 2015 FSAP recommendations, MCM and AFRITAC South provided TA to:** (i) modernize the monetary policy operational framework, including by improving liquidity management and forecasting; (ii) develop foreign exchange markets; (iii) strengthen banking supervision; and (iv) improve central bank internal audit functions and bring them to international

¹ The resident advisor devotes 60 percent of his time to Madagascar and 40 percent to the Union of Comoros, the latter through a mix of quarterly in-person missions to Moroni and remote support.

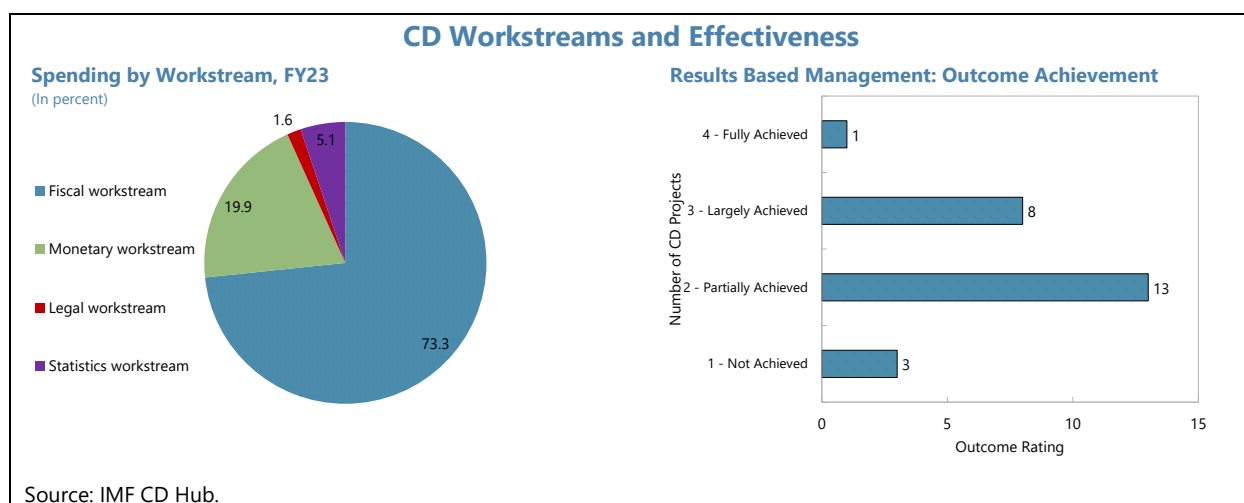
standards. HQ-based TA has provided advice on the international reserve diversification strategy by including gold following purchases of non-monetary gold by the central bank.

5. FIN, MCM, and LEG helped the BFM strengthen its safeguards and transition to IFRS.

The BFM concluded its efforts to transition to International Financial Reporting Standards (IFRS) with the issuance of the 2020 accounts.

6. STA (including AFS) has provided intensive TA for National Accounts rebasing, CPI updating, external statistics, and government finance statistics.

The authorities have also strengthened their participation in the enhanced General Data Dissemination System (e-GDDS), with a web-based National Summary Data Page (NSDP) launched in May 2019. However, performance in disseminating key data on a timely basis on the NSDP remains mixed, even when updated data is available through other official sources such as the national statistical institute.



B. CD Strategy and Priorities Going Forward

7. IMF TA support under the proposed new ECF and RSF arrangements will focus on deepening reforms initiated in recent years.

It will also expand to address high-priority policy objectives, notably related to climate and governance. IMF TA will continue to play a pivotal role in strengthening skills in the Ministry of Economy and Finance, BFM, and the statistical agency. IMF TA will be needed to support mainstreaming climate concerns into PFM and PIM and to intensify engagement on governance-related topics, in line with the new General State Policy.

8. In this context, key priorities will include: (i) continuing the modernization of the customs and tax revenue administrations to improve compliance, reduce tax evasion and enhance tools and key performance indicators to monitor the effectiveness of both administrations and the advancement of their reform strategies; (ii) designing and implementing tax policies to converge towards a level of taxation more consistent with the country's tax potential, notably through progress on transfer pricing legislation and implementation; (iii) supporting improvements to the fiscal framework through improved PFM processes, notably enhanced forecasting and budgeting as well as progress in the evaluation, selection, budgeting and execution of public investment projects;

(iv) improving the policy framework for adaptation and resilience to climate change through adoption and effective implementation of green PFM and climate-smart investment practices; (v) enhancing the operational framework of monetary policy following the transition to interest rate targeting; (vi) modernizing BFM's FX intervention strategy ; (vii) further strengthening financial sector stability based on a comprehensive diagnostic of existing gaps (Financial Sector Stability Review).

9. With respect to governance, IMF TA will aim to support the preparation, adoption, and implementation of a new anticorruption strategy for 2025-2035. Madagascar's current anticorruption strategy covers the period 2015-2025 and the authorities have announced their attention to adopt a new strategy for the next ten years. In staff's view, a governance diagnostic assessment (GDA) is the adequate way to take stock of achievements under the current strategy and pave the way towards a new strategy.

10. The authorities find that the Capacity Development strategy is appropriate for Madagascar. They emphasize that TA provision has been key during the 2021 ECF program, and request that this effort is sustained in the coming years to support the ongoing reforms and address the challenges arising from the implementation of the new PGE.

C. Engagement Strategy

11. Engagement with the authorities. Over the duration of the current program, the team engaged with the authorities on a regular basis and in the context of program reviews. The authorities also used the opportunity to discuss their capacity development needs and priorities in meetings with FAD, MCM, LEG held during the Annual and Spring Meetings, as well as with the country team.

12. The country team used the program negotiations to evaluate TA needs linked to program commitments both under the ECF and RSF. These were informed by discussions with functional departments and AFS and led to a first assessment of TA priorities based on program objectives.

13. Engagement with outside partners. The Madagascar team holds regular discussions on TA with other partners, including the World Bank, the African Development Bank, and the European Union, and discussed with them proposed program commitments (both under the ECF and RSF) to ascertain their possible contribution to their implementation and articulation with Fund TA.

D. Priorities by Department

FAD

Topics	Objectives
Domestic tax and customs administration	Increase tax and customs revenue through further reforming and modernizing tax administrations, including effective control and enforcement, and business facilitation for compliant taxpayers. Establish adequate tools and key performance indicators to monitor progress in tax and customs administration.
Tax policy	Help the dedicated Tax Policy Unit to make tax policy recommendations, including through limiting exemptions, based on recent evaluation of tax exemptions annexed to the budget law. Support progress in the overhaul and implementation of transfer pricing provisions. Support the reform of excise taxes (in connection with proposed RSF measure - RM9).
PFM	Finalize the reform of the budget classification, strengthen the macro-fiscal and budget framework, support effective implementation of the new legal framework and manual for public investment management; improve the expenditure chain.
Climate-smart PIM and green PFM	Support introduction of climate budget tagging and mainstreaming of climate concerns into the evaluation and selection of public investment projects.

MCM

Topics	Objectives
Monetary policy implementation and operations	Enhance the interest rate targeting regime, by strengthening BFM's forecasting and analytical capacity (FPAS follow-up and liquidity projections).
Foreign FX interventions	Support the revision and modernization of the central bank's FX intervention strategy (value-at-risk approach).
Financial sector stability	Design financial sector reforms based on a thorough diagnostic of capacity gaps through a Financial Sector Stability Review (FSSR)
Banking supervision and regulation	Continue to support the transition to Basel III regulatory framework. Strengthen institutional structures and operational procedures for risk-based supervision. Strengthen bank risk assessment framework.

STA

Topics	Objectives
Real Sector - National Accounts, and Price	Conduct rebasing of the national accounts. Continue to improve the quality of quarterly GDP series and ensure timely dissemination of data. Conduct the CPI update and develop PPI.
Government Finance Statistics	Improve the quality and coverage of GFS (SOEs); and initiate compilation of a financial balance sheet.
Monetary and Financial Statistics	Compile statistics for the insurance corporations' sector in line with the 2019 FSI guide methodology

LEG

Topics	Objectives
Governance	Support the preparation of the new 2025-2035 anticorruption strategy, through the conduct of a Governance Diagnostic Assessment aimed at identifying major governance vulnerabilities.

Appendix I. Letter of Intent

Antananarivo (Madagascar)

June 7, 2024

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington D.C. 20431 (United States)

Madam Managing Director,

In a challenging environment marked by a succession of severe climate and external shocks, our economy has grown faster than that of sub-Saharan Africa (SSA) over the past three years. In 2024, this trend is expected to continue, with a growth projection of 4.5 percent compared to 3.8 percent on average for SSA. However, this performance is unfortunately insufficient to meet our many important challenges.

To address these challenges, we have adopted a new General State Policy (PGE) based on three major pillars: (i) human capital, including strengthening education, health, professional training, and social protection, (ii) industrialization and economic transformation to establish strong and sustainable growth, and (iii) good governance and the rule of law.

Following the conclusion of the first four reviews of the Extended Credit Facility (ECF) arrangement approved in March 2021, our request for a new ECF-supported arrangement and the cancellation of the existing one, is driven by our ambitious reform plan and the short time remaining under the current arrangement (which expires in July 2024) as well as our desire to strengthen our foreign exchange reserves and our willingness to align the new program priorities, including those related to climate under the Resilience and Sustainability Facility (RSF), with the new PGE.

To meet the country's external financing needs and support our ambitious reform program, the Republic of Madagascar is requesting ECF financing in the amount of SDR 256.62 million, corresponding to 105 percent of our quota, accompanied by financing under the RSF in the amount of SDR 244.4 million, corresponding to 100 percent of our quota, over a period of thirty-six months. The Republic of Madagascar is also requesting the first disbursement of the amount equivalent to SDR 36.66 million under the ECF arrangement, upon the Fund's approval of this arrangement. We intend to use the first four disbursements under the ECF and all disbursements under the RSF for budget support purposes and will amend the existing memorandum of understanding between the central bank and the government accordingly.

The attached Memorandum of Economic and Financial Policies (MEFP) outlines the measures and structural reforms envisaged to support our ambition to accelerate our growth and fight poverty

and corruption while strengthening our fiscal and external sustainability. Based on the government's guidance set out in the PGE, the ECF-supported program focuses on four important pillars: (i) anchoring fiscal sustainability by increasing domestic revenues, reducing fiscal risks, creating buffers to improve resilience to shocks, and strengthening fiscal institutions and public financial management (PFM), (ii) strengthening governance and fighting corruption, (iii) consolidating monetary and financial stability, and (iv) supporting stronger and more inclusive growth through improved social safety nets and greater financial inclusion.

Reforms in the energy sector, in particular the recovery of JIRAMA, are essential for progress under the four pillars. To that end, we have recruited a new CEO for JIRAMA with a clear project for its restructuring as soon as possible. A recovery plan is expected to be approved in the coming months and will be used to determine the necessary budget appropriations in the next budget law. We will also adopt an automatic adjustment mechanism for pump prices and have budgeted for the corresponding subsidies in the 2024 revised budget law to be soon adopted by Parliament. The revised law sets out realistic revenue and expenditure targets, which will help to strengthen our debt sustainability.

The arrangement supported by the RSF builds on our climate agenda by supporting our reform program around five areas: (i) strengthening climate governance and integrating climate into PFM and public investment management processes, (ii) strengthening climate change adaptation and resilience to natural disasters, (iii) curbing the growth of greenhouse gas emissions, (iv) strengthening the protection of forests and biodiversity, and (v) mobilizing climate finance.

We are confident the IMF's support will catalyze additional financing, including for climate, which we will continue to actively pursue throughout the program. This support will also strengthen the role of the public and private sectors in the country's development.

We do not intend to adopt any measure or policy that would aggravate Madagascar's balance of payments difficulties. We do not intend to impose new or tighten restrictions on payments and transfers in current international transactions, nor to introduce import restrictions to support our balance of payments, nor to engage in multiple exchange rate practices, nor to enter bilateral payment arrangements that would be inconsistent with Article VIII of the IMF's Articles of Agreement. In addition, in line with the IMF's safeguards policy, the central bank is committed to complying with the recommendations of the upcoming update of the BFM Safeguards Assessment and will continue to provide staff with access to its most recent audit reports and to allow external auditors to meet with IMF staff.

The Government believes that the policies set forth in the attached Memorandum of Economic and Financial Policy (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Republic of Madagascar will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

We agree that this Letter of Intent, together with the attached MEFP and Technical Memorandum of Understanding, as well as the Staff Report on the Request for Arrangements Under the ECF and RSF

and the Debt Sustainability Analysis, will be made public once the request has been approved by the IMF Executive Board.

Please accept, Madam Managing Director, the assurance of our distinguished consideration.

/s/

Ms. Rindra Hasimbelo Rabarinirinarison
Minister of the Economy and Finance

/s/

Mr. Aivo Andrianarivelo
Governor of the Central Bank of Madagascar

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and lays out the medium-term economic objectives and policy framework of the Government of Madagascar, for which we are seeking support under new Extended Credit Facility (ECF) and Resilience and Sustainability Facility (RSF) arrangements. In accordance with the objectives of the new General State Policy (PGE), namely human capital development, industrialization, and good governance, this MEFP presents the reforms and macroeconomic and structural policies aimed at preserving fiscal sustainability, strengthening governance and the fight against corruption, consolidating monetary and financial stability, and promoting strong and inclusive growth, while responding to the challenges of climate change.

CONTEXT

1. Despite a succession of shocks, the program approved by the IMF in 2021 has made it possible to initiate several structural reforms. Four of the six reviews under the program have been completed; the conclusions of the fourth review were approved by the IMF's Executive Board in June 2023 in line with the timeline envisaged at the time of the program's approval.

2. However, multiple shocks have affected the country's macroeconomic performance. Economic growth has been slightly lower than initially projected with a slower-than-expected recovery after the pandemic and several climate-related natural disasters, while inflation has exceeded expectations due to sharp increases in commodity prices, especially food and energy. The domestic primary fiscal deficit exceeded the targets set in 2022 and 2023 due to difficulties in collecting domestic tax revenues, related in particular to the fall in vanilla prices, cash flow difficulties of state-owned enterprises (SOEs) and problems with VAT payments by oil companies, delays in the implementation of certain reforms, and a dispute between the State and oil distributors. Despite this, the tax burden rate (net tax and customs revenues/GDP) has increased by 1.3 percentage points in three years, reaching 11.2 percent of GDP in 2023. Total public debt increased from 51.9 percent of GDP at the end of 2020 to more than 55 percent of GDP in 2023. The level of international reserves remains adequate.

3. Progress has been made on structural reforms. We have completed the anti-corruption system with the establishment of the Agency for the Recovery of Illicit Assets (ARAI), strengthened the autonomy of the *Cour des Comptes* by giving it access to the main information systems of the Ministry of Finance and by creating a dedicated budgetary mission, and improved transparency in public financial management (PFM) with the development of a functional budget classification, the publication of quarterly reports on budget implementation, as well as several independent audit reports on expenditure in response to the COVID-19 pandemic. We have made progress in budget implementation with the preparation of expenditure commitment plans for the 4 social ministries (education, health, water, and population) and 6 other ministries before the start of each year and the simplification of expenditure commitment procedures. We approved a modernized mining code and adopted a new manual on public investment management (PIM). Finally, we have begun work

on setting up a single social register that will eventually make it possible to better target social transfers.

4. We want to accelerate this reform dynamic. The Government of Madagascar therefore decided during the Council of Ministers on February 7, 2024, to request the termination of the program supported by the Extended Credit Facility (ECF) started in 2021 and the negotiation of two new arrangements supported by the ECF and the Resilience and Sustainability Facility (RSF) for a minimum period of 36 months. These new arrangements should help to accelerate reform efforts, to affirm macroeconomic stability by contributing both to the financing of the budget and to bolstering foreign exchange reserves, and by supporting Madagascar's efforts in the fight against climate change.

RECENT ECONOMIC DEVELOPMENTS AND PROSPECTS

5. Growth has remained stable in 2023, according to our estimates. Economic activity grew at an average annual rate of 4 percent in 2022 and 2023, supported mainly by the recovery of tourism activities. After peaking at 12.4 percent year-on-year in March 2023, inflation has fallen almost continuously to 7.5 percent in December 2023. Annual average inflation rose to 9.9 percent in 2023 compared to 8.2 percent in 2022.

6. Accelerating the implementation of reforms would allow for a gradual increase of the growth rate from 2024 onwards. Growth is projected to be 4.5 percent in 2024 and gradually accelerate to above 6 percent over the medium term, thanks to the implementation of the PGE that provides for further structural reforms and for building resilience to climate shocks, supported by the programs with the IMF under the ECF and the RSF.

7. The balance of goods and services improved in 2023 despite the decline in vanilla exports and mining products. The trade deficit decreased from 9.3 percent to 8.1 percent of GDP thanks to the recovery in tourism, as the decline in the exports of goods was offset by a comparable decline in imports. The stability of the current account balance over the medium term should help strengthen external buffers and maintain foreign exchange reserves around 5.8 months of imports.

PROGRAM OBJECTIVES AND POLICIES UNDER THE NEW EXTENDED CREDIT FACILITY (ECF) ARRANGEMENT

8. The new arrangement aims to consolidate past achievements and further accelerate the dynamics of reforms envisaged in the PGE. The ECF will also play a catalytic role in ensuring better support mobilization from Madagascar's other technical and financial partners. In this context, the program will be structured around four main pillars, namely: (i) anchoring fiscal sustainability; (ii) strengthening governance and the fight against corruption; (iii) consolidating monetary and financial stability; and (iv) promoting inclusive and sustainable growth.

Pillar 1: Anchoring Fiscal Sustainability

9. Our objective is to stabilize debt below 60 percent of GDP in the medium term. We may revisit this ceiling in consultation with the IMF as we make progress towards greater domestic revenue mobilization. Despite a significant increase in recent years, the country's debt level remains sustainable with a moderate risk of debt distress. We are committed to better domestic resource mobilization and a more rational and efficient use of mobilized resources. An improvement in the primary balance in accrual terms (i.e., excluding windfall revenues related to the payment in 2023 of import duties and taxes on petroleum products arrears) of around 1.6 percentage points of GDP is needed by 2027. This adjustment will be achieved through an increase in net tax revenues by 2.4 percentage points of GDP and a reduction in primary current expenditure by 1.6 percentage points of GDP, offset by an increase in investment spending. This reallocation of current spending towards investment spending, together with an acceleration of structural reforms, demonstrates our strong commitment to putting in place the fundamentals for faster, more sustainable, and more inclusive growth.

10. We recognize the importance of developing a medium-term fiscal strategy anchored in our debt target. We will determine each year, when preparing the budget, the primary balance compatible with this objective, considering available financing. We will ensure that budget realism is improved, particularly revenue growth assumptions and the expenditure envelope, to reflect our capacity to implement the investment projects identified in the budget law and exogenous risks including related to climate.

11. Our borrowing strategy will support our debt stabilization objective and include the necessary measures to continue to improve debt management. We will continue to seek concessional external borrowing while at the same time developing the domestic bond market to diversify funding sources and reduce exchange rate risks. We are working on reducing contingent liabilities risks, in particular those related to SOEs (see below), as their realization could lead to a faster-than-expected deterioration in our debt indicators. In addition, we will continue efforts to strengthen our debt management capacity to align it with international best practices, building on the recent diagnosis using the Debt Management Performance Assessment (DeMPA) methodology, finalized with World Bank support in February 2023.

12. The draft 2024 revised budget law is in line with this debt stabilization perspective. To this end, it includes a downward revision of total net revenues, excluding grants, by 12.6 percent compared to the 2024 initial budget law, in line with the outturn at end-December 2023 and end-March 2024. In parallel with the reduction in revenue forecasts, we have made the necessary trade-offs to reduce non-interest expenditures excluding externally financed investment by 10.2 percent compared to the initial budget law. These revisions have reduced the primary deficit to 2.9 percent of GDP (**prior action 2**). As in the past, we commit to take the necessary corrective measures in case revenues do not materialize as planned and to reviewing the allocation of expenditures in line with new needs that may arise at the end of the year, including to support the recovery of some distressed SOEs.

Mobilizing Tax Revenues

Domestic revenue mobilization remains a priority to achieve the objectives set in our PGE. The availability of sufficient domestic resources will also ensure sustainable and viable financing of our development projects.

13. We are committed to scaling up our efforts to mobilize more resources. The tax revenue-to-GDP ratio remains lower than our projections initially made at the time of the previous ECF's approval. Several factors can explain this lower-than-expected ratio, including the existence of tax expenditures, estimated at 3.2 percent of GDP (estimate of the Tax Policy Unit for 2022), generating distortions, and giving rise to fraud. In addition, certain non-optimal tax rates could be reviewed to improve the redistributive role of taxation. Insufficient tax compliance and a narrow tax base are also an issue for the tax and customs administrations. Although measures have already been taken over the past three years to address these shortcomings, they are still insufficient and need to be strengthened. To facilitate progress monitoring, we commit to provide IMF staff with a monthly dashboard of tax and customs performance indicators (**continuous structural benchmark 1**).

14. We will devote special attention to the issue of tax expenditures. To this end, we will rely on the work of the Tax Policy Unit and on the report prepared by the African Development Bank at the end of 2023, which provide recommendations regarding certain tax expenditures and governance improvements. We will ensure the enforcement of Decree 2023-328 dated March 30, 2023, on the conditions for adoption, evaluation and monitoring of tax and customs incentives.

15. At the level of the tax administration (*Direction Générale des Impôts*), we will work on consolidating the gains, strengthening the implementation of the reforms already undertaken and examining other avenues to increase tax revenues. Over the past three years, we have worked on (i) modernizing our tax system to promote investment and consumption; (ii) digitalizing taxpayer services and tax operations; (iii) broadening the tax base and controlling fiscal discipline; as well as (iv) strengthening human capacities and governance mechanisms. The implementation of these actions has led to some improvement in tax management, but more remains to be done. Our future actions will benefit from the results of the TADAT (Tax Administration Diagnostic Assessment Tool) evaluation as well as from various technical assistances' recommendations. We are planning actions to:

- Control the tax base and discipline by ensuring: (i) the correct application of tax rules and by adopting an effective tax policy to ensure sustainable development; (ii) the fight against tax fraud and tax evasion; (iii) legal stability for taxpayers, justice, and tax fairness.
- Digitize tax services and procedures (new Integrated Tax Administration System or SAFI) and leverage advanced technologies in a rational risk-based approach.
- Develop the online invoicing platform (e-invoicing).

- Strengthen the existing collaboration with the various national public entities (DGD, SAMIFIN, CNAPS) and extend them to other entities if necessary.
- Strengthen international tax cooperation by increasing collaboration with partners.
- Rationalize existing tax benefits and the granting of new incentives.
- Improve the tax audit system to better reconcile the State rights and those of taxpayers and establish performance-based management of tax audit.
- Strengthen internal control structures, initiatives, and collaborations in the fight against corruption by providing users with an online platform for whistleblowing and grievances.

16. As far as the customs administration (*Direction Générale des Douanes*) is concerned, we will develop a new strategic plan that will take into account the lessons learned from the previous plan and extend the reforms initiated between 2020 and 2023. These actions will focus on:

- Strengthening controls, value control and the use of mirror statistics.
- The continuation of customs modernization actions, including the strengthening of its human resources management system.
- Strengthening risk control functions without compromising the customs' role as a trade facilitator.
- Better collaboration with other jurisdictions.

17. To achieve our objective of increasing the tax burden ratio (net domestic tax revenues/GDP) by 2.4 percentage points of GDP between 2023 and 2027, we commit to implement the following reforms:

Tax policy measures (revenue gains estimated at 1.5 percentage points)

- Review all excise duties, including by aligning the rates applied to the local production of alcoholic beverages and tobacco with the rates on the same imported products (0.5 percentage points).
- Review the personal income tax structure, including by increasing the top marginal rate from 20 to 25 percent (0.1 percentage points).
- Reduce domestic and customs tax expenditures by an annual average of MGA 280 billion during the program (0.9 percentage points), for example through the gradual elimination of VAT exemptions on certain products such as kerosene, or the abolition of the VAT exemption on the first tranche of electricity and water consumption in line with the implementation of the JIRAMA tariff reform.

Administrative actions (estimated gains of 0.9 percentage points)

- Improve the management, control, and collection of VAT (0.3 percentage points).
- Strengthening customs controls (0.3 percentage points).
- Continue efforts to digitize (SAFI) and broaden the tax base (0.3 percentage points).

18. We are committed to implementing contingency measures if the above projected revenues do not materialize. If revenues from the measures are lower than expected, we will work on identifying new compensatory measures.

Improving the Quality of Public Spending

The large transfers to JIRAMA and fuel subsidies have a crowding out effect on public investment expenditure and social transfers necessary for development. We will seek to redirect government spending to promote economic growth and strengthen budget predictability.

19. Over the duration of the program, we are committed to limiting transfers other than pensions and to maintaining them at the amounts allocated in the initial budgets. Transfers (excluding pensions) constitute an important (3.8 percent of GDP in 2023) and volatile part of the budget. The emergence of additional non-budgeted needs will be met through the reallocation of expenditure or an increase in expenditure within the limits of the law and conditional on a better revenue performance compared to the initial budgets, to avoid widening the deficit. If necessary, the preparation of a revised budget law will be considered and discussed with the IMF.

20. Turning around the national company JIRAMA is a necessity. The company's financial situation and the quality of its service delivery in terms of electricity and water supply remain major sources of concern for decision-makers in Madagascar. The few reform measures on which the company has been able to make progress, such as the tariff reform, have not succeeded in limiting the sharp deterioration of the financial situation, despite substantial support from the government. This support materializes through sizeable transfers such as operating subsidies, the assumption of payments of the company's suppliers, the assumption of expenses of fuel and heavy fuel oil requisitions, and loans. In addition, JIRAMA has not paid its taxes, including those collected from third parties such as VAT and the taxes on salary income (IRSA) of its employees.

21. The reforms undertaken aim to change the governance of JIRAMA, improve revenues, and reduce costs and subsequently the burden borne by the State. We are committed to:

- Finalizing the recruitment process for the company's new senior executives, including the Chief Financial Officer. The goal is to continue the actions already initiated under the previous program and suspended during the presidential elections. The recruitment of the new management team is being carried out in close collaboration with the World Bank; the new Chief Executive Officer took up his post on May 1, 2024 (**prior action 3**).

- Developing and presenting a new "recovery plan" and the resulting "business plan". These are the first tasks that the new managers will tackle. The recovery plan will present the strategy to be carried out to redress the financial situation and the horizon for achieving it (**structural benchmark 3**).
- Improving the company's revenue collection by strengthening the use of prepaid systems and the fight against fraud. 85 percent of public administrations are now equipped with prepaid meters with a target of 100 percent by the end of 2024. We are also in the process of deploying the *geo-filling* system for monitoring fuel stocks to reduce thefts.
- Controlling and reducing technical losses, costs related to the purchase of fuel and electricity and personnel, including energy supplies.

22. We are also committed to strengthening JIRAMA's transparency. We are committed to regularly sharing available information on the implementation progress of the company's recovery plan, including its financial statements. The same applies to all information related to contracts signed with electricity and fuel suppliers, calls for tenders and their results. We are committed to publishing audited financial statements for the years 2021, 2022 and 2023, and to continuing to publish them annually. We will continue to provide a monthly dashboard on JIRAMA's revenues and expenses as well as the details of all budget transfers to JIRAMA. We will inform the IMF and World Bank staff of any actions that could affect the implementation of the company's recovery plan and publish fuel purchase contracts (**continuous structural benchmarks**).

23. We will pay attention to the fiscal risk that the restructuring of Air Madagascar's debt could possibly pose to our budget. The latest estimates show a debt of about US\$100 million, 60 percent of which is owed to the State. A restructuring plan is still to be approved by creditors. In view of the budgetary implications that this operation could possibly have, we will consult the IMF and the World Bank before any financial participation of the government in this restructuring. We are committed to making the required payments following the activation of the State guarantee on certain contracts.

24. We are continuing efforts to put Madagascar Airlines on the path to operational and financial sustainability. Since its takeover of the activities of Air Madagascar and its domestic subsidiary Tsaradia, Madagascar Airlines has suffered significant losses. A new Chairman of the Board of Directors was appointed in November 2023; long-haul flights to Europe and other regions have been suspended and some rental contracts have been cancelled. In this context, the World Bank has announced a US\$25 million loan to support future investments and the company's recovery.

25. In line with our commitments in the 2021 ECF program, we will implement an automatic fuel price adjustment mechanism (prior action 1). This should prevent the further accumulation of arrears. The dispute with the oil companies severely impacted budget implementation during the previous program since projected revenues were not collected in time. We will therefore take all necessary actions to prevent such a situation from happening again.

- The main objective of the automatic fuel price determination mechanism is to limit the gap between the average prices applied at the pump (PMAP) and the calculated reference prices (PRC) from the sector's regulatory office (Malagasy Hydrocarbons Office or OMH), which are a proxy for market prices. Competition law limits to six months the validity of price administration measures, so that regulations regarding the administration of fuel prices and the computation of the PRC need to be renewed every semester. We commit to publish those regulations before the beginning of each semester for which they apply.
- A "price band" type smoothing system makes it possible to contain monthly price changes. The various simulations we have carried out have shown that this is the most suitable option for our country. Every month, the PMAP is adjusted by the change in the PRC between month M-2 and month M-1, capped at 200 ariary/liter. Any change in the PRC beyond 200 ariary/liter is postponed to the next month until the change in the PMAP fully reflects that of the PRC. The PMAP in month M cannot exceed the PRC in month M-1 in case of an increase in the PRC between M-2 and M-1 or, once the PMAP has caught up with the PRC, decrease below the PRC in month M-1. The "smoothing balance" (*solde de lissage*) resulting from the difference between the PMAP and the PRC has been duly budgeted in the revised budget law and required budget appropriations will be integrated into subsequent budget laws to allow for the quarterly payment of that balance to oil distributors within one month after the end of each quarter. The revised budget law also includes appropriations to regularize payment arrears to oil distributors for the remainder of the 2023 smoothing balance, fuel requisitions made by the government in 2023, and the activation of the State guarantee on certain JIRAMA commercial contracts.
- Further reforms will be introduced with the support of the RSF to gradually bring the PMAP to the PRC and align diesel excise taxes to their level for gasoline (see ¶80 and 81).
- To support the introduction of this mechanism, we have set up an inter-ministerial committee which, on the basis of various studies, has identified possible measures to mitigate the impact of greater price volatility on the most vulnerable populations.

26. We will conclude a new memorandum of understanding with oil distributors providing for the terms and conditions for the settlement of cross-debts at the end of June 2024. We will ensure that oil distributors comply with their fiscal and parafiscal obligations, particularly regarding the payment of duties and taxes on petroleum products, royalties to the Ministry of the Environment, the contribution to the sector development (RDS), the contribution to the road fund (RER), and the OMH fee. Whereas payment delays have resulted from the oil distributors' request for a simultaneous payment of all cross-arrears and debt with the government, we will make all necessary arrangements to accelerate the payment by distributors of both past arrears and new monthly contributions.

27. We will maintain our efforts to contain our wage bill. The efforts made to improve their management will be pursued in line with the specific objectives defined in the roadmap of the General Directorate of Budget and Finance. The development of the Payroll Management Tool (PMS 2.0) is 45 percent complete: it will make it possible to establish annual forecasts of the wage bill and

to monitor monthly salary expenditure by ministry and institution. Over the past year, we have made progress in the development of other AUGURE management modules, such as the Management of High State Jobs (HEE) module and the Forward Management of Staff, Jobs and Skills (GPEEC) module. The operationalization of those modules will not only contribute to improving the forecasting and payment of salaries and pensions, but also the detection and elimination of ghost workers' positions. For the next three years, our efforts will focus on improving the information system and the gradual digital transformation of procedures related to compensation management.

28. We will pay attention to our pension system balance. The strategic document for the reform of the public pension fund management has been submitted to the Council of Ministers and is awaiting validation. We have already begun to implement some measures to reduce the deficit of the Civil and Military Pension Fund (CRCM), including its provisioning in the budget law and the adoption of a decree allowing the transfer of the surpluses of the Provident and Pension Fund (CPR) of non-civil servants to the CRCM; the development of a pension management tool, which is scheduled to be deployed in the coming months, the gradual clearance of the transitory accounts of pension funds recording contributions paid that have not yet been subject to revenue orders; and the improvement of revenue collection from EPN (national public establishments) and CTD (local governments). In the future, we will focus on finalizing draft texts governing pension funds that will endorse the policy choices decided, based on the technical assistance reports already available, in particular under the mission conducted in June 2019 by the IMF's Fiscal Affairs Department (unification or not of the funds, potential increase in the age of compulsory retirement pension, proposal to abolish the reversibility of disability pensions for beneficiaries and possible limitation of the increase for children).

29. We will continue our efforts to increase social spending and consolidate the achievements of the previous program. Social spending suffered both from inadequate budget allocations and from an implementation problem, which we sought to resolve in the context of the previous program. In accordance with the PGE, we want to increase the budget allocated to social spending. We will use the functional budget classification developed with the help of a long-term expert from the IMF's Fiscal Affairs Department to monitor social spending in the new program (**indicative target**).

30. Redirecting spending towards better managed and more resilient public investment is also our priority. Our public investments suffer from weaknesses in planning and programming, limiting the adequacy of the allocated budget and leading to poor execution. The lack of selective prioritization in relation to the scale of needs and the lack of resources is also a shortcoming of the existing process. In this sense, we intend to fully implement, with the support of the technical assistance of the IMF and the WB, the mechanism provided for in the Decree on PIM 2023-255 and the PIM Manual, both adopted in February 2023, to select, plan and execute investment expenditures. Each project will be evaluated and selected according to the expected cost, benefit, and impact, whether economic, social, or environmental (**reform measures 2 and 3, FRD**).

Strengthening our Public Financial Management Institutions and Processes

The implementation of a new fiscal rule (debt anchor) requires significant progress to improve the credibility of the multiannual framework and the annual budget and ensure the effectiveness of the rule and compliance with the public debt trajectory.

31. We are aware that the strengthening of our medium-term fiscal framework (MTFF) is a major prerequisite for our new fiscal rule success. We will work on strengthening the realism of our revenue and expenditure forecasts and putting the preparation of the MTFF (or "medium-term framework" presented in volume 3 of each budget law) back at the center of budget preparation, avoiding an excessive focus on the coming year. To this end, we commit to continue the implementation of commitment authorizations and payment appropriations with the support of IMF technical assistance, which will thus allow better monitoring of spending trends on multi-year projects.

32. We intend to improve the analysis and regular publication of fiscal risks that may affect the public finance path provided for in our MTFF and in our annual budget. Indeed, we intend to make greater use of the available information to carry out quantitative assessments of these risks and to determine the possible implications for the budget. This will allow us to implement the necessary actions and mechanisms to mitigate the impacts and ensure the necessary budget allocations to counter these risks. We naturally rely on our technical and financial partners, in particular the World Bank and the IMF (AFRITAC South) to help us make progress in this area. In particular, we commit to continue to improve the annual fiscal risk statement, particularly risks related to SOEs, and to work on the improvement and regular and rapid publication of the annual report on SOEs, highlighting their financial results, their relations with the State budget and the efforts made for their governance.

33. We are determined to continue efforts to rationalize the public expenditure chain and consequently improve the execution of the budget in general and social and investment spending in particular. To this end, we will work to capitalize on the introduction of annual commitment and money order plans (PAEM) at the ministerial level, which we intend to generalize to all ministries at the next budget law (**structural benchmark 5 at end-January 2025**). We will work on the implementation of the recommendations from the audit of the public expenditure chain conducted in 2023, including on the professionalization of actors and better anticipation of the preliminary steps necessary to begin spending operations in new fiscal years. We will also consolidate the achievements of the previous program, which removed the spending commitment authorization by the Presidency and the Prime Minister's Office, and will ensure that controls are more selective, depending on the risks and the stakes.

34. We will rely on our technical and financial partners and on the framework drawn up at the halfway point of the implementation of the Strategic Plan for the Modernization of Public Financial Management (PSMFP) carried out in 2023, to advance our reform projects. For better coordination of actions and efficient monitoring of reforms, we have set up, in collaboration with our technical and financial partners, technical working groups focused on various themes that constitute our main projects for the next three years, namely the digital transformation of public

finances, the improvement of the management of public investments and the public expenditure chain, as well as the acceleration of disbursements related to external financing.

35. We will continue our efforts to accelerate the digital transformation of the budget and financial processes. Since last year, with the support of our partners, we have embarked on a vast project of digital transformation of public finance occupations. In addition to the implementation of IT and operational governance, this approach aims, among other things, to reduce the time taken to produce financial statements and the time taken to execute public expenditures. It will also contribute to making accounting and financial data more reliable and exhaustive while ensuring maximum data protection and interoperability of all existing and operational systems at the level of the various departments of the Ministry of Economy and Finance (DGI, DGD, DGT, DGBF, ARMP, DSI). To support this transformation effort, we will attach special importance to strengthening our human resources capacities.

36. Finally, we are committed to improving our cash management, which will help us control arrears accumulation. To this end, a new law on cash management will be submitted to Parliament for approval before **May 2025 (structural benchmark 6)**. This law will strengthen the Treasury Single Account while guaranteeing depositors the permanent availability of funds, provide the tools for a more realistic cash flow plan in conjunction with the new PAEMs, and facilitate, in conjunction with the Central Bank, the use of borrowing on the money market to finance occasional cash flow dips.

Pillar 2: Strengthening Good Governance and the Fight Against Corruption

37. Good governance is one of the three main pillars of our PGE. We have asked the IMF to conduct a Governance Diagnostic Assessment (GDA) to support our governance reform efforts through an inventory of corruption vulnerabilities in the various sectors covered by the governance framework adopted by the IMF's Executive Board in April 2018, in particular public financial governance, the rule of law, market regulation and anti-money laundering and countering the financing of terrorism (AML/CFT).

38. The GDA will support the development and operationalization of our new National Anti-Corruption Strategy (SNLCC), which will cover the period 2025-2035. As part of the strengthening of this third pillar of the PGE and given that the current strategy is coming to an end, we have already started the process of designing a new one by the end of this year. The development of this new SNLCC will be carried out in several steps and will take into account both the progress already made and the many challenges that remain to be met. To do this, we have set up a steering committee, led by the President of the Committee for the Safeguarding of Integrity (CSI). The latter is composed of representatives of public institutions (Presidency, Prime Minister, sectoral ministries) and of Anti-Corruption System (SAC) entities. The work on the GDA, which will begin in the second half of 2024, will be able to support the work of this steering committee with the objective of adopting and publishing the 2025-2035 SNLCC, including its implementation plan, by **January 2025 (structural benchmark 7)**. The GDA, once finalized and published in 2025, will support the operational implementation of the strategy across the various sectors vulnerable to

corruption as well as the subsequent changes to the implementation plan, which will be reviewed annually considering the progress made and potential difficulties.

39. We will ensure that anti-corruption entities continue to have the necessary human and financial resources to carry out their respective missions. To implement the current anti-corruption strategy, the SAC has repeatedly encountered issues of insufficient resources, or even a reduction in the available budget envelopes. We will ensure that this problem is addressed, including through the budgeting of the resources necessary to meet the growing needs of the SAC and to enable it to carry out its missions effectively.

40. We will strengthen the implementation of existing anti-corruption provisions. The Independent Anti-Corruption Bureau (BIANCO) will work to enforce the obligation to declare assets for senior officials, politically exposed persons, and other relevant persons, by referring them to the competent courts when needed. As indicated in our commitments of the previous ECF program, BIANCO, in collaboration with the Ministry of Justice, has developed a draft decree setting out the modalities for the dynamic management of asset declarations that will be submitted before end-July 2024 to the Council of Government and the Council of Ministers.

41. We will continue to ramp up the Agency for the Recovery of Illicit Assets (ARAI) created in 2022. To this end, to ensure better effectiveness of the legal provisions on the recovery of illicit assets, we will adopt an implementing decree of Ordinance No. 2019-015 of 5 July 2019 on the recovery of illicit assets during the second half of 2024.

42. We will extend the territorial network of the Anti-Corruption Clusters (PAC). Since 2023, the PAC have started to hold hearings and mobile inquiries in the most remote places under their jurisdiction (Antalaha, Sambava, Ambilobe, Diego Suarez, Toamasina, Ambatondrazaka). We will continue to increase those hearings and mobile investigations to ensure good local justice. The establishment of the Fianarantsoa PAC, which is currently well underway, will also contribute to a proper administration of justice.

43. We will continue to strengthen our AML/CFT framework in line with the recommendations of the Financial Action Task Force (FATF). After the adoption of Law No. 2023-026 of February 1, 2024 amending and supplementing certain provisions of Law No. 2018-043 of February 13, 2019 on AML/CFT, we will issue by the end of June 2024 (i) the implementing decree taking into account the amendments made by this law, and (ii) the decree establishing the mechanism for the implementation of targeted financial sanctions related to terrorism, the financing of terrorism and the financing of the proliferation of weapons of mass destruction. We will validate the report of the national assessment of the risks of money laundering and terrorist financing submitted on November 2, 2023, by the Council of Ministers by the end of June 2024. We will adopt in the Council of Ministers the midpoint update of the national AML/CFT strategy 2022-2026, which will reflect the conclusions of the national risk assessment. Finally, we will adopt the necessary regulatory texts for the establishment of the national register of beneficial owners, which will facilitate the prevention and detection of AML/CFT offences and contribute to better asset recovery. Beyond that, we will continue our capacity-building efforts, including financial capacity as recommended by the ESAAMLG high-level mission, and work on the appointment and

operationalization of supervisors of designated non-financial institutions and professions. All of these measures will allow us to remain compliant with the requirements of international standards and thus avoid inclusion in the FATF's "grey list".

44. As transparency is a condition for good governance, we will continue the good practices of communicating to the public all the actions undertaken by the SAC through the regular availability to the general public of activity reports and various statistics related to their respective activities. Over the next three years, based on the findings and recommendations of the GDA, we will also strengthen citizens' access to information to ensure better oversight of public action and adopt the necessary texts to guarantee access to information and to protect whistleblowers.

45. In terms of public finances transparency, we are continuing our efforts, particularly regarding public procurement. We have strengthened the legal framework for public procurement through the adoption of a new Code of Ethics for Civil Servants that defines the penalties for violations of public procurement rules, as well as two decrees strengthening the professionalization and appointment procedures of persons responsible for public procurement and bringing the Tender Committee into line with the Public Procurement Code. We are also committed to:

- Continuing to publish budget execution reports on a quarterly basis and improving their content as new classifications become available.
- Publishing the audited financial accounts of all public enterprises on an annual basis.
- Preserving and strengthening the achievements in terms of access to information for the *Cour des Comptes*, particularly regarding access to the State's financial information systems.
- Regularly publishing on the website of the Public Procurement Regulatory Authority (ARMP) the public procurement contracts awarded and publishing the beneficial owners of these contracts. We are committed to better identifying and publishing these beneficial owners in accordance with the international standards in force.
- Strengthening consultation and exchanges with civil society organizations for the drafting of finance laws and before the adoption of new public policies. In this regard, we have initiated consultations for the establishment of the Economic, Social and Cultural Council provided for in the 2010 Constitution, to facilitate the participation of civil society in the debate on the country's policies.

46. Regarding tax and customs administrations, we will also ensure that internal control mechanisms are strengthened. In addition to the increased visibility provided by the tax and customs dashboard mentioned above, we are counting on the Fund's support through the GDA mission to help us identify measures to improve internal control mechanisms and reduce vulnerabilities to corruption.

47. In accordance with the principles of good governance, we will take the necessary measures to ensure free and fair competition in the productive sectors. We will ensure that transparency is improved on the activities, projects, and finances of the National Vanilla Council, which benefits from a contribution of US\$4 per kilogram of dried vanilla exported for its activities. We will avoid any restrictions on exports from the agricultural sector, which plays a key role in Madagascar's economy and employs a considerable number of people.

48. Improving the business climate remains at the forefront of our concerns. We are making progress in the digitization of tax payments, the issuance of work permits, the establishment of a credit bureau, as well as in the operationalization in the coming months of electronic processing and systematic VAT reimbursement via the escrow account. This should make it possible to reduce VAT credits arrears. In addition to legislative reforms, such as the overhaul of the Investment Law, the Tourism Code, the Foreign Exchange Code and the Labor Code, we also intend to continue our efforts to digitize business creation via the ORINASA platform with the deployment of the platform in all regions. The same applies to the deployment of the digital platform for the issuance of building permits, which is already operational in the urban municipality of the capital. We will also pay special attention to infrastructure development, housing, uninterrupted electricity supply, industrialization, liberalization of the telecommunications sector, development of the mining and tourism sector, and improvement of agricultural productivity.

49. We reiterate the commitments we made under the previous ECF-supported program to strengthen transparency and limit the fiscal risks associated with the operationalization of the Malagasy Sovereign Fund (FSM). In this regard, at the beginning of May 2024, we adopted a first decree on the reserves rate to be maintained by the FSM. The decree implementing the law of September 2021 creating the FSM is under preparation with UNDP support. We will ensure that: (i) the FSM priorities are further clarified in order to avoid conflicting objectives and maximize the effectiveness of the fund; (ii) the modalities of financing the fund are specified so as not to create a risk of contingent debt, nor contravene the principle of budgetary unity, in particular by avoiding any allocation of budgetary revenues; (iii) the possible ability of the FSM to commit the State's signature on investment projects or PPPs involving public payments is limited to avoid the associated contingent liabilities; and (iv) the transparency and good governance of the fund is ensured through the submission to Parliament and the regular publication of annual reports and financial statements.

Pillar 3: Strengthening Monetary and Financial Stability

50. We will continue the reforms already initiated at the level of Banky Foiben'i Madagasikara (BFM) to strengthen the operational framework of monetary policy. The new interest rate targeting operational framework came into effect in February 2024 with the validation and publication of a comprehensive implementation strategy, a money market intervention guide, and a methodology for calculating and publishing the reference rate, as well as a calendar of quarterly meetings of the Monetary Committee. The indicative timetable for BFM's interventions on the money market, starting in 2024, has also already been published. We will ensure that we conduct day-to-day liquidity management operations to keep the interest rate on overnight interbank blank

loans in the middle of the interest rate corridor defined by our deposit facility and marginal lending rates. In addition, we are working to improve our medium- and long-term liquidity forecasts and develop our monetary analysis to better understand the monetary policy transmission mechanisms under the new operational framework.

51. We will undertake the reforms necessary to develop the secondary market for government securities. Based on the recommendations of the IMF and the International Finance Corporation, we will, among other things, review the functioning of the primary dealer system and set up a single central securities depository (CSD) for all government securities before the end of December 2024 (**structural benchmark 8**). We will encourage banks to conduct repo operations among themselves, to ensure the development of this market.

52. We are also working to improve our communication on monetary policy decisions. The improvement of BFM's communication policy aims to better anchor expectations and improve the effectiveness of monetary policy. The good practices already adopted will be maintained and strengthened for greater transparency, accountability, and credibility of our institution. We are considering preparing a quarterly report presenting the analyses underlying monetary policy decision-making, which will strengthen our communication framework for better anchoring expectations and a better understanding of our actions.

53. We will ensure that BFM's independence is preserved and strengthened. Independence in decision-making will forge our credibility as well as our effectiveness in achieving our inflation objective and the success of our mission. Therefore, we will always stand ready to make the necessary adjustments to the interest rate to keep inflation at a level that will not hurt the economy.

54. We are also committed to reviewing the strategy for managing BFM's interventions in the foreign exchange market while continuing to improve the functioning of the interbank currency market. We recognize the value of a floating exchange rate regime in absorbing external shocks and preserving monetary policy autonomy. On the regulatory front, BFM will continue its collaboration with the Ministry of Economy and Finance for the finalization of the preliminary draft law on foreign exchange. In terms of market improvement, two projects are underway, namely (i) the infrastructure modernization through the search for a new platform integrating negotiations, market information, auctions, and other data processing systems; and (ii) the adherence to the FX Global Code within the framework of the Foreign Exchange Association to align with international standards and best practices and enhance the confidence and credibility of the market. We sent a request for technical assistance to the Fund to assist us on the use of a risk-based foreign exchange market intervention model as well as support in the process of adhering to the FX Global Code (a first part was carried out in April 2024). Since last year, following the request of the oil companies, we have been thinking about the implementation of forward operations.

55. BFM remains committed to continuing to diversify its gold reserves within the framework and limits discussed with Fund's staff. As part of the diversification of our foreign exchange reserves, we have introduced monetary gold into our holdings. This has led us to update our foreign exchange reserve management strategy, develop an operational strategy for gold purchases before any resumption of unrefined gold (*doré*) purchases, and revise the Memorandum

of Understanding with the Ministry of Mines and Strategic Resources (MMRS). We are committed to respecting the terms of these documents, notably regarding the purchase price of *doré*, and to minimizing the period of holding of *doré* on BFM's balance sheet to reduce financial risks. We are also committed to limiting the share of monetary gold in our total reserves to 8 percent (+/- 2 percent), with an investment horizon set at 10 years.

Pillar 4: Fostering Inclusive, Strong, and Sustainable Growth

56. We are committed to further strengthening our social protection system. Over the past three years, we have made significant progress in strengthening social protection with the help of our technical and financial partners. In particular, we have increased the number of individuals and/or households benefiting from social protection, increased the allocation of funds from the country's own internal resources for the implementation of social safety net activities, and improved the effective disbursement of allocated funds in a timely manner to ensure the implementation of planned activities. We have set up a single social registry that will serve as a reference for all social protection activities undertaken in the country through a pilot project that has collected information on an increasing number of households. We have updated our social protection strategy and a directory of interventions to guide our future interventions. To consolidate these advances, we will ensure that we continue to expand the coverage of the social registry (**structural benchmark 11**), adapt the legal framework of the CNAPS to extend contributory coverage to the fund to self-employed workers, and extend the food bank program (**structural benchmark 10**).

57. We will continue our efforts to promote financial inclusion. The rise of mobile money has helped to promote the expansion of financial services and the diversification of the services offered, ranging from simple money transfers between individuals to more developed services such as paying bills, receiving salaries, saving money, and obtaining credit. However, despite this important progress, the access rate to financial services in Madagascar remains among the lowest in the Sub-Saharan Africa (SSA) region. In 2021, among the population of adults aged 15 and over, only 26 percent had access to financial services, through accounts hosted in financial institutions or mobile money accounts, compared to 55 percent in SSA countries. Notable advances in financial inclusion include:

- The modernization and simplification of public operations through services digitalization. We have successfully introduced the possibility of declaring and paying our taxes online. We have also initiated the payment of the salaries of certain civil servants via mobile money, including for those in remote and isolated areas, such as FRAM teachers, as well as the payment of student scholarships at all universities in the country, through the implementation of the e-Poketra. Social protection remittances, particularly during the COVID period, have also contributed to improving financial inclusion.
- Improving access to information with the establishment of public credit registers and private credit bureaus to facilitate credit granting activities.

- The strengthening of the legal, regulatory, and institutional framework that has led to the adoption of various documents, laws, and basic texts necessary to promote access to and use of financial services.

58. In order to consolidate the gains, we will work to implement the following actions:

- Work on a new national financial inclusion strategy. As the previous strategy expired in 2022, it is important to have a new one to clarify our intentions in terms of financial inclusion and frame the actions we intend to initiate.
- Launch the various Finscope surveys, depending on the availability of funding, to measure the actions taken under the previous strategy while collecting information to feed the new one.
- Operationalize the platform that was developed to host the Financial Inclusion Database to improve the availability of information on the state of financial inclusion in the country, the activities undertaken, and the results achieved.
- Continue the efforts of popularization of and education on financial and digital services to anchor the culture of using financial services through integrating the theme of financial education into the teaching program.
- Addressing the various challenges at several levels to promote financial inclusion in collaboration with our technical and financial partners. These challenges include, inter alia: (i) improving regulation; (ii) establishing financial infrastructure (fintech); (iii) developing new tools to further strengthen customer identification in the granting of credit, transparency, and competitiveness; (iv) improving access to electricity; (v) strengthening connectivity via the internet and mobile; (vi) strengthening consumer protection; (vii) accelerating financial and digital education efforts.
- Deepen our reflection on the interest of the e-ariary project and intensify exchanges with stakeholders on this subject. Officially launched in March 2021, the study and preparation phase will be spread out until April 2025, before deciding on the interest of a potential pilot experimentation phase.

59. We intend to operationalize the National Payment Switch in order to promote the interoperability of existing digital payment systems. After a suspension of almost a year, due to the closure of the Madagascar Financial Inclusion Project (PIFM) at the end of 2022, and following the transfer of funding from the Switch project to the Integrated Growth Pole Project (PIC3), financed like the PIFM by the World Bank, a new contract between the platform provider and the PIC3 was signed in February 2024 to restart the work on the implementation of the national payment switch at the level of BFM. This project, which aims to facilitate and secure electronic transactions between the various players in the financial system and companies, is entering the phase of finalizing the work of installation and configuration, for commissioning in 2025. The implementation of the switch is a decisive step in promoting financial inclusion in the country. It will not only allow interconnectivity between the different players in the financial system, but also their

interoperability by ensuring the compatibility, speed, and security of all electronic means of payment.

60. We will continue our efforts to strengthen financial stability. Comprising 33 institutions in 2023, our financial system is marked by the preponderant weight of the banking system. The latter, despite the pandemic, has remained healthy, profitable, liquid and relatively insensitive to market risks.

- At the micro-prudential level, we have already taken the necessary instructions to bring the definition and the capital requirement into line with the standards set by Basel III. We will proceed with the next steps to complete the process. The same applies to the establishment of new liquidity ratios in accordance with the recommendations of Basel III. We have already adopted in 2023 the instruction establishing these new ratios for banks and financial institutions, and we will finalize the remaining steps in the coming months. We will also complete the adoption of the various priority texts necessary for the implementation of the new banking law, including the texts on risk concentration; related parties; credit institutions licensing fees; licensing of these institutions; criteria for classifying banks as systemic banks and the Statement on the Preventive Recovery Plan for credit institutions.
- We are contemplating a comprehensive and in-depth analysis of our financial system. To this end, we have requested a Financial Sector Stability Review by the IMF to refine the stress tests that we conduct on a regular basis and to identify the factors that could possibly be sources of vulnerability for our banking sector.
- Finally, we will redouble our efforts to adopt and enact the Financial Stability Law before **June 2025 (Structural Benchmark 9)**, an important step in strengthening our system of macroprudential supervision of the financial system as a whole.

FIGHTING CLIMATE CHANGE WITH THE SUPPORT OF THE RESILIENCE AND SUSTAINABILITY FACILITY

61. Strengthening the country's resilience to climate change remains a top priority for Madagascar. Our country is one of the most exposed and affected by climate change. The 2021 Climate Risk Index ranks Madagascar 12th out of 180 countries in terms of weather-related losses (cyclones and floods). Climate change, including longer and more severe droughts, heat waves and cascading impacts on water resources, is expected to worsen. Aware of the magnitude of these challenges, Madagascar updated its Nationally Determined Contribution (NDC) in 2022 and formalized its National Adaptation Plan (NAP) in 2021. Several sectoral strategies have also been developed. Climate change adaptation and mitigation activities must now be in line with these documents.

62. In this regard, we commit to undertake the necessary reforms to address current and future climate risks. The actions envisaged in the program supported by the Resilience and Sustainability Facility (RSF) will help us advance our ambitious climate reform agenda. This agenda

benefits from the diagnostics carried out by the IMF in 2022 under the Climate Macroeconomic Assessment Program (CMAP) and by the World Bank under the upcoming Country Climate and Development Report (CCDR). This latest report highlights that our aspiration to become an emerging market by 2040 will be derailed if we fail to cushion the effects of climate change on the environment and on the population.

63. To this end, the reforms supported under the RSF will aim to address the long-term challenges related to climate change. They will be structured around five (05) main pillars, namely: (i) strengthening climate governance and integrating the climate issue into public financial management (PFM) / public investment management (PIM) processes; (ii) enhancing adaptation and building resilience to climate change; (iii) curbing the growth of greenhouse gas (GHG) emissions; (iv) strengthening the protection of forests and biodiversity; (v) mobilizing climate finance.

64. We have designed the reform measures (RMs) under the RSF with a strong focus on implementation and attention to secure support of partners. We confirmed assistance in implementing RMs with the World Bank and other partners, particularly in areas that are not covered by the IMF's core expertise and capacity to deliver technical assistance (TA). We exchange regularly with our partners in our coordination group with international donors (*Plate-forme de suivi de l'environnement*) and will continue to reach out to this group for additional support as needed. We have frontloaded – especially under the first pillar – the RMs that can serve as catalysts for future progress, while pointing out areas where reforms are not yet mature and could benefit from additional preparatory work, such as agriculture or clean cooking.

Pillar 1: Strengthening Climate Governance and Integrating Climate into our PFM and PIM Processes

65. We will take the necessary steps to strengthen the country's overall climate governance framework. The CCDR's diagnostic of the governance of climate policies points to limited awareness of the current and future impacts of climate change and the absence of an effective mechanism for high-level coordination between all the structures involved in the fight against climate change, with a long-established Inter-Ministerial Committee for the Environment (CIME) largely unable to play this role and a Ministry of Environment and Environment. sustainable development (MEDD) with limited institutional weight. To address this concern and pave the way for the success of future reforms, we will *adopt a decree clarifying the mandate of the CIME to cover all climate policies. The decree will provide that the committee will be chaired by the Prime Minister and that it will hold semi-annual meetings with publicly disclosed reports. The Committee will be supported by a technical secretariat shared between the MEDD and the MEF to operationalize climate policies and monitor their implementation (RM1, end October 2024).*

66. We will build on previous reforms of our PIM framework to make it climate sensitive. With the support of the World Bank and IMF/AFS technical assistance, we adopted a new PIM Decree (Decree 2023-255) and a PIM Handbook covering the entire lifecycle of public investment projects. We will now work to integrate climate-related considerations into this updated PIM framework. First, with the technical assistance of partners, we will *adopt a new decree on environmental impact assessments (EIAs) to replace a 2004 decree that poorly reflected concerns about*

climate adaptation and mitigation and adopt and publish criteria for the prioritization and selection of investment projects that including integration of elements related to climate change (adaptation, mitigation, and resilience) (RM2, end October 2024).

67. We will use this new climate-sensitive PIM framework to make the most of our public investment effort and increase its resilience. To this end, with the support of the technical assistance of the IMF/AFS and the World Bank, we will *adopt a decree to make it compulsory to produce every year a budget document listing the investment projects selected for the public investment program and explaining how the selection criteria have been applied, notably with respect to the effective application of the criteria related to climate adaptation and mitigation, and we will produce a first report in accordance with this obligation in the context of the 2027 budget (RM3, end October 2026).*

68. We will implement Climate Budget Tagging (CBT) to provide a comprehensive view of the weight of climate-related spending in our budget. This will build on the work on PFM reforms (including budget classification reform) supported by the IMF through a resident advisor. With IMF TA, *we will adapt the budget classification to allow for the tagging of climate-related adaptation and mitigation spending and annex a first climate budget statement (CBS) to the 2026 draft budget law (RM4, end October 2025).*

69. Taken together, these reforms will be major catalysts for further progress on the climate agenda, which is why they will be largely frontloaded. In particular, we will use the reactivated CIME to closely monitor the implementation of the reforms agreed under the RSF and explore future reform priorities. Green PFM and PIM reforms will help us live up to our commitment as a member of the Coalition of Finance Ministries for Climate Action. These reforms will be mutually reinforcing with other PFM and PIM reforms, such as the multi-year budgeting improvements expected under the ECF program. They will also complement efforts already underway in specific sectors, such as the focus on road construction and maintenance with the support of the World Bank, including through its Development Policy Operation (DPO) project.

Pillar 2: Strengthening Climate Change Adaptation and Resilience to Natural Disasters

70. We will implement the necessary adaptation measures to strengthen our resilience to climate change. Climate change is expected to have a significant impact on Madagascar's economic development and, depending on the climate scenario, may lead to a significant increase in poverty. Adaptation issues are particularly important in several sectors identified in our NAP, including water and agriculture, two priorities of our PGE, as adopted in 2024. Madagascar is also committed to developing urban and rural development plans that incorporate building standards that are resilient to extreme weather events and to establishing early warning systems for natural disasters, enabling rapid evacuation and response.

71. We will reform water governance to help address climate challenges. Water has been identified as one of the main sectors affected by climate change. The expected increase in the frequency and intensity of droughts and floods will have negative consequences for agriculture and food security. Smallholder farmers who rely entirely on rain-fed agriculture are particularly

vulnerable. Institutional and policy reforms are therefore needed to improve the management of available water resources and thus increase the resilience of the agricultural sector. To this end, we will *approve in the Council of Ministers, by November 2025, a bill to update the 1998 Water Code, with a view to integrating climate change into the overall water policy and reinforcing the overall policy framework for integrated water resources management (IWRM), including by strengthening the National Authority for Water and Sanitation's (ANDEA) institutional framework (RM5, end October 2025)*. We will have the support of the European Union's TA to take this step and we will closely link this reform with the World Bank's ongoing projects in the water sector to maximize its impact.

72. On agriculture, we remain firmly committed to the development of climate-smart agricultural practices and will continue our efforts to develop agricultural-index insurance against climate disasters. In this sense, we will intensify the promotion of climate-smart agricultural techniques such as PFUMVUDZA (Zimbabwean model, a variant of agroecology, which integrates minimal perturbation to the soil, maintaining a straw cover and rotating cultures), as well as the use of seeds and animal species adapted to climate change and the conditions of each agroecological zone, such as short-cycle varieties. In addition, we will encourage the adoption of more sustainable water use techniques, such as drip irrigation and buried water tanks full of sand. To strengthen the resilience of our farmers to climate disasters, we will conduct a feasibility study on the extension of agricultural insurance. This study will explore how to overcome the barriers to adoption identified in the small-scale pilot projects supported by the German Cooperation (GIZ) and the World Food Programme (WFP) in the South of Madagascar which are: (1) lack of interest from insurance companies operating in the domestic market, (2) limited availability of climate data at the granular level, (3) difficulty in reaching an informal agricultural sector dominated by subsistence farmers. The study will be available by October 2024 and will inform our plans to move forward with the implementation of a large-scale agricultural index insurance mechanism.

73. Resilience to natural disasters is of paramount importance for Madagascar and the country has already made significant efforts. As the country most affected by cyclones in Africa, with 35 cyclones hitting Madagascar in the last 20 years and a high exposure to drought, we have a long-standing National Disaster Risk Management Strategy (SNGRC, first adopted in 2003 and updated to cover the period 2016-2030). We have recently complemented it, with the support of the African Development Bank, with a Disaster Risk Financing Strategy (2023). At the same time, following the finalization last year of the mid-term review of the Sendai Framework for Disaster Risk Reduction, we also envisage to conduct an interim review of our SNGRC. Together with our donor partners in the *Cash Working Group* (including the World Bank and UNICEF), we have also made efforts to develop climate-responsive social protection, with the adoption in 2023 of manuals covering disaster-responsive social protection in the event of cyclones and droughts.

74. We will continue to build momentum to increase investments to build community resilience. As part of the collaboration with the African Risk Capacity (ARC) and the African Development Bank through the ADRiFi (Africa Disaster Risk Financing) program, Madagascar is currently working on the construction of Multi-Purpose Community Shelters (ACUM). An ACUM is an adequate infrastructure with a capacity of 1,000 people designed to serve as accommodation sites for victims in the summer period in the event of a cyclone or flood and to be used for multiple

functions in normal times (storage, community granary, training or meeting rooms). The construction of ACUMs, developed according to an approach aimed at limiting the risks of gender-based violence, makes it possible to provide a sustainable solution to the problems of lack of permanent accommodation sites in the event of a climate crisis and to preserve the education system by avoiding the use of school buildings as shelters for disaster victims. In terms of housing, we will also continue our efforts to promote the construction of traditional housing forms that are more resistant to climatic hazards.

75. Much remains to be done, however, as climate change is expected to increase the frequency and intensity of cyclones and require a more effective Early Warning System (EWS).

With the support of the United Nations "EWS for All" initiative, we have started working on the gaps in our EWS identified in the upcoming CCDR, to implement an EWS that effectively reaches local communities to improve disaster preparedness and mitigate loss and damage. To this end, we will adopt by November 2025 an Order in Council as part of the National Disaster Risk Management Strategy that clarifies roles and responsibilities related to EWS, including those of the private sector, with the support of standard operating procedures to allow for near real-time data exchange for the communication and dissemination of alerts between relevant government agencies, with the aim of ensuring the dissemination of alerts, triggering the anticipatory actions by communities or targeted sectors, and enabling the rapid dispatch of an emergency response by the relevant authorities.

76. To make our EWS more effective, it is crucial to put in place a more structured governance around the following four main pillars: knowledge of risks, observations and forecasts, dissemination, and communication, as well as preparation and response.

This involves a sustained support for the process to decentralize the National Bureau for Disaster Risk Management (BNGRC), not only through the operationalization of existing territorial offices but also through the construction of new offices in regions exposed to risks, ensuring that every level of government has the requested capacity to effectively respond to emergencies. Moreover, the integration of information and communication technology is essential to improve the speed and effectiveness of the collection and diffusion of data. Strengthening these aspects will enable us not only to improve the resiliency of communities against disasters, but also to optimize the resources and efforts of all stakeholders involved in disaster risk management.

77. We will continue to streamline our payment systems in the event of an emergency.

We have taken a crucial step by developing our Disaster Risk Financing Strategy through a participatory approach as part of the collaboration with the African Development Bank through the ADRiFi program. This document calls for the capitalization of achievements and the sustainability of existing risk financing mechanisms. While we already have elements of a layered disaster risk financing model (including through the African Risk Capacity drought and cyclone insurance policy) and are working to further improve our insurance mechanisms (including through the World Bank's REPAIR regional project), the strategy highlights the need to streamline emergency payment systems to enable swift disbursements. To address these concerns, we will adequately budget the recently established National Contingency Fund (FNC) and update the FNC allocation annually based on a historical disaster needs assessment complemented by an analysis of the consequences of increasing frequency and scale of climate disasters. With the support of the World Bank, *we will also*

approve the necessary implementation regulations to simplify PFM processes for disaster-related expenditures and operationalize the FNC, while ensuring adequate transparency and reporting of expenditures for each selected type of hazard (RM6, end April 2025).

Pillar 3: Support Efforts to Curb the Growth of GHG Emissions

78. Although our emissions are still at a very low level, we are keen to adopt the tools for low-carbon development, in line with our commitments under NDC2. In Madagascar, per capita carbon emissions remain low compared to other countries in the world and even in continental sub-Saharan Africa. Their composition is heavily skewed towards land use, land-use change, and forestry (LULUCF) and agriculture (80 percent of the total). Nevertheless, we have committed to significantly reduce our GHG emissions, including by significantly expanding hydropower and renewable energy sources (from 40 percent currently to around 85 percent in 2030) as part of efforts to increase our electricity access rate (from 33 percent of households currently to 70 percent by 2030) in line with the Sustainable Development Goal 7 Implementation Plan, adopted in 2022. Energy sector reforms undertaken with the support of the World Bank through its DPO operation place emphasis on energy efficiency standards and a stronger regulatory framework that can facilitate private sector participation in renewable energy projects.

79. Aware of the significant impact of urbanization on GHG emissions. Madagascar is committed to promoting sustainable urban and territorial planning. We will significantly increase urban green spaces by developing public parks and gardens that will serve as carbon sinks and improve the quality of life of citizens. We will launch a national urban reforestation program, in partnership with municipalities, schools, and civil society organizations, to plant native trees and promote biodiversity while absorbing atmospheric CO₂. Through policies that promote public transport and reduce dependence on private vehicles, we will contribute to the reduction of CO₂ emissions. Finally, as part of our spatial planning policy, we will work with local authorities to optimize land use and prevent urban sprawl, to create compact and efficient cities, thereby reducing emissions from heating, cooling, and transport.

80. We will continue our efforts to fully restore price signals for different types of fuels. Building on the progress already made with the automatic fuel pricing mechanism (prior action under the ECF program) and the expected success of the solar kit program to reduce the need for kerosene for the most vulnerable populations, *we will fully eliminate fuel price subsidies resulting from an administered retail price (PMAP) that has durably been below the calculated reference price (PRC) (RM7, end April 2026).* It will also increase fiscal space for resilient public investment.

81. We will gradually increase taxes on diesel to bring them into line with the rates applicable to gasoline. Excise taxes and road maintenance charges are currently lower for diesel than for gasoline - a difference that does not correspond to environmental externalities or the respective impact on road infrastructure of diesel vehicles compared to gasoline-powered cars, and which has favored a largely diesel-oriented fleet structure (60 percent of total consumption of fuel products). *We commit to gradually raise excise taxes and other levies on diesel fuel to align them to the level applicable to gasoline (RM8, end October 2026).* We will also benefit from the support of

the World Bank to prepare and implement mitigation measures for the most vulnerable groups, including public transport vehicles and their users.

82. To go further, we will seek the support of technical and financial partners to carry out studies on the socio-economic and fiscal impact of tax or customs reforms relating to energy.

These would involve the implementation of tax reforms (reform of the taxation of oil products, carbon tax on fuels and charcoal, and taxes on motor vehicles) or customs reforms on the customs clearance of petroleum products. On this last point we already have the terms of reference for a study designed to produce a roadmap anchored on the results of this study and including a time plan, accountable administrative departments as well as realistic and transparent targets. In this regard, we would like to point out that the tariff structure of the Malagasy customs already promotes the use of renewable energy and electric or hybrid cars.

83. We will continue our efforts to facilitate the production of renewable energy and promote access to affordable electricity for all in rural areas.

As highlighted by the CCDR currently being finalized, the country is already one of the most active markets in sub-Saharan Africa for mini-grids and off-grid installations for solar energy or small hydropower, thanks to a favorable fiscal framework, donor initiatives (World Bank's Off-Grid Market Development Fund, AFD's SUNREF) and the support of the Agency for the Development of Rural Electrification (ADER). We will aim to amplify this dynamic through the operationalization of a dedicated financing vehicle created by Law 2017-021 on the Sustainable Electricity Development Fund (FNED). This dedicated financing vehicle will benefit from contributions from the State's budget and levies paid by JIRAMA as the incumbent operator; it will also be able to benefit from the support of partners such as GIZ who are interested in rural electrification. The FNED will be able to rely for the examination of projects on the technical expertise of ADER, which will have to be strengthened in its resources and staff. It may possibly conclude one or more agreements with banks or credit institutions to distribute assistance in the form of guarantees or loans, in addition to subsidies that FNED may pay directly. To this end, we *will adopt the decree on the FNED and operationalize the FNED financing mechanism to support off-grid and mini-grid electrification and proactively incentivize private sector funding, with at least a total of 11.5 MW in newly installed renewable energy production capacity arising from operations supported by FNED. (RM9, end April 2026).* In addition to GIZ, this measure will be able to benefit from technical assistance from the World Bank.

84. We will also look at ways to shift the composition of our motor vehicle fleet towards more energy-efficient vehicles and electric vehicles. We are working on the development of an e-mobility program and are planning the development of the necessary charging infrastructure. We are also working on a motor vehicle registration tax (*vignette*) that could be linked to the level of GHG emissions and energy efficiency standards, while exploring options to avoid a negative impact on the most vulnerable households.

85. We will also work to expand clean cooking, to address a major source of GHG emissions and air pollution, generating significant health co-benefits. With UNIDO's support, we are preparing a development policy letter for clean cooking. This will identify regulatory

measures or financial incentives to support the spread of clean and energy-efficient cookstoves, in a context where 97 percent of households (2020 data) depend on firewood and charcoal.

Pillar 4: Strengthening the Protection of Forests and Biodiversity

86. In addition to efforts to build resilience to climate change, we will take the necessary steps to protect forest ecosystems. Deforestation reduces resilience to natural disasters and negatively affects the link between water, energy, and food. Forest cover decreased from 29 to 21 percent between 2000 and 2020 (CCDR).

87. We will step up our efforts to combat deforestation and encourage reforestation through REDD+. We can build on the experience gained from the 2018 national REDD+ strategy and the existence of an effective Measurement, Reporting and Verification (MRV) mechanism implemented under the World Bank's Forest Carbon Partnership Facility (FCPF). We want to broaden the scope of this mechanism to stimulate the participation of the private sector in the effort and also to cover reforestation projects, beyond projects related to avoided deforestation. To this end, we will, with the support of the World Bank, *revise decree 2021-1113 to improve the participation of the private sector and extend the scope of the REDD+ mechanism to reforestation projects (RM10, end April 2025).*

88. We will build on other actions that can help protect forests and ecosystems. We will adopt a new forestry code, developed with the help of FAO, which will provide a better framework for the regulation of commercial logging, the control of forestry and the establishment of a sustainable financing mechanism. We will also build on ongoing efforts to improve the implementation of land legislation at the communal level to incorporate protected area concerns.

Pillar 5: Mobilizing Climate Finance

89. We are committed to presenting a bold vision of mobilizing climate finance from different sources to implement our climate change agenda. Madagascar has the potential to be an attractive destination for climate investments with multiple adaptation and mitigation co-benefits. Currently, the private sector accounts for only 5 percent of total climate finance flows in the country, 70 percent of which is for the energy sector (source: African Development Bank report). The World Bank's upcoming CCDR report highlights several opportunities for private sector investment. Taking full advantage of these opportunities requires that the fundamental regulatory and institutional mechanisms are in place, first and foremost a climate finance mobilization strategy, a national green taxonomy, and a commitment to update the regulatory framework so that Madagascar is ready to take full advantage of Article 6 of the Paris Agreement when UNFCCC rules are finalized.

90. We want Madagascar to be ready, at the regulatory and institutional levels, to participate in the mechanisms provided for in Article 6 of the Paris Agreement. We acknowledge that Madagascar's current regulatory framework (Decree 2012-690) has not been updated since the Kyoto Protocol was replaced by the Paris Agreement in 2015. With the support of the World Bank and building on a gap analysis funded by the UK Embassy, we will adopt the

necessary legal texts for the overhaul of the Clean Development Mechanism's designated national authority and the adaptation of carbon project approval procedures to comply with Article 6 of the Paris Agreement. These texts will outline the rules, modalities, and procedures for the development of activities with eligible adaptation and/or SDG co-benefits under the Article 6 collaborative framework, in addition to enabling Madagascar to meet its reporting obligations under the Agreement.

91. Given Madagascar's abundance of natural capital, a climate finance strategy will strengthen Madagascar's position on the global and national stage as an attractive destination for climate investments with adaptation and mitigation co-benefits. We recognize that this requires a greater focus on developing a bankable pipeline of projects, with incentives in place to attract multiple sources of capital. We are fully aware that the private sector must be a key stakeholder in this bold vision. Taking full advantage of reforms to improve the business environment under the ECF program, climate governance reforms under the first pillar of the RSF to strengthen inter-ministerial coordination, and with the assistance of interested development partners and input from the private sector, we commit to *adopt an inter-ministerial decree on a climate finance mobilization strategy that prioritizes key areas of investment stipulated in national framework documents with a tentative budget, options for innovative blended financing mechanisms, and a timeline for implementation (RM11, end October 2025).*

92. We commit to create, through a green taxonomy, an enabling environment for the development of green financial products by the financial sector and to incentivize the private sector to invest in projects with adaptation and mitigation co-benefits. In the context of a symposium organized by the Central Bank of Madagascar (BFM) in September 2023 on the impacts of climate change on the Malagasy economy, we published the "Antananarivo Declaration on Climate Change and Financial Innovation: From Challenges to Opportunities for Central Banks" to highlight the implications of climate change on financial stability. This declaration also led to the creation of a working group within BFM to strengthen the central bank's preparedness for climate risk management. With the support of the IMF's MCM Department, we *will adopt a decree to implement a national green taxonomy to inform all green and climate-related investments (RM12, end April 2027).* As an intermediate step towards the realization of this RM, we will establish by May 2025 a steering committee with the MEF, MEDD, BFM and other key stakeholders, including private sector participants, to inform the drafting process. We will also follow best practices from international networks such as the Network for *Greening the Financial System (NGFS)* and the *Sustainable Banking and Finance Network (SBFN)*.

DATA QUALITY

93. We are committed to producing and disseminating quality statistical information in a timely manner to ensure rigorous monitoring of the program. To this end, we will provide our National Statistical Institute (INSTAT), as well as our other departments in charge of statistics, with the financial, human, and material resources necessary to effectively carry out their respective missions. As in the past, we are counting on the support of our partners to support us financially and technically. In addition to improving the quality and frequency of production of existing statistics,

we also plan to produce new statistics to further improve the availability of economic information in the long-term. Among the projects under consideration are: (i) the launch of a survey to produce a producer price index (PPI); (ii) improving the calculation and publication of national accounts statistics through more disaggregated data; and (iii) the publication of new foreign trade indicators and industrial production indices (IPI).

94. In the shorter term, we will work to complete the following activities:

- Complete and publish the results of the latest Continuous Household Survey (CHS2021) to provide more up-to-date information on household living conditions and poverty.
- Update the information on the household reference consumption basket for the calculation of the Consumer Price Index (CPI) using the results of the 2021 Continuous Household Survey (CHS).
- Finalize and publish GDP data from 2021 to 2023, according to the publication schedule, to allow better monitoring of the country's economic situation.
- Update the information on the National Data Summary Page (NSDP), to improve data transparency.
- Continue preparations for a series of surveys on diaspora remittances (formal and informal) to better assess their weight in the country's GDP.
- Continue the process of including statistics on the activities of the insurance sector in monetary statistics in accordance with the guidelines of the Monetary and Financial Statistics Manual and the compilation guide.
- To carry out the migration to sixth edition of the Balance of Payments Manual, with the support of requested technical assistance.
- To support the Ministry of Agriculture and Livestock in the launch and implementation of the agricultural census, which has been long delayed.
- Move forward on the project to rebase the national accounts.
- Implement regular and reliable collection of data on capital grants.

PROGRAM MONITORING PROCEDURES

95. Under the ECF arrangement, the program will be reviewed semi-annually and will be evaluated based on periodic and continuous performance criteria, indicative targets, and a monetary policy consultation clause (Table 1). Progress on structural reforms will be assessed according to structural benchmarks (Table 2). Detailed definitions, calculation methods and reporting requirements for all performance criteria will be specified in the *Technical Memorandum of Understanding (TMU)* attached to this memorandum. The TMU will also define the scope and frequency of data to be reported to IMF staff for program monitoring. Throughout the duration of the program, the authorities will not introduce restrictions on current payments or multiple currency practices without the prior approval of the IMF in accordance with Article VIII of the IMF's Articles of

Agreement. The first and second reviews of the program will be held on or after November 30, 2024 and May 30, 2025 respectively, based on performance criteria on the test dates of end-June 2024 and end-December 2024.

96. Under the RSF-supported arrangement, progress will be measured through the achievement of the reform measures detailed in Table 3.

Table 1. Madagascar: Quantitative Performance Criteria and Indicative Targets
(Billions of ariary; unless otherwise indicated)

	Jun-24	Sep-24	Dec-24	Mar-25
	Target	Target	Target	Target
Continuous Performance Criteria				
Ceiling on accumulation of new external payment arrears	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	800	800	800
Performance Criterion				
Floor on primary balance	PC	IT	PC	IT
Floor on net foreign assets (NFA) of BFM (millions of SDRs)	-500	-1,100	-2,300	100
	1,084	1,076	1,071	970
Monetary Policy Consultation Clause²				
M3 growth (upper band, percent)	16	16	16	16
M3 growth (mid-point, percent)	12	12	12	12
M3 growth (lower-band, percent)	8	8	8	8
Indicative Targets				
Floor on domestic primary balance ³	700	720	120	800
Floor on total gross tax revenue	4,300	6,500	8,800	2,500
Ceiling on outstanding domestic arrears	730	640	496	421
Floor on social spending ⁴	739	1,739	2,900	450
Memorandum Items				
Official external budget support (grants, millions of SDRs) ⁵	0	0	0	0
Official external budget support (loans, millions of SDRs) ⁵	0	124	124	0
External project loans (millions of SDR) ⁵	199	298	398	124
Program exchange rate (MGA/SDR)	5,768	5,768	5,768	5,768

Sources: Madagascar authorities; and IMF staff projections.

¹ Cumulative annual ceiling monitored on a continuous basis starting from January 1, 2024.

² If the end of period year-on-year M3 growth is outside the upper/lower bound, a formal consultation with the Executive Board as part of program reviews would be triggered.

³ Primary balance excluding foreign-financed investment and grants.

⁴ Spending on social protection, based on the budget functional classification.

⁵ Cumulative amount from the beginning of each year.

Table 2. Madagascar: Prior Actions and Structural Benchmarks, June 2024–June 2025

Measure	Due date(s)	Rationale	Status	Depth
Prior actions				
1. Implement an automatic fuel pricing mechanism and provide for the estimated subsidy in the budget		Preserve and strengthen fiscal space.		High
2. Adopt a revised budget law in line with program objectives		Improve the fiscal framework and preserve debt sustainability.		Medium
3. Appoint a new CEO for JIRAMA		Improve fiscal governance and reduce fiscal risks	Met	High
Structural benchmarks				
Increase domestic revenue mobilization				
1. Provide IMF staff with a monthly dashboard on selected key performance indicators of the tax and customs administrations within 30 days after the end of each month	Continuous	Increase domestic revenue.		Low
Contain short and medium term fiscal risks				
2. Provide IMF staff with a monthly dashboard on JIRAMA's revenue and costs and with the details of any budget transfers to Jirama suppliers within 45 days after the end of each month	Continuous	Improve economic governance and improve the composition and quality of budget expenditures.		Low
3. Publish calls for tenders, the results of these calls for tenders, and contracts for JIRAMA fuel purchases on the JIRAMA website within a maximum period of 45 days after the end of the month of acceptance of an offer.	Continuous	Improve economic governance and improve the composition and quality of budget expenditures.		Low
4. Finalize and have the Council of Ministers approve JIRAMA's recovery plan prepared by the new management team	November 2024	Preserve and strengthen fiscal space.		High
Strengthen governance and fiscal institutions				
5. Extend the preparation of annual expenditure commitment plans to all ministries	January 2025	Improve fiscal governance and budget execution.		Medium
6. Approve a new law on cash management	May 2025	Improve fiscal governance and budget execution.		High
7. Adopt and publish a new Anti-Corruption Strategy, including an action plan subject to annual review	January 2025	Improve governance.		High
Consolidate financial and monetary stability				
8. Set up a single central securities depository	December 2024	Strengthen financial and monetary stability		High
9. Adopt a financial stability law	June 2025	Consolidate financial stability		High
Foster more inclusive growth				
10. Operationalize and provision 10 food banks before the start of the lean season	October 2024	Strengthen social safety nets		High
11. Expand the coverage of the social registry to 600 000 households	December 2024	Strengthen social safety nets		High

Table 3. Madagascar: Proposed RSF Matrix of Reform Measures

Main Pillars	RM No.	Reform	Diagnostic	Expected Outcomes	Implementing Entities	Technical Assistance	Target Date
Reinforcing governance and mainstreaming the climate agenda into PFM/PIM processes.	1	Climate governance. Adopt a decree clarifying the mandate of the Interministerial Committee for Environment (CIME) to cover all climate policies. This decree would provide notably for (i) chairmanship at the level of the Prime Minister (ii) meetings twice a year with publicly disclosed reports to monitor implementation (iii) a technical secretariat shared between MEDD and MEF.	CCDR	Reinforce the mechanism for intergovernmental coordination on climate change issues, currently with very weak decision-making and enforcement mechanisms	Prime Minister's Office Ministry of Environment and Sustainable Development (MEDD) Ministry of Economy and Finance (MEF)	World Bank	End October 2024 (1 st ECF review)
	2	Public investment management (PIM) Framework. Adopt a new decree on environmental impact assessments (EIA) to replace the 2004 MECIE decree (<i>Mise en compatibilité des investissements avec l'environnement</i>) and adopt and publish criteria for prioritization and selection of investment projects, including integration of climate change (adaptation, mitigation, and resilience) related elements.	CMAF CCDR	Integrate climate change considerations into the legal framework for evaluation and selection of PIM projects	MEDD, MEF Entities in charge of PIM at the Presidency	IMF FAD / AFS UNDRR	End October 2024 (1 st ECF review)
	3	Public investment management (PIM) Implementation. Adopt a decree making it compulsory to produce every year a budget document listing the investment projects selected for the public investment program and explaining how the selection criteria have been applied, notably with respect to effective application of criteria related to climate adaptation and mitigation and produce a first report in accordance with this obligation.	CMAF CCDR	Ensure consistency of public investment projects actually selected and budgeted with the climate objectives set in the NDC.	MEF MEDD Entities in charge of PIM at the Presidency	IMF FAD / AFS World Bank	End October 2026 (5 th ECF review)

Table 3. Madagascar: Proposed RSF Matrix of Reform Measures (continued)

Main Pillars	RM No.	Reform	Diagnostic	Expected Outcomes	Implementing Entities	Technical Assistance	Target Date
	4	Climate budget tagging (CBT). Adapt the budget classification to enable the tagging of climate-related adaptation and mitigation expenditures and append a first Climate Budget Statement (CBS) to the 2026 Executive Budget Proposal.	CMAP	Better account for climate change issues in the budget preparation process and reinforce transparency on the integration of climate change concerns in budget choices.	MEF with technical support from MEDD	IMF FAD (resident advisor support until October 2024) UNDRR	End October 2025 (3 rd ECF review)
Enhancing adaptation to climate change and resilience against natural disasters	5	Water governance. Approve in the Council of Ministers a bill to update the 1998 Water Code, with a view to integrating climate change in the overall water policy and reinforcing the overall policy framework for Integrated Water Resource Management (IWRM), including by strengthening the National Authority for Water and Sanitation's (ANDEA) institutional framework	WaterAid – 2019 Review of Implementation of the Water Code USAID – 2020 Madagascar Water Resources Profile.	Strengthen the governance of water resources and improve the allocation of water resources to key water users notably water utilities, farmers, and industries.	Ministry of Water, Sanitation and Hygiene (MEAH)	European Union World Bank GCA	End October 2025 (3 rd ECF review)

Table 3. Madagascar: Proposed RSF Matrix of Reform Measures (continued)

Main Pillars	RM No.	Reform	Diagnostic	Expected Outcomes	Implementing Entities	Technical Assistance	Target Date
	6	Disaster risk management. Approve the necessary implementation regulations to simplify PFM processes for disaster-related expenditures and operationalize the National Contingency Fund (FNC), while ensuring adequate transparency and reporting of expenditures for each selected type of hazard.	CMAP CCDR	Support the implementation of the recently finalized (April 2023) Disaster Risk Financing and Insurance (DRFI) Strategy and reinforce capabilities to respond quickly to climate disasters – a major issue in Madagascar due to the increased frequency and intensity of cyclones.	Prime Minister's Office – Unit for the Prevention and Management of Emergencies (CPGU) National Bureau for Disaster Risk Management (BNGRC) MEF	World Bank AfDB	End April 2025 (2 nd ECF review)
Supporting efforts to curb the growth of GHG emissions.	7	Energy prices and subsidies. Fully eliminate all fuel price subsidies resulting from an administered retail price (PMAP) that has durably been below the calculated reference price (PRC).	CMAP	Send economic signals favorable to energy savings and increase fiscal space for resilient investment.	Ministry of Energy and Hydrocarbons (MEH) MEF	Possible IMF FAD support	End April 2026 (4 th ECF review)
	8	Fuel Taxation. Gradually raise excise taxes and other levies on diesel fuel to align them to the level applicable to gasoline.	CMAP FAD 2021 Tax Policy report on reform of excise duties	Send economic signals favorable to energy savings and increase fiscal space for resilient investment.	MEH MEF	Possible IMF FAD support World Bank (social measures to mitigate impact)	End October 2026 (5 th ECF review)

Table 3. Madagascar: Proposed RSF Matrix of Reform Measures (continued)

Main Pillars	RM No.	Reform	Diagnostic	Expected Outcomes	Implementing Entities	Technical Assistance	Target Date
	9	Renewable energy production. Adopt the FNED (<i>Fonds National de l'Énergie Durable</i>) decree and operationalize the FNED financing mechanism to support off-grid and mini-grid electrification and pro-actively incentivize private sector funding, with at least a total of 11.5 MW in newly installed renewable energy production capacity arising from operations supported by FNED.	CCDR	Encourage the development of mini-grid or off-grid renewable electricity production (both solar and small-scale hydropower) and support electricity access in rural areas. Small-scale hydropower could also support water resource management.	MEH ADER (Agency for the Development of Electrification in Rural Areas) ARELEC (Electricity regulator)	World Bank GIZ	End April 2026 (4 th ECF review)
Reinforcing the protection of forests and biodiversity	10	Carbon storage in forests. Revise decree 2021-1113 to improve the participation of the private sector and extend the scope of the REDD+ mechanism to reforestation schemes.	CCDR	Promote carbon sequestration and strengthen climate adaptation and resilience through reforestation schemes with private sector participation incentivized by access to carbon markets.	MEDD, MEF	World Bank	End April 2025 (2 nd ECF review)
Mobilizing climate finance	11	National Climate Finance Strategy. Adopt an inter-ministerial decree on a climate finance mobilization strategy that prioritizes key investment areas as stipulated in national framework documents, with a tentative budget, options for innovative blended financing mechanisms and a timeline for implementation.	CCDR CMAP	A consolidated climate agenda that provides a framework to support access to climate finance for MDG's updated NDC implementation.	MEF, MEDD, BFM	World Bank Africa Adaptation Acceleration Program (AfDB and GCA) UNDRR	End October 2025 (3 rd ECF review)

Table 3. Madagascar: Proposed RSF Matrix of Reform Measures (concluded)

	12	National Green Taxonomy. Adopt a decree on implementing a national green taxonomy to inform all green/climate investments.	CCDR	Clarity and transparency to financial market participants keen on investing in green projects and/or projects with clearly defined climate outcomes.	MEF, MEDD, BFM	IMF MCM	End April 2027 (6 th ECF review)
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Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) contains definitions and adjuster mechanisms that explain the calculation of the quantitative performance criteria and indicative targets set out in Tables 1 and 2 attached to the Memorandum of Economic and Financial Policies for 2024–2027. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

DEFINITIONS

2. For the purposes of this TMU, the terms "external" and "domestic" are defined in terms of residence.

3. For the purposes of this TMU, "government" is defined to comprise the scope of government financial operations reported in the *operations globales du Trésor (OGT)*. The government does not cover the activities of state-owned enterprises and sub-national authorities.

4. For the purposes of this TMU, the program exchange rates¹ are as follows:

Program Exchange Rates	
Malagasy Ariary (MGA)/SDR	5 768.35
U.S. Dollar/SDR	1.323430
Euro/SDR	1.224150
Australian Dollar/SDR	2.026070
Canadian Dollar/SDR	1.793250
Yuan/SDR	9.563610
Japanese Yen/SDR	200.3670
Swiss Franc/SDR	1.198560
U.K. Pound Sterling/SDR	1.049300

5. Accounts denominated in currencies other than SDRs will first be valued in SDRs and then converted to MGAs. Amounts in currencies other than those shown in the table above, as well as monetary gold, will first be valued in SDRs at the exchange rate or gold price in effect on March 28, 2024 (SDR 1667.4 per ounce of gold) and then converted into MGA.

6. The performance criteria used in the program, as defined below, refer to the net foreign assets of the central bank, external payment arrears, new external debt owed or guaranteed by the government and/or the central bank, and the primary balance.

¹ Data refers to reference exchange rates published on the IMF or the central bank of Madagascar's website for March 28, 2024.

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

8. Total government revenue consists of tax and non-tax budget revenue (as defined in Chapter 5 of the Government Finance Statistics Manual (2001 edition) but excluding revenue from Treasury Operations) and grants. Revenues are accounted for on a cash basis. Taxes on imports of petroleum products, paid through the issuance of promissory notes, are recorded as revenue at the time of the issuance of the promissory notes: to reconcile the difference in timing between the issuance of the promissory notes and the actual payment to the Treasury, an equivalent amount is recorded (negatively) under the item "other net transactions of the Treasury" until the actual payment.

PROVISION OF DATA TO THE FUND

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

- Data on all variables subject to quantitative performance criteria and indicative targets will be provided to IMF staff on a monthly basis, with a lag of no more than four weeks for central bank net foreign assets (NFA) and eight weeks for other data. The authorities will promptly communicate any data revisions to IMF staff.
- The Financial Intelligence Unit (SAMIFIN) will continue to publish, on a publicly accessible website, quarterly data (no later than the end of the month following the quarter) on reports of suspicious transactions related to money laundering of the proceeds of corruption, tax evasion, customs fraud, terrorist financing, and other crimes, addressed to the authorities in charge of law enforcement (Independent Anti-Corruption Bureau, National Gendarmerie, National Police, Ministry of Environment and Sustainable Development, Ministry of Mines, Ministry of Fisheries and Blue Economy, Anti-corruption Courts, etc.) and to other competent authorities (Directorate General of Taxation, Directorate General of Customs, Directorate General of the Treasury,...). SAMIFIN will also similarly publish data on the implementation of UN Security Council resolutions on terrorism, terrorism financing, and the financing of the proliferation of weapons of mass destruction.
- The Independent Anti-Corruption Bureau (BIANCO) will publish on a publicly accessible website quarterly data (no later than the end of the month following the quarter) on the number of persons indicted, the number of persons convicted by decision of a court of first

instance, the number of persons convicted by a court of last resort and the number of verifications of asset declarations of public officials.

- For variables that are relevant for assessing performance against program objectives but are not explicitly defined in this TMU, the authorities will consult with IMF staff, as needed, on how best to measure them and report them.

QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on the Primary Balance

10. The primary balance is calculated as follows:

- It corresponds to the difference between the sum of tax and non-tax revenues and grants and the sum of capital expenditures and current spending excluding interest payments (as reported in the authorities' table of government financial operations or OGT).
- For the purpose of calculating the primary balance, tax revenues are recorded on a cash basis (see ¶8) and measured on a net basis, i.e., net of VAT credit refunds. Grants include both current and capital grants. Spending is recorded on a commitment basis. 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 VAT credit refunds. Capital expenditures include expenditures financed from domestic and external resources. The primary balance is calculated cumulatively from the beginning of the calendar year. For reference, using data at end of December 2023, the value of the primary balance would be as follows:

Primary Balance	-2 484
Gross tax revenue	8 233
of which gross domestic revenue	4 149
of which gross customs revenue	4 084
VAT refunds	471
Tax revenue (net of VAT refunds)	7 762
Non-tax revenue	194
Grants	1 586
Less :	
Capital expenditures	4 898
Current spending	7 128
Wages and salaries	3 717
Goods and services	451
Transfers and subsidies	2 932
Treasury operations (net of VAT refunds)	28

B. External Debt

Ceiling on the Accumulation of New External Payment Arrears

11. These arrears consist of overdue debt service obligations (principal repayments and interest) related to loans contracted or guaranteed by the government or the central bank of Madagascar (BFM). Debt service obligations (including unpaid penalties and interest charges) are considered overdue when they have not been paid within 30 days of the due date or after the end of a grace period agreed with each creditor, or unilaterally granted by each creditor before the due date. They exclude arrears resulting from the non-payment of debt service for which the creditor has agreed in writing to negotiate a different payment schedule, as well as debt service payments under contractual obligations that are not made on time for reasons beyond the control of the Malagasy authorities. This monitoring target should be observed on a continuous basis from the approval by the IMF Executive Board of the request for the ECF arrangement.

Ceiling on New External Debt

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

13. Where an external loan agreement provides for multiple disbursements and where the interest rate applicable to each disbursement is linked to the evolution of a reference rate from the date of signature, the interest rate in effect at the time of signature shall be used for the calculation of the present value and grant element applicable to all disbursements provided for under that agreement.

14. For program monitoring purposes, the definition of debt is provided in paragraph 8 of the Guidelines on Public Debt Conditionality in IMF-Supported Programs attached to Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014 (see Annex). External debt is defined according to the creditor's residence.

15. In the case of loans with a variable interest rate in the form of a benchmark rate plus a fixed spread, the present value of the debt will be calculated using a program reference rate plus the fixed spread (in basis points) indicated in the loan agreement. The program's reference rate for the six-month USD LIBOR is 5.34 percent and will remain fixed for the duration of the program. The spread between the three-month EURIBOR and the six-month USD LIBOR is -144 basis points. 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 basis points) is added.

16. The performance criterion (ceiling) applies to the present value of the new external debt contracted or guaranteed by the government or BFM. The cumulative ceiling applies to debt contracted or guaranteed whose value has not yet been received, including private debt

for which public guarantees have been extended. The present value is determined using the IMF's concessionality calculator or the Excel template available [online](#). This monitoring target is to be calculated by calendar year beginning January 1, 2024, and observed on a continuous basis from the IMF Executive Board's approval of the request for the ECF arrangement until the conclusion of the first review, at which time it will be renewed and possibly adjusted. The ceiling is subject to an adjustment factor defined below.

17. The ceiling set out in paragraph 16 does not apply to: (i) the use of IMF resources; (ii) debts contracted to restructure, refinance or prepay existing debts, to the extent that their terms are more favorable than the existing debts, and up to the amount of the debt restructured, refinanced or repaid early; and (iii) debts classified as international reserve liabilities of BFM.

C. Floor on the Net Foreign Assets of the Central Bank of Madagascar

18. The target floor for NFA of BFM is evaluated using the end-period stock, calculated using program exchange rates. The NFA of BFM is defined as the difference between BFM's gross foreign assets and total foreign liabilities, including debt owed to the IMF. All foreign assets and foreign liabilities are converted into SDR at the program exchange rates reported in paragraph 4. For reference, at end-December 2023, NFA were SDR 1236.7 million, calculated as follows:

Foreign Assets	
MGA billions, end-2023 exchange rates (A)	12 098.4
SDR millions, end-2023 exchange rates (B)	1 972.0
SDR millions, program exchange rates (C)	2 097.4
Foreign Liabilities	
MGA billions, end-2023 exchange rates (D)	4 964.6
SDR millions, end-2023 exchange rates (E)	809.2
SDR millions, program exchange rates (F)	860.7
Net Foreign Assets	
SDR millions, program exchange rates (G) = (C) – (F)	1 236.7

INDICATIVE OBJECTIVES

A. Floor on Domestic Primary Balance

19. The domestic primary balance corresponds to the difference between the sum of domestic tax and non-tax revenue and domestically financed capital expenditures and current spending excluding interest payments. Tax revenues are measured on a cash basis and on a net basis, i.e., net of VAT credit refunds. Spending is recorded on a commitment basis. 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 VAT credit refunds. The primary

balance is calculated cumulatively from the beginning of the calendar year. For reference, using data at end-December 2023, the value of the domestic primary balance would be as follows:

Primary Balance Excluding Foreign Financed Investment and Grants	-266
Gross tax revenue	8 233
<i>of which gross domestic tax revenue</i>	4 149
<i>of which gross custom tax revenue</i>	4 084
VAT refunds	471
Tax revenue (net of VAT refunds)	7 762
Domestic non-tax revenue	194
Less:	
Domestically financed capital expenditures	1 094
Current spending	7 128
Wages and salaries	3 717
Goods and services	451
Transfers and subsidies	2 932
Treasury operations (net of VAT refunds)	28

B. Floor on Priority Social Spending

20. The scope of social expenditure monitored under the program includes domestic expenditures linked to education, health, social protection, and water and sanitation. The floor on social spending is calculated cumulatively from the start of each calendar year on the basis of the budgetary appropriations allocated to these sectors by the budget law, on the basis of the functional classification of public administrations (CFAP 2014). This floor is defined as the sum of budgetary appropriations for divisions 07 (health) including nutrition, 09 (education) and 10 (social protection) as well as for groups 052 (wastewater management) and 063 (water supply), excluding externally financed investments.

C. Floor on Gross Domestic Tax Revenue and Gross Customs Revenue

21. To monitor this target, government tax revenues are recorded on a cash basis and calculated on a gross basis, i.e., before VAT credit refunds. They include all domestic taxes and taxes on foreign trade received by the treasury of the central government. Tax revenue excludes: (1) proceeds from the local sale of in-kind donations; and (2) gross receipts to the government from signing bonuses paid in connection with the awarding of mining or oil exploration rights. Revenues are measured on a cash basis as indicated in the table of government financial operations (OGT). The gross tax revenue floor is calculated cumulatively from the beginning of the calendar year. For reference, for the year ending in December 2023, gross domestic tax revenue was MGA 4,149 billion, with MGA 3,773 billion net domestic tax revenue and MGA 376 billion in VAT refunds, and gross customs revenue was MGA 4,084 billion, with MGA 3,990 billion net customs revenue (including MGA 1,092 billion in oil tax arrears (*droits et taxes à l'importation de produits pétroliers*) due for 2021 and 2022 by oil companies) and MGA 94 billion in VAT refunds.

D. Ceiling on Domestic Arrears

22. Domestic arrears are amounts owed by the government to resident creditors, but not paid. They include (1) remaining payments "in the accounting phase" or expenses committed and validated, but not yet processed by the General Directorate of the Treasury (DGT), and (2) remaining payments "in the financial phase", i.e., expenses committed, validated and processed by the DGT but not paid within 90 days. The ceiling is calculated cumulatively from the beginning of the calendar year.

MONETARY POLICY CONSULTATION CLAUSE

23. The authorities will complete a consultation with the IMF's Executive Board on: (i) the monetary policy stance and measures taken to achieve the program's objectives; (ii) the reasons for a possible deviation, taking into account mitigating factors; and (iii) proposed measures if necessary, if the year-on-year M3 money supply growth at the end of the period is outside a band of ± 4 percentage points around the 12 percent midpoint of the target band for end-June, end-September and end-December 2024 and end-March 2025.

24. The target band midpoint will be reassessed at each review.

STRUCTURAL BENCHMARKS AND REFORM MEASURES UNDER THE RSF

25. Regarding the structural benchmark for the provision of detailed data on any budget transfers to JIRAMA suppliers to the staff of the IMF and the World Bank and the provision of related documents within a maximum of 45 days after the end of the month, the information to be provided is as follows: (1) the details of each transfer, including the commitment reference, the beneficiary, the purpose of the transfer (*objet*), the commitment date (*date d'engagement*) and the amount of the transfer; 2) the agreement or *convention* signed with the supplier in relation with the transfer.

26. Calls for tenders, the results of these tenders, and contracts for JIRAMA fuel purchases will be published on the JIRAMA's website within a maximum of 45 days after the end of the month of acceptance of an offer.

27. Regarding the structural benchmark on the provision of a dashboard presenting key performance indicators for the tax and customs administrations, the dashboard to be communicated monthly will include the indicators from the template provided by the IMF staff and built on the basis of the authorities' proposals.

28. In connection with the implementation of an automatic fuel price adjustment mechanism, and until the elimination of subsidies, the authorities will provide IMF staff with the calculations necessary to estimate the monthly flows and outstanding stocks of government's gross liabilities vis-à-vis fuel distributors (*solde de lissage*) within four weeks of the end of each month.

29. With respect to RSF RM06 on disaster risk management, the authorities (CPGU – Cell for Prevention and Management of Emergencies within the Prime Minister’s Office) will provide IMF staff, by the end of November 2024, with a note on the conclusions of the simulation exercise to be undertaken by September 2024 on the operationalization of the National Contingency Fund (FNC), highlighting findings from this exercise in terms of obstacles to swift disbursement of emergency spending and necessary regulatory texts to be adopted by April 2025 to address these obstacles and put in place arrangements to ensure adequate transparency and reporting of emergency expenditures under the FNC.

MEMORANDUM ITEMS

30. Official external budget support refers to grants and loans, including in-kind assistance when the products are sold by the government and the receipts are earmarked for a budgeted spending item. It also includes any other exceptional financing provided by foreign public entities or the private sector that is included in the budget. Grants and loans specifically earmarked for investment projects are excluded. Official external budget support is calculated as a cumulative flow from January 1st of each year.

31. Disbursements of international loans earmarked for investment projects are calculated as a cumulative flow from January 1st of each year.

USE OF ADJUSTERS

32. The performance criterion for BFM NFA will be adjusted according to deviations from the amounts of official external budget support projected in the program. This difference will be calculated cumulatively as of January 1, 2024. The NFA floor will be adjusted *downwards* (*upwards*) by the cumulative downward (upward) deviation of actual budget support from projected budget support (official external budget support). This adjustment will be capped at the equivalent of SDR 120 million, evaluated at the program exchange rates indicated in paragraph 4.

33. The performance criteria for the primary balance will be adjusted according to deviations from amounts projected in the program of official external budget support in the form of loans and disbursements of international loans earmarked for investment projects. These deviations will be calculated cumulatively from the beginning of each calendar year. The following is an explanation of these adjustments:

- If the actual official external budget support in the form of loans and the disbursements on international loans earmarked for investment projects are lower than projected on a test date, the floor on the primary balance for that test date will be increased by the cumulative deviation of the actual value of official external budget support in the form of loans and disbursements on international loans earmarked for investment projects from projected amounts, subject to a maximum of 0.5 percent of GDP, calculated at the actual quarterly average exchange rates.

- Conversely, if the actual official external budget support in the form of loans and disbursements on international loans earmarked for investment projects are higher than projected on a test date, the floor on the primary balance for that test date will be reduced by the cumulative deviation of the actual value of official external budget support in the form of loans and disbursements on international loans earmarked for investment projects, subject to a maximum of 0.5 percent of GDP, calculated at the actual quarterly average exchange rates.

34. Two adjustment factors can be applied to the external debt ceiling set in present value:

- An adjustor of up to 5 percent of the external debt ceiling set in present value terms applies in case of deviations resulting from a change in financing terms. The application of the adjustor may be triggered by changes in interest rates, maturity, grace period, payment schedule, commissions, fees related to a debt or receivables. The adjustment factor cannot be applied when deviations are due to an increase in the nominal amount of the total debt contracted or guaranteed and are related to debt sustainability.
- The external debt ceiling at present value will be adjusted *downwards* by a maximum of US\$42 million if loans linked to projects financed by the World Bank in 2024 do not materialize.

Table 1. Madagascar: Data Reporting Requirements

Item	Periodicity
Exchange rate data	
Central Bank of Madagascar (BFM)	
Total daily BFM gross purchases of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of BFM gross purchases, the highest traded exchange rate, and the lowest traded exchange rate –break down by currency purchased	Daily, next working day
Total daily BFM gross sales of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of BFM gross sales, the highest traded exchange rate, and the lowest traded exchange rate – break down by currency purchased	Daily, next working day
Total BFM net purchases/sales of foreign exchange - break down by currency purchased	Daily, next working day
Total interbank foreign exchange transactions (net of BFM transactions) - break down by currency purchased	Daily, next working day
Total interbank and retail foreign exchange transactions (net of BFM transactions) - break down by currency purchased	Daily, next working day
Monetary, interest rate, and financial data	
Central Bank of Madagascar (BFM)	
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 BFM	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 Economy and Finance	
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 45 days after the month of each transfer payment, as specified in continuous SB.
Capital grants	Quarterly, within eight weeks of the end of each quarter
State-owned enterprise data	
Data summarizing the operational and financial position of JIRAMA	Monthly, within four weeks of the end of each month, for operational and financial data. Quarterly, by the end of the following month, for the Table on "Total impayés fournisseurs"
JIRAMA's fuel purchase contracts	Within 45 days of acceptance of an offer
Data summarizing the financial position of Air Madagascar and Madagascar Airlines	Quarterly, by the end of the subsequent quarter.
Debt data	
Ministry of Economy and Finance	
Public and publicly guaranteed debt stock at end of month, including: (i) by creditor (official, commercial domestic, commercial external); (ii) by instrument (Treasury bills, other domestic loans, external official loans, external commercial loans, guarantees); and (iii) in case of new guarantees, the name of the guaranteed individual/institution. External public or publicly guaranteed loans signed since January 1, 2024, specifying the nominal value; calculated grant element and PV; and terms, including the interest rate (using the program reference rate for variable rate loans), maturity, commissions/fees, grace period, repayment profile, and grant component.	Monthly, within four weeks of the end of each month Quarterly

Table 1. Madagascar: Data Reporting Requirements (concluded)

Item	Periodicity
External data	
Central Bank of Madagascar (BFM)	
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
Tourism data	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 government and other public bodies (e.g., FER, RDS)	Monthly, within four weeks of the end of each month
Decree or <i>Arrêté</i> relating to the fuel reference prices formula and fixing the pump prices	Variable, within one week of publication

Annex. 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.



REPUBLIC OF MADAGASCAR

June 7, 2024

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND CANCELLATION OF THE CURRENT ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By

Costas Christou and Geremia Palomba (IMF) and Hassan Zaman and Manuela Francisco (IDA)

Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA)¹

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

Madagascar, classified as having medium debt carrying capacity, is still assessed at moderate risk of external debt distress and moderate risk of overall (external plus domestic) debt distress, unchanged from the assessment of the last DSA in February 2023.² Under the baseline, no external public and publicly guaranteed (PPG) debt ratios breach their thresholds and only a shock to exports pushes Madagascar's present value of external-debt-to-export ratio and the debt service-to-exports ratio above their thresholds. Likewise, the overall risk of debt distress continues to be assessed as "moderate", since the overall debt-to-GDP ratio breaches its benchmark under two stress scenarios, a shock to real GDP growth and a shock to commodity price (the latter being the most extreme shock). The granularity assessment shows that the government has some space to absorb shocks. The government has also space to scale-up investment, assuming ongoing efforts to improve domestic resource mobilization, continued reliance on concessional external financing, and progress in developing domestic bond markets and in the implementation of the governance reform agenda. Risks remain tilted to the downside, with a potential lack of progress on JIRAMA, the state-owned electricity utility and water services company, putting pressure on public finances.

¹ Prepared by the IMF and the World Bank. This Debt Sustainability Analysis (DSA) follows the [Guidance Note of the Joint Bank-Fund Debt Sustainability Framework for Low Income Countries](#), February 2018 and the [Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations](#), August 2021.

² Madagascar's composite indicator (2.74) has slightly declined since the last DSA (2.77) and corresponds to a medium debt-carrying capacity as confirmed by the October 2023 WEO data and the 2022 Country Policy and Institutional Assessment (CPIA). While the indicator is inching closer to the weak debt carrying capacity threshold (2.69), the [LIC DSF Guidance note](#) indicates that the classification would only be revised "if two consecutive signals suggest the need for an upgrade or downgrade."

PUBLIC DEBT COVERAGE

1. The DSA includes public and publicly guaranteed external and domestic debt. Public and publicly guaranteed (PPG) debt comprises external and domestic debt in a fairly comprehensive manner, including: all external liabilities owed by the central bank; all borrowing from the IMF; government guarantees; non-guaranteed domestic debts owed by state-owned enterprises (SOEs) in cases where the government has at least 50 percent of the shares (e.g., JIRAMA and Air Madagascar);³ domestic arrears (which rose slightly from 1 percent of GDP in 2022 to 1.1 percent in 2023);⁴ external legacy arrears of about 1.3 percent of GDP (related to HIPC);⁵ and direct guarantees provided by the central government (Text Table 1). Borrowing by local governments requires the authorization from the Ministry of Finance and no request for such authorization has been submitted to date. The measure of debt is on a gross basis and the currency criterion is used to distinguish between domestic and external debt.⁶ The authorities publish data on a quarterly basis on both domestic and external debt. Reporting of debt statistics on public enterprises needs to be strengthened further, particularly by: (i) requiring all public enterprises to submit financial statements to the Ministry of Finance within legal limits; (ii) compiling information about public enterprises including debt statistics and monitoring-related risks; and (iii) publishing this information online in budget documents and fiscal risk statements.⁷

³ Although legislation allows it, public enterprises do not hold direct external non-guaranteed debt.

⁴ These arrears are mostly the result of delayed payments to suppliers of goods and services and delayed reimbursements of TVA credits (Text Table 2). They do not trigger an “in distress”-rating given their domestic nature and the absence of evidence that they constitute “forced borrowing by the government” to avoid a default. The authorities confirmed that domestic arrears (on goods and services, investments, transfers, and subsidies) accumulated in 2022 (estimated at MGA 645.2 billion) have been cleared. Domestic arrears accumulated at end-2023, including delayed reimbursements of TVA credits (estimated at MGA 796.2 billion) will be cleared by end-2024.

⁵ The arrears to private external creditors (less than 0.1 percent of GDP) do not trigger an “in distress”-rating given their *de minimis* nature and as the restructuring with the majority of creditors has been completed and the government is judged to be engaging in “good faith”; the arrears to official-bilateral creditors (Algeria and Angola, for a total of 1.2 percent of GDP) do not trigger an “in distress”-rating as they are deemed away under the Fund’s Lending into Official Arrears Policy.

⁶ Locally issued debt denominated in local currency held by non-residents and locally issued debt denominated in foreign currency held by residents are insignificant, meaning that results would be similar if done on a residency basis.

⁷ Under the Sustainable Development Finance Policy (SDFP) in FY2023, Madagascar has implemented reforms in the areas of debt transparency (by adopting a new framework for the evaluation and management of fiscal risks, including those related to contingent liabilities), fiscal sustainability (by implementing measures to improve tax arrears collection and adopting a decree governing the management of tax arrears), and debt management (by limiting new external PPG debt to under US\$ 800 million in present value) and has successfully completed its Performance and Policy Actions (PPAs) under the FY2023 SDFP. Last year, Madagascar made further progress in these areas by creating a Fiscal Risks Committee and a Credit Risk Analysis Committee in charge of assessing risks related to guarantees and on-lending, scaling up tax audits, and committing not to enter into any contractual obligations for new external PPG concessional and non-concessional debt in 2024, beyond the cumulative net present value exceeding US\$800 million.

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

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

Text Table 2. Madagascar: Decomposition of Arrears, end-2023

(In billions of ariary)

	Arrears accumulated at end-2023
Goods and services	118.1
Transfers and subsidies	54.7
Investments	409.4
TVA credits	214
Total	796.2

2. A default contingent liability shock of 7 percent of GDP is simulated to account for potential liabilities. This reflects the default setting for PPPs, financial markets, and possible additional SOE liabilities (Text Table 3).

- The baseline reflects estimated end-2023 domestic debt for SOEs in which the government has a majority stake at around 11.1 percent of GDP, which include 7.6 percent for JIRAMA.⁸ As SOE debt reporting may not be comprehensive, exposures to SOE's contingent liability are set to the default 2 percent of GDP.
- Exposures to PPPs are set to zero since estimates of the PPP-related capital stock fall below 3 percent of GDP, the threshold for the PPP shock to be activated (the stock related to the Ravinala Airport is estimated at only 1.3 percent of GDP). The authorities may develop more PPPs going forward, especially in hydroelectric power, and the potential vulnerabilities associated with such PPPs could increase rapidly, at which point the PPP shock may be triggered.
- The default value of 5 percent is programmed for financial markets. As in the previous DSA, most banks are financially solid with deposits exceeding loans and majority foreign shareholders. Dollarization of deposits and credits is not pronounced, and banks' foreign assets generally exceed their foreign liabilities.

⁸ We assume that JIRAMA's debts remain at the same ratio to GDP through the entire forecast horizon (7.6 percent of GDP). A successful turnaround of JIRAMA is an upside risk for the baseline, while the status quo could result in still-high arrears and larger projected operational transfers.

Text Table 3. Madagascar: Coverage of the Contingent Liabilities' Stress Test

1 The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	
4 PPP	35 percent of PPP stock	0.00	PPPs comprise less than 3 percent of GDP
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)		7.0	

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

3. Madagascar benefitted from recent debt service relief initiatives, which affected the DSA. Madagascar received debt relief from the IMF under the Catastrophe Containment window of the IMF's Catastrophe Containment and Relief Trust (CCRT) delivered between April 2020 and April 2022 (amounting to some US\$ 32 million) and benefitted from the Debt Service Suspension Initiative (DSSI) from May 2020 to December 2021, under which some US\$ 20 million in debt service was deferred; repayments on these will start in 2024.

BACKGROUND

A. Recent Debt Developments

4. The end-2023 PPG debt-to-GDP ratio is projected to have reached 55.6 percent, an increase of 1.7 percentage points from 2022. This increase is mainly due to the decision of the authorities to mobilize the August 2021 IMF SDR allocation in 2023 and higher-than expected primary deficit and SOE debt (Text Tables 4 and 5). Around two-third of Madagascar's PPG debt continues to be external in nature, with 58.7 percent of external debt in 2023 owed to multilateral sources including the World Bank, African Development Bank, and IMF. Overall, the PPG debt-to-GDP ratio has risen from 2018, with a sharp jump in 2020

Text Table 4. Madagascar: Breakdown of Total PPG Debt (2019–23)

	2019	2020	2021	2022	2023
	Amount (US \$m)				
Domestic debt, of which:	1,961	2,028	2,490	2,414	3,042
Securities inc. BTA, BTF, BTS ¹	772	790	752	668	968
Debt to the Central Bank	217	352	326	201	197
Arrears	42	22	77	179	174
SOE debt	911	848	1,324	1,359	1,698
Other	19	15	10	6	6
External debt, of which:	3,841	4,686	4,829	5,076	5,458
Multilateral	2,459	2,739	2,956	3,043	3,204
Paris Club	219	282	315	344	364
Non-Paris Club	368	409	439	554	540
Commercial & Guaranteed	122	117	76	56	83
Debt borne by BFM on behalf of the government	547	966	856	897	1,086
Other	125	173	186	181	181
Total PPG debt	5,802	6,713	7,318	7,489	8,500
	Percent of GDP				
Domestic debt, of which:	13.9	15.7	17.7	17.4	19.9
Securities inc. BTA, BTF, BTS	5.5	6.1	5.3	4.8	6.3
Debt to the Central Bank	1.5	2.7	2.3	1.4	1.3
Arrears	0.3	0.2	0.5	1.3	1.1
SOE debt	6.5	6.6	9.4	9.8	11.1
Other	0.1	0.1	0.1	0.0	0.0
External debt, of which:	27.3	36.3	34.3	36.5	35.7
Multilateral	17.5	21.2	21.0	21.9	21.0
Paris Club	1.6	2.2	2.2	2.5	2.4
Non-Paris Club	2.6	3.2	3.1	4.0	3.5
Commercial & Guaranteed	0.9	0.9	0.5	0.4	0.5
Debt borne by BFM on behalf of the government	3.9	7.5	6.1	6.5	7.1
Other	0.9	1.3	1.3	1.3	1.2
Total PPG debt	41.2	51.9	51.9	53.9	55.6
	Percent of PPG debt				
Domestic debt, of which:	33.8	30.2	34.0	32.2	35.8
Securities inc. BTA, BTF, BTS	13.3	11.8	10.3	8.9	11.4
Debt to the Central Bank	3.7	5.2	4.5	2.7	2.3
Arrears	0.7	0.3	1.1	2.4	2.0
SOE Debt	15.7	12.6	18.1	18.2	20.0
Other	0.3	0.2	0.1	0.1	0.1
External debt, of which:	66.2	69.8	66.0	67.8	64.2
Multilateral	42.4	40.8	40.4	40.6	37.7
Paris Club	3.8	4.2	4.3	4.6	4.3
Non-Paris Club	6.3	6.1	6.0	7.4	6.4
Commercial & Guaranteed	2.1	1.7	1.0	0.8	1.0
Debt borne by BFM on behalf of the government	9.4	14.4	11.7	12.0	12.8
Other	2.2	2.6	2.5	2.4	2.1
Total PPG debt	100.0	100.0	100.0	100.0	100.0

Sources: Malagasy authorities; and IMF staff estimates.

¹BTA are Treasury bills with less than one year maturity.

BTF and BTS are Treasury bonds with maturity ranging over 1 year.

and a more gradual increase from 2021, while the share of external debt out of total PPG debt has increased slightly from 62.6 percent in 2018 to 64.2 percent in 2023.

B. Macroeconomic Assumptions

5. Economic growth is expected to rebound to 4.5 percent in 2024 and gradually rise to 5 percent in the medium term. While real GDP growth slowed from 4 percent in 2022 to 3.8 percent in 2023, it is expected to rise to 4.5 percent in 2024, a slight downward revision from the previous DSA (see Text Table 4). The primary deficit in 2023 is estimated to have widened significantly compared to what was projected in the last DSA due to higher transfers to JIRAMA and lower-than-expected revenue collection. Staff expect the primary deficit to fall to 2.9 percent in 2024, led by a drop in primary expenditure, and to hover around 3 percent in the medium term. Under these assumptions, public debt would stabilize below 60 percent of GDP over the medium term. External PPG debt is projected to decline slightly from 35.7 percent of GDP in 2023 to 34.8 percent in 2024, due to the authorities' decision to replenish US\$ 251 million of the August 2021 IMF SDR allocation that had been mobilized in 2023.

- Real GDP growth.** Output is projected to grow by 4.5 percent in 2024 and gradually converge to 5 percent in 2028. Staff have revised medium term growth up to account for the expected gains of the proposed reforms under the Extended Credit Facility (ECF), Resilience and Sustainability Facility (RSF), as well as the government's current reform agenda, including programs aimed at boosting agricultural productivity, increasing access to electricity, improving road infrastructure, promoting competition and access in the telecommunication sector, and revamping the overall business environment including in the mining sector.⁹ The contribution of the primary sector to growth is expected to remain stable in the medium term thanks to investment in climate-smart agriculture. Likewise, growth in the tertiary sector is projected to rise gradually in the medium term, bolstered by tourism and digitalization-related industries. The secondary sector is expected to grow steadily, led by the mining and textile industries.¹⁰
- Investment.** Growth prospects are conditional on a scaling-up of both public and private investment. Private investment is projected to rebound in 2024, contributing 2.8 percentage points of real GDP growth, thanks to recovering investor confidence following a period of electoral uncertainty. Staff expect continued growth in private investment in the medium term, as the authorities have committed to improving the business climate, via digitizing tax payments, improving the timeliness of VAT reimbursements, adopting decrees to implement the revised Investment Law and Mining Code, and increasing competition in the telecommunication sector. The rate of public investment is also projected to rise steadily in

⁹ A revised Investment Law and Mining Code were adopted in 2023 and the implementing decrees are pending. In addition, unified licensing has been introduced in the digital sector, allowing operations along all segments of the value chain.

¹⁰ Madagascar's African Growth and Opportunity Act (AGOA) status was renewed in 2024, maintaining the textile industry's duty-free access to the U.S. market, the largest market for Madagascar's textile exports. Madagascar's mining industry, which is the world's third largest supplier of graphite, is also expected to benefit from China's decision to halt exports of the mineral from end-2023.

the medium-term, from 7.7 percent of GDP in 2024 to 9.2 percent in 2029, led by the authorities' commitment to infrastructure development, electrification, and boosting agriculture productivity.

- Inflation.** Inflation pressures have significantly declined since the last DSA. In March 2024, the headline inflation rate eased to 7.3 percent year-on-year, after a peak of 12.4 percent in March 2023. This decline is primarily attributed to the dissipation of the impact of a 43-percent increase in fuel prices in July 2022, a good local rice harvest, and a slowdown in private credit following a tightening of monetary policy. Additionally, core inflation, which excludes rice and energy, fell to 8 percent year-on-year in March 2024, from a peak of 12.3 percent in March 2023. Headline inflation is expected to converge to 6 percent in the medium term.
- Primary deficit.** The primary deficit is expected to be significantly higher than previous estimates for 2023 due to higher transfers to JIRAMA and lower-than-expected revenue collection. Primary deficits are expected to remain contained going forward, reflecting gains in revenue mobilization including: (i) continued streamlining of VAT exemptions; (ii) improvements to the taxpayers' database; (iii) strengthening controls in customs administration; (iv) broader use of electronic tax declarations and payments and the digitalization of related procedures; and (v) continued clearance of tax arrears. On the expenditure side, non-interest expenditure is projected to around 16 percent of GDP in the medium term.

Text Table 5. Madagascar: Baseline Macroeconomic Assumptions for DSA

	2022		2023		2024		2025		2026		2027		2028-2042	
	last DSA	current	last DSA	current	last DSA	current	last DSA	current	last DSA	current	last DSA	current	last DSA	current
Real GDP growth (percent)	4.2	4.0	4.2	3.8	4.8	4.5	4.7	4.6	4.7	4.7	4.6	4.8	4.4	5.0
Inflation, GDP Deflator (percent)	7.4	6.9	9.5	8.7	8.3	6.9	7.5	7.6	6.9	6.8	6.2	6.3	5.2	4.8
Non-interest CA deficit (percent of GDP)	5.0	4.8	4.9	3.8	4.5	4.1	4.2	4.2	3.3	4.1	3.0	4.1	1.9	4.0
Primary deficit (percent of GDP)	6.1	5.0	2.0	3.6	2.4	2.9	3.3	2.9	3.1	3.1	3.9	2.9	3.5	3.2
Revenue and grants (percent of GDP)	13.6	10.9	14.6	13.6	15.3	12.9	15.3	11.8	15.1	12.5	14.8	13.2	14.5	13.0
Primary (noninterest) expenditure (percent of GDP)	19.7	15.9	16.6	17.2	17.6	15.8	18.6	14.8	18.2	15.6	18.6	16.1	18.0	16.2

6. Financing assumptions broadly reflect the authorities' Medium Term Debt Strategy (MTDS) but are conservative with respect to external financing. One of the main targets of the MTDS is a limit on the share of external public debt relative to total public debt at 92 percent in 2026 (that share is estimated at around 64 percent at end-2023, and is expected to reach 71 percent in 2026).¹¹ The financing assumptions of staff's sustainability analysis deviate from the MTDS on domestic financing due to the more conservative approach on the volumes of available external financing at concessional terms, comprised mainly of IDA loans. The resulting increased reliance on domestic financing along with SOE debt gives rise to higher financing costs. To mitigate the

¹¹ The other main targets consist of (i) the average maturity of locally-issued debt being above 1 year (estimates put it at 1.27 years for 2023); (ii) the share of new external debt falling due within a year should be less than 25 percent of the stock of external debt (it is estimated to be around 14.3 percent in 2023); and (iii) the share of new domestic debt falling due within a year should be less than 75 percent of the stock of domestic debt (it is estimated at 55.2 percent in 2023). The authorities have also set near-term targets to develop the domestic bond market, including the publication of a calendar for the regular sale of public bonds and the development of a secondary market for the resale of public bonds by 2025. To that end, they committed to set up a single Central Securities Depository by December 2024.

potential liquidity pressures, the authorities will continue to develop the domestic debt market, particularly the issuance of medium-term bonds, and will prioritize securing external financing at concessional terms (including grants), which would keep debt servicing costs at manageable levels and is in line with their debt strategy.¹²

7. The baseline financing assumptions include financing from the Fund-supported 36-month ECF and RSF arrangements at 105 percent (SDR 256.62 million) and 100 percent of quota (SDR 244.40 million) respectively. In particular, the RSF arrangement is expected to bolster debt sustainability both by providing financing at concessional rates and by advancing climate adaptation. As a group A country, Madagascar benefits from RSF financing with an interest rate of 2.5 percent (with 31.1% grant element) and a maturity of 20 years (with a 10.5-year grace period). The RSF package also comprises 12 reform measures (RM) that would strengthen the country's climate resilience, thereby attenuating the adverse impact of climate change on debt sustainability (Figure 6; Figure 7). Staff have incorporated the impact of these reforms in the baseline projections. Among these reform measures are the incorporation of the climate agenda into public financial management, the adoption of a National Climate Finance Mobilization Strategy, expanding household electricity access based on renewable energy, as well as developing private investment in reforestation schemes. In addition to supporting Madagascar in mitigating and adapting to climate change, these measures are expected to encourage private investment and boost economic growth. Targeted capacity development will be crucial to the success of these reforms.

8. Realism tools suggest that our assumptions are in line with reasonable bounds. Across a range of realism checks staff's underlying assumptions do not appear to raise any flags (Figure 4). The projected fiscal path is not in the right tail of the historical distribution, while projected growth for 2024 is just slightly above the range of potential growth paths under various fiscal multipliers.

9. The outlook remains uncertain with risks tilted to the downside. The main risks stem from the possibility of further adverse shocks to Madagascar's terms-of-trade (higher prices for rice, wheat, and/or energy); supply chain disruptions; and natural disasters (mainly cyclones for the north and droughts for the south), resulting in losses of lives, livelihoods, and physical capital. Weak budget execution in social spending (alongside reversals in the governance reform agenda) could also result in social and political volatility, especially around the parliamentary and local elections due this year. Weak investment implementation capacity could further curtail growth. In addition, as explored in Box 1, a pessimistic climate scenario with no climate adaptation could pose a persistent downside risk. All downside risks would have negative implications for debt sustainability. Upside potential includes the unlocking of large-scale projects in the energy sector and extractive industry; the implementation of the government's reform agenda as spelled out in the new State's General Policy (PGE), which could improve the growth potential and attract additional investment.

¹² To reflect recent increased use of medium-term locally-issued debt instruments and further developments in the debt market, the local financing share of medium-term bonds has been revised upwards to 30 percent from 2024–2029 (close to its current share based on end-2023 estimates), with continued growth thereafter, and longer-term bonds (e.g., between 4-7 years) are assumed to reach a share of 3 percent in 2030-34, which rises to 9 percent by 2040-44. On the external front, concessional financing dominates all other types of sources throughout the projected period, albeit declining as of 2027. The main source of concessional financing in the medium term is IDA project lending.

C. Drivers of Debt Dynamics

10. Over the medium term (and absent adverse shocks), Madagascar’s ratio of PPG debt-to-GDP is projected to remain relatively constant at its current level of below 60 percent. The PPG external debt-to-GDP is projected to increase to 43.7 percent in 2032, declining thereafter (Figure 3). Projected primary deficits going forward represent the main force driving public debt up, while the favorable changes in real interest rates, real exchange rates and real GDP growth are expected to attenuate the rise in debt-to-GDP ratio.¹³

11. The medium-term growth projections have been revised slightly upwards, but the average 5-year real growth is unchanged relative to the previous DSA (Figure 4). Over the upcoming years, the authorities plan to scale up infrastructure spending, with institutional reforms to better prioritize projects and improve execution rates. Despite a small downward revision compared to the previous DSA, reflecting more conservative forecasts, the projected contribution of public investment to real GDP growth over the next 5 years is roughly the same as before. Private investment is expected to remain relatively constant over the medium term (increasing slightly to 20 percent of GDP in 2027) with some upside risk if structural reforms accelerate and public investment helps crowd-in additional private investment.

D. Country Classification and Determination of Stress Test Scenarios

12. Madagascar’s debt carrying capacity continues to be classified as medium, although its composite indicator score remains near the cutoff for weak debt-carrying capacity. Based on the calculation of the LIC-DSF’s composite indicator (reflecting the CPIA index, real growth rates, reserve coverage, remittances, and world growth) Madagascar continues to be rated as having medium debt-carrying capacity (Text Table 6). The CI score is at 2.74 and is estimated using the October 2023 WEO and 2022 CPIA (the CI was 2.77 in the last DSA). Text Figure 1 summarizes the classification scheme and displays the associated thresholds.

Text Table 6. Madagascar: Calculation of Debt-Carrying Capacity

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.240	1.25	46%
Real growth rate (in percent)	2.719	3.383	0.09	3%
Import coverage of reserves (in percent)	4.052	37.426	1.52	55%
Import coverage of reserves ² (in percent)	-3.990	14.007	-0.56	-20%
Remittances (in percent)	2.022	2.488	0.05	2%
World economic growth (in percent)	13.520	2.889	0.39	14%
CI Score			2.74	100%
CI rating			Medium	

Note: 10-year average values are based on an average over 2018-2027.

¹³ The framework assumes some real appreciation over the medium term, driven by the Balassa-Samuelson effect.

Text Figure 1. Madagascar: Composite Indicator Cut-off Values and Respective Debt Burden Thresholds & Benchmarks**Debt Carrying Capacity and Thresholds**

Country	Madagascar
Country Code	674

Debt Carrying Capacity	Medium
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Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 2.74	Medium 2.74	Medium 2.77

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

Reference: Thresholds by Classification

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

13. Stress tests generally follow standardized settings and include tailored shocks for natural disasters and commodity export prices as in the last DSA. The contingent liability stress test is based on the quantification of potential contingent liabilities (including SOE-related concerns that extend beyond the baseline SOE debt coverage as detailed in ¶2), and the standardized stress tests apply the default settings. Madagascar also remains exposed and vulnerable to natural disasters, like cyclones and droughts, whose impact is captured by the natural disaster shock.¹⁴ Since commodities (e.g., vanilla, nickel, cobalt) comprise about half of goods and services exports, we also include a commodity shock stress test. The settings of this stress test are customized to Madagascar's country-specific circumstances. Specifically, we assume a 10 percent fall in the price of commodity exports, with no mitigating effect on imports, alongside a 1.55 percentage point decline in real GDP growth and a 2.32 percentage point fall in fiscal revenue as a share of GDP (default values). The shock occurs in 2024 and gradually dissipates in 6 years (default value). Residual financing is assumed to be at less favorable terms than under the baseline. For external debt, the

¹⁴ We apply the default settings for this one-off shock in the template, namely a 10 percentage-point rise in the public external debt-to-GDP ratio alongside a fall in real GDP growth (-1.5 percentage points) and export growth (-3.5 percentage points) in 2024.

interest rate is assumed to be 46 percent higher while maturities are assumed to be 26 percent lower. For overall public debt stress tests, limited recourse to domestic sources in the short run leads to consideration of a scenario in which 65 percent of additional financing comes from external sources while the interest rate for residual domestic financing would be 210 basis points above baseline.¹⁵

DEBT SUSTAINABILITY RESULTS

A. External Debt Sustainability

14. Under the baseline, external PPG debt remains well below the thresholds associated with Madagascar’s medium debt-carrying capacity (Table 1, Figure 1). External PPG debt is projected to rise from 36 percent of GDP at end-2023 to about 43 percent of GDP in 2034. Debt-creating flows include sizable current account deficits over the medium term (owing to declines in the trade balance and falling inflows from official transfers) and less advantageous endogenous debt dynamics (due to higher interest rates).¹⁶ In PV terms, external PPG debt is projected to rise from 16 percent of GDP end-2023 to about 23 percent of GDP in 2034. Debt service indicators are expected to remain relatively stable. All indicators remain well below the applicable thresholds for Madagascar (Figure 1).

15. Stress tests suggest that Madagascar is most vulnerable to export shocks (Table 3; Figure 1). Under the standard export shock, both the PV of external debt-to-exports ratio and the debt-service-to-exports ratio breach their respective thresholds. More specifically, while the former debt indicator breaches its threshold from 2026, the latter does so from 2032. Other stress tests applied do not lead to any breach of debt sustainability thresholds.

16. The granularity assessment suggests that Madagascar still has some space to absorb shocks. In the baseline scenario, all indicators except the debt service-to-revenue ratio fall below the “some space” thresholds. This suggests that Madagascar has some space to absorb shocks (Figure 5).

17. External private sector debt is not assessed to pose a significant threat to external sustainability (Table 1). The risks associated with the levels of external private debt, which was recently revised upward, appear contained.¹⁷ Around 80 percent of the private debt is associated with the mining sector, whose income is in foreign currency (providing it with a natural hedge); the majority of its debt is medium-to-long term; and a sizeable portion of its debt is with its affiliated headquarters or global groups. Moreover, much of mining companies’ loans do not bear large

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

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

¹⁷ In 2020 INSTAT completed a survey on the external private sector, including on its external debt obligations. The last survey had been conducted in 2013 and covered a smaller sample of firms and only included debts reported by companies’ headquarter offices, which did not offer a complete view of the debt obligations of their Malagasy operations. The results uncovered large deviations relative to prior forecasts; prior IMF forecasts had estimated there was SDR 2 billion in external private debt at end-2018; the new data estimated that it had reached SDR 4 billion.

interest payments and many of the debt instruments are not required to be fully reimbursed to parent companies until liquidation. Private external debt is projected to rapidly decline as the loans related to major mining projects are repaid, with the stock of external private debt falling by over half by 2030. Still, such debts will be closely monitored going forward for potential risks and, in line with recent DSAs, we have conservatively assumed that more borrowing would be needed to sustain mining exports towards the end of the DSA horizon, contributing to private debt equivalent to about 6 percent of GDP in 2040.

B. Total Public Debt Sustainability

18. Under the baseline, total public debt levels are projected to remain well below the benchmark (Table 2; Figure 2). Total public debt (both external and domestic) is projected to remain below 60 percent of GDP over the medium-term horizon. In PV terms, total public debt-to-GDP is expected to be stable around 36 percent over the medium term, still well below the benchmark of 55 percent for medium debt carrying-capacity countries.

19. A rise in the PPG debt-service-to-revenue-and-grants ratio could introduce liquidity risks. To contain these risks, the authorities should continue to prioritize securing external concessional financing, as done in recent years and in line with their medium-term debt strategy, as well as accelerate domestic debt market development to bring down borrowing costs. If strong donor support continues, liquidity risks can be mitigated.

20. Stress tests suggest that total public debt is most vulnerable to commodity price and real GDP growth shocks (Figure 2; Table 4). Under each of these shocks, the PV of total public debt-to-GDP, is projected to reach levels well above the 55 percent benchmark for medium debt-carrying capacity countries like Madagascar, notably after 2029. Other stress tests applied do not lead to breaches of debt sustainability thresholds.

Box 1. Madagascar: Debt Sustainability and Climate Change

This box explores the impact of climate change on Madagascar's debt sustainability, using a one-off natural disaster stress test and a longer-term pessimistic climate scenario with no climate adaption that draws from the World Bank Country Climate and Development Report (CCDR).

Tailored scenarios suggest that while Madagascar's debt sustainability is maintained under a one-off natural disaster shock, it is compromised in the long term in the face of unmitigated climate change.

The DSA accounts for climate risks by introducing i) a one-off natural disaster stress test and ii) a pessimistic climate scenario with no climate adaption based on estimates from World Bank CCDR simulations.

The one-off natural disaster stress test does not breach any of the debt sustainability thresholds

(Tables 3 and 4). The natural disaster shock is calibrated as a 10 percentage-point rise in the public external debt-to-GDP ratio, alongside a 1.5 percentage-point and 3.5 percentage-point fall in real GDP and export growth respectively. While this one-off shock leads to a rise in several of the debt indicators, it does not result in any breach of their respective thresholds.

Box 1. Madagascar: Debt Sustainability and Climate Change (concluded)

Under the pessimistic climate change scenario with no adaptation, several debt indicators grow more rapidly and surpass their thresholds from the 2030s (Figures 6 and 7). Projections of GDP losses from the World Bank CCDR were used to account for the damage from a persistent pessimistic climate scenario without adaptation measures. Specifically, the pessimistic climate scenario refers to a hot and dry climate with large changes in precipitation and much higher global temperatures. The CCDR estimates that the real GDP loss due to the direct impact of this pessimistic climate scenario could reach 6 percent by 2050.¹ Real GDP losses are modelled based on nine impact channels, including labor productivity, crop and livestock production, inland and coastal flooding, storm surges, cyclones, fisheries, and tourism. Of these channels, cyclones and damage to tourism are the largest contributors to real GDP losses for Madagascar. After incorporating these direct GDP losses into the DSA framework, the overall public debt burden rises, and the PV of debt-to-GDP ratio crosses its sustainable threshold from the mid-2030s. Similarly, the PV of external debt-to-GDP ratio and the external debt-service-to-revenue ratio cross their respective thresholds after the mid-2030s.² The findings from this alternative scenario illustrate the adverse implications of climate inaction on debt and underscore the importance of climate adaptation measures for debt sustainability.

¹ The World Bank CCDR calculates real GDP loss as the percent deviation from baseline, which assumes no further climate change.

² Apart from the direct impact of real GDP loss on debt sustainability, the framework assumes a similar share of government revenue to GDP ratio as the baseline. In contrast, primary expenditure is kept at the same level as the baseline, to account for the difficulty of reducing public spending in the face of climate damages. This leads to a rise in the primary deficit in this alternative scenario relative to the baseline, notably from 2030.

RISK RATING AND VULNERABILITIES

21. Madagascar is assessed as being at moderate risk of external debt distress (unchanged from the previous assessment conducted in February 2023). No thresholds are breached under the baseline scenario. However, an exports shock leads to a breach of the PV of debt-to-exports and the debt-service-to-exports thresholds. A granularity assessment suggests that Madagascar has some space to absorb shocks.

22. The overall assessment is that Madagascar is at moderate risk of overall debt distress (unchanged from the previous assessment conducted in February 2023). The PPG external debt has a moderate risk assessment (1120), while the PV of overall debt-to-GDP indicator breaches its benchmark following a growth or commodity price shock. Moreover, liquidity pressures could arise if more concessional external financing is not secured or if domestic debt market development is delayed, including under the baseline and under a natural disaster shock. In addition, a pessimistic climate scenario, coupled with a lack of adaptation, could compromise debt sustainability over the longer term.

23. Conditional on the mobilization of concessional external financing, this assessment is cautiously supportive of Madagascar's current plans to scale up its borrowing. A steeper-than-expected increase in borrowing in line with a rapid execution of the government's ambitious medium-term borrowing plan would carry significant risks, especially in the absence of securing additional external concessional financing. Also, poorly selected public investments and less favorable financing terms could affect debt vulnerability. The state of SOE liabilities could also influence future assessments. Less grant financing and a switch to a less concessional mix of

borrowing would raise the debt burden, especially when measured in PV terms, as well as debt service risks. The domestic debt market should continue to be developed to lower borrowing costs and reduce exchange-rate risk. Finally, external private debt could increase in less ringfenced sectors (e.g., banking) that would increase the vulnerabilities associated with such debt. As mentioned in prior DSAs, in addition to debt sustainability, other crucial considerations for the pace of borrowing include the economy's vulnerability to terms-of-trade shocks, natural disasters, general absorptive capacity, public financial management, and public investment management.

24. Structural reforms and improvements in debt coverage statistics remain paramount, especially in light of the CI score, which is near the weak debt-carrying capacity threshold.

Efforts to enhance external statistics could improve private debt coverage. Also, Madagascar's ability to preserve and build its debt-carrying capacity rely on strengthening the capacity and quality of its institutions, including on the Public Financial Management-front where identification and mitigation of fiscal risks (relating to fuel subsidies, SOEs, PPPs, and pensions). In addition, other key measures including improving the transparency and accountability of public sector institutions, creating a more effective and rules-based management of public investment as well as improving the efficacy of tax revenue collection would help to buttress debt sustainability. Importantly, these measures could be undertaken within the context of a credible medium-term fiscal framework, in line with a sustainable public debt anchor.

AUTHORITIES' VIEWS

25. The authorities agree with the assessment that Madagascar remains at moderate risk of debt distress. This rating coincides with the results of their MTDS. They emphasized that their medium-term strategy maintained its reliance on concessional and semi-concessional external financing, which ensures that financing needs are met at a low cost. Nevertheless, the authorities seek to continue developing the domestic debt market, through the issuance of medium-term bonds. They are committed to maintaining debt sustainability, by carefully managing exchange rate risks, refinancing risks, as well as interest rate risks. They also expect improvements in the efficacy of tax revenue collection to create buffers to absorb fiscal shocks.

Table 1. Madagascar: External Debt Sustainability Framework, Baseline Scenario, 2021–2044
(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 8/ Historical Projections	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/ of which: public and publicly guaranteed (PPG)	64.8	65.3	67.6	60.0	54.8	54.5	55.1	54.9	54.9	51.3	43.0	61.6	54.6
	34.3	36.5	35.7	34.8	36.5	38.4	39.8	41.0	42.2	42.8	38.2	29.8	40.8
Change in external debt	-15.2	0.5	2.3	-7.5	-5.3	-0.2	0.6	-0.2	0.0	-1.1	-1.1		
Identified net debt-creating flows	-5.1	0.8	-0.4	-0.3	-0.1	0.0	-0.2	-0.4	-0.1	0.1	0.6	-1.8	-0.1
Non-interest current account deficit	4.4	4.8	3.8	4.1	4.2	4.1	4.1	3.9	4.1	4.1	4.0	1.9	4.1
Deficit in balance of goods and services	9.9	9.3	8.1	7.8	8.0	7.8	7.7	7.4	7.7	8.1	8.6	5.6	7.8
Exports	23.0	30.7	27.2	23.5	26.2	26.3	26.5	26.5	26.2	24.9	22.6		
Imports	32.9	40.0	35.2	31.3	34.1	34.1	34.3	33.9	33.9	33.0	31.3		
Net current transfers (negative = inflow)	-6.8	-6.3	-5.7	-5.6	-5.4	-5.2	-5.1	-4.8	-4.8	-4.8	-4.8	-6.0	-5.0
of which: official	-0.7	-1.3	-2.3	-1.8	-0.6	-0.5	-0.3	-0.1	-0.1	0.0	0.0		
Other current account flows (negative = net inflow)	1.3	1.8	1.4	1.8	1.7	1.5	1.4	1.2	1.2	0.8	0.2	2.3	1.3
Net FDI (negative = inflow)	-1.7	-2.2	-2.2	-2.2	-2.2	-2.3	-2.4	-2.4	-2.4	-2.4	-2.4	-2.7	-2.3
Endogenous debt dynamics 2/ Contribution from nominal interest rate	0.4	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.8	1.0		
Contribution from real GDP growth	-4.1	-2.5	-2.4	-2.8	-2.6	-2.4	-2.4	-2.5	-2.5	-2.4	-2.0		
Contribution from price and exchange rate changes	-4.1	0.0	-0.3	...	...	...	...	...	...	...	...
Residual 3/ of which: exceptional financing	-10.1	-0.3	2.6	-7.2	-5.2	-0.2	0.8	0.2	0.1	-1.2	-1.7	4.2	-1.4
	-0.2	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	15.8	16.6	18.0	19.0	19.9	20.6	21.2	23.3	24.3		
PV of PPG external debt-to-exports ratio	...	...	58.1	70.7	68.9	72.5	75.1	77.7	80.9	93.6	107.2		
Total external debt service-to-exports ratio	...	...	138.8	148.7	160.4	159.5	155.4	158.2	162.6	180.3	190.2		
PPG debt service-to-exports ratio	38.3	11.0	5.3	6.0	5.6	5.8	5.5	4.6	4.2	5.7	6.6		
PPG debt service-to-revenue ratio	85.9	35.1	12.7	12.7	13.0	12.9	11.4	9.3	8.4	10.9	11.8		
Gross external financing need (Million of U.S. dollars)	1777.3	1113.0	907.2	944.0	1200.0	1152.2	1069.7	1147.3	1254.3	1884.7	4281.4		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.7	4.0	3.8	4.5	4.6	4.7	4.8	5.0	5.0	5.0	5.0	2.8	4.9
GDP deflator in US dollar terms (change in percent)	5.5	0.0	0.5	4.3	0.8	3.8	3.4	5.2	4.5	4.3	4.5	-0.2	4.0
Effective interest rate (percent) 4/	0.6	1.0	1.2	0.9	1.0	1.1	1.2	1.3	1.3	1.7	2.4	0.8	1.3
Growth of exports of G&S (US dollar terms, in percent)	30.4	38.7	-7.7	-5.8	17.6	9.0	9.6	10.1	8.6	8.5	8.6	5.4	8.3
Growth of imports of G&S (US dollar terms, in percent)	28.1	26.3	-8.0	-3.2	15.0	8.6	8.9	9.3	9.6	9.0	9.0	4.3	8.5
Grant element of new public sector borrowing (in percent)	...	...	...	49.0	43.4	45.2	45.3	47.0	46.9	39.9	33.4	...	44.8
Government revenues (excluding grants, in percent of GDP)	10.3	9.6	11.4	11.2	11.2	11.9	12.8	13.0	13.0	12.9	12.8	10.0	12.6
Aid flows (in Million of US dollars) 5/	354.2	469.1	652.9	748.6	715.3	736.9	597.1	580.6	554.3	301.0	102.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.0	2.9	3.1	2.8	2.6	2.4	1.7	1.2	...	2.5
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	63.6	49.2	49.8	48.5	48.3	48.0	40.2	33.5	...	47.7
Nominal GDP (Million of US dollars)	14,555	15,135	15,790	17,218	18,152	19,727	21,385	23,630	25,921	40,850	101,619		
Nominal dollar GDP growth	11.5	4.0	4.3	9.0	5.4	8.7	8.4	10.5	9.7	9.5	9.7	2.6	9.0
Memorandum items:													
PV of external debt 7/ In percent of exports	...	...	47.7	41.9	36.3	35.2	35.3	34.5	33.9	31.9	29.0		
Total external debt service-to-exports ratio	41.1	15.3	15.2	15.4	17.6	15.3	12.7	12.8	11.9	11.8	11.4		
PV of PPG external debt (in Million of US dollars)	...	...	2492.7	2856.4	3274.1	3754.6	4262.2	4858.2	5489.6	9530.7	24658.1		
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...	2.3	2.4	2.6	2.6	2.8	2.7	2.3	2.1		
Non-interest current account deficit that stabilizes debt ratio	19.6	4.4	1.5	11.6	9.5	4.4	3.5	4.0	4.1	5.2	5.1		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

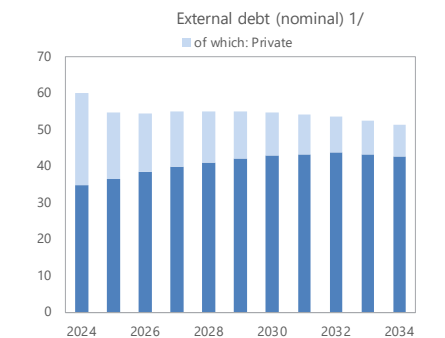
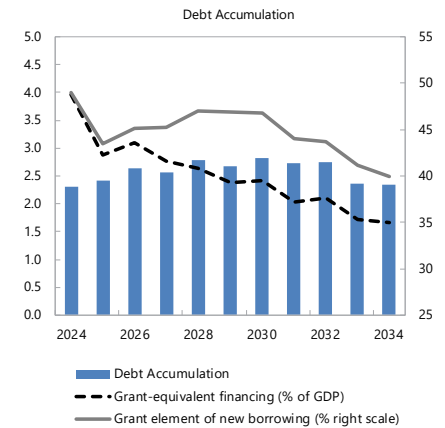
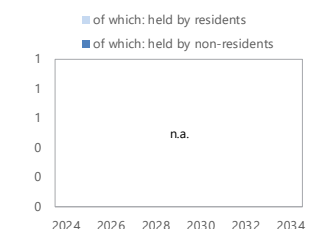
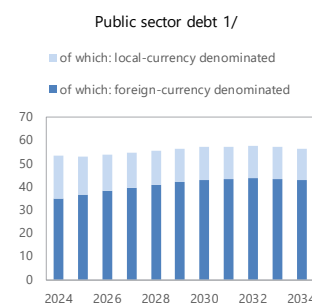


Table 2. Madagascar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–2044
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	51.9	53.9	55.6	53.4	52.9	53.9	54.7	55.6	56.4	56.6	51.5	46.0	55.7
of which: external debt	34.3	36.5	35.7	34.8	36.5	38.4	39.8	41.0	42.2	42.8	38.2	29.8	40.8
Change in public sector debt	0.0	2.0	1.7	-2.2	-0.5	1.0	0.8	0.8	0.8	-0.5	-1.0		
Identified debt-creating flows	1.2	5.3	1.0	-0.1	-0.6	0.6	0.3	-0.1	0.2	-0.1	-0.4	0.9	0.0
Primary deficit	2.2	5.0	3.6	2.9	2.9	3.1	2.9	2.9	3.0	3.3	2.6	2.1	3.1
Revenue and grants	10.9	10.9	13.6	12.9	11.8	12.5	13.2	13.1	13.1	13.0	12.8	12.1	12.9
of which: grants	0.7	1.3	2.3	1.8	0.6	0.5	0.3	0.1	0.1	0.0	0.0		
Primary (noninterest) expenditure	13.1	15.9	17.2	15.8	14.8	15.6	16.1	16.1	16.1	16.2	15.4	14.2	16.0
Automatic debt dynamics	-4.5	-1.0	-4.9	-4.1	-3.6	-3.3	-3.7	-3.9	-3.7	-4.2	-3.9		
Contribution from interest rate/growth differential	-3.9	-3.4	-3.8	-3.4	-2.9	-2.8	-3.1	-3.2	-3.2	-3.3	-3.0		
of which: contribution from average real interest rate	-1.0	-1.4	-1.8	-1.0	-0.6	-0.4	-0.6	-0.6	-0.6	-0.6	-0.5		
of which: contribution from real GDP growth	-2.8	-2.0	-2.0	-2.4	-2.3	-2.4	-2.5	-2.6	-2.6	-2.7	-2.5		
Contribution from real exchange rate depreciation	-0.7	2.4	-1.2	...	...	...	...	...	...	...	...
Other identified debt-creating flows	3.6	1.3	2.4	1.1	0.2	0.7	1.0	1.0	0.9	0.9	0.9	0.7	0.8
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
SOE debt	3.6	1.3	2.4	1.2	0.2	0.8	1.0	1.0	0.9	0.9	0.9	1.1	-0.5
Residual	-1.2	-3.4	0.6	-2.9	-0.7	0.0	-0.1	0.1	0.1	-1.3	-1.5		
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	36.2	35.8	34.7	34.9	35.3	35.8	36.4	38.2	38.7		
PV of public debt-to-revenue and grants ratio	...	...	265.2	276.5	293.0	280.6	268.2	272.3	277.0	294.8	303.1		
Debt service-to-revenue and grants ratio 3/	9.3	10.1	10.6	46.0	60.9	62.0	56.9	54.5	50.9	56.3	91.8		
Gross financing need 4/	6.7	7.4	7.4	10.5	10.9	12.1	11.4	11.0	10.6	11.6	15.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.7	4.0	3.8	4.5	4.6	4.7	4.8	5.0	5.0	5.0	5.0	2.8	4.9
Average nominal interest rate on external debt (in percent)	0.7	0.9	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.1	1.4	0.9	1.0
Average real interest rate on domestic debt (in percent)	-6.2	-6.5	-8.0	-4.0	-3.8	-1.7	-2.1	-1.7	-1.5	-1.9	-2.4	-6.4	-2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.0	7.4	-3.4	...	...	...	...	...	...	...	...	2.3	...
Inflation rate (GDP deflator, in percent)	6.6	6.9	8.7	6.9	7.6	6.8	6.3	5.7	4.9	4.8	5.0	6.9	5.6
Growth of real primary spending (deflated by GDP deflator, in percent)	-11.5	26.5	12.3	-3.7	-2.4	10.5	8.3	4.7	5.5	4.9	3.1	6.9	4.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.1	3.0	1.9	5.1	3.4	2.1	2.2	2.1	2.2	3.8	3.6	2.3	3.0
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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



Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Madagascar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024–2034
(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	17	18	19	20	21	21	22	23	23	23	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	17	17	17	17	17	17	16	16	16	16	16
B. Bound Tests											
B1. Real GDP growth	17	20	23	24	24	25	26	27	27	28	28
B2. Primary balance	17	18	20	21	22	22	23	24	24	24	24
B3. Exports	17	24	34	35	35	35	35	35	34	33	32
B4. Other flows 3/	17	19	21	22	22	23	24	24	24	24	24
B5. Depreciation	17	23	21	23	23	24	25	26	27	28	28
B6. Combination of B1-B5	17	25	27	28	28	29	29	29	30	29	29
C. Tailored Tests											
C1. Combined contingent liabilities	17	21	22	23	24	25	25	26	26	26	26
C2. Natural disaster	17	22	24	26	27	27	28	28	29	29	29
C3. Commodity price	17	19	21	22	23	23	23	24	24	24	23
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	71	69	72	75	78	81	84	88	91	92	94
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	71	63	64	63	63	63	63	63	64	64	64
B. Bound Tests											
B1. Real GDP growth	71	69	72	75	78	81	84	88	91	92	94
B2. Primary balance	71	70	75	79	82	85	89	92	95	97	98
B3. Exports	71	126	229	229	229	231	235	236	234	229	225
B4. Other flows 3/	71	73	80	82	85	88	91	94	96	97	98
B5. Depreciation	71	69	64	67	70	74	78	81	85	87	89
B6. Combination of B1-B5	71	107	89	130	133	137	141	144	146	147	147
C. Tailored Tests											
C1. Combined contingent liabilities	71	79	84	88	91	94	98	101	104	105	106
C2. Natural disaster	71	87	93	98	102	105	109	113	116	117	118
C3. Commodity price	71	73	81	84	86	88	91	92	94	94	94
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	6	6	6	6	5	4	4	4	5	5	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	6	6	6	6	5	5	5	4	5	5	6
B. Bound Tests											
B1. Real GDP growth	6	6	6	6	5	4	4	4	5	5	6
B2. Primary balance	6	6	6	6	5	4	4	4	5	6	6
B3. Exports	6	8	12	12	10	10	10	11	15	16	16
B4. Other flows 3/	6	6	6	6	5	4	4	4	5	6	6
B5. Depreciation	6	6	6	5	4	4	4	4	4	5	5
B6. Combination of B1-B5	6	7	9	8	7	6	6	8	8	9	9
C. Tailored Tests											
C1. Combined contingent liabilities	6	6	6	6	5	4	4	4	5	6	6
C2. Natural disaster	6	6	6	6	5	5	5	5	5	6	6
C3. Commodity price	6	6	6	6	5	5	5	4	5	6	6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	13	13	13	11	9	8	8	8	9	10	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	13	13	14	12	10	10	10	8	9	10	11
B. Bound Tests											
B1. Real GDP growth	13	14	15	14	11	10	10	9	11	12	13
B2. Primary balance	13	13	13	12	10	9	8	8	10	11	12
B3. Exports	13	13	15	15	12	11	11	13	17	18	18
B4. Other flows 3/	13	13	13	12	10	9	9	9	10	11	12
B5. Depreciation	13	16	16	14	11	10	10	10	10	12	13
B6. Combination of B1-B5	13	14	16	14	12	10	10	12	13	14	15
C. Tailored Tests											
C1. Combined contingent liabilities	13	13	13	12	10	9	9	9	10	11	11
C2. Natural disaster	13	13	14	12	10	9	9	9	10	11	12
C3. Commodity price	13	17	17	15	12	10	9	9	10	11	12
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Madagascar: Sensitivity Analysis for Key Indicators of Public Debt, 2024–2034
(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	36	35	35	35	36	36	37	38	38	38	38
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	36	35	35	35	35	35	35	35	35	34	33
B. Bound Tests											
B1. Real GDP growth	36	39	44	46	48	50	52	54	56	57	59
B2. Primary balance	36	36	37	38	38	38	39	39	40	40	40
B3. Exports	36	40	49	49	48	49	49	48	48	47	46
B4. Other flows 3/	36	36	37	37	38	38	39	39	39	39	39
B5. Depreciation	36	37	35	34	33	32	32	31	31	30	30
B6. Combination of B1-B5	36	36	37	38	39	39	40	40	41	41	41
C. Tailored Tests											
C1. Combined contingent liabilities	36	40	40	40	40	41	41	41	42	42	42
C2. Natural disaster	36	44	43	43	43	44	44	44	45	45	45
C3. Commodity price	36	38	43	47	51	54	56	58	59	61	62
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	277	293	281	268	272	277	284	287	292	294	295
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	277	295	281	266	268	267	269	267	267	262	258
B. Bound Tests											
B1. Real GDP growth	277	325	352	349	366	383	402	416	431	442	452
B2. Primary balance	277	305	301	286	288	292	298	300	304	305	305
B3. Exports	277	339	392	369	369	370	373	370	366	358	352
B4. Other flows 3/	277	302	297	283	287	291	297	300	303	303	303
B5. Depreciation	277	311	284	259	252	246	243	240	237	233	229
B6. Combination of B1-B5	277	300	301	289	293	297	304	308	312	313	314
C. Tailored Tests											
C1. Combined contingent liabilities	277	342	324	306	308	310	315	318	321	321	320
C2. Natural disaster	277	367	348	329	330	333	339	341	345	345	345
C3. Commodity price	277	402	422	434	445	450	451	444	457	467	475
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	46	61	62	57	54	51	50	47	49	51	56
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	46	62	61	54	52	49	48	44	45	46	51
B. Bound Tests											
B1. Real GDP growth	46	66	73	70	71	69	69	66	69	72	80
B2. Primary balance	46	61	63	60	56	52	51	47	49	51	57
B3. Exports	46	61	63	59	57	53	52	51	56	57	62
B4. Other flows 3/	46	61	62	57	55	51	50	48	50	52	57
B5. Depreciation	46	58	61	55	52	50	49	45	47	49	54
B6. Combination of B1-B5	46	60	63	59	57	54	53	50	52	54	59
C. Tailored Tests											
C1. Combined contingent liabilities	46	61	73	65	58	53	52	48	50	51	57
C2. Natural disaster	46	62	79	71	61	56	54	50	52	53	59
C3. Commodity price	46	77	84	86	86	80	76	68	70	72	79
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

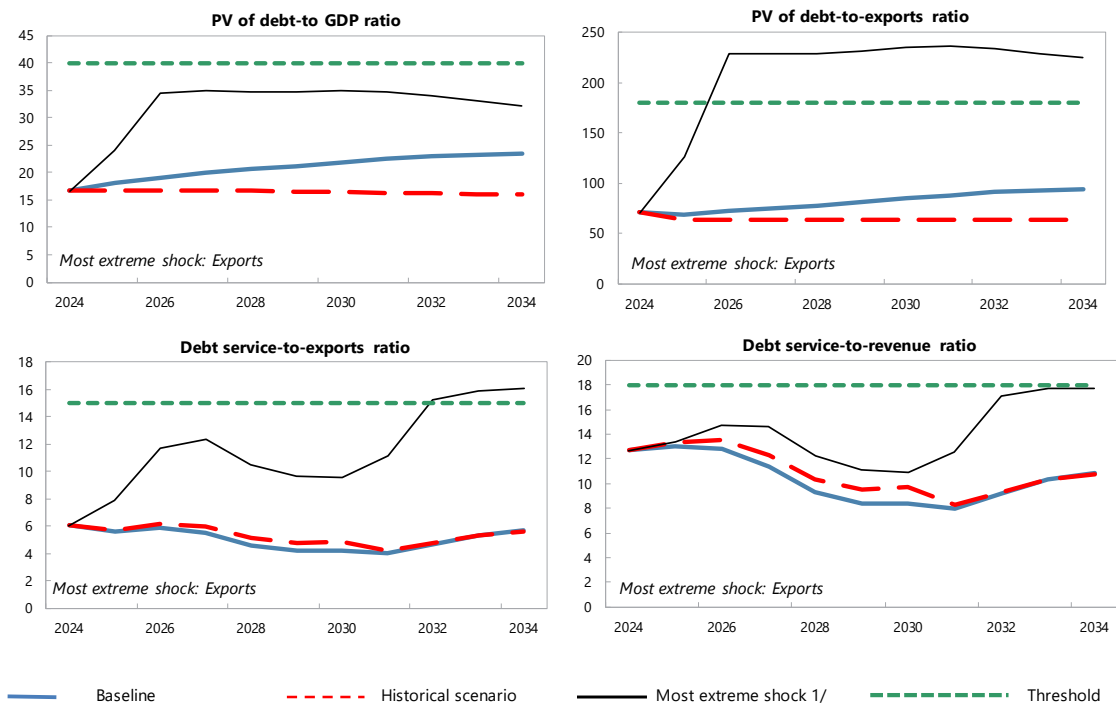
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 1. Madagascar: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2024–2034



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

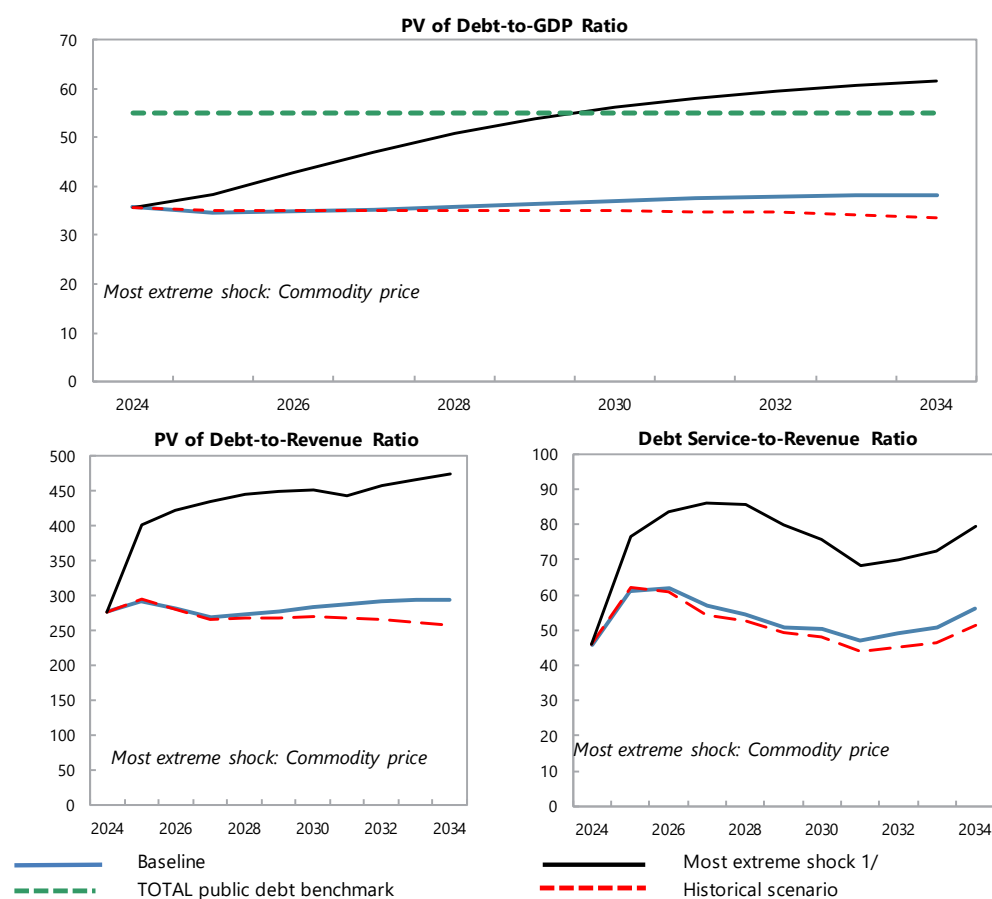
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	28	21
Avg. grace period	5	5

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Madagascar: Indicators of Public Debt Under Alternatives Scenarios, 2024–2034


Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	45%	65%
Domestic medium and long-term	18%	15%
Domestic short-term	38%	20%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.8%
Avg. maturity (incl. grace period)	28	21
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.4%	5.4%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	1.5%	3.5%

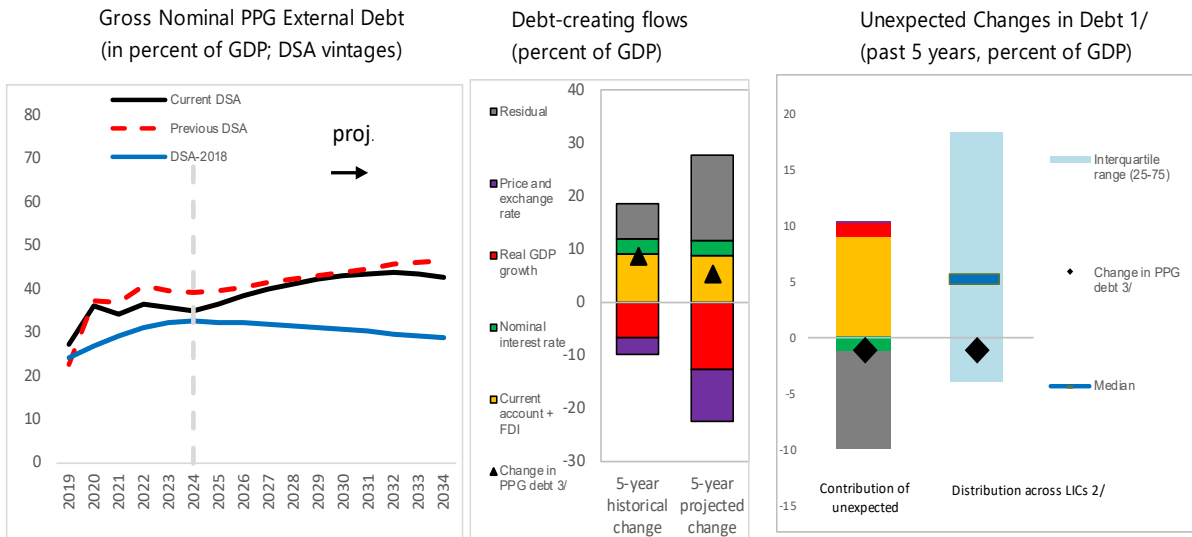
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

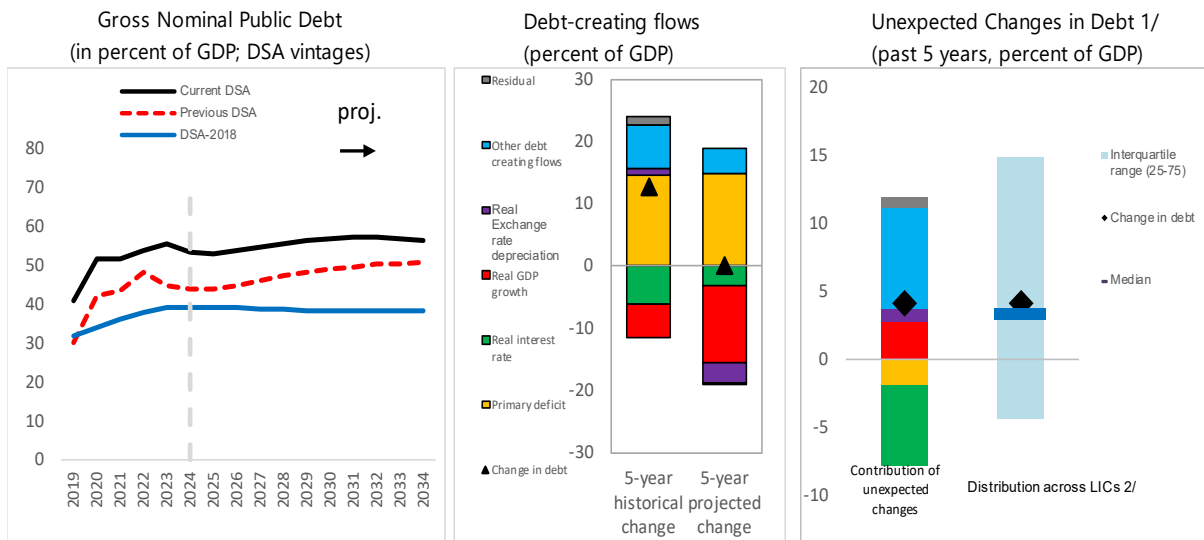
1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

External Debt



Public Debt



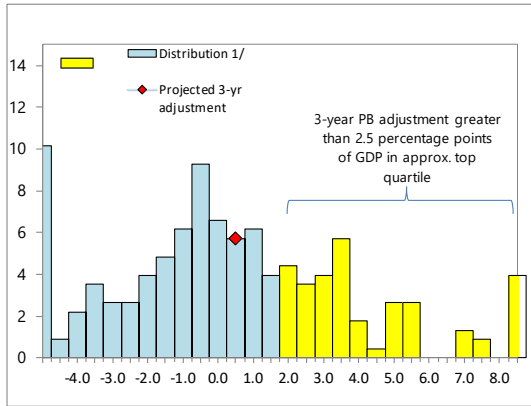
1/ Difference between anticipated and actual contributions on debt ratios.

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

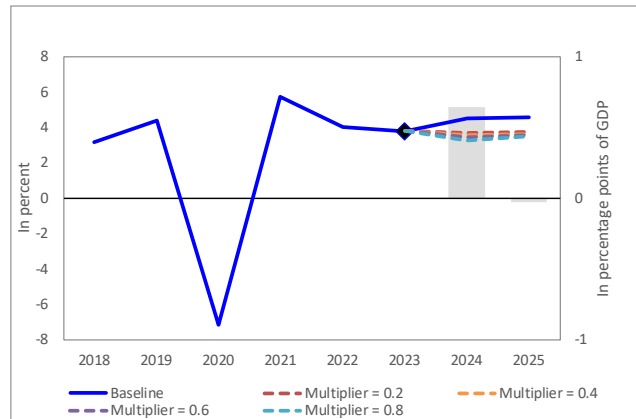
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Madagascar: Realism Tools

**3-Year Adjustment in Primary Balance
(Percentage points of GDP)**



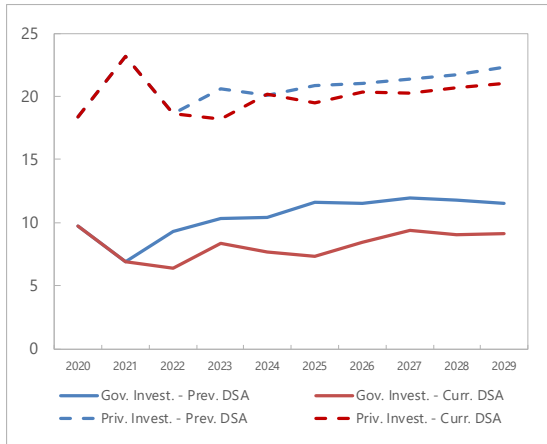
Fiscal Adjustment and Possible Growth Paths 1/



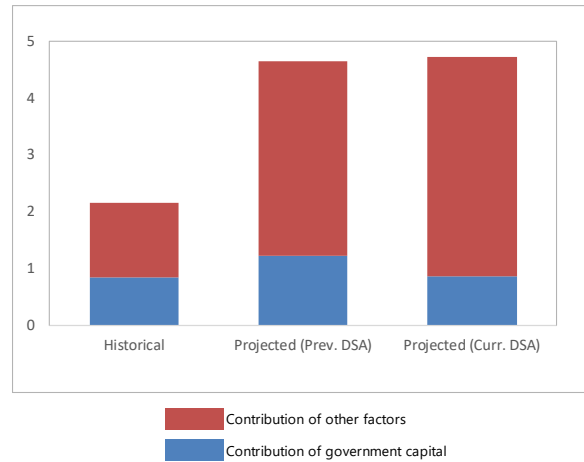
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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

**Public and Private Investment Rates, Real
(percent of GDP)**



**Contribution to Real GDP growth
(percent, 5-year average)**



Contribution of other factors
Contribution of government capital

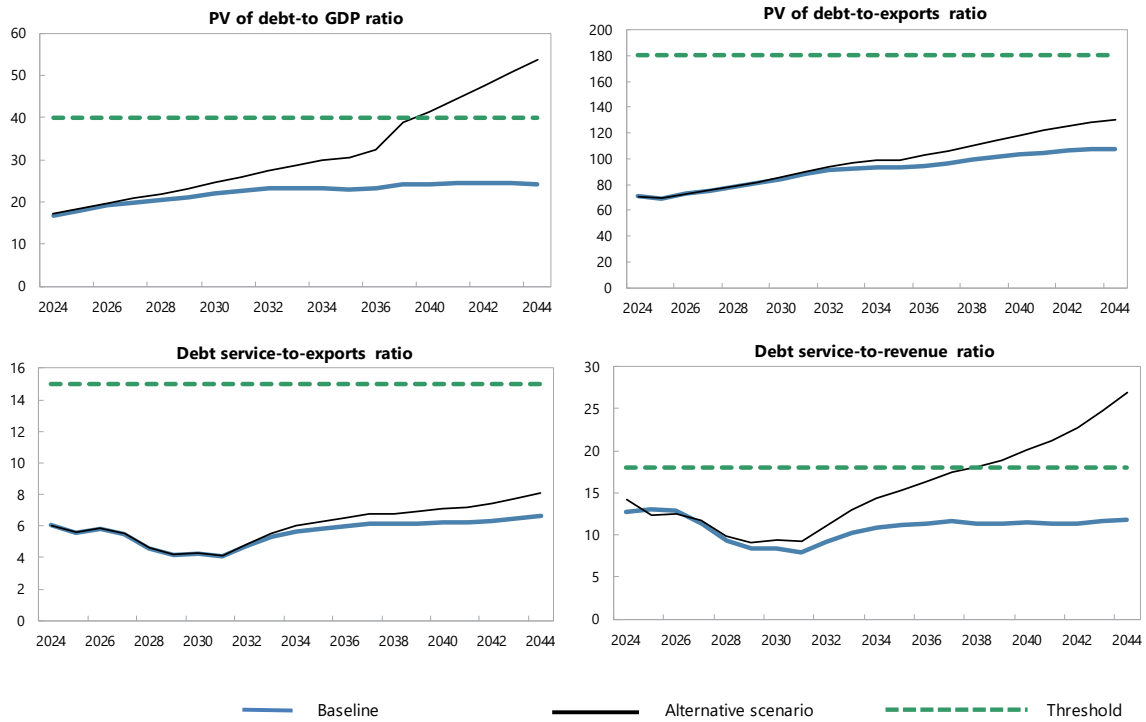
Figure 5. Madagascar: Qualification of the Moderate Category, 2024–2034¹



Sources: Country authorities; and staff estimates and projections.

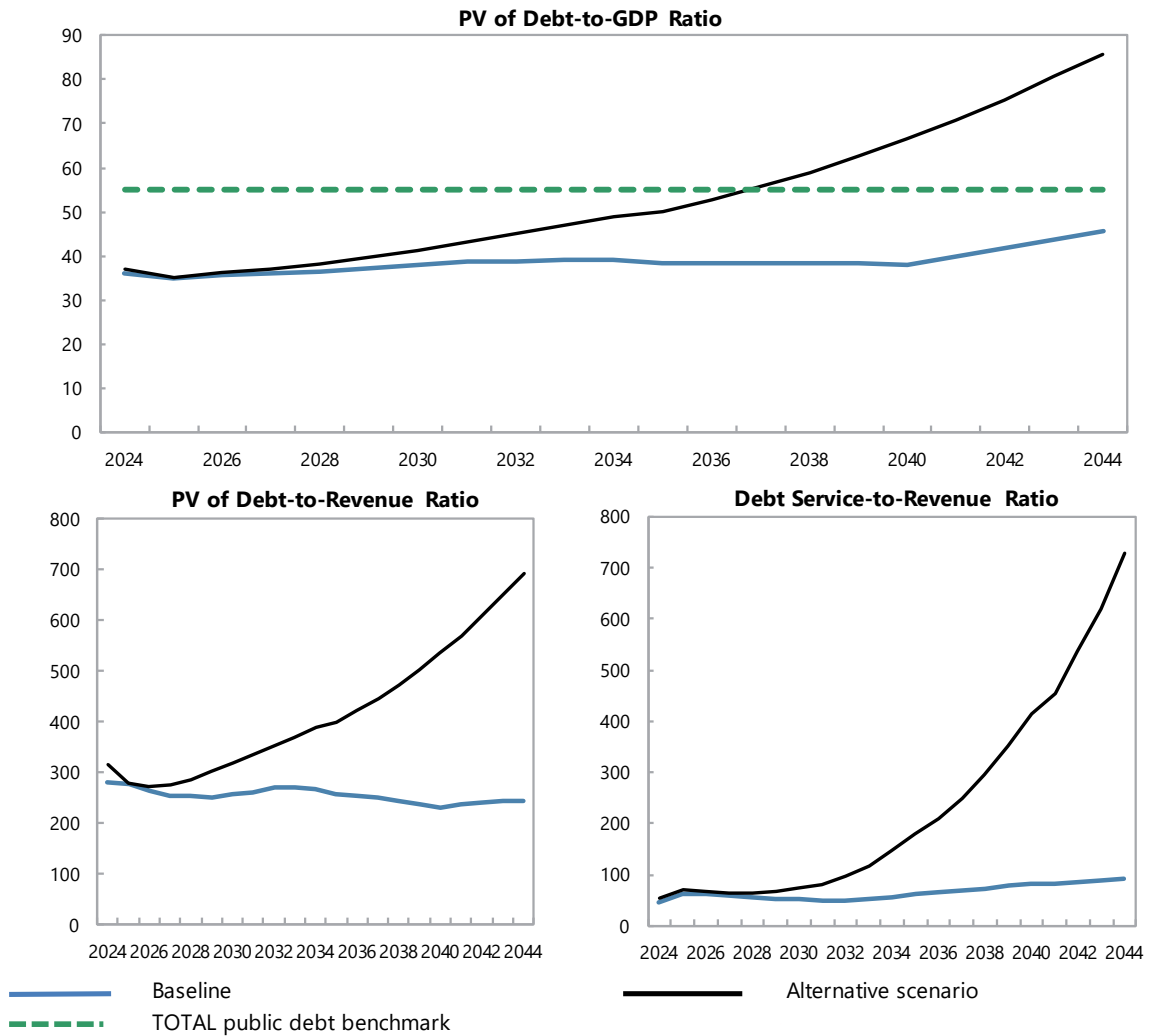
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Figure 6. Madagascar: Indicators of Public and Publicly Guaranteed External Debt Under a Pessimistic Climate Change Scenario, 2024–2044



Sources: Country authorities; World Bank CCDR; and IMF staff estimates and projections.

Figure 7. Madagascar: Indicators of Public Debt Under a Pessimistic Climate Change Scenario, 2024–2044



Sources: Country authorities; World Bank CCDR; and IMF staff estimates and projections.



REPUBLIC OF MADAGASCAR

June 10, 2024

REQUEST FOR AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND CANCELLATION OF THE CURRENT ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs for the Country Arising from Climate Change Vulnerabilities

1. **Extreme weather events take a heavy toll on Madagascar with climate-related disasters and shocks having a significant impact on poverty levels, underscoring Madagascar's vulnerability to climate change.** Madagascar has the highest risk of cyclones in Africa and currently experiences three to four cyclones between November and April each year. Major tropical cyclones have hit Madagascar an average of about once every three years since 1998. The costs associated with cyclones are high, with a typical tropical cyclone costing the economy an estimated 1 percent of GDP per year, and up to 8 percent of GDP for once-in-a-century events, devastating rural communities and agriculture along the Eastern Coast. Total losses from cyclones in 2020 alone were equivalent to 4.8 percent of GDP, as per the World Bank's Global Rapid Damage Estimation (GRADE). The economic and human impacts of droughts are even larger, especially in the South, where a multi-year severe drought has deepened poverty and food insecurity. Moreover, climate-related disasters and shocks can cause people to fall into poverty both through direct near-term losses and damages, and through long-term indirect impacts on nutrition and education, among others. Overall, from 2008 to 2022, in Madagascar, disasters linked to natural hazards displaced 1.4 million people, 1.3 million of them due to storms alone. Most recently in December 2023, storm Alvaro left a dozen of deaths, around 16,290 victims representing 4,626 households, and material damages in the South of Madagascar. Cyclone Gamane that hit the Northern part of Madagascar in March 2024 impacted up to 89,000 victims and 18,787 houses, and destructed several road infrastructures, with reconstruction costs estimated at \$76 million.

2. Although Madagascar is a minor contributor to climate change, it is highly vulnerable to its impacts. In 2020, the country emitted an estimated 40.21 Mt CO₂e, or 0.09 percent of global greenhouse gas emissions^{1,2}. In per capita terms, Madagascar’s per capita emissions rank 169th in the world, at just 1.45 tCO₂e emitted per person. However, due to its high exposure to climate hazards, deep social and economic vulnerabilities, dependency on natural capital, and other factors, Madagascar is considered one of the countries that are most vulnerable and least prepared to cope with climate change, ranked 172nd of 185 countries by the 2022 ND-GAIN Index.³

B. Government Policies and Commitments for Climate Change Adaptation and Priority Areas to Strengthen Resilience

3. Madagascar’s National Adaptation Plan (PNA), published in 2021, explicitly references the Plan Emergence Madagascar and aims to strengthen adaptation governance and mainstream adaptation, including in priority sectors, and mobilize finance.⁴ It includes a diverse array of actions, with a 10-year perspective, including the creation of a “green belt” to prevent desertification and enhance climate resilience; promoting adaptation in agriculture, especially in the Grand Sud; improving access to drinking water; strengthening early warning systems (EWS); accelerating reforestation and conserving natural forests; protecting coastal infrastructure; and making cities more sustainable and resilient. Enhanced efforts are needed to advance implementation of these actions. So far, Madagascar lags countries in the region regarding hydrometeorological services and EWS. In the agriculture sector, only a small subset of proposed adaptation measures has been adopted, notably a water pipeline project in the south with an irrigation component and some research investment in climate-resilient crop varieties.⁵ On the positive side, several Malagasy cities, such as Toamasina and Mananjary, which are both very prone to storms and flooding, have made important progress towards risk-informed planning, including detailed multi-hazard risk maps and a strategic investment plan. A whole-of-government and sector objectives prioritizing climate-resilient development is needed to push this agenda forward.

¹ GHG data is sourced from Climate Watch data for historical greenhouse gas emissions: <https://www.climatewatchdata.org/ghg-emissions>. Noting the NDC estimates are different, but the CCDR has used the Climate watch data for global benchmarking purposes.

² Madagascar first NDC (2015) indicates that the country absorbed a total of -63,121 MteqCO₂ in 2010. The same document estimated that the country will continue to absorb -23,609 MteqCO₂ in 2020 but will be a net emitter by 2030 with estimated emissions of 22 MteqCO₂. https://cbit-madagascar.mg/wp-content/uploads/CDN_MADAGASCAR_2015.pdf

³ The Notre Dame Global Adaptation Initiative (ND-GAIN) Country Index summarizes a country’s vulnerability to climate change and other global challenges in combination with its readiness to improve resilience. Ranking given is from 2022. See <https://gain-new.crc.nd.edu/ranking>.

⁴ Republic of Madagascar. 2021. “Plan National d’Adaptation Au Changement Climatique (PNA) Madagascar [National Adaptation Plan of Madagascar].” Antananarivo: Ministry of Environment and Sustainable Development. <https://unfccc.int/documents/488094>.

⁵ IMF Country Report No. 22/342. Technical Assistance Report – Climate Macroeconomic Assessment Program.

4. Climate change and variability, particularly extreme events, put significant pressure on the water and agriculture sector, and transport infrastructures. Access to safe drinking water is limited, particularly in rural areas, and could worsen with population growth and due to climate change impacts and contamination. Climate change is already making water supplies less reliable and affects water quality, which is important both for drinking water and for irrigation. Key threats include saltwater intrusion in some aquifers as well as contamination from human activities (fertilizer use, poor sanitation). Water stress due to droughts is a particular concern, especially in arid regions. Moreover, the agriculture sector faces growing losses due to the erosion of cultivable land during intense rainfall, cyclones, and floods; increases in pests, including locust plagues; and reduced labor (and animal) productivity during times of extreme heat. To improve the resilience of its agri-food systems to climate shocks, Madagascar top priorities include scaling up support for the development and promotion of climate-smart agriculture,⁶ deploying digital technologies to enhance farmers' access to knowledge and enhance their risk management capacity; and strengthening the enabling environment to attract private sector investment and technologies for adaptation. In addition, climate change poses major threats to roads, bridges and other transport infrastructure, as poor construction and inadequate maintenance make it highly vulnerable to extreme weather. The priority in the short term should focus on developing resilient infrastructure, and in the medium term, on the promotion of multimodal connectivity and lower carbon alternatives to road transport.

5. Although lacking a clear strategy, Madagascar does have a vision for making cities resilient to the impacts of climate change and enhance climate-resiliency health systems. The PNA addresses urban issues at length, as part of discussions of land planning and infrastructure; a vision for building “new cities” with a large supply of housing that is sustainable and resilient; coastal flood risk management; and access to safe drinking water in both urban and rural areas, among other topics.⁷ However, local governments do not have enough means to invest in and administer services needed to support resilience. In the health sector, the PNA outlines two strategic public health priorities: improving the health sector's capacity to address climate-related adverse effects and increasing the population's resilience capacity in the face of climate and climate-related health risks.⁸ The sectoral plan aims to strengthen the technical, institutional, and organizational capacities of the health sector in the face of climate change. Due to the lack of budget, progress on key activities, including preparedness of climate-related hazards, research on climate and health-related risks, monitoring and evaluation are limited.

⁶ CSA is an integrated approach to managing landscapes—cropland, livestock, forests and fisheries—that address the interlinked challenges of food security and accelerating climate change. CSA aims to simultaneously achieve three outcomes: 1) increased productivity (i.e., produce more and better food to improve nutrition security and boost incomes); 2) enhanced resilience (i.e., reduce vulnerability to drought, pests, diseases and other climate-related risks and shocks while strengthening adaptation capacity in the face of longer-term stresses like shortened seasons and erratic weather patterns); 3) reduced emissions (i.e., lower emissions for each calorie or kilo of food produced).

⁷ République de Madagascar. 2021. Plan National d'Adaptation au Changement Climatique (PNA) Madagascar.

⁸ Republic of Madagascar, 2021, “Plan National d'Adaptation Au Changement Climatique (PNA) Madagascar [National Adaptation Plan of Madagascar].”

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

6. Madagascar's Nationally Determined Contribution (NDC) includes mitigation commitments, mainly focused on energy and land use, land-use change and forests (LULUCF).

The initial NDC, submitted in 2016 with commitments to 2025, laid out a package of actions projected to cost US\$42.1 billion. Most of the near-term goals in the initial NDC were not achieved, so an NDC update in 2022 (still not officially submitted as of this assessment) aimed to set more realistic, achievable goals.⁹ It pledges to reduce cyclone-related loss of life, lower GHG emissions (by 32.6 Mt CO₂, or 24 percent relative to business as usual), increase land-based carbon sinks, boost the share of renewable energy in the electricity mix to 80 percent, scale up adoption of improved stoves by households, slow coastal erosion in vulnerable areas, triple marine protected areas, and restore 55,000 ha of degraded land and mangroves. The government is now drafting a long-term low-emissions development strategy under the United Nations Framework Convention on Climate Change,¹⁰ laying out a vision for achieving a just transition to net zero emissions by mid-century. In addition, several hydropower projects, including Volobe and Sahofika, are underway to reduce GHG emissions and transition to renewable electrification.

D. Other Challenges and Opportunities

7. Madagascar can leverage several opportunities to attract private sector and international finance to support climate action, including through green finance and carbon markets. Insurance and risk management products are available in Madagascar, but scaling up their use is a challenge. Initiatives such as index-based insurance for farmers remain funded by financial and technical partners, and the insurance sector is still dominated by state-owned enterprises. In addition, to financing its adaptation bill, and considering its potential to serve as a global carbon sink, Madagascar can raise funds on carbon markets, including through Reducing emissions from deforestation and forest degradation (REDD+) initiatives, to support forest protection and restoration. Madagascar's current commitments of enhancing 270,000 ha of forests with native species, in addition to existing REDD+ initiatives (potential absorption of 40 Mt CO₂e¹¹) could allow to absorb around 44 Mt CO₂e per year. This could represent US\$44 million per year and \$286 million to \$1.4 billion by 2030.¹² One option would be to support efforts by large mining companies

⁹ Republic of Madagascar, 2022, "Deuxième Contribution Déterminée Au Niveau National de La République de Madagascar."

¹⁰ LTS are an important complement to NDCs under the Paris Agreement. See <https://www.undp.org/fr/madagascar/press-releases/le-processus-de-validation-de-la-strategie-de-developpement-%C3%A0-faible-%C3%A9mission-de-carbone-lanc%C3%A9-%C3%A0-antsirabe>

¹¹ [L'enrôlement de Madagascar dans la REDD+ : domestiquer une opportunité internationale](#), Moïse Tsayem Demaze, UQAM, May 2014.

¹² Calculations based on IMF estimates of carbon absorption potential of forest enhancement (4 Mt CO₂e/year), on the potential of REDD+ initiatives (40–45 Mt CO₂e), and a conservative price range of \$1–5/tCO₂e for carbon credits issued in Madagascar.

looking to improve their sustainability by funding large-scale reforestation and forest restoration activities. Potential collaboration with an existing quasi-private forest plantation concession could expand afforestation and restoration of degraded forests activities within an existing 200,000 ha concessions in central Madagascar, and produce wood products, biofuels and emission reduction credits to sell into carbon markets. However, several constraints now prevent Madagascar from accessing climate finance from forest carbon markets. Madagascar nationalized its forestry carbon markets in January 2022, through decree 2021-1113. This is not a problem when the investments that lead to emission reductions are funded by the government, but the regulation may have potentially discouraged¹³ existing conservation projects led by private companies and nonprofits that used to issue carbon credits and kept new ones from being set up, which warrants a revision of the decree.¹⁴ With its abundant marine and coastal resources, including over 250,000 hectares of mangroves, Madagascar has also a large potential to intensify blue carbon financing.

E. World Bank Engagement

8. The World Bank has an active portfolio of financing and technical assistance that is helping Madagascar implement its climate commitments.

- Active operations: The Atiala-Atsinanana Emission Reductions Program Project (P167725) aims to make payments to the program entity for measured, reported and verified Emission Reductions (ER payments) related to reduced deforestation, forest degradation and the enhancement of forest carbon stocks (REDD+) at the national level in Madagascar, and distribution of ER payments in accordance with agreed Benefit Sharing Plan. The MG ethanol clean cooking climate finance program (P154440) aims to increase household use of ethanol cooking stoves for reduced GHG emissions in Madagascar. The Madagascar - Least-Cost Electricity Access Development Project – LEAD (P163870) and the Digital and Energy Connectivity for Inclusion in Madagascar Project (P178701) are implementing grid-based renewable energy solutions. The Safety Nets and Resilience Project (P179466) supports climate change adaptation including agroforestry, landscape management, irrigation, and reforestation, as well as rapid safety net response to climate shocks. The Support to Resilient Livelihoods in Southern Madagascar Project (P171056) covers a range of resilience measures including resource and landscape management. The Madagascar National Water Project (P174477) is financing investments in water supply in major cities across the country and several cyclone-affected areas. The Regional Climate Resilience Project (P180171) will fund the remaining stages of the preliminary drafts study of the Mandrare Multipurpose

¹³ The carbon market decree of 2021 mentions that all ERs generated in Madagascar are Government owned, and that there are no articles that stipulate the role of the private sector and how they can invest in the Madagascar forestry carbon market; the 2023 decree on CAS determines that all ER funds need to go through the CAS, which requires a lengthy administrative process before the release of payments; both aspects represent disincentives to the private sector.

¹⁴ [The Forest Carbon Partnership Facility \(FCPF\)](#) Methodological Framework and related guidance notes show, there are multiple ways in which a country can address the issue of title to emission reductions and how benefits can be distributed to stakeholders, including sub-agreements and benefit sharing plans when carbon rights are owned by the State.

Transformative Project (MMTP), currently being financed by the Madagascar National Water Project (P174477). The first Madagascar Equitable and Resilient Growth Development Policy Operation (P180288) aims to mitigate Madagascar's climate risks through climate-smart and decentralized fiscal management, climate-sensitive new investment law and mining codes, and reforms emphasizing renewable energy generation.

- Operations under preparation: The World Bank is preparing the Madagascar Second Equitable and Resilient Growth Development Policy Operation (P500386) which aims to strengthen governance and climate-smart and decentralized fiscal management and foster an enabling investment environment and supporting structural reforms in key sectors. The Regional Emergency Preparedness & Access to Inclusive Recovery (P181014) will strengthen the financial preparedness of vulnerable governments, firms and households against climate shocks.
- Analysis and technical assistance: The World Bank is finalizing the Country Climate and Development Report, which provides policy- and investment-related recommendations on climate change.¹⁵ Moreover, the Country Environmental Analysis (CEA) report assesses key areas to promoting Green, Resilient, and Inclusive Development in Madagascar. The World Bank also continues to provide technical assistance on climate-related areas, including a macro-modeling considering climate feature, integration of climate aspect in public investment management, under the Madagascar Macro-Fiscal and Equitable Growth Programmatic ASA (P501380). The recommendations of these analytical works and the supports provided through technical assistances are in concordance with the reforms supported by the RSF, that focus on reinforcing governance and mainstreaming the climate agenda into public financial management processes, enhancing adaptation to climate change and resilience against natural disasters, supporting efforts to curb the growth of GHG emissions, reinforcing the protection of forests and biodiversity, and mobilizing climate finance.

¹⁵ Publication expected for 2024.

Statement by the Staff Representative on the Republic of Madagascar
Executive Board Meeting
June 21, 2024

This statement provides updates on recent developments since the staff report was issued to the Executive Board and does not alter the thrust of the report and staff appraisal.

- 1. Preliminary results of the May 29 parliamentary elections were released by the National Electoral Commission (CENI) on June 11, 2024.** The presidential party (“All together with Andry Rajoelina”) would obtain 80 seats out of 163, thus falling short of the absolute majority. Independent candidates would get 55 seats. The opposition would get 22 seats, with 6 other seats going to small parties. The final results will be announced by the High Constitutional Court at the end of June.

- 2. The prior actions set for Board consideration have been met.**
 - **The 2024 revised budget law was approved by both houses of Parliament on June 10 and 11, 2024.** The budget is in line with the program fiscal framework. It includes an increase in alcohol excise taxes and provides for the projected fuel price subsidy resulting from the administration of retail fuel prices.

 - **The authorities adopted a decree implementing an automatic fuel pricing mechanism** (decree 2024-1205). Retail fuel prices will be adjusted before the fifth business day of every month based on the changes in the calculated reference prices between month M-2 and month M-1 and the differences between the administered retail prices and the calculated reference prices in month M-1, within a band of +/- 200 ariary per liter.

 - **As indicated in the staff report, a new CEO for JIRAMA was appointed on May 1, 2024.**

Statement by Mr. Regis N'Sonde, Executive Director for Madagascar, Mr. Mbuyamu Matungulu, Alternate Executive Director, Mr. Marcellin Koffi Alle, Senior Advisor to Executive Director, and Mr. Thierry Paul Nguéma-Affane, Senior Advisor to Executive Director
Executive Board Meeting, June 21, 2024

On behalf of the Malagasy authorities, we would like to thank Executive Directors, Management, and staff for their continued support to Madagascar. Over the past years, IMF assistance through emergency financing and an Extended Credit Facility (ECF) arrangement has been essential in ensuring the success of the authorities' policy response to shocks and broader reform efforts.

Madagascar is in the middle of a 12-month electoral cycle. President Rajoelina was reelected in November 2023 and reappointed Prime Minister Christian Ntsay in January 2024. Parliamentary elections followed on May 29, 2024, and preliminary results indicate that the presidential coalition won 49 percent of the seats, two seats shy of majority. Most other seats were taken by independent candidates. Municipal elections are scheduled for November 2024.

Upon their inauguration, the Malagasy authorities presented to Parliament their general policy statement (*Politique Générale de l'Etat*—PGE) that outlines key structural reforms and policies to build resilience over the next five years. The PGE rests on three main pillars: (i) human capital development and social protection, (ii) industrialization and economic transformation, and (iii) good governance and the rule of law.

To consolidate their achievements in reform implementation in the context of the PGE, the Malagasy authorities are requesting the (i) cancellation of the existing ECF arrangement which is set to expire in July 2024 after four completed reviews, and (ii) approval of a new 36-month ECF arrangement in the amount of SDR 256.62 million (105 percent of quota). The new ECF-supported program would play a catalytic role in mobilizing support from other Madagascar's technical and financial partners.

In March 2024, the country's high vulnerability to extreme climate events affecting infrastructure and food security was again demonstrated by the impact of the Tropical

Cyclone Gamane that hit the North-East regions of the country. Against this background, the authorities are also requesting financing under the Resilience and Sustainability Facility (RSF) in the amount of SDR 244.4 million (100 percent of quota) to support reforms aimed at strengthening climate resilience and addressing related balance of payments needs.

The Malagasy authorities are committed to implementing the policies and reforms contemplated in both Fund arrangements, which they believe will help put in place the fundamentals for faster, more sustainable, and more inclusive growth. To demonstrate their ownership of, and commitment to, the proposed new Fund-supported programs, they implemented three important prior actions: (i) adoption of a revised budget law for 2024, consistent with the programs' objectives, (ii) establishment of an automatic fuel price-setting mechanism to further contain fuel subsidies, and (iii) recruitment of the CEO for the national utility company (JIRAMA). Based on their commitment and the strength of the reform program, the authorities are seeking Directors' favorable consideration of their requests.

I. Recent Developments and Outlook

Economic growth averaged 4 percent in 2022 and 2023, mainly reflecting continued recovery of tourism. Growth is projected at 4.5 percent for 2024 and to gradually accelerate to above 5 percent over the medium term, underpinned by reforms under the ECF and the RSF arrangements. Inflation peaked at 12.4 percent year-on-year (y-o-y) in March 2023, mostly driven by a 43-percent increase in fuel prices in July 2022, but eased to 7.3 percent (y-o-y) in April 2024 and should further decline to 6 percent by 2028. Despite the decline in vanilla and mining exports, the current account balance improved in 2023. Key drivers include the recovery in tourism and decline in food imports following a good domestic rice harvest. Foreign exchange reserves increased more than expected from 4.2 months at end-2022 to 5.7 months of import at end-2023. The stability of the current account balance over the medium term should help strengthen external buffers and maintain foreign exchange reserves around 5.8 months of imports. The banking system was resilient during the pandemic and remains healthy, profitable and liquid.

Fiscal consolidation efforts are continuing, and public debt is sustainable. The primary deficit narrowed from 5.0 percent of GDP in 2022 to 3.6 percent in 2023 notwithstanding a revenue shortfall from delayed settlement of cross-arrears with oil distributors, lower-than-expected imports, and higher-than-programmed transfer spending, notably to JIRAMA. The country's debt level remains sustainable with a moderate risk of debt distress.

The central bank, *Banky Foiben'i Madagasikara* (BFM), pursues a prudent monetary policy and has sustained its management reform momentum. BFM increased its policy rates by 50 basis points in August 2023, to 9 percent (deposit facility rate) and 11 percent (marginal lending rate), and has since maintained them unchanged, contributing to an easing of inflationary pressures. The central bank's new interest rate targeting operational framework came into effect in February 2024, together with the validation and publication of various BFM strategic and operational documents, including a money market intervention guide.

Delays in the implementation of key reforms under the ECF and RSF arrangements and the occurrence of extreme climate events are the main risks to the growth outlook. The authorities agree that the lack of progress in energy sector reforms, one of the most important elements of the programs, would cloud the growth prospects and affect programs' performance.

II. Proposed New Extended Credit Facility Arrangement

The authorities' program that could be supported by a new ECF arrangement focuses on four important pillars: (i) anchoring fiscal sustainability by increasing domestic revenues, reducing fiscal risks, creating buffers to improve resilience to shocks, and strengthening fiscal institutions and public financial management (PFM), (ii) strengthening governance and fighting corruption, (iii) consolidating monetary and financial stability, and (iv) supporting stronger and more inclusive growth through improved social safety nets and greater financial inclusion.

Anchoring Fiscal Sustainability (Pillar 1)

Over the next three years, fiscal policy will be anchored by a debt ceiling of 60 percent of GDP. This debt target, together with improved revenue and expenditures forecasts, will help determine the debt-stabilizing domestic primary balance in annual budget laws and help preserve the country's debt servicing capacity. The implementation of the debt anchor will require further strengthening the medium-term fiscal framework and public financial management institutions and processes, including through digitalization, to improve budget execution, increase fiscal policy credibility and ensure compliance with the public debt trajectory. Consistent with this approach and considering the revenue shortfall and the higher-than-projected transfers to JIRAMA in the first half of 2024, the revised budget for 2024 targets a primary deficit of 2.9 percent, mostly supported by a reduction in non-essential spending.

The fiscal program targets an improvement in the primary balance in accrual terms of around 1.6 percentage points of GDP by 2027 while efforts will be pursued to strengthen debt management. The targeted adjustment will be achieved through stronger revenue mobilization and a reduction of current expenditures. Social spending and resilient public investment outlays will, however, be protected. Fiscal measures to advance revenue mobilization include streamlining tax expenditures, including VAT exemptions; enhancing tax compliance; pursuing modernization of tax and customs administrations including through enhanced digitization; strengthening operational controls; and reinforcing interagency collaboration. On the expenditure side, efforts will continue to contain the wage bill, transfers to SOEs and fuel subsidies; and to reduce fiscal risks, with the view to increasing fiscal space for higher social and investment spending. Likewise, pension funds reforms will be stepped up to ensure their sustainability. The authorities are committed to seeking concessional external borrowing while at the same time strengthening their debt

management capacity and developing the domestic bond market to diversify funding sources and reduce exchange rate risks. Work is already in train to reduce contingent liabilities.

Progress in addressing JIRAMA's difficult financial situation will be critical to the program's success. In the past few years, growing transfers to JIRAMA and hefty fuel subsidies to the company had crowded out public investment spending and social transfers and negatively affected customs revenue collection. Going forward, the authorities are determined to step up efforts to turn around JIRAMA's management and governance, improve the company's revenue performance, reduce operating costs, and consequently curtail the burden on public finances. In this perspective, the new CEO has been tasked with developing by end-November 2024 a new government-approved recovery plan. Implementation will be closely monitored through various operational and financial indicators.

Strengthening Good Governance and the Fight Against Corruption (Pillar 2)

The authorities are determined to ensure that Madagascar's anti-corruption entities have needed human and financial resources to effectively carry out their missions. They have requested an IMF Governance Diagnostic Assessment (GDA) to support the development and operationalization by January 2025 of an anti-corruption strategy for 2025- 2035. The GDA will help identify corruption vulnerabilities, notably in public financial governance, the rule of law, and market regulation. The authorities also plan to begin implementing the 2023 law on anti-money laundering and countering the financing of terrorism (AML/CFT) and continue strengthening the related framework in line with the recommendations of the Financial Action Task Force (FATF).

Transparency in public financial management will be stepped up during the ECF arrangement period. The focus will be on further strengthening access to information on public procurement contracts and ultimate beneficial owners, budget execution, and audited financial accounts of public enterprises. Discussions with civil society organizations have started on the establishment of an economic, social and cultural council provided for in the 2010 Constitution, to facilitate civil society participation in the debate on the country's policies.

Business climate will be further improved to support economic activity. In this perspective, the authorities plan to review and amend as may be needed key business-related legislations including the Investment Law, the Tourism Code, the Foreign Exchange Code, and the Labor Code. They are also committed to continue expanding digitalization of business procedures, notably as regards business creation and building permit issuance, and government financial transactions (tax payments and VAT reimbursements). Progress in energy sector reforms together with continued infrastructure development is expected to increase energy supply and support economic productivity and competitiveness, nurturing stronger and more inclusive growth. Also, importantly, with UNDP support, the authorities are working on strengthening transparency and limiting the fiscal risks from the Malagasy Sovereign Fund.

Strengthening Monetary and Financial Sector Stability (Pillar 3)

BFM remains committed to price stability and will continue implementing reforms already in train to strengthen the operational framework of monetary policy. After completing the transition to an interest-rate targeting monetary policy framework, the authorities will focus on developing the secondary market for government securities, improving communication on monetary policy decisions, and reviewing the strategy for BFM's interventions in the foreign exchange market while continuing to improve the functioning of the interbank currency market. Performance of the new monetary policy framework will be monitored through a consultation clause based on an agreed path for broad money (M3) consistent with price stability. As regards foreign exchange (FX) buffers, BFM remains committed to continuing to diversify its gold reserves in accordance with the updated FX reserve management strategy and revised memorandum of understanding with the ministry of mining.

Efforts to strengthen financial stability will continue. The authorities have requested a Financial Sector Stability Review by the IMF to identify potential vulnerabilities in the banking sector. In the meantime, they will continue the implementation of the Basel III framework and the new banking law and pursue the adoption of the financial stability law before June 2025. BFM is also working on the implementation of the National Payment Switch to facilitate the interoperability of existing digital payment systems and further help advance financial inclusion.

Fostering Inclusive, Strong, and Sustainable Growth (Pillar 4)

The authorities are committed to further strengthening the social protection system and promoting financial inclusion. Over the past three years, significant progress was made in strengthening social protection with the help of technical and financial partners. In particular, the number of individuals and/or households benefiting from social protection has increased and a single social registry has been set up to serve as a reference for all social protection activities undertaken in the country. The authorities have updated their social protection strategy and prepared a directory to guide future interventions. To consolidate these advances, the authorities will continue to notably expand the coverage of the social registry and extend their food bank program.

Financial inclusion progressed under the financial inclusion strategy that expired in 2022. The rise of mobile money has supported the expansion and diversification of financial services in the wider public, including in obtaining loans. In addition, access to information has been improved with the establishment of public credit registers and private credit bureaus. The authorities plan to develop a new national inclusion strategy to make further progress in the access rate to financial services.

III. The Proposed Resilience and Sustainability Facility Arrangement

Strengthening Madagascar's resilience to climate change remains a top priority for the authorities. The country is one of the countries most exposed and affected by climate change. The 2021 Climate Risk Index ranks Madagascar 12th out of 180 countries in terms of weather-related losses (cyclones and floods). Effects of climate change, including longer and more severe droughts, heat waves and cascading impacts on water resources, are expected to worsen going forward. Mindful of these challenges, the authorities formalized their National Adaptation Plan (NAP) in 2021 and updated the Nationally Determined Contribution (NDC) in 2022 while developing several related implementing sectoral strategies.

The RSF-supported program will monitor 12 critical reform measures (RMs) in the following five areas to help advance the authorities' ambitious climate reform agenda:

(i) strengthening climate governance and integrating climate into PFM and public investment management processes, (ii) strengthening climate change adaptation and resilience to natural disasters, notably in the water and agriculture sectors, (iii) curbing the growth of greenhouse gas emissions, (iv) strengthening the protection of forests and biodiversity, and (v) mobilizing climate finance. This agenda benefits from diagnostics carried out by the IMF in 2022 under the Climate Macroeconomic Assessment Program (CMAP) and by the World Bank under the upcoming Country Climate and Development Report (CCDR). The authorities have secured assistance in implementing RMs with the World Bank and other partners, particularly in areas that are not covered by the IMF's core expertise and technical assistance (TA).

Reform measures to strengthen the overall climate governance framework are frontloaded with the expectation to be major catalysts for further progress on the climate agenda. These reforms include (i) reactivating the Inter-Ministerial Committee for the Environment (CIME) to oversee all climate policies and monitor their implementation; (ii) greening PFM and public investment management processes; and (iii) improving budget reporting on climate-related spending. As climate change may lead to a significant increase in poverty, the authorities will address adaptation issues that are particularly important in several sectors, including water and agriculture, two priorities of the PGE. The authorities are also determined to develop urban and rural development plans mandating the observance of building standards that are resilient to extreme weather events and establishing early warning systems for more frequent and intense natural disasters to enable rapid evacuation and response. Although Madagascar's GHG emissions are still at a very low level, the authorities are committed to significantly reduce emissions, including by expanding hydropower and renewable energy sources, eliminating fuel price subsidies, and increasing taxation on diesel fuel to align them to the higher level already applicable to gasoline. As regards climate finance, the authorities will adopt a climate finance mobilization strategy that prioritizes key areas of investment stipulated in national climate framework documents.

IV. Conclusion

The Malagasy authorities have made commendable progress in the implementation of their 2021 ECF-supported reform program. However, Madagascar continues to face significant

economic, social and climate challenges. To better address these as guided by the PGE, the authorities are requesting the cancellation of the soon-to-expire 2021 ECF arrangement and the approval of a new ECF-supported program and a RSF arrangement. The new arrangements will help further strengthen macroeconomic stability and step up the country's structural and climate reform efforts. The completion of the three prior actions demonstrates the authorities' ownership of, and commitment to, the programs' objectives. Executive Directors' approval of these requests will be highly appreciated.