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REPUBLIC OF MADAGASCAR

January 2015

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MADAGASCAR

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with the Republic of Madagascar, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 16, 2015, following discussions that ended on November 12, 2014 with the officials of the Republic of Madagascar on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 18, 2014.
- **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its January 16, 2015 consideration of the staff report on issues related to the Article IV Consultation
- A **Statement by the Executive Director** for the Republic of Madagascar.

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

Selected Issues Papers

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

December 18, 2014

KEY ISSUES

Context: Madagascar is one of the poorest countries in the world. Weak economic growth has contributed to persistent and increasing poverty with deteriorating social indicators. In a fragile environment, the uncertainty linked to political instability, weak institutions, and weak governance has eroded the foundation for solid economic growth, with short-term rent-seeking having taken precedence over longer-term nation building.

Outlook and Risks: The authorities are at a crossroads. A well-prioritized medium-term economic program that is implemented concertedly would increase growth and reduce poverty. This will require resources in order to undertake essential investment in infrastructure, as well as to increase social spending on education and health. However, there are downside risks, whereby a slow pace of reform implementation would keep Madagascar on a path of economic stagnation and persistent poverty.

Fiscal Policy: There is a need to increase fiscal space in order to raise the level and efficiency of pro-poor/pro-growth spending while preserving debt sustainability. This will involve a broadening of the tax base, supported by a comprehensive revenue mobilization strategy, improving the composition and quality of budgetary spending, and reinforcing public financial management.

Monetary and Exchange Rate Policies: To facilitate an active monetary policy and safeguard macroeconomic stability, it will be important to increase central bank independence, strengthen its oversight mechanisms, and recapitalize the central bank. A floating regime remains appropriate, but it will be important to ensure that the foreign exchange market is liquid and reflects market conditions.

Structural Reforms: There is a need to strengthen the economic climate, including through improved governance and social development policies that would send a clear signal, both within society and to development partners, confirming the government's commitment to reform. To help build public support for continued reforms, it would be advisable to build an early track record of "small victories/quick wins".

Approved By
David Robinson and Chris Lane

Discussions took place in Antananarivo during October 29–November 12, 2014. The staff team comprised Messrs. Tsibouris (head), Engstrom, Leost (all AFR), Ms. Muthoora (FAD), Mr. Pienkowski (SPR), Mr. Imam (resident representative), and Ms. Rasoamanana (resident economist). Mr. Ismael (OED) and staff of the World Bank attended some of the policy meetings. The team met with President Rajaonarimampianina, Prime Minister Kolo, Minister of Finance and Budget Razafindravonona, Minister of the Economy and Planning Raveloharison, and Central Bank Governor Rasolofondraibe, senior officials, and representatives of the private sector, civil society, and development partners.

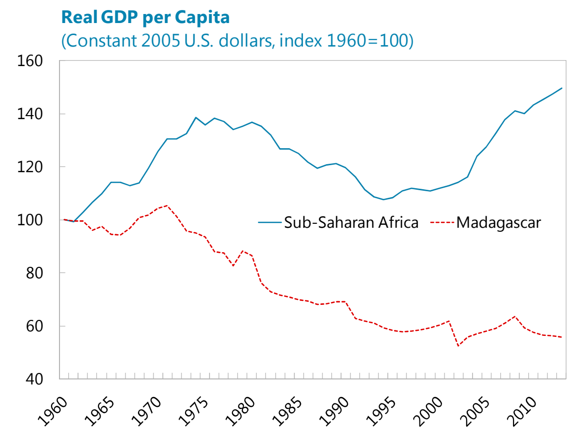
CONTENTS

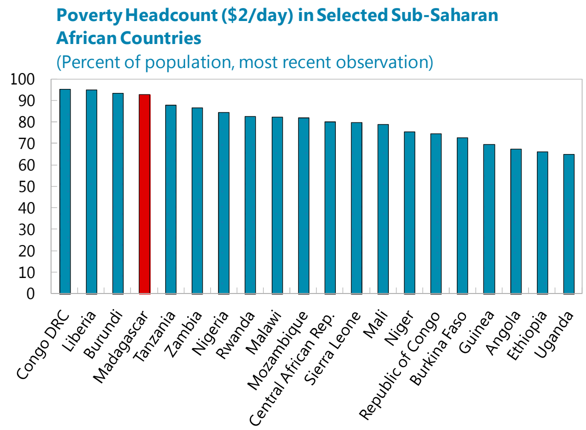
TABLES

APPENDICES

CONTEXT

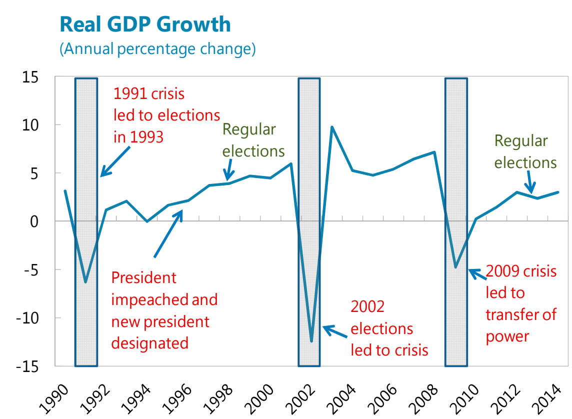
1. **Madagascar is now one of the poorest countries in the world, with GDP per capita having halved since 1960**. About 93 percent of the population lives below US$2 (PPP) per day (see the Selected Issues Paper on poverty). Economic growth has been low (1.8 percent per year since 1960) while population growth has been rapid (2.9 percent per year), reaching 22.9 million in 2013 from 5.1 million in 1960. Currently, about half the population is less than 20 years of age.





Source: World Development Indicators, World Bank.

2. **Madagascar remains fragile, having experienced a long history of recurring political instability and significant vulnerabilities.** Over the last fifty years, all heads of state (excluding the current President) have either gained or lost power in the context of an unconstitutional event. Uncertainties linked to political instability, weak institutions, and weak governance have eroded the foundation for solid economic growth, with short-term rent-seeking having taken precedence over longer-term nation building. Madagascar is also highly vulnerable to climatic and other exogenous shocks, such as cyclones, floods, locust infestations, and health epidemics.



Source: Malagasy authorities.

3. **The most recent political crisis erupted in 2009 and led to economic stagnation and a significant deterioration of development outcomes**. The then-president fled Madagascar after a period of civil unrest. The transition regime that assumed power was not recognized by a majority of the international community. Donor financing dwindled, with a complete stop of budget support. Significant fiscal tightening helped ensure that macroeconomic stability was not jeopardized, but at a cost of a sharp reduction in public spending. Structural reforms stalled as the transition regime

lacked a medium-term vision and strategy. After a sharp fall in economic activity in 2009, annual growth has not exceeded 3 percent. Social services have deteriorated, including basic health care and primary education. The attainment of the Millennium Development Goals (MDG) has become an increasingly remote target (Figure 1 and Table 9).

4. The government that assumed power in early 2014, following constitutional elections, has shown a commitment to addressing these challenges. The new government has given priority to raising social and infrastructure spending back to more normal levels (starting with the 2014 supplementary budget) and creating a foundation for faster and more inclusive growth and for poverty reduction. In support of this commitment, the authorities received a disbursement (SDR 30.55 million) under the Rapid Credit Facility (RCF) in June 2014. A new National Development Plan (NDP) is under preparation that will cast the economic and structural reform priorities over the medium term.

5. The bulk of the advice provided in the context of the last Article IV consultation (in 2007) remains highly relevant today (Box 1).[1] However, the government's capacity to provide for Madagascar's social and development needs is weaker today than in 2007, and progress on structural reforms has been limited. Tax revenues have fallen back to low levels reflecting a more prevalent informal economy, challenges in tax and customs administration, and increasing corruption. Public financial management (PFM) has also weakened, and the authorities have yet to implement measures to rehabilitate the electricity sector or deepen financial intermediation.

Box 1. Main Recommendations from the 2007 Article IV Consultation

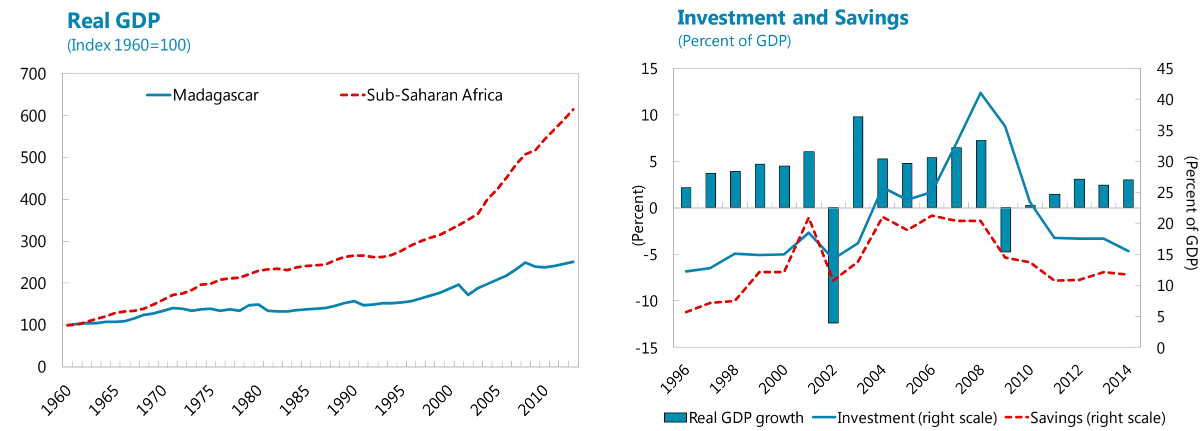
Staff emphasized the following areas as key to maintaining macroeconomic stability and addressing key structural problems that have hindered economic development:

- Increase domestic revenues (broadening the tax base and implementing tax policy and revenue administration reforms) to provide resources for social and development needs.
- Improve public expenditure management and budget execution and control.
- Pursue an exchange rate policy of a managed float with no predetermined path while utilizing capital inflows to boost foreign exchange reserves.
- Keep domestic budget financing at low levels to avoid crowding out credit to the private sector.
- Implement structural reforms critical to private sector development, including restructuring and rehabilitating of the public utility company (JIRAMA) and deepening financial intermediation.

[1] Article IV consultations were suspended following the non-recognition of the transition government by the majority of the international community. The Fund normalized its relations with Madagascar in March 2014.

ECONOMIC DEVELOPMENTS

6. The economic situation deteriorated significantly during the transition period (2009-2013). The 2009 political crisis interrupted a period of economic growth, with sizable and widespread private and public investment, that had started in 2003. In recent years, large mining projects reaching commercial production have provided an impetus to growth, but are masking stagnation and real declines in other sectors of the economy (Figure 2).



Source: Malagasy authorities; and World Development Indicators, the World Bank.

7. Preliminary estimates indicate an economic recovery, albeit limited, in 2014. Real GDP growth is expected to have been around 3 percent with inflation at about 7 percent (Tables 1 and 2), with the ongoing phasing out of fuel subsidies expected to increase inflation temporarily. While the mining sector remained buoyant, other key sectors experienced a more modest rebound. Agricultural production, in slow recovery following a severe locust infestation in 2013, is estimated to have increased by less than 1 percent. Companies in the Export Processing Zone grew by about 2 percent in 2014. Tourism is recovering gradually but remained well below 2008 levels.

8. Fiscal policy has faced significant challenges in recent years. Weak revenues and waning donor flows since 2009 have forced sharp expenditure cuts, targeting public investment and social spending, but also goods and services (Figure 3). Additional budgetary pressures have come from subsidized fuel prices (since 2010), losses at the public utility (JIRAMA), and financial imbalances at the civil service pension fund. Given these circumstances, there was a significant accumulation of budgetary arrears to domestic suppliers (with a stock estimated at about 4½ percent of GDP at end-July 2014). There was however no evidence of external arrears. The stock of public debt, which is mostly concessional, amounted to about 35 percent of GDP at end-2014.

9. Fiscal performance was mixed in 2014. While progress was made in implementing policies, outcomes fell somewhat short of expectations. The 2014 supplementary budget (approved in June 2014 and in line with the understandings supported by the RCF) aimed to improve tax and customs revenue collections, while increasing funding of priority public infrastructure and social spending.[2] Tax revenues are estimated to have fallen short of the level envisaged in the supplementary budget (by about 1 percent of GDP), which constrained expenditure (Tables 3 and 4). Donor budgetary financing only became available towards the very end of the year. There continued to be budgetary pressures from fuel subsidies, public enterprises, and the civil service pension fund, which have diverted resources from high-priority spending. However, progress was made in coming to agreement with creditors on a schedule for the clearance of domestic arrears and on some first steps in defining a plan to shore up the finances of JIRAMA. In addition, a priority PFM action plan was adopted. FAD technical assistance was provided on revenue administration, tax policy, PFM, and fuel subsidy reform.

10. Broad money growth was driven by lending to the private sector in 2014. Growing demand for short-term borrowing by the private sector and concerns about the weakening currency prompted domestic interest rates to increase and raised the cost of domestic government financing. As a result, the government relied on statutory advances from the central bank (1.4 percent of GDP at end-November 2014, in excess of what was envisaged but within the norms envisaged in the central bank law) as an alternative means of financing (Figure 5 and Tables 6 and 7). Contrary to expectations, central bank international reserves dwindled somewhat.

11. The financial sector remains shallow and with limited access. Domestic credit as a share of GDP remains low and the economy is largely cash based. Access to credit is expensive and limited, especially for small and medium-sized enterprises and households. There is no stock exchange or debt market, outside of government paper. The financial sector comprises 11 banks, 5 financial establishments, 30 micro-finance institutions (MFIs), and 5 insurance companies. The financial sector is dominated by banks (all-but-one foreign owned) that offer basic savings instruments and credit to a limited customer base. New banks have entered the financial market in recent years and a new investor acquired a controlling position in one of the largest banks in 2014. At the same time, the MFIs have been growing rapidly, albeit from a low base.

12. While financial soundness indicators seem satisfactory in the aggregate, there are pockets of vulnerability (Table 8). Following governance problems, one undercapitalized non-systemic bank was closed in 2014, triggering some losses in other financial institutions with cross-deposits. A temporary administrator was appointed to develop a restructuring plan for underperforming MFIs.

13. The current account deficit (including official transfers) narrowed to an estimated 2 percent of GDP in 2014. The improvement was driven by growing mineral exports, decreasing food import needs, and lower-than-anticipated international oil prices (Figure 4 and Table 5). External vulnerabilities are accented by relatively low international reserves (now at 2 months import cover).

[2] Public spending on health and education increased from 2.8 percent of GDP in 2012 to about 4 percent of GDP in the 2014 supplementary budget.

14. Competitiveness has declined in recent years. Recent volatility in balance of payments flows, driven by large scale mining projects and the political crisis, make a definitive assessment of Madagascar's exchange rate difficult. The three models that were used to assess the REER against fundamentals do not provide a definitive assessment on the deviation from fundamentals. (Box 2 and see the Selected Issues Paper on the external sector assessment). However, there have been recent downward trends in competiveness indicators, such as the World Bank Doing Business Report (latest ranking: 163rd out of 189 countries) and the WEF Competiveness Index. The official exchange rate is depreciating gradually (10 percent y-o-y in nominal effective terms at end-September 2014 and 14 percent y-o-y versus the U.S. dollar at end-November 2014) and the central bank has been propping up the published exchange rate via round-trip bilateral transactions.[3] Due to an illiquid official market, anecdotal evidence suggests that a significant amount of large foreign exchange transactions take place bilaterally at a somewhat more depreciated rate.

[3] The published exchange rate is based on the weighted average of transactions in the official market. The central bank has been influencing marginally the published rate by undertaking near-instantaneous round-trip transactions with counterparts at the end of the day at rates that differ from the daily average up until that point.

Box 2. Exchange Rate Assessment

The model-based analysis does not provide a definitive assessment on exchange rate valuation. However, market indicators suggest that competiveness could be improved.

Balance of payments and REER performance

Balance of payments flows have been highly volatile in recent years, which make a definitive assessment of Madagascar's exchange rate valuation. Large scale mining investments, volatile energy and food prices and the decline in donor flows following the political crisis have all contributed to this volatility. Foreign exchange reserves have responded by peaking at 4 months of import cover in 2010, before declining to around 2 months at present.

Exchange rate valuation models

The macroeconomic balance approach ('EBA-Lite' and GCER) suggests that the current account deficit is higher than that implied by cross-country saving-investment norms. The CGER methodology gives ambiguous results, while the EBA-Lite methodology suggests some overvaluation.

The external stability approach suggests that the current account is greater than that needed to stabilize the current net foreign asset (NFA) position. For a low-income country, such as Madagascar, a higher 'steady-state' NFA is perhaps more appropriate, which would reduce the size of the implied overvaluation.

The *baseline* equilibrium real exchange rate (ERER) approach suggests a relatively large overvaluation of the exchange rate. However, this model is sensitive to structural breaks in the data – one such event could be the large-scale mining projects, which began in 2008. Controlling for this generates a model implied exchange rate that that is less overvalued.

Survey measures of competitiveness

A steady deterioration in survey based measures of competitiveness adds further evidence that the equilibrium exchange rate may be overvalued. These measures expose deep structural weaknesses in Madagascar's ability to export goods and attract foreign investment.

Summary of results

	Implied exchange rate valuation (percent, positive = overvalued)	
Macro balance approach:	GCER	1 to -5
	EBA-Lite	0.2 to 3.6
External stability approach:	Current NFA	5.0
	NFA/GDP at 80%	0.0
Equilibrium exchange rate approach:	Baseline	17.0
	Controling for breaks	2.5
	Range	**-5 to 17**

OUTLOOK AND RISKS

15. The authorities are at a crossroads: to either undertake a well-prioritized medium-term economic program that is implemented concertedly or to continue on the path of stagnation and persistent poverty. This context served as the framework for the 2014 Article IV discussions. The authorities' forthcoming National Development Plan would delineate the principal axes of reform and policy priorities for the coming years. It is envisaged that such reforms could increase real growth to 5 percent a year, driven by agriculture (both higher productivity and expansion), mining (given abundant natural resources), labor-intensive manufacturing including textiles (absorbing a rapidly growing labor force), and tourism (given the strong potential for ecotourism) (Figure 6). Investment, both public and private, would need to be scaled up accordingly across various sectors, with additional resources needed to close the balance of payments and fiscal gaps over the medium term.

16. There are significant downside risks (Box 3). The key risk is domestic and linked to slow implementation of reforms, which would cap economic growth to well below 5 percent a year. The lack of economic and structural reforms would not attract sufficient resources from investors and development partners, forcing a significant import compression and putting pressure on foreign exchange reserves. This would come at a considerable cost, as essential investments in infrastructure would fall short of expectations. Lack of progress in tackling persistent poverty could also increase social tensions. One external risk is the volatility in oil prices, which on the down-side could lead to BOP and fiscal pressures. A wider spread of the Ebola pandemic could also have negative but likely-modest indirect effects (primarily linked to tourism). A more direct and significant effect could stem from a possible intensification and persistence of the recent outbreak of bubonic plague. Appendix I presents the highlights of what an alternative muddling-through low-growth scenario would imply.

17. Authorities' views. Although recognizing that downside risks are significant, the authorities were confident about the possibility of accelerating the pace of recovery and achieving annual economic growth of 5 percent or more starting in 2015. They stressed the prudent assumptions used for their projections, and several favorable factors that should support economic activity, such as an expected rebound in the production of rice and other agricultural products, a recovery in manufacturing exports (mainly textiles) thanks to the recent restoration of AGOA trade privileges, and additional external financing that should reactivate infrastructure projects. The authorities were of the view that, with a more ambitious scaling-up of infrastructure projects (subject to available financing), one could envisage stronger economic growth rates of up to 10 percent per year over the medium-term. The authorities noted that an eventual ECF program would provide needed support to their medium-term reform plans.

Box 3. Madagascar: Risk Assessment Matrix 1/

Source of Risks	Relative Likelihood	Potential Impact	Policy Response
Domestic Risks			
Politically motivated uncertainty and tensions.	Medium	High: Reduced inflow of FDI and donor support and reduced export earnings from tourism. Reduced fiscal space impedes the government's ability to deliver public services.	Maintain exchange rate flexibility and reallocate fiscal spending to support of the most vulnerable. Encourage development partners to work more closely with government to enable spending in social priority areas.
Cyclones, floods, and droughts.	Medium	Medium: Loss and damage of real and human capital and lower growth.	Reallocate fiscal spending to finance recovery work and make appeal to donors for post-disaster financing.
External Risks			
Protracted period of modest growth in Europe.	High	Low: Slower growth in tourism.	Maintain exchange rate flexibility.
Uncertain/slow donor support	Medium	High: Reduced fiscal space impedes the government's ability to deliver public services.	Energize donor support through a concerted campaign emphasizing the merits and needs of the medium-term development plan; look within budget for ways to protect key public services.
Heightened geopolitical risks in the Middle East.	Medium	Medium: Sharp rise in oil prices triggering BOP and fiscal pressures.	More protracted removal of fuel price subsidies, maintain exchange rate flexibility, and careful monetary policy tightening to contain second-round inflation pressures.
Ebola spreading to several countries (but not Madagascar).	Medium	Medium: Decreasing tourism, as tourists start avoiding all African destinations.	Strengthen preventive health services and information campaign.

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 the IMF staff. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

POLICY DISCUSSIONS—IMPROVING SUSTAINABLE GROWTH AND REDUCING POVERTY

A. Fiscal Policy: Creating Room for Pro-Poor/Pro-Growth Spending

18. The key fiscal policy goal is to generate budgetary space in support of inclusive growth and poverty reduction. Against this backdrop, and as reflected in the draft 2015 budget, discussions focused on (i) revenue mobilization; (ii) the level and composition of public spending; (iii) financing options; and (iv) public financial management (PFM) reforms to improve the effectiveness of spending.

19. The recently approved 2015 budget law envisages an overall fiscal deficit of 2.7 percent of GDP by harnessing available resources to raise critical spending. Overall, staff are of the view that the budget's intentions are good, but will need to bolstered by a strong commitment in implementation, particularly in terms of improving tax revenue. Tax revenues are projected to increase to 11.5 percent of GDP (from about 10 percent in 2014), primarily as a result of improved revenue administration. Key initiatives in this area will include the automation of VAT cross-checking, tightening excise controls, increasing risk-based controls at customs, and improving customs/domestic tax agency cooperation. The wage bill envisages the regularization of some 10,000 temporary (FRAM) teachers (raising the total payroll to 183,000 civil servants) and a 5 percent structural salary increase. The ongoing phase-out of fuel price subsidies, compensated by a small targeted urban transport subsidy, will limit spending on transfers and subsidies. Increased external financing will support higher capital spending. Domestic arrears of about 0.6 percent of GDP will be cleared during 2015, with the remainder being settled in subsequent years.

20. Improved revenue mobilization is critical (see the Selected Issues Paper on tax revenues). Recent in-depth reviews of the general tax code and of revenue administration procedures indicate that Madagascar's tax rates are by-and-large consistent with those of a modern tax system, but weaknesses in revenue administration and tax exemptions have eroded the tax base. In this context, it will be important to finalize and implement medium-term reform plans for the customs and tax administrations, supported by ongoing technical assistance.

21. Increasing and improving the composition of public expenditure are priorities. While the self-imposed budgetary austerity during the transition years helped avert a macroeconomic crisis, public spending has been inadequate to address Madagascar's development needs. Expenditure should be rebalanced in favor of priority spending on education, health, and infrastructure. Potential areas for cost savings include, inter alia, reducing inefficient subsidies and budgetary transfers to loss-making public enterprises and tackling the underfunding of the civil service pension funds.[4]

[4] The 2015 budget envisages fuel subsidies of 0.1 percent of GDP, transfers to JIRAMA of 0.4 percent of GDP, and transfers to the civil service pension fund of 0.5 percent of GDP.

22. PFM reforms would enhance the efficiency of public finances. There has been some deterioration in PFM performance in recent years, as evidenced by their CPIA rating and the recently published 2013 PEFA self-assessment. The overall performance of the PFM system has not improved since the period 2006-2008 and nine performance indicators have been downgraded. Based on these findings, the authorities have adopted in October 2014 a Priority Action Plan (PAP) for PFM reforms to address several weaknesses by the end of 2015 and prepare the ground for a PFM reform strategy covering the period 2016–18.

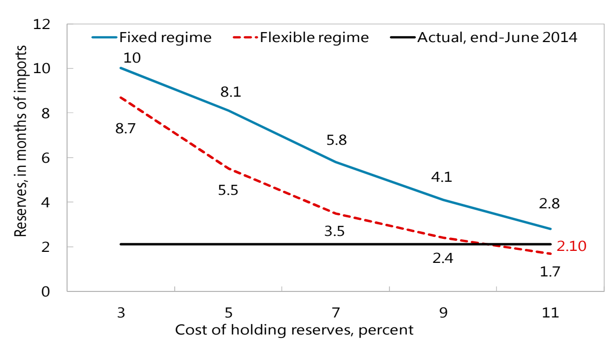
23. Authorities' views. The authorities concurred that revenue performance was weak, and emphasized that the 2008 tax reforms had simplified the tax system and current weaknesses were mostly due to challenges in revenue administration. Their medium-term goal was a tax ratio (excluding VAT refunds) of 14 percent of GDP, which they viewed as achievable. Their near-term intention was to intensify revenue administration reforms, with a focus on widening the tax base and better audit. An effort to modernize the Mining and Petroleum Codes was also underway. Emphasizing the importance of transparency, the authorities indicated that they would issue an EITI reconciliation report for 2012 and 2013 by end-December 2014, following the lifting (in June 2014) of their suspension as an EITI candidate country.

24. With regards to spending, the 2014 supplementary budget launched the process of raising the level and improving the composition of spending and the forthcoming NDP will flesh out their medium-term priorities. The authorities confirmed their intention of eliminate fuel price subsidies by mid-2015. A plan to revitalize JIRAMA is being prepared, with the assistance of the World Bank. New legislation allows for greater scrutiny of JIRAMA's accounts and its board of directors was replaced in October 2014. With regards to financing, the authorities agreed to refrain from a net increase in statutory advances during 2015. The authorities noted recent advances in PFM reform, including the adoption of a Priority Action Plan, and their engagement to develop a medium-term PFM strategy for 2016–19 (with technical assistance from the African Development Bank).

B. Monetary, Financial, and Exchange Rate Policies: Strengthening Central Bank Independence

25. The current floating exchange rate regime is appropriate; however international reserves are below optimal levels. To provide a truer reflection of the market equilibrium and with a view to reintegrating the off-market foreign exchange transactions that emerged since 2013, staff encouraged the Central Bank to avoid round-trip bilateral transactions. Furthermore, the pass-through from exchange rate movements to consumer prices is in line with that of other SSA countries, and tends to be less pronounced when the exchange rate adjustment is small

Madagascar: Optimal Level of Reserves



Source: IMF staff estimates.

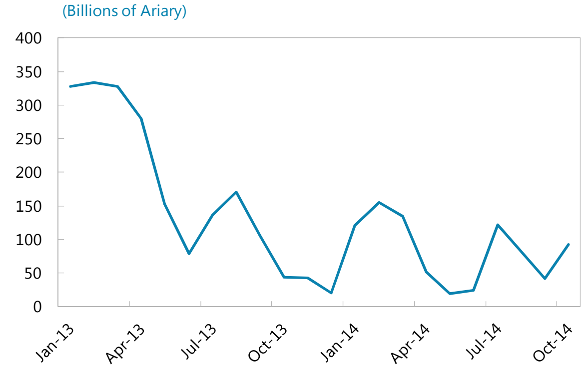
(see the Selected Issues Paper on exchange rate pass-through). Against this background, staff advised the authorities to continue to maintain a floating exchange rate and pursue a monetary policy aimed at steadily increasing international reserves and maintaining single-digit inflation. Using an assumption that the long-term opportunity cost of holding reserves is 7 percent, Madagascar's optimal reserve cover is estimated at 3½ months of import cover, based on the Fund's reserve adequacy metric.

26. A more active monetary policy would improve its transmission mechanism. In addition to giving more priority to mopping up excess liquidity through deposit auctions (appels d'offre négatifs (AON)), it would give more relevance to the reference rate, which has not moved for several years. To date, monetary policy has been relatively passive, allowing for large excess bank reserves regularly in recent years, and subject to fiscal dominance in 2014, when the government increasingly resorted to statutory advances from the central bank. The central bank also needs to be recapitalized, due to some losses in recent years, which will also help provide the central bank with instruments for liquidity operations.

27. The effectiveness of central bank operations would benefit from a well-prioritized reform agenda. Priorities include measures to make the foreign-exchange interbank market more efficient and moving towards international best practice, updating the regulatory framework for banking sector supervision, and strengthening reserve management and central bank internal audit and accounting.

28. An updated safeguards assessment identified additional steps to enhance the independence of the Central Bank. The assessment noted that the political crisis in 2009 had affected the Central Bank's governance and financial autonomy, and interrupted the development of internal controls. The appointment of the Central Bank Governor in October 2014 was an important step towards restoring stability of the governance arrangements, but the assessment also recommended that an independent oversight of the its operations be established through an audit committee of the Board. The Central Bank should resume regular publication of its audited financial statements, take steps to improve the external audit quality, and implement International Financial Reporting Standards (IFRS). Technical assistance from MCM/LEG has been provided to review the legal framework of the central bank, so as to strengthen its independence by reviewing its mandates, functions, instruments, governance and control mechanisms.

Excess Bank Reserves
(Billions of Ariary)



Source: Malagasy authorities.

29. Authorities' views. The authorities gave priority to improving the effectiveness of central bank operations and reviewing the legal framework of the central bank. The Central Bank has already initiated a review of its legal framework to support the necessary reforms and strengthen its autonomy. As priority actions, the audited financial accounts for the Central Bank for 2010–13 were approved for publication, and the Central Bank intends to move forward with the creation of an Audit Committee of its Board. As regards foreign exchange reserves, the central bank indicated its intention to gradually increase its foreign reserves and scale back buyback transactions. With regards to the need to recapitalize the central bank, the government has decided to settle outstanding obligations through securitization and issuance of interest-bearing debt instruments, though the needed appropriations may need to wait for the supplementary 2015 budget.

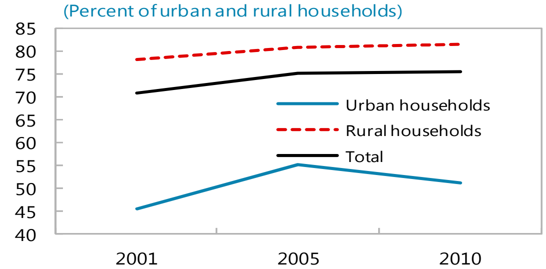
30. In terms of the financial sector, there are some emerging challenges in terms of supervision of banks and MFIs (see the Selected Issues Paper on the financial sector). While non-performing loans are on average at a moderate level, credit risk remains important and should be monitored carefully. A few banks have a significant share of their lending focused on a few large clients. Indirect interconnectedness is high, as many banks have deposits in other banks and banks refinance MFIs. As all-but-one banks is foreign owned, it is important to develop Memoranda of Understandings with the foreign supervisors of the parent companies. Additional resources should be provided to the banking supervisors (CSBF) to increase the frequency of onsite supervision and move towards a risk-based supervision system. Continued financial deepening would help to increase domestic savings, make a contribution to poverty reduction, and make the country less vulnerable to external shocks. Supervision of MFIs (currently the responsibility of the Ministry of Finance) needs to be strengthened significantly.

31. Authorities' views. The authorities recognized the need to increase the sophistication of their banking supervision to match that of the banks. In addition to launching their own financial stability report and increasing their staffing level, the CSBF is in the process of preparing a three-year strategic plan. The priorities are to update the legal framework for banking supervision and align it with best international practices, move towards risk-based banking supervision, and automate data collection, thereby freeing up more time for analysis of the financial sector data.

C. Supporting Inclusive Growth

32. The government has an important role to play in raising Madagascar's growth potential and making it inclusive and equitable. A majority of the population is now extremely poor with deteriorating access to education and health. Urgent actions are required to: (i) improve governance and strengthen institutions; (ii) raise infrastructure investment; (iii) mobilize additional resources for health and education; and (iv) strengthen employment creating policies.

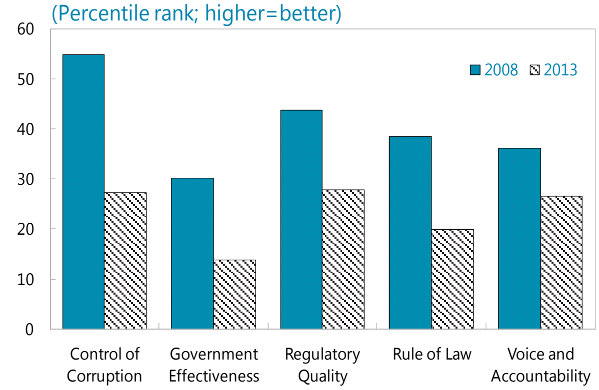
Absolute Poverty
(Percent of urban and rural households)



Source: Face of Poverty in Madagascar, World Bank Report No. 78131-MG, March, 2014.

33. Governance and government institutions have deteriorated in recent years. The uncertainty created by weak governance, recurrent political crises, and short-term rent seeking are important reasons for Madagascar's poor economic performance. It will be important to give priority to structural reforms with the potential for (i) creating a stable environment and level playing field for the private sector; (ii) reinforcing anti-corruption institutions (a more professional judicial system and stronger supervisory bodies, and mobilizing the anti-money laundering/combating the financing of terrorism (AML/CFT) regime); and (iii) encouraging foreign investment.

Madagascar: Governance Indicators
(Percentile rank; higher=better)



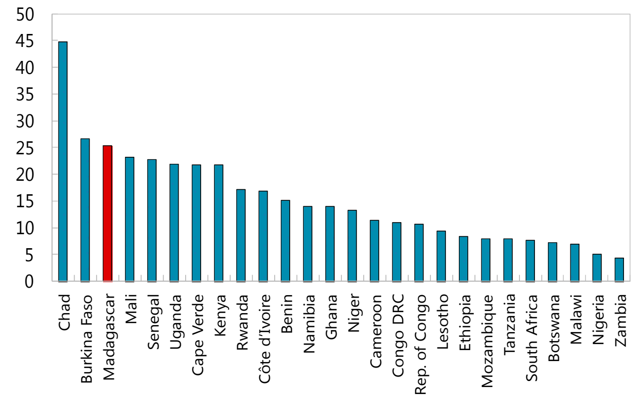
Source: Worldwide Governance Indicators, The World Bank.

34. Agriculture, tourism, and construction are the key employment-generating sectors. While agriculture accounts for about 80 percent of employment, it is dominated by low productivity subsistence farming with yields that are barely enough to feed a family. Overall, agriculture contributes about 25 percent of GDP. The level of absolute poverty is almost twice as high in rural areas in comparison with urban areas. An action plan is envisaged with measures to improve land-ownership regulation and transparency, productivity growth (especially for rice), and the investment environment to attract private sector players. In tourism, the ambitious medium-term target of one million visitors up from 200,000 in 2013 (compared to 375,000 pre-crisis in 2008) will require human capacity building, harmonization of sector standards, attracting visitors from more countries, and promoting and securing investment. The construction sector should benefit from a recovery in other sectors and the revival of major infrastructure projects.

35. Spending on education and health is a key priority: The link between poverty and lack of education is clear. Inadequate education is a main barrier to moving out of poverty. Public spending on education has declined in recent years from a starting point already below that of other Sub-Saharan African (SSA) countries. As a result, most education indicators have deteriorated with falling enrollment in primary education, and about half a million children who should but do not attend primary education. Moreover, only children from the highest consumption quintile (covering the most affluent 20 percent of the population) have a chance (albeit small) of attending post-secondary education (Figure 7). Spending on health also is lower than in other SSA countries. A declining proportion of the population is choosing, or can afford, to visit a health center and the use of formal healthcare varies significantly depending on the income of the households. Against this background, it is crucial that public spending on health and education is bolstered within the constraints of the budgetary framework.

36. Addressing the infrastructure gap is critical for growth and to alleviate rural poverty. Fostering a climate-smart agriculture with higher productivity and larger areas under cultivation would require significant investment in new roads and irrigation. As a background, the World Bank estimates the cost of just rehabilitating the existing significantly deteriorated road network to be US$1.5 billion (14 percent of GDP). In terms of the electricity sector, frequent power cuts have been a binding constraint and could be a potential source of social instability. The private sector faces one of the highest electricity costs in Africa. Reducing operational costs and technical losses, upgrading the generation and distribution infrastructure, as well as reviewing the relative tariff structure and energy source mix will be important dimensions for reform, thus helping increase the reliability and geographical coverage of electricity provision in a cost-effective manner.

Nonresidential Electricity Tariffs, 2011
(US$ cents per kWh)



Source: Briceño-Garmendia, C., and M., Shkaratan, 2011, "Power Tariffs: Caught between Cost Recovery and Affordability," Policy Research Working Paper #5904, The World Bank.

37. To maintain macroeconomic stability, large spending needs must be balanced against available financing and absorptive capacity. Madagascar's public debt was 34 percent of GDP at end-2013, below that of most SSA countries. As a result of prudent borrowing, the vast majority of external debt has been on highly concessional terms, which leaves Madagascar with sufficient space to borrow from external sources in coming years. However, strengthening revenue collection and minimizing non-concessional borrowing will play an important role in maintaining Madagascar's "low" risk of debt distress. As such, new external borrowing should primarily be on concessional terms and based on priorities established in the medium-term NDP and the Public Investment Plan. A well-functioning project selection and evaluation process—that identifies projects with the highest pay-offs—would help to secure financing and relevant expertise on best available terms. While Public-Private Partnerships (PPPs) could be explored as additional funding options for large-scale infrastructure projects, they would need to be underpinned by strong legal and institutional frameworks to limit fiscal risks.

38. Authorities' views. The authorities viewed the forthcoming NDP covering 2015–19 as critical in laying out reforms to improve governance and make growth more inclusive. To build consensus behind the NDP, they are engaging in a consultative dialogue including stakeholders from all parts of the society. The NDP will include a well-prioritized investment plan with estimated financing needs and is expected to be completed and presented to Madagascar's development partners in 2015. While the authorities recognized the importance of seeking concessional sources of financing to ensure sustainability, they also argued that, if these were not forthcoming from development partners, there could be merit in funding critical projects on non-concessional terms—they stressed the critical need to alleviate bottlenecks in the electricity sector and in transport infrastructure. They were keen to consider some on semi-concessional terms (such as those offered by the African Development Bank) given Madagascar's currently low debt levels.

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39. Despite ample upside potential, periods of rapid economic growth have been disrupted by recurring political crises that have left Madagascar extremely poor. Its fractious political context, weak institutions and governance, binding resource constraints, and vulnerability to shocks create significant dimensions of fragility. There is an urgent need to reverse the ongoing deterioration in development indicators by boosting pro-poor growth while preserving macroeconomic stability.

40. The government has an important role to play in raising Madagascar's growth potential and making it inclusive. A comprehensive National Development Plan (under preparation) with well-prioritized reforms and a costed investment plan would send a clear signal, both within society and to development partners, of the government's medium-term policy objectives and commitment. To help build public support for continued reforms, it will be important to identify and include measures that can build an early track record of "small victories/quick wins," drawing on the National Development Plan and ongoing technical assistance.

41. While the growth outlook is positive, the downside risks are considerable. The main risk is policy uncertainty and related reform delays that could impact investment (both domestic and external) and development partner support, which would force a significant import compression that could risk destabilizing the economy. The trigger for less-than-projected capital inflows could be either domestic (delays in implementing economic reforms) or external (such as an extended period of slow global growth reducing financing from both official and private sources).

42. Increasing fiscal space will be important to in order to raise the level and efficiency of pro-poor/pro-growth spending. This would require both a broadening of the tax base, supported by a comprehensive revenue mobilization strategy, and improvements in the composition and quality of budgetary spending. Notwithstanding several reform efforts since the 1990s, tax revenues have fallen back to historically low levels because of a growing informal economy, weakening tax and customs administration, and increasing corruption. Well-designed medium-term plans to broaden the tax base and improve customs and tax administration reforms will be necessary to achieve the authorities' revenue target. It will also be important to reduce inefficient subsidies and budgetary transfers to loss-making public enterprises, such as JIRAMA, and make inroads in addressing the imbalances of the civil service pension funds. Continued strengthening of public financial management is also needed.

43. With strong policy commitments and improved domestic revenue generation, there is some room for careful external borrowing over the medium term. The public debt level is relatively low and there is an urgent need for investment and maintenance to prevent a possible collapse of the energy and transport infrastructure after years of compressed capital spending. The authorities should make every effort to ensure that the government borrows on concessional terms while requesting the international community to provide strong support. This will require quickly finalizing the development plan, prioritizing investment, and asking donors to finance it without delay. If a financing gap still remains, semi-concessional loans can be considered. More generally, alternative financing modalities, such as PPPs, need to be undertaken carefully, with supportive legal and institutional frameworks.

44. The central bank needs to be able to pursue an independent monetary policy. Important components of this would include increasing the independence of the Central Bank, strengthening its oversight mechanisms, and recapitalizing it. This would also facilitate a more active monetary policy that would give priority to mopping up excess liquidity and give more significance to the reference rate. The use of statutory advances to the budget from the central bank should be avoided.

45. The current floating exchange rate regime is appropriate, but there is a need for the central bank to increase its international reserves. The flexibility of the exchange rate has helped the economy to adjust to shocks, and while the exchange rate does not appear out of line with fundamentals, additional steps should be taken to improve competitiveness. By avoiding buyback transactions, the Central Bank can facilitate the reabsorption of the off-market transactions that emerged in 2013, while steadily increasing its international reserves to at least 3 months of import cover.

46. Challenges in banking supervision should be tackled proactively. Ongoing efforts to upgrade the quality of supervision, including launching of a financial stability report and preparing a three-year strategic plan, are welcome. Continued monitoring of risk in both the banking and microfinance sectors is critical. Impactful supervision will involve both a sound regulatory framework and timely actions.

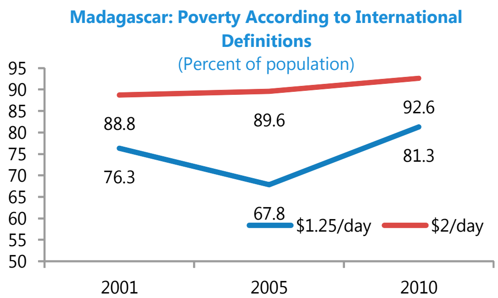
47. Data provision has some shortcomings, but is broadly adequate for surveillance. The database remains weak, particularly in the areas of real sector, government finances, the balance of payments, and social statistics.

48. An acceleration of economic and structural reforms will unleash Madagascar's significant potential for the benefit of the entire population. Priority should be given to reforms that: (i) raise the level and efficiency of pro-poor/pro-growth government spending; (ii) improve governance and strengthen institutions, including in the judicial system and the AML/CFT regime, (iii) increase high return infrastructure investment; and (iv) improve the business climate so as to achieve greater employment and private sector growth.

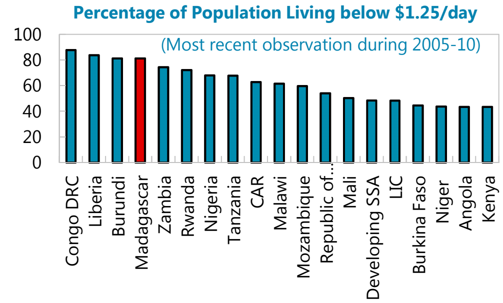
49. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Poverty, 1990–2012

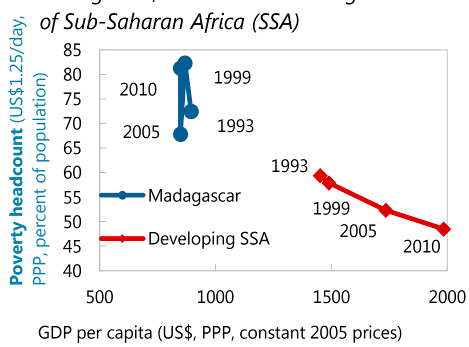
Poverty is widespread in Madagascar. About four-fifths of the population live on US$1.25/day or less, which is about...



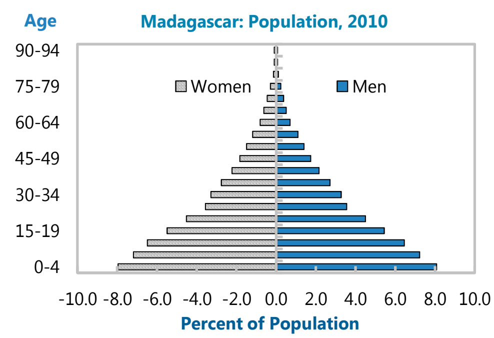
...the same proportion as in Congo DRC, Liberia, and Burundi (post-conflict countries coming out of a previous civil war)



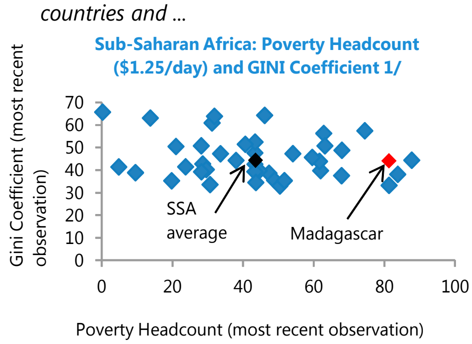
Poverty has remained persistent in Madagascar, while it is decreasing in most of Sub-Saharan Africa (SSA)



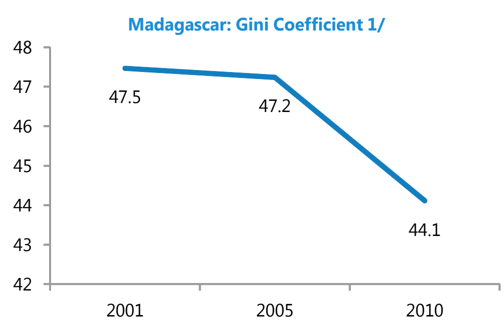
Madagascar has a young and rapidly growing population



Although poverty is widespread, Madagascar is not among the most unequal countries and ...



... inequality (measured by the Gini coefficient) has decreased



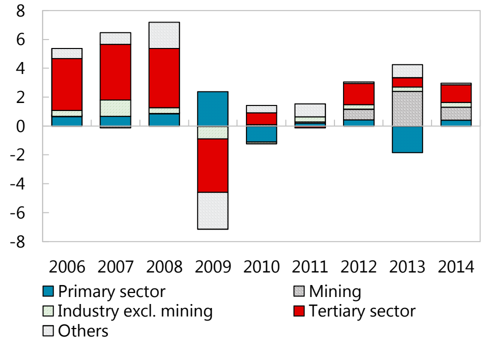
Sources: World Development Indicators, the World Bank; and UN Population Projections.

1/ The Gini coefficient is a measure of inequality. A Gini coefficient of zero expresses perfect equality, where all values are the same (that is, all people would have an identical income).

Figure 2. Real Sector Developments, 2006–14

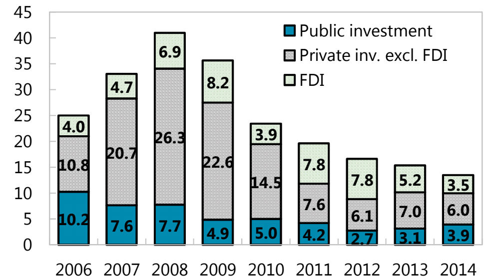
The mining sector (initially construction then production) has been one of the main contributors to growth…

Real GDP growth and Sector Contribution to Growth
(Percent)



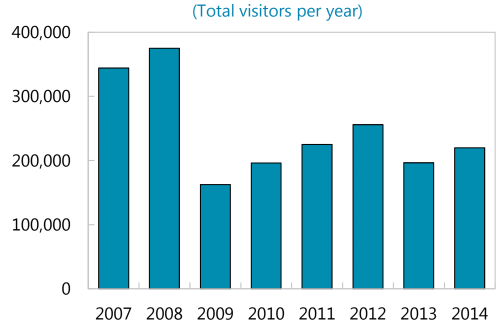
…thanks to private investments and foreign direct investment (FDI). The absence of new major projects and loss of confidence resulted in a collapse in private investment in recent years

Investment (Public - Private)
(Percent of GDP)



Though recovering slowly, the tourism sector remains well below pre-2009 crisis levels…

Tourism
(Total visitors per year)



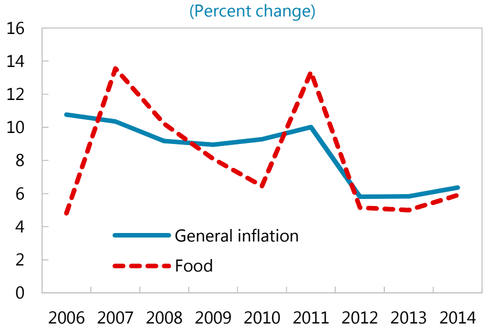
… like construction, which has lost half of its employees in the formal sector since 2008

Construction and Civil Engineering Activity
(Total employees in formal sector)

Source: Union of Construction and Civil Engineering Contractors

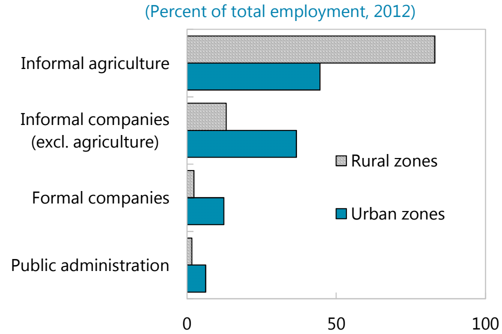
Inflation has remained contained.

CPI average
(Percent change)



Employment remains largely informal and is predominantly in agriculture, especially in rural areas

Structure of employment
(Percent of total employment, 2012)

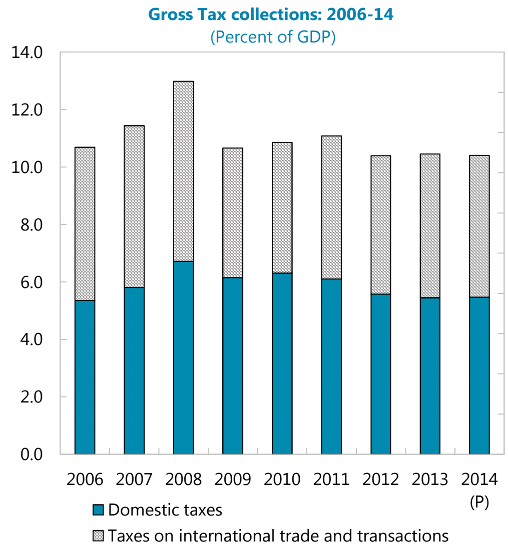


Source: INSTAT - PNUD - BIT

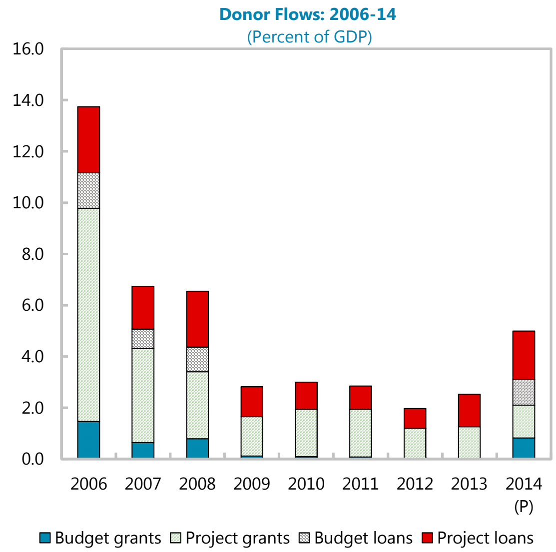
Sources: Malagasy authorities; and IMF staff estimates and projections.

Figure 3. Fiscal Developments, 2006–14

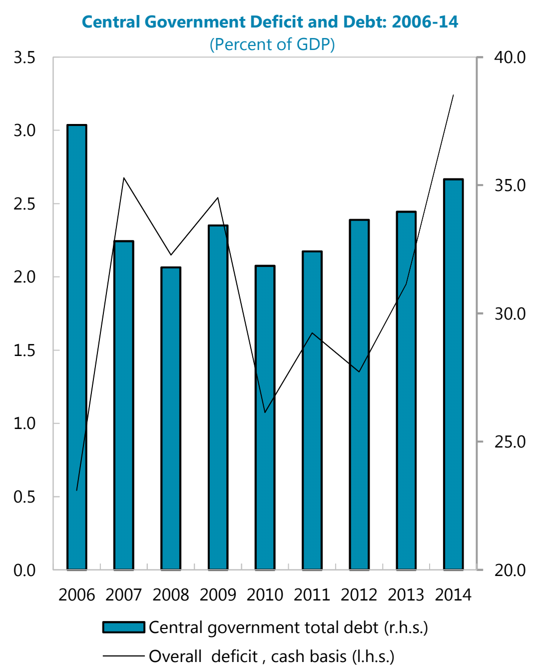
The decline in domestic tax and customs revenues since 2008 is proving persistent



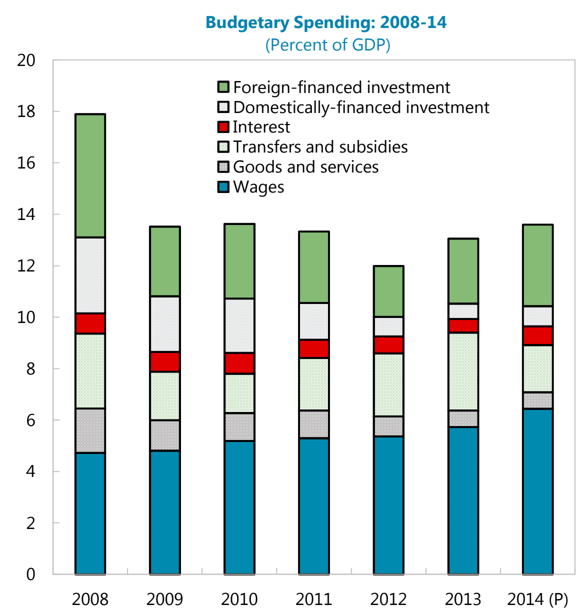
Donor budgetary flows remain well below pre-2009 levels



The fiscal deficit will rise in 2014, mainly reflecting the partial clearance of arreance, while public debt remains low



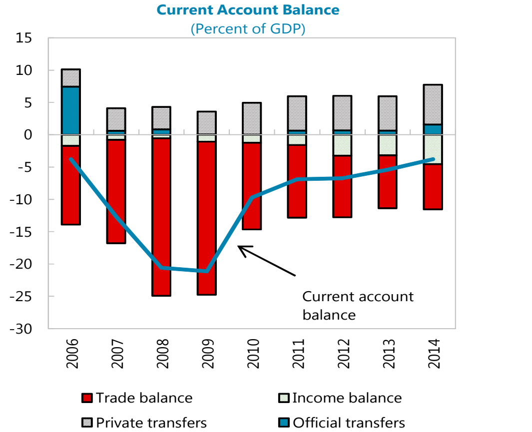
But the composition of spending remains an issue as transfers and subsidies divert resources away from domestic investment



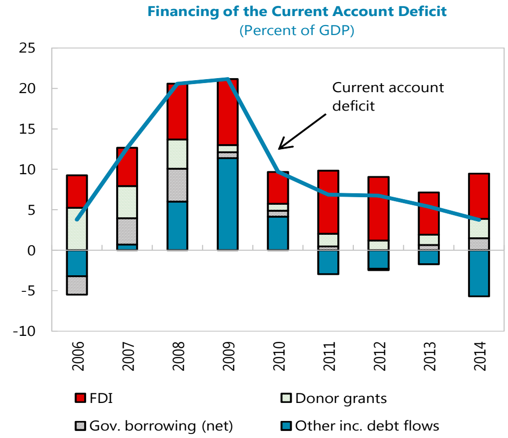
Sources: Malagasy authorities; and IMF staff estimates and projections.

Figure 4. External Sector Developments, 2006–14

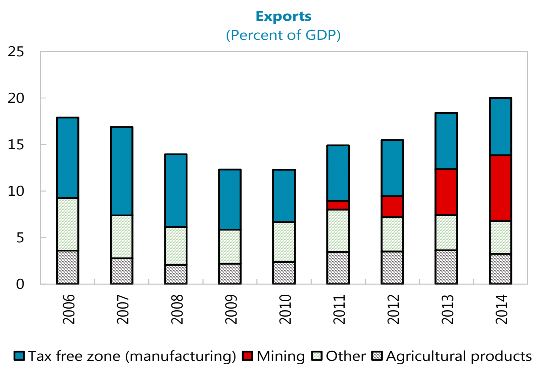
The current account deficit widened substantially in 2007-10 due to mining construction related imports



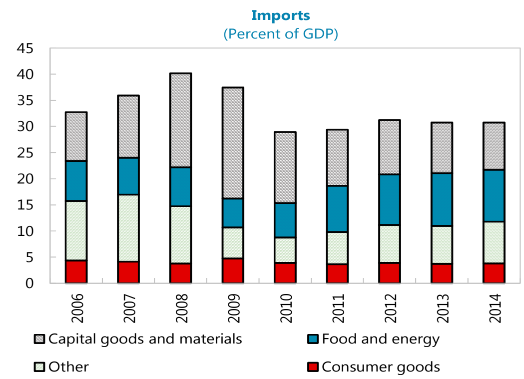
The current account was financed by FDI and private debt inflows, which are now reversing as returns are repatriated



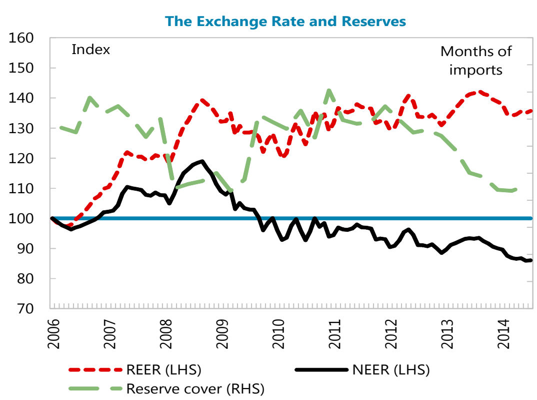
Mining has overtaken manufacturing in terms of export receipts, partly as a result of loss of AGOA access



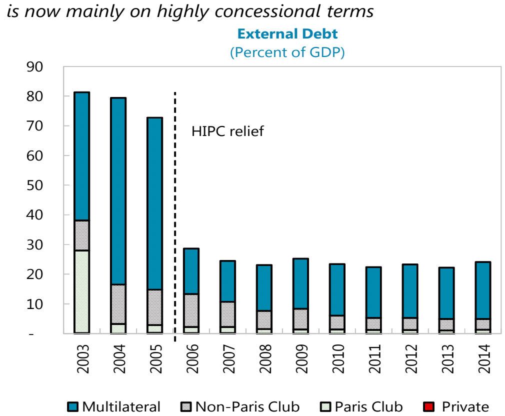
Food and energy have become a larger component of imports



These developments led to volatile reserve coverage and exchange rate movements



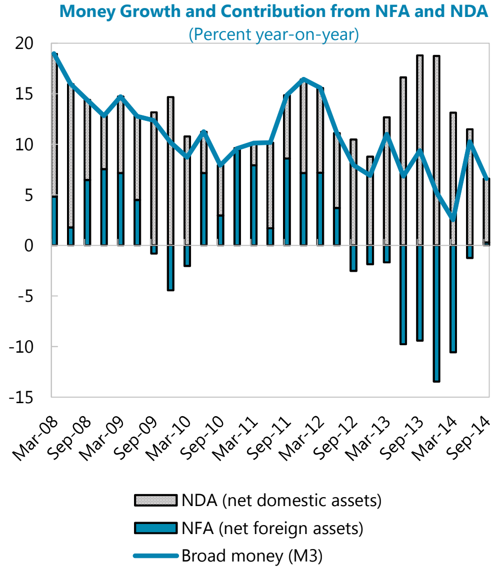
But external debt has been low and stable since HIPC relief; and is now mainly on highly concessional terms



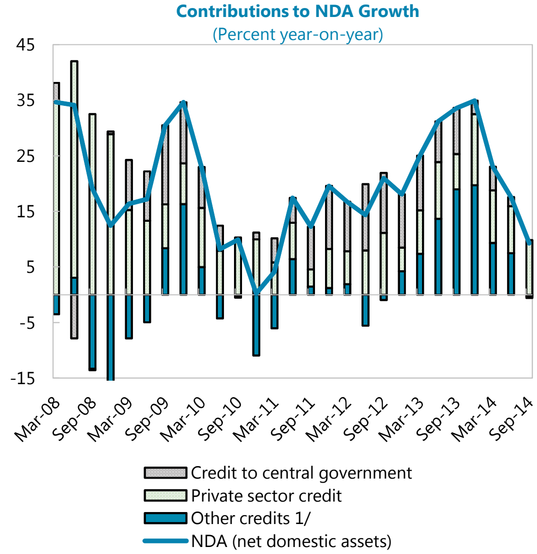
Sources: Malagasy authorities; and IMF staff estimates and projections.

Figure 5. Monetary Developments, 2000–14

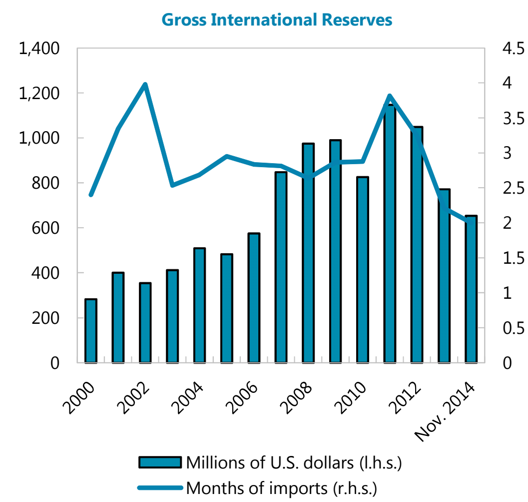
Domestic credit has driven money growth since 2012...



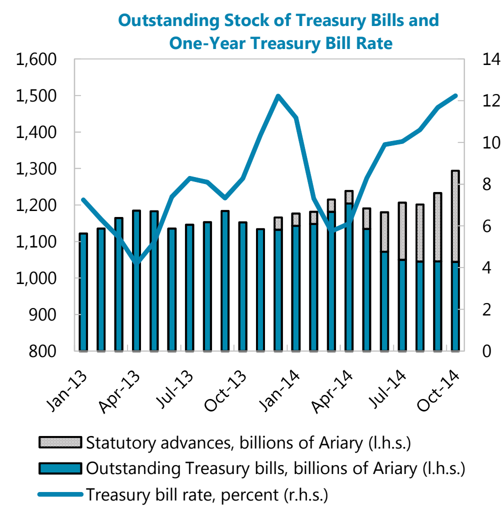
...and credit growth shifted to the private sector in 2014



International reserves declined in 2012 and 2013 when the central bank sold foreign exchange to fuel importers at preferential rates



As a result of higher domestic interest rates, the government has resorted to statutory advances to compensate for partial rollover

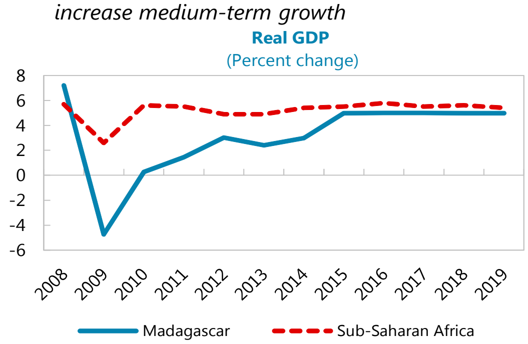


Sources: Malagasy authorities; and IMF staff estimates and projections.

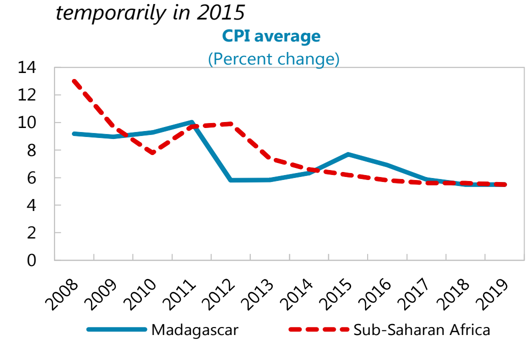
1/ Includes central bank claims on government from subsidies provided to petroleum importers in 2012 and 2013.

Figure 6. Medium-Term Macroeconomic Prospects, 2008–19

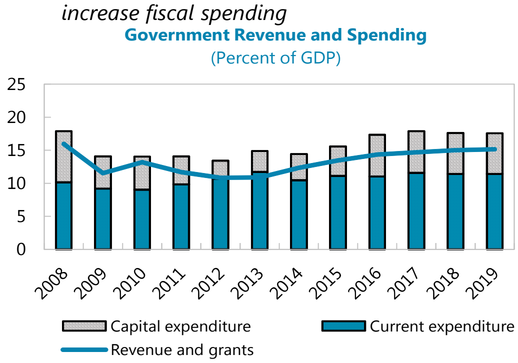
Growth-enhancing reforms are projected to increase medium-term growth



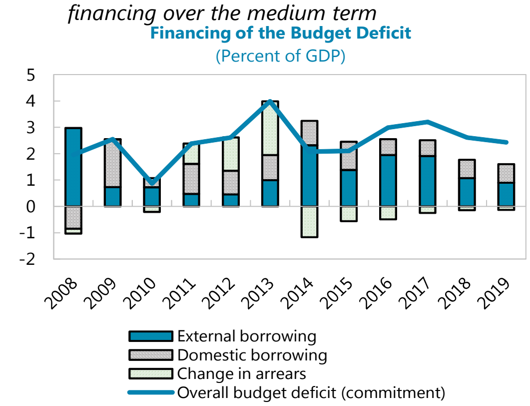
Removed fuel-price subsidies increase inflation temporarily in 2015



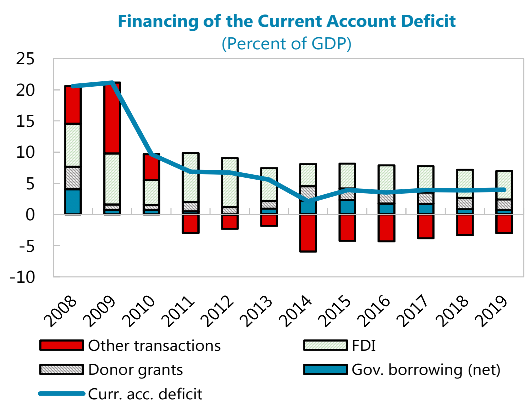
Improved revenue generation creates room to increase fiscal spending



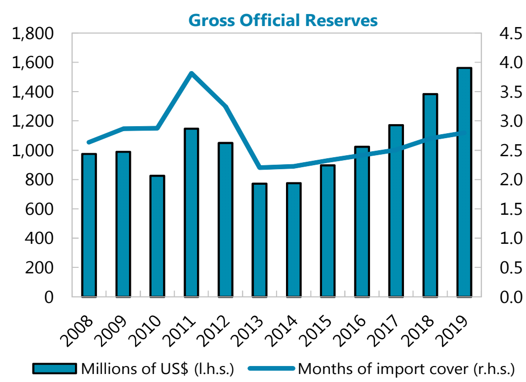
External borrowing is an important source of financing over the medium term



Profit repatriation (shown in other transactions) is creating significant balance of payment outflows



Gross official reserves are projected to start increasing in 2015

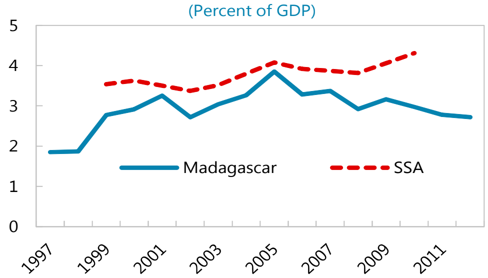


Sources: Malagasy authorities; and IMF staff estimates and projections.

Figure 7. Indicators of Education and Health, 1995–2012

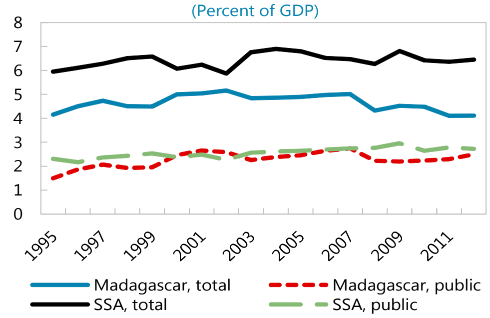
Public spending on education has declined from levels already below the SSA average and...

Public Spending on Education
(Percent of GDP)



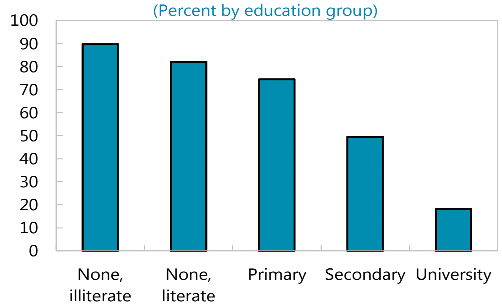
...private spending on health is less than in SSA

Public and Private Spending on Health
(Percent of GDP)



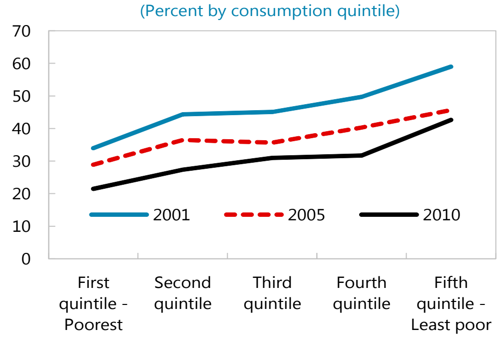
The link between poverty and lack of education is strong

Absolute Poverty by Level of Education
(Percent by education group)



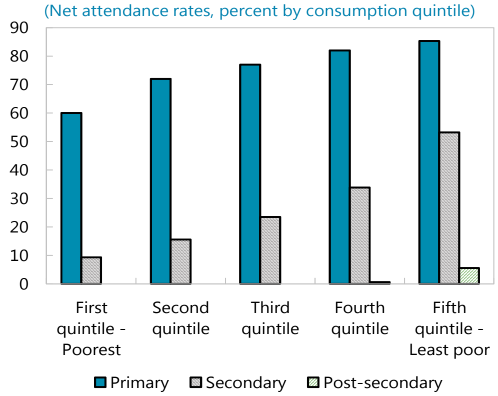
A declining proportion of the population can afford to visit a health center when ill

Formal Health Care Consultation Rate
(Percent by consumption quintile)



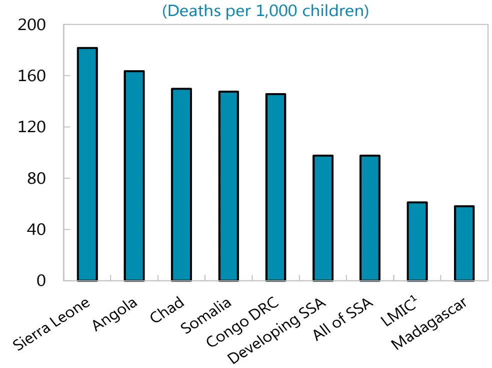
Access to education is rationed by money

Education Enrollment Rates, 2010
(Net attendance rates, percent by consumption quintile)



Although health spending is low, some health indicators are favorable

Under-five Mortality 2012
(Deaths per 1,000 children)



[1] Lower Middle Income Countries

Sources: World Development Indicators, the World Bank; and Face of Poverty in Madagascar, World Bank Report No. 78131-MG, March, 2014.

Table 1. Selected Economic Indicators, 2012–19

	2012	2013	2014	2015	2016	2017	2018	2019
	Actual	Estimates	Projections					
	(Percent change; unless otherwise indicated)							
National account and prices								
GDP at constant prices	3.0	2.4	3.0	5.0	5.0	5.0	5.0	5.0
GDP deflator	5.5	5.0	6.3	7.6	7.2	6.0	5.5	5.5
Consumer prices (end of period)	5.8	6.3	7.1	7.9	6.5	5.5	5.5	5.5
External sector								
Export of goods volume	3.9	19.1	4.1	15.9	13.1	10.3	11.4	10.1
Import of goods volume	14.0	11.1	1.3	11.7	10.7	10.4	9.5	8.8
Terms of trade (deterioration -)	7.3	12.7	5.9	0.7	0.6	0.4	0.2	0.0
Money and credit								
Reserve money	9.8	-6.1	8.9	15.2	14.6	11.9	11.3	11.3
Broad money (M2)	6.0	9.0	9.1	16.0	15.6	12.5	11.9	11.9
Net foreign assets [1]	-2.0	-15.9	4.4	8.0	7.7	7.3	8.9	7.3
Net domestic assets [1]	9.7	22.0	6.3	9.5	8.8	6.0	3.8	5.3
Credit to the private sector [1]	2.3	8.1	7.3	6.7	7.6	5.5	4.6	5.3
	(Percent of GDP)							
Public finance								
Total revenue (excluding grants)	9.6	9.6	10.2	11.7	11.8	12.2	12.5	12.7
Of which: tax revenue	9.1	9.3	10.0	11.5	11.6	12.0	12.3	12.6
Grants	1.2	1.3	2.1	1.7	2.6	2.5	2.5	2.4
Total expenditures	13.4	14.9	14.4	15.6	17.3	17.9	17.6	17.6
Current expenditure	10.7	11.7	10.5	11.1	11.0	11.6	11.4	11.4
Capital expenditure	2.7	3.1	4.0	4.5	6.3	6.3	6.2	6.2
Overall balance (cash basis)	-1.4	-2.0	-3.2	-2.7	-3.5	-3.4	-2.8	-2.6
Domestic financing	0.9	1.0	0.9	1.1	0.6	0.6	0.7	0.7
Savings and investment								
Investment	17.6	15.3	13.5	14.0	16.1	16.1	16.0	16.0
Government	2.7	2.5	4.0	4.5	6.3	6.3	6.2	6.2
Nongovernment	14.8	12.8	9.5	9.5	9.8	9.8	9.8	9.8
Gross domestic savings	8.0	6.9	7.2	7.3	9.6	9.2	9.1	9.0
Public	-0.8	-2.0	-0.2	0.8	2.2	2.3	2.4	2.6
Private	8.9	8.9	7.4	6.5	7.5	7.0	6.7	6.3
Gross national savings	10.8	9.7	11.3	10.0	12.5	12.2	12.1	12.0
Public	0.1	-0.9	1.9	2.4	3.7	3.7	3.9	4.0
Private	10.7	10.6	9.5	7.7	8.8	8.5	8.2	8.1
External sector								
Exports of goods, f.o.b.	15.5	18.4	20.0	22.4	23.4	24.0	24.8	25.4
Imports of goods, c.i.f.	31.2	30.7	30.8	33.0	33.5	34.2	34.8	35.1
Current account balance (exc. grants)	-7.9	-6.9	-4.4	-5.8	-5.4	-5.8	-5.7	-5.7
Current account balance (inc. grants)	-6.7	-5.6	-2.1	-3.9	-3.6	-3.9	-3.9	-4.0
Public debt	33.7	34.0	35.3	35.1	34.5	34.1	33.1	32.0
External	24.2	22.8	26.0	25.9	26.5	26.5	25.7	24.7
Domestic	9.5	11.1	9.3	9.2	8.0	7.6	7.4	7.2
	(Units as indicated)							
Gross official reserves (millions of SDRs)	682	502	500	573	651	738	862	965
Months of imports of goods and services	3.3	2.2	2.2	2.3	2.4	2.5	2.7	2.8
Real effective exchange rate								
(period average, percent change)	0.0	4.1	-4.6	-4.2	0.4	0.0	0.1	0.0
GDP per capita (U.S. dollars)	445	463	450	451	475	497	521	545
Nominal GDP at market prices (billions of ariary)	21,774	23,423	25,629	28,960	32,600	36,279	40,182	44,498

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

[1] Growth in percent of beginning of period money stock (M2).

Table 2. National Accounts, 2012–19

	2012	2013	2014	2015	2016	2017	2018	2019
	Actual	Estimates	Projections					
				(Percent change)				
Real supply side growth								
Primary sector	1.5	-6.1	1.5	2.0	2.6	2.6	2.7	2.8
Agriculture	3.8	-12.8	0.8	2.6	3.5	3.5	3.6	3.6
Cattle and fishing	0.8	1.4	2.8	1.5	1.9	2.0	2.1	2.3
Forestry	-7.4	-1.9	-1.0	1.0	1.0	1.0	1.0	1.0
Secondary sector	9.3	22.7	8.6	11.4	7.3	5.8	5.8	5.7
Food and drink	1.4	3.1	3.4	3.7	3.8	3.8	3.8	3.8
Export processing zone	3.5	5.9	2.1	7.4	14.8	14.8	13.8	12.8
Energy	3.9	5.6	5.0	5.5	5.5	5.4	5.3	5.2
Extractive industry	183.2	219.2	26.2	28.1	10.0	5.0	5.0	5.0
Other	4.4	-0.1	2.2	5.5	6.1	6.3	6.2	6.0
Tertiary sector	2.8	1.1	2.3	4.7	5.7	6.1	6.0	5.9
Transportation	5.2	3.6	3.1	5.5	6.1	6.5	6.3	6.1
Services	1.4	0.8	1.1	3.3	5.6	6.4	6.3	6.4
Trade	1.9	-3.1	2.7	2.7	2.9	3.1	3.2	3.3
Public administration	1.1	1.0	1.0	1.0	2.0	2.0	2.0	2.0
Public works/construction	3.4	3.3	3.1	13.1	12.8	12.5	11.6	10.8
Indirect taxes	2.0	8.4	2.2	4.8	4.8	4.8	4.8	4.8
Real GDP at market prices	3.0	2.4	3.0	5.0	5.0	5.0	5.0	5.0
Nominal demand side composition				(Percent of GDP)				
Resource balance	-9.5	-8.4	-6.3	-6.7	-6.5	-6.9	-6.9	-7.0
Imports of goods and nonfactor services	38.7	38.7	39.1	42.2	42.7	43.6	44.4	45.0
Exports of goods and nonfactor services	29.2	30.3	32.8	35.4	36.2	36.7	37.5	38.0
Current account balance (including grants) = (S-I)	-6.7	-5.6	-2.1	-3.9	-3.6	-3.9	-3.9	-4.0
Consumption	92.0	93.1	92.8	92.7	90.4	90.8	90.9	91.0
Government	10.0	11.1	9.7	9.9	9.5	9.9	10.1	10.2
Nongovernment	82.0	82.0	83.1	82.8	80.9	80.9	80.8	80.8
Investment (I)	17.6	15.3	13.5	14.0	16.1	16.1	16.0	16.0
Government	2.7	2.5	4.0	4.5	6.3	6.3	6.2	6.2
Nongovernment	14.8	12.8	9.5	9.5	9.8	9.8	9.8	9.8
Of which: foreign direct investment	7.8	5.2	3.6	4.0	4.2	4.2	4.5	4.6
National savings (S)	10.8	9.7	11.3	10.0	12.5	12.2	12.1	12.0
Government	0.1	-0.9	1.9	2.4	3.7	3.7	3.9	4.0
Nongovernment	10.7	10.6	9.5	7.7	8.8	8.5	8.2	8.1
Memoranda items:								
Nominal GDP (at market prices)	21,774	23,423	25,629	28,960	32,600	36,279	40,182	44,498
Net factor income	-3.2	-3.2	-3.2	-3.7	-3.4	-3.3	-3.3	-3.2
Transfers	6.0	6.0	7.3	6.5	6.3	6.3	6.3	6.3
Nominal GNP	21,776	23,426	25,633	28,963	32,603	36,282	40,185	44,501

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

Table 3. Fiscal Operations of the Central Government, 2012–19
(Billions of Ariary)

	2012	2013	2014		2015	2016	2017	2018	2019
	Actual	Estimates	LFR[1]	Proj.	Budget	Projections			
Total revenue and grants	2 358	2 550	3 520	3 165	3 898	4 678	5 331	6 021	6 745
Total revenue	2 095	2 253	2 895	2 625	3 394	3 845	4 417	5 007	5 672
Tax revenue	1 978	2 182	2 833	2 567	3 332	3 782	4 354	4 942	5 607
Taxes on income, profits, and capital gains	418	455	683	614	706	868	999	1 134	1 312
Taxes on international trade and transactions	1 049	1 172	1 315	1 264	1 761	1 853	2 133	2 422	2 691
Domestic taxes on goods and services	511	556	835	690	866	1 061	1 221	1 386	1 604
Non-tax revenue	118	71	62	57	62	63	64	64	65
Grants	263	296	625	541	503	834	913	1 015	1 073
Current grants	1	1	259	213	45	228	254	281	311
Capital grants	262	296	366	328	459	606	660	733	762
Total expenditure and lending minus repayments	2 927	3 483	4 104	3 697	4 507	5 653	6 492	7 071	7 826
Current expenditure	2 332	2 752	2 921	2 684	3 217	3 602	4 195	4 585	5 077
Wages and salaries	1 167	1 342	1 650	1 650	1 775	1 989	2 213	2 451	2 670
Interest payments	155	159	302	188	343	375	385	407	449
Foreign	38	39	49	46	61	81	101	119	138
Domestic	117	120	253	142	282	294	284	288	311
Other	836	1 117	925	636	1 061	1 174	1 524	1 647	1 869
Treasury operations (net)	173	135	45	210	38	65	73	80	89
Capital expenditure	595	731	1 183	1 013	1 289	2 051	2 297	2 486	2 749
Domestic financed	165	138	394	200	422	652	762	1 125	1 335
Foreign financed	430	593	789	813	867	1 399	1 535	1 361	1 414
Lending minus repayments	0	0	0	0	1	0	0	0	0
Overall balance (commitment basis)	-569	-933	-584	-532	-610	-975	-1 161	-1 050	-1 081
Float	20	40	323	-40	-40	0	0	0	0
Variation of domestic arrears (- = increase)	-294	-516		340	162	160	90	57	57
Overall balance (including grants, cash basis)	-295	-457	-907	-831	-772	-1 135	-1 251	-1 108	-1 138
Total financing	295	457	907	831	772	830	910	711	713
Foreign borrowing (residency principle)	98	234	459	594	400	635	692	429	402
External borrowing, Gross	168	297	609	740	591	793	876	628	652
Budget support loans	0	0	187	254	182	0	0	0	0
Project loans	168	297	422	485	410	793	876	628	652
Amortization on a due basis (-)	-69	-63	-151	-146	-192	-159	-184	-198	-250
Domestic borrowing (residency principle)	196	223	448	238	372	196	218	281	311
Monetary sector[2]	266	428	348	220	327	136	128	141	161
Of which: Central bank	107	271		296	206	0	0	0	0
Non-monetary sector	-101	63	100	-32	45	60	90	140	150
Treasury correspondent accounts (net)	39	-268	0	50	0	0	0	0	0
Privatization proceeds	0	0	0	0	0	0	0	0	0
Excess financing (+)	0	0	0	0		-304	-342	-397	-425

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

[1] Supplementary budget.

[2]Projections for 2014 assume that the central bank losses on account of petroleum subsidies will be capitalized through the issuance of Treasury bonds for an amount of MGA 113 billion.

Table 4. Fiscal Operations of the Central Government, 2012–19

(Percent of GDP)

	2012	2013	2014		2015	2016	2017	2018	2019
	Actual	Estimates	LFR[1]	Proj.	Budget	Projections			
Total revenue and grants	10.8	10.9	13.7	12.4	13.5	14.4	14.7	15.0	15.2
Total revenue	9.6	9.6	11.3	10.2	11.7	11.8	12.2	12.5	12.7
Tax revenue	9.1	9.3	11.1	10.0	11.5	11.6	12.0	12.3	12.6
Taxes on income, profits, and capital gains	1.9	1.9	2.7	2.4	2.4	2.7	2.8	2.8	2.9
Taxes on international trade and transactions	4.8	5.0	5.1	4.9	6.1	5.7	5.9	6.0	6.0
Domestic taxes on goods and services	2.3	2.4	3.3	2.7	3.0	3.3	3.4	3.5	3.6
Non-tax revenue	0.5	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Grants	1.2	1.3	2.4	2.1	1.7	2.6	2.5	2.5	2.4
Current grants	0.0	0.0	1.0	0.8	0.2	0.7	0.7	0.7	0.7
Capital grants	1.2	1.3	1.4	1.3	1.6	1.9	1.8	1.8	1.7
Total expenditure and lending minus repayments	13.4	14.9	16.0	14.4	15.6	17.3	17.9	17.6	17.6
Current expenditure	10.7	11.7	11.4	10.5	11.1	11.0	11.6	11.4	11.4
Wages and salaries	5.4	5.7	6.4	6.4	6.1	6.1	6.1	6.1	6.0
Interest payments	0.7	0.7	1.2	0.7	1.2	1.1	1.1	1.0	1.0
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Domestic	0.5	0.5	1.0	0.6	1.0	0.9	0.8	0.7	0.7
Other	3.8	4.8	3.6	2.5	3.7	3.6	4.2	4.1	4.2
Treasury operations (net)	0.8	0.6	0.2	0.8	0.1	0.2	0.2	0.2	0.2
Capital expenditure	2.7	3.1	4.6	4.0	4.5	6.3	6.3	6.2	6.2
Domestic financed	0.8	0.6	1.5	0.8	1.5	2.0	2.1	2.8	3.0
Foreign financed	2.0	2.5	3.1	3.2	3.0	4.3	4.2	3.4	3.2
Lending minus repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	-2.6	-4.0	-2.3	-2.1	-2.1	-3.0	-3.2	-2.6	-2.4
Float	0.1	0.2	1.3	-0.2	-0.1	0.0	0.0	0.0	0.0
Variation of domestic arrears (- = increase)	-1.4	-2.2		1.3	0.6	0.5	0.2	0.1	0.1
Overall balance (including grants, cash basis)	-1.4	-2.0	-3.5	-3.2	-2.7	-3.5	-3.4	-2.8	-2.6
Total financing	1.4	2.0	3.5	3.2	2.7	2.5	2.5	1.8	1.6
Foreign borrowing (residency principle)	0.5	1.0	1.8	2.3	1.4	1.9	1.9	1.1	0.9
External borrowing, gross	0.8	1.3	2.4	2.9	2.0	2.4	2.4	1.6	1.5
Budget support loans	0.0	0.0	0.7	1.0	0.6	0.0	0.0	0.0	0.0
Project loans	0.8	1.3	1.6	1.9	1.4	2.4	2.4	1.6	1.5
Amortization on a due basis (-)	-0.3	-0.3	-0.6	-0.6	-0.7	-0.5	-0.5	-0.5	-0.6
Domestic borrowing (residency principle)	0.9	1.0	1.7	0.9	1.3	0.6	0.6	0.7	0.7
Monetary sector[2]	1.2	1.8	1.4	0.9	1.1	0.4	0.4	0.4	0.4
Of which: Central bank	0.5	1.2		1.2		0.0	0.0	0.0	0.0
Non-monetary sector	-0.5	0.3	0.4	-0.1	0.2	0.2	0.2	0.3	0.3
Treasury correspondent accounts (net)	0.2	-1.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excess financing (+)	0.0	0.0	0.0	0.0		-0.9	-0.9	-1.0	-1.0

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

[1] Supplementary budget.

[2]Projections for 2014 assume that the central bank losses on account of petroleum subsidies will be capitalized through the issuance of Treasury bonds for an amount of MGA 113 billion.

Table 5. Balance of Payments, 2012–19

	2012	2013	2014	2015	2016	2017	2018	2019
	Actual	Estimates	Projections					
	(Millions of SDRs)							
Current account	-435.9	-390.4	-146.1	-274.5	-268.4	-317.2	-333.7	-361.8
Goods and services	-616.7	-586.7	-431.6	-469.5	-490.3	-556.8	-593.0	-643.8
Trade balance of goods and services	-616.7	-586.7	-431.6	-469.5	-490.3	-556.8	-593.0	-643.8
Exports, f.o.b.	1,890.6	2,114.3	2,253.6	2,482.2	2,733.0	2,958.7	3,219.9	3,475.0
Imports, f.o.b.	-2,507.3	-2,701.0	-2,685.2	-2,951.7	-3,223.3	-3,515.4	-3,812.9	-4,118.8
Oil imports	-462.7	-437.5	-418.1	-513.1	-528.8	-552.6	-583.2	-618.2
Food	-167.6	-262.8	-231.1	-215.2	-220.9	-227.3	-234.1	-241.2
Intermediate goods	-365.6	-382.8	-368.2	-417.9	-455.2	-487.5	-521.0	-556.3
Capital goods	-304.6	-289.5	-251.7	-281.3	-308.5	-330.7	-353.5	-377.4
Other imports	-1,206.7	-1,328.5	-1,416.0	-1,524.1	-1,709.8	-1,917.4	-2,121.2	-2,325.7
Services (net)	99.3	-46.9	-11.9	-76.7	-106.9	-145.5	-187.9	-235.8
Receipts	889.4	831.0	879.8	911.7	969.8	1,026.9	1,086.4	1,149.4
Payments	-790.2	-877.9	-891.7	-988.4	-1,076.7	-1,172.4	-1,274.3	-1,385.2
Income (net)	-209.6	-221.0	-216.4	-258.9	-254.8	-269.4	-283.1	-296.1
Receipts	22.2	11.8	10.2	30.4	34.1	38.0	42.3	48.1
Payments	-231.8	-232.8	-226.7	-289.3	-289.0	-307.4	-325.4	-344.1
Of which: interest on public debt	-16.0	-11.9	-15.1	-17.8	-23.3	-28.1	-31.8	-35.5
Current transfers (net)	390.4	417.2	502.0	453.9	476.8	509.0	542.4	578.1
Official transfers	44.2	44.5	109.1	52.9	44.6	47.6	50.7	54.1
Of which: Budget aid	0.0	0.0	68.6	11.6	0.0	0.0	0.0	0.0
Other (net)	44.2	44.5	40.5	41.4	44.6	47.6	50.7	54.1
Private transfers	346.2	372.7	392.8	401.0	432.2	461.4	491.7	524.0
Capital and financial account	384.8	234.7	126.4	162.1	157.7	184.5	167.9	183.4
Capital account	78.1	88.1	88.6	118.1	140.2	146.5	156.7	156.7
Of which: Project grant	78.1	88.1	88.6	118.1	140.2	146.5	156.7	156.7
Financial account	339.8	153.7	85.6	44.0	17.5	38.0	11.2	26.7
Foreign direct and portfolio investment	507.7	362.8	243.6	278.7	320.4	342.0	384.5	419.7
Other investment	-167.9	-209.1	-158.0	-234.6	-302.9	-304.1	-373.3	-393.1
Government	-2.0	66.6	153.6	163.2	132.6	137.9	75.3	62.6
Drawing	50.1	88.5	199.8	211.3	183.7	194.5	134.1	134.1
Project drawings	50.1	88.5	131.2	164.7	183.7	194.5	134.1	134.1
Budgetary support	0.0	0.0	68.6	46.6	0.0	0.0	0.0	0.0
Amortization	-52.1	-21.9	-46.2	-48.1	-51.1	-56.6	-58.8	-71.5
Monetary authority and private sector	-132.8	-118.1	-86.2	-88.0	-94.9	-101.3	-107.9	-115.0
Banks	-12.3	34.8	0.0	0.0	0.0	0.0	0.0	0.0
Other (including unrepatriated export revenues	-20.8	-192.5	-225.4	-309.8	-340.7	-340.7	-340.7	-340.7
Errors and omissions	-33.1	-7.1	-47.9	0.0	0.0	0.0	0.0	0.0
Overall balance	-51.2	-155.7	-19.7	-112.3	-110.6	-132.7	-165.8	-178.5
Financing	51.2	155.7	19.4	-84.9	-88.8	-95.4	-130.0	-106.1
Central bank (net; increase = –)	55.3	174.0	19.4	-84.9	-88.8	-95.4	-130.0	-106.1
Use of IMF credit (net)	-4.4	-6.2	17.5	-11.9	-10.8	-8.4	-6.0	-3.1
Other assets, net (increase = –)	59.7	180.1	1.8	-73.0	-78.0	-87.0	-124.0	-103.0
Debt relief and cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0	0	0	197	199	228	296	285
	(Percent of GDP; unless otherwise indicated)							
Memorandum items:								
Grants (percent of GDP)	1.2	1.3	2.3	1.9	1.9	1.8	1.8	1.7
Loans (percent of GDP)	0.8	1.3	2.9	3.0	2.4	2.4	1.6	1.5
Direct investment (percent of GDP)	7.8	5.2	3.6	4.0	4.2	4.2	4.5	4.6
Current account (percent of GDP)								
Excluding net official transfers	-7.9	-6.9	-4.4	-5.8	-5.4	-5.8	-5.7	-5.7
Including net official transfers	-6.7	-5.6	-2.1	-3.9	-3.6	-3.9	-3.9	-4.0
Debt service (percent of exports of goods)	46.4	39.4	36.3	29.8	25.2	22.1	19.0	17.1
Gross official reserves	682	502	500	573	651	738	862	965
Months of imports of goods and nonfactor service	3.3	2.2	2.2	2.3	2.4	2.5	2.7	2.8
Exchange rate (ariary/US$, period average)	2,195	2,207	…	…	…	…	…	…

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

Table 6. Monetary Accounts, 2012–19 [1]
(Billions of Ariary; unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019
	Actual	Estimates	Projections					
Net foreign assets	2,595	1,840	2,069	2,522	3,029	3,583	4,344	5,039
Net foreign assets (BCM)	1,844	1,219	1,344	1,763	2,235	2,759	3,487	4,149
Net foreign assets (deposit money banks)	751	621	725	759	794	824	857	890
Net domestic assets	3,005	4,054	4,383	4,923	5,505	5,964	6,286	6,795
Domestic credit	3,045	3,943	4,607	5,199	5,845	6,398	6,940	7,620
Net credit to government	604	1,119	1,368	1,584	1,728	1,864	2,013	2,183
BCM	159	430	725	773	773	773	773	773
DMBs	262	431	355	523	658	786	927	1,089
Other credits	184	258	288	288	297	305	313	321
Credit to the economy	2,440	2,824	3,238	3,615	4,117	4,534	4,927	5,437
Credit to public enterprises	53	54	93	93	93	93	93	93
Credit to private sector	2,361	2,745	3,123	3,500	4,001	4,418	4,811	5,321
Other credits	26	25	22	22	23	23	23	23
Other items (net)	-40	111	-224	-276	-340	-434	-654	-825
BCM	712	906	691	695	681	662	592	496
Other	-752	-795	-915	-971	-1,021	-1,096	-1,246	-1,321
Money and quasi-money (M3)	5,599	5,894	6,452	7,445	8,534	9,547	10,630	11,834
Foreign currency deposits	804	666	750	839	904	967	1,034	1,105
Short term obligations of commercial banks	33	36	37	33	33	33	33	33
Broad money (M2)	4,763	5,191	5,665	6,573	7,597	8,547	9,563	10,696
Currency in circulation	1,517	1,608	1,761	2,024	2,310	2,573	2,853	3,163
Demand deposits in local currency	1,870	1,944	2,063	2,397	2,807	3,188	3,597	4,055
Quasi-money including time deposits	1,376	1,640	1,841	2,152	2,481	2,786	3,113	3,478
	(Percentage change relative to broad money at beginning of the year)							
Net foreign assets	-2.2	-15.9	4.4	10.8	7.7	7.3	8.9	7.3
Net domestic assets	10.2	22.0	6.3	6.7	8.8	6.0	3.8	5.3
Domestic credit	10.8	18.9	12.8	10.5	9.8	7.3	6.3	7.1
Net credit to government	8.0	10.8	4.8	3.8	2.2	1.8	1.7	1.8
Credit to the economy	2.8	8.1	8.0	6.7	7.6	5.5	4.6	5.3
Credit to public enterprises	0.4	0.0	0.8	0.0	0.0	0.0	0.0	0.0
Credit to private sector	2.4	8.1	7.3	6.7	7.6	5.5	4.6	5.3
Other items (net; asset = +)	-0.5	3.2	-6.5	-3.7	-1.0	-1.2	-2.6	-1.8
	(Percentage change year-on-year)							
Broad money (M2)	6.0	9.0	9.1	16.0	15.6	12.5	11.9	11.9
Currency in circulation	2.7	6.0	9.6	14.9	14.1	11.4	10.9	10.9
Demand deposits in local currency	5.7	3.9	6.2	16.2	17.1	13.6	12.8	12.7
Quasi-money in local currency	10.3	19.2	12.2	16.9	15.2	12.3	11.7	11.7
Credit to the private sector (in nominal terms)	4.8	16.2	13.8	12.1	14.3	10.4	8.9	10.6
Credit to the private sector (in real terms)	-1.0	10.0	6.7	4.2	7.8	4.9	3.4	5.1
Memorandum items:								
Money multiplier (M3/reserve money)	2.14	2.40	2.42	2.42	2.42	2.42	2.42	2.42
Velocity of money (GDP/end-of-period M3)	3.89	3.97	3.97	3.89	3.82	3.80	3.78	3.76

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

[1] End of period.

Table 7. Balance Sheet of the Central Bank, 2011–15[1]

(Billions of Ariary; unless otherwise indicated)

	2011	2012	2013	2014	2015
		Actuals		Projections	
Net foreign assets	1,996	1,844	1,219	1,344	1,763
Gross foreign assets	2,551	2,387	1,734	2,017	2,421
Gross foreign liabilities	-555	-543	-515	-673	-658
Net domestic assets	382	768	1,234	1,326	1,314
Credit to government (net)	52	159	430	725	773
Claims on central government	472	486	541	814	814
Statutory advances			33	250	250
Government deposits	-420	-328	-111	-89	-41
Claims on other sectors	8	9	9	9	10
Claims on banks: Liquidity operations (+ = injection)	-278	-111	-111	-100	-164
Other items (net; asset +)	600	712	906	691	695
Reserve money	2,378	2,612	2,453	2,670	3,076
Currency outside banks	1,478	1,517	1,608	1,761	2,024
Bank reserves	900	1,095	844	908	1,052
Currency in banks	93	122	153	153	148
Deposits	807	972	691	755	904
			(Cumulative annual flows)		
Memorandum items:					
Net foreign assets	352	-153	-625	125	419
Millions of SDRs	83	-54	-174	-20	84
Net domestic assets	133	386	466	92	-12
Credit to government (net)	245	107	271	296	48
Reserve money	485	234	-159	217	406
			(Millions of SDRs)		
Net foreign assets	580	527	353	333	417
Gross foreign assets	742	682	502	500	573
Gross foreign liabilities	-161	-155	-149	-167	-156
Concessional IMF loans			-49	-67	-55

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

[1] End of period.

Table 8. Selected Financial Soundness Indicators, 2009–14 [1]

(Ratios, percent)

	2009 Dec	2010 Dec	2011 Dec	2012 Dec	2013 Dec	2014 Mar	2014 June	2014 Sep.
Capital Adequacy								
Regulatory capital to risk-weighted assets	14.6	14.4	15.3	15.2	14.5	14.1	14.4	14.4
Capital to assets	7.1	7.4	7.2	7.2	7.7	7.3	7.9	8.1
Regulatory Tier 1 capital to risk-weighted assets	14.8	14.9	16.2	15.9	15.0	14.7	15.2	14.9
Tier 1 to assets	7.2	7.6	7.6	7.6	8.0	7.6	8.3	8.4
Non-performing loans net of provisions to capital	20.2	19.2	18.0	13.5	18.3	14.2	14.9	16.3
Net open position in equities to capital	6.6	6.3	6.8	6.0	6.6	6.8	7.5	7.5
Asset Quality								
Non-performing loans to total gross loans	11.3	13.1	14.6	14.2	13.8	13.0	12.7	12.8
Earnings and Profitability								
Return on assets	1.6	1.5	1.8	2.0	2.4	3.4	2.9	3.0
Return on equity	21.9	19.9	22.9	25.4	30.2	40.7	34.9	37.1
Interest margin to gross income	60.7	62.1	63.2	63.6	64.0	62.2	60.3	59.3
Non-interest expenses to gross income	50.9	52.3	52.8	56.0	54.1	51.6	50.7	50.1
Trading income to total income	97.5	97.9	97.4	97.7	97.5	97.2	97.3	97.2
Personnel expenses to non-interest expenses	36.6	37.7	37.2	38.2	39.4	42.2	41.4	40.9
Liquidity								
Liquid assets to total assets (liquid asset ratio)	46.9	45.9	49.7	50.4	43.2	44.5	40.2	41.2
Liquid assets to short-term liabilities	69.7	67.8	71.0	74.1	63.7	65.5	59.7	60.2
Customer deposits to total (non-interbank) loans	183.5	175.0	188.2	188.3	158.0	161.5	153.7	148.5
Sensitivity to Market Risk								
Net open position in foreign exchange to capital	15.4	15.1	14.5	11.9	17.6	13.7	12.5	10.1
Spread between reference lending and deposit rates	10.6	11.2	11.6	11.9	12.6	12.0	12.0	12.0
Foreign currency-denominated loans to total loans	4.9	4.7	7.3	5.9	6.3	6.1	5.0	5.1
Foreign currency-denominated liabilities to total liabilities	17.8	19.3	18.3	17.5	16.3	16.2	16.3	17.1

Sources: Malagasy authorities.

[1] Ratios only concern banking sector.

Table 9. Millennium Development Goals[1]

	1990	1995	2000	2005	2012	2015 target	Status [2]
Goal 1: Eradicate extreme poverty and hunger							**Low progress**
Employment to population ratio, 15+, total (%)	84	84	85	84	86		
Employment to population ratio, ages 15-24, total (%)	71	71	73	72	75		
GDP per person employed (constant 1990 PPP $)	1,714	1,441	1,494	1,426	1,348		Medium progress
Income share held by lowest 20%	...	6	5	6	5		
Malnutrition prevalence, weight for age (% of children under 5)	36	30	...	37	...	19	Unlikely to meet
Poverty gap at $1.25 a day (PPP) (%)	...	33	41	27	43		
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	...	72	76	68	81	35	Unlikely to meet
Vulnerable employment, total (% of total employment)	...	84	...	86	...		
Goal 2: Achieve universal primary education							**Low progress**
Literacy rate, youth female (% of females ages 15-24)	...	...	68	...	...	100	Unlikely to meet
Literacy rate, youth male (% of males ages 15-24)	...	...	73	...	...	100	Unlikely to meet
Persistence to last grade of primary, total (% of cohort)	34	27	36	36	41	100	Unlikely to meet
Primary completion rate, total (% of relevant age group)	35	31	36	58	70	100	Unlikely to meet
Adjusted net enrollment rate, primary (% of primary school age children)	67	56	65	77	...	100	Unlikely to meet
Goal 3: Promote gender equality and empower women							**High progress**
Proportion of seats held by women in national parliaments (%)	...	4	8	7	18	50	Likely to meet
Ratio of female to male primary enrollment (%)	96	104	96	96	99	100	Likely to meet
Ratio of female to male secondary enrollment (%)	94	...	...	96	95	100	Likely to meet
Ratio of female to male tertiary enrollment (%)	77	83	87	89	92	100	Likely to meet
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	...	31	...	38	35	50	Medium progress
Goal 4: Reduce child mortality							**Low progress**
Immunization, measles (% of children ages 12-23 months)	47	55	57	74	69	100	Unlikely to meet
Mortality rate, infant (per 1,000 live births)	97	85	69	54	41	31	Unlikely to meet
Mortality rate, under-5 (per 1,000 live births)	159	137	109	81	58	53	Unlikely to meet
Goal 5: Improve maternal health							**Medium progress**
Adolescent fertility rate (births per 1,000 women ages 15-19)	150	153	152	140	125		Medium progress
Births attended by skilled health staff (% of total)	57	47	46	51	...		Medium progress
Contraceptive prevalence (% of women ages 15-49)	17	19	19	27	...		Medium progress
Maternal mortality ratio (modeled estimate, per 100,000 live births)	640	550	400	310	240	122	Unlikely to meet
Pregnant women receiving prenatal care (%)	78	77	71	80	...	100	Medium progress
Unmet need for contraception (% of married women ages 15-49)	32	26	...	24	...		Medium progress
Goal 6: Combat HIV/AIDS, malaria, and other diseases							**Medium progress**
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	...	...	61	34	...		Low progress
Incidence of tuberculosis (per 100,000 people)	391	335	293	262	234		Medium progress
Prevalence of HIV, female (% ages 15-24)	...	...	...	...	0		
Prevalence of HIV, male (% ages 15-24)	...	...	...	...	0		
Prevalence of HIV, total (% of population ages 15-49)	0	1	1	1	1		Medium progress
Tuberculosis case detection rate (%, all forms)	14	48	35	40	49		Medium progress
Goal 7: Ensure environmental sustainability							**Medium progress**
Forest area (% of land area)	24	23	23	22	22		
Improved sanitation facilities (% of population with access)	8	9	11	12	14	54	Unlikely to meet
Improved water source (% of population with access)	29	34	38	42	48	68	Unlikely to meet
Goal 8: Develop a global partnership for development							
Net ODA received per capita (current US$)	34	22	20	50	20		
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	44	7	7	5	3		High progress
Internet users (per 100 people)	0	0	0	1	2		Medium progress
Mobile cellular subscriptions (per 100 people)	0	0	0	3	39		High progress
Telephone lines (per 100 people)	0	0	0	1	1		Medium progress

Source: World Bank, *World Development Indicators* (October 2013).

[1] Figures may refer to the most recent period available, other than those specified in the header.

[2] Status according to "Enquête Nationale sur le Suivi des Objectifs du Millénarie pour le Développement à Madagascar", report published in 2014 by l'Institut National de la Statistique (INSTAT) in cooperation with les Partenaires Techniques et Financiers. The report, based on data for 2012-13, is available on //www.instat.mg

Appendix I. Alternative Medium-Term Scenario—Lower Growth

The purpose of the alternative scenario is to illustrate a medium-term framework, based on weaker policies in the absence of the fundamental reforms that are needed to raise the potential growth of the Madagascar economy.

Under the alternative low-growth slow-reform scenario, real GDP is projected to grow by 3 percent a year, which is 2 percent lower than projected in the baseline scenario. This would be only marginally faster than population growth, and in line with Madagascar's average GDP growth over the last 15 years. Development partners and foreign investors are assumed to scale down plans for external financing and investment and as a result, inflows to the capital and financial account (primarily FDI flows and donor financing) would be lower. As a result, total external financing would decline by about 3½ percentage points of GDP on average.

Less external financing would force a significant import compression and the current account would improve by close to 2½ percentage points of GDP on average. The scenario assumes that the remaining financing gap would be closed by lower gross official reserves than in the baseline scenario. Gross reserves are assumed to remain flat in the alternative scenario, while they would increase to 2.8 months of import cover by 2019 in the baseline.

A slow pace of reforms would also have implications for the revenue generation with tax and customs revenue collections remaining more or less constant in percent of GDP. In total, tax revenue and grants are projected at 11.7 percent of GDP in 2019 (3½ percentage points of GDP lower than in the baseline). In response, the authorities would be expected to reduce spending including in terms of capital expenditure and social priority spending (classified under other current spending). The financing of the deficit would also shift from foreign to domestic borrowing with adverse effects on private credit growth.

The saving-investment balance would improve as a result of the import compression and the improved current account. However, this superficial improvement would come at a considerable cost as total investment would be lower and the difference between the lower-growth scenario and the baseline would increase over time. By 2019, total investment is projected to about 11½ percent of GDP in the lower-growth scenario compared with 16 percent of GDP in the baseline. Essential investment in infrastructure and new job-creating productive capacity would, thus, not take place in the lower-growth scenario.

Figure A1. Lower-Growth (Slow-Reform) Scenario and Baseline

Source: IMF staff projections.

Table A1. Lower-Growth (Slow-Reform) Scenario and Baseline, 2015–19

	Baseline					Lower-growth scenario				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
	(Annual pecentage change)									
Real GDP growth	5.0	5.0	5.0	5.0	5.0	3.0	3.0	3.0	3.0	3.0
	(Percent of GDP)									
External sector indicators										
Capital and financial account balance	2.3	2.1	2.3	2.0	2.0	0.9	0.0	-0.1	-0.5	-0.7
Project grants	1.7	1.9	1.8	1.8	1.7	1.3	1.4	1.3	1.3	1.3
FDI flows (net)	4.0	4.2	4.2	4.5	4.6	3.5	3.4	3.2	3.1	3.0
Other flows (net)	-3.4	-4.0	-3.8	-4.3	-4.3	-3.9	-4.7	-4.6	-5.0	-4.9
Financing gap/Additional financing	2.8	2.6	2.8	3.4	3.1	1.2	1.3	1.2	1.8	2.4
Total external financing	5.1	4.7	5.1	5.4	5.1	2.1	1.4	1.1	1.3	1.7
Current account balance	-3.9	-3.6	-3.9	-3.9	-4.0	-1.9	-1.2	-1.0	-1.2	-1.7
Net exports of goods and services	-6.7	-6.5	-6.9	-6.9	-7.0	-4.7	-4.1	-3.9	-4.1	-4.6
Imports	42.2	42.7	43.6	44.4	45.0	39.8	39.3	39.1	39.6	40.0
Exports	35.4	36.2	36.7	37.5	38.0	35.1	35.1	35.2	35.5	35.4
Accumulation of gross official reserves	1.1	1.1	1.2	1.5	1.2	0.0	0.0	0.0	0.0	0.0
Fiscal indicators										
Total revenue and grants	13.5	14.4	14.7	15.0	15.2	11.9	11.8	11.8	11.8	11.7
Tax revenue	11.5	11.6	12.0	12.3	12.6	10.2	10.3	10.3	10.3	10.3
Grants	1.7	2.6	2.5	2.5	2.4	1.5	1.4	1.3	1.3	1.3
Total expenditure and lending	15.6	17.3	17.9	17.6	17.6	13.7	14.0	14.1	13.7	13.7
Current expenditure	11.1	11.0	11.6	11.4	11.4	10.2	10.2	10.4	10.5	10.6
Wages and salaries	6.1	6.1	6.1	6.1	6.0	6.2	6.3	6.5	6.6	6.6
Other current spending	5.0	4.9	5.5	5.3	5.4	4.0	3.9	3.9	4.0	4.0
Capital expenditure	4.5	6.3	6.3	6.2	6.2	3.5	3.8	3.7	3.2	3.0
Overall balance (cash basis)	-2.7	-3.5	-3.4	-2.8	-2.6	-2.4	-2.5	-2.5	-1.6	-1.9
Total financing	2.5	2.5	2.5	1.8	1.6	2.4	2.5	2.5	1.6	1.9
Foreign borrowing	1.4	1.9	1.9	1.1	0.9	2.0	1.4	1.4	0.8	0.6
Domestic borrowing	1.1	0.6	0.6	0.7	0.7	0.4	1.0	1.2	0.8	1.3
Savings/investment balance	-3.9	-3.6	-3.9	-3.9	-4.0	-1.8	-1.2	-1.0	-1.2	-1.6
Public	-2.1	-2.6	-2.6	-2.3	-2.2	-1.8	-2.2	-2.3	-1.9	-1.9
Private	-1.8	-1.0	-1.3	-1.6	-1.7	0.0	1.0	1.3	0.7	0.3
Investment	14.0	16.1	16.1	16.0	16.0	13.0	12.8	12.2	11.7	11.5
Public	4.5	6.3	6.3	6.2	6.2	3.5	3.8	3.7	3.2	3.0
Private	9.5	9.8	9.8	9.8	9.8	9.5	9.0	8.5	8.5	8.5

Source: IMF staff projections.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

December 18, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department
(In collaboration with other departments)

CONTENTS

FUND RELATIONS

(As of November 30, 2014)

Membership Status: Joined: September 25, 1963; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	122.20	100.00
Fund Holdings of currency	122.13	99.94
Reserve Tranche Position	0.07	0.06

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	117.09	100.00
Holdings	70.81	60.48

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Arrangements	30.55	25.00
ECF Arrangements	36.49	29.86

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF[1]	Jul 21, 2006	Jul 20, 2009	73.32	53.03
ECF	Mar 01, 2001	Mar 01, 2005	91.65	91.65
ECF	Nov 27, 1996	Nov 30, 2000	81.36	78.68

[1] Formerly PRGF.

Projected Payments to Fund[2]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2014	2015	2016	2017	2018
Principal		11.74	10.61	8.25	5.89
Charges/Interest		0.17	0.14	0.12	0.10
Total		11.91	10.75	8.37	6.00

[2]When a member has overdue financial obligation outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	Enhanced
I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	Dec 2000
Assistance committed	
by all creditors (US$ Million)[1]	835.75
Of which: IMF assistance (US$ million)	19.17
(SDR equivalent in millions)	14.73
Completion point date	Oct 2004
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	14.73
Interim assistance	5.62
Completion point balance	9.11
Additional disbursement of interest income[2]	1.69
Total disbursements	16.42

[1]Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[2]Under the enhance framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI – eligible debt (SDR Million)[1]	137.29
Financed by: MDRI Trust	128.50
Remaining HIPC resources	8.79

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGF**	**Total**
January 2006	N/A	137.29	137.29

[1]The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Safeguards Assessments:

An update safeguards assessment of the Central Bank of Madagascar (BCM) is expected to be completed by end-December 2014. The assessment noted that governance arrangements do not provide for adequate oversight and recommended the establishment of an audit committee of the BCM's Board. The central bank's financial autonomy has been compromised; the BCM has significant outstanding claims on the government and is in a negative equity position. Transparency and accountability practices are also lacking. Most important, regular publication of audited financial statements should be restored and external audit quality improved. The authorities have already taken steps to address some of the assessment's recommendations, including through technical assistance to review the BCM legal framework.

Exchange Rate Arrangement:

The currency of the Republic of Madagascar is the Malagasy ariary. The de jure exchange rate arrangement is free floating. The exchange rate is determined in the official interbank market. The Central Bank of Madagascar (CBM) intervenes in the interbank market to smooth large exchange rate fluctuations and meet foreign reserve targets. Information on CBM daily interventions is not publicly available. Only the weighted average daily rate and the number and amount of transactions are made available to the public through the CBM official site. The de facto exchange rate arrangement is classified as floating.

The Republic of Madagascar accepted the obligations of Article VIII of the IMF Articles of Agreement with effect from September 18, 1996. The Republic of Madagascar maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation:

The most recent Article IV consultation was concluded on June 6, 2007 (Country Report No. 07/236).

Technical Assistance:

Technical assistance provided to Madagascar following the normalization of relations in March, 2014 are listed below.

Fiscal Affairs Department (FAD) **Year of delivery**

Diagnostic mission: Improving Tax and Customs Revenue Collection	2014
PFM Reform Strategy	2014
Medium-Term Macro-Fiscal Framework (MTMFF)	2014
Energy Subsidy Reform	2014
Tax Policy Review	2014
Medium-Term Fiscal Framework (MTFF) and Natural Resources Management	2014

Monetary and Capital Markets Department (MCM)

Technical Assistance Needs Assessment	2014

Legal Department (LEG) and Monetary and Capital Markets Department (MCM)

Central Banking Law	2014

Resident Representative:

Mr. Patrick Imam has been the Resident Representative since September 2014.

WORLD BANK—IMF COLLABORATION

50. The Fund and the Bank teams working on Madagascar met to discuss reform priorities and the division of labor. The meeting was chaired by Mr. Tsibouris (IMF) and Ms. Kubota (World Bank).

51. The teams agreed that Madagascar's main economic challenge is to create the foundation for a sustained economic recovery and poverty reduction. To meet this challenge, Madagascar needs to: (i) broaden the tax base and implement tax policy and revenue administration reforms; (ii) strengthen its public financial management, including: strengthening monitoring and control; improving the allocation and use of public resources to raise the economy's productivity, improve service delivery, and help meet acute social needs of vulnerable groups; (iii) improve management of public enterprises, including the public energy and water utility company JIRAMA; (iv) advance other policies that support economic growth, including actions that strengthen governance and create a level playing field for the private sector; (v) proceed with reforms that improve central bank operations and strengthen financial sector stability; and (vi) promote financial access and financial inclusion..

52. Based on this assessment, the teams identified the following structural reform areas as macro-critical:

- **Tax policy and revenue administration reform:** Tax revenues have fallen back to historically low levels because of a growing informal economy, increasing corruption, and weakening tax and customs administration.

- **Public financial management (PFM) reform:** Madagascar's development challenges cannot be resolved without scaled up fiscal spending, which in turn calls for a stronger PFM system. Key reforms include improving budget preparation (with links to a macro-fiscal framework), strengthening fiscal discipline, and finalizing a plan to clear domestic payment arrears.

- **Public investment and debt management:** Infrastructure gaps create binding constraints to growth. There is need to strengthen the institutional capacity to close the infrastructure gap through implementation of well-prioritized projects, preparation of a debt management strategy that maintains debt at sustainable levels, and establishment of a modern legal framework for private-public partnerships (PPPs).

- **Service delivery and social safety nets:** Public spending on health and education is lagging compared to other Sub-Saharan African countries, the gap is growing, and access and use of basic healthcare is not universal, decreasing, and increasingly rationed by money. It will be important to scale up and target fiscal spending in favor of the most vulnerable, through demand side interventions such as provision of school kits and cash transfer to households conditional on children attending school, and supply side interventions such as rehabilitation of basic health centers, increased provision of basic vaccines, and repairing school buildings.

- **Public enterprise reform:** Public enterprises were established with the objective of providing better services and products at less cost to the consumers. However, in some cases (including the public utility company JIRAMA) consumers are now offered poor services from inefficient companies that also need government subsidies to run their operations. The aim of public enterprise reform is to improve services, develop sectoral policies and appropriate regulatory frameworks, and restructure inefficient public enterprises.

- **Central bank operations:** There is a need to develop a well-prioritized reform agenda to improve central bank operations.

- **Financial sector stability:** While the banking sector has been resilient and stable throughout the recent crisis, updating the procedures and capacity of banking supervision and the supervision of the microfinance sector is a priority.

- **Financial access and inclusion:** The financial sector is not in a position to fully support economic development, in light of the low levels of access to financial services for individuals as well as small and medium-sized enterprises (SMEs). A coherent support framework for financial inclusion needs to be put in place addressing access to savings, credits, insurance, and payment systems.

- **Business environment reform:** Reforms advancing governance and the rule of law and creating a level playing field would be critical to improve the business climate.

- **Reform of the statistical system:** Key statistics are provided by the National Institute of Statistics (NIS) and other government agencies, as the central bank and ministries, and NIS regularly undertakes standard economic and social surveys with donor financing. However, quality and timely reporting remains an issue of concern. The last population census was held in 1993 and the national accounts are currently based on the 1968 system of national accounts. The quality of sector statistics can be improved, including through better coordination. While data production has increased in recent years, data access remains challenging.

- **Public expenditure efficiency:** Public expenditure is highly concentrated in the central government. Current expenditure represented 80 percent of the central government expenditure in 2013, half of which was allocated to wages and salaries and regressive subsidies on fuel and electricity consumed a large share of the remaining current expenditure. Important to rebalance spending in favor of social priorities and improve the efficiency of allocated resources.

53. The teams agreed on the following division of labor:

- **Tax policy and revenue administration reform:** Shared responsibility. The Fund will provide TA to improve tax and customs administration. In tax administration, reforms would aim to modernize and simplify procedures, make better use of risk analysis to strengthen tax compliance and broaden the tax base, establish an organization focused on tax payer service, and strengthen oversight and management. In customs, reforms would aim to improve the targeting of customs controls with an increased focus on fighting customs fraud, advance and shorten customs clearance procedures and make them compatible with international standards, strengthen internal control mechanisms, and offer specialized training to staff. The Bank is preparing a new public sector support project to respond to the government's request to reducing informality.

- **PFM reform:** Shared responsibility. The Fund TA will support the authorities' efforts to develop a prioritized medium-term reform agenda. Fund TA will also aim at: (i) developing tools, procedures, and capacities required by a transparent formulation, management, and execution of the budget; (ii) strengthening the production and dissemination to the public of fiscal information; and (iii) strengthening the macro-fiscal capacity. The Bank's public sector project will support government's effort in improving social sector PFM efficiency.

- **Public investment and debt management:** To advance the public investment capacity, the Bank has conducted a DeMPA exercise and provided follow up assistance in developing a reform program. The Bank has also provided training on debt sustainability analysis and medium-term debt strategy in the past year, and stands ready to provide any further support that the public debt department may need to implement the reform program.

- **Service delivery and social safety nets:** The Bank will take the lead. To support the identification of needs and priority actions, the bank published a comprehensive poverty analysis in March 2014. Through the Emergency Food Security and Social Protection Project the Bank is supporting a labor-intensive public works program as well as the design and implementation of a pilot Conditional Cash Transfer program. A Safety Nets Project under preparation will prepare the ground for a more systematic and programmatic approach to social safety nets as part of a larger social protection policy.

- **Public enterprise reform:** The Bank is preparing an energy sector project to provide technical assistance and financial support in developing a strategy to overhaul JIRAMA to improve the company's finances and service delivery. The project will also support emergency repairs of JIRAMA's assets, such as the purchase of parts needed to remobilize the generation capacity that has fallen into disrepair.

- **Central bank operations:** The IMF will take the lead. The Fund will assist the authorities in developing a well-prioritized reform agenda to improve central bank operations, including in the areas of monetary policy, reserve management, and central bank internal audit and accounting. The Fund will also offer technical assistance to make the foreign exchange market and the Treasury bill market more efficient.

- **Financial sector stability:** The Bank and the Fund will coordinate in providing support to banking supervision (CSBF) to improve efficiency, including by updating the regulatory framework for banking sector supervision. The Bank will take the lead in supporting the CSBF in strengthening capacity for supervision of the microfinance sector and the related regulatory and supervisory framework. The Bank will also support the insurance supervision department at the ministry of finance to build capacity for effective supervision of the insurance sector.

- **Financial access and inclusion:** The Bank will take the lead to develop micro insurance and the payment system (including mobile and branchless banking). The Bank will also continue to strengthen its engagement in the area of SME finance and will step up efforts to promote financial literacy.

- **Business environment reform:** The Bank will take the lead. A Second Integrated Growth Poles project (PIC2) is being prepared to increase economic opportunities and access to enabling services in selected regions. At the national level, the project will support a series of investment climate reforms and help strengthen the public-private interface to increase investor confidence and private investment. At the regional level, the project will support the implementation of targeted and integrated interventions to overcome barriers to private investment and job creation in poor regions with high growth potential

- **Reform of the statistical system:** Shared responsibility. The Fund will offer technical assistance in national accounts and price statistics. The Bank supports NIS through a trust fund and main activities include: (i) preparing the general population and housing census (planned for 2016); (ii) revising national accounts for 2007-12 using the 1993 system of national accounts and rebasing to 2007; (iii) capacity building; and (iv) updating the National Strategy for the Development of Statistics. Madagascar is also one of the pilot countries for the implementation of the Wealth Accounting and the Valuation of Ecosystems Service.

- **Public expenditure efficiency:** The Bank will finalize a public expenditure review in health and education. The results will form the basis of the reform programs that will be supported by the Public Sector project under preparation.

54. The teams agreed to the following sharing of information:

- Following WB missions, the Fund team will be kept informed of progress in the above macrocritical structural reform areas. Fund staff (including the resident representative) would be invited to debriefs of mission conclusions with the authorities and would receive on a timely basis aide-memoires and reports for information.

- Following IMF missions, the Bank team will be kept informed of progress in the above cited areas where the Fund takes the lead as well as on areas of shared responsibility. The Fund will share outputs systematically. Bank staff would be invited to debriefs of mission conclusions with the authorities and would receive on a timely basis aide-memoires and reports for information.

55. The appendix lists the teams' separate and joint work programs during 2014 and 2015.

Table 1. Madagascar: Bank and Fund Planned Activities in Macro-critical Structural Reform Areas, 2014-2015

Title	Products	Provisional Timing of Missions	Expected Delivery Date of Report
Bank Work Program	Energy sector investment project	Sept 25 – Oct 3	April 2015
	Social safety net project	November 15-29, 2014	May 2015
	Governance project	Sept 29- Oct 10	July 2015
	Financial services project	November 10 - 21 (and every 6 months)	December 2016
	Technical assistance in poverty statistics	October 6 – October 9	February 2015
Fund Work Program	LEG/MCM TA in central banking law	November, 2014	February, 2015
	FAD TA in medium-term fiscal framework (MTFF) and natural resource management	December, 2014	Q1, 2015
	FAD TA in tax policy review	December, 2014	Q1, 2015
	AFS/MCM TA in banking supervision	January, 2015	February, 2015
	MCM TA in reserve management	Q1, 2015	Q1-Q2, 2015
	MCM TA in central bank internal audit and accounting	Q1, 2015	Q1-Q2, 2015
	AFS TA in national accounts	Q1-Q2, 2015	Q1-Q2, 2015
	AFS TA in price statistics	Q1-Q2, 2015	Q1-Q2, 2015
	AFS TA in revenue administration (mining/petroleum taxation)	Q1-Q2, 2015	Q1-Q2, 2015
	AFS TA in revenue administration (transfer pricing)	Q1-Q2, 2015	Q1-Q2, 2015
	MCM TA in monetary policy operations	May, 2015	June, 2015
Joint Work Program	Debt sustainability analysis	Q1, 2015	Q2, 2015

STATISTICAL ISSUES APPENDIX

(As of December 10, 2014)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The database remains weak, particularly in the areas of real sector, government finances, the balance of payments, and social statistics. Fund technical assistance was interrupted in 2009 in response to an unconstitutional change of government. Following re-engagement in March 2014, IMF staff have undertaken missions to assess the need for technical assistance in statistics.
National Accounts: Production of complete national accounts (based on benchmark data) is infrequent and depends on irregularly collected source data. The last complete sets of benchmark data cover 2013. The reliability of national accounts estimates remains weak due to gaps in the source data and methodological shortcomings. In particular, the estimates of agricultural activities are poor because there is no suitable information about the size and the evolution of this sector. Moreover, service activities are not properly covered and little information is available on the magnitude of the informal sector. INSTAT used to produce two industrial production indices, one for the export processing zone (IPI-ZF) and the other for enterprises outside the export processing zone (IPI-RC) but the production has been suspended due to financing issues.
Price Statistics: The current consumer price index (CPI) covers the seven principal cities, has a base year of 2000, and expenditure weights based on the 1999 household survey. The CPI is generally reported to Fund staff on a timely basis. Data on producer prices, "l'Indice de la Production Industrielle (IPI)", were also available till 2008 but the publication has been suspended since then due to financing issues.
Government Finance Statistics: The 2004 multi-sector mission found significant gaps in the coverage of government financial statistics (GFS) and recommended that it be broadened to include public agencies that are part of the central government. Also, the mission made recommendations on the classification and recording of transactions, as well as the calculation of domestic arrears. Data on central government financial operations are disseminated only annually. Since August 2014, data on public debt are disseminated with the publication of the "Statistical Bulletin of Debt". Madagascar does not report sub-annual data for publication in *International Finance Statistics* (*IFS*).
Monetary Statistics: The BCM has reported monetary data to STA for publication in *IFS* since August 2001.
Balance of Payments: The current compilation system is flawed, external trade data are derived from customs data that suffer from inadequate coverage and deficient recording procedures. The significant amount of smuggling, particularly in the mining sector, further reduces the reliability of the trade data. The 2004 multi-sector technical assistance mission reviewed progress in the transition to *BPM5*. The mission noted that the compilation system was still hampered by such recurring issues as excessive processing lags due to partial automation of customs reports and inadequate coverage of several transactions. The compilation of external debt statistics is generally satisfactory.
II. Data Standards and Quality
Madagascar participates in the General Data Dissemination System (GDDS) since May 2004.

Table of Common Indicators Required for Surveillance					
	Date of latest observation (all dates in table use dd/mm/yy format)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange rate	3/12/14	3/12/14	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	30/11/14	1/12/14	M	M	M
Reserve/Base Money	30/11/14	1/12/14	M	M	M
Broad Money	31/10/14	3/12/14	M	M	M
Central Bank Balance Sheet	30/11/14	1/12/14	M	M	M
Consolidated Balance Sheet of the Banking System	31/10/14	3/12/14	M	M	M
Interest Rates[2]	30/8/14	24/10/14	M	M	M
Consumer Price Index	10/14	27/11/14	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA				
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	30/9/14	29/10/14	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	30/12/13	30/4/14	A	A	A
External Current Account Balance	30/9/14	28/10/14	Q	Q	Q
Exports and Imports of Goods and Services	30/9/14	28/10/14	Q	Q	Q
GDP/GNP	30/12/13	15/01/14	A	A	A
Gross External Debt	NA				
International Investment Position[6]	NA				

[1] Any reserves assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those lined to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local government.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q) annually (A); irregular (I); and not available (NA).

REPUBLIC OF MADAGASCAR

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. PR/15/9
FOR IMMEDIATE RELEASE
January 16, 2015

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes Article IV Consultation with the Republic of Madagascar

On January 16, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Madagascar.

Madagascar is one of the poorest countries in the world. In a fragile environment, the uncertainty linked to political instability, weak institutions, and weak governance has been eroding the foundation for solid economic growth. Since the political crisis in 2009, economic growth has been slow and social services, including basic health care and primary education, have deteriorated. The government that assumed power in early 2014, following constitutional elections, has shown a commitment to addressing Madagascar's challenges.

There are early signs of an economic recovery in 2014, with growth estimated at 3 percent and December inflation under 7 percent. The current account deficit is projected to have narrowed to about 2 percent of GDP in 2014 driven by growing mineral exports, decreasing food import needs, and lower-than-anticipated international oil prices. Growing credit demand prompted domestic interest rates to increase and raised the cost of domestic budgetary financing, leading the government to increase statutory advances from the central bank.

Given still weak tax revenue collections, spending on high-priority areas, such as education and health, continued to be constrained in 2014. The need to finance fuel subsidies, public enterprises (such as the public utility JIRAMA), and the under-funded civil service pension fund added to budgetary pressures. At the same time, the authorities started to clear domestic budgetary arrears, took steps to define a plan to shore up the finances of JIRAMA, and adopted a priority action plan to strengthen public financial management.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors welcomed the first signs of economic recovery in 2014. Nevertheless, the country is facing complex challenges stemming from weak institutions and governance, binding resource constraints, vulnerability to shocks, and the urgent need to reverse the deterioration of development indicators. Directors called for an acceleration of economic and structural reforms to unleash Madagascar's significant potential. The forthcoming National Development Plan should give priority to reforms that would raise the level and efficiency of pro-poor/pro-growth government spending, improve governance and strengthen institutions, increase high-return infrastructure investment, and improve the business climate. Steadfast implementation of these reforms will promote employment and private sector growth and reduce poverty.

Directors welcomed the authorities' focus on increasing fiscal space for urgent social spending on health and education and infrastructure investment. Reforms in this area should involve well-designed plans, with Fund TA support, to mobilize tax revenue and make customs and tax administration more efficient. On the expenditure side, Directors supported the plans to phase out fuel subsidies, reduce budgetary transfers to loss-making public enterprises, address imbalances of the civil service pension funds, continue to strengthen public financial management, and clear domestic arrears.

Directors saw some room for cautious external borrowing over the medium term to address Madagascar's pressing infrastructure needs. They encouraged the authorities to make every effort to ensure that such borrowing will be on concessional terms to the extent possible. Early finalization of the development plan and prioritization of investments, taking into account absorptive capacity, will be important to mobilize needed donor financing.

Directors stressed the need to strengthen monetary policy independence. They called for a prompt recapitalization of the central bank and a strengthening of its oversight mechanisms, and recommended avoiding the use of statutory advances for budget financing. Efforts to upgrade financial sector supervision and risk monitoring and develop the financial system should also continue.

Directors viewed Madagascar's current floating exchange rate regime to be appropriate, noting that it has helped the economy adjust to external shocks. While the exchange rate does not appear out of line with fundamentals, Directors encouraged the authorities to take steps to improve competitiveness and increase international reserves over time.

It is expected that the next Article IV consultation with the Republic of Madagascar will be held on the standard 12-month cycle.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Republic of Madagascar: Selected Economic Indicators, 2012–15

	2012	2013	2014	2015
	Actual	Est.	Prel. Est.	Proj.
	Percent change; unless otherwise indicated			
National account and prices				
GDP at constant prices	3.0	2.4	3.0	5.0
GDP deflator	5.5	5.0	6.3	7.6
Consumer prices (end of period)	5.8	6.3	7.1	7.9
External sector				
Exports of goods volume	3.9	19.1	4.1	15.9
Imports of goods volume	14.0	11.1	1.3	11.7
Terms of trade (deterioration = -)	7.3	12.7	5.9	0.7
Money and credit				
Reserve money	9.8	-6.1	8.9	15.2
Broad money (M2)	6.0	9.0	9.1	16.0
Net foreign assets [1]	-2.0	-15.9	4.4	8.0
Net domestic assets [1]	9.7	22.0	6.3	9.5
Credit to the private sector [1]	2.3	8.1	7.3	6.7
	(Percent of GDP)			
Public finance				
Total revenue (excluding grants)	9.6	9.6	10.2	11.7
Grants	1.2	1.3	2.1	1.7
Total expenditures	13.4	14.9	14.4	15.6
Current expenditure	10.7	11.7	10.5	11.1
Capital expenditure	2.7	3.1	4.0	4.5
Overall balance (cash basis)	-1.4	-2.0	-3.2	-2.7
Domestic financing	0.9	1.0	0.9	1.1
External sector				
Exports of goods, f.o.b.	15.5	18.4	20.0	22.4
Imports of goods, c.i.f.	31.2	30.7	30.8	33.0
Current account balance (exc. grants)	-7.9	-6.9	-4.4	-5.8
Current account balance (inc. grants)	-6.7	-5.6	-2.1	-3.9
Public debt	33.7	34.0	35.3	35.1
External	24.2	22.8	26.0	25.9
Domestic	9.5	11.1	9.3	9.2
	(Units as indicated)			
Gross official reserves (millions of SDRs)	682	502	500	573
Months of imports of goods and services	3.3	2.2	2.2	2.3
GDP per capita (US dollars)	445	463	450	451
Nominal GDP at market prices (billions of ariary)	21,774	23,423	25,629	28,960

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

[1] Growth in percent of beginning of period money stock (M2).

Statement by Mr. Yambaye and Mr. Ismael on Republic of Madagascar
Executive Board Meeting
January 16, 2015

My Malagasy authorities appreciate the informative and candid policy dialogue with the IMF mission during the 2014 Article IV consultation. They thank staff for their report and the Selected Issues paper which provide a good analysis of the economic situation as well as helpful policy recommendations that will be important going forward, as they prepare their medium-term economic program.

Main Economic Developments, 2009–14

The Malagasy economy went through a period of economic stagnation, during the period of political crisis, 2009 to 2013. During that time, real economic growth averaged slightly less than 1 per cent. The positive growth between 2011 and 2013 was mainly related to the foreign investments in two large mining projects. Fiscal and monetary policies, however, remained prudent, helping maintain macroeconomic and financial stability, though at a high social cost as the level of poverty increased. Inflation remained at single digits and the nominal exchange rate depreciated moderately. In spite of cuts in capital and social spending, which helped to keep the fiscal deficit low, there was an accumulation of domestic arrears but all external obligations were met.

The new government that took office in early 2014 has expressed its strong determination to address the deterioration in the economic, financial and social conditions. A number of steps were taken, and together with a return of confidence and external financing, including Fund support under an RCF, real GDP is estimated to have grown by about 3 percent in 2014. A supplementary budget was approved by parliament in June 2014 in line with the RCF-supported program. This budget aimed primarily at improving tax and customs revenue collections while increasing funding of public investment and social spending. However, while policies were broadly implemented, their outcome did not meet expectations. Tax revenues were lower than projected, and donor financing was not only less substantive than expected but became available only towards the end of the year. As a result, the fiscal deficit is estimated to have increased to about 3.2 percent of GDP. The government, however, put in place a plan to eliminate gradually the petroleum subsidies. It also came to an agreement with domestic creditors on a plan to clear domestic arrears, and it took initial steps to address the deficit of the JIRAMA.

The authorities also received much needed Fund technical assistance in the areas of tax policy, revenue administration, PFM and reform of the fuel subsidy system. They are implementing the recommendations of these technical assistance missions.

In the monetary sector, credit to the government increased as the latter relied on the central bank to meet some of its financing needs. There was also an increase in the demand of credit by the private sector, and as a result, interest rates increased. While the financial sector remains broadly sound, the authorities have taken good note of staff's advice and intend to upgrade and enforce regulations more forcefully to ensure that financial stability is maintained.

The external current account improved significantly in 2014, with the current account deficit estimated to have fallen to 2 percent of GDP, on the basis of higher mining exports, lower food imports, and lower international oil prices. International reserves, however, fell and stood at about 2 months of imports.

Medium-term Objectives and Policies for 2015

The Malagasy authorities intend to implement a medium-term economic and financial program aimed at redressing the economy, raising living standards and moving Madagascar to a higher level of income. In this regard, a National Development Plan (NDP), which has benefited from consultations with major stakeholders, is being finalized and it sets out the main policy priorities for the next five years.

The main medium-term objectives include increasing real GDP growth to 5 percent or more annually, raising the tax ratio to 14 percent of GDP by 2017, and achieving a level of international reserves equivalent to at least 3 months of imports. The authorities are well aware of the risks they face, but they are confident that the goals they have set are realistic and achievable. In addition to working on improving economic and financial performance, they will also take steps to address governance issues and strengthen institutions, and ensure that growth is inclusive.

The 2015 Budget was prepared with these objectives in mind. It places a special focus on enhancing revenue mobilization, and increasing and improving the composition of the public expenditure, so as to generate fiscal space to support the ongoing efforts to raise economic growth and reduce poverty. Tax revenues are projected to increase to about 11.5 percent of GDP mainly from measures aimed at strengthening tax and customs administrations and broadening of the tax base. Moreover, in view of the growing importance of the mining sector in the economy, the authorities are also undertaking a review of the Mining and Petroleum Codes with a view to modernizing them and raising their contribution to the Budget.

On the expenditure side, there is little room for cuts in outlays. On the contrary, the Budget projects some much needed increases in social spending, and the authorities expect to meet them with careful expenditure prioritization, and reduction or elimination of subsidies and transfers, including fuel subsidies and budgetary transfers to loss-making enterprises. Government transfers to the civil service pension fund are also absorbing an important amount of government revenue and discussions are underway to find a solution to end these transfers. The authorities have also budgeted an amount equivalent to 0.6 percent of GDP for the clearance of domestic arrears in 2015. Overall, the 2015 Budget envisages an overall fiscal deficit of 2.7 percent of GDP.

Monetary policy in 2015 will remain prudent with the objective of keeping inflation low, and mopping up excess liquidity. The central bank will pursue its efforts to rebuild its reserve coverage, and allow the official exchange rate to be market-determined. The monetary authorities will also take steps to improve the effectiveness of central bank operations. In this regard, the central bank is in the process of reviewing its legal framework in order to support the necessary reforms and strengthen its independence. The authorities agree that the central bank needs to be recapitalized and in this regard, the government intends to settle outstanding obligations through securitization and issuance of interest-bearing debt instruments, with the needed appropriations to be made in a supplementary 2015 budget. The authorities intend to pursue a reform agenda that includes updating the regulatory framework for banking supervision and strengthening reserve management and central bank audit and accounting. As noted above, an important objective of the policies that the Malagasy authorities are putting in place is to raise real GDP growth by 5 percent per annum or more over the medium term, and to reduce significantly the level of poverty. Their assumption for growth is based on an expected increase in agricultural production through better irrigation and extension services for which they are receiving assistance from the World Bank and the African Development Bank. The authorities also expect a recovery in the tourism sector and in manufacturing exports, in particular textiles with the restoration of AGOA trade privileges, additional investments in and production in the mining sector, and a higher level of public and private spending on infrastructure.

The authorities believe strongly that the lack of infrastructure is a major constraint to growth and development. There is thus an urgent need to invest in the building of new roads and the rehabilitation of the existing road networks. There are also significant investment needs in the electricity and water sectors, as well as in the education and health systems. The NDP that is being finalized will address these issues and come out with a well-prioritized investment plan with estimated financing needs. It is the intention of the authorities to rely on the private sector, in particular, foreign direct investment, and concessional financing for the execution of their investment projects. However, given the urgency of some of the investments, especially as regards electricity and roads, if concessional financing is not forthcoming, the authorities may seek alternative sources of financing after consultation with staff.

Conclusion

Going forward, it is the firm intention of the Malagasy authorities to address the challenges facing the economy. Implementation of the RCF-supported program was the first step in this effort. With the normalization of the political situation, my authorities are putting in place their National Development Plan to address in depth the economic and financial challenges. Achieving the objectives of growth and poverty reduction, however, will require significant investment, and in this regard, my authorities plan to present the NDP to development partners and discuss with them their medium-term plan with a view to receiving their financial support. It is their intention also to use the Plan as a basis for developing a comprehensive program of structural reforms and supportive macroeconomic measures for which they intend to request Fund support under an ECF.