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