

INTERNATIONAL MONETARY FUND



Staff Country Reports

October 1997

IMF Staff Country Report No. 97/106

Madagascar—Recent Economic Developments and Selected Issues

This recent economic developments and selected issues report on Madagascar was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Madagascar or the Executive Board of the IMF.

Copies of this report are available to the public from
International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
Telex (RCA): 248331 IMF UR
Internet: publications@imf.org
Price: \$15.00 a copy

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

INTERNATIONAL MONETARY FUND

MADAGASCAR

Recent Economic Developments and Selected Issues

Prepared by a staff team consisting of
E. Verreydt, X. Maret, S. Cossé (AFR), and G. Begashaw (PDR)

Approved by the African Department

August 25, 1997

	Page
Basic Data, 1992–96	5
I. Recent Economic Developments and Policies	7
A. Economic Developments and Policies in 1989–1995	12
B. Economic Developments and Policies in 1996	15
Real sector	15
Public finance	17
Financial sector	23
External sector	27
Structural reforms	37
II. Poverty Issues	37
A. Madagascar's Poverty in an International Perspective	37
B. Economic Growth and Poverty	39
C. Drawing the Poverty Line	40
D. Incidence of Poverty	45
Typical profile of the poor	45
Rural-urban differences in poverty	45
The poorest provinces	47
Poverty by profession	49
E. Reducing Poverty: Magnitude of the Task	49
Annex: Population Trends	51
III. Toward a Strategy for Civil Service Reform	56
A. Main Characteristics of the Current Civil Service	56
A qualitative assessment of the Malagasy civil service	56
Statistical overview of the Malagasy civil service	56

B.	Experiences in Civil Service Reform: Lessons from the Literature	63
	Scope of civil service reform	63
	Mapping civil service reform: a survey of the literature	64
C.	Toward a Full-Fledged Strategy of Reform	67
IV.	Trade Regime	70
	A. Evolution of Nontariff and Tariff Barriers	70
	B. Implementation of the Cross-Border Initiative to Liberalize Trade	73
V.	Export Processing Zone (EPZ)	73
	A. The Institutional Setting	73
	B. Economic Activity in the Export Processing Zone	75

Text Tables

1.	Selected Economic and Financial Indicators, 1990–96	8
2.	Growth and Structure of GDP, 1990–96	17
3.	Central Government Accounts, 1990–96	19
4.	Central Government Ratios, 1990–96	20
5.	Profitability of Banks, 1992–96	26
6.	Summary Accounts of the Banking System, 1990–96	28
7.	Summary Balance of Payments, 1990–96	31
8.	External Debt Outstanding, 1990–96	35
9.	Poverty Profile	39
10.	Distribution of Social Indicators by Poverty Groups	42
11.	Housing and Equipment Indicators by Regions	43
12.	Distribution of Poverty by Urban and Rural Areas	46
13.	Distribution of Poverty by Provinces	48
14.	Poverty Groups by Profession	49
15.	Effects of Growth on Poverty Reduction	50
16.	Distribution of Population and Civil Service	59
17.	Minimum Monthly Wages, 1990–96	60
18.	Structure and Adjustment of Public Sector Salaries, 1989–96	61
19.	Taxation of Imports, 1994–98	72
20.	Economic Activities of Manufacturing Enterprises in the EPZ, 1994–98	76
21.	Number of Enterprises with Operating Permits Under the Export Processing Zone Regime, 1990–96	77

Figures

1.	Real Sector Indicators, 1970–96	10
2.	Main Economic Indicators, 1986–96	11
3.	Main Fiscal Indicators, 1986–96	21
4.	Money, Prices, and Exchange Rate, 1990–96	29
5.	External Sector Main Indicators, 1986–96	32

6.	Selected Exchange Rate Indices, 1986–96	37
7.	Average Number of Children per Woman by Province	52
8.	Child Mortality Rate (0–5 Years) by Sex and Residence	53
9.	Illiteracy Rates by Sex and Place of Residence	54
10.	Level of Education by Province	54
11.	Activity Rates by Sex and Place of Residence	55
12.	Distribution of Civil Service by Sector	58
13.	Minimum Monthly Wage, 1990–96	62

Boxes

1.	Banking Sector Profitability, 1994–96	24
2.	Prudential Banking Regulations in Madagascar	25
3.	Reform of Monetary Management in 1995–96	30
4.	Perceptions of Poverty in Madagascar	44
5.	Average Monthly Income in 1996	63
6.	Operating Under the Export Processing Zone Regime	75

Appendix I.	Partial List of Public Enterprises, April 1997	79
-------------	--	----

Appendix II.	Summary of the Tax System, May 1997	91
--------------	-------------------------------------	----

Appendix III. Appendix Tables

1.	Availability and Use of Resources at Constant Prices, 1990–96	97
2.	Availability and Use of Resources at Current Prices, 1990–96	98
3.	Production of Rice and Other Food Crops, 1990–96	99
4.	Rice Production, Imports, and Availability, 1961–96	100
5.	Monthly Retail Prices of Ordinary Rice, 1990–96	101
6.	Production of Major Cash Crops, 1990–96	102
7.	Indicative Producer Prices for Major Crops, 1990–96	103
8.	Index of Industrial Production, 1990–96	104
9.	Industrial Production, 1990–96	105
10.	Production and Export of Major Minerals, 1990–96	106
11.	Tourism Indicators, 1990–96	107
12.	Production and Consumption of Electricity, 1990–96	108
13.	Prices of Petroleum Products, 1994–96	109
14.	Population and Labor Force, 1990–96	110
15.	Minimum Monthly Wage, 1984–96	111
16.	Consumer Price Indices, 1993–96	112
17.	Budgetary Revenue, 1990–96	113
18.	Current Budgetary Expenditure, 1990–96	114

19.	Central Government Personnel Expenditure and Number of Civil Servants, 1990-96	115
20.	Structure and Adjustment of Public Sector Salaries, 1989-96	116
21.	Government Capital Expenditure, 1990-96	117
22.	Revenue and Expenditure of the Social Security Fund, 1990-96	118
23.	Interest Rate Structure, 1993-96	119
24.	Summary Accounts of the Central Bank, 1991-96	120
25.	Summary Accounts of the Commercial Banks, 1991-96	121
26.	Exports, f.o.b., 1990-96	122
27.	Composition of Imports, c.i.f., 1990-96	123
28.	Short-Term Foreign Reserve Assets and Liabilities of the Central Bank, 1994-96	124

MADAGASCAR - Basic Data

Area, population, and GDP per capita

Area:	587,000 square kilometers
Population: Total (1996)	13.5 million
Growth rate (1996)	2.8 percent
GDP per capita (1996)	240 SDRs

	1992	1993	1994	1995	1996 Prel.
National accounts					
(In billions of Malagasy francs)					
GDP at current market prices	5,593	6,451	9,131	13,479	16,244
(Annual percentage changes)					
GDP at constant market prices	1.2	2.1	-0.0	1.7	2.1
Agricultural sector (at factor cost)	1.7	3.2	-0.5	1.9	2.5
Industrial sector (at factor cost)	-1.0	3.2	-1.0	1.8	2.0
Services sector (at factor cost)	1.1	2.1	1.2	1.5	1.9
(In percent of GDP)					
Agriculture	30.9	31.6	36.6	30.5	29.5
Industry	12.8	12.9	12.7	12.7	12.6
Services	50.2	49.9	46.0	51.1	52.2
Nonimputed charges	-1.2	-1.2	-1.4	-1.4	-1.2
Import taxes	7.3	6.7	6.1	7.1	6.9
GDP at current market prices	100	100	100	100	100
Investment and savings					
Investment	11.3	11.4	10.9	10.9	11.1
Public	6.6	7.4	6.4	6.0	6.8
Private	4.7	4.1	4.5	4.9	4.4
Gross national savings	6.3	6.2	3.9	3.6	7.5
Public	1.5	1.1	-1.5	0.1	2.4
Private	4.8	5.1	5.4	3.5	5.2
Price movements					
(Annual percentage changes)					
GDP deflator	12.5	13.0	41.6	45.2	18.1
Consumer price index (traditional basket)	15.3	9.2	39.1	49.0	19.8
Government finance					
(In billions of Malagasy francs)					
Current revenue and grants	752.6	864.4	1,035.9	1,541.7	2,090.8
Current expenditure	658.6	782.2	1,168.1	1,523.4	1,703.8
Capital expenditure	462.3	546.1	635.5	850.4	1,179.6
Overall cash deficit (-)	-364.9	-472.1	-779.2	-786.9	-789.9
Net domestic financing	195.1	121.8	213.3	-38.1	-15.0
Of which: domestic banks (net)	139.3	134.4	201.3	-57.6	-46.7
(In percent of GDP)					
Overall cash deficit (-)	-6.5	-7.3	-8.5	-5.8	-4.9
Overall deficit (commitment basis) Excluding total grants	-10.0	-10.7	-11.4	-9.1	-9.1
Money and credit (end of period)					
(In billions of Malagasy francs)					
Foreign assets (net)	274.3	349.7	702.6	8,641.9	1,491.1
Net domestic assets	1,242.4	1,457.3	2,135.5	2,263.7	2,215.3
Claims on the government (net)	666.5	805.8	818.3	775.1	730.3
Claims on the economy	938.0	1,079.7	1,356.5	1,563.7	1,599.4
Money and quasi-money	1,240.3	1,564.9	2,339.4	2,717.3	3,204.2
(Annual percentage changes)					
Net domestic assets	-6.6	17.3	43.3	5.5	-1.8
Money and quasi-money	19.9	26.2	49.5	16.2	17.9

MADAGASCAR - Basic Data (concluded)

	1992	1993	1994	1995	1996 Prel.
Balance of Payments (In millions of SDRs)					
Exports, f.o.b.	230.1	237.9	312.4	331.0	350.8
Imports, f.o.b.	-330.3	-365.0	-381.0	-414.0	-433.2
Trade balance	-100.2	-127.1	-68.6	-82.9	-82.4
Services (net)	-173.1	-193.1	-189.9	-185.8	-167.5
Of which: interest payment	-100.4	-99.0	-99.9	-108.2	-109.4
Unrequited transfers (net)					
Public	89.4	112.2	81.0	67.0	91.0
Private	77.4	81.8	32.1	49.5	59.7
Current account balance	-106.5	-126.3	-145.5	-152.2	-99.2
In percent of GDP	-5.0	-5.2	-7.0	-7.3	-3.6
Capital account (net)	-99.7	-92.3	-69.6	-36.2	10.1
Of which					
Drawings	88.2	80.3	52.3	54.9	60.0
Amortization	-155.8	-163.3	-155.5	-142.8	-106.5
Direct investment	15.0	11.0	4.0	6.4	7.0
Overall balance	-206.3	-218.6	-215.1	-188.4	-89.2
Of which					
Debt relief	2.8	3.7	0.0	0.0	0.0
IMF (net)	-11.5	-10.1	-8.2	-9.4	1.9
Arrears (reduction -)	305.2	227.9	208.4	228.2	181.7
Gross reserves (increase -)	1.3	2.8	15.9	-31.0	-93.9
Central bank gross reserves	61.4	58.6	42.5	73.7	167.6
In weeks of imports of goods and nonfactor services	6.1	5.2	3.6	5.9	12.6
Outstanding external debt ^{1/}	2,638.3	2,759.1	2,826.8	2,938.3	3,112.5
Exchange rates (period averages)					
Malagasy francs per SDR	2,624.9	2,672.4	4,413.5	6,474.4	5,887.2
Malagasy francs per U.S. dollar	1,884.0	1,913.8	3,064.8	4,265.6	4,127.5

Sources: Malagasy authorities; and Fund staff estimates.

^{1/} Including net use of Fund credit.

1. This report provides background information to the staff report for the 1997 Article IV consultation discussions with Madagascar. The first chapter presents an overview of recent economic developments, and subsequent chapters focus on selected aspects of Madagascar's medium-term economic strategy. The second chapter deals with poverty issues in Madagascar. The third chapter provides an analysis of the Malagasy civil service and a strategy for its reform. The fourth and fifth chapters focus on Madagascar's trade regime and export processing zone, respectively. Finally, the report includes a statistical appendix.

I. RECENT ECONOMIC DEVELOPMENTS AND POLICIES

2. Over the past ten years, Madagascar has tried to recover from the economic failure of a socialist experiment that started in 1972. These efforts, although briefly successful in 1989–90, have been hampered since 1991 by political instability and weaknesses in economic policy implementation. Thus, despite the restoration of financial stability in 1995–96, the trend in declining real income per capita has continued, and Madagascar remains caught in a poverty trap with low investment and slow growth (Figure 1). Poverty is estimated to afflict 70 percent of the population (compared with some 45 percent in the early 1960s), and real GDP per capita has declined by more than one-third since 1970.¹

3. Madagascar achieved financial stabilization in 1996 thanks to the stepwise implementation of sweeping reforms that started in 1994 with the establishment of an interbank foreign exchange market. At that time, the official exchange rate had been kept at an artificially appreciated level in order to subsidize basic goods and petroleum products, and foreign exchange reserves had been depleted. The authorities reacted to this situation by floating the Malagasy franc in mid-1994 and allowing for a pass-through of the consequent devaluation to prices of petroleum products. The resulting inflationary pressures were compounded, however, by a lack of fiscal adjustment and a surge in staple food prices induced by adverse weather conditions. In 1995–96, economic policy focused on tightening financial policies and significant progress was made in restoring macroeconomic stability (Table 1 and Figure 2). As monetary policy was tightened in early 1995, inflation was brought under control, declining to about 8 percent over the 12-month period ended December 1996. Fiscal policy was supportive although fiscal adjustment was achieved through an unsustainable compression of expenditure, and the budget deficit (on a commitment basis and including grants) was reduced to below 5 percent of GDP in 1996. This tightening of financial policies was successful in stabilizing the currency on the exchange market at the end of 1995. The external current account deficit (including official grants) declined concurrently by one-half, to 3.6 percent of GDP, despite adverse terms of trade developments.

¹Real GDP per capita (at 1990 prices) declined from FMG 573,000 in 1970 to FMG 307,000 in 1995 (or from US\$312 to US\$167, using the 1990 FMG/US\$1 exchange rate). Poverty issues are discussed in Chapter II.

Table 1. Madagascar: Selected Economic and Financial Indicators, 1990-96

	1990	1991	1992	1993	1994	1995	1996 Prel.
(Annual percentage change, unless otherwise indicated)							
National accounts and prices							
Real GDP at market prices	3.1	-6.3	1.2	2.1	0.0	1.7	2.1
GDP deflator	11.5	13.9	12.5	13.0	41.6	45.2	18.1
Consumer price index 1/							
Average	11.8	8.5	15.3	9.2	39.1	49.0	19.8
End-of-period	10.4	9.6	19.5	8.2	61.2	37.3	8.3
Money and credit							
Net foreign assets 2/	-24.7	-18.3	23.9	6.1	22.5	6.9	23.0
Net domestic assets 2/	35.3	99.0	-233.5	17.3	43.3	5.5	-1.8
Of which							
Net domestic credit 2/	13.4	18.6	42.3	22.9	18.4	7.8	0.1
Government 2/	-7.4	7.0	36.2	11.4	0.8	-1.1	-1.2
Economy 2/	20.8	11.7	6.1	11.4	17.7	8.9	1.3
Broad money	0.3	25.4	19.9	26.2	49.5	16.2	17.9
Velocity	5.6	5.4	5.1	4.7	4.8	5.4	5.7
External sector (in terms of SDRs)							
Exports, f.o.b.	-5.7	4.2	-5.6	3.4	31.3	6.0	5.9
Imports, c.i.f.	67.1	-23.0	2.7	10.5	4.4	8.7	4.6
Terms of trade (deterioration -) 3/	-11.0	0.4	-3.1	1.4	19.8	-0.9	-16.1
Nominal effective exchange rate 4/	13.5	-10.0	5.3	17.4	-23.3	-36.3	7.2
Real effective exchange rate 4/	5.7	-12.7	6.4	10.6	-12.2	-9.3	27.3
(In percent of GDP)							
National accounts							
Gross domestic investment	17.0	8.2	11.3	11.4	10.9	10.9	11.1
Private sector (incl. public enterprises)	10.2	3.0	4.7	4.1	4.5	4.9	4.4
Public sector	6.8	5.1	6.6	7.4	6.4	6.0	6.8
Gross national savings	9.2	0.1	6.3	6.2	3.9	3.6	7.5
Private sector	2.1	-0.7	4.8	5.1	5.4	3.5	5.2
Public sector	7.1	0.8	1.5	1.1	-1.5	0.1	2.4
Central government financial operations							
Total revenue	12.0	8.7	10.0	9.9	8.3	8.5	8.7
Of which							
Tax revenue	9.4	6.8	8.7	8.2	7.7	8.3	8.5
Total expenditure	17.0	16.4	20.0	20.6	19.8	17.6	17.8
Interest obligations	1.5	2.0	3.4	4.0	5.4	5.1	4.7
Noninterest current expenditure	7.6	7.7	8.3	8.1	7.4	6.2	5.8
Capital expenditure 5/	7.9	6.6	8.3	8.5	7.0	6.3	7.3
Primary balance 6/	0.8	-3.5	-3.2	-3.2	-3.0	-1.1	-0.2
Overall balance (commitment basis)							
Including grants	-0.7	-5.5	-6.6	-7.2	-8.4	-6.2	-4.9
Excluding grants	-5.1	-7.7	-10.1	-10.7	-11.4	-9.1	-9.1
Overall balance (cash basis)	-0.9	-5.4	-6.5	-7.3	-8.5	-5.8	-4.9

Table 1 (concluded). Madagascar: Selected Economic and Financial Indicators, 1990-96

	1990	1991	1992	1993	1994	1995	1996 Prov.
	(In percent of GDP)						
External current account							
Including official transfers	-7.7	-8.1	-5.0	-5.2	-7.0	-7.3	-3.6
Excluding official transfers	-12.9	-12.3	-9.2	-9.9	-10.9	-10.5	-6.9
External capital account	-1.4	-2.4	-4.7	-3.8	-3.4	-1.7	0.4
External public debt 7/	99.6	126.9	123.8	114.3	136.6	141.1	112.8
Of which							
External payments arrears	0.0	22.3	31.1	36.7	52.1	61.7	54.2
Public domestic debt 8/	...	...	20.3	20.9	15.9	11.0	10.0
	(In percent of exports of goods and nonfactor services)						
Scheduled external debt service 7/							
Before rescheduling	75.3	104.5	79.3	76.1	59.8	54.7	42.2
After rescheduling	40.5	90.9	78.5	75.1	59.8	54.7	42.2
External debt 7/	599.9	707.0	749.7	746.2	620.2	597.5	569.3
	(In millions of SDRs, unless otherwise indicated)						
Gross official reserves	64.7	62.7	61.4	58.6	42.5	73.7	167.9
In weeks of imports of goods and nonfactor services	5.4	6.6	6.1	5.2	3.6	5.9	12.6
External debt 7/	2,262.0	2,482.9	2,638.3	2,759.1	2,826.8	2,938.3	3,112.5
Of which							
External payments arrears	0.0	436.4	661.7	886.1	1,078.6	1,285.4	1,494.8
Exchange rates							
FMG/SDR (period average)	2,027.2	2,511.1	2,624.9	2,672.4	4,413.5	6,474.4	5,887.2
FMG/FF (period average)	274.4	325.3	352.3	338.2	559.3	855.2	792.5
Nominal GDP at market prices (In billions of Malagasy francs)	4,604	4,914	5,593	6,451	9,131	13,479	16,244

Sources: Malagasy authorities; and Fund staff estimates.

1/ Traditional consumer price index (1971/72 = 100).

2/ In percent of beginning-of-period stock of broad money. Revised data series.

3/ Based on 1993 trade weights.

4/ Depreciation (-).

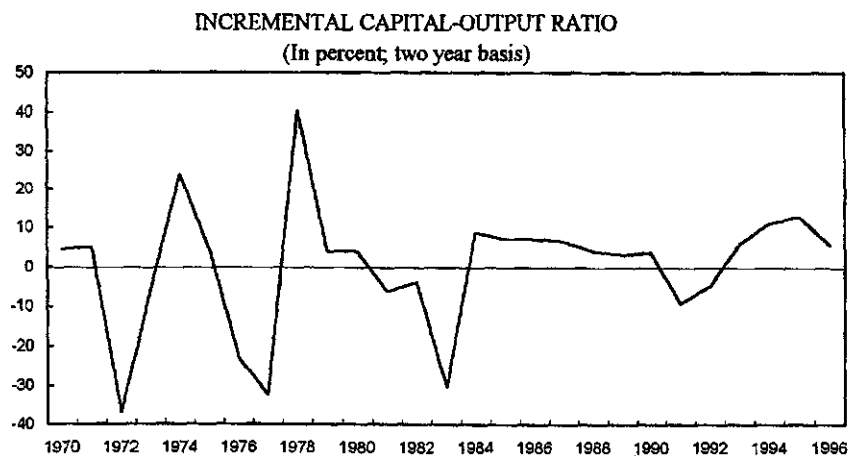
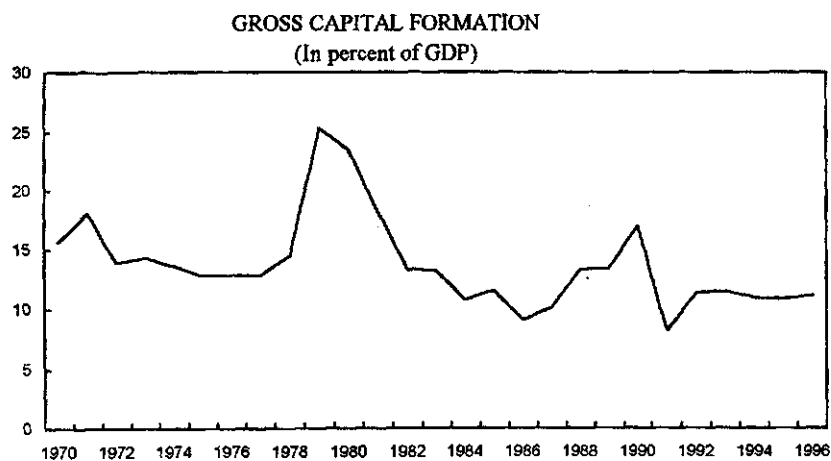
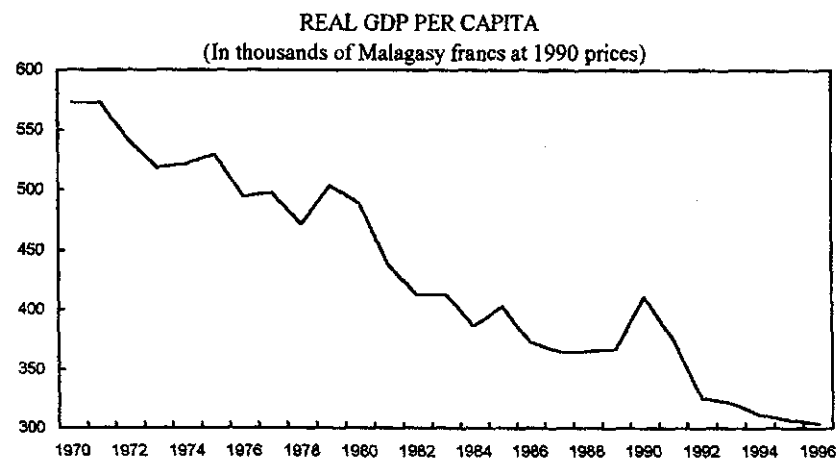
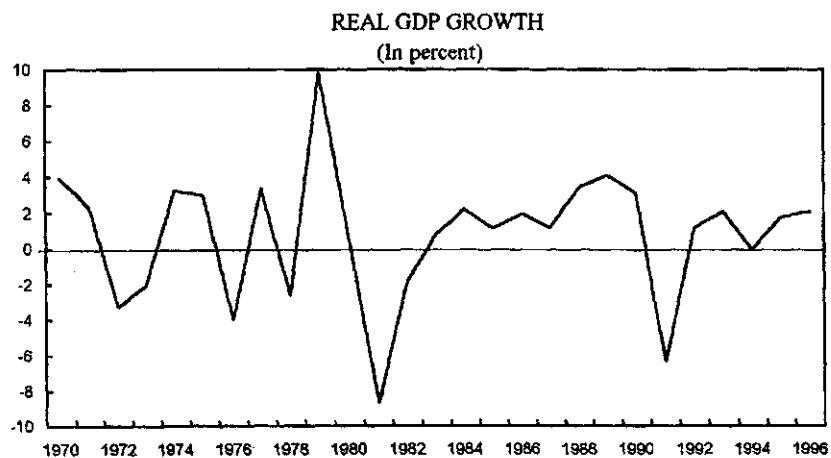
5/ Including foreign loans on-lent to public enterprises.

6/ Overall balance on a commitment basis, including grants and excluding interest obligations.

7/ Including debt to the Fund.

8/ Excluding domestic arrears.

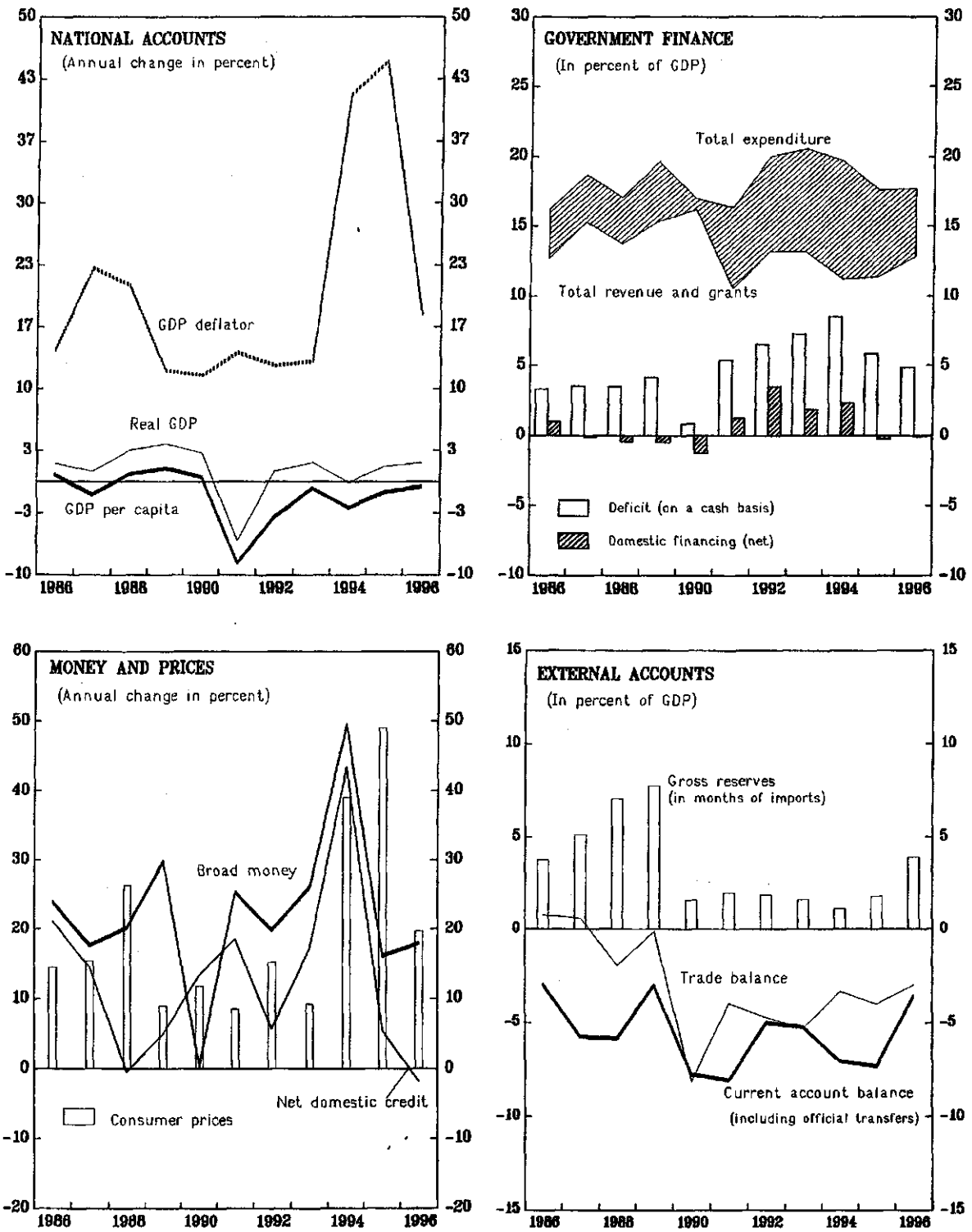
Figure 1.
MADAGASCAR
REAL SECTOR INDICATORS, 1970-96



Sources: IFS data; and Fund staff estimates.

Figure 2.

MADAGASCAR
MAIN ECONOMIC INDICATORS, 1986-96



Sources: Malagasy authorities; and Fund staff estimates.

4. This record of stabilization was established notwithstanding mounting political instability. The latter, however, slowed the process of structural reforms, eroded private sector confidence, and culminated in the impeachment of the president in September 1996. In these circumstances, gross domestic investment remained at about 11 percent of GDP, and economic growth was, at 2.1 percent, insufficient to improve real per capita income.

5. Madagascar's challenge for the years to come is to maintain macroeconomic stability and create an economic environment conducive to higher levels of investment and private sector development. To this effect, the authorities embarked at the end of 1996 on a new structural adjustment program that is supported by the donor community.² The program aims to consolidate the progress achieved in stabilizing the economy and liberalizing the external sector; meanwhile, important structural reforms will be initiated in the areas of civil service,³ the restructuring of public banks, and privatization. Moreover, the conclusion of the presidential elections in early 1997 offers an opportunity for a new era of political normalization and stability. These developments could foster private sector development and strengthen international investors' confidence if underpinned by the implementation of strong structural reforms, further liberalization of the economy, and prudent financial policies.

A. Economic Developments and Policies in 1989-95

6. The structural adjustment program that was undertaken by the authorities in 1989-90 and supported by a three-year arrangement under the Fund's Enhanced Structural Adjustment Facility (ESAF) was successful in achieving a temporary increase in real GDP per capita. However, progress under the program was abruptly interrupted in 1991 when civilian unrest resulted in a political and economic crisis and the resurgence of macroeconomic imbalances. The budget deficit (on a commitment basis and including grants) widened to 5.5 percent of GDP in 1991 from 0.7 percent of GDP in 1990, owing to weak tax collections; and broad money growth reached 25 percent.⁴ The external current account balance deteriorated, while external payments arrears accumulated and gross official reserves declined to 1.2 weeks of imports of goods and nonfactor services, despite a devaluation of the official exchange rate by nearly 20 percent. Economic activity was also severely affected, real GDP declined by

²The IMF approved a three-year arrangement under the Enhanced Structural Adjustment Facility (ESAF) for an amount equivalent to SDR 81 million on November 27, 1996; the World Bank approved a structural adjustment credit (SAC) of US\$70 million on March 14, 1997; and the African Development Bank resumed its lending activities in early 1997.

³Chapter III reviews the characteristics of the civil service in Madagascar and presents a discussion of the issues in civil service reform.

⁴Inflationary pressures were subdued through price and other controls so that the rate of the consumer price index (CPI) increase did not exceed 10 percent at the end of December 1991 and 20 percent at the end of December 1992.

6.3 percent, investment was reduced by one-half (to 8.2 percent of GDP), and national savings fell to nil.

7. Attempts to revive the economy gathered momentum in the wake of the promulgation of the third Constitution in September 1992 and the election of President Zafy in April 1993. The new government embarked on a program of national reconstruction and prepared in early 1994 a medium-term policy statement calling for the liberalization of the economy, the reform of the investment code, and the privatization of public enterprises. Accordingly, a sweeping reform of the exchange and trade system was implemented in May 1994, and new statutes of the Central Bank of Madagascar were approved by Parliament to establish its independence in June 1994.⁵ The Malagasy franc was floated in the context of an interbank foreign exchange market, prices of petroleum products increased sharply (twofold for regular gasoline), customs duties were reduced, quantitative import restrictions were removed, and limits on payments for invisibles transactions were increased. As a result, the Malagasy franc depreciated by some 40 percent in SDR terms, and the parallel exchange market virtually disappeared.

8. The liberalization of the exchange system was not supported, however, by a sufficient tightening of financial policies, and gradually the reform effort began to lose public support.⁶ In an attempt to dampen inflation, the government chose to forgo taxation of foodstuff and petroleum products, and the budget deficit (on a commitment basis and including grants) widened in 1994 by 1.2 percent of GDP to 8.4 percent of GDP. The cumulative impact of domestic bank financing of the budget during the period 1992–94 accounted for nearly one-third of the 87 percent growth in broad money over the same period. This monetary overhang, together with the depreciation of the currency and the impact of adverse weather conditions on various crops,⁷ resulted in a surge of inflation to 61 percent over the 12-month period ended December 1994. These policies and the poor performance of the agricultural sector in 1994 stalled the economic recovery, and no growth was recorded.⁸ The external sector position remained precarious, despite an improvement of 20 percent in the terms of trade

⁵The primary objective of the central bank is to ensure external and domestic stability of the currency.

⁶The credibility of the reform program was also challenged by the central bank's attempts to raise parallel financing by placing large amounts of promissory notes on nonconcessional terms in the international market. In the event, no drawing was made, but large fees were paid.

⁷A cyclone destroyed part of the paddy crop in January 1994 and caused a surge in rice prices and imports.

⁸As a result, real GDP grew at only an annual average rate of 1.1 percent over the period 1991–94.

(owing to higher international prices of coffee) and the depreciation of the Malagasy franc. As large amounts of rice had to be imported, the current account deficit (including official grants) reached 7.3 percent of GDP, and external payments arrears accumulated to SDR 1.1 billion at end-1994.

9. In early 1995, the economic policy focus shifted toward price stabilization and further liberalization of the exchange system. The central bank, under new management, tightened significantly the monetary conditions throughout the year and began implementing a comprehensive reform of monetary policy. The central bank relied increasingly on indirect instruments of credit control to mop up the excess liquidity in the banking system. The reduction in liquidity, effected mainly through increased reserve requirements, was accompanied by rising interest rates. The base rate of the central bank was raised to 33 percent at end-April 1995 from 24 percent at end-December 1994, and the average refinancing cost for commercial banks increased sharply, leading to higher lending interest rates throughout the banking system. Consequently, credit growth to the private sector slowed sharply to 15 percent in 1995 from 26 percent in 1994, and the authorities suspended at end-1995 the administrative ceilings on bank credit, which had been rendered ineffective by the move toward indirect instruments of monetary control.

10. While credit growth to the private sector declined, net bank credit to the government was reduced by 3 percent to 6.0 percentage points of GDP at end-1995.⁹ These developments contributed to limiting the growth of net domestic assets to 5.5 percent of beginning-of-period broad money stock. However, the central bank intervened in the foreign exchange market and accumulated foreign reserves to limit the appreciation of the exchange rate in the last quarter of 1995 when market sentiment changed abruptly.¹⁰ As a result, broad money growth slowed to only 16 percent at end-1995 from almost 50 percent at end-1994.

11. The 1995 fiscal stance complemented monetary policy in controlling inflation. The budget deficit (on a commitment basis and including grants) was reduced to 6.2 percent of GDP, and a net repayment of about 0.4 percent of GDP in domestic bank credit was made. However, revenue performance was disappointing, and the fiscal adjustment was achieved through further cuts in primary expenditure, from 14.4 percent of GDP in 1994 to 12.4 percent of GDP in 1995. Total revenue increased only by 0.2 percent of GDP to 8.5 percent of GDP despite the elimination of some ad hoc tax exemptions and sharp increases in taxes on petroleum products.

⁹The rate of central bank advances to the treasury was raised to the level of the base rate, and the treasury was compelled to increase the interest rates on its bills (to 38 percent in early 1996) to ensure commercial bank subscription of treasury bills.

¹⁰The real exchange rate depreciated, nevertheless, by about 9 percent in 1995 with respect to the average 1994 level.

12. The tightening of financial policies and the improvement in monetary management in 1995 were key to achieving a deceleration of inflation to 37 percent over the 12-month period ended December 1995. Moreover, the external current account deficit (excluding official grants) improved slightly to 10.5 percent of GDP from 10.9 percent of GDP in 1994, and the central bank increased its net official reserves further to the equivalent of 5.9 weeks of imports of goods and nonfactor services.¹¹ Progress in macroeconomic stabilization and the return of normal weather conditions benefited economic activities, and economic growth resumed in 1995, reaching 1.7 percent for the year as a whole.

13. The progress achieved in financial stabilization in 1995 occurred, however, against a background of political uncertainties and some policy reversals that delayed further the restoration of investor confidence. Calls for intensified controls or restrictions on the activities of foreigners (including the passage of a bill barring them from owning real estate), renewed monitoring of trade margins, government intervention in the marketing of rice, and inconsistent policy stances at times created substantial doubt in the public mind regarding the continuation of the liberalization process.

B. Economic Developments and Policies in 1996

14. Political instability continued in 1996, culminating in the impeachment of President Zafy in September 1996. Admiral Didier Ratsiraka, who had been president during the period 1975-93, was reelected president by a narrow margin in January 1997. Despite persisting political uncertainties, prudent financial policies were maintained in 1996. Progress was also made in structural reforms, particularly the liberalization of current account transactions, the modernization of monetary management and banking sector regulations, and the rehabilitation of public banks. These policies contributed to bringing inflation firmly under control by end-1996, and the resumption of economic activities continued, with growth reaching 2.1 percent in 1996. External sector developments were also quite favorable, as exports of goods and services were higher than anticipated. The external current account deficit (including official grants) declined to an estimated 3.6 percent of GDP; the capital account balance switched from a deficit to a surplus equivalent to 0.4 percent of GDP; and gross official reserves increased to the equivalent of 12.6 weeks of imports of goods and nonfactor services at end-1996.

Real sector¹²

15. The rate of economic recovery, while gathering momentum since 1995, remained insufficient for real per capita GDP to increase in 1996. Despite favorable weather conditions,

¹¹External payments arrears continued, however, accumulating to SDR 1,285 million.

¹²The absence of reliable data on private employment and wages since 1993 prevents an analysis of labor markets and unemployment in Madagascar.

the primary sector grew by only 2.5 percent, compared with 1.9 percent in 1995, because of the stagnating output of cash crops (Table 2). The good performance of the food-processing, mining, and tobacco industries led to a further recovery of the secondary sector, but the growth rate of the sector did not exceed 2.0 percent in 1996, as other industries remained affected by problems of low aggregate demand and obsolete equipment. Growth in the tertiary sector picked up slightly to 1.9 percent, compared with 1.5 percent in 1995, and was led by the telecommunications, transportation, and construction sectors. The increased supply of key agricultural products, such as rice, and greater competition under conditions of tight financial policies and weak aggregate demand reduced inflationary pressures to 8.3 percent over the 12-month period ended December 1996.

16. The progress in financial stabilization in 1996 was accompanied by an improvement in the domestic savings-investment balance, the deficit of which declined to 5.4 percent of GDP from 8.1 percent of GDP in 1995. This outcome reflected mainly an increase in domestic savings, as total investment increased marginally from 10.9 percent of GDP in 1995 to 11.1 percent in 1996. Private sector investment was affected by political uncertainties and fell slightly, but public investment more than compensated for this decline.¹³ Most of the recovery in domestic savings (from 2.8 percent of GDP in 1995 to 5.7 percent of GDP in 1996) was due to the private sector's response to emerging positive real interest rates. Central government domestic savings increased slightly to 2.0 percent of GDP, mainly reflecting a freeze on current expenditure in the last quarter of 1996. Overall, the private sector savings-investment deficit declined from 4.0 percent of GDP in 1995 to 0.6 percent of GDP in 1996 as a result of higher savings. At the same time, the government savings-investment deficit increased from 4.1 percent of GDP in 1995 to 4.8 percent of GDP in 1996, owing to higher investment.

17. The Malagasy economy remains highly vulnerable to external shocks, in particular adverse weather conditions. Notwithstanding some diversification (mainly shellfish and re-exports) over the period 1990-95, the primary sector accounts for about 40 percent of GDP at factor cost; and 31 percent of merchandise exports (in SDR terms) stem from traditional agricultural production (coffee, vanilla, cloves, and pepper).¹⁴ Reducing this vulnerability of the economy to external shocks through greater diversification and improvements in the

¹³Private investment was also hampered by the uncertainties preceding the abrogation of the investment code in August 1996.

¹⁴The substantial decline in traditional exports in 1996 to 19 percent of exports—and, hence, in the income of the agricultural sector—resulted from sharp declines in international prices of vanilla and coffee.

Table 2. Madagascar: Growth and Structure of GDP, 1990-96

	1990	1991	1992	1993	1994	1995	1996 Prel.
(In billions of Malagasy francs at 1984 prices)							
GDP at market prices	1,963.1	1,839.3	1,861.0	1,900.1	1,899.3	1,931.2	1,971.2
GDP at factor costs	1,735.5	1,675.1	1,692.9	1,738.7	1,737.7	1,767.1	1,805.2
Agriculture	623.6	626.8	637.5	658.0	655.0	667.3	683.8
Industry	219.9	219.1	216.8	223.8	221.5	225.4	229.9
Services	925.8	854.3	863.9	882.3	892.7	906.4	924.0
Non imputed charges	-33.8	-25.1	-25.2	-25.4	-31.5	-32.0	-32.5
Indirect taxes	227.6	164.2	168.1	161.4	161.6	164.1	166.0
(Annual change in percent at 1984 prices)							
GDP at market prices	3.1	-6.3	1.2	2.1	0.0	1.7	2.1
GDP at factor costs	2.7	-3.5	1.1	2.7	-0.1	1.7	2.2
Agriculture	2.1	0.5	1.7	3.2	-0.5	1.9	2.5
Industry	-0.6	-0.4	-1.0	3.2	-1.0	1.8	2.0
Services	3.9	-7.7	1.1	2.1	1.2	1.5	1.9
Real GDP per capita	0.5	-8.7	-3.8	-0.7	-2.8	-1.1	-0.5
GDP deflator	11.5	13.9	12.5	13.0	41.6	45.2	18.1
(In percent of GDP at current market prices)							
Agriculture	29.5	30.7	30.9	31.6	36.6	30.5	29.5
Industry	13.0	13.2	12.8	12.9	12.7	12.7	12.6
Services	50.2	50.4	50.2	49.9	46.0	51.1	52.2
Of which							
Public sector 1/	5.3	5.9	5.5	5.3	4.6	4.3	4.0
Indirect taxes	8.8	6.9	7.3	6.7	6.1	7.1	6.9
Non imputed charges	-1.4	-1.2	-1.2	-1.2	-1.4	-1.4	-1.2
Net imports of goods and nonfactor services	11.0	8.9	8.3	9.3	7.8	8.1	5.4
Total available resources	<u>111.0</u>	<u>108.9</u>	<u>108.3</u>	<u>109.3</u>	<u>107.8</u>	<u>108.1</u>	<u>105.4</u>
Consumption	94.0	100.7	97.1	97.9	96.9	97.2	94.3
Of which: public sector 1/	8.0	8.7	8.3	7.9	6.9	6.7	6.3
Gross investment	17.0	8.2	11.3	11.4	10.9	10.9	11.1
Of which: public sector 1/	6.8	5.1	6.6	7.4	6.4	6.0	6.8
Domestic savings	6.0	-0.8	2.9	2.1	3.1	2.8	5.7
Of which: public sector 1/	3.8	-0.1	-0.6	0.8	0.6	1.9	2.0

Sources: National Institute of Statistics; and Fund staff estimates.

1/ Excluding public enterprises.

agricultural sector will be necessary to achieve higher levels of economic growth.¹⁵ In addition, the level and quality of investment will have to increase substantially to support higher levels of growth. Increased diversification of the economy should help stabilize the incremental capital-output ratio; however, even if this ratio stabilizes in the 3.5–5.0 range (observed over the period 1966–71), investment will have to increase to 21–30 percent of GDP for economic growth to reach 6 percent. As the existing large external debt limits the borrowing capacity of the country, foreign direct investment will be an important venue for increasing investment levels.

Public finance

18. A strict control of the government financial operations helped achieve the objectives of the 1996 budget, which sought further fiscal consolidation and a reduction in the government's net indebtedness to the banking system (Tables 3 and 4; and Figure 3). The authorities' fiscal program targeted a reduction in the budget deficit (on a commitment basis and including grants) from 6.2 percent of GDP in 1995 to 5.4 percent of GDP in 1996. Savings in interest obligations and containment of public expenditure, including a prudent wage and employment policy, were to compensate for the negative impact of further tax reform on tax revenue. In the event, higher-than-envisaged revenue allowed for a reduction of the deficit to 4.9 percent of GDP, meanwhile, larger project grants financed an increase in capital expenditure, and current expenditure was kept in line with the fiscal program. The structure of current expenditure was different, however, from that envisaged, as a reduction in noninterest, nonwage expenditure compensated for higher-than-budgeted interest obligations.¹⁶ Taking into account foreign financing (including the deferment of debt service), the sale of treasury bills outside the banking system, and the nonaccumulation of domestic payments arrears, a reduction of 0.3 percent of GDP in net bank credit to the government was achieved in 1996.

19. Total revenue increased from 8.5 percent of GDP in 1995 to 8.7 percent in 1996 despite a lowering of the value-added tax (VAT) rate from 25 percent to 20 percent and the reduction of the export tax on vanilla from 35 percent to 25 percent. Revenue was boosted by higher revenue of taxes on international trade and income (owing in part to large profits in the banking sector), but the collection of domestic indirect taxes continued to suffer from deficiencies in VAT administration and the postponement of a broadening of the VAT tax base.

¹⁵To the advantage of Madagascar, its government sector is relatively small (6 percent of real GDP at factor cost) and should not have to contract substantially. Higher economic growth rates depend essentially on private sector development and efficiency gains through privatization of public entities.

¹⁶The budgetary outturn in 1996 benefited, nevertheless, from a decline in interest obligations (to 4.7 percent of GDP from 5.1 percent of GDP in 1995), as the effect of the appreciation of the Malagasy franc compensated for an increase in domestic interest payments.

Table 3. Madagascar: Central Government Accounts, 1990-96

(In billions of Malagasy francs)

	1990	1991	1992	1993	1994	1995	1996
Total revenue and grants	753	533	753	864	1,036	1,542	2,091
Total revenue	551	429	557	639	762	1,150	1,407
Budgetary revenue	466	354	504	556	748	1,149	1,405
Of which							
Tax revenue	434	336	484	527	702	1,121	1,374
Extrabudgetary revenue	79	64	43	73	9	0	0
Capital revenue	6	12	11	10	5	1	3
Grants	202	104	195	225	274	392	683
Current grants	67	38	62	59	39	31	116
Project grants	135	66	134	167	235	362	567
Total expenditure	784	806	1121	1,328	1,804	2,374	2,883
Current expenditure	419	480	659	782	1,168	1,523	1,704
Budgetary expenditure	405	473	624	728	1,067	1,498	1,679
Personnel	194	227	239	267	330	444	523
Other noninterest expenditure	141	147	193	203	245	366	397
Foreign interest obligations	48	56	77	203	462	624	629
Domestic interest obligations	22	44	115	55	30	64	131
Extrabudgetary expenditure	14	7	35	55	101	25	25
Capital expenditure	365	325	462	546	636	850	1,180
Domestic financing	124	112	142	181	193	197	284
Foreign financing	241	213	320	365	443	654	895
Overall balance (commitment basis)							
Including grants	-31	-272	-368	(464)	(768)	(832)	(793)
Excluding grants	(233)	(376)	(564)	(689)	(1,042)	(1,224)	(1,476)
Changes in domestic arrears	-8	7	3	(8)	(12)	45	3
Overall balance (cash basis)	-40	-266	-365	(472)	(779)	(787)	(790)
Financing	40	266	365	472	779	787	790
Foreign (net)	97	113	52	52	52	52	52
Drawings	187	290	216	225	217	299	329
Amortization due	-135	-160	-64	(428)	(595)	(795)	(604)
Change in external payment arrears	0	14	18	553	944	1,320	1,080
Exceptional financing 1/	45	61	0	0	0	0	0
Domestic (net)	-58	61	195	122	213	(38)	(15)
Banking system	-59	51	139	134	201	(58)	(47)
Of which							
Central bank	-17	101	395	(45)	156	0	(40)
Nonbanking system	1	9	56	(13)	12	20	32

Sources: Ministries of Finance and Budget; and Fund staff estimates.

1/ Debt relief.

Table 4. Madagascar: Central Government Ratios, 1990-96

(In percent of GDP)

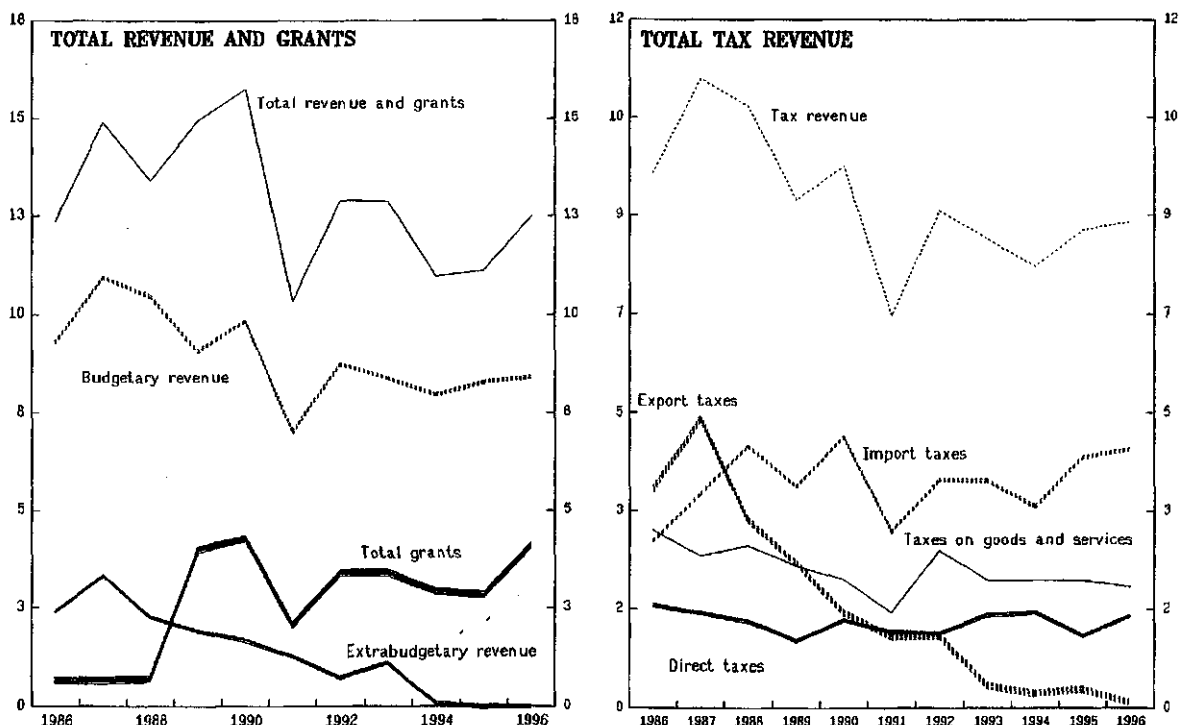
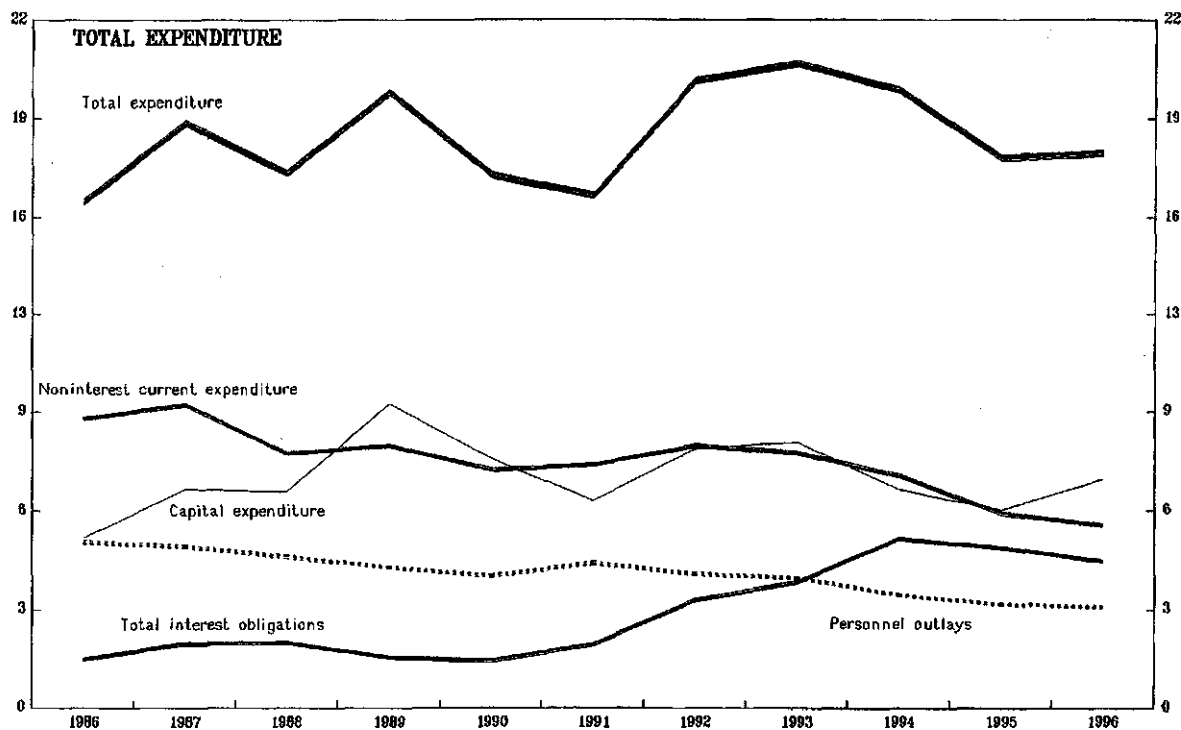
	1990	1991	1992	1993	1994	1995	1996
Revenue and grants	16.4	10.9	13.5	13.4	11.3	11.4	12.9
Total revenue	12.0	8.7	10.0	9.9	8.3	8.5	8.7
Of which							
Tax revenue	9.4	6.8	8.7	8.2	7.7	8.3	8.5
Grants	4.4	2.1	3.5	3.5	3.0	2.9	4.2
Current grants	1.5	0.8	1.1	0.9	0.4	0.2	0.7
Project grants	2.9	1.3	2.4	2.6	2.6	2.7	3.5
Current expenditure 1/	9.1	9.8	11.8	12.1	12.8	11.3	10.5
Non-interest expenditure	7.6	7.8	8.4	8.1	7.4	6.2	5.8
Personnel	4.2	4.6	4.3	4.1	3.6	3.3	3.2
Other	3.4	3.1	4.1	4.0	3.8	2.9	2.6
Interest obligations	1.5	2.0	3.4	4.0	5.4	5.1	4.7
Capital expenditure	7.9	6.6	8.3	8.5	7.0	6.3	7.3
Primary balance 2/	0.8	-3.5	-3.2	-3.2	-3.0	-1.1	-0.2
Overall balance (commitment basis)							
Including grants	-0.7	-5.5	-6.6	-7.2	-8.4	-6.2	-4.9
Excluding grants	-5.1	-7.7	-10.1	-10.7	-11.4	-9.1	-9.1
Change in domestic arrears	-0.2	0.1	0.1	-0.1	-0.1	0.3	0.0
Overall balance (cash basis)	-0.9	-5.4	-6.5	-7.3	-8.5	-5.8	-4.9
Foreign financing	2.1	4.2	3.0	5.4	6.2	6.1	5.0
Drawings minus amortization	1.1	2.6	2.7	-3.1	-4.1	-3.7	-1.7
Change in external arrears	0.0	0.3	0.3	8.6	10.3	9.8	6.6
External debt relief	1.0	1.2	0.0	0.0	0.0	0.0	0.0
Domestic financing	-1.2	1.2	3.5	1.9	2.3	-0.3	-0.1
Banking system	-1.3	1.0	2.5	2.1	2.2	-0.4	-0.3
Nonbanking system	0.0	0.2	1.0	-0.2	0.1	0.1	0.2
Memorandum items:							
Education expenditure	2.4	2.6	2.6	2.4	1.9	2.0	1.7
Health expenditure	1.0	1.0	1.0	1.1	0.9	1.0	1.1
Nominal GDP (in billions of FMG)	4,604	4,914	5,593	6,451	9,131	13,479	16,244

Sources: Ministries of Finance and Budget; and Fund staff estimates.

1/ Including budgetary, extrabudgetary and exceptional expenditures.

2/ Overall balance excluding interest obligations.

MADAGASCAR
MAIN FISCAL INDICATORS, 1986-96
(in percent of GDP)



Sources: Malagasy authorities; and Fund staff estimates.

Notwithstanding the overall improvement in 1996, budgetary revenue remained low compared with the level achieved in 1990 (10.1 percent of GDP). Cuts in international trade taxation—resulting in a drop in revenue from 5.4 percent of GDP in 1990 to 3.6 percent in 1996—were compensated by neither domestic tax initiatives (besides an increase in petroleum taxes) nor a strengthening of the tax and customs administration.¹⁷ Moreover, pervasive tax exemptions have been eroding the tax base, and attempts to scale back exemptions have met with limited success.¹⁸

20. The shortcomings in revenue policy and tax administration have had an adverse impact on the execution and quality of the budgetary expenditure program. In the course of 1996, noninterest current expenditure, particularly in operations and maintenance, had to be restrained below budgeted allocations, while a restrictive wage and public employment policy produced further cuts in real wages and employment.¹⁹ These developments prolonged the shrinking of noninterest current expenditure, which fell from a ratio of 8.4 percent of GDP in 1992 to a ratio of 5.8 percent of GDP in 1996. This erosion in current spending has impaired the quality of public services and undermined efforts to strengthen public administration. By contrast, the investment program was executed as budgeted and benefited from a rise in project grants in 1996. Investment expenditure increased to 7.3 percent of GDP in 1996, but in relation to GDP it was still below the levels attained in 1992–93.

21. The expenditure program was executed in 1996 to the detriment of social sector spending. On the one hand, total expenditure on health was cut by 0.3 percent of GDP to 1.7 percent of GDP in 1996; capital expenditure on social and community services was reduced by 0.4 percent of GDP to 0.1 percent of GDP; and current spending on primary and secondary education was scaled back by 0.2 percent of GDP to 0.9 percent of GDP. Similarly, total spending on the economic sectors, excluding public works and agriculture, was lowered by 1.2 percent of GDP to 0.7 percent of GDP. On the other hand, expenditure on general public services, including defense and security, increased substantially from 2.9 percent of GDP in 1995 to 4.3 percent of GDP in 1996. Fiscal adjustment to the detriment of the social sectors is not sustainable in Madagascar, and improvement in the quality and functional allocation of expenditure will be essential to address the pervasive poverty in Madagascar.

¹⁷Taxes on petroleum products increased from 0.1 percent of GDP in 1990 to 1.0 percent of GDP in 1996.

¹⁸In fact, many tax incentives that were granted under the investment code abrogated in August 1996 have now been introduced in the tax code, including income tax credits for investment (up to 50 percent of corporate investment in a given year).

¹⁹Noninterest current expenditure was essentially frozen in the final months of 1996, and expenditure on goods and services was reduced from 1.6 percent of GDP in 1995 to 1.1 percent of GDP in 1996.

Financial sector

22. The financial stabilization that started in the second half of 1995 continued in 1996. Inflation was brought further under control, and the exchange rate remained stable within a narrow range for most of the year (FMG 771–FMG 822 per French franc). Monetary policy remained very tight in the first half of 1996, resulting in a sharp decline of inflation (from 37.3 percent in the 12-month period ended December 1995 to 16.4 percent and 8.3 percent in July and December 1996, respectively) and the restoration of positive real interest rates. With inflation under control, and with a view to promoting economic growth, the central bank started to loosen its monetary stance progressively in the second half of 1996. It reduced progressively its base rate from 33 percent at end-1995 to 17 percent in October 1996 and lowered the reserve requirement on deposits in Malagasy francs from 25 percent to 20 percent in November 1996.

23. The central bank's policy of mopping up excess liquidity in the first half of 1996 delayed the downward pressures on the banking sector interest rates exerted by the reductions in the central bank base rate and inflation; as a result, real interest rates were highly positive throughout 1996. Despite the reduction in the central bank base rate, the rate achieved in the central bank's reverse auctions of funds lagged behind the decline in other interest rates, thereby triggering the central bank's decision to limit these auction operations and leaving commercial banks with relatively large unremunerated reserve deposits. As banks remained fairly liquid, they increased their subscription of treasury bills, the interest rates of which declined to about 16 percent in December 1996. The prevalence of high interest rates in the banking sector and the expectations of a stable exchange rate favored the early conversion of export proceeds and led to capital inflows into deposit accounts denominated in Malagasy francs, as well as to recourse to self- or foreign financing (instead of domestic bank credit).

24. Given the widening differential between domestic and foreign real interest rates, export companies began to borrow abroad, and changes in the leads and lags associated with the settlement of current account transactions resulted in capital inflows. These inflows, together with a stronger-than-anticipated export performance and a higher-than-envisaged demand for money reflecting a change of sentiment in favor of the Malagasy franc, exerted appreciation pressures on the Malagasy franc. In the circumstances, the central bank sought to dampen the appreciation and intervened in the foreign exchange market, particularly in the third and fourth quarters of 1996. The situation was temporarily reversed in mid-November, when the exchange rate, which had generally remained in the vicinity of FMG 790 per French franc,²⁰ depreciated by nearly 4 percent to FMG 820 per French franc in November and December 1996, without much intervention by the central bank. Overall, the net foreign assets of the central bank increased by some SDR 94 million while the commercial banks' external

²⁰The exception is the short period of appreciation to about FMG 770 per French franc in March–May 1996.

position declined by SDR 25 million, and the net foreign assets of the banking system increased by 23 percent of beginning-of-period money stock.

25. As net credit to the government contracted and credit to the economy expanded very little, net domestic assets of the banking sector declined slightly in 1996. The limited increase in credit to the economy reflected a slowdown in credit demand, mainly for investment, as well as a more rigorous credit policy stance adopted by the banking sector, in particular the two public banks.²¹ Given the higher cost of their financial resources (Box 1 and Table 5), the banks strengthened their evaluation procedures for new credit and reviewed their loan portfolios in order to reduce their exposure to bad loans and increase compliance with prudential regulations (Box 2).²²

Box 1. Banking Sector Profitability, 1994–96

Net bank earnings almost tripled in 1994 and remained high in 1995–96, owing to high earnings on transactions in the foreign exchange market, as well as interest on credit. The increase in earnings in 1994 resulted mainly from exchange valuation gains and transaction fees on the interbank foreign exchange market established in May 1994. With the central bank tightening monetary policy, nominal interest rates went up sharply in the second quarter of 1995 and remained high in 1995–96. As a result, average earnings on performing loans rose from 19 percent of credit outstanding in 1994 to 25.6 percent in 1996; meanwhile, the margin of intermediation of banks increased from 12.9 percent to 19.4 percent.

In this overall favorable context, public banks were able to mitigate the adverse effects of their nonperforming loan portfolios. Mainly because of their write-off of nonperforming loans for an amount of FMG 144 billion (13 percent of their credit portfolios in 1994–95), the two public banks accumulated losses of FMG 225 billion in 1994 and 1995. At end-1995, nonperforming loans still accounted for about 55 percent of the gross portfolio of the public banks, and some 85 percent of the nonperforming, nonprovisioned loans were owned by public banks. Nevertheless, the earnings and liquidity of public banks markedly improved in 1996. Public banks attracted deposits by paying competitive interest rates in order to meet reserve requirements and to avoid paying to the central bank heavy penalties on reserve deficiencies.

²¹At end-1995, expatriate administrators were appointed to take over the management of both public banks, the National Bank for Rural Development (BTM) and the National Bank of Commerce (BFV).

²²Provisions for nonperforming credit were increased by FMG 127 billion in 1996.

Box 2. Prudential Banking Regulations in Madagascar

Prudential rules in Madagascar were updated in 1994-96 in line with international banking norms, while taking into account the level of development of the Malagasy banking system. The main provisions are the following:

- **Minimum capital requirements.** The minimum capital requirement has remained unchanged since 1988, with a threshold set at FMG 1 billion. A proposal to increase the minimum requirement to FMG 8 billion, except for savings and loan unions (for which a substantially lower minimum would be required), has been submitted to the government.
- **Solvency ratio.** In 1994, banks were required to maintain net capital as a ratio of risk-based assets (the risk factor is generally assumed to be equal to 20 percent of the asset). The ratio, initially set at 6 percent, was raised to 8 percent in April 1997.
- **Distribution of risks.** Since 1994, loans to one single customer should not exceed 40 percent of the net capital of the bank. Furthermore, the sum of the liabilities that exceed 25 percent of the net capital should not be larger than ten times the net capital of the bank.
- **Foreign exchange cover ratio.** The net external position of banks, defined as the short- and long-term assets minus the short- and long-term liabilities in foreign currencies, should not exceed 40 percent of the net capital of the bank. In addition, the net external position in a single foreign currency should not exceed 25 percent of the bank's net capital.

In addition to Malagasy regulations, a bank with majority ownership by a French bank is subject to additional prudential constraints in France and has to constitute provisions on government paper, as Madagascar's creditworthiness is rated as poor. Provisions, however, are required only for treasury bonds with a maturity of 18 months or more.

Source: Banking and Financial Supervision Commission.

Table 5. Madagascar: Profitability of Banks, 1992-96

(In millions of Malagasy francs)

	1992	1993	1994	1995	1996 Prel.
1. Margin on treasury and financial operations	4,762	14,460	21,605	-24,327	56,619
Gain (including short-term placements)	15,881	20,563	44,280	66,976	88,882
Cost (including refinancing and penalties)	11,119	6,103	22,675	91,303	32,263
2. Margin on operations with customers	70,603	50,244	82,768	147,404	111,542
Gain (interest received on loans)	138,646	137,237	177,537	249,042	250,191
Cost (interest paid on deposits)	68,043	86,993	94,769	101,638	138,649
3. Margin on other operations	34,331	31,744	164,164	145,380	128,964
Gain	38,174	35,529	180,530	173,116	142,431
of which: gain on foreign exchange operations	9,027	3,251	124,562	66,401	48,052
Cost	3,843	3,785	16,366	27,736	13,467
of which: cost on foreign exchange operations	1,412	432	10,404	23,962	8,996
4. Net banking earnings (1)+(2)+(3)	109,696	96,448	268,537	268,457	297,125
5. Other gains	1,845	2,122	3,465	6,170	7,276
6. Total net banking earnings (4)+(5)	111,541	98,570	272,002	274,627	304,401
7. Operating cost	52,612	57,233	79,816	114,240	132,106
Staff	24,010	27,698	38,545	57,020	66,868
Overhead	28,602	29,535	41,271	57,220	65,238
8. Amortization	10,498	12,748	11,645	14,606	14,212
9. Total cost (7)+(8)	63,110	69,981	91,461	128,846	146,318
10. Net earnings balance (6)-(9)	48,431	28,589	180,541	145,781	158,083
11. Net provisions on nonperforming portfolio	45,245	58,036	78,317	178,626	12,926
12. Other provisions	4,070	-1,237	51,712	-393	-632
13. Other profit and losses	-13,979	6,823	-6,772	-3,528	-4,069
14. Corporate tax	8,388	3,955	41,415	44,493	52,782
15. Net balance (10)-(11)-(12)+(13)-(14)	-23,251	-25,342	2,325	-80,473	88,938
Memorandum item:					
Ratio of operating costs to total earnings (9)/(6) (in percent)	56.6	71.0	33.6	46.9	48.1

Source: Banking Supervision Commission - Annual Reports.

26. The improvement in the net foreign assets of the banking sector led to a large increase in broad money in the second half of 1996. After a gradual resorption in the preceding two years, the liquidity of the banking system increased quickly after June 1996 to reach in December its highest level in 18 months. For the year as a whole, broad money (M3) growth reached 18 percent in 1996 (Table 6 and Figure 4). Similarly, net domestic assets of the central bank declined by 1.5 percent in 1996, but, as central bank net foreign assets increased nearly threefold, the monetary base grew by some 48 percent in 1996.

27. Monetary stabilization was supported by institutional changes in monetary policy instruments and in bank supervision. Following the elimination of all credit ceilings at end-1995, monetary management relied on indirect policy instruments (Box 3). As a result, the increased determination of the interest rates by money market conditions helped restore confidence in the effectiveness of monetary policy and the ability of the central bank to rein in inflation. With regard to bank supervision, a new banking act was passed in early 1996 that (a) established a new supervisory agency, the Banking and Financial Supervision Commission (CSBF), and endowed it with all the attributes of an independent authority; (b) extended the scope of banking activities to cover deposit banks, offshore banks, specialized banks (mainly development banks), savings and loans unions, and nonbank financial institutions; and (c) made banking regulations conform with international norms while taking into account the features of an emerging banking sector.²³ Enhanced bank supervision was an important factor in restoring financial discipline and improving the liquidity of the public banks. This greater liquidity facilitated the implementation of monetary policy, which otherwise would have been constrained by the need not to aggravate the situation of the ailing public banks.

External sector

Balance of payments

28. Madagascar's overall external position strengthened significantly in 1996 (Table 7 and Figure 5). The external current account deficit (including official transfers) declined to the equivalent of 3.6 percent of GDP (from 7.3 percent of GDP in 1995), and the capital account registered a surplus for the first time since 1988.

²³The CSBF's supervision of the activities and organization of savings and loans unions was adapted to these microstructures by additional legislation passed in September 1996.

Table 6. Madagascar: Summary Accounts of the Banking System, 1990-1996

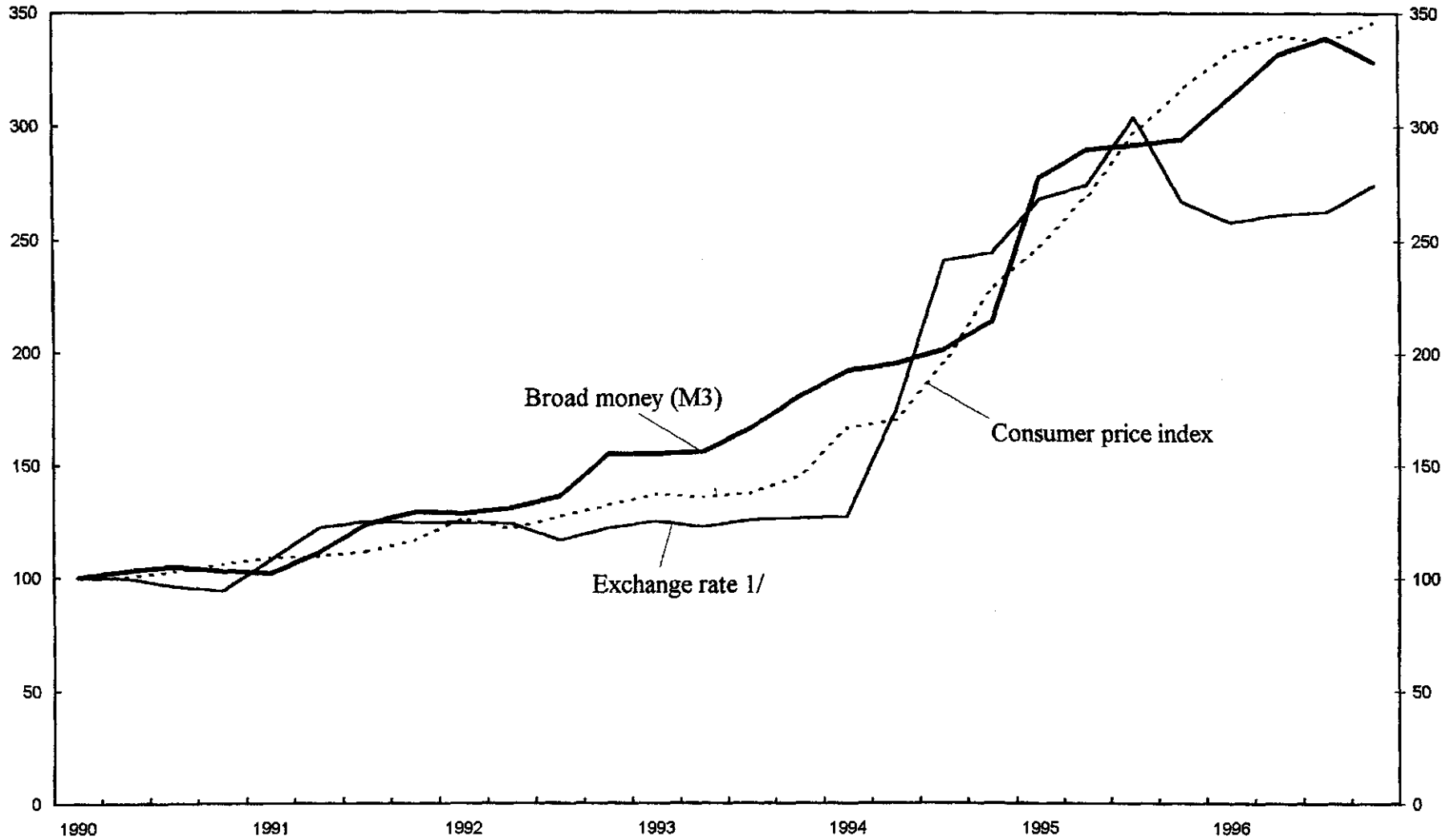
	1990	1991	1992 1/		1993	1994 2/		1995	1996
			Before Adjust.	After Adjust.		Before Adjust.	After Adjust.		
(In billions of Malagasy francs, end of period)									
Net external assets	178	27	-398	274	350	701	703	865	1,491
Central bank	112	-103	-561	112	136	219	224	360	1,029
Commercial banks	67	130	162	162	214	482	479	505	462
Long term external liabilities	-2,195	-2,651	-2,336	-276	-242	-462	-499	-411	-502
Net domestic assets	2,842	3,659	3,418	1,242	1,457	2,082	2,136	2,264	2,215
Net credit to government	251	309	448	683	825	1,032	837	811	779
Net claims to government	241	292	432	667	806	1,007	818	775	730
Central bank	292	393	553	788	743	899	710	726	687
Commercial banks	-52	-101	-121	-121	63	108	108	49	43
Other claims	11	17	17	17	20	25	19	36	49
Credit to the economy	778	875	938	938	1,080	1,356	1,356	1,564	1,599
Central bank	21	22	9	9	8	7	12	13	14
Commercial banks	745	847	919	919	1,062	1,339	1,335	1,541	1,572
Other claims	12	6	9	9	10	10	10	10	13
Other items net	1,812	2,476	2,032	-379	-448	-307	-58	-111	-163
Foreign currency adjustment	1,490	2,087	1,936	0	10	211	309	356	362
Central bank	447	627	347	-128	-191	-200	-4	-67	-10
Commercial banks	-125	-239	-250	-250	-267	-318	-363	-400	-516
Broad money	825	1,035	1,240	1,240	1,565	2,321	2,339	2,717	3,204
Money supply	589	768	915	915	1,038	1,599	1,601	1,842	2,180
Currency	215	287	317	317	379	599	615	759	831
Demand deposits	374	481	598	598	659	1,000	986	1,084	1,349
Quasi-money	237	267	325	325	508	505	465	531	644
Resident deposits in foreign currencies	0	0	0	0	19	218	231	285	285
Short-term obligations	0	0	0	0	0	0	43	59	95
(In percent of beginning-of-period money stock, unless otherwise indicated)									
Net external assets	-24.7	-18.3	-41.1	23.9	6.1	22.5	22.5	6.9	23.0
Central bank	-21.5	-26.1	-44.2	20.8	1.9	5.3	5.6	5.8	24.6
Commercial bank	-2.2	7.7	3.1	3.1	4.1	17.2	17.0	1.1	-1.6
Long term external liabilities	-4.2	-55.3	30.4	229.5	2.8	-14.1	-16.4	3.7	-3.3
Net domestic assets	35.3	99.0	-23.2	-233.5	17.3	39.9	43.3	5.5	-1.8
Net credit to government	-7.4	7.0	13.5	36.2	11.4	13.2	0.8	-1.1	-1.2
Credit to the economy	20.8	11.7	6.1	6.1	11.4	17.7	17.7	8.9	1.3
Annual increase in percent	27.9	12.4	7.3	7.3	15.1	25.6	25.6	15.3	2.3
Other items net	15.9	80.4	-42.9	-275.9	-5.5	9.0	24.9	-2.3	-1.9
Broad money	0.3	25.4	19.9	19.9	26.2	48.3	49.5	16.2	17.9
Money supply	-3.0	21.7	14.2	14.2	9.9	35.9	36.0	10.3	12.4
Quasi-money	3.3	3.6	5.7	5.7	14.7	-0.2	-2.7	2.8	4.1

Source: Central Bank of Madagascar.

1/ Break in time series following transfer of external public debt from the Central Bank to the Treasury at end-1992.

2/ Break in time series reflecting mainly revisions in the central bank balance sheet.

Figure 4.
MADAGASCAR
MONEY, PRICES, AND EXCHANGE RATES, 1990-96
 (1990: QI = 100)



Source: Central Bank of Madagascar.

1/ Average exchange rate of the Malagasy franc vis-a-vis the SDR..

Box 3. Reform of Monetary Management in 1995-96

In parallel with measures to liberalize the banking sector, the central bank gradually introduced indirect monetary policy instruments to gain better control of liquidity. The reform steps were as follows:

Reserve Requirements

In view of the large excess reserves in most banks at end-1994, reserve requirements were increased in January 1995 to 25 percent of deposits in local currency. In June 1995, foreign currency deposits were included at an initial rate of 15 percent. To prevent arbitrage, the rate on foreign currency deposits was increased to 20 percent in September 1995. A uniform rate of 20 percent has been applied since November 1996.

Money Market

A money market was organized in early 1995. A central bank base rate (*taux directeur*) was chosen as an anchor to set rates on repurchase agreements, on penalties in case of reserves requirement deficiency, and on advances to the government. In addition, reverse auctions of central bank deposits (*appel d'offres négatif*) were introduced to mop up excess bank liquidity. The central bank rate reached a peak of 33 percent in April 1995 before gradually falling to 17 percent in October 1996.

Credit Controls

Credit controls, including credit ceilings, were removed in December 1995. Deposit and lending rates continued to be set freely by individual banks.

Treasury Bills

The primary market for treasury bills featured weekly auctions open to banks and nonbanks, with maturities varying from seven days to one year. Preparations for strengthening the primary market and opening a secondary market in May 1997 were made in 1996, with a view toward deepening the market and eventually conducting open market operations.

Foreign Exchange

An interbank foreign exchange market, in which the exchange rate is determined by market forces, was established in May 1994. Its functioning was subsequently strengthened by improving market procedures and transparency.

Table 7. Madagascar: Summary Balance of Payments, 1990-96

(In millions of SDRs)

	1990	1991	1992	1993	1994	1995	1996
Trade balance	-183.4	-77.8	-100.2	-127.1	-68.6	-82.9	-82.4
Exports, f.o.b.	234.1	243.9	230.1	237.9	312.4	331.0	350.8
Of which: coffee	28.5	20.5	22.4	29.0	59.9	61.2	47.3
Imports, f.o.b.	-417.5	-321.7	-330.3	-365.0	-381.0	-414.0	-433.2
Of which: rice	-20.5	-8.5	-10.3	-3.4	-26.2	-12.2	-1.6
Services (net)	-167.2	-210.9	-173.1	-193.1	-189.9	-185.8	-167.5
Service receipts	154.0	110.3	125.7	133.9	145.1	165.2	201.8
Service payments	-321.2	-321.2	-298.8	-327.0	-335.0	-351.0	-369.3
Of which: scheduled public interest	-106.0	-134.3	-100.4	-99.0	-99.9	-108.2	-109.4
Private unrequited transfers (net)	56.7	48.8	77.4	81.8	32.1	49.5	59.7
Current account balance, excluding net official transfers	-293.9	-239.9	-195.9	-238.5	-226.5	-219.2	-190.2
Public unrequited transfers (net)	118.4	82.3	89.4	112.2	81.0	67.0	91.0
Current grants	51.6	56.2	38.5	49.8	30.9	11.2	22.6
Project grants	66.8	26.1	50.9	62.4	50.1	55.8	68.4
Current account balance, including net official transfers	-175.5	-157.6	-106.5	-126.3	-145.5	-152.2	-99.2
Capital account	-32.8	-46.6	-99.7	-92.3	-69.6	-36.2	10.1
Public sector (net)	-17.5	-69.0	-75.8	-93.8	-106.6	-93.1	-52.5
Drawings	110.3	131.8	88.2	80.3	52.3	54.9	60.0
Amortization	-129.0	-194.4	-155.8	-163.3	-155.5	-142.8	-106.5
Long-term liabilities (net) 1/	1.2	-6.4	-8.2	-10.8	-3.4	-5.2	-6.0
Private sector (net)	-15.2	22.4	-24.0	1.5	37.0	56.9	62.6
Commercial banks (net)	14.0	-17.4	-11.3	-16.3	-6.7	-14.9	25.3
Direct investment	16.5	10.0	15.0	11.0	4.0	6.4	7.0
Other (incl. errors and omissions)	-45.7	29.8	-27.7	6.8	39.7	65.4	30.3
Overall balance	-208.3	-204.2	-206.3	-218.6	-215.1	-188.4	-89.2
Financing	208.3	204.2	206.3	218.6	215.1	188.4	89.2
Net foreign assets (increase -)	79.6	79.8	-101.7	-13.1	6.7	-39.8	-92.6
Use of Fund credit (net)	-21.8	-12.0	-11.5	-10.1	-8.2	-9.4	1.9
Net repurchases	-34.7	-25.0	-11.5	-7.4	-4.5	-0.6	0.0
SAF/ESAF disbursements	12.8	13.0	0.0	0.0	0.0	0.0	13.6
SAF/ESAF repayments	0.0	0.0	0.0	-2.7	-3.7	-8.8	-11.6
Change in other liabilities	123.1	-2.3	-1.9	-4.4	-1.4	0.6	-0.6
Change in gross assets (increase -)	0.0	2.0	1.3	2.8	15.9	-31.0	-93.9
Change in CBM arrears (increase +)	-21.7	92.1	-89.6	-1.4	0.4	0.0	0.0
Net change in arrears (excl. CBM)	-2.6	76.8	305.2	227.9	208.4	228.2	181.7
Debt relief and cancellation	131.3	47.6	2.8	3.7	0.0	0.0	0.0
Memorandum items:							
External current account / GDP							
Excluding net official transfers	-12.9	-12.3	-9.2	-9.9	-10.9	-10.5	-6.9
Including net official transfers	-7.7	-8.1	-5.0	-5.2	-7.0	-7.3	-3.6
Gross official reserves (In weeks of imports)	64.7 5.4	62.7 6.6	61.4 6.1	58.6 5.2	42.5 3.6	73.7 5.9	167.6 12.6
Scheduled external debt service 2/ 3/	75.3	104.5	79.3	76.1	59.8	54.7	42.2

Source: Central Bank of Madagascar.

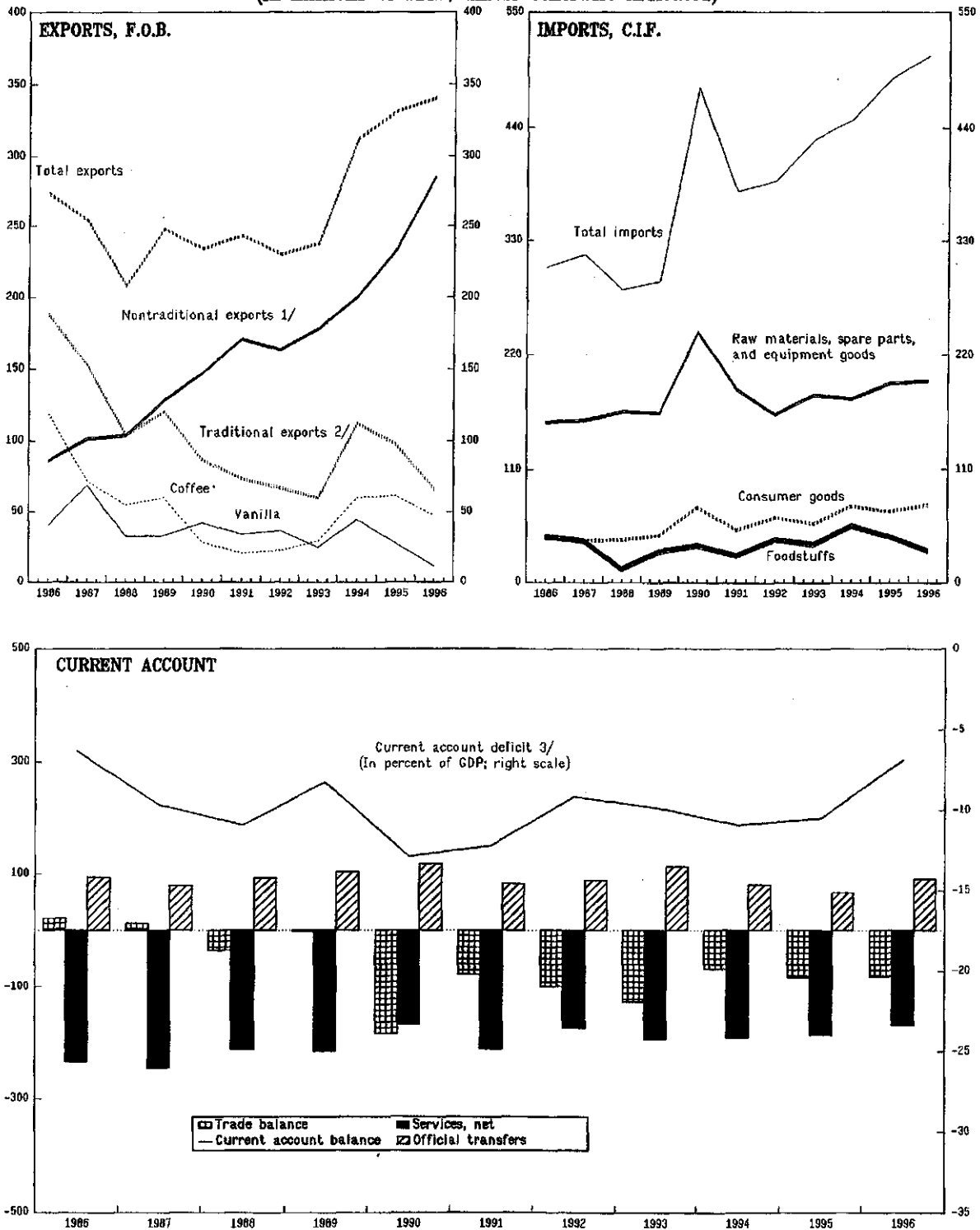
1/ Involves liabilities arising from Madagascar debts bought by certain organizations.

2/ In percent of exports of goods and nonfactor services.

3/ Including obligations to the IMF.

Figure 5.

MADAGASCAR
EXTERNAL SECTOR MAIN INDICATORS, 1986-96
 (In millions of SDRs, unless otherwise indicated)



Source: Central Bank of Madagascar.

1/ As of 1989, including exports from the export processing zone.

2/ Coffee, vanilla, cloves, and pepper.

3/ Excluding official transfers.

Consequently, the deficit of the balance of payments was reduced by one-half to SDR 89 million, or 3.2 percent of GDP. This improvement reflected: a large increase in services receipts, in particular spending by tourists and foreign embassies; larger unrequited transfers, private as well as official; lower external public debt amortization following the payment in 1995 of the last obligations related to the 1984 Paris Club debt relief; and a reduction in the net foreign assets of commercial banks related mainly to the reimbursement of loans to foreign companies. Taking into account a further accumulation of external payments arrears pending a rescheduling with the Paris Club, net foreign assets of the central bank increased to the equivalent of 12.6 weeks of imports of goods and nonfactor services.²⁴

29. However, at SDR 82.4 million in 1996, the trade balance deficit remained at about the same level as in 1995. Although the commodity prices of Madagascar's main traditional exports (vanilla and coffee) declined sharply and the terms of trade fell by some 16 percent in 1996, export volume rose by 18 percent, and receipts of exports grew by 6 percent in SDR terms. The good performance of nontraditional exports and exports of the export processing zone (EPZ), such as shellfish, clothing, vegetables, chromite, and precious stones, compensated for declining receipts of traditional exports despite large increases in export volumes of coffee and vanilla.²⁵ Export performance benefited from the liberalized exchange and trade system, and external competitiveness was broadly maintained as financial stabilization was achieved. At the same time, the growth of imports was limited to 5 percent in SDR terms while import volume declined by 2.3 percent. Declines in imports of raw materials and rice (owing to an excellent harvest, which was sufficient to satisfy domestic demand) accounted for the decline in the overall import volume in 1996, despite the higher imports of the EPZ.

30. The deficit of the services account of the balance of payments improved significantly in 1996. Receipts from exports of services (mainly tourism and spending by foreign embassies) increased by 22.2 percent, reflecting in part Madagascar's improved competitiveness; meanwhile, scheduled interest payments remained at the same level and the growth in other services payments was limited to 7 percent.

31. The capital account moved to a surplus (of SDR 10 million) in 1996 from deficits in earlier years. The surplus was attributed to an increase in the private sector's capital account surplus and a substantially reduced net (scheduled) public sector capital outflow. Disbursements of public sector loans increased marginally (from SDR 55 million in 1995 to

²⁴During 1996, Madagascar accumulated SDR 181.7 million of external arrears on account of external debt-service payments, bringing the stock of external debt arrears at end-1996 to SDR 1,494.8 million. These arrears were partly cleared in 1997 by cash payments and debt relief from Paris Club creditors. Debt relief on the remainder is expected, on comparable terms, from other creditors.

²⁵The institutional setting and evolution of the export processing zone are described in Chapter V.

SDR 60 million in 1996),²⁶ while scheduled amortization of public sector loans dropped sharply in 1996. Scheduled payments on the 1984 Paris Club debt-relief agreement were completed in 1995, and payments under the 1985 and the 1986 Paris Club debt-relief agreements were wound down in 1996. Consequently, net external financing of the public sector increased from a negative SDR 93.1 million in 1995 to a negative SDR 52.5 million in 1996. Net private sector capital inflows increased to SDR 62.6 million in 1996 (from SDR 56.9 million in 1995), mainly because of a reduction in the net foreign assets of commercial banks.

External debt and debt service

32. At end-1996, Madagascar's medium- and long-term external debt outstanding reached SDR 3,113 million, or the equivalent of about 113 percent of GDP (Table 8). Of this amount, 48 percent, or SDR 1,494 million were payments arrears. About 37 percent of the debt outstanding at end-1996 was owed to multilateral creditors, 41 percent to bilateral Paris Club creditors, and 21 percent to other bilateral creditors; the amount owed to the Russian Federation (SDR 364 million) represented about 12 percent of total debt outstanding.

33. Scheduled debt service in 1996 amounted to SDR 231 million, or 42 percent of exports of goods and nonfactor services (compared with SDR 269 million, or 54.7 percent of exports, in 1995). As payments arrears accumulated, cash payments of external debt service represented only about 9 percent of exports of goods and nonfactor services in 1996, compared with 8.3 percent in 1995.

Exchange and trade system

34. During 1996, Madagascar removed all remaining restrictions on payments and transfers for current international transactions, including limits on transfers abroad of dividends, profits, and personal income, and limits on exchange allocations for travel and education abroad. These measures allowed for the convertibility of the Malagasy franc for all current transactions, and consequently Madagascar accepted the obligations of Article VIII of the IMF's Articles of Agreement in September 1996. By end-1996, Madagascar had also eliminated all nontariff barriers on external trade with the exception of a negative list of imports for health and security reasons, prior authorization for imports of flour, and quality control for certain exports; it had also reduced its maximum tariff rate to 30 percent and abolished taxation of exports, except for the export tax on vanilla.²⁷

²⁶The International Development Association is a major creditor, disbursing SDR 47.6 million in 1996.

²⁷Madagascar's trade regime and recent evolution is reviewed in more detail in Chapter IV.

Table 8. Madagascar: External Debt Outstanding, 1990-96

(In millions of SDRs)

	1990	1991	1992	1993	1994	1995	1996
Medium and long-term official debt	2,187.7	2,010.6	1,923.3	1,835.3	1,721.2	1,635.2	1,614.9
Official creditors	1,291.5	1,029.0	923.6	799.1	668.4	562.3	494.8
Paris Club	834.1	770.5	731.9	656.1	574.8	510.1	451.3
Other countries	457.4	258.5	191.8	143.1	93.6	52.2	44.9
<i>Of which</i>							
Arab Funds	...	6.2	8.7	7.3	6.3	5.1	4.5
Russia	...	186.4	145.7	107.7	68.1	30.5	25.0
China	...	28.4	29.0	26.4	17.7	15.5	14.7
International organizations	896.1	981.5	999.7	1,036.1	1,052.8	1,072.8	1,120.1
IMF	101.0	88.7	77.2	67.1	59.2	48.9	50.8
Other	795.1	892.8	922.5	969.1	993.6	1,024.0	1,069.2
<i>Of which</i>							
IBRD/IDA	...	648.7	548.1	578.5	606.2	643.1	697.9
AfDB	...	49.5	44.6	44.4	40.8	35.2	29.8
ADF	...	91.6	112.3	128.7	134.1	131.2	132.0
EU/EIB	...	54.9	59.5	60.6	59.8	62.5	60.6
Private sector	74.3	36.0	53.2	37.7	27.0	17.7	2.8
Commercial Banks	57.2	20.1	40.9	28.2	19.9	13.6	0.7
Other private	17.1	15.9	12.3	9.5	7.0	4.1	2.1
Other debt	18.6	455.0	680.3	904.7	1,094.0	1,285.4	1,494.8
Short-term	18.6	18.6	18.6	18.6	15.4	...	...
External debt arrears	...	436.4	661.7	886.1	1,078.6	1,285.4	1,494.8
<i>Of which</i>							
Paris club	--	96.4	222.3	363.4	523.0	680.5	826.1
Other bilateral creditors	...	336.0	430.4	504.6	523.3	555.3	611.0
Multilaterals	--	--	--	4.3	15.5	31.9	41.8
Total external debt outstanding	2,280.6	2,501.5	2,656.9	2,777.7	2,842.2	2,938.3	3,112.5
<i>Of which</i>							
Medium- and long-term debt	2,262.0	2,482.9	2,638.3	2,759.1	2,826.8	2,938.3	3,112.5
Scheduled debt service payments	284.0	366.9	278.9	281.5	272.5	269.2	230.9
Scheduled interest	117.8	143.8	107.8	104.6	104.7	112.3	110.6
Official creditors	85.0	103.0	61.7	51.4	41.8	35.5	26.7
<i>Of which: Paris Club</i>	71.1	87.7	51.1	41.9	35.4	29.2	25.6
International organizations	22.1	19.4	17.2	15.6	14.9	14.6	14.7
<i>Of which: IMF</i>	8.8	5.9	3.4	2.2	1.1	1.2	1.0
Other 1/	10.8	21.5	28.9	37.6	48.1	62.2	69.2
Scheduled amortization	166.2	223.1	171.1	176.9	167.8	156.8	120.3
Official creditors	104.1	169.8	134.7	140.1	132.0	118.2	81.6
<i>Of which: Paris Club</i>	56.7	103.8	75.0	91.0	93.1	81.7	71.8
International organizations	52.0	41.3	26.9	27.3	26.7	29.2	35.2
<i>Of which: IMF</i>	34.7	25.0	11.5	10.1	8.2	9.4	11.6
Other	10.1	12.0	9.5	9.5	9.1	9.4	3.5
Memorandum items:							
Late interest	0.6	16.4	22.3	32.4	43.2	58.3	67.8
Total external debt (inc. arrears)/ GDP	99.6	126.9	123.8	114.3	136.6	141.1	112.8
Debt service ratio 2/	75.3	104.5	79.3	76.1	59.8	54.7	42.2

Source: Central Bank of Madagascar.

1/ Includes accrued late interest payments.

2/ In percent of exports of goods and nonfactor services.

35. Since 1994, Madagascar's exchange rate policy has left the external value of the Malagasy franc to be determined, in principle, in the interbank market for foreign exchange. However, the central bank intervened in the market in 1996 to prevent a substantial appreciation of the exchange rate. As a result, the appreciation of the Malagasy franc was limited to about 5 percent in nominal terms vis-à-vis the U.S. dollar. In nominal effective terms, the appreciation amounted to about 7 percent, and in real effective terms to 27 percent (Figure 6).

Structural reforms

36. Political instability in 1996 prevented the implementation of a strong program of structural reforms besides the above-mentioned liberalization of the external current account, improvements in banking supervision, and restructuring of the public banks. The modest progress in structural reforms included the following measures: (1) the monopoly situation of the telecommunications company was abrogated; (2) the exit visa for foreign residents and the prerequisite of entrance visas for tourists were abolished; (3) a study was initiated to determine a strategy for liberalizing the distribution sector of petroleum products; and (4) some economic liberalization proceeded in the flour and air transportation sectors. Regarding the vanilla sector, the Malagasy Vanilla Institute was transformed by decree into a trade association free of government intervention in September 1996, and its liquidation was decided in December. Key legislation for the privatization of public enterprises was passed, but no further action was taken in this area before year-end beyond the creation of a privatization committee and a technical secretariat for privatization.

37. It is clear, however, that the implementation of strong structural reforms and further liberalization of the economy will be required for Madagascar to reach high levels of sustainable economic growth. In this regard, privatization of public enterprises, disengagement of the state from private sector activities, reform of the civil service, and strengthening of the banking sector through the restructuring of the public banks are the key elements of the authorities' new structural adjustment program for 1997-99.

II. POVERTY ISSUES

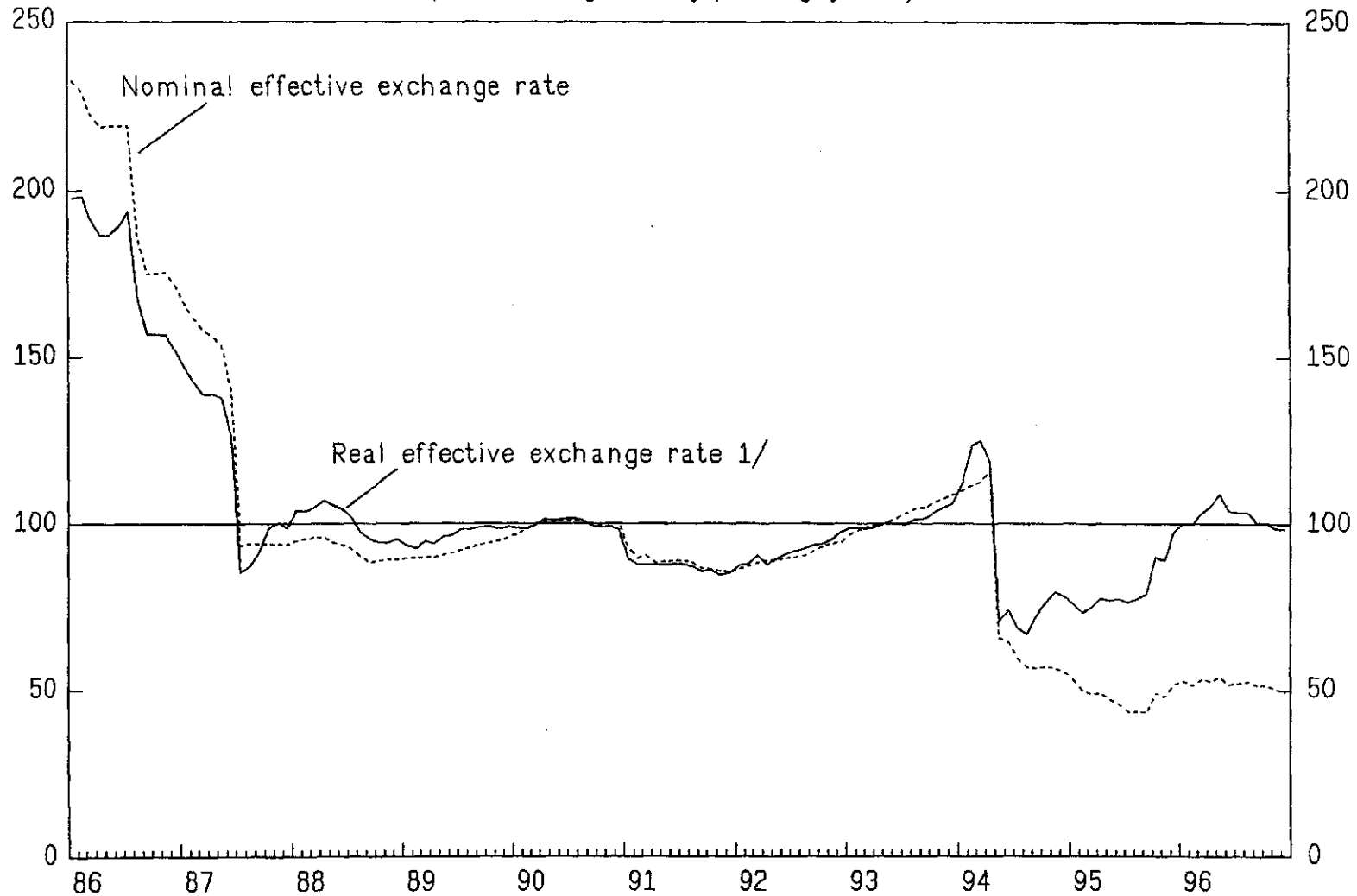
A. Madagascar's Poverty in an International Perspective

38. Madagascar is one of the poorest countries in the world, and the proportion of its population that lives in absolute deprivation is among the highest.

39. Madagascar ranks among the countries with the lowest GDP per capita in the world (US\$230 in 1996). In the early 1990s, an estimated 72 percent of Madagascar's population

FIGURE 6.

MADAGASCAR
SELECTED EXCHANGE RATE INDICES, 1986-96
(1990=100; foreign currency per Malagasy franc)



Source: IMF, Information Notice System.

1/ Trade-weighted index of nominal exchange rate deflated by seasonally adjusted relative consumer prices; an increase (decrease) indicates appreciation (depreciation).

lived in **absolute deprivation**,²⁸ compared with a ratio of 39 percent for sub-Saharan Africa and 32 percent for all developing countries (Table 9). However, as emphasized by the United Nations Development Program (UNDP), low income is only one dimension of poverty, albeit a fundamental one. At the level of individual lives, poverty also manifests itself in the denial of basic opportunities and choices, such as good health, long life, creativity, and integration into the community.

40. A **human poverty index** was calculated by the UNDP in an attempt to measure some of the qualitative dimensions of deprivation, using indicators of life expectancy, malnourishment of children, and access to basic education, health services, and safe water. The index value indicates a weighted combination of proportions of the total population that do not meet the minimum basic needs with respect to the chosen variables.²⁹ According to the human poverty index, **Madagascar ranks 70th out of 78 developing countries**, with about 50 percent of its population not meeting the minimum requirements.³⁰ Madagascar ranks 71st with respect to the US\$1-a-day index. Madagascar's performance is particularly low in terms of access to health services and safe water, adult illiteracy rates, and the proportion of children dropping out of school (Table 9).

²⁸ United Nations Development Program, *Human Development Report 1997* (New York: Oxford University Press for the United Nations Development Program, 1997). Absolute deprivation is measured as the proportion of the population living on less than US\$1 a day, adjusted for purchasing power parity.

²⁹ The variables used are the percentage of people expected to die before age 40, the percentage of adults who are illiterate, the percentage of people without access to health services and safe water, and the percentage of underweight children under age 5. The data refers to the period 1990–1995.

³⁰ As the human poverty index is a composite indicator, it does not refer to a well-defined set of individuals, unlike the head count indicator of income poverty, which is analyzed in the remainder of this section.

Table 9. Madagascar: Poverty Profile

	Survival			Education		Income		
	People not expected to survive to age 40 (% of total population 1990)	Population without access to health services (%; 1990-95)	Population without access to safe water (%; 1990-96)	Adult illiteracy rate (%; 1995)	Children not reaching fifth grade (%; 1990-95)	Real GDP per capita 1/		Population in poverty (%; 1993) 2/
						Poorest 20% (1980-94)	Richest 20% (1980-94)	
All developing countries	18	20	29	30	25	768	6,194	32
Sub-Saharan Africa	32	47	49	42	29	...	...	39
Madagascar	32	62	71	54	72	203	1,750	72

Source: UNDP, Human Development Report, 1997.

1/ In U.S. dollars, adjusted for purchasing power parity.

2/ Proportion living on \$1 a day in 1985 prices, adjusted for purchasing power parity

B. Economic Growth and Poverty

41. There appears to be ample evidence across countries that economic growth reduces poverty by helping poor families increase their income; conversely, in the absence of growth, both poor and nonpoor lose. However, wide variations in the incidence of poverty among countries with similar levels of average per capita consumption show that factors other than GDP growth are at work, notably patterns of income distribution and government policies regarding the provision of public services in health and education.³¹

42. In Madagascar, the two main factors behind widespread poverty are the lack of economic growth since the early 1970s and poor allocation of government expenditures. Low economic growth in the context of a rapidly increasing population has resulted in declining GDP per capita.³²

43. Owing to inadequate policies, Madagascar has not been able to translate its growth potential into actual improvements in income and standards of living. While real GDP per

³¹ The UNDP estimates that, on average, growth explains about one-half of the variation in the incidence of poverty across countries.

³² Population trends are described in the annex to this chapter.

capita grew by a low but positive 0.4 percent a year between 1960 and 1972, inappropriate, inward-looking economic policies resulted in disappointing growth during 1972–83. By 1983, real GDP per capita was 30 percent below its 1972 level. The government's policy of price controls and food subsidies during that period favored urban consumers over rural producers, and poverty increased in the rural areas where the majority of the poor population lives (see below). Real expenditures on health and education were cut, and the quality of social services declined. Starting in 1983, structural adjustment efforts aimed at improving the efficiency of the economy resulted in the resumption of moderate growth of GDP per capita. Trade liberalization, the freeing of prices, and exchange rate adjustment changed the domestic terms of trade of agriculture in favor of rural areas, in particular of rice producers, whereas international prices of traditional export crops such as vanilla began to decline in 1986. The modest income gains achieved in the late 1980s were, however, reversed in the early 1990s, when political disturbances led to a substantial fall in GDP per capita. In response to declining budgetary revenue (as a ratio to GDP) and lower foreign aid, real expenditures on social services and infrastructure were further reduced. The country's infrastructure, in particular roads, deteriorated markedly, cutting off many rural communities and creating local monopoly conditions in spite of the more open overall economy.

44. Stagnation created much hardship for Madagascar's population. Had the economy maintained the moderate growth rate of the 1960s, real GDP would be two-and-one-half times higher today. Reaching that level in ten years will now require sustaining a growth rate of close to 10 percent a year, an extraordinary turnaround.

C. Drawing the Poverty Line in Madagascar

45. The three most recent sources of information about poverty in Madagascar are: (a) the 1996 comprehensive poverty assessment by the World Bank, based mainly on the national household survey carried out between April 1993 and April 1994; (b) a World Bank participatory poverty assessment in 1993; and (c) 1995 regional surveys of rural households by the Madagascar-Dial-Instat-Orstom (MADIO) project of the Malagasy national statistical institute.³³

46. The poverty line, as estimated by the World Bank, is a reference level for absolute poverty, defined as the household's inability to purchase a basket of basic food and nonfood items. The food component of the basket provides a minimum per capita requirement of 2,100

³³ The 1993-94 survey collected data on expenditures and living conditions from over 4,500 households in urban and rural areas of the six Malagasy provinces. The participatory poverty assessment was undertaken in 1993, covering four regions and including interviews of about 2,600 households. The MADIO project, funded by France and the European Union, aims to broaden the macroeconomic statistical database of the planning ministry. In this context, it conducted in 1995 a survey of 2,010 rural households in four regions, focused primarily on agricultural economics but also on social characteristics of rural communities.

calories per day, a level in line with medical research. The food items most often consumed by low-income households were valued by taking into account the prices of local, as well as urban and rural, varieties of foodstuffs. The requirement for spending on basic nonfood items was estimated as the typical nonfood spending of those households that actually reach the minimum required level of food spending. Under this approach, the national poverty line was set at FMG 248,400 per capita a year in 1993 prices.³⁴ The World Bank estimated that about **70 percent of Madagascar's total population was under the poverty threshold.**³⁵ An extreme poverty line was calculated, defined as the capacity to purchase just the 2,100-calorie food basket, meaning that households in this category actually consume less than 2,100 calories a day per person, and can therefore be defined as "food poor." The poverty line for the food poor was FMG 194,460 per person a year. About 59 percent of Madagascar's total population was estimated to be food poor in 1993.

47. Household surveys help us better understand the concrete meaning of poverty by providing information on social indicators. Data collected by national household surveys make it possible to distribute social indicators by poverty groups (Table 10). The data show that the average household size of the poor is larger than that of the nonpoor, the adult literacy rate is lower, and the level of schooling is very low. With regard to nutrition, stunting (below-average height for age) appears to be a large problem, as one-third of all children aged 3 to 60 months (and one-fourth of the nonpoor) are severely stunted. Electricity is almost nonexistent for the poor, and the majority of Malagasy households, especially the poor, drink water that can easily be contaminated (from lakes, rivers, and natural wells without pumps). Sanitation equipment is also almost nonexistent.

³⁴In 1996 prices, the poverty line would be at about FMG 623,000, or US\$146 at the current exchange rate (using the food component of the consumer price index). This amount is equivalent to about FMG 250,000 (US\$59) a month a household, which is twice the level of the minimum wage in the formal sector.

³⁵ As indicated, the \$1-a-day index leads to about the same proportion.

Table 10. Distribution of Social Indicators by Poverty Groups

(In percent)

<i>Social Indicators</i>	<i>Extreme Poor</i>	<i>Poor</i>	<i>Nonpoor</i>	<i>All</i>
Household size	5.6	4.8	4.0	4.9
Number of children under the age of 14	2.8	2.1	1.4	2.2
Literacy (% of adults aged 15 or over)	41.0	48.8	60.0	47.7
Completion of secondary school (% of Household Heads)	1.3	3.6	10.6	5.0
Severe stunting (% of children aged 3–60 months)	32.4	31.4	25.9	30.3
Piped water (% using)	9.1	15.2	30.2	18.6
Flushed toilet (% using)	0.2	0.6	4.6	1.8
Electricity (% using)	1.7	5.4	20.3	8.9

Source: EPM 1993 (Enquête permanente auprès des ménages).

48. The MADIO survey of rural households gives indications of housing and household equipment in selected rural areas, where poverty is known to be pervasive. As shown in Table 11, most households surveyed live in small houses built of nondurable material, without piped water or electricity; many households lack even basic furniture.

Table 11. Madagascar: Housing and Equipment Indicators by Regions

(In percent of households surveyed, unless otherwise indicated)

	Mahafaly 1/	Antalaha 2/	Marovoay 3/	Vakinankaratra 4/
Housing				
Lives in individual house	81	85	95	62
Number of rooms (average)	1.5	2.2	1.5	2.7
Vegetal building material	90	84	44	61
Floor				
plain	94	--	81	87
wood	--	98	--	11
Kerosene lighting	87	100	99	94
Wood heating	97	96	86	98
Water (natural well or spring)	44	84	100	65
Household Equipment				
No table	48	23	...	54
No chair	75	45	...	58
No bed	14	7	...	34
No sofa	99	92	...	96
No radio	78	74	...	65

Source : MADIO survey of households, 1995.

1/ The Mahafaly region is situated in the drought-prone southwestern part of Madagascar, one of the poorest parts of the country. Fishing is the main activity of one-third of households.

2/ The Antalaha region is on the northeastern shore; it produces traditional export crops (vanilla, coffee, cloves, pepper) and rice.

3/ The Marovoay plain is a large, irrigated, rice-producing area in the highlands.

4/ The Vakinankaratra region is in the rice-producing central highlands.

49. However, as stressed in the UNDP's *Human Development Report 1997*, poverty involves more than the lack of the necessities of material well-being. It denies the poor opportunities for improving their condition, for increasing knowledge and communication, and it can rob the poor of dignity and of the respect of others. The World Bank's participatory poverty assessment for Madagascar strikingly confirms this view. The poor are mainly viewed as people who live at the fringe of society, and their major plights as identified by the poor themselves are isolation and powerlessness (Box 4).

Box 4. Perceptions of Poverty in Madagascar

- Poverty in urban areas is strongly associated with being unemployed.
- Poverty in rural areas is defined mainly as the inability to maintain the dignity associated with full membership in the community.
- A person or a family is perceived as poor when the family eats less than three times a day, when family members own only two pairs of clothing (one for everyday usage and one for ceremonies), or when the family lives in inadequate housing.
- The poor have little access to formal or informal credit, in part because the quality of housing owned determines credit eligibility.
- The rural poor lack the means of communication with all except the immediate community, partly because of impassable or nonexistent roads in poor rural communities.
- Poor rural communities have no bargaining power vis-à-vis collectors of crops because their isolation reduces or suppresses competition. Sometimes, collectors use violence against producers or sabotage roads in their area.
- The poor distrust institutions of the state, in particular the formal education system. According to them, teachers are sent to schools unprepared, are poorly paid, and cannot dress properly. State institutions are perceived as predatory, corrupt, and unfair.
- By contrast to state institutions, poor communities strongly adhere to self-help and mutual assistance institutions as an informal safety net.

Source: 1993 World Bank, participatory poverty assessment.

D. Incidence of Poverty

50. The incidence of poverty is measured by the head count index, which gives the proportion of the population under study that falls below the poverty line.³⁶

Typical profile of the poor

51. Analysis based on the national household survey has allowed identification of the main variables that influence the probability of being poor in rural and urban areas.³⁷ In rural areas, poverty is associated with being a farmer (large or small), having a large family, being a member of a female-headed household and being a producer of export crop. The latter category reflects the diminishing profitability of traditional export crops. Factors that reduce the chances of being poor include having an education, earning a salary, being a craftsman, and having more land. The same factors influence the probability of being poor in urban areas, with the exception that being a member of a female-headed household slightly diminishes the chances of being poor in cities, as females seem to fare somewhat better in cities than in the countryside.

Rural-urban differences in poverty

52. Poverty is more widespread in rural areas than in urban areas. According to the 1993-94 national household survey, 77 percent of the rural population was poor (and 66 percent of the rural population was extremely poor), compared with the 47 percent of the urban population (35 percent below the extreme poverty line) (Table 12). As a result, 86 percent of Madagascar's poor lived in the countryside (and 88 percent of the extremely poor). Moreover, on average the rural poor were farther below the poverty line than the urban poor.³⁸ According to the survey, the incidence of urban poverty increases in smaller cities. Nevertheless, the city of Antananarivo, although accounting for the lowest proportion of poor people in the country, still had 43 percent of its inhabitants below the poverty line, of which 30 percent were food poor.

³⁶The **poverty gap index** is a measure of the depth of poverty that indicates how far, on average, poor people are below the poverty line. Examination of the national household survey data shows that, in general, the incidence of poverty and the poverty gap is positively correlated. For the sake of simplifying the presentation, only the head count index of poverty is analyzed in this section.

³⁷ See World Bank, *Madagascar: Poverty Assessment*, June 28, 1996.

³⁸Expenditures were on average 37 percent below the poverty line in rural areas, 17 percent in urban areas, and 33 percent for the country as a whole.

Table 12. Madagascar: Distribution of Poverty by Urban and Rural Areas

(In percent)

	Head Count Index 1/		Share of Total
	Index	Weight	Population
Poverty line			
Total urban	47.1	14.3	21.4
Capital city	40.9	5.5	9.4
Major urban	42.6	3.2	5.3
Other urban	59.3	5.6	6.7
Rural	76.7	85.8	78.6
Total	70.3	100.0	100.0
Extreme poverty line			
Total urban	34.8	12.6	21.4
Capital city	30.0	4.8	9.4
Major urban	31.4	2.8	5.3
Other urban	44.1	5.0	6.7
Rural	65.9	87.5	78.6
Total	59.2	100.0	100.0

Source: EPM 1993.

1/ The head count index measures the proportion of the population under study that falls below the poverty line, which has been estimated at FMG 248,400 in 1993 prices. The extreme poverty line has been estimated at FMG 194,460 in 1993 prices.

The poorest provinces

53. The province of Toliara (in the southwest) is the poorest in Madagascar, with 80 percent of its people below the poverty line in 1993–94. In Toamasina in the centereast and Fianarantsoa in the centersouth provinces, about three-fourths of the population lived below the poverty line. Antananarivo, Antsiranana, and Mahajanga provinces were somewhat better off with two-thirds of the populace being poor (Table 13). Nevertheless, owing to their large share of the total population, Antananarivo and Fianarantsoa provinces accounted for about one-half of Madagascar's poor.

54. The incidence of rural poverty was highest in Toliara (84 percent), as large areas of this province remain isolated, underdeveloped, and prone to frequent drought. The Toamasina province showed contrasts between urban and rural poverty. As export crops are cultivated in rural areas, the incidence of rural poverty was the second highest after Toliara (79 percent), reflecting very low returns to producers. However, the Toamasina harbor is the country's largest, and the province accordingly had the lowest incidence of urban poverty (35 percent).

55. Although Fianarantsoa province contains rice production areas, many of its rural communities experience isolation and severe environmental degradation. Areas formerly covered with large forests have become dry and deserted because of inadequate agricultural methods, and farm yields have declined. The incidence of poverty in that province was high for both rural (76 percent) and urban (55 percent) areas.

Table 13. Madagascar: Distribution of Poverty by Provinces (In percent)

	Head Count Index 1/		Share of Total
	Index	Weight	Population
Rural			
Antananarivo	75.9	23.4	23.6
Fianarantsoa	75.9	21.7	21.9
Toamasina	79.0	19.0	18.4
Mahajanga	69.2	11.7	13.0
Toliara	84.2	16.7	15.2
Antsiranana	73.8	7.6	7.9
Total	76.7	100.0	100.0
Urban			
Antananarivo	45.7	52.6	54.2
Fianarantsoa	55.2	12.2	10.3
Toamasina	34.8	6.3	8.5
Mahajanga	59.7	15.2	12.0
Toliara	51.3	7.8	7.2
Antsiranana	35.7	5.9	7.8
Total	47.1	100.0	100.0
Rural and Urban			
Antananarivo	64.3	27.5	30.1
Fianarantsoa	73.5	20.3	19.4
Toamasina	74.1	17.2	16.3
Mahajanga	67.3	12.3	12.8
Toliara	80.4	15.4	13.5
Antsiranana	65.7	7.4	7.9
Total	70.3	100.0	100.0

Source: EPM 1993.

1/ The head count index measures the proportion of the population under study that falls below the poverty line, which has been estimated at FMG 248,400 in 1993 prices.

Poverty by profession

56. Occupations primarily involved in farming are by far the poorest households in Madagascar. About 80 percent of farmers, small or large, were poor. As a result, about two-thirds of the country's poor were farmers. Herders and fisherfolk appeared to be better off, as were small entrepreneurs (Table 14). By contrast, only a small fraction of professionals were poor.

Table 14. Madagascar: Poverty Groups by Profession (percent)

	Head Count Index 1/	Weight
Large farmers	77.0	36.9
Small farmers	81.6	29.4
Herders/fisherfolk	61.4	11.5
Small entrepreneurs	44.1	0.8
Craftworkers/traders	40.4	4.1
High-wage workers/ professionals	5.9	0.6
Employees/workers	39.8	8.7
Unskilled workers	62.7	4.5
Retirees/handicapped	50.6	2.2
Nonwage/students	52.6	1.4
All	70.3	100.0

Source: EPM 1993.

1/ The head count index measures the proportion of the population under study that falls below the poverty line, which has been estimated at FMG 248,400 in 1993 prices.

E. Reducing poverty: magnitude of the task

57. In 1994, the World Bank estimated the annual cost of eliminating poverty by raising the incomes of the poor up to the poverty line about \$250 million, or about 8 percent of GDP at a cost of \$29 per poor person, this would amount to \$220 million in rural areas and \$30 million in cities. Handing over the exact cash amount to the poor, on a onetime basis, is of course beyond the administrative and financial capability of the government. Sustained economic growth is needed to create the resources to reduce poverty.

58. Table 15 shows the estimated impact of various per capita growth rates on poverty levels, assuming no change in the distribution of income. Only if Madagascar were able to sustain a very high rate of growth of GDP per capita (on the order of 10 percent a year over a decade) would the incidence of poverty be substantially reduced. High growth would rapidly guarantee the necessary resources, but without a change in income distribution, a large portion of incremental income would go to the nonpoor.

Table 15. Madagascar: Effects of Growth on Poverty Reduction
(In percent of total population)

	Current Head Count Index	Over five years	Over 10 years
Growth effect of 1% per capita growth			
Poverty incidence	70	68	66
Effect of 5% per capita growth			
Poverty incidence	70	59	45
Effect of 10% per capita growth			
Poverty incidence	70	45	20

Source: World Bank.

1/ The head count index measures the proportion of the population that falls below the poverty line, which has been estimated at FMG 248,400 in 1993 prices.

59. Fostering pro-poor growth in Madagascar, by which the **incomes of the poor would increase faster** than incomes of those above the poverty line, would accelerate poverty reduction for any given GDP growth rate. In Madagascar, a pro-poor strategy would entail raising the productivity of rural farmers, especially in the poorest provinces, as well as encouraging productive investment that creates off-farm jobs, rehabilitates infrastructure, in particular roads, and reduces population growth.

60. A pro-poor growth strategy, however, may reduce GDP growth in the short and medium term, notably because some investment would be directed to regions or activities where it would be economically less efficient in the short run. However, advocates of pro-poor growth emphasize that it is likely that reduction in poverty would in turn positively influence economic growth in the long run, by increasing the potential of the poor and improving their opportunities and productivity. In particular, human capital development through better health and education, while increasing the productivity and the standard of living of the poor, is an economic foundation of long-term growth.

Population Trends

Overview

61. The latest census of population of Madagascar was carried out in August 1993 by the Malagasy National Institute of Statistics, with donor support. Following are the main results:³⁹

- Total population was 12.2 million, about twice the 1966 level. The 1975–93 average annual growth rate was 2.8 percent. At that rate, Madagascar's population would again double in 25 years.
- More than three-fourths of the population was living in rural areas. Population density was the highest on the east coast and in the central highlands but under 23 per square kilometer in most of the country.
- 45 percent of the population was under the age of 15. As a result, the dependency ratio was high, with about one inactive person (including children under 15) per active person (i.e., a person between the age of 15 and 60).
- Life expectancy at birth was 52 years (53 years for females and 51 years for males).

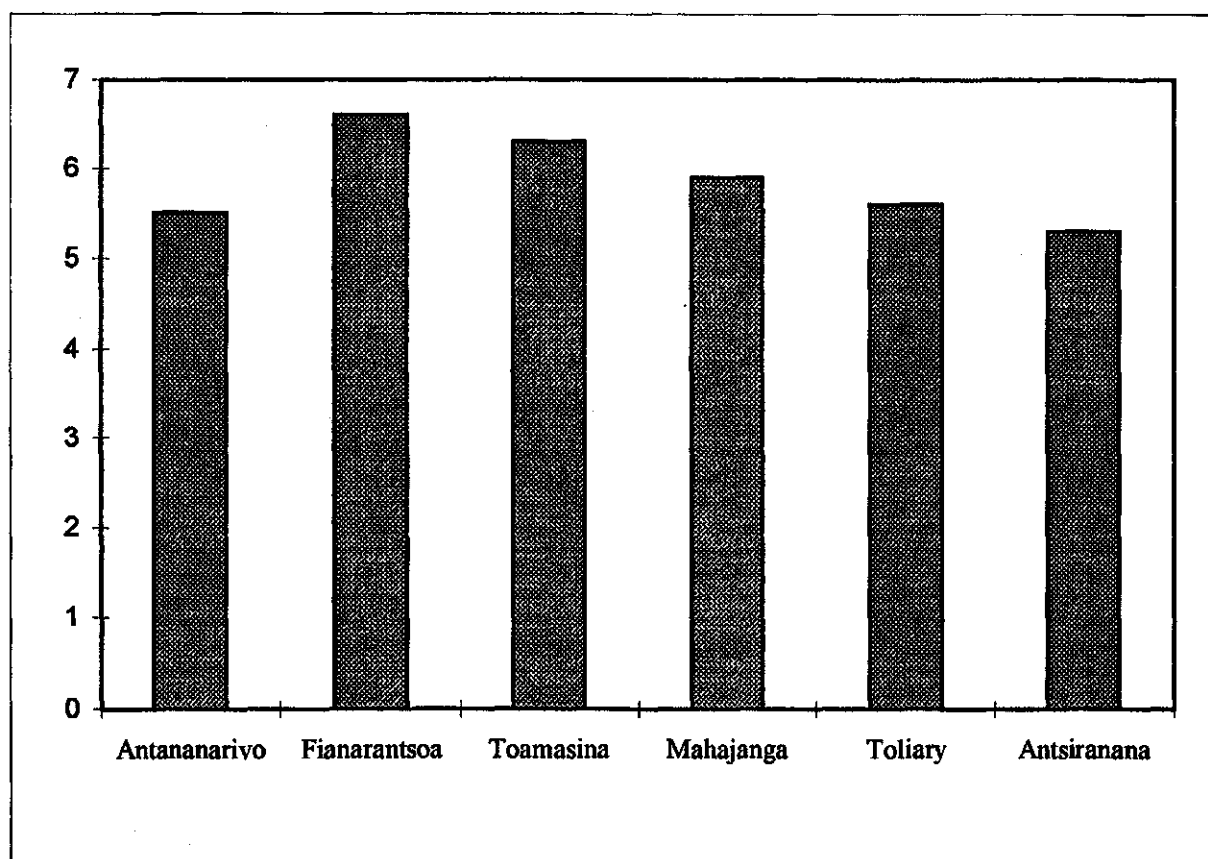
³⁹ The information presented in this annex is excerpted from publications of the *Direction de la Démographie* of the Malagasy National Institute of Statistics.

Fertility rates

62. The average number of children per Malagasy woman was close to 6 (Figure 7). Malagasy women tend to bear their first children at a young age, as 19 percent of births involved mothers under 19 years of age. There were significant variations in fertility across provinces, as well as between rural and urban areas. The highest fertility rates were found in the Fianarantsoa and Toamasina provinces, which are also the poorest provinces after Toliara (see main section of this chapter).

63. The average number of children was 4.3 in cities, but reached 6.5 in the countryside. This difference is consistent with the observation that the poor have larger families than the nonpoor (see main section of this chapter). The evidence shows that education tends to reduce fertility rates, which contributes to explaining the differences between the urban and rural rates. While women with only elementary educations had on average 6.6 children, females who have completed secondary school had on average 2.4 children, partly because the use of contraceptive methods among educated women is more widespread.

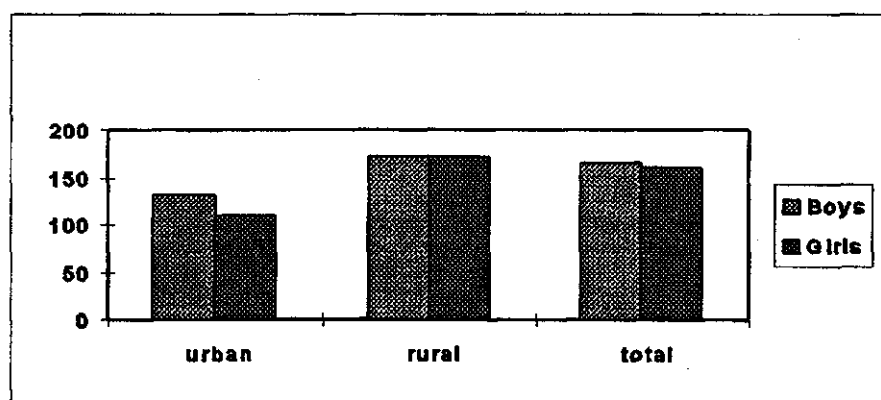
Figure 7.
Madagascar
Average Number of Children per Woman by Province



Mortality rates

64. Mortality rates of children under 5 years of age were high (165 per thousand in 1993). However, the rates were markedly lower in urban areas, especially for girls (109 per thousand), reflecting among other factors the lower incidence of poverty in urban areas, and better educational and health facilities (Figure 8).

Figure 8.
Madagascar
Child Mortality Rate (0-5 Years) by Sex and Residence
(Per thousand births)



Education

65. Fifty-four percent of the Malagasy population cannot read or write. As shown below (Figure 9), the illiteracy rate in rural areas is twice as high as in cities. It was slightly higher for females than for males.

66. The illiteracy rate is the highest in the province of Toliara (77 percent), which is also the poorest province (see main section of this chapter). The illiteracy rate is the lowest in the province of Antananarivo (34 percent), which is the least poor in the country. Enrollment rates of children aged 6 to 14 (48 percent) are about similar for females and males. On average, one person out of three above the age of 6 never went to school (two out of three in Toliara and one out of seven in Antananarivo province). As shown in Figure 10, in most provinces, 41-52 percent of the population has had a primary level education and 14-17 percent of the population has had a secondary level education. However, only a small minority in the province of Toliara has had primary level education (22 percent), while close to 30 percent of the population in the province of Antananarivo has had a secondary level education.

Figure 9.
Madagascar
Illiteracy Rates by Sex and Place of Residence
(In percent of total population)

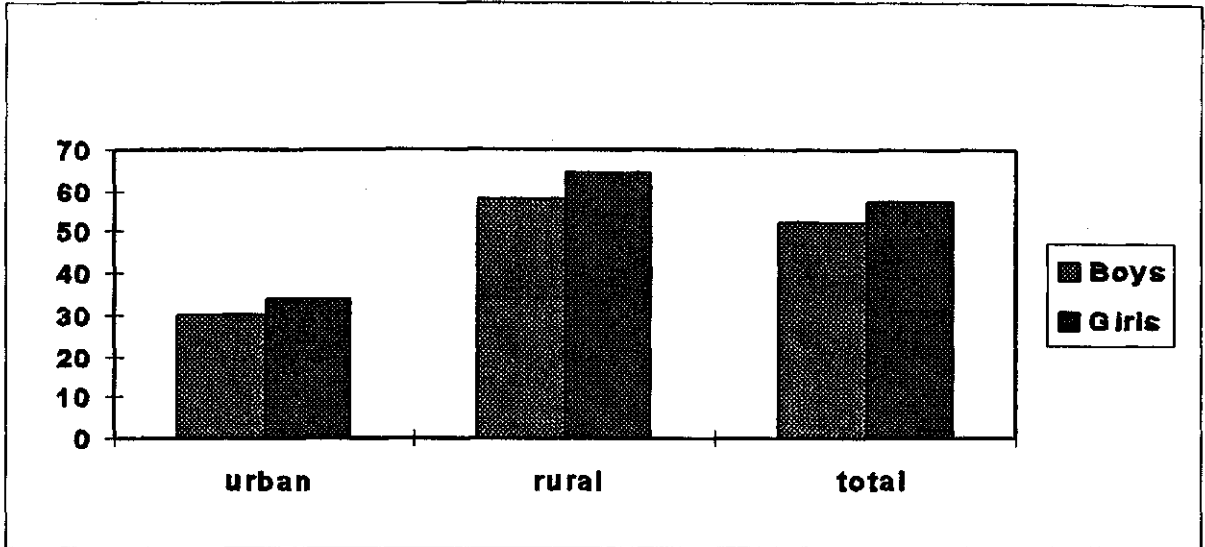
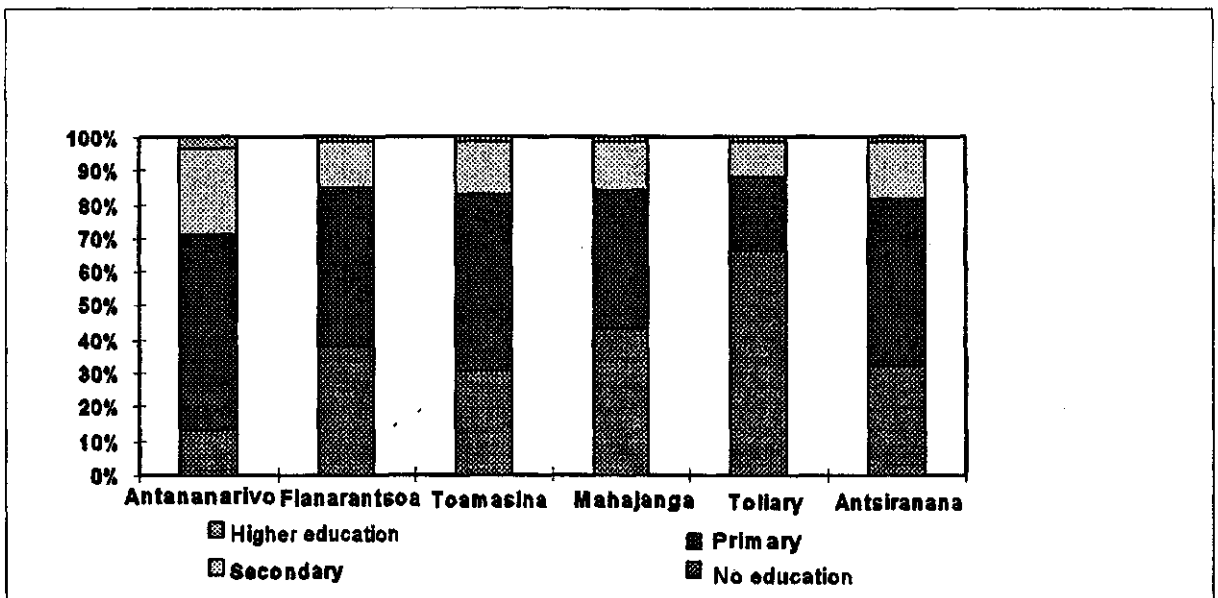


Figure 10.
Madagascar
Level of Education by Province
(In percent of total population)

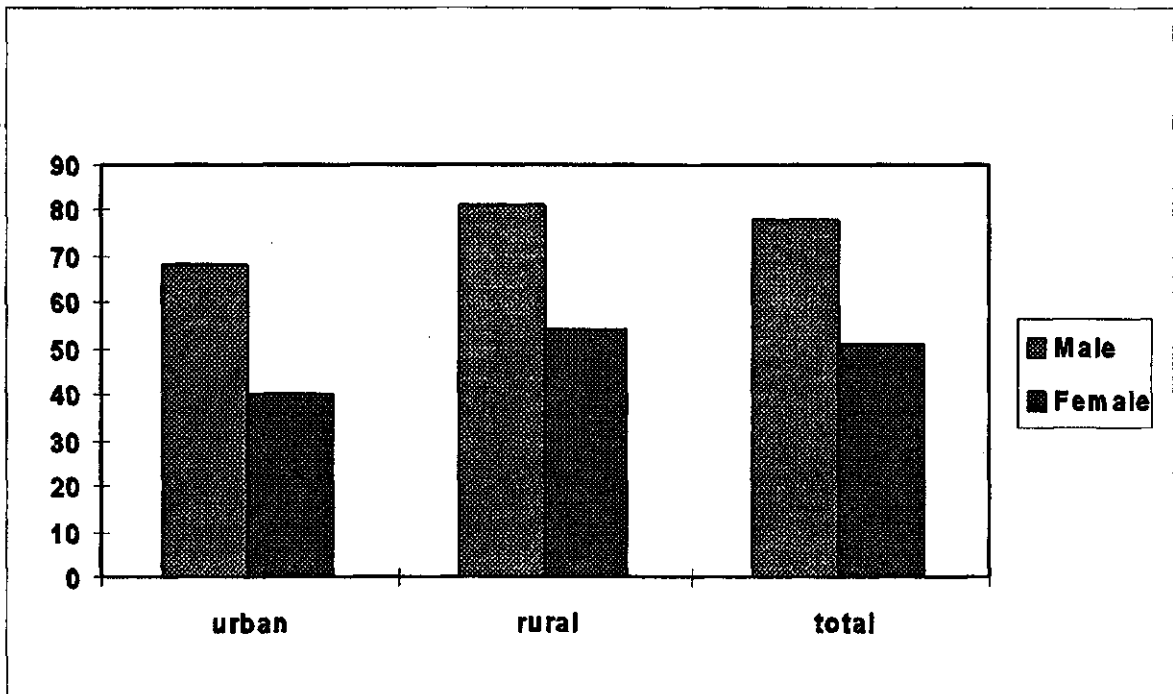


Economic activity rates

67. About 66 percent of the population above the age of 10 was economically active in 1993; some 7 percentage points of that 66 percent figure represents people looking for a job. Thus, the employed population accounted for some 60 percent of the total population above the age of 10 (Figure 11). Since housewives were not classified as economically active, activity rates were higher for males than for females. Also, activity rates were found to be higher in rural areas than in cities, as people tend to start working at a younger age and stop working at an older age.

68. More than 80 percent of the employed population was working in the agricultural sector and about 12 percent in services (see also Appendix Table 13).

Figure 11.
Madagascar
Activity Rates by Sex and Place of Residence
(In percent of population over age 10)



III. TOWARD A STRATEGY FOR CIVIL SERVICE REFORM

A. Main Characteristics of the Current Civil Service

A qualitative assessment of Malagasy civil service

69. There seems to be no doubt among observers that the civil service in Madagascar is not performing well. It is reported to be inefficient and unable to carry out its essential tasks. Civil servants' motivation seems to be adversely affected by low and declining real pay, inefficient job and career management, lack of material resources, insufficient control, and political interference in recruitment and promotions. As a result, the civil service is allegedly lacking credibility with the population and with the government and donors. It is described to be held in low esteem by its customers and taxpayers. In selected areas, such as education, health, environment, and communications services, the civil service has been complemented by a parallel administration financed by donors.

70. The reported ineffectiveness of the civil service has been a hindrance to a faster pace of development and, more specifically, the absence of clear objectives, incentives, and controls has made it difficult to implement decisive changes in policies. Discretionary powers of civil servants are large because regulations are often unclear and because conflicts of interest are ignored. Experience has shown that poor salaries, discretionary powers, and insufficient controls are prone to lead to widespread corruption.

71. The main objective of civil service reform in Madagascar therefore should be to build a civil service that can deliver valuable services to customers and taxpayers. Since civil servants will retire in large numbers in the next decade, owing to the age structure, there is an immediate challenge to start recruiting and training a new generation of civil servants, in particular at the higher echelons.

Statistical overview of the Malagasy civil service

Overall size

72. The size of the civil service in Madagascar is not accurately known, owing to severe shortcomings in the management and statistical monitoring of the civil service. The 1990 census of civil service was not fully processed as a result of civil disturbances and political instability in the early 1990s, and it is by now largely outdated. Moreover, no centralized database on government employment is maintained. The Ministry of Civil Service estimated the total number of civil servants at about 125,000 in 1996 (including short-term contractual employees, as well as about 22,000 military staff). By contrast, payroll data from the Statistical Office (INSTAT) suggest a size of about 121,000 in 1996. It appears that the overall size of the civil service (including military) has remained broadly constant over the last ten years.

73. Both databases have shortcomings. Data from the Ministry of Civil Service are incomplete and poorly maintained, while INSTAT data are reported to include "ghost" workers while excluding off-payroll employees, who are paid on nonwage budgetary credits. Under the assumption that the overreporting (ghosts) and the underreporting (off-payroll

workers) roughly balance, the current number of government employees would be about 120,000. However, a higher number cannot be ruled out. In particular, the actual number of contractual employees (on short-term contracts and including some categories of teachers) is very uncertain, with estimates ranging from about 10,000 to 20,000.

74. As a result, the wage bill included in the budget, and the actual wage cash payment, are not based on reliable data. In these circumstances, personnel policies in Madagascar are lacking transparency.⁴⁰

75. Nevertheless, the available estimates show that the Malagasy civil service does not stand out as oversized. The ratio of civil service to population in 1996 was estimated at about 0.78 percent (0.95 percent including the military), which is broadly in line with sub-Saharan countries at a similar level of development (e.g., Guinea's ratio is 0.79 and Tanzania's is 1.00).

Distribution by ministry at end-1996

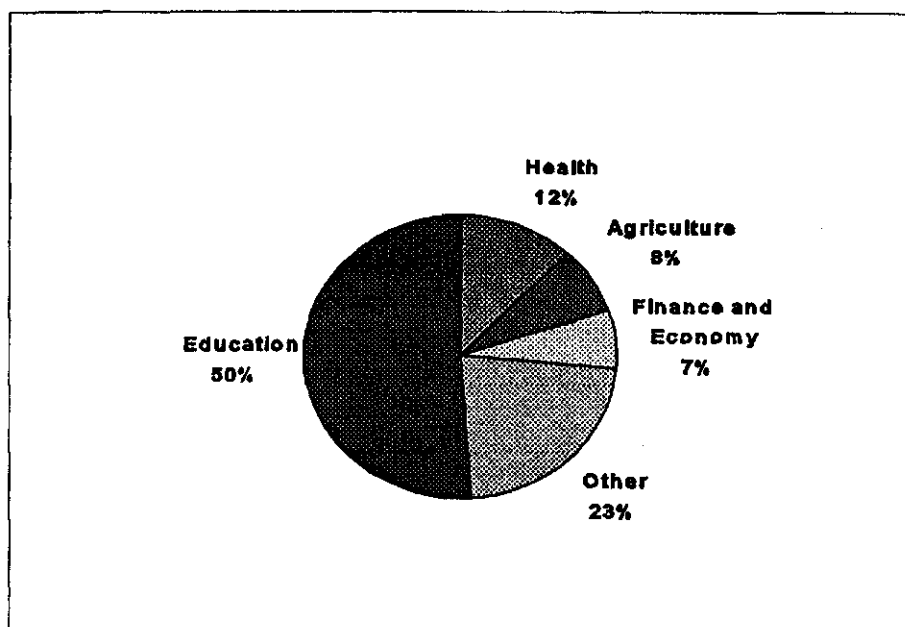
76. Data by ministry, although most likely inaccurate, show that social ministries account for the largest part of public employment. As a proportion of total civil service, excluding the military, the ministries that deal with education accounted for 51 percent in 1996, while the ministries in the health sector accounted for 12 percent (Figure 12). Next in importance were the ministries in charge of the agricultural sector (7.7 percent) and of finance and economy (6.6 percent).

Distribution by gender and age

77. The breakdown of the civil service by gender and age illustrates the deficiencies of the statistical database, as the gender and the birth date of a large number of the civil servants are not reported in the files. Available payroll data for early 1997 indicate that 68 percent of civil servants are male and 32 percent are female. The age distribution shows that the majority of civil servants are older than 40 years of age. The skewed distribution reflects the low level of recruitment over the past decade. Skewness is reported to be particularly pronounced in the higher echelons because it is difficult to attract and retain skilled manpower (see section on wages below).

⁴⁰ Efforts to update the payroll database are under way at the budget ministry. Following the completion of the update before end-1997, the budgetary projections and the management of the wage bill are expected to improve significantly in 1998.

Figure 12.
Madagascar
Distribution of Civil Service by Sector 1/
(In percent)



1/ Excluding the Military.

Geographical distribution

78. The distribution of civil service across regions in 1997 (Table 16) shows that the province of Antananarivo, the capital city, has a higher share of civil servants (42 percent) than its share in total population (29 percent). This ratio has been fairly constant over time, reflecting the concentration of the general administration in the capital city. According to other sources of information, including anecdotal evidence at the micro level, human resources are not distributed rationally so as to meet local needs. Based on the 1990 census, more than 40 percent of the civil service is concentrated in the largest cities, which account for only 15 percent of total population. Ministries are reported to be overstaffed in large cities, particularly in the capital city, owing to a number of factors, including security problems in rural areas and statutory provisions that grant married couples of civil servants the right to be assigned in the same locality.

Table 16. Madagascar: Distribution (in percent) of Population and Civil Service

Region	Population 1997 (est.)	Civil Servants	
		1990	1997
Antananarivo	29.0	42.2	43.2
Antsiranana	7.8	6.8	6.3
Fianarantsoa	21.7	16.8	16.8
Mahajanga	11.1	9.9	9.6
Toamasina	15.8	12.8	12.8
Toliara	14.6	11.4	11.3
Total	100.0	100.0	100.0

Source: Ministry of Finance.

Wage level and structure

79. Wages of civil servants have not kept pace with inflation. Since 1990, the real minimum wage in the public sector has decreased by 16 percent (Table 17). The wage structure of civil service that was compressed in the second half of the 1980s was further compressed between 1990 and 1996. During that period, midpoint salaries were raised by 152 percent in the lowest category, but lifted by only 68 percent for the higher echelons (Table 18). However, the positive wage drift brought about by the aging of the civil service appears to have compensated for the wage compression at the middle and higher echelons. As a result, since 1990, the implicit average salary in the civil service, adjusted for inflation, has decreased by about 16 percent (Appendix III, Table 19).

80. During 1990–96, the minimum wage in the private sector, adjusted for inflation, was reduced by about 3 percent. Although the level of the minimum wage in civil service remained higher than in the private sector, the competitiveness of entry-level salaries in the Malagasy civil service was gradually eroded for the lower echelons between 1990 and 1996 (Figure 13).

Table 17. Madagascar: Minimum Monthly Wage, 1990–96

(In Malagasy francs)

	1990	1991	1992	1993	1994	1995	1996
Minimum wage (agricultural sector)							
Annual average	35,140	40,733	41,200	41,200	64,236	104,402	115,271
In 1990 prices	35,140	37,519	33,144	30,156	33,806	36,841	33,982
Annual change in percent	-2.5	6.8	-11.7	-9.0	12.1	9.0	-7.8
Cumulative change in percent		6.8	-5.7	-14.2	-3.8	4.8	-3.3
Minimum wage (nonagricultural sector)							
Annual average	34,557	40,034	40,490	40,490	62,312	102,510	113,310
In 1990 prices	34,557	36,874	32,573	29,636	32,793	36,174	33,404
Annual change in percent	-2.5	6.7	-11.7	-9.0	10.7	10.3	-7.7
Cumulative change in percent		6.7	-5.7	-14.2	-5.1	4.7	-3.3
Minimum wage in the public sector (Category I, minimum)							
Annual average	47,277	53,777	54,319	54,319	77,119	124,325	135,300
In 1990 prices	47,277	49,533	43,698	39,758	40,586	43,872	39,887
Annual change in percent	-3.5	4.8	-11.8	-9.0	2.1	8.1	-9.1
Cumulative change in percent		4.8	-7.6	-15.9	-14.2	-7.2	-15.6
Memorandum item:							
CPI (1990=100)	100.0	108.6	124.3	136.6	190.0	283.4	339.2

Sources: Ministry of Finance; and Ministry of Civil Service and Labor.

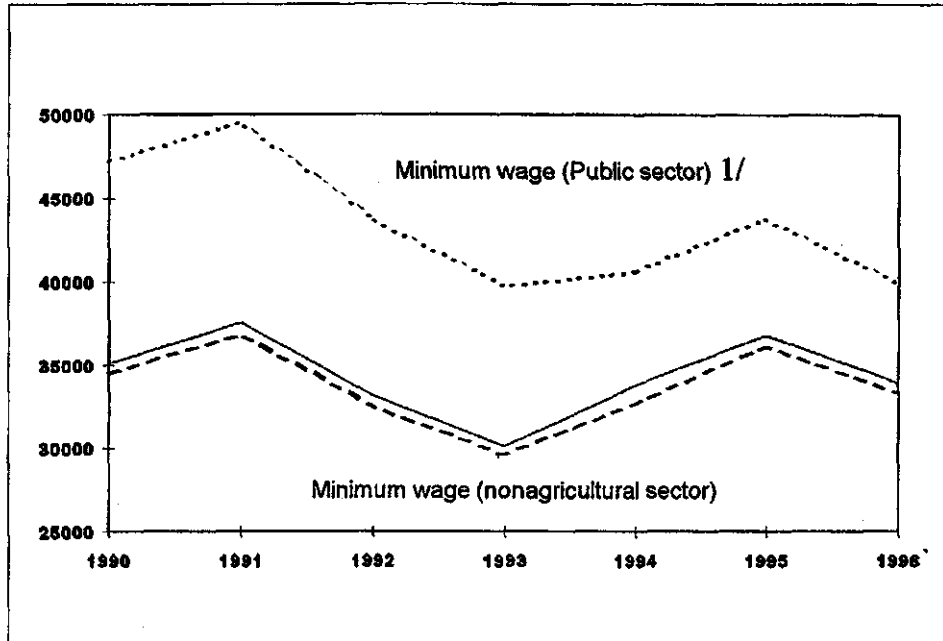
Table 18. Madagascar: Structure and Adjustment of Public Sector Salaries, 1989-96

(Index: July 1985-September 1986=100)

	March 1989- Feb. 1990	March 1990- Jan. 1991	Feb. 1991- Dec. 1993	Jan. 1994- Dec. 1994	Jan. 1995- March 1995	April 1995- Dec. 1995	Jan. 1996- Dec. 1996
Category I							
Minimum	165	176	200	285	408	476	499
Maximum	149	161	185	236	302	360	379
(Midpoint)	154	166	190	252	338	399	419
Category II							
Minimum	157	169	193	259	351	419	441
Maximum	145	157	181	223	277	324	343
(Midpoint)	149	161	185	236	303	358	377
Category III							
Minimum	151	163	187	244	322	385	406
Maximum	142	154	178	208	246	278	295
(Midpoint)	145	157	181	219	269	310	328
Categories IV and V							
Minimum	148	160	184	231	292	345	364
Maximum	141	153	177	197	223	243	260
(Midpoint)	143	155	179	206	241	270	288
Categories VI and VII							
Minimum	144	156	180	219	268	311	329
Maximum	141	153	177	194	216	234	250
(Midpoint)	142	154	178	201	231	256	273
Categories VIII and IX							
Minimum	142	154	178	210	250	284	302
Maximum	140	152	176	191	209	223	239
(Midpoint)	141	153	177	197	221	241	257

Source: Ministry of Finance

Figure 13.
Madagascar
Minimum Monthly Wage, 1990-96
(In thousands of Malagasy francs at 1990 prices)



Sources: Ministry of Finance; Ministry of Service and Labor.
1/ Minimum wage in the public sector (Category I, minimum).

81. Analysis of wage developments for skilled manpower is hampered by data deficiencies. The available evidence shows that wages are more attractive in the private sector than in the public sector for highly skilled manpower, while the reverse is true for unskilled labor (Box 5).

**Box 5. Madagascar: Average Monthly Income in 1996
(In thousands of current Malagasy francs)**

The data below is based on household surveys. It gives an estimate of income by sector and skill level in 1996.

Public sector	
Management staff	349
Skilled workers	208
Unskilled workers	133
Formal private sector	
Management staff	417
Skilled workers	156
Unskilled workers	81
Informal private sector	
Management staff	315
Self-employed	124
Skilled workers	99
Unskilled workers	30
Overall average	140

Source : MADIO project.

B. Experience in Civil Service Reform: Lessons from the Literature

Scope of civil service reform

82. In democratic, free market societies, the civil service is expected to work loyally for the government of the day, irrespective of the government's orientation. It should aim to provide the best possible management performance and to deliver government services of the highest quality in a cost-effective way, for the benefit of taxpayers. An attitude of service for the public—as opposed to the traditional attitude of control—as well as openness and accountability, should prevail. Strict rules forbidding conflicts of interest are to be enforced. Integrity should be maintained and corruption punished. Civil service reform, obviously, is geared toward reinforcing these desirable characteristics.

83. Reforming the civil service may or may not be part of an effort to redesign government. In recent years, some industrialized countries (Anglo-Saxon and Scandinavian countries, among others) have embarked on government reform agendas, which emphasize agency autonomy, the downsizing of central ministries, and private-sector-type management practices. Civil service reform in these countries is largely a consequence of government

reform, focusing on decentralized personnel policies and salary setting. As far as developing countries are concerned, the prevailing view seems to be that decentralizing personnel management would require too intensive a use of skilled manpower to be successfully implemented. In the least-developed economies, upgrading the existing civil service in the framework of centralized personnel management appears to be a prerequisite to wider government reform, and should therefore be viewed as a goal in itself.

84. Civil service reform in developing countries, in particular in Africa, is often associated with large retrenchments at the initial stage when the civil service is overstuffed. Reducing the number of civil servants is probably the component of civil service reform that is implemented at an early stage, especially if retrenchment costs are foreign financed. However, reallocating the remaining workforce among ministries and regions is usually far more difficult, as it deals with the **qualitative core of civil service reform**, that is, allocating human resources where they are most needed and improving the performance of civil servants on a lasting basis. Preventing retrenched workers from returning through the “back door” appears to be difficult as well. Policy persistence and political support at the highest level have proven to be essential for the successful outcome of civil service reform.

Mapping civil service reform: a survey of the literature

85. Designing the qualitative core of civil service reform, whether in industrialized countries or in developing economies, entails making a number of **strategic choices** with regard to a wide array of issues: sequencing of actions (whether to take early but partial action, or to delay the start until the overall detailed plan of action is completed); speed of reform (“big bang” or gradual reform); desirability of top-down approach (starting with the top of the hierarchy, and gradually going down to the lower echelons); mix of horizontal and vertical action (all ministries together, or ministry by ministry); emphasis on health and education; role of donor-supported enclaves (whether to support them or phase them out); statutory regulations (lifetime employment versus contractual relations); usefulness of end-user consultation; structure of audit and control systems; and design of motivation and incentive system.

86. The issues listed above are complex. The literature on experience with civil service reform, a large part of which originates in the World Bank’s effort to assess its portfolio of civil service reform projects in developing countries, underscores the complexity as well as the limited success of many reform efforts. The World Bank’s overall assessment identifies the main difficulties of civil service reform programs as flawed project design, weak domestic reform consensus, and lack of government ownership.

87. A survey of the recent literature suggests that the best-practice approaches to the issues in project design listed above, are as follows (see bibliography):

- **Sequencing.** Improving the pay structure of civil service, which means in most cases decompressing wages, is considered a necessary, albeit insufficient, condition for upgrading overall performance. Reform in this area should be put in place at an early stage. Moreover, the introduction of performance-related pay systems and the improvement of personnel management appear to be crucial to the lasting success of reform. As progress in these areas is reported to take considerable time, these aspects

of reform should be initiated early. Some countries have put in place transitory schemes aimed at readily attracting qualified professionals to the civil service by way of topping up their salaries, sometimes with donor financing (e.g., Bolivia and Ghana).

- **Speed.** Reforming the civil service is increasingly viewed as a long-term effort, in particular in Africa, where government institutions are weak. Reform entails, among other aspects, fundamental changes in work practices and work ethics, as well as reforms in the organization of pay and personnel management, that take years to come to fruition. Complex, integrated civil service reform projects should therefore be avoided, so that delays in implementing one particular component do not spill over to the entire project. However, there seem to be large long-term gains from spending sufficient time to ensure a wide domestic consensus for reform among the parties involved, including the civil servants.
- **Top-down approach.** Experience appears to support the view that reform should start with the top echelons of civil service. Besides topping up salaries, techniques include the setting up of a category of contractual managers along the lines of U.S. senior executives. These techniques aim at decompressing wages, introducing a customer-oriented service attitude and ethics, and recruiting skilled managers. Although the industrialized countries' experience with this approach seems to be mixed, the literature appears to support it in developing economies, where the lack of skilled manpower at top echelons is severe.
- **Horizontal versus vertical approach.** Selecting key ministries, or subunits, for thorough reform, appears to be the preferred route. A number of functions that are crucial to the reform itself should be part of the priority batch of units to be reformed, in particular the units in charge of the pay and personnel systems. The Ministries of Finance and of Budget, or selected subunits thereof, such as the treasury, budget, tax and customs administration units, as well as the Justice Department and the judiciary, are also prime candidates for reform. Reform should be tested on these units and possibly on a few others, before being implemented throughout the government.
- **Health and Education.** Because of the characteristics of the social sector mentioned in the literature, including the size of its manpower, its specialized skills, and the tradable services that it produces, health and education is a special case for civil service reform that deserves a custom-tailored approach.
- **Enclave approach:** An enclave typically is a subunit of a ministry or an ad hoc unit outside the regular government that has been set up with donor technical and financial support, to deliver immediate improvement in a selected area. The experience with enclaves appears to be mixed. On the one hand, enclaves usually yield fast results (for instance, improvements in tax administration in several African and Latin American countries). On the other hand, it is well established that enclaves attract the hostility of other departments, as they deprive them of their best civil servants and create a privileged class, which, in turn, may develop a vested interest in slowing overall reform

in order to retain priority access to scarce resources. Thus, enclaves seem to be useful in specific circumstances but may have adverse side effects that should be minimized to the extent possible. In particular, when salaries of enclave employees are topped up, advantages should be awarded in a transparent and performance-related manner.

- **Statutory regulations.** The literature seems to give little guidance as to which statutory framework is most conducive to improving the civil service. Industrialized countries are reported to have been increasing the share of contractual civil servants, but there does not seem to be a set of well-substantiated views either in favor or against applying a similar policy in developing countries.
- **End-user consultation.** Involving the end users, as well as other interested parties, including representatives of civil servants, is a new trend in reform design. Experiments with consulting the users of administrative services in order to gain the customers' views on the working of the civil service seem to have had a favorable effect on the design of reform projects and on the local ownership of reform (e.g., Zambia, Ghana).
- **Audit and Control systems.** The literature strongly emphasizes the need to put in place efficient procedures for controlling, as a matter of priority, personnel (recruitment, promotion, and retirement policies) and pay management.
- **Motivation and incentives.** It appears to be well established that excessive wage compression, together with declining average real wages, has acted as a powerful disincentive for the managerial echelons in the public service in developing countries. In many cases, however, the apparent compression of wages brought about under political pressure was to some extent softened by the extension of nontransparent, nonwage benefits. Most civil service reforms include the monetization of benefits and the decompression of wages. However, it appears to be particularly difficult to decompress wages because it is resented by the lowest echelons and viewed by public opinion as a largesse granted to political appointees.

88. All in all, the outcome of reforming the incentive system along the lines above is reported to be generally disappointing, as there appears to be little convincing evidence that increased pay by itself leads to improved performance in the civil service. The higher rate of success with enclaves is reported to reflect a combination of performance-enhancing factors, in particular better pay, better working conditions, good management, training, work satisfaction, and political support; nevertheless, relating pay to performance, however desirable, is reported to be difficult to design and to implement.

C. Toward a Full-Fledged Strategy of Reform in Madagascar

89. In July 1997, a Malagasy task force completed a policy paper on key features and sequencing of a reform program for Madagascar's civil service, which will guide policy implementation in the next few years. While a long-term comprehensive strategy remains to be defined in light of the experience with initial reform steps, the policy paper lays out the **broad objectives of reform and draws a road map for the phases of reform**. Implementation of the reform will be coordinated with the decentralization of the public service envisaged under the medium-term fiscal strategy.

90. The adopted strategy features a number of choices consistent with best-practice. The approved strategy provides for the selection of pilot ministries, thus clearly endorsing a **vertical approach**, which experience has shown to be the most workable solution. With regard to **sequencing**, improved pay and personnel management systems are included in the short-term list of tasks. No temporary scheme for topping up managers' salaries is envisaged. However, wage decompression in the pilot ministries is programmed to be achieved by December 1998 at the latest as part of an overall reform of **pay and incentives** that is scheduled to take place in 1998, in parallel with improvements in other working conditions, in particular **better training**. The status of **existing enclave-type units within the selected pilot ministries** will be examined, starting as a matter of priority by integrating the large-taxpayer unit with the organizational structure of the budget ministry. **End-user consultation**, together with consultation of civil servants in 1997, is viewed as an essential element of the creation of a constituency supporting broad reforms.

Main characteristics of the reform program

Main objectives

91. The overall goal of the reform is to build a competent and motivated civil service able to deliver public services in a cost-effective way within a market-oriented economic framework. The tasks are organized around four main objectives.

- **Streamlining ministries**. This encompasses updating civil service rosters, putting in place efficient systems of pay and personnel management, improving working conditions, and decentralizing duties and responsibilities.

- **Amending the wage structure**, including ensuring transparency in wage determination, monetizing allowances, decompressing the wage structure, and introducing performance-related pay ratings.

- **Improving human resources management**, notably by setting clear rules for recruitment and career progression, as well as by raising the overall level of competency and providing training in the civil service.

- **Implementing a code of conduct**, with a view toward fostering work ethics, facilitating control, and eliminating conflicts of interest. Rules governing the disclosure of

assets of civil servants will be set. Civil servants will be informed about the reform so as to elicit their active support.

Selection of pilot ministries

92. Although some objectives will have a horizontal impact across all ministries (in particular the implementation of the Code of Conduct), the reform program calls for the selection of three key ministries in which implementation will start first. Moreover, some subunits within the selected ministries are expected to adopt a faster pace of reforms. For example, at the tax and customs directorate, actions are already being taken as part of an effort to improve efficiency of government revenue collection. A criterion for the selection of the three ministries is their role in advancing policy reforms under the government's economic adjustment strategy.

Time frame

93. The reform of the Malagasy civil service is scheduled to be completed by the year 2002, with the reforms implemented in three phases. **In the short-term, that is before end-1997**, a detailed analysis of, and data gathering on, essential issues in the three selected ministries will be emphasized. Concurrently, steps will be taken to update the pay and personnel management systems, streamline basic regulations, inform the civil servants about the reform, and foster civil service ethics. **In the medium-term, that is before end-1998**, comprehensive reforms will be implemented in the selected ministries to reorganize their structures, decompress wages, improve qualifications, set performance standards, and strengthen controls. **In the longer run (1999–2002)**, an evaluation of results obtained in the selected ministries in the second half of 1998 will be used to extend the reforms to all ministries. Within budgetary constraints, the overall level of real wages is to be raised, working conditions are to be improved, and training efforts are to be stepped up.

Immediate steps

94. A ministerial committee in charge of steering the reform process has been appointed. Its role is to ensure that the task force on civil service reform develops an action plan for implementing the short-term reform guidelines, and to engage in consultations with donors with a view toward identifying areas of reform where donor support would contribute in the most efficient way.

Bibliography

- , Dia, Mamadou, 1995, *Africa's Management in the 1990s and Beyond: Reconciling Indigenous and Transplanted Institutions* (Washington: World Bank)
- , Nunberg, Barbara, 1989, *Public Sector Pay and Employment Reform: A Review of World Bank Experience*, World Bank Discussion Paper No. 68 (Washington: World Bank)
- , Nunberg, Barbara, 1995, *Managing the Civil Service: Reform Lessons from Industrialized Countries*, World Bank Discussion Paper No. 204 (Washington: World Bank)
- , Nunberg, Barbara, 1996, *Rethinking Civil Service Reform: An Agenda for Smart Government* (unpublished; Washington: World Bank)
- , Nunberg, Barbara and John Nellis, 1995, *Civil Service Reform and the World Bank*, World Bank Discussion Paper No. 161 (Washington: World Bank)

IV. TRADE REGIME

95. Madagascar has made significant progress in liberalizing its trade regime since the early 1990s. It is in the final stages of meeting the requirements of the **Cross-Border Initiative**, which coordinates for participating countries⁴¹ the reduction of barriers to trade at the regional level and lowers these same barriers for third countries according to an agreed timetable.

96. In March 1995, countries participating in the Cross-Border Initiative agreed to (a) eliminate by October 1998 tariffs on intraregional trade; and (b) harmonize, also by October 1998, external tariffs.⁴² The harmonized external tariff should consist of three nonzero bands with a weighted average of 15 percent and a maximum tariff rate of 20–25 percent. Tariff reform under the Cross-Border Initiative will also incorporate “other duties and charges” on imports into a basic tariff schedule. As regards nontariff trade barriers, the agreement called for a dismantling of import licenses and similar nontariff barriers, except for a short “negative” list for health and security reasons. Moreover, the agreement included the liberalization of services trade, the harmonization of transit charges, the documentation of common road customs, and the development of insurance for transit. Quantitative restrictions on exports to all countries are also to be eliminated.

97. The following sections summarize the evolution of barriers to international trade in Madagascar, and indicate to what extent Madagascar has fulfilled its obligations of reducing trade barriers under the Cross-Border Initiative.

A. Evolution of Nontariff and Tariff Barriers

98. Madagascar’s nontariff barriers have been progressively liberalized in the 1990s. As regards **nontariff barriers on imports**, a Liberalized Import System was decreed in 1992, allowing importation of most goods (with few exceptions and prohibitions) without a license or prior authorization; the requirement to have an importer identity card was also abolished. Also in 1992, Madagascar freed all **exports from licensing requirements**, except for exports of vanilla, certain products that are subject to prohibition or prior authorization for the protection of the flora and fauna, and exports of certain minerals.

99. In 1994, **prohibitions on importation** of luxury goods, foodstuffs, and certain other consumer goods were lifted by Decree 94-302; however, the Decree maintained prohibitions on goods imported without purchase of foreign exchange. In September 1996 this latter restriction on imports was lifted. Moreover, beginning in mid-1994, importers could obtain

⁴¹ Participating countries include Burundi, the Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. Other members of the Preferential Trade Arrangements, the Common Market for Eastern and Southern Africa, the Southern Africa Development Community, and the Indian Ocean Commission can also participate in the Cross-Border Initiative.

⁴²The term “tariff” refers to all import-specific taxes and charges.

foreign exchange for their imports free of restrictions through the interbank market for foreign exchange, which became operational in 1994.

100. As of early 1997, Madagascar has abolished all nontariff barriers on imports with the exception of the requirement of prior authorization for imports of flour and the maintenance of a negative list on certain imports for health and security reasons. Imports with a value of more than US\$3,500 are generally subject to inspection for quality, quantity, and price by a preshipment inspection company. As of early 1997, the only administrative controls imposed on exports pertain to quality controls for coffee and vanilla exports, and health (cleanliness) controls for meat and seafood exports. Moreover, exporters are required to repatriate proceeds from their exports within 90 days of the shipment date.

101. As regards **taxation of imports**, imports to Madagascar are subject to both domestic taxes (e.g., the value-added tax) and external taxes, which include customs duty (*droit de douane*) and import tax (*taxe à l'importation*). On its external taxes, Madagascar has progressively reduced its maximum tariff rates (customs duty plus import tax), as well as the average (implicit) tariff rate. The maximum tariff rate was reduced from 60 percent in 1991 to 30 percent by 1995, and has remained unchanged since then. The average tariff rate, as measured by revenue from imports as a percentage of the value of imports, was estimated to have declined from 18 percent in 1994 to about 16 percent in 1996 (Table 19).⁴³ As of early 1997, the maximum import tax remained at 30 percent, and the maximum customs import duty was 20 percent. The application of the customs duty and import tax is such that the sum of the two (defined here as the tariff rate) ranges between 10 percent and 30 percent without exceeding 30 percent. Moreover, some imports, mostly luxury imports, are subject to excise taxes ranging from 10 percent to 120 percent; a pretax of 3–5 percent, which can be deducted from the corporate income tax, is paid on all imports.

102. With respect to **taxation of exports**, Madagascar in 1992 eliminated export duties on coffee and cloves; the only remaining tax on exports was the fee of US\$21 per kilogram imposed on vanilla exports, which was eliminated in June 1997.

⁴³This effective tariff rate is understated because of the prevalence of exemptions from tariffs and the nonpayment of import tariffs by some importers.

Table 19. Madagascar: Taxation of Imports, 1994-98

(In percent)

	1994	1995	1996	1997	1998 (CBI) 1/
1. Custom duty					
Maximum 2/	40	20	20	20	...
Average 3/	3.6	3.7	4.9	...	...
2. Import tariff					
Maximum 2/	50	30	30	30	...
Average 3/	9.1	7.2	9.8	...	...
3. Excise tax on imports					
Maximum	50	120	120	120	...
Average 3/	5.3	0.9	1.6	...	...
Subtotal (1+2+3)					
Average 3/	18.0	11.8	16.3	...	15.0

Source: Ministry of Budget and Decentralization.

1/ The average external tariff rate that should prevail in participating countries by October 1998.

2/ The sum of custom duty and import tariff for any good should not add up to more than 30 percent.

3/ The average is a realized figure from customs. It should be noted that the calculation of the average does not take into account the effect of exemptions and nonpayment of import taxes.

B. Implementation of the Cross-Border Initiative to Liberalize Trade

103. As noted above, Madagascar has made progress in dismantling trade barriers, but it needs to do more to achieve the targets established under the CBI framework. For example, concerning **barriers to intraregional trade**, a preferential rate equal to 20 percent of the normal rate—the interim goal of the initiative for intraregional trade—is applied only on imports from Mauritius, with which Madagascar reached reciprocity and a rule of origin agreement in 1996. The 20 percent rate is expected to be reduced to 10 percent at the end of 1997 and to zero at the end of 1998. Madagascar has yet to reach similar agreements with other participating countries. A study is being conducted to establish rules of origin and other reciprocal arrangements before establishing the preferential arrangements with other participating countries. It is unlikely that the preferential arrangement will be extended to all the participating countries in 1997 as there is a need to reach agreements with each country. In any event, as Madagascar's imports from the region are estimated to be about 3 percent of total imports, the revenue effect of the elimination of tariffs on intraregional trade is minimal, assuming no trade diversion to the region.⁴⁴

104. As regards the **harmonization of external tariffs**, the average implicit tariff rate is, at 16.3 percent in 1996, close to the Cross-Border Initiative goal of 15 percent for October 1998. The strict implementation of the initiative in 1998 would mean the reduction of the average external tariff rate to 15 percent in that year. The loss in revenue from this reduction is estimated to be about 1.3 percent of the value of imports; including the 0.6 percent loss from the intraregional trade, the total loss from implementing tariff reform to achieve the Cross-Border Initiative objective by 1998 would be about 2 percent of the value of imports,⁴⁵ which is equivalent to FMG 66 billion, 3.2 percent of projected tax revenue, and 0.33 percent of GDP.

V. EXPORT PROCESSING ZONE (EPZ)

A. The Institutional Setting

105. Following the establishment of Madagascar's export processing zone (EPZ) in 1989, the government enacted several decrees and laws⁴⁶ that defined the **conditions for operating in the EPZ**; regulated visa and work permits for foreign owners and workers in the zone, as well as the use of financial (including foreign exchange) accounts; and determined fiscal incentives

⁴⁴ The effect of eliminating tariffs on intraregional trade would be to reduce revenues from intraregional trade by a maximum of 0.6 percent of the value of imports ($.034 \times .163$).

⁴⁵ If the effective tariff rate (16.3 percent in 1996) is substantially understated because of exemptions and nonpayment of import tariffs, the move to the goal of 15 percent by 1998 would mean a larger revenue loss than estimated here.

⁴⁶ These include Law 89-027, Law 91-020, Decree 2167/90, Decree 2170/90, Decree 2171/90, Decree 3250/90, Decree 3267/90, Decree 1215/91, Law 92-809, Decree 1029/93, and Decree 1081/93.

and the tax regime for all activities in the EPZ. Permits to operate are granted to enterprises producing exportables or products that can be used by other enterprises in the EPZ. Enterprises that undertake construction, management, and promotion of the zone; transform or manufacture goods; provide data processing, technical analysis, and product certification services; and process agricultural, animal and fish products can receive permit. (Box 6).

106. Operating permits are granted by the Office du Guichet Unique, and activities of EPZ enterprises were monitored mainly by the customs administration until June 1997. Beginning in mid-1997, this monitoring by the customs administration has been strengthened by the creation of a Domiciliation Office (Bureau de domiciliation des régimes suspensifs). The functions of this office include centralizing all data concerning EPZ enterprises and monitoring their exports and imports, with a view to ensuring that the EPZ enterprises abide by the provisions set out in the various laws and decrees. The monitoring of the activities of the enterprises in the zone, in particular the need to avoid the leakages into the domestic economy of those enterprises' tax-free imports or products, has been complicated by the dispersion of the enterprises (the EPZ in Madagascar is not located in one geographical area).

107. Operations in the EPZ have developed slowly (Box 6 and Table 20). While the number of new operating permits granted each year has virtually stagnated since 1993, the number of new enterprises starting operations continued to rise. There was little interest in service activities, and manufacturing of textiles and hides (65 percent of all enterprises in 1995) dominated, followed by wood (8 percent) and agricultural processing (5 percent).

108. More generally, value-added statistics indicate that, notwithstanding the rapid growth in manufacturing in recent years, Madagascar's economy relies mainly on agricultural production and the provision of services. In 1995, manufacturing accounted for 12.7 percent of GDP, and 47 percent of exports. Enterprises operating in the EPZ made up no more than 2 percent of all manufacturing enterprises but provided 20 percent of manufacturing employment, contributed 9 percent to manufacturing value added, and produced 39 percent of manufactured exports.

109. Foreign investment constitutes a substantial proportion of the capital invested in the EPZ accounting for 60.5 percent of total investment in 1994. The major source of foreign investment has been France, with 39.2 percent of the total capital in 1994, followed by Mauritius (15 percent), Italy (2.5 percent), and Spain (1.3 percent). The share of foreign capital rose in 1995 to 77.9 percent of total investment in the zone. France continued to be the major source of foreign investment in the EPZ, with 35 percent of total investment, while the share of Mauritius rose to 22.2 percent, followed by Hong Kong (8.1 percent), Spain (6.6 percent), the Netherlands (3.7 percent), and Italy (2 percent). Of the 98 enterprises operating in the EPZ in 1995, 58 were capitalized by French investors; these enterprises accounted for 34 percent of employment, 44.4 percent of production, and 46.2 percent of exports in the zone in 1995. Mauritius, the second largest source of investment in the EPZ, capitalized 14 enterprises, generating 28.4 percent of employment, 31.4 percent of production, and 32.5 percent of exports of the zone in 1995.

Box 6. Operating Under the Export Processing Zone Regime

Madagascar's export processing zone regime was established in 1989 to encourage exclusively production of exports or production of inputs for exporting industries. Any output of enterprises in the EPZ that is sold in the domestic market forgoes the incentives (see below) provided to the EPZ enterprises. Four types of enterprises are eligible for operating permits under the EPZ:

- **Category I enterprises** are engaged in construction, management, and promotion of the zone. Eligibility requires have the financial and technical capability, as well as the experience to undertake these activities; applicants are expected to submit references attesting to their experience.
- **Category II enterprises** are engaged in manufacturing exclusively for goods. Eligibility is determined on the basis of whether they would produce almost exclusively exportables. All activities classified as manufacturing by the United Nations can obtain permits under the category.
- **Category III enterprises** are service industries with activities related to data processing, technical analysis, and product certification; these enterprises mainly provide services to other enterprises in the EPZ.
- **Category IV enterprises** utilize intensively agricultural products, animal products, and sea resources (fisheries). Eligibility is determined on the basis of whether these enterprises would produce almost exclusively for exportables.

The following fiscal incentives are provided to enterprises in the EPZ regime:

	Type of Enterprises			
	Category I	Category II	Category III	Category IV
1. Income tax on earnings of enterprises				
- Rate (in percent)	10	10	10	10
- Period of exemptions (grace period in years)	15	5	5	2
2. Business (transactions) tax	exempt	exempt	exempt	exempt
3. Tax on distributed dividends (percent)	10	10	10	10
4. Taxes on imports				
Customs duties	exempt	exempt	exempt	exempt
Import tax	exempt	exempt	exempt	exempt
VAT, etc.	exempt	exempt	exempt	exempt
5. Export taxes and duties	exempt	exempt	exempt	exempt

Table 20. Madagascar: Economic Activities of Manufacturing Enterprises in the EPZ, 1994-95

	1994	1995
Number of manufacturing enterprises operating in EPZ	66	98
(In percent) 1/	(1.1)	(1.8)
of which:		
Textiles and hides	43	64
Wood processing	8	8
Food, beverages, and tobacco	3	5
Other (mainly jewelry and handicrafts)	8	14
Total number of employees	17,400	29,615
(In percent) 1/	(12)	(20)
Wages paid (in billions of FMG)	25	66
(In percent) 1/	(9.1)	(15.3)
Value added (in billions of FMG)	58	127
(In percent) 1/	(5.5)	(9.3)
Exports (in billions of FMG)	164	392
(In percent) 1/	(24)	(38.5)
Imports (in billions of FMG)	82	191
(In percent) 1/	(16.0)	(13.1)

Source: Project Madio, "Le Secteur Industriel Formel à Madagascar: Caractéristiques, Performances, Perspectives," various issues, 1995-97.

1/ In percent of the total for manufacturing sector.

B. Economic Activity in the Export Processing Zone

110. Notwithstanding the recent pickup in new enterprise operations, which increased the ratio of actually operating to licensed enterprises (from 52 percent in 1994 to 60 percent in 1995 for manufacturing enterprises), overall activity remained far below the level suggested by outstanding permits.⁴⁷ By end-1996, permits had been granted to 209 enterprises to become involved in textiles (99), agricultural and food processing (26), wood processing (16), handicrafts (15), jewelry (10), and services (21) (Table 21). The expectation was that these

⁴⁷Comprehensive time series data on activities of the enterprises in the EPZ are not available. The information contained in Table 21 and this section was pieced together from discussions with the Malagasy authorities during the 1997 Article IV consultation mission in May, and from information obtained from the Office Du Guichet Unique, and the Malagasy National Institute of Statistics.

Table 21. Madagascar: Number of Enterprises with Operating Permits under the Export Processing Zone Regime, 1990-96

	1990	1991	1992	1993	1994	1995	1996	Total 1990-96	Total Projected	
									Employment (Individuals)	Investment (In billions of FMG)
Sectors										
1. Agro-food processing	0	3	6	3	10	1	3	26	2,024	53.4
2. Textiles	10	3	26	21	9	19	11	99	25,281	134.1
3. Hides and skin	1	0	2	1	1	0	0	5	707	113
4. Wood processing	0	0	6	2	2	4	2	16	1,312	38.5
5. Data processing	0	0	2	3	6	3	7	21	1,397	9.3
6. Chemicals	0	0	1	1	1	1	2	6	297	15.7
7. Electrical and Mechanical	0	0	2	1	0	0	1	4	129	5.0
8. Mineral Processing	0	0	2	0	0	4	0	6	424	32.4
9. Handicrafts	0	2	2	1	2	6	2	15	2,741	13.0
10. Jewelry	0	0	4	0	1	1	1	10	458	9.3
11. Enterprises promoting and managing EPZ	1	0	0	0	0	0	0	1	66	111.2
TOTAL	12	8	53	33	32	39	32	209	34,836	433.7

Source: Direction de l'Industrie, Ministère de l'Industrialisation et de l'Artisanat.

enterprises would generate employment for about 35,000 individuals, with a total investment of FMG 434 billion (or about SDR 140 million).

111. For the subgroup of manufacturing enterprises, 126 and 162 outstanding permits have been issued in 1994 and 1995, respectively, while no more than 66 and 98 enterprises have actually operated in those two years. According to the results of surveys by the Malagasy National Institute of Statistics, this gap can be partly attributed to difficulties that have delayed follow-through by investors (both foreign and domestic)—including unfavorable macroeconomic developments, cumbersome administrative procedures, inadequate infrastructure (in particular, high transport costs), and political instability in Madagascar. It was also observed that the granting of some permits to enterprises whose main interest has been to obtain the right of importing without paying duties or import taxes, has become a source of leakages of tax-free imports into the domestic economy.

112. In 1995, most of the **operating enterprises** processed textiles and hides (64), and the rest were involved mainly in wood processing (8), food, beverages, and tobacco (5), and diverse activities, such as jewelry and handicrafts (14). In 1995, the 98 enterprises had 29,615 employees, implying an increase of 70 percent over employment in 1994; about 90 percent of the employed worked in the textile and hides sector. With this increase, the EPZ contributed significantly to employment creation in 1995, and its share in total employment of the manufacturing sector rose to 20 percent from 12 percent over the previous years.⁴⁸ The additional employment opportunities materialized in the labor-intensive textile and hide processing industry. The increase in the total wage bill in 1995 was even steeper, caused also by a general wage adjustment to compensate for inflation; as a result, total wages paid in the EPZ represented 15 percent of total wages paid in the manufacturing sector, up from 9 percent in 1994. Wage payments in the EPZ accounted for 52 percent of value added in 1995, compared with 43 percent in 1994.

113. As regards production, **value added** in the EPZ in 1995 more than doubled in nominal terms to FMG 127 billion and reached 9 percent of total value added in the manufacturing sector (up from 6 percent in 1994). Reflecting the export orientation of the zone, the **value of exports** rose from FMG 164 billion (about SDR 37.2 million) in 1994 to FMG 392 billion (about SDR 61 million) in 1995. This expansion fueled an increase of total manufacturing exports from 24 percent in 1994 to 39 percent in 1995.

⁴⁸ For details see Projet Madio, "*L'emploi, le chômage et les conditions d'activité dans l'agglomération d'Antananarivo*," June 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
A.	Agricultural Sector				
1	Société Agricole de l'Ankaratra (AGRIKA) <i>Farm</i>	100			No accounts since 1993
2	Bureau Central Laitier (B.C.L.) <i>Dairy Products</i>	74.79			Activity terminated *
3	Compagnie Nosy-béenne de l'Industrie Agricole (C.N.I.A.) <i>Perfume Plants</i>	100			
4	Fikambanana Fampandrosoanan ny Lemaki Betsiboka (FIFABE) <i>Rural Infrastructure</i>	33.06	240 3/	427	*
5	Fikambanana Fampandrosoana an'i Toliara (FIFATO) <i>Rural Development</i>	75.5			Being liquidated
6	Hasy Malagasy (HASYMA) <i>Cotton Plantations</i>	62	550	61,257	*
7	Société Langoustes du Sud (LANSU) <i>Lobster</i>	40	7 3/		Activity terminated

1/ Excluding banks (BFV, BTM, BNI-CLM) and Insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/ (continued)

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
8	Malts et Orges de Madagascar (MALTO) <i>Barley</i>	39.4		3,314	
9	Société pour le développement de Matitanana (MATITANANA) <i>Rural Development</i>	100			Being liquidated
10	Les Pêcheries de Nosy-Be (PNB) <i>Fisheries</i>	23.01	1,285 3/		
11	Société d'Aménagement et du Développement de la Plaine de Bas - Mangoky (SAMANGOKY) <i>Rural Development</i>	79			Being liquidated
12	Société Andapa Mamokatra (SOAMA) <i>Rural Development</i>	100	102 3/		No accounts since 1994 *
13	Société pour le Développement du Moyen-Ouest (SODEMO) <i>Rural Development</i>	96.42			Being liquidated
14	Société Malgache du Lac Alaotra (SOMALAC) <i>Rural Development</i>	85.5			Being liquidated
15	Société Malgache de Pêche (SOMAPECHE) <i>Fishing</i>	33	1,200 4/	84,054 4/	
16	Société Théicole de Madagascar (SOTHEMAD) <i>Tea Plantation</i>	100			Activity terminated

1/ Excluding banks (BFV, BTM, BNI-CLM) and Insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/ (continued)

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
17	Société Lamoulié Valentin <i>Plantations</i>	100			
18	Ronono Malagasy (ROMA) <i>Dairy Products</i>	25	67 3/		Started in 1993
19	ROMINCO <i>Dairy Products</i>				
B.	Trade				
20	Comptoir de Représentation pour l'Océan Indien (COROI) <i>Wholesale trade</i>	100	1,229 3/		No accounts since 1993*
21	Société Anonyme Maxime Darrieux (S.A. M Darrieux) <i>Office equipment</i>	100	204 3/		No accounts since 1992 *
22	Tranombarotra Roso <i>Wholesale trade</i>	100	643 3/		Activity terminated *
23	Société Industrielle et Commerciale de L'emyrne (SICE) <i>Wholesale trade</i>	100			Activity terminated *
24	Société d'Interet National des Produits Agricoles (SINPA) <i>Wholesale trade</i>	100	699 3/		*

1/ Excluding banks (BFV, BTM, BNI-CLM) and Insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/ (continued)

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
25	Société Générale de Distribution (SOGEDIS) <i>Retail trade</i>	100			Being liquidated
26	Société Mlagache de Collecte et de Distribution (SOMACODIS) <i>Retail trade</i>	100	1,000	86,114	*
27	Société pour l'Exportation du Café du Sud (SECA) <i>Exports of coffee, pepper, cloves</i>	100			No accounts since 1993
28	Société pour le Conditionnement et l'Exportation de Produits Agricoles (SCEPAG) <i>Rice exports</i>	100			No accounts since 1993
29	Société des Produits de Madagascar (SPM) <i>Coffee, Pepper, Cloves</i>	100			No accounts since 1993
30	Omnium de Maintenance de Véhicules de Transport (OMAVET) <i>Car Garage</i>	69			Started in 1996
C.	Industries				
	<u>Food Processing</u>				
31	La Laiterie de Soja d'Ambatolampy (Unité LALASOA) <i>Soy processing</i>	100			Being liquidated

1/ Excluding banks (BFV, BTM, BNI-CLM) and Insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/ (continued)

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
32	Abattoir Frigorifique d'Antananarivo (A.F.A) <i>Slaughter house</i>				
33	Abattoir Frigorifique de Mahajanga/FAFIFAMA <i>Slaughter house</i>				*
34	Famokarana Mahabibo Malagasy (FA.MA.MA) <i>Cashew</i>	99.56	280 3/		*
35	Société d'Exploitation Commerciale et Industrielle de l'abattoir de Morondava (SECIAM) <i>Slaughter house</i>	72.18			Activity terminated *
36	Société d'exploitation de Viandes de Madagascar (SEVIMA) <i>Canned meat</i>	100			*
37	Société Malgache de Conserverie (SOMADCO) <i>Canned Tomatoes</i>	93.75			Being liquidated
38	Société STAR <i>Soft drinks</i>	21.21	1400	134,582	
39	Société des Jus de Fruits d'Antsirabe (SOJUFA) <i>Fruit juice and mineral water</i>	15			
40	Société Industrielle de Stockage et de traitement des Produits Agricoles (TRAPAG)	100			No account since 1993

1/ Excluding banks (BFV, BTM, BNI-CLM) and insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/ (continued)

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
	<u>Sugar</u>				
41	Société Siramamy Malagasy (SIRAMA) <i>Sugar cane</i>	74.4			No account since 1992
42	Société Siramamin' Analaiava (SIRANALA) <i>Sugar cane</i>	65			
43	Société des Palmiers à Huile de Madagascar (SOMAPALM) <i>Palm oil</i>	65.85			Being liquidated
44	Société Sambava Voanio (SOAVOANIO) <i>Coconut</i>	78.5	1131	6,800	*
	<u>Textile</u>				
45	La Cotonière d'Antsirabe (COTONA) <i>Weaving</i>	39.32	2372	130,696	
46	Filature et Tissage de Madagascar (FITIM) <i>Jute</i>	34.4	255	2,926	
47	Société Sud Madagascar Textile (SUMATEX) <i>Weaving</i>	58.33			Being liquidated
	<u>Wood</u>				
48	Fanjarian Ala Ambatondrazaka Moramanga (FANALAMANGA) <i>Wood processing</i>	99.98	870 3/		Activity terminated

1/ Excluding banks (BFV, BTM, BNI-CLM) and insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/ (continued)

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
49	Société Industrielle du Bois (SIB) <i>Wood processing</i> <u>Agricultural machines</u>	100			*
50	Société pour le Développement du Machinisme Agricole (SIDEMA) <i>Machines</i>	73	174 3/	2,515	
51	Entreprise "TOLY" <i>Machines</i> <u>Paint</u>	100			Activity terminated *
52	Torginol Madagascar <u>Glass</u>	100	57 3/	2,776	*
53	Société de Verrerie de Madagascar (SOVEMA) <u>Pharmaceutical</u>	31.2			
54	Orin'Asa Fanaovana Fanafody (OFafa)	50	168	5,007	
55	Société pour le Développement Industriel des Plantes de Madagascar (SODIP) <i>Pharmaceutical</i>	51	92	10,729	*
56	Société de Promotion pour les Produits Agricoles à l'Exportation (SOPRAEX-Fanazava) <u>Leather</u>	56.3			No accounts *

1/ Excluding banks (BFV, BTM, BNI-CLM) and insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/ (continued)

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
57	Hoditra Malagasy (HODIMA) (Ambositra) <i>Ship-Building</i>				No activity
58	Société d'Etude, de Construction, de Réparation Navale (SECREN) <i>Radio-TV Sets</i>	37.5	1045	23,073	*
59	Compagnie Industrielle de Radio et de Télévision (CIRT)	10			No accounts
D.	Energy				
60	Jiro sy Rano Malagasy (JIRAMA) <i>Water and Electricity</i>	100	6581	246,478	
61	Solitany Malagasy (SOLIMA) <i>Petroleum product refinery</i>	100	1646	499,511	*
E.	Mining				
62	Kraomita Malagasy (KRAOMA) <i>Chrome</i>	100	530	49,601	
63	Société Marbre et Granit de Madagascar (MAGRAMA) <i>Quarry</i>	5	80 3/		Activity terminated *
64	Société Malgache d'Exploitation des Mines et Carrières (SOMADDEX) <i>Quarry</i>	98.52	127 3/		*

1/ Excluding banks (BFV, BTM, BNI-CLM) and Insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/ (continued)

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
65	Forage- Essai - Travaux spéciaux (FORESTRAS) <i>Drilling</i>	25			No activity *
F.	Transports				
	<u>Air Transport</u>				
66	Société nationale des transports aériens "Air Madagascar" <u>Railways</u>	89.58	1,229 3/	410,056	*
67	Reseau National des Chemins de Fer Malgache (RNCFM) <u>Road</u>	100	2,953 3/		*
68	Fitaterana Malagasy (FIMA) <i>Trucks</i>	70.92			Being liquidated *
69	Société Nationale de Transports et de Services "Air Route Service/ATO" (ARS/ATO)	90.9	88 3/		Activity terminated *
70	Fitateram-Bahoaka Tananan' Antananarivo (FIBATA) <u>Sea Transport</u>				
71	Société Malgache de Tranports Maritimes (SM/TM) <i>Shipping line</i>	59.19	199	4,916	*

1/ Excluding banks (BFV, BTM, BNI-CLM) and Insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/ (continued)

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
72	Compagnie Malgache de Navigation (CMN) <i>Coastal shipping</i> <u>Airports</u>	97.51	325 3/		*
73	Aéroport de Madagascar (ADEMA) <i>12 Airports</i> <u>Ports</u>	34	320	12,612	*
74	Société d'Exploitation du Port de Toamasina (SEPT)	100	2,200 4/	67,393 4/	
G.	Communications				
75	Société Anonyme Telecom Malagasy (TELMA S.A) - <i>Telephone</i>	66			
76	CINEMEDIA <i>Movies</i>	75	7	118	
H.	Tourism				
77	Madagascar Airtours (MAT) <u>Hotels</u>	16.72	70	4,137	
78	Société Malgache d'Hotellerie (SMH)	46.58			
79	Société Touristique et Hôtelière de Madagascar (SOTOHOMA)	100			No activity

1/ Excluding banks (BFV, BTM, BNI-CLM) and Insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/ (continued)

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
80	Société Malgache des Hôtels Internationaux (SOMHI)	100	120 3/		
81	Société d'Etudes Immobilières et d'Exploitation Hôtelière <u>Public works</u>	50.89			
82	Société d'Intérêt National des Travaux Publics (SINTP)	100	181 3/	1,291	Activity terminated
83	Société Sino-Malgache des Travaux Publics (SMATP)	30.5	706	36,257	
84	Laboratoire national des Travaux Publics et des Bâtiments (LNTPB)	100	295 3/		
I.	Rural Engineering				
85	Antok'Asa Ambanivohitra (A.A.A)	100			Activity terminated*
J.	Housing				
86	Société d'Équipement Immobilier de Madagascar (SEIMAD) <i>Construction</i>	82.56	139 3/	1,031	
87	Société "Ny Antsiva" <i>Construction</i>	30			Being liquidated

1/ Excluding banks (BFV, BTM, BNI-CLM) and Insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

PARTIAL LIST OF PUBLIC ENTERPRISES, April 1997 1/ (concluded)

N°	Enterprises	State Participation (%)	Number of Employees (1995)	Turnover (FMG million) (1995)	Status 2/
K.	Consultants				
88	Cabinet "RINDRA"	100	80 3/		*
89	Société d'Etude et de Réalisation pour le Développement Industriel (SERDI)	85	33	576	No accounts *
90	Société malgache de gestion informatisée (SOMAGI)	49			
L.	National Lottery				
91	Société d'Exploitation de Loterie (SEL) <i>Lottery</i>	57.5	50 3/	3,784	
M.	Finance				
92	Société Nationale de Participation (SONAPAR)	56.77		5,578	
93	Société mixte Libyo - malgache "LIMA HOLDING "	51	19 3/	623	
N.	Handicrafts				
94	Centre Economique et Technique de l'Artisanat (CETA)	60			

1/ Excluding banks (BFV, BTM, BNI-CLM) and Insurance companies (ARO, Ny Havana).

2/ A star indicates that the enterprise is to be privatized in 1998.

3/ 1994.

4/ 1996.

Madagascar: Summary of the Tax System, May 1997

(All amounts in Malagasy francs)

Tax	Nature of Tax	Deductions and Exemptions	Rates
1. Taxes on net income and profits			
1.1 Tax on company profits (<i>Impôt sur les bénéfices des sociétés - IBS</i>)	An annual tax levied on net profits derived by companies from all sources within the country; nonresident companies are taxable on their profits derived in Madagascar. Oil companies are subject to a separate tax regime. 1/	Partnerships are exempt, as partners are subject to the individual income tax (see 1.2.1 below). Interest paid by the Madagascar Savings Fund is exempt, as well as interest from Treasury bonds, investment bonds, other government borrowing, and bearer cash vouchers. Capital gains on real estate are exempted.	<p>35 percent general rate</p> <p>Minimum levy:</p> <p>a. 200,000 + 0.5 percent of turnover for enterprises in the agricultural, crafts, industry, mining, hotel, tourism, and transportation sectors;</p> <p>b. 800,000 + 0.5 percent of turnover for other enterprises.</p> <p>An advance payment is due every bimonthly period. A deductible surcharge is payable at customs:</p> <ul style="list-style-type: none"> - 3 percent of CIF value for registered businesses - 5 percent of CIF value for nonregistered businesses
1.2 Taxes on individuals			

(All amounts in Malagasy francs)

Tax	Nature of Tax	Deductions and Exemptions	Rates
1.2.1 Tax on nonwage income (<i>Impôt sur les revenus non salariaux - IRNS</i>)	Levied annually on nonwage income, including fringe benefits, profits from partnerships or legal entities not subject to the company tax (IBS) and derived from sources within Madagascar by residents or nonresidents; individuals with an annual turnover of less than FMG 10 million (FMG 5 million for services) may opt for estimated income assessment (<i>forfait</i>).	In addition to those interest payments mentioned in 1.1 above, rents and capital gains on real estate.	Up to 250,000: fixed = FMG 5,000 - part of income from 251,000 to 500,000: 5 percent 501,000 to 750,000: 10 percent 751,000 to 1,250,000: 15 percent 1,251,000 to 1,750,000: 20 percent 1,751,000 to 2,500,000: 25 percent 2,501,000 to 3,500,000: 30 percent over 3,500,000: 45 percent - Attached to IRNS 1/2 IFT (real estate tax) under 5 hectares 1 IFT 5-10 hectares 2 IFT over 10 hectares 2 TP Livestock dealers and taxpayers in brackets 6, 7, and 8 with annual turnover under FMG 5,000,000.
An advance payment is due every bimonthly period. A deductible surcharge is payable at customs: - 3 percent of CIF value for registered businesses - 5 percent of CIF value for non-registered businesses			
1.2.2 Tax on wage income (<i>Impôt sur les revenus salariaux et assimilés - IRSA</i>)	Levied on wages and salaries earned by residents and nonresidents within the country; withheld at the source.	In addition to those in 1.2.1 above, exemptions include the following: pensions, indemnities, severance payments, allowances to military draftees, and honorary awards; a deduction of FMG 500 per month is allowed from the tax for each dependent.	<u>Monthly wage</u> Up to FMG 125,000: 0 percent Part from FMG 126,000 to 200,000: 5 percent 201,000 to 350,000: 10 percent 351,000 to 450,000: 15 percent 451,000 to 550,000: 20 percent 551,000 to 750,000: 25 percent 751,000 to 1,000,000: 30 percent Over 1,000,000: 35 percent

1.3 Other taxes on income

(All amounts in Malagasy francs)

Tax	Nature of Tax	Deductions and Exemptions	Rates
1.3.1 Tax on capital income (<i>Impôt sur les revenus des capitaux mobiliers - IRCM</i>)	Levied on capital income, attendance fees, price bonds, and premiums distributed by companies to individuals or to other companies; withheld at the source.	Investment income from Credit Unions.	25 percent
1.3.2 Tax on transfers abroad (<i>Taxe forfaitaire sur les transferts - TFT</i>)	Levied on income transferred abroad to nonresident persons or companies; withheld at the source.	Exemptions include scholarships, normal purchase prices transferred abroad for imports, and capital income subject to tax in Madagascar.	15 percent
2. Taxes on property			
2.1 Taxes on real estate			
2.1.1 Land tax 2/ (<i>Impôt foncier sur les terrains - IFT</i>)	Levied annually on estimated productive value of land based on type of crop use.	Land owned by Government, local authorities, public institutions is exempt; land used for health, education or social purpose.	Rates vary according to land use(per hectare) FMG 50-300 for grazing land; FMG 500-1,000 for industrial plantations; 1 percent of intrinsic value for land in nonagricultural use FMG 400-800 for woods, forests, lakes, and swamps. FMG 1,000 to 2,000 for unworked exploitable land.
2.1.2 Tax on buildings 2/ (<i>Impôt foncier sur la propriété bâtie - IFPB</i>)	Levied on rental value of buildings and of immobile equipment.	Buildings owned by Government, local authorities, public institutions, and charities are exempt; new buildings are exempt for 10 years.	<u>Owner-occupied 3/</u> Residential: 3 to 6 percent Nonresidential: 4 to 8 percent <u>Nonowner-occupied 3/</u> Residential: 5 to 10 percent Nonresidential: 6 to 10 percent
2.2 Death and gift duties (<i>Droits d'enregistrement sur les mutations à titre gratuit</i>)	Levied on net value of property transferred <i>causa mortis</i> or <i>inter vivos</i> and situated within Madagascar	From the net estate of the deceased, a deduction of FMG 1.5 million is allowed for the spouse and each direct dependent, plus a deduction of FMG 0.5 million for each dependent child.	Proportional rates vary between 2 percent and 25 percent depending on the value of the property transferred.

(All amounts in Malagasy francs)

Tax	Nature of Tax	Deductions and Exemptions	Rates
2.3 Property transfer duties (<i>Droits d'enregistrement sur les actes et les mutations à titre onéreux</i> , and <i>Taxe de publicité foncière</i>)	Levied on sale, lease, or exchange of property, company formation, corporate mergers, transfer of shares, on selected transactions, namely transfer of goodwill, financial claims, and auctions; based on declared value of property or nominal value of the assets involved.	Social housing, churches, government and local authorities, charities	Fixed and proportional rates are applied; the latter vary between 6 percent and 12 percent according to type of transaction plus 2 percent additional tax, which goes to the FAR.
3. Taxes on goods and services			
3.1 TST (transactions tax)	Nonrefundable, levied on the turnover of retail businesses and certain services.	Nondeductible. Various exemptions specified and listed in the General Tax Code are granted.	5 percent
3.2 VAT	Refundable, levied on value added in manufacturing, crafts (over 5 employees), services not liable for TST, imports, and wholesale trade.	Deductible. Various exemptions specified and listed in the General Tax Code are granted.	20 percent
3.3 Redevance	Levied on tobacco, flour, alcohol, matches.	Inputs, exports	Adjustable
3.4 Tax on insurance contracts	Levied on insurance contracts.	Risks outside Madagascar work-related hazards	4.5% 20% fire insurance 3% life insurance 5% rente viagère
3.5 Excise tax	Levied mostly on alcohol, tobacco, mineral products, and cosmetics.	Inputs and pharmaceuticals.	10-100 percent. Specific tax for products controlled by the tax authorities.

(All amounts in Malagasy francs)

Tax	Nature of Tax	Deductions and Exemptions	Rates																														
3.5.1 Professional tax 2/ (<i>Taxe professionnelle</i>)	Levied annually on any person, company, or partnership engaged in trade, industry, or professional services.	The following are exempt: wage earners, university restaurants and canteens; farmers (owners); fishing and hunting; agricultural enterprises; artists; directors of technical and general schools; newspaper and magazine salesmen; local authorities' wholesale activities; sanitary operations of enterprises; intermediaries in government contracts markets for goods financed by foreign aid; procurement services of enterprises.	Two rates are applicable: (1) Fixed rate varying from FMG 7,500 to FMG 240,000 per annum according to the type of business or profession (classified into 5 categories); population of the town in which the enterprise is located; and number of employees and equipment used in the enterprise. (2) Proportional rates based on rental value of premises, including equipment used; 5 separate rates are applied to each of 5 categories specified in the Tax Code, i.e., 3.33 percent, 5 percent, 6.66 percent, 10 percent, and 20 percent.																														
3.5.2 Business licenses 2/ (<i>Impôt de licence</i>)	Levied on producers and traders of alcoholic beverages, including premises serving these drinks.	Exemptions include producers of traditional drinks, military canteens and messes, university restaurants.	Rates vary according to the type of enterprise and population of the town in which the enterprise is located.																														
3.6 Tax on motor vehicles 4/ (<i>Taxe sur les véhicules à moteur</i>)	Levied annually on owners of motor vehicles.	Vehicles owned by Government, farm tractors, and road construction equipment are exempt.	Vehicles with taxable horsepower of: <table border="1"> <thead> <tr> <th>Age of vehicle</th> <th>1-4</th> <th>5-9</th> <th>10-12</th> <th>13-15</th> <th>Over 15</th> </tr> </thead> <tbody> <tr> <td>Under 5 years</td> <td>3,500</td> <td>4,000</td> <td>4,500</td> <td>6,500</td> <td>9,500</td> </tr> <tr> <td>5-10 years</td> <td>2,500</td> <td>3,000</td> <td>3,500</td> <td>5,500</td> <td>8,500</td> </tr> <tr> <td>10-20 years</td> <td>1,500</td> <td>2,000</td> <td>2,500</td> <td>3,500</td> <td>4,500</td> </tr> <tr> <td>Over 20 years</td> <td>750</td> <td>1,000</td> <td>1,200</td> <td>2,500</td> <td>4,000</td> </tr> </tbody> </table> <p>However, vehicles over 10 years old are taxed on only half their power.</p> <p>Vehicles used exclusively for commercial purposes or for mass transit, as well as taxicabs: FMG 1,000.</p> <p>Airplanes: FMG 200,000</p> <p>1 to 9 CV: FMG 200,000 More than 9 CV: FMG 20,000 per CV</p>	Age of vehicle	1-4	5-9	10-12	13-15	Over 15	Under 5 years	3,500	4,000	4,500	6,500	9,500	5-10 years	2,500	3,000	3,500	5,500	8,500	10-20 years	1,500	2,000	2,500	3,500	4,500	Over 20 years	750	1,000	1,200	2,500	4,000
Age of vehicle	1-4	5-9	10-12	13-15	Over 15																												
Under 5 years	3,500	4,000	4,500	6,500	9,500																												
5-10 years	2,500	3,000	3,500	5,500	8,500																												
10-20 years	1,500	2,000	2,500	3,500	4,500																												
Over 20 years	750	1,000	1,200	2,500	4,000																												
3.7 Tax on company cars (<i>Taxes sur les véhicules de tourisme des sociétés</i>)	Annually levied on cars owned by companies and used for nonbusiness purposes.																																

(All amounts in Malagasy francs)

Tax	Nature of Tax	Deductions and Exemptions	Rates
4. Taxes on foreign trade			
4.1 Imports			
4.1.1 Customs duty (<i>Droit de douane à l'entrée</i>)	Levied mostly on c.i.f. value of imports.	Exemptions apply to several products listed in the Code and in the Customs Tariff.	Rates vary from 0 percent to 20 percent; most between 0 percent and 10 percent.
4.1.2 Import duty (<i>Taxe d'importation</i>)	Levied mostly on c.i.f. value of imports.	Exemptions apply to several products listed in the Code and in the Customs Tariff.	Rates vary from 0 percent to 30 percent. For any imported product the sum of the custom duty plus import duty should be equal to or lower than 30 percent (excluding exemptions).
4.1.3 VAT	Levied mostly on c.i.f. value plus customs duty and import duty.	Exemptions apply to several products listed in the Code and in the Customs Tariff.	20 percent single-stage tax.
4.1.4 Excise tax	Levied on a few products, mostly luxury items.	Exemptions apply to most products.	Rates varying from 10 to 120 percent. FMG 5,000/Knet for secondhand clothing.
4.1.5 Import tax on petroleum products (<i>Taxe unique sur produits pétroliers</i>)	Levied mostly on volume, except lubricants on c.i.f. value, and gases per K/net.	Exemption for lamp oils.	Specific taxes vary per product.
4.2 Exports			
4.2.1 Export duty (<i>Droit de sortie</i>)	Levied on the f.o.b. value, less export duties and taxes and other shipping charges.	All products except vanilla.	Specific tax FMG 85,000/Knet effective 9/1/95. Abolished June 1, 1997.
5. Other taxes			
5.1 Stamp duty (<i>Droits de timbre</i>)	Levied on: (1) legal documents, (2) administrative documents, (3) receipts, and (4) commercial instruments issued.		Fixed or proportional rates applied according to the type of document. Fixed rates vary from FMG 400 to FMG 1,000. Proportional rates: 0.5 percent on face value of commercial instruments and 0.05 percent on postal checks.

Source: Ministry of Decentralization and Budget.

1/ The 1981 Petroleum Code established a direct tax on petroleum companies (*Impôt direct sur les hydrocarbures*) in lieu of the IBS and IRCCM previously applicable to these enterprises.

2/ Levied on behalf of local authorities.

3/ A surcharge of 2 percentage points is also levied on buildings located in county seats of the local authorities.

4/ Half of the proceeds are transferred to local authorities.

Table 1. Madagascar: Availability and Use of Resources
at Constant Prices, 1990-96

(In billions of Malagasy francs at 1984 prices)

	1990	1991	1992	1993	1994	1995	1996 Prel.
Agriculture	623.6	626.8	637.5	658.0	655.0	667.3	683.8
Industry	219.9	219.1	216.8	223.8	221.5	225.4	229.9
Services	925.8	854.3	863.9	882.3	892.7	906.4	924.0
Of which: public sector 1/	(110.9)	(110.6)	(109.3)	(109.1)	(108.1)	(105.7)	(108.1)
Imputed charges	-33.8	-25.1	-25.2	-25.4	-31.5	-32.0	-32.5
Indirect taxes	227.6	164.2	168.1	161.4	161.6	164.1	166.0
GDP at market prices	<u>1,963.1</u>	<u>1,839.3</u>	<u>1,861.0</u>	<u>1,900.1</u>	<u>1,899.3</u>	<u>1,931.2</u>	<u>1,971.2</u>
Percentage change	(3.1)	(-6.3)	(1.2)	(2.1)	(-0.0)	(1.7)	(2.1)
Net imports of goods and nonfactor services	56.1	-4.6	-1.7	22.0	-6.5	-9.3	-16.6
Total available resources	<u>2,019.2</u>	<u>1,834.7</u>	<u>1,859.3</u>	<u>1,922.1</u>	<u>1,892.8</u>	<u>1,921.9</u>	<u>1,954.6</u>
Consumption	1,692.8	1,693.0	1,653.6	1,698.4	1,701.0	1,727.1	1,741.4
Of which: public sector 1/	(179.2)	(166.8)	(164.1)	(161.6)	(153.6)	(157.8)	(154.5)
Gross investment	326.4	141.7	205.7	223.7	191.8	194.8	213.2
Memorandum items:							
GDP deflator (1984=100)	234.5	267.1	300.6	339.5	480.8	697.9	824.1
Percentage change	(11.5)	(13.9)	(12.5)	(13.0)	(41.6)	(45.2)	(18.1)
Real GDP per capita 2/	175.3	160.0	154.0	153.0	148.7	147.1	146.4
Percentage change	(0.5)	(-8.7)	(-3.8)	(-0.7)	(-2.8)	(-1.1)	(-0.5)

Source: National Institute of Statistics.

1/ Excluding public enterprises.

2/ In thousands of Malagasy francs at 1984 prices.

Table 2. Madagascar: Availability and Use of Resources
at Current Prices, 1990-96

	1990	1991	1992	1993	1994	1995	<u>1996</u> Prel.
(In billions of Malagasy francs)							
Agriculture	1,357.0	1,508.1	1,727.1	2,041.1	3,342.6	4,109.3	4,795.3
Industry	599.3	648.1	715.5	832.9	1,155.1	1,716.9	2,042.9
Services	2,310.1	2,477.5	2,808.3	3,221.6	4,202.5	6,885.3	8,485.4
Of which: public sector 1/	(244.8)	(288.2)	(305.1)	(340.8)	(420.7)	(573.7)	(647.9)
Imputed charges	-66.1	-61.0	-68.5	-79.3	-129.3	-186.0	-196.1
Indirect taxes	403.6	340.9	410.7	434.6	560.3	953.2	1,116.8
GDP at market prices	<u>4,603.9</u>	<u>4,913.6</u>	<u>5,593.1</u>	<u>6,450.9</u>	<u>9,131.2</u>	<u>13,478.7</u>	<u>16,244.3</u>
Net imports of goods and nonfactor services	505.4	439.0	467.0	600.6	709.1	1,096.5	884.5
Total available resources	<u>5,109.3</u>	<u>5,352.6</u>	<u>6,060.1</u>	<u>7,051.5</u>	<u>9,840.3</u>	<u>14,575.2</u>	<u>17,128.8</u>
Consumption	4,327.9	4,951.1	5,428.2	6,313.0	8,844.5	13,100.3	15,319.6
Of which: public sector 1/	(369.5)	(429.3)	(463.4)	(506.5)	(628.8)	(904.2)	(1,024.0)
Gross investment	781.4	401.5	631.8	738.5	995.6	1,474.9	1,809.2
Fixed	(682.2)	(518.9)	(631.8)	(738.5)	(995.6)	(1,474.9)	(1,809.2)
Private	370.0	267.0	263.4	263.6	412.9	667.0	709.1
Public sector 1/	312.2	251.9	368.4	474.9	582.7	807.9	1,100.1
Change in stocks	(99.2)	(-117.4)	(...)	(...)	(...)	(...)	(...)
Memorandum items:	(In percent of GDP)						
Gross investment	17.0	8.2	11.3	11.4	10.9	10.9	11.1
Public sector 1/	6.8	5.1	6.6	7.4	6.4	6.0	6.8
Rest of the economy	10.2	3.1	4.7	4.1	4.5	4.9	4.4
Domestic savings	6.0	-0.8	2.9	2.1	3.1	2.8	5.7
Public sector 1/	3.8	-0.1	-0.6	0.8	0.6	1.9	1.5
Rest of the economy	2.2	-0.6	3.6	1.4	2.6	1.0	4.2
Total consumption	94.0	100.8	97.1	97.9	96.9	97.2	94.3
Public sector 1/	8.0	8.7	8.3	7.9	6.9	6.7	6.3
Rest of the economy	86.0	92.0	88.8	90.0	90.0	90.5	88.0

Sources: National Institute of Statistics; and Fund staff estimates.

1/ Excluding public enterprises.

Table 3. Madagascar: Production of Rice and Other Food Crops, 1990-96

(In thousands of metric tons)

	1990	1991	1992	1993	1994	1995	<u>1996</u> Prel.
Paddy	2,420	2,342	2,450	2,550	2,357	2,450	2,500
Maize	155	145	130	165	155	177	180
Manioc	2,292	2,307	2,280	2,350	2,360	2,400	2,353
Sweet potatoes	494	488	450	500	580	450	500
Potatoes	274	273	275	280	270	275	280

Source: Ministry of Agriculture and Rural Development.

Table 4. Madagascar: Rice Production, Imports, and Availability, 1961-96

	<u>Population 1/</u> (Thousands)	<u>Paddy</u> <u>Production</u>	<u>Stocks</u> <u>(End of year)</u> (In thousands of metric tons)	<u>Net</u> <u>Imports 2/</u> <u>(Exports -)</u>	<u>Total</u> <u>Rice</u> <u>Available 3/</u>	<u>Availability</u> (Kg/person)
1961	5,616	1,263	...	-13	672	120
1962	5,729	1,330	...	-25	697	122
1963	5,842	1,377	...	-20	727	124
1964	5,959	1,520	...	-21	805	135
1965	6,078	1,445	...	60	844	139
1966	6,200	1,603	...	-5	864	139
1967	6,342	1,706	...	-36	891	140
1968	6,487	1,873	...	-64	952	147
1969	6,636	1,858	...	-9	999	151
1970	6,788	1,865	...	-48	965	142
1971	6,943	1,873	...	25	1,042	150
1972	7,102	1,687	...	23	938	132
1973	7,265	1,730	...	90	1,028	142
1974	7,431	1,844	5	122	1,118	150
1975	7,604	1,972	--	59	1,135	149
1976	7,817	2,043	5	68	1,171	150
1977	8,035	2,067	9	93	1,211	151
1978	8,261	1,922	7	152	1,196	145
1979	8,492	2,045	--	155	1,272	150
1980	8,730	2,109	2	176	1,318	151
1981	8,953	2,012	8	193	1,278	143
1982	9,225	1,970	138	351	1,290	140
1983	9,484	2,147	122	185	1,365	144
1984	9,715	2,131	47	111	1,343	138
1985	9,984	2,060	--	106	1,409	141
1986	10,108	2,116	28	162	1,424	141
1987	10,368	2,178	37	94	1,433	138
1988	10,635	2,149	13	37	1,385	130
1989	10,909	2,380	28	89	1,547	142
1990	11,197	2,420	28	76	1,574	141
1991	11,493	2,342	30	39	1,525	133
1992	12,083	2,450	38	59	1,568	130
1993	12,421	2,550	40	5	1,581	127
1994	12,769	2,357	53	159	1,605	126
1995	13,126	2,450	...	123	1,593	121
1996	13,494	2,500	...	19	1,519	113

Source: Ministry of Agriculture and Rural Development.

1/ May differ from data provided by other sources.

2/ Madagascar was a net exporter of rice until 1970 (except for 1965).

3/ Domestic paddy production converted to rice equivalent plus net change in stocks and net imports.

Table 5. Madagascar: Monthly Retail Prices of Ordinary Rice, 1990-96

(In Malagasy francs per kilogram)

	Free Market	Security Stocks ^{1/}	Official Distribution ^{2/}
1990			
March	633.5	545.0	...
June	525.0	490.0	...
September	556.2	490.0	...
December	612.5	...	...
1991			
March	624.1	612.0	...
June	548.5	534.0	525.0
September	665.0	653.0	...
December	892.5	794.0	700.0
1992			
March	980.0	969.0	...
June	830.0	689.0	932.0
September	805.0	797.0	950.0
December	859.6	875.0	975.0
1993			
March	822.5	787.0	875.0
June	630.0	650.0	800.0
September	770.0	759.0	900.0
December	847.0	861.0	1,000.0
1994			
March	1,575.0	1,428.0	1,000.0
June	958.0	914.0	1,000.0
September	1,308.0	1,385.0	850.0
December	1,646.0	1,564.0	1,200.0
1995			
March	1,735.0	1,729.0	1,200.0
June	1,555.0	1,506.0	1,800.0
September	1,875.0	1,822.0	1,950.0
December	2,076.0	1,975.0	1,950.0
1996			
March	2,168.0	2,066.0	2,150.0
June	1,609.0	1,656.0	2,200.0
September	1,785.0	1,744.0	2,200.0
December	2,055.0	1,919.0	2,250.0

Source: Ministry of Commerce.

^{1/} The data refer to the price of rice sold from the food security stock, or stock tampon.

^{2/} As of August 1987, undertaken by the Fokotany (communes) purchasing rice on the local market for resale. In the period 1988-91, the official distribution of rice was discontinued.

Table 6. Madagascar: Production of Major Cash Crops, 1990-96 ^{1/}

(In thousands of metric tons)

		1990	1991	1992	1993	1994	1995	1996 Prel.
Export crops								
Coffee ^{2/}	Production	85.0	84.0	88.0	78.0	70.0	68.0	68.0
	Marketed	54.9	54.6	52.0	55.0	48.0	60.0	60.0
Vanilla	Production ^{3/}	5.0	4.7	4.0	5.0	4.0	4.3	4.4
	Marketed ^{4/}	0.8	0.6	0.8	1.0	0.6	0.6	1.2
Cloves	Production	13.5	14.6	11.5	12.5	14.0	13.0	13.0
	Marketed	10.2	13.5	10.5	11.2	13.3	13.0	12.5
Pepper	Production	1.6	2.1	2.0	2.3	2.3	2.4	2.1
	Marketed	1.2	1.9	2.0	2.0	2.3	1.8	1.9
Cocoa	Production	3.6	3.7	4.0	4.5	3.0	4.0	4.8
	Marketed	3.5	3.6	3.8	4.2	2.3	3.3	4.5
Butter beans	Production	7.0	6.0	3.0	5.0	5.0	7.8	7.8
	Marketed	6.2	5.0	2.8	4.0	4.0	4.4	4.5
Sisal	Production ^{5/}	20.0	15.0	10.0	18.0	17.2	16.3	17.0
Industrial crops								
Cotton ^{6/}	Production ^{5/}	32.1	26.7	20.2	25.4	27.0	24.3	26.0
Sugarcane	Production	2,000	1,950	1,900	1,950	2,166	2,100	2,150
	Marketed	1,400	1,380	1,300	1,400	1,652	1,822	2,016
Groundnuts	Production	30.4	29.5	22.5	32.0	28.0	30.0	36.2
	Marketed	17.0	17.0	15.0	20.0	20.0	21.4	22.4

Source: Ministry of Agriculture and Rural Development.

^{1/} Data on total production are approximate; those on marketed production are more accurate.^{2/} Unroasted coffee.^{3/} Green vanilla.^{4/} Prepared vanilla (4.6 kg green = 1 kg prepared).^{5/} Most of the production is marketed.^{6/} Seed cotton.

Table 7. Madagascar: Indicative Producer Prices for Major Crops, 1990-96 ^{1/}

(In Malagasy francs per kilogram)

	Type of Price	1990	1991	1992	1993	1994	1995	1996
Paddy	Indicative	210	220	350	470	648	725	726
Coffee	Indicative	950	1,000	500	500	8,200	6,000	4,570
Cloves	Indicative	600	900	766	900	1,800	1,850	1,900
Vanilla	Fixed	2,000	2,000	5,000	5,000	8,450	10,000	5,150
Sugarcane	Indicative	20.8	23.4	25.0	30.0	45.0	75.0	95.0
Pepper	Indicative	2,500	1,500	1,500	1,500	2,500	2,700	2,850
Wheat	Indicative	470	495	603	633	850	...	...
Soybeans	Indicative	250	...	510	510	510	...	...

Source: Ministry of Agriculture and Rural Development.

^{1/} These products were subject to floor or fixed prices before 1988.

Table 8. Madagascar: Index of Industrial Production, 1990-96

	Weight	1990	1991	1992	1993	1994	1995	1996
(1984 = 100)								
Food and agro-industries	29.18	140.1	136.4	119.2	109.4	111.4	114.5	116.1
Beverages and tobacco	7.59	106.5	90.9	94.5	93.8	96.9	111.4	138.8
Textiles and clothing	14.63	88.6	85.0	72.9	76.0	77.0	53.5	29.5
Wood industries	1.09	102.8	82.0	90.1	91.9	100.6	104.0	109.7
Paper and printing	4.68	95.8	79.3	77.8	89.7	119.3	113.3	65.9
Leather goods	2.65	70.4	53.5	42.7	74.9	76.2	61.2	59.3
Electrical goods	2.19	129.5	187.4	104.7	94.1	90.1	102.1	95.6
Metal works	2.43	105.8	71.6	106.4	93.6	109.1	143.0	159.2
Chemical industries	9.05	154.7	140.0	124.3	127.2	134.8	112.2	115.8
Energy	18.27	301.5	335.8	359.0	412.5	322.2	363.7	394.3
Construction materials	2.19	151.7	132.8	180.5	160.1	147.6	163.6	150.1
Transport materials	1.23	95.0	72.4	71.9	72.0	95.8	90.0	93.3
Extractive industries	3.86	143.3	125.0	84.0	107.1	102.7	118.4	116.3
Other	0.96	...	...	...	...	...	...	...
Total	100.00	153.9	152.2	149.6	156.8	143.2	151.4	151.7
(Annual change in percent)								
Food and agro-industries		-4.7	-2.7	-12.6	-8.2	1.8	2.8	1.4
Beverages and tobacco		10.5	-14.7	4.0	-0.8	3.4	15.0	24.6
Textiles and clothing		-11.7	-4.1	-14.2	4.3	1.3	-30.5	-44.9
Wood industries		-12.4	-20.2	9.9	2.0	9.5	3.4	5.5
Paper and printing		50.4	-17.2	-1.9	15.3	33.0	-5.0	-41.8
Leather goods		10.3	-24.0	-20.2	75.4	1.7	-19.7	-3.1
Electrical goods		30.2	44.7	-44.1	-10.1	-4.3	13.3	-6.4
Metal works		-5.5	-32.3	48.6	-12.0	16.6	31.1	11.3
Chemical industries		20.6	-9.5	-11.3	2.4	6.0	-16.8	3.2
Energy		37.1	11.4	6.9	14.9	-21.9	12.9	8.4
Construction materials		0.7	-12.5	35.9	-11.3	-7.8	10.8	-8.3
Transport materials		29.8	-23.8	-0.7	0.1	33.1	-6.1	3.7
Extractive industries		10.0	-12.8	-32.8	27.5	-4.1	15.3	-1.8
Total		12.5	-1.1	-1.7	4.8	-8.7	5.7	0.2

Sources: Ministry of Industry; and Ministry of Energy and Mining.

Table 9. Madagascar: Industrial Production, 1990-96

	Unit	1990	1991	1992	1993	1994	1995	1996 Prel.
Extractive industries								
Graphite	ton	18,036	11,372	13,000	11,702	14,659	16,119	11,295
Mica	ton	663	671	523	473	563	432	317
Chromite	ton	152,396	149,488	160,777	144,311	75,000	105,747	139,272
Food industries								
Tapioca	ton	15	57	50	30	53	70	75
Potato flour	ton	423	278	300	200	300	210	400
Cattle (slaughtered industrially)	head	23,496	27,223	19,190	17,541	20,000	22,500	25,000
Hogs (slaughtered industrially)	head	1,122	2,120	1,267	1,236	1,300	1,550	1,800
Canned meat	ton	33	50	56	65	60	59	42
Cooked pork meats	ton	220	147	187	170	105	113	137
Sugar	ton	110,934	107,518	91,930	71,222	79,280	90,052	87,608
Edible oils	ton	6,226	5,387	4,323	2,019	840	751	2,000
Beer	hectoliter	298,462	236,245	225,580	227,655	218,976	318,842	346,750
Condensed milk	ton	2,838	1,869	1,880	1,837	2,148	3,200	3,317
Salt	ton	49,080	37,025	27,628	63,399	75,783	70,560	46,250
Tobacco								
Chewing tobacco	ton	630	502	540	624	753	950	1,821
Smoking tobacco	ton	13	14	12	10	6	7	6
Cigarettes	ton	1,955	1,950	2,223	2,304	2,000	1,727	2,957
Textiles								
Cotton cloth	1,000 m	49,123	47,351	41,917	35,094	35,042	24,237	10,012
Bags for packaging	ton	921	688	1,622	1,206	1,195	950	825
Blankets	ton	3,207	2,534	2,309	3,023	2,376	1,429	1,505
String	ton	1,947	1,433	1,749	1,702	567	534	475
Paper								
Rag paper	ton	9,310	5,589	4,971	6,015	6,611	6,940	3,963
Finished paper	ton	5,945	2,510	4,322	2,459	4,505	3,690	2,208
Chemical industries								
Soap	ton	14,923	16,275	16,049	19,276	16,837	16,654	16,500
Accumulators	units	9,188	69,800	11,689	11,842	6,629	4,920	3,736
Candles	ton	1,264	1,668	1,648	1,658	1,100	2,491	584
Paint	ton	2,397	1,987	1,579	2,775	2,600	1,855	2,350
Batteries	1,000 units	13,338	11,791	15,850	19,758	20,382	23,958	22,715
Oxygen	m3	506,043	460,952	466,999	498,628	477,441	418,514	513,934
Acetylene	m3	151,753	134,910	125,980	135,040	119,476	107,281	106,930
Petroleum refining								
Butane	m3	4,137	4,641	4,678	4,268	2,306	3,901	3,215
Gasoliné	m3	64,437	69,023	86,366	81,454	41,205	64,941	51,200
Kerosene	m3	40,270	46,307	37,806	74,769	36,233	48,779	43,025
Gas oil	m3	80,090	91,160	104,333	101,123	56,359	111,070	79,167
Fuel oil	m3	126,931	146,585	159,931	183,414	87,528	204,533	153,120
Construction materials								
Cement	ton	28,600	31,557	30,096	36,397	8,524	38,000	34,863
Metal works								
Sheet metal	ton	3,320	1,665	1,710	2,247	3,361	5,492	4,711
Trunks and boxes	ton	1,428	1,200	1,038	1,401	1,500	1,259	1,441
Shoes								
Leather	1,000 pairs	299	202	177	176	180	132	195
Plastic	1,000 pairs	1,015	734	175	804	659	547	419
Other	1,000 pairs	509	735	526	129	150	120	324
Electricity								
Hydraulic	1,000 kwh	341,300	335,500	335,300	381,500	389,200	415,000	441,000
Thermal	1,000 kwh	138,800	137,400	171,100	150,100	156,800	137,000	224,100

Sources: Ministry of Industry; and Ministry of Energy and Mining.

Table 10. Madagascar: Production and Export of Major Minerals, 1990-96

	1990	1991	1992	1993	1994	1995	<u>1996</u> Prel.
Production (thousand tons)							
Chromite	152.4	149.5	160.8	144.3	75.0	105.7	139.3
Graphite	18.0	11.4	13.0	11.7	14.7	16.1	11.3
Exports (thousand tons)							
Chromite	127.6	129.3	108.4	143.8	90.0	128.5	108.3
Graphite	18.5	13.6	10.7	11.2	15.6	16.5	14.4
Export value (millions of SDRs)							
Chromite	9.1	6.7	5.5	5.6	3.8	7.7	6.5
Graphite	11.2	7.0	5.3	4.8	5.5	6.3	5.5
Unit value (SDRs per ton)							
Chromite	70.9	51.9	50.5	38.9	42.8	60.0	60.0
Graphite	603.8	515.0	493.0	431.0	354.9	380.2	379.8

Source: Ministry of Energy and Mining.

Table 11. Madagascar: Tourism Indicators, 1990-96

	1990	1991	1992	1993	1994	1995	1996 Prel.
Number of tourists	52,923	34,891	53,655	55,355	65,839	74,619	82,681
Annual growth in percent	(35.9)	(-34.1)	(53.8)	(3.2)	(18.9)	(13.3)	(10.8)
Hotel capacity (number of rooms)	...	3,040	...	3,750	4,000	5,000	6,066
Average capacity utilization (in percent) ^{1/}	73.0	38.9	52.0	55.0	52.5	55.0	58.0
Number of tourist nights	654,472	334,334	436,105	608,725	722,718	770,570	812,314
Annual growth in percent	(53.4)	(-48.9)	(30.4)	(39.6)	(18.7)	(6.6)	(5.4)
Average length of stay (days)	12.4	9.6	8.1	11.0	11.0	10.3	9.8
Foreign exchange receipts from tourism (in millions of SDRs)	29.8	20.0	27.7	28.4	32.2	41.5	44.6
Annual growth in percent	(36.7)	(-32.9)	(38.5)	(2.5)	(13.4)	(28.9)	(7.5)

Source: Ministry of Transportation, Meteorology, and Tourism; Directorate of Tourism.

^{1/} Coverage is not complete.

Table 12. Madagascar: Production and Consumption of Electricity, 1990-96

(In millions of kilowatt hours)

	1990	1991	1992	1993	1994	1995	1996 Prel.
Production <u>1/</u>	480	473	506	532	546	552	665
Hydroelectric	341	336	335	382	389	415	441
Thermal	139	137	171	150	157	137	224
Consumption	401	394	410	438	450	439	436
Public lighting	7	5	7	7	7	7	7
Households	156	126	145	157	162	169	179
Other	238	263	258	274	281	264	250

Source: Ministry of Energy and Mining.

1/ Electric power generated by the electricity and water company, that is, excluding electricity generated by industries for their own consumption.

Table 13. Madagascar: Prices of Petroleum Products, 1994-96 ^{1/}

(In Malagasy francs per liter)

	1994	1995				1996			
	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.
Gasoline (premium)	2,110	1,631	1,940	1,931	1,930	1,860	2,120	2,150	2,180
Gasoline (regular)	1,240	1,503	1,630	1,640	1,610	1,550	1,800	1,830	1,860
Gas oil	727	1,226	1,280	1,340	1,320	1,340	1,510	1,460	1,500
Kerosene	513	1,090	1,140	1,210	1,190	1,220	1,380	1,300	1,340
Natural gas ^{2/}	25,000	34,000	34,000	25,000	25,000	25,000	29,500	29,500	34,000

Source: Ministry of Energy and Mining.

^{1/} Wholesale prices from storage facilities; retail prices are higher by a small, fixed profit margin. Prices recorded in the capital city only.^{2/} Prices are for a 12.5 kg container.

Table 14. Madagascar: Population and Labor Force, 1990-96 ^{1/}

(In thousands)

	1990	1991	1992	1993	1994	1995	1996
Population	<u>11,197</u>	<u>11,493</u>	<u>12,083</u>	<u>12,421</u>	<u>12,769</u>	<u>13,126</u>	<u>13,494</u>
Percentage change	(2.6)	(2.6)	(5.1)	(2.8)	(2.8)	(2.8)	(2.8)
Labor Force	<u>5,515</u>	<u>5,653</u>	<u>5,811</u>	<u>5,914</u>	...	...	...
Agriculture	4,799	4,926	5,057	5,100	...	...	...
Manufacturing and mining	80	82	84	86	...	...	...
Construction	43	44	45	46	...	...	...
Commerce, banking and insurance	137	141	145	149	...	...	...
Transport and telecommunications	39	40	41	42	...	...	...
Administration	183	180	193	208	...	...	...
Miscellaneous ^{2/}	234	240	246	243	...	...	...

Sources: National Institute of Statistics; and National Social Security Fund.

^{1/} No data have been published by the National Security Fund after 1993.^{2/} Includes craftsman and domestics.

Table 15. Madagascar: Minimum Monthly Wage, 1984-96 ^{1/}

(In Malagasy francs)

	<u>Agricultural 2/</u>		<u>Nonagricultural 3/</u>	
	Minimum	Maximum	Minimum	Maximum
January 1984-July 1984	18,000	72,000	17,675	70,718
August 1984-June 1985	18,900	74,100	18,563	72,701
July 1985-September 1986	20,460	77,700	20,331	76,317
October 1986-February 1987	22,200	80,400	21,804	78,969
March 1987-June 1987	24,300	86,100	23,867	84,568
July 1987-January 1988	26,080	92,400	25,618	90,772
February 1988-February 1989	29,300	100,780	28,772	99,006
March 1989-February 1990	32,840	111,740	32,274	109,770
March 1990-January 1991	35,600	121,100	35,013	119,095
February 1991-December 1993	41,200	140,180	40,490	137,728
January 1994-February 1995	64,236	158,772	63,313	155,997
March 1995-October 1996	112,435	244,080	110,550	239,993
Since November 1996	123,778	268,704	121,591	263,947

Source: Ministry of Civil Service, Employment, and Social Affairs.

^{1/} The "minimum" indicates the minimum wage in the lowest wage category, and the "maximum" indicates the maximum wage in the highest wage category.

^{2/} On the basis of 200 working hours a month.

^{3/} On the basis of 173.33 working hours a month.

Table 16. Madagascar: Consumer Price Indices, 1993-96

(Period averages, August 1971-July 1972 = 100)

	Weight	1993	1994	1995				1996			
				I	II	III	IV	I	II	III	IV
(Traditional households) <u>1/</u>											
Food	60	1,578	2,208	2,978	3,108	3,470	3,747	4,020	3,946	3,850	4,019
Lighting and fuel	9	1,468	2,022	2,308	2,586	2,768	2,964	3,076	3,370	3,428	3,502
Domestic services	2	431	638	638	1,052	1,052	1,052	1,052	1,052	1,052	1,052
Maintenance, clothing, and medicine	15	1,493	1,930	2,448	2,796	3,115	3,288	3,295	3,354	3,334	3,350
Miscellaneous	14	1,581	2,296	2,998	3,400	3,636	3,829	3,876	4,458	4,480	4,491
General index	100	1,534	2,133	2,799	3,017	3,332	3,569	3,752	3,823	3,771	3,884
Annual change	...	9.2	39.1	48.6	59.3	53.4	38.2	34.1	26.7	13.2	8.8
(Modern households)											
Food	45	1,670	2,156	2,746	2,940	3,263	3,476	3,710	3,885	3,934	3,970
Lighting and fuel	6	1,027	1,393	1,768	2,300	2,250	2,224	2,219	2,289	2,379	2,423
Domestic services	11	575	878	878	1,371	1,371	1,371	1,371	1,371	1,371	1,371
Maintenance, clothing, and medicine	18	1,476	1,969	2,524	2,751	3,052	3,233	3,302	3,334	3,399	3,441
Miscellaneous	20	1,476	1,847	2,363	2,783	3,035	3,107	3,270	3,411	3,384	3,474
General index	100	1,435	1,872	2,362	2,660	2,906	3,047	3,197	3,313	3,347	3,391
Annual change	...	10.1	30.5	49.4	53.8	46.0	39.4	35.4	24.6	15.2	11.3
(Households combined)											
Combined consumer <u>2/</u> price index	100	1,509	2,068	2,689	2,927	3,225	3,439	3,613	3,696	3,665	3,761

Source: National Institute of Statistics.

1/ Low-income households.

2/ Weights of 0.75 and 0.25 are applied to the index of traditional households and to the index of modern households, respectively.

Table 17. Madagascar: Budgetary Revenue, 1990-96

(In billions of Malagasy francs)

	1990	1991	1992	1993	1994	1995	1996 Prel.
Tax revenue	434.3	336.3	484.1	526.5	702.2	1,120.8	1,374.4
Taxes on net income and profits	69.7	64.5	72.1	103.6	150.7	167.8	258.4
Companies	37.2	35.2	30.3	66.1	68.5	83.2	163.6
Individuals	22.5	21.7	26.1	25.9	40.6	58.6	59.0
Of which							
Tax on wages and salaries	(16.7)	(18.1)	(23.0)	(19.0)	(31.9)	(45.9)	(45.7)
Other 1/	9.9	7.7	15.8	11.6	41.6	26.0	35.8
Taxes on property	5.6	3.2	7.6	8.0	11.2	14.0	17.4
Of which: registration dues	(4.8)	(2.8)	(6.0)	(6.6)	(9.4)	(11.9)	(15.0)
Taxes on goods and services	102.5	81.4	153.2	143.0	201.5	298.7	341.6
Value-added tax (VAT) 2/	47.5	28.4	79.1	80.0	177.5	242.3	166.8
Excises	34.0	20.8	36.3	26.3	6.0	0.8	74.4
Fiscal monopoly net profits (RMNF)	16.0	28.3	31.7	30.5	11.2	46.4	91.0
Other 3/	4.9	3.9	6.0	6.2	6.8	9.2	9.4
Taxes on foreign trade	254.6	186.2	248.9	269.5	335.5	633.6	750.3
Import duties	217.6	150.7	222.4	255.6	320.0	589.8	731.6
Customs duty	(33.7)	(25.0)	(34.6)	(37.9)	(51.8)	(81.3)	(102.9)
Fiscal duty	(92.2)	(54.8)	(76.1)	(75.4)	(105.0)	(148.9)	(181.0)
Value-added tax on imports 2/	(80.5)	(58.0)	(68.0)	(73.3)	(142.8)	(280.6)	(258.3)
Import duties on petroleum products	(5.1)	(8.4)	(36.1)	(58.0)	(19.1)	(78.9)	(155.7)
Other 4/	(6.1)	(4.5)	(7.6)	(11.0)	(1.3)	(0.1)	(33.7)
Export duties	37.0	35.5	26.5	13.9	15.5	43.8	18.7
Export duty	(10.3)	(10.4)	(11.3)	(6.4)	(9.8)	(43.8)	(...)
Export surcharge 5/	(8.9)	(8.1)	(8.7)	(5.3)	(4.5)	(0.1)	(...)
Tax on coffee and cloves	(14.6)	(12.6)	(4.5)	(1.5)	(...)	(...)	(...)
Special levy on FNUP receipts 6/	(3.2)	(4.4)	(2.0)	(0.7)	(1.2)	(...)	(...)
Other taxes	1.9	1.0	2.3	2.4	3.3	6.7	6.7
Of which: stamp duties	(1.9)	(1.0)	(2.3)	(2.4)	(3.3)	(6.7)	(...)
Nontax revenue	31.4	17.7	19.5	29.5	46.2	27.9	30.4
Property income	10.2	5.9	13.7	12.9	18.1	10.0	0.6
Other	21.2	11.8	5.8	16.6	28.1	17.9	29.7
Total budgetary revenue	465.7	354.0	503.6	556.0	748.4	1,148.7	1,404.8

Sources: Ministries of Finance and Budget.

1/ Primarily taxes on dividend income.

2/ VAT adopted on September 1, 1994; previously a consumption tax.

3/ Including taxes on insurance premiums and motor vehicles.

4/ Including excises on imports.

5/ Taxe conjoncturelle sur les exportations.

6/ FNUP = export stabilization fund.

Table 18. Madagascar: Current Budgetary Expenditure, 1990-96 ^{1/}

(In billions of Malagasy francs)

	1990	1991	1992	1993	1994	1995	<u>1996</u> Prel.
Economic classification							
Budgetary expenditure	<u>404.8</u>	<u>473.2</u>	<u>623.7</u>	<u>727.5</u>	<u>1,066.8</u>	<u>1,498.2</u>	<u>1,679.1</u>
In percent of GDP	(8.8)	(9.6)	(11.2)	(11.3)	(11.7)	(11.1)	(10.3)
Personnel ^{2/}	193.9	226.9	238.7	266.6	329.5	444.5	523.0
Of which: wages and salaries	(180.9)	(213.8)	(221.0)	(239.6)	(307.0)	(428.8)	(509.4)
Goods and services	78.7	76.3	143.2	98.1	131.2	212.0	184.2
Interest on government debt	69.5	99.4	191.7	258.3	491.9	687.9	759.2
Of which: foreign	(47.5)	(55.7)	(77.2)	(203.4)	(462.2)	(624.3)	(628.6)
Current transfers ^{3/}	62.7	70.6	50.1	104.4	114.2	153.8	212.7
Scholarships	6.1	6.1	5.0	5.3	5.3	5.4	5.4
Grants	26.0	27.7	12.4	47.0	66.4	97.8	97.8
Decentralized public entities	30.6	36.8	32.7	52.1	42.5	50.6	109.5
Functional classification							
Budgetary expenditure	<u>404.8</u>	<u>473.2</u>	<u>623.7</u>	<u>727.5</u>	<u>1,066.8</u>	<u>1,498.2</u>	<u>1,679.1</u>
General public services ^{4/}	136.2	145.1	132.3	156.8	181.4	261.9	416.9
Of which: defense	(...)	(...)	(60.2)	(72.8)	(84.6)	(115.9)	(200.8)
Education	100.2	109.1	121.9	130.1	146.5	188.2	187.7
Of which: universities	(...)	(...)	(34.7)	(44.3)	(50.1)	(40.1)	(43.1)
Health	29.6	34.9	42.7	47.0	53.1	73.5	65.6
Social and community services	4.7	5.4	8.0	8.6	9.3	10.9	14.6
Economic services	29.7	38.4	60.5	80.1	99.4	152.5	78.7
Of which							
Agriculture ^{5/}	(15.6)	(22.1)	(23.0)	(25.5)	(29.2)	(12.5)	(49.2)
Public works	(4.1)	(5.4)	(5.3)	(5.6)	(6.4)	(10.9)	(8.2)
Unclassified ^{6/}	104.4	140.3	258.3	304.9	577.1	811.2	915.4
Of which: interest on government debt	(69.5)	(99.4)	(191.7)	(258.3)	(491.9)	(687.9)	(759.2)
Memorandum item:							
	(In percent of GDP)						
Noninterest budgetary expenditure	7.3	7.6	7.7	7.3	6.3	6.0	5.7
Social current expenditure ^{7/}	2.9	3.0	3.1	2.9	2.3	2.0	1.6
Of which: health	0.6	0.7	0.8	0.7	0.6	0.5	0.4
Defense	...	...	1.1	1.1	0.9	0.9	1.2

Sources: Ministries of Finance and Budget.

^{1/} On a commitment basis.

^{2/} Including travel expenses but excluding medical expenses.

^{3/} Including medical expenses of employees.

^{4/} Including national defense and security expenditures.

^{5/} Including livestock, fishing, water, and forestry.

^{6/} Including revenue sharing with local government and payments to international organizations.

^{7/} Including expenditure on education, health, and social and community services.

Table 19. Madagascar: Central Government Personnel Expenditure and Number of Civil Servants, 1990-96

	1990	1991	1992	1993	1994	1995	1996 Prel.
Personnel expenditure (on a commitment basis) ^{1/}							
Outlays (in billions of Malagasy francs) ^{2/}	<u>193.9</u>	<u>226.9</u>	<u>238.7</u>	<u>266.6</u>	<u>329.5</u>	<u>444.5</u>	<u>523.0</u>
Of which: wages and salaries	(180.9)	(213.8)	(221.0)	(239.6)	(307.0)	(428.8)	(509.4)
Annual change in percent	8.0	17.0	5.2	11.7	23.6	34.9	17.7
In percent of current budgetary expenditure	47.9	48.0	38.3	36.7	30.9	29.7	31.1
In percent of total budgetary expenditure ^{3/}	35.2	36.2	29.2	26.8	23.9	23.1	24.0
In percent of total government expenditure	24.7	28.2	21.3	20.1	18.3	18.7	18.1
In percent of GDP	4.2	4.6	4.3	4.1	3.6	3.3	3.2
Civil servants (number at end-December) ^{4/}							
Civilian	94,366	97,117	95,994	95,747	94,683	92,714	93,476
Military	22,100	22,100	22,076	22,076	22,076	21,475	21,475
Total	<u>116,466</u>	<u>119,217</u>	<u>118,070</u>	<u>117,823</u>	<u>116,759</u>	<u>114,189</u>	<u>114,951</u>
Annual change in percent	(2.2)	(2.4)	(-1.0)	(-0.2)	(-0.9)	(-2.2)	(0.7)
Memorandum item:							
Annual average civil servants' salary							
In thousands of Malagasy francs	1,553.2	1,793.4	1,871.8	2,033.1	2,629.3	3,755.2	4,431.5
Index 1990 = 100 ^{5/}	100.0	106.4	96.3	95.8	89.0	85.3	84.1
Annual percentage change	-5.6	6.4	-9.5	-0.6	-7.0	-4.2	-1.5

Sources: Ministries of Finance and Budget.

^{1/} Includes only regular staff. Expenditure on some categories of temporary personnel is included in goods and services outlays.

^{2/} Excluding medical expenses.

^{3/} Consisting of current budgetary expenditure and capital budgetary expenditure.

^{4/} Data on actual positions filled, which may differ from other sources.

^{5/} Annual average civil servants' salary deflated by the consumer price index (traditional).

Table 20. Madagascar: Structure and Adjustment of Public Sector Salaries, 1989-96

(In thousands of Malagasy francs per month)

	Mar. 1989- Feb. 1990	Mar. 1990- Jan. 1991	Feb. 1991- Dec. 1993	Jan. 1994- Dec. 1994	Jan. 1995- Mar. 1995	Apr. 1995- Dec. 1995	Jan. 1996- Dec. 1996
Category I							
Minimum	44.6	47.8	54.3	77.1	110.6	129.0	135.3
Maximum	79.7	86.1	99.0	126.6	162.1	192.9	203.4
(Midpoint)	(62.2)	(67.0)	(76.7)	(101.9)	(136.4)	(161.0)	(169.4)
Category II							
Minimum	58.8	63.3	72.3	97.3	131.8	157.3	165.3
Maximum	101.8	110.2	127.1	156.6	195.0	228.1	241.1
(Midpoint)	(80.3)	(86.8)	(99.7)	(127.0)	(163.4)	(192.7)	(203.2)
Category III							
Minimum	68.4	73.9	84.7	110.7	145.9	174.5	183.7
Maximum	151.0	163.8	189.3	221.0	261.9	295.5	314.0
(Midpoint)	(109.7)	(118.9)	(137.0)	(165.9)	(203.9)	(235.0)	(248.9)
Categories IV and V							
Minimum	89.9	97.2	111.8	140.6	177.9	210.3	221.9
Maximum	235.0	255.0	295.0	329.0	371.4	405.1	432.8
(Midpoint)	(162.5)	(176.1)	(203.4)	(234.8)	(274.7)	(307.7)	(327.3)
Categories VI and VII							
Minimum	112.3	121.7	140.5	170.7	209.6	242.9	257.1
Maximum	272.2	294.3	340.6	374.6	417.0	450.7	482.3
(Midpoint)	(191.7)	(208.0)	(240.6)	(272.7)	(313.3)	(346.8)	(369.7)
Categories VIII and IX							
Minimum	141.0	152.9	176.7	207.7	247.6	281.1	298.5
Maximum	339.9	368.9	427.1	463.1	506.2	540.2	579.4
(Midpoint)	(240.5)	(260.9)	(301.9)	(335.4)	(376.9)	(410.7)	(438.9)

Sources: Ministries of Finance and Budget.

Table 21. Madagascar: Government Capital Expenditure, 1990-96

	1990	1991	1992	1993	1994	1995	1996 Prel.
(In percent of total government capital expenditure)							
General public services	17.2	18.7	18.6	19.6	19.3	14.6	23.5
Education	2.8	5.7	5.0	4.9	4.3	9.9	7.2
Health	4.3	4.3	3.2	4.4	4.3	6.6	9.2
Social and community services	3.0	1.4	1.1	2.4	8.8	7.5	1.4
Economic services	72.8	69.9	72.0	68.7	63.4	61.4	58.6
Agriculture ^{1/}	29.3	22.6	25.2	26.7	23.7	17.5	23.6
Industry, energy, and mining	8.4	13.6	16.6	13.8	7.3	5.9	5.2
Transportation	4.8	4.6	6.0	23.3	4.8	3.5	2.3
Communication services	3.2	5.8	3.1	1.6	3.3	2.6	--
Public works ^{2/}	22.0	19.5	17.9	1.1	23.7	29.6	26.8
Trade	0.3	0.3	0.2	0.2	0.2	0.1	--
Scientific research	4.8	3.6	3.0	2.1	1.7	2.2	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(In billions of Malagasy francs)							
Memorandum items:							
Budgetary capital expenditure	146.6	154.3	193.7	268.9	313.0	422.7	498.4
Domestic financed	87.6	68.7	90.3	131.1	153.3	172.1	247.3
Foreign loans	59.0	85.6	103.4	137.8	159.7	250.6	251.1
Extrabudgetary	30.2	32.0	41.0	39.2	34.7	23.7	34.4
FNUP expenditure ^{3/}	2.9	4.3	8.5	11.8	18.7	0.0	0.0
Counterpart funds	27.3	27.7	32.5	27.4	16.0	23.7	34.4
On-lending ^{4/}	46.8	61.9	83.3	60.7	48.0	41.7	76.9
Foreign grants	135.4	65.6	133.7	166.8	235.0	361.5	567.3
Autofinancing	3.4	8.3	7.7	6.5	1.8	0.5	2.4
Other	2.8	3.3	2.9	4.0	3.0	0.3	0.2
Total	365.2	325.4	462.3	546.1	616.8	850.4	1,179.6
In percent of GDP	(7.9)	(6.6)	(8.3)	(8.5)	(6.8)	(6.3)	(7.3)
Social capital expenditure ^{5/}							
In percent of GDP	0.8	0.8	0.8	1.0	1.2	1.5	1.3
In percent of total	10.1	11.3	9.3	11.7	17.4	24.0	17.9

Sources: Ministries of Finance and Budget.

^{1/} Including livestock, fishing, water, and forestry.^{2/} Mainly roads, ports, bridges, and other infrastructure.^{3/} FNUP: export stabilization fund.^{4/} Foreign loans on-lent by the central government to public enterprises for investment purposes.^{5/} Including expenditure on health, education, and social and community services.

Table 22. Madagascar: Revenue and Expenditure of the Social Security Fund, 1990-96

(In billions of Malagasy francs)

	1990	1991	1992	1993	1994	1995	1996 Prel.
Revenue	<u>21.94</u>	<u>27.83</u>	<u>27.07</u>	<u>31.44</u>	<u>39.16</u>	<u>47.19</u>	<u>53.58</u>
Social security contributions	17.04	12.54	20.24	25.88	31.09	38.87	43.69
Employees'	(1.41)	(1.05)	(1.65)	(2.07)	(2.49)	(3.53)	(3.23)
Employers'	(15.64)	(11.49)	(18.59)	(23.81)	(28.60)	(35.33)	(40.45)
Interest revenue	3.53	4.49	6.64	5.35	8.07	8.07	9.41
Other revenue	1.37	10.80	0.19	0.21	...	0.26	0.49
Expenditure	<u>18.16</u>	<u>18.70</u>	<u>18.81</u>	<u>23.01</u>	<u>27.25</u>	<u>45.61</u>	<u>52.26</u>
Social benefits	9.78	11.10	13.65	16.60	20.02	33.84	36.17
Current expenditure	5.10	4.22	4.01	4.77	5.52	8.40	11.67
Salaries and wages	(1.87)	(2.22)	(2.58)	(2.95)	(3.21)	(4.79)	(5.62)
Goods and services	(1.26)	(1.40)	(1.40)	(1.75)	(2.27)	(3.38)	(5.90)
Subsidies and other transfers	(1.97)	(0.61)	(0.03)	(0.07)	(0.04)	(0.22)	(0.15)
Capital expenditure	3.27	3.38	1.15	1.65	1.71	3.38	4.42
Overall surplus/deficit (-)	<u>3.79</u>	<u>9.13</u>	<u>8.26</u>	<u>8.43</u>	<u>11.91</u>	<u>1.58</u>	<u>1.32</u>

Source: National Social Security Fund.

Table 23. Madagascar: Interest Rate Structure, 1993-96

(Annual percentage change; end-of-period)

	1993	1994	1995				1996			
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Central Bank										
Base rate	12.00	21.37	30.00	33.00	33.00	33.00	30.00	30.00	22.00	17.00
Intervention rates in the interbank market										
Lending on bid	...	21.47	30.10	33.10	33.15	37.00	30.25	30.05	22.05	...
Lending 2-10 days	...	24.00	32.50	38.00	38.00	38.00	35.00	35.00	27.00	22.00
Interbank operations - Minimum	11.60	18.00	20.00	24.50	27.00	27.00	27.00	27.00	21.00	...
- Maximum	14.15	18.00	20.00	24.50	27.00	29.00	27.00	27.00	21.00	...
Commercial banks										
Base rate - Minimum	13.00	15.12	17.60	19.96	21.53	19.63	20.97	19.10	23.00	19.00
- Maximum	15.50	19.50	26.75	24.00	24.00	28.58	28.00	28.89	26.06	20.46
Lending rates - Minimum	7.50	8.70	10.30	9.00	10.36	10.00	10.00	4.65	4.65	4.65
- Maximum	26.00	32.00	31.00	35.50	36.00	37.52	37.00	36.25	36.00	32.75
Deposit rates - Minimum	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
- Maximum	19.50	19.50	17.75	17.75	19.25	18.50	15.50	24.00	19.25	19.00

Source: Central Bank of Madagascar.

Table 24. Madagascar: Summary Accounts of the Central Bank, 1991-96

(In billions of Malagasy francs; end of period)

	1991	1992		1993	1994		1995	1996
	Dec.	Before adj.	After adj.	Dec.	Before adj.	After adj.	Dec.	Dec.
Net foreign assets	-103.1	-560.5	112.1	136.2	219.0	223.6	359.7	1029.2
Foreign assets	164.4	161.2	161.2	158.1	290.5	241.4	375.0	1043.4
Foreign liabilities (short term)	-267.5	-721.8	-49.1	-21.9	-71.5	-17.8	-15.3	-14.2
Long-term foreign liabilities	-2,650.3	-2,330.5	-270.6	-235.9	-440.8	-477.5	-385.3	-477.3
Net domestic assets	2,620.6	2,891.0	714.9	619.7	1,103.8	1,163.3	1,192.0	1,174.6
Claims on government, net	393.0	552.7	787.7	742.5	899.0	710.5	725.8	687.4
Credit to government	1,083.6	1,084.9	1,115.0	1,132.1	1,182.4	1,205.8	1,278.6	1,294.8
Statutory advances	0.0	0.0	0.0	29.0	75.0	75.0	112.3	162.2
Consolidated loans	0.0	0.0	1,115.0	1,103.0	1,103.0	1,103.0	1,099.6	1,099.6
Others	9.0	0.0	0.0	0.0	4.4	27.8	66.7	33.0
Government deposits	690.6	532.1	327.4	389.6	283.4	495.3	552.8	607.5
Claims on public companies and customers	22.2	9.3	9.3	8.1	7.3	11.6	12.6	14.1
Claims on banks	84.1	46.4	46.4	49.5	134.9	134.7	175.1	127.5
Other items, net	2,078.7	2,282.6	-128.4	-180.5	62.6	306.6	278.5	345.6
Currency valuation adjustment	2,087.2	1,935.9	0.0	10.3	262.2	311.1	345.8	355.6
Net capital	-4.1	-4.4	-37.5	-37.0	-37.1	-38.6	-117.5	-61.2
Others	211.4	351.1	-90.9	-153.8	-162.5	34.2	50.1	51.2
Reserve money	0.0	556.5	556.5	520.0	881.9	893.9	1,158.9	1,724.99
Currency outside banks	287.3	317.2	317.2	378.7	599.5	614.5	758.7	831.2
Currency in banks	10.3	6.3	6.3	10.1	18.6	18.5	26.5	29.5
Bank deposits	163.1	233.0	233.0	131.2	263.9	260.8	373.7	864.2
Resident deposits in foreign currency	0.0	0.0	0.0	...	0.0	15.5	7.5	1.5

Source: Central Bank of Madagascar.

Table 25. Madagascar: Summary Accounts of the Commercial Banks, 1991-96

(In billions of Malagasy francs; end of period)

	1991	1992		1993	1994		1995	1996
	Dec.	Before adj.	After adj.	Dec.	Before adj.	After adj.	Dec.	Dec.
Reserves	173.3	239.2	239.2	141.3	282.5	279.3	400.2	893.7
Currencies in banks	10.3	6.3	6.3	10.1	18.6	18.5	26.5	29.5
Deposits at central bank	163.1	233.0	233.0	131.2	263.9	260.8	373.7	864.2
Current account	163.1	233.0	233.0	131.2	263.9	260.8	348.7	712.6
Reverse auction			...	...	...	0.0	25.0	151.7
Net foreign assets	111.7	162.2	162.2	213.5	482.5	479.0	505.2	461.9
Claims on government, net	-123.6	-121.2	-121.2	63.2	107.9	107.9	49.3	43.0
Credit to government	17.1	19.0	19.0	220.1	250.6	250.6	174.0	206.3
Government deposits	140.7	140.1	140.1	156.9	142.8	142.8	124.8	163.3
Claims on private sector	859.1	919.5	919.5	1,061.6	1,338.8	1,334.7	1,540.8	1,572.0
Deposits	791.6	897.0	897.0	1,156.6	1,686.3	1,637.8	1,845.3	2,214.0
Demand deposits	505.9	583.6	583.6	645.3	985.4	981.9	1,074.7	1,338.3
Time deposits	285.7	313.5	313.5	492.1	483.3	440.7	493.4	592.1
Foreign currency	0.0	0.0	0.0	19.2	217.6	215.2	277.1	283.6
Short-term bonds	0.0	0.0	0.0	0.0	0.0	42.6	59.4	95.5
Recourse to central bank	84.1	46.4	46.4	49.5	134.9	134.7	175.1	127.5
Long-term foreign liabilities	4.2	5.9	5.9	6.3	21.2	21.2	26.0	24.9
Net capital	221.1	249.0	249.0	253.9	302.3	302.3	389.6	535.6
Other items, net	-18.8	1.4	1.4	13.2	66.9	62.3	0.1	-27.0
Currency valuation adjustment	...	...	...	...	51.5	1.7	-10.2	-6.9
Other	-18.8	1.4	1.4	13.2	15.4	60.6	10.3	-20.0
Memorandum items:								
Custom duty bills	10.4	9.2	9.2	10.0	10.2	10.2	10.3	13.3
Post office checking deposits	4.5	4.5	4.5	4.2	4.6	4.6	8.9	10.4
Private sector savings deposits with the National Savings Fund	7.6	11.8	11.8	15.5	24.3	24.3	37.5	51.5

Source: Central Bank of Madagascar.

Table 26. Madagascar: Exports, f.o.b., 1990-96

(Value in millions of SDRs, volume in thousand tons, and unit value in SDR per kilogram)

	1990	1991	1992	1993	1994	1995	1996 Prel.
Coffee							
Value	<u>28.46</u>	<u>20.52</u>	<u>22.42</u>	<u>28.98</u>	<u>59.88</u>	<u>61.16</u>	<u>47.30</u>
Volume	47.82	40.88	49.45	50.92	40.65	39.21	43.00
Unit price	0.60	0.50	0.45	0.57	1.47	1.56	1.10
Cloves							
Value	<u>14.75</u>	<u>16.86</u>	<u>6.39</u>	<u>4.51</u>	<u>5.87</u>	<u>7.19</u>	<u>4.59</u>
Volume	10.22	13.08	10.59	11.36	17.12	17.13	8.50
Unit price	1.44	1.29	0.60	0.40	0.34	0.42	0.54
Vanilla							
Value	<u>42.07</u>	<u>34.07</u>	<u>36.37</u>	<u>24.64</u>	<u>44.25</u>	<u>27.22</u>	<u>11.43</u>
Volume	0.83	0.64	0.70	0.49	1.07	0.75	0.96
Unit price	50.75	53.07	51.96	50.80	41.51	36.29	11.91
Pepper							
Value	<u>1.52</u>	<u>1.80</u>	<u>1.59</u>	<u>1.69</u>	<u>2.13</u>	<u>1.96</u>	<u>2.33</u>
Volume	1.22	1.84	1.95	2.00	2.28	1.44	1.60
Unit price	1.24	0.98	0.82	0.85	0.93	1.36	1.46
Shellfish							
Value	<u>24.85</u>	<u>29.89</u>	<u>26.90</u>	<u>28.62</u>	<u>40.43</u>	<u>38.79</u>	<u>46.93</u>
Volume	5.09	6.59	5.89	6.91	7.72	8.20	9.50
Unit price	4.89	4.54	4.57	4.14	5.23	4.73	4.94
Sugar							
Value	<u>12.26</u>	<u>7.51</u>	<u>6.55</u>	<u>4.63</u>	<u>6.93</u>	<u>9.36</u>	<u>11.54</u>
Volume	38.68	21.13	17.24	11.27	23.10	22.27	25.65
Unit price	0.32	0.36	0.38	0.41	0.30	0.42	0.45
Meat							
Value	<u>0.15</u>	<u>0.61</u>	<u>2.07</u>	<u>2.77</u>	<u>3.88</u>	<u>5.80</u>	<u>3.72</u>
Volume	0.11	0.39	1.29	1.70	2.78	3.79	2.20
Unit price	1.32	1.56	1.60	1.63	1.40	1.53	1.69
Cocoa							
Value	<u>1.81</u>	<u>2.90</u>	<u>1.78</u>	<u>2.56</u>	<u>1.91</u>	<u>2.47</u>	<u>2.11</u>
Volume	2.59	4.27	2.73	4.08	2.23	3.26	2.70
Unit price	0.70	0.68	0.65	0.63	0.86	0.76	0.78
Cotton cloth							
Value	<u>6.34</u>	<u>9.99</u>	<u>6.74</u>	<u>5.17</u>	<u>9.27</u>	<u>7.39</u>	<u>8.24</u>
Volume	2.42	4.05	2.63	2.05	2.43	2.01	1.80
Unit price	2.62	2.47	2.56	2.52	3.81	3.68	4.58
Sisal							
Value	<u>3.47</u>	<u>2.29</u>	<u>1.30</u>	<u>1.88</u>	<u>2.34</u>	<u>2.80</u>	<u>3.51</u>
Volume	12.19	9.66	7.08	9.40	10.36	11.20	10.96
Unit price	0.28	0.24	0.18	0.20	0.23	0.25	0.32
Petroleum products							
Value	<u>6.27</u>	<u>7.31</u>	<u>6.61</u>	<u>5.57</u>	<u>3.82</u>	<u>10.03</u>	<u>8.53</u>
Volume	89.13	106.60	101.90	134.33	83.12	185.14	121.82
Unit price	0.07	0.07	0.06	0.04	0.05	0.05	0.07
Chromite							
Value	<u>9.05</u>	<u>6.71</u>	<u>5.48</u>	<u>5.60</u>	<u>3.85</u>	<u>7.71</u>	<u>6.50</u>
Volume	127.56	129.34	108.45	143.80	89.95	128.54	108.33
Unit price	0.07	0.05	0.05	0.04	0.04	0.06	0.06
Graphite							
Value	<u>11.17</u>	<u>6.98</u>	<u>5.26</u>	<u>4.82</u>	<u>5.53</u>	<u>6.29</u>	<u>5.48</u>
Volume	18.50	13.55	10.67	11.18	15.58	16.54	14.43
Unit price	0.60	0.51	0.49	0.43	0.35	0.38	0.38
Essence of cloves							
Value	<u>1.25</u>	<u>1.67</u>	<u>1.64</u>	<u>2.00</u>	<u>2.21</u>	<u>3.71</u>	<u>3.63</u>
Volume	0.61	1.46	0.99	1.39	1.29	1.58	1.30
Unit price	2.04	1.14	1.65	1.44	1.71	2.35	2.79
Other items							
Value	<u>63.30</u>	<u>73.98</u>	<u>66.02</u>	<u>63.03</u>	<u>75.40</u>	<u>69.50</u>	<u>75.00</u>
Volume	0.53	0.63	0.54	0.53	0.63	0.60	0.66
Unit price	118.69	117.86	122.34	118.92	119.68	115.83	113.64
Reexports ^{1/}							
Value	<u>7.34</u>	<u>20.78</u>	<u>33.00</u>	<u>51.38</u>	<u>44.73</u>	<u>69.63</u>	<u>110.00</u>
Total	<u>234.06</u>	<u>243.87</u>	<u>230.12</u>	<u>237.85</u>	<u>312.43</u>	<u>331.01</u>	<u>350.84</u>
Memorandum items:							
Traditional exports ^{2/}							
In percent of total	37.1	30.0	29.0	25.2	35.9	29.5	18.7
Export volume growth	3.1	11.2	0.2	5.2	2.9	2.5	22.8

Source: Central Bank of Madagascar.

^{1/} Since 1989, including the exports of the enterprises set up in the export processing zone.^{2/} Including coffee, vanilla, cloves, and pepper.

Table 27. Madagascar: Composition of Imports, c.i.f., 1990-96

	1990	1991	1992	1993	1994	1995	1996 Prel.
(In millions of SDRs)							
Food	35.9	25.8	41.3	36.8	55.0	44.1	30.7
Of which: rice	(20.5)	(8.5)	(10.3)	(3.4)	(26.2)	(12.2)	(1.6)
Nonfood consumer goods	73.5	51.0	63.0	57.0	74.5	69.1	75.5
Energy	83.6	52.1	51.2	61.2	50.3	53.2	67.0
Raw materials and spare parts	104.3	66.3	71.4	81.4	78.0	100.1	75.0
Equipment goods	137.4	120.8	91.5	100.2	99.9	92.7	120.0
Other imports ^{1/}	43.6	62.5	70.3	92.8	90.5	127.9	141.5
ARD: Food	...	...	...	3.6	3.0	3.3	...
Consumption goods	...	...	...	20.5	17.1	18.7	...
Capital goods	...	...	...	31.0	25.9	29.2	...
ZFI: Textiles	...	...	...	20.1	31.4	54.8	...
Capital goods	...	...	...	3.0	4.4	7.4	...
Others	...	...	...	14.6	8.7	16.5	...
Total imports, c.i.f.	<u>478.3</u>	<u>378.4</u>	<u>388.6</u>	<u>429.4</u>	<u>448.3</u>	<u>487.1</u>	<u>509.7</u>
Total imports, f.o.b.	417.5	321.7	330.3	365.0	381.0	414.0	433.3
(In percent of total imports, c.i.f.)							
Food	7.5	6.8	10.6	8.6	12.3	9.1	6.0
Of which: rice	(4.3)	(2.2)	(2.7)	(0.8)	(5.8)	(2.5)	(0.3)
Nonfood consumer goods	15.4	13.5	16.2	13.3	16.6	14.2	14.8
Energy	17.5	13.8	13.2	14.3	11.2	10.9	13.1
Raw materials and spare parts	21.8	17.5	18.4	19.0	17.4	20.5	14.7
Equipment goods	28.7	31.9	23.6	23.3	22.3	19.0	23.5
Other imports ^{1/}	9.1	16.5	18.1	21.6	20.2	26.3	27.8
ARD: Food	...	...	...	0.8	0.7	0.7	...
Consumption goods	...	...	...	4.8	3.8	3.8	...
Capital goods	...	...	...	7.2	5.8	6.0	...
ZFI: Textiles	...	...	...	4.7	7.0	11.2	...
Capital goods	...	...	...	0.7	1.0	1.5	...
Others	...	...	...	3.4	1.9	3.4	...
Total imports, c.i.f.	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Central Bank of Madagascar.

^{1/} Includes the imports of the enterprises set up in the export processing zone (ZFI) and enterprises under other special trade tax regimes (ARD).

Table 28. Madagascar: Short-Term Foreign Reserve Assets and Liabilities of the Central Bank, 1994-96

(In millions of SDRs; end of period)

	1994	1995				1996			
		Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Assets	<u>42.5</u>	<u>35.2</u>	<u>30.6</u>	<u>50.9</u>	<u>73.7</u>	<u>84.4</u>	<u>97.8</u>	<u>123.2</u>	<u>167.6</u>
Freely available reserves	20.3	11.7	10.1	18.6	21.6	18.1	16.2	15.7	42.8
Other assets	22.2	23.6	20.5	32.3	52.1	66.3	81.5	107.5	125.2
Time deposits with foreign banks	11.1	14.5	13.3	24.7	43.4	52.7	67.7	93.7	112.4
Earmarked deposits	5.9	4.8	4.2	4.9	5.1	8.8	2.6	2.5	2.4
Special Drawings Rights	0.0	0.1	0.0	0.0	0.0	0.5	0.3	0.1	0.0
Special account	0.0	4.2	3.0	2.7	3.6	4.3	10.9	11.3	10.4
Other	5.2	...	...	...	...	...	...	...	...
Liabilities	<u>59.8</u>	<u>59.0</u>	<u>57.0</u>	<u>54.9</u>	<u>52.0</u>	<u>49.6</u>	<u>48.1</u>	<u>44.1</u>	<u>53.1</u>
Nonresident deposits	1.7	1.3	1.4	0.8	2.6	2.0	4.3	2.9	2.3
International organizations	0.2	0.0	0.1	0.1	0.1	0.0	0.1	0.1	0.0
IMF	58.0	56.6	54.1	52.7	48.9	47.6	43.7	41.1	50.8
External payments arrears ^{1/}	...	1.0	1.4	1.4	0.4	0.0	0.0	0.0	0.0
Net foreign assets	<u>-17.3</u>	<u>-23.8</u>	<u>-26.4</u>	<u>-4.0</u>	<u>21.7</u>	<u>34.8</u>	<u>49.7</u>	<u>79.1</u>	<u>114.5</u>
Net foreign assets (excluding IMF and arrears)	40.7	33.7	29.1	50.1	71.0	82.4	93.4	120.2	165.3

Source: Central Bank of Madagascar.

^{1/} After the central bank and treasury foreign debt consolidation in 1992, the stock of arrears declined from SDR 259.4 million to SDR 2.5 million.