IMF Country Reports 23/117

Republic of Madagascar: 2022 Article IV Consultation, Third Review Under The Extended Credit Facility Arrangement, and Requests for A Waiver of Nonobservance of Performance Criteria and Modification of Performance Criteria-Press Release; Staff Report; and Statement by the Executive Director for Republic of Madagascar

INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/117

REPUBLIC OF MADAGASCAR

March 2023

2022 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF MADAGASCAR

In the context of the Staff Report for the 2022 Article IV Consultation, Third Review Under the Extended Credit Facility Arrangement, and Requests for A Waiver of Nonobservance of Performance Criteria and Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its March 1, 2023 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 1, 2023, following discussions that ended on January 20, 2023 with the officials of Republic of Madagascar on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 15, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank.
- A **Statement by the Executive Director** for Republic of Madagascar

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International Monetary Fund

Washington, D.C.

IMF Executive Board Completes the Third Review Under the Extended Credit Facility, Approves $32.6 Million Disbursement, and Concludes the 2022 Article IV Consultation with the Republic of Madagascar

FOR IMMEDIATE RELEASE

- Two years of pandemic and multiple climate shocks have aggravated Madagascar's fragility. While Madagascar's economy rebounded faster than expected in 2021, growth is projected at 4.2 percent in 2022-2023.
- Overall program performance is mixed. Despite some macroeconomic slippages, the implementation of structural reforms is gaining momentum.
- Improving governance and accelerating reforms to increase transparency and accountability are key to deliver higher and more inclusive growth.

Washington, DC – March 1st, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] and completed the third review of the Extended Credit Facility (ECF) arrangement with the Republic of Madagascar. The completion of the review enables the disbursement of SDR 24.44 million (about US$32.6 million), usable for budget support, bringing Madagascar's total disbursements under the arrangement to SDR 146.6 million (about US$195.5 million).

Since the last Article IV consultation in 2019, the Malagasy authorities have implemented several key policy recommendations, but ambitious reforms remain hampered by limited capacity and weak governance. In a context of lower global growth and high international prices, Madagascar's growth is projected to stall at 4.2 percent in 2023 while annual average inflation would accelerate above 10 percent. Risks from the domestic political situation, low COVID-vaccination rates and adverse global developments cloud the outlook. On the upside, the implementation of the full reform agenda envisaged in the Plan Emergence Madagascar would have significant effects on productivity and growth.

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

"In an adverse global environment and following a series of climate shocks, Madagascar's performance under the Fund-supported program has been mixed. The implementation of structural reforms is gaining momentum but needs to continue.

The gradual fiscal consolidation envisaged in the 2023 budget is appropriate. Identifying adequate tax policy measures, such as rationalizing tax exemptions, will be key to create more fiscal space for social

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

spending and public investment. A properly designed revision of the mining code and mining taxation reform could yield significant revenue while boosting growth and exports. Further efforts are needed to strengthen public investment management and improve spending efficiency.

Going forward, the full implementation of the agreement reached with oil distributors in December 2022 and the gradual implementation of an automatic fuel pricing mechanism would help to mitigate fiscal risks. Strengthening social safety nets to protect the most vulnerable households and boosting resilience to climate shocks are important steps. Restoring the financial situation of state-owned companies and improving their governance is essential to reduce the need for fiscal transfers.

The authorities should further their efforts to enhance budget credibility and fiscal transparency. Recently adopted public financial management reforms are expected to contribute to better budget execution in 2023. Measures to enhance the legal framework for public procurement contracts would be welcome. The consolidation of the Cour des Comptes' autonomy will help improve external oversight of public finances. The effective enforcement of the anti-corruption framework is crucial to strengthen accountability and increase public trust in institutions.

The successful transition to interest rate targeting hinges on the central bank's capacity to continue the modernization of its framework for monetary operations, macroeconomic forecasting, and policy analysis. The central bank should stand ready to further raise interest rates to contain inflationary pressures and limit its foreign exchange interventions to smoothing volatility and building external buffers. The adoption of a financial stability law would help to strengthen the regulatory and supervisory role of the central bank and further enhance financial stability.

Measures to build resilience to climate shocks, drawing on recommendations from the recent Climate Macroeconomic Assessment Program (CMAP) are important. Efforts to strengthen the emergency response capacity, increase agricultural productivity, improve infrastructure, and develop social safety nets would help to address food insecurity."

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Madagascar's progress on implementing reforms, although they noted the mixed performance under the Fund-supported program in a challenging environment. While the outlook remains favorable, growth has decelerated, and risks are to the downside. Directors encouraged continued commitment to policies that promote sustainable and inclusive growth and build resilience to shocks, including from climate change. They emphasized the importance of IMF capacity development to support reform implementation.

Directors agreed that a more gradual fiscal consolidation path was appropriate to help navigate a complex global and domestic environment. They emphasized the need to mobilize domestic revenue to finance higher social and investment spending, preferably by removing costly and distortionary tax exemptions. Noting the improvement in social spending execution in 2022, Directors encouraged

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

continued efforts to modernize public financial management and improve budget execution and transparency. They underscored the importance of further steps to enhance the legal framework for public procurement contracts, including by requiring the identification of ultimate beneficial owners. Directors welcomed the settlement of cross-liabilities with oil distributors and urged strong efforts to restore the financial position of loss-making state-owned enterprises to further reduce fiscal risks.

Directors stressed the urgency of improving governance and accountability to improve trust in institutions. They underscored the importance of effective enforcement of the anti-corruption framework, including by providing adequate human and financial resources to anti-corruption agencies and upgrading the AML/CFT framework.

Directors encouraged the central bank to stand ready to further raise interest rates to contain inflationary pressures as needed. They recognized the progress in reforming the monetary policy framework to transition to interest rate targeting. Directors noted the steps taken to enhance financial stability and highlighted that the adoption of a financial stability law would help to strengthen the central bank's regulatory and supervisory role and further enhance stability.

Directors welcomed efforts to build resilience to climate shocks, drawing on recommendations from the recent Climate Macroeconomic Assessment Program (CMAP). They agreed that improving food security would require strengthening the emergency response capacity, increasing agricultural productivity, improving infrastructure, and developing social safety nets.

It is expected that the next Article IV consultation with the Republic of Madagascar will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Table 1. Madagascar: Selected Economic Indicators, 2019–24

	2019	2020	2021	2022	2023	2024
		Est.			Proj.	
	(Percent change; unless otherwise indicated)					
National Account and Prices						
GDP at constant prices	4.4	-7.1	5.7	4.2	4.2	4.8
GDP deflator	6.5	4.3	6.6	7.4	9.5	8.3
Consumer prices (end of period)	4.0	4.6	6.2	11.2	9.3	8.6
Money and Credit						
Broad money (M3)	7.3	12.1	12.2	34.5	16.5	16.8
	(Growth in percent of beginning-of-period money stock (M3))					
Net foreign assets	-2.6	2.1	1.0	-0.9	3.5	4.1
Net domestic assets	9.9	10.0	11.2	35.4	13.0	12.7
of which: Credit to the private sector	10.3	5.6	11.1	25.3	7.3	9.6
	(Percent of GDP)					
Public Finance						
Total revenue (excluding grants)	10.8	9.9	10.5	11.1	11.9	12.7
of which: Tax revenue	10.6	9.5	10.2	10.8	11.7	12.4
Grants	3.1	2.5	0.7	2.5	2.7	2.6
of which: budget grants	0.7	0.9	0.0	0.0	0.0	0.1
Total expenditures	15.4	16.4	14.0	20.3	17.6	18.6
Current expenditure	9.5	9.6	8.7	12.3	8.9	9.9
Capital expenditure	5.8	6.8	5.3	8.0	8.7	8.7
Overall balance (commitment basis)	-1.4	-4.0	-2.8	-6.8	-3.0	-3.3
Domestic primary balance[1]	0.3	-1.9	-0.1	-2.7	1.3	0.6
Total financing	1.3	3.5	3.2	5.0	4.6	3.3
Foreign borrowing (net)	1.3	1.8	2.3	2.6	2.2	2.5
Domestic financing	0.0	1.7	0.8	2.4	2.4	0.9
Financing gap[2]	0.0	0.0	0.0	0.0	0.0	0.0
Savings and Investment						
Investment	21.2	19.5	23.2	23.4	25.3	24.6
Gross national savings	20.4	12.3	10.1	17.8	19.6	19.5
External Sector						
Exports of goods, f.o.b.	18.5	15.0	18.6	23.2	24.4	24.4
Imports of goods, c.i.f.	26.9	24.3	28.7	34.0	35.0	32.0
Current account balance (exc. grants)	-5.4	-7.9	-5.7	-8.0	-8.4	-7.7
Current account balance (inc. grants)	-2.3	-5.4	-5.0	-5.6	-5.7	-5.1
Public Debt	41.0	51.2	52.3	57.1	53.1	51.9
External Public Debt (inc. BFM liabilities)	27.0	36.8	38.5	42.5	41.1	40.8
Domestic Public Debt	13.9	14.4	13.8	14.7	11.9	11.2
	(Units as indicated)					
Gross official reserves (millions of SDRs)	1196	1338	1630	1601	1523	1627
Months of imports of goods and services	4.2	6.0	5.8	4.3	3.7	3.9
GDP per capita (U.S. dollars)	532	477	517	526	536	560

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

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

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

February 15, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic and extreme weather events have aggravated Madagascar's fragility. The poverty rate is estimated to be above 80 percent. After a stronger-than-expected recovery in 2021, growth is estimated to have decelerated in 2022 mostly due to climate shocks and a worsening global environment. Fiscal performance has deteriorated with weak revenue performance and increasing cross-liabilities with oil distributors. While fiscal and external deficits have widened, fiscal and external sustainability are preserved in the medium term.

Outlook and Risks. The outlook is highly uncertain with risks tilted to the downside. Madagascar continues to face risks associated with social fragility, weak state capacity, and climate shocks. Political risks are likely to increase ahead of the presidential elections. In a context of slowing global growth and higher inflation, real GDP is projected to grow by 4.2 percent in 2023, while average inflation would accelerate and reach 9.5 percent.

Program Performance. Three out of five quantitative performance criteria (QPCs) were met in June 2022 while all three indicative targets (ITs) were missed. The authorities are requesting a waiver for non-observance of performance criteria on the domestic primary deficit and the central bank's net foreign assets. The authorities advanced key structural reforms, notably by removing the spending authorization requirement—a key obstacle to better budget execution—, preparing annual spending commitment plans for social ministries in line with the approved budget, and strengthening the budgetary autonomy of the supreme audit institution. Moreover, they have reached an agreement to clear cross-liabilities with oil distributors.

Policy Discussions. There was broad agreement on policies to promote strong, sustainable, and inclusive growth and bolster macroeconomic stability by: (i) scaling up investment and social spending and creating additional fiscal space through enhanced revenue mobilization and spending prioritization; (ii) improving fiscal transparency and governance, including by tackling corruption; (iii) improving the monetary policy framework to promote stability and contain inflation; and (iv) building resilience, including to climate change, by strengthening social safety nets and infrastructure.

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

Discussions were held remotely (Washington DC) and in person (in Antananarivo) during November 2, 2022–January 20, 2023. The IMF team comprised Frederic Lambert (head), Ghislain Afavi, Cristina Cheptea, Dominique Fayad, Samah Mazraani (all AFR), Veronique Salins (FAD), Bilal Tabti, Tim Willems (SPR), Mokhtar Benlamine (Resident Representative) and Ialy Rasoamanana (local economist). Regis N'Sonde, Mbuyamu Matungulu, and Thierry Nguema Affane (office of the Executive Director) joined some of the meetings. The team met with Prime Minister Ntsay, Minister of Economy and Finance Rabarinirinarison, Central Bank Governors Rabarijohn and Andrianarivelo, other senior officials, development partners, as well as representatives of the private sector, non-governmental organizations and the civil society. Hatem Alsokhebr and Tebo Molosiwa (AFR) contributed to the preparation of this report.

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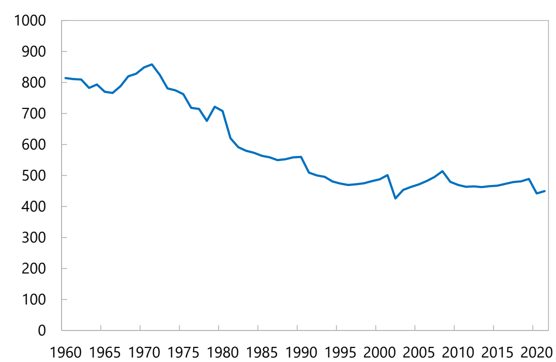
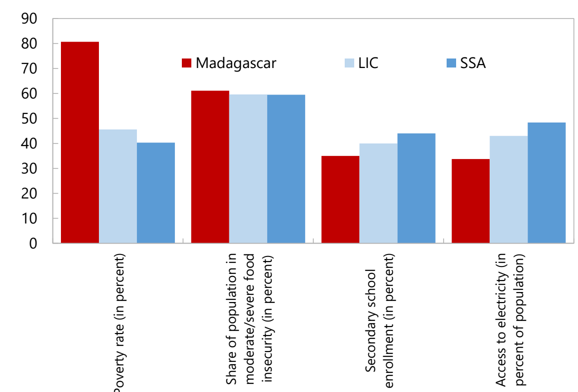
BACKGROUND

1. The COVID-19 pandemic and multiple climate shocks have aggravated Madagascar's fragility. The 2020 recession was about three times deeper than in the rest of Sub-Saharan Africa (SSA). Real per capita income fell back to historical lows in 2020, following two decades of quasi-stagnation reflecting deep political, social, economic, and structural deficiencies.[1] The estimated poverty rate,[2] which had fallen modestly before the pandemic, increased to 81.5 percent in 2021, almost twice as high as the average of SSA countries. The lack of adequate infrastructure and several years of droughts have worsened food insecurity with more than one million people relying on food assistance from the World Food Program. Internal migration to northern districts has increased as people search for better livelihood opportunities and income sources. Growth remains constrained by weak physical and human capital, high informality and self-subsistence, weak governance and corruption, and exposure to climate disasters.

Real Per Capita GDP
(In constant 2015 US$)



Human Development Indicators



Sources: World Bank; Food and Agriculture Organization.

2. Risks of political tensions are growing ahead of the 2023 presidential elections. The 2018 presidential elections and the inauguration of President Rajoelina in 2019 marked the first democratic handover of political power in Madagascar's history. However, persistent food insecurity, higher prices, high levels of perceived corruption, and growing poverty could exacerbate popular discontent. Banditry, cattle rustling, and lawlessness affect rural security and weaken state control.

3. Since the conclusion of the last Article IV consultation in 2020, the authorities have implemented several key IMF recommendations (Annex II). Nonetheless, ambitious reforms are hampered by limited capacity and weak governance. Decision-making and the implementation of

[1] IMF Country Report No. 20/60. Annex 1. Country Engagement Strategy.

[2] Defined as the share of the population living under the extreme poverty line of US$2.15 per day in 2017 PPP.

policies are reportedly often tainted by private interests and the exclusion of key groups from policymaking combined with a high degree of centralization and weak accountability mechanisms.[3]

4. The national forum of investments for the emergence of Madagascar held in October 2022 aimed to draw prospects for development in the context of the *Plan Emergence Madagascar* (PEM). Seeking an eightfold increase in per capita GDP and a sharp reduction of the poverty rate to 35 percent by 2040, the plan would benefit from a quantified and timebound implementation strategy to translate aspirations into actions. Achieving the plan's objectives would require accelerating key structural reforms and reinforcing the public's trust in policies along with an ambitious investment scale-up financed by a significant increase in domestic revenue mobilization and external financing (Annex VI).

RECENT ECONOMIC DEVELOPMENTS

5. Economic activity has recovered more rapidly than expected in 2021 and real GDP is estimated to have exceeded its pre-pandemic level in 2022. Following a contraction of 7.1 percent in 2020, the economy bounced back to 5.7 percent growth in 2021, supported mainly by the mining industry and construction. However, the growth momentum was disrupted in the first half of 2022 by the impact of five cyclones. Slower growth prospects in the U.S. and Europe and a still low COVID-19 vaccination rate (6.9 percent) are affecting the tourism recovery. Production remains supported by the continued rebound in mining, textile, and tourism, with growth estimated around 4.2 percent in 2022.

6. Inflation pressures have intensified. Despite the imposition of price ceilings on a few basic goods in April-September and efforts to limit urban transportation tariff increases (*Taxibe*), headline inflation rose from about 4 percent in 2020 to 10.8 percent year-on-year in November 2022, reflecting high international prices and the direct and indirect effects of a 43-percent fuel price increase in July (Box 1). Public wages increased by 5 to 25 percent in May (17 percent on average) while the private sector minimum wage was raised by 25 percent, after the government agreed to cover 60 percent of the increase by subsidizing part of employers' social contributions in 2022.

7. The Central Bank (BFM) has responded to higher inflation by raising interest rates while continuing to provide ample liquidity to banks. It raised interest rates for the fifth consecutive time since November 2021 by 120 basis points in October 2022 to contain potential second-round effects from wage increases. The deposit and marginal lending facility rates have increased by 634 and 394 basis points since May 2021, to 8.1 and 10.1 percent, respectively. Liquidity injections significantly increased, reaching MGA 1,154 billion cumulatively over the year, while private sector credit growth grew by 19.3 percent year-on-year in October. The acceleration was however mostly driven by short-term credit, reflecting potential cash flow problems in a context of slowing demand and higher prices.

[3] World Bank Group, The Urgency to Reform: Structural Transformation and Better Governance at the Heart of the Strategy to Reduce Poverty, *Systematic Country Diagnostic Update for Madagascar*, March 2022.

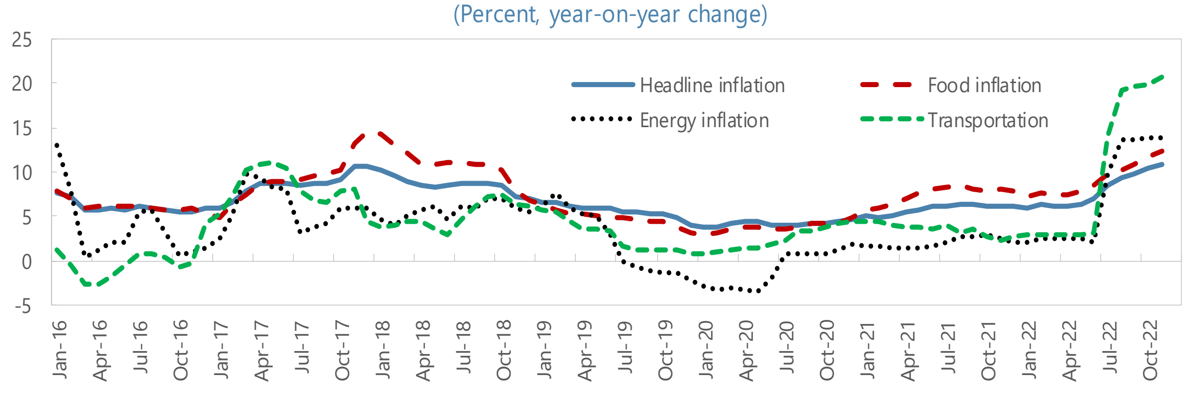
8. The external position has slightly weakened. The current account deficit is estimated to have widened to 5.6 percent of GDP in 2022 from 5.0 percent in 2021. Underneath this balance hides a strong recovery in both exports and imports, with a narrower trade deficit being matched by an increased deficit in services. Relative to 2021, goods exports have risen by almost 50 percent, mostly thanks to volume growth in the mining sector and high international prices of both cobalt and nickel. Tourism revenues have rebounded, but still lie some 40 percent below 2019 levels, while the value of imported services related to the mining sector, construction, and transportation have increased strongly (partly because of inflation in Madagascar's trading partners). The Ariary depreciated only slightly relative to the U.S. dollar over 2022:H1 but the depreciation accelerated over 2022:H2 (around 12.8 percent over the year). BFM has continued to intervene to smooth excessive exchange rate volatility, with net interventions amounting to US$ 4.3 million in 2022. Madagascar's external position at end-2022 is assessed as broadly in line with the level implied by fundamentals and desirable policies. Despite a recent decline, the level of FX reserves still lies within standard adequacy levels (Annex V).

Box 1. Drivers of Inflation

Energy and transportation prices explain the recent spike in inflation. Headline inflation spiked to 10.8 percent y-o-y in November 2022, the highest level since December 2017. This recent spike reflects pressures on energy and transportation prices. The Malagasy authorities increased the administered pump prices by 43 percent in July 2022, which raised overall energy prices by 13.6 percent y-o-y in August 2022 compared to just 2.4 percent y-o-y in June 2022. Higher energy prices drove transportation prices up by 19.3 percent y-o-y in August 2022 versus 3.3 percent y-o-y in June 2022. While energy and transportation together represent only 13 percent of the CPI basket (7.75 and 5.3 percent respectively), they explain more than 57 percent of the observed change in inflation in July and August 2022. This share dropped to 50 percent and 40 percent in September and November 2022, as the increase in energy and transportation prices compounded the increase in food prices which represents 53 percent of the CPI basket. Between November 2021 and November 2022, y-o-y inflation increased by 4.7 percentage points, of which energy and transportation contributed 1 and 0.9 percentage points, respectively.

Consumer Price Index

(Percent, year-on-year change)

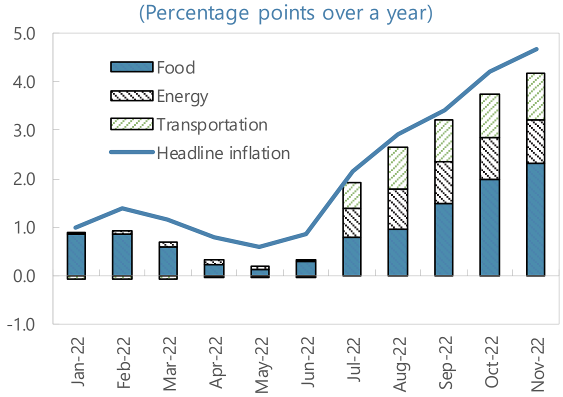


Sources: INSTAT; and IMF Staff calculations.

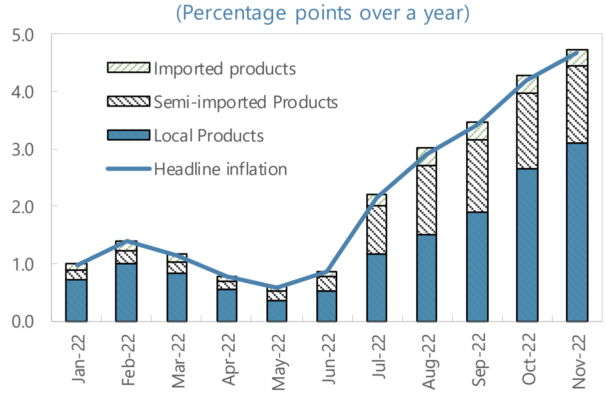
Box 1. Drivers of Inflation (concluded)

Imported and semi-imported products are also weighing on inflation. While imported and semi-imported products (in general, a product is classified as semi-imported when it is 50 percent made of imported components) represent a mere 15 percent of CPI basket in Madagascar, they contributed to almost 50 percent of the surge in inflation in July and August 2022 and 35 percent in November 2022. This is largely due to the increase in pump prices (fuel sold at pump is considered as semi-imported goods by the National Statistics Office) but also to the faster depreciation of the Ariary over June-August 2022.

Contributions to Changes in Inflation by Product Type
(Percentage points over a year)



Contributions to Changes in Inflation by Product Origin
(Percentage points over a year)



Sources: INSTAT; and IMF staff calculations.

9. **Delays in reaching an agreement with oil distributors led to a significant widening of the fiscal deficit.** Based on preliminary and incomplete data, staff estimate that the domestic primary deficit reached 2.7 percent of GDP in 2022 compared to a target of 1.4 percent in the revised budget (LFR) voted in June. Domestic tax collection is estimated to have underperformed relative to the LFR by about 0.8 percent of GDP mostly due to accumulating VAT credits toward oil distributors[4] and the non-resumption of gold exports.[5] Moreover, oil distributors stopped paying oil customs taxes in November 2021 until an agreement was reached with the government end-December 2022 on settling cross-liabilities resulting from the implicit pump price subsidy and overdue oil taxes.[6,7] The authorities responded to the revenue shortfall by containing spending, including the wage bill and goods and services, and accumulating arrears. After a slow start (17.6 percent execution at end-September), the execution of domestically financed public investment is expected to have significantly accelerated over the fourth quarter of last year, reaching

[4] Staff had cautioned against the negative impact on tax revenue of the decision to reduce the VAT rate on retail fuel sales from 20 to 15 percent in July 2022, while keeping the VAT rate on fuel imports unchanged (IMF Country Report No. 22/316).

[5] 2022 budget projections expected additional revenue from the introduction of an excise tax on gold exports (IMF Country Report No. 22/79).

[6] Assessed (but not paid) oil customs taxes have continued to be recorded in the fiscal operations of the central government with an offsetting item under “other net Treasury operations” and thus have not contributed to reducing the deficit.

[7] The agreement concluded with oil distributors at end-December 2022 implies the payment of oil taxes due for November 2021-December 2022 in 2023, along with the settlement by the government of its liabilities related to the implicit fuel price subsidy. The net effect on the budget is expected to be positive (around 0.4 percent of GDP).

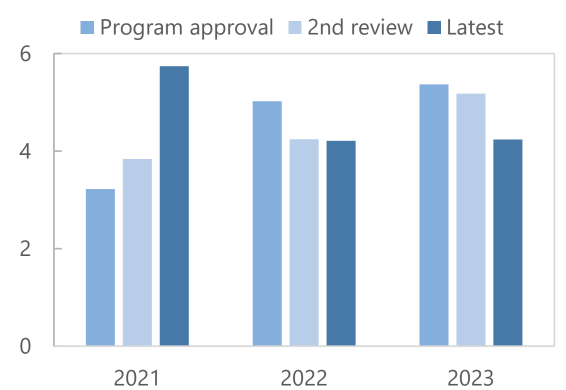
around 66 percent of the LFR target. In addition, spending of unused investment credits from 2021, recorded under treasury operations spending, was high (1.5 percent of GDP).

10. Banks' ratio of non-performing loans (NPL) to total gross loans remains slightly above its pre-pandemic level. The average NPL ratio stood at 7.7 percent in December 2022 versus 7.3 percent in December 2019, despite dynamic credit growth. There are however significant differences between small and large banks with the NPL ratio for the top five banks (90 percent of the sector's assets) below 7 percent in September. One small bank accounting for 2.7 percent of the credit market and facing high NPLs is being recapitalized by its foreign parent company under close scrutiny by the banking supervisor. Overall, banks remain adequately capitalized, liquid, and profitable due to an increase in net commission income and currency transactions. The average capital-to-risk-weighted-assets ratio stood at 12 percent at end-September against the regulatory minimum of 8 percent. The microfinance sector is gradually recovering from lingering effects of the pandemic and weak agricultural activity; deposits and loans grew respectively by 5.9 and 15.6 percent year-on-year in August and the sector's net income went up by 16 percent, with 9 microfinance institutions out of 17 turning in a profit.

OUTLOOK AND RISKS

11. The global slowdown and higher inflation weigh on the outlook. Projected real GDP growth for 2023 was revised down to 4.2 percent, owing to the combined effects of inflationary pressures, political uncertainty, and slowing global growth prospects. Mining output, boosted by the expansion of graphite mines, and agricultural production are expected to be higher in 2023, boosting exports. Annual average inflation is projected to reach 9.5 percent in 2023 despite lower international oil prices because of the recent exchange rate depreciation and the second-round effect of wage and pump price increases. The 2023 domestic primary balance could reach a surplus of 1.3 percent of GDP driven by the settlement of oil distributors' 2022 net liability to the government. The current account deficit is expected to stabilize at around 5.7 percent of GDP in 2023.

Real GDP Growth Revisions
(Percent)



Sources: Malagasy Authorities; and IMF staff projections.

12. Growth is expected to converge to about 4.5 percent in the medium term. Following the recent Climate Macroeconomic Assessment Program (CMAP), staff revised its estimate for medium-term potential growth from 5 to around 4.5 percent to better account for the impact of recurring climate disasters. However, this estimate does not account for the sizeable potential of key sectors like mining and the possible effect of the PEM on TFP (Annex VI). Inflation is expected to remain above 8 percent until 2025 as strong growth would intensify demand-side pressures.

13. Risks stemming from Madagascar's public and external debt continue to be contained.[8] Madagascar's risk of overall and external debt distress remains "moderate", consistent with the previous assessment at the time of the first review. Maintaining fiscal discipline and careful debt management is important to build fiscal buffers and effectively address the consequences of likely future natural disasters.

14. Risks to the outlook are skewed to the downside (Annex I). Risks arise from the domestic political situation and weak state capacity, low COVID-vaccination rates, adverse commodity price shocks, and a slowdown of global growth. These risks could increase fiscal and external pressures and slow the increase in public investment, with an adverse effect on growth. The vanilla sector (which accounts for about a quarter of Madagascar's goods export revenues) has been fragilized by attempts to restrict access to the sector with the aim of improving compliance with the minimum export price of US$250 per kilogram.[9] Financial stress in SOEs and banking fragilities could also increase contingent liabilities. Madagascar remains highly vulnerable to climate shocks. On the upside, implementation of the full reform agenda envisaged in the PEM along with new investment projects in the energy and mining sectors would have significant positive effects on productivity and growth.

Authorities' Views

15. The authorities broadly agreed with staff's assessment of the outlook and risks facing the economy but were more optimistic about growth prospects. While they understand the usefulness of a prudent baseline framework, they expect higher economic momentum in 2023 and 2024, as the strong performance of the tourism, textile, and mining sectors would continue and further support domestic demand despite higher inflation. They also believe a gradual acceleration of growth toward 7 percent in 2025 is feasible, driven by larger public and private investments despite the tightening of global financial conditions.

PROGRAM PERFORMANCE

16. Program implementation is mixed with respect to quantitative performance criteria (QPC) and indicative targets (IT), in part because of factors outside the authorities' control:

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

[9] This minimum export price may further undermine the long-run viability of the sector: if binding and adhered to, importers may switch to buying from suppliers in, e.g., Indonesia, Papua New Guinea, and Uganda, who are unconstrained to sell at lower prices. In practice, the minimum export price proves circumventable through over-invoicing. That route however brings distortions as the FX surrender requirement operates over the official minimum export price, implying that exporters (when selling at a price below the minimum) need to convert more foreign currency into Ariary than they receive in practice. This unduly favors exporters with access to foreign exchange and significant operating expenses in Ariary.

- Two out of five QPC were missed at end-June 2022. The ceiling on net domestic assets and the two external debt-related continuous QPCs were respected. The floor on the central bank's net foreign assets (NFA) was missed by a small margin in a context of high market volatility and U.S. dollar strength and despite net purchases of U.S. dollar by the central bank; but the end-September IT was met. The QPC on the domestic primary balance was also breached by a narrow margin at end-June (MGA 43 billion) mostly due to the non-payment of oil customs taxes by oil distributors and despite the authorities' efforts to contain spending. For the same reason, staff expect this QPC to be missed by a larger margin at end-December 2022 as reflected in the current macroframework. This deficit breach is expected to be temporary following the conclusion of an agreement between the government and oil distributors and would therefore not affect program performance going forward.

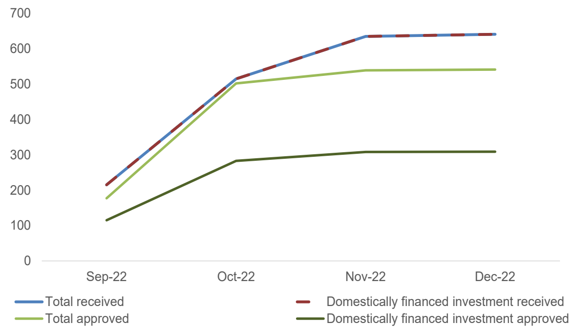
- The IT on customs tax collection was missed, as a third of projected revenue was not collected from distributors.[10] The IT on domestic tax collection was also missed following slower-than-expected growth. The IT on social spending was missed by more than half but social spending including wages reached 89 percent of the target.

17. There was significant progress on the program's structural reform agenda. On September 30th, the authorities provided the first monthly dashboard reporting the number and amount of spending authorization requests (SAR) addressed to the Prime Minister and the President, as well as the average approval time. This dashboard has since been shared monthly with staff. Over the last four months of 2022, 84 percent of SARs were approved with an average delay (weighed by amount) of 11.6 days. The authorities agreed to eliminate the spending authorization process for the 2023 budget execution. Moreover, with the support of the Fund-provided long-term expert, annual spending commitment plans in line with the approved budget were prepared for the four social ministries before end-January 2023. The budget autonomy of the *Cour des Comptes* was strengthened with the creation of a dedicated budgetary mission in the 2023 budget law. As regards continuous structural benchmarks (SBs), the coverage of the quarterly budget execution reports was improved (though further improvements remain necessary); and staff were notified within one week of the budget transfers to JIRAMA's suppliers made in September. However, as the agreement with oil distributors on settling cross-liabilities was delayed until December 2022, the ceiling on the government's gross liabilities to oil distributors (MGA 300 billion) was breached in September.

[10] The Technical Memorandum of Understanding for the program specifies that government revenue are to be recorded on a cash basis for the assessment of the program targets and criteria.

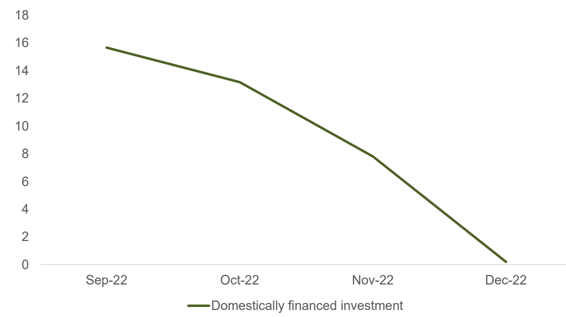
Spending Authorization Requests

Cumulative Number of SARs Received and Approved



Monthly Weighted Average Delays in SAR Approval

(Days)



Sources: Malagasy authorities and IMF staff calculations.

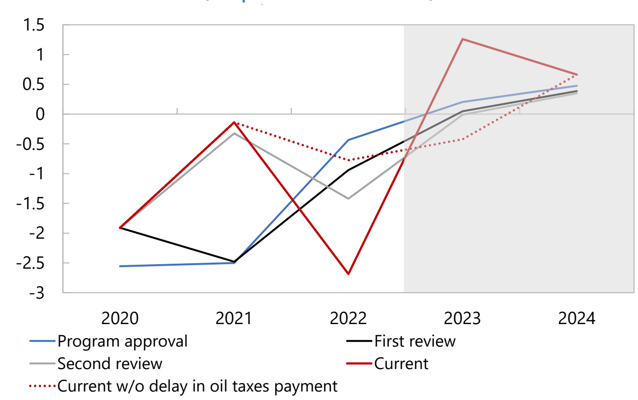
POLICY DISCUSSIONS

A. Creating and Strengthening Fiscal Space to Allow for Much Needed Investment and Social Spending

18. Excluding exceptional revenue from the payment of overdue oil taxes, the 2023 budget envisages a relaxation of 0.4 percent of GDP in the domestic primary deficit relative to the second review. This relaxation is justified by the need for additional transfers to settle all past liabilities with oil distributors not previously envisaged for this year. Assuming no delay in oil tax payment, this still implies a consolidation effort of 0.4 percent of GDP in an electoral year, consistent with program objectives. Given the expected settlement of cross-liabilities with oil distributors, the program targets a domestic primary surplus of 1.3 percent of GDP in 2023, with revenue and social spending ITs based on staff's projections (text table).

Domestic Primary Balance

(In percent of GDP)



Sources: Malagasy authorities; and IMF staff calculations.

Madagascar: Authorities vs. Staff Fiscal Projections
(In billions of Ariary)

	2022			2023		
	Revised Budget Law (LFR)	Current framework	Current framework (Percent of GDP)	2023 budget law (LF)	Current framework	Current framework (Percent of GDP)
Total revenue and grants	8,951	8,467	13.6	11,431	10,376	14.6
Total revenue	7,198	6,938	11.1	8,810	8,488	11.9
Tax revenue	7,024	6,766	10.8	8,620	8,298	11.7
Domestic taxes	3,664	3,305	5.3	4,429	4,100	5.8
Taxes on international trade and transactions	3,360	3,462	5.5	4,191	4,198	5.9
Non-tax revenue	175	172	0.3	190	190	0.3
Grants	1,753	1,529	2.5	2,621	1,888	2.7
Total expenditure and lending minus repayments	12,729	12,687	20.3	15,719	12,522	17.6
Current expenditure	6,994	7,667	12.3	7,043	6,310	8.9
Wages and salaries	3,492	3,295	5.3	3,869	3,869	5.4
Interest payments	466	402	0.6	642	703	1.0
Goods and services	517	450	0.7	542	542	0.8
Transfers and subsidies	1,538	1,502	2.4	1,827	2,225	3.1
Treasury operations (net)	979	2,017	3.2	163	-1,029	-1.4
o/w oil tax arrears		*1,192*	1.9		*-1,192*	-1.7
Capital expenditure	5,735	5,020	8.0	8,675	6,212	8.7
Domestic financed	1,556	1,348	2.2	2,709	1,990	2.8
Foreign financed	4,179	3,672	5.9	5,966	4,222	5.9
Overall balance (commitment basis)	-3,777	-4,220	-6.8	-4,288	-2,145	-3.0
Overall balance (including grants, cash basis)	-3,777	-3,106	-5.0	-4,879	-3,289	-4.6
Domestic primary balance	**-885**	**-1,676**	**-2.7**	**-300**	**892**	**1.3**
excluding oil tax arrears		*-484*	*-0.8*		*-300*	*-0.4*
Memo item:						
Domestic primary balance envisaged at the 2nd review		-883	-1.4		-7	0.0

Sources: Malagasy authorities; and IMF staff projections.

19. The medium-term consolidation path, underpinned by better domestic revenue mobilization, should ensure a positive domestic primary balance in 2024 and beyond. Further efforts to raise revenue and contain transfers to the energy sector would strengthen fiscal space. A projected domestic primary surplus of around 1 percent of GDP would contribute to stabilizing debt as a share of GDP and anchor debt sustainability,

20. The 2023 budget (LF) projects an ambitious increase in tax revenue, supported by a mix of tax policy and administration measures. A few administrative revenue measures planned in the 2022 budget law were delayed (e.g., implementing a tracing system of products subject to excise taxes) and thus renewed in the 2023 budget law. As regards tax policy, the authorities reverted the reduction of the VAT rate on fuel from 15 to 20 percent that was implemented last summer along with a 43-percent increase in retail fuel prices. They replaced the corporate income tax for exporters of agricultural products by a 3-percent turnover tax on exports proceeds. Staff warned that such a tax could discourage domestic transformation and might undermine the PEM's objective to develop the domestic food industry. To address informality in the vanilla sector, the authorities also introduced a withholding tax on intermediaries in the sector, while imposing a minimum price to be paid to local producers of green vanilla. They imposed a new exit tax on exports of non-renewable minerals while changing the gold excise tax to 6 percent.[11] Staff cautioned that the combined taxation of mining exports including royalties and the new exit tax might exceed

[11] The gold excise tax was introduced in 2022 but did not generate any revenue since gold exports are still officially prohibited.

taxation levels commonly applied in other mining exporters thereby jeopardizing the development of the sector. Higher taxes on gold might encourage illegal exports without generating additional revenue. Staff urged the authorities to reconsider those measures and remove distortionary and costly tax exemptions instead. Staff's overall revenue projections reflect lower assumed yields than the budget. Gross tax revenue is still projected to increase by 0.9 percent of GDP between 2022 and 2023 in line with the increase envisaged at the time of the second review.

Madagascar: Decomposition of the Projected Revenue Increase in the 2023 Budget

	2022		2023 Proj.					
	Est.	Excluding One-Offs	Economic Factors	Administrative Measures	Policy Measures	One-off Factors	IMF projections	LF 2023
				(in billions of Ariary)				
Total tax revenue, net of VAT reimbursement	6,766	6,467					8,298	8,620
Total tax revenue, gross	7,053	6,754	7,872	253	186	349	8,661	9,022
Domestic taxes	3,588	3,289	3,753	143	173	349	4,417	4,786
Taxes on international trade and transactions	3,466	3,466	4,120	111	13	0	4,243	4,236
				(in percent of GDP)				
Total tax revenue, net of VAT reimbursement	10.8	10.4					11.7	12.1
Total tax revenue, gross	11.3	10.8	11.1	0.4	0.3	0.5	12.2	12.7
Domestic taxes	5.8	5.3	5.3	0.2	0.2	0.5	6.2	6.7
Taxes on international trade and transactions	5.6	5.6	5.8	0.2	0.0	0.0	6.0	6.0
Nominal GDP	62,395						71,201	71,038

Sources: Malagasy authorities; and IMF staff estimations.
Note: One-off factors in 2023 include (1) MGA 250 billion of tax arrear recovery; (2) MGA 98 billion of public procurement tax recovery.

21. In the medium term, domestic revenue mobilization would benefit from the ongoing revision of the mining code and mining taxation. The mining sector in Madagascar has sizeable potential and could yield significant revenue while boosting exports and growth. The authorities are committed to finalizing a revision of the mining code in close consultation with the World Bank, the IMF and mining sector's representatives (Box 2) and to submitting it to Parliament by June 2023 (new proposed SB). The swift adoption and implementation of gold sector reforms is necessary to lift the ongoing ban on gold exports.

22. Spending allocations in the 2023 budget reflect the authorities' priority to boost public investment. The budget envisages a 51-percent increase in public investment (from 9.2 in the LFR for 2022 to 12.2 percent of GDP). Domestically financed investment would jump by 74 percent. The current macroframework includes a more realistic increase of 28 percent compared to the 2022 LFR, taking into account the continuation of presidential investment projects started in 2022 and financed by the cession of part of the 2021 SDR allocation (¶24). The finalization and publication of a public investment manual by March 2023 (SB) is needed to strengthen the public investment management framework and would contribute to greater public investment efficiency. Staff encouraged the authorities to improve investment prioritization based on clear and transparent criteria, including resilience to climate change as recommended by the CMAP. Projects should account for implementation and absorptive capacity constraints and be accompanied by appropriate costing including the maintenance and operational costs of existing infrastructure.

Box 2. Recommendations for the Revision of the Mining Code

Since August 2022, the authorities have reinitiated consultations on the revision of the 2005 mining code. For the government, this revision is an opportunity to mend mining sector taxation and mobilize additional revenue. Given the suspension of the application of 2005 legal provisions, an updated legal framework is needed to develop the mining sector activities as long as it ensures legal and fiscal transparency and stability, and the new regime remains attractive for investors.

The reinstatement of the granting and renewal of exploration and production permits for all mining projects, suspended since 2011, is long overdue. The suspension has led to the accumulation of a backlog of permits requests and limited the expansion of legal mining activities which started before 2011. However, the authorities are keen to first revise the mining code to address perceived weaknesses of the legal framework and revise mining taxation before lifting the suspension. In the meantime, the freeze on new permits and non-application of the 2005 mining code is not only constraining the sector's development but threatening the viability of the whole mining industry.

Compared to its predecessor, the new code should include provisions to facilitate the monitoring of mining activities by the government (e.g., through the attachment of a *cahier des charges* or specifications to mining permits) **and strengthen environmental protection, health and safety rules, and workers' rights** (with a strict prohibition of child labor).

The new mining code should ensure the stability of the legal and fiscal framework and fiscal transparency. The new code should apply systematically to all new mining projects and avoid the recourse to bilateral conventions that make the legal and fiscal framework less transparent, more difficult to administer, and more prone to corruption. To preserve budget unicity, it is imperative to avoid earmarking fiscal revenues from the exploitation of mineral resources to finance the newly created Malagasy wealth fund (as envisaged in the draft communicated to staff).

The new code should weigh the possibility of greater revenue mobilization from the mining sector with the need for the new regime to remain attractive for investors. There is scope to raise additional revenue from mining resources, for instance by increasing the royalty rate which, currently at 2 percent, remains low in comparison with international peers. However, coupling higher royalty rate or sharing agreements of production proceeds with the recently introduced exit tax on exports of non-renewable minerals[1] would lead to a tax rate on turnover/exports well above peers. This would deter investment and encourage smuggling activity.

[1] The newly introduced exit tax is of 5 percent on exports of transformed minerals, 15 percent on crude mineral and 10 percent on gold.

23. **Strengthening social safety nets and increasing social spending would increase the effectiveness of fiscal policy to stabilize the economy** (see Selected Issues Paper (SIP) on Social Spending and Outcomes in Madagascar). Social spending execution has improved relative to 2021. The preparation of annual expenditure commitment plans should further strengthen execution in 2023. The LFI targets an increase in the social spending IT of 131 percent relative to 2022 executed spending (and of 287 percent for domestic social investment), which seems overly ambitious given public investment under-execution trends in recent years. Staff project a more conservative increase of 57 percent, which is incorporated in the current framework. In addition to building new schools and hospitals, raising outcomes in education and health will require allocating more human capital resources to understaffed establishments and ensuring transparent and merit-based recruitment mechanisms for teachers and health professionals. The new social protection strategy to be elaborated in 2023 should include clear objectives and timelines and identify financing sources to

improve social safety net coverage. The authorities are working toward finalizing the functionality of the single social registry with harmonized eligibility criteria to better target social assistance and emergency cash transfers and starting a pilot project to integrate 60,000 households into the registry (two new proposed SBs, MEFP ¶17). Meanwhile, they should consider options to increase social protection coverage, enhance services and benefits, and improve safety and occupational health at the firm level, including in the informal and agricultural sector (see SIP on Informality and Growth in Madagascar). One proposal is to allow independent workers to voluntarily contribute to the national social security fund (CNAPS) and thus collect social benefits.

Madagascar: Spending of the Four Social Ministries

(Program definition)

	2021		2022 Prel.						2023	
	ECF 2nd Rev.	Prel.	LFR	Mar	Jun	Sep	Dec	% Dec/LFR	LFI	Proj.
(in billions of Ariary, unless otherwise indicated)										
IT Definition: excluding salaries and foreign financed investment	514	299	527	7	75	157	447	85	1,031	700
o/w Goods and Services	76	42	79	5	19	32	76	96	78	
o/w Transfers	143	153	180	2	44	93	171	95	180	
o/w Domestically financed investment	294	104	268	1	12	32	200	75	773	
o/w Ministry of Education	303	161	232	2	48	79	225	97	338	
o/w Ministry of Health	134	97	118	2	19	59	105	89	188	
o/w Ministry of Population and Social Protection	17	22	28	2	5	8	26	95	50	
o/w Ministry of Water	60	19	149	1	2	11	90	60	455	
Memo 1: including salaries	1,713	1,385	1,888	271	716	1,138	1,768	94	2,549	2,218
Memo 2: including salaries and foreign financed investment	2,361	1,856	2,787	351	1,049	1,471	2,578	92	3,873	3,351
Memo 3: wage bill of public workers - education	948	873	1,127	218	527	806	1,076	95	1,249	1,249
Memo 4: wage bill of public workers - health	240	201	222	43	108	165	232	105	253	253
Social spending by other ministries										
Domestically financed investment	68	14	28	1.3	3	4	27	97	33	33
Externally financed investment		325	104	438	479	539	539	517	163	163
Transfers to FID			18	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Transfers to BNGRC			15	n.a.	15	n.a.	n.a.	n.a.	n.a.	

Note: LFI= Loi de Finances Initiale (Initial Budget Law); LFR= Loi de Finances Rectificative (Revised Budget Law).

Sources: Ministry of Economy and Finance, and IMF staff estimates

24. The authorities committed to clear the arrears accumulated in 2022 during 2023 (MEFP ¶19). As a result, the overall fiscal deficit on a cash basis would widen by 1.6 percentage points relative to the deficit on a commitment basis to 4.0 percent of GDP. The authorities would rely on the use of MGA 1100 billion of the August 2021 SDR allocation to close the financing gap.[12] Staff cautioned that unnecessary borrowing at non-concessional terms would undermine debt sustainability and reduce future fiscal space.

25. The settlement of cross-liabilities with oil distributors and cancellation of unused investment credits significantly reduces fiscal risks in 2023. Besides implying sizable exceptional revenue in 2023, the agreement paves the way for the resumption of regular oil tax payments starting in January 2023. It also brings back gross liabilities vis-à-vis oil distributors related to the implicit fuel price subsidy below the program ceiling. Based on current international oil price projections, gross liabilities are expected to return and remain under the MGA 300 billion threshold

[12] This amount was already included in the 2022 budget law but ultimately not used. See IMF Country Report No. 22/79.

(continuous SB) in 2023. The authorities remain committed to implementing an automatic fuel pricing mechanism by 2024Q1. The agreement also covers the payment of fuel requisitions for the public utility company JIRAMA (¶26). The cancellation of unused investment credits and some unused credits of the COVID fund, envisaged at the time of the second review to respect budget annuality, will reduce the risk of a surprise increase in net treasury operations in 2023.[13] Going forward, the cancellation of all unused budget credits at the end of a given fiscal year should be systematic.

26. Restoring JIRAMA's financial situation and improving its governance remains a pressing priority. High fuel prices have further weighted on the company's financial situation and forced the government to requisition fuel to supply JIRAMA's thermal powerplants. The 2023 budget law allows the government to issue special T-bills to pay for most of those requisitions while a convention between the government and JIRAMA will formalize JIRAMA's debt vis-à-vis the government and specify the repayment schedule and terms. The authorities budgeted only MGA 300 billion for JIRAMA's operational subsidy in 2023 (vs. MGA 500 billion in the 2022 LFR). Significant governance issues, including the misuse of public funds, have led to changes in JIRAMA's management, delaying the finalization of the recovery plan (December 2022 SB). The authorities committed to finalize the installation of prepaid meters for all public administrations by end-2023 to avoid the accumulation of arrears to JIRAMA (around 0.4 percent of GDP in 2022 according to JIRAMA, new proposed SB, MEFP ¶25).

27. Air Madagascar remains a large fiscal risk. A new structure, Madagascar Airlines, has taken over the activities of Air Madagascar and its local subsidiary Tsaradia; a new internationally recruited CEO was appointed in December 2022. The new management will finalize and implement a new recovery plan. Air Madagascar's debt restructuring is still ongoing and preliminary estimates suggest a financing requirement of at least US$ 60 million. A government guarantee of US$ 20 million for the leasing of new aircrafts is reported in the 2023 LFI.

28. Despite short-term measures to fill the deficit of the civil servants' pension fund (CRCM), a deeper reform of the pension system is needed to address structural imbalances. The authorities should better contain pension spending by e.g., reviewing indexation mechanisms and reducing annuity rates and consider creating a unified and uniform pension scheme for all public sector workers (public servants and contractuals).

Authorities' Views

29. The authorities broadly agreed with staff's assessment. They are confident about achieving tax revenue higher than 12 percent of GDP in 2023, through the approved tax policy measures and by strengthening controls and the customs and tax administrations. They highlighted their efforts to modernize and digitalize the administration. The authorities argued that the exit tax on nonrenewable minerals, collected by the customs, is necessary to incentivize custom value control and reinforce the contribution of the extracting sector to the financing of the economic

[13] The authorities plan to transfer about MGA 148 billion of unused credits from the COVID fund to the National Contingency Fund pending the approval of a new decree (¶45).

development of the country. They agreed with the need to comply with budget annuality and cancelled unused credits for public investment projects. They acknowledged that JIRAMA represents a sizable fiscal risk and pointed that they are working on strengthening their financial oversight. They committed to reallocate spending and increase transfers to JIRAMA if necessary to avoid using fuel requisitions, without jeopardizing social programs.

B. Strengthening Public Financial Management, Governance and the Fight Against Corruption

30. Improving governance is a key objective of the PEM and the program. Governance in Madagascar remains weak with little progress since the 2019 Article IV Consultation (Annex VII). Due to legislative changes in 2019–20, the rule of law, perceived control of corruption and government effectiveness have slightly improved, but remain well below the SSA average, and even further from emerging markets' levels to which Madagascar aspires. Budget credibility and transparency should be further strengthened, and more emphasis should be put on the effective implementation of the anti-corruption framework. Ensuring access to information to civil society and the stability of the legal business framework would foster trust in institutions.

31. The authorities recently updated strategic plan to modernize public financial management (PFM) aims to improve budget execution and transparency. Support to these reforms is a priority of the IMF capacity development strategy, with the presence of a Fund-provided long-term expert in the Ministry of Finance (Annex IV).

32. Staff welcomed the authorities' efforts to improve budget execution. The authorities have removed the requirement for ministries to obtain spending commitment authorizations from both the Prime Minister's office and the Presidency for all spending above MGA 200 million or about US$ 44,000, a process that was slowing investment execution. The streamlined spending commitment process is expected to support budget credibility through better budget execution (Box 3). Extending the preparation of annual expenditure commitment plans to all ministries for the next fiscal year would also facilitate execution as well as cash flow management. The authorities are planning to reinforce financial controls and to resort to more frequent audits of the expenditure chain by inspection bodies such the *Cour des Comptes* or the *Inspection Générale de l'Etat* to suppress fraud. A new unit in charge of the follow-up of spending commitment (*Bureau de Suivi des Engagements*) will carry out ex post targeted controls of commitments' regularity. Budget execution oversight would also benefit from improved interoperability of the Ministry of Economy and Finance IT systems.

33. Improving fiscal decentralization would enhance the effectiveness of local governments and national public institutions. More transparent and predictable transfers would increase the planning ability of local governments and support better quality service provision. Strengthening the capacity of decentralized institutions is key to increase local tax revenue.

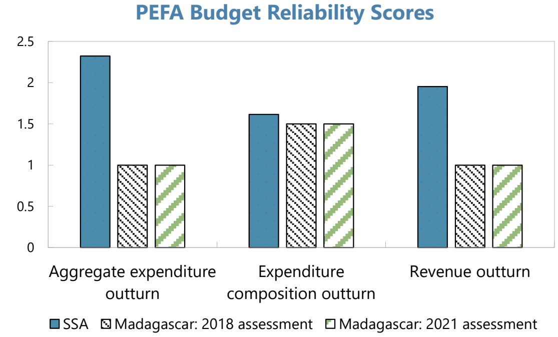
34. More transparency would contribute to greater credibility. IT system improvements would help to enhance the coverage and adequacy of quarterly budget execution reports, which have been published since 2021 (continuous SB). Delays to adopt the *loi de règlement* should be reduced. Strict enforcement of the principle of budget annuality is also key to improve transparency (¶23). All individual public procurement contracts should be posted on the ARMP website. The authorities committed to change the legal framework for public procurements to require the identification of the ultimate beneficial owners (UBO) of public contracts and allow for the publication of this information by June 2023 (new proposed SB, MEFP ¶31). They reiterated their commitment to clarify the objectives, investment strategy, financing, and governance of the Malagasy Sovereign Fund (FSM), to avoid a diversion of funds from the budget, contain fiscal risks, and guarantee the transparency of the FSM operations, including through the submission to Parliament and publication of annual reports and financial statements (MEFP ¶29). The necessary decrees should be issued before the operationalization of the FSM. Timely publication and transmittal of SOEs financial statements are needed to support Ministry of Finance's efforts to strengthen its oversight.

Box 3. Strengthening Budget Credibility

Strengthening the credibility and the predictability of fiscal plans will be key to build investor's confidence and carry out the ambitious "Plan Emergence Madagascar". This calls for an enhanced budget process and an improvement of the expenditure chain.

Low budget reliability may erode public confidence. The last Public Expenditure and Financial Accountability (PEFA) auto-evaluation of PFM performance (2021) notes that during 2018–20 deviations between budgeted revenue and spending and outturns were large and significantly higher than the average of Sub-Saharan African countries (Figure 1). This result is similar to the one obtained in the previous evaluation in 2018 pointing to stalling progress in this regard. The gap between the budget approved by Parliament and its implementation by the government undermines the public's confidence in the government's ability to carry out announced tax and spending plans. The empirical literature indeed shows that private sector's pessimism and uncertainty about future deficits increase with official projections' forecast errors.[1]

PEFA Budget Reliability Scores



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

A detailed analysis of budget law projections and effective outturns over the past 8 years highlights a quasi-systemic under execution of spending, especially investment. Growth projections tend to be overly optimistic leading to an overestimation of revenue that the COVID-19 crisis has amplified (Figure 2). However, the overall deficits tend to be smaller than initially anticipated due to large spending under execution, especially of investment. In part, it may be due to overly optimistic assumptions regarding the availability of external financing, but domestically financed investment is also significantly under executed. The social spending target included in the ECF has also been consistently missed, suggesting structural weaknesses in the expenditure chain.

Improving the predictability and credibility of fiscal plans would boost the effectiveness of fiscal policy. The budget and the medium-term fiscal projections need to be based on transparent and realistic macroeconomic forecasts. Strengthening financial controls and reporting mechanisms would support

[1] See International Monetary Fund (IMF). 2021. Fiscal Monitor: Strengthening the Credibility if Public Finances. Washington, October.

Box 3. Strengthening Budget Credibility (continued)

a better follow-up of available resources and investment projects. While the recent removal of the spending commitment authorization requirement is expected to facilitate spending execution, a comprehensive diagnostic of the expenditure chain would help identify and address remaining bottlenecks. The IMF stands ready to help with such a diagnostic (Annex IV). Regarding public investment management, it would be essential to ensure that budgeted capital expenditure allocations are linked to fully identified projects. Strengthening the selection and prioritization of projects, based on transparent criteria, is also needed to achieve the government's priorities. Improving fiscal reporting would contribute to a better understanding of the budget and the fiscal stance.

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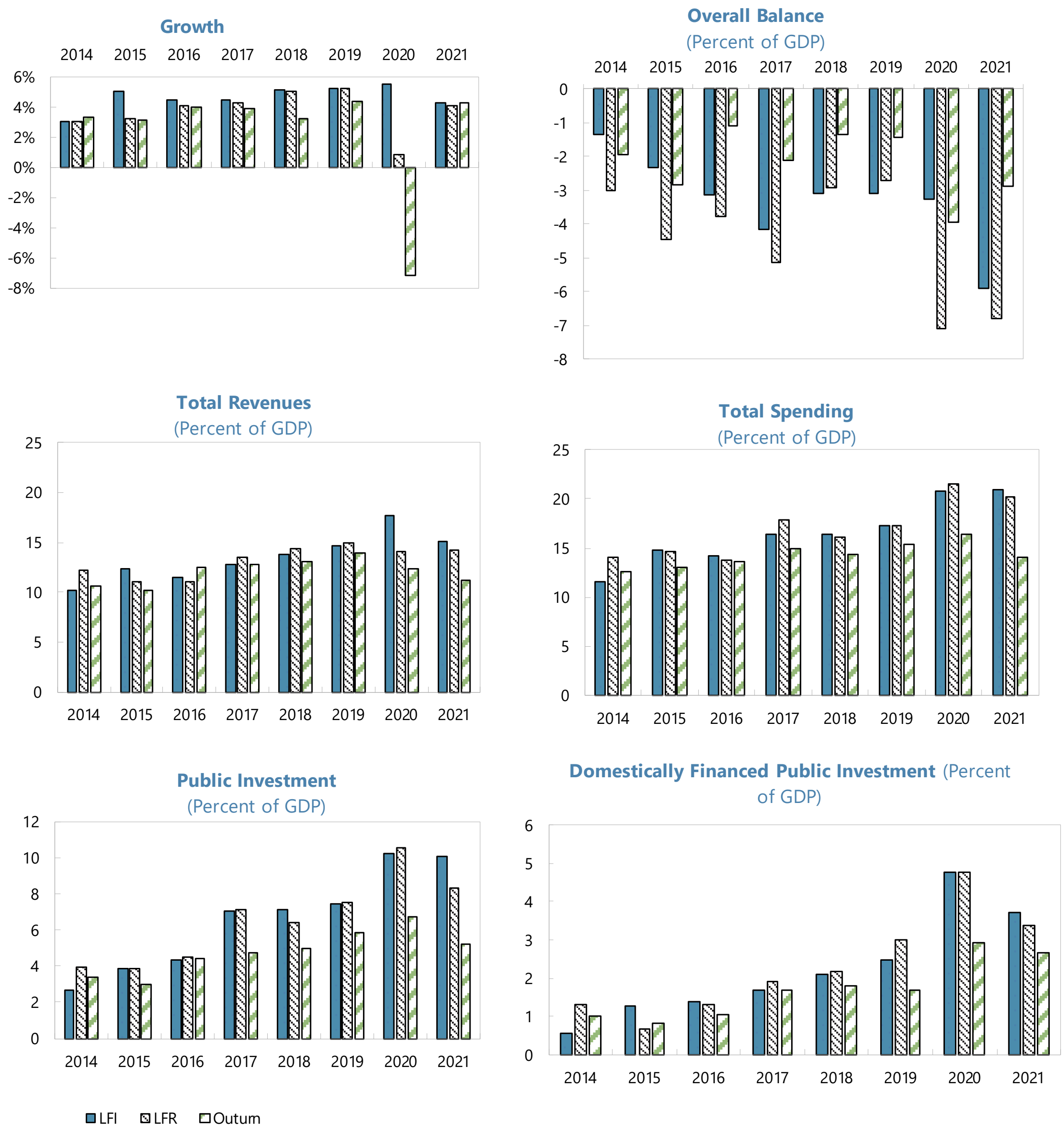
[1] See International Monetary Fund (IMF). 2021. Fiscal Monitor: Strengthening the Credibility if Public Finances. Washington, October.

Madagascar: Budget Laws Projections and Outturns



Sources: Malagasy authorities; and IMF staff estimates.

35. Accelerating reforms to increase accountability is critical. The adoption of a law on public access to information would allow better democratic oversight of the administration. Citizens' participation and consultation with the private sector and civil society, including on the budget, could be improved. The creation of the *Conseil Economique, Social et Culturel*, provided for in the 2010 Constitution but never implemented, would encourage public debate and civil society's involvement in policy making. The government could demonstrate its commitment to greater transparency and better governance by joining the Open Government Partnership Initiative. Other legislative priorities include a law to protect whistleblowers and a law on public policy evaluation. The authorities committed to provide adequate staff and financial resources to the agencies that are part of the anti-corruption system, including the PACs and the ARAI, and preserve their budget allocation (MEFP ¶35). Comprehensive reforms are needed to enhance the independence and integrity of the judicial system. Further upgrades of the AML/CFT legal framework are required to fully comply with international standards. Enforcement of asset declaration requirements and illicit asset recovery should be strengthened.

36. The lack of transparency and predictability is discouraging investment and development initiatives. Suspicion of state capture by private interests is undermining private sector's confidence and public trust in institutions. The legal business environment should be strengthened by ensuring legal stability and predictability, avoiding retroactive regulations and applying existing laws, addressing corruption risks in land management, providing effective protection of property rights and enforcement of contracts, ensuring a level-playing field, and creating effective grievance redress mechanisms.

Authorities' Views

37. The authorities stressed their firm commitment to improve public financial management and fight against corruption. They mentioned that their recently updated PFM modernization plan envisages reforms to strengthen budget execution through: (i) financial control of spending based on a hierarchical system, (ii) internal audit strengthening, (iii) improved cash flow management and (iv) strengthening the transparency, the efficiency, and the oversight of the public procurement process. Reforms to reinforce external control and audits by inspection bodies are also included. Moreover, the authorities plan to increase the budget allocated to the anti-corruption agencies. They are drafting a law to frame the civil society's activities and participation to the public debate. They acknowledged the private sector's concerns about laws' retroactivity.

C. Advancing Monetary and Financial Reforms

38. BFM should stand ready to tighten the policy stance to contain inflationary pressures. Real rates remain close to zero, private credit is expanding, and BFM has continued to inject liquidity into the market. The impact of the fuel price increase in July and salary adjustments in May has still not dissipated and could lead to sizeable second-round effects on inflation over the short term. However, the weakness and substantial length of the monetary policy transmission mechanism need to be considered in assessing the monetary stance. Staff advised BFM to remain ready for additional monetary tightening if and as needed to contain inflationary pressures. BFM remains committed to pursuing the modernization of its framework for monetary operations, macroeconomic forecasting, and policy analysis, with technical assistance from the IMF.

39. Foreign exchange interventions should be limited to smoothing volatility and building external buffers, without resisting underlying market forces. The widening current account deficit and lower foreign currency inflows following the reform of the vanilla sector are weighing on the exchange rate, and reserves have declined, albeit still within the adequacy range. The authorities recently tightened the conditions for residents to hold a bank account in foreign currency and intensified monitoring of compliance with FX repatriation and surrender requirements.[14] They remain committed to gradually phase out the surrender requirement over the medium term, but only when market conditions are sufficiently favorable so as not to endanger exchange rate stability. Staff encouraged the authorities to take advantage of ongoing Fund technical assistance to review the FX intervention algorithm introduced in 2018 and improve the functioning of the interbank currency market (MID).

40. BFM is revising its operational strategy for the inclusion of gold in reserve assets and MoU with the Ministry of Mines and Strategic Resources (MMSR) before considering a resumption of gold purchases (MEFP ¶42). An updated foreign exchange reserves strategy has been approved and the operational strategy is currently being amended to address IMF recommendations, most notably on governance reforms. The existing MoU with the MMSR is also being revised to delineate more clearly BFM's role in the mining sector. The authorities intend to remove the export ban on gold in 2023.

41. The development of the interbank market and strengthening of the interest rate channel of monetary policy are conditions for the successful transition to interest rate targeting. Staff encouraged a close cooperation between the Ministry of Economy and Finance and BFM to develop the public debt market and build a yield curve.

42. A strengthening of bank regulations, better enforcement of the prudential regulation and close monitoring of NPLs would enhance the resilience of the financial sector, which is critical to finance the recovery and the authorities' ambitious investment plan. The adoption of a long-awaited financial stability law, whose approval by the Council of Ministers remains pending, would help to enhance financial stability and strengthen BFM's regulatory and supervisory role. To maintain a well-capitalized banking system, the BFM should pursue compliance with Basel II and Basel III frameworks and proactively require capital increases based on stress test results. Increasing minimum capital requirements and adopting a capital conservation buffer would help strengthen the banking sector's ability to withstand shocks. The authorities should consider increasing the minimum capital ratio above 8 percent currently, as well as adopting the capital conservation buffer and the leverage ratio set up by Basel III. The existing regulation on internal control should be revised to align with international standards, along with the adoption of a new regulation on corporate governance to ensure proper management of capital and liquidity requirements. Risk-based supervision is being implemented with support from AFRITAC South, but a full

[14] Considered a capital flow management measure on outflows. See IMF Country Report No. 22/79.

implementation will necessitate further efforts, notably to start implementing risk-based supervision in the AML/CFT area.

43. Despite recent improvements, financial inclusion remains low, particularly in rural areas. Improving access to finance is key to increase investment in agricultural resilience and productivity and improve food security (Box 4). Staff encourage the authorities to update the national inclusion strategy which ended in 2022 and support the development of fintech solutions to expand access to financial services. The implementation of a national switch will allow the interoperability of all electronic payment systems and facilitate the development of digital payments by reducing transaction costs. The e-ariary project to create a central bank digital currency might contribute to financial inclusion but would need to carefully consider the potential implications for monetary policy and financial stability as well as the necessary operational and legal safeguards.

Authorities' Views

44. The authorities broadly agreed with staff's assessment. BFM is closely monitoring economic developments and stands ready to tighten its policy stance if and as needed. BFM highlighted the possibility to hold exceptional monetary policy meetings in-between its regular quarterly meetings. They argued that liquidity injections were justified by the poorly functioning interbank market and liquidity shortages in the banking system overall. They concurred on the importance of increasing financial inclusion as a way to boost private investment and household income.

Box 4. Improving the Financial Inclusion of Smallholder Farmers[1]

Madagascar is one of the most vulnerable countries to climate-related shocks in the world. It was ranked 12th out of 180 countries in Climate Risk Index (CRI-2021) for 2000–19, indicating a high level of exposure and vulnerability to extreme events. Almost 80 percent of Madagascar population rely on agricultural activities where subsistence farming is the main source of livelihood, but access to arable land and agricultural productivity are low. Poor agricultural practices exacerbate the impact of climate change on food insecurity (see SIP on Climate and Food Insecurity in Madagascar).

Improving financial inclusion of smallholder farmers has been identified as a way to improve resilience to climate shocks. In September 2022, the WFP launched a program to assist 62,000 smallholder farmers in the three regions of Great South (Androy, Anosy, Atsimo- Andrefana) targeting the nine most drought affected districts. The program aims to strengthen farmers' skills and their ability to access information and markets, promote climate adaptive production techniques and support robust storage facilities. Via WFP agricultural microinsurance activities within the integrated social protection "FAGNAVOTSE" program, 5,478 beneficiaries (of which almost 70 percent women) have received training in insurance as an agricultural risk management tool. Each selected beneficiary has become a member of a village savings and credit association (VSLA). It has been reported that VSLAs could help reduce extreme poverty rates by 14 percent. Access to affordable financial products (payments, savings, credit, and insurance services) has proved essential to smooth cashflows, overcome liquidity constraints, transfer risks, and provide greater autonomy and flexibility to individuals in managing their assets.

However, financial intermediation remains low compared to peers, particularly in rural areas, despite recent improvements. Most households and firms save and borrow informally, and few use digital finance

[1] This box includes inputs from the World Food Program provided in the context of an enhanced IMF-WFP collaboration pilot.

Box 4. Improving the Financial Inclusion of Smallholder Farmers (concluded)

products. Obstacles include high bank operating costs, as well as the lack of physical access to banking services in rural areas. Poor road quality and lack of electricity make it almost impossible for most farmers to access even the most basic banking services. The lack of collateral and credit history complicates access to credit to buy land, seeds, tools, fill short term income gaps or recover from weather emergencies. Out of an estimated 8–10 million land parcels in Madagascar, less than 1 million bear a land certificate giving the holder all legal property rights, including using land as collateral. Difficulties are exacerbated by lack of valid identification documents and limited financial literacy preventing people from using suitable financial products and services. Weak consumer protection and regulation affect confidence in using electronic payments.

The following reforms could most effectively contribute to greater financial inclusion of smallholder farmers:

(i) advancing land tenure reform and property rights so that land could be used as collateral.

(ii) adopting digital identification to ease access to financial services for those lacking formal identification.

(iii) advancing digitalization efforts: improving mobile connectivity, speed, and coverage; expanding mobile banking, requiring expansion of telecommunications infrastructure to rural areas, which has additional benefits of enlarging access to early warning systems and up-to-date market and weather information that support agricultural production, distribution, and sales.

(iv) encouraging banks and MFI's partnerships with mobile money operators and Cash In Cash Out (CICO) agents where physical branches are not feasible.

(v) reducing informality by requiring that government payments be made through bank accounts or mobile money.

(vi) promoting financial literacy – expanding the dedicated modules of the CB website and providing in-person workshops.

(vii) ensuring customer protection, by allowing customers to have access to complete information on their credit final conditions, establish secure and reliable platforms to protect data and the funds.

(viii) advancing the efforts to implement a national payment Switch which will allow the interoperability of all electronic payments, leading to a reduction in transaction costs.

(ix) enhancing the credit reporting system in order to reduce asymmetric information problems.

D. Building Resilience to Climate Shocks

45. Building resilience to climate shocks and addressing food insecurity should be a key priority of the government. The CMAP recommended that the authorities aim to define maintenance plans for infrastructure assets identified as most vulnerable to climate change and strengthen climate-sensitive budgeting, by introducing and gradually enriching a climate document appended to the annual budget, and by leveraging the ongoing reform of budget classification to implement climate budget tagging (Annex VIII). The National Adaptation Plan should provide more data on climate change impacts and identify new financial resources for investments in adaptation. The adoption of two decrees governing the National Contingency Fund's (FNC) operations and organizational structure is needed to make it operational and boost resilience in face of climate shocks. The authorities plan to transfer unused credits from the COVID fund to the FNC. While staff welcomed the decision to strengthen the FNC by ensuring it is appropriately funded, a new dedicated budget allocation would be more transparent and more consistent with budget annuality.

46. Addressing food security requires a multipronged approach (SIP). In the short term, establishing regional or community grain reserves to be used during lean seasons or in response to shocks and providing adequate financial and human resources to the National Risk and Catastrophe Management Bureau (BNGRC) would improve the crisis response at the local level. In the medium and long term, developing sustainable and climate-smart agricultural practices including through better water management and easier access to affordable fertilizers would support food production and agriculture productivity. A better and larger road network would facilitate market access and the distribution of food products. Broader access to electricity and telecommunications infrastructure could support the development of a cash transfer system via mobile devices. Given the government's limited resources, improving Green PFM and public investment management will be key to enhance investment efficiency and attract climate financing. Capacity building at the central and local government level would help to improve the quantification of financing needs, preparedness, and rollout of crisis response.

47. Narrowing gender gaps could yield significant economic gains and contribute to greater resilience. Gender equality has been associated with faster growth, better income distribution, more economic diversification, better access to finance, and faster recovery from shocks. While Madagascar's Country and Policy Institutional Assessment score on gender equality remains above the SSA average, the gender gap in terms of access to the financial system has widened over the past years, increasing from 1 percent in 2011 to 4 percent in 2017. Eliminating discriminatory laws and policies to facilitate female entrepreneurship and access to credit for women are key.

Authorities' Views

48. The authorities are starting to implement the CMAP recommendations. Discussions have started between the Ministry of Finance and the Ministry of Environment to harmonize the assessment of climate risks in relation to financial and budgetary management. A National risk financing strategy developed with the donors' help is expected to be adopted for this year. The functional nomenclature to identify climate-related expenditure has been prepared for the LFI 2023 appendix. The authorities are working to set up norms for more resilient infrastructure spending and to integrate the climate change risk in macroframework projections and budget baseline.

OTHER PROGRAM ISSUES

49. A waiver for the non-observance of the performance criteria setting a floor for the central bank's net foreign assets (NFA) and a ceiling for the domestic primary deficit is requested by the authorities. Staff therefore recommend a waiver of non-observance of the NFA criterion given that the deviation is minor in nature (less than 4 percent of the downward-adjusted target). Furthermore, staff support a waiver of non-observance of the domestic primary deficit ceiling based on the temporary nature of the breach (¶16) and remedial measures taken by the authorities. Staff assess that despite the non-observance of two QPCs, the program goals remain achievable under prudent fiscal management and in the absence of excessive FX interventions by the central bank.

50. In line with program objectives, modifications of program targets and new structural benchmarks are proposed for 2023 and 2024. The authorities are requesting a modification of periodic quantitative performance criteria at end-June 2023 to reflect macroeconomics developments and new program understandings. Most indicative targets were also revised in line with the new macroframework. New program targets are proposed for September and December 2023. Five new structural benchmarks are proposed for June, October, and December 2023 on (i) changing the public procurement legal framework to allow for the collection of UBO information, (ii) finalizing the revision of the mining code and submitting it to Parliament, (iii) finalizing the functionality of a social registry, (iv) starting a pilot project to integrate 60,000 households in this registry, and (v) installing prepaid electricity meters for all public administrations. The approval of a 2023 budget consistent with program objectives and removal of the spending authorization requirement were implemented as prior actions for the completion of this review.

51. Staff will continue to closely work with the authorities and the World Bank to contain program implementation risks. Should budget execution deviate from program projections or the budgeted operational subsidy for JIRAMA prove insufficient, the authorities would consider new revenue measures and/or spending reallocations or reductions in a revised budget law (MEFP ¶14, 19, and 25). The World Bank is advising the government to stabilize JIRAMA's financial situation and accelerate its recovery, and recently approved a US$ 250 million Safety Nets and Resilience Project to support the government in developing their social protection system, including through the implementation of the new social registry.

52. The revised capacity development strategy is essential to support the implementation of reforms (Annex IV). Proposed priorities are fully aligned and integrated with program objectives particularly on improving the execution of social spending with the help of a resident expert on budget expenditure tagging, on the transfer pricing reform, and support to the central bank on modeling, interbank and FX markets functioning, and liquidity management for a successful transition to interest rate targeting.

53. The program remains fully financed, with firm commitments for the next 12 months and good prospects for the remainder of the program period. Projected external financing sources are sufficient to satisfy external financing requirements until 2024 (Table 9). Fund engagement remains critical to catalyze support from other development partners. Compared to the previous review, projected budget support was reduced both in 2023 and 2024 reflecting delays by some partners to approve originally planned loan and a general hesitancy to commit financing in a context of electoral uncertainty. The lack of non-IMF budget support in 2022 and 2023 has slightly reduced burden sharing over the program period since the second review. Given the limited room for domestic banks to provide additional financing, disbursements under this and subsequent ECF reviews would be directed to the budget.

54. Capacity to repay the Fund remains adequate, with annual planned repayments peaking in 2026 at 0.70 percent of GDP, 5.0 percent of government revenue, and 2.4 percent of exports. Existing and prospective Fund credit is expected to peak in 2023 at 4.8 percent of GDP and 46.8 percent of government revenue and is expected to decline thereafter.

55. Since the 2021 safeguards assessment, BFM has implemented the majority of the safeguards recommendations. BFM has completed its transition to International Financial Reporting Standards. Outstanding recommendations include completion of an external quality assessment of the internal audit function for which preparations have begun, and phasing out BFM's involvement in unrefined gold purchases. For the latter, BFM is in the process of establishing safeguards around these purchase operations (MEFP ¶42).

STAFF APPRAISAL

56. Madagascar continues to grapple with persistent external and domestic headwinds in a context of high poverty and acute vulnerability to climate shocks. While the recovery from the pandemic has been faster than expected, growth is estimated to have slowed in 2022 because of global economic slowdown, higher inflation that reduced consumers' purchasing power, and a series of cyclones that damaged infrastructure and disorganized production. However, Madagascar's medium-term outlook remains broadly favorable, with sizeable potential for development of the tourism sector and the mining industry.

57. Persistent high inflation requires close monitoring and targeted measures to support the most vulnerable. Rising global food and energy prices are putting pressure on the prices of basic food items and fuel in Madagascar. Inflation is expected to remain high over the medium term. Staff welcomes the authorities' efforts to enhance and expand the social protection system to protect the most vulnerable but recommends accelerating its implementation.

58. Risks to the outlook remain significant and tilted to the downside. The main risks relate to the domestic political situation, chronic institutional fragility and low COVID-vaccination rates. Adverse commodity price shocks and global growth slowdown could exacerbate the situation. Fiscal and financial risks could arise from the failure of systemic state-owned enterprises and delayed structural reforms. Madagascar remains highly vulnerable to climate shocks.

59. Implementation of the ECF-supported program has been mixed with respect to quantitative targets. Two out of five QPCs were missed by a small margin at end-June 2022 for reasons partly outside of the authorities' control. The domestic primary balance fell under the program floor because of the delayed payment of oil customs taxes by oil distributors. The central bank's NFA declined below the program floor in a context of global U.S. dollar strength and volatile markets. The three end-June ITs were missed by more significant margins.

60. The authorities have made significant progress in the implementation of structural reforms. All continuous SBs were met except the ceiling on gross fuel liabilities and the publication of better quarterly budget execution reports. Staff welcomes the removal of the spending authorization requirement as an important step to accelerate spending execution. The systematic preparation of annual commitment plans, in line with the 2023 pilot for social ministries, would further facilitate efficient budget execution by providing more spending predictability and encouraging advance planning of public procurements. The creation of a dedicated budgetary mission for the *Cour des Comptes* in the 2023 budget will contribute to enhance its independence.

61. Staff agree with a small relaxation of the fiscal consolidation path envisaged for 2023 to help the economy navigate a complex global and domestic environment. The payment in 2023 of overdue oil taxes will imply a domestic primary surplus that will be used to clear past arrears as well as accumulated liabilities to oil distributors.

62. Adequate tax policy measures are needed to support the authorities' ambitious public investment plan. Staff encourage the authorities to reassess the cost and benefits of costly tax expenditures. A gradual removal of some costly VAT exemptions in parallel with a strengthening of social safety nets to mitigate any adverse effect on the most vulnerable would contribute to greater domestic revenue mobilization. The authorities should also reconsider the imposition of an exit tax on gold and mining exports that may encourage illegal mining and smuggling and impede the development of the sector. Staff advocate the removal of costly and distortionary tax exemptions as a better way to increase revenue. A revision of the mining code in line with recommendations from IMF technical assistance and World Bank's advice could yield significant tax revenue while boosting short- and medium-term growth and exports. It is crucial that mining revenue be fully directed to the budget without earmarking of permit or royalty proceeds to the sovereign wealth fund.

63. The authorities should pursue their efforts to foster budget credibility and fiscal transparency. Fully abiding by the principle of budget annuality by cancelling unused credit at the end of the fiscal year and clearly identifying and evaluating budgeted investment projects would significantly improve public investment management. Budget external oversight should also be strengthened. Staff strongly recommend enhancing the legal framework for public procurement contracts, including by requiring the identification of ultimate beneficial owners and amending the 2018 AML/CFT law to bring it in line with FATF recommendations.

64. Reaching an agreement with oil distributors on settling cross-liabilities significantly reduces fiscal risks to the budget but the risks from JIRAMA remain sizeable. The agreement will clear past arrears in 2023 and should ensure that the gross liabilities to oil distributors related to the implicit fuel subsidy remain below the program ceiling in 2023. Unfortunately, the financial situation of JIRAMA remains a major cause for concern and continues to require bold reforms with a realistic business plan and strategy.

65. Efforts to ensure that inflation remains under control should continue. BFM should stand ready to further raise interest rates to contain inflationary pressures as and if needed. Staff encourage the central bank to continue building its forecasting capacity and further develop the interbank and repo markets before moving towards an interest rate targeting framework. The recent reform in the vanilla sector seems to have resulted in a significant reduction in FX inflows and should be reconsidered. The banking system appears resilient and proactive steps are being taken to contain risk. The adoption of a long-awaited financial stability law would help to enhance financial stability and strengthen BFM's regulatory and supervisory role.

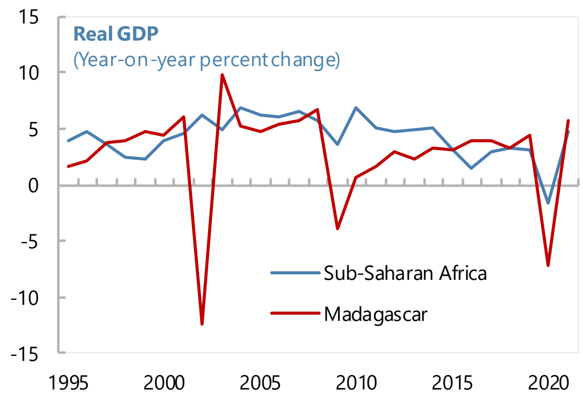
66. Public trust in institutions needs to be reinforced. The anti-corruption framework should be effectively enforced including by providing adequate staffing and financial resources to anti-corruption agencies. Staff recommend improving public access to information to allow for an effective democratic oversight of public policies and the administration. Business climate would benefit from a more predictable legal framework, the effective application of existing laws, and adequate protection of property rights.

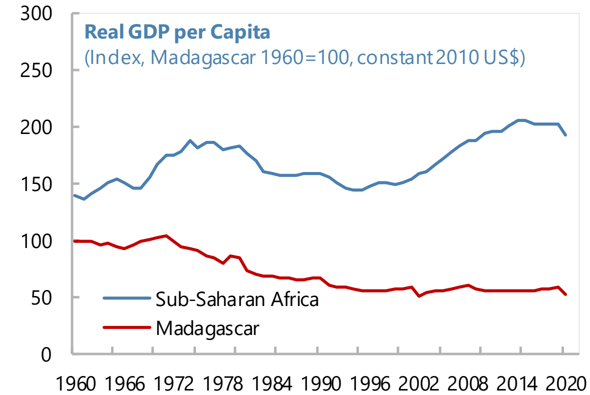
67. Narrowing gender gaps and developing climate change sensitive policies would help to build resilience to climate shocks. Staff encourage the authorities to implement the recommendations from the 2022 CMAP and to address food insecurity by strengthening their emergency response capacity, increasing agricultural productivity, improving infrastructure, and developing social safety nets.

68. Based on Madagascar's performance and commitments under the program, staff supports the completion of the third review under the ECF arrangement and the request for waiver of non-observance and modification of performance criteria. The attached Letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to support the program objectives. The capacity to repay the Fund is adequate and risks to program implementation are manageable. It is recommended that the next Article IV consultation be held on a 24-month cycle.

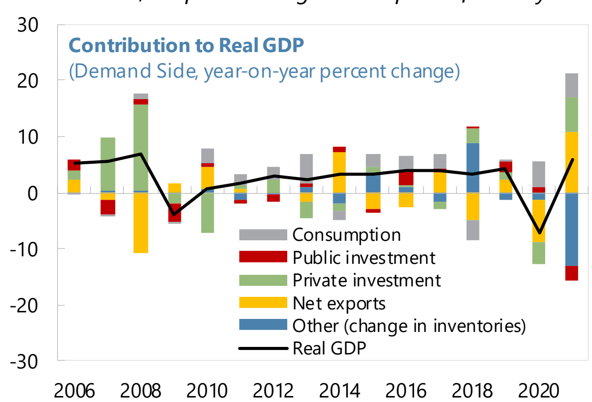
Figure 1. Madagascar: Real Sector Developments

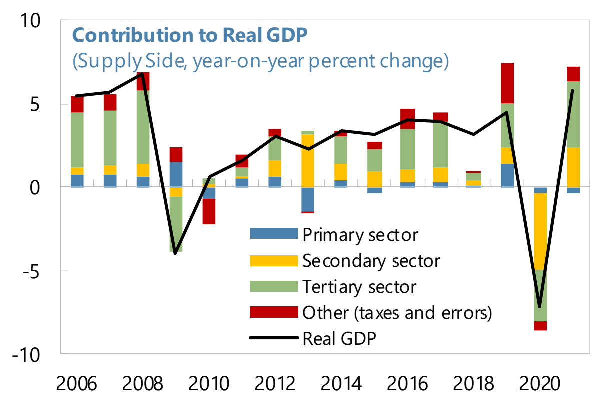
Recent growth improvements were reversed by the COVID-19 pandemic.





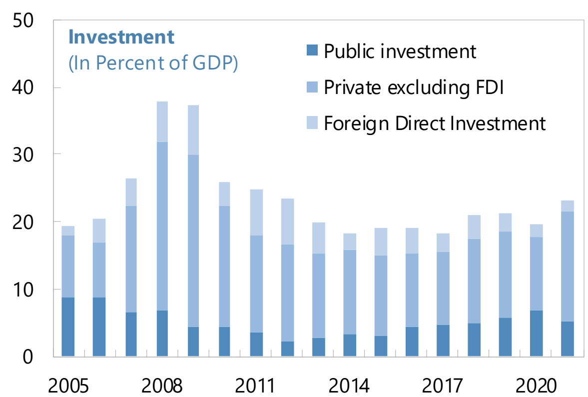
A strong recovery in consumption, mining, manufacturing, and net exports supported the growth rebound in 2021, despite the negative impact of a delayed border reopening on tourism and very low investment.

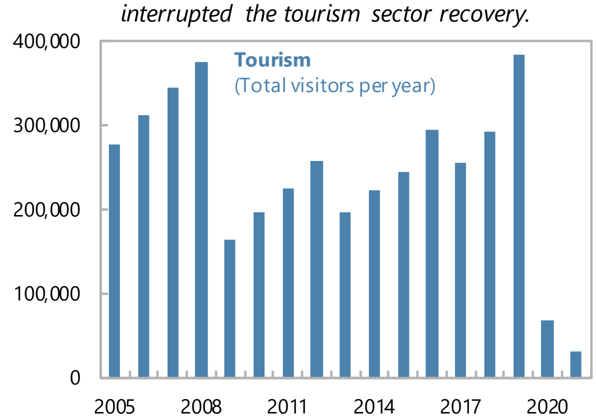




Investment is well below 2008 levels...

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

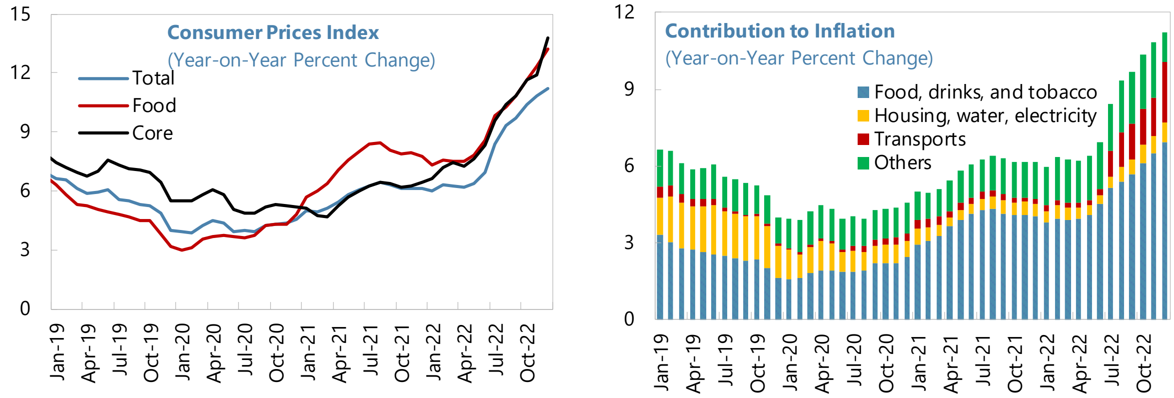




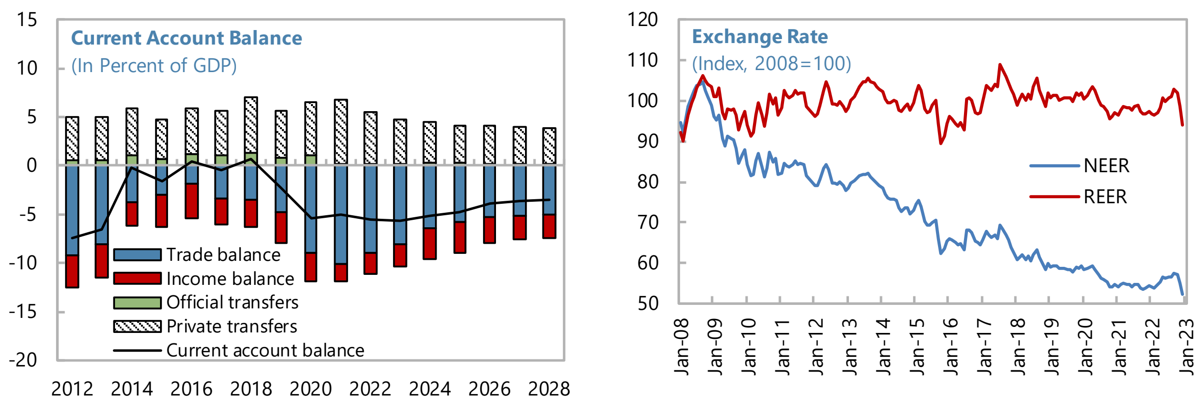
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 2. Madagascar: Inflation and External Developments

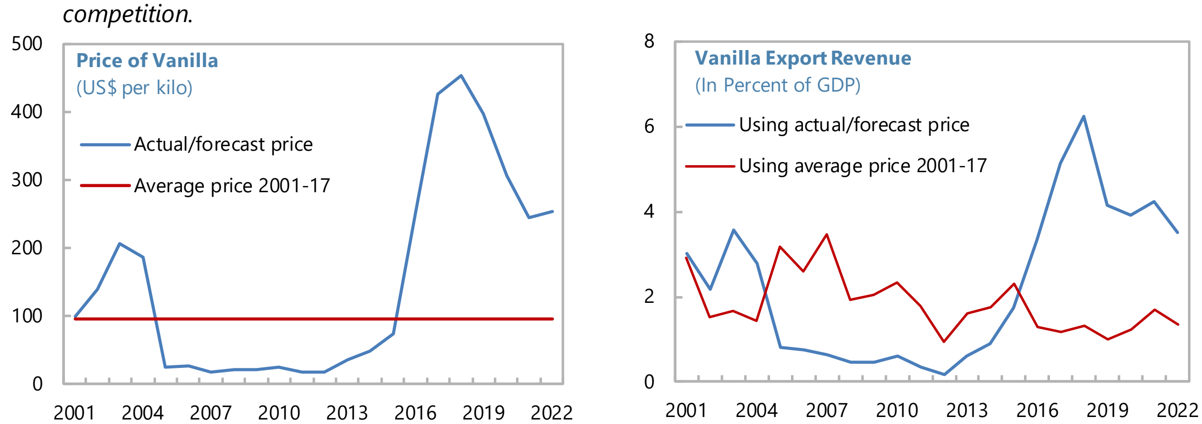
Total inflation has been on the rise since mid-2020, driven most recently by food, transportation costs, and higher fuel prices.



The current account deficit widened in 2020 due to the collapse in tourism receipts and is expected to decline slowly in the medium term. The real effective exchange rate has remained relatively stable in recent years.



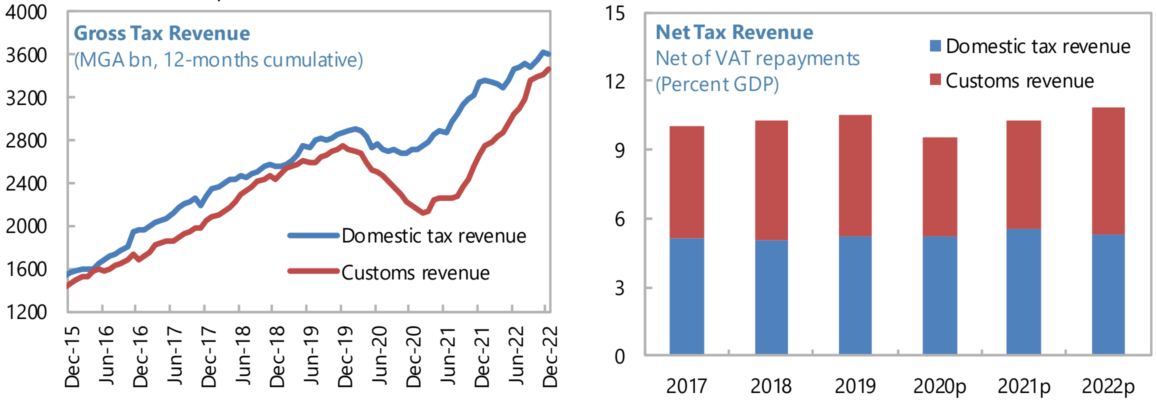
Vanilla export revenue has dropped since end-2019 due to muted demand and increased global competition.



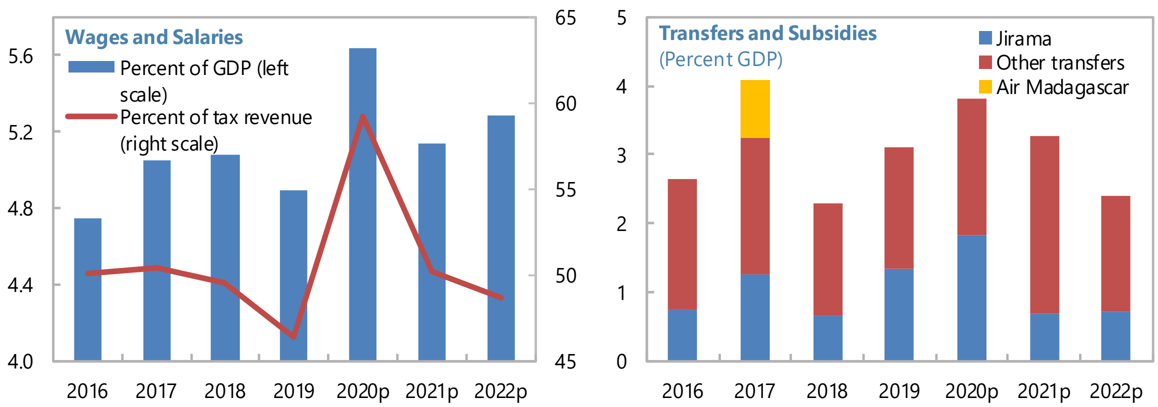
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 3. Madagascar: Government Revenue and Spending

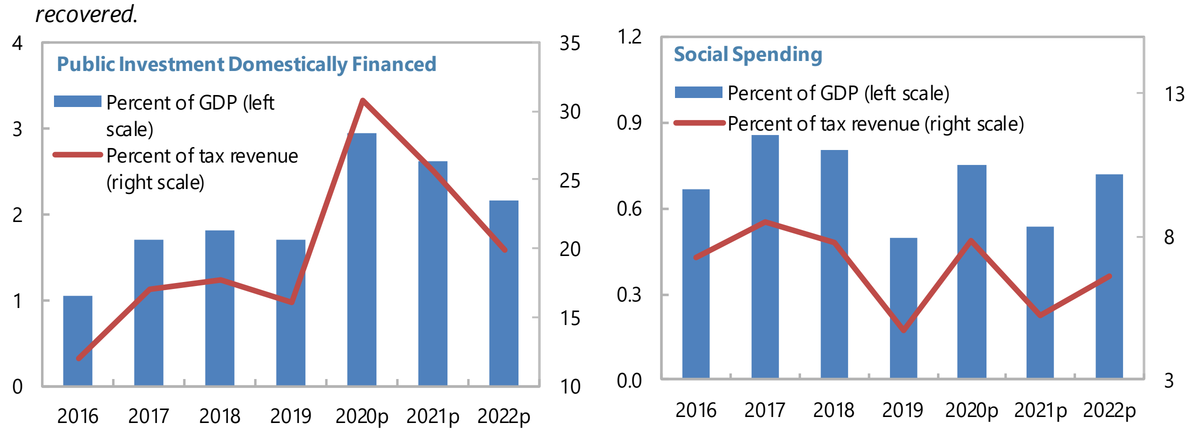
Tax revenue recovered from the pandemic shock since mid-2022 and customs revenue were boosted by international oil prices.



The wage bill increased to about 48 percent of tax revenue in 2022 but remains below the 2020 peak. Transfers declined starting 2021 due to lower transfers to JIRAMA.



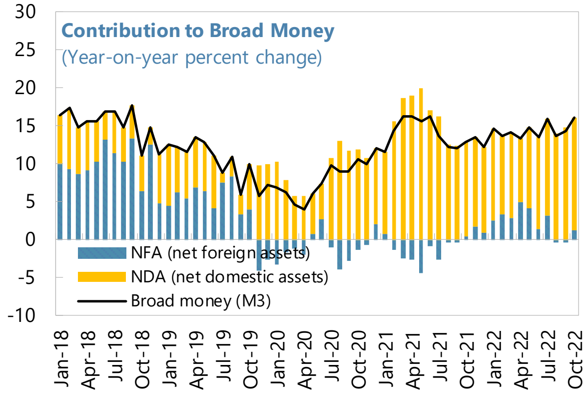
Underexecution of domestically financed public investment persists in 2022, while social spending has recovered.

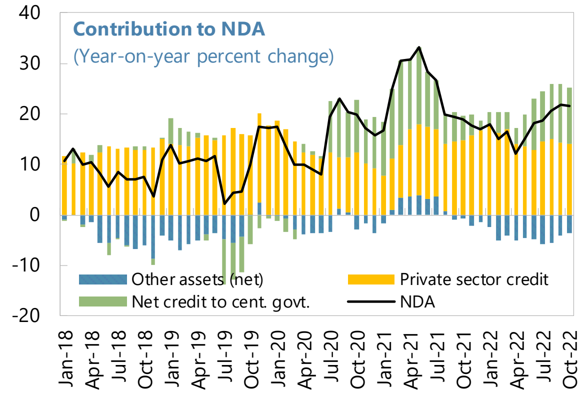


Sources: Malagasy Authorities; and IMF staff estimates.

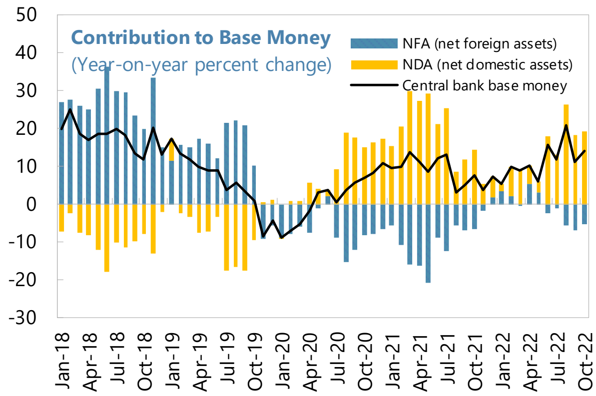
Figure 4. Madagascar: Monetary Developments

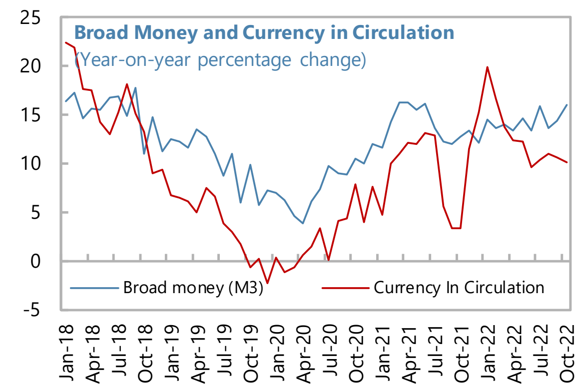
Until the pandemic, broad money growth was driven by the accumulation of net foreign assets and credit to the private sector. Since the Covid-19 crisis, net domestic credit to government has been on the rise.



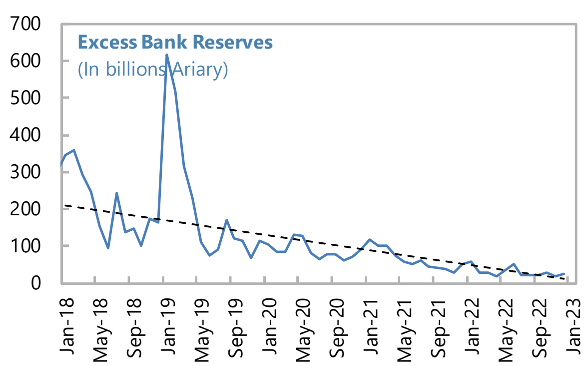


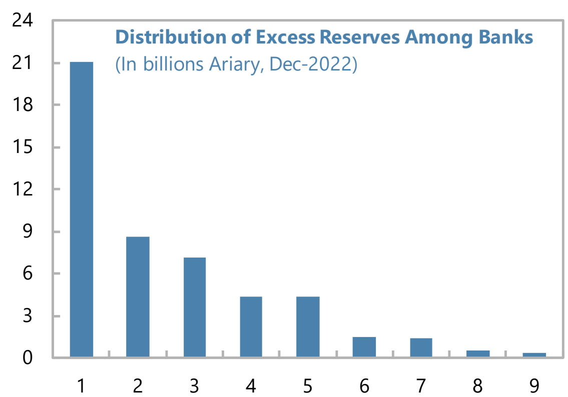
Base money growth has also been driven by currency in circulation and liquidity injections.





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

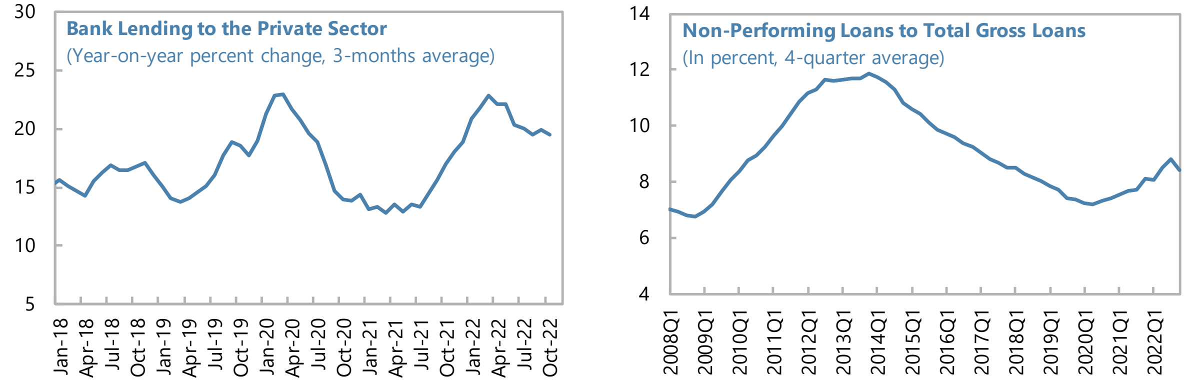




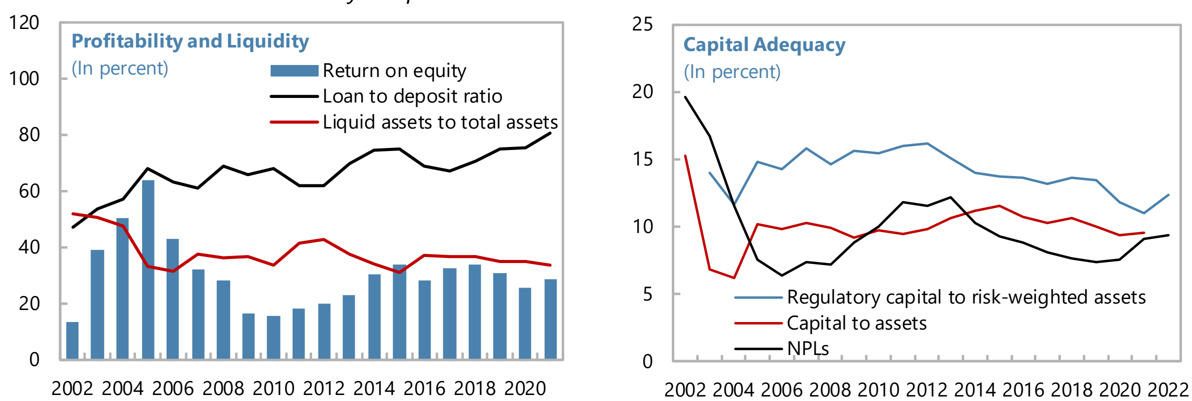
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 5. Madagascar: Financial Sector Developments

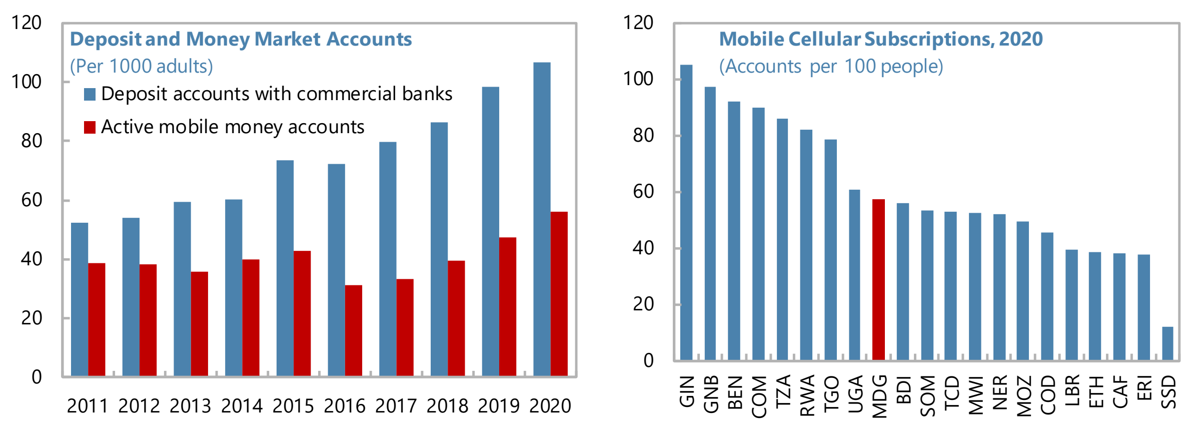
Credit growth has been slowing since mid-2022, and NPLs seem to have peaked.



Overall, banks remain adequately capitalized, liquid, and profitable, but the significant heterogeneity among them has been exacerbated by the pandemic.



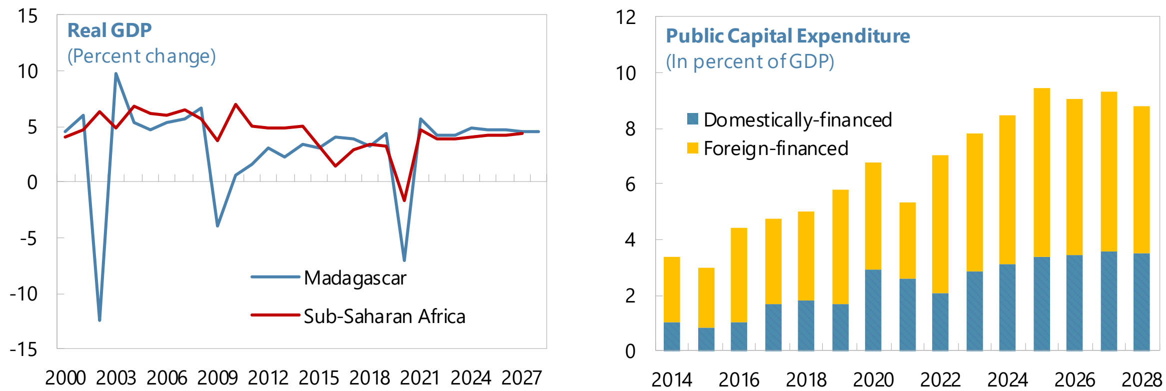
Mobile banking activities have accelerated, but Madagascar still lags many SSA low-income countries.



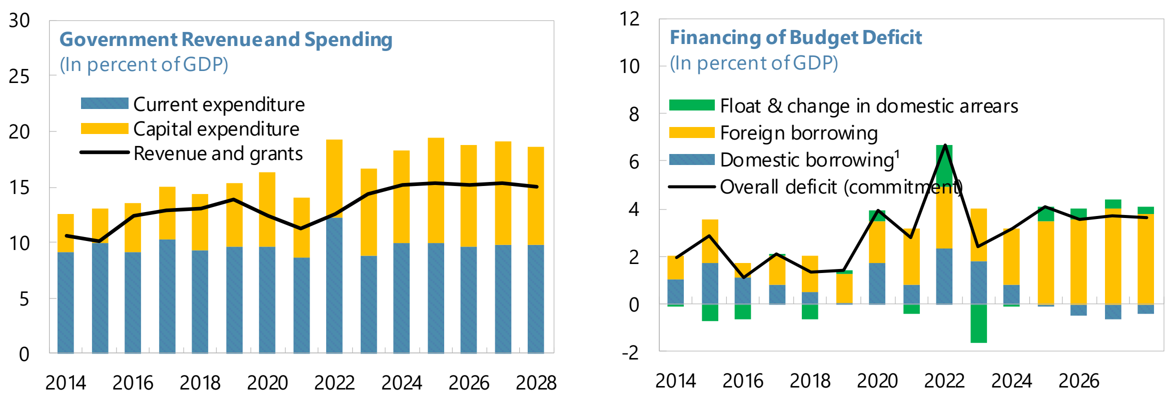
Sources: Malagasy Authorities; IMF Financial Access Survey; World Bank; and IMF staff estimates.

Figure 6. Madagascar: Medium-Term Macroeconomic Prospects

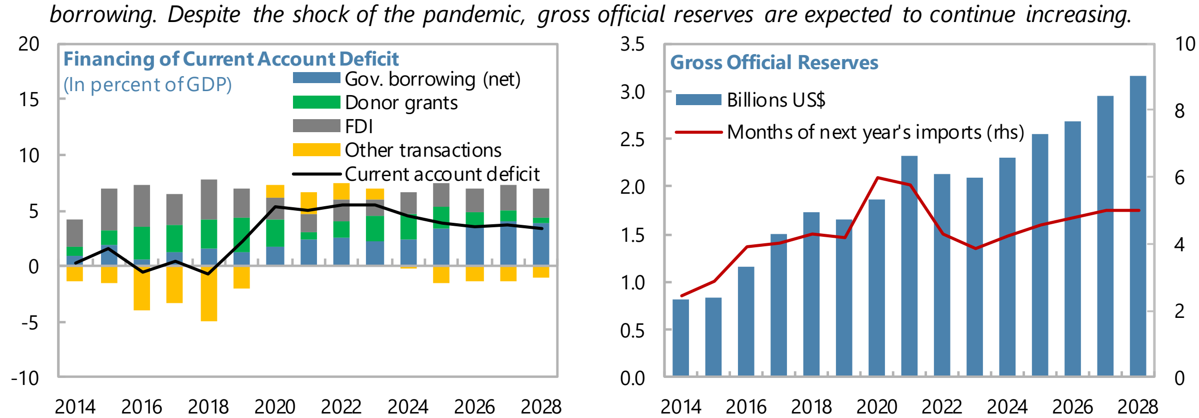
Growth is expected to remain slightly above the SSA average, sustained by scaled-up public investment.



Despite the pandemic, public investment scaling-up is ongoing. Deficits are mostly externally financed.



Investment-driven increases in the current account deficit are expected to be financed by concessional borrowing. Despite the shock of the pandemic, gross official reserves are expected to continue increasing.



Sources: Malagasy Authorities; and IMF staff estimates.

[1] Domestic borrowing is net, not showing short-term T-bills rollover, and including net on-lending of IMF financing by the central bank.

Table 1. Madagascar: Selected Economic Indicators, 2019–28

	2019	2020	2021	2022			2023			2024	2025	2026	2027	2028
	Est.	Est.	Est.	Program approval	2nd review	Est.	Program approval	2nd review	Proj.	Projections				
							(Percent change; unless otherwise indicated)							
National account and prices														
GDP at constant prices	4.4	-7.1	5.7	5.0	4.2	4.2	5.4	5.2	4.2	4.8	4.7	4.7	4.6	4.5
GDP deflator	6.5	4.3	6.6	5.7	9.1	7.4	6.0	8.3	9.5	8.3	7.5	6.9	6.2	5.5
Consumer prices (period average)	5.6	4.2	5.8	5.7	9.8	8.2	6.0	8.0	9.5	8.8	8.1	7.4	6.7	6.0
Consumer prices (end of period)	4.0	4.6	6.2	6.0	12.0	11.2	5.8	9.7	9.3	8.6	7.9	7.2	6.5	6.0
Money and credit														
Reserve money	-4.4	10.8	7.4	4.4	25.6	17.5	4.9	8.0	16.4	16.7	18.7	13.2	14.5	13.9
Broad money (M3)	7.3	12.1	12.2	10.4	32.5	34.5	10.9	12.9	16.5	16.8	18.7	13.2	14.6	13.9
							(Growth in percent of beginning of period money stock (M3))							
Net foreign assets	-2.6	2.1	1.0	3.1	4.4	-0.9	5.4	0.4	3.5	4.1	7.8	5.0	6.8	7.0
Net domestic assets	9.9	10.0	11.2	7.3	28.1	35.4	5.5	12.5	13.0	12.7	10.9	8.2	7.8	6.9
of which: Credit to the private sector	10.3	5.6	11.1	4.5	9.0	25.3	4.9	7.6	7.3	9.6	9.0	7.8	6.8	6.1
							(Percent of GDP)							
Public finance														
Total revenue (excluding grants)	10.8	9.9	10.5	11.4	11.6	11.1	12.2	12.2	11.9	12.7	13.3	13.8	13.8	13.8
of which: Tax revenue	10.6	9.5	10.2	11.1	11.3	10.8	11.9	11.9	11.7	12.4	13.0	13.5	13.5	13.6
Grants	3.1	2.5	0.7	1.8	2.5	2.5	1.3	2.0	2.7	2.6	2.0	1.3	1.0	0.6
of which: budget grants	0.7	0.9	0.0	0.3	0.0	0.0	0.3	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Total expenditures	15.4	16.4	14.0	18.1	20.5	20.3	17.8	19.0	17.6	18.6	19.5	19.0	19.4	19.2
Current expenditure	9.5	9.6	8.7	9.5	11.2	12.3	9.2	10.0	8.9	9.9	10.0	9.8	9.9	10.1
Capital expenditure	5.8	6.8	5.3	8.6	9.3	8.0	8.6	9.0	8.7	8.7	9.5	9.3	9.5	9.2
Domestic financed	1.7	2.9	2.6	3.0	2.5	2.2	3.5	3.0	2.8	3.1	3.4	3.4	3.5	3.5
Foreign financed	4.1	3.8	2.7	5.6	6.8	5.9	5.1	6.0	5.9	5.6	6.2	5.8	5.9	5.7
Overall balance (commitment basis)	-1.4	-4.0	-2.8	-4.8	-6.5	-6.8	-4.3	-4.8	-3.0	-3.3	-4.3	-3.9	-4.6	-4.8
Float (variation of accounts payable, + = increase)	0.3	0.5	-0.4	0.0	0.0	1.8	0.0	-0.3	-1.6	0.0	0.0	0.0	0.0	0.0
Variation of domestic arrears (+ = increase)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.3	-3.5	-3.2	-4.8	-6.5	-5.0	-4.3	-5.1	-4.6	-3.3	-4.3	-3.9	-4.6	-4.8
Domestic primary balance[1]	0.3	-1.9	-0.1	-0.4	-1.4	-2.7	0.2	0.0	1.3	0.6	0.9	1.4	1.1	1.1
Total financing	1.3	3.5	3.2	4.1	6.5	5.0	3.9	5.1	4.6	3.3	4.3	3.9	4.6	4.8
Foreign borrowing (net)	1.3	1.8	2.3	3.5	3.7	2.6	3.3	3.4	2.2	2.5	3.6	3.8	4.2	4.5
Domestic financing	0.0	1.7	0.8	0.6	2.8	2.4	0.5	1.7	2.4	0.9	0.7	0.2	0.4	0.4
of which: onlending of IMF financing[2]		2.5	0.5		0.6	0.6		0.4	0.6	0.2				
of which: cession of new IMF SDR allocation			0.0		1.3	0.0		0.0	1.5					
Fiscal financing need[3]	0.0	0.0	0.0	-0.7	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings and investment														
Investment	21.2	19.5	23.2	20.6	19.4	23.4	22.2	20.4	25.3	24.6	25.8	25.4	25.7	25.3
Gross national savings	20.4	12.3	10.1	16.2	14.0	17.8	17.8	15.3	19.6	19.5	21.0	21.5	22.0	21.8
External sector														
Exports of goods, f.o.b.	18.5	15.0	18.6	18.0	21.3	23.2	19.1	21.5	24.4	24.4	24.6	22.8	21.5	20.9
Imports of goods, c.i.f.	26.9	24.3	28.7	26.2	30.2	34.0	27.7	28.5	35.0	32.0	32.0	30.3	29.2	28.3
Current account balance (exc. grants)	-5.4	-7.9	-5.7	-6.2	-7.9	-8.0	-5.7	-7.1	-8.4	-7.7	-6.7	-5.2	-4.6	-4.1
Current account balance (inc. grants)	-2.3	-5.4	-5.0	-4.4	-5.4	-5.6	-4.3	-5.1	-5.7	-5.1	-4.8	-3.9	-3.6	-3.5
Public debt	41.0	51.2	52.3	47.8	53.8	57.1	48.6	53.1	53.1	51.9	52.2	53.1	54.6	55.9
External Public Debt (inc. BFM liabilities)	27.0	36.8	38.5	36.1	41.5	42.5	37.3	42.3	41.1	40.8	41.3	42.1	43.2	44.2
Domestic Public Debt	13.9	14.4	13.8	11.7	12.3	14.7	11.3	10.8	11.9	11.2	10.9	11.0	11.4	11.7
							(Units as indicated)							
Gross official reserves (millions of SDRs)	1196	1338	1630	1540	1677	1601	1680	1641	1523	1627	1856	1961	2195	2517
Months of imports of goods and services	4.2	6.0	5.8	5.1	5.1	4.3	5.0	4.8	3.7	3.9	4.1	4.4	4.7	5.0
Real effective exchange rate (pa, percent change)	-0.4	-1.3	…	…	…	…	…	…	…	…	…	…	…	…
Terms of trade (percent change, deterioration -)	-15.5	-8.6	-13.8	1.8	7.3	0.3	0.2	11.3	9.9	4.1	2.4	2.3	1.4	0.9
Memorandum items														
GDP per capita (U.S. dollars)	532	477	517	551	522	526	582	540	536	560	590	620	653	697
Nominal GDP at market prices (billions of ariary)	51,035	49,436	55,744	63300	62,177	62,395	70,701	70,846	71,201	80,831	91,030	101,836	113,067	124,644

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

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

[2] RCF disbursements in 2020 and ECF disbursements onlent by the central bank to the Treasury.

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

Table 2. Madagascar: National Accounts, 2019–28

	2019	2020	2021	2022			2023			2024	2025	2026	2027	2028
	Est.	Est.	Est.	Program approval	2nd review	Est.	Program approval	2nd review	Proj.	Proj.				
							(Percent change)							
Real supply side growth														
Primary sector	5.9	-1.4	-1.6	3.0	3.3	0.6	3.4	3.5	2.2	2.9	3.0	3.0	3.0	3.0
of which: Agriculture	7.6	-2.3	-0.3	3.5	3.9	0.6	4.0	4.0	2.7	3.4	3.5	3.5	3.5	3.5
Secondary sector	6.8	-29.5	19.7	9.5	8.2	9.4	7.4	7.6	7.0	7.8	7.5	7.4	6.7	6.8
of which:														
Manufacturing	8.2	-15.7	30.2	4.5	6.0	7.6	6.8	7.1	3.8	4.0	3.8	3.7	3.6	3.6
Energy	3.7	-0.1	2.9	5.8	2.2	-0.4	8.6	3.9	0.5	1.1	1.1	1.1	1.1	1.1
Extractive industry	9.9	-49.3	51.9	19.3	15.7	17.5	11.1	12.3	11.0	11.7	11.0	10.5	9.1	9.1
Tertiary sector	5.0	-5.7	7.4	4.3	3.9	5.0	5.7	5.2	4.0	4.7	4.7	4.7	4.6	4.7
of which:														
Trade	2.3	-2.7	1.0	1.9	3.7	2.0	2.4	3.9	2.3	2.8	2.8	2.7	2.7	2.7
Services	2.9	-8.1	2.9	4.3	2.0	1.6	5.4	2.5	1.6	1.8	1.8	1.9	1.9	1.9
Transportation	4.8	-6.4	5.1	3.5	6.0	5.1	6.0	8.2	5.4	6.2	6.0	5.9	5.6	5.5
Indirect taxes	-1.1	13.3	0.5	5.7	3.9	4.1	6.0	8.0	9.5	8.8	8.1	7.4	7.2	6.5
Real GDP at market prices	4.4	-7.1	5.7	5.0	4.2	4.2	5.4	5.2	4.2	4.8	4.7	4.7	4.6	4.5
							(Percent of GDP)							
Nominal demand side composition														
Resource balance	-4.7	-9.0	-10.1	-6.9	-8.8	-8.9	-6.9	-6.7	-8.0	-6.4	-5.8	-5.3	-5.2	-5.0
Imports of goods and nonfactor services	33.4	28.7	33.1	33.2	35.2	39.5	34.5	33.6	41.6	39.4	39.4	35.8	34.5	33.8
Exports of goods and nonfactor services	28.7	19.7	23.0	26.3	26.4	30.6	27.6	27.0	33.6	33.0	33.6	30.5	29.4	28.8
Current account balance (including grants) = (S-I)	-2.3	-5.4	-5.0	-4.4	-5.4	-5.6	-4.3	-5.1	-5.7	-5.1	-4.8	-3.9	-3.6	-3.5
Consumption	86.0	95.7	93.8	87.3	89.0	84.2	85.7	85.9	81.3	80.4	78.7	78.8	78.3	78.6
Government	15.1	18.7	17.2	15.0	17.8	24.3	14.6	15.8	17.5	19.6	19.8	19.3	19.6	19.9
Private	70.9	77.0	76.6	72.2	71.2	59.9	71.2	70.0	63.8	60.8	58.9	59.4	58.7	58.7
Investment (I)	21.2	19.5	23.2	20.6	19.4	23.4	22.2	20.4	25.3	24.6	25.8	25.4	25.7	25.3
Government	5.8	6.8	5.3	8.6	9.3	8.0	8.6	9.0	8.7	8.7	9.5	9.3	9.5	9.2
Private	15.4	12.8	17.9	12.1	10.2	15.3	13.6	11.4	16.6	16.0	16.3	16.1	16.2	16.2
of which: foreign direct investment	2.6	1.9	1.7	2.4	1.7	2.0	2.8	1.9	1.5	1.9	2.1	2.2	2.3	2.6
National savings (S)	20.4	12.3	10.1	16.2	14.0	17.8	17.8	15.3	19.6	19.5	21.0	21.5	22.0	21.8
Government	3.7	2.1	1.9	3.0	2.1	0.6	3.7	3.4	4.7	4.4	4.3	4.5	4.1	3.5
Private	16.7	10.3	8.2	13.2	12.0	17.1	14.2	11.9	14.9	15.1	16.7	17.0	18.0	18.3
Memoranda items:						(Billions of Ariary)								
Nominal GDP (at market prices)	51,035	49,436	55,744	63,300	62,177	62,395	70,701	70,846	71,201	80,831	91,030	101,836	113,067	124,644

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

Table 3a. Madagascar: Fiscal Operations of the Central Government, 2019–28

(Billions of Ariary)

	2019	2020	2021	2022			2023			2024	2025	2026	2027	2028
	Actuals	Actuals	Est.	Program approval	2nd review	Est.	Program approval	2nd review	Proj.	Projections				
Total revenue and grants	7,115	6,129	6,249	8,375	8,742	8,467	9,554	10,054	10,376	12,339	13,894	15,366	16,690	17,956
Total revenue	5,528	4,886	5,878	7,206	7,200	6,938	8,629	8,640	8,488	10,269	12,116	14,046	15,584	17,244
Tax revenue	5387.2	4,707	5,707	7,023	7,025	6,766	8,425	8,441	8,298	10,054	11,873	13,785	15,303	16,945
Domestic taxes	2,666	2,579	3,081	3,986	3,664	3,305	4,848	4,511	4,100	5,107	6,154	7,297	8,102	8,932
Taxes on international trade and transactions	2,721	2,128	2,626	3,036	3,361	3,462	3,577	3,930	4,198	4,947	5,720	6,487	7,201	7,848
Non-tax revenue	140	180	170	183	175	172	204	199	190	216	243	262	280	299
Grants	1,587	1,243	371	1,169	1,543	1,529	925	1,414	1,888	2,070	1,778	1,320	1,106	712
Current grants	365	435	1	198	2	0	204	53	0	64	66	68	70	70
Capital grants	1,222	808	370	971	1,540	1,529	721	1,361	1,888	2,006	1,711	1,252	1,037	642
Total expenditure and lending minus repayments	7,840	8,085	7,803	11,440	12,773	12,687	12,586	13,471	12,522	15,039	17,774	19,379	21,937	23,979
of which: Social priority spending [1]	*253*	*371*	*299*	…	*527*	*447*	…	…	…	…	…	…	…	…
Current expenditure	4,874	4,743	4,848	6,018	6,994	7,667	6,507	7,087	6,310	8,016	9,099	9,950	11,220	12,536
Wages and salaries	2,497	2,786	2,866	3,486	3,492	3,295	3,758	3,868	3,869	4,284	4,825	5,397	6,026	6,481
Interest payments	356	362	354	437	466	402	461	579	703	773	879	805	883	1,066
Foreign	107	115	123	106	193	153	102	262	333	408	449	337	344	427
Domestic	249	246	231	331	274	249	358	317	369	365	430	468	539	639
Other	1,911	2,230	2,164	1,986	2,456	1,952	2,165	2,480	2,767	2,773	3,186	3,513	4,050	4,702
Goods and services	323	338	338	503	517	450	537	567	542	647	910	1,018	1,189	1,399
Transfers and subsidies	1,587	1,892	1,827	1,483	1,938	1,502	1,628	1,913	2,225	2,126	2,276	2,495	2,861	3,303
of which: JIRAMA [2]	*720*	*702*	*380*	*80*	*500*	*500*	*0*	…	*300*	…	…	…	…	…
Treasury operations (net)	110	-635	-536	110	579	2,017	123	160	-1,029	186	209	234	260	287
Capital expenditure	2,966	3,343	2,955	5,421	5,780	5,020	6,079	6,385	6,212	7,023	8,675	9,429	10,717	11,443
Domestic financed	866	1,450	1,461	1,900	1,556	1,348	2,440	2,140	1,990	2,523	3,055	3,480	4,003	4,363
Foreign financed	2,100	1,893	1,494	3,521	4,224	3,672	3,639	4,245	4,222	4,500	5,620	5,949	6,715	7,080
Identified financing	2,100	1,893	1,495	2,815	3,861	3,672	2,024	3,518	4,222	4,157	3,841	3,079	2,669	2,620
of which: financing to be programmed	0	0	-2	706	363	0	1,615	727	0	343	1,779	2,870	4,046	4,461
Lending minus repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance (commitment basis)	-725	-1,956	-1,554	-3,065	-4,031	-4,220	-3,031	-3,417	-2,145	-2,700	-3,880	-4,013	-5,247	-6,023
Float (variation of accounts payable, + = increase)	176	241	-222	0	0	1,144	0	-200	-1,144	0	0	0	0	0
Variation of domestic arrears (+ = increase)	-116	-22	0	0	-30	-30	0	0	0	0	0	0	0	0
Overall balance (including grants, cash basis)	-665	-1,737	-1,776	-3,065	-4,061	-3,106	-3,031	-3,617	-3,289	-2,700	-3,880	-4,013	-5,247	-6,023
Domestic primary balance[3]	144	-944	-78	-276	-883	-1,676	143	-7	892	504	841	1,421	1,244	1,411
Total financing	664	1,737	1,776	2,624	4,061	3,106	2,729	3,617	3,289	2,700	3,880	4,013	5,247	6,023
Foreign borrowing (residency principle)	649	885	1,304	2,226	2,291	1,601	2,347	2,400	1,571	2,004	3,241	3,839	4,773	5,577
External borrowing, Gross	883	1,161	1,671	2,778	2,729	2,142	3,123	3,104	2,334	2,831	4,258	5,058	6,047	6,808
Budget support loans	5	77	547	228	45	0	204	221	0	337	350	361	369	369
of which: Air Madagascar	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Project loans	878	1,085	1,124	2,550	2,684	2,142	2,918	2,884	2,334	2,494	3,909	4,697	5,678	6,439
Amortization on a due basis (-)	-234	-276	-367	-552	-438	-541	-776	-705	-764	-827	-1,017	-1,219	-1,274	-1,231
Domestic borrowing (residency principle)	15	851	473	399	1,771	1,505	383	1,217	1,719	696	639	173	474	446
Monetary sector	-31	597	230	310	1,876	1,310	312	1,173	1,981	650	606	137	434	384
of which: onlending of IMF financing [4]		*1,238*	*263*		*400*	*395*		*284*	*439*	*156*				
of which: cession of new IMF SDR allocation			*0*		*800*	*0*		*0*	*1,100*	*0*	*0*	*0*	*0*	*0*
Non-monetary sector	-13	-72	-87	89	-105	-14	71	44	53	46	33	36	40	62
Loans minus repayments	0	0	0	0	0	0	0	0	-315	0	0	0	0	0
Other incl. Treasury correspondent accounts (net)	59	308	305	0	0	209	0	0	0	0	0	0	0	0
Fiscal financing balance[5]	0	0	0	-441	0	0	-302	0	0	0	0	0	0	0

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

[1] Domestically financed spending of social ministries, excluding salaries, representing a limited share of total social spending.

[2] Operating subsidies and arrears repayment.

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

[4] RCF disbursement in 2020 and ECF disbursements onlent by the central bank to the Treasury.

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

Table 3b. Madagascar: Fiscal Operations of the Central Government, 2019–28
(Percent of GDP)

	2019	2020	2021	2022			2023			2024	2025	2026	2027	2028
	Est.	Est.	Est.	Program approval	2nd review	Est.	Program approval	2nd review	Proj.	Projections				
Total revenue and grants	13.9	12.4	11.2	13.2	14.1	13.6	13.5	14.2	14.6	15.3	15.3	15.1	14.8	14.4
Total revenue	10.8	9.9	10.5	11.4	11.6	11.1	12.2	12.2	11.9	12.7	13.3	13.8	13.8	13.8
Tax revenue	10.6	9.5	10.2	11.1	11.3	10.8	11.9	11.9	11.7	12.4	13.0	13.5	13.5	13.6
Domestic taxes	5.2	5.2	5.5	6.3	5.9	5.3	6.9	6.4	5.8	6.3	6.8	7.2	7.2	7.2
Taxes on international trade and transactions	5.3	4.3	4.7	4.8	5.4	5.5	5.1	5.5	5.9	6.1	6.3	6.4	6.4	6.3
Non-tax revenue	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2
Grants	3.1	2.5	0.7	1.8	2.5	2.5	1.3	2.0	2.7	2.6	2.0	1.3	1.0	0.6
Current grants	0.7	0.9	0.0	0.3	0.0	0.0	0.3	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Capital grants	2.4	1.6	0.7	1.5	2.5	2.5	1.0	1.9	2.7	2.5	1.9	1.2	0.9	0.5
Total expenditure and lending minus repayments	15.4	16.4	14.0	18.1	20.5	20.3	17.8	19.0	17.6	18.6	19.5	19.0	19.4	19.2
of which: Social priority spending [1]	*0.5*	*0.8*	*0.5*	...	*0.8*	*0.7*	...	...	...	...	...	...	...	...
Current expenditure	9.5	9.6	8.7	9.5	11.2	12.3	9.2	10.0	8.9	9.9	10.0	9.8	9.9	10.1
Wages and salaries	4.9	5.6	5.1	5.5	5.6	5.3	5.3	5.5	5.4	5.3	5.3	5.3	5.3	5.2
Interest payments	0.7	0.7	0.6	0.7	0.8	0.6	0.7	0.8	1.0	1.0	1.0	0.8	0.8	0.9
Foreign	0.2	0.2	0.2	0.2	0.3	0.2	0.1	0.4	0.5	0.5	0.5	0.3	0.3	0.3
Domestic	0.5	0.5	0.4	0.5	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Other	3.7	4.5	3.9	3.1	3.9	3.1	3.1	3.5	3.9	3.4	3.5	3.5	3.6	3.8
Goods and services	0.6	0.7	0.6	0.8	0.8	0.7	0.8	0.8	0.8	0.8	1.0	1.0	1.1	1.1
Transfers and subsidies	3.1	3.8	3.3	2.3	3.1	2.4	2.3	2.7	3.1	2.6	2.5	2.5	2.5	2.6
of which: JIRAMA [2]	*2.4*	*2.5*	*0.7*	*0.1*	*0.8*	*0.8*	*0.0*	...	0.4	...	...	...	...	...
Treasury operations (net)	0.2	-1.3	-1.0	0.2	0.9	3.2	0.2	0.2	-1.4	0.2	0.2	0.2	0.2	0.2
Capital expenditure	5.8	6.8	5.3	8.6	9.3	8.0	8.6	9.0	8.7	8.7	9.5	9.3	9.5	9.2
Domestic financed	1.7	2.9	2.6	3.0	2.5	2.2	3.5	3.0	2.8	3.1	3.4	3.4	3.5	3.5
Foreign financed	4.1	3.8	2.7	5.6	6.8	5.9	5.1	6.0	5.9	5.6	6.2	5.8	5.9	5.7
Overall balance (commitment basis)	-1.4	-4.0	-2.8	-4.8	-6.5	-6.8	-4.3	-4.8	-3.0	-3.3	-4.3	-3.9	-4.6	-4.8
Float (variation of accounts payable, + = increase)	0.3	0.5	-0.4	0.0	0.0	1.8	0.0	-0.3	-1.6	0.0	0.0	0.0	0.0	0.0
Variation of domestic arrears (+ = increase)	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (including grants, cash basis)	-1.3	-3.5	-3.2	-4.8	-6.5	-5.0	-4.3	-5.1	-4.6	-3.3	-4.3	-3.9	-4.6	-4.8
Domestic primary balance[3]	0.3	-1.9	-0.1	-0.4	-1.4	-2.7	0.2	0.0	1.3	0.6	0.9	1.4	1.1	1.1
Total financing	1.3	3.5	3.2	4.1	6.5	5.0	3.9	5.1	4.6	3.3	4.3	3.9	4.6	4.8
Foreign borrowing (residency principle)	1.3	1.8	2.3	3.5	3.7	2.6	3.3	3.4	2.2	2.5	3.6	3.8	4.2	4.5
External borrowing, Gross	1.7	2.3	3.0	4.4	4.4	3.4	4.4	4.4	3.3	3.5	4.7	5.0	5.3	5.5
Budget support loans	0.0	0.2	1.0	0.4	0.1	0.0	0.3	0.3	0.0	0.4	0.4	0.4	0.3	0.3
of which: Air Madagascar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	1.7	2.2	2.0	4.0	4.3	3.4	4.1	4.1	3.3	3.1	4.3	4.6	5.0	5.2
Amortization on a due basis (-)	-0.5	-0.6	-0.7	-0.9	-0.7	-0.9	-1.1	-1.0	-1.1	-1.0	-1.1	-1.2	-1.1	-1.0
Domestic borrowing (residency principle)	0.0	1.7	0.8	0.6	2.8	2.4	0.5	1.7	2.4	0.9	0.7	0.2	0.4	0.4
Monetary sector	-0.1	1.2	0.4	0.5	3.0	2.1	0.4	1.7	2.8	0.8	0.7	0.1	0.4	0.3
of which: onlending of IMF financing [4]		2.5	0.5		0.6	0.6		0.4	0.6	0.2				
of which: cession of new IMF SDR allocation			0.0		1.3	0.0		0.0	1.5	0.0	0.0	0.0	0.0	0.0
Non-monetary sector	0.0	-0.1	-0.2	0.1	-0.2	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1
Loans minus repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0
Other incl. Treasury correspondent accounts (net)	0.1	0.6	0.5	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal financing balance[5]	0.0	0.0	0.0	-0.7	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

[1] Domestically financed spending of social ministries, excluding salaries, representing a limited share of total social spending.

[2] Operating subsidies and arrears repayment.

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

[4] RCF disbursement in 2020 and ECF disbursements onlent by the central bank to the Treasury.

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

Table 4. Madagascar: Fiscal Operations of the Central Government

Quarterly Projections (Billions of Ariary)

	2021					2022				2023			
	Mar	Jun	Sept	Dec		Mar	Jun	Sept	Dec	Mar	Jun	Sept	Dec
	Est.	Est.	Est.	2nd review	Est.	Estimates				Projections			
Total revenue and grants	1,440	2,899	4,483	6,148	6,249	1,452	3,173	4,974	8,467	2,142	4,189	6,912	10,376
Total revenue	1,264	2,666	4,171	5,842	5,878	1,412	3,133	4,926	6,938	1,914	3,994	6,145	8,488
Tax revenue	1,244	2,607	4,082	5,676	5,707	1,398	3,062	4,827	6,766	1,898	3,941	6,046	8,298
Domestic taxes	685	1,458	2,271	3,050	3,081	656	1,518	2,306	3,305	885	2,002	3,012	4,100
Taxes on international trade and transactions	558	1,149	1,812	2,626	2,626	743	1,544	2,520	3,462	1,013	1,939	3,034	4,198
Non-tax revenue	20	59	89	166	170	14	71	100	172	16	53	99	190
Grants	176	234	312	306	371	40	40	48	1,529	229	195	768	1,888
Current grants	0	1	1	1	1	1	1	2	0	0	0	0	0
Capital grants	176	233	311	305	370	39	39	46	1,529	229	195	768	1,888
Total expenditure and lending minus repayments	1,681	3,925	5,260	7,719	7,803	1,980	4,692	6,952	12,687	2,481	4,902	7,769	12,522
of which: Social priority spending [1]	*7*	*81*	*140*	*299*	*299*	*7*	*75*	*157*	*447*	*70*	*175*	*350*	*700*
Current expenditure	1,283	2,665	3,906	4,855	4,848	1,558	3,604	5,416	7,667	1,324	2,861	4,428	6,310
Wages and salaries	615	1,342	2,061	2,842	2,866	661	1,595	2,428	3,295	928	1,934	2,902	3,869
Interest payments	90	166	234	354	354	113	203	266	402	167	252	344	703
Foreign	24	55	84	123	123	30	72	100	153	82	82	86	333
Domestic	67	111	150	231	231	82	131	166	249	85	170	259	369
Other	339	776	1,075	2,182	2,164	346	894	1,335	1,952	1,258	1,704	2,211	2,767
Goods and services	34	113	206	355	338	56	156	292	450	108	233	380	542
Transfers and subsidies	305	663	870	1,827	1,827	290	738	1,043	1,502	1,149	1,471	1,831	2,225
Treasury operations (net)	238	382	536	-523	-536	437	913	1,387	2,017	-1,029	-1,029	-1,029	-1,029
Capital expenditure	398	1,261	1,353	2,864	2,955	422	1,088	1,536	5,020	1,158	2,041	3,341	6,212
Domestic financed	42	298	369	1,518	1,461	34	68	311	1,348	299	697	896	1,990
Foreign financed	357	963	984	1,346	1,494	389	1,020	1,225	3,672	859	1,345	2,446	4,222
Overall balance (commitment basis)	-242	-1,026	-776	-1,571	-1,554	-528	-1,519	-1,979	-4,220	-339	-713	-857	-2,145
Float (variation of accounts payable, + = increase)	-252	-223	-245	-126	-222	4	51	240	1,144	-801	-915	-1,030	-1,144
Variation of domestic arrears (+ = increase)	0	0	0	0	0	0	0	0	-30	0	0	0	0
Overall balance (including grants, cash basis)	-493	-1,249	-1,021	-1,697	-1,776	-524	-1,468	-1,739	-3,106	-1,140	-1,628	-1,887	-3,289
Domestic primary balance[2]	29	-131	129	-178	-78	-67	-336	-535	-1,676	458	688	1,166	892
Total financing	493	1,249	1,021	1,697	1,776	507	1,391	1,641	3,106	1,140	1,628	1,887	3,289
Foreign borrowing (residency principle)	78	1,024	952	1,221	1,304	273	781	912	1,601	465	781	1,128	1,571
External borrowing, Gross	181	1,210	1,220	1,588	1,671	350	981	1,179	2,142	631	1,149	1,678	2,334
Budget support loans	0	480	547	547	547	0	0	0	0	0	0	0	0
Project loans	181	730	673	1,041	1,124	350	981	1,179	2,142	631	1,149	1,678	2,334
Amortization on a due basis (-)	-103	-186	-268	-367	-367	-76	-200	-267	-541	-166	-368	-551	-764
Domestic borrowing (residency principle)	416	225	70	477	473	234	610	729	1,505	675	847	759	1,719
Monetary sector	488	131	52	257	255	547	719	807	1,310	675	847	759	1,666
of which: onlending of IMF financing [3]	*264*	*264*	*264*	*264*	*264*	*0*	*263*	*400*	*400*	*143*	*288*	*288*	*439*
of which: cession of new IMF SDR allocation	*n.a.*	*n.a.*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*800*	*800*	*800*	*1,100*
Non-monetary sector	-39	-21	-51	-87	-87	-4	-35	-38	-14	0	0	0	53
Loans minus repayments	0	0	0	0	0	0	0	0	0	0	0	0	-315
Other incl. Treasury correspondent accounts (net)	-34	115	69	307	305	-309	-73	-41	209	0	0	0	0
Fiscal financing balance[4]	0	0	0	0	0	-17	-77	-98	0	0	0	0	0

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

[1] Domestically financed spending of social ministries, excluding salaries, representing a limited share of total social spending.

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

[3] RCF disbursement in 2020 and ECF disbursements onlent by the central bank to the Treasury.

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

Table 5a. Madagascar: Balance of Payments, 2019–28

(Millions of SDRs)

	2019	2020	2021	2022			2023			2024	2025	2026	2027	2028
	Est.	Est.	Est.	Program approval	2nd review	Est.	Program approval	2nd review	Proj.	Projections				
						(Millions of SDRs)								
Current account	-234	-504	-514	-478	-606	-636	-510	-620	-677	-653	-658	-576	-588	-631
Goods and services	-482	-841	-1,029	-749	-985	-1,015	-807	-805	-951	-814	-798	-797	-836	-902
Trade balance of goods	-611	-645	-679	-631	-640	-744	-706	-514	-754	-526	-591	-680	-784	-844
Exports, f.o.b.	1,891	1,402	1,904	1,963	2,390	2,641	2,243	2,592	2,891	3,098	3,388	3,400	3,492	3,737
of which: Mining	551	262	542.5	633	809	941	653	874	1,025	1,192	1,218	1,064	1,037	1,099
of which: Vanilla	423	367	434	383	399	400	428	382	401	458	453	373	373	400
Imports, f.o.b.	-2,502	-2,046	-2,583	-2,594	-3,029	-3,385	-2,949	-3,106	-3,645	-3,624	-3,979	-4,080	-4,276	-4,581
of which: Petroleum products	*-403*	*-256*	*-339*	*-337*	*-525*	*-599*	*-345*	*-494*	*-636*	*-724*	*-769*	*-619*	*-542*	*-656*
of which: Food	*-327*	*-324*	*-464*	*-379*	*-500*	*-525*	*-395*	*-477*	*-497*	*-408*	*-427*	*-528*	*-543*	*-587*
of which: Intermediate goods and capital	*-1,014*	*-810*	*-1,063*	*-1,055*	*-1,247*	*-1,487*	*-1,290*	*-1,235*	*-1,699*	*-1,567*	*-1,689*	*-1,725*	*-1,858*	*-2,013*
Services (net)	129	-197	-350	-119	-345	-271	-101	-291	-197	-288	-207	-117	-53	-58
Receipts	1,036	444	449	910	573	839	998	666	1,100	1,093	1,246	1,150	1,274	1,403
of which: Travels	*538*	*103*	*69*	*483*	*166*	*270*	*545*	*242*	*311*	*476*	*538*	*587*	*639*	*703*
Payments	-907	-641	-799	-1,029	-918	-1,110	-1,099	-957	-1,297	-1,381	-1,453	-1,267	-1,327	-1,461
Income (net)	-329	-276	-182	-286	-251	-249	-298	-306	-285	-404	-431	-388	-396	-423
Receipts	44	32	30	45	31	33	46	34	36	41	47	52	60	66
Payments	-373	-308	-213	-331	-283	-281	-344	-340	-320	-445	-478	-440	-456	-488
of which: interest on public debt	*-29*	*-22*	*-22*	*-18*	*-38*	*-31*	*-17*	*-45*	*-56*	*-64*	*-68*	*-49*	*-49*	*-61*
Current transfers (net)	578	613	697	557	630	628	595	491	558	565	570	609	645	694
Official transfers	86	105	22	51	9	24	52	19	26	36	38	22	23	23
of which: Budget aid [1]	*73*	*83*	*0*	*34*	*0*	*0*	*34*	*9*	*0*	*10*	*10*	*10*	*10*	*10*
Private transfers	491	509	675	507	621	603	543	472	532	529	532	587	622	671
Capital and financial account	150	370	694	536	568	547	638	571	563	769	955	786	929	1,057
Capital account[1]	241	153	68	167	278	279	120	232	315	315	259	183	149	92
of which: Project grant [1]	*241*	*153*	*68*	*167*	*278*	*279*	*120*	*232*	*315*	*315*	*259*	*183*	*149*	*92*
Financial account	-52	172	652	368	290	267	519	339	248	454	696	603	780	965
Foreign direct and portfolio investment	270	180	171	265	186	223	329	226	181	247	286	333	378	461
Other investment	-322	-9	481	103	105	45	190	113	67	206	410	269	402	503
Government	131	158	240	378	417	295	390	409	262	315	491	563	685	799
Drawing	182	216	307	474	493	391	519	530	389	445	645	741	868	976
Project drawings [1]	177	201	206	440	484	391	485	492	389	392	592	688	815	923
Budgetary support [1]	5	15	101	34	8	0	34	38	0	53	53	53	53	53
Amortization	-50	-58	-67	-95	-76	-96	-129	-120	-127	-130	-154	-179	-183	-176
Monetary authority and private sector	-244	-122	247	-245	-121	-92	-248	-219	-133	-79	-79	-15	-20	-50
Banks	-12	-95	8	0	50	47	0	0	60	0	0	0	0	0
Other (inc. unrepatriated export revenues)	-221	50	1	-30	-141	-112	47	-77	-1	-29	-1	-278	-263	-246
Errors and omissions	-38	45	-26	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-83	-134	180	57	-38	-89	128	-48	-114	115	297	211	341	426
Financing	83	134	-180	-57	38	89	-128	48	114	-115	-297	-211	-341	-426
Use of IMF credit (net)	59	25	34	30	82	58	12	12	36	-10	-65	-104	-107	-103
Other assets, net (increase = –)[2]	25	-141	-228	-91	-48	28	-140	36	78	-104	-229	-105	-234	-323
Exceptional financing-Grant for debt relief under CCRT [3]	*0*	*6*	*6*	*3*	*3*	*3*	*0*							
Exceptional financing-G-20 DSSI		*0*	*9*		*0*	*0*		*0*	*0*	*-2*	*-2*	*-2*	*-2*	*-2*
Exceptional financing-RCF disbursement		*244*												
Residual financing gap (unidentified financing)	0	0	0	0	0	0	0	0	0	0	0	0	2	2
					(Percent of GDP; unless otherwise indicated)									
Memorandum items:														
Grants	3.1	2.5	0.7	1.8	2.5	2.5	1.3	2.0	2.7	2.6	2.0	1.3	1.0	0.6
Loans	1.8	2.3	3.0	4.3	4.4	3.4	4.4	4.4	3.3	3.5	4.7	5.0	5.3	5.5
Direct investment	2.6	1.9	1.7	2.4	1.7	2.0	2.8	1.9	1.5	1.9	2.1	2.2	2.3	2.6
Current account														
Excluding net official transfers	-5.4	-7.9	-5.7	-6.2	-7.9	-8.0	-5.7	-7.1	-8.4	-7.7	-6.7	-5.2	-4.6	-4.1
Including net official transfers	-2.3	-5.4	-5.0	-4.4	-5.4	-5.6	-4.3	-5.1	-5.7	-5.1	-4.8	-3.9	-3.6	-3.5
Debt service (percent of exports of goods)	3.6	2.7	9.1	3.7	3.6	3.7	3.7	2.7	2.9	2.7	3.6	3.0	2.5	2.5
Export of goods volume (percent change)	6.5	-18.5	38.7	17.3	4.4	8.0	3.2	0.2	4.3	4.2	7.4	-1.5	-0.2	4.3
Import of goods volume (percent change)	3.4	-17.8	11.1	13.8	4.7	2.4	2.9	5.4	12.8	0.6	10.4	2.9	3.3	5.4
Gross official reserves (millions of SDR)[4]	1,196	1,338	1,630	1,540	1,677	1,601	1,680	1,641	1,523	1,627	1,856	1,961	2,195	2,517
Months of imports of goods and nonfactor services	4.2	6.0	5.8	5.1	5.1	4.3	5.0	4.8	3.7	3.9	4.1	4.4	4.7	5.0
Terms of trade (percent change, deterioration -)	-15.5	-8.6	-13.8	1.8	7.3	0.3	0.2	11.3	9.9	4.1	2.4	2.3	1.4	0.9
Exchange rate (ariary/US$, period average)	3,618	3,788	3,830	…	…	…	…	…	…	…	…	…	…	…

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

[1] Includes official external financial support only with a disbursement schedule.

[2] Includes reserve accumulation.

[3] Debt relief assumed through April 2022.

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

Table 5b. Madagascar: Balance of Payments, 2019–28
(Percent of GDP)

	2019	2020	2021	2022			2023			2024	2025	2026	2027	2028
	Est.	Est.	Est.	Program approval	2nd review	Est.	Program approval	2nd review	Proj.	Projections				
Current account	-2.3	-5.4	-5.0	-4.4	-5.4	-5.6	-4.3	-5.1	-5.7	-5.1	-4.8	-3.9	-3.6	-3.5
Goods and services	-4.7	-9.0	-10.1	-6.9	-8.8	-8.9	-6.9	-6.7	-8.0	-6.4	-5.8	-5.3	-5.2	-5.0
Trade balance of goods	-6.0	-6.9	-6.6	-5.8	-5.7	-6.5	-6.0	-4.2	-6.4	-4.1	-4.3	-4.6	-4.8	-4.7
Exports, f.o.b.	18.5	15.0	18.6	18.0	21.3	23.2	19.1	21.5	24.4	24.4	24.6	22.8	21.5	20.9
of which: Mining	5.4	2.8	5.3	5.8	7.2	8.3	5.6	7.2	8.6	9.4	8.8	7.1	6.4	6.1
of which: Vanilla	4.1	3.9	4.2	3.5	3.6	3.5	3.6	3.2	3.4	3.6	3.3	2.5	2.3	2.2
Imports, f.o.b.	-24.5	-21.8	-25.3	-23.8	-27.0	-29.7	-25.1	-25.7	-30.7	-28.5	-28.9	-27.3	-26.3	-25.6
of which: Petroleum products	-4.0	-2.7	-3.3	-3.1	-4.7	-5.3	-2.9	-4.1	-5.4	-5.7	-5.6	-4.1	-3.3	-3.7
of which: Food	-3.2	-3.5	-4.5	-3.5	-4.5	-4.6	-3.4	-3.9	-4.2	-3.2	-3.1	-3.5	-3.3	-3.3
of which: Intermediate goods and capital	-9.9	-8.6	-10.4	-9.7	-11.1	-13.1	-11.0	-10.2	-14.3	-12.3	-12.3	-11.6	-11.4	-11.3
Services (net)	1.3	-2.1	-3.4	-1.1	-3.1	-2.4	-0.9	-2.4	-1.7	-2.3	-1.5	-0.8	-0.3	-0.3
Receipts	10.1	4.7	4.4	8.3	5.1	7.4	8.5	5.5	9.3	8.6	9.0	7.7	7.9	7.9
of which: Travels	5.3	1.1	0.7	4.4	1.5	2.4	4.6	2.0	2.6	3.8	3.9	3.9	3.9	3.9
Payments	-8.9	-6.8	-7.8	-9.4	-8.2	-9.7	-9.4	-7.9	-10.9	-10.9	-10.5	-8.5	-8.2	-8.2
Income (net)	-3.2	-2.9	-1.8	-2.6	-2.2	-2.2	-2.5	-2.5	-2.4	-3.2	-3.1	-2.6	-2.4	-2.4
Receipts	0.4	0.3	0.3	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Payments	-3.7	-3.3	-2.1	-3.0	-2.5	-2.5	-2.9	-2.8	-2.7	-3.5	-3.5	-2.9	-2.8	-2.7
of which: interest on public debt	-0.3	-0.2	-0.2	-0.2	-0.3	-0.3	-0.1	-0.4	-0.5	-0.5	-0.5	-0.3	-0.3	-0.3
Current transfers (net)	5.7	6.5	6.8	5.1	5.6	5.5	5.1	4.1	4.7	4.4	4.1	4.1	4.0	3.9
Official transfers	0.8	1.1	0.2	0.5	0.1	0.2	0.4	0.2	0.2	0.3	0.3	0.1	0.1	0.1
of which: Budget aid [1]	0.7	0.9	0.0	0.3	0.0	0.0	0.3	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Private transfers	4.8	5.4	6.6	4.6	5.5	5.3	4.6	3.9	4.5	4.2	3.9	3.9	3.8	3.8
Capital and financial account	1.5	3.9	6.8	4.9	5.1	4.8	5.4	4.7	4.7	6.1	6.9	5.3	5.7	5.9
							0.0							
Capital account[1]	2.4	1.6	0.7	1.5	2.5	2.5	1.0	1.9	2.7	2.5	1.9	1.2	0.9	0.5
of which: Project grant [1]	2.4	1.6	0.7	1.5	2.5	2.5	1.0	1.9	2.7	2.5	1.9	1.2	0.9	0.5
Financial account	-0.5	1.8	6.4	3.4	2.6	2.3	4.4	2.8	2.1	3.6	5.1	4.0	4.8	5.4
Foreign direct and portfolio investment	2.6	1.9	1.7	2.4	1.7	2.0	2.8	1.9	1.5	1.9	2.1	2.2	2.3	2.6
Other investment	-3.2	-0.1	4.7	0.9	0.9	0.4	1.6	0.9	0.6	1.6	3.0	1.8	2.5	2.8
Government	1.3	1.7	2.3	3.5	3.7	2.6	3.3	3.4	2.2	2.5	3.6	3.8	4.2	4.5
Drawing	1.8	2.3	3.0	4.3	4.4	3.4	4.4	4.4	3.3	3.5	4.7	5.0	5.3	5.5
Project drawings [1]	1.7	2.1	2.0	4.0	4.3	3.4	4.1	4.1	3.3	3.1	4.3	4.6	5.0	5.2
Budgetary support [1]	0.0	0.2	1.0	0.3	0.1	0.0	0.3	0.3	0.0	0.4	0.4	0.4	0.3	0.3
Amortization	-0.5	-0.6	-0.7	-0.9	-0.7	-0.8	-1.1	-1.0	-1.1	-1.0	-1.1	-1.2	-1.1	-1.0
Monetary authority and private sector	-2.4	-1.3	2.4	-2.2	-1.1	-0.8	-2.1	-1.8	-1.1	-0.6	-0.6	-0.1	-0.1	-0.3
Banks	-0.1	-1.0	0.1	0.0	0.4	0.4	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Other (inc. unrepatriated export revenues)	-2.2	0.5	0.0	-0.3	-1.3	-1.0	0.4	-0.6	0.0	-0.2	0.0	-1.9	-1.6	-1.4
Errors and omissions	-0.4	0.5	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.8	-1.4	1.8	0.5	-0.3	-0.8	1.1	-0.4	-1.0	0.9	2.2	1.4	2.1	2.4
Financing	0.8	1.4	-1.8	-0.5	0.3	0.8	-1.1	0.4	1.0	-0.9	-2.2	-1.4	-2.1	-2.4
Use of IMF credit (net)	0.6	0.3	0.3	0.3	0.7	0.5	0.1	0.1	0.3	-0.1	-0.5	-0.7	-0.7	-0.6
Other assets, net (increase = –)[2]	0.2	-1.5	-2.2	-0.8	-0.4	0.2	-1.2	0.3	0.7	-0.8	-1.7	-0.7	-1.4	-1.8
Exceptional financing-Grant for debt relief under CCRT [3]	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing-G-20 DSSI		0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing-RCF disbursement		2.6												
Residual financing gap (unidentified financing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

[1] Includes official external financial support only with a disbursement schedule.

[2] Includes reserve accumulation.

[3] Debt relief assumed through April 2022.

Table 6. Madagascar: Monetary Accounts, 2019–28[1]

(Billions of Ariary, unless otherwise indicated)

	2019	2020	2021	2022			2023			2024	2025	2026	2027	2028
	Actuals	Actuals	Est.	Program approval	2nd review	Est.	Program approval	2nd review	Proj.	Projections				
Net foreign assets	4,614	4,876	5,018	5,729	5,715	4,875	6,759	5,800	5,634	6,662	8,935	10,677	13,323	16,463
Net foreign assets (BCM)	3,925	3,597	3,691	4,360	4,356	3,438	5,334	4,341	4,117	5,055	7,248	8,921	11,531	14,659
Net foreign assets (deposit money banks)	689	1,279	1,327	1,369	1,360	1,438	1,425	1,459	1,517	1,607	1,687	1,756	1,792	1,804
Net domestic assets	8,045	9,314	10,901	13,361	15,374	16,532	14,408	18,003	19,308	22,471	25,658	28,484	31,540	34,654
Domestic credit	9,125	10,685	12,411	14,653	16,816	18,449	16,387	19,711	20,637	23,800	26,988	29,813	32,870	35,984
Net credit to government	2,074	2,893	3,072	4,972	6,049	5,050	5,777	7,337	5,673	6,434	7,014	7,125	7,532	7,889
BCM[2]	757	1,044	1,271	2,530	2,470	2,400	2,562	3,152	2,453	2,858	2,616	1,907	1,147	356
DMBs	1,256	1,565	1,567	2,012	3,154	2,227	2,772	3,745	2,782	3,123	3,930	4,736	5,891	7,026
Other credits	62	285	234	430	425	423	442	440	438	453	467	481	494	507
Credit to the economy	7,051	7,792	9,339	9,681	10,767	13,399	10,610	12,374	14,964	17,366	19,974	22,689	25,338	28,095
Credit to public enterprises	43	59	54	59	54	39	59	54	39	39	39	39	39	39
Credit to private sector	6,980	7,687	9,263	9,601	10,692	13,286	10,531	12,299	14,851	17,253	19,861	22,576	25,225	27,982
Other credits	28	46	22	20	20	74	20	20	74	74	74	74	74	74
Other items (net)	-1,080	-1,371	-1,510	-1,162	-1,442	-1,917	-1,267	-1,708	-1,329	-1,329	-1,329	-1,329	-1,329	-1,329
BCM	281	183	161	283	310	-168	283	250	420	420	420	420	420	420
Other	-1,361	-1,554	-1,672	-1,445	-1,752	-1,749	-1,550	-1,958	-1,749	-1,749	-1,749	-1,749	-1,749	-1,749
Money and quasi-money (M3)	12,659	14,190	15,919	19,089	21,090	21,407	21,167	23,803	24,942	29,132	34,594	39,161	44,863	51,117
Foreign currency deposits	1,111	1,472	1,519	1,548	1,529	1,640	1,604	1,628	1,719	1,809	1,889	1,958	1,994	2,006
Short term obligations of commercial banks	73	87	82	51	51	97	51	51	97	97	97	97	97	97
Broad money (M2)	11,476	12,632	14,318	17,490	19,510	19,670	19,512	22,124	23,126	27,226	32,607	37,106	42,772	49,014
Currency in circulation	3,315	3,570	4,117	4,151	4,649	4,522	4,398	5,247	5,266	6,147	7,298	8,259	9,460	10,778
Demand deposits in local currency	4,426	4,866	5,509	7,102	7,942	8,101	8,072	8,879	9,584	11,347	13,666	15,604	18,052	20,754
Quasi-money including time deposits	3,735	4,196	4,691	6,236	6,919	7,047	7,042	7,998	8,275	9,732	11,644	13,243	15,260	17,482
Reserve money	4,927	5,459	5,863	6,671	7,365	6,888	6,997	7,953	8,020	9,363	11,114	12,579	14,408	16,416
(Percentage change relative to broad money at beginning of the year)														
Net foreign assets	-3.0	2.3	1.1	3.4	4.9	-1.0	5.9	0.4	3.9	4.4	8.4	5.3	7.1	7.3
Net foreign assets (BCM)	-2.7	-2.9	0.7	3.1	4.6	-1.8	5.6	-0.1	3.5	4.1	8.1	5.1	7.0	7.3
Net foreign assets (deposit money banks)	-0.3	5.1	0.4	0.3	0.2	0.8	0.3	0.5	0.4	0.4	0.3	0.2	0.1	0.0
Net domestic assets	11.1	11.1	12.6	8.1	31.2	39.3	6.0	13.5	14.1	13.7	11.7	8.7	8.2	7.3
Domestic credit	11.3	13.6	13.7	7.0	30.8	42.2	9.9	14.8	11.1	13.7	11.7	8.7	8.2	7.3
Net credit to government	-0.2	7.1	1.4	2.0	20.8	13.8	4.6	6.6	3.2	3.3	2.1	0.3	1.1	0.8
BCM	-1.8	2.5	1.8	0.1	8.4	7.9	0.2	3.5	0.3	1.8	-0.9	-2.2	-2.0	-1.8
DMBs	1.5	2.7	0.0	1.9	11.1	4.6	4.3	3.0	2.8	1.5	3.0	2.5	3.1	2.7
Other credits	0.1	1.9	-0.4	0.1	1.3	1.3	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Credit to the economy	11.5	6.5	12.2	5.0	10.0	28.4	5.3	8.2	8.0	10.4	9.6	8.3	7.1	6.4
Credit to public enterprises	0.0	0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	11.5	6.2	12.5	5.0	10.0	28.1	5.3	8.2	8.0	10.4	9.6	8.3	7.1	6.4
Other credits	0.0	0.2	-0.2	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net; asset = +)	-0.2	-2.5	-1.1	0.6	0.5	-2.8	-0.6	-1.4	3.0	0.0	0.0	0.0	0.0	0.0
Broad money (M2)	8.9	10.1	13.3	11.3	36.3	37.4	11.6	13.4	17.6	17.7	19.8	13.8	15.3	14.6
Currency in circulation	-2.2	7.7	15.3	8.5	12.9	9.8	5.9	12.9	16.4	16.7	18.7	13.2	14.5	13.9
Demand deposits in local currency	20.0	9.9	13.2	12.5	44.2	47.0	13.7	11.8	18.3	18.4	20.4	14.2	15.7	15.0
Quasi-money in local currency	8.0	12.3	11.8	11.8	47.5	50.2	12.9	15.6	17.4	17.6	19.6	13.7	15.2	14.6
Credit to the private sector (in nominal terms)	21.1	10.1	20.5	8.9	15.4	43.4	9.7	15.0	11.8	16.2	15.1	13.7	11.7	10.9
Credit to the private sector (in real terms)	17.1	5.6	14.3	2.9	3.4	32.2	3.9	5.3	2.5	7.5	7.2	6.4	5.2	4.9
Memorandum items:														
Credit to private sector (percent of GDP)	13.7	15.6	16.6	15.2	17.2	21.3	14.9	17.4	20.9	21.3	21.8	22.2	22.3	22.4
Money multiplier (M3/reserve money)	2.6	2.6	2.7	2.9	2.9	3.1	3.0	3.0	3.1	3.1	3.1	3.1	3.1	3.1
Velocity of money (GDP/end-of-period M3)	4.0	3.5	3.5	3.3	2.9	2.9	3.3	3.0	2.9	2.8	2.6	2.6	2.5	2.4

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

[1] End of period.

[2] Large increases in 2020 and 2021 reflect RCF disbursements and ECF disbursements on lent by the central bank to the Treasury.

Table 7. Madagascar: Balance Sheet of the Central Bank[1]

(Billions of Ariary, unless otherwise indicated)

	2019	2020	2021		2022				2023			
	Dec	Dec	Dec		Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
	Actuals	Actuals	2nd Review	Est.	Estimates				Projections			
Net foreign assets	3,925	3,597	3,691	3,691	3,169	3,647	3,261	3,438	4,174	4,024	3,999	4,117
Gross foreign assets	5,977	7,370	9,024	9,024	8,733	9,115	8,753	9,529	9,448	9,492	9,537	9,450
Gross foreign liabilities	-2,052	-3,772	-5,333	-5,333	-5,563	-5,469	-5,492	-6,091	-5,274	-5,467	-5,539	-5,333
Net domestic assets	1,002	1,862	2,172	2,172	2,705	2,779	2,749	3,450	3,548	3,689	3,642	3,903
Credit to government (net)	757	1,044	1,271	1,271	1,779	1,879	2,046	2,400	2,192	2,272	2,205	2,453
Claims on central government	1,103	2,331	2,576	2,576	2,556	2,779	2,996	3,379	3,170	3,250	3,184	3,132
Statutory advances	85	0	0	0	0	0	142	287	0	0	0	-136
Securitized debt (T-bonds and bills)	701	658	615	615	604	593	583	572	562	552	542	532
Discounted bills of exchange	8	0	0	0	0	0	0	0	0	0	0	0
On-lending of funds	308	1,671	1,960	1,960	1,950	2,184	2,271	2,519	2,607	2,697	2,641	2,735
Other credits	1	1	1	1	1	1	1	1	1	1	1	1
Government deposits	-347	-1,287	-1,305	-1,305	-777	-899	-950	-979	-979	-979	-979	-679
Claims on other sectors	23	-187	-169	-169	-17	-112	-214	-555	30	30	30	30
Claims on banks: Liquidity operations (+ = injection)	-58	609	711	711	640	624	448	1,185	1,100	1,050	1,000	1,000
Other items (net; asset +)	281	397	359	359	303	388	469	420	226	337	406	420
Reserve money	4,927	5,459	5,863	5,863	5,875	6,426	6,010	6,888	7,722	7,713	7,640	8,020
Currency in circulation	3,315	3,570	4,117	4,117	3,958	4,159	4,083	4,522	5,202	4,991	5,190	5,266
Bank reserves	1,561	1,823	1,669	1,669	1,840	2,189	1,847	2,279	2,443	2,643	2,370	2,668
Currency in banks	335	354	366	366	340	392	408	391	452	473	523	457
Deposits	1,226	1,469	1,303	1,303	1,500	1,797	1,439	1,888	1,991	2,170	1,846	2,210
Resident deposits	51	66	76	76	77	79	81	86	77	79	81	86
	(Cumulative annual flows, unless otherwise stated)											
Memorandum items:												
Net foreign assets	-282	-328	94	94	-521	-44	-430	-253	483	333	308	426
Net foreign assets (Millions of SDRs)	-90	-131	13	13	-90	5	-55	-88	40	2	-18	-3
Net domestic assets	57	860	310	310	533	607	577	1,278	1,376	1,517	1,470	1,731
Credit to government (net)	-191	287	227	227	508	608	775	1,129	921	1,000	934	1,182
Reserve money	-225	532	403	403	12	563	148	1,025	1,859	1,850	1,778	2,157
Exchange Rate (MDG/SDR, end of period)	5,016	5,509	...	...	...	...	...	...	...	...	...	...
Net foreign assets (Millions of SDRs, stock)	784	653	666	666	576	672	612	579	707	668	649	664

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

[1] End of period.

Table 8. Madagascar: Selected Financial Soundness Indicators, 2019-22[1]

(Ratios, percent, unless otherwise indicated)

	2019 Dec	2020 Dec	2021 Mar	2021 Jun	2021 Sep	2021 Dec	2022 Mar	2022 Jun	2022 Sep	2022 Dec
Capital Adequacy										
Regulatory capital to risk-weighted assets	13.4	11.9	11.5	11.4	11.5	11.0	11.7	12.3	12.0	11.2
Capital to assets	10.0	9.4	9.8	9.1	9.3	9.5				
Regulatory Tier 1 capital to risk-weighted assets	11.6	11.9	11.5	11.4	11.4	11.0	10.8	11.4	11.1	10.3
Tier 1 to assets	6.8	6.9	6.6	6.7	7.0	6.7	6.4	6.9	6.9	6.3
Non-performing loans net of provisions to capital	22.0	32.6	27.3	26.7	26.5	42.0	31.6	39.3	37.2	33.7
Net open position in equities to capital	4.0	3.8	3.5	3.8	3.6					
Asset Quality										
Non-performing loans to total gross loans	7.3	8.5	8.0	7.7	7.7	9.1	7.8	9.4	8.9	7.7
Earnings and Profitability										
Return on assets	4.0	3.2	3.0	3.1	3.3	3.5	3.4	3.4	3.6	3.6
Return on equity	31.1	25.9	24.2	25.8	27.4	28.7	27.5	28.7	30.3	30.1
Interest margin to gross income	60.6	60.2	59.8	58.6	58.1	51.3	50.9	49.9	49.2	48.4
Non-interest expenses to gross income	54.2	56.0	56.3	56.1	55.4	58.4	59.4	58.8	58.1	58.5
Trading income to total income	5.7	6.5	6.4	9.1	9.1	8.3	8.0	8.1	8.2	8.6
Personnel expenses to non-interest expenses	32.9	31.9	32.3	31.9	31.5	26.1	26.3	26.3	26.0	25.1
Liquidity										
Liquid assets to total assets (liquid asset ratio)	34.9	35.5	37.1	35.0	33.3	33.7	32.6	33.8	31.6	29.8
Liquid assets to short-term liabilities	49.8	49.7	53.3	49.4	47.4	48.9	47.6	48.5	47.2	43.3
Customer deposits to total (non-interbank) loans	131.1	131.9	139.3	136.7	128.6	121.8	128.7	132.5	124.9	117.5
Sensitivity to Market Risk										
Net open position in foreign exchange to capital	53.8	7.5	8.7	8.8	7.2	7.8	7.1	7.4	7.7	7.9
Spread between reference lending and deposit rates (basis point)	1,065	1,025	954	949	944	934	895	917	916	913
Foreign currency-denominated loans to total loans	11.7	11.8	11.6	12.9	11.0	11.6	14.4	14.8	14.0	18.3
Foreign currency-denominated liabilities to total liabilities	14.9	15.9	16.1	14.7	14.2	14.9	17.4	16.4	15.1	17.6

Source: Malagasy authorities.

[1] Ratios only concern banking sector.

Table 9. Madagascar: External Financing Requirements and Sources, 2019–24
(Millions of US Dollars)

	2019	2020	2021	2022	2023	2024
External financing needs	**1,216**	**1,055**	**700**	**1,451**	**1,331**	**1,202**
Current account deficit (excl. budget grants)	423	817	732	851	911	895
Net repayment of private sector and monetary authority debt	337	170	-20	123	179	107
Repayment of government debt (excl. IMF)	69	81	95	128	171	175
Other (incl. unrepatriated export revenues)	385	-13	-107	350	70	24
External financing sources	**950**	**745**	**634**	**1,194**	**1,191**	**1,288**
Foreign direct and portfolio investment	373	251	244	298	244	334
Project support	577	494	390	896	947	954
Grants	*332*	*214*	*97*	*373*	*423*	*425*
Loans	*244*	*280*	*294*	*523*	*524*	*529*
Use of international reserves ("-" is accumulation)	**76**	**-210**	**-458**	**180**	**92**	**-145**
External financing gap	**190**	**520**	**523**	**78**	**49**	**59**
Use of IMF credit	**83**	**384**	**48**	**78**	**49**	**-26**
Disbursements	87	384	70	98	99	33
Repayments	4	0	22	21	50	59
SDR allocation	**0**	**0**	**332**	**0**	**0**	**0**
Other exceptional financing	**107**	**136**	**144**	**0**	**0**	**85**
Budget support loans	7	20	144	0	0	71
Budget support grants	101	115	0	0	0	13
Memorandum items:						
Gross official reserves	1,653	1,863	2,321	2,142	2,050	2,195

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

Table 10. Madagascar: Decomposition of Public Debt and Debt Service by Creditor[1]

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	**5,685,484,868**	**100.00**	**39.06**	**761,948,438**	**778,653,371**	**391,476,351**	**5.24**	**5.11**	**2.45**
External	**4,595,513,502**	**80.83**	**31.57**	**124,531,081**	**134,602,634**	**139,969,554**	**0.86**	**0.88**	**0.88**
Multilateral creditors[2]	3,772,196,289	66.35	25.92	72,755,792	83,296,336	90,424,275	0.50	0.55	0.57
IMF	815,587,919	14.35	5.60						
World Bank	2,007,273,546	35.31	13.79						
ADB/AfDB/IADB	567,628,114	9.98	3.90						
Other Multilaterals	381,706,710	6.71	2.62						
o/w: Intern'l Fund for Agricultural Dev.	179,621,152	3.16	1.23						
European Investment Bank	113,496,725	2.00	0.78						
Bilateral Creditors	753,155,230	13.25	5.17	23,986,718	30,195,654	29,488,619	0.16	0.20	0.18
Paris Club	315,219,245	5.54	2.17	11,663,878	17,236,416	17,187,482	0.08	0.11	0.11
o/w: Agence Française de Développement	138,830,105	2.44	0.95						
Japan International Cooperation Agency	82,852,470	1.46	0.57						
Non-Paris Club	437,935,985	7.70	3.01	12,322,840	12,959,238	12,301,136	0.08	0.09	0.08
o/w: Export-Import Bank of China	202,049,191	3.55	1.39						
Kuwait Fund	18,916,694	0.33	0.13						
Bonds	0	0	0						
Commercial creditors	70,161,983	1.23	0.48	27,788,571	21,110,644	20,056,660	0.19	0.14	0.13
o/w: Deutsche Bank	52,269,957	0.92	0.36						
Consorz GIFIEX	14,954,258	0.26	0.10						
Other international creditors	0	0	0	0	0	0	0.00	0.00	0.00
Domestic	**1,089,971,366**	**19.17**	**7.49**	**637,417,357**	**644,050,737**	**251,506,797**	**4.38**	**4.23**	**1.57**
Held by residents, total	1,089,971,366	19.17	7.49	637,417,357	644,050,737	251,506,797	4.38	4.23	1.57
Held by non-residents, total	0	0	0						
T-Bills	201,344,537	3.54	1.38	355,945,963	201,344,537	0	2.45	1.32	0.00
Bonds	684,767,359	12.04	4.70	265,517,080	266,829,278	244,021,772	1.82	1.75	1.53
Loans	203,859,470	3.59	1.40	15,954,314	175,876,922	7,485,025	0.11	1.15	0.05
Memo items:									
Collateralized debt[3]	0								
o/w: Related	0								
o/w: Unrelated	0								
Contingent liabilities	6,542,737.47								
o/w: Public guarantees	6,542,737.47								
o/w: Other explicit contingent liabilities[4]	0								
Nominal GDP	14,554,754,115			14,554,754,115	15,232,749,228	15,968,776,653			

Sources: Country authorities; and IMF staff estimates.

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

[2] Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

[3] Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

[4] Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Table 11. Madagascar: Projected External Borrowing Program, on a Contractual Basis
(Millions of US Dollars)

Public and publicly-guaranteed external debt contracted	Volume of new debt in 2023		PV of new debt in 2023 (program purposes)	
	USD million	Percent	USD million	Percent
Sources of debt financing	**549**	**100**	**321**	**100**
Concessional debt, of which	**362**	**66**	**190**	**59**
Multilateral debt	107	20	50	16
Bilateral debt	255	46	139	43
Other	0	0	0	0
Non-concessional debt, of which	**187**	**34**	**131**	**41**
Semi-concessional	187	34	131	41
Commercial terms	0	0	0	0
By Creditor Type	**549**	**100**	**321**	**100**
Multilateral	107	32	50	16
Bilateral - Paris Club	99	15	40	12
Bilateral - Non-Paris Club	334	51	223	69
Other	9	1	8	2
Uses of debt financing	**549**	**100**	**321**	**100**
Infrastructure	131	24	64	20
Social Spending	0	0	0	0
Budget Financing	0	0	0	0
Other	418	76	257	80

Sources: Malagasy authorities; and IMF staff projections.

Table 12. Madagascar: Schedule of Disbursements and Timing of ECF Arrangement Reviews

Availability Date	Disbursement (In percent of quota)	Disbursement (In SDR millions)	Conditions for Disbursement
March 29, 2021	20.0	48.88	Board approval of the arrangement
November 15, 2021	20.0	48.88	Board completion of first review based on observance of performance criteria for end-June 2021
May 16, 2022	10.0	24.44	Board completion of second review based on observance of performance criteria for end-December 2021
November 15, 2022	10.0	24.44	Board completion of third review based on observance of performance criteria for end-June 2022
May 15, 2023	10.0	24.44	Board completion of fourth review based on observance of performance criteria for end-December 2022
November 15, 2023	10.0	24.44	Board completion of fifth review based on observance of performance criteria for end-June 2023
May 15, 2024	10.0	24.44	Board completion of sixth review based on observance of performance criteria for end-December 2023
Total	90.0	219.96	

Source: IMF.

Table 13. Madagascar: Indicators of Capacity to Repay the Fund

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
						(Millions of SDRs)								
Fund obligations based on existing credit														
Principal	31.0	43.6	65.3	103.9	107.4	98.5	89.0	64.2	19.6	9.8	0.0	0.0	0.0	0.0
Charges and interest	4.0	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Fund obligations based on existing and prospective credit														
Principal	31.0	43.6	65.3	103.9	107.4	103.4	106.1	83.8	39.1	29.3	14.7	2.4	0.0	0.0
Charges and interest	4.0	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Total obligations based on existing and prospective credit														
Millions of SDRs	39.7	46.1	67.8	106.4	109.9	105.9	108.7	86.3	41.7	31.9	17.2	5.0	2.6	2.6
Billions of Ariary	238	293	448	726	766	739	762	609	295	227	123	36	18	19
Percent of exports of goods and services	1.0	1.1	1.5	2.3	2.3	2.1	2.0	1.4	0.6	0.5	0.2	0.1	0.0	0.0
Percent of debt service	7.1	8.1	10.9	12.9	11.9	9.7	8.4	5.8	2.5	1.7	0.9	0.2	0.1	0.1
Percent of GDP	0.3	0.4	0.5	0.7	0.7	0.6	0.6	0.4	0.2	0.1	0.1	0.0	0.0	0.0
Percent of government revenue	2.8	2.9	3.7	5.2	4.9	4.3	4.0	2.9	1.3	0.9	0.4	0.1	0.1	0.0
Percent of quota	16.3	18.9	27.8	43.5	45.0	43.3	44.5	35.3	17.0	13.0	7.0	2.0	1.0	1.0
Outstanding IMF credit based on existing and prospective drawings														
Millions of SDRs	674.5	655.4	590.1	486.2	378.8	275.5	169.3	85.5	46.4	17.1	2.4	0.0	0.0	0.0
Billions of Ariary	4,047	4,172	3,898	3,318	2,639	1,922	1,188	603	329	122	17	0	0	0
Percent of exports of goods and services	16.9	15.6	12.7	10.7	7.9	5.4	3.1	1.4	0.7	0.2	0.0	0.0	0.0	0.0
Percent of debt service	119.9	115.1	94.5	59.1	40.9	25.1	13.1	5.7	2.8	0.9	0.1	0.0	0.0	0.0
Percent of GDP	5.7	5.2	4.3	3.3	2.3	1.5	0.9	0.4	0.2	0.1	0.0	0.0	0.0	0.0
Percent of government revenue	47.7	40.6	32.2	23.6	16.9	11.1	6.2	2.9	1.4	0.5	0.1	0.0	0.0	0.0
Percent of quota	276.0	268.2	241.4	198.9	155.0	112.7	69.3	35.0	19.0	7.0	1.0	0.0	0.0	0.0
Net use of IMF credit (millions of SDRs)	42.3	-19.1	-65.3	-103.9	-107.4	-103.4	-106.1	-83.8	-39.1	-29.3	-14.7	-2.4	0.0	0.0
Disbursements	73.3	24.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	31.0	43.6	65.3	103.9	107.4	103.4	106.1	83.8	39.1	29.3	14.7	2.4	0.0	0.0
Memorandum items:						(Billions of Ariary, unless otherwise indicated)								
Exports of goods and services (millions of SDRs)	3,991	4,191	4,634	4,551	4,767	5,140	5,536	5,963	6,422	6,917	7,450	8,023	8,639	9,301
Debt service	3,375.6	3,622.9	4,125.8	5,609.6	6,457.9	7,642.6	9,095.5	10,492.9	11,678.2	13,661.7	14,421.7	15,257.5	16,469.4	17,859.2
Nominal GDP (at market prices)	71,201	80,831	91,030	101,836	113,067	124,644	137,335	151,254	166,552	183,277	201,595	221,588	243,392	267,152
Government revenue	8,488	10,269	12,116	14,046	15,584	17,244	19,072	21,086	23,309	25,749	28,514	31,554	34,892	38,556
Quota (millions of SDRs)	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4

Source: IMF.

Annex I. Global Risk Assessment Matrix[1]

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
		External Risks	
Intensifying spillovers from Russia's war in Ukraine.	High	Medium. No direct impact is expected due to limited linkages with Russia and Ukraine. However, the war in Ukraine would affect Madagascar indirectly through commodity price volatility, extended supply disruptions, tighter financial conditions, and lower growth in trading partners limiting tourism flows and remittances.	Implement policies to cope with commodity price shocks as described below. Reduce non-priority spending to preserve programmed fiscal targets. Accelerate broad-based structural reforms to boost competitiveness, remove bottlenecks to growth and support economic diversification.
Commodity price shocks.	High	Medium. Lower external demand and commodities prices for metal and vanilla could reduce export revenues and reduce production in mining sector. Rising food and energy prices lead to food insecurity, higher consumer prices, dampen disposable income of households, and lead to a decline in consumption and deteriorated current account. Also, higher energy prices will raise fuel and electricity costs weighing on government transfers and complicating ongoing energy reforms. Uncertainty leads to social and economic instability.	Finalize the automatic fuel price adjustment mechanism. Allow greater exchange rate flexibility to buffer external price shocks. Accelerate structural reforms to improve economic efficiency and enhance diversification. Support vulnerable households with additional targeted measures.
De-anchoring of inflation expectations	Medium	Medium. Supply shocks could raise headline and core inflation. Lack of clear nominal anchor and monetary policy framework cause a rapid de-anchoring of inflation expectations.	Tighten monetary policy to respond to possible second-round effects from imported food and energy prices and restore price stability to avoid de-anchoring inflation expectations. Strengthen the monetary policy framework. Pursue structural reforms to improve productivity.
Abrupt global slowdown or recession	Medium	Medium. A global slowdown would spillover to Madagascar through trade and financial channels leading to widening of external imbalances and pressures on international reserves.	Maintain greater exchange rate flexibility to absorb external shocks and preserve international reserves and recalibrate monetary policy to contain inflation. Prioritize structural reforms to improve competitiveness.
Local Covid-19 outbreaks	Medium	Medium. The slow pace of vaccination leaves the economy vulnerable to a new wave of Covid-19 contamination, forcing new restrictive measures. Investment could slowdown and economic recovery could be delayed, increasing fiscal pressure.	Continue vaccination campaign and prioritize health spending. Strengthen social safety nets. Prepare a contingency fiscal plan on how to mitigate the impacts of a new outbreak and a new lockdown.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
Deepening geo-economic fragmentation and geopolitical tensions	**High**	**Medium.** Intensified geopolitical tensions would affect Madagascar through a decline in trade and lower investor confidence.	Improve public spending efficiency and commit to a credible medium-term fiscal consolidation.
Higher frequency and severity of natural disasters related to climate change.	**Medium**	**High.** Loss of real and human capital, disruptions in trade and lower growth. Extreme precipitation and drought could affect food production.	Reallocate fiscal spending to finance recovery work and appeal to donors for post-disaster financing. Build the country's resilience for adaptation to climate change in the agriculture and rural livelihoods. Strengthen disaster risk management and preparedness to provide rapid support to affected population.
Domestic Risks			
Widespread social discontent and political instability.	**Medium**	**High.** Higher food and energy prices trigger social protests and disrupt economic activity; growing political polarization ahead of 2023 presidential elections and instability weaken policymaking and confidence, undermine economic activity, disrupt the reform agenda, and exert pressure on the budget.	Focus reforms on areas less sensitive to sociopolitical environment. Improve inclusiveness of government policies. Encourage authorities and development partners to increase social safety nets and avoid early withdrawal of financial support to households and companies. Step-up anti-corruption and AML/CFT efforts.
Larger than anticipated transfers to SOEs (e.g., JIRAMA and Air Madagascar).	**High**	**Medium.** Transfers to SOEs reduce other priority expenditures. Potential economic disruption if SOEs' operations are affected.	Identify options to protect key public services. Encourage authorities and development partners to protect social priority spending. Strengthen governance structures, including government oversight of key SOEs. Strengthen the credibility of the medium-term fiscal and expenditure frameworks by strengthening budget execution.
Lack of progress or reversals in governance reforms, especially for SOEs.	**High**	**High.** A lack of transparency and evenhandedness may compromise additional concessional support, hinder private investment (incl. PPPs), and harm negotiations with fuel suppliers.	Undertake promised reforms and renew commitment to operating SOEs (e.g., JIRAMA) in a transparent and equitable manner. Step-up anti-corruption and AML/CFT efforts.
Weak investment implementation capacity.	**High**	**Medium.** Insufficient execution of capital investment projects over years would lead to larger infrastructure gap, slower economic growth and constrain foreign direct investment.	Monitor available domestic capacity and prioritize investments with highest returns. Improve transparency in planning, monitoring, and auditing steps for investment projects.
Banking sector stress.	**Low**	**Medium.** A surge in non-performing loans could deteriorate confidence and lower capital, affecting banking sector stability and credit to the private sector.	Enhance regulation and supervision. Communicate with banks on measures needed to ensure a prompt resolution of NPLs and adequate capitalization. Strengthen the resolution and crisis management frameworks.
Slower pace of reforms	**Medium**	**High.** Negative impact on social outcomes, confidence, and growth.	Build consensus on reforms. Improve communication. Invest in human capital and institutions.

Annex II. Status of Key Recommendations from the 2019 Article IV Consultation

Recommendations	Current Status
Fiscal Policy	
Create fiscal space by mobilizing domestic revenue and sharply reducing the need for transfers to SOEs.	Net tax revenue reached the program target of 10.4 percent of GDP in 2021. Domestic tax collection under-performed in part because of slower than expected activity. Authorities managed to recover more than half of outstanding tax arrears in 2021.
Address the fiscal risk associated with fuel pricing. Implement an automatic fuel price mechanism.	Fuel pump prices were increased by 43 percent on average in July 2022. A new fuel reference price structure was adopted in July of 2022 and the government is still working on designing policies to mitigate the impact of future pump price increases. The implementation of an automatic fuel price mechanism was delayed to 2024. A new business plan for JIRAMA is being finalized in consultation with the World Bank. JIRAMA's arrears remain to be repaid over the next three years.
Ensure higher priority spending in social sectors.	Spending in social sectors remains low and substantially under-executed. Social ministries did not prepare formal annual expenditure commitment plans. The authorities are working with the World Bank to increase cash transfers to the poorest households.
Monetary and Exchange Rate Policy	
Manage bank liquidity, thus supporting credit while containing inflation pressures.	Liquidity needs have remained stable. Inflation was contained to single digits until 2022 and the global commodity price shock. Official reserves are assessed as adequate.
Improve the interest rate channel of monetary policy transmission. Transition from reserve aggregates to interest rate targeting, by developing the interbank lending.	The reform of the operational framework for monetary policy is on track for a transition to interest rate targeting by 2023. To this end, the BFM formally implemented a symmetric interest rate corridor system in 2021, established overnight deposit and lending facilities while discontinuing the publication of the policy rate to avoid confusion with these new reference rates, and worked to align interbank market rates with the maturity of operations, the risks, and the overall level of liquidity. With the support from Fund TA, a macroeconomic forecasting model based on the Forecasting and Policy Analysis System (FPAS) was developed. The authorities are implementing the securities repurchase operations law since December 2021 aimed at encouraging longer-term interbank loans. Efforts to narrow the interest rate corridor contribute to stabilize the short-term interest rate on the money market. BFM is preparing to issue fixed term deposit certificates to complete the short-term maturity yield curve. The first official medium-term inflation projection by BFM is to be included in the 2023 budget law.
Phase out the surrender requirement on export proceeds.	Over the medium term, the authorities are still committed to implement a gradual phase out of the FX surrender requirement on export receipts, but only when conditions are sufficiently favorable so as not to endanger exchange rate stability.

Recommendations	Current Status
Strengthening Financial Sector Resilience and Financial Inclusion	
Implement the new banking and financial stability laws.	The banking law, the insurance law, the law on electronic money and electronic money institutions and the microfinance law have been promulgated. The instructions relating to the capital of banks, solvency, liquidity, risk concentration and the provisioning of credit risks of banks, considered as priorities, have been developed or are being developed. BFM is pursuing compliance with the Basel II and Basel III frameworks and anticipate adoption of the regulatory texts in the second half of 2022. The Banking and Financial Supervision Committee is working on the implementation of the new risk-based supervision mechanism, including the conduct of annual inspection programs prioritizing systemically important institutions as well as those with vulnerabilities.
Step-up efforts to improve financial inclusion.	To address low levels of financial literacy, the BFM has developed a dedicated module on its website and conducted several awareness and communication campaigns. To promote greater access and better use of financial services, several microfinance institutions (MFIs) have received support to extend their access points in underserved areas and in implementing remote banking solutions (agency banking, mobile money and mobile banking). A guarantee fund for micro-enterprises and agricultural entrepreneurs, including start-ups, has been set up with the participation of six banks and two MFIs. The implementation of the project of a national payment Switch is scheduled for end-2022 and will allow the interoperability of all electronic payments, leading to a reduction in transaction costs and contributing to an improvement in financial inclusion and better effectiveness, security, and resilience of the national payment system.
Promoting Better Governance and Business Climate	
Enforce the new anti-corruption legal framework.	Effective enforcement of the anti-corruption legal framework is slow and should be accelerated. The decree creating the coordination and orientation committee for anti-money laundering and countering the financing of terrorism (AML/CFT) was adopted in June 2022 and published in August. The five-year strategy for Madagascar's financial intelligence unit, SAMIFIN, was approved by the Council of Ministers in June 2022. The operationalization of the agency for illicit asset recovery is effective since June 2022 with the swearing-in of its general director and an operational budget allocation included in the 2022 revised budget law.
Strengthen the Public Financial Management to improve the governance of public resources.	The dissolution of the investment agency OCSIF has delayed the finalization of a public investment manual. The publication of an independent, third-party audit report of public procurement contracts relating to the response to the COVID-19 pandemic, was completed on July 6, 2022. Detailed information regarding COVID-19 related procurement contracts was published online but does not include information on the beneficial owners of entities being awarded contracts.
Improve the business climate with the aim to strengthen the quantity and quality of investment.	The authorities are committed to operationalizing the PPP National Committee established by the law by the end of December 2022. The finalized national PPP strategy, which provides a framework for the implementation of PPP investment projects, is expected to be adopted by the end of June 2023. The authorities are also committed to improving the transparency of PPPs.

Annex III. Implementation Status of Key 2016 FSSA Recommendations

Recommendations	Status
Short-Term	
Intensify onsite supervision of banks and MFIs.	Completed. The new banking law entered into force on March 5, 2021, enhanced the powers and independence of the Banking and Financial Supervision Committee (CSBF) by ensuring its budgetary autonomy. The onsite inspection resources have been increased and became more targeted based on data provided through the automated prudential reporting system.
Begin to implement risk-based supervision.	Completed. The authorities have strengthened risk-based prudential supervision. The Banking and Financial Supervision Committee (CSBF) worked to implement the new risk-based supervision mechanism, including the conduct of annual inspection programs giving priority to institutions of systemic importance and entities with vulnerabilities. Risk-based supervision in the AML/CFT area is planned in accordance with the objectives of the 2018-2022 national strategy.
Regularly conduct stress tests and use results to inform banking supervision.	Completed. Since 2016, annual stress tests conducted by the banking supervisor are used to inform supervisory prioritization.
Give the BCM all needed powers to promote financial stability, in cooperation with the CSBF and MFB.	Completed. BCM statutes were revised with the aim to reinforce its independence and give it a broad mandate to pursue financial stability.
Expand the definition of related parties and intensify supervision of concentration risks.	Completed. The new banking law entered into force on March 5, 2021. In the context of implementing the law, directives are being prepared on the issues deemed priorities, i.e., banks' capital, solvency, liquidity, risk concentration, and classification and provisioning of credit risks, in line with international standards.
Improve asset classification and provisioning rules.	Completed. The new banking law entered into force on March 5, 2021, provides guidelines on asset classification and treatment of and provisioning for problem assets.
Medium-Term	
Increase the quantity and quality of the CSBF's human resources.	Completed. The Banking and Financial Supervision Committee (CSBF) recruited new staff and provided legal protection for its staff and Board members.
Enhance the powers and independence of financial supervisors.	Completed. The new banking law entered into force on March 5, 2021, enhanced the powers and independence of the Banking and Financial Supervision Committee (CSBF), by ensuring its budgetary autonomy, providing legal protection to CSBF board members and staff, developing well-defined criteria and a transparent process for selection of CSBF members.
Increase minimum capital requirements for credit institutions and MFIs.	Completed. Adoption of Decree No. 2021-205 on February 24, 2021 increased the minimum capital requirements of MFIs, incorporating such risk factors as exchange rate risk and operational risk
Enhance the banks' internal control regulation and introduce detailed corporate governance requirements.	The banking law entered into force on March 5, 2021 enhanced the banks' internal control regulation and introduced detailed corporate governance requirements, including well-defined qualification requirements for members of banks' board of directors, their management and heads of control functions. The new legislation requires banks to publish annual reports containing quantitative information as well as qualitative disclosures related among others to corporate governance.
Strengthen the legal framework for the resolution of credit institutions and MFIs.	Completed. The promulgated microfinance law and the new banking law not only enhanced the powers and independence of the CSBF, but also gave it full supervisory authority over credit institutions and MFIs. CSBF has a specific mandate to resolve the institution's problems and preserve their capacity to fulfill critical functions, by taking developed resolution measures.
Intensify and enhance supervision of insurers and reinforce supervisory independence.	In progress. The insurance law, enhancing the powers and independence of the supervisor has been promulgated. The effective transfer of the supervision of the

Recommendations	Status
	insurance sector to the CSBF was materialized by the signing of a handover note between the Director General of the Treasury and the Secretary General of the CSBF on December 17, 2021 Since January 2022,the CSBF has been receiving support from the U.S. Treasury Office of Technical Assistance. The BFM, with the support of IMF technical assistance, will incorporate the insurance companies' balance sheets in the monetary statistics so as to comply with the Monetary and Financial Statistics Manual and Compilation Guide.
Institute independent, well-resourced prudential supervision of pension, savings and investment funds.	In progress. The authorities developed a strategy paper consisting of three elements: (i) systemic reforms (e.g., transfer of surpluses from the non-civil service retirement and pension fund CPR to the CRCM, consolidation of the CPR and CRCM appropriation accounts); (ii) parametric reforms (e.g., raising the retirement age, limiting to 3 the number of children taken into account for the children-related pension increase), and (iii) management measures (e.g., operationalization of the software to monitor payments between the Directorate General of the Treasury (DGT) and the Directorate General of Finance and Budget (DGFAG), and physical verification of pensioners and beneficiaries). This document will be examined by the Council of Ministers in the second semester of 2022.
Conduct independent financial audits of the National Savings Fund (CEM) and the savings network of the postal service, and then define restructuring/resolution strategies.	Completed. Independent financial audits of the CEM (Caisse d'Epargne de Madagascar) and PAOMA (Paositra Malagasy) were conducted in 2017. Following the audits, an action plan was developed. In March 2019, CEM obtained its license by the CSBF to operate as a microfinance institution for deposits and credits, in line with the existing action plan. The CEM is also planning to provide electronic money services (prepaid payment service). the PAOMA, which manages roughly 500,000 savings accounts in addition to its postal activities, plans to develop financial activities based on its network of over 250 branch offices throughout the country. The PAOMA is a partner, as a distributor, of a local bank authorized to carry out electronic money activities, via a Visa payment card.
Establish the legal framework for issuing and using electronic money and implement a supervision and oversight mechanism.	In progress. The law on electronic money and electronic money institutions has been promulgated. After the issuance in September 2017, April and June 2018 of decrees on the implementation of the law on electronic money, governance and control and electronic money institutions, the development of payment through electronic money is ongoing, notably with the licensing of a first company to provide these services and the processing of two other applications. The steering committee includes the CSBF (DRE, DCP) and BFM (DSP, DSI).
Adopt a draft law governing the national payment system.	In progress. A law regulating the national payment system has been prepared but not yet adopted.
Long-Term	
Implement a graduated intervention system for problem institutions.	In progress. The new banking law entered into force on March 5, 2021, authorizes the CSBF to take administrative or disciplinary measures; enhances the internal process of CSBF for progressive intervention to prevent problem institutions reaching an advanced stage; and provides a recovery plan. Early detection and intervention are carried out regularly. Efforts are underway to enhance CSBF's intervention and resolution powers by expanding its range of tools.
Explore setting up a deposit guarantee mechanism once banking supervision and the resolution framework are strengthened.	In progress. A guarantee fund for micro-enterprises and agricultural entrepreneurs, including start-ups, has been set up with the participation of six banks and two MFIs.
Unify and enhance credit risk registries.	In progress. A new central credit registry for banks, microfinance, and financial establishments was established in 2016. The law regulating the establishment and supervision of a private credit bureau was adopted in 2017, followed by an international tender in 2018. The first private credit bureau has been accredited in December 2018 and was launched in January 2019.

Recommendations	Status
Modernize the security registers.	In progress. The digitalization of movable and immovable security registers is operational at the level of the national register of commerce and companies. Challenges in dealing with paperwork for construction and property registration are still highlighted as weak areas. Efforts are underway to improve land property law.
Improve mechanisms to freeze assets in cases of suspected money laundering and recovering goods acquired illegally.	In progress. The operationalization of the Illicit Assets Recovery Agency of (Agence de Recouvrement des Avoirs Illicites - ARAI) is effective since June 2022 with the swearing-in of its general director and an operational budget allocation included in the 2022 revised budget law. With a view to recovering illicit assets, BIANCO intends to fully exploit the potential of the new dynamic management regime of asset declarations provided for in the anti-corruption law to improve corruption investigations and to crack down on offenses related to illicit enrichment and other underlying offenses. In this respect, a implementing decree for the anti-corruption law on the dynamic management of asset declarations should be issued by the government by December of 2022 at the latest, not only to complete the legal reforms recommended by the national anti-corruption strategy, but also to ensure greater consistency and synergy in anti-corruption actions in Madagascar in the context of the operationalization of the ARAI.

Annex IV. Capacity Development Strategy

Context

1. **Madagascar has been an intensive user of IMF technical assistance (TA) and training since the normalization of its relations with the Fund in 2014, notably in the context of the 2016–2020 ECF and the successor ECF arrangement approved in March 2021**. Priorities are closely aligned with the objectives of the new program and include reforms at the central bank (BFM), tax policy and administration, Public Financial Management (PFM), financial sector, and the anti-corruption legal framework in order to achieve a higher, sustained and more inclusive economic growth. Fund TA evolved with the progress in the reform agenda with follow-up TAs providing specific recommendations. Fund TA departments and the country team have maintained close interaction with the Malagasy authorities and leveraged the proximity of AFRITAC South (AFS) to ensure that TA needs and activities are always aligned, and capacity development (CD) is more relevant, effective and efficient.

2. **FAD reengagement with Madagascar on tax and custom administrations and PFM in 2015 was followed by specific TA missions to improve government resources management**. Since then, headquarters (HQ) support and AFRITAC South capacity development (CD) have been intense. Recommendations in tax and customs administration have been effective and helped reverse the decline in revenue collections. With respect to PFM reforms, some progress on medium-term budgeting, public investment management, and fiscal risk management has been made, despite some backsliding, especially in the first two areas. The implementation of a Strategic Plan of Modernization of Fiscal Governance, including a reform of the budget classification, is underway and is expected to contribute to improved budget transparency. PFM TA have also focused on helping the authorities fulfill their RCFs commitments on the transparency of COVID-19 spending, with the operationalization of the COVID Fund. A recent tax policy TA advised on reforms to boost domestic revenue collection in line with the program's objectives.

3. **Madagascar was a pilot for a Climate Macroeconomic Assessment Program (CMAP) in early 2022**. Led by FAD, the CMAP aimed to help assess the financing needs and the macro-fiscal impact of climate plans on growth and debt sustainability, and to identify green PFM priorities, including budgetary processes, for adequate climate policy implementation. Strengthening mitigation, risk management, and adaptation strategies to climate change is macro-critical given Madagascar's strong vulnerability to natural disaster and climate related food insecurity.

4. **Based on the 2015 FSAP recommendations, MCM and AFRITAC South assistance has been instrumental for reforms to**: (i) strengthen the central bank's (BFM) independence; (ii) modernize the monetary policy operational framework, including by improving liquidity management and forecasting; (iii) develop foreign exchange markets; (iv) strengthen banking supervision; and (v) improve central bank internal audit functions and bring them to international standards. Headquarter-based TA has provided advice on the international reserve diversification strategy by including gold following purchases of non-monetary gold by the central bank.

5. FIN, MCM, and LEG helped the BFM strengthen its safeguards and transition to IFRS. The BFM continues to implement the recommendations of the April 2021 update safeguards assessment and concluded its efforts to transition to International Financial Reporting Standards (IFRS) with the issuance of the 2020 accounts.

6. STA (including AFRITAC South) has provided intensive TA for National Accounts rebasing, reweighted CPI, and external statistics with a broadened scope to include the dissemination of International Investment Position statistics; monetary and financial statistics (MFS); financial soundness indicators (FSIs); and government finance statistics to expand data coverage beyond budgetary central government. The authorities have also strengthened their participation in the enhanced General Data Dissemination System (e-GDDS), with a web-based National Summary Data Page launched in May 2019.

CD Strategy and Priorities

7. Going forward, IMF TA support will continue to focus on deepening reforms that have yielded results in recent years and strengthening skills in the Ministry of Economy and Finance, BFM, and the statistical agency, and further expand to address new high-priority policy objectives.

8. In this context, key priorities include: (i) continuing the modernization of the customs and tax revenue administrations to improve compliance and reduce tax evasion; (ii) designing and implementing tax policies to converge towards a level of taxation more consistent with the country's tax potential; (iii) strengthening PFM through tougher internal controls, better control of fiscal risks (pensions, PPPs, and SOEs), improved management of public investment and the wage bill, enhanced forecasting and budgeting, improved expenditure chain and transparency; (iv) improving the policy framework for adaptation and resilience to climate change through green PFM and C-PIMA; (v) continuing the ongoing multiyear-reform plan of the monetary policy framework, to gradually transition to interest rate targeting; (vi) improving the functioning of the interbank foreign exchange market and the efficiency of the FOREX; (vii) further strengthening financial sector stability and development through better supervision and the adoption and operationalization of a resolution framework; and (viii) improving governance by effectively enforcing the legal framework and stepping up the fight against corruption.

9. Key priorities identified before the COVID-19 pandemic remain relevant but will need to be clarified in light of recent developments and related authorities' commitments in the context of emergency financial support. PFM issues related to budget execution and control are crucial, including the operationalization of monitoring tools to track emergency spending, the single treasury account, and the strengthening of the monitoring of publicly controlled entities, as well as improving the capacity to identify the ultimate beneficiary owners of companies involved in public procurement contracts.

10. The authorities welcome the TA received from the Fund in recent years and find that priorities have been closely aligned with the program objectives, including in the areas of public financial management, revenue generation, and financial sector. Between March 2020 and March 2022, all missions were carried out remotely; the authorities consider that these missions remained effective and appreciate the flexibility of the TA providers, despite occasional technical difficulties with connectivity constraints and the time zone difference.

11. The authorities find that the Capacity Development strategy is appropriate for Madagascar. They emphasize that TA provision has been instrumental in the success of past and current ECF programs and request that this effort be sustained in the coming years to continue progress on ongoing reforms and address new needs and challenges arising from the implementation of the new economic reform agenda under the *Plan Emergence Madagascar*.

Engagement Strategy

12. Engagement with the authorities. The team engages with the authorities on a regular basis and in the context of program reviews. The authorities appreciate the opportunity to discuss their capacity development needs and priorities in meetings with FAD, MCM, LEG held during the Annual and Spring Meetings, as well as with the country team.

13. The authorities welcome the collaboration between IMF HQ technical departments and AFRITAC South and find missions well-sequenced and complementary. They suggest that the frequency between TA missions is adapted to ensure that the advice can be internalized and absorbed, notably in the context of the pandemic, and suggest that sufficient time is allowed between the investigation/analysis mission and the review mission to allow the proper implementation of the recommendations provided. They also reiterate their interest in long-term experts in specific areas, notably in revenue administration and tax policy, and medium-term budget framework; and welcome the training opportunities given to officials of the Ministry of Economy and Finance and the central bank.

14. Coordination within the Fund. The Madagascar team holds regular meetings with functional departments in order to align TA priorities with program objectives, to enable effective sequencing, and to ensure against duplication.

15. Engagement with outside partners. The Madagascar team holds regular discussions on TA with other partners, including the World Bank, the African Development Bank, and the European Union.

Priorities by Department

FAD

Topics	Objectives
Domestic tax and customs administration	Increase tax and custom revenue through further reforming and modernizing tax administrations, including effective control and enforcement, and business facilitation for compliant taxpayers.
Tax revenue policy	Help the dedicated Tax Policy Unit to make tax policy recommendations, including through limiting exemptions, based on recent evaluation of tax exemptions annexed to the budget law.
Fiscal risks	Better monitor and plan for identified fiscal risks and improve fiscal risk management.
PFM: Budget execution and control	Improve budget classification, cash management (Treasury Single Account), and accounting and asset management; strengthen public investment management; improve the expenditure chain; continue to improve the macro-fiscal and budget framework.
Climate macroeconomic assessment program	Enhance national planning PFM systems, including budgetary processes, and provide recommendation for adequate implementation of climate policies, including climate-related investment projects.

MCM

Topics	Objectives
Monetary policy implementation and operations	Help BFM to progressively migrate from the current regime (strict monetary targeting) to an interest rate targeting regime.
Development of the interbank market	Assist BFM in identifying and implementing measures to foster the development of a well-functioning interbank market (currently shallow and fragmented).
Development of forward FX markets	Help the BFM create an environment in which a forward FX market can take off. (This activity is conditional on progress made in spot FX market development and in interest rate targeting).
Foreign reserve management	Advise the central bank on its reserve management strategy to include gold and on the operational strategy for gold purchases, refining and storage, to prevent risks of quasi-fiscal activities.
Banking supervision and regulation	Help the supervisor to appropriately regulate, supervise and/or monitor licensed and/or registered institutions to ensure compliance and effective implementation with AML/CFT requirements. Strengthen institutional structures and operational and procedures for risk-based supervision. Strengthen bank risk assessment framework. Update and complete existing banking regulations.

STA

Topics	Objectives
Real Sector - National Accounts, and Price	Improve the quality of quarterly GDP series and ensure higher frequency of dissemination of data internally and/or to the public. Compile rebased CPI and develop PPI.
Balance of Payments Statistics	Improve data quality and coverage for both the balance of payments and IIP. Ensure consistency between these two datasets as well as across macroeconomic statistics.
Government Finance Statistics	Broaden the coverage of GFS to the general government and material public corporation; and initiate compilation of a financial balance sheet.
Monetary and Financial Statistics	Compile statistics for the insurance corporations' sector in line with the 2019 FSI guide methodology

LEG

Topics	Objectives
Governance	Modify the legal framework to allow for the identification and publication of UBOs of public procurement contracts. Support the preparation of a follow-up report on the audits of the government's response to the COVID-19 pandemic to strengthen accountability.

Annex V. External Sector Assessment

Overall Assessment: *The estimated external position of Madagascar in 2022 was broadly in line with the level implied by fundamentals and desirable policies based on the current account model. International reserves, while in decline, stand at an adequate level.*

Potential Policy Responses: *Foreign exchange interventions should be limited to smoothing volatility to cope with external shocks and building external buffers, without resisting underlying market forces. Efforts to formalize the mining sector should continue, but the existing surrender requirement on export proceeds should be gradually phased out while Madagascar's external position allows for it. Any gold purchases implemented as part of the push to diversify reserve holdings should be implemented in line with Fund TA recommendations.*

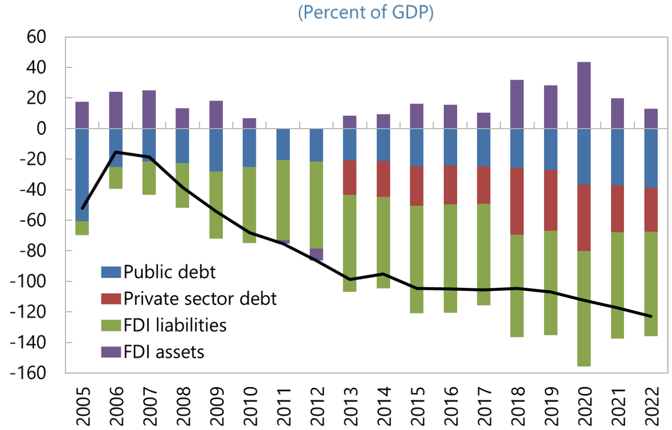
Foreign Assets and Liabilities: Position and Trajectory

Background. The estimate Net International Investment Position (NIIP) remains negative, having decreased from -15 percent of GDP in 2006 to -123 percent of GDP at end-2022 (preliminary estimate). This development includes a structural break in the series in 2018 (when estimates of private sector assets and liabilities were revised up, following an INSTAT survey). More generally, Madagascar's NIIP position has been on a declining path on the back of private external borrowing by Madagascar's mining sector. The position has remained broadly stable in recent years, following a steeper downward trajectory between 2007–2013. Almost all external public debt at end-2021 was held by official creditors and is concessional in nature. Private external debts are mostly (around 80 percent) accounted for by mining companies.

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

Net International Investment Position

(Percent of GDP)



Sources: Malagasy authorities and IMF staff calculations

2022 (estimate, % GDP)	NIIP: -123	Gross Assets: 13	Debt Assets: 0	Gross Liab.: 136	Debt Liab.: 68

Current Account

Background. As Madagascar is a country with large investment needs (and limited saving possibilities), the current account continues to stand in deficit—in line with Madagascar's historical experiences. As COVID-19 induced lockdowns have weighed on tourism inflows and mining activity, the current account deficit has widened substantially since the outbreak of the pandemic, from -2.3 percent in 2019 to -5.0 percent in 2021. For 2022, while Madagascar gets to benefit from higher prices for nickel, cobalt, and vanilla, plus a partial recovery of tourism inflows, higher prices for energy and food imports, combined with lower external demand are estimated to have further deteriorated the current account deficit to -5.6 percent of GDP, a deficit that is expected to persist in 2023.

Assessment. The Current Account (CA) model suggests a current account gap of -0.9 percent of GDP for 2022, implying that Madagascar's external position is broadly in line with the level implied by fundamentals and desirable policies. This assessment incorporates a COVID-19 adjustor to account for the lockdown-induced cessation in tourism flows and an adjustor for cyclone damage. The policy gap remains positive (0.8 percent of GDP), albeit significantly lower than in the 2021 ESA (2.8 percent).

Madagascar: EBA-lite Model Results, 2022 (in percent of GDP)

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-5.6**	
Cyclical contributions (from model) (-)	0.3	
COVID-19 adjustors (-) 2/	-0.9	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	1.4	
Adjusted CA	**-6.4**	
CA Norm (from model) 3/	**-5.5**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-5.5**	
CA Gap	**-0.9**	**0.0**
o/w Relative policy gap	0.8	
Elasticity	-0.2	
REER Gap (in percent)	**4.3**	**-0.2**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (which is estimated to have reduced tourism inflows by 46 percent relative to 2019).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Madagascar's Real Effective Exchange Rate (REER) appreciated by 1.3 percent over 2022, a marked change with the 2017-2021 period that saw a depreciation of the REER. In nominal terms, the Ariary depreciated by 12.8 percent in 2022 relative to the US dollar. Such deprecation is to be expected given imported inflation following the 2022 commodity price shock weighing on the current account balance.

Assessment. Based on the CA model, the estimated REER gap was 4.3 percent end-2022, while the REER model suggests a REER gap of -0.2 percent. The first method point towards a slight overvaluation of the real effective exchange rate.

Capital and Financial Accounts: Flows and Policy Measures

Background. Inflows stemming from capital grants totaled some 1.5 percent of GDP over 2022. This reflects a longer running downward trend in this item, which is expected to continue as further development of the local economy and changes in IDA project loan terms are thought to decrease the supply of grant financing. Net FDI inflows have been subdued since the pandemic, equaling 2 percent of GDP over 2022 (versus a pre-pandemic average over 2016-2019 of just under 3.2 percent). Going forward, FDI inflows are expected to increase to a new steady state value just over 2.5 percent of GDP. While the adoption of a new FX law remains pending, BFM is working to increase the liquidity and depth of the foreign exchange market. The success of these efforts would allow a gradual loosening of the existing surrender requirement on export proceeds, considered a capital flow management measure (CFM) under the IMF's Institutional View on the Liberalization and Management of Capital Flows in a way that will not destabilize or put further pressure on the exchange market.

Assessment. Risks related to the capital and financial account are minimal, mostly since there is no portfolio investment. However, while modest in nature, projected FDI inflows are at risk in case of major setbacks or delays in envisioned structural reforms, or a more protracted global crisis.

FX Intervention and Reserves Level

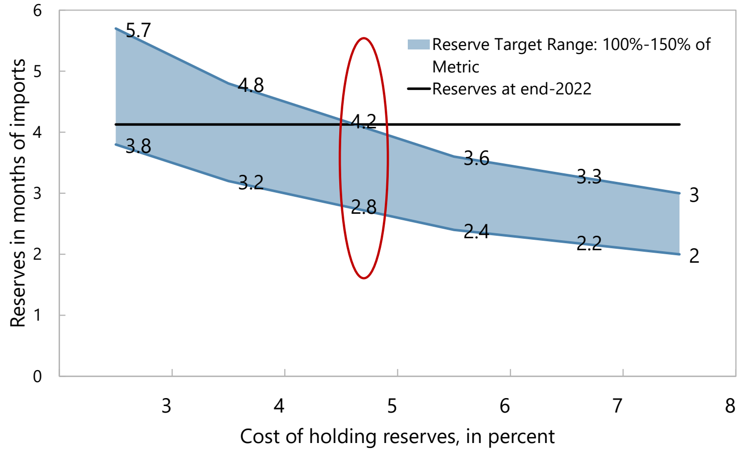
Background. Madagascar has a *de jure* floating exchange rate regime and intervenes (according to an algorithm) to smooth volatility while gradually building reserves on average. End-2022, FX reserves stood at SDR 1,601 million (14.1 percent of GDP) or 3.9 months of next year's imports, on par with the end-2021 stock of reserves (SDR 1630 million) and up from their 2020 level of SDR 1,338 million. FX interventions in 2022 increased by 30% compared to 2021 and were of similar magnitude across FX purchases and FX sales (SDR 78.4 million and SDR 75.2 million respectively).

Assessment. International reserves are assessed as adequate. Reserve coverage has gone down since 2020, from 4.7 months of next year's imports to 3.9 months of next year's imports in 2022. However, while the projected level of reserves coverage remains above the traditional three-month rule, it does no longer exceeds the upper bound of 4.2 from an ARA model for credit-constrained economies that compares the marginal costs of holding reserves against marginal benefits (assuming a cost of holding reserves equal to 5 percent; see Figure), as imports rose more rapidly than reserve levels. Finally, Madagascar remains highly vulnerable to additional external shocks, including term-of-trade shocks and natural disasters that could put

Madagascar's reserve path at risk. Moreover, coverage risks could also arise should government spending accelerate faster than anticipated in the context of a shortfall in external financing.

Madagascar: Optimal Reserve Levels

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



Source: IMF staff calculations.

Annex VI. Drivers of Growth Under the Plan Emergence Madagascar

Madagascar aspires to become an emerging market with a sustainable, diversified, inclusive, and resilient economy. The country's economic reform agenda formalized in the Plan Emergence Madagascar (PEM), lays out an ambitious development strategy. The PEM aims to achieve 9 percent average real GDP growth over 2022-2040 supported by a significant increase in human capital. This annex aims to identify the factors that may contribute to achieving this objective.

1. **Growth in Madagascar is characterized by high volatility, with expansions usually interrupted by political crises and natural disasters** (see Figure AVI.1). The highest average growth rate since 1980 was achieved over 2003–08, a period which coincided with strong investor confidence and high international growth before the global financial crisis.

Figure AVI.1. Madagascar: Real GDP Growth, Political Crises and Major Natural Disasters
(Percent)

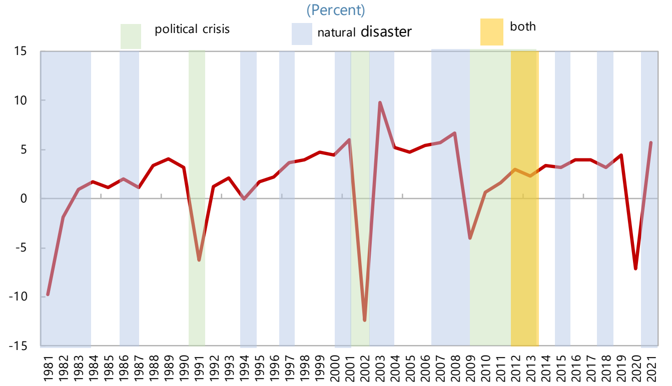
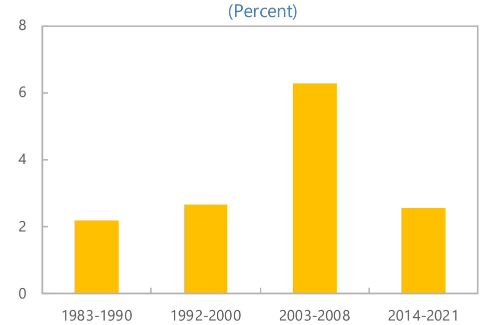


Figure AVI.2. Madagascar: Average Real GDP Growth
(Percent)



Sources: EM-DAT, The International Disaster Database; INSTAT; and IMF staff calculations

2. **We conduct a simple growth accounting exercise to assess the contributions of supply factors**: labor, physical capital and total factor productivity over 1980–2019.

3. **We assume a constant-return-to-scale Cobb-Douglas production function such that**:

$$Y = AK^{1-\alpha}(Lh)^{\alpha},$$

where Y is real GDP, A is total factor productivity (TFP), K is the aggregate capital stock, L is the number of workers, h is the human capital such that Lh represents the "quality adjusted" workforce. α is a constant in [0,1] representing the labor share in the real output. To compute the stock of capital, K, at each point in time we use the perpetual inventory equation:

$$K_t = I_t + (1-\delta)K_{t-1},$$

where I_t is investment at time t and δ is the depreciation rate. The initial capital stock, investment and the depreciation rate are necessary and sufficient to determine the capital stock at each point in time.

4. The capital stock and human capital are computed using Penn World Table data. The initial capital stock is set equal to 2.4 times real GDP denominated in national currency, which is in line with Penn World Table data (PWT 10.0). the depreciation rate is set at 5 percent. We use the human capital index from Penn World Table data as a proxy for *h*. National account variables such as real GDP, Investment, and real GDP growth are based on authorities' numbers. Labor force data from the World Bank's WDI database are used as proxy for employment data (nonexistent in Madagascar). The labor share α is estimated from an ordinary least square regression, with the log of real GDP in national currency as the dependent variable, and the log of capital stock and the log of the "quality adjusted" workforce as regressors. The sample period spans 1980–2019. The estimated coefficients are 0.29 with a 95-percent confidence interval of [0.22, 0.36] and 0.37 with a 95-percent confidence interval in [0.30, 0.43] for the log of capital stock and the log of the "quality adjusted" workforce, respectively. Given our constant return to scale production function, we set the labor's share α to 0.56 for our baseline decomposition (0.37 divided by the sum of 0.29 and 0.37).

The Relative Contributions of Labor and Capital to GDP Growth Have Changed Over Time

5. Between 1980–2000, labor contributed the most to real GDP growth, whereas growth between 2000–2019 was mostly driven by increases in the stock of capital. The data indicate that TFP has reduced output growth since 1980.

6. Figure AVI.3 shows the decomposition of real GDP growth between 1980 and 2019. The contribution of TFP has been consistently negative with an average loss in growth of 1.28 percentage points each year. This TFP loss may capture the effects of political conflicts, natural disasters, but also reflect the non-mechanization of the agriculture sector and delays in the adoption of new technologies. The contribution of education (human capital) has been low and has declined in the last two decades. Labor and capital have been the main drivers of growth between 1980 and 2019. Labor's contribution has been roughly constant during the period, exceeding GDP growth in the 1980s and 1990s. The contribution of capital has picked-up in the 1990s and 2000s with an average contribution to growth of 2 percentage points over 2000-2019, which represents almost 75 percent of the observed growth over the period.

Figure AVI.3. Madagascar: Growth Decomposition, 1980-2019

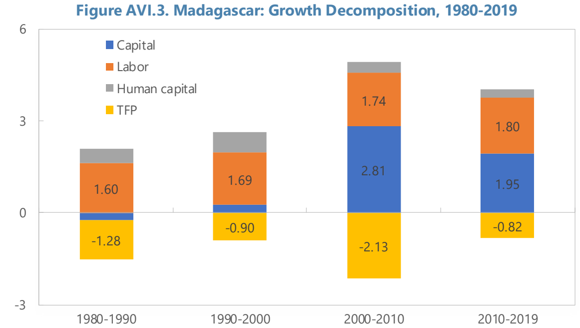
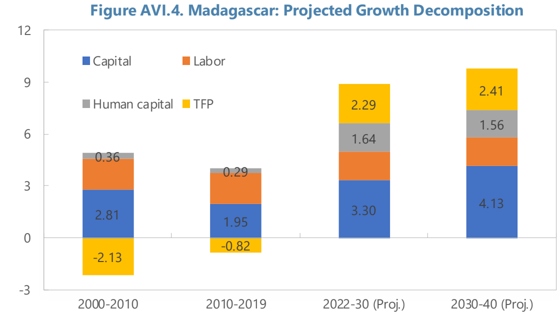


Figure AVI.4. Madagascar: Projected Growth Decomposition



Source: IMF staff calculations.

A Significant Improvement in TFP Would be Required to Achieve The Pem's Growth Objective

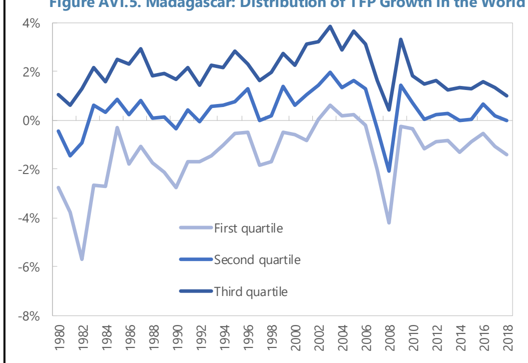
7. **Figure AVI.4 shows the projected real GDP growth decomposition over 2022–2040, assuming the average 9-percent annual growth envisaged by the PEM is achieved**. The capital stock is projected using the investment path that is consistent with the plan's objectives. In the PEM, the real investment to GDP ratio is assumed to be 35 percent, 38 percent, and 40 percent in 2023, 2027, 2040 respectively (the real investment to GDP ratio was roughly 30 percent over 2010–2019). The PEM assumes an annual growth rate of 10 percent versus 3.6 percent on average over 2012–2022. Labor growth follows UN population forecasts. Human capital *h* is assumed to grow at 1.65 percent per year reaching in 2040 the Malaysia's 2019 human capital index level, which is another PEM's objective. Historically, the human capital index grew by 0.45 percent per year with a declining growth over 2010–2019.

8. **Despite a significant increase in the projected contribution from capital, driven by the PEM's ambitious investment plan**, the contribution of TFP would need to reach 2.3 percentage points in the first decade and 2.4 ppt in the second decade after the implementation of the PEM to achieve its growth objectives. This would represent a radical improvement in TFP growth. Assuming a TFP contribution to growth in line with the historical average (average loss in growth of 1.28 percentage points each year), annual average real GDP growth under the PEM could reach 6 percent. The assumption of negative or close to zero TFP growth going forward could be justified by the increasing frequency and severity of natural disasters that may result from climate change (see CMAP on the impact of climate shocks on growth projections).

9. **More realistic investment projections would further increase the TFP growth needed to achieve the PEM's objectives**. Assuming a real investment growth of 5 percent annually through 2040, the contribution of TFP would need to reach 3.25 percentage points in the first decade and 4.37 ppt in the second decade after the implementation of the PEM.

10. **Figure AVI.5 shows the distribution of TFP growth around the world.**[1] **To achieve TFP growth above 3 or 4 percent over sustained periods is highly unusual**. In Sub-Saharan Africa, Rwanda and Botswana are among the few countries with high estimated TFP growth over a ten-year period. Rwanda registered an average TFP growth of 2.14 percent while its economy grew by 7.8 percent per year on average over 2000–2019. Average TFP growth was 2.6 percent over 1965–1990 in Botswana, with average real GDP growth of 12.4 percent.

Figure AVI.5. Madagascar: Distribution of TFP Growth in the World



Sources: Penn World Tables; and IMF staff calculations.

[1] Feenstra, R. C., Inklaar, R. and Timmer, M.P. (2015), "The Next Generation of the Penn World Table." American Economic Review, 105(10), 3150-3182

A Combination of Policies Can Improve Productivity Going Forward

11. According to Kim, Loayza, and Meza-Cuadra (2016)[2]**, the drivers of productivity growth can be grouped into five components**: (1) innovation, to create and adopt new technologies; (2) education, to spread and assimilate these new technologies throughout the economy; (3) market efficiency, to promote the effective and flexible allocation of resources across sectors and firms; (4) infrastructure to support private sector activity; and (5) institutions (regulatory, justice, policy, and political systems), to provide social and economic stability and defend property rights. These priorities are reflected in the 13 *veliranos* or commitments made in the PEM.

12. Madagascar's first priority (PEM's *velirano* 1) is to ensure political and social/economic stability. Improvements in political stability will foster confidence of both, local and foreign investors, and provide the necessary continuity to the structural reform agenda. Fighting corruption would reinforce accountability and trust in public institutions.

13. A second priority of the PEM is to build resilient infrastructure. This comes from the recognition that electricity (*velirano* 2) and road infrastructure are crucial for the development of the industrial sector (*velirano* 7). Targeting road rehabilitation will facilitate trade within Madagascar's regions. The modernization of agriculture would boost the productivity of the sector, which still employs 15-20 percent of the Malagasy economy.

14. A third priority is to improve human capital accumulation (*velirano* 4 for education and *velirano* 5 for health). The PEM lays out an ambitious plan to build new schools. However, priority should be given to the existing infrastructure and improvement of teachers' training.

15. A fourth priority is to ensure a level-playing field for the private sector by lowering entry and exit costs and promoting a flexible allocation of resources. The PEM aims to strengthen the competitiveness of Malagasy companies and promote foreign direct investment (*velirano* 7). More efforts are needed to encourage the formalization of firms. Equally important is the stability of the legal and regulatory frameworks, which is essential to improve the business environment.

16. Finally, promoting readily available new technologies and adapting them to the Malagasy context (as some firms are successfully doing, including in the textile sector) will lead to the development of higher value-added activities and boost productivity going forward.

[2] Kim, Young Eun, Norman Loayza, and Claudia Meza-Cuadra. 2016. "Productivity as the Key to Economic Growth and Development." World Bank Research Policy Brief, no. 3

Annex VII. Strengthening Governance and Fight Against Corruption

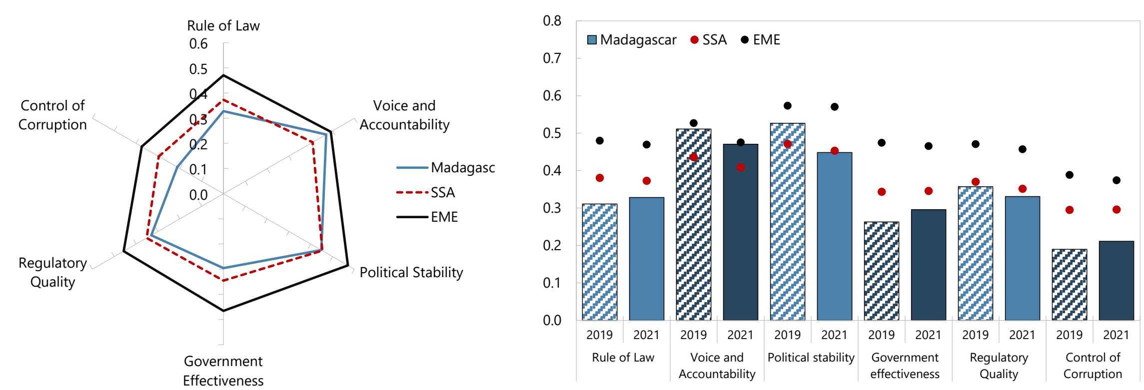
Better governance and resolute fight against corruption are needed to achieve the authorities' objectives of the Plan Emergence Madagascar. Fostering trust in institutions is necessary to mobilize both public and private resources to meet the country's development needs.

A. Background

1. Madagascar governance indicators have recently improved but remain well below the average level of Sub-Sahara African countries (SSA). The government capacity to mobilize tax revenue remains weak and PFM reforms have stalled since 2018. While the legal anti-corruption framework has been strengthened, more emphasis is needed on its effective implementation. Civil society's access to information should be enhanced to improve government accountability. The lack of transparency and predictability of business regulations tends to curb investment prospects.

Governance in Madagascar

Distance to Frontier, 2021 | **Governance Indicators, 2019 vs. 2021**



Sources: Kaufmann, Kraay, and Mastruzzi (2011) Worldwide Governance Indicators; and IMF staff calculations.
Note: Estimates range from approximately 0 (weak) to 1 (strong) governance performance. The indicators should be considered carefully as they are derived from perception-based data.

B. Fiscal Governance

2. Numerous tax exemptions and low tax compliance weigh on Madagascar's capacity to mobilize revenues. Government revenues (excluding grants) represented 10.6 percent of GDP on average over 2017–21, well below SSA countries average of 16.3 percent of GDP. In part, this is due to sizable fiscal expenditures. The Malagasy tax policy unit estimates that tax expenditures have significantly increased since 2015, amounting to 2.9 percent of GDP in 2021 (from 1.5 percent of GDP in 2015). The increase in tax expenditures is especially large for VAT (from 0.4 percent of GDP in 2015 to 1.7 percent in 2021) and customs duties (from 0.65 percent of GDP in 2015 to 1 percent in 2021). As is observed in other countries, the proliferation of tax exemptions (so-called "policy gap"), goes along with a sizable "compliance gap", with a stock of tax arrears at the end of the fiscal year averaging 29 percent of collected taxes. The tax administration ongoing efforts to improve tax compliance remain too fragmented.

3. **The recently updated strategic plan to modernize public financial management aims to address several weaknesses identified in the last PEFA report, but reforms need to be accelerated**. The PEFA report published in February 2022 pointed to stalled PFM progress and identified significant weaknesses regarding (i) credibility of the budget (Box 3), (ii) transparency of public finance, (iii) public investment management and (iv) internal and external PFM oversight.

- *Fiscal Transparency.* While the last PEFA noted that budget classification was below international standard, the authorities are working, with the support of an IMF long-term resident expert, to improve the functional budget classification. Execution reports have been timely released since 2021 but the coverage still needs to be enhanced. The authorities also committed to preserve the principle of annuality of the budget by cancelling all unused investment and transfers credits at the end of the fiscal year. Yet more progress is needed on several areas. The transfers to subnational authorities are not timely communicated. The good practice to post all individual public procurement contracts on the ARMP website has recently stopped and should be reinstated. The legal framework for public procurement should require the identification of the ultimate beneficial owner.

- *Public Investment Management.* The PEFA report notes that a large share of investment projects is not clearly identified in budget documents but reported as "Provisions for investment operations". In this context, the corresponding projects are not evaluated nor prioritized before being included in the budget and selection criteria are not communicated. While the authorities have committed to publish a public investment manual that would clarify public investment procedures and institutional framework (SB initially set to December 2021, postponed to March 2023), the dismantling of the investment agency (OCSIF) has led to significant delay in its finalization.

- *Internal and External Controls.* The authorities have recently strengthened the financial independence of the supreme audit institution, the *Cour des Comptes* by giving it a budgetary mission. They also have granted it direct access to the information systems of the Ministry of Economy and Finance. Nevertheless, as acknowledged by the updated strategic plan, both internal and external audits need to be further strengthened. The administrative sanctions proposed by the *Inspection Général de l'Etat* (internal control) are not always enforced and civil servant accountability remains weak. There is no systematic follow up on the recommendations of the audits led by the *Cour des Comptes*.

4. **The recently created Malagasy Sovereign Fund (FSM) raises significant governance risks.** The legal framework remains weak with Law N°2021-024 creating the FSM not yet supplemented by application decrees. The law specifies that the public procurement code will not apply to FSM operations which will instead be subject to a manual of procedures. This manual has not yet been released. According to the same law, the FSM will be partially financed by revenues

from natural resources which may affect budget unity. The authorities committed to clarifying the objectives, investment strategy, financing, and governance of the Malagasy Sovereign Fund (FSM), to avoid a diversion of funds from the budget, contain fiscal risks, and guarantee the transparency of the FSM operations, including through the submission to Parliament and publication of annual reports and financial statements.

C. Fight Against Corruption and AML/CFT

5. The anti-corruption legal framework has been strengthened. The updated national anti-corruption strategy and the national good governance strategy have been finalized in 2020. With the operationalization of the agency in charge of illicit asset recovery (*Agence de Recouvrement des Avoirs Illicites* - ARAI) in the second semester of 2022, all the agencies needed to implement the national anti-corruption strategy are in place. In addition to the ARAI, they include the Committee to Safeguard Integrity (*Comité pour la sauvegarde de l'Intégrité* - CSI), the anti-corruption courts (*pôles anticorruption* – PAC), the anti-corruption agency (*Bureau Indépendant Anti-Corruption* – BIANCO) and the financial intelligence unit (SAMIFIN). However, out of six PACS originally envisaged, only two are currently operational with the opening of a third one planned for 2023 (initially planned for December 2021).

6. The lack of financial and human resources remains a major impediment to the effective implementation of the anti-corruption policy. Credits allocated in budget laws to anti-corruption agencies have stagnated since 2020 and remain insufficient. Many agencies have had little or no budget for investment. For 2023, the authorities committed to increase the ARAI budget to ensure its effective operationalization but did not increase the budget allocation of the other anti-corruption agencies. Besides, more needs to be done to ensure the proper functioning of the anti-corruption system. The staffing of the agencies is a challenge as the absence of a national competitive examination for the recruitment of magistrates for three years in a row has led to a shortage of qualified professionals. In this context, adequate training for newcomers is required to strengthen their competencies. Audit institutions have been less affected by staff shortages. Moreover, the fragmentation of the system and the lack of cooperation between the various judicial bodies often delay the prosecution of corruption cases and few sanctions are taken.

7. The AML/CFT framework needs to be further upgraded to comply with international standards. In June 2022, the government adopted the national strategy for anti-money laundering and combating the financing of terrorism (AML/CFT) that takes into account the results of the national evaluation of risks and addresses some of the shortcomings identified during the evaluation of Madagascar by the Financial Action Task Force (FATF). However, a law modifying and completing the 2019 Law on AML/CFT to align it with FATF international standards has not yet been submitted to Parliament.

D. Access to Information and Business Climate

8. **Access to information needs to be enhanced to allow civil society and Parliament to exercise oversight and hold the government accountable**. Parliament and civil society can ensure conditions for improved government accountability by drawing attention on the allocation and use of public funds. However, the large delay (close to 2 years) in adopting the *Loi de règlement* (finance settlement bills) and the limited time given to Parliament and civil society to examine the budget law project undermine their capacity to act as corruption watchdog. Public affair oversight should be strengthened including by improving the legal framework. In particular, the government should adopt laws that (i) guarantee public access to information, (ii) protect whistleblowers and (iii) require public policy evaluation. The effective operationalization of the *Conseil Economique, Social et Culturel,* whose creation was provided for in the 2010 Constitution, would support civil society involvement in policy making.

9. **Ensuring public service continuity, restoring private sector's confidence and public trust in institutions is crucial to foster private investment**. Market restrictions that require permits and licenses to operate and/or export, as recently introduced in the vanilla sector, facilitate rent seeking and should be avoided. Existing laws should be effectively applied, and retroactive regulations should be avoided, especially in the tax area. Land administration management should be modernized and decentralized. Despite ongoing efforts to facilitate land access, the World Bank reports that only 8000 land titles are issued per year and around 10 million plots remain to be registered. The protection of property rights is assessed to be one of the weakest in the world in the World Economic Forum 2019 Global Competitiveness Report and should be reinforced.

Annex VIII. Climate Macroeconomic Assessment Program (CMAP): Recommendations and Implementation Status

This annex provides a short summary of the CMAP conclusions and takes stock of recent progress in the implementation of recommended measures.

1. **Madagascar is exposed to numerous climate hazards such as tropical cyclones, droughts, and floods, which cause significant damage to key sectors, thereby undermining development efforts.** The changing climate is bringing more extreme heat events and more unpredictable rainfalls that cause sizable losses in the agriculture, ecosystems, water, and infrastructure sectors, and create pressure on labor productivity across sectors[1]. Madagascar's high level of extreme poverty and dependence on agriculture exacerbate its vulnerability to these conditions.

2. **Madagascar continues to develop and update its national framework for climate change.** The country has a set of key climate related policies and strategies in place, which are directly linked to its development goals and largely consistent with its commitments under the Nationally Determined Contribution (NDC). However, climate change has not been mainstreamed into line ministries' sectoral strategies. The impact of future climate developments and related hazards on sectors such as agriculture, ecosystems, and infrastructure, is not well understood, which hinders the development of proactive measures.

3. **Achieving Madagascar's mitigation goals in the NDC, covering key emitting sectors, can be supported by carbon and energy pricing reforms.** Madagascar is a relatively small emitter in terms of energy-based $CO2$, although it has higher emissions per capita compared with countries at comparable income levels due to deforestation. Its mitigation commitments therefore rely heavily on the Land Use, Land-Use Change, and Forestry (LULUCF) sector.[2] In this area, efforts to fight deforestation and encourage large-scale reforestation could be strengthened by adopting a feebate system for forest carbon storage and encouraging the take up of energy-efficient appliances that reduce dependence on forest resources such as firewood and charcoal. Regarding energy pricing reform, bringing the fuel price to efficient levels could be achieved by:

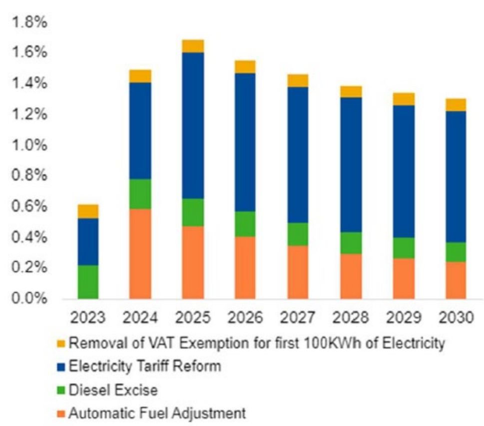
- Increasing excise taxes and other levies on diesel.
- Gradually increasing electricity tariffs to cost recovery levels.

[1] See Selected Issues Paper on *Climate and Food Insecurity in Madagascar* for policy discussion and recommendations on climate and climate change impact on the agricultural sector and the multidimensional aspects of food insecurity.

[2] See Section VI of the CMAP for an assessment of progress and implementation gaps in the land use and building regulations to promote resilience to climate risks.

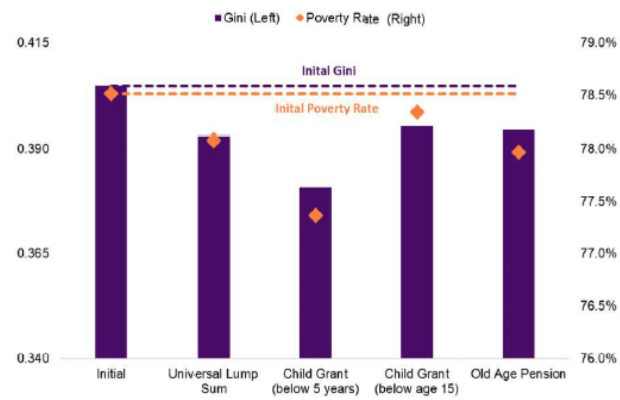
- Eliminating the VAT exemption on the first 100 kWh of electricity consumption.[3]
- Adopting an automatic fuel pricing mechanism, closing the gap between the true market price and the pump price, and reflecting the full social costs of supply, while putting in place efficient social safety nets to protect the vulnerable population against higher fuel price and its transmission to food inflation. Such safety nets could be partially financed by tax revenue from higher excises and the removal of VAT exemptions.

Figure AVIII.1. Madagascar: Fiscal Benefits from Policy Measures
(In percent of GDP)



Source: IMF staff using CPAT.
Note: Fiscal benefits including savings from the elimination of energy subsidies and additional revenue for the tax reforms.

Figure AVIII.2. Madagascar: Gini Coefficient & Poverty Rate after Compensation Measures
(In percent)



Source: IMF Staff calculations using CPAT and based on EPM (2010).

4. **The cumulative fiscal gains[4] of policy measures aimed at reducing emissions could reach 1.7 percent of GDP by 2025** (Figure A8.1). This amount could be used, for example, to support vulnerable households (Figure A8.2) and meet Madagascar's SDG goals.[5] Higher taxes and prices would also reduce energy sector CO2 emissions by up to 5 percent relative to baseline in 2030. Price increases would have a small negative impact on low-income households which could be

[3] The government retains a social tariff for vulnerable households so eliminating this distortionary VAT exemption and underpricing of average tariffs would not have adverse distributional implications, particularly as poor households generally have limited access to grid electricity in Madagascar.

[4] CPAT simulations are based on April 2022 international oil prices assumptions.

[5] See IMF Country Report No. 20/60, Annex VI for a costing of SDGs.

more than offset by targeted compensation and development spending[6]. Although the universal lump sum has the highest share of households better off after measure, providing a grant per child below age 5 does the most to reduce inequality and poverty[7] (Figure A8.2).

5. Madagascar has started implementing adaptation measures, but costing, targets and prioritization should be refined. Under the guidance of the National Adaptation Plan, a few key sectors in Madagascar have already formulated sector-specific documents on climate change. Both investments and nonfiscal measures have been proposed, however, these are not sufficient to address adaptation needs. Adaptation investments are often selected through fragmented external financing initiatives without a prioritization framework. The recent NDC update ahead of the COP 27 estimates the cost of adaptation measures to US$ 11.6 trillion to reach the sectoral adaptation objectives.

6. A few specific reforms would help to strengthen the natural disaster risk management strategy.

- Adequate provisioning for fiscal risks could be facilitated by integrating disaster risk assessments into the budget process (see ¶7).
- Expanding the beneficiary registry to a wider social registry that includes vulnerable non-beneficiaries, would facilitate scaling-up social protection systems when needed[8].
- While the government has recently improved risk transfer through external contingent financing and sovereign insurance (e.g., through the African Risk Capacity), domestic insurance could be further developed to increase financial resilience of the population.

7. Budget Laws (LFI) should better integrate climate shocks in the baseline projections underpinning the budgeting exercises, along with a climate risk analysis. The macroeconomic impacts of climate are only briefly mentioned in a paragraph of an Annex to the 2023 LFI, among the risks to the real economy. Moreover, the 2023 LFI does not include contingency plans for budget reallocation in the case of severe climate events during the 2022/2023 cyclonic season. It is recommended that the budget law includes an annex dedicated to climate risk with a list of all policies in place and their financing to serve as a basis for planning and efficient management of public resources A comprehensive reporting on implementation progress and use of funds (currently lacking) climate mitigation and adaptation is essential for better policy management and unlocking future financing.

[6] See Section III of the CMAP report for a detailed distributional analysis and Annex VI for examples of how countries have compensated the poor for the higher energy prices following energy subsidy reforms.

[7] Both World Bank and UNICEF have identified the Human Development Cash Transfer program to be the easiest, most efficient, and most effective social protection program to rollout and expand.

[8] See SIP on "Social Spending and Outcomes in Madagascar."

8. Ongoing public financial management (PFM) and public investment management (PIM) reform efforts provide an opportunity to increase the hitherto very limited focus on climate by:

- Strengthening the relations between the ministry of Environment, ministry of Economy and Finance, and other ministries at the budget planning stage.
- Identifying those infrastructure assets most vulnerable to climate change and defining maintenance methodologies by main sectors, building on efforts in the road sector.
- Defining a methodology to integrate climate change into ex-ante project assessments and criteria for project prioritization.
- Introducing climate budget tagging to identify and track spending on adaptation and mitigation, and to enrich a climate risk annex in the annual budget law (see ¶7).

9. Quantifying the impact of climate and climate change on growth and fiscal aggregates is critical to designing an appropriate and sustainable policy response. Madagascar's macroeconomic and fiscal projections do not factor in climate and climate change risks even though the country is being consistently and increasingly hit by natural disasters. Following the CMAP assessment, staff have revised down medium-term growth projections from 5 to 4.5 percent to better account for the recuring impact of climate on potential growth and the lack of improvement in total factor productivity.

10. Investing in climate change mitigation and adaptation with the goal of reaching SDGs could significantly increase potential growth. Model-based simulations using the Debt, Investment, Growth, and Natural Disasters (DIGNAD) model[9] suggest that investments to scale up resilient infrastructure and build human capital, with the objective of reaching SDGs, using the proceeds from mitigation measures and additional grants, might boost growth while preserving fiscal sustainability. However, such an outcome would require a significant acceleration of reforms supported by improved governance and public investment management capacity. [10] The reform package supported by the ECF program on revenue mobilization, social spending targets, improvements in PFM, transparency and governance aims to create the fiscal space for the needed investments in inclusive growth and climate resilience and provide the conditions for a successful and sustainable economic development.

[9] The DIGNAD model, developed by Marto, Papageorgiou, and Klyuev (2018) as an extension of the DIG model (Buffie et al, 2012), is a dynamic small open economy model designed to simulate the impact of one natural disaster and associated policy trade-offs between debt accumulation, public/private investment, and growth. See Section X and Appendix for detailed on the calibration, assumptions, and policy scenarios.

[10] See Annex VI on "Drivers of Growth Under the *Plan Emergence Madagascar*."

Appendix I. Letter of Intent

Antananarivo, Madagascar
February 14, 2023

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

Dear Madam Managing Director:

1. In a difficult economic environment, the Republic of Madagascar continues to make significant efforts to implement the economic reform program supported since March 2021 by an Extended Credit Facility (ECF) arrangement. The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and performance under this arrangement. It also updates the steps being contemplated to implement the reforms that will help meet the government's goals for 2023 and 2024. These reforms are in line with the Madagascar Emergence Plan, which is aimed at stronger, sustainable, and inclusive growth.

2. The year 2022 was marked by a deterioration in the fiscal and external situation, weaker growth than initially expected, and a substantial acceleration in inflation. For 2023, the budget law reflects the government's desire to return to a balanced budget while maintaining spending in the social sectors and public investment.

3. Several tax reforms and administrative measures are planned to increase the revenues needed to finance our development plan. In addition, an agreement has been reached with the Madagascar Group of Oil Companies to settle all cross-debts with the government in 2023. This agreement guarantees the resumption of payments of duties and taxes on petroleum products by fuel distributors. At the same time, we are continuing to improve the composition and efficiency of spending, while also pursuing the turnaround of unprofitable state-owned enterprises. We are strengthening public financial management with a particular focus on transparency and improved budget execution. In this regard, we have eliminated the commitment authorization process by the President and the Prime Minister in order to accelerate the execution of expenditures and we have developed annual commitment plans for several social ministries. To strengthen the budgetary autonomy of the *Cour des Comptes*, we have created a dedicated budgetary unit in the 2023 budget law.

4. The quantitative performance of the program as of the end of June 2022 remains satisfactory overall. All quantitative performance criteria at the end of June 2022, with the exception of the floor on net external assets and the ceiling on the domestic primary deficit, have been met. The central bank's net foreign assets floor was missed slightly amid high market volatility and

an appreciating U.S. dollar, despite the central bank's net purchases of foreign exchange. At the same time, the performance criterion for the domestic primary balance was also not met, largely due to the non-payment of oil taxes by fuel distributors in the absence of a comprehensive agreement to settle past debts. Approximately one-third of recorded customs revenues were not collected.

5. Further progress is being made on structural reforms. All of the prior actions and 5 out of 9 continuous structural benchmarks and benchmarks scheduled for completion since June 2022 have been met. Despite the 43 percent average increase in fuel prices decided in July, the failure to settle cross-debts with oil companies has resulted in the government exceeding the ceiling on gross commitments to fuel distributors (MGA 300 billion). The agreement signed at the end of December, however, paves the way for a return to the agreed ceiling.

6. The MEFP describes in more detail the corrective actions and public policies that will contribute in 2023 to the achievement of the program objectives under the ECF-supported arrangement. We remain committed to taking any further action necessary to achieve these objectives and will consult with IMF staff before making any changes to the policies set forth in this memorandum. We do not intend to introduce measures or policies that would exacerbate Madagascar's balance of payments difficulties and we are committed to ensuring the timely delivery of data for program monitoring.

7. We ask the IMF Executive Board to approve certain modifications to the program’s quantitative targets for 2023 and to grant a waiver for non-observance of the net foreign asset floor based on the minor nature of the deviation and of the domestic primary deficit ceiling based on the temporary nature of the breach and on the remedial actions that were taken. Based on the program achievements to date and the commitments presented in the MEFP, we are requesting the conclusion of the third review of the ECF arrangement and the disbursement of SDR 24.44 million (10 percent of our quota).

8. We agree that this letter of intent, and the attached MEFP and Technical Memorandum of Understanding, as well as the staff report on the third review under the ECF and the Article IV consultation, may be made public following approval by the IMF Executive Board.

9. Please accept, Madam Managing Director, the assurances of our highest consideration.

/s/	/s/
Ms. Rindra Hasimbelo Rabarinirinarison	Mr. Aivo Andrianarivelo
Minister of the Economy and Finance	Governor of the Central Bank of Madagascar

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

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies (MEFP) updates the version prepared for the second review of the Extended Credit Facility (ECF) arrangement approved by the IMF Executive Board on September 12, 2022. It describes the fulfillment of the government's commitments and how the program contributes to the achievement of Madagascar's growth and poverty reduction objectives, and it discusses the macroeconomic and structural policies that are being implemented.

RECENT DEVELOPMENTS AND OUTLOOK

1. Slower growth in 2022 and 2023 despite a stronger recovery than initially expected in 2021. Preliminary statistics from the National Statistics Institute (INSTAT) indicate a stronger recovery than initially anticipated in 2021. Following a contraction of 7.1 percent in 2020, real growth in 2021 is estimated at 5.7 percent, driven by accelerated growth in the extractive industries and construction. The multiple climatic shocks that occurred at the beginning of 2022, and the rise in food and energy prices will have an impact on the growth outlook in 2022 and 2023, which should nevertheless average at least 4.2 percent in these two years. This performance is better than that of the sub-Saharan African economies (expected to be around 3.8 percent).

2. An increase in inflation in 2022 and 2023. The 43 percent average increase in prices at the pump decided in July 2022, as well as rising food and energy prices, are affecting consumer prices. At the end of November 2022, inflation reached 10.8 percent year-on-year. The projected end-of-period inflation rate is around 11 percent in 2022 and approximately 9 percent in 2023.

3. A widening of the current account deficit and a decline in the coverage of reserves in months of imports of goods and services. The current account deficit is projected to rise to about 5.6 percent of GDP in 2022 and 5.7 percent of GDP in 2023, from 5.0 percent of GDP in 2021. As a result, foreign exchange reserve coverage of imports of goods and services would fall from 5.8 months in 2021 to 4.3 months in 2022 and 3.7 months in 2023. This outlook, however, remains subject to significant uncertainties and risks, including global and regional economic growth, rising global food and energy prices, and domestic factors including climate shocks, weak revenue mobilization associated with poor public expenditure execution, and uncertainties related to the upcoming elections.

PERFORMANCE UNDER THE PROGRAM SUPPORTED BY THE EXTENDED CREDIT FACILITY

4. Macroeconomic management is marked by mixed performance at the end of June 2022.

- The quantitative performance criteria for net domestic asset ceilings and the continuous criteria for external debt were met.
- In contrast to the previous review, however:
    - The performance criterion relating to the floor for net foreign assets was missed despite regular purchases by the central bank on the foreign exchange market (SDR 591 million against a target of SDR 615 million). On the other hand, the performance criterion related to the net domestic asset ceiling was met, after adjustment.
    - The domestic primary balance, the program's fiscal anchor, was overshot by MGA 43 billion (-MGA 336 billion against a benchmark of -MGA 293 billion). This underperformance is explained in particular by weaker performance in terms of domestic tax revenue collection and by a delay in the payment of oil taxes by fuel distributors since the end of 2021 due to a dispute with the government.
    - We will submit a waiver request to the Fund's Executive Board with regard to non-compliance with these criteria.
- Regarding the indicative targets:
    - The collection of customs taxes on non-oil products exceeded the targets set in the budget law. On the other hand, total customs revenue is below the benchmark set for end-June 2022. The gap can be explained by the large cross-liabilities between the oil companies and the government and, as a result, the failure by the oil companies to issue promissory notes for the payment.
    - The criteria relating to the floors for domestic tax revenue collection and social spending were not met because of the impact of climate shocks at the beginning of the year on growth, a failure to implement some of the tax measures provided for in the initial budget law, and problems encountered by the social ministries in executing their budgets. The social spending execution rate has nevertheless improved compared to last year.

5. There was some progress in the implementation of structural reforms during the assessment period.

- In line with the established structural benchmark, a monthly monitoring table of commitment authorization requests submitted to the President of the Republic and the Prime Minister has been established and transmitted to Fund staff on the agreed date. Two of the continuous structural benchmarks have also been met, since: (i) information on payments made by the government to JIRAMA [state-owned electric utility and water services company] suppliers continues to be shared with the Fund and the World Bank in a timely manner; and (ii) the criterion requiring publication on the ARMP [public procurement authority] website of the terms and conditions of public-private partnership contracts within one month of their signing continues to be met.

- On the other hand, despite the regular publication of a quarterly budget execution report with significantly improved content, some information is still missing (in particular, a breakdown of execution by type of expenditure, a comparison of the amount of operations actually committed with the amount included in the initial budget law, and a breakdown of cash movements and external financing). With the support of a long-term expert from the IMF's Fiscal Affairs Department, we are continuing to work to incorporate these elements into future reports. The continuous criterion on keeping the amount of gross liabilities to oil distributors below MGA 300 billion has also not been met due to a delay in reaching an agreement between the government and the oil companies on the amount and settlement of cross-debts between the two parties. Such an agreement was finally reached in late December 2022, which will allow the state's gross commitments to return below the cap agreed upon under the program.

- In order to speed up the execution of public expenditures while strengthening the control and monitoring process, we have decided to abolish the commitment authorization request (DAE) and strengthen the financial control services while establishing an a posteriori commitment monitoring office under the Office of the President.

- The 2023 budget, approved by Parliament in December 2022, is broadly in line with the program's objectives and provides for the creation of a dedicated budgetary mission for the *Cour des Comptes*, which will strengthen its autonomy.

EXPECTED CONTRIBUTION OF THE PROGRAM TO GROWTH AND POVERTY REDUCTION

6. The program's priorities are consistent with the objectives of the Madagascar Emergence Plan (PEM). The PEM is aimed at making Madagascar an emerging nation, strong, united, and concerned about the well-being of the population. The goal is to increase GDP per capita to $4,000 in 2040 (from $522 in 2019) and the human capital index to 0.60 (from 0.39 in 2020), along with lowering the poverty rate to 35 percent (from 78.8 percent in 2012). The PEM is organized around 13 commitments in the areas of governance, social and human capital, the economy, and the environment. The fulfillment of these commitments will require an investment effort that we estimate at $13.7 billion by 2030 (with 64 percent private investment) and $74.3 billion by 2040 (with 85 percent private investment).

7. The program contributes to strengthening the effectiveness of economic policies. The increase in public revenues, thanks to reforms in tax and customs policy and administration, and a reduction in fiscal risks through the restructuring of unprofitable public enterprises and the introduction of an automatic fuel price adjustment mechanism, should help to free up some of the fiscal space needed to implement the public investment and human capital development plan envisaged in the PEM. Improving budget execution and public financial management in general is also a condition for a more effective fiscal policy, especially with regard to increasing the country's resilience to shocks. Similarly, the transition to a new monetary policy framework should enhance the effectiveness of monetary policy.

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

9. By strengthening macroeconomic stability and improving governance, the program will also help create a favorable climate for private investment and growth. Reforms to improve fiscal transparency and public financial management, and to strengthen the anti-corruption and anti-money laundering framework, are essential to maintain public and investor confidence, which is a prerequisite for stronger and sustainable growth.

MACROECONOMIC AND STRUCTURAL POLICIES

A. Strengthen Fiscal Policy to Respond to the Economic and Social Crisis

10. Fiscal policy is gradually moving towards consolidation of public finances, in line with the objectives set when the program was approved, in order to create the fiscal space needed for the country's development. The domestic primary balance, the program's fiscal anchor, is expected to improve in 2023 and to become positive by the end of the program in 2024 (excluding the one-time revenue collection related to settlement of the dispute with oil distributors). This performance will be achieved through better mobilization of domestic tax and customs revenues and improved efficiency in the execution of public expenditures. The settlement of cross-liabilities with oil companies will free up room to clear outstanding arrears to non-oil companies.

Mobilize Tax Revenues

11. **The 2023 initial budget law assumes a tax burden of 12 percent of GDP, which is 1.1 percentage point higher than last year.** Gross domestic tax revenues are expected to reach 6.2 percent of GDP over the period, thanks in part to a recovery in economic activity and the implementation of a number of legislative and administrative measures. Customs revenues are also expected to reach 5.9 percent of GDP. Achieving these targets will provide the government with the resources necessary to fund the country's recovery efforts.

12. **With regard to domestic taxation, there are plans to implement a combination of legislative and administrative measures.** These include: (i) the application of a 3 percent tax rate on the income of exporters of agricultural and forestry products; (ii) the reinstatement of the VAT rate at 20 percent for diesel and gasoline as of January 2023; (iii) the withholding of certain taxes in the vanilla industry; (iv) better VAT management; (v) the application of the AIRS (advance payment of income and synthetic taxes) of 2 percent for export transactions excluding vanilla; (vi) better traceability of products subject to excise duty; (vii) an increase in excise duty on tobacco; and (viii) expansion of the electronic payment system. Our performance estimates are somewhat more optimistic than those of IMF staff, with gross domestic tax revenues MGA 369 billion higher than those envisaged in the program's baseline scenario. In addition, to optimize revenue from the mining sector, we are committed to finalizing a revision of the mining code in close consultation with the World Bank, the IMF and mining sector's representatives, and to submitting it to Parliament by June 2023 (structural benchmark).

13. **As for customs administration, the contemplated reforms continue to be part of the 2020-2023 strategic plan.** Key measures planned for 2023 include: (i) harmonization of the provisions of the Malagasy Customs Code relating to free zones with the Revised Kyoto Convention; (ii) implementation of a scanning system for 100 percent of imported and exported goods; and (iii) establishment of a new customs analysis center. In addition, there are also plans to make certain changes to the customs tariff, including the following: (i) exemption from customs duties for a number of goods to revive a given sector (tourism) and to contribute to the country's energy transition; (ii) introduction of exit duties on non-renewable resources in order to increase their effective contribution to the national economy; (iii) completion of the elimination of tariffs in relation to the commitments made under the interim Economic Partnership Agreement with the European Union; and (iv) continued efforts to categorize tariff lines in accordance with national tariff policy and the model issued by UNCTAD for certain strategic products.

14. **New measures in addition to those already identified could be adopted in a revised budget law if the achievement of the tax revenue objectives were to be compromised.**

Control Expenditures and Improve their Execution

15. The public expenditures envisaged for 2023 should make it possible to achieve a domestic primary deficit of 0.4 percent of GDP, excluding one-time revenues related to the agreement with oil companies, in line with the fiscal consolidation objective. Current expenditures, excluding net Treasury operations, are expected to be around MGA 6,900 billion. Payroll expenditures are estimated at MGA 3,869 billion, while transfer expenditures will be maintained at MGA 1,827 billion. To support the economy, budgeted investment spending increases by more than 70 percent to MGA 8,675 billion from MGA 5,020 billion spent last year. The figure in the 2023 budget law is significantly higher than in the program's baseline scenario and reflects our goal of significantly increasing our public investment effort.

16. We will continue our efforts to control our payroll and pension expenditures as well as our transfer expenditures in order to remain within the allocated limits. The reforms initiated to improve payroll management will be continued. At end-December 2022, the development of version 2 of the AUGURE system was 75 percent complete for the modules related to salaries and 25 percent for those related to pensions. Other management modules, such as those for training, missions, staff evaluation, work schedules, staff of national public institutions and decentralized territorial authorities, volunteers, staff paid by technical and financial partners and Parents' Association (FRAM) teachers, pensions, staff from specific ministries and Provisional Planning and Oversight of the Workforce, Posts, and Skills (GPEEC), will be developed this year. The operationalization of all AUGURE 2 modules will contribute not only to the improvement of forecasts and payment of salaries and pensions, but also to the detection and elimination of ghost workers, in line with the recommendations of the audits conducted in 2020 and early 2021. Specifications for the development of the new version of the Payroll Management Tool (PMS 2.0) are being prepared in order to improve the quality of payroll forecasts included in the budget laws. As far as pensions are concerned, the strategic reform document on the management of public pension funds has been submitted to the Higher Civil Service Council (CSFOP) for study. It will be examined during the next regular session of Parliament. The measures planned in the 2023 budget law to reduce the deficit of the Civilian and Military Retirement Fund (CRCM) are the digitization of pension payments through e-Poketra, the adoption of draft decrees allowing for the transfer of the surplus of the non-civil-service retirement and pension fund (CPR) to the CRCM, the gradual clearing of the pension funds' suspense accounts that record contributions paid that have not yet been the subject of revenue orders, and the improvement of revenue collection among national public institutions and decentralized territorial authorities.

17. We are committed to stepping up our efforts to accelerate the execution of social spending and improve the social protection system.

- Social spending has suffered from chronic underperformance and the indicative program target has been consistently missed. There are many reasons for this, including insufficient resources to cover both new budget allocations and arrears; weak capacity in social ministries; cumbersome expenditure execution procedures in general, including the procedure for requesting commitment authorization; and frequent changes in budget officials. In this regard, the development of annual commitment plans by the social ministries, with technical assistance from the IMF, should facilitate and accelerate the commitment of expenditures in 2023 (structural benchmark for end-January 2023).

- Several measures will be implemented to strengthen the social protection system with the technical and financial support of our various partners, such as the World Bank, the World Food Program, and UNICEF. In particular, we have allocated $5 million (MGA 18 billion) for the year 2023 for the Intervention Fund for Development (FID) to carry out three key operational activities under the social safety net program for 36,900 households in 10 districts. These activities are organized around three complementary themes: productive social safety nets, which focus on development and agricultural production activities; cash transfers for human development, which focus on schooling and nutritional support; and the response for early recovery from natural disasters in the event of a crisis in sensitive areas (cyclone, flood, severe food insecurity, etc.). We will ensure that budget allocations to the FID are effectively disbursed on time for use within the year. We are establishing a single social registry to serve as a reference for all social protection activities undertaken in the country, and we will clarify through regulations its functionalities, the conditions for sharing data within the government and with external partners, and the applicable data protection measures (structural benchmark, October 2023). A pilot project is expected to collect information for 60,000 households by December 2023 (structural benchmark). We are also working on updating our 2019–2023 social protection strategy, as well as an intervention calendar. The updated strategy will be proposed to the Cabinet in November 2023.

18. We are also committed to strengthening the execution and efficiency of public investment spending. Achieving the ambitious targets set by the PEM requires a significant strengthening of public expenditure management and execution capacities, particularly those related to investments. We are devoting particular attention to the prioritization of projects based on expected impacts and existing absorptive capacity, and will progressively take into account climate change-related criteria following the recommendations of the recently completed Climate Macroeconomic Assessment Program (CMAP). With the clarification of institutional and operational responsibilities for public investment management, following the dissolution of the Investments and Financing Coordination and Monitoring Agency (OCSIF), we will make the completion and publication of the public investment manual a priority (structural benchmark for end-March 2023). Finally, in order to improve the management of public investment, we are committed to respecting the priorities defined in the budget law approved by Parliament, and to canceling appropriations not committed at the end of December while including new appropriations, if necessary, in the budget laws of the following years.

19. We will take all the necessary measures to clear in 2023 all domestic arrears accumulated in 2022 following the delayed payment of oil customs taxes. We are committed to taking the necessary actions to preserve the achievement of the domestic primary balance target while protecting social spending.

B. Continue Structural Reforms to Reduce Fiscal Risks

20. We have continued the sound practice, begun a few years ago, of including an annex on the fiscal risks to which the country may be exposed in the budget law. For example, in Annex 18 to the 2023 budget law we identified factors that could potentially lead to a discrepancy between budget forecasts and outcomes, including: (i) risks related to developments in the real sector; (ii) risks related to changes in the level of exchange rates; and (iii) risks related to the fragility of the "pay as you go" pension system. These risks are in addition to those already mentioned in previous budget laws, including risks related to public debt, public guarantees, climate change, and risks related to inflation trends.

21. We will continue to make progress on the development of the Strategic Framework for Climate Change. In this connection, we have updated our Nationally Determined Contribution (NDC2), which calls for a 24 percent reduction in emissions and the country's resilience by 2030. The NDC2 concerns sectors classified as sources of emissions or sectors with absorption capacities, as well as sectors vulnerable to climate change. An implementation plan for the NDC2 has also been developed, including a cost breakdown of the proposed measures. We have revised the National Climate Change Policy (PNLCC) and developed the National Climate Change Policy Action Plan (PANLCC). The National Adaptation Plan (NAP) is the national reference document for adaptation and identifies 12 structural programs including strategic sectoral priorities related to climate change. Both documents, the NDC2 and NAP, have been adopted by the Cabinet. We also developed Madagascar's Adaptation Communication (ADCOM) in accordance with the guidelines recommended by the adaptation committee (AC20/GUI/5B). The development of this ADCOM makes it possible to evaluate the efforts made by the country in terms of adaptation to climate change. In addition, we are also working on our long-term low-carbon development strategy (LTS) to achieve our goal of becoming carbon neutral by 2050. A gender and climate change strategy has also been developed to reduce women's vulnerability to the impacts of climate change and strengthen their participation in climate actions. Other projects we are working on include setting up the institutional transparency framework of the Paris Agreement and finalizing the development of the country's priority programs that could be financed by the *Green Climate Fund (GCF)*.

22. We are determined to strengthen our risk and disaster management system. To this end, we are committed to providing the National Risk and Disaster Management Office (BNGRC) with the human, material, and budgetary resources necessary to carry out its mission by ensuring not only that it is given a sufficient budget to meet identified needs, but above all that this budget is available in time to accelerate the response to emergency situations. In this connection, in September 2022, the Council of Ministers approved a decree modifying the organizational chart of the BNGRC, which allows the transfer to the latter of the management of the National Contingency Fund (FNC), whose procedural manual has already been finalized, as has the financing code.

23. We will continue our efforts to improve our climate resilience. To this end, with technical support from the Fund, we will implement the CMAP recommendations to build our resilience and develop our policy responses to address the economic impact of climate change. The country is currently developing and updating its national climate change framework. We have also made decisions in line with climate change mitigation and environmental protection objectives. These include the upward adjustment of fuel prices at the pump in July 2022; the establishment of new residential and business rates for electricity consumption; the upward adjustment of the excise duty on tobacco; and the decision to exempt imports of new vehicles, other than those with compression or spark ignition, from duties and taxes (2023 budget law). In addition, we have made progress on several elements of the disaster risk management strategy, although some gaps remain. The *Emergency Prevention and Management Unit* has undertaken several actions that include the development of a risk financing strategy and participation in several insurance mechanisms, as well as a program that increases the country's disaster response capacity (REPLICA program). We should also mention the development of the *National Recovery Plan* following the cyclone damage in early 2022 and the establishment of Nutritional and Medical Rehabilitation Centers in the south to respond to the drought in the region. We have also begun to develop and implement adaptation strategies.

24. We are following the plan to implement an automatic fuel price adjustment mechanism by the end of the first quarter of 2024. To facilitate the implementation of this plan and in line with IMF staff recommendations, several actions and measures have been undertaken.

- In order to limit the accumulation of new liabilities, we agreed on a new price structure in July after discussions with oil distributors, and increased prices at the pump by an average of 43 percent on July 11, 2022. The increases were differentiated by fuel type to limit the impact on the most vulnerable segments of the population. The public and private sector wage increases announced in April 2022 helped mitigate the impact of these price increases on household purchasing power.

- An agreement between the government and the Madagascar Group of Oil Companies (GPM) on the amount of the government's gross liabilities to oil distributors at end-December 2021 has been reached.

- An agreement between the government and the GPM on the settlement of all cross-debts at end-2021 and 2022 related to the administration of prices at the pump was concluded in December 2022. This agreement stipulates the payment by the government of its debt arising from the difference between the administered pump price and the market price (implicit subsidy) to the members of the GPM and the settlement by the GPM of all its tax obligations to the government. The settlement of these liabilities will result in the recording of transfer expenditures in the Treasury's consolidated statement of operations corresponding to the amount of the government's gross liabilities, part of which will be settled by the issuance of special Treasury bills and the rest of which will be paid in cash. The settlement of import duties and taxes will result in a credit to the Other Net Operations of the Treasury accounts.

- The agreement with the GPM also covers payment for all the requisitions made by the government for JIRAMA in 2022.

- The VAT on petroleum products has been reinstated at 20 percent as of January 2023 in order to reduce the accumulation of VAT credits vis-à-vis oil companies (the rate had been reduced to 15 percent in July 2022).

- The government's gross liabilities to oil companies, excluding VAT, remain capped at MGA 300 billion (continuous structural benchmark). In the absence of an increase in prices at the pump, any excess will be subject to an additional transfer to fuel distributors to return to below the ceiling.

- We are continuing to work on the development of price mitigation measures for the most vulnerable segments of the population, including the strengthening of social protection programs on the basis of existing studies (structural benchmark, June 2023) and with the support of the World Bank.

25. We are committed to turning around JIRAMA.

- JIRAMA's financial situation has been further aggravated by the increase in the price of fuel for thermal power plants and a breakdown at the Andekaleka hydroelectric plant in early 2022. As of December 31, 2021, the operating deficit amounted to MGA 360 billion and JIRAMA's total debt was estimated at MGA 1,947 billion.

- The implementation of the OPTIMA3 tariff optimization on July 1, 2021, the intensification of collection efforts, and the strengthening of the fight against fraud have, however, enabled the company's revenues to recover, with a figure approaching MGA 1,000 billion in 2021. After consultation with the World Bank, we decided to implement the tariff optimization for non-residential customers (OPTIMA Business project) in August 2022, five months later than the timetable planned in the first review.

- We continued to implement measures such as programs to deal with power outages ("One Week, One Neighborhood" program) and to restore public lighting in Madagascar's district capitals ("Hazavana ho an'ny Tanana" program). This program will be continued in all urban and suburban communities along national roads. We are also working to improve outdated production infrastructure to ensure that our services are available 24 hours a day in all district capitals ("2424" program). Furthermore, investments in water infrastructure have continued (extension of the main drinking water production station in Mandroseza, installation of 10 satellite containerized production stations, replacement of aging water pipes).

- Changes in JIRAMA's management have delayed the finalization of the new business (structural benchmark not met at end-December 2022). With the support of the World Bank, we are working on a new strategy to restore the company's financial situation. The implementation of this strategy will enable the recovery of JIRAMA in the medium term.

- For 2023, the transfer needs for JIRAMA are estimated at MGA 453 billion. The budget law provides for a budget of MGA 300 billion and decisions will be made during the year in order to make the necessary additional funds available so as to avoid having to resort to requisitions. We will make sure that any potential spending reallocation does not reduce transfers to social institutions and ministries. We will continue to inform World Bank and IMF staff of the details of any budget transfers to JIRAMA suppliers.

- In addition to the operating subsidy, the government is committed to paying its water and electricity bills that have been received and audited, which are estimated at MGA 30 billion for 2022. JIRAMA estimates the amount of government arrears to be MGA 305 billion. The payment schedule for these arrears is conditional on the presentation of audited invoices. Prepaid electricity meters will be rolled out for all government agencies by the end of December 2023 as part of the new business plan to limit future risks of non-payment and ensure better management of government consumption (structural benchmark).

- The payment of arrears to suppliers associated with the renegotiation of contracts on more favorable terms for JIRAMA continues to be an important element of our strategy. A payment plan for JIRAMA's arrears, which amounted to MGA 1,257 billion as of December 31, 2021, will be implemented over the next three years.

26. Air Madagascar represents a significant fiscal risk that the government intends to control. Preliminary estimates indicate a financing requirement of at least $60 million and a need for debt restructuring for Air Madagascar and its subsidiary Tsaradia, which covers domestic operations. At the request of the National Social Security Fund (CNAPS), the second largest shareholder after the government of Madagascar, a business plan has been developed, including a medium-term recovery plan. The 2023 budget law provides for a sovereign guarantee to support the company’s lease of an Embraer and a Boeing to serve short-, medium-, and long-haul routes. In line with our commitment since the beginning of the program, we will consult with the Fund and the World Bank prior to any public financing of the company.

27. We will further strengthen oversight of state-owned enterprises to contain fiscal risks. To this end, the unit specifically in charge of regular monitoring of state-owned enterprises within the Ministry of the Economy and Finance will take advantage of the training and monitoring tool provided to it by the AFRITAC South technical assistance mission in October 2022.

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

29. We remain vigilant with regard to the fiscal risks that could potentially arise from the establishment of the Malagasy Sovereign Wealth Fund and we will strive to contain them with best practices in the area of sovereign wealth funds. To this end, we are committed to clarifying the fund's objectives, investment strategy, financing, and governance to avoid the diversion of budget revenues and an increase in public debt, and to ensure transparency of the fund's operations, including the submission of annual reports and financial statements to Parliament and their regular publication.

C. Strengthen Public Financial Management and Economic Governance

30. We will consolidate the gains in budgetary transparency, while taking the necessary actions to correct the deficiencies noted.

- The online publication of all available information on COVID-19 expenditures, including public procurement contracts executed in connection with the pandemic, marked an important step in ensuring transparency in the management of public funds. The same is true for the publication of the results of the four audits carried out by the *Cour des Comptes* concerning the pandemic response, as well as the publication of the audit of COVID-19 contracts by an independent firm.

- To increase transparency, we will strengthen the ex-post oversight capacity of our institutions. To this end, the *Cour des Comptes* has been given full access as an external auditor to the information systems of the Ministry of the Economy and Finance, including SIGMP, SIGOC, SIGTAS, NIFONLINE, SIIGTA and ASYCUDA. With regard to access to the Integrated Public Financial Management System (SIGFP), given the complexity of the system, the ministry is working closely with the latter to identify their needs and provide the necessary responses. We have also strengthened the budgetary autonomy of the *Cour des Comptes* by creating, in accordance with the procedures provided for in Article 9 of the Organic Law on Budget Laws, a budgetary mission within the framework of the 2023 initial budget law (structural benchmark for end-December 2022).

- The implementation of the action plan that we developed in response to the *Cour des Comptes*'s recommendations will continue. In order to monitor this process, the latter will prepare a report to be published before March 2023. In addition to the implementation status of each recommendation, the report will also provide information on the actions taken to ensure the accountability of those responsible for irregularities and identified in the audit reports (structural benchmark).

- We will continue to publish online, via the *Salohy* platform of the General Directorate of the Treasury, data on public expenditures by sector, ministry, and program on a payment basis. (http://app.tresorpublic.mg/dpp.mef.mg/) The publication of a quarterly report on budget execution, which has been done since June 2021, will be continued. The content and presentation of this report will continue to be improved on the basis of technical support provided by the IMF long-term expert seconded to the Ministry of the Economy and Finance.

This support is expected to improve the coverage of deferred payments and facilitate reconciliations with the Treasury's consolidated statement of operations.

31. We are strengthening transparency and governance in public procurement. Standard price lists have been established to serve as a reference for public procurement contracts. We are committed to improving the availability of all individual public procurement contracts on the ARMP website and, before June 2023, to amending the legal framework for public procurement to allow for the collection of information on the beneficial owners of bidding companies or other legal entities (structural benchmark). This information will also be published on the ARMP website for all beneficiaries of public contracts whether or not they are awarded on a competitive basis. In addition, several draft decrees have been submitted to the Council of Ministers to strengthen the legal framework: (i) a draft decree on the Code of Ethics that has been updated to specify sanctions for violations of the Public Procurement Code; (ii) a draft decree on the person responsible for public contracts, strengthening the professionalization of the position and defining the appointment procedures; (iii) a draft decree to bring the Tender Board into compliance with the Public Procurement Code; and (iv) a draft decree defining the general mechanism and operational procedures of the National Procurement Commission. Finally, we have made progress in the digitization of public procurement procedures (e-Governance Procurement, operational since September 2021, and the Procurement Review System launched in February 2022). We are also considering the implementation of "Integrity Pacts" in collaboration with civil society to ensure the integrity of the most important public procurement contracts.

32. We have also made progress on public finance reforms with the update of the Strategic Plan for the Modernization of Public Financial Management (PSMFP).

- Based on the technical assistance provided by the IMF's Fiscal Affairs Department in September 2022, the Directorate for Coordination and Monitoring of Reforms (DCSR) under the Ministry of the Economy and Finance was able to update the public finance reform strategy and the corresponding action plan. In October 2022, this strategy was presented to and approved by the members of the Public Finance Reform Steering Committee with a view to its implementation.

- As a next step, efforts will be focused on implementing the updated action plan. The DCSR will work with technical and financial partners to develop tools and methods to ensure better monitoring and evaluation of the various reforms carried out by different departments of the Ministry of the Economy and Finance in line with the objectives of the PSMFP.

33. We will make improving the budget execution process a top priority so that we are able to achieve our goals of strong and inclusive growth. The dashboard set up in September 2022 to monitor the processing of commitment authorization requests (structural benchmark) indicated that, despite a noticeable improvement in the last quarter of the year, delays were sometimes very long. In order to remedy this situation, while ensuring the proper use and management of public funds, we have decided on the following measures:

- Elimination of the commitment authorization requests submitted to the Office of the President and Office of the Prime Minister and strengthening of financial control services under the authority of the President and the technical supervision of the Ministry of the Economy and Finance (2016 law on financial control). The preparation of annual commitment plans will make it possible to verify the alignment of expenditures with the objectives of the budget law.

- Creation by presidential decree of a Commitment Monitoring Office under the Office of the President of the Republic that will be responsible for targeted ex-post monitoring of commitments. The office will be comprised of representatives of the Office of the President of the Republic, the Office of the Prime Minister, the General Directorate of Financial Control, and the General Directorate of the State Auditor General. The Ministry of Finance will support the Commitment Monitoring Office in the preparation of a monthly dashboard summarizing the number and amount of commitment requests approved by Financial Control, similar to the one transmitted since September 2022 on commitment authorizations. These statistics are essential for assessing the effectiveness of the existing system and deciding what adjustments to make, if any.

- Strengthening the various existing financial control bodies on the basis of their respective duties as defined by the legislative and regulatory documents in force.

- Continuation of the one-stop shop covering the entire expenditure cycle established at the Ministry of the Economy and Finance two years ago.

- Strengthening the interoperability of the different IT systems used by the Ministry of the Economy and Finance in order to improve the coverage and quality of the quarterly budget execution reports.

34. Improving the efficiency of the public expenditure chain remains a key objective. A new draft law on cash management will be presented to the National Assembly for adoption before the end of the year. This is an important step towards the implementation of the Treasury Single Account. For the same purpose, we have listed 234 active accounts for 55 public entities whose integration into the Treasury Single Account is still subject to legal constraints. Another draft law on the status of public accountants, clarifying their legal responsibilities in case of irregularities, will also be submitted to Parliament before the end of 2023. The main purpose of this reform is to redefine the responsibilities of public accountants by updating the provisions of Executive Order 62-081 of September 29, 1962, on the status of public accountants.

35. We are continuing our efforts to promote good governance and fight corruption. Our actions are in line with the safeguarding of our achievements but also with the effective implementation of our national anti-corruption strategy and the national strategy to combat money laundering. With the establishment of the Agency for the Recovery of Illicit Assets (ARAI) and the appointment of its Director General, we have taken an important step toward completing the institutional and legal framework for the country's anti-corruption system. Indeed, all of the agencies included in the national strategy, namely the Committee for the Safeguarding of Integrity (CSI), the Independent Anti-Corruption Office (BIANCO), the Anti-Corruption Units (PACs), the Financial Intelligence Unit (SAMIFIN), and the ARAI, are now in place and operational. In order to improve the efficiency of their respective actions, we are committed to the following:

- Ensuring that each body has sufficient human resources and budgetary autonomy to enable it to carry out its missions effectively. Particular attention will be given to the recruitment of the remaining staff at the ARAI, as well as the renewal of mandates and the recruitment of new judicial personnel working with the PACs. This requires the allocation of sufficient budgetary items and full disbursement of the budget provided for in the 2023 initial budget law.

- Accelerating the operationalization of the Fianarantsoa PAC as well as the opening of three additional PACs and new BIANCO regional offices before the end of 2023.

- Supporting the acquisition and furnishing of premises in Antananarivo for the CSI, the National Coordination Directorate for Anti-Corruption Units (DCN-PAC), the Antananarivo PAC, and the ARAI.

- Supporting SAMIFIN in joining the EGMONT Group and in covering the maintenance costs of the GoAML software used in financial analyses in order to be more efficient in the detection of illicit assets, especially those leaving Madagascar. We will also oversee the adoption of the draft decree on the restructuring of SAMIFIN.

- Implementing and publicizing the National Strategy for Combating Money Laundering and the Financing of Terrorism as adopted in June 2022, and finalizing the new national risk assessment requested by the President of the Republic in order to update the strategy (May 2023).

36. The approval of a document implementing the provisions of Law No. 2018-043 of February 13, 2019, on combating money laundering and the financing of terrorism remains a priority. The adoption of such a document will help to improve the legal framework for combating money laundering and terrorist financing in line with key recommendations of the Financial Action Task Force (FATF). Independently of the adoption of the law, we anticipate the issuance of the implementing decree for Law No. 2018-043 of February 13, 2019, on targeted financial sanctions for the financing of terrorism and the proliferation of weapons of mass destruction.

37. We will continue the regular publication of our investigative statistics (BIANCO) and will implement the dynamic management of asset declarations, as provided for by Law No. 2016-020 of August 22, 2016. In this connection, we will:

- Adopt an implementing decree allowing the dynamic use of asset declarations received;

- Take advantage of the operationalization of the ARAI through the adoption of a deterrent legal policy that provides for the systematic recovery of the proceeds of corruption;

- Remind all persons subject to the declaration of assets of their legal obligations in order to promote integrity and transparency in the holding of public office and to strengthen citizens' trust in public institutions.

38. The improvement of the business environment remains at the forefront of our concerns. We are making progress in the digitization of tax payments, the issuance of work permits, and the establishment of a credit bureau, as well as the operationalization of the e-reimbursement of VAT. In addition to legislative reforms, such as the overhaul of the investment law, the tourism code, the foreign exchange code, and the labor code, we also plan to continue our efforts to digitize business creation via the ORINASA platform with the deployment of the platform in several other regions besides Analamanga where it is already fully operational. The same applies to the deployment of the digital platform for the granting of building permits, which is already operational in the urban municipality of the capital.

D. Strengthen the Stability and Development of the Financial Sector

39. We are entering the final stages in the reform of the monetary policy operating framework in preparation for migration to the interest rate targeting framework by the end of 2023. In order to do this, we are improving the Quarterly Projection Model (QPM) so as to provide a better estimate of the optimal level of the Central Bank of Madagascar (BFM) standing facility rates and to better account for the transmission channels of monetary policy. In this connection, we will build on the recommendations from the January 2023 technical assistance missions on the development and use of the forecasting and policy analysis system (FPAS) in Madagascar and on the implementation of monetary policy within an interest-rate targeting framework. For a better understanding of the system, and in view of the transition to the interest rate targeting framework, we will also make capacity-building for our senior staff and economists-researchers a priority, either through technical assistance missions or through exchange and study visits to other central banks. We also plan to make progress on the following projects: (i) construction of a yield curve and development of a government securities market to facilitate liquidity management by the BFM; (ii) development of a continuous interbank market for the ariary; and (iii) structural development and deepening of the money market, including development of the secondary market for government and BFM securities.

40. The BFM also remains committed to its efforts to provide transparency and communication on monetary policy. One of the goals is to publish a projected schedule of BFM interventions in the money market. These efforts are essential to better anchor the expectations of economic actors and markets, thereby boosting the credibility of the BFM.

41. Reforms intended to improve the functioning of the foreign exchange market will continue. On the regulatory front, the central bank intends to continue its close collaboration with the Ministry of the Economy and Finance in order to adopt a new foreign exchange law. In order to remedy the inconsistencies noted in the application of foreign exchange regulations and with the aim of making the market more flexible, a new decree modifying the management of foreign currency accounts, the establishment of the surrender requirement, and the improvement of reporting by banks in order to have reliable and usable data was adopted in August 2022. Expanding the foreign exchange market to include additional participants is also a priority for the central bank in order to increase liquidity and market depth while promoting competition. Preliminary work has already been started with the various entities involved. Pending the arrival of new players, however, the central bank is working to ensure that the behavior of current participants conforms to standards and best practices through adherence to the FX Global Code with the support of the Committee of Central Bank Governors (CCBG) of the Southern African Development Community (SADC). Other reforms underway include improving the efficiency of the foreign exchange market with the introduction of a single currency quotation on the interbank foreign exchange market and the revision of the algorithm determining BFM interventions in the foreign exchange market.

42. **The central bank remains committed to diversifying its foreign exchange reserves with the introduction of gold into its holdings.** An updated foreign exchange reserve strategy was approved by the BFM Board of Directors. The operational strategy was approved by the Board in April 2022. The IMF staff made certain recommendations regarding the strategy and it is currently being amended. As for the Memorandum of Understanding with the Ministry of Mines and Strategic Resources (MMSR), it is currently being revised to define in more detail the respective responsibilities of each party and also to allow for suspension of the Memorandum upon its expiration. Purchases of unrefined gold or *doré* will not resume until (i) the implementation of an adequate operational strategy and (ii) the finalization of a revised MoU between BFM and the MMRS.

43. **We are continuing to work on the reorganization of the gold sector so that we can resume exports as soon as possible.** Good progress is being made in updating the regulations governing gold and in implementing procedures for traceability and evaluation of environmental and social practices in the sector to provide for a responsible supply chain. We will make use of the results of the survey completed in July 2021 and submitted to the Council of Ministers in May 2022 to advance our goal of export recovery.

44. **We are making progress in implementing our *National Strategy for Financial Inclusion (2018–2022)*.**

- In order to promote financial education, the strategic framework document and the national financial education program are in the process of being approved by our higher authorities.
- In order to improve access to and use of financial services, three microfinance institutions are in the process of implementing their remote banking solutions: agency banking, mobile money, and mobile banking; four others have been able to set up a shared information and management system (MIS); while two have been able to benefit from support to extend their access sites in underserved areas.
- In terms of strengthening policies and the legal, regulatory, and institutional framework, we have set up a database on financial inclusion in the country and we have adopted a decree governing the supply of data. The draft regulation supplementing this decree and setting out

the procedures for transmitting information is also being finalized. At the same time, we are developing a draft law on collateral registers.

- To keep us informed about the current state of access to financial services, we are in the process of preparing the second edition of the FinScope Consumer Survey. With funding for this national survey already secured, we plan to implement it early this year.

- The project to implement the national payment switch is still underway despite a delay in the delivery of some of the materials that make up the platform, which should have been completed by the end of December 2022. The system should be operational this year.

- As part of the e-Ariary project, the central bank has conducted an in-depth study of the various possibilities for the creation of a digital equivalent of the ariary. A supplier was selected to implement a solution whose technology meets the requirements of the central bank and the specific characteristics of the local environment. The contract with the supplier is in the process of being negotiated. In the coming months, the BFM will work to finalize the key elements of the e-Ariary to ensure its adoption by the various stakeholders. The plan is to launch the technical platform in the third quarter of 2023, with a pilot test planned for the fourth quarter, potentially involving a few players in the Malagasy financial sector.

45. We are committed to further strengthening financial stability, continuing risk-based supervision, and controlling systemic risks.

- Overall, the banking and financial sector proved to be financially sound and remarkably resilient despite the health crisis in the country. At the end of December 2022, the banking sector remained largely profitable thanks to the continued expansion of activities. At the same time, all banks were in compliance with prudential requirements due to good capital adequacy, except for one bank that was in violation due to a decline in its available capital. This institution is currently being closely monitored, particularly with a view to the effective implementation of its recovery plan. As for the microfinance sector, the impacts of the crisis have gradually diminished with a recovery in deposit and loan activities combined with a marked improvement in portfolio quality.

- The quality of bank loan portfolios remains satisfactory if we disregard the case of one bank that recorded a sharp increase in its non-performing loans. We continue to be vigilant in our monitoring activities and are prepared to take appropriate corrective measures to contain any risks.

- In order to align ourselves with best practices in prudential standards, we have embarked on a program to reform our prudential regulations with technical support from the Fund. The aim is to comply with the standards set by Basel II and III while incorporating the specific risks linked to the country's characteristics. A plan to update and improve the regulatory framework has been established. Its implementation began with the adoption in December 2022 of the instructions on regulatory capital and regulatory capital requirements for lending institutions. We are committed to continuing to develop the remaining prudential regulations following a clear timetable. To ensure a better understanding of the new regulatory framework to be implemented, staff of the Commission for the Supervision of Banking and Finance (CSBF) received a refresher course on the requirements of Basel II and III.

- We will further strengthen our risk-based supervision approach and conduct our annual inspection programs accordingly. As part of our supervisory activities, we conduct an annual stress test of the banking sector in order to simulate the effect of various exogenous shocks as well as banks' vulnerability factors. In general, the analysis focuses on assessing the impact of various hypothetical but plausible scenarios on the level of banks' capital, which is measured in particular through their solvency and liquidity ratios.

- To achieve our financial stability objectives and ensure the contribution of the financial sector to the country's economic expansion, we have submitted a request to the World Bank and the International Monetary Fund to conduct an assessment under the Financial Sector Assessment Program (FSAP). The last assessment was conducted in October 2015, and we feel it is important to provide an update on the progress made since then.

STATISTICAL DATA AND PROGRAM MONITORING

46. We will continue our efforts to provide high-quality statistical data to enable proper program oversight and monitoring. We will continue to support INSTAT in achieving its mission by providing it with the necessary human and financial resources. For this, we will rely on the technical and financial support of our partners in the sector. To continue the actions that have already been started, we intend:

- To complete the processing of information from the 2*021 Continuous Household Survey* to obtain more up-to-date data on the living conditions of Malagasy households and on poverty.

- To use the same data sources (2021 Continuous Household Survey) to update the consumer basket for the calculation of the Consumer Price Index (CPI).

- To continue the preparations for a series of surveys on remittances (formal and informal) by the diaspora to better assess the contribution of these remittances to the country's GDP.

- To continue to improve the quality of existing statistics and produce new statistics to improve the availability of economic information for analysis and forecasting. To this end, we intend to: (i) launch a survey for the calculation of the Producer Price Index (PPI); (ii) improve the calculation and publication of national accounts statistics through more disaggregated data; and (iii) proceed with the publication of new indices, namely the External Trade Index (ETI) and the Industrial Production Index (IPI).

- To include statistics on the activities of the insurance sector in monetary statistics, in accordance with the guidelines in the Monetary and Financial Statistics Manual and Compilation Guide, once the supervision of the insurance sector by the CSBF is effective.

- To support the Ministry of Agriculture and Animal Husbandry in the implementation of the Agricultural *Census* planned this year with the financial support of the World Bank. The initial results should be available two years after the start of the survey.

47. The program is evaluated on the basis of quantitative performance criteria and structural benchmarks (Tables 1 and 2) and semi-annual reviews. Definitions of key concepts and indicators, as well as reporting requirements, are provided in the accompanying Technical Memorandum of Understanding (TMU). The fourth, fifth, and sixth reviews are expected to be completed on or after the following dates: May 15, 2023; November 15, 2023; and May 15, 2024, respectively, based on the end-December 2022, end-June 2023, and end-December 2023 periodic performance criteria test dates, respectively.

Table 1. Madagascar: Quantitative Performance Criteria and Indicative Targets, March 2022–December 2023

(Billions of ariary, unless otherwise indicated)

	Mar-22			Jun-22			Sep-22			Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
	Target	Actual	Status	Target	Prel.	Status	Target	Prel.	Status	Target	Target	Target	Target	Target
Continuous Performance Criteria														
Ceiling on accumulation of new external payment arrears	0	0	**Met**	0	0	**Met**	0	0	**Met**	0	0	0	0	0
Ceiling on new external debt contracted or guaranteed by the central government or BFM, in present value terms (US$ millions)[1]	800	34	**Met**	800	317	**Met**	800	319	**Met**	800	800	800	800	800
Performance Criterion		**IT**		**PC**			**IT**			**PC**	**IT**	**PC**	**IT**	**PC**
Floor on domestic primary balance[2]	-157	-49	**Met**	-293	-336	**Not met**	-660	-535	**Met**	-888	0	200	400	500
Ceiling on net domestic assets (NDA) of BFM	1685 Adjusted: 2795	2,705	**Met with adjustor**	2135 Adjusted: 3245	2,715	**Met with adjustor**	2630 Adjusted: 3431	2,803	**Met with adjustor**	3010 Adjusted: 3857	3,650	3,800	3,750	4,000
Floor on net foreign assets (NFA) of BFM (millions of SDRs)	836 Adjusted: 635	532	**Not met**	816 Adjusted: 615	591	**Not met**	571 Adjusted: 426	500	**Met with adjustor**	686 Adjusted: 532	682	645	627	641
Indicative Targets														
Floor on gross domestic tax revenue	942	706	**Not met**	2,068	1,657	**Not met**	2,600	2,524	**Not met**	3,800	910	2,090	3,180	4,360
Floor on gross customs tax revenue	704	519	**Not met**	1,439	1,085	**Not met**	2,400	1,738	**Not met**	3,380	1,000	1,900	3,000	4,200
Floor on social spending[3]	71	7	**Not met**	178	75	**Not met**	300	157	**Not met**	527	70	170	350	700
Memorandum Items														
Official external budget support (grants, millions of SDRs)[4]	0	0		0	0		1	0		1	0	0	0	0
Official external budget support (loans, millions of SDRs)[4]	110	101		110	101		101	101		109	101	101	101	101
Program exchange rate (MGA/SDR)	5,509			5,509			5,509			5,509	5,509	5,509	5,509	5,509

Sources: Madagascar authorities; and IMF staff projections.

[1] Cumulative ceilings that will be monitored on a continuous basis starting from January 1, 2021; from June 2022 onwards, the target is measured cumulatively since the beginning of each calendar year.

[2] Primary balance excluding foreign-financed investment and grants. Commitment basis. The 2023 domestic primary balance targets exclude the exceptional payment of overdue oil import taxes (MGA 1192bn) and the payment of MGA 913bn of transfers following the settlement of cross liabilities with oil distributors.

[3] Domestically financed spending, excluding salaries, of the following ministries: Health, Education, Water and Sanitation, and Population.

[4] Measured cumulatively since program inception.

Table 2. Madagascar: Prior Actions and Structural Benchmarks, June 2022–December 2023

Measure	Due date(s)	Implementation status	Rationale
Prior actions			
1. Adopt a 2023 budget law in line with program objectives.		**Met**	Improve economic governance, raise tax revenue, and improve the composition and quality of budget expenditures
2. Remove the spending authorization requirement through which the President and the Prime Minister authorize any expenditure above MGA 200 million.		**Met**	Improve economic governance
Mobilizing fiscal policy to address economic and social needs			
3. Collect at least MGA 50 billion an additional customs revenue between January and June 2022 from improved customs controls, including controls of value.	June 2022	**Not met.** Improved controls yielded MGA 41 billion in the first semester of 2022.	Preserve and strengthen fiscal space
4. Prepare and transmit to IMF staff a dashboard allowing to monitor and assess on a monthly basis the effectiveness of the spending commitment authorization	September 2022	**Met.** A dashboard was shared with staff by the due date.	Improve budget execution
5. Finalize and submit to Parliament a new mining code in line with the recommandations of IMF's technical assistance and World Bank's advice	June 2023		Increase domestic revenue mobilization
6. Adopt a decree/ordinance/manual detailing the functionality of the social registry, the procedures for sharing registry information inside the administration and with external partners, and data protection and privacy measures that will apply to registry data	October 2023		Strenghten social safety nets
7. Finalize information collection to integrate 60,000 households (about 300,000 individuals) in the social registry	December 2023		Strenghten social safety nets
Containing short and medium term fiscal risks			
8. Provide IMF and World Bank staff with the details of any budget transfers to Jirama suppliers and share the related documentation within one week after payment.	Continuous	**Met since September 2022.**	Improve economic governance and improve the composition and quality of budget expenditures
9. Keep the government's gross liabilities to oil distributors below MGA 300 billion.	Continuous	**Not met.**	Preserve and strengthen fiscal space
10. Finalize and have the Council of Ministers approve JIRAMA's recovery plan.	December 2022	**Not met.**	Preserve and strengthen fiscal space
11. Based, inter alia, on existing studies, formulate policies to mitigate the impact of the fuel price adjustment on vulnerable populations.	June 2023		Preserve and strengthen fiscal space and improve the composition and quality of budget expenditures
12. Install prepaid electricity meters in all public administrations.	December 2023		Preserve and strengthen fiscal space
Strenghtening public finance management and governance to restore confidence			
13. Finalize and publish a public investment manual consistent with the recommendations of the DAT technical assistance, in particular to clarify institutional aspects.	March 2023		Support growth through reforms and by tackling the sources of fragility
14. Publish the terms and conditions of all PPP contracts within one month from the date of signature on the ARMP website.	Continuous	**Met**	Improve economic governance
15. Publish (prior to the close of the following quarter) a quarterly budget execution report on a payment basis, including expenditures for COVID-19 and social expenditures.	Continuous, beginning first quarter 2021	**Not met.** Reports are being published every quarter, but the content should be improved. Reports are still missing a comparison of execution with the initial budget law, details on the nature of executed spending (for example wages, transfers to public enterprises, investment), and information on financing and debt issuance.	Improve fiscal transparency
16. Preparation of an annual expenditure commitment plan by key social ministries based on their 2022 work plan and the budget approved by the legislature, and commitment by the Ministry of Economy and Finance to release the appropriations indicated in that plan on the dates provided.	January 2023	**Met**	Improve the composition and quality of budget expenditures
17. Establish a budgetary mission for the *Cour des Comptes* in the 2023 budget law.	December 2022	**Met**	Improve economic governance
18. Prepare and publish a follow-up report by the *Cour des Comptes* on its recommendations following the audit reports on COVID spending published in March 2022.	March 2023		Improve economic governance
19. Change the legal or regulatory framework to allow the collection and publication of the UBO for public procurement contracts.	June 2023		Improve economic governance

Note: Proposed new structural benchmarks are indicated in blue.

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) contains definitions and adjuster mechanisms that clarify the measurement of quantitative performance criteria and indicative targets in Tables 1 and 2, which are attached to the Memorandum of Economic and Financial Policies for 2021–2024. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

DEFINITIONS

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

3. Government is defined for the purposes of this TMU to comprise the scope of operations of the treasury shown in the *opérations globales du Trésor* (or OGT). The government does not include the operations of state-owned enterprises and sub-national authorities.

4. The program exchange rates for the purposes of this TMU[1] are as follows:

Program Exchange Rates	
Malagasy Ariary (MGA)/SDR	5508.800000
U.S. Dollar/SDR	1.440269
Euro/SDR	1.175341
Australian dollar/SDR	1.878406
Canadian dollar/SDR	1.840229
Japanese Yen/SDR	148.565264
Swiss Franc	1.274206
U.K. Pound Sterling/SDR	1.058243

5. Foreign currency accounts denominated in currencies other than the SDR will first be valued in SDRs and then be converted to MGA. Amounts in other currencies than those reported in the table above and monetary gold will first be valued in SDRs at the exchange rates and gold prices that prevailed on December 30, 2020, and then be converted to MGA.

6. Performance criteria included in the program, as defined below, refer to the net foreign assets and net domestic assets of the central bank, external payments arrears, new external debt owed or guaranteed by the central government and/or the central bank, and the domestic primary balance (commitment basis). Performance criteria are set for end-June 2021

[1] Data refers to the mid-point reference exchange rates published on the CBM's webpage for December 30, 2020.

and end-December 2021 while indicative targets are set for end-March 2021, end-September 2021, and end-March 2022.

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

8. Total government revenue is comprised of tax and nontax budget revenue (as defined under Chapter 5 of GFSM 2001, but excluding revenue from Treasury operations) and grants. Revenue is recorded in the accounting system on a cash basis. Taxes on the import of petroleum products, paid through the issuance of promissory notes, are recorded under revenue at the time of the issuance of the promissory notes: to reconcile the difference in timing between the issuance of the promissory note and its actual payment to the Treasury, an equivalent amount is recorded (negatively) under the line "other net transactions of the Treasury" until the actual payment.

PROVISION OF DATA TO THE FUND

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

- Data with respect to all variables subject to quantitative performance criteria and indicative targets will be provided to Fund staff monthly with a lag of no more than four weeks for data on net foreign assets (NFA) and net domestic assets (NDA) of the Central Bank of Madagascar (CBM) and eight weeks for other data. The authorities will promptly transmit any data revisions to the Fund.

- The Financial Intelligence Unit (SAMIFIN) will continue to publish, on a website that is freely available to the public, quarterly data (no later than the end of the month following the quarter) on reports sent to BIANCO in relation to suspicions of laundering of the proceeds of corruption.

- The BIANCO will continue to publish on a website, that is freely available to the public, quarterly data (no later than at the end of the month following the quarter) on the number of persons indicted, the number of persons convicted by a first instance court decision, the number of persons convicted pursuant a final court decision, and the number of verifications of assets disclosures of public officials.

- For variables assessing performance against program objectives but which are not specifically defined in this memorandum, the authorities will consult with Fund staff as needed on the appropriate way of measuring and reporting.

QUANTITATIVE PERFORMANCE CRITERIA

A. Fiscal Aggregates

Floor on Primary Balance (Commitment Basis)

10. The domestic primary balance (commitment basis) is measured as follows:

- Domestic tax and non-tax revenue less domestically-financed capital expenditures and current spending excluding interest payments (as defined in the authorities' table of government financial operations – OGT or *Operations Globales du Trésor*).

- For the purposes of calculating the primary balance, tax revenues are measured on a net basis, i.e., net of the refund of VAT credits. Current spending excluding interest payments is the sum of expenditures on wages and salaries, goods and services, transfers and subsidies, and treasury operations (net) excluding the refund of VAT credits. The primary balance will be calculated cumulatively from the beginning of the calendar year. For reference, using data at end-September 2020, the value of the primary balance would be as follows:

Primary Balance Excluding Foreign Financed Investment and Grants (commitment basis)	**-269**
Gross Tax revenue	3,613
of which gross domestic tax revenue	*1,953*
of which gross custom tax revenue	*1,660*
VAT refunds	115
Tax revenue (net of VAT refunds)	3,498
Domestic non-tax revenue	91
Less:	
Domestically-financed capital expenditures	453
Current expenditures	3,405
Wages and salaries	2,008
Goods and services	182
Transfers and subsidies	1,134
Treasury operations (net of VAT refunds)	81

- For assessment against program targets, the 2023 domestic primary balance will be computed excluding the expected exceptional payment of overdue oil customs taxes (total of MGA 1192 bn, to be recorder under "net Treasury operations") and the projected transfer payments to oil distributors (MGA 913bn) resulting from the December 2022 agreement between the government and oil distributors.

B. External Debt

Ceiling on Accumulation of New External Payment Arrears

11. These arrears consist of overdue debt-service obligations (i.e., payments of principal and interest) related to loans contracted or guaranteed by the government or CBM. Debt service obligations (including unpaid penalties and interest charges) are considered overdue if they have not been paid 30 days after the due date or after the end of a grace period agreed with, or unilaterally granted by, each creditor before the due date. They exclude arrears resulting from nonpayment of debt service for which the creditor has accepted in writing to negotiate alternative payment schedules, as well as debt service payments in conformity with contractual obligations that fail to materialize on time for reasons beyond the control of the Malagasy authorities. This monitoring target should be observed on a continuous basis from the IMF Executive Board's approval of the request for the ECF arrangement.

Ceiling on New External Debt

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

13. Where an external loan agreement contains multiple disbursements and where the interest rate for individual disbursement are linked to the evolution of a reference rate since the date of signature, the interest rate at the time of signature will apply for the calculation of the PV and grant element for all disbursements under the agreement.

14. For program monitoring purposes, the definition of debt is set out in *Point 8, Guidelines on Public Debt Conditionality in Fund Arrangements, Executive Board Decision No. 15688-(14/107), adopted December 5, 2014* (see Annex 1). External debt is defined by the residency of the creditor.

15. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD LIBOR is 0.42 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR or 3-month Euribor over six-month USD LIBOR is -50 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -50 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is 0 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -50 basis points.[2] Where the variable rate is linked to a different benchmark interest rate, a spread reflecting the difference

[2] The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Fall 2020 World Economic Outlook (WEO).

between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

16. A performance criterion (ceiling) applies to the PV of new external debt, contracted or guaranteed by the government or CBM. The cumulative ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. The PV is determined using the Fund's concessionality calculator or excel template available online. These monitoring targets should be calculated by calendar year from end-March 2021 and observed on a continuous basis from the IMF Executive Board's approval of the request for the ECF arrangement until end-2021, at which point it will be renewed and potentially adjusted. The ceiling is subject to an adjustor defined below.

17. Excluded from the ceiling in paragraph 16 is (i) the use of IMF resources; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt (this also applies to liabilities of Air Madagascar assumed by the government in the context of a strategic partnership agreement); and (iii) debts classified as international reserve liabilities of CBM.

C. Monetary Aggregates

Floor on Net Foreign Assets of the Central Bank of Madagascar

18. The target floor for NFA of the CBM is evaluated using the end-period stock, calculated using program exchange rates. The NFA of CBM is defined as the difference between CBM's gross foreign assets and total foreign liabilities, including debt owed to the IMF. All foreign assets and foreign liabilities are converted to SDRs at the program exchange rates, as described in paragraph 4. For reference, at end-December 2020, NFA was SDR 653 million, calculated as follows:

Foreign Assets	
MGA billions, end-2020 exchange rates (A)	7,369.6
SDR millions, end-2020 exchange rates (B)	1,337.8
SDR millions, program exchange rates (C)	1,337.8
Foreign Liabilities	
MGA billions, end-2020 exchange rates (D)	3,772.3
SDR millions, end-2020 exchange rates (E)	684.8
Net Foreign Assets	
SDR millions, program exchange rates (F) = (C) – (E)	653.0

Ceiling on Net Domestic Assets of the Central Bank of Madagascar

19. The target ceiling on NDA of the CBM is evaluated using the average of ten-day stocks over the quarter, calculated at program exchange rates. It includes net credit to the government, credit to the economy, claims on banks, liabilities to banks (including the proceeds of CBM deposit auctions—*appels d'offres négatifs,* and open market operations), and other items (net). For reference, at end-December 2020, NDA was MGA 1,862 billion, calculated as follows:

Net Domestic Assets	
Net credit to government (A)	1043,7
Net claims on commercial banks (B)	608,9
Credit to private sector(C)	26.2
Other items net net (D)	183.1
Net Domestic Assets	
MGA billions (E) = (A) + (B) + (C) + (D)	1861.9

INDICATIVE TARGETS

D. Floor on Priority Social Spending

20. Priority social spending includes domestic spending primarily related to interventions in nutrition, education, health, and the provision of social safety nets. The indicative target for the floor on priority social spending by the central government will be calculated cumulatively from the beginning of the calendar year. The floor is set as the sum of the budget allocations in the *Loi de Finance* to the Ministries of Health, Education, Population and Water, excluding salaries and externally financed investment.

E. Floors on Gross Domestic Tax Revenue and Gross Custom Tax Revenue

21. Government tax revenue is measured on a gross basis, that is, before the refund of VAT credits. It comprises all domestic taxes and taxes on foreign trade received by the central government treasury. Tax revenue excludes: (1) the receipts from the local sale of in-kind grants, and (2) any gross inflows to the government on account of signature bonus receipts from the auction of hydrocarbon and mining exploration rights. Revenue will be measured on a cash basis as reported in the table of government financial operations prepared by the Directorate of Budget and the Directorate of Treasury in the Ministry of Finance and Budget. The floors on gross tax revenue will be calculated cumulatively from the beginning of the calendar year. For reference, for the year ending December 2020, gross domestic tax revenue was MGA 2,658 billion, comprised of net domestic tax revenue of MGA 2,526 billion and VAT refunds of MGA 132 billion, and gross custom tax revenue was MGA 2,187 billion, comprised of net custom tax revenue of MGA 2,128 billion and VAT refunds of MGA 59 billion.

STRUCTURAL BENCHMARKS

22. For the purposes of the structural benchmark on enforcing the collection of outstanding tax arrears, the collection refers to the "recouvrements des restes à recouvrer" monitored by the Direction Générale des Impôts.

23. Regarding the structural benchmark on notifying IMF and World Bank staff of details of any budget transfer to JIRAMA's suppliers and sharing associated documentation within one week of payment, the information to be shared is: (1) the details of each transfer, as published for 2020 at http://www.mef.gov.mg/reportingcovid, including the "reference d'engagement", the beneficiary enterprise, the purpose of the transfer ("objet") the "date d'engagement", and the amount of the transfer, and (2) the agreement or "convention" signed with the supplier in relation with the transfer.

24. For the purposes of the structural benchmark on fuel pricing, and until the adoption of a fuel pricing mechanism, the authorities will prevent total estimated gross liabilities to fuel distributors excluding VAT from rising above MGA 300 billion (measured as a cumulative stock). The estimated total gross liability is calculated by the Malagasy Office for Hydrocarbons (OMH), using the fuel price structure in place or any new fuel price structure established in accordance with prevailing laws and regulations. The authorities will provide to IMF staff the calculations for the estimate of the monthly flow and stock for these net liabilities, within four weeks of the end of each month.

MEMORANDUM ITEMS

25. Official external budget support is defined as grants and loans, including in-kind aid when the products are sold by the government and the receipts are earmarked for a budgeted spending item, and other exceptional financing provided by foreign official entities and the private sector and incorporated into the budget. Official external support does not include grants and loans earmarked to investment projects. Official external budget support is calculated as a cumulative flow from January 1, 2021.

26. Additional monitoring of social spending will take the form of the following memorandum items: (i) social spending, including salaries of the four social ministries; (ii) social spending, including salaries and externally financed investments; (iii) domestically financed spending implemented by the National Council on AIDS (CNLS), the National Risk and Disaster Management Bureau (BNGRC), the National Office on Nutrition (ONN), the Emergency Prevention and Management unit (CPGU), and the Intervention for Development Fund (FID), (iv) wage bill of public workers in education (*masse salariale des employés publics dans le Secteur Education*, provided by the DGT) and (v) wage bill of public workers in health (*masse salariale des employés publics dans le Secteur Santé*, provided by the DGT).

USE OF ADJUSTERS

27. The performance criteria on net foreign assets of the CBM and net domestic assets of the CBM will be adjusted in line with deviations from amounts projected in the program for official external budget support and in the event that the cession by the central bank of SDRs allocated in August 2021 (totaling SDR 234.2 million in case of Madagascar) does not take place as planned in the first quarter of 2023 (for an equivalent of MGA 800 billion) or the fourth quarter of 2023 (for an equivalent of MGA 300 billion). These deviations will be calculated cumulatively from January 1, 2021. The following is an explanation of these adjustments:

- The floor on NFA will be adjusted *downward (upward)* by the cumulative deviation downward (upward) of actual from projected budget support (official external budget support). This adjustment will be capped at the equivalent of SDR 100 million, evaluated at program exchange rates as described in paragraph 4. Any cession of the SDR allocation by the central bank to the government above (below) MGA 800 billion or MGA 300 billion depending on the period (equivalent to SDR 145.2 million or SDR 54.5 million at the program exchange rate) will increase (decrease) the NFA target by the excess above (shortfall below) MGA 800 billion (MGA 300 billion). In addition, any conversion in foreign currency by the central bank of the SDR allocation projected to be ceded to the government will prompt a downward adjustment in the NFA floor by the same amount.[3]

- The ceiling on NDA will be adjusted *upward (downward)* by the cumulative deviation downward (upward) of actual from projected budget support (official external budget support). This adjustment will be capped at the equivalent of SDR 100 million, evaluated at program exchange rates as described in paragraph 4. Any cession of the SDR allocation by the central bank to the government above (below) MGA 800 billion (MGA 300 billion) will prompt an equivalent adjustment of the NDA target downward (upward) by the excess above (shortfall below) MGA 800 billion (MGA 300 billion).

28. The performance criteria on the primary balance will be adjusted in line with deviations from amounts projected in the program for official external budget support. These deviations will be calculated cumulatively from the beginning of each calendar year. The following is an explanation of these adjustments:

- The floor on the primary balance excluding foreign-financed investment and grants (commitment basis) will be adjusted downward by the cumulative upward deviation of

[3] The cession of the SDR allocation from the central bank to the government involves the cession of both the SDRs and the liabilities vis-à-vis the IMF associated with those SDRs. If the government requests the conversion of the SDRs into ariary, the central bank recovers the SDRs in its assets (which increases its NFA) while the associated liabilities remain on the central government's balance sheet. In contrast, a conversion into foreign currency leaves the central bank's NFA unchanged since it implies the provision of foreign currency by the central bank to the government in exchange for the SDRs. The conversion of the SDRs into ariary or foreign currency results in an increase in government deposits at the central bank (hence a decrease in NDA if the proceeds from the conversion are not used to pay for spending).

actual from projected official external budget support (grants or loans on concessional terms), calculated at quarterly period-average actual exchange rates as described in paragraph 4.

29. Two adjustment factors can be applied to the external debt ceiling fixed at present value:

- An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies in case deviations are prompted by a change in the financing terms. Changes in interest rates, maturity, grace period, payment schedule, commissions, fees of a debt or debts are candidate triggers for the adjuster. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed and are subject to debt sustainability.

- The external debt ceiling at present value will be adjusted *downwards* by a maximum of US$ 47 million if loans linked to projects financed by the World Bank in 2023 do not materialize.

Table 1. Madagascar: Data Reporting Requirements

Item	Periodicity
Exchange Rate Data	
Central Bank of Madagascar (CBM)	
Total daily CBM gross purchases of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of CBM gross purchases, the highest traded exchange rate, and the lowest traded exchange rate –break down by currency purchased	Daily, next working day
Total daily CBM gross sales of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of CBM gross sales, the highest traded exchange rate, and the lowest traded exchange rate – break down by currency purchased	Daily, next working day
Total CBM net purchases/sales of foreign exchange - break down by currency purchased	Daily, next working day
Total interbank foreign exchange transactions (net of CBM transactions) - break down by currency purchased	Daily, next working day
Total interbank and retail foreign exchange transactions (net of CBM transactions) - break down by currency purchased	Daily, next working day
Monetary, Interest Rate, and Financial Data	
Central Bank of Madagascar (CBM)	
Foreign exchange cash flow, including foreign debt operations	Monthly
Stock of gross international reserves (GIR) and net foreign assets (NFA), both at program and market exchange rates	Monthly
Detailed data on the composition of gross international reserves (GIR), including currency composition	Monthly
Market results of Treasury bill auctions, including the bid level, bids accepted or rejected, and interest rates	Monthly
Stock of outstanding Treasury bills	Monthly
Data on the secondary market for Treasury bills and other government securities	Monthly
Bank-by-bank data on excess/shortfall of required reserves	Monthly
Money market operations and rates	Monthly
Bank lending by economic sector and term	Monthly
Balance sheet of CBM	Every ten days, within one week after the end of each ten-day period.
Balance sheet (aggregate of deposit money banks)	Monthly, within six weeks of the end of each month
Monetary survey	Monthly, within six weeks of the end of each month

Table 1. Madagascar: Data Reporting Requirements (continued)	
Item	**Periodicity**
Autonomous drivers of liquidity	Monthly, within six weeks of the end of each month
Financial soundness indicators of deposit money banks	Quarterly, within eight weeks of the end of the quarter
Fiscal Data	
Ministry of Finance and Budget (MFB)	
Preliminary revenue collections (customs and internal revenue)	Monthly, within three weeks of the end of each month
Treasury operations (OGT)	Monthly, within eight weeks of the end of each month
Stock of domestic arrears, including arrears on expenditure and VAT refunds	Monthly, within eight weeks of the end of each month
Results of customs value controls and amounts collected following those controls	Quarterly, by the end of the subsequent quarter.
Priority social spending as defined by the indicative target	Monthly, within eight weeks of the end of each month
Subsidies to JIRAMA's suppliers	Within one week of each transfer payment, as specified in continuous SB.
State-owned enterprise data	
Data summarizing the operational and financial position of JIRAMA	Monthly, within four weeks of the end of each month, for operational and financial data. Quarterly, by the end of the following month, for the Table on "Total impayés fournisseurs"
Data summarizing the financial position of AIR MADAGASCAR	Quarterly, by the end of the subsequent quarter.
Debt Data	
Ministry of Finance and Budget (MFB)	
Public and publicly-guaranteed debt stock at end of month, including: (i) by creditor (official, commercial domestic, commercial external); (ii) by instrument (Treasury bills, other domestic loans, external official loans, external commercial loans, guarantees); and (iii) in case of new guarantees, the name of the guaranteed individual/institution.	Monthly, within four weeks of the end of each month
External public or publicly guaranteed loans signed since January 1, 2021, specifying the nominal value; calculated grant element and PV; and terms, including the interest rate (using the program reference rate for variable rate loans), maturity, commissions/fees, grace period, repayment profile, and grant component.	Quarterly

Table 1. Madagascar: Data Reporting Requirements (concluded)	
External Data	
Central Bank of Madagascar (CBM)	
Balance of payments	Quarterly, by the end of the subsequent quarter
Real Sector and Price Data	
INSTAT	
Consumer price index data (provided by INSTAT)	Monthly, within four weeks of the end of each month
Details on tourism	Monthly, within twelve weeks of the end of each month
Electricity and water production and consumption	Monthly, within twelve weeks of the end of each month
Other Data	
OMH	
Petroleum shipments and consumption	Monthly, within four weeks of the end of each month
Cumulative gross liability to fuel distributors, with information on fuel distributors contributions and fees due to the State and other public bodies (e.g., FER, RDS)	Monthly, within four weeks of the end of each month
Decree or *Arrêté* relating to the fuel reference prices formula and fixing the pump prices	Variable, within one week of publication

Annex I. Guidelines on Performance Criteria with Respect to External Debt

Excerpt from paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

(a) For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

February 15, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR A WAIVER OF NONOBSERVANCE OFPERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

Prepared By | The African Department.

CONTENTS

FUND RELATIONS

(As of December 31, 2022)

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

General Resources Account:	**SDR Million**	**%Quota**
Quota	244.40	100.00
IMF's Holdings of Currency (Holdings Rate)	213.78	87.47
Reserve Tranche Position	30.63	12.53

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	351.34	100.00
Holdings	226.78	64.55

Outstanding Purchases and Loans:	**SDR Million**	**%Allocation**
RCF Loans	271.90	111.25
ECF Arrangements	366.46	149.94

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Mar 29, 2021	Jul 28, 2024	219.96	122.20
ECF	Jul 27, 2016	Feb 06, 2020	250.55	250.55
ECF[1/]	Jul 21, 2006	Jul 20, 2009	73.32	53.03

[1/] Formerly PRGF.

Outright Loans:

Type	Date of Commitment	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Jul 30, 2020	Aug 04, 2020	69.23	69.23
RCF	Jul 30, 2020	Aug 04, 2020	52.97	52.97
RCF	Apr 03, 2020	Apr 03, 2020	122.20	122.20

Overdue Obligations and Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2023	2024	2025	2026	2026
Principal	37.19	43.56	65.30	103.88	107.37
Charges/Interest	3.58	3.64	3.63	3.64	3.64
Total	40.77	47.20	68.93	107.51	111.00

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

Implementation of HIPC Initiative:

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

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

II. Debt Relief by Facility (SDR Million)

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

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

Exchange Rate Arrangement

The currency of the Republic of Madagascar is the Malagasy ariary. The de jure exchange rate arrangement is free floating; the de facto exchange rate arrangement is classified as floating. As of January 4, 2022, the rate was US$1 = 4,473 ariary. The Republic of Madagascar accepted the obligations of Article VIII of the Fund's Articles of Agreement with effect from September 18, 1996. The Republic of Madagascar maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment

Under the Fund's safeguards assessment policy, the Banque Centrale de Madagascar (BFM) was subject to an update safeguards assessment in March 2021. Previous assessments were completed in March 2006, September 2008, January 2015 and March 2017. The BFM maintains strong external audit arrangements and the audit opinions on its 2020 and 2021 financial statements are unmodified. Governance and oversight arrangements are now well-established following amendments to the BFM Law in 2016, and the central bank continues to reinforce its control systems and has adopted International Financial Reporting Standards for the first time in 2020. The BFM should continue to strengthen the internal audit function and phase out its unrefined gold purchase program, while implementing robust foreign reserves management and operational strategies to safeguard its autonomy.

Article IV Consultation

Madagascar is on 24-month Article IV consultation cycle. The previous Article IV consultation was concluded on January 29, 2020 (IMF Country Report No. 20/60).

Technical Assistance (TA) since January 2019
Fiscal Affairs Department (FAD) ***2019*** AFS: Customs-Trade Agreements-Updating the Customs Code AFS: National Risk based audit plan & quality standards developed and implementation support AFS PFM regulations AFS: Progress on implementation of debt management & recovery strategy reviewed AFS: Reform action plan adopted and regularly updated Finalizing the PIM Guide Management of Fiscal Risks Management of Tax Arrears Build Capacity in the Implementation and Monitoring of the Multi-year Reform Plan (Phase IV) Pension Reform PIMA Follow up Public Investment Management Quarterly AFS missions on tax, customs, debt management, fiscal statistics Reform and modernization of customs legislation Revenue Mobilization Strategy (planned October) Strengthening Audit Capacity To develop and implement a risk-based audit plan and audit quality standards ***2020*** AFS: Project Management Phase II AFS: Project Management Phase III AFS: Project Management Phase IV AFS: TADAT Training Building Capacity in the Implementation and Monitoring of the Multi Year Reform Plan -Phase V Compliance Management during COVID-19 crisis Customs Administration Drafting New Clauses and Regulations in the Customs Code Enterprise Risks and Internal Controls Fiscal Transparency and Operationalization of COVID-19 Reporting Further Development of a Taxpayer Services Strategy (TPS) and Guidance to Develop a Strategic Plan Further Guidance Provided to Reduce Tax Arrears Guiding DGI to develop and implement a taxpayer strategy Implementation of Debt Management and Recovery Strategy MNRW II Scoping Public Investment Management Set up of a Risk Management Unit

Technical Assistance (TA) since January 2019 (continued)

2021

AFS: Business Continuity and Disaster Recovery Planning
AFS: Project Management Phase V
AFS: Support for the Implementation of COVID-19 Response
AFS: Tax Administration
AFS: TADAT Training
Customs Data and Free Zones Monitoring
Customs Administration
Customs Valuation
Extractive Industry Fiscal Regime Diagnostic
Public Financial Management - Budget Execution, PIM and TSA / Accounting
Strengthening Audit Capacity
Taxpayer Strategy Services

2022

Business Continuity and Disaster Recovery Planning
Climate Macroeconomic Assessment Program (CMAP)
Public Financial Management II – Budget Preparation and Overall PFM Reform Strategy
Public Financial Management II – Fiscal Risk Management and SOE Health Check Tool
Public Financial Management II – PIM and TSA
Public Financial Management II – Modernizing the Budget Classification and Asset Management
Revenue Administration II – Customs Administration
Revenue Administration II – RAM
Revenue Administration II – Tax Administration
Tax Policy I – Taking Stock of the Policy Framework
VAT Compliance

Monetary and Capital Markets Department (MCM)

2019

AFS: Banking Supervision and Regulation
AFS: Peer-Learning program for Transitioning from Money Targeting to an Interest Rate Based Framework
Adoption of IFRS
Insurance regulation and supervision (planned AFS)
Modernizing the FX Regulations to Develop the FX Markets

2020

Transitioning from a Money Targeting to an Interest Rate Based Framework

Technical Assistance (TA) since January 2019 (concluded)

2021

The Role of Gold in Foreign Reserves' Diversification
Training on FMI Oversight & Supervision

2022

Central Bank Operations – Foreign Operations and FX Policy Implementation
Central Bank Operations – Interbank Market Development
Central Bank Operations – Monetary Policy Implementation and Operations
Banking Regulation and Supervision
Basel II/III Reform - Regulation Development Hybrid
Forecasting and Policy Analysis Systems (FPAS)
National Payment System Development

Statistics Department (STA)

2019

AFS: National Accounts
Government Finance Statistics
Implementation of the e-GDDS, launch of the dedicated web page.

2020

AFS: National Accounts
AFS: Price Statistics
Government Finance Statistics

2021

AFS: National Accounts
AFS: Price Statistics
External Sector Statistics
Financial Soundness Indicators (FSI)
Government Finance Statistics

2022

AFS: National Accounts
AFS: Price Statistics
External Sector Statistics
Government Finance Statistics

Resident Representative:

Mr. Mokhtar Benlamine is the IMF's Resident Representative in Antananarivo since August 2022.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: https://www.worldbank.org/en/country/madagascar

United Nations: https://madagascar.un.org/

African Development Bank: https://www.afdb.org/en/countries/southern-africa/madagascar

Word Food Program: https://www.wfp.org/countries/madagascar

STATISTICAL ISSUES

(As of December 2022)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance and program purposes, with shortcomings related to timeliness, coverage and applied methodologies (for example, treatment of missing observation) being addressed gradually. A new statistics law, modernizing and regulating data collection, was enacted in April 2018. There has been an effort to improve the compilation of timely and internally consistent data, including better information sharing between data producing and collecting agencies. Overall, there is a lack of automation, centralization, and specialization which leads to inefficient and ineffective practices.
National accounts: Revised series of annual national accounts for the 2007-2018 period with the 2007 base year based on SNA 1993 methodology were finalized and published. At end-2020, INSTAT started to produce experimental quarterly GDP estimates according to the best practice, however data are often released with delays and are subject to substantial revisions. The authorities continue to receive TA from the Fund, World Bank, and AFRITAC in rebasing GDP. The rebasing project was held back due to funding delays. The WB provided financial support to INSTAT to finance the start of the Economic Census by the end of 2022. During the rebasing project, INSTAT plans to extend the national accounts scope and update its methodology, as well as compile GDP by income approach. The next benchmark revision is planned for 2022-2025 with expected release date in 2025. INSTAT is supposed to implement the *System of National Accounts, 2008 (2008 SNA)*. A general census of the population and housing were finalized, including thematic reports. **Prices statistics**: INSTAT is producing a reweighted consumer price index (CPI) with 2016 as base year, to better account for current consumption patterns. The new series are available on a timely basis. Current CPI weights are based on expenditure data collected in 2012. INSTAT is working on updating CPI weights using data from the Permanent Household Survey (EPM). Efforts are underway to extend geographic coverage and add new products to the basket.
Government finance statistics: Government finance statistics (GFS) for the budgetary central government are regularly compiled and disseminated. The authorities have also started compiling and disseminating public sector debt statistics (PSDS) to the joint IMF-World Bank quarterly PSDS database. Preliminary GFS for extra budgetary and local government units have also been compiled, and the prospects for compilation and dissemination of aggregated general government GFS in the short run are good. Source data for the compilation of a financial balance sheet are also available although only debt liabilities are currently compiled and disseminated.

Monetary and financial statistics: The Banky Foiben'i Madagasikara (BFM) submits regularly the standardized report forms (SRFs) 1SR (central bank) and 2SR (other depository corporations) to the IMF for publication in the IFS; compilation of SRF-4SR (Other Financial Corporations) has not started yet. Madagascar reports data on several series and indicators of the Financial Access Survey (FAS), including mobile and internet banking, mobile money, gender-disaggregated data, and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs). **Financial soundness indicators (FSIs)**: Madagascar reports 13 core and 10 additional FSIs to the IMF for deposit-takers (banks only) and 2 additional FSIs for real estate markets. FSIs on OFCs and Non-financial corporations (NFCs) are not reported yet.	
External Sector Statistics: Madagascar follows the statistical framework of the sixth edition of the Balance of Payments and International Investment Position Manual (BFM6). The quarterly data are compiled on the basis of the ESRI and supplemented by the collection of quarterly data using a simple survey of major public and private enterprises. Priorities for improvement includes the full automation of data reports, addressing the inadequate coverage of several transactions, and reconciling some IIP stocks that remain inconsistent with BoP flows. **External debt**: The compilation of external debt statistics is generally satisfactory. Private debt data coverage remains incomplete. The authorities are working to reduce debt data gaps as they improve various components of external sector statistics by drawing on IMF technical assistance.	
II. Data Standards and Quality	
Madagascar implemented the recommendations of the enhanced General Data Dissemination System (e-GDDS) by launching the National Summary Data Page (NSDP) in May 2019. Data for 13 out of the 15 data categories recommended under the e-GDDS are disseminated on the NSDP. Data on general government operations are not yet published, and stock market indicator is not applicable for Madagascar.	No Data ROSC.

Madagascar: Table of Common Indicators Required for Surveillance
(As of December 31, 2022)

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	Dec. 2022	Dec. 2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	Nov. 2022	Dec. 2022	M	M	M
Reserve/Base Money	Nov. 2022	Dec. 2022	M	M	M
Broad Money	Oct. 2022	Dec. 2022	M	M	M
Central Bank Balance Sheet	Nov. 2022	Dec. 2022	M	M	M
Consolidated Balance Sheet of the Banking System	Oct. 2022	Dec. 2022	M	M	M
Interest Rates[3]	Nov. 2022	Dec. 2022	M	M	M
Consumer Price Index	Oct. 2022	Dec. 2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	NA				
Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government	Oct. 2022	Dec. 2022	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	2021	Mar. 2022	A	A	A
External Current Account Balance	Sep. 2022	Dec. 2022	Q	Q	Q
Exports and Imports of Goods and Services	Nov. 2022	Dec. 2022	M	M	M
GDP/GNP	2020	Oct. 2022	A	A	A
Gross External Debt	Jun. 2022	Dec. 2022	Q	Q	Q
International Investment Position[7]	Mar. 2022	Dec. 2022	Q	Q	Q

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

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

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

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

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

[6] Including currency and maturity composition.

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

REPUBLIC OF MADAGASCAR

February 15, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION, THIRD REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

Approved By
Costas Christou and Geremia Palomba (IMF) and Asad Alam and Manuela Francisco (IDA)

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

Madagascar: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Moderate[2]
Overall risk of debt distress	Moderate
Granularity in the risk rating	Some space to absorb shocks
Application of judgment	No

Madagascar, classified as having medium debt carrying capacity, is still assessed at moderate risk of external debt distress and moderate risk of overall (external plus domestic) debt distress. This is unchanged from the assessment at the time of the program request and first review. We continue to assess Madagascar's risk of external debt distress as "moderate" as a shock to exports pushes Madagascar's debt (burden) indicators above the relevant thresholds, but no external public and publicly guaranteed (PPG) debt ratios breach their thresholds under the baseline., while its debt-carrying capacity rests near the lower end of the medium-range. The overall risk of debt distress continues to be assessed as "moderate" as well, since the overall debt-to-GDP ratio breaches its benchmark under various stress scenarios. The government has some space to scale-up investment, assuming ongoing efforts to improve domestic resource mobilization, continued reliance on concessional external financing, and progress in developing domestic bond markets and in the implementation of the governance reform agenda. Risks remain tilted to the downside, including social and political volatility ahead of the 2023 presidential elections and the heightened risk of a materialization of contingent liabilities, which could lead to a faster than expected deterioration in external and public debt indicators. However, the distance to risk thresholds under current baseline projections suggests some space to absorb additional shocks.

[1] Prepared by the IMF and the World Bank. This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018.

[2] Madagascar's Composite Indicator (CI) is 2.77, which corresponds to a medium debt-carrying capacity as confirmed by the October 2022 WEO data and the 2021 Country Policy and Institutional Assessment (CPIA).

PUBLIC DEBT COVERAGE

1. **The DSA includes public and publicly guaranteed external and domestic debt.** Public and publicly guaranteed (PPG) debt comprises external and domestic debt in a fairly comprehensive manner, including: all external liabilities owed by the central bank; all borrowing from the IMF; government guarantees (such as the US$ 20 million or 0.13 percent of GDP guarantee to Air Madagascar for the leasing of new aircrafts reported in the 2023 budget law); non-guaranteed domestic debts owed by state-owned enterprises (SOEs) in cases where the government has at least 50 percent of the shares (e.g., JIRAMA and Air Madagascar);[3] domestic arrears (which increased from 0.25 percent of GDP in 2021 to about 1.8 percent of GDP in 2022 as a result of a dispute with oil distributors during which oil distributors withheld the payment of oil taxes);[4] external legacy arrears of about 1.4 percent of GDP (related to HIPC);[5] and direct guarantees provided by the central government (Text Table 1). Borrowing by local governments requires the authorization from the Ministry of Finance and no request for such authorization has been submitted to date. The measure of debt is on a gross basis and the currency criterion is used to distinguish between domestic and external debt.[6] The authorities publish data on a quarterly basis on both domestic and external debt. Reporting of debt statistics on public enterprises needs to be strengthened further, particularly by: (i) requiring all public enterprises to submit financial statements to the Ministry of Finance within legal limits; (ii) compiling information about public enterprises including debt statistics and monitoring-related risks; and (iii) publishing this information online in budget documents and fiscal risk statements.[7]

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

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

[3] Although legislation allows it, public enterprises do not hold direct external non-guaranteed debt.
[4] These arrears do not trigger an "in distress"-rating given their domestic nature.
[5] The arrears to private external creditors (less than 0.1 percent of GDP) do not trigger an "in distress"-rating given their *de minimis* nature and as the restructuring with the majority of creditors has been completed and the government is judged to be engaging in "good faith"; the arrears to official-bilateral creditors (Algeria and Angola, for a total of 1.3 percent of GDP) do not trigger an "in distress"-rating as they are deemed away under the Fund's Lending into Official Arrears Policy.
[6] Locally issued debt denominated in local currency held by non-residents and locally issued debt denominated in foreign currency held by residents are insignificant, meaning that results would be similar if done on a residency basis.
[7] Under the Sustainable Development Finance Policy (SDFP), Madagascar has been implementing reforms in areas of debt transparency (by publishing a contingent liabilities registry), fiscal sustainability (by implementing measures to reduce irrecoverable tax arrears and strengthen the tracking and recovery system for outstanding amounts), and debt management (by adhering to a non-zero debt ceiling in FY22) and successfully completed its Performance and Policy Actions (PPAs) under the SDFP in FY22. In FY23, Madagascar is expected to continue to implement reforms in these areas by adopting through decrees, a new framework for the evaluation and management of fiscal risks as well as a system for tax management.

2. Notwithstanding the comprehensive coverage of debt statistics, a contingent liability shock of 7.2 percent of GDP is simulated to account for potential liabilities. This reflects the default setting for PPPs and financial markets and a country-specific calibration for possible additional SOE liabilities (Text Table 2).

- The baseline reflects estimated end-2021 domestic debt for SOEs in which the government has a majority stake (i.e., debt of 3.4 percent of GDP for JIRAMA and of 3.5 percent for other SOEs).[8] In addition, Air Madagascar has accumulated debt to external suppliers of US$ 29 million due to COVID-19 related pressures. Therefore, the default amount of 2 percent of GDP (which captures risks associated with JIRAMA and other SOEs) was adjusted upwards to reflect Air Madagascar's external liabilities (US$ 29 million or 0.2 percent of GDP), bringing the total to 2.2 percent of GDP.

- Exposures to PPPs are set to zero since estimates of the PPP-related capital stock fall below 3 percent of GDP, the threshold for the PPP shock to be activated (the stock related to the Ravinala Airport is estimated at only 1.8 percent of GDP). The authorities may develop more PPPs going forward, especially in the area of hydroelectric power, and the potential vulnerabilities associated with such PPPs could increase rapidly, at which point the PPP shock may be triggered.

- The default value of 5 percent is programmed for financial markets. Most banks are financially solid with deposits exceeding loans and majority foreign shareholders. Dollarization of deposits and credits is not pronounced, and banks' foreign assets generally exceed their foreign liabilities.

Text Table 2. Madagascar: Coverage of the Contingent Liabilities' Stress Test

1	**The country's coverage of public debt**	The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.2	Captures potential contingent liabilities, including an external liability of US$ 29 million (0.2 percent of GDP) associated with Air Madagascar.
4	PPP	35	percent of PPP stock	0.0	Exposures through PPPs are set to zero as PPPs comprise less than 3 percent of GDP.
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			7.2	

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

3. Madagascar is benefitting from recent debt service relief initiatives, which are reflected in the DSA, as well as from continued support by the World Bank. The current assessment reflects debt relief from the IMF under the Catastrophe Containment window of the IMF's Catastrophe Containment and Relief Trust (CCRT) delivered between April 2020 and April 2022

[8] While JIRAMA is working with the World Bank on the implementation of its recovery plan, to be conservative, we do not account for the potential benefits of this plan on the domestic debt forecast owing to its long horizon. In particular, we assume that JIRAMA's debts remain at the same ratio to GDP through the entire forecast horizon (2.3 percent of GDP). This implies that successful implementation of the plan is an upside risk for the baseline, while non-implementation of the plan could result in still-high arrears and larger projected operational transfers.

(amounting to some US$ 32 million). From May 2020 to December 2021 Madagascar benefitted from the Debt Service Suspension Initiative (DSSI), under which some US$ 20 million in debt service was deferred; repayments on these will start in 2024. Over 2022, the World Bank has committed US$ 1.3 billion under highly concessional credit terms and grants.[9] A large share of these commitments is directed to the South of Madagascar where a large-scale humanitarian crisis is unfolding. Considering increased commitments, IDA lending disbursements are assumed to increase.

BACKGROUND

A. Recent Debt Developments

Text Table 3. Madagascar: Breakdown of Total PPG Debt (2016–21)

Creditor	2016	2017	2018	2019	2020	2021
Amount (US$m)						
Domestic debt, *of which:*	**1,683**	**1,840**	**2,124**	**1,961**	**1,864**	**1,950**
Securities inc. BTA, BTF, BTS[1]	526	732	758	772	791	752
Debt to the Central Bank	337	297	272	217	189	168
Arrears	210	146	71	42	22	34
SOE debt	570	628	991	911	848	985
Other	40	36	32	19	15	10
External debt, *of which:*	**2,845**	**3,262**	**3,548**	**3,801**	**4,750**	**5,422**
Multilateral	2,052	2,276	2,368	2,459	2,740	2,957
Paris Club	137	165	189	219	282	315
Non-Paris Club	324	290	308	368	388	418
Commercial & Guaranteed	23	83	204	190	355	384
Debt borne by BFM on behalf of the government	310	449	479	564	985	1,347
Total PPG debt	**4,528**	**5,102**	**5,672**	**5,762**	**6,615**	**7,372**
Percent of GDP						
Domestic debt, *of which:*	**15.0**	**14.5**	**16.1**	**13.9**	**14.4**	**13.8**
Securities inc. BTA, BTF, BTS	4.7	5.8	5.7	5.5	6.1	5.3
Debt to the Central Bank	3.0	2.3	2.1	1.5	1.5	1.2
Arrears	1.9	1.2	0.5	0.3	0.2	0.24
SOE debt	5.1	4.9	7.5	6.5	6.6	7.0
Other	0.4	0.3	0.2	0.1	0.1	0.1
External debt, *of which:*	**25.3**	**25.7**	**26.8**	**27.0**	**36.8**	**38.5**
Multilateral	18.3	17.9	17.9	17.5	21.2	21.0
Paris Club	1.2	1.3	1.4	1.6	2.2	2.2
Non-Paris Club	2.9	2.3	2.3	2.6	3.0	3.0
Commercial & Guaranteed	0.2	0.7	1.5	1.4	2.7	2.7
Debt borne by BFM on behalf of the government	2.8	3.5	3.6	4.0	7.6	9.6
Total PPG debt	**40.3**	**40.1**	**42.9**	**41.0**	**51.2**	**52.3**
Percent of total						
Domestic debt, *of which:*	**37.2**	**36.1**	**37.4**	**34.0**	**28.2**	**26.5**
Securities inc. BTA, BTF, BTS	11.6	14.4	13.4	13.4	12.0	10.2
Debt to the Central Bank	7.4	5.8	4.8	3.8	2.9	2.3
Arrears	4.6	2.9	1.3	0.7	0.3	0.5
SOE Debt	12.6	12.3	17.5	15.8	12.8	13.4
Other	0.9	0.7	0.6	0.3	0.2	0.1
External debt, *of which:*	**62.8**	**63.9**	**62.6**	**66.0**	**71.8**	**73.5**
Multilateral	45.3	44.6	41.8	42.7	41.4	40.1
Paris Club	3.0	3.2	3.3	3.8	4.3	4.3
Non-Paris Club	7.1	5.7	5.4	6.4	5.9	5.7
Commercial & Guaranteed	0.5	1.6	3.6	3.3	5.4	5.2
Debt borne by BFM on behalf of the government	6.8	8.8	8.4	9.8	14.9	18.3
Total PPG debt	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Sources: Malagasy authorities; and IMF staff estimates.

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

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

[9] The new terms under IDA20 are applicable since July 2022.

4. The end-2021 PPG debt-to-GDP ratio is projected to have reached 52.3. percent, an increase of almost 12 percentage points relative to the latest pre-pandemic year (2019). To a large extent the increase is due to an increase in the primary deficit and a decline in GDP growth following the COVID-19 pandemic, occurring on the back of relative stability in this ratio since 2015 (see Text Figure 1 and Table 2). The majority of Madagascar's PPG debt continues to be external in nature, with almost 60 percent of external debt owed to multilateral sources including the World Bank, African Development Bank, and IMF.

B. Macroeconomic Assumptions

5. Madagascar's near-term economic prospects are adversely affected by COVID-induced scarring, a season of cyclones, and elevated global energy and food prices. For 2022, staff is now projecting real GDP growth of 4.2 percent, a significant downward revision relative to what was projected in the previous DSA (see Text Table 4). However, real GDP per capita is expected to surpass its 2019 level by 2023 due to a stronger-than-expected recovery in 2021. The primary deficit is estimated to have widened significantly in 2022 due to a disagreement with oil distributors and the delayed payment of oil customs taxes. This late payment explains the strong improvement in the primary balance projected in 2023. Staff expects a gradual decline in fiscal imbalances over the medium-term and a slow increase in public debt. Based on a gradual tax revenue recovery, and an increase in capital spending, the primary deficit would gradually improve over the medium term. Under these assumptions, public debt would stabilize around 55 percent of GDP over the medium term.

- Output is projected to grow modestly by 4.2 percent in 2023 due to the combined effects of inflationary pressures, political uncertainty, and slowing global growth prospects. Growth is expected to peak over the medium-term at 4.8 percent in 2024, with some deceleration thereafter—towards the estimated rate of potential growth (which following the recent Climate Macroeconomic Assessment Program (CMAP), staff now project at 4.5 percent to better account for the adverse impact of natural disasters on productivity).[10] The secondary sector is expected to remain the main driver of growth thanks in particular to an increase in mining activities. Primary sector output would grow by around 3 percent per year on average, reflecting the adverse effects of climate change. These growth prospects are conditional on a scaling-up of both public and private investment (the latter driven by the current governance reform agenda).

- Both government and private investment rates over the medium term were revised slightly downward relative to the prior DSA (Figure 4) and our forecasts continue to be significantly more conservative than those envisaged by the Plan Emergence Madagascar (PEM) reflecting current constraints on investment implementation capacity.

- Headline inflation rose from about 4 percent in 2020, to 10.8 percent y-o-y in November 2022, reflecting high international prices and the direct and indirect effects of a 43-percent

[10] In fact, downward revision of potential GDP reflects a combination of factors including *inter alia*, long lasting impact of repeated natural disasters, impact of the COVID-19 pandemic on learning outcomes, as well as slower-than anticipated pace of implementation of reforms.

fuel price increase in July. Inflation is expected to reach 11.2 percent and 9.3 percent in 2022 and 2023 following monetary policy tightening. Inflation rates are expected to be somewhat higher than prior projections over the forecast horizon.

- In line with the stronger inflationary pressures, we have also revised up government borrowing costs, reflecting the higher cost of borrowing observed globally as well as domestically (since the first review, the central bank has raised the marginal lending facility rate by 290 basis points).

- The primary deficit is expected to be higher than previous estimates for 2022 but staff expect a significant improvement in the primary balance in 2023 as a result of the delayed payment of overdue oil customs taxes by oil distributors; over the medium term, projections continue to be in line with previous DSAs. Primary deficits are expected to remain contained going forward, reflecting gains in revenue mobilization including: (i) continued streamlining of VAT and free-zone companies' exemptions; (ii) improvements to the taxpayers' database; (iii) strengthening controls in customs administration; (iv) broader use of electronic tax declarations and payments and the digitalization of related procedures; and (v) continued clearance of tax arrears. On the expenditure side, non-interest current expenditure is projected to remain around 9 percent of GDP. Capital expenditure would significantly increase, exceeding 9 percent of GDP over 2025-27 compared to less than 6 percent pre-pandemic, reflecting the authorities' effort to boost investment as part of the PEM.

Text Table 4. Madagascar: Baseline Macroeconomic Assumptions for DSA

	2022		2023		2024		2025		2030	
	last DSA	current	last DSA	current	last DSA	current	last DSA	current	last DSA	current
Real GDP growth (percent)	5.4	4.2	5.1	4.2	5.0	4.8	5.0	4.7	5.0	4.5
Inflation, GDP Deflator (percent)	6.1	7.4	6.9	9.5	5.6	8.3	5.4	7.5	5.0	5.4
Non-interest CA deficit (percent of GDP)	4.5	5.0	4.0	4.9	3.5	4.5	3.4	4.2	2.8	2.3
Primary deficit (percent of GDP)	4.9	6.1	3.0	2.0	3.0	2.4	2.4	3.3	2.9	4.0
Revenue and grants (percent of GDP)	13.9	13.6	14.5	14.6	14.1	15.3	14.1	15.3	14.5	14.1
Primary (noninterest) expenditure (percent of GDP)	18.8	19.7	17.4	16.6	17.1	17.6	16.5	18.6	17.4	18.1

Sources: Malagasy authorities; World Bank and IMF.

6. **Financing assumptions broadly reflect the authorities' Medium Term Debt Strategy but are conservative with respect to external financing.** One of the main targets of the strategy for end-2023 includes a limit on the share of external public debt relative to total public debt that should not exceed a maximum of 86 percent (it is estimated at around 74 percent at end-2021, where it is expected to reach 80 percent over the projection horizon).[11] The financing assumptions of this sustainability analysis deviate from the medium-term debt strategy on domestic financing due to the more conservative approach on the volumes of available external financing on concessional terms. The resulting increased reliance on domestic financing along with SOE debt

[11] The other main targets consist of (i) the average maturity of locally-issued debt being over 10 months (estimates put it around one year for 2022); (ii) the share of new external debt falling due within a year should be less than 25 percent of the stock of external debt (it is estimated to be around 12 percent in 2022); and (iii) the share of new domestic debt falling due within a year should be less than 75 percent of the stock of domestic debt (it is estimated at almost 56 percent in 2022).

gives rise to higher financing costs.[12] To mitigate the potential liquidity pressures, the authorities will continue to develop the domestic debt market and will prioritize securing external financing on concessional terms (including grants), which would keep debt servicing costs at manageable levels and is in line with their debt strategy.[13] External commercial borrowing is expected to slowly scale back up from 2031 onwards as Madagascar's fundamentals are projected to strengthen.

7. **Realism tools suggest that our assumptions are in line with reasonable bounds.** Across a range of realism checks staff's underlying assumptions do not appear to raise any flags (Figure 4). The projected fiscal path is not in the tail of the historical distribution, while projected growth for 2022 is below the range of potential growth paths under various fiscal multipliers; however, as for all countries, the magnitude and multifaceted effects of the COVID-19 pandemic are not well-captured by that aspect of the analysis.

8. **The outlook remains uncertain with risks tilted to the downside.** The main risks stem from the possibility of further adverse shocks to Madagascar's terms-of-trade (higher prices for rice, wheat, and/or energy); supply chain disruptions; renewed COVID-19 outbreaks; and natural disasters (mainly cyclones for the north and droughts for the south), resulting in losses in lives, livelihoods, and physical capital. Protracted weak budget execution in health and education spending (alongside reversals in the governance reform agenda) could also result in social and political volatility, especially ahead of the 2023 presidential elections. Weak investment implementation capacity could further curtail growth. All downside risks would have negative implications for debt sustainability. Upside potential includes the unlocking of large-scale projects in the energy sector and extractive industry; the implementation of the PEM's agenda, which could improve the growth potential and attract additional investment.

C. Drivers of Debt Dynamics

9. **Over the medium term (and absent adverse shocks), Madagascar's ratio of PPG debt-to-GDP is projected to remain relatively constant at its current level of around 60 percent**. The PPG external debt-to-GDP is also projected to remain relatively constant at its current level of around 45 percent (Figure 3). Projected primary deficits going forward represent the main force driving debt up, while the favorable interest-growth differential helps to keep the debt-to-GDP ratio relatively constant (aided by trends in prices and the exchange rate), with the framework assuming some real appreciation over the medium term driven by the Balassa-Samuelson effect.

10. **The medium-term projections for public and private capital spending have been revised slightly downwards and average 5-year real growth was revised down by about 0.5 pp relative to prior DSA to better account for the effects of natural disasters** (Figure 4). Over the

[12] Financing in 2023 includes the issuance of special T-Bills by the government to clear liabilities associated with the 2022 fuel requisitions on behalf of JIRAMA (around 0.44 percent of GDP).

[13] To reflect recent increased use of medium-term locally-issued debt instruments and further developments in the debt market, the local financing share of medium-term bonds has been revised upwards to 30 percent from 2020–2025 (close to its current share based on end-2021 estimates), with continued growth thereafter, and longer-term bonds (e.g., between 4-7 years) are assumed to reach a share of 3 percent in 2026-30, which rises to 9 percent by 2036-40. On the external front, concessional financing dominates all other types of sources throughout the projected period, albeit declining as of 2027.

upcoming years, the authorities still plan to scale up infrastructure spending, with institutional reforms to better prioritize projects and improve execution rates. Despite a small downward revision compared to the previous DSA, reflecting more conservative forecasts, the projected contribution of public investment to real GDP growth over the next 5 years is roughly the same as in the previous DSA. Private investment is expected to remain relatively constant over the medium term (21 percent of GDP in 2027) with some upside risk if structural reforms accelerate and public investment helps crowd-in additional private investment.

D. Country Classification and Determination of Stress Test Scenarios

11. Madagascar's debt carrying capacity continues to be classified as medium, although its composite indicator score remains near the cutoff for weak debt-carrying capacity. Based on the calculation of the LIC-DSF's composite indicator (reflecting the CPIA index, real growth rates, reserve coverage, remittances, and world growth) Madagascar continues to be rated as having medium debt-carrying capacity (Text Table 4). The CI score is at 2.77 and is estimated using the October 2022 WEO and 2021 CPIA (the CI was 2.82 in the last DSA). Text Figure 2 summarizes the classification scheme and displays the associated thresholds.

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

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

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

12. Stress tests generally follow standardized settings (except for the growth shock) and include tailored shocks for natural disasters and commodity export prices. The contingent liability stress test is based on the quantification of potential contingent liabilities (including SOE-related concerns that extend beyond the baseline SOE debt coverage as detailed in ¶2), and the standardized stress tests apply the default settings. However, the growth test continues to warrant adjustment, as done in prior DSAs. Given the high levels of uncertainty, the social and political volatility ahead of the 2023 presidential elections, and with risks tilted heavily towards the downside, the growth shock simulates a *two* standard deviation shock instead of one (i.e., a reduction of 6.8 percentage points).[14] Madagascar also remains exposed and vulnerable to natural disasters, like cyclones and droughts, whose impact is captured by the natural disaster shock.[15] Since commodities

[14] The magnitude of the shock to growth is comparable to the prior DSA (conducted at the time of the first review), but the shock is now first hitting in 2023 (rather than 2022).

[15] We apply the default settings for this one-off shock in the template, namely a 10 percentage-point rise in the public external debt-to-GDP ratio alongside a fall in real GDP growth (1.5 percent) and exports (3.5 percent), in 2021.

(e.g., vanilla, nickel, cobalt) comprise about half of goods and services exports, we also include a commodity shock stress test. The standardized settings of this stress test are customized to Madagascar's country-specific circumstances. In particular, we assume an illustrative fall in prices equivalent to 10 percent of commodity exports, with no mitigating effect on imports, alongside declines in real GDP growth of 1.55 percent and in fiscal revenue of 2.32percent of GDP (default values). The shock occurs in 2023 and unwinds gradually by 2032. Residual financing is assumed to be at less favorable terms than under the baseline. For external debt, the interest rate and maturities are assumed to be 25 percent higher and lower, respectively. For overall public debt stress tests, limited recourse to domestic sources in the short run leads to consideration of a scenario in which 65 percent of additional financing comes from external sources while the interest rate for residual domestic financing would be 100 basis points above baseline.[16]

Text Table 5. Madagascar: Calculation of Debt-Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.240	1.25	45%
Real growth rate (in percent)	2.719	3.417	0.09	3%
Import coverage of reserves (in percent)	4.052	40.611	1.65	59%
Import coverage of reserves^2 (in percent)	-3.990	16.493	-0.66	-24%
Remittances (in percent)	2.022	2.373	0.05	2%
World economic growth (in percent)	13.520	2.898	0.39	14%
CI Score			2.77	100%
CI rating			**Medium**	

Note: 10-year average values are based on an average over 2017-2026.

DEBT SUSTAINABILITY RESULTS

A. External Debt Sustainability

13. Under the baseline, external PPG debt remains well below the thresholds associated with Madagascar's medium debt-carrying capacity (Table 1, Figure 1). External PPG debt is projected to rise 38.5 percent of GDP end-2021 to about 48 percent of GDP in 2032. Debt-creating flows include sizable current account deficits over the medium term (owing to declines in the trade balance and falling inflows from official transfers) and less advantageous endogenous debt dynamics (due to higher interest rates).[17] In PV terms, external PPG debt is projected to rise from 18percent of GDP end-2021 to about 27 percent of GDP in 2032. The long-term rise in PV terms is the result of our assumption that borrowing will become less concessional over time, as well as sizeable gross financing needs. Together with expiring grace periods for some loans (including prior IMF financing), this explains why debt service indicators rise substantially off their low base. Nonetheless, all indicators remain well below the applicable thresholds for Madagascar (Figure 1).

[16] We view this as reasonable given the current development of Madagascar's domestic bond market and its ongoing engagement with international donors and investors.
[17] The residual includes reserve accumulation, unrepatriated mining receipts, and potentially other misclassified BOP entries.

14. Under stress scenarios the PV of external debt-to-exports ratio is above the applicable threshold (Table 3; Figure 1). The analysis suggests that Madagascar is most vulnerable to export shocks. Under such shocks, the PV of external debt-to-exports ratio breaches the applicable threshold for a sustained period from 2026 onwards.

15. The granularity assessment suggests that Madagascar has some space to absorb shocks (Figure 5). All baseline debt indicators remain well below their thresholds under a median shock, but two indicators (PV of external PPG debt-to-GDP and debt-service-to-revenue) would exceed them under a more extreme scenario. This suggests that Madagascar has some space to absorb shocks, unchanged from the assessment at the time of the first review (March 2022).

16. External private sector debt is not assessed to pose a significant threat to external sustainability (Table 1). The risks associated with the levels of external private debt, which was recently revised upward, appear contained.[18] Around 80 percent of the private debt is associated with the mining sector, whose income is in foreign currency (providing it with a natural hedge); the majority of its debt is medium-to-long term; and a sizeable portion of its debt is with its affiliated headquarters or global groups. Moreover, much of mining companies' loans do not bear large interest payments and many of the debt instruments are not required to be fully reimbursed to parent companies until liquidation. Private external debt is projected to rapidly decline as the loans related to major mining projects are repaid, with the stock of external private debt falling by over half by 2030. Still, such debts will be closely monitored going forward for potential risks and, in line with recent DSAs, we have conservatively assumed that more borrowing would be needed to sustain mining exports towards the end of the DSA horizon, contributing to private debt equivalent to about 5 percent of GDP in 2040.

B. Total Public Debt Sustainability

17. Under the baseline, total public debt levels are projected to remain well below the benchmark (Table 2; Figure 2). Total public debt (both external and domestic) is projected to remain just below 60 percent of GDP over the medium-term horizon. In PV terms, total public debt-to-GDP is expected to rise from 32.5 percent at end-2021 to about 0 percent over the medium term, still well below the benchmark of 55 percent for medium debt carrying-capacity countries.

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

19. Total public debt is most vulnerable to growth shocks and such stress tests lead to a breach of its benchmark (Figure 2; Table 4). Under both the growth shock and the commodity

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

price shock the PV of total public debt-to-GDP, is projected to reach levels well above the 55 percent benchmark for medium debt-carrying capacity countries like Madagascar.

RISK RATING AND VULNERABILITIES

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

21. The overall assessment is that Madagascar is at moderate risk of overall debt distress (unchanged from the previous assessment conducted at the time of the first review). The PPG external debt has a moderate risk assessment (¶20), while the PV of overall debt-to-GDP indicator breaches its benchmark following a growth or commodity price shock. Moreover, liquidity pressures could arise if more concessional external financing is not secured or if domestic debt market development is delayed, including under the baseline and under a natural disaster shock.

22. Conditional on the mobilization of concessional external financing, this assessment is supportive of Madagascar's current plans to scale up its borrowing. A steeper-than-expected increase in borrowing in line with a rapid execution of the government's ambitious medium-term borrowing plan would carry significant risks, especially in the absence of securing additional external concessional financing. Also, poorly selected public investments and less favorable financing terms could affect debt vulnerability. The state of SOE liabilities could also influence future assessments. Less grant financing and a switch to a less concessional mix of borrowing would raise the debt burden, especially when measured in PV terms, as well as debt service risks. The domestic debt market should continue to be developed in order to lower borrowing costs and reduce exchange-rate risk. Finally, external private debt could increase in less ringfenced sectors (e.g., banking) that would increase the vulnerabilities associated with such debt. As mentioned in prior DSAs, in addition to debt sustainability, other crucial considerations for the pace of borrowing include the economy's vulnerability to terms-of-trade shocks, natural disasters, general absorptive capacity, public financial management, and public investment management.

23. Structural reforms and improvements in debt coverage statistics remain paramount, especially in light of the CI score, which is near the weak debt-carrying capacity threshold. Efforts to enhance external statistics could improve private debt coverage. Also, Madagascar's ability to preserve and build its debt-carrying capacity rely on strengthening the capacity and quality of its institutions, including on the Public Financial Management-front where identification and mitigation of fiscal risks (relating to fuel subsidies, SOEs, PPPs, and pensions), the transparency and accountability of public sector institutions, and more effective and rules-based management of public investment within a credible medium-term expenditure framework are key.

AUTHORITIES' VIEWS

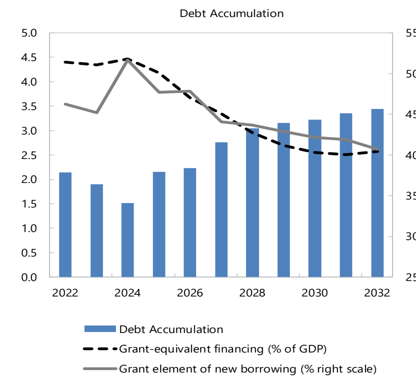
24. **The authorities broadly agreed with staff's assessment of the debt sustainability analysis.** Although they agreed on the need to rely on more concessional debt, they emphasized the need for more financing to invest in development and resilience to climate change. They also believe the DSA's assumptions are too pessimistic and (i) a gradual acceleration of growth toward 7 percent in 2025 is feasible, (ii) Madagascar's CI score should improve with their efforts to strengthen public sector management and institutions.

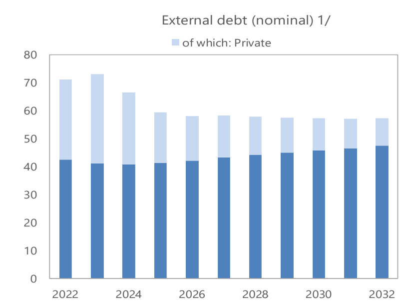
Table 1. Madagascar: External Debt Sustainability Framework, Baseline Scenario, 2019–2042

(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	**67.0**	**80.5**	**69.0**	**71.1**	**73.0**	**66.5**	**59.4**	**58.0**	**58.2**	**57.3**	**48.1**	**55.3**	**61.2**
of which: public and publicly guaranteed (PPG)	**27.0**	**36.8**	**38.5**	**42.5**	**41.1**	**40.8**	**41.3**	**42.1**	**43.2**	**47.5**	**42.8**	**27.4**	**43.6**
Change in external debt	-3.5	13.5	-11.5	2.0	1.9	-6.5	-7.1	-1.4	0.2	0.1	-3.8		
Identified net debt-creating flows	**-2.1**	**8.9**	**-5.0**	**0.9**	**1.4**	**-0.1**	**-0.2**	**-0.9**	**-1.2**	**-1.8**	**-2.5**	**-1.7**	**-0.8**
Non-interest current account deficit	**1.8**	**4.9**	**4.6**	**5.0**	**4.9**	**4.5**	**4.2**	**3.3**	**3.0**	**2.3**	**1.1**	**2.4**	**3.4**
Deficit in balance of goods and services	4.7	9.0	10.1	8.9	8.0	6.4	5.8	5.3	5.2	4.2	2.6	**5.7**	**5.7**
Exports	28.7	19.7	23.0	30.6	33.6	33.0	33.6	30.5	29.4	26.9	23.6		
Imports	33.4	28.7	33.1	39.5	41.6	39.4	39.4	35.8	34.5	31.1	26.2		
Net current transfers (negative = inflow)	-5.7	-6.5	-6.8	-5.5	-4.7	-4.4	-4.1	-4.1	-4.0	-3.6	-2.9	**-5.8**	**-4.1**
of which: official	-3.1	-2.5	-0.7	-2.5	-2.7	-2.6	-2.0	-1.3	-1.0	-0.1	0.0		
Other current account flows (negative = net inflow)	2.7	2.4	1.3	1.6	1.6	2.6	2.5	2.0	1.8	1.6	1.4	**2.5**	**1.8**
Net FDI (negative = inflow)	**-2.6**	**-1.9**	**-1.7**	**-2.0**	**-1.5**	**-1.9**	**-2.1**	**-2.2**	**-2.3**	**-2.6**	**-2.6**	**-3.4**	**-2.3**
Endogenous debt dynamics 2/	**-1.2**	**5.9**	**-7.9**	**-2.2**	**-2.0**	**-2.6**	**-2.3**	**-2.0**	**-1.8**	**-1.5**	**-1.0**		
Contribution from nominal interest rate	0.5	0.5	0.4	0.6	0.8	0.6	0.6	0.6	0.6	0.8	1.1		
Contribution from real GDP growth	-3.0	5.2	-4.1	-2.8	-2.8	-3.3	-2.9	-2.6	-2.5	-2.4	-2.0		
Contribution from price and exchange rate changes	1.3	0.2	-4.2	...	...	...	...	...	...	...	...		
Residual 3/	**-1.4**	**4.6**	**-6.5**	**1.2**	**0.6**	**-6.4**	**-6.9**	**-0.4**	**1.4**	**2.0**	**-1.4**	**6.4**	**-0.3**
of which: exceptional financing	0.0	-0.1	-0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**18.7**	**19.9**	**20.8**	**20.8**	**21.2**	**21.7**	**22.6**	**26.8**	**27.3**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**81.0**	**65.0**	**61.8**	**63.0**	**63.0**	**71.1**	**76.8**	**99.7**	**115.6**		
Total external debt service-to-exports ratio	**...**	**...**	**177.0**	**178.8**	**174.3**	**163.5**	**159.1**	**157.1**	**163.7**	**190.9**	**181.7**		
PPG debt service-to-exports ratio	**11.1**	**17.6**	**4.4**	**3.6**	**4.4**	**4.1**	**4.2**	**4.9**	**4.9**	**5.9**	**9.0**		
PPG debt service-to-revenue ratio	**29.4**	**35.1**	**9.6**	**10.0**	**12.4**	**10.5**	**10.7**	**10.9**	**10.5**	**11.3**	**14.2**		
Gross external financing need (Million of U.S. dollars)	699.6	1044.7	1802.1	1205.6	1248.5	1106.2	1254.3	907.4	795.7	1020.8	1488.4		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.4	-7.1	5.7	4.2	4.2	4.8	4.7	4.7	4.6	4.5	4.2	**2.6**	**4.5**
GDP deflator in US dollar terms (change in percent)	-1.8	-0.4	5.5	0.4	0.6	2.4	3.4	3.2	3.5	4.7	4.3	**0.0**	**3.4**
Effective interest rate (percent) 4/	0.7	0.7	0.6	0.9	1.2	0.9	1.0	1.1	1.2	1.6	2.2	**0.9**	**1.2**
Growth of exports of G&S (US dollar terms, in percent)	-7.2	-36.4	30.4	38.9	15.4	5.3	10.4	-2.1	4.3	7.7	7.6	**4.0**	**10.0**
Growth of imports of G&S (US dollar terms, in percent)	-2.5	-20.5	28.7	24.8	10.6	1.6	8.3	-1.8	4.3	7.3	7.2	**3.4**	**7.7**
Grant element of new public sector borrowing (in percent)	...	...	...	46.3	45.2	51.7	47.7	47.9	44.1	40.7	53.8	**...**	**44.9**
Government revenues (excluding grants, in percent of GDP)	10.8	9.9	10.5	11.1	11.9	12.7	13.3	13.8	13.8	14.0	15.0	**9.6**	**13.3**
Aid flows (in Million of US dollars) 5/	696.0	603.5	391.6	770.1	777.3	846.6	1058.0	1141.1	1239.1	1659.6	2008.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.4	4.3	4.5	4.2	3.7	3.3	2.6	0.9	**...**	**3.4**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	66.1	67.9	71.5	63.1	58.7	52.7	42.0	54.4	**...**	**55.0**
Nominal GDP (Million of US dollars)	14,105	13,051	14,555	15,233	15,969	17,137	18,561	20,040	21,699	34,237	81,472		
Nominal dollar GDP growth	2.5	-7.5	11.5	4.7	4.8	7.3	8.3	8.0	8.3	9.5	8.7	**2.6**	**8.1**
Memorandum items:													
PV of external debt 7/	...	...	49.2	48.5	52.7	46.5	39.2	37.6	37.6	36.6	32.6		
In percent of exports	...	...	213.7	158.6	156.6	140.9	116.7	123.2	128.1	136.0	138.2		
Total external debt service-to-exports ratio	20.3	25.7	41.1	16.0	13.2	11.8	13.8	11.5	10.2	12.3	14.1		
PV of PPG external debt (in Million of US dollars)			2716.4	3027.8	3318.0	3560.5	3929.5	4343.1	4895.9	9182.6	22223.7		
(PVt-PVt-1)/GDPt-1 (in percent)				2.1	1.9	1.5	2.2	2.2	2.8	3.4	0.0		
Non-interest current account deficit that stabilizes debt ratio	5.2	-8.6	16.1	2.9	3.0	11.0	11.3	4.6	2.8	2.1	4.9		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

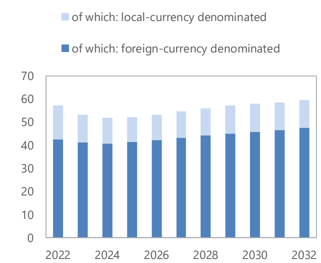
Table 2. Madagascar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–2042

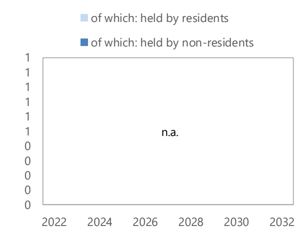
(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	41.0	51.2	52.3	57.1	53.1	51.9	52.2	53.1	54.6	59.4	53.1	41.6	55.5
of which: external debt	27.0	36.8	38.5	42.5	41.1	40.8	41.3	42.1	43.2	47.5	42.8	27.4	43.6
Change in public sector debt	-1.9	10.2	1.1	4.8	-4.1	-1.1	0.3	0.9	1.5	0.8	-3.7		
Identified debt-creating flows	-2.5	6.2	-1.1	5.6	-3.2	-0.7	0.2	0.3	0.8	0.1	-0.7	0.0	0.4
Primary deficit	0.7	3.2	2.2	6.1	2.0	2.4	3.3	3.1	3.9	3.9	2.4	1.7	3.7
Revenue and grants	13.9	12.4	11.2	13.6	14.6	15.3	15.3	15.1	14.8	14.2	15.0	11.5	14.5
of which: grants	3.1	2.5	0.7	2.5	2.7	2.6	2.0	1.3	1.0	0.1	0.0		
Primary (noninterest) expenditure	14.7	15.6	13.4	19.7	16.6	17.6	18.6	18.2	18.6	18.1	17.4	13.2	18.2
Automatic debt dynamics	-3.0	3.1	-4.4	-0.5	-5.3	-3.5	-3.4	-3.4	-3.5	-4.3	-3.5		
Contribution from interest rate/growth differential	-2.8	2.2	-4.2	-3.0	-3.1	-2.8	-2.9	-2.9	-2.9	-3.2	-2.5		
of which: contribution from average real interest rate	-0.9	-0.9	-1.4	-0.8	-0.8	-0.4	-0.5	-0.6	-0.5	-0.6	-0.2		
of which: contribution from real GDP growth	-1.8	3.1	-2.8	-2.1	-2.3	-2.4	-2.3	-2.3	-2.3	-2.5	-2.3		
Contribution from real exchange rate depreciation	-0.2	0.9	-0.2	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.3	-0.1	1.2	-0.1	0.0	0.3	0.3	0.5	0.5	0.4	0.4	0.1	0.3
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
SOE debt	-0.3	-0.1	1.2	0.0	0.1	0.4	0.3	0.5	0.5	0.4	0.4		
Residual	0.6	4.0	2.3	1.7	-3.0	-1.0	-0.4	0.1	0.0	-0.4	-3.9	2.2	-0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	33.1	36.3	33.4	32.4	32.6	33.2	34.5	39.4	38.3		
PV of public debt-to-revenue and grants ratio	...	...	295.5	267.6	229.0	212.4	213.4	220.0	233.6	277.8	255.0		
Debt service-to-revenue and grants ratio 3/	5.7	7.2	9.0	19.7	40.0	43.1	44.1	44.2	43.9	41.8	49.4		
Gross financing need 4/	1.2	4.0	4.3	6.9	9.5	9.3	10.3	10.3	10.8	10.3	10.2		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.4	-7.1	5.7	4.2	4.2	4.8	4.7	4.7	4.6	4.5	4.2	2.6	4.5
Average nominal interest rate on external debt (in percent)	1.0	0.9	0.7	0.9	1.1	0.8	0.8	0.8	0.9	1.0	1.3	0.8	0.9
Average real interest rate on domestic debt (in percent)	-6.1	-4.1	-6.2	-3.9	-7.1	-1.3	-1.1	-1.4	-1.1	-1.6	0.8	-6.0	-2.1
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.9	3.0	-0.6	...	...	...	...	...	...	...	...	1.3	...
Inflation rate (GDP deflator, in percent)	6.5	4.3	6.6	7.4	9.5	8.3	7.5	6.9	6.2	5.3	4.9	6.4	6.6
Growth of real primary spending (deflated by GDP deflator, in percent)	12.7	-1.1	-9.6	53.5	-12.2	11.4	10.1	2.9	6.8	4.3	2.6	4.5	8.4
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.7	-7.0	1.0	1.3	6.1	3.5	3.0	2.3	2.4	3.2	6.1	-1.1	3.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

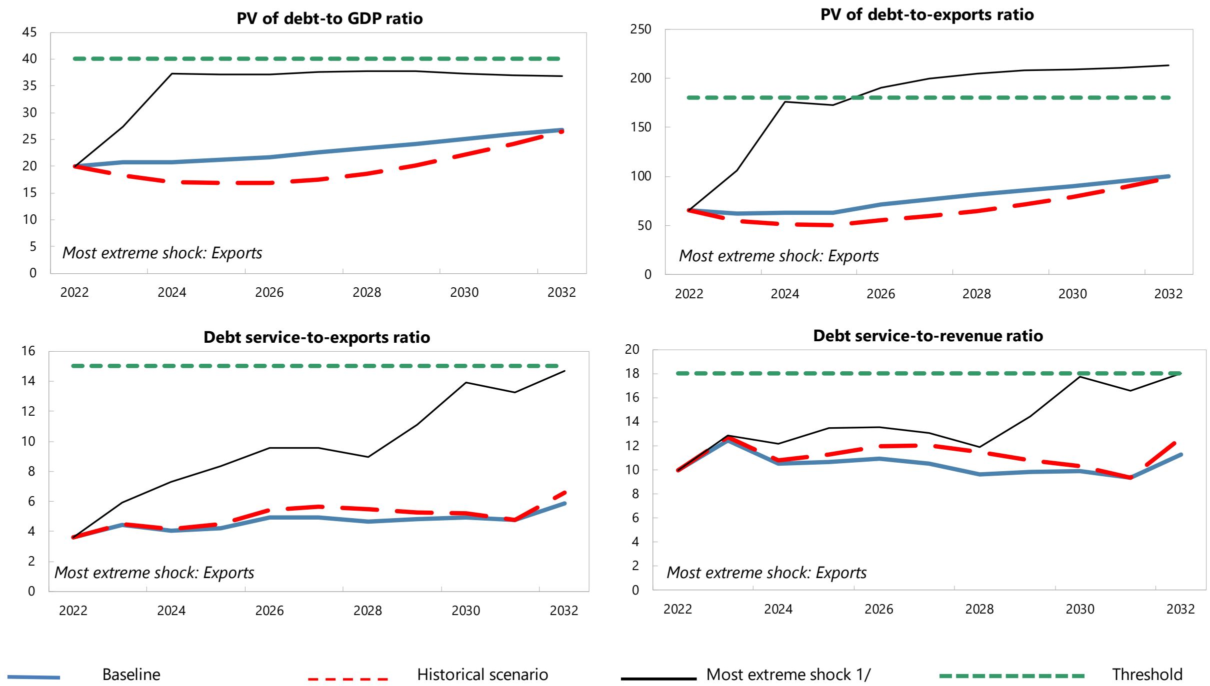
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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

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

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

Figure 1. Madagascar: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2022–2032



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

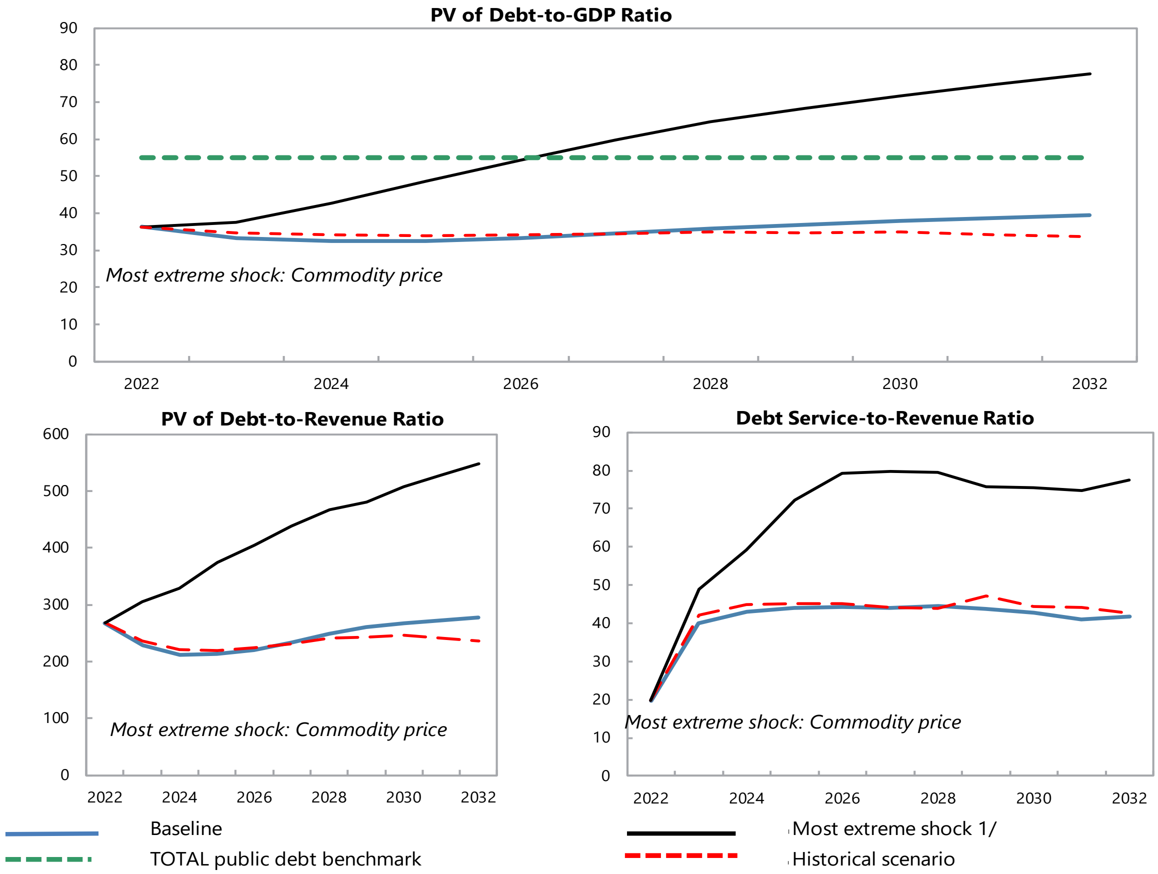
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	29	22
Avg. grace period	5	5

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Madagascar: Indicators of Public Debt Under Alternative Scenarios, 2022–2032



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	51%	65%
Domestic medium and long-term	16%	15%
Domestic short-term	33%	20%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.4%
Avg. maturity (incl. grace period)	29	22
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.5%	5.5%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	1.5%	3.5%

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Madagascar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–2032
(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	20	21	21	21	22	23	23	24	25	26	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	20	18	17	17	17	18	19	20	22	24	26
B. Bound Tests											
B1. Real GDP growth	20	24	28	28	29	30	31	32	33	35	36
B2. Primary balance	20	21	22	22	23	24	24	25	26	27	28
B3. Exports	20	27	37	37	37	38	38	38	37	37	37
B4. Other flows 3/	20	22	24	24	24	25	26	26	27	28	28
B5. Depreciation	20	26	24	25	25	27	28	29	30	31	33
B6. Combination of B1-B5	20	28	30	30	30	31	32	32	33	33	34
C. Tailored Tests											
C1. Combined contingent liabilities	20	24	24	25	26	27	27	28	29	29	30
C2. Natural disaster	20	26	26	27	28	29	30	30	31	32	33
C3. Commodity price	20	22	23	23	24	25	26	26	27	27	28
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	65	62	63	63	71	77	81	86	90	95	100
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	65	54	52	50	55	60	65	71	79	88	98
B. Bound Tests											
B1. Real GDP growth	65	62	63	63	71	77	81	86	90	95	100
B2. Primary balance	65	63	66	66	74	80	85	89	93	98	103
B3. Exports	65	106	176	172	**190**	**200**	**205**	**208**	**209**	**211**	**213**
B4. Other flows 3/	65	66	72	71	80	86	90	94	97	101	106
B5. Depreciation	65	62	58	58	66	72	76	81	86	91	96
B6. Combination of B1-B5	65	93	79	105	117	125	131	135	139	143	148
C. Tailored Tests											
C1. Combined contingent liabilities	65	71	74	75	84	90	95	99	103	107	112
C2. Natural disaster	65	77	81	83	93	100	105	109	114	119	124
C3. Commodity price	65	65	70	70	79	85	89	93	96	100	105
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	4	4	4	4	5	5	5	5	5	5	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	4	5	4	4	5	6	6	5	5	5	7
B. Bound Tests											
B1. Real GDP growth	4	4	4	4	5	5	5	5	5	5	6
B2. Primary balance	4	4	4	4	5	5	5	5	5	5	6
B3. Exports	4	6	7	8	10	10	9	11	14	13	15
B4. Other flows 3/	4	4	4	4	5	5	5	5	6	5	6
B5. Depreciation	4	4	4	4	5	5	5	5	5	4	6
B6. Combination of B1-B5	4	5	6	6	7	7	7	8	8	8	9
C. Tailored Tests											
C1. Combined contingent liabilities	4	4	4	4	5	5	5	5	5	5	6
C2. Natural disaster	4	5	4	5	5	5	5	5	5	5	6
C3. Commodity price	4	5	4	5	5	5	5	5	6	5	6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	10	12	11	11	11	11	10	10	10	9	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	10	13	11	11	12	12	11	11	10	9	13
B. Bound Tests											
B1. Real GDP growth	10	14	14	14	15	14	13	13	13	12	15
B2. Primary balance	10	13	11	11	11	11	10	10	10	10	12
B3. Exports	10	13	12	13	14	13	12	14	18	17	**18**
B4. Other flows 3/	10	12	11	11	11	11	10	11	11	11	12
B5. Depreciation	10	16	13	13	14	13	12	12	11	11	13
B6. Combination of B1-B5	10	13	13	13	13	13	12	14	14	13	15
C. Tailored Tests											
C1. Combined contingent liabilities	10	13	11	11	11	11	10	10	10	10	12
C2. Natural disaster	10	13	11	11	12	11	10	11	11	10	12
C3. Commodity price	10	16	13	14	13	12	11	11	11	10	12
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Madagascar: Sensitivity Analysis for Key Indicators of Public Debt, 2022–2032
(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	36	33	32	33	33	34	36	37	38	39	39
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	36	35	34	34	34	34	35	35	35	34	34
B. Bound Tests											
B1. Real GDP growth	36	40	48	51	54	**59**	**63**	**67**	**71**	**74**	**77**
B2. Primary balance	36	34	34	34	34	36	37	38	39	40	40
B3. Exports	36	39	47	47	47	47	48	48	48	48	47
B4. Other flows 3/	36	35	35	35	36	37	38	39	40	40	41
B5. Depreciation	36	37	35	33	32	32	32	32	32	31	31
B6. Combination of B1-B5	36	33	34	34	35	36	38	39	40	41	41
C. Tailored Tests											
C1. Combined contingent liabilities	36	39	38	37	38	39	40	41	42	42	43
C2. Natural disaster	36	42	40	40	40	42	43	44	45	45	46
C3. Commodity price	36	38	43	49	54	**60**	**65**	**68**	**72**	**75**	**78**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	268	229	212	213	220	234	248	260	268	273	278
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	268	236	221	220	224	231	241	243	246	240	237
B. Bound Tests											
B1. Real GDP growth	268	265	296	320	351	391	432	469	496	517	538
B2. Primary balance	268	235	222	222	228	242	256	268	275	279	284
B3. Exports	268	269	308	305	310	322	335	341	340	336	333
B4. Other flows 3/	268	240	232	232	239	252	266	277	283	286	289
B5. Depreciation	268	261	231	221	217	220	223	225	224	222	220
B6. Combination of B1-B5	268	224	224	223	231	246	261	274	282	286	292
C. Tailored Tests											
C1. Combined contingent liabilities	268	267	246	244	250	263	277	288	294	297	301
C2. Natural disaster	268	286	263	262	268	281	296	308	315	318	323
C3. Commodity price	268	306	328	375	405	439	466	481	507	527	547
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	20	40	43	44	44	44	45	44	43	41	42
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	20	42	45	45	45	44	44	47	44	44	43
B. Bound Tests											
B1. Real GDP growth	20	45	56	62	69	72	76	76	77	76	79
B2. Primary balance	20	41	44	45	46	45	45	44	44	42	43
B3. Exports	20	40	44	46	46	46	46	47	50	47	47
B4. Other flows 3/	20	40	43	44	45	44	45	45	44	42	43
B5. Depreciation	20	40	45	44	44	44	45	43	43	41	42
B6. Combination of B1-B5	20	40	46	45	46	46	47	47	46	44	45
C. Tailored Tests											
C1. Combined contingent liabilities	20	41	53	52	48	46	46	45	44	42	42
C2. Natural disaster	20	41	58	56	50	49	48	47	46	44	44
C3. Commodity price	20	49	59	72	79	80	79	76	75	75	78
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

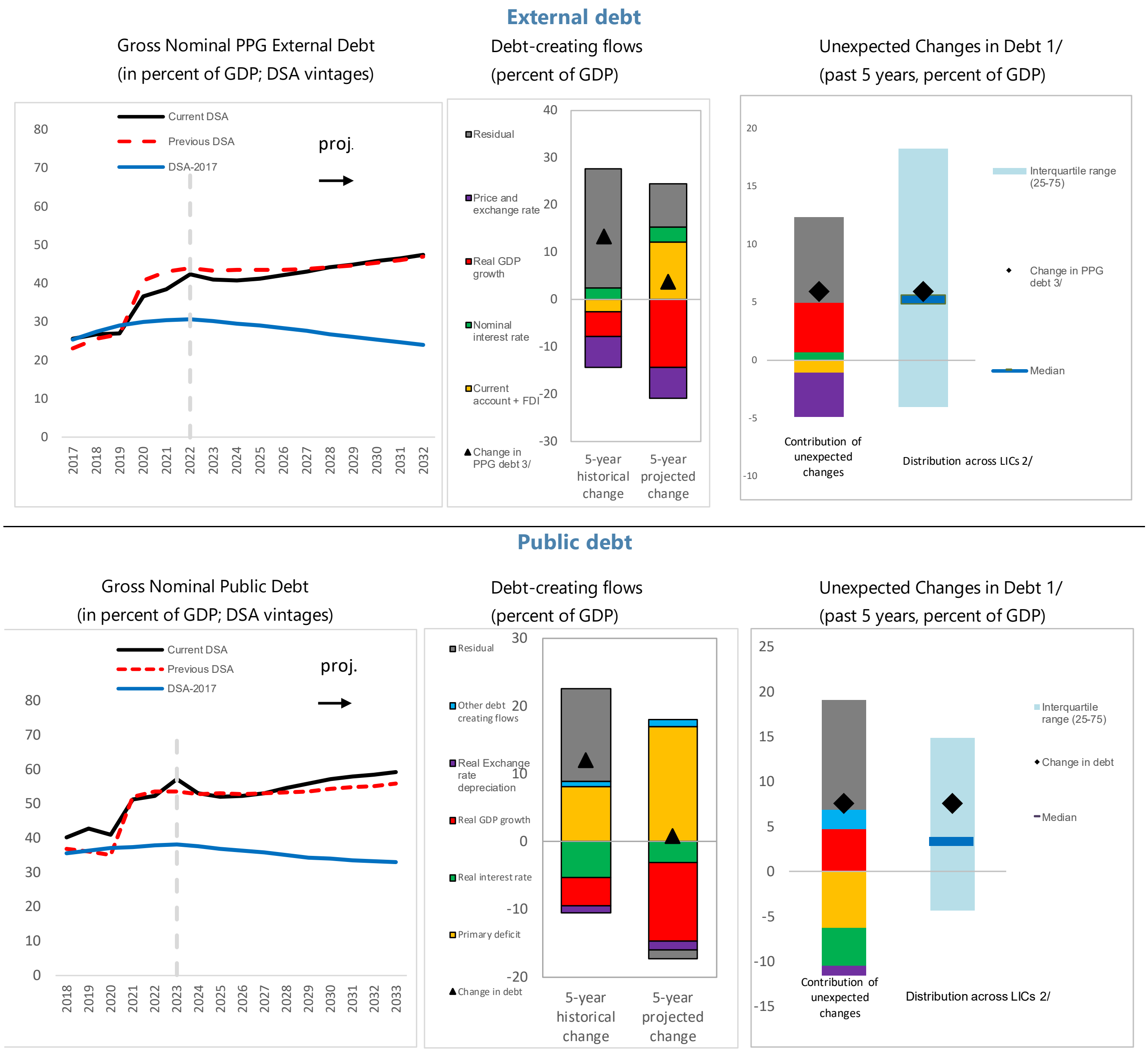
Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

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



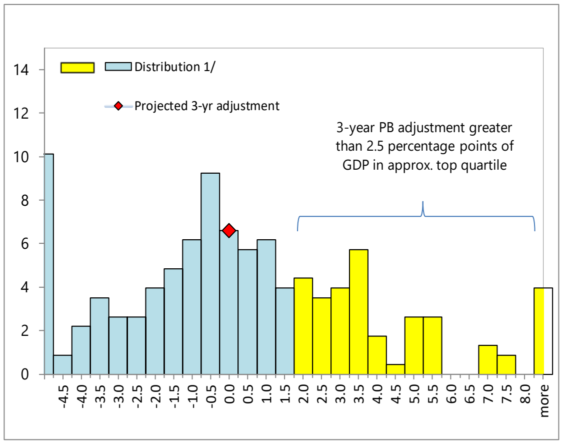
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

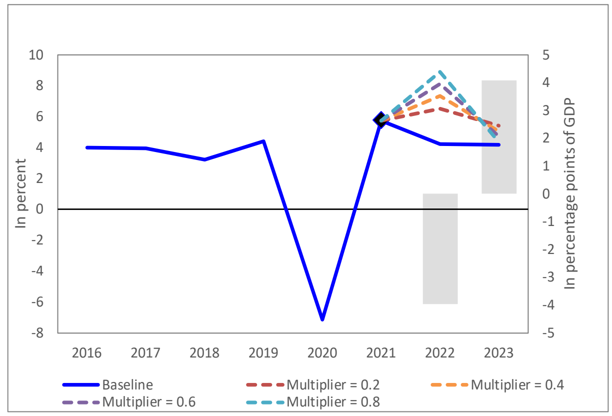
Figure 4. Madagascar: Realism Tools

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



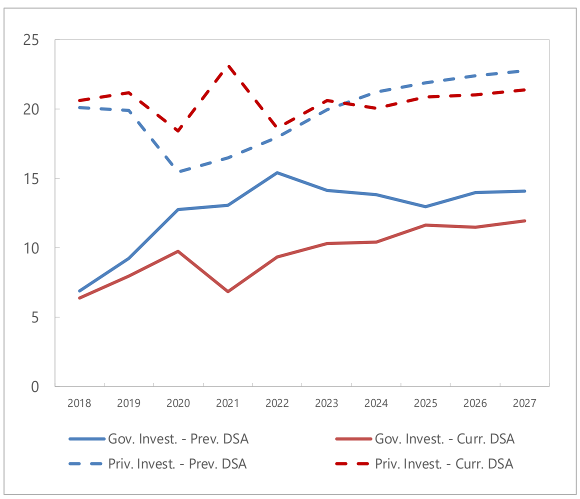
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

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



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

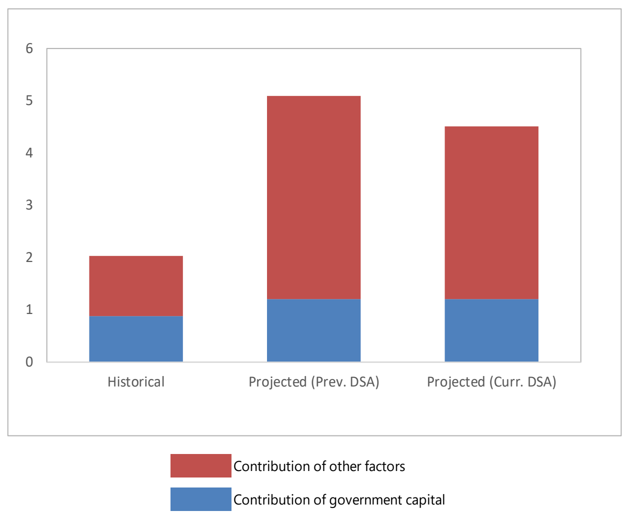
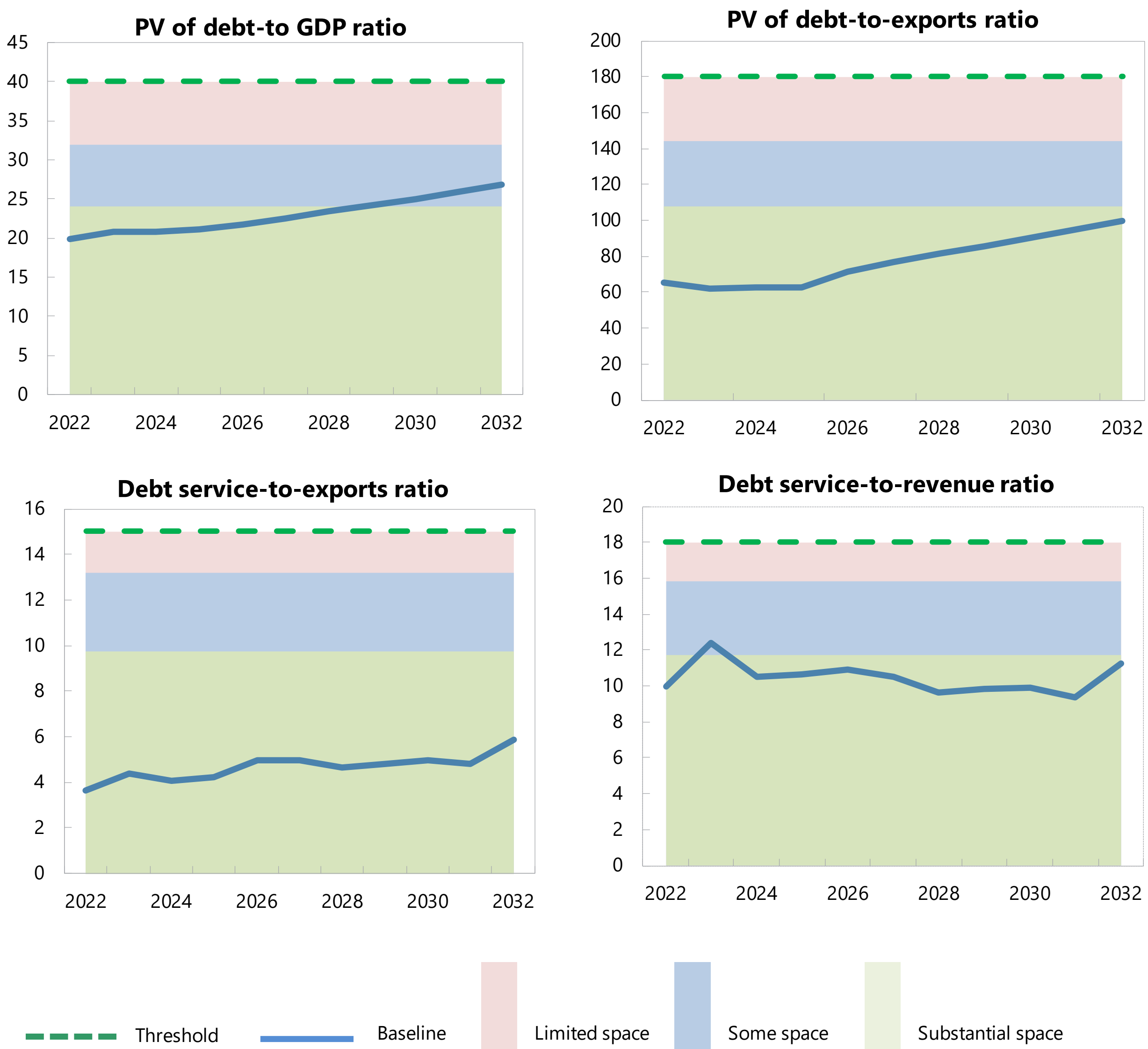


Figure 5. Madagascar: Qualification of the Moderate Category, 2022–2032[1]



Sources: Country authorities; and staff estimates and projections.

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

Statement by Mr. Facinet Sylla, Executive Director for Madagascar, Mr. Mbuyamu Matungulu, Alternate Executive Director and Mr. Thierry Nguéma-Affane, Senior Advisor to Executive Director
March 1, 2023

On behalf of my Malagasy authorities, we would like to express our appreciation to Executive Directors, Management and Staff of the International Monetary Fund for their continued support to Madagascar. Fund assistance is especially critical in the current challenging global environment and in the face of more frequent climate shocks that are exacerbating the country's fragility, with notably increasing food insecurity and growing poverty. It is indeed noteworthy that the Board meeting on Madagascar takes place after the intense Cyclone Freddy that hit the eastern part of the country last Tuesday and claimed several lives, displaced thousands more, and caused extensive physical damage; compounding the effects of the earlier tropical storm Cheneso that killed more than 30 people in January 2023. The authorities are actively deploying assistance to the victims of these extreme weather events with the support of partner international organizations. They appreciate the staff report which provides a good account of the discussions on policies over medium-term and the *Selected Issues* paper that addresses key priority issues on the authorities' development agenda.

Economic activity was marked in 2022 by the intensification of inflationary pressures due in part to the war in Ukraine, and the occurrence of extreme climate events, including five cyclones, which complicated the implementation of the Fund-supported program under the Extended Credit Facility. Nevertheless, program performance during the period under review has been broadly positive and decisive actions have been taken to address the underlying causes of missed targets and delayed reforms, reflecting the authorities' continued determination to keep the program on track. Going forward, the authorities remain committed to the program, which supports the implementation of their development strategy *Plan Emergence Madagascar* (PEM) aimed at promoting good governance, strengthening human capital, accelerating growth, and building resilience to climate shocks.

Considering the corrective actions taken and their continued commitment to the program, the authorities are requesting waivers for the non-observance of missed quantitative performance criteria (QPCs) on the domestic primary deficit and net foreign assets and the completion of the third review of the Fund-supported program.

I. Recent Developments and Outlook

Economic activity moderated in 2022 amid high inflation. After rebounding by almost 13 percentage points to 5.7 percent in 2021, growth moderated in 2022 to 4.2 percent, owing partly to climatic shocks. Inflation reached 11 percent in 2022 reflecting the impact of higher food and energy prices caused by weather shocks, the war in Ukraine, and the authorities' decision to adjust upwards regulated fuel prices to contain related subsidies. The current account deficit widened further, reflecting a significant terms-of-trade deterioration. Indeed, import costs soared, outweighing the positive impact of a notable increase in commodity exports. Nonetheless, the external balance is assessed to be broadly in line with the level implied by fundamentals and desired policies. The level of international reserves remains adequate although declining from 5.8 months of imports in 2021 to 4.3 months of imports at end-2022 despite FX interventions in line with related program commitment. Overall, the banking sector is liquid, profitable and well capitalized, with non-performing loans standing at 7.7 percent at end-2022 slightly above the pre-pandemic level (7.3 percent at end 2019).

The fiscal position deteriorated in 2022 due to the non-payment of fuel taxes in the absence of an agreement to settle past government arrears to oil companies. Faced with revenue shortfall, the authorities contained expenditures and accumulated arrears. Public debt increased by 4.8 percentage points to 57.1 percent of GDP and remains at moderate risk of distress in the latest debt sustainability assessment (DSA). The 2023 budget approved in December 2022 is in line with program objectives. To improve budget execution in 2023, the authorities eliminated the cumbersome requirement of spending commitment authorization by both the President and the Prime Minister. One other important enhancement to the budget process is the creation of a budgetary unit to strengthen the budgetary autonomy of the *Cour des Comptes*. Also, the *Cour des Comptes* has been given full access to the information systems of the Ministry of Economy and Finance to strengthen ex-post financial oversight of government institutions. The Strategic Plan for the Modernization of Public Financial Management was updated in October 2022 and will be implemented with the support of technical partners.

The central bank (BFM) further tightened monetary policy to contain inflationary pressures and pursued reforms to strengthen its operations. It further increased its policy rate by 120 points in November 2022, making it the fifth increase since October 2021. Deposit and marginal lending rates were also increased markedly since May 2021. As regards BFM reforms, the migration to the interest rate targeting framework is advancing with the reform of the monetary policy operating framework entering its final stages. Forecast modeling capacity is being strengthened while transparency and communication are being improved to better anchor expectations of economic actors and markets and increase the BFM credibility. Reform of the foreign exchange market is also progressing with the adoption in August 2022 of a new decree modifying the management of foreign currency accounts, the establishment of the surrender requirement and the improvement of reporting by banks.

The medium-term outlook is overall positive. Economic growth is projected to remain stable at 4.2 percent in 2023 despite the planned scaling up of public investment spending, reflecting the weaker global growth prospects. Inflation is expected to decline below 10 percent in 2023 with lower global inflation but inflationary pressures could persist owing to second-round effects from increases in public wages and fuel prices in 2022. The current account will widen further while reserve coverage should remain stable. This outlook is subject to significant uncertainties related to the war in Ukraine, global growth, weather conditions, and the pace of reform implementation. The authorities recognize that the materialization of related downside risks might have an adverse impact on FDI and reserve adequacy. They are closely monitoring developments going forward and remain committed to carry out stronger policy adjustment as may be needed to preserve macroeconomic stability. Upside risks to growth include a stronger performance in tourism, textile, and mining sectors.

II. Program Performance

Program performance in the period under review was mixed. Three out of five quantitative performance criteria at end-June 2022 have been met. The QPC on domestic primary balance was missed, reflecting a shortfall in domestic tax revenue and delays in the payments of oil taxes by fuel distributors in 2022. A related dispute with the government was settled in December 2022 in an agreement to clear cross-debts between the two parties. This agreement guarantees the resumption of payments of fuel taxes in 2023. The QPC on net foreign assets was missed despite regular foreign exchange purchases by the central bank to smooth high market volatility. Performance improved at end-September 2022 with all five related indicative targets met. The authorities are requesting waivers for the non-observance of the missed two QPCs to account for recent macroeconomic developments and new program understandings.

The three indicative floor targets on domestic tax revenues, customs revenues and social spending were missed at end-June 2022 and end-September 2022. Although social spending at end-June 2022 increased compared to June 2021, it was lower than programmed due to budget execution difficulties in the social ministries. Revenue performance was affected by the non-payment of oil taxes.

The implementation of the structural reforms is advancing. Five of the nine structural benchmarks (SBs) have been implemented. Despite the effective publication of the quarterly budget execution reports with significantly improved coverage and content, staff has assessed the related continuous SB as missed due to missing relevant information, notably on expenditure breakdown and external financing. This information will be incorporated in future reports with the support of Fund TA. Despite a 43-percent increase in fuel prices in July 2022, the continuous SB on gross liabilities to oil distributors was missed due to the delay in reaching an agreement between the government and oil companies on the amount and settlement of cross-debts—which was reached in December 2022. The adoption of the national power company (JIRAMA)'s recovery plan was delayed due to changes in the company's management team.

III. Policies for the medium-term

The authorities remain committed to the program objectives that are aligned with the priorities of the PEM. The program contributes to the effectiveness of economic policies to strengthen macroeconomic stability, improve governance, and increase resilience to shocks, which are essential to create a favorable climate for private investment and inclusive growth.

The fiscal program is the centerpiece of the program for 2023. As envisaged at the inception, fiscal policy pursues fiscal consolidation while creating space for social and sustainable development spending, which will enable to halve the domestic primary deficit to 0.4 percent of GDP in 2023, excluding one-time revenues related to the agreement with the oil companies. A particular focus will be on strengthening mobilization of domestic tax and customs revenues and improving efficiency in the execution of public expenditures.

The 2023 budget targets an increase in the tax ratio by 1.1 percentage-point to 12 percent of GDP, supported by the economic recovery and implementation of several legislative and administrative revenue measures. The latter include the reinstatement of the VAT rate on fuel at 20 percent, the introduction of exit duties on exports of non-renewable resources and the expansion of the electronic payment system. Taxation of the mining sector is being optimized in the mining code currently under revision in consultation with the World Bank, the IMF, and mining companies. The mining code is expected to be submitted to the Parliament by end-June 2023. New revenue-enhancing measures could be introduced in case revenue collection falls short of target.

On the expenditure side, efforts will focus on controlling expenditures and improving their execution. The modernization of payroll management and reforms of the pension system will continue and are expected to contain growth of related budget appropriations over the medium-term. The 2023 budget envisages a 51-percent increase in priority public investment to support the economy, well within the ceiling permitted under the DSA. Particular attention will be devoted to prioritization of projects, taking account of absorptive capacity and climate change considerations as per the recommendations from the recently completed Climate Macroeconomic Assessment Program (CMAP). Further, the budget contemplates an acceleration of the execution of social expenditures and an enhancement of the social protection system with the support of development partners including the World Bank, the IMF, the World Food Program and UNICEF. In particular, an appropriation of $5 million has been made for the Intervention Fund for Development to support (i) agricultural production and development activities, (ii) schooling and nutrition; and (iii) response for early recovery from natural disasters. Also, the authorities are establishing a single social registry to serve as a reference for all social protection activities undertaken in the country.

Efforts to strengthen public financial management and economic governance will be sustained. The authorities will consolidate the gains in budget transparency and public procurement, while taking the necessary actions to correct the deficiencies noted. Regarding specifically public procurement, the related legal framework will be amended to allow for the collection of information on the beneficial owners of bidding companies or other legal entities in the first half of 2023. Later in 2023, a new draft law on cash management which is essential to the implementation of the Treasury Single Account (TSA) will be presented to the National Assembly. The implementation of the national anti-corruption strategy and national strategy to combat anti-money laundering will continue with the adoption of the necessary implementation decrees and the provision of sufficient resources for the effective operationalization of all concerned institutions, notably the Agency for the Recovery of Illicit Assets. Publication of related activities and statistics will be further improved.

Reforms and monitoring of public enterprises will continue to strengthen the financial autonomy of these entities and reduce related fiscal risks. The restructuring of JIRAMA will remain a top priority. A new strategy to restore the company's financial viability is under preparation with the support of the World Bank. Likewise, the restructuring of Air Madagascar will continue following the development of a new business plan and the provision of a sovereign guarantee to support leasing of aircrafts. As regards fiscal risks from public-private partnerships (PPP), the national PPP strategy which has been finalized is expected to be adopted by June 2023, and the PPP management framework is projected to be operational by June 2023 with the activation of the National Committee. Fiscal risks related to the newly created Malagasy Sovereign Wealth Fund will be contained by ensuring that its governance and operations are in line with international best practices.

Given the country's high vulnerability to climate change, the authorities are committed to improve climate resilience by enhancing climate policies and risk and disaster management. They will pursue the development of the Strategic Framework for Climate Change, with notably the development of the country's priority programs that could be financed by the Green Climate Fund (GCF). National Risk and Disaster Management Office (BNGRC) will be allocated with the human, material and budgetary resources needed to carry out its emergency response mission, such as in the case of the recent climatic events. Fund support under the RST would play a critical role in strengthening the country's resilience against such events.

IV. Conclusion

The authorities are strongly committed to the program and are taking the necessary steps to advance its implementation amid a difficult external and domestic environment. Considering current performance and their continued commitment to the program, the authorities are requesting the completion of the Article IV consultations and of the third review of the ECF-supported program and associated decisions. Directors' favorable consideration of these requests will be appreciated.