July 2008
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Republic of Madagascar: Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria, Modification of Performance Criteria, and Augmentation of Access—Staff Report; Staff Supplement and Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Republic of Madagascar

In the context of the fourth review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for waiver of performance criteria, modification of performance criteria, and augmentation of access, the following documents have been released and are included in this package:

- The staff report for the Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria, Modification of Performance Criteria, and Augmentation of Access, prepared by a staff team of the IMF, following discussions that ended on April 12, 2008, 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 June 17, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff supplement on the joint IMF/WB debt sustainability analysis.

- A staff statement of July 1, 2008 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its July 2, 2008 discussion of the staff report that completed the review.

- A statement by the Executive Director for Republic of Madagascar.

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

Letter of Intent sent to the IMF by the authorities of Republic of Madagascar*
Memorandum of Economic and Financial Policies by the authorities of
Republic of Madagascar*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria, Modification of Performance Criteria, and Augmentation of Access

Prepared by the African Department
(In consultation with other departments)

Approved by Thomas Krueger and Mark Plant

June 17, 2008

- Discussions for the fourth review of the three-year arrangement for Madagascar under the Poverty Reduction and Growth Facility (PRGF) were held in Antananarivo during March 26–April 6, 2008 and in Washington during April 11–12, 2008. The missions consisted of Messrs. Tsibouris (Head), Ellyne, Eyraud, Josz (all AFR) and Hallaert (PDR) and were assisted by Mr. van den Boogaerde, the Fund's Resident Representative. Mr. Nyambal (OED) participated in the discussions.
- The Letter of Intent (LOI), Memorandum of Economic and Financial Policies (MEFP), and Technical Memorandum of Understanding (TMU) are provided in Appendix I.
- An updated Debt Sustainability Analysis (DSA) is contained in a separate Supplement.
- Relations with the Fund, Relations with the World Bank Group, and Statistical Issues are presented in an Informational Annex.

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EXECUTIVE SUMMARY

Program performance has been generally good. The authorities have continued to implement sound fiscal and monetary policies that have resulted in good macroeconomic outcomes. They met all of the quantitative performance criteria (PCs) for end-January 2008, but missed two structural PCs (the measure relating to port exit procedures was implemented with a slight delay, and the action related to the introduction of an export promotion law awaits the conclusion of an extensive consultative process).

Misreporting. Central bank sales of foreign exchange at a small discount to importers of essential foodstuff resulted in a multiple currency practice and a related exchange restriction in contravention of continuous PCs in the arrangement in connection with the second and third reviews. This practice was halted when brought to the authorities' attention. They have requested waivers for the nonobservance of the relevant PCs.

Economic challenges. The economy is adjusting to the overlapping shocks stemming from the rise in world energy and food prices, the recent cyclones, and the global slowdown. The international reserves cover is expected to deteriorate markedly, prompting the authorities to ask for an augmentation of 15 percent of quota, a request that staff supports. The program focuses on the following areas:

- The 2008 fiscal program has been revised to accommodate additional fiscal measures to alleviate the impact of the food and energy shocks on the poor.
- Tax collection is improving, but the authorities need to strengthen implementation of the tax and customs administration measures.
- Public expenditure management remains a major weakness, and the authorities need to undertake a fundamental reform, including in terms of financial control.
- Monetary policy should continue to aim at maintaining single digit inflation while avoiding excessive volatility of the exchange rate.
- There is a pressing need to develop a long-term strategy for the electricity sector that makes JIRAMA financially viable and allows further development of the sector through public-private partnerships.

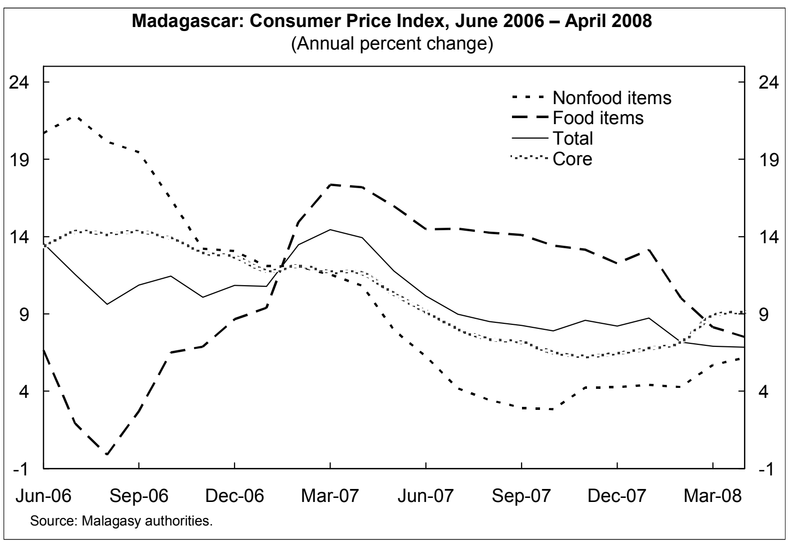
I. Introduction

1. **The Board concluded the second and third reviews of the PRGF-supported program on January 30, 2008.** Directors stressed the need to strengthen revenue mobilization, further develop the financial sector, and reform the energy sector.

II. Recent Economic Developments

2. **Madagascar was hit by two cyclones during the first quarter of 2008, which affected some 240,000 people and damaged infrastructure and crops**. Humanitarian aid needs amount to US$36 million, for which donors have pledged emergency support of US$15 million to date. The public reconstruction costs are estimated at US$109 million.

3. **Economic growth has been strong and inflation has abated** (Tables 1 and 2, and panel chart). The construction of two large mining projects has provided a continued impetus to growth. Overall inflation has declined, owing to a deceleration of food prices to date (notably rice prices, see Box 1) that has more than offset a pick up in nonfood inflation.



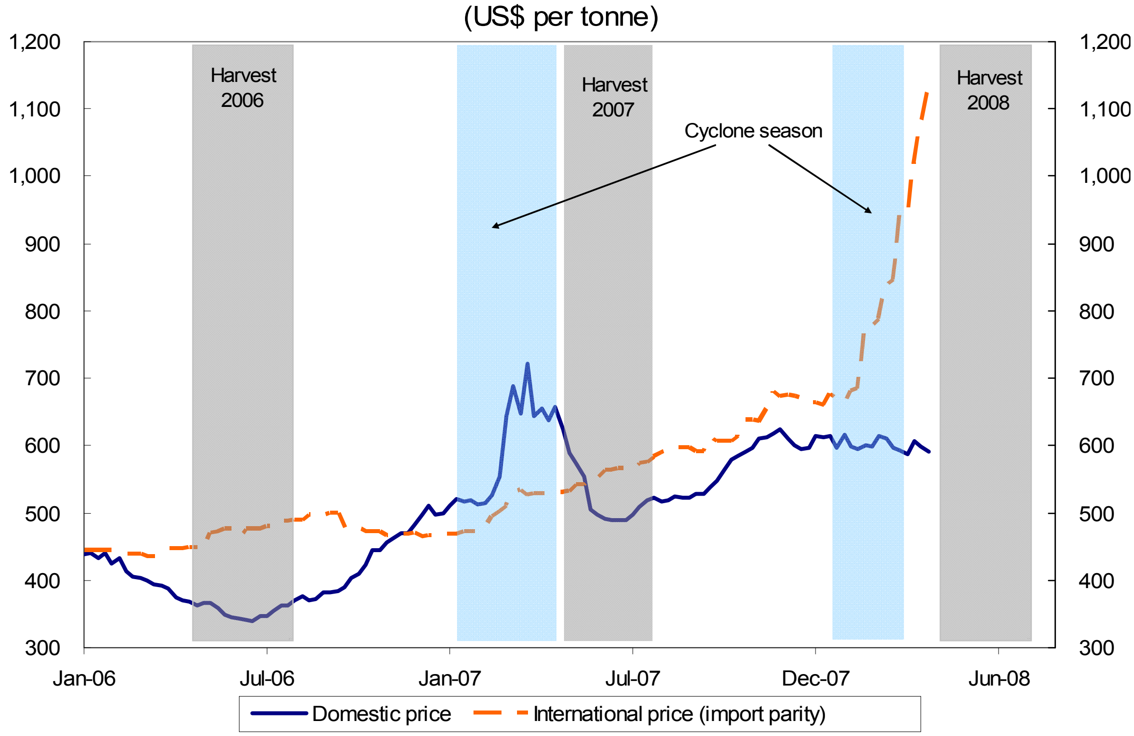
4. **Budget execution has been essentially on-track**. Tax revenues in 2007 and in the first quarter of 2008 were well above target (Tables 3a, 3b, and 4) owing to substantial payments of property tax and (refundable) VAT by a large mining company, and strong customs revenue performance. Concurrently, lower than programmed expenditures resulted in net domestic financing well below the program ceiling. The Council of Government granted a few case-by-case customs duty exemptions for upscale hotel construction prior to the 2009 African Union Summit, but then suspended this measure.

Box 1. Rice Developments in Madagascar

Rice is the staple food in Madagascar, amounting to about 15 percent of the consumption basket and 55–70 percent of the daily caloric intake of households. While being the second largest rice producer in Africa, the country is not yet self-sufficient and about 10 percent of consumption is normally imported; rice exports are negligible.

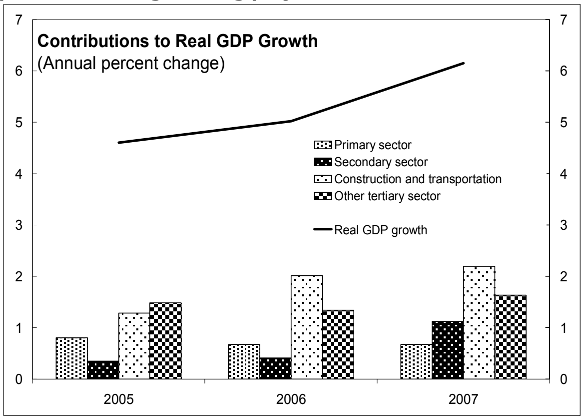
Domestic rice prices have exhibited a distinctly seasonal pattern, decreasing during the harvest season (April to June) and then rising towards international prices as imports supplement the drawdown of domestic stocks. However, the 2007 cyclone season led to a sharp increase in domestic rice prices to well above international levels in early 2007 (chart). It is currently estimated that the 2008 cyclone season did some damage to the early domestic rice crop, though the government's prompt action to secure some offsetting imports (in some cases at preferential prices) helped prevent shortages and hoarding. To further dampen speculation, the government imposed a suspension of rice exports in April 2008 (a measure that, in the staff's view, the authorities ought to remove expeditiously). The government also intends to propose a temporary lowering of the VAT on rice during the second half of 2008. An important concern is the eventual exposure to high international prices in late-2008, once imports are needed to supplement the domestic crop. Meanwhile, the government is actively promoting productivity enhancements in rice cultivation, including support for a second annual harvest, with the goal of becoming a net exporter over the medium term.

Domestic and International Prices of Rice
(US$ per tonne)

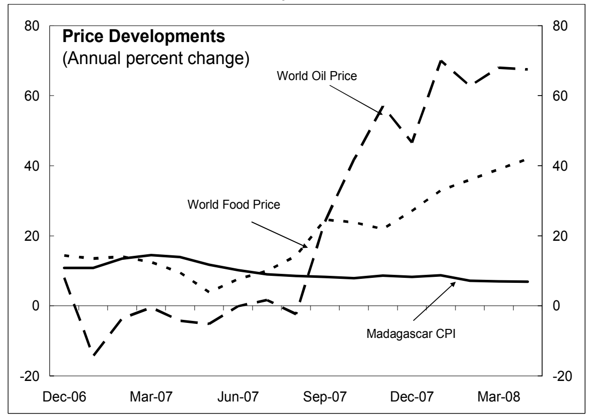


MADAGASCAR: RECENT ECONOMIC DEVELOPMENTS

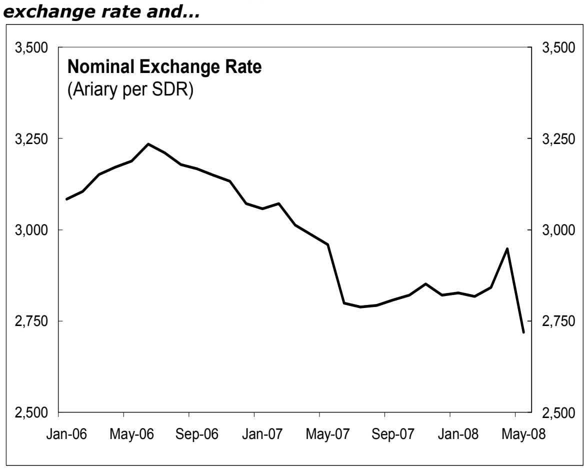
1) Growth has been solid, propelled by the construction phase of the large mining projects.



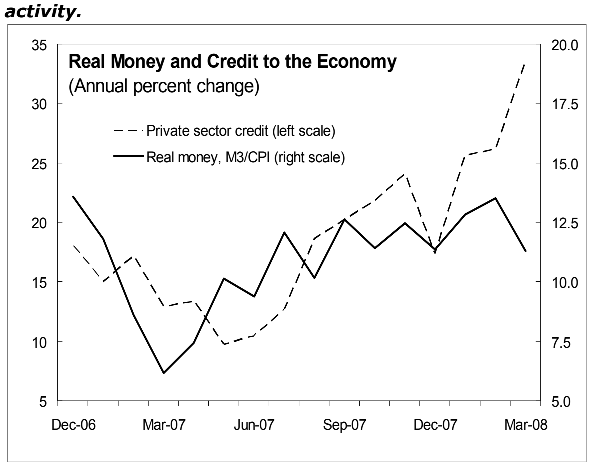
2) Despite the recent rise in world oil and food prices, inflation has been restrained,…



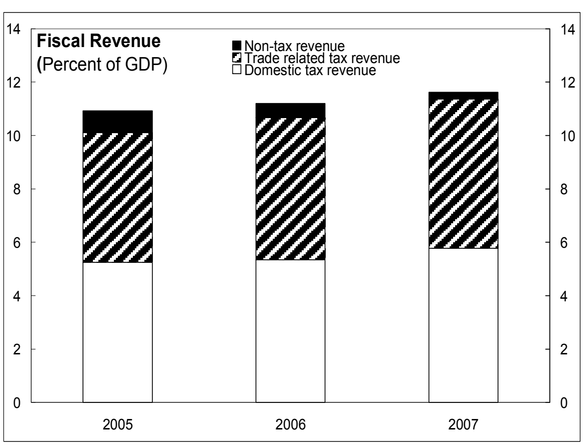
3) …owing in part to an appreciation of the nominal exchange rate and…



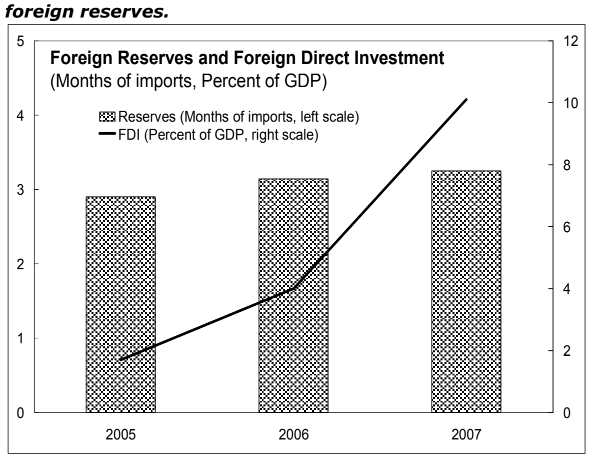
4) …a growing demand for money from increased economic activity.



5) Revenue collections have been steadily improving and…



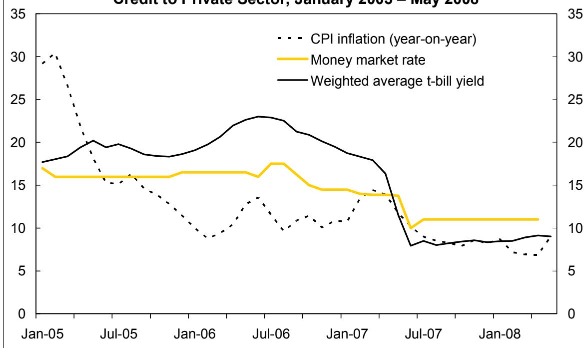
6) …strong FDI inflows have permitted some build-up of foreign reserves.



Source: Malagasy authorities, WEO data, and IMF staff estimates.

5. **Reserve money exceeded the 2008 first quarter target owing to strong private sector credit demand and scaled-down sterilization by the BCM** (Tables 6 and 7). Declining real interest rates and strong economic activity have stimulated private sector credit demand (panel chart 4). Meanwhile, slower than expected FDI inflows in the first quarter led to a lower BCM foreign exchange accumulation than programmed. The scaling down of sterilization operations led to an overshooting of the reserve money target. Indicators of banking sector soundness were adequate at end-2007, despite minor problems in asset quality (Table 8).

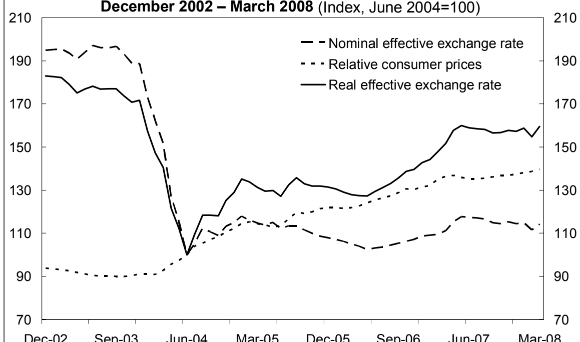
Madagascar: Weighted Average T-Bill Yield and Inflation, and Credit to Private Sector, January 2005 – May 2008



Source: Malagasy authorities and IMF staff estimates.

6. **In 2007, the overall balance of payments remained in surplus and foreign reserves rose, thanks to large inflows of FDI** (Table 5, panel chart 6). The current account deficit reached 14 percent of GDP, mainly reflecting higher imports of goods and services for the large mining projects. Despite the substantial appreciation of the currency over the past two years, exports of goods (notably clothing) have grown briskly. The large inflows of FDI allowed gross official reserves to increase to about 3.3 months of imports (net of large mining project imports).

Madagascar: Real and Nominal Effective Exchange Rate and Relative Prices, December 2002 – March 2008 (Index, June 2004=100)



Sources: INS and IMF staff estimates.

III. Program Performance Through end-May 2008

7. **Performance under the PRGF arrangement was generally good** (MEFP Tables 1–3). All quantitative PCs for end-January 2008 were met but two structural PCs were missed. The authorities implemented the structural PC related to strengthening customs control of the main port exit with a 5-week delay. The authorities missed the structural PC on the submission of an export promotion law to parliament at end-May 2008, due to the need for a more extensive consultation process. The authorities reiterated their commitment to the prompt elimination of the EPZ regime in a communication to the Council of Government and intend to move promptly towards submission of the export promotion law by October 2008, once the second parliamentary session of the year opens. They have requested a waiver for the nonobservance of these PCs. At end-March 2008, preliminary data indicate that all but the two quantitative indicative monetary targets were met (¶5), two benchmarks were observed, and another benchmark was delayed by three months.

8. **Staff have confirmed the existence of a multiple currency practice (MCP) and related exchange restriction during the period from January 2007 to January 2008, which has given rise to a new case of misreporting.**[1] The multiple currency practice and the exchange restriction arose from a BCM practice of offering foreign exchange at a discount (of under two percent, according to the authorities) to food importers, from January 2007 to January 2008, in an effort to contain the inflationary impact of rising international food prices.[2] The MCP and the exchange restriction caused the nonobservance of the continuous PCs against: (i) the introduction or modification of an MCP and (ii) the imposition or intensification of restrictions on payments and transfers for current international transaction. The nonobservance of these PCs gave rise to two noncomplying disbursements in connection with the second and third reviews. The authorities have ended this practice and requested a waiver for the nonobservance of the PCs underlying the noncomplying disbursement.

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[1] Republic of Madagascar—Report on Noncomplying Disbursement and Recommendation for a Waiver of Nonobservance of Performance Criteria, forthcoming.

[2] The standard for whether a measure results in an MCP is whether the measure has the potential to result in a spread of more than two percent between the buying and selling rates for spot exchange transactions.

IV. Economic and Financial Policies

A. Macroeconomic Outlook

9. The economy is adjusting to the rise in world energy and food prices, the damage done by the cyclones, and the global slowdown (Table 1). Oil price increases, by about 40 percent in US$ terms through 2010 compared to the Fall 2007 WEO assumptions, are expected to modestly reduce GDP growth in 2008–09 and raise inflation. As the prices of food imports are also expected to increase significantly by end-2008, inflation would follow a shallower downward trajectory towards the goal of 6.5 percent by end-2010. Import cover of international reserves would decline in 2008 but bounce back to about 3.6 months of imports (net of large mining imports) by end-2009.

Madagascar: Selected Macro-Economic Indicators 2006-09
(In units indicated)

	2006	2007		2008		2009	
		Proj.	Est.	Prog	Rev. Prog.	Prog	Rev. Prog.
Real GDP (annual percentage change)	5.0	6.3	6.2	7.3	7.0	7.5	7.3
CPI (end-period, annual percentage change)	10.8	8.4	8.2	7.0	10.0	5.0	7.0
Current account balance (percent of GDP)	-8.7	-19.3	-14.1	-23.6	-22.8	-17.0	-20.1
Gross official reserves (in months of imports, excl. large mining projects)	3.0	3.3	3.3	3.7	3.1	4.1	3.6
Tax revenue (percent of GDP)	10.7	10.9	11.4	11.6	11.9	12.1	12.4
Overall government balance (percent of GDP)	-3.8	-4.7	-2.8	-4.9	-4.4	-4.1	-3.0
Net domestic financing of government (percent of GDP)	0.4	0.4	-0.4	0.4	0.2	0.1	0.1
Reserve money (annual percentage change)	13.3	21.7	32.1	22.0	15.0	19.3	18.7

Sources: Malagasy authorities and IMF staff estimates. See Tables 1-7.

10. **The authorities have requested an augmentation of access under the PRGF arrangement to cope with the external shocks resulting from the rise in world energy and rice prices and the severe cyclones**. The authorities have requested an augmentation of 15 percent of quota (SDR 18.3 million) to cover part of the balance of payments impact and to maintain a prudent level of international reserves coverage. Other donors, including the World Bank, the European Union, and those responding to the flash appeal have already provided additional support. The remaining financing gap in 2008 will be covered by Fund disbursements (including an augmentation of SDR 13.7 million). In 2009, Fund disbursements of SDR 20 million (including a SDR 4.6 million augmentation) will cover part of the projected SDR 67 million financing gap. Additional donor support is expected but is not yet identified.

B. Fiscal Policy and Reforms

11. **A modest tightening of the fiscal stance will help ease some of the inflationary pressure** (Tables 3 and 4). In spite of tax cuts and new spending measures to alleviate the shock of food and fuel prices on the population (Box 2), the authorities propose to implement a slightly tighter fiscal program than originally budgeted for 2008. This stems mainly from the proposed upwards revision of the tax revenue target (by 0.3 percent of GDP) in 2008, owing to greater effectiveness of customs administration reforms and a large

unanticipated property tax payment by the nickel mining company. Externally financed capital expenditure was revised downwards because of the appreciation of the domestic currency.

Box 2. Madagascar: Measures to Mitigate the Fuel and Food Price Shocks for the Population

In order to alleviate the consequences of the sharp rise in fuel and rice prices for the population, the government intends to implement the following measures during the second half of 2008 (MEFP, ¶12 and 13):

- temporary VAT exemption on rice and VAT exemption on lighting fuel (revenue loss of about 0.3 percent of GDP);
- freeze of electricity prices until October, necessitating additional budgetary transfers (0.2 percent of GDP) to the electricity company;
- targeted transfers to the poorest, such as food for work and school children nutrition programs (0.1 percent of GDP); and
- subsidy for a second annual rice harvest and for urban transport (0.2 percent of GDP).

Madagascar: Fiscal Indicators, 2007-08
(Percent of GDP) [1]

	2007		2008		
	Proj.	Est.	Prog. (a)	Rev. Prog. (b)	(b) - (a)
Total revenue and grants	16.2	15.9	16.3	17.0	0.8
Tax revenue	10.9	11.4	11.6	11.9	0.3
Nontax revenue	0.2	0.3	0.2	0.3	0.1
Grants	5.1	4.3	4.5	4.9	0.4
Total expenditure (commitment basis)	20.7	18.6	20.9	21.1	0.2
Current expenditure	11.3	11.0	10.9	11.3	0.5
Capital expenditure	9.5	7.6	10.0	9.7	-0.3
Overall balance (commitment basis, including grants)	-4.5	-2.7	-4.6	-4.0	0.6
Overall balance (cash basis, including grants)	-4.7	-2.8	-4.9	-4.4	0.5
Foreign financing	3.3	2.2	4.1	3.8	-0.3
Domestic financing	1.4	0.6	0.8	0.6	-0.2
Memorandum items:					
PRSP Priority spending	11.5	11.4	11.5	11.5	-0.1
Domestic financing (program definition) [2]	0.4	-0.4	0.4	0.2	-0.2

Sources: Ministry of Economy, Finance, and Budget; and IMF staff estimates.

[1] Aggregates may differ from the sum of components due to rounding.
[2] See Table 3a, footnote 7.

12. **Progress achieved with the 2008 tax reform needs to be consolidated.** To further simplify the tax code, there have been extensive consultations on the closing of the Export Processing Zone (EPZ) regime to new firms (while grandfathering existing firms) and the government intends to include this measure as part of an export promotion law to be submitted to Parliament by October 2008 (PC, Table 3). The authorities have agreed to rein in tax exemptions (proposed new benchmark, MEFP Table 3 and ¶16), as their proliferation has been a challenge to revenue performance.

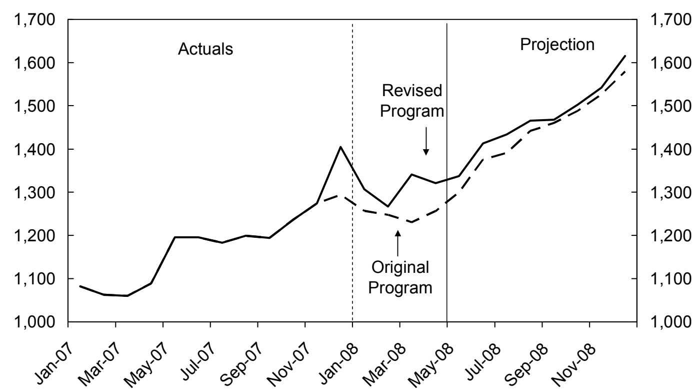
13. **Continued progress in tax and customs administration is essential to achieving the program's revenue objectives** (MEFP, ¶¶17–22)**.** The authorities are implementing the priority action plan to strengthen administration of large and medium-sized taxpayers, and are speeding up reimbursement of VAT credits to exporters. They are strengthening customs procedures, including with a new system to tighten inspection of goods leaving ports, collection of the unpaid taxes and duties identified by the recent independent audit of import operations,[3] and regular audits of customs operations. Furthermore, they will review the deferrals for the payment of duty and taxes allowed by the Customs Code, with a view to tightening their scope.

14. **The public financial management (PFM) agenda aims to strengthen budget execution** (MEFP ¶¶ 23–26)**.** The May 2008 Public Expenditure and Financial Accountability (PEFA) report highlighted progress in revenue administration but noted persistent weaknesses in monitoring and controlling budget execution. To address these weaknesses, the authorities will exploit the full potential of the computerized information system, SIGFP, to track budget execution (structural benchmarks, MEFP Table 3) and overhaul the financial control exercised by the Ministry of Finance and Budget. The authorities are studying measures, to be reflected in the 2009 Budget Law, to close the deficit of the pay-as-you go civil service pension fund (estimated at about 0.8 percent of GDP annually).

C. Monetary, Exchange Rate, and Financial Sector Policies

15. **Monetary policy will continue to aim at maintaining single digit inflation while avoiding excessive volatility of the exchange rate** (Table 7 and MEFP ¶27–28)**.** The monetary authorities intend to hold monetary growth close to the original program to contain second-round effects of fuel and food price increases. Despite a lower than envisaged reserve accumulation, some intervention in the foreign exchange market for smoothing exchange rate volatility will likely be needed. To strengthen the effectiveness of monetary policy, the statutory advances of the central bank to the treasury will be reduced.

Level of Reserve Money
(in billions of MGA)



Source: Malagasy authorities and staff projections.

[3] As of end -March 2008, the authorities had collected about one third of the unpaid taxes and duties uncovered

(continued…)

16. **Broader financial sector development is gaining momentum** (MEFP ¶29–30). The authorities are actively implementing their financial sector strategy with donor support. Key areas of emphasis for the next year include: the payments system, a credit information system, microfinance institutions, and pension funds. Furthermore, building on MCM's technical assistance, the BCM will strengthen foreign reserve management, improve efficiency of the foreign exchange market, monetary operations, accounting standards, and cost control. An updated national financial strategy will be finalized by September 2008.

D. External Sector

17. **Trade policy is being shaped by preferential agreements and recent tax reforms.** While the authorities have ruled out moving towards a single uniform tariff (MEFP, ¶31), trade liberalization on a preferential basis continues in 2008 within the Southern African Development Community (SADC) and with the implementation of the interim Economic Partnership Agreement (EPA) with the European Community (MEFP, ¶32).

18. **Madagascar's risk of public debt distress remains low.** An updated joint Bank/Fund debt sustainability analysis (DSA) confirms that identified donor commitments would hold key debt indicators comfortably below the threshold for a medium performer such as Madagascar (Supplement II). However, additional borrowing in support of the MAP would need to be prudent to maintain a low risk of debt distress.

E. Structural Policies

19. **Progress in electricity sector reform is critical to sustained economic growth.** To help alleviate the fuel price shock for the population, the authorities have decided to postpone tariff increases until October 2008, which will delay the return of the state utility company JIRAMA to profitability and necessitate budgetary transfers equivalent to 0.5 percent of GDP in 2008. Nevertheless, the authorities remain committed to tariff increases (with smaller increases for the poor) to bring prices to cost recovery, subsequent implementation of an automatic pricing formula, and transfer of the management of JIRAMA to the private sector (MEFP ¶34).

20. **The government is implementing a national statistics development strategy** and will submit a draft law governing the national statistics system to Parliament by end-2008 (MEFP ¶38).

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by the audit (MEFP, ¶21).

V. Program Monitoring and Targets

21. **The arrangement will be reviewed semi-annually.** The program sets revised quantitative PCs for end-June 2008, based on changes to the macroeconomic framework resulting from the identified exogenous shocks, quantitative PCs for end-December 2008, and revised indicative targets for end-September 2008 (MEFP Table 2). A new structural benchmark has been proposed for July 31, 2008.

VI. Risks

22. **Madagascar's capacity to repay the Fund remains adequate despite risks to the program.** Stress tests show that debt indicators remain well below the thresholds of the joint Bank-Fund DSA and that, should there be higher borrowing, debt sustainability would depend critically on stronger tax revenue performance. However, Madagascar remains vulnerable to exogenous shocks related to terms of trade, cyclones, and external capital inflows, as well as delays in rehabilitating the electricity sector, and pressure for tax incentives.

VII. Staff Appraisal

23. **Program performance has been generally good**. Strong macroeconomic policy performance has kept the economy growing strongly, contained inflation, increased foreign exchange reserves, and increased tax revenue. However, delays in structural reform implementation and a second instance of misreporting point to weaknesses in administrative capacity.

24. **The overlapping exogenous shocks of food and fuel price increases, the recent cyclones, and the global slowdown present an important challenge for the authorities**. The measures being implemented by the authorities will help alleviate the impact of these shocks on the poor, though the temporary rice export ban ought to be lifted expeditiously.

25. **Monetary and exchange rate policy is appropriately geared towards containing inflation and preventing excessive volatility of the exchange rate.** Monetary policy should aim to minimize second-round effects from fuel and food price inflation. Concurrently, the authorities should continue to smooth exchange rate volatility in the context of a managed float. Recent performance suggests that exports remain competitive at the current exchange rate. The banking sector appears sound, but broader financial sector development is important.

26. **The revised fiscal stance is well aligned with the program's objectives.** The envisaged temporary VAT exemptions on rice and lighting fuel and specific targeted transfers will alleviate oil and food price shocks for the poor. The continued relevance of VAT exemptions should be reassessed when elaborating the 2009 budget. It will be

important to close of the EPZ regime for new firms as it will further simplify the tax system. Furthermore, securing the tax revenue objectives requires continued implementation of the priority action plan for tax and customs administration.

27. **Weaknesses in public financial management are complicating budget execution and argue for a major overhaul of financial control mechanisms.** To address the persistent weaknesses in public financial management (as highlighted in the recent PEFA report), the authorities need to launch a comprehensive reform of financial control.

28. **More progress is required to advance long-delayed reform of the electricity sector.** The authorities need to raise tariffs to cover operational costs and to prepare the ground for a more fundamental reform of the electricity sector that will require significant financing.

29. **The risks to the program remain manageable**. The risk of external debt distress is low at present and would be maintained to the extent that additional borrowing in support of the objectives of the MAP is prudent.

30. In view of the authorities' achievements in macroeconomic management and the remedial actions taken to address slippages, the staff recommends that the requested waivers be granted and that the fourth review under the PRGF arrangement be completed. Given the pressures on the balance of payments and the need to maintain a prudent level of international reserves cover, the staff supports the authorities' request for an augmentation of access under the PRGF arrangement by 15 percent of quota.

Table 1. Madagascar: Selected Economic and Financial Indicators, 2006–10

	2006	2007		2008		2009		2010
		Proj.[1]	Est.	Prog.[1]	Rev. Prog.	Proj.[1]	Rev. Proj.	Proj.
		(Percentage change, unless otherwise indicated)						
National income and prices								
Real GDP growth	5.0	6.3	6.2	7.3	7.0	7.5	7.3	9.8
GDP deflator	11.5	9.3	10.3	7.4	9.7	6.7	7.5	6.5
Consumer price index (period average)	10.8	10.3	10.3	8.0	9.7	6.1	7.5	6.5
Consumer price index (end of period)	10.8	8.4	8.2	7.0	10.0	5.0	7.0	6.0
External sector								
Export of goods volume	9.0	8.0	13.7	8.0	4.5	11.2	10.2	72.9
Import of goods volume	-1.0	49.8	29.3	18.8	18.3	-6.1	-0.1	-11.5
Terms of trade (deterioration = –)	-1.0	-3.4	-2.4	1.5	-11.7	2.0	-1.0	0.3
Money and credit [2]								
Reserve money [3]	13.3	21.7	32.1	22.0	15.0	19.3	18.7	19.7
Broad money	25.9	22.9	20.5	23.6	20.7	20.5	18.7	19.7
Net foreign assets	29.9	9.0	11.6	9.6	0.7	11.8	12.8	9.0
Net domestic assets	-4.0	13.9	8.9	14.0	20.0	8.6	5.9	10.7
Credit to government	-16.2	4.5	1.0	0.6	1.1	0.0	0.9	0.8
Credit to the private sector [3]	19.5	25.0	17.3	26.0	28.1	19.7	20.4	21.0
Velocity of money (M3; average)	4.31	4.07	4.19	3.80	4.07	3.61	3.96	3.84
				(Percent of GDP)				
Public finance								
Total revenue (excluding grants)	11.2	11.1	11.6	11.8	12.2	12.3	12.7	13.2
Of which : tax revenue	10.7	10.9	11.4	11.6	11.9	12.1	12.4	12.9
Grants [4]	47.9	5.1	4.3	4.5	4.9	4.4	4.6	4.4
Total expenditure (commitment basis)	21.3	20.7	18.6	20.9	21.1	20.7	20.3	20.4
Current expenditure	11.1	11.3	11.0	10.9	11.3	10.1	10.6	10.5
Capital expenditure	10.2	9.5	7.6	10.0	9.7	10.6	9.7	9.9
Domestic balance	-1.9	-2.4	-1.5	-1.5	-1.9	-1.1	-1.4	-1.2
Overall balance (cash basis, incl. grants)	37.4	-4.7	-2.8	-4.9	-4.4	-4.1	-3.0	-2.8
Overall balance (cash basis, excl. grants)	-10.5	-9.8	-7.1	-9.4	-9.2	-8.4	-7.6	-7.2
Domestic financing	-2.4	1.4	0.6	0.8	0.6	0.1	0.1	0.2
Domestic financing [5]	0.4	0.4	-0.4	0.4	0.2	0.1	0.1	0.2
Savings and investment								
Investment	25.3	30.0	27.3	34.4	35.5	30.6	32.4	21.6
Government	10.5	9.5	7.6	10.0	9.7	10.6	9.7	9.9
Nongovernment	14.7	20.6	19.7	24.3	25.7	20.0	22.7	11.7
Gross domestic savings	9.3	8.9	11.0	9.4	10.4	12.7	11.0	17.3
Gross national savings	11.8	10.7	13.3	10.8	12.5	13.6	12.3	12.3
External sector and public debt								
Exports of goods, f.o.b.	17.8	15.1	16.8	14.6	14.8	14.7	14.8	22.6
Imports of goods, c.i.f.	32.6	39.5	35.7	41.5	40.4	34.6	36.9	28.8
Current account balance (excl. grants)	-10.0	-19.7	-14.5	-24.0	-23.8	-17.4	-20.9	-10.0
Current account balance (incl. grants)	-8.7	-19.3	-14.1	-23.6	-22.8	-17.0	-20.1	-9.3
Public debt	39.0	35.9	32.2	34.4	30.5	34.3	30.2	29.1
External	29.2	25.9	23.4	25.2	23.0	26.1	23.6	23.3
Domestic	9.8	9.9	8.8	9.2	7.5	8.1	6.6	5.8
Net present value (NPV) of external debt								
NPV of debt-to-exports ratio	38.6	40.4	55.6	45.6	60.0	50.5	61.2	46.8
NPV of debt-to-fiscal revenue ratio [6]	...	…	144.7	…	129.0	…	125.5	117.9
				(Units as indicated)				
Gross official reserves (millions of SDRs)	381.6	495.5	537.9	633.5	625.7	760.6	763.8	885.6
Months of imports of goods and services	3.0	2.6	2.9	2.7	2.4	3.4	2.8	3.6
Months of imports, excl. large mining projects	...	3.3	3.3	3.7	3.1	4.1	3.6	3.9
Financing gap (millions of SDRs)	0.0	0.0	0.0	23.6	21.6	15.7	67.4	26.0
Real effective exchange rate (period average, percent change)	0.6	18.3	17.2	8.5	14.1	0.0	0.0	0.0
GDP per capita (U.S. dollars)	288	369	375	430	456	464	497	553
Nominal GDP (billions of ariary)	11,815	13,727	13,834	15,813	16,234	18,135	18,731	21,914

Sources: Malagasy authorities and IMF staff estimates and projections.

[1] IMF Country Report No. 08/66, Republic of Madagascar-Staff Report for the Second and Third Reviews Under the PRGF.

[2] Growth in percent of beginning of period money stock (M3).

[3] Year-on-year growth.

[4] Includes MDRI capital transfers in 2006.

[5] Program definition: see Table 3a, footnote 7.

[6] Definition changed in new DSA template and not comparable to previous DSA.

Table 2. Madagascar: National Accounts and Savings-Investment Balance, 2006–10

		2006	2007		2008		2009		2010
			Proj.[1]	Est.	Prog.[1]	Rev. Prog.	Proj.[1]	Rev. Proj.	Proj.
	Share of GDP	(Percentage change)							
Real supply side growth	in 2005								
Primary sector	0.31	2.1	1.9	2.2	3.2	2.8	3.2	3.2	3.3
Agriculture	0.15	2.6	2.9	2.9	3.5	2.9	3.5	3.8	4.0
Cattle and fishing	0.14	1.9	1.0	1.7	3.2	3.0	3.2	3.0	3.0
Forestry	0.03	1.0	1.0	1.0	1.5	1.0	1.5	1.0	1.0
Secondary sector	0.12	3.5	9.0	9.8	7.6	6.8	7.6	10.4	40.5
Food and drink	0.04	3.6	9.9	8.4	9.9	8.1	9.9	8.6	5.2
Export processing zone	0.02	0.0	8.3	28.6	4.0	2.9	2.5	11.2	12.1
Energy	0.01	4.4	5.6	5.6	5.6	8.0	5.6	7.0	7.0
Extractive industry	0.00	9.1	10.5	-7.2	11.5	12.0	28.3	130.0	880.0
Other	0.04	4.2	9.5	6.7	7.2	6.7	6.5	6.8	6.9
Tertiary sector[2]	0.46	7.1	4.8	7.7	7.5	9.3	8.1	8.8	6.2
Transportation	0.15	7.3	8.8	7.9	10.9	9.8	10.8	9.7	7.7
Services	0.13	6.0	-3.6	8.3	0.8	10.6	1.1	9.7	4.8
Trade	0.10	4.3	6.1	3.9	8.9	5.0	8.9	4.0	4.0
Public administration	0.05	2.1	3.0	3.0	3.0	3.0	5.6	3.0	3.0
Public works/construction	0.03	27.6	18.8	21.8	17.0	20.0	17.3	18.0	12.0
Indirect taxes	0.11	6.2	22.3	6.6	15.9	8.2	14.4	8.4	8.5
Real GDP at market prices	1.00	5.0	6.3	6.2	7.3	7.0	7.5	7.3	9.8
Nominal demand side composition		(Percent of GDP)							
Resource balance		-11.2	-21.1	-16.3	-24.9	-25.1	-17.9	-21.5	-4.3
Imports of goods and nonfactor services		41.1	48.5	46.6	50.6	51.3	43.5	47.5	37.6
Exports of goods and nonfactor services		29.8	27.4	30.3	25.7	26.2	25.6	26.0	33.2
Current account balance (including grants) = (S-I)		-8.7	-19.3	-14.1	-23.6	-22.8	-17.0	-20.1	-9.3
Consumption		90.7	91.1	89.0	90.6	89.6	87.3	89.0	82.7
Government		8.7	9.9	9.9	9.6	10.5	9.1	9.7	9.8
Nongovernment		81.9	81.2	79.1	80.9	79.2	78.3	79.3	72.9
Investment		25.3	30.0	27.3	34.4	35.5	30.6	32.4	21.6
Government		10.5	9.5	7.6	10.0	9.7	10.6	9.7	9.9
Non-government		14.7	20.6	19.7	24.3	25.7	20.0	22.7	11.7
Of which: foreign direct investment		4.0	13.6	10.1	18.0	16.2	10.9	14.6	4.4
National savings		11.8	10.7	13.3	10.8	12.5	13.6	12.3	12.3
Government[3]		47.9	4.7	4.9	5.1	5.7	6.5	6.7	7.1
Nongovernment		-36.1	6.0	8.3	5.7	6.8	7.1	5.6	5.2
Memoranda items:		(Billions of ariary)							
Nominal GDP (at market prices)		11,815	13,727	13,834	15,813	16,234	18,135	18,731	21,914
Net factor income		-171	-107	-111	-157	-133	-231	-197	-1,569
Transfers		468	956	421	975	481	1,076	451	481
Nominal GNP		12,112	14,576	14,144	16,631	16,581	18,980	18,986	20,826

Sources: Malagasy authorities and IMF staff estimates.

[1] IMF Country Report No. 08/66, Republic of Madagascar-Staff Report for the Second and Third Reviews Under the PRGF.

[2] Includes non-inputed banking services.

[3] Includes MDRI capital transfers in 2006

Table 3a Madagascar: Government Financial Operations, 2006–10
(Billions of ariary, unless otherwise indicated)

	2006	2007		2008		2009		2010
		Proj.[1]	Est.	Prog.[1]	Rev. Prog.[2]	Proj.[1]	Rev. Proj.[2]	Proj.
Total revenue and grants	6,978.4	2,222.7	2,201.1	2,569.7	2,766.4	3,018.7	3,239.7	3,864.9
Total revenue and grants (excl. MDRI capital transfers)	2,116.1	...	...	...	...	...	...	...
Total revenue	1,323.1	1,521.1	1,607.8	1,862.1	1,978.4	2,226.3	2,376.5	2,890.3
Tax revenue	1,260.8	1,492.8	1,573.1	1,827.1	1,931.5	2,186.1	2,322.4	2,826.6
Domestic taxes	631.9	773.7	798.7	921.9	920.2	1,129.8	1,099.2	1,373.6
Taxes on foreign trade	628.9	719.1	774.5	905.2	1,011.4	1,056.3	1,223.2	1,453.0
Nontax revenue	62.2	28.3	34.6	35.0	46.9	40.2	54.2	63.7
Grants	5,655.3	701.6	593.3	707.6	788.0	792.3	863.1	974.6
Current grants	173.2	102.7	89.1	111.0	160.6	120.3	167.0	187.8
Capital grants	5,482.1	598.9	504.1	596.6	627.4	672.0	696.1	786.8
Project grants	619.8	598.9	504.1	596.6	627.4	672.0	696.1	786.8
Capital transfers MDRI	4,862.3	...	...	...	...	...	...	...
Total expenditure (commitment basis)	2,521.3	2,847.0	2,570.0	3,303.8	3,422.3	3,755.3	3,794.2	4,470.7
Current expenditure	1,312.5	1,549.1	1,520.0	1,718.0	1,840.7	1,835.1	1,977.5	2,310.9
Personnel	589.9	721.1	711.2	810.6	815.5	929.6	941.0	1,122.8
Interest obligations	284.8	190.0	155.6	192.9	139.7	187.6	157.7	153.1
Foreign interest obligations [3]	55.5	22.6	21.1	32.2	24.2	36.6	34.9	38.3
Domestic interest obligations	229.3	167.4	134.5	160.7	115.4	151.1	122.7	114.7
Other	381.1	437.2	432.6	642.0	758.2	634.7	732.0	863.2
Of which : transfers to central bank	...	...	...	19.4	8.4	...	...	...
Treasury operations (net) [4]	56.7	200.8	220.6	72.5	127.3	83.1	146.9	171.9
Of which : central bank recap.	...	110.8	110.8	...	...	...	...	...
Capital expenditure	1,208.8	1,297.9	1,049.9	1,585.7	1,581.5	1,920.0	1,816.7	2,159.8
Domestically financed	286.2	326.5	314.9	416.6	468.1	622.9	690.0	872.9
Foreign-financed	922.6	971.4	735.0	1,169.1	1,113.5	1,297.2	1,126.7	1,286.9
Domestic balance (commitment basis) [5]	-230.0	-331.9	-205.8	-240.3	-304.7	-195.2	-256.0	-255.2
Float [6]	-28.6	0.0	-2.1	0.0	10.9	0.0	0.0	0.0
Variation of domestic arrears	-4.7	-22.1	-22.1	-38.5	-63.5	0.0	0.0	0.0
Overall balance (cash basis)								
Excluding grants	-1,241.4	-1,348.1	-986.1	-1,480.1	-1,495.0	-1,529.0	-1,417.7	-1,580.4
Including grants	4,413.9	-646.4	-392.8	-772.5	-707.0	-736.6	-554.6	-605.8
Including grants, excl. MDRI capital transfers and central bank recap.	-448.4	-529.0	-277.4	...	...	...	...	...
Financing	-4,413.9	646.4	392.8	772.5	707.0	736.6	554.6	605.8
Foreign (net)	-4,133.1	448.2	307.3	649.1	614.5	713.2	531.2	572.1
Drawings	467.2	476.7	335.1	686.0	648.9	753.2	576.2	621.2
Amortization [3]	-4,600.3	-28.5	-27.8	-36.9	-34.4	-40.3	-44.9	-49.1
External debt relief	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.0
Domestic (net)	-285.8	194.3	83.7	123.4	90.3	23.3	23.3	33.7
Banking system	-352.2	123.3	24.5	21.7	36.2	0.0	36.2	36.2
Of which: MDRI account	-325.5	36.2	36.2	32.6	36.2	32.6	36.2	36.2
Nonbanking system	73.5	71.0	-36.6	101.7	54.1	23.3	-12.8	-2.5
Treasury correspondent accounts (net)	-7.1	0.0	95.8	0.0	0.0	0.0	0.0	0.0
Privatization receipts	5.0	4.0	1.9	0.0	2.2	0.0	0.0	0.0
Memorandum items:								
MDRI flow debt-service savings	65.5	99.2	98.8	101.7	98.1	112.6	111.9	119.7
Net domestic financing [7]	47.6	58.7	-54.1	65.6	31.5	23.3	23.3	33.7
Priority spending [8]	1,412.3	1,574.7	1,574.7	1,825.9	1,865.9	...	...	...

Sources: Ministry of Economy, Finance, and Budget; and IMF staff estimates and projections.

[1] IMF Country Report No. 08/66, Republic of Madagascar-Staff Report for the Second and Third Reviews Under the PRGF.

[2] The fiscal program only incorporates foreign financed expenditure for which financing has been identified.

[3] After MDRI debt relief from 2006 onward.

[4] Includes annexed budgets of quasi-public entities (i.e. port authorities, post office, government printing office, civil service, retirement funds, and correspondent accounts of local authorities).

[5] Total revenue minus expenditure, excluding foreign interest payments and foreign-financed capital expenditure.

[6] Difference between committed and paid expenditure.

[7] Program definition : banking system, nonbanking system, Treasury correspondent accounts, privatization receipts, float, and variation in arrears, excluding capital transfer flowing from MDRI assistance from IMF via central bank in 2006, transfers to recapitalize the central bank in 2007, interest payment on central bank recapitilization bond in 2007, and transfers to the central bank to defray sterilization costs in 2008 (TMU, ¶13).

[8] Spending of education, health, agriculture, public works and tranport, justice, environment, energy and mining ministries.

Table 3b. Madagascar: Government Financial Operations, 2006–10
(Percent of GDP, unless otherwise indicated)

	2006	2007		2008		2009		2010
		Proj.[1]	Est.	Prog.[1]	Rev. Prog.[2]	Proj.[1]	Rev. Proj.[2]	Proj.
Total revenue and grants	59.1	16.2	15.9	16.3	17.0	16.6	17.3	17.6
Total revenue and grants (excl. MDRI capital transfers)	17.9	...	...	...	...	...	...	...
Total revenue	11.2	11.1	11.6	11.8	12.2	12.3	12.7	13.2
Tax revenue	10.7	10.9	11.4	11.6	11.9	12.1	12.4	12.9
Domestic taxes	5.3	5.6	5.8	5.8	5.7	6.2	5.9	6.3
Taxes on foreign trade	5.3	5.2	5.6	5.7	6.2	5.8	6.5	6.6
Nontax revenue	0.5	0.2	0.3	0.2	0.3	0.2	0.3	0.3
Grants	47.9	5.1	4.3	4.5	4.9	4.4	4.6	4.4
Current grants	1.5	0.7	0.6	0.7	1.0	0.7	0.9	0.9
Capital grants	46.4	4.4	3.6	3.8	3.9	3.7	3.7	3.6
Project grants	5.2	4.4	3.6	3.8	3.9	3.7	3.7	3.6
Capital transfers MDRI	41.2	...	...	...	...	...	...	...
Total expenditure (commitment basis)	21.3	20.7	18.6	20.9	21.1	20.7	20.1	20.6
Current expenditure	11.1	11.3	11.0	10.9	11.3	10.1	10.4	10.7
Personnel	5.0	5.3	5.1	5.1	5.0	5.1	5.0	5.1
Interest obligations	2.4	1.4	1.1	1.2	0.9	1.0	0.8	0.7
Domestic Interest	1.9	1.2	1.0	1.0	0.7	0.8	0.7	0.5
Foreign Interest [3]	0.5	0.2	0.2	0.2	0.1	0.2	0.2	0.2
Other	3.2	3.2	3.1	4.1	4.7	3.5	3.8	4.1
Treasury operations [4]	0.5	1.5	1.6	0.5	0.8	0.5	0.8	0.8
Of which: central bank recap.	...	0.8	0.8	...	...	...	...	...
Capital expenditure	10.2	9.5	7.6	10.0	9.7	10.6	9.7	9.9
Domestically financed expenditure	2.4	2.4	2.3	2.6	2.9	3.4	3.7	4.0
Foreign-financed expenditure	7.8	7.1	5.3	7.4	6.9	7.2	6.0	5.9
Domestic balance (commitment basis) [5]	-1.9	-2.4	-1.5	-1.5	-1.9	-1.1	-1.4	-1.2
Float [6]	-0.2	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Variation of domestic arrears	0.0	-0.2	-0.2	-0.2	-0.4	0.0	0.0	0.0
Overall balance (cash basis)								
Excluding grants	-10.5	-9.8	-7.1	-9.4	-9.2	-8.4	-7.6	-7.2
Including grants	37.4	-4.7	-2.8	-4.9	-4.4	-4.1	-3.0	-2.8
Including grants, excl. MDRI capital transfers and central bank recap.	-3.8	-3.9	-2.0	...	...	...	...	...
Financing	-37.4	4.7	2.8	4.9	4.4	4.1	3.0	2.8
Foreign (net)	-35.0	3.3	2.2	4.1	3.8	3.9	2.8	2.6
Drawings	4.0	3.5	2.4	4.3	4.0	4.2	3.1	2.8
Budget	1.4	0.8	0.8	0.7	1.0	0.7	0.8	0.6
Projects	2.6	2.7	1.7	3.6	3.0	3.4	2.3	2.3
Amortization [3]	-38.9	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
External debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-2.4	1.4	0.6	0.8	0.6	0.1	0.1	0.2
Banking sector	-3.0	0.9	0.2	0.1	0.2	0.0	0.2	0.2
Nonbanking sector	0.6	0.5	-0.3	0.6	0.3	0.1	-0.1	0.0
Treasury correspondent accounts	-0.1	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Nominal GDP (billions of ariary)	11,815	13,727	13,834	15,813	16,234	18,135	18,731	21,914
MDRI flow debt-service savings	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.5
Net domestic financing, program definition [7]	0.4	0.4	-0.4	0.4	0.2	0.1	0.1	0.2
Priority spending [8]	12.0	11.5	11.4	11.5	11.5	…	…	…
Net external aid [9]	9.4	8.2	6.4	8.4	8.5	8.1	7.3	6.9

Sources: Ministry of Economy, Finance, and Budget; and IMF staff estimates and projections.

[1] See Table 3a, footnote 1.

[2] See Table 3a, footnote 2.

[3] See Table 3a, footnote 3.

[4] See Table 3a, footnote 4.

[5] See Table 3a, footnote 5.

[6] See Table 3a, footnote 6.

[7] See Table 3a, footnote 7.

[8] See Table 3a, footnote 8.

[9] Foreign grants and loans, less debt service (excluding MDRI capital transfers in 2006).

Table 4. Madagascar:Quarterly Government Financial Operations, 2008
(Billions of ariary, cumulated since the beginning of the year)

	January		March		June		September		December	
	Prog.[1]	Est.	Prog.[1]	Est.	Prog.[1]	Rev. Prog.[2]	Prog.[1]	Rev. Prog.[2]	Prog.[1]	Rev. Prog.[2]
Total revenue and grants	184.5	182.9	548.4	557.4	1288.6	1242.4	1885.0	1867.1	2569.7	2766.4
Total revenue	133.7	166.7	401.0	468.1	924.8	989.7	1362.6	1451.2	1862.1	1978.4
Tax revenue	132.2	165.8	396.5	462.0	910.9	963.4	1338.3	1416.8	1827.1	1931.5
Domestic taxes	62.9	65.0	188.8	199.6	467.3	454.1	681.2	673.1	921.9	920.2
Taxes on foreign trade	69.2	100.8	207.7	262.4	443.6	509.3	657.2	743.7	905.2	1011.4
Nontax revenue	1.5	1.0	4.5	6.1	13.9	26.3	24.3	34.4	35.0	46.9
Grants	50.9	16.2	147.4	89.3	363.8	252.6	522.4	415.9	707.6	788.0
Current grants	4.3	16.2	7.6	19.6	87.5	90.3	93.6	102.4	111.0	160.6
Capital grants	46.6	0.0	139.8	69.7	276.3	162.4	428.7	313.5	596.6	627.4
Total expenditure (commitment basis)	252.5	109.6	759.2	502.7	1566.0	1297.3	2333.9	2207.8	3303.8	3422.3
Current expenditure	134.5	101.9	405.2	318.2	847.0	819.3	1253.9	1299.5	1718.0	1840.7
Personnel	67.5	37.3	202.6	170.2	405.3	405.3	607.9	607.9	810.6	815.5
Interest expenditure	15.1	10.9	46.9	26.6	100.7	56.3	135.2	93.6	192.9	139.7
Foreign interest obligations [3]	1.6	2.4	6.3	6.0	15.3	12.0	22.5	18.3	32.2	24.2
Domestic interest obligations	13.5	8.5	40.6	20.6	85.4	44.3	112.7	75.3	160.7	115.4
Other	48.9	6.1	146.6	82.4	312.0	299.8	465.2	513.4	642.0	758.2
Of which : transfer to central bank	1.3	0.0	4.3	0.0	8.7	5.7	13.4	6.9	19.4	8.4
Treasury operations (net) [4]	3.0	47.6	9.0	39.0	29.0	57.9	45.6	84.6	72.5	127.3
Capital expenditure	118.0	7.7	354.0	184.5	719.0	478.0	1080.0	908.3	1585.7	1581.5
Domestically financed	24.8	2.9	74.5	19.0	187.8	133.7	272.5	277.4	416.6	468.1
Foreign financed	93.2	4.8	279.5	165.5	531.3	344.3	807.5	630.9	1169.1	1113.5
Overall balance (commitment basis)										
Excluding grants	-118.9	57.4	-358.2	-34.4	-641.3	-306.8	-971.3	-755.5	-1441.6	-1442.4
Including grants	-68.0	73.6	-210.8	54.9	-277.4	-54.2	-448.9	-339.6	-734.0	-654.4
Including grants, excluding central bank recapitalization	-68.0	74.6	-210.8	57.3	-276.4	-48.3	-446.9	-330.3	-717.7	-641.2
Domestic balance (commitment basis) [5]	-24.1	64.6	-72.4	137.1	-94.7	49.5	-141.3	-106.4	-240.3	-304.7
Float [6]	-4.8	-1.4	-14.4	-37.3	25.6	-3.5	35.6	46.5	0.0	10.9
Variation of domestic arrears	-12.8	0.0	-38.5	-2.0	-38.5	-8.9	-38.5	-47.6	-38.5	-63.5
Overall balance (cash basis)										
Excluding grants	-136.5	56.0	-411.1	-73.8	-654.2	-319.2	-974.1	-756.7	-1480.1	-1495.0
Including grants	-85.6	72.2	-263.6	15.5	-290.3	-66.6	-451.8	-340.7	-772.5	-707.0
Financing	85.6	-72.2	263.6	-15.5	290.3	66.6	451.8	340.7	772.5	707.0
Foreign (net)	45.3	3.8	134.0	90.1	278.6	165.0	468.6	419.7	649.1	614.5
Drawings	46.5	4.8	139.6	95.8	296.5	181.9	492.2	441.6	686.0	648.9
Budget	0.0	0.0	0.0	0.0	41.6	0.0	113.4	124.2	113.4	162.8
Projects	46.5	4.8	139.6	95.8	254.9	181.9	378.7	317.4	572.5	486.1
Amortization [3]	-1.2	-1.1	-5.6	-5.8	-18.0	-16.9	-23.6	-22.0	-36.9	-34.4
Domestic (net)	40.3	-76.8	129.6	-107.8	11.8	-100.7	-16.8	-81.1	123.4	90.3
Banking system	16.2	-55.0	41.8	-20.3	8.5	-38.7	-64.8	-122.9	21.7	36.2
Central bank	-17.1	-69.3	-58.2	28.2	-16.5	18.1	-14.8	-72.9	46.7	36.2
Of which: MDRI account	8.1	8.1	8.1	8.1	16.3	16.3	24.4	24.4	32.6	32.6
Commercial banks & OPCA	33.3	13.7	100.0	-41.8	25.0	-56.8	-50.0	-50.0	-25.0	0.0
Valuation changes on forex deposits	0.0	0.6	0.0	-6.7	0.0	0.0	0.0	0.0	0.0	0.0
Nonbanking system	24.1	0.6	87.8	-32.5	3.2	-61.9	48.0	41.7	101.7	54.1
Treasury correspondent accounts (net)	0.0	-22.5	0.0	-55.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts	0.0	0.9	0.0	2.2	0.0	2.2	0.0	2.2	0.0	2.2
Memorandum items:										
Net domestic financing [7]	21.3	-77.3	72.5	-144.9	-9.8	-116.5	-33.0	-86.9	65.6	31.5

Sources: Ministry of Economy, Finance, and Budget; and Fund staff estimates and projections.

[1] See Table 3a, footnote 1.
[2] See Table 3a, footnote 2.
[3] See Table 3a, footnote 3.
[4] See Table 3a, footnote 4.
[5] See Table 3a, footnote 5.
[6] See Table 3a, footnote 6.
[7] See Table 3a, footnote 7.

Table 5. Madagascar: Balance of Payments, 2006–12
(Millions of SDRs)

	2006	2007		2008		2009	2010	2011	2012
		Proj.[1]	Est.	Prog.[1]	Rev. Prog.	Proj.			
Current account	-327	-923	-679	-1333	-1397	-1374	-724	-546	-575
Goods and services	-421	-1009	-787	-1411	-1538	-1467	-338	-162	-181
Trade balance	-372	-884	-655	-1167	-1195	-1130	-142	-1	3
Exports	670	722	808	827	909	1013	1760	2000	2161
Imports	-1042	-1606	-1464	-1994	-2104	-2143	-1902	-2001	-2158
Of which : oil imports	-228	-250	-253	-290	-423	-463	-496	-527	-552
Of which : big mining projects	-63	-462	-136	-683	-533	-517	-161	-87	-97
Net services	-49	-125	-132	-243	-344	-338	-195	-161	-184
Services, receipts	451	589	651	626	694	765	823	888	956
Services, payments	-500	-714	-783	-869	-1038	-1102	-1018	-1049	-1140
Income (net)	-54	-37	-39	-56	-50	-72	-557	-561	-576
Receipts	20	28	31	22	26	27	25	26	27
Payments	-74	-66	-70	-79	-76	-99	-582	-587	-603
Of which : government interest [2]	-18	-6	-6	-12	-10	-13	-14	-15	-14
Current transfers	149	124	147	133	192	165	170	177	182
Government	50	20	21	26	62	51	57	62	66
Budget aid	58	30	31	39	71	61	67	72	76
Other (net) [3]	-8	-10	-10	-13	-9	-10	-10	-10	-10
Private	99	104	126	107	130	113	114	115	116
Capital and financial account	486	1028	827	1448	1447	1445	821	611	670
Capital account [4]	1750	209	190	215	237	254	279	300	322
Of which : MDRI grant for debt due after 2006	1553	...	...	...	...	...	...	...	...
Financial account	-1188	819	636	1232	1210	1191	542	311	349
Direct investment	150	651	488	541	439	390	154	168	188
Other	-1338	168	148	691	772	801	388	143	161
Government	-1286	192	155	235	234	194	203	230	248
Drawing	182	200	163	248	247	210	220	252	272
Project drawings	129	163	126	207	183	157	177	198	218
Budgetary support	52	37	37	41	63	53	43	54	54
Amortization [4]	-1468	-8	-8	-13	-13	-16	-17	-22	-25
Of which : IDA and AfDF loans	-1431	...	...	...	...	...	...	...	...
Private sector, net (including banks)	-52	-24	-7	456	538	607	185	-87	-87
Other (incl. errors and omissions)	-76	0	1	0	0	0	0	0	0
Overall balance	159	106	148	114	50	71	97	65	95
Financing	-159	-106	-148	-138	-72	-138	-123	-65	-95
Central bank (net; increase = –)	-174	-106	-148	-138	-72	-138	-123	-65	-95
Use of IMF credit (net)	-129	8	8	0	16	0	-1	-2	-3
Other assets, net (increase = –)	-44	-114	-156	-138	-88	-138	-122	-63	-92
Debt relief and cancellation	14	0	0	0	0	0	0	0	0
Residual financing gap	0	0	0	24	22	67	26	0	0
Possible IMF financing	0	0	0	24	22	20	0	0	0
Memorandum items:									
Grants (percent of GDP)	6.6	4.8	4.4	4.3	4.9	4.5	4.3	4.2	4.1
Loans (percent of GDP)	-34.2	4.0	3.2	4.2	3.8	2.8	2.6	2.7	2.6
Direct investment (percent of GDP)	4.0	13.6	10.1	9.6	7.2	5.7	2.0	1.9	2.0
Current account (percent of GDP)									
Excluding net official transfers	-10.0	-19.7	-14.5	-24.0	-23.8	-20.9	-10.0	-7.1	-6.8
Including net official transfers	-8.7	-19.3	-14.1	-23.6	-22.8	-20.1	-9.3	-6.3	-6.1
Debt service (percent of exports of goods) [5]	1.6	2.0	1.7	3.0	2.5	2.9	1.8	2.0	1.9
Gross official reserves	382	495	538	634	626	764	886	948	1041
Months of imports of goods and nonfactor services	3.0	2.6	2.9	2.7	2.4	2.8	3.6	3.7	3.8
Months of imports, excl. large mining projects	3.1	3.3	3.3	3.7	3.1	3.6	3.9	3.8	3.9
Exchange rate (ariary/SDR, period average)	3146	2871	2868	...	...	...	...	...	...

Sources: Central Bank of Madagascar, Ministry of Finance, IMF Finance Dept., and IMF staff estimates and projections.

[1] IMF Country Report No. 08/66, Republic of Madagascar-Staff Report for the Second and Third Reviews Under the PRGF.
[2] After MDRI debt relief from 2006 onward.
[3] Other official grants less payments due to scholarships and contributions to international organizations.
[4] Includes impact of MDRI in 2006.
[5] After HIPC and MDRI debt reliefs .

Table 6. Madagascar: Monetary Survey, 2006-10
(Billions of ariary, unless otherwise specified)

	2006	2007		2008										2009		2010
				Jan.		March		Jun.		Sept.		Dec.				
		Proj.[1]	Est.	Prog.[1]	Est.	Prog.[1]	Est.	Prog.[1]	Rev. Prog.	Prog.[1]	Rev. Prog.	Prog.[1]	Rev. Prog.	Proj.[1]	Rev. Proj.	Proj.
Net foreign assets	1,584.0	1,830.9	1,901.1	1,823.3	1,923.6	1,999.0	1,766.2	1,831.3	1,713.5	1,869.1	1,878.8	2,152.9	1,924.1	2,646.0	2,434.2	2,862.3
Net foreign assets (BCM)	1,050.6	1,278.3	1,398.9	1,270.4	1,406.7	1,437.8	1,283.5	1,259.4	1,224.1	1,289.3	1,380.2	1,559.9	1,416.3	2,018.8	1,885.0	2,279.4
Net foreign assets (domestic money banks)	533.4	552.6	502.3	552.9	517.0	561.2	482.7	572.0	489.4	579.8	498.6	593.0	507.8	627.2	549.2	582.9
Net domestic assets	1,156.9	1,538.4	1,401.3	1,519.8	1,412.5	1,403.3	1,515.5	1,711.4	1,734.5	1,905.2	1,765.2	2,011.6	2,061.1	2,370.8	2,296.6	2,802.8
Domestic credit	1,276.8	1,730.1	1,535.6	1,707.2	1,528.4	1,765.5	1,704.4	1,764.4	1,707.3	1,916.2	1,727.8	2,169.9	2,004.1	2,583.2	2,442.3	2,962.2
Net credit to government (budget)	-57.6	65.7	-31.1	81.9	-86.7	107.5	-44.7	74.2	-69.8	0.9	-154.0	87.4	5.0	87.4	41.2	77.4
Other claims on public sector	138.5	170.4	163.1	173.0	114.0	178.1	153.6	185.8	161.5	193.4	168.9	201.1	192.4	245.1	229.5	260.7
Credit to the economy		1,493.9	1,403.7	1,452.3	1,501.1	1,479.9	1,595.6	1,504.4	1,615.6	1,721.9	1,713.0	1,881.3	1,806.6	2,250.7	2,171.7	2,624.2
Credit to public enterprises	4.6	4.8	5.9	24.6	54.8	9.6	15.9	4.8	16.1	24.9	16.1	5.0	16.1	5.0	16.1	16.1
Credit to private sector	1,191.3	1,489.2	1,397.8	1,427.7	1,446.3	1,470.3	1,579.6	1,499.6	1,599.5	1,697.0	1,696.9	1,876.3	1,790.5	2,245.7	2,155.6	2,608.1
Other items (net; asset = +)[2]	-120.0	-191.7	-134.3	-187.4	-115.8	-362.2	-188.9	-53.0	27.3	-11.0	37.3	-158.3	57.0	-212.4	-145.7	-159.4
M3	2,740.8	3,369.3	3,302.4	3,343.1	3,336.1	3,402.3	3,281.7	3,542.7	3,448.1	3,774.3	3,644.0	4,164.5	3,985.2	5,016.8	4,730.9	5,665.1
Foreign currency deposits	443.8	457.7	456.9	458.0	496.5	465.1	463.6	474.3	447.9	481.0	457.6	485.6	464.7	487.8	500.6	505.4
M2	2,265.9	2,881.7	2,813.8	2,855.1	2,806.8	2,907.3	2,786.1	3,038.4	2,968.5	3,263.3	3,154.7	3,648.9	3,488.8	4,499.0	4,198.6	5,128.0
Currency in circulation	715.1	861.5	840.6	810.4	780.9	848.4	800.5	894.9	852.7	957.6	906.5	1,043.6	1,029.3	1,232.0	1,209.7	1,441.3
Deposits in local currency	1,410.0	2,020.1	1,808.9	2,044.7	1,861.8	2,058.8	1,820.6	2,143.5	2,122.8	2,305.7	2,257.8	2,605.4	2,469.2	3,267.0	2,998.5	3,686.7
Short-term obligations of commercial banks	31.1	30.0	31.7	30.0	32.8	30.0	32.0	30.0	31.7	30.0	31.7	30.0	31.7	30.0	31.7	31.7
Memorandum items:	(Annual percent change, unless otherwise indicated)															
M3	25.9	22.9	20.5	23.0	22.7	23.4	19.0	23.1	19.8	25.2	20.8	23.6	20.7	20.5	18.7	19.7
M2	24.9	27.2	24.2	27.6	25.4	27.7	22.4	23.9	21.0	26.8	22.5	26.6	24.0	23.3	20.3	22.1
Domestic credit	-9.6	35.5	20.3	44.9	29.7	41.7	36.8	30.1	25.9	32.9	21.9	25.4	30.5	19.0	21.9	21.3
Credit to the economy	18.0	24.9	17.4	21.6	25.6	23.9	33.6	26.0	35.3	24.1	23.4	25.9	28.7	19.6	20.2	20.8
Nominal change in NCG since beginning of year	-351.7	123.3	26.5	16.2	-55.6	41.8	-13.6	8.5	-38.7	-64.8	-122.9	21.7	36.2	0.0	36.2	36.2
Reserve money	13.3	21.7	32.1	16.1	20.8	16.0	26.4	15.0	18.2	22.3	22.9	22.0	15.0	19.3	18.7	19.7
Money multiplier (M3/reserves)	2.6	2.6	2.4	2.7	2.6	2.8	2.4	2.6	2.4	2.6	2.5	2.7	2.5	2.7	2.5	2.5
Velocity of money (GDP/end-of-period M3)	4.3	4.1	4.2	...	...	...	...	...	...	...	...	3.6	4.1	3.6	4.0	3.8

Sources: Central Bank of Madagascar (BCM) and IMF staff estimates and projections.

[1] IMF Country Report No. 08/66, Republic of Madagascar-Staff Report for the Second and Third Reviews Under the PRGF.

[2] Projections include estimates for valuation gains/losses, increased capital of banks, and errors arising from: seasonality, NFA accumulation, BTA sales and purchases, and accumulation of government deposits.

Table 7. Madagascar: Balance Sheet of the Central Bank, 2006–10
(Billions of ariary)

	2006	2007		2008										2009		2010
				Jan.		March		Jun.		Sept.		Dec.				
		Proj.[1]	Est.	Prog.[1]	Est.	Prog.[1]	Est.	Prog.[1]	Rev. Prog.	Prog.[1]	Rev. Prog.	Prog.[1]	Rev. Prog.	Proj.[1]	Rev. Proj.	Proj.
Net foreign assets	1,050.6	1,278.3	1,398.9	1,270.4	1,406.7	1,270.7	1,283.5	1,378.6	1,224.1	1,478.2	1,380.2	1,559.9	1,416.3	2,018.8	1,885.0	2,279.4
Gross foreign assets	1,155.1	1,395.6	1,506.2	1,386.6	1,516.1	1,430.9	1,436.6	1,537.9	1,364.1	1,658.3	1,575.1	1,739.0	1,611.2	2,231.1	2,147.9	2,553.5
Gross foreign liabilities	104.6	117.3	107.4	116.2	109.4	160.1	153.1	159.3	140.0	180.1	194.9	179.1	194.9	212.3	262.9	274.0
Net domestic assets	12.4	15.3	5.8	-14.0	-99.6	-40.7	57.2	-3.6	188.8	-18.2	87.5	18.8	199.1	-135.8	32.6	16.9
Credit to government (net)	-78.7	74.5	-62.6	57.4	-131.9	16.4	-34.4	58.1	-44.5	59.7	-135.5	121.3	-26.5	182.3	3.8	40.0
Of which: IMF MDRI debt relief [4]	-325.5	-289.4	-289.4	-289.4	-289.4	-280.3	-280.3	-271.3	-271.3	-262.2	-262.2	-253.2	-253.2	-217.0	-217.0	-180.9
Claims on public enterprises	4.6	4.7	4.7	4.7	4.6	4.7	4.5	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Liquidity operations (+ = injection)	-49.5	-226.6	-175.9	-252.3	-217.5	-250.9	-111.2	-277.6	-74.9	-316.7	-103.2	-364.4	-133.2	-516.5	-299.6	-385.1
Other items (net; asset +) [2]	136.1	162.8	239.7	176.2	245.3	189.1	198.2	211.3	303.5	234.1	321.5	257.2	354.0	193.7	323.7	357.3
Reserve money	1,063.0	1,293.7	1,404.6	1,256.4	1,307.1	1,230.0	1,340.7	1,375.0	1,412.9	1,460.0	1,467.7	1,578.7	1,615.4	1,883.0	1,917.6	2,296.3
Currency outside banks	715.1	861.5	840.6	810.4	780.9	848.4	800.5	894.9	852.7	957.6	906.5	1,043.6	1,029.3	1,232.0	1,209.7	1,441.3
Bank reserves	345.3	431.7	554.3	445.6	516.4	381.1	533.1	479.6	550.5	501.9	551.5	534.7	576.4	650.5	698.3	845.3
Currency in banks	51.1	60.3	73.4	56.7	67.0	59.4	72.6	62.6	76.7	67.0	77.1	73.0	87.5	85.6	102.2	121.1
Deposits	294.2	371.4	480.9	388.8	449.4	321.7	460.5	417.0	473.8	434.9	474.5	461.6	488.9	564.9	596.1	724.3
Memorandum items:																
Cumulative annual flow																
Net foreign assets [3]	524.1	227.7	348.3	-7.9	7.8	-7.6	-115.3	100.3	-174.8	199.9	-18.6	281.6	17.5	458.9	468.7	394.4
In millions of SDRs	47.7	106.8	152.5	1.5	-3.2	1.6	-30.0	43.0	-24.2	81.7	36.5	114.4	50.5	127.1	138.1	120.5
Net domestic assets [3]	-398.9	2.9	-6.6	-29.4	-105.4	-56.1	51.4	-19.0	183.0	-33.6	81.7	3.4	193.3	-154.6	-166.4	-15.7
Credit to government (net) [4]	-404.0	153.3	16.1	-17.1	-69.3	-58.2	28.2	-16.5	18.1	-14.8	-72.9	46.7	36.2	61.0	30.3	36.2
Reserve money	125.2	230.7	341.7	-37.3	-97.6	-63.7	-64.0	81.3	8.2	166.3	63.1	285.0	210.7	304.3	302.3	378.7
Cummulative growth	13.3	21.7	32.1	-2.9	-6.9	-4.9	-4.6	6.3	0.6	12.9	4.5	22.0	15.0	19.3	18.7	19.7

Sources: Central Bank of Madagascar (BCM) and IMF staff estimates and projections.

[1] IMF Country Report No. 08/66, Republic of Madagascar-Staff Report for the Second and Third Reviews Under the PRGF.
[2] Excluding transfers from government, but including estimated valuation effects and gains/losses.
[3] Excluding MDRI.
[4] Excluding any treasury bills used for monetary policy operations.

Table 8. Madagascar: Bank Soundness Indicators, 2002–2007 (end-of-period)

	2002	2003	2004	2005	2006	2007
Capital adequacy			(Ratio; percent)			
Regulatory capital to risk-weighted assets						
Lowest ratio (min = 8%)	11.4	10.7	7.2	8.8	9.6	10.2
Average	15.3	14.4	12.0	12.0	12.7	14.1
Asset quality						
Nonperforming loans to total gross loans	19.6	16.7	11.5	9.5	8.6	9.0
Risk concentration (max =35% of capital, highest	...	...	54.5	41.3	62.9	47.2
Earnings and profitability						
Return on assets	0.8	2.4	3.0	3.7	4.0	3.9
Return on equity	13.4	37.9	49.1	61.2	60.3	60.3
Interest margin to gross income	…	…	59.3	64.8	68.4	69.6
Noninterest expenses to gross income	52.2	46.9	44.8	42.4	46.1	44.7
Personnel expenses to noninterest expenses	38.3	38.9	35.4	36.4	35.2	36.6
Liquidity						
Liquid assets to total assets	52.1	50.5	47.4	43.4	44.0	46.0
Liquid assets to short-term liabilities	77.8	73.2	67.6	61.3	64.8	69.1
			(Billions of ariary; unless otherwise specified)			
Memorandum items:						
Total assets	1,393.0	1,537.2	2,006.6	2,208.8	2736.2	3306.1
Total assets, in percent of GDP	20.6	18.8	19.9	18.7	23.2	15.1
Total profits before tax	15.9	49.9	80.2	111.4	112.9	…
Banking sector value added	...	...	183.5	220.6	249.6	289.7
Average return on loans (percent)	...	...	13.8	15.4	15.2	15.5
Foreign exchange exposure (max=20% of capital	19.6	58.3	127.2	16.8	9.4	16.4

Sources: Banking and Financial Supervision Commission, Central Bank of Madagascar (BCM).

Table 9: Madagascar: Indicators of Capacity to Repay the Fund, 2007-2016
(In millions of SDRs unless otherwise specified)

	2007	Projections 2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund obligations based on existing credit	0.9	0.8	0.8	1.9	3.0	5.4	7.7	9.2	8.1	6.9
Principal	0.0	0.0	0.0	1.1	2.3	4.6	7.0	8.6	7.4	6.3
Charges and interest	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.6
Fund obligations based on existing and prospective credit [1]	…	0.8	1.0	2.1	3.3	5.6	7.9	15.0	16.6	15.4
Principal	…	0.0	0.0	1.1	2.3	4.6	7.0	14.1	15.8	14.7
Charges and interest	…	0.8	1.0	1.0	1.0	1.0	0.9	0.9	0.8	0.7
Total obligations based on existing and prospective credit [1]										
In millions of SDRs	0.9	0.8	1.0	2.1	3.3	5.6	7.9	15.0	16.6	15.4
In percent of exports of goods and services	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.4	0.4	0.4
In percent of debt service [2]	4.0	3.4	1.6	2.1	1.4	2.5	3.5	6.5	7.2	6.6
In percent of quota	0.8	0.7	0.8	1.7	2.6	4.4	6.2	11.6	12.7	11.7
In percent of gross international reserves	0.2	0.1	0.1	0.2	0.3	0.5	0.7	1.2	1.2	1.0
Outstanding Fund credit										
In millions of SDRs	27.1	28.1	29.1	30.1	31.1	32.1	33.1	34.1	35.1	36.1
In percent of exports of goods and services	1.9	1.7	1.6	1.2	1.1	1.0	1.0	0.9	0.9	0.9
In percent of debt service [2]	116.8	114.1	48.2	29.6	13.7	14.2	14.6	14.7	15.2	15.5
In percent of quota	22.1	22.8	23.4	24.0	24.6	25.2	25.8	26.4	26.9	27.5
In percent of gross international reserves	5.0	4.5	3.8	3.4	3.3	3.1	2.9	2.7	2.5	2.4
Memorandum items:										
Exports of goods and services	1,459.4	1,603.6	1,777.7	2,583.0	2,887.9	3,117.5	3,355.2	3,601.3	3,883.6	4,129.4
Debt service [2]	23.2	24.6	60.3	101.6	227.1	226.6	226.9	231.4	231.0	232.7
Quota	122.2	123.2	124.2	125.2	126.2	127.2	128.2	129.2	130.2	131.2
Gross international reserves	537.9	625.7	763.8	885.6	948.1	1,040.5	1,147.9	1,253.4	1,399.2	1,518.9
GDP	7,378.5	9,216.2	10,322.8	11,788.3	13,143.3	14,364.4	15,717.3	17,208.7	18,847.7	20,653.6

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

[1] Assumes two-tranche disbursement of augmentation with the first tranche of SDR 13.75 million disbursed in July 2008 and the second tranche of SDR 4.58 million disbursed in January
[2] Including IMF repurchases and repayments in total debt service.

Table 10. Madagascar: Tentative Work Program Under the Three-Year
PRGF Arrangement, 2008–09

Date	Action	Disbursement
On or after April 30, 2008	Board consideration of the fourth review	SDR 7.856 million
On or after July 2, 2008	Board consideration of augmentation of access (first tranche)	SDR 13.75 million
On or after October 31, 2008	Board consideration of the fifth review	SDR 7.856 million
On or after October 31, 2008	Augmentation of access (second tranche)	SDR 4.58 million
On or after April 30, 2009	Board consideration of the sixth review	SDR 7.854 million

Table 11. Madagascar: Millennium Development Goals

	1994	1997	2000	2003	2005	2015 Target
Goal 1. Eradicate extreme poverty and hunger.						
Population below US$1 a day (percent)	46.0	...	66.0	...	...	...
Poverty gap ratio at US$1 a day (percent)	18.0	...	29.0	...	...	...
Prevalence of child malnutrition (percent of children under 5)	45.0	40.0	...	33.0	42.0	20.5
Population below minimum level of dietary energy consumption (percent)	...	40.0	...	38.0	38.0	17.5
Goal 2. Achieve universal primary education.						
Net primary enrollment ratio (percent of relevant age group)	...	...	65.0	77.0	92.0	100.0
Percentage of cohort reaching grade 5	...	...	51.0	57.0	43.0	...
Primary completion rate (percent of relevant age group)	28.4	28.6	35.6	39.3	57.7	…
Goal 3. Promote gender equality and empower women.						
Ratio of girls to boys in primary and secondary education (percent)	...	...	95.7	95.8	95.9	100.0
Proportion of seats held by women in the national parliament (percent)	...	4.0	8.0	4.0	6.9	...
Goal 4. Reduce child mortality.						
Under-5 mortality rate (per 1,000)	...	...	137.0	...	119.0	56.0
Infant mortality rate (per 1,000 live births)	...	...	84.0	...	74.0	...
Immunization against measles (percent of children 12-23 months)	63.0	46.0	56.0	59.0	59.0	...
Goal 5. Improve maternal health.						
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	550.0	...	...	123.0
Proportion of births attended by skilled health personnel	...	47.3	46.2	...	51.3	...
Goal 6. Combat HIV/AIDS, malaria, and other diseases.						
Contraceptive prevalence rate (percent of women ages 15-49)	...	19.0	19.0	17.0	27.0	...
Incidence of tuberculosis (per 100,000 people)	194.5	204.5	215.1	226.2	233.9	...
Tuberculosis cases detected under DOTS (percent)	...	...	65.1	72.1	67.0	...
Goal 7. Ensure environmental sustainability.						
Forest area (percent of total land area)	...	...	22.0	...	22.0	...
Nationally protected areas (percent total land area)	...	...	...	...	3.1	...
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	...	...
Access to improved water source (percent of population)	...	...	...	...	46.0	72.0
Access to improved sanitation (percent of population)	...	...	...	...	32.0	...
Goal 8. Develop a Global Partnership for Development.						
Unemployment rate of population ages 15-24 (total)	...	...	...	...	...	...
Fixed line and mobile telephones (per 1,000 people)	2.5	3.2	7.3	19.5	30.7	...
Personal computers (per 1,000 people)	...	1.4	2.2	4.5	5.0	...

Source: World Bank.

APPENDIX I
MADAGASCAR: LETTER OF INTENT

Antananarivo, Madagascar
June 17, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn,

1. The Executive Board approved the three-year arrangement on July 21, 2006, for a total amount of SDR 55.0 million to support the government's economic program for 2006–08 and the activation of the Trade Integration Mechanism (TIM). On December 20, 2006 the Executive Board of the International Monetary Fund (IMF) completed the first review, and on January 30, 2008 it completed the second and third reviews under this arrangement.

2. The government of Madagascar requests an augmentation of access under the PRGF arrangement to cope with the external shocks resulting from a severe cyclone and the rise in world fuel and food prices. These shocks have raised import costs and limited reserve accumulation The government requests an augmentation of access amounting to 15 percent of quota (SDR18.33 million), of which SDR 13.75 million would be disbursed with the fourth review and SDR 4.58 million would be disbursed with the fifth review, bringing the total access under the PRGF arrangement to SDR 73.3 million (60 percent of quota).

3. The attached memorandum of economic and financial policies (MEFP) reviews the macroeconomic and financial performance and the implementation of economic policies through May 2008. It also updates the program of economic policies and structural reforms that the government of Madagascar will implement in 2008.

4. All quantitative performance criteria (PC) at the test date for the fourth review (end of January 2008) were met.

5. Two structural PCs were not observed through end-May 2008. The system of customs inspection for goods leaving the port was implemented with a 5-week delay owing to administrative delays. Given the limited length of the delay, we are requesting a waiver for the nonobservance of this PC. The consultations within government and with the private sector on the export promotion law took longer than expected; as a result, the structural PC for submitting to Parliament a draft export promotion law that would close the EPZ regime for new firms by end-May 2008 was not observed. We have reiterated our intention to

undertake this measure in a recent communication to the Council of Government and are committed to do so by end-October 2008, as the consultative process runs its course. We are requesting a waiver for the nonobservance of this PC.

6. We also recognize that the CBM had inadvertently created a multiple currency practice (MCP) and a related exchange restriction through its practice of offering foreign exchange at a discount to food importers, in an effort to contain the inflationary impact of rising international food prices. This practice was not recognized as an MCP at the time of the second and third reviews, as the deviation from the market rate was well below two percent. Although the practice was immediately halted when the problem was explained to us, the MCP and the exchange restriction caused the nonobservance of the continuous PCs against (i) the introduction or modification of an MCP and (ii) the imposition or intensification of restrictions on payments and transfers for current international transaction. The nonobservance of the PCs gave rise to two noncomplying disbursements in connection with the second and third reviews. We are therefore also requesting waivers for the nonobservance of these performance criteria.

7. The government of Madagascar believes that the policies and measures set forth in the attached memorandum are adequate to achieve its program objectives. However, it will take any further measures that may become appropriate for this purpose. It will consult with the Fund on adoption of such measures in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policy in such consultation.

8. To facilitate the attainment of the objectives and implementation of the policies described, the government of Madagascar hereby requests completion of the fourth review and disbursement of the fifth loan under the current arrangement, including augmentation, in an amount equivalent to SDR 21.606 million.

9. The government of Madagascar intends to carry out the fifth review by the end of December 2008 and the sixth review by end of June 2009. Inter alia, the fifth review will discuss the fiscal impact of reconstruction costs arising from the cyclone, the measures needed to eliminate the deficits of the civil servants' pension funds, priority measures to further strengthen public expenditure management, including the efficient use of the SIGFP system; and discussion of the future strategy for the state utility company JIRAMA.

10. The government of Madagascar consents to publication of this letter, the MEFP, the attached Technical Memorandum of Understanding, and the report of Fund staff on the fourth review of the program.

Sincerely yours,

/s/	/s/
Haja Nirina Razafinjatovo Minister of Finance and Budget	Frédéric Rasamoely Governor Central Bank of Madagascar

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

APPENDIX I—ATTACHMENT I

MADAGASCAR: MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR 2008

I. ECONOMIC TRENDS AND PROGRAM IMPLEMENTATION IN 2007 AND AS OF MAY 31, 2008

1. In 2007, economic growth proved to be more sustained (6.2 percent) than in 2006 (5 percent), owing to the good performance of exports and foreign direct investments (FDI) related to the start-up of two large mining projects. The deceleration in nonfood prices (particularly housing costs) brought inflation down from 10.8 percent in 2006 to 10.3 percent in 2007.

2. Growth in the money supply during the period was in line with the program's objectives. Base money also kept pace with the program, except for a temporary acceleration in December 2007. The impact of the increase in foreign exchange reserves on monetary growth was lessened by open market transactions. Recent prudential indicators show that the banking system remains sound, although the number of bad debts rose slightly at the end of 2007.

3. Tax revenue was significantly higher than the program target (by an amount equivalent to approximately 0.5 percent of GDP), owing to the progress made in tax and customs administration and to the income from VAT and property tax related to the construction of the large nickel exploitation project. Moreover, spending on domestic financing remained below the program target, owing largely to the favorable trend in interest rates. Consequently, net domestic debt (as defined by the program, excluding the recapitalization of the Central Bank of Madagascar) remained below the ceiling authorized by the program.

4. The overall balance of payments showed a surplus in 2007. The current account deficit was contained at 14 percent of GDP, well below the 19 percent initially projected. While construction delays in one of the large mining projects led to limited growth of imports, exports were dynamic, despite the rise in the value of the ariary. The current deficit was more than covered by capital inflows, which allowed accumulated reserves to reach SDR 148 million. At end-2007, official reserves covered 2.9 months of imports (3.3 months if imports for the large mining projects are excluded).

5. All the quantitative performance criteria at January 31, 2008 and all but two indicative monetary targets at March 31, 2008 were met (Tables 1 and 2). The central bank missed its foreign exchange reserves target owing to lower mining foreign direct investment inflows than programmed. And the central bank exceeded its ceiling on domestic assets because some banks had a temporary liquidity need, requiring use of the central bank refinancing window, and the BCM conducted less sterilization open market operations than programmed.

6. At the structural level, control of goods leaving the port of Toamasina, the country's main port and the only one where the Tradenet information system is operational, was enhanced five weeks later than required (structural performance criterion; PC, Table 3). This delay was caused by technical problems during installation of the Tradenet system. As the enhanced control has been implemented at the port of Toamasina, the government requires a waiver for not complying with this PC. The introduction of a draft export promotion law to Parliament eliminating the duty free zone and enterprise regime (*régime des zones et enterprises franches*) while grandfathering existing enterprises in the regime did not take place by end-May 2008, owing to the need to further consult with all stakeholders (¶35). As the Minister of Economy, Commerce and Industry has already sent a formal communication to the Council of government on how to proceed on the submission to parliament of the draft export promotion law by end-October 2008, the government requests a waiver for not complying with this PC. Two structural benchmarks have been met, although one, the production of treasury account balances with the budget information system SIGFIP, was delayed owing to technical problems (¶24).

7. The Central Bank of Madagascar sold foreign exchange to a trader at the minimum market rate for imports of essential goods (rice, wheat, and edible oils) in 2007 and during the early weeks of 2008, through the interbank foreign exchange market, without realizing that this would give rise to a multiple currency practice and a related exchange restriction. As soon as they became aware that this practice was in conflict with the commitments made within the context of the program, the monetary authorities put an end to this practice. In a note dated May 8, 2008, the Central Bank of Madagascar communicated to the banks participating to the interbank foreign exchange market that, in line with Madagascar's commitments under the Articles of Agreement of the International Monetary Fund (including Article VIII, Section 3), it would abstain from introducing multiple currency practices or imposing exchange restrictions. The MCP and the exchange restriction gave rise to the nonobservance of the PCs in the PRGF arrangement against the imposition of exchange restrictions and/or the introduction of MCPs in the context of the second and third reviews. The authorities are now requesting waivers for the nonobservance of these PCs.

II. 2008 PROGRAM UPDATE

A. Implementation of the Madagascar Action Plan

8. The Madagascar Action Plan (MAP) is the development plan for the period 2007–11, which serves as the reference for annual budget programming and the framework for medium-term expenditures. The framework for its implementation will henceforth include the following:

- the MAP, which describes the commitments, strategies, and actions;

- the sectoral programs, which indicate the strategies for the various sectors, the actions to be carried out each year, the unified monitoring and evaluation system, and the cost of the activities, as well as indicating the financing that has already been acquired and the additional financing that must be sought;

- programming at the regional level, including activities not included in the sectoral programs that will be funded from the regional budget;

- the annual program (or General State Policy), which will be drawn from the sectoral programs and will coincide with the budget process;

- establishing an assistance coordination entity that will be attached to the Prime Minister's Office.

9. In order to expand the dialogue on the resources to be brought into play, the government has decided to hold an annual conference and a number of sectoral meetings. The first Partners' Round Table, held in Madagascar on June 9 and 10 2008, provided a forum for dialogue and exchange of views on programs and resources to meet the challenges identified in the MAP.

B. Macroeconomic Framework

10. The acceleration of growth from 6.1 percent in 2007 to 7 percent in 2008 can be explained by the increased investments made by mining companies, and takes into account the impact of the cyclones at the beginning of the year. The inflation rate has been revised upward (from 8 to 9.7 percent), reflecting the increase in the price of rice and oil on the international markets. These developments, along with the slowdown in the world economy, will lead to an increase in the current deficit, which is expected to reach 23 percent of GDP. Despite the expected inflows of foreign direct investment, gross international reserves cover is projected to decline markedly to 3.1 months of imports (net of large mining project imports).

C. Economic and Financial Policies

Fiscal policy and reforms

a. Fiscal policy

11. The government has decided to allocate MGA 30 billion out of the MGA 45 billion budgetary reserve approved in the 2008 budget [1] to the reconstruction costs caused by the cyclones.

12. The good tax revenue performance in 2007, the upward revision of imports, and the continued implementation of tax and customs administration reforms have led the

[1] MEFP of January 7, 2008, ¶17.

government to increase its tax revenue target (by about 0.3 percent of GDP) compared to the one announced in the 2008 budget, in spite of the temporary VAT exemption on rice and the VAT exemption on lighting fuel contemplated to alleviate the oil and food price shock for the poorest. In addition, nontax revenue were also revised upwards owing to proceeds from the public auction of illegally logged rose wood (about 0.1 percent of GDP) during the first quarter. Moreover, the update of donor commitments revealed an increase of budget grants (by about 0.3 percent of GDP) and of budget loans (by about 0.3 percent of GDP) compared to the 2008 budget, to address the food and oil price shocks. In addition, the lower net domestic borrowing in 2007 and the lower level of interest rates during the first quarter of 2008 have led the government to revise the interest payment downwards (by about 0.3 percent of GDP) compared to the 2008 budget.

13. In light of these developments, the government will propose the following measures in a supplementary budget to be introduced to parliament:

- temporary VAT exemption on rice from July 1, 2008 to alleviate the impact of higher international prices on the poorest citizens (budgetary cost : MGA 30 billion or 0.2 percent of GDP); the government will adopt additional measures to increase domestic rice production and therefore reduce reliance on imports;

- VAT exemption on oil for lamps, to alleviate the impact of higher international prices on the poorest citizens (maximum budgetary cost: MGA 12 billion or 0.1 percent of GDP);

- targeted measures to alleaviate the food price shock for the poorest (budgetary cost: MGA 40 billion, or 0.2 percent of GDP): countercyclical rice production (MGA 15 billion); urban transport subsidies (MGA 10 billion); cash for work (MGA 5 billion); and school nutrition program in poor neighborhoods (MGA 10 billion);

- increase of the budgetary credits for current expenditure, in order to pay overdue electricity bills of ministries and universities to JIRAMA (¶34) and cope with rise in oil prices (budgetary cost of, respectively, MGA 32 billion and 3.6 billion, or about 0.2 percent of GDP);

- increase of domestically financed capital expenditure (MGA 51.5 billion, or 0.3 percent of GDP), mainly in the agriculture and energy sectors, as well as in infrastructure, including VAT on externally financed capital expenditure;

- increase of the payement of accumulated arrears to the telecom company

(TELMA) before July 1, 2006 (budgetary cost: MGA 38.5 billion or 0.2 percent of GDP); and

- other expenditures: recapitilization of the state airline company Air Madagascar (MGA 16.2 billion, or 0.1 percent or GDP); increase in transfers to communes (MGA 10 billion); preparation of the African Union Summit that will be held in Madagascar in July 2009 (MGA 5 billion); increase in the wage bill of civil servants (MGA 5 billion); increase in credits for goods and services for the National Assembly (MGA 3.1 billion); and increase in credits for embassies in Ethiopia, India and the United Nations (MGA 1 billion)..

14. It is the government's priority to avoid accumulating any new arrears and to pay off the arrears accumulated by the State before the start of the program. To this end, the government will give priority to executing the appropriations entered in the 2008 budget law to pay the VAT due on externally financed capital expenditure, and to paying these expenditures within 60 days of the date on which the required documents are received. The Ministry of Finance and Budget will monitor the execution of these payments through the recording of operators' invoices on its website. Moreover, as indicate above (¶13), the government will include MGA 38 billion of supplementary appropriations in the supplementary budget law to pay off the arrears accumulated before the start of the program.

b. Tax policy

15. Tax policy remains shaped by the implementation of the major simplification of the Tax Code adopted in the 2008 budget law, which establishes a simple and equitable tax system that encourages growth.[2] In the 2009 budget law, the government will introduce changes in the Tax Code so that taxes due by taxpayers whose turnover is less than MGA 20 million ($12,000) will also be based on self assessment.

16. The government reiterates its commitment not to grant any exemption or suspension of taxes and/or customs duties other than those provided for in the Customs Code, international treaties or agreements, and those explicitly determined by the Government Council in exceptional circumstances such as disasters, the public interest, or reasons of state (continuous PC, Table 3). In order to be completely transparent in applying this policy, the government is committed to publish each month on the website of the Ministry of Finance and Budget, a list of the firms that benefited from an exemption or suspension decided by the Government Council since the beginning of the year, the reason for these exemptions and/or suspensions, and the corresponding loss of revenue to the Treasury (new structural benchmark proposed, Table 3). The monthly list will be published beginning on June 15,

[2] See paragraphs 20 & 21 of the Memorandum on Economic and Financial Policies (MEFP) dated January 7, 2008.

2008 and will cover the period from January 1, 2008 to the end of April 2008. Subsequent lists will be published within 30 days after the end of the reported month.

c. Reform of the tax and customs administrations

Tax administration

17. According to the strategy for reform of the tax administration (2007–11), the measures for rehabilitating the management of tax files will be extended from the Large Enterprises Department to the other high-potential tax centers, beginning with the Regional Enterprise Services in Antananarivo and Toamasina.[3]

18. Another priority will be to improve the performance of the VAT. To this end, the government will reimburse, within a maximum of 60 days of the date on which the duly completed request is received by the Directorate General of Taxes or the Directorate General of Customs, the VAT credits to exporters, and both the petroleum tax credits and the VAT credits on oil products to distributors of oil for refueling for international shipping and airline travel. The Directorate General of Taxes (DGI) will treat the requests for reimbursement differently based on a risk analysis: it will process the refunds within 15 days for enterprises that have a good tax payment track record, and limit ex ante controls to credits that present an important risk of fraud.

Customs administration

19. Introduction of the Tradenet electronic platform linking all the economic actors involved in foreign trade is a customs administration priority for 2008.

20. In addition, the Directorate General of Customs (DGD) is committed to reforming the customs regulations that authorize the suspension of import duties and taxes. To this end, it will review the scope of suspended tax payments in light of best international practices and will propose a revision of their scope if needed. The DGD is developing an additional functionality for the SYDONIA++ software in order to automate monitoring of the payment of duties and taxes benefiting from suspension. The target is to have this functionality operational at the port of Toamasina beginning on January 1, 2009 and at all the other ports during 2009.

21. The DGD will attach particular importance to implementing the recommendations on strengthening the collection of duties and taxes by the customs administration, issued by the audit firm that reviewed customs operations during the last quarter of 2007:[4]

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[3] See paragraph 24 of the MEFP dated January 7, 2008.

[4] See paragraphs 29 & 30 of the MEFP dated January 7, 2008.

- Of the unpaid duties and taxes revealed by the audit amounting to MGA 8.047 billion ($4.8 million), MGA 2.725 billion ($1.6 million) had been collected as at March 31, 2008. The balance will be, as far as possible, collected in full by July 31, 2008.

- The control of outgoing merchandise at ports was strengthened at Toamasina (¶7). Similar improvements will be made in Ivato beginning on June 1, 2008, and in Mahajanga, Diego Suarez, and Tulear beginning on September 1, 2008.

- No later than June 1, 2008, the GasyNet company will begin checking on a continuous basis 10 percent of the import declarations (8 percent chosen on the basis of a risk analysis and 2 percent chosen randomly) in order to verify the value determined by the customs administration, the calculation of import duties and taxes, and the payment of these duties and taxes.

- Beginning in January 2009, a specialized firm will conduct the first annual independent audit of the enforcement of the customs code and the procedures in force by the customs administration.

22. In order to effectively combat fraud, the DGD and DGI will intensify their exchange of information.

Fiscal management reform

23. The third independent evaluation mission under the Public Expenditure and Financial Accountability (PEFA) framework, carried out in February 2008, noted the tangible progress made by Madagascar in improving tax performance thanks to the fundamental reforms implemented by the DGD and DGI. On the other hand, the mission noted that there were still some problems with the monitoring of expenditure, particularly the reporting of budget execution, as well as the internal and external mechanisms for monitoring budget execution.

24. To resolve these problems, the government will use the potential offered by the fiscal management information system (SIGFP) to enhance the monitoring of budget execution:

- production of monthly reports on committed expenses with the help of the SIGFP, including the number of rejections and reasons for these rejections by the Directorate General of Financial Supervision;

- monthly production of the account balances of all the treasury divisions linked to the SIGFP, which are used to prepare the Treasury general operations table (this benchmark was postponed by three months because of technical problems, Table 3); and

- monthly publication on the website of the Ministry of Finance and Budget beginning in June 2008 of a table showing all commitments, payment orders, and payments since the beginning of the year, by budget headings, for all the ministries where the SIGFP is operational.

25. Finally, the Ministry of Finance and Budget will develop an action plan and schedule of priority measures to fundamentally enhance the effectiveness of the Financial Control Department, modeled on the strategies that are beginning to bear fruit at the DGD and DGI. This strategy will be developed in close cooperation with the development partners who coordinate to provide budgetary assistance (World Bank, European Commission, African Development Bank, France, and Germany) by September 30, 2008.

26. The reform of the pension system for government employees will start to be implemented in the 2009 Budget Law in order to reduce its structural deficit estimated at 0.8 percent of GDP by a recent actuarial study. On the basis of this study, which has been approved by human resources management and the staff representatives of the ministries, public establishments, and decentralized local governments, the Minister of Finance and Budget will submit a proposal for revising the parameters of the system to the Government Council. Management of the civil service pension system will be turned over to a new Pension Department at the Ministry of Finance and Budget beginning on January 1, 2010.

Monetary and exchange policy

27. The Central Bank (BCM) reaffirms its determination to adopt a monetary policy designed to contain inflation under the bar of 10 percent, reduce volatility and prevent an excessive appreciation of the exchange rate, and achieve its goal for accumulating foreign exchange reserves. To meet these goals, the BCM will continue its policy of sterilization in the money market. To enhance the management of its foreign exchange reserves, the BCM will develop a strategic investment plan with technical assistance from MCM.

28. In addition, if it becomes necessary to exceed the net foreign asset position anticipated in the program, the BCM will carry out additional sterilization operations aimed at maintaining the targeted level for base money. The government agreed to cover the cost of sterilization operations, beginning in 2008, by means of quarterly transfers to the BCM. In order to minimize monetary financing of the State, the government has decided to reduce statutory advances of the BCM to the Treasury from 15 to 5 percent of the Treasury's budget revenues, and the Treasury has decided to use this facility only in case of absolute necessity.

Policy on financial sector development

29. The government will finalize a national financial strategy with the assistance of the World Bank, the IMF, and other partners by September 2008. On the basis of this strategy

and a new financial services project conducted by the World Bank (in progress), the government's objective will be to enhance the legal framework and structure of the financial sector and the supervision of nonbank financial institutions, while increasing access to financing for small and medium enterprises and enhancing the diversity of financial instruments.

30. The authorities envisage creating a development bank with the assistance of the South African Development Bank and the German development bank KFW; this bank could draw on the private sector for its management and financing.

Trade policy

31. Madagascar's trade policy continues to be guided by the principles stated in the MEFP of January 7, 2008.[5] In light of the study on the appropriateness of a uniform nonzero tariff, the authorities have concluded that such a system would go against the country's international commitments and would be inconsistent with ongoing trade negotiations.

32. The authorities are pursuing trade liberalization at the regional level. Implementation of the plan to reduce tariffs within the framework of the Southern African Development Community (SADC), in effect since October 2007, has been continued in 2008 and the initial problems concerning the rules of origin, which affected certain exporting firms, are in the process of being resolved. Negotiations with the European Commission and other countries in the region are being held in order to reach an agreement on the aspects of the Economic Partnership Agreement (EPA) that were not covered by the interim agreement signed in 2007.

Debt management

33. The government's policy remains focused on maintaining a sustainable level of debt, and only concessional loans are being considered. These principles are all the more important given that an increase in loans, particularly bilateral loans, is envisaged to help finance the MAP. In 2008, no bilateral debt cancellation agreement has been signed to date, but negotiations continue, particularly with the bilateral creditors that are not members of the Paris Club.

Reform of the electricity sector

34. Rising oil prices reinforce the need to improve the management of the electricity sector. However, in order to alleviate the oil price shock for the population, the government has decided to delay electricity price increases until October 2008. According to the overall

[5] Paragraph 44 of the MEFP dated January 7, 2008.

strategy described in the MEFP of January 7, 2008,[6] the government is taking the following priority measures:

- a 15 percent average increase in electricity prices in October 2008 (with a smaller increase for the first bracket in order to reduce the impact on the poor), and another increase in April 2009 to fully align prices with costs;

- implementation of a price indexing mechanism adjusting prices to cost and allowing a profit margin for investments, beginning in May 2009;

- a budget transfer of MGA 54 billion to cover operational losses and finance the priority investments approved in the 2008 budget law, supplemented by a transfer of MGA 32 billion, to pay arrears owed by the public administration and universities (¶13), in the revised draft supplementary budget law, and to cover losses flowing from the decision not to increase prices in April in an adversarial oil price environment; and

- an international call in September 2008 for tenders for a new five-year management contract, beginning on April 1, 2009; a consultant will be hired soon to prepare the international call.

Policies to facilitate private sector development

35. The government decided to postpone the submission to Parliament of a draft law for promoting exports from the spring to the fall of 2008 (by end-October 2008), owing to a slower than anticipated consultation process (PC, Table 3). Within the framework of this law, measures will be taken to stimulate all export-oriented enterprises and activities, irrespective of sector or type of activity, without granting any tariff or tax exemptions. As a result, the system of free zones and enterprises will be eliminated for new firms, while the enterprises already benefiting from the system will be grandfathered.

Governance

36. The government is committed to taking measures to ensure compliance with the Extractive Industries Transparency Initiative (EITI).

37. Madagascar intends to combat money laundering and large-scale financial crime. To this end, the Financial Information Service (SAMIFIN) is operational since May 22, 2008.

[6] See paragraphs 47–50 of the MEFP dated January 7, 2008.

Statistics

38. In accordance with the MAP, the government intends to enhance its statistical apparatus and make data more easily accessible to the general public. In 2008, the BCM and the Ministry of Finance and Budget will begin publishing statistical data on their websites. Also beginning in 2008, the National Statistics Institute (INSTAT) expects to update the base year for the national accounts from 1984 to 2007. In 2008, within the framework of implementing the National Statistics Development Strategy (SNDS), the government prepared a draft law governing the national statistics system, which will be submitted to Parliament during the current year. Finally, in 2009, INSTAT expects to produce a quarterly index of industrial production.

III. Program Monitoring

39. The program supported by the IMF under the Poverty Reduction and Growth Facility (PRGF) will be monitored through half-yearly reviews and by applying quantitative and structural performance criteria and benchmarks, as well as the indicative targets mentioned in Tables 2 and 3.

Table 1. Madagascar: Quantitative Performance Criteria and Indicative Targets for the PRGF Arrangement, 2007-January 2008 [1]
(Billions of ariary, cumulative change from January 1, 2007, unless otherwise indicated)

	March 31, 2007 Indicative Targets				June 30, 2007 Performance Criteria				September 30, 2007 Indicative Targets				December 31, 2007 Indicative Targets				Jan. 31, 2008 Perf. Criteria			
	Prog. [2]	Actual	Actual Adjusted	Status	Prog. [2]	Actual	Actual Adjusted	Status	Prog. [2]	Actual	Actual Adjusted	Status	Prog. [2]	Actual	Actual Adjusted	Status Prel.	Prog. [3]	Actual	Actual Adjusted	Status Prel.
I. Quantitative performance criteria																				
External																				
(a) Ceiling on accumulation of new external arrears (SDR millions) [4]	0.0	0.0	...	Met	0.0	0.0	...	Met	0.0	0.0	…	Met	0.0	0.0	...	Met	0.0	0.0	…	Met
(b) Ceiling on contracting or guaranteeing of new external debt on nonconcessional terms [4]	0.0	0.0	...	Met	0.0	0.0	...	Met	0.0	0.0	…	Met	0.0	0.0	...	Met	0.0	0.0	…	Met
Central Bank																				
(c) Floor on net foreign assets (NFA) of BCM (SDR millions, excluding MDRI)	-40.6	25.8	39.1	Met	-19.0	88.1	95.5	Met	5.7	112.5	112.5	Met	15.3	152.5	...	Met	108.3	149.4	154.1	Met
(d) Ceiling on net domestic assets (NDA) of the BCM (MGA bn)	15.8	-53.2	-222.7	Met	-6.6	-32.8	-299.3	Met	-39.3	-129.5	-329.6	Met	33.3	-6.6	...	Met	-26.4	-112.0	-147.3	Met
Fiscal																				
(e) Ceiling on domestic financing of the central government	86.9	10.1	-33.1	Met	-16.8	-6.0	-41.3	Met	-53.8	-82.1	-103.0	Met	10.8	-54.1	...		80.0	-131.5	-144.4	Met
(f) Floor on tax revenue	339.7	292.2	...	Not met	761.3	718.8	...	Not met	1136.9	1,088.5	…	Not met	1523.8	1,573.1	...	Met	1,624.9	1,738.9	…	Met
(g) Ceiling on accumulation of new domestic arrears [4]	0.0	0.0	...	Met	0.0	0.0	...	Met	0.0	0.0	…	Met	0.0	0.0	...	Met	0.0	0.0	…	Met
II. Memorandum items:																				
Net external budget (program) support (SDR millions)	-3.5	-1.8	...		19.3	12.0	...		42.1	46.8	...		47.2	…			48.6	42.4	...	
Budget support grants and loans (SDR millions)	0.0	0.7	...		33.5	16.7	...		60.4	54.7	...		76.3	…			61.3	56.9	...	
External cash debt service (SDR millions)	3.5	2.4	...		14.2	4.7	...		18.3	7.9	...		29.1	…			12.7	14.5	...	
Average exchange rate (MGA/SDR) [5]	3350	3015			3350	2810			3350	2816			3350	2824			2790	2821		
End-period exchange rate (MGA/SDR) [5]	3350	2953			3350	2794			3350	2854			3350	2800			2790	2834		

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

[1] See Technical Memorandum of Understanding (TMU) for definition of variables and adjustments.
[2] IMF Country Report No. 07/7, Republic of Madagascar: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria.
[3] IMF Country Report No. 08/6, Republic of Madagascar-Staff Report for the Second and Third Reviews Under the PRGF.
[4] To be observed on a continuous basis.
[5] Program exchange rate for accounting purposes, used to monitor performance criteria and indicative targets.

Table 2. Madagascar: Quantitative Performance Criteria and Indicative Targets for the PRGF Arrangement, 2008 [1]
(Billions of ariary, cumulative change from the beginning of the year, unless otherwise indicated)

	March 31, 2008 Indicative Targets				June 30, 2008 Performance Criteria		September 30, 2008 Indicative Targets		December 31, 2008 Performance Criteria	
	Prog. [2]	Estimated Actual	Adjusted Actual	Status	Prog. [2]	Rev. Prog.	Prog. [2]	Rev. Prog.	Prog. [2]	Rev. Prog.
I. Quantitative performance criteria										
External										
(a) Ceiling on accumulation of new external arrears (SDR millions) [3]	0.0	0.0	...	Met	0.0	0.0	0.0	0.0	0.0	0.0
(b) Ceiling on contracting or guaranteeing of new external debt on nonconcessional terms [3]	0.0	0.0	...	Met	0.0	0.0	0.0	0.0	0.0	0.0
Central Bank										
(c) Floor on net foreign assets (NFA) of BCM (SDR millions, excluding MDRI)	1.6	-30.0	-30.0	Not Met	43.0	-24.2	81.7	36.5	114.4	50.5
(d) Ceiling on net domestic assets (NDA) of the BCM (MGA billions) [4]	-56.1	51.4	78.8	Not Met	-19.0	183.0	-33.6	81.7	3.4	193.3
Fiscal										
(e) Ceiling on domestic financing of the central government	72.5	-144.9	...	Met	-9.8	-116.5	-33.0	-86.9	65.6	31.5
(f) Floor on tax revenue	396.5	462.0	...	Met	910.9	963.4	1338.3	1,416.8	1827.1	1,931.5
(g) Ceiling on accumulation of new domestic arrears [3]	0.0	0.0	...	Met	0.0	0.0	0.0	0.0	0.0	0.0
II. Memorandum items:										
Net external budget support (SDR millions)	-2.9	1.6			31.0	19.3	53.3	66.6	49.4	95.8
Budget support grants and loans (SDR millions)	1.4	5.9			43.0	30.3	69.9	82.1	74.4	118.4
External cash debt service (SDR millions)	4.3	4.3			12.0	11.0	16.6	15.4	25.0	22.6

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

[1] See Technical Memorandum of Understanding (TMU) for full description of variables and adjustments.
[2] IMF Country Report No. 08/66, Republic of Madagascar-Staff Report for the Second and Third Reviews Under the PRGF.
[3] To be observed on a continuous basis.
[4] Excluding transfers from governement.

Table 3. Madagascar: Structural Performance Criteria and Benchmarks for the PRGF Arrangement, 2008

	Timeline	Status
Performance criteria		
• No granting of ad hoc tax or tariff exemptions or suspensions outside those specified in the Customs Code and international treaties or conventions, and in exceptional cases decided by the Council of government (natural disasters, public good, reasons of state).	Continuous	Met
• Put in place a system to entrust the inspection of goods leaving ports exclusively to a team made up of representatives of the customs administration and GasyNet in all ports where Tradenet is in use, headed by a customs inspector reporting directly to the Director of External Services at Directorate General of Customs headquarters.	January 31, 2008	Not met Implemented on March 11, 2008
• Introduce a draft export promotion law to Parliament eliminating the duty free zone and enterprise regime (*régime des zones et enterprises franches*) while grandfathering existing enterprises in the regime.	May 31, 2008	Not Met Postponed to October 31, 2008
• Update by the Ministry of Finance and Budget of quarterly commitment ceilings for all ministries up to the end of 2008 taking into account the most recent outlook for external and internal resources and expenditure.	July 31, 2008	
Benchmarks		
• Complete a study on the opportunity of a single nonzero customs tariff, its budgetary and economic impact, and other possible options within the framework of regional integration.	January 31, 2008	Met
• Production with the public finance information system SIGFP of an expenditure commitment report at end-March, including the number of, and reasons for, rejections by the Directorate General of Financial Control.	April 30, 2008	Met
• Production of the accounts balances of all treasuries linked to SIGFP, which are used to prepare the Treasury general operations table (*Opérations Générales du Trésor*)	April 30, 2008	Not met Postponed to July 31, 2008
• Automatic transfer of data on revenue collection by the Directorate General of Taxation and the Directorate General of Customs to the Directorate General of the Treasury via SIGFP	June 30, 2008	
• Review of BCM guidelines on management of foreign exchange reserves	June 30, 2008	
• Publish a table on the external web site of the Ministry of finance and budget presenting the list of enterprises that benefited from ad hoc tax or tariff exemptions or suspensions in exceptional cases decided by the Council of Government, the reason for each exoneration and suspension, and the revenue loss for the Treasury caused by each exoneration or exemption, from the beginning of 2008 to end-June 2008.	July 31, 2008	
• Publish an international call for tenders for the transfer of JIRAMA's management to a private operator under a management contract.	September 30, 2008	
• Adoption of a simplified budget classification in the 2009 budget to: (i) establish a clear link between the objectives assigned to each ministry and the programs it implements; and (ii) clearly identify poverty reduction expenditure in the budget.	October 31, 2008	

APPENDIX I—ATTACHMENT II
MADAGASCAR: TECHNICAL MEMORANDUM OF UNDERSTANDING ON MONITORING THE PERFORMANCE CRITERIA AND TARGETS FOR THE PROGRAM SUPPORTED BY THE ARRANGEMENT UNDER THE POVERTY REDUCTION AND GROWTH (PRGF)

1. This technical memorandum of understanding (TMU) defines the variables used to establish the quantitative performance criteria (PCs) and indicative targets for the 2008 program, how they are calculated, and any adjustments that may be necessary. The quantitative objectives for June 30, 2008 and December 31, 2008 are performance criteria; those for September 30, 2008 are indicative targets. Unless otherwise indicated, flow variables are measured as cumulative from the beginning of the year. The measurement of the quantitative PCs for January 31, 2008 are measured as cumulative from the beginning of 2007 and explained in the previous TMU.[1]

I. QUANTITATIVE CRITERIA

A. Ceiling on External Payments Arrears

2. 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 the Central Bank of Madagascar (BCM). Debt service obligations (including unpaid penalties and interest charges) are overdue if they have not been paid by the due date or within 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 rescheduling negotiations are under way or that are in dispute. This performance criterion should be observed on a continuous basis.

B. Ceiling on Nonconcessional External Borrowing

Definition

3. Nonconcessional external debt has a grant element of less than 35 percent. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (IMF Executive Board Decision No. 12274–00/85, August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. Under the program, nonconcessional debt includes financial leasing and any other instrument giving rights to a current financial liability, under a contract or guarantee by the central government (CG) of Madagascar (defined in paragraph 12), but it excludes debt contracted under rescheduling agreements and normal import-related credits of

[1] Country Report No. 08/66, Republic f Madagascar-Staff Report for the Second and Third Reviews Under the PRGF; Appendix I, Attachment II.

less than one year. If the CG has a special need for external nonconcessional financing, discussions with IMF staff should take place in advance to consider including the request in the program.

Calculation

4. Calculation of the degree of concessionality of new external borrowing is based on the 10-year average of the OECD's commercial interest reference rate (CIRR) for loans with maturities of 15 years or more, and the six-month average CIRR for loans maturing in less than 15 years.

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

Definition

5. The net foreign assets (NFA) of the central bank of Madagascar (BCM) are defined as the difference between its gross foreign assets and total foreign liabilities, including debt to the IMF.

Calculation

6. The programmed change in NFA will be measured in SDRs, subject to adjustment for any shortfall or excess in net external balance of payments assistance as described below.

D. Ceiling on Net Domestic Assets of the Central Bank of Madagascar

Definition

7. The net domestic assets (NDA) of the BCM are defined as the difference between reserve money and the NFA of the BCM. It includes net credit to the government, credit to enterprises and individuals, claims on banks, liabilities to banks (including the proceeds of BCM deposit auctions—*appels d'offres négatifs,* and open market operations), and other items net. The program values for NDA exclude transfers from the government to the BCM to cover the cost of sterilization operations.

Calculation

8. The outturn for NDA will be adjusted for the variation of the actual versus the program exchange rate, applied to the stock of NFA of the BCM and the foreign exchange deposits held by the CG, as explained in Section III below.

9. The outturn for NDA will be adjusted by removing transfers from government to the BCM to cover the cost of sterilization operations.

10. The outturn for NDA will also be adjusted for the excess or shortfall in the net external budget support, as explained in Section III below.

11. The outturn for NDA will be adjusted for changes in the required reserve ratio, if the new reserve requirement has been in effect for at least one full calendar month.

a. For an increase in the reserve ratio, the NDA outturn would be adjusted downward by an amount equal to the percentage point change in the reserve requirement ratio times the average level of deposits held by the public with commercial banks for the month of the target.

b. For a decrease in the reserve ratio, the NDA outturn would be adjusted upward by an amount equal to the percentage point change in the reserve requirement ratio times the average level of deposits held by the public with commercial banks for the month of the target.

E. Ceiling on the Net Domestic Financing Requirements of the Central Government

Definition

12. The coverage of the CG, for the purposes of the program, corresponds to the scope of operations of the treasury, as shown in the o*pérations globales du Trésor* (or OGT).

13. The net domestic financing of the CG is the sum of the components below.

a. the variation in net bank claims on the CG, plus

b. the change in CG debt to the nonbank system (domestic and nonresident), plus

c. the variation in net debt to treasury correspondents (*correspondants du Trésor)*, plus

d. domestic or foreign receipts from privatization operations, plus

e. the variation in the level of CG domestic payments float (*paiements en instance*), plus

f. the variation in domestic arrears, <u>minus</u>

g. government transfers to the BCM to defray the cost of sterilization operations.

14. The amount of CG domestic payments float is the difference between committed and paid expenditure (*dépenses engagées et payées*).

15. Domestic arrears are defined in paragraph 22 below.

16. Net bank claims on the government are measured by net credit to government in the monetary survey, which consists of BCM and commercial bank claims on the CG, including auctioned treasury bills (BTAs) and other securities and liabilities, net of CG deposits with the BCM and commercial banks, including foreign currency deposits. The authorities will inform Fund staff of any substantive changes in CG accounts with the banking system, which may affect the calculation of bank claims.

17. Nonbank claims consist of BTAs and other treasury bills (BTs) and bonds placed with nonbank institutions (domestic and nonresident) and the public.

Calculation

18. The net domestic financing outturn of the CG will be adjusted for the variation of the actual versus the program exchange rate, applied to the net external budget support and to the foreign exchange deposits held by the CG, as explained in Section III below.

19. For nonbank borrowing, the value of BTAs and other government securities should be recorded as the value received at time of issue (sale), that is, face value less discount.

20. Net domestic financing is subject to adjustment for the excess or shortfall in net external budget support, as described in Section III.

F. Floor on Tax Revenue

Definition

21. Tax revenue includes all domestic taxes and taxes on foreign trade received by the treasury.

G. Ceiling on Accumulation of New Domestic Payments Arrears

Definition

22. Domestic payments arrears consist of: (i) all Treasury expenditures for which payment orders have been issued but not paid within three months (*dépenses ordonnancées mais non-payées*); (ii) VAT credits to exporters that are not reimbursed within 60 days of the receipt of a valid request by the Tax Directorate (*Direction Générale des Impôts, DGI*); and (iii) VAT and Tax on Petroleum Products (TPP) credit to oil distributors for VAT and TPP paid on petroleum supplied to airline and shipping companies for international transport (*avitaillement*), that are not reimbursed within 60 days of the receipt of a valid request by the Customs Directorate (*Direction Générale des Douanes, DGD*). This performance criterion will be observed on a continuous basis.

II. MONITORING VARIABLES AND MEMORANDUM ITEMS

A. Net External Budget Support

Definition

23. Net external budget support is defined as external budget support less cash debt service (Table 1).

24. External budget support is defined as cash budget (i.e., not linked to projects) loans and grants, excluding debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC), that are provided as financing and result in funds available to the treasury . It excludes any disbursement of loans or debt relief by the IMF and assistance that gives rise to counterpart funds for the treasury with a delay of longer than one year.

25. Cash debt service is defined as the amount of external debt service the CG pays in cash.

Calculation

26. Programmed net external budget support is recorded in SDRs and converted into MGA at the program exchange rate. The outturn of the CG for net external budget support will be adjusted for the variation of the actual versus the program exchange rates and net external budget support as explained in section III below. Counterpart funds to assistance in kind are posted as budget support when deposited with the treasury.

B. Program Exchange Rate

Definition

27. For accounting purposes, program exchange rates have been set. Foreign exchange stocks and flows that affect performance criteria and benchmarks have been converted to MGA at the MGA/SDR program exchange rate (Table 1). Original amounts denominated in U.S. dollars and in euros have been converted into SDRs by applying the program rates of 1 SDR = 1.505 US$ and 1 SDR = 1.023 € for 2008.

III. Exchange Rate and Net External Budget Support Adjusters

A. Exchange Rate

28. In the fiscal and monetary tables, outturns for program variables in foreign currency are converted to MGA at the exchange rate occurring on the day of assessment for stocks and on the day of transaction for flows.

29. To compare actual outturns to program targets, actual outturns for program variables in foreign currency are converted to MGA at the program exchange rate.

B. Net External budget support

30. If there is a shortfall in net external budget support versus the programmed amount on any test date, the actual outturns of the following PCs and indicative targets will be adjusted by the amount of the year-to-date shortfall up to a cumulative maximum of SDR 15 million per year, according to the following method:

a. the BCM's NFA outturn will be adjusted upward by an equal amount up to a cumulative maximum of SDR 15 million;

b. the BCM's NDA outturn will be adjusted downward by an equal amount up to a cumulative maximum of SDR 15 million that will be converted into MGA at the program exchange rate; and

c. the CG net domestic financing outturn will be adjusted downward by an equal amount up to a cumulative maximum of SDR 15 million that will be converted into MGA at the program exchange rate.

31. If there is a cumulative excess of more than SDR 30 million in net external budget support on any test date, the actual outturns of following PCs and indicative targets will be adjusted by the amount of the year-to-date excess (above SDR 30 million), according to the following method:

a. the BCM's NFA outturn will be adjusted downward by the excess;

b. the BCM's NDA outturn will be adjusted upward by the excess that will be converted into MGA at the programmed exchange rate; and

c. the CG net domestic financing outturn will be adjusted upward for the excess that will be converted into MGA at the programmed exchange rate.

IV. Information and Data to be Supplied to Fund Staff

32. In addition to the information already specified in the Technical Memorandum of the first review [2] the authorities will provide the following information:

- Transfers from the government to the BCM to defray the cost of sterilization operations.

[2] IMF Country Report No. 07/7, Technical Memorandum ¶¶ 28-29.

Table 1. Madagascar: Programmed Net External Budget Support, 2008
(in Millions of SDRs, cumulative since January 1, 2008, unless otherwise indicated)

	31-Jan [1]		31-Mar		30-Jun		30-Sep		31-Dec	
	Prog. [2]	Est.	Prog. [2]	Est.	Prog. [2]	Rev. Prog.	Prog. [2]	Rev. Prog.	Prog. [2]	Rev. Prog.
Budget grants	24.5	20.1	1.4	5.9	28.0	30.3	28.9	33.8	33.3	55.1
European Union	24.5	20.1	1.4	5.9	28.0	30.3	28.9	33.8	33.3	45.1
STABEX and PASA	3.3	…	1.4	0.0	1.4	0.8	2.3	1.6	6.8	7.4
Other	21.2	…	0.0	5.9	26.5	29.5	26.5	32.3	26.5	37.6
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.6
Germany	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.4
Budget loans	36.8	36.8	0.0	0.0	15.0	0.0	41.0	48.2	41.0	63.2
World Bank	26.3	26.3	0.0	0.0	0.0	0.0	26.0	33.2	26.0	33.2
African Development Bank	10.5	10.5	0.0	0.0	15.0	0.0	15.0	15.0	15.0	30.0
Total program grants and loans	61.3	56.9	1.4	5.9	43.0	30.3	69.9	82.1	74.4	118.4
External debt service (budget, cash basis) [3]	12.7	14.5	4.3	4.3	12.0	11.0	16.6	15.4	25.0	22.6
Interest	6.8	6.3	2.3	2.4	5.5	4.8	8.1	7.2	11.6	9.7
Amortization	5.9	8.2	2.0	2.0	6.5	6.3	8.5	8.2	13.3	13.0
Net external budget support	48.6	42.4	-2.9	1.6	31.0	19.3	53.3	66.6	49.4	95.8
Memorandum item:										
Program exchange rate (MGA/SDR) [4]	2790	2834	2790	2844	2775	2575	2760	2575	2745	2575

Source: Malagasy authorities and Fund staff estimates and projections.

[1] Cumulative since January 1, 2007.
[2] IMF Country Report No. 08/66, Republic of Madagascar-Staff Report for the Second and Third Reviews Under the PRGF.
[3] Net of HIPC and MDRI debt relief.
[4] Rate used only for accounting purposes to set and monitor indicative targets and performance criteria.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria, Modification of Performance Criteria, and Augmentation of Access

Informational Annex

Prepared by the African Department
(In collaboration with other departments)

June 17, 2008

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. As of May 31, 2008, outstanding PRGF loans amounted to SDR 42.77 million (35 percent of quota).

- **Relations with the World Bank**. Describes the World Bank Group's strategy and portfolio and identifies Bank and Fund areas of responsibility.

- **Statistical Issues.** Assesses the quality and timeliness of statistical data and identifies areas of weakness that are hampering analysis of economic developments.

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I. MADAGASCAR—RELATIONS WITH THE FUND
(As of May 31, 2008)

I. Membership Status: Joined: September 25, 1963. Accepted the obligations of Article VIII, Sections 2, 3 and 4: September 18, 1996.

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	122.20	100.00
Fund holdings of currency	122.17	99.98
Reserve position in Fund	0.03	0.02

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	19.27	100.00
Holdings	0.07	0.35

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
PRGF Arrangements	42.77	35.00

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jul 21, 2006	Jul 20, 2009	54.99	31.42
PRGF	Mar 01, 2001	Mar 01, 2005	91.65	91.65
PRGF	Nov 27, 1996	Nov 30, 2000	81.36	78.68

VI. Projected Payments to Fund (after HIPC and MDRI assistance)
(SDR million; based on existing use of resources and present holdings of SDRs):

			Forthcoming		
	2008	2009	2010	2011	2012
Principal			1.13	2.27	4.63
Charge/interest	.49	0.79	0.78	0.77	0.76
Total	.49	0.79	1.92	3.04	5.338

VII. Implementation of HIPC Initiative:

Commitment of HIPC Initiative assistance	Enhanced Framework
Decision point date	Dec. 2000
Assistance committed (NPV terms)	
Total assistance (US$ million)[1]	835.75
Of which: Fund assistance (US$ million)	19.17
(SDR equivalent in millions)	14.73
Completion point date	Oct. 2004
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

VIII. Implementation of MDRI Assistance:

I. MDRI-eligible debt (SDR million)[3]	137.29
Financed by: MDRI Trust	128.50
Remaining HIPC resources	8.79

II. Debt relief by facility (SDR million)

Eligible Debt

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

[1] Because 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, these two amounts can not be added.

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

[3] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries. The debt relief covers all debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions, the Fund's own resources, and resources already disbursed to the member under the HIPC Initiative (see Section VII above).

IX. Safeguards Assessments:

An update of the safeguards assessment of the Central Bank of Madagascar (BCM) is currently in progress; two previous assessments were completed on March 17, 2006 and November 2001. The 2006 assessment identified continued weaknesses in BCM internal controls, financial reporting, and legal framework, and made recommendations to address the observed vulnerabilities. The recommendations included: (i) an annual external audit of the BCM's transactions with the government and their compliance with the central bank law; (ii) quarterly reviews by the BCM's internal audit function of monetary program data reported to the Fund; (iii) adoption of International Financial Reporting Standards (IFRS) for BCM accounting; and (iv) measures to strengthen the quality of the BCM's external audit, e.g., appointment of an international audit firm with experience in IFRS and international auditing standards.

X. Exchange System and Exchange Rate Arrangements:

After April 1982, when the peg to the French franc was discontinued, the exchange rate was managed with reference to a basket of 10 currencies. By the end of 1991, the authorities stopped the practice of adjusting the exchange rate to offset inflation differentials with key trading partners. Since July 2004 the Malagasy franc has been determined through a continuous interbank foreign exchange market system, and on January 1, 2005, the ariary (MGA) replaced the Malagasy franc as the country's official unit of account, at the rate of MGA 1=FMG 5. The exchange rate in terms of the SDR at end-May 2008 was MGA 2,632.2 = SDR 1. The exchange rate regime is classified as a managed float with no predetermined path.

Madagascar accepted the obligations of Article VIII, Sections 2, 3, and 4 on September 18, 1996 and maintains no restrictions on the making of payments and transfers for current international transactions. The authorities have recently put in place a new foreign exchange law and implementing regulations that remain consistent with Madagascar's obligations under the Articles of Agreement. The authorities have not imposed any exchange restrictions for the preservation of national or international security under Decision No. 144-(52/51) (August 14, 1952).

XI. Last Article IV Consultation

The 2007 Article IV consultation staff report was discussed by the Executive Board on June 25, 2007 (Country Report No. 07/236, July 10, 2007).

XII. Technical Assistance:

Department	Dates	Purposes	Results of Missions
FAD	January–February 2003	Assess tax and customs administration.	Comprehensive action plan and report on establishment of an oversight committee prepared.
FAD	July–August 2003	Assess tax policy and assist in tax policy design.	Comprehensive action plan and report on next steps prepared.
FAD	May–June 2004	HIPC Assessment and Action Plan (AAP).	Comprehensive action plan established.
FAD	July 2005	Assess the status of recent reforms in PFM.	Short and medium term strategy for continuation of reforms established.
FAD	March 2006	Assess tax and customs administration.	Comprehensive recommendations proposed.
FAD	February 2007	Simplify Tax Code	Comprehensive recommendations proposed.
FAD	April 2007	Improve cash management and commitment planning	Comprehensive recommendations proposed.
FAD	July 2007	Simplify the Tax Code	Comprehensive recommendations to conduct preparatory analytical work
FAD	September 2007	Simplify the Tax Code	Comprehensive recommendations to finalize reform of the tax code.
FAD	November 2007	Improve cash management and commitment planning	Review of progress in implementing recommendations.
FAD	February/March 2008	Efficacy of the expenditure chain.	Comprehensive recommendations to improve expenditure management.

Department	Dates	Purposes	Results of Missions
FAD	February/March 2008	Improve customs administration.	Comprehensive recommendations to improve customs procedures at port.
FAD	April/May 2008	Improve customs administration.	Review implementation of new customs procedures.
LEG	July 2005	Diagnostics for the drafting of a new foreign exchange code.	Factual aspects of the current FX regime were clarified and issues identified that must be resolved. Discussions are ongoing.
MFD	September 2004	Review operations of the new interbank foreign exchange market.	Recommendations are being implemented.
MFD	November–December 2004	Strengthen banking supervision.	Recommendations are being implemented.
MFD	February–March 2005	Review monetary and exchange operations, bank liquidity management, and banking supervision.	Recommendations are being implemented.
MFD	April–May and July 2005	Financial sector assessment program (FSAP) mission.	The report has been circulated to the Board.
MFD	September–October 2005	Strengthening the financial supervision by the central bank.	Recommendations have been made.
MFD	October 2005	FSAP follow-up.	Recommendations are being implemented.
MFD	November 2005	Assist the central bank to improve foreign reserve management.	Recommendations have been made.
MFD	February–April 2006	Assist the central bank to further strengthen its foreign exchange, monetary, and banking supervision areas.	Recommendations have been made.

Department	Dates	Purposes	Results of Missions
MFD	September 2006	Assess the recapitalization of the Central Bank of Madagascar.	Consultants findings were incomplete–additional mission required.
MCM	December 2006	Assist the Central Bank to improve bank liquidity management.	Comprehensive recommendations proposed.
MCM	December 2006	Implement recapitalization of the Central Bank of Madagascar.	Recommendations provided.
MCM	March–April 2007	Enhance BCM's capacities in monetary and foreign exchange operations, bank liquidity management, and banking supervision.	Comprehensive recommendations proposed.
MCM	February 2008	Enhance BCM's capacities in monetary and foreign exchange operations, bank liquidity management, and reserve management	Comprehensive recommendations proposed
STA	February 2004	Multisector statistics mission.	Recommendations for data improvements accepted.
STA	February 2006	Improve national account statistics.	Reviewed estimation of national income accounts and provided technical guidance to move base year to 2005.
STA	January–February 2007	Improve national account statistics.	Follow up to move base year to 2005.
STA	February 2008	Improve national account statistics.	Follow up to move base year from 1984 to 2001 and apply SNA 1993 methodology.

XIII. Resident Representative:

Madagascar has had a Fund Resident Representative since September 1989. Mr. Pierre van den Boogaerde took up the post in February 2006.

II. MADAGASCAR—RELATIONS WITH THE WORLD BANK
(As of April 30, 2008)

Madagascar's Development Strategy

1. The government has put in place the Madagascar Action Plan (MAP), a bold development plan for 2007–12 that is the second-generation Poverty Reduction Strategy. The MAP envisages accelerated and better-coordinated reforms and outlines the "strategies and actions that will ignite rapid growth, lead to the reduction of poverty, and ensure that the country develops in response to the challenges of globalization and in accordance with the national vision—*Madagascar Naturally*—and the Millennium Development Goals."

2. The MAP, which was prepared in a participatory way, makes eight commitments: (1) responsible governance; (2) connected infrastructure; (3) educational transformation; (4) rural development and a green revolution; (5) better health, family planning, and the fight against HIV/AIDS; (6) a high-growth economy: (7) a cherished environment; and (8) national solidarity. For each commitment, the government identified challenges, goals and strategies, priority activities, and monitoring indicators. The MAP identifies six "breakthrough initiatives"—areas requiring immediate attention: (1) public finance reform; (2) significant increase in investment to promote high growth; (3) sowing the seeds of a green revolution; (4) transforming public security; (5) implementing bold new measures for health and family planning; and (6) transforming the judiciary.

3. Programs for implementing MAP commitments are being elaborated in greater detail in sector strategies as part of the Government's preparation for a donor round table in June 2008. Some of these strategies are already in place, among them the National Environmental Action Plan and strategies in rural development, health, primary education, rural water, transport, and HIV/AIDS. The government has finalized a risk management and social protection strategy and is working on a financial sector strategy and post-primary education strategy. Implementation of the MAP is guided by the budget and the *Politique Générale de l'État*, which represents annual agreements between the president and cabinet ministers.

Bank Group Country Assistance Strategy and Lending Operations

4. The World Bank's Country Assistance Strategy (CAS) was designed in parallel with the elaboration of the MAP in terms of timing, duration, and substance (it was discussed by the Bank's Board on April 3, 2007). The CAS covers almost the same time period as the MAP (2007–12) and supports attainment of the MAP goals. Thus it supports the areas of the government program that have the highest priority and those where the Bank Group has a comparative advantage. The CAS will continue the Bank Group's focus on removing bottlenecks to sustainable and shared growth, anchored in good governance, with corresponding improvements in welfare indicators and thus MAP goals. The specific results to which the CAS is directed are organized around two main pillars. The first is activities that

will help remove constraints to investment and growth in both rural and urban areas. The second brings together activities for improving the scope and quality of service delivery.

5. The CAS sets out a program of Bank support that encompasses budget support (PRSCs); sector-wide operations (SWAPs); investment projects; public-private partnerships; and analytical and advisory activities (AAA). Poverty Reduction Support Credits (PRSC) will continue to serve as a forum for policy dialogue with the government and as a platform for donor harmonization. In July 2007, the Board approved the next series of the PRSCs, which emphasized removing policy bottlenecks to achieving the MAP and CAS objectives. Given the breadth of the potential agenda, the PRSCs seek to avoid dispersion and focus on a few critical issues (such as governance and public resource management). They will provide US$40–60 million a year to complement IDA MDRI debt relief of over US$30 million a year during the CAS period. In response to the lessons learned from previous Poverty Reduction Support Credits, the transition to budget support is occurring more gradually and budget support will only be scaled up gradually to encompass other sectors in tandem with improvements in the public finance system. The amount of the PRSC V, scheduled for Board presentation in June 2008, has been increased from $40 million to $50 million to support the Government in responding to the negative impact of external shocks from cyclones and from the increase in world oil and food prices.

6. With respect to pillar one of the CAS, removing constraints to investment and growth, the Bank will continue to provide integrated assistance through the Growth Poles Project (FY06), the Watershed and Irrigation Adaptable Program Loan (FY07), two on-going transport operations and one project under preparation, followed by planned growth operations in FY09 and FY10. The PRSCs will complement, as needed, implementation of pro growth policies, help sort out priorities, address coordination issues, and provide budget support. Analytical work will supplement these efforts with a comprehensive infrastructure review to identify the main bottlenecks, draft a strategic vision, and evaluate the impact of investments.

7. The Country Economic Memorandum on growth now being prepared will enrich the current growth diagnostics and help fine-tune future World Bank Group interventions, specifically future growth operations. The Bank Group will step up its assistance to better integrate the economy into global and regional markets and profit from market opportunities at home. This will include continued technical assistance to build government capacity and to help producers adopt improved quality standards within the Trade Integrated Framework Program. The Watershed and Irrigation project ($30 million)—financed currently by IDA with additional financing of $6 million from GEF scheduled for June 2008—is financing investments in irrigation infrastructure and supporting marketing and other services to increase agricultural productivity and diversification. The Bank Group will continue its programs to lower air transport and telecommunication costs and improve accessibility through an open sky policy and upgrades to the telecommunications sector, such as development of a national backbone connected to the regional communications network by

the East Africa Submarine System (EASSy). This is being supported by a regional IDA project in which Madagascar is participating, that the Board approved in March 2007.

8. The Bank will increase its support to the financial sector, making sure that all segments of demand, from microfinance to large enterprises, are adequately covered. IDA will provide technical assistance to improve supervision and regulation, payment and credit information systems, and institutional capacity of the sector. IDA and the IFC will continue to cooperate on facilitating access to credit and other financial services, including such emerging areas as guarantees and leasing. Building on the FSAP recommendations and successful implementation of the IDA microfinance pilot project, the Bank Group will also continue to help the government to draw up a strategy, framework, and programs for scaling up and expanding coverage of financial sector interventions by using a sector-wide approach with other donors. A supplemental IDA credit for the microfinance project was approved on April 10, 2007 to provide bridge financing until multi-donor sector-wide support is in place and other sources of financing become available. In September 2007, Madagascar was selected to receive a $15 million grant for a Financial Sector Project from the Africa Catalytic Growth Fund: this project is on a fast-track for delivery and is scheduled for approval in May 2008. The project will build on the FSAP recommendation and will provide support to the Government to implement key elements of the financial sector strategy currently being finalized.

9. The Bank Group will continue its efforts to improve the energy sector. The main instrument is the Energy and Water Adaptable Program Loan 1&2 (FY07/10). IDA will continue to assist the government in improving the business climate and bring in more foreign direct investment by: (i) continued assistance to the Economic Development Board through the Growth Poles project and other agencies to improve regulation; (ii) work on increasing transparency in issuing licenses and concessions (especially in mining, fishing, tourism, and forestry); and (iii) improving the quality of governance in extractive industries. Madagascar's membership in the Extractive Industries Transparency Initiative (EITI) will be supported through the current Mining Project and additional financing for it was approved on May 22, 2007. A follow-on IDA project (FY10) in the environment sector is also planned.

10. The Bank Group will complement the growth-generating activities under the first CAS pillar with activities to facilitate access to services. Helping to improve all aspects of public finances is a high priority for the CAS. Working with other partners, such as the IMF and France, IDA will continue to help the authorities mobilize more internal resources. Work on taxation and customs will seek to streamline the rules, create a level playing field for all taxpayers by reducing tax exemptions, and facilitate compliance with tax laws. IDA, working with other donors, will continue to help the government better align allocation of resources with MAP priorities, improve budget execution, implement new procurement legislation, and measure the impact of public resource use. Periodic Public Expenditure and Financial Accountability (PEFA) assessments will monitor progress. IDA instruments will include PRSCs, the current Governance and Institutional Development Project (PGDI) and its follow

up – PGDI 2 – which is scheduled for Board in May 2008, and complementary analytical and advisory work, such as the programmatic Public Expenditure Review, the Country Financial Accountability Assessment, a social accountability program, and continued close portfolio management.

11. IDA, with other donors, will continue to assist the government in its efforts to achieve universal enrollment in primary education, increase completion rates, and improve the quality of education at all levels to better prepare the workforce for a more advanced economy. The primary avenue for assistance is the Education for All Fast-Track Initiative using Africa Catalytic Fund resources. IDA assistance will also include a future investment operation in post primary education and review of the labor market. In health, it will help the government further reduce child and maternal mortality by offering access to reproductive services, reducing child malnutrition, improving the availability of clean water and sanitation services, and keeping HIV/AIDS and other sexually transmitted disease rates under control. This will be achieved through current operations in HIV/AIDS and the FY07 health project which is working toward using a sector-wide approach (a second phase of this health project is planned for FY09). IDA will continue to work with the government on institutionalizing the nutrition program and extending nutrition support sites nationwide initially through the nutrition project and then through general budget support.

12. IDA will help the authorities decentralize the provision of basic services. The assistance will focus on support for fine-tuning and implementing the decentralization strategy, including assigning revenues and expenditure responsibility across different levels of government. IDA, the European Union, and other donors will provide financial support for the Local Development Fund (FY09), a new mechanism for financing local infrastructure that builds on the experience of the Community Development Project. Technical assistance will be provided through the Governance and Institutional Development Project, Community Development Project, and sector dialogue. Poverty Reduction Support Credits will provide budget support to key sectors and help identify priorities and monitor the implementation agenda.

13. As of March 31, 2008, the Bank's portfolio consists of 15 IDA projects, one regional telecommunications project, and one GEF project; total commitments are US$1,008 million, including the PRSC IV of $40 million that was disbursed in September 2007. Of the total portfolio, US$260 million is not yet disbursed. Projects scheduled for approval in FY08 include the Financial Sector Project ($15 million in grants); additional financing for the Growth Poles project ($40 million), the second Governance and Institutional Development Project ($40 million); the Watershed GEF Project ($6 million) and the PRSC V ($50 million).

IMF-World Bank Collaboration in Specific Areas

Areas where the Bank takes the lead

14. The World Bank takes the lead in advising in sectors where the Bank has active lending operations (especially in the social sectors, infrastructure, agriculture, and environment) and through analytical studies. Together with the government and other donors, the Bank supports aid coordination, which includes mobilizing donor support for the MAP and the Education for All initiative.

Areas where the IMF takes the lead

15. The Fund takes the lead in policy advice and reforms related to (i) macroeconomic policies and targets; (ii) tax policy and administration; (iii) budgetary accounting; (iv) treasury procedures; (v) public sector wage policy; and (vi) monetary management and exchange rate policy. The Bank team actively participates in discussions between the Fund and the government in all these areas, especially with respect to tax policy and the setting of macroeconomic targets.

Areas of joint responsibility

16. IMF and World Bank staff work closely together on (i) support to the MAP; (ii) analysis and reforms in public financial management; (iii) other governance reforms, including customs; and (iv) financial sector assessment. Joint policy advice is given on budgetary procedures, including expenditure execution, and the functioning of internal and external budget controls. The Bank and the Fund are working particularly closely on helping the authorities to mobilize more internal resources. Work on taxation and customs will seek to streamline the rules, create a level playing field for all taxpayers by reducing tax exemptions, and facilitate compliance with tax laws. In addition, IDA and the IMF will continue to help the government better align the allocation of resources with MAP priorities, improve budget execution, implement new procurement legislation, and measure the impact of public resource use. Periodic PEFA assessments will monitor progress.

17. The Bank and the Fund are supporting implementation of the recommendations of the 2005 FSAP. The dialogue focuses on supporting the financial sector strategy and helping scale up and expand support to the financial sector by preparing a sector-wide approach with other donors.

III. MADAGASCAR—STATISTICAL ISSUES

1. Data provision has some shortcomings, but is broadly adequate for surveillance purposes. The database remains weak, particularly in the areas of real sector, government finances, the balance of payments, and social statistics. The authorities are aware of these deficiencies and are working, with technical assistance from the international community, including the Fund, to alleviate them. Since May 2004, the country has participated in the General Data Dissemination System (GDDS). However, the metadata and plans for data improvement that are posted on the Data Dissemination Bulletin Board (DSBB) need to be updated.

Real sector

2. Production of complete national accounts (based on benchmark data) is infrequent and depends on irregularly collected source data. The last complete benchmark data are for 2001. National accounts estimates are unreliable because of gaps in the source data and methodological shortcomings. In particular, the estimates of agricultural activities are poor because there is no suitable information about the size and evolution of this sector. Moreover, service activities are not properly covered and little information is available on the size of the informal sector. The recent national accounts missions helped the authorities complete a comprehensive exercise for 2001 GDP following the *1993 SNA.* The National Institute of Statistics (INSTAT) intends to prepare revised national accounts using the 2007 benchmarks.

3. INSTAT currently produces two industrial production indices, one for the export processing zone (IPI-ZF) and the other for enterprises outside the export processing zone (IPI-RC). These two indices have different survey frameworks and base years (2000 for the IPI-ZF and 2001 for IPI-RC). Both are quarterly but are released irregularly, sometimes with a lag of up to one year.

4. The consumer price index (CPI) was revised in January 2008 to increase its coverage from four to five principal cities. The base year remains 2000, although the expenditure weights, which are based on the 1999 household survey, were slightly modified. The CPI is generally reported to Fund staff on a timely basis. INSTAT plans to update the base year to 2005 and to derive new weights from the 2005 household expenditure survey in the near future. Data on producer prices and nationwide employment are not available. Various considerations underlie current work on revising the wholesale price index (WPI). The key issue is the relative importance of commercial activities. The usefulness of the WPI is constrained by the limited coverage of manufacturing products and lack of timeliness.

Government finance

5. The 2004 multisector mission found significant gaps in the coverage of government financial statistics and recommended that it be broadened to include public agencies that are

part of the central government. Also, the mission made recommendations on the classification and recording of transactions and the calculation of domestic arrears.

6. Data on central government financial operations are disseminated only annually, and data on public debt are not disseminated at all. The mission recommended monthly dissemination of central government data and quarterly dissemination of government debt data, but monthly reporting of both types of data to STA for publication in *IFS*. The latest data reported to STA and published in the 2007 *GFS Yearbook* relate to the consolidated central government for 2006. However, on the basis of available information, it appears that they do not cover all extrabudgetary units within the central government and classification problems remain, which require extensive use of adjustment entries to current expenditure, grants, and consumption of fixed capital. Detailed breakdowns of data on budgetary and nonbudgetary transactions are unavailable and it is not possible to determine outlays by government function. No subannual data are reported for publication..

Balance of payments

7. The Central Bank of Madagascar (BCM) implemented in 1997 the fifth edition of the *Balance of Payments Manual (BPM5)*. However, the current compilation system is flawed, as external trade data are derived from customs data that suffer from inadequate coverage and recording procedures are deficient. Moreover, smuggling, particularly in the mining sector, further reduces the reliability of the trade data. Because the customs processing system has experienced numerous technical disruptions since 1998, trade data require many manual corrections. Implementation of the ASYCUDA (Automated System for Customs Data, Version 2.7) was largely completed by mid-2002; the system is installed in most customs offices. The five largest customs offices were upgraded to the most recent version of ASYCUDA in late 2006.

8. The 2004 multisector technical assistance mission reviewed progress in the transition to *BPM5* and found that the authorities had implemented foreign direct investment enterprise surveys and are using an upgraded international transactions reporting system (ITRS). The mission noted that the compilation system is still hampered by such recurring issues as excessive processing lags due to partial automation of customs reports and inadequate coverage of, for example, transactions for the private sector, NGOs, and foreign embassies. Also, debt relief from multilateral financial institutions is still misclassified as a current rather than a capital transfer.

9. The EPZs that process goods and reexport them to a third economy are not properly identified within other business services (merchandising and other trade-related services).

10. Although ASYCUDA and port authorities can provide separate data for freight, insurance and other categories, the current 12 percent c.i.f./f.o.b. correction for balance of

payments statistics is entirely attributed to freight. Data for the services and income accounts rely excessively on the ITRS reports, and their accuracy is not routinely assessed against other readily available data.

11. As noted by previous STA missions, INSTAT and the BCM continue to use different techniques to adjust customs data and publish two distinct series of trade statistics, bringing into question the reliability of the balance of payments statistics.

12. The compilation of external debt statistics is generally satisfactory, and the United Nations Conference on Trade and Development (UNCTAD) is installing the latest version of the Debt Management and Financial Analysis System (DMFAS). This system is not yet fully operational; some data entry is still pending, and certain DMFAS modules have yet to be installed.

Monetary and financial statistics

13. The 2004 multisector mission found that prior TA advice had not been implemented, most notably: (i) improvement of the staff and computer resources in the unit in charge of compiling monetary statistics; (ii) electronic transmission of monthly call report forms by the commercial banks to the BCM; and (iii) expansion of the broad money survey to include the microfinance institutions that issue liabilities that meet the national definition of broad money. The mission recommended further improvements to the source data and the compilation of monetary statistics in closer observance of the Fund's *Monetary and Financial Statistics Manual* methodology. The BCM reports monetary and financial data to STA on a timely basis for publication in *IFS*.

Madagascar: Table of Common Indicators Required for Surveillance
(As of May 26, 2008)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items:	
						Data quality--methodological soundness [7]	Data quality—accuracy and reliability [8]
Exchange Rates	May 24, 2008	May 2008	D,M	W	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Apr. 2008	Apr. 2008	M	M	M	O,O,O,NO	LO,O,LO,LO
Reserve/Base Money	Apr. 2008	May 2008	M	M	M	LO,O,LO,LO	O,O,LO,O
Central Bank Balance Sheet	Apr. 2008	May 2008	M	M	M		
Broad Money	Mar. 2008	May. 2008	M	M	M	O,O,LNO,O	O,O,LO,O
Consolidated Balance Sheet of the Banking System	Mar. 2008	May 2008	M	M	M	LO,LO,LNO,O	O,O,LO,O
Interest Rates[2]	Mar. 2008	May 2008	Q and M	Q and M	Q and M		
Consumer Price Index	Apr. 2008	May 2008	M	M	M	O,O,LO,O	O,O,LO,LO
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Feb. 2007	Apr. 2007	M	M	M	Not available	Not available
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Feb. 2007	Apr. 2007	M	M	M	O,LO,LNO,LNO	O,LNO,LNO,LNO
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2007	Q1 2008	A	A	A		
External Current Account Balance	Q4 2007	Q1 2008	Q	Q	Q	O,LO,LO,LNO	LO,LNO,LNO,LNO
Exports and Imports of Goods and Services	Q4 2007	Q1 2008	M	Q	Q		
GDP/GNP	2007	Q1 2008	A	A	A	LO,LO,LNO,LNO	LNO,LO,LNO,LO
Gross External Debt	Dec. 2007	Q1 2008	A	A	A		
International Investment Position [9]			NA	NA	NA		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); and Not Available (NA).
[7] Reflects the assessment provided in the Multi-Sector Statistics Mission of February 2004 and assessment of mission staff. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO) or not available (NA).
[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.
[9] Includes external gross financial asset and liability position vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF MADAGASCAR

Joint World Bank/IMF Debt Sustainability Analysis

Prepared by the staffs of the International Monetary Fund and
the International Development Association

Approved by Robert Sharer and Mark Plant (IMF)
and Carlos Braga and Sudhir Shetty (IDA)

June 17, 2008

Madagascar's risk of debt distress remains low. The stress tests reveal that external debt sustainability is most sensitive to export shocks, given Madagascar's concentration of exports in textiles and mining products. The inclusion in the analysis of the relatively small amount of domestic debt does not change the assessment of the country's risk of debt distress.

Introduction

1. **This debt sustainability analysis (DSA) has been prepared jointly by IMF and World Bank staff.** It is based on the framework for low-income countries approved by the respective Executive Boards. The framework takes into account indicative thresholds for external debt burden indicators determined by the quality of the country's policies and institutions.[1] It comprises a baseline scenario (which assumes, among others, full delivery of HIPC Initiative debt relief by external creditors) and a set of alternative scenarios.

Recent Developments and Current Debt Situation

2. **Madagascar reached its completion point under the Enhanced HIPC Initiative in October 2004.** The resulting debt relief, including additional bilateral debt relief from most Paris Club creditors, reduced the end-2003 NPV of debt-to-exports ratio to an estimated 137 percent.[2] At that time, the ratio was projected to increase to 154 percent in 2004 and

[1] According to the World Bank Country and Policy Institutional Assessment (CPIA) Index, Madagascar is rated as a medium performer. This rating is the same using either the latest index or the three-year average. The indicative thresholds for external debt applicable for that category of countries are: (i) 150 percent for NPV of debt-to-exports ratio; (ii) 40 percent for the NPV of debt-to-GDP ratio; (iii) 250 percent for the NPV of debt to fiscal revenues ratio; (iv) 20 percent for the debt service to exports ratio; and (v) 30 percent for the debt service to revenue ratio.

[2] Total debt relief to Madagascar under the Initiative amounts to US$836 million in NPV terms.

decline thereafter. Most Paris Club creditors have written-off their outstanding claims after full delivery of HIPC debt relief. In 2007, an agreement was concluded with Japan concerning a number of loans. The agreements on a Japanese loan and with the Russian Federation are in the process of finalization. Regarding non-Paris Club creditors, agreements were concluded with the Abu Dhabi Fund and the People's Republic of China. As of end-2007, Madagascar has an estimated US$595 million in arrears towards non-Paris Club and private creditors that are not delivering HIPC debt relief (with Algeria, Libya, and Iraq accounting for 97 percent of the total). Madagascar continues to make efforts to contact these creditors, regularize payments, and obtain full debt relief under the HIPC Initiative.

3. **Madagascar's external public debt declined significantly from US$3.5 billion at end-2005 (including arrears) to US$1.7 billion at end-2007 on the account of the debt relief under MDRI.** [3] The MDRI debt relief has triggered a change in the creditor composition. The share of multilateral creditors has decreased from more than 75 percent at end-2005 to 58 percent at end-2007. Conversely, bilateral and commercial creditors represented 41 percent of total outstanding obligations (with Paris Club creditors accounting for 6 percent), compared to about 23 percent by end-2005. The bilateral Paris Club debt that remains is mainly to Russia.

Madagascar : External Debt Outstanding, end-2007

Creditor	Amounts (millions of US$)	In percent of GDP	Share (in percent)
Total external debt	1729.8	23.4	100
Bilateral Creditors	712.2	9.7	41
Paris Club	96.3	1.3	6
Other countries	619.6	8.4	36
Private creditors	14.8	0.2	1
Multilateral	999.1	13.5	58

Source: Madagascar authorities and Fund staff estimates

[3] See www.imf.org for details on the implementation of the MDRI by the IMF. The amount of relief includes undisbursed HIPC assistance from the Fund, previously expected to be delivered over time, and MDRI assistance. Excluding the HIPC share, the MDRI debt relief amounts to US$186 million. For details on the implementation of the MDRI by IDA, see IDA/SecM2005 and IDA/SecM2006-0131.

Baseline Medium- and Long-Term Scenario

4. **The baseline scenario remains broadly similar to the one described in the previous DSA** (Box 1).[4] Construction costs of the two large mining projects have been revised upward. Construction of an ilmenite mine (US$805 million, 11 percent of GDP) began in 2006 and construction of a nickel and cobalt mine and processing facility (US$3.2 billion, 44 percent of GDP) commenced in 2007. They will be completed over the next three years. Such a large inflow of capital is leading to upward pressure on the currency and these mining projects will result in higher economic growth and, starting in 2009/10, in higher exports. Starting in 2008, the bulk of the largest mining project will be financed by a US$2.1 billion private commercial loan triggering a substantial increase in the country's nominal external debt from 23 percent of GDP in 2007 to 41 percent in 2009 and 2010. Because of this loan, the NPV of total external debt-to-GDP and total external debt-to-exports would increase substantially. However, the ratios would remain relatively low and decline rapidly as soon as production starts. In contrast, the public and publicly guaranteed debt is expected to remain broadly stable at about 23 percent of GDP in the short run before increasing slightly to reach about 26 percent by 2028 (Table 1).

5. **The baseline scenario is premised on the implementation of sound macroeconomic and structural policies and concessional external financing.** Key macroeconomic assumptions are indicated in Box 1. Grants and loans, which had climbed very rapidly to close to 14 percent of GDP in 2004 due to large inflows of external aid and borrowing to finance recovery after the 2002 political crisis, will remain relatively high in the short term (increasing from 8 percent of GDP in 2007 to 9 percent of GDP in 2008 based on recent information from donors) and gradually decrease to about 6 percent of GDP by the end of the projection period. New borrowing is projected to remain largely at concessional terms. Borrowing, in the short run, is based on the projections provided by donors as of March 2008. Borrowing projections over the longer run are based on historical patterns. The share of bilateral loans is assumed to be slightly larger than in the recent past. As a result, the grant element of new public sector borrowing is expected to decline from about 48 percent in 2008 to less than 45 percent starting in 2009. Borrowing projections do not include additional borrowing requirements that would be needed to fully attain the objectives of the Madagascar Action Plan (MAP).[5] Once quantified, these figures will be reflected in future updates of the DSA.

[4] See IMF Country Report No. 07/236, Republic of Madagascar: 2007 Article IV Consultation - Staff Report (http://www.imf.org/external/country/MDG/index.htm).

[5] Country Report No. 07/59, Republic of Madagascar: Poverty Reduction Strategy Paper—Madagascar Action Plan (http://www.imf.org/external/country/MDG/index.htm.)

Box 1. Baseline Macroeconomic Assumptions

Real GDP growth is projected at about 7 percent on an annual basis on average over 2008–28. This growth rate is higher than the historical average (5 percent over 1998–2007 if the impact of the political turmoil of 2002 is excluded) due to the impact of two large mining projects that started at the end of 2006.

Inflation as measured by the GDP deflator in dollar terms is projected to average about 4 percent, with higher rates of 14 percent in 2008 and decelerating to 3 percent subsequently. However, reflecting the impact of the large inflows of FDI on the exchange rate, which in turn will depend crucially of the monetary policy undertaken, the increase in the GDP deflator in local currency is expected to decelerate from 9.7 percent in 2008 to 5 percent beginning in 2012.

Export volumes are projected to grow at close to 9 percent on average during the period 2008–28 and support GDP growth. The export growth rates jump in 2010 when the exports of the big mining projects start.

Import volumes average 5 percent for the period 2008–28. Import volumes are expected to grow significantly due to the high import content (estimated at about 80 percent) of the mining projects during their construction phase and will then slow down to about 5 percent.

The current account deficit is projected to increase significantly during the initial years of the projections due to the large increase in imports related to the big mining projects. However, as exports of these projects start, the current account deficit would gradually shrink from about 23 percent of GDP in 2008 to 9 percent by 2010 and 6 percent by the end of the projection period.

Tax revenues are projected to increase from 11.4 percent of GDP in 2007 to about 16 percent of GDP in 2027, as a result of tax policy reforms aimed at simplifying the tax regime, the termination of ad hoc tax and import duty exemptions, and steadfast improvements in tax and custom administration.

Total government expenditures are aimed to absorb available financing from tax revenue and external assistance, resulting in an increase of about 5 percent of GDP over the projection period.

External grants and loans progressively unwinds from the exceptionally high level of about 11 percent of GDP on average during the period 2004 to 2006 (in part for financing of recovery after the 2002 political crisis) to about 7 percent of GDP over 2008–13 and to 6 percent of GDP in the outer years.

6. **Under the baseline scenario, Madagascar's external debt indicators remain well below the relevant thresholds throughout the projection period** (Figure 1 and Table 1). The external debt indicators dropped sharply in 2006 as a result of the MDRI (Table 1). The NPV of public and publicly guaranteed debt-to-GDP ratio which was about 36 percent in 2005 [6] (a level already below the threshold for medium performers) dropped to about 17 percent in 2007 and is projected to remain at this level for the projection period. Reflecting improvement in tax collection (Box 1), the NPV of debt-to-revenue ratio would decline more rapidly from about 145 percent in 2007 to about 103 percent at the end of the period. In the short run, structural problems in the shrimp sector and the slowdown in global economy in 2008 will lead to a slight deterioration of the NPV of debt-to-exports ratio up to 2009. In the medium run, the NPV of debt-to-exports is mainly driven by the impact of the big mining projects. These projects are expected to start exporting by end-2009 or in 2010. The value of these exports is so large that the ratio is projected to drop from 61 percent in 2009 to 47 percent in 2010 and grow through the projected period (but remaining well below the threshold) due to new borrowing. The debt service-to-exports and debt service-to-revenue ratios exhibit a similar pattern. Moreover, given the highly concessional nature of the existing debt and new borrowing, the debt service ratios are well below the indicative thresholds throughout the projection period but show a rising trend due to the accumulation of new debt.

7. **Madagascar's total public debt ratios, including domestic debt, also stay well below the external debt indicative thresholds under the base case scenario** (Figure 2 and Table 3). The domestic debt is projected to remain under 10 percent of GDP through the projection period, as total expenditure is assumed to be broadly kept in check with available financing from tax revenue and external assistance, and the fiscal deficit is projected to remain predominantly financed by grants and loans on concessional terms.

Sensitivity Analysis

External public debt indicators

8. **The sensitivity analysis suggests that the external debt indicators are low but could deteriorate with inappropriate policies, and/or if confronted by adverse shocks. However, they would generally remain below the thresholds.**[7]

[6] See IMF Country Report No. 06/306, Republic of Madagascar: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Activation of the Trade Integration Mechanism (http://www.imf.org/external/country/MDG/index.htm).

[7] The stress tests performed under the sensitivity scenario assumed permanent modifications of key baseline assumptions ("alternative scenarios") as well as temporary deviations ("bound tests"). The alternative scenarios include a "historical scenario", under which the main variables that determine the debt dynamics are assumed to remain at their historical average, and a "financing scenario" that depicts the impact of lower concessionality in new borrowing. The "bound tests" are designed to examine the impact on debt and debt service indicators of shocks, based on the country's historical volatility, to key variables.

- The debt indicators in the **historical scenario** (Figure 1 and Scenario A1 in Table 2 based on the average of the years 1998–2007) follow a lower trajectory than under the baseline. It should be noted, however, that the years leading up to 2007 include years of political turmoil, large terms of trade shocks, cyclones, and natural disasters. During that period, although real growth averaged only about 3.5 percent, the current account deficit was also low, averaging 6.5 percent of GDP. This explains the relatively benign trajectory of the debt indicators under the historic scenario.

- The **financing scenario** (Scenario A2) reveals that Madagascar's external debt indicators are sensitive to the terms of new borrowing. Under this scenario, the NPV of debt-to-GDP remains below the threshold but would increase gradually from 16 percent in 2008 to 23 percent in 2018 and 26 in 2028. The NPV of debt-to-exports ratio would increase steadily from 60 percent in 2008 to 80 percent in 2018 and 124 in 2028. This increase is substantial, although the ratio would remain below the threshold. The projected path of these two ratios, together with the rising trend of the debt service to export ratio from 2 to 7 percent during the projection period, points to risks from new borrowing at less favorable terms than assumed in the baseline scenario.[8] In contrast, the ratio of NPV of debt-to-revenue would remain stable until 2011 before increasing to about 160 percent in 2028. The debt service to revenue ratio would increase from 4 percent in 2008 to 9 percent in 2028.

- **The bound tests do not reveal major underlying risks but highlight vulnerabilities to changes in the inflows of FDI and to their impact on growth and exports.** The most extreme stress tests show the impact of the combined FDI and growth shock on the NPV of debt-to-GDP and NPV of debt-to-revenue ratios (Scenario B5) do not result in indicators significantly breaching thresholds. The NPV of debt-to-GDP increases significantly (to 31 percent in the medium run before declining to 24 percent in 2028) but is comfortably below the threshold level. The NPV of debt-to-revenue would be closer to the threshold but would fall relatively rapidly after 2011. In contrast the NPV of debt-to exports ratio would be persistently above the threshold starting in 2010 under the exports shock scenario (Scenario B2). It should be noted, however, that this extremely pessimistic assumes that the two export-oriented large mining projects fail to export, while construction is moving in both sites. By construction, this scenario assumes a decline in exports in 2009 and 2010, at the very same moment the two large mining projects are expected to start, triggering a major increase in Madagascar total exports.[9] Under more realistic scenarios, the vulnerabilities associated with the big mining projects appear limited. Even if the expansion plan of the ilmenite project (Box 1) does not materialize or if exports of the large mining projects are only 1/3 of their baseline level (due either to a lower volume and/or to lower export prices) the NPV of debt-to-exports would remain below the threshold. These stress tests point nonetheless to the export concentration as a key vulnerability, as the exports of the two large

[8] This scenario is similar to a sharp decline in grant financing, compared to the baseline, compensated by loans.

[9] Even under this unrealistic scenario the debt-service-to-exports ratio would remain significantly below the threshold.

mining projects and textiles exports are expected to account for about two thirds of exports of goods over 2011–17.

Potential impact of additional borrowing to finance the Madagascar Action Plan and the objectives of the Millennium Development Goals (MDG).

9. Reaching the MAP and the MDG objectives will require a scaling up of external grants and loans. At the same time, a prudent borrowing strategy will be essential to ensure that the gains resulting from HIPC and MDRI relief are preserved. For illustrative purposes, staff quantified the potential impact of a substantial increase in public borrowing.[10] If public borrowing were to be three times larger than the SDR 1.9 billion assumed in the baseline scenario for the period 2009–15, the country's risk of debt distress would be significantly increased, as illustrated by one of the ratios (NPV of debt-to-revenue) exceeding its indicative threshold.[11] Moreover, any adverse shock or disappointing macroeconomic outturn would lead to a breach of other indicative sustainability thresholds. This highlights the higher risk of debt distress associated to such a level of additional borrowing.

Total public debt indicators

10. **Total public debt indicators are most sensitive to economic growth shocks.** A temporary or permanent deviation from the baseline real GDP growth path would result in a deterioration of the total public debt ratios compared to the baseline at the end of the projection period, if spending plans were kept unchanged, which is unlikely in view of past experience (Table 4, Scenarios A3 and B1).

Debt Distress Classification and Conclusions

11. **Madagascar's risk of debt distress remains low following the debt relief under the HIPC Initiative and the MDRI.**[12] In the baseline scenario, Madagascar's debt indicators, albeit somewhat higher than in the previous DSA, remain well below the relevant indicative thresholds. The debt situation does not appear to be significantly vulnerable to shocks. Nonetheless, Madagascar's debt outlook appears most sensitive to export shocks, given the high export concentration in textiles and two mining products. The sensitivity analysis points to the need not only for implementing the policies underpinning the baseline scenario, but also for careful monitoring of borrowing policies and good export performance.

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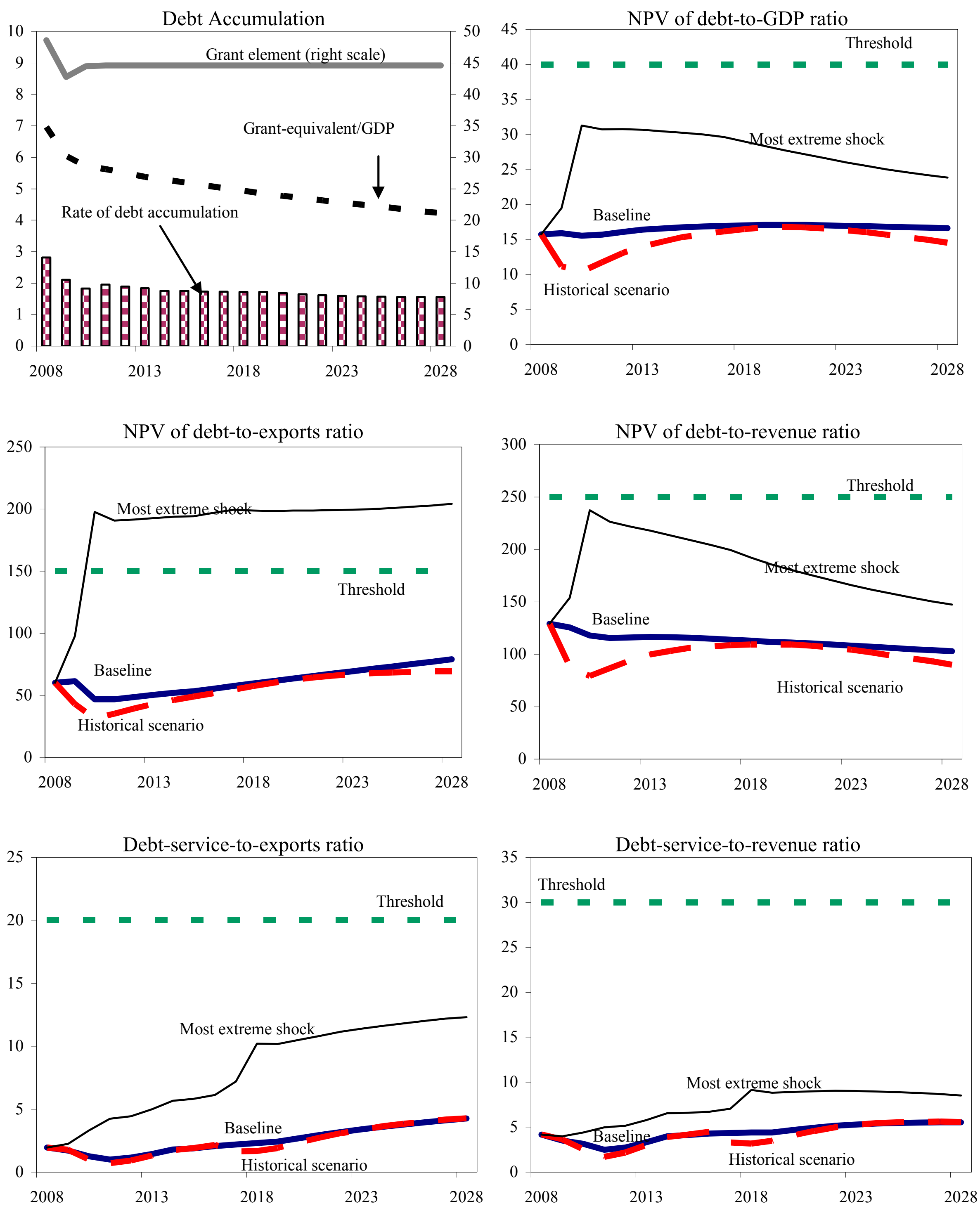
[10] Projection for grants remains at the level in the baseline scenario.

[11] This scenario assumes no impact of increased borrowing on growth and exports, no absorptive capacity constraint, and no co-financing by the budget. After 2015, annual borrowing is assumed to be similar to borrowing in the baseline.

[12] The risk of debt distress is low, although the threshold of NPV of debt-to-export ratio is breached in a bound test. As explained in the sensitivity analysis, this bound test is extremely pessimistic because it assumes that the two export-oriented large mining projects fail to export. Under more realistic alternative stress tests, the threshold would not be breached.

Figure 1. Madagascar: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2008-2028



Source: Staff projections and simulations.

Table 1. Madagascar: External Debt Sustainability Framework, Baseline Scenario, 2005-2028 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
External debt (nominal) 1/	**72.7**	**29.2**	**23.4**			**32.1**	**40.7**	**40.8**	**38.5**	**37.1**	**35.8**		**30.7**	**26.2**	
o/w public and publicly guaranteed (PPG)	72.7	29.2	23.4			23.0	23.6	23.3	23.7	24.4	24.9		26.3	26.2	
Change in external debt	-7.2	-43.5	-5.8			8.7	8.6	0.1	-2.3	-1.4	-1.3		-0.8	0.0	
Identified net debt-creating flows	-6.4	-5.3	-7.3			10.1	7.6	-0.1	-1.9	-1.5	-1.3		-0.6	0.1	
Non-interest current account deficit	**10.1**	**8.5**	**14.0**	**6.5**	**4.0**	**22.6**	**19.5**	**8.3**	**4.9**	**4.8**	**5.3**		**5.9**	**6.0**	5.9
Deficit in balance of goods and services	14.2	11.2	16.3			25.1	21.5	4.3	1.9	1.9	2.7		4.1	5.3	
Exports	26.9	29.8	30.3			26.2	26.0	33.2	33.5	33.1	32.6		28.7	21.1	
Imports	41.0	41.1	46.6			51.2	47.5	37.6	35.4	35.0	35.2		32.7	26.4	
Net current transfers (negative = inflow)	-4.8	-4.0	-3.0	-4.0	1.6	-3.1	-2.4	-2.2	-2.0	-1.9	-1.8		-1.5	-1.0	-1.4
o/w official	-1.3	-1.3	-0.4			-1.0	-0.8	-0.7	-0.7	-0.7	-0.6		-0.6	-0.5	
Other current account flows (negative = net inflow)	0.8	1.2	0.7			0.6	0.4	6.1	5.1	4.8	4.5		3.4	1.6	
Net FDI (negative = inflow)	**-6.5**	**-7.6**	**-14.1**	**-6.1**	**3.2**	**-11.4**	**-10.4**	**-5.9**	**-5.4**	**-5.4**	**-5.7**		**-5.3**	**-4.6**	-5.1
Endogenous debt dynamics 2/	**-10.0**	**-6.2**	**-7.2**			**-1.1**	**-1.5**	**-2.5**	**-1.4**	**-0.9**	**-1.0**		**-1.2**	**-1.3**	
Contribution from nominal interest rate	0.8	0.2	0.1			0.2	0.6	1.1	1.4	1.3	1.2		0.7	0.3	
Contribution from real GDP growth	-3.2	-3.3	-1.3			-1.3	-2.1	-3.5	-2.8	-2.2	-2.1		-1.9	-1.6	
Contribution from price and exchange rate changes	-7.6	-3.1	-6.0			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-0.8**	**-38.2**	**1.5**			**-1.4**	**1.0**	**0.2**	**-0.4**	**0.1**	**0.0**		**-0.2**	**-0.2**	
o/w exceptional financing	-1.0	-0.4	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	...	...	16.8			24.8	33.0	33.0	30.5	28.8	27.2		21.4	16.6	
In percent of exports	...	...	55.6			94.7	126.8	99.3	91.1	87.1	83.7		74.8	79.0	
NPV of PPG external debt	**...**	**...**	**16.8**			**15.7**	**15.9**	**15.5**	**15.7**	**16.1**	**16.4**		**17.0**	**16.6**	
In percent of exports	**...**	**...**	**55.6**			**60.0**	**61.2**	**46.8**	**46.9**	**48.6**	**50.4**		**59.4**	**79.0**	
In percent of government revenues	**...**	**...**	**144.7**			**129.1**	**125.6**	**118.0**	**115.6**	**116.0**	**116.4**		**112.9**	**102.8**	
Debt service-to-exports ratio (in percent)	**9.2**	**15.5**	**0.9**			**2.0**	**3.4**	**3.9**	**7.5**	**7.0**	**6.7**		**5.3**	**4.3**	
PPG debt service-to-exports ratio (in percent)	**9.2**	**15.5**	**0.9**			**1.9**	**1.7**	**1.3**	**1.0**	**1.1**	**1.4**		**2.3**	**4.3**	
PPG debt service-to-revenue ratio (in percent)	**22.7**	**41.5**	**2.4**			**4.2**	**3.5**	**3.2**	**2.5**	**2.7**	**3.3**		**4.4**	**5.5**	
Total gross financing need (billions of U.S. dollars)	306.7	304.9	11.4			1082.5	1028.8	430.5	260.8	245.9	285.1		536.2	1455.5	
Non-interest current account deficit that stabilizes debt ratio	17.3	52.0	19.8			13.9	10.9	8.2	7.2	6.2	6.6		6.7	6.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.6	5.0	6.2	3.7	5.9	7.0	7.3	9.8	7.6	6.1	6.2	7.4	6.5	6.5	6.5
GDP deflator in US dollar terms (change in percent)	10.6	4.4	25.8	4.7	13.3	16.8	4.4	4.0	3.6	3.0	3.0	5.8	3.0	3.0	3.0
Effective interest rate (percent) 5/	1.2	0.3	0.5	1.2	0.7	1.1	2.1	3.0	3.9	3.7	3.4	2.9	2.3	1.2	1.9
Growth of exports of G&S (US dollar terms, in percent)	-4.8	21.8	35.4	15.2	30.1	8.1	11.2	46.0	12.4	7.9	7.6	15.5	6.3	6.7	6.6
Growth of imports of G&S (US dollar terms, in percent)	-0.1	9.8	51.5	15.5	28.1	37.4	3.7	-9.6	5.0	8.1	10.1	9.1	7.6	8.0	7.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	48.6	42.8	44.5	44.6	44.6	44.6	44.9	44.6	44.6	44.6
Aid flows (in billions of US dollars) 7/	682.3	3075.9	717.9			1022.8	955.0	1031.0	1154.1	1239.3	1335.7		1984.9	4625.8	
o/w Grants	288.9	2639.8	316.4			434.0	475.7	524.3	567.2	605.9	642.5		910.0	1846.1	
o/w Concessional loans	265.7	267.6	248.8			371.1	317.5	334.2	384.9	415.4	454.6		704.9	1821.8	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.0	6.0	5.7	5.6	5.5	5.4		4.9	4.2	4.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			74.5	75.9	78.4	77.6	77.5	77.0		75.8	72.5	74.8
Memorandum items:															
Nominal GDP (billions of US dollars)	5040.5	5525.9	7378.5			9216.2	10322.8	11788.3	13143.3	14364.4	15717.3		24841.1	62996.4	
(NPVt-NPVt-1)/GDPt-1 (in percent)						2.8	2.1	1.8	2.0	1.9	1.8	2.1	1.7	1.6	1.7

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) 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/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Table 2. Madagascar: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-28
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	**2018**	2028
NPV of debt-to-GDP ratio								
Baseline	16	16	16	16	16	16	**17**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-28 1/	16	11	10	12	13	14	**16**	15
A2. New public sector loans on less favorable terms in 2009-28 2/	16	17	17	18	19	20	**23**	26
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	16	17	19	19	20	20	**21**	20
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	16	19	29	29	28	28	**25**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	16	18	20	20	21	21	**22**	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	16	20	21	21	21	21	**20**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	16	19	31	31	31	31	**29**	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	16	22	22	22	23	23	**24**	23
NPV of debt-to-exports ratio								
Baseline	60	61	47	47	49	50	**59**	79
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-28 1/	60	43	31	35	39	43	**58**	69
A2. New public sector loans on less favorable terms in 2009-28 2/	60	64	51	53	57	61	**81**	124
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	60	61	47	47	49	50	**59**	79
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	60	98	198	191	192	193	**199**	204
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	60	61	47	47	49	50	**59**	79
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	60	78	64	62	64	65	**71**	84
B5. Combination of B1-B4 using one-half standard deviation shocks	60	73	116	113	115	116	**125**	140
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	60	61	47	47	49	50	**59**	79
NPV of debt-to-revenue ratio								
Baseline	129	126	118	116	116	116	**113**	103
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-28 1/	129	88	79	87	94	100	**109**	90
A2. New public sector loans on less favorable terms in 2009-28 2/	129	132	129	131	136	141	**153**	161
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	129	138	145	142	143	143	**139**	127
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	129	153	222	210	204	199	**169**	119
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	129	143	153	150	151	151	**147**	134
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	129	160	161	154	152	150	**135**	109
B5. Combination of B1-B4 using one-half standard deviation shocks	129	154	237	226	222	218	**192**	147
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	129	176	166	162	163	163	**158**	144

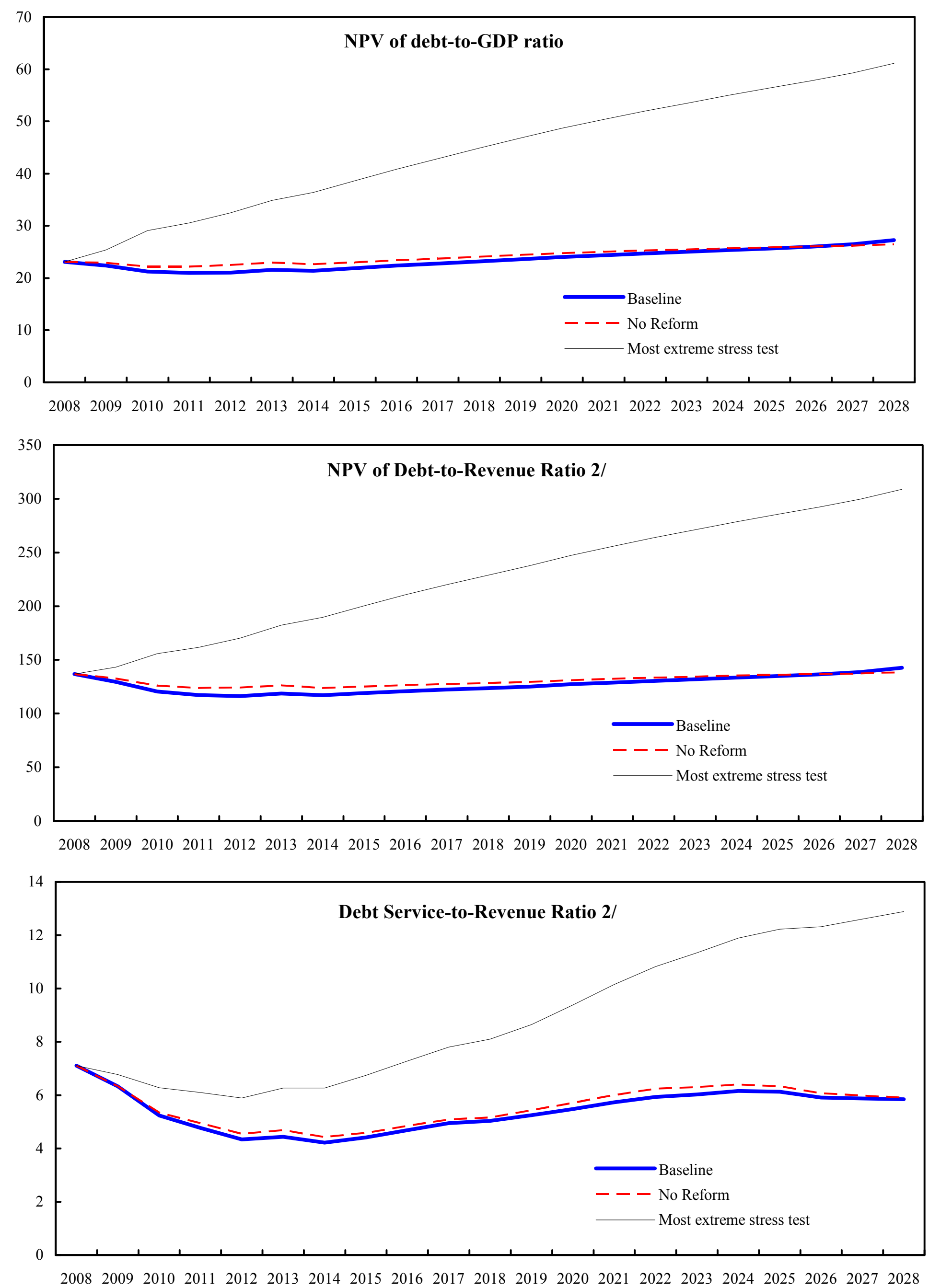
Table 2. Country: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-28 (continued)
(In percent)

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
Debt service-to-exports ratio								
Baseline	2	2	1	1	1	1	**2**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-28 1/	2	2	1	1	1	1	**2**	4
A2. New public sector loans on less favorable terms in 2009-28 2/	2	2	1	1	2	2	**3**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	2	2	1	1	1	1	**2**	4
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	2	2	3	4	4	5	**10**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	2	2	1	1	1	1	**2**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	2	2	2	1	1	2	**3**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	2	3	3	**6**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	2	2	1	1	1	1	**2**	4
Debt service-to-revenue ratio								
Baseline	4	4	3	2	3	3	**4**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-28 1/	4	4	3	2	2	3	**3**	6
A2. New public sector loans on less favorable terms in 2009-28 2/	4	4	3	3	4	4	**6**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2009-10	4	4	4	3	3	4	**5**	7
B2. Export value growth at historical average minus one standard deviation in 2009-10 3/	4	4	4	5	5	5	**9**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-10	4	4	4	3	4	4	**6**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-10 4/	4	4	4	3	4	4	**6**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	4	5	5	6	**9**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	4	5	4	3	4	5	**6**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	43	43	43	43	43	43	**43**	43

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 2.Madagascar: Indicators of Public Debt Under Alternative Scenarios, 2008-2028 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2018.
2/ Revenue including grants.

Table 3.Madagascar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-2028
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2005	2006	2007	Historical Average 5/	Standard Deviation 5/	2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
Public sector debt 1/	83.3	39.0	32.2			30.3	30.0	28.9	28.9	29.2	30.0		32.4	36.9	
o/w foreign-currency denominated	72.8	29.2	23.4			22.8	23.4	23.1	23.5	24.2	24.8		26.2	26.2	
Change in public sector debt	-9.1	-44.2	-6.9			-1.9	-0.3	-1.0	0.0	0.4	0.8		0.5	0.8	
Identified debt-creating flows	-4.6	-54.4	-6.2			0.1	-2.3	-1.1	-0.2	0.3	0.9		0.6	0.1	
Primary deficit	2.0	1.1	1.5	1.9	1.0	2.8	2.0	2.1	2.3	2.3	2.8	2.4	2.8	3.7	3.0
Revenue and grants	16.7	17.9	15.9			16.9	17.3	17.6	17.9	18.1	18.2		18.7	19.1	
of which : grants	5.7	6.7	4.3			4.7	4.6	4.4	4.3	4.2	4.1		3.7	2.9	
Primary (noninterest) expenditure	18.7	19.0	17.5			19.7	19.3	19.8	20.2	20.4	21.0		21.6	22.8	
Automatic debt dynamics	-4.9	-13.6	-7.5			-2.7	-4.3	-3.2	-2.5	-2.0	-2.0		-2.2	-2.6	
Contribution from interest rate/growth differential	-5.0	-3.9	-2.5			-2.3	-2.1	-2.8	-1.7	-1.4	-1.3		-1.5	-2.0	
of which : contribution from average real interest rate	-0.9	0.0	-0.3			-0.2	0.0	-0.1	0.3	0.3	0.4		0.4	0.2	
of which : contribution from real GDP growth	-4.1	-4.0	-2.3			-2.1	-2.1	-2.7	-2.1	-1.7	-1.7		-1.9	-2.2	
Contribution from real exchange rate depreciation	0.1	-9.7	-4.9			-0.4	-2.2	-0.4	-0.8	-0.6	-0.7		...	...	
Other identified debt-creating flows	-1.7	-41.8	-0.2			-0.1	-0.1	-0.1	-0.1	-0.1	0.0		0.0	-1.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	-1.0	
Recognition of implicit or contingent liabilities	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)	-1.7	-41.8	-0.2			-0.1	-0.1	-0.1	-0.1	-0.1	0.0		0.0	0.0	
Other (specify, 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	
Residual, including asset changes	-4.6	10.1	-0.7			-1.9	2.0	0.1	0.2	0.1	-0.1		-0.1	0.7	
NPV of public sector debt	46.2	32.3	25.6			23.1	22.4	21.3	21.0	21.0	21.5		23.2	27.3	
o/w foreign-currency denominated	35.8	22.5	16.8			15.6	15.8	15.5	15.6	16.0	16.3		17.0	16.6	
o/w external	35.8	22.5	16.8			15.6	15.8	15.5	15.6	16.0	16.3		17.0	16.6	
NPV 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	
Gross financing need 2/	16.5	13.4	11.2			11.5	9.6	8.7	8.3	7.9	8.1		9.0	13.6	
NPV of public sector debt-to-revenue and grants ratio (in percent)	277.1	180.4	160.8			136.7	129.5	120.6	117.2	116.2	118.6		123.7	142.7	
NPV of public sector debt-to-revenue ratio (in percent)	422.7	288.5	220.2			189.6	176.6	161.3	154.5	151.5	153.0		153.7	168.6	
o/w external 3/	327.3	201.0	144.7			128.2	124.5	117.3	115.0	115.4	115.9		112.6	102.7	
Debt service-to-revenue and grants ratio (in percent) 4/	26.4	18.9	8.3			7.1	6.3	5.2	4.8	4.3	4.4		5.0	5.8	
Debt service-to-revenue ratio (in percent) 4/	40.2	30.2	11.4			9.9	8.6	7.0	6.3	5.7	5.7		6.3	6.9	
Primary deficit that stabilizes the debt-to-GDP ratio	11.2	45.3	8.4			4.7	2.4	3.2	2.4	1.9	2.0		2.3	2.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.6	5.0	6.2	3.7	5.9	7.0	7.3	9.8	7.6	6.1	6.2	7.4	6.5	6.5	6.5
Average nominal interest rate on forex debt (in percent)	1.5	0.8	0.6	1.5	0.8	0.7	0.9	0.9	0.9	0.7	1.4	0.9	1.2	0.6	1.1
Average real interest rate on domestic currency debt (in percent)	-1.5	9.3	1.2	0.8	5.2	1.4	2.6	2.6	2.6	2.6	2.6	2.4	2.4	2.4	2.3
Real exchange rate depreciation (in percent, + indicates depreciation)	0.1	-14.2	-18.2	-2.0	11.7	-1.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	18.3	11.5	10.3	10.5	4.5	9.7	7.5	6.5	5.5	5.0	5.0	6.5	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-12.1	6.8	-2.6	7.6	21.4	20.9	5.2	12.3	10.2	7.0	9.3	10.8	7.1	8.7	7.1
Grant element of new external borrowing (in percent)	43.2	44.2	44.2	13.2	21.2	44.2	44.2	44.2	44.2	44.2	44.2	44.2	44.2	46.2	...

Sources: Country authorities; and Fund staff estimates and projections.
1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]
2/ 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.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

Table 4.Madagascar: Sensitivity Analysis for Key Indicators of Public Debt 2008-2028

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
NPV of Debt-to-GDP Ratio								
Baseline	23	22	21	21	21	22	23	27
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	23	23	23	23	23	23	24	26
A2. Primary balance is unchanged from 2008	23	23	22	22	23	23	24	26
A3. Permanently lower GDP growth 1/	23	23	22	22	23	25	32	57
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	23	25	29	31	32	35	45	61
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	23	23	22	22	22	22	24	28
B3. Combination of B1-B2 using one half standard deviation shocks	23	24	25	24	23	23	22	24
B4. One-time 30 percent real depreciation in 2009	23	27	25	24	23	24	24	27
B5. 10 percent of GDP increase in other debt-creating flows in 2009	23	29	27	26	26	27	27	29
NPV of Debt-to-Revenue Ratio 2/								
Baseline	137	129	121	117	116	119	124	143
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	137	132	127	124	123	123	118	120
A2. Primary balance is unchanged from 2008	137	133	126	124	124	126	129	138
A3. Permanently lower GDP growth 1/	137	131	125	124	126	133	168	288
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	137	143	156	162	170	182	229	309
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	137	133	126	122	121	123	127	144
B3. Combination of B1-B2 using one half standard deviation shocks	137	136	135	128	123	123	115	122
B4. One-time 30 percent real depreciation in 2009	137	156	141	134	130	129	126	139
B5. 10 percent of GDP increase in other debt-creating flows in 2009	137	169	154	148	145	146	144	152
Debt Service-to-Revenue Ratio 2/								
Baseline	7	6	5	5	4	4	5	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	6	6	5	5	5	5	5
A2. Primary balance is unchanged from 2008	7	6	5	5	5	5	5	6
A3. Permanently lower GDP growth 1/	7	6	5	5	5	5	6	11
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	7	7	6	6	6	6	8	13
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	7	6	5	5	4	5	5	6
B3. Combination of B1-B2 using one half standard deviation shocks	7	7	6	5	5	5	5	5
B4. One-time 30 percent real depreciation in 2009	7	7	6	5	5	5	6	6
B5. 10 percent of GDP increase in other debt-creating flows in 2009	7	6	7	6	5	5	6	7

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

Statement by the IMF Staff Representative for the Republic of Madagascar
July 2, 2008

This statement summarizes economic developments since the issuance of the staff report. These developments do not alter the thrust of the staff appraisal.

- Annual inflation rose to 8.7 percent in May 2008 (in line with expectations) due to an acceleration in the food component. There continues to be a gradual and steady appreciation of the Ariary through end-June 2008.
- Preliminary data through end-May 2008 indicate that the monetary and fiscal programs (including in terms of tax revenue collections) remain on track.
- Preliminary evidence indicates that the authorities have met the structural benchmark for the "review of BCM guidelines on management of foreign exchange reserves" at end-June 2008.
- Further information will be needed in order to assess whether the end-June benchmark for the "automatic transfer of data on revenue collection by the Directorate General of Taxation and the Directorate General of Customs to the Directorate General of the Treasury via SIGFP" was met.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 08/158
FOR IMMEDIATE RELEASE
July 2, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under PRGF Arrangement with Madagascar, Increases Financial Assistance to Mitigate Impact of External Shocks, and Approves US$35.3 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review of Madagascar's economic performance under a three-year Poverty Reduction Growth Facility (PRGF) arrangement and augmented access under the arrangement. To help the country cope with rising food and oil prices, as well as the impact of severe cyclones earlier this year, the Board agreed to augment the SDR 54.99 million (about US$89.8 million) arrangement by SDR 18.33 million (about US$29.9 million).

The completion of the fourth review enables Madagascar to draw an amount equivalent to SDR 21.606 million (about US$35.3 million), bringing total disbursements under the PRGF arrangement to SDR 53.03 million (about US$86.6 million), including part of the augmentation.

In completing the review, the Board also granted waivers for the nonobservance of two structural performance criteria. These structural criteria are related to the inspection of goods leaving ports, and the elimination of the duty free zone regime for new enterprises.

The three-year PRGF arrangement was originally approved on July 21, 2006 (see Press Release No. 06/163).

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

"The Malagasy authorities are to be commended for the progress achieved in implementing their PRGF-supported program, despite the combined shocks from higher world energy and food prices, and the recent cyclones. Economic growth has remained strong while inflation has declined and budget performance stayed on track. The authorities have put in place several targeted measures to help alleviate the impact of the current shocks on the poor and the Fund has approved an increase in its financial assistance to Madagascar to help with the higher food import bill. In order not to discourage a medium-term supply response, the rice export ban should be lifted as soon as feasible.

"The recent improvement in tax revenue performance is highly welcome. Efforts should continue to make further progress in tax and customs administration, and to reform budgetary financial control aimed at improving budget execution. These measures will allow for an increased allocation of budgetary resources to priority sectors.

"The authorities' continued commitment to gear monetary and exchange rate policy toward lowering inflation while reducing the excessive volatility of the exchange rate is welcome. The central bank should continue to build up its foreign exchange reserves while keeping monetary policy adequately tight to minimize the second-round inflationary effects of the increases in world food and fuel prices.

"A longer-term strategy for the reform of the electricity sector is needed to make the national public utility company self sustaining on an operational basis, and to provide an environment that would be compatible with achieving a higher pace of economic growth over the medium term.

"The Malagasy authorities' failure to report a multiple currency practice and a related exchange restriction gave rise to noncomplying disbursements in connection with the second and third reviews under the PRGF arrangement. The authorities took prompt corrective actions, including issuing a circular to the banks, and remain committed to the objectives of the program. Accordingly, the Executive Board decided to grant waivers for the nonobservance of those two continuous performance criteria," Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Statement by Laurean W. Rutayisire, Executive Director for the Republic of Madagascar
July 2, 2008

On behalf of my Malagasy authorities, I would like to thank the Executive Board and Management for their continued support to Madagascar's reforms aimed at achieving sustainable growth and poverty reduction. I would also like to thank staff for their constructive dialogue and fruitful exchanges with the authorities during their recent visits in Antananarivo.

Madagascar's performance under the PRGF remains positive, in spite of a number of overlapping shocks, including the rise in world energy and food prices, the global slowdown and two cyclones during the first quarter of 2008. Under the impetus of the Madagascar Action Plan (MAP), which serves as the anchor for economic policy for the period 2007-2011 and the reforms scheduled in the PRGF-supported program, the authorities continue to make progress in their efforts to stabilize the economy, reach higher levels of economic growth and reduce poverty. In this context, the economy has continued to perform well, with strong growth, declining inflation and limited government recourse to domestic financing. Fiscal and monetary policies remained on track, despite some delays in the implementation of structural reforms, stemming from weak institutional capacity. The authorities have taken strong corrective measures, whenever necessary to comply with the program objectives, including by forcefully addressing the issue of potential multiple currency practice for which a waiver is requested.

In order to expand dialogue on programs and resources needed to implement the MAP, the government held the first Partners' Round Table in Madagascar on June 9 and 10, 2008. My authorities are grateful to donors for their pledges and hope they can continue to rely on the timely assistance of the international community to meet their development goals.

I. Recent Economic Developments

Madagascar was recently hit by two cyclones, which affected 240,000 people and damaged infrastructure and crops. Of the US$36 million needed for humanitarian aid, only US$15 million has been pledged by donors. Public reconstruction costs are about US$109 million. Economic performance was strong. Real GDP picked up to 6.2 percent in 2007 from 5 percent in 2006, owing to the good performance of exports and FDI related to the construction of two large mining projects. Inflation declined from 10.8 percent to 10.3 percent, due to a deceleration of food prices that more than offset a pick up in nonfood inflation. Budget execution has been generally on track, due to higher than expected tax revenue stemming from good customs performance, and substantial payments of property tax and VAT by a large mining company, combined with lower than programmed expenditures. As a result, net domestic borrowing fell below the program ceiling and growth in the money supply was in line with the program's objectives. Base money also kept pace with the program and the impact of foreign exchange reserves on monetary growth was lessened by open market transactions and slower than expected FDI inflows. In spite of minor problems in asset quality, banking sector soundness remained adequate. In the external sector, the balance of payments recorded a surplus, as the current account deficit was more than covered by capital inflows.

All the quantitative performance criteria at end January 2008 and all but two indicative monetary targets at March 31, 2008 were met. Due to lower-than programmed mining FDI inflows, the central Bank missed its foreign reserves target. The Central Bank of Madagascar (CBM) also exceeded its ceiling on domestic assets because of higher use of the central bank refinancing window and less than programmed sterilization of open market operations.

In the structural area, delays in the implementation of the enhanced control at the port of Toamasina were due to technical problems during installation of the Tradenet system. The draft export promotion law eliminating the duty free zone and enterprise regime, while grandfathering existing enterprises in the regime, needs further discussion to build consensus. My authorities request waivers for these two performance criteria. Also, two structural benchmarks have been met, although one, the production of treasury account balances with the budget information system SIGFIP was delayed, due to technical problems.

Regarding the issue of potential Multiple Currency Practice (MCP) and a related exchange restriction, my authorities acted in good faith and took swift and timely corrective measures. To contain sharply rising international prices and inflationary pressures, the CBM initiated in January 2007 and during the early weeks of 2008, a policy of offering foreign exchange to importers of basic foodstuffs (rice, wheat and cooking oil) at a discounted exchange rate. To ensure that the discount would not exceed a two percent spread with the interbank buying rate, the CBM Governor maintained responsibility to sign on each transaction. As a result, the selling prices deviated only on average by about 0.7 percent from the daily market rate and the aggregate discount was less than 0.01 percent of GDP. My authorities immediately halted this practice after staff drew their attention to the possibility of an MCP and a related exchange restriction. They also took corrective actions by issuing an official circular to all banks confirming Madagascar's intention to conform to Article VIII, Section 3 of the IMF Articles of Agreement and pledging to keep the interbank foreign exchange market free of discriminatory or multiple currency practices. Given the rapid corrective actions implemented, and the relatively minor size of the foreign exchange discount, my authorities would like to request a waiver for the nonobservance of the performance criteria related to the MCP and the exchange restriction.

II. The Reform Agenda Ahead

The 2008 macroeconomic framework is based on the priorities identified in the MAP and takes into account the need to adjust to the rising energy and food prices, the damages of the cyclones and the global slowdown. Economic growth is projected to be at 7 percent from 6.2 percent in 2007, owing to the impact of major mining investments. Inflation has been revised upward for 2008 to 9.7 percent from 8 percent, reflecting rising international food and oil prices. Despite the expected inflows of FDI, gross international reserves are expected to decline markedly due to large oil and food imports. As a result, my authorities have requested an augmentation of access under the PRGF arrangement.

Fiscal policy

The key budget priorities are to further mobilize domestic revenues, finance priority and emergency spending and strengthen Public Finance Management. In spite of tax cuts and new spending measures to alleviate the shock of food and fuel prices on the population, the authorities have opted for a modest fiscal tightening in order to ease some of the inflationary pressure. In order to alleviate the consequences of the sharp rise in fuel and food prices on the population and remove structural impediments to growth, the authorities have prepared a supplementary budget stressing the following components: (i) temporary VAT exemption on rice from July 1, 2008 to alleviate the impact of higher international prices on the poorest, (i) VAT exemption on oil for lamps, (iii) targeted measures to alleviate the food price shocks for the poorest, (iv) increase of the budgetary credits for current expenditure, in order to pay overdue electricity bills of ministries and universities to JIRAMA, (v) increase of domestically financed capital expenditure, increase of the payment of accumulated arrears to the telecoms company, (vi) other expenditures to recapitalize the state airline company Air Madagascar, increase transfers to communes and embassies as well as civil servants' wages and prepare the African Union Summit.

To achieve revenue objectives, the authorities will build on progress achieved with the 2008 tax reform to further simplify the tax code for small taxpayers, substantially reduce the scope for new exemptions or suspension of taxes and/or customs duties and publish on a monthly basis, the list of beneficiaries on the website of the Ministry of Finance. My Malagasy authorities will also introduce to the parliament the new legislation eliminating the EPZ regime and review the fiscal regime for mining projects with the assistance of the World Bank. These policy measures will be complemented with the continued implementation of the priority action plans to strengthen tax and customs administration of large and medium sized tax payers. On customs administration, the authorities will further install the tradenet electronic platform linking all the economic actors involved in foreign trade and foster the implementation of the 2007 audit recommendations with a particular emphasis on strengthening controls and collecting unpaid duties. To enhance the fight against fraud, customs and tax administrations will intensify their exchange of information.

On the expenditure side**,** the authorities will use the room created by increased tax revenue to increase the level of priority outlays, while keeping domestic indebtedness low. In addition to earmarking expenditure for the priority sectors, the authorities will focus on reforming the civil servants' pension fund, paying VAT on externally financed expenditure and avoiding accumulating new arrears. In particular, they will accelerate the reimbursement of VAT credit to exporters, oil distributors and oil refueling for international shipping and airline within a maximum of 60 days after receiving their requests. They will also maintain a prudent debt management policy based on concessional lending to finance the MAP development agenda. In this context, the authorities will continue negotiations with non-Paris Club creditors to obtain additional debt cancellation. They are also determined to advance the Public Finance Management agenda, in order to improve budget execution and strengthen public finances. To this end, they intend to use the potential offered by the fiscal management information system (SIGFP) to enhance the monitoring of budget execution. In close collaboration with donors, the authorities will develop an action plan to enhance the effectiveness of financial control.

Monetary and Financial Sector Policies

As regards ***monetary and exchange rate policy***, my authorities will continue to adhere to a prudent policy aimed at keeping inflation in the single digits and avoiding potential overshooting of the exchange rate. To meet these goals, the central bank will enhance the sterilization policy to a level deemed necessary to maintain the targeted level for base money and the authorities have agreed to cover any extra costs of sterilization operations. In order to minimize monetary financing of the State, my authorities have decided to reduce statutory advances of the CBM. To enhance the management of its foreign exchange reserves, the CBM has developed a strategic investment plan with Fund's technical assistance.

In the financial sector, a national strategy is being prepared with the assistance of the international community. On the basis of this strategy and the World Bank financial Sector Project under preparation, the authorities will improve the framework and structure of the financial sector and the supervision of nonbank financial institutions, while increasing access to financing for small and medium enterprises. With the assistance of the South African Development Bank and the German Development Bank, the authorities are working on the creation of a development bank. In this endeavor, they intend to proceed with caution, while respecting transparency, adequate governance and limiting fiscal risks.

Structural Reforms

My authorities are determined to continue implementing the agenda outlined in the MAP aimed at reducing the cost of doing business. *In the electricity sector,* while the authorities recognize the need to make further progress on restructuring JIRAMA, they are also concerned about the impact of the oil price shock for the population. As such, my authorities have decided to delay the 15 percent electricity price increase until October 2008, while taking a number of measures to strengthen JIRAMA, including the implementation of a price adjustment mechanism allowing a profit margin for investment, a budget transfer to cover operational losses and an international tender for a new five-year management contract.

As regards trade liberalization, my authorities have stepped-up efforts to phase out import duties on imports from the SADC with a view of eliminating them by 2012. They are also pursuing negotiations with the European Union (EU) to reach agreement on the aspects of the Economic Partnership Agreement (EPA) that were not covered by the interim agreement signed in 2007. Concerning *governance*, the authorities are committed to taking measures to ensure compliance with the Extractive Industries Transparency Initiative (EITI) and scale up efforts to combat money laundering and large-scale financial crime

III. Conclusion

My authorities have achieved significant progress and ownership in the implementation of policies and reforms defined in the PRGF program. Since the HIPC Completion point, they have outlined a clear strategy to align the Madagascar Action Plan (MAP) and PRSP priorities with the allocation of budgetary resources. The authorities have also taken a number of remedial measures to keep the program on track.

In light of the sound macroeconomic policy performance and the effective remedial actions implemented in response to address slippages, I would like to request completion of the fourth review and the granting of waivers for the nonobservance of two quantitative and three structural PCs, and modification of two continuous PCs. Given the pressures on balance of payments and the need to maintain a prudent level of international reserves, I would like, on behalf of my authorities, to request an augmentation of access under the PRGF arrangement by 15 percent of quota. I would appreciate Board support in this regard.