INTERNATIONAL MONETARY FUND

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REPUBLIC OF MADAGASCAR

March 2019

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MADAGASCAR

In the context of the Fourth Review Under the Extended Credit Facility and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 22, 2019, following discussions that ended on February 15, 2019, with the officials of the Republic of Madagascar on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on March 8, 2018.
- A **Staff Supplement** updating information on recent developments.
- 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 the Republic of Madagascar*
Memorandum of Economic and Financial Policies by the authorities of the Republic of Madagascar*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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March 22, 2019

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IMF Executive Board Completes Fourth Review of Extended Credit Facility Arrangement for Madagascar

- Executive Boar decision enables the disbursement of about US$43.9 million to Madagascar.
- Extended Credit Facility supported program aims to support country's efforts to reinforce macroeconomic stability and boost growth.
- More robust reforms needed to maintain the momentum of the program.

On March 22, 2019, the Executive Board of the International Monetary Fund (IMF) completed the fourth review under the Extended Credit Facility (ECF)[1] Arrangement for Madagascar. The completion of this review enables the disbursement of SDR 31.43 million (about US$43.9 million), bringing total disbursements under the arrangement to SDR 187.69 million (about US$261.9 million).

Madagascar's 40-month arrangement for SDR 220 million (about US$305 million, or 90 percent of Madagascar's quota) was approved on July 27, 2016 (see Press Release No.16/370). Additional access of 12.5 percent of Madagascar's quota was approved by the Executive Board in June 28, 2017, bringing Madagascar's access under the ECF arrangement to SDR 250.55 million (about US$347.1 million) at that time. This arrangement aims to support the country's efforts to reinforce macroeconomic stability and boost sustained and inclusive growth.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"Madagascar's performance under its economic program supported by the Fund's Extended Credit Facility arrangement has remained generally strong. In the midst of the presidential election, the program is estimated to have remained broadly on track through end-2018. The structural agenda is also advancing. Recent economic developments also remain generally favorable, with solid economic growth, single-digit inflation, generally good fiscal performance, and foreign exchange reserves at historic highs.

[1] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

“The newly elected president and the government are committed to pursuing the program’s strategy of inclusive growth through increased investment and social spending. Boosting revenue mobilization is central to this strategy and warrants renewed vigilance, given the small revenue shortfall in the second half of 2018. In particular, it is important to avoid tax base erosion when implementing new tax incentives for investment. The efforts underway to reduce transfers to the public utility JIRAMA and to limit fiscal risks related to fuel pricing are essential to creating fiscal space for high-priority investment and social spending. Intensified reform efforts will be necessary to maintain the momentum of the program.

“Efforts to enhance governance and fight corruption—central to the success of the authorities’ program—advanced with the recent approval of a new law on AML/CFT. Enacting the draft law on asset recovery submitted to parliament over a year ago is essential to complete the modernization of the legal framework. Continued development of institutions to fight corruption is also crucial for effective enforcement.”

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

March 8, 2019

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. Madagascar's economic recovery continued in 2018, notwithstanding challenges related to the presidential election in November/December 2018. While some economic pressures developed in the second half of 2018, economic conditions remained generally positive. Completion of the presidential election, continued implementation of the economic reform program, and stable functioning of public institutions have buttressed confidence, and the newly-elected President has committed to pursuing the country's reform program, including plans to address some slippages.

Review. The authorities met all end-June 2018 performance criteria (PCs) and all but one indicative target (ITs). Five of the nine structural benchmarks (SBs) throughout end-2018 have been fully met, with good progress on all others except fuel price adjustment. The program remained broadly on track at end-September and, based on preliminary information, at end-December 2018 (albeit with some slippage on revenue). Most of the 2019 objectives set at the launch of the program, both for economic indicators and structural reforms, remain achievable. Staff recommends: (i) modification of the end-June PCs; and (ii) completion of the fourth review under the ECF arrangement based on performance on end-June 2018 targets. Completion of the review will lead to disbursement equivalent to SDR 31.428 million, bringing total disbursements under the program to SDR 187.69 million (about $261.0 million).

Focus. The discussions focused on maintaining progress on the key objectives of the program, especially boosting fiscal space for priority investment and social spending by containing lower priority spending. The main challenges involved fuel pricing and transfers to the public utility, JIRAMA. Other issues included structural reforms to promote inclusive growth, most notably in investment capacity, the financial sector, and governance.

Outlook and risks. The outlook continues to be generally positive. Pursuit of economic reforms should yield results, while the pressures in 2018 from higher oil prices and pre-electoral weakness in confidence abate under the baseline. As a low-income country with an open economy, Madagascar remains vulnerable to exogenous shocks, for example in the terms of trade.

Approved By
David Owen and Vitaliy Kramarenko

Discussions on the authorities' economic and financial program took place in Antananarivo during September 12-26, 2018 and February 11-15, 2019. The IMF staff team included Mr. Mills (Head), Mr. Léost, Ms. Perinet, Mrs. Cheptea (all AFR), Mr. Behar (SPR), and Mr. Kabanda (FAD). The missions were assisted by Mr. Gerard (Resident Representative) and Ms. Rasoamanana (local economist). Messrs. Razafindramanana and Alle (both OED) participated in the discussions. The IMF team met with President Rajoelina, Acting President Rakotovao (in September 2018), Prime Minister Ntsay, Minister of Economy and Finance Randriamandrato, Minister of Finance and Budget Andriambololona (in September 2018), Minister of Energy, Water and Hydrocarbons Andriamanga, Central Bank of Madagascar Governor Rasolofondraibe, and other senior officials, as well as representatives of the private sector, civil society and development partners.

CONTENTS

BACKGROUND 4

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK 4

PROGRAM PERFORMANCE 6

POLICY DISCUSSIONS 7

A. Promoting Pro-Growth Fiscal Policy 7

B. Managing Bank Liquidity and Continuing to Control Inflation 10

C. Continuing Efforts to Build a Sound Financial Sector Supporting Growth 11

D. Promoting Economic Governance and Combating Corruption 11

PROGRAM ISSUES, SAFEGUARDS, AND RISKS 12

STAFF APPRAISAL 14

FIGURES

1. Inflation and External Developments 16
2. Monetary Developments 17
3. Financial Sector Developments 18
4. Medium-Term Macroeconomic Prospects 19
5. Government Revenue and Spending 20

TABLES

1. Selected Economic Indicators, 2016-24 ____ 21
2. National Accounts, 2016-24 ____ 22
3. Fiscal Operations of the Central Government, 2017-24 (Billions of Ariary) ____ 23
4. Fiscal Operations of the Central Government, 2016-24 (Percent of GDP) ____ 24
5. Balance of Payments, 2016-24 ____ 25
6. Monetary Accounts, 2016-24 ____ 26
7. Balance Sheet of the Central Bank, 2016-19 ____ 27
8. Financial Soundness Indicators, 2009-18 ____ 28
9a. Quantitative Performance Criteria and Indicative Targets for the ECF Arrangement, June 2018 ____ 29
9b. Indicative Targets for the ECF Arrangement, September 2018 ____ 30
10. Structural Benchmarks April to December 2018 ____ 31
11. External Financing Requirements and Sources, 2016-19 ____ 32
12. Projected External Borrowing, 2018-19 ____ 33
13. Proposed Schedule of Disbursements and Timing of ECF Arrangement Reviews ____ 34
14. Indicators of Capacity to Repay the Fund, 2019-32 ____ 35

ANNEXES

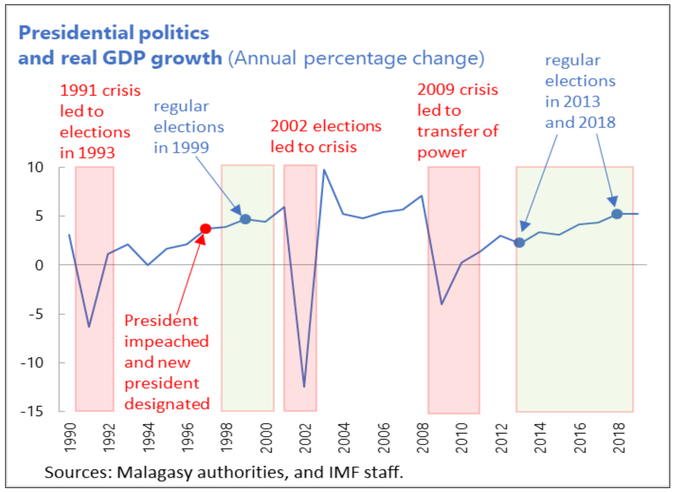
I. Medium-Term Objectives Under the ECF-Supported Program (2016-2019) ____ 36
II. Risk Assessment Matrix ____ 37
III. Governance Issues ____ 38
IV. Summary FSAP Action Plan ____ 41

APPENDIX

I. Letter of Intent ____ 42
Attachment I. Memorandum of Economic and Financial Policies ____ 44
Attachment II. Technical Memorandum of Understanding ____ 60

BACKGROUND

1. The constitutional transfer of power following the 2018 presidential election is an important milestone in Madagascar's political and economic development. The electoral process, with two rounds in November and December, proceeded as planned, and the new President, Andry Rajoelina, was inaugurated on January 19, 2019.[1] There were occasional tensions, most notably in May, which led to the formation of a caretaker consensus government in June. This successful constitutional transfer of power stands out in Madagascar's history considering previous crises in presidential politics and associated economic setbacks.



2. Economic conditions and implementation of the economic program remained generally positive in 2018, despite the challenges of an electoral year. The economic recovery has continued, with moderate inflation, fairly good fiscal performance, and a solid external position. Indicators of economic confidence weakened slightly in the second half of the year, however. With the support of the consensus government, public institutions continued to function, with mostly good implementation of monetary and fiscal policy (revenue experienced a small shortfall, see below). Policy space was limited by the fragile socio-political context, which contributed to slippages in fuel pricing and the legislative agenda. Progress nevertheless continued toward the key objectives of the ECF-supported program (Annex I), although at a slower pace.

3. The newly elected President has committed to a strong economic reform agenda and the IMF-supported program, while calling for continued external support. He has publicly affirmed his support for the policy plans in the program; the Prime Minister has been re-appointed until at least parliamentary elections expected in May 2019.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

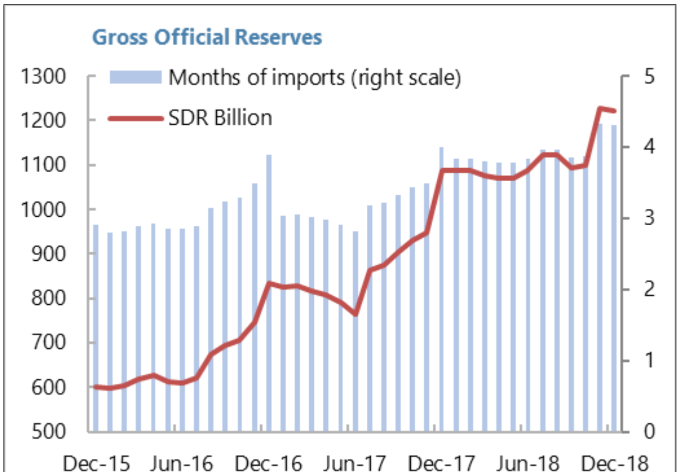
4. Economic growth accelerated in 2018, with inflation under control (Tables 1-2, Figure 1, MEFP, ¶1-2). Growth is estimated at 5.2 percent in 2018, driven notably by a recovery in agriculture and rising public and private investment; this is the highest growth since 2008. After inflation briefly

[1] A former president, Andry Rajoelina won in the second round with about 56 percent of the vote over Marc Ravalomanana, also a former president. The incumbent president, Hery Rajaonarimampianina, finished third in the first round.

ticked up to 9 percent (y-o-y) in late 2017 due to a poor rice harvest, it gradually decelerated in 2018 to 6.1 percent in December.

5. The 2018 budget execution and financing have been broadly in line with plans, despite some challenges in the second part of the year (MEFP, ¶3). After strong fiscal performance through end-June 2018, domestic tax revenue fell short in the second half of the year, likely linked to election-related disturbances (including strikes by tax agents). As a result, the domestic primary balance could show a slight deficit for the year (¶11). In addition, delays in adjusting fuel pump prices to international prices generated a liability to private sector distributors, which in turn led the government to postpone some of the distributors' tax payments. The resulting cash shortfall forced the government to find some budget savings, mainly on domestically financed investment (0.2 percent of GDP). Commercial bank financing was weaker than expected in the second half of the year, perhaps related to a dip in confidence, before largely recovering.

6. The external position remained strong in 2018, although conditions for reserve accumulation were weaker in the second half of the year (MEFP, ¶4-5). Boosted by higher mining and vanilla receipts, the current account balance rose to an estimated surplus of 0.3 percent of GDP. The 2017 External Sector Assessment (ESA) concluded that the external position was stronger than implied by fundamentals. Greater persistence of a terms of trade windfall and lower investment-related imports have contributed to a higher current account balance than forecast at the time of the ESA. The real effective exchange rate has appreciated since the ESA, despite some depreciation in 2018 owing to the elections. The central bank (BFM) intervened to build reserves and limit volatility following an algorithm designed with IMF TA. Reserves rose to SDR1.2 billion, their highest level ever. Covering more than 4 months' imports, reserves remain within the targeted range of the Assessed Reserve Adequacy metric based on months of imports.



Sources: Malagasy authorities, and IMF staff.

7. The monetary stance is broadly adequate, with BFM continuing to manage the high volatility of liquidity in the banking sector. Historically high international vanilla prices since 2016 have complicated this task; while excess bank reserves fluctuated significantly in 2018, the BFM intervened to smooth extreme swings and avoid negative consequences on inflation or market conditions. The pace of credit growth to the private sector remains healthy at 10 percent change year-on-year in real terms on average in 2018.

8. The medium-term outlook remains generally favorable. Growth is projected to remain above 5 percent each year between 2019 and 2021, supported by public investment, improvements in the energy sector, and construction. Inflation is projected to remain moderate, around 6 percent through end-2021. Imports of intermediate and capital goods are expected to rise with robust growth and investment, contributing to a current account deficit of around 4 percent of GDP by 2021. However, this deficit remains sustainable, thanks especially to concessional foreign financing, and gross official reserves should continue to cover at least 4 months of imports. External debt sustainability remains strong, as evidenced in the 2018 DSA, and the projected fiscal position remains robust, including a positive primary domestic balance.

9. This favorable outlook remains subject to risks (Annex II, Risk Assessment Matrix). Growth could suffer if investment project implementation is substantially slower than expected. Unexpected losses at SOEs or delayed reforms in public spending could crowd out pro-growth priority spending, while insufficient progress in fighting corruption could harm confidence and test donor goodwill. Madagascar also remains highly vulnerable to terms of trade shocks, for example, from oil prices (Text Box 1). Negative external developments, such as slower-than-expected global growth, rising protectionism and a retreat from multilateralism, could reduce exports and donor assistance. At the same time, there are some upside risks for growth, since projections are conservative on FDI and the multiplier effect from scaled-up public investment.

Text Box 1. Sensitivity to International Oil Prices

Other things being constant, an increase (decrease) of $10 per barrel in 2019 would:

- increase (decrease) imports by 0.6 percent of GDP.

- increase (decrease) the reference price for fuel by about 6 percent and—if pump prices are not adjusted—increase (decrease) the government liability to fuel distributors by about 0.2 percent of GDP over 6 months.

- increase (decrease) 2019 JIRAMA's operational costs by about 0.1 percent of GDP.

Sources: Malagasy authorities; and IMF staff.

PROGRAM PERFORMANCE

10. The authorities met all end-June 2018 performance criteria (PCs) (MEFP ¶7 and Table 9a). The targets for the domestic primary balance (floor, the fiscal anchor of the program), central bank net foreign assets (floor), and net domestic assets (ceiling) were also achieved with substantial margins, and the PCs related to external debt were also observed. In addition, the indicative target (IT) on tax revenue was exceeded by more than 0.1 percent of GDP, while the IT on priority social spending (floor) was missed, due to administrative delays in some investment spending.

11. The authorities also met most end-September ITs (Table 9b) and end-December PCs, except for a slight deviation on the primary fiscal balance (based on preliminary information). All end-September 2018 ITs were observed, except for minor shortfalls on tax revenue and priority social spending. Preliminary information suggests that the program remained broadly on track through end-December, although a shortfall in net tax revenue, estimated at 0.3 percent of GDP, raises the likelihood of a similar deviation from the primary fiscal balance PC. The small revenue shortfall in 2018 is largely attributable to election-related disturbances, including strikes by tax agents, is expected to be temporary, and contingency measures have been prepared if the revenue shortfall continues in early 2019 (see ¶14). The final assessment of performance on end-December conditionality will be made in the context of the fifth review of the ECF arrangement when complete data is available.

12. Progress continued on the structural reform agenda (MEFP, ¶9 and Table 10). The end-June 2018 structural benchmark (SB) on installing smart meters by the public electricity and water company JIRAMA was completed, whereas the submission of the law governing the National Public Establishments to parliament was completed in August, a slight delay. The two continuous SBs related to transparency on PPP contracts and JIRAMA's procurement have also been observed since the 3rd review. Regarding the four end-December 2018 SBs, the law promoting repo transactions was submitted to parliament; the submission of the new banking law slipped to the first half of 2019 due to longer than expected consultations with the public and IMF experts; the use of the new Tax Identification Number was extended to major ministries, but not all ministries as intended; and the authorities have prepared to publish the final decisions of the Anti-Corruption Courts (but no decisions have been taken).

13. However, in a fragile social and political situation, the authorities did not observe the structural benchmark on avoiding budget costs from fuel pricing (MEFP, ¶9). The adjustment of fuel prices was discretionary and incomplete in 2018 (despite increases totaling 10 percent), leading to a cumulative liability to fuel distributors (resulting from the gap between reference and pump prices) exceeding 0.5 percent of GDP at end-2018—more than twice the ceiling targeted at the time of the third review (¶16).

POLICY DISCUSSIONS

A. Promoting Pro-Growth Fiscal Policy

14. Discussions focused on maintaining momentum in 2019 toward the key program objective of boosting pro-growth fiscal policy. The 2019 budget, adopted in December 2018, is consistent with program objectives, although the pace of progress has lessened as the electoral context limited policy space (MEFP, ¶14):

- The 2019 budget foresees a further increase in the net tax to GDP ratio to 12.3 percent, as administrative measures underway continue to yield gains. The authorities are preparing contingency plans (including new tax measures —such as strengthened controls, some adjustments in the VAT regime, and eliminating certain exemptions—and spending savings if needed, which would be part of a supplementary budget) in case the revenue shortfall in 2018 re-occurs, contrary to expectations.
- Spending allocated to lower-priority expenditure and the wage bill is restrained, although not as much as targeted in some cases (Figure 5). Transfers to **JIRAMA** are limited in the budget to 0.6 percent of GDP; however, a tariff increase anticipated in January by JIRAMA's budget was not implemented by the previous government, and accordingly a revised budget consistent with these transfers will be adopted by the company's board by mid-March 2019 (prior action). The authorities are working to realize substantial cost-savings in 2019 that would minimize recourse

to revenue increases; the authorities prefer this approach taking into account the high cost structure and the impact of tariff increases on social stability and the poorest consumers (studies on tariffs and suppliers are underway, with World Bank support). The **wage bill** is equivalent to 5.7 percent of GDP, a slight drop despite paying off some past liabilities. However, in the absence of cost-saving reforms for the **civil servant pension fund**, transfers will increase to 0.7 percent of GDP (from 0.6 percent in 2018).

- Higher priority spending will continue to increase. **Domestically-financed public investment** will rise to 2.8 percent of GDP (an increase from 2.3 percent in 2018, albeit smaller than targeted). Overall, with **externally-financed investment** projected at 5.1 percent of GDP, total public investment would be close to the initial objective of the program of reaching 8 percent of GDP. **Domestically-financed priority social spending** (as defined under the program) will continue a steady increase to 1.2 percent of GDP (slightly less than previously targeted, despite an effort to protect plans for social spending from the smaller increase in public investment).

15. Overall, the projected domestic primary balance, the program's fiscal anchor, remains positive. The 2019 budget anticipates a domestic primary surplus of 0.3 percent of GDP (excluding central bank recapitalization[2]), in line with program objectives and fiscal sustainability. Past government domestic arrears will be paid off as planned (0.3 percent of GDP, adding to the 2.4 percent of GDP repaid in 2016-2018). The budget is fully financed, relying on commercial bank financing, central bank advances (within regulatory limits), and planned budget support from the World Bank and the African Development Bank.

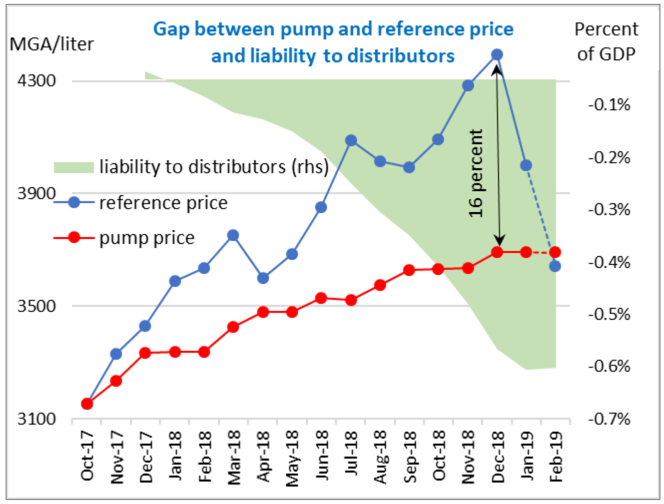
16. The authorities have adopted a plan to settle the liability related to fuel pricing and avoid its re-occurrence, including an agreement with the fuel distributors to be signed by mid-March 2019 (prior action, MEFP, ¶15, TMU, ¶25). The plan, which aims to maintain cost-recovery pricing while keeping in mind the country's social and political fragility, contains the following main elements (which form the basis of a continuous SB):

- The **full implementation of an automatic price mechanism, with a smoothing formula and limited discretion**, to prevent the creation of any significant and lasting new liability, no later than end-September 2019. After peaking at 16 percent in December, the gap has dropped to 8 percent in January and then disappeared in February, due to the fall in international oil prices. Since fuel price increase can have significant social impacts (e.g., through prices for urban transport or essential food products), the authorities will combine this automatic pricing mechanism with clearly limited discretionary adjustments, by prior agreement with the distributors.[3] The results of the review of the distributors' margins, expected mid-year, will be reflected in a new price structure.

[2] Consistent with the 2016 central bank law, the government will recapitalize the BFM in the second quarter of 2019 for about 0.2 percent of GDP (including this operation, the domestic primary balance is 0.1 percent of GDP).

[3] The authorities have committed to limits on the accumulation of liabilities, to be monitored by the Malagasy Office for Hydrocarbons: a continuous ceiling on all liabilities in 2019 of 0.4 percent of GDP; an end-year ceiling of

- The **settlement of the accumulated liability to the distributors no later than end-2020,** through: (i) the cancellation of payments due by the distributors to the Road Maintenance Fund (¼ percent of GDP) completed in December 2018; and (ii) an additional element in the price structure (akin to a surcharge). The authorities granted temporary compensation through the postponement of tax payments worth 0.3 percent of GDP in 2018.



17. The authorities should continue the development of measures to mitigate the potential impact of the automatic fuel price adjustment mechanism on the most vulnerable. While the mechanism is not expected to lead, under current conditions, to significant increases in real terms in the near future, any future increases in world prices will be passed on, albeit in a gradual manner. Current measures focus on subsidies to the urban public transport (which reach a small portion of the population and are not well targeted). While capacity to implement other mitigating measures with broader reach is limited in the short term, staff urges resolute pursuit of on-going efforts to develop and scale up of social safety net programs, building on World Bank-supported programs like the Productive Safety Net Program (PSNP) and the Human Development Cash Transfer (HDCT) program, in particular by expanding the beneficiary base to include more poor Malagasy households.

18. Continuing progress over the medium term will require further impetus for reforms (MEFP, ¶16-18):

- **Further enhancing revenue mobilization** depends on continued improvements in tax administration, in particular for domestic taxes (recent outcomes have been disappointing compared to customs), stronger controls (based on risk analysis), and better tax policy design, for which the tax policy unit created in 2017 has started to provide enhanced analysis. It is also crucial to control the potential costs associated with new tax incentives part of the new laws on Special Economic Zones and on industrial development; in response, the authorities are following a pilot project approach (MEFP, ¶18) and will adopt a strategy to improve the control of these high-risk sectors, as well as existing free trade zones (end-July 2019 SB, MEFP, ¶17).
- On **reducing the share of lower priority spending**, staff stressed the need for: (i) continued reform of JIRAMA to eliminate its operational losses and related budget transfers, by relying on reductions in costs and losses, as well as revenue increases in real terms (which fits into a sectoral strategy to improve the low levels of access in an affordable manner); (ii) a medium-

0.3 percent; and a maximum of 0.1 percent for the cost of discretionary adjustments. The authorities consider that these levels are reasonable for the distributors' finances and can feasibly be settled in 2020.

term strategy for the modernization of the civil service, to ensure a better quality of essential public services at a sustainable cost; and (iii) a reform of the civil service pension fund, which currently has a growing structural deficit. While acknowledging the necessity for further efforts, the authorities noted the political challenges and need for continuing financial and technical assistance from external partners.

- **Raising priority spending** will depend on finding additional fiscal space over the medium term, as well as on strengthening implementation capacity for public investment. Despite progress, the pace of scaling up public investment has remained short of initial ambitions; in July 2018, the government updated its strategy for investment management, especially for corrective actions in the event of implementation delays. The economic impact of scaling up also depends on continuing progress in improving the climate for private investment.
- The authorities and staff agreed that **managing fiscal risks**, which are identified in an annex to the Budget Law since 2018, will require on-going reforms, including strengthening institutional capacity. The law on autonomous public establishments (*EPN*) was submitted to parliament (SB) in July 2018 and adopted in October. The process now in place for reviewing proposed PPP projects is in line with good practices, although no PPP projects have been approved yet. Discussions are underway on managing the fiscal risks from the overall portfolio of PPP projects, such as a limit on guarantees.

B. Managing Bank Liquidity and Continuing to Control Inflation

19. Managing bank liquidity continues to prove challenging, although inflation remains under control. Despite little evidence that excess bank liquidity feeds quickly into domestic demand and inflationary pressures, the BFM remains vigilant. The authorities and staff agreed that the current approach of a combination of a flexible exchange rate, foreign exchange reserve accumulation when conditions are favorable, and liquidity operations to limit volatility in excess bank reserves remains appropriate. This approach has been well-adapted for responding to the positive vanilla price shock—which, while not expected to be permanent, has proven persistent but volatile. During 2018, this management of banks' excess reserves has favored orderly conditions in money markets and a steady growth in credit, while avoiding demand pressures.

20. The central bank continues its gradual move from monetary toward interest rate targeting. To improve the transmission of monetary policy and increase inter-bank lending (almost non-existent at this stage), a draft law on repurchase agreements (repos), drawing on IMF technical assistance, was submitted to the Parliament in October 2018 to give legal certainty to these transactions; this law should be adopted in 2019 (further planned TA will assist its operationalization).

21. Efforts are also underway to improve the operation of the foreign exchange market, as well as to gradually phase out the surrender requirement on export proceeds. The authorities stressed that the market is shallow and prone to volatility (MEFP, ¶27). A draft law to help develop the market, under preparation with IMF TA, is expected to be submitted to Parliament by mid-2019. The authorities have also prepared a plan to gradually phase out the existing surrender requirement on export proceeds, which is considered a capital flow management measure under the IMF's Institutional View.[4] Staff reiterated the view that that the requirement should be temporary and phased out. While the authorities agreed in principle, they argued that it should be gradual and based on the development of the market.

C. Continuing Efforts to Build a Sound Financial Sector Supporting Growth

22. The banking sector is generally healthy, but with emerging challenges. Financial soundness indicators show that banks are on average sufficiently capitalized, liquid, and highly profitable, but with significant differences among banks requiring vigilance. A few large banks (which are subsidiaries of foreign banks) dominate the sector and are traditionally prudent. However, new players are beginning to emerge. The development of smaller commercial banks' activities, the growth of micro-finance institutions (MFI), and the rapid expansion of electronic money services pose new challenges for stability and supervision.

23. The new draft banking law to be submitted to parliament in the first half of 2019 addresses many of the FSSA key recommendations for financial stability and systematic risks (Annex IV). Due to extensive consultations with stakeholders and IMF experts, the draft law will be submitted to parliament at its next session in mid-2019 (instead of December 2018 as initially planned). This law reinforces the powers and the independence of the financial supervisor (CSBF), improves the bank recovery and resolution framework, and strengthens the framework for corrective bank supervisory measures. Implementation of risk-based supervision, based on the 2017 action plan, has also advanced. In addition, a law on financial stability to prevent systemic risks and managing financial crises, in line with international best practices, will be submitted to parliament by end-June 2019 (SB).

24. The authorities are implementing a detailed strategy for financial inclusion. While low compared with peers, financial inclusion is improving. Building on recent legal and regulatory steps, the authorities have licensed a provider of electronic money services and selected a provider for the first private credit bureau. At the same time, state-owned non-bank financial institutions important to inclusion are adapting to new conditions; the public savings fund (*CEM*) has requested to convert into an MFI, and a development plan is being developed for the postal savings fund. Staff welcomed these measures, while stressing the need to move expeditiously on the postal savings fund, which may be vulnerable to changing market conditions.

D. Promoting Economic Governance and Combating Corruption

25. Noteworthy progress has been made in recent years in strengthening the anti-corruption framework (Annex III). Several laws adopted since 2016 helped bring Madagascar's legal framework towards international standards: an anti-corruption law; a law on anti-corruption courts; a law on international cooperation; and a law on anti-money laundering and combating the

[4] IMF Country Report No. 17/223.

financing of terrorism (AML/CFT)—the last adopted in December 2018, a year after its first submission to parliament (Text Box 2). They have been followed by concrete implementation measures, like the opening of the first anti-corruption court in June 2018 and increased budget allocation to the anti-corruption agency BIANCO.

26. However, one important anti-corruption law submitted to parliament has not been adopted thus far. Submitted to parliament in December 2017, the draft law on asset recovery—intended to complete the anti-corruption framework—has not been considered in successive parliamentary sessions; this can be explained in part by the electoral context. Staff stressed the importance of this law to completing the anti-corruption framework.

Text Box 2. Key Priorities in AML/CFT

- Adopt a new AML/CFT legal framework to ensure compliance with the current FATF recommendations, including the requirements relating to identifying politically exposed persons (PEPs) and beneficial owners.
- Develop a national AML/CFT policy based on a national risk assessment.
- Strengthen the legal, human and material resources of the Criminal Chain (or the new Anti-Corruption Court) to process cases disseminated by Madagascar's Financial Intelligence Unit (SAMIFIN) and with a view to developing investigations in cases of trafficking (including narcotics, rosewood, precious stones, protected species, mining materials, etc.).
- Implement risk-based AML/CFT supervision for the financial and non-financial sectors

Source: Eastern and Southern Africa Anti-Money Laundering Group, Madagascar Evaluation Report (Sept. 2018).

27. The implementation of the recently updated Strategic Plan of Modernization of Public Financial Management (PFM) also strengthens governance (MEFP, ¶21). An updated version of the 2018-2020 Strategic Plan has been adopted in July 2018, with priority areas on the management of fiscal risks and the coverage of the budget (including better integration of SOEs and PPPs), the implementation of the new public procurement code, the strengthening of the debt management strategy, and the reinforcement of audit bodies and internal inspections. To boost transparency and integrity of public procurement, the authorities plan to establish a public and easily accessible registry of companies that have violated the procurement regulations and are prohibited from participating in future bids (SB for end-June 2019).

PROGRAM ISSUES, SAFEGUARDS, AND RISKS

28. Modifications of program targets are proposed for 2019 (MEFP, Table 1). The proposed modifications in the indicative targets and performance criteria for end-March and end-June 2019 (last test date for the ECF arrangement) reflect the need for consistency with the 2019 budget law, as well as updated projections for the monetary and external sectors. These proposed changes represent modest relaxations of the fiscal targets but remain supportive of the objectives of the program, notably the preservation of a domestic primary surplus and international reserves above three months of import coverage.

29. Structural conditionality focuses on implementation and strengthening of existing commitments. All existing SBs were maintained, with the continuous SB on fuel pricing being modified (as explained above). Three structural benchmarks were proposed for end-June 2019 to advance program objectives: a strategy to improve the customs control of high-risk sectors; submission to parliament of a law on financial stability to prevent systemic risks and managing financial crises, in line with international best practices; and establishment of a public registry of companies prohibited from participating in public procurement.

30. Capacity development remains crucial to support the authorities' reform agenda.[5] The key priorities defined after the Fund re-engagement in Madagascar in 2014 guided intensive technical assistance (TA) in 2014-18, and they generally remain valid. The priorities include ongoing reforms at the central bank (notably on monetary and foreign exchange operations), strengthening tax administration and policy, PFM reforms, financial sector reforms and enhancing the anti-corruption legal framework. The Fund TA is closely coordinated with that of the World Bank. The recent Capacity Development Strategy Note will be updated later this year to refine the sequencing of upcoming TA and reflect any adjustments that the new government may propose.

31. Data provision remains adequate for surveillance and program purposes. Shortcomings are present in the areas of real sector, balance of payments, and government finances statistics. Addressing these issues will require increasing resources, with an important role for Madagascar's partners. In addition, the authorities are strengthening their participation in the enhanced General Data Dissemination System (e-GDDS), with the implementation of a web-based National Summary Data Page by mid-April 2019.

32. The July 2018 safeguards monitoring report confirmed progress in key safeguards areas and stressed the importance of the transition to International Financial Reporting Standards (IFRS). The BFM strengthened its internal controls in the areas of procurement and currency operations. The transition to IFRS remains an outstanding priority recommendation, and the authorities have committed to full adoption of these standards for FY 2020 (at the latest), with the support of IMF technical assistance. Work on the implementation of IFRS is underway.

33. Madagascar's capacity to repay the Fund remains strong (Table 14). Firm financing assurances are in place for the remainder of the program. Madagascar has a strong capacity to repay the Fund, with outstanding obligations, based on existing and prospective drawings, peaking at 3.4 percent of GDP in 2019. Annual repayments, which increase in 2019 as Madagascar begins to repay the RCF disbursement in 2014, should peak at 0.4 percent of GDP in 2025.

34. Risks to the program appear manageable. Achieving the main macro-economic objectives of the program might be complicated by the materialization of some domestic or exogenous risks (¶9). While the authorities, including the new President, have reiterated their commitment to the program, implementation risks remain significant given limited capacity.

[5] See IMF Country Report No. 18/239, Annex IV on Capacity Development Strategy.

STAFF APPRAISAL

35. As Madagascar's economic recovery continued, it achieved an important political and economic milestone with the constitutional transfer of presidential power. Generally strong implementation of its economic program, combined with broadly favorable economic conditions, has yielded stronger macroeconomic stability and the highest growth in ten years. The successful staging of the presidential election was crucial for extending recent economic progress, since political instability had frequently derailed the economy in the past. Despite some weakening in economic confidence (linked in part to the election), economic conditions generally improved in 2018, with rising growth, moderating inflation, sustainable public finances and a solid external position.

36. Implementation of the ECF-supported program remained generally strong in 2018. The authorities' economic program is on track to meet the bulk of its objectives, with several already achieved. That said, there were some slippages in the politically fragile context of 2018, most notably on fuel pricing and revenue, and the pace of progress lessened on some fiscal objectives, such as containing lower priority spending. Substantial improvements in living standards, poverty and vulnerability will require sustained progress, which in turn depends on pursuing policy discipline, reform and capacity building.

37. The 2019 budget advances program objectives, even if not in some cases at the previously targeted pace. Revenue continues to rise; weakness in revenue collection in 2018 warrants close monitoring and prompt implementation of contingency plans if needed. The share of lower priority spending—including transfers to JIRAMA—remains on a downward trajectory, while higher priority spending like public investment and priority social spending continues to increase; the pace of improvement in spending composition is somewhat slower than targeted. Overall, fiscal sustainability remains solid, with a small projected domestic primary surplus and a fully financed budget.

38. The rise in government liabilities from fuel pricing is a major exception to this progress, and staff urges the authorities to follow through on their corrective actions. With liabilities exceeding 0.5 percent of GDP at end-2018, there has already been a budget impact, at least temporarily, representing a setback in a key program objective. Staff took note of the authorities' concerns for social and political stability, as well as their efforts to limit the slippage. With planned corrective actions, the impact can be accommodated without jeopardizing other program objectives. It is vitally important that the authorities resolutely implement plans to pay off the existing liability and—most importantly—avoid future liabilities through an automatic pricing mechanism with a smoothing formula. Regarding the authorities' preference for limited discretion, staff stressed the moderating effect of the smoothing mechanism, the importance of mitigating measures for more vulnerable portions of the population (notably by the scaling-up of social safety net programs, with World Bank support), and the need to firmly limit the impact on liabilities to distributors.

39. For the medium term, continuing progress on a pro-growth fiscal policy depends on intensified reforms. Staff urges the authorities to further boost revenue mobilization, pursue the improvement in the quality and composition of spending, and actively manage fiscal risks. Meeting the authorities' ambitious social and growth objectives will require renewed momentum for reform, following some deceleration in the pre-electoral period. Fiscal priorities include safeguarding revenue from the effect of special regimes, restructuring at JIRAMA to eliminate operating losses by 2020, the design of a comprehensive medium-term strategy for the civil service, and reforms to limit losses of the civil servant pension fund.

40. The success of scaling up public investment requires progress in implementation capacity and the business climate. Forceful implementation of the strategy for investment management should improve project implementation. At the same time, staff reiterates the importance of containing risks related to the public investment scaling up, notably through continued commitment to the current debt strategy, which favors concessional financing and is consistent with a moderate risk of debt distress. Continuing improvements in the business environment are also essential for public investment to catalyze increased private investment, as planned.

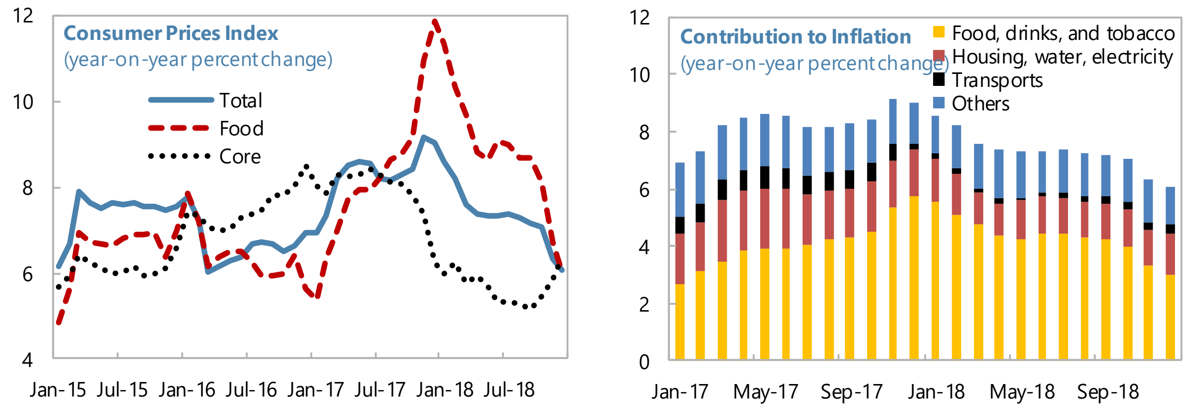
41. Staff welcomes recent progress on strengthening the anti-corruption framework, while calling for intensified momentum for its implementation. The adoption of a new AML/CFT law in December 2018, a year after its first submission to parliament, was a crucial step. To help complete the anti-corruption framework, the law on asset recovery (also initially submitted in December 2017) should be adopted in mid-2019. Now that new anti-corruption institutions are in place, the success of the strategy also depends on beginning to show results in implementation and enforcement.

42. Staff welcomes the ongoing efforts to build a sound and inclusive financial sector, drawing on FSSA recommendations. Once enacted, the new banking law and the law on financial stability should strengthen financial stability and contain systemic risks, while also addressing the low level of financial inclusion.

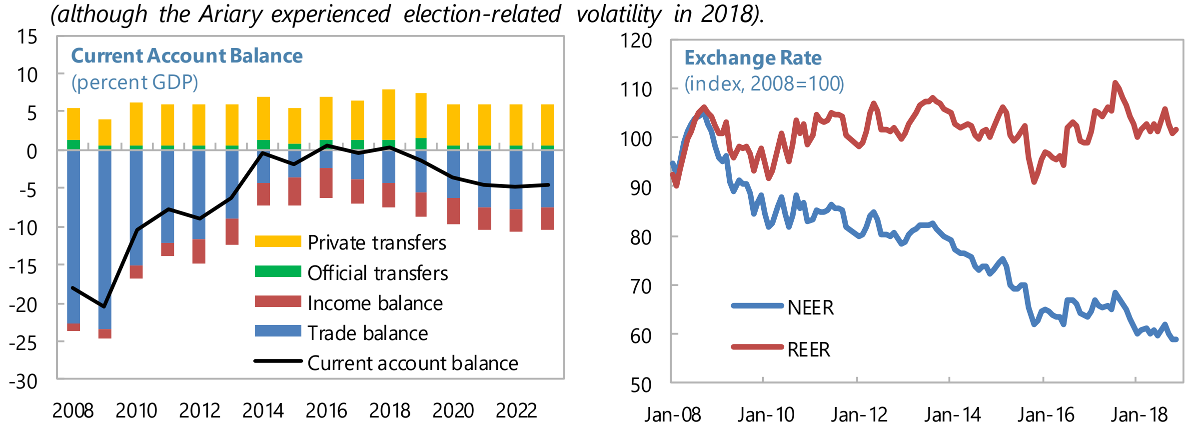
43. Based on Madagascar's performance under the program, staff recommends the completion of the fourth review under the ECF arrangement. This recommendation is also based on renewed authorities' commitment after the presidential election. Staff also supports the authorities' request for modification of performance criteria for end-June 2019, planned to be the latest test date under the current arrangement.

Figure 1. Madagascar: Inflation and External Developments

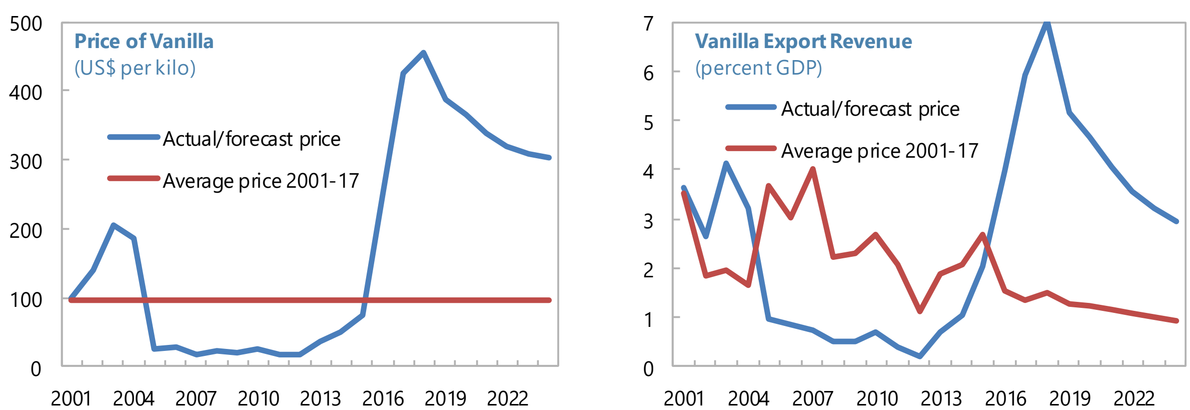
After peaking in late 2017, inflation gradually declined in 2018 towards 6 percent year-on-year.



The current account has benefited from mining and vanilla exports but is expected to weaken as scaled-up public investment drives imports. The real effective exchange rate has remained relatively constant (although the Ariary experienced election-related volatility in 2018).



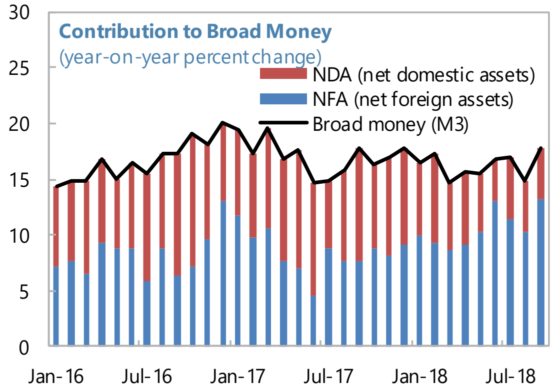
Export revenues have been boosted by high vanilla prices, which are expected to gradually unwind.

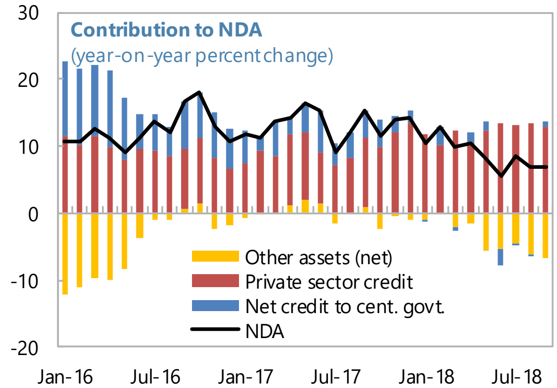


Sources: Malagasy Authorities; and IMF staff estimates.

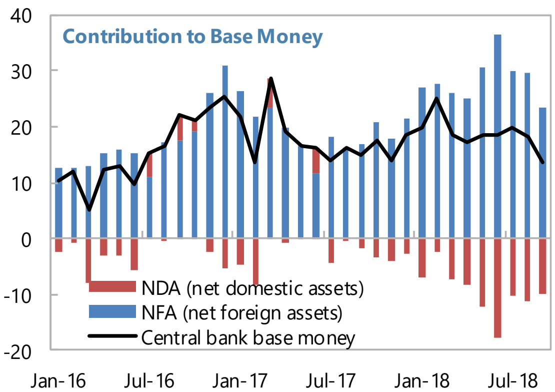
Figure 2. Madagascar: Monetary Developments

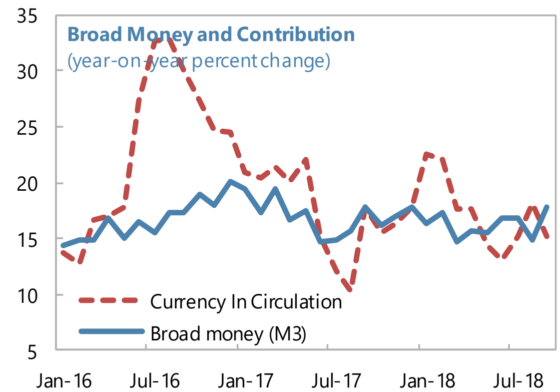
Broad money growth is driven by the accumulation of net foreign assets and credit to the private sector.



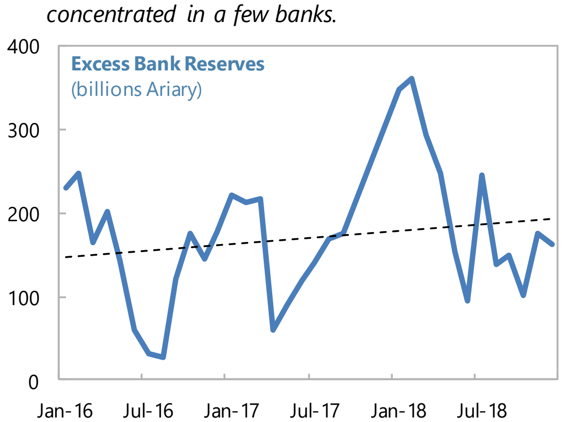


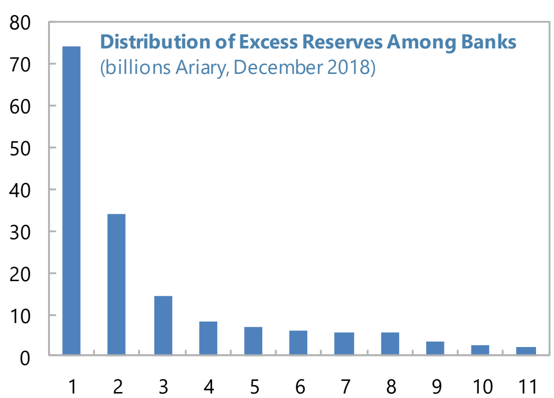
Base money growth is also driven by net foreign assets, while the demand for currency is supported by the vanilla boom in the context of a low bankarization of vanilla producers (mainly small-scale farmers).





Excess bank reserves, also impacted by the vanilla-cycle, are volatile and relatively high, but largely concentrated in a few banks.

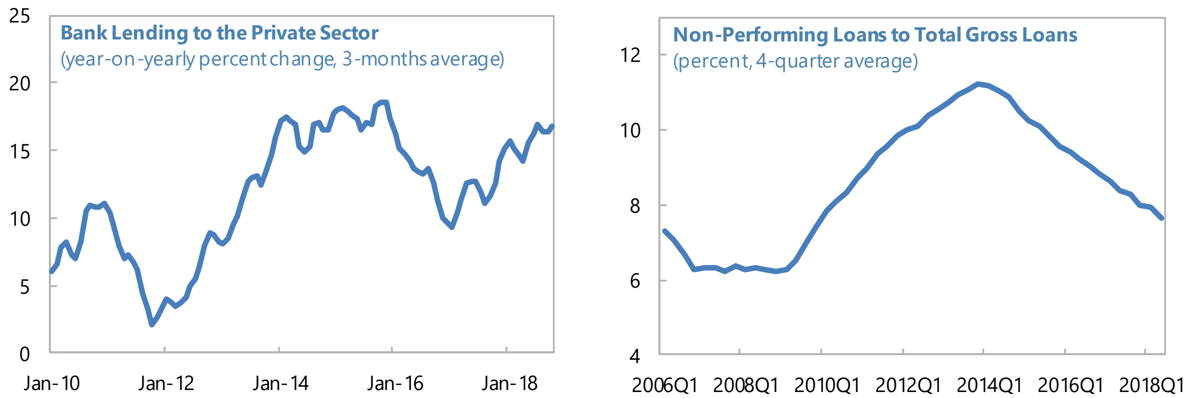




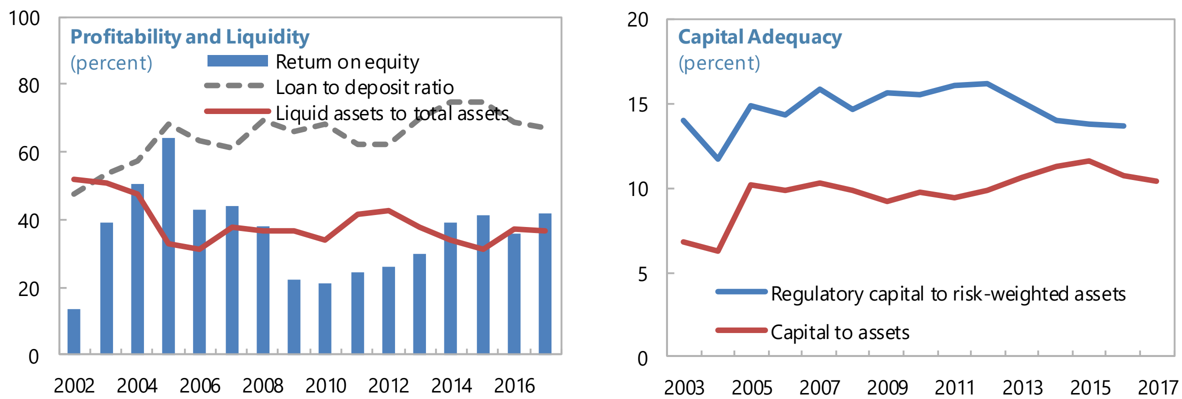
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 3. Madagascar: Financial Sector Developments

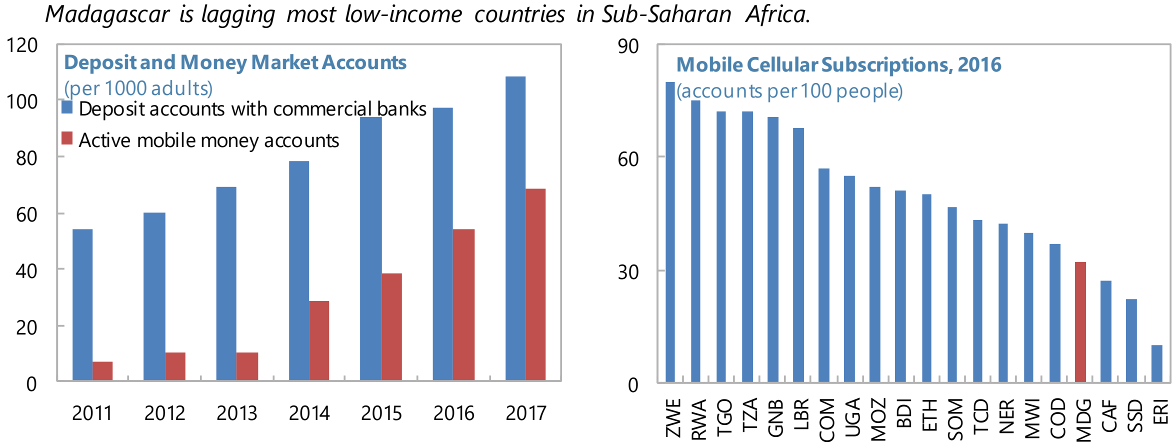
Credit is increasing at a healthy pace, and NPLs have been decreasing since their peak in late 2013.



Overall, banks are well capitalized, liquid, and very profitable, but with significant differences among banks.



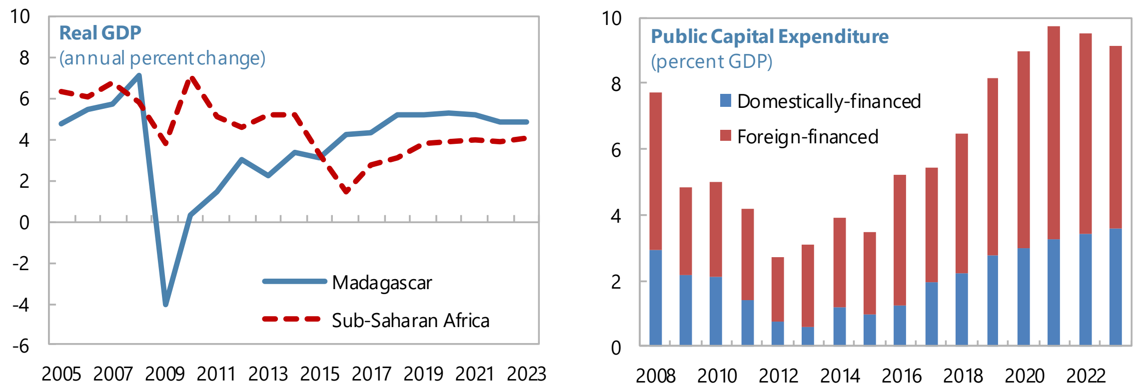
The rapid increase in mobile banking activities is a vector of development for the financial sector, even if Madagascar is lagging most low-income countries in Sub-Saharan Africa.



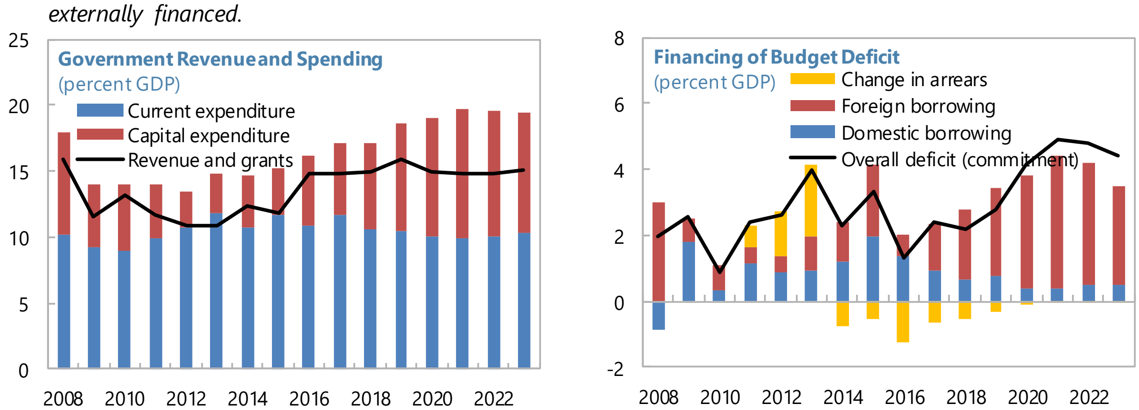
Sources: Malagasy Authorities; 2017 IMF Financial Access Survey; World Bank; and IMF staff estimates.

Figure 4. Madagascar: Medium-Term Macroeconomic Prospects

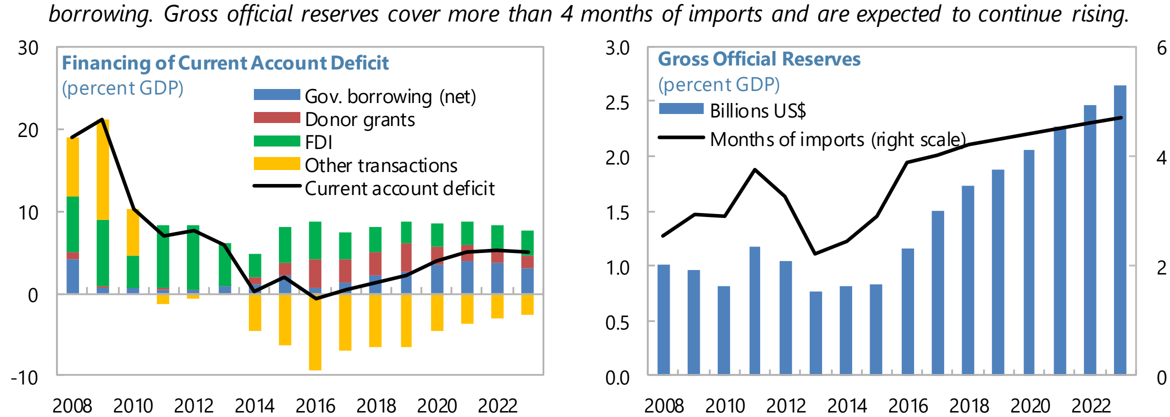
Growth is expected to remain above the Sub-Saharan average, sustained by scaled-up public investment.



The public investment scaling up is increasing the fiscal deficit (expected to peak in 2020), which is largely externally financed.



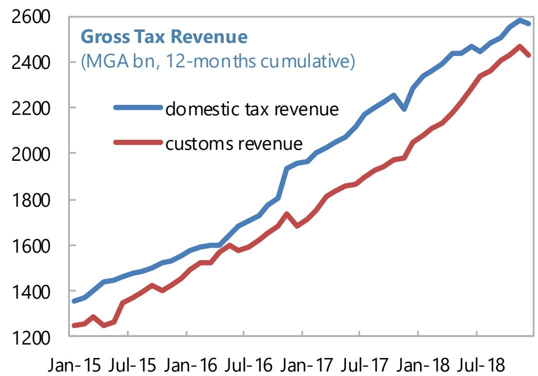
Investment-driven rises in the current account deficit will be financed by concessional government borrowing. Gross official reserves cover more than 4 months of imports and are expected to continue rising.

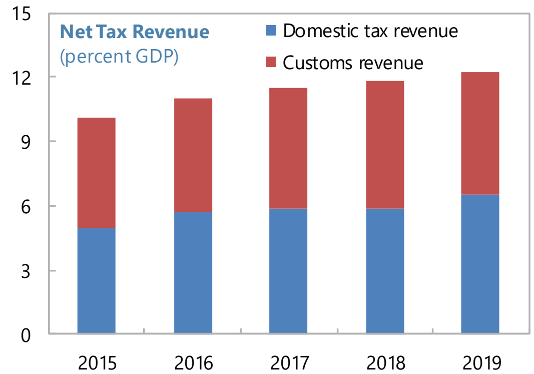


Sources: Malagasy Authorities; and IMF staff estimates.

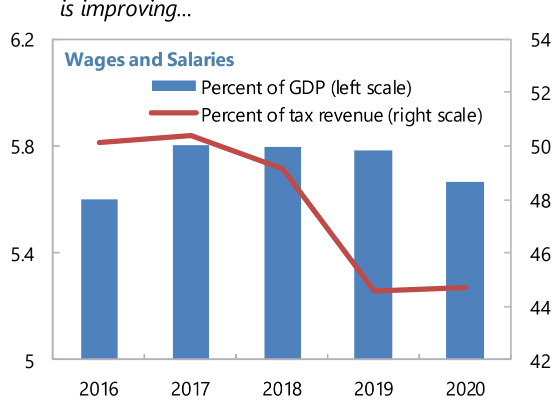
Figure 5. Madagascar: Government Revenue and Spending

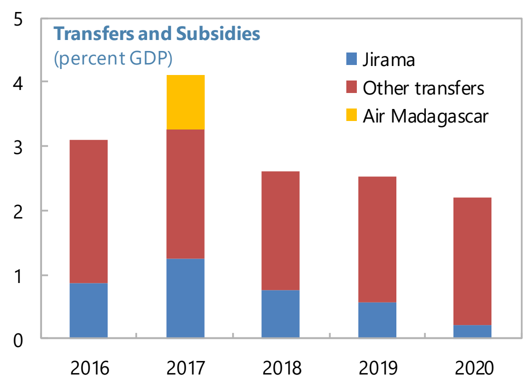
Tax revenue has risen by almost 2 percentage points of GDP in three years (between 2015 and 2018).



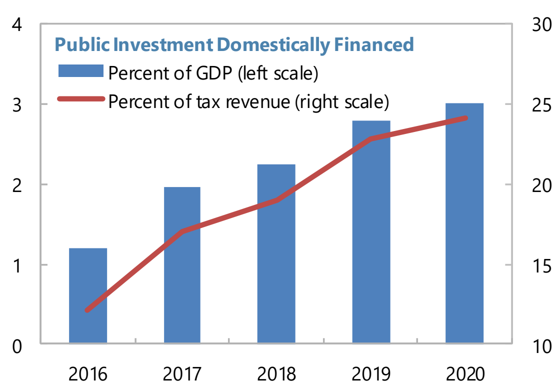


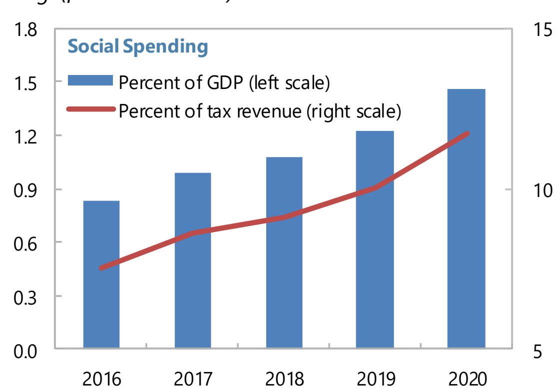
Despite unexpected needs for wages and transfers (mainly to public utility JIRAMA), spending composition is improving...





with higher public investment and increasing social spending (from a low basis).





Sources: Malagasy Authorities; and IMF staff estimates.

Table 1. Madagascar: Selected Economic Indicators, 2016-24

	2016	2017	2018		2019		2020	2021	2022	2023	2024
	Actuals	Prel. Est.	EBS 18/66	Prel. Est	EBS 18/66	Proj.	Projections				
	(Percent change; unless otherwise indicated)										
National account and prices											
GDP at constant prices	4.2	4.3	5.0	5.2	5.4	5.2	5.3	5.1	4.9	4.8	4.8
GDP deflator	6.7	8.3	7.8	7.3	7.2	6.7	6.3	5.8	5.2	5.0	5.0
Consumer prices (end of period)	7.0	9.0	7.7	6.1	6.4	6.4	6.0	5.4	5.0	5.0	5.0
Money and credit											
Reserve money	25.4	18.6	11.3	11.8	11.3	16.8	14.0	10.0	7.2	10.3	10.7
Broad money (M3)	20.1	17.8	12.8	11.2	12.9	16.7	11.0	13.0	13.6	13.2	12.5
	(Growth in percent of beginning of period money stock (M3))										
Net foreign assets	13.0	9.2	4.0	4.8	3.6	4.6	3.3	6.5	5.7	6.1	6.0
Net domestic assets	7.0	8.6	8.8	6.4	9.3	12.1	7.7	6.4	7.9	7.2	6.5
of which: Credit to the private sector	4.1	8.4	6.4	8.7	7.1	6.9	5.2	5.2	6.4	5.8	5.6
	(Percent of GDP)										
Public finance											
Total revenue (excluding grants)	11.3	11.9	12.2	12.0	12.5	12.5	12.7	12.9	13.1	13.4	13.7
of which: Tax revenue	11.0	11.5	12.0	11.7	12.3	12.3	12.5	12.7	12.9	13.2	13.5
Grants	3.5	2.9	3.4	2.9	2.7	3.4	2.3	1.8	1.7	1.6	1.5
of which: budget grants	0.7	0.8	1.3	1.0	0.6	1.2	0.0	0.0	0.0	0.0	0.0
Total expenditures	16.1	17.2	18.0	17.1	19.6	18.4	19.1	19.7	19.7	19.6	19.1
Current expenditure	10.9	11.7	10.7	10.9	9.8	10.5	10.1	9.9	10.1	10.3	10.4
Wages and salaries	5.7	5.8	5.8	5.8	5.7	5.8	5.7	5.6	5.7	5.7	5.7
Interest payments	0.9	0.8	0.9	0.9	0.8	1.0	0.9	0.8	0.9	0.9	0.9
Other	3.7	4.9	3.6	3.5	3.2	3.5	3.3	3.3	3.4	3.6	3.6
Goods and Services	0.6	0.8	0.9	0.9	1.0	1.0	1.1	1.2	1.3	1.5	1.5
Transfers and Subsidies	3.1	4.1	2.6	2.6	2.2	2.5	2.2	2.1	2.0	2.1	2.1
Treasury operations (net)	0.6	0.2	0.4	0.7	0.1	0.3	0.2	0.2	0.2	0.2	0.2
Capital expenditure	5.2	5.5	7.3	6.2	9.8	7.9	9.0	9.8	9.6	9.3	8.7
Domestic financed	1.2	2.0	2.5	2.3	3.2	2.8	3.0	3.2	3.4	3.6	3.7
Foreign financed	4.0	3.5	4.8	3.9	6.6	5.1	6.0	6.5	6.2	5.7	5.0
Overall balance (commitment basis)	-1.3	-2.4	-2.3	-2.2	-4.3	-2.5	-4.1	-5.0	-4.9	-4.5	-3.9
Float (variation of accounts payable, + = increase)[1]	0.5	0.7	-0.4	0.1	-0.1	-0.4	0.0	0.0	0.0	0.0	0.0
Variation of domestic arrears (+ = increase)	-1.2	-0.6	-0.6	-0.6	-0.2	-0.3	-0.1	-0.1	0.0	0.0	0.0
Overall balance (cash basis)	-2.0	-2.3	-3.2	-2.6	-4.6	-3.3	-4.2	-5.0	-4.9	-4.6	-4.0
Domestic primary balance (new program definition) [2]	0.1	-1.0	0.1	-0.3	0.4	0.1	0.5	0.6	0.5	0.4	0.5
Excluding Central Bank recapitalization						*0.3*					
Total financing	2.0	2.3	3.2	2.6	4.5	3.3	3.8	4.4	4.3	3.6	3.1
Foreign borrowing (net)	0.7	1.4	2.5	1.9	4.1	2.3	3.5	4.0	3.8	3.1	2.6
Domestic financing	1.4	0.9	0.7	0.7	0.4	0.9	0.4	0.4	0.5	0.5	0.5
Excess financing [3]	0.0	0.0	0.0	0.0	-0.6	0.0	-0.5	-1.8	-2.5	-3.1	-3.5
of which: budget support to be programmed	0.0	0.0	0.0	0.0	-0.1	0.0	-0.4	-0.6	-0.7	-1.0	-0.9
Savings and investment											
Investment	18.6	18.9	17.1	19.7	19.0	20.8	22.0	22.9	22.9	22.6	22.1
Gross national savings	19.1	18.4	14.9	20.0	15.5	19.4	18.5	18.4	18.1	18.0	17.8
External sector											
Exports of goods, f.o.b.	21.7	24.4	23.6	24.8	23.1	24.0	24.0	23.5	22.8	22.3	22.0
Imports of goods, c.i.f.	28.7	31.5	32.1	31.4	31.5	32.1	33.1	33.7	33.5	32.9	32.3
Current account balance (exc. grants)	-2.9	-3.3	-5.6	-2.6	-6.0	-4.8	-5.8	-6.3	-6.5	-6.2	-5.7
Current account balance (inc. grants)	0.6	-0.5	-2.2	0.3	-3.4	-1.4	-3.5	-4.5	-4.7	-4.6	-4.2
External Public Debt [4]	30.1	29.4	25.5	30.2	27.8	31.7	33.7	35.7	37.5	38.8	39.4
Domestic Public Debt	11.8	10.8	9.6	9.5	8.6	9.3	8.4	7.8	7.5	7.3	7.2
	(Units as indicated)										
Gross official reserves (millions of SDRs)	834	1,086	1,180	1,221	1,280	1,369	1,471	1,615	1,742	1,870	2,007
Months of imports of goods and services	3.9	4.0	4.1	4.3	4.1	4.4	4.4	4.5	4.6	4.7	4.8
Real effective exchange rate (period average, perc.	0.0	7.6	…	-4.2	…	…	…	…	…	…	…
Terms of trade (percent change, deterioration -)	35.7	2.4	-1.8	3.7	0.7	-7.5	-0.3	0.7	0.3	0.4	1.1
Memorandum items											
GDP per capita (U.S. dollars)	400	448	475	459	501	471	487	508	532	557	584
Nominal GDP at market prices (billions of ariary)	31,634	35,729	40,548	40,326	45,809	45,243	50,600	56,263	62,050	68,304	75,166

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

[1] The increase in the float in 2017 is largely due to delays in completing transfers linked to Air Madagascar that will now be paid in 2018.

[2] Primary balance excl. foreign-financed investment and grants. Commitment basis. Includes CB recapitalization of 0.2 percent of GDP in 2019

[3] A negative value indicates allocated financing with the disbursement schedule to be agreed.

[4] After EBS 18/66, definition expanded to include BFM foreign liabilities for all years.

Table 2. Madagascar: National Accounts, 2016-24

	2016	2017	2018		2019		2020	2021	2022	2023	2024
	Actuals	Prel. Est.	EBS 18/66	Prel. Est.	EBS 18/66	Proj.	Projections				
					(Percent change)						
Real supply side growth											
Primary sector	1.6	-1.0	2.8	4.8	2.7	2.5	2.7	2.3	2.3	2.1	2.1
Agriculture	1.4	-6.6	4.5	9.2	3.7	3.2	3.7	3.0	3.0	3.0	3.0
Cattle and fishing	1.9	4.5	1.9	1.9	2.0	2.0	1.9	1.9	1.9	1.4	1.4
Forestry	1.0	1.0	-0.9	-0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Secondary sector	5.5	9.0	6.7	5.4	7.4	7.1	7.4	6.5	6.6	6.6	6.5
Food and drink	6.4	6.8	5.6	6.4	5.7	5.9	6.0	4.0	4.0	4.0	4.0
Export processing zone	24.7	25.2	14.5	2.0	14.5	13.0	11.5	11.5	11.5	11.5	10.5
Energy	8.3	6.6	8.4	8.4	11.5	11.5	11.5	9.5	9.5	8.5	8.5
Extractive industry	-1.6	9.8	5.4	5.4	6.5	6.5	7.5	7.5	7.5	7.5	7.5
Other	5.7	4.8	4.7	4.2	4.6	4.0	4.3	4.1	4.2	4.2	4.2
Tertiary sector	4.8	5.4	5.4	5.2	6.1	5.8	5.9	6.1	5.4	5.4	5.3
Transportation	2.1	6.4	5.8	6.2	8.2	7.6	6.9	7.0	7.0	7.0	6.9
Services	5.2	8.0	6.6	6.7	5.7	5.7	5.8	5.1	5.1	5.1	4.9
Trade	3.1	3.1	4.5	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Public administration	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Public works/construction	18.6	3.8	6.5	6.0	10.0	9.7	11.5	13.5	7.6	7.6	7.5
Indirect taxes	5.7	5.4	5.4	5.4	5.7	5.7	5.0	5.0	5.0	5.0	5.0
Real GDP at market prices	4.2	4.3	5.0	5.2	5.4	5.2	5.3	5.1	4.9	4.8	4.8
Nominal demand side composition					(Percent of GDP)						
Resource balance	-2.3	-3.8	-5.9	-4.3	-6.1	-5.5	-6.4	-7.4	-7.6	-7.5	-7.1
Imports of goods and nonfactor services	35.9	39.4	40.7	39.8	40.1	40.9	41.7	42.0	41.5	40.8	40.1
Exports of goods and nonfactor services	33.6	35.5	34.8	35.5	34.0	35.3	35.3	34.7	33.9	33.3	33.0
Current account balance (including grants) =	0.6	-0.5	-2.2	0.3	-3.4	-1.4	-3.5	-4.5	-4.7	-4.6	-4.2
Consumption	83.7	84.9	88.8	84.6	87.1	84.7	84.3	84.4	84.8	84.9	85.1
Government	10.0	10.9	9.7	10.0	9.0	9.6	9.2	9.1	9.2	9.4	9.5
Nongovernment	73.7	74.0	79.1	74.5	78.1	75.2	75.2	75.4	75.6	75.5	75.6
Investment (I)	18.6	18.9	17.1	19.7	19.0	20.8	22.0	22.9	22.9	22.6	22.1
Government	5.2	5.5	7.3	6.2	9.8	7.9	9.0	9.8	9.6	9.3	8.7
Nongovernment	13.3	13.4	9.8	13.5	9.2	12.9	13.0	13.1	13.2	13.3	13.3
Of which: foreign direct investment	4.5	3.1	3.1	3.9	3.2	2.7	2.8	2.8	2.9	3.0	3.1
National savings (S)	19.1	18.4	14.9	20.0	15.5	19.4	18.5	18.4	18.1	18.0	17.8
Government	3.9	3.0	5.0	4.0	5.5	5.3	4.9	4.8	4.7	4.7	4.8
Nongovernment	15.2	15.4	9.9	16.0	10.1	14.0	13.6	13.6	13.4	13.3	13.0
Memoranda items:											
					(Billions of Ariary)						
Nominal GDP (at market prices)	31,634	35,729	40,548	40,326	45,809	45,243	50,600	56,263	62,050	68,304	75,166

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

Table 3. Madagascar: Fiscal Operations of the Central Government, 2017-24

(Billions of Ariary)

	2017	2018	2019							2020	2021	2022	2023	2024
	Dec	Dec	March		June		Sep	Dec		Dec	Dec	Dec	Dec	Dec
	Prel. Est.	Prel. Est.	EBS 18/66	Proj.	EBS 18/66	Proj.	Proj.	EBS 18/66	Proj.	Projections				
Total revenue and grants	5,272	6,016	1,438	1,513	3,210	3,272	5,219	6,999	7,185	7,594	8,314	9,195	10,278	11,407
Total revenue	4,240	4,844	1,213	1,213	2,727	2,753	4,171	5,741	5,647	6,442	7,275	8,116	9,161	10,286
Tax revenue [1]	4,118	4,725	1,199	1,202	2,675	2,693	4,079	5,639	5,545	6,328	7,148	7,976	9,006	10,116
Domestic taxes	2,094	2,334	648	620	1,511	1,458	2,165	3,128	2,955	3,436	4,005	4,598	5,304	6,141
Taxes on international trade and transactions	2,024	2,391	552	582	1,163	1,236	1,915	2,511	2,590	2,891	3,143	3,378	3,702	3,975
Non-tax revenue	122	119	14	11	52	60	92	102	102	114	127	140	154	170
Grants	1,032	1,172	225	300	483	519	1,048	1,258	1,538	1,152	1,039	1,078	1,118	1,121
Current grants	298	414	65	140	104	141	351	260	543	0	0	0	0	0
Capital grants	733	758	160	159	379	378	697	998	995	1,152	1,039	1,078	1,118	1,121
Total expenditure and lending minus repayments	6,135	6,898	1,882	1,692	4,241	3,929	6,059	8,969	8,329	9,670	11,100	12,233	13,366	14,354
of which: Social priority spending	355	410	80	72	228	205	333	615	555	800	1,050	1,197	1,410	1,551
Current expenditure	4,187	4,401	1,082	1,083	2,302	2,422	3,542	4,495	4,769	5,121	5,590	6,261	7,040	7,793
Wages and salaries	2,076	2,338	663	654	1,325	1,309	1,963	2,598	2,617	2,868	3,132	3,506	3,859	4,247
Interest payments	285	352	85	71	185	190	308	374	432	471	477	546	611	688
Foreign	70	106	23	15	63	67	83	114	145	158	192	236	284	338
Domestic	215	246	62	56	122	123	225	260	287	312	285	311	327	351
Other	1,749	1,424	302	353	735	831	1,150	1,462	1,593	1,683	1,870	2,086	2,435	2,709
Goods and services	282	365	92	68	185	203	294	462	452	567	673	830	1,022	1,163
Transfers and subsidies	1,467	1,058	210	285	550	628	856	1,000	1,141	1,116	1,197	1,256	1,413	1,546
of which: Air Madagascar	303	0	0	0	0	0	0	0	0	0	0	0	0	0
of which: JIRAMA	447	309	49	64	98	128	191	195	255	110	50	0	0	0
Treasury operations (net) [1]	77	287	32	5	57	93	121	60	127	100	111	123	135	149
Capital expenditure	1,948	2,497	801	609	1,939	1,507	2,517	4,475	3,560	4,549	5,510	5,973	6,326	6,562
Domestic financed	700	912	188	190	505	543	909	1,443	1,263	1,518	1,829	2,110	2,459	2,781
Foreign financed	1,248	1,586	613	420	1,434	964	1,608	3,032	2,297	3,031	3,682	3,863	3,867	3,781
Overall balance (commitment basis)	-863	-882	-444	-180	-1,031	-656	-840	-1,971	-1,144	-2,076	-2,786	-3,039	-3,088	-2,948
Float (variation of accounts payable, + = increase)	259	55	-25	-65	6	277	45	-40	-188	-20	-20	0	0	0
Variation of domestic arrears (+ = increase)	-231	-225	-16	-28	-44	-106	-121	-94	-145	-48	-30	-30	-30	-30
Overall balance (including grants, cash basis)	-835	-1,051	-485	-272	-1,069	-486	-915	-2,105	-1,477	-2,144	-2,836	-3,069	-3,118	-2,978
Domestic primary balance (new program definition) [2]	...	-116	29	11	105	-22	29	178	47	274	334	292	272	502
Excluding Central Bank recapitalization						59	110		128					
Domestic primary balance (old program definition) [3]	240	...	...	...	...	...		...	...	...	...	...	...	...
Total financing	835	1,051	485	272	1,070	485	915	2,050	1,477	1,939	2,495	2,653	2,451	2,329
Foreign borrowing (residency principle)	503	764	406	197	958	481	741	1,879	1,052	1,751	2,262	2,331	2,092	1,928
External borrowing, Gross	751	999	453	260	1,054	586	911	2,083	1,302	2,064	2,642	2,785	2,749	2,660
Budget support loans	236	171	0	0	0	0	0	49	0	184	0	0	0	0
of which: Air Madagascar	0	133	0	0	0	0	0	0	0	0	0	0	0	0
Project loans	515	828	453	260	1,054	586	911	2,034	1,302	1,880	2,642	2,785	2,749	2,660
Amortization on a due basis (-)	-248	-236	-47	-64	-96	-105	-170	-204	-250	-313	-380	-454	-657	-731
Domestic borrowing (residency principle)	332	287	79	75	111	4	174	171	425	189	233	322	360	401
Monetary sector	151	205	63	43	81	8	154	143	357	102	135	198	223	251
Non-monetary sector	273	-67	16	32	30	-4	20	28	68	86	98	124	137	150
Treasury correspondent accounts (net)	-97	137	0	0	0	0	0	0	0	0	0	0	0	0
Excess financing [4]	0	0	-95	0	-254	0	0	-279	0	-268	-988	-1,551	-2,142	-2,603
of which: budget support to be programmed	0	0	0	0	0	0	0	-55	0	-204	-341	-415	-666	-648

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

[1] Domestic taxes include MGA 72 bn (0.2 percent of GDP) in 2017 corresponding to tax arrears of Air Madagascar used for its recapitalization, offset in the line Treasury operations (net).

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

[3] Up to June 2018, primary balance excl. foreign-financed investment (but grants included). In 2017 adjusted for financial assistance to Air Madagascar (MGA 303 billion) and the shortfall of

[4] A negative value indicates allocated financing with the disbursement schedule to be agreed.

Table 4. Madagascar: Fiscal Operations of the Central Government, 2016-24

(Percent of GDP)

	2016	2017	2018		2019		2020	2021	2022	2023	2024
	Actuals	Prel. Est.	EBS 18/66	Proj.	EBS 18/66	Proj.	Projections				
Total revenue and grants	14.8	14.8	15.7	14.9	15.3	15.9	15.0	14.8	14.8	15.0	15.2
Total revenue	11.3	11.9	12.2	12.0	12.5	12.5	12.7	12.9	13.1	13.4	13.7
Tax revenue [1]	11.0	11.5	12.0	11.7	12.3	12.3	12.5	12.7	12.9	13.2	13.5
Domestic taxes	5.7	5.9	6.4	5.8	6.8	6.5	6.8	7.1	7.4	7.8	8.2
Taxes on international trade and transactions	5.3	5.7	5.7	5.9	5.5	5.7	5.7	5.6	5.4	5.4	5.3
Non-tax revenue	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	3.5	2.9	3.4	2.9	2.7	3.4	2.3	1.8	1.7	1.6	1.5
Current grants	0.7	0.8	1.3	1.0	0.6	1.2	0.0	0.0	0.0	0.0	0.0
Capital grants	2.8	2.1	2.1	1.9	2.2	2.2	2.3	1.8	1.7	1.6	1.5
Total expenditure and lending minus repayments	16.1	17.2	18.0	17.1	19.6	18.4	19.1	19.7	19.7	19.6	19.1
of which: Social priority spending	*0.8*	*1.0*	*1.1*	*1.0*	*1.3*	*1.2*	*1.6*	*1.9*	*1.9*	*2.1*	*2.1*
Current expenditure	10.9	11.7	10.7	10.9	9.8	10.5	10.1	9.9	10.1	10.3	10.4
Wages and salaries	5.7	5.8	5.8	5.8	5.7	5.8	5.7	5.6	5.7	5.7	5.7
Interest payments	0.9	0.8	0.9	0.9	0.8	1.0	0.9	0.8	0.9	0.9	0.9
Foreign	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.4	0.4	0.4
Domestic	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Other	3.7	4.9	3.6	3.5	3.2	3.5	3.3	3.3	3.4	3.6	3.6
Goods and services	0.6	0.8	0.9	0.9	1.0	1.0	1.1	1.2	1.3	1.5	1.5
Transfers and Subsidies	3.1	4.1	2.6	2.6	2.2	2.5	2.2	2.1	2.0	2.1	2.1
of which: Air Madagascar	*0.0*	*0.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
of which: JIRAMA	*0.9*	*1.2*	*0.8*	*0.8*	*0.4*	*0.6*	*0.2*	*0.1*	*0.0*	*0.0*	*0.0*
Treasury operations (net) [1]	0.6	0.2	0.4	0.7	0.1	0.3	0.2	0.2	0.2	0.2	0.2
Capital expenditure	5.2	5.5	7.3	6.2	9.8	7.9	9.0	9.8	9.6	9.3	8.7
Domestic financed	1.2	2.0	2.5	2.3	3.2	2.8	3.0	3.2	3.4	3.6	3.7
Foreign financed	4.0	3.5	4.8	3.9	6.6	5.1	6.0	6.5	6.2	5.7	5.0
Overall balance (commitment basis)	-1.3	-2.4	-2.3	-2.2	-4.3	-2.5	-4.1	-5.0	-4.9	-4.5	-3.9
Float (variation of accounts payable, + = increase)	0.5	0.7	-0.4	0.1	-0.1	-0.4	0.0	0.0	0.0	0.0	0.0
Variation of domestic arrears (+ = increase)	-1.2	-0.6	-0.6	-0.6	-0.2	-0.3	-0.1	-0.1	0.0	0.0	0.0
Overall balance (including grants, cash basis)	-2.0	-2.3	-3.2	-2.6	-4.6	-3.3	-4.2	-5.0	-4.9	-4.6	-4.0
Domestic primary balance (new program definition) [2]	…	…	0.1	-0.3	0.4	0.1	0.5	0.6	0.5	0.4	0.5
Excluding Central Bank recapitalization						*0.3*					
Total financing	2.0	2.3	3.2	2.6	4.5	3.3	3.8	4.4	4.3	3.6	3.1
Foreign borrowing (residency principle)	0.7	1.4	2.5	1.9	4.1	2.3	3.5	4.0	3.8	3.1	2.6
External borrowing, gross	1.4	2.1	3.1	2.5	4.5	2.9	4.1	4.7	4.5	4.0	3.5
Budget support loans	0.2	0.7	0.4	0.4	0.1	0.0	0.4	0.0	0.0	0.0	0.0
Project loans	1.2	1.4	2.7	2.1	4.4	2.9	3.7	4.7	4.5	4.0	3.5
Amortization on a due basis (-)	-0.7	-0.7	-0.6	-0.6	-0.4	-0.6	-0.6	-0.7	-0.7	-1.0	-1.0
Domestic borrowing (residency principle)	1.4	0.9	0.7	0.7	0.4	0.9	0.4	0.4	0.5	0.5	0.5
Monetary sector	0.7	0.4	0.6	0.5	0.3	0.8	0.2	0.2	0.3	0.3	0.3
Non-monetary sector	0.9	0.8	0.1	-0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Treasury correspondent accounts (net)	-0.2	-0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excess financing [3]	0.0	0.0	0.0	0.0	-0.6	0.0	-0.5	-1.8	-2.5	-3.1	-3.5
of which: budget support to be programmed	*0.0*	*0.0*	*0.0*	*0.0*	*-0.1*	*0.0*	*-0.4*	*-0.6*	*-0.7*	*-1.0*	*-0.9*

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

[1] Domestic taxes include MGA 90bn (0.3 percent of GDP) in 2016 and MGA 72 bn (0.2 percent of GDP) in 2017 corresponding to tax arrears of Air Madagascar used for its recapitalization, offset in the line Treasury operations (net).

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

[3] A negative value indicates allocated financing with the disbursement schedule to be agreed.

Table 5. Madagascar: Balance of Payments, 2016-24

	2016	2017	2018		2019		2020	2021	2022	2023	2024
	Prel. Est.	Prel. Est.	EBS 18/66	Prel. Est.	EBS 18/66	Proj.	Projections				
					(Millions of SDRs)						
Current account	40.9	-40.1	-184.8	22.8	-316.0	-130.0	-336.2	-458.4	-518.6	-535.5	-527.1
Goods and services	-162.8	-316.5	-504.8	-367.8	-563.0	-505.5	-611.7	-754.7	-836.1	-876.5	-891.7
Trade balance of goods	-190.0	-322.3	-470.4	-333.3	-504.9	-469.5	-575.2	-727.9	-827.2	-878.1	-909.5
Exports, f.o.b.	1,556.4	2,020.9	2,029.2	2,115.8	2,138.6	2,183.7	2,312.9	2,406.1	2,500.1	2,615.6	2,752.8
Of which: Mining	388.2	510.3	588.6	579.4	617.6	643.2	722.1	767.1	807.4	849.5	889.7
Of which: Vanilla	283.9	488.9	368.5	600.3	334.2	469.7	447.2	415.2	391.5	376.3	369.6
Imports, f.o.b.	-1,746.4	-2,343.2	-2,499.6	-2,449.1	-2,643.5	-2,653.2	-2,888.1	-3,134.0	-3,327.3	-3,493.8	-3,662.3
Of which: Petroleum products	-284.3	-343.5	-347.2	-387.1	-342.1	-371.3	-392.7	-407.6	-425.6	-451.5	-475.9
Of which: Food	-224.9	-398.8	-232.6	-368.7	-208.0	-305.0	-297.5	-303.9	-311.9	-318.3	-326.8
Of which: Intermediate goods and capital	-717.0	-924.2	-884.2	-988.7	-925.0	-1,111.6	-1,262.2	-1,411.0	-1,503.8	-1,601.8	-1,688.9
Services (net)	27.2	5.8	-34.5	-34.5	-58.1	-36.0	-36.5	-26.8	-8.9	1.6	17.8
Receipts	854.0	917.2	952.8	917.9	1,008.5	1,041.1	1,088.5	1,146.4	1,208.8	1,283.4	1,371.8
Payments	-826.8	-911.4	-987.3	-952.4	-1,066.6	-1,077.1	-1,125.0	-1,173.2	-1,217.7	-1,281.8	-1,354.1
Income (net)	-293.2	-255.3	-271.6	-276.9	-284.4	-294.4	-309.6	-320.9	-335.9	-351.4	-368.8
Receipts	24.3	27.3	29.0	35.8	33.3	41.8	46.9	53.0	59.8	67.5	76.2
Payments	-317.5	-282.7	-300.6	-312.7	-317.7	-336.1	-356.5	-373.8	-395.7	-419.0	-444.9
Of which: interest on public debt	-14.8	-16.1	-17.6	-22.3	-23.0	-26.1	-30.1	-35.0	-41.5	-48.7	-56.2
Current transfers (net)	496.9	531.6	591.6	667.6	531.3	669.9	585.2	617.2	653.4	692.5	733.4
Official transfers	100.3	105.7	160.7	123.3	88.7	153.7	46.4	49.4	52.7	56.4	60.3
Of which: Budget aid [1]	50.4	65.5	114.2	85.2	40.9	109.8	0.0	0.0	0.0	0.0	0.0
Of which: Other (net)	49.9	40.2	46.5	38.1	47.7	44.0	46.4	49.4	52.7	56.4	60.3
Private transfers	396.6	425.9	430.9	544.3	442.6	516.1	538.8	567.9	600.6	636.1	673.1
Capital and financial account	169.7	208.8	221.5	86.6	345.2	186.6	405.9	552.2	590.9	586.7	601.9
Capital account[1]	199.8	168.4	180.7	160.4	201.8	200.8	219.0	189.2	190.2	191.5	186.6
Financial account	-3.8	42.6	40.8	-34.5	143.4	-14.1	186.9	363.0	400.7	395.1	415.4
Foreign direct and portfolio investment	324.2	258.1	266.3	337.4	296.6	239.4	246.1	291.8	321.1	353.8	389.6
Other investment	-328.0	-215.5	-225.5	-372.0	-153.2	-253.6	-59.3	71.2	79.6	41.3	25.8
Government	48.7	116.7	214.8	187.4	379.8	213.5	332.9	411.9	411.1	358.5	321.0
Drawing	99.2	174.1	265.0	237.5	421.1	262.6	392.4	481.0	491.1	471.1	442.8
Project drawings [1]	86.8	118.9	232.3	203.7	411.1	262.6	357.4	481.0	491.1	471.1	442.8
Budgetary support [1]	12.4	55.2	32.7	33.8	10.0	0.0	35.0	0.0	0.0	0.0	0.0
Amortization	-50.5	-57.4	-50.2	-50.1	-41.3	-49.1	-59.5	-69.2	-80.0	-112.7	-121.8
Private sector	-147.4	-98.1	-129.1	-132.6	-246.8	-164.7	-112.5	-105.3	-73.1	-59.2	-32.8
Banks	-5.1	1.8	-5.3	-64.1	-2.6	-56.3	-62.1	-66.1	-70.7	-75.6	-80.8
Other (inc. unrepatriated export revenues)	-224.2	-235.9	-306.0	-368.6	-283.5	-240.8	-217.6	-169.3	-187.8	-182.5	-181.6
Errors and omissions	-26.3	-2.2	0.0	-39.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	210.6	168.7	36.7	109.5	29.1	56.6	69.7	93.9	72.2	51.2	74.9
Financing	-210.9	-168.7	-36.8	-109.5	-40.2	-56.6	-108.6	-155.9	-145.5	-165.4	-182.8
Central bank (net; increase = –)	-210.9	-168.7	-36.8	-109.5	-40.2	-56.6	-108.6	-155.9	-145.5	-165.4	-182.8
Use of IMF credit (net)	20.9	83.5	57.0	16.0	59.8	91.2	-6.1	-12.2	-18.5	-37.2	-46.7
Other assets, net (increase = –) [2]	-231.8	-252.3	-93.7	-125.5	-100.0	-147.9	-102.5	-143.7	-127.0	-128.2	-136.1
Financing gap	0.3	0.0	0.0	0.0	11.0	0.0	38.9	62.1	73.3	114.2	107.9
					(Percent of GDP; unless otherwise indicated)						
Memorandum items:											
Grants	3.5	2.8	3.4	2.9	2.6	3.4	2.3	1.8	1.7	1.6	1.5
Loans	1.4	2.1	3.1	2.8	4.5	2.9	4.1	4.7	4.5	4.0	3.5
Direct investment	4.5	3.1	3.1	3.9	3.2	2.7	2.8	2.8	2.9	3.0	3.1
Current account											
Excluding net official transfers	-2.9	-3.3	-5.6	-2.6	-6.0	-4.8	-5.8	-6.3	-6.5	-6.2	-5.7
Including net official transfers	0.6	-0.5	-2.2	0.3	-3.4	-1.4	-3.5	-4.5	-4.7	-4.6	-4.2
Debt service (percent of exports of goods)	5.9	12.6	19.2	7.8	16.6	20.0	19.6	18.6	18.0	18.2	17.2
Export of goods volume (percent change)	-8.7	5.2	-0.8	-5.0	6.2	15.8	6.4	3.9	3.9	4.3	4.0
Import of goods volume (percent change)	19.7	11.3	3.5	-1.6	7.3	12.4	9.0	9.1	6.5	5.2	4.8
Gross official reserves (millions of SDR)	834	1,086	1,180	1,221	1,280	1,369	1,471	1,615	1,742	1,870	2,007
Months of imports of goods and nonfactor services	3.9	4.0	4.1	4.3	4.1	4.4	4.4	4.5	4.6	4.7	4.8
Terms of Trade (estimated)	35.7	2.4	-1.8	3.7	0.7	-7.5	-0.3	0.7	0.3	0.4	1.1

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

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

[2] Includes reserve accumulation.

Table 6. Madagascar: Monetary Accounts, 2016-24[1]

(Billions of Ariary; unless otherwise indicated)

	2016	2017	2018		2019		2020	2021	2022	2023	2024
	Dec	Dec	Dec		Dec		Dec	Dec	Dec	Dec	Dec
	Actuals	Actuals	EBS 18/66	Prel. Estim.	EBS 18/66	Proj.	Projections				
Net foreign assets	3,587	4,417	4,839	4,927	5,267	5,519	6,422	7,511	8,572	9,853	11,269
Net foreign assets (BCM)	2,709	3,527	3,875	4,207	4,247	4,755	5,614	6,676	7,712	8,968	10,358
Net foreign assets (deposit money banks)	878	890	964	720	1,020	764	808	835	860	885	911
Net domestic assets	5,421	6,191	7,125	6,871	8,241	8,245	8,849	9,738	11,020	12,330	13,688
Domestic credit	6,174	7,001	8,016	7,935	9,022	9,456	10,215	11,073	12,336	13,617	15,033
Net credit to government	1,993	2,093	2,430	2,099	2,585	2,805	2,919	3,066	3,275	3,494	3,742
BCM	1,028	886	918	947	870	1,169	1,061	958	875	812	749
DMBs	644	938	1,145	1,096	1,336	1,231	1,442	1,680	1,961	2,232	2,531
Gross credits (mainly BTAs)	1,052	1,327	1,559	1,617	1,777	1,784	2,027	2,298	2,611	2,915	3,248
Deposits	-408	-389	-414	-521	-441	-552	-585	-618	-649	-682	-716
Other credits	320	269	367	55	379	404	416	428	439	450	463
Credit to the economy	4,182	4,907	5,586	5,836	6,437	6,652	7,296	8,007	9,061	10,123	11,291
Credit to public enterprises	70	42	42	40	42	40	40	40	40	40	41
Credit to private sector	4,094	4,846	5,525	5,765	6,376	6,581	7,226	7,937	8,991	10,052	11,224
Other credits	18	19	19	31	19	31	31	31	31	31	26
Other items (net)	-754	-810	-891	-1,064	-781	-1,211	-1,366	-1,335	-1,316	-1,287	-1,346
BCM	305	406	410	215	518	118	58	64	54	52	-13
Other	-1,059	-1,216	-1,301	-1,332	-1,299	-1,329	-1,423	-1,399	-1,370	-1,339	-1,332
Money and quasi-money (M3)	9,007	10,608	11,964	11,798	13,508	13,764	15,271	17,249	19,592	22,183	24,957
Foreign currency deposits	955	1,006	1,080	1,202	1,136	1,246	1,236	1,163	1,088	1,113	1,253
Short term obligations of commercial banks	45	51	51	60	51	51	51	51	51	51	51
Broad money (M2)	8,007	9,551	10,833	10,536	12,321	12,467	13,985	16,035	18,453	21,019	23,653
Currency in circulation	2,632	3,101	3,498	3,337	3,911	3,869	4,466	5,093	5,675	6,274	6,934
Demand deposits in local currency	2,847	3,506	3,821	3,688	4,404	4,592	5,009	5,785	6,789	7,865	8,945
Quasi-money including time deposits	2,528	2,943	3,514	3,458	4,007	4,007	4,510	5,156	5,989	6,880	7,774
	(Percentage change relative to broad money at beginning of the year)										
Net foreign assets	14.8	10.4	4.4	5.3	4.0	5.1	3.7	7.1	6.1	6.4	6.3
Net domestic assets	8.0	9.6	9.8	7.1	10.3	13.5	8.5	7.0	8.5	7.6	6.8
Domestic credit	9.3	10.3	10.6	9.8	9.3	14.5	6.6	6.7	8.2	7.4	7.1
Net credit to government	4.5	1.3	3.5	0.1	1.4	6.7	0.9	1.0	1.3	1.2	1.2
Credit to the economy	4.8	9.1	7.1	9.7	7.9	7.8	5.7	5.6	6.9	6.2	5.9
Credit to public enterprises	0.1	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	4.7	9.4	7.1	9.6	7.9	7.8	5.7	5.6	6.9	6.2	5.9
Other items (net; asset = +)	-1.3	-0.7	-0.8	-3.2	1.0	-0.4	1.8	0.3	0.3	0.2	-0.3
	(Percentage change year-on-year)										
Broad money (M2)	21.3	19.3	13.4	10.3	13.7	18.4	12.7	14.6	15.0	13.9	12.5
Currency in circulation	24.4	17.8	12.8	7.6	11.8	15.9	15.4	14.1	11.4	10.6	10.5
Demand deposits in local currency	24.6	23.2	9.0	5.2	15.3	24.6	9.8	15.4	17.3	15.8	13.7
Quasi-money in local currency	14.9	16.4	19.4	17.5	14.0	16.0	13.2	14.3	16.1	14.8	13.0
Credit to the private sector (in nominal terms)	8.2	18.4	14.0	19.0	15.4	14.2	10.8	10.9	13.7	12.4	12.1
Credit to the private sector (in real terms)	1.2	9.4	6.3	12.9	9.0	7.2	4.9	5.5	8.7	7.4	7.1
Memorandum items:											
Money multiplier (M3/reserve money)	2.3	2.3	2.4	2.3	2.4	2.3	2.3	2.3	2.4	2.5	2.6
Velocity of money (GDP/end-of-period M3)	3.51	3.37	3.39	3.42	3.39	3.29	3.31	3.26	3.17	3.08	3.01

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

[1] End of period.

Table 7. Madagascar: Balance Sheet of the Central Bank, 2016-19[1]

(Billions of Ariary; unless otherwise indicated)

	2016	2017	2018							2019					
	Dec	Dec	March	June		Sep		Dec		March		June		Dec	
	Actuals	Actuals	Actuals	EBS 18/66	Actuals	EBS 18/66	Actuals	EBS 18/66	Prel.Est.	EBS 18/66	Proj.	EBS 18/66	Proj.	EBS 18/66	Proj.
Net foreign assets	2,709	3,527	3,544	3,435	3,577	3,650	3,583	3,875	4,207	3,879	4,315	3,877	4,326	4,247	4,755
Gross foreign assets	3,744	4,985	5,039	4,944	5,063	5,318	5,253	5,713	5,876	5,738	6,162	5,910	6,201	6,468	6,992
Gross foreign liabilities	-1,035	-1,458	-1,495	-1,509	-1,487	-1,668	-1,670	-1,838	-1,669	-1,858	-1,847	-2,034	-1,875	-2,220	-2,237
Net domestic assets	1,136	1,032	913	967	794	1,088	1,118	1,198	891	1,099	1,017	1,212	1,020	1,399	1,200
Credit to government (net)	1,028	886	885	1,042	845	1,053	949	918	947	760	961	749	850	870	1,169
Claims on central government	1,323	1,275	1,134	1,207	1,132	1,288	1,223	1,269	1,269	1,102	1,236	1,091	1,125	1,070	1,444
Statutory advances	298	174	84	158	84	210	98	212	212	55	180	55	87	55	261
Securitized debt (T-bonds and bills)	829	786	776	765	765	754	754	743	744	733	733	722	722	701	701
Discounted bills of exchange	78	39	0	9	0	49	78	39	17	39	27	39	20	39	105
On-lending of funds	117	275	273	273	282	273	292	273	295	273	295	273	295	273	295
Other credits	2	2	2	2	2	2	1	2	1	2	2	2	2	2	83
Government deposits	-295	-389	-250	-166	-287	-236	-274	-352	-322	-342	-275	-342	-275	-200	-275
Claims on other sectors	12	15	17	18	17	19	17	19	16	21	21	22	21	23	20
Claims on banks: Liquidity operations (+ = injection)	-210	-276	-465	-445	-445	-363	-133	-149	-287	-249	-217	-33	-116	-13	-108
Other items (net; asset +)	305	406	477	353	377	380	285	410	215	567	253	474	265	518	118
Reserve money	3,845	4,559	4,458	4,402	4,371	4,738	4,700	5,073	5,098	4,978	5,332	5,089	5,346	5,646	5,954
Currency in circulation	2,632	3,101	2,969	3,032	3,041	3,193	3,358	3,498	3,337	3,382	3,388	3,495	3,475	3,911	3,869
Bank reserves	1,212	1,457	1,488	1,370	1,329	1,544	1,342	1,574	1,507	1,595	1,689	1,593	1,616	1,735	1,830
Currency in banks	202	236	217	211	234	236	218	236	281	253	236	262	236	293	236
Deposits	1,009	1,221	1,271	1,159	1,095	1,308	1,124	1,338	1,226	1,342	1,453	1,331	1,380	1,442	1,594
	(Cumulative annual flows, unless otherwise stated)														
Memorandum items:															
Net foreign assets	946	818	17	-95	50	120	56	345	681	4	107	2	118	373	547
Millions of SDRs	207	165	-12	-43	0	-15	-24	23	106	-8	9	-17	-2	37	57
Net domestic assets	-168	-104	-118	-62	-238	59	86	169	-141	-99	127	14	130	201	309
Credit to government (net)	-21	-142	-1	156	-41	167	63	32	61	-158	14	-169	-97	-48	222
Reserve money	778	714	-101	-156	-188	179	142	514	540	-94	234	16	248	574	856
Exchange Rate (MDG/SDR, end of period)	4,501	4,600	4,672	…	4,662	…	4,787	…	4,812	…	…	…	…	…	…
Net foreign assets (Millions of SDRs)	604	769	756	726	768	754	745	793	874	785	883	776	873	830	931

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

[1] End of period.

Table 8. Madagascar: Financial Soundness Indicators, 2009-18[1]

(Ratios, percent)

	2009 Dec	2010 Dec	2011 Dec	2012 Dec	2013 Dec	2014 Dec	2015 Dec	2016 Dec	2017 Mar	2017 June	2017 Sep	2017 Dec	2018 Mar	2018 June
Capital Adequacy														
Regulatory capital to risk-weighted assets	15.6	15.5	16.0	16.2	15.1	14.0	13.8	13.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital to assets	9.2	9.8	9.4	9.8	10.6	11.2	11.6	10.7	10.8	9.9	10.2	10.4	10.7	9.4
Regulatory Tier 1 capital to risk-weighted assets	16.2	16.1	17.0	16.9	16.0	14.6	14.8	14.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tier 1 to assets	7.8	8.2	7.9	8.1	8.6	8.5	8.7	8.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-performing loans net of provisions to capital	25.0	25.3	26.0	22.0	25.6	20.9	19.5	16.5	16.3	18.7	17.9	15.5	16.9	16.6
Net open position in equities to capital	5.2	4.8	5.2	4.4	4.8	5.2	5.4	5.1	4.8	5.4	4.6	4.6	4.3	5.0
Asset Quality														
Non-performing loans to total gross loans	8.1	9.6	10.7	11.1	11.6	10.1	9.0	8.4	8.2	8.2	8.3	7.3	7.9	7.2
Earnings and Profitability														
Return on assets	2.2	2.1	2.4	2.6	3.0	4.2	4.6	3.9	4.0	4.1	4.1	4.4	4.5	4.6
Return on equity	22.5	21.2	24.5	26.2	30.0	38.9	41.5	35.9	36.8	39.2	39.5	41.9	43.2	45.2
Interest margin to gross income	58.1	59.3	59.2	60.5	60.9	56.5	55.0	60.5	63.8	63.3	62.9	62.0	63.6	62.5
Non-interest expenses to gross income	59.5	60.5	61.5	65.1	62.2	55.2	55.0	58.4	58.2	57.6	56.8	55.5	53.6	54.2
Trading income to total income	7.9	7.8	5.7	4.9	3.8	8.2	8.1	4.9	3.0	3.0	3.3	3.8	4.0	3.9
Personnel expenses to non-interest expenses	29.9	31.0	30.1	31.4	32.8	34.2	33.1	32.9	33.6	34.0	33.7	33.0	34.1	32.5
Liquidity														
Liquid assets to total assets (liquid asset ratio)	36.8	33.8	41.6	42.9	37.8	34.1	31.3	37.3	38.2	34.7	35.3	36.8	40.2	38.5
Liquid assets to short-term liabilities	56.0	50.7	60.4	64.0	56.4	51.5	46.9	54.6	57.2	50.1	51.7	53.4	59.7	55.6
Customer deposits to total (non-interbank) loans	163.8	164.5	164.9	177.7	150.4	144.7	137.4	145.6	149.6	145.0	148.5	146.3	144.6	144.2
Sensitivity to Market Risk														
Net open position in foreign exchange to capital	18.2	18.4	13.7	9.6	12.8	10.9	11.7	8.6	5.2	4.9	7.4	9.0	6.7	3.4
Spread between reference lending and deposit rates (basis point)	1,065	1,120	1,167	1,186	1,245	1,202	1,162	1,180	1,157	1,164	1,183	1,187	1,146	1,143
Foreign currency-denominated loans to total loans	20.8	23.6	20.5	20.7	16.1	15.6	15.8	12.8	14.4	14.3	13.9	15.0	12.2	11.9
Foreign currency-denominated liabilities to total liabilities	17.8	19.3	18.3	17.5	16.3	17.5	16.6	15.7	16.6	16.2	15.1	15.0	14.6	14.4

Source: Malagasy authorities.

[1] Ratios only concern banking sector.

Table 9a. Madagascar: Quantitative Performance Criteria and Indicative Targets for the ECF Arrangement, June 2018

	2018 End-June		
	Performance Criteria	Estimation	Status
	(Billions of Ariary; unless otherwise indicated)		
Fiscal			
Floor on primary balance excl. foreign-financed investment (commitment basis) [1]	177	283	Met
External			
Ceiling on accumulation of new external payment arrears (US$ millions) [2]	0	0	Met
Ceiling on new nonconcessional external debt with original maturity of more than one year, contracted or guaranteed by the central government or BFM (US$ millions) [3]			
Grant element of less than 35 percent	383	273	Met
Grant element of less than 20 percent	100	95	Met
Ceiling on new nonconcessional external debt with original maturity of up to and including one year, contracted or guaranteed by the central government or BFM (US$ millions) [2]	0	0	Met
Central bank			
Floor on net foreign assets (NFA) of BFM (millions of SDRs) [4]	617	773	Met
Ceilings on net domestic assets (NDA) of BFM [4]	1,865	937	Met
Indicative targets			
Floor on social priority spending [1]	158	124	Not met
Floor on gross tax revenue [1]	2,411	2,470	Met
Memorandum items			
Official external program support (millions of SDRs) [3]	235	239	
Official external program grants (millions of SDRs) [1]	0	23	
Program exchange rate (MGA/SDR)	4,444	4,444	

Sources: Madagascar authorities; and IMF staff projections.

[1] Cumulative figures from the beginning of each calendar year.

[2] Cumulative ceilings that will be monitored on a continuous basis starting from end-May, 2016.

[3] Cumulative ceilings that will be monitored on a continuous basis starting from January 1, 2016.

[4] The total stock of NFA and NDA measured at the program exchange rates.

Table 9b. Madagascar: Indicative Targets for the ECF Arrangement, September 2018

	2018 End-September			
	Indicative Target	Adjusted	Estimation	Prel. Status
Fiscal	(Billions of Ariary; unless otherwise indicated)			
Floor on primary balance excl. foreign-financed investment (commitment basis)[1]	-59		182	Met
External				
Ceiling on accumulation of new external payment arrears (US$ millions)[2]	0		0	Met
Ceiling on new nonconcessional external debt with original maturity of more than one year, contracted or guaranteed by the central government or BFM (US$ millions)[3]	900		186	Met
Central bank				
Floor on net foreign assets (NFA) of BFM (millions of SDRs) [4]	758	720	748	Met
Ceilings on net domestic assets (NDA) of BFM [4]	1,250	1,419	1,375	Met
Indicative targets				
Floor on social priority spending [1]	260		224	Not met
Floor on gross tax revenue [1]	3,705		3,681	Not met
Ceiling on new nonconcessional external debt with original maturity of more than one year, contracted or guaranteed by the central government or BFM (US$ millions)[3]				
Grant element of less than 35 percent	383		273	Met
Grant element of less than 20 percent	100		95	Met
Ceiling on new nonconcessional external debt with original maturity of up to and including one year, contracted or guaranteed by the central government or BFM (US$ millions)[2]	0		0	Met
Memorandum items				
Official external program support (millions of SDRs) [3]	288		250	
Official external program grants (millions of SDRs) [1]	74		33	
Program exchange rate (MGA/SDR)	4,444		4,444	

Sources: Madagascar authorities; and IMF staff projections.

[1] Cumulative figures from the beginning of each calendar year.

[2] Cumulative ceilings that will be monitored on a continuous basis starting from end-May, 2016.

[3]Cumulative ceilings that will be monitored on a continuous basis starting from January 1, 2016.

[4] The total stock of NFA and NDA measured at the program exchange rates.

Table 10. Madagascar: Structural Benchmarks April to December 2018

Action	Tentative Dates	Status
Mobilizing fiscal revenue		
Employ the new Tax Identification Number (TIN) throughout all ministries	End-Dec. 2018	**Not met**. Action completed in the major ministries. Process expected to be completed by end-June 2019.
Improving the composition and quality of fiscal spending		
Adopt and implement an automatic fuel pricing formula with a smoothing mechanism by end-September 2018, while avoiding any budget costs from fuel pricing in the interim.	Continuous benchmark	**Not met**.
Install 3,500 smart meters for JIRAMA.	End-June 2018	**Met**. 3,600 smart meters installed at end-May 2018.
Enhancing economic governance		
The terms and conditions of all PPP contracts will be published within one month of the date of signature on ARMP's web site.	Continuous benchmark	**Met.** No PPP contracts have been signed.
Notify World Bank and IMF staff of any single source procurement contracts for JIRAMA's purchases of electricity and purchases and rentals of generators.	Continuous benchmark	**Met.**
Revise and submit to parliament the law governing the National Public Establishments (*Etablissements publics nationaux, EPN*).	End-June 2018	**Not met.** Action completed with a short delay, in July.
Start the process of publishing, including providing searchable internet access (using the criteria of topics and presiding judges), of all final court decisions by the anti-corruption centers.	End-Dec. 2018	**Met.**
Strengthening financial sector development		
Submit to parliament draft legislation to promote repo transactions.	End-Dec. 2018	**Met.**
Submit to parliament a new banking law that will: (i) improve the bank recovery and resolution framework in line with FSSA recommendations; (ii) reinforce the framework for corrective bank supervisory measures (with the specific triggers, responsibilities, and time limits for an effective response to bank violations and vulnerabilities to be determined by the law or regulation); and (iii) enhance the powers and independence of the financial supervisor (CSBF), including legal protection for its staff and Board members.	End-Dec. 2018	**Not Met.** Further consultations with stakeholders in late 2018 before planned submission in first half of 2019.

Table 11. Madagascar: External Financing Requirements and Sources, 2016-19

(Millions of U.S. Dollars)

	2016	2017	2018	2019
		Prel. Est.		Proj.
Total financing requirements	911	961	1,073	1,123
Current account deficit	-57	56	-32	181
Net repayment of private sector debt	205	136	188	230
Repayment of government debt	70	80	71	68
Gross reserves accumulation (+ = increase) [1]	325	350	191	206
IMF repayments	15	12	10	4
Other (inc. unrepatriated export revenues)	353	327	646	433
Available financing	911	961	1,073	1,123
Foreign direct and portfolio investment	452	358	477	345
Budget support loans	17	77	48	0
Project support	398	398	515	647
Project grants	278	234	227	280
Project drawings	121	165	288	366
IMF: RCF disbursement and ECF arrangement	44	128	32	132
Budget support to be programmed	0	0	0	0
Memorandum items:				
Gross official reserves [1]	1,159	1,506	1,728	1,911

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

[1] The change in gross official reserves can deviate from the gross reserves accumulation because of exchange rate movements.

Table 12. Madagascar: Projected External Borrowing, 2018-19

Public and publicly-guaranteed external debt contracted	Volume of new debt		PV of new debt (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**1,520**	**100**	**854**	**100**
Concessional debt, of which	**1,405**	**92**	**759**	**89**
Multilateral debt	801	53	371	43
Bilateral debt	597	39	383	45
Other	7	0	5	1
Non-concessional debt, of which	**115**	**8**	**95**	**11**
Grant element between 0 and 35 percent	71	5	51	6
Commercial terms	44	3	44	5
By Creditor Type	**1,520**	**100**	**854**	**100**
Multilateral	831	55	393	46
Bilateral - Paris Club	35	2	18	2
Bilateral - Non-Paris Club	607	40	398	47
Other	47	3	45	5
Uses of debt financing	**1,520**	**100**	**854**	**100**
Infrastructure	1,008	66	587	69
Social Spending	60	4	28	3
Budget Financing	103	7	69	8
Other[1]	350	23	170	20

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

[1]Includes Agriculture and Financial Sector Development.

Table 13. Madagascar: Proposed Schedule of Disbursements and Timing of ECF Arrangement Reviews

Availability Date	Disbursement (In percent of quota)	Disbursement (In SDRs)	Conditions for Disbursement
July 27, 2016	12.9	31,428,000	Board approval of the arrangement
June 28, 2017	25.4	61,978,000	Board completion of first review based on observance of performance criteria for end-
November 20, 2017	12.9	31,428,000	Board completion of second review based on observance of performance criteria for end-June 2017
May 20, 2018	12.9	31,428,000	Board completion of third review based on observance of performance criteria for end-December 2017
November 20, 2018	12.9	31,428,000	Board completion of fourth review based on observance of performance criteria for end-June 2018
May 20, 2019	12.9	31,428,000	Board completion of fifth review based on observance of performance criteria for end-December 2018
November 20, 2019	12.9	31,432,000	Board completion of sixth review based on observance of performance criteria for end-June 2019
Total	102.5	250,550,000	

Source: IMF.

Table 14. Madagascar: Indicators of Capacity to Repay the Fund, 2019-32

(As at March 1, 2019)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
							(Millions of SDRs)							
Fund obligations based on existing credit														
Principal	3.1	6.1	12.2	18.5	37.2	40.4	37.4	31.3	25.0	6.3	0.0	0.0	0.0	0.0
Charges and interest	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Fund obligations based on existing and prospective credit														
Principal	3.1	6.1	12.2	18.5	37.2	46.7	56.2	50.1	43.8	25.1	12.6	0.0	0.0	0.0
Charges and interest	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total obligations based on existing and prospective credit														
Millions of SDRs	4.3	7.4	13.5	19.8	38.5	48.0	57.5	51.4	45.1	26.4	13.8	1.3	1.3	1.3
Billions of Ariary	21.5	38.8	74.1	112.2	224.4	288.2	353.2	322.8	289.7	173.5	93.0	8.7	8.9	9.1
Percent of exports of goods and services	0.1	0.2	0.4	0.5	1.0	1.2	1.3	1.1	0.9	0.5	0.3	0.0	0.0	0.0
Percent of debt service	3.1	5.0	8.6	11.2	17.7	20.3	21.2	17.4	13.7	7.4	3.6	0.3	0.3	0.3
Percent of GDP	0.0	0.1	0.1	0.2	0.3	0.4	0.4	0.4	0.3	0.2	0.1	0.0	0.0	0.0
Percent of government revenue	0.4	0.6	1.0	1.4	2.4	2.8	3.1	2.5	2.0	1.1	0.5	0.0	0.0	0.0
Percent of quota	1.8	3.0	5.5	8.1	15.7	19.6	23.5	21.0	18.4	10.8	5.7	0.5	0.5	0.5
Outstanding IMF credit based on existing and prospective drawings														
Millions of SDRs	308.6	302.5	290.3	271.7	234.6	187.9	131.6	81.5	37.7	12.6	0.0	0.0	0.0	0.0
Billions of Ariary	1,530.1	1,590.6	1,594.3	1,540.8	1,368.6	1,128.5	808.7	512.2	242.2	82.6	0.0	0.0	0.0	0.0
Percent of exports of goods and services	9.6	8.9	8.2	7.3	6.0	4.6	3.0	1.8	0.8	0.2	0.0	0.0	0.0	0.0
Percent of debt service	224.5	203.0	186.0	154.1	107.9	79.5	48.5	27.5	11.4	3.5	0.0	0.0	0.0	0.0
Percent of GDP	3.4	3.1	2.8	2.5	2.0	1.5	1.0	0.6	0.2	0.1	0.0	0.0	0.0	0.0
Percent of government revenue	27.1	24.7	21.9	19.0	14.9	11.0	7.0	4.0	1.7	0.5	0.0	0.0	0.0	0.0
Percent of quota	126.3	123.8	118.8	111.2	96.0	76.9	53.9	33.4	15.4	5.1	0.0	0.0	0.0	0.0
Net use of IMF credit (millions of SDRs)	91.2	-6.1	-12.2	-18.5	-37.2	-46.7	-56.2	-50.1	-43.8	-25.1	-12.6	0.0	0.0	0.0
Disbursements	94.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	3.1	6.1	12.2	18.5	37.2	46.7	56.2	50.1	43.8	25.1	12.6	0.0	0.0	0.0
Memorandum items:							(Billions of Ariary, unless otherwise indicated)							
Exports of goods and services (millions of SDRs)	3,225	3,401	3,553	3,709	3,899	4,125	4,364	4,616	4,887	5,174	5,476	5,794	6,133	6,495
Debt service	681.6	783.7	857.3	1,000.1	1,268.5	1,419.9	1,669.0	1,860.2	2,118.1	2,349.3	2,592.6	2,854.8	3,162.9	3,564.2
Nominal GDP (at market prices)	45,243	50,600	56,263	62,050	68,304	75,166	82,689	90,935	100,017	109,877	120,659	132,483	145,413	159,590
Government revenue	5,647	6,442	7,275	8,116	9,161	10,286	11,500	12,738	14,210	15,831	17,529	19,406	21,475	23,760
Quota (millions of SDRs)	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4

Source: IMF staff estimates and projections.

Annex I. Medium-Term Objectives Under the ECF-Supported Program (2016-2019)

Macroeconomic objectives for stronger stability and sustainability		Assessment at end-2018
Accelerate economic growth to 5 percent a year		Real GDP is estimated at 5.2 percent in 2018 and projected at same level in 2019.
Maintain inflation in single digits with a downward trend toward 5-6 percent		Inflation is contained to single digits, but the downward trend is still uneven, especially considering yearly averaged inflation.
Improve international reserves coverage gradually to at least 3½ months of imports		Coverage is close to 4 months of imports in 2018.
Raise fiscal revenue gradually to 12 percent of GDP		Objective on track, at 11.7 percent of GDP in 2018.
Boost public capital expenditure substantially to 8 percent of GDP		Capital spending increased from 3.5 to 6.2 percent of GDP between 2015 and 2018. Approaching 8 percent in 2019 will depend on implementation capacity.
Achieve a modest surplus in the primary balance (excluding foreign-financed investment)		The primary balance is expected to be slightly positive in 2019.

Structural reform objectives for sustainable and inclusive growth		Assessment at end-2018
Promote inclusive growth, inter alia by shifting public spending significantly in favor of infrastructure investment, education, and health and improving the business climate.		Public investment scaling up favors infrastructure. Spending in education and health is also increasing.
Create fiscal space, inter alia by mobilizing domestic revenue and sharply reducing the need for transfers to SOEs and pension funds.		Revenue mobilization has surpassed initial targets. Transfers to SOEs are downward, but more slowly than expected. The pension fund deficit remains high (0.6 percent of GDP in 2018).
Enhance economic governance and fight corruption, by limiting the use of restricted tenders in procurement, devoting more resources to anti-corruption agencies and reinforcing the legal framework.		Key anticorruption laws have been enacted, including a new AML/CFT law in December 2018, and an anti-corruption court has opened. However, the law on illicit asset recovery is still awaiting adoption by parliament.
Strengthen stability and financial sector development, inter alia through enhanced central bank independence, reinforced financial sector supervision, and better liquidity management.		The adoption of the Central Bank Act in 2016 was followed by an impressive reform agenda. Further progress is expected with the new banking law, and a law on financial stability in 2019.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Potential Impact	Policy response
		Domestic Risks	
Weak investment implementation capacity.	**High**	**Medium**: Slower economic growth.	Monitor available domestic capacity (particularly in construction) and give precedence to priority investment with highest returns.
Larger than anticipated transfers to SOEs (e.g. JIRAMA).	**High**	**Medium**: Transfers to SOEs reduce other priority expenditure. Potential economic disruption if SOEs' operations are affected.	Identify options to protect key public services. Encourage authorities and development partners to protect social priority spending. Strengthen governance structures, including government oversight of key SOEs. Consider private management of specific units or operations.
Political uncertainty and tensions after the Presidential election	**Medium**	**High**: Reduced inflows from FDI, donor support, and tourism. Less fiscal space impedes the ability to deliver public services.	Maintain exchange rate flexibility and reallocate fiscal spending from investment to support of the most vulnerable. Encourage authorities and development partners to protect social priority spending.
Failure to tackle corruption	**High**	**Medium**: Reduced inflow of FDI and donor support.	Step-up anti-corruption and AML/CFT efforts. See response above.
Cyclones, floods, and droughts.	**Medium**	**Medium**: Loss of real and human capital and lower growth.	Reallocate fiscal spending to finance recovery work and make appeal to donors for post-disaster financing.
		External Risks	
Weaker-than-expected global growth.	**Medium**	**Medium**: Slower growth in tourism. Weaker commodity prices and balance of payments.	Maintain exchange rate flexibility as a shock absorber. Diversify sources of tourism.
Rising protectionism and retreat from multilateralism	**High**	**Medium**: Reduced inflows from FDI and donor support. Reduced access to foreign markets.	Maintain exchange rate flexibility and reallocate fiscal spending from investment to key public services and support of the most vulnerable. Energize donor support by emphasizing the merits of the medium-term development plan.
Sizeable deviations from baseline energy prices.	**Medium**	**Medium**: Higher energy prices weaken the balance of payments, raise inflation, and make fuel and electricity reforms harder.	Continue the reform of JIRAMA. and implement an agreement with fuel distributers and an automatic fuel price formula in the future, while social spending and differentiation across fuel types shelter the most vulnerable.

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

Annex III. Governance Issues

Governance Assessment

1. A recent assessment by Fund staff of governance in Madagascar found widespread weaknesses in numerous state functions. Fund staff conducted this assessment as part of the implementation of the Fund's enhanced framework for engagement on governance.[1] The primary areas of weaknesses include fiscal governance (revenue and spending outcomes, procurement, revenue institutions, PFM controls and transparency), financial sector oversight, regulatory framework (ease of doing business) and rule of law (investor protection, contract enforcement and property rights). Resource constraints, a large informal economy and limitations in the judicial system contribute to weakening government institutions, which are often underfunded and vulnerable to rent-seeking and corrupt behavior. Even before this assessment, the authorities and Fund engagement with Madagascar have stressed efforts to strengthen governance, recognizing that is an essential element in economic success.

Recent Actions and Progress

2. In September 2015, authorities adopted the National Anti-Corruption Strategy, which aimed to complete the legal framework and then build the necessary institutions. Several laws adopted since 2016 have strengthened the anti-corruption legal framework: the *anti-corruption law* (2016), essential for the prevention and detection of the laundering of the proceeds of corruption; the *law on anti-corruption centers* (2016) to establish specialized and independent tribunals; the *law on international cooperation* (2017), which ensures that anti-corruption agencies can effectively participate in international cooperation; and a new law on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), adopted in December 2018. In addition, the *law on asset recovery*, which ensures that judicial authorities can confiscate illegally acquired assets, is still pending approval by parliament.

3. While these laws bring Madagascar closer to international standards, further emphasis is needed on developing or reinforcing the institutions necessary for effective enforcement: the opening of the first anti-corruption court in Antananarivo in June 2018 and the increased budget allocation to the anti-corruption agency BIANCO are encouraging steps towards this objective.

IMF Engagement

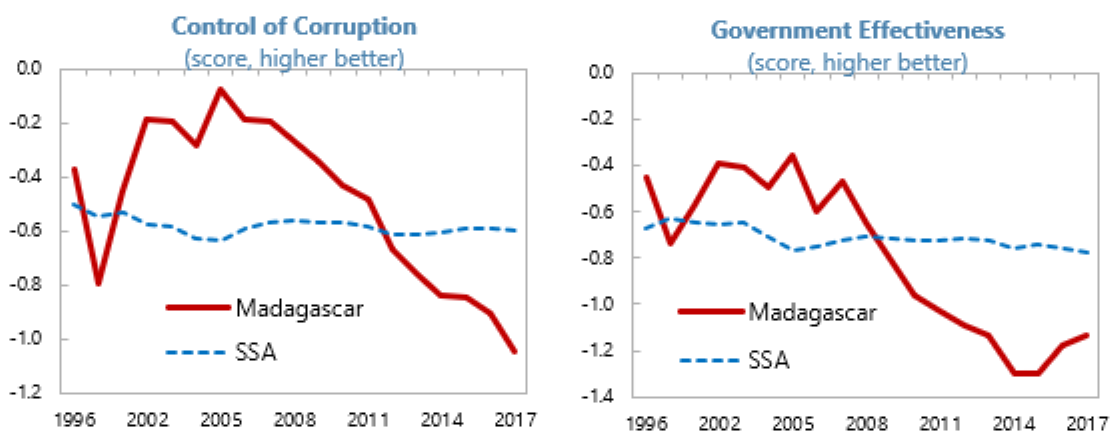
4. Governance and the fight against corruption have been central elements of the engagement between Madagascar and the IMF since 2014. This engagement has included both program design and policy dialogue, starting with the SMP conditionality and continuing most importantly with the 2017 Article IV,[2] which included a detailed assessment and proposed measures to reduce corruption. These elements have been fully integrated in the current ECF arrangement; one of its four pillars is

[1] See IMF Policy Paper "Review of 1997 Guidance Note on Governance – A Proposed Framework for Enhanced Fund Engagement".

[2] See Country Report No. 17/223 (Article IV) and Country Report No. 17/224 (Selected Issues).

"improving governance by strengthening public financial management and intensifying anti-corruption measures." From its launch in mid-2016, the program supported by the ECF arrangement has strongly emphasized improving governance in the economic area, especially strengthening public financial management and procurement practices, increasing budget transparency, carefully managing the fiscal implications of Public Private Partnerships, and reinforcing the institutions and legal framework for combatting corruption. Many of the structural benchmarks under the ECF (and previously the SMP) have aimed to strengthen governance (Table 1). The IMF has also carried out several technical assistance missions, including to help in the drafting of anticorruption laws. In addition, the IMF has supported reforms to improve central bank governance, with considerable progress in the central bank's legal framework and the establishment of an audit committee and a new procurement policy.

5. Looking forward, governance will remain a principal element of engagement between the IMF and the Malagasy authorities. The new president has set better governance and the fight against corruption as high priorities, most notably in the General Policy Program of the State (*Politique Générale de l'État*) presented to Parliament on February 4th, 2019. The upcoming 2019 Article IV will provide the opportunity to assess governance weaknesses, take stock of efforts to date, and discuss priorities for future governance and anti-corruption measures.



Sources: Worldwide Governance Indicators; and Transparency International.

Table 1. Madagascar: Priority Actions and Structural Benchmarks Related to Governance for SMP and ECF

Arrangement Type	Description	Type	Test Date
SMP	Set up remote audit teams with the mission to undertake ex-post verifications focused on highly suspected fraud operations.	SB	Dec-15
SMP	Submit a revised Central Bank Act to the Cabinet for approval.	SB	Dec-15
ECF	Submission to Parliament of draft laws (i) establishing special anti-corruption centers that ensure the operational independence of each center and establishes an independent committee at each center that is responsible for staff recruitment and management, supervision, monitoring, and evaluation of the center activities; and (ii) strengthening asset declarations and their use, as well as expanding the definition of corruption offenses.	PA	Jun-16
ECF	Submit draft law on asset recovery, that is consistent with all FATF recommendations, to parliament.	PA	Jun-17
ECF	Make the Council of Budget and Financial Discipline (CDBF) operational by issuing a decree, appointing its staff, and publishing its disciplinary decisions.	SB	Sep-16
ECF	Submission to Parliament of the law regulating the collection, administration, and management of assets that have been seized because of investigations related to corruption, embezzlement, money laundering, financing of terrorism, or organized international criminal activities, in line with the relevant FATF recommendations.	SB	Oct-16
ECF	Publication and submission of the 2015 financial statements of ten large SOEs to the Court of Auditors: Air Madagascar, FANALAMANGA, CEM, ARO, ADEMA, SOAVOANIO, SPAT, SMMC, SONAPAR, and SEIMAD.	SB	Dec-16
ECF	Enforce the collection of outstanding tax arrears by collecting at least MGA 30 billion of tax arrears in 2016 and publish a report on outstanding arrears.	SB	Feb-17
ECF	The terms and conditions of all PPP contracts will be published within one month of the date of signature on ARMP's web site.	SB	Jun-17
ECF	Publish a report that summarizes the tax credits granted and irregular tax credits that will have been cancelled by major companies.	SB	Jun-17
ECF	Conduct an independent annual audit of the Autorité de Régulation des Marchés Public's (ARMP's) activities.	SB	Jun-17
ECF	Employ the new Tax Identification Number (TIN) throughout all departments of the Ministry of Finance and Budget and CNAPS.	SB	Dec-17
ECF	Revise and submit to Parliament the law governing the National Public Establishments (Etablissements publics nationaux, EPN).	SB	Jun-18
ECF	Prior notification of World Bank and IMF staff of any exceptions (such as emergencies) allowing for single source procurement contracts for JIRAMA's purchases of electricity and purchases and rentals of generators.	SB	Continuous
ECF	Submit to Parliament a new banking law that will: (i) improve the bank recovery and resolution framework in line with FSSA recommendations; (ii) reinforce the framework for corrective bank supervisory measures (with the specific triggers, responsibilities, and time limits for an effective response to bank violations and vulnerabilities to be determined by the law or regulation); and (iii) enhance the powers and independence of the financial supervisor (CSBF), including legal protection for its staff and Board members.	SB	Dec-18
ECF	Start the process of publishing, including providing searchable internet access (using the criteria of topics and presiding judges), of all final court decisions by the anticorruption centers.	SB	Dec-18

Annex IV. Summary FSAP Action Plan

Key recommendations	Actions
Perform more frequent and penetrating supervision of banks and nonbanks to reduce the risks to stability. Regulators need to be better resourced and more independent and certain regulatory gaps need to be filled (for example, with regard to related-party lending).	The new banking law to be submitted to Parliament in the first half of 2019 will strengthen the powers and independence of the financial supervisory authority (CSBF). The CSBF is also recruiting new staff and building capacity with the aim of fully implementing risk-based supervision by end-2019.
Step up AML/CFT efforts, especially more vigorous follow-up to (disseminated) suspicious transaction reports, to support confidence in the financial system and complement other efforts to reduce corruption.	Initially submitted to parliament in December 2017, a new AML/CFT law was finally approved in December 2018.
Establish a legal and operational framework to intervene in and eventually resolve problem institutions to help contain moral hazard, limit the government's contingent liabilities, and protect savers.	The government plans to submit to Parliament a law on financial stability, in line with international standards and FSAP recommendations, establishing the structure in charge of analyzing, identifying, and preventing systemic risks as well as managing and addressing financial crises.
Each government-owned non-bank financial institution should: (i) undergo a detailed operational and financial audit; (ii) be covered by independent prudential oversight; and (iii) according to international best practices, many should eventually be privatized.	Following audits in 2017, new strategies are being formulated for the public savings fund (CEM) and the postal financial services. Responsibility for insurance supervision will be fully transferred to CSBF by end-2019.
Promote modern payment methods—particularly forms of electronic money—to help reduce transaction costs and facilitate financial inclusion.	The law on electronic money and electronic money institutions was adopted in 2016 and a law regulating the national payment system is under preparation.
Improve credit risk management and thus expand the supply of financing to viable projects, the two credit reporting systems need to be merged, and mechanisms for registering property to be used as security need to be modernized and made more cost effective.	A new central credit registry for banks, microfinance, and financial establishments was established in 2016. The law regulating the establishment and supervision of a private credit bureau was adopted in 2017, followed by an international tender in 2018. The selected private credit bureau has been accredited in December 2018 and should be operational by mid-2019.

Appendix I. Letter of Intent

Antananarivo, Madagascar

March 8, 2019

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431 USA

Dear Madam Managing Director:

1. The attached Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and performance under the Extended Credit Facility (ECF) arrangement. It also updates the government's policies and objectives for the rest of 2019. These policies are based on the General Policy Program of the State (*Politique Générale de l'État*) presented to Parliament on February 4th, 2019.

2. The Republic of Madagascar is continuing to make good progress in strengthening macroeconomic stability, promoting inclusive and sustainable growth, and reducing poverty. Economic growth has accelerated in the past year, and inflation remains under control. The presidential elections proceeded very well, and the results were universally recognized, both domestically and abroad. The strengthening of economic and political stability have been mutually reinforcing, a testament to the progress since the return to constitutional government in 2014. In this context of political stability, the medium-term economic outlook remains broadly favorable with projected solid economic growth, driven by rising private sector activity and the ongoing scaling up of public investment. Our external sustainability also remains sound, robust and the risk of debt distress was found to be moderate at the time of the last review.

3. Notwithstanding this momentum, Madagascar faces persistent and significant challenges. In particular, we aim to make further headway in raising living standards and reducing poverty by promoting inclusive growth. The key fiscal priorities are increasing spending on public investment and social needs, containing the level of lower priority spending, and enhancing revenue mobilization. In addition, reforms are continuing to build a sound and inclusive financial sector, as well as continuing progress in economic governance, especially the fight against corruption. As a low-income country with still fragile political institutions, Madagascar remains highly vulnerable to external and internal shocks. Against the background of these current challenges, continued financial and technical support from the IMF remains essential, and we hope that the continued strong implementation of the ECF arrangement will help catalyze financial support of donors.

4. As documented in the attached MEFP, we have met all end-June 2018 performance criteria and all but one indicative targets under the program. Our structural reform agenda is advancing. Of the six structural benchmarks for 2018, three were fully achieved and we made significant progress on all others. Two of the three continuous benchmarks were also met. Implementation of the program has proven more difficult in the second half of the 2018, due largely to the impact of presidential elections on confidence.

5. The attached MEFP describes government policies for 2019 that support achieving program objectives under the ECF arrangement. We stand ready to take any further measures that may prove necessary to meet our objectives and will consult with IMF staff prior to the adoption of any changes to the policies set forth in the Memorandum. The government also undertakes to cooperate fully with the IMF to achieve its policy objectives and not to introduce measures or policies that would compound Madagascar's balance of payments difficulties. We are committed to provide timely monitoring information.

6. In light of the performance on end-June 2018 targets and continuing progress in implementing the program, we request the IMF Executive Board to approve: (i) a modification of the performance criteria at end-June 2019 on the domestic primary fiscal balance, net foreign assets and net domestic assets; and (ii) the request for the completion of the fourth review. In this context, at the fourth review we are seeking total financial support from the Fund equivalent to 12.9 percent of our quota, or SDR 31.4 million.

7. The Malagasy authorities agree to the publication of this Letter of Intent (LOI) and the attached MEFP and Technical Memorandum of Understanding (TMU), as well as the IMF staff report related to the arrangement under the ECF, after approval by the Executive Board of the IMF.

Sincerely yours,

/s/	/s/
Mr. Richard Randriamandrato	Mr. Alain Hervé Rasolofondraibe
Minister of Economy and Finance	Governor
Madagascar	Central Bank of Madagascar

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies 2019

This Memorandum of Economic and Financial Policies (MEFP) updates the one outlined for the completion of the third review approved by the IMF Executive Board on July 11, 2018. It describes recent economic developments, implementation of the ECF-supported program, the economic outlook and risks, and macroeconomic policies.

I. RECENT ECONOMIC DEVELOPMENTS

1. **Economic growth accelerated to around 5 percent in 2018, the best performance of the last ten years**. With this result, annual real GDP growth has averaged 4 percent between 2015 and 2018, compared to 1 percent between 2009 and 2014. The acceleration in 2018 is partly explained by a recovery in agriculture (which accounts for one quarter of total GDP), especially rice production, following adverse weather events in 2017. Other favorable factors in 2018 were strong private sector activity growing (notably construction), the impact of the scaling up of public investment, and growing demand for transport and other services. In the context of the presidential election, the continuing effective functioning of public institutions supported these positive developments, even though political uncertainty seemed to soften economic sentiment somewhat in the second half of 2018.

2. **At the same time, inflation has remained under control**. After peaking temporarily to 9.1 percent (year-on-year) in November 2017 in the wake of a temporary rise in rice prices, consumer price inflation gradually fell to only 6.1 percent year-on-year in December 2018. Core inflation (excluding rice and energy) has declined, from 7.4 percent to 6.4 percent over the same period.

3. **Fiscal performance reflected some positive developments in 2018, with good customs revenue performance and spending executed largely as planned in the supplementary budget** (consistent with plans in the third review under the ECF arrangement). After strong performance in the first half of the year, results in the second half were not as uniformly positive, however, as domestic taxes fell short of target because of the political context.

- Revenue performance continued to be robust in the first part of the year, exceeding targets for June (¶8). However, domestic tax revenue collection was falling short of targets in the second half of 2018, notably explained by the impact of strikes in the tax administration and a significant increase in the deductible VAT of companies in various sectors, including in the fuel sector following growing investment in new service stations and increased fuel storage. Overall in 2018, customs revenue rose by 18.6 percent year-on-year and domestic tax revenue more modestly by 12.3 percent. Total net tax revenue is estimated at 11.7 percent of GDP in 2018, below the 12.0 percent of GDP expected in the supplementary budget, as customs overperformance only partly compensated the weakness in domestic revenue. Moreover, this performance represents an increase of almost 2 percentage points of GDP in three years, to reach the highest level relative to GDP since 2008. Non-tax revenue is also showing good performance thanks to strong dividends from companies in which the government has shareholdings.

- On the spending side, preliminary information indicates that primary domestic spending was broadly in line with the supplementary budget for the entire year. This result represents a recovery from mid-year, when it was about 0.4 percent of GDP lower than projected (mainly in capital spending, despite an improved execution rate compared to the same period in 2017). The transfers to JIRAMA were limited to budgeted amounts (MGA 309 billion, or 0.8 percent of GDP). Commitments for domestically financed investment reached 92 percent of the amount planned under the program. The execution rate of externally financed investment has improved, although, at 3.9 percent of GDP, this investment still fell below the amount envisaged at the time of the third review of the ECF-supported program. Finally, priority social spending increased to 1.0 percent of GDP, slightly below the initial target of 1.1 percent.

4. External developments have remained generally positive. A strong export performance underpinned by continued high vanilla and mining receipts helped the current account balance rise to an estimated surplus of 0.3 percent of GDP in 2018, compared to -0.5 percent of GDP in 2017, despite higher oil, investment and consumption-related imports. External financing continues to rely on concessional borrowing and our capacity to service debt is improving.

5. The central bank (BFM) continued to accumulate foreign exchange reserves, despite some temporary pressures in the latter part of 2018. Reserves have increased by SDR 134.9 million in 2018, resulting in an import coverage of 4.2 months. In the context of the flexible exchange rate regime in force in Madagascar, the value of the national currency (the Ariary) has fluctuated during 2018, and market conditions have been less favorable for reserve accumulation compared with last year. At points during the year, the BFM intervened to counter excessive volatility, following an algorithm. Overall, at end-2018, the nominal effective exchange rate (NEER) depreciated by an estimated 3.6 percent year-on-year. Considering the higher inflation in Madagascar compared to its trading partners, the real effective exchange rate (REER) is estimated to have remained stable (+0.7%).

6. Despite volatile conditions, the BFM has successfully managed inflation and bank liquidity. Inflation has continued slowing, as described above. Nonetheless, the varying effects of the positive vanilla price shock aggravated volatility in excess bank reserves. While banks lose liquidity when they provide currency to vanilla farmers who keep much of their savings in cash, they gain liquidity when they sell foreign exchange (mainly related to vanilla exports) to the BFM. Despite ensuing swings in bank liquidity in 2018 (as in previous years), the BFM's management of this liquidity has led to developments in monetary aggregates in line with the objectives of growth and inflation. Credit to the private sector continued to rise, at a pace (+10.4 percent in real terms at end-November 2018) deemed consistent with macroeconomic stability and financial sector soundness.

II. PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM

7. Performance on the program's quantitative targets at end-June 2018 was strong:

- The performance criterion (PC) on the primary domestic balance (floor), the fiscal anchor of our program, was met with a margin of about half percent of GDP.

- The indicative target (IT) on tax revenue was exceeded by more than 0.1 percent of GDP, the combined result of domestic tax revenue collection and strong customs revenue collection (on both oil and non-oil imports).
- Regarding the central bank, the floor on net foreign assets and the ceiling on net domestic assets have been met, both with substantial margins.
- The zero ceiling on the accumulation of new external payment arrears, as well as the ceilings on new non-concessional external debt, were also respected.
- The only indicative target missed at end-June 2018 was the floor on priority social spending, due to lower capital spending, part of which is included in the definition of social priority spending**.**

8. Based on preliminary indications, we appear to have observed all performance criteria for end-2018 except for the fiscal balance. Implementation of the program encountered some difficulties in the second half of the 2018, in the context of political uncertainties during the electoral period, and we have strengthened our efforts for implementation. Despite realizing some savings in spending and overperformance in customs, we were unable to fully offset the shortfall in domestic revenue in the second half of the year. We estimate the slippage in the primary balance at around 0.3 percent of GDP.

9. Progress in the implementation of the structural reform agenda also continued, although with some delays related to the fragile social and political context of the electoral period:

- The electricity company JIRAMA installed 3,600 smart meters by end-June 2018, meeting the structural benchmark (SB), and more than 6,000 by end-September. The action envisioned in another SB for end-June 2018 — the submission to parliament of the law governing the National Public Establishments — was completed in August; it was adopted in December.

- We have observed the two continuous SB on governance related to transparency in PPPs and JIRAMA's procurement activity.

- We achieved progress on all SBs for end-December, fully observing two of the four. The draft legislation to promote repo transactions was submitted to the Parliament in December 2018, observing the SB; this law remains to be adopted by parliament. The process for publication of all final court decisions by the anti-corruption courts is completed, although no such decisions have been taken yet. However, given the need for additional work and consultation, it was not possible to submit the draft banking law to parliament as initially planned; that will be done in the next parliamentary session starting in mid-2019. Finally, the new Tax Identification Number (TIN) is now in use in most, but not all, ministries, so we did not fully observe this SB, despite the progress. We plan to complete the process by end-June.

- Finally, the government has strived to minimize budget costs from fuel pricing but has not been able to adjust prices fully and avoid any budget costs (the main objective of the continuous SB). In an often difficult social and political context, we authorized six pump price increases in 2018, for a cumulative increase of about 10 percent over the entire year. These price adjustments, combined with the agreement in February 2018 to reduce the distributors' margins, were nevertheless insufficient to close the gap between the pump prices and the market-based reference prices; given the rise in oil prices in international markets, the gap reached a maximum of 16 percent in December 2018. Therefore, the unfunded government liability to the fuel distributors reached MGA 132.1 bn at end December (0.3 percent of GDP) following a cross cancellation with liabilities to the Road Maintenance Fund (the liability was at MGA 232.1 bn or almost 0.6 percent of GDP before this operation, above the ceiling we committed to at the time of the third review). In this context, it was not possible to implement an automatic formula for fuel pricing (part of the SB and originally planned by September 2018). Pending an agreement with the distributors to resolve the issue (see below), we had to postpone some of their tax payments (equivalent to 0.3 percent of GDP), with an impact (at least temporarily) on the budget.

III. ECONOMIC OUTLOOK AND RISKS

10. The macroeconomic outlook continues to be favorable. Our medium-term economic framework is based on real GDP growth of more than 5 percent per year for the next 3 years. We consider this a realistic assumption based on the scaling up of public investment in infrastructure and increasing private sector activity, especially tourism, light manufacturing, mining, and agriculture. In this sector, gradually enhancing the productivity of smallholder agriculture and developing export-oriented agribusiness should also support inclusive growth. We are also confident in our ability to contain inflation, which is expected to gradually fall over the medium-term towards a long-term objective of about 5 percent per year.

11. We are aware of the vulnerabilities faced by Madagascar, as a low-income country with an open economy and continuing weaknesses in institutions. The country remains highly vulnerable to natural disasters and terms of trade shocks, particularly oil prices; climate change is deepening the former risks. In addition, growth could remain below our expectation if investment project implementation is slower than expected. Delays in reforms of major state-owned enterprises (SOEs), especially JIRAMA, could lead to both the need for increased transfers from the budget and impediments to growth. The government continues to work in the identification, monitoring and, where possible, the mitigation of these fiscal risks.

12. We believe that there are also upside risks, particularly for growth. We are convinced that our efforts to accelerate the scaling-up of public investment will bear fruit, consistent with our objective of a growth rate of at least 6 percent per year in the medium term. In addition, current projections for private investment, including foreign direct investment, could prove to be conservative, provided a substantial portion of announced plans materializes more rapidly than forecast.

IV. MACROECONOMIC AND STRUCTURAL POLICIES

13. Under our economic program supported by the ongoing ECF arrangement, we remain focused on existing priorities: strengthening macroeconomic stability and sustainability and promoting inclusive growth by boosting the quality of public spending (to increase investment and social spending), supporting financial inclusion, and strengthening governance (especially in fighting corruption). Recent progress and further policy plans for the period ahead are described below.

A. Creating More Fiscal Space to Continue Improving the Quality of Spending

14. The 2019 budget (adopted in December 2018) aims to continue the recent progress in mobilizing more tax revenue, improving the composition of spending, and avoiding new liabilities for the future.

- The 2019 budget targets an increase in tax revenue to reach 12.3 percent of GDP. This increase will be based on the results of ongoing improvements in tax administration, as well as the following measures: a stronger verification of declared values for imports, a better collection of the VAT payments on public investment projects, enhanced collection of tax arrears, and the centralized financial management of the tax receipts. While revenue weaknesses last year are expected to be temporary, we are monitoring performance this year closely. If revenues fall short in the first quarter, we plan to begin implementing additional measures, including new fiscal measures and/or spending savings that would be part of a supplementary budget.
- Transfers to JIRAMA in 2019 are limited to 0.6 percent of GDP. This level is a reduction from transfers in 2018 (0.8 percent of GDP), but higher than we had targeted. Our ambition remains progressively phasing out transfers to JIRAMA for operating losses by the end of 2020. The Board of the public utility will adopt by mid-March 2019 its own revised 2019 budget, consistent with this budgeted amount (prior action). Resolute cost-cutting measures are being undertaken. Adjustment and realignment of tariffs are also part of JIRAMA's strategy to increase its revenue. Studies on the tariff structure, on the inventory and review of all JIRAMA's liabilities, and on contracts with its suppliers are being finalized with the support of the World Bank. If cost savings fall short of targets by mid-year, we will take contingency measures, including increasing revenue. Once transfers for operating losses are phased out, tariff adjustments will become automatic to match revenues with costs.
- The wage bill has been set to meet all obligations in 2019, including a wage adjustment and allowances. In particular, the wage bill includes a temporary increase (planned over a four-year period) to pay the unmet past obligations for grade promotions (*dette d'avancement*). With this objective, the wage bill is increasing by 11 percent in nominal terms compared to 2018 but is limited to 5.8 percent of GDP and 45 percent of tax revenue.
- Transfers to the civil servants and military pension fund will reach 0.7 percent of GDP, higher than in 2018, reflecting credible assumptions on its expected deficit (including the additional impact of accounting for the *dette d'avancement*). Significant reforms to reduce this transfer are indispensable in the future (see ¶16).
- Priority social spending (as defined under the TMU, ¶22) will increase to 1.2 percent of GDP, meeting the program objective of a steady increase.
- Domestically-financed public investment spending is set to increase to 2.8 percent of GDP and externally-financed investment to an estimated 5.1 percent of GDP. These ambitious objectives will be supported by ongoing efforts to improve implementation capacity (see ¶16).

- Full financing of this budget is ensured by expected external financing (including budget support from the World Bank and the African Development Bank) and net domestic financing projected at 0.9 percent of GDP, a relatively low level compared to recent years.

15. On fuel pricing, a plan to avoid any new budget impact and settle the existing liabilities to distributors will be adopted, including an agreement signed with oil distributors before mid-March 2019 (prior action). This plan includes the following elements:

- **Fuel pricing**: After peaking at 16 percent in December 2018, the gap between pump prices and the market-based reference price has dropped to 7.7 percent in January 2019 and closed in February. The new plan includes the establishment of a new pricing mechanism to avoid any lasting significant liability. The mechanism combines two elements: an automatic price calculation with a smoothing formula, along with a limited discretionary adjustment, which could help manage potentially difficult social impacts. The smoothing formula could lead to some limited, transparent and predictable accumulation of liabilities—in either direction depending on price movements—between the government and distributors; both parties agree to accept this accumulation. The discretionary adjustments will be applied to changes dictated by the mechanism, and their scope is limited by an agreement between the government and the distributors in terms of a cap on the accumulated resulting liability (not to exceed MGA 50 billion). This mechanism will be implemented no later than end-September 2019. The overall impact of this mechanism is to avoid any budgetary impact from fuel pricing by following cost recovery pricing (*vérité des prix*), limit monthly price movements and maintain some flexibility—within limits—to deal with the social impact. The continuing application of this mechanism, including interim pricing arrangements until September, is a continuous structural benchmark (for details, see TMU, ¶25).
- **Liability to distributors**: Concerning the existing accumulated liability to the distributors, MGA 100 billion was settled in December 2018 through the cancellation of payments due by fuel distributors to the Road Maintenance Fund. The remainder will be settled steadily by end-2020, through an additional element in the pump price structure to be applied starting in June 2019, in agreement with the distributors. Discussions on the price structure are expected to be concluded by end-May.

16. Beyond the 2019 budget, we remain committed to increasing fiscal space over the medium term for priority spending, while controlling fiscal risks:

- We aim to contain the wage bill at a sustainable level, with the objective of continuing its reduction as a percentage of tax revenue (this ratio declined every year since 2014 and is projected at 45 percent in 2019, compared to more than 60 percent in 2013). We will rely on technical assistance from AFRITAC South and on improvement of our IT tool for payroll management (AUGURE) to improve the accuracy and comprehensiveness of the budget in this area. These forecasts will include the payment of teachers that are not part of the civil servants (currently budgeted under transfers), as well as all allowances, including the "dette d'avance-ment" accumulated by postponing promotions. On the latter, we will fulfill past unmet obligations for grade promotions, which requires additional one-off outlays over the period 2019-2022. Building on past verifications of ministries' payroll, efforts will continue to enhance the management of the payrolls. Our objective is also to ensure the alignment of wage bill projections and sectoral medium-term spending plans, and to adopt, in due course, an updated overall strategy of modernization of Madagascar's civil service.

- Total transfers are highly dependent on the amounts allocated to the civil servants and military pension fund (25 percent of total transfers, and 34 percent of transfers excluding JIRAMA, in 2018). With technical support from the World Bank, we are assessing the impact of potential parametric changes, including the calculation of pensions (contribution rates, years of eligible service, highest average remuneration, age of retirement, and the applicable yearly accrual rate). We are determined to implement some of these changes in future years.
- We reaffirm our commitment to gradually eliminate transfers for JIRAMA's operating losses by the end of 2020. We are benefitting from financial and technical assistance from the World Bank as we refine our strategy for subsidy reduction to ensure the long-term financial viability of the utility, relying as much as possible on aggressive cost-reduction. Following a consultative process launched by the government, JIRAMA will update its multi-annual business plan by end-September 2019. While the 2017 accounts have been audited and published, it is also planned to make an audited inventory of JIRAMA's existing liabilities, with the support of the World Bank; gross liabilities are estimated to approach almost 3 percent of GDP. These efforts fit into the overall strategy to rapidly expand access to affordable electricity while minimizing the cost to the budget.
- The success of the multi-year business plan of Air Madagascar after its recent restructuring will be instrumental in avoiding the need for public subsidies in the future. The government is determined to fulfill its obligations under the partnership agreement, including concerning the phasing in of additional landing rights for foreign airlines.
- Domestically-financed investments are planned to gradually increase from 2.3 percent of GDP in 2018 to 3.3 percent of GDP by 2021, and externally-financed investments from an estimated 3.9 percent of GDP in 2018 to at least 6 percent of GDP per year on average over the 2019-2021 period. This will require additional efforts to boost investment implementation capacity (see below).
- We plan to gradually increase priority social spending from 1 percent of GDP in 2018 to almost 2 percent of GDP by 2021.
- **Fiscal risks.** We are strengthening our fiscal risk management. The 2019 budget followed the good practice established for 2018, with the publication of an annex on fiscal risks. We are determined to respond with timely and appropriate measures if these risks materialize. Given the expected increase in public guarantees, we will take stock of all public-sector guarantees (including those to SOEs). We are studying the feasibility of provisioning for all new guarantees (for instance for 15 percent), which could begin with the 2020 budget. It is particularly important to manage the fiscal risks associated with public-private partnerships (PPPs). The institutional framework and procedures are in place to manage these risks; our staff have the technical skills to assess the financial viability of each project. We plan to set limits on overall guarantees for PPPs. Supported by the World Bank and the African Development Bank, we are also developing standard guidelines to be used within the different Ministries. Two complementary decrees on small-scale PPP contracts are planned by July 2019. For transparency purposes, we are

committed to publish the terms and conditions of all PPP contracts within one month of the date of their signature on the website of the Ministry of Economy and Finance (continuous structural benchmark).

- **Investment capacity.** We are reinforcing our efforts to build investment capacity, as the pace of scaling up public investment has not accelerated as much as initially targeted. Building on the August 2016 Public Investment Management Assessment (PIMA), we established the new Organization for the Coordination and Monitoring of Investments and their Financing (OCSIF) to coordinate and trouble-shoot investment. The medium-term strategy to develop investment capacity adopted in December 2017 has been updated and validated in July 2018. We are examining the scope for integrating more cost-benefit analysis in our planning. With technical assistance from the World Bank, we are finalizing a "Manual on the Appraisal and Selection of Capital Projects". Also, with Afritac South support, we are developing rules and procedures to improve budgeting and monitoring of multi-year capital projects, including IT tools to monitor multi-year projects in "*autorisations d'engagement/credits de paiements* (AE/CP)." We will set up a team led by the Budget Department (DGB) to start implementing the new procedures to account for and manage the AE/CP for selected ongoing multiyear public investment projects. These efforts aim to enable us to identify any delays promptly and take corrective actions.

17. We remain committed to further improve revenue collection:

- The gradual increase in the net tax-to-GDP ratio in recent years, from 9.9 percent of GDP in 2014 to 11.7 percent of GDP in 2018, has been a major achievement. We relied on the action plans for tax and customs administration, as well as on some specific fiscal measures. For instance, the increase in the tax on petroleum products (TPP) resulted in an additional MGA 106 billion, equivalent to more than 0.2 percent of GDP, in 2018. For further progress, we will build on the recommendations of the February 2018 technical assistance mission of the IMF's Fiscal Affairs Department (FAD). Our objective is to reach 12.3 percent of GDP in 2019, and to exceed 13.0 percent of GDP starting 2023.
- To further increase domestic tax collection, we will focus on pursuing measures including (i) the generalization of performance contracts at the Directorate General for Taxes (DGI) (from 36 of the 113 operational units in 2018 to at least 60 of them in 2019 and all of them in 2020); (ii) the consolidation of the taxpayer segmentation, considering that the largest taxpayers managed by the Directorate of Large Enterprises (DGE) account for 0.2 percent of total taxpayers and 80 percent of total tax collection; (iii) the strengthening of fiscal controls, facilitated by the use of the unique tax identification number (TIN) now in force in major ministries; and (iv) the strengthening of our recovery plan for outstanding tax payments (*Restes à recouvrer, RAR*), which represented MGA 610 billion (1.5 percent of GDP) at the end of 2018, of which about MGA 210 billion could potentially be recovered.
- Regarding custom revenue, the aim is to build on the strong performance of recent years (in nominal terms, revenue increased by more than 65 percent since 2015), despite some lower tariffs arising from Madagascar's trade agreements. We will expand performance contracts to smaller customs offices and put in place a central customs clearance center that will reduce the opportunities for corrupt practices. Nearly all major offices were equipped in 2018 with the ASYCUDA World system, which should improve the sequencing and timeliness of clearance

operations. We will also adopt a strategy to improve the control of the existing free trade zones exceptional tax regimes (structural benchmark for end-July 2019). This strategy will be extended to other high-risk sectors, including new special economic and industrial zones.

- The tax policy unit has already completed an impact analysis of tax expenditures, as well as certain tax measures under consideration, and it will continue to provide enhanced analysis on domestic tax and custom revenue, including tax policy options.

18. We are determined to ensure that new tax incentives for investment are effective and cost-efficient to safeguard our core objective of boosting revenue collection. For the implementation of the new law on Special Economic Zones approved by Parliament in April 2018, we reiterate our commitment to start with pilot projects limited to at most two geographic locations, which will focus exclusively on exports in one or two clearly defined sectors. The implementation of the Law for Industrial Development will likewise start with pilot projects limited to at most two geographic locations, which will focus on one or two clearly defined sectors. For these two laws, the tax code revisions and issuance of implementing decrees will rely on cost-based incentives (investment credits or accelerated depreciation exclusively for capital goods) rather than profit-based incentives, consolidate all tax incentives into the tax law, and adopt rules-based approaches to avoid discretion in granting tax incentives. Before taking any further actions, we will assess the costs and benefits of these pilots. More broadly, we plan to review the tax code as the overarching legal framework governing tax incentives with a view to harmonizing the regimes in the medium-term (including the free trade zones or *zones franches*), drawing on technical assistance in this area from the IMF and other partners. For the first time, we have published an annex to the 2019 budget with estimates of the fiscal costs of key tax incentives, as part of the effort to control them.

B. Enhancing Economic Governance and Fighting Corruption

19. Efforts to strengthen the governance framework are advancing. We have significantly strengthened the legal framework with the adoption of several laws (*law against the traffic of precious woods* in 2015, *anti-corruption law* and *law on anti-corruption courts* in 2016, *international cooperation law in criminal matters* in 2017. The law on *anti-money laundering and combating the financing of terrorism (AML/CFT)*, which brings our AML/CFT framework into closer alignment with international standards, was enacted in February 2019, after first being submitted in December 2017. To expedite their application, we will issue the implementation decrees associated with the anti-corruption law and AML/CFT law by end-September 2019. However, the *asset recovery law*, which ensures that judicial authorities can seize and confiscate proceeds of crime, remains to be passed despite submission in December 2017. To make further progress in terms of transparency, we have started publishing all reports and decisions of the Court of Accounts as of February 2019.

20. We are also reinforcing the institutions for effective enforcement of this new legal framework. Quarterly statistics on corruption cases based on investigations made by the anti-corruption office (BIANCO) and the financial intelligence unit (SAMIFIN) (consistent with the technical memorandum of understanding, TMU) have been regularly published since April 2018. One anti-corruption court has been opened in Antananarivo in June 2018 and construction work is ongoing to open a second one in Mahajanga. The online platform to publish all final court decisions by the anti-corruption courts including with providing searchable internet access (using the criteria of topics and presiding judges), has been operational since early December 2018. To implement the anti-corruption law, the establishment of a mechanism to verify asset disclosures from officials (covered under article 41 of the constitution and article 2 of the anti-corruption law) will become operational with the adoption of the related decree (see preceding paragraph). Over the medium term, to ensure that asset declarations are comprehensive (covering both assets legally owned and beneficially owned), verifiable, subject to dissuasive sanctions for non-compliance, and progressively made publicly available online, we are drafting a strategy for the necessary legal reforms, including drafting the legal texts, for consideration by the government in 2019.

21. We remain committed to strengthen public financial management (PFM), as part of our efforts to enhance good governance, transparency, and sound public finances. The PEFA self-evaluation completed in January 2018 found progress, but also some persistent weaknesses. In July 2018, we adopted an updated 2018-2020 Strategic Plan of Modernization of Public Financial Management, building on the conclusions of the Fund FAD TA mission in February/March 2018.

- We developed a medium term fiscal framework in 2017, and we are working on strengthening the budget preparation process. Recent improvements include the publication of annexes to the budget on fiscal risks (starting with the 2018 budget) and on the fiscal costs of key tax incentives (with the 2019 budget). We are also working to improve the wage bill forecasts, drawing on IMF TA, as well as revenue forecasts, relying on the Tax Policy Unit.
- The new draft law on treasury management will be submitted to the first parliamentary session starting in mid-2019, and the regulatory text on the functioning of the single Treasury account will be finalized by end-2019.
- We will continue to enhance the management of fiscal risks and the coverage of the budget, by better supervising and integrating autonomous entities, SOEs, and PPPs. The revised law governing the National Public Establishments (*Etablissements publics nationaux*, EPN), which receive a budget allocation equivalent to 0.5 percent of GDP in 2018, was adopted in December 2018; its application decrees will be issued by end-September 2019. The law enhances supervision, transparency, and accountability of EPNs, as well as clarify their categorization. The 2019 budget law includes more information about SOEs, autonomous public establishments, and PPPs.
- To implement the Code of Public Procurement passed in 2017, we are currently finalizing the decrees to formalize the funding and separation of the functions of regulation and control, which will be issued by mid-2019. Actions following up on the audit of ARMP completed in September 2017 have been incorporated into the broader PFM action plan. We are conducting outreach activities to inform the private sector and civil society of these improvements. Building on a third decree, we will establish a public and easily accessible registry of companies that have violated the procurement regulations and are prohibited from participating in future bids (SB for end-August 2019). We expect to conclude a study on migrating to an e-procurement system by end-2019.
- We are strengthening our debt management strategy by updating and reporting statistics regularly, documenting contingent liabilities exhaustively, and extending the maturity of

domestic debt instruments to reduce exposure to rollover and interest rate risks. The 2018 DEMPA (Debt Management Performance Assessment) noted the ongoing progress on this front as well as areas for further improvements.

- To reinforce ex post controls and the PFM system's contribution in the fight against corruption, we are strengthening audit bodies and internal inspections, especially the Court of Auditors (*Cour des comptes*). In 2018, we have started publishing the final decisions taken by the Council of Budgetary and Financial Discipline, as well as statistics on its action (including decisions).
- Finally, to improve coordination and leadership of our PFM reform strategy, we have reorganized the steering committee. We also plan to develop a portal dedicated to PFM reforms on the website of the Ministry of Economy and Finance to promote the exchange of information between all the stakeholders of the reforms.

C. Maintaining Stable Inflation and Macroeconomic Resilience

22. We remain committed to keeping inflation in single digits, with a focus on managing fluctuations in bank liquidity. Our success in building international reserves, with larger-than-anticipated accumulation over 2016-18, increased bank liquidity that the central bank has successfully contained. The BFM is strengthening its monetary policy framework with several objectives: improve the management of commercial bank excess reserves; continue the gradual move from monetary to interest rate targeting. To support the use of collateral for interbank lending, the draft legislation on repo transactions was submitted to Parliament in December 2018 (structural benchmark) and is awaiting consideration. The principle of appropriate discounts on debt instruments when used as collateral for borrowing from the BFM, as commonly done internationally in monetary markets, has been introduced in this law. In preparation for these operations, a convention between the Ministry of Economy and Finance (MEF) and the BFM will grant the BFM real-time access to the database on Treasury bonds (BTFs).

23. In pursuit of our mission of safeguarding external stability, we will continue building international reserves, in the context of a flexible exchange rate regime. Our long-term objective, consistent with convergence criteria at the regional level, is to gradually increase import coverage towards 6 months. As mentioned above, our interventions are guided by an algorithm (developed with Fund technical assistance) to limit volatility and build reserves.

D. Building a Sound Financial Sector Supporting Growth

24. Efforts to promote greater access to financial services are ongoing. Following the modernization of the legal framework, by adopting and enacting a law regulating the establishment, the licensing, the operations, and the supervision of a private credit bureau, we selected an investor in July 2018. The bureau received its license in December 2018 and is expected to be operational by mid-2019. After the issuance in December 2017 of decrees on the implementation of the law on electronic money and electronic money institutions, the development of payment through electronic money is ongoing, notably with the licensing of a first company to provide these services and the processing of two other applications.

25. Reinforcing financial stability, implementing risk-based supervision (RBS), and containing systemic risk remain priorities:

- The new banking law to be submitted to Parliament by end-June will: (i) improve the bank recovery and resolution framework in line with the Financial System Stability Assessment (FSSA) recommendations; (ii) enhance the powers and independence of the financial supervisor (CSBF), including legal protection of Commission members and supervisors; and (iii) reinforce the framework for corrective bank supervisory measures, with specific triggers, responsibilities, and time limits for an effective response to bank violations and vulnerabilities to be determined by the law or regulation.

- We will approve updated prudential directives by end-2019 on capital adequacy, liquidity, concentration of risks, and classification and provisioning of credit risks, in line with international standards and FSSA recommendations.
- A law on financial stability, in line with international best practices, will be submitted to Parliament by end-June 2019 (SB), establishing the national structure in charge of analyzing, identifying, and preventing systemic risks as well as managing and addressing financial crises.
- We aim to fully implement RBS by the end of 2019, drawing on the action plan adopted in December 2017. The operational conditions of banking supervision have improved. New software has been deployed, and additional staff recruitment and training undertaken. The design of the RBS methodological framework is progressing, both for the banking sector and the microfinance sector; it will be tested in the second half of the year with the technical support of Fund AFRITAC South experts.

26. Concerning non-bank financial institutions, the work to follow-up on recent audits of the CEM *(Caisse d'Epargne de Madagascar)* and PAOMA *(Paositra Malagasy)* is continuing. CEM request to be converted into a microfinance institution, in line with the existing action plan, is being examined by the CSFB. The government intends to set up a working group to elaborate a development plan for PAOMA, which in the meantime is holding off from developing new products and is preparing a full audit of its customer accounts.

27. With support of the IMF TA, we are working to further develop the foreign exchange market, which remains shallow and prone to volatility. This situation has been aggravated during periods of volatile foreign exchange movements when some bank clients chose to keep significant balances in foreign currency accounts or not repatriate export proceeds for speculative reasons. In light of the situation, the MEF, in consultation with the BFM, introduced a surrender requirement of 100 percent in August 2014, which was reduced to 70 percent in June 2016. We are preparing a draft revised law on the foreign exchange market, which would be submitted to parliament by end-June 2019. We have prepared a draft plan, in consultation with IMF TA, to gradually phase out the existing surrender requirement. Following adoption of the law, we intend to issue the implementing ordinances and to adopt the plan to phase out surrender requirement.

28. The BFM's modernization is continuing, with a reform agenda to increase transparency and to render it more financially independent. BFM remains committed to full adoption of International Financial Reporting Standards (IFRS) for the accounts of 2020 (expected by April 2021). We have developed an action plan, supported by IMF technical assistance, to achieve this goal, and we have finalized a gap analysis to be followed by pro-forma IFRS financial statements for fiscal year 2018. We will also consider the capital adequacy of the BFM, including the possible impact following full IFRS implementation, as part of a longer-term strategy to safeguard the financial autonomy of the bank. We have requested technical assistance to advance IFRS implementation. We have also made progress with the destruction of old bank notes, and the stockpile that existed at end-December 2017 was eliminated by end-June 2018 and we are preventing any new backlog. In 2019, the internal audit department will conduct a review of the implementation of the revised bank-wide procurement policy approved in June 2017. This audit will be repeated periodically. More broadly, we will continue our efforts to strengthen our internal and external audit mechanisms as per the safeguards recommendations.

E. Improving the Quality of Statistics

29. A new statistics law, modernizing and regulating data collection, was enacted in April 2018. This law was prepared with technical assistance from the UNDP, and application decrees are being prepared to: (i) spell out organizational arrangements, including the institutional status of INSTAT (National Institute of Statistics); (ii) strengthen coordination among ministries, including the establishment of the National Council of Statistics; and (iii) improve information and data flows.

30. While data provision is broadly adequate for program monitoring, we are taking measures to address shortcomings in the areas of real sector, monetary and financial sector, balance of payments, and government finances statistics:

- On the real sector, revised series of annual national accounts for the 2007-2016 period with the base year updated from 1984 to 2007 were finalized. INSTAT is also working on quarterly GDP estimates under the new base year. The government is in the process of switching to use the rebased GDP series, which will be the case for the preparation of the 2020 budget. On the real sector again, INSTAT plans to publish a reweighted consumer price index (CPI) based on the upcoming 2019-2020 household survey.
- Regarding monetary and financial statistics, we achieved in 2018 the consolidation of balance sheets of larger micro-financial institutions and the CEM in the preparation of the monetary survey.
- On balance-of-payments statistics, we are emphasizing the enhancement of information collection and will launch surveys in private external debts and FDI, in international transport and tourism, in insurance, and in manufacturing services.
- On government finance statistics, we aim to move to the 2014 GFSM starting with the publication of end-December 2018 budget execution statistics, and then gradually extend the statistical coverage from the central government to the general government, including local authorities and national public establishments (EPN).

31. A general census of the population and housing, the third since independence, is being finalized. The last census was completed in 1993. Data have been collected and are currently being processed. This will be followed by the analysis and publication of the results by end-2019.

32. We remain committed to allocate sufficient human, financial, and material resources to the production of statistics. The government will continue to support INSTAT in fulfilling its missions, in particular the production of national accounts, consumer price index, and production price index. We also count on increasing technical and financial assistance from our partners, including for forecasting using the rebased national accounts.

V. PROGRAM MONITORING

33. The program will continue to be evaluated through semi-annual reviews based on quantitative performance criteria and structural benchmarks. Quantitative targets (Table 1) and structural benchmarks (Table 2) are proposed through end-June 2019, the last test date for the current arrangement. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding (TMU). The fifth and sixth reviews are scheduled to be completed on or after May 20, 2019, and November 20, 2019 respectively, based on test dates for periodic performance criteria of end-December 2018 and end-June 2019 respectively.

Table 1. Madagascar: Quantitative Performance Criteria and Indicative Targets, December 2018-June 2019

	2018	2019		
	End-Dec.	End-March	End-June	
	Performance Criteria	Indicative Targets	Performance Criteria	
			3rd Review	Proposed
	(Billions of Ariary; unless otherwise indicated)			
Fiscal				
Floor on primary balance excl. foreign-financed investment and grants (commitment basis) [1]	22	11	105	-22
External				
Ceiling on accumulation of new external payment arrears (US$ millions) [2]	0	0	0	
Ceiling on new external debt contracted or guaranteed by the central government or BFM, in present value terms (US$ millions) [4]	900	900	900	
Central bank				
Floor on net foreign assets (NFA) of BFM (millions of SDRs) [5]	795	844	779	833
Ceilings on net domestic assets (NDA) of BFM [5]	1,423	1,456	1,519	1,521
Indicative targets				
Floor on social priority spending [1]	429	70	220	198
Floor on gross tax revenue [1]	5,102	1,250	2,812	2,800
Ceiling on new nonconcessional external debt with original maturity of more than one year, contracted or guaranteed by the central government or BFM (US$ millions) [3]				
Grant element of less than 35 percent	383	383	383	383
Grant element of less than 20 percent	100	100	100	100
Ceiling on new nonconcessional external debt with original maturity of up to and including one year, contracted or guaranteed by the central government or BFM (US$ millions) [2]	0	0	0	0
Memorandum items				
Official external program support (millions of SDRs) [3]	329	331		331
Official external program grants (millions of SDRs) [1]	114	28		28
Program exchange rate (MGA/SDR)	4,444	4,444		4,444

Sources: Madagascar authorities; and IMF staff projections.

[1] Cumulative figures from the beginning of each calendar year.

[2] Cumulative ceilings that will be monitored on a continuous basis starting from end-May, 2016.

[3] Cumulative ceilings that will be monitored on a continuous basis starting from January 1, 2016.

[4] Cumulative ceilings that will be monitored on a continuous basis starting from January 1, 2018.

[5] The total stock of NFA and NDA measured at the program exchange rates.

Table 2. Madagascar: Prior Actions and Structural Benchmarks for 2019

Action	Dates	Rationale
Prior actions		
Board of JIRAMA to adopt a revised 2019 budget for the company, consistent with the planned transfers to JIRAMA.	Before the IMF Executive Board meeting	Major fiscal risk
Sign an agreement with the oil distributors on plans for the fuel price mechanism and settlement of the existing liability.	Before the IMF Executive Board meeting	Major fiscal risk
Mobilizing fiscal revenue		
Adopt a strategy for the control of high-risk sectors, such as free trade zones and new special economic and industrial zones	End-July 2019	Safeguard revenue
Improving the composition and quality of fiscal spending		
Implement an automatic fuel price formula with a smoothing mechanism no later than end-September 2019, while avoiding budget costs from fuel pricing in the interim.	Continuous benchmark	Critical to contain transfers
Enhancing economic governance		
The terms and conditions of all PPP contracts will be published within one month of the date of signature on the web site of the Ministry of Economy and Finance.	Continuous benchmark	Critical to enhance transparency and accountability
Notify World Bank and IMF staff in advance of any single source procurement contracts for JIRAMA's purchases of fuel and electricity and purchases and rentals of generators.	Continuous benchmark	Critical to enhance transparency and accountability
Establish a public registry of companies that have violated the procurement regulations and are prohibited from participating in future bids.	End-August 2019	Transparency and value for money
Strengthening financial sector development		
Submit to Parliament a law on financial stability, in line with international standards and FSAP recommendations, establishing the structure in charge of analyzing, identifying, and preventing systemic risks as well as managing and addressing financial crises.	End-June 2019	Financial stability

Attachment II. Technical Memorandum of Understanding February 2019

1. This technical memorandum of understanding (TMU) contains definitions and adjuster mechanisms that clarify the measurement of quantitative performance criteria and indicative targets in Tables 1 and 2, which are attached to the Memorandum of Economic and Financial Policies for 2019. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

I. DEFINITIONS

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

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

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

Program Exchange Rates	
Malagasy Ariary (MGA)/SDR	4,443.86
U.S. Dollar/SDR	1.389049
Euro/SDR	1.270538
Australian dollar/SDR	1.903723
Canadian dollar/SDR	1.926401
Japanese Yen/SDR	167.377024
Swiss Franc	1.375855
U.K. Pound Sterling/SDR	0.937470

Foreign currency accounts denominated in currencies other than the SDR will first be valued in SDRs and then be converted to MGA. Amounts in other currencies than those reported in the table above and monetary gold will first be valued in SDRs at the exchange rates and gold prices that prevailed on December 31, 2015, and then be converted to MGA.

5. Performance criteria included in the program, as defined below, refer to the net foreign assets and net domestic assets of the central bank, external payments arrears, non-concessional new external debt owed or guaranteed by the central government and/or the central bank, and the domestic primary balance (commitment basis). Performance criteria are set for end-December 2018 and end-June 2019, while indicative targets are set for end-March 2019.

6. Total government revenue is comprised of tax and nontax budget revenue (as defined under Chapter 5 of GFSM 2001) and grants. Revenue is recorded in the accounting system on a cash basis.

[1] Data refer to the mid-point reference exchange rates published on the CBM's webpage for December 30, 2015.

Taxes on the import of petroleum products, paid through the issuance of promissory notes, are recorded under revenue at the time of the issuance of the promissory notes: to reconcile the difference in timing between the issuance of the promissory note and its actual payment to the Treasury, an equivalent amount is recorded (negatively) under the line "other net transactions of the Treasury" until the actual payment.

7. The authorities will give prior notification to World Bank and IMF staff of any single source procurement contracts for JIRAMA's purchases of fuel and electricity and purchases and rentals of generators. Prior notification entails that World Bank and IMF staff will receive written communication at least 3 working days before the signing of the contract. The signing of addendums and extensions of previously signed contracts are also subject to the requirement of prior notification.

II. PROVISION OF DATA TO THE FUND

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

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

- The Financial Intelligence Unit (SAMIFIN) will continue to publish, on a website that is freely available to the public, quarterly data (no later than the end of the month following the quarter) on reports sent to BIANCO in relation to suspicions of laundering of the proceeds of corruption (Table 2).

- The BIANCO will publish on a website, that is freely available to the public, quarterly data (no later than at the end of the month following the quarter) on the number of persons indicted, the number of persons convicted by a first instance court decision, the number of persons convicted pursuant a final court decision, and the number of verifications of assets disclosures of public officials (Tables 3-6).

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

III. QUANTITATIVE PERFORMANCE CRITERIA

A. Fiscal Aggregates

Floor on Primary Balance (commitment basis)

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

- Domestic tax and non-tax revenue less domestically-financed capital expenditures and current spending excluding interest payments.

- For the purposes of calculating the primary balance, tax revenues are measured on a net basis, i.e., net of the refund of VAT credits. Current spending excluding interest payments is the sum of expenditures on wages and salaries, goods and services, transfers and subsidies, and treasury operations (net) excluding the refund of VAT credits. The primary balance will be calculated cumulatively from the beginning of the calendar year. For reference, using data at end-December 2017, the value of the primary balance would be as follows:

Primary balance excluding foreign financed investment and grants (commitment basis)	**-362**
Domestic tax revenue (net of VAT refunds)	4,118
Domestic non-tax revenue	122
Less:	
Domestically-financed capital expenditures	700
Current expenditures	3,902
Wages and salaries	2,076
Goods and services	282
Transfers and subsidies	1,467
Treasury operations (net of VAT refunds)	77

B. External Debt

Ceiling on Accumulation of New External Payment Arrears

10. These arrears consist of overdue debt-service obligations (i.e., payments of principal and interest) related to loans contracted or guaranteed by the government or CBM. Debt service obligations (including unpaid penalties and interest charges) are considered overdue if they have not been paid 30 days after the due date or after the end of a grace period agreed with, or unilaterally granted by, each creditor before the due date. They exclude arrears resulting from nonpayment of debt service for which the creditor has accepted in writing to negotiate alternative payment schedules, as well as debt service payments in conformity with contractual obligations that fail to materialize on time for reasons beyond the control of the Malagasy authorities. This monitoring target should be observed on a continuous basis from end-May 2016.

Ceilings on New External Debt

11. For program monitoring purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows; the grant element of a debt is the difference between the nominal value of debt and its present value (PV), expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent. Debt is considered as semi-concessional if it includes a grant element of at least 20 percent, calculated as described above.

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

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

14. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD LIBOR is 3.37 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR or 3-month Euribor over six-month USD LIBOR is -249 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -286 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -108 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is -209 basis points.[3] Where the variable rate is linked to a different benchmark interest rate, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

15. A performance criterion (ceiling) applies to the PV of new external debt, contracted or guaranteed by the government or CBM. The ceiling applies to debt contracted or guaranteed for which value has not yet been received, including private debt for which official guarantees have been extended. The PV and associated grant element (GE) is determined using the Fund's concessionality calculator or excel template available online. These monitoring targets should be calculated from January 1, 2018 and observed on a continuous basis from completion of the third review under the ECF arrangement. The ceiling is subject to an adjustor defined below.

16. Two continuous ceilings (see paragraph 24) apply to new non-concessional external debt with nonresidents with original maturities of more than one year contracted or guaranteed by the government or CBM. The ceilings apply to debt and commitments contracted or guaranteed for which value has not yet been received. They apply to private debt for which official guarantees have

[3] The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Fall 2015 World Economic Outlook (WEO).

been extended and which, therefore, constitutes a contingent liability of the government or CBM. The first ceiling concerns new non-concessional external debt with nonresidents with original maturities of more than one year contracted by the government or CBM with a grant element of less than 35 percent and the second ceiling concerns new non-concessional external debt with nonresidents with original maturities of more than one year contracted by the government or the CBM with a grant element of less than 20 percent. These monitoring targets should be calculated and observed on a continuous basis from January 1, 2016 until the completion of the third review under the ECF arrangement.

17. Excluded from the ceilings in paragraphs 15 and 16 are (i) the use of IMF resources; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt (this also applies to liabilities of Air Madagascar assumed by the government in the context of a strategic partnership agreement); and (iii) debts classified as international reserve liabilities of CBM.

18. A continuous ceiling applies to new non-concessional external debt with nonresidents with original maturities of up to and including one year contracted or guaranteed by the government or CBM. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. It applies to private debt for which official guarantees have been extended and which, therefore, constitutes a contingent liability of the government or CBM. This monitoring target should be calculated and observed on a continuous basis from end-May 2016 until the completion of the third review under the ECF arrangement. See paragraph 24.

19. Excluded from the ceiling are (i) concessional debts; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/ prepaid debt (this also applies to liabilities of Air Madagascar assumed by the government in the context of a strategic partnership agreement); (iii) debts classified as international reserve liabilities of CBM; and (iv) normal import financing. A financing arrangement for imports is considered to be “normal” when the credit is self-liquidating.

C. Monetary Aggregates

Floor on Net Foreign Assets of the Central Bank of Madagascar

20. The target floor for NFA of the CBM is evaluated using the end-period stock, calculated using program exchange rates. The NFA of CBM is defined as the difference between CBM's gross foreign assets and total foreign liabilities, including debt owed to the IMF. All foreign assets and foreign liabilities are converted to SDRs at the program exchange rates, as described in paragraph 4. For reference, at end-December 2017, NFA was SDR 782 million, calculated as follows:

Foreign Assets	
MGA billions, end-2017 exchange rates (A)	4,988.039
SDR millions, end-2017 exchange rates (B)	1,086.925
SDR millions, program exchange rates (C)	1,099.836
Foreign Liabilities	
MGA billions, end-2017 exchange rates (D)	1,458.186
SDR millions, end-2017 exchange rates (E)	317.748
Net Foreign Assets	
SDR millions, program exchange rates (F) = (C) – (E)	782.088

Ceiling on Net Domestic Assets of the Central Bank of Madagascar

21. The target ceiling on NDA of the CBM is evaluated using the end-period stock, calculated at program exchange rates. The NDA of CBM are defined as the difference between reserve money and the NFA of the CBM valued in MGA using the program exchange rates as described in paragraphs 4. It includes net credit to the government, credit to the economy, claims on banks, liabilities to banks (including the proceeds of CBM deposit auctions—*appels d'offres négatifs*, and open market operations), and other items (net). For reference, at end-December 2017, NDA at program exchange rates was MGA 1,083 billion, calculated as follows:

Net Foreign Assets	
SDR millions, program exchange rates (A)	782.088
MGA billions, program exchange rates (B)	3,475.489
Base Money	
MGA billions, end-2017 exchange rates (C)	4,558.154
Net Domestic Assets	
MGA billions, program exchange rates (D) = (C) – (B)	1,082.665

I. INDICATIVE TARGETS

A. Floor on Priority Social Spending

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

B. Floor on Gross Tax Revenue

23. Government tax revenue is measured on a gross basis, that is, before the refund of VAT credits. It comprises all domestic taxes and taxes on foreign trade received by the central government treasury. Tax revenue excludes: (1) the receipts from the local sale of in-kind grants, (2) any gross inflows to the government on account of signature bonus receipts from the auction of hydrocarbon and mining exploration rights, and (3) tax arrears recorded in the context of regularization operations, such as those related to the recapitalization of Air Madagascar in 2016. Revenue will be measured on a cash basis as reported in the table of government financial operations prepared by the Directorate of Budget and the Directorate of Treasury in the Ministry of Finance and Budget. The floor on gross tax revenue will be calculated cumulatively from the beginning of the calendar year. For reference, for the year ending December 2017, gross government tax revenue was MGA 4,329 billion, comprised of net tax revenue of MGA 4,118 billion and VAT refunds of MGA 211 billion.

C. Ceilings on New Non-Concessional External Debt

24. From the completion of the third review under the ECF arrangement onwards, the ceilings for non-concessional debt with maturities of more than one year (paragraph 16; cumulative since January 1, 2016) and of less than one year (paragraph 18; cumulative since end-May 2016) serve as indicative targets.

II. STRUCTURAL BENCHMARKS

25. For the purposes of the structural benchmark on fuel pricing, avoiding budget costs from fuel pricing is defined and monitored as follows:

- Until the adoption and implementation of an automatic fuel pricing mechanism with a smoothing formula no later than end-September 2019, the authorities will set prices in a manner that prevents total estimated net liabilities to fuel distributors from rising above MGA 175 billion (measured as a cumulative stock) and aims to reduce the level gradually. The estimated total net liabilities to fuel distributors include the existing stock at end-December 2018 (MGA 132.1 billion as reference) and any new liabilities generated by a difference between the reference prices and the pump prices. The estimated total net liabilities to fuel distributors will be calculated by the Malagasy Office for Hydrocarbons

(OMH), using the fuel price structure in place as of end-December 2018 or a new fuel price structure established in accordance with prevailing laws and regulations.

- No later than end-September 2019, the authorities will implement an automatic fuel pricing mechanism with a smoothing formula, based on the fuel price structure in place in June 2019. In agreement with the fuel distributors, this automatic pricing mechanism will be combined with possible discretionary adjustments (for social stability reasons), limited as follows: (i) the discretionary adjustments cannot be applied to reduce pump prices (but can be applied to limit price increases or decreases given by the formula); and (ii) the additional cumulative liabilities to fuel distributors linked to these discretionary adjustments will not exceed MGA 50 billion.

- Avoiding budget cost from fuel pricing includes: (i) the estimated total net liabilities to fuel distributors (defined above), including new liabilities from both automatic adjustments associated with a smoothing formula and those generated by discretionary adjustments to the fuel price, is at most MGA 140 billion (i.e. the government has a liability to the distributors of at most MGA 140 billion) by end-2019; (ii) the difference between average pump prices and average reference prices is eliminated for each of the products: super gasoline, kerosene, and diesel by end-August 2019; and (iii) the remaining stock of net liabilities to fuel distributors at-end 2019 (maximum of MGA 140 billion) will be settled by end-2020 at the latest through a price surcharge and, consequently, no transfers will be due to be paid by the government budget to the fuel distributors.

- The authorities will provide to IMF staff the calculations for the estimate of the monthly flow and stock for these net liabilities for each month, as well as the minutes of the agreement with the fuel distributors, by the 14th day of that month.

III. MEMORANDUM ITEMS

26. Official external program support is defined as grants and loans, including in-kind aid when the products are sold by the government and the receipts are earmarked for a budgeted spending item, and other exceptional financing provided by foreign official entities and the private sector and incorporated into the budget. Official external support does not include grants and loans earmarked to investment projects. Official external program support is calculated as a cumulative flow from January 1, 2016.

27. Official external program grants are defined as grants, including in-kind aid when the products are sold by the government and the receipts are earmarked for a budgeted spending item, and other exceptional financing provided by foreign official entities and incorporated into the budget. Official external program grant support does not include grants earmarked to investment projects. Official external program grants calculated as a cumulative flow from the beginning of the calendar year.

28. New concessional external debt contracted or guaranteed with original maturity of more than one year by the central government or the CBM measures such debt with a grant element of at least 35 percent.

IV. USE OF ADJUSTERS

29. The performance criteria on net foreign assets of the CBM and net domestic assets of the CBM will be adjusted in line with deviations from amounts projected in the program for official external program support. These deviations will be calculated cumulatively from January 1, 2016. The following is an explanation of these adjustments:

- The floor on NFA will be adjusted *downward (upward)* by the cumulative deviation downward (upward) of actual from projected budget support (official external program support). This adjustment will be capped at the equivalent of SDR75 million, evaluated at program exchange rates as described in paragraph 4.
- The ceiling on NDA will be adjusted *upward (downward)* by the cumulative deviation downward (upward) of actual from projected budget support (official external program support). This adjustment will be capped at the equivalent of SDR75 million, evaluated at program exchange rates as described in paragraph 4.

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

- The floor on the primary balance excluding foreign-financed investment and grants (commitment basis) will be adjusted downward by the cumulative upward deviation of actual from projected official external program support (grants or loans on concessional terms), calculated at quarterly period-average actual exchange rates as described in paragraph 4.

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

Table 1. Madagascar: Data Reporting Requirements

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

Table 1. Madagascar: Data Reporting Requirements (continued)

Item	Periodicity
Fiscal data	
Ministry of Finance and Budget (MFB)	
Preliminary revenue collections (customs and internal revenue)	Monthly, within three weeks of the end of each month
Treasury operations (OGT)	Monthly, within eight weeks of the end of each month
Stock of domestic arrears, including arrears on expenditure and VAT refunds	Monthly, within eight weeks of the end of each month
Priority social spending as defined by the indicative target	Monthly, within eight weeks of the end of each month
Subsidies to JIRAMA's suppliers	Monthly, within eight weeks of the end of each month
State-owned enterprise data	
Data summarizing the operational and financial position of JIRAMA	Monthly, within four weeks of the end of each month, for operational and financial data. Quarterly, by the end of the following month, for the Table on "Total impayés fournisseurs"
Data summarizing the financial position of AIR MADAGASCAR	Quarterly, by the end of the subsequent quarter.
Debt data	
Ministry of Finance and Budget (MFB)	
Public and publicly-guaranteed debt stock at end of month, including: (i) by creditor (official, commercial domestic, commercial external); (ii) by instrument (Treasury bills, other domestic loans, external official loans, external commercial loans, guarantees); and (iii) in case of new guarantees, the name of the guaranteed individual/institution.	Monthly, within four weeks of the end of each month
External public or publicly guaranteed loans signed since January 1, 2016, specifying the nominal value; calculated grant element and PV; and terms, including the interest rate (using the program reference rate for variable rate loans), maturity, commissions/fees, grace period, repayment profile, and grant component.	Quarterly
External data	
Central Bank of Madagascar (CBM)	
Balance of payments	Quarterly, by the end of the subsequent quarter

Table 1. Madagascar: Data Reporting Requirements (concluded)	
Real sector and price data	
INSTAT	
Consumer price index data (provided by INSTAT)	Monthly, within four weeks of the end of each month
Details on tourism	Monthly, within twelve weeks of the end of each month
Electricity and water production and consumption	Monthly, within twelve weeks of the end of each month
Other data	
OMH	
Petroleum shipments and consumption	Monthly, within four weeks of the end of each month

Table 2. Madagascar: Reports sent by SAMIFIN to BIANCO

Reports disseminated	Members of the Executive Power	Members of the Legislative Power	Members of the Judicial Power	Heads of province and district, Commissaries, Prefects, Mayors	SOE Managers	Others
Aggregated value of suspected money laundering						

Table 3. Madagascar: Number of Persons Indicted

Penal Code Article	President Members of parliament High Constitutional Court Magistrates	Magistrates	Heads of province and district, Commissaries, Prefects, Mayors	Director of Ministry or equivalent	SOE Managers	Others
Art. 174						
Art. 174.1						
Art. 174.2						
Art. 174.3						
Art. 175						
Art. 175.1						
Art. 175.2						
Art. 176						
Art. 177						
Art. 177.1						
Art. 177.2						
Art. 178						
Art. 179						
Art. 179.1						
Art. 180						
Art. 180.1						
Art 180.2						
Art. 181						
Art. 182						
Art. 183						
Art. 183.1						
Art. 183.2						

Table 4. Madagascar: Number of Persons Convicted—First Instance

Penal Code Article	President Members of parliament High Constitutional Court Magistrates		Magistrates		Heads of province and district, Commissaries, Prefects, Mayors		Director of Ministry or equivalent		SOE Managers		Others	
	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail
Art. 174												
Art. 174.1												
Art. 174.2												
Art. 174.3												
Art. 175												
Art. 175.1												
Art. 175.2												
Art. 176												
Art. 177												
Art. 177.1												
Art. 177.2												
Art. 178												
Art. 179												
Art. 179.1												
Art. 180												
Art. 180.1												
Art 180.2												
Art. 181												
Art. 182												
Art. 183												
Art. 183.1												
Art. 183.2												

For fines, total value in ariary. For jail, total months (and suspended jail).

Table 5. Madagascar: Number of Persons Convicted—Final Decision

Penal Code Article	President Members of parliament High Constitutional Court Magistrates		Magistrates		Heads of province and district, Commissaries, Prefects, Mayors		Director of Ministry or equivalent		SOE Managers		Others	
	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail	Fine	Jail
Art. 174												
Art. 174.1												
Art. 174.2												
Art. 174.3												
Art. 175												
Art. 175.1												
Art. 175.2												
Art. 176												
Art. 177												
Art. 177.1												
Art. 177.2												
Art. 178												
Art. 179												
Art. 179.1												
Art. 180												
Art. 180.1												
Art 180.2												
Art. 181												
Art. 182												
Art. 183												
Art. 183.1												
Art. 183.2												

For fines, total value in ariary. For jail, total months (and suspended jail).

Table 6. Madagascar: Verification of Asset Disclosure Forms

	Forms received	Forms verified	Cases submitted for investigation for non-declaration	Cases submitted for investigation for inconsistencies in the declaration
President Members of parliament High Constitutional Court Magistrates				
Magistrates				
Heads of province and district, Commissaries, Prefects, Mayors				
Director of Ministry or equivalent				
SOE Managers				
Others				

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

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

March 19, 2019

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—SUPPLEMENTARY INFORMATION

Approved By
David Owen (AFR)
Vitaliy Kramarenko (SPR)

Prepared by the African Department in consultation with other Departments

1. **This supplement provides information on the status of the two Prior Actions for the fourth Review under the Extended Credit Facility (ECF) arrangement**. It is based on information that has been verified after the staff report was finalized. It does not change the thrust of the staff appraisal and staff continues to recommend the completion of the review.

2. **On February 28, 2019, an agreement was signed with the fuel distributors on plans for the fuel price mechanism and settlement of the existing liability.** This agreement was signed by the minister of energy, water and hydrocarbons, and the managing directors of six fuel distributor companies in Madagascar. It specifies the timetable and modalities of negotiations for the application of a new price structure by June 1, 2019, the implementation of a fuel price mechanism starting in September 2019, and the settlement of the existing liabilities from the government to the fuel distributors.

3. **On March 15, the management of the state-owned public utility JIRAMA adopted a revised 2019 budget.** This updated budget, which was developed in consultation with experts from the World Bank, is consistent with the planned transfers to JIRAMA in the government budget. Furthermore, on March 18, staff received a letter from the Minister of Economy and Finance and the Minister of Energy, Water and Hydrocarbons, who oversee the company, confirming that the government supported the adoption and implementation of this revised budget and that formal adoption by the Board of JIRAMA will take place as soon as it can meet.

4. **Based on this information, the Prior Action on the agreement with fuel distributors has been fully implemented, and the objective of the Prior Action on the adoption of the revised budget for JIRAMA has been achieved.**

Statement by Mr. Raghani, Executive Director for Madagascar, Mr. Razafindramana, Alternate Executive Director, and Mr. Alle, Senior Advisor to Executive Director
March 22, 2019

Mr. Raghani, Mr. Razafindramanana and Mr. Alle submitted the following statement:

1. Our Malagasy authorities would like to thank the Board, Management and Staff for the Fund's continued engagement with Madagascar. The country has emerged from a highly anticipated presidential election which saw the victory of President Andry Rajoelina. The new President was sworn in on January 19th and appointed a new Government headed by the former consensual Prime Minister Christian Ntsay. The peaceful elections supported by the international community helped preserve the momentum of strong economic recovery.

2. Staff's recent visit to Antananarivo has provided the opportunity for the new Government to commit to the main reforms agreed on in late 2018 in the context of the fourth review under the Extended Credit Facility (ECF). Even more significantly, the newly-elected President has committed to pursuing Madagascar's reform program. In the period ahead, the authorities are determined to implement their agenda of economic transformation embodied by the President's platform *"Initiative pour l'Emergence de Madagascar"* (Initiative for the Emergence of Madagascar).

3. The staff report candidly depicts the achievements made under the program and the policy areas that warrant the authorities' efforts in 2019 onward. The authorities have posted a strong program performance over the period of the fourth review, despite challenges associated with the elections. Going forward, they intend to step up efforts to gradually address critical issues in areas such as fiscal policy and economic governance. The ECF-supported program will continue to serve as an important framework to enhance macroeconomic stability and advance key structural reforms.

Recent Developments, Program Performance and Outlook

4. The year 2018 confirmed the positive momentum of economic recovery of the past years. Real GDP growth is estimated to have accelerated at 5.2 percent against 4.3 percent in 2017, on the back of rising public and private investment and buoyant agriculture. Inflation is declining from rice price-related pressures of the recent years and stood at 6 percent at year-end. Budget execution has been broadly consistent with the program albeit challenges in the second half of the year, notably stemming from delays in adjusting fuel prices to international prices. This led to delayed tax payments by affected private distributors, a government cash shortfall and, consequently, budget savings at the expense of domestically-financed investment. On the external front, high international vanilla prices and mining receipts have helped maintain a

strong position, with a current account surplus of 0.3 percent of GDP. As a result, reserves have risen, covering more than 4 months of imports, which is a comfortable level.

5. Program performance has continued to be strong despite elections-related spending pressures. All end-June 2018 quantitative performance criteria (PCs) were met. As well, all but one indicative targets (IT) were met. The IT on tax revenue was observed with a comfortable margin, exceeding the target by more than 0.1 percent of GDP. Regarding the IT on priority social spending, which was slightly missed due to administrative delays, the authorities are confident that such situations will be fixed going forward as they make progress in enhancing investment processes. Furthermore, they have prepared contingency measures, should the minor shortfalls on tax revenue caused by elections-related disturbances continue through early 2019. The authorities remain committed to keeping the primary fiscal balance in the margins agreed under the program. As regards structural reforms, most of the structural benchmarks (SBs) were observed, some with delays. The SB on avoiding budget costs from fuel pricing was not observed for its sensitivity in a fragile social and political situation. The authorities' newly adopted plan will address the issue going forward. Preliminary data indicate that all end-December 2018 PCs have been observed except the one on the fiscal balance due to lower tax revenue in the run-up to the election.

6. The implementation of the two prior actions for this review adds to the strong program performance. An agreement with the fuel distributors has been signed on February 28. This is part of the authorities' plan to settle the liability related to fuel pricing and avoid its re-occurrence. Regarding the second prior action, the management of the state-owned public utility JIRAMA has adopted a revised budget consistent with the transfers envelope planned in 2019. Furthermore, the authorities who oversee the company confirmed the Government's commitment to the adoption and implementation of this revised 2019 budget.

7. , The authorities share the view of the balance of risks to the outlook presented by staff. On the downside, terms of trade shocks, disappointing global growth and rising protectionism could negatively affect exports. As regard risks related to low investment project implementation and to corruption, the authorities are confident that their ongoing measures to overhaul the framework for public investment and improve the business environment will bear fruits in the coming period. On the upside, the authorities are optimistic that the country will soon reap the dividends of the peaceful elections, including in terms of increasing FDI. As well, public investment should be scaled up as a result of an enhanced institutional framework. Such developments should boost growth and contribute further to the favorable outlook.

Policies for 2019 and the Medium Term

Bolstering Growth-Enhancing Fiscal Policy

8. The authorities continue to focus their fiscal policy on creating space for growth-enhancing public investment and social spending. To this end, they maintain a twofold strategy

in the 2019 budget which targets a domestic primary surplus of 0.1 percent of GDP; mobilizing more revenue to increase the net tax to GDP ratio to 12.3 percent and restraining low priority spending while keeping the wage bill in check. On the revenue side, administrative measures introduced in 2018, notably the performance contracts with management-level staff in the customs administration, continue to bear fruits. New tax measures including adjustments in the VAT regime and streamlining exemptions and spending savings, form a package of contingency measures to be adopted in a supplementary budget in case of a revenue shortfall. Overall, the authorities will continue their efforts of domestic revenue mobilization by further improving the tax and customs administrations and broadening the tax base to new activities.

9. On the spending side, the authorities are strongly committed to stepping up efforts to reduce transfers to JIRAMA. Resolute cost-cutting measures are being implemented as well as efforts to increase revenue, with World Bank support. On fuel pricing, the authorities have adopted a plan to avoid any new budget impact. The plan includes a new fuel pricing mechanism and a settlement of arrears to distributors, which will gradually help phase out costs on public finances. Going forward, the authorities are dedicated to closely monitoring developments in world oil prices and stand ready to take measures for a smooth implementation of the pricing mechanism and for mitigating its potential adverse impact on the most vulnerable. Other efforts for spending restraint will proceed as well. They include reforms to contain the wage bill and transfers to the civil servants' pension fund.

10. It is the authorities' intention to use the fiscal space stemming from the combined efforts in revenue mobilization and non-priority spending restraint, to scale up growth-enhancing public investments. To this end, they are also working on lifting the administrative bottlenecks. A central institutional body has been created in the Presidency and is solidifying linkages and coordination with technical ministries involved in the implementation of investment projects. Similar efforts are underway to improve the institutional framework for future PPP projects, including mitigating fiscal risks.

Strengthening Monetary Policy and the Financial Sector

11. The authorities have continued their efforts to improve the central bank's capacities, including with the support of IMF technical assistance (TA), on many fronts. In the face of a persistent trend of high world vanilla prices, the central bank has used a well-inspired combination of exchange rate flexibility, foreign reserves accumulation and liquidity operations. A draft law on repurchases to be adopted in 2019 is meant to further improve the monetary policy transmission mechanisms and spur the interbank market.

12. Reforms to invigorate the financial sector have proceeded well. While the banking sector remains healthy, efforts are warranted to diversify it beyond the few large banks which make the bulk of the industry. The authorities therefore welcome the development of smaller commercial banks, microfinance institutions (MFI) and electronic money services. Such a trend should gain further impetus with the implementation of their strategy for financial inclusion. Important steps

have been made in that regard, including revamping the legal and regulatory frameworks, licensing a provider of electronic money services and a provider of a private credit bureau. The transformation of the public savings fund (CEM) into an MFI would also be a welcome development for the authorities' financial inclusion strategy. These efforts to deepen the financial sector are being complemented with a draft law to be submitted to Parliament by mid-2019 and meant to enhance financial stability and address systemic risks.

Improving Economic Governance and Fighting Corruption

13. The authorities have made significant progress in creating and strengthening institutions for better economic governance, furthering accountability and fighting corruption. Efforts started in 2016 have culminated recently with the adoption of several additional laws. The institutional architecture is now made up of an anti-corruption law; a law on anti-corruption courts; a law on international cooperation; and a law on anti-money laundering and combating the financing of terrorism (AML/CFT). The authorities will also take steps for the adoption of the draft law on asset recovery in future parliamentary session with the view to completing the anti-corruption framework.

14. Noteworthy progress has also been made in the areas of public financial management, with the implementation of the 2018-2020 Strategic Plan of Modernization of Public Financial Management. Key aspects include priority areas on the management of fiscal risks, a better integration of SOEs and PPPs in the budget, the implementation of the new public procurement code and the strengthening of the debt management strategy.

Conclusion

15. Amid a challenging domestic electoral environment, Madagascar has maintained its momentum of strong economic performance under the ECF-supported program. Growth has accelerated further, macroeconomic stability has been preserved, and the implementation of structural reforms has broadly proceeded well. Going forward, the authorities are committed to continuing their efforts to create fiscal space for scaling up growth-enhancing public investment and social spending. Furthermore, they are determined to step up effort to further improve economic governance for unleashing the economy's full potential.

16. In view of the strong economic performance and the authorities' renewed commitment to the objectives of the program, we would appreciate the Executive Directors' support for the completion of the fourth review under the ECF arrangement and the authorities' request for modification of performance criteria.