INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/385

# REPUBLIC OF MADAGASCAR

December 2017

## SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; AND STAFF REPORT

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

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on October 13, 2017, with the officials of 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 November 17, 2017.
- An **Informational Annex** prepared by the IMF staff.

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

Letter of Intent sent to the IMF by the authorities of Republic of Madagascar*
Memorandum of Economic and Financial Policies by the authorities of Republic of Madagascar*
Technical Memorandum of Understanding*

*Also included in Staff Report

The 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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**Washington, D.C.**

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FOR IMMEDIATE RELEASE
December 6, 2017

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Washington, D. C. 20431 USA

**IMF Executive Board Completes Second Review Under the Extended Credit Facility Arrangement for Madagascar and Approves US$44.5 Million Disbursement**

On December 6, 2017, the Executive Board of the International Monetary Fund (IMF) completed the second review of Madagascar's program supported by the Extended Credit Facility (ECF). The decision was taken without a Board meeting[1] and enables the disbursement of SDR 31.428 million (about US$44.5 million), bringing total disbursements under the ECF arrangement that was approved in July 27, 2016 to SDR 124.834 million (approximately US$174.1 million).

Madagascar's implementation of its economic program supported by the Extended Credit Facility has remained strong. All quantitative performance criteria and indicative targets were met at end-June 2017, and the program's structural agenda is also advancing.

The gradual economic recovery has continued, with solid growth and continued macroeconomic stability despite the drought and cyclone that affected Madagascar in early 2017. Fiscal performance has been roughly as planned, with strong revenue performance offsetting some unexpected spending pressures in 2017. Monetary and exchange rate policy has successfully managed the challenges from external developments, and inflation was stable despite the weather-related shocks. The current account weakened in 2017 relative to 2016, driven by the trade deficit. However, the overall external account remained strong, as transfers and financial inflows largely offset the current account deficit. As a result, the Malagasy Ariary has appreciated slightly in real effective terms, and the Central Bank of Madagascar has boosted international reserves significantly, well beyond program targets.

The 2018 budget supports the program's core objective of strong and inclusive growth. A higher than expected wage bill and the strong Ariary created some financing pressures. To respond to this pressure while enhancing the composition of spending, the authorities have developed measures to contain lower priority spending and to boost revenue, including increases in fuel taxes. Both domestically and externally-financed investment spending is expected to grow significantly, although less than targeted earlier due to capacity constraints.

[1] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Key fiscal policy objectives over the medium term focus on steadily raising revenue mobilization, gradually reducing transfers to the public utility company JIRAMA, and scaling up public investment (while containing risks to macroeconomic stability and debt sustainability). The authorities should ensure that planned tax incentives envisaged by the government are cost-effective and do not jeopardize the program's core goals for revenue and public investment.

In addition, it is vitally important that the authorities continue their efforts to enhance governance and the fight against corruption. The priorities are the completion of the new legal framework (in line with international standards), the strengthening of enforcement, and the continued improvement in public financial management.

Lastly, the work underway to develop the financial sector is important and well-prioritized. The authorities' strategy aims to enhance the sector's contribution to economic development, especially financial inclusion. Mobile money services are growing rapidly and will be further supported by a new, modernized legal and regulatory framework. At the same time, to keep financial risks under control, initiatives are underway to strengthen supervision as well as the broader legal framework for the financial sector.

INTERNATIONAL MONETARY FUND

# REPUBLIC OF MADAGASCAR

November 17, 2017

## SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

## EXECUTIVE SUMMARY


**Context.** The gradual economic recovery has continued, with solid growth despite the drought and cyclone that hit Madagascar in early 2017. Fiscal performance has been roughly as planned, with strong revenue performance offsetting unexpected spending pressures in 2017. Monetary and exchange rate policy has successfully managed the challenges from external developments.

**Focus.** Discussions focused on creating fiscal space for priority investment and social spending, promoting investment for inclusive and sustainable growth, maintaining stable inflation, and advancing key structural reforms in economic governance and financial sector development.

**Review.** The authorities met all quantitative performance criteria (PCs) and indicative targets at end-June 2017, some by significant margins. Seven (out of nine) structural benchmarks (SBs) were also met up to mid-November 2017. The measure envisaged in one other benchmark was completed with a minor delay. While the SB on the application of an automatic fuel pricing formula was missed, the authorities avoided any budget costs and remain committed to implement a fully automatic formula in 2018. Staff recommends completion of the second review under the Extended Credit Facility and modification of the end-June 2018 PCs on the primary balance, net foreign assets, and net domestic assets.

**Outlook and risks.** The macroeconomic outlook remains positive, although the scaling up of public investment is now projected to be more gradual than previously assumed due to capacity challenges. The medium-term growth projections are accordingly slightly lower but still surpass 5 percent a year starting in 2018. While the macroeconomic impact of the recent outbreak of the plague remains uncertain, it appears so far to be limited.

Approved By
**David Owen and Zuzana Murgasova**

Discussions on the authorities' economic and financial program took place in Antananarivo during September 7-21, 2017 and in Washington DC during October 10-13, 2017. The IMF staff team included Mr. Mills (head), Ms. Carvalho, Mr. Engstrom, and Mr. Leost (all AFR), Ms. Baum and Mr. Leduc (both FAD), and Ms. Esquivel Soto (LEG). The mission was assisted by Mr. Imam (Resident Representative) and Ms. Rasoamanana (local economist). Messrs. Razafindramanana and Alle (both OED) participated in the discussions. The IMF team met with President Rajaonarimampianina, Prime Minister Solonandrasana, Minister of Finance and Budget Andriambololona, Minister of Economy and Planning Raveloharison, Central Bank of Madagascar Governor Rasolofondraibe, the Commissioner General Rajaobelina, and other senior officials, as well as representatives of the private sector and development partners.

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# CONTEXT

**1. Madagascar's economic recovery continues, supported by strong implementation of its ECF-supported program.** Madagascar is a fragile state with recurring political instability and weak governance, which historically impeded revenue collection, public and private investment, social spending, and external donor support. Consequently, per capita income has stagnated and most social indicators have deteriorated. The political crisis following a military coup (2009-13) aggravated these trends. Under the current democratically elected government, growth has gradually accelerated (despite shocks), macroeconomic stability has strengthened, governance reforms are underway, and public investment and social spending are starting to rise. However, the outbreak of the plague in late 2017 (see below) has underscored the continuing dire social conditions.

**2. The approach of national elections planned for late 2018 poses risks for the recent improvement in political and economic conditions.** Madagascar has a history of vested interests seeking to exploit the electoral process for economic advantages and of fears of instability holding back private activity and weakening reform implementation, often leading to fiscal slippages.

# RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

**3. Growth performance remains solid despite natural disasters**. After reaching 4.2 percent in 2016, economic growth was estimated at above 4 percent annually in the first half of 2017. The negative impacts of a drought in late 2016-early 2017 and a cyclone in March 2017 were offset by strong growth in other sectors. While agriculture and hydropower production suffered, manufacturing in free-trade zones and tourism both expanded more than 10 percent year-on-year.

**4. Inflation has remained roughly stable, in the face of supply-side pressures**. Inflation rose from 7.0 percent (year-on-year) at end-2016 to 8.6 percent by May 2017, with a weather-related increase in food prices accounting for two-thirds of this acceleration. The price of rice—a staple accounting for 15 percent of the consumption basket—rose by more than 12 percent. However, as rice prices stabilized, other factors, such as lower fuel prices, helped bring inflation back down to 8.3 percent by September 2017 (Figure 1).

**5. The current account has weakened in 2017, driven by a growing trade deficit, but the overall external account remains strong.** The weather shocks in early 2017 reduced the volume of agricultural exports and increased imports, especially of rice. The value of vanilla exports was preserved by unexpectedly strong prices, offsetting a projected 30 percent drop in volume (Figure 2). Nevertheless, overall terms of trade appear to be deteriorating because of higher import prices. Net transfers (both public and private) and stronger financial inflows have largely offset the weaker current account. In this context, the exchange rate appreciated in nominal effective terms through mid-year before retracing gains by end-October. Given that Madagascar's inflation is higher than its trading partners, the real effective exchange rate appreciated about 5 percent from January to October 2017.[1]

6. **On balance, the fiscal situation has developed roughly as planned, with strong revenue performance.** In the first half of 2017, customs revenue grew by 23 percent year-on-year (contributing to an overall tax revenue increase of 17 percent). However, the wage bill was higher than programmed in the first half of 2017; this deviation reflects forecasting errors rather than policy changes, since the payment of arrears on allowances and the ongoing integration of community-supported teachers into the civil service were not accurately incorporated in the wage bill projections. Both domestically and especially externally-financed investment spending are below budgeted amounts. Other items remain within budgeted amounts, notably the transfers to the public utility JIRAMA (which were increased in the 2017 revised budget largely to offset the impact of the drought). The stronger than expected Ariary reduced the local currency value of external budget support, however; along with the higher than expected wage bill, this will require some adjustments by end-year (see below). Moreover, the steady repayment of domestic arrears continued as planned.

7. **Monetary and exchange rate policy has successfully managed the challenges created by external developments.** Following the weather-related uptick in inflation, the central bank tightened monetary policy, and it has increased its policy rate to 9.5 percent (from 8.3 percent) in two steps. However, the unexpectedly high vanilla prices led to a repeat of last year's liquidity shortage[2] in May and June and pressure for nominal exchange rate appreciation. In response, the central bank began substantial foreign exchange purchases ($150 million by end-October), which it has only partially sterilized (Figure 3). The positive price shock for vanilla is still expected to be largely temporary.

8. **The macroeconomic outlook remains positive, although the scaling up of public investment is expected to be more gradual than previously assumed**. Because of capacity challenges, projections for foreign-financed investment have been lowered in both 2017 and 2018, leading to slight downward revisions of economic growth and current account deficits in those years. Nevertheless, if current plans for rising public investment and continued structural reforms are realized, growth is expected to pass 5 percent a year starting in 2018 (Figure 4). The macroeconomic impact of the recent outbreak of the plague, while limited so far, remains uncertain, especially if the outbreak is protracted.[3] Notwithstanding this year's real effective exchange rate appreciation, the

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[1] Through end-October, the Ariary also appreciated by about 5 percent in nominal terms for the year versus the US Dollar. The real effective exchange rate has tended to be stable over the medium-term (Figure 2).

[2] Un-banked small vanilla producers receive and retain large cash payments. This expands the currency in circulation, draining bank liquidity, and banks start to tighten their lending in response. Excess bank reserves were less than one percent of money and quasi-money in May and June, below the level usually needed to ensure a smooth functioning of the banking system.

[3] According to the World Health Organization, from August 1 through October 30 a total of 1,801 cases were suspected, including 127 deaths.

results of the last external balance assessment indicate that the exchange rate remains consistent with external sector fundamentals.[4]

# PROGRAM PERFORMANCE

**9. Program performance continues to be strong, with all quantitative performance criteria and indicative targets met at end-June 2017** (Table 9). The floor on the primary balance excluding foreign-financed investment, the program's fiscal anchor,[5] was observed at end-June 2017, mostly reflecting strong over-performance on tax revenue. Priority social spending surpassed the associated indicative target (floor). The targets for central bank net foreign assets (floor) and net domestic assets (ceiling) were observed by large margins at end-June 2017. The continuous criteria related to the non-accumulation of new external arrears[6] and to the ceilings on non-concessional external debt were also observed.

**10. The program structural agenda is advancing well**. Seven (out of nine) structural benchmarks were fully met up to end-November 2017 (Table 10). The measure envisaged in one other was completed, as the independent audit of the activities of the Public Procurement Regulatory Authority (*Autorité de Régulation des Marchés Publics*, ARMP) was finalized in September 2017, a three-month delay. The pricing of fuel was not entirely automatic because of small ad hoc adjustments to smooth price movements and cushion the social impact (see MEFP, ¶23), meaning that the related continuous structural benchmark was not met, although the objective of avoiding any budgetary costs was achieved.

# POLICY DISCUSSIONS

**11. Policy discussions focused on creating fiscal space, promoting investment, maintaining stable inflation, and advancing key reforms in economic governance and financial sector development.**

## A. Creating Fiscal Space

**12. Efforts to mobilize more domestic resources for priority spending are advancing, although they encountered difficulties in 2017**. In addition to exceptional spending budgeted for cyclone relief, JIRAMA, and Air Madagascar, the wage bill is projected at 5.8 percent of GDP for the

[4] IMF Country Report No. 17/223, Annex I. The current account norm approach suggested a slight undervaluation that provides space for the real appreciation experienced this year.

[5] A positive primary balance excluding foreign-financed investment helps ensure the authorities can cover essential spending needs without recourse to external borrowing, while allowing for flexibility concerning volatile foreign-financed investment.

[6] Madagascar owes external arrears to Angola which continue to be deemed away under the policy on arrears to official bilateral creditors, as the underlying Paris Club agreement is adequately representative and the authorities are making best efforts to resolve the arrears.

year (versus 5.5 percent in the budget). Better-than-expected revenue performance and lower-than-expected needs for domestic investment and interest payments offset this increase. Domestic resources devoted to priority social spending are expected to exceed targets in 2017 and grow progressively over the medium-term. Transfers to JIRAMA and to Air Madagascar (see details below) are expected to be consistent with the supplementary budget. The primary balance excluding foreign-financed investment is projected to be positive in 2017 (after adjustment for one-off spending on Air Madagascar) and over the medium term. The overall deficit (commitment basis) will reach 3.5 percent of GDP in 2017, significantly lower than projected due to delayed foreign-financed investment (see below). The risk of debt distress remains moderate.[7]

**13. For 2018, the authorities are advancing their core budget objective of raising priority investment and social spending, including by reducing lower priority spending despite some pressures.**

- Transfers to JIRAMA will fall by more than half (to 0.5 percent of GDP), the lowest level in at least five years (MEFP, ¶24). In parallel with the government's strategy for the electricity sector[8], JIRAMA's medium-term business plan aims to phase out the transfers for operating losses by 2020, relying on cost reductions, better revenue collection (notably with the installation of smart meters (structural benchmark)), stronger governance, and tariff increases. A tariff study underway with the World Bank support will examine *inter alia* social implications.

- Air Madagascar's strategic partnership with Air Austral (a French airline based in Réunion) is designed to place the company on a sound commercial footing (MEFP, ¶25). The transfers in 2017 to Air Madagascar (0.8 percent of GDP) are for a one-off assumption of its past liabilities. While this strategy is based on the absence of future public support, staff expressed concerns about the fiscal risks from any new borrowing by Air Madagascar.

- Financing pressures are coming from the combination of higher than planned spending on public sector wages (due to the higher base from 2017) and on pensions (an additional 0.3 and 0.1 percent of GDP, respectively) and the impact of real exchange rate appreciation on customs revenues projections (0.3 percent of GDP) and external budget support (0.1 percent of GDP).

- To contain the wage bill, the authorities plan to: (i) integrate the medium-term expenditure frameworks, including personnel costs, of all ministries into the 2018 budget planning; (ii) reduce ghost workers by crosschecking the payroll and ministry workforce data; (iii) limit the reclassification of civil servants and staffing of diplomatic representations; and (iv) improve wage bill forecasting, supported by IMF technical assistance.

[7] The projected borrowing remains close to levels assessed at the time of the Article IV consultation, which concluded that the risk of debt distress was moderate (IMF Country Report No 17/223).

[8] This medium-term strategy aims to significantly increase access to electricity and the share of renewable energy.

- Transfers to cover losses at the civil service pension funds will be progressively reduced by: (i) discontinuing the 5 percent mark-up per child for new retirees as of 2018; and (ii) assessing the impact of further potential reforms, with assistance from the World Bank.

**14. The authorities are also undertaking significant new revenue enhancement measures in 2018 to achieve full financing**. All these revenue measures are consistent with recommendations from IMF TA.

- The draft 2018 budget includes: (i) higher taxes for petroleum products, except kerosene (0.3 percent of GDP); and (ii) a simplification of the small taxpayer regime through a lower VAT threshold and a higher turnover tax threshold for smaller enterprises (0.1 percent of GDP tax revenue gain).

- Customs initiated: (i) extension of the use of performance contracts to the anti-fraud unit in September 2017 (structural benchmark); (ii) expansion of performance contracts to smaller customs offices; (iii) establishment of a central customs clearance center to bolster the integrity of transactions; and (iv) recovery of tax arrears and better revenue collection from public agencies ("*états bleux*").

- Other administrative measures include joint customs and tax audit programs and improved cooperation with local governments to increase transparency, accountability, and the identification of non-filers.

**15. Taken together, these measures ensure that fiscal space for priority spending continues to grow, although not as quickly as initially hoped in the program** (Figure 5). The revenue measures are projected to push the tax revenue-to-GDP ratio to 11.9 percent in 2018, compared to 11.5 percent initially targeted under the program. From 2017 to 2018, the wage bill-to-GDP ratio will fall 0.1 percentage points to 5.7 percent of GDP—which is 0.4 higher than initially targeted. The authorities stressed that the wage bill-to-revenue ratio has been in a steady decline (Figure 5). Both domestically-financed investment spending and priority social spending are forecast to trend upward. Substantial domestic arrears clearance continues in 2018 (0.6 percent of GDP).

## B. Promoting Investment for Inclusive and Sustainable Growth

**16. The pace of scaling up public investment is falling short of the program's ambitious targets, which calls for redoubled efforts to enhance capacity**. The recent Public Investment Management Assessment (PIMA) identified critical shortcomings (for example, the need for multi-year programming and improved coordination). The new Organization for the Coordination and Monitoring of Investments and their Financing (OCSIF) became operational in July 2017 and is tasked with improving coordination with sectoral ministries and donors, detecting implementation bottlenecks, and identifying corrective actions. Specific measures include: (i) continuous information sharing between OCSIF and the Budget Directorate; (ii) adoption of a medium-term strategy to enhance investment capacity by end-December 2017 (structural benchmark); and (iii) an interim action plan, elaborated with IMF technical assistance.

**17. Legislative proposals to attract private investment include tax incentives that raise serious concerns about limited effectiveness and lost revenue**. In October, the government submitted to Parliament two draft laws for new investment regimes—special economic zones (SEZ) and the law on industrial development (LID). Economic zones can promote investment through enhanced infrastructure, economies of scale, and regulatory streamlining. However, staff pointed out that tax incentives are often not cost-effective in attracting additional investment, especially in low income countries, where other enabling factors such as infrastructure are lacking. The proposed laws depart from international best practices on governance (e.g., excessive discretion) and the design of tax incentives (e.g., excessively broad eligibility, overlapping incentive regimes, and reduced corporate tax rates rather than accelerated depreciation or tax credits for investment).[9] The draft SEZ law includes numerous tax incentives (including exemptions for VAT and import tariffs, as well as a 20-year stability clause). Staff is concerned that the tax benefits will fail to attract much additional investment (but rather go to investment that would largely occur anyway) and that the multiple regimes will prove challenging to administer (e.g., with arbitrage among regimes, including the existing export processing zones, for which reforms are also advisable), leading to direct revenue losses as well as indirect leakages (e.g., domestic profit shifting). In response, the authorities explained their intention to begin on a pilot basis, review the tax incentives in the laws, and limit the scope of the new regimes in subsequent regulations (MEFP, ¶26).

## C. Maintaining Stable Inflation

**18. The authorities are committed to preserving Madagascar's track record of single-digit inflation**. Monetary policy has been challenged by a mixture of higher inflation and a real effective exchange rate appreciation reinforced by the positive vanilla price shock. The central bank policy has combined exchange rate flexibility, the accumulation of additional foreign exchange reserves, and partial sterilization of interventions. The central bank also aims to maintain commercial banks' excess reserves at levels consistent with stability in liquidity and lending conditions; while generally successful, some limits to its capacity to forecast and manage liquidity have created difficulties on certain occasions in responding to changing liquidity needs (e.g., May and June this year). Staff encouraged the central bank to monitor and manage liquidity more actively, drawing on ongoing IMF technical assistance. Inflation is expected to continue to fall progressively as supply side shocks unwind and the prudent monetary stance continues. The central bank is prepared to tighten liquidity and increase the policy rate (*taux directeur*) further in the event of additional inflation pressures.

**19. The central bank is also developing the frameworks and tools for liquidity management, monetary policy, and development of the foreign exchange market**. Legislation to promote repo transactions is under development and will be submitted to Parliament by end-December 2018 (structural benchmark). While the recent introduction of forex swaps may facilitate liquidity management, staff advised caution in using this instrument pending further development of the forex spot market and the interbank money market. The authorities have developed an action

[9] For an overview of international best practices, see: IMF, OECD, UN, and World Bank (2015), "Options for Low-Income Countries' Effective and Efficient Use of Tax Incentives for Investment", IMF Policy Papers, Washington, DC.

plan to develop monetary policy instruments, with IMF technical assistance. The authorities maintain a partial surrender requirement on export proceeds to support liquidity in the foreign exchange market. The measure limits capital outflows and is considered a capital flow management measure under the IMF's Institutional View.[10] As capital outflow pressures have continued to recede, staff expressed the view that the requirement should be temporary and phased out, in line with the Institutional View. While agreeing on this goal for the future, the authorities considered that the surrender requirement was currently necessary given the shallow foreign exchange market. IMF technical assistance on the operation of the foreign exchange market is ongoing.

## D. Enhancing Economic Governance

**20. The government is aiming to enhance economic governance, with reforms initially focused on strengthening the anti-corruption legislation** (see Box 1). Draft laws on asset recovery and international cooperation were submitted to Parliament in June, and the new anti-money laundering/combatting the financing of terrorism (AML/CFT) law is planned to be submitted before the end of the year. Madagascar is exposed to important money laundering threats related to corruption, tax evasion, and trafficking in natural resources. Banks located in countries with weak AML/CFT frameworks are also more likely to lose correspondent banking relationships.[11]

**21. Actions to strengthen transparency, implementation and enforcement will build on the legislative reforms**. By the end of the year, the first quarterly statistics on anti-corruption legal cases will be published, and a new anti-corruption center is expected to be operational in the capital (with another one planned for next year). As a pilot, all final legal decisions by the anti-corruption centers will be available online starting in September 2018 (structural benchmark). A more transparent and comprehensive asset declaration framework is another priority, and a new decree to be issued by January 2018 will establish a mechanism to verify asset disclosures from officials. The law governing the National Public Establishments (*Etablissements publics nationaux*, EPN) will be revised and submitted to Parliament by end-June 2018, to enhance supervision, transparency and accountability, including clarifying the categories of EPNs (structural benchmark). Starting with the 2019 Budget, an annex to the budget with estimates of the fiscal costs of key tax incentives will be published.

**22. Improving budget execution and control, as well as debt management, are also priorities for good governance**. Building on the PFM reform strategy adopted last year, a three-year PFM action plan was adopted in April 2017. Central elements include: (i) improving budget execution; (ii) better integrating autonomous entities (e.g., EPNs); (iii) reinforcing ex-post controls to aid the fight against corruption; and (iv) improving accounting and reporting. In addition, to enhance Madagascar's debt monitoring capacity in the context of scaling up public investment, the World Bank will complete a Debt Management Performance Assessment (DeMPA) next year.

[10] See IMF Country Report No. 17/223.

[11] While not a widespread problem so far in Madagascar, at least one bank has lost a correspondent banking relationship, which it replaced at higher cost.

**Box 1. New Anti-Corruption Legislation**

**2015:**
*Law against the traffic of precious woods.*

**2016:**
*Law on declaration of assets:* expands the definition of corruption offences and facilitates the use of asset declarations.
*Law on anti-corruption centers:* establishes special more independent tribunals.

**Laws pending adoption:**
*Law on asset recovery:* ensures that judicial authorities can confiscate illegally acquired assets.
*Law on international cooperation:* ensures that anti-corruption agencies can effectively participate in international cooperation.
*AML/CFT law:* requires that financial and non-financial institutions carry out customer due diligence and report suspicious activity.

## E. Building a Sound Financial Sector Supporting Growth

**23. The authorities are promoting financial inclusion as an essential ingredient for inclusive growth, with World Bank assistance**:

- Mobile money services are growing rapidly, with 17 percent of the population using such services in 2016. The law on electronic money passed in 2016 provides the legal basis, and the related implementation decree will be issued by end-December 2017 (structural benchmark). Work is continuing, with support from the World Bank, to establish the regulatory framework for secured transactions (i.e. credit secured against movable assets).

- Non-bank financial institutions (NBFIs) in Madagascar can promote inclusion but also pose soundness challenges. They include micro-financial institutions (MFIs), insurance companies, savings institutions such as the postal service (PAOMA) and the savings fund (CEM), and the National Insurance and Social Security Fund (CNAPS). A new MFI law, including a resolution framework, was submitted to the Parliament in October 2017, and MFI supervision is also being strengthened. To deal with weaknesses identified by a recent audit, PAOMA's Board will adopt an action plan by end-March 2018. It is essential that the regulator reviews the plan before adoption and that business activities are not expanded pending adoption of the action plan.

- The establishment of a credit bureau will promote financial inclusion by providing more reliable information. A law regulating the establishment and supervision of a private credit bureau was submitted to the Parliament in October 2017, with operations expected to start in 2019.

**24. To strengthen financial stability as the sector develops, the authorities are working to make banking supervision more risk-based and proactive**. By end-December 2017, the central bank will develop a well-sequenced action plan to implement a pro-active risk-based banking supervision by 2019, with clear interim deadlines. Extensive revisions to the banking law, which are being prepared with IMF support, are planned for submission to Parliament by December 2018, with the goals to: (i) improve the bank recovery and resolution framework; (ii) reinforce the framework for corrective bank supervisory measures; and (iii) enhance the powers and independence of the financial supervisor (CSBF) (structural benchmark). To advance compliance with the Basel Core Principles, the authorities will by end-December 2018 issue new prudential regulations and strengthen existing regulations on capital definition and capital adequacy ratio, in line with international standards. Existing minimum capital requirements are also under review. In addition, a new framework for financial stability will give the central bank a clear mandate, in collaboration with the ministry of finance.

# PROGRAM ISSUES, SAFEGUARDS, AND RISKS

**25. New program targets have been proposed through end-December 2018 and the authorities requested the modification of three performance criteria for end-June 2018** (MEFP, Table 1). For end-2018, the floor on the primary balance targets a large surplus (1.6 percent of GDP), which reflects the increase in revenue targets needed to ensure full financing. The end-2018 monetary targets aim to preserve single-digit inflation and build foreign reserves, while considering the vanilla price shock's impact. Performance criteria for end-June 2018 have been modified to be consistent with plans for the full year. The floors for the primary fiscal balance and the central bank's net foreign assets have been raised, while the ceiling on the central bank's net domestic assets has been lowered.

**26. Additional structural benchmarks for 2018 are also proposed**. Three additional structural benchmarks have been established for 2018, supporting the program objectives of increasing fiscal revenue, enhancing governance, and promoting financial sector development (MEFP, table 2). In addition, the authorities remain committed to implement an automatic fuel pricing formula (continuous benchmark) after concluding discussions with oil distributors, with an automatic (instead of ad hoc) smoothing mechanism (MEFP, ¶23).

**27. The program is fully financed in 2018, and Madagascar's capacity to repay the Fund is strong**. The 2018 budget is fully financed, including through firm commitments of external budget support. Prospects for full financing remain good for the remainder of the program period. Madagascar has a strong capacity to repay the Fund. Annual repayments to the Fund would not exceed 0.4 percent of GDP, 2.7 percent of government revenue, and 1.2 percent of exports (Tables 3-5 and 13).

**28. An updated safeguards assessment, completed in March 2017, found progress in implementing recommendations from the 2015 assessment**. The central bank now has a new revised legal framework and has established an audit committee, the reserves management policy was revised with technical assistance and the BFM is implementing a conservative reserves management strategy, and steps have been taken to strengthen the internal audit function, including through technical assistance. In addition, publication of the FY2016 financial statements was timely. However, substantial further steps are needed to fully implement International Financial Reporting Standards. The central bank is updating its procurement policy to cover expenditures related to currency operations, as recommended by the safeguards assessment. Progress with the physical counting and destruction of the significant existing stock of old bills has been limited (MEFP, ¶40).

**29. Data submission requirements are fulfilled by the authorities, and efforts continue to strengthen the statistical system**. A new statistics law, modernizing and regulating data collection, will be submitted to Parliament by end-2017 (structural benchmark). Other actions underway include the recent publication of a revised series of national accounts. The authorities and staff are working together to incorporate the new national accounts into policy-making and plan to switch to them definitively at the end of 2018.

**30. Risks to the program are mainly exogenous and political.** As a fragile, low-income country, Madagascar is vulnerable to exogenous shocks, such as shifting terms of trade and natural disasters, as well as policy slippages, which have often led to fiscal slippages or blows to confidence. One example would be failure to fully implement the strategies to reduce transfers to SOEs. While the authorities have demonstrated a strong commitment to the program, elections scheduled for late 2018 may increase political instability and harm confidence, stalling or reversing the gradual economic recovery. Representatives of the international community, such as the UN, have stressed the importance of free, fair and inclusive elections to buttress political stability and legitimacy.

# STAFF APPRAISAL

**31. Madagascar's macroeconomic performance has remained satisfactory despite adverse weather shocks**. GDP is projected to grow 4.1 percent in 2017 and inflation is contained, a positive outcome considering weather-related shocks. Although the current account weakened, as expected, the balance of payments has been stronger than anticipated and the Ariary has appreciated in real terms. While the fiscal situation has benefitted from strong revenue performance, budget execution has been challenged by slippages in the wage bill and the real appreciation of the Ariary, which lowers the local currency value of external budget support and customs revenue.

**32. Performance under the ECF arrangement continues to be strong, and the authorities have demonstrated a commitment to the program**. All quantitative performance criteria and indicative targets were met at end-June 2017, some by wide margins. Following measures to increase revenue and identify savings on other spending, the authorities remain on track to meet targets for end-December 2017. Investment spending is expected to rise significantly in 2017 compared to 2016, although it will fall well short of the initial ambitious targets. The structural agenda is also advancing. Seven (out of nine) structural benchmarks were fully met, and the objectives of the other two were achieved.

**33. The 2018 budget supports the program's objectives**. A higher wage bill and the strong Ariary have created financing pressures. In response, the authorities have committed to forceful and credible measures to boost revenue, including raising excise taxes on petroleum, and to contain lower priority spending, especially JIRAMA and the wage bill. JIRAMA's planned transfers are consistent with previous plans and its budget, which are based on concrete measures and expertise from the World Bank. Both domestically and externally-financed investment spending is expected to grow significantly (although less than targeted earlier due to capacity constraints). The composition of spending is projected to improve in 2018, although not as much as previously intended.

**34. Sustained efforts are needed to expand fiscal space and enhance priority investment and social spending**. Continuing improvement in revenue collection will require persistent efforts, as will containing spending that is less productive for economic and social development, such as fuel pricing, wages, and transfers to JIRAMA and the pension funds. Returning JIRAMA to cost-recovery will necessitate ongoing and occasionally difficult reforms. Successfully scaling up public investment will require full and timely implementation of the plans to boost capacity, along with vigilance over risks to macroeconomic stability and debt sustainability.

**35. Staff strongly urges the authorities to design the tax incentives for the new investment regimes carefully, to ensure effectiveness and safeguard future revenue**. The draft laws on special economic zones and industrial development submitted to Parliament depart from international best practices on the design of incentives in numerous ways. The new incentives need to be cost-effective, attracting additional investment with minimal loss of future revenue. Staff urged that new investment zones focus on the provision of shared infrastructure to enhance productivity, rather than tax incentives. Poorly designed incentives would jeopardize Madagascar's medium-term development by eroding the tax base and depriving the country of resources needed for critical public needs, including the infrastructure critical to attracting investment.

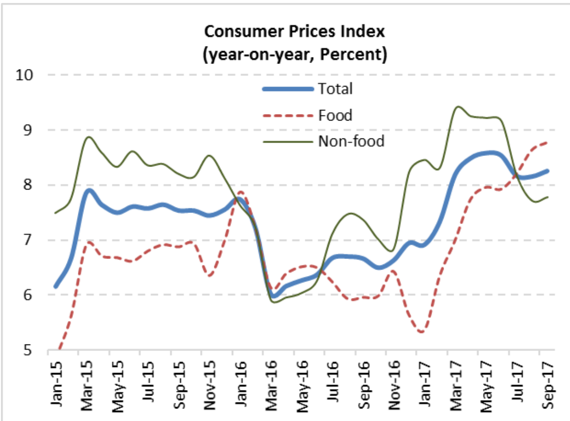
**36. Enhancing governance and fighting corruption will require both the completion of the new legal framework, in line with international standards, and strengthened institutions**. Staff stresses the vital importance of submission and enactment of the laws on international cooperation, asset recovery, and AML/CFT. The latter is particularly important to reduce the growing risk of banks losing correspondent banking relationships. While the new laws are essential for better governance, they must be followed with actions to strengthen the institutions for implementation and enforcement. More public access to information is also indispensable to empower civil society to maintain an effective oversight of government functions.

**37. The work underway to develop the financial sector is important and well-prioritized**. The authorities are addressing priorities identified in the FSSA and effectively exploiting IMF and World Bank expertise. The near-term objectives are to lay the groundwork for enhanced financial inclusion, while keeping financial risks under control. Measures to promote mobile money services and NBFIs will be complemented by more risk-based and proactive financial supervision, as well as other actions to strengthen financial stability. The overhaul of the banking law is the most extensive in many years. The development of new monetary and exchange rate policy tools is also essential.

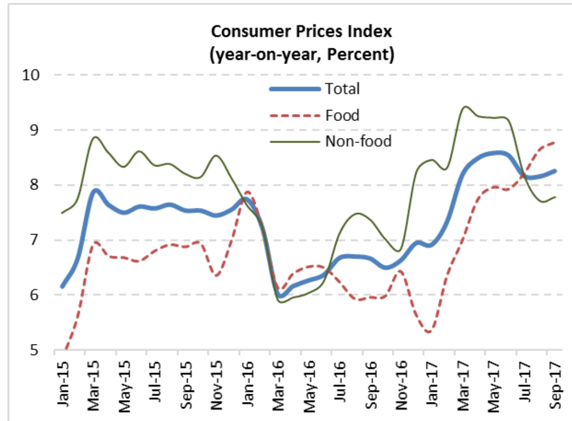
**38. In light of the authorities' program implementation and commitments, staff recommends completion of the second review and the disbursement of an amount equivalent to SDR 31.428 million under the ECF arrangement**. Staff also supports the modification of the end-June 2018 performance criteria on the primary balance, net foreign assets, and net domestic assets.

## Figure 1. Madagascar: Recent Developments on Inflation, 2015-17

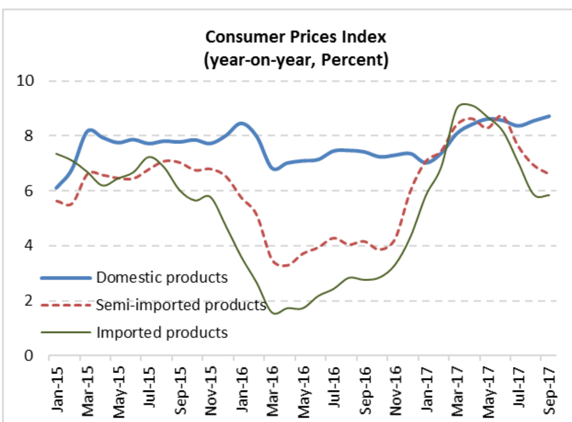
*Inflation accelerated up to May 2017 and then stabilized with support from non-food products*



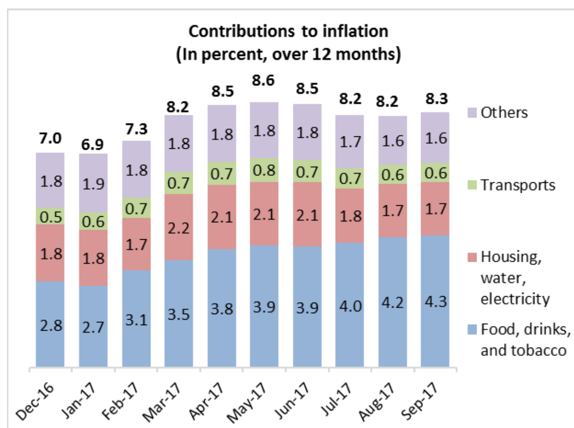

*Price increases on rice, which account for 15 percent of the CPI basket, remain above 12 percent (yoy)*




*The real appreciation of the Ariary has helped to limit the price increase on imported products*



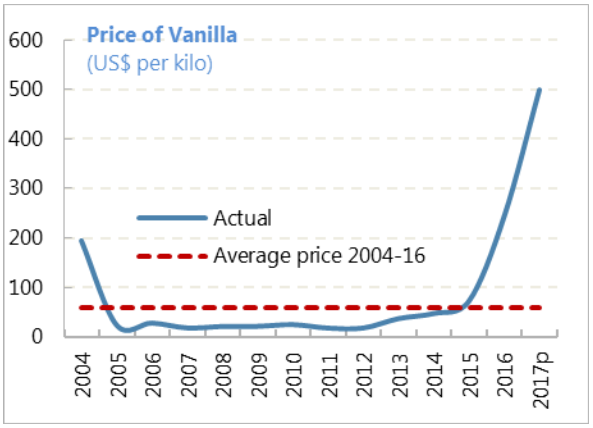

*In total, food products contributed more than half of inflation at the end of August 2017*

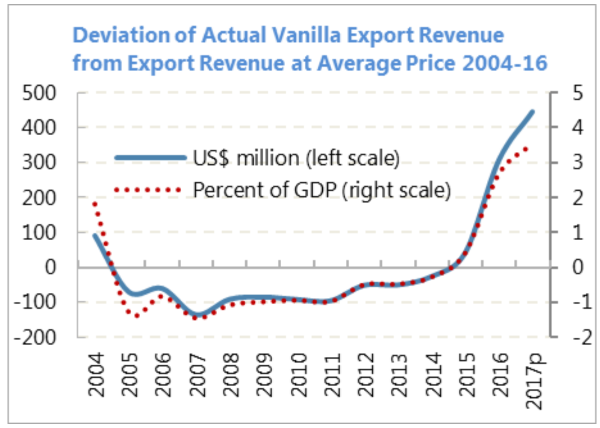



Sources: Malagasy authorities; and IMF staff estimates.

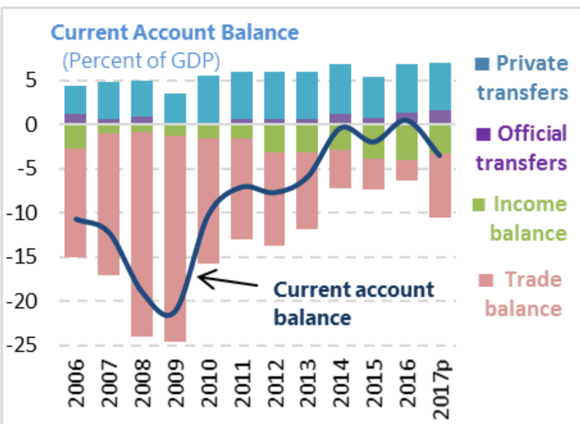
## Figure 2. Madagascar: External and Monetary Developments, 2004-17

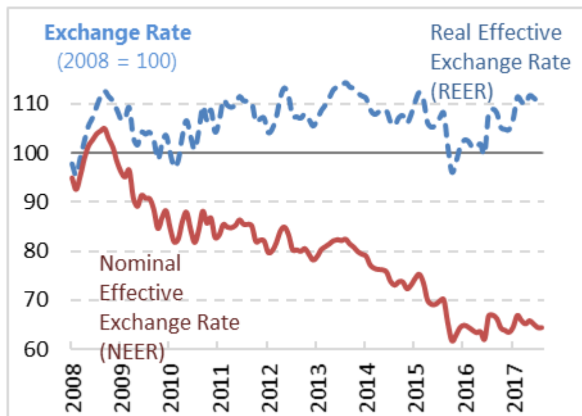
*A jump in vanilla prices boosted export revenues in 2016 and 2017.*



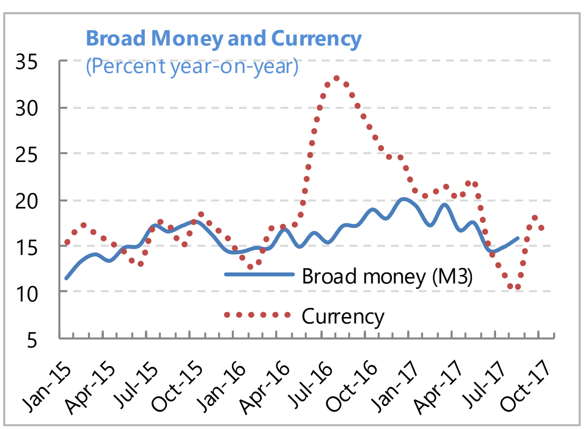



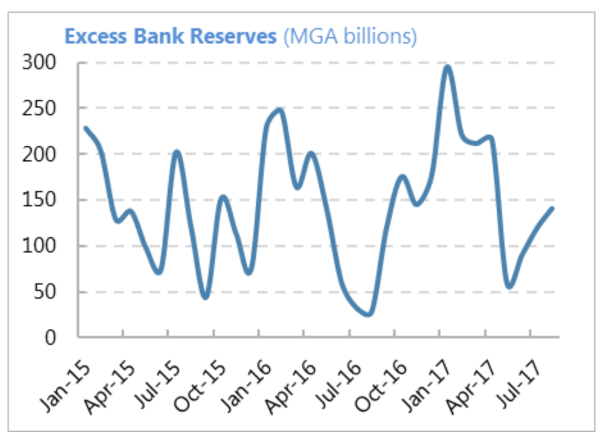

*While the current account has improved in recent years because of growing mining exports, it should start to weaken in response to scaled-up public investment. The NEER has been roughly stable for two years, which has triggered an REER appreciation because inflation is higher than the average of Madagascar's trading partners.*




*In 2016, higher vanilla prices favored small farmers who wanted to hold currency, with the result that bank reserves fell until the central bank started to intervene in the foreign exchange and money markets in the fall. A similar pattern occurred in 2017.*

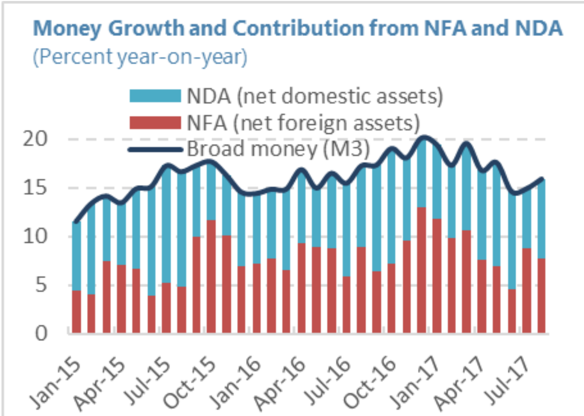


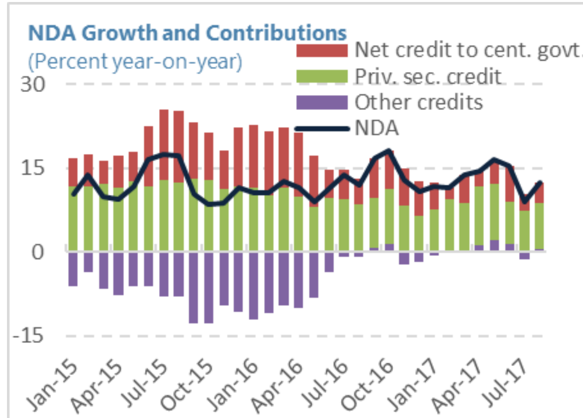




Sources: Malagasy authorities; and IMF staff estimates.

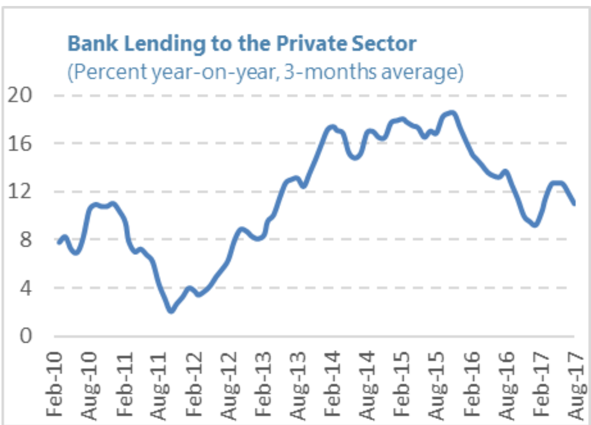
## Figure 3. Madagascar: Banking System, 2002-17

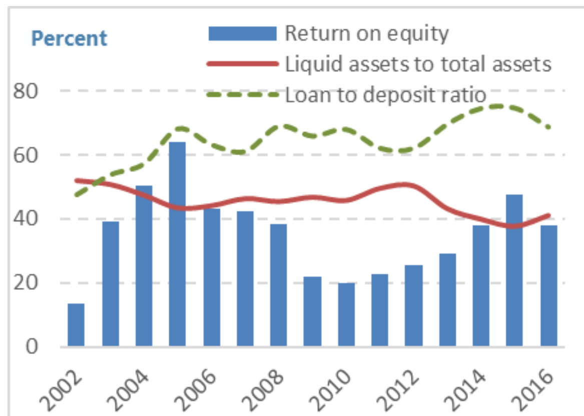
*Broad money growth is primarily driven by growing net foreign assets and private sector credit growth.*



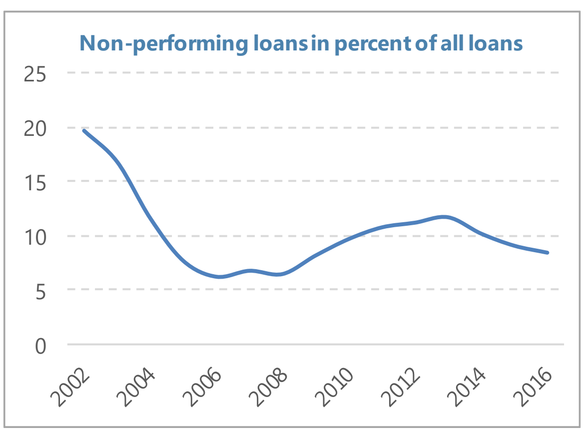




*While credit growth has been relatively strong recently, loans are significantly less than deposits. The banks are on average liquid and profitable, but there are large differences among the banks.*

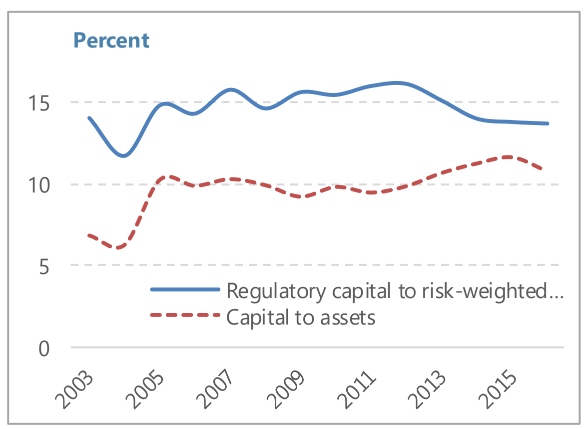



*Non-performing loans have been decreasing as a reflection of the economic recovery.*



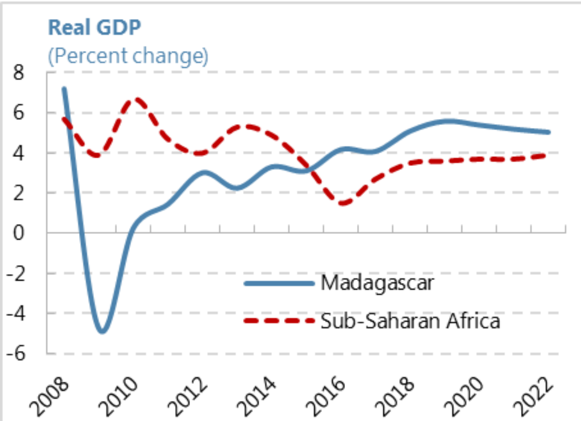

*While the regulatory capital is adequate, capital ratios have declined in recent years.*

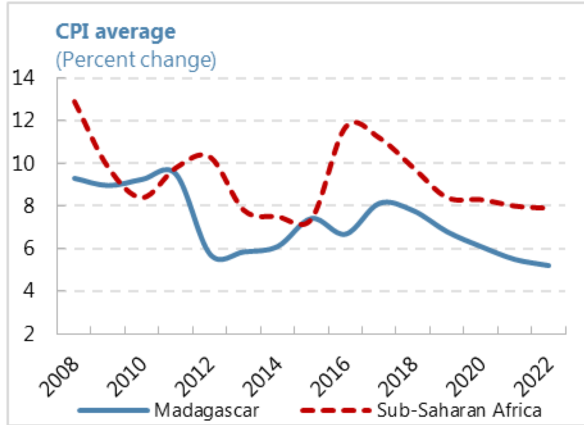



Sources: Malagasy authorities; and IMF staff estimates.

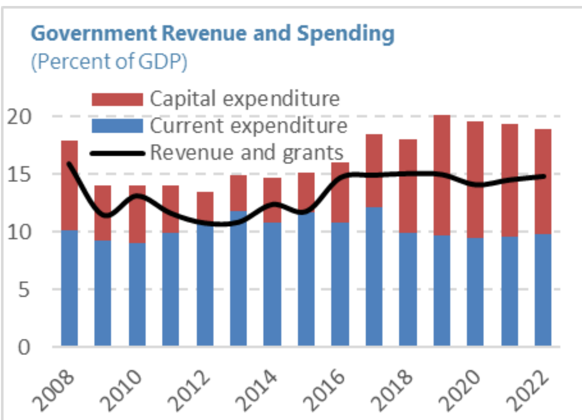
**Figure 4. Madagascar: Medium-Term Macroeconomic Prospects, 2008-22**

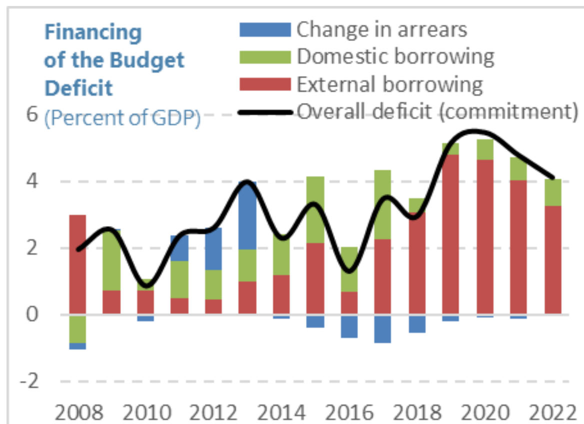
*Reforms and scaled-up public investment are projected to sustain growth above the Sub-Saharan African average and inflation is projected to approach 5 percent a year.*



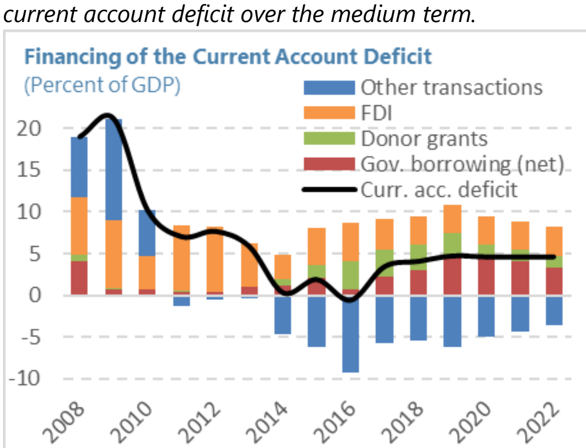




*The fiscal deficit will peak in 2019-20 because of scaled-up spending on capital expenditure.*

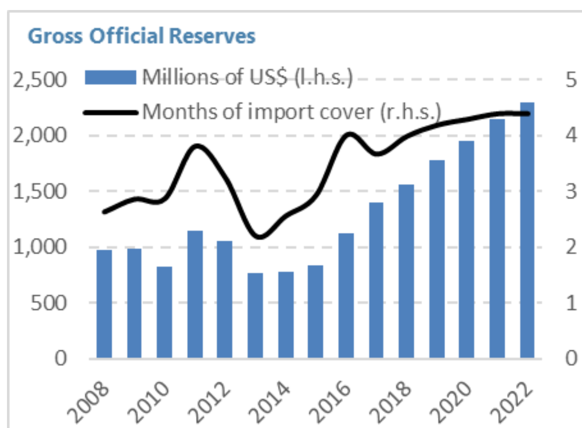



*Capital inflows from the scaling up will finance the current account deficit over the medium term.*



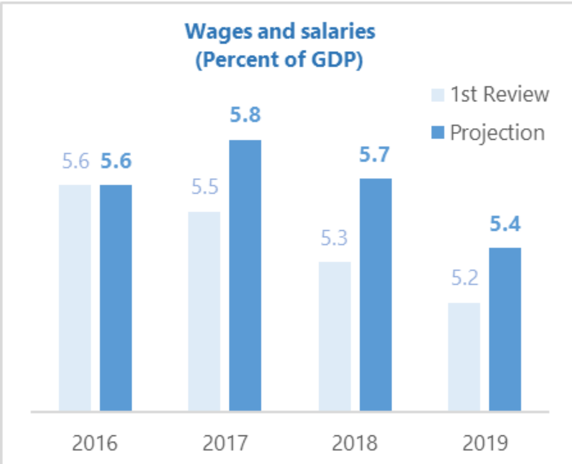

*The import cover will increase to 4.3 months over the medium term.*

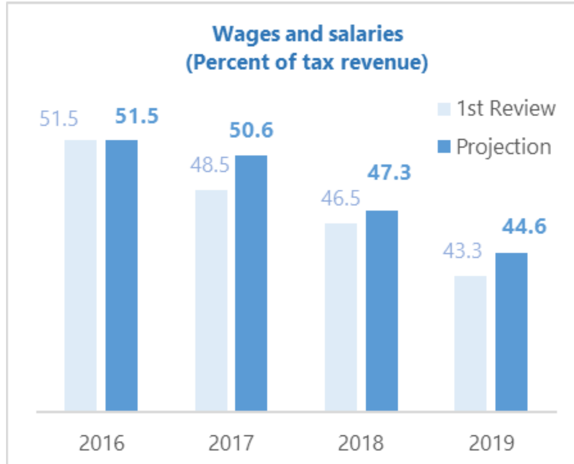



Sources: Malagasy authorities; and IMF staff estimates.

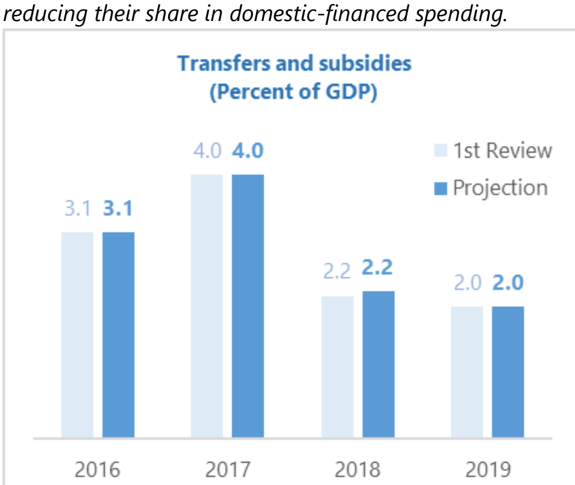
## Figure 5. Madagascar: Composition of Public Expenditure, 2016-19

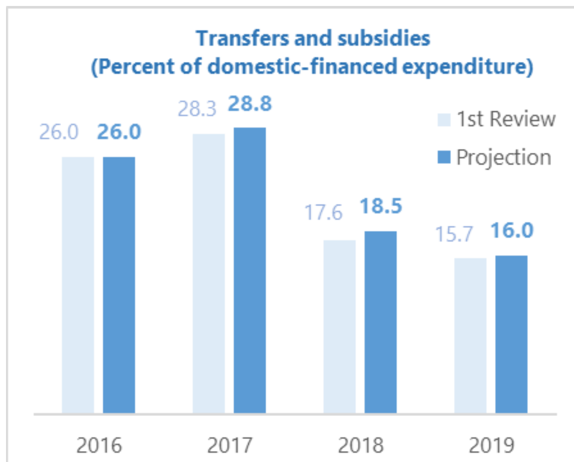
*The wage bill unexpectedly rose in 2017 but should fall again starting 2018, while continuing to decline in percent of tax revenue.*




*After their peak in 2017 (exceptional transfers to Jirama and Air Madagascar), transfers should fall sharply, drastically reducing their share in domestic-financed spending.*

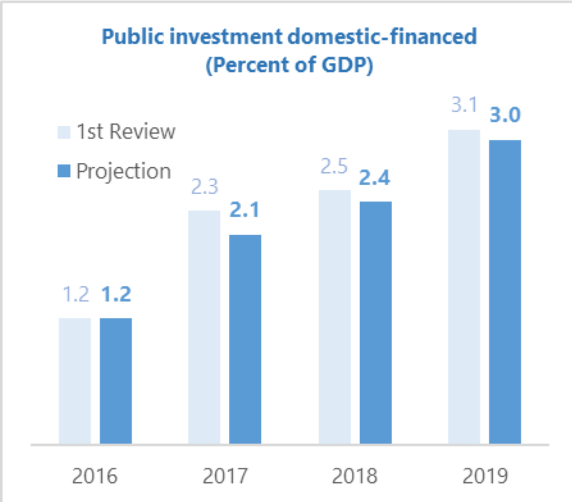


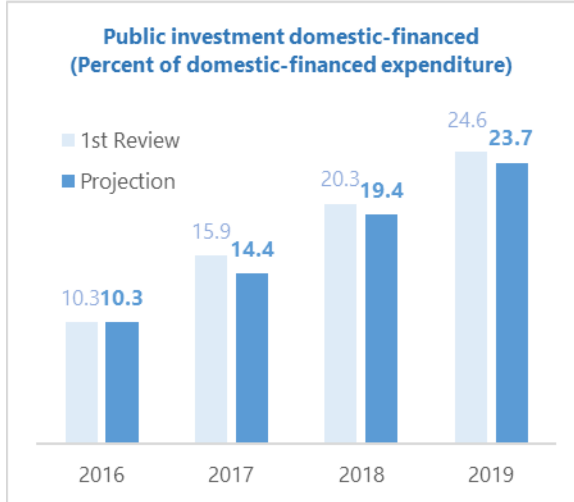




Sources: Malagasy authorities, and IMF staff estimates.

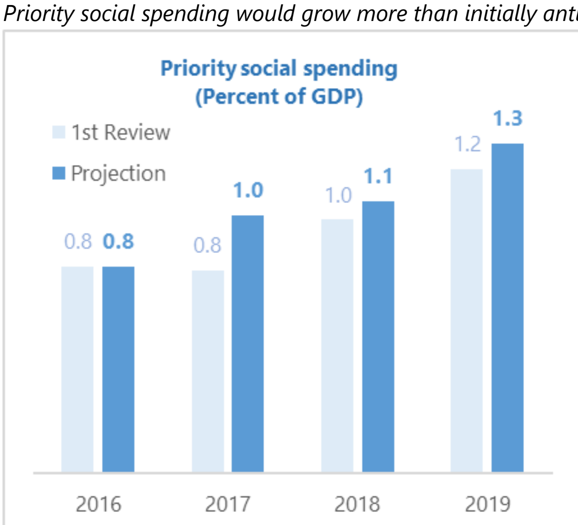
## Figure 5. Madagascar: Composition of Public Expenditure, 2016-19 (concluded)

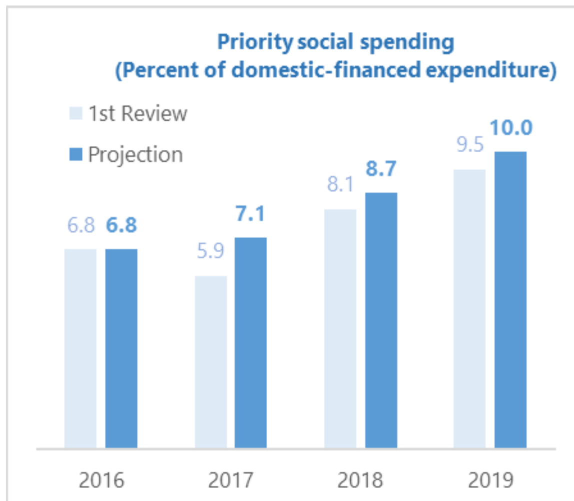
*Domestic-financed public investment should more than double between 2016 and 2019.*




*Priority social spending would grow more than initially anticipated.*




Sources: Malagasy authorities, and IMF staff estimates.

## Table 1. Madagascar: Selected Economic Indicators, 2015-22

| | 2015 | 2016 | 2017 | | 2018 | | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | Prel. Est. | EBS 17/62 | Proj. | EBS 17/62 | Proj. | Projections | | | |
| | (Percent change; unless otherwise indicated) | | | | | | | | | |
| **National account and prices** | | | | | | | | | | |
| GDP at constant prices | 3.1 | 4.2 | 4.3 | 4.1 | 5.3 | 5.1 | 5.6 | 5.4 | 5.2 | 5.0 |
| GDP deflator | 7.6 | 6.7 | 7.8 | 8.1 | 6.8 | 7.8 | 6.8 | 6.1 | 5.5 | 5.2 |
| Consumer prices (end of period) | 7.6 | 7.0 | 7.7 | 8.1 | 6.8 | 7.9 | 6.2 | 5.7 | 5.4 | 5.0 |
| Money and credit | | | | | | | | | | |
| Reserve money | 9.6 | 25.4 | 14.0 | 18.5 | 7.5 | 12.4 | 7.1 | 12.2 | 12.5 | 12.9 |
| Broad money (M3) | 14.6 | 20.1 | 15.0 | 18.1 | 10.4 | 12.5 | 14.2 | 14.8 | 15.4 | 13.8 |
| | (Growth in percent of beginning of period money stock (M3)) | | | | | | | | | |
| Net foreign assets | 6.9 | 13.0 | 1.5 | 4.3 | 1.5 | 4.8 | 5.8 | 6.2 | 6.5 | 5.1 |
| Net domestic assets | 7.7 | 7.1 | 13.5 | 13.8 | 8.9 | 7.6 | 8.4 | 8.7 | 8.9 | 8.7 |
| of which: Credit to the private sector | 8.2 | 4.1 | 8.0 | 5.9 | 7.7 | 7.3 | 6.9 | 6.7 | 6.6 | 6.3 |
| | (Percent of GDP) | | | | | | | | | |
| **Public finance** | | | | | | | | | | |
| Total revenue (excluding grants) | 10.4 | 11.2 | 11.6 | 11.7 | 11.8 | 12.1 | 12.3 | 12.7 | 13.1 | 13.5 |
| of which: Tax revenue | 10.1 | 10.9 | 11.4 | 11.4 | 11.5 | 11.9 | 12.1 | 12.5 | 12.9 | 13.2 |
| Grants | 1.5 | 3.5 | 3.5 | 3.3 | 3.6 | 3.0 | 2.7 | 1.4 | 1.4 | 1.4 |
| of which: budget grants | 0.1 | 0.7 | 0.9 | 0.9 | 0.9 | 0.9 | 0.4 | 0.0 | 0.0 | 0.0 |
| Total expenditures | 15.1 | 16.0 | 20.2 | 18.5 | 20.0 | 18.0 | 20.1 | 19.5 | 19.3 | 18.9 |
| Current expenditure | 11.7 | 10.8 | 12.0 | 12.2 | 9.8 | 9.9 | 9.6 | 9.4 | 9.5 | 9.8 |
| Wages and salaries | 5.5 | 5.6 | 5.5 | 5.8 | 5.3 | 5.7 | 5.4 | 5.2 | 5.2 | 5.4 |
| Interest payments | 0.8 | 0.9 | 0.9 | 0.8 | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 | 1.0 |
| Other | 3.9 | 3.7 | 4.9 | 4.9 | 3.3 | 3.2 | 3.0 | 3.0 | 3.1 | 3.2 |
| Goods and Services | 0.5 | 0.6 | 0.9 | 0.9 | 1.1 | 0.9 | 1.0 | 1.1 | 1.2 | 1.3 |
| Transfers and Subsidies | 3.4 | 3.1 | 4.0 | 4.0 | 2.2 | 2.2 | 2.0 | 1.9 | 1.9 | 1.9 |
| Treasury operations (net) | 1.4 | 0.6 | 0.6 | 0.6 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Capital expenditure | 3.5 | 5.2 | 8.3 | 6.3 | 10.2 | 8.1 | 10.5 | 10.2 | 9.8 | 9.1 |
| Domestic financed | 1.0 | 1.2 | 2.3 | 2.1 | 2.5 | 2.4 | 3.0 | 3.4 | 3.6 | 3.7 |
| Foreign financed | 2.5 | 4.0 | 6.0 | 4.2 | 7.7 | 5.7 | 7.5 | 6.8 | 6.2 | 5.4 |
| Overall balance (commitment basis ) | -3.3 | -1.3 | -5.1 | -3.5 | -4.7 | -3.0 | -5.1 | -5.4 | -4.7 | -4.0 |
| Float (variation of accounts payable, + = increase) | 0.1 | 0.5 | -0.2 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Variation of domestic arrears ( + = increase) | -0.5 | -1.2 | -0.7 | -0.7 | -0.5 | -0.6 | -0.2 | -0.1 | -0.1 | 0.0 |
| Overall balance (cash basis) | -3.7 | -2.0 | -6.0 | -4.3 | -5.2 | -3.5 | -5.3 | -5.5 | -4.8 | -4.1 |
| Primary balance [1] | -1.3 | 0.8 | -0.7 | -0.7 | 1.3 | 1.6 | 1.2 | 0.8 | 1.0 | 0.9 |
| Total financing | 3.7 | 2.0 | 6.0 | 4.3 | 4.9 | 3.5 | 5.2 | 5.3 | 4.7 | 4.1 |
| Foreign borrowing (net) | 2.2 | 0.7 | 4.0 | 2.3 | 4.5 | 3.1 | 4.8 | 4.6 | 4.0 | 3.3 |
| Domestic financing | 2.0 | 1.4 | 2.0 | 2.1 | 0.4 | 0.4 | 0.4 | 0.6 | 0.7 | 0.8 |
| Excess financing [2] | 0.0 | 0.0 | 0.0 | 0.0 | -1.6 | 0.0 | -1.7 | -3.4 | -3.4 | -3.1 |
| *of which: budget support to be programmed* | 0.0 | 0.0 | 0.0 | 0.0 | -0.3 | 0.0 | -0.1 | -0.2 | -0.1 | 0.0 |
| **Savings and investment** | | | | | | | | | | |
| Investment | 13.1 | 15.3 | 19.2 | 15.9 | 21.5 | 17.4 | 19.8 | 19.6 | 19.3 | 18.8 |
| Gross national savings | 11.2 | 15.8 | 14.5 | 12.5 | 16.2 | 13.4 | 15.0 | 14.9 | 14.5 | 14.0 |
| **External sector** | | | | | | | | | | |
| Exports of goods, f.o.b. | 21.0 | 21.6 | 22.3 | 20.8 | 21.5 | 20.2 | 20.7 | 21.5 | 22.2 | 22.6 |
| Imports of goods, c.i.f. | 28.7 | 28.6 | 34.6 | 31.0 | 34.4 | 30.1 | 31.5 | 31.8 | 32.2 | 32.4 |
| Current account balance (exc. grants) | -3.4 | -2.9 | -8.1 | -6.7 | -8.9 | -7.0 | -7.5 | -6.2 | -6.2 | -6.2 |
| Current account balance (inc. grants) | -1.9 | 0.6 | -4.7 | -3.4 | -5.3 | -4.0 | -4.8 | -4.7 | -4.8 | -4.8 |
| Public debt | 41.3 | 38.4 | 41.3 | 36.2 | 42.2 | 36.2 | 37.1 | 39.5 | 41.5 | 42.8 |
| External | 28.4 | 26.7 | 29.6 | 24.4 | 31.9 | 25.9 | 27.8 | 30.7 | 33.0 | 34.3 |
| Domestic | 12.9 | 11.7 | 11.8 | 11.8 | 10.4 | 10.3 | 9.3 | 8.8 | 8.5 | 8.5 |
| | (Units as indicated) | | | | | | | | | |
| Gross official reserves (millions of SDRs) | 600 | 834 | 896 | 991 | 942 | 1,104 | 1,265 | 1,391 | 1,533 | 1,641 |
| Months of imports of goods and services | 2.9 | 3.9 | 3.4 | 3.7 | 3.4 | 4.0 | 4.2 | 4.3 | 4.4 | 4.4 |
| Real effective exchange rate | -0.5 | 0.3 | … | … | … | … | … | … | … | … |
| Terms of trade (percent change, deterioration -) | 1.2 | 23.2 | -5.1 | -6.9 | -3.2 | 2.5 | -3.1 | 0.3 | -0.9 | -0.8 |
| **Memorandum items** | | | | | | | | | | |
| GDP per capita (U.S. dollars) | 402 | 401 | 412 | 448 | 424 | 479 | 501 | 525 | 548 | 569 |
| Nominal GDP at market prices (billions of ariary) | 28,585 | 31,769 | 35,731 | 35,755 | 40,183 | 40,507 | 45,672 | 51,066 | 56,659 | 62,601 |

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

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

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

## Table 2. Madagascar: National Accounts, 2015-22

| | 2015 | 2016 | 2017 | | 2018 | | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | Prel. Est. | EBS 17/62 | Proj. | EBS 17/62 | Proj. | Projections | | | |
| | | | | | (Percent change) | | | | | |
| **Real supply side growth** | | | | | | | | | | |
| Primary sector | -0.7 | 1.6 | 0.8 | -1.8 | 2.6 | 3.2 | 2.7 | 2.7 | 2.2 | 2.2 |
| Agriculture | -2.4 | 1.4 | -0.3 | -5.9 | 3.5 | 4.9 | 3.7 | 3.7 | 2.7 | 2.7 |
| Cattle and fishing | 0.8 | 1.9 | 2.0 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Forestry | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Secondary sector | 7.3 | 5.5 | 5.7 | 7.7 | 6.1 | 6.0 | 7.5 | 7.1 | 6.9 | 7.0 |
| Food and drink | 3.8 | 6.4 | 5.6 | 6.0 | 5.6 | 5.6 | 5.7 | 5.7 | 5.8 | 5.8 |
| Export processing zone | -0.3 | 24.7 | 15.6 | 13.6 | 12.5 | 12.5 | 12.5 | 10.5 | 10.5 | 10.5 |
| Energy | 4.1 | 8.3 | 6.5 | 6.5 | 8.4 | 8.4 | 13.5 | 11.5 | 9.5 | 9.5 |
| Extractive industry | 19.5 | -1.6 | 2.3 | 9.5 | 3.5 | 3.5 | 6.5 | 6.5 | 6.5 | 6.5 |
| Other | 1.2 | 5.8 | 5.5 | 5.5 | 6.1 | 5.5 | 5.7 | 5.4 | 5.6 | 5.6 |
| Tertiary sector | 3.3 | 4.8 | 5.8 | 5.8 | 6.5 | 5.7 | 6.4 | 6.3 | 6.1 | 5.7 |
| Transportation | 2.0 | 2.1 | 5.8 | 8.3 | 7.3 | 6.9 | 8.6 | 7.5 | 7.6 | 7.8 |
| Services | 5.3 | 5.2 | 5.2 | 4.7 | 5.3 | 5.2 | 5.1 | 5.2 | 5.0 | 5.0 |
| Trade | 1.0 | 3.1 | 3.0 | 3.0 | 3.0 | 3.0 | 2.1 | 3.0 | 3.0 | 3.0 |
| Public administration | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Public works/construction | 9.4 | 18.6 | 15.3 | 10.5 | 16.5 | 11.5 | 14.0 | 13.0 | 11.0 | 7.6 |
| Indirect taxes | 5.7 | 5.7 | 4.8 | 5.4 | 5.4 | 5.4 | 5.7 | 5.0 | 5.0 | 5.0 |
| Real GDP at market prices | 3.1 | 4.2 | 4.3 | 4.1 | 5.3 | 5.1 | 5.6 | 5.4 | 5.2 | 5.0 |
| **Nominal demand side composition** | | | | | (Percent of GDP) | | | | | |
| Resource balance | -3.5 | -2.3 | -7.4 | -7.2 | -8.1 | -7.0 | -7.2 | -6.6 | -6.3 | -6.2 |
| Imports of goods and nonfactor services | 35.5 | 35.8 | 40.3 | 38.3 | 40.6 | 37.0 | 37.6 | 37.5 | 37.7 | 37.8 |
| Exports of goods and nonfactor services | 32.1 | 33.5 | 32.9 | 31.1 | 32.4 | 30.0 | 30.4 | 30.9 | 31.4 | 31.6 |
| Current account balance (including grants) = (S-I) | -1.9 | 0.6 | -4.6 | -3.4 | -5.3 | -4.0 | -4.8 | -4.7 | -4.8 | -4.8 |
| Consumption | 90.4 | 87.0 | 88.2 | 91.3 | 86.6 | 89.6 | 87.4 | 87.0 | 87.0 | 87.4 |
| Government | 10.8 | 9.9 | 11.0 | 11.3 | 8.8 | 9.0 | 8.6 | 8.5 | 8.6 | 8.8 |
| Nongovernment | 79.6 | 77.1 | 77.2 | 79.9 | 77.8 | 80.6 | 78.8 | 78.6 | 78.5 | 78.6 |
| Investment (I) | 13.1 | 15.3 | 19.2 | 15.9 | 21.5 | 17.4 | 19.8 | 19.6 | 19.3 | 18.8 |
| Government | 3.5 | 5.2 | 8.3 | 6.3 | 10.2 | 8.1 | 10.5 | 10.2 | 9.8 | 9.1 |
| Nongovernment | 9.6 | 10.0 | 10.9 | 9.6 | 11.3 | 9.3 | 9.3 | 9.4 | 9.5 | 9.6 |
| *Of which: foreign direct investment* | 4.5 | 4.5 | 4.4 | 3.6 | 4.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.5 |
| National savings (S) | 11.2 | 15.8 | 14.5 | 12.5 | 16.2 | 13.4 | 15.0 | 14.9 | 14.5 | 14.0 |
| Government | 0.2 | 3.9 | 3.2 | 2.8 | 5.5 | 5.2 | 5.4 | 4.8 | 5.1 | 5.1 |
| Nongovernment | 11.0 | 11.9 | 11.4 | 9.7 | 10.7 | 8.3 | 9.6 | 10.1 | 9.5 | 8.9 |
| *Memoranda items:* | | | | | | | | | | |
| Nominal GDP (at market prices) | 28,585 | 31,769 | 35,731 | 35,755 | 40,183 | 40,507 | 45,672 | 51,066 | 56,659 | 62,601 |
| Net factor income | -3.9 | -4.1 | -4.0 | -3.3 | -4.0 | -3.5 | -3.4 | -3.3 | -3.4 | -3.4 |
| Transfers | 5.4 | 6.9 | 6.8 | 7.1 | 6.9 | 6.5 | 5.8 | 5.2 | 5.0 | 4.8 |
| Nominal GNP | 28,586 | 31,772 | 35,734 | 35,759 | 40,186 | 40,510 | 45,674 | 51,068 | 56,661 | 62,602 |

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

## Table 3. Madagascar: Fiscal Operations of the Central Government, 2017-22

(Billions of Ariary)

| | 2017 | | | | | | | 2018 | | | | | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | March | June | | Sep | | Dec | | March | June | Sep | Dec | Dec | Dec | Dec | Dec | Dec |
| | Prel. Est. | EBS 17/62 | Prel. Est. | EBS 17/62 | Proj. | EBS 17/62 | Proj. | Proj. | Proj. | Proj. | EBS 17/62 | Proj. | Projections | | | |
| Total revenue and grants | 1,044 | 2,252 | 2,336 | 3,772 | 3,620 | 5,398 | 5,361 | 1,244 | 2,775 | 4,364 | 6,168 | 6,111 | 6,859 | 7,222 | 8,257 | 9,311 |
| Total revenue | 932 | 1,942 | 2,033 | 2,951 | 3,033 | 4,158 | 4,192 | 1,036 | 2,356 | 3,544 | 4,727 | 4,902 | 5,628 | 6,483 | 7,442 | 8,428 |
| Tax revenue [1] | 909 | 1,906 | 1,939 | 2,885 | 2,935 | 4,081 | 4,092 | 1,033 | 2,304 | 3,473 | 4,641 | 4,811 | 5,526 | 6,369 | 7,316 | 8,289 |
| Domestic taxes | 446 | 996 | 1,017 | 1,471 | 1,519 | 2,129 | 2,115 | 537 | 1,253 | 1,846 | 2,469 | 2,555 | 3,085 | 3,725 | 4,477 | 5,256 |
| Taxes on international trade and transactions | 463 | 910 | 922 | 1,414 | 1,416 | 2,001 | 1,977 | 496 | 1,052 | 1,626 | 2,171 | 2,256 | 2,441 | 2,644 | 2,839 | 3,033 |
| Non-tax revenue | 23 | 36 | 95 | 66 | 98 | 77 | 100 | 3 | 52 | 72 | 86 | 90 | 102 | 114 | 126 | 140 |
| Grants | 112 | 310 | 303 | 820 | 588 | 1,240 | 1,169 | 208 | 419 | 820 | 1,441 | 1,209 | 1,231 | 739 | 815 | 883 |
| Current grants | 1 | 0 | 3 | 190 | 3 | 329 | 337 | 1 | 2 | 189 | 342 | 362 | 202 | 0 | 0 | 0 |
| Capital grants | 112 | 310 | 300 | 630 | 584 | 911 | 833 | 207 | 418 | 631 | 1,099 | 847 | 1,029 | 739 | 815 | 883 |
| Total expenditure and lending minus repayments | 1,229 | 3,264 | 2,689 | 5,193 | 4,376 | 7,233 | 6,607 | 1,538 | 3,408 | 5,270 | 8,050 | 7,309 | 9,184 | 9,982 | 10,921 | 11,838 |
| *of which: Social priority spending* | 62 | 130 | 134 | 174 | 214 | 298 | 355 | 61 | 163 | 265 | 401 | 434 | 577 | 778 | 1,013 | 1,149 |
| Current expenditure | 950 | 1,944 | 1,976 | 2,994 | 3,061 | 4,272 | 4,358 | 917 | 2,006 | 3,062 | 3,940 | 4,022 | 4,381 | 4,790 | 5,389 | 6,128 |
| Wages and salaries | 471 | 976 | 998 | 1,478 | 1,499 | 1,977 | 2,074 | 572 | 1,144 | 1,717 | 2,149 | 2,290 | 2,463 | 2,652 | 2,970 | 3,380 |
| Interest payments | 48 | 130 | 114 | 194 | 180 | 339 | 302 | 77 | 174 | 247 | 400 | 392 | 447 | 472 | 526 | 610 |
| Foreign | 15 | 46 | 38 | 61 | 50 | 107 | 85 | 19 | 57 | 77 | 143 | 119 | 149 | 195 | 251 | 304 |
| Domestic | 33 | 83 | 76 | 133 | 130 | 232 | 218 | 59 | 117 | 170 | 257 | 273 | 298 | 278 | 275 | 306 |
| Other | 361 | 753 | 761 | 1,231 | 1,318 | 1,750 | 1,769 | 239 | 629 | 1,040 | 1,316 | 1,284 | 1,368 | 1,548 | 1,757 | 1,984 |
| Goods and services | 50 | 140 | 161 | 214 | 207 | 313 | 299 | 76 | 152 | 303 | 446 | 379 | 461 | 577 | 663 | 821 |
| Transfers and subsidies | 311 | 613 | 600 | 1,017 | 1,112 | 1,437 | 1,470 | 163 | 478 | 737 | 871 | 905 | 907 | 971 | 1,094 | 1,163 |
| of which: disaster relief | 0 | 4 | 2 | 8 | 4 | 8 | 8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which: Air Madagascar | 0 | 53 | 0 | 53 | 49 | 301 | 303 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which: JIRAMA | 118 | 200 | 301 | 353 | 420 | 450 | 450 | 41 | 166 | 188 | 200 | 209 | 159 | 109 | 59 | 9 |
| Treasury operations (net) [1] | 70 | 85 | 102 | 91 | 64 | 206 | 212 | 29 | 58 | 58 | 75 | 56 | 103 | 117 | 137 | 153 |
| Capital expenditure | 280 | 1,321 | 713 | 2,200 | 1,315 | 2,961 | 2,249 | 621 | 1,403 | 2,208 | 4,109 | 3,288 | 4,803 | 5,192 | 5,532 | 5,710 |
| Domestic financed | 41 | 403 | 148 | 635 | 300 | 807 | 739 | 93 | 348 | 580 | 1,002 | 967 | 1,370 | 1,736 | 2,040 | 2,316 |
| Disaster relief | 0 | 60 | 0 | 120 | 0 | 120 | 118 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign financed | 239 | 917 | 565 | 1,564 | 1,015 | 2,155 | 1,510 | 528 | 1,054 | 1,628 | 3,107 | 2,320 | 3,433 | 3,456 | 3,492 | 3,393 |
| *of which: financing to be programmed* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 544 | 0 | 731 | 1,609 | 1,870 | 1,941 |
| Overall balance (commitment basis ) | -185 | -1,012 | -352 | -1,422 | -756 | -1,835 | -1,245 | -294 | -634 | -906 | -1,882 | -1,198 | -2,325 | -2,759 | -2,664 | -2,526 |
| Float (variation of accounts payable, + = increase) | -19 | 38 | 61 | 79 | -4 | -71 | -71 | 30 | 155 | 166 | 0 | 0 | 0 | 0 | 0 | 0 |
| Variation of domestic arrears (+ = increase) | -189 | -163 | -201 | -168 | -200 | -235 | -235 | -175 | -192 | -212 | -214 | -225 | -94 | -48 | -71 | -30 |
| Overall balance (including grants, cash basis) | -393 | -1,138 | -493 | -1,510 | -960 | -2,142 | -1,552 | -439 | -671 | -953 | -2,095 | -1,423 | -2,419 | -2,807 | -2,736 | -2,556 |
| Primary balance excl. foreign-financed investment [2] | -11 | -275 | 27 | -294 | -145 | -253 | -265 | 104 | 177 | 337 | 526 | 667 | 525 | 429 | 539 | 595 |
| Program primary balance [2] | -11 | … | 27 | -241 | -97 | 48 | 38 | 104 | 177 | 337 | … | 667 | 525 | 429 | 539 | 595 |
| Total financing | 393 | 1,138 | 494 | 1,510 | 960 | 2,142 | 1,552 | 439 | 671 | 952 | 1,977 | 1,423 | 2,357 | 2,683 | 2,673 | 2,545 |
| Foreign borrowing (residency principle) | 119 | 711 | 167 | 986 | 465 | 1,426 | 809 | 270 | 527 | 831 | 1,808 | 1,247 | 2,191 | 2,368 | 2,283 | 2,044 |
| External borrowing, Gross | 185 | 849 | 323 | 1,175 | 667 | 1,719 | 1,080 | 321 | 637 | 997 | 2,057 | 1,473 | 2,404 | 2,716 | 2,678 | 2,510 |
| Budget support loans | 58 | 242 | 58 | 242 | 236 | 475 | 403 | 0 | 0 | 0 | 50 | 0 | 0 | 0 | 0 | 0 |
| of which: Air Madagascar | 0 | 0 | 0 | 0 | 0 | 185 | 124 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Project loans | 127 | 608 | 265 | 934 | 430 | 1,244 | 678 | 321 | 637 | 997 | 2,007 | 1,473 | 2,404 | 2,716 | 2,678 | 2,510 |
| Amortization on a due basis (-) | -65 | -138 | -156 | -189 | -201 | -293 | -272 | -51 | -110 | -165 | -250 | -227 | -213 | -348 | -394 | -466 |
| Domestic borrowing (residency principle) | 314 | 427 | 415 | 524 | 495 | 715 | 743 | 169 | 144 | 121 | 169 | 176 | 166 | 315 | 390 | 501 |
| Monetary sector | 142 | 290 | 217 | 407 | 316 | 490 | 532 | -1 | -9 | -27 | 80 | 98 | 137 | 306 | 340 | 438 |
| of which: Air Madagascar | 0 | 53 | 0 | 53 | 49 | 53 | 49 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-monetary sector | 172 | 137 | 199 | 117 | 179 | 225 | 211 | 170 | 154 | 148 | 89 | 78 | 29 | 9 | 50 | 63 |
| of which: Air Madagascar | 0 | 0 | 0 | 0 | 0 | 63 | 131 | 0 | 0 | 0 | -31 | -52 | -51 | -32 | 0 | 0 |
| Treasury correspondent accounts (net) | -40 | 0 | -88 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Excess financing [3] | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -663 | 0 | -793 | -1,733 | -1,932 | -1,951 |
| *of which: budget support to be programmed* | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -118 | 0 | -62 | -124 | -62 | -11 |

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

[1] Estimates of domestic taxes and other treasury operations net include an amount of MGA 72 bn (0.2 procent of GDP) in 2017 corresponding to tax arrears of Air Madagascar used for its recapitalization.

[2] Commitment basis. In 2017, the program balance is adjusted for financial assistance to Air Madagascar (MGA 303 billion) and the shortfall of program grants (MGA 8 billion).

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

## Table 4. Madagascar: Fiscal Operations of the Central Government, 2015-22

(Percent of GDP)

| | 2015 | 2016[1] | 2017 | | 2018 | | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | Prel. Est. | EBS 17/62 | Proj. | EBS 17/62 | Proj. | Projections | | | |
| Total revenue and grants | 11.8 | 14.7 | 15.1 | 15.0 | 15.3 | 15.1 | 15.0 | 14.1 | 14.6 | 14.9 |
| Total revenue | 10.4 | 11.2 | 11.6 | 11.7 | 11.8 | 12.1 | 12.3 | 12.7 | 13.1 | 13.5 |
| Tax revenue [1] | 10.1 | 10.9 | 11.4 | 11.4 | 11.5 | 11.9 | 12.1 | 12.5 | 12.9 | 13.2 |
| Domestic taxes | 5.0 | 5.7 | 6.0 | 5.9 | 6.1 | 6.3 | 6.8 | 7.3 | 7.9 | 8.4 |
| Taxes on international trade and transactions | 5.1 | 5.2 | 5.6 | 5.5 | 5.4 | 5.6 | 5.3 | 5.2 | 5.0 | 4.8 |
| Non-tax revenue | 0.3 | 0.3 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Grants | 1.5 | 3.5 | 3.5 | 3.3 | 3.6 | 3.0 | 2.7 | 1.4 | 1.4 | 1.4 |
| Current grants | 0.1 | 0.7 | 0.9 | 0.9 | 0.9 | 0.9 | 0.4 | 0.0 | 0.0 | 0.0 |
| Capital grants | 1.3 | 2.8 | 2.5 | 2.3 | 2.7 | 2.1 | 2.3 | 1.4 | 1.4 | 1.4 |
| | | | | | | | | | | |
| Total expenditure and lending minus repayments | 15.1 | 16.0 | 20.2 | 18.5 | 20.0 | 18.0 | 20.1 | 19.5 | 19.3 | 18.9 |
| *of which: Social priority spending* | 0.7 | 0.8 | 0.8 | 1.0 | 1.0 | 1.1 | 1.3 | 1.5 | 1.8 | 1.8 |
| Current expenditure | 11.7 | 10.8 | 12.0 | 12.2 | 9.8 | 9.9 | 9.6 | 9.4 | 9.5 | 9.8 |
| Wages and salaries | 5.5 | 5.6 | 5.5 | 5.8 | 5.3 | 5.7 | 5.4 | 5.2 | 5.2 | 5.4 |
| Interest payments | 0.8 | 0.9 | 0.9 | 0.8 | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 | 1.0 |
| Foreign | 0.2 | 0.2 | 0.3 | 0.2 | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.5 |
| Domestic | 0.6 | 0.7 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.5 | 0.5 | 0.5 |
| Other | 3.9 | 3.7 | 4.9 | 4.9 | 3.3 | 3.2 | 3.0 | 3.0 | 3.1 | 3.2 |
| Goods and services | 0.5 | 0.6 | 0.9 | 0.9 | 1.1 | 0.9 | 1.0 | 1.1 | 1.2 | 1.3 |
| Transfers and Subsidies | 3.4 | 3.1 | 4.0 | 4.0 | 2.2 | 2.2 | 2.0 | 1.9 | 1.9 | 1.9 |
| of which: disaster relief | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| of which: Air Madagascar | 0.1 | 0.0 | 0.8 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| of which: JIRAMA | 0.9 | 0.9 | 1.3 | 1.3 | 0.5 | 0.5 | 0.3 | 0.2 | 0.1 | 0.0 |
| Treasury operations (net) [1] | 1.4 | 0.6 | 0.6 | 0.6 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Capital expenditure | 3.5 | 5.2 | 8.3 | 6.3 | 10.2 | 8.1 | 10.5 | 10.2 | 9.8 | 9.1 |
| Domestic financed | 1.0 | 1.2 | 2.3 | 2.1 | 2.5 | 2.4 | 3.0 | 3.4 | 3.6 | 3.7 |
| Disaster relief | 0.0 | 0.0 | 0.3 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign financed | 2.5 | 4.0 | 6.0 | 4.2 | 7.7 | 5.7 | 7.5 | 6.8 | 6.2 | 5.4 |
| *of which: financing to be programmed* | 5.3 | 4.0 | 6.0 | 4.2 | 6.4 | 5.7 | 5.9 | 3.6 | 2.9 | 2.3 |
| | | | | | | | | | | |
| Overall balance (commitment basis )[2] | -3.3 | -1.3 | -5.1 | -3.5 | -4.7 | -3.0 | -5.1 | -5.4 | -4.7 | -4.0 |
| Float (variation of accounts payable, + = increase) | 0.1 | 0.5 | -0.2 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Variation of domestic arrears (+ = increase) | -0.5 | -1.2 | -0.7 | -0.7 | -0.5 | -0.6 | -0.2 | -0.1 | -0.1 | 0.0 |
| | | | | | | | | | | |
| Overall balance (including grants, cash basis)[2] | -3.7 | -2.0 | -6.0 | -4.3 | -5.2 | -3.5 | -5.3 | -5.5 | -4.8 | -4.1 |
| | | | | | | | | | | |
| Primary balance excl. foreign-financed investment [3] | -1.3 | 0.8 | -0.7 | -0.7 | 1.3 | 1.6 | 1.2 | 0.8 | 1.0 | 0.9 |
| | | | | | | | | | | |
| Total financing | 3.7 | 2.0 | 6.0 | 4.3 | 4.9 | 3.5 | 5.2 | 5.3 | 4.7 | 4.1 |
| Foreign borrowing (residency principle) | 2.2 | 0.7 | 4.0 | 2.3 | 4.5 | 3.1 | 4.8 | 4.6 | 4.0 | 3.3 |
| External borrowing, gross | 2.6 | 1.4 | 4.8 | 3.0 | 5.1 | 3.6 | 5.3 | 5.3 | 4.7 | 4.0 |
| Budget support loans | 1.4 | 0.2 | 1.3 | 1.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Project loans | 1.2 | 1.2 | 3.5 | 1.9 | 5.0 | 3.6 | 5.3 | 5.3 | 4.7 | 4.0 |
| Amortization on a due basis (-) | -0.4 | -0.7 | -0.8 | -0.8 | -0.6 | -0.6 | -0.5 | -0.7 | -0.7 | -0.7 |
| Domestic borrowing (residency principle) | 2.0 | 1.4 | 2.0 | 2.1 | 0.4 | 0.4 | 0.4 | 0.6 | 0.7 | 0.8 |
| Monetary sector | 1.6 | 0.7 | 1.4 | 1.5 | 0.2 | 0.2 | 0.3 | 0.6 | 0.6 | 0.7 |
| Non-monetary sector | 0.3 | 0.9 | 0.6 | 0.6 | 0.2 | 0.2 | 0.1 | 0.0 | 0.1 | 0.1 |
| Treasury correspondent accounts (net) | -0.5 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | | | | |
| Excess financing [4] | 0.0 | 0.0 | 0.0 | 0.0 | -1.6 | 0.0 | -1.7 | -3.4 | -3.4 | -3.1 |
| *of which: budget support to be programmed* | 0.0 | 0.0 | 0.0 | 0.0 | -0.3 | 0.0 | -0.1 | -0.2 | -0.1 | 0.0 |

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

[1] Projections for domestic taxes and other treasury operations net include an amount of MGA 90bn (0.3 percent of GDP) in 2016 and MGA 72 bn (0.2 procent of GDP) in 2017 corresponding to tax arrears of Air Madagascar used for its recapitalization.

[2] Data for overall balance in 2015 includes an amount of MGA 340bn (1.2 percent of GDP) corresponding to recapitalization and interest rescheduling operations with the central bank.

[3] Commitment basis.

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

## Table 5. Madagascar: Balance of Payments, 2015-22

| | 2015 | 2016 | 2017 | | 2018 | | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | Prel. Est. | EBS 17/62 | Proj. | EBS 17/62 | Proj. | Projections | | | |
| | (Millions of SDRs) | | | | | | | | | |
| Current account | -131.6 | 41.0 | -363.1 | -281.4 | -433.7 | -361.2 | -465.8 | -489.0 | -528.4 | -567.4 |
| Goods and services | -241.5 | -162.8 | -580.0 | -595.7 | -665.2 | -627.5 | -696.2 | -684.4 | -703.3 | -732.1 |
| Trade balance of goods | -235.1 | -190.0 | -552.2 | -584.1 | -631.7 | -586.3 | -648.4 | -625.6 | -625.1 | -645.1 |
| Exports, f.o.b. | 1,463.1 | 1,556.4 | 1,727.1 | 1,724.1 | 1,766.3 | 1,804.2 | 1,990.3 | 2,227.2 | 2,464.8 | 2,677.9 |
| *Of which: Mining* | 487.6 | 376.6 | 493.5 | 447.6 | 579.4 | 514.8 | 530.6 | 546.4 | 563.1 | 572.1 |
| Imports, f.o.b. | -1,698.2 | -1,746.4 | -2,279.3 | -2,308.3 | -2,398.0 | -2,390.5 | -2,638.7 | -2,852.8 | -3,089.8 | -3,323.0 |
| *Of which: Petroleum products* | -256.9 | -241.6 | -317.5 | -283.9 | -353.2 | -303.7 | -326.1 | -350.9 | -375.1 | -398.5 |
| *Of which: Food* | -170.4 | -191.2 | -231.0 | -234.3 | -210.3 | -192.9 | -199.5 | -203.0 | -210.3 | -220.1 |
| *Of which: Intermediate goods and capital* | -618.1 | -609.5 | -816.1 | -719.3 | -903.5 | -794.3 | -927.2 | -1,005.2 | -1,070.8 | -1,127.5 |
| Services (net) | -6.5 | 27.2 | -27.8 | -11.6 | -33.5 | -41.2 | -47.8 | -58.8 | -78.2 | -87.1 |
| Receipts | 770.6 | 854.0 | 849.1 | 862.7 | 893.7 | 881.1 | 928.0 | 971.5 | 1,014.8 | 1,065.3 |
| Payments | -777.0 | -826.8 | -876.9 | -874.3 | -927.2 | -922.3 | -975.8 | -1,030.3 | -1,093.0 | -1,152.4 |
| Income (net) | -268.8 | -293.1 | -313.0 | -273.1 | -330.2 | -313.9 | -330.7 | -338.9 | -378.7 | -403.6 |
| Receipts | 11.8 | 24.3 | 26.8 | 26.4 | 28.9 | 29.2 | 32.2 | 35.5 | 23.3 | 24.9 |
| Payments | -280.6 | -317.4 | -339.8 | -299.6 | -359.2 | -343.1 | -362.9 | -374.4 | -402.0 | -428.5 |
| *Of which: interest on public debt* | -13.8 | -14.7 | -23.5 | -19.7 | -29.1 | -26.2 | -31.3 | -39.4 | -49.2 | -57.6 |
| Current transfers (net) | 378.7 | 496.9 | 529.8 | 587.5 | 561.8 | 580.2 | 561.1 | 534.3 | 553.6 | 568.4 |
| Official transfers | 55.0 | 100.3 | 123.9 | 140.6 | 126.1 | 148.5 | 116.1 | 79.2 | 84.9 | 90.6 |
| *Of which: Budget aid* [1] | 10.3 | 50.4 | 70.6 | 77.0 | 69.8 | 80.1 | 42.6 | 0.0 | 0.0 | 0.0 |
| *Of which: Other (net)* | 44.7 | 49.9 | 53.2 | 63.6 | 56.3 | 68.5 | 73.5 | 79.2 | 84.9 | 90.6 |
| Private transfers | 323.7 | 396.6 | 406.0 | 446.9 | 435.7 | 431.6 | 445.0 | 455.1 | 468.6 | 477.7 |
| Capital and financial account | 202.9 | 169.8 | 335.2 | 348.9 | 398.9 | 417.9 | 554.0 | 596.6 | 670.9 | 691.4 |
| Capital account | 93.1 | 199.8 | 197.6 | 193.3 | 224.3 | 187.1 | 216.5 | 149.8 | 159.6 | 167.1 |
| *Of which: Project grant* [1] | 93.1 | 199.8 | 197.6 | 193.3 | 224.3 | 187.1 | 216.5 | 149.8 | 159.6 | 167.1 |
| Financial account | 86.2 | -3.7 | 137.6 | 155.6 | 174.6 | 230.8 | 337.5 | 446.8 | 511.4 | 524.3 |
| Foreign direct and portfolio investment | 297.6 | 324.2 | 343.2 | 301.6 | 363.0 | 302.3 | 327.6 | 354.6 | 382.2 | 413.5 |
| Other investment | -211.4 | -327.9 | -205.6 | -146.0 | -188.4 | -71.5 | 9.8 | 92.3 | 129.2 | 110.8 |
| Government | 150.6 | 48.7 | 312.1 | 189.3 | 368.1 | 274.7 | 461.1 | 479.8 | 447.2 | 386.9 |
| Drawing | 178.7 | 99.2 | 376.2 | 252.3 | 419.1 | 324.8 | 505.8 | 550.4 | 524.5 | 475.0 |
| Project drawings [1] | 82.8 | 86.8 | 272.7 | 157.5 | 409.1 | 324.8 | 505.8 | 550.4 | 524.5 | 475.0 |
| Budgetary support [1] | 96.0 | 12.4 | 103.6 | 94.8 | 10.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization | -28.1 | -50.5 | -64.2 | -63.0 | -50.9 | -50.0 | -44.8 | -70.5 | -77.3 | -88.1 |
| Monetary authority and private sector | -123.6 | -147.4 | -143.5 | -146.7 | -150.2 | -153.6 | -146.0 | -144.9 | -155.4 | -165.9 |
| Banks | 14.0 | -5.1 | -2.6 | -39.1 | -5.3 | -5.3 | -2.6 | 0.0 | 0.0 | 0.0 |
| Other (inc. unrepatriated export revenues) | -252.4 | -224.1 | -371.6 | -162.7 | -401.0 | -187.4 | -302.6 | -242.6 | -162.6 | -110.2 |
| *of which: Payments of Air Madagascar liab.* | … | … | -23.9 | -37.6 | … | … | … | … | … | … |
| Errors and omissions | 23.6 | -26.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | 71.3 | 210.8 | -27.9 | 67.5 | -34.8 | 56.7 | 88.1 | 107.6 | 142.6 | 124.0 |
| Financing | -71.3 | -210.8 | 27.9 | -67.5 | 10.7 | -56.7 | -101.3 | -132.7 | -154.8 | -126.0 |
| Central bank (net; increase = –) | -71.3 | -210.8 | 27.9 | -67.5 | 10.7 | -56.7 | -101.3 | -132.7 | -154.8 | -126.0 |
| Use of IMF credit (net) | 18.8 | 20.9 | 89.4 | 88.6 | 56.7 | 56.7 | 59.5 | -6.4 | -12.5 | -18.8 |
| Other assets, net (increase = –) | -90.1 | -231.7 | -61.5 | -156.1 | -46.0 | -113.4 | -160.8 | -126.3 | -142.3 | -107.2 |
| Debt relief and cancellation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 24.2 | 0.0 | 13.1 | 25.1 | 12.2 | 2.0 |
| | (Percent of GDP; unless otherwise indicated) | | | | | | | | | |
| Memorandum items: | | | | | | | | | | |
| Grants | 1.5 | 3.5 | 3.5 | 3.3 | 3.6 | 3.0 | 2.7 | 1.4 | 1.4 | 1.4 |
| Loans | 2.6 | 1.4 | 4.9 | 3.0 | 5.1 | 3.6 | 5.3 | 5.3 | 4.7 | 4.0 |
| Direct investment | 4.5 | 4.5 | 4.4 | 3.6 | 4.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.5 |
| Current account | | | | | | | | | | |
| Excluding net official transfers | -3.4 | -2.9 | -8.1 | -6.7 | -8.9 | -7.0 | -7.5 | -6.2 | -6.2 | -6.2 |
| Including net official transfers | -1.9 | 0.6 | -4.7 | -3.4 | -5.3 | -4.0 | -4.8 | -4.7 | -4.8 | -4.8 |
| Debt service (percent of exports of goods) | 33.4 | 30.8 | 27.7 | 27.2 | 24.9 | 23.5 | 19.8 | 18.0 | 15.9 | 14.4 |
| Export of goods volume (percent change) | 7.1 | 6.4 | -0.5 | -8.5 | 4.5 | 3.1 | 13.4 | 11.1 | 10.7 | 8.6 |
| Import of goods volume (percent change) | -7.8 | 26.7 | 11.1 | 1.7 | 4.0 | 4.6 | 9.9 | 7.6 | 7.4 | 6.6 |
| Gross official reserves (millions of SDR) | 600 | 834 | 896 | 991 | 942 | 1,104 | 1,265 | 1,391 | 1,533 | 1,641 |
| Months of imports of goods and nonfactor services | 2.9 | 3.9 | 3.4 | 3.7 | 3.4 | 4.0 | 4.2 | 4.3 | 4.4 | 4.4 |
| Terms of Trade (estimated) | 1.2 | 23.2 | -5.1 | -6.9 | -3.2 | 2.5 | -3.1 | 0.3 | -0.9 | -0.8 |

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

[1] Only includes external financial support with a disbursement schedule.

## Table 6. Madagascar: Monetary Accounts, 2015-22[1]

(Billions of Ariary; unless otherwise indicated)

| | 2015 | 2016 | 2017 | | 2018 | | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dec | Dec | Dec | | Dec | | Dec | Dec | Dec | Dec |
| | réal. | Actuals | EBS 17/62 | Proj. | EBS 17/62 | Proj. | Projections | | | |
| Net foreign assets | 2,610 | 3,587 | 3,718 | 3,977 | 3,874 | 4,492 | 5,190 | 6,031 | 7,051 | 7,971 |
| Net foreign assets (BCM) | 1,763 | 2,709 | 2,769 | 2,944 | 2,852 | 3,375 | 4,012 | 4,814 | 5,790 | 6,666 |
| Net foreign assets (deposit money banks) | 847 | 878 | 949 | 1,034 | 1,022 | 1,117 | 1,178 | 1,218 | 1,261 | 1,305 |
| | | | | | | | | | | |
| Net domestic assets | 4,892 | 5,423 | 6,621 | 6,665 | 7,543 | 7,478 | 8,480 | 9,667 | 11,059 | 12,642 |
| Domestic credit | 5,558 | 6,176 | 7,374 | 7,279 | 8,264 | 8,167 | 9,137 | 10,372 | 11,750 | 13,343 |
| Net credit to government | 1,696 | 1,995 | 2,471 | 2,533 | 2,561 | 2,642 | 2,790 | 3,107 | 3,457 | 3,904 |
| BCM | 1,049 | 1,028 | 1,316 | 1,292 | 1,221 | 1,198 | 1,191 | 1,184 | 1,184 | 1,189 |
| DMBs | 398 | 644 | 846 | 912 | 1,022 | 1,104 | 1,248 | 1,561 | 1,902 | 2,335 |
| Gross credits (mainly BTAs) | 773 | 1,052 | 1,256 | 1,322 | 1,457 | 1,541 | 1,692 | 2,010 | 2,356 | 2,795 |
| Deposits | -375 | -408 | -410 | -410 | -436 | -437 | -443 | -449 | -454 | -460 |
| Other credits | 248 | 322 | 309 | 329 | 318 | 340 | 351 | 361 | 371 | 381 |
| Credit to the economy | 3,863 | 4,182 | 4,902 | 4,745 | 5,702 | 5,525 | 6,347 | 7,265 | 8,294 | 9,438 |
| Credit to public enterprises | 63 | 70 | 70 | 43 | 70 | 43 | 43 | 43 | 43 | 43 |
| Credit to private sector | 3,785 | 4,094 | 4,815 | 4,621 | 5,615 | 5,401 | 6,223 | 7,141 | 8,170 | 9,314 |
| Other credits | 15 | 18 | 18 | 81 | 18 | 81 | 81 | 81 | 81 | 81 |
| Other items (net) | -666 | -754 | -752 | -613 | -720 | -689 | -657 | -705 | -691 | -701 |
| BCM | 359 | 305 | 343 | 503 | 350 | 515 | 545 | 584 | 585 | 560 |
| Other | -1,025 | -1,059 | -1,095 | -1,117 | -1,070 | -1,204 | -1,202 | -1,288 | -1,276 | -1,261 |
| | | | | | | | | | | |
| Money and quasi-money (M3) | 7,502 | 9,009 | 10,340 | 10,643 | 11,417 | 11,971 | 13,670 | 15,698 | 18,110 | 20,612 |
| Foreign currency deposits | 869 | 955 | 1,026 | 1,121 | 1,100 | 1,204 | 1,265 | 1,305 | 1,348 | 1,392 |
| Short term obligations of commercial banks | 34 | 45 | 34 | 34 | 34 | 34 | 34 | 34 | 34 | 34 |
| Broad money (M2) | 6,600 | 8,009 | 9,280 | 9,488 | 10,284 | 10,733 | 12,371 | 14,359 | 16,728 | 19,187 |
| Currency in circulation | 2,115 | 2,632 | 3,113 | 3,195 | 3,266 | 3,572 | 3,731 | 4,172 | 4,665 | 5,280 |
| Demand deposits in local currency | 2,285 | 2,847 | 3,213 | 3,271 | 3,674 | 3,740 | 4,545 | 5,387 | 6,409 | 7,415 |
| Quasi-money including time deposits | 2,200 | 2,530 | 2,954 | 3,023 | 3,344 | 3,421 | 4,095 | 4,800 | 5,653 | 6,492 |
| | | | | | | | | | | |
| | | | (Percentage change relative to broad money at beginning of the year) | | | | | | | |
| Net foreign assets | 7.9 | 14.8 | 1.6 | 4.9 | 1.7 | 5.4 | 6.5 | 6.8 | 7.1 | 5.5 |
| Net domestic assets | 8.8 | 8.0 | 15.2 | 15.5 | 9.9 | 8.6 | 9.3 | 9.6 | 9.7 | 9.5 |
| Domestic credit | 17.1 | 9.4 | 15.2 | 13.8 | 9.6 | 9.4 | 9.0 | 10.0 | 9.6 | 9.5 |
| Net credit to government | 8.1 | 4.5 | 6.2 | 6.7 | 1.0 | 1.2 | 1.4 | 2.6 | 2.4 | 2.7 |
| Credit to the economy | 9.0 | 4.8 | 9.0 | 7.0 | 8.6 | 8.2 | 7.7 | 7.4 | 7.2 | 6.8 |
| Credit to public enterprises | -0.3 | 0.1 | 0.0 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Credit to private sector | 9.4 | 4.7 | 9.0 | 6.6 | 8.6 | 8.2 | 7.7 | 7.4 | 7.2 | 6.8 |
| Other items (net; asset = +) | -8.5 | -1.3 | 0.0 | 1.8 | 0.3 | -0.8 | 0.3 | -0.4 | 0.1 | -0.1 |
| | | | | | (Percentage change year-on-year) | | | | | |
| Broad money (M2) | 15.8 | 21.4 | 16.1 | 18.5 | 10.8 | 13.1 | 15.3 | 16.1 | 16.5 | 14.7 |
| Currency in circulation | 15.9 | 24.4 | 18.2 | 21.4 | 4.9 | 11.8 | 4.5 | 11.8 | 11.8 | 13.2 |
| Demand deposits in local currency | 9.5 | 24.6 | 12.9 | 14.9 | 14.3 | 14.4 | 21.5 | 18.5 | 19.0 | 15.7 |
| Quasi-money in local currency | 23.2 | 15.0 | 17.5 | 19.5 | 13.2 | 13.2 | 19.7 | 17.2 | 17.8 | 14.8 |
| Credit to the private sector (in nominal terms) | 16.5 | 8.2 | 17.6 | 12.9 | 16.6 | 16.9 | 15.2 | 14.7 | 14.4 | 14.0 |
| Credit to the private sector (in real terms) | 8.9 | 1.2 | 9.9 | 4.8 | 9.9 | 9.0 | 9.0 | 9.0 | 9.0 | 9.0 |
| | | | | | | | | | | |
| Memorandum items: | | | | | | | | | | |
| Money multiplier (M3/reserve money) | 2.4 | 2.3 | 2.5 | 2.3 | 2.4 | 2.3 | 2.5 | 2.5 | 2.6 | 2.6 |
| Velocity of money (GDP/end-of-period M3) | 3.81 | 3.53 | 3.56 | 3.36 | 3.52 | 3.38 | 3.34 | 3.25 | 3.13 | 3.04 |

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

[1] End of period.

## Table 7. Madagascar: Balance Sheet of the Central Bank, 2015-18[1]

(Billions of Ariary; unless otherwise indicated)

| | 2015 | 2016 | 2017 | | | | | | | 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec | Dec | March | June | | Sep | | Dec | | March | June | Sep | Dec | |
| | Actuals | Actuals | Actuals | EBS 17/62 | Actuals | EBS 17/62 | Estimate | EBS 17/62 | Proj. | Proj. | Proj. | Proj. | EBS 17/62 | Proj. |
| Net foreign assets | 1,763 | 2,709 | 2,569 | 2,607 | 2,237 | 2,537 | 2,615 | 2,769 | 2,944 | 2,949 | 2,932 | 3,148 | 2,852 | 3,375 |
| Gross foreign assets | 2,666 | 3,744 | 3,575 | 3,653 | 3,195 | 3,877 | 3,854 | 4,301 | 4,360 | 4,369 | 4,512 | 4,741 | 4,744 | 5,135 |
| Gross foreign liabilities | -903 | -1,035 | -1,006 | -1,046 | -959 | -1,340 | -1,238 | -1,532 | -1,416 | -1,419 | -1,581 | -1,593 | -1,892 | -1,760 |
| | | | | | | | | | | | | | | |
| Net domestic assets | 1,304 | 1,136 | 1,192 | 1,412 | 1,451 | 1,734 | 1,523 | 1,614 | 1,611 | 1,457 | 1,733 | 1,618 | 1,860 | 1,746 |
| Credit to government (net) | 1,049 | 1,028 | 1,032 | 1,143 | 1,119 | 1,315 | 1,042 | 1,316 | 1,292 | 1,231 | 1,220 | 1,209 | 1,221 | 1,198 |
| Claims on central government | 1,263 | 1,323 | 1,190 | 1,260 | 1,217 | 1,420 | 1,318 | 1,409 | 1,388 | 1,327 | 1,316 | 1,305 | 1,314 | 1,294 |
| Statutory advances | 376 | 298 | 213 | 260 | 243 | 260 | 244 | 260 | 260 | 210 | 210 | 210 | 208 | 210 |
| Securitized debt (T-bonds and bills) | 734 | 829 | 819 | 808 | 808 | 797 | 797 | 786 | 786 | 776 | 765 | 754 | 743 | 743 |
| Discounted bills of exchange | 27 | 78 | 44 | 78 | 59 | 78 | 18 | 78 | 78 | 78 | 78 | 78 | 78 | 78 |
| On-lending of funds | 0 | 117 | 113 | 113 | 105 | 283 | 103 | 283 | 262 | 262 | 262 | 262 | 283 | 262 |
| Other credits | … | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Government deposits | -213 | -295 | -158 | -117 | -98 | -105 | -276 | -93 | -96 | -96 | -96 | -96 | -93 | -96 |
| Claims on other sectors | 6 | 12 | 14 | 7 | 15 | 7 | 15 | 16 | 18 | 19 | 20 | 21 | 20 | 22 |
| Claims on banks: Liquidity operations (+ = injection) | -110 | -210 | -266 | -113 | -226 | 41 | -90 | -62 | -202 | -300 | -18 | -126 | 269 | 11 |
| Other items (net; asset +) | 359 | 305 | 412 | 376 | 544 | 371 | 556 | 343 | 503 | 507 | 511 | 514 | 350 | 515 |
| | | | | | | | | | | | | | | |
| Reserve money | 3,067 | 3,845 | 3,761 | 4,019 | 3,688 | 4,271 | 4,139 | 4,383 | 4,555 | 4,406 | 4,664 | 4,767 | 4,712 | 5,122 |
| Currency outside banks | 2,115 | 2,632 | 2,524 | 2,774 | 2,691 | 3,028 | 2,917 | 3,113 | 3,195 | 2,920 | 3,192 | 3,261 | 3,266 | 3,572 |
| Bank reserves | 951 | 1,212 | 1,237 | 1,244 | 997 | 1,242 | 1,221 | 1,269 | 1,360 | 1,485 | 1,471 | 1,505 | 1,445 | 1,549 |
| Currency in banks | 188 | 202 | 169 | 169 | 185 | 199 | 199 | 202 | 209 | 226 | 236 | 231 | 253 | 277 |
| Deposits | 762 | 1,009 | 1,067 | 1,075 | 812 | 1,043 | 1,022 | 1,067 | 1,151 | 1,259 | 1,235 | 1,274 | 1,191 | 1,272 |
| | | | | | | (Cumulative annual flows) | | | | | | | | |
| *Memorandum items:* | | | | | | | | | | | | | | |
| Net foreign assets | 374 | 946 | -139 | -102 | -472 | -171 | -93 | 61 | 235 | 6 | -12 | 205 | 82 | 431 |
| Millions of SDRs | 27 | 207 | -17 | -30 | -68 | -57 | 10 | -25 | 65 | -8 | -21 | 17 | -11 | 57 |
| Net domestic assets | -106 | -168 | 56 | 276 | 315 | 598 | 387 | 477 | 475 | -154 | 122 | 7 | 247 | 135 |
| Credit to government (net) | 397 | -21 | 3 | 114 | 90 | 286 | 14 | 288 | 263 | -61 | -72 | -83 | -95 | -93 |
| Reserve money | 268 | 778 | -83 | 175 | -156 | 426 | 294 | 538 | 710 | -149 | 109 | 212 | 329 | 567 |
| | | | | | | (Millions of SDRs) | | | | | | | | |
| Net foreign assets | 397 | 604 | 586 | 572 | 536 | 545 | 613 | 577 | 669 | 661 | 648 | 686 | 566 | 726 |

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

[1] End of period.

## Table 8. Madagascar: Financial Soundness Indicators, 2009-17[1]

(Ratios, percent; unless otherwise indicated)

| | 2009 Dec | 2010 Dec | 2011 Dec | 2012 Dec | 2013 Dec | 2014 Dec | 2015 Dec | 2016 Mar | 2016 June | 2016 Sep | 2016 Dec | 2017 Mar | 2017 June |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Capital Adequacy** | | | | | | | | | | | | | |
| Regulatory capital to risk-weighted assets | 15.6 | 15.5 | 16.0 | 16.2 | 15.1 | 14.0 | 13.8 | ... | ... | ... | 13.7 | ... | ... |
| Capital to assets | 9.2 | 9.8 | 9.4 | 9.8 | 10.6 | 11.2 | 11.6 | 11.4 | 10.3 | 10.8 | 10.7 | 10.8 | 9.9 |
| Regulatory Tier 1 capital to risk-weighted assets | 16.2 | 16.1 | 17.0 | 16.9 | 16.0 | 14.6 | 14.8 | ... | ... | ... | 14.2 | ... | ... |
| Tier 1 to assets | 7.8 | 8.2 | 7.9 | 8.1 | 8.6 | 8.5 | 8.7 | ... | ... | ... | 8.0 | ... | ... |
| Non-performing loans net of provisions to capital | 25.0 | 25.3 | 26.0 | 22.0 | 25.6 | 20.9 | 19.5 | 19.6 | 21.2 | 16.8 | 16.5 | 16.3 | 18.7 |
| Net open position in equities to capital | 5.2 | 4.8 | 5.2 | 4.4 | 4.8 | 5.2 | 5.4 | 5.2 | 6.1 | 5.6 | 5.1 | 4.8 | 5.4 |
| **Asset Quality** | | | | | | | | | | | | | |
| Non-performing loans to total gross loans | 8.1 | 9.6 | 10.7 | 11.1 | 11.6 | 10.1 | 9.0 | 8.9 | 9.2 | 8.8 | 8.4 | 8.2 | 8.2 |
| **Earnings and Profitability** | | | | | | | | | | | | | |
| Return on assets | 2.2 | 2.1 | 2.4 | 2.6 | 3.0 | 4.2 | 4.6 | 3.6 | 3.6 | 3.8 | 3.9 | 4.0 | 4.1 |
| Return on equity | 22.5 | 21.2 | 24.5 | 26.2 | 30.0 | 38.9 | 41.5 | 32.0 | 33.3 | 34.2 | 35.9 | 36.8 | 39.2 |
| Interest margin to gross income | 58.1 | 59.3 | 59.2 | 60.5 | 60.9 | 56.5 | 55.0 | 62.4 | 61.9 | 61.7 | 60.5 | 63.8 | 58.5 |
| Non-interest expenses to gross income | 59.5 | 60.5 | 61.5 | 65.1 | 62.2 | 55.2 | 55.0 | 60.7 | 60.7 | 59.6 | 58.4 | 58.2 | 57.6 |
| Trading income to total income | 7.9 | 7.8 | 5.7 | 4.9 | 3.8 | 8.2 | 8.1 | 4.7 | 4.5 | 4.5 | 4.9 | 3.0 | 3.0 |
| Personnel expenses to non-interest expenses | 29.9 | 31.0 | 30.1 | 31.4 | 32.8 | 34.2 | 33.1 | 33.6 | 33.1 | 33.4 | 32.9 | 33.6 | 34.0 |
| **Liquidity** | | | | | | | | | | | | | |
| Liquid assets to total assets (liquid asset ratio) | 36.8 | 33.8 | 41.6 | 42.9 | 37.8 | 34.1 | 31.3 | 35.2 | 33.2 | 34.4 | 37.3 | 38.2 | 34.7 |
| Liquid assets to short-term liabilities | 56.0 | 50.7 | 60.4 | 64.0 | 56.4 | 51.5 | 46.9 | 53.6 | 47.6 | 51.0 | 54.6 | 57.2 | 50.1 |
| Customer deposits to total (non-interbank) loans | 163.8 | 164.5 | 164.9 | 177.7 | 150.4 | 144.7 | 137.4 | 137.0 | 145.0 | 143.8 | 145.6 | 149.6 | 145.0 |
| **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 | 10.0 | 11.1 | 12.3 | 8.6 | 5.2 | 4.9 |
| Spread between reference lending and deposit rates (basis point) | 1,065 | 1,120 | 1,167 | 1,186 | 1,245 | 1,202 | 1,162 | 1,131 | 1,148 | 1,173 | 1,180 | 1,157 | 1,062 |
| Foreign currency-denominated loans to total loans | 20.8 | 23.6 | 20.5 | 20.7 | 16.1 | 15.6 | 15.8 | 14.7 | 14.3 | 12.5 | 12.8 | 14.4 | 14.3 |
| Foreign currency-denominated liabilities to total liabilities | 17.8 | 19.3 | 18.3 | 17.5 | 16.3 | 17.5 | 16.6 | 16.5 | 17.1 | 15.4 | 15.7 | 16.6 | 16.2 |

Source: Malagasy authorities.

[1] Ratios only concern banking sector.

## Table 9. Madagascar: Quantitative Performance Criteria and Indicative Targets for the ECF Arrangement

| | 2017 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | End-March | | | | End-June | | | | End-September | | | |
| | Indicative Targets | Adjusted | Estimation | Status | Performance Criteria | Adjusted | Estimation | Status | Indicative Targets | Adjusted | Prel. Estimation | Prel. Status |
| | (Billions of Ariary; unless otherwise indicated) | | | | | | | | | | | |
| **Fiscal** | | | | | | | | | | | | |
| Floor on primary balance excl. foreign-financed investment (commitment basis) [1,2] | 180 | 180 | 35 | Not Met | -222 | -222 | 27 | Met | -241 | -423 | -97 | Met |
| **External** | | | | | | | | | | | | |
| Ceiling on accumulation of new external payment arrears (US$ millions) [3] | 0 | | 8 | Not Met | 0 | | 0 | Met | 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 BCM (US$ millions) [4] | | | | | | | | | | | | |
| Grant element of less than 35 percent | 383 | | 10 | Met | 383 | | 10 | Met | 383 | | 65 | Met |
| Grant element of less than 20 percent | 100 | | 0 | Met | 100 | | 0 | Met | 100 | | 55 | 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 BCM (US$ millions) [3] | 0 | | 0 | Met | 0 | | 0 | Met | 0 | | 0 | Met |
| **Central bank** | | | | | | | | | | | | |
| Floor on net foreign assets (NFA) of BCM (millions of SDRs) [5] | 477 | 427 | 574 | Met | 485 | 408 | 529 | Met | 506 | 464 | 616 | Met |
| Ceilings on net domestic assets (NDA) of BCM [5] | 1,566 | 1,789 | 1,210 | Met | 1,678 | 2,018 | 1,338 | Met | 1,999 | 2,185 | 1,403 | Met |
| **Indicative targets** | | | | | | | | | | | | |
| Floor on social priority spending [1] | 60 | | 62 | Met | 130 | | 134 | Met | 174 | | 214 | Met |
| Floor on gross tax revenue [1,2] | 846 | | 951 | Met | 1,975 | | 2,043 | Met | 2,997 | | 3,074 | Met |
| **Memorandum items** | | | | | | | | | | | | |
| Official external program support (millions of SDRs) [4] | 127 | | 77 | | 153 | | 77 | | 161 | | 119 | |
| Official external program grants (millions of SDRs) [1] | 0 | | 0 | | 0 | | 0 | | 41 | | 0 | |
| New concessional loans, contracted or guaranteed by the central government or BCM (US$ millions) [4] | 1,422 | | 775 | | 816 | | 975 | | 1,025 | | … | |
| Program exchange rate (MGA/SDR) | 4,444 | | 4,444 | | 4,444 | | 4,444 | | 4,444 | | 4,444 | |

Sources: Madagascar authorities; and IMF staff projections.

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

[2] Fiscal spending and gross tax revenues exclude operations for Air Madagascar (budget transfers and mutual tax cancellation) in 2017.

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

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

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

**Table 10. Madagascar: Structural Benchmarks April to September 2017**

| Action | Tentative Dates | Status |
|---|---|---|
| <u>Promoting inclusive growth</u> | | |
| Integrate health and education sectoral spending plans into a medium-term budget framework. | End-June 2017 | **Met.** Annexed to the preliminary draft 2018 budget. |
| <u>Improving the composition and quality of fiscal spending</u> | | |
| Continued implementation of the automatic pricing formula for maintaining full cost-recovery fuel prices (for diesel, gasoline, and kerosene). | Continuous benchmark | **Not met**. While price adjustments were modified by ad hoc smoothing, no budget costs incurred. |
| Conduct an independent annual audit of the *Autorité de Régulation des Marchés Publics* (ARMP's) activities. | End-June 2017 | **Not met but envisioned measure completed with a delay** (in September). |
| <u>Enhancing economic governance</u> | | |
| 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.** |
| <u>Mobilizing fiscal revenue</u> | | |
| Publish a report summarizing the tax credits granted and irregular tax credits by major companies that will have been cancelled. | End-June 2017 | **Met.** |
| Establish a Tax Policy Unit at the Ministry of Finance and Budget. | End-Sept. 2017 | **Met**. The unit was established in June 2017. |
| Extend performance contracts to the anti-fraud service (in charge of ex post inspections) at customs. | End-Sept. 2017 | **Met.** Performance contracts extended in September. |
| <u>Improving quality of statistics</u> | | |
| Publish revised series of national accounts based on the 1993 System of National Accounts for the period 2007-14. | End-June 2017 | **Met.** |

## Table 11. Madagascar: External Financing Requirements and Sources, 2015-19

(Millions of U.S. Dollars)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2017-19 |
|---|---|---|---|---|---|---|
| | Prel. Est. | | Projections | | | Proj. |
| Total financing requirements | 859 | 911 | 1,158 | 1,236 | 1,589 | 3,983 |
| Current account deficit | 184 | -57 | 388 | 509 | 657 | 1,554 |
| Net repayment of private sector debt | 173 | 205 | 202 | 216 | 206 | 625 |
| Repayment of government debt | 39 | 70 | 87 | 71 | 63 | 221 |
| Gross reserves accumulation (+ = increase) [1] | 90 | 326 | 215 | 160 | 227 | 602 |
| IMF repayments | -17 | 15 | 5 | 9 | 5 | 19 |
| Other (inc. unrepatriated export revenues) | 389 | 352 | 260 | 272 | 431 | 962 |
| | | | | | | |
| Available financing | 859 | 911 | 1,158 | 1,236 | 1,570 | 3,964 |
| Foreign direct and portfolio investment | 436 | 452 | 416 | 426 | 462 | 1,304 |
| Budget support loans | 134 | 17 | 131 | 0 | 0 | 131 |
| Project support | 246 | 398 | 484 | 721 | 1,019 | 2,224 |
| Project grants | 130 | 278 | 267 | 264 | 305 | 836 |
| Project drawings | 116 | 121 | 217 | 458 | 714 | 1,389 |
| IMF: RCF and ECF arrangement | 43 | 44 | 128 | 89 | 89 | 305 |
| | | | | | | |
| Available financing with no disbursement schedule | 0 | 0 | 0 | 0 | 19 | 19 |
| | | | | | | |
| Memorandum items: | | | | | | |
| Gross official reserves [1] | 839 | 1,160 | 1,366 | 1,556 | 1,785 | … |

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: 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-December 2016 |
| 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 13. Madagascar: Indicators of Capacity to Repay the Fund, 2017-31

(As at November 3, 2017)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | (Millions of SDRs) | | | | | | | |
| **Fund obligations based on existing credit** | | | | | | | | | | | | | | | |
| Principal | 0.0 | 5.9 | 3.1 | 6.1 | 12.2 | 18.5 | 30.9 | 27.9 | 24.8 | 18.7 | 12.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Charges and interest | 0.0 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| **Fund obligations based on existing and prospective credit** | | | | | | | | | | | | | | | |
| Principal | 0.0 | 5.9 | 3.1 | 6.1 | 12.2 | 18.5 | 40.3 | 49.9 | 56.2 | 50.1 | 43.8 | 22.0 | 9.4 | 0.0 | 0.0 |
| Charges and interest | 0.0 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| **Total obligations based on existing and prospective credit** | | | | | | | | | | | | | | | |
| Millions of SDRs | 0.0 | 6.6 | 3.7 | 6.8 | 12.9 | 19.2 | 41.0 | 50.5 | 56.9 | 50.8 | 44.5 | 22.7 | 10.1 | 0.7 | 0.7 |
| Billions of Ariary | 0.0 | 29.7 | 17.8 | 33.5 | 65.9 | 101.4 | 224.4 | 286.2 | 333.4 | 307.8 | 278.8 | 146.8 | 67.6 | 4.7 | 4.8 |
| Percent of exports of goods and services | 0.0 | 0.2 | 0.1 | 0.2 | 0.4 | 0.5 | 1.0 | 1.2 | 1.2 | 1.0 | 0.8 | 0.4 | 0.2 | 0.0 | 0.0 |
| Percent of debt service | 0.0 | 4.8 | 2.7 | 4.1 | 7.2 | 9.4 | 18.0 | 20.4 | 22.4 | 16.4 | 12.0 | 5.3 | 2.1 | 0.1 | 0.1 |
| Percent of GDP | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.2 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 | 0.1 | 0.1 | 0.0 | 0.0 |
| Percent of government revenue | 0.0 | 0.6 | 0.3 | 0.5 | 0.9 | 1.2 | 2.4 | 2.7 | 2.7 | 2.2 | 1.8 | 0.8 | 0.4 | 0.0 | 0.0 |
| Percent of quota | 0.0 | 2.7 | 1.5 | 2.8 | 5.3 | 7.9 | 16.8 | 20.7 | 23.3 | 20.8 | 18.2 | 9.3 | 4.1 | 0.3 | 0.3 |
| **Outstanding IMF credit based on existing and prospective drawings** | | | | | | | | | | | | | | | |
| Millions of SDRs | 191.8 | 248.8 | 308.6 | 302.5 | 290.3 | 271.8 | 231.4 | 181.6 | 125.4 | 75.2 | 31.4 | 9.4 | 0.0 | 0.0 | 0.0 |
| Billions of Ariary | 825.3 | 1,126.2 | 1,466.7 | 1,492.9 | 1,482.0 | 1,436.2 | 1,266.4 | 1,028.4 | 734.6 | 456.0 | 196.9 | 61.0 | 0.0 | 0.0 | 0.0 |
| Percent of exports of goods and services | 7.4 | 9.3 | 10.6 | 9.5 | 8.3 | 7.3 | 5.7 | 4.2 | 2.7 | 1.5 | 0.6 | 0.2 | 0.0 | 0.0 | 0.0 |
| Percent of debt service | 143.8 | 182.1 | 222.4 | 181.9 | 161.1 | 133.5 | 101.6 | 73.3 | 49.3 | 24.2 | 8.5 | 2.2 | 0.0 | 0.0 | 0.0 |
| Percent of GDP | 2.3 | 2.8 | 3.2 | 2.9 | 2.6 | 2.3 | 1.8 | 1.4 | 0.9 | 0.5 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Percent of government revenue | 19.7 | 23.0 | 26.1 | 23.0 | 19.9 | 17.0 | 13.4 | 9.6 | 6.0 | 3.3 | 1.3 | 0.4 | 0.0 | 0.0 | 0.0 |
| Percent of quota | 78.5 | 101.8 | 126.3 | 123.8 | 118.8 | 111.2 | 94.7 | 74.3 | 51.3 | 30.8 | 12.9 | 3.9 | 0.0 | 0.0 | 0.0 |
| **Net use of IMF credit (millions of SDRs)** | 93.4 | 57.0 | 59.8 | -6.1 | -12.2 | -18.5 | -40.3 | -49.9 | -56.2 | -50.1 | -43.8 | -22.0 | -9.4 | 0.0 | 0.0 |
| Disbursements | 93.4 | 62.9 | 62.9 | 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 | 0.0 | 5.9 | 3.1 | 6.1 | 12.2 | 18.5 | 40.3 | 49.9 | 56.2 | 50.1 | 43.8 | 22.0 | 9.4 | 0.0 | 0.0 |
| *Memorandum items:* | | | | | | | | (Billions of Ariary, unless otherwise indicated) | | | | | | | |
| Exports of goods and services (millions of SDRs) | 2,587 | 2,685 | 2,918 | 3,199 | 3,480 | 3,743 | 4,083 | 4,373 | 4,691 | 5,038 | 5,420 | 5,839 | 6,248 | 6,690 | 7,167 |
| Debt service | 574.0 | 618.4 | 659.5 | 820.6 | 920.1 | 1,076.2 | 1,246.4 | 1,402.6 | 1,489.3 | 1,880.7 | 2,317.6 | 2,757.7 | 3,199.9 | 3,707.1 | 4,244.0 |
| Nominal GDP (at market prices) | 35,755 | 40,507 | 45,672 | 51,066 | 56,659 | 62,601 | 69,052 | 76,167 | 84,013 | 92,632 | 102,150 | 112,660 | 124,199 | 136,980 | 151,058 |
| Government revenue | 4,192 | 4,902 | 5,628 | 6,483 | 7,442 | 8,428 | 9,455 | 10,743 | 12,148 | 13,765 | 15,486 | 17,304 | 19,226 | 21,369 | 23,746 |
| 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 | 244.4 |

Source: IMF staff estimates and projections.

## Table 14. Madagascar: Projected External Borrowing, 2017-18

| Public and publicly-guaranteed external debt | Volume of new debt in 2017-18 | | PV of new debt (program purposes) | |
|---|---|---|---|---|
| | USD million | Percent | USD million | Percent |
| **By sources of debt financing** | **1921** | **100** | **1062** | **100** |
| ***Concessional debt, of which*** | **1762** | **92** | **922** | **87** |
| Multilateral debt | 997 | 52 | 540 | 51 |
| Bilateral debt | 765 | 40 | 382 | 36 |
| Other | 0 | 0 | 0 | 0 |
| ***Non-concessional debt, of which*** | **158** | **8** | **140** | **13** |
| Semi-concessional | 63 | 3 | 45 | 4 |
| Commercial terms | 95 | 5 | 95 | 9 |
| **By Creditor Type** | **1921** | **100** | **1062** | **100** |
| Multilateral | 1057 | 55 | 594 | 56 |
| Bilateral - Paris Club | 446 | 23 | 150 | 14 |
| Bilateral - Non-Paris Club | 363 | 19 | 263 | 25 |
| Other | 55 | 3 | 55 | 5 |
| **Uses of debt financing** | **1921** | **100** | **1062** | **100** |
| Infrastructure | 1197 | 62 | 635 | 60 |
| Social Spending | 202 | 11 | 107 | 10 |
| Budget Financing | 108 | 6 | 101 | 10 |
| Other | 414 | 22 | 218 | 21 |

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

# Appendix I. Letter of Intent

Antananarivo, Madagascar

November 17, 2017

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

Dear Madam Managing Director:

1. The Republic of Madagascar has continued to advance in the implementation of its economic reform program, supported by an IMF arrangement under the Extended Credit Facility (ECF) since July 2016. Despite an uncertain external environment and continuing democratic reforms, the government has achieved progress in strengthening macroeconomic stability, fostering sustainable and inclusive growth, and reducing poverty, in the context of our National Development Plan (NDP). The challenge is now to accelerate economic growth and poverty reduction through scaled-up public investment and social spending. Continued successful engagement with international partners will play a critical role in our efforts to reach these objectives. Our ambitious structural reform agenda—focused on inclusive growth, revenue mobilization, the quality of public spending, enhanced economic governance, and financial sector development—is also being implemented with technical and financial assistance from our international partners.

2. The government believes that measures and policies described in the July 2016 Memorandum of Economic and Financial Policies remain appropriate for attaining the objectives of our program. The attached supplement to the MEFP discusses performance under the program thus far and updates policies toward meeting these objectives. Our key focus going forward is to reorient public spending in favor of education, health, social protection, and investment in public infrastructure, while maintaining debt sustainability, undertaking governance reforms, and building a sound financial sector supporting growth.

3. Recently, the government concluded discussions on the second review under the ECF-supported program with an IMF staff mission, with focus on program implementation through end-June 2017, as well as on measures to be implemented during the rest of 2017 and 2018-19. All end-June 2017 performance criteria were met. Implementation of the structural reform agenda is also advancing well, with all but two structural benchmarks met. On these two, the measure in one structural benchmark was completed after a short delay and the continuous benchmark on

implementation of an automatic fuel price mechanism was not fully met although no budget costs have been incurred.

4. The attached MEFP describes government policies for 2017-19 that would 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 payment difficulties. We are committed to provide timely monitoring information.

5. In light of the progress in implementing the program, we request the IMF Executive Board to approve: (i) a modification of the performance criteria at end-June 2018 on the primary balance excluding foreign-financed investment (floor), the net foreign assets (floor), and the net domestic assets (ceiling); and (ii) the request for the completion of the second review. In this context, at the second review we are seeking total financial support from the Fund equivalent to 12.9 percent of our quota, or SDR 31.428 million.

6. 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 entire IMF staff report on the second review, after approval by the Executive Board of the IMF.

Sincerely yours,

| /s/ | /s/ |
|---|---|
| Ms. Vonintsalama Sehenosoa Andriambololona | Mr. Alain Hervé Rasolofondraibe |
| Minister of Finance and Budget | 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 2017-19

*This Memorandum of Economic and Financial Policies (MEFP) updates the one outlined for the completion of the first review approved by the IMF Executive Board on June 28, 2017. 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 remained relatively strong in the first half of 2017, despite unfavorable weather events**. Madagascar was affected first by a period of drought at the end of 2016-early 2017 in the central highlands, and then the worst cyclone of the last 13 years ("Enawo") in March 2017. These shocks hit the production of hydropower, as well as agriculture (especially rice and vanilla). In addition, slower than expected increases in the implementation of public investment projects may impact sectors like construction. Notwithstanding these difficulties, the economy was estimated to be growing at an annual pace slightly above 4 percent. Manufacturing export of the free-trade zone are benefitting from reinstated AGOA privileges, while the tertiary sector has remained dynamic. Tourisms arrivals increased by 13.6 percent (year-on-year) in the first half of 2017, surpassing 300,000 people over the preceding twelve months for the first time since 2009, and generated about US$174 million in the first quarter of the year (+10 percent year-on-year).

2. **Driven by the weather shocks, inflation accelerated in early 2017 before beginning to stabilize in the second half of the year**. After slowing to 7 percent (year-on-year) in 2016, inflation rose to 8.6 percent in May 2017. The acceleration was largely due to the impact of the adverse weather conditions on food prices, which accounted for half of total inflation in the first half of 2017. Rice prices were up 12.3 percent (year-on-year) in June 2017, reflecting a decline in domestic production. Inflation stabilized in May and started to decline in June, benefitting from lower fuel prices and the impact of the stronger Ariary on imported goods' prices.

3. **Despite the weather shocks, balance of payments developments are positive**. In the first nine months of 2017, the value of goods exports increased by 25.5 percent compared to the same period in 2016. The main drivers were manufacturing and vanilla; for the latter, prices unexpectedly remained at historic highs, while production was less damaged by the cyclone than expected. The value of imports grew 26.9 percent in the first nine months of the year. This growth partly reflects additional imports to supply public investment and to cope with the consequences of the cyclone. In total, the trade deficit increased in the first nine months of 2017 compared to 2016. With the strong balance of payments, the Ariary appreciated in nominal terms by 5.8 percent versus the US dollar during the first ten months of 2017.

4. **The fiscal performance continues to improve, with strong revenue performance, even if the execution of the supplementary 2017 budget has encountered some difficulties**. Revenue performance continues to be strong, slightly exceeding targets that were raised in the

supplementary budget passed in June. Public spending remains consistent with the supplementary budget for goods and services, and for transfers, including to the public utility JIRAMA, which were increased in large part due to the impact of the drought. Plans for exceptional spending on relief and reconstruction work following the cyclone remain on track. The planned restructuring and strategic partnership for Air Madagascar, which requires the government to assume net liabilities accumulated from past losses, is also advancing satisfactorily (see below). The substantial repayment of domestic arrears continues on schedule. Overall, the primary balance was better than expected in the first half of the year, with a slight surplus. This performance came despite several difficulties, including notably a higher than expected wage bill, lower than expected investment spending, and the strong Ariary reducing the value of external budget support. The wage bill was 12 percent higher than programmed for the first six months of 2017, and delays on the implementation of both domestically and externally financed projects led to significantly lower investment spending than budgeted. In addition, the stronger Ariary is projected to reduce the local currency value of external budget support by 10 percent in 2017.

**5. External developments have created challenges for monetary and exchange rate policy.** In response to the uptick in inflation in early 2017, the central bank of Madagascar (BFM) tightened bank liquidity and increased its policy rate to 9.0 percent (from 8.3 percent) in May, as a signal of this tightening. However, the higher than expected vanilla prices have led to a repeat of last year's pattern of foreign exchange inflows by buyers, who use currency to buy from small-scale un-banked vanilla growers, who then continue to hold the currency. Because of the resulting sequestration of currency, most banks were liquidity constrained by mid-year. Starting in July, the BFM began to intervene and purchase foreign exchange that was only partially sterilized, which eased the nominal appreciation of the Ariary and the shortage of bank liquidity.

## II. PERFORMANCE UNDER THE ECF-SUPPORTED PROGRAM

**6. Performance on the program's quantitative targets continued to be strong through end-June 2017.** All quantitative performance criteria (PC), as well as continuous PC, were observed through end-June. The PC on net foreign assets and net domestic assets were met by a large margin. All indicative targets were also met. Preliminary data also indicate that we met all quantitative indicative targets for end-September.

**7. Progress in the implementation of the structural reform agenda is continuing.** Seven (out of nine) structural benchmarks up to end-November were fully observed. However, one continuous structural benchmark was not observed and one structural benchmark was completed with a short delay.

- The health and education sectoral spending plans were integrated into the medium-term budget framework at end-June as intended, with the plans adopted by the Council of Government on July 4, 2017 and annexed to the 2018 preliminary draft budget law.

- The report summarizing the tax credits granted and the irregular tax credits cancelled was published on time in June and the new revised series of national accounts for the period 2007-14 were also published on time in June.

- The tax policy unit at the Ministry of Finance was established ahead of time in June (end-September benchmark) and performance contracts were extended to the anti-fraud service at customs in September (end-September benchmark).

- Two continuous benchmarks—first, publishing the terms and conditions of all new public private partnership (PPP) contracts on the website of the *Autorité de Régulation des Marchés Publics* (ARMP) and second, notification of World Bank and IMF staff of any single source procurement contracts for JIRAMA's purchases of electricity and purchases and rentals of generators—were met.

- The automatic pricing formula for fuel prices was not fully implemented (not observing a continuous benchmark), as small ad hoc adjustments to the results were applied to smooth sharp price movements to cushion their social impact. These ad hoc adjustments have been applied in consultation with the private sector distributors and in manner which has avoided any liability to the distributors that would lead to the need for transfers from the budget.

- The completion of the independent audit of the activities of the ARMP in 2016 was delayed to September (end-June benchmark) due to the absence of responses to the first call for bids to carry out the audit. The audit identified a number of weaknesses that need to be addressed, and we will develop a series of follow up actions.

## III. ECONOMIC OUTLOOK AND VULNERABILITIES

**8. The macroeconomic outlook continues to be favorable, with the gradual recovery persisting**. In 2017, despite the weather-related contraction of the primary sector, economic growth is expected to remain slightly above 4 percent, close to its level in 2016. In the absence of a new external shock on food prices, inflation is projected to continue to slow from its recent peak to about 8 percent by end-2017. In the medium term, growth prospects are favorable, driven by the planned public investment scaling up and increasing private sector activity, especially tourism, light manufacturing, and mining. A gradual increase in the productivity of smallholder agriculture and the rise of export-oriented agribusiness should also support inclusive growth. In this context, growth is projected to approach 6 percent in 2019 with rising public investment. Over the medium-term, growth should reach at least 5 percent a year on average, and we are aiming for a higher sustained growth rate of 6 percent. We also are targeting a gradual decline in inflation to 5 percent.

**9. Nevertheless, as a low-income country in a fragile political situation, Madagascar faces significant risks**. The government is mindful of the myriad challenges for economic growth and stability, with both domestic and external risks. Implementation capacity and the political situation are among the leading sources of domestic risks, which could delay the investment scaling-up and other policy reforms. Delays in reforms to state-owned enterprises (SOEs) could lead to the need for increased transfers from the budget. External vulnerabilities arise from potential shifting terms of trade and dependence on external donor funding and FDI, or possible loss of trade preferences. Finally, recent weather shocks highlight Madagascar's vulnerability to natural disasters. The government is working to identify, monitor and, where possible, to mitigate these risks. For example, we are building investment capacity and intend to present fiscal risks assessments in an annex to the budget. We are also determined to respond with timely and appropriate measures if these risks materialize.

**10. The government believes that there are also upside risks, particularly for growth**. The growth impact of scaled-up public investment could very well be larger than currently assumed and the projections for private investment, including foreign direct investment, could also prove to be conservative, if many announced plans materialize.

# IV. MACROECONOMIC AND STRUCTURAL POLICIES

## A. Promoting Inclusive and Sustainable Growth

**11. The strategy in our National Development Plan (NDP) relies on scaling-up public investment to promote inclusive and sustainable growth.** The key to a sustained impact of scaling up will be to catalyze private sector activity, especially investment. Public investment is targeting infrastructural bottlenecks (including at ports, airports, roads, dams, etc.) and human capital (health, education, social protection) to stimulate productivity growth, promote private investment, raise household income, and reduce poverty. Compared to its Sub-Saharan African peers, Madagascar is lagging in terms of physical and human capital development, requiring an important scaling-up of public investment in these areas. As most of the resources are planned to be invested in infrastructure, energy, rural development, health and education, this is fully synchronized with our strategy to fill the gap in these critical areas for development and poverty reduction.

**12. Scaling up investment poses challenges for implementation capacity, as well as macroeconomic stability and sustainability.** We will take measures to maximize the benefits while mitigating the risks:

- *Public investment projects need to be carefully selected, prioritized, executed, and evaluated.* To this end, we have strengthened our institutional framework. The Organization for the Coordination and Monitoring of Investments and their Financing (OCSIF) became operational in February 2017. Its task is to oversee the implementation of the investment process, through better coordination *within* sectoral ministries and *between as well as with* donors. The unit is also tasked of detecting the main bottlenecks in project implementation and to identify corrective actions. Continuous information sharing within OCSIF and the Budget Directorate has been set up, and we are now aiming at accelerating the speed of foreign financing disbursements going forward. To achieve this goal, we are developing a medium-term strategy by end-December 2017 (structural benchmark) to enhance public investment management capacity, as well as a six-month interim action plan with support from AFRITAC South. The strategy and action plan will address the shortcomings identified in the recent Public Investment Management Assessment (PIMA), especially the need for multi-year programming of projects; project evaluation; stronger project implementation, with better information; and improved coordination among development partners and the government.

- *The macroeconomic risks associated with increased externally financed investment need to be carefully managed.* While domestic resources will play an increasingly important role, the bulk of the financing for the scaling-up will initially come from external funding. At the Paris conference in December 2016, donors pledged \$6.4 billion, while private investors announced intentions to invest \$3.5 billion. Although disbursements of external financing have so far been slower than expected, foreign financed investment is planned to increase significantly in the years to come. While this planned increase is expected to be consistent with macroeconomic stability, it is potentially possible that it could trigger overheating, and higher inflation and real exchange rate appreciation would erode Madagascar's competitiveness. To manage these risks, we are closely monitoring signs of overheating and stand ready to stretch out investment plans further if necessary.

- *We are also firmly committed to maintaining a moderate risk of debt distress*. Accordingly, we will continue to give priority to grants and concessional external loans. Our efforts to increase revenue collection, minimize contingent liabilities (especially from SOEs), and stimulate growth also support debt sustainability. In addition, we will continue to improve our debt monitoring and management capacity, including debt guarantees and contingent liabilities, and we have updated our debt strategy for the 2017-19 period. We will avoid the accumulation of new external payment arrears.

**13. Our strategy also includes an increasing role for public private partnerships (PPPs), for which we are substantially strengthening our legal and institutional framework**. While PPPs can provide expertise and financing, the projects need to be well designed to ensure benefits and minimize fiscal risks. Following the adoption of a new PPP law in December 2015, two application decrees were issued in March 2017: one on the procedures for contracts and the other on the institutional framework. Two complementary decrees on small-scale PPP contracts are planned by June 2018. We will set limits on overall guarantees and will also ensure our staff have the technical skills to assess the financial viability of each project. Supported by the World Bank and the African Development Bank, we are developing standard guidelines to be used within the Ministry under the Presidency for Presidential Projects (M2PATE) and the Ministry of Finance and Budget (MFB). 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 MFB (continuous benchmark). In addition, given the future increase of public guarantees, we will take stock of all public sector guarantees (including those to SOEs) and create an escrow account at the central bank to begin provisioning for these guarantees. Starting with the 2019 Budget, the account will be provisioned for 15 percent of all new guarantees as well as a progressive provisioning for pre-existing guarantees.

**14. The success of our strategy depends critically on improving our business climate to encourage private investment in conjunction with public investment.** In addition to maintaining macroeconomic stability, we will strive to address the structural obstacles to private sector development.

- Progress has been made in recent years. Thanks to a better macroeconomic environment, Madagascar's rank in the 2017-2018 Global Competitiveness Index improved to 121$^{th}$ out of 137 countries (up seven, the most improved country in sub-Saharan Africa year-on-year). Madagascar's score in the 2018 Doing Business Indicators report also improved by five places, the country ranking 162 (out of 190 countries). Madagascar is one of the 15 countries with most improvement in terms of distance to frontier scores, and is getting closer to the average of Sub Saharan Africa. Beyond macroeconomic stability, more needs to be done to address competitiveness issues related to infrastructure, access to electricity, governance (including the fight against corruption and judicial system), and access to finance. With support from the World Bank, we have initiated a reform program, starting with the simplification of business procedures, including the payment of taxes and the speed of trade litigation and registering a new business (a procedure in which Madagascar is now ranked the third fastest in Africa). We are also working on the steps for joining OHADA (*Organisation pour l'Harmonisation en Afrique du Droit des Affaires*), a long-term goal of the government.

- We are also considering legislative initiatives to promote private investment, including through the granting of new tax incentives. While promoting investment is a key priority, we are also mindful of the need to strike an appropriate balance between this objective and that of enhancing revenue collection needed to support increased public investment, as discussed below. While working on legislative proposals, we continue to clear the substantial backlog of pending mining permits.

**15. We are progressively enhancing social safety nets, to promote more inclusive growth.** Three social protection programs that we are implementing with support from the World Bank are progressing well. Notwithstanding these programs, less than five percent of the population is covered by social protection and we will pursue our efforts to extend the number of beneficiaries. To improve coordination and information, we also intend to progressively put in place a national social registry, with support of our development partners. In parallel, we will develop the legal and institutional framework governing the national social protection. We plan to submit the law on social protection to the Parliament by end-December 2017 that will ensure strong coordination under the Ministry of Population (structural benchmark).

## B. Creating More Fiscal Space

**16. The Government remains committed to increasing fiscal space for priority spending by raising revenue and controlling lower priority spending.** While the scaling up is initially largely financed externally, our long-term development goal is to mobilize more resources domestically for our priorities. Importantly, improvements in revenue mobilization continue to meet or exceed targets thanks to our increased efforts. However, increased resources have to be devoted to the public sector wage bill in 2017 and 2018, following revised forecasts and repayments of 2015 and 2016 wage arrears. In addition, lower than expected disbursements for foreign financed public investment and reduced availability of resources for domestically financed investment led to a reduction of planned public investment in 2017 and 2018. Notwithstanding the wage bill increases, priority social spending remains ring-fenced from the needed budget adjustments in both 2017 and 2018.

**17. The full financing of the 2017 supplementary budget and the 2018 budget is assured despite the unexpected pressures**. The higher spending, especially for salaries, and the impact of the stronger than expected currency have created these pressures. The main effects of the strong currency are (i) the reduced value in Ariary of the planned external budget support in 2017 and 2018; and (ii) lower projected collections of taxes and customs duties on imported goods and services in 2018, with an exchange rate related loss of 0.3 percent of GDP. The measures outlined below in revenue administration, tax policy, spending and financing efforts are needed to assure a fully financed 2017 and 2018 budget.

**18. Our efforts to progressively increase revenue collections are advancing as planned**. The tax-to-GDP ratio increased from 9.9 percent in 2014 to a projected 11.4 percent in 2017, gradually approaching its 2008 pre-crisis level. Looking forward, we are aiming for a tax-to-GDP ratio of at least 12 percent in 2019. Implementing the action plans for enhanced revenue administration remains a priority for this goal. The revenue authorities have implemented several measures and performance has continued to exceed targets in 2017. To contribute to 2017 financing needs primarily related to increases in the wage bill, the domestic tax authorities have committed to improve excise tax collections on tobacco and alcohol by an additional MGA 10 billion. In addition, we are currently evaluating all tax expenditures with World Bank assistance, with the aim to achieve a significant reduction over the next two years.

**19. We foresee an increase of domestic tax collections from 5.9 percent of GDP in 2017 to 6.3 percent of GDP in 2018, with key measures including the following**:

- A report summarizing the investment tax credits granted and irregular tax credits by major companies that will have been cancelled was published in June (structural benchmark). In this report, which covers 2015 and 2016, we analyzed tax credits that represented 98 percent in value and 57 percent in number of all declarations. The next report will cover 2017 and up to June 2018.
- The new unique tax identification number (TIN) is planned to be used throughout all departments of the Ministry of Finance and Budget and CNAPS by end-December 2017 (structural benchmark), with the goal of extending the requirement for using TINs throughout all ministries by end-December 2018 (structural benchmark). The detection of noncompliant tax payers will be facilitated by the increased use of the TIN, which eases the exchange of information between government agencies, and the improved cooperation between the departments of customs and domestic taxes.
- Improvements in joint customs and tax audits and the collection of tax arrears will continue.

- The development of electronic and mobile tax payment options for small taxpayers (that increase the convenience of paying taxes) will gradually be extended to the national level.
- Increased cooperation with the communes will increase transparency, local accountability, and the identification of non-filers.

**20. We are further determined to recoup most of the 2018 customs revenue lost due to the strength of the Ariary** (estimated at 0.3 percent of GDP). The following 2017 and 2018 measures are being implemented:

- To enhance incentives for customs staff, the use of performance contracts was extended to the anti-fraud unit in September 2017 (structural benchmark), with positive revenue effects for 2018. In addition, we will expand performance contracts to smaller customs offices, and put in place a central customs clearance center that will reduce the option for corrupt practices.

- We will further improve tax arrears recovery and revenue collection from other public agencies ("*états bleu*"), with the aim to recover an additional MGA 10 billion in 2017, and MGA 15 billion in 2018.

**21. The 2018 budget will include significant efforts to reduce lower priority spending, which is nevertheless 0.5 percent of GDP higher than previously forecast**. The 2017 wage bill was revised upwards to 5.8 percent of GDP, an increase of 0.3 percent of GDP, due to forecasting errors and arrears repayment. Forecasting capacity will be enhanced by end-2017, with the assistance of IMF TA in December. We will integrate the medium-term expenditure frameworks (MTEFs) of all ministries into the 2018 budget planning. To reduce the number of ghost workers, we are developing an effective system to crosscheck the payroll and the workforce declared by Ministries. We expect some initial results as soon as the end of 2017. In addition, we will find savings in specific measures concerning reclassification of civil servants and diplomatic representations' staffing. Consequently, we will reduce the 2018 wage bill to 5.7 percent of GDP. The 2018 budget incorporates total spending on transfers and subsidies of 2.2 percent of GDP, which compares to 2.6 percent of GDP in 2017, after accounting for exceptional needs of 1.4 percent (particularly weather shocks on JIRAMA and the Air Madagascar transfers). We continue to take measures to reduce the transfers needed for the civil service pension funds, particularly discontinuing the 5 percent mark-up per child for new retirees as of 2018. With technical assistance of the World Bank, we are also assessing the impact of potential parametric changes, including the calculation of pensions (years of eligible service, highest average remuneration, age of retirement, and the applicable yearly accrual rate), which could be implemented from 2019. Nevertheless, overall transfers and subsidies exceed the earlier plans of 2.1 percent of GDP for 2018.

**22. In light of the objective to increase revenue mobilization for economic development, the draft budget submitted to Parliament includes an increase in the single tax on petroleum products (TPP) that will boost revenues by MGA 134 billion**. The effect on pump prices is expected to be fully offset by a reduction in distribution costs incorporated in the structure for the maximum pump price for which consultations with the distributors are underway. Increasing taxation of fuel, which is low by regional standards, will better integrate the externalities of its use in terms of public infrastructure and carbon emissions.

**23. We will also continue to avoid any budget costs from fuel pricing, including by fully implementing a revised automatic fuel pricing mechanism that smooths sharp price movements starting in 2018**. To cushion the social impact of sharp movements, we are establishing a smoothing mechanism in the fuel price formula with technical assistance from the World Bank and the IMF. This smoothing mechanism will be adopted and the automaticity of this pricing formula will be fully implemented by end-September 2018, while in the interim the government will avoid any budget costs from fuel pricing (revised continuous structural benchmark). These measures will enhance transparency and predictability.

**24. We are committed to progressively reduce the transfers to JIRAMA from their high levels in 2017**. Transfers are planned to fall from the exceptionally high 1.3 percent of GDP in 2017 to 0.5 percent of GDP (MGA 209 billion) in 2018. We aim to fully phase out these transfers for operating losses by 2020. Achieving this goal depends on a number of efforts—cost reduction, better revenue collection, stronger governance, and tariff increases—that are central to the business plan JIRAMA's new board adopted in June 2017 and will be updated by March 2018. Moreover, JIRAMA's Board approved a 2018 budget for the company on November 10, 2017that is consistent with this planned level of transfers. We will closely monitor both the financial situation and the reforms efforts of JIRAMA, with support from our technical partners. Since May 2017, JIRAMA is providing a monthly report to the government, which is shared with Fund staff (in accordance with the data reporting under the ECF, see Technical Memorandum of Understanding). Measures envisaged include: the installation of 3,500 smart meters by end-June 2018 (structural benchmark), strict adherence to the rules for competitive tenders in procurement (continuous structural benchmark), and enhanced transparency (all tenders and their results are published on JIRAMA's website). In the event of slippages, corrective measures will be implemented in a timely manner, and the multi-year business plan amended accordingly. In addition, the accounts of the company for the year 2015 and 2016 are currently being examined by the *Commissaire Général aux Comptes* (with the assistance of an external auditor), with the aim of certifying them by the end of 2017. The results of another ongoing audit of the company by the IGE (*Inspection Générale de l'Etat)* are also expected by the end of the year. Beyond that, we plan to launch a comprehensive independent audit of JIRAMA's results and balance sheet by an internationally recognized private sector firm next year.

**25. We remain determined to make our national airline, Air Madagascar, a financially sound and commercially viable company that contributes to inclusive growth.** Our strategy is focused on establishing a strategic partnership with an international partner that promises to accelerate the development of air transport while placing the company on a commercial footing, without further recourse to public support. In March 2017, Air Madagascar's executive board approved Air Austral as our preferred partner. A strategic partnership agreement between the two companies was signed on October 9, 2017 that includes a commitment by Air Austral to inject $40 million in long-term financing and capital for a 49 percent equity stake, and in return, the Malagasy government committed to clean the company's balance sheet of net liabilities accumulated due to past losses. This operation will involve a one-off budget transfer of MGA 303 billion this year, as well as some debt write-downs; the financing will come from payment rescheduling, as well as new domestic and external borrowing. The African Development Bank has agreed to guarantee a commercial loan for the latter. Following a short interim period, the strategic partnership agreement will be completed in November 2017, which requires *inter alia* the appointment of the chairman of the Board and the Managing Director and the signing of the shareholder agreement.

**26. We will ensure that any new tax incentives under consideration to attract additional investment will be effective and cost efficient, with minimal loss of future revenue.** We are working to ensure that the new legislative measures meet international best practices in both design and governance. In particular, we are committed to: (i) design cost-effective tax instruments that minimize the negative impact on tax collections, including targeting a limited number of activities and relying on cost-based (as opposed to profit-based) incentives; (ii) consolidate any new tax incentives into the tax law; (iii) minimize room for discretion in the granting of tax incentives by adopting rules-based approaches; (iv) limit the number of derogatory regimes in favor of the use of a tax code that is attractive to all investments; and (v) design stability clauses that are adapted to the sector. We are also looking to harmonize over the medium term the current free trade zone (*zone franche*) regime with the Special Economic Zones under consideration. In addition, the government aims to harmonize all fiscal regimes, and plans to adopt a phased approach to the introduction of incentives. Specifically, we will begin with one or two pilot projects, expected to be launched by end-May 2018, for which the tax code revisions and issuance of implementing decrees will rely on investment-based incentives (investment credits or accelerated depreciation), be limited to at most two geographic locations, and benefit at most two clearly defined sectors of activity. Before taking any further actions, we will assess the costs and benefits of these pilots. We also plan to review the tax code as the overarching legal framework governing tax incentives, drawing on technical assistance in this area from the IMF and other partners to the extent possible.

## C. Enhancing Economic Governance

**27. Enhanced economic governance requires reinforcing reforms in several areas at the same time.** Key reforms undertaken in recent years have been focused on strengthening the anti-corruption legislation, with the adoption of an anti-corruption law. The draft law on asset recovery, in line with Financial Action Task Force (FATF) recommendation 4, as well as the law on international cooperation were adopted by the Council of Ministers and submitted to the Parliament in June. Both laws are included on the agenda for the October-December parliamentary session. These laws ensure that judicial authorities can confiscate the instrumentalities and proceeds of crime in line with the FATF standards and that SAMIFIN, BIANCO, and the anti-corruption police can effectively participate in international cooperation in line with FATF and UNCAC standards.

**28. We are currently focused on strengthening Madagascar's Anti-Money Laundering (AML) framework, including to support anti-corruption efforts**. The recent mutual evaluation of Madagascar against FATF revised standards, conducted by the World Bank, identified significant ML deficiencies. The report also highlighted important ML threats, which are primarily related to corruption, violation of tax and customs legislations, and trafficking in natural resources. During the

October-December parliamentary session, the government will present a new Anti-Money Laundering law, which takes into account the revised FATF standards, in particular by: (i) allowing concerned government agencies to investigate and prosecute the laundering of proceeds of corruption; (ii) requiring financial and non-financial institutions and professionals to carry out customer due diligence (CDD) and report suspicious activity; (iii) requiring enhanced CDD of politically exposed persons (PEPs), including domestic and foreign, as well as PEPs of international organizations; and (iv) requiring transparency on beneficial ownership. This AML law will be given high legislative priority. In order to strengthen the ability to prevent and detect the laundering of the proceeds of corruption, it is key that a transparent and comprehensive asset declaration framework is implemented. In the near term, Bianco will establish a mechanism to verify the asset disclosure from officials (covered under article 41 of the Constitution and article 2 of the anti-corruption law) by January 2018. Medium term objective is to have asset declarations that are comprehensive (covering both assets legally owned and beneficially owned), verifiable, subject to dissuasive sanctions for non-compliance, and progressively made publicly available online. To this end, by end-June 2018 we will develop a strategy including a draft legal framework to implement this.

**29. Legislative reforms will be accompanied by actions to strengthen implementation and enforcement.** Government anti-corruption agencies will (i) be given sufficient operational independence and autonomy to ensure freedom from undue influence or interference; (ii) receive adequate budgetary resources to perform their functions; and (iii) focus more on capacity building to give their staff the appropriate skills to investigate corruption related offences. To monitor enforcement, we will publish quarterly statistics on corruption cases based on investigations made by the anti-corruption office (BIANCO) and the financial intelligence unit (SAMIFIN) (see Tables 2-5 in the technical memorandum of understanding, TMU). The first report covering July to September 2017 will be published before end-2017. We will also publish quarterly statistics on the verification of asset disclosures of public officials (see table 6 in the TMU). The first anti-corruption center (*pôle anti-corruption*) will become operational by end-December 2017 and the 2018 Budget submitted to the Parliament apportions financial resources for the launch of at least one additional anti-corruption center, which will become operational by end-December 2018. Total 2018 budget allocations to the anti-corruption centers, BIANCO, SAMIFIN, and the Committee for the Safeguarding of Integrity (CSI) amount to MGA 14.4 billion ($4.5 million) compared with MGA 8.1 billion ($2.6 million) in 2017. To eliminate the impression that judges might "own" certain judicial cases, a random judicial case assignment system has been introduced for the commercial courts, the anti-corruption centers will also have this system, and it will be extended to all courts.

**30. Improving transparency and accountability will enhance governance.** We aspire to give the public more access to information related to government decisions. In this context, we are working to make all court decisions public, available online, and searchable (including using the criteria of topics and names of presiding judges). As a pilot, we will 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 by end-September 2018 (structural benchmark). We expect that publication will reduce the risk of inconsistencies between court decisions over time.

**31. Concerning public financial management (PFM), transparent fiscal reporting and an open budget process are also essential components of good governance**. We therefore aim to (i) expand the variety of budget documents published; (ii) make on-line publishing of all budget documents in a timely manner; and (iii) make budget documents more comprehensive by including information about SOEs, autonomous public establishments, PPPs, and other fiscal risks in 2019. In line with increased transparency, all PPP contracts are now published within one month of the date of signature on the MFB's web site (continuous benchmark). We also plan to publish an annex to the budget with estimates of the fiscal costs of key tax incentives starting with the 2019 Budget, as part of the effort to reduce them. The law governing the National Public Establishments (*Etablissements publics nationaux, EPN*) will be revised and submitted to Parliament by end-June 2018 to enhance supervision, transparency, and accountability and to clarify the categories of EPN (structural benchmark), with the goal of issuing the application decrees before the end of 2018.

**32. Improving budget execution and control is also a priority.** We aim to make the Malagasy budget a reliable instrument for planning, improve budget execution, increase fiscal revenue, develop a comprehensive risk-based control and audit strategy, and enhance coordination of control and audit bodies. Significant progress has been made, including for example the development of a medium-term fiscal framework for 2017-19 and the settlement of domestic arrears (1.2 percent of GDP repaid in 2016 and 0.7 percent of GDP expected to be repaid in 2017). However, many challenges remain. The budget preparation process would benefit from more solid revenue and wage bill forecasts, improved consideration of previous budget execution, and better monitoring of multi-year projects. It is also important to create mechanisms for regular follow-up of control and audit bodies' recommendations through timely corrective actions and, if needed, sanctions. After consultations with civil society, development partners, and the IMF, a three-year action plan for PFM reforms was adopted in April 2017, following the adoption last year of the new PFM reform strategy for 2016-19. The actions to be taken aim to:

- *Modernize the foundation of the PFM system:* update relevant laws and regulations, modernize the institutional framework, and update the information system at the ministry of finance and budget.
- *Integrate autonomous entities:* more strategic management and supervision of public institutions and enterprises, while at the same time improving and strengthening decentralization.
- *Enhance fiscal revenue:* increase domestic revenue collections, safeguard revenue from the extraction of natural resources, and improve management of aid and other external financing.
- *Make the budget process effective and rigorous:* strengthen the annual budgetary process, and develop medium-term and results-based budgets.
- *Improve budget execution:* improve the efficiency of the expenditure system including wage bill management and use of internal audits for internal controls, improve transparency and efficiency of public procurement, and strengthen cashflow management. Concerning public

procurement, we will develop a plan of follow up actions to the audit of ARMP, which will (i) be incorporated into the broader PFM action plan by end-June 2018 and (ii) establish a public and easily accessible registry of companies that have violated the procurement regulations and are prohibited from participating in future bids by end-December 2018.

- *Improve accounting, reporting, and statistics:* adapt accounting and reporting to international standards, and improve the production and quality of fiscal statistics.
- *Reinforce ex post controls and the use of the PFM system in the fight against corruption:* strengthen audit bodies and internal inspections according to control objectives and implement effective methods according to relevant standards, strengthen the Court of Auditors (*Cour des comptes*) and bring it up to the required standards of a supreme audit institution, and develop parliamentary control. The Council of Budget and Financial Discipline has reviewed 7 cases.

## D. Maintaining Macroeconomic Stability

**33. The Government is committed to preserving Madagascar's track record of single-digit inflation.** The current positive vanilla price shock has complicated efforts to maintain stability. Against this background, BFM aims to manage the resulting appreciation pressures, consistent with its managed flexible exchange rate regime, through policies that combine exchange rate flexibility, the accumulation of additional foreign exchange reserves, and BFM interventions that manage commercial banks' excess reserves. The management of excess reserves will aim to ensure a sufficient level for a smooth functioning of money markets, taking into account the uneven distribution of these reserves among banks. If additional inflation pressures occur, BFM is prepared to increase the policy rate further.

**34. We continue to develop new monetary and exchange rate policy tools.** The long-term goal is to move gradually from monetary targeting towards an interest-based operating framework:

- To establish an efficient interbank money market, BFM is steadily refining its ability to forecast and manage banking sector liquidity and taking actions to enhance the trust among banks, which highlights the importance of an efficient banking supervision (see next section). BFM's priority action plan for monetary policy implementation includes: (i) drawing on TA from the IMF, legislation to promote repo transactions will be submitted to Parliament by end-December 2018 (structural benchmark); (ii) the introduction of new monetary policy instruments; and (iii) the reform of the monetary market. The BFM has also initiated a few foreign exchange swaps for monetary policy purposes starting in September 2017.

- An awareness campaign on the role of BFM as the centralizing body for government bonds will be undertaken in order to gain the confidence of potential investors, by particularly targeting non-bank regional subscribers. Moreover, to ensure the equal treatment of all government securities and the permanent eligibility of BTF as collateral in the money market, it is essential to strengthen the management of BTFs. The Ministry of Finance and BFM, as part of a working group, will identify the appropriate solution.

- An efficient foreign exchange market is also essential. BFM interventions have increasingly been based on auctions.

- For timely information on current and expected economic activity and inflation, BFM has re-launched an improved quarterly-private sector business survey. A new questionnaire is available and the survey will begin in October 2017. The first results are expected to be published on the BFM's website by end-December 2017.

## E. Building a Sound Financial Sector Supporting Growth

**35. Efforts to promote financial sector development will continue to enhance financial intermediation and contribute to inclusive growth.** The 2016 Financial System Stability Assessment (FSSA) highlighted the limited progress in terms of financial deepening since 2005 with financial intermediation low compared to peers. Commercial banks dominate Madagascar's financial system. Thanks to the improved business environment, we have seen an expansion of banking system activities in recent years, with the opening of new regional branches and increased lending to the private sector. Despite these positive developments, commercial banks have maintained a conservative approach to lending. To encourage lending to new borrowers, we will address structural impediments, notably the functioning of the judicial system to ensure that contracts are properly enforced. BFM put in place a new central credit registry (CCR) on September 2016 for banks, microfinance and financial establishment, and a CCR rules was established on November 2016 with the aim of ensuring the registration system of credit. Going forward, the priority actions include reforms to enhance the judicial system for commercial matters, notably through a full computerization to ensure that ongoing cases are handled in a more transparent and efficient manner. In addition, the law on SII (Integrated Information System) of BFM was submitted to Parliament in October 2017, with enactment expected by December 2017.

**36. Improved financial inclusion with greater access to financial services is essential for inclusive growth**. The rapid expansion of mobile money services since 2010 is an important opening for financial inclusion. The proportion of the adult population using mobile money services was estimated at 17 percent in 2016, indicating significant room for growth. To create the required regulatory environment, we passed the law on electronic money and electronic money institutions in December 2016.[1] The law provides the legal instruments to regulate the sector and the services, while ensuring safe use of e-money services. For the law to be completely effective, we issued an implementation decree and related regulations in October 2017 (end-December 2017 structural benchmark). We will also put in place a private credit bureau that will reduce asymmetric information and thereby boost credit access and financial inclusion. Improving the legal environment is critical. We therefore submitted a law regulating the establishment, the licensing, the operations, and the supervision of a private credit bureau to the Parliament in October 2017, with enactment expected in December 2017. Next year, we intend to launch a request for proposals with the objective to have a functioning private credit bureau by 2019. The creation of this bureau will

[1] Law N° 2016-065 on electronic money and electronic money institution adopted by the National Assembly on December 16, 2016.

improve the existing public credit registry and provide more reliable information on the credit histories of borrowers. These efforts in favor of financial inclusion benefit from TA by the World Bank.

**37. Non-bank financial institutions are crucial for the financial sector contribution to development**. The non-bank financial institutions can improve financial inclusion by serving people out of reach of the banking system. Non-bank institutions include micro-financial institutions (MFIs), insurance companies, savings institutions including the postal service (*PAOMA*) and the savings fund (*Caisse d'Epargne de Madagascar, CEM*), and the National Insurance and Social Security Fund (CNAPS). MFIs have grown rapidly in recent years, although their total assets remain small compared to the banks. While most non-bank institutions are financially sound, a few suffer from poor governance. To further strengthen the legal environment regulating the MFIs, we submitted a new MFI law, including the resolution framework for MFIs, to the Parliament in October 2017, with enactment expected by December 2017. Independent audits of CEM and PAOMA, conducted with assistance from the World Bank, have identified the need to develop a clear strategy and action plan for each institution. The Board of PAOMA will adopt an action plan by end-March 2018 for the implementation of the provisional measures suggested in the audit report, including plans for a comprehensive audit of PAOMA's customers' accounts by an internationally recognized private sector audit firm. To limit any potential losses, PAOMA should limit its commercial development pending the completion of the action plan.

**38. We will enhance our microprudential arsenal, to confront any emerging stability concerns, particularly related to supervision.** The 2016 FSSA highlighted weaknesses in the supervisory and regulatory framework, noting that they needed to become more proactive and risk-based. We will therefore develop a well-sequenced action plan by end-December 2017 aiming at fully implementing risk-based supervision by 2019, with clear interim deadlines. We will submit a new banking law to Parliament by end-December 2018 (structural benchmark) that will meet several objectives: (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 . We will also set clear professional standards for the selection of CSBF's Executive Board members. In addition, to advance compliance with the Basel Core Principles, by end-December 2018 we will (i) issue new prudential regulations and strengthen existing regulations and (ii) revise the regulations on capital definition and capital adequacy ratio in line with international standards. We are also reviewing the possibility of increasing the minimum capital requirements.

**39. The BFM's role in macro-prudential surveillance will also be reinforced with a clear mandate for financial stability.** We will build on the existing financial stability unit (FSU) within the BFM that was put in place in October 2014 and has released financial stability reports covering 2013 to 2015, while the 2016 report under finalization will be published by the end of 2017. The unit's mandate is to monitor systemic risks—that is, risks to the financial system as a whole—and to analyze macrofinancial linkages. To strengthen the work of the unit, we will: (i) establish a financial stability framework that gives BFM in collaboration with the Ministry of Finance a clear mandate in preserving financial stability and to obtain the relevant information from other entities for financial stability purposes; and (ii) develop the capacity in undertaking the required analyses.

**40. We will accelerate reforms to enhance the internal operations of the BFM, as well as its independence and transparency:**

- The enactment of the new Central Bank Act in November 2016 reinforced BFM's governance structure, accountability, relations with the government, and its independence. We have already started to enforce the new law with the appointments of the two vice-governors and six new members of the board. Attention will be given in bringing BFM's capital to levels that ensure sufficient resources and the needed financial independence to undertake its tasks. Internal and external audit functions will continue to be strengthened. We will progress further in our agenda to use the IFRS accounting standards and we will finalize a detailed road map, including consultations with the IMF, in the fourth quarter of 2017. The action plan will prepare us to implement the IFRS standards by 2022. A draft of the action plan has been prepared by the Accounting High Council (CSC) in cooperation with BFM. Meanwhile, to the extent possible, pro-forma IFRS accounts will be reported in an annex to our annual financial statements, with the objective of starting with the accounts of 2019.

- Notwithstanding progress in increasing efficiency and reducing operational risks, vulnerabilities remain. To reduce the risks in the management of foreign reserves and in line with the advice of the World Bank's Reserves Advisory and Management Program, the BFM will move toward more passive reserve management and reduce the use of dual currency deposits. To ensure the accuracy of the stock of bills to be destroyed, BFM has set up a reliable system of verification with a random survey of samples. We have also invested in a high-capacity machine to destroy the stock of bills and we expect to clear the backload by end of next year. These bills occupy significant storage space.

- We have amended the procurement policy to cover all categories of expenses. The new policy, approved by the Board on June 21, 2017, requires that all procurement, including currency operations, is approved by a decision committee with members selected based on their knowledge of the specific procurement to be undertaken. Like any process and manual of procedures, improvements can be made, taking into account the technical assistance from international partners, as long as they are necessary and relevant.

- We have put in place a communication unit and elaborated a communication strategy to provide reliable and timely information. The effectiveness of this unit was visible in the successful and smooth launch of new bank notes in July 2017. Regarding monetary policy, BFM also holds well-publicized press conferences to inform the public at least twice a year. Given the success of the strategy, we are committed to expand our communication coverage. We are implementing our communications policy and action plans covering 2016-2019.

## F. Improving the Quality of Statistics

**41. The government will continue its efforts to strengthen the statistical system as a central tool for inclusive growth**. While data provision is broadly adequate for surveillance, shortcomings remain in the areas of real sector, government finances, balance of payment, and social statistics. Several actions are underway:

- Revised series of annual national accounts with the base year updated from 1984 to 2007 were published in June 2017 (structural benchmark) for the 2007-2014 period. The publication was accompanied by appropriate communication to key users to inform them of the main changes implied by the new series. We are now working to finalize the revised series for 2015-2016. After completing this work, we will initially continue to produce and publish the two series in parallel, before switching solely to the rebased GDP series in 2019 at the latest. Quarterly GDP estimates are also planned to be published, starting with 2014 estimates by the end-2017.

- INSTAT now plans to publish in 2019 a reweighted consumer price index (CPI) based on the 2018 household survey. It had previously planned to publish a reweighted CPI based on the 2012 national household survey and with 2017 as the base year.

- Regarding monetary and financial statistics, efforts are focused on the consolidation of balance sheets of micro-financial institutions in the preparation of the monetary survey.

- On balance-of-payments statistics, we are emphasizing the improvement of information based on enterprises surveys, including in the tourism and transport sectors.

- On government finance statistics, our medium-term objective after moving to the 2014 GFSM in 2018 is to extend the statistical coverage from the central government only to the general public sector including local authorities and national public establishments (EPN).

**42. A new statistics law, modernizing and regulating data collection, will be submitted to Parliament by end-2017 (structural benchmark)**. A first draft law, along with two decrees to improve coordination among ministries and to improve information and data flows, was prepared with technical assistance from the UNDP.

**43. We are committed to enhance the human, financial, and material resources allocated to the production of statistics**. Some shortcomings, like the suspension of publication of industrial production indices, are due to financing issues. The government will continue to support INSTAT in fulfilling its missions. We also count on increasing technical and financial assistance from our partners.

# V. PROGRAM MONITORING

**44. The program will be evaluated based on quantitative performance criteria and structural benchmarks and semi-annual reviews.** We have proposed quantitative targets (Table 1) as well as structural benchmarks (Table 2) through end-December 2018. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying TMU. The third, fourth, and fifth review are scheduled to be completed on or after May 20, 2018, November 20, 2018, and May 20, 2019 respectively, based on test dates for periodic performance criteria of end-December 2017, end-June 2018, and end-December 2018, respectively.

## Table 1. Madagascar: Quantitative Performance Criteria and Indicative Targets, December 2017-December 2018

| | 2017 | 2018 | | | |
|---|---|---|---|---|---|
| | End-Dec. Performance Criteria | End-March Indicative Targets | End-June Performance Criteria | End-Sep. Indicative Targets | End-Dec. Performance Criteria |
| | (Billions of Ariary; unless otherwise indicated) | | | | |
| **Fiscal** | | | | | |
| Floor on primary balance excl. foreign-financed investment (commitment basis) [1,2] | 48 | 104 | 177 | 337 | 667 |
| **External** | | | | | |
| Ceiling on accumulation of new external payment arrears (US$ millions) [3] | 0 | 0 | 0 | 0 | 0 |
| Ceiling on new nonconcessional external debt with original maturity of more than one year, contracted or guaranteed by the central government or BCM (US$ millions) [4] | | | | | |
| Grant element of less than 35 percent | 383 | 383 | 383 | 383 | 383 |
| Grant element of less than 20 percent | 100 | 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 BCM (US$ millions) [3] | 0 | 0 | 0 | 0 | 0 |
| **Central bank** | | | | | |
| Floor on net foreign assets (NFA) of BCM (millions of SDRs) [5] | 537 | 630 | 617 | 654 | 691 |
| Ceilings on net domestic assets (NDA) of BCM [5] | 1,967 | 1,533 | 1,865 | 1,793 | 1,982 |
| **Indicative targets** | | | | | |
| Floor on social priority spending [1] | 298 | 56 | 158 | 260 | 429 |
| Floor on gross tax revenue [1,2] | 4,132 | 1,083 | 2,411 | 3,629 | 5,022 |
| **Memorandum items** | | | | | |
| Official external program support (millions of SDRs) [4] | 239 | 235 | 235 | 276 | 315 |
| Official external program grants (millions of SDRs) [1] | 71 | 0 | 0 | 42 | 80 |
| New concessional loans, contracted or guaranteed by the central government or BCM (US$ millions) [4] | 1,168 | 1,407 | 1,647 | 1,886 | 2,125 |
| Program exchange rate (MGA/SDR) | 4,444 | 4,444 | 4,444 | 4,444 | 4,444 |

Sources: Madagascar authorities; and IMF staff projections.

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

[2] Fiscal spending and gross tax revenues exclude operations for Air Madagascar (budget transfers and mutual tax cancellation) in 2017.

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

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

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

**Table 2. Madagascar: Structural Benchmarks through end-December 2018**

| Action | Tentative Dates | Rationale |
|---|---|---|
| Promoting inclusive growth | | |
| Adopt by the Cabinet a medium-term strategy to enhance public investment management capacity. | End-Dec. 2017 | Critical to fiscal policy |
| Support the implementation of the social protection policy by submitting to parliament the new law on social protection to strengthen the coordination function of the Ministry of Population regarding social safety net programs. | End-Dec. 2017 | Central to inclusive growth |
| Mobilizing fiscal revenue | | |
| Employ the new Tax Identification Number (TIN) throughout all departments of the Ministry of Finance and Budget and CNAPS. | End-Dec. 2017 | Important to reduce fraud |
| Employ the new Tax Identification Number (TIN) throughout all ministries. | End-Dec. 2018 | Important to reduce fraud |
| Improving the composition and quality of fiscal spending | | |
| Adopt and implement an automaticity fuel pricing formula with a smoothing mechanism by end-September 2018, while avoiding any budget costs from fuel pricing in the interim. | Continuous benchmark (revised) | Critical to contain transfers |
| Install 3,500 smart meters for JIRAMA. | End-June 2018 | 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 Finance and Budget. | 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 |

**Table 2. Madagascar: Structural Benchmarks through end-December 2018 (concluded)**

| Action | Tentative Dates | Rationale |
|---|---|---|
| | | |
| Enhancing economic governance | | |
| Revise and submit to Parliament the law governing the National Public Establishments (*Etablissements publics nationaux*, *EPN*). | End-June 2018 | Critical to PFM (EPNs account for 10 percent of spending) |
| 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-Sep. 2018 | Critical to economic governance |
| Strengthening financial sector development | | |
| Issue the implementing decrees and regulations for the new law on electronic money. | End-Dec. 2017 | Central to financial inclusion |
| Submit to Parliament draft legislation to promote repo transactions. | End-Dec. 2018 | Critical for monetary policy |
| 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 | Central for financial stability |
| Improving quality of statistics | | |
| Submit to Parliament a new statistics law modernizing and regulating data collections. | End-Dec. 2017 | Critical tool for economic policy |

# Attachment II. Technical Memorandum of Understanding, November 2017

**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 2017-19. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

## DEFINITIONS

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

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

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

| Program Exchange Rates | |
|---|---|
| Malagasy Ariary (MGA)/SDR | 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 external debt owed or guaranteed by the central government and/or the central bank, and the primary balance excluding foreign financed investment (commitment basis). Performance criteria

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

will be set for end-December 2017 and end-June and end-December 2018 while indicative targets will be set for end-March and end-September 2018.

**6.** 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.

## PROVISION OF DATA TO THE FUND

**7.** The following information will be provided to the IMF staff for the purpose of monitoring the program:

- 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 six weeks for other data (Table 1). 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.

# QUANTITATIVE PERFORMANCE CRITERIA

## A. Fiscal Aggregates

### 1. Floor on primary balance excluding foreign financed investment (commitment basis)

**8.** The primary balance excluding foreign financed investment (commitment basis) is measured as total domestic revenue less spending excluding interest payments and foreign financed investment. Total domestic revenues include tax and non-tax revenues plus current (budgetary) grants. 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. Spending includes expenditures on wages and salaries, goods and services, transfers, and subsidies, treasury operations (net) excluding the refund of VAT credits, and domestically financed capital expenditure. In 2017, spending (for the purposes only of calculating this primary balance) excludes government financial assistance to Air Madagascar of up to MGA 330 billion as a result of direct transfers or guarantees to service Air Madagascar's existing liabilities, including arrears to suppliers but excluding tax arrears, provided such assistance is specified in a strategic partnership agreement between Air Madagascar and another airline. The primary balance excluding foreign financed investment (commitment basis) will be calculated cumulatively from the beginning of the calendar year.[2] For reference, for the year ending December 2015, the domestic primary current balance (commitment basis) was MGA -377 billion, calculated as follows:

| | |
|---|---|
| Primary balance excluding foreign financed investment (commitment basis) | -377 |
| Total revenue and current grants | 2,999 |
| Total revenue | 2,959 |
| Net tax revenue | 2,878 |
| Non-tax revenue | 81 |
| Current grants | 40 |
| Less: | |
| Current expenditures | 3,101 |
| Wages and salaries | 1,566 |
| Goods and services | 157 |
| Transfers and subsidies | 966 |
| Treasury operations (net) | 412 |
| Domestic financed capital expenditures | 275 |

[2] Projections for domestic taxes and other treasury operations (net) in 2016 include an amount of MGA 90 billion corresponding to tax arrears of Air Madagascar used for its recapitalization.

## B. External Debt

### 1. Ceiling on accumulation of new external payment arrears

**9.** 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.

### 2. Ceilings on new non-concessional external debt

**10.** 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 net present value (NPV), expressed as a percentage of the nominal value of the debt. The NPV 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.

**11.** 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 grant element for all disbursements under the agreement.

**12.** For program monitoring purposes, the definition of debt is set out in point 9 of the *Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangement adopted by the Decision No. 6230-(79/140) of the Executive Board of the IMF*, as subsequently amended, including by Executive Board Decision No. 15688-(14-107), adopted December 5, 2014 (see Annex 1). External debt is defined by the residency of the creditor.

**13.** 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 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 benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

## Medium- and Long-Term External Debt

**14.** Two continuous ceilings 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 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 observed on a continuous basis from January 1, 2016.

**15.** Excluded from the ceiling are (i) the use of IMF resources; (ii) concessional debts; (iii) 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 (iv) debts classified as international reserve liabilities of CBM. If the government has a special need for external non-concessional financing, discussions with IMF staff should take place in advance to consider including the request in the program.

## Short-Term External Debt

**16.** 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 observed on a continuous basis from end-May 2016.

**17.** 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/

[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 2016 World Economic Outlook (WEO).

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

### 1. Floor on Net Foreign Assets of the Central Bank of Madagascar

**18.** The target floor for NFA of the CBM is evaluated using the end-period stock, calculated using program exchange rates. The NFA of CBM is defined as the difference between CBM's gross foreign assets and total foreign liabilities, including debt owed to the IMF. All foreign assets and foreign liabilities are converted to SDRs at the program exchange rates, as described in paragraph 4. For reference, at end-December 2015, NFA was MGA 1,763 billion, calculated as follows:

| | |
|---|---|
| Foreign Assets | 2,665.623 |
| Cash | 0.040 |
| Demand deposits | 366.972 |
| Term deposits and securities | 2,032.812 |
| Other foreign assets (including SDR holdings) | 265.798 |
| Foreign Liabilities | 902.863 |
| Of which: | |
| Non-residents deposits | 0.761 |
| Deposits of international organizations | 0.278 |
| Use of Fund credit and loans | 381.495 |
| Medium-and long-term foreign liabilities *(including SDR allocation)* | 520.329 |
| Net Foreign Assets | 1,762.760 |

### 2. Ceiling on Net Domestic Assets of the Central Bank of Madagascar

**19.** 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 2015, NDA was MGA 1,304 billion, calculated as follows:

| | |
|---|---|
| Net Foreign Assets | 1,762.760 |
| | |
| Base Money | 3,066.683 |
| Of which: | |
| Currency in circulation | 2,115.441 |
| Currency in banks | 188.180 |
| Bankers' reserves | 762.484 |
| Other deposits included in monetary base | 0.578 |
| | |
| Net Domestic Assets | 1,303.923 |
| Of which: | |
| Net credit to the central government | 1,049.296 |
| Credit to the economy | 5.865 |
| Net credit to banks | -110.000 |
| Other items (net) | 358.762 |

# INDICATIVE TARGETS

## A. Floor on Priority Social Spending

20. **Priority social spending** includes domestic spending primarily related to interventions in nutrition, education, health, and the provision of social safety nets. The 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

21. **Government tax revenue** is measured on a gross basis, that is, before the refund of VAT credits. It comprises all domestic taxes and taxes on foreign trade received by the central government treasury. Tax revenue excludes: (1) the receipts from the local sale of in-kind grants, (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 2015, gross government tax revenue was MGA 3,012 billion, comprised of net tax revenue of MGA 2,878 billion and VAT refunds of MGA 134 billion.

## STRUCTURAL BENCHMARKS

**22. 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 the fully automatic fuel pricing mechanism with a smoothing formula (no later than end-September 2018), the authorities will calculate the estimated implicit net liabilities to fuel distributors generated by discretionary adjustments to the fuel price, as determined by the fuel price structure in place as of November, 2017. The cumulative stock of these liabilities will be measured from January 2017, and will carry over from 2017 to 2018.
- Avoiding budget cost from fuel pricing means that either (i) the cumulative stock of these liabilities in a given month is negative (i.e. the distributors have an implicit liability to the government), or (ii) a memorandum of understanding is established between the government and fuel distributors to eliminate liabilities, existing or to be generated, through future discretionary price adjustments in the months that follow, thereby ensuring that 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 implicit net liabilities for each month, as well as the minutes of the agreement with the fuel distributors, by the 14th day of that month.

## MEMORANDUM ITEMS

**23. 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.

**24. 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.

**25. 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.

## USE OF ADJUSTERS

**26.** 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.

**27.** The performance criteria on the primary balance excluding foreign financed investment (commitment basis) 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 (commitment basis) will be adjusted downward by the cumulative downward deviation of actual from projected official external program grants, calculated at quarterly period-average actual exchange rates. This adjustment will be capped at the equivalent of SDR30 million, evaluated at program exchange rates as described in paragraph 4.

**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 (concluded) | |
|---|---|
| **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 financial position of JIRAMA and 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 data** | |
| **Central Bank of Madagascar (CBM)** | |
| Balance of payments | Quarterly, by the end of the subsequent quarter |
| **Real sector and price data** | |
| **INSTAT** | |
| Consumer price index data (provided by INSTAT) | Monthly, within four weeks of the end of each month |
| Details on tourism | Monthly, within twelve weeks of the end of each month |
| Electricity and water production and consumption | Monthly, within twelve weeks of the end of each month |
| **Other data** | |
| **OCH** | |
| Petroleum shipments and consumption | Monthly, within four weeks of the end of each month |

**Table 2. Madagascar: Reports sent by SAMIFIN to BIANCO**

| | Members of the Supreme Powers[1] | Magistrates | Heads of province and district, Commissaries, Prefects, Mayors | Director of Ministry or equivalent | SOE Managers | Others |
|---|---|---|---|---|---|---|
| Number of reports disseminated | | | | | | |
| Aggregated value of suspected money laundering | | | | | | |

[1]Members of the Supreme Powers must be understood as those listed on art. 40 of the Constitution: President, members of Parliament, and High Constitutional Court Magistrates

**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<br>Members of parliament<br>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

November 17, 2017

## SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX


Prepared by The African Department


## CONTENTS

# FUND RELATIONS

(As of September 30, 2017)

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

| **General Resources Account:** | **SDR Million** | **%Quota** |
|---|---|---|
| Quota | 244.40 | 100.00 |
| Fund Holdings of currency | 213.78 | 87.47 |
| Reserve Tranche Position | 30.62 | 12.53 |

| **SDR Department:** | **SDR Million** | **%Allocation** |
|---|---|---|
| Net cumulative allocation | 117.09 | 100.00 |
| Holdings | 9.36 | 8.00 |

| **Outstanding Purchases and Loans:** | **SDR Million** | **%Quota** |
|---|---|---|
| RCF Loans | 61.10 | 25.00 |
| ECF Arrangements | 99.30 | 40.63 |

**Latest Financial Arrangements:**

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| ECF | Jul 27, 2016 | Nov 26, 2019 | 250.55 | 93.41 |
| ECF[1] | Jul 21, 2006 | Jul 20, 2009 | 73.32 | 53.03 |
| ECF[1] | Mar 01, 2001 | Mar 01, 2005 | 91.65 | 91.65 |

[1] Formerly PRGF.

**Projected Payments to Fund[1]**

**(SDR Million; based on existing use of resources and present holdings of SDRs):**

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Principal | | 5.89 | 3.06 | 6.11 | 12.22 |
| Charges/Interest | 0.15 | 0.59 | 0.59 | 0.59 | 0.58 |
| **Total** | 0.15 | 6.48 | 3.64 | 6.70 | 12.80 |

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

**Implementation of HIPC Initiative:**

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

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

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

**Implementation of Multilateral Debt Relief Initiative (MDRI):**

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

II. Debt Relief by Facility (SDR Million)

**Eligible Debt**

| Delivery Date | GRA | PRGF | Total |
|---|---|---|---|
| January 2006 | N/A | 137.29 | 137.29 |

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

**Implementation of Catastrophe Containment and Relief (CCR):** Not Applicable.

**Safeguards Assessments:**

An update safeguards assessment of the central bank—*Banky Foibeni Madagasikara* (BFM)—was completed in March 2017. Previous assessments were completed in March 2006, September 2008, and January 2015. The updated safeguards assessment found that progress had been made in implementing recommendations made in the 2015 assessment, including strengthening the legal framework and establishing an audit committee to oversee the internal and external audit process. However, delays in the publication of audited financial statements and an outdated accounting framework undermine transparency. In addition, risks in currency operations and reserves management are elevated. While the BFM received technical assistance on internal audit and financial reporting in the past two years, capacity constraints have hindered progress.

**Exchange Rate Arrangement:**

The currency of the Republic of Madagascar is the Malagasy Ariary. The de jure exchange rate arrangement is floating. The exchange rate is determined in the official interbank market. The BFM intervenes in the interbank market to smooth large exchange rate fluctuations and meet foreign reserve targets. Information on BFM daily interventions is not publicly available. The minimum, maximum, and weighted average daily rates as well as the number and amount of transactions are made available to the public through the BFM official site. The de facto exchange rate arrangement is classified as floating.

The exchange rate followed a pre-determined path until September 2015, and has been free-floating since. The BFM undertook buyback operations in the foreign exchange market for several months in 2015 which artificially maintained the published exchange rate at a more appreciated level than the market exchange rate. The buyback operations were discontinued in September 2015 and the official exchange rate depreciated by about 10 percent against the US Dollar at that time (when the official exchange rate converged with the market exchange rate).

The Republic of Madagascar accepted the obligations of Article VIII of the IMF Articles of Agreement with effect from September 18, 1996. The Republic of Madagascar maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

**Article IV Consultation:**

The most recent Article IV consultation was concluded on June 28, 2017 (Country Report No. 17/223).

**Financial Sector Assessment Program (FSAP), Reports on Observance of Standards and Codes (ROSCs), and Offshore Financial Center (OFC) Assessments:**

FSAP completed in July 2016.

**Technical Assistance:**

Technical assistance provided to Madagascar following the normalization of relations in March, 2014 are listed below.

| **Fiscal Affairs Department (FAD)** | **Year of delivery** |
|---|---|
| Diagnostic Mission: Improving Tax and Customs Revenue Collection | 2014 |
| PFM Reform Strategy | 2014 |
| Medium-Term Fiscal Framework (MTFF) | 2014 |
| Energy Subsidy Reform | 2014 |
| Tax Policy Review | 2014 |
| MTFF and Natural Resources Management | 2014 |
| Tax Administration: Review of the legal framework for taxation of mining and petroleum operations | 2015 |
| Revenue Mobilization: Transfer pricing | 2015 |
| Budget Formulation: Strengthening medium-term macro fiscal and budget frameworks | 2015 |
| Customs Administration: Risk management and post clearance audit | 2015 |
| Revenue Administration: Action plan to improve tax and customs revenue collection | 2015 |
| Public Expenditure Management: Control and audit on public expenditure | 2015 |
| Management of Expenditure Arrears | 2015 |
| Medium-Term Budgeting, Budget Classification, and Natural Resource Management | 2016 |
| MTEF and Fiscal Strategy Paper | 2016 |
| Public Investment Management Assessment | 2016 |

| | |
|---|---|
| Revenue and Customs Administration (AFS) | 2016 |
| Management of Arrears and VAT Refunds | 2016 |
| Public Investment Management Assessment (joint mission with AFS and the World Bank} | 2016 |
| Medium-Term Budget Framework: Developing manual | 2016 |
| Data Matching of Customs and Domestic Tax Data (AFS) | 2017 |
| Medium-Term Budget Framework and Public Investment | 2017 |
| Fiscal Risk Management | 2017 |
| Tax Incentives Regimes: Evaluation and Recommendations. | 2017 |

**Monetary and Capital Markets Department (MCM)**

| | |
|---|---|
| Technical Assistance Needs Assessment Diagnostic | 2014 |
| Introduction of IFRS in Central Bank Accounting | 2015 |
| Strengthening Internal Audit and Controls | 2015 |
| Transitioning to a Modern Monetary Policy Operational Framework | 2015 |
| Set Objectives for Monetary Policy (AFS) | 2015 |
| Coherent Approach to Monetary Policy Formulation (AFS) | 2015 |
| Liquidity Management and Forecasting (AFS) | 2015 |
| Functioning of the Interbank Foreign Exchange Market (AFS) | 2015 |
| Strengthening Internal Audit | 2015 |
| Inflation Analysis and Forecasting (AFS) | 2015 |
| Central Bank Accounting and Auditing | 2016 |
| Foreign Exchange Operations (AFS) | 2016 |
| Monetary Policy Communication (AFS) | 2016 |
| Inflation Analysis and Forecasting | 2016 |
| Risk Based Supervision | 2016 |
| Liquidity Management and Implementation of Repo Agreements (AFS) | 2017 |
| Internal Audit and Risk Management | 2017 |
| Regulation and Functioning of the Interbank Foreign Exchange Market (AFS) | 2017 |
| Monetary Policy Implementation and the Money Market | 2017 |

**Legal Department (LEG) and Monetary and Capital Markets Department (MCM)**

| | |
|---|---|
| Central Banking Law | 2014 |

**Legal Department (LEG)**

| | |
|---|---|
| Governance Reform: Anti-Corruption Legislation | 2017 |

**Statistics Department (STA)**

| | |
|---|---|
| National Accounts (AFS) | 2015 |
| Balance of Payments Statistics | 2015 |
| Multisector Statistics | 2015 |
| Monetary and Financial Statistics | 2015 |
| National Accounts (AFS) | 2015 |
| Price Statistics (AFS) | 2016 |
| National Accounts (AFS) | 2016 |
| Open Data Initiative | 2016 |
| Government Finance Statistics | 2016 |
| Monetary and Financial Statistics | 2016 |
| National Accounts (AFS) | 2017 |
| Balance of Payments Statistics | 2017 |
| Price Statistics (AFS) | 2017 |

**Resident Representative:**

Mr. Patrick Imam has been the Resident Representative since September 2014.