



# REPUBLIC OF MADAGASCAR

June 2023

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 21, 2023, following discussions that ended on May 13, 2023, 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 June 7, 2023.
- A **Statement by the Executive Director** for Republic of Madagascar.

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## IMF Executive Board Concludes the Fourth Review Under the Extended Credit Facility Arrangement for the Republic of Madagascar

FOR IMMEDIATE RELEASE

- *Program performance remains mixed with a breach of the 2022 deficit target but progress on the structural reform agenda.*
- *Turning around JIRAMA and improving transparency about its operations and government financial support is a priority.*
- *The Executive Board decision allows the authorities to draw SDR 24.44 million (US\$ 32.7 million).*

**Washington, DC – June 22, 2023:** The Executive Board of the International Monetary Fund (IMF) completed yesterday the fourth review of Madagascar’s economic program under the Extended Credit Facility (ECF). The completion of the review enables the disbursement of SDR 24.44 million (about US\$ 32.7 million) to cover external and fiscal financing needs, bringing total disbursements under the arrangement to SDR 171.08 million (about US\$ 228.7million).

In completing the review, the Executive Board approved waivers of nonobservance for two performance criteria at end-December 2022: (i) the floor on the domestic primary balance was missed mostly due to the nonpayment in 2022 of oil customs taxes by oil distributors; and (ii) the floor on the central bank’s net foreign assets (NFA) was missed by a small margin in a context of a rapid depreciation of the exchange rate which has since stopped. The waivers of nonobservance were approved based on remedial actions taken by the authorities and the minor nature of the NFA breach, respectively.

Madagascar’s growth has decelerated, and inflation remains high. Growth is expected to stabilize at 4.0 percent and average annual inflation to exceed 10 percent in 2023. The growth slowdown and JIRAMA’s losses are weighing on the fiscal balance. The slowdown in vanilla exports has affected FX inflows, putting pressure on the exchange rate.

Risks to the outlook are skewed to the downside ahead the November elections and amid heightened global uncertainty. Madagascar also remains very vulnerable to extreme climate events.

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

Madagascar continues to face a challenging environment, with multiple climate shocks, slower growth, and strong inflationary pressures, burdening the most vulnerable segments of the population. The authorities made progress in advancing structural reforms, but further efforts are needed to improve budget execution and governance, better control inflation, and strengthen policies for climate resilience.

Mobilizing domestic revenue, including through the implementation of tax administration reforms and reduction of costly tax expenditures, along with spending containment measures, will be key to reach the program fiscal targets.

The authorities settled cross-liabilities with oil distributors and the resumption of the payment of oil customs taxes should help improve the fiscal balance in 2023. Going forward, the implementation of an automatic fuel pricing mechanism in early 2024 and reforming JIRAMA should help mitigate fiscal risks and create much needed space for social and developmental spending.

The authorities should accelerate public financial and debt management reforms. It is important to further streamline the budget execution process, respect budget annuality, and enhance cash management to prevent the accumulation of arrears. Reinforcing the effectiveness of the anti-corruption framework is crucial to improve accountability.

A data-driven monetary policy is needed amidst persistent inflationary pressures. The successful transition to an interest rate targeting framework requires improving the functioning and transparency of the public debt market, strengthening the communication of the central bank, and reaffirming its independence.

The authorities should continue their strong reform momentum. Further efforts are needed in strengthening the AML/CFT and anti-corruption frameworks and implementing financial sector reforms in line with international standards.

A multi-prolonged approach is needed to improve resilience to climate shocks and address food insecurity, including through the operationalization of a system of food reserves and the rehabilitation of road infrastructure.

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

	2019	2020	2021	2022	2023	2024
	Est.				Proj.	
(Percent change; unless otherwise indicated)						
<b>National Account and Prices</b>						
GDP at constant prices	4.4	-7.1	5.7	4.0	4.0	4.8
GDP deflator	6.5	4.3	6.6	7.0	9.1	7.7
Consumer prices (end of period)	4.0	4.6	6.2	10.8	9.3	8.6
<b>Money and Credit</b>						
Broad money (M3)	7.3	12.1	12.2	13.8	15.8	16.0
(Growth in percent of beginning-of-period money stock (M3))						
Net foreign assets	-2.6	2.1	1.0	0.8	6.5	5.4
Net domestic assets	9.9	10.0	11.2	13.0	9.3	10.7
<i>of which: Credit to the private sector</i>	10.3	5.6	11.1	9.8	8.7	8.3
(Percent of GDP)						
<b>Public Finance</b>						
Total revenue (excluding grants)	10.8	9.9	10.2	9.6	13.1	12.2
<i>of which: Tax revenue</i>	10.6	9.5	9.9	9.3	12.8	11.8
Grants	3.1	2.5	0.7	1.3	1.7	1.6
<i>of which: budget grants</i>	0.7	0.9	0.0	0.0	0.0	0.1
Total expenditures	15.4	16.4	13.7	17.3	18.6	17.1
Current expenditure	9.5	9.6	8.4	11.3	11.1	9.9
Capital expenditure	5.8	6.8	5.3	6.0	7.5	7.2
Overall balance (commitment basis)	-1.4	-4.0	-2.8	-6.5	-3.8	-3.3
Domestic primary balance <sup>1</sup>	0.3	-1.9	-0.1	-2.8	0.7	0.7
Total financing	1.3	3.5	3.2	4.7	5.0	3.3
Foreign borrowing (net)	1.3	1.8	2.3	2.5	3.1	2.6
Domestic financing	0.0	1.7	0.8	2.3	2.0	0.7
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
<b>Savings and Investment</b>						
Investment	21.2	19.5	23.2	21.3	24.1	23.2
Gross national savings	20.4	12.3	10.2	15.8	19.8	18.6
<b>External Sector</b>						
Exports of goods, f.o.b.	18.5	15.0	18.6	23.3	23.3	23.6
Imports of goods, c.i.f.	26.9	24.3	28.7	34.2	32.8	33.4
Current account balance (exc. grants)	-5.4	-7.9	-5.5	-6.8	-6.1	-6.2
Current account balance (inc. grants)	-2.3	-5.4	-4.9	-5.5	-4.4	-4.6
<b>Public Debt</b>						
External Public Debt (inc. BFM liabilities)	27.3	36.3	34.3	36.7	39.6	40.0
Domestic Public Debt	13.9	15.7	17.5	18.3	16.5	15.3
(Units as indicated)						
Gross official reserves (millions of SDRs)	1196	1338	1630	1601	1588	1687
Months of imports of goods and services	4.2	6.0	5.8	4.2	4.0	4.0
GDP per capita (U.S. dollars)	532	477	517	523	536	559

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

<sup>1</sup> Primary balance excl. foreign-financed investment and grants. Commitment basis.



# REPUBLIC OF MADAGASCAR

June 7, 2023

## FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA

### EXECUTIVE SUMMARY

**Context.** Real GDP exceeded its pre-pandemic level in 2022. However, lower demand from trading partners, recent weather events, and possible rising political tensions in the runup to the November 2023 presidential elections will continue to weigh on the outlook in 2023. While the fiscal deficit has recently widened, the settlement of cross-liabilities with oil distributors is expected to improve the fiscal balance in 2023 and reduce fiscal risks going forward.

**Program Developments.** Program performance remains mixed. Two out of five QPCs (the floor on the central bank's net foreign assets and the floor on the domestic primary balance) were missed in December 2022. All three ITs were missed. Progress has continued on the structural reform agenda. A new public investment manual was finalized and published on time on March 31st, 2023, while the follow up report by the Cour des Comptes on its audits of COVID spending was released just 3 days late on April 3. The authorities have also adopted the necessary changes to the public procurement legal framework to allow for the collection and publication of ultimate beneficiary owner information and submitted a revised mining code in line with staff recommendations to Parliament (structural benchmarks due in June).

**Program Policies.** The authorities are taking measures to adjust non-priority spending in the face of lower-than-expected revenue in 2023. It is proposed to relax the 2023 domestic primary deficit target to accommodate higher transfers to the electricity SOE which reported record losses in 2022 and accumulated large arrears. Related modifications of other quantitative performance criteria are also proposed. Improvement in budget execution, transparency, and governance are critically needed to foster stronger and sustainable growth. The central bank continues its transition to a new interest rate targeting framework which requires strengthening its communication and reaffirming its independence.

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

Discussions were held in Antananarivo during May 2–13, 2023. The IMF team comprised Frederic Lambert (head), Ghislain Afavi, Cristina Cheptea, Dominique Fayad, Samah Mazraani (all AFR), Véronique Salins (FAD), Bilal Tabti (SPR), Mokhtar Benlamine (Resident Representative) and Ialy Rasoamanana (local economist). Mbuyamu Matungulu (Alternate Executive Director) joined some of the meetings. The team met with Prime Minister Ntsay, Minister of Economy and Finance Rabarinirinarison, Minister of Energy and Hydrocarbons Andriamanampisoa, Central Bank Governor Andrianarivelo, other senior officials, development partners, as well as representatives of the private sector, non-governmental organizations and the civil society. Hatem Alsokhebr and Tebo Molosiwa (AFR) contributed to the preparation of this report.

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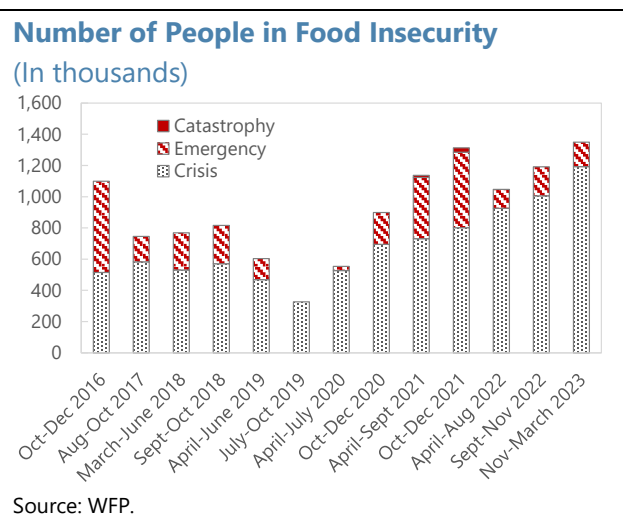
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## BACKGROUND

**1. Recent cyclones have aggravated food insecurity.** Cyclones Cheneso and Freddy affected about 300,000 people, killing more than 60. The cyclones hit during the rice planting season, destroying scarce seeds and stored food, flooding farmland, and damaging transport infrastructure. While the cyclones were less severe than anticipated, humanitarian conditions are likely to worsen in the short term, and damage to farmland and infrastructure could place upward pressure on food price inflation.



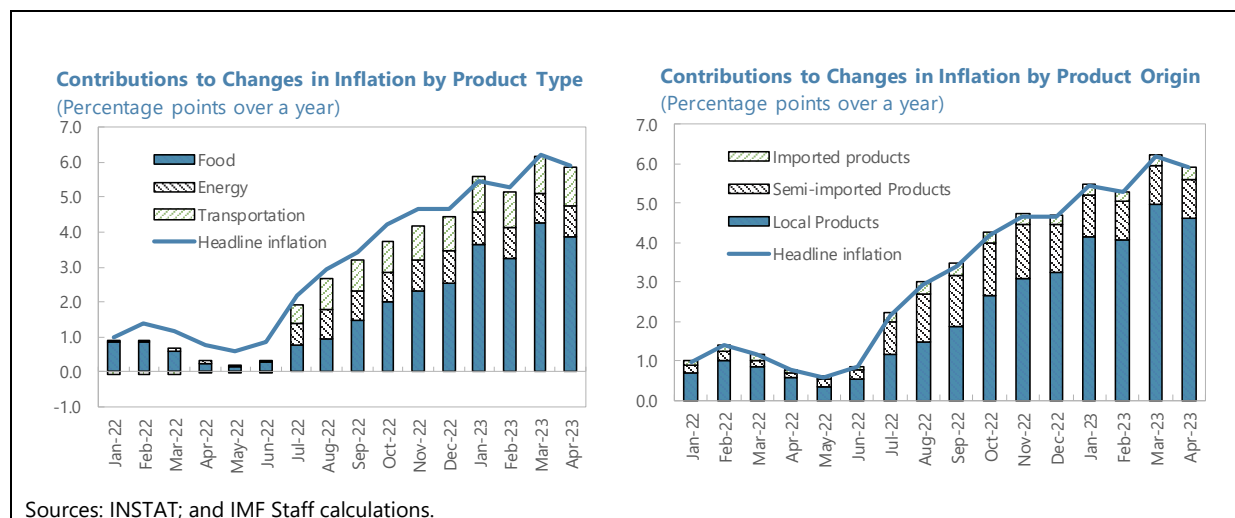
**2. Risks of political tensions and social unrest may increase ahead of the November 2023 presidential elections.** In February 2023, President Rajoelina reshuffled his cabinet for the fifth time since 2019. Social tensions have been on the rise fueled by higher prices, numerous corruption scandals, a crisis in the vanilla sector, and prevalent crime and banditry.

## RECENT ECONOMIC DEVELOPMENTS

**3. Growth remains subdued.** Following a 5.7 percent rebound in 2021, the growth momentum decelerated in 2022 to 4.0 percent in part due to weather-related disruptions. Production was supported by mining and the textile industry. Despite a still low COVID-19 vaccination rate (9.3 percent of the population received at least one dose as of May 9, 2023), tourist arrivals increased significantly compared to 2021 but remained well under pre-pandemic levels (132,000 arrivals vs. 35,000 in 2021 but 383,000 in 2019). Exports of vanilla have collapsed by two thirds since November, following the implementation of a reform aiming to improve compliance with the minimum export price of US\$250 per kilogram. The authorities announced the suspension of the reform in April and the liberalization of vanilla's export prices on May 5 conditional on paying farmers the minimum price of MGA 75,000 (about US\$17) per kilo of green vanilla (six kilos of green vanilla are needed to produce one kilo of export-ready vanilla).

**4. Inflation pressures remain unabated driven mostly by domestic sources.** Headline inflation reached 12.1 percent year-on-year in April 2023, reflecting high global food prices and the direct and indirect effects of a 43-percent fuel price increase in July 2022. Food prices increased by 2.1 percent month-on-month in March, the highest since December 2017. Rice prices have contributed to about 53 percent of that increase. The increase in food prices has slowed down with the beginning of the local rice season in April. Core inflation, which excludes rice and energy, stood at 11.8 percent year-on-year in April, with higher price increases in transportation and household equipment.

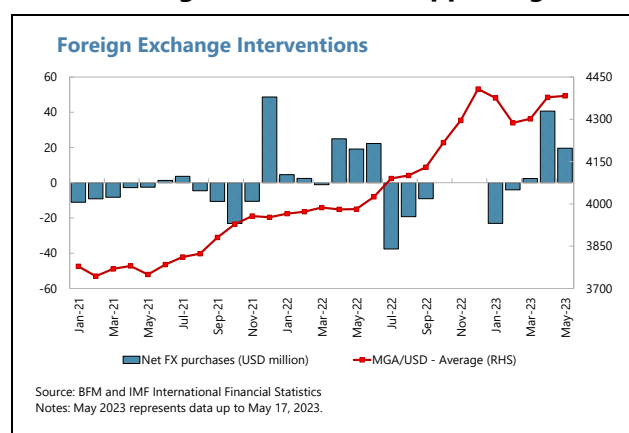




**5. The external position has weakened.** The current account deficit is estimated to have widened to 5.5 percent of GDP in 2022 (from 4.9 percent in 2021) owing primarily to a sharp rise in imports (+34 percent y-o-y), partly driven by higher international prices, but also a decline in primary income and remittances and higher dividend payments. Together with lower financial inflows and adverse developments in the vanilla sector (traditionally a key source of FX), this contributed to a drain in foreign assets over 2022. Despite this deterioration, Madagascar’s external position at end-2022 remained broadly in line with the level implied by fundamentals and desirable policies (IMF Country Report 23/117, Annex V). Goods imports and exports slowed markedly in 2023Q1 and the current account deficit shrank.

**6. The monetary policy response focused on containing inflation while supporting bank liquidity in a context of a structural liquidity deficit, with regular interventions in the foreign exchange market.** Interest rates were raised by 40 basis points in May, for the sixth time since November 2021 and currently stand at 8.5 and 10.5 percent for the deposit and marginal lending facilities, respectively.

However, the central bank (BFM) also lowered the reserve requirement ratio from 13 to 9 percent in April in a context of constrained bank liquidity and the transition towards an



interest rate targeting operational framework. This decision coincided with a large issuance of T-bills by the government. Meanwhile, private sector credit has accelerated (from 16.6 percent of GDP in 2021 to 17.4 percent in 2022) mostly driven by short-term credit. The depreciation of the ariary relative to the U.S. dollar accelerated over 2022:H2, despite interventions by BFM. This trend temporarily reversed in early 2023 amid further dollar sales by BFM. International reserves decreased over 2022 but remain adequate at 4.2 months of imports. The decline in reserve adequacy since program approval is mostly related to higher imports (text table 1). BFM took advantage of the stabilization of the exchange rate since March to rebuild some of its reserve buffers.

**Text Table 1. Madagascar: Changes in Reserve Adequacy Since Program Approval**  
(In millions of SDR)

	2021	2022	2023	2024
<b>Gross International Reserves</b>				
Program approval	1449	1540	1680	1793
Current framework	1630	1601	1588	1687
<i>Difference (in percent)</i>	12.5	4.0	-5.5	-5.9
<b>Imports</b>				
Program approval	3234	3623	4048	4339
Current framework	3365	4523	4789	5112
<i>Difference (in percent)</i>	4.1	24.8	18.3	17.8
<b>Reserve Adequacy (Months of Imports)</b>				
Program approval	5.4	5.1	5.0	5.0
Current framework	5.8	4.2	4.0	4.0

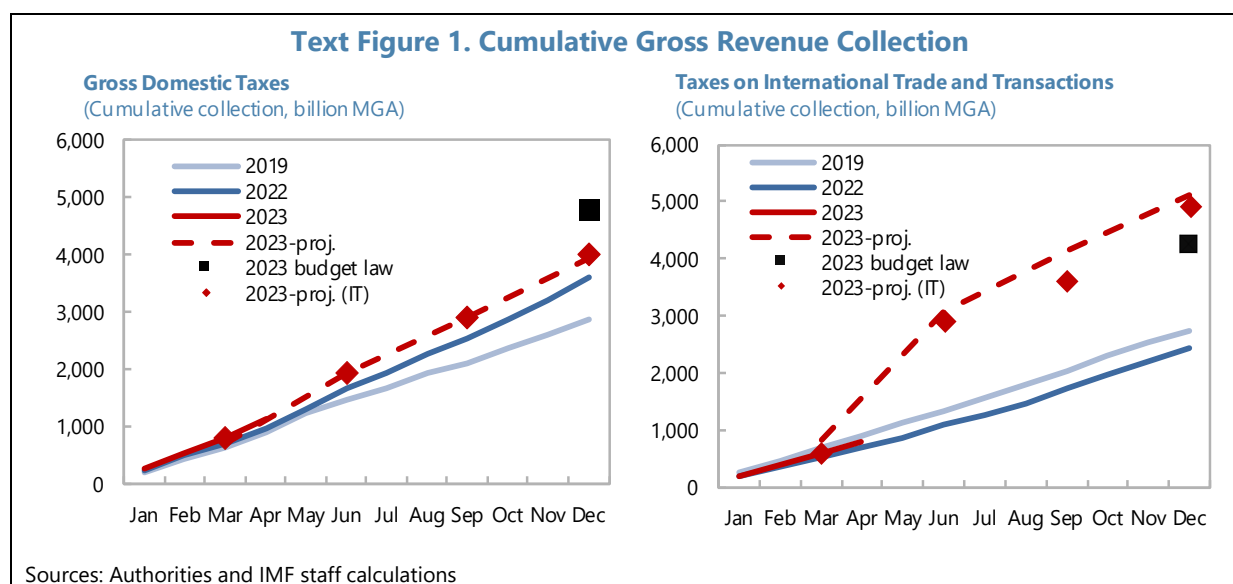
Sources: BFM and staff calculations.

**7. Delays in reaching an agreement with oil distributors until December 2022 led to a significant widening of the fiscal deficit in 2022.** The domestic primary deficit reached 2.8 percent of GDP (compared to 1.4 percent in the revised budget), mostly due to the non-payment of oil customs taxes by oil distributors and lower domestic tax collection (value added tax and personal income tax).<sup>1</sup> The authorities responded to the revenue shortfall by containing spending and accumulating arrears reaching 1.9 percent of GDP.<sup>2</sup> Preliminary data on tax revenue collection over January-April 2023 indicate a lower-than-expected increase in gross domestic tax revenue (19.3 percent y-o-y vs. 24.9 percent projected for the whole year by the authorities). Gross customs revenue grew by 9.8 percent y-o-y (22.2 percent projected for the whole year by the authorities) as lower oil prices weighed on oil customs tax revenue. The August 2021 SDR allocation (SDR 234.2million) was fully ceded by BFM to the government and converted into U.S. dollars in March.<sup>3</sup> Per a convention with BFM, the government carries the exchange rate risk and the interest cost.

<sup>1</sup> Net domestic tax collection is estimated to have underperformed relative to the revised 2022 budget by about 0.9 percent of GDP (MGA 3,325 billion estimated vs. 3,664 billion expected), mostly due to accumulating VAT credits toward oil distributors and the non-resumption of gold exports. Moreover, oil distributors stopped paying oil customs taxes in November 2021. Unpaid oil customs taxes amounted to MGA 1,192 billion or 1.9 percent of GDP at end-December 2022.

<sup>2</sup> Goods and services and domestically financed investment decreased by respectively 13.0 and 14.0 percent relative to the 2022 revised budget.

<sup>3</sup> Previous reviews envisaged a cession of around 80 percent of the allocation.



**8. The public electricity and water utility JIRAMA reported record losses in 2022 that were not fully anticipated in the third review.** An accident at the Andekaleka hydropower plant in January 2022 and the resulting loss of production for several months implied an increase in electricity production from thermal powerplants, in a context of rising international fuel prices. JIRAMA reported losses of MGA 666billion in 2022 (1.1 percent of GDP), after a subsidy of MGA 500billion by the government and despite the tariff optimization for corporate customers implemented in August 2022. Ballooning arrears to suppliers (oil distributors and independent power producers), estimated around MGA 1,790 billion (2.9 percent of GDP) at end-2022, have forced the government to requisition fuel to supply JIRAMA's powerplants.

## OUTLOOK AND RISKS

**9. The growth rate is expected to flatten in 2023, with relatively high inflationary pressures.** Real GDP growth is projected at 4.0 percent and inflation at 10.5 percent on average, as still high global prices for imports (rice) and cyclone-provoked supply disruptions sustain domestic price pressures. End-of-2023 inflation is still projected at 9.3 percent after the direct effect of the July 2022 fuel price increase dissipates. The 2023 domestic primary balance would reach a surplus of 0.7 percent of GDP, bolstered by the settlement of cross-liabilities between the government and oil distributors.<sup>4</sup> The current account deficit would narrow to 4.4 percent of GDP, due to a stronger slowdown in imports than in exports in a context of lower international oil prices and amid lower than initially expected growth projections.

**10. Risks to the outlook are skewed to the downside amid growing popular discontent and heightened global uncertainty.** Risks arise from weak state capacity, a potential locust invasion, commodity price volatility, monetary policy miscalibration, financial instability, and

<sup>4</sup> The settlement of cross-liabilities between the government and oil distributors related to the implicit fuel subsidy has a net positive effect on the fiscal balance of around 0.4 percent of GDP.

a slowdown of global growth (Annex I). Any delay in turning around JIRAMA and containing SOE losses would jeopardize the government's fiscal targets, while an interruption of electricity supply would cause significant social and economic harm. Lower vanilla export prices may further reduce FX inflows. Considering growing social tensions and Madagascar's history, political risks around the elections are particularly high. Madagascar remains also highly vulnerable to extreme climate events. On the upside, implementation of the full reform agenda envisaged in the national development plan (PEM) would have significant positive effects on productivity and growth. The expected resumption of gold exports later this year may boost exports and help offset adverse developments in the vanilla sector.

**11. The external and overall risk of debt distress continues to be assessed as “moderate” and the government has some space to absorb shocks.<sup>5</sup>**

## PROGRAM IMPLEMENTATION

**12. Program performance remains mixed.** Two out of five end-December 2022 performance criteria (QPCs) were missed. The ceiling on the central bank's net domestic assets and the external debt QPCs were achieved. The floor on the central bank's net foreign assets (NFA) was missed by a small margin (MGA 140billion), slightly over 0.2 percent of 2022 GDP. The QPC on the domestic primary balance was breached by a wide margin at end-December (MGA 836billion) mostly due to the nonpayment of oil customs taxes by oil distributors and despite the authorities' efforts to contain spending. The IT on customs tax collection was missed for the same reason. The IT on domestic tax collection was missed due to delays in finalizing some tax controls. Finally, the IT on social spending was not met in 2022 (missed by 15 percent), although by a lesser margin than in 2021 (missed by 42 percent).

**13. Corrective actions have been taken to address QPC breaches and, with enhanced program modalities, will ensure that the program remains on track.** Following the implementation of the agreement with oil distributors over December-May 2023 oil customs tax payments have resumed and breaches of the domestic primary balance and customs revenue IT should not be repeated. Clarity about the applicable reference fuel price structure for 2023 should help prevent future disputes with oil distributors and revenue disruptions (¶18). Preliminary data for end-March 2023 indicates that the social spending IT was met thanks in part to an acceleration of investment commitments by the Ministry of Water (¶19). The cession to the government and conversion of the full August 2021 SDR allocation late in 2023Q1 has resulted in a temporary breach of BFM's net domestic assets (NDA) target (calculated using the average of ten-day stocks over the quarter) which is not expected to reoccur.

<sup>5</sup> Madagascar has long-standing arrears to Algeria and Angola (for a total of US\$ 188 million) which continue to be deemed away under the policy on arrears to official bilateral creditors, as the underlying Paris Club agreement is adequately representative and the authorities are making best efforts to resolve the arrears. In addition, Madagascar owes US\$ 18 million to private external creditors. The authorities continue to make good faith efforts to reach a collaborative agreement with these creditors on terms consistent with the relief expected under the HIPC initiative.

**14. The implementation of the authorities' structural reform agenda has accelerated.** With FAD technical assistance, the authorities have finalized and published the public investment manual which was adopted by decree on March 15th (March 2023 structural benchmark (SB)). The follow-up report by the Cour des Comptes on the implementation of recommendations following the audits on COVID spending was released on April 3rd (March 2023 SB, see Annex II). As for continuous SBs, the quarterly budget execution reports have been further improved and now meet the SB requirements. Staff were not notified within one week of recent budget transfers to JIRAMA's suppliers. The ceiling on the government's gross liabilities to oil distributors (MGA 300billion) was breached in September 2022 due to the delay in reaching agreement on cross-liabilities. The ceiling has been met since April 2023 as the government started settling its liabilities following the December agreement.

**15. Two out of three SBs due in June 2023 have already been met.** The authorities finalized and submitted to the parliament a new mining code in line with IMF TA recommendations and World Bank's advice. They also amended the legal and regulatory framework to allow the collection and publication of the UBO for public procurement contracts.

## POLICY DISCUSSIONS

### A. Responding to Shocks While Ensuring Medium-Term Fiscal Sustainability

**16. The drop in revenue driven by lower imports and slower growth and the need to support JIRAMA necessitate a relaxation of the domestic 2023 primary balance by 0.6 percent of GDP compared to the third review.**

- Total tax revenue, excluding exceptional revenue related to the payment of customs tax arrears, were revised down by MGA 782billion relative to the 2023 budget (MGA 460billion compared to staff's more conservative estimates in the third review). The revision is mostly due to lower projected customs revenue as oil imports were revised down by 14 percent and, following staff advice, the authorities suspended the exit tax on exports of non-renewable minerals introduced in the 2023 budget law. While expressing optimism about an increase in tax collection in the second half of the year, the authorities committed to offset the revenue underperformance by reducing the wage bill (MGA -25billion compared to the third review – text table 2), goods and services (MGA -35billion), and domestically financed investment (MGA -401billion). However, further spending reductions beyond those reflected in the current macroeconomic framework may not be advisable.
- The need to arrest JIRAMA's arrear accumulation and ensure the continuity of its operations in 2023 requires an increase in the transfer envelope of MGA 422billion or 0.6 percent of GDP and thus an equal relaxation of the domestic primary balance target. The authorities had initially budgeted MGA 300billion for JIRAMA's operational subsidy (compared to estimated transfers of MGA 857billion in 2022, including the payment by the government of MGA 433billion for fuel requisitions), but this amount was reallocated to settle government's

liabilities to oil distributors related to the implicit fuel subsidy (December agreement).<sup>6</sup> Anticipating the need for further room to settle past liabilities with oil distributors, staff's projection for transfers in 2023 at the time of the third review exceeded the 2023 budget allocation by MGA 398 billion (with a proportional reduction in domestically financed investment). However, an additional increase is needed to clear part of JIRAMA's past arrears and ensure the continuity of electricity supply (¶18 and Box 1). The authorities will implement new safeguards to avoid that future slippages go undetected (¶117).

- The domestic primary balance relaxation implies a broadly flat deficit profile (around 1 percent of GDP), after correcting for the delayed payment of 2021-22 oil customs taxes in 2023. The higher deficit will have a limited impact on the debt level and debt sustainability indicators given the current moderate risk of debt distress. The authorities committed to modulate spending as needed to achieve the new fiscal targets (MEFP ¶15).

#### Box 1. JIRAMA's Fiscal Cost

- In the context of high fuel prices, JIRAMA's losses at end-2022 are estimated around MGA 666 billion (1.1 percent of GDP), after a government subsidy which was raised to MGA 500 billion in the 2022 revised budget from MGA 380 billion initially. Without government's support, JIRAMA's losses would have reached 1.9 percent of GDP. The sum of the operational subsidy and direct payments to suppliers by the government on behalf of JIRAMA, including for fuel requisitions, represents around MGA 857 billion or 1.4 percent of GDP in 2022. Government's transfers to JIRAMA reached 1.4 and 1.7 percent of GDP in respectively 2019 and 2020, but only 0.7 percent of GDP in 2021 when arrears started accumulating.
- While the implementation of a new tariff structure for households and businesses (March 2022 SB, implemented in August) has increased revenue, average electricity tariffs remain far from recovery costs. JIRAMA's average electricity production cost was estimated at 1,272 MGA/kWh in 2022, more than twice as high as the average sale price (550 MGA/kWh) and JIRAMA cannot continue to operate without government's support.
- While the authorities have budgeted only MGA 300 billion (0.4 percent of GDP) for JIRAMA's operational subsidy in 2023, fuel requisitions to supply JIRAMA's thermal powerplants already reached about MGA 258 billion by end April 2023.
- To increase accountability, the government has issued special T-bills to pay for 2022 requisitions and treats those payments as a loan from the government to JIRAMA, formalized by the signature of a loan convention between the government and JIRAMA, not affecting the budget deficit. Staff remain skeptical of JIRAMA's capacity to repay this debt in the short term and therefore reclassified the loan as a transfer which contributed to widening the 2022 deficit (albeit to a level close to the one estimated in the third review). A similar approach will be followed in 2023, justifying the relaxation of the primary balance target.

<sup>6</sup> The fuel subsidy results from the difference between the fixed pump price and the reference price structure set by the government after discussions with fuel distributors. In the past, oil price fluctuations allowed for periods of positive subsidies to be offset by periods where the reference price was below the fixed pump price (negative subsidies), leading to no actual budget transfer to distributors. With the difference between the fixed pump price and the reference price structure widening due to rapid increase in oil prices, and by redefining the program SB capping government's liabilities to fuel distributors from a *net* to a *gross* basis at the time of the second review, staff encouraged an on-budget settlement of this subsidy, while strictly limiting its level in the future.

**JIRAMA's Main Financial Data**  
(Percent of GDP)

	2017	2018	2019	2020*	2021*	2022*
Turnover	1.5	1.6	1.5	1.5	1.4	1.4
Net operating results	-0.2	-0.7	-0.9	-0.6	-0.7	-1.1
Budgeted government operational subsidies	1.1	0.7	0.5	0.3	0.7	0.8
<i>Paid operational subsidies</i>	<i>1.0</i>	<i>0.6</i>	<i>1.4</i>	<i>1.7</i>	<i>0.7</i>	<i>1.4</i>
Accounts payable	2.6	3.1	2.5	2.5	3.5	4.2
<i>of which: suppliers</i>	<i>2.1</i>	<i>2.1</i>	<i>1.4</i>	<i>1.2</i>	<i>2.3</i>	<i>2.9</i>
<i>tax arrears</i>	<i>0.3</i>	<i>0.8</i>	<i>0.9</i>	<i>1.1</i>	<i>1.0</i>	<i>1.1</i>
Accounts receivable	1.9	2.2	2.4	2.9	2.8	3.0
<i>of which: customers</i>	<i>0.8</i>	<i>0.9</i>	<i>1.0</i>	<i>1.2</i>	<i>1.2</i>	<i>1.2</i>
<i>VAT credits</i>	<i>1.1</i>	<i>1.2</i>	<i>1.4</i>	<i>1.6</i>	<i>1.7</i>	<i>1.8</i>
Debt (excluding arrears)	0.3	0.3	1.2	2.4	2.4	2.7

\* Uncertified data.

Sources: JIRAMA; Ministry of Economy and Finance; and staff calculations.

**Text Table 2. Madagascar: Authorities vs. Staff Fiscal Projections**  
(In billions of Ariary)

	2023			
	2023 budget law (LF)	3rd review	Current framework	Current framework (Percent of GDP)
Total revenue and grants	11,431	11,568	10,448	14.8
Total revenue	8,810	9,680	9,220	13.1
Tax revenue	8,620	9,490	9,030	12.8
Domestic taxes	4,429	4,100	3,956	5.6
Taxes on international trade and transactions	4,191	5,390	5,074	7.2
<i>o/w exceptional revenue (payment of oil customs tax arrears)</i>		<i>1,192</i>	<i>1,192</i>	
Non-tax revenue	190	190	190	0.3
Grants	2,621	1,888	1,228	1.7
Total expenditure and lending minus repayments	15,719	13,714	13,117	18.6
Current expenditure	7,043	7,502	7,811	11.1
Wages and salaries	3,869	3,869	3,844	5.5
Interest payments	642	703	649	0.9
Goods and services	542	542	507	0.7
Transfers and subsidies	1,827	2,225	2,647	3.8
<i>o/w JIRAMA</i>	<i>300</i>	<i>300</i>	<i>722</i>	<i>1.0</i>
Treasury operations (net)	163	163	163	0.2
Capital expenditure	8,675	6,212	5,306	7.5
Domestic financed	2,709	1,990	1,589	2.3
Foreign financed	5,966	4,222	3,717	5.3
Overall balance (commitment basis)	-4,288	-2,145	-2,669	-3.8
Overall balance (including grants, cash basis)	-4,879	-3,289	-3,758	-5.3
<b>Domestic primary balance</b>	<b>-300</b>	<b>892</b>	<b>469</b>	<b>0.7</b>
<i>excluding exceptional revenue (payment of oil customs tax arrears)</i>		<i>-300</i>	<i>-723</i>	<i>-1.0</i>

Sources: Malagasy authorities; and IMF staff projections.

Note: Revenue projections in the 2023 budget do not include oil customs tax arrear repayments. Taxes on international trade and transactions in the current framework are reported on a cash basis. The numbers for the third review were adjusted accordingly to facilitate comparison.

**17. The authorities are taking measures to turnaround JIRAMA and reduce the need for future transfers (MEFP 122).** While the proposed increase in transfers should help stabilize JIRAMA, it will likely be insufficient to clear all existing arrears. Hence the need to quickly restore profitability. The current business plan includes measures to reduce operational costs and increase



revenue, while improving transparency and accountability. With World Bank support, the authorities are recruiting, through an international competitive hiring process, a CEO and a CFO for JIRAMA. The new team may adjust the strategy to accelerate JIRAMA's arrear repayment and recovery.

- The authorities count on investments in renewable energy sources to reduce operational costs, by (i) accelerating the hybridization of thermal power plants with yearly potential savings of MGA 154.5 billion; (ii) repairing and adding a fourth turbine to the Andekaleka hydropower plant, with savings of MGA 172 billion in 2023 compared to thermal energy costs; and (iii) installing solar energy parks in 46 cities across the country which could yield yearly savings of MGA 80 billion. Measures to control production may be considered in the short-term.
- They aim to limit fuel thefts and non-technical electricity losses (estimated around 27 percent) by relying on a new system for monitoring fuel transportation and storage and using smart-grid systems to detect frauds (MGA 11.5 billion expected savings in 2023). They are finalizing the installation of prepaid meters for all administrations by end-2023 (SB) to eliminate arrears by the government and are considering increasing tariffs after the November elections.
- They are also committed to increase JIRAMA's transparency and accountability, by (i) providing monthly reports on JIRAMA's revenue and costs and publishing the results of all calls for tender for fuel purchases (proposed continuous benchmark); (ii) publishing JIRAMA's financial accounts for the last three years (2020, 2021 and 2022) by end June (proposed SB); and (iii) releasing the company's certified accounts as soon as they become available.

**18. The implementation of the December 2022 agreement with fuel distributors will alleviate the government's liquidity constraints, while transparency about the applicable fuel price structure will facilitate monitoring of the implicit fuel subsidy in 2023.**

- The clearance of the 2021 and 2022 oil tax arrears and resumption of timely oil customs tax payments by oil distributors since May will provide liquidity to the Treasury and help achieve the revised revenue targets. However, arrears to the road maintenance Fund (FER) and to the Ministry of Energy (RDS) have yet to be settled (Text Table 3).
- The authorities have paid all other debts vis-à-vis oil distributors but for the differential between 2022 estimated fuel subsidy liabilities and the actual outturn (MGA 58billion). According to the agreement, JIRAMA should pay for part of the 2022 fuel requisitions (MGA 100billion) by end June 2023.
- Based on WEO oil price projections, gross liabilities to oil distributors are expected to remain well below the continuous SB ceiling of MGA 300billion. Avoiding the retroactive publication of the reference price structure (used for the calculation of the implicit fuel subsidy) is however essential to improve business predictability. The authorities committed to adopt



and publish the required “arrêtés” for 2023H1 and 2023H2 before the completion of the review (prior action).

- The authorities reiterated their commitment to implement an automatic fuel pricing mechanism by 2024Q1 (proposed SB) and are working on policy formulation to mitigate the impact of fuel price adjustments on vulnerable populations (SB).

	end-2021	end-2022	end-March 2023	As of May 15, 2023	end-June 2023 (projections)
<b>Due by the Government</b>					
<b>Liabilities related to the implicit fuel subsidy</b>					
New liabilities (flow)	167	793	48	8	-2
Transfers to oil distributors	0	0	-167	-735	0
Cumulative gross liabilities	167	960	841	113	112
<b>JIRAMA requisitions</b>					
Requisitions (flow)	-	565	252	6	0
Repayment <sup>1</sup>	-	-150	0	-315	-100
Cumulative balance	-	415	667	358	258
<b>Due by the Fuel Distributors</b>					
<b>Oil customs taxes</b>					
Customs tax arrears (flow)	168	1025	235	0	0
Repayments	0	0	-231	-962	-235
Cumulative balance	168	1193	1197	235	0
<b>Arrears to the Road Maintenance Fund (RER) and to the Ministry of Energy (RDS) - Cumulative balance</b>	134	287	318	334	350

<sup>1</sup> Includes repayments by JIRAMA (MGA 100 billion in June 2023)  
Sources: Authorities' data; and staff estimates.

**19. The authorities remain committed to clear in 2023 the arrears accumulated as a result of the dispute with oil distributors (around MGA 1,089 billion).** In the absence of a revised budget, the MEFP spells out detailed understandings on revenue and spending projections needed to reach program objectives (MEFP ¶8, 11, and 15).

**20. Efforts should continue to strengthen social spending execution and social safety nets.** Social spending execution significantly improved in 2022 and 2023Q1 (Text Table 4). Meanwhile, the authorities are making progress towards finalizing the functionality of the single social registry and integrating 60,000 households into the registry as a pilot project (October and December 2023 SBs). They are also considering options to extend the coverage of existing cash transfer programs (currently about 670,000 households or 12 percent of the population), including through a new World Bank project covering an additional 200,000 households (US\$ 250 million for 2023–27). These plans will be specified in the new social protection strategy to be finalized by end-2023 (MEFP ¶13).

**Text Table 4. Madagascar: Spending of the Four Social Ministries**  
(Program Definition)

	2021		2022		2023		
	Prel.	LFR	Prel.	LF	Proj. Q1	Proj. Q1	Prel. Q1
(in billions of Ariary, unless otherwise indicated)							
IT Definition: excluding salaries and foreign financed investment	299	527	447	1,031	700	70	108
o/w Ministry of Education	161	232	225	338			8
o/w Ministry of Health	97	118	105	188			8
o/w Ministry of Population and Social Protection	22	28	26	50			3
o/w Ministry of Water	19	149	90	455			89
Memo 1: including salaries	1,385	1,888	1,768	2,549	2,218	444	457
Memo 2: including salaries and foreign financed investment	1,856	2,787	2,578	3,873	3,351	670	662
Memo 3: wage bill of public workers - education	873	1,127	1,076	1,249	1,249	287	284
Memo 4: wage bill of public workers - health	201	222	232	253	253	58	60
Social spending by other ministries							
Domestically financed investment	14	28	27	33	33		0
Externally financed investment	325	104	539	163	163		1
Transfers to FID		18	n.a.	n.a.			n.a.
Transfers to BNGRC		15	n.a.	n.a.			n.a.

Note: LF= Loi de Finances (Budget Law); LFR= Loi de Finances Rectificative (Revised Budget Law).

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

**21. Recent progress in mining sector reforms will help create additional fiscal space for social and infrastructure spending.** The expected adoption of the mining code and resumption of mining permit processing and gold exports will contribute to greater domestic revenue mobilization in the medium term. The 2005 Law on Large-Scale Mining Investments, which established a special regime for large mining operations, will need to be revised in accordance with the new mining code.

**22. Some of the additional revenue could be used to strengthen the authorities' response to food insecurity.** The response to the 2023 cyclonic season improved relative to 2022 with better preparedness and collaboration with donors. Strengthened collaboration between the Ministry of Environment and the Ministry of Finance would further improve the response to climate shocks. The authorities are implementing measures to reduce structural food insecurity and committed to operationalize and provision a system of grain reserves and food banks in 23 regions (proposed SB, MEFP ¶120). The combination of better storage facilities and better road connectivity is key to enhance resilience to shocks in landlocked areas.

**23. Air Madagascar's ongoing debt restructuring continues to pose a fiscal risk.** The current plan, which envisages a debt reduction of US\$ 65 million, or 60 percent of the company total debt, remains subject to creditors' consent. The government would waive a large share of the company's tax arrears currently estimated at US\$ 60 million. The late certification of Madagascar Airlines, the new structure that has taken over the activities of Air Madagascar and its local subsidiary, Tsaradia, has delayed the lease of new aircrafts weighting on Madagascar Airlines' operations in 2023. However, the return to profitability of the new company is expected for 2024.

## B. Strengthening Public Financial Management and Governance and Fighting Corruption

**24. The authorities are drawing lessons from recent reforms to further strengthen budget execution, credibility, and transparency.** Despite the elimination of the spending commitment authorization (prior action for the third review) and the preparation of commitment plans by social ministries (January 2023 SB), budget execution in 2023Q1 showed a need to better align commitment, cash flow, and public procurement plans. This calls for better coordination between sectoral Ministries and the Ministry of Finance, and an improvement of public procurement and public financial management IT systems to allow for a better monitoring of budget execution. An audit of the expenditure chain, supported by IMF TA, is planned in June 2023 to identify remaining bottlenecks, and recommend ways to improve commitment plans' realism. The authorities committed to prepare enhanced commitment plans for the four social ministries and the ministries of Finance, Agriculture, Public Works, Land Development and New Cities (proposed SB, January 2024). The newly created *Bureau de Suivi des Engagements* is not yet operational, although its director has recently been appointed. The position of General Director of the Budget and Finance has been vacant for 6 months and should be filled swiftly to ensure the proper functioning of the Directorate General.

**25. Ensuring the strict enforcement of the principle of budget annuality remains essential to improve transparency and execution predictability.** The authorities remain committed to systematically cancelling unused credits at the end of the fiscal year, including any unused credits of the COVID fund (MEFP ¶131).<sup>7</sup>

**26. The implementation of the Public Financial Management Modernization Plan needs to accelerate.** The authorities have created a reform monitoring unit with representatives from all involved departments and institutions and plan to improve training and communication (MEFP ¶129). Recent liquidity pressures have highlighted the urgency to strengthen cash flow management to prevent further arrear accumulation. A new cash management law, still awaiting examination by the Council of Ministers, is needed to complete the implementation of the Treasury Single Account and improve the monitoring and clearing of arrears (MEFP ¶132).

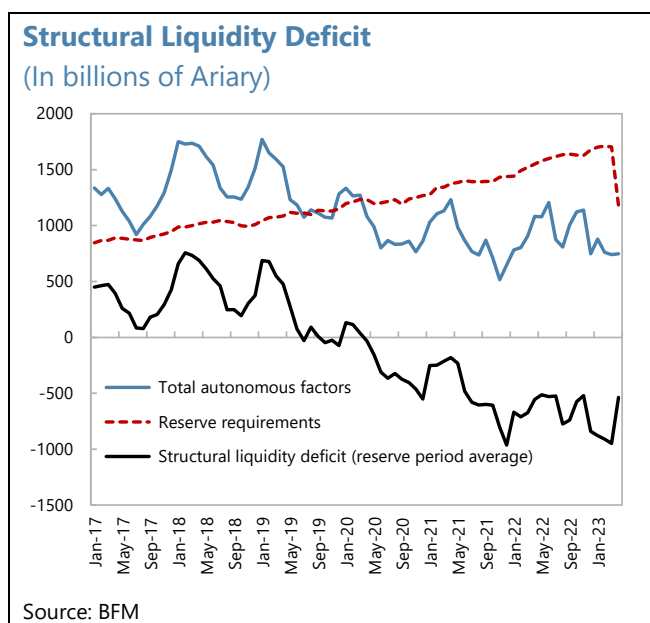
**27. A modernization of the legal framework of the Council for Fiscal and Financial Discipline (CDBF) would allow to increase accountability.** The follow-up report by the *Cour des Comptes* on its audits on COVID spending published on April 3<sup>rd</sup> (SB) highlights mixed progress in the implementation of the authorities' action plan (Annex II). Such ex-post monitoring should be systematized. Going forward, the CDBF legal framework should be updated to allow referrals by anti-corruption agencies and expand the range of sanctions applicable in case of proven irregularities.

<sup>7</sup> The decision to cancel unused credits from the COVID fund following IMF advice deviates from the authorities' plan communicated at the time of the third review to transfer some of those credits to the National Contingency Fund.

**28. The effective enforcement of the anti-corruption legal framework requires additional physical and human resources.** The nominal budget allocated to anti-corruption agencies did not increase in the 2023 budget law compared to the 2022 revised budget law, despite inflation. In April 2023, additional credits were allocated to the Agency for the Recovery of Illicit Assets (ARAI)<sup>8</sup> but its budget remains too limited to cover its operational needs. Moreover, the reappointment of new magistrates to the Anti-Corruption Courts (PACs) following the expiration of their terms in January has only been recently finalized. The Financial Intelligence Unit (SAMIFIN) is still preparing a draft law on combating money laundering and the financing of terrorism (AML/CFT) to improve conformity with international standards (MEFP ¶34). The legal framework to allow for an adequate oversight of public policies remain to be reinforced. In particular, the draft law to guarantee access to information has not been adopted by the Council of Ministers.

## C. Strengthening the Monetary Policy Framework and Advancing Financial Reforms

**29. BFM is committed to maintain a tight policy stance to set inflation on a downward path (MEFP ¶38).** BFM increased its policy rates by 40 basis points in May to respond to the acceleration of inflation in early 2023 and contain second-round effects of the fuel price increase in July 2022 and potential demand pressures from salary adjustments in May 2022. With real rates remaining close to zero and private credit expanding, BFM should continue to raise rates as needed to return to single digit and stable inflation. The recent decision to lower reserve requirements was justified by the authorities to better calibrate the banking system's liquidity position and facilitate the transmission of the monetary policy stance but seems premature in a context of rising inflationary pressures.<sup>9</sup>



<sup>8</sup> The initial allocation of the ARAI in the 2023 budget law was identical to the 2022 one when the agency was operational for only four months.

<sup>9</sup> Large unremunerated reserve requirements act as a tax on the banking system and contribute to the large structural liquidity deficit through a reduction in the autonomous factors of liquidity. Reducing the reserve requirement ratio should therefore allow for a reduction in BFM's liquidity injections. However, staff are concerned that this could also encourage banks to further increase lending.

**30. BFM has made significant progress in establishing the building blocks needed to migrate to an enhanced monetary policy analysis transitional framework in 2023.**<sup>10</sup> Recent IMF technical assistance has suggested that the domestic interbank market functions rather well with BFM increasingly able to steer the overnight interbank rate toward the middle of its interest rate corridor. The authorities will continue their efforts to deepen the debt market and ensure a successful and full transition to interest rate targeting in the medium term (MEFP ¶137). Staff urged the Ministry of Finance to improve the transparency of its debt issuance practices and to agree with BFM on the principle of a single central securities depository (CSD) for public debt securities which is key to deepen the public debt market and establish a more market-based and non-segmented government securities market.<sup>11</sup>

**31. Foreign exchange interventions should focus on smoothing excess volatility.** FX reserve accumulation would increase BFM's NFA and mechanically reduce NDA which are both program targets.<sup>12</sup> Restrictions on residents' holding of bank accounts in foreign currency will be effective from June 2023 and may temporarily alleviate the short supply of foreign currency on the domestic FX market. Recent Fund technical assistance recommended to replace the unused FX intervention algorithm by a new rules-based approach aiming at preserving financial and price stability. The finalization of the operational strategy for the inclusion of gold in reserves and the validation of the MoU with the Ministry of Mines will allow BFM to resume gold purchases (MEFP ¶140).

**32. To maintain a well-capitalized banking system, BFM should pursue compliance with Basel II and III frameworks and proactively require capital increases based on stress test results.** In addition, the Council of Ministers should approve the long-awaited financial stability law to complete the financial stability policy framework.

## OTHER PROGRAM ISSUES

**33. A waiver for non-observance of the net foreign assets (NFA) and domestic primary deficit performance criteria is requested by the authorities.** Staff support this request based on the minor nature of the NFA breach (4½ percent of the adjusted target in a context of a rapid depreciation of the exchange rate which has since stopped, allowing the central bank's turn to a net FX buying position) and on remedial actions taken by the authorities to ensure the payment of oil customs tax arrears, timely collection of future taxes and achievement of future domestic primary deficit targets. Those actions include the conclusion and implementation of an agreement with oil distributors to clear past cross-liabilities and the publication of the reference fuel price structure for both semesters of 2023 before the conclusion of this review.

<sup>10</sup> Under an enhanced monetary policy analysis framework, monetary policy analysis centers on an inflation forecast. The status of broad money is downgraded from target to indicator, and monetary analysis serves to cross-check economic analysis.

<sup>11</sup> BFM is currently the CSD for some type of T-bills (*Bons du Trésor par Adjudication* – BTA) while the Treasury retains the book-keeping of operations involving *Bons du Trésor Fihary* (BTF) which complicates their use as collateral. BTFs are issued over the counter at longer maturities than BTA and below-market interest rates.

<sup>12</sup> Sterilizing FX purchases implies a withdrawal of liquidity by the BFM (or lower liquidity injections).

**34. Modifications of program targets and new structural benchmarks are proposed for 2023 and 2024.** The floor on the domestic primary balance at end-June and end-December 2023 was lowered compared to the third review to allow for additional transfers to JIRAMA. The NFA targets going forward have been revised up to reflect that the SDR retrocession took place in March. Additional changes are proposed to reflect macroeconomic developments and new program understandings. Five new structural benchmarks are proposed to (i) improve monitoring and transparency of JIRAMA's financial position (2 new SBs. The unmet benchmark at end-December 2022 regarding the approval of a recovery plan, which was already assessed at the time of the third review, will be reset after a new management team is appointed.), (ii) support government's efforts to address food security and improve resilience to shocks, (iii) further strengthen budget execution, and (iv) formalize the MEFP commitment to implement an automatic fuel pricing mechanism by 2024Q1 (MEFP Table 2). Those SBs were defined after consultation with the World Bank, the World Food Program, and the IMF long-term resident TA fiscal expert to address macro-critical issues while being mindful of the authorities' limited capacity. Finally, staff propose to postpone the formulation of policies to mitigate the impact of fuel price adjustments on vulnerable populations (June 2023 SB) to September 2023 to allow for consultations with the World Bank's social protection experts.

**35. Program risks remain elevated.** The needed loosening of the domestic primary balance target amid the materialization of fiscal risks from JIRAMA, along with lowered revenue projections, reflects a lack of fiscal space and highlights the risk of not achieving the program fiscal targets by 2024. Mitigating measures include a very close engagement with the authorities, more frequent and more detailed monitoring of JIRAMA, and strong collaboration with the World Bank and development partners. The continued provision of capacity development is also key to support reform implementation.

**36. The program remains fully financed, with firm commitments over the remaining period of the program.** Projected external financing resources are sufficient to satisfy external financing requirements until 2024 (Table 9). Fund engagement remains critical to catalyze support from other development partners. The authorities expect to receive US\$ 100 million of budget support from the World Bank this year, allowing for the 2023 projected reserve drawdown to be reduced by almost 75 percent compared to the previous review and improving burden sharing (text table).<sup>13</sup> Disbursements under this and subsequent ECF reviews would be directed to the budget in line with the decision made in the first review.

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<sup>13</sup> The Development Policy Operation is part of a programmatic series of three operations over 2023–25 and is expected to be approved by the World Bank's executive Board on June 8, 2023.

**Text Table 5. Madagascar: External Financing Requirements and Sources**  
(Millions of U.S. Dollars)

	2021			2022			2023			2024			2021 - 2024		
	Program approval	3 <sup>rd</sup> review	4 <sup>th</sup> review	Program approval	3 <sup>rd</sup> review	4 <sup>th</sup> review	Program approval	3 <sup>rd</sup> review	4 <sup>th</sup> review	Program approval	3 <sup>rd</sup> review	4 <sup>th</sup> review	Program approval	3 <sup>rd</sup> review	4 <sup>th</sup> review
Financing gap before use of reserves, SDR allocation and IMF repayments (from Table 9)	396	523	524	144	257	257	117	141	171	72	59	88	729	980	1040
Use of reserves	0	0	0	0	-180	-180	0	-92	-23	0	0	0	0	-272	-203
SDR allocation	0	-332	-332	0	0	0	0	0	0	0	0	0	0	-332	-332
IMF repayments	18	22	22	27	21	21	55	50	50	64	59	58	164	152	151
<b>Total financing gap</b>	<b>414</b>	<b>214</b>	<b>214</b>	<b>171</b>	<b>98</b>	<b>98</b>	<b>172</b>	<b>99</b>	<b>198</b>	<b>136</b>	<b>118</b>	<b>146</b>	<b>893</b>	<b>528</b>	<b>656</b>
IMF disbursements	142	70	70	72	98	98	72	98	98	36	33	33	322	299	299
Other program financing	272	144	144	100	0	0	100	0	100	100	85	113	572	229	357
<b>Burden sharing - Share of IMF (%)</b>	<b>34.3%</b>	<b>32.7%</b>	<b>32.7%</b>	<b>42.1%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>41.9%</b>	<b>99.0%</b>	<b>49.5%</b>	<b>26.5%</b>	<b>28.0%</b>	<b>22.6%</b>	<b>36.1%</b>	<b>56.6%</b>	<b>45.6%</b>

Source: Staff calculations.

**37. Capacity to repay the Fund remains adequate**, with annual planned repayments peaking in 2026 at 0.8 percent of GDP, 5.6 percent of government revenue, and 2.3 percent of exports. Existing and prospective Fund credit is expected to peak in 2023 at 5.6 percent of GDP and 43.0 percent of government revenue and is expected to decline thereafter.

**38. The majority of the 2021 safeguards recommendations have been implemented, including the BFM's transition to International Financial Reporting Standards.** Outstanding recommendations include the completion of an external quality assessment of the internal audit function and phasing out BFM's involvement in unrefined gold purchases. For the latter, the BFM continues to work on establishing safeguards around this operation prior to resuming purchases (MEFP 140).

**39. The authorities have requested financing under the RSF and staff plan to start discussions at the next review, provided performance under the current arrangement remains satisfactory.** In the meantime, staff will continue engaging with the authorities on RSF qualifications, including the need for high-quality policy reforms addressing long-term structural challenges related to climate change. In the context of an RSF request requiring at least 18 months remaining in a concurrent upper-credit-tranche arrangement, considerations surrounding an extension of the current arrangement or undertaking a new ECF arrangement will also be discussed. Background work to assess the impact of climate-related vulnerabilities started with the Climate Macroeconomic Assessment Program published in November 2022 and will continue in the coming months.

## STAFF APPRAISAL

**40. Madagascar's growth has decelerated and inflationary pressures are rising.** While GDP recovered from the pandemic, growth is expected to flatten at 4 percent in 2022 and 2023. High global and domestic fuel and food prices are contributing to inflationary pressures which particularly hurt the most vulnerable.

**41. Implementation of the ECF-supported program remains mixed with respect to quantitative targets.** Two out of five QPCs were missed at end-December 2022 for the same



reasons as at end-June 2022. The central bank's NFA fell below the program target by a small margin. The QPC on the domestic primary balance was breached by a wider margin due to the delayed payment of oil custom taxes by oil distributors, but the settlement of cross-liabilities between the government and oil distributors in 2023 has allowed the resumption of regular customs tax payments. All three end-December ITs were missed, but performance toward the social spending IT has improved compared to 2021, and the IT was met at end-March 2023.

**42. Nevertheless, the authorities have continued to make progress on the structural reform agenda.** All SBs were met or implemented with minor delays, except the continuous SB on notifying staff of budget transfers to JIRAMA's suppliers within a week after payment and a temporary non-observance of the SB on containing government's gross liabilities to oil distributors below MGA 300 billion. This ceiling has been met since April 2023. Staff welcomes the publication of the public investment manual which would facilitate better investment planning and execution. The follow-up report by the *Cour des Comptes*, enhanced quarterly budget execution reports, and changes to the public procurement legal framework will contribute to improving transparency and accountability.

**43. The need to support JIRAMA which the authorities are trying to turn around after exceptional losses in 2022 requires a relaxation of the domestic primary deficit target in 2023.** Tax revenue collection has slowed in part because of slower growth and lower imports, and the implementation of the December 2022 agreement with fuel distributors has required large transfers in 2023 to settle government's liabilities with distributors and allow the resumption of timely oil customs tax payments. Following an accident in a hydropower plant in the context of high international fuel prices, JIRAMA recorded exceptional losses in 2022 which implied sizable arrear accumulation. Given the social risks and economic harm that would be caused by an interruption of electricity supply, staff support an increase in the transfer envelope to JIRAMA and simultaneous relaxation of the fiscal anchor for 2023, accompanied by a better monitoring of JIRAMA's financial situation. The authorities remain committed to take all measures necessary to achieve the new program targets.

**44. The authorities should contain spending to compensate for any revenue underperformance.** Staff urged the authorities to fully implement the tax administration measures adopted with the 2023 budget and to reconsider costly tax expenditures and distortionary tax measures in their next budget law. The suspension of the exit tax on exports of non-renewable minerals is welcome. Public investment projections should better account for capacity constraints and reflect a clear prioritization of projects based on transparent criteria including resilience to climate change.

**45. While the full implementation of the December agreement with oil distributors should significantly reduce fiscal risks, turning around JIRAMA is a priority.** The operating costs of the company have significantly increased in 2022 due to high fuel prices and the gap with lower electricity tariffs has widened. Cutting costs, reducing non-technical losses, approving a realistic business plan and strategy, and improving service provision will be key. More transparency about JIRAMA's operations and government-provided financial support is also necessary.



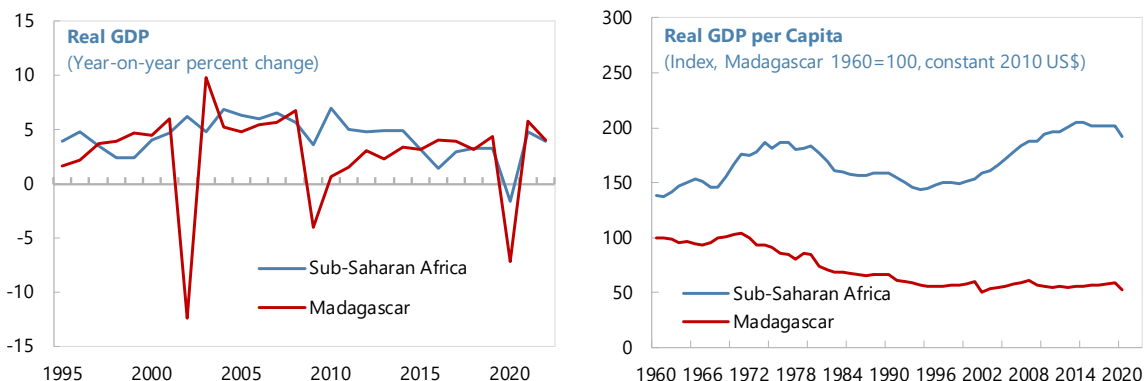
**46. Public financial management reforms need to accelerate.** The authorities should pursue their efforts to reduce excessive centralization of budget execution, streamline the budget execution process, and better align commitment, cash flow, and public procurement plans. Budget annuality should be respected by systematically canceling unused budget credits at the end of each fiscal year. Cash management should be strengthened to avoid the accumulation of arrears. Staff insisted on improving accountability by modernizing the framework for the CDBF, systematizing audit follow-ups by the *Cour des Comptes*, enhancing the effectiveness of the anti-corruption system, and facilitating public oversight of policies.

**47. In the context of rising and persistently high inflation, the central bank should remain focused on price stability.** The projected persistence of high inflation over the medium term calls for monetary policy tightening. Staff welcomes progress in transitioning towards an interest rate targeting operational framework and encourages the central bank to strengthen its communication to better anchor expectations and reaffirm its independence. The vanilla sector reform resulted in a significant reduction in FX inflows weighing on the exchange rate and international reserves, which limits the room available for BFM to smooth excess exchange rate volatility.

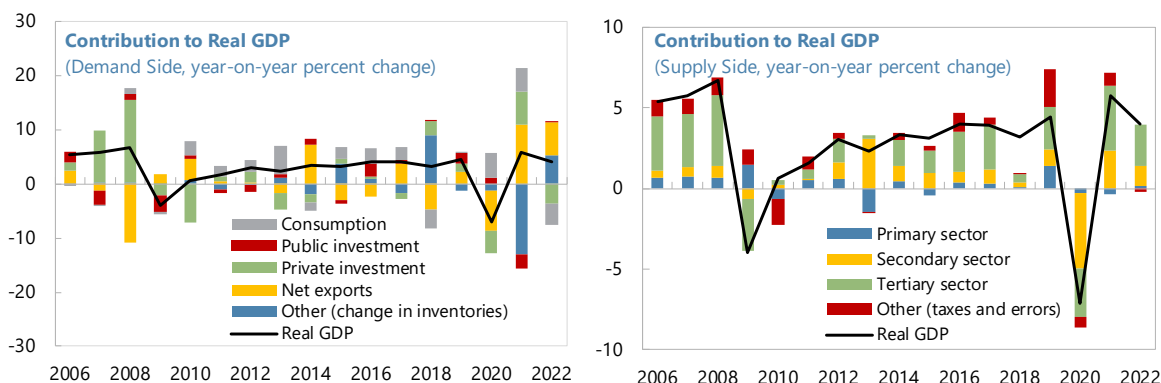
**48. Based on Madagascar's performance and commitments under the program, staff support the completion of the fourth review under the ECF arrangement and the authorities' requests for a waiver of nonobservance and modification of performance criteria.**

**Figure 1. Madagascar: Real Sector Developments**

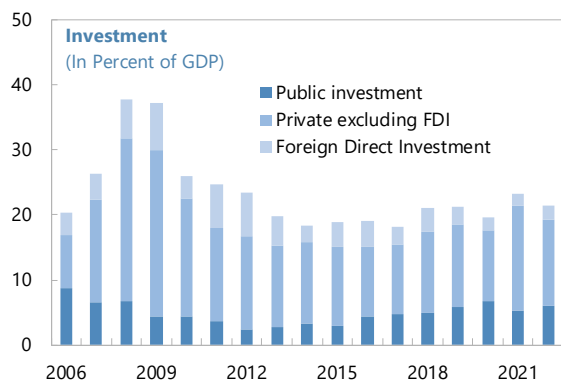
Recent growth improvements were reversed by the COVID-19 pandemic.



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



Investment is well below 2008 levels...



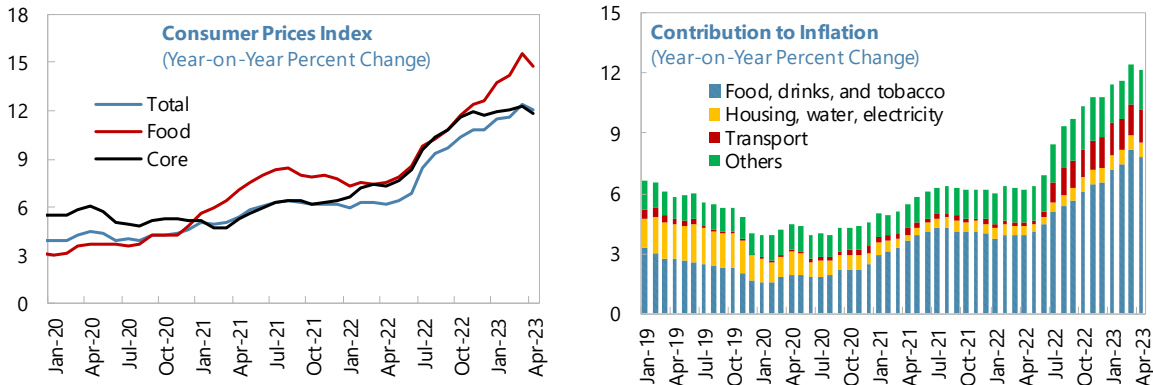
... while multiple waves of the pandemic interrupted the tourism sector recovery.



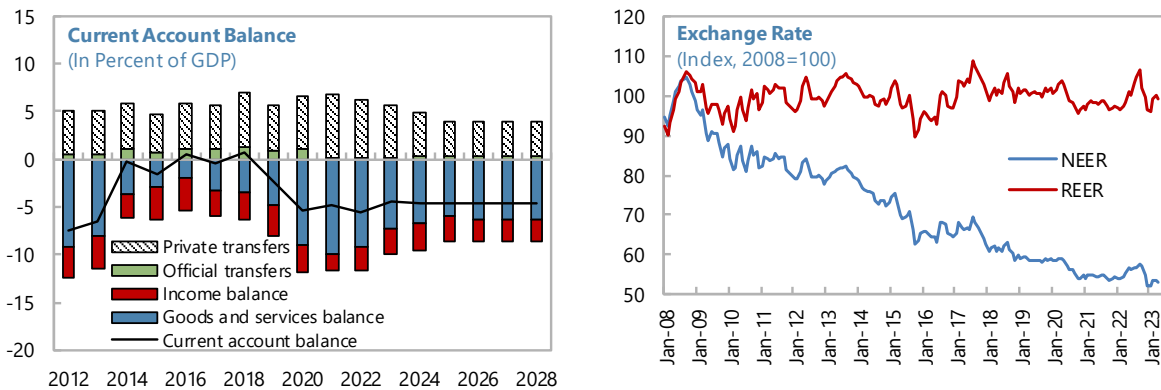
Sources: Malagasy Authorities; and IMF staff estimates.

**Figure 2. Madagascar: Inflation and External Developments**

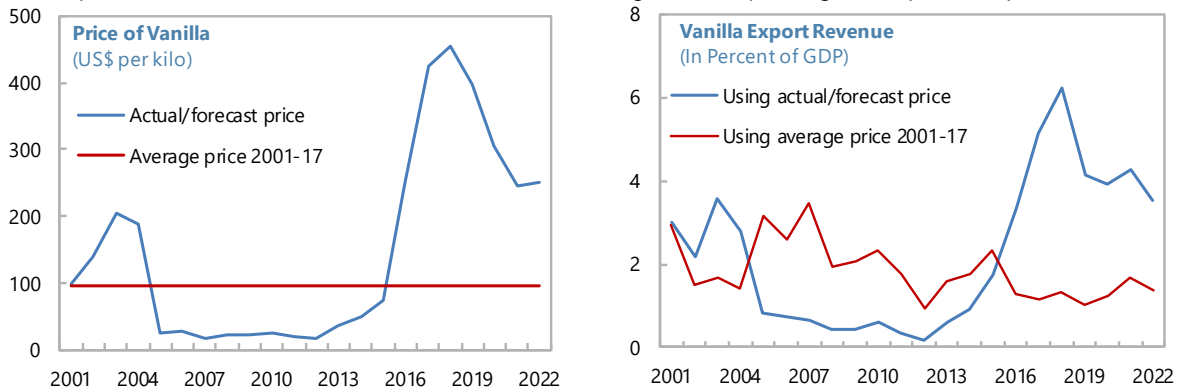
Total inflation has been on the rise since mid-2020, driven most recently by food, transportation costs, and higher fuel prices.



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



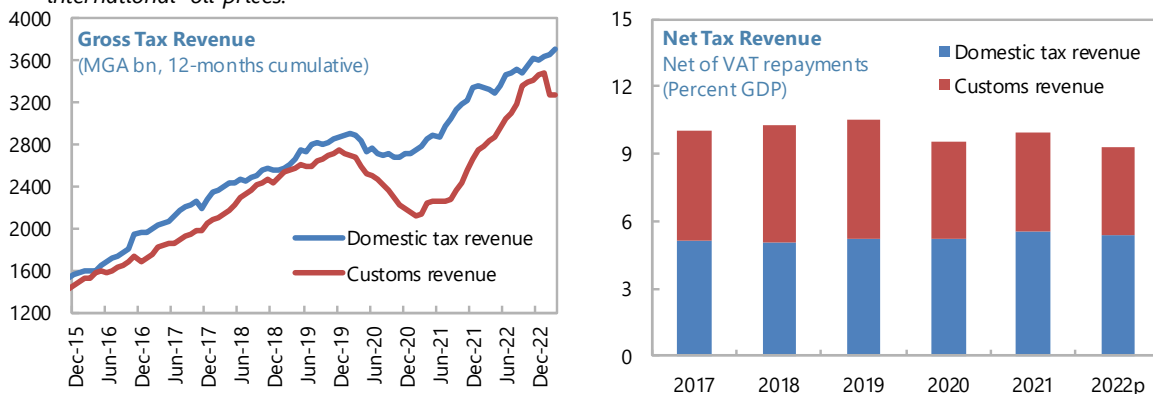
Vanilla export revenue has dropped since end-2019 due to muted demand and increased global competition. Export volumes have decreased since end-2022 following an attempt to tighten export and price controls.



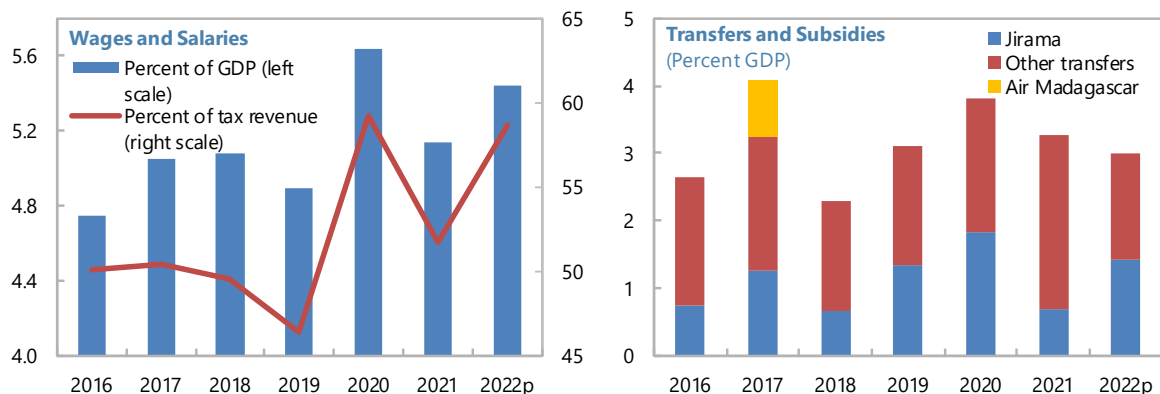
Sources: Malagasy Authorities; and IMF staff estimates.

**Figure 3. Madagascar: Government Revenue and Spending**

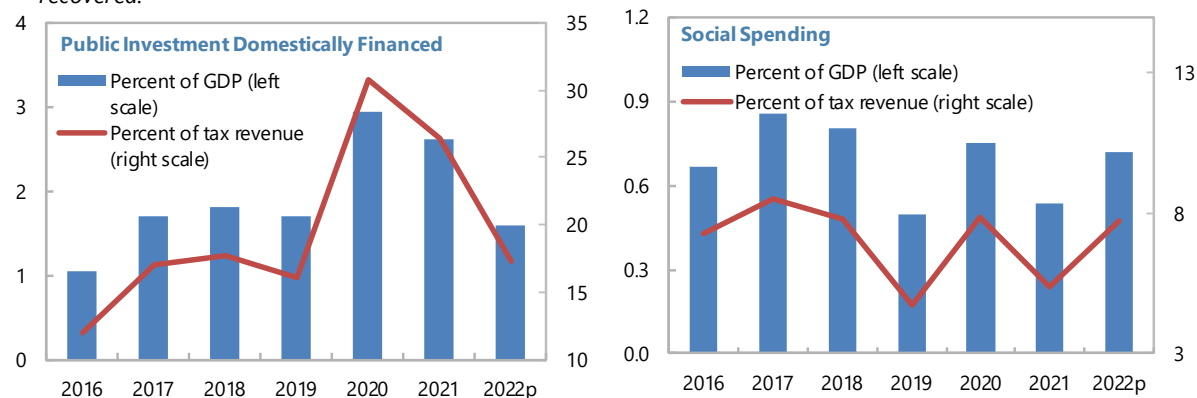
Tax revenue recovered from the pandemic shock since mid-2022 and customs revenue were boosted by international oil prices.



The wage bill increased to about 58.7 percent of tax revenue in 2022 but remains below the 2020 peak. Transfers declined in 2021 due to lower transfers to JIRAMA in that year.



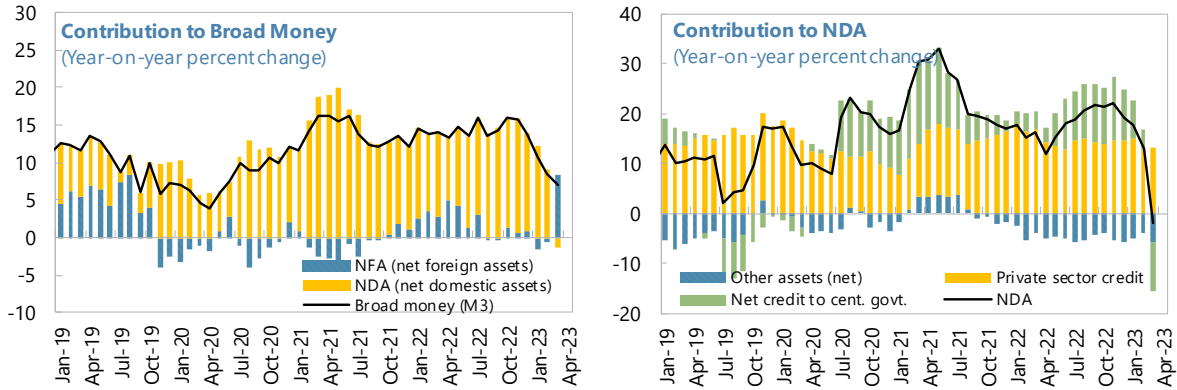
Underexecution of domestically financed public investment persists in 2022, while social spending has recovered.



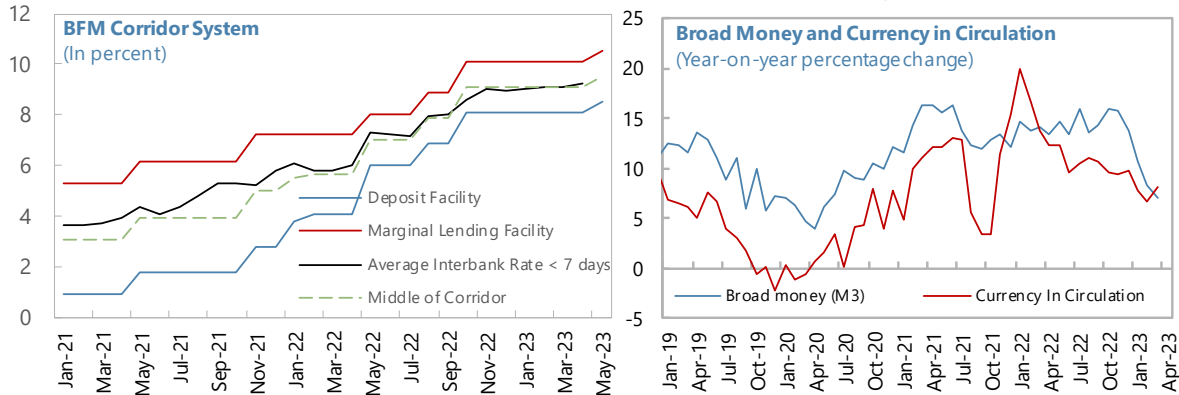
Sources: Malagasy Authorities; and IMF staff estimates.

**Figure 4. Madagascar: Monetary Developments**

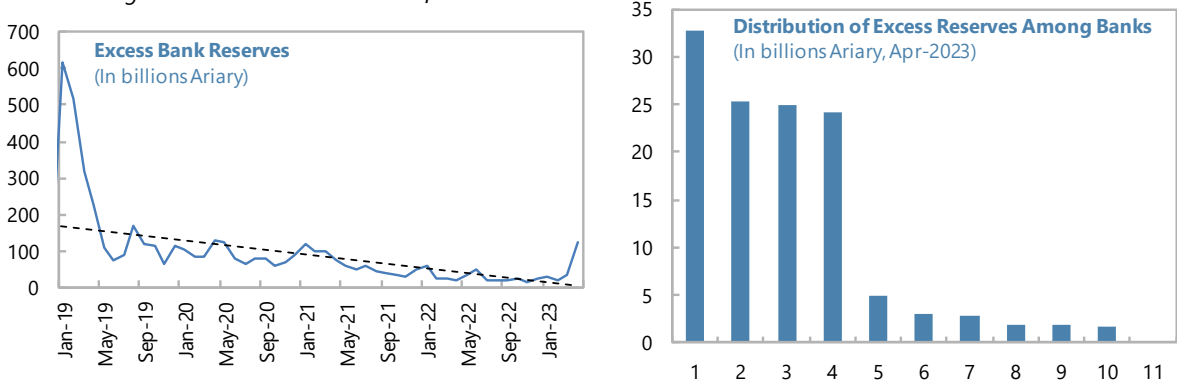
Until the pandemic, broad money growth was driven by the accumulation of net foreign assets and credit to the private sector. Since the Covid-19 crisis, net domestic credit to government has been on the rise.



The Central Bank has responded to higher inflation by raising interest rates six times since November 2021 and is increasingly able to steer overnight interbank market rates in the middle of its corridor.



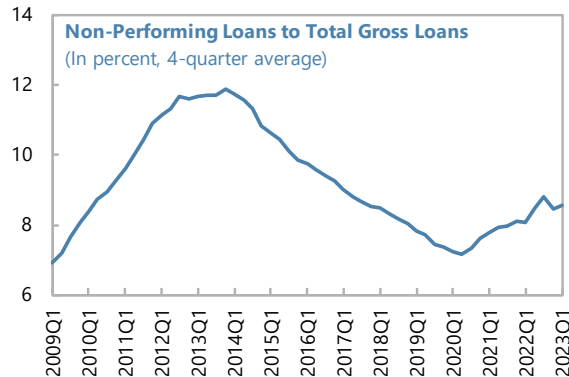
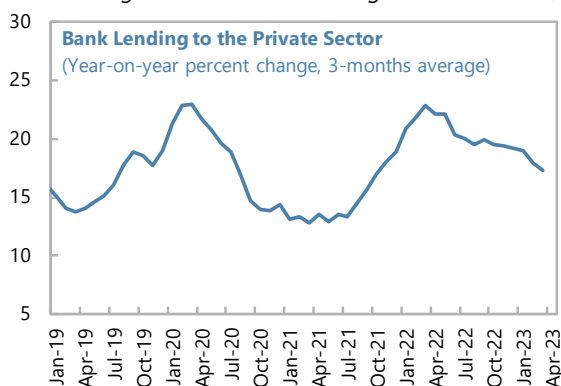
Excess bank reserves, usually volatile with strong seasonal effects related to the vanilla cycle, have been declining and are concentrated in a few banks.



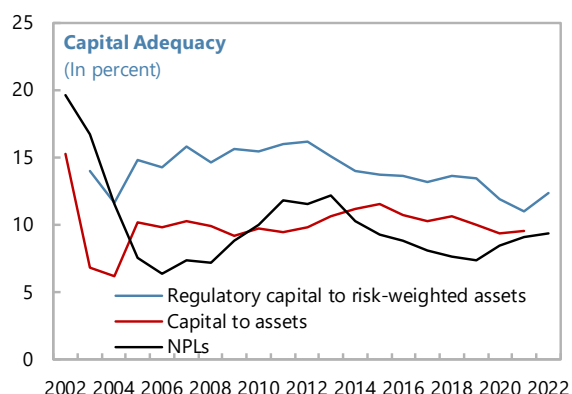
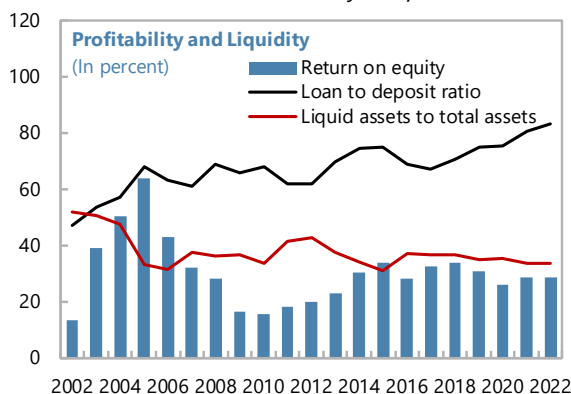
Sources: Malagasy Authorities; and IMF staff estimates.

**Figure 5. Madagascar: Financial Sector Developments**

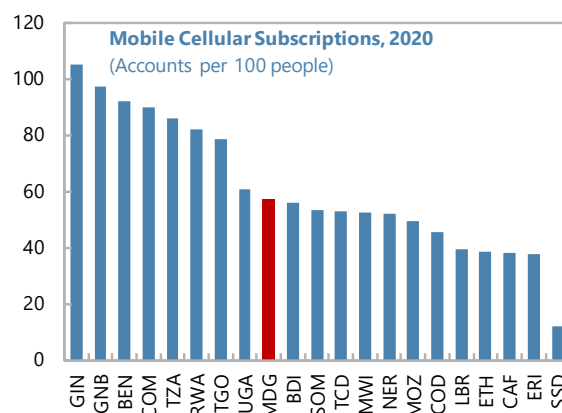
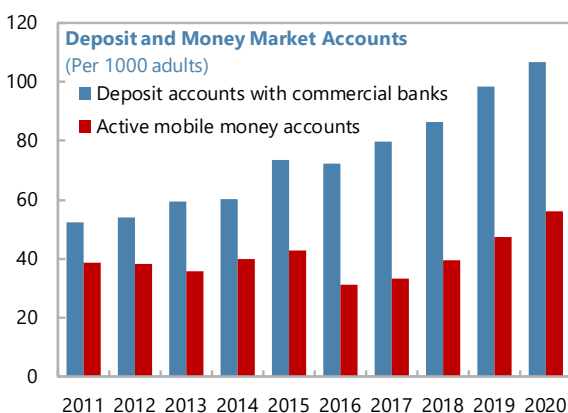
*Credit growth has been slowing since mid-2022, and NPLs seem to have peaked.*



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



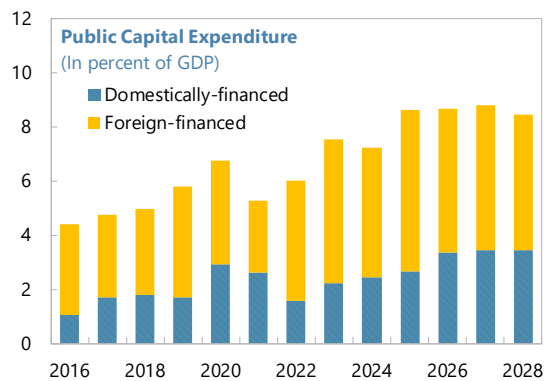
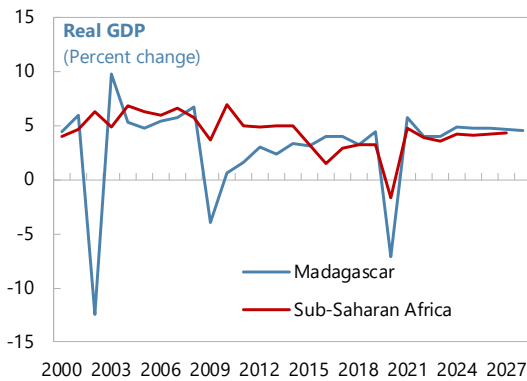
*Mobile banking activities have accelerated, but Madagascar still lags many SSA low-income countries.*



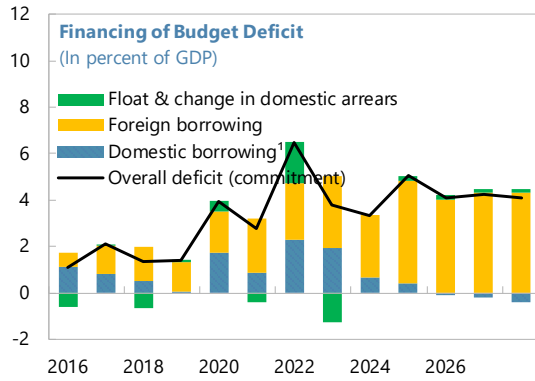
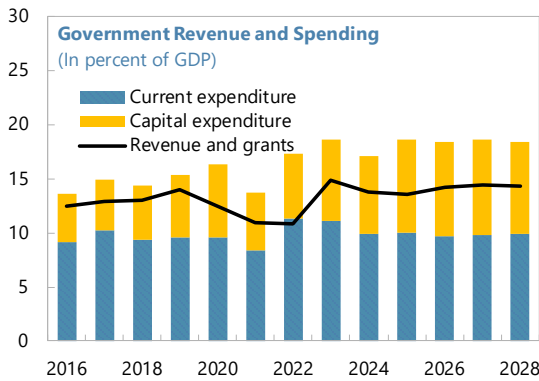
Sources: Malagasy Authorities; IMF Financial Access Survey; World Bank; and IMF staff estimates.

**Figure 6. Madagascar: Medium-Term Macroeconomic Prospects**

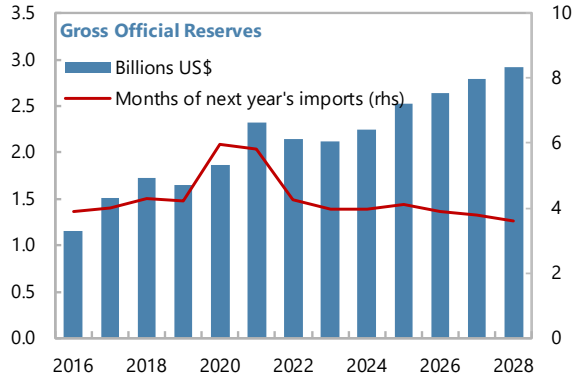
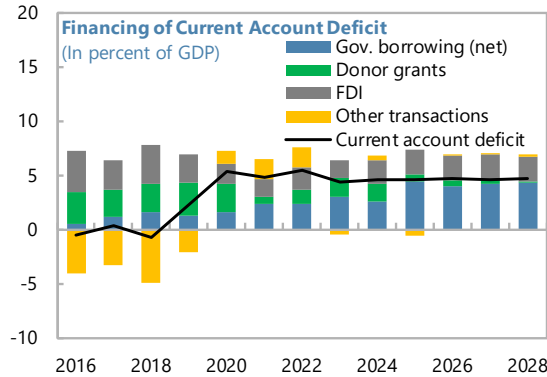
*Growth is expected to remain slightly above the SSA average, sustained by scaled-up public investment.*



*Public investment is expected to remain high as a share of GDP. Deficits are mostly externally financed.*



*Investment-driven increases in the current account deficit are expected to be financed by concessional borrowing. Gross official reserves are expected to slowly erode.*



Sources: Malagasy Authorities; and IMF staff estimates.

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

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

	2019	2020	2021	2022			2023			2024	2025	2026	2027	2028
	Est.	Est.	Est.	Program approval	3rd review	Est.	Program approval	3rd review	Proj.	Projections				
(Percent change; unless otherwise indicated)														
National account and prices														
GDP at constant prices	4.4	-7.1	5.7	5.0	4.2	4.0	5.4	4.2	4.0	4.8	4.7	4.7	4.6	4.5
GDP deflator	6.5	4.3	6.6	5.7	7.4	7.0	6.0	9.5	9.1	7.7	7.5	6.9	6.0	5.4
Consumer prices (period average)	5.6	4.2	5.8	5.7	8.2	8.2	6.0	9.5	10.5	8.8	8.1	7.4	6.7	6.0
Consumer prices (end of period)	4.0	4.6	6.2	6.0	11.2	10.8	5.8	9.3	9.3	8.6	7.9	7.2	6.5	6.0
Money and credit														
Reserve money	-4.4	10.8	7.4	4.4	17.5	17.9	4.9	16.4	16.0	13.5	18.0	9.1	11.0	7.9
Broad money (M3)	7.3	12.1	12.2	10.4	34.5	13.8	10.9	16.5	15.8	16.0	17.7	12.2	11.3	9.7
(Growth in percent of beginning of period money stock (M3))														
Net foreign assets	-2.6	2.1	1.0	3.1	-0.9	0.8	1.0	3.5	6.5	5.4	8.2	5.5	5.6	4.3
Net domestic assets	9.9	10.0	11.2	7.3	35.4	13.0	5.5	13.0	9.3	10.7	9.5	6.7	5.6	5.4
of which: Credit to the private sector	10.3	5.6	11.1	4.5	25.3	9.8	4.9	7.3	8.7	8.3	8.1	7.2	6.6	6.1
(Percent of GDP)														
Public finance														
Total revenue (excluding grants)	10.8	9.9	10.2	11.4	11.1	9.6	12.2	11.9	13.1	12.2	12.9	13.7	14.0	14.1
of which: Tax revenue	10.6	9.5	9.9	11.1	10.8	9.3	11.9	11.7	12.8	11.8	12.4	13.1	13.3	13.4
Grants	3.1	2.5	0.7	1.8	2.5	1.3	1.3	2.7	1.7	1.6	0.7	0.5	0.4	0.2
of which: budget grants	0.7	0.9	0.0	0.3	0.0	0.0	0.3	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Total expenditures	15.4	16.4	13.7	18.1	20.3	17.3	17.8	17.6	18.6	17.1	18.6	18.3	18.6	18.4
Capital expenditure	5.8	6.8	5.3	8.6	8.0	6.0	8.6	8.7	7.5	7.2	8.7	8.7	8.8	8.5
Overall balance (commitment basis)	-1.4	-4.0	-2.8	-4.8	-6.8	-6.5	-4.3	-3.0	-3.8	-3.3	-5.1	-4.1	-4.3	-4.1
Float (variation of accounts payable, + = increase)	0.3	0.5	0.0	0.0	1.8	0.0	0.0	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
Variation of domestic arrears ( + = increase)	-0.2	0.0	-0.4	0.0	0.0	1.8	0.0	0.0	-1.3	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-1.3	-3.5	-3.2	-4.8	-5.0	-4.7	-4.3	-4.6	-5.0	-3.3	-5.1	-4.1	-4.3	-4.1
Domestic primary balance <sup>1</sup>	0.3	-1.9	-0.1	-0.4	-2.7	-2.8	0.2	1.3	0.7	0.7	1.1	1.3	1.4	1.4
Total financing	1.3	3.5	3.2	4.1	5.0	4.7	3.9	4.6	5.0	3.3	4.9	3.9	4.1	3.9
Foreign borrowing (net)	1.3	1.8	2.3	3.5	2.6	2.5	3.3	2.2	3.1	2.6	4.4	4.0	4.3	4.3
Domestic financing	0.0	1.7	0.8	0.6	2.4	2.3	0.5	2.4	2.0	0.7	0.4	-0.1	-0.2	-0.4
of which: onlending of IMF financing <sup>2</sup>		2.5	0.5		0.6	0.6		0.6	0.6		0.2			
of which: use of August 2021 SDR allocation			0.0		0.0	0.0		1.5	1.6		0.4			
Fiscal financing need <sup>3</sup>	0.0	0.0	0.0	-0.7	0.0	0.0	-0.4	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2
Savings and investment														
Investment	21.2	19.5	23.2	20.6	23.4	21.3	22.2	25.3	24.1	23.2	24.9	24.8	25.0	24.6
Gross national savings	20.4	12.3	10.2	16.2	17.8	15.8	17.8	19.6	19.8	18.6	20.3	20.1	20.3	19.9
External sector														
Exports of goods, f.o.b.	18.5	15.0	18.6	18.0	23.2	23.3	19.1	24.4	23.3	23.6	23.9	24.2	24.2	24.5
Imports of goods, c.i.f.	26.9	24.3	28.7	26.2	34.0	34.2	27.7	35.0	32.8	33.4	33.4	34.1	34.2	34.6
Current account balance (exc. grants)	-5.4	-7.9	-5.5	-6.2	-8.0	-6.8	-5.7	-8.4	-6.1	-6.2	-5.3	-5.2	-5.0	-4.9
Current account balance (inc. grants)	-2.3	-5.4	-4.9	-4.4	-5.6	-5.5	-4.3	-5.7	-4.4	-4.6	-4.6	-4.7	-4.7	-4.7
Public debt	41.3	52.0	51.8	47.8	57.1	54.9	48.6	53.1	56.1	55.3	56.3	57.2	58.2	59.0
External Public Debt (inc. BFM liabilities)	27.3	36.3	34.3	36.1	42.5	36.7	37.3	41.1	39.6	40.0	42.1	43.5	44.7	45.6
Domestic Public Debt	13.9	15.7	17.5	11.7	14.7	18.3	11.3	11.9	16.5	15.3	14.2	13.8	13.5	13.4
(Units as indicated)														
Gross official reserves (millions of SDRs)	1,196	1,338	1,630	1,540	1,601	1,601	1,680	1,523	1,588	1,687	1,885	1,960	2,067	2,157
Months of imports of goods and services	4.2	6.0	5.8	5.1	4.3	4.2	5.0	3.7	4.0	4.0	4.1	3.9	3.8	3.6
Real effective exchange rate (pa, percent change)	-0.4	-1.3	-1.9	...	...	2.5	...	...	...	...	...	...	...	...
Terms of trade (percent change, deterioration -)	-15.5	-8.6	-13.8	1.8	0.3	-3.1	0.2	9.9	-3.5	-2.6	2.1	2.0	0.0	0.1
Memorandum items														
GDP per capita (U.S. dollars)	532	477	517	551	526	523	582	536	536	559	596	627	660	704
Nominal GDP at market prices (billions of ariary)	51,035	49,436	55,744	63,300	62,395	62,053	70,701	71,201	70,407	79,440	89,415	100,035	110,950	122,221

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

<sup>1</sup> Primary balance excl. foreign-financed investment and grants. Commitment basis.<sup>2</sup> RCF disbursements in 2020 and ECF disbursements onlent by the central bank to the Treasury.<sup>3</sup> A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.



Table 2. Madagascar: National Accounts, 2019–28

	2019	2020	2021	2022		2023			2024	2025	2026	2027	2028
	Est.	Est.	Est.	Program approval	3rd review	Est.	Program approval	3rd review	Proj.	Proj.			
(Percent change)													
Real supply side growth													
Primary sector	5.9	-1.4	-1.6	3.0	0.6	0.6	3.4	2.2	2.2	2.9	3.0	3.0	3.0
<i>of which: Agriculture</i>	7.6	-2.3	-0.3	3.5	0.6	0.6	4.0	2.7	2.7	3.4	3.5	3.5	3.5
Secondary sector	6.8	-29.5	19.7	9.5	9.4	9.4	7.4	7.0	7.0	8.9	8.6	8.5	8.0
<i>of which:</i>													
Manufacturing	8.2	-15.7	30.2	4.5	7.6	7.6	6.8	3.8	3.8	4.0	3.8	3.7	3.6
Energy	3.7	-0.1	2.9	5.8	-0.4	-0.4	8.6	0.5	0.5	1.1	1.1	1.1	1.1
Extractive industry	9.9	-49.3	51.9	19.3	17.5	17.5	11.1	11.0	11.0	14.0	13.1	12.6	11.4
Tertiary sector	5.0	-5.7	7.4	4.3	5.0	4.7	5.7	4.0	3.7	4.5	4.5	4.5	4.5
<i>of which:</i>						0.7			1.0				
Trade	2.3	-2.7	1.0	1.9	2.0	2.0	2.4	2.3	1.5	2.0	2.0	2.0	2.0
Services	2.9	-8.1	2.9	4.3	1.6	1.6	5.4	1.6	1.6	1.8	1.8	1.9	1.9
Transportation	4.8	-6.4	5.1	3.5	5.1	5.1	6.0	5.4	5.4	6.2	6.0	5.9	5.6
Indirect taxes	-1.1	13.3	0.5	5.7	4.1	4.1	6.0	9.5	9.5	8.8	7.5	7.4	6.6
Real GDP at market prices	4.4	-7.1	5.7	5.0	4.2	4.0	5.4	4.2	4.0	4.8	4.7	4.7	4.6
(Percent of GDP)													
Nominal demand side composition													
Resource balance	-4.7	-9.0	-9.9	-6.9	-8.9	-9.1	-6.9	-8.0	-7.4	-6.8	-6.0	-6.3	-6.4
Exports of goods and nonfactor services	28.7	19.7	23.0	26.3	30.6	30.8	27.6	33.6	32.6	33.1	33.5	33.7	34.1
Current account balance (including grants) = (S-I)	-2.3	-5.4	-4.9	-4.4	-5.6	-5.5	-4.3	-5.7	-4.4	-4.6	-4.6	-4.7	-4.7
Consumption	86.0	95.7	93.8	87.3	84.2	86.6	85.7	81.3	82.1	82.4	79.9	80.4	80.2
Government	15.1	18.7	17.2	15.0	24.3	23.2	14.6	17.5	22.7	20.2	20.4	19.8	20.2
Private	70.9	77.0	76.6	72.2	59.9	63.5	71.2	63.8	59.3	62.2	59.5	60.6	60.0
Private	15.4	12.8	17.9	12.1	15.3	15.3	13.6	16.6	16.6	16.0	16.3	16.1	16.2
<i>of which: foreign direct investment</i>	2.6	1.9	1.7	2.4	2.0	2.1	2.8	1.5	1.6	2.2	2.3	2.3	2.3
National savings (S)	20.4	12.3	10.2	16.2	17.8	15.8	17.8	19.6	19.8	18.6	20.3	20.1	20.3
Government	3.7	2.1	1.9	3.0	0.6	-1.0	3.7	4.7	2.8	3.0	2.7	3.9	3.8
Private	16.7	10.3	8.4	13.2	17.1	16.8	14.2	14.9	16.9	15.6	17.6	16.2	16.5
(Billions of Ariary)													
<i>Memoranda items:</i>													
Nominal GDP (at market prices)	51,035	49,436	55,744	63,300	62,395	62,053	70,701	71,201	70,407	79,440	89,415	100,035	110,950

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

**Table 3a. Madagascar: Fiscal Operations of the Central Government, 2019–28**  
(Billions of Ariary)

	2019	2020	2021	2022		2023			2024	2025	2026	2027	2028	
	Actuals	Actuals	Est.	Program approval	3rd review	Est.	Program approval	3rd review	Proj.	Projections				
Total revenue and grants	7,115	6,129	6,081	8,375	7,441	6,734	9,554	11,568	10,448	10,933	12,128	14,240	15,945	17,438
Total revenue	5,528	4,886	5,710	7,206	5,912	5,940	8,629	9,680	9,220	9,659	11,509	13,712	15,553	17,206
Tax revenue	5,387	4,707	5,540	7,023	5,741	5,762	8,425	9,490	9,030	9,341	11,062	13,112	14,776	16,351
Domestic taxes	2,666	2,579	3,081	3,986	3,305	3,325	4,848	4,100	3,956	4,871	5,866	6,957	7,716	8,500
Taxes on international trade and transactions	2,721	2,128	2,459	3,036	2,436	2,436	3,577	5,390	5,074	4,470	5,195	6,155	7,060	7,851
Non-tax revenue	140	180	170	183	172	178	204	190	190	318	447	600	777	856
Grants	1,587	1,243	371	1,169	1,529	793	925	1,888	1,228	1,274	619	528	393	231
Current grants	365	435	1	198	0	3	204	0	0	62	64	66	68	69
Capital grants	1,222	808	370	971	1,529	791	721	1,888	1,228	1,212	555	462	324	163
Total expenditure and lending minus repayments	7,840	8,085	7,636	11,440	11,662	10,752	12,586	13,714	13,117	13,585	16,645	18,337	20,674	22,432
<i>of which: Social priority spending<sup>1</sup></i>	253	371	299	...	447	447	...	...	700	...	...	...	...	...
Current expenditure	4,874	4,743	4,681	6,018	6,642	7,016	6,507	7,502	7,811	7,841	8,908	9,662	10,916	12,101
Wages and salaries	2,497	2,786	2,866	3,486	3,295	3,379	3,758	3,869	3,844	4,210	4,739	5,302	5,914	6,355
Interest payments	356	362	354	437	402	346	461	703	649	720	830	674	767	845
Foreign	107	115	123	106	153	142	102	333	327	446	485	306	358	405
Domestic	249	246	231	331	249	204	358	369	323	275	345	368	410	441
Other	1,911	2,230	2,164	1,986	1,952	2,316	2,165	2,767	3,154	2,725	3,130	3,451	3,975	4,613
Goods and services	323	338	338	503	450	448	537	542	507	636	894	1,000	1,168	1,375
Transfers and subsidies	1,587	1,892	1,827	1,483	1,502	1,867	1,628	2,225	2,647	2,089	2,235	2,451	2,807	3,238
<i>of which: JIRAMA<sup>2</sup></i>	691	845	380	80	500	857	0	300	722	...	...	...	...	...
Treasury operations (net) <sup>3</sup>	110	-635	-704	110	992	974	123	163	163	186	209	234	260	286
Capital expenditure	2,966	3,343	2,955	5,421	5,020	3,736	6,079	6,212	5,307	5,743	7,736	8,675	9,758	10,332
Domestic financed	866	1,450	1,461	1,900	1,348	994	2,440	1,990	1,589	1,969	2,406	3,390	3,828	4,209
Foreign financed	2,100	1,893	1,494	3,521	3,672	2,742	3,639	4,222	3,718	3,774	5,330	5,285	5,930	6,123
Overall balance (commitment basis)	-725	-1,956	-1,554	-3,065	-4,220	-4,019	-3,031	-2,145	-2,669	-2,652	-4,517	-4,097	-4,729	-4,994
Float (variation of accounts payable, + = increase)	176	241	0	0	0	0	0	0	0	0	0	0	0	0
Variation of domestic arrears (+ = increase)	-116	-22	-222	0	1,114	1,089	0	-1,144	-884	0	0	0	0	0
Overall balance (including grants, cash basis)	-665	-1,737	-1,776	-3,065	-3,106	-2,930	-3,031	-3,289	-3,554	-2,652	-4,517	-4,097	-4,729	-4,994
Domestic primary balance <sup>4</sup>	144	-944	-78	-276	-1,676	-1,724	143	892	469	569	1,025	1,335	1,577	1,742
Total financing	664	1,737	1,776	2,624	3,106	2,930	2,729	3,289	3,554	2,652	4,337	3,897	4,529	4,794
Foreign borrowing (residency principle)	649	885	1,304	2,226	1,601	1,522	2,347	1,571	2,178	2,104	3,955	4,011	4,764	5,270
External borrowing, Gross	883	1,161	1,671	2,778	2,142	1,951	3,123	2,334	2,926	3,022	5,250	5,197	5,989	6,347
Budget support loans	5	77	547	228	0	0	204	0	437	460	475	373	383	387
Project loans	878	1,085	1,124	2,550	2,142	1,951	2,918	2,334	2,489	2,562	4,776	4,824	5,606	5,960
Amortization on a due basis (-)	-234	-276	-367	-552	-541	-430	-776	-764	-748	-918	-1,296	-1,185	-1,225	-1,076
Domestic borrowing (residency principle)	15	851	473	399	1,505	1,408	383	1,719	1,376	548	382	-114	-235	-476
Monetary sector	-31	597	230	310	1,310	950	312	1,981	1,323	502	349	-150	-275	-537
<i>of which: onlending of IMF financing<sup>5</sup></i>		1,238	263		395	395		439	431	151				
<i>of which: use of new IMF SDR allocation</i>			0		0	0		1,100	1,100	284	0	0	0	0
Non-monetary sector	-13	-72	-87	89	-14	-21	71	53	53	46	33	36	40	61
Loans minus repayments	0	0	0	0	0	0	0	-315	0	0	0	0	0	0
Other incl. Treasury correspondent accounts (net)	59	327	330	0	209	480	0	0	0	0	0	0	0	0
Fiscal financing balance <sup>6</sup>	0	0	0	-441	0	0	-302	0	0	0	-180	-200	-200	-200

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

Note: Data for taxes on international trade and transactions were corrected to remove oil customs tax arrears in 2021 and 2022 (those were paid in early 2023) and provide a consistent recording on a cash basis. Net treasury operations were adjusted accordingly. To facilitate comparison, the same reclassification was applied to the numbers reported under "3<sup>rd</sup> review".

"..." means the projection is not available.

<sup>1</sup> Domestically financed spending of social ministries, excluding salaries, representing a limited share of total social spending.

<sup>2</sup> Operating subsidies and arrears repayment.

<sup>3</sup> Includes third party accounts, trade accounts, and other operations to be regularized.

<sup>4</sup> Primary balance excl. foreign-financed investment and grants. Commitment basis.

<sup>5</sup> RCF disbursement in 2020 and ECF disbursements onlent by the central bank to the Treasury.

<sup>6</sup> A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.

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

	2019	2020	2021	2022		2023			2024	2025	2026	2027	2028	
	Est.	Est.	Est.	Program approval	3rd review	Est.	Program approval	3rd review	Proj.	Projections				
Total revenue and grants	13.9	12.4	10.9	13.2	13.6	10.9	13.5	14.6	14.8	13.8	13.6	14.2	14.4	14.3
Total revenue	10.8	9.9	10.2	11.4	11.1	9.6	12.2	11.9	13.1	12.2	12.9	13.7	14.0	14.1
Tax revenue	10.6	9.5	9.9	11.1	9.2	9.3	11.9	13.3	12.8	11.8	12.4	13.1	13.3	13.4
Domestic taxes	5.2	5.2	5.5	6.3	5.3	5.4	6.9	5.8	5.6	6.1	6.6	7.0	7.0	7.0
Taxes on international trade and transactions	5.3	4.3	4.4	4.8	3.9	3.9	5.1	7.6	7.2	5.6	5.8	6.2	6.4	6.4
Non-tax revenue	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.6	0.7	0.7
Grants	3.1	2.5	0.7	1.8	2.5	1.3	1.3	2.7	1.7	1.6	0.7	0.5	0.4	0.2
Current grants	0.7	0.9	0.0	0.3	0.0	0.0	0.3	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Capital grants	2.4	1.6	0.7	1.5	2.5	1.3	1.0	2.7	1.7	1.5	0.6	0.5	0.3	0.1
Total expenditure and lending minus repayments	15.4	16.4	13.7	18.1	20.3	17.3	17.8	17.6	18.6	17.1	18.6	18.3	18.6	18.4
<i>of which: Social priority spending<sup>1</sup></i>	0.5	0.8	0.5	...	0.7	0.7	...	...	1.0	...	...	...	...	...
Current expenditure	9.5	9.6	8.4	9.5	12.3	11.3	9.2	8.9	11.1	9.9	10.0	9.7	9.8	9.9
Wages and salaries	4.9	5.6	5.1	5.5	5.3	5.4	5.3	5.4	5.5	5.3	5.3	5.3	5.3	5.2
Interest payments	0.7	0.7	0.6	0.7	0.6	0.6	0.7	1.0	0.9	0.9	0.9	0.7	0.7	0.7
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.5	0.5	0.6	0.5	0.3	0.3	0.3
Domestic	0.5	0.5	0.4	0.5	0.4	0.3	0.5	0.5	0.5	0.3	0.4	0.4	0.4	0.4
Other	3.7	4.5	3.9	3.1	3.1	3.7	3.1	3.9	4.5	3.4	3.5	3.5	3.6	3.8
Goods and services	0.6	0.7	0.6	0.8	0.7	0.7	0.8	0.8	0.7	0.8	1.0	1.0	1.1	1.1
Transfers and subsidies	3.1	3.8	3.3	2.3	2.4	3.0	2.3	3.1	3.8	2.6	2.5	2.5	2.5	2.6
<i>of which: JIRAMA<sup>2</sup></i>	1.4	1.7	0.7	0.1	0.8	1.4	0.0	0.4	1.0	...	...	...	...	...
Treasury operations (net) <sup>3</sup>	0.2	-1.3	-1.3	0.2	1.6	1.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital expenditure	5.8	6.8	5.3	8.6	8.0	6.0	8.6	8.7	7.5	7.2	8.7	8.7	8.8	8.5
Domestic financed	1.7	2.9	2.6	3.0	2.2	1.6	3.5	2.8	2.3	2.5	2.7	3.4	3.4	3.4
Foreign financed	4.1	3.8	2.7	5.6	5.9	4.4	5.1	5.9	5.3	4.8	6.0	5.3	5.3	5.0
Overall balance (commitment basis)	-1.4	-4.0	-2.8	-4.8	-6.8	-6.5	-4.3	-3.0	-3.8	-3.3	-5.1	-4.1	-4.3	-4.1
Float (variation of accounts payable, + = increase)	0.3	0.5	0.0	0.0	1.8	0.0	0.0	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
Variation of domestic arrears (+ = increase)	-0.2	0.0	-0.4	0.0	0.0	1.8	0.0	0.0	-1.3	0.0	0.0	0.0	0.0	0.0
Overall balance (including grants, cash basis)	-1.3	-3.5	-3.2	-4.8	-5.0	-4.7	-4.3	-4.6	-5.0	-3.3	-5.1	-4.1	-4.3	-4.1
Domestic primary balance <sup>4</sup>	0.3	-1.9	-0.1	-0.4	-2.7	-2.8	0.2	1.3	0.7	0.7	1.1	1.3	1.4	1.4
Total financing	1.3	3.5	3.2	4.1	5.0	4.7	3.9	4.6	5.0	3.3	4.9	3.9	4.1	3.9
Foreign borrowing (residency principle)	1.3	1.8	2.3	3.5	2.6	2.5	3.3	2.2	3.1	2.6	4.4	4.0	4.3	4.3
External borrowing, Gross	1.7	2.3	3.0	4.4	3.4	3.1	4.4	3.3	4.2	3.8	5.9	5.2	5.4	5.2
Budget support loans	0.0	0.2	1.0	0.4	0.0	0.0	0.3	0.0	0.6	0.6	0.5	0.4	0.3	0.3
<i>of which: Air Madagascar</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	1.7	2.2	2.0	4.0	3.4	3.1	4.1	3.3	3.5	3.2	5.3	4.8	5.1	4.9
Amortization on a due basis (-)	-0.5	-0.6	-0.7	-0.9	-0.9	-0.7	-1.1	-1.1	-1.1	-1.2	-1.4	-1.2	-1.1	-0.9
Domestic borrowing (residency principle)	0.0	1.7	0.8	0.6	2.4	2.3	0.5	2.4	2.0	0.7	0.4	-0.1	-0.2	-0.4
Monetary sector	-0.1	1.2	0.4	0.5	2.1	1.5	0.4	2.8	1.9	0.6	0.4	-0.2	-0.2	-0.4
<i>of which: onlending of IMF financing<sup>5</sup></i>			2.5	0.5	0.6	0.6		0.6	0.6	0.2				
<i>of which: use of new IMF SDR allocation</i>				0.0	0.0	0.0		1.5	1.6	0.4	0.0	0.0	0.0	0.0
Non-monetary sector	0.0	-0.1	-0.2	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1
Loans minus repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Other incl. Treasury correspondent accounts (net)	0.1	0.7	0.6	0.0	0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal financing balance <sup>6</sup>	0.0	0.0	0.0	-0.7	0.0	0.0	-0.4	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2

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

Note: Data for taxes on international trade and transactions were corrected to remove oil customs tax arrears in 2021 and 2022 (those were paid in early 2023) and provide a consistent recording on a cash basis. Net treasury operations were adjusted accordingly. To facilitate comparison, the same reclassification was applied to the numbers reported under "3<sup>rd</sup> review".

"..." means the projection is not available.

<sup>1</sup> Domestically financed spending of social ministries, excluding salaries, representing a limited share of total social spending.

<sup>2</sup> Operating subsidies and arrears repayment.

<sup>3</sup> Includes third party accounts, trade accounts, and other operations to be regularized.

<sup>4</sup> Primary balance excl. foreign-financed investment and grants. Commitment basis.

<sup>5</sup> RCF disbursement in 2020 and ECF disbursements onlent by the central bank to the Treasury.

<sup>6</sup> A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.

**Table 4. Madagascar: Fiscal Operations of the Central Government**  
Quarterly Projections (Billions of Ariary)

	2021		2022				2023			
	Dec		Mar	Jun	Sept	Dec	Mar	Jun	Sept	Dec
	Est.		Estimates				Projections			
Total revenue and grants	6,081		1,248	2,867	4,755	6,734	1,484	5,324	7,496	10,448
Total revenue	5,710		1,186	2,669	4,140	5,940	1,483	5,040	7,115	9,220
Tax revenue	5,540		1,172	2,598	4,040	5,762	1,479	4,997	7,023	9,030
Domestic taxes	3,081		656	1,517	2,306	3,325	698	1,933	2,907	3,956
Taxes on international trade and transactions	2,459		516	1,081	1,734	2,436	781	3,065	4,116	5,074
Non-tax revenue	170		14	71	100	178	4	43	92	190
Grants	371		62	198	615	793	0	284	381	1,228
Current grants	1		1	1	2	3	0	0	0	0
Capital grants	370		62	197	614	791	0	284	381	1,228
Total expenditure and lending minus repayments	7,636		2,003	4,850	7,527	10,752	2,214	5,947	8,676	13,117
<i>of which: Social priority spending<sup>1</sup></i>	299		7	75	157	447	108	175	350	700
Current expenditure	4,681		1,558	3,604	5,424	7,016	1,733	4,090	5,917	7,811
Wages and salaries	2,866		661	1,595	2,428	3,379	861	1,900	3,031	3,844
Interest payments	354		113	203	266	346	128	229	309	649
Foreign	123		30	72	100	142	29	81	84	327
Domestic	231		82	131	166	204	99	148	226	323
Other	2,164		346	894	1,335	2,316	447	1,689	2,187	3,154
Goods and services	338		56	156	292	448	81	218	355	507
Transfers and subsidies	1,827		290	738	1,043	1,867	367	1,471	1,831	2,647
Treasury operations (net)	-704		437	913	1,394	974	297	272	390	163
Capital expenditure	2,955		445	1,245	2,104	3,736	481	1,857	2,759	5,307
Domestic financed	1,461		34	68	311	994	175	556	715	1,589
Foreign financed	1,494		411	1,177	1,792	2,742	306	1,301	2,044	3,718
Overall balance (commitment basis)	-1,554		-755	-1,983	-2,772	-4,019	-730	-623	-1,180	-2,669
Variation of domestic arrears (+ = increase)	-222		4	51	240	1,089	375	286	198	-884
Overall balance (including grants, cash basis)	-1,776		-750	-1,932	-2,532	-2,930	-355	-337	-982	-3,554
Domestic primary balance <sup>2</sup>	-78		-293	-800	-1,329	-1,724	-297	623	792	469
Total financing	1,776		507	1,391	1,648	2,930	355	337	982	3,554
Foreign borrowing (residency principle)	1,304		273	781	912	1,522	203	1,149	1,617	2,178
External borrowing, Gross	1,671		350	981	1,179	1,951	306	1,451	2,097	2,926
Budget support loans	547		0	0	0	0	0	434	434	437
Project loans	1,124		350	981	1,179	1,951	306	1,017	1,663	2,489
Amortization on a due basis (-)	-367		-76	-200	-267	-430	-102	-302	-480	-748
Domestic borrowing (residency principle)	473		234	610	736	1,408	152	-812	-635	1,376
Monetary sector	255		547	719	814	954	-478	-927	-755	1,323
<i>of which: onlending of IMF financing<sup>3</sup></i>	264		0	263	400	400	142	284	284	431
<i>of which: use of new IMF SDR allocation</i>	0		0	0	0	0	800	800	800	1,384
Non-monetary sector	-87		-4	-35	-38	-21	630	115	121	53
Loans minus repayments	0		0	0	0	0	0	0	0	-315
Other incl. Treasury correspondent accounts (net)	305		-309	-73	-41	476	0	0	0	0
Fiscal financing balance <sup>4</sup>	0		-243	-540	-884	0	0	0	0	0

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

<sup>1</sup> Domestically financed spending of social ministries, excluding salaries, representing a limited share of total social spending.

<sup>2</sup> Primary balance excl. foreign-financed investment and grants. Commitment basis.

<sup>3</sup> RCF disbursement in 2020 and ECF disbursements onlent by the central bank to the Treasury.

<sup>4</sup> A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.

**Table 5a. Madagascar: Balance of Payments, 2019–28**  
(Millions of SDRs)

	2019	2020	2021	2022			2023			2024	2025	2026	2027	2028
	Est.	Est.	Est.	Program approval	3rd review	Est.	Program approval	3rd review	Proj.	Projections				
	(Millions of SDRs)													
Current account	-234	-504	-497	-478	-636	-624	-510	-677	-522	-594	-648	-707	-759	-832
Goods and services	-482	-841	-1,012	-749	-1,015	-1,036	-807	-951	-880	-867	-835	-952	-1,030	-1,140
Trade balance of goods	-611	-645	-679	-631	-744	-744	-706	-754	-664	-798	-871	-991	-1,072	-1,186
Exports, f.o.b.	1,891	1,402	1,904	1,963	2,641	2,641	2,243	2,891	2,790	3,033	3,346	3,641	3,945	4,356
of which: Mining	551	262	542.5	633	941	941	653	1,025	1,091	1,223	1,260	1,309	1,360	1,432
of which: Vanilla	423	367	434	383	400	400	428	401	262	270	278	287	296	305
Imports, f.o.b.	-2,502	-2,046	-2,583	-2,594	-3,385	-3,385	-2,949	-3,645	-3,454	-3,831	-4,217	-4,632	-5,017	-5,542
of which: Petroleum products	-403	-256	-339	-337	-599	-599	-345	-636	-546	-590	-642	-710	-766	-842
of which: Food	-327	-324	-464	-379	-525	-525	-395	-497	-501	-508	-541	-580	-621	-666
of which: Intermediate goods and capital	-1,014	-810	-1,063	-1,055	-1,487	-1,487	-1,290	-1,699	-1,609	-1,845	-1,984	-2,148	-2,265	-2,492
Services (net)	129	-197	-333	-119	-271	-292	1	-197	-216	1	37	39	42	46
Receipts	1,036	444	449	910	839	847	998	1,100	1,119	1,212	1,336	1,439	1,553	1,695
of which: Travels	538	103	69	483	270	274	545	311	437	491	565	608	656	716
Payments	-907	-641	-782	-1,029	-1,110	-1,138	-1,099	-1,297	-1,335	-1,281	-1,300	-1,399	-1,510	-1,649
Income (net)	-329	-276	-182	-286	-249	-285	-298	-285	-314	-365	-369	-353	-373	-394
Receipts	44	32	30	45	33	36	46	36	41	54	62	67	72	79
Payments	-373	-308	-213	-331	-281	-321	-344	-320	-355	-419	-431	-420	-446	-473
of which: interest on public debt	-29	-22	-22	-18	-31	-26	-17	-56	-56	-72	-76	-46	-52	-59
Current transfers (net)	578	613	697	557	628	697	595	558	672	638	556	598	644	702
Official transfers	86	105	22	51	24	24	52	26	26	38	40	42	44	47
Capital and financial account	150	370	676	536	547	534	638	563	472	704	882	856	944	996
Capital account <sup>1</sup>	241	153	68	167	279	145	120	315	209	196	87	70	48	24
of which: Project grants <sup>1</sup>	241	153	68	167	279	145	120	315	209	196	87	70	48	24
Financial account	-52	172	635	368	267	446	519	248	263	508	795	786	897	973
Foreign direct and portfolio investment	270	180	171	265	223	238	329	181	194	285	318	343	370	404
Other investment	-322	-9	464	103	45	209	190	67	69	223	477	443	527	569
Government	131	158	240	378	295	277	390	262	370	340	619	604	698	766
Drawing	182	216	307	474	391	356	519	389	498	488	822	783	878	922
Project drawings <sup>1</sup>	177	201	206	440	391	356	485	389	423	414	748	727	822	866
Budgetary support <sup>1</sup>	5	15	101	34	0	0	34	0	74	74	74	56	56	56
Amortization	-50	-58	-67	-95	-96	-79	-129	-127	-127	-148	-203	-179	-180	-156
Monetary authority and private sector	-244	-122	247	-245	-92	-92	-248	-133	-133	-105	-96	-104	-113	-124
Banks	-12	-95	8	0	47	50	0	60	54	0	0	0	0	0
Other (inc. unrepatriated export revenues)	-221	50	-16	-30	-112	74	47	-1	-115	-12	-46	-57	-59	-73
Errors and omissions	-38	45	-27	0	0	-57	0	0	0	0	0	0	0	0
Overall balance	-84	-134	180	57	-89	-90	128	-114	-49	109	235	149	185	164
Financing	83	134	-180	-57	89	90	-128	114	49	-109	-263	-179	-214	-193
Use of IMF credit (net)	59	25	34	30	58	58	12	36	36	-10	-65	-104	-107	-103
Other assets, net (increase = -) <sup>2</sup>	25	-141	-228	-91	28	29	-140	78	13	-100	-197	-75	-107	-90
Exceptional financing-Grant for debt relief <sup>3</sup>	0	6	15	3	3	3	0	0	0	0	0	0	0	0
Exceptional financing-RCF disbursement		244												
Residual financing gap (unidentified financing)	0	0	0	0	0	0	0	0	0	0	28	30	29	29
	(Percent of GDP; unless otherwise indicated)													
<i>Memorandum items:</i>														
Grants	3.1	2.5	0.7	1.8	2.5	1.3	1.3	2.7	1.7	1.6	0.7	0.5	0.4	0.2
Loans	1.8	2.3	3.0	4.3	3.4	3.1	4.4	3.3	4.2	3.8	5.9	5.2	5.4	5.2
Direct investment	2.6	1.9	1.7	2.4	2.0	2.1	2.8	1.5	1.6	2.2	2.3	2.3	2.3	2.3
Current account														
Excluding net official transfers	-5.4	-7.9	-5.5	-6.2	-8.0	-6.8	-5.7	-8.4	-6.1	-6.2	-5.3	-5.2	-5.0	-4.9
Including net official transfers	-2.3	-5.4	-4.9	-4.4	-5.6	-5.5	-4.3	-5.7	-4.4	-4.6	-4.6	-4.7	-4.7	-4.7
Debt service (percent of exports of goods)	3.6	2.7	9.2	3.7	3.7	3.7	3.7	2.9	2.9	2.8	3.5	2.9	2.4	2.4
Export of goods volume (percent change)	6.5	-18.5	38.7	17.3	8.0	13.0	3.2	4.3	15.5	12.4	8.5	7.1	6.9	8.6
Import of goods volume (percent change)	3.4	-17.8	11.1	13.8	2.4	3.5	2.9	12.8	7.7	11.7	10.6	10.2	6.9	8.8
Gross official reserves (millions of SDR) <sup>4</sup>	1,196	1,338	1,630	1,540	1,601	1,601	1,680	1,523	1,588	1,687	1,885	1,960	2,067	2,157
Months of imports of goods and nonfactor services	4.2	6.0	5.8	5.1	4.3	4.2	5.0	3.7	4.0	4.0	4.1	3.9	3.8	3.6
Terms of trade (percent change, deterioration -)	-15.5	-8.6	-13.8	1.8	0.3	-3.1	0.2	9.9	-3.5	-2.6	2.1	2.0	0.0	0.1
Exchange rate (ariary/US\$, period average)	3,618	3,788	3,830	...	...	4,096	...	...	...	...	...	...	...	...

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

<sup>1</sup> Includes official external financial support only with a disbursement schedule.

<sup>2</sup> Includes reserve accumulation.

<sup>3</sup> Includes debt relief under the CCRT.

<sup>4</sup> 2021 gross official reserves include the IMF SDR allocation.

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

	2019	2020	2021	2022			2023			2024	2025	2026	2027	2028
	Est.	Est.	Est.	Program approval	3rd review	Est.	Program approval	3rd review	Proj.	Projections				
Current account	-2.3	-5.4	-4.9	-4.4	-5.6	-5.5	-4.3	-5.7	-4.4	-4.6	-4.6	-4.7	-4.7	
Goods and services	-4.7	-9.0	-9.9	-6.9	-8.9	-9.1	-6.9	-8.0	-7.4	-6.8	-6.0	-6.3	-6.4	
Trade balance of goods	-6.0	-6.9	-6.6	-5.8	-6.5	-6.6	-6.0	-6.4	-5.5	-6.2	-6.2	-6.6	-6.7	
Exports, f.o.b.	18.5	15.0	18.6	18.0	23.2	23.3	19.1	24.4	23.3	23.6	23.9	24.2	24.5	
of which: Mining	5.4	2.8	5.3	5.8	8.3	8.3	5.6	8.6	9.1	9.5	9.0	8.7	8.1	
of which: Vanilla	4.2	3.9	4.2	3.5	3.5	3.5	3.6	3.4	2.2	2.1	2.0	1.9	1.7	
Imports, f.o.b.	-24.5	-21.8	-25.3	-23.8	-29.7	-29.9	-25.1	-30.7	-28.8	-29.9	-30.1	-30.8	-31.2	
of which: Petroleum products	-4.0	-2.7	-3.3	-3.1	-5.3	-5.3	-2.9	-5.4	-4.6	-4.6	-4.6	-4.7	-4.7	
of which: Food	-3.2	-3.5	-4.5	-3.5	-4.6	-4.6	-3.4	-4.2	-4.2	-4.0	-3.9	-3.8	-3.8	
of which: Intermediate goods and capital	-9.9	-8.6	-10.4	-9.7	-13.1	-13.1	-11.0	-14.3	-13.4	-14.4	-14.2	-14.3	-14.0	
Services (net)	1.3	-2.1	-3.3	-1.1	-2.4	-2.6	0.7	-1.7	-1.8	1.0	0.3	0.3	0.3	
Receipts	10.1	4.7	4.4	8.3	7.4	7.5	8.5	9.3	9.3	9.5	9.5	9.5	9.5	
of which: Travels	5.3	1.1	0.7	4.4	2.4	2.4	4.6	2.6	3.6	3.8	4.0	4.0	4.0	
Payments	-8.9	-6.8	-7.7	-9.4	-9.7	-10.1	-9.4	-10.9	-11.1	-10.0	-9.3	-9.3	-9.3	
Income (net)	-3.2	-2.9	-1.8	-2.6	-2.2	-2.5	-2.5	-2.4	-2.6	-2.8	-2.6	-2.3	-2.2	
Receipts	0.4	0.3	0.3	0.4	0.3	0.3	0.4	0.3	0.3	0.4	0.4	0.4	0.4	
Payments	-3.7	-3.3	-2.1	-3.0	-2.5	-2.8	-2.9	-2.7	-3.0	-3.3	-3.1	-2.8	-2.7	
of which: interest on public debt	-0.3	-0.2	-0.2	-0.2	-0.3	-0.2	-0.1	-0.5	-0.5	-0.6	-0.5	-0.3	-0.3	
Current transfers (net)	5.7	6.5	6.8	5.1	5.5	6.2	5.1	4.7	5.6	5.0	4.0	4.0	4.0	
Official transfers	0.8	1.1	0.2	0.5	0.2	0.2	0.4	0.2	0.2	0.3	0.3	0.3	0.3	
Capital and financial account	1.5	3.9	6.6	4.9	4.8	4.7	5.4	4.7	3.9	5.5	6.3	5.7	5.6	
Capital account <sup>1</sup>	2.4	1.6	0.7	1.5	2.5	1.3	1.0	2.7	1.7	1.5	0.6	0.5	0.3	
of which: Project grants <sup>1</sup>	2.4	1.6	0.7	1.5	2.5	1.3	1.0	2.7	1.7	1.5	0.6	0.5	0.3	
Financial account	-0.5	1.8	6.2	3.4	2.3	3.9	4.4	2.1	2.2	4.0	5.7	5.2	5.5	
Foreign direct and portfolio investment	2.6	1.9	1.7	2.4	2.0	2.1	2.8	1.5	1.6	2.2	2.3	2.3	2.3	
Other investment	-3.2	-0.1	4.5	0.9	0.4	1.8	1.6	0.6	0.6	1.7	3.4	2.9	3.2	
Government	1.3	1.7	2.3	3.5	2.6	2.4	3.3	2.2	3.1	2.6	4.4	4.0	4.3	
Drawing	1.8	2.3	3.0	4.3	3.4	3.1	4.4	3.3	4.2	3.8	5.9	5.2	5.2	
Project drawings <sup>1</sup>	1.7	2.1	2.0	4.0	3.4	3.1	4.1	3.3	3.5	3.2	5.3	4.8	4.9	
Budgetary support <sup>1</sup>	0.0	0.2	1.0	0.3	0.0	0.0	0.3	0.0	0.6	0.6	0.5	0.4	0.3	
Amortization	-0.5	-0.6	-0.7	-0.9	-0.8	-0.7	-1.1	-1.1	-1.1	-1.2	-1.4	-1.2	-1.1	
Monetary authority and private sector	-2.4	-1.3	2.4	-2.2	-0.8	-0.8	-2.1	-1.1	-1.1	-0.8	-0.7	-0.7	-0.7	
Banks	-0.1	-1.0	0.1	0.0	0.4	0.4	0.0	0.5	0.4	0.0	0.0	0.0	0.0	
Other (inc. unrepatriated export revenues)	-2.2	0.5	-0.2	-0.3	-1.0	0.7	0.4	0.0	-1.0	-0.1	-0.3	-0.4	-0.4	
Errors and omissions	-0.4	0.5	-0.3	0.0	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance	-0.8	-1.4	1.8	0.5	-0.8	-0.8	1.1	-1.0	-0.4	0.9	1.7	1.0	0.9	
Financing	0.8	1.4	-1.8	-0.5	0.8	0.8	-1.1	1.0	0.4	-0.9	-1.9	-1.2	-1.1	
Use of IMF credit (net)	0.6	0.3	0.3	0.3	0.5	0.5	0.1	0.3	0.3	-0.1	-0.5	-0.7	-0.6	
Other assets, net (increase = -) <sup>2</sup>	0.2	-1.5	-2.2	-0.8	0.2	0.3	-1.2	0.7	0.1	-0.8	-1.4	-0.5	-0.7	
Exceptional financing-Grant for debt relief <sup>3</sup>	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Exceptional financing-RCF disbursement		2.6												
Residual financing gap (unidentified financing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	

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

<sup>1</sup> Includes official external financial support only with a disbursement schedule.

<sup>2</sup> Includes reserve accumulation.

<sup>3</sup> Includes debt relief under the CCRT.

**Table 6. Madagascar: Monetary Accounts, 2019–28<sup>1</sup>**  
(Billions of Ariary, unless otherwise indicated)

	2019	2020	2021	2022			2023			2024	2025	2026	2027	2028
	Actuals	Actuals	Est.	Program approval	3rd review	Est.	Program approval	3rd review	Proj.	Projections				
Net foreign assets	4,614	4,876	5,018	5,729	4,875	5,139	6,759	5,634	6,318	7,440	9,446	11,025	12,828	14,359
Net foreign assets (BCM)	3,925	3,597	3,691	4,360	3,438	3,417	5,334	4,117	4,559	5,565	7,486	8,973	10,720	12,224
Net foreign assets (deposit money banks)	689	1,279	1,327	1,369	1,438	1,722	1,425	1,517	1,758	1,875	1,960	2,051	2,108	2,135
Net domestic assets	8,045	9,314	10,901	13,361	16,532	12,976	14,408	19,308	14,656	16,895	19,203	21,112	22,926	24,846
Domestic credit	9,125	10,685	12,411	14,653	18,449	15,122	16,387	20,637	16,300	18,539	20,847	22,757	24,570	26,491
Net credit to government	2,074	2,893	3,072	4,972	5,050	4,195	5,777	5,673	3,792	4,280	4,627	4,482	4,188	3,930
BCM <sup>2</sup>	757	1,044	1,271	2,530	2,400	2,407	2,562	2,453	2,127	2,181	2,003	1,410	806	134
DMBs	1,256	1,565	1,567	2,012	2,227	1,380	2,772	2,782	1,224	1,644	2,155	2,589	2,886	3,287
Other credits	62	285	234	430	423	407	442	438	441	455	469	483	496	509
Credit to the economy	7,051	7,792	9,339	9,681	13,399	10,927	10,610	14,964	12,508	14,259	16,220	18,274	20,382	22,560
Credit to public enterprises	43	59	54	59	39	37	59	39	39	39	39	39	39	39
Credit to private sector	6,980	7,687	9,263	9,601	13,286	10,816	10,531	14,851	12,389	14,140	16,101	18,155	20,263	22,441
Other credits	28	46	22	20	74	73	20	74	80	80	80	80	80	80
Other items (net)	-1,080	-1,371	-1,510	-1,162	-1,917	-2,146	-1,267	-1,329	-1,644	-1,644	-1,644	-1,644	-1,644	-1,644
BCM	281	183	161	283	-168	-130	283	420	454	454	454	454	454	454
Other	-1,361	-1,554	-1,672	-1,445	-1,749	-2,016	-1,550	-1,749	-2,098	-2,098	-2,098	-2,098	-2,098	-2,098
Money and quasi-money (M3)	12,659	14,190	15,919	19,089	21,407	18,115	21,167	24,942	20,974	24,335	28,648	32,137	35,754	39,206
Foreign currency deposits	1,111	1,472	1,519	1,548	1,640	1,959	1,604	1,719	1,996	2,112	2,197	2,289	2,346	2,372
Broad money (M2)	11,476	12,632	14,318	17,490	19,670	16,043	19,512	23,126	18,852	22,097	26,326	29,723	33,283	36,708
Demand deposits in local currency	4,426	4,866	5,509	7,102	8,101	6,539	8,072	9,584	7,640	8,791	10,550	12,088	13,601	15,134
Quasi-money including time deposits	3,735	4,196	4,691	6,236	7,047	4,986	7,042	8,275	5,969	7,358	8,754	9,976	11,178	12,395
Reserve money	4,927	5,459	5,863	6,671	6,888	6,912	6,997	8,020	8,021	9,101	10,743	11,718	13,010	14,042
	(Percentage change relative to broad money at beginning of the year)													
Net domestic assets	11.1	11.1	12.6	8.1	39.3	14.5	6.0	14.1	10.5	11.9	10.4	7.3	6.1	5.8
Domestic credit	11.3	13.6	13.7	7.0	42.2	18.9	9.9	11.1	7.3	11.9	10.4	7.3	6.1	5.8
Net credit to government	-0.2	7.1	1.4	2.0	13.8	7.8	4.6	3.2	-2.5	2.6	1.6	-0.5	-1.0	-0.8
BCM	-1.8	2.5	1.8	0.1	7.9	7.9	0.2	0.3	-1.7	0.3	-0.8	-2.3	-2.0	-2.0
DMBs	1.5	2.7	0.0	1.9	4.6	-1.3	4.3	2.8	-1.0	2.2	2.3	1.7	1.0	1.2
Other credits	0.1	1.9	-0.4	0.1	1.3	1.2	0.1	0.1	0.2	0.1	0.1	0.1	0.0	0.0
Credit to the economy	11.5	6.5	12.2	5.0	28.4	11.1	5.3	8.0	9.9	9.3	8.9	7.8	7.1	6.5
Credit to public enterprises	0.0	0.1	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	11.5	6.2	12.5	5.0	28.1	10.8	5.3	8.0	9.8	9.3	8.9	7.8	7.1	6.5
Other credits	0.0	0.2	-0.2	0.0	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net; asset = +)	-0.2	-2.5	-1.1	0.6	-2.8	-4.4	-0.6	3.0	3.1	0.0	0.0	0.0	0.0	0.0
Broad money (M2)	8.9	10.1	13.3	11.3	37.4	12.0	11.6	17.6	17.5	17.2	19.1	12.9	12.0	10.3
Currency in circulation	-2.2	7.7	15.3	8.5	9.8	9.7	5.9	16.4	16.0	13.5	18.0	9.1	11.0	7.9
Demand deposits in local currency	20.0	9.9	13.2	12.5	47.0	18.7	13.7	18.3	16.8	15.1	20.0	14.6	12.5	11.3
Quasi-money in local currency	8.0	12.3	11.8	11.8	50.2	6.3	12.9	17.4	19.7	23.3	19.0	14.0	12.1	10.9
Credit to the private sector (in nominal terms)	21.1	10.1	20.5	8.9	43.4	16.8	9.7	11.8	14.5	14.1	13.9	12.8	11.6	10.8
Credit to the private sector (in real terms)	17.1	5.6	14.3	2.9	32.2	5.9	3.9	2.5	5.2	5.5	5.9	5.5	5.1	4.8
<i>Memorandum items:</i>														
Credit to private sector (percent of GDP)	13.7	15.6	16.6	15.2	21.3	17.4	14.9	20.9	17.6	17.8	18.0	18.1	18.3	18.4
Money multiplier (M3/reserve money)	2.6	2.6	2.7	2.9	3.1	2.6	3.0	3.1	2.6	2.7	2.7	2.7	2.7	2.8
Velocity of money (GDP/end-of-period M3)	4.0	3.5	3.5	3.3	2.9	3.4	3.3	2.9	3.4	3.3	3.1	3.1	3.1	3.1

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

<sup>1</sup> End of period.

<sup>2</sup> Large increases in 2020 and 2021 reflect RCF disbursements and ECF disbursements on lent by the central bank to the Treasury.

**Table 7. Madagascar: Balance Sheet of the Central Bank<sup>1</sup>**  
(Billions of Ariary, unless otherwise indicated)

	2019	2020	2021	2022				2023			
	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
	Actuals	Actuals	Est.	Estimates				Projections			
Net foreign assets	3,925	3,597	3,691	3,169	3,647	3,261	3,417	4,686	5,000	4,802	4,559
Gross foreign assets	5,977	7,370	9,024	8,733	9,115	8,753	9,508	9,410	9,891	9,691	9,532
Gross foreign liabilities	-2,052	-3,772	-5,333	-5,563	-5,469	-5,492	-6,091	-4,724	-4,890	-4,889	-4,973
Net domestic assets	1,002	1,862	2,172	2,705	2,779	2,749	3,495	1,593	2,906	2,734	3,462
Credit to government (net)	757	1,044	1,271	1,779	1,879	2,046	2,407	819	1,389	1,347	2,127
Claims on central government	1,103	2,331	2,576	2,556	2,779	2,996	3,379	3,462	3,593	3,551	3,671
Statutory advances	85	0	0	0	0	142	287	327	327	327	327
Securitized debt (T-bonds and bills)	701	658	615	604	593	583	572	561	551	541	531
Discounted bills of exchange	8	0	0	0	0	0	0	0	0	0	0
On-lending of funds	308	1,671	1,960	1,950	2,184	2,271	2,519	2,573	2,714	2,682	2,812
Other credits	1	1	1	1	1	1	1	1	1	1	1
Government deposits	-347	-1,287	-1,305	-777	-899	-950	-972	-2,644	-2,204	-2,204	-1,544
Claims on other sectors	23	-187	-169	-17	-112	-214	-551	194	30	30	30
Claims on banks: Liquidity operations (+ = injection)	-58	609	711	640	624	448	1,185	788	1,150	950	850
Other items (net; asset +)	281	397	359	303	388	469	454	-208	337	406	454
Reserve money	4,927	5,459	5,863	5,875	6,426	6,010	6,912	6,279	7,907	7,536	8,021
Currency in circulation	3,315	3,570	4,117	3,958	4,159	4,083	4,518	4,278	5,117	5,119	5,243
Currency in banks	335	354	366	340	392	408	419	400	485	516	489
Resident deposits	51	66	76	77	79	81	87	85	79	81	87
				(Cumulative annual flows, unless otherwise stated)							
<i>Memorandum items:</i>											
Net foreign assets	-282	-328	94	-521	-44	-430	-274	1,269	1,583	1,385	1,142
Reserve money	-225	532	403	12	563	148	1,050	-633	994	624	1,109
Exchange Rate (MDG/SDR, end of period)	5,016	5,509	...	...	...	...	...	...	...	...	...
Net foreign assets (Millions of SDRs, stock)	784	653	666	576	672	612	575	803	841	799	759

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

<sup>1</sup> End of period.



**Table 8. Madagascar: Selected Financial Soundness Indicators, 2019–22<sup>1</sup>**  
(Ratios, percent, unless otherwise indicated)

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

Source: Malagasy authorities.

<sup>1</sup> Ratios only concern banking sector.

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

	2019	2020	2021	2022	2023	2024
<b>External Financing Needs</b>	<b>1,215</b>	<b>1,055</b>	<b>701</b>	<b>1,245</b>	<b>1,273</b>	<b>1,147</b>
Current account deficit (excl. budget grants)	424	817	708	835	696	805
Net repayment of private sector and monetary authority debt	337	170	-20	123	177	140
Repayment of government debt (excl. IMF)	70	81	96	106	170	198
Other (incl. unrepatriated export revenues)	385	-13	-82	182	230	4
<b>External Financing Sources</b>	<b>950</b>	<b>746</b>	<b>635</b>	<b>987</b>	<b>1,102</b>	<b>1,192</b>
Foreign direct and portfolio investment	373	251	244	318	259	379
Project support	577	494	391	669	843	812
<i>Grants</i>	333	214	97	193	279	261
<i>Loans</i>	244	281	294	476	565	552
<b>Use of International Reserves ("-" is accumulation)</b>	<b>75</b>	<b>-210</b>	<b>-458</b>	<b>180</b>	<b>24</b>	<b>-132</b>
<b>External Financing Gap</b>	<b>190</b>	<b>520</b>	<b>524</b>	<b>77</b>	<b>147</b>	<b>87</b>
<b>Use of IMF Credit</b>	<b>83</b>	<b>384</b>	<b>48</b>	<b>77</b>	<b>48</b>	<b>-25</b>
Disbursements	87	384	70	98	98	33
Repayments	4	0	22	21	50	58
<b>SDR Allocation</b>	<b>0</b>	<b>0</b>	<b>332</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other Exceptional Financing</b>	<b>107</b>	<b>136</b>	<b>144</b>	<b>0</b>	<b>99</b>	<b>112</b>
Budget support loans	7	20	144	0	99	99
Budget support grants	101	115	0	0	0	13
<i>Memorandum items:</i>						
Gross official reserves	1,654	1,864	2,322	2,141	2,118	2,249

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

**Table 10. Madagascar: Decomposition of Public Debt and Debt Service by Creditor<sup>1</sup>**

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In US\$)	(Percent total debt)	(Percent GDP)	(In US\$)	(In US\$)	(In US\$)	(Percent GDP)		
<b>Total</b>	<b>7,637,735,465</b>	<b>100.00</b>	<b>54.91</b>	<b>1,181,073,237</b>	<b>677,542,874</b>	<b>655,355,870</b>	<b>7.80</b>	<b>4.24</b>	<b>3.83</b>
<b>External</b>	<b>5,099,037,018</b>	<b>66.76</b>	<b>36.66</b>	<b>125,146,046</b>	<b>146,701,153</b>	<b>136,947,936</b>	<b>0.83</b>	<b>0.92</b>	<b>0.80</b>
Multilateral creditors <sup>2</sup>	3,944,148,533	51.64	28.36	77,210,211	96,250,774	93,107,976	0.51	0.60	0.54
IMF	897,002,024	11.74	6.45	-	-	-	-	-	-
World Bank	2,044,070,108	26.76	14.70	-	-	-	-	-	-
ADB/AfDB/IADB	571,716,286	7.49	4.11	-	-	-	-	-	-
Other Multilaterals	431,360,116	5.65	3.10	-	-	-	-	-	-
o/w: Intern <sup>1</sup> Fund for Agricultural Dev.	176,757,799	2.31	1.27	-	-	-	-	-	-
European Investment Bank	158,260,346	2.07	1.14	-	-	-	-	-	-
Bilateral Creditors	899,207,306	11.77	6.47	27,757,894	31,121,337	30,981,580	0.18	0.19	0.18
Paris Club	344,473,228	4.51	2.48	-	-	-	0.00	0.00	0.00
o/w: Agence Française de Développement	140,053,769	1.83	1.01	-	-	-	-	-	-
Japan International Cooperation Agency	120,677,384	1.58	0.87	-	-	-	-	-	-
Non-Paris Club	554,734,078	7.26	3.99	-	-	-	0.00	0.00	0.00
o/w: Export-Import Bank of China	312,118,890	4.09	2.24	-	-	-	-	-	-
Kuwait Fund	17,989,738	0.24	0.13	-	-	-	-	-	-
Bonds	0	0	-	-	-	-	-	-	-
Commercial creditors	50,682,679	0.66	0.36	20,177,942	19,329,042	12,858,381	0.13	0.12	0.08
o/w: Deutsche Bank	32,974,420	0.43	0.24	-	-	-	-	-	-
Consorz GIFIEX	17,708,259	0.23	0.13	-	-	-	-	-	-
Other international creditors (SOE debt)	204,998,500	3	1.47	-	-	-	-	-	-
<b>Domestic</b>	<b>2,538,698,446</b>	<b>33.24</b>	<b>18.25</b>	<b>1,055,927,190</b>	<b>530,841,721</b>	<b>518,407,934</b>	<b>6.97</b>	<b>3.32</b>	<b>3.03</b>
Held by residents, total	2,538,698,446	33.24	18.25	1,055,927,190	530,841,721	518,407,934	6.97	3.32	3.03
Held by non-residents, total	0	0	-	-	-	-	-	-	-
T-Bills	146,888,942	1.92	1.06	146,888,942	108,514,354	125,655,145	0.97	0.68	0.73
Bonds	523,629,196	6.86	3.77	298,424,711	325,543,062	376,965,435	1.97	2.04	2.20
Loans	207,055,036	2.71	1.49	158,035,284	96,784,304	15,787,354	1.04	0.61	0.09
Arrears	294,542,969	3.86	2.12	294,542,969	-	-	1.94	0.00	0.00
SOE	1,366,582,303.53	17.89	9.83	-	-	-	-	-	-
<b>Memo items:</b>									
Collateralized debt <sup>3</sup>	0								
o/w: Related	0								
o/w: Unrelated	0								
Contingent liabilities	3,209,193.02								
o/w: Public guarantees	3,209,193.02								
o/w: Other explicit contingent liabilities <sup>4</sup>	0								
Nominal GDP	15,149,184,284			15,149,184,284	15,968,145,191	17,100,257,047			

Sources: Country authorities; and IMF staff estimates.

<sup>1</sup> As reported by country authorities according to their classification of creditors.

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

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

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

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

Public and publicly-guaranteed external debt	Volume of new debt in 2023		PV of new debt in 2023 (program purposes)	
	USD million	Percent	USD million	Percent
<b>Sources of debt financing</b>	<b>1650</b>	<b>100</b>	<b>789</b>	<b>100</b>
<b>Concessional debt, of which</b>	<b>1615</b>	<b>98</b>	<b>764</b>	<b>97</b>
Multilateral debt	1296	79	573	73
Bilateral debt	79	5	43	5
Other	239	15	148	19
<b>Non-concessional debt, of which</b>	<b>35</b>	<b>2</b>	<b>25</b>	<b>3</b>
Semi-concessional	35	2	25	3
Commercial terms	0	0	0	0
<b>By Creditor Type</b>	<b>1650</b>	<b>100</b>	<b>789</b>	<b>100</b>
Multilateral	1331	81	599	76
Bilateral - Paris Club	79	5	43	5
Bilateral - Non-Paris Club	0	0	0	0
Other	239	15	148	19
<b>Uses of debt financing</b>	<b>1650</b>	<b>100</b>	<b>789</b>	<b>100</b>
Infrastructure	239	15	148	19
Social Spending	250	15	68	9
Budget Financing	100	6	64	8
Other	1060	64	509	64

Sources: Malagasy authorities; and IMF staff projections.

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

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

Source: IMF.

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

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
	(Millions of SDRs)													
<b>Fund obligations based on existing credit</b>														
Principal	24.8	43.6	65.3	103.9	107.4	100.9	93.9	69.1	24.4	14.7	2.4	0.0	0.0	0.0
Charges and interest	6.4	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7
<b>Fund obligations based on existing and prospective credit</b>														
Principal	24.8	43.6	65.3	103.9	107.4	103.4	106.1	83.8	39.1	29.3	14.7	2.4	0.0	0.0
Charges and interest	6.4	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7	12.7
<b>Total obligations based on existing and prospective credit</b>														
Millions of SDRs	31.2	56.2	78.0	116.6	120.0	116.0	118.8	96.5	51.8	42.0	27.3	15.1	12.7	12.7
Billions of Ariary	183	348	498	774	819	798	822	671	362	295	193	107	90	91
Percent of exports of goods and services	0.8	1.3	1.7	2.3	2.2	1.9	1.8	1.4	0.7	0.5	0.3	0.2	0.1	0.1
Percent of debt service	5.5	9.5	11.4	18.4	17.5	16.7	15.2	9.7	4.5	2.9	1.7	0.9	0.7	0.6
Percent of GDP	0.3	0.4	0.6	0.8	0.7	0.7	0.6	0.5	0.2	0.2	0.1	0.0	0.0	0.0
Percent of government revenue	2.0	3.6	4.3	5.6	5.3	4.6	4.3	3.2	1.6	1.2	0.7	0.3	0.3	0.2
Percent of quota	12.8	23.0	31.9	47.7	49.1	47.5	48.6	39.5	21.2	17.2	11.2	6.2	5.2	5.2
<b>Outstanding IMF credit based on existing and prospective drawings</b>														
Millions of SDRs	674.5	655.4	590.1	486.2	378.8	275.5	169.3	85.5	46.4	17.1	2.4	0.0	0.0	0.0
Billions of Ariary	3,966	4,058	3,770	3,227	2,584	1,896	1,171	595	325	120	17	0	0	0
Percent of exports of goods and services	17.3	15.4	12.6	9.6	6.9	4.6	2.6	1.2	0.6	0.2	0.0	0.0	0.0	0.0
Percent of debt service	119.9	110.8	86.5	76.9	55.3	39.6	21.7	8.6	4.0	1.2	0.2	0.0	0.0	0.0
Percent of GDP	5.6	5.1	4.2	3.2	2.3	1.6	0.9	0.4	0.2	0.1	0.0	0.0	0.0	0.0
Percent of government revenue	43.0	42.0	32.8	23.5	16.6	11.0	6.2	2.8	1.4	0.5	0.1	0.0	0.0	0.0
Percent of quota	276.0	268.2	241.4	198.9	155.0	112.7	69.3	35.0	19.0	7.0	1.0	0.0	0.0	0.0
<b>Net use of IMF credit (millions of SDRs)</b>														
Disbursements	48.5	-19.1	-65.3	-103.9	-107.4	-103.4	-106.1	-83.8	-39.1	-29.3	-14.7	-2.4	0.0	0.0
Repayments and repurchases	73.3	24.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	24.8	43.6	65.3	103.9	107.4	103.4	106.1	83.8	39.1	29.3	14.7	2.4	0.0	0.0
<i>Memorandum items:</i>	(Billions of Ariary, unless otherwise indicated)													
Exports of goods and services (millions of SDRs)	3,909	4,246	4,682	5,080	5,498	6,051	6,519	7,023	7,567	8,152	8,782	9,460	10,191	10,978
Debt service	3,306.9	3,660.9	4,355.8	4,196.2	4,673.2	4,789.9	5,396.6	6,879.1	8,121.2	10,260.0	11,247.5	12,208.6	13,544.8	14,858.0
Nominal GDP (at market prices)	70,407	79,440	89,415	100,035	110,950	122,221	134,665	148,314	163,316	179,716	197,679	217,346	238,867	262,409
Government revenue	9,220	9,659	11,509	13,712	15,553	17,206	18,989	20,952	23,120	25,499	28,196	31,168	34,443	38,050
Quota (millions of SDRs)	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4

Source: IMF.

## Annex I. Risk Assessment Matrix<sup>1</sup>

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
<b>External Risks</b>			
<b>Intensification of regional conflict.</b> Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	<b>High</b>	<b>Medium.</b> The war in Ukraine could affect Madagascar indirectly through commodity price volatility, extended supply disruptions, financial system vulnerability, and lower growth in trading partners limiting tourism flows and remittances.	Maintain exchange rate flexibility to cushion balance of payment stress while focusing monetary policy on containing inflation. Reduce non-priority spending to preserve programmed fiscal targets. Accelerate broad-based reforms to boost competitiveness, remove bottlenecks to growth and support economic diversification. Implement policies to cope with commodity price shocks as described below.
<b>Abrupt global slowdown or recession.</b> A new bout of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops.	<b>Medium</b>	<b>Medium.</b> A global slowdown would spillover to Madagascar through trade and financial channels exacerbating fiscal and external imbalances.	Maintain greater exchange rate flexibility to absorb external shocks and preserve international reserves, identify extra sources of fiscal financing and recalibrate monetary policy to contain inflation. Prioritize structural reforms to improve competitiveness and diversify the economy to build resilience against external shocks.
<b>Commodity price volatility.</b> A succession of supply disruptions and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	<b>Medium</b>	<b>Medium.</b> Lower external demand and commodities prices for metal and vanilla could reduce export revenues and reduce production in the mining sector. Rising food and energy prices could lead to greater food insecurity, fuel inflation, dampen disposable income of households, and lead to a decline in consumption and deteriorated current account. Also, higher energy prices will raise fuel and electricity costs weighing on government transfers and complicating ongoing energy reforms. Uncertainty leads to social and economic instability.	Allow greater exchange rate flexibility to buffer external price shocks. Accelerate structural reforms to improve economic efficiency and enhance diversification. Support vulnerable households with additional targeted measures within the existing budget.
<b>Deepening geo-economic fragmentation.</b> Weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	<b>High</b>	<b>Medium.</b> Intensified geopolitical tensions would affect Madagascar through a decline in trade and FDI, higher input costs and lower investor confidence.	Improve public spending efficiency and commit to a credible medium-term fiscal consolidation. Accelerate structural reforms to improve economic efficiency and enhance diversification. Enhance regional integration through existing protocols.

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

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
<b>Extreme climate events.</b> Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	<b>Medium</b>	<b>High.</b> Loss of real and human capital, disruptions in trade and lower growth. Extreme precipitation and drought could affect food production and availability. Damaged roads and bridges could further affect food distribution.	Provide effective support to vulnerable populations and appeal to donors for post-disaster financing. Build the country's resilience for adaptation to climate change in the agricultural sector and rural livelihoods. Strengthen disaster risk management and preparedness to provide rapid support to affected population.
<b>Domestic Risks</b>			
<b>Social discontent and political instability.</b> Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies. This exacerbates imbalances, slows growth, and triggers market repricing.	<b>High</b>	<b>High.</b> Political instability may result from popular discontent against the government, stemming from repeated humanitarian and healthcare crises, high inflation, an ongoing food crisis and prevalent crime and banditry triggering social unrest. Protests may increase, stoked by political polarization ahead of the November 2023 elections and heightened socioeconomic stress. The volatility might carry over into the post-electoral period following electoral disputes, disrupting the reform agenda, and exerting pressure on the budget.	Maintain appropriate macroeconomic policies to safeguard stability. Focus reforms on areas less sensitive to sociopolitical environment. Improve inclusiveness of government policies. Use some of the fiscal space to boost spending on social assistance. Step-up anti-corruption and AML/CFT efforts.
<b>Lack of progress or reversals in governance reforms, especially for SOEs.</b>	<b>High</b>	<b>High.</b> A lack of transparency and evenhandedness may compromise additional concessional support, hinder private investment (incl. PPPs), and harm negotiations with fuel suppliers. The absence of cost reduction would prevent a recovery of JIRAMA and the achievement of government's fiscal targets.	Undertake promised reforms and renew commitment to operating SOEs (e.g., JIRAMA) in a transparent and equitable manner. Step-up anti-corruption and AML/CFT efforts.
<b>Weak investment implementation capacity.</b>	<b>High</b>	<b>Medium.</b> Insufficient execution of capital investment projects over years would lead to larger infrastructure gaps, slower economic growth and constrain foreign direct investment.	Monitor available domestic capacity and prioritize investments with highest returns. Improve transparency in planning, monitoring, and auditing steps for investment projects.
<b>Monetary policy miscalibration</b> Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	<b>Medium</b>	<b>Medium.</b> Lack of clear nominal anchor and robust monetary policy framework cause a rapid de-anchoring of inflation expectations.	Tighten monetary policy to respond to possible second-round effects from imported food and energy prices and restore price stability to avoid de-anchoring inflation expectations.
<b>Financial instability.</b>	<b>Medium</b>	<b>Medium.</b> An increase in real interest rates, risk premia and asset repricing could trigger a surge in non-performing loans, deteriorate confidence and lower capital, affecting banking sector stability and credit to the private sector affecting real economic activity.	Closely monitor the buildup of vulnerabilities in financial sector's balance sheets and enhance regulation and supervision. Communicate with banks on measures needed to ensure a prompt provisioning and write-off of NPLs and adequate capitalization. Strengthen contingency planning.



Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
<b>Slower pace of reforms</b>	<b>Medium</b>	<b>Medium.</b> Poor governance, increased corruption and the electoral campaign decrease incentives for reform having a negative impact on social outcomes, confidence, and growth. Lack of progress on reforms reduces future external financing.	Build consensus on reforms. Improve communication. Adhere to governance reforms. Invest in human capital and institutions.

## Annex II. Follow-Up Report by the *Cour des Comptes* on Its Audits on COVID Spending

*The report was published on the Ministry of Economy and Finance website (March 2023 SB) on April 3<sup>rd</sup>, 2023. It follows up on the implementation of the recommendation of the four audits conducted by the Cour des Comptes and published in March 2022 on (i) financial flows related to the response to the COVID-19 pandemic, (ii) related public procurement contracts; (iii) the overall management of the COVID-19 crisis, and (iv) social measures put in place in response to the pandemic.*

**1. In response to the *Cour des Comptes* audit reports, the authorities have adopted an action plan to address the recommendations by the *Cour*.** Most envisaged reforms were planned to be implemented in 2022 and 2023 and focused on (i) implementing a legal framework for emergency spending, (ii) improving communication/education of the actors on the spending process and (iii) improving the IT system used in the spending process.

**2. In its follow-up report, the *Cour des Comptes* notes limited progress in the implementation of this action plan.** About half of the actions envisaged are in progress or partially implemented, while implementation of the rest has not yet started. In particular, the revision of the legal framework to (i) clearly define emergency situations and the power and responsibilities of the Presidency during this period of time and (ii) clarify the emergency spending process and related controls, has not been implemented yet. However, a list of reference prices for public procurement operations was established and training programs have been initiated for the actors of the spending process although they would need to be extended. Progress was also reported regarding material accounting and IT systems to improve spending monitoring.

## Appendix I. Letter of Intent

Antananarivo, Madagascar  
June 6, 2023

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

Dear Madam Managing Director:

1. Madagascar is facing a challenging economic, social, political, and climatic environment. Real growth is projected to remain stable around 4.0 percent in 2023, as lower demand from trading partners and political tensions add to the economic strain caused by two recent cyclones. Despite these challenges, the government aims to return to a domestic primary surplus in 2023 while increasing spending in social sectors and public investment. The widening of the fiscal deficit in 2022 led to the accumulation of domestic arrears, which we plan to repay in 2023 following the implementation of an agreement to settle all cross-liabilities with oil distributors and the payment of overdue oil taxes.
2. We are committed to pursue tax reforms and administrative measures and increase the revenues needed to finance our development plan. At the same time, we continue to improve the composition and efficiency of spending, while also accelerating the recovery of state-owned enterprises. We are strengthening public financial management with a particular focus on transparency and improved budget execution. In this regard, we have published a new public investment manual to clarify institutional responsibilities and adopted changes to the legal framework on public procurements to allow for the collection and publication of UBO information. To improve accountability, the *Cour des Comptes* released a follow up report on the implementation of its recommendations in its audits of COVID spending.
3. The quantitative performance of the program under the Extended Credit Facility (ECF) as of the end of December 2022 has reflected budget difficulties arising from high oil prices. Both the floor on net foreign assets and the ceiling on the domestic primary deficit, were breached. The central bank's net foreign assets floor was missed slightly. The performance criterion for the domestic primary balance was breached by a wider margin, largely due to the non-payment of oil taxes by fuel distributors in the absence of a comprehensive agreement to settle past debts. Approximately one-third of recorded customs revenues were not collected. The implementation of the agreement between the government and oil distributors is expected to remedy the situation in 2023. The indicative target on domestic tax collection was missed due to delays in implementing some tax administration measures, and the indicative target on social spending was also missed, albeit by a lesser margin than in 2021.

4. Further progress is being made on structural reforms. We are working to meet the prior action. All structural benchmarks have been either met or implemented with minor delays, with the exception of notifying staff of recent budget transfers to JIRAMA's suppliers promptly and containing government's liabilities to oil distributors below MGA 300 billion. The failure to settle cross-debts with oil companies has resulted in the government exceeding this ceiling. We have returned to the agreed ceiling, however, since April 2023. We will issue the *arrêtés* setting the fuel price structure for the first and second semesters of 2023 prior to the conclusion of this review.

5. We are strengthening our efforts to turnaround JIRAMA and are implementing measures to contain non-technical losses and reduce production costs notably by switching to renewable energy sources. To improve monitoring and transparency we will share monthly reports showing JIRAMA's revenue and costs and publish the results of calls for tender for fuel purchases.

6. Madagascar remains committed to achieving its program objectives. The attached Memorandum of Economic and Financial Policies (MEFP) describes in more detail the macroeconomic policy measures and structural reforms that will contribute in 2023 to the achievement of the established objectives which are in line with the *Plan Emergence Madagascar*. We stand ready to take any further action necessary to achieve these objectives and will consult with IMF staff before making any changes to the policies set forth in this memorandum. We do not intend to introduce measures or policies that would exacerbate Madagascar's balance of payments difficulties and we are committed to ensuring the timely delivery of data for program monitoring.

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

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

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

/s/

Ms. Rindra Hasimbelo Rabarinirinarison  
Minister of the Economy and Finance

/s/

Mr. Aivo Andrianarivelo  
Governor of the Central Bank of Madagascar

Attachments:

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

## Attachment I. Memorandum of Economic and Financial Policies

*This Memorandum of Economic and Financial Policies (MEFP) updates the version prepared for the third review of the Extended Credit Facility (ECF) arrangement approved by the IMF Executive Board on March 1, 2023. It reviews recent economic developments and the fulfillment of the government's commitments and discusses the macroeconomic and structural policies that are being implemented.*

### RECENT DEVELOPMENTS AND OUTLOOK

1. **Growth is expected to flatten in 2023.** Multiple climatic shocks in early 2022 and 2023 and the rise in food and energy prices have negatively affected the growth outlook in both years, estimated at 4 percent in 2022. This performance is better than that of the sub-Saharan African economies (expected to be around 3.9 percent).
2. **Inflation exceeded 10 percent at end-2022.** The 43 percent average increase in prices at the pump decided in July 2022, as well as rising food and energy prices, have affected consumer prices. At the end of March 2023, inflation reached 12.4 percent year-on-year. The end-of-period inflation rate was 10.8 percent in 2022 and is projected around 9.3 percent in 2023.
3. **The current account deficit has widened while reserve coverage in months of imports of goods and services has declined.** The current account deficit is estimated to have widened to about 5.5 percent of GDP in 2022 (from 4.9 percent of GDP in 2021). As a result, foreign exchange reserve coverage of imports of goods and services fell from 5.8 months in 2021 to 4.2 months in 2022 and would continue declining to 4.0 months in 2023.
4. **The outlook, however, remains subject to significant uncertainties and risks,** including global and regional economic growth, rising global food and energy prices, and domestic factors including climate shocks, difficulties in the vanilla sector, weaker than expected revenue mobilization, and uncertainties related to the upcoming elections.

### PERFORMANCE UNDER THE PROGRAM SUPPORTED BY THE EXTENDED CREDIT FACILITY

5. **Macroeconomic management is marked by mixed performance at the end of December 2022.**

- The quantitative performance criteria for the ceiling on net domestic assets and the continuous criteria for external debt were met.
- However:
  - The performance criterion relating to the floor for net foreign assets was missed by a small margin (SDR 507 million against an adjusted target of SDR 532 million).
  - The domestic primary deficit was much larger than expected, reaching MGA 1724 billion against a benchmark of MGA 888 billion. This underperformance is explained in particular by weaker performance in terms of domestic tax revenue collection and by a delay in the payment of oil taxes by fuel distributors since the end of 2021 due to a dispute with the government.
  - We will submit a waiver request to the Fund's Executive Board for non-observance of these criteria.
- Regarding the indicative targets:
  - Actual total customs revenue (on a cash basis) fell below the benchmark set for end-December 2022. The gap can be explained by the large cross-liabilities between the oil companies and the government and, as a result, the failure by the oil companies to issue promissory notes for the payment of oil customs taxes.
  - The criteria relating to the floors for domestic tax revenue collection and social spending were not met because of the growth impact of climate shocks at the beginning of the year, a failure to implement some of the tax measures provided for in the initial budget law, and problems encountered by the social ministries in executing their budgets. The social spending execution rate has nevertheless improved compared to last year (85 percent relative to the target in 2022 compared to 58 percent in 2021).

## 6. We made progress in implementing structural reforms.

- With IMF's technical assistance, we finalized and published the public investment manual which was adopted by decree on March 15<sup>th</sup>.
- The follow-up report by the *Cour des Comptes* on the implementation of recommendations following the audits on COVID spending was released on April 3<sup>rd</sup>.
- Regarding fiscal transparency, the quarterly budget execution reports have been further improved and now meet the continuous structural benchmark. We plan to further expand the coverage of future reports with the support of the IMF's long-term fiscal expert

through IT improvements. The continuous benchmark requiring publication on the ARMP (public procurement authority) website of the terms and conditions of public-private partnership contracts within one month of their signing continues to be met.

- The government's gross liabilities to oil distributors exceeded the MGA 300 billion limit (continuous structural benchmark) starting September 2022 due to the delay in reaching an agreement between the government and the oil companies on the amount and settlement of cross-debts between the two parties. Following an agreement in late December 2022 and the settlement of past liabilities, this ceiling has been respected since May 2023.
- Due to a reorganization in the Ministry of Economy and Finance, information on recent budget transfers to suppliers of JIRAMA were unfortunately not provided to IMF and World Bank staff within one week of the transfer (continuous benchmark).

## MACROECONOMIC AND STRUCTURAL POLICIES

Policies going forward will continue to aim to create fiscal space to respond to shocks, reduce fiscal risks, improve public financial management and governance, and advance monetary and financial reforms.

### A. Strengthen Fiscal Policy to Respond to Shocks

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

#### Mobilize Tax Revenues

**8. The 2023 budget law assumed a gross tax burden of 12.7 percent of GDP, or an increase of 1.2 percentage point compared to last year.** Based on revised projections during the year, gross domestic tax revenues and customs revenues are expected to reach 6.1 and 5.6 percent of GDP respectively over the period, or MGA 7,838 billion in total on a net basis after deducting VAT credit reimbursements, excluding exceptional revenue from the payment in 2023 of oil customs tax arrears. Achieving these targets will provide the government with the resources necessary to fund the country's recovery efforts.

**9. We expect to reach our domestic revenue targets by reinforcing the recovery of tax arrears and the implementation of legislative and administrative measures adopted in the initial 2023 budget law.** These include: (i) the application of a 3 percent tax rate on the income

of exporters of agricultural and forestry products; (ii) the reinstatement of the VAT rate at 20 percent for diesel and gasoline as of January 2023; (iii) the withholding of certain taxes in the vanilla industry; (iv) better VAT management; (v) the application of the AIRS (advance payment of income and synthetic taxes) of 2 percent for export transactions excluding vanilla; (vi) better traceability of products subject to excise duty; (vii) an increase in excise duty on tobacco; and (viii) expansion of the electronic payment system. In addition, to optimize revenue from the mining sector, we have finalized a revision of the mining code in close consultation with the World Bank, the IMF and mining sector's representatives which was submitted to Parliament in May 2023 (structural benchmark for June 2023).

**10. As for customs administration, reforms are part of our 2020-2023 strategic plan.**

Key measures for 2023 include: (i) harmonization of the provisions of the Malagasy Customs Code relating to free zones with the Revised Kyoto Convention; (ii) implementation of a scanning system for 100 percent of imported and exported goods; and (iii) establishment of a new customs analysis center. In addition, the following changes have been introduced to the customs tariff: (i) exemption from customs duties for a number of goods to revive a given sector (tourism) and to contribute to the country's energy transition; (ii) completion of the elimination of tariffs in relation to the commitments made under the interim Economic Partnership Agreement with the European Union; and (iii) continued efforts to categorize tariff lines in accordance with national tariff policy and the model issued by UNCTAD for certain strategic products. Following a public-private dialogue parallel to discussions on the new mining code, and in accordance with IMF staff recommendation, a transitory clause decided the exemption of exit duties on non-renewable resources envisaged in the 2023 budget law until the next budget law.

**Control Expenditures and Improve their Execution**

**11. The public expenditures envisaged for 2023 should make it possible to maintain the domestic primary deficit around 1.0 percent of GDP, excluding one-time revenues related to the agreement with oil companies, in line with the fiscal consolidation objective.**

This deficit level which is higher than at the time of the third review is justified by the need for additional transfers to JIRAMA to ensure the continuity of operations and electricity supply. Current expenditures, excluding net Treasury operations, are expected to be around MGA 7,648 billion. Payroll expenditures are estimated at MGA 3,844 billion, while transfer expenditures will increase to MGA 2,647 billion given JIRAMA' exceptional financing needs. To take into account the underperformance of revenues, domestically financed investment expenditures in 2023 will be limited to MGA 1,548 billion, i.e., 60 percent more than the amount committed in 2022, in order to respect the performance criterion on the domestic primary deficit. Nonetheless, this amount may be revised upwards by the same amount of overperformance of collected revenues relative to current projections (paragraph 8). The SDR allocation was fully ceded to the government in March 2023 in order to finance the construction of the water pipeline Efaho in the South to mitigate the protracted drought, solar panels in 46 cities, and the construction of the Antananarivo – Toamasina highway and the renovation of National Road 13.



**12. We will continue our efforts to control our payroll and pension expenditures as well as our transfer expenditures in order to remain within the allocated limits.**

The reforms initiated to improve payroll management will be continued. At end-December 2022, the development of version 2 of the AUGURE system was 82 percent complete for the modules related to salaries and 35 percent for those related to pensions. Other management modules, such as those for training, missions, staff evaluation, work schedules, staff of national public institutions and decentralized territorial authorities, volunteers, staff paid by technical and financial partners and Parents' Association (FRAM) teachers, pensions, staff from specific ministries and Provisional Planning and Oversight of the Workforce, Posts, and Skills (GPEEC), will be developed this year. The operationalization of all AUGURE 2 modules will contribute not only to the improvement of forecasts and payment of salaries and pensions, but also to the detection and elimination of ghost workers, in line with the recommendations of the audits conducted in 2020 and early 2021. Specifications for the development of the new version of the Payroll Management Tool (PMS 2.0) have been finalized and will help improve the quality of payroll forecasts included in the budget laws. As far as pensions are concerned, the strategic reform document on the management of public pension funds will be examined by the Council of Ministers. The measures planned in the 2023 budget law to reduce the deficit of the Civilian and Military Retirement Fund (CRCM) are the digitization of pension payments through e-Poketra, the adoption of draft decrees allowing for the transfer of the surplus of the non-civil-service retirement and pension fund (CPR) to the CRCM, the gradual clearing of the pension funds' suspense accounts that record contributions paid that have not yet been the subject of revenue orders, and the improvement of revenue collection among national public institutions and decentralized territorial authorities.

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

- We took several measures to improve the execution of social spending. We removed the spending authorization (DAE), and social ministries developed annual commitment plans, which were used to set the spending regulation rate for the first quarter, with technical assistance from the IMF (structural benchmark for end-January 2023). The execution rate of social spending has improved, enabling us to meet the program IT for the first time at end-March 2023 (MGA 108 billion compared to the target of MGA 70 billion).
- Several measures will be implemented to strengthen the social protection system with the technical and financial support of our various partners, such as the World Bank, the World Food Program, and UNICEF. In particular, we have allocated \$5 million (MGA 18 billion) for the year 2023 for the Intervention Fund for Development (FID) to carry out three key operational activities under the social safety net program for 36,900 households in 10 districts. These activities are organized around three complementary themes: productive social safety nets, which focus on development and agricultural production activities; cash transfers for human development, which focus on schooling and nutritional support; and the response for early recovery from natural disasters in the event of a crisis in sensitive areas (cyclone, flood, severe food insecurity, etc.). We will

ensure that budget allocations to the FID are effectively disbursed on time for use within the year. We are establishing a single social registry to serve as a reference for all social protection activities undertaken in the country, and we will clarify through regulations its functionalities, the conditions for sharing data within the government and with external partners, and the applicable data protection measures (structural benchmark, October 2023). A pilot project is expected to collect information for 60,000 households by December 2023 (structural benchmark). We are also working on updating our 2019–2023 social protection strategy, as well as an intervention calendar. The updated strategy will be proposed to the Cabinet in December 2023.

**14. We are also committed to strengthening the execution and efficiency of public investment spending.** Achieving the ambitious targets set by the PEM requires a significant strengthening of public expenditure management and execution capacities, particularly those related to investments. We are devoting particular attention to the prioritization of projects based on expected impacts and existing absorptive capacity and will progressively take into account climate change-related criteria following the recommendations of the recently completed Climate Macroeconomic Assessment Program (CMAP) and those related to the national strategic plans. With the clarification of institutional and operational responsibilities for public investment management, following the recent adoption of a decree on public investment management, we finalized and published the public investment manual which was adopted by decree on March 15<sup>th</sup> (structural benchmark for end-March 2023). Finally, in order to improve the management of public investment, we reiterate our commitment to respecting the priorities defined in the budget law approved by Parliament, and to systematically canceling appropriations not committed at the end of December while including new appropriations, if necessary, in the budget laws of the following years.

**15. We are taking all the necessary measures to clear in 2023 all domestic arrears accumulated in 2022 following the delayed payment of oil customs taxes.** We are committed to taking the necessary actions to preserve the achievement of the domestic primary balance target while protecting social spending. We will be careful to contain JIRAMA's losses in order not to exceed the projected amount for transfers. We will adjust the spending regulation rate for current and domestically financed investment spending according to the evolution of collected revenues. In the event that a revised budget law is submitted to Parliament, we are committed to ensuring that this law is consistent with program objectives, including the target for social spending, and respects all of our commitments which are set out in this memorandum.

## **B. Continue Structural Reforms to Reduce Fiscal Risks**

**16. We have continued the sound practice, begun a few years ago, of including an annex on the fiscal risks to which the country may be exposed in the budget law.** For example, in Annex 18 to the 2023 budget law we identified factors that could potentially lead to a discrepancy between budget forecasts and outcomes, including: (i) risks related to developments in the real sector; (ii) risks related to changes in the level of exchange rates; and

(iii) risks related to the fragility of the "pay as you go" pension system. These risks are in addition to those already mentioned in previous budget laws, including risks related to public debt, public guarantees, climate change, and risks related to inflation trends.

**17. We will continue to make progress on the development of the Strategic Framework for Climate Change.** In this connection, we have updated our Nationally Determined Contribution (NDC2), which calls for a 28 percent reduction in emissions, an absorption of 20 percent, and the country's resilience by 2030. The NDC2 concerns sectors classified as sources of emissions or sectors with absorption capacities, as well as sectors vulnerable to climate change. An implementation plan for the NDC2 has also been developed, including a cost breakdown of the proposed measures. We have revised the National Climate Change Policy (PNLCC) and developed the National Climate Change Policy Action Plan (PANLCC). The National Adaptation Plan (NAP) is the national reference document for adaptation and identifies 12 structural programs including strategic sectoral priorities related to climate change. Both documents, the NDC2 and NAP, have been adopted by the Cabinet. We also developed Madagascar's Adaptation Communication (ADCOM) in accordance with the guidelines recommended by the adaptation committee (AC20/GUI/5B). The development of this ADCOM makes it possible to evaluate the efforts made by the country in terms of adaptation to climate change. In addition, we are also working on our long-term low-carbon development strategy (LTS) to achieve our goal of becoming carbon neutral by 2050. A gender and climate change strategy has also been developed to reduce women's vulnerability to the impacts of climate change and strengthen their participation in climate actions. Other projects we are working on include setting up the institutional transparency framework of the Paris Agreement and finalizing the development of the country's priority programs that could be financed by the *Green Climate Fund (GCF)*. To implement a consolidated transparency framework, we have prepared sectoral strategies on climate change and strengthened transparency in all sectors of mitigation and adaptation.

**18. We are determined to strengthen our risk and disaster management system.** To this end, we are committed to providing the National Risk and Disaster Management Office (BNGRC) with the human, material, and budgetary resources necessary to carry out its mission by ensuring not only that it is given a sufficient budget to meet identified needs, but above all that this budget is available in time to accelerate the response to emergency situations. In this connection, in September 2022, the Council of Ministers approved a decree modifying the organizational chart of the BNGRC, which allows the transfer to the latter of the management of the National Contingency Fund (FNC), whose procedural manual has already been finalized, as has the financing code. We commit to canceling all the unused COVID fund credits at end-December 2022 (MGA 182 billion), which have been registered in account #46 of the Treasury.

**19. We will continue our efforts to improve our climate resilience.** Our response to the 2023 cyclonic season has improved, particularly owing to better preparation. With technical support from the Fund, we will implement the CMAP recommendations to build our resilience and develop our policy responses to address the economic impact of climate change. The country is currently developing and updating its national climate change framework. We have

also made decisions in line with climate change mitigation and environmental protection objectives. These include the upward adjustment of fuel prices at the pump in July 2022; the establishment of new residential and business rates for electricity consumption; the upward adjustment of the excise duty on tobacco; and the decision to exempt imports of new vehicles, other than those with compression or spark ignition, from duties and taxes (2023 budget law). In addition, significant progress has been recorded in past years regarding risk and catastrophe management (GRC), despite remaining gaps and efforts to be undertaken to strengthen the population's resilience in general. Since 2019, in the context of the participation to the CAT-DDO financing mechanism, several reforms were undertaken to improve the GRC system, focusing on four pillars: (i) institutional strengthening through the BNGRC, the Emergency Prevention and Management Unit (CPGU) and the National Platform to Reduce the Risks of Disasters (PNRRC), (ii) strengthening financial resilience through the development of drought and tropical cyclone insurance mechanisms at the level of the CPGU, and the implementation of the FNC at the level of the BNGRC (iii) strengthening infrastructure resilience by updating building standards to resist natural hazards and standards for road infrastructure to withstand floods and geological phenomena, (iv) integrating climate resilience into sectoral policy and territorial planning through the SRAT (Regional Spatial Planning Schemes) and PRD (Regional Development Plan) guides, the PUDi (Urban Development Plan) and SAC (Municipal Development Plans). In addition, the CPGU has undertaken several actions which include the responses carried out using the Batsirai cyclone insurance indemnity (distribution of Vatsy Tsinjo food and agricultural inputs) in the three southeastern regions of the country. There is also the development of a risk financing strategy to capitalize and sustain existing mechanisms and increase the capacity to set up innovative financing mechanisms, such as the extension of the ARC program to the REPLICA program with the WFP. More particularly to respond to the drought in the South, the government is setting up five nutritional and medical rehabilitation centers (CNRM) in order to eradicate recurrent malnutrition in the region. Finally, following cyclone Batsirai, a National Recovery Plan (NRP) was developed in 2022, and is being implemented at the sectoral level.

**20. We are committed to strengthen policies to prevent rising food insecurity.** To this end, we are prioritizing resilient investment, including in the road network and are working on developing strategic seeds and food storage with the help of development partners. To that end, the Ministry of Agriculture will operationalize and provision a system of 10 food banks in Anosy, Androy, and Atsimo-Andrefana (new structural benchmark, March 2024). Each bank will initially store at least 300 metric tons of dry products such as grains but also dried sweet potatoes or cassava. An action plan with detailed steps to achieve the benchmark was prepared with the support of the World Food Program.

**21. We are following the plan to implement an automatic fuel price adjustment mechanism by the end of the first quarter of 2024.** This mechanism will ensure that pump prices automatically reflect changes in international oil prices and costs, thereby capping the price subsidy. To facilitate the implementation of this plan and in line with IMF staff recommendations, several actions and measures have been undertaken.

- In order to limit the accumulation of new liabilities, we increased prices at the pump by an average of 43 percent on July 11, 2022. The increases were differentiated by fuel type to limit the impact on the most vulnerable segments of the population. The public and private sector wage increases announced in April 2022 helped mitigate the impact of these price increases on household purchasing power.
- The VAT on petroleum products which had been reduced to 15 percent in July 2022 has been reinstated at 20 percent since January 2023 to reduce the accumulation of VAT credits vis-à-vis oil companies.
- An agreement between the government and the GPM on the settlement of all cross-debts at end-2021 and 2022 related to the administration of prices at the pump was concluded in December 2022. This agreement stipulates the payment by the government of its debt arising from the difference between the administered pump price and the market price (implicit subsidy) to the members of the GPM and the settlement by the GPM of all its tax obligations to the government. The agreement also covers payment for all the requisitions made by the government for JIRAMA in 2022.
- While the effective settlement of 2021-22 cross liabilities, initially planned for end March 2023, has been delayed, it has been implemented at end-May 2023. To provide visibility to oil distributors, we are committed to publish the decrees setting the new price structure for the first and second semesters of 2023 before the conclusion of this review at the Executive Board of the IMF (prior action).
- The government's gross liabilities to oil companies, excluding VAT, remain capped at MGA 300 billion (continuous structural benchmark). In the absence of an increase in prices at the pump, any excess will be subject to an additional transfer to fuel distributors to return to below the ceiling.
- We are continuing to work on the development of mitigation measures of the impact of a market price increase for the most vulnerable segments of the population, including the strengthening of social protection programs on the basis of existing studies (structural benchmark postponed to September 2023) and with the support of the World Bank.

## **22. We are committed to turning around JIRAMA.**

- JIRAMA's financial situation has been further aggravated by the increase in the price of fuel for thermal power plants and a breakdown at the Andekaleka hydroelectric plant in early 2022. As of December 31, 2022, the operating deficit amounted to MGA 666 billion, after a subsidy of MGA 500 billion from the government and JIRAMA's total debt (including financial and banking debt, debt to suppliers and unpaid taxes) was estimated at MGA 4 200 billion. Arrears to suppliers alone reached an estimated MGA 2 600 billion at end-2022, a 33 percent increase from end-2021.

- JIRAMA committed to repay the government for the 2022 oil requisitions (classified as transfers in staff's fiscal framework) as soon as its financial situation allows. The repayment terms are specified in a convention with the government signed on March 14, 2023.
- The implementation of the OPTIMA3 tariff optimization on July 1, 2021, the intensification of collection efforts, and the strengthening of the fight against fraud have, however, enabled the company's revenues to recover, with a turnover approaching MGA 852 billion in 2022, a 13 percent increase from 2021. After consultation with the World Bank, we decided to implement the tariff optimization for non-residential customers (OPTIMA Business project) in August 2022, five months later than the timetable planned in the first review. Further tariff increases may be implemented early next year.
- We are working to reduce JIRAMA's production costs by fighting against fuel and electricity thefts (implementation of the Geofilling system to track fuel transportation and storage, and of the smart-grid system to reduce "non-technical" electricity losses from 27 to 20 percent by 2029), by replacing thermal electricity production by solar powerplants for an estimated potential annual gain of MGA 243 billion, and by starting a fourth turbine at the Andekaleka hydro powerplant (MGA 14.3 billion in monthly savings since January 2023).
- Besides we continue to implement measures such as programs to deal with power outages ("One Week, One Neighborhood" program) and to restore public lighting in Madagascar's district capitals ("Hazavana ho an'ny Tanana" program). We are also working to improve outdated production infrastructure to ensure that our services are available 24 hours a day in all district capitals ("2424" program). Furthermore, investments in water infrastructure have continued (extension of the main drinking water production station in Mandroseza, installation of 10 satellite containerized production stations, replacement of aging water pipes).
- Changes in JIRAMA's management have delayed the finalization of the new recovery plan (structural benchmark not met at end-December 2022). We are hiring a new management team through an international recruitment process and, with the support of the World Bank, we are working to finalize new strategy to restore the company's financial situation. The implementation of this strategy will enable the recovery of JIRAMA in the medium term. It is expected that JIRAMA will start generating a profit in 2027.
- For 2023, projected transfers by the state to JIRAMA amount to MGA 722 billion. If necessary, we will adjust production to remain within this envelope. We will pay for any additional financing need by reallocating spending or increasing revenue to respect the agreed domestic primary balance criterion. We will make sure that any potential spending reallocation does not reduce transfers to social institutions and ministries. We will provide monthly reports on JIRAMA's revenue and costs to staff and systematically



publish the results of all calls for tender for fuel purchases (new continuous structural benchmark) and will continue to inform World Bank and IMF staff of the details of any payment to JIRAMA or its suppliers (continuous structural benchmark). To strengthen transparency and accountability, JIRAMA's financial accounts for the last three years (2020-2021-2022) will be published online before end-June (structural benchmark). Certified accounts will be released as soon as they are available.

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

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

**24. We will further strengthen oversight of state-owned enterprises to contain fiscal risks.** To this end, the unit specifically in charge of regular monitoring of state-owned enterprises within the Ministry of Economy and Finance will take advantage of the training and monitoring tool provided to it by the AFRITAC South (AFS) technical assistance mission in October 2022. With the continuous support of AFS technical assistance, we plan to further develop our oversight capacity.

**25. A review of the institutional and legal framework for Public-Private Partnerships (PPPs) should make it possible to better integrate PPP management into the planning and execution of investments, and to control the financial and fiscal risks.** The law of February 3, 2016 defines the legal and institutional framework for PPPs. This framework was taken into account in the public investment management manual and decree which were adopted in March 2023. The PPP unit is now attached to the Presidency of the Republic. This unit constitutes the executive and operational body of the national committee established by the 2016 law. We are also committed to improving the transparency of public transactions involving PPPs.

**26. We remain vigilant with regard to the fiscal risks that could potentially arise from the establishment of the Malagasy Sovereign Wealth Fund and we will strive to contain them with best practices in the area of sovereign wealth funds.** To this end, we are

committed to clarifying the fund's objectives, investment strategy, financing, and governance to avoid the diversion of budget revenues and an increase in public debt, and to ensure transparency of the fund's operations, including the submission of annual reports and financial statements to Parliament and their regular publication.

## C. Strengthen Public Financial Management and Economic Governance

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

- The online publication of all available information on COVID-19 expenditures, including public procurement contracts executed in connection with the pandemic, marked an important step in ensuring transparency in the management of public funds. The same is true for the publication of the results of the four audits carried out by the *Cour des Comptes* concerning the pandemic response, as well as the publication of the audit of COVID-19 contracts by an independent firm.
- To increase transparency, we are committed to strengthen the ex-post oversight capacity of our institutions. To this end, the *Cour des Comptes* has been given full access as an external auditor to the information systems of the Ministry of Economy and Finance, including the Integrated Public Financial Management System (SIGFP), SIGMP, SIGOC, SIGTAS, NIFONLINE, SIIGTA and ASYCUDA. In particular, regarding access to SIGFP, given the complexity of the system, the ministry continues to work closely with the *Cour des Comptes* to support it in using the tool depending on its specific needs. We have also strengthened the budgetary autonomy of the *Cour des Comptes* by creating, in accordance with the procedures provided for in Article 9 of the Organic Law on Budget Laws, a budgetary mission within the framework of the 2023 initial budget law (structural benchmark for end-December 2022).
- A *Cour des Comptes* report was published in early April 2023 on the follow-up of the implementation of the recommendations of its four audits regarding government's response to the COVID-19 pandemic (structural benchmark). While it highlights mixed progress in the implementation of the action plan that we developed to address them, we remain committed to complete it, including by referring to the competent judicial authorities and taking administrative measures to sanction those found guilty of irregularities, including those identified in the audit reports. We are committed to set up a legal framework which defines the situations of "emergency" and governs the procedures to be put in place in these situations.
- We will continue to publish online, via the *Salohy* platform of the General Directorate of the Treasury, data on public expenditures by sector, ministry, and program on a payment basis. (<http://app.tresorpublic.mg/dpp.mef.mg/>) The publication of a quarterly report on budget execution, which has been done since June 2021, will be continued. The content and presentation of this report will continue to be improved on the basis of technical



support provided by the IMF long-term expert seconded to the Ministry of Economy and Finance. This support is expected to improve the coverage of deferred payments and facilitate reconciliations with the Treasury's consolidated statement of operations.

**28. We are strengthening transparency and governance in public procurement.**

Standard price lists have been established to serve as a reference for public procurement contracts. We are working to improve these price references in collaboration with the Presidency and the INSTAT to create a unique and reliable database that is updated on a bi-annual basis. We are committed to improving the availability of all individual public procurement contracts on the ARMP website depending on the e-Governance Procurement or e-GP system developments. In March 2023, we have enacted a circular requesting the provision of information on the beneficial owners of public procurement bidding companies or other legal entities (structural benchmark for June 2023). According to the circular, this information will be published on the ARMP website for all beneficiaries of public contracts whether or not they are awarded on a competitive basis. We are currently collecting this information and it will be available on the ARMP website starting September 2023. In addition, several draft decrees have been submitted to the Council of Ministers to strengthen the legal framework and are currently being finalized to be adopted by end-September 2023: (i) a draft decree on the Code of Ethics that has been updated to specify sanctions for violations of the Public Procurement Code; (ii) a draft decree on the person responsible for public contracts, strengthening the professionalization of the position and defining the appointment procedures; (iii) a draft decree to bring the Tender Board into compliance with the Public Procurement Code. A legal framework updating the modalities of control to include digital control and strengthen control powers of the National Procurement Commission is currently being elaborated. Finally, we have made progress in the digitization of public procurement procedures (e-GP system, operational since September 2021, and the Procurement Review System launched in February 2022). We are working actively with civil society to improve its access to information relating to modalities of awarding public procurement contracts and its related statistics. We commit to engage with civil society to discuss the implementation of "Integrity Pacts" to ensure the integrity of public procurement contracts.

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

- Based on the technical assistance provided by the IMF's Fiscal Affairs Department (FAD) in September 2022, the Directorate for Coordination and Monitoring of Reforms (DCSR) under the Ministry of Economy and Finance was able to update the public finance reform strategy and the corresponding action plan. In October 2022, this strategy was presented to and approved by the members of the Public Finance Reform Steering Committee with a view to its implementation.
- With the support of FAD technical assistance, a mid-term assessment of the PSMFP took place in February 2023. We plan to follow-up on the report recommendations by (i) updating the legal framework of both the *Cour des Comptes* and the *Conseil de Discipline*

*Budgétaire et Financière* and (ii) developing a training and a communication plan to support the implementation of reforms. In addition, the DCSR will work with technical and financial partners to develop tools and methods to ensure better monitoring and evaluation of the various reforms carried out by different departments of the Ministry of Economy and Finance in line with the objectives of the PSMFP.

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

- Elimination of the commitment authorization requests submitted to the Office of the President and Office of the Prime Minister and strengthening of financial control services under the authority of the President and the technical supervision of the Ministry of Economy and Finance (2016 law on financial control). The annual commitment plans for social ministries will be revised to specify the spending regulation rate by category of spending and to be better synchronized with cashflow plans and with public procurement plans. In addition, the preparation of annual commitment plans will be extended to include the ministries in charge of infrastructure and of the productive sector (Agriculture, Public Works, Ministry of Land Development, Ministry in charge of New Cities) as well as the Ministry of Economy and Finance for its own budget (i.e. excluding “transversal expenses”) by end-2023 (new structural benchmark for January 2024), which will make it possible to improve the piloting and monitoring of budget execution.
- Creation by presidential decree of a Commitment Monitoring Office (BSE) under the Office of the President of the Republic that is responsible for targeted ex-post monitoring of commitments. The office comprises of representatives of the Office of the President of the Republic, the Office of the Prime Minister, the General Directorate of Financial Control, and the General Directorate of the State Auditor General. The Ministry of Finance is expected to support the BSE in the conception of an IT tool allowing it to follow up ex-post on commitments above MGA 200 million.
- We are committed to prepare a quarterly dashboard summarizing the number and amount of commitment requests approved by Financial Control, similar to the one transmitted since September 2022 on commitment authorizations. These statistics are essential for assessing the effectiveness of the existing system and deciding what adjustments to make, if any.
- Strengthening the various existing financial control bodies on the basis of their respective duties as defined by the legislative and regulatory documents in force.

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

**31. We commit to respect strictly the principal of budget annuity and to cancel systematically all credits for current spending, including transfers, and credits for investment, which were not used in the current year.**

**32. Improving the efficiency of the public expenditure chain remains a key objective.**

A new draft law on cash management will be presented to the National Assembly for adoption before the end of the year. This is an important step towards the implementation of the Treasury Single Account. For the same purpose, we have listed 234 active accounts for 55 public entities whose integration into the Treasury Single Account is still subject to legal constraints. Another draft law on the status of public accountants, clarifying their legal responsibilities in case of irregularities, will also be submitted to Parliament before the end of 2023. The main purpose of this reform is to redefine the responsibilities of public accountants by updating the provisions of Executive Order 62-081 of September 29, 1962, on the status of public accountants. With the support of FAD technical assistance, we plan to conduct an audit of the expenditure chain in June 2023 to identify additional bottlenecks to budget execution.

**33. We are continuing our efforts to promote good governance and fight corruption.**

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

- Ensuring that each body has sufficient human resources and budgetary autonomy to enable it to carry out its missions effectively. Particular attention will be given to the recruitment of the remaining staff at the ARAI and at regional offices of BIANCO, as well as the renewal of mandates and the recruitment of new judicial personnel working within the PACs. This requires the allocation of budgetary items necessary for their proper functioning and full disbursement of the credits provided for in budget laws.
- Accelerating the operationalization of the Fianarantsoa PAC, the opening of three additional PACs, as well as the construction of the building of the territorial directorate of Toamasina and of those of regional offices already installed and new BIANCO regional offices before the end of 2023.

- Quickly appointing new magistrates to PACs within 3 months of the expiration of their terms so they can perform their mandate effectively.
- Supporting the acquisition and furnishing of premises in Antananarivo for the CSI, the National Coordination Directorate for Anti-Corruption Units (DCN-PAC), the Antananarivo PAC, and the ARAI.
- Supporting SAMIFIN in joining the EGMONT Group and in covering the maintenance costs of the GoAML software used in financial analyses in order to be more efficient in the detection of illicit assets, especially those leaving Madagascar. We will also oversee the adoption of the draft decree on the restructuring of SAMIFIN.
- Implementing and publicizing the National Strategy for Combating Money Laundering and the Financing of Terrorism as adopted in June 2022 and finalizing the new national risk assessment requested by the President of the Republic in order to update the strategy by July 2023.

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

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

- Enact, upon initiative of BIANCO in collaboration with the ministry of justice, a decree fixing the modalities of dynamic management of asset declarations; Take advantage of the operationalization of the ARAI through the adoption of a deterrent policy that provides for the systematic recovery of the proceeds of corruption;
- Remind all persons subject to the declaration of assets of their legal obligations and, following an investigation, defer those persons not fulfilling their legal obligations to competent jurisdictions in order to promote integrity and transparency in the holding of public office and to strengthen citizens' trust in public institutions.

**36. The improvement of the business environment remains at the forefront of our concerns.** We are making progress in the digitization of tax payments, the issuance of work permits, and the establishment of a credit bureau, as well as the operationalization of the e-reimbursement of VAT. In addition to legislative reforms, such as the overhaul of the investment law, the tourism code, the foreign exchange code, and the labor code, we also plan to

continue our efforts to digitize business creation via the ORINASA platform with the deployment of the platform in several other regions besides Analamanga where it is already fully operational. The same applies to the deployment of the digital platform for the granting of building permits, which is already operational in the urban municipality of the capital.

## D. Strengthen the Stability and Development of the Financial Sector

**37. We are entering the final stages in the reform of the monetary policy operating framework in preparation for migration to the interest rate targeting framework by the end of 2023.** In order to do this, we are improving the Quarterly Projection Model (QPM) so as to provide a better estimate of the optimal level of the Central Bank of Madagascar (BFM) standing facilities rates and to better account for the transmission channels of monetary policy. In this connection, we are building on the recommendations from the January 2023 technical assistance missions on the development and use of the forecasting and policy analysis system (FPAS) in Madagascar and on the implementation of monetary policy within an interest-rate targeting framework. For a better understanding of the system, and in view of the transition to the interest rate targeting framework, we will make capacity-building for our senior staff and economists-researchers a priority, either through technical assistance missions or through exchange and study visits to other central banks. We also plan to make progress on the following projects: (i) construction of a yield curve and development of a government securities primary market to facilitate liquidity management by the BFM; (ii) development of a continuous interbank market for the ariary; and (iii) structural development and deepening of the money market, including development of the secondary market for government securities. A roadmap has been prepared by the technical committee, bringing together the BFM, the Ministry of Economy and Finance, and the IFC, and will be published in June 2023. It will present the steps toward the development of required market infrastructures and the choice of central depository for public securities.

**38. The BFM also remains committed to its efforts to provide transparency and communication on monetary policy.** One of the goals is to publish a projected schedule of BFM interventions in the money market. These efforts are essential to better anchor the expectations of economic actors and markets, thereby boosting the credibility of the BFM. We are committed to maintain a tight monetary stance and to continue raising rates as needed to stabilize and reduce inflation, while preserving and strengthening the independence of the Central Bank.

**39. Reforms intended to improve the functioning of the foreign exchange market will continue.** On the regulatory front, the central bank intends to continue its close collaboration with the Ministry of Economy and Finance to adopt a new foreign exchange law. To remedy the inconsistencies noted in the application of foreign exchange regulations and with the aim of making the market more flexible, a new decree modifying the management of foreign currency accounts, the establishment of the surrender requirement, and the improvement of reporting by banks to have reliable and usable data was adopted in August 2022. With IMF technical

assistance, we assessed the current situation of the market and identified areas for improvement to be prioritized. We will continue to make progress on other areas of development with IMF technical assistance including the revision of the algorithm that used to determine BFM interventions in the foreign exchange market, and the redirection of flows from the parallel market to the official market through joint actions with the Ministry of Economy and Finance. The central bank is also working to ensure that the behavior of current participants conforms to standards and best practices through adherence to the FX Global Code with the support of the Committee of Central Bank Governors (CCBG) of the Southern African Development Community (SADC). Other reforms underway include improving the efficiency of the foreign exchange market by developing the futures market through currency swaps between banks and establishing a market maker mechanism to strengthen intra-day liquidity.

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

**41. We are continuing to work on the reorganization of the gold sector so that we can resume exports as soon as possible.** Good progress is being made in updating the regulations governing gold and in implementing procedures for traceability and evaluation of environmental and social practices in the sector to provide for a responsible supply chain. We made use of the results of the survey completed in July 2021 and a decree on the gold regime was adopted by the Council of Ministers in March 2023 to set the criteria for gold export resumption by operators. Among other criteria, in order to be able to export, a license (*agrément de comptoir*) is necessary, the issuance of which is now determined by ministerial decree. The minimum required capital of gold exporting companies has been increased and tighter control over shareholdings has been put in place. The validity period of a license has been reduced to one year to improve control. The FX repatriation period has been reduced to two months for export by air and monitoring at the SIGOC (Integrated system for FX operations management) level will be reinforced. An executive order (*arrêté*) has been issued to lift the gold export suspension. All regulations will be finalized before issuing export licenses.

**42. We are making progress in implementing our National Strategy for Financial Inclusion.**

- The strategic framework document for financial education and the national program for financial education, validated by the members of the working group on financial

education, have been submitted to the government for approval. Implementation will begin this year.

- In order to improve access to and use of financial services, seven microfinance institutions (MFIs) were supported to extend their access points in underserved areas and ten to digitize their operations. Four other MFIs have benefited from a shared information and management system (GIS) in order to improve and make their operations more reliable and adapt to digitization.
- In terms of strengthening policies and the legal, regulatory, and institutional framework, we have set up a database on financial inclusion in the country and we have adopted a decree governing the supply of data. The draft regulation supplementing this decree and setting out the procedures for transmitting information is also being finalized. At the same time, we are developing a draft law on collateral registers.
- The implementation of Madagascar's National Financial Inclusion Strategy (2018–2022) was completed at the end of December 2022. An evaluation should be carried out this year starting with the second edition of the Finscope Consumer survey. Part of the funding for this national survey has been acquired from the Southern African Development Community (SADC) and a request for co-funding is in progress.
- The project to implement the national payment switch is still underway despite a delay in the delivery of some of the materials that make up the platform, which should have been completed by the end of December 2022. The system should be operational this year.

**43. As part of the e-Ariary project, the central bank has been carrying out studies since 2021 on the various possibilities for creating a digital equivalent of the ariary.** To date, the project is still in the design and research phase. Indeed, although the service provider responsible for conducting the e-Ariary pilot was selected following a call for tenders launched by BFM, the contract with the said service provider has not yet been finalized. BFM is continuing discussions with the service provider regarding the adequacy of the proposed solution, with regard to the context and the design envisaged. The current approach aims to allow for an iterative and cautious approach. As such, BFM is in the process of reviewing the framework of the project and refining its analysis with a view to assessing the advisability of carrying out or postponing the pilot / experimentation phase. Furthermore, BFM is aware of the importance of opting for an exhaustive approach in the conduct of feasibility and compatibility studies with the Malagasy context. Thus, BFM plans to deepen the studies relating to:

- Interactions with the ecosystem as well as the integration of stakeholders in the project;
- Implications of the e-Ariary (monetary policy, financial stability, economic, legal, governance, operational, infrastructure and technical capacities required, etc.);
- Appropriate mitigation measures in relation to identified risks and constraints;



- Parameters to consider and activities to implement regarding public adoption and merchant acceptance

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

- Overall, the banking and financial sector proved to be financially sound and remarkably resilient despite the health crisis in the country. At the end of December 2022, the banking sector remained largely profitable thanks to the continued expansion of activities. At the same time, all banks were in compliance with prudential requirements due to good capital adequacy, except for one bank that was in violation due to a decline in its available capital. This institution is currently being closely monitored, particularly with a view to the effective implementation of its recovery plan. As for the microfinance sector, the impacts of the crisis have gradually diminished with a recovery in deposit and loan activities combined with a marked improvement in portfolio quality.
- The quality of bank loan portfolios remains satisfactory if we disregard the case of one bank that recorded a sharp increase in its non-performing loans. We continue to be vigilant in our monitoring activities and are prepared to take appropriate corrective measures to contain any risks.
- In order to align ourselves with best practices in prudential standards, we have embarked on a program to reform our prudential regulations with technical support from the Fund. The aim is to comply with the standards set by Basel II and III while incorporating the specific risks linked to the country's characteristics. A plan to update and improve the regulatory framework has been established. Its implementation began with the adoption in December 2022 of the instructions on regulatory capital for credit institutions and regulatory capital requirements for banks and financial institutions. We are committed to continuing to revise and develop the remaining prudential regulations following a clear timetable. To ensure a better understanding of the new regulatory framework to be implemented, staff of the Commission for the Supervision of Banking and Finance (CSBF) received a refresher course on the requirements of Basel II and III.
- We will continue to strengthen our risk-based supervision approach, will expand it to include the area of AML/CFT and conduct our annual inspection programs accordingly. As part of our supervisory activities, we conduct an annual stress test of the banking sector in order to simulate the effect of various exogenous shocks as well as banks' vulnerability factors. In general, the analysis focuses on assessing the impact of various hypothetical but plausible scenarios on the level of banks' capital, which is measured in particular through their solvency and liquidity ratios.
- To achieve our financial stability objectives and ensure the contribution of the financial sector to the country's economic expansion, we have submitted a request to the World Bank and the International Monetary Fund to conduct an assessment under the Financial



Sector Assessment Program (FSAP). The last assessment was conducted in October 2015, and we feel it is important to provide an update on the progress made since then.

## STATISTICAL DATA AND PROGRAM MONITORING

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

- To complete the processing of information from the *2021 Continuous Household Survey* to obtain more up-to-date data on the living conditions of Malagasy households and on poverty.
- To use the same data sources (*2021 Continuous Household Survey*) to update the consumer basket for the calculation of the Consumer Price Index (CPI).
- To continue the preparations for a series of surveys on remittances (formal and informal) by the diaspora to better assess the contribution of these remittances to the country's GDP.
- To continue to improve the quality of existing statistics and produce new statistics to improve the availability of economic information for analysis and forecasting. To this end, we intend to: (i) launch a survey for the calculation of the Producer Price Index (PPI); (ii) improve the calculation and publication of national accounts statistics through more disaggregated data; and (iii) proceed with the publication of new indices, namely the External Trade Index (ETI) and the Industrial Production Index (IPI).
- To include statistics on the activities of the insurance sector in monetary statistics, in accordance with the guidelines in the Monetary and Financial Statistics Manual and Compilation Guide.
- To support the Ministry of Agriculture and Animal Husbandry in the implementation of the Agricultural *Census* planned this year with the financial support of the World Bank. The initial results should be available two years after the start of the survey.

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

**Table 1. Madagascar: Quantitative Performance Criteria and Indicative Targets, March 2022–December 2023**  
(Billions of ariary, unless otherwise indicated)

	Jun-22			Sep-22			Dec-22			Mar-23			Jun-23	Sep-23	Dec-23
	Target	Prel.	Status	Target	Prel.	Status	Target	Prel.	Status	Target	Prel.	Status	Target	Target	Target
<b>Continuous Performance Criteria</b>															
Ceiling on accumulation of new external payment arrears	0	0	<b>Met</b>	0	0	<b>Met</b>	0	0	<b>Met</b>	0	0	<b>Met</b>	0	0	0
Ceiling on new external debt contracted or guaranteed by the central government or BFM, in present value terms (US\$ millions) <sup>1</sup>	800	317	<b>Met</b>	800	335	<b>Met</b>	800	383	<b>Met</b>	800	71	<b>Met</b>	800	800	800
<b>Performance Criterion</b>															
Floor on domestic primary balance <sup>2</sup>	<b>PC</b>			<b>IT</b>			<b>PC</b>			<b>IT</b>			<b>PC</b>	<b>IT</b>	<b>PC</b>
	-293	-336	<b>Not met</b>	-660	-535	<b>Met</b>	-888	-1,724	<b>Not met</b>	0	-297	<b>Not met</b>	200	350	450
Ceiling on net domestic assets (NDA) of BFM	2135		<b>Met with adjustor</b>	2630		<b>Met with adjustor</b>	3010		<b>Met with adjustor</b>	3650		<b>Not met</b>	3,000	2,800	3,550
	Adjusted: 3245	2,710		Adjusted: 3431	2,836		Adjusted: 3857	3,130		Adjusted: 3160	3,215				
Floor on net foreign assets (NFA) of BFM (millions of SDRs)	816		<b>Not met</b>	571		<b>Met with adjustor</b>	686		<b>Not met</b>	682		<b>Met</b>	817	777	739
	Adjusted: 615	591		Adjusted: 426	500		Adjusted: 532	507		Adjusted: 537	729				
<b>Indicative Targets</b>															
Floor on gross domestic tax revenue	2,068	1,657	<b>Not met</b>	2,600	2,524	<b>Not met</b>	3,800	3,608	<b>Not met</b>	910	803	<b>Not met</b>	1,950	2,900	4,000
Floor on gross customs tax revenue <sup>3</sup>	1,439	1,085	<b>Not met</b>	2,400	1,738	<b>Not met</b>	3,380	2,441	<b>Not met</b>	1,000	580	<b>Not met</b>	2,900	3,600	4,900
Floor on social spending <sup>4</sup>	178	75	<b>Not met</b>	300	157	<b>Not met</b>	527	447	<b>Not met</b>	70	108	<b>Met</b>	170	350	700
<b>Memorandum Items</b>															
Official external budget support (grants, millions of SDRs) <sup>5</sup>	0	0		1	0		1	0		0	0		0	0	0
Official external budget support (loans, millions of SDRs) <sup>5</sup>	110	101		101	101		109	101		101	101		175	175	175
Program exchange rate (MGA/SDR)	5,509			5,509			5,509			5,509			5,509	5,509	5,509

Sources: Madagascar authorities; and IMF staff projections.

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

<sup>2</sup>Primary balance excluding foreign-financed investment and grants. Commitment basis.

<sup>3</sup>Gross customs tax revenue are taxes on foreign trade excluding VAT reimbursement for oil distributors/importers. Tax revenues are assessed on a cash basis.

<sup>4</sup>Domestically financed spending, excluding salaries, of the following ministries: Health, Education, Water and Sanitation, and Population.

<sup>5</sup>Measured cumulatively since program inception.

**Table 2. Madagascar: Prior Actions and Structural Benchmarks, December 2022–March 2024**

Measure	Due date(s)	Implementation status	Rationale
<b>Prior Action</b>			
Adopt and publish the arrêtés setting the fuel price structure for the first and second semesters of 2023.			
<b>Mobilizing Fiscal Policy to Address Economic and Social Needs</b>			
1. Finalize and submit to Parliament a new mining code in line with the recommendations of IMF's technical assistance and World Bank's advice	June 2023	<b>Met.</b> The revised mining code was adopted by the Council of Ministers and submitted to Parliament on April 14, 2023.	Increase domestic revenue mobilization
2. Adopt a decree/ordinance/manual detailing the functionality of the social registry, the procedures for sharing registry information inside the administration and with external partners, and data protection and privacy measures that will apply to registry data	October 2023		Strengthen social safety nets
3. Finalize information collection to integrate 60,000 households (about 300,000 individuals) in the social registry	December 2023		Strengthen social safety nets
4. Operationalize and provision a system of 10 food banks	March 2024		Strengthen social safety nets
<b>Containing Short and Medium Term Fiscal Risks</b>			
5. Provide IMF and World Bank staff with the details of any payment to JIRAMA or its suppliers and share the related documentation within one week after payment.	Continuous	<b>Not met.</b> The documentation related to the government's most recent payments to suppliers of JIRAMA was shared late.	Improve economic governance and improve the composition and quality of budget expenditures
6. Keep the government's gross liabilities to oil distributors below MGA 300 billion.	Continuous	<b>Not met.</b> Following the implementation of the December 2022 agreement between the government and oil distributors, the SB has been met since April 2023.	Preserve and strengthen fiscal space
7. Provide IMF staff with monthly reports on JIRAMA's revenue and costs within 30 days after the end of each month, and publish the results of all calls for tender for fuel purchases within 30 days after acceptance of an offer.	Continuous		Improve economic governance and improve the composition and quality of budget expenditures
8. Finalize and have the Council of Ministers approve JIRAMA's recovery plan.	December 2022	<b>Not met.</b> With the support from the World Bank, the government is recruiting a new management team for JIRAMA through an international search process. The new team will decide on the recovery strategy.	Preserve and strengthen fiscal space
9. Based, inter alia, on existing studies, formulate policies to mitigate the impact of the fuel price adjustment on vulnerable populations.	previously June 2023 now September 2023		Preserve and strengthen fiscal space and improve the composition and quality of budget expenditures
10. Publish JIRAMA's financial accounts for 2020, 2021, and 2022.	June 2023		Improve economic governance
11. Install prepaid electricity meters in all public administrations.	December 2023		Preserve and strengthen fiscal space
12. Implement an automatic fuel pricing mechanism.	March 2024		Preserve and strengthen fiscal space
<b>Strengthening Public Finance Management and Governance to Restore Confidence</b>			
13. Finalize and publish a public investment manual consistent with the recommendations of the DAT technical assistance, in particular to clarify institutional aspects.	March 2023	<b>Met.</b> The manual was published on March 31, 2023 on the Ministry of Finance's website.	Support growth through reforms and by tackling the sources of fragility
14. Publish the terms and conditions of all PPP contracts within one month from the date of signature on the ARMP website.	Continuous	<b>Met</b>	Improve economic governance
15. Publish (prior to the close of the following quarter) a quarterly budget execution report on a payment basis, including expenditures for COVID-19 and social expenditures.	Continuous, beginning first quarter 2021	<b>Met</b>	Improve fiscal transparency
16. Preparation of an annual expenditure commitment plan by key social ministries based on their 2022 work plan and the budget approved by the legislature, and commitment by the Ministry of Economy and Finance to release the appropriations indicated in that plan on the dates provided.	January 2023	<b>Met</b>	Improve the composition and quality of budget expenditures
17. Establish a budgetary mission for the <i>Cour des Comptes</i> in the 2023 budget law.	December 2022	<b>Met</b>	Improve economic governance
18. Prepare and publish a follow-up report by the <i>Cour des Comptes</i> on its recommendations following the audit reports on COVID spending published in March 2022.	March 2023	<b>Not met.</b> The report was published on April 3, 2023.	Improve economic governance
19. Change the legal or regulatory framework to allow the collection and publication of the UBO for public procurement contracts.	June 2023	<b>Met.</b> A ministerial circular was adopted on March 24, 2023.	Improve economic governance
20. Preparation of an annual expenditure commitment plan by 5 ministries based on their 2023 work plan and the budget approved by the legislature (Ministry of Agriculture, Public Works, Land Development, Ministry in charge of New Cities, and Ministry of Finance for its own budget), and commitment by the Ministry of Economy and Finance to release the appropriations indicated in that plan on the dates provided.	January 2024		Improve the composition and quality of budget expenditures
Note: Proposed new structural benchmarks are indicated in blue. Structural benchmark 8 was already assessed at the time of the third review.			

## Attachment II. Technical Memorandum of Understanding

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

### DEFINITIONS

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

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

4. The program exchange rates for the purposes of this TMU<sup>1</sup> are as follows:

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

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

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

<sup>1</sup> Data refers to the mid-point reference exchange rates published on the CBM's webpage for December 30, 2020.

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

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

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

## PROVISION OF DATA TO THE FUND

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

- Data with respect to all variables subject to quantitative performance criteria and indicative targets will be provided to Fund staff monthly with a lag of no more than four weeks for data on net foreign assets (NFA) and net domestic assets (NDA) of the Central Bank of Madagascar (CBM) and eight weeks for other data. The authorities will promptly transmit any data revisions to the Fund.
- The Financial Intelligence Unit (SAMIFIN) will continue to publish, on a website that is freely available to the public, quarterly data (no later than the end of the month following the quarter) on reports sent to BIANCO in relation to suspicions of laundering of the proceeds of corruption.
- The BIANCO will continue to publish on a website, that is freely available to the public, quarterly data (no later than at the end of the month following the quarter) on the number of persons indicted, the number of persons convicted by a first instance court decision, the number of persons convicted pursuant a final court decision, and the number of verifications of assets disclosures of public officials.

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

## QUANTITATIVE PERFORMANCE CRITERIA

### A. Fiscal Aggregates

#### Floor on Primary Balance (Commitment Basis)

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

- Domestic tax and non-tax revenue less domestically-financed capital expenditures and current spending excluding interest payments (as defined in the authorities' table of government financial operations – OGT or *Operations Globales du Trésor*).
- For the purposes of calculating the primary balance, tax revenues are measured on a net basis, i.e., net of the refund of VAT credits. Current spending excluding interest payments is the sum of expenditures on wages and salaries, goods and services, transfers and subsidies, and treasury operations (net) excluding the refund of VAT credits. The primary balance will be calculated cumulatively from the beginning of the calendar year. For reference, using data at end-September 2020, the value of the primary balance would be as follows:

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

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

## B. External Debt

### Ceiling on Accumulation of New External Payment Arrears

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

### Ceiling on New External Debt

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

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

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

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

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

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

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

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

## C. Monetary Aggregates

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

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

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



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

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

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

## INDICATIVE TARGETS

### D. Floor on Priority Social Spending

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

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

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

## STRUCTURAL BENCHMARKS

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

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

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

## MEMORANDUM ITEMS

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

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

## USE OF ADJUSTERS

**27. The performance criteria on net foreign assets of the CBM and net domestic assets of the CBM will be adjusted in line with deviations from amounts projected in the program for official external budget support.** These deviations will be calculated cumulatively from January 1, 2021. The following is an explanation of these adjustments:

- The floor on NFA will be adjusted *downward (upward)* by the cumulative deviation downward (upward) of actual from projected budget support (official external budget support). This adjustment will be capped at the equivalent of SDR 100 million, evaluated at program exchange rates as described in paragraph 4.
- The ceiling on NDA will be adjusted *upward (downward)* by the cumulative deviation downward (upward) of actual from projected budget support (official external budget support). This adjustment will be capped at the equivalent of SDR 100 million, evaluated at program exchange rates as described in paragraph 4.

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

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

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

- An adjustor of up to 5 percent of the external debt ceiling set in PV terms applies in case deviations are prompted by a change in the financing terms. Changes in interest rates, maturity, grace period, payment schedule, commissions, fees of a debt or debts are candidate triggers for the adjuster. The adjustor cannot be applied when deviations are prompted by an increase in the nominal amount of total debt contracted or guaranteed and are subject to debt sustainability.
- The external debt ceiling at present value will be adjusted *downwards* by a maximum of US\$ 47 million if loans linked to projects financed by the World Bank in 2023 do not materialize.

**Table 1. Madagascar: Data Reporting Requirements**

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

**Table 1. Madagascar: Data Reporting Requirements** (continued)

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

**Table 1. Madagascar: Data Reporting Requirements** (concluded)

<b>Item</b>	<b>Periodicity</b>
<b>External Data</b>	
<b>Central Bank of Madagascar (CBM)</b>	
Balance of payments	Quarterly, by the end of the subsequent quarter
<b>Real Sector and Price Data</b>	
<b>INSTAT</b>	
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
<b>Other Data</b>	
<b>OMH</b>	
Petroleum shipments and consumption	Monthly, within four weeks of the end of each month
Cumulative gross liability to fuel distributors, with information on fuel distributors contributions and fees due to the State and other public bodies (e.g., FER, RDS)	Monthly, within four weeks of the end of each month
Decree or <i>Arrêté</i> relating to the fuel reference prices formula and fixing the pump prices	Variable, within one week of publication

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

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

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

- i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
- ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

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

Statement by Mr. Facinet Sylla, Executive Director for Madagascar, Mr.  
Mbuyamu Matungulu, Alternate Executive Director and Mr. Thierry Nguéma-  
Affane, Senior Advisor to Executive Director  
Executive Board Meeting  
June 21, 2023

Our Malagasy authorities would like to express their gratitude to the Executive Board, Management, and staff for their support to Madagascar, which is facing challenging economic, social, political, and climate conditions. They appreciated the candid and productive discussions with staff during this fourth review of the authorities' program supported by the Extended Credit Facility (ECF) and welcomed the concomitant talks with the visiting Director of the African Department, which helped clear pending key policy issues and facilitated the conclusion of the review.

The fourth ECF review is taking place following an intense and deadly cyclone season in early 2023, which had a significant toll on economic activity and physical infrastructure in the southern part of the country. The loss of grains and disruption of agricultural activity have worsened food insecurity. However, strengthened disaster management and relief by the government provided rapid and adequate emergency response in coordination and with the support of specialized UN agencies and international humanitarian organizations to which the authorities are particularly grateful. Given the country's high vulnerability to climate change, the authorities are committed to improve climate resilience by enhancing climate policies and risk and disaster management. To this end, they have requested Fund assistance under the Resilience and Sustainability Trust and look forward to starting discussions on an arrangement during the next review.

Despite the difficult context, significant and continuous progress was made in program implementation in the period under review, reflecting the authorities' strong commitment to the program and its objectives. Three out of five quantitative performance criteria at end-December 2022 have been met and all structural benchmarks (SBs) were observed, albeit some with delay. In addition, two of the three SBs for end-June 2023 have already been implemented. Remedial actions were also taken to keep the program on track. They include notably the implementation of the agreement with fuel distributors to settle cross-debts in



May 2023 and the publication of executive orders setting the fuel price structure in early June 2023. To consolidate their reform efforts and gains, the authorities are requesting the completion of the fourth review under the ECF.

## **I. Recent Developments and Outlook**

**Economic activity slowed in 2022 amid high inflation.** Growth moderated to 4.0 percent from 5.7 percent in 2021, owing partly to the negative impact of extreme weather events. Inflation reached 10.8 percent at end-2022 and further increased to 12.1 percent in April 2023 year-on-year, mostly driven by higher food and energy prices from weather shocks, the war in Ukraine, and the increase in regulated fuel prices to contain related subsidies. In the face of higher inflation, the central bank of Madagascar, *Banky Foiben'i Madagasikara* (BFM), increased its policy rate by 40 basis points in May 2023 the sixth upward adjustment since October 2021. The current account deficit widened further to 5.5 percent of GDP from 4.9 percent of GDP in 2021, pushed up by a significant terms-of-trade deterioration. The level of international reserves remains adequate although declining from 5.8 months of imports in 2021 to 4.2 months of imports at end-2022. The external position at end-2022 is assessed to be broadly in line with the level implied by fundamentals and desired policies. The banking sector is liquid, profitable and well capitalized, with non-performing loans standing at 7.7 percent at end-2022 compared to 9.1 percent at end-2021.

**The fiscal position weakened in 2022 due mainly to the non-payment of fuel taxes by petroleum distributing companies not remunerated for their fuel supplies to the national power company (JIRAMA).** Faced with significantly lower revenues, the authorities contained expenditures and accumulated arrears. Against this background, the primary fiscal deficit widened to 2.8 percent of GDP from 0.1 percent of GDP in 2021. Public debt increased by 3.1 percentage points to 54.9 percent of GDP and remains at a moderate risk of distress, with some space to absorb shocks. The budget for 2023 was approved in December 2022 but fiscal risks related to JIRAMA materialized early in the new year as the entity recorded exceptionally high losses in 2022. Given JIRAMA's strategic importance to the economy, higher-than-budgeted transfers will be made to the public enterprise in 2023 to keep it running, while its restructuring program is being deployed.

**The authorities are strengthening public financial management with a focus on transparency and improved budget execution.** In this regard, they have published a new public investment manual to clarify related institutional responsibilities and introduced changes to the legal framework for public procurements to allow for the collection and publication of ultimate beneficiary owner information as from March 2023. In the same vein, the *Cour des Comptes* (Court of Auditors) released a follow up report on the implementation of the recommendations from its audits of COVID spending to improve accountability in public financial management.

**Progress has been made towards the implementation of a petroleum price setting mechanism to help reduce related subsidies.** An agreement with fuel distributors on the settlement of all cross-debts was concluded in December 2022. The effective settlement occurred in May 2023, which permitted the resumption of customs tax payments by the fuel distributors. The authorities also adopted and published the executive orders setting the fuel price structure in early June 2023, which will provide greater transparency in fuel price setting. In parallel, work is ongoing on the development of mitigation measures to address the impact of market price increases on the most vulnerable segments of the population, including the strengthening of social protection programs with the support of the World Bank.

**In the mining sector, reforms are advancing and should improve mining revenues collection.** To optimize revenue from the mining sector, the mining code has been amended in close consultation with the World Bank, the IMF, and representatives from the mining sector; the draft new code was submitted to Parliament in May 2023. As regards specifically to the gold sector, which is under reorganization, a decree on the gold regime setting criteria for gold exports was adopted in March 2023 and the gold export ban in place since 2022 to stop gold smuggling, was lifted in April 2023. The authorities are keen to strengthen traceability and reinforce the evaluation of environmental and social policies in the sector to provide for a responsible supply chain for the metal.

**The persistently challenging global environment and extreme weather events continue to weigh on the economic outlook.** Economic growth is projected to remain stable at 4.0 percent in 2023, reflecting the impact of the two weather systems that hit the country in early 2023, weaker global growth prospects and institutional difficulties in the vanilla sector. The inflation rate should return to single digits in 2023 with lower global inflation and relatively higher local production of food staples. The current account will narrow to 4.4 percent of GDP in 2023, as import costs decline with lower global inflation. The reserve coverage is expected to remain broadly stable. Downside risks to this outlook are significant and include uncertainties related to global growth, the war in Ukraine, international fuel prices, weather conditions, and the pace of reform implementation. Upside risks to growth include stronger performance in tourism, vanilla, textile, and mining sectors, particularly with the expected resumption of gold exports later this year and the much-anticipated adoption of the new mining code.

## **II. Performance under the program**

**In this difficult environment, quantitative performance under the program has been mixed.** Three of the five quantitative performance criteria (QPCs) at end-December 2022 have been met. The floor on domestic primary balance was missed due to the non-payment of oil taxes by fuel distributors. The floor on central bank's net foreign assets was missed slightly at end-December 2022 but met at end-March 2023. The ceiling on central bank's net

domestic assets was met in December 2022 but slightly missed at end-March 2023. The indicative targets (ITs) on customs revenues, domestic tax revenues and social spending at end-December 2022 were missed due to cross debts with fuel distributors and delays in implementing some tax administration measures. The IT on social spending was also missed, albeit by a lesser margin than in 2021. It was later met in March 2023, owing in part to the elimination of the requirement of spending commitment authorization by both the President and the Prime Minister. The authorities are requesting waivers for the nonobservance of missed QPCs and modifications of QPCs for 2023 consistent with the revised macroeconomic framework.

**Notable progress has been made in the implementation of the structural reform agenda.** All structural benchmarks were met, albeit some with delay. The continuous SB on containing government's liabilities to oil distributors below MGA 300 billion was briefly breached due to the delay in settling cross-debts with oil companies. Liabilities have returned below the agreed ceiling since April 2023.

### **III. Policies for 2023 and beyond**

**The authorities remain committed to the program.** Policies going forward will continue to aim to create fiscal space to respond to shocks, reduce fiscal risks, improve public financial management and governance, and advance monetary and financial reforms. The authorities are closely monitoring developments going forward and remain committed to make stronger policy adjustments as needed to preserve macroeconomic stability and advance their structural reform agenda.

**Fiscal consolidation will continue in 2023.** The authorities will pursue their fiscal adjustment efforts in 2023, while increasing spending in the social sectors and public investment. They are committed to pursue tax reforms and administrative measures to create the fiscal space needed to finance their development plan. Strong emphasis will be placed on reinforcing the recovery of tax arrears, the reinstatement of the VAT rate on fuel at 20 percent, and the expansion of the electronic payment system. On the expenditure side, the composition and efficiency of spending will continue to be improved. Efforts to control payroll and pension expenditures as well as transfers will continue as well. The authorities are committed to stepping up efforts to accelerate the execution of social spending and improve their social protection system. They are also committed to strengthening the execution and efficiency of public investment spending. Exhaustive measures will be taken in 2023 to clear domestic arrears accumulated in the previous year following the delayed payment of oil customs taxes. The domestic primary fiscal balance in 2023 is expected to turn positive at 0.7 percent of GDP.

**The reforms of the state-owned power company and the implementation of the fuel price setting mechanism will continue with a view to reducing related fiscal risks.** The

authorities are strengthening their efforts to turnaround JIRAMA and are implementing measures to contain non-technical losses and reduce production costs notably by switching to renewable energy sources. To improve monitoring and transparency, they will share monthly reports on JIRAMA's revenue and costs data and publish the results of calls for tender for fuel purchases.

**The authorities are strongly committed to reduce food insecurity and strengthen social safety nets.** They are prioritizing resilient investment, including in the road network, and are working on developing strategic seeds and food storage facilities with the help of development partners. A single social registry to serve as a reference for all social protection activities undertaken in the country is being established and should be operational by October 2023. Under a pilot project phase, information is expected to be collected for 60,000 households by December 2023. The social protection strategy is being updated and should be finalized by year-end.

**The central bank remains committed to achieve price stability and pursue the reform of its monetary and financial sector policy frameworks.** The central bank will maintain a tight monetary policy stance as needed to stabilize and reduce inflation, while preserving and strengthening the independence of the Central Bank. BFM will continue the migration to the interest rate targeting framework, sustain efforts to provide transparency and communication on monetary policy, and pursue reforms intended to improve the functioning of the foreign exchange market, including by advancing the introduction of gold into the central bank's foreign exchange reserves. The requirement to repatriate gold export receipts should help strengthen international reserves. Moreover, the authorities will sustain efforts to further strengthen financial stability, continue risk-based supervision, and control systemic risks, notably by adopting Basel II standards and enhancing the AML/CFT framework.

**The improvement of the business environment remains at the forefront of the reform agenda.** The authorities will continue to make further progress in the digitization of tax payments, the issuance of work permits, and the establishment of a credit bureau, as well as the operationalization of the e-reimbursement of VAT. In addition to legislative reforms, such as the overhaul of the investment law, the tourism code, the foreign exchange code, and the labor code, they also plan to deploy existing digital platforms for business creation and the granting of building permits in the rest of the country.

#### **IV. Conclusion**

The authorities remain strongly committed to the program. Despite the difficult domestic and external environment, they intend to continue taking all necessary steps to advance their reform agenda. Considering the progress already made and their continued commitment to the program, the authorities are requesting the completion of the fourth review of the ECF-

supported program and associated requests and decisions. Directors' favorable consideration of these requests will be highly appreciated.