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REPUBLIC OF MADAGASCAR

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STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW, AND FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF MADAGASCAR

In the context of the Staff Report for the 2024 Article IV Consultation, First Review Under the Extended Credit Facility Arrangement, Request for A Waiver of Nonobservance of Performance Criteria, and Financing Assurances Review, and First Review Under the Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its February 26, 2025 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 26, 2025, following discussions that ended on October 11, 2024, with the officials of the Republic of Madagascar on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 11, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **World Bank Assessment Letter for the Resilience and Sustainability Facility**.
- A **Statement by the Executive Director** for the Republic of Madagascar.

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Washington, D.C.

IMF Executive Board Completes the First Review Under the Extended Credit Facility and the Resilience and Sustainability Facility, and Concludes the 2024 Article IV Consultation with the Republic of Madagascar

FOR IMMEDIATE RELEASE

- The IMF Executive Board yesterday completed the First Reviews under the Extended Credit Facility (ECF) arrangement and the Resilience and Sustainability Facility (RSF) arrangement for the Republic of Madagascar, allowing for an immediate disbursement of US$101 million. The Board also concluded the 2024 Article IV Consultation.
- After stabilizing at 4.2 percent in 2024, the Malagasy economy is expected to rebound to 4.6 percent in 2025. Inflation is projected to gradually decline in 2025.
- Madagascar's performance under the ECF and RSF programs has been adequate albeit uneven. The implementation of an automatic fuel price adjustment mechanism will create fiscal space for social spending and investment. The reform of JIRAMA remains a priority.

Washington, DC – **February 27, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded yesterday the Article IV consultation[1] with the Republic of Madagascar. The Board also completed the First Reviews under the 36-month Extended Credit Facility (ECF) arrangement and under the Resilience and Sustainability Facility (RSF) arrangement. The ECF and RSF arrangements were approved by the IMF Executive Board in June 2024.

The completion of the reviews allows for the immediate disbursement of SDR 36.7 million (about US$48 million) under the ECF arrangement and of SDR 40.7 million (about US$53 million) under the RSF arrangement.

Madagascar's growth is estimated to have stabilized in 2024, while inflation pressures have persisted. The fiscal balance improved, supported by a settlement of fuel distributors' tax arrears following an agreement reached in December and despite continued high transfers to JIRAMA. The current account deficit widened, owing primarily to a decline in exports.

Medium-term growth prospects appear favorable, bolstered by the reforms supported by the RSF and the ECF, including government programs aimed at boosting agricultural productivity, increasing access to electricity, and improving road infrastructure. Risks to the outlook are tilted to the downside, amid uncertain domestic and global environments. Madagascar also remains very vulnerable to climate shocks.

Discussions under the 2024 Article IV consultation focused on: (i) anchoring fiscal sustainability by increasing domestic revenue, reducing fiscal risks, building buffers to enhance resilience to shocks, and strengthening fiscal institutions and public financial

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

management, (ii) strengthening governance and the fight against corruption, (iii) consolidating monetary and financial stability, (iv) fostering stronger and more inclusive growth, and (v) bolstering resilience to climate change.

At the conclusion of the Executive Board discussion, Mr. Nigel Clarke, Deputy Managing Director, and Acting Chair, made the following statement:

"Madagascar continues to face important development needs amid its high poverty rate and vulnerability to climate shocks. A faster pace of reform is needed to spur growth, which remains well below its medium-term potential. Program performance at end-June 2024 was broadly assessed as mixed, stressing the need for continued strong political ownership to support program implementation.

"The continued implementation of the automatic fuel pricing mechanism will help contain fiscal risks and create space for more public investment and social spending. In addition, further efforts are needed to continue improving domestic revenue mobilization and firmly secure the financial recovery of JIRAMA.

"Reinforcing public financial and investment management processes is critical to improve budget execution and traceability. Better cash flow projections and management should facilitate spending and limit the accumulation of arrears. Continued improvements in governance, building on the ongoing Governance Diagnostic Assessment, and the implementation of the newly published Anti-Corruption Strategy for 2025-30 will support efforts to fight corruption and promote transparency.

"The central bank (BFM) should stand ready to raise its policy rates to keep inflation on a downward path. Further improvements in the liquidity management framework and better communication about monetary policy decisions would bolster BFM's credibility.

"Further building adaptation and resilience to climate shocks as well as mobilizing climate finance should continue to be a key priority. The new decree on environmental and social impact assessments provides a framework to evaluate and select investment projects, which should be applied to new investments, including road projects.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Madagascar's resilient growth, while noting that the economic outlook is subject to downside risks and that the country continues to face important development needs and high vulnerability to climate shocks. While broadly acknowledging reform progress under the IMF-supported programs, Directors called for continued strong ownership. They stressed the need to sustain prudent policies and press ahead with the implementation of structural reforms—supported by a tailored capacity development strategy—to promote macroeconomic stability and economic resilience.

Directors welcomed the authorities' efforts to shore up fiscal sustainability. They underscored the need to create fiscal space for public investment and social spending. To this end, Directors recommended further efforts to advance domestic revenue mobilization and

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

enhance public financial management and budget execution. They also encouraged the authorities to consider developing a medium-term fiscal strategy anchored on a debt target consistent with Madagascar's debt servicing capacity. To help contain fiscal risks, Directors emphasized the importance of continued settlement of cross liabilities with fuel distributors, the continued implementation of the automatic fuel price adjustment mechanism, and strengthening governance and transparency in state-owned enterprises. In particular, they urged the swift adoption and implementation of JIRAMA's recovery plan.

Directors emphasized the need to stand ready to raise policy rates to keep inflation on a downward path. They agreed that clear, transparent, and timely communication by the central bank would help raise the credibility and effectiveness of its monetary policy. Directors recommended enhancing the functioning of the new monetary policy operational framework. They concurred that the flexible exchange rate regime serves well as a shock absorber and encouraged further enhancing the effectiveness of the foreign exchange market. Directors noted the importance of safeguarding financial stability and looked forward to the results of the Financial Sector Stability Review. They also encouraged the authorities to strengthen the AML/CFT framework.

Directors called on the authorities to press ahead with structural reform implementation. They welcomed the adoption of the new anti-corruption strategy and stressed that the publication of the forthcoming Governance Diagnostic Assessment will be crucial to bolster efforts to strengthen governance. Directors agreed that enhancing the legal business environment and investing in human capital are critical to promote private investment. Noting that Madagascar has benefited from the IMF-World Bank Group's enhanced cooperation framework, they supported the authorities' efforts to strengthen resilience to climate shocks and mobilize climate finance.

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

Table 1. Madagascar: Selected Economic Indicators

	2022	2023	2024	2025	2026
		Est.		Proj.	
	(Percent change; unless otherwise indicated)				
National Account and Prices					
GDP at constant prices	4.2	4.2	4.2	4.6	4.7
GDP deflator	9.6	7.5	7.6	7.2	6.8
Consumer prices (end of period)	10.8	7.5	8.6	7.6	7.0
Money and Credit					
Broad money (M3)	13.8	8.6	15.5	13.6	11.9
	(Growth in percent of beginning-of-period money stock (M3))				
Net foreign assets	0.8	18.2	11.5	2.7	2.0
Net domestic assets	13.0	-9.7	4.0	10.9	9.9
of which: Credit to the private sector	9.8	0.7	5.7	6.6	7.6
	(Percent of GDP)				
Public Finance					
Total revenue (excluding grants)	9.5	11.5	11.2	11.3	12.0
of which: Tax revenue	9.2	11.2	10.8	10.8	11.7
Grants	1.3	2.3	2.4	0.7	0.5
Total expenditures	16.2	17.9	16.9	15.8	16.5
Current expenditure	10.8	10.9	10.1	9.6	9.6
Capital expenditure	5.4	7.0	6.8	6.3	6.9
Overall balance (commitment basis)	-5.5	-4.2	-3.3	-3.8	-4.0
Domestic primary balance[1]	-1.8	-0.3	0.2	0.5	1.2
Primary balance	-4.9	-3.5	-2.6	-2.9	-3.0
Total financing	4.7	4.2	3.4	4.1	4.3
Foreign borrowing (net)	2.4	3.0	2.3	3.3	3.2
Domestic financing	2.2	1.2	1.0	0.8	1.1
Fiscal financing need[2]	0.0	0.0	0.0	0.0	0.0
Savings and Investment					
Investment	21.8	19.9	22.5	20.5	21.9
Gross national savings	16.8	15.3	17.5	15.1	16.8
External Sector					
Exports of goods, f.o.b.	23.0	19.5	14.7	14.0	14.6
Imports of goods, c.i.f.	33.8	28.0	26.3	24.3	24.3
Current account balance (exc. grants)	-6.6	-6.9	-7.4	-6.2	-5.5
Current account balance (inc. grants)	-5.4	-4.7	-5.0	-5.5	-5.1
Public Debt	50.0	52.7	51.4	52.9	53.5
External Public Debt (inc. BFM liabilities)	36.1	37.8	37.4	40.2	41.6
Domestic Public Debt	13.9	14.9	13.9	12.7	11.9
	(Units as indicated)				
Gross official reserves (millions of SDRs)	1,601	1,972	2,189	2,380	2,459
Months of imports of goods and services	4.2	5.7	6.3	6.6	6.3
GDP per capita (U.S. dollars)	529	533	569	584	617

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

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

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

February 11, 2025

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW, AND FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. Real GDP growth stabilized at 4.2 percent in 2024. Led by food and energy prices, year-on-year inflation persisted, rising from 7.3 percent in March 2024 to 8.6 percent in December 2024 as deteriorating road and electricity infrastructure continued to weigh on transportation and production costs. Fiscal performance over the first part of the year was mixed, mostly due to the disbursement of an exceptional loan to JIRAMA, only partially compensated by the slow execution of domestically financed public investment.

Outlook and Risks. The outlook is subject to significant uncertainty, with risks tilted to the downside. Intensifying conflict in the Middle East and continued spillovers from the war in Ukraine could disrupt supply chains and lead to spikes in commodity prices. Domestically, persistent electricity shortages, deteriorating infrastructure, and governance issues could weaken growth. Climate shocks could further raise food prices and exacerbate food insecurity. On the upside, successful implementation of the government's reform agenda could spur higher economic growth.

Program Performance. Program performance is assessed as mixed. One out of four Quantitative Performance Criteria and three out of four Indicative Targets were missed at end-June 2024. M3 growth was within the bands of the Monetary Policy Consultation Clause (MPCC). The authorities have made progress in the implementation of structural reforms supported by the ECF with three out of six non-continuous structural benchmarks achieved on time, while the two reform measures expected for the RSF review were successfully completed.

Policy Discussions. There was overall agreement on policies to promote macroeconomic stability and economic resilience. These policies involve anchoring fiscal sustainability, including by improving revenue mobilization, strengthening governance and combating corruption, with the support of the ongoing Governance Diagnostic Assessment (GDA), buttressing monetary and financial stability with the support of the Monetary Policy Consultation Clause (MPCC), promoting stronger and more inclusive growth, with reforms to support industrialization, human capital development, and by implementing policies to raise resilience to climate shocks. RSF-supported reforms and climate policies benefit from enhanced collaboration between the IMF and the World Bank.

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

Discussions were held in Antananarivo during September 30–October 11, 2024, and continued virtually until January 22, 2025. The IMF team comprised Frederic Lambert (head), Constance de Soyres, Thibault Lemaire, Joanne Tan (all AFR), Claude Wendling (FAD), Yipei Zhang (SPR), Timila Dhakhwa (MCM), Kodjovi Eklou (Resident Representative) and Ialy Rasoamanana (local economist). Costas Christou (AFR) joined some of the meetings. Thierry Nguema (Senior Advisor to the Executive Director) attended most of the meetings. Joep Verhagen from the Global Center on Adaptation (GCA) also joined part of the mission. The team met with President Rajoelina, Prime Minister Ntsay, Minister of Economy and Finance Rabarinirinarison, Minister of Environment and Sustainable Development Fontaine, Minister of Energy and Hydrocarbons Jean-Baptiste, Central Bank Governor Andrianarivelo, other senior officials, development partners, as well as representatives of the private sector, and non-governmental organizations. Hatem Alsokhebr and Vaishali Ashtakala (AFR) contributed to the preparation of this report.

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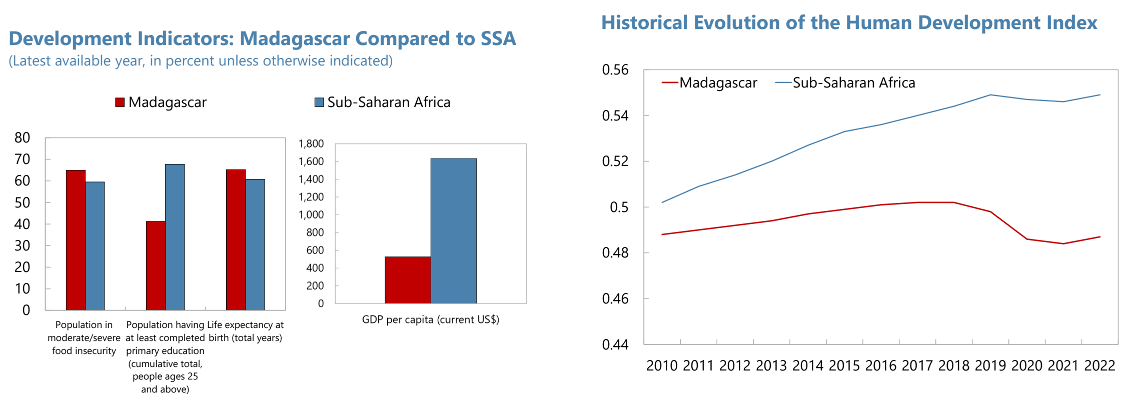
BACKGROUND

1. **Following the May 29 parliamentary elections, a new government was formed on August 22.** President Rajoelina and his party obtained an absolute majority in Parliament. Prime Minister Ntsay was re-appointed on July 12 and a new government was formed. Half of the Ministers of the previous government were reappointed, including the Minister of Economy and Finance, the Minister of Energy, and the Minister of Environment. The government's reform agenda remains largely unchanged from that presented in the General State Policy (PGE) in January 2024. Municipal elections took place on December 11, 2024, with the ruling majority keeping the mayorship of the capital Antananarivo.

Text Figure 1. Madagascar: Human Development



Sources: World Bank World Development Indicators; and UNDP.

2. **Madagascar continues to face important development needs amid high climate change vulnerabilities**. It is among the poorest countries in the world, with around 66 percent of the workforce relying on agriculture and about 68 percent of the population reporting having insufficient food.[1] Further, structural impediments such as low access to electricity and drinkable water hamper development, while investment needs in education, health, and social protection are immense. Deforestation is aggravating Madagascar's vulnerability to climate shocks with an average of three disasters every year, affecting close to 6 percent of the population. In this context, the new Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF) approved in June 2024 aim to increase economic resilience and foster long-term inclusive growth, while helping address climate vulnerabilities.

3. **Since the conclusion of the 2022 Article IV consultation, the authorities have implemented several key IMF recommendations** (Annex II). To increase fiscal space, they have

[1] World Bank, September 2024. "Navigating Two Decades of High Poverty and Charting a Course for Change in Madagascar," Poverty and Equity Assessment. Madagascar Household Survey 2021–22, "Enquête Permanente auprès des Ménages" 2021–2022

started modernizing the tax system, broadening the tax base, and strengthening capacity. They have improved budget execution and published a public investment manual in March 2023 to boost public investment efficiency. On the monetary and financial policy side, the central bank transitioned to a new interest rate targeting operational framework in February 2024 and made progress toward compliance with Basel III requirements.

RECENT ECONOMIC DEVELOPMENTS

4. **Economic activity is stabilizing**. After growing by 4.2 percent in 2023, economic activity did not accelerate in the first semester of 2024, despite a good rice harvest and a rebound in graphite mining, transport, construction, and telecommunications, partially offset by the impact of cyclone Gamane in March. Tourist arrivals reached 308,275 in 2024, up by 18.6 percent from 2023albeit still well below pre-pandemic levels.[2]

5. **Inflation persists.** Headline and core inflation stood at 8.6 percent and 8.5 percent y/y, respectively, in December 2024, up from 7.3 percent and 8 percent in March 2024. Food and energy price inflation persisted in part due to cyclone Gamane (Annex VIII) and the depreciation of the ariary since April. Supply side constraints such as poor road infrastructure and unreliable electricity provision have continued to weigh on transport and production costs respectively, contributing to the uptick in core inflation. In response to the uptick in inflation, the central bank (BFM) increased both the deposit facility rate and the marginal lending rate by 50 basis points, to 9.5 percent and 11.5 percent, respectively, in August 2024, and raised the reserve requirement ratio from 12 to 15 percent in early November 2024.

6. **The trade deficit reached 4.2 percent of (projected) 2024 GDP in the first semester**. The deficit was driven by a decline in exports to 7.1 percent of GDP (vs. 10.6 percent in 2023H1) due to a continued weak performance of mining exports as well as free trade zones, offsetting a slight contraction in imports to 12.4 percent of GDP (14.4 percent in 2023H1).[3]

7. **Fiscal performance has been uneven** (Text Table 1). The primary deficit exceeded the quantitative performance criterion (QPC) at end-June 2024 due to the recording of a MGA 366 billion "loan" from 2023 by the government to JIRAMA, resulting in a one-off sharp increase in net Treasury operations that would not repeat in the future.[4] The slow execution of domestically financed public investment (less than 9 percent of the annual projected envelope) was partially offset by the acceleration of externally financed investment (about 77 percent of the annual

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[2] Pre-pandemic, there were 383,717 tourist arrivals for2019.

[3] Following China's decision to restrict its graphite exports at end-2023, the volume of Madagascar's graphite exports nearly doubled in 2024H1 relative to the previous year, from 23.9 to 45 thousand tons. However, in value, graphite exports account for less than one tenth of other mining exports.

[4] Net Treasury operations correspond to operations not recorded or not yet recorded in the general budget, i.e. Treasury special accounts and operations to be classified and regularized (e.g. pending transactions). The QPC breach is related to the timing of the recording. JIRAMA's transfer needs are estimated to be fully covered under the 2024 revised budget.

estimate). One fuel distributor withheld the payment of oil customs duties to force a settlement of its claims vis-à-vis the government, most of which are related to JIRAMA's fuel purchases. This caused a breach of the end-June indicative target (IT) on gross tax revenue (cash basis). Fiscal revenues on an accrual basis were broadly in line with projections. The lower revenue on a cash basis led to an increase in domestic arrears to MGA 812.6 billion at end-June, exceeding the IT ceiling. Arrears subsequently decreased below the end-September IT but may have risen again at the end of the year as both the IMF and the second tranche of the World Bank DPO disbursements have been delayed to 2025 because of slow reform implementation (¶58).

Text Table 1. Madagascar: Fiscal Outturn - 2024H1

	2024H1 projection ECF/RSF request		2024H1 outturn data		Difference outturn and projection	
	in billions of Ariary	in percent of GDP	in billions of Ariary	in percent of GDP	in billions of Ariary	in percent of GDP
Total revenue and grants	4,983	6.4	5,627	7.1	643	0.8
Total revenue	4,297	5.5	4,300	5.5	3	0.0
Net tax revenue (cash basis)	4,202	5.4	4,120	5.2	-82	-0.2
Net tax revenue (accrual basis)						
Domestic taxes	2,073	2.7	2,066	2.6	-6	0.0
Taxes on international trade and transactions	2,129	2.7	2,054	2.6	-75	-0.1
o/w exceptional revenue (net payment of oil customs tax arrears)	*285*	0.4	*348*	0.4	63	0.1
Non-tax revenue	96	0.1	180	0.2	85	0.1
Grants	686	0.9	1,326	1.7	640	0.8
Total expenditure	5,813	7.4	6,831	8.7	1,018	1.2
Current expenditure	3,529	4.5	3,874	4.9	345	0.4
Wages and salaries	1,900	2.4	1,896	2.4	-4	0.0
Interest payments	345	0.4	276	0.3	-69	-0.1
Goods and services	201	0.3	164	0.2	-37	0.0
Transfers and subsidies	800	1.0	571	0.7	-229	-0.3
o/w JIRAMA and its suppliers						
o/w fuel price subsidy	...	...	...	...	...	...
Treasury operations (net)	283	0.4	967	1.2	684	0.9
Capital expenditure	2,284	2.9	2,957	3.8	673	0.8
Domestic financed	414	0.5	105	0.1	-309	-0.4
Foreign financed	1,870	2.4	2,853	3.6	983	1.2
Overall balance (commitment basis)	-830	-1.1	-1,205	-1.5	-375	-0.5
Variation of domestic arrears (+ = increase)	-68	-0.1	50	0.1	118	0.2
Overall balance (cash basis)	-897	-1.1	-1,155	-1.5	-257	-0.3
Domestic primary balance[1]	699	0.9	597	0.8	-102	-0.1
excluding exceptional revenue	*414*	0.5	*250*	0.3	-164	-0.2
Primary balance	-485	-0.6	-929	-1.2	-444	-0.6
excluding exceptional revenue	*-770*	-1.0	*-1,277*	-1.6	-507	-0.6

Sources: Malagasy authorities; and IMF staff estimates and projections.
[1] Primary balance excl. foreign-financed investment and grants.

8. **The banking sector remains resilient despite a tepid start of the year.** Credit to the private sector growth is slowly recovering, from 0.0 percent y/y in January to 6.3 percent in June. Bank deposits growth reached 9.6 percent y/y in June 2024, compared to 6.9 percent in June 2023. The non-performing loans ratio increased to 7.85 percent in 2024Q1, before easing to 7.69 percent in 2024Q3.

OUTLOOK: RESILIENT GROWTH AMID DOMESTIC SUPPLY-SIDE RISKS

9. Growth is estimated at 4.2 percent in 2024 and expected to pick up to 4.6 percent in 2025 and converge to its 5-percent potential in the medium term, led by projected increases in agricultural production, gains in mining and textiles, as well as strong growth in key tertiary sectors such as transport, construction, tourism and telecommunications.[5] Annual inflation is projected to fall to 7.2 percent in 2025 and gradually converge to 6 percent over the medium term while the current account deficit would stabilize under 5 percent of GDP. The 2024 primary deficit is estimated at 2.6 percent of GDP in 2024, following a near-complete repayment of oil customs tax arrears[6]. Beyond 2024, the primary deficit is expected to remain stable below 3.0 percent of GDP, with domestic revenue mobilization efforts envisaged during the program providing space for an increase in public investment and social spending.

10. Risks to the outlook are tilted to the downside and are mostly domestic (Annex I). While the intensification of regional conflicts, notably the conflict in Gaza and Israel and the continued spillovers from the war in Ukraine, could further exacerbate trade and financial disruptions and commodity price volatility, water and electricity shortages, deteriorating infrastructure, and persistent governance issues on the domestic side could hamper growth and fuel popular discontent. A continuation of the protracted dispute with some fuel distributors could lead to a deterioration of fiscal performance. As detailed in the World Bank's Climate Change and Development Report (CCDR), Madagascar is highly vulnerable to climate shocks, which could jeopardize food price stability and aggravate food insecurity. On the upside, implementation of the reform agenda envisaged in the PGE would boost productivity and growth.

11. Risks stemming from Madagascar's public and external debt continue to be contained. The external and overall risk of debt distress remains "moderate" with some space to absorb shocks, unchanged from the previous Debt Sustainability Analysis.[7] The public debt-to-

[5] Plans to boost private investment and incentivize efficient production techniques should encourage agricultural production in the medium-term (See Selected Issues Paper on rice production). Graphite extraction should support mining sector growth, as key mining companies, including Nextsource and Tirupati Graphite, are planning to ramp up production to meet higher global demand. The renewal of Madagascar's AGOA status in 2024 is expected to bolster growth in the textile industry. In the telecommunications sector, reforms have boosted competition, which allowed the entry of foreign players such as Starlink in the third quarter of 2024. Medium-term growth prospects for the tourism, construction, and transport sectors are optimistic, thanks to the introduction of new flight routes to Madagascar by Emirates since September 2024, codeshare agreements between Madagascar Airlines and international carriers starting from 2025, and the expected rise in hotel construction in the country.

[6] Based on available information, the end-December primary deficit target under the program appear within reach depending on any adjustment implemented to account for non-disbursed budget support and project loans.

[7] 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 are taking steps to reach a resolution of those claims, including by gathering critical information on settlement terms.

GDP ratio was revised down from 55.6 to 52.7 percent of GDP at end-2023 following a downward revision of JIRAMA's domestic debt.[8] Going forward, public debt is projected to peak at 54.2 percent in 2028, falling thereafter to 52.2 percent in 2034, consistent with the objective to stabilize debt below 60 percent.

Authorities' Views

12. The authorities broadly agreed with staff's assessment of the outlook and risks facing the economy but were more optimistic about growth prospects. They expect higher growth in 2025, thanks to the implementation of the PGE, greater agricultural production and tourism, and a rebound in the mining sector. They see growth gradually converging to 6.4 percent in the medium-term, driven by large public and private investments, improved business sentiment, and productivity gains across sectors. They agreed that risks are on the downside and could materialize through an increase in imported fuel prices.

PROGRAM IMPLEMENTATION

13. All end-June 2024 QPCs except one were met while three ITs out of four were missed (MEFP Table 1). The floor on net foreign assets of the BFM was met, as well as the two continuous PCs (ceiling on accumulation of new external payment arrears, and ceiling on new external debt contracted or guaranteed by the central government or BFM). The floor on the primary balance adjusted for actual official external project loans was missed (¶7). At end-June 2024, M3 growth was within the bands of the Monetary Policy Consultation Clause (MPCC). The IT on social spending was met. The IT on the domestic primary balance was missed for the same reason as the primary balance QPC's breach and the IT on gross tax revenue was missed by a small margin due to lower-than-expected tax collection from fuel distributors. The ceiling on outstanding domestic arrears was also missed.

14. Despite some delays resulting in an overall mixed performance assessment, there was progress on the structural reform agenda (MEFP Table 2). JIRAMA's recovery plan is being finalized and is expected to be approved by the Council of Ministers in early 2025. Four food banks became operational before the end-October due date and five others were provisioned before end-December 2024; one last bank is expected to be supplied imminently. Regarding continuous structural benchmarks (SBs), the authorities have provided monthly dashboards on selected key performance indicators of the tax and customs administration.[9] They have shared a monthly dashboard on JIRAMA's revenue and costs and continued to share information on contracts related to JIRAMA as needed. However, the government delayed the monthly application of the decree implementing an automatic fuel price adjustment mechanism which was

[8] JIRAMA's domestic debt was revised down to reflect new information that previous debt estimates included JIRAMA's debt to the government. To compute public debt on a consolidated basis, JIRAMA's debt to the government was subtracted from the domestic debt stock.

[9] Joint tax and customs administration technical assistance missions (September 30 – October 11, 2024) reviewed the dashboards and helped the authorities address inconsistencies and missing data issues.

a prior action for program approval, until after the December municipal elections owing to concerns about the inflationary impact of potential fuel price increases and their effect on vulnerable households. Gasoline and diesel prices were adjusted in January to reflect the cumulative price changes that should have happened since the publication of Decree 2024–1205 on June 7, 2024.[10] A second adjustment was implemented on February 5, following the adoption of Decree 2024–2085 for the implementation of an automatic fuel price adjustment mechanism in the first semester of 2025 on December 17, 2024 (**prior action)**. [11] Continuous strong ownership is needed to support program implementation.

15. The authorities have completed the two RSF-supported reform measures (RMs) for the first review (MEFP Table 3). A decree clarifying the mandate of the Interministerial Committee for Environment (CIME) to cover all climate policies (RM1) and a new decree on environmental impact assessments (RM2), prepared with support from the World Bank, were adopted respectively on December 04th, 2024 and January 28th, 2025. Criteria for the selection and prioritization of investment projects, including integration of climate change related elements, have been published on the Minister of Finance's website.

POLICY DISCUSSIONS

A. Anchor Fiscal Sustainability

16. The fiscal strategy aims to increase domestic revenue through tax policy and administration reforms and to reduce fiscal risks. The resulting fiscal space would help finance more investments in infrastructure and human capital. Further capacity building in the fiscal administration along with the development of a medium-term fiscal strategy anchored on a debt target consistent with Madagascar's debt-servicing capacity would improve fiscal planning, strengthen fiscal risk management, and enhance the credibility of fiscal policy.

17. The 2025 budget is consistent with program objectives and includes a reduction in tax expenditures by MGA 326 billion (prior action). The planned reduction in tax expenditures exceeds the objective set at program approval by MGA 46 billion. The total envisaged increase in net tax revenue by 0.5 percentage points of GDP on an accrual basis compared to the most recent revenue estimates for 2024 will finance higher investments in the agricultural sector and

[10] The June decree also implied a monthly increase of kerosene prices by more than 8 percent initially, which would have primarily affected poor households and resulted in the elimination of the subsidy in early 2025. Staff agreed to exempt kerosene from the application of the automatic mechanism until December 2024 to provide additional time to advance the preparation, with support from the World Bank, of mitigating measures such as the distribution of solar kits and cash transfers. The full elimination of the fuel price subsidies is an RSF-supported reform measure (RM7) to be implemented by April 2026.

[11] The 2018 Competition Law stipulates that price administration measures can be taken by a decree whose validity should not exceed six months. Hence regulations regarding the administration of fuel prices and the operation of the automatic fuel price adjustment mechanism need to be renewed every semester.

renewable energy, while maintaining a primary deficit target of 2.9 percent of GDP, consistent with 60-percent-of-GDP debt limit.[12]

18. The budget includes a combination of tax policy and administrative measures to reach the revenue target. Revenue measures amount to MGA 472 billion or 0.5 percent of GDP (Text Table 2). Tax policy measures include the reduction or elimination of VAT and/or customs tax exemptions on several products, an increase in VAT on butane gas, and the increase of the excise tax rate on a few products. They also include the elimination of the VAT tax expenditure on interest charged by credit institutions on overdraft facilities and financing guarantees granted to customers.[13] A new tax on mobile money transactions, based on the transaction fees collected by mobile money operators, was introduced, although staff assess it will not generate substantial revenue given the low tax base while potentially adversely affecting financial inclusion. Administrative measures include the reinforcement of customs controls, improvements in VAT administration, and the digitalization and streamlining of tax procedures and data centralization through a new IT system (*Système d'Administration Fiscale Intégrée* or SAFI). The yield of those measures could exceed staff (conservative) projections, with a potential upside risk to revenue collection. Contingency measures should be implemented to increase revenue or reduce expenditures should projected revenue fall below the budget.

Text Table 2. Madagascar: Details of Revenue Measures in the 2025 Budget

	in MGA billion	*in percent of GDP*
Tax policy measures	**372**	**0.4**
Elimination of tax expenditures	**326**	**0.4**
Elimination of VAT tax expenditure on interest charged by credit institutions on overdraft facilities and financing guarantees	117	0.1
Elimination of VAT tax expenditure on life and group insurance contract subscriptions	15	0.0
Elimination of VAT tax expenditure on several products (contact lenses, glasses, dictionaries, encyclopedias, newpapers, stamps, notes, sport shoes, and gloves, mittens and nets for sport practice)	9	0.0
Reduction or elimination of customs duty tax expenditure for selected luxury products (laptops, tablets, watches, headphones, electronic cigarettes) and other products (cacao powder, flour, etc.)	68	0.1
Reduction or elimination of customs duties and VAT tax expenditure for catamarans, cruise ships, trucks, tractor units, tankers, trailers and glasses	30	0.0
Reduction of VAT tax expenditure for butane gas (increase in the reduced rate from 5 to 10 percent) and compressed or liquified gases, and of custom duty tax expenditure on petroleum oil	11	0.0
Reduction of excise tax expenditure on local products for sugary products without cocoa, chocolate, jams and water	76	0.1
Excise tax reforms	**46**	**0.1**
Environmental tax (anti-pollution on plastics)	10	0.0
Excise tax on electronic cigarettes	1	0.0
Increase in excise taxes on alcohol and tobacco products	35	0.0
Administrative measures	**100**	**0.1**
Improvement of VAT administration, control and collection		
Reinforcement of customs controls		
Performance improvement through digitalization and extension of the tax base (SAFI)		
Total of tax policy and administrative measures	**472**	**0.5**

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

[12] Net tax revenues are higher by 0.7 percent of GDP in the 2025 budget than in the 2024 revised budget law.

[13] While the VAT exemption on interest charged by credit institutions on cash and signature financing granted to customers is considered a tax expenditure by the fiscal unit of the Ministry of Finance, it is generally not recommended to charge VAT on interest because of its potentially damaging impact on the provision of financial services and on savings.

19. Future budgets will need to build on those efforts to achieve a durable increase in revenue collection. The authorities committed to increase net tax revenue by 2.4 percentage points of GDP over 2023–27, which, together with a reduction in transfers to the energy sector, would allow to gradually scale up domestically financed capital expenditures and social spending (Text Table 3). Revenue measures should include a further reduction in tax expenditures in both 2026 and 2027, with a gradual removal of more costly import tax and VAT exemptions (e.g., on some categories of rice), as well as other reforms to expand the tax base. The removal or reduction of tax expenditures should be supported by a thorough cost and benefit analysis to assess their fiscal and broader economic and social impacts. A comprehensive excise tax reform that includes aligning the rates applicable on local products to rates on imported products for alcohol and tobacco and a revision of personal income taxation towards more progressivity should be accompanied by reforms of the tax and customs administrations, including to improve tax audit transparency and the appeal process and expedite VAT credit refunds. The rollout of SAFI should be accompanied by a new human resources management strategy, encouraging adherence to change through the adoption of objectives and resources contracts between the Ministry of Finance and the Directorate General of Tax Administration (DGI) (**proposed SB, September 2025**). Such contracts would aim to address some of the shortcomings apparent in the monthly dashboard of tax administration performance indicators (**continuous SB**).

Text Table 3. Madagascar: Projected Fiscal Consolidation Effort (2022–27)
(In percent of GDP)

	2022	2023	2024	2025	2026	2027
	Est.	Est.	Proj.	Proj.	Proj.	Proj.
Net tax revenue (cash basis)	9.2	11.2	10.8	10.8	11.7	12.6
Net tax revenue (accrual basis)	10.9	10.2	10.3	10.8	11.7	12.6
Net domestic tax revenue (accrual=cash basis)	5.4	5.5	5.5	5.9	6.4	6.9
Net customs revenue (accrual basis)	5.5	4.7	4.7	4.9	5.3	5.7
Net customs revenue (accrual basis), in percent of imports	*18.7*	*18.5*	*19.9*	*21.8*	*24.4*	*26.1*
Non-tax revenue	0.3	0.3	0.4	0.6	0.3	0.3
Grants	1.3	2.3	2.4	0.7	0.5	0.3
Total current expenditure, excl. interest payments	10.3	10.2	9.4	8.7	8.6	8.8
of which: transfers to JIRAMA and its suppliers	*1.4*	*1.3*	*1.2*	…	…	…
of which: transfers to oil distributors	*0.2*	*1.5*	*0.1*	…	…	…
Domestically financed capital expenditure	1.0	1.6	1.6	2.1	2.2	2.4
Foreign financed capital expenditure	4.4	5.4	5.2	4.1	4.8	4.9
Project grants	1.3	2.3	2.4	0.7	0.5	0.3
Project loans	3.1	3.2	2.8	3.4	4.3	4.6
Primary balance	-4.9	-3.5	-2.6	-2.9	-3.0	-2.9
Primary balance with revenue on an accrual basis	**-3.3**	**-4.5**	**-3.1**	**-2.9**	**-3.0**	**-2.9**

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

20. An increase in non-tax revenues supported by an expansion of the mining sector could help achieve revenue mobilization objectives. A revised Investment Law and Mining Code were adopted in 2023. While some of the implementing decrees have been adopted (e.g., gold regime, permits), others remain pending. The launch of new mining projects (e.g., Base Tulear, bauxite mining) is expected to bring in exceptional revenues in 2025. It is crucial that those new projects be ruled by the new mining code and that the generated revenues be recorded as government revenues in the budget. The announced revision of the law on large mining investments (LGIM) should be consistent with the provisions of the 2023 mining code.

21. While the budget deficit target is in line with the program, staff's spending projections provide for a different spending allocation to guarantee adequate transfers to JIRAMA (Text Table 4). Staff's net tax revenue forecasts are consistent with the authorities', and grant projections are conservatively lower, in line with historical trends. The budget envelopes for wages, salaries, and goods and services remain roughly constant in nominal terms compared to 2024. This nominal stability is supported by a strategy to limit public sector hiring until the end of the year. The envelope for transfers and subsidies has been significantly reduced compared to 2024, both in nominal terms and as a percentage of GDP. This reduction would result from a sharp decrease in transfers to JIRAMA, as the government aims to finance investments in renewable energy to increase JIRAMA's electricity supply and reduce the need for expensive fuel purchases for thermal power plants. In contrast, capital expenditures, whether domestically or externally financed, are projected to increase substantially compared to 2024. Staff assess that the planned drop in operational transfers to JIRAMA and concomitant increase in investment are excessively optimistic given JIRAMA's envisaged recovery plan (¶22) and the authorities' limited capacity to execute simultaneous investment projects. Staff thus project larger transfer spending and a more moderate increase in capital expenditures. The authorities committed to reallocate spending as needed should JIRAMA's needs exceed the approved budget allocation (MEFP ¶24). In addition, staff projections for externally financed capital expenditures are based on information received from development partners, taking past under-execution into account, and result in lower projected foreign-financed investment.[14]

[14] The floor on the primary balance would be reduced by the cumulative deviation between actual and projected disbursements on external investment project loans with a maximum of 0.5 percent of GDP (Technical Memorandum of Understanding, ¶33)

Text Table 4. Madagascar: 2025 Budget and Staff Projections

	2024 estimate		2025 budget law		2025 projection		Difference 2025 budget and projection	
	in billions of ariary	in percent of GDP	in billions of ariary	in percent of GDP	in billions of ariary	in percent of GDP	in billions of Ariary	in percent of GDP
Total revenue and grants	10,699	13.6	12,488	14.1	10,667	12.1	1,821	2.1
Total revenue	8,808	11.2	10,011	11.3	10,011	11.3	0	0.0
Net tax revenue (cash basis)	8,500	10.8	9,519	10.8	9,519	10.8	0	0.0
Net tax revenue (accrual basis)	8,103	10.3	9,519	10.8	9,519	10.8	0	0.0
Domestic taxes	4,370	5.5	5,224	5.9	5,224	5.9	0	0.0
Taxes on international trade and transactions	4,131	5.2	4,295	4.9	4,295	4.9	0	0.0
o/w exceptional revenue (net payment of oil customs tax arrears)	*398*	*0.5*	*0*	0.0	*0*	*0.0*	0	0.0
Non-tax revenue	308	0.4	492	0.6	492	0.6	0	0.0
Grants	1,890	2.4	2,477	2.8	656	0.7	1,821	2.1
Total expenditure	13,300	16.9	15,830	17.9	13,995	15.8	1,835	2.1
Current expenditure	7,940	10.1	7,293	8.2	8,458	9.6	-1,165	-1.3
Wages and salaries	4,059	5.1	4,091	4.6	4,091	4.6	0	0.0
Interest payments	534	0.7	756	0.9	803	0.9	-47	-0.1
Goods and services	573	0.7	505	0.6	505	0.6	0	0.0
Transfers and subsidies	2,251	2.9	1,555	1.8	2,673	3.0	-1,118	-1.3
o/w JIRAMA and its suppliers	*932*	1.2			*1,256*	1.4		
o/w fuel price subsidy	*100*	0.1			*50*	0.1		
Treasury operations (net)	523	0.7	386	0.4	386	0.4	0	0.0
Capital expenditure	5,359	6.8	8,537	9.7	5,536	6.3	3,001	3.4
Domestic financed	1,263	1.6	2,377	2.7	1,900	2.1	477	0.5
Foreign financed	4,097	5.2	6,160	7.0	3,636	4.1	2,524	2.9
Overall balance (commitment basis)	-2,601	-3.3	-3,342	-3.8	-3,327	-3.8	-15	0.0
Variation of domestic arrears (+ = increase)	-50	-0.1	-300	-0.3	-300	-0.3	0	0.0
Overall balance (cash basis)	-2,651	-3.4	-3,642	-4.1	-3,627	-4.1	-15	0.0
Domestic primary balance[1]	140	0.2	1,098	1.2	456	0.5	641	0.7
excluding exceptional revenue	*-258*	*-0.3*	*1,098*	1.2	*456*	*0.5*	641	0.7
Primary balance	-2,067	-2.6	-2,586	-2.9	-2,524	-2.9	-62	-0.1
excluding exceptional revenue	*-2,464*	*-3.1*	*-2,586*	-2.9	*-2,524*	*-2.9*	-62	-0.1

Sources: Malagasy authorities; and IMF staff estimates and projections.
[1] Primary balance excl. foreign-financed investment and grants.

22. **Transfers to JIRAMA must be properly budgeted and reduced over time**. JIRAMA's financial struggles have costed the budget on average about 1.3 percent of GDP every year since 2019, that is, close to 80 percent of domestic investment spending (Box 1). JIRAMA's recovery is thus a key priority of the program. The recovery plan prepared by the company's new management team with technical assistance from the World Bank is ready and expected to be approved by the Council of Ministers, in early 2025 (**SB, November 2024, reset to May 2025**). It focuses on increasing production through hydroelectricity projects, on reducing losses by improving and extending the transportation and distribution networks, and on raising tariffs to reduce operating losses, which should enable a gradual reduction in government transfers. Following consultations with the private sector in the summer of 2024, an increase in corporate tariffs was already adopted on October 23rd, to be staggered over three years, 20 percent in the first year and 16 percent in the two subsequent years. The second tariff increase should be implemented by end-September 2025 (**proposed SB**). All other parts of the plan, including an increase in residential tariffs as needed, should be swiftly implemented with strong support from the executive branch. The plan to resolve JIRAMA's arrears prepared with support from the World Bank and the consultant CASTALIA should be approved soon. For better transparency and accountability, JIRAMA's financial accounts should be published in a timely manner.

Box 1. JIRAMA's Operational and Financial Troubles[1]

JIRAMA's electricity service is deficient. While only a small share of the population has access to electricity (36 percent), there are recurrent outages affecting electricity consumption (6 hours per day on average in Antananarivo in October 2024).

JIRAMA's production is inefficient as the company produces less than what is generally acceptable, and for a higher cost. JIRAMA's production is mostly based on non-renewable energy sources such as heavy fuel and diesel (54 percent), hydroelectricity (45 percent) and other renewable energy sources (1 percent).[2] In thermal power plants, the availability factor, which is the time over a specific period during which a power plant can operate, is evaluated at around 45 percent, well below the acceptable range of 80 to 90 percent, reflecting mostly a lack of maintenance. Operational costs are high as consumption of fuel per kWh is higher than in other countries, due to a low thermal efficiency and high imported fuel costs. For hydroelectricity, the availability factor is higher, at around 75 percent. The construction of three new hydroelectric powerplants (Ranomafana, Sahofika and Volobe) could help increase capacity while containing costs, in the medium to long term (at least 5 years). Solar projects are under construction (e.g., FINEXPO), and another thermal power plant project is under way.

A large share of the electricity produced is lost during the transmission, distribution, and commercialization phases.

- Transmission losses reach 8.2 percent of JIRAMA's production, which is above the benchmark range of 5 to 7 percent. Measures to reduce transportation losses include improving maintenance as well as extending the transportation network.
- Distribution losses amount to 22.6 percent, higher than the benchmark of 9 to 10 percent, including both technical and non-technical losses. Technical losses can be related to incidents in the network (connection, rotten pillars, etc.) or to transformers (mostly due to overload), while non-technical losses are generally the result of illicit connections. Losses are mostly due to lack of maintenance efforts, and delays in development projects. In 2016, JIRAMA had set a medium-term objective of 12 percent of distribution losses.
- Non-collection losses amount to 11 percent, significantly above the benchmark number of 5 percent. They correspond to electricity sold that remains unpaid and can be linked to illicit behaviors (e.g., refusal to let JIRAMA read the meters) or exemptions.

Tariffs are too low to cover operational costs. The tariff structure for households and businesses was last revised in August 2022, but average tariffs remain far from recovery costs. The average price for electricity was 599 ariary per kWh in 2023 (or around US$13 cents per kWh), while the total cost per kWh is twice as high based on JIRAMA's estimations. Costs include fuel expenses (around 56 percent of total costs of JIRAMA's electricity in 2023) as well as electricity purchases from other suppliers (30 percent).

JIRAMA represents a high fiscal cost for the government and is a major fiscal risk. JIRAMA's annual deficit is partly financed by transfers from the government. In 2023, JIRAMA's net cash flow, which is calculated as total revenue inflows minus total cost outflows, amounted to MGA -1,268 billion or -1.8 percent of GDP, while government's transfers to JIRAMA and selected suppliers reached MGA 895 billion or 1.3 percent of GDP. However, the fiscal cost of JIRAMA exceeds that of annual transfers, as JIRAMA does not pay its taxes, nor its suppliers and in 2022, the government started to issue special T-bills to pay for JIRAMA's fuel requisitions. JIRAMA's debt vis-à-vis the government is estimated at MGA 3,436 billion (4.9 percent of GDP) at end-2023, including 0.9 percent of GDP of tax arrears.

[1] See Selected Issues Paper "JIRAMA and the Electricity Sector"

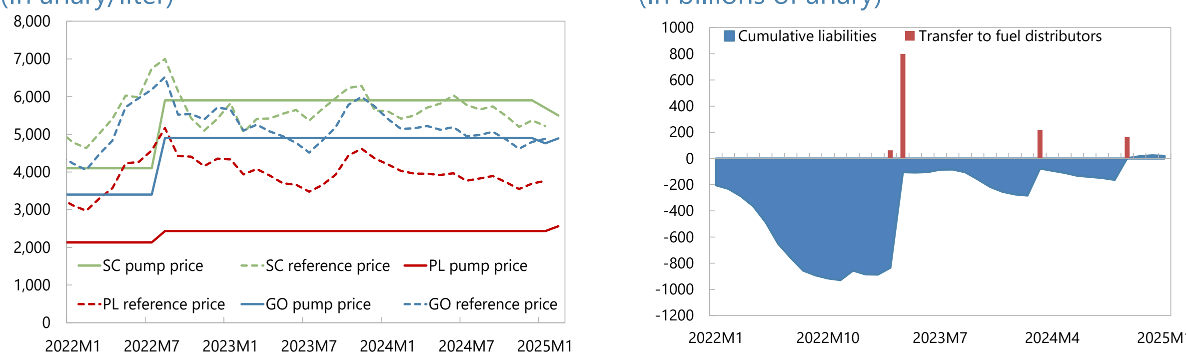
[2] Based on 2021 production numbers.

23. Efforts to contain fiscal risks of other state-owned enterprises (SOEs) should be pursued. Since its takeover of the activities of Air Madagascar and its domestic subsidiary Tsaradia, Madagascar Airlines has been making progress toward operational and financial sustainability through a restructuring of its fleet and workforce and digitalization efforts. The publication of an annual report on all SOEs, including JIRAMA, would help enhance the management of SOE-related fiscal risks.

24. The effective implementation of the automatic fuel price adjustment mechanism started in January 2025. The objective of the mechanism is to contain the fuel price subsidy by adjusting pump prices monthly to reflect changes in market prices. After adjustments in January and February (**prior action**), pump prices should continue to change monthly according to the decree in force (**proposed continuous SB**).[15] The price subsidy should be appropriately budgeted and paid quarterly to fuel distributors. Semi-annual regulations regarding the computation of reference prices and the price adjustment mechanism should be discussed with fuel distributors and published before the beginning of each semester for which they apply. The *arrêté* setting the reference price structure of fuel products for the first half of 2025 was published on January 17, 2025, and the next one for the second half of the year should be published by end-June (**proposed SB, June 2025**).[16,17]

Text Figure 2. Madagascar: Fuel Prices and Government's Liabilities Related to the Price Subsidies

Fuel Prices (In ariary/liter) | **Cumulative Liabilities to Fuel Distributors** (In billions of ariary)



Sources: Office Malagache des Hydrocabures; and IMF staff calculations.

[15] As of end-December 2024, there is no subsidy on gasoline and diesel as administered pump prices are above reference prices. However, a subsidy remains for kerosene (whose price was not adjusted in January 2025) which the new decree for the first half of 2025 envisages to reduce gradually, with a cap on each monthly adjustment of 200 ariary per liter. The non-application in 2024 of the automatic fuel price adjustment mechanism implied a subsidy of MGA 100 billion at end-December; the subsidy would have amounted to MGA 59 billion had the mechanism been applied. This amount remains well below what had been initially projected (MGA 239 billion).

[16] The *arrêtés* for the second half of 2024 and the first half of 2025 kept the reference price structure, which includes distribution costs and margins, unchanged, despite fuel distributors arguing for an upward adjustment to reflect their costs.

[17] Annex IX provides an analysis of the impact of fuel price changes on household welfare in Madagascar.

25. The protracted dispute with fuel distributors continues to pose a risk to the program. Separate agreements with fuel distributors were reached in December 2024, providing for the payment of MGA 299.5 billion in tax and road fund contribution arrears from fuel distributors, in exchange for the payment of MGA 299.5 billion of liabilities to fuel distributors by the government. However, those agreements did not settle all cross liabilities between fuel distributors and the government, and the resumption of the regular payment of oil customs taxes and contributions in 2025 was made contingent on the full removal of the pump price subsidy and the payment of JIRAMA's fuel requisitions.[18] The government plans to continue discussions with distributors toward a full settlement. Fuel distributors must comply with their fiscal and parafiscal obligations, particularly regarding the payment of customs duties and taxes on petroleum products and the contribution to the road fund, while the government should honor its guarantee of past fuel purchase contracts with JIRAMA.

26. Improving budget preparation and execution would enhance the credibility and effectiveness of fiscal policy. Annual budget targets should be set in reference to a medium-term fiscal strategy, considering available financing. Realistic assumptions regarding revenue growth and the expenditure envelope facilitate budget execution and compliance with deficit targets. Starting budget preparation earlier in the year would enhance ownership of fiscal objectives and facilitate a more evidence-based discussion on spending priorities and possible revenue measures, while allowing for more consultations, including with civil society (MEFP ¶33).

27. Better prioritization and management of public investment projects is key to boost spending efficiency. Investment projects should be prioritized based on clear and transparent criteria, considering the need to strengthen resilience to climate change. Projects should account for implementation capacity constraints and be accompanied by appropriate costing including maintenance and operational costs of existing infrastructure. Financing sources should be carefully considered with a view to rely on external grants and concessional financing to the extent possible and avoid undermining debt sustainability.

28. Reinforcing Public Financial Management (PFM) processes is critical to further improve budget execution and traceability. The approval of the budget law by Parliament should be sufficient to start the execution of spending or investment projects, without further authorization by the Council of Ministers. Controls by the Commitment Monitoring Bureau (BSE) should happen only after the commitment phase, be selective, depending on the risks and stakes, and not duplicate existing financial controls by the Ministry of Finance. Annual expenditure commitment plans (PAEM) to be rolled out in all ministries in 2025 will facilitate budget monitoring and cash flow management (**SB, January 2025**). The approval of a new law on cash management by May 2025 should help control arrear accumulation (**SB, May 2025**, MEFP ¶38). A detailed plan to clear past domestic arrears, including VAT credit arrears, should be designed and implemented.

[18] Based on end-December preliminary data, the authorities, including the road fund, still need to collect MGA 462 billion from fuel distributors. They owe MGA 256 billion to fuel distributors.

Authorities' Views

29. The authorities broadly agreed with staff's assessment. They remain committed to increase tax revenues over the medium-term, including by reducing tax expenditures. They argued that tax expenditures related to agriculture should be protected, in line with the PGE priority to support agricultural transformation. They acknowledged that JIRAMA represented a fiscal risk and highlighted their decision to increase electricity tariffs, including a convergence to "normal" tariffs for firms currently benefitting from special provisions. They committed to work on a medium-term fiscal framework in the coming years, starting in 2025. They plan to modify the draft law on cash management to strengthen the link with expenditure commitment plans (PAEM). They welcomed the offer of technical assistance from AFRITAC South to help with the redrafting and meet the SB in time.

B. Strengthen Governance and the Fight Against Corruption

30. The authorities have committed to improve governance, leveraging the ongoing Governance Diagnostic Assessment (GDA). Corruption vulnerabilities accrue from the lack of effective sanctions and limited independence and effectiveness of the judicial system, as well as weak fiscal governance (customs, tax, procurement) and vested interests in the business environment (Annex VII). The GDA will provide a comprehensive assessment of the severity of corruption and of key governance weaknesses in the areas of fiscal governance, the regulatory framework, central bank governance and operations, financial sector oversight, financial integrity, and the rule of law. The authorities have committed to publishing the report, including specific recommendations and a time-bound action plan for implementing reform measures **(proposed SB, September 2025)**.

31. A new anticorruption strategy was adopted by the Council of Ministers in January 2025. Building on the evaluation of the 2015-2025 national anticorruption strategy (SNLCC 2015-2025) conducted with UNDP support, the authorities have organized a series of regional and topical roundtables to prepare a new strategy (SNLCC 2025-2030) which was publicly released on January 31, 2025 **(SB, January 2025)**. Findings from the IMF-supported GDA will feed into subsequent updates of the action plan associated to the strategy, which will create a specific monitoring and evaluation mechanism.

32. Strengthening transparency, financial integrity, and market regulation is crucial to improve accountability and prevent state capture. This includes for example the publication of all public procurement contracts, with information on the ultimate beneficial owner (UBO) of companies being awarded contracts, and of SOEs' financial accounts. The implementation decree of the September 2021 law creating the Malagasy Sovereign Wealth Fund (FSM), whose Director General has still not been appointed, should clarify the objectives, investment strategy, financing, and governance of the Fund, including the submission to Parliament and regular publication of annual reports and financial statements (MEFP ¶52). The Cour des Comptes has a key role to play both in monitoring the regularity and performance of public spending and in contributing to the fight against corruption, and its access to the Ministry of Finance's IT systems needs to be further facilitated. The ongoing GDA will assess progress in these areas and identify a way forward on key topics such as the right to information or the protection of whistleblowers.

33. An update safeguards assessment of the BFM was concluded in December 2024. The assessment found that the central bank has maintained a sound legal framework, and external audit and financial reporting practices continue to be broadly in line with international standards. However, maintaining robust internal audit and risk management functions remains a work in progress. To that end, priority recommendations are aimed at enhancing these areas, including through reinforcing the Audit Committee's oversight. Efforts are needed to continue improving the internal control environment and mitigating the risks associated with purchases of artisanal gold.

34. There has been some progress in the overall anti-money laundering and combating the financing of terrorism (AML/CFT) framework, but its effectiveness should be enhanced. The authorities adopted decree 2024-1352 implementing the revised AML/CFT law on July 3, 2024. Meanwhile, the decree establishing the mechanism for implementing targeted financial sanctions related to terrorism, the financing of terrorism, and the financing of proliferation of weapons of mass destruction is still pending. A new AML/CFT strategy covering 2025-2029 has been prepared to replace the 2022-2026 AML/CFT strategy and is awaiting adoption by the Council of Ministers. The Financial Intelligence Unit (SAMIFIN) and the Ministry of Justice have started to reinforce oversight of designated non-financial businesses and professions, but much remains to be done to implement an effective risk-based supervisory approach. The effective implementation of the beneficiary ownership registry would bolster authorities' AML/CFT effort.

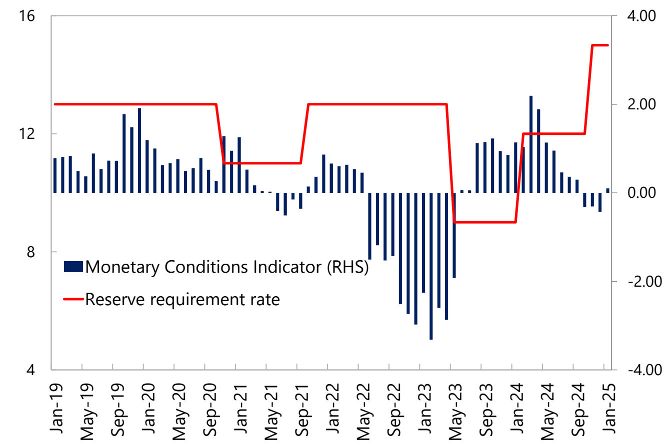
Authorities' Views

35. The authorities stressed their commitment to improve governance. They expect concrete recommendations from the upcoming GDA to reinforce the effectiveness of the fight against corruption. They highlighted government's resource constraint as the main obstacle to increasing the budget and staff devoted to the anticorruption system. The central bank took note of the safeguards assessment recommendations and reiterated its commitment to adhere to established frameworks for gold purchases.

C. Consolidate Monetary and Financial Stability

36. BFM should remain ready to raise its policy rates to keep inflation on a downward path. The monetary conditions index of the central bank computed as a weighted average of the deviation of real interest rates and the real effective exchange rate from their respective equilibrium level, points to a currently tight monetary policy stance appropriate to bring inflation down. The interest rate increase in August 2024 was important to contain price pressures. Real interest rates have been positive for more than a year and combined with a relatively stable broad money growth (M3) at around 11 percent y/y since February 2024, have helped control inflation. In addition, the central bank tightened in November its reserve requirement (Text Figure 3).

Text Figure 3. Madagascar: Monetary Policy Stance
(In percent)



Note: A positive value for of the Monetary Conditions Indicator denotes a tight monetary policy stance.
Sources: BFM, and IMF staff calculations.

37. A flexible exchange rate regime enables to absorb external shocks. Madagascar has a de jure and de facto floating exchange rate, with exchange rate movements observed in both directions. Capital flow management (CFMs) measures, such as FX repatriation and surrender requirements on export proceeds, are still prevalent.[19] The removal of these measures, which should be done in a properly timed and sequenced manner, would enhance the functioning of the FX market. This would require considering external vulnerability risks and progress made with reforms to foster necessary institutional and financial development, including macroprudential reforms, and in line with the IMF's Institutional View on Liberalization and Management of Capital Flows and Integrated Policy Framework. Developing a market for FX forwards would also support the flexible exchange rate regime.

38. Reforms to strengthen the implementation of the new monetary policy framework are needed. In February 2024, BFM transitioned to an interest rate targeting operational framework, which is considered an *evolving monetary policy regime*. The Monetary Policy Consultation Clause (MPCC) supported by the ECF aims to help BFM monitor money growth and keep inflation on a downward path from the current level. BFM should continue to forecast and manage bank liquidity through open market operations to keep the interbank lending rate close to the middle of the interest rate corridor and improve monetary policy transmission. Improved liquidity management could be achieved by regularly publishing liquidity forecasting data and the intended allotment for open market operations. It should also communicate more predictably and transparently about its interest rate policy and liquidity management to enhance credibility and accountability. While coordination between BFM and the Ministry of Finance required more time than expected, the implementation of the decree setting up a single central securities depository (CSD) at BFM, which was adopted on January 29th, 2025 (**SB, December 2024**), will be an important step to improve the effectiveness of BFM's monetary policy operations.

39. Further strengthening of financial stability should accompany the development of credit markets. Continued monitoring of NPL trends, strengthening early intervention frameworks for distressed banks, enhancing credit risk management, and improving loan

[19] Based on the information shared by the authorities and discussions during the mission, staff found no indication of any new exchange restrictions or multiple currency practices.

classification and provisioning standards will be essential for mitigating systemic risks and safeguarding financial stability. The authorities have made significant progress in implementing the recommendations of the 2016 FSAP (Annex III) and updating their prudential regulatory framework with the introduction of new capital regulation, following Basel II and III standards. They have also advanced in the implementation of the 2020 banking law, while making strides on developing a new bank resolution framework as well as a deposit guarantee fund (MEFP ¶60). Further progress is needed, however, to adopt the long-awaited financial stability law **(SB, June 2025)**, which is crucial to address systemic risks and improve the management of financial crises. The ongoing Financial Sector Stability Review will take stock of recent improvements and propose a roadmap for technical assistance covering the next three years. This roadmap will ensure the coordination and appropriate sequencing of capacity building efforts across development partners.

Authorities' Views

40. The authorities broadly agreed with staff's assessment. They clarified that the relative stability of the exchange rate over August-November 2024 was due to factors other than FX interventions. An agreement has been reached between the government and BFM to set up a single CSD for public debt securities, and work has already started at BFM to have it operational in 2025. The inclusion of private debt securities is envisaged as a next step. A draft final stability law is currently under review by the High Constitutional Court at the request of the Prime Minister's office.

D. Foster Stronger and More Inclusive Growth

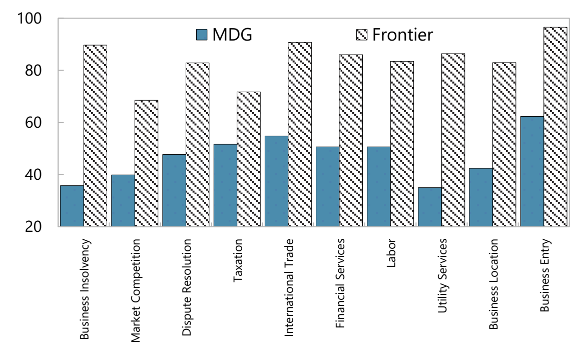
41. Stronger social safety nets are needed to support resilience. The 2025 budget ensures adequate levels of social spending given available revenue, but more needs to be done to improve education, health, and the social safety net coverage. The authorities have continued the expansion of the social registry and reached the target coverage of 600,000 households in December 2024 (**SB, December 2024**). They created a dedicated directorate within the Ministry of Population and Social affairs and planned to open 14 one-stop social windows (*guichets sociaux uniques*) in regions by end-December to facilitate households' registration. They have committed to cover 2 million households by the end of 2025 (**proposed SB, December 2025**). The expansion of the single social registry with harmonized and transparent eligibility criteria is key for proper targeting of social assistance. The operationalization of food banks will help provide support and reduce food insecurity during the lean season (**SB, October 2024**). Other significant social initiatives include a pilot program to support the rural resettlement of homeless urban households.

42. Raising outcomes in education will require allocating more resources to this sector. Public spending on education amounts to 3.1 percent of GDP, below the SSA average of 3.5 in 2022, and an estimated 8-percentage point of GDP rise in education spending is needed to help reach the Sustainable Development Goal on universal education by 2030.[20] Investing in teacher training would also significantly raise education outcomes and economic growth.[21]

43. Public spending aimed at enhancing the productivity of local rice production would help bolster food security. Local rice productivity in Madagascar has stagnated since the late 2000s at around 2.75 tons per hectare, far below FAO country-level estimates of maximum potential yield of 11 tons per hectare. While local rice production increased by 39 percent from 2013 to 2023, productivity remains low, due to factors including small plot sizes, lack of inputs such as fertilizer, a low level of mechanization and irrigation, and unpredictable weather patterns.[22] The authorities' efforts to address production inefficiencies are therefore welcome.

44. Digitalization can help accelerate financial inclusion and facilitate business creation. Mobile money accounts have reached a larger share of the population than traditional bank accounts, with 19 percent of the population aged 15 and above having a mobile money account vs. 14 percent having an account at a financial institution.[23] As part of the government's updated National Financial Inclusion Strategy, additional licenses have been provided to e-Money providers and a subsidiary of the postal service has been licensed to provide financial services, including mobile payment services. The operationalization of a national switch scheduled in 2025Q2 should ensure the interoperability between digital payment systems (MEFP ¶62). The recent liberalization of the telecommunication sector and increase in competition should help reduce internet and mobile access prices. Further efforts to deploy digital platforms for business creation and building permits would also support private sector initiatives.

Text Figure 4. Madagascar: Business Environment Compared to Global Frontier
(Scores 1 -100)



Note: Scores range between 1-100, with the highest score reflecting the best business and investment climate.
Sources: World Bank Business Ready (B-READY) Report 2024.

45. The legal business environment should be strengthened. According to [the World Bank Business Ready](#) report, Madagascar scores lowest in utility services, business insolvency, and business location,

[20] See Selected Issues Paper on "Improving Education Quality – The Returns to Teacher Training in Madagascar". Specifically, the 8-percentage point increase in education spending is estimated to cover full access to two years of pre-primary education, five years of primary education, six years of secondary education, and two years of tertiary education. The estimated public spending gap on education is relative to the level of public expenditure in 2020 of 4.4 percent of GDP.

[21] Only 15 percent of primary school teachers in Madagascar are qualified. Staff estimates suggest that doubling the share of qualified teachers in primary school would raise the Learning-Adjusted Years of Schooling (LAYS) by about 0.4 years, which would in turn boost real per capita GDP growth by 2.5 to 3.1 percentage points in Madagascar.

[22] See Selected Issues Paper on "Rice Production in Madagascar – Challenges to Self-Sufficiency."

[23] Based on 2022 Global Findex data.

reflecting respectively weaknesses in governance, transparency of service delivery mechanisms and the reliability of utility services such as electricity, a weak insolvency resolution mechanism and the poor quality of public services and lack of transparency of the property transfer process (Text Figure 4). It is key to ensure legal stability and predictability, to avoid retroactive regulations, to provide effective protection of property rights and contracts enforcement, to ensure a level-playing field, and to create effective grievance redress mechanisms. The expansion of the vanilla sector requires free and fair competition; reducing VAT credits arrears is also crucial.

Authorities' Views

46. The authorities emphasized that the development of human capital and economic transformation were two of their PGE's priorities. They are confident in their ability to expand the social registry further and view it as a crucial element of their strategy to strengthen social safety nets. They remain committed to operationalize more than ten food banks as soon as possible. The authorities shared the view that many teachers in Madagascar are unqualified, which weighs heavily on education outcomes in Madagascar. They also agreed that improving the recruitment and training of primary school teachers is key and are committed to working on this issue, with the support of the World Bank and UNICEF. The authorities also concurred with staff's assessment of the reasons for low productivity in the rice sector. They count on the adoption of high-quality rice seeds, as well as on improvements in property rights and land use management to boost rice productivity and aim to achieve rice self-sufficiency by 2027.

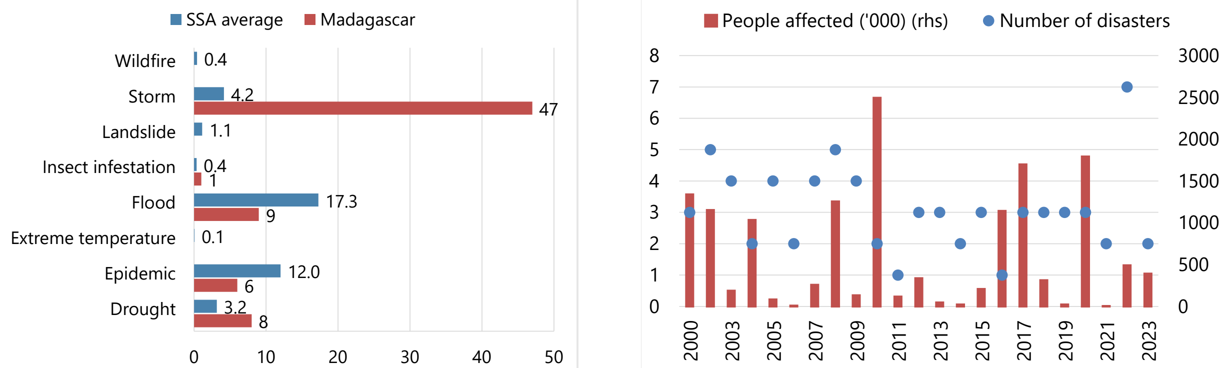
E. Bolster Resilience to Climate Shocks

47. Madagascar is prone to climate-related disasters due to its geographical location and topography. Droughts are more frequent in the south-west, whereas cyclones predominate in the east and parts of the north, and floods in the east and central regions (IMF CMAP, 2022). Storms, including cyclones, are by far the most frequent disasters and have affected Madagascar ten times more than the average sub-Saharan African (SSA) country since 2000 (Text Figure 5).

Text Figure 5. Madagascar: Climate-Related Disasters, 2000–2023

Number of Climate-Related Disasters by Type, 2000–23

Number Of Climate-Related Disasters by Year



Sources: EM-DAT database; and IMF staff calculations.
Note: Warmer temperatures and larger rainfalls are deemed partly responsible for the propagation of epidemics and insect infestations.

48. Building resilience to climate shocks should remain a key priority of the government.[24] With a high awareness of climate-related disasters and of its unique natural capital linked to biodiversity, Madagascar has enshrined in the Preamble of its 2010 Constitution the need to preserve the exceptional wealth of fauna and flora for the future generations. Climate challenges and environmental protection are also an important aspect of the PGE. Madagascar's Country Climate and Development Report, published on October 14, identifies priority investments and reforms (Box 2). Adaptation policies, especially for the protection and use of the water resource and for agriculture, need to be stepped up.

49. Madagascar's forests and biodiversity should be protected (MEFP ¶88-90). Deforestation has negative consequences in terms of water resources, agriculture, and resilience to natural disasters. According to the World Bank, forest coverage has declined from 29 percent to 21 percent between 2000 and 2020. Key drivers of deforestation include land clearing for subsistence agriculture ("slash and burn") or cash crops, firewood and charcoal use, logging, artisanal mining, or road construction. Shortfalls in forest governance, attested by the importance of illicit trade in precious woods, are also a significant factor.[25] Deforestation results in high erosion rates, increased flood risks and reduced water yield for agricultural or household usage. In this context, the new decree on environmental impact assessments (**RM2**) provides a framework to select investment projects, taking into consideration their environmental impact. This framework should be applied to the highway project between Antananarivo and Toamasina given its potential impact on biodiversity and forests.

[24] See Annex V in IMF Country Report No. 24/205.

[25] See notably Waeber *et alii*, 2019, "Uplisting of Malagasy precious woods critical for their survival," *Biological Conservation*.

Box 2. Main Findings from the 2024 Madagascar CCDR

The Madagascar Country Climate and Development Report (CCDR) was prepared by a World Bank Group team in 2023 and published in October 2024.

The report underscores the urgent need for Madagascar to enhance its resilience against climate change to achieve its developmental goals. It identifies immediate interventions to implement, several of which are reflected in the RSF-supported reform measures (RM). The CCDR recommendations are grouped into three priority areas:

1. Climate-Resilient Sector Pathways

- Invest in climate-smart agricultural practices that enhance productivity while reducing vulnerability to climate shocks. This includes improving irrigation systems, promoting crop diversification, and supporting agroecological practices.
- Implement sustainable land and water management practices to protect ecosystems and biodiversity (RM 5), increase reforestation efforts (RM 10), and improve coastal and blue economy investments.
- Expand access to renewable energy sources to reduce dependency on fossil fuels and enhance energy security, by developing solar, wind, and hydropower projects (RM 9).
- Upgrade and maintain critical infrastructure (such as roads, bridges, and water supply systems) to withstand climate impacts, ensuring they are designed with resilience in mind.
- Improve climate risk management: Strengthen disaster preparedness and response mechanisms to effectively manage climate-related risks, including the establishment of early warning systems and disaster response frameworks (RM 6).
- Operationalize the social registry with climate data and increase support to households in case of shocks.

2. Institutional and Policy Readiness to Face Climate Crisis

- Champion political ownership of climate risks for policy planning (RM 1)
- Improve climate mainstreaming in public investment management (RM 2 and 3).

3. Climate Finance and private Sector Mobilization

- Design a clear national strategy for climate finance mobilization to fund the National Adaptation Plan and NDC2 implementation (RM 11 and 12).
- Address roadblocks to the development of financial markets.

50. The authorities are making good progress on the implementation of RSF reform measures. The Ministry of Environment is leading the work to revise decree 2021-1113 to improve the participation of the private sector and extend the scope of the REDD+ mechanism to reforestation schemes (**RM10, end-April 2025**). A simulation exercise has been conducted in September 2024 by institutions in charge of disaster risk management and helped identify measures that could contribute towards the simplification of PFM processes for disaster-related expenditures and the operationalization of the National Contingency Fund (FNC) (**RM6, end-April 2025**). A first draft of the new Water Code has been produced with support from the European Union and is being discussed with various stakeholders (**RM5, end-October 2025**). Work is ongoing on climate budget tagging with the support of the IMF PFM resident advisor

(RM4, end-October 2025). Legal texts for the operationalization of the FNED (*Fonds National de l'Énergie Durable*) are expected to be adopted by April 2025, with the installation of 11.5 MW in renewable energy production capacity by April 2026 **(RM9)**. The decree implementing the automatic fuel price adjustment mechanism in 2025H1 provides for a gradual reduction of the subsidy for kerosene (**RM7, end-April 2026**).

51. The IMF-World Bank enhanced cooperation framework for climate action is helping to mobilize support from other partners (Box 3). The World Bank was instrumental in supporting the preparation of the decree on environmental impact assessments and ensuring compliance with international best practice. A climate roundtable organized by the authorities in collaboration with the IMF and the World Bank in October launched the preparation of a climate finance strategy (**RM 11, October 2025**)[26]. The roundtable convened development partners and the private sector to support the implementation of Madagascar's climate targets, strengthen the business environment for green investment, and explore opportunities for crowding in additional public and private sector financing. Participants discussed the creation of a project preparation facility which would help build pipeline of bankable adaptation projects in and agreed to explore financing options for distributed renewal energy to increase access to electricity through private sector finance mini (and micro) grids, solar home systems and reduced deforestation through clean cooking, as well as the use of innovative market-based instruments with ecosystem co-benefits such as an outcome-based species bonds (lemur bonds).[27]

Box 3. Enhanced Cooperation Framework for Climate Action

Madagascar is the first country to benefit from the IMF-World Bank Enhanced Cooperation Framework for Climate Action. The Framework solidifies a long-standing partnership between the IMF and the World Bank and aims to coordinate efforts to support Madagascar's resilience in the face of climate change and the design and implementation of the authorities' climate actions, bringing together development partners, the private sector and civil society.

Staff were closely associated with the preparation of the World Bank's CCDR which informed many reform measures supported by the RSF. Staff from both institutions have joined meetings during IMF and World Bank missions on topics of common interest or expertise (e.g., domestic revenue mobilization, debt management, energy sector reform, social protection, etc.) and efforts are made to properly sequence and complement reforms supported by IMF and World Bank's operations. In the area of green investment promotion for example, the RSF-supported arrangement focuses on improving the regulatory framework for public investment management (RM 2 and 3) while the World Bank's Development Policy Operation supports the implementation of the mining code to address social and environmental impacts. In the energy sector, the World Bank supports the reduction of electricity production costs and the development of renewable energy production, while the RSF program will help to operationalize a dedicated financing vehicle to promote clean energy projects including in rural areas (RM 9).

[26] The reform entails the adoption of an inter-ministerial decree on a climate finance mobilization strategy that prioritizes key investment areas as stipulated in national framework documents, with a tentative budget, options for innovative blended financing mechanisms, and a timeline for implementation.

[27] See announcement of the launch of a country platform for climate finance through international partnership: https://www.imf.org/en/News/Articles/2024/11/14/pr-24420-madagascar-launches-country-platform-for-clim-fin-through-international-partnership

Box 3. Enhanced Cooperation Framework for Climate Action (concluded)

IMF and World Bank staff also leveraged the Framework to prioritize the provision of capacity development needed for the authorities to implement e.g., the first RSF-supported RMs on the update of the decree on environmental assessments (RM 2).

The October 2024 climate roundtable, chaired by IMF Deputy Managing Director Bo Li and World Bank's Energy Practice Manager Erik Magnus Fernstrom, demonstrated the strong cooperation between the IMF and the World Bank by exploring opportunities for crowding in public and private financing to support Madagascar's investment priorities and kickstarting the process for preparing a climate finance mobilization strategy (RM 11 due in October 2025).

Authorities' Views

52. The authorities are well aware of Madagascar's high vulnerability to climate shocks and of its fiscal implications. They emphasized that strengthening resilience was a key objective of the PGE. They reiterated their commitment to the implementation of RSF-supported reform measures and stressed their importance, especially in terms of adaptation to climate change.

OTHER PROGRAM ISSUES

53. The authorities are requesting a waiver for the non-observance of the performance criteria setting a floor for the primary balance at end-June 2024. Staff support this request based on the temporary nature of the breach (¶7 and 9). Staff assess that despite the non-observance of this QPC, the program goals remain achievable under prudent fiscal management.

54. In line with program objectives, new program targets and structural benchmarks are proposed for 2025. New program targets are proposed for March, June, September, and December 2025, in line with 2025 projections. One new continuous SB is proposed to ensure the continuous application of the automatic fuel price adjustment mechanism with monthly price adjustments consistent with the text of the decree applicable for 2025H1. Five new SBs are proposed for June, September and December 2025 on (i) publishing regulations regarding the computation of fuel reference prices and the fuel price adjustment mechanism before the beginning of 2025H2, (ii) preparing with Fund staff support and publishing a comprehensive governance diagnostic, including specific recommendations and a time-bound action plan for implementing measures, (iii) adopting objectives and resources contracts between the Ministry of Finance and the Directorate General of Tax Administration (DGI), (iv) increasing the coverage of the social registry to 2 million households, and (v) increasing corporate electricity tariffs as approved by the Council of Ministers. The SB on the adoption of JIRAMA's recovery plan by the Council of Ministers was reset to May 2025.

55. The updated capacity development strategy will support the implementation of reforms (Annex VI). Proposed priorities are fully aligned and integrated with program objectives. On tax policy, the Fund is supporting efforts to reform excise taxation and streamline tax expenditures. On revenue administration, assistance is scheduled in the areas of international taxation, implementation of the new IT system (SAFI), and customs modernization (¶17-18). On PFM, experts from the regional center AFRITAC South are advising the authorities on the cash management law. Other support is provided to BFM on the Forecasting and Policy Analysis System (FPAS) and communication, and for a Financial Sector Stability Review (FSSR).

56. Staff will continue to work closely with the authorities and the World Bank to contain program implementation risks. In case of liquidity shortages arising e.g., from the non-payment of oil customs taxes or delayed budget support from international partners, the authorities would consider spending reallocations or reductions to contain the accumulation of new domestic arrears. The World Bank is helping with the preparation of JIRAMA's recovery plan and the design of cash transfer schemes to support the most vulnerable households and mitigate the potential impact of program reforms such as the implementation of an automatic fuel pricing mechanism.

57. The program remains fully financed with firm commitments for the next 12 months and good prospects for financing thereafter.[28] Projected external financing sources are sufficient to satisfy external financing requirements until 2027. The program envisages that the first review and subsequent two ECF disbursements would be directed to the budget.

58. The RSF disbursements will increase fiscal space and strengthen the country's ability to face future climate-related shocks. Public investment priorities include expanding Madagascar's renewable electricity production capacity and building resilient infrastructure. Staff are coordinating closely with the World Bank to advise the authorities on the environmental risks of some projects. The RSF disbursements will also boost gross official reserves, which are expected to reach 6.1 months of import by 2027.

59. The capacity to repay (CtR) the Fund remains adequate but is subject to significant risks. Annual repayments are expected to peak in 2026 and reach 0.8 percent of GDP, 6.5 percent of government revenue and 3.5 percent of exports. Outstanding credit is expected to peak in 2026 at 360.6 percent of quota, 5.8 percent of GDP or 48.0 percent of government revenue, before declining thereafter. Adherence to program targets and the programs' ability to catalyze donor support would help alleviate downside risks during peak years, including risks related to fiscal slippages or climate vulnerabilities (¶10).[29]

60. Data provision has some shortcomings but is broadly adequate for surveillance (Annex V). Shortcomings relate to timeliness and coverage of GDP data, which can lead to delayed data revisions. There is also no decomposition of GDP on the demand side, which

[28] Other financing in 2025 include budget support from other development partners, including the AfDB. The World Bank approved in 2023 the first of a series of three Development Policy Operations, which resulted in the disbursement of USD 100 million in July 2023.

[29] The moderately higher burden sharing (part of the gross financing gap covered by IMF financing – 45.7 percent on average over 2024-27) compared to program approval (41.6 percent) reflects lower-than-expected budget support in 2024, part of which is expected to materialize in 2025 and 2026.

complicates the assessment of economic developments related to aggregate consumption and investment. Technical assistance is ongoing to support the authorities on those issues.[30]

STAFF APPRAISAL

61. After stabilizing at 4.2 percent, Madagascar's growth is expected to converge to 5 percent in the medium-term, with downside risks related to development challenges and adverse climate shocks. The economic rebound expected after the end-2023 presidential elections did not materialize, while food and energy inflation remain stubborn. While growth is projected to rebound in 2025 to 4.6 percent before converging to its medium-term potential of 5 percent, future growth prospects may be dampened by deteriorating road and electricity infrastructure, as well as adverse climate shocks. Spikes in food and energy prices due to worsening geopolitical tensions could further cloud the economic outlook.

62. Implementation of the ECF and RSF-supported programs has been mixed, stressing the need for continuous strong ownership. One out of four QPCs was missed at end-June 2024, mostly due to the disbursement of a loan from 2023 by the government to JIRAMA. M3 growth was within the bands of the Monetary Policy Consultation Clause (MPCC). Despite the delayed application of the monthly automatic fuel price adjustment mechanism, the authorities have made progress in the implementation of structural reforms, with three out of six structural benchmarks met. The RSF-supported reform measures are being implemented broadly according to schedule. Continuous strong ownership is critical to support program implementation.

63. The 2025 budget is in line with program objectives agreed in June 2024. In a tense social environment fueled by electricity and water shortages, the primary fiscal deficit target for 2025 was maintained at 2.9 percent of GDP. The planned increase in tax revenue amounts to 0.5 percentage points of GDP, consistent with the authorities' goal to boost domestic revenue. In case revenue measures do not generate the expected yield, contingency measures should be found to either increase revenues or reduce expenditures accordingly.

64. Creating fiscal space for investment and social spending, however, requires raising additional government revenue. Revenue mobilization needs to be supported by a comprehensive tax policy and revenue administration strategy. It includes the ongoing elimination of costly tax exemptions, a comprehensive excise tax reform, and a revision of personal income taxation towards more progressivity, accompanied by reforms of the tax and customs administrations, including to improve tax audit transparency and the appeal process and expedite VAT credit refunds.

65. It is crucial to contain fiscal risks from administered fuel prices and loss-making SOEs, notably JIRAMA. The implementation of an automatic fuel price adjustment mechanism

[30] A total of half a million USD is estimated to have been spent on CD relating to statistics in Madagascar over the past 3 financial years (Annex VI), with nearly half of this amount going to CD on national accounts. Furthermore, at least 97,000 USD of CD spending on national accounts statistics is expected over the next two financial years.

will help contain the subsidy resulting from the initial gap between the pump and reference prices. Resolving the dispute with fuel distributors and settling cross-liabilities require clearing all arrears, including unpaid contributions to the road fund, and should allow the resumption of timely oil customs tax payments. The implementation of JIRAMA's recovery plan prepared by the company's new management team should enable a gradual reduction in government transfers, creating fiscal space for other transfers, including social ones.

66. Reinforcing PFM processes is critical to improve budget execution and traceability. The practice of commitment authorizations by the Council of Ministers after the approval of the budget contributes to detrimental execution delays and should be discontinued. The generalization of spending commitment plans to all ministries, preparation of a new cash flow management law, and improvement of cash flow projections will facilitate budget monitoring and cash flow management. The introduction of commitment appropriations to better monitor multi-year investment projects and a more structured process for public investment project evaluation, selection, and budgeting will improve the budget medium-term focus. Staff recommend that the authorities consider formally developing a medium-term fiscal strategy anchored on a debt target consistent with Madagascar's debt-servicing capacity to strengthen fiscal sustainability.

67. More transparency is a prerequisite for better governance. The authorities should improve the collection and publication of UBO information for new public procurement contracts. Efforts to publish detailed and updated financial information on SOEs and to clarify the functioning and governance of the Malagasy Sovereign Wealth Fund (FSM) should continue. Facilitating public access to information through a Freedom of Information Act would allow a better oversight of public policies and the administration. Whistleblowers should be protected.

68. The existing anti-corruption framework needs to be effectively and fully implemented. The implementation of the new anti-corruption strategy for 2025–2030 published on January 31, 2025, should be regularly monitored and evaluated. More work is needed to enforce the AML/CFT framework. Internal controls in the customs and tax administrations, the enforcement of asset declaration requirements and the dynamic analysis of declarations, and illicit asset recovery should be strengthened. The Cour des Comptes' oversight should be further facilitated.

69. BFM should stand ready to raise its policy rates to keep inflation on a downward path. Credit growth has been slowly recovering whereas real rates have increased. BFM should continue to manage liquidity through open market operations and communicate more predictably and transparently about monetary policy and liquidity management to enhance credibility and accountability. Maintaining a flexible exchange rate regime remains the best way to absorb external shocks. Further development of the interbank market and strengthening of the interest rate channel of monetary policy will enhance the functioning of the new monetary policy operational framework. Safeguarding financial stability is key for the development of private credit markets.

70. Investing in human capital is crucial to meet Madagascar's substantial development needs. Social spending should be scaled up to improve education, health, and the social safety net coverage. Better planning, execution, and monitoring will gradually enhance the efficiency of social spending. The creation and operationalization of food banks will help reduce food insecurity during lean seasons and could support domestic food production. The expansion of the single social registry with harmonized and transparent eligibility criteria is key for proper targeting of social assistance. Digitalization can help accelerate financial inclusion and the development of social protection programs.

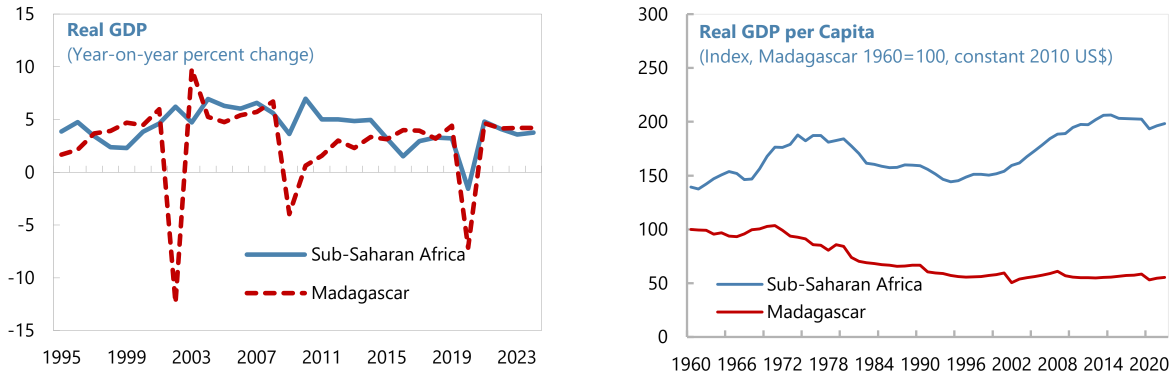
71. The business environment would benefit from a more predictable legal framework, the effective application of existing laws, and a better protection of property rights. Madagascar needs to strengthen legal stability and predictability, avoid retroactive regulations, effectively protect property rights, enforce contracts, ensure a level-playing field, and create effective grievance redress mechanisms.

72. Developing climate change sensitive policies would help to build resilience to climate shocks. With the support from the Resilience and Sustainability Facility and the World Bank Group-IMF Enhanced Cooperation Framework for Climate Action, Madagascar should reinforce its emergency response capacity, increase agricultural productivity, improve infrastructure, and develop social safety nets. Efforts are needed to ensure full consistency of new investment projects with the authorities' goals to protect biodiversity and limit deforestation. Madagascar should pursue the elaboration of a national climate finance mobilization strategy to strengthen its position as an attractive destination for climate-related investments.

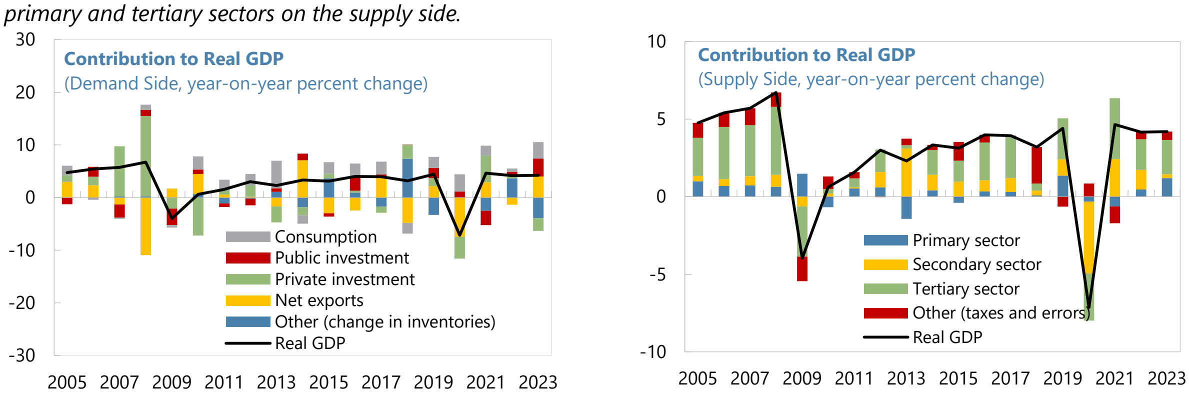
73. Based on Madagascar's performance and commitments under the program, staff support the completion of the first reviews under the ECF and RSF arrangements, the completion of the financing assurances review, and the authorities' request for waiver of non-observance of performance criteria. The attached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

Figure 1. Madagascar: Real Sector Developments

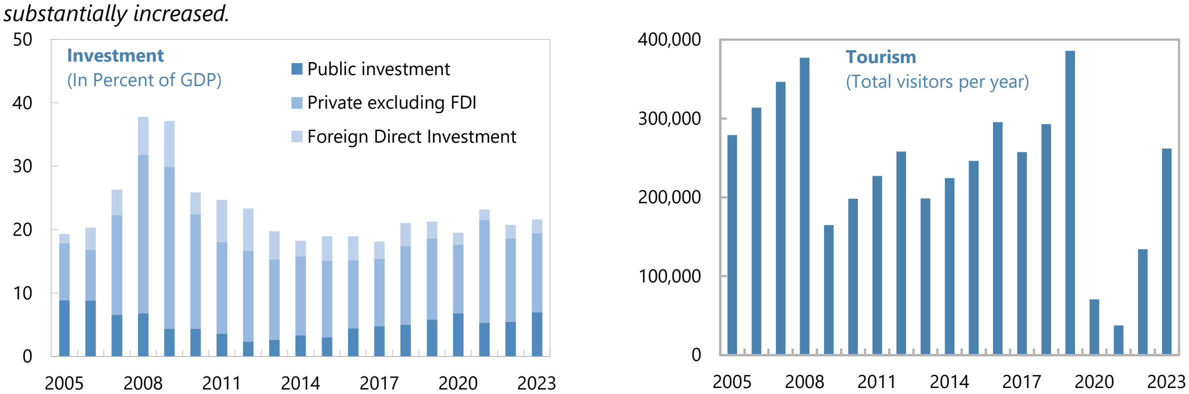
Growth exceeded the SSA average at 4.2 percent in 2023, even as real GDP per capita trailed.



Economic activity has remained stable in 2023, mainly driven by net exports and investment on the demand side, and the primary and tertiary sectors on the supply side.



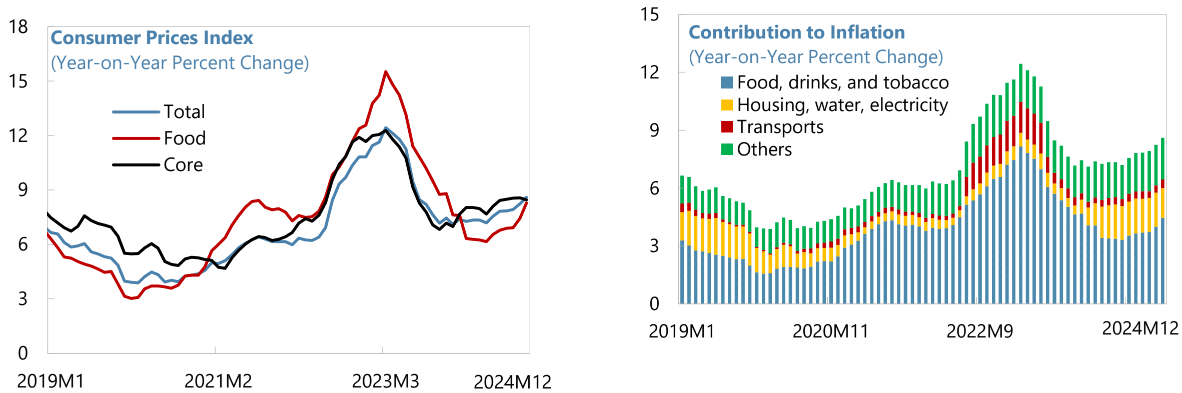
Despite the uncertainty surrounding the presidential elections, FDI inflows have continued, and tourist arrivals have substantially increased.



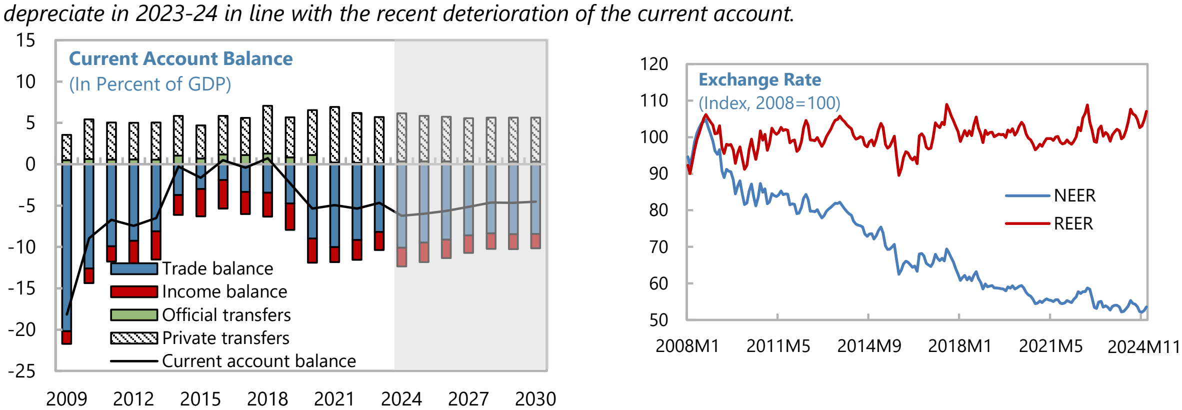
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 2. Madagascar: Inflation and External Developments

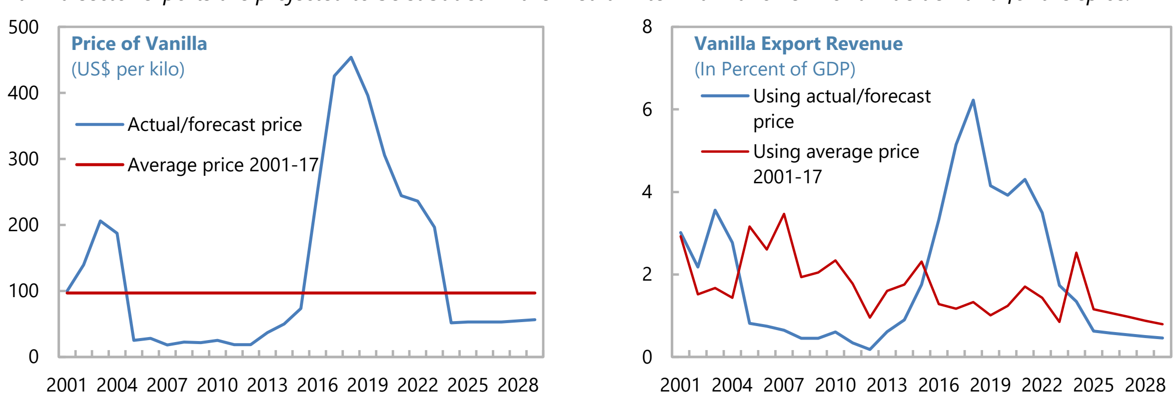
Inflation has persisted since the first quarter of 2024, driven by stubborn food and energy prices.



The current account deficit is projected to stabilize around 5 percent of GDP. The nominal exchange rate has continued to depreciate in 2023-24 in line with the recent deterioration of the current account.



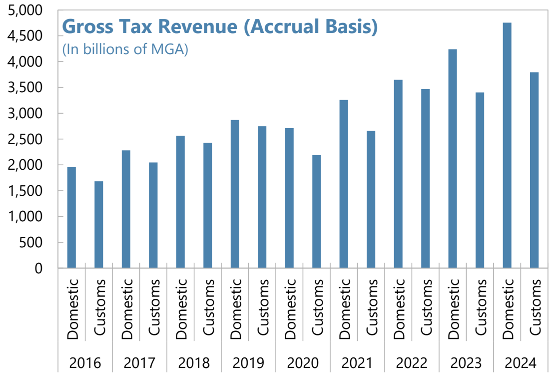
Vanilla sector exports are projected to be subdued in the medium-term amid lower worldwide demand for the spice.

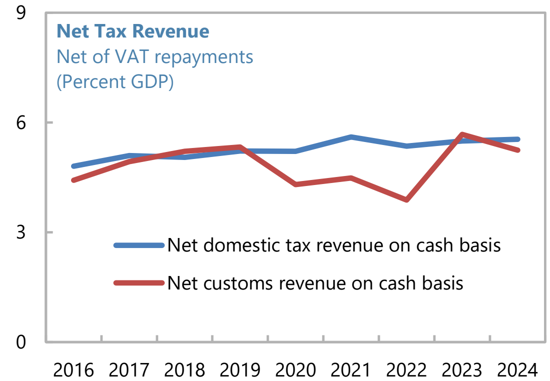


Sources: Malagasy Authorities; and IMF staff estimates.

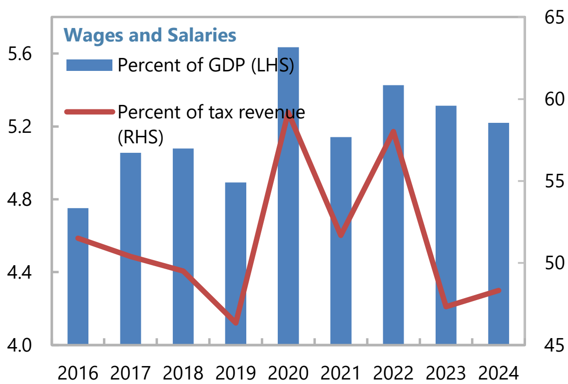
Figure 3. Madagascar: Government Revenue and Spending

Effectively collected customs revenue were negatively affected by the trade slowdown during the pandemic and dispute with oil distributors in 2021 and 2022.

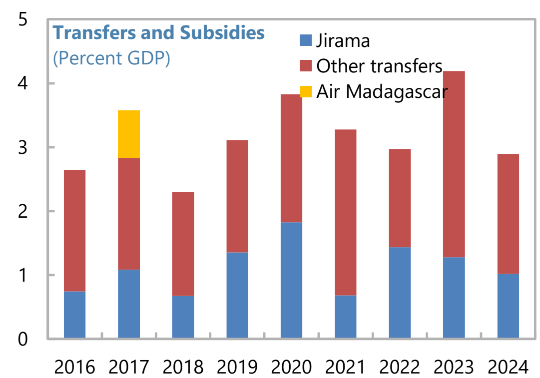




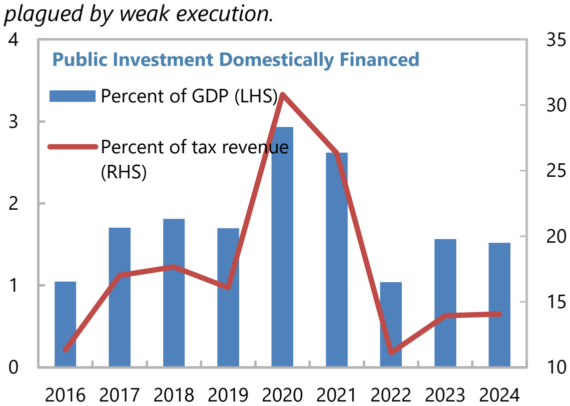
The wage bill has remained between 45 and 60 percent of net tax revenue since 2020.



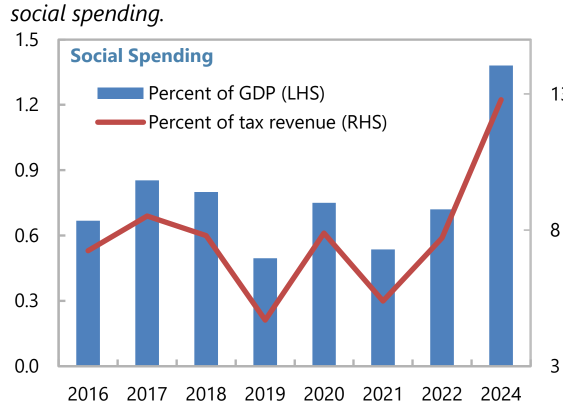
Transfers to oil distributors (included in other transfers) drove the 2023 increase in transfers.



Domestically financed public investment continues to be plagued by weak execution.



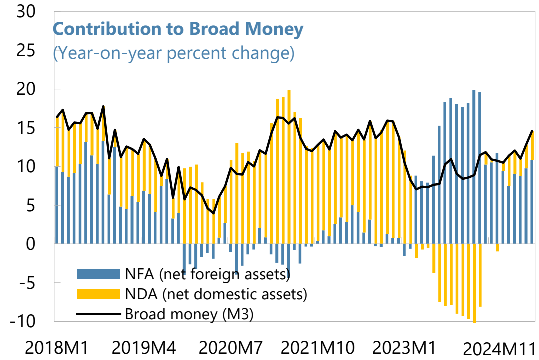
A growing share of tax revenue has been allocated to social spending.

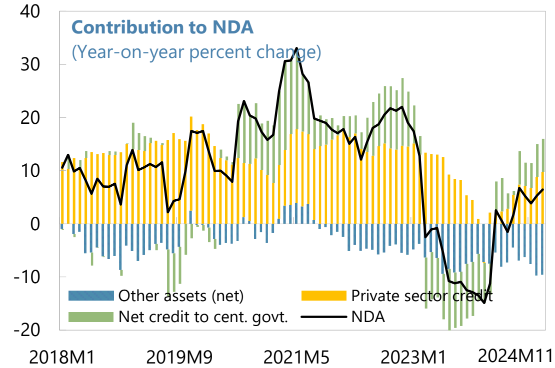


Sources: Malagasy Authorities; and IMF staff estimates.

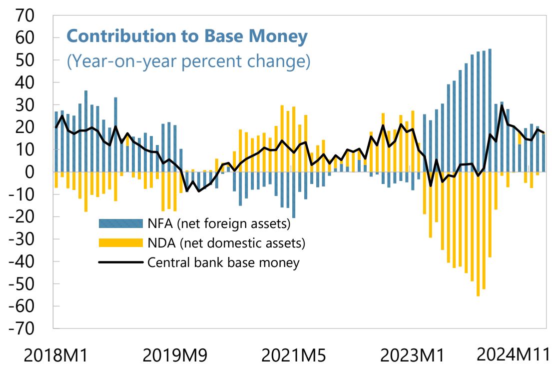
Figure 4. Madagascar: Monetary Developments

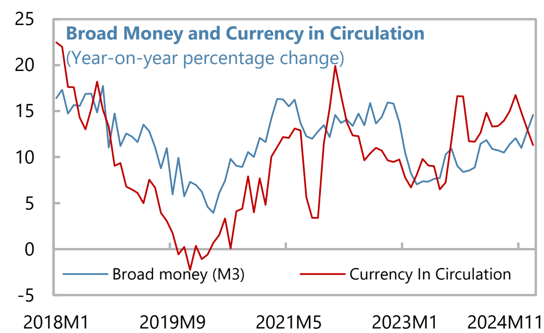
In 2023, broad money growth was driven by the increase in NFAs, while net credit to the government has declined following the cession of the 2021 SDR allocation to the Treasury (leading to an increase in government's deposits).



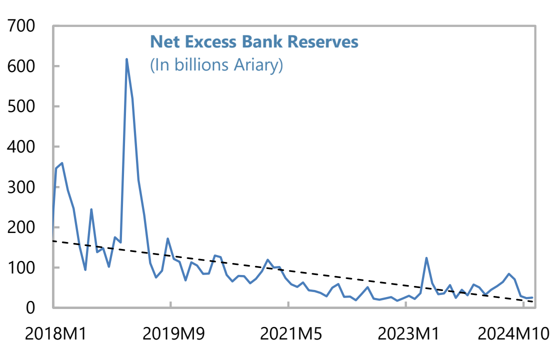


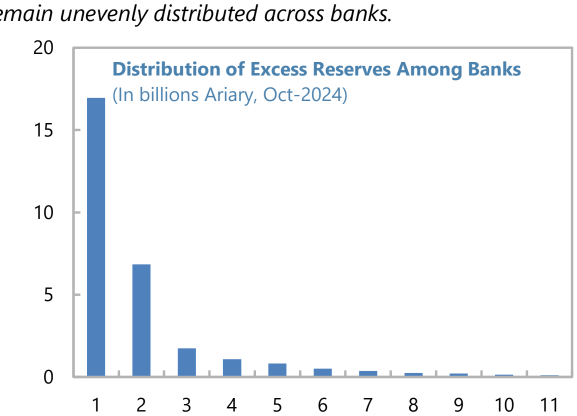
Base money growth has slowed following the tightening of monetary policy.





Bank excess reserves have stopped declining in 2023-24 but remain unevenly distributed across banks.

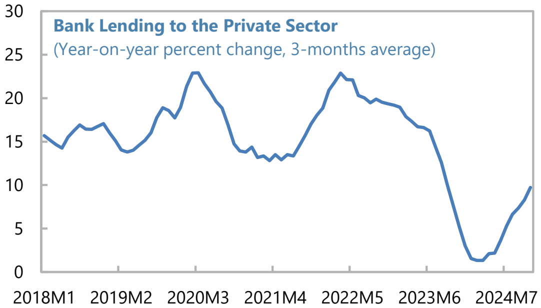




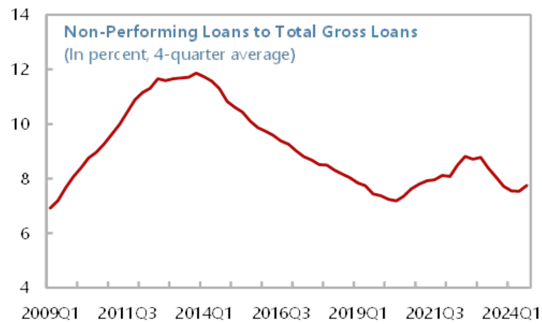
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 5. Madagascar: Financial Sector Developments

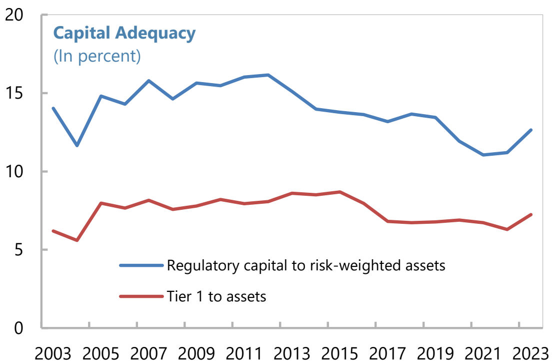
Credit growth has sharply dropped toward the end of 2023....



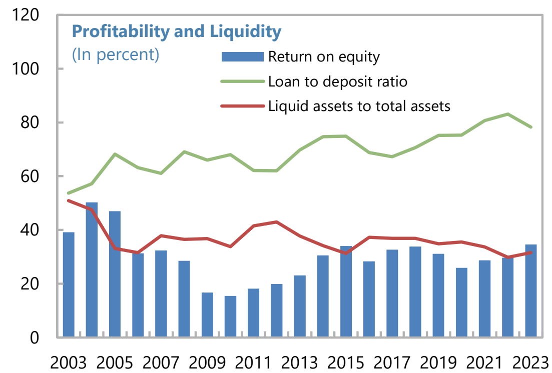
...with the quality of assets further improving as NPLs continue to decline.



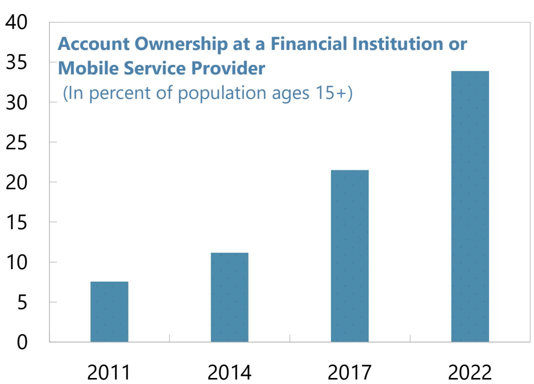
Overall, the banking system remains adequately capitalized...



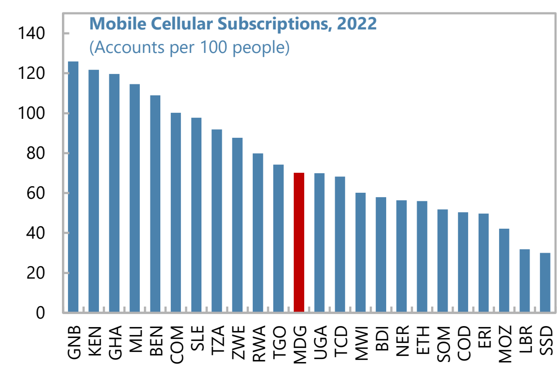
...and continues to remain profitable and liquid despite the business slowdown.



Mobile banking activities continue to grow at a steady pace....



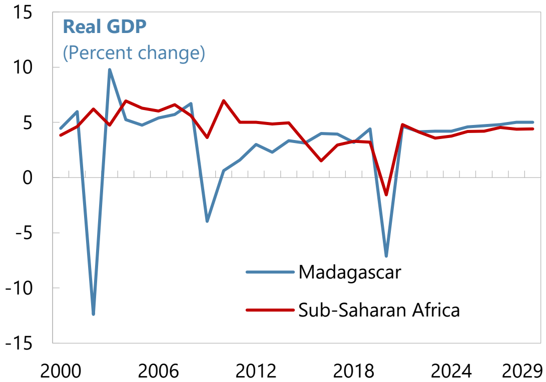
...although the country continues to lag comparable countries.



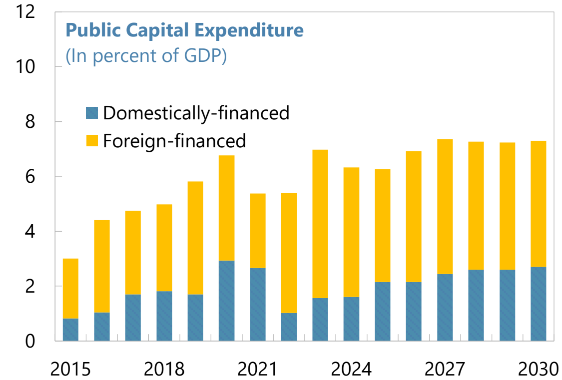
Sources: Malagasy Authorities; IMF Financial Access Survey; World Bank; and IMF staff estimates.

Figure 6. Madagascar: Medium-Term Macroeconomic Prospects

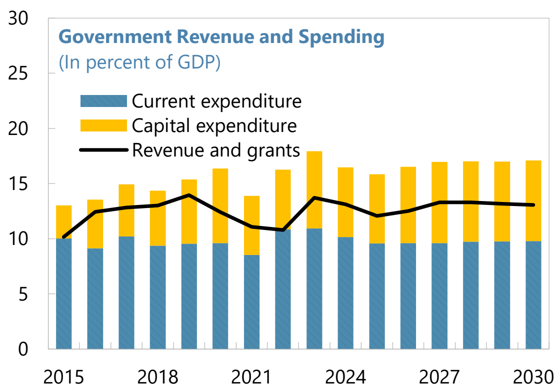
Medium-term potential growth is estimated around 5 percent...



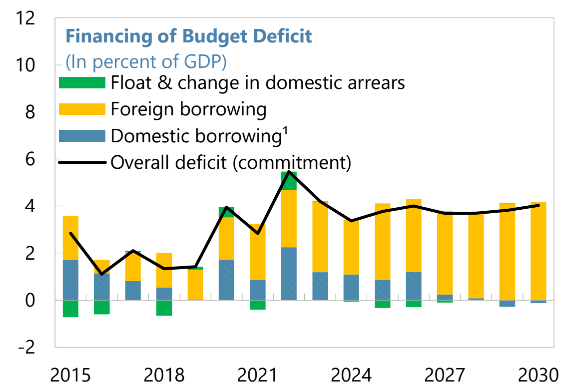
... supported by an increase in public capital expenditure.



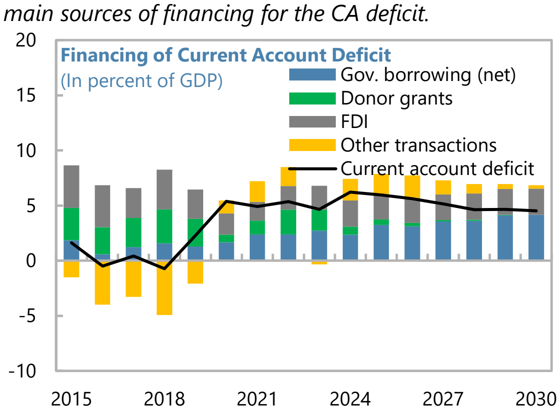
The budget deficit is expected to improve in the medium-term...



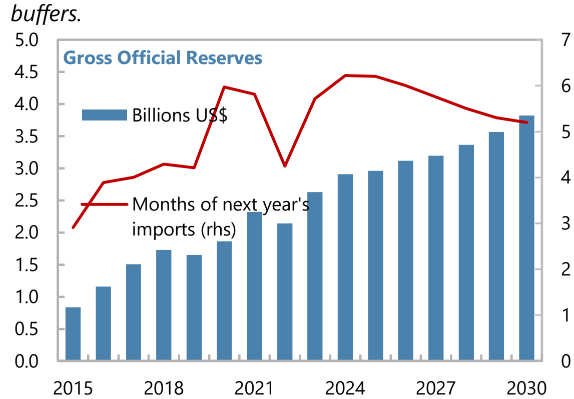
... financed increasingly by foreign borrowing.



Government borrowing and FDI are projected to be the main sources of financing for the CA deficit.



The new program will help preserve external reserve buffers.



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

Table 1. Madagascar: Selected Economic Indicators

	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029	2030
	Est.	Est.	Est.	Est.	Program Approval	Est.	Projections					
	(Percent change; unless otherwise indicated)											
National account and prices												
GDP at constant prices	-7.1	4.7	4.2	4.2	4.5	4.2	4.6	4.7	4.8	5.0	5.0	5.0
GDP deflator	4.3	6.3	9.6	7.5	6.9	7.6	7.2	6.8	6.4	6.0	6.0	5.9
Consumer prices (period average)	4.2	5.8	8.2	9.9	7.9	7.6	7.2	6.8	6.4	6.0	6.0	6.0
Consumer prices (end of period)	4.6	6.2	10.8	7.5	7.8	8.6	7.6	7.0	6.6	6.1	6.0	6.0
Money and credit												
Reserve money	10.8	7.4	17.9	-1.8	16.7	29.7	6.7	11.3	13.2	10.4	11.7	10.6
Broad money (M3)	12.1	12.2	13.8	8.6	12.3	15.5	13.6	11.9	12.0	12.0	12.1	11.9
	(Growth in percent of beginning of period money stock (M3))											
Net foreign assets	2.1	1.0	0.8	18.2	5.7	11.5	2.7	2.0	4.2	4.3	4.9	4.2
Net domestic assets	10.0	11.2	13.0	-9.7	6.7	4.0	10.9	9.9	7.7	7.7	7.2	7.6
of which: Credit to the private sector	5.6	11.1	9.8	0.7	6.3	5.7	6.6	7.6	7.9	8.1	8.5	8.8
	(Percent of GDP)											
Public finance												
Total revenue (excluding grants)	9.9	10.4	9.5	11.5	11.2	11.2	11.3	12.0	12.9	13.2	13.1	13.0
of which: Tax revenue	9.5	10.1	9.2	11.2	10.8	10.8	10.8	11.7	12.6	12.8	12.7	12.7
Grants	2.5	0.7	1.3	2.3	1.8	2.4	0.7	0.5	0.3	0.1	0.1	0.1
of which: budget grants	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditures	16.4	13.9	16.2	17.9	16.7	16.9	15.8	16.5	17.0	17.0	17.0	17.1
Capital expenditure	6.8	5.4	5.4	7.0	6.4	6.8	6.3	6.9	7.4	7.3	7.2	7.3
Overall balance (commitment basis)	-4.0	-2.8	-5.5	-4.2	-3.8	-3.3	-3.8	-4.0	-3.7	-3.7	-3.8	-4.0
Variation of domestic arrears (+ = increase)	0.4	-0.4	0.8	0.0	-0.4	-0.1	-0.3	-0.3	-0.1	0.0	0.0	0.0
Overall balance (cash basis)	-3.5	-3.2	-4.7	-4.2	-4.1	-3.4	-4.1	-4.3	-3.8	-3.7	-3.8	-4.0
Domestic primary balance[1]	-1.9	-0.1	-1.8	-0.3	0.2	0.2	0.5	1.2	1.7	1.6	1.5	1.2
Primary balance	-3.2	-2.2	-4.9	-3.5	-2.9	-2.6	-2.9	-3.0	-2.9	-2.9	-3.1	-3.3
Total financing	3.5	3.2	4.7	4.2	4.1	3.4	4.1	4.3	3.8	3.7	3.8	4.0
Foreign borrowing (net)	1.8	2.4	2.4	3.0	3.2	2.3	3.3	3.2	3.6	3.6	4.1	4.2
Domestic financing	1.7	0.9	2.2	1.2	1.0	1.0	0.8	1.1	0.2	0.1	-0.3	-0.1
of which: onlending of IMF financing[2]	2.9	0.5	0.6	0.4	0.9	0.3	1.8	0.5	0.1	0.0	0.0	0.0
of which: cession of August 2021 SDR allocation				2.0								
Fiscal financing need[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings and investment												
Investment	19.5	23.2	21.8	19.9	22.3	22.5	20.5	21.9	22.0	22.1	22.3	22.3
Gross national savings	12.3	11.5	16.8	15.3	17.7	17.5	15.1	16.8	17.4	17.6	17.8	18.0
External sector												
Exports of goods, f.o.b.	15.0	18.9	23.0	19.5	16.3	14.7	14.0	14.6	14.5	14.5	14.1	13.8
Imports of goods, c.i.f.	24.3	29.1	33.8	28.0	25.3	26.3	24.3	24.3	24.1	24.4	24.0	23.6
Current account balance (exc. grants)	-7.9	-5.6	-6.6	-6.9	-6.4	-7.4	-6.2	-5.5	-5.0	-4.6	-4.6	-4.4
Current account balance (inc. grants)	-5.4	-4.9	-5.4	-4.7	-4.6	-5.0	-5.5	-5.1	-4.6	-4.4	-4.5	-4.4
Public debt	51.9	49.5	50.0	52.7	53.4	51.4	52.9	53.5	53.6	54.2	53.9	53.1
External Public Debt (inc. BFM liabilities)	36.3	34.8	36.1	37.8	34.8	37.4	40.2	41.6	42.3	43.4	43.7	43.2
Domestic Public Debt	15.7	14.8	13.9	14.9	18.6	13.9	12.7	11.9	11.3	10.8	10.2	9.8
	(Units as indicated)											
Gross official reserves (millions of SDRs)	1,338	1,630	1,601	1,972	2,130	2,189	2,380	2,459	2,548	2,619	2,724	2,866
Months of imports of goods and services	6.0	5.8	4.2	5.7	6.3	6.3	6.6	6.3	6.1	5.7	5.4	5.2
Real effective exchange rate (pa, percent change)	-0.8	-1.1	3.1	-1.2	…	3.3	…	…	…	…	…	…
Terms of trade (percent change, deterioration -)	-8.6	-13.8	-4.1	-13.4	-12.6	-4.7	3.3	2.6	0.2	0.7	-1.4	0.1
Memorandum items												
GDP per capita (U.S. dollars)	477	509	529	533	563	569	584	617	654	706	761	820
Nominal GDP at market prices (billions of ariary)	49,436	54,978	62,775	70,297	78,106	78,837	88,422	98,887	110,270	122,725	136,583	151,932

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

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

[2] RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF and RSF disbursements in 2024-2027 onlent by the central bank to the Treasury.

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

Table 2. Madagascar: National Accounts

	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029	2030
	Est.	Est.	Est.	Est.	Program Approval	Est.			Projections			
						(Percent change)						
Real supply side growth												
Primary sector	-1.4	-2.5	2.0	5.3	4.0	4.8	4.8	3.9	3.9	4.0	3.9	3.8
of which: Agriculture	-2.3	-1.7	3.7	3.2	3.5	7.2	7.1	5.6	5.7	5.7	5.7	5.5
Secondary sector	-29.5	20.3	9.3	1.8	4.6	3.2	4.2	4.6	4.8	5.1	5.2	4.9
of which:												
Manufacturing	-15.7	30.2	11.9	-8.7	5.6	2.3	4.3	4.3	4.3	4.3	4.3	4.1
Energy	-0.1	2.9	-1.5	1.1	2.6	1.6	1.6	1.8	1.8	1.9	1.9	1.7
Extractive industry	-49.3	33.6	11.4	5.9	5.6	4.2	6.6	6.9	7.3	7.7	7.8	7.1
Tertiary sector	-5.7	7.2	3.6	4.0	4.2	3.2	3.7	4.1	4.2	4.5	4.6	4.7
of which:												
Trade	-2.7	1.0	1.0	2.1	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.0
Services	-8.1	2.6	1.9	-5.4	1.6	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4
Transportation	-6.4	5.1	2.4	21.9	5.1	9.9	9.9	9.9	9.9	9.9	9.9	9.7
Indirect taxes	13.3	-6.5	6.1	3.4	6.7	6.5	6.8	7.0	7.2	7.4	7.4	7.4
Real GDP at market prices	-7.1	4.7	4.2	4.2	4.5	4.2	4.6	4.7	4.8	5.0	5.0	5.0
						(Percent of GDP)						
Nominal demand side composition												
Resource balance	-9.0	-10.0	-9.2	-8.2	-7.8	-8.7	-8.9	-8.5	-8.0	-8.1	-8.2	-8.2
Exports of goods and nonfactor services	19.7	23.4	30.3	26.6	23.5	23.3	21.8	22.2	22.1	21.8	21.5	21.1
Current account balance (including grants) = (S-I)	-5.4	-4.9	-5.4	-4.7	-4.6	-5.0	-5.5	-5.1	-4.6	-4.4	-4.5	-4.4
Consumption	95.7	92.6	87.3	87.2	84.6	85.3	87.5	85.7	85.1	85.2	85.1	85.0
Government	18.7	17.5	16.5	16.6	21.1	15.3	14.5	14.6	14.6	14.8	14.8	14.9
Private	77.0	75.2	70.8	71.6	63.4	70.0	72.9	71.1	70.5	70.4	70.2	70.1
Investment (I)	19.5	23.2	21.8	19.9	22.3	22.5	20.5	21.9	22.0	22.1	22.3	22.3
Government	6.8	5.4	5.4	7.0	6.4	6.8	6.3	6.9	7.4	7.3	7.2	7.3
Private	12.8	17.9	16.4	12.9	16.0	15.7	14.3	15.0	14.6	14.8	15.0	15.0
of which: foreign direct investment	1.9	1.7	2.1	2.2	2.2	2.8	1.9	2.2	2.3	2.3	2.3	2.3
National savings (S)	12.3	11.5	16.8	15.3	17.7	17.5	15.1	16.8	17.4	17.6	17.8	18.0
Government	2.1	1.9	-0.6	2.1	1.8	2.8	1.6	2.0	2.8	2.8	2.6	2.6
Private	10.3	9.6	17.4	13.2	15.9	14.7	13.5	14.9	14.5	14.8	15.2	15.4
Memoranda items:						(Billions of Ariary)						
Nominal GDP (at market prices)	49,436	54,978	62,775	70,297	78,106	78,837	88,422	98,887	110,270	122,725	136,583	151,932

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

Table 3a. Madagascar: Fiscal Operations of the Central Government
(Billions of Ariary)

	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029	2030
	Act.	Est.	Est.	Est.	Program Approval	Est.	Projections					
Total revenue and grants	6,129	6,086	6,772	9,648	10,104	10,699	10,667	12,366	14,633	16,322	17,990	19,853
Total revenue	4,886	5,715	5,979	8,062	8,713	8,808	10,011	11,887	14,268	16,154	17,851	19,775
Tax revenue	4,707	5,545	5,797	7,851	8,405	8,500	9,519	11,573	13,886	15,729	17,378	19,249
Domestic taxes	2,579	3,081	3,360	3,862	4,228	4,370	5,224	6,285	7,644	8,503	9,456	10,520
Taxes on international trade and transactions	2,128	2,464	2,436	3,990	4,177	4,131	4,295	5,288	6,243	7,226	7,923	8,730
Non-tax revenue	180	170	182	210	308	308	492	314	382	425	473	526
Grants	1,243	371	793	1,586	1,390	1,890	656	479	365	168	138	78
Current grants	435	1	3	0	0	0	0	0	0	0	0	0
Capital grants	808	370	791	1,586	1,390	1,890	656	479	365	168	138	78
Total expenditure and lending minus repayments	8,085	7,641	10,200	12,597	13,037	13,300	13,995	16,321	18,708	20,867	23,214	25,959
Current expenditure	4,743	4,686	6,811	7,694	8,065	7,940	8,458	9,484	10,593	11,951	13,341	14,873
Wages and salaries	2,786	2,866	3,364	3,713	4,062	4,059	4,091	4,944	5,624	6,320	7,102	8,052
Interest payments	362	354	346	496	663	534	803	948	897	970	1,052	1,051
Foreign	115	123	142	187	296	185	274	327	316	318	405	465
Domestic	246	231	204	309	367	349	529	621	582	653	648	587
Other	2,230	2,164	2,272	3,427	2,818	2,824	3,178	3,372	3,827	4,387	4,883	5,432
Goods and services	338	338	428	485	566	573	505	653	728	908	1,011	1,124
Transfers and subsidies	1,892	1,827	1,844	2,942	2,252	2,251	2,673	2,719	3,100	3,479	3,872	4,307
of which: JIRAMA and its suppliers [1]	*845*	*380*	889	895	*793*	932	…	…	…	…	…	…
Treasury operations (net)[2]	-635	-698	829	59	522	523	386	220	245	273	303	338
Capital expenditure	3,343	2,955	3,389	4,903	4,972	5,359	5,536	6,837	8,115	8,917	9,873	11,086
Domestic financed	1,450	1,461	644	1,099	1,183	1,263	1,900	2,126	2,691	3,191	3,551	4,102
Foreign financed	1,893	1,494	2,745	3,804	3,789	4,097	3,636	4,711	5,424	5,726	6,322	6,984
Overall balance (commitment basis)	-1,956	-1,554	-3,428	-2,949	-2,934	-2,601	-3,327	-3,955	-4,075	-4,546	-5,224	-6,106
Variation of domestic arrears (+ = increase)	219	-222	493	17	-300	-50	-300	-300	-113	0	0	0
Overall balance (including grants, cash basis)	-1,737	-1,776	-2,935	-2,931	-3,234	-2,651	-3,627	-4,255	-4,188	-4,546	-5,224	-6,106
Domestic primary balance[3]	-944	-78	-1,130	-236	128	140	456	1,225	1,881	1,983	2,012	1,851
Primary balance	-1,595	-1,201	-3,081	-2,453	-2,271	-2,067	-2,524	-3,006	-3,178	-3,575	-4,171	-5,055
Total financing	1,737	1,776	2,936	2,931	3,234	2,651	3,627	4,255	4,188	4,546	5,224	6,106
Foreign borrowing (residency principle)	885	1,304	1,525	2,092	2,487	1,851	2,877	3,204	3,924	4,458	5,600	6,313
External borrowing, Gross	1,161	1,671	1,954	2,665	3,149	2,507	3,761	4,713	5,432	5,933	6,560	7,285
Budget support loans	77	547	0	447	749	300	780	481	373	375	377	379
Project loans	1,085	1,124	1,954	2,218	2,399	2,206	2,980	4,231	5,060	5,558	6,183	6,906
Amortization on a due basis (-)	-276	-367	-430	-572	-662	-655	-884	-1,508	-1,508	-1,475	-960	-971
Domestic borrowing (residency principle)	851	473	1,412	839	747	799	750	1,050	265	88	-376	-207
Monetary sector	597	230	950	167	551	602	549	843	52	-131	-602	-441
of which: onlending of IMF PRGT financing [4]	*1,452*	*267*	*402*	*289*	442	*220*	*690*	*0*	*0*	*0*	*0*	*1*
of which: onlending of IMF RST financing					246	*0*	*895*	*528*	*135*	*0*	*0*	*0*
of which: cession of 2021 SDR allocation				*1,384*								
Non-monetary sector	-72	-87	-16	364	39	39	44	49	55	61	68	76
Other incl. Treasury correspondent accounts (net)	327	330	478	308	157	158	158	158	158	158	158	158
Fiscal financing balance[5]	0	0	2	0	0	0	0	0	0	0	0	0

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

[1] Operating subsidies and arrears repayment.

[2] Includes third party accounts, trade accounts, and other operations to be regularized.

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

[4] RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF disbursements in 2024-2025 onlent by the central bank to the Treasury.

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

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

	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029	2030
					Program							
	Act.	Est.	Est.	Est.	Approval	Est.	Projections					
Total revenue and grants	12.4	11.1	10.8	13.7	12.9	13.6	12.1	12.5	13.3	13.3	13.2	13.1
Total revenue	9.9	10.4	9.5	11.5	11.2	11.2	11.3	12.0	12.9	13.2	13.1	13.0
Tax revenue	9.5	10.1	9.2	11.2	10.8	10.8	10.8	11.7	12.6	12.8	12.7	12.7
Domestic taxes	5.2	5.6	5.4	5.5	5.4	5.5	5.9	6.4	6.9	6.9	6.9	6.9
Taxes on international trade and transactions	4.3	4.5	3.9	5.7	5.3	5.2	4.9	5.3	5.7	5.9	5.8	5.7
Non-tax revenue	0.4	0.3	0.3	0.3	0.4	0.4	0.6	0.3	0.3	0.3	0.3	0.3
Grants	2.5	0.7	1.3	2.3	1.8	2.4	0.7	0.5	0.3	0.1	0.1	0.1
Current grants	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital grants	1.6	0.7	1.3	2.3	1.8	2.4	0.7	0.5	0.3	0.1	0.1	0.1
Total expenditure and lending minus repayments	16.4	13.9	16.2	17.9	16.7	16.9	15.8	16.5	17.0	17.0	17.0	17.1
Current expenditure	9.6	8.5	10.8	10.9	10.3	10.1	9.6	9.6	9.6	9.7	9.8	9.8
Wages and salaries	5.6	5.2	5.4	5.3	5.2	5.1	4.6	5.0	5.1	5.2	5.2	5.3
Interest payments	0.7	0.6	0.6	0.7	0.8	0.7	0.9	1.0	0.8	0.8	0.8	0.7
Foreign	0.2	0.2	0.2	0.3	0.4	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Domestic	0.5	0.4	0.3	0.4	0.5	0.4	0.6	0.6	0.5	0.5	0.5	0.4
Other	4.5	3.9	3.6	4.9	3.6	3.6	3.6	3.4	3.5	3.6	3.6	3.6
Goods and services	0.7	0.6	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.7
Transfers and subsidies	3.8	3.3	2.9	4.2	2.9	2.9	3.0	2.7	2.8	2.8	2.8	2.8
of which: JIRAMA and its suppliers [1]	1.7	0.7	1.4	1.3	1.0	1.2	…	…	…	…	…	…
Treasury operations (net)[2]	-1.3	-1.3	1.3	0.1	0.7	0.7	0.4	0.2	0.2	0.2	0.2	0.2
Capital expenditure	6.8	5.4	5.4	7.0	6.4	6.8	6.3	6.9	7.4	7.3	7.2	7.3
Domestic financed	2.9	2.7	1.0	1.6	1.5	1.6	2.1	2.2	2.4	2.6	2.6	2.7
Foreign financed	3.8	2.7	4.4	5.4	4.9	5.2	4.1	4.8	4.9	4.7	4.6	4.6
Overall balance (commitment basis)	-4.0	-2.8	-5.5	-4.2	-3.8	-3.3	-3.8	-4.0	-3.7	-3.7	-3.8	-4.0
Variation of domestic arrears (+ = increase)	0.4	-0.4	0.8	0.0	-0.4	-0.1	-0.3	-0.3	-0.1	0.0	0.0	0.0
Overall balance (including grants, cash basis)	-3.5	-3.2	-4.7	-4.2	-4.1	-3.4	-4.1	-4.3	-3.8	-3.7	-3.8	-4.0
Domestic primary balance[3]	-1.9	-0.1	-1.8	-0.3	0.2	0.2	0.5	1.2	1.7	1.6	1.5	1.2
Primary balance	-3.2	-2.2	-4.9	-3.5	-2.9	-2.6	-2.9	-3.0	-2.9	-2.9	-3.1	-3.3
Total financing	3.5	3.2	4.7	4.2	4.1	3.4	4.1	4.3	3.8	3.7	3.8	4.0
Foreign borrowing (residency principle)	1.8	2.4	2.4	3.0	3.2	2.3	3.3	3.2	3.6	3.6	4.1	4.2
External borrowing, Gross	2.3	3.0	3.1	3.8	4.0	3.2	4.3	4.8	4.9	4.8	4.8	4.8
Budget support loans	0.2	1.0	0.0	0.6	1.0	0.4	0.9	0.5	0.3	0.3	0.3	0.2
of which: Air Madagascar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	2.2	2.0	3.1	3.2	3.1	2.8	3.4	4.3	4.6	4.5	4.5	4.5
Amortization on a due basis (-)	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	-1.0	-1.5	-1.4	-1.2	-0.7	-0.6
Domestic borrowing (residency principle)	1.7	0.9	2.2	1.2	1.0	1.0	0.8	1.1	0.2	0.1	-0.3	-0.1
Monetary sector	1.2	0.4	1.5	0.2	0.7	0.8	0.6	0.9	0.0	-0.1	-0.4	-0.3
of which: onlending of IMF PRGT financing [4]	2.9	0.5	0.6	0.4	0.6	0.3	0.8	0.0	0.0	0.0	0.0	0.0
of which: onlending of IMF RST financing	…	…	…	0.0	0.3	0.0	1.0	0.5	0.1	0.0	0.0	0.0
of which: cession of 2021 SDR allocation	…	…	…	2.0	…	…	…	…	…	…	…	…
Non-monetary sector	-0.1	-0.2	0.0	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Loans minus repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other incl. Treasury correspondent accounts (net)	0.7	0.6	0.8	0.4	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Fiscal financing balance[5]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Malagasy Authorities; and IMF staff estimates and projections.
[1] Operating subsidies and arrears repayment.
[2] Includes third party accounts, trade accounts, and other operations to be regularized.
[3] Primary balance excl. foreign-financed investment and grants.
[4] RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF disbursements in 2024-2025 onlent by the central bank to the Treasury.
[5] A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.

Table 4. Madagascar: Fiscal Operations of the Central Government

Quarterly Projections (Billions of Ariary)

	2021	2022	2023	2024				2025			
	Dec	Dec	Dec	Mar	Jun	Sept	Dec	Mar	Jun	Sept	Dec
	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Projections			
Total revenue and grants	6,086	6,772	9,648	2,911	5,627	8,010	10,699	2,331	5,159	7,721	10,667
Total revenue	5,715	5,979	8,062	2,073	4,300	6,525	8,808	2,169	4,833	7,232	10,011
Tax revenue	5,545	5,797	7,851	2,052	4,120	6,277	8,500	2,132	4,682	6,984	9,519
Domestic taxes	3,081	3,360	3,862	903	2,066	3,251	4,370	1,151	2,544	3,753	5,224
Taxes on international trade and transactions	2,464	2,436	3,990	1,149	2,054	3,026	4,131	980	2,138	3,232	4,295
Non-tax revenue	170	182	210	21	180	248	308	38	151	247	492
Grants	371	793	1,586	838	1,326	1,485	1,890	162	325	490	656
Current grants	1	3	0	0	0	0	0	0	0	0	0
Capital grants	370	791	1,586	837	1,326	1,485	1,890	162	325	490	656
Total expenditure and lending minus repayments	7,641	10,200	12,597	3,269	6,831	9,068	13,300	2,743	6,140	9,520	13,995
Current expenditure	4,686	6,811	7,694	1,923	3,874	5,602	7,940	1,649	3,667	5,607	8,458
Wages and salaries	2,866	3,364	3,713	916	1,896	2,823	4,059	879	1,914	2,923	4,091
Interest payments	354	346	496	135	276	392	534	217	420	595	803
Foreign	123	142	187	47	91	140	185	68	136	205	274
Domestic	231	204	309	88	185	252	349	149	284	390	529
Other	2,164	2,272	3,427	173	735	1,353	2,824	455	1,124	1,807	3,178
Goods and services	338	428	485	50	164	299	573	63	175	309	505
Transfers and subsidies	1,827	1,844	2,942	123	571	1,054	2,251	392	949	1,498	2,673
Treasury operations (net)	-698	829	59	698	967	1,034	523	98	209	283	386
Capital expenditure	2,955	3,389	4,903	1,346	2,957	3,466	5,359	1,094	2,473	3,913	5,536
Domestic financed	1,461	644	1,099	42	105	288	1,263	189	665	1,197	1,900
Foreign financed	1,494	2,745	3,804	1,305	2,853	3,178	4,097	905	1,808	2,716	3,636
Overall balance (commitment basis)	-1,554	-3,428	-2,949	-358	-1,205	-1,059	-2,601	-412	-982	-1,799	-3,327
Variation of domestic arrears (+ = increase)	-222	493	17	129	50	-191	-50	-75	-150	-225	-300
Overall balance (including grants, cash basis)	-1,776	-2,935	-2,931	-230	-1,155	-1,250	-2,651	-487	-1,132	-2,024	-3,627
Domestic primary balance[1]	-78	-1,130	-236	243	597	1,027	140	548	921	1,022	456
Primary balance	-1,201	-3,081	-2,453	-224	-929	-666	-2,067	-195	-562	-1,204	-2,524
Total financing	1,776	2,936	2,931	230	1,155	1,250	2,651	487	1,132	2,024	3,627
Foreign borrowing (residency principle)	1,304	1,525	2,092	379	1,248	1,306	1,851	525	1,509	2,032	2,877
External borrowing, Gross	1,671	1,954	2,665	467	1,527	1,693	2,507	743	1,947	2,691	3,761
Budget support loans	547	0	447	0	0	0	300	0	465	465	780
Project loans	1,124	1,954	2,218	467	1,527	1,693	2,206	743	1,482	2,226	2,980
Amortization on a due basis (-)	-367	-430	-572	-89	-279	-387	-655	-218	-438	-659	-884
Domestic borrowing (residency principle)	473	1,412	839	-149	-93	-56	799	-38	-377	-8	750
Monetary sector	230	950	167	352	67	375	602	-141	-466	-167	549
of which: onlending of IMF PRGT financing [2]	*264*	*400*	*286*	*0*	*0*	*222*	*220*	*227*	*457*	*457*	*690*
of which: onlending of IMF RST financing								*252*	*507*	*507*	*895*
of which: cession of 2021 SDR allocation	*0*	*0*	*1,384*								
Non-monetary sector	-87	-16	364	11	41	30	39	63	10	41	44
Other incl. Treasury correspondent accounts (net)	330	478	308	-552	-359	-596	158	39	79	118	158
Fiscal financing balance[3]	0	2	0	0	0	0	0	0	0	0	0

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

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

[2] RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF disbursements in 2024-2025 onlent by the central bank to the Treasury.

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

Table 5a. Madagascar: Balance of Payments
(Millions of SDRs)

	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029	2030
	Act.	Act.	Est.	Est.	Program Approval	Est.	Projections					
				(Millions of SDRs)								
Current account	-504	-497	-614	-553	-600	-653	-772	-773	-768	-817	-913	-986
Goods and services	-841	-1,012	-1,049	-974	-1,014	-1,139	-1,255	-1,296	-1,333	-1,498	-1,679	-1,852
Trade balance of goods	-645	-679	-735	-713	-825	-1,190	-1,165	-1,120	-1,191	-1,381	-1,549	-1,709
Exports, f.o.b.	1,402	1,904	2,641	2,318	2,113	1,929	1,978	2,228	2,419	2,665	2,878	3,109
of which: Mining	262	542.5	941	856	724	535	633	721	794	878	933	988
of which: Vanilla	367	434	400	206	77	176	88	88	88	90	93	99
Imports, f.o.b.	-2,046	-2,583	-3,376	-3,031	-2,938	-3,120	-3,143	-3,347	-3,610	-4,046	-4,428	-4,817
of which: Petroleum products	*-256*	*-339*	*-599*	*-479*	*-493*	*-498*	*-513*	*-539*	*-561*	*-593*	*-679*	*-724*
of which: Food	*-324*	*-464*	*-525*	*-432*	*-442*	*-429*	*-381*	*-395*	*-414*	*-434*	*-455*	*-476*
of which: Intermediate goods and capital	*-810*	*-1,063*	*-1,487*	*-1,336*	*-1,247*	*-1,326*	*-1,374*	*-1,497*	*-1,628*	*-1,891*	*-2,044*	*-2,209*
Services (net)	-197	-333	-315	-261	-189	51	-89	-176	-142	-117	-129	-143
Receipts	444	449	836	849	928	1,127	1,094	1,161	1,260	1,350	1,495	1,654
of which: Travels	*103*	*69*	*274*	*383*	*447*	*573*	*585*	*604*	*652*	*686*	*760*	*840*
Payments	-641	-782	-1,151	-1,110	-1,117	-1,076	-1,183	-1,337	-1,402	-1,467	-1,625	-1,797
Income (net)	-276	-182	-276	-259	-307	-341	-329	-338	-347	-340	-364	-384
Receipts	32	30	37	64	76	96	83	90	98	109	121	134
Payments	-308	-213	-313	-323	-384	-437	-412	-428	-445	-450	-485	-518
of which: interest on public debt	*-22*	*-22*	*-26*	*-31*	*-49*	*-31*	*-44*	*-50*	*-48*	*-48*	*-60*	*-69*
Current transfers (net)	613	697	711	680	721	827	813	861	912	1,021	1,130	1,250
Official transfers	105	22	19	11	47	35	49	52	55	58	65	72
Capital and financial account	370	676	524	858	688	837	775	801	907	992	1,120	1,218
Capital account[1]	153	68	145	264	231	315	104	74	55	25	21	12
of which: Project grants [1]	*153*	*68*	*145*	*264*	*231*	*315*	*104*	*74*	*55*	*25*	*21*	*12*
Financial account	172	635	395	596	458	538	671	727	852	967	1,100	1,206
Foreign direct and portfolio investment	180	171	245	256	284	372	267	340	383	429	475	527
Other investment	-9	464	150	340	173	166	404	387	469	538	625	679
Government	158	240	273	323	413	314	458	495	592	668	835	936
Drawing	216	307	351	421	522	417	599	728	819	889	978	1,080
Project drawings [1]	201	206	351	346	398	367	475	653	763	833	922	1,024
Budgetary support [1]	15	101	0	74	124	50	124	74	56	56	56	56
Amortization	-58	-67	-79	-98	-110	-103	-141	-233	-227	-221	-143	-144
Monetary authority and private sector	-122	247	-93	-149	-104.9	-16	-96	-92	-85	-83	-92	-98
Banks	95	-8	-50	78	0	-165	0	0	0	0	0	0
Other (inc. unrepatriated export revenues)	50	-16	21	88	-134	34	42	-17	-38	-47	-118	-159
Errors and omissions	45	-27	-16	-2	0	-15	0	0	0	0	0	0
Overall balance	-134	180	-90	305	88	185	4	29	139	174	207	231
Financing	134	-180	90	-305	-88	-185	-4	-29	-139	-174	-207	-231
Use of IMF credit (net)	25	34	58	12	30	-7	45	-31	-71	-103	-102	-89
Other assets, net (increase = –)[2]	-141	-228	29	-317	-158	-178	-191	-79	-88	-71	-105	-143
Other assets, net (increase = –)[2] without RSF			29	-317	-118	-178	-48	2	-68	-71	-105	-143
Exceptional financing-Grant for debt relief[3]	6	15	3	0	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	0	0
RSF (net)					41	0	143	81	20	0	0	0
					(Percent of GDP; unless otherwise indicated)							
Memorandum items:												
Grants	2.5	0.7	1.3	2.2	1.8	2.4	0.7	0.5	0.3	0.1	0.1	0.1
Loans	2.3	3.0	3.1	3.5	4.0	3.2	4.3	4.8	4.9	4.8	4.8	4.8
Direct investment	1.9	1.7	2.1	2.2	2.2	2.8	1.9	2.2	2.3	2.3	2.3	2.3
Current account												
Excluding net official transfers	-7.9	-5.6	-6.6	-6.9	-6.4	-7.4	-6.2	-5.5	-5.0	-4.6	-4.6	-4.4
Including net official transfers	-5.4	-4.9	-5.4	-4.7	-4.6	-5.0	-5.5	-5.1	-4.6	-4.4	-4.5	-4.4
Debt service (percent of exports of goods)	2.7	9.3	3.7	2.9	2.6	2.6	3.4	2.8	2.3	2.2	2.0	1.9
Export of goods volume (percent change)	-18.5	38.7	14.2	6.6	2.6	-13.4	0.6	10.9	7.0	8.2	6.2	6.2
Import of goods volume (percent change)	-17.8	11.1	3.2	-5.6	-4.7	2.0	2.1	7.6	6.5	10.3	6.5	7.1
Gross official reserves (millions of SDR)[4]	1,338	1,630	1,601	1,972	2,130	2,189	2,380	2,459	2,548	2,619	2,724	2,866
Months of imports of goods and nonfactor services	6.0	5.8	4.2	5.7	6.3	6.3	6.6	6.3	6.1	5.7	5.4	5.2
Gross official reserves (millions of SDR)[4] (without RSF)	…	…	…	…	2,089.7	2,189	2,237	2,235	2,303	2,374	2,479	2,622
Months of imports of goods and nonfactor services (without	…	…	…	…	6.2	6.3	6.2	5.7	5.5	5.2	4.9	4.8
Terms of trade (percent change, deterioration -)	-8.6	-13.8	-4.1	-13.4	-12.6	-4.7	3.3	2.6	0.2	0.7	-1.4	0.1
Exchange rate (ariary/US$, period average)	3,788	3,830	4,096	4,430	…	4,525	…	…	…	…	…	…

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

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

[2] Includes reserve accumulation.

[3] Debt relief assumed through April 2022.

[4] 2021 gross official reserves include the IMF SDR allocation

Table 5b. Madagascar: Balance of Payments

(Percent of GDP)

	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029	2030
	Act.	Act.	Est.	Est.	Program Approval	Est.			Projections			
Current account	-5.4	-4.9	-5.4	-4.7	-4.6	-5.0	-5.5	-5.1	-4.6	-4.4	-4.5	-4.4
Goods and services	-9.0	-10.0	-9.2	-8.2	-7.8	-8.7	-8.9	-8.5	-8.0	-8.1	-8.2	-8.2
Trade balance of goods	-6.9	-6.7	-6.4	-6.0	-6.4	-9.1	-8.3	-7.3	-7.2	-7.5	-7.6	-7.6
Exports, f.o.b.	15.0	18.9	23.0	19.5	16.3	14.7	14.0	14.6	14.5	14.5	14.1	13.8
of which: Mining	2.8	5.4	8.2	7.2	5.6	4.1	4.5	4.7	4.8	4.8	4.6	4.4
of which: Vanilla	3.9	4.3	3.5	1.7	0.6	1.3	0.6	0.6	0.5	0.5	0.5	0.4
Imports, f.o.b.	-21.8	-25.6	-29.5	-25.5	-22.7	-23.8	-22.3	-21.9	-21.7	-22.0	-21.7	-21.4
of which: Petroleum products	-2.7	-3.4	-5.2	-4.0	-3.8	-3.8	-3.6	-3.5	-3.4	-3.2	-3.3	-3.2
of which: Food	-3.5	-4.6	-4.6	-3.6	-3.4	-3.3	-2.7	-2.6	-2.5	-2.4	-2.2	-2.1
of which: Intermediate goods and capital	-8.6	-10.5	-13.0	-11.2	-9.6	-10.1	-9.8	-9.8	-9.8	-10.3	-10.0	-9.8
Services (net)	-2.1	-3.3	-2.7	-2.2	-1.5	0.4	-0.6	-1.2	-0.9	-0.6	-0.6	-0.6
Receipts	4.7	4.5	7.3	7.1	7.2	8.6	7.8	7.6	7.6	7.3	7.3	7.3
of which: Travels	1.1	0.7	2.4	3.2	3.5	4.4	4.2	4.0	3.9	3.7	3.7	3.7
Payments	-6.8	-7.8	-10.0	-9.3	-8.6	-8.2	-8.4	-8.8	-8.4	-8.0	-8.0	-8.0
Income (net)	-2.9	-1.8	-2.4	-2.2	-2.4	-2.6	-2.3	-2.2	-2.1	-1.9	-1.8	-1.7
Receipts	0.3	0.3	0.3	0.5	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Payments	-3.3	-2.1	-2.7	-2.7	-3.0	-3.3	-2.9	-2.8	-2.7	-2.4	-2.4	-2.3
of which: interest on public debt	-0.2	-0.2	-0.2	-0.3	-0.4	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Current transfers (net)	6.5	6.9	6.2	5.7	5.6	6.3	5.8	5.6	5.5	5.5	5.5	5.5
Official transfers	1.1	0.2	0.2	0.1	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Capital and financial account	3.9	6.7	4.6	7.2	5.3	6.4	5.5	5.2	5.5	5.4	5.5	5.4
Capital account[1]	1.6	0.7	1.3	2.2	1.8	2.4	0.7	0.5	0.3	0.1	0.1	0.1
of which: Project grants [1]	1.6	0.7	1.3	2.2	1.8	2.4	0.7	0.5	0.3	0.1	0.1	0.1
Financial account	1.8	6.3	3.4	5.0	3.5	4.1	4.8	4.8	5.1	5.3	5.4	5.4
Foreign direct and portfolio investment	1.9	1.7	2.1	2.2	2.2	2.8	1.9	2.2	2.3	2.3	2.3	2.3
Other investment	-0.1	4.6	1.3	2.9	1.3	1.3	2.9	2.5	2.8	2.9	3.1	3.0
Government	1.7	2.4	2.4	2.7	3.2	2.4	3.3	3.2	3.6	3.6	4.1	4.2
Drawing	2.3	3.0	3.1	3.5	4.0	3.2	4.3	4.8	4.9	4.8	4.8	4.8
Project drawings [1]	2.1	2.0	3.1	2.9	3.1	2.8	3.4	4.3	4.6	4.5	4.5	4.5
Budgetary support [1]	0.2	1.0	0.0	0.6	1.0	0.4	0.9	0.5	0.3	0.3	0.3	0.2
Amortization	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	-1.0	-1.5	-1.4	-1.2	-0.7	-0.6
Monetary authority and private sector	-1.3	2.5	-0.8	-1.3	-0.8	-0.1	-0.7	-0.6	-0.5	-0.5	-0.5	-0.4
Banks	1.0	-0.1	-0.4	0.7	0.0	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
Other (inc. unrepatriated export revenues)	0.5	-0.2	0.2	0.7	-1.0	0.3	0.3	-0.1	-0.2	-0.3	-0.6	-0.7
Errors and omissions	0.5	-0.3	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.4	1.8	-0.8	2.6	0.7	1.4	0.0	0.2	0.8	0.9	1.0	1.0
Financing	1.4	-1.8	0.8	-2.6	-0.7	-1.4	0.0	-0.2	-0.8	-0.9	-1.0	-1.0
Use of IMF credit (net)	0.3	0.3	0.5	0.1	0.2	-0.1	0.3	-0.2	-0.4	-0.6	-0.5	-0.4
RSF (net)					0.3	0.0	1.0	0.5	0.1	0.0	0.0	0.0
Other assets, net (increase = –)[2]	-1.5	-2.3	0.3	-2.7	-1.2	-1.4	-1.4	-0.5	-0.5	-0.4	-0.5	-0.6
Other assets, net (increase = –)[2] without RSF					-0.9	-1.4	-0.3	0.0	-0.4	-0.4	-0.5	-0.6
Exceptional financing-Grant for debt relief[3]	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	0.0	0.0

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

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

[2] Includes reserve accumulation.

[3] Debt relief assumed through April 2022.

Table 5c. Madagascar: Balance of Payments

(Millions of U.S. Dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Est.	Est.	Est.	Est.	Est.	Projections					
					(Millions of USD)						
Current account	-701	-707	-822	-738	-866	-1,007	-1,009	-1,005	-1,071	-1,197	-1,295
Goods and services	-1,172	-1,441	-1,403	-1,299	-1,512	-1,637	-1,693	-1,743	-1,962	-2,201	-2,432
Trade balance of goods											
Exports, f.o.b.	1,952	2,712	3,532	3,092	2,561	2,581	2,910	3,162	3,491	3,774	4,082
Imports, f.o.b.	-2,850	-3,679	-4,514	-4,043	-4,141	-4,101	-4,372	-4,720	-5,300	-5,805	-6,327
Services (net)	-274	-474	-421	-348	68	-117	-231	-185	-153	-170	-188
Receipts	618	640	1,118	1,133	1,496	1,427	1,516	1,647	1,769	1,961	2,172
Payments	-892	-1,113	-1,539	-1,481	-1,428	-1,544	-1,746	-1,833	-1,922	-2,130	-2,360
Income (net)	-384	-260	-369	-345	-452	-430	-441	-454	-446	-478	-505
Receipts	45	43	49	86	127	108	118	128	143	159	176
Payments	-429	-303	-419	-431	-580	-538	-558	-582	-589	-636	-681
Current transfers (net)	854	993	951	907	1,098	1,060	1,125	1,192	1,337	1,482	1,642
Official transfers	146	32	26	15	46	64	68	71	77	85	94
Private transfers	709	962	925	892	1,052	996	1,057	1,121	1,260	1,397	1,548
Capital and financial account	515	963	701	1,145	1,111	1,011	1,046	1,186	1,299	1,469	1,599
Capital account[1]	214	97	193	352	418	136	97	72	33	27	15
of which: Project grant [1]	214	97	193	352	418	136	97	72	33	27	15
Financial account	239	905	528	795	714	875	950	1,114	1,266	1,442	1,584
Foreign direct and portfolio investment	251	244	327	342	493	348	445	501	562	623	692
Other investment	-12	661	201	453	221	527	505	613	704	819	892
Government	220	341	364	430	417	598	646	774	875	1,095	1,229
Drawing	301	437	470	561	554	782	950	1,071	1,165	1,282	1,418
Project drawings [1]	280	294	470	462	488	619	853	998	1,091	1,209	1,345
Budgetary support [1]	20	144	0	99	66	162	97	73	74	74	74
Amortization	-81	-96	-106	-131	-137	-184	-304	-297	-290	-188	-189
Monetary authority and private sector	-170	353	-125	-199	-22	-125	-120	-111	-109	-121	-129
Banks	132	-11	-67	104	-219	0	0	0	0	0	0
Other (inc. unrepatriated export revenues)	70	-23	28	118	45	54	-22	-50	-62	-155	-208
Errors and omissions	62	-38	-21	-3	-20	0	0	0	0	0	0
Overall balance	-186	256	-121	407	245	5	37	181	229	272	304
Financing	186	-256	121	-407	-245	-5	-37	-181	-229	-272	-304
Use of IMF credit (net)	375	48	77	16	-9	58	-40	-92	-135	-134	-116
Other assets, net (increase = –)[2]	-197	-325	39	-422	-236	-249	-104	-116	-93	-138	-187
Other assets, net (increase = –)[2] without RSF				-422	-236	-63	3	-89	-93	-138	-187
Exceptional financing-Grant for debt relief[3]	8.5	21.9	4.0	0	0	0	0	0	0	0	0
Exceptional financing-RCF disbursement	340.4										
Residual financing gap (unidentified financing)	0	0	0	0	0	0	0	0	0	0	0
RSF (net)					0	186	106	27	0	0	0
Memorandum items:											
Gross official reserves (millions of USD)[4]	1,923	2,278	2,128	2,631	2,872	3,108	3,212	3,335	3,431	3,574	3,766
Gross official reserves (millions of USD)[4] without RSF					2,872	2,922	2,920	3,015	3,111	3,254	3,445
Exchange rate (ariary/US$, period average)	3,788	3,830	4,096	4,430	4,525	…	…	…	…	…	…
Nominal GDP (US$ million)	13,051	14,355	15,326	15,870	17,421	18,378	19,945	21,740	24,088	26,701	29,582

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

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

[2] Includes reserve accumulation.

[3] Debt relief assumed through April 2022.

[4] 2021 gross official reserves include the IMF SDR allocation

Table 6. Madagascar: Monetary Accounts[1]

(Billions of Ariary, unless otherwise indicated)

	2020	2021	2022	2023	2024		2025	2026	2027	2028	2029	2030
	Act.	Est.	Est.	Est.	Program Approval	Est.			Projections			
Net foreign assets	4,876	5,018	5,139	8,437	9,550	10,696	11,309	11,832	13,058	14,452	16,235	17,957
Net foreign assets (BCM)	3,597	3,691	3,417	7,134	7,809	8,437	8,907	9,339	10,505	11,861	13,586	15,294
Net foreign assets (deposit money banks)	1,279	1,327	1,722	1,303	1,741	2,259	2,403	2,493	2,553	2,591	2,649	2,663
Net domestic assets	9,314	10,901	12,976	11,227	12,542	12,022	14,495	17,041	19,279	21,756	24,351	27,453
Domestic credit	10,685	12,411	15,122	14,106	15,921	15,724	17,846	20,743	23,147	25,639	28,399	31,537
Net credit to government	2,893	3,072	4,195	3,058	3,663	3,590	4,210	5,151	5,278	5,166	4,830	4,381
BCM[2]	1,044	1,271	2,407	784	1,374	1,255	1,861	2,538	2,401	2,074	1,684	1,170
DMBs	1,565	1,567	1,380	1,816	1,821	1,866	1,866	2,116	2,366	2,566	2,606	2,656
Other credits	285	234	407	459	468	469	483	497	511	526	540	556
Credit to the economy	7,792	9,339	10,927	11,048	12,257	12,134	13,636	15,592	17,869	20,473	23,568	27,155
Credit to public enterprises	59	54	37	37	32	35	35	35	35	35	35	35
Credit to private sector	7,687	9,263	10,816	10,943	12,182	12,066	13,568	15,524	17,801	20,404	23,500	27,087
Other credits	46	22	73	68	43	34	34	34	34	34	34	34
Other items (net)	-1,371	-1,510	-2,146	-2,879	-3,374	-3,701	-3,352	-3,702	-3,869	-3,882	-4,047	-4,083
BCM	183	161	-130	-801	-1,002	-1,112	-1,212	-1,262	-1,112	-1,112	-1,112	-962
Other	-1,554	-1,672	-2,016	-2,078	-2,372	-2,589	-2,139	-2,439	-2,756	-2,770	-2,935	-3,121
Money and quasi-money (M3)	14,190	15,919	18,115	19,664	22,092	22,718	25,804	28,873	32,337	36,209	40,586	45,411
Foreign currency deposits	1,472	1,519	1,959	1,854	2,288	2,811	2,954	3,045	3,105	3,143	3,201	3,215
Broad money (M2)	12,632	14,318	16,043	17,678	19,678	19,763	22,705	25,684	29,087	32,921	37,241	42,051
Demand deposits in local currency	4,866	5,509	6,539	7,140	7,460	7,312	8,775	9,755	11,079	12,706	14,219	16,225
Quasi-money including time deposits	4,196	4,691	4,986	5,490	6,325	6,209	7,373	8,158	9,212	10,504	12,170	13,826
Reserve money	5,459	5,863	6,912	6,788	7,923	8,804	9,391	10,450	11,828	13,058	14,592	16,137
					(Percentage change relative to M2 at beginning of the year)							
Net domestic assets	11.1	12.6	14.5	-10.9	7.4	4.5	12.5	11.2	8.7	8.5	7.9	8.3
Domestic credit	13.6	13.7	18.9	-6.3	10.3	9.1	10.7	12.8	9.4	8.6	8.4	8.4
Net credit to government	7.1	1.4	7.8	-7.1	3.4	3.0	3.1	4.1	0.5	-0.4	-1.0	-1.2
BCM	2.5	1.8	7.9	-10.1	3.3	2.7	3.1	3.0	-0.5	-1.1	-1.2	-1.4
DMBs	2.7	0.0	-1.3	2.7	0.0	0.3	0.0	1.1	1.0	0.7	0.1	0.1
Other credits	1.9	-0.4	1.2	0.3	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Credit to the economy	6.5	12.2	11.1	0.8	6.8	6.1	7.6	8.6	8.9	9.0	9.4	9.6
Credit to public enterprises	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	6.2	12.5	10.8	0.8	7.0	6.4	7.6	8.6	8.9	9.0	9.4	9.6
Other credits	0.2	-0.2	0.4	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net; asset = +)	-2.5	-1.1	-4.4	-4.6	-2.8	-4.7	1.8	-1.5	-0.6	0.0	-0.5	-0.1
Broad money (M2)	10.1	13.3	12.0	10.2	11.3	11.8	14.9	13.1	13.2	13.2	13.1	12.9
Currency in circulation	7.7	15.3	9.7	11.7	16.7	23.6	5.1	18.5	13.2	10.4	11.7	10.6
Demand deposits in local currency	9.9	13.2	18.7	9.2	4.5	2.4	20.0	11.2	13.6	14.7	11.9	14.1
Quasi-money in local currency	12.3	11.8	6.3	10.1	15.2	13.1	18.7	10.6	12.9	14.0	15.9	13.6
Credit to the private sector (in nominal terms)	10.1	20.5	16.8	1.2	11.3	10.3	12.5	14.4	14.7	14.6	15.2	15.3
Credit to the private sector (in real terms)	5.6	14.3	5.9	-6.3	3.5	1.7	4.9	7.4	8.1	8.5	9.2	9.3
Memorandum items:												
Credit to private sector (percent of GDP)	15.6	16.8	17.2	15.6	15.6	15.3	15.3	15.7	16.1	16.6	17.2	17.8
Money multiplier (M3/reserve money)	2.6	2.7	2.6	2.9	2.8	2.6	2.7	2.8	2.7	2.8	2.8	2.8
Velocity of money (GDP/end-of-period M3)	3.5	3.5	3.5	3.6	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.3

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

[1] End of period.

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

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

(Billions of Ariary, unless otherwise indicated)

	2020	2021	2022	2023	2024				2025			
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
	Act.	Act.	Act.	Est.	Est.	Est.	Est.	Est.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	3,597	3,691	3,417	7,134	6,597	6,878	7,324	8,437	7,874	8,487	7,879	8,907
Gross foreign assets	7,370	9,024	9,508	12,099	11,216	11,741	12,457	13,394	13,301	14,510	13,817	15,333
Gross foreign liabilities	-3,772	-5,333	-6,091	-4,965	-4,619	-4,864	-5,028	-4,958	-5,427	-6,023	-5,939	-6,426
Net domestic assets	1,862	2,172	3,495	-347	533	510	-240	368	512	520	643	484
Credit to government (net)	1,044	1,271	2,407	784	1,251	1,058	1,427	1,255	1,490	1,798	1,721	1,861
Claims on central government	2,331	2,576	3,379	3,693	3,183	3,280	3,602	3,821	4,334	4,922	4,871	5,425
Statutory advances	0	0	287	344	49	110	130	385	420	420	420	420
Securitized debt (T-bonds and bills)	658	615	572	529	518	508	497	487	477	467	457	447
Discounted bills of exchange	0	0	0	0	0	0	0	0	0	0	0	0
On-lending of funds	1,671	1,960	2,519	2,818	2,614	2,661	2,974	2,948	3,436	4,034	3,993	4,557
Other credits	1	1	1	1	1	1	1	1	1	1	1	1
Government deposits	-1,287	-1,305	-972	-2,909	-1,932	-2,221	-2,175	-2,566	-2,844	-3,125	-3,151	-3,564
Claims on other sectors	26	28	34	35	35	35	36	35	35	35	35	35
Claims on banks: Liquidity operations (+ = injection)	609	711	1,185	-365	-293	127	-642	190	100	100	100	-200
Other items (net; asset +)	183	161	-130	-801	-460	-710	-1,061	-1,112	-1,112	-1,412	-1,212	-1,212
Reserve money	5,459	5,863	6,912	6,788	7,135	7,388	7,084	8,805	8,387	9,007	8,522	9,391
Currency in circulation	3,570	4,117	4,518	5,048	4,912	5,167	5,243	6,241	6,237	6,698	6,338	6,557
Currency in banks	354	366	419	474	445	481	460	569	591	637	601	788
Resident deposits	66	76	87	90	91	89	92	92	92	92	92	92
	(Cumulative annual flows, unless otherwise stated)											
Memorandum items:												
Net foreign assets	-328	94	-274	3,717	-537	-257	189	1,302	-563	50	-558	470
Reserve money	532	403	1,050	-124	347	600	296	2,017	-418	203	-283	586
Exchange Rate (MDG/SDR, end of period)	5,509	5,538	5,938	6,135	5,764	5,873	...	...	...	...	...	...
Net foreign assets (Millions of SDRs, stock)	653	666	575	1,163	1,144	1,171	1,208	1,379	1,272	1,328	1,236	1,382

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

[1] End of period.

Table 8. Madagascar: Selected Financial Soundness Indicators[1]

(Ratios, percent, unless otherwise indicated)

	2019 Dec	2020 Dec	2021 Dec	2022 Dec	2023 Mar	2023 Jun	2023 Sep	2023 Dec	2024 Mar	2024 June	2024 Sep
Capital Adequacy											
Regulatory capital to risk-weighted assets	13.4	11.9	11.0	11.2	11.2	11.9	12.6	12.6	12.8	11.0	12.3
Regulatory Tier 1 capital to risk-weighted assets	11.6	11.9	11.0	10.4	10.4	11.1	11.6	11.7	11.8	10.4	11.1
Tier 1 to assets	6.8	6.9	6.7	6.3	6.4	6.8	7.1	7.2	7.1	7.1	7.8
Non-performing loans net of provisions to capital	22.0	32.6	42.0	36.4	36.7	33.4	24.0	23.9	26.7	25.0	20.8
Asset Quality											
Non-performing loans to total gross loans	7.3	8.5	9.1	8.0	8.2	7.9	7.0	7.7	7.9	7.7	7.7
Earnings and Profitability											
Return on assets	4.0	3.2	3.5	3.6	3.9	4.2	4.4	4.5	4.7	4.5	4.5
Return on equity	31.1	25.9	28.7	29.7	30.9	33.2	34.8	34.6	31.3	29.7	30.1
Interest margin to gross income	60.6	60.2	51.3	50.8	51.2	51.3	55.0	54.3	56.8	56.4	56.3
Non-interest expenses to gross income	54.2	56.0	58.4	57.4	54.8	54.1	52.3	53.2	55.5	54.9	54.9
Trading income to total income	5.7	6.5	8.3	8.7	7.8	7.7	7.4	7.6	7.7	7.3	7.2
Personnel expenses to non-interest expenses	32.9	31.9	26.1	25.6	26.2	26.5	26.4	25.2	25.0	25.0	24.6
Liquidity											
Liquid assets to total assets (liquid asset ratio)	34.9	35.5	33.7	29.8	29.2	29.6	29.6	31.6	32.3	32.9	33.4
Liquid assets to short-term liabilities	49.8	49.7	48.9	43.4	43.6	44.5	44.7	47.7	49.5	48.8	50.7
Customer deposits to total (non-interbank) loans	131.1	131.9	121.8	116.8	116.8	121.9	123.8	122.6	126.9	125.9	129.0
Sensitivity to Market Risk											
Net open position in foreign exchange to capital	53.8	7.5	7.8	7.9	10.2	10.7	14.0	9.5	11.1	13.7	7.7
Spread between reference lending and deposit rates (basis point)	1,065	10	9	10	9	9	10	10	11	11	11
Foreign currency-denominated loans to total loans	11.7	11.8	11.6	18.3	14.9	16.5	17.2	15.5	16.1	16.7	16.8
Foreign currency-denominated liabilities to total liabilities	14.9	15.9	14.9	17.6	16.6	16.6	16.7	15.5	16.2	17.8	17.6

Source: Malagasy authorities.

[1] Ratios only concern banking sector.

Table 9. Madagascar: External Financing Requirements and Sources, 2022–28

(Millions of U.S. Dollars)

	2022	2023	2024	2025	2026	2027	2028
External financing needs	**1,132**	**898**	**1,278**	**1,346**	**1,590**	**1,603**	**1,666**
Current account deficit (excl. budget grants)	822	738	866	1007	1009	1005	1071
Net repayment of private sector and monetary authority debt	192	95	241	125	120	111	109
Repayment of government debt (excl. IMF)	106	131	137	184	304	297	290
Repayments to the IMF	21	50	58	85	136	140	135
Other (incl. unrepatriated export revenues) and errors/omissions	-7	-115	-25	-54	22	50	62
External financing sources	**995**	**1,156**	**1,399**	**1,104**	**1,395**	**1,571**	**1,686**
Foreign direct and portfolio investment	327	342	493	348	445	501	562
Project support	663	814	905	756	950	1,069	1,124
Grants	*193*	*352*	*418*	*136*	*97*	*72*	*33*
Loans	*470*	*462*	*488*	*619*	*853*	*998*	*1091*
Debt forgiveness	**4**	**0**	**0**	**0**	**0**	**0**	**0**
Financing gap before reserves accumulation	137	-258	-121	243	195	32	-20
Net change in foreign assets (without RSF)	-39	422	236	63	-3	89	93
External financing gap after reserve accumulation	**98**	**164**	**115**	**306**	**193**	**121**	**74**
Use of IMF credit - PRGT	**98**	**65**	**49**	**143**	**96**	**48**	**0**
Other exceptional financing	**0**	**99**	**66**	**162**	**97**	**73**	**74**
Budget support loans	0	99	66	162	97	73	74
Budget support grants	0	0	0	0	0	0	0
Memorandum items:							
Burden sharing - Share of IMF	100%	40%	42%	47%	50%	39%	0%
RSF			0	186	106	27	0
Gross official reserves	2141	2631	2906	3105	3212	3331	3430
Gross official reserves (without RSF)	2141	2631	2906	2919	2920	3011	3110

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

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

	Debt Stock (end of period)			Debt Service					
	2023			2023	2024	2025	2023	2024	2025
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	**8,107,404,151**	**100.00**	**52.74**	**966,903,081**	**903,167,054**	**472,664,146**	**6.29**	**5.90**	**3.05**
External	**5,821,085,802**	**71.80**	**37.87**	**199,828,964**	**212,720,420**	**226,396,131**	**1.30**	**1.39**	**1.46**
Multilateral creditors[2]	4,546,646,218	56.08	29.58	135,971,773	155,926,062	170,627,546	0.88	1.02	1.10
IMF	1,085,675,453	13.39	7.06						
World Bank	2,389,365,125	29.47	15.54						
ADB/AfDB/IADB	597,012,569	7.36	3.88						
Other Multilaterals	474,593,053	5.85	3.09						
o/w: Intern'l Fund for Agricultural Dev.	151,444,960	1.87	0.99						
European Investment Bank	130,848,735	1.61	0.85						
Bilateral Creditors	999,425,799	12.33	6.50	28,442,047	28,098,673	36,766,508	0.19	0.18	0.24
Paris Club	415,329,884	5.12	2.70	-	-	-	0.00	0.00	0.00
o/w: Agence Française de Développement	174,344,200	2.15	1.13						
Japan International Cooperation Agency	179,545,366	2.21	1.17						
Non-Paris Club	584,095,914	7.20	3.80	-	-	-	0.00	0.00	0.00
o/w: Export-Import Bank of China	336,333,512	4.15	2.19						
Kuwait Fund	19,307,151	0.24	0.13						
Bonds	0	0	-						
Commercial creditors	94,013,786	1.16	0.61	35,415,144	28,695,685	19,002,077	0.23	0.19	0.12
o/w: Deutsche Bank	67,193,514	0.83	0.44						
Consorz GIFIEX	18,980,390	0.23	0.12						
Other international creditors (SOE debt)	181,000,000	2	1.18						
Domestic	**2,286,318,349**	**28.20**	**14.87**	**767,074,117**	**690,446,634**	**246,268,015**	**4.99**	**4.51**	**1.59**
Held by residents, total	2,286,318,349	28.20	14.87	767,074,117	690,446,634	246,268,015	4.99	4.51	1.59
Held by non-residents, total	0	0	-						
T-Bills	126,578,333	1.56	0.82	253,098,010	108,752,223	-	1.65	0.71	0.00
Bonds	860,154,226	10.61	5.60	262,806,502	482,318,020	232,094,396	1.71	3.15	1.50
Loans	183,595,962	2.26	1.19	84,421,537	99,376,390	14,173,619	0.55	0.65	0.09
Arrears	166,748,067	2.06	1.08	166,748,067	-	-	1.08	0.00	0.00
SOE	949,241,760.84	11.71	6.17						
Memo items:									
Collateralized debt[3]	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[4]	0								
Nominal GDP	15,869,945,477			15,869,945,477	17,420,813,726	18,378,113,431			

Sources: Country authorities; and IMF staff estimates.

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

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

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

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

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

Public and publicly-guaranteed external debt contracted	Volume of new debt in 2025		PV of new debt in 2025 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**1386**	**100**	**600**	**100**
Concessional debt, of which	**1128**	**81**	**379**	**63**
Multilateral debt	1009	73	308	51
Bilateral debt	119	9	71	12
Other	0	0	0	0
Non-concessional debt, of which	**258**	**19**	**221**	**37**
Grant element between 0 and 35 percent	158	11	121	20
Commercial terms	100	7	100	17
By Creditor Type	**1386**	**100**	**600**	**100**
Multilateral	1129	81	422	70
Bilateral - Paris Club	43	3	30	5
Bilateral - Non-Paris Club	214	15	147	25
Other	0	0	0	0
Uses of debt financing	**1386**	**100**	**600**	**100**
Infrastructure	139	10	125	21
Social Spending	0	0	0	0
Budget Financing	167	12	55	9
Other	1080	78	420	70

Sources: Malagasy authorities; and IMF staff projections.

Table 12. Madagascar: Schedule of Disbursements and Timing of Reviews Under the ECF and RSF Arrangements

Availability Date	ECF Disbursement (In percent of quota)	ECF Disbursement (In SDR millions)	Conditions for Disbursement
June 21, 2024	15.0	36.66	Board approval of the arrangement
November 30, 2024	15.0	36.66	Board completion of first review based on observance of performance criteria for end-June 2024
May 30, 2025	15.0	36.66	Board completion of second review based on observance of performance criteria for end-December 2024
November 30, 2025	15.0	36.66	Board completion of third review based on observance of performance criteria for end-June 2025
May 30, 2026	15.0	36.66	Board completion of fourth review based on observance of performance criteria for end-December 2025
November 30, 2026	15.0	36.66	Board completion of fifth review based on observance of performance criteria for end-June 2026
May 30, 2027	15.0	36.66	Board completion of sixth review based on observance of performance criteria for end-December 2026
Total	105.0	256.62	

Availability Date	RSF Disbursement (In percent of quota)	RSF Disbursement (In SDR millions)	Conditions for Disbursement
November 30, 2024	8.333	20.366	Implementation of reform measure 1
	8.333	20.366	Implementation of reform measure 2
May 30, 2025	8.333	20.366	Implementation of reform measure 6
	8.333	20.366	Implementation of reform measure 10
November 30, 2025	8.333	20.366	Implementation of reform measure 4
	8.333	20.366	Implementation of reform measure 5
	8.333	20.366	Implementation of reform measure 11
May 30, 2026	8.333	20.366	Implementation of reform measure 7
	8.333	20.366	Implementation of reform measure 9
November 30, 2026	8.333	20.366	Implementation of reform measure 3
	8.333	20.366	Implementation of reform measure 8
May 30, 2027	8.333	20.374	Implementation of reform measure 12
Total	100.0	244.40	
Memo item:			
Quota		244.40	

Source: IMF staff.

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

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
											(Millions of SDRs)										
Fund obligations based on existing credit																					
Principal	43.6	65.3	103.9	107.4	103.4	102.5	81.4	36.7	26.9	12.2	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	13.7	11.1	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Fund obligations based on existing and prospective credit																					
Principal	43.6	65.3	103.9	107.4	103.4	102.5	88.7	62.3	67.2	56.2	47.7	40.7	34.6	27.1	24.4	24.4	24.4	24.4	24.4	24.4	24.4
PRGT	43.6	65.3	103.9	107.4	103.4	102.5	88.7	62.3	67.2	56.2	47.7	36.7	18.3	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.1	16.3	23.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
Charges and interest	13.7	12.1	14.5	16.2	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.4	16.0	15.4	14.9	14.3	13.8	13.2	12.7	12.1
Total obligations based on existing and prospective credit																					
Millions of SDRs	57.3	77.4	118.4	123.6	119.9	119.0	105.2	78.9	83.8	72.7	64.2	57.3	51.0	43.0	39.9	39.3	38.8	38.2	37.7	37.1	36.6
Billions of Ariary	344	486	767	819	800	798	710	534	569	497	440	394	352	299	278	275	272	269	267	264	261
Percent of exports of goods and services	1.9	2.5	3.5	3.4	3.0	2.7	2.2	1.5	1.5	1.2	1.0	0.8	0.7	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.2
Percent of debt service	8.3	10.0	16.9	18.2	18.8	20.4	16.1	14.2	11.6	8.8	6.9	4.9	4.5	3.5	2.9	2.6	2.2	2.1	2.0	1.7	1.5
Percent of GDP	0.4	0.5	0.8	0.7	0.7	0.6	0.5	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Percent of government revenue	3.9	4.9	6.5	5.7	5.0	4.5	3.6	2.5	2.4	1.9	1.5	1.2	1.0	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.4
Percent of quota	23.4	31.7	48.4	50.6	49.1	48.7	43.1	32.3	34.3	29.8	26.3	23.4	20.9	17.6	16.3	16.1	15.9	15.6	15.4	15.2	15.0
Outstanding IMF credit based on existing and prospective drawings																					
Millions of SDRs	643.2	830.4	881.3	831.0	727.6	625.1	536.5	474.1	406.9	350.7	303.1	262.3	227.7	200.6	176.2	151.7	127.3	102.9	78.4	54.0	29.5
PRGT	643.2	687.8	657.3	586.6	483.2	380.7	292.1	229.7	162.5	106.3	58.7	22.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	0.0	142.6	224.0	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	240.3	224.0	200.6	176.2	151.7	127.3	102.9	78.4	54.0	29.5
Billions of Ariary	3,864	5,213	5,708	5,511	4,856	4,193	3,618	3,211	2,767	2,394	2,077	1,805	1,573	1,392	1,227	1,061	894	725	555	384	211
Percent of exports of goods and services	21.0	27.0	26.0	22.6	18.1	14.3	11.3	9.2	7.3	5.8	4.6	3.7	2.9	2.4	1.9	1.5	1.2	0.9	0.6	0.4	0.2
Percent of debt service	93.2	107.8	125.7	122.6	114.3	107.2	82.3	85.2	56.4	42.5	32.5	22.4	20.3	16.2	13.0	10.2	7.2	5.7	4.1	2.5	1.2
Percent of GDP	4.9	5.9	5.8	5.0	4.0	3.1	2.4	1.9	1.5	1.2	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.0
Percent of government revenue	43.9	52.1	48.0	38.6	30.1	23.5	18.3	14.8	11.6	9.1	7.2	5.7	4.5	3.6	2.9	2.3	1.8	1.3	0.9	0.6	0.3
Percent of quota	263.2	339.8	360.6	340.0	297.7	255.8	219.5	194.0	166.5	143.5	124.0	107.3	93.2	82.1	72.1	62.1	52.1	42.1	32.1	22.1	12.1
PRGT	263.2	281.4	268.9	240.0	197.7	155.8	119.5	94.0	66.5	43.5	24.0	9.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	0.0	58.3	91.7	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	98.3	91.7	82.1	72.1	62.1	52.1	42.1	32.1	22.1	12.1
Net use of IMF credit (millions of SDRs)	-6.9	187.2	50.9	-50.3	-103.4	-102.5	-88.7	-62.3	-67.2	-56.2	-47.7	-40.7	-34.6	-27.1	-24.4	-24.4	-24.4	-24.4	-24.4	-24.4	-24.4
Disbursements	36.7	252.5	154.8	57.0	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	0.0	0.0	0.0	0.0
PRGT	36.7	110.0	73.3	36.7	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	0.0	0.0	0.0
RST	0.0	142.6	81.5	20.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	43.6	65.3	103.9	107.4	103.4	102.5	88.7	62.3	67.2	56.2	47.7	40.7	34.6	27.1	24.4	24.4	24.4	24.4	24.4	24.4	24.4
PRGT	43.6	65.3	103.9	107.4	103.4	102.5	88.7	62.3	67.2	56.2	47.7	36.7	18.3	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.1	16.3	23.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
Memorandum items:				(Billions of Ariary, unless otherwise indicated)																	
Exports of goods and services (millions of SDRs)	3,056	3,072	3,388	3,679	4,015	4,374	4,763	5,170	5,611	6,091	6,612	7,178	7,793	8,461	9,187	9,976	10,832	11,763	12,774	13,874	15,079
Debt service	4,144.3	4,836.3	4,542.3	4,495.3	4,248.5	3,912.3	4,395.5	3,767.0	4,903.1	5,638.7	6,385.8	8,068.0	7,767.5	8,586.6	9,439.2	10,434.5	12,378.5	12,790.3	13,419.5	15,353.4	17,019.9
Nominal GDP (at market prices)	78,837	88,422	98,887	110,270	122,725	136,583	151,932	167,143	183,855	202,238	222,460	244,704	269,173	296,089	325,697	358,265	394,090	433,498	476,846	524,529	578,031
Government revenue	8,808	10,011	11,887	14,268	16,154	17,851	19,775	21,739	23,880	26,232	28,814	31,653	34,771	38,198	41,957	46,083	50,612	55,575	61,038	67,032	73,701
Quota (millions of SDRs)	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4

Source: IMF staff projections.

Table 14. Madagascar: Timeline of the Reform Measures Under the RSF

	1st ECF/RSF Review (November 2024)	2nd ECF/RSF Review (May 2025)	3rd ECF/RSF Review (November 2025)	4th ECF/RSF Review (May 2026)	5th ECF/RSF Review (November 2026)	6th ECF/RSF Review (May 2027)	World Bank Synergic Operations: Development Policy Operation	World Bank Synergic Operations: Investment Project Financing
Reform Area 1: Reinforce governance and mainstream the climate agenda into PFM/PIM processes.	**RM1 (Climate governance).** Adopt a decree clarifying the mandate of the Interministerial Committee for Environment (CIME) to cover all climate policies. This decree would provide notably for (i) chairmanship at the level of the Prime Minister (ii) meetings twice a year with publicly disclosed reports to monitor implementation (iii) a technical secretariat shared between MEDD and MEF. **RM2 (PIM Framework).** Adopt a new decree on environmental impact assessments (EIA) to replace the 2004 MECIE decree [Mise en compatibilité des investissements avec l'environnement] and adopt and publish criteria for prioritization and selection of investment projects, including climate change (adaptation, mitigation and resilience) related elements.		**RM4 (Climate Budget Tagging)** Adapt the budget classification to enable the tagging of climate-related adaptation and mitigation expenditures and append a first Climate Budget Statement (CBS) to the 2026 Executive Budget Proposal.		**RM3 (PIM Implementation).** Adopt a [decree] making it compulsory to produce every year a budget document listing the investment projects selected for the public investment program and explaining how the selection criteria have been applied, notably with respect to effective application of criteria related to climate adaptation and mitigation, and produce a first report in accordance with this obligation.		**Madagascar Equitable and Resilient Growth Programmatic DPO** (2023-2025): aims to mitigate Madagascar's climate risks through climate-smart and decentralized fiscal management. The DPO supports reforms to strengthen macro-resilience, including the adoption and enhancement of a decree to establish selection criteria - including climate change - for the prioritization of public investment projects.	
Reform Area 2: Enhance adaptation to climate change and strengthen resilience against natural disasters.		**RM6 (Disaster Risk Management).** Approve the necessary implementation regulations to simplify PFM processes for disaster-related expenditures and operationalize the National Contingency Fund (FNC) while ensuring adequate transparency and reporting of expenditures for each selected type of hazard.	**RM5 (Water Governance).** Approve in Cabinet a bill to update the 1998 Water Code, with a view to integrating climate change in the overall water policy and reinforcing the overall policy framework for Integrated Water Resource Management (IWRM), including by strengthening the National Authority for Water and Sanitation's (ANDEA) institutional framework.					The **Safety Nets and Resilience Project** (P179466) supports climate change adaptation including agroforestry, landscape management, irrigation, and reforestation, as well as rapid safety net response to climate shocks. The Support to Resilient Livelihoods in Southern Madagascar Project (P171056) covers a range of resilience measures including resource and landscape management. The **Madagascar National Water Project** (P174477) is financing investments in water supply in major cities across the country and several cyclone-affected areas. The **Regional Climate Resilience Project** (P180171) will fund the remaining stages of the preliminary drafts study of the Mandrare Multipurpose Transformative Project.
Reform Area 3: Support efforts to curb the growth of GHG emissions.				**RM7 (Energy prices and subsidies).** Fully eliminate all fuel price subsidies. **RM9 (Renewable energy production).** Adopt the FNED [Fonds National de l'Énergie Durable] decree and operationalize the FNED financing mechanism to support off-grid and mini-grid electrification with at least a total of 11.5 MW in newly installed renewable energy production capacity arising from operations supported by FNED.	**RM8 (Fuel taxation).** Gradually raise excise taxes and other levies on diesel fuel to align them to the level applicable to gasoline.			The **Madagascar Ethanol Clean Cooking Climate Finance Program** (P154440) aims to increase household use of ethanol cooking stoves for reduced GHG emissions in Madagascar. The **Atiala-Atsinanana Emission Reductions Program Project** (P167725) aims to make payments to the program entity for measured, reported and verified Emission Reductions (ER payments) related to reduced deforestation, forest degradation and the enhancement of forest carbon stocks (REDD+) at the national level in Madagascar, and distribution of ER payments in accordance with agreed Benefit Sharing Plan. The **Madagascar - Least-Cost Electricity Access Development Project – LEAD** (P163870) and the Digital and Energy Connectivity for Inclusion in Madagascar Project (P178701) are implementing grid-based renewable energy solutions.
Reform Area 4: Reinforce the protection of forests and biodiversity		**RM10 (Carbon storage in forests).** Adopt a new decree to improve the participation of the private sector and extend the scope of the REDD+ mechanism to reforestation schemes.						The **Atiala-Atsinanana Emission Reductions Program Project** (P167725) aims to make payments to the program entity for measured, reported and verified Emission Reductions (ER payments) related to reduced deforestation, forest degradation and the enhancement of forest carbon stocks (REDD+) at the national level in Madagascar, and distribution of ER payments in accordance with agreed Benefit Sharing Plan.
Reform Area 5: Mobilize climate finance			**RM11 (National Climate Finance Strategy).** Adopt an inter-ministerial decree on a climate finance mobilization strategy that prioritizes key investment areas as stipulated in national framework documents, with a tentative budget, options for innovative blended financing mechanisms and a timeline.			**RM12 (National Green Taxonomy).** Adopt a decree on implementing a national green taxonomy to inform all green/climate investments.		**Madagascar Ethanol Clean Cooking Climate Finance Program** (2016-2025) provides technical assistance to establish the institutional and regulatory framework to enable Madagascar's readiness to implement Art. 6 of Paris Agreement The **Atiala-Atsinanana Emission Reduction Program** (AA-ERP, 2022-2025), aims to reduce deforestation and forest degradation in its area of intervention through carbon market mechanism. The AA-ERP supported the elaboration and adoption of the decree on forest carbon market regulation in Madagascar.

Table 15. Madagascar: Timeline of Proposed Reforms and Synergies

REFORM AREA 1: REINFORCING CLIMATE GOVERNANCE AND PROMOTING CLIMATE-SENSITIVE INVESTMENTS					
AUTHORITIES' PRIORITIES	Clarify the institutional framework for climate policies		Improve monitoring of climate-related spending and implement new public investment projects climate-sensitive selection criteria		Mandate annual reporting on the implementation of public investment projects selection criteria
TENTATIVE TIMELINE	2024	2025	2025	2026	2026
ONGOING AND PLANNED WBG SUPPORT			WB DPO: Implementation of the decree establishing selection criteria – including climate change – for the prioritization of large public investment projects WB SDFP: Publication of a fiscal risk report that encompasses fiscal risks associated with climate change.		
IMF RSF SUPPORT	RM1 RM2		RM4		RM3
OTHER DEVELOPMENT PARTNERS SUPPORT			UNDP		
SUPPORTING TA/CD	WBG, IMF		IMF, WBG		IMF
REFORM AREA 2: ENHANCING ADAPTATION TO CLIMATE CHANGE AND RESILIENCE AGAINST NATURAL DISASTERS					
AUTHORITIES' PRIORITIES		Operationalize the National Contingency Fund (FNC)	Reform the Water Code		
TENTATIVE TIMELINE	2024	2025	2025	2026	2026

Table 15. Madagascar: Timeline of Proposed Reforms and Synergies (continued)

ONGOING AND PLANNED WBG SUPPORT		WP Regional MPA (REPAIR)	WB IPF: technical review of the draft code		
IMF RSF SUPPORT		RM6	RM5		
OTHER DEVELOPMENT PARTNERS SUPPORT		AfDB	EU		
SUPPORTING TA/CD			EU, GCA		
REFORM AREA 3: EXPANDING ACCESS TO RENEWABLE ENERGY AND SUPPORTING EFFORTS TO CURB THE GROWTH OF GHG EMISSIONS					
AUTHORITIES' PRIORITIES		Implement JIRAMA's least cost development plan (PDMC)	Operationalize the FNED financing mechanism	Eliminate all fuel price subsidies	Align taxation on all fuels
TENTATIVE TIMELINE	2024	2025	2026	2026	2026
ONGOING AND PLANNED WBG SUPPORT		WB DPO: Decree regulating modalities of applying the least-cost development plan (PDMC)	WB DPO: decree specifying the operating mode of the FNED		
IMF RSF SUPPORT			RM9	RM7	RM8
OTHER DEVELOPMENT PARTNERS SUPPORT			GIZ		
SUPPORTING TA/CD		WB Investment Project Financing	WB Investment Project Financing		IMF
REFORM AREA 4: REINFORCING THE PROTECTION OF FORESTS AND BIODIVERSITY					
AUTHORITIES' PRIORITIES		Extend scope of REDD+ mechanism			
TENTATIVE TIMELINE	2024	2025	2025	2026	2026
ONGOING AND PLANNED WBG SUPPORT		WB TA FCPF support in the revision of the 2021-1113 decree			

Table 15. Madagascar: Timeline of Proposed Reforms and Synergies (concluded)

IMF RSF SUPPORT		RM10			
OTHER DEVELOPMENT PARTNERS SUPPORT		UK Embassy			
SUPPORTING TA/CD		WB			
		REFORM AREA 5: MOBILIZING CLIMATE FINANCE			
AUTHORITIES' PRIORITIES			Finalize climate finance mobilization strategy		Implement a national green taxonomy
TENTATIVE TIMELINE	2024	2025	2025	2026	2027
ONGOING AND PLANNED WBG SUPPORT			WB TA, in collaboration with UNICEF and GCA, to support the elaboration of the National Financial Climate Strategy (NFCS)		
IMF RSF SUPPORT			RM11		RM12
OTHER DEVELOPMENT PARTNERS SUPPORT			UNICEF		
SUPPORTING TA/CD			WB, IMF, GCA Africa Adaptation Acceleration Program		IMF

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
External Risks			
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**Medium**. Madagascar could be affected through commodity price volatility leading to spending pressures, supply chain disruptions, higher inflation, 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 and continue targeting a medium-term fiscal consolidation path. Tighten monetary policy to contain inflation. Implement policies to cope with commodity price shocks as described below.
Global growth surprises: **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	**Medium**	**Medium**. A global slowdown would spillover to Madagascar through trade and financial channels exacerbating fiscal and external imbalances.	Maintain exchange rate flexibility to preserve external buffers. Create fiscal space and identify additional sources of concessional financing. Accelerate broad-based reforms to boost competitiveness and diversify the economy to build resilience against external shocks.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**Medium**. Lower external demand and commodity prices for metal and vanilla could reduce export revenues and mining production. Rising food and energy prices could lead to greater food insecurity and fuel inflation. Higher energy prices would also raise fuel and electricity costs and complicate the implementation of planned energy reforms.	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. Speed up the switch to alternative, cleaner forms of energy.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to low investment.	**Medium**	**High.** 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. Protect forests, enhance adaptation to climate change in the agricultural and water sectors and reinforce capabilities to respond to natural disasters by strengthening disaster risk management and preparedness. Leverage RSF reform measures, notably RM2 on adequate selection of public investment and RM6 on disaster response through the National Contingency Fund.

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

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
External Risks			
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**High**	**Medium.** Trade disruptions could raise food and energy prices, leading to greater food insecurity and inflation. Inward-oriented policies may lower foreign investment, potentially dampening economic growth.	Maintain exchange rate flexibility to buffer external price shocks. Accelerate broad-based reforms to boost competitiveness and diversify the economy to build resilience against external shocks. Target social spending to support vulnerable households.
Domestic Risks			
Social discontent and political instability. 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.	**Medium**	**High.** Persistent governance issues, food insecurity, and the lack of progress on structural reforms could fuel popular discontent and trigger social unrest.	Maintain appropriate macroeconomic policies to safeguard stability. Improve inclusiveness of government policies by freeing fiscal space to strengthen social safety nets. Improve transparency and accountability in public spending and step-up anti-corruption and AML/CFT efforts.
Lack of progress on structural reforms, especially for SOEs.	**High**	**High.** Lack of progress on structural reforms (notably for JIRAMA) would continue putting pressure on public finances, compromise additional concessional support, and harm negotiations with fuel suppliers leading to continued accumulation of cross-arrears.	Undertake promised reforms and renew commitment to ensuring efficiency, sustainability, and good management of SOEs (e.g., JIRAMA) in a transparent and equitable manner.
Monetary policy miscalibration.	**Low**	**Medium**. A lack of clear nominal anchor and loosening of the policy stance prematurely could hinder disinflation and cause a rapid de-anchoring of inflation expectations.	The central bank should remain vigilant and tighten monetary policy as needed. Maintain exchange rate adjustment and strengthen independence of the central bank.
Slower pace of governance reforms.	**Medium**	**Medium.** Poor governance, increased corruption, state capture in key sectors, and lack of transparency and evenhandedness lower confidence, private investment (incl. PPPs) and growth, and reduce external financing.	Build consensus on reforms. Improve communication. Adhere to governance reforms. Invest in human capital and institutions. Step-up anti-corruption and AML/CFT efforts.

Annex II. Status of Key Recommendations from the 2022 Article IV

Recommendations	Current Status
Fiscal Policy	
Strengthen fiscal space with further efforts to raise revenue and contain transfers to the energy sector	Gross tax revenue on an accrual basis increased by 0.3 percentage points of GDP between 2021 and 2023. The authorities have worked on modernizing the tax system, broadening the tax base and strengthening capacity. The implementation of an automatic fuel pricing adjustment mechanism, which should help contain transfers to oil distributors, was approved in June 2024, and two price adjustments were made in January and February 2025. More efforts are needed to improve JIRAMA's situation and reduce transfer needs.
Improve investment prioritization based on clear and transparent criteria, including resilience to climate change	The authorities published a public investment manual in March 2023, with the goal to strengthen the public investment management framework and to contribute to greater public investment efficiency. They are planning to introduce a more structured process for public investment project evaluation, selection, and budgeting (RSF RM2).
Strengthen social safety nets and increase social spending to improve the effectiveness of fiscal policy to stabilize the economy	While social spending remains low and under-executed, the preparation of annual expenditure commitment plans for social ministries contributed to strengthen execution. The authorities finalized the creation of a social registry and integrated around 80,000 households in the pilot phase.
Strengthen Public Financial management, Governance and the Fight Against Corruption	
Strengthen budget credibility and transparency	The authorities removed spending commitment authorizations in 2023 which supported budget execution and credibility and are finalizing the rollout of commitment plans at ministerial level. The authorities continue efforts to improve budget documentation and have already achieved some progress in the Open Budget Survey index (which increased to 39 in 2023 from 27 in 2021).
Effectively implement the anti-corruption framework	The authorities adopted a new law (Law 2023-026 of February 1st, 2024) to amend and supplement certain provisions of the 2019 AML/CFT law and are working on the associated implementing decree.
Ensure access to information to civil society to increase accountability	Since 2023, the anti-corruption clusters (PAC) have started to hold hearings and mobile inquiries in remote places in their jurisdictions. The authorities have requested a Governance Diagnostic Assessment to support their efforts to improve governance and fight against corruption.
Monetary and Exchange Rate Policy	
Improve the functioning of the interbank market and strengthen the interest rate channel of monetary policy to prepare the transition to interest rate targeting	BFM transitioned to a new interest rate targeting operational framework in February 2024, supported by MCM/AFRITAC South (AFS) technical assistance support. To accompany the transition, the central bank published an implementation strategy, a money market intervention guide, and a methodology for calculating and publishing the reference rate. Further efforts are needed to improve monetary policy transmission, including by setting up a single central securities depository.
Efforts to strengthen bank regulations and better enforce prudential regulation should be pursued	The authorities have made progress toward compliance with Basel III requirements, with support from MCM technical assistance. They adopted in 2023 the instructions establishing the new ratios for banks and financial institutions and are working on the final steps.
Building Resilience to Climate Shocks	
Build resilience to climate shocks and address food insecurity, including by improving green PFM and public investment management to enhance investment efficiency and attract climate financing	The matrix of reforms under the June 2024 RSF arrangement builds on the IMF 2022 Climate Macroeconomic Assessment Program (CMAP) and the World Bank 2024 Climate Change and Development Report (CCDR). Reforms will be supported by the enhanced cooperation framework for climate action from the IMF and the World Bank.

Annex III. Status of Key Recommendations from the 2016 FSSA

Recommendations	Status
Short-Term	
Intensify onsite supervision of banks and MFIs.	Completed. The new banking law entered into force on March 5, 2021, enhanced the powers and independence of the Banking and Financial Supervision Committee (CSBF) by ensuring its budgetary autonomy. The onsite inspection resources have been increased and became more targeted based on data provided through the automated prudential reporting system.
Begin to implement risk-based supervision.	Completed. The authorities have strengthened risk-based prudential supervision. The Banking and Financial Supervision Committee (CSBF) worked to implement the new risk-based supervision mechanism, including the conduct of annual inspection programs giving priority to institutions of systemic importance and entities with vulnerabilities. Risk-based supervision in the AML/CFT area is planned in accordance with the objectives of the 2018-2022 national strategy. A risk evaluation is ongoing, with the objective to update the national strategy.
Regularly conduct stress tests and use results to inform banking supervision.	Completed. Since 2016, annual stress tests conducted by the banking supervisor are used to inform supervisory prioritization.
Give the BCM all needed powers to promote financial stability, in cooperation with the CSBF and MFB.	Completed. BCM statutes were revised with the aim to reinforce its independence and give it a broad mandate to pursue financial stability. Work is also ongoing on the financial stability law, which should be presented to Parliament by June 2025.
Expand the definition of related parties and intensify supervision of concentration risks.	Completed. The new banking law entered into force on March 5, 2021. In the context of implementing the law, directives are being prepared on the issues deemed priorities, i.e., banks' capital, solvency, liquidity, risk concentration, and classification and provisioning of credit risks, in line with international standards.
Improve asset classification and provisioning rules.	Completed. The new banking law entered into force on March 5, 2021. In the context of implementing the law, directives are being prepared on the issues deemed priorities, i.e., banks' capital, solvency, liquidity, risk concentration, and classification and provisioning of credit risks, in line with international standards.
Medium-Term	
Increase the quantity and quality of the CSBF's human resources.	Completed. The Banking and Financial Supervision Committee (CSBF) recruited new staff and provided legal protection for its staff and Board members.
Enhance the powers and independence of financial supervisors.	Completed. The new banking law entered into force on March 5, 2021, enhanced the powers and independence of the Banking and Financial Supervision Committee (CSBF), by ensuring its budgetary autonomy, providing legal protection to CSBF board members and staff, developing well-defined criteria and a transparent process for selection of CSBF members.
Increase minimum capital requirements for credit institutions and MFIs.	Completed. Adoption of Decree No. 2021-205 on February 24, 2021 increased the minimum capital requirements of MFIs, incorporating such risk factors as exchange rate risk and operational risk. The prudential requirements related to capital and solvability ratios of Basel III were implemented in June 2024, while liquidity ratios are expected to enter into force in 2025.
Enhance the banks' internal control regulation and introduce detailed corporate governance requirements.	The banking law entered into force on March 5, 2021 enhanced the banks' internal control regulation and introduced detailed corporate governance requirements, including well-defined qualification requirements for members of banks' board of directors, their management and heads of control functions. The new legislation requires banks to publish annual reports containing quantitative information as well as qualitative disclosures related among others to corporate governance.
Strengthen the legal framework for the resolution of credit institutions and MFIs.	Completed. The promulgated microfinance law and the new banking law not only enhanced the powers and independence of the CSBF, but also gave it full supervisory authority over credit institutions and MFIs. CSBF has a specific mandate to resolve the institution's problems and preserve their capacity to fulfill critical functions, by taking developed resolution measures.

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

Recommendations	Status
	international tender in 2018. The first private credit bureau has been accredited in December 2018 and was launched in January 2019.
Modernize the security registers.	In progress. The digitalization of movable and immovable security registers is operational at the level of the national register of commerce and companies. Challenges in dealing with paperwork for construction and property registration are still highlighted as weak areas. Efforts are underway to improve land property law.
Improve mechanisms to freeze assets in cases of suspected money laundering and recovering goods acquired illegally.	In progress. The operationalization of the Illicit Assets Recovery Agency of (Agence de Recouvrement des Avoirs Illicites - ARAI) is effective since June 2022 with the swearing-in of its general director and an operational budget allocation included in the 2022 revised budget law. With a view to recovering illicit assets, BIANCO intends to fully exploit the potential of the new dynamic management regime of asset declarations provided for in the anti-corruption law to improve corruption investigations and to crack down on offenses related to illicit enrichment and other underlying offenses. In this respect, an implementing decree for the anti-corruption law on the dynamic management of asset declarations should be issued by the government, not only to complete the legal reforms recommended by the national anti-corruption strategy, but also to ensure greater consistency and synergy in anti-corruption actions in Madagascar in the context of the operationalization of the ARAI.

Annex IV. External Sector Assessment[1]

Overall Assessment: *The estimated external position of Madagascar in 2024 was broadly in line with the level implied by fundamentals and desirable policies based on the current account model. International reserves stand at an adequate level.*

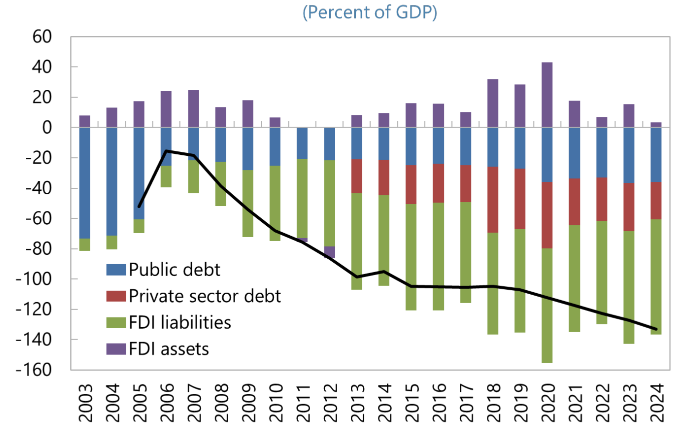
Potential Policy Responses: *Foreign exchange interventions should be limited to smoothing volatility to cope with external shocks and building external buffers, without resisting underlying market forces. Efforts to formalize the mining sector should continue, but the existing surrender requirement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

Foreign Assets and Liabilities: Position and Trajectory

Background. The Net International Investment Position (NIIP) remains negative, having decreased from -15 percent of GDP in 2006 to -132 percent of GDP at end-2024. Estimates of private sector assets and liabilities were revised up following an INSTAT survey resulting in a structural break in the series in 2018. More generally, Madagascar's NIIP position has been on a declining path on the back of private external borrowing by Madagascar's mining sector. The position has continued to decline in recent years, albeit more slowly than over 2007–2013. Almost all external public debt at end-2024 was held by official creditors and is concessional in nature.

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

Net International Investment Position
(Percent of GDP)



Sources: Malagasy authorities and IMF staff calculations

2024 (% GDP)	NIIP: -132	Gross Assets: 5	Debt Assets: 0	Gross Liab.: 137	Debt Liab.: 61

[1] Note that some end-2024 data are estimates.

Current Account

Background. As Madagascar is a country with large investment needs (and limited saving possibilities), the current account balance remains negative—in line with Madagascar's historical experiences. As COVID-19-induced lockdowns have weighed on tourism inflows and mining activity, the current account deficit has widened substantially since the outbreak of the pandemic, from -2.3 percent in 2019 to -5.0 percent in 2024. While vanilla and nickel exports are projected to be depressed in the short run,[2] Madagascar gets to benefit from a recovery of tourism inflows in 2024 and has resumed gold export since 2024Q4. These developments coupled with relatively stable import demand are projected to result in a current account balance of -5.5 percent of GDP in 2025.[3]

Madagascar: EBA-lite Model Results, 2024

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-5.0**	
Cyclical contributions (from model) (-)	0.1	
Additional temporary/statistical factors (-) 2/	0.6	
Natural disasters and conflicts (-)	-0.4	
Adjusted CA	**-5.3**	
CA Norm (from model) 3/	**-5.0**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-5.0**	
CA Gap	**-0.4**	**-1.0**
o/w Relative policy gap	1.7	
Elasticity	-0.2	
REER Gap (in percent)	**1.7**	**4.7**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional adjustment to account for the pent-up tourism export in 2024 (4.4 percent of GDP versus 3.2 percent of GDP in 2023 and 3.8 percent of GDP in the long term).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Assessment. The Current Account (CA) model suggests a current account gap of -0.4 percent of GDP for 2024, implying that Madagascar's external position is broadly in line with the level implied by fundamentals and desirable policies. The assessment for 2024 involves an additional adjustor as the scarring effect of the pandemic on tourism flows fades out and the latest data from the Ministry of Tourism shows pent-up tourism export in 2024 at 4.4 percent of GDP, compared to 3.2 percent of GDP in 2023 and 3.8 percent of GDP in the long term. The policy gap remains positive (1.7 percent of GDP), but significantly lower than in the 2023 ESA (3.5 percent).

[2] There was overproduction of nickel in Indonesia in 2023. The oversupply combined with reduced demand for electric cars led to a temporary drop in the price of nickel in 2023; the trend extended into 2024. In terms of quantity, nickel production in Madagascar was at normal level in 2024, and exports are expected to increase in 2025. As to vanilla, exports increased in 2024 as exporters cleared their stocks. In 2025, volumes of vanilla exports should return to historical levels, while the unit price is not expected to fully recover in the short run given the global price cycle.

[3] We expect that service trade surplus in 2024 is temporary and will return to service trade deficit from 2025 onward.

Real Exchange Rate

Background. Madagascar's Real Effective Exchange Rate (REER) remained stable over 2024, a marked change with the 2017-2021 period that saw a depreciation of the REER. In nominal terms, the ariary appreciated in the first half of 2024 before resuming its long-term depreciation trend. Overall, the currency depreciated by just 2 percent relative to the U.S. dollar in 2024.

Assessment. Based on the CA model, the estimated REER gap was 1.7 percent end-2024, while the REER model suggests a REER gap of 4.7 percent. Both methods point towards an overvaluation of the real effective exchange rate.

Capital and Financial Accounts: Flows and Policy Measures

Background. Inflows stemming from capital grants totaled some 2.3 percent of GDP over 2024. This reflects a likely temporary jump in this item from 2023, as further development of the local economy and changes in IDA project loan terms are expected to decrease the supply of grant financing. Net FDI inflows have been subdued since the pandemic (2.2 percent of GDP in 2023 versus pre-pandemic average over 2016-2019 of just under 3.2 percent) but rebounded to 2.8 percent of GDP in 2024 after electoral uncertainty abated.[4] Going forward, FDI inflows are expected to reach a new steady state value just over 2.3 percent of GDP. While the adoption of a new FX law remains pending, BFM is working to increase the liquidity and depth of the foreign exchange market. The success of these efforts would allow a gradual loosening of the existing surrender requirement on export proceeds, considered a capital flow management measure (CFM) under the IMF's Institutional View on the Liberalization and Management of Capital Flows, in a way that will not destabilize or put further pressure on the exchange market.

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

FX Intervention and Reserves Level

Background. Madagascar has a *de jure* floating exchange rate regime and intervenes to smooth volatility while gradually building reserves on average. End-2024, FX reserves stood at SDR 2,189 million (16.7 percent of GDP) or 6.1 months of next year's imports, higher than the end-2023 stock of reserves (SDR 1,972 million)[5] and up from their 2022 level of SDR 1,601 million. FX interventions in 2024 increased by 34% compared to 2023 and FX purchases outweighed FX sales (SDR 395.0 million and SDR 37.8 million respectively).

Assessment. International reserves are assessed as adequate. Reserve coverage has gone up since 2020, from 4.8 months of next year's imports to 6.1 months of next year's imports in 2024.

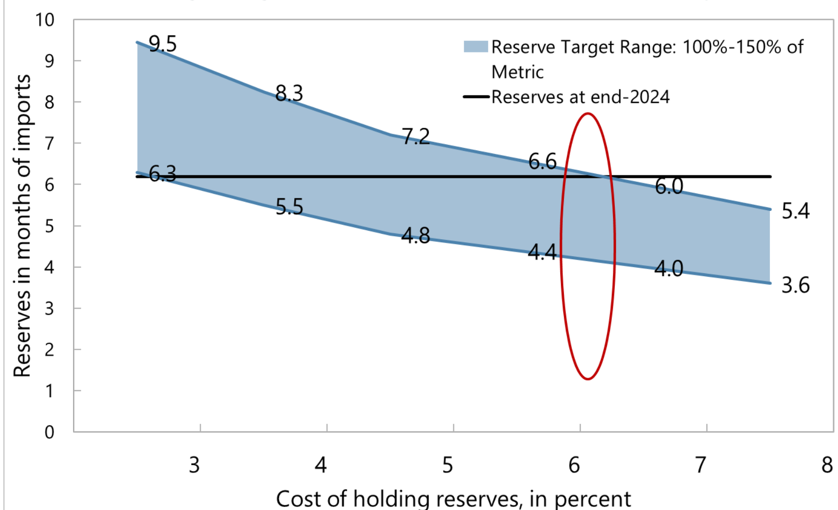
[4] 2024 FDI numbers are estimates. The rebound in FDI inflows is expected to be temporary and is mainly due to inflows into the telecom, construction, and mining sectors.

[5] This was mainly due to additional bank inflows and FDI towards end-2024.

The projected level of reserves coverage remains above the traditional three-month rule and slightly below the upper bound of 6.3 from an ARA model for credit-constrained economies that compares the marginal costs of holding reserves against marginal benefits (assuming a cost of holding reserves equal to 6.2 percent; see Figure). Finally, Madagascar remains highly vulnerable to additional external shocks, including terms-of-trade shocks and natural disasters that could put Madagascar's reserve path at risk. Moreover, coverage risks could also arise should government spending accelerate faster than anticipated in the context of a shortfall in external financing.

Madagascar: Optimal Reserve Levels

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



Source: IMF staff calculations.

Annex V. Data Issue

Table 1. Madagascar: Data Adequacy for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	B	B		
Granularity 3/	C		B	B	B		
			B		B		
Consistency			B	B		B	
Frequency and Timeliness	C	B	B	B	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision has some shortcomings, but is broadly adequate for surveillance. Shortcomings especially relate to timeliness and coverage, which can lead to delayed data revisions (e.g., final official data for annual GDP is published 2-3 years after the reference period). In particular, there is no decomposition of GDP on the demand side, which complicates staff assessment of economic developments related to aggregate consumption and investment. Efforts are ongoing to improve the compilation of timely and internally consistent data, especially on GDP data. Following the adoption of their strategic plan for the modernization of public finance management in October 2022, the authorities aim to adopt the methodological framework of the Government Finance Statistics Manual 2014 (GFSM 2014). They are also finalizing the adoption of a regulatory framework for the production and distribution of public finance statistics, which should support the establishment and signature of protocols to improve communication and information sharing between data producing and collecting agencies. Further work is needed to extend coverage of debt data to SOEs (especially JIRAMA). There are still delays in the dissemination of project loan data and collection and dissemination of project grant data, affecting mainly fiscal data.

Changes since the last Article IV consultation. While some efforts are ongoing, the situation is broadly unchanged compared to the 2022 Article IV consultation.

Corrective actions and capacity development priorities. Further work is needed to extend the statistical coverage to extra-budgetary administrative entities and decentralized local authorities under Treasury management and to the National Social security Fund (CNAPS). Technical assistance is being provided to INSTAT to produce quarterly GDP estimates, which should in principle facilitate the timely production of annual GDP data, and also for the rebasing of national accounts data. On the monetary side, a Financial Sector Stability Review is currently ongoing and should help identify further capacity development priorities.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. No data or estimates is used in lieu of official statistics.

Other data gaps. Data related to the labor market (employment, formal and informal unemployment) as well as gender-related data (employment, unemployment, income by gender) would enhance staff analysis.

Table 2. Madagascar: Data Standard Initiatives

Madagascar participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since May 2019.

Table 3. Madagascar: Table of Common Indicators Required for Surveillance
As of January 30, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Madagascar[8]	Expected Timeliness[6,7]	Madagascar[8]
Exchange Rates	Jan-25	Jan-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jan-25	Jan-25	M	M	M	30	1M	56
Reserve/Base Money	Jan-25	Jan-25	M	M	M	30	2M	60
Broad Money	Nov-24	Jan-25	M	M	M	30	1Q	60
Central Bank Balance Sheet	Jan-25	Jan-25	M	M	M	30	2M	60
Consolidated Balance Sheet of the Banking System	Nov-24	Jan-25	M	M	M	30	1Q	60
Interest Rates[2]	Dec-24	Jan-25	M	M	M	30	...	60
Consumer Price Index	Dec-24	Jan-25	M	M	M	30	2M	60
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	N/A				A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Oct-24	Jan-25	M	M	Q	30	1Q	80
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-23	Apr-24	A	A	Q	90	2Q	180
External Current Account Balance	Sep-24	Jan-25	Q	SA	Q	90	1Q	180
Exports and Imports of Goods and Services	Dec-24	Jan-25	M	SA	M	30	12W	90
GDP/GNP	Dec-23	Oct-24	A	A	Q	365	1Q	180
Gross External Debt	Dec-23	Apr-24	A	A	Q	90	2Q	180
International Investment Position	Dec-23	Oct-24	Q	SA	A	90	3Q	180

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

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

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

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

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

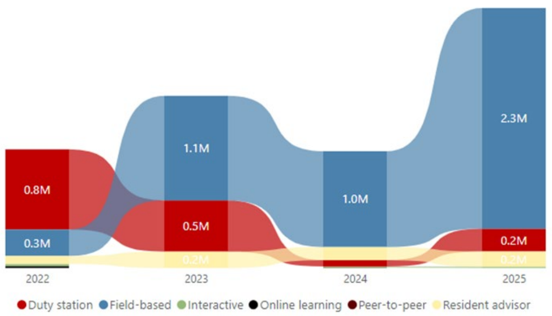
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex VI. Capacity Development: Supporting Program Priorities

Figure AVI.1 Madagascar: Overview of Past and Present CD Spending

In-person CD has risen post-pandemic.

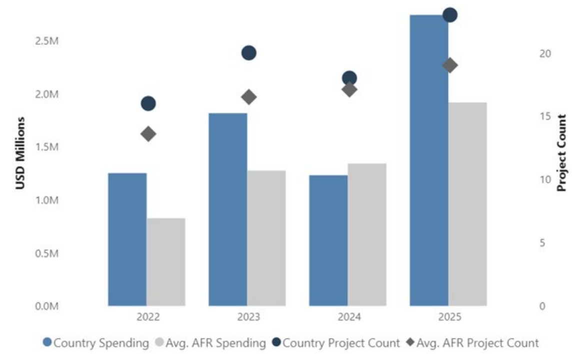
CD Single Country Spending by Modality Type, FY22–25
(Millions of USD)



Note: CD Modality is CD Delivery, Descriptions to be found in page 4 - Reference Guide_CD Modalities.pdf (imf.org).

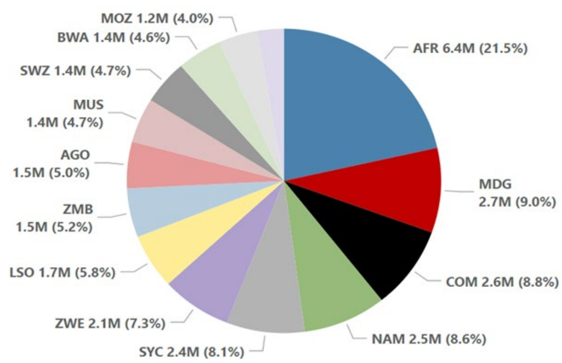
Madagascar receives more CD than the AFR average country.

CD Spending and Project Count in Madagascar and AFR, FY22–25
(Millions of USD)



Local CD support is high…

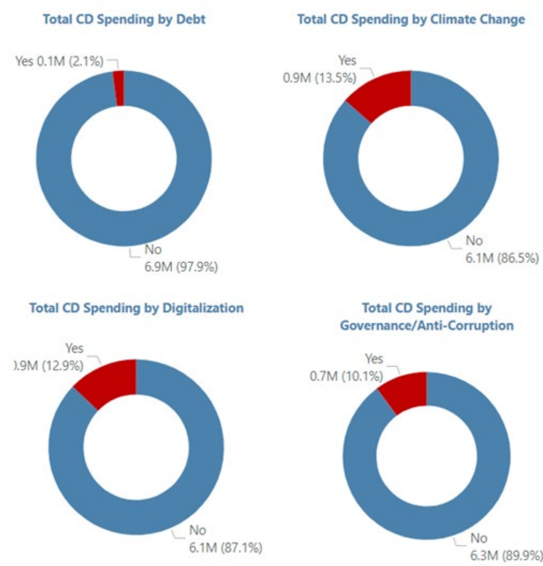
AFS Total CD Spending by Country, FY22–25
(Millions of USD)



Note: RCDC can share spending on non-AFS countries in the region when delivering CD.

….and covers core growth areas of the Fund.

Share of Total CD Spending per Growth Area in Madagascar, FY22–25

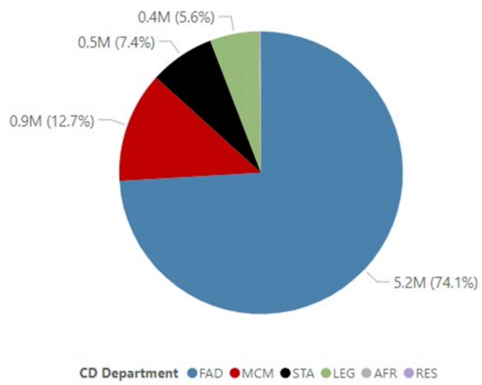


Note: Growth areas are not mutually exclusive. Country CD spending may overlap across multiple growth areas, as some activities can contribute to more than one area. Therefore, individual growth area spending figures are not additive.

Figure AVI.1 Madagascar: Overview of Past and Present CD Spending (concluded)

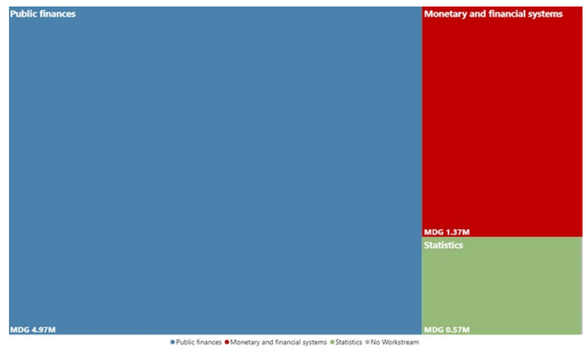
Most CD is delivered by FAD….

CD Spending by CD Departments in Madagascar, FY22–25
(Millions of USD)



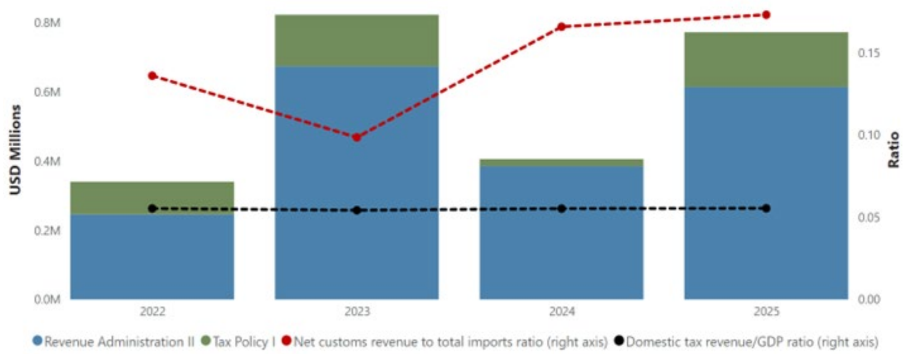
…and primarily focused on public finances.

Total CD Spending by Major Thematic Area in Madagascar, FY22–25
(Millions of USD)



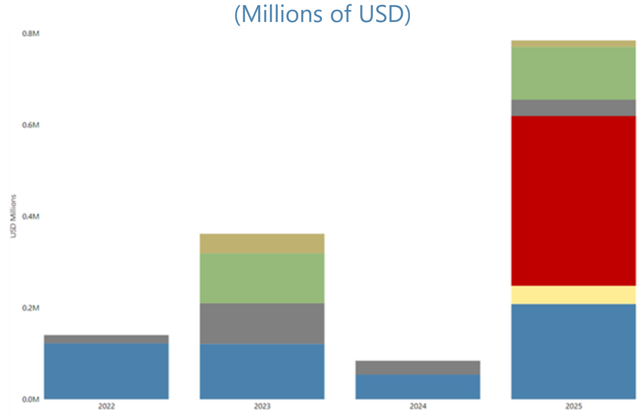
CD from FAD is expected to support gains in customs revenue collection…

Total CD Spending on Revenue Administration and Tax Policy Workstreams and Net Customs Revenue to Total Imports and Domestic Tax Revenue to GDP Ratios, FY22–25
(Millions of USD and Share)



…While MCM CD is aimed at modernizing monetary policy operations and reviewing financial sector stability.

CD Spending by MCM Department, FY22–27
(Millions of USD)



Source: IMF staff calculations.

CD Priorities by Department

FAD

- **Domestic tax and customs administration**. Increase tax and customs revenue through further reforming and modernizing tax administrations, including effective control and enforcement, and business facilitation for compliant taxpayers. Establish adequate tools and key performance indicators to monitor progress in tax and customs administration. Adopt performance and means contracts to modernize HR management.

- **Tax policy**. Help the dedicated Tax Policy Unit to make tax policy recommendations, including through limiting exemptions, based on recent evaluation of tax exemptions annexed to the budget law. Support progress in the overhaul and implementation of transfer pricing provisions. Support the reform of excise taxes (in connection with RSF measure - RM9).

- **PFM**. Finalize the reform of the budget classification, strengthen the macro-fiscal and budget framework, support effective implementation of the new legal framework and manual for public investment management; improve the expenditure chain.

- **Climate-smart PIM and green PFM**. Support introduction of climate budget tagging and mainstreaming of climate concerns into the evaluation and selection of public investment projects.

MCM

- **Monetary policy implementation and operations**. Enhance the interest rate targeting regime, by strengthening BFM's forecasting and analytical capacity (FPAS follow-up and liquidity projections).

- **Foreign FX interventions**. Support the revision and modernization of the central bank's FX intervention strategy (value-at-risk approach).

- **Financial sector stability**. Improve financial sector policy framework based on a thorough diagnostic of capacity gaps through a Financial Sector Stability Review (FSSR).

- **Banking supervision and regulation**. Continue to support the transition to Basel III regulatory framework. Strengthen institutional structures and operational procedures for risk-based supervision. Strengthen bank risk assessment framework.

STA

- **Real Sector - National Accounts, and Price**. Conduct rebasing of the national accounts. Continue to improve the quality of quarterly GDP series and ensure timely dissemination of data. Conduct the CPI update and develop PPI.

- **Government Finance Statistics**. Improve the quality and coverage of GFS (SOEs); and initiate compilation of a financial balance sheet.

- **Monetary and Financial Statistics**. Compile statistics for the insurance corporations' sector in line with the 2016 Monetary and Financial Statistics Manual and Compilation Guide.

LEG

- **Governance**. Support the preparation of the new 2025-2035 anticorruption strategy, through the conduct of a Governance Diagnostic Assessment aimed at identifying major governance vulnerabilities.

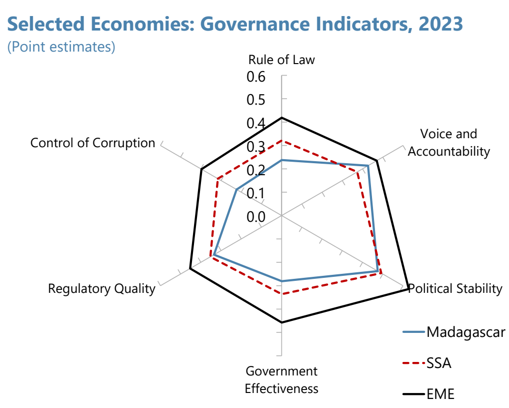
Annex VII. Update on Governance in Madagascar

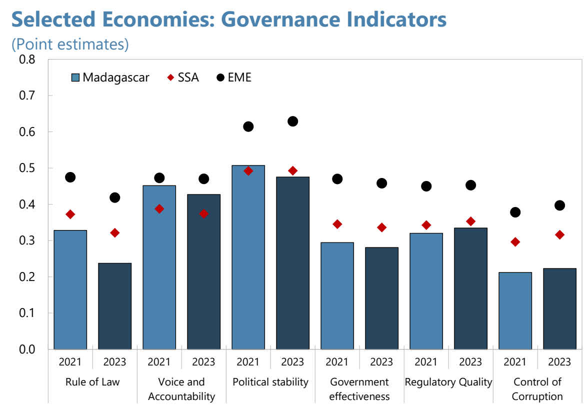
Better governance and strengthening the fight against corruption are required to achieve the development objectives under the State General Policy adopted in early 2024, which made governance and the rule of law its third pillar. The adoption of a new anticorruption strategy for 2025-2030 and the upcoming Governance Diagnostic Assessment requested by the authorities may provide an opportunity for renewed impetus in these crucial areas.

A. Background

1. **There has been no substantive improvement in Madagascar governance indicators over the last few years, which remain well below the average level of Sub-Sahara African countries (SSA).** According to the Worldwide Governance Indicators (see Figure 1), limited progress between 2021 and 2023 with respect to regulatory quality and control of corruption is more than offset by a sharp decrease in the rule of law indicator and – to a lesser extent – in other governance indicators (voice and accountability, political stability, government effectiveness). The 2023 Corruption Perception Index (CPI), published by Transparency International, rated Madagascar at 25 over a total of 100, with a higher value representing lower perceived levels of corruption. Over the last decade, Madagascar's average score has stagnated around 26 (significantly lower than the world average of 43 and that of SSA, which is 32). While the index reflects perception rather than facts on corruption, the score points to a strong perception of pervasive corruption. Lastly, the 2023 Country Policy and Institutional Assessment (CPIA, published in July 2024 by the World Bank) stressed that weak governance required immediate actions such as strengthening the justice system, enforcing property rights, and improving transparency and accountability in public institutions. It also noted that difficulty in securing land property rights was a critical impediment to achieving inclusive and sustainable growth.

Figure AVII.1. Madagascar: Governance Indicators





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

2. The authorities are aware of governance challenges and their importance in achieving Madagascar's development goals. Alongside human capital and industrialization / economic transformation, governance and the rule of law constitute the third pillar of the new State General Policy (PGE), adopted in January 2024 after the November 2023 presidential election. The PGE emphasizes the integrity and accessibility of the judicial system and transparency and honesty in public administration. The authorities started work in early 2024 on a new anticorruption strategy and requested IMF CD support for a Governance Diagnostic Assessment, currently ongoing and expected to be finalized by the second half of 2025.

B. Fight Against Corruption and AML-CFT

3. The evaluation of the 2015-2025 anticorruption strategy (SNLCC 2015-2025) highlighted its limited effectiveness in reining in corruption. Finalized in August 2024 with the support of the United Nations Development Program (UNDP), this evaluation concluded that while the SNLCC 2015-2025 helped reinforce the legal and institutional framework for fighting corruption in Madagascar and strengthen the mobilization of non-State actors, corruption has persisted at an elevated level. The evaluation ascribes this lack of results to (i) a complex political, economic, and social environment; (ii) a weak coordination and institutional collaboration in the absence of proper monitoring mechanisms; and (iii) insufficient budget and human resources. Overall, the SNLCC 2015-2025 was not able to increase the level of trust of the wider public in an effective repression of corruption, and the evaluation underscored that the lack of criminal or disciplinary sanctions in large corruption affairs continued to nurture a widespread feeling of impunity.

4. The lack of human and financial resources has not been addressed since 2023, except for the creation of an additional anticorruption court. The Anti-Corruption Système (*Système Anti-Corruption* -SAC) remains composed of five distinct entities. The Committee to Safeguard Integrity (*Comité pour la Sauvegarde de l'Intégrité* - CSI*)* oversees and steers the overall SAC, which includes the anti-corruption agency in charge of investigations and maintaining asset declarations (*Bureau Indépendant Anti-Corruption* – BIANCO), the financial intelligence unit (SAMIFIN), the agency in charge of illicit asset recovery (*Agence de Recouvrement des Avoirs Illicites* – ARAI) and the anti-corruption courts (*Pôles anti-corruption* – PACs). ARAI (created in 2022) is slowly ramping up its staffing and activities and a third PAC (out of six initially envisaged) has been operationalized in December 2024 in the city of Fianarantsoa. However, credits allocated to anticorruption agencies have remained largely flat since 2020 and the SAC is highly dependent on donors, especially to finance its investment and capacity-building efforts.

5. The new anti-corruption strategy (SNLCC 2025-2030) is an opportunity to address flaws in the implementation of SNLCC 2015–2025. Under the aegis of the CSI, work on the new SNLCC started in early 2024. Building on the UNDP-supported assessment of the previous anti-corruption strategy, consultations took place over the second half of 2024 and the new SNLCC is expected to be formally presented and published in the first few months of 2025, after a communication in the January 15 Council of Ministers. The new strategy emphasizes the need to foster a culture of integrity, reinforce collaboration across actors (including beyond SAC) and intensify repression against corruption networks to reinforce dissuasion and dispel risks of impunity.

The new SNLCC stresses the need for adequate resourcing and capacity building both within the SAC and within the wider public administration to ensure adequate implementation of the strategy.

6. **There is a need to build upon recent upgrades to the AML/CFT framework.** To ensure alignment with standards set by the Financial Action Task Force (FATF), the 2019 Law on anti-money laundering and combating the financing of terrorism (AML/CFT) was amended in early 2024 and complemented by an implementing decree adopted in July 2024. A new AML/CFT strategy covering 2025-2029 has been prepared to replace the 2022-2026 AML/CFT strategy and is awaiting adoption by the Council of Ministers. Further efforts are still required, notably to reinforce capacity within the Financial Intelligence Unit (SAMIFIN), to enhance risk-based supervision of the financial sector, and to strengthen the newly appointed supervisory authorities for designated nonfinancial businesses and professions (DNFBPs)

C. Access to Information and Business Climate

7. **Limited access to information remains a major obstacle to enhance accountability vis-à-vis Parliament and civil society.** Both Parliament and civil society have limited time to examine and discuss the draft initial budget or supplementary budgets. Public access to information is not guaranteed and neither is protection of whistleblowers. The *Conseil Economique, Social et Culturel*, whose creation was provided for in the 2010 Constitution, still remains to be operationalized and could provide an anchor for civil society participation in policy making.

8. **Further improvements to the business climate will be required to restore private sector confidence and attract investment.** While the Mining Code adopted in 2023 is expected to provide a framework for renewed mining investment and while the investment promotion agency (Economic Development Board of Madagascar – EDBM) has made efforts to streamline and digitalize processes for new foreign direct investment projects or local ventures, significant roadblocks remain. Apart from the lack of reliability in power and water provision, uncertainties in land access and property rights are a major obstacle. Businesses also complain about unpredictability in enforcement of existing legislation, notably in the tax area.

D. Fiscal Governance

9. **Capacity to mobilize revenues continues to be hampered by numerous tax exemptions and low tax compliance.** Tax revenues remained between 5.4 and 6.0 percent of GDP over the last five years, while customs revenues have recovered slightly above pre-COVID level (5.2 percent of GDP). The objectives set in the latest tax administration strategic plan 2024-2028, which aims at increasing domestic revenue mobilization to 18 percent of GDP by 2028 (of which 13 percent for internal taxes collected by the tax administration) seem overly ambitious. Efforts are being made under the program to rein in the growth of tax expenditures, which increased from 1.5 percent of GDP in 2015 to 2.9 percent in 2021 and 3.2 percent in 2022. Digitalization of tax and customs administration is expected to contribute to better tax compliance.

10. Public financial management (PFM) reforms are ongoing, but much remains to be done to ensure adequate implementation. In terms of fiscal transparency, Madagascar has made some progress as measured by the 2023 Open Budget Survey (OBS) (with a score of 39 out of 100 as opposed to 27 in the 2021 OBS), thanks to improvements in the presentation of the initial budget (introduction of a functional classification) and the regular production of in-year budget execution reports. However, public availability of budget information remains insufficient to support informed public debate, notably due to the late availability of the end-of-year budget report and audit report (with the *projet de loi de règlement* adopted only two to three years after the end of the fiscal year). In terms of public investment management, efforts have been made with the adoption in early 2023 of a new public investment management decree and the simultaneous publication of a public investment manual. There is still a need for institution and capacity-building both within the Ministry of Finance and line ministries to ensure the practical implementation of this new framework. In terms of internal and external controls, while the supreme audit institution (*Cour des Comptes*) now enjoys more financial independence (with its own budgetary program) and has been able to raise the profile and the quality of its work with support of USAID technical assistance, its efforts remain hampered by a lack of resources and limited follow-up on the recommendations of its audits. Internal audit and control mechanisms likewise need to be reinforced.

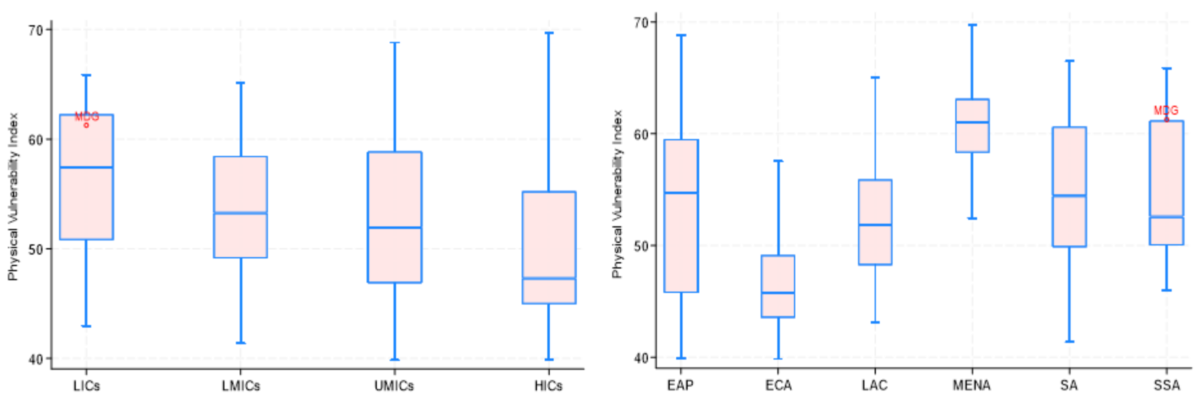
11. Interrogations on the role of the recently created Malagasy Sovereign Fund (FSM) and associated governance risks have not been fully addressed yet. The implementing decree of Law 2021-024 creating the FSM is still being prepared, and the manual of procedures expected to apply to FSM procurement operations has not been released either. The strategy envisaged for the FSM, its financing, objectives, and governance all remain to be clarified.

Annex VIII. Extreme Weather Shocks and Price Dynamics in Madagascar

1. Madagascar is highly vulnerable to extreme weather shocks. According to the physical-vulnerability-to-climate-change index (Feindouno et al., 2020), Madagascar is one of the most vulnerable countries among both sub-Saharan African and low-income countries (Figure A1). The index captures the part of a country's vulnerability to climate change that does not depend on economic policy by focusing on two types of risks including (i) the risks of an increase in the intensity of recurrent shocks (in temperature, rainfall, and storms), and (ii) the long-term risks of progressive shocks (such as flooding due to higher sea level, or desertification). Extreme weather shocks are highly prevalent in Madagascar – between 2 and 3 times per year over the past twenty-five years. Most of these events are tropical cyclones but droughts and floods are not uncommon).

Figure AVIII.1. Madagascar: Vulnerability to Extreme Weather Shocks

Madagascar is among the most vulnerable countries both in LICs and in SSA



Sources: Feindouno et al. (2020), and IMF Staff calculations.

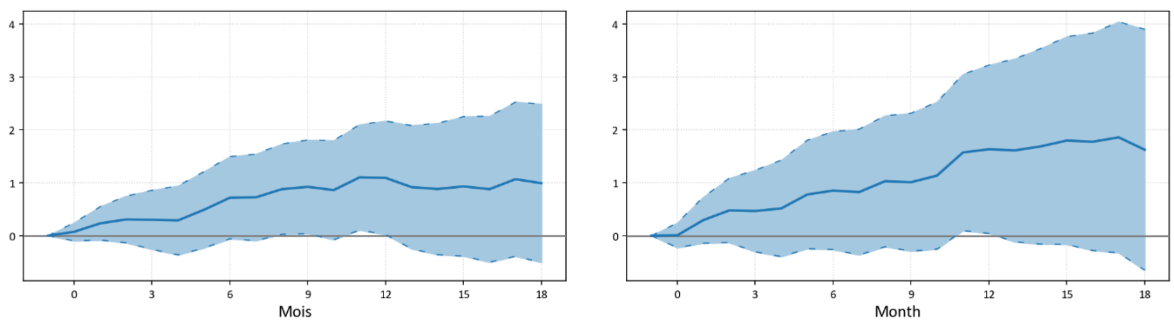
Notes: East Asia & Pacific (EAP), Europe & Central Asia (ECA), Latin America & Caribbean (LAC), MENA (Middle East & North Africa), South Asia (SA) and Sub-Saharan Africa (SSA). Low income (LICs), Lower middle income (LMICs) Upper middle income (UMICs), High income (HICs).

2. Weather shocks could be important drivers of inflation in Madagascar. Local products account for 86 percent of the consumer price index (CPI), while food and non-alcoholic beverages account for 53 percent of the CPI. Further, a sectoral decomposition shows that products from the primary sector account for 48 percent of the CPI. Extreme weather shocks could have significant influence on headline inflation through their potentially strong impact on locally produced agricultural products as the sector is highly dependent on the weather. While the weight of transportation in the CPI is relatively small (5 percent), an increase in transportation costs could pass through to other sectors of the economy and thus other items in the CPI basket.

3. Extreme weather shocks are associated with a persistent increase in consumer prices in Madagascar. Our estimates using a local projection framework shows that an extreme weather event, defined as an event with an impact greater than the average[1], is followed by a 1.1 percentage points increase in CPI after 11 months, which then stays broadly constant until the end of the horizon (Figure AVIII.2).[2] This result is in line with Parker (2018), who finds persistent effect of climate disasters on inflation in developing countries. Our results show that the response of food prices is larger, stabilizing at about 1.9 percentage points higher after 17 months. Overall, our results could suggest that, in addition to negative demand effects, extreme weather events may reinforce the role of supply side constraints causing a persistent locally produced food price inflation and thus constraining the ability of monetary policy to control inflation.

Figure AVIII.2. Madagascar: Cumulative Prices Response to Extreme Weather Shocks

CPI response *Food Price Index response*



Sources: EM-DAT; BFM; and IMF staff calculations.

Notes: The figure shows the cumulative response of CPI (left) and food component of CPI (right), in percentage points, to an extreme weather shock. The shaded areas denote the 90 percent confidence interval.

[1] The impact of an extreme weather shock is computed as the number of fatalities plus 0.3 times the number of persons affected. This definition follows Parker (2018). For Madagascar, 27 events meet this criterion in the EM-DAT database.

[2] The results are obtained from local projections over the period 2013m2 to 2024m6. The following equation is estimated for each horizon $h = 0, \dots, 18$: $g_{CPI,m-1:m+h} = \sum_{j=-12}^{0} \theta^{h,j} Event_{m+j} + \sum_{j=-12}^{-1} \delta^{h,j} g_{CPI,m-1+j:m+j} + \sum_{j=-2}^{-1} \lambda^{h,j} \boldsymbol{X}'_{m+j} + \varepsilon_m^h$, where m denotes the month, $g_{CPI,m-1:m+h}$ the growth of CPI between months $m-1$ and $m+h$, $Event_m$ the occurrence of an extreme weather shock during month m, $\boldsymbol{X}'_m$ a vector of control variables that include the year on year growth of international rice prices, of crude oil prices, and of global industrial production (global demand), as well as the global supply chain pressure index and the change in the marginal facility rate (monetary policy). ε_m denotes the error term.

Annex IX. The Distributional Impact of Fuel Price Increase in Madagascar

Fuel subsidies in Madagascar are not only inefficient, but they also divert public funds from essential sectors like education and healthcare. This analysis highlights the distributional consequences of rising fuel prices. It shows that wealthier households face the highest direct and indirect absolute welfare losses due to their greater fuel expenditures, while poorer households are less affected in absolute terms. Nonetheless, the estimated relative welfare impact on poorer households, is not negligible. These findings suggest that while the poorer households are less affected by a reduction fuel price subsidies, such reforms should be accompanied by targeted compensatory measures, such as, such as cash transfers or solar lamp distributions, to limit the adverse impact on the poorest households.

A. Introduction

1. Fuel subsidies are widely recognized in the literature to be inefficient, leading to a greater than optimal consumption of fuel in equilibrium and diverting public budgets from other sectors with positive externalities such as education and healthcare. The recent implementation of the automatic fuel price setting mechanism (prior action of the first ECF review) and the eventual removal of fuel subsidies in Madagascar (RM 7 of the RSF) has brought attention to the potential effects of increased fuel prices across households, notably among the poor. This annex simulates the impact of a hypothetical rise in fuel prices on households across different income groups. Using data from Madagascar's 2021-2022 household survey (EPM) and from the 2019 input output table (IOT), we measure both the direct and indirect impact on household welfare. In line with the literature, we find that fuel subsidies are regressive. The most affluent households experience the largest direct welfare losses when fuel prices increase. Indirect welfare losses are also the largest for these top household deciles. The impact of higher fuel prices on the rest of the economy is channeled through the transport and utilities sectors.

B. Data and Methodology

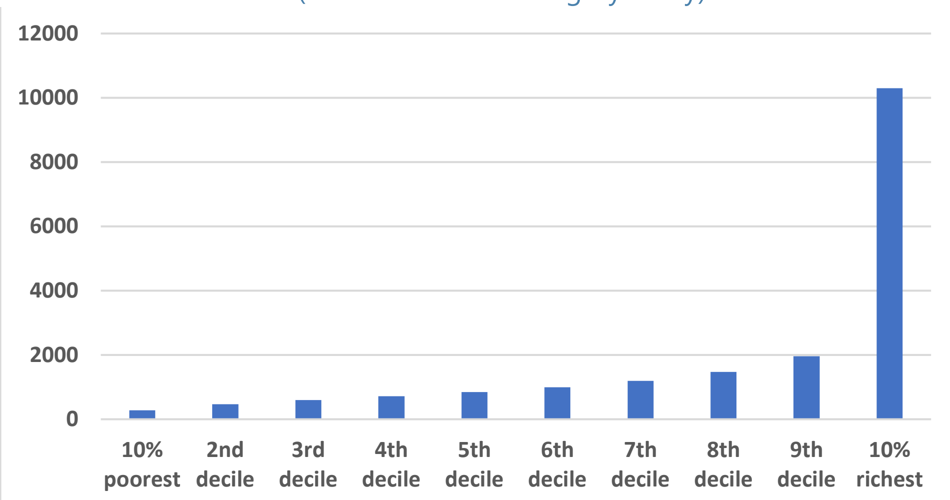
2. We adapt the methodology presented in Fabrizio et al. (2016), who conducted a distributional incidence analysis of the impact of a fuel price increase on household welfare that has developed into the IMF's FAD Tool for Distributional Analysis.[1] The main datasets used for our analysis are the 2021-2022 EPM and 2019 IOT published by Madagascar's National Statistical Institute (INSTAT).

[1] The direct impact of fuel prices on welfare is measured using fuel expenditure by households. Then, country specific IOTs are used to measure the indirect impact of fuel price increases on other industries. The indirect welfare impact on households is then estimated by mapping each industry to its share in the household budget, summing the partial derivatives of the price of each sector's good/service with respect to fuel price, weighted by the household budget share of the given sector's good/service. The tool, available for public use, can be found here.

3. **To measure the direct impact of a rise in fuel prices, we compute the budget shares of fuel expenditures among households in the EPM**. Households are then ranked according to per capita expenditure and the average consumption loss at each decile is calculated for a given rise in fuel prices. While an imperfect proxy for wealth, per capita household expenditure affects the household's utility or its welfare level and can thus be interpreted as a measure of "wealth". Figure 1 shows the average annual per capita expenditure by household wealth decile. Households in higher wealth deciles have a larger per capita annual expenditure, with for instance the poorest and richest deciles reporting a per capita annual expenditure of 276,126 ariary and 10,301,143 ariary respectively. As in Fabrizio et al. (2016), the analysis focuses on the partial equilibrium since the direct welfare impact is estimated holding household fuel demand constant.[2]

Figure AIX.1. Madagascar: Annual per Capita Expenditure by Wealth Deciles

(In thousands of Malagasy ariary)



Source: IMF and WB staff calculations using 2021-2022 EPM

4. **As an input in production, fuel price increases are likely to impact the prices of goods and services in other sectors in the economy.** Using information from the IOT,FAD Tool for Distributional Analysis sums the impact of fuel price on each sector, weighted by the budget share of each sector among households.[3] In line with the price-shifting model in Coady and Newhouse (2006), the FAD tool assumes a Leontief production function, such that firms' demand for a given

[2] Specifically, the direct welfare impact of an increase in fuel price is given by $\frac{dY_i}{Y} = b_i \frac{dP_i}{P}$, where $\frac{dY_i}{Y}$ is the percentage change in household welfare, b_i is the budget share of fuel i and $\frac{dP_i}{P_i}$ is the percentage change in the price of fuel i.

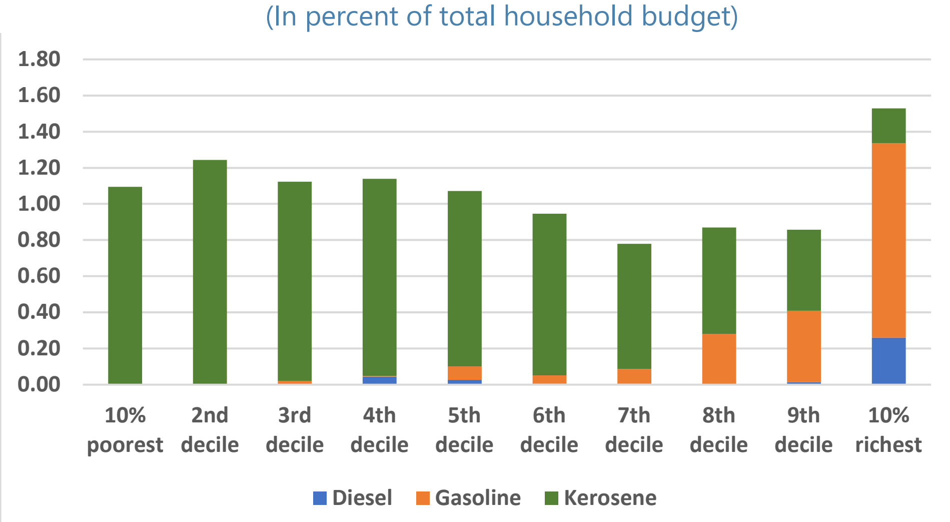
[3] The indirect welfare impact of an increase in fuel price is given by $\frac{dY_ind}{Y} = \sum_{j=1}^{n} b_j \frac{dP_j}{P}$, where $\frac{dY_ind}{Y}$ refers to the indirect percentage change in household welfare, b_j is the budget share of product j and $\frac{dP_j}{P}$ is the percentage change in price of product j due to the change in fuel price.

input is inelastic to its price, thereby precluding the possibility that production technology shifts away from costly inputs. [4]

C. Results

5. While absolute per capita expenditure on fuel rises with household wealth, the poorest households spend a similar share of their budget on fuel as the richest households. Figure AIX.2 shows the fuel budget shares of households in Madagascar from the poorest 10 percent to the richest 10 percent. While lower deciles spend a similar proportion of their budget on kerosene, the richest decile has a significantly higher share of their budget allocated to a mix of fuels including kerosene, gasoline, and diesel. The total fuel expenditure share as a percentage of income is notably higher for the wealthiest group, with the richest 10 percent showing a diverse energy mix and using more expensive fuels like gasoline and diesel. In comparison, poorer households rely primarily on kerosene, likely due to affordability and low ownership of motor vehicles. This variation in energy use and budget share across wealth deciles suggests that a rise in fuel prices is likely to affect households differently across the wealth distribution and also that the impact would depend on which fuel types become more costly.[5] While the richest decile of households has the largest fuel budget share of 1.5 percent, the fuel budget shares of lower-middle decile households are of comparable magnitude with the second poorest decile of households for instance spending 1.2 percent of their household budget on fuel.

Figure AIX.2. Madagascar: Household Fuel Expenditure by Wealth Deciles
(In percent of total household budget)



Source: IMF and WB staff calculations using 2021-2022 EPM

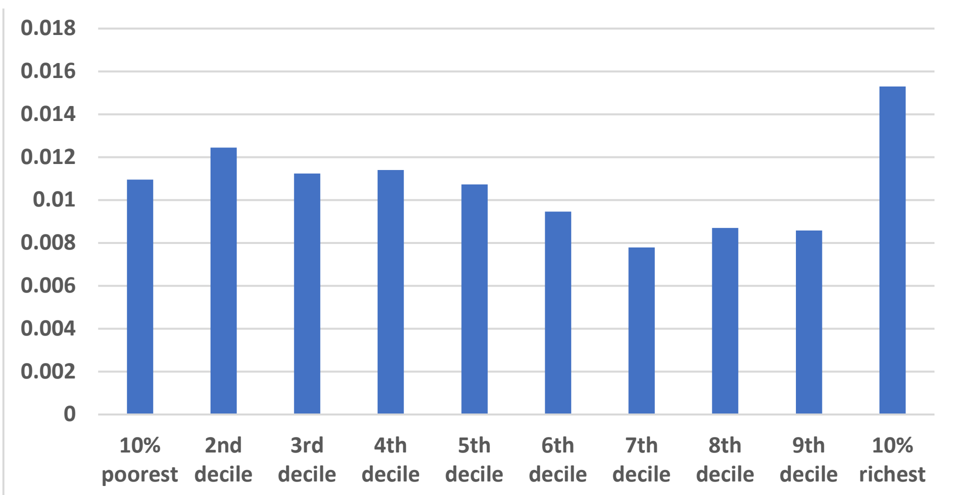
[4] Due to data limitations that complicate the mapping between household fuel consumption and sectors, we assume that the rise in fuel prices is passed on to other sectors via the utilities and transport sectors.

[5] Here it is assumed that prices rise uniformly across all fuel types.

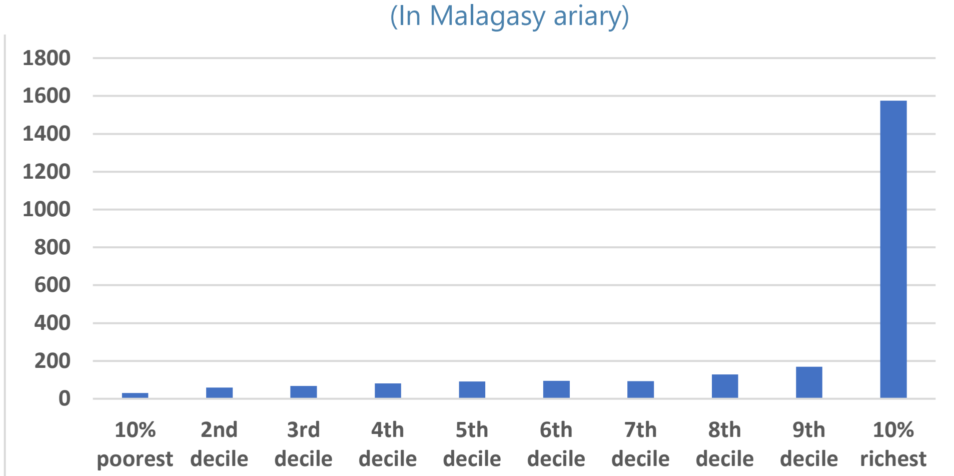
6. Figure AIX.3 presents the per capita loss in Malagasy Ariary for each wealth decile directly due to a 1 percent increase in fuel prices. Following Fabrizio et al. (2016) and holding household fuel demand constant, the direct per capita welfare loss, as a percentage of total per capita household budget, is proportional to the fuel budget share at each decile. In absolute terms, given the larger share for fuel and their greater total annual consumption, the richest decile of households would face the highest annual per capita consumption loss from a 1 percent rise in fuel price, of 1575 ariary. In contrast, the poorest household decile would experience a smaller annual per capita consumption loss of around 30 ariary. The values of direct consumption losses are small, reflecting the low share of household budget spent directly on fuel. Yet, as a key production input, fuel prices would likely affect goods and services in other sectors as well, leading to larger impacts on household welfare.

Figure AIX.3. Madagascar: Direct per Capita Welfare Loss With 1 Percent Rise in Fuel Price

(In percent of total per capita household budget)



(In Malagasy ariary)

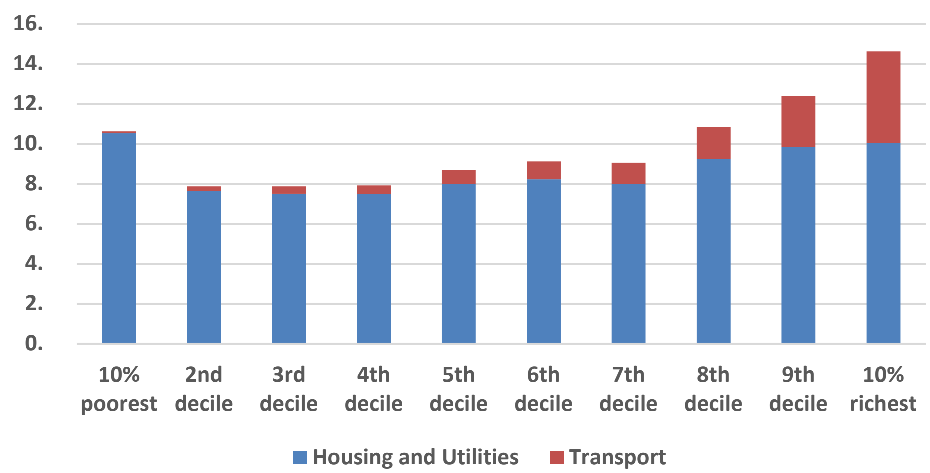


Source: IMF and WB staff calculations using 2021-2022 EPM

7. Given the imperfect mapping of fuel products to sectors in Madagascar's IOT, we assume that fuel costs impact other sectors via the transport and utilities sectors.[6] Figure AIX.4 presents the budget shares of the transport, and the housing and utilities sectors by household wealth decile. While richer households have a larger budget share for transport, poorer households spend a greater share of their budget on housing and utilities. Put together, the overall budget share on the two sectors increases with affluence, excluding the lowest decile of households.

Figure AIX.4. Madagascar: Transport, Housing and Utilities Budget Shares by Wealth Group

(In percent of total household expenditure)



Source: IMF and WB staff calculations using 2021–2022 EPM.

8. Using historical monthly inflation data for each sector, we estimate that the price elasticity of the transport sector and the housing and utilities sector with respect to fuel prices is around 0.9 and 0.3 respectively. We therefore assume that a one percent rise in fuel price translates to a 0.9 percent rise in transport prices and a 0.3 percent rise in housing and utility prices.[7] We then examine the impact of the price increase in these two sectors on the other sectors in the economy by applying the aforementioned price-shift model and FAD tool for distributional analysis. The total impact of a 1 percent fuel price increase as a percentage of per capita household consumption is presented in Figure 5. From the figure, the total percentage loss in consumption increases almost monotonically with wealth deciles, with the exception of the poorest decile.[8] Furthermore, the breakdown of the percentage loss in consumption due to the directly (transport and housing and utilities) and the non-directly affected sectors reveals that (i) the indirect impact of

[6] The country's 2019 IOT details the use of fuel products employed by the housing and utilities sector, as well as the transport sector, which allows for the aggregation of fuel products, weighed by their use in each of the two sectors.

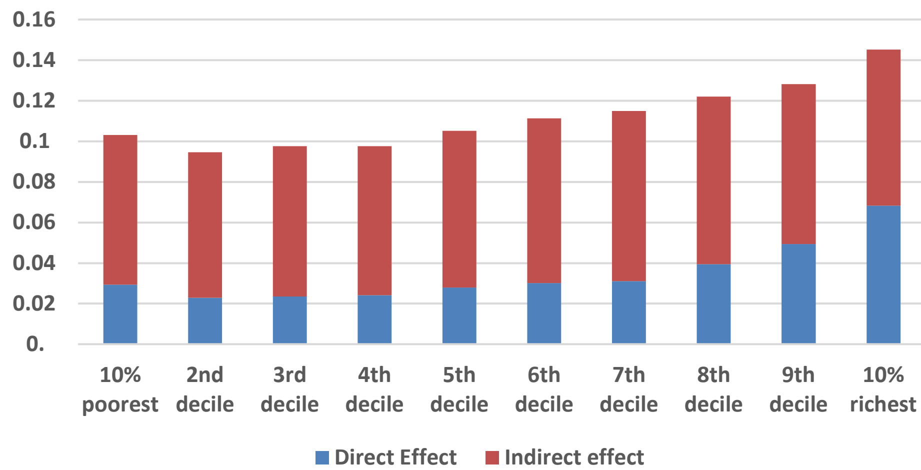
[7] These elasticities were estimated by regressing the inflation rates of each of the two sectors on the inflation rate of the energy sector, controlling for lags.

[8] The finding for the poorest decile reflects their lower overall consumption levels and higher transport and utility budget shares.

fuel price increase on other sectors contributes more to total consumption loss and (ii) is less progressive than the direct impact of fuel price increase on transport, housing, and utility prices.

Figure AIX.5. Madagascar: Total Consumption Loss of 1 Percent Increase in Fuel Price

(In percent of total household expenditure)

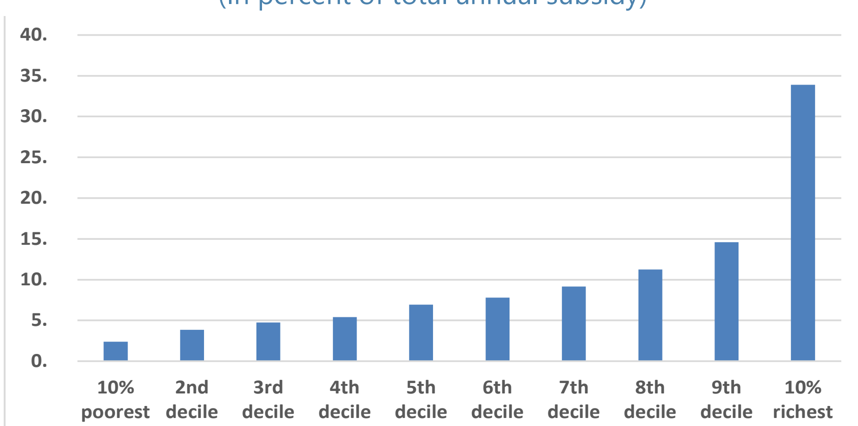


Source: IMF calculations using 2021–2022 EPM.

9. **Assuming that the lower ex-ante fuel price is due to a fuel subsidy, we can also measure how the value of the subsidy is distributed across household deciles.** As shown in Figure AIX.6 the share of the subsidy accruing to households rises monotonically with household wealth, with 34 percent of the value of the fuel subsidy going to the richest decile of households. The finding that fuel subsidies are largely regressive echoes the findings in the literature, including by Coady et al. (2006) and Del Granado et al. (2012).

Figure AIX.6. Madagascar: Distribution of Subsidy Across Wealth Deciles

(In percent of total annual subsidy)



Source: IMF calculations using 2021–2022 EPM.

10. The richest households would face the largest absolute and relative consumption losses from a rise in fuel prices. As such, the impact of an increase in fuel price would be largely progressive. Even so, the magnitude of welfare losses from a rise in fuel prices remains small. For instance, even for the richest decile of households, a 10 percent rise in fuel prices would result in a total welfare loss of just under 1.5 percent.

D. Conclusion and Policy Implications

11. Overall, the estimated rise in fuel prices on household welfare is small. These findings lend support to the current ECF-RSF program reforms, namely the implementation of the automatic fuel pricing mechanism and the gradual removal of fuel subsidies. Even with a large assumed pass through of fuel prices to the transport and utilities sectors, both the absolute and relative welfare losses were found to be modest.

12. The findings also suggest that a reduction in fuel subsidy would be mostly progressive. The analysis has demonstrated that the absolute consumption losses from a one percent rise in fuel prices would rise with household wealth, with wealth proxied by per capita expenditure. Yet, while the poorest households are the least affected in absolute terms by an increase in fuel prices, they still face some consumption loss as a share of their total consumption.[9]

13. To mitigate the welfare loss of the poorest households, a reduction in fuel subsidy should be accompanied by targeted compensatory measures. Providing renewable substitutes to kerosene, such as solar lamps, in addition to cash transfers, could also help minimize the welfare losses faced by the poor. Such accompanying measures are being undertaken, with the support of the World Bank, in preparation of kerosene price adjustments.[10]

[9] The findings hinge on the assumption that fuel prices uniformly increase across all fuel types. Due to the lack of more disaggregated IOT, estimates for the impact of heterogenous price changes across fuel types could not be provided. However, given the differing fuel consumption patterns across households depicted in Figure AIX.2, the poorest households would likely be more impacted by changes in the price of kerosene compared to other types of fuel.

[10] While poorer households would be less impacted by a reduction in fuel subsidies, the reform may still generate public discontent, notably among car owners and taxi drivers. Transparent and targeted communication from the authorities on expected price changes would help to address these concerns.

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Appendix I. Letter of Intent

Antananarivo, Madagascar
February 11, 2025

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

Madam Managing Director:

The Republic of Madagascar is more determined than ever to implement the reform program supported by the Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF) since June 2024. The attached Memorandum of Economic and Financial Policies (MEFP) details the measures and structural reforms envisaged to accelerate growth and fight poverty and corruption while strengthening our fiscal and external sustainability. These objectives are consistent with the General State Policy (PGE) priorities which include enhancing (i) human capital; (ii) industrialization and economic transformation; and (iii) governance and the rule of law.

The 2025 budget law includes several tax measures aimed at increasing domestic and customs revenue mobilization. In line with our commitment last June, we have reduced tax expenditures by more than MGA 280 billion and we are targeting an increase in the revenue-to-GDP ratio of roughly 0.5 percentage points. This increase in revenues should enable us to finance more investment and social spending, while limiting our indebtment. The implementation of JIRAMA's recovery plan will allow for a gradual decline in transfers to the company and help better control fiscal risks. Maintaining a prudent and data-dependent monetary policy will ensure price stability along with a comfortable level of foreign exchange reserves as a prerequisite for external stability.

We effectively applied the automatic fuel price adjustment mechanism adopted by decree in June 2024 and carried out a first price adjustment on January 18, corresponding to the application of the mechanism since June, as well as a second adjustment on February 5, according to the letter of the decree for the first half of 2025. We are committed to continuing monthly price adjustments in accordance with the new structural benchmark agreed as part of the program.

As indicated in the MEFP, we met all but one performance criterion at end-June 2024. We missed the primary balance criterion due to the disbursement of an exceptional loan to JIRAMA in the first part of the year. The delay in repaying 2023 arrears in June was cleared in September. A new agreement to clear cross liabilities with fuel distributors should help meet the indicative revenue target at end-December.

In terms of structural reforms, we extended annual commitment plans to all ministries to facilitate budget execution and adopted a decree establishing a single central depository for government securities at the central bank. We achieved our objectives of expanding the coverage of the single social registry to 600,000 households, which will facilitate the targeting of social assistance, and operationalized nine new food banks to combat food insecurity in the south of the country.

Finally, we made good progress in implementing RSF-supported reforms, with the approval of two new decrees strengthening the Interministerial Committee for the Environment (CIME) and environmental impact assessments (MECIE).

In accordance with the announcements made at the time the program was approved, we intend to use the second disbursement requested under the ECF arrangement for budget support purposes, through on-lending by the central bank to the Treasury. Accordingly, we will update the existing Memorandum of Understanding (MoU) between the central bank and the government that has been used for similar operations.

We remain ready to take any further measures that may prove necessary to achieve the objectives of the ECF- and RSF-supported arrangements and will consult with IMF staff prior to the adoption of any change to policies set out in the MEFP. We commit not to introduce measures or policies that would exacerbate Madagascar's balance of payments difficulties and to provide timely program monitoring information to Fund staff.

We are taking steps to clarify and resolve existing external arrears and request the completion of the financing assurances review. We also ask the IMF Executive Board to grant a waiver for the non-observance of the domestic primary balance floor given the temporary nature of the breach. Based on the program achievements to date and the commitments presented in the MEFP, we are requesting the conclusion of the first reviews under the ECF and RSF and the disbursement of SDR 36.66 million, or 15.0 percent of quota, under the ECF, and of SDR 40.732 million, or 16.666 percent of quota, under the RSF.

We agree that this Letter of Intent (LOI) and the attached MEFP and Technical Memorandum of Understanding, as well as the IMF staff report related to the first review under the ECF/RSF arrangement, and the debt sustainability analysis, may be published after approval by the IMF Executive Board.

Please accept, Madam Managing Director, the assurance of our distinguished consideration.

/s/	/s/
Ms. Rindra Hasimbelo Rabarinirinarison Minister of Economy and Finance	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 2024–2027

This Memorandum of Economic and Financial Policies (MEFP) updates the version prepared for the approval by the IMF Executive Board of the agreement supported by the Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF) on June 21, 2024. It reviews the recent developments in the economy, the implementation of the government's commitments, economic outlook and risks, as well as the macroeconomic and structural policies pursued.

CONTEXT

1. Madagascar continues to face significant development needs in a context of high vulnerability to climate change. The poverty rate is estimated at around 77 percent of the population according to the latest household survey. 66 percent of the workforce depends on agriculture, and food insecurity affects a large share of the population. Structural obstacles such as limited access to electricity hinder development, and the investment needs in education, health, and the social sector are immense. Madagascar also faces frequent climate shocks, with an average of three climate-related disasters each year, affecting nearly 6 percent of the population. In this context, the Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF) aim to enhance economic resilience and promote long-term inclusive growth, while contributing to addressing climate vulnerabilities.

2. Since the conclusion of the Article IV consultations in 2022 and during the previous program, we have implemented several key recommendations from the IMF. To increase our fiscal space, we have begun modernizing our tax system, broadening the tax base, and strengthening our capacities. We have reformed the mining code. In March 2023, we adopted a new decree on public investment management (PIM) and subsequently published the associated manual, aiming to improve the PIM framework and increase the effectiveness of these investments. In terms of monetary policy, the central bank transitioned to a new operational framework for interest rate targeting in February 2024 and has made progress towards compliance with Basel III requirements.

3. We wish to continue this reform momentum. The two new arrangements supported by the ECF and the RSF should accelerate efforts, affirm macroeconomic stability by contributing to both budget financing and strengthening foreign exchange reserves, and support Madagascar's efforts in combating climate change.

RECENT DEVELOPMENTS AND OUTLOOK

4. Growth has stabilized since 2022 at around 4.2 percent per year. Revised estimates for the period 2022-2024 indicate a growth at around 4.2 percent per year. Growth in 2024 benefited from a good rice harvest that boosted agricultural production and a strong expansion in graphite production in the context of rising global prices. Tourist arrivals continue to increase but remain below 2019 levels. Growth in credit to the private sector has only partially recovered, rising from 0.0 percent year-on-year in January to +6.3 percent in June. The weakness of exports (7.1 percent of GDP in the first half of 2024 compared to 10.6 percent in 2023) explains the expected deterioration of the current account balance of payments.

5. The persistence of inflation above 8 percent per year is linked to supply factors. Overall inflation and core inflation stood at 8.2 percent and 8.6 percent year-on-year in November 2024, compared to 7.3 percent and 8 percent in March 2024. Energy supply difficulties and the deterioration of road infrastructure led to increased production and transport costs, contributing to rising food prices.

6. We anticipate an increase in growth starting in 2025 and a convergence toward a potential of 5 percent in the medium term, thanks to expected increases in agricultural production, gains in the mining and textile sectors, as well as strong growth in key tertiary sectors such as transport, construction, tourism, and telecommunications. Inflation is expected to gradually converge to 6 percent in the medium term, while the current account deficit is expected to stabilize below 5 percent of GDP.

PERFORMANCE UNDER THE PROGRAM

7. The budget performance for the first half of 2024 is uneven, with a breach of the primary deficit criterion. Budget revenues on a cash basis are generally in line with projections following revisions made in the revised budget law. However, a lower-than-expected recovery of petroleum tax arrears has prevented the achievement of the quantitative target for gross revenues by the end of June 2024 (cash basis). The primary balance at the end of June is also below the floor set under the performance criterion, despite an adjustment resulting from higher than expected external project loans, due to the regularization of an exceptional loan of MGA 366 billion from the government to JIRAMA (dating back to 2023), which significantly increased the net other operations of the Treasury, uncompensated by the low execution of public investments financed from domestic resources (0.1 percent of GDP at the end of June 2024, compared to a projection of 0.5 percent of GDP). This temporary breach should not affect compliance with the deficit criterion by the end of 2024 and therefore does not, in our view, call for corrective measures.

8. The other performance criteria at the end of June 2024 have been met. The growth of the money supply (M3) reached 10.5 percent year-on-year, slightly below the median rate expected under the monetary policy clause.

9. We are making progress in implementing the structural benchmarks. We provide the IMF staff with monthly dashboards on the performance of tax and customs administrations, as well as the financial situation of JIRAMA. Despite the delay in achieving the structural benchmark by the end of October 2024, we continue efforts to establish the last of 10 new food banks as quickly as possible.

PROGRAM OBJECTIVES AND POLICIES UNDER THE EXTENDED CREDIT FACILITY

10. The arrangement aims to consolidate past achievements and further accelerate the dynamics of the reforms envisaged in the General State Policy (PGE). The ECF also plays a catalytic role in ensuring better mobilization of support from Madagascar's other technical and financial partners. To this end, it is structured around four main pillars: (i) anchoring fiscal sustainability; (ii) strengthening governance and the fight against corruption; (iii) consolidating monetary and financial stability; and (iv) promoting inclusive and sustainable growth.

Pillar 1: Anchoring Fiscal Sustainability

11. Our objective is to stabilize debt below 60 percent of GDP in the medium term. We may revisit this ceiling in consultation with the IMF as we make progress towards greater domestic revenue mobilization. Our debt sustainability analysis indicates that the country's debt level remains sustainable with a moderate risk of debt distress. We emphasize the critical importance of enhancing the mobilization of domestic resources and utilizing them more rationally and efficiently, prioritizing investments in human capital and infrastructure, which are vital for fostering stronger, sustainable, and inclusive growth.

12. We recognize the importance of developing a medium-term fiscal strategy anchored in our debt target. Each year, during the budget preparation, we will determine the primary balance compatible with this objective, considering available financing. We will make sure to improve budget realism, particularly regarding revenue growth assumptions and the expenditure envelope, to reflect our capacity to implement the investment projects identified in the budget law and exogenous risks, particularly related to climate.

13. Our borrowing strategy will support this debt stabilization objective and include necessary measures to continue to improve debt management. We will continue to seek a preferential recourse to concessional external borrowing while simultaneously developing the domestic bond market to diversify funding sources and reduce exchange rate risks. We are working on reducing contingent liabilities risks, especially those related to SOEs, as their realization could lead to a faster than expected deterioration of our debt indicators. Furthermore, we will continue efforts to strengthen our debt management capacity to align it with international best practices, building on the diagnostic using the Debt Management Performance Assessment (DeMPA) methodology, finalized with World Bank support in February 2023.

14. In the short term, the low development of the domestic credit market and the limited capacity of banks to absorb new government securities restrict the State's financing capacity. The 2025 budget law aims to maintain the primary deficit on a commitment basis (i.e., excluding exceptional revenues related to the payment of taxes and duties arrears on petroleum products) at 2.9 percent of GDP, including a reduction in tax expenditures amounting to MGA 280 billion (**prior action 1**). More specifically, the budget incorporates an increase in tax revenues by 0.7 percentage points of GDP compared to the revised 2024 budget law, due to a combination of fiscal policy and administrative measures. This increase in revenues enables an increase in capital expenditures while protecting social spending.

Mobilizing Tax Revenues

Domestic revenue mobilization remains a priority to achieve the objectives set in our PGE. The availability of sufficient domestic resources will also ensure sustainable and viable financing of our development projects.

15. We have placed significant emphasis on the issue of tax expenditures in the 2025 budget law and will continue to do so in future budget laws to mobilize more resources. We recognize that the existence of tax expenditures, estimated at 3.2 percent of GDP in 2022 (estimation by the Fiscal Policy Unit - UPF), generates distortions and may lead to fraud. We have thus relied on the UPF work and the report prepared by the African Development Bank at the end of 2023 to rationalize tax expenditures, while ensuring legal stability and the non-retroactivity of tax law. We will ensure the effective implementation of Decree 2023-328 of March 30, 2023, which sets conditions for the adoption, evaluation, and monitoring of tax and customs incentive measures. To facilitate progress monitoring, we commit to continue providing IMF staff with the monthly dashboard of performance indicators for tax and customs administrations (**continuous structural benchmark 1**), taking into account relevant suggestions from the technical assistance of the IMF's Fiscal Affairs Department to improve its reliability.

16. At the level of the tax administration (*Direction Générale des Impôts, DGI*), we will work on consolidating past achievements, strengthening the implementation of reforms already undertaken, and exploring other avenues to increase tax revenues. Over the past three years, we have worked on (i) modernizing our tax system to promote investment and consumption; (ii) digitizing taxpayer services and tax operations; (iii) broadening the tax base and controlling fiscal discipline; as well as (iv) strengthening human capacities and governance mechanisms. The implementation of these actions has led to some improvement in tax management, but more remains to be done. Our future actions will benefit from the results of the TADAT (Tax Administration Diagnostic Assessment Tool) as well as from various technical assistance's recommendations and will rely on modernizing the DGI's management with the introduction of objectives and resources contracts between the Ministry of Finance and the DGI (**structural benchmark 12).** We thus foresee actions to:

- Control the tax base and discipline by ensuring: (i) proper application of tax rules and by adopting an effective tax policy for sustainable development; (ii) the fight against tax fraud and evasion; (iii) legal certainty for taxpayers, justice, and tax fairness;
- Digitize tax services and procedures (new integrated Tax Administration System or SAFI) and leverage advanced technologies in a rational risk-based approach;
- Develop the online invoicing platform (e-invoicing);

- Strengthen the existing collaboration with various national public entities (DGD, SAMIFIN, CNAPS) and extend it to other entities if necessary;
- Strengthen international tax cooperation by increasing collaboration with partners;
- Improve the internal audit framework to better balance the State rights and those of taxpayers and establish performance-based management of tax audit;
- Strengthen internal control structures, initiatives, and collaborations in the fight against corruption by providing users with an online platform for whistleblowing and grievances.

17. Regarding the customs administration (*Direction Générale des Douanes, DGD*), we are currently developing a new strategic plan for 2025-2029, taking into account lessons learned from the previous plan to extend the reforms initiated between 2020-2023. These actions, undertaken with the support of technical assistance from the Fund and other technical and financial partners, focus notably on:

- Strengthening controls, value control, and the use of mirror statistics;
- Continuing customs modernization actions, including strengthening its human resources management system;
- Enhancing risk control functions without compromising the role of Customs as a trade facilitator;
- Improving collaboration with other administrations.

18. To achieve our objective of increasing the tax burden ratio (net domestic tax revenues/GDP) by 2.4 percentage points of GDP between 2023 and 2027, we have identified the following measures to be implemented in 2025 that will allow us to increase tax revenues by 0.7 percentage points of GDP next year relative to the 2024 revised budget law:

- In accordance with the commitment made under the ECF, we have identified an amount of MGA 280 billion in tax expenditures to reduce, such as VAT exemptions on insurance contracts or overdraft interest.
- We have revised certain excise duties, particularly on alcohol, tobacco products, and plastics.
- We have also decided to implement a tax on the revenue of electronic money operators.
- Finally, we continue our efforts to improve the management, control, and collection of VAT, to strengthen customs controls, and to digitize (SAFI) and broaden the tax base, which should yield results starting in 2025.

19. We commit to implement contingency measures if the above revenues do not materialize. If the revenues from these measures are lower than expected, we commit to identify new compensatory measures.

20. We remain committed to implement the provisions of the 2023 mining code for all mining projects with a view to maximize future government revenue. The large-scale mining projects law (LGIM) is being revised to enhance consistency with the mining code, update stability regimes, and maximize the impact on the economy.

Improving the Quality of Public Expenditures

The large transfers to JIRAMA and fuel subsidies have a crowding-out effect on public investment expenditures and social transfers necessary for development. We will seek to redirect government spending to promote economic growth and strengthen budget predictability.

21. We are committed to limiting transfers other than pensions and to maintaining them at the amounts allocated in the initial budgets. Transfers (excluding pensions) constitute an important (3.8 percent of GDP in 2023) and volatile part of the budget. The emergence of additional non-budgeted needs will be met through the reallocation of expenditures or an increase in expenditures within the limits of the law and conditional on a better revenue performance compared to the initial budgets, to avoid widening the deficit. If necessary, the preparation of a revised budget law will be considered and discussed with IMF staff.

22. The financial situation of JIRAMA poses a major fiscal risk. The budget transfers corresponding to payments to the company's suppliers, expenditures of fuel and heavy fuel oil requisitions, and other loans granted, are expected to reach nearly 14 percent of non-interest expenditures and externally financed investments, or more than 1.5 percent of GDP in 2024. In addition to this direct cost, JIRAMA has not paid its taxes, including those collected from third parties such as VAT and the taxes on salary income (IRSA) of its employees.

23. We are undertaking reforms to change JIRAMA's governance, improve its revenues, and reduce costs, thereby alleviating the burden borne by the state:

- We have finalized the recruitment process for the new executive management of the company in collaboration with the World Bank. The new CEO took office on May 1, 2024, and the CFO arrived on October 25, 2024.
- The new management team has developed a "recovery plan" that outlines the strategy for restoring the financial situation along with a timeline for its implementation (**structural benchmark 4**). This plan includes a set of measures to restore the company's operational balance within five years. The resulting "business plan" will present an action plan to be implemented.
- These actions will strengthen measures already initiated: renegotiating electricity purchase contracts, generalizing the use of prepaid systems for public administrations (more than 66

percent of public administrations covered by the government general budget are now equipped with prepaid meters), and deploying the geo-filling system to track fuel stocks and reduce theft.

- We will implement a gradual increase in electricity prices to bring them closer to cost prices. After a first increase in tariffs in October 2024, and in accordance with the results of negotiations between JIRAMA and private sector representatives, we will proceed, before September 2025 (**structural benchmark 7**), with a 16.5 percent increase in electricity prices (Optima Business tariff), targeting a total increase of 50 percent spread over three years.

- JIRAMA will negotiate a debt restructuring plan with all its creditors, including the State, in 2025.

- We will accelerate the launch of new hydropower plant construction projects (Sahofika and Volobé) to reduce dependence on fossil fuels and decrease production costs.

24. We are also determined to strengthen JIRAMA's transparency. We commit to regularly share available information on the implementation progress of the company's recovery plan. This also applies to all information related to contracts signed with electricity and fuel suppliers, calls for tenders, and their results. We have published the audited financial statements for the years 2021 and 2022 and expect to publish 2023 audited financial statements with no disclaimer in the coming months. We commit to continue their publication annually. We will continue to provide a monthly dashboard on JIRAMA's revenues and expenses as well as details of all budget transfers to JIRAMA and we also commit to inform the IMF and World Bank staff of any actions that could affect the implementation of the company's recovery plan, and to publish fuel purchase contracts (**structural benchmarks 2 and 3**). We will reallocate spending within the 2025 budget should JIRAMA’s financing needs exceed the budgeted envelope, to avoid fuel requisitions and the accumulation of new arrears to suppliers.

25. We will remain vigilant to the fiscal risk that the debt restructuring of Air Madagascar could potentially pose. Recent estimates indicate a debt of about US$ 100 million, of which 60 percent is owed to the State. A restructuring plan is still pending approval by creditors. Given the budgetary implications this operation could have, we commit to consulting the IMF and the World Bank before any financial participation of the government in this restructuring. We are committed to making the required payments following the activation of the State guarantee on certain contracts after the authorization of the judge-commissioner.

26. We continue efforts to put Madagascar Airlines on the path to operational and financial sustainability. Since taking over the activities of Air Madagascar and its domestic subsidiary Tsaradia, Madagascar Airlines has streamlined its fleet, refocused its transport activities exclusively on domestic flights, and undertaken efforts to improve productivity, particularly through digitalization. In this context, the World Bank has provided a loan of US$ 25 million and is preparing a second loan of US$35 million to support future investments and the recovery of the company. A return to financial balance is expected in 2025.

27. In line with our commitments, we have implemented an automatic fuel price adjustment mechanism. We adjusted pump prices for the first time in January 2025 by the amount implied by Decree 2024-1205 since its publication on June 7, 2024, with an exception for kerosene primarily consumed by the poorest households, and again on February 5 according to the formula of the new Decree 2024-2085 implementing the automatic price adjustment mechanism for the first semester of 2025 (**prior action 2**). Decree 2024-1205 for the second semester of 2024 was not applied due to concerns about the possible inflationary impact on the population in the context of water and electricity shortages in the capital in the months ahead of the municipal elections. We commit to apply the new decree in force for the automatic fuel price adjustment mechanism each month (**structural benchmark 5**). This commitment should help avoid new accumulations of arrears. The dispute with fuel distributors has indeed heavily penalized budget execution since 2022, as revenues that were supposed to be collected were not cashed in on time. We will therefore take all necessary actions to prevent such a situation from recurring.

- The automatic fuel price adjustment mechanism primarily aims to limit the gap between the average prices charged at the pump (PMAP) and the reference prices (PRC) calculated by the sector's regulatory office (Malagasy Hydrocarbons Office or OMH), which are an approximation of market prices. The competition law limits the validity of price administration measures to six months, so that regulations regarding the administration of fuel prices and the computation of the PRC need be renewed every semester. We are committed to publishing these texts before the start of each semester for which they apply (**structural benchmark 6, June 2025**), in consultation with IMF staff and concerned stakeholders.

- A "price band" type smoothing system makes it possible to contain monthly price changes. The various simulations we have conducted have shown that this is the most suitable option for our country. Each month, the PMAP is adjusted by the maximum between the difference in PRC between month M-2 and month M-1, and the gap between PMAP and PRC in month M-1, capped at 200 ariary/liter. Any change in PRC beyond 200 ariary/liter is deferred to the following month for a maximum period of 6 months.

- The "smoothing balance" (*solde de lissage*) resulting from the gap between PMAP and PRC has been duly budgeted in the 2025 finance law and the necessary budget credits will be included in subsequent budget laws to allow for quarterly settlement of the balance to fuel distributors within one month after the end of the quarter.

- Other reforms will be introduced with the support of the RSF to gradually bring PMAP to the level of PRC and align excise duties on diesel to their level for gasoline (see ¶80 and 81).

- To support the introduction of the automatic adjustment mechanism, we benefit from technical and financial support from the World Bank for a program to distribute solar kits to households using kerosene for lighting and for a cash transfer program to the poorest households.

28. We have concluded a memorandum of understanding with fuel distributors in Madagascar to settle a large part of the cross debts with the government in 2024. We will ensure that fuel distributors comply with their fiscal and parafiscal obligations, particularly regarding the payment of duties and taxes on petroleum products, royalties to the Ministry of Environment, the contribution to the sector development (RDS), the contribution to the road fund (RER), and the OMH fee. Whereas payment delays have resulted from the fuel distributors' request for a simultaneous payment of all cross-arrears and debt with the government, we will make all necessary arrangements to accelerate the payment by fuel distributors of both past arrears and new monthly contributions.

29. We will maintain our efforts to contain our wage bill. The efforts initiated to improve its management will continue in line with the specific objectives defined in the roadmap of the General Directorate of Budget and Finance. The development of the Payroll Management Tool (PMS 2.0) was completed on October 3, 2024. The tool has already been used for forecasting the payroll during the preparation of the 2025 budget law and will allow to monitor monthly salary expenditures by ministry and institution. Over the past year, we have made progress in developing the latest management modules of AUGURE: module for managing State High Positions (HEE), module on managing external personnel, validation of precarious services, and death relief. The module for Predictive Management of Staff, Jobs, and Skills (GPEEC) has recently been completed. The operationalization of these modules will contribute not only to improve the forecasting and payment of salaries and pensions but also to detect and eliminate ghost worker positions. This year, our efforts focus on improving the information system and the gradual digital transformation of procedures related to payroll management.

30. We will pay attention to our pension system balance. The strategic document for the reform of the public pension fund management has been submitted to the Council of Ministers and is awaiting validation. We have already started to implement some measures to reduce the deficit of the Civil and Military Pension Fund (CRCM), including its provisioning in the budget law and the adoption of a decree allowing the transfer of surpluses from the Provident and Pension Fund (CPR) of non-civil servants to the CRCM, the deployment of a pension management tool starting in August, the gradual settlement of pending accounts of pension funds that record contributions not yet subjected to revenue orders, and improving revenue collection from public enterprises (EPN) and territorial authorities (CTD). We will leverage a new technical assistance from the IMF's Fiscal Affairs Department to clarify the reform choices considered (unification of pension funds or not, potential raising of the mandatory retirement age, proposal to eliminate the reversibility for beneficiaries of disability pensions, and possible limitation of the increase for children).

31. We will continue our efforts to increase social spending and consolidate the achievements of the previous program. Social spending suffers from both inadequate budget allocations and from an implementation problem, which we sought to resolve under the previous program. In accordance with the new PGE, we wish to raise budget allocations for social expenditures while also responding to the large budget needs of the energy and agricultural sectors. We increased domestically financed budget appropriations for 2025 by 0.8 percent. We now use the functional budget classification developed with the assistance of a long-term expert from the IMF's Fiscal Affairs Department to ensure monitoring of social spending in the program (**indicative target**).

32. Redirecting spending towards better-managed and more resilient public investment is also our priority. Our public investments suffer from weaknesses in planning and programming, limiting the adequacy of the allocated budget and leading to poor execution. The lack of selective prioritization in relation to the scale of needs and the lack of resources is also a shortcoming of the existing process. In this sense, we plan to fully implement, with the support of technical assistance from the IMF and the World Bank, the framework provided by the decree on public investment management 2023-255 (March 2023) and the associated manual (April 2023) to select, plan, and execute investment expenditures. On September 20, 2024, we established the project selection entity provided for in Article 21 of the aforementioned decree and published in January 2025, the criteria for selecting and prioritizing these projects, taking into account both their contribution and their resilience to climate change (**reform measure supported by the RSF**).

Strengthening Our Public Financial Management Institutions and Processes

The establishment of a new fiscal rule (debt anchor) requires significant progress to improve the credibility of the multiannual budget framework and the annual budget and ensure the effectiveness of the rule and compliance with the public debt trajectory.

33. We are aware that the strengthening of our medium-term fiscal framework (MTFF) is a major prerequisite for the success of our new fiscal rule. We will work on strengthening the realism of our revenue and expenditure forecasts and putting the preparation of the MTFF (or "medium-term framework" presented in Volume 3 of each budget Law) back at the center of budget preparation, avoiding excessive focus on the coming year. We are committed to continuing the implementation of commitment authorizations and payment appropriations with the support of the IMF technical assistance, which will allow for better monitoring of spending trends on multi-year projects. After a complicated budget preparation for 2025 due to the establishment of the new government and the need for a revised budget law in mid-2024, we will take advantage of a more stable environment in 2025 to start the preparation work for the 2026 budget law project (PLF) as early as the beginning of the year, focusing on developing a MTFF 2026-2028 compatible with our development objectives and the orientations of the ECF-supported arrangement.

34. We intend to improve the analysis and regular publication of fiscal risks that may affect the public finance path as projected in our MTFF and in our annual budget. Indeed, we plan to make greater use of the available information to carry out quantitative assessments of these risks and to determine their possible implications on the budget. This will allow us to implement the necessary actions and mechanisms to mitigate the impacts and ensure the necessary budget allocations to address these risks. We naturally rely on our technical and financial partners, particularly the World Bank and the IMF (AFRITAC South) to help us make progress in this area. In particular, we commit to continue improving the annual fiscal risks statement, particularly regarding risks related to SOEs, and to work on improving (including through its extension to JIRAMA) and regularly publishing the annual report on SOEs, highlighting their financial results, their relations with the State budget, and the efforts made for their governance.

35. We are determined to continue efforts to streamline the public expenditure chain and thereby improve budget execution in general, and social and investment expenditures in particular. To this end, we are working to generalize annual commitment and money order plans (PAEM) to all ministries starting with the 2025 management (**structural benchmark 8, January 2025**). We are also implementing the recommendations arising from the audit of the public expenditure chain conducted in 2023, particularly on the professionalization of actors and better anticipation of management implementation. We are committed to consolidating the achievements of the previous program that saw the removal of the request for commitment authorization at the level of the Presidency and the Prime Minister's office and will ensure better selectivity of controls according to risks and stakes.

36. We rely on our technical and financial partners and on the framework drawn up at the halfway point of the implementation of the Strategic Plan for the Modernization of Public Finance Management (PSMFP) carried out in 2023, to advance our reform projects. For better coordination of actions and efficient monitoring of reforms, we have established, in collaboration with our technical and financial partners, technical working groups focused on various themes that constitute our main projects for the next three years, namely the digital transformation of public finances, the improvement of public investment management and the public expenditure chain, as well as the acceleration of disbursements related to external financing.

37. We will continue our efforts to accelerate the digital transformation of the budget and financial processes. Since last year, with the support of our partners, we have embarked on a vast project of digital transformation of public finance occupations. In addition to establishing an IT and operational governance, this approach aims, among other things, to reduce the production time of financial statements as well as the execution time of public expenditures. It will also help to ensure the reliability and comprehensiveness of accounting and financial data while ensuring maximum data protection and interoperability of all existing and operational systems within the various departments of the Ministry of Economy and Finance (DGI, DGD, DGT, DGBF, ARMP, DSI). To support this transformation effort, we will attach special importance to strengthening our human resources capacities. We will continue to implement the transition to accrual accounting in accordance with the framework established by the Organic Law on Finance Laws of 2004, focusing on better management of State assets, particularly through the upcoming adoption of the decree on material accounting prepared with the assistance of the Fund.

38. Finally, we remain determined to improve our cash management, which will help us control arrears accumulation. To this end, a new law on cash management will be submitted to Parliament for approval before **May 2025** (**structural benchmark 9**). This law will specifically strengthen the Treasury Single Account while guaranteeing depositors the permanent availability of funds, provide the tools for a more realistic cash flow plan in line with the new PAEMs, and facilitate, in conjunction with the Central Bank, to the use of borrowing on the money market to finance occasional cash shortfalls.

Pillar 2: Strengthening Good Governance and the Fight Against Corruption

39. **Improving governance is a pillar of our PGE, and we have requested the IMF to conduct a governance diagnostic assessment (GDA) to support our reform efforts in this area**. The GDA will provide an analysis of governance weaknesses and corruption vulnerabilities in all the key state functions as provided by the 2018 IMF Framework for Enhanced Engagement on Governance (notably fiscal governance, financial sector oversight, central bank governance and operations, rule of law, anti-money laundering and combating financing of terrorist (AML-CFT). The GDA will analyze the severity and impact of corruption, as well as assess effectiveness of anti-corruption legal and institutional frameworks. It will also propose concrete reform measures to strengthen governance and the fight again corruption. The government will collaborate with IMF staff during the exercise and will publish the final GDA Report by **end-September 2025 (Structural Benchmark 11)**. The findings and recommendations of the GDA will inform the authorities' reform plans and will complement the new national anti-corruption strategy.

40. **The new national anti-corruption strategy (SNLCC) covers the period 2025-2030 and takes into account both the progress already made and the numerous challenges that remain to be addressed**. It was developed by a steering committee, chaired by the President of the Integrity Safeguard Committee (CSI) and composed of representatives from public institutions (Presidency, Prime Minister's office, sector ministries) and entities of the Anti-Corruption System (SAC). It was presented and validated by the Council of Ministers on January 15, 2025, and has been available online, along with its implementation plan since **January 31, 2025** (**structural benchmark 10**).

41. **We will ensure that anti-corruption entities have the necessary human and financial resources to carry out their respective missions, particularly regarding the imperatives posed by the new SNLCC.** In implementing the SNLCC 2015-2025, the SAC has always faced a lack of resources, even a reduction in available budget envelopes. We will ensure to address this issue, particularly through budgeting the necessary resources to meet the growing needs of the SAC and to enable it to effectively fulfill its missions, reinforced under the SNLCC 2025-2030. We will also pay particular attention to the budget of the Court of Auditors, given the upcoming end (November 2025) of the technical assistance program from the INTOSAI Development Initiative / USAID that it currently benefits from and the need to ensure the sustainability of efforts made, particularly in developing IT resources.

42. **We will strengthen the implementation of existing provisions to combat corruption**. The Independent Anti-Corruption Office (BIANCO) will ensure compliance with the obligation to declare assets for senior officials, politically exposed persons, and other obligated individuals, by bringing recalcitrant individuals before the competent courts. As stated in our commitments from the previous ECF program, BIANCO, in collaboration with the Ministry of Justice and the Commission for the Reform of the Penal System, has developed a draft decree establishing the modalities for declaring assets and economic interests. The decree implements a dynamic management system for asset declaration, as provided for in Article 3 of Law No. 2016-020 of August 22, 2016, through an automated data exploitation system, developed under the Project for Strengthening Governance through Digitalization (PREGODI) funded by the African Development Bank (AfDB). This system will

not only facilitate the collection and regular updating of declarations but also ensure better traceability and verification of the evolution of assets of public officials.

43. We continue to strengthen the capacity of the Agency for the Recovery of Illicit Assets (ARAI) established in 2022. ARAI held its third public auction on April 5, 2024, and continues to expand its activities and territorial network. To improve the system for recovering illicit assets, the ARAI has proposed a draft law that specifies and complements certain provisions of Ordinance No. 2019-015 on the recovery of illicit assets in lieu of planned implementing decree. This law notably expands the scope of illicit asset offenses, clarifies the ARAI missions, extends the missions of the ARAI, extends access to the Chamber for the seizure and confiscation of assets to jurisdictions beyond the PAC, provides for systematic seizure and freezing, develop recovery procedures, defines a valuation policy for the management and preservation of recovered assets, limits the voluntary restitution mechanism for diverted assets, and allows for international cooperation in the recovery of illicit assets.

44. We will extend the territorial network of Anti-Corruption Poles (PAC). Since 2023, PACs in Antananarivo and Mahajanga have already begun holding hearings and conducting field investigations in the most remote areas under their jurisdiction (Antalaha, Sambava, Ambilobe, Diego Suarez, Toamasina, Ambatondrazaka). We will continue to multiply these hearings and field investigations to ensure good proximity justice. The establishment of a third PAC located in Fianarantsoa, effective since December 2024, also contributes to good administration of justice.

45. We recognize that strengthening the rule of law is essential to improving Madagascar's business climate and fostering economic growth. As such, we will prioritize reforms in contract enforcement, property rights, and judicial independence based on the GDA recommendations. These reforms will aim to support more predictable and efficient enforcement of contracts and more secure and reliable land governance. Strengthening judicial independence will also be key to supporting a conducive business environment and reducing corruption vulnerabilities. Guided by the findings of the GDA, these reforms will be tailored to the country's unique challenges, while drawing on international best practices.

46. We will continue to strengthen our AML-CFT framework in line with the recommendations of the Financial Action Task Force (FATF). We adopted Decree No. 2024-1352 of July 3, 2024, implementing Law No. 2023-026 of February 1, 2024, which amends and supplements certain provisions of Law No. 2018-043 of February 13, 2019, on AML-CFT. We will adopt in February 2025 at the latest a decree establishing the mechanism for implementing targeted financial sanctions related to terrorism, terrorist financing, and the proliferation of weapons of mass destruction, the report of the second national risk assessment (ENR) of money laundering and terrorist financing, and the new national AML-CFT strategy for 2025-2029, to replace the national AML-CFT strategy 2022-2026, taking into account the results of the second ENR. We will validate in the Council of Ministers the plan for the mutual evaluation that will take place in 2026. Lastly, we have taken the necessary regulatory texts to establish the national register of beneficial owners, which will facilitate the prevention and detection of offenses related to AML-CFT and contribute to better asset recovery. Beyond that, we will continue our efforts to strengthen the financial capacities of SAMIFIN as recommended by the high-level mission from ESAAMLG and work, based on Article 11 of the aforementioned Decree No. 2024-1352, to strengthen the various control and oversight authorities, especially for designated non-financial businesses and professions. All of these measures will allow us to remain compliant with international standards and avoid being placed on the FATF's "grey list."

47. Transparency being a condition for good governance, we will continue best practices of communicating to the public all actions undertaken by the SAC by regularly making available to the general public activity reports and various statistics related to their respective activities. Over the next three years, building on the findings and recommendations of the governance diagnostic, we will also enhance citizens' access to information to ensure better oversight of public action and adopt necessary texts to guarantee access to information and protect whistleblowers.

48. Regarding public finance transparency, we continue our efforts, particularly regarding public procurement. We have strengthened the legal framework for public contracts by adopting a new Code of Ethics that defines the penalties applicable in case of violation of public procurement rules, as well as two decrees reinforcing the professionalization and procedures for appointing those responsible for public contracts and aligning the Tender Commission with the Public Procurement Code. We also commit to:

- Continue to publish quarterly budget execution reports and improve their content as new nomenclatures become available;
- Publish annually the audited financial statements of all public enterprises;
- Preserve and strengthen the achievements in terms of access to information for the Court of Auditors, particularly regarding access to state financial information systems, by establishing a technical group between the Court of Auditors and the IT services of the Ministry of Economy and Finance;
- Regularly publish on the website of the Public Procurement Regulatory Authority (ARMP) the awarded public procurement contracts and publish the beneficial owners of these contracts. We commit to better determine and publish these beneficial owners according to the applicable international standards.
- Strengthen consultation and exchanges with civil society organizations for the development of finance laws and before the adoption of new public policies. In this regard, we have initiated consultations for the establishment of the Economic, Social, and Cultural Council provided for by the 2010 Constitution, to facilitate civil society participation in the debate on the country's policies.

49. Regarding tax and customs administrations, we will also ensure the strengthening of internal control mechanisms. Beyond the better visibility provided by the dashboard of tax and customs administrations mentioned above, we rely on the Fund's support through the governance diagnostic mission to help us identify measures aimed at improving internal control mechanisms and reducing vulnerabilities to corruption.

50. Under the principles of good governance, we will take necessary measures to ensure free and fair competition in productive sectors. We will aim to improve transparency in the activities, projects, and finances of the National Vanilla Council, which benefits from a contribution of 4 dollars per kilogram of dry vanilla exported. We will avoid any restrictions on agricultural sector exports, which play a key role in Madagascar's economy and employ a considerable number of people.

51. Improving the business climate remains a top priority for us. We are making progress in digitizing tax payments, issuing work permits, setting up a credit bureau, and operationalizing in the coming months the electronic processing and systematic reimbursement of VAT via the escrow account. This should help reduce VAT credit arrears. In addition to legislative reforms, such as the overhaul of the investment law, the tourism code, the exchange code, and the labor code, we also intend to continue our efforts in digitizing business creation through the ORINASA platform with deployment in all regions. The same applies to the deployment of the digitalized construction permit issuance platform, which is already operational in the urban commune of the capital. We will also pay particular attention to infrastructure development, housing, uninterrupted electricity supply, industrialization, liberalization of the telecommunications sector, development of the mining and tourism sectors, and improvement of agricultural productivity.

52. We reiterate the commitments made under the previous ECF-supported program to enhance transparency and limit the budgetary risks associated with the operationalization of the Malagasy Sovereign Fund (FSM). In this regard, we adopted an initial decree at the beginning of May 2024 regarding the reserve rate to be constituted by the FSM. The implementing decree of the September 2021 law creating the FSM is being prepared with the support of UNDP. We will ensure to: (i) further clarify the FSM's priorities to avoid conflicts of objectives and maximize the fund's effectiveness; (ii) specify the funding modalities for the fund so as not to create contingent debt risks or contravene the principle of budget unity, particularly by avoiding any allocation of budget revenues; (iii) limit the FSM's potential ability to engage the state’s signature on investment projects or PPPs involving public payments given the associated contingent liabilities; and (iv) ensure the fund's transparency and good governance through submission to Parliament and regular publication of reports and annual financial statements.

Pillar 3: Consolidating Monetary and Financial Stability

53. We will continue the reforms already initiated at Banky Foiben’i Madagasikara (BFM) to strengthen the operational framework of monetary policy. The new operational framework for interest rate targeting came into effect in February 2024 with the validation and publication of a comprehensive implementation strategy, a guide for intervention in the money market, and a methodology for calculating and publishing the reference rate, as well as a schedule of quarterly monetary committee meetings. The indicative schedule of BFM's interventions in the money market starting in 2024 has also already been published. We will conduct daily liquidity management operations to maintain the interest rate of uncollateralized interbank loans with a one-day maturity close to the middle of the interest rate corridor defined by our deposit facility and marginal lending rates. Furthermore, we are working to improve our medium and long-term liquidity forecasting and to develop our monetary analysis to better understand the transmission mechanisms of monetary policy under the new operational framework. We received technical assistance from the IMF in July 2024 to support these efforts.

54. We will undertake the necessary reforms for the development of the secondary market for government securities. Based on recommendations from the IMF and the International Finance Corporation, we will notably review the functioning of the primary dealer system. In January 2025, we adopted a decree to establish a single central securities depository (CSD) for all government securities, which will be operational in 2026 (**structural benchmark 8**). We will encourage banks to conduct repo operations among themselves to ensure the development of this market.

55. We are also working to improve our communication regarding monetary policy decisions. Improving BFM's communication policy aims for better anchoring of expectations and greater effectiveness of monetary policy. Best practices already adopted will be maintained and strengthened for greater transparency, accountability, and credibility of our institution. We are considering preparing a quarterly report presenting the underlying analyses for monetary policy decisions that will strengthen our communication framework for better anchoring of expectations and a better understanding of our actions. We rely on the planned IMF technical assistance mission in January 2025 to support these efforts.

56. We will make sure to preserve and strengthen BFM's independence. BFM has institutional and operational autonomy. In addition, independence in decision-making is key for our credibility and effectiveness in achieving our inflation target and the success of our mission. Therefore, we will always be ready to make necessary adjustments to the interest rate to keep inflation at a level that will not penalize the economy.

57. Given the persistence of inflation around 8 percent, we will maintain a restrictive monetary policy stance in the short term. We are ready to raise interest rates again if necessary, also considering developments in economic activity and credit to the private sector.

58. We commit to revising the strategy for managing BFM's interventions in the foreign exchange market while continuing to improve the functioning of the interbank foreign exchange market. We recognize the benefit of a floating exchange rate regime to absorb external shocks and preserve the autonomy of monetary policy. Regulatory-wise, BFM will continue its collaboration with the Ministry of Economy and Finance to finalize the draft law on foreign exchange. In terms of market improvement, two projects are underway: (i) modernizing infrastructure by seeking a new platform integrating negotiations, market information, auctions, and other data processing systems; and (ii) adhering to the FX Global Code as part of the currency traders' association, to align with international standards and best practices and enhance trust and credibility. Since December 2023, following the request from fuel distributors, we have been considering the establishment of forward operations and have received technical assistance from the Fund. Thus, we received in September and October 2024 technical assistance from the Fund to help us review our intervention policy in the foreign exchange market, examine the conditions and technical and regulatory aspects for establishing currency hedging operations, as well as assist us in the process of joining the FX Global Code.

59. BFM remains determined to continue diversifying its gold reserves within the framework and limits of the revised operational strategy for the inclusion of gold acquired from local operators, approved on August 13, 2024. As part of diversifying our foreign exchange reserves, we have introduced monetary gold into our holdings. This has led us to update our reserve management strategy regarding foreign exchange, develop an operational strategy for gold purchases before resuming purchases of *doré* (the Call for Expression of Interest for these purchases was launched on September 7, 2024), and revise the memorandum of understanding with the Ministry of Mines and Strategic Resources (MMRS). We commit to adhering to the terms of these documents, particularly regarding the setting of the purchase price for *doré* or unrefined gold, and to minimizing the holding duration of *doré* on BFM's balance sheet to reduce financial risks. We also commit to limiting the share of monetary gold in the total of our reserves to an optimal level of 8 percent (+/- 2 percent), with an investment horizon set at 10 years.

60. Strengthening financial stability remains at the heart of our concerns. Composed of around forty institutions, our financial system is largely dominated by banks, which hold more than 80 percent of the total assets of the system. As of the end of June 2024, the banking sector continues to enjoy relative robustness overall. Generally, the capitalization level remains adequate, although it has decreased compared to March 2024 due to the application of new capital requirements. Two non-systemic banks are exceptions, being in violation of capital requirement standards. However, corrective actions are already underway to normalize their situation. Despite the observed slowdown in credit activities during the first half of the year, the sector remains profitable, liquid, and relatively insensitive to market risks. Furthermore, it continues to show resilience to various stress test scenarios to which it is subjected regularly.

- On the regulatory front, we will continue the reforms already initiated to align various prudential ratios with Basel II and III directives. Since 2022, we have adopted several instructions aimed at: (i) meeting the requirement for a new definition of capital (Basel III); (ii) introducing new considerations regarding capital requirements (Basel II and III); and (iii) establishing liquidity ratios (Basel III). In the coming months, we will adopt various circulars establishing the modalities for applying the different instructions on capital requirements and the reporting modalities for liquidity ratios. To complement these actions, we also plan to adopt (i) an instruction on risk concentration and (ii) an instruction on related parties.

- For the implementation of the new banking law, we will continue to work on various draft texts, including: (i) the instruction regarding the licensing of credit institutions; (ii) the decree setting the licensing fees for credit institutions; (iii) the instruction on classification criteria for systemic banks; and (iv) the instruction for the preventive recovery plan of credit institutions.

- We will also continue actions already initiated to establish a Deposit Guarantee Fund (DGF) to enhance consumer protection. We adopted in June 2024, through BFM, a policy document that sets forth the fundamental principles governing the DGF. The document is in line with international standards while being adapted to the country's context. We have initiated the process of adopting the decree on the establishment and functioning of the DGF as well as the instruction regarding the contributions of ECs to the DGF, aiming to operationalize the DGF by the end of 2025.

- Following the adoption of insurance law 2020-005 on September 1, 2020, and the transfer of supervision of the insurance sector to the Banking and Financial Supervisory Commission (BFSC), we have begun to subject the latter to quarterly reporting requirements. Although only one insurance company out of the existing five[1] has managed to meet this condition so far, we will ensure that the others, which are still on an annual reporting basis, gradually move towards this new standard. In this regard, awareness campaigns are regularly conducted in the sector to encourage them to communicate their financial data for better supervision. Furthermore, with technical support from the U.S. Treasury, we are making progress on our project to integrate the sector's activities into monetary and financial statistics, through the establishment and launch of tele-reporting for insurance companies via the BSA software[2], compliance of insurance accounting with IFRS standards, and updating the Accounting Plan for Insurance (API). Regarding the latter, several actions have already been taken, including various exchange meetings on the implementation of IFRS 17, the development of terms of reference, and the sending of texts and documents related to insurance accounting to analyze the gaps compared to IFRS standards. The first step to strengthen the capacities of agents from the Insurance Control Department (ICD) on these standards was completed in October 2024.

- As part of our strategy to address climate change, and in application of the new insurance law, we have launched several studies on the establishment of index-based insurance, in partnership with various entities including international organizations, insurance companies, awareness-raising firms, etc. Under the auspices of BFM, a new committee was created last June, including the insurance control department within the CSBF, dedicated to combating climate change.

- We will rely on the recommendations of the review of the stability of our financial system that took place in November 2024 with the technical support of the IMF. This review will allow us to identify potential sources of vulnerability in our financial system, determine necessary actions to address them, and prioritize capacity strengthening needs.

[1] ATO, NY HAVANA, SANLAMALLIANZ, MAMA, AFG ASSUR.

[2] BSA: Banking Supervision Application (software developed by the central bank of Mozambique for the central banks of the SADC region).

- Finally, we will double our efforts to adopt and promulgate the financial stability law before June 2025 (**structural benchmark 13**), an important step to strengthen our macroprudential supervision of the financial system as a whole.

Pillar 4: Promoting Inclusive, Strong, and Sustainable Growth

61. We commit to further strengthening our social protection system. Over the past three years, we have made significant progress in strengthening social protection with the help of our technical and financial partners. We have notably increased the number of individuals and/or households benefiting from social protection, increased the allocation of domestic resources for the implementation of social safety net activities, and improved the effective disbursement of allocated funds within the required timeframes to ensure the implementation of planned activities. We have updated our social protection strategy and created an intervention directory to guide our future interventions. To solidify these advances, we will continue to expand the coverage of the unique social registry from 600,000 (**structural benchmark 15**) to 2 million households by the end of 2025 (**structural benchmark 16**) and adapt the legal framework of CNAPS to extend contributory coverage to independent workers. In accordance with our commitments, we have operationalized (built and provisioned)9 food banks; one food bank (Ampanihy) is built already but still awaiting supplies expected in early February (**structural benchmark 14**).

62. We continue our efforts to promote financial inclusion. We commit in particular to:

- Work on implementing the new National Financial Inclusion Strategy of Madagascar (SNIM) 2024-2028. This new strategy was officially launched on December 20, 2024. We are now working on (i) establishing the various governance structures for implementing the SNIM (steering committee, technical monitoring committee, investment committee, working group); (ii) implementing advocacy actions, including organizing a roundtable with technical and financial partners to mobilize the essential technical and financial resources for implementing the strategy; (iii) launching a process of exchanges and reflections for the organizational and hierarchical repositioning of the National Coordination of Inclusive Finance (CNFI), which is the structure responsible for implementing the strategy and coordinating actions to promote financial inclusion.

- Continue to seek the necessary resources to conduct the second FinScope Consumer Survey, which has not yet been launched due to lack of funding. However, this is an essential survey that will not only evaluate the efforts made under the previous strategy but also provide a benchmark for the implementation of the new one. Since the last survey dates back to 2016, it is crucial to update it. The same applies to the FinScope Survey for small and medium enterprises.

- Continue actions to operationalize the platform developed to host the financial inclusion database. The database management tool is already available; we still need to design the institutional and regulatory framework. Indeed, we are awaiting the publication of the decree authorizing data collection from various financial institutions.

- Develop and approve two important documents that will serve as references for all our financial education actions. Indeed, the government council approved in June 2024 the Strategic Framework Document for Financial Education (DCEF) and the National Financial Education Program (PNEF). We have formulated two priorities in these documents: (i) train financial education trainers at the regional level in Madagascar; and (ii) establish the various governance structures outlined therein (steering committee, working group, program management unit, and pools of trainers).

- Increase access to and usage of financial services through: (i) strengthening the current Partial Portfolio Guarantee (GPP) mechanism; (ii) finalizing the study for establishing a digital credit window; (iii) continuing discussions with BFM on the direct refinancing project for microfinance institutions; (iv) establishing necessary regulations to encourage and supervise the development of FinTechs as well as liberalizing the use of the USSD code, which will allow access to financial services without requiring an internet connection; (v) continuing efforts by BFM to establish a FinTech Window to facilitate collaboration between the two entities; (vi) connecting savings groups with formal financial institutions; (vii) harmonizing the classification of small and medium enterprises to facilitate their access to credit; and (viii) establishing a coordination mechanism to promote green and blue finance.

- Continue our reflection on the interest of introducing a central bank digital currency through the e-ariary project and intensify exchanges with stakeholders on this issue (banks, electronic money institutions, microfinance institutions, administration, major billers, international organizations). The project was officially launched in March 2021, with a trial phase possibly scheduled for April 2025.

63. We are making progress in the operationalization of the National Payment Switch, which aims to establish interoperability between existing digital payment systems while promoting financial inclusion through reduced transaction costs. After nearly a year of suspension, the project was re-launched in February 2024 following the receipt of funding from the World Bank through its Integrated Growth Pole (IGP) project. The system will include two components: (i) an "instant payment" component; and (ii) a "payment card transaction routing" component. We are on track for the operationalization of the first component, which is scheduled for the second quarter of 2025. To this end, we have finalized the update of our regulatory framework, through the publication by BFM of a new instruction that obliges major banking service providers (PSB), including banks, electronic money institutions, and main microfinance institutions, to adhere to the instant payment system. The system, which aims to facilitate and secure electronic transactions, will be used first for simple transfer operations, and then for merchant payments, bill payments, tax payments, and social benefits. For now, it is only expected to process local transactions.

FIGHTING CLIMATE CHANGE WITH THE SUPPORT OF THE RESILIENCE AND SUSTAINABILITY FACILITY

64. Strengthening the country's resilience to climate change remains a top priority for Madagascar. Our country is one of the most exposed and affected by climate change. The 2021 climate risk index ranks Madagascar 12th out of 180 countries in terms of losses related to weather conditions (cyclones and floods). Climate change, notably longer and stronger droughts, heatwaves, and cascading impacts on water resources, is expected to worsen. Aware of the extent of these challenges, Madagascar updated its Nationally Determined Contribution (NDC) in 2022 and officially established its National Adaptation Plan (NAP) in 2021. Several sectoral strategies have also been developed. Climate change adaptation and mitigation activities must now align with these documents.

65. In this regard, we commit to undertaking the necessary reforms to address current and future climate risks. The actions envisaged in the program supported by the Resilience and Sustainability Facility (RSF) will help advance our ambitious climate reform program. This program particularly benefits from diagnostics carried out by the IMF in 2022 as part of the Climate Macroeconomic Assessment Program (CMAP) and by the World Bank in the Country Climate and Development Report (CCDR) published in October 2024. This latter report particularly emphasizes that our aspiration to become an emerging country by 2040 will not be realized if we fail to mitigate the effects of climate change on the environment and the population.

66. To this end, the reforms supported under the RSF will aim to address long-term challenges related to climate change. They will revolve around five (05) main pillars, namely: (i) strengthening climate governance and integrating climate issues into public financial management (PFM) / public investment management (PIM) processes; (ii) enhancing resilience to climate change; (iii) limiting the growth of greenhouse gas (GHG) emissions; (iv) strengthening the protection of forests and biodiversity; (v) mobilizing climate financing.

67. We have designed the reform measures (RMs) within the framework of the RSF with a strong emphasis on implementation and ensuring support from partners. We have confirmed assistance for the implementation of reform measures with the World Bank and other partners, particularly in areas not covered by the IMF's core expertise and its capacity for providing technical assistance (TA). We regularly exchange with our partners within our coordination group with international donors (Environmental Monitoring Platform) and will continue to approach this group for additional support as needed. We have placed at the beginning of the period – especially within the framework of the first pillar – the RMs that can serve as catalysts for future progress, while indicating areas where reforms are not yet mature and could benefit from additional preparatory work, such as agriculture or clean cooking.

Pillar 1: Strengthening Climate Governance and Integrating Climate into Our PFM and PIM Processes

68. **We have begun to take necessary measures to strengthen the overall climate governance framework of the country**. In line with the CCDR's diagnosis on climate policy governance, we have reformed the Interministerial Committee for the Environment (CIME). On October 22, 2024, we adopted decree 2024-1808, which clarifies the mandate of the CIME to cover all climate policies (**RM1, end of October 2024**). The decree provides that the committee will be chaired by the Prime Minister and will hold semi-annual meetings with publicly released reports. The Committee is supported by a technical secretariat shared between the Ministry of Environment and Sustainable Development (MEDD) and the Ministry of Economy and Finance (MEF) to operationalize climate policies and monitor their implementation. The CIME will thus be able to particularly monitor the implementation of other reforms planned under the RSF and explore upcoming reform priorities.

69. **We are building on previous reforms of our PIM framework to make it climate-sensitive**. With the support of the World Bank and technical assistance from the IMF/AFS, we adopted a new decree on PIM (decree 2023-255) and a manual on PIM covering the entire lifecycle of public investment projects. We aim to integrate climate-related considerations into this updated PIM framework. With the technical assistance of partners, we have adopted a new decree on environmental impact assessments (EIA) to replace a 2004 decree that poorly reflected concerns about climate adaptation and mitigation, and we have published, on the Ministry of Finance's website, criteria for prioritizing and selecting investment projects that include climate change-related elements (adaptation, mitigation, and resilience) (**RM2, end of October 2024**).

70. **We will use this new climate-sensitive PIM framework to maximize our public investment effort and increase its resilience**. To this end, with support from IMF/AFS technical assistance and the World Bank, we will adopt a decree to require the annual production of a budget document listing selected investment projects for the public investment program and explaining how selection criteria have been applied, notably regarding the effective application of criteria related to climate adaptation and mitigation, and we will produce an initial report in the 2027 budget in accordance with this requirement (**RM3, end of October 2026**).

71. **We will implement climate budget tagging to provide an overall view of the weight of climate-related expenditures in our budget**. This approach has begun, relying on work related to PFM reforms (notably the reform of budget classification) supported by the IMF through a resident advisor. With the technical assistance of the IMF, we will adapt the budget classification to allow tagging of climate adaptation and mitigation expenditures and will annex an initial budget document on climate to the 2026 finance law project (**RM4, end of October 2025**).

Pillar 2: Strengthening Adaptation to Climate Change and Resilience to Natural Hazard-Induced Disasters

72. **We will implement necessary adaptation measures to strengthen our resilience to climate change.** Climate change is expected to have significant repercussions on Madagascar's

economic development and, depending on the climate scenario, could lead to a significant increase in poverty. Adaptation issues are particularly important in several sectors identified in our NAP, including water and agriculture, two priorities of our state general policy as adopted in 2024. Madagascar is also committed to developing urban and rural planning that incorporates construction standards resilient to extreme climate events and to establishing early warning systems for disasters caused by natural hazards, allowing for rapid evacuation and response.

73. We will reform water governance to help address climate challenges. Water has been identified as one of the primary sectors affected by climate change. The expected increase in the frequency and intensity of droughts and floods will have negative consequences for agriculture and food security. Smallholder farmers who rely entirely on rain-fed agriculture are particularly vulnerable. Institutional and policy reforms are therefore necessary to improve the management of available water resources and thereby enhance the resilience of the agricultural sector. To this end, we will approve a draft law aimed at updating the 1998 Water Code to integrate climate change into the overall water policy and strengthen the general policy framework for integrated water resource management (IWRM), particularly by reinforcing the institutional framework of the National Water and Sanitation Authority (ANDEA) (**RM5, end of October 2025**). We benefit from the technical support of the European Union to reach this milestone and produced a first draft of the bill in October 2024. We will closely coordinate this reform with ongoing World Bank projects in the water sector to maximize its impact.

74. Regarding agriculture, we remain firmly committed to developing climate-smart agricultural practices and will continue our efforts to develop index-based agricultural insurance against climate-related disasters. In this regard, we will intensify the promotion of climate-smart agricultural techniques such as PFUMVUDZA (a Zimbabwean model, a variant of agroecology, which incorporates minimal soil disturbance, maintaining straw cover, and crop rotations), as well as the use of seeds and animal species adapted to climate change and the conditions of each agroecological zone, such as short-cycle varieties. Additionally, we will encourage the adoption of more sustainable water use techniques, such as drip irrigation and underground water reservoirs filled with sand. To strengthen the resilience of our farmers against climate disasters, we will conduct a feasibility study on the extension of agricultural insurance. The study will explore how to overcome the adoption barriers identified in small-scale pilot projects supported by German cooperation (GIZ) and the World Food Program (WFP) in southern Madagascar (lack of interest from insurance companies present in the national market, limited availability of granular climate data, difficulty in reaching an unstructured agricultural sector dominated by subsistence farmers) and will inform our plans to proceed with the establishment of a large-scale index-based agricultural insurance mechanism.

75. Resilience to disasters caused by natural hazards is of paramount importance for Madagascar, and the country has already made significant efforts. As the most cyclone-affected country in Africa, with 35 cyclones hitting Madagascar over the past 20 years and high exposure to drought, we have long had a national disaster risk management strategy (SNGRC, first adopted in 2003 and updated to cover the period 2016-2030). We recently supplemented it, with the support of the African Development Bank, with a disaster risk financing strategy (2023). At the same time, following the completion last year of the mid-term review of the Sendai framework for disaster risk reduction, we also plan to conduct an interim review of our SNGRC. With our donor partners within the cash working group (Cash Working Group - notably the World Bank and UNICEF), we have also made efforts to develop climate-adapted social protection, with the adoption in 2023 of manuals covering disaster-adapted social protection in the event of cyclones and droughts.

76. We will continue to ramp up investments aimed at strengthening community resilience. In collaboration with the African Risk Capacity (ARC) and the African Development Bank through the ADRiFi (Africa Disaster Risk Financing) program, Madagascar is currently working on the construction of Multi-Purpose Community Shelters (ACUM). This is an adequate infrastructure with a capacity of 1,000 people designed to serve as a shelter for disaster victims during the summer in the event of a cyclone or flood and to be exploited for multiple functions during normal periods (storage facility, community granary, training meeting rooms). The construction of ACUM, developed following an approach aimed at limiting risks of gender-based violence, provides a sustainable solution to the problem of lack of permanent shelter sites in the event of a climate crisis and preserves the education system by avoiding the mobilization of school buildings as shelters for the displaced. In terms of housing, we will also continue our efforts to promote the construction of traditional housing structures that are more resilient to climate hazards.

77. However, much remains to be done, as climate change is expected to increase the frequency and intensity of cyclones and necessitate a more effective early warning system (EWS). With the support of the "EWS for All" initiative of the United Nations, we have begun to work on the gaps in our EWS identified in the CCDR, to implement an EWS that effectively reaches local communities to improve disaster preparedness and mitigate losses and damages. To this end, we will adopt by November 2025 a decree within the framework of the SNGRC that clarifies roles and responsibilities related to EWS, including those of the private sector, with support from standardized operating procedures to sustain the exchange of near-real-time data for communication and alert dissemination between concerned government agencies, aiming to ensure alert dissemination, trigger anticipatory actions for targeted communities or sectors, and enable rapid emergency response by the relevant authorities.

78. To make our EWS more effective, it is essential to establish a more structured governance around the four fundamental pillars: **risk knowledge, observations and forecasts, dissemination and communication, and preparedness and response.** This involves continuous support for the decentralization process of the National Office for Disaster Risk Management (BNGRC), ensuring that each level of government has the necessary capacities to respond effectively to alerts. Additionally, integrating new information and communication technologies (ICT) is crucial to enhance the speed and efficiency of data collection and dissemination. By strengthening these aspects, we can not only improve the resilience of communities to disasters but also optimize the resources and efforts of all stakeholders involved in disaster risk management.

79. We will continue to streamline our emergency payment systems. We have taken a crucial step by developing our Disaster Risk Management Financing Strategy through a participatory approach in collaboration with the African Development Bank through the ADRiFi program. This document calls for capitalizing on existing achievements and sustaining already established risk financing mechanisms. Although we already have elements of a layered disaster risk financing model (notably through the African Risk Capacity insurance policy for droughts and cyclones) and are striving to further improve our insurance mechanisms (particularly through the World Bank's regional REPAIR project), this strategy emphasizes the need to streamline emergency payment systems to enable rapid disbursements. To address these concerns, we will adequately budget for the recently created National Contingency Fund (FNC), and we will annually update the FNC allocation based on a historical assessment of disaster-related needs, complemented by an analysis of the consequences of increased frequency and severity of climate disasters. With the support of the World Bank, we will also approve the necessary regulatory texts to simplify PFM processes for disaster-related expenditures and operationalize the FNC while ensuring transparency and adequate reporting of expenditures for each type of selected risk (**RM6, end of April 2025**).

Pillar 3: Supporting Efforts to Curb the Growth of Greenhouse Gas (GHG) Emissions

80. Although our emissions are still at a very low level, we are eager to adopt tools for low-carbon development, in line with our commitments under the NDC2. In Madagascar, carbon emissions per capita remain low compared to other countries worldwide and even within sub-Saharan Africa. Their composition is heavily focused on land use, land-use change, and forestry (LULUCF) and agriculture (80 percent of the total). Nevertheless, we are committed to significantly reducing our GHG emissions, particularly by developing hydropower and renewable energy sources (from 40 percent currently to about 85 percent by 2030) as part of efforts to increase our electricity access rate (from 33 percent of households currently to 70 percent by 2030) in accordance with the implementation plan of Sustainable Development Goal No. 7, adopted in 2022. Energy sector reforms undertaken with the support of the World Bank through its DPO operation emphasize energy efficiency standards and a stronger regulatory framework that can facilitate private sector participation in renewable energy projects.

81. Aware of the significant impact of urbanization on GHG emissions, Madagascar is committed to promoting sustainable urban and territorial planning. We will significantly increase urban green spaces by developing parks and public gardens that will serve as carbon sinks and improve the quality of life for citizens. We will launch a national urban reforestation program, in partnership with municipalities, schools, and civil society organizations, to plant indigenous trees and promote biodiversity while absorbing atmospheric CO_2. Through the implementation of planning policies that promote public transport and reduce reliance on individual vehicles, we will contribute to the reduction of CO_2 emissions. Finally, our land use policy will work with local governments to optimize land use and prevent urban sprawl, creating compact and efficient cities, thereby reducing emissions related to heating, cooling, and transport.

82. We will continue our efforts to restore price signals for the various types of fuel completely. By building on the progress made with the automatic fuel pricing mechanism (prior action under the ECF program) and the expected success of the solar kit program aimed at reducing the need for kerosene for the most vulnerable populations, we will entirely eliminate subsidies on fuel prices resulting from an administered retail price (PMAP) that has long been lower than the calculated reference price (PRC) (**RM7, end of April 2026**). This will also increase budgetary flexibility for resilient public investments.

83. We will gradually increase taxes on diesel to align them with rates applicable to gasoline. Excise duties and road maintenance fees are currently lower for diesel than for gasoline—a difference that does not correspond to environmental externalities or the respective impact on the road infrastructure of diesel motor vehicles compared to gasoline cars and has favored a vehicle fleet structure largely oriented toward diesel (60 percent of total petroleum product consumption). We commit to progressively raising excise duties and other levies on diesel fuel to align them with the applicable level for gasoline (**RM8, end of October 2026**). We will also benefit from the World Bank's support to prepare and implement mitigation measures for the most vulnerable groups, especially for public transport vehicles and their users.

84. To go further, we will seek the support of technical and financial partners to conduct studies on the socio-economic and fiscal impacts of tax or customs reforms related to energy. This would involve implementing tax reforms (reform of petroleum product taxation, carbon tax on fuels and charcoal, and taxes on motor vehicles) or customs reforms regarding the clearance of petroleum products. On this latter point, we already have terms of reference for a study aimed at developing a roadmap, including a timeline, responsible departments, and realistic and transparent targets. We emphasize in this regard that the Malagasy customs tariff structure already favors the use of renewable energy and electric or hybrid vehicles.

85. We will continue our efforts to facilitate the production of renewable energy and promote access to electricity at an affordable rate for all in rural areas. As highlighted by the CCDR, the country is already one of the most active markets in sub-Saharan Africa for mini-grids and off-grid solar or small hydropower installations, thanks to a favorable tax framework, donor initiatives (World Bank's Off-Grid Market Development Fund, AFD's SUNREF), and the support of the Agency for the Development of Rural Electrification (ADER). We aim to amplify this momentum through the operationalization of a dedicated financing vehicle created by Law 2017-021 on the Sustainable Electricity Development Fund (FNED). This dedicated financing vehicle will be intended to benefit from budget contributions from the state and fees paid by JIRAMA as the historic operator and may also benefit from support from partners such as GIZ that are interested in rural electrification. It may rely for project review on the technical expertise of ADER, which needs to be strengthened in its resources and staffing. It may possibly enter into one or more agreements with banks or credit institutions to distribute support in the form of guarantees or loans, in addition to grants it may provide directly. To this end, we will adopt the decree on the FNED and operationalize the FNED financing mechanism to support off-grid and mini-grid electrification and proactively encourage private sector financing, with an increase in total renewable energy production capacity of at least 11.5 MW through operations supported by the FNED (**RM9, end of April 2026**). Besides GIZ, this measure may also benefit from technical assistance from the World Bank.

86. We will also explore ways to shift the composition of our motor vehicle fleet towards more energy-efficient and electric vehicles. We are working on developing an electric mobility program and planning the necessary charging infrastructure development. We are also working on a motor vehicle registration tax (*vignette*) that could be linked to the level of GHG emissions and energy efficiency standards while exploring options to avoid a negative impact on the most vulnerable households.

87. We will also strive to develop clean cooking solutions to address a major source of GHG emissions and air pollution, generating significant health benefits. With the support of UNIDO, a development policy letter for clean cooking should be ready in February 2025. This will identify regulatory measures or financial incentives to support the dissemination of clean and energy-efficient stoves, in a context where 97 percent of households (2020 data) depend on firewood and charcoal.

Pillar 4: Strengthening Forest and Biodiversity Protection

88. In addition to efforts to strengthen resilience to climate change, we will adopt necessary measures to protect forest ecosystems. Deforestation reduces resilience to natural disasters and negatively affects the link between water, energy, and food. Forest cover decreased from 29 percent to 21 percent between 2000 and 2020 (CCDR).

89. We will intensify our efforts to combat deforestation and encourage reforestation within the framework of the REDD+ mechanism. We can rely on the experience gained through the national REDD+ strategy of 2018 and the existence of an effective measurement, reporting, and verification (MRV) mechanism implemented within the framework of the World Bank's Forest Carbon Partnership Fund (FCPF). We aim to broaden the scope of this mechanism to stimulate private sector participation in the effort and to also cover reforestation projects, beyond just avoided deforestation projects. To this end, we have begun work, with the support of the World Bank, to revise Decree 2021-1113 to improve private sector participation and extend the scope of the REDD+ mechanism to reforestation projects (**RM10, end of April 2025**).

90. We will leverage other actions that may contribute to the protection of forests and ecosystems. We will adopt a new forestry code, developed with the help of FAO, which will provide a better framework for regulating the commercial exploitation of forests, controlling forestry practices, and establishing a sustainable financing mechanism. We will also rely on ongoing efforts to improve the implementation of land legislation at the municipal level to integrate concerns related to protected areas.

Pillar 5: Mobilizing Climate Financing

91. We commit to presenting an ambitious vision for mobilizing climate financing from various sources to implement our climate change program. Madagascar has the potential to be an attractive destination for climate investments with multiple co-benefits for adaptation and mitigation. Currently, the private sector represents only 5 percent of total climate financing flows in the country, with 70 percent directed towards the energy sector (source: African Development Bank report). The World Bank's CCDR highlights several investment opportunities in the private sector. Fully leveraging these opportunities requires that fundamental regulatory and institutional mechanisms are in place, primarily a climate financing mobilization strategy, a national green taxonomy, and a commitment to update the regulatory framework so that Madagascar is ready to fully leverage Article 6 of the Paris Agreement.

92. We want Madagascar to be ready, both regulatory and institutionally, to participate in the mechanisms provided for under Article 6 of the Paris Agreement. We recognize that the current regulatory framework in Madagascar (decree 2012-690) has not been updated since the Kyoto Protocol was replaced by the Paris Agreement in 2015. With the support of the World Bank and based on a gap analysis funded by the UK Embassy, we will adopt the necessary legal texts to restructure the designated national authority of the Clean Development Mechanism and adapt the carbon project approval procedures to comply with Article 6 of the Paris Agreement. These texts will outline the rules, modalities, and procedures for developing activities with co-benefits for adaptation and/or eligible Sustainable Development Goals within the collaborative framework of Article 6, in addition to allowing Madagascar to fulfill its reporting obligations under the Agreement.

93. Given Madagascar's abundant natural capital, a climate financing strategy will strengthen Madagascar's position on the global and national stage as an attractive destination for climate investments with co-benefits for adaptation and mitigation. We acknowledge that achieving this requires greater emphasis on developing a reserve of bankable projects, with incentives in place to attract multiple sources of capital. We are fully aware that the private sector must be an essential stakeholder in this bold vision. We have initiated a broad consultation process with technical and financial partners and key stakeholders to inform the development process of this strategy. Fully leveraging reforms aimed at improving the business environment under the ECF program, climate governance reforms under the first pillar of the RSF to strengthen inter-ministerial coordination, and with the assistance of interested development partners and contributions from the private sector, we commit to adopting an inter-ministerial decree on a climate financing mobilization strategy that prioritizes key investment areas stipulated in national framework documents with a budget forecast, options for innovative "blended" financing mechanisms, and a timeline (**RM11, end of October 2025**).

94. With the support of the IMF and the World Bank, we organized a roundtable on climate finance on October 14, 2024. This roundtable brought together development partners and representatives from the private sector, allowing us to identify several priority areas of work such as the creation of a green investment project preparation facility, identifying financing modes for renewable energy production and improving access to electricity, and developing innovative financing instruments with positive environmental spillovers such as "lemur bonds." We rely on the enhanced cooperation framework between the World Bank and IMF for climate action to mobilize public and private financing and additional technical support.

95. We commit to creating, through a green taxonomy, an environment conducive to the development of green financial products by the financial sector and to encourage the private

sector to invest in projects that have co-benefits for adaptation and mitigation. In the context of a symposium organized by the Central Bank of Madagascar (BFM) in September 2023 on the impacts of climate change on the economy, we published the "Antananarivo Declaration on Climate Change and Financial Innovation: Challenges and Opportunities for Central Banks" to highlight the implications of climate change on financial stability. This declaration also led to the creation of a working group within the BFM tasked with enhancing BFM's preparedness for managing climate risks. With the support of the MCM Department of the IMF, we will adopt a decree to implement a national green taxonomy to guide all green or climate-related investments (**RM12, end of April 2027**). As an intermediate step towards achieving this RM, we will establish by May 2025 a steering committee with the MEF, MEDD, BFM, and other key stakeholders, including participants from the private sector, to inform the drafting process. We will also follow best practices from international networks such as the Network for Greening the Financial System (NGFS) and the Sustainable Banking and Finance Network (SBFN).

DATA QUALITY

- **We are committed to producing and disseminating quality statistical information within the set deadlines to ensure rigorous monitoring of the program.** To this end, we will provide our National Institute of Statistics (INSTAT), as well as our other departments in charge of statistics, with the financial, human, and material resources necessary to effectively carry out their respective missions. As in the past, we rely on support from our partners to assist us financially and technically. In addition to improving the quality and frequency of existing statistics production, we also plan to produce new statistics to continue enhancing the availability of economic information in the long term. Among the projects under consideration are: (i) launching a survey for the production of the Producer Price Index (PPI); (ii) improving the calculation and publication of national account statistics through more disaggregated data; and (iii) publishing new international trade indicators (ITI)) and industrial production indices (IPI).

96. We will focus on completing the following activities:

<u>In the short term</u>

- Finalize and publish GDP data for 2022 to 2024, following the publication schedule, to allow for better tracking of the country's economic situation.

- Update the information on the National Data Summary Page (NDSP) to improve data transparency.

- Complete the migration to Manual 6 of the Balance of Payments, with the support of IMF technical assistance for which a request has been made.

- Collect and publish data on capital grants and project loans in a regular and reliable manner.

<u>In the medium term</u>

- Update the information related to the reference consumption basket of households for calculating the Consumer Price Index (CPI) using the results of the 2021 periodic household survey (EPM).
- Advance the project for rebasing the national accounts.
- Begin the regular publication of quarterly GDP data.
- Continue efforts to include statistics on the activities of the insurance sector in monetary and financial statistics in accordance with the guidelines of the 2016 Monetary and Financial Statistics Manual and Compilation guide.
- Continue efforts to develop and publish the Producer Price Index (PPI).
- Continue preparations for conducting a series of surveys on remittances (formal and informal) from the diaspora to better assess their weight in the country's GDP.
- Extend the coverage of debt data to SOEs.
- Assist the Ministry of Agriculture and Livestock in conducting the long-delayed agricultural census.

PROGRAM MONITORING

97. Under the ECF agreement, the program will undergo a semi-annual review and will be assessed based on periodic and continuous performance criteria, indicative targets, and a monetary policy consultation clause (Table 1). Progress in structural reforms will be evaluated based on structural benchmarks (Table 2). Detailed definitions, calculation methods, and reporting requirements for all performance criteria will be specified in the Technical Memorandum of Understanding (TMU) attached to this memorandum. This will also define the scope and frequency of data to be communicated to IMF staff for program monitoring. Throughout the duration of the program, the authorities will not introduce restrictions on current payments and will not practice multiple exchange rates without prior approval from the IMF in accordance with Article VIII of the IMF's Articles of Agreement. The second and third program reviews will take place on or after May 30 and November 30, 2025, respectively, based on the performance criteria established for the test dates at the end of December 2024 and the end of June 2025.

98. Under the RSF agreement, progress will be measured through the achievement of various reform measures as detailed in Table 3.

Table 1. Madagascar: Quantitative Performance Criteria and Indicative Targets

(In billions of ariary, unless indicated otherwise)

	Jun-24			Sep-24			Dec-24		Mar-25	Jun-25	Sep-25	Dec-25
	Program	Data	Status	Program	Prel.	Status	Program	Prel.	Proposed	Proposed	Proposed	Proposed
Continuous Performance Criteria												
Ceiling on accumulation of new external payment arrears	0	0	**Met**	0	0	**Met**	0		0	0	0	0
Ceiling on new external debt contracted or guaranteed by the central government or BFM, in present value terms (US$ millions)[1]	800	55	**Met**	800	125	**Met**	800		800	800	800	800
Performance Criterion	**PC**			**IT**			**PC**		**IT**	**PC**	**IT**	**PC**
Floor on primary balance	-500 Adjusted: -848	-929	**Not met**	-1,100 Adjusted: -706	-666	**Met with adjustor**	-2,300		-253	-702	-1,443	-2,777
Floor on net foreign assets (NFA) of BFM (millions of SDRs)	1,084	1,159	**Met**	1,076 Adjusted: 952	1,201	**Met**	1,071		1,209	1,261	1,174	1,313
Monetary Policy Consultation Clause[2]												
M3 growth (upper band, percent)	16			16			16		16	16	16	16
M3 growth (mid-point, percent)	12	10.5	**Met**	12	11.0	**Met**	12		12	12	12	12
M3 growth (lower-band, percent)	8			8			8		8	8	8	8
Indicative Targets												
Floor on domestic primary balance[3]	700	597	**Not met**	720	1,027	**Met**	120		438	737	818	365
Floor on total gross tax revenue	4,300	4,290	**Not met**	6,500	6,514	**Met**	8,800		2,110	4,645	6,950	9,495
Ceiling on outstanding domestic arrears	730	813	**Not met**	640	571	**Met**	496		701	619	536	454
Floor on social spending[4]	739	1,477	**Met**	1,739	2,293	**Met**	2,900		405	1,100	2,000	3,125
Memorandum Items												
Official external budget support (grants, millions of SDRs)[5]	0	0		0	0		0	0	0	0	0	0
Official external budget support (loans, millions of SDRs)[5]	0	0		124	0		124	49	0	74	74	124
External project loans (millions of SDR)[5]	199	259		298	287		398	370	120	238	356	475
Program exchange rate (MGA/SDR)	5,768			5,768			5,768		5,768	5,768	5,768	5,768

Sources: Madagascar authorities; and IMF staff projections.

[1] Cumulative annual ceiling monitored on a continuous basis starting from January 1, 2024.

[2] If the end of period year-on-year M3 growth is outside the upper/lower bound, a formal consultation with the Executive Board as part of program reviews would be triggered.

[3] Primary balance excluding foreign-financed investment and grants.

[4] Spending on social protection, based on the budget functional classification.

[5] Cumulative amount from the beginning of each year.

Table 2. Madagascar: Prior Actions and Structural Benchmarks, June 2024–December 2025

Measure	Due date(s)	Implementation status	Rationale
Prior actions			
1. Adopt in the Council of Ministers a 2025 budget law in line with program objectives, including a reduction of tax expenditures by MGA 280 billion		**Met**	Improve economic governance, raise tax revenue, and improve the composition and quality of budget expenditures.
2. Implement the automatic fuel pricing mechanism by: (i) adjusting pump prices by the amount required by Decree 2024-1025 since June 2024, with an exemption for kerosene until December 31, 2024, and (ii) making another monthly adjustment in the first five days of February 2025 following Decree 2024-2085 applicable in 2025H1		**Met**	Contain fiscal risks
Structural benchmarks			
Increase domestic revenue mobilization			
1. Provide IMF staff with a monthly dashboard on selected key performance indicators of the tax and customs administrations within 30 days after the end of each month	Continuous	**Met**. A dashboard was shared with staff by the due dates.	Increase domestic revenue.
2. Adopt objectives and resources contracts between the Ministry of Finance and the Directorate General of Tax Administration (DGI)	December 2025		Strengthen domestic tax collection by modernizing HR management and encouraging adherence to change
Contain short and medium term fiscal risks			
3. Provide IMF staff with a monthly dashboard on JIRAMA's revenue and costs and with the details of any budget transfers to Jirama suppliers within 45 days after the end of each month	Continuous	**Met**. A dashboard was shared with staff by the due dates.	Improve economic governance and improve the composition and quality of budget expenditures.
4. Publish calls for tenders, the results of these calls for tenders, and contracts for JIRAMA fuel purchases on the JIRAMA website within a maximum period of 45 days after the end of the month of acceptance of an offer. To be modified as "Publish calls for tenders, the results of these calls for tenders, and any contract or amendment to an existing contract for JIRAMA fuel purchases on the JIRAMA website within a maximum period of 45 days after the end of the month of acceptance of an offer or signature of the contract/amendment to an existing contract."	Continuous	**Met**	Improve economic governance and improve the composition and quality of budget expenditures.
5. Finalize and have the Council of Ministers approve JIRAMA's recovery plan prepared by the new management team	November 2024 reset to May 2025	**Not met.** Benchmark is reset for May 2025.	Preserve and strengthen fiscal space.
6. Adjust pump prices monthly based on the automatic fuel pricing mechanism, defined by Decree 2024-2085 for 2025H1 and the relevant decree for 2025H2, within 5 business days after the end of each month	Continuous		Contain fiscal risks.
7. Publish regulations regarding the computation of fuel reference prices (*arrêté*) and the fuel price adjustment mechanism (*décret*) before the beginning of the semester for which they apply (second semester of 2025)	June 2025		Improve economic governance and contain fiscal risks
8. Increase electricity tariffs for businesses by 16 percent (OPTIMA BUSINESS high and medium tension)	September 2025		Contain fiscal risks.
Strenghten governance and fiscal institutions			
9. Extend the preparation of annual expenditure commitment plans to all ministries	January 2025	**Met**	Improve fiscal governance and budget execution.
10. Approve a new law on cash management	May 2025		Improve fiscal governance and budget execution.
11. Adopt and publish a new Anti-Corruption Strategy, including an action plan subject to annual review	January 2025	**Met**	Improve governance.
12. Prepare, with IMF staff's support, and publish a comprehensive governance diagnostic, including specific recommendations and a time-bound action plan for implementing reform measures	September 2025		Improve governance.
Consolidate financial and monetary stability			
13. Set up a single central securities depository (CSD)	December 2024	**Not met.** The decree implementing the single CDS was approved with delay on January 29, 2025.	Strengthen financial and monetary stability.
14. Adopt a financial stability law	June 2025		Consolidate financial stability.
Foster more inclusive growth			
15. Operationalize and provision 10 food banks before the start of the lean season	October 2024	**Not met.** 9 banks are operational as of Januray 2025. A 10th one is expected to be supplied by end-February 2025.	Strengthen social safety nets.
16. Expand the coverage of the social registry to 600 000 households	December 2024	**Met**	Strengthen social safety nets.
17. Expand the coverage of the social registry to 2 million households	December 2025		Strengthen social safety nets.

Note: New prior actions and structural benchmarks are indicated in blue.

Table 3. Madagascar: Matrix of RSF Reform Measures (RMs)

Main Pillars	RM No.	Reform	Diagnostic	Expected Outcomes	Implementing Entities	Technical Assistance	Target Date
Reinforcing governance and mainstreaming the climate agenda into PFM/PIM processes.	1	**Climate governance.** Adopt a decree clarifying the mandate of the Interministerial Committee for Environment (CIME) to cover all climate policies. This decree would provide notably for (i) chairmanship at the level of the Prime Minister (ii) meetings twice a year with publicly disclosed reports to monitor implementation (iii) a technical secretariat shared between MEDD and MEF.	CCDR	Reinforce the mechanism for intergovernmental coordination on climate change issues, currently with very weak decision-making and enforcement mechanisms	Prime Minister's Office Ministry of Environment and Sustainable Development (MEDD) Ministry of Economy and Finance (MEF)	World Bank	End October 2024 (1st ECF review)
	2	**Public investment management (PIM) Framework.** Adopt a new decree on environmental impact assessments (EIA) to replace the 2004 MECIE decree (*Mise en compatibilité des investissements avec l'environnement)* and adopt and publish criteria for prioritization and selection of investment projects, including integration of climate change (adaptation, mitigation, and resilience) related elements.	CMAP CCDR	Integrate climate change considerations into the legal framework for evaluation and selection of PIM projects	MEDD, MEF Entities in charge of PIM at the Presidency	IMF FAD / AFS UNDRR	End October 2024 (1st ECF review)

Table 3. Madagascar: Matrix of RSF Reform Measures (RMs) (continued)

	3	**Public investment management (PIM) Implementation.** Adopt a decree making it compulsory to produce every year a budget document listing the investment projects selected for the public investment program and explaining how the selection criteria have been applied, notably with respect to effective application of criteria related to climate adaptation and mitigation and produce a first report in accordance with this obligation.	CMAP CCDR	Ensure consistency of public investment projects actually selected and budgeted with the climate objectives set in the NDC.	MEF MEDD Entities in charge of PIM at the Presidency	IMF FAD / AFS World Bank	End October 2026 (5th ECF review)
	4	**Climate budget tagging (CBT)**. Adapt the budget classification to enable the tagging of climate-related adaptation and mitigation expenditures and append a first Climate Budget Statement (CBS) to the 2026 Executive Budget Proposal.	CMAP	Better account for climate change issues in the budget preparation process and reinforce transparency on the integration of climate change concerns in budget choices.	MEF with technical support from MEDD	IMF FAD (resident advisor support until October 2024) UNDRR	End October 2025 (3rd ECF review))

Table 3. Madagascar: Matrix of RSF Reform Measures (RMs) (continued)

Enhancing adaptation to climate change and resilience against natural disasters	5	**Water governance.** Approve in the Council of Ministers a bill to update the 1998 Water Code, with a view to integrating climate change in the overall water policy and reinforcing the overall policy framework for Integrated Water Resource Management (IWRM), including by strengthening the National Authority for Water and Sanitation's (ANDEA) institutional framework	WaterAid – 2019 Review of Implementation of the Water Code USAID – 2020 Madagascar Water Resources Profile.	Strengthen the governance of water resources and improve the allocation of water resources to key water users notably water utilities, farmers, and industries.	Ministry of Water, Sanitation and Hygiene (MEAH)	European Union World Bank GCA	End October 2025 (3rd ECF review)
	6	**Disaster risk management.** Approve the necessary implementation regulations to simplify PFM processes for disaster-related expenditures and operationalize the National Contingency Fund (FNC), while ensuring adequate transparency and reporting of expenditures for each selected type of hazard.	CMAP CCDR	Support the implementation of the recently finalized (April 2023) Disaster Risk Financing and Insurance (DRFI) Strategy and reinforce capabilities to respond quickly to climate disasters – a major issue in Madagascar due to the increased frequency and intensity of cyclones.	Prime Minister's Office – Unit for the Prevention and Management of Emergencies (CPGU) National Bureau for Disaster Risk Management (BNGRC) MEF	World Bank AfDB	End April 2025 (2nd ECF review)

Table 3. Madagascar: Matrix of RSF Reform Measures (RMs) (continued)							
Supporting efforts to curb the growth of GHG emissions.	7	**Energy prices and subsidies.** Fully eliminate all fuel price subsidies resulting from an administered retail price (PMAP) that has durably been below the calculated reference price (PRC).	CMAP	Send economic signals favorable to energy savings and increase fiscal space for resilient investment.	Ministry of Energy and Hydrocarbons (MEH) MEF	Possible IMF FAD support	End April 2026 (4th ECF review)
	8	**Fuel Taxation.** Gradually raise excise taxes and other levies on diesel fuel to align them to the level applicable to gasoline.	CMAP FAD 2021 Tax Policy report on reform of excise duties	Send economic signals favorable to energy savings and increase fiscal space for resilient investment.	MEH MEF	Possible IMF FAD support World Bank (social measures to mitigate impact)	End October 2026 (5th ECF review)
	9	**Renewable energy production.** Adopt the FNED (*Fonds National de l'Énergie Durable)* decree and operationalize the FNED financing mechanism to support off-grid and mini-grid electrification and pro-actively incentivize private sector funding, with at least a total of 11.5 MW in newly installed renewable energy production capacity arising from operations supported by FNED.	CCDR	Encourage the development of mini-grid or off-grid renewable electricity production (both solar and small-scale hydropower) and support electricity access in rural areas. Small-scale hydropower could also support water resource management.	MEH ADER (Agency for the Development of Electrification in Rural Areas) ARELEC (Electricity regulator)	World Bank GIZ	End April 2026 (4th ECF review)

Table 3. Madagascar: Matrix of RSF Reform Measures (RMs) (concluded)

Reinforcing the protection of forests and biodiversity	10	**Carbon storage in forests.** Revise decree 2021-1113 to improve the participation of the private sector and extend the scope of the REDD+ mechanism to reforestation schemes.	CCDR	Promote carbon sequestration and strengthen climate adaptation and resilience through reforestation schemes with private sector participation incentivized by access to carbon markets.	MEDD, MEF	World Bank	End April 2025 (2nd ECF review)
Mobilizing climate finance	11	**National Climate Finance Strategy.** Adopt an inter-ministerial decree on a climate finance mobilization strategy that prioritizes key investment areas as stipulated in national framework documents, with a tentative budget, options for innovative blended financing mechanisms and a timeline for implementation.	CCDR CMAP	A consolidated climate agenda that provides a framework to support access to climate finance for MDG's updated NDC implementation.	MEF, MEDD, BFM	World Bank Africa Adaptation Acceleratio n Program (AfDB and GCA) UNDRR	End October 2025 (3rd ECF review)
	12	**National Green Taxonomy.** Adopt a decree on implementing a national green taxonomy to inform all green/climate investments.	CCDR	Clarity and transparency to financial market participants keen on investing in green projects and/or projects with clearly defined climate outcomes.	MEF, MEDD, BFM	IMF MCM	End April 2027 (6th ECF review)

Attachment II. Technical Memorandum of Understanding

1. **This Technical Memorandum of Understanding (TMU) contains definitions and adjuster mechanisms that explain the calculation of the quantitative performance criteria and indicative targets set out in Tables 1 and 2** attached to the Memorandum of Economic and Financial Policies for 2024–2027. 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 the purposes of this TMU, the terms "external" and "domestic" are defined in terms of residence.**

3. **For the purposes of this TMU, "government" is defined to comprise the scope of government financial operations reported in the *operations globales du Trésor* (OGT)**. The government does not cover the activities of state-owned enterprises and sub-national authorities.

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

Program Exchange Rates	
Malagasy Ariary (MGA)/SDR	5 768.35
U.S. Dollar/SDR	1.323430
Euro/SDR	1.224150
Australian Dollar/SDR	2.026070
Canadian Dollar/SDR	1.793250
Yuan/SDR	9.563610
Japanese Yen/SDR	200.3670
Swiss Franc/SDR	1.198560
U.K. Pound Sterling/SDR	1.049300

5. **Accounts denominated in currencies other than SDRs will first be valued in SDRs and then converted to MGAs**. Amounts in currencies other than those shown in the table above, as well as monetary gold, will first be valued in SDRs at the exchange rate or gold price in effect on March 28, 2024 (SDR 1667.4 per ounce of gold) and then converted into MGA.

6. **The performance criteria used in the program, as defined below, refer to the net foreign assets of the central ban**k, external payment arrears, new external debt owed or guaranteed by the government and/or the central bank, and the primary balance.

[1] Data refers to reference exchange rates published on the IMF or the central bank of Madagascar's website for March 28, 2024.

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

8. Total government revenue consists of tax and non-tax budget revenue (as defined in Chapter 5 of the Government Finance Statistics Manual (2001 edition) but excluding revenue from Treasury Operations) and grants. Revenues are accounted for on a cash basis. Taxes on imports of petroleum products, paid through the issuance of promissory notes, are recorded as revenue at the time of the issuance of the promissory notes: to reconcile the difference in timing between the issuance of the promissory notes and the actual payment to the Treasury, an equivalent amount is recorded (negatively) under the item "other net transactions of the Treasury" until the actual payment.

PROVISION OF DATA TO THE FUND

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

- Data on all variables subject to quantitative performance criteria and indicative targets will be provided to IMF staff on a monthly basis, with a lag of no more than four weeks for central bank net foreign assets (NFA) and eight weeks for other data. The authorities will promptly communicate any data revisions to IMF staff.

- The Financial Intelligence Unit (SAMIFIN) will continue to publish, on a publicly accessible website, quarterly data (no later than the end of the month following the quarter) on reports of suspicious transactions related to money laundering of the proceeds of corruption, tax evasion, customs fraud, terrorist financing, and other crimes, addressed to the authorities in charge of law enforcement (Independent Anti-Corruption Bureau, National Gendarmerie, National Police, Ministry of Environment and Sustainable Development, Ministry of Mines, Ministry of Fisheries and Blue Economy, Anti-corruption Courts, etc.) and to other competent authorities (Directorate General of Taxation, Directorate General of Customs, Directorate General of the Treasury,...). SAMIFIN will also similarly publish data on the implementation of UN Security Council resolutions on terrorism, terrorism financing, and the financing of the proliferation of weapons of mass destruction.

- The Independent Anti-Corruption Bureau (BIANCO) will publish on a publicly accessible website quarterly data (no later than the end of the month following the quarter) on the number of persons indicted, the number of persons convicted by decision of a court of first instance, the number of persons convicted by a court of last resort and the number of verifications of asset declarations of public officials.

- For variables that are relevant for assessing performance against program objectives but are not explicitly defined in this TMU, the authorities will consult with IMF staff, as needed, on how best to measure them and report them.

QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on the Primary Balance

10. The primary balance is calculated as follows:

- It corresponds to the difference between the sum of tax and non-tax revenues and grants and the sum of capital expenditures and current spending excluding interest payments (as reported in the authorities' table of government financial operations or OGT).

- For the purpose of calculating the primary balance, tax revenues are recorded on a cash basis (see ¶8) and measured on a net basis, i.e., net of VAT credit refunds. Grants include both current and capital grants. Spending is recorded on a commitment basis. 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 VAT credit refunds. Capital expenditures include expenditures financed from domestic and external resources. The primary balance is calculated cumulatively from the beginning of the calendar year. For reference, using data at end of December 2023, the value of the primary balance would be as follows:

Primary Balance	**-2 453**
Gross tax revenue	8 322
of which gross domestic revenue	*4 238*
of which gross customs revenue	*4 084*
VAT refunds	471
Tax revenue (net of VAT refunds)	7 851
Non-tax revenue	210
Grants	1 586
Less :	
Capital expenditures	4 903
Current spending	7 199
Wages and salaries	2 713
Goods and services	485
Transfers and subsidies	2 942
Treasury operations (net of VAT refunds)	59

B. External Debt

Ceiling on the Accumulation of New External Payment Arrears

11. These arrears consist of overdue debt service obligations (principal repayments and interest) related to loans contracted or guaranteed by the government or the central bank of Madagascar (BFM). Debt service obligations (including unpaid penalties and interest charges) are considered overdue when they have not been paid within 30 days of the due date or after the end of a grace period agreed with each creditor, or unilaterally granted by each creditor before the due date. They exclude arrears resulting from the non-payment of debt service for which the creditor has agreed in writing to negotiate a different payment schedule, as well as debt service payments under contractual obligations that are not made on time for reasons beyond the control of the Malagasy authorities. This monitoring target should be observed on a continuous basis from the approval by the IMF Executive Board of the request for the ECF arrangement.

Ceiling on New External Debt

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

13. Where an external loan agreement provides for multiple disbursements and where the interest rate applicable to each disbursement is linked to the evolution of a reference rate from the date of signature, the interest rate in effect at the time of signature shall be used for the calculation of the present value and grant element applicable to all disbursements provided for under that agreement.

14. For program monitoring purposes, the definition of debt is provided in paragraph 8 of the Guidelines on Public Debt Conditionality in IMF-Supported Programs attached to Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014 (see Annex). External debt is defined according to the creditor's residence.

15. In the case of loans with a variable interest rate in the form of a benchmark rate plus a fixed spread, the present value of the debt will be calculated using a program reference rate plus the fixed spread (in basis points) indicated in the loan agreement. The program's reference rate for the six-month USD LIBOR is 5.34 percent and will remain fixed for the duration of the program. The spread between the three-month EURIBOR and the six-month USD LIBOR is -144 basis points. Where the variable rate is linked to a different benchmark interest rate, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 basis points) is added.

16. The performance criterion (ceiling) applies to the present value of the new external debt contracted or guaranteed by the government or BFM. The cumulative ceiling applies to debt contracted or guaranteed whose value has not yet been received, including private debt

for which public guarantees have been extended. The present value is determined using the IMF's concessionality calculator or the Excel template available online. This monitoring target is to be calculated by calendar year beginning January 1, 2024, and observed on a continuous basis from the IMF Executive Board's approval of the request for the ECF arrangement until the conclusion of the first review, at which time it will be renewed and possibly adjusted. The ceiling is subject to an adjustment factor defined below.

17. The ceiling set out in paragraph 16 does not apply to: (i) the use of IMF resources; (ii) debts contracted to restructure, refinance or prepay existing debts, to the extent that their terms are more favorable than the existing debts, and up to the amount of the debt restructured, refinanced or repaid early; and (iii) debts classified as international reserve liabilities of BFM.

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

18. The target floor for NFA of BFM is evaluated using the end-period stock, calculated using program exchange rates. The NFA of BFM is defined as the difference between BFM's gross foreign assets and total foreign liabilities, including debt owed to the IMF. All foreign assets and foreign liabilities are converted into SDR at the program exchange rates reported in paragraph 4. For reference, at end-December 2023, NFA were SDR 1236.7 million, calculated as follows:

Foreign Assets	
MGA billions, end-2023 exchange rates (A)	12 098.4
SDR millions, end-2023 exchange rates (B)	1 972.0
SDR millions, program exchange rates (C)	2 097.4
Foreign Liabilities	
MGA billions, end-2023 exchange rates (D)	4 964.6
SDR millions, end-2023 exchange rates (E)	809.2
SDR millions, program exchange rates (F)	860.7
Net Foreign Assets	
SDR millions, program exchange rates (G) = (C) – (F)	1 236.7

INDICATIVE OBJECTIVES

A. Floor on Domestic Primary Balance

19. The domestic primary balance corresponds to the difference between the sum of domestic tax and non-tax revenue and domestically financed capital expenditures and current spending excluding interest payments. Tax revenues are measured on a cash basis and on a net basis, i.e., net of VAT credit refunds. Spending is recorded on a commitment basis. 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 VAT credit refunds. The primary balance is calculated cumulatively from the beginning of the calendar year. For reference, using data at end-December 2023, the value of the domestic primary balance would be as follows:

Primary Balance Excluding Foreign Financed Investment and Grants	**-236**
Gross tax revenue	8 322
of which gross domestic tax revenue	*4 238*
of which gross custom tax revenue	*4 084*
VAT refunds	471
Tax revenue (net of VAT refunds)	7 851
Domestic non-tax revenue	210
Less:	
Domestically financed capital expenditures	1 099
Current spending	7 199
Wages and salaries	3 713
Goods and services	485
Transfers and subsidies	2 942
Treasury operations (net of VAT refunds)	59

B. Floor on Priority Social Spending

20. The scope of social expenditure monitored under the program includes domestic expenditures linked to education, health, social protection, and water and sanitation. The floor on social spending is calculated cumulatively from the start of each calendar year on the basis of the budgetary appropriations allocated to these sectors by the budget law, on the basis of the functional classification of public administrations (CFAP 2014). This floor is defined as the sum of budgetary appropriations for divisions 07 (health) including nutrition, 09 (education) and 10 (social protection) as well as for groups 052 (wastewater management) and 063 (water supply), excluding externally financed investments.

C. Floor on Gross Domestic Tax Revenue and Gross Customs Revenue

21. To monitor this target, government tax revenues are recorded on a cash basis and calculated on a gross basis, i.e., before VAT credit refunds. They include all domestic taxes and taxes on foreign trade received by the treasury of the central government. Tax revenue excludes: (1) proceeds from the local sale of in-kind donations; and (2) gross receipts to the government from signing bonuses paid in connection with the awarding of mining or oil exploration rights. Revenues are measured on a cash basis as indicated in the table of government financial operations (OGT). The gross tax revenue floor is calculated cumulatively from the beginning of the calendar year. For reference, for the year ending in December 2023, gross domestic tax revenue was MGA 4,238 billion, with MGA 3,862 billion net domestic tax revenue and MGA 376 billion in VAT refunds, and gross customs revenue was MGA 4,084 billion, with MGA 3,990 billion net customs revenue (including MGA 1,092 billion in oil tax arrears (*droits et taxes à l'importation de produits pétroliers*) due for 2021 and 2022 by oil companies) and MGA 94 billion in VAT refunds.

D. Ceiling on Domestic Arrears

22. Domestic arrears are amounts owed by the government to resident creditors, but not paid. They include (1) remaining payments "in the accounting phase" or expenses committed and validated, but not yet processed by the General Directorate of the Treasury (DGT), and (2) remaining payments "in the financial phase", i.e., expenses committed, validated and processed by the DGT but not paid within 90 days. The ceiling is calculated cumulatively from the beginning of the calendar year.

MONETARY POLICY CONSULTATION CLAUSE

23. The authorities will complete a consultation with the IMF's Executive Board on: (i) the monetary policy stance and measures taken to achieve the program's objectives; (ii) the reasons for a possible deviation, taking into account mitigating factors; and (iii) proposed measures if necessary, if the year-on-year M3 money supply growth at the end of the period is outside a band of ± 4 percentage points around the 12 percent midpoint of the target band for end-March, end-June, end-September, and end-December 2025.

24. The target band midpoint will be reassessed at each review.

STRUCTURAL BENCHMARKS AND REFORM MEASURES UNDER THE RSF

25. Regarding the structural benchmark for the provision of detailed data on any budget transfers to JIRAMA suppliers to the staff of the IMF and the World Bank and the provision of related documents within a maximum of 45 days after the end of the month, the information to be provided is as follows: (1) the details of each transfer, including the commitment reference, the beneficiary, the purpose of the transfer (*objet*), the commitment date (*date d'engagement*) and the amount of the transfer; 2) the agreement or *convention* signed with the supplier in relation with the transfer.

26. Calls for tenders, the results of these tenders, and contracts for JIRAMA fuel purchases will be published on the JIRAMA's website within a maximum of 45 days after the end of the month of acceptance of an offer.

27. Regarding the structural benchmark on the provision of a dashboard presenting key performance indicators for the tax and customs administrations, the dashboard to be communicated monthly will include the indicators from the template provided by the IMF staff and built on the basis of the authorities' proposals.

28. In connection with the implementation of an automatic fuel price adjustment mechanism, and until the elimination of subsidies, the authorities will provide IMF staff with the calculations necessary to estimate the monthly flows and outstanding stocks of government's gross liabilities vis-à-vis fuel distributors (*solde de lissage*) within four weeks of the end of each month.

29. With respect to RSF RM06 on disaster risk management, the authorities (CPGU – Cell for Prevention and Management of Emergencies within the Prime Minister's Office) will provide IMF staff, by the end of November 2024, with a note on the conclusions of the simulation exercise to be undertaken by September 2024 on the operationalization of the National Contingency Fund (FNC), highlighting findings from this exercise in terms of obstacles to swift disbursement of emergency spending and necessary regulatory texts to be adopted by April 2025 to address these obstacles and put in place arrangements to ensure adequate transparency and reporting of emergency expenditures under the FNC.

MEMORANDUM ITEMS

30. Official external budget support refers to grants and loans, including in-kind assistance when the products are sold by the government and the receipts are earmarked for a budgeted spending item. It also includes any other exceptional financing provided by foreign public entities or the private sector that is included in the budget. Grants and loans specifically earmarked for investment projects are excluded. Official external budget support is calculated as a cumulative flow from January 1st of each year.

31. Disbursements of international loans earmarked for investment projects are calculated as a cumulative flow from January 1st of each year.

USE OF ADJUSTERS

32. The performance criterion for BFM NFA will be adjusted according to deviations from the amounts of official external budget support projected in the program. This difference will be calculated cumulatively from January 1st of each year. The NFA floor will be adjusted *downwards (upwards)* by the cumulative downward (upward) deviation of actual budget support from projected budget support (official external budget support).

33. The performance criteria for the primary balance will be adjusted according to deviations from amounts projected in the program of official external budget support in the form of loans and disbursements of international loans earmarked for investment projects. These deviations will be calculated cumulatively from the beginning of each calendar year. The following is an explanation of these adjustments:

- If the actual official external budget support in the form of loans and the disbursements on international loans earmarked for investment projects are lower than projected on a test date, the floor on the primary balance for that test date will be increased by the cumulative deviation of the actual value of official external budget support in the form of loans and disbursements on international loans earmarked for investment projects from projected amounts, subject to a maximum of 0.5 percent of GDP, calculated at the actual quarterly average exchange rates.

- Conversely, if the actual official external budget support in the form of loans and disbursements on international loans earmarked for investment projects are higher than projected on a test date, the floor on the primary balance for that test date will be reduced by the cumulative deviation of the actual value of official external budget support in the form of loans and disbursements on international loans earmarked for investment projects, subject to a maximum of 0.5 percent of GDP, calculated at the actual quarterly average exchange rates.

34. Two adjustment factors can be applied to the external debt ceiling set in present value:

- An adjustor of up to 5 percent of the external debt ceiling set in present value terms applies in case of deviations resulting from a change in financing terms. The application of the adjustor may be triggered by changes in interest rates, maturity, grace period, payment schedule, commissions, fees related to a debt or receivables. The adjustment factor cannot be applied when deviations are due to an increase in the nominal amount of the total debt contracted or guaranteed and are related to debt sustainability.

- The external debt ceiling at present value will be adjusted *downwards* by a maximum of US$65 million if loans linked to projects financed by the World Bank in 2025 do not materialize.

Table 1. Madagascar: Data Reporting Requirements

Item	Periodicity
Exchange rate data	
Central Bank of Madagascar (BFM)	
Total daily BFM gross purchases of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of BFM gross purchases, the highest traded exchange rate, and the lowest traded exchange rate –break down by currency purchased	Daily, next working day
Total daily BFM gross sales of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of BFM gross sales, the highest traded exchange rate, and the lowest traded exchange rate – break down by currency purchased	Daily, next working day
Total BFM net purchases/sales of foreign exchange - break down by currency purchased	Daily, next working day
Total interbank foreign exchange transactions (net of BFM transactions) - break down by currency purchased	Daily, next working day
Total interbank and retail foreign exchange transactions (net of BFM transactions) - break down by currency purchased	Daily, next working day
Monetary, interest rate, and financial data	
Central Bank of Madagascar (BFM)	
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 BFM	Every ten days, within one week after the end of each ten-day period.
Balance sheet (aggregate of deposit money banks)	Monthly, within six weeks of the end of each month
Monetary survey	Monthly, within six weeks of the end of each month

Table 1. Madagascar: Data Reporting Requirements (continued)

Item	Periodicity
Autonomous drivers of liquidity	Monthly, within six weeks of the end of each month
Financial soundness indicators of deposit money banks	Quarterly, within eight weeks of the end of the quarter
Fiscal data	
Ministry of Economy and Finance	
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 45 days after the month of each transfer payment, as specified in continuous SB.
Capital grants	Quarterly, within eight weeks of the end of each quarter
State-owned enterprise data	
Data summarizing the operational and financial position of JIRAMA	Monthly, within four weeks of the end of each month, for operational and financial data. Quarterly, by the end of the following month, for the Table on "Total impayés fournisseurs"
JIRAMA's fuel purchase contracts	Within 45 days of acceptance of an offer
Data summarizing the financial position of Air Madagascar and Madagascar Airlines	Quarterly, by the end of the subsequent quarter.
Debt data	
Ministry of Economy and Finance	
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, 2024, 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)	
Item	**Periodicity**
External data	
Central Bank of Madagascar (BFM)	
Balance of payments	Quarterly, by the end of the subsequent quarter
Real sector and price data	
INSTAT	
Consumer price index data (provided by INSTAT)	Monthly, within four weeks of the end of each month
Tourism data	Monthly, within twelve weeks of the end of each month
Electricity and water production and consumption	Monthly, within twelve weeks of the end of each month
Other data	
OMH	
Petroleum shipments and consumption	Monthly, within four weeks of the end of each month
Cumulative gross liability to fuel distributors, with information on fuel distributors contributions and fees due to the government and other public bodies (e.g., FER, RDS)	Monthly, within four weeks of the end of each month
Decree or *Arrêté* relating to the fuel reference prices formula and fixing the pump prices	Variable, within one week of publication

Annex. Guidelines on Performance Criteria with Respect to External Debt

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW, AND FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—INFORMATIONAL ANNEX

February 11, 2025

Prepared By: The African Department

CONTENTS

FUND RELATIONS

(As of December 31, 2024)

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

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

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	351.34	100.00
Holdings	19.77	5.63

Outstanding Purchases and Loans:	**SDR Million**	**%Allocation**
RCF Loans	250.51	71.30
ECF Arrangements	392.64	111.76

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	June 21, 2024	June 20, 2027	256.62	36.66
RSF	June 21, 2024	June 20, 2027	244.4	0
ECF	Mar 29, 2021	Jul 28, 2024	219.96	171.80
ECF	Jul 27, 2016	Feb 06, 2020	250.55	250.55

Outright Loans:

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

Overdue Obligations and Projected Payments to Fund [1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal	65.30	103.88	107.37	103.35	102.48
Charges/Interest	10.63	10.47	10.47	10.48	10.47
Total	75.93	114.35	117.84	113.83	112.95

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

Implementation of HIPC Initiative:

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

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

II. Debt Relief by Facility (SDR Million)

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

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

Exchange Rate Arrangement

The currency of the Republic of Madagascar is the Malagasy ariary. The de jure exchange rate arrangement is floating; the de facto exchange rate arrangement is classified as floating. As of January 24, 2025, the rate was US$1 = 4,674 ariary. The Republic of Madagascar accepted the obligations of Article VIII of the Fund's Articles of Agreement with effect from September 18, 1996. The Republic of Madagascar maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Safeguards Assessment

Under the Fund's safeguards assessment policy, the Banque Centrale de Madagascar (BFM) was subject to a full safeguards assessment in July 2024, which was completed in December 2024. Previous assessments were completed in March 2006, September 2008, January 2015, March 2017, and March 2021. The BFM maintains strong external audit arrangements and the audit opinions on its 2022 and 2023 financial statements are unmodified. Governance and oversight arrangements are now well-established following amendments to the BFM Law in 2016, and the central bank continues to reinforce its control systems and has adopted International Financial Reporting Standards for the first time in 2020. The BFM should continue to strengthen the internal audit and risk management functions and comply with set guidelines for gold purchases.

Article IV Consultation

Madagascar is on 24-month Article IV consultation cycle. The previous Article IV consultation was concluded on March 21, 2023 (IMF Country Report No. 23/117).

Resident Representative

Mr. Kodjovi Eklou has been the IMF's Resident Representative in Antananarivo since August 2024.

Technical Assistance (TA) Since January 2019

Fiscal Affairs Department (FAD)

2019

AFS: Customs-Trade Agreements-Updating the Customs Code
AFS: National Risk based audit plan & quality standards developed and implementation support
AFS PFM regulations
AFS: Progress on implementation of debt management & recovery strategy reviewed
AFS: Reform action plan adopted and regularly updated
Finalizing the PIM Guide
Management of Fiscal Risks
Management of Tax Arrears
Build Capacity in the Implementation and Monitoring of the Multi-year Reform Plan (Phase IV)
Pension Reform
PIMA Follow up
Public Investment Management
Quarterly AFS missions on tax, customs, debt management, fiscal statistics
Reform and modernization of customs legislation
Revenue Mobilization Strategy
Strengthening Audit Capacity
To develop and implement a risk-based audit plan and audit quality standards

2020

AFS: Project Management Phase II
AFS: Project Management Phase III
AFS: Project Management Phase IV
AFS: TADAT Training
Building Capacity in the Implementation and Monitoring of the Multi Year Reform Plan -Phase V
Compliance Management during COVID-19 crisis
Customs Administration
Drafting New Clauses and Regulations in the Customs Code
Enterprise Risks and Internal Controls
Fiscal Transparency and Operationalization of COVID-19 Reporting
Further Development of a Taxpayer Services Strategy (TPS) and Guidance to Develop a Strategic Plan
Further Guidance Provided to Reduce Tax Arrears
Guiding DGI to develop and implement a taxpayer strategy
Implementation of Debt Management and Recovery Strategy
MNRW II Scoping
Public Investment Management
Set up of a Risk Management Unit

2021

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

2022

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

2023

Climate Macroeconomic Assessment Program (CMAP)
Public Financial Management II – Budget Preparation and Overall PFM Reform Strategy
Public Financial Management II – Modernizing the Budget Classification and Asset Management
Public Financial Management II – PIM and TSA
Public Financial Management II – Fiscal Risks
Revenue Administration II – Customs Administration
Revenue Administration II – RAM
Revenue Administration II – Tax Administration
Tax Policy I – Taking Stock of the Tax Policy Framework

2024

Public Financial Management II – Modernizing the Budget Classification and Asset Management
Public Financial Management II – Fiscal Risks
Public Financial Management II – PIM and TSA

Revenue Administration II – Customs Administration
Revenue Administration II – Tax Administration
Revenue Administration II – RAM
Tax Policy I – Taking Stock of the Tax Policy Framework

Monetary and Capital Markets Department (MCM)

2019

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

2020

Transitioning from a Money Targeting to an Interest Rate Based Framework

2021

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

2022

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

2023

Central Bank Operations – Monetary Policy Implementation and Operations
Forecasting and Policy Analysis Systems (FPAS)
Banking Regulation and Supervision
National Payment System Development
Central Bank Operations – Foreign Operations and FX Policy Implementation
Central Bank Operations – Interbank Market Development

2024

Banking Regulation and Supervision

Central Bank Operations – Monetary Policy Implementation and Operations
Central Bank Operations – Foreign Operations and FX Policy Implementation

Statistics Department (STA)

2019
AFS: National Accounts
Government Finance Statistics
Implementation of the e-GDDS, launch of the dedicated web page.

2020
AFS: National Accounts
AFS: Price Statistics
Government Finance Statistics

2021
AFS: National Accounts
AFS: Price Statistics
External Sector Statistics
Financial Soundness Indicators (FSI)
Government Finance Statistics

2022
AFS: National Accounts
AFS: Price Statistics
External Sector Statistics
Government Finance Statistics

2023
National Accounts
Government Finance Statistics
Price Statistics
External Sector Statistics

2024
National Accounts
Government Finance Statistics
Price Statistics
External Sector Statistics

RELATIONS WITH OTHER INTERNATIONAL INSTITUTIONS

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

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

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

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

February 11, 2025

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW, AND FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—DEBT SUSTAINABILITY ANALYSIS UPDATE

Approved By
Costas Christou and Geremia Palomba (IMF) and Hassan Zaman and Manuela Francisco (IDA)

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

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

Madagascar is assessed at moderate risk of both external and overall debt distress, unchanged from the assessment of the last DSA in June 2024.[2] Under the baseline, no external public and publicly guaranteed (PPG) debt ratios breach their thresholds and only a shock to exports pushes Madagascar's present value of external-debt-to-export ratio above the threshold. Likewise, the overall risk of debt distress continues to be assessed as "moderate", since the overall present value of debt-to-GDP ratio breaches its benchmark under a commodity price shock (the latter being the most extreme shock). The granularity assessment shows that the government continues to have some space to absorb shocks. The public-debt-to-GDP ratio is projected to stabilize around 54 percent in the medium term. Following a spike in short-term domestic public borrowing in 2024, the debt-service-to-revenue-and-grants ratio is projected to peak in 2025 and decline thereafter. The assessment assumes continued progress on reforms agreed to under the IMF Extended Credit Facility (ECF) and Resilience and Sustainability Facility (RSF), as well as the World Bank Equitable and Resilient Growth Development Policy Operation. Risks remain tilted to the downside, with potential delays in JIRAMA's recovery and domestic revenue mobilization burdening public finances.

[1] Prepared by the IMF and the World Bank. This Debt Sustainability Analysis (DSA) follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018, the Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations, August 2021, and the Supplement to 2018 Guidance Note on Bank Fund Debt Sustainability Framework for Low Income Countries, August 2024.

[2] Madagascar's debt-carrying capacity is assessed as "medium" as in the previous DSA with a composite index (CI) score of 2.82, which is based on the October 2024 WEO and the 2023 CPIA.

PUBLIC DEBT COVERAGE

1. **The DSA includes public and publicly guaranteed external and domestic debt.** Public and publicly guaranteed (PPG) debt comprises external and domestic debt in a fairly comprehensive manner, including: central, state and local government debt; all external liabilities owed by the central bank; all borrowing from the IMF; non-guaranteed domestic debts owed by state-owned enterprises (SOEs) in cases where the government has at least 50 percent of the shares (e.g., JIRAMA and Air Madagascar);[3] domestic arrears;[4] external legacy arrears of about 1.3 percent of GDP (related to HIPC);[5] and guarantees provided by the central government (Text Table 1). The measure of debt is on a gross basis and the currency criterion is used to distinguish between domestic and external debt.[6] The authorities publish data on a quarterly basis on both domestic and external debt. Reporting of debt statistics on public enterprises needs to be strengthened further, particularly by: (i) requiring all public enterprises to submit timely financial statements to the Ministry of Finance[7]; (ii) compiling public enterprises debt statistics and monitoring-related risks; and (iii) publishing this information online in budget documents and fiscal risk statements.[8]

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

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

[3] Although the law allows it, public enterprises do not hold direct external non-guaranteed debt.

[4] These arrears are mostly the result of delayed payments to suppliers of goods and services and delayed reimbursements of VAT credits. They do not trigger an "in distress"-rating given their domestic nature and the absence of evidence that they constitute "forced borrowing by the government" to avoid a default. End-2023 domestic arrears are now estimated at MGA 762 billion, at around 1.08 percent of GDP. Since the last DSA, there has been some repayment of domestic arrears.

[5] The arrears to private external creditors (amounting to US$18.2 million at end 2024, less than 0.1 percent of GDP) do not trigger an "in distress"-rating given their *de minimis* nature and as the restructuring with the majority of creditors has been completed and the government is judged to be engaging in "good faith"; the arrears to official-bilateral creditors (Algeria and Angola, for a total of 1.1 percent of GDP) do not trigger an "in distress"-rating as they are deemed away under the Fund's Lending into Official Arrears Policy. The authorities expect at least a partial clearing of arrears due to Angola, following an agreement reached in the context of a state visit to Angola in August 2024.

[6] Locally issued debt denominated in local currency held by non-residents and locally issued debt denominated in foreign currency held by residents are insignificant, meaning that results would be similar if done on a residency basis.

[7] According to article 3 of decree number 2018-689, public enterprises with the state as a majority shareholder are obliged to publish their financial statements within 45 days of completion, either on their own website or that of the Ministry of Finance.

[8] Under the Sustainable Development Finance Policy (SDFP) in FY2023 and over this and past ECF arrangements, Madagascar has implemented reforms in the areas of debt transparency (by adopting a new framework for the evaluation and management of fiscal risks, including those related to contingent liabilities), fiscal sustainability (by implementing measures to improve tax arrears collection and adopting a decree governing the management of tax arrears), and debt management (by limiting new external PPG debt to under US$ 800 million in present value). Last year, Madagascar made further progress by creating a Fiscal Risks Committee and a Credit Risk Analysis Committee in charge of assessing risks related to guarantees and on-lending.

2. A default contingent liability shock of 7 percent of GDP is simulated to account for potential liabilities. This reflects the default setting for PPPs, financial markets, and possible additional SOE liabilities (Text Table 3) and remains unchanged from the last DSA.

- The baseline reflects estimated end-2023 domestic debt for SOEs in which the government has a majority stake at around 6.2 percent of GDP, which include 2.7 percent for JIRAMA.[9] As SOE debt reporting may not be comprehensive, exposures to SOE's contingent liability are set to the default 2 percent of GDP.

- Exposures to PPPs are set to zero since estimates of the PPP-related capital stock fall below 3 percent of GDP, the threshold for the PPP shock to be activated. The stock related to the Ravinala Airport is estimated at only 1.3 percent of GDP. More PPPs, notably in hydroelectric power production (Volobe and Sahofika projects), are expected in future, and the potential vulnerabilities associated with such PPPs could increase rapidly, at which point the PPP shock may be triggered.[10]

- The default value of 5 percent is used for the financial markets stress test. As in the previous DSA, most banks are financially solid with deposits exceeding loans and majority foreign shareholders. Dollarization of deposits and credits is not pronounced, and banks' foreign assets generally exceed their foreign liabilities.

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

1	The country's coverage of public debt	The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	
4	PPP	35 percent of PPP stock	0.00	PPP shock not applicable since PPP capital shock is less than 3 percent of GDP
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		7.0	

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

BACKGROUND

A. Recent Debt Developments

3. The PPG debt-to-GDP ratio is projected to fall from 52.7 percent at end-2023 to 51.4 percent at end-2024. The debt stocks at end-2021, 2022, and 2023 have been revised down from the last DSA due to a downward revision in JIRAMA's domestic debt. At end-2023, 71.8 percent of Madagascar's PPG debt is external, with 42.7 percent of debt in 2023 owed to multilateral sources including the World Bank, African Development Bank, and IMF. The share of external debt out of total PPG debt has risen over time and is projected to reach 72.8 percent at end-2024.

[9] Following the receipt of new information, the consolidation of JIRAMA's domestic debt to the government implies an end-2023 ratio of SOE domestic debt (not owed to the government) to GDP that is substantially lower than in the last DSA.

[10] The contracts relating to the Volobe and Sahofika hydroelectric projects have yet to be concluded and the amount of related contingent liabilities for the state is still indeterminate.

B. Macroeconomic Assumptions

4. Growth and fiscal assumptions are broadly unchanged from the June 2024 DSA.[11] In the absence of a strong economic rebound, the economic growth estimate for 2024 has been revised down from 4.5 to 4.2 percent. Growth is expected to pick up in 2025, at 4.6 percent before converging to 5 percent in the medium term (Text Table 4). As a result of GDP revisions, the primary deficit as a share of GDP has been revised slightly downward for 2022 and 2023, compared to the last DSA. In addition, due to a downward revision in capital expenditures, the primary deficit is projected at 2.6 percent of GDP for 2024, down from 2.9 percent in the last DSA.

- **Real GDP growth.** Output is projected to grow by 4.2 percent in 2024 and gradually converge to 5 percent in 2028. These projections incorporate the expected impact of the ECF-supported reforms as well as the implementation of the government's reform agenda (PGE), including measures aimed at raising agricultural productivity, liberalizing the telecommunication sector, and improving the overall business environment, including in the mining sector. Reform measures under the RSF, including the reform of the water code, the implementation of a national disaster insurance and the climate-based selection and budgeting of public investment projects, are also expected to support the convergence of growth towards its 5 percent potential in the medium term, by bolstering the country's resilience to climate shocks and catalyzing additional climate finance. Growth in 2024 is estimated to have been driven by strong performance in the agriculture, tourism, telecommunications and construction sectors.[12] Yet, some growth headwinds emerged, including the contraction in nickel and cobalt mining, as well as deteriorating electricity, water and road infrastructure. Growth is expected to pick up in 2025, reflecting strong prospects for agriculture, tourism, construction, transport and telecommunications, as well as a rebound in the mining sector[13]

- **Inflation.** Inflationary pressures have persisted since the last DSA, despite the tightening of monetary policy. Headline and core inflation stood at 8.6 percent and 8.5 percent y/y in December 2024 up from 7.3 percent and 8 percent in March 2024, led by food and energy price inflation, despite the strong rice harvest. In general, inflation appears to be supply driven, with growing local production costs from deteriorating road and electricity

[11] INSTAT revised national accounts for 2021, 2022 and 2023. Real GDP growth is estimated at 4.7 percent in 2021, and 4.2 percent for 2022 and 2023, while the GDP deflator growth is estimated at 6.3 percent in 2021, 9.6 percent in 2022 and 7.5 percent in 2023.

[12] A strong rice harvest boosted 2024 growth in the agriculture sector, partially compensating the damage caused by Cyclone Gamane in the first quarter of the year. Tourism arrivals rose by 18.6 percent in 2024 compared to 2023, marking a steady post-pandemic rebound. The liberalization of the telecommunications sector, leading to the entry of new players such as Starlink, has been supporting growth in the telecommunications sector.

[13] Medium-term growth prospects for the tourism, construction, and transport sectors are supported by the introduction of new flight routes to Madagascar by Emirates airlines, codeshare agreements between Madagascar airlines and Air France starting from 2025, and the expected rise in hotel construction in the country. Growth in the agricultural sector is expected to be boosted by the authorities' plans to raise agricultural productivity with the aim of achieving food self-sufficiency in the medium-term. Mining sector growth is expected to pick up in the medium term with the acceleration of graphite production by players including Nextsource and Tirupati Graphite, as well as the recovery of nickel production.

infrastructure. Consequently, the projected rise in the GDP deflator in 2024 has been revised up, from 6.9 percent in the last DSA to 7.6 percent. Nonetheless, as inflation is still expected to converge to 6 percent in the medium term, projections for the GDP deflator remain little changed from the last DSA, at around 6.4 percent in 2027.

- **Current account.** Lower than expected prices of key export commodities, including vanilla and nickel, as well as poor export performance in free zones textile industries, led to a widening of the trade deficit to 8.7 percent of GDP in 2024. The estimated non-interest current account deficit in 2024 has therefore been revised upward to 4.2 percent of GDP. In line with the projected recovery of exports in the medium term, the non-interest current account deficit is projected to narrow to 4.1 percent of GDP in 2027, unchanged from the last DSA.

- **Primary deficit.** Following a downward revision in capital expenditures, the estimated ratio of the primary deficit to GDP in 2024 now stands at 2.6 percent, slightly lower than the last DSA. Reflecting expected gains in revenue mobilization from measures such as streamlining of tax expenditures and improved tax administration, the ratio of revenue to GDP is expected to rise in the medium-term, as in the last DSA.

Text Table 3. Madagascar: Breakdown of Total PPG Debt (2019–23)

	2019	2020	2021	2022	2023
	Amount (US $m)				
Domestic debt, *of which:*	**1,961**	**2,028**	**2,055**	**1,955**	**2,286**
Securities inc. BTA, BTF, BTS[1]	772	790	752	668	968
Debt to the Central Bank	217	352	326	201	197
Arrears	42	22	77	179	167
SOE debt	911	848	889	901	949
Other	19	15	10	6	6
External debt, *of which:*	**3,841**	**4,686**	**4,829**	**5,076**	**5,810**
Multilateral	2,459	2,739	2,956	3,043	3,461
Paris Club	219	282	315	344	415
Non-Paris Club	368	409	439	554	584
Commercial & Guaranteed	122	117	76	56	94
Debt borne by BFM on behalf of the government	547	966	856	897	1,074
Other	125	173	186	181	181
Total PPG debt	**5,802**	**6,713**	**6,883**	**7,031**	**8,096**
	Percent of GDP				
Domestic debt, *of which:*	**13.9**	**15.7**	**14.8**	**13.9**	**14.9**
Securities inc. BTA, BTF, BTS	5.5	6.1	5.4	4.7	6.3
Debt to the Central Bank	1.5	2.7	2.3	1.4	1.3
Arrears	0.3	0.2	0.6	1.3	1.1
SOE debt	6.5	6.6	6.4	6.4	6.2
Other	0.1	0.1	0.1	0.0	0.0
External debt, *of which:*	**27.3**	**36.3**	**34.8**	**36.1**	**37.8**
Multilateral	17.5	21.2	21.3	21.6	22.5
Paris Club	1.6	2.2	2.3	2.4	2.7
Non-Paris Club	2.6	3.2	3.2	3.9	3.8
Commercial & Guaranteed	0.9	0.9	0.5	0.4	0.6
Debt borne by BFM on behalf of the government	3.9	7.5	6.2	6.4	7.0
Other	0.9	1.3	1.3	1.3	1.2
Total PPG debt	**41.2**	**51.9**	**49.5**	**50.0**	**52.7**
	Percent of PPG debt				
Domestic debt, *of which:*	**33.8**	**30.2**	**29.9**	**27.8**	**28.2**
Securities inc. BTA, BTF, BTS	13.3	11.8	10.9	9.5	12.0
Debt to the Central Bank	3.7	5.2	4.7	2.9	2.4
Arrears	0.7	0.3	1.1	2.5	2.1
SOE Debt	15.7	12.6	12.9	12.8	11.7
Other	0.3	0.2	0.1	0.1	0.1
External debt, *of which:*	**66.2**	**69.8**	**70.1**	**72.2**	**71.8**
Multilateral	42.4	40.8	43.0	43.3	42.7
Paris Club	3.8	4.2	4.6	4.9	5.1
Non-Paris Club	6.3	6.1	6.4	7.9	7.2
Commercial & Guaranteed	2.1	1.7	1.1	0.8	1.2
Debt borne by BFM on behalf of the government	9.4	14.4	12.4	12.8	13.3
Other	2.2	2.6	2.7	2.6	2.2
Total PPG debt	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Sources: Malagasy authorities; and IMF staff estimates.

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

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

Text Table 4. Madagascar: Baseline Macroeconomic Assumptions for DSA

	2022		2023		2024		2025		2026		2027		2028-2042	
	last DSA	current	last DSA	current	last DSA	current	last DSA	current	last DSA	current	last DSA	current	last DSA	current
Real GDP growth (percent)	4.0	4.2	3.8	4.2	4.5	4.2	4.6	4.6	4.7	4.7	4.8	4.8	5.0	5.0
Inflation, GDP Deflator (percent)	6.9	9.6	8.7	7.5	6.9	7.6	7.6	7.2	6.8	6.8	6.3	6.4	4.8	5.0
Non-interest CA deficit (percent of GDP)	4.8	4.6	3.8	3.9	4.1	4.2	4.2	4.9	4.1	4.5	4.1	4.1	4.0	3.8
Primary deficit (percent of GDP)	5.0	4.9	3.6	3.5	2.9	2.6	2.9	2.9	3.1	3.0	2.9	2.9	3.2	3.4
Revenue and grants (percent of GDP)	10.9	10.8	13.6	13.7	12.9	13.6	11.8	12.1	12.5	12.5	13.2	13.3	13.0	13.0
Primary (noninterest) expenditure (percent of GDP)	15.9	15.7	17.2	17.2	15.8	16.2	14.8	14.9	15.6	15.5	16.1	16.2	16.2	16.4

5. Baseline financing assumptions are mostly unchanged from the last DSA. Staff continue to assume strong reliance on external financing at concessional rates, broadly reflecting the authorities' Medium Term Debt Strategy (MTDS).[14] Baseline financing assumptions also include financing from the 36-month ECF and RSF arrangements approved in June 2024. Deviating slightly from the MTDS, staff assume greater reliance on domestic financing in the medium term, in line with a more conservative assumption on available external financing on concessional terms and expected developments in the local debt market, including the setting up of a single Central Securities Depository for public bonds in early 2025. Specifically, staff assume a local financing share of medium-term bonds of 30 percent from 2024-2029, which rises to 32 percent in 2030-2034. Likewise, the share of long-term bonds is assumed to rise from 0 percent in 2024-2029 to 3 percent in 2030-2034. In addition, projected interest rates on domestic bonds in the short and medium term were revised slightly up from the last DSA.[15]

6. Realism tools suggest that our assumptions are in line with reasonable bounds. Across a range of realism checks staff's underlying assumptions do not appear to raise any flags (Figure 4). The projected fiscal path is not in the right tail of the historical distribution, while the estimated growth for 2024 is just slightly above the range of potential growth paths under various fiscal multipliers.

7. The outlook remains uncertain with risks tilted to the downside. The escalation of the conflict in the Middle East, and the ongoing Russia's invasion of Ukraine could disrupt trade and financial flows, leading to spikes in key import commodity prices. In addition, persistent water and electricity shortages, deteriorating infrastructure, and governance issues could weigh on growth and trigger social unrest. Climate shocks, including cyclones and drought, could threaten food security and price stability. On the upside, an accelerated pace of implementation of the reform agenda envisaged in the General State Policy (PGE) would boost productivity and growth.

C. Drivers of Debt Dynamics

8. Over the medium term, Madagascar's ratio of PPG debt-to-GDP is projected to remain relatively stable at just under 55 percent. The PPG external debt-to-GDP is projected to increase to 43.7 percent in 2029, declining thereafter (Figure 3). As in the last DSA, projected primary deficits remain the main factor driving public debt up. In contrast, favorable changes in real interest rates and real GDP growth are expected to mitigate the rise in the debt-to-GDP ratio.

[14] The authorities' new MTDS, attached to the 2025 budget law, is largely unchanged from the previous one. There are 4 main targets, including keeping (i) external public debt below 92 percent of overall public debt, (ii) the average maturity of locally-issued debt above 1 year, (iii) the share of new external debt falling due within a year under 25 percent of the stock of external debt, and (iii) the share of new domestic debt falling due within a year under 75 percent of the stock of domestic debt. As before, the MTDS prioritizes a reliance on external concessional financing, with the authorities expecting external concessional loans to make up 79.8 percent of all borrowing at end-2027 and for external semi-concessional loans to make up 7.3 percent.

[15] Realized interest rates on one-year domestic bonds and three-year domestic bonds stood at 11.7 percent and 13 percent respectively in 2024. Staff then assume a gradual decline in nominal interest rates over medium and long term, following the projected decline in inflation.

9. The projected average 5-year real growth over the medium term is close to that in the previous DSA (Figure 4). Due to updated growth estimates from the authorities, both private and public investment rates from 2021 to 2023 have been revised up from the previous DSA. As in the previous DSA, public investment rates are projected to rise gradually over the medium term, reflecting the authorities' plan to increase infrastructure spending and raising budget exaction rates. Private investment is expected to remain stable at just under 25 percent of GDP over the medium term.

D. Country Classification and Determination of Stress Test Scenarios

10. Madagascar's debt carrying capacity continues to be classified as medium, although its composite indicator score remains near the cutoff for weak debt-carrying capacity. Based on the calculation of the LIC-DSF's composite indicator (reflecting the CPIA index, real growth rates, reserve coverage, remittances, and world growth), Madagascar continues to be rated as having medium debt-carrying capacity (Text Table 5). The CI score is at 2.82 and is estimated using the October 2024 WEO and 2023 CPIA, rising slightly from the last DSA. Text Figure 1 summarizes the classification scheme and displays the associated thresholds.

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

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.240	1.25	44%
Real growth rate (in percent)	2.719	3.524	0.10	3%
Import coverage of reserves (in percent)	4.052	45.714	1.85	66%
Import coverage of reserves^2 (in percent)	-3.990	20.897	-0.83	-30%
Remittances (in percent)	2.022	2.842	0.06	2%
World economic growth (in percent)	13.520	2.967	0.40	14%
CI Score			2.82	100%
CI rating			Medium	

Note: 10-year average values are based on an average over 2019-2028.

11. Stress tests follow standardized settings and include tailored shocks for natural disasters and commodity export prices as in the last DSA. Standard settings are applied for the contingent liability stress tests, standardized stress tests and the one-off natural disaster shock. As in the last DSA, we include a commodity shock stress test that is tailored to Madagascar's reliance on commodity exports.[16] We continue to assume that residual financing is on less favorable terms than under the baseline.[17]

[16] Specifically, we assume a 10 percent fall in the price of commodity exports, with no mitigating effect on imports, alongside a 1.55 percentage point decline in real GDP growth and a 2.32 percentage point fall in fiscal revenue as a share of GDP (default values). The shock occurs in 2024 and gradually dissipates in 6 years (default value).

[17] For external residual financing, the interest rate is assumed to be 46 percent higher than in the baseline scenario while maturities are assumed to be 26 percent lower. For overall public debt stress tests, 65 percent of residual financing is assumed to come from external sources, as in the last DSA.

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

Debt Carrying Capacity and Thresholds

Country	Madagascar
Country Code	**674**

Debt Carrying Capacity	**Medium**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium	Medium	Medium
	2.82	2.81	2.74

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

Reference: Thresholds by Classification

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

DEBT SUSTAINABILITY RESULTS

A. External Debt Sustainability

12. Under the baseline, external PPG debt remains well below the thresholds associated with Madagascar's medium debt-carrying capacity (Table 1, Figure 1). Following an upward revision of debt stock, end-2023 external PPG debt is estimated at 38 percent of GDP, up from 36 percent in the last DSA.[18] It is projected to rise to about 43 percent of GDP in 2034, unchanged from the last DSA. In PV terms, external PPG debt is projected to rise from 15 percent of GDP end-2023 to about 22 percent of GDP in 2034.

13. Despite the downward revision of export projections from the last DSA, none of the external debt sustainability indicators breach their thresholds under the baseline (Figure 1). While the baseline projections PV of external debt-to-exports ratio and the debt-service-to-exports ratios have risen from the last DSA, these indicators do not breach their respective thresholds under

[18] Due delays in the replenishment of the US$ 251 million of the August 2021 IMF SDR allocation that had been mobilized in 2023, external debt stock at end-2023 has been revised up from the last DSA. The SDR allocation replenishment is expected to take place in 2025.

the baseline, as in the last DSA (Table 3; Figure 1).

14. Stress tests suggest that Madagascar is most vulnerable to export shocks (Table 3; Figure 1). Under the standard export shock, the PV of external debt-to-exports ratio breaches its threshold from 2026. Other stress tests do not lead to any breach of debt sustainability thresholds, as in the last DSA.

15. The granularity assessment suggests that Madagascar still has some space to absorb shocks, unchanged from the last DSA (Figure 5). In the baseline scenario, all indicators except the debt service-to-revenue ratio fall below the "some space" thresholds. This suggest that Madagascar has some space to absorb shocks.

16. External private sector debt is not assessed to pose a significant threat to external sustainability (Table 1). The risks associated with the levels of external private debt, which was recently revised upward, appear contained. Around 80 percent of the private debt is associated with the mining sector, whose income is in foreign currency (providing it with a natural hedge); most of its debt is medium-to-long term; and a sizeable portion of its debt is with its affiliated headquarters or global groups. The private external debt projection reflects the repayment of loans related to major mining projects. Private external debt is projected to rapidly decline as the loans related to major mining projects are repaid, with the external private debt-to-GDP ratio projected to fall from 24.9 percent in 2024 to 8 percent in 2034.

B. Total Public Debt Sustainability

17. Under the baseline, total public debt levels are projected to remain well below the benchmark (Table 2; Figure 2). Total public debt at end-2023 is estimated at 52.7 percent, down from the last DSA following the consolidation of JIRAMA's debt. Total public debt is projected to remain below 60 percent of GDP over the medium-term horizon. In PV terms, total public debt-to-GDP is expected to hover around 30 and 31 percent over the medium term, still well below the benchmark of 55 percent for medium debt carrying-capacity countries.

18. Stress tests suggest that total public debt is most vulnerable to commodity price shocks (Figure 2; Table 4). Under a tailored commodity price shock, the PV of total public debt-to-GDP is projected to breach the 55 percent threshold, notably after 2032. Other stress tests applied do not lead to breaches of debt sustainability thresholds.

C. Domestic Debt Sustainability

19. While concessional external financing is prioritized, the authorities plan to develop the nascent domestic debt market, implying a projected rise in net domestic debt issuance in the medium term (Figure 6). Given the MTDS goal to manage refinancing risk, the authorities plan to gradually reduce the share of short-term domestic bonds in favor of medium- and long-term bonds. Staff therefore assume that the share of short-term domestic issuances gradually declines, from 70 percent in 2024 (close to the end-2023 value) to 59 percent in 2034. In addition, the domestic-debt-service-to-revenue ratio is projected to decline over the medium term as domestic revenue mobilization improves. Nonetheless, in keeping with the continued reliance on external financing, the domestic-debt-to-GDP ratio is projected to decline over time, from 14.9 percent in 2023 to 9.7 percent in 2034.

D. Climate Change and Debt Sustainability

20. Under the baseline scenario with climate change adaptation and mitigation measures, debt is expected to remain sustainable in the long-term. The baseline scenario incorporates the expected impact of reforms supported by the RSF, including the implementation of a national disaster risk insurance and the selection and budgeting of public investment projects in line with Madagascar's climate objectives set in its Nationally Determined Contributions (NDC), a reform of the water code, a clearer institutional framework on climate policies as well as expanding the protection of forests and biodiversity via the REDD+ mechanism. Since the RSF consists of these broad institutional and regulatory reforms, the value of additional climate-related investments cannot be directly measured. Nonetheless, this baseline framework assumes that, with the support of the RSF, growth in key sectors such as agriculture and tourism remain resilient to climate change over time and that the long-term growth potential of 5 percent is reached.

21. However, unmitigated climate change would jeopardize debt sustainability in Madagascar in the longer term (Figures 7 and 8). According to the recently published Country Climate and Development Report (CCDR) of the World Bank, Madagascar's real GDP loss under a pessimistic climate scenario with no climate adaptation is projected to reach 6 percent by 2050.[19] Apart from the direct impact of lower growth on debt sustainability, government revenue is projected to decline in tandem with the fall in GDP. In contrast, primary expenditures are assumed to remain unchanged. Together, the lower GDP and higher primary deficit raise the risk that debt sustainability indicators breach their respective thresholds particularly in the longer run. As shown in Figure 7, both the PV of debt-to-exports ratio and external debt service-to-revenue ratio are projected to breach their respective thresholds in this alternative scenario after 2040. Likewise, from Figure 8, all PPG debt indicators are substantially higher than in the baseline, especially in the longer term. As in the last DSA, a one-off natural disaster shock would lead to a rise in several debt indicators (Tables 3 and 4), without implying any breach in sustainability thresholds.

RISK RATING AND VULNERABILITIES

22. Madagascar is assessed as being at moderate risk of external debt distress (unchanged from the previous assessment conducted in June 2024). No thresholds are breached under the baseline scenario. However, an exports shock leads to a breach of the PV of debt-to-exports threshold. A granularity assessment suggests that Madagascar has some space to absorb shocks (Figure 5).

[19] The pessimistic climate scenario refers to a hot and dry climate with large changes in precipitation and much higher global temperatures. Real GDP losses are modelled based on nine impact channels, including labor productivity, crop and livestock production, inland and coastal flooding, storm surges, cyclones, fisheries, and tourism.

23. The overall assessment is that Madagascar is at moderate risk of overall debt distress (unchanged from the previous assessment conducted in June 2024). While external and overall public debt indicators do not breach their respective thresholds under the baseline, stress tests show that these thresholds would be breached under an export shock and commodity price shock respectively. Moreover, failure to adapt to climate change could endanger debt sustainability in the longer term.

24. Domestic debt sustainability indicators reflect the expected development of the domestic debt market over the medium term. Both the domestic-debt-to-GDP ratio and the domestic-debt-service-to-revenue-and-grants ratio are projected to decline over the medium term, despite the projected rise in net domestic debt issuance.

25. Structural reforms and improvements in debt coverage statistics remain paramount, especially in light of the CI score, which is near the weak debt-carrying capacity threshold. Staff continue to recommend improvements in transparency, coverage of contingent liabilities and external private sector debt, public financial management, and accountability of public sector institutions. Improving domestic revenue mobilization is key to create fiscal space, build buffers, and preserve Madagascar's debt sustainability. Improving the identification and mitigation of fiscal risks, notably relating to SOEs, PPPs, and pensions remains important for debt sustainability. More broadly, the development of a credible medium-term fiscal framework, consistent with a sustainable public debt anchor, could help guide annual budget preparation and public financial management.

AUTHORITIES' VIEWS

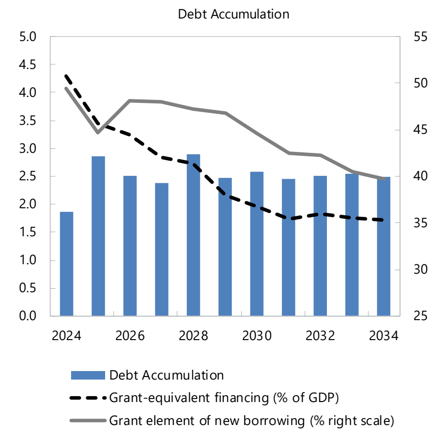
26. The authorities agree with the assessment that Madagascar remains at moderate risk of debt distress. This rating coincides with the results of their analysis and MTDS. Their latest MTDS, elaborated in the 2025 budget law, maintains an emphasis on concessional and semi-concessional external financing to keep borrowing costs low. As before, the authorities aim to maintain debt sustainability by managing exchange rate risks, refinancing risks and interest rate risks. They also aim to develop the domestic debt market, notably via the expected establishment of the central securities depository.

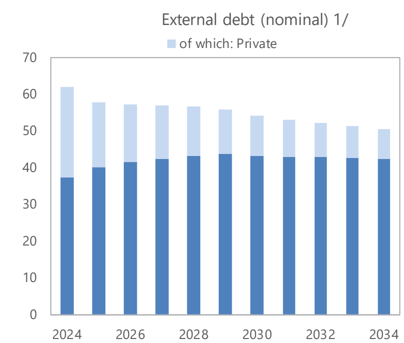
Table 1. Madagascar: External Debt Sustainability Framework, Baseline Scenario, 2021–2044

(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	**65.7**	**64.5**	**69.5**	**62.1**	**57.9**	**57.2**	**57.1**	**56.7**	**55.7**	**50.5**	**43.4**	**61.8**	**55.3**
of which: public and publicly guaranteed (PPG)	**34.8**	**36.1**	**37.8**	**37.4**	**40.2**	**41.6**	**42.3**	**43.4**	**43.7**	**42.5**	**38.9**	**30.0**	**42.1**
Change in external debt	-14.3	-1.3	5.0	-7.4	-4.2	-0.7	-0.1	-0.4	-1.0	-0.8	-1.2		
Identified net debt-creating flows	**-4.0**	**-0.9**	**0.3**	**-0.5**	**0.9**	**0.3**	**-0.2**	**-0.5**	**-0.4**	**-0.3**	**-0.2**	**-1.8**	**-0.2**
Non-interest current account deficit	**4.1**	**4.6**	**3.9**	**4.2**	**4.9**	**4.5**	**4.1**	**3.9**	**3.9**	**3.8**	**3.6**	**1.7**	**4.1**
Deficit in balance of goods and services	10.0	9.2	8.2	8.7	8.9	8.5	8.0	8.1	8.2	8.4	8.6	**5.6**	**8.4**
Exports	23.4	30.3	26.6	23.3	21.8	22.2	22.1	21.8	21.5	20.4	18.6		
Imports	33.4	39.5	34.8	32.0	30.7	30.7	30.1	30.0	29.7	28.8	27.3		
Net current transfers (negative = inflow)	-6.9	-6.2	-5.7	-6.3	-5.8	-5.6	-5.5	-5.5	-5.5	-5.5	-5.5	**-6.0**	**-5.6**
of which: official	-0.7	-1.3	-2.2	-2.4	-0.7	-0.5	-0.3	-0.1	-0.1	0.0	0.0		
Other current account flows (negative = net inflow)	1.0	1.7	1.4	1.9	1.7	1.6	1.5	1.3	1.2	0.9	0.5	**2.1**	**1.3**
Net FDI (negative = inflow)	**-1.7**	**-2.1**	**-2.2**	**-2.8**	**-1.9**	**-2.2**	**-2.3**	**-2.3**	**-2.3**	**-2.3**	**-2.3**	**-2.7**	**-2.3**
Endogenous debt dynamics 2/	**-6.5**	**-3.4**	**-1.4**	**-1.9**	**-2.1**	**-1.9**	**-2.0**	**-2.0**	**-2.0**	**-1.8**	**-1.4**		
Contribution from nominal interest rate	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.5	0.5	0.6	0.6		
Contribution from real GDP growth	-3.4	-2.6	-2.6	-2.7	-2.7	-2.5	-2.5	-2.6	-2.6	-2.3	-2.0		
Contribution from price and exchange rate changes	-3.9	-1.6	0.4	...	...	...	...	...	...	...	...		
Residual 3/	**-10.2**	**-0.3**	**4.8**	**-6.9**	**-5.1**	**-1.0**	**0.1**	**0.1**	**-0.6**	**-0.5**	**-1.0**	**4.4**	**-1.5**
of which: exceptional financing	-0.2	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**15.3**	**15.6**	**17.5**	**18.5**	**19.1**	**19.9**	**20.2**	**22.3**	**24.3**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**57.4**	**67.1**	**80.4**	**83.3**	**86.5**	**91.0**	**93.9**	**109.3**	**130.4**		
Total external debt service-to-exports ratio	**...**	**...**	**133.3**	**139.9**	**154.9**	**153.7**	**147.8**	**151.0**	**154.3**	**171.9**	**190.4**		
PPG debt service-to-exports ratio	**4.4**	**3.6**	**5.4**	**6.2**	**6.4**	**6.7**	**6.3**	**5.2**	**4.7**	**6.4**	**8.1**		
PPG debt service-to-revenue ratio	**9.9**	**11.5**	**12.6**	**13.0**	**12.3**	**12.3**	**10.8**	**8.7**	**7.8**	**10.0**	**11.8**		
Gross external financing need (Million of U.S. dollars)	1777.3	1113.0	931.4	824.9	1374.3	1299.5	1162.3	1144.5	1200.3	1706.2	3657.4		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.7	4.2	4.2	4.2	4.6	4.7	4.8	5.0	5.0	5.0	5.0	**2.8**	**4.8**
GDP deflator in US dollar terms (change in percent)	5.1	2.5	-0.6	5.3	0.9	3.7	4.0	5.5	5.6	4.3	4.5	**-0.1**	**4.3**
Effective interest rate (percent) 4/	1.1	1.2	1.3	1.2	1.0	1.1	1.1	1.1	1.1	1.2	1.6	**1.2**	**1.1**
Growth of exports of G&S (US dollar terms, in percent)	30.4	38.7	-9.1	-4.0	-1.2	10.4	8.7	9.4	9.0	8.6	8.7	**5.3**	**6.9**
Growth of imports of G&S (US dollar terms, in percent)	28.1	26.3	-8.7	0.8	1.4	8.4	7.1	10.2	9.9	9.0	9.1	**4.2**	**7.6**
Grant element of new public sector borrowing (in percent)	...	...	...	49.5	44.7	48.2	48.0	47.3	46.8	39.8	34.2	**...**	**44.9**
Government revenues (excluding grants, in percent of GDP)	10.4	9.5	11.5	11.2	11.3	12.0	12.9	13.2	13.1	13.0	12.8	**10.0**	**12.6**
Aid flows (in Million of US dollars) 5/	354.2	469.1	652.9	903.6	825.9	749.9	658.4	639.1	431.8	323.3	285.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.3	3.5	3.3	2.8	2.7	2.2	1.7	1.2	**...**	**2.5**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	69.0	50.7	52.2	51.1	48.6	48.0	40.0	34.2	**...**	**48.3**
Nominal GDP (Million of US dollars)	14,355	15,326	15,870	17,421	18,378	19,945	21,740	24,088	26,701	42,622	106,381		
Nominal dollar GDP growth	10.0	6.8	3.6	9.8	5.5	8.5	9.0	10.8	10.8	9.6	9.8	**2.7**	**9.4**
Memorandum items:													
PV of external debt 7/	...	...	47.0	40.3	35.2	34.1	33.9	33.2	32.2	30.3	28.8		
In percent of exports	...	...	176.6	173.0	161.6	153.5	153.1	152.0	150.1	148.7	154.7		
Total external debt service-to-exports ratio	42.5	15.8	15.6	14.3	20.6	19.2	16.2	14.6	13.4	12.5	11.9		
PV of PPG external debt (in Million of US dollars)			2427.0	2723.9	3222.5	3685.1	4158.1	4787.9	5384.3	9488.7	25827.0		
(PVt-PVt-1)/GDPt-1 (in percent)				1.9	2.9	2.5	2.4	2.9	2.5	2.5	2.1		
Non-interest current account deficit that stabilizes debt ratio	18.4	5.9	-1.2	11.7	9.0	5.2	4.2	4.3	4.9	4.6	4.7		

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





Sources: Country authorities; and staff estimates and projections.

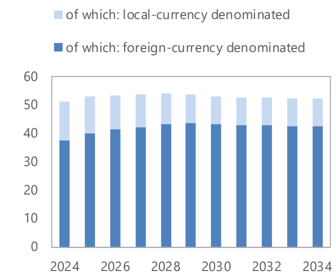
1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Current-year interest payments divided by previous period debt stock.
5/ Defined as grants, concessional loans, and debt relief.
6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).
7/ Assumes that PV of private sector debt is equivalent to its face value.
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

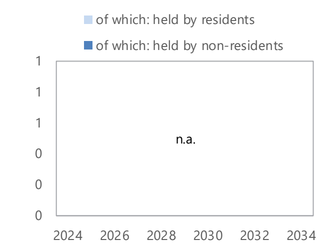
Table 2. Madagascar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–2044
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	**49.5**	**50.0**	**52.7**	**51.4**	**52.9**	**53.5**	**53.6**	**54.2**	**53.9**	**52.2**	**48.1**	**45.1**	**52.9**
of which: external debt	**34.8**	**36.1**	**37.8**	**37.4**	**40.2**	**41.6**	**42.3**	**43.4**	**43.7**	**42.5**	**38.9**	**30.0**	**42.1**
Change in public sector debt	-2.4	0.4	2.7	-1.3	1.5	0.6	0.2	0.6	-0.3	-0.2	-1.1		
Identified debt-creating flows	**-0.8**	**4.1**	**0.2**	**-0.7**	**0.4**	**-0.1**	**-0.5**	**-0.6**	**-0.3**	**0.2**	**-0.2**	**0.7**	**-0.2**
Primary deficit	**2.2**	**4.9**	**3.5**	**2.6**	**2.9**	**3.0**	**2.9**	**2.9**	**3.1**	**3.5**	**2.8**	**2.1**	**3.2**
Revenue and grants	11.1	10.8	13.7	13.6	12.1	12.5	13.3	13.3	13.2	13.0	12.8	**12.1**	**13.0**
of which: grants	0.7	1.3	2.3	2.4	0.7	0.5	0.3	0.1	0.1	0.0	0.0		
Primary (noninterest) expenditure	13.3	15.7	17.2	16.2	14.9	15.5	16.2	16.2	16.2	16.5	15.6	**14.2**	**16.1**
Automatic debt dynamics	**-3.5**	**-1.6**	**-3.7**	**-4.0**	**-3.0**	**-3.7**	**-3.9**	**-4.0**	**-3.9**	**-3.8**	**-3.5**		
Contribution from interest rate/growth differential	-2.9	-3.2	-2.9	-2.9	-2.7	-3.9	-4.9	-3.7	-3.3	-2.9	-2.6		
of which: contribution from average real interest rate	-0.6	-1.2	-0.9	-0.7	-0.5	-1.5	-2.5	-1.1	-0.7	-0.5	-0.3		
of which: contribution from real GDP growth	-2.3	-2.0	-2.0	-2.1	-2.3	-2.4	-2.4	-2.6	-2.6	-2.5	-2.3		
Contribution from real exchange rate depreciation	-0.6	1.6	-0.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.5**	**0.8**	**0.5**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.1**	**0.5**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
SOE debt	0.5	0.8	0.5	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5		
Residual	**-1.6**	**-3.7**	**2.5**	**-1.7**	**0.9**	**0.9**	**1.7**	**0.8**	**-0.5**	**-1.3**	**-1.8**	**0.9**	**-0.4**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**30.7**	**30.1**	**30.7**	**30.7**	**30.8**	**31.3**	**31.4**	**33.0**	**34.7**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**223.4**	**222.2**	**254.1**	**245.8**	**232.2**	**235.3**	**238.2**	**254.3**	**271.7**		
Debt service-to-revenue and grants ratio 3/	**50.6**	**40.2**	**38.1**	**41.3**	**53.3**	**51.5**	**47.6**	**44.7**	**38.9**	**52.8**	**82.1**		
Gross financing need 4/	8.3	10.0	9.2	8.7	10.3	10.9	9.9	9.3	8.6	11.1	14.4		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.7	4.2	4.2	4.2	4.6	4.7	4.8	5.0	5.0	5.0	5.0	**2.8**	**4.8**
Average nominal interest rate on external debt (in percent)	0.7	0.9	1.2	1.2	0.9	0.8	0.8	0.9	0.8	1.0	1.4	**0.9**	**0.9**
Average real interest rate on domestic debt (in percent)	-3.1	-6.5	-3.7	-4.0	-2.4	-1.5	-1.3	-0.7	-1.0	-0.5	-0.8	**-3.9**	**-1.3**
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.7	4.7	-2.5	...	...	...	...	...	...	...	...	**2.1**	**...**
Inflation rate (GDP deflator, in percent)	6.3	9.6	7.5	7.6	7.2	6.8	6.4	6.0	6.0	4.8	5.0	**7.0**	**5.9**
Growth of real primary spending (deflated by GDP deflator, in percent)	-11.2	23.3	14.3	-2.0	-3.6	9.1	8.9	5.4	5.1	4.8	3.1	**6.8**	**4.5**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	4.6	4.5	0.8	3.9	1.3	2.5	2.7	2.4	3.3	3.8	3.9	**3.3**	**3.2**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central, state, and local governments, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Currency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Madagascar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024–2034

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	16	18	18	19	20	20	21	21	21	22	22
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	16	15	15	14	14	13	13	13	12	12	12
B. Bound Tests											
B1. Real GDP growth	16	19	22	23	24	24	24	25	25	26	26
B2. Primary balance	16	18	19	20	21	21	21	22	22	22	23
B3. Exports	16	22	30	30	30	30	30	30	29	29	29
B4. Other flows 3/	16	19	21	21	22	22	22	23	23	23	23
B5. Depreciation	16	22	20	21	22	23	24	24	25	26	27
B6. Combination of B1-B5	16	22	24	25	25	26	26	26	26	27	27
C. Tailored Tests											
C1. Combined contingent liabilities	16	21	22	23	23	23	24	24	24	25	25
C2. Natural disaster	16	22	24	25	26	26	26	27	27	27	27
C3. Commodity price	16	18	20	21	22	22	22	22	22	22	22
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	67	80	83	86	91	94	97	100	103	106	109
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	67	70	66	64	64	62	61	60	60	60	60
B. Bound Tests											
B1. Real GDP growth	67	80	83	86	91	94	97	100	103	106	109
B2. Primary balance	67	83	87	90	95	98	101	104	107	109	111
B3. Exports	67	124	**202**	**205**	**209**	**211**	**214**	**215**	**214**	**214**	**214**
B4. Other flows 3/	67	85	93	96	100	102	105	108	110	112	114
B5. Depreciation	67	80	72	76	81	84	88	91	96	100	103
B6. Combination of B1-B5	67	104	94	121	126	129	133	135	138	141	144
C. Tailored Tests											
C1. Combined contingent liabilities	67	95	98	102	106	109	112	114	117	119	121
C2. Natural disaster	67	105	109	115	120	124	127	130	133	135	137
C3. Commodity price	67	86	93	96	100	101	103	104	105	107	108
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	6	6	7	6	5	5	5	5	5	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	6	7	7	7	6	5	5	4	5	5	5
B. Bound Tests											
B1. Real GDP growth	6	6	7	6	5	5	5	5	5	6	6
B2. Primary balance	6	6	7	6	5	5	5	5	6	6	7
B3. Exports	6	8	11	12	10	9	9	10	13	14	14
B4. Other flows 3/	6	6	7	7	5	5	5	5	6	7	7
B5. Depreciation	6	6	7	6	5	5	4	5	5	5	6
B6. Combination of B1-B5	6	7	9	8	7	6	6	7	8	8	9
C. Tailored Tests											
C1. Combined contingent liabilities	6	6	7	7	6	5	5	5	6	6	7
C2. Natural disaster	6	7	7	7	6	5	5	5	6	7	7
C3. Commodity price	6	7	7	7	6	5	5	5	6	6	7
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	13	12	12	11	9	8	7	8	9	9	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	13	13	13	11	9	9	8	7	8	8	8
B. Bound Tests											
B1. Real GDP growth	13	13	15	13	10	9	9	9	10	11	12
B2. Primary balance	13	12	12	11	9	8	8	8	9	10	10
B3. Exports	13	13	14	13	11	10	9	11	14	15	15
B4. Other flows 3/	13	12	12	11	9	8	8	8	10	10	11
B5. Depreciation	13	16	16	13	10	9	9	9	9	10	11
B6. Combination of B1-B5	13	13	15	13	10	9	9	10	11	12	13
C. Tailored Tests											
C1. Combined contingent liabilities	13	12	13	11	9	8	8	8	9	10	10
C2. Natural disaster	13	12	13	12	10	9	8	8	9	10	11
C3. Commodity price	13	16	16	14	11	9	8	8	10	10	11
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

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

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

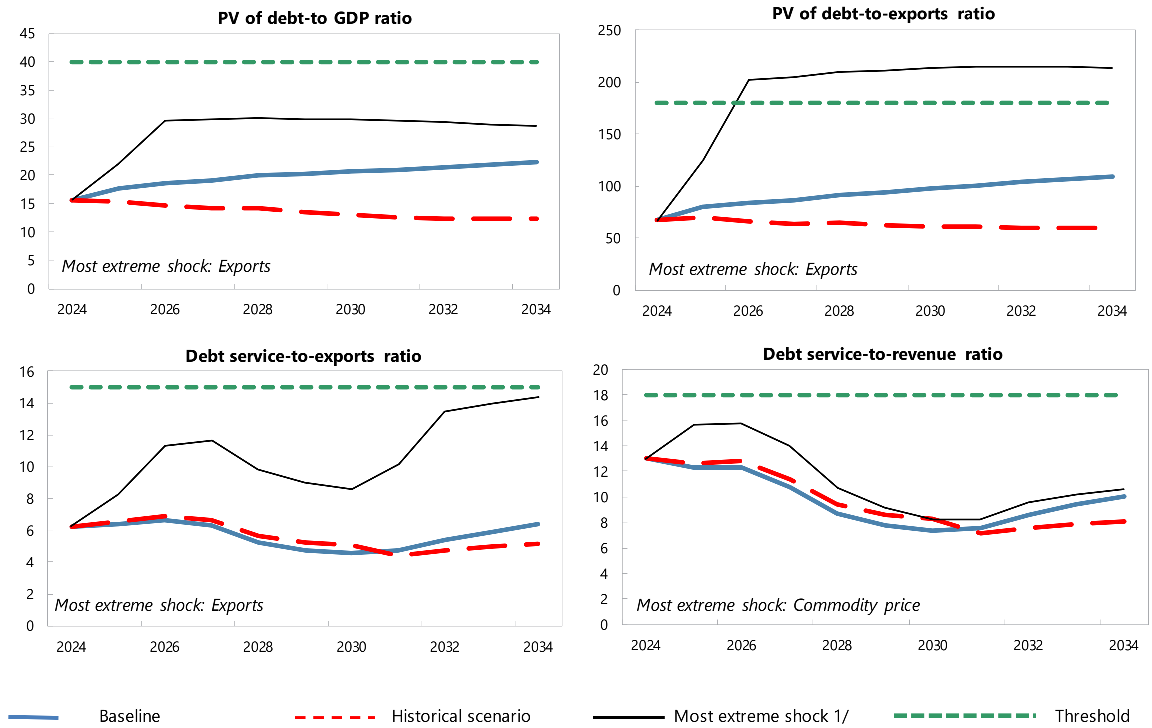
3/ Includes official and private transfers and FDI.

Table 4. Madagascar: Sensitivity Analysis for Key Indicators of Public Debt, 2024–2034
(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	30	31	31	31	31	31	31	32	32	33	33
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	30	31	31	30	31	30	29	29	28	28	27
B. Bound Tests											
B1. Real GDP growth	30	34	39	41	43	45	46	48	50	51	53
B2. Primary balance	30	32	33	33	33	33	33	33	34	34	34
B3. Exports	30	34	40	40	40	40	39	39	39	38	38
B4. Other flows 3/	30	32	33	33	33	33	33	33	34	34	34
B5. Depreciation	30	32	31	29	28	27	26	26	25	25	25
B6. Combination of B1-B5	30	31	33	33	34	34	34	34	35	35	35
C. Tailored Tests											
C1. Combined contingent liabilities	30	36	36	36	36	36	36	36	36	36	36
C2. Natural disaster	30	39	39	39	39	39	39	39	39	39	39
C3. Commodity price	30	34	39	43	47	49	51	53	54	**56**	**57**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	222	254	246	232	235	238	240	243	247	251	254
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	222	254	244	229	229	228	225	220	217	213	209
B. Bound Tests											
B1. Real GDP growth	222	282	311	307	323	338	351	365	380	394	407
B2. Primary balance	222	265	266	250	251	253	254	256	259	263	265
B3. Exports	222	284	323	301	301	302	300	299	297	295	293
B4. Other flows 3/	222	263	263	248	250	252	253	256	258	261	263
B5. Depreciation	222	269	246	222	213	207	200	197	194	192	190
B6. Combination of B1-B5	222	258	261	250	254	258	259	262	265	269	272
C. Tailored Tests											
C1. Combined contingent liabilities	222	302	290	271	271	272	272	274	276	279	280
C2. Natural disaster	222	326	313	293	293	295	295	297	299	302	304
C3. Commodity price	222	350	379	391	403	410	408	402	416	428	440
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	41	53	51	48	45	39	38	39	44	48	53
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	41	54	51	44	42	36	35	36	40	43	47
B. Bound Tests											
B1. Real GDP growth	41	58	62	59	58	54	55	57	64	70	76
B2. Primary balance	41	53	53	50	46	39	38	40	45	49	53
B3. Exports	41	53	52	49	46	40	39	42	49	53	57
B4. Other flows 3/	41	53	52	48	45	39	38	40	45	49	54
B5. Depreciation	41	51	52	45	43	38	37	38	43	46	50
B6. Combination of B1-B5	41	53	53	49	46	41	40	42	47	51	56
C. Tailored Tests											
C1. Combined contingent liabilities	41	53	64	56	47	41	39	40	45	49	53
C2. Natural disaster	41	54	70	62	51	44	42	42	47	51	55
C3. Commodity price	41	67	72	74	74	67	63	61	66	71	77
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 1. Madagascar: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2024–2034



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

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

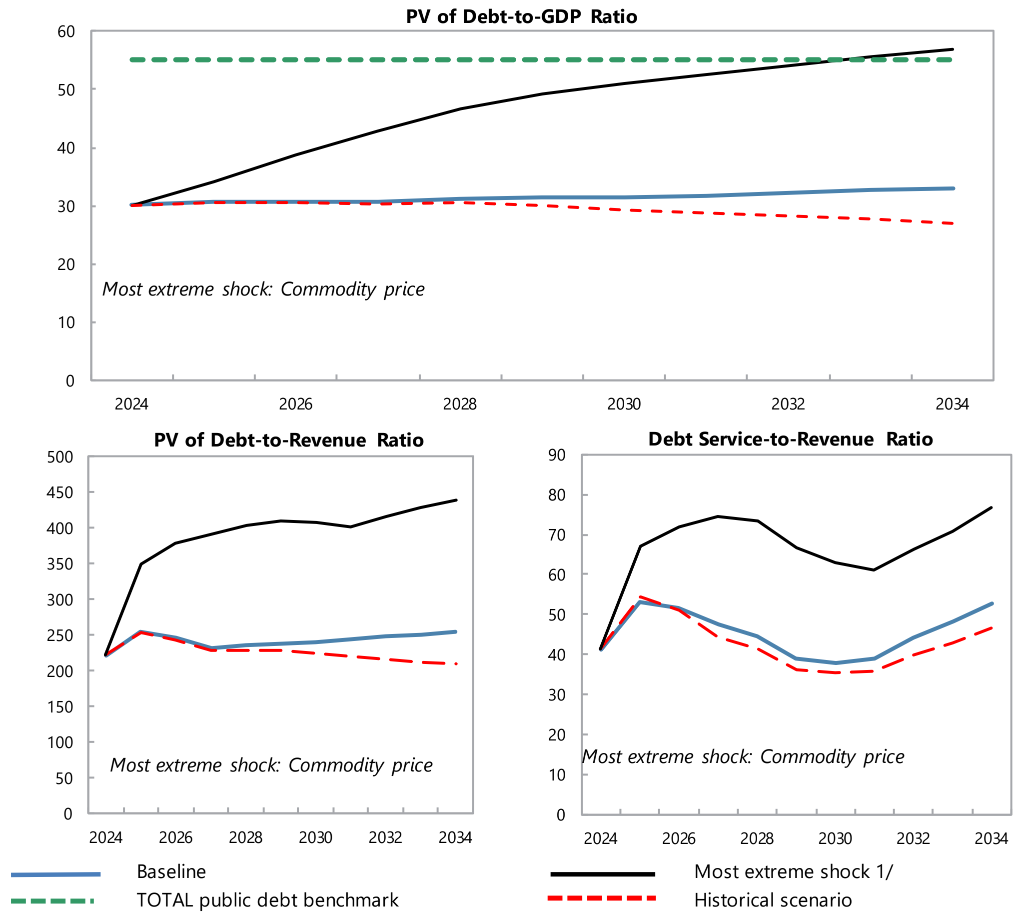
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	20
Avg. grace period	5	5

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
department.

Figure 2. Madagascar: Indicators of Public Debt Under Alternative Scenarios, 2024–2034



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	48%	65%
Domestic medium and long-term	17%	15%
Domestic short-term	35%	20%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.2%	1.8%
Avg. maturity (incl. grace period)	27	20
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.2%	8.2%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	2.6%	3.5%

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

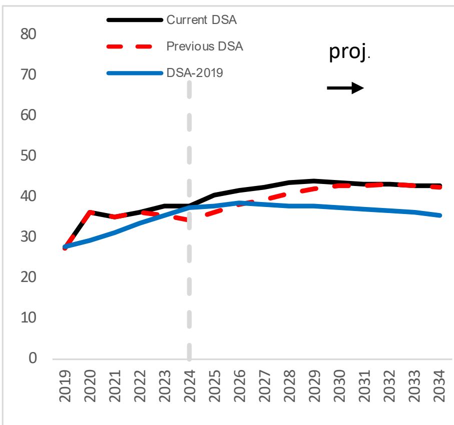
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

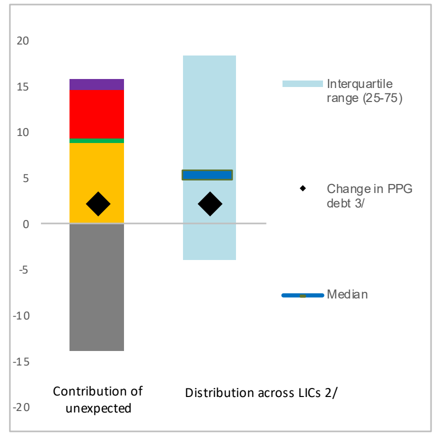
External Debt

Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)



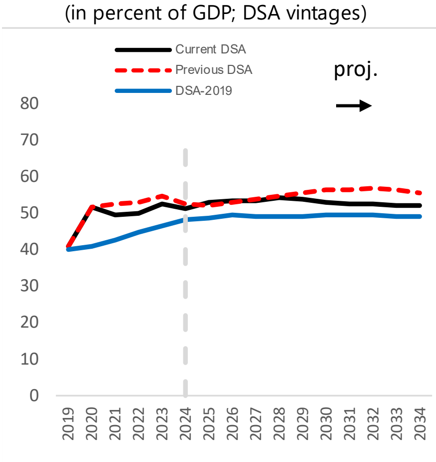
Debt-creating flows
(percent of GDP)

Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

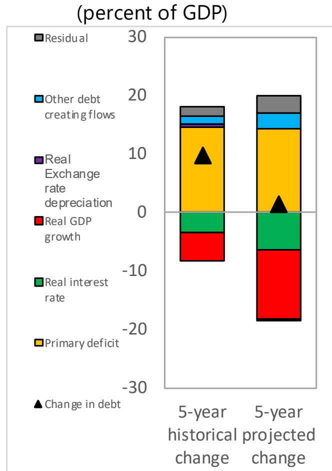


Public Debt

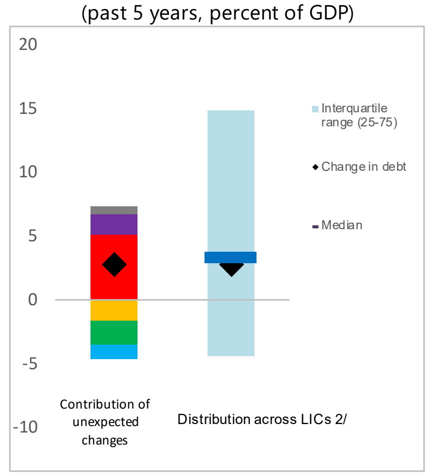
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



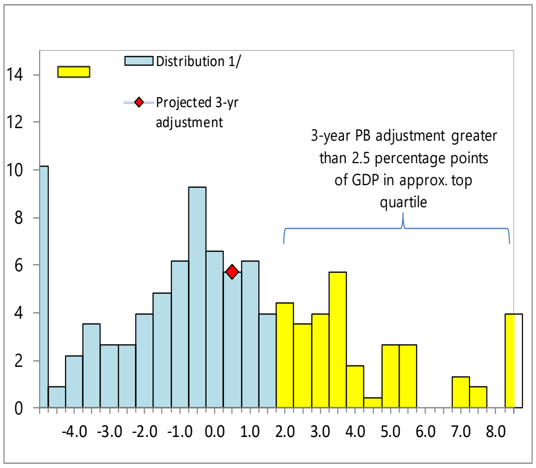
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

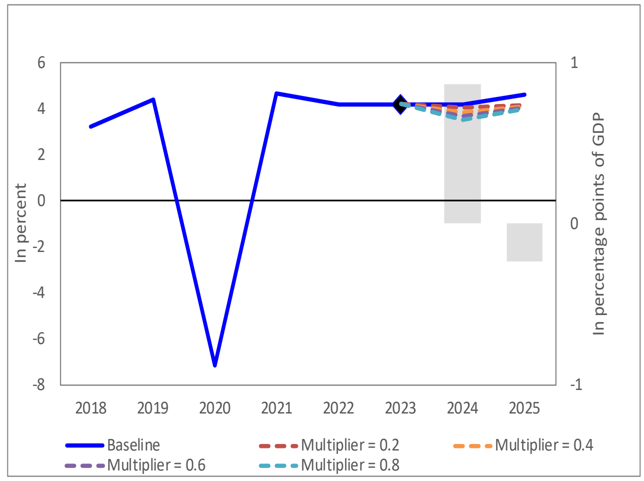
Figure 4. Madagascar: Realism Tools

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



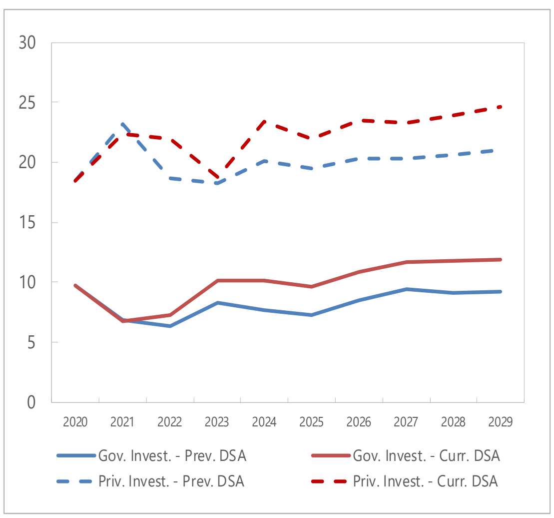
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

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



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

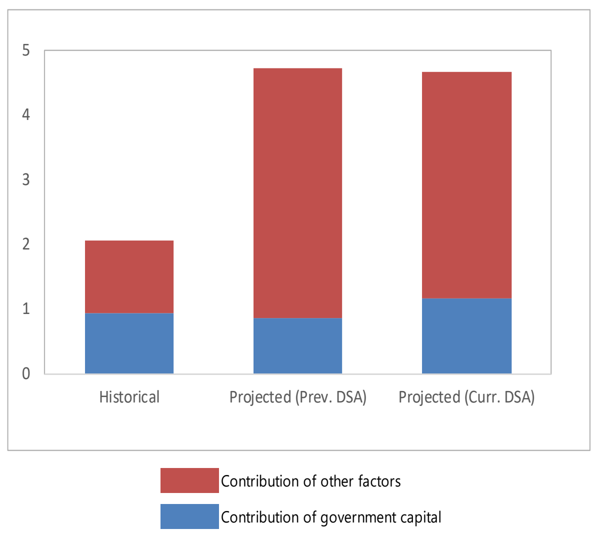
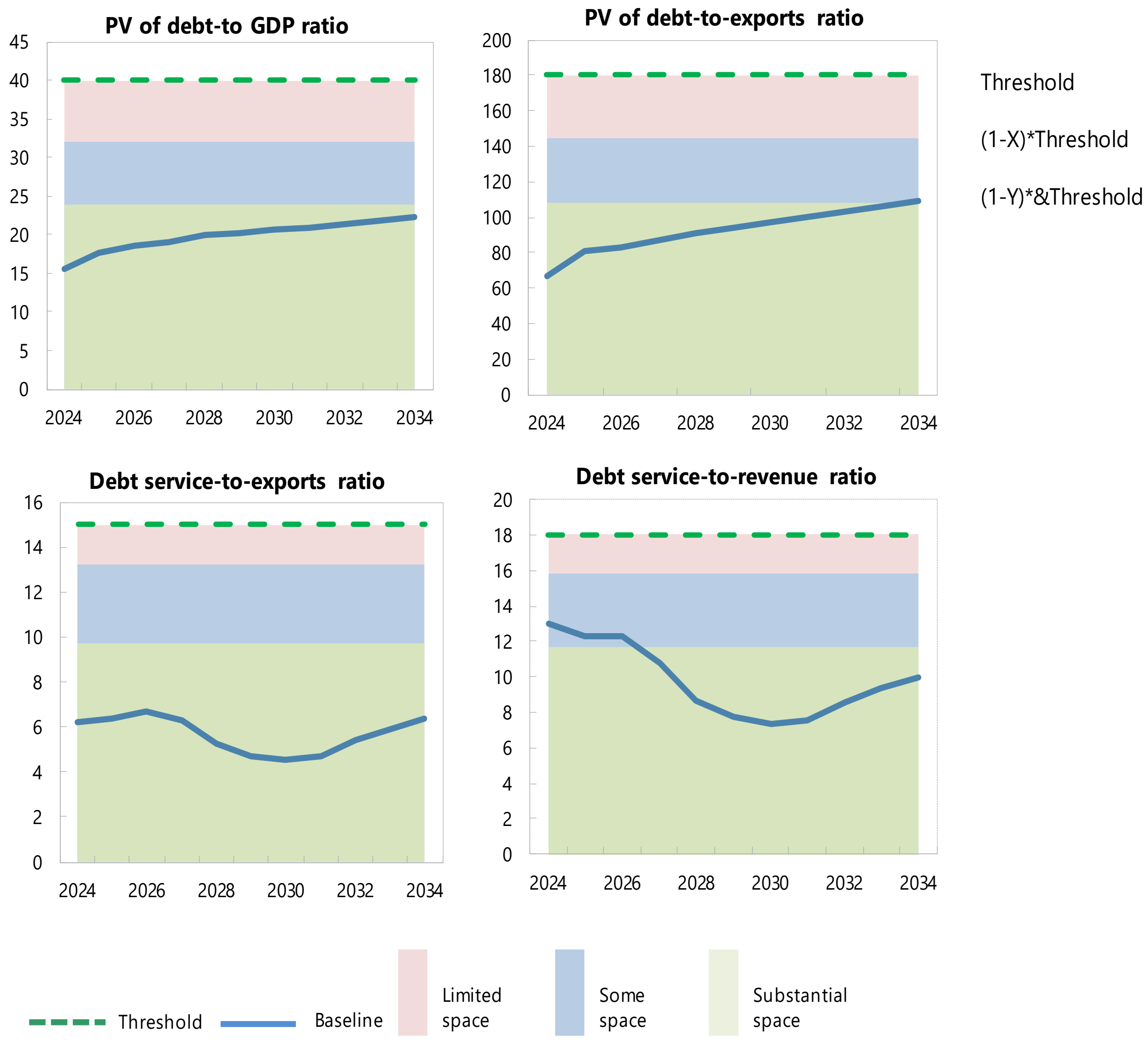


Figure 5. Madagascar: Qualification of the Moderate Category, 2024–2034[1]

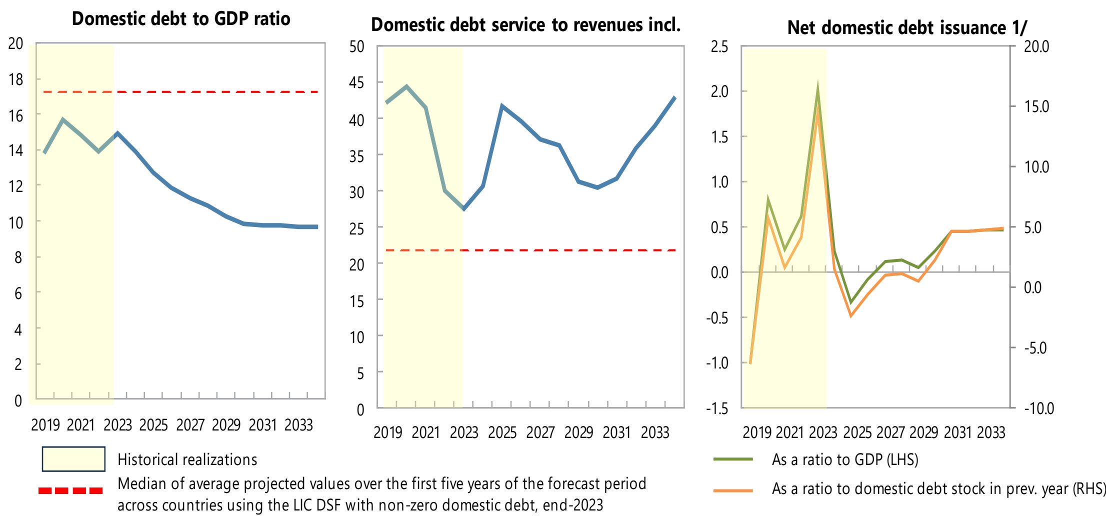


Sources: Country authorities; and staff estimates and projections.

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

Figure 6. Madagascar: Indicators of Domestic Public Debt, 2019-2034

(In Percent)

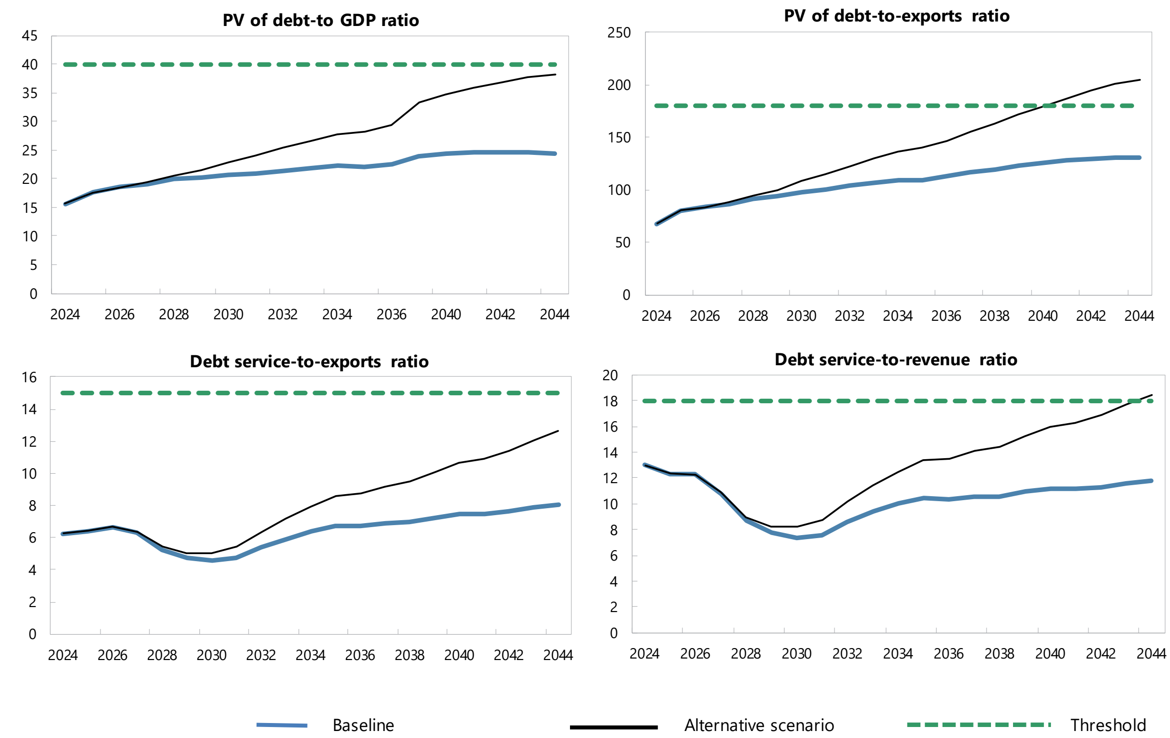


Borrowing Assumptions (average over 10-year	Value
Shares in new domestic debt issuance	
Medium and long-term	33%
Short-term	67%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	4.2%
Avg. maturity (incl. grace period)	2
Avg. grace period	1
Domestic short-term debt	
Avg. real interest rate	2.6%

Sources: Country authorities; and staff estimates and projections.

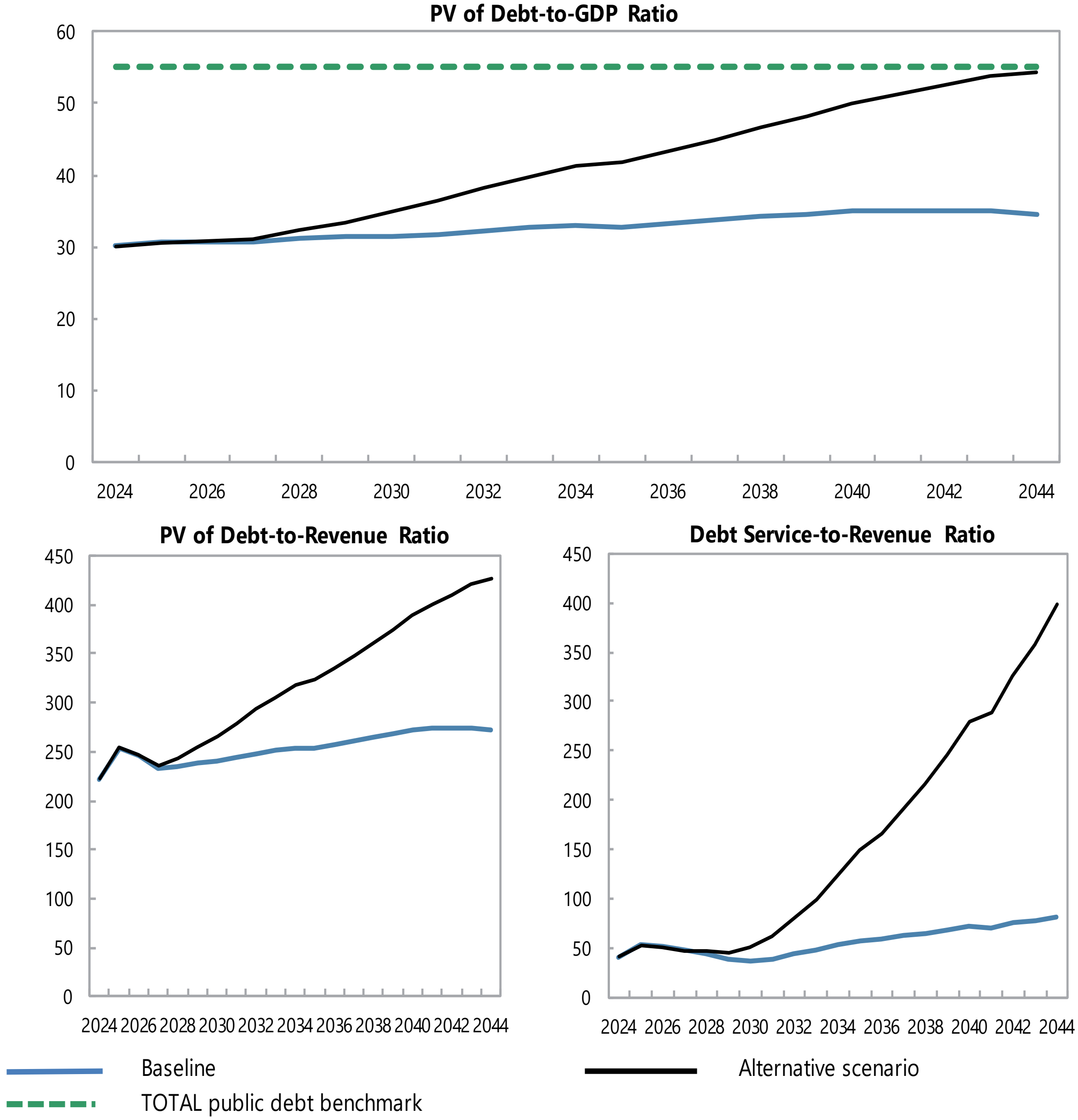
1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

Figure 7. Madagascar: Indicators of Public and Publicly Guaranteed External Debt Under a Pessimistic Climate Change Scenario, 2024–2044



Sources: Country authorities; World Bank CCDR; and IMF staff estimates and projections.

Figure 8. Madagascar: Indicators of Public Debt Under a Pessimistic Climate Change Scenario, 2024–2044



Sources: Country authorities; World Bank CCDR; and IMF staff estimates and projections.

REPUBLIC OF MADAGASCAR

February 11, 2025

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERIA, AND FINANCING ASSURANCES REVIEW, AND FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILTY

This letter updates the May 2024 RSF Assessment Letter and highlights relevant changes that have occurred since the issuance of the Assessment Letter.[1]

A. Country Vulnerability to Climate Change Including Human, Social and Economic Costs for the Country Arising from Climate Change Vulnerabilities

1. Madagascar's vulnerability to climate change has been underscored by the recent deficit in rainfall at the start of the rainy season (October – December 2024). The eastern part of Madagascar experienced a particularly severe deficit. The rainfall deficit significantly reduced the generation capacity of hydro power plants, led to prolonged power outages in many cities, and disrupted business activities. The gap in energy production was compensated by increased thermal production, which strained the already limited public finances. The deficit also compounded challenges in agriculture, particularly rice cultivation, which has been severely impacted. A decline in rice production might lead to a notable increase in rice prices in the next lean season, while exacerbating food insecurity and economic hardship for the population.

[1] World Bank Assessment Letter for the IMF Program under the Resilience and Sustainability Trust, IDA/SecM2024-0126.

2. The latest climate modeling for Madagascar foresees continued warming, increased rainfall variability, and more intense (though less frequent) cyclones. Cyclone Gamane, which hit the northern part of Madagascar in March 2024, affected up to 89,000 people and damaged 18,787 houses, with reconstruction costs estimated at 0.4 percent of GDP. Cyclone Dikeledi, which hit in January 2025, resulted in 3 deaths, more than 7,000 victims, and damages to road and social infrastructure in the northern part of the country. In the coming months, meteorological conditions in Madagascar will be influenced by the "La Nina" phase. Over the first quarter of 2025, the country expects to experience very uneven rainfalls across the island, and warmer-than-seasonal-normal temperatures.[2] Although Madagascar is a minor contributor to climate change, it is considered to be one of the countries that are most vulnerable and least prepared to cope with climate change.

B. Government Policies and Commitments for Climate Change Adaptation and Priority Areas to Strengthen Resilience

3. Madagascar's National Adaptation Plan (PNA), published in 2021, aims to strengthen adaptation governance and mainstream adaptation within priority sectors, while mobilizing finance.[3] To ensure the alignment of adaptation activities at the regional level with the national priorities, the Ministry of Environment has organized dissemination sessions for Madagascar's PNA in five cities outside of the capital (Antsiranana, Manakara, Toliara, Toamasina, and Mahajanga). The sessions gathered representatives from local governments, local media, research institutions, decentralized representation of ministries, civil society, and local representatives of technical and financial partners.

4. Ongoing programs support the implementation of the government's adaptation agenda. These include the expansion of adaptative social safety net programs and the establishment of a social registry. Since April 2024, social safety net programs cover all regions of Madagascar. The programs comprise non-crisis packages targeting families most vulnerable to climatic risks and communities facing high levels of environmental degradation, as well as crisis response packages. The Ministry of Population launched the enrollment into the social registry in October 2024. By end-2024, up to one million households were enrolled in the registry. The social registry will improve the targeting of the most vulnerable population more quickly and efficiently, while also improving the coordination of social protection programs and strengthening their role in adaptation.

5. Risk management and resilience approaches are incorporated in infrastructure investment planning. In line with the second strategic axis of the PNA, the government approved the updated Master and Detailed Urban Plans for five of the largest cities in the second semester of

[2] Rainfall is expected to be above the seasonal normal for the north-eastern regions and normal to below the seasonal normal for the Vatovavy and Fitovinany regions, the southern part of the Atsinanana and Melaky regions, the eastern part of the Amoron'i Mania and Haute Matsiatra regions.

[3] Republic of Madagascar. 2021. "Plan National d'Adaptation Au Changement Climatique (PNA) Madagascar [National Adaptation Plan of Madagascar]." Antananarivo: Ministry of Environment and Sustainable Development. https://unfccc.int/documents/488094.

2024. These plans incorporate construction standards resilient to extreme weather events. To enhance the resilience of public investment in infrastructure, a new climate-sensitive Public Investment Management (PIM) framework has been introduced in 2023 and progressively implemented during the preparation of the 2025 budget. The framework integrates climate change concerns into public investment project evaluation and selection process. The approved 2025 budget has allocated funding for continuing the water pipeline project in the south, as access to safe drinking water is one of the PNA's priorities. The implementation of the PNA remains challenging, particularly because of insufficient resource mobilization.

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

6. In conformity with the Paris Agreement requirement, Madagascar published its updated Nationally Determined Contribution (NDC) in January 2024. Compared with the initial NDC, the update revised the 2030 targets for both greenhouse gas (GHG) emissions and absorption.[4] The updated NDC doubles the pledge to lower GHG emissions (by 48.4 Mt CO_2, or 28 percent relative to business as usual), while aiming to increase land-based carbon sinks through large-scale reforestation (native species, woody species for socio-economic purposes, mangroves), boost the share of renewable energy in the electricity mix to 80 percent, and reduce the use of clinker in cement production by 20 percent. The commitment for GHG absorption is reduced from 32 percent in the initial NDC (relative to business as usual under the baseline scenario) to 20 percent. The government is drafting a long-term low-emissions development strategy under the United Nations Framework Convention on Climate Change,[5] laying out a vision for achieving a just transition[6] to net zero emissions by mid-century. Moreover, Madagascar is currently preparing its first biennial update report and its fourth national communication. The results of the inventories corresponding to these national reports will allow the GHG estimates and emissions to be updated. They will be used to update the NDC from 2025 onwards.

7. Madagascar recently introduced several initiatives to substantiate its commitment to climate change mitigation. In October 2024, Madagascar initiated the drafting of a national policy for clean cooking to support its energy transition. The initiative includes key sector stakeholders, such as government representatives, local communities, private sector entities, civil society organizations, and development partners. The aim is to reduce the country's reliance on biomass and fossil fuels. The government also plans to establish a comprehensive legal and regulatory framework for more sustainable and efficient clean cooking solutions. Additionally, the government

[4] Republic of Madagascar, 2024, "*Deuxième Contribution Determinée Au Niveau National de La République de Madagascar*." Parties to the Agreement are requested to submit new or updated NDCs every five years. Madagascar's first NDC was submitted in 2016.

[5] LTS are an important complement to NDCs under the Paris Agreement. See https://www.undp.org/fr/madagascar/press-releases/le-processus-de-validation-de-la-strat%C3%A9gie-de-d%C3%A9veloppement-%C3%A0-faible-%C3%A9mission-de-carbone-lanc%C3%A9-%C3%A0-antsirabe

[6] A just transition ensures that environmentally sustainable economies are promoted in a way that is as fair and inclusive as possible to everyone concerned (UN Global Compact).

plans to finance the deployment of up to 250MW of solar energy generation through the Ministry of Energy. The government also continues to support the implementation of the Volobe and Sahofika hydropower projects to decrease GHG emissions and advance renewable electrification. With the ongoing projects on urban transport (mass transport through urban train project and electric mobility project), the government aims to promote sustainable transport which contributes to reducing GHG emission and to improving the environment (reduction of traffic jam, improvement in air quality, health, etc.).

8. In the context of the M300 initiative, Madagascar adopted a National Energy Compact in January 2025, outlining actions to substantially increase access to energy. The M300 initiative was launched in April 2024 by the World Bank Group (WBG) and the African Development Bank (AfDB), in collaboration with partners, with the ambitious objective to connect 300 million people to electricity in sub-Saharan Africa by 2030. Madagascar was one the 12 pilot countries that prepared a National Energy Compact, which was presented during the Mission 300 Africa Energy Summit that took place in Tanzania from January 27 to 28, 2025. The Madagascar Head of State signed the official General Declaration at the Summit, agreeing on overall objectives and targets, policy priorities, reforms and commitments to accelerate the energy access agenda in the country. Madagascar's National Energy Compact serves as a roadmap to accelerate access for all, while ensuring affordable, reliable, inclusive, sustainable, and clean energy for the Malagasy people. The Malagasy Government is committed to guaranteeing access to reliable, affordable, and sustainable electricity to 80% of the population by 2030 and to guaranteeing access to improved and clean cooking solutions for at least half of the population by 2030.

D. Other Challenges and Opportunities

9. The June 2024 Assessment letter outlined several opportunities for Madagascar to attract private sector investments and international finance in support of climate action. The government started to capitalize on these opportunities. In October 2024, a roundtable on climate financing was held in Antananarivo, bringing together stakeholders from the public and private sectors, as well as financial and technical partners of Madagascar. The roundtable aimed to identify opportunities for increasing climate action financing with development partners and explore all possible options for mobilizing private sector funds. In December 2024, the government launched the formulation of the Climate Finance Mobilization Strategy, co-led by the Ministry of Economy and Finance and the Ministry of Environment, with an expected approval by the end of 2025. The development of the carbon market will depend on the reform of the legislative framework, which is part of the reforms supported by the RSF.

10. Additional initiatives are currently being developed in collaboration with the private sector and development partners. These initiatives include the "Derisking Facility" launched in March 2024, which is a program implemented by the government with the United Nations institutions, offering a financial risk reduction mechanism for private investors. The facility enables access to concessional loans, guarantees, and performance-based grants for small and medium-sized enterprises in the sustainable energy sector. The grants finance renewable rural electrification and clean cooking projects. Other initiatives include Madagascar's inaugural sustainability bond aimed at local investors to support renewable energy projects, as well as ongoing plans for issuing blue bonds and lemur bonds.

E. World Bank Engagement

11. The World Bank engagements mentioned in the June 2024 Assessment Letter are still ongoing. In addition, the Regional Emergency Preparedness & Access to Inclusive Recovery Project (P181014) is effective since August 2024 with the objective to strengthen the financial and operational preparedness of participating countries to respond quickly to climate and other shocks. Moreover, the World Bank has published the Country Climate and Development Reports, which provides policy- and investment-related recommendations on climate change.[7] The Reform Measures supported by the IMF RSF largely build on the recommendations of the CCDR. Many of the ongoing government initiatives on climate change are also informed by CCDR recommendations, including the PIM framework and the Climate Finance Mobilization Strategy.

[7] "World Bank Group. 2024. Madagascar Country Climate and Development Report. CCDR Series. © Washington, DC: World Bank. http://hdl.handle.net/10986/42263 License: CC BY-NC-ND 3.0 IGO."

Statement by Mr. Adriano Isaias Ubisse, Executive Director for Madagascar; Mr. Moeti Godfrey Damane, Senior Advisor to Executive Director; and Mr. Hamidou Mohamed Cheik, Advisor to Executive Director, on Republic of Madagascar
February 26, 2025

Introduction

1. **On behalf of our authorities, we would like to thank Mr. Lambert and his team for the insightful and constructive discussions, as well as the well-written report.** Our authorities deeply value the candid policy dialogue during the recent Article IV consultation, along with the ECF and RSF program reviews with the staff. The longstanding, cooperative engagement with the IMF continues to be highly appreciated by our authorities.

2. Madagascar continues to face significant development challenges, particularly due to its high vulnerability to climate change, with frequent cyclones, droughts and floods disrupting agriculture, damaging infrastructure, and worsening food insecurity, thereby threatening economic growth and the livelihood of its predominantly rural population, making resilience-building and adaptation investments critical for sustainable development.

3. Despite a 4.2 percent economic growth in 2023, driven by sectors such as extractive industries, tourism, telecommunications, and public investment, the poverty rate remains high, with a significant portion of the population living below the poverty line. Structural issues like limited access to electricity and substantial investment needs in education, health, and social sectors further hinder progress. The country also experiences frequent climate-related disasters, affecting nearly 6 percent of the population annually.

4. In this context, our authorities largely concur with the analysis presented and thank staff for their valuable advice on addressing longer-term structural challenges for the Malagasy economy. They are strongly committed to implementing reforms under the Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF) and view them as crucial for enhancing economic resilience and promoting long-term inclusive growth, while addressing climate vulnerabilities.

Program Performance

5. Program performance remains broadly satisfactory. The authorities met all but one end-June 2024 QPCs. Despite missing three out of four ITs, they successfully met the floor on net foreign assets of the Banky Foiben'i Madagasikara (BFM) and the two continuous PCs. The primary balance adjusted for actual official external project loans fell short. M3 growth remained within MPCC bands. The IT on social spending was achieved, though the domestic primary balance and gross tax revenue ITs were missed due to lower-than-expected tax collection from fuel distributors. The ceiling on outstanding domestic arrears was also missed. Progress on structural reforms underscores the authorities' dedication to program objectives. JIRAMA's recovery plan is nearing approval by early 2025. Four food banks became operational by end-October, with five more by end-December 2024; the final bank is expected soon. Monthly dashboards on key performance indicators for tax and customs administration and JIRAMA's revenue and costs were provided. The government postponed the automatic fuel price adjustment mechanism until after the December municipal elections to mitigate inflation concerns. Gasoline and diesel prices were adjusted in January and February 2025 to reflect cumulative price changes since June 2024.

6. The authorities completed the two RSF-supported reform measures (RMs) for the first review. Decrees clarifying the mandate of the Interministerial Committee for Environment (CIME) and on environmental impact assessments were adopted on December 4, 2024, and January 28, 2025, respectively. Criteria for selecting and prioritizing investment projects, including climate considerations, have been established, reflecting the authorities' unwavering commitment to structural reforms and program objectives. Given the satisfactory program performance and strong commitment, **the authorities seek Executive Directors' support in concluding 2024 Article IV Consultation, First Review Under the Extended Credit Facility Arrangement, Request for a Waiver of Nonobservance of Performance Criteria, and Financing Assurances Review, and First Review Under the Arrangement Under the Resilience and Sustainability Facility.**

Recent Economic Developments and Outlook

7. **The economy has stabilized with consistent growth since 2022.** The annual growth rate has been 4.2 percent and is projected to continue through 2024. This stability has been driven by a strong rice harvest and increased graphite production due to rising global prices. While tourism is recovering, it remains below pre-pandemic levels. Credit growth to the private sector has partially rebounded, increasing from 0.0 percent in January to 6.3 percent in June 2024. However, export weakness (7.1 percent of GDP in the first half of 2024 compared to 10.6 percent in 2023) has led to a worsening current account balance.

8. **Inflationary pressures have persisted, in part due to the impact of Cyclone Gamane and the depreciation of the Ariary, on food and energy prices, expanded by structural constraints at the supply level.** Inflation rose to 8.2 percent in November 2024,

compared to 7.3 percent in March 2024. Energy supply difficulties and poor road infrastructure led to increased production and transport costs, contributing to rising food prices.

9. **Growth is anticipated to increase starting in 2025, with projections of 4.6 percent, and potentially reaching 5 percent in the medium term.** This optimistic outlook is supported by expected gains in agricultural production, mining, and textile sectors, as well as robust growth in key tertiary sectors such as transport, construction, tourism, and telecommunications. Average annual inflation is expected to decline to 7.2 percent in 2025, before gradually converging to 6 percent over the medium term. The current account deficit is projected to stabilize under 5 percent of GDP. With risks titled to the downside, the authorities are dedicated to implementing policy recommendations to ensure macroeconomic stability, focusing on fiscal sustainability, inflation control, and current account balance improvements.

Fiscal and Debt Policies

10. **Our authorities are committed to maintaining fiscal discipline and ensuring macroeconomic stability.** The primary fiscal deficit is projected to reach 2.7 percent of GDP in 2024, necessitating expenditure cuts due to some fuel distributors withholding oil customs duties payments. To finance investment and social spending, the 2025 budget includes measures to reduce tax expenditures by MGA 280 billion. Over the medium term, our authorities will gradually remove costly import tax and VAT exemptions, implement comprehensive excise tax reform, and introduce more progressive personal income taxation. These efforts are crucial for maintaining the national debt at sustainable levels, with a forecasted increase to $16.71 billion by 2029, while keeping the debt-to-GDP ratio below 60 percent and reducing the primary deficit to around 3 percent of GDP.

11. **In line with the country's commitments, our authorities have implemented an automatic fuel price adjustment mechanism and concluded a memorandum of understanding with fuel distributors to settle cross debts with the government in 2024.** The automatic fuel price adjustment mechanism, adopted by decree in June 2024, was effectively applied with a first price adjustment on January 18, corresponding to the application of the mechanism since June, and a second adjustment on February 5, according to the letter of the decree for the first half of 2025. Our authorities are committed to continuing monthly price adjustments in accordance with the new structural benchmark agreed as part of the program. They will ensure compliance with fiscal and parafiscal obligations, including duties and taxes on petroleum products, royalties to the Ministry of Environment, and contributions to sector development and road funds. Additionally, our authorities will continue to improve JIRAMA's governance, enhance its revenues, and reduce costs, thereby alleviating the burden on the State. Transparency will be strengthened

by regularly sharing information on the implementation progress of JIRAMA's recovery plan.

12. **Our authorities are also focused on mitigating fiscal risks associated with the debt restructuring of Air Madagascar**. Recent estimates indicate a debt of about US$ 100 million, of which 60 percent is owed to the State. They will consult the IMF and the World Bank before any financial participation in this restructuring. Efforts to put Air Madagascar on the path to operational and financial sustainability will continue. Furthermore, our authorities are dedicated to containing the wage bill, ensuring the balance of the pension system, and increasing targeted social spending. Strengthening the medium-term fiscal framework (MTFF) and improving the analysis and publication of fiscal risks are key priorities. They will continue to streamline the public expenditure chain, enhance budget execution, and accelerate the digital transformation of budget and financial processes, relying on technical and financial partners to advance these reform projects.

Monetary and Financial Policies

13. **The central bank remains vigilant in managing inflation**. Our authorities stand ready to raise policy rates to maintain a downward inflation trajectory. In August 2024, the central bank raised the key interest rate to 11.5 percent, marking the first rate hike in a year after three consecutive unchanged meetings. Additionally, in early November 2024, the minimum reserve requirement was increased from 12 to 15 percent in response to persistent inflation concerns. Liquidity management through open market operations will continue, with enhanced communication to bolster credibility and accountability. Foreign exchange interventions will be limited to smoothing excess volatility and building external buffers. Regulatory capital requirements will be met to maintain the resilience of the banking sector.

14. **Authorities will continue the reforms at BFM**. These reforms aim to strengthen the operational framework of monetary policy. The new framework for interest rate targeting, implemented in February 2024, includes a comprehensive strategy, a guide for money market interventions, and a methodology for calculating and publishing the reference rate. Additionally, a schedule of quarterly monetary committee meetings and an indicative schedule of BFM's money market interventions have been published. Daily liquidity management operations will be conducted to maintain the interbank lending interest rate within the defined corridor. Efforts are also underway to improve medium and long-term liquidity forecasting and develop monetary analysis to better understand policy transmission mechanisms. Technical assistance from the IMF in July 2024 has supported these initiatives.

15. **Reforms will also focus on developing the secondary market for government securities**. Based on recommendations from the IMF and the International Finance Corporation, authorities will review the primary dealer system. In January 2025, a decree was adopted to establish a single central securities depository (CSD) for all government

securities, set to become operational by 2026. Banks will be encouraged to conduct repo operations to further develop this market. Enhancing BFM's communication policy aims to better anchor expectations and increase the effectiveness of monetary policy. Best practices will be maintained and strengthened for greater transparency, accountability, and credibility. A quarterly report presenting the underlying analyses for monetary policy decisions is being considered to improve the communication framework, with support from the IMF in 2025.

16. **Authorities will ensure to preserve and strengthen BFM's independence**. Independence in decision-making is crucial for credibility and effectiveness in achieving the inflation target. Given the persistence of inflation around 8 percent, authorities will maintain a restrictive monetary policy stance in the short term and are prepared to raise interest rates again if necessary, considering developments in economic activity and credit to the private sector. Authorities commit to revising the strategy for managing BFM's interventions in the foreign exchange market, recognizing the benefits of a floating exchange rate regime to absorb external shocks and preserve monetary policy autonomy. Collaboration with the Ministry of Economy and Finance will continue to finalize the draft law on foreign exchange. Additionally, BFM remains determined to diversify its gold reserves within the revised operational strategy for including gold acquired from local operators, approved in August 2024. This strategy includes updating the reserve management strategy, developing an operational strategy for gold purchases, and revising the memorandum of understanding with the Ministry of Mines and Strategic Resources. Authorities commit to adhering to these documents' terms and minimizing financial risks by limiting the share of monetary gold in total reserves to an optimal level of 8 percent (+/- 2 percent), with an investment horizon set at 10 years.

Governance and Economic Growth Reforms

17. **Our authorities remain committed to improving governance and accountability as a cornerstone for achieving higher and more inclusive growth**. They are dedicated to ensuring legal stability, enforcing existing laws, protecting property rights, and establishing effective grievance redress mechanisms. The preparation of a new anticorruption strategy for 2025-2030 is underway, with IMF support for a Governance Diagnostic Assessment (GDA). This assessment will analyse governance weaknesses and corruption vulnerabilities across key state functions, including fiscal governance, financial sector oversight, central bank governance, rule of law, and anti-money laundering and combating the financing of terrorism (AML-CFT). The GDA will provide concrete reform measures to strengthen governance and combat corruption, with the final report to be published by end-September 2025.

18. **The new national anti-corruption strategy (SNLCC) for 2025-2030 builds on past progress and addresses remaining challenges**. Developed by a steering committee chaired by the President of the Integrity Safeguard Committee, the strategy was presented to the Council of Ministers on January 15, 2025, and is available online along with its

implementation plan. Our authorities will ensure that anti-corruption entities have the necessary resources, particularly considering past resource constraints faced by the SAC. The government will address these issues through appropriate budgeting and will also focus on the budget of the Court of Auditors to ensure the sustainability of efforts made,

19. **Strengthening the implementation of existing anti-corruption provisions continues to be a primary focus for the authorities**. The Independent Anti-Corruption Office (BIANCO) will enforce asset declaration obligations for senior officials and politically exposed persons, bringing non-compliant individuals before the courts. The Agency for the Recovery of Illicit Assets (ARAI) continues to expand its activities and will adopt a decree to enhance the effectiveness of legal provisions on asset recovery. Expanding the network of Anti-Corruption Poles (PAC) will ensure better access to justice in remote areas. The establishment of a third PAC in Fianarantsoa contributes to this goal. Strengthening the rule of law is essential for improving the business climate and fostering economic growth. Our authorities will prioritize reforms in contract enforcement, property rights, and judicial independence based on GDA recommendations.

20. **Improving the business climate remains a top priority for our authorities**. Progress in digitizing tax payments, issuing work permits, and setting up a credit bureau will support economic growth. Legislative reforms and infrastructure development will further enhance the business environment. The government reiterates its commitment to enhancing transparency and limiting budgetary risks associated with the Malagasy Sovereign Fund (FSM), ensuring its priorities are clear and its operations transparent. These comprehensive reforms reflect the country's proactive stance on implementing policy recommendations for macroeconomic stability and sustainable growth.

Climate Resilience and Sustainability Reforms

21. **Resilience to natural hazards is paramount for Madagascar**. Our authorities will continue to invest in strengthening community resilience, including constructing Multi-Purpose Community Shelters (ACUM) with the African Risk Capacity (ARC) and the African Development Bank through the ADRiFi program. These shelters will serve as disaster shelters and multifunctional community centers. Despite low emissions, the country is eager to adopt low-carbon development tools, in line with the Nationally Determined Contribution (NDC2) commitments. The authorities are committed to sustainable urban and territorial planning to mitigate GHG emissions from urbanization.

22. **Our authorities will restore price signals for various fuels and gradually increase diesel taxes to align with gasoline rates**. The authorities will seek support from technical and financial partners to study the socio-economic and fiscal impacts of energy-related tax or customs reforms. Our authorities will facilitate renewable energy production and promote affordable electricity access in rural areas. The authorities will explore transitioning the motor vehicle fleet towards more energy-efficient and electric vehicles and develop clean

cooking solutions to reduce GHG emissions and air pollution, thereby generating significant health benefits. Their proactive stance on these reforms underscores their commitment to macroeconomic stability and sustainable development.

23. **Our authorities are dedicated to ensuring that infrastructure investments align with environmental protection and biodiversity conservation**. Considering recent discussions on road projects and their alignment with the RSF's goals of mitigating climate change and strengthening resilience, our authorities are committed to finding sustainable solutions that balance infrastructure investment needs with environmental protection and biodiversity conservation. Specifically, the highway connecting Antananarivo to Toamasina and the Route du Soleil are designed to enhance economic and social integration while adhering to best environmental practices. Significant adjustments have been made, such as modifying the highway route to avoid protected areas and engaging in continuous dialogue with Civil Society Organizations. This commitment is reflected in the transparent and inclusive approach to project selection and the rigorous environmental and social impact assessments conducted in consultation with local communities and stakeholders.

Conclusion

24. **Our authorities remain committed to implementing the reforms supported by the ECF and RSF programs**. They express their gratitude to the International Monetary Fund and other development partners for their continued support and collaboration. The authorities are firmly committed to continuing to work diligently to achieve the economic goals and reforms outlined in this statement, fostering a resilient and inclusive economy for all Malagasy citizens.