IMF Country Report No. 20/268

REPUBLIC OF MADAGASCAR

August 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MADAGASCAR

In the context of the request for disbursement under the Rapid Credit 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.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 30, 2020, following discussions that ended on June 11, 2020, with the officials of Madagascar on economic developments and policies underpinning the IMF disbursement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on July 15, 2020.
- **Debt Sustainability Analysis** as a supplement of the staff report
- **A Statement by the Executive Director** for Madagascar.

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

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PRESS RELEASE

PR2020/275

IMF Executive Board Approves an Additional US$171.9 Million Disbursement Under the RCF to Madagascar to Address the Covid-19 Pandemic

FOR IMMEDIATE RELEASE

- This is the second disbursement under the Rapid Credit Facility (RCF), which brings total IMF COVID-19 emergency support to the Republic of Madagascar to US$337.9 million.
- Madagascar's macroeconomic outlook has been affected by weaker external demand, the increased spread of the pandemic, and significant losses of revenue.
- The additional resources under the RCF will help address urgent financing needs to mitigate the impact of the pandemic, including spending on health, social protection, and to support the most vulnerable, and catalyze additional donor resources.

Washington, DC, July 30, 2020 – The Executive Board of the International Monetary Fund (IMF) today approved the disbursement of $171.9 million (SDR122.2 million, 50 percent of quota) to the Republic of Madagascar under the Rapid Credit Facility (RCF). This is the second emergency disbursement since the onset of the pandemic and will help finance the country's urgent balance of payments and fiscal needs. It follows the Executive Board's approval of the disbursement of US$ 165.99 million on April 3, 2020 (see IMF Press Release No. 20/133).

This second disbursement was made possible by both the IMF Executive Board's decision to double the annual access limit under the RCF to 100 percent of quota (see IMF Policy Paper No. 20/018), and its most recent decision on a temporary modification to the Fund's annual PRGT access limits (see IMF Press Release No. 20/267). This additional disbursement brings the total IMF COVID-19 support to Madagascar to US$337.9 million.

Madagascar's economic outlook has worsened since the approval of the first RCF request, due to a further deterioration of the global environment and a deepening of the impact of the COVID-19 pandemic, with GDP now projected to contract by 1 percent in 2020. As a result, urgent balance of payments needs arising from the pandemic have increased, with the financing gap now estimated at about US$580 million, while the fiscal situation has been severely affected by additional revenue losses and redirecting budget resources to address critical spending, including increased social assistance to the most vulnerable. The additional disbursement under the RCF will help finance health and economic relief spending under the government's national contingency plan to fight the pandemic and continue to catalyze further support from donors. The authorities have committed to transparency and accountability to ensure that the RCF resources are used appropriately and for their intended purpose.

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

"The COVID-19 pandemic continues to severely affect key sectors of Madagascar's economy, including tourism and export-oriented manufacturing, further weakening the macroeconomic outlook. Growth is projected to be negative in 2020 and urgent balance of payments needs arising from the pandemic have increased. Additional emergency support under the Rapid Credit Facility, following a first disbursement approved on April 3, 2020, is expected to help finance health and economic relief spending, and continue to catalyze donor support.

“In the context of a high degree of uncertainty, more support may be needed to ease the adjustment burden. The authorities’ decision to apply for the Debt Service Suspension Initiative supported by the G-20 and Paris Club, and use of the released resources to finance spending on COVID-19 related health and economic relief, is welcome.

“The authorities are implementing measures to address the humanitarian and economic impact of the pandemic while preserving macroeconomic stability. These include strengthening the health system and social protection, supporting the private sector, preserving the stability of the financial sector, and maintaining the flexible exchange rate regime.

“To ensure that the financing provided is efficiently spent on addressing the crisis, the authorities have committed to enhancing transparency, including with the publication of procurement contracts related to the response to the pandemic, and post-crisis audits.

“Madagascar’s risk of public debt distress remains moderate, but risks to the outlook are substantial. This underscores the importance of preserving fiscal sustainability once the crisis abates. The authorities remain committed, beyond their immediate response to the crisis, to continue reforms needed toward higher, more inclusive, and sustainable growth.”

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

July 15, 2020

EXECUTIVE SUMMARY

Context. A further deterioration of the global environment and a deepening of the impact of the COVID-19 pandemic have worsened the macroeconomic outlook significantly, with growth now projected to be negative in 2020. As a result, urgent balance of payments needs arising from the pandemic are now estimated at 4.2 percent of GDP (compared to 1.8 percent), and the authorities have requested an additional disbursement under the Rapid Credit Facility (RCF) of 50 percent of quota (SDR 122.2 million) under the "exogenous shock" window of the RCF. This follows Board approval on April 3, 2020 of the authorities' request for 50 percent of quota, which took place before the annual access of the RCF was doubled to 100 percent of quota on April 6, 2020. This additional request, if approved, will bring total disbursements under the RCF to 100 percent of quota in 2020. The authorities have also requested temporary debt servicing relief under the G-20 Debt Service Suspension Initiative, supported by the G-20 and Paris Club.

Policy recommendations. In their attached letter of intent (LOI), the authorities reaffirm their commitment to the policies discussed in **IMF Country Report No 20/100**, with temporary loosening of fiscal and financial policies aimed at mitigating the impact of the crisis and supporting recovery. The authorities have also made additional commitments to strengthen coordination and transparency to ensure that the aid received is efficiently spent on addressing the crisis. Once the crisis has abated, avoiding lasting fiscal imbalances will be needed in order to preserve medium-term macroeconomic stability. The catalytic role of the Fund, which has already contributed to closing the 2020 external and fiscal needs, will remain essential given persistent external medium-term projected financing gaps.

Staff supports the authorities' request. Staff assesses that Madagascar meets the qualification criteria and other applicable requirements. An updated Debt Sustainability Analysis shows that the risk of external debt distress has increased from low to moderate, while it remains moderate for overall public debt. The capacity to repay the Fund remains adequate.

Approved By
David Owen (AFR) and Zuzana Murgasova (SPR)

The staff team comprised Charalambos Tsangarides (Head), Gabriel Léost and Cristina Cheptea (all AFR), Sandile Hlatshwayo (SPR), Marc Gerard (Resident Representative) and Ialy Rasoamanana (local economist). Discussions took place by videoconference during June 9 to 11, 2020 and on June 23 with Minister of Finance Randriamandrato, Central Bank Governor Rabarijohn, and other senior officials. Aivo Andrianarivelo and Thierry Nguema Affane (OED) participated in the discussions.

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BACKGROUND

1. **Recent indicators show a deterioration of the economic situation from the continued impact of COVID-19** (Text Figure 1). While the number of confirmed cases of COVID-19 remains moderate in Madagascar, the pandemic is spreading faster, and the economy is severely affected.[1] Most recent information shows a strong contraction in both exports and imports of about 15 percent year-on-year (y-o-y) in the first five months of 2020, including drops of 34 and 29 percent y-o-y over April-May, respectively, and a dramatic decline in tourism revenue (equivalent to 5 percent of GDP in 2019). Inflation rose slightly from 3.9 percent y-o-y in February to 4.3 percent in May. Tax revenue declined by 30 percent y-o-y in May, and about 16 percent y-o-y during the first five months of 2020.

2. **The authorities are continuing to implement priority measures to strengthen the health system and preserve macroeconomic stability, while the President has extended the state of health emergency until end-July.** These measures include (i) targeted investments to strengthen the health system following the activation of the national contingency plan to fight the pandemic with the support of development partners; (ii) the implementation of a social emergency plan to support the most vulnerable; (iii) support to the private sector (including some tax exemptions, deadline extensions for certain declarations and payments, and a moratorium on bank credits for companies facing temporary difficulties); and (iv) the regular provision of liquidity by the central bank to commercial banks to limit potential disruptions in the financial sector.

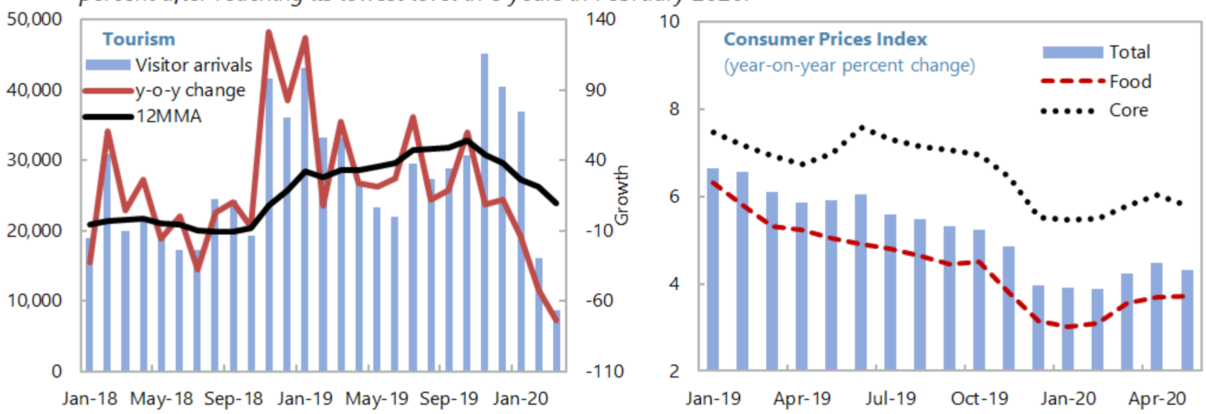
RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3. **The COVID-19 pandemic has weakened the macroeconomic outlook further** (Text Table 1). Due to further deterioration of the global outlook based on Q1 and Q2 high frequency data, a worsening of the economic impact of the pandemic, and a longer persistence of the shock affecting the recovery path, real GDP is now expected to contract by 1 percent in 2020 (down from +1.6 percent in previous staff report) before expanding by 4.2 percent in 2021, below the pre-pandemic projection. Average inflation for 2020 is expected to slow down to 4.6 percent. With an expected decline of more than 1.5 percentage points of GDP in tax revenue compared to 2019, the domestic primary balance is expected to show a deficit of about 3.4 percent of GDP in 2020, more than twice that projected in the previous staff report, and the public debt is projected to reach 44.8 percent of GDP (compared to 40.6 previously). While the 2020 goods trade deficit is projected to improve slightly compared to 2019 (lower exports offset by lower imports, including a much lower oil bill), the current account deficit is expected to widen from 2.5 to 3.6 percent of GDP owing to a decline in tourism receipts to about half of 2019 level. The capital and financial account is expected to be impacted by a 20 percent reduction in FDI.

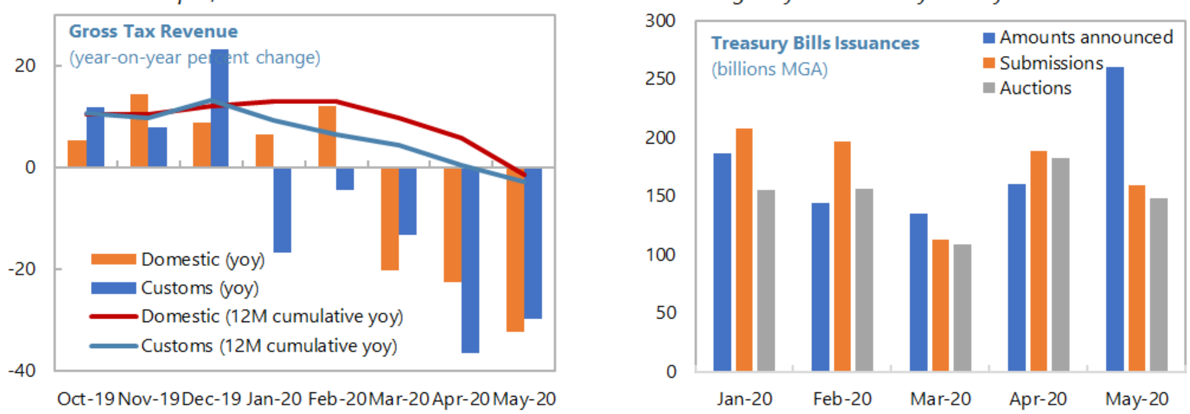
[1] As of July 15, there were 5,605 confirmed cases of COVID-19 and 43 deaths for a total population of about 27 million.

Figure 1. Madagascar: Impact of the Crisis on Recent Economic Indicators

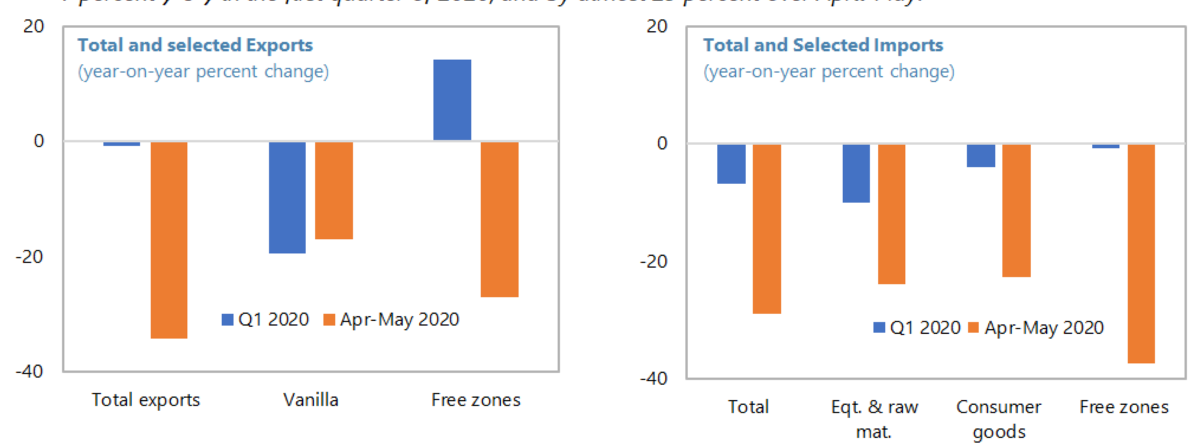
Tourism has been hard hit by the pandemic, with a collapse in the number of visitors. Inflation remains below 5 percent after reaching its lowest level in 8 years in February 2020.



Both domestic tax and custom revenue have fallen sharply in recent months. The Treasury Bills market held up well until April, but the auctions were well below the amounts sought by the Treasury in May.



Total exports declined only by 1 percent year-on-year (y-o-y) in the first quarter of 2020, with free zone exports still growing by a solid 14 percent, but dropped by 34 percent y-o-y over April-May. Imports were down by about 7 percent y-o-y in the first quarter of 2020, and by almost 29 percent over April-May.



Sources: Malagasy Authorities; and IMF staff estimates.

Text Table 1. Madagascar: Selected Economic Indicators 2019-2021

	2019	2020			2021		
	Estimate	Art IV	RCF-1	Proj.	Art IV	RCF-1	Proj.
Real GDP growth (percent)	4.8	5.2	1.6	-1.0	5.4	4.8	4.2
Consumer Price Index average (y-o-y, percent)	5.6	7.2	5.5	4.6	6.5	6.5	6.0
Net tax revenue (MGA bn)	5,387	6,292	5,425	4,736	7,357	6,611	5,668
Net tax revenue (percent of GDP)	10.5	10.9	9.9	9.0	11.3	10.8	9.7
Fiscal Domestic Primary Balance (percent of GDP)	0.3	0.0	-1.4	-3.4	0.3	-0.5	-1.0
Public debt (percent of GDP)	38.4	39.8	40.6	44.8	40.8	40.6	44.3
Current account balance (percent of GDP)	-2.5	-1.5	-2.5	-3.6	-1.5	-2.7	-3.1
Capital and financial account (percent of GDP)	1.2	1.9	0.3	0.0	1.8	2.8	2.5
Gross Official Reserves (SDR million)	1,194	1,390	1,097	1,113	1,552	1,290	1,290
Gross Official Reserves (import coverage)	4.2	4.4	4.1	4.8	4.5	4.2	4.5

Sources: Malagasy authorities; and IMF staff.

4. The recent developments have started to weigh on the monetary situation and the financing of the economy. Regular interventions by the central bank were needed to preserve bank liquidity, with outstanding liquidity injections reaching MGA 306 billion (about 0.6 percent of GDP) at end May 2020. Credit to the private sector has started to slow down, and the ratio of non-performing loans slightly increased at end-March 2020. After successful Treasury bill issuances until April, results were mixed in May with two auctions undersubscribed by the banks early in the month before a return to normal in the last auction on May 29 (Text Figure 1). There was some volatility in the foreign exchange market, with limited depreciation of the Ariary so far (about 6 and 6.8 percent since the beginning of the year vis-à-vis the US dollar and the Euro, respectively, as of July 10, 2020). The central bank (BFM) continued to intervene following the algorithm prepared with Fund TA, and as of July 10, 2020, the BFM was a net seller of foreign exchange in the amount of about US$57 million, more than during the whole of last year. As of end-June and following recent external aid disbursements, reserves increased to SDR 1,356 million SDR, equivalent to 5.9 months of projected imports.

5. Compared to IMF Country Report No 20/100 the updated projections show an additional urgent balance of payments need of about 2.4 percent of GDP in 2020, which can be closed with committed budget support and Fund financial assistance (Text Table 2). The significant revisions in the macroeconomic framework result in an estimated external financing gap in 2020—before taking into account the IMF emergency financial assistance—of SDR 440 million (4.2 percent of GDP), compared to SDR 194 million or 1.8 percent of GDP at the time of the request for the first RCF disbursement. With additional budget support committed by development partners (¶6), the disbursement under the RCF approved on April 3, 2020, the proposed second disbursement under the RCF, and the debt service suspension from official creditors under the Debt Service Suspension

Initiative (DSSI) supported by the G-20 and the Paris Club (which amounts in 2020 to about 0.1 percent of GDP for bilateral official creditors) requested by the authorities, the official reserve drawdown will be SDR 81 million, leaving reserves at about 4.8 months of prospective imports of goods and services, broadly in line with the level assessed as adequate in the January 2020 Article IV staff report.[2]

Text Table 2. Madagascar: 2020 Balance of Payments Financing

	RCF-1		Projections	
	SDR million	Percent of GDP	SDR million	Percent of GDP
Overall Balance[1]	-220	-2.0	-465	-4.4
IMF net financing[2]	25	0.2	25	0.2
Financing gap	**-194**	**-1.8**	**-440**	**-4.2**
Exceptional IMF financing-RCF	122	1.1	244	2.3
Exceptional IMF financing-CCRT			6	0.1
Exceptional financing-DSSI			10	0.1
Reserve drawdown	72	0.7	81	0.8
Additional budget support[3]			99	0.9

Sources: Malagasy authorities; and IMF staff.

[1]Includes budget support committed before Covid-19 pandemic.

[2]ECF disbursement net of planned repayments to the Fund.

[3]See details in Text Table 4.

6. **IMF emergency financing is catalyzing donor support, contributing to close the 2020 external and fiscal needs** (Text Table 3 and 4)**.** Fund staff has been working closely with development partners, including by exchanging macroeconomic assumptions and associated expected financing needs. As of July 14, and without accounting for IMF financing, total budget support committed for 2020 reached the equivalent of US$278 million (1.9 percent of GDP), almost twice the amount committed at the time of the previous staff report. The additional IMF emergency financing under the RCF (which will reach 100 percent of quota, equivalent to about US$335 million) will also be redirected to the budget through on-lending by the central bank. Total budget financing would then reach about US$612 million, equivalent to 4.2 percent of GDP, an unprecedented level in Madagascar, equivalent to 45 percent of the projected tax revenue for 2020. The emergency financing by the IMF alone is equivalent to 5 months of the public wage bill.

[2] Despite the decrease in reserves, the coverage level has increased due to the projected fall in imports.

Text Table 3. Madagascar: 2020 Fiscal Accounts

	RCF-1		RCF-2 projection	
	MGA billion	Percent of GDP	MGA billion	Percent of GDP
Tax revenue	5,425	9.9	4,736	9.0
Domestic taxes	2,706	4.9	2,404	4.5
Customs revenue excl. oil products	2,107	3.8	1,813	3.4
Customs revenue on oil products	612	1.1	519	1.0
Budget grants	529	1.0	635	1.2
Current expenditure	5,866	10.7	6,035	11.4
Of which:				
Wages and salaries	2,903	5.3	2,933	5.5
Goods and services	628	1.1	628	1.2
Transfers and subsidies	1,711	3.1	1,791	3.4
Capital expenditure	3,013	5.5	3,436	6.5
Domestically financed	960	1.8	1,110	2.1
Externally financed	2,054	3.8	2,327	4.4
Overall balance (including grants)	-1,862	-3.4	-2,840	-5.4
Domestic primary balance	-751	-1.4	-1,780	-3.4
Total financing	1,243	2.3	1,551	2.9
Foreign borrowing	936	1.7	1,181	2.2
of which budget loans	48	0.1	393	0.7
Domestic borrowing	308	0.6	371	0.7
Fiscal financing gap	619	1.1	1,289	2.4
Exceptional financing-DSSI	…	…	51	0.1
Exceptional financing-RCF	619	1.1	1,238	2.3

Sources: Malagasy authorities; and IMF staff.

7. **The phasing of the disbursements from the Fund and other donors is consistent with current Treasury cash plans.** While tensions in Treasury cash-flows have been limited so far, committed spending with payment orders to come ("float") increased in recent months. Based on current cash-flow plans, the April RCF disbursement of US$166 million, and the World Bank budget financing of US$100 million under the Investing in Human Capital Development Policy Operation (DPO) were needed to alleviate most immediate financing needs; the proposed second RCF disbursement and the planned disbursement by the World Bank under an emergency DPO, followed by expected disbursements from the African Development Bank, the *Agence Française de Développement* and the European Union are expected to cover the remaining financing gap.

Text Table 4. Madagascar: Budget Support Committed for 2020

	Amount (US$ million)	Percent of GDP	Operation
1. Pre-Covid19 identified budget support	**142.9**	**1.0**	
World Bank	15.0	0.1	CAT DDO (grant)
Agence Francaise de Developpement	3.3	0.0	CAT DDO (grant)
African Development Bank	13.7	0.1	Budget Support (grant)
World Bank	100.0	0.7	Human Capital DPO (87 pc. grant)
European Union	11.0	0.1	Grant
2. Additional budget support	**134.7**	**0.9**	
World Bank	50.0	0.3	Emergency DPO (50 pc. grant)
Agence Francaise de Developpement	16.4	0.1	Supplement CAT DDO (grant)
Agence Francaise de Developpement	27.4	0.2	Public policy loan (loan)
African Development Bank	41.0	0.3	Answer to Covid-19 (loan)
3. Total budget support excluding IMF (1+2)	**277.7**	**1.9**	
4. IMF emergency financing	**334.6**	**2.3**	
	165.9	1.2	RCF1
	168.7	**1.2**	RCF2
5. Total (3+4)	**612.3**	**4.2**	

Sources: Malagasy authorities; and IMF staff.

8. **The impact of the COVID-19 pandemic on the Malagasy economy continues to be subject to considerable uncertainties.** Some of the downside risks mentioned in the first RCF staff report have started to materialize, such as disruptions in tourist flows that are now expected to last longer, and additional shortfalls in tax revenue projection. Other risks include an even more prolonged COVID-19 outbreak; the emergence of social discontent; and rising costs associated with heightened protectionism (e.g., export bans in source countries for staple goods). Current estimates and projections remain subject to a high degree of uncertainty which calls for contingency measures, some of which are specified below in the section on policy issues and discussions.

POLICY ISSUES AND DISCUSSIONS

9. **The authorities are continuing to implement mitigation measures and temporarily loosen macroeconomic and financial policies to accommodate the impact of the pandemic.** The authorities' decision to further relax the fiscal stance is warranted given the deteriorated economic outlook and their successful efforts in mobilizing additional budget support. It is consistent with the implementation of the mitigation measures undertaken by the government mentioned in ¶2.

10. **To strengthen and coordinate these mitigation measures, a multisectoral response plan has been developed.** The management of the pandemic in Madagascar is conducted at three

distinct levels: (i) the *political level* under the lead of the presidency in collaboration with the prime minister and the ministries; (ii) the *strategic level* under the lead of the prime minister with the ministries in charge of essential sectors defining the Multisectoral National Response (MNR); and (iii) the *operational level* with the COVID-19 Operational Command Center (CCOC) ensuring the implementation of actions and coordination, chaired by the minister of the Interior and Decentralization. The MNR covers health, social protection, water and sanitation, food security, gender violence, and the private sector. According to World Bank estimates, the support to social sectors and the private sector mitigation plan would reach respectively 1.1 and 1.6 percent of GDP (Text Table 5):

- Several social safety net measures have been launched to support vulnerable households, notably with government in-kind donations and an unconditional cash transfer program (see Annex I for details). Some bill payments to the utility company JIRAMA have also been rescheduled. These measures are coordinated by the government, the World Bank, the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA), and the World Health Organization (WHO).

- The support to the private sector is centered around the following measures: (i) tax relief measures and the extension of tax filling and payment deadlines; (ii) job preservation through temporary salary subsidies, capacity building, and support to remote working; (iii) support to private firms through credit easing or partial guarantee schemes, and technical assistance to SMEs; and (iv) assistance for market access through international communication campaign, notably for the tourism sector.

Text Table 5. Madagascar: Response to COVID

	US$ million	Percent of GDP
Social response	164	1.1
Health	47	0.3
Social Protection	68	0.5
Education	22	0.2
Water Sanitation and Hygiene	24	0.2
Private sector response (ex. central bank)	241	1.6
Total	405	2.8

Sources: World Bank; Malagasy authorities.

- On the monetary policy side, the central bank is committed to using all its instruments to ensure that the financial system is supplied with enough liquidity. Banks and microfinance institutions were encouraged to reschedule SMEs and households' loan repayments for 3 months and will be able to deduct a similar amount from their reserve requirements.

11. A draft revised budget law, acknowledging the economic impact of the pandemic, was approved on June 13 by the Council of Ministers and the National Assembly on June 25.

- The revised budget law (*Loi de Finances Rectificative*, LFR) is based on a revised—albeit more optimistic than IMF staff's—growth projection of 0.8 percent for 2020 and significantly reduced tax revenues by 26 percent compared to the initial 2020 budget, broadly in line with staff projections. The wage bill is in line with staff projections and current spending is slightly lower, but staff projects a lower path for domestically financed investment based on recent-year implementation rates, and limited commitments so far in 2020.

- In response to the pandemic and its economic impact, the LFR spending main priorities are on social sectors (health, education, water and sanitation, and transfers to the most vulnerable), and on supporting economic activity, in particular by pursuing an ambitious investment program.

- The budget of the four social ministries (Ministry of Education, Ministry of Health, Ministry of Water and Sanitation, and Ministry of Population, Social protection and Women Empowerment) is set at MGA 2,207 billion (4.2 percent of GDP, or 23 percent of total spending). Excluding salaries and externally financed investment (using the narrow definition of the target for social spending in the 2016-20 ECF), the amount is set at about MGA 724 billion (1.4 percent of GDP), more than twice the 2019 outcome, and significantly higher than the MGA 555 billion in the 2020 initial budget law, but lower than anticipated at the time of the first RCF disbursement.[3]

- The revised budget law projects public investments at about MGA 4,980 billion or 9.8 percent of GDP, of which 4.5 percent of GDP is for domestically financed investment, as in the initial budget law. Based on recent year implementation rates and limited amounts committed so far in 2020, staff projects a more realistic level for total public investment at 6.5 percent of GDP, of which 2.1 percent is for domestically financed projects. This planned spending is presented as a "Marshall Plan" in response to the economic impact of the COVID-19 pandemic, prioritizing projects facilitating post-pandemic economic recovery and much needed infrastructure for economic development in line with the objectives of the *Plan Emergence Madagascar*.

12. Staff expressed reservations about the feasibility of the projected increase in public investment, and that more resources were not devoted to social spending. Staff cautioned the authorities about the over-optimism of the projected increases in domestically financed public investment, the implementation difficulties in the current context, and the fact that they could create an additional financing gap if committed. Staff also questioned the prioritization of some infrastructure projects in the context of critical social needs, noting that domestically financed investments by social ministries accounted for about 1 percent of GDP, less than one fourth of planned domestic investments in the LFR.

Authorities Views

13. The authorities noted that social infrastructure is a key priority of this investment plan, including the construction and equipment of hospitals, basic health centers, buildings and sports complexes, and of university campuses and classrooms. They stressed that additional provisions for social spending are set in the budget at the level of the Ministry of Finance and not

[3] As discussed in the 2019 Article IV (Box. 3), a specific definition of priority social spending was adopted for monitoring purpose during the ECF. Social spending in Madagascar would be four to five times larger using a broader definition. Recent improvements on the information published in the budget law make possible to consider a more comprehensive monitoring of social spending in the future.

accounted as spending by social Ministries but will be reallocated to social ministries depending on their needs. They also stressed that important investments undertaken by non-social ministries are related to social priorities. This includes the post office modernization that is expected to improve money transfers to landlocked areas and ease the payments of salaries for teachers, nurses, caregivers and security forces; and the installation of solar energy system at basic health centers. The prime minister's announcement on June 27, 2020 of the extension or strengthening of social measures such as the supply of basic staples to vulnerable population or the cash transfers program to the most vulnerable, shows the authorities' determination in this area. In terms of implementation capacity, the authorities argued that the planned investments can be committed in the second part of the year and can be financed, including through more favorable domestic financing than assumed by staff. As part of their additional contingency plans, the authorities indicated that they continue to actively seek additional budget support, including from the Arab Bank for Economic Development in Africa (BADEA), and that support from the World Bank and the African Development Bank could be higher than projected by Fund staff. Finally, should the needed financing not materialize, they would implement only projects that are underway and postpone those that have not yet begun.

14. The authorities are committed to strengthening coordination and transparency to ensure that funds received are spent on addressing the crisis. The IMF and other development partners have jointly stressed that the challenges for public financial management (notably the lack of transparency), which existed prior to the pandemic, are even more acute in current circumstances. In response, the government has committed to ensuring that the financial assistance received is used for the intended purposes (LOI, ¶4), including with the publication of the list of financial transfers, the full text of procurement contracts related to the response to the pandemic and their beneficiaries, and post-crisis audits of pandemic-related procurement contracts and of the Pandemic Response Fund. In addition, the government is taking the following measures:

- The adopted Multisectoral National Response Plan groups all existing initiatives, their sources of financing, and unmet needs. The execution of the measures included in the Plan will remain the responsibility of the line ministries. A Steering Committee will be responsible for monitoring compliance with directives, achievement of results, and approval of evaluation reports. The Committee will base its work on periodic operational, sectoral and financial monitoring reports prepared by the Technical Secretariat. As part of the contingency measures in the event of insufficient financial resources, the Committee will determine the prioritization of activities to be carried out.

- To improve the transparency and traceability of COVID-19-related spending, the government adopted a decree on July 1 establishing a dedicated COVID-19 Pandemic Response Fund and defining the associated control and accountability framework. An IMF remote technical assistance mission requested by the Ministry of Economy and Finance[4] reviewed the draft decree

[4] Letter dated April 27, 2020 from the Secretary General of the Ministry of Economy and Finance addressed to the IMF Fiscal Affairs Department.

and provided practical advice and guidance on adapting the budget nomenclature to ensure appropriate tracking of COVID-19 related expenditure. Information on legal entities that received pandemic-related procurement contracts, including the names of their beneficial owners, will be published on-line along with ex post delivery reports, and the contracts will be subject to an independent, third-party audit. To enhance transparency, staff recommended to channel all emergency financing through the fund. The authorities confirmed that beyond a first allocation of about 0.5 percent of GDP, this fund will receive the contributions of Technical and Financial Partners supporting Madagascar in the fight against the impact of the pandemic.

- In order to ease the channeling of government payments (social cash transfers, salaries, pensions, education grants) to the most vulnerable, including individuals without national identification, the *Commission de Supervision Bancaire et Financière* (CSBF) has adopted on May 19, 2020 a new Instruction (001/2020-CSBF, available on the Central Bank website) on simplified customer due diligence which will facilitate the opening of accounts remotely. The Instruction contemplates safeguards to prevent the potential abuse of such accounts to launder money and a requirement to regularize the accounts or else to restrict them to withdrawals only within 6 months of the expiration of the Instruction. Staff urged the authorities to monitor closely developments pertaining to the Instruction and publish regular information on its implementation.

15. Beyond 2020 and once the crisis abates, the authorities are committed to continuing reforms as outlined in IMF Country Report No 20/100. An appropriate fiscal adjustment path will need to be determined to maintain public debt at prudent levels. Strengthening custom and tax revenue mobilization will therefore be crucial to create enough space for needed priority investment and social spending, as well as continuing reforms to mitigate fiscal risks, like those related to the public utility JIRAMA or other SOEs whose financial situation may be impacted by the crisis, or risks related to fuel pricing. Measures discussed with the World Bank continue to be implemented to improve JIRAMA's operational and financial situation, including the planned repayment to suppliers of about 0.8 percent of GDP. The authorities are taking advantage of the fall in international oil prices to repay the accumulated liability to oil distributors (currently reduced to less than 0.2 percent of GDP) and that could be fully repaid by October 2020 given the decision to maintain pump prices unchanged.[5] On the monetary policy side, the central bank should continue to actively manage bank liquidity and implement its reform agenda to transition to an interest rate targeting framework. Finally, beyond efforts in terms of transparency in their response to the COVID-19 pandemic, it remains essential to promote better governance and improve the business climate, through an effective enforcement of the new anti-corruption legal framework, strengthened Public Financial Management to improve the governance of public resources, and progress in the regulatory framework and rule of law.

[5] See Box 5 in 2019 Article IV for further details on the fuel price mechanism and related government liabilities.

16. The catalytic role of the Fund will remain essential given persistent external medium-term projected financing gaps. Under current macro-economic assumptions, subject to a high degree of uncertainty, Madagascar is facing a protracted balance of payments problem, with a cumulative financing gap of at least 3.6 percent of GDP over 2021-23. The authorities have reiterated their interest in initiating discussions for a successor arrangement that would support their economic reform strategy toward sustained, more inclusive and diversified growth, and help catalyze private investment and donor financial support.

ACCESS, MODALITIES, AND CAPACITY TO REPAY

17. The authorities are requesting a disbursement under the RCF "exogenous shock" window equivalent to 50 percent of quota (SDR 122.2 million), to be redirected to the budget. This request is based on additional urgent balance of payments needs caused by the sudden exogenous shock arising from the COVID-19 pandemic and is not due to a withdrawal of financial support. In addition, the urgent nature of this balance of payments need would make it very difficult to implement an upper credit tranche-quality economic program in the short-term. The authorities are also requesting that this financing, like the first disbursement in April, is made available as budget support, given the projected Treasury cash needs and the difficulties to mobilize alternative sources of financing.

18. This additional access of 50 percent of quota is consistent with the limits for PRGT financing recently amended by the Executive Board. Outstanding PRGT credit would reach 225 percent of quota, of which 122.5 percent for outstanding credit under the RCF, and total PRGT disbursements over a twelve month-period would reach 125.72 percent of quota. These are all below allowable limits based on the IMF Executive Board decisions to (i) double the annual access on emergency financing under the "exogenous shock" window of the RCF on April 6, 2020 and to (ii) increase the limit for PRGT disbursements over a twelve month period from 100 to 150 percent of quota on July 13, 2020.

19. Madagascar's risk of external debt distress has increased from low to moderate, and remains moderate for overall (external plus domestic) public debt distress. Despite the severe impact of the COVID-19 pandemic and large changes in Madagascar's macroeconomic indicators, the increase in the public debt to GDP ratio is contained, expected to reach 44.8 percent in 2020, a revision of 5 percent of GDP compared to the Article IV projection, of which 2.3 percent corresponds to the central bank debt to the Fund related to the RCF disbursements. Over the medium term, debt to GDP is expected to reach 49.3 percent in 2025. Madagascar is now assessed at moderate risk of external debt distress with some space to absorb shocks, relative to its prior low risk assessment in Country Reports No. 20/61 and 20/100.[6] While the COVID-19 adjusted baseline does not breach any external public and publicly guaranteed (PPG) debt thresholds, under an export shock the debt service-to-revenue ratio breaches the threshold. Overall (external plus domestic) risk of debt distress

[6] See Country Report No. 20/61 for the March 2020 DSA. An expedited DSA, with a customized COVID-19 shock is included in Country Report No. 20/100.

remains moderate, and shocks could introduce liquidity problems as the overall debt service-to-revenue ratio could exceed 70 percent over the long term under a growth shock. This assessment assumes debt service relief to the IMF under the Catastrophe Containment window of the CCRT through April 2022 (subject to the availability of CCRT resources for the next 18 months). It also assumes the authorities' participation in the Debt Service Suspension Initiative, supported by the G-20 and the Paris Club.[7]

20. The capacity to repay the Fund remains adequate. A disbursement of 50 percent of quota would result in Fund exposure to Madagascar of 5.3 percent of GDP. Annual repayments are projected to peak at 0.6 percent of GDP and 4.6 percent of government revenue in 2026.

21. The authorities have made commitments in line with IMF safeguards policy (LOI, ¶7)**.** A new Memorandum of Understanding (MoU)[8] between the central bank and the government will be signed, respecting the same modalities as the one signed for the previous RCF disbursement. The authorities also reiterated the central bank commitment to undergo a safeguards assessment before the approval of any new subsequent arrangement by the IMF Executive Board.

STAFF APPRAISAL

22. The pandemic continues to severely impact the economy and has opened additional external financing needs since the RCF disbursement approved on April 3, 2020. All sectors of the economy are affected, which is expected to reduce growth from 4.8 percent in 2019 to -1.0 percent in 2020, creating large financing gaps in the fiscal accounts and the balance of payments. Estimated external financing needs for 2020 are 2.4 percent of GDP higher than at the time of the request for the first RCF disbursement.

23. The authorities' immediate response to the crisis remains appropriate, but staff expressed reservations about the high level of projected investment spending in the revised budget law. Staff supports the temporary loosening of macroeconomic and financial policies to accommodate the measures undertaken to address the impact of the pandemic. Noting that the revised budget law maintains the same level of investment spending as the initial budget law, staff urges the authorities to take into account implementation capacity and available financing, to prioritize projects with the highest social impact, which is the authorities' intention, and to be ready to implement contingency measures.

24. Staff supports Madagascar's request for a disbursement under the Rapid Credit Facility in the amount of SDR 122.2 million (50 percent of quota). Staff's support is based on additional urgent balance of payments needs arising from the same sudden exogenous shock (the COVID-19

[7] The DSSI operation is expected to postpone about SDR 9.9 million due in amortization in 2020, which will be rescheduled in NPV-neutral terms over 2022-24.

[8] Following the previous RCF disbursement approved on April 3, 2020, an MoU between the central bank and the ministry of economy and finance was signed on April 30, 2020, aligning the repayments from the Treasury to the central bank with the planned repayments from the central bank to the IMF.

pandemic), the authorities' existing and prospective policies to address this external shock, and the additional budget support (for about 0.9 percent of GDP) from other partners secured since the first RCF disbursement. The proposed second disbursement under the RCF will close the immediate external needs in combination with the additional budget support and a limited reserve drawdown. While the risks to the outlook remain substantial, Madagascar is assessed at moderate risk of external and overall debt distress, and its capacity to repay the Fund remains adequate. Commitments in line with IMF safeguards policy are also in place.

25. Staff welcomes the authorities' commitment to preserve fiscal sustainability once the crisis abates, with the support of the Fund. The authorities reiterated their commitment to continue reforms needed towards higher, more inclusive and sustainable growth, and their willingness to remain engaged with the Fund beyond its immediate financial assistance. The catalytic role of the Fund will remain essential given persistent external financing gaps projected for the medium-term. Staff is ready to initiate discussions on future engagement, including through a successor arrangement that would support the authorities' economic reform strategy.

Table 1. Madagascar: Selected Economic Indicators, 2017–25

	2017	2018	2019	2020			2021	2022	2023	2024	2025
	Actuals	Est.	Prel. Est	Art IV	RCF-1	Proj.	Projections				
	(Percent change; unless otherwise indicated)										
National account and prices											
GDP at constant prices	3.9	4.6	4.8	5.2	1.6	-1.0	4.2	5.8	5.7	5.6	5.5
GDP deflator	8.6	8.6	5.6	7.2	5.5	4.6	6.0	5.7	5.5	5.5	5.4
Consumer prices (end of period)	10.6	6.9	4.0	6.2	6.0	5.5	5.9	5.6	5.6	5.6	5.5
Money and credit											
Reserve money	18.6	13.0	-4.4	12.2	19.8	19.8	17.5	10.5	11.0	10.9	8.7
Broad money (M3)	17.8	11.2	7.3	16.2	16.9	14.9	9.5	11.0	15.3	14.3	10.2
	(Growth in percent of beginning of period money stock (M3))										
Net foreign assets	9.2	4.8	-2.6	6.9	-8.8	-13.2	5.3	8.5	7.1	7.0	7.7
Net domestic assets	8.6	6.4	9.9	9.3	25.7	28.1	4.2	2.6	8.2	7.2	2.5
of which: Credit to the private sector	8.4	8.7	10.3	7.3	5.5	3.6	4.3	9.1	7.4	6.4	4.7
	(Percent of GDP)										
Public finance											
Total revenue (excluding grants)	10.3	10.5	10.8	11.2	10.3	9.2	10.0	10.7	11.1	11.5	11.9
of which: Tax revenue	10.0	10.2	10.5	10.9	9.9	9.0	9.7	10.4	10.8	11.2	11.6
Grants	2.5	2.5	3.1	2.5	2.6	3.4	1.6	1.2	0.8	0.5	0.3
of which: budget grants	0.7	0.9	0.7	0.7	1.0	1.2	0.1	0.0	0.0	0.0	0.0
Total expenditures	14.9	14.3	15.3	16.4	16.2	17.9	16.4	16.8	16.4	16.5	16.3
Current expenditure	10.2	9.3	9.5	8.9	10.7	11.4	9.5	9.4	9.5	9.6	9.7
Capital expenditure	4.7	5.0	5.8	7.6	5.5	6.5	6.9	7.4	6.9	6.9	6.6
Domestic financed	1.7	1.8	1.7	3.1	1.8	2.1	2.3	2.7	2.6	2.7	2.8
Foreign financed	3.0	3.2	4.1	4.4	3.7	4.4	4.6	4.7	4.3	4.2	3.8
Overall balance (commitment basis)	-2.1	-1.3	-1.4	-2.7	-3.4	-5.3	-4.8	-4.8	-4.5	-4.4	-4.1
Float (variation of accounts payable, + = increase)	0.6	-0.2	0.3	0.1	0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Variation of domestic arrears (+ = increase)	-0.6	-0.5	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-2.0	-2.0	-1.3	-2.7	-3.4	-5.4	-4.9	-4.8	-4.5	-4.4	-4.1
Domestic primary balance[1]	-0.9	0.1	0.3	0.0	-1.4	-3.4	-1.0	-0.5	-0.2	-0.2	0.0
Total financing	2.0	2.0	1.3	2.7	3.4	5.4	3.7	3.6	3.2	3.2	3.0
Foreign borrowing (net)	1.2	1.5	1.3	2.2	1.7	2.3	3.3	3.2	2.8	2.9	2.7
Domestic financing	0.8	0.5	0.0	0.5	1.7	3.0	0.4	0.4	0.4	0.3	0.3
of which: exceptional financing-RCF[2]					1.1	2.3					
Fiscal financing need[3]	0.0	0.0	0.0	0.0	0.0	0.0	-1.2	-1.2	-1.3	-1.2	-1.1
Savings and investment											
Investment	18.1	18.8	19.8	22.0	19.1	18.3	20.5	21.9	22.0	22.3	22.1
Government	4.7	5.0	5.8	7.6	5.5	6.5	6.9	7.4	6.9	6.9	6.6
Nongovernment	13.4	13.9	14.0	14.4	13.6	11.8	13.5	14.5	15.1	15.4	15.5
Gross national savings	15.4	20.3	17.3	20.5	16.6	14.7	17.4	18.8	18.7	18.9	18.7
External sector											
Exports of goods, f.o.b.	21.3	21.9	18.5	19.0	15.0	13.4	16.2	16.3	16.7	17.4	18.3
Imports of goods, c.i.f.	27.4	27.6	26.8	27.0	22.6	20.4	22.9	24.2	25.0	25.9	27.1
Current account balance (exc. grants)	-2.9	-1.9	-5.5	-4.0	-5.0	-7.0	-4.7	-4.3	-4.1	-3.8	-3.6
Current account balance (inc. grants)	-0.4	0.7	-2.5	-1.5	-2.5	-3.6	-3.1	-3.1	-3.3	-3.3	-3.3
Public debt	40.0	39.9	38.7	39.8	40.6	44.8	44.3	45.7	47.0	48.2	49.3
External Public Debt	25.7	26.7	27.3	27.6	28.9	32.6	32.7	34.5	36.1	37.7	38.9
Domestic Public Debt	14.4	13.2	11.4	12.2	11.7	12.2	11.7	11.2	10.9	10.6	10.4
	(Units as indicated)										
Gross official reserves (millions of SDRs)	1086	1221	1194	1390	1097	1113	1290	1513	1677	1853	2053
Months of imports of goods and services	4.0	4.3	4.2	4.4	4.1	4.8	4.5	4.5	4.5	4.5	4.5
Real effective exchange rate (pa, percent change)	7.8	-2.4	…	…	…	…	…	…	…	…	…
Terms of trade (percent change, deterioration -)	14.2	5.6	-15.0	-3.5	-0.2	1.9	7.9	-3.5	-0.3	0.2	-0.2
Memorandum items											
GDP per capita (U.S. dollars)	516	528	525	557	541	518	558	611	644	678	713
Nominal GDP at market prices (billions of ariary)	41,059	46,189	51,107	57,786	54,770	52,913	58,439	65,381	72,936	81,223	90,298

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

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

[2] RCF disbursement 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, 2017–25

	2017	2018	2019	2020			2021	2022	2023	2024	2025
	Est.	Est.	Prel. Est.	Art. IV	RCF-1	Proj.	Projections				
					(Percent change)						
Real supply side growth											
Primary sector	1.3	3.7	2.8	3.5	2.3	2.1	2.9	2.8	2.8	2.8	2.8
of which: Agriculture	0.7	7.4	3.2	4.0	2.6	2.6	3.4	3.0	3.0	3.0	3.0
Secondary sector	5.8	8.1	7.3	7.4	3.6	0.0	5.4	7.4	7.9	8.0	8.0
of which:											
Manufacturing	9.5	3.4	7.6	10.5	-5.2	-9.3	5.0	13.5	11.7	11.7	11.3
Energy	-7.2	20.0	9.6	9.7	7.2	4.8	10.0	10.4	12.8	12.8	12.5
Extractive industry	10.0	9.8	10.2	9.4	4.1	-2.4	5.1	8.1	8.8	8.8	8.8
Tertiary sector	5.1	2.1	4.7	5.1	0.2	-2.1	4.3	6.9	6.9	6.9	6.9
of which:											
Trade	-0.6	2.9	2.7	2.0	1.0	-0.3	1.4	2.4	2.8	2.6	2.5
Services	2.8	-0.4	2.8	3.0	2.2	1.5	3.7	4.7	4.5	4.3	4.1
Transportation	21.5	-1.7	4.8	4.9	-2.4	-3.6	7.3	9.2	8.9	8.5	8.1
Indirect taxes	4.1	13.5	5.7	7.2	5.5	4.6	6.0	5.7	5.5	5.4	5.4
Real GDP at market prices	3.9	4.6	4.8	5.2	1.6	-1.0	4.2	5.8	5.7	5.6	5.5
					(Percent of GDP)						
Nominal demand side composition											
Resource balance	-3.3	-3.4	-5.0	-4.7	-6.0	-6.2	-5.4	-5.3	-5.6	-5.7	-5.7
Imports of goods and nonfactor services	34.2	34.9	33.3	33.9	29.6	26.6	30.2	31.6	32.1	32.8	33.8
Exports of goods and nonfactor services	30.9	31.5	28.4	29.2	23.6	20.4	24.8	26.2	26.4	27.2	28.1
Current account balance (including grants) = (S-I)	-0.4	0.7	-2.5	-1.5	-2.5	-3.6	-3.1	-3.1	-3.3	-3.3	-3.3
Consumption	87.7	85.5	86.6	84.3	88.1	88.9	86.2	84.9	84.9	84.8	85.1
Government	16.1	14.3	14.7	13.7	16.5	17.6	14.6	14.3	14.4	13.8	14.1
Private	71.6	71.2	71.9	70.6	71.6	71.4	71.6	70.5	70.5	70.9	71.0
Investment (I)	18.1	18.8	19.8	22.0	19.1	18.3	20.5	21.8	22.0	22.3	22.1
Government	4.7	5.0	5.8	7.6	5.5	6.5	6.9	7.3	6.9	6.9	6.6
Private	13.4	13.9	14.0	14.4	13.6	11.8	13.5	14.5	15.1	15.4	15.5
of which: foreign direct investment	2.7	2.6	2.6	2.7	2.3	2.1	2.7	2.8	2.8	2.8	2.8
National savings (S)	15.4	20.3	17.3	20.5	16.6	14.7	17.4	18.7	18.7	19.0	18.8
Government	1.9	2.9	3.7	4.1	1.3	0.3	1.4	1.9	1.8	2.3	2.2
Private	13.4	17.5	13.6	16.4	15.3	14.4	16.0	16.8	16.9	16.7	16.5
Memoranda items:					(Billions of Ariary)						
Nominal GDP (at market prices)	41,059	46,189	51,107	57,786	54,770	52,913	58,439	65,381	72,936	81,223	90,298

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

Table 3a. Madagascar: Fiscal Operations of the Central Government, 2017–25
(Billions of Ariary)

	2017	2018	2019	2020			2021	2022	2023	2024	2025
	Actuals	Actuals	Prel. Est.	Art. IV	RCF-1	Proj.	Projections				
Total revenue and grants	5,272	5,971	7,115	7,952	7,025	6,678	6,782	7,825	8,690	9,782	11,021
Total revenue	4,240	4,837	5,528	6,493	5,626	4,856	5,840	7,019	8,126	9,374	10,768
Tax revenue	4,118	4,706	5,387	6,292	5,425	4,736	5,668	6,826	7,910	9,134	10,501
Domestic taxes	2,094	2,315	2,666	3,319	2,706	2,404	2,886	3,488	4,144	4,979	5,757
Taxes on international trade and transactions	2,024	2,391	2,721	2,973	2,719	2,332	2,781	3,338	3,767	4,155	4,744
Non-tax revenue	122	131	140	200	200	120	173	193	216	240	267
Grants	1,032	1,134	1,587	1,460	1,399	1,822	941	806	564	408	254
Current grants	298	414	365	430	529	635	51	0	0	0	0
Capital grants	733	720	1,222	1,030	871	1,187	890	806	564	408	254
Total expenditure and lending minus repayments	6,135	6,585	7,840	9,504	8,879	9,471	9,603	10,968	11,955	13,369	14,744
of which: Social priority spending [1]	*355*	*365*	*299*	*555*	*855*	*724*	...	...	...	...	...
Current expenditure	4,187	4,298	4,874	5,132	5,866	6,035	5,551	6,144	6,944	7,791	8,790
Wages and salaries	2,076	2,330	2,497	2,903	2,903	2,933	3,230	3,505	3,890	4,224	4,650
Interest payments	285	353	356	452	449	508	463	534	581	618	695
Foreign	70	105	107	133	130	208	153	178	223	281	344
Domestic	215	248	249	319	319	300	309	356	358	337	351
Other	1,749	1,404	1,911	1,602	2,339	2,419	1,758	2,023	2,381	2,847	3,331
Goods and services	282	349	323	428	628	628	566	766	994	1,266	1,554
Transfers and subsidies	1,467	1,055	1,587	1,174	1,711	1,791	1,192	1,257	1,388	1,581	1,778
of which: Air Madagascar	*303*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
of which: JIRAMA (operating subsidies)	*447*	*309*	*219*	*150*	*150*	*170*	*150*	*50*	*0*	*0*	*0*
of which: JIRAMA (arrears repayment)	...	...	*501*	...	...	*401*					
Treasury operations (net)	77	211	110	175	175	175	100	82	91	102	113
Capital expenditure	1,948	2,287	2,966	4,372	3,013	3,436	4,052	4,824	5,011	5,579	5,955
Domestic financed	700	831	866	1,810	960	1,110	1,364	1,765	1,896	2,193	2,528
Foreign financed	1,248	1,456	2,100	2,562	2,054	2,327	2,688	3,059	3,115	3,386	3,426
Overall balance (commitment basis)	-863	-614	-725	-1,552	-1,854	-2,793	-2,821	-3,143	-3,265	-3,587	-3,723
Float (variation of accounts payable, + = increase)	259	-80	176	40	40	0	-30	-10	0	0	0
Variation of domestic arrears (+ = increase)	-231	-225	-116	-48	-48	-48	0	0	0	0	0
Overall balance (including grants, cash basis)	-835	-918	-665	-1,559	-1,862	-2,840	-2,851	-3,153	-3,265	-3,587	-3,723
Domestic primary balance [2]	-362	60	144	3	-751	-1,780	-612	-357	-133	9	145
Total financing	835	918	665	1,559	1,862	2,840	2,166	2,380	2,322	2,639	2,717
Foreign borrowing (residency principle)	502	675	649	1,259	936	1,232	1,912	2,093	2,061	2,394	2,481
External borrowing, Gross	751	911	883	1,554	1,231	1,533	2,168	2,548	2,741	3,175	3,376
Budget support loans	236	176	5	21	48	393	370	295	190	197	203
of which: Air Madagascar	0	133	0	0	0	0	0	0	0	0	0
Project loans	515	735	878	1,533	1,183	1,140	1,798	2,253	2,551	2,978	3,173
Amortization on a due basis (-)	-248	-236	-234	-295	-295	-301	-256	-455	-680	-781	-895
Domestic borrowing (residency principle)	332	243	16	300	926	1,609	254	288	262	245	236
Monetary sector	151	220	-31	300	926	1,572	184	196	189	164	191
of which: exceptional financing-RCF [3]					*619*	*1,238*					
Non-monetary sector	273	-67	-13	0	0	37	70	92	73	81	45
Treasury correspondent accounts (net)	-97	77	59	0	0	0	0	0	0	0	0
Fiscal financing need [4]	0	0	0	0	0	0	-685	-773	-943	-948	-1,006

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

[1] Domestically financed spending of social ministries, excluding salaries, representing a limited share of total social spending.

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

[3] RCF disbursement onlent by the central bank to the Treasury.

[4] 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, 2017–25

(Percent of GDP)

	2017	2018	2019	2020			2021	2022	2023	2024	2025
	Dec	Dec	Dec	Dec			Dec	Dec	Dec	Dec	Dec
	Actuals	Actuals	Prel. Est.	Art IV	RCF-1	Proj.	Projections				
Total revenue and grants	12.8	12.9	13.9	13.8	12.8	12.6	11.6	12.0	11.9	12.0	12.2
Total revenue	10.3	10.5	10.8	11.2	10.3	9.2	10.0	10.7	11.1	11.5	11.9
Tax revenue	10.0	10.2	10.5	10.9	9.9	9.0	9.7	10.4	10.8	11.2	11.6
Domestic taxes	5.1	5.0	5.2	5.7	4.9	4.5	4.9	5.3	5.7	6.1	6.4
Taxes on international trade and transactions	4.9	5.2	5.3	5.1	5.0	4.4	4.8	5.1	5.2	5.1	5.3
Non-tax revenue	0.3	0.3	0.3	0.3	0.4	0.2	0.3	0.3	0.3	0.3	0.3
Grants	2.5	2.5	3.1	2.5	2.6	3.4	1.6	1.2	0.8	0.5	0.3
Current grants	0.7	0.9	0.7	0.7	1.0	1.2	0.1	0.0	0.0	0.0	0.0
Capital grants	1.8	1.6	2.4	1.8	1.6	2.2	1.5	1.2	0.8	0.5	0.3
Total expenditure and lending minus repayments	14.9	14.3	15.3	16.4	16.2	17.9	16.4	16.8	16.4	16.5	16.3
of which: Social priority spending [1]	*0.9*	*0.8*	*0.6*	*1.0*	*1.6*	*1.4*	…	…	…	…	…
Current expenditure	10.2	9.3	9.5	8.9	10.7	11.4	9.5	9.4	9.5	9.6	9.7
Wages and salaries	5.1	5.0	4.9	5.0	5.3	5.5	5.5	5.4	5.3	5.2	5.2
Interest payments	0.7	0.8	0.7	0.8	0.8	1.0	0.8	0.8	0.8	0.8	0.8
Foreign	0.2	0.2	0.2	0.2	0.2	0.4	0.3	0.3	0.3	0.3	0.4
Domestic	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4
Other	4.3	3.0	3.7	2.8	4.3	4.6	3.0	3.1	3.3	3.5	3.7
Goods and services	0.7	0.8	0.6	0.7	1.1	1.2	1.0	1.2	1.4	1.6	1.7
Transfers and subsidies	3.6	2.3	3.1	2.0	3.1	3.4	2.0	1.9	1.9	1.9	2.0
of which: Air Madagascar	*0.7*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
of which: JIRAMA (operating subsidies)	*1.1*	*0.7*	*0.4*	*0.3*	*0.3*	*0.3*	*0.3*	*0.1*	*0.0*	*0.0*	*0.0*
of which: JIRAMA (arrears repayment)			*1.0*			*0.8*					
Treasury operations (net)	0.2	0.5	0.2	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Capital expenditure	4.7	5.0	5.8	7.6	5.5	6.5	6.9	7.4	6.9	6.9	6.6
Domestic financed	1.7	1.8	1.7	3.1	1.8	2.1	2.3	2.7	2.6	2.7	2.8
Foreign financed	3.0	3.2	4.1	4.4	3.7	4.4	4.6	4.7	4.3	4.2	3.8
Overall balance (commitment basis)	-2.1	-1.3	-1.4	-2.7	-3.4	-5.3	-4.8	-4.8	-4.5	-4.4	-4.1
Float (variation of accounts payable, + = increase)	0.6	-0.2	0.3	0.1	0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Variation of domestic arrears (+ = increase)	-0.6	-0.5	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance (including grants, cash basis)	-2.0	-2.0	-1.3	-2.7	-3.4	-5.4	-4.9	-4.8	-4.5	-4.4	-4.1
Domestic primary balance[2]	-0.9	0.1	0.3	0.0	-1.4	-3.4	-1.0	-0.5	-0.2	0.0	0.2
Total financing	2.0	2.0	1.3	2.7	3.4	5.4	3.7	3.6	3.2	3.2	3.0
Foreign borrowing (residency principle)	1.2	1.5	1.3	2.2	1.7	2.3	3.3	3.2	2.8	2.9	2.7
External borrowing, Gross	1.8	2.0	1.7	2.7	2.2	2.9	3.7	3.9	3.8	3.9	3.7
Budget support loans	0.6	0.4	0.0	0.0	0.1	0.7	0.6	0.5	0.3	0.2	0.2
of which: Air Madagascar	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	1.3	1.6	1.7	2.7	2.2	2.2	3.1	3.4	3.5	3.7	3.5
Amortization on a due basis (-)	-0.6	-0.5	-0.5	-0.5	-0.5	-0.6	-0.4	-0.7	-0.9	-1.0	-1.0
Domestic borrowing (residency principle)	0.8	0.5	0.0	0.5	1.7	3.0	0.4	0.4	0.4	0.3	0.3
Monetary sector	0.4	0.5	-0.1	0.5	1.7	3.0	0.3	0.3	0.3	0.2	0.2
of which: exceptional financing-RCF [3]					1.1	2.3					
Non-monetary sector	0.7	-0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Treasury correspondent accounts (net)	-0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal financing need[4]	0.0	0.0	0.0	0.0	0.0	0.0	-1.2	-1.2	-1.3	-1.2	-1.1

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

[1] Domestically financed spending of social ministries, excluding salaries, representing a limited share of total social spending.

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

[3] RCF disbursement onlent by the central bank to the Treasury.

[4] 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: Balance of Payments, 2017–25

	2017	2018	2019	2020			2021	2022	2023	2024	2025
	Prel. Est.	Prel. Est.	Proj.	Art. IV	RCF-1	Proj.	Projection				
				(Millions of SDRs)							
Current account	-40	70	-260	-164	-269	-372	-360	-403	-463	-502	-536
Goods and services	-316	-335	-508	-522	-648	-648	-624	-690	-785	-852	-924
Trade balance of goods	-322	-324	-610	-606	-592	-532	-520	-727	-832	-918	-1,010
Exports, f.o.b.	2,021	2,143	1,891	2,118	1,626	1,399	1,868	2,109	2,324	2,609	2,951
of which: Mining	510	594	551	696	516	330	561	661	719	815	881
of which: Vanilla	489	605	423	481	406	381	430	447	446	433	432
Imports, f.o.b.	-2,343	-2,467	-2,501	-2,724	-2,218	-1,931	-2,387	-2,836	-3,156	-3,527	-3,961
of which: Petroleum products	*-344*	*-387*	*-403*	*-432*	*-261*	*-235*	*-254*	*-293*	*-331*	*-368*	*-407*
of which: Food	*-399*	*-373*	*-342*	*-363*	*-363*	*-363*	*-376*	*-387*	*-398*	*-376*	*-393*
of which: Intermediate goods and capital	*-924*	*-997*	*-985*	*-1,183*	*-986*	*-700*	*-1,033*	*-1,376*	*-1,576*	*-1,814*	*-2,030*
Services (net)	6	-11	102	84	-56	-116	-104	37	47	66	86
Receipts	917	935	1,009	1,134	922	734	986	1,281	1,364	1,468	1,576
of which: Travels	*482*	*489*	*512*	*597*	*418*	*299*	*449*	*687*	*740*	*797*	*855*
Payments	-911	-946	-907	-1,050	-978	-850	-1,091	-1,244	-1,317	-1,403	-1,491
Income (net)	-255	-281	-329	-301	-301	-316	-306	-311	-317	-336	-365
Receipts	27	40	44	48	48	45	55	63	73	82	84
Payments	-283	-321	-373	-349	-349	-361	-361	-374	-389	-419	-449
of which: interest on public debt	*-16*	*-22*	*-29*	*-26*	*-26*	*-41*	*-30*	*-35*	*-43*	*-52*	*-61*
Current transfers (net)	532	686	578	659	680	592	570	598	638	690	753
Official transfers	106	126	86	123	145	140	53	44	45	46	47
of which: Budget aid [1]	*65*	*85*	*73*	*83*	*104*	*126*	*10*	*0*	*0*	*0*	*0*
Private transfers	426	560	491	536	536	452	516	553	593	644	706
Capital and financial account	209	41	173	291	50	6	390	485	485	541	623
Capital account[1]	168	171	231	198	172	234	175	159	108	75	45
of which: Project grant [1]	*168*	*171*	*231*	*198*	*172*	*234*	*175*	*159*	*108*	*75*	*45*
Financial account	43	-111	-26	93	-122	-229	215	326	377	466	577
Foreign direct and portfolio investment	258	253	270	298	252	216	307	357	394	424	455
Other investment	-215	-364	-296	-206	-374	-445	-92	-31	-17	42	122
Government	117	154	157	232	174	243	377	414	394	442	443
Drawing	174	204	207	295	243	303	427	504	524	587	602
Project drawings [1]	119	167	203	295	233	225	354	445	488	550	566
Budgetary support [1]	55	37	5	0	9	78	73	58	36	36	36
Amortization	-57	-50	-50	-63	-69	-60	-50	-90	-130	-144	-160
Private sector	-98	-156	-244	-239	-239	-240	-243	-248	-252	-252	-251
Banks	2	38	-12	0	0	0	0	0	0	0	0
Other (inc. unrepatriated export revenues)	-236	-407	-221	-200	-309	-449	-227	-198	-159	-149	-69
Errors and omissions	-2	-18	-33	0	0	0	0	0	0	0	0
Overall balance	169	110	-87	127	-220	-367	30	83	21	39	87
Financing	-169	-110	87	-127	220	367	-177	-238	-202	-219	-266
Use of IMF credit (net)	84	24	60	25	25	25	-12	-19	-37	-44	-65
Other assets, net (increase = –)[2]	-252	-135	27	-152	72	81	-177	-223	-164	-175	-201
Exceptional financing-Grant for debt relief under CCRT [3]	*0*	*0*	*0*	*0*	*0*	*6*	*12*	*3*	*0*	*0*	*0*
Exceptional financing-G-20 DSSI						*10*					
Exceptional financing-RCF disbursement					*122*	*244*					
Residual financing gap (unidentified financing)	0	0	0	0	0	0	135	153	180	179	179
				(Percent of GDP; unless otherwise indicated)							
Memorandum items:											
Grants	2.5	2.6	3.0	2.5	2.6	3.4	1.6	1.2	0.8	0.5	0.3
Loans	1.8	2.1	2.0	2.7	2.2	2.9	3.7	3.9	3.8	3.9	3.7
Direct investment	2.7	2.6	2.6	2.7	2.3	2.1	2.7	2.8	2.8	2.8	2.8
Current account											
Excluding net official transfers	-2.9	-1.9	-5.5	-4.0	-5.0	-7.0	-4.7	-4.3	-4.1	-3.8	-3.6
Including net official transfers	-0.4	0.7	-2.5	-1.5	-2.5	-3.6	-3.1	-3.1	-3.3	-3.3	-3.3
Debt service (percent of exports of goods)	2.7	1.7	4.1	3.7	3.6	3.7	3.2	3.1	3.1	2.9	2.7
Export of goods volume (percent change)	-3.8	-4.8	6.5	8.6	-6.8	-21.2	23.6	15.6	9.1	11.1	11.9
Import of goods volume (percent change)	13.6	-0.2	4.0	9.3	-4.0	-16.3	23.5	17.3	9.9	10.8	10.9
Gross official reserves (millions of SDR)	1,086	1,221	1,194	1390	1097	1,113	1,290	1,513	1,677	1,853	2,053
Months of imports of goods and nonfactor services	4.0	4.3	4.2	4.4	4.1	4.8	4.5	4.5	4.5	4.5	4.5
Terms of trade (percent change, deterioration -)	14.2	5.6	-15.0	-3	0	1.9	7.9	-3.5	-0.3	0.2	-0.2
Exchange rate (ariary/US$, period average)	3,116	3,335	3,618	…	…	…	…	…	…	…	…
Nominal GDP	13,176	13,851	14,124	15,365	14,924	14,286	15,766	17,714	19,137	20,629	22,209

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, but subject to availability of CCRT resources for the last 18 months.

Table 5. Madagascar: Monetary Accounts, 2017–25[1]

(Billions of Ariary; unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec
	Actuals	Actuals	Prel. Estim.	Projections					
Net foreign assets	4,417	4,927	4,614	2,949	3,723	5,072	6,330	7,767	9,567
Net foreign assets (BCM)	3,527	4,207	3,925	2,238	3,038	4,364	5,597	7,009	8,782
Net foreign assets (deposit money banks)	890	720	689	711	685	708	732	758	785
Net domestic assets	6,191	6,871	8,045	11,601	12,215	12,626	14,072	15,542	16,124
Domestic credit	7,001	7,935	9,125	11,401	12,116	13,540	14,788	16,231	17,367
Net credit to government	2,093	2,099	2,074	3,895	3,989	3,977	3,919	4,039	4,074
BCM[2]	886	947	757	2,192	2,085	2,091	2,083	2,078	1,937
DMBs	938	1,096	1,256	1,292	1,483	1,453	1,390	1,501	1,665
Gross credits (mainly BTAs)	1,327	1,617	1,835	1,881	2,103	2,110	2,085	2,236	2,441
Deposits	-389	-521	-579	-589	-620	-657	-695	-734	-775
Other credits	269	55	62	410	421	433	446	460	472
Credit to the economy	4,907	5,836	7,051	6,830	8,127	9,563	10,869	12,192	13,292
Credit to public enterprises	42	40	43	43	43	43	43	44	46
Credit to private sector	4,846	5,765	6,980	7,436	8,064	9,510	10,826	12,122	13,219
Other credits	19	31	28	28	20	10	0	26	27
Other items (net)	-810	-1,064	-1,080	-1,180	-1,119	-914	-716	-689	-1,243
BCM	406	269	281	270	270	270	270	270	270
Other	-1,216	-1,332	-1,361	-1,450	-1,389	-1,184	-987	-959	-1,513
Money and quasi-money (M3)	10,608	11,798	12,659	14,550	15,937	17,698	20,401	23,309	25,691
Foreign currency deposits	1,006	1,202	1,111	1,134	1,108	1,079	1,103	1,260	1,389
Short term obligations of commercial banks	51	60	73	51	51	51	51	51	51
Broad money (M2)	9,551	10,536	11,476	13,365	14,778	16,568	19,247	21,998	24,251
Currency in circulation	3,101	3,391	3,315	3,640	4,475	5,065	5,696	6,392	6,916
Demand deposits in local currency	3,506	3,687	4,426	5,126	5,438	6,091	7,210	8,335	9,278
Quasi-money including time deposits	2,943	3,458	3,735	4,599	4,865	5,413	6,341	7,272	8,057
Reserve money	4,559	5,153	4,927	5,904	6,934	7,660	8,502	9,429	10,245
	(Percentage change relative to broad money at beginning of the year)								
Net foreign assets	10.4	5.3	-3.0	-14.5	5.8	9.1	7.6	7.5	8.2
Net foreign assets (BCM)	10.2	7.1	-2.7	-14.7	6.0	9.0	7.4	7.3	8.1
Net foreign assets (deposit money banks)	0.1	-1.8	-0.3	0.2	-0.2	0.2	0.1	0.1	0.1
Net domestic assets	9.6	7.1	11.1	31.0	4.6	2.8	8.7	7.6	2.6
Domestic credit	10.3	9.8	11.3	19.8	5.3	9.6	7.5	7.5	5.2
Net credit to government	1.3	0.1	-0.2	15.9	0.7	-0.1	-0.4	0.6	0.2
BCM	-1.8	0.6	-1.8	12.5	-0.8	0.0	0.0	0.0	-0.6
DMBs	3.7	1.7	1.5	0.3	1.4	-0.2	-0.4	0.6	0.7
Other credits	-0.6	-2.2	0.1	3.0	0.1	0.1	0.1	0.1	0.1
Credit to the economy	9.1	9.7	11.5	-1.9	9.7	9.7	7.9	6.9	5.0
Credit to public enterprises	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	9.4	9.6	11.5	4.0	4.7	9.8	7.9	6.7	5.0
Other credits	0.0	0.1	0.0	0.0	-0.1	-0.1	-0.1	0.1	0.0
Other items (net; asset = +)	-0.7	-2.7	-0.2	-0.9	0.5	1.4	1.2	0.1	-2.5
	(Percentage change year-on-year)								
Broad money (M2)	19.3	10.3	8.9	16.5	10.6	12.1	16.2	14.3	10.2
Currency in circulation	17.8	9.4	-2.2	9.8	22.9	13.2	12.5	12.2	8.2
Demand deposits in local currency	23.2	5.2	20.0	15.8	6.1	12.0	18.4	15.6	11.3
Quasi-money in local currency	16.4	17.5	8.0	23.1	5.8	11.3	17.1	14.7	10.8
Credit to the private sector (in nominal terms)	18.4	19.0	21.1	6.5	8.5	17.9	13.8	12.0	9.0
Credit to the private sector (in real terms)	7.8	12.0	17.1	1.0	2.6	12.3	8.2	6.4	3.5
Memorandum items:									
Credit to private sector (percent of GDP)	11.8	12.5	13.7	14.1	13.8	14.5	14.8	14.9	14.6
Money multiplier (M3/reserve money)	2.3	2.3	2.6	2.5	2.3	2.3	2.4	2.5	2.5
Velocity of money (GDP/end-of-period M3)	3.9	3.9	4.0	3.6	3.7	3.7	3.6	3.5	3.5

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

[1] End of period.

[2] The large increase in 2020 reflects the RCF disbursement onlent by the central bank to the Treasury.

Table 6. Madagascar: Selected Financial Soundness Indicators, 2017-20[1]

(Ratios, percent; unless otherwise indicated)

	2017 Dec	2018 Dec	2019 Mar	2019 June	2019 Sep	2019 Dec	2020 Mar
Capital Adequacy							
Regulatory capital to risk-weighted assets	13.2						
Capital to assets	10.4	10.6	10.9	9.4	10.0	10.1	10.4
Regulatory Tier 1 capital to risk-weighted assets		12.6					
Tier 1 to assets	7.5	7.2					
Non-performing loans net of provisions to capital	15.5	15.8	15.5	18.0	13.7	15.2	15.1
Net open position in equities to capital	4.6	4.1	4.0	4.6	4.3	4.0	3.8
Asset Quality							
Non-performing loans to total gross loans	7.3	7.2	7.6	7.2	6.8	6.8	7.1
Earnings and Profitability							
Return on assets	4.4	4.4	3.8	3.9	3.9	4.1	3.7
Return on equity	41.9	43.1	36.9	39.4	38.9	39.8	36.4
Interest margin to gross income	62.0	61.1	62.1	62.0	61.2	60.7	61.8
Non-interest expenses to gross income	55.5	54.5	57.1	55.6	55.1	54.5	55.7
Trading income to total income	3.8	4.9	5.1	5.4	5.8	5.7	5.8
Personnel expenses to non-interest expenses	33.0	31.5	32.2	32.9	32.3	32.6	32.6
Liquidity							
Liquid assets to total assets (liquid asset ratio)	36.8	36.8	39.4	35.9	33.7	34.8	37.2
Liquid assets to short-term liabilities	53.4	54.8	58.3	51.5	47.9	50.1	53.4
Customer deposits to total (non-interbank) loans	146.3	139.6	147.9	141.4	139.5	136.5	136.9
Sensitivity to Market Risk							
Net open position in foreign exchange to capital	9.0	5.7	4.3	4.1	3.2	5.5	7.1
Spread between reference lending and deposit rates (basis point)	1,187	1,144	1,082	1,083	1,078	1,073	996
Foreign currency-denominated loans to total loans	15.0	12.1	13.1	12.9	13.0	11.5	10.3
Foreign currency-denominated liabilities to total liabilities	15.0	13.9	12.9	13.5	12.9	13.4	13.9

Source: Malagasy authorities.

[1] Ratios only concern banking sector.

Table 7. Madagascar: Indicators of Capacity to Repay the Fund, 2020–32

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	(Millions of SDRs)												
Fund obligations based on existing credit													
Principal	3.1	12.2	18.5	37.2	43.6	65.3	74.6	68.3	49.6	40.2	15.4	0.0	0.0
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit													
Principal	3.1	12.2	18.5	37.2	43.6	65.3	99.0	104.9	61.8	64.6	39.8	0.0	0.0
Charges and interest	0.6	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations based on existing and prospective credit													
Millions of SDRs	3.7	12.8	18.6	37.3	43.6	65.4	99.1	105.0	61.9	64.7	39.9	0.1	0.1
Billions of Ariary	18.5	65.0	93.9	194.8	236.1	366.3	572.9	626.4	380.6	410.0	260.4	0.4	0.4
Percent of exports of goods and services	0.2	0.4	0.5	1.0	1.1	1.4	2.0	2.0	1.1	1.1	0.6	0.0	0.0
Percent of debt service	2.3	9.1	9.5	15.4	16.9	23.0	27.7	26.7	14.7	13.6	7.7	0.0	0.0
Percent of GDP	0.0	0.1	0.1	0.3	0.3	0.4	0.6	0.6	0.3	0.3	0.2	0.0	0.0
Percent of government revenue	0.4	1.1	1.3	2.4	2.5	3.4	4.6	4.4	2.4	2.3	1.3	0.0	0.0
Percent of quota	1.5	5.2	7.6	15.2	17.8	26.7	40.5	43.0	25.3	26.5	16.3	0.0	0.0
Outstanding IMF credit based on existing and prospective drawings													
Millions of SDRs	549.9	537.7	519.2	482.0	438.5	373.2	274.2	169.2	107.4	42.9	3.1	3.1	3.1
Billions of Ariary	2,783.6	2,728.2	2,626.6	2,521.0	2,372.7	2,091.2	1,585.8	1,009.9	661.1	271.8	19.9	20.5	21.1
Percent of exports of goods and services	25.8	18.8	15.3	13.1	10.8	8.2	5.6	3.2	1.9	0.7	0.0	0.0	0.0
Percent of debt service	343.8	379.8	265.6	199.9	169.6	131.6	76.6	43.0	25.6	9.0	0.6	0.6	0.5
Percent of GDP	5.3	4.7	4.0	3.5	2.9	2.3	1.6	0.9	0.5	0.2	0.0	0.0	0.0
Percent of government revenue	57.3	46.7	37.4	31.0	25.3	19.4	12.8	7.1	4.1	1.5	0.1	0.1	0.1
Percent of quota	225.0	220.0	212.4	197.2	179.4	152.7	112.2	69.2	44.0	17.5	1.2	1.2	1.2
Net use of IMF credit (millions of SDRs)	272.8	-12.2	-18.5	-37.2	-43.6	-65.3	-99.0	-104.9	-61.8	-64.6	-39.8	0.0	0.0
Disbursements	275.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	3.1	12.2	18.5	37.2	43.6	65.3	99.0	104.9	61.8	64.6	39.8	0.0	0.0
Memorandum items:	(Billions of Ariary, unless otherwise indicated)												
Exports of goods and services (millions of SDRs)	2,133	2,854	3,390	3,688	4,077	4,527	4,856	5,209	5,587	5,994	6,431	6,900	7,403
Debt service	809.7	718.2	988.8	1,261.4	1,398.7	1,589.5	2,069.5	2,347.4	2,580.7	3,019.9	3,385.9	3,526.7	4,108.6
Nominal GDP (at market prices)	52,913	58,439	65,381	72,936	81,223	90,298	100,283	111,256	123,303	136,513	150,981	166,809	184,106
Government revenue	4,856	5,840	7,019	8,126	9,374	10,768	12,420	14,136	16,027	18,006	20,131	22,465	25,043
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

Source: IMF

Annex I. Madagascar's Social Emergency Plan in Response to COVID-19

1. The Malagasy authorities declared a country-wide state of emergency and implemented various measures aimed at containing the spread of the pandemic upon discovery of the first cases of COVID-19 in the second half of March. These include international travel restrictions, quarantines for those in contact with infected people, ban on public gatherings, and the confinement of the three affected regions, Analamanga, Antsinanana and Haute Matsiatra.[1] Due to the continuous increase of the number of cases, however, these measures have been extended several times (lately until the end of July) which has severely impacted economic activity and households' living conditions.

2. To support the vulnerable population during the confinement period, the authorities have announced the implementation of a Social Emergency Plan with a strong focus on social protection. The plan's measures include: (i) the *"Tsena Mora"* (cheap shop) initiative which aims to facilitate access to basic necessities at affordable prices; (ii) for both households and companies, the option to delay the payment of the electricity bills without penalties and the possibility to pay by installments later; (iii) some fiscal measures aimed at preserving companies' financial viability and employment; and (iv) financial measures aimed at supporting companies and temporarily laid off workers through a postponement of their mortgages or consumer credits payments.

3. The measures taken by the authorities to mitigate the socio-economic impacts of the pandemic rely on a Social Protection strategy which is currently being finalized. The objectives of the strategy are to support the implementation of the containment measures, and to provide economic support to households' consumption and the subsequent economic recovery. The social protection initiatives took mainly the forms of government in kind donations *("Vatsy Tsinjo")* and unconditional cash transfers *("Tosika Fameno")* (see Box 1 and Box 2). Three regions were identified as the main beneficiaries of the social protection activities as these are the first quarantined regions where COVID-19 cases have been discovered. The authorities intend to extend the social assistance support to other regions.

4. The implementation of the Social Emergency Plan is the responsibility of several entities, but the execution of the Social Protection program lies with the Ministry in charge of Population, Social protection and Gender Promotion, and the National Bureau in charge of Risk and Disaster Management (BNGRC). The Social Emergency Plan financing is still being finalized. It will likely include a mix of public funds and external financing from various donors including the World Bank, the United Nations system, and the European Union. Donors are also providing technical support.

[1] Analamanga is the region of the capital city of Antananarivo; Antsinanana is the region of the city of Toamasina (country's main seaport); and Haute Matsiatra is in the south center of Madagascar.

Box 1. Government In-Kind Donations "Vatsy Tsinjo"

"Vatsy Tsinjo" is a Presidential project aimed at supplying basic necessities to the most vulnerable and those whose activities have been directly impacted by the COVID-19-related confinement measures.

Composition. The pack per beneficiary consists of 5 kg of rice, 2.5 kg of pulses, 1 kg of sugar, 1 bottle of cooking oil, 250 gr of fine salt, 500 gr of corn flour, and 6 pieces of soap.

Leadership. The Ministry of Industry, Commerce and Handicrafts (MICA) and the Ministry of Environment and Sustainable Development (MEDD) lead the implementation of the *"Vatsy Tsinjo"* program with the support of the Municipalities of each concerned region, the "*Association Fitia*" (the charity association presided over by the first lady), the members of the National Assembly, and about a thousand volunteers.

Beneficiaries. Initially, the project targets homeless, the elderly, and workers in the informal sector particularly those whose activities have been severely affected by the confinement measures including taxi and other public transport drivers, street vendors, laundrywomen, rickshaw pullers, and newspapers sellers. But since then, the project recipients have been extended to University students (who were unable to return home), artists, journalists, associations, persons with disabilities and public-school teachers. To date, the project has benefited around 225,000 individuals (including about 700 homeless, 1,000 artists and 3,000 teachers) in Analamanga and, respectively, 32,000 and 35,000 persons in Antsinanana and Haute Matsiatra).

Modalities. Beneficiaries' identification was done at the community level ("*Fokontany*[1]*")* for the elderly and laundrywomen, and for the rest, via association database. Due to the stay at home directives, the door-to-door approach has been privileged in most of the cases to distribute *"Vatsy Tsinjo"* to the beneficiaries identified at the *"Fokontany"* level. For the rest, the distribution was carried out either by the Municipalities of each concerned regions or the *"Association Fitia"*.

Costs. The exact operational costs have not yet been finalized, but it is expected that the project has been financed through public funds and grants from individuals, associations, and external donors.

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[1]The Fokontany is a basic administrative subdivision which comprises either hamlets, villages, sectors or neighborhoods depending on the size of the agglomeration.

Box 2. Unconditional Cash Transfer Program "Tosika Fameno"

"Tosika Fameno" is an unconditional cash transfer program set up by the Malagasy authorities to support vulnerable households in three regions mostly affected by COVID-19.

Beneficiaries. The program aims to provide financial assistance for two months to 233,827 vulnerable households in cities with the highest risk of social dissension, namely Antananarivo, Toamasina and Fianarantsoa.

Leadership. The program is jointly led by the Ministry in charge of Population, Social Protection and Gender Promotion and the National Bureau in charge of Risk and Disaster Management (BNGRC), with the technical and financial support of donors members of the "Cash Working Group" including the World Bank, the United Nations system, and the European Union.

Targeting strategy. Households in the first three poorest deciles were targeted due to the high concentration of vulnerable workers in this tranche (self-employed workers, skilled workers, unskilled workers in the informal sector). The 2019 Households Survey revealed that many of these workers live below the poverty line of MGA 71,000 (about US$ 20) per capita per month.

	Antananarivo (Urban)	Antananarivo (Suburban)	Toamasina (Urban and Suburban)	Fianarantsoa (Urban and Suburban)	Total
Number of Households	99,127	70,300	42,000	22,400	**233,827**

Modalities. The urban communes of Antananarivo, Toamasina, and Fianarantsoa execute the program, with the technical and financial support of the *Fonds d 'Intervention pour le Développement (FID)*. Enrollments are done at the community level via the *"Fokontany"*. Collected information is recorded electronically, with the final list of beneficiaries determined using three criteria: (i) poverty level; (ii) socio-professional category; and (iii) vulnerability.

Payment. Each beneficiary receives MGA 100,000 (about US$26) per household per month for two months. Payment of the transfers will be made via mobile money services to limit the risk of contact between individuals while taking the opportunity at the same time to promote financial inclusion. The program relies on the existing mobile money network as well as the newly developed mobile money services developed by PAOMA *"Paositra Money"*. The transfer amount was calculated based on the estimated consumption and basic needs of households in difficulty.

Costs. The implementation budget is currently estimated at US$13.4 million (equivalent to 0.1 percent of GDP of which, US$10 million from the WB, US$2.3 million from the UN system, and US$1.1 million from the EU).

Appendix I. Letter of Intent

Antananarivo, Madagascar
July 14, 2020

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

Dear Ms. Georgieva,

1. On behalf of the Malagasy authorities, we would like to express our appreciation to the International Monetary Fund for the support of our request under the Rapid Credit Facility (RCF) that the Board approved on April 3, 2020. Early support from the IMF has created room for essential and urgent spending to mitigate the impact of the COVID-19 pandemic and helped catalyze significant additional donor resources.

2. In our Letter of Intent of March 27, we noted that we expected the short-term economic impact to be large, with global developments severely affecting key sectors in Madagascar, like tourism, manufacturing, extractive industry, transport, communications and other services. Since then, the economic outlook of our main partners (Europe, United States and Asia) has further deteriorated. As a result, there is a further impact on our economy, and growth could be close to zero or even negative in 2020, a major downward revision compared to initial projections of 5 percent before the crisis. This has opened an urgent financing gap in the balance of payments, which is now estimated at about US$580 million in 2020 compared to less than US$300 million previously.

3. Our fiscal situation is also affected by an expected additional shortfall in tax revenue due to a worsened growth projection, while significant budget resources are needed to address critical spending, including increased social assistance to the most vulnerable. A revised budget law based on credible tax revenue projection and redirecting spending towards immediate priorities and measures aimed at sustaining the economic recovery in the second part of the year was approved by the Council of Ministers on June 13 and adopted by the National Assembly on June 24. Should total revenue and financing be insufficient to cover planned spending, our contingency plans include further prioritizing spending and delaying the implementation investment projects that have not started.

4. While continuing to implement the measures outlined in the March 2020 Letter of Intent, we reiterate our strong commitment to an effective and transparent use of public funds, and to ensure that the aid received, including from the RCF disbursement, and the resources freed up by the DSSI,

are efficiently spent on addressing the crisis. With this objective, we have increased the coordination and consistency of the COVID-19 response by adopting a Multisectoral National Response Plan. In addition, we have finalized a decree establishing the "COVID-19 Pandemic Response Fund", with technical assistance from the Fund, defining its resources, and the associated framework for operational management, for control and accountability. The objective is to strengthen the transparency and traceability of resources and public spending to deal with the pandemic. We commit to publish on-line, for all contracts and financial transfers related to the pandemic response, (i) the list of financial transfers, (ii) the signed procurement contracts, (iii) the legal entities receiving those contracts, and the names of the entities' beneficial owners, and (iv) ex post reports on the delivery of these procurement contracts. We will also commission an independent third-party audit of those contracts, which will be published on-line by end-December 2021. Budget execution reports will continue to be published on a quarterly basis, with specific information on pandemic related spending. Finally, the "Cour des Comptes", in consultation with external/third-party auditors, will proceed to an independent audit of the emergency fund for 2020 and produce a report, which will be also published on-line by end-December 2021.

5. Against this background and as we continue to experience an urgent balance of payment (BoP) need arising from the COVID-19 pandemic, we request an additional disbursement of 50 percent of quota (SDR 122.2 million) under the "exogenous shock" window of the RCF. It is important to stress that the additional BoP need is not caused by a withdrawal of financial support by donors. We have secured at least US$136 million (0.9 percent of GDP) in additional budget support commitments since the approval of the first RCF disbursement. In addition, the urgent nature of this need would make it very difficult to implement an upper credit tranche-quality economic program in the short term. That said, we value our continued engagement with the IMF and reiterate our interest on discussing the conditions for a successor arrangement aimed at supporting our development strategy, which remains guided by our ambitious reform plan formalized in the Plan Emergence Madagascar (PEM).

6. The requested amount will be on-lent by the central bank to the Treasury. To this end, and in line with IMF safeguards policy, a new Memorandum of Understanding (MoU) between the central bank and the government will be signed, specifying the conditions of this operation and ensuring that we continue meeting our financial obligations to the IMF on a timely basis. Our capacity to repay the Fund remains adequate, and the risk of overall debt distress for Madagascar remains moderate.

7. In addition, we have requested the temporary debt service suspension from our official bilateral creditors, in line with the Debt Service Suspension Initiative (DSSI) supported by the G-20 and Paris Club, and we are committed to adhere to its requirements. We will use freed resources under the DSSI for COVID-19 health spending and mitigating measures to provide economic relief from the crisis and we will closely monitor and report on the use of the COVID-19 resources (¶4). We will also continue to disclose the details of the public sector debt, including by reporting to the IMF and WBG no later than September 1, 2020.

8. In line with IMF safeguards policy, we reiterate the central bank's commitment to undergo a safeguards assessment before the approval of any new subsequent arrangement by the IMF Executive Board, and we will continue to provide IMF staff with access to its most recently completed audit reports and to authorize the external auditors to hold discussions with IMF staff.

9. We do not intend to introduce measures or policies that would exacerbate the current balance-of-payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance-of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

10. We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RCF.

Sincerely yours,

/s/	/s/
Mr. Richard Randriamandrato	Mr. Henri Rabarijohn
Minister of Economy and Finance	Bank of Madagascar Governor

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

July 17, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
David Owen and Zuzana Murgasova (IMF) and Marcello Estevão (IDA)

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

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
Macroeconomic projections	This DSA update accounts for the expected severe economic impact of the COVID-19 pandemic—namely, a sizable decline in growth, tourism, and goods trade, with an accompanying increase in fiscal and current account deficits in 2020. Compared to the COVID-19 shock scenario included in the April 2020 expedited DSA, the baseline assumes a more persistent shock in 2020 and a partial rebound in 2021. In particular, relative to the prior baseline, 2020 growth has been revised down by -2.6 ppts to -1.0 percent, with a decline in the domestic primary balance[1] from -1.4 to -3.3 percent of GDP. In addition, the current account deficit is expected to reach -3.6 percent of GDP vs. -2.5 percent of GDP in the prior baseline. Over the medium term, we project some fallout on exports as firm closures and supply chain disruptions result in more protracted negative effects on exports (especially textiles) and remain conservative with respect to tax revenue projections.

[1] Prepared by the IMF and the World Bank. This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018.

Financing strategy	For external financing, the share of external to total debt does not exceed the authorities' upper limit of 85 percent and, while use of concessional loans is maximized in the near term, the portfolio of new external financing is expected to shift towards a more balanced distribution of concessional and non-concessional debt over the medium to long term. For domestic financing, short-term local currency treasury bills will remain the main source of financing over the long term. However, medium-term local currency bond issuance is expected to scale up over time, but from a low base (15 percent of locally issued debt).
Realism tools flagged	n/a
Mechanical risk rating under the external DSA	Moderate
Mechanical risk rating under the public DSA	Moderate

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

Madagascar, classified as having a medium debt carrying capacity, is assessed at moderate risk of external debt distress with some space to absorb shocks and moderate risk of overall debt distress. This assessment is a change from Madagascar's prior risk assessment of low risk of external debt distress and moderate risk of overall debt distress in the DSA that was published in March 2020 (and subsequently confirmed in the April 2020 expedited DSA).[2] *In this assessment:*

- *While the COVID-19 adjusted baseline does not breach any external public and publicly guaranteed (PPG) debt thresholds, under an export shock the debt service-to-revenue ratio breaches the 18 percent threshold in 2026, rising to 21 percent. This corresponds to a peak in debt service to the IMF (with planned RCF and ECF repayments), projected to reach more than 4.5 percent of government revenue in 2026 and 2027 before decreasing to 2 percent in 2029. The default settings are applied for the export shock, whose size and impact on growth broadly match the effect of the simultaneous global financial and domestic political crises in Madagascar in 2009, hence delivering the most severe stress scenario in this DSA.*
- *The overall (external plus domestic) risk of debt distress remains moderate. Total public debt is below the benchmark under baseline, but a commodity price shock drives the*

[2] Madagascar has a Composite Indicator score of 2.81. The DSA covers public and publicly guaranteed external and domestic debt, including State-owned Enterprises' domestic debt and central bank external liabilities. The March 2020 DSA can be found in Country Report No. 20/61. An expedited DSA, with an unadjusted baseline and a customized COVID-19 shock, featured in the April 2020 Rapid Credit Facility (Country Report No. 20/100) and had the same assessment as the March 2020 DSA. This DSA uses 2019 as its projection year as end-2019 data are still considered preliminary; the next DSA will feature 2020 as the first projection year.

present value of debt to GDP above the benchmark at the end of the projection period.[3] *Moreover, shocks could introduce liquidity problems, as the debt-service-to-revenue ratio could exceed 70 percent over the long term under the growth shock.*[4]

- *The current assessment also reflects the authorities' participation in the Debt Service Suspension Initiative (DSSI), supported by the G-20 and Paris Club. The estimated amount of delayed bilateral official debt servicing is estimated to be less than 0.1 percent of GDP and the authorities intend to adhere to the commitments associated with the DSSI. Finally, this assessment assumes debt relief to the IMF under the Catastrophe Containment window of the CCRT through April 2022 (subject to the availability of CCRT resources for the next 18 months).*

  Despite the change in risk rating, the breaches of the threshold and benchmark occur fairly late in the forecast horizon and these assessments continue to support Madagascar's plans to gradually scale up its borrowing over the medium term to meet its development and investment needs. Updates with respect to COVID-19's economic impact (both domestically and externally) and policy response are rapidly evolving and risks are still tilted to the downside, including the heightened risk of the materialization of contingent liabilities, which could lead to a faster than expected deterioration in external and public debt indicators. However, distance to risk thresholds under current baseline projections suggests space to absorb additional shocks.

[3] As in the prior DSA, for the commodity price shock we assume an illustrative fall in prices equivalent to 10 percent of commodity exports, with no mitigating effect on imports, alongside declines in real GDP growth and in fiscal revenue. The shock occurs in 2020 and unwinds gradually by 2029.

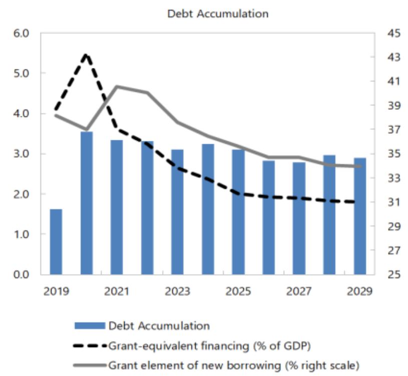
[4] The magnitude of the growth shock was adjusted upwards to match the size of the growth shock considered during the March 2020 DSA. In addition to supporting the comparability of the two exercises, the high degree of downside risks warrants adopting a conservative approach to the stress tests.

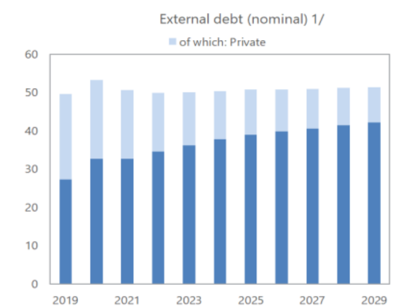
Table 1. Madagascar: External Debt Sustainability Framework, Baseline Scenario, 2016–2039

(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	51.0	50.2	50.6	49.5	53.2	50.5	49.9	49.9	50.3	51.4	52.7	39.3	50.8
of which: public and publicly guaranteed (PPG)	25.3	25.7	26.7	27.3	32.6	32.7	34.5	36.1	37.7	42.1	44.9	24.8	36.7
Change in external debt	-1.9	-0.8	0.5	-1.1	3.7	-2.7	-0.7	0.1	0.4	0.2	-0.4		
Identified net debt-creating flows	-6.6	-7.4	-5.7	-2.5	2.0	-1.6	-2.3	-2.2	-2.1	-1.1	-1.6	-0.4	-1.5
Non-interest current account deficit	-0.8	0.0	-1.2	2.0	3.1	2.6	2.6	2.7	2.6	3.2	2.2	4.5	2.7
Deficit in balance of goods and services	1.9	3.3	3.4	5.0	6.2	5.4	5.3	5.6	5.7	6.5	5.5	7.7	5.8
Exports	28.3	30.9	31.5	28.4	20.4	24.8	26.2	26.4	27.2	27.8	28.0		
Imports	30.2	34.2	34.9	33.3	26.6	30.2	31.6	32.1	32.8	34.3	33.5		
Net current transfers (negative = inflow)	-5.8	-5.6	-7.0	-5.7	-5.7	-4.9	-4.6	-4.6	-4.6	-4.4	-4.0	-5.3	-4.8
of which: official	-2.9	-2.5	-2.6	-3.0	-3.4	-1.6	-1.2	-0.8	-0.5	-0.2	0.0		
Other current account flows (negative = net inflow)	3.1	2.3	2.4	2.7	2.5	2.1	1.9	1.7	1.6	1.2	0.7	2.1	1.7
Net FDI (negative = inflow)	-3.8	-2.7	-2.6	-2.6	-2.1	-2.7	-2.8	-2.8	-2.8	-2.8	-2.8	-4.4	-2.7
Endogenous debt dynamics 2/	-2.0	-4.8	-1.9	-1.8	1.0	-1.5	-2.1	-2.0	-1.9	-1.5	-1.0		
Contribution from nominal interest rate	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.7	1.0	1.3		
Contribution from real GDP growth	-2.0	-1.8	-2.2	-2.4	0.5	-2.0	-2.6	-2.6	-2.6	-2.5	-2.3		
Contribution from price and exchange rate changes	-0.3	-3.3	-0.3	...	...	...	...	...	...	...	...		
Residual 3/	4.7	6.6	6.2	1.3	1.7	-1.1	1.6	2.2	2.5	1.3	1.2	3.0	1.6
of which: exceptional financing	0.0	0.0	0.0	0.0	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	15.0	16.3	19.6	20.8	21.4	22.7	24.1	28.5	32.4		
PV of PPG external debt-to-exports ratio	...	...	47.6	57.4	96.0	83.9	81.7	85.9	88.6	102.4	115.8		
PPG debt service-to-exports ratio	3.1	5.6	2.6	2.7	3.9	3.3	3.8	4.6	4.8	6.4	8.1		
PPG debt service-to-revenue ratio	9.3	16.7	7.9	7.2	8.6	8.1	9.3	11.0	11.2	13.6	15.6		
Gross external financing need (Million of U.S. dollars)	-425.0	12.5	-349.7	449.6	678.5	546.4	580.4	633.5	626.3	1050.2	1639.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.0	3.9	4.6	4.8	-1.0	4.2	5.8	5.7	5.6	5.2	4.6	2.2	4.7
GDP deflator in US dollar terms (change in percent)	0.6	7.0	0.5	-2.7	2.2	5.9	6.2	2.2	2.1	2.1	2.2	0.6	2.4
Effective interest rate (percent) 4/	0.7	0.8	1.1	1.0	1.0	1.1	1.2	1.3	1.5	2.2	2.6	1.0	1.5
Growth of exports of G&S (US dollar terms, in percent)	7.2	21.6	7.0	-8.1	-27.2	34.0	19.0	8.9	10.7	7.3	5.9	6.3	7.1
Growth of imports of G&S (US dollar terms, in percent)	3.3	26.2	7.1	-2.6	-19.3	25.2	17.5	9.8	10.4	7.6	4.1	0.9	7.6
Grant element of new public sector borrowing (in percent)	...	...	...	38.2	37.0	40.5	40.0	37.6	36.4	34.0	33.7	...	36.6
Government revenues (excluding grants, in percent of GDP)	9.5	10.3	10.5	10.8	9.2	10.0	10.7	11.1	11.5	13.2	14.6	9.1	11.5
Aid flows (in Million of US dollars) 5/	606.2	606.6	634.9	669.0	781.3	884.3	980.7	960.8	1008.2	1108.9	1766.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.1	5.5	3.6	3.2	2.6	2.4	1.8	1.4	...	2.8
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	71.6	61.2	55.1	51.9	46.0	42.1	36.0	33.8	...	46.8
Nominal GDP (Million of US dollars)	11,849	13,176	13,851	14,124	14,286	15,766	17,714	19,137	20,629	29,670	59,202		
Nominal dollar GDP growth	4.6	11.2	5.1	2.0	1.1	10.4	12.4	8.0	7.8	7.4	6.9	2.9	7.2
Memorandum items:													
PV of external debt 7/	...	...	38.9	38.5	40.2	38.6	36.8	36.6	36.7	37.7	40.2		
In percent of exports	...	...	123.8	135.6	197.2	156.0	140.3	138.2	135.1	135.5	143.5		
Total external debt service-to-exports ratio	3.8	9.0	4.1	13.4	18.4	14.2	13.2	13.0	11.8	11.3	12.1		
PV of PPG external debt (in Million of US dollars)			2073.6	2298.3	2798.5	3275.5	3796.2	4346.5	4965.4	8457.4	19193.5		
(PVt-PVt-1)/GDPt-1 (in percent)				1.6	3.5	3.3	3.3	3.1	3.2	2.9	2.1		
Non-interest current account deficit that stabilizes debt ratio	1.1	0.9	-1.7	3.2	-0.7	5.3	3.2	2.6	2.3	3.0	2.6		

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.

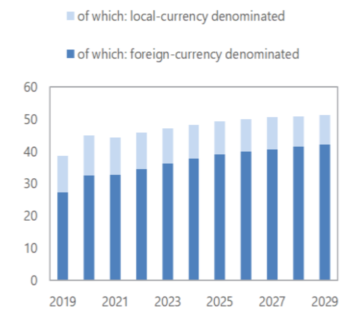
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

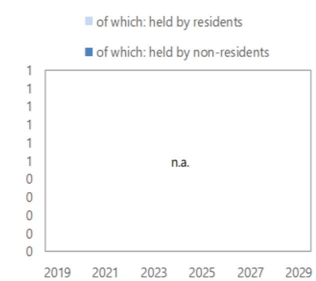
Table 2. Madagascar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–2039
(In percent of GDP; unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	40.3	40.0	39.9	38.7	44.8	44.3	45.7	47.0	48.2	51.1	55.1	36.6	47.3
of which: external debt	25.3	25.7	26.7	27.3	32.6	32.7	34.5	36.1	37.7	42.1	44.9	24.8	36.7
Change in public sector debt	-3.8	-0.2	-0.1	-1.2	6.2	-0.5	1.4	1.3	1.2	0.3	-0.4		
Identified debt-creating flows	-3.5	-2.6	-1.9	-1.9	5.3	-0.3	1.5	1.3	1.2	0.6	-0.5	-0.2	1.0
Primary deficit	0.4	1.4	0.6	0.7	4.3	4.0	4.0	3.7	3.7	3.0	1.8	1.3	3.3
Revenue and grants	12.4	12.8	12.9	13.9	12.6	11.6	12.0	11.9	12.0	13.3	14.6	10.9	12.6
of which: grants	2.9	2.5	2.5	3.1	3.4	1.6	1.2	0.8	0.5	0.2	0.0		
Primary (noninterest) expenditure	12.8	14.2	13.5	14.6	16.9	15.6	16.0	15.6	15.7	16.3	16.4	12.3	15.8
Automatic debt dynamics	-3.9	-4.0	-2.5	-2.2	0.5	-4.7	-3.0	-2.8	-2.8	-2.8	-2.7		
Contribution from interest rate/growth differential	-3.1	-2.4	-3.0	-2.3	0.4	-2.2	-2.8	-2.8	-2.8	-2.8	-2.6		
of which: contribution from average real interest rate	-1.4	-0.9	-1.3	-0.5	0.0	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2		
of which: contribution from real GDP growth	-1.7	-1.5	-1.7	-1.8	0.4	-1.8	-2.4	-2.5	-2.5	-2.5	-2.5		
Contribution from real exchange rate depreciation	-0.8	-1.5	0.6	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	-0.5	0.5	0.4	0.5	0.5	0.4	0.4	0.4	0.0	0.4
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	-0.5	0.5	0.4	0.5	0.5	0.4	0.4	0.4		
Residual	-0.3	2.3	1.8	0.8	0.9	-2.7	-0.3	-0.1	0.0	-0.3	0.1	1.8	-0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	28.8	27.7	32.3	32.0	32.9	34.0	34.9	37.9	43.1		
PV of public debt-to-revenue and grants ratio	...	...	222.9	198.7	255.6	275.9	275.3	285.2	290.1	283.9	295.8		
Debt service-to-revenue and grants ratio 3/	7.0	7.0	6.4	39.9	42.5	50.5	52.7	57.0	57.5	49.2	53.4		
Gross financing need 4/	1.2	2.3	1.4	5.7	10.3	10.3	10.8	10.9	10.9	10.0	10.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.0	3.9	4.6	4.8	-1.0	4.2	5.8	5.7	5.6	5.2	4.6	2.2	4.7
Average nominal interest rate on external debt (in percent)	0.8	0.9	1.1	1.0	0.9	0.9	0.9	1.0	1.1	1.4	1.6	0.7	1.1
Average real interest rate on domestic debt (in percent)	-8.2	-4.7	-7.0	-2.7	-0.6	-1.9	-0.5	0.0	0.1	0.0	0.3	-6.7	-0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.0	-6.3	2.3	...	...	...	...	...	...	...	...	1.0	...
Inflation rate (GDP deflator, in percent)	9.0	5.0	7.6	5.6	4.6	6.0	5.7	5.5	5.5	5.2	5.0	7.3	5.4
Growth of real primary spending (deflated by GDP deflator, in percent)	8.0	15.6	-1.0	13.7	14.5	-3.8	8.0	3.3	6.3	5.4	3.7	1.7	6.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	4.1	1.7	0.7	2.0	-1.9	4.6	2.6	2.4	2.5	2.7	2.2	2.2	2.2
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.

Figure 1. Madagascar: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2019–2029

Customization of Default Settings	Size	Interactions
Standardized Tests	Yes	
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.

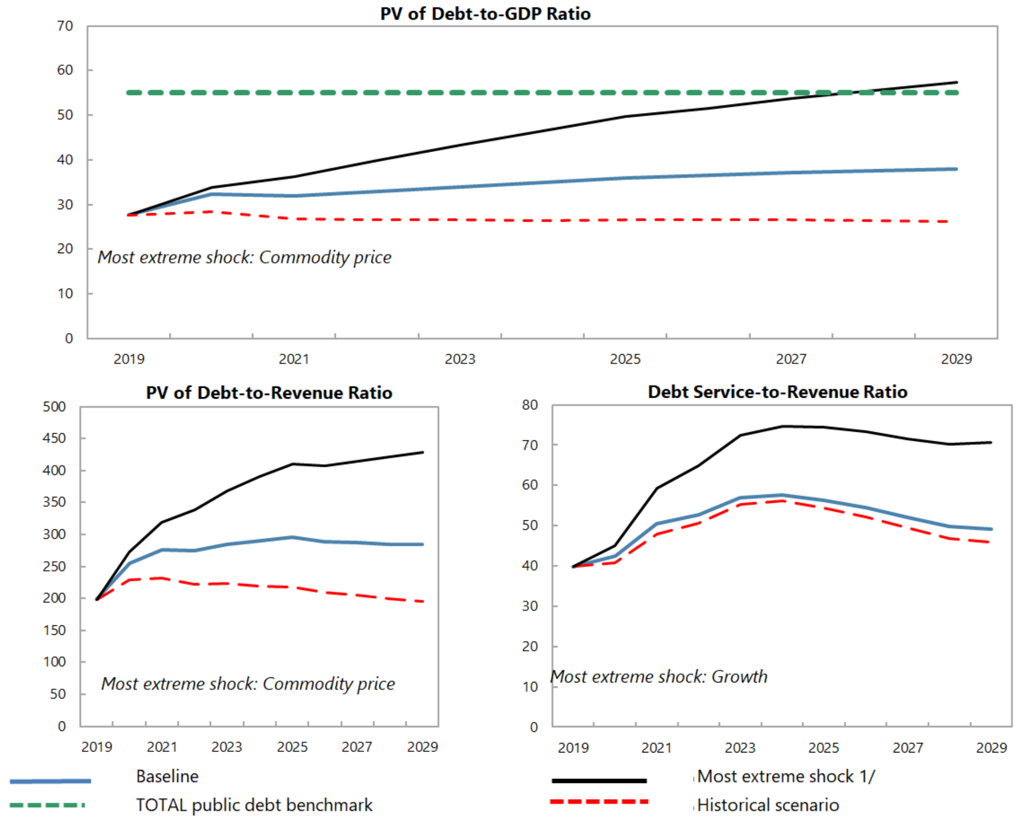
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.4%	1.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	26	20
Avg. grace period	4	4

* 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 2029. 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 2. Madagascar: Indicators of Public Debt Under Alternative Scenarios, 2019–2029



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	9%	15%
Domestic short-term	43%	20%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.4%	1.8%
Avg. maturity (incl. grace period)	26	20
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.8%	4.8%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	3.0%	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 2029. 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.

Table 3. Madagascar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–2029

(In percent)

		Projections 1/									
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	16	20	21	21	23	24	25	26	27	28	29
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	16	19	21	24	26	29	31	34	36	37	39
B. Bound Tests											
B1. Real GDP growth	16	21	24	25	27	28	30	31	31	32	33
B2. Primary balance	16	20	22	22	24	25	26	27	28	29	29
B3. Exports	16	25	33	33	34	35	36	36	36	37	37
B4. Other flows 3/	16	22	25	25	26	27	28	29	29	30	30
B5. Depreciation	16	25	23	24	26	28	30	31	32	33	34
B6. Combination of B1-B5	16	26	27	28	29	31	32	32	33	34	34
C. Tailored Tests											
C1. Combined contingent liabilities	16	23	25	26	27	28	29	30	31	31	32
C2. Natural disaster	16	25	27	28	29	31	32	33	34	34	35
C3. Commodity price	16	20	22	22	24	25	26	27	28	28	29
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	57	96	84	82	86	89	90	93	96	99	102
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	57	91	86	91	100	107	112	120	127	134	141
B. Bound Tests											
B1. Real GDP growth	57	96	84	82	86	89	90	93	96	99	102
B2. Primary balance	57	98	87	85	90	92	93	96	99	102	105
B3. Exports	57	140	166	157	161	163	161	163	164	166	167
B4. Other flows 3/	57	107	99	95	99	101	101	103	105	107	109
B5. Depreciation	57	96	75	74	79	82	83	87	91	95	98
B6. Combination of B1-B5	57	125	96	109	114	116	116	119	122	125	127
C. Tailored Tests											
C1. Combined contingent liabilities	57	112	99	97	102	104	104	107	110	113	116
C2. Natural disaster	57	125	111	110	115	117	118	121	124	128	131
C3. Commodity price	57	100	89	86	91	93	94	97	99	102	105
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	3	4	3	4	5	5	5	6	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	3	4	3	4	6	6	6	8	9	9	9
B. Bound Tests											
B1. Real GDP growth	3	4	3	4	5	5	5	6	6	6	6
B2. Primary balance	3	4	3	4	5	5	5	6	6	6	7
B3. Exports	3	5	5	6	7	8	8	12	12	11	12
B4. Other flows 3/	3	4	3	4	5	5	6	7	7	7	7
B5. Depreciation	3	4	3	4	4	5	5	5	6	6	6
B6. Combination of B1-B5	3	4	4	5	6	6	7	8	8	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	3	4	4	4	5	5	5	6	6	6	7
C2. Natural disaster	3	4	4	4	5	6	6	7	7	7	7
C3. Commodity price	3	4	3	4	5	5	5	6	7	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	7	9	8	9	11	11	11	14	14	13	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	7	8	8	11	13	14	14	**18**	**19**	**19**	**20**
B. Bound Tests											
B1. Real GDP growth	7	9	9	11	13	13	13	16	16	15	16
B2. Primary balance	7	9	8	9	11	11	12	14	14	14	14
B3. Exports	7	10	10	12	14	14	16	**21**	**21**	**19**	**20**
B4. Other flows 3/	7	9	9	10	12	12	13	16	16	15	15
B5. Depreciation	7	11	10	11	13	14	14	16	16	15	16
B6. Combination of B1-B5	7	10	10	11	13	13	15	18	18	17	17
C. Tailored Tests											
C1. Combined contingent liabilities	7	9	9	10	12	12	12	14	14	14	14
C2. Natural disaster	7	9	9	10	12	12	13	15	15	14	14
C3. Commodity price	7	9	8	10	12	12	12	14	14	14	14
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, 2019–2029 (In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	28	32	32	33	34	35	36	37	37	38	38
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	28	28	27	27	27	26	27	27	27	26	26
B. Bound Tests											
B1. Real GDP growth	28	36	40	42	45	47	50	52	54	**55**	**57**
B2. Primary balance	28	33	33	34	35	36	37	38	38	38	39
B3. Exports	28	35	40	41	41	42	43	43	43	42	42
B4. Other flows 3/	28	35	36	37	37	38	39	39	40	40	40
B5. Depreciation	28	34	32	32	32	32	32	32	32	31	31
B6. Combination of B1-B5	28	32	32	32	33	34	35	36	36	37	37
C. Tailored Tests											
C1. Combined contingent liabilities	28	38	37	38	39	39	40	41	41	41	42
C2. Natural disaster	28	41	40	41	42	42	43	44	44	45	45
C3. Commodity price	28	34	36	40	43	46	50	52	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	199	256	276	275	285	290	295	289	287	285	284
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	199	229	232	222	223	219	218	210	206	200	196
B. Bound Tests											
B1. Real GDP growth	199	276	333	345	370	387	405	406	413	420	427
B2. Primary balance	199	261	287	285	295	299	304	297	295	292	290
B3. Exports	199	280	345	340	348	350	351	338	330	323	317
B4. Other flows 3/	199	274	308	305	314	318	321	311	307	302	299
B5. Depreciation	199	279	283	271	270	266	263	251	244	238	232
B6. Combination of B1-B5	199	254	276	271	280	284	289	283	281	279	278
C. Tailored Tests											
C1. Combined contingent liabilities	199	301	320	315	324	327	330	322	318	315	312
C2. Natural disaster	199	324	345	339	348	351	355	346	343	340	338
C3. Commodity price	199	273	319	339	368	390	411	408	415	422	429
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	40	42	50	53	57	58	56	54	52	50	49
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	40	41	48	51	55	56	54	52	49	47	46
B. Bound Tests											
B1. Real GDP growth	40	45	59	65	73	75	75	73	72	70	71
B2. Primary balance	40	42	52	55	59	58	57	55	53	51	50
B3. Exports	40	42	51	54	58	59	59	59	56	54	53
B4. Other flows 3/	40	42	51	53	58	58	58	57	54	52	51
B5. Depreciation	40	41	49	51	55	56	55	54	51	49	48
B6. Combination of B1-B5	40	42	50	53	57	57	55	53	51	49	48
C. Tailored Tests											
C1. Combined contingent liabilities	40	42	64	64	62	61	58	56	53	51	50
C2. Natural disaster	40	43	71	70	65	64	61	58	55	53	52
C3. Commodity price	40	44	56	64	72	74	74	72	70	69	70
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.

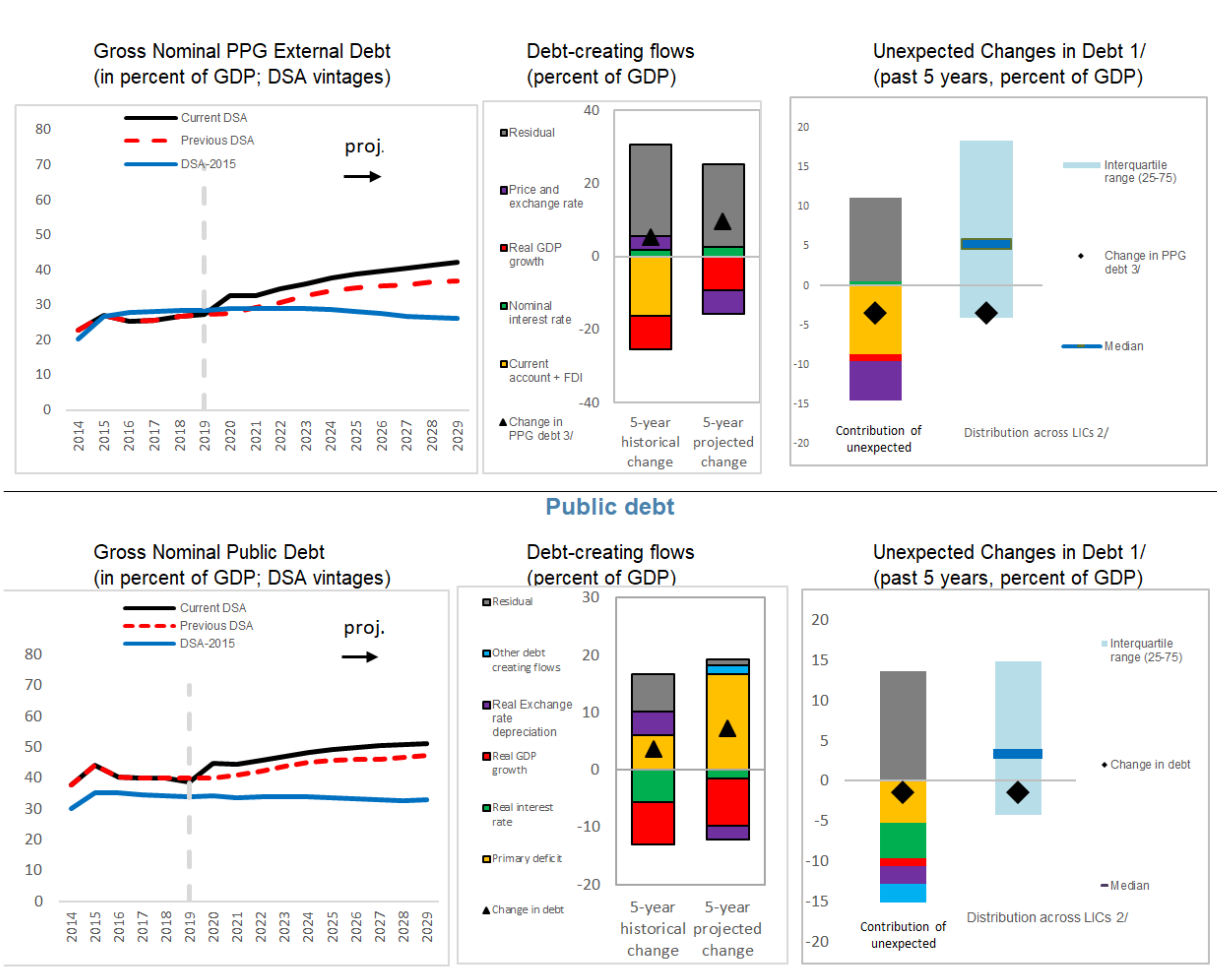
Sources: Country authorities; and staff estimates and projections.

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 3. Madagascar: Drivers of Debt Dynamics – Baseline Scenario



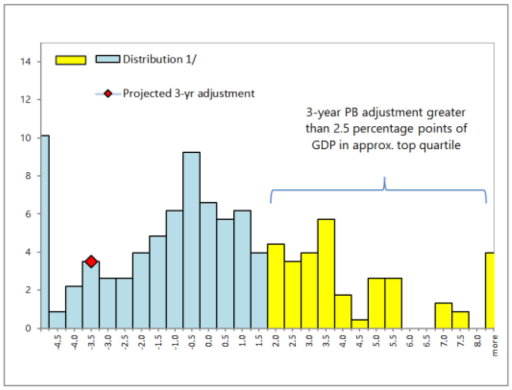
1/ Difference between anticipated and actual contributions on debt ratios.

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.

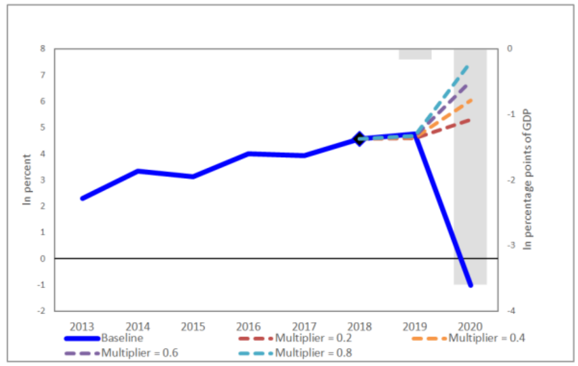
Figure 4. Madagascar: Realism Tools

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



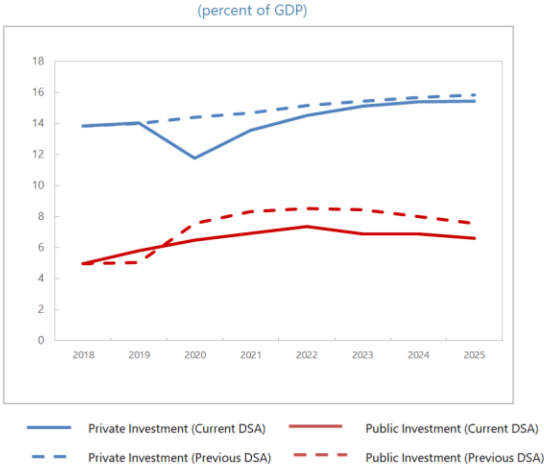
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

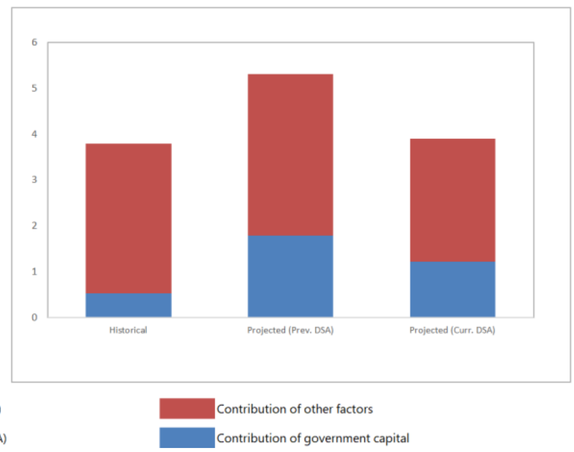
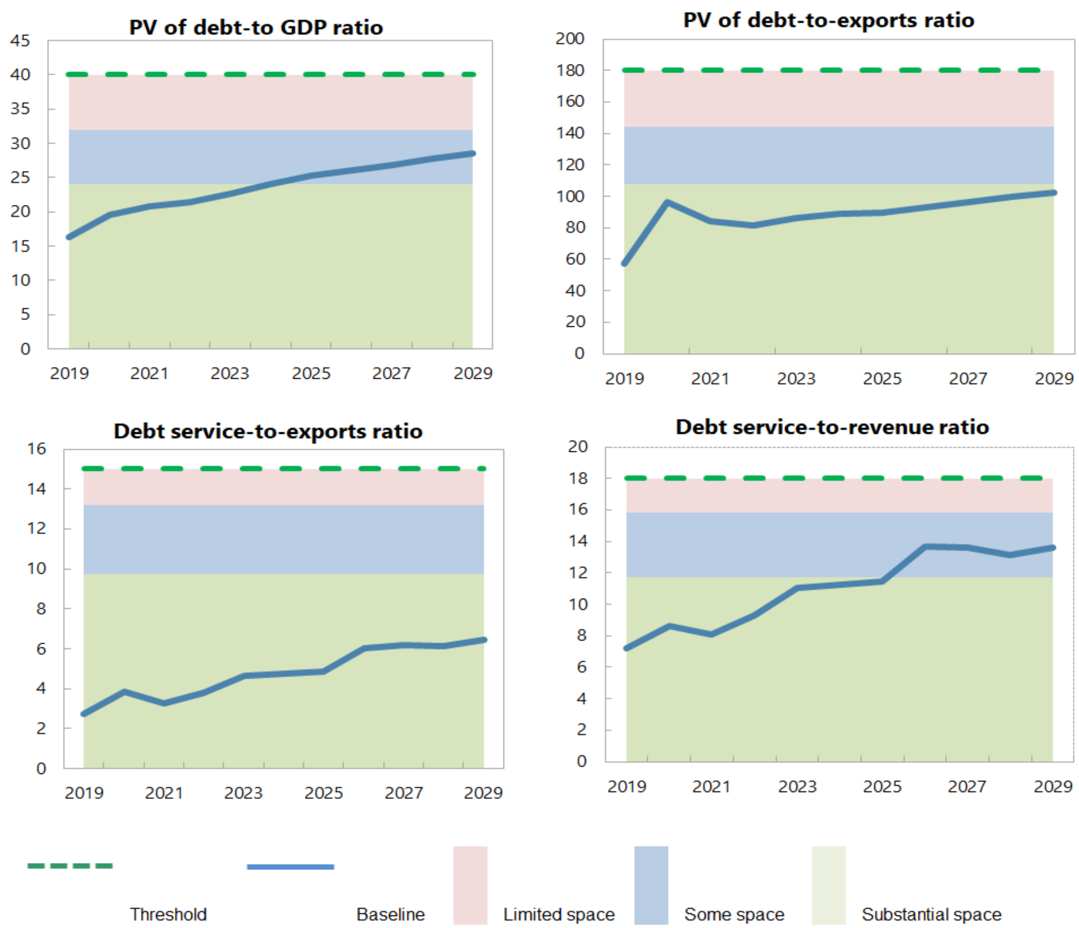


Figure 5. Madagascar: Qualification of the Moderate Category, 2019-2029 1/



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.

Statement by Mr. Raghani, Mr. Andrianarivelo, and Mr. Nguema-Affane on Republic of Madagascar
July 30, 2020

On behalf of our Malagasy authorities, we thank the Executive Board, Management and staff for the support provided to Madagascar to cope with the COVID-19 health and economic crisis. The disbursement under the Rapid Credit Facility on April 3, 2020 (RCF-1) was instrumental in addressing the immediate financing needs arising from the severe impact of the pandemic on main trade partners and the containment measures taken to limit its spread. Fund support has also helped catalyze additional financing from donors. However, the continued deterioration of the external environment has increased urgent financing needs for 2020 and affected Madagascar's recovery prospects. The authorities are requesting an additional disbursement of 50 percent of quota (SDR 122.2 million) under the RCF to support their efforts and policy response to the pandemic. The country's capacity to repay is adequate. The Directors' approval of this request will be appreciated.

Recent Developments and Outlook

Since the RCF-1, the COVID-19 has continued to spread across the country. The number of new cases and fatalities has risen significantly, notably following the relaxation of initial restrictions in May-June 2020. This development prompted the authorities to reimpose a stricter lockdown of the capital city in early July 2020. Available information on macroeconomic performance in the second quarter of 2020 shows a strong impact of the pandemic in all economic sectors, notably the tourism sector, as anticipated at the time of the RCF-1. Domestic financing has been challenging amid a sharp decline in fiscal revenue, mixed results in treasury bill issuances and higher spending. While reserves have increased following external aid disbursements, net foreign exchange sales at end-June 2020 already exceeded those for the entire year of 2019. As a result, the local currency depreciated by 6-7 percent vis-à-vis the dollar and the euro. Moreover, Madagascar's risk of external debt distress increased from low to moderate. Meanwhile, Madagascar's main partners' economic prospects have deteriorated further, which is the materialization of a downside risk to growth identified in April 2020.

Against this background, Madagascar's macroeconomic outlook for 2020 has further weakened compared to April 2020 projections. Growth has been revised down more steeply, with a contraction more likely to occur in 2020. Inflation will slow down and current account balance should improve mainly due to lower petroleum prices. A sharper decline in fiscal revenue and higher COVID-19-related expenditures will result in a doubling of the fiscal deficit. The balance of payments needs for 2020 have almost doubled. All these negative developments resulted in an additional financing gap estimated at 2.4 percent of GDP. It should be closed by a combination of the RCF-2 resources, a reserves drawdown, additional budget support already committed by development partners –including the World Bank, the African Development Bank, the *Agence Française de Développement* and the European Union–, the freed resources from the debt service suspension under the Catastrophe Containment and Relief Trust (CCRT) and the G-20 Debt Service Suspension Initiative.

Policy Response to the Pandemic

The authorities remain committed to implement the measures announced in their March 2020 Letter of Intent. To this end, they have adopted a Multisectoral National Response Plan to improve coordination and consistency of the COVID-19 response. To date, the medical response to the pandemic has been significantly strengthened with the provision of protective equipment to the medical staff and the establishment of well-equipped COVID-19 treatment centers and testing laboratories. In addition, several social, fiscal and financial measures, including cash transfers, in-kind donations, tax relief, subsidies and credit easing, have been adopted to support vulnerable households and the private sector. The total cost of these measures is estimated at 2.8 percent of GDP. The *Commission de Supervision Bancaire et Financière* (CSBF) relaxed requirements for the opening of accounts remotely to enable government transfers to the most vulnerable, while taking safeguard measures to limit risks to financial stability.

The National Assembly approved on June 24, 2020 a revised budget law taking into account the authorities' updated assessment of the economic impact of the pandemic. The fiscal stance is further loosened to accommodate additional social and business support priorities and measures. Given the uncertainty surrounding the duration and magnitude of the pandemic, the authorities stand ready to deploy their contingency plans to rationalize spending and delay some public investment projects in case fiscal and financing resources fall short of expectations.

The authorities are determined to ensure transparency in the use of COVID-19-related resources, including external assistance. They took a decree, prepared with the assistance of the Fund, establishing a COVID-19 Pandemic Response Fund and defining its framework for operational management, control and accountability. This Fund had an initial public dotation representing 0.5 percent of GDP and will collect all contributions to fight the pandemic. The authorities intend to publish online, among others, all procurement contracts and the list of beneficiaries, the ex-post audits of these contracts to be carried out by an independent thirdparty auditor, and the report of the emergency fund's inspection by the "*Cour des Comptes*".
Going forward, the authorities will pursue prudent policies to preserve fiscal and debt sustainability over the medium-term in line with the objectives of the *Plan Emergence Madagascar* (PEM). They will shift the fiscal policy stance to consolidation by unwinding temporary measures related to the pandemic once the health crisis abates. Ongoing reforms to improve revenue mobilization, enhance public financial management, and strengthen the financial situation of some public enterprises would be sustained. In particular, the notable progress made over the past months in the energy sector, including the restructuring of JIRAMA with the World Bank's assistance and the diminution of the liabilities towards fuel distributors, will continue. The authorities reiterate their interest in a successor arrangement under the Extended Credit Facility to support their development strategy under the PEM. The central bank is committed to undergo a safeguards assessment before the approval of such arrangement.

Conclusion

The global COVID-19 pandemic and the authorities' domestic containment measures have taken a heavier than anticipated toll on the Malagasy economy. The Fund's early emergency assistance and the additional support from development partners have contributed to the policy response to the pandemic. However, the severity of the crisis has increased financing needs and the uncertainty surrounding its duration add to the depressing economic prospects.

In such a context, an additional assistance from the Fund would be instrumental in helping address the impact of the pandemic and prepare economic recovery.

In view of the urgent BOP needs and large financing gap, we would appreciate Executive Directors' support for an additional disbursement under the Rapid Credit Facility