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Republic of Madagascar: Second and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Republic of Madagascar

In the context of the second and third review under the three-year arrangement under the Poverty Reduction and Growth Facility and request for a waiver and modification of performance criteria, the following documents have been released and are included in this package:

- The staff report for the Second and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on October 3, 2007, with the officials of Republic of Madagascar on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 10, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of January 30, 2008 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its January 30, 2008 discussion of the staff report that completed the review and request.

- A statement by the Executive Director for Republic of Madagascar.

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

Letter of Intent sent to the IMF by the authorities of Republic of Madagascar*
Memorandum of Economic and Financial Policies by the authorities of
Republic of Madagascar*
Technical Memorandum of Understanding*
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

Second and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria

Prepared by the African Department

(In consultation with other departments)

Approved by Thomas Krueger and Mark Plant

January 10, 2008

- Discussions for the second and third reviews of the three-year arrangement with Madagascar under the Poverty Reduction and Growth Facility (PRGF) were held in Antananarivo during March 8–21 and September 20–October 3, 2007, and in Washington during April 11–14 and October 18–19, 2007. The missions consisted of Messrs. Tsibouris or Ames (Head), Ellyne, Josz (all AFR) and Hallaert (PDR) and were assisted by Mr. van den Boogaerde, the Fund's Resident Representative.
- President Ravalomanana was re-elected in December 2006. The President's political party won a clear majority in legislative elections in September 2007, leading to some changes among the key economic ministers.
- The Letter of Intent (LOI), Memorandum of Economic and Financial Policies (MEFP), and Technical Memorandum of Understanding (TMU) are in the appendix. Relations with the Fund, relations with the World Bank Group, and statistical issues are presented in an informational annex to this report.

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EXECUTIVE SUMMARY

Program performance has been mixed. Macroeconomic outcomes have been good, helped by able macroeconomic stewardship of the fiscal and monetary authorities. However, some structural reforms were delayed, notably in the electricity sector. Agreement has been reached on strong remedial measures to prevent a recurrence of misreporting regarding a continuous structural performance criteria (PC) on no waiver of established procedures for valuation and clearance of goods at customs.

The 2008 program aims to strengthen tax revenue, improve the quality of public expenditure, further reduce inflation, and implement key structural reforms for growth:

- The 2008 budget is closely aligned with the priorities of the Madagascar Action Plan (MAP), the authorities' poverty reducing strategy paper (PRSP) for 2007–11 and the program's macroeconomic objectives. It includes a comprehensive tax policy reform that, together with the ongoing tax and customs administration reforms, will play a key role in raising revenue and improving the business environment.

- Public financial management (PFM) reforms are heading in the right direction, but more remains to be done for improving budget preparation, execution, and monitoring.

- Monetary and exchange rate policy needs to remain geared towards reducing inflation and avoiding an overshooting of the exchange rate. The large foreign direct investments in mining provide the opportunity to build up foreign exchange reserves, but their monetary impact needs to be carefully managed to reduce inflation.

- There is an urgency to accelerate structural reforms, notably in the electricity sector, to increase economic growth and to strengthen the competitiveness of the economy.

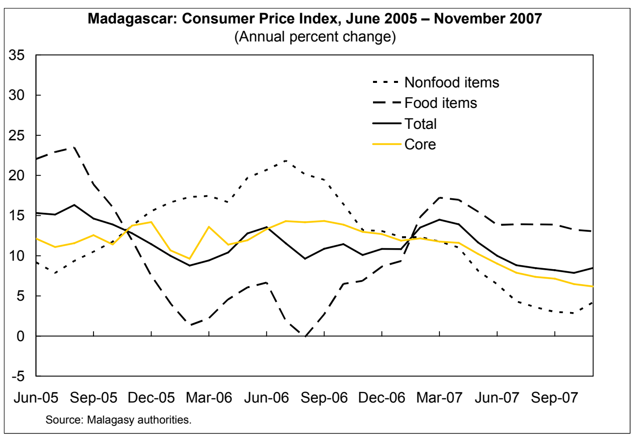
In light of the sound macroeconomic policy performance in 2006–07, the ambitious program for 2008, and the effective remedial actions implemented in response to the missed PCs, staff recommends completion of the second and third reviews, supports granting of waivers for the nonobservance of two quantitative and three structural PCs (of which one waiver is requested in the report on noncomplying disbursement), and proposes modifying three existing continuous PCs.

I. INTRODUCTION

1. The completion of the second review, initially scheduled in conjunction with the Article IV consultation (which took place on June 25, 2007), was postponed at the request of the authorities. Evidence of one case of misreporting regarding a continuous structural performance criterion on no waiver of established procedures for valuation and clearance of goods at customs (MEFP, Table 2) was identified in March 2007, and the authorities asked for additional time to conduct an audit.

II. RECENT ECONOMIC DEVELOPMENTS

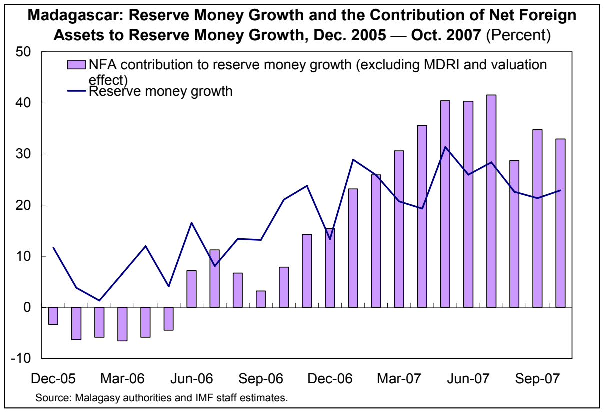
2. **Economic growth picked up while inflation abated in 2007** (Tables 2 and 3). The start up of construction of two large mining projects more than offset the adverse effect on agriculture (particularly rice and vanilla) of the cyclones and floods that occurred early in the year. Following a food-related price increase early in the year and a nonfood-related price moderation owing to currency appreciation during the first half of the year, overall inflation and core inflation (excluding rice and energy) declined to single digits (year-on-year).

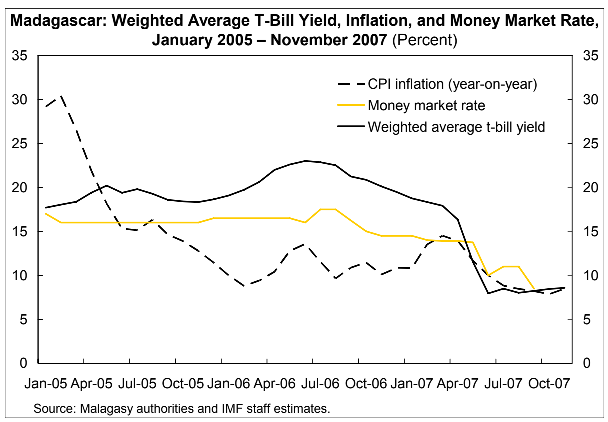


3. **Budget execution has been broadly on track** (Table 5). Tax revenue performance at end-September 2007 was below target owing to some weakening in tax administration during the transition to a new management team at the tax directorate, and the currency appreciation which dampened the domestic currency equivalent of foreign trade taxes. Net domestic financing of the budget was nonetheless below the program ceiling owing to slow execution of expenditure, and cuts in nonpriority spending (0.5 percent of GDP) to allow for higher than programmed obligatory spending (e.g., under budgeted civil service pensions and VAT reimbursements) and transfers to the electricity company. In June 2007, the President announced an amnesty (expiring at end-2007) on penalties related to breaches of tax, customs and foreign exchange legislation.

4. **Monetary growth remained robust and interest rates fell sharply** (Tables 7 and 8)**.** The accumulation of net foreign assets (NFA) has boosted annual growth of M3 and

reserve money. While the Central Bank has mopped up about eighty percent of the liquidity injected by its purchases of foreign exchange, residual liquidity and reduced budgetary financing demands have led to a decline in the average yield on treasury bills to 8.6 percent in November. The monetary authorities have taken actions to strengthen their internal auditing, following bank note thefts of 0.1 percent of GDP uncovered in early 2007.

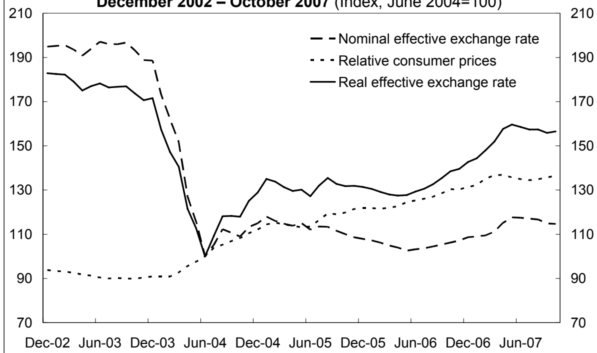




5. **Central bank interventions in the foreign exchange market and a pick up of imports have stabilized the nominal exchange rate since early May.** As agreed during the Article IV consultation, the central bank has intervened in the foreign exchange market to avoid a possible overshooting of the exchange rate. Gross official foreign exchange reserves rose to about 3.3 months of imports (excluding large mining projects imports) at end-October 2007. In conjunction with a pick up in imports during the second quarter, the nominal exchange rate has remained broadly stable since early May.

6. **The trade balance weakened during the first half of 2007**. Cyclones have dampened vanilla exports and over fishing has affected shrimp exports. But stronger export performance by textile export processing zone (EPZ) companies and a few agricultural products suggests that exports remain competitive at the current exchange rate (which appreciated by 13 percent in real effective terms year-on-year at end-October). Imports have been stronger than anticipated primarily due to EPZ and mining project-related imports.

Madagascar: Real and Nominal Effective Exchange Rate and Relative Prices, December 2002 – October 2007 (Index, June 2004=100)



Sources: INS.

7. **Performance under the PRGF arrangement has been mixed**. At end-December 2006, two performance criteria (PC) were missed (MEFP, Tables 1 and 2): the ceiling on central government domestic financing and the structural PC on no waiver of established procedures for valuation and clearance of goods at customs. In light of the spending cuts implemented in 2007 to offset the underestimation of obligatory spending (¶3 and MEFP, ¶3) and the remedial actions reported in the Managing Director's report on noncomplying disbursement, the authorities have requested a waiver for the PC nonobservance. At end-June 2007, the PC for the floor on tax revenue (MEFP, Table 3) was missed. Given the corrective steps to strengthen revenue administration (MEFP ¶23), the authorities have also requested a waiver for the nonobservance of this PC. Two structural PCs were missed (MEFP, Table 4): the recapitalization of the central bank (implemented with a two month delay relative to end-March) and the issuance of quarterly commitment ceilings (implemented with a three week delay relative to end-June). Given these limited delays, the authorities have requested a waiver for the nonobservance of these PCs. The authorities have requested postponing four benchmarks on trade policy, public financial management (PFM) and electricity sector reforms from 2007 to 2008. As planned, the authorities raised water and electricity prices by 15 percent in October 2007 (MEFP ¶48).

III. Economic and Financial Policies for 2007–08

A. Revised Program for 2007

8. **The 2007 program was revised owing to the large FDI inflows and the associated appreciation of the domestic currency**. Real GDP growth was increased due to the construction of the two large mining projects (¶2). The (end-of-period) inflation target was raised modestly owing to the rise in international oil prices. The revenue floor was reduced because of the lower domestic currency equivalent of external trade taxes, and the net domestic financing ceiling was increased accordingly (MEFP, Table 3). The NFA floor was raised in light of the foreign exchange purchases to stem the appreciation of the currency, and the net domestic assets (NDA) were lowered to keep reserve money in line with the inflation objective.

B. Economic and Financial Policies for 2008

9. **The medium-term macroeconomic outlook has changed little compared to the 2007 Article IV Staff Report** (Table 9). A major impetus to growth will continue to be the construction of the mining projects, which are projected to be more frontloaded, and somewhat stronger exports. As a result, the current account deficit should peak at about 24 percent of GDP in 2008 and then decline to about 8 percent of GDP by 2011 as mining exports commence. Annual real GDP growth should more than double compared to the average for the past decade, reaching 8 percent on average over 2008–11, while inflation is expected to continue on its downward path to 5 percent.

10. **The macroeconomic framework for 2008 aims to consolidate the progress achieved in 2007**. The program plans to sustain economic growth, further reduce inflation, promote fiscal consolidation, and emphasize PRSP spending.

11. **The 2008 budget approved by Parliament is closely aligned with the MAP priorities**. In order to make room for private sector development, it allows only limited recourse to domestic financing. Tax revenue is targeted to increase by 0.7 percent of GDP, based on steadfast implementation of revenue administration reforms, against the background of a revenue enhancing tax policy reform (¶12). Total expenditure is expected to increase slightly (by about 0.2 percent of GDP), with PRSP priority spending growing in line with nominal GDP. [1] To increase fiscal transparency, the fiscal program includes about 0.1 percent of GDP of transfers to the central bank for anticipated sterilization costs (TMU, Table 1). The authorities have set aside a budgetary contingency of 0.3 percent of GDP to avoid the past experience of ad-hoc spending cuts during the year (MEFP, ¶17).

[1] Should external support be higher than expected, the program's targets would not be adjusted upward by up to SDR 30 million or 0.5 percent of GDP to accommodate related spending. The ceiling and adjustor will apply to grants and concessional debt, with no new nonconcessional loans permitted under the program (TMU, ¶¶3 and 30).

Madagascar: Fiscal Indicators, 2007-08
(Percent of GDP) [1]

	2007 (a)	2008 (b)	(b) - (a)
Total revenue and grants	16.2	16.3	0.1
Tax revenue	10.9	11.6	0.7
Nontax revenue	0.2	0.2	0.0
Grants	5.1	4.5	-0.6
Total expenditure (commitment basis)	20.7	20.9	0.2
Current expenditure	11.3	10.9	-0.4
Capital expenditure	9.5	10.0	0.6
Overall balance (commitment basis, including grants)	-4.5	-4.6	-0.1
Overall balance (cash basis, including grants)	-4.7	-4.9	-0.2
Foreign financing	3.3	4.1	0.8
Domestic financing	1.4	0.8	-0.7
Memorandum items:			
PRSP Priority spending	11.5	11.5	0.1
Domestic financing (program definition) [2]	0.4	0.4	0.0

Sources: Ministry of Economy, Finance, and Budget; and IMF staff estimates.

[1] Aggregates may differ from the sum of components due to rounding.
[2] See Table 4a, footnote 7.

12. **The landmark tax reform and the overhaul of tax administration will be most useful to achieving the program's revenue objectives.** Building on FAD recommendations, the 2008 budget reduces the number of taxes from 28 to 14, consolidates the income tax regime into a single 25 percent flat tax, raises the VAT threshold, and increases the VAT rate from 18 to 20 percent. Legislation will also be proposed to close the EPZ regime (while grandfathering existing EPZ firms) as part of a new export promotion law (MEFP, ¶52 and proposed PC, Table 6). The authorities will continue implementing the priority action plans to strengthen the tax and customs administration of large and medium-sized tax payers and will undertake a review of the fiscal regime for mining projects (MEFP, ¶¶20-31).

13. **Advancing the PFM agenda will be critical to improving budget execution and strengthening public finances.** The authorities will continue to implement their rolling priority action plan, which was updated in close collaboration with donors, to strengthen budget preparation, monitoring, and execution (proposed PC on quarterly commitment ceilings to avoid repetition of past expenditure overruns, MEFP, Table 6). They will give priority attention to the deployment and use of the budget information system (SIGFP) and will decentralize part of capital expenditure to improve the local provision of public goods. They will also pave the way for strengthening public finances by preparing measures to eliminate the structural deficit of the pay-as-you go civil service pension funds, and further implementing the Extractive Industry Transparency Initiative (EITI) (MEFP ¶¶17, 32-35, and 53).

14. **Implementing a monetary and exchange rate policy to avoid an overshooting of the exchange rate and maintain single digit inflation remains a priority.** With the construction phase of the large mining projects getting fully underway in 2008, the program

anticipates a rise in the demand for money that will be accommodated by a large increase in foreign exchange reserves, part of which will be sterilized. However, should monetary growth deviate from the program path, the monetary authorities are prepared to increase open market operations to maintain single digit inflation (MEFP, ¶¶36-39).

15. **The financial independence of the central bank will be solidified**. To complement its recent recapitalization, the central bank will develop a cost control plan with technical assistance by MCM. The government has agreed that profits will not be distributed until the central bank has achieved a capital base of at least 10 percent of reserve money. The central bank will also review its foreign exchange reserves management guidelines and update the central bank act to ensure consistency with requirements of the Southern African Development Community (SADC) (MEFP ¶¶40-42).

16. **Progress in financial intermediation is needed to increase growth.** As part of the development of a financial sector strategy in close collaboration with the World Bank and the Fund, the authorities are setting up a credit registry, implementing a real-time payments system, and stepping up supervision of financial institutions. The feasibility of establishing a development bank is being investigated (MEFP, ¶43). Staff have emphasized the importance of ensuring transparency, adequate governance mechanisms, and limiting fiscal risks if a development bank is set up.

17. **Further trade liberalization is underway but progress in simplifying the tariff structure has stalled**. Madagascar has started to phase out its imports duties on imports from the SADC with a view to fully eliminating them by 2012 (MEFP, ¶44). Madagascar reached an interim agreement with the European Commission that covers market access, fisheries and development issues of the Economic Partnership Agreement (EPA). This agreement secures Madagascar favorable market access to the European Union (EU) and Madagascar will phase out customs tariffs for about 80 percent of its imports from the EU over 15 years. Negotiations on other aspects of the EPA will continue in 2008. The near-term revenue impact of the EPA and the free trade agreement with SADC will be minimal and more than offset by the increase in VAT rate in 2008 (¶12).

18. **Progress in electricity sector reform is indispensable to foster growth**. To ensure a move towards financial balance, the authorities have committed to: (i) two more 15 percent electricity price increases during the year through October 2008; (ii) subsequent implementation of an automatic pricing formula; and (iii) government transfers of 0.3 percent of GDP in 2008 to finance priority rehabilitation investments. However, there have been delays in elaborating a medium-term strategy for private sector involvement. The authorities have decided to extend the current management team until the end of 2008 and to launch a tender for a new management contract for 2009–13 (MEFP, ¶¶47-50).

IV. Program Monitoring and Targets

19. **The arrangement will be reviewed semi-annually.** The program sets quantitative performance criteria for end-January 2008 (cumulative since end-December 2006) and end-June 2008, and indicative targets for end-March, end-September and end-December 2008 (MEFP, Tables 3 and 5). Structural PCs and benchmarks will apply to macro-critical areas of tax policy and administration, PFM, foreign exchange reserves management, and electricity sector reform (MEFP, Table 6). Two continuous PCs on customs procedures have been replaced by a single new PC for 2008, to align conditionality with the modernization of the customs clearing process, and the original continuous PC for no waivers of ad hoc tax or tariff exemptions has been expanded to include "suspensions" in addition to exemptions.

V. Risks

20. **Madagascar's capacity to repay the Fund is adequate but there are risks to program implementation**. Debt indicators under most shocks are expected to remain well below the thresholds of the joint Bank-Fund Debt Sustainability Framework.[2] Terms of trade shocks, cyclones, delays in rehabilitating the electricity sector and pressure for tax incentives could disrupt program implementation.

VI. Staff Appraisal

21. **Program performance has been mixed**. Strong growth, declining inflation and interest rates, and limited recourse to domestic financing of the government point to good overall macroeconomic policy performance. However, several structural reforms have experienced delays, pointing to weaknesses in structural reform planning and execution.

22. **The 2008 budget is aligned with the PRSP priorities and the program's macroeconomic objectives**. It appropriately emphasizes the need to mobilize domestic revenues, finance priority PRSP spending, and strengthen PFM.

23. **The limited tax amnesty sent the wrong signal about the need for improved tax compliance.** Thus, the landmark reform of the tax code in December, which entailed major simplifications, was greatly welcome. The ongoing tax and custom administration reforms will help bolster private-sector led growth and meet the ambitious revenue target to finance priority expenditure.

24. **While there has been progress in strengthening PFM, a lot remains to be done to improve budget execution and strengthen public finances**. The authorities need to fully exploit the potential of the budget information system to strengthen budget preparation,

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[2] Tables 2 and 10 and IMF Country Report No. 07/236, Staff Report, Appendix I.

monitoring and execution. Care will be needed to ensure that the nascent expenditure decentralization safeguards sound budgetary management practices.

25. **Monetary and exchange rate policy needs to continue to be geared towards reducing inflation while preventing an overshooting of the exchange rate**. The central bank should continue to seize the opportunity of expected large mining investment inflows to build up its foreign exchange reserves while mopping up excess liquidity through open market operations. Recent performance suggests that exports remain competitive at the current exchange rate.

26. **Further progress is needed to foster financial sector development**. The authorities' intention to finalize and implement their financial sector strategy is welcome. They should persevere in their efforts to improve conditions for private-led financial sector development, such as the creation of a credit registry or the improvement of the payments system, but refrain from intervening in credit allocation through an eventual development bank or the state-owned savings institution.

27. **Progress in electricity sector reform has been slow. A more ambitious rehabilitation plan for the electricity sector needs to be designed and implemented with urgency**. The authorities need to continue increasing electricity tariffs, finance urgent rehabilitation investment, and implement an automatic pricing formula to pave the way for a more fundamental restructuring and development of the electricity sector which will require significant financing.

28. **The risks to the program appear manageable**. The authorities are using technical assistance from various sources to strengthen their capacity to implement structural reforms in the core areas of the program.

29. In view of the authorities' achievement in macroeconomic management and the corrective actions to address slippages, staff recommends that the requested waivers be granted and that the second and third reviews of the PRGF arrangement be completed.

Table 1. Madagascar: Tentative Work Program Under the Three-Year PRGF Arrangement, 2006–08

Date	Action	Disbursement
On or after October 31, 2007	Board consideration of the second and third reviews	SDR 15.712 million
On or after April 30, 2008	Board consideration of the fourth review	SDR 7.856 million
On or after October 31, 2008	Board consideration of the fifth review	SDR 7.856 million
On or after April 30, 2009	Board consideration of the sixth review	SDR 7.854 million

Table 2. Madagascar: Selected Economic and Financial Indicators, 2005–09

	2005	2006	2007			2008		2009	
			Prog.[1]	Proj.[2]	Rev. Proj.	Rev. Proj.[2]	Prog.	Proj.[2]	Rev. Proj.
			(Percentage change, unless otherwise indicated)						
National income and prices									
Real GDP growth	4.6	5.0	5.6	6.5	6.3	7.3	7.3	7.5	7.5
GDP deflator	17.8	11.5	9.7	9.5	9.3	6.4	7.4	5.6	6.7
Consumer price index (period average)	18.4	10.8	9.6	9.8	10.3	7.1	8.0	5.5	6.1
Consumer price index (end of period)	11.4	10.9	8.0	7.9	8.4	6.0	7.0	5.0	5.0
External sector									
Export of goods volume	16.6	10.2	1.3	3.0	8.0	3.2	8.0	6.8	11.2
Import of goods volume	-13.0	-5.3	2.5	33.9	49.8	16.4	18.8	-0.2	-6.1
Terms of trade (deterioration = –)	-36.6	-5.8	-1.8	3.0	-3.4	-0.6	1.5	0.8	2.0
Money and credit [3]									
Reserve money [4]	11.7	13.3	13.6	21.8	21.7	19.3	22.0	17.1	19.3
Broad money	3.1	25.9	15.5	26.7	22.9	24.1	23.6	19.4	20.5
Net foreign assets	1.9	29.9	5.3	7.1	9.0	7.9	9.6	3.6	11.8
Net domestic assets	1.2	-4.0	10.1	19.6	13.9	16.2	14.0	15.9	8.6
Credit to government	-5.3	-16.2	0.5	4.4	4.5	-0.1	0.6	-0.1	0.0
Credit to the private sector [4]	22.4	19.5	23.0	29.4	25.0	37.0	26.0	32.2	19.7
Velocity of money (M3; average)	4.6	4.3	4.6	4.0	4.1	3.6	3.8	3.5	3.6
			(Percent of GDP)						
Public finance									
Total revenue (excluding grants)	10.9	11.2	11.4	11.1	11.1	11.6	11.8	12.1	12.3
Of which : tax revenue	10.1	10.7	11.2	10.9	10.9	11.4	11.6	11.9	12.1
Grants [5]	5.7	47.9	5.1	5.0	5.1	3.5	4.5	3.4	4.4
Total expenditure (commitment basis)	21.2	21.3	20.7	21.7	20.7	19.4	20.9	19.6	20.7
Current expenditure	11.0	11.1	10.4	11.8	11.3	10.2	10.9	10.4	10.1
Capital expenditure	10.3	10.2	10.3	9.9	9.5	9.3	10.0	9.2	10.6
Domestic balance	-2.2	-1.9	-1.4	-2.7	-2.4	-1.3	-1.5	-1.3	-1.1
Overall balance (cash basis, incl. grants)	-4.3	37.4	-4.4	-5.8	-4.7	-4.3	-4.9	-4.1	-4.1
Overall balance (cash basis, excl. grants)	-10.1	-10.5	-9.5	-10.7	-9.8	-7.8	-9.4	-7.5	-8.4
Domestic financing	0.5	-2.4	0.3	1.5	1.4	0.3	0.8	0.4	0.1
Domestic financing [6]	0.8	0.4	0.1	0.4	0.4	0.3	0.4	0.2	0.1
Savings and investment									
Investment	22.6	23.2	22.1	29.2	30.0	33.9	34.4	31.7	30.6
Government	10.3	10.2	10.3	9.9	9.5	9.2	10.0	9.2	10.6
Nongovernment	12.3	13.0	11.7	19.3	20.6	24.7	24.3	22.5	20.0
Gross domestic savings	8.4	12.2	9.3	9.9	8.9	11.8	9.4	11.7	12.7
Gross national savings	11.6	14.6	12.2	11.7	10.7	13.0	10.8	12.5	13.6
External sector and public debt									
Exports of goods, f.o.b.	17.0	17.8	15.9	14.5	15.1	12.8	14.6	12.4	14.7
Imports of goods, c.i.f.	33.9	32.4	30.6	33.7	39.5	33.6	41.5	30.2	34.6
Current account balance (excl. grants)	-12.2	-9.8	-10.7	-18.2	-19.7	-21.3	-24.0	-19.6	-17.4
Current account balance (incl. grants)	-10.9	-8.6	-9.9	-17.5	-19.3	-20.9	-23.6	-19.2	-17.0
Public debt	80.3	38.5	34.7	36.4	35.9	34.8	34.4	35.4	34.3
External	69.9	28.7	27.2	26.8	25.9	26.2	25.2	27.5	26.1
Domestic	10.4	9.8	7.4	9.6	9.9	8.6	9.2	7.8	8.1
Net present value (NPV) of external debt									
NPV of debt-to-exports ratio	134.3	38.6	59.4	46.2	40.4	54.1	45.6	60.9	50.5
NPV of debt-to-fiscal revenue ratio	215.0	64.3	93.8	71.2	68.4	78.1	72.0	83.3	77.7
			(Units as indicated)						
Gross official reserves (millions of SDRs)	337.4	381.6	391.8	460.3	495.5	554.7	633.5	623.8	760.6
Months of imports of goods and services	2.9	3.0	3.0	2.7	2.6	2.7	2.7	2.9	3.4
Months of imports, excl. large mining projects	...	...	...	3.3	3.3	3.6	3.7	3.7	4.1
Financing gap (millions of SDRs)	0.0	0.0	15.7	15.7	0.0	15.7	23.6	7.9	15.7
Ariary per SDR (period average)	2,958	3,146	...	...	...	...	...	...	...
Real effective exchange rate (period average, percent change)	5.7	0.6	-0.1	16.1	18.3	10.0	8.5	0.0	0.0
Ariary per U.S. dollar (period average)	2,006	2,142	...	...	...	...	...	...	...
GDP per capita (U.S. dollars)	270	288	319	374	369	439	430	473	464
Nominal GDP (billions of ariary)	10,093	11,815	13,622	13,729	13,727	15,677	15,813	17,788	18,135

Sources: Malagasy authorities and IMF staff estimates and projections.

[1] IMF Country Report No. 07/7, Republic of Madagascar: First Review under the Three-Year Arrangement under the PRGF.

[2] IMF Country Report No. 07/236; Republic of Madagascar-Staff Report for the 2007 Article IV Consultation.

[3] Growth in percent of beginning of period money stock (M3).

[4] Year-on-year growth.

[5] Includes MDRI capital transfers in 2006.

[6] Program definition: see Table 4a, footnote 7.

Table 3. Madagascar: National Accounts and Savings-Investment Balance, 2005–09

		2005	2006	2007		2008		2009	
			Est.	Proj.[1]	Rev. Proj.	Proj.[1]	Prog.	Proj.[1]	Rev. Proj.
	Share of GDP in 2004								
Real supply side growth				(Percentage change)					
Primary sector	0.32	2.5	2.1	2.6	1.9	3.2	3.2	3.2	3.2
Agriculture	0.15	4.5	2.6	2.3	2.9	3.5	3.5	3.5	3.5
Cattle and fishing	0.14	0.8	1.9	3.2	1.0	3.2	3.2	3.2	3.2
Forestry	0.03	1.0	1.0	1.0	1.0	1.5	1.5	1.5	1.5
Secondary sector	0.12	2.4	4.2	6.4	9.0	6.6	7.6	7.1	7.6
Food and drink	0.04	0.3	3.6	9.3	9.9	9.2	9.9	9.2	9.9
Export processing zone	0.02	-3.7	5.0	0.0	8.3	0.0	4.0	0.0	2.5
Energy	0.01	2.5	4.4	5.6	5.6	5.6	5.6	5.6	5.6
Extractive industry	0.00	4.4	9.1	10.5	10.5	11.5	11.5	31.6	28.3
Other	0.04	8.2	11.0	5.9	9.5	6.3	7.2	6.1	6.5
Tertiary sector[2]	0.45	9.3	6.8	8.9	4.8	10.1	7.5	10.3	8.1
Transportation	0.15	5.3	7.3	9.3	8.8	10.9	10.9	10.8	10.8
Services	0.12	18.3	5.6	8.4	-3.6	9.6	0.8	9.6	1.1
Trade	0.10	4.5	4.3	7.3	6.1	8.9	8.9	8.9	8.9
Public administration	0.05	3.0	2.1	2.5	3.0	4.1	3.0	5.6	5.6
Public works/construction	0.03	20.8	25.1	22.8	18.8	18.1	17.0	18.0	17.3
Indirect taxes	0.12	-5.4	6.4	6.7	22.3	6.7	15.9	6.7	14.4
Real GDP at market prices	1.00	4.6	5.0	6.5	6.3	7.3	7.3	7.5	7.5
Nominal demand side composition				(Percent of GDP)					
Resource balance	-14.1	-14.2	-11.0	-19.3	-21.1	-22.1	-24.9	-20.0	-17.9
Imports of goods and nonfactor services	41.0	41.0	40.8	44.0	48.5	43.9	50.6	41.2	43.5
Exports of goods and nonfactor services	26.9	26.9	29.8	24.7	27.4	21.8	25.7	21.2	25.6
Current account balance (including grants) = (S-I)	-10.9	-10.9	-8.6	-17.5	-19.3	-20.9	-23.6	-19.2	-17.0
Consumption	91.6	91.6	87.8	90.1	91.1	88.2	90.6	88.3	87.3
Government	8.4	8.4	8.8	9.9	9.9	8.7	9.6	9.1	9.1
Nongovernment	83.2	83.2	79.1	80.2	81.2	79.4	80.9	79.1	78.3
Investment	22.5	22.6	23.2	29.2	30.0	33.9	34.4	31.7	30.6
Government	10.3	10.3	10.2	9.9	9.5	9.2	10.0	9.2	10.6
Non-government	12.3	12.3	13.0	19.3	20.6	24.7	24.3	22.5	20.0
Of which : foreign direct investment	1.7	1.7	4.0	11.5	13.6	15.3	18.0	13.1	10.9
National savings	11.7	11.6	14.6	11.7	10.7	13.0	10.8	12.5	13.6
Government[3]	5.9	6.0	6.2	4.1	4.7	4.9	5.1	5.1	6.5
Nongovernment	5.7	5.7	8.4	7.6	6.0	8.1	5.7	7.3	7.1
Memoranda items:				(Billions of ariary)					
Nominal GDP (at market prices)	8,190	10,093	11,815	13,729	13,727	15,677	15,813	17,788	18,135
Net factor income	-370	-157	-171	-154	-107	-171	-157	-247	-231
Transfers[4]	3,545	805	5,964	938	956	812	975	883	1,076
Nominal GNP	11,365	10,741	17,608	14,513	14,576	16,317	16,631	18,423	18,980

Sources: Malagasy authorities and IMF staff estimates.

[1] IMF Country Report No. 07/236; Republic of Madagascar-Staff Report for the 2007 Article IV Consultation.

[2] Includes non-inputed banking services.

[3] Excluding MDRI capital transfers in 2006.

[4] Including MDRI capital transfers in 2006.

Table 4a. Madagascar: Government Financial Operations, 2005–09
(Billions of ariary, unless otherwise indicated)

	2005	2006	2007			2008		2009	
		Est.	Prog.[1]	Proj.[2]	Rev. Proj.	Rev. Proj.[2]	Prog.	Proj.[2]	Rev. Proj.
Total revenue and grants	1,682.2	6,978.5	2,251.4	2,205.1	2,222.7	2,370.2	2,569.7	2,762.4	3,018.7
Total revenue and grants (excl. MDRI capital transfers)	...	2,116.1	...	...	...	...	...	...	...
Total revenue	1,102.7	1,323.1	1,552.1	1,521.1	1,521.1	1,815.2	1,862.1	2,148.6	2,226.3
Tax revenue	1,020.0	1,260.8	1,523.8	1,492.8	1,492.8	1,782.9	1,827.1	2,111.9	2,186.1
Domestic taxes	529.0	631.9	765.8	773.7	773.7	989.8	921.9	1,222.6	1,129.8
Taxes on foreign trade	491.0	628.9	758.0	719.1	719.1	793.0	905.2	889.3	1,056.3
Nontax revenue	82.8	62.2	28.3	28.3	28.3	32.3	35.0	36.7	40.2
Grants	579.5	5,655.4	699.3	684.1	701.6	555.0	707.6	613.9	792.4
Current grants	141.0	173.2	150.5	132.0	102.7	98.8	111.0	107.5	120.3
Capital grants	438.5	5,482.2	548.8	552.1	598.9	456.2	596.6	506.4	672.0
Project grants	438.5	619.8	548.8	552.1	598.9	456.2	596.6	506.4	672.0
Capital transfers MDRI	...	4,862.4	...	...	...	...	...	...	...
Total expenditure (commitment basis)	2,145.5	2,521.3	2,822.4	2,973.3	2,847.0	3,047.7	3,303.8	3,489.1	3,755.3
Current expenditure	1,107.2	1,312.5	1,415.6	1,617.0	1,549.1	1,596.3	1,718.0	1,847.4	1,835.1
Personnel	456.4	589.9	721.1	721.1	721.1	836.1	810.6	965.8	929.6
Interest obligations	266.6	284.8	221.1	251.2	190.0	230.4	192.9	220.7	187.6
Foreign interest obligations [3]	97.9	55.5	21.5	33.5	22.6	36.4	32.2	42.2	36.6
Domestic interest obligations	168.7	229.3	199.6	217.6	167.4	193.9	160.7	178.5	151.1
Other	300.0	381.1	459.7	475.7	437.2	462.4	642.0	584.4	634.7
Of which : transfers to central bank	...	...	...	...	...	0.0	19.4	...	...
Treasury operations (net) [4]	84.2	56.7	13.7	169.0	200.8	67.4	72.5	76.4	83.1
Of which : central bank recap.	...	...	0.0	110.0	110.8	...	...	...	...
Capital expenditure	1,038.3	1,208.8	1,406.8	1,356.3	1,297.9	1,451.4	1,585.7	1,641.7	1,920.2
Domestically financed	304.8	286.2	349.0	306.5	326.5	466.2	416.6	567.3	622.9
		45.2	85.0	85.0	74.0	105.0	130.8		
Foreign-financed	733.5	922.6	1,057.8	1,049.8	971.4	985.3	1,169.1	1,074.4	1,297.3
Domestic balance (commitment basis) [5]	-219.8	-230.0	-191.0	-368.9	-331.9	-210.8	-240.3	-223.9	-195.2
Float [6]	44.9	-28.6	-3.3	0.0	0.0	0.0	0.0	0.0	0.0
Variation of domestic arrears	-10.9	-4.7	-23.4	-23.4	-22.1	0.0	-38.5	0.0	0.0
Overall balance (cash basis)									
Excluding grants	-1,017.2	-1,241.4	-1,297.0	-1,475.7	-1,348.1	-1,232.5	-1,480.1	-1,340.6	-1,529.0
Including grants	-437.7	4,414.0	-597.8	-791.6	-646.4	-677.5	-772.5	-726.7	-736.6
Including grants, excl. MDRI capital transfers and central bank recap.	...	-448.4	-597.8	-667.5	-529.0	...	...	...	...
Financing	437.7	-4,414.0	597.8	791.6	646.4	677.5	772.5	726.7	736.6
Foreign (net)	387.8	-4,133.2	560.3	585.3	448.2	631.5	649.1	683.0	713.3
Drawings	454.5	467.2	634.4	605.3	476.7	651.6	686.0	704.1	753.3
Amortization [3]	-177.0	-4,600.4	-74.1	-20.0	-28.5	-20.5	-36.9	-21.5	-40.3
External debt relief	110.3	0.0	0.0	0.0	0.0	0.4	0.0	0.4	0.4
Domestic (net)	49.4	-285.8	37.5	202.3	194.3	46.0	123.4	43.7	23.3
Banking system	-111.6	-352.2	12.1	120.5	123.3	-5.0	21.7	-5.0	0.0
Of which: MDRI account	...	-325.5	36.2	36.2	36.2	36.2	32.6	36.2	32.6
Nonbanking system	120.0	73.5	25.4	81.8	71.0	51.0	101.7	48.7	23.3
Treasury correspondent accounts (net)	41.0	-7.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts	0.6	5.0	0.0	4.0	4.0	0.0	0.0	0.0	0.0
Memorandum items:									
MDRI flow debt-service savings	...	65.5	111.6	101.1	99.2	104.8	101.7	115.4	112.6
Net domestic financing [7]	84.0	47.6	10.8	58.8	58.7	46.0	65.6	43.7	23.3
Priority spending [8]	1,133.9	1,412.3	1,619.3	1,500.8	1,574.7	...	1,825.9	...	...

Sources: Ministry of Economy, Finance, and Budget; and IMF staff estimates and projections.

[1] IMF Country Report No. 07/7, Republic of Madgascar: First Review under the Three-Year Arrangement under the PRGF.

[2] IMF Country Report No. 07/236; Republic of Madagascar-Staff Report for the 2007 Article IV Consultation.

[3] After MDRI debt relief from 2006 onward.

[4] Includes annexed budgets of quasi-public entities (i.e. port authorities, post office, government printing office, civil service, retirement funds, and correspondent accounts of local authorities).

[5] Total revenue minus expenditure, excluding foreign interest payments and foreign-financed capital expenditure.

[6] Difference between committed and paid expenditure.

[7] Program definition : banking system, nonbanking system, Treasury correspondent accounts, privatization receipts, float, and variation in arrears, excluding capital transfer flowing from MDRI assistance from IMF via central bank in 2006, transfers to recapitalize the central bank in 2007, interest payment on central bank recapitilization bond in 2007, and transfers to the central bank to defray sterilization costs in 2008 (TMU, ¶12).

[8] Spending of education, health, agriculture, public works and tranport, justice, environment, energy and mining ministries.

Table 4b. Madagascar: Government Financial Operations, 2005–09
(Percent of GDP, unless otherwise indicated)

	2005	2006	2007			2008		2009	
		Est.	Prog.[1]	Proj.[2]	Rev. Proj.	Rev. Proj.[2]	Prog.	Proj.[2]	Rev. Proj.
Total revenue and grants	16.7	59.1	16.5	16.1	16.2	15.1	16.3	15.5	16.6
Total revenue and grants (excl. MDRI capital transfers)	...	17.9	...	...	...	...	...	...	...
Total revenue	10.9	11.2	11.4	11.1	11.1	11.6	11.8	12.1	12.3
Tax revenue	10.1	10.7	11.2	10.9	10.9	11.4	11.6	11.9	12.1
Domestic taxes	5.2	5.3	5.6	5.6	5.6	6.3	5.8	6.9	6.2
Taxes on foreign trade	4.9	5.3	5.6	5.2	5.2	5.1	5.7	5.0	5.8
Nontax revenue	0.8	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	5.7	47.9	5.1	5.0	5.1	3.5	4.5	3.5	4.4
Current grants	1.4	1.5	1.1	1.0	0.7	0.6	0.7	0.6	0.7
Capital grants	4.3	46.4	4.0	4.0	4.4	2.9	3.8	2.8	3.7
Project grants	4.3	5.2	4.0	4.0	4.4	2.9	3.8	2.8	3.7
Capital transfers MDRI	...	41.2	...	...	...	...	...	...	...
Total expenditure (commitment basis)	21.2	21.3	20.7	21.7	20.7	19.4	20.9	19.6	20.7
Current expenditure	11.0	11.1	10.4	11.8	11.3	10.2	10.9	10.4	10.1
Personnel	4.5	5.0	5.3	5.3	5.3	5.3	5.1	5.4	5.1
Interest obligations	2.6	2.4	1.6	1.8	1.4	1.5	1.2	1.2	1.0
Domestic Interest	1.7	1.9	1.5	1.6	1.2	1.2	1.0	1.0	0.8
Foreign Interest [3]	1.0	0.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	3.0	3.2	3.4	3.5	3.2	2.9	4.1	3.3	3.5
Treasury operations [4]	0.8	0.5	0.1	1.2	1.5	0.4	0.5	0.4	0.5
Of which : central bank recap.	...	...	0.0	0.8	0.8	...	...	...	...
Capital expenditure	10.3	10.2	10.3	9.9	9.5	9.3	10.0	9.2	10.6
Domestically financed expenditure	3.0	2.4	2.6	2.2	2.4	3.0	2.6	3.2	3.4
Foreign-financed expenditure	7.3	7.8	7.8	7.6	7.1	6.3	7.4	6.0	7.2
Domestic balance (commitment basis) [5]	-2.2	-1.9	-1.4	-2.7	-2.4	-1.3	-1.5	-1.3	-1.1
Float [6]	0.4	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Variation of domestic arrears	-0.1	0.0	-0.2	-0.2	-0.2	0.0	-0.2	0.0	0.0
Overall balance (cash basis)									
Excluding grants	-10.1	-10.5	-9.5	-10.7	-9.8	-7.9	-9.4	-7.5	-8.4
Including grants	-4.3	37.4	-4.4	-5.8	-4.7	-4.3	-4.9	-4.1	-4.1
Including grants, excl. MDRI capital transfers and central bank recap.	...	-3.8	-4.4	-4.9	-3.9	...	...	...	...
Financing	4.3	-37.4	4.4	5.8	4.7	4.3	4.9	4.1	4.1
Foreign (net)	3.8	-35.0	4.1	4.3	3.3	4.0	4.1	3.8	3.9
Drawings	4.5	4.0	4.7	4.4	3.5	4.2	4.3	4.0	4.2
Budget	1.6	1.4	0.9	0.8	0.8	0.8	0.7	0.8	0.7
Projects	2.9	2.6	3.7	3.6	2.7	3.4	3.6	3.2	3.4
Amortization [3]	-1.8	-38.9	-0.5	-0.1	-0.2	-0.1	-0.2	-0.1	-0.2
External debt relief	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	0.5	-2.4	0.3	1.5	1.4	0.3	0.8	0.2	0.1
Banking sector	-1.1	-3.0	0.1	0.9	0.9	0.0	0.1	0.0	0.0
Nonbanking sector	1.2	0.6	0.2	0.6	0.5	0.3	0.6	0.3	0.1
Treasury correspondent accounts	0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Nominal GDP (billions of ariary)	10,093	11,815	13,622	13,729	13,727	15,677	15,813	17,788	18,135
MDRI flow debt-service savings	...	0.6	0.8	0.7	0.7	0.7	0.6	0.6	0.6
Net domestic financing, program definition. [7]	0.8	0.4	0.1	0.4	0.4	0.3	0.4	0.2	0.1
Priority spending [8]	11.2	12.0	11.9	10.9	11.5	…	11.5	…	…
Net external aid [9]	8.6	9.4	9.1	9.0	8.2	7.3	8.4	7.1	8.1

Sources: Ministry of Economy, Finance, and Budget; and IMF staff estimates and projections.

[1] See Table 4a, footnote 1.

[2] See Table 4a, footnote 2.

[3] See Table 4a, footnote 3.

[4] See Table 4a, footnote 4.

[5] See Table 4a, footnote 5.

[6] See Table 4a, footnote 6.

[7] See Table 4a, footnote 7.

[8] See Table 4a, footnote 8.

[9] Foreign grants and loans, less debt service (excluding MDRI capital transfers in 2006).

Table 5. Madagascar: Quarterly Government Financial Operations, 2007
(Billions of ariary, cumulated since the beginning of the year)

	March		June		September			December		
	Prog.[1]	Est.	Prog.[1]	Est.	Prog.[1]	Proj.[2]	Est.	Prog.[1]	Proj.[2]	Rev. Proj.
Total revenue and grants	501.6	382.0	1,135.6	1,019.6	1,659.1	1,558.4	1,528.7	2,251.4	2,205.1	2,222.7
Total revenue	340.8	299.3	767.2	734.5	1,154.9	1,105.3	1,109.4	1,552.1	1,521.1	1,521.1
Tax revenue	339.7	292.2	761.3	718.8	1,136.9	1,087.3	1,088.5	1,523.8	1,492.8	1,492.8
Domestic taxes	162.1	138.8	392.3	381.3	574.0	574.8	532.8	765.8	773.7	773.7
Taxes on foreign trade	177.5	153.4	369.0	337.5	563.0	512.5	555.7	758.0	719.1	719.1
Nontax revenue	1.1	7.1	5.9	15.7	17.9	17.9	20.9	28.3	28.3	28.3
Grants	160.8	82.7	368.4	285.1	504.2	453.1	419.3	699.3	684.1	701.6
Current grants	7.2	55.4	88.5	73.2	92.7	107.3	82.5	150.5	132.0	102.7
Capital grants	153.7	27.3	279.9	211.9	411.6	345.8	336.8	548.8	552.1	598.9
Total expenditure (commitment basis)	721.2	453.1	1,378.4	1,219.7	2,065.0	2,139.8	1,793.4	2,822.4	2,973.3	2,847.0
Current expenditure	363.8	319.7	705.7	808.8	1,044.9	1,217.0	1,120.1	1,415.6	1,617.0	1,549.1
Personnel	180.3	161.5	360.6	331.9	540.8	540.8	536.7	721.1	721.1	721.1
Interest expenditure	54.5	73.3	115.2	110.0	163.0	186.3	124.9	221.1	251.2	190.0
Foreign interest obligations [3]	1.9	3.3	11.4	9.9	12.8	23.2	14.3	21.5	33.5	22.6
Domestic interest obligations	52.6	70.0	103.8	100.1	152.2	163.1	110.6	199.6	217.6	167.4
Other	120.2	65.6	217.2	205.1	328.2	337.8	295.5	459.7	475.7	437.2
Treasury operations (net) [4]	8.9	19.3	12.7	161.8	12.8	154.0	163.1	13.7	169.0	200.8
Of which: central bank recap.	0.0	0.0	0.0	110.8	0.0	110.0	110.8	0.0	110.0	110.8
Capital expenditure	357.4	133.4	672.7	410.9	1,020.1	922.8	673.3	1,406.8	1,356.3	1,297.9
Domestically financed	61.2	41.5	133.2	88.1	226.7	199.2	183.4	349.0	306.5	326.5
Foreign financed	296.2	91.9	539.5	322.8	793.4	723.6	489.9	1,057.8	1,049.8	971.4
Overall balance (commitment basis)										
Excluding grants	-380.5	-153.9	-611.2	-485.2	-910.1	-1,034.5	-684.0	-1,270.3	-1,452.3	-1,325.9
Including grants	-219.7	-71.1	-242.8	-200.1	-405.8	-581.5	-264.7	-571.1	-768.2	-624.3
Including grants, excluding central bank recapitalization	-219.7	-71.1	-242.8	-89.3	-405.8	-461.9	-153.9	-571.1	-644.1	-506.9
Domestic balance (commitment basis) [5]	-82.4	-58.7	-60.3	-152.5	-104.0	-287.7	-179.8	-191.0	-368.9	-331.9
Float [6]	-10.0	-20.6	17.2	20.9	9.2	38.1	0.1	-3.3	0.0	0.0
Variation of domestic arrears	-23.4	0.0	-23.4	-22.1	-23.4	-23.4	-22.1	-23.4	-23.4	-22.1
Overall balance (cash basis)										
Excluding grants	-413.9	-174.5	-617.4	-486.5	-924.3	-1,019.8	-706.0	-1,297.0	-1,475.7	-1,348.1
Including grants	-253.1	-91.7	-249.0	-201.3	-420.0	-566.7	-286.7	-597.8	-791.6	-646.4
Including grants, excluding central bank recapitalization	-253.1	-91.7	-249.0	-90.5	-420.0	-447.2	-175.9	-597.8	-667.5	-529.0
Financing	253.1	91.7	249.0	201.3	420.0	566.7	286.7	597.8	791.6	646.4
Foreign (net)	132.7	61.0	259.5	95.3	459.6	469.8	237.4	560.3	585.3	448.2
Drawings	142.5	64.6	294.8	110.9	507.2	485.3	257.3	634.4	605.3	476.7
Budget	0.0	0.0	35.2	0.0	125.4	107.5	104.2	125.4	107.5	104.2
Projects	142.5	64.6	259.6	110.9	381.8	377.8	153.1	509.0	497.8	372.5
Amortization [3]	-9.8	-3.6	-35.2	-15.6	-47.6	-15.5	-19.9	-74.1	-20.0	-28.5
Domestic (net)	120.3	30.1	-10.6	105.4	-39.6	95.5	47.6	37.5	202.3	194.3
Banking system	52.0	-39.1	-4.6	61.6	-41.3	67.9	-52.2	12.1	120.5	123.3
Central bank	2.0	-86.0	5.4	102.1	8.7	92.9	35.8	12.1	150.5	153.3
Of which: MDRI account	9.0	9.0	18.1	18.1	27.1	27.1	27.1	36.2	36.2	36.2
Commercial banks & OPCA	50.0	45.3	-10.0	-43.2	-50.0	-25.0	-91.2	0.0	-30.0	-30.0
Nonbanking system	68.3	83.7	-5.9	5.6	1.7	27.6	10.1	25.4	81.8	71.0
Treasury correspondent accounts (net	0.0	-14.5	0.0	38.2	0.0	0.0	89.7	0.0	0.0	0.0
Privatization receipts	0.0	0.6	0.0	0.6	0.0	1.4	1.7	0.0	4.0	4.0
Memorandum items:										
MDRI flow debt-service savings	27.9	24.8	55.8	49.6	83.7	75.8	74.4	111.6	101.1	99.2
Net domestic financing [7]	86.9	10.1	-16.8	-6.0	-53.8	-7.9	-83.5	10.8	58.8	58.7

Sources: Ministry of Economy, Finance, and Budget; and Fund staff estimates and projections.

[1] See Table 4a, footnote 2.

[2] See Table 4a, footnote 3.

[3] See Table 4a, footnote 4.

[4] See Table 4a, footnote 5.

[5] See Table 4a, footnote 6.

[6] See Table 4a, footnote 7.

[7] See Table 4a, footnote 8.

Table 6. Madagascar: Balance of Payments, 2005–11
(Millions of SDRs)

	2005	2006	2007			2008		2009	2010	2011
		Est.	Prog.[1]	Proj.[2]	Rev. Proj.	Rev. Proj.[2]	Prog.		Proj.	
Current account	-372	-323	-403	-828	-923	-1187	-1333	-1059	-654	-654
Goods and services	-483	-414	-521	-912	-1009	-1255	-1411	-1119	-235	-222
Trade balance	-403	-366	-413	-667	-884	-896	-1167	-917	-45	-11
Exports	578	668	645	688	722	725	827	920	1618	1787
Imports	-982	-1034	-1058	-1355	-1606	-1621	-1994	-1837	-1663	-1798
Of which : big mining projects	...	-87	...	-322	-462	-514	-683	-386	-125	-145
Net services	-80	-48	-109	-245	-125	-359	-243	-202	-190	-211
Income (net)	-53	-54	-43	-53	-37	-62	-56	-80	-560	-578
Receipts	16	20	17	22	28	21	22	23	23	24
Payments	-69	-74	-60	-75	-66	-83	-79	-103	-583	-602
Of which : government interest [3]	-33	-18	-7	-12	-6	-13	-12	-13	-14	-14
Current transfers	164	145	161	138	124	130	133	139	141	146
Government	44	46	32	34	20	23	26	29	30	33
Budget aid	53	55	44	44	30	36	39	41	45	48
Other (net) [4]	-10	-8	-12	-10	-10	-13	-13	-13	-15	-15
Private	120	99	129	104	104	107	107	110	111	112
Capital and financial account	313	483	418	883	1028	1266	1448	1170	725	724
Capital account [5]	109	1750	164	185	209	164	215	231	254	276
Of which : MDRI grant for debt due after 2006	...	1553	...	...	...	...	...	...	...	...
Financial account	183	-1188	254	698	819	1101	1232	939	470	448
Direct investment	58	150	87	543	651	866	541	360	205	243
Other	125	-1338	167	154	168	235	691	578	266	205
Government	120	-1286	167	202	192	227	235	246	257	267
Drawing	180	182	189	208	200	235	248	259	272	286
Project drawings	126	129	152	171	163	191	207	215	224	233
Budgetary support	54	52	37	37	37	44	41	44	48	53
Amortization [5]	-60	-1468	-22	-7	-8	-7	-13	-14	-16	-19
Of which : IDA and AfDF loans	...	-1431	...	...	...	...	...	...	...	...
Private sector, net (including banks)	6	-52	0	-47	-24	8	456	333	9	-61
Other (incl. errors and omissions)	21	-80	0	0	0	0	0	0	0	0
Overall balance	-60	159	15	55	106	79	114	111	71	69
Financing	60	-159	-31	-71	-106	-94	-138	-127	-71	-69
Central bank (net; increase = –)	25	-174	-31	-71	-106	-94	-138	-127	-71	-69
Use of IMF credit (net)	3	-129	0	8	8	0	0	0	-1	-2
Other assets, net (increase = –)	22	-44	-31	-79	-114	-94	-138	-127	-70	-67
Debt relief and cancellation	34	14	0	0	0	0	0	0	0	0
Residual financing gap	0	0	16	16	0	16	24	16	0	0
Possible IMF financing	…	0	16	16	0	16	24	16	0	0
Memorandum items:										
Grants (percent of GDP)	4.5	6.5	4.8	4.6	4.8	3.3	4.3	4.2	4.0	4.0
Loans (percent of GDP)	3.5	-34.2	4.1	4.3	4.0	4.0	4.2	3.9	3.6	3.4
Direct investment (percent of GDP)	1.7	4.0	2.1	11.5	13.6	15.3	9.6	5.8	2.9	3.1
Current account (percent of GDP)										
Excluding net official transfers	-12.2	-9.8	-10.7	-18.2	-19.7	-21.3	-24.0	-17.4	-9.7	-8.8
Including net official transfers	-10.9	-8.6	-9.9	-17.5	-19.3	-20.9	-23.6	-17.0	-9.3	-8.4
Debt service (percent of exports of goods) [6]	8.1	2.6	3.7	2.8	2.0	2.8	3.0	2.9	1.8	1.9
Gross official reserves	337	382	392	460	495	555	634	761	831	898
Months of imports of goods and nonfactor services	2.9	3.0	3.0	2.7	2.6	2.7	2.7	3.4	3.8	3.8
Months of imports, excl. large mining projects	...	...	...	3.3	3.3	3.6	3.7	4.1	4.0	4.0
Exchange rate (ariary/SDR, period average)	2959	3146	3350	2904	2871	...	...	...	...	...

Sources: Central Bank of Madagascar, Ministry of Finance, IMF Finance Dept., and IMF staff estimates and projections.

[1] IMF Country Report No. 07/7, Republic of Madagascar: First Review under the Three-Year Arrangement under the PRGF.
[2] IMF Country Report No. 07/236; Republic of Madagascar-Staff Report for the 2007 Article IV Consultation.
[3] After MDRI debt relief from 2006 onward.
[4] Other official grants less payments due to scholarships and contributions to international organizations.
[5] Includes impact of MDRI in 2006.
[6] After HIPC and MDRI debt reliefs .

Table 7. Madagascar: Monetary Survey, 2006–09
(Billions of ariary, unless otherwise specified)

	2006	2007										2008						2009	
		March		June		Sept.			Dec.			Jan.	March	Jun.	Sept.	Dec.			
		Prog.[1]	Actual	Prog.[1]	Actual	Prog.[1]	Proj.[2]	Est.	Prog.[1]	Proj.[2]	Rev. Proj.		Prog.			Rev. Proj.[2]	Prog.	Proj.[2]	Rev. Proj.
Net foreign assets	1,584.0	1,408.6	1,633.3	1,480.9	1,684.5	1,563.6	1,756.9	1,765.9	1,595.8	1,777.2	1,830.9	1,823.3	1,831.9	1,950.6	2,058.0	2,051.2	2,152.9	2,204.4	2,646.3
Net foreign assets (BCM)	1,050.6	933.4	1,101.2	1,005.7	1,216.0	1,088.4	1,159.5	1,311.6	1,120.6	1,149.0	1,278.3	1,270.4	1,270.7	1,378.6	1,478.2	1,349.4	1,559.9	1,563.6	2,019.0
Net foreign assets (domestic money banks)	533.4	475.2	532.1	475.2	468.5	475.2	597.4	454.4	475.2	628.3	552.6	552.9	561.2	572.0	579.8	701.8	593.0	640.8	627.3
Net domestic assets	1,156.6	1,218.8	1,124.0	1,195.8	1,193.3	1,186.9	1,435.2	1,249.7	1,345.0	1,687.2	1,538.4	1,519.8	1,570.4	1,592.1	1,716.3	2,249.1	2,011.6	2,931.7	2,370.5
Domestic credit	1,276.8	1,502.9	1,246.0	1,458.0	1,355.8	1,404.4	1,516.2	1,441.5	1,576.1	1,717.5	1,730.1	1,707.2	1,765.5	1,764.4	1,916.2	2,329.7	2,169.9	3,005.1	2,583.2
Net credit to government (budget)	-57.6	-19.9	-98.3	-76.5	1.3	-113.2	7.1	-112.9	-59.8	59.7	65.7	81.9	107.5	74.2	0.9	54.7	87.4	49.7	87.4
Other claims on public sector	138.5	107.0	150.1	107.0	160.4	107.0	138.5	166.6	107.0	138.5	170.4	173.0	178.1	185.8	193.4	138.5	201.1	138.5	245.1
Credit to the economy	1,195.9	1,415.7	1,194.1	1,427.5	1,194.2	1,410.5	1,455.7	1,387.9	1,528.9	1,565.8	1,493.9	1,452.3	1,479.9	1,504.4	1,721.9	2,136.6	1,881.3	2,816.9	2,250.7
Credit to public enterprises	4.6	42.8	9.4	42.8	4.9	42.8	24.7	24.9	42.8	24.7	4.8	24.6	9.6	4.8	24.9	24.7	5.0	24.7	5.0
Credit to private sector	1,191.3	1,372.9	1,184.7	1,384.7	1,189.2	1,367.7	1,431.0	1,363.0	1,486.1	1,541.1	1,489.2	1,427.7	1,470.3	1,499.6	1,697.0	2,111.9	1,876.3	2,792.2	2,245.7
Other items (net; asset = +)[3]	-120.3	-284.1	-122.0	-262.2	-162.5	-217.5	-81.0	-191.8	-231.2	-30.2	-191.7	-187.4	-195.1	-172.3	-199.9	-80.7	-158.3	-73.3	-212.7
M3	2,740.5	2,627.4	2,757.2	2,676.7	2,877.8	2,750.5	3,192.1	3,015.7	2,940.7	3,464.5	3,369.3	3,343.1	3,402.3	3,542.7	3,774.3	4,299.9	4,164.5	5,135.7	5,016.8
Foreign currency deposits	443.5	446.6	449.6	426.5	397.1	443.2	493.8	413.1	465.5	518.1	457.7	458.0	465.1	474.3	481.0	643.1	485.6	768.1	487.8
M2	2,265.9	2,180.8	2,276.0	2,250.3	2,452.4	2,307.3	2,698.3	2,574.2	2,475.3	2,946.4	2,881.7	2,855.1	2,907.3	3,038.4	3,263.3	3,656.8	3,648.9	4,367.6	4,499.0
Currency in circulation	715.1	666.0	701.6	678.7	741.8	697.5	805.0	780.8	787.3	874.6	861.5	810.4	848.4	894.9	957.6	1,042.1	1,043.6	1,207.3	1,232.0
Deposits in local currency	1,410.0	1,484.8	1,419.4	1,541.6	1,550.0	1,579.8	1,861.7	1,631.1	1,658.0	2,040.2	2,020.1	2,044.7	2,058.8	2,143.5	2,305.7	2,583.1	2,605.4	3,128.7	3,267.0
Short-term obligations of commercial banks	31.1	30.0	31.6	30.0	28.4	30.0	31.6	28.4	30.0	31.6	30.0	30.0	30.0	30.0	30.0	31.6	30.0	31.6	30.0
Memorandum items:									(Annual percent change, unless otherwise indicated)										
M3	25.9	15.8	21.5	11.9	20.5	15.5	29.0	21.9	15.5	26.7	22.9	23.0	23.4	23.1	25.2	24.1	23.6	19.4	20.5
M2	24.9	15.8	22.7	14.0	26.2	16.8	30.7	26.6	15.5	28.6	27.2	27.6	27.7	23.9	26.8	24.1	26.6	19.4	23.3
Domestic credit	-9.6	30.8	9.5	24.6	18.0	24.8	37.9	33.3	22.6	32.7	35.5	44.9	41.7	30.1	32.9	35.6	25.4	29.0	19.0
Credit to the economy	18.0	32.2	12.9	28.7	10.5	21.1	24.1	20.2	23.0	28.8	24.9	21.6	23.9	26.0	24.1	36.5	25.9	31.8	19.6
Nominal change in NCG since beginning of year	-351.7	52.0	-40.7	-4.6	58.8	-41.3	67.9	-55.3	12.1	120.5	123.3	16.2	41.8	8.5	-64.8	-5.0	21.7	-5.0	0.0
Reserve money	13.3	12.7	20.7	9.6	26.0	17.7	18.8	21.4	13.6	21.8	21.7	16.1	16.0	15.0	22.3	19.3	22.0	17.1	19.3
Money multiplier (M3/reserves)	2.6	2.7	2.6	2.6	2.4	2.5	2.7	2.5	2.5	2.7	2.6	2.7	2.8	2.6	2.6	2.8	2.7	2.8	2.7
Velocity of money (GDP/end-of-period M3)	4.3	...	...	...	...	...	...	...	4.6	4.0	4.1	...	...	...	...	3.6	3.6	3.5	3.6

Sources: Central Bank of Madagascar (BCM) and IMF staff estimates and projections.

[1] IMF Country Report No. 07/7, Republic of Madagascar: First Review under the Three-Year Arrangement under the PRGF.
[2] IMF Country Report No. 07/236; Republic of Madagascar-Staff Report for the 2007 Article IV Consultation.
[3] Projections include estimates for valuation gains/losses, increased capital of banks, and errors arising from: seasonality, NFA accumulation, BTA sales and purchases, and accumulation of government deposits.

Table 8. Madagascar: Balance Sheet of the Central Bank, 2006–09
(Billions of ariary)

	2006	2007										2008						2009	
	Dec	March		June		Sept.			Dec.			Jan.	March	June	Sept.	Dec.			
	Est.	Prog.[1]	Est.	Prog.[1]	Est.	Prog.[1]	Proj.[2]	Est.	Prog.[1]	Proj.[2]	Rev. Proj.	Prog.				Rev. Proj.[2]	Prog.	Proj.[2]	Rev. Proj.
Net foreign assets	1,050.6	933.4	1,101.2	1,005.7	1,216.0	1,088.4	1,159.5	1,311.6	1,120.6	1,149.0	1,278.3	1,270.4	1,270.7	1,378.6	1,478.2	1,349.4	1,559.9	1,563.6	2,019.0
Gross foreign assets	1,155.1	1,073.0	1,226.1	1,171.7	1,325.8	1,254.3	1,303.3	1,429.5	1,312.9	1,289.8	1,395.6	1,386.6	1,430.9	1,537.9	1,658.3	1,531.5	1,739.0	1,773.5	2,231.3
Gross foreign liabilities	104.6	139.6	124.9	165.9	109.9	165.9	143.8	117.9	192.2	140.8	117.3	116.2	160.1	159.3	180.1	182.1	179.1	209.9	212.3
Net domestic assets	12.4	56.6	-40.8	34.3	-20.4	1.6	8.6	-117.9	74.1	141.8	15.3	-14.0	-40.7	-3.6	-18.2	191.0	18.8	240.2	-136.1
Credit to government (net)	-78.7	44.3	-164.8	19.9	23.3	-17.5	-74.2	-42.9	53.8	68.5	74.5	57.4	16.4	58.1	59.7	110.5	121.3	174.5	182.3
Of which: IMF MDRI debt relief	-325.5	-316.5	-325.5	-307.5	-307.5	-298.4	-298.4	-298.4	-289.4	-289.4	-289.4	-289.4	-280.3	-271.3	-262.2	-253.2	-253.2	-217.0	-217.0
Claims on public enterprises	4.6	4.5	4.5	4.5	4.8	4.5	4.5	4.7	4.5	4.5	4.7	4.7	4.7	4.7	4.7	4.5	4.7	4.5	4.7
Liquidity operations (+ = injection)	-49.5	-10.4	-33.2	-10.4	-154.1	-10.4	-89.6	-225.3	-10.4	-50.9	-226.6	-252.3	-250.9	-277.6	-316.7	-18.4	-364.4	-19.5	-517.5
Other items (net; asset +)[3]	136.1	18.3	152.7	20.3	105.6	25.0	82.8	145.7	26.3	119.8	162.8	176.2	189.1	211.3	234.1	94.5	257.2	80.7	194.5
Reserve money	1,063.0	990.0	1,060.4	1,040.0	1,195.6	1,090.0	1,168.1	1,193.7	1,194.7	1,290.8	1,293.7	1,256.4	1,230.0	1,375.0	1,460.0	1,540.4	1,578.7	1,803.8	1,883.0
Currency outside banks	715.1	666.0	701.6	678.7	741.8	697.5	805.0	780.8	787.3	874.6	861.5	810.4	848.4	894.9	957.6	1,042.1	1,043.6	1,207.3	1,232.0
Bank reserves	345.3	323.6	358.3	360.8	453.4	392.0	362.7	412.4	407.0	415.7	431.7	445.6	381.1	479.6	501.9	497.9	534.7	596.0	650.5
Currency in banks	51.1	41.7	45.4	46.8	55.5	41.6	52.2	50.7	56.4	56.8	60.3	56.7	59.4	62.6	67.0	67.1	73.0	77.1	85.6
Deposits	294.2	281.9	312.9	314.1	397.9	350.4	310.4	361.7	350.6	359.0	371.4	388.8	321.7	417.0	434.9	430.8	461.6	518.9	564.9
Memorandum items:																			
Cumulative annual flow																			
Net foreign assets	524.1	-77.7	50.6	-5.3	165.4	77.4	108.9	261.0	109.6	98.4	227.7	-7.9	-7.6	100.3	199.9	200.4	281.6	214.2	459.1
Excluding MDRI	127.4	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…
In millions of SDRs	47.7	-40.6	25.8	-19.0	88.1	5.7	57.3	112.5	15.3	63.0	106.8	1.5	1.6	43.0	81.7	78.7	114.4	61.2	127.1
Net domestic assets	-398.9	15.8	-53.2	-6.6	-32.8	-39.3	-0.6	-130.3	33.3	132.6	2.9	-29.4	-56.1	-19.0	-33.6	49.2	3.4	49.2	-154.8
Excluding MDRI	-2.2	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…
Credit to government (net)[4]	-404.0	2.0	-86.0	5.4	102.1	8.7	92.9	35.8	12.1	150.5	153.3	-17.1	-58.2	-16.5	-14.8	42.0	46.7	64.0	61.0
Reserve money	125.2	-61.9	-2.6	-11.9	132.6	38.1	108.3	130.7	142.8	231.0	230.7	-37.3	-63.7	81.3	166.3	249.6	285.0	263.4	304.3
Cummulative growth	…	-6.9	-0.2	-2.2	12.5	2.5	9.9	12.3	12.4	21.4	21.7	-2.9	-4.9	6.3	12.9	19.1	22.0	…	19.3

Sources: Central Bank of Madagascar (BCM) and IMF staff estimates and projections.

[1] IMF Country Report No. 07/7, Republic of Madgascar: First Review under the Three-Year Arrangement under the PRGF.
[2] IMF Country Report No. 07/236; Republic of Madagascar-Staff Report for the 2007 Article IV Consultation.
[3] Excluding transfers from government, but including estimated valuation effects and gains/losses.
[4] Excluding any treasury bills used for monetary policy operations.

Table 9. Madagascar: Selected Economic and Financial Indicators, 2005–11

	2005	2006	2007	2008	2009	2010	2011
		Est.			Proj.		
	(Percentage change, unless otherwise indicated)						
National income and prices							
Real GDP growth	4.6	5.0	6.3	7.3	7.5	9.8	8.5
GDP deflator	17.8	11.5	9.3	7.4	6.7	5.4	5.1
Consumer price index (period average)	18.4	10.8	10.3	8.0	6.1	5.0	5.0
Consumer price index (end of period)	11.4	10.9	8.4	7.0	5.0	5.0	5.0
External sector							
Export of goods volume	16.6	10.2	8.0	8.0	11.2	76.3	11.8
Import of goods volume	-13.0	-5.3	49.8	18.8	-6.1	-8.2	9.0
Terms of trade (deterioration = –)	-36.6	-5.8	-3.4	1.5	2.0	1.2	-0.5
Money and credit [1]							
Reserve money [2]	11.7	13.3	21.7	22.0	19.3	17.6	15.8
Broad money	3.1	25.9	22.9	23.6	20.5	17.6	15.8
Net foreign assets	1.9	29.9	9.0	9.6	11.8	7.1	4.8
Net domestic assets	1.2	-4.0	13.9	14.0	8.6	10.4	11.0
Credit to government	-5.3	-16.2	4.5	0.6	0.0	0.0	0.0
Credit to the private sector [2]	22.4	19.5	25.0	26.0	19.7	19.8	17.1
Velocity of money (M3; average)	4.6	4.3	4.1	3.8	3.6	3.6	3.5
	(Percent of GDP)						
Public finance							
Total revenue (excluding grants)	10.9	11.2	11.1	11.8	12.3	12.8	13.2
Of which : tax revenue	10.1	10.7	10.9	11.6	12.1	12.6	13.0
Grants [3]	5.7	47.9	5.1	4.5	4.4	4.2	4.1
Total expenditure (commitment basis)	21.2	21.3	20.7	20.9	20.7	20.8	20.9
Current expenditure	11.0	11.1	11.3	10.9	10.1	10.3	10.4
Capital expenditure	10.3	10.2	9.5	10.0	10.6	10.5	10.4
Domestic balance	-2.2	-1.9	-2.4	-1.5	-1.1	-1.0	-1.0
Overall balance (cash basis, incl. grants)	-4.3	37.4	-4.7	-4.9	-4.1	-3.8	-3.6
Overall balance (cash basis, excl. grants)	-10.1	-10.5	-9.8	-9.4	-8.4	-8.0	-7.7
Domestic financing	0.5	-2.4	1.4	0.8	0.1	0.1	0.1
Savings and investment							
Investment	22.6	23.2	30.0	34.4	30.6	24.0	24.5
Government	10.3	10.2	9.5	10.0	10.6	10.5	10.4
Nongovernment	12.3	13.0	20.6	24.3	20.0	13.4	14.1
Gross domestic savings	8.4	12.2	8.9	9.4	12.7	24.8	26.8
Gross national savings	11.6	14.6	10.7	10.8	13.6	14.7	16.1
External sector and public debt							
Exports of goods, f.o.b.	17.0	17.8	15.1	14.6	14.7	23.0	22.9
Imports of goods, c.i.f.	33.9	32.4	39.5	41.5	34.6	27.8	27.1
Current account balance (excl. grants)	-12.2	-9.8	-19.7	-24.0	-17.4	-9.7	-8.8
Current account balance (incl. grants)	-10.9	-8.6	-19.3	-23.6	-17.0	-9.3	-8.4
Public debt	80.3	38.5	35.9	34.4	34.3	33.4	32.9
External	69.9	28.7	25.9	25.2	26.1	26.2	26.4
Domestic	10.4	9.8	9.9	9.2	8.1	7.2	6.4
Net present value (NPV) of external debt							
NPV of debt-to-exports ratio	134.3	38.6	40.4	45.6	50.5	40.6	43.5
NPV of debt-to-fiscal revenue ratio	215.0	64.3	68.4	72.0	77.7	80.4	83.8
	(Units as indicated)						
Gross official reserves (SDR millions)	337.4	381.6	495.5	633.5	760.6	830.5	897.8
Months of imports of goods and services	2.9	3.0	2.6	2.7	3.4	3.8	3.8
Months of imports, excl. large mining projects	...	...	3.3	3.7	4.1	4.0	4.0
Residual financing gap (SDR millions)	0.0	0.0	0.0	23.6	15.7	0.0	0.0
Ariary per SDR (period average)	2,958	3,146	2,871	...	...	...	...
Real effective exchange rate (period average, percent change)	5.7	0.6	18.3	8.5	0.0	0.0	0.0
GDP per capita (U.S. dollars)	270	288	369	430	464	512	557
Nominal GDP (billions of ariary)	10,093	11,815	13,727	15,813	18,135	20,998	23,956

Sources: Malagasy authorities and IMF staff estimates and projections.

[1] Growth in percent of beginning of period money stock (M3).

[2] Year-on-year growth.

[3] Includes MDRI capital transfers in 2006.

Table 10. Fund Position and Indicators of Fund Credit, 2006-11
(In millions of SDR)

	2006	2007	2008	2009	2010	2011
	Actual	Projection				
Total use of fund resources (UFR) outstanding	19.2	27.1	50.6	66.3	65.2	62.9
PRGF (2006-09)						
Disbursements	7.9	7.9	23.6	15.7	0.0	0.0
Debt Service	0.0	0.1	0.1	0.1	0.1	0.1
Repayments	0.0	0.0	0.0	0.0	0.0	0.0
Interests	0.0	0.1	0.1	0.1	0.1	0.1
Total debt service to the Fund (incl. previous PRGFs)	137.6	0.9	1.0	1.0	2.1	3.2
Repayments [1]	137.3	0.0	0.0	0.0	1.1	2.3
Interests	0.1	0.1	0.2	0.2	0.2	0.1
Other SDR charges	0.2	0.8	0.8	0.8	0.8	0.8
Memorandum items						
Total UFR as a percentage of quota	15.7	22.1	41.4	54.3	53.4	51.5
Total UFR as a percentage of GDP	0.5	0.6	0.9	1.1	0.9	0.8
Total debt service to the Fund as a percentage of exports of goods and services	12.3	0.1	0.1	0.1	0.1	0.1

Source: Fund Staff estimates.

[1] Including MDRI debt relief in 2006.

Table 11. Madagascar: Millennium Development Goals

	1994	1997	2000	2003	2005	2015 Target
Goal 1. Eradicate extreme poverty and hunger.						
Population below US$1 a day (percent)	46.0	...	66.0	...	...	...
Poverty gap ratio at US$1 a day (percent)	18.0	...	29.0	...	...	...
Prevalence of child malnutrition (percent of children under 5)	45.0	40.0	...	33.0	42.0	20.5
Population below minimum level of dietary energy consumption (percent)	...	40.0	...	38.0	38.0	17.5
Goal 2. Achieve universal primary education.						
Net primary enrollment ratio (percent of relevant age group)	...	...	65.0	77.0	92.0	100.0
Percentage of cohort reaching grade 5	...	...	51.0	57.0	43.0	...
Primary completion rate (percent of relevant age group)	28.4	28.6	35.6	39.3	57.7	…
Goal 3. Promote gender equality and empower women.						
Ratio of girls to boys in primary and secondary education (percent)	...	...	95.7	95.8	95.9	100.0
Proportion of seats held by women in the national parliament (percent)	...	4.0	8.0	4.0	6.9	...
Goal 4. Reduce child mortality.						
Under-5 mortality rate (per 1,000)	...	...	137.0	...	119.0	56.0
Infant mortality rate (per 1,000 live births)	...	...	84.0	...	74.0	...
Immunization against measles (percent of children 12-23 months)	63.0	46.0	56.0	59.0	59.0	...
Goal 5. Improve maternal health.						
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	550.0	...	...	123.0
Proportion of births attended by skilled health personnel	...	47.3	46.2	...	51.3	...
Goal 6. Combat HIV/AIDS, malaria, and other diseases.						
Contraceptive prevalence rate (percent of women ages 15-49)	...	19.0	19.0	17.0	27.0	...
Incidence of tuberculosis (per 100,000 people)	194.5	204.5	215.1	226.2	233.9	...
Tuberculosis cases detected under DOTS (percent)	...	...	65.1	72.1	67.0	...
Goal 7. Ensure environmental sustainability.						
Forest area (percent of total land area)	...	...	22.0	...	22.0	...
Nationally protected areas (percent total land area)	...	...	...	...	3.1	...
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	...	...
Access to improved water source (percent of population)	...	...	...	...	46.0	72.0
Access to improved sanitation (percent of population)	...	...	...	...	32.0	...
Goal 8. Develop a Global Partnership for Development.						
Unemployment rate of population ages 15-24 (total)	...	...	...	...	...	...
Fixed line and mobile telephones (per 1,000 people)	2.5	3.2	7.3	19.5	30.7	...
Personal computers (per 1,000 people)	...	1.4	2.2	4.5	5.0	...

Source: World Bank.

APPENDIX I
MADAGASCAR: LETTER OF INTENT

Antananarivo, Madagascar
January 7, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn,

1. On December 20, 2006, the Executive Board of the International Monetary Fund (IMF) completed the first review of Madagascar's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The Executive Board approved the three-year arrangement on July 21, 2006, for a total amount of SDR 55.0 million to support the government's economic program for 2006-2008 and the activation of the Trade Integration Mechanism (TIM).

2. The attached memorandum of economic and financial policies (MEFP) reviews the macroeconomic and financial performance and the implementation of economic policies through November 2007. It also updates the program of economic policies and structural reforms that the government of Madagascar will implement in 2008.

3. All quantitative performance criteria (PC) at the end of December 2006—the test date for the second review—were met, with the exception of the ceiling on domestic financing of the central government. This ceiling was missed owing to the obligatory expenditure which exceeded the budgeted amount in the 2006 Finance Law. In order to avoid a recurrence of such spending overage in 2007, the government has revised credit for these expenditure upwards and implementing offsetting cuts in nonpriority expenditure in its fiscal program.

4. One structural PC was also missed at end-December 2006. The continuous structural PC on no waivers of the established procedures for valuation and clearance of goods at customs was not respected in August 2006 and, as we had reported to the Executive Board that no such departures had occurred at the time of consideration of the first review, one case of misreporting has occurred, for which we have implemented remedial actions described in a separate letter.

5. All the quantitative PC at the end of June 30, 2007—the test date for the third review—have been met, except the floor on tax revenue. Tax receipts were lower than planned, because of the impact of the appreciation in the exchange rate on customs revenue

and a brief period of adjustment at the Tax Directorate until a new management team settled in. The government has taken drastic steps taken since then to modernize the tax code and the management of customs- and tax-revenue collection.

6. Two other PCs were missed in 2007: the central bank was recapitalized with one month delay because of supplementary groundwork which needed to be finalized with the support of the Fund's Monetary and Capital Markets (MCM) department; and the issuance of quarterly commitment ceilings was done with a three week delay owing to the need to consult with development partners regarding the additional budget transfers required to rehabilitate the public utility company JIRAMA.

7. Given the remedial measures already taken in response to three missed PCs, and in view of the limited delay after which the two last measures set as structural PCs have been met, the government of Madagascar requests a waiver for these five performance criteria.

8. The government of Madagascar believes that the policies and measures set forth in the attached memorandum are adequate to achieve its program objectives. However, it will take any further measures that may be appropriate for this purpose. It will consult with the Fund on adoption of such measures in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policy in such consultation.

9. To facilitate the attainment of the objectives and implementation of the policies described, the government of Madagascar hereby requests completion of the second and third reviews and disbursement of the third and fourth loans under the current arrangement in an amount equivalent to SDR 15.712 million. At this time, an increase in access to Fund resources under the TIM's deviation feature is not justified.

10. The government of Madagascar undertakes to carry out the fourth review of the PRGF program by the end of June 2008, and the fifth review by the end of December 2008. Inter alia, The fourth review will discuss the measures needed to eliminate the deficits of the civil servants' pension funds, to be reflected in the 2009 Finance Law, and priority measures to further strengthen revenue collection by the customs administration following the conclusions of the recent private audit of import operations, and to collect unpaid taxes and duties identified by this audit.

11. The government of Madagascar consents to publication of this letter, the MEFP, the attached Technical Memorandum of Understanding, and the report of Fund staff on the second and third reviews of the program.

Sincerely yours,

/s/ /s/

Haja Nirina Razafinjatovo
Minister of Finance and Budget

Frédéric Rasamoely
Governor
Central Bank of Madagascar

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

APPENDIX I—ATTACHMENT I
MADAGASCAR: MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR 2007–08

I. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

A. Recent Economic Developments

1. In 2007, the first year of the Madagascar Action Plan (MAP), there are signs of even stronger economic growth (6.3 percent) than in 2006 (5.0 percent), driven by a massive inflow of foreign direct investment (FDI) resulting from two major mining projects. Despite the impact of severe weather on food prices in early 2007, inflation fell to 8.5 percent in November 2007. The year-on-year appreciation of the MGA in real terms was in the region of 13 percent at end-October 2007. Despite good export performance, the current account of the balance of payments widened during the first semester owing to strong mining projects and Export Processing Zone (EPZ) imports. The overall balance of payment improved nonetheless owing to reduced external debt service, and FDI inflows. This improvement in the balance of payments paved the way for larger reserves at the Central Bank of Madagascar (BCM), which, at end-October 2007, amounted to 3.3 months of imports (excluding large mining projects). By end-September 2007, despite a shortfall in tax receipts, domestic financing of the budget (program definition, excluding recapitalization of the BCM) was below the program ceiling, owing to cuts in nonpriority expenditure and sluggishness in the execution of other expenditures. In June, the government decided to grant a tax amnesty on penalties due on tax arrears, the terms of which do not pose a threat to the government's revenue targets.

B. Performance Measured Against Performance Criteria and Structural Benchmarks up to November 2007

2. As of end-December 2006, all quantitative performance criteria were met, except the ceiling for the central government's domestic financing needs (Table 1). Net domestic financing as defined in the program[1] exceeded the program ceiling by MGA 54 billion (0.4 percent of GDP) as a result of overruns of: (i) MGA 14 billion on pensions; (ii) reimbursement of VAT credits for MGA 10 billion; and (iii) MGA 30 billion in interest outlays (resulting from the rise in interest rates and further auctioning of treasury bills prompted by the above-mentioned excess expenditures).

3. This overrun led to an upward adjustment of the central government's contribution to

[1] See ¶¶11-16 of the Technical Memorandum of Understanding (TMU).

civil service pension funds and the reimbursement of VAT credits (¶2), and of the transfer to the water and electricity company, JIRAMA, as well as a reduction of MGA 63 billion (0.4 percent of GDP) in nonpriority expenditures in the revised 2007 budget programming (¶14-15). Considering these measures taken to avoid a further overrun of the domestic financing ceiling for 2007, the government requests a waiver for nonobservance of this performance criterion (PC).

4. In the structural area, contrary to the situation described in our letter of intent of November 25, 2006,[2] it has become clear that the continuous PC on no waivers of the requirement to present pre- and post-customs inspection reports for the import and clearance of goods (*Rapport d'inspection recevabilité* [RIR] and *Rapport d'inspection enlèvement* [RIE]), or on the use of the pre- and post inspection company *Société Générale de Surveillance* (SGS) valuation of goods was not observed (Table 2). In fact, one exemption from inspection by SGS was granted by the Minister of the Economy, Finance, and Budget in August 2006. This involved the filing of a submission (*soumission*), a procedure provided for under the customs regulation consisting in a commitment to produce a customs document after clearing the imported goods (Article 103.3 of the 2006 Customs Code). The authorization to file such a declaration was granted so that the RIR could be produced subsequently, given the size of the lot of goods concerned, the conditions of warehousing facilities at the port of Mahajanga, and the sensitivity of the product (sugar). It so happened that the importer did not choose to file a submission, thus rendering the ministry's authorization void. Given the corrective measures described in ¶¶ 29-31, the government requests a waiver for nonobservance of this PC.

5. Nevertheless, all the structural benchmarks at end-December 2006 were met, except one: the completion of the audit of at least 80 percent of outstanding VAT credits for the period ending end-June 2006 was delayed for three months, because of the importance attached to the preparation of a priority action plan to strengthen the tax administration.

6. As of June 30, 2007, all the quantitative performance criteria have been met, except the floor on tax revenue (Table 3). Tax receipts were lower than planned, because of the impact of the appreciation in the exchange rate on customs revenue and a brief period of adjustment at the Tax Directorate until a new management team settled in. Given the specific steps taken since then to modernize the management of customs- and tax-revenue collection (¶¶ 23-31), the government requests a waiver for nonobservance of this PC.

7. In 2007, all structural performance criteria have been observed except the recapitalization of the central bank (BCM) and the midterm update of the quarterly

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[2] IMF Country Report No. 07/7, Republic of Madagascar: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria, Table 2, p. 47 (http://www.imf.org/external/pubs/ft/scr/2007/cr0707.pdf).

commitment plan, which were delayed two months and three weeks, respectively (Table 4). As far as the recapitalization of the BCM is concerned, these delays are a reflection of the need to fine-tune technical preparations with cooperation from Fund staff, and, as far as the quarterly commitment plan is concerned, the need to consult with development partners regarding the additional budget transfers needed to rehabilitate the public utility company JIRAMA (¶¶48-49). As these measures have been implemented, the government requests a waiver for nonobservance of these PC.

8. In 2007, three structural benchmarks have been observed, and it is proposed to postpone four benchmarks until 2008. New monetary policy instruments were created for the BCM, (¶41), the tax code was modernized (¶¶20-21), and priority actions were implemented to strengthen tax administration (¶23). However, the study on the appropriateness of a nonzero uniform customs tariff, its budgetary and economic impact, and other possible options within the framework of regional integration has been delayed owing to the unavailability of the World Customs Organization expert; the study will be finalized by end-January 2008. In addition, the difficulties encountered in implementing reforms of fiscal management and the electricity sector led to the postponement of three structural benchmarks initially established for the last quarter of 2007 to 2008 (Table 6).

II. PROGRAM IN 2007–08

A. Implementation of the MAP

9. The MAP (Madagascar Action Plan)[3] is the development plan for the period 2007-11, which serves as a reference for annual budget programming and the medium-term expenditure framework. The task of preparing the Implementation Plan (PMO) for the MAP was carried out with the collaboration of all ministries. The PMO will be refined, augmented, and supplemented with summaries of sectoral policies and strategies to make it more responsive and coherent, especially in terms of intersectoral linkages. To this end, Technical Working Groups (GTT) made up of sectoral representatives and technical and financial partners were set up to carry out the process. These GTTs will also serve as a platform for discussing issues related to implementation of the National Integrated Monitoring/Assessment System (SNISE), refining the costing, and, finally, accurately assessing the MAP financing gap.

10. In terms of mobilizing international support for implementation of the MAP, the technical and advocacy documents to be presented to the partners are being prepared. A task force bringing together the government and partners was set up to identify strategic approaches to preparing for the conference, planned for early 2008. This conference will also

[3] Country Report No. 07/59, Republic of Madagascar: Poverty Reduction Strategy Paper—Madagascar Action Plan. (http://www.imf.org/external/country/MDG/index.htm)

be an opportunity to launch the joint government/partners platform (Friends of Madagascar Club) for dialogue on improving aid effectiveness. Moreover, all the activities involved in steering the MAP process take into account all the aspects and concepts related to implementation of the Paris Declaration (alignment, appropriation, harmonization, results-based management, and shared responsibilities).

B. Macroeconomic Framework

Macroeconomic framework revised in 2007

11. The 2007 macroeconomic framework has been revised to take account of the impact of massive inflows of foreign direct investment linked to the implementation of two major mining projects (ilmenite and nickel mining) totaling an estimated USD 4 billion (54 percent of GDP) in the period 2006 to 2010. Inasmuch as the local component of these projects is about 20 percent during the construction phase, they are generating a net inflow of foreign exchange, which leads to a real appreciation of the exchange rate and creates increased demand for currency.

12. Therefore, the economic growth rate in 2007 was revised upward from 5.6 percent to 6.3 percent. The end-period inflation rate was revised upward from 8.0 percent to 8.4 percent because of the rise in oil prices. This appreciation also negatively affected customs revenues and the domestic currency value of external aid, requiring a reduction in expenditures to curb the growth of net domestic financing compared with the programmed level.

Macroeconomic framework in 2008

13. The 2008 macroeconomic framework is based on the MAP priorities. The economic growth rate is projected to be 7.3 percent, owing to the impact of major mining investments on the tertiary sector (notably the construction and public works sectors—BTP). These investments should push investment to 34 percent of GDP and explain the deterioration in the current account, where the deficit is expected to exceed 23.4 percent of GDP. Export volumes should increase by 8 percent due especially to efforts to diversify, the strong performance of the textile sector, Madagascar's membership in the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC), and the continuation of programs such as the Integrated Growth Poles and projects financed by the Millennium Challenge Account. The tertiary sector is being driven both by increased construction and the tourism sector, the development of which is being fostered by the implementation of new legal provisions on real estate ownership, the law on investment, and the implementation of major hotel construction projects. Despite rising international fuel prices and increases in the prices of other forms of energy, inflation by end-2008 should remain at about 7.2 percent, thanks to a prudent monetary and fiscal policies.

C. Economic and Financial Policies

Fiscal policy

Fiscal policy adjustments in 2007

14. During the midterm budget execution review, it was deemed necessary to revise the target for tax revenue and current grants downward to a total of MGA 80 billion (0.6 percent of GDP) and the amount of expenditure upward to MGA 214 billion (1.5 percent of GDP). The downward revision of tax revenue is a reflection of the effect of the 15 percent appreciation of the MGA over and above the projection in the 2007 budget law. The upward revision of expenditure is due in large part to the recapitalization of the BCM, the specific details of which were unknown at the time the 2007 budget law was drafted, and, for the rest, to the underestimation of certain expenditures (reimbursement of VAT credits, civil service pensions, transfer to JIRAMA) in the budget law. On the other hand, new estimation allowed a downward revision of the external debt service by MGA 42 billion (0.3 percent of GDP).

15. In keeping with its commitments under the program, the government lowered the ceiling on nonpriority expenditure commitments by MGA 63 billion (0.5 percent of GDP) vis-à-vis the 2007 budget law, with a view to curbing its reliance on domestic financing. As a result of these expenditure cuts, it should be possible to keep the government's reliance on domestic financing as defined in the program to less than 0.5 percent of GDP, not including the impact of recapitalization of the BCM.[4]

16. Accordingly, the government requests an upward revision of the ceiling on domestic financing by MGA 44,1 billion (0.3 percent of GDP) and a downward revision of the tax revenue floor by MGA 31 billion (0.3 percent of GDP) for 2007.

Fiscal policy in 2008

17. The draft 2008 budget law submitted to Parliament reflects the government's will to increase tax revenue by 0.7 percent of GDP, match expenditures with MAP priorities, and involve the regions closely in defining and implementing fiscal policy. The increase in tax revenue and external aid contributed by the development partners enabled the government to allocate a fiscal expenditure envelope of 20.9 percent of GDP, of which a mere 0.8 percent of GDP will be financed with domestic debt. In order to improve the effectiveness of spending, regional heads will be responsible for executing 306 investment projects costing a total of MGA 106 billion (0.6 percent of GDP) in close collaboration with the officials in charge of the deconcentrated entities of the ministries and those reporting to the Ministry of Finance and the Budget. To avoid having to cut outlays midstream in the fiscal year to deal with tax

[4] See TMU, ¶12.

revenue shortfalls or surplus expenditures, the government decided to allocate MGA 45 billion (0.3 percent of GDP) to a reserve account, which could be allocated to the departments and ministries in the second half of the year, depending on revenue and expenditure performance.

18. In addition to earmarking expenditures of MGA 1825,9 billion (11.5 percent of GDP) for the priority ministries of education, health, agriculture, public works and transport, justice, the environment, and energy (of which MGA 54 billion or 0.3 percent of GDP for the restructuring of JIRAMA), the draft budget law is focused in particular on the on the rehabilitation of civil service retirement funds (MGA 85 billion or 0.5 percent of GDP), and on the regularization of those arrears outstanding prior to the start of the program in July 2006 and now being audited by a private firm (MGA 39 billion or 0.3 percent of GDP).

19. The payment of VAT on externally financed capital expenditures is another priority for 2008. Accordingly, the government has committed to the priority execution of appropriations of MGA 132 billion in the draft 2008 budget law to pay the VAT on externally financed capital expenditures. Furthermore, to ensure that the commitment and payment of this category of expenditures takes place without delay, the government announced in the press that entrepreneurs must submit to the Ministry of Finance and the Budget a copy of the request for payment addressed to the other ministries and institutions. Based on this information, the Ministry of Finance and Budget will contact relevant spending ministries to ensure payment of the counterpart expenditures fewer than 60 days after receipt of the appropriate documents.

Tax policy

20. In 2008, the government decided to modernize the Tax Code with a view to increasing tax revenue and creating a growth-friendly climate. To promote a simple, fair, and growth-friendly tax system, the aim of the modernization of the Tax Code is to :

- create an attractive income tax regime, and
- reduce the number of taxes from 28 to 14 by eliminating the taxes that are low in yield and heavy in administrative costs.

21. By applying these principles, the government decided to implement a reform of the General Tax Code with a positive effect on revenue by introducing the following changes in the Code within the framework of the 2008 budget law approved by Parliament:

- merge the Corporate Income Tax (IBS) and the Nonwage Income Tax (IRNS) of natural persons into a single tax to be known as "Income Tax," with a single proportional rate 25 percent as well as a simplification of the Tax on Wage and Similar Income (IRSA) by applying a single tax rate of 25 percent above a monthly income of MGA 180,000 (US$100);

- increase of tax rate of the Tax on Income from Capital (IRCM) from 15 to 20 percent and introduce an exemption on dividends ;

- reduce the list of products subject to excise duty by eliminating the excise duty on sugar, flour, perfume and beauty products, pay-TV reception, semi-processed mining products, mineral water, and carbonated waters with added sugar or other sweeteners;

- Increase the VAT rate from 18 to 20 percent and the tax liability threshold from MGA 50 to MGA 200 million (US$ 28,000 to 110,000) in annual turnover and eliminate the Transaction Tax; and

- Eliminate the Business Tax (*Taxe Professionnelle* or TP), the Transfer Tax (*Taxe forfaitaire sur les transferts* or TFT, and the transaction tax (*Taxe sur les transactions* or TST).

22. In 2008, the government will review the competitiveness of the tax regime applied to major mining investments in light of the results of a study being conducted in collaboration with the World Bank.

Reform of the tax and customs administrations

Tax administration

23. The emphasis in 2007 has been on improving the management of the tax operations of the Large Enterprises Directorate, which saw a change-out of its entire staff complement following a comprehensive reorganization of its services and administrative procedures. This has involved significant improvements in case management, the enhancement of employees' technical skills to boost performance in tax auditing and collection, closer involvement of managers and executives in the implementation of reforms, and the upgrading of services offered to enterprises.

24. In keeping with the strategy paper and action plan for tax administration reform (2007–11), initiatives to overhaul tax case management will be expanded to other tax centers with high yield potential. The related actions planned for 2008 cover:

- an overhaul of operations in the Regional Business Bureaus managing small and medium-sized enterprises, in line with the reforms under way at the Large Enterprises Directorate (archiving and effective monitoring of cases, reactivation of inactive cases, documentary audits, and follow up of outstanding collections);

- implementation of bank transfers as a mode of tax payment at the level of the regional business bureaus; and

- further strengthening of the effective monitoring of cases and scheduling of on site inspections based on the rehabilitation work begun in 2007 at the Large Enterprises Directorate.

25. Another priority will be to improve the functioning of the VAT. To this end, the government has pledged to reimburse, within 60 days of the correct filing of the application with the Directorate General of Taxes or the Directorate General of Customs, VAT credits to exporters and tax credits on petroleum products (TPP) and VAT on petroleum products (TVAPP) to oil distributors for refueling of international airline and shipping companies.

Customs administration

26. The government reiterates its commitment to abolishing all "ad hoc" tax or customs duty exemptions or suspensions (i.e., those not provided for by law, in the General Tax Code, in the General Customs Code, in international treaties or conventions), except for those expressly adopted by the Council of Government in exceptional circumstances (disasters, public interest, or reasons of State) (proposed PC, Table 6). Such decisions on granting exemptions will be systematically published in the press, including the name of the beneficiary enterprises and the amount of exempted duties and taxes, and posted in all customs bureaus and tax centers throughout the country.

27. The installation of the Tradenet electronic platform linking all economic agents involved in external trade is the main priority of the customs administration in 2007-08. This platform will simultaneously complete the computerization of customs clearance procedures and make them faster and more secure. The installation will complete the transition from the system of pre-shipment inspection carried out with private inspection companies to a system of inspections at destination performed by the customs administration, based on the requirement to generate a cargo tracking slip (BSC) for imported goods shipped since April 1, 2007. The customs administration has redoubled its efforts to ensure that this new system will be fully operational by end-December 2007 at the Toamasina port. Tradenet is due to be deployed in all the other ports by end- 2008. Given the priority placed on installing Tradenet, the automatic transfer of data on revenue collection by the Directorate General of Taxes and the Directorate General of Customs to the Directorate General of the Treasury via SIGFIP will need to be postponed to June 30, 2008 (proposed benchmark, Table 6).

28. Another priority has been the deployment of the ASYCUDA++ software in three additional bureaus in 2007, over and above the eight high-volume bureaus where it was installed at end-2006. In addition, the customs administration will develop additional features for the basic modules in 2008, with technical assistance from the United Nations Conference for Trade and Development (UNCTAD). Other priorities will include the reorganization and strengthening of the Anti-Fraud Unit, the optimal use of management and selectivity tools in audit operations, and additional training for customs agents.

29. Despite the fact that, from March 2003 to March 2007, all imports of goods were subject to the presentation of an import inspection report (RIR) and a clearance inspection report (RIE), the statistics of the inspection company SGS show that, since July 2006, about 20 percent of the imports recorded had an RIR but no RIE. The government entrusted the Independent Anti-Corruption Bureau (BIANCO) with the task of conducting an audit of all such imports between July 1, 2006 and March 31, 2007 to verify the payment of duties and taxes and, where necessary, to collect them. A task force composed of members of the Customs Administration and SGS was formed to provide BIANCO with all the assistance necessary for the purpose. An initial phase of the audit identified 2,278 import operations with an RIR but no RIE between July 2006 and March 2007. The government then ordered an audit by a private audit firm to identify which of those operations had been granted an exemption from the requirement of presenting an RIE or valuation of the goods by SGS. The auditors' task also included determining the reasons for the lack of an RIE and, in applicable cases, why a valuation other than the SGS valuation was used. This audit revealed no additional waiver from SGS inspection, beyond the one that came to the surface in March 2007 (¶4) and produced many recommendations to strengthen tax collection by the Customs administration.

30. Consequently, to further ensure the payment of import duties and taxes, the government decided to:

- establish within each customs bureau a section responsible for reviewing declarations, particularly for cargo tracking notes (BSC) for shipments on or after April 1, 2007, for consistency between the documents, and the relevant customs regime codes;

- put in place a system to entrust the release of goods leaving the ports exclusively to a team headed by a customs inspector and made up of members of the Directorate General of Customs (DGD) and the private firm GasyNet in charge of Tradenet (proposed PC, Table 6), subject to the following conditions: (i) the head of the team will report directly to the Director of External Services at DGD headquarters and will receive no instructions from local DGD officials; (ii) the work of the team will be formally described in terms of reference, which will include verification that the customs declaration corresponds to the cargo tracking note (BSC) and corresponds with the tariff line in the ASYCUDA++ system; and (iii) the head of the team will have the authority to prohibit the departure of goods, based on transparent procedures;

- tighten customs control by installing an automatic gate and surveillance cameras at the entrance and exit of port or airport customs enclosures;

- entrust to a private company with expertise in customs inspections the task of ongoing audits of 5–10 percent of import declarations to verify, each month in 2008, the value determined by the Customs Administration, the calculation of import duties and taxes, and the payment of said duties and taxes; and

- have a specialized firm conduct an independent annual audit of the Customs Administration's enforcement of the Customs Code and applicable procedures.

31. Moreover, the government commits to using the recommendations of the audit (¶29) to further strengthen tax collection by the customs administration, and collecting the unpaid tax and duties identified by the audit. To that end, the government will discuss the audit recommendations with IMF staff and agree on additional priority measures to improve customs reforms on the occasion of the next review under the arrangement under the PRGF (¶56).

Public financial management reform

32. The government will continue to place emphasis on achieving a marked improvement in budget preparation and in the monitoring of budget execution. The government proposes to postpone the adoption of a simplified budget classification until the 2009 Budget Law, because of the need for more time to consult with the spending ministries (proposed benchmark, Table 6). With technical assistance from the IMF Fiscal Affairs Department and the support of external partners, the government will improve its cash management by continuing to fine-tune the cash flow plan and strengthen procedures for updating it in conjunction with the quarterly commitment regulation.

33. In 2008, the government will give priority attention to the deployment and use of the automated fiscal management information system (SIGFP). Accordingly, it will implement the following priority measures:

- production via SIGFP of monthly expenditure commitment reports, including the number of and reasons for rejections by the Directorate General of Financial Supervision (proposed benchmark, Table 6) ; and
- Monthly production of the trial balances of all treasuries linked to SIGFP, which are used to prepare the Treasury general operations table (OGT) (proposed benchmark, Table 6).

34. A reform aimed at eliminating the structural deficit of the civil service retirement system, which a recent actuarial study estimated at 0.8 percent of GDP, will be implemented under the 2009 Budget Law. First, however, in 2008 the government will review the system's parameters, take stock of the existing legislation, organize workshops for stakeholders, and explore the possibility of creating a pensions directorate within the Ministry of Finance and the Budget.

35. In 2009 the government will enhance the transparency and step up the financial

supervision of government agencies that collect royalties not included in the central government budget (including the mining agency OMNIS, the port, airport, and telecommunications authorities). The government will use the results of ongoing financial audits for that purpose.

Monetary and exchange policy

36. The central bank reiterates its resolve to conduct a monetary policy aimed at keeping inflation in the single digits and, along with the government, confirms its commitment to the floating exchange rate policy. Under this policy, the BCM intervenes on the exchange market to avoid excessive day-to-day exchange rate volatility, occasionally "lean against the wind" to avoid potential overshooting of the exchange rate, and achieve its objective of accumulating foreign exchange reserves.

37. In response to the expected surge in the demand for money caused by FDI flows and the deepening of financial intermediation, the BCM decided to revise upward its growth objective for base money relative to the initial program in 2007, and to generate additional liquidity primarily by accumulating more exchange reserves than initially planned (Table 3). The objectives of the monetary program in 2008 were based on the assumption that these developments would continue (Table 5).

38. The government believes that the appreciation of the MGA on the foreign exchange market since mid-2006 can be attributed to the increased demand for local currency resulting from FDI flows and solid export performance. The government is aware that preserving the competitiveness of the Malagasy economy in the context of currency appreciation will require an improvement in business productivity and implementation of the structural reforms outlined in the MAP aimed at reducing the production costs of enterprises, including: rehabilitation of road and port infrastructures, increase in the supply of electricity, improvement of the training and health of the workforce, strengthening of the financial system, and the simplification of administrative procedures.

39. The government also adopted the following measures to ease the pressure on the MGA to appreciate:

- in May 2007, the time limit for repatriating export receipts was extended from90 days to 180 days for non-EPZ enterprises; and
- in June 2007, the ceiling on the foreign exchange position of credit institutions was raised from 10 percent to 20 percent.

40. The BCM will also consider the advisability of creating an interbank forward exchange market and will review the exchange reserves management guidelines to ensure that reserves are managed optimally while remaining usable.

Financial sector development policy

41. The key component of the financial sector reform in 2007-08 consists of strengthening the financial independence of the BCM by recapitalizing it and implementing new monetary policy instruments. In line with the technical assistance recommendations of the IMF Monetary and Capital Markets Department, the government recapitalized the BCM by issuing securities. To maintain the BCM's equity at an adequate level, profits available for distribution will be allocated to the legal reserve until the sum of the capital and the legal reserve reaches 10 percent of the central bank's monetary liabilities. The government's consolidated debt to the BCM was restructured as negotiable securities, which bear market interest rates and provide the central bank with a new tool to manage liquidity on the money market. To protect the BCM's financial position, the government will reimburse the sterilization costs generated by BCM interventions on the foreign exchange market, estimated at MGA 19 billion (0.1 percent of GDP). The government will also review the central bank law to adapt it to the SADC requirements.

42. To further enhance financial stability, the BCM will prepare a plan by mid-2008 to bring its operating cost under control, based on the recommendations of the IMF Monetary and Capital Markets Department. Specifically, this plan will include:

- a study on the possibility of reducing the costs of currency circulation by replacing small denominations banknotes with coins; and
- a review of the staffing level, organization, and compensation system at the BCM.

43. To promote financial intermediation, the government is preparing a financial sector development strategy in close cooperation with the staff of the IMF, the World Bank, and other partners. In 2008, the main components of the strategy include:

- assessing implementation of the new real-time payments system;
- establishing a central credit register to improve the quality of financial system data; and
- expanding microfinance institutions and stepping up their supervision by the Banking and Finance Supervisory Commission (CSBF). A new regulation governing this sector will be issued.

New initiatives are also being launched:

- the government is considering the advisability of creating a development bank, possibly to be financed and managed by the private sector;
- the possibility to set up of a securities exchange is being considered; and.

- the public savings institution (*Caisse d'Épargne de Madagascar*) has requested a change in status in order to become a bank.

Trade policy

44. Trade liberalization will continue. Madagascar is furthering its integration into the South African Development Community (SADC). In this connection, in December 2006 Madagascar signed a protocol with South Africa designed to promote investment between the two countries. In addition, Madagascar began reducing customs duties on products from the SADC countries in October 2007. Almost all such duties will be eliminated by 2012. The government is currently undertaking a study on the impact of that tariff reduction. In the medium term, the structure of customs tariffs will be simplified in order to eliminate certain distortions. Madagascar reached an interim agreement with the European Commission that covers market access, fisheries and development issues of the Economic Partnership Agreement (EPA). This agreement secures Madagascar favorable market access to the European Union (EU) and Madagascar will phase out customs tariffs for about 80 percent of its imports from the EU over 15 years. Negotiations on other aspects of the EPA will continue in 2008.

Debt management

45. External debt management continues to be based primarily on the maintenance of a sustainable level of debt. The actions already taken to achieve this objective are the limitation of external debt to concessional loans. The institutional structure of debt management has remained unchanged since the completion point of the HIPC Initiative. However, the installation of the DMFAS system has improved the efficiency of debt management. The Malagasy government is currently seeking financing to obtain the latest version of DMFAS, activate the DSM+ debt sustainability analysis tool, and provide training for staff.

46. The government is also working to finalize bilateral agreements on external debt cancellation. In 2006, agreements on full debt cancellation were signed with two members of the Paris Club (Sweden and Israel). In 2007, an agreement was concluded with Japan concerning a number of loans. The agreements on a recent Japanese loan and with the Russian Federation are in process of finalization. As regards countries that are not Paris Club members, agreements were concluded in 2007 with the Abu Dhabi Fund and the People's Republic of China. Negotiations are currently under way with Libya and Iraq. Despite requests by the Malagasy government, no draft agreements have been received from Algeria.

Reform of public enterprises

47. Electricity generation and distribution are essential for the country's economic and social development. Given the serious financial and production problems facing the national company JIRAMA, which have resulted in power cuts and poor quality service, the government has received technical assistance from the World Bank and the French government for the rehabilitation and reform of JIRAMA, and has commissioned the IFC to provide advice on the implementation of a leasing contract. On the basis of this assistance, and following the conclusions of a joint mission of the World Bank, the French Development Agency (AFD) and the European Investment Bank (EIB), the government commits to continue to carry on JIRAMA's restructuring.

48. To improve JIRAMA's financial position in the near term, and aware of the sociopolitical constraints that a sudden, appreciable increase in rates would entail, the government plans to raise electricity prices by 45 percent in nominal terms: it raised electricity prices by 15 percent, effective October 1, 2007 and plans to implement two more 15 percent price increases effective, respectively, April 1 and October 1, 2008. In 2009, the government will put in place a price indexing formula that will cover operating costs, take account of future rehabilitation investment needs, and eliminate budgetary operating subsidies.

49. In light of the decision to raise prices gradually, the government decided to increase budgetary transfers to JIRAMA from MGA 25 to 43 billion in 2007 to cover losses and urgent investments. This additional investment assistance is being disbursed pursuant to a protocol between the Ministry of Finance and Budget, the Ministry of Energy, and JIRAMA, as validated by the World Bank and the IFC. The government will transfer MGA 54 billion to JIRAMA under the 2008 Budget Law. A memorandum of understanding on capital expenditure, similar to the one on expenditure in 2007, will be drawn up.

50. To carry on JIRAMA's restructuring, the government will renew the contract of the current management team until end-March 2009 and strengthen the team with a few additional experts. At the end of that period, the government will sign a new management contract for a period of five (5) years with clear and measurable performance indicators. This management contract will be subject to an open bidding process that will be prepared in 2008 (proposed benchmark, Table 6). At the end of this management contract, and when all the conditions will be met, the government commits to maintaining the improved performance within the framework of a strengthened partnership with the private sector, with the aim of receiving private financing and eliminating all budgetary transfers.

Policies conducive to private sector development

51. The government has presented to Parliament a new investment law designed to provide a secure, practical, and transparent framework for all investment activities in Madagascar. The law is based on the following principles: (i) the establishment of a secure and attractive legal framework for all private investments in Madagascar, without favoring any given category of investors; (ii) streamlining of a large number of administrative procedures; (iii) access to commercial property for companies incorporated under Malagasy law, whether or not controlled by foreign interests; (iv) establishment of the Economic Development Board of Madagascar (EDBM), with the task of facilitating investment projects as well as promoting and developing investment in Madagascar.

52. The government will propose a draft law to promote exports to Parliament by end-May 2008 (proposed PC, Table 6). It will be elaborated in close cooperation with the private sector. Exports are critical for economic development. Export promotion should help boosting output and fighting poverty through improved income distribution and effective use of Madagascar's untapped potential. In the context of this law, the government will propose measures to promote exports by all sectors and companies without relying on tax exemptions. As a result, the duty free zone and enterprise regime will be eliminated, while grandfathering existing enterprises in the regime. (proposed PC, Table 6). During the elaboration of the law, the Ministry of Budget and Finance and the Ministry of Economy, Trade and Industry will closely collaborate with the EDBM to avoid granting new duty free zone or enterprise agreement for legal or fiscal arbitrage purposes.

Governance

53. Given the country's significant oil and mineral resources, as well as the authorities' commitment to good governance and fiscal transparency, in March 2007 the government officially confirmed its membership in the Extractive Industries Transparency Initiative (EITI) at the EITI conference in Oslo. In August 2007, the government publicly announced its resolve to include civil society in the process, as well as companies operating in the extractive industry. A committee was set up, composed of representatives of the government, the mining and oil companies, and civil society, and including the press and nongovernmental organizations. In December, these representatives drew up a work plan to ensure transparency of the collection and allocation of revenue from mining and petroleum extraction. The government will launch an information campaign to raise awareness in the country concerning the activities of the extractive industry, regulation, and the responsibilities of corporations and citizens in those activities. With support from the Norwegian government and international institutions, the government wishes to obtain appropriate instruments to prevent the adverse effects of the flow of extractive industry investment ("Dutch disease": i.e., local currency appreciation, inflation, and other induced macroeconomic effects). The government also intends to create a "fund for future generations," so that a portion of the revenue that the country's oil and mineral resources are

expected to generate can be invested abroad. As these instruments and the details of the fund have yet to be determined, the government is requesting IMF technical assistance to help in assessing the best method of implementation.

54. Madagascar intends to combat money laundering and major financial crimes. For this purpose, it has decided to set up a Financial Intelligence Unit (SAMFIN). This independent administrative authority will receive a budget appropriation of MGA 1.1 billion (US$600,000) in 2008. Operational in the first quarter of 2008, it will analyze and process the declarations to be filed by entities that conduct, advise on, and control capital movement transactions. The unit will participate in international cooperation and in networks of agencies that combat money laundering.

Statistics

55. In accordance with the MAP, the government intends to improve its statistical system and to make data more easily accessible by the public. The BCM and the Ministry of Finance and Budget will publish statistical data on the Internet. In 2008, the National Statistics Institute (INSTAT) plans to produce a quarterly industrial production index and quarterly national accounts. It also plans to change the base year of the national accounts to 2005 (instead of 1984, currently) as well as modify the reference basket of the consumer price index to better reflect the current consumption of Malagasy households and expand the geographic coverage of the index.

III. PROGRAM MONITORING

56. The program supported by the IMF under the PRGF will be monitored through half-yearly reviews and by applying quantitative and structural performance criteria and benchmarks, as well as the indicative targets mentioned in Tables 5 and 6. The fourth review will include a discussion of the reform of civil service pension funds, to be implemented upon the entry into force of the 2009 Budget Law, and on priority measures to strengthen duty and tax collection by the Customs administration as a follow up to the conclusions of the recent private audit of import operations (¶29), and to collect unpaid taxes and duties identified by this audit.

Table 1. Madagascar: Quantitative Performance Criteria and Indicative Targets for the PRGF Arrangement, 2006 [1]
(Billions of ariary, cumulative change from the beginning of the year, unless otherwise indicated)

	July 31 Performance Criteria				September 30 Indicative Targets				December 31 Performance Criteria				
	Program [2]	Adjusted Program	Actual	Status	Program [2]	Adjusted Program	Actual	Status	Program [2]	Revised Program [3]	Actual	Actual Adjusted	Status
I. Quantitative performance criteria													
External													
(a) Ceiling on accumulation of new external arrears (millions of SDRs) [4]	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	0.0	0.0	…	Met
(b) Ceiling on contracting or guaranteeing of new external debt on nonconcessional terms [4]	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	0.0	0.0	…	Met
Central Bank													
(c) Floor on net foreign assets (NFA) of the BCM [5]	-24.1	-18.2	31.9	Met	62.7	61.6	148.1	Met	77.5	77.5	127.4	198.0	Met
(d) Ceiling on net domestic assets (NDA) of the BCM [5]	16.8	8.7	-47.5	Met	-35.6	-36.7	-102.4	Met	36.9	36.9	-2.2	-72.9	Met
Fiscal													
(e) Ceiling on domestic financing of the central government [5]	133.9	133.9	-8.2	Met	62.1	66.4	-62.6	Met	-55.7	-55.7	47.6	-2.0	Not Met
(f) Floor on tax revenue	695.1	…	722.0	Met	907.8	…	906.5	Not Met	1,295.8	1,259.3	1,260.8	…	Met
(g) Ceiling on accumulation of new domestic arrears [4]	0.0	…	0.0	Met	0.0	…	0.0	Met	0.0	0.0	0.0	…	Met
II. Memorandum items:													
Floor on net foreign assets (NFA) of the BCM NFA (SDR millions) [5,6]	-7.7	-7.7	10.1		20.0	20.0	47.0		47.7	19.9	47.7	62.5	Met
Net external budget (program) support (SDR millions)	-1.1	…	-7.7		30.4	…	46.4		46.5	59.0	44.2	…	
Budget support grants and loans (SDR millions)	16.6	…	15.2		48.6	…	69.4		73.6	84.0	79.2	…	
External cash debt service (SDR millions)	17.7	…	22.9		18.2	…	22.9		27.1	25.0	35.0	…	
Exchange rate (MGA/SDR)	3,134.7	…	3,172.1		3,134.7	…	3,153.3		3,134.7	3,167.3	3,027.3	…	

Sources: Malagasy authorities and IMF staff estimates and projections.

[1] See Technical Memorandum of Understanding (TMU) in IMF Country Report No. 07/7 for full description of variables and adjustments.
[2] IMF Country Report No. 06/306, Republic of Madagascar: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Activation of the Trade Integration Mechanism.
[3] IMF Country Report No. 07/7, Republic of Madgascar: First Review under the Three-Year Arrangement under the PRGF.
[4] To be observed on a continuous basis.
[5] Excluding capital transfer flowing from MDRI assistance from IMF via central bank.
[6] For December 2006, the revised floor on NFA is set in SDR terms.

Table 2. Madagascar: Structural Performance Criteria and Benchmarks for the PRGF Arrangement, 2006

	Timing	Status
Performance Criteria		
▪ No waivers of the requirement to present pre- and post-customs inspection reports for the import and clearance of goods (*Rapport d'inspection recevabilit*é [RIR] and *Rapport d'inspection enlèvemen*t [RIE], or on the use of the pre- and post inspection company SGS valuation of goods.	Continuous	
▪ No granting of ad hoc tax or tariff exemptions outside those specified in the Customs Code and international treaties or conventions.	Continuous	Met
▪ Finalization of an audit of the VAT arrears owed by the government on capital expenditure.	September 30, 2006	Met
▪ No transactions carried out between the government and the central bank that are contrary to the provisions of the Central Bank Charter.	Continuous	Met
▪ Issuance of monthly commitment ceilings for the last quarter of 2006 by the Ministry of Finance to all ministries on the basis of the latest cash flow plan prepared by the Treasury.	September 30, 2006	Not met[1] Implemented on October 24, 2006
Benchmarks		
▪ Extension of the new ASYCUDA++ software to the five largest customs bureaus.	September 30, 2006	Not met Implemented in December 2006
▪ Inclusion of a recapitalization plan for the BCM in the 2007 Budget Law.	October 31, 2006	Met
▪ Development of a comprehensive time-bound action plan translating the 2003 and 2006 IMF FAD tax administration recommendations in operational terms.	December 31, 2006	Met
▪ Install the expenditure tracking information system SIGFP in 13 ministries.	December 31, 2006	Met
▪ Completion of the verification of at least 80 percent of outstanding VAT credits at end-June 2006.	December 31, 2006	Not met Implemented on March 20, 2007

[1] Waived on the occasion of the first review (IMF Country Report No. 07/7, Republic of Madagascar—First Review Under the Three-Year Arrangement Under the Poverty and Growth Facility and Request for Waiver and Modification of Performance Criteria, Staff Report, ¶43)

Table 3. Madagascar: Quantitative Performance Criteria and Indicative Targets for the PRGF Arrangement, 2007-January 2008 [1]
(Billions of ariary, cumulative change from January 1, 2007, unless otherwise indicated)

	March 31, 2007 Indicative Targets				June 30, 2007 Performance Criteria				September 30, 2007 Indicative Targets				Dec. 31, 2007 Indicative Targets		Jan. 31, 2008 Perf. Criteria
	Prog. [2]	Est. Actual	Actual Adjusted	Status	Prog. [2]	Est. Actual	Actual Adjusted	Status Prel.	Prog. [2]	Est.	Actual Adjusted	Status Prel.	Prog. [2]	Proj.	Prog.
I. Quantitative performance criteria															
External															
(a) Ceiling on accumulation of new external arrears (SDR millions) [3]	0.0	0.0	...	Met	0.0	0.0	...	Met	0.0	0.0	…	Met	0.0	0.0	0.0
(b) Ceiling on contracting or guaranteeing of new external debt on nonconcessional terms [3]	0.0	0.0	...	Met	0.0	0.0	...	Met	0.0	0.0	…	Met	0.0	0.0	0.0
Central Bank															
(c) Floor on net foreign assets (NFA) of BCM (SDR millions, excluding MDRI)	-40.6	25.8	23.2	Met	-19.0	88.1	95.8	Met	5.7	112.5	112.5	Met	15.3	106.8	108.3
(d) Ceiling on net domestic assets (NDA) of the BCM (MGA bn)	15.8	-53.2	-168.3	Met	-6.6	-32.8	-295.8	Met	-39.3	-130.3	-340.0	Met	33.3	2.9	-26.4
Fiscal															
(e) Ceiling on domestic financing of the central government	86.9	10.1	20.1	Met	-16.8	-6.0	-42.4	Met	-53.8	-83.5	-106.0	Met	10.8	58.7	80.0
(f) Floor on tax revenue	339.7	292.2	...	Not met	761.3	718.8	...	Not met	1136.9	1,088.5	…	Not met	1523.8	1,492.8	1,624.9
(g) Ceiling on accumulation of new domestic arrears [3]	0.0	0.0	...	Met	0.0	0.0	...	Met	0.0	0.0	…	Met	0.0	0.0	0.0
II. Memorandum items:															
Net external budget (program) support (SDR millions)	-3.5	14.1	...		19.3	11.6	...		42.1	46.1	...		47.2	45.6	48.6
Budget support grants and loans (SDR millions)	0.0	16.5	...		33.5	16.5	...		60.4	54.6	...		76.3	60.0	61.3
External cash debt service (SDR millions)	3.5	2.4	...		14.2	4.9	...		18.3	8.6	...		29.1	14.3	12.7

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

[1] See Technical Memorandum of Understanding (TMU) for definition of variables and adjustments.
[2] Country Report No. 07/7, Republic of Madagascar: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria.
[3] To be observed on a continuous basis.

Table 4. Madagascar: Structural Performance Criteria and Benchmarks for the PRGF Arrangement, 2007

	Timing	**Status**
Performance criteria		
• No granting of ad hoc tax or tariff exemptions outside those specified in the Customs Code and international treaties or conventions, and in exceptional cases decided by the Council of government (natural disasters, public good, reasons of state).	Continuous	Met
• No waivers of the requirement to present pre- and post-customs inspection reports for the import and clearance of goods (*Rapport d'inspection recevabilit*é [RIR] and *Rapport d'inspection enlèvemen*t [RIE] or on the use of the pre- and post-inspection company SGS valuation of goods for all imported goods shipped up until March 31, 2007. .	Continuous	Met
• No waiver of the requirement to generate a cargo tracking slip (BSC) for all imported goods shipped up from April 1, 2007 .	Continuous	Met
• Implementation a recapitalization plan for the BCM which would include at a minimum the issuance of a government bond to recapitalize the BCM and a written agreement between the Treasury and the BCM to pay market-related rates of interest on the Treasury's debt to the BCM.	March 31, 2007	Not met Implemented on May 30, 2007
• Production of a report on commitments, payment orders, and payments by major spending lines during the first quarter of 2007, in at least 13 ministries where the budget information system, SIGFP, is operational.	April 30, 2007	Met
• Issuance of quarterly commitment ceilings by the Ministry of Economy, Finance and Budget to all ministries taking into account the most recent outlook for external and internal resources.	June 30, 2007	Not met Implemented on July 18, 2007
Benchmarks		
• Provide the BCM with new instruments (securities) through the securitization of government debt to help it better manage liquidity.	January 31, 2007	Met
• Complete a study on the opportunity of a single nonzero customs tariff, its budgetary and economic impact, and other possible options within the framework of regional integration.	June 30, 2007	Not met Delayed to January 31, 2008
• Inclusion in the 2008 Finance Law of articles streamlining the Tax and Customs Codes, while meeting the 2008 fiscal revenue objective of the program.	October 31, 2007	Met
• Adopt a streamlined budget classification in the 2008 Finance Law to establish a clear link between each ministry and its programs to ensure accountability and clearly identify poverty reducing expenditure in the budget.	October 31, 2007	Not met Delayed to October 31, 2008

	Timing	Status
• Establish a computerized communication network between the Tax Directorate, the Customs Directorate, and the Treasury to closely monitor tax collection and broaden the tax base.	December 31, 2007	Not met Delayed to June 30, 2008
• Implement a comprehensive time-bound action plan to modernize tax administration in line with the Fund's Fiscal Affairs Department recommendations of June 2006.	December 31, 2007	Met
• Issue an international tender for the transfer of JIRAMA's management to a private operator under a lease (*affermage*).	December 31, 2007	Not met Modified and delayed to September 30, 2008

Table 5. Madagascar: Quantitative Performance Criteria and Indicative Targets for the PRGF Arrangement, 2008 [1]
(Billions of ariary, cumulative change from the beginning of the year, unless otherwise indicated)

	March 31, 2008 Indicative Targets	June 30, 2008 Performance Criteria	September 30, 2008 Indicative Targets	December 31, 2008 Indicative Targets
I. Quantitative performance criteria				
External				
(a) Ceiling on accumulation of new external arrears (SDR millions) [2]	0.0	0.0	0.0	0.0
(b) Ceiling on contracting or guaranteeing of new external debt on nonconcessional terms [2]	0.0	0.0	0.0	0.0
Central Bank				
(c) Floor on net foreign assets (NFA) of BCM (SDR millions, excluding MDRI)	1.6	43.0	81.7	114.4
(d) Ceiling on net domestic assets (NDA) of the BCM (MGA bn)	-56.1	-19.0	-33.6	3.4
Fiscal				
(e) Ceiling on domestic financing of the central government	72.5	-9.8	-33.0	65.6
(f) Floor on tax revenue	396.5	910.9	1,338.3	1,827.1
(g) Ceiling on accumulation of new domestic arrears [2]	0.0	0.0	0.0	0.0
II. Memorandum items:				
Net external budget support (SDR millions)	-2.9	31.0	53.3	49.4
Budget support grants and loans (SDR millions)	1.4	43.0	69.9	74.4
External cash debt service (SDR millions)	4.3	12.0	16.6	25.0

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

[1] See Technical Memorandum of Understanding (TMU) for full description of variables and adjustments.
[2] To be observed on a continuous basis.

Table 6. Madagascar: Structural Performance Criteria and Benchmarks for the PRGF Arrangement, 2008

	Timeline
Performance criteria	
• No granting of ad hoc tax or tariff exemptions or suspensions outside those specified in the Customs Code and international treaties or conventions, and in exceptional cases decided by the Council of government (natural disasters, public good, reasons of state).	Continuous
• Put in place a system to entrust the inspection of goods leaving ports exclusively to a team made up of representatives of the customs administration and GasyNet in all ports where Tradenet is in use, headed by a customs inspector reporting directly to the Director of External Services at Directorate General of Customs headquarters.	January 31, 2008
• Introduce a draft export promotion law to Parliament eliminating the duty free zone and enterprise regime (*régime des zones et enterprises franches*) while grandfathering existing enterprises in the regime.	May 31, 2008
• Update by the Ministry of Finance and Budget of quarterly commitment ceilings for all ministries up to the end of 2008 taking into account the most recent outlook for external and internal resources and expenditure.	July 31, 2008
Benchmarks	
• Complete a study on the opportunity of a single nonzero customs tariff, its budgetary and economic impact, and other possible options within the framework of regional integration.	January 31, 2008
• Production with the public finance information system SIGFP of an expenditure commitment report at end-March, including the number of, and reasons for, rejections by the Directorate General of Financial Control.	April 30, 2008
• Production of the accounts balances of all treasuries linked to SIGFP, which are used to prepare the Treasury general operations table (*Opérations Générales du Trésor*)	April 30, 2008
• Automatic transfer of data on revenue collection by the Directorate General of Taxation and the Directorate General of Customs to the Directorate General of the Treasury via SIGFP	June 30, 2008
• Review of BCM guidelines on exchange reserves management	June 30, 2008
• Publish an international call for tenders for the transfer of JIRAMA's management to a private operator under a management contract.	September 30, 2008
• Adoption of a simplified budget classification in the 2009 budget to: (i) establish a clear link between the objectives assigned to each ministry and the programs it implements; and (ii) clearly identify poverty reduction expenditure in the budget.	October 31, 2008

Appendix I—Attachment II

Madagascar: Technical Memorandum of Understanding on Monitoring the Performance Criteria and Targets for the Program Supported by the Arrangement under the Poverty Reduction and Growth Facility (PRGF) in 2008

1. This technical memorandum of understanding (TMU) defines the variables used to establish the quantitative performance criteria (PCs) and indicative targets for the program, how they are calculated, and any adjustments that may be necessary. The quantitative objectives for January 31, 2008 and June 30, 2008, are performance criteria; those for March 31, 2008, September 30, 2008 and December 31, 2008 are indicative targets. Unless otherwise indicated, flow variables are measured as cumulative from the beginning of the year. However, the quantitative PCs for January 31, 2008 are measured as cumulative from the beginning of 2007.

I. Quantitative Criteria

A. Ceiling on External Payments Arrears

2. These arrears consist of overdue debt-service obligations (i.e., payments of principal and interest) related to loans contracted or guaranteed by the government or the Central Bank of Madagascar (BCM). Debt service obligations (including unpaid penalties and interest charges) are overdue if they have not been paid by the due date or within a grace period agreed with, or unilaterally granted by, each creditor before the due date. They exclude arrears resulting from nonpayment of debt service for which rescheduling negotiations are under way or that are in dispute. This performance criterion should be observed on a continuous basis.

B. Ceiling on Nonconcessional External Borrowing

Definition

3. Nonconcessional external debt has a grant element of less than 35 percent. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (IMF Executive Board Decision No. 12274-00/85, August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. Under the program, nonconcessional debt includes financial leasing and any other instrument giving rights to a current financial liability, under a contract or guarantee by the central government (CG) of Madagascar (defined in paragraph 9), but it excludes debt contracted under rescheduling agreements and normal import-related credits of less than one year. If the CG has a special need for external nonconcessional financing, discussions with IMF staff should take place in advance to consider including the request in the program.

Calculation

4. Calculation of the degree of concessionality of new external borrowing is based on the 10-year average of the OECD's commercial interest reference rate (CIRR) for loans with maturities of 15 years or more and the six-month average CIRR for loans maturing in less than 15 years.

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

Definition

5. The net foreign assets (NFA) of the central bank of Madagascar (BCM) are defined as the difference between its gross foreign assets and total foreign liabilities, including debt to the IMF.

Calculation

6. The programmed change in NFA will be measured in SDRs, subject to adjustment for any shortfall or excess in net external balance of payments assistance as described below.

D. Ceiling on Net Domestic Assets of the Central Bank of Madagascar

Definition

7. The net domestic assets (NDA) of the BCM are defined as the difference between reserve money and the NFA of the BCM. It includes net credit to the government, credit to enterprises and individuals, claims on banks, liabilities to banks (including the proceeds of BCM deposit auctions—*appels d'offres négatifs,* and open market operations), and other items net.

Calculation

8. The outturn for NDA will be adjusted for the variation of the actual versus the quarterly program exchange rates, applied to the stock of NFA of the BCM and the foreign exchange deposits held by the CG, as explained in Section III below.

9. The outturn for NDA will also be adjusted for the excess or shortfall in the net external budget support , as explained in Section III below.

10. The outturn for NDA will be adjusted for changes in the required reserve ratio, if the new reserve requirement has been in effect for at least one full calendar month.

a. For an increase in the reserve ratio, the NDA outturn would be adjusted downward by an amount equal to the percentage point change in the reserve requirement ratio times the average level of deposits held by the public with commercial banks for the month of the target.

b. For a decrease in the reserve ratio, the NDA outturn would be adjusted upward by an amount equal to the percentage point change in the reserve requirement ratio times the average level of deposits held by the public with commercial banks for the month of the target.

E. Ceiling on the Net Domestic Financing Requirements of the Central Government Definition

11. The coverage of the CG, for the purposes of the program, corresponds to the scope of operations of the treasury, as shown in the o*pérations globales du Trésor* (or OGT) (see Table 1 for quarterly breakdown).

12. The net domestic financing of the CG is the sum of the components below.

a. the variation in net bank claims on the CG, plus

b. the change in CG debt to the nonbank system (domestic and nonresident), plus

c. the variation in net debt to treasury correspondents (*correspondants du Trésor)*, plus

d. domestic or foreign receipts from privatization operations, plus

e. the variation in the level of CG domestic payments float (*paiements en instance*), plus

f. the variation in domestic arrears, <u>minus</u>

g. government transfers in 2007 to recapitalize the BCM, interest paid by the government on BCM recapitalization bond in 2007, and government transfers to the BCM in 2008 to defray the cost of sterilization operations.

13. The amount of CG domestic payments float is the difference between committed and paid expenditure (*dépenses engagées et payées*).

14. Domestic arrears are defined in paragraph 21 below.

15. Net bank claims on the government are measured by the change in net credit to government in the monetary survey; they consist of BCM and commercial bank claims on the CG, including auctioned treasury bills (BTAs) and other securities and liabilities, net of CG deposits with the BCM and commercial banks, including foreign currency deposits. The authorities will inform Fund staff of any substantive changes in CG accounts with the banking system, which may affect the calculation of bank claims.

16. Nonbank claims consist of BTAs and other treasury bills (BTs) and bonds placed with nonbank institutions (domestic and nonresident) and the public.

Calculation

17. The net domestic financing outturn of the CG will be adjusted for the variation of the actual versus the quarterly program exchange rates, applied to the net external budget support and to the foreign exchange deposits held by the CG, as explained in Section III below.

18. For nonbank borrowing, the value of BTAs and other government securities should be recorded as the value received at time of issue (sale), that is, face value less discount.

19. Net domestic financing is subject to adjustment for the excess or shortfall in net external budget support, as described in Section III.

F. Floor on Tax Revenue

Definition

20. Tax revenue includes all domestic taxes and taxes on foreign trade received by the treasury.

G. Ceiling on Accumulation of New Domestic Payments Arrears

Definition

21. Domestic payments arrears consist of: (i) all Treasury expenditures for which payment orders have been issued but not paid within three months (*dépenses ordonnancées mais non-payées*); (ii) VAT credits to exporters that are not reimbursed within 60 days of the receipt of a valid request by the Tax Directorate (Direction Générale des Impôts, DGI); and (iii) VAT and Tax on Petroleum Products (TPP) credit to oil distributors for VAT and TPP paid on petroleum supplied to airline and shipping companies for international transport (*avitaillement*), that are not reimbursed within 60 days of the receipt of a valid request by the Customs Directorate (Direction Générale des Douanes, DGD). This performance criterion will be observed on a continuous basis.

II. Monitoring Variables and Memorandum Items

A. Net External Budget Support

Definition

22. Net external budget support is defined as external budget support less cash debt service (Tables 2 and 3).

23. External budget support is defined as cash budget (i.e., not linked to projects) loans and grants, excluding debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC), that are provided as financing and result in funds available to the treasury . It excludes any disbursement of loans or debt relief by the IMF and assistance that gives rise to counterpart funds for the treasury with a delay of longer than one year.

24. Cash debt service is defined as the amount of external debt service the CG pays in cash.

Calculation

25. Programmed net external budget support is recorded in SDRs and converted into MGA at the quarterly program exchange rates. The outturn of the CG of net external budget support will be adjusted for the variation of the actual versus the program exchange rates and net external budget support as explained in section III below. Counterpart funds to assistance in kind are posted as budget support when deposited with the treasury.

B. Program Exchange Rate

Definition

26. For accounting purposes, program exchange rates have been set (previous MEFP, Table 3 for 2007 [1] and Table 2 for 2008). Foreign exchange stocks and flows that affect performance criteria and benchmarks have been converted to MGA at the MGA/SDR program exchange rates. Original amounts denominated in U.S. dollars and in euros have been converted into SDRs by applying the program rates of 1 SDR = 1.520 US$ and 1 SDR = 1.172 € for 2007; and 1 SDR = 1.538 US$ and 1 SDR = 1.126 € for 2008.

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[1] IMF Country Report No. 07/7, Republic of Madagascar: First Review under the Three-Year Arrangement under the PRGF, Memorandum of economic and financial policies, Table 3.

III. EXCHANGE RATE AND NET EXTERNAL BUDGET SUPPORT ADJUSTERS

A. Exchange Rate

27. In the fiscal and monetary tables, outturns for program variables in foreign currency are converted to MGA at the exchange rate occurring on the day of assessment for stocks and on the day of transaction for flows.

28. To compare actual outturns to program targets, outturns for program variables in foreign currency are converted to MGA at the program exchange rate.

B. Net External budget support

29. If there is a shortfall in net external budget support versus the programmed amount on any test date, the actual outturns of the following PCs and indicative targets will be adjusted by the amount of the year-to-date shortfall up to a cumulative maximum of SDR 15 million per year, according to the following method:

a. the BCM's NFA outturn will be adjusted upward by an equal amount up to a cumulative maximum of SDR 15 million;

b. the BCM's NDA outturn will be adjusted downward by an equal amount up to a cumulative maximum of SDR 15 million that will be converted into MGA at the programmed exchange rate; and

c. the CG net domestic financing outturn will be adjusted downward by an equal amount up to a cumulative maximum of SDR 15 million that will be converted into MGA at the programmed exchange rate.

30. If there is a cumulative excess of more than SDR 30 million in net external budget support on any test date, the actual outturns of following PCs and indicative targets will be adjusted by the amount of the year-to-date excess (above SDR 30 million), according to the following method:

a. the BCM's NFA outturn will be adjusted downward by the excess;

b. the BCM's NDA outturn will be adjusted upward by the excess that will be converted into MGA at the programmed exchange rate; and

c. the CG net domestic financing outturn will be adjusted upward for the excess that will be converted into MGA at the programmed exchange rate.

IV. Information and Data to be Supplied to Fund Staff

31. In addition to the information already specified in the previous Technical Memorandum[2] the authorities will provide the following information:

transfers from the government to the BCM to defray the cost of sterilization operations.

[2] IMF Country Report No. 07/7, Technical Memorandum ¶¶ 28-29.

Table 1. Madagascar: Quarterly Government Financial Operations, 2008
(Billions of ariary, cumulated since the beginning of the year)

	January Prog.	March Prog.	June Prog.	September Prog.	December Prog.
Total revenue and grants	184.5	548.4	1,288.6	1,885.0	2,569.7
Total revenue	133.7	401.0	924.8	1,362.6	1,862.1
Tax revenue	132.2	396.5	910.9	1,338.3	1,827.1
Domestic taxes	62.9	188.8	467.3	681.2	921.9
Taxes on foreign trade	69.2	207.7	443.6	657.2	905.2
Nontax revenue	1.5	4.5	13.9	24.3	35.0
Grants	50.9	147.4	363.8	522.4	707.6
Current grants	4.3	7.6	87.5	93.6	111.0
Capital grants	46.6	139.8	276.3	428.7	596.6
Total expenditure	252.5	759.2	1,566.0	2,333.9	3,303.8
Current expenditure	134.5	405.2	847.0	1,253.9	1,718.0
Personnel	67.5	202.6	405.3	607.9	810.6
Interest expenditure	15.1	46.9	100.7	135.2	192.9
Foreign interest obligations	1.6	6.3	15.3	22.5	32.2
Domestic interest obligations	13.5	40.6	85.4	112.7	160.7
Other	48.9	146.6	312.0	465.2	642.0
Of which : transfer to central bank	1.3	4.3	8.7	13.4	19.4
Treasury operations (net) [1]	3.0	9.0	29.0	45.6	72.5
Capital expenditure	118.0	354.0	719.0	1,080.0	1,585.7
Domestically financed	24.8	74.5	187.8	272.5	416.6
Foreign financed	93.2	279.5	531.3	807.5	1,169.1
Overall balance (commitment basis)					
Excluding grants	-118.9	-358.2	-641.3	-971.3	-1,441.6
Including grants	-68.0	-210.8	-277.4	-448.9	-734.0
Including grants, excluding central bank recapitalization	-68.0	-210.8	-276.4	-446.9	-717.7
Domestic balance (commitment basis) [2]	-24.1	-72.4	-94.7	-141.3	-240.3
Float [3]	-4.8	-14.4	25.6	35.6	0.0
Variation of domestic arrears	-12.8	-38.5	-38.5	-38.5	-38.5
Overall balance (cash basis)					
Excluding grants	-136.5	-411.1	-654.2	-974.1	-1,480.1
Including grants	-85.6	-263.6	-290.3	-451.8	-772.5
Financing	85.6	263.6	290.3	451.8	772.5
Foreign (net)	45.3	134.0	278.6	468.6	649.1
Drawings	46.5	139.6	296.5	492.2	686.0
Budget	0.0	0.0	41.6	113.4	113.4
Projects	46.5	139.6	254.9	378.7	572.5
Amortization	-1.2	-5.6	-18.0	-23.6	-36.9
Domestic (net)	40.3	129.6	11.8	-16.8	123.4
Banking system	16.2	41.8	8.5	-64.8	21.7
Central bank	-17.1	-58.2	-16.5	-14.8	46.7
Of which: MDRI account	8.1	8.1	16.3	24.4	32.6
Commercial banks & OPCA	33.3	100.0	25.0	-50.0	-25.0
Nonbanking system	24.1	87.8	3.2	48.0	101.7
Treasury correspondent accounts (net)	0.0	0.0	0.0	0.0	0.0
Memorandum items:					
Net domestic financing [4]	21.3	72.5	-9.8	-33.0	65.6

Sources: Ministry of Economy, Finance, and Budget; and Fund staff estimates and projections.

[1] See Staff Report Table 4a, footnote 4.

[2] See Staff Report Table 4a, footnote 5.

[3] See Staff Report Table 4a, footnote 6.

[4] See Staff Report Table 4a, footnote 7.

Table 2. Madagascar: Programmed Net External Budget Support, 2007-January 2008
(in Millions of SDRs, cumulative from January 1, 2007)

	2007								2008
	30-Mar		30-Jun		30-Sep		31-Dec		31-Jan
	Prog. [2]	Actual	Prog. [2]	Actual	Prog. [2]	Est.	Prog. [2]	Proj.	Rev. Prog.
Budget grants	0.0	16.5	23.0	16.5	23.0	17.8	38.9	23.1	24.5
European Union	0.0	15.9	9.5	15.9	9.5	15.9	18.9	21.2	21.2
STABEX and PASA	0.0	0.7	6.5	0.7	6.5	1.9	12.9	1.9	3.3
UNDP grants	0.0	0.0	7.1	0.0	7.1	0.0	7.1	0.0	0.0
Budget loans	0.0	0.0	10.5	0.0	37.4	36.8	37.4	36.8	36.8
World Bank	0.0	0.0	0.0	0.0	26.9	26.3	26.9	26.3	26.3
African Development Bank	0.0	0.0	10.5	0.0	10.5	10.5	10.5	10.5	10.5
Total program grants and loans	0.0	16.5	33.5	16.5	60.4	54.6	76.3	60.0	61.3
External debt service (budget, cash basis) [1]	3.5	2.4	14.2	4.9	18.3	8.6	29.1	14.3	12.7
Interest	0.6	1.0	3.7	1.4	4.1	3.1	7.0	6.2	6.8
Amortization	2.9	1.4	10.5	3.5	14.2	5.5	22.1	8.1	5.9
Net external budget support	-3.5	14.1	19.3	11.6	42.1	46.1	47.2	45.6	48.6
Memorandum item:									
Program exchange rate (MGA/SDR) [3]	3350	3015	3350	2810	3350	2816	3350	2817	2790

Source: Malagasy authorities and Fund staff estimates and projections.

[1] Net of HIPC and MDRI debt relief.

[2] IMF Country Report No. 07/7, Republic of Madagascar: First Review under the Three-Year Arrangement under the PRGF.

[3] Rate used only for accounting purposes to set and monitor indicative targets and performance criteria.

Table 3. Madagascar: Programmed Net External Budget Support, 2008
(in Millions of SDRs, cumulative since January 1, 2008, unless otherwise indicated)

	31-Jan [2]	31-Mar	30-Jun	30-Sep	31-Dec
Budget grants	24.5	1.4	28.0	28.9	33.3
European Union	24.5	1.4	28.0	28.9	33.3
STABEX and PASA	3.3	1.4	1.4	2.3	6.8
Other	21.2	0.0	26.5	26.5	26.5
Budget loans	36.8	0.0	15.0	41.0	41.0
World Bank	26.3	0.0	0.0	26.0	26.0
African Development Bank	10.5	0.0	15.0	15.0	15.0
Total program grants and loans	61.3	1.4	43.0	69.9	74.4
External debt service (budget, cash basis) [1]	12.7	4.3	12.0	16.6	25.0
Interest	6.8	2.3	5.5	8.1	11.6
Amortization	5.9	2.0	6.5	8.5	13.3
Net external budget support	48.6	-2.9	31.0	53.3	49.4
Memorandum item:					
Program exchange rate (MGA/SDR) [3]	2790	2790	2775	2760	2745

Source: Malagasy authorities and Fund staff estimates and projections.

[1] Net of HIPC and MDRI debt relief.

[2] Cumulative since January 1, 2007.

[3] Rate used only for accounting purposes to set and monitor indicative targets and performance criteria.

INTERNATIONAL MONETARY FUND

REPUBLIC OF MADAGASCAR

Second and Third Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria

Informational Annex

Prepared by the African Department

(In collaboration with other departments)

Approved by Thomas Krueger and Mark Plant

January 10, 2008

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. As of November 30th, 2007, outstanding PRGF loans amounted to SDR 27.1 million.
- **Relations with the World Bank**. Describes the World Bank Group's strategy and portfolio and identifies Bank and Fund areas of responsibility.
- **Statistical Issues.** Assesses the quality and timeliness of statistical data and identifies areas of weakness that are hampering analysis of economic developments.

Contents Page

I. Madagascar: Relations with the Fund

(As of November 30th, 2007)

I. Membership Status: Joined: September 25, 1963; Accepted the obligations of Article VIII, Sections 2, 3 and 4: September 18, 1996.

II. General Resources Account:	**SDR Million**	**% Quota**
Quota	122.20	100.00
Fund holdings of currency	122.17	99.98
Reserve position in Fund	0.03	0.02

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	19.27	100.00
Holdings	0.09	0.46

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
PRGF Arrangements	27.06	22.14

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jul 21,2006	Jul 20, 2009	54.99	15.71
PRGF	Mar 01,2001	Mar 01, 2005	91.65	91.65
PRGF	Nov 27,1996	Nov 30, 2000	81.36	78.68

VI. Projected Payments to Fund (after HIPC and MDRI assistance)
(SDR million; based on existing use of resources and present holdings of SDRs):

			Forthcoming		
	2007	2008	2009	2010	2011
Principal				1.13	2.27
Charge/interest	0.07	0.82	0.81	0.81	0.80
Total	0.07	0.82	0.81	1.95	3.07

VII. Implementation of HIPC Initiative:

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

VIII. Implementation of MDRI Assistance:

I. MDRI-eligible debt (SDR million)[3]	137.29
Financed by: MDRI Trust	128.50
Remaining HIPC resources	8.79

II. Debt Relief by Facility (SDR million)

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

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

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

[3] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries. The debt relief covers all debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions, the Fund's own resources, and resources already disbursed to the member under the HIPC Initiative (see Section VII above).

IX. Safeguards Assessments:

A safeguards assessment of the Central Bank of Madagascar (BCM) was completed on March 17, 2006; a previous assessment was completed in November 2001. The 2006 assessment identified continued weaknesses in BCM internal controls, financial reporting, and legal framework, and made recommendations to address the observed vulnerabilities. The recommendations included: (i) an annual external audit report on the BCM's transactions with the government and their compliance with the central bank law; (ii) quarterly reviews by the BCM's internal audit function of monetary program data reported to the Fund; (iii) adoption of International Financial Reporting Standards (IFRS) for BCM accounting; and (iv) measures to strengthen the quality of the BCM's external audit, e.g., appointment of an international audit firm with experience in IFRS and international auditing standards.

X. Exchange System and Exchange Rate Arrangements:

After April 1982, when the peg to the French franc was discontinued, the exchange rate was managed with reference to a basket of 10 currencies. By the end of 1991, the authorities stopped the practice of adjusting the exchange rate to offset inflation differentials with key trading partners. Since July, 2004, the Malagasy franc has been determined through a continuous interbank foreign exchange market system, and on January 1, 2005, the Ariary (MGA) replaced the Malagasy franc as the country's official unit of account, at the rate of MGA 1=FMG 5. The exchange rate in terms of the SDR at end-November 2007 was MGA 2,817 = SDR 1. The exchange rate regime is classified as a managed float with no predetermined path.

Madagascar accepted the obligations of Article VIII, Sections 2, 3, and 4 on September 18, 1996 and maintains no restrictions on the making of payments and transfers for current international transactions. Staff is currently working with the authorities as they put in place a new foreign exchange law and implementing regulations, to ensure that the new regime remains consistent with Madagascar's obligations under the Articles of Agreement. Staff is also currently working with the authorities to determine if Madagascar has imposed any exchange restrictions solely for the preservation of national or international security, and to ensure that any such restrictions are notified promptly to the Fund in accordance with the procedures set out in Decision No. 144-(52/51) (August 14, 1952).

XI. Last Article IV Consultation:

The 2007 Article IV consultation staff report was discussed by the Executive Board on June 25, 2007 (Country Report No. 07/236, July 10, 2007).

XII. Technical Assistance:

Department	Dates	Purposes	Results of Missions
FAD	January–February 2003	Examine and assess tax and customs administration.	Comprehensive action plan and report on establishment of an oversight committee prepared.
FAD	July–August 2003	Examine and assess tax policy and assist in tax policy design.	Comprehensive action plan and report on next steps prepared.
FAD	May–June 2004	HIPC Assessment and Action Plan (AAP).	Comprehensive action plan established.
FAD	July 2005	Examine and assess the status of recent reforms in PFM.	Short and medium term strategy for continuation of reforms established.
FAD	March 2006	Examine and assess tax and customs administration.	Comprehensive recommendations proposed.
FAD	February 2007	Simplify Tax Code	Comprehensive recommendations proposed.
FAD	April 2007	Improve cash management and commitment planning	Comprehensive recommendations proposed.
FAD	July 2007	Simplify Tax Code	Comprehensive recommendations to conduct preparatory analytical work
FAD	September 2007	Simplify Tax Code	Comprehensive recommendations to finalize reform of the tax code.
FAD	November 2007	Improve cash management and commitment planning	Review of progress in implementing recommendations.
LEG	July 2005	Diagnostics for the drafting of a new foreign exchange	Factual aspects of the current FX regime were clarified and a number of issues identified

Department	Dates	Purposes	Results of Missions
		code.	that must be resolved. Discussions are ongoing.
MFD	September 2004	Review operations of the new interbank foreign exchange market.	Recommendations are being implemented.
MFD	November–December 2004	Strengthen banking supervision.	Recommendations are being implemented.
MFD	February–March 2005	Review monetary and exchange operations, bank liquidity management, and banking supervision.	Recommendations are being implemented.
MFD	April–May and July 2005	Financial sector assessment program (FSAP) mission.	The report has been circulated to the Board.
MFD	September–October 2005	Strengthening the financial supervision of the central bank.	Recommendations have been made.
MFD	October 2005	FSAP follow-up.	Recommendations are being implemented.
MFD	November 2005	Assist the central bank in improving foreign reserve management.	Recommendations have been made.
MFD	February–April 2006	Assist the central bank in further strengthening its foreign exchange, monetary, and banking supervision areas.	Recommendations have been made.
MFD	September 2006	Assess the recapitalization of the Central Bank of Madagascar.	Consultants findings were incomplete–additional mission required.
MCM	December 2006	Assist the Central Bank of Madagascar to improve bank liquidity management.	Comprehensive recommendations proposed.

Department	Dates	Purposes	Results of Missions
MCM	December 2006	Implement recapitalization of the Central Bank of Madagascar.	Recommendations provided.
MCM	March-April 2007	Enhance BCM's capacities in monetary and foreign exchange operations, bank liquidity management, and banking supervision.	Comprehensive recommendations proposed.
STA	February 2004	Multisector statistics mission.	Recommendations for data improvements accepted.
STA	February 2006	Improve national account statistics.	Reviewed estimation of national income accounts and provided technical guidance to move base year to 2005.
STA	January-February 2007	Improve national account statistics.	Follow up to move base year to 2005.

XIII. Resident Representative:

Madagascar has had a Fund Resident Representative since September 1989. Mr. Pierre van den Boogaerde took up the post in February 2006.

II. MADAGASCAR: RELATIONS WITH THE WORLD BANK

(As of December 25, 2007)

Madagascar's Development Strategy

1. The government has put in place the Madagascar Action Plan (MAP), a bold development plan for 2007–12 that is the second-generation Poverty Reduction Strategy. The MAP envisages accelerated and better-coordinated reforms and outlines the "strategies and actions that will ignite rapid growth, lead to the reduction of poverty, and ensure that the country develops in response to the challenges of globalization and in accordance with the national vision—*Madagascar Naturally*—and the Millennium Development Goals."

2. The MAP was prepared in a participatory way and makes eight commitments: (1) responsible governance; (2) connected infrastructure; (3) educational transformation; (4) rural development and a green revolution; (5) better health, family planning, and the fight against HIV/AIDS; (6) a high-growth economy: (7) a cherished environment; and (8) national solidarity. For each commitment, the government identified challenges, goals and strategies, priority activities, and monitoring indicators. The MAP identifies six "breakthrough initiatives"—areas requiring immediate attention: (1) public finance reform; (2) significant increase in investment to promote high growth; (3) sowing the seeds of a green revolution; (4) transforming public security; (5) implementing bold new measures for health and family planning; and (6) transforming the judiciary.

3. Programs for implementing MAP commitments are being elaborated in greater detail in sector strategies. Some of these strategies are already in place, among them the National Environmental Action Plan and strategies in rural development, health, primary education, rural water, transport, and HIV/AIDS. The government is finalizing a risk management and social protection strategy and is working on a financial sector strategy. Implementation of the MAP is guided by the budget and the *Politique Générale de l'État*, which represents annual agreements between the president and cabinet ministers.

Bank Group Country Assistance Strategy (CAS) and Lending Operations

4. The World Bank's Country Assistance Strategy has been designed in parallel with the elaboration of the MAP in terms of timing, duration, and substance (it was discussed by the Bank's Board on April 3, 2007). The CAS covers almost the same time period as the MAP (2007–12) and supports attainment of the MAP goals. In doing so, the CAS supports the areas of the government program that have the highest priority; those where the Bank Group has a comparative advantage. The CAS will continue the Bank Group's focus on removing bottlenecks to sustainable and shared growth, anchored in good governance, with corresponding improvements in welfare indicators and thus MAP goals. The specific sets of results supported by the CAS are organized around two main pillars. The first concentrates on activities that will help remove constraints to investment and growth in rural and urban

areas. The second brings together activities geared toward improving the scope and quality of service delivery.

5. The CAS sets out a program of Bank support that encompasses budget support (PRSCs); sector-wide operations (SWAPs); investment projects; public-private partnerships; and analytical and advisory activities (AAA). Poverty Reduction Support Credits (PRSC) will continue to serve as a forum for policy dialogue with the government and as a platform for donor harmonization. The next series of the PRSCs was approved by the Board in July 2007 and further emphasizes removing policy bottlenecks to achieving the MAP and CAS objectives. Given the breadth of the potential agenda, the Poverty Reduction Support Credits seek to avoid dispersion and focus on a few critical issues (such as governance and public resource management). They will provide US$40–60 million a year to complement IDA MDRI debt relief of over US$30 million a year during the CAS period. In response to the lessons learned from previous Poverty Reduction Support Credits, the transition to budget support is occurring more gradually and budget support will only be scaled up gradually to encompass other sectors in tandem with improvements in the public finance system.

6. With respect to pillar one of the CAS, removing constraints to investment and growth, the Bank will continue to provide integrated assistance through the Growth Poles Project (FY06), the Watershed and Irrigation Adaptable Program Loan (FY07), two on-going transport operations and one future project under preparation, followed by planned growth operations in FY09 and FY10. The Poverty Reduction Support Credits will complement, as needed, implementation of pro growth policies, help sort out priorities, address coordination issues, and provide budget support. Analytical work will supplement these efforts with a comprehensive infrastructure review to identify the main bottlenecks, draft a strategic vision, and evaluate the impact of investments.

7. The Country Economic Memorandum on growth which is under preparation will enrich the current growth diagnostics and help fine-tune future World Bank Group interventions, specifically the future growth operations. The Bank Group will step up its assistance to better integrate the economy into global and regional markets and to profit from market opportunities at home. This will include continued technical assistance to build government capacity and to help producers adopt improved quality standards within the Trade Integrated Framework Program. The Watershed and Irrigation project ($30 million) – financed currently by IDA with an additional financing of $6 million from GEF scheduled for May 2008 - is financing investments in irrigation infrastructure and supporting marketing and other services to increase agricultural productivity and diversification. The Bank Group will continue its programs aimed at lowering air transport and telecommunication costs and improving accessibility through an open sky policy and upgrades to the telecommunications sector, such as development of a national backbone connected to the regional communications network via the East Africa Submarine System (EASSy). This is being supported by a regional IDA project in which Madagascar is participating, that was approved by the Board in early March 2007.

8. The Bank will increase its support to the financial sector, making sure that all segments of demand, from microfinance to large enterprises, are adequately covered. IDA will provide technical assistance to improve supervision and regulation, payment and credit information systems, and the institutional capacity of the sector. IDA and the IFC will continue to cooperate on facilitating access to credit and other financial services, including such emerging areas as guarantees and leasing. Building on the FSAP recommendations and successful implementation of the IDA microfinance pilot project, the Bank Group will also continue to help the government to draw up a strategy, framework, and programs for scaling up and expanding coverage of financial sector interventions by using a sector-wide approach with other donors. A supplemental IDA credit for the microfinance project was approved (on April 10, 2007) to provide bridge financing until multi-donor sector wide support is in place and other sources of financing become available. In September 2007, Madagascar was selected to receive a $15 million grant for a Financial Sector Project from the Africa Catalytic Growth Fund: this project is on a fast-track for delivery and is scheduled for approval in early 2008. The project will build on the FSAP recommendation and will provide support to the Government to implement key elements of the financial sector strategy currently being finalized.

9. The Bank Group will continue its efforts to improve the energy sector. The main instruments are the Energy and Water Adaptable Program Loan 1&2 (FY07/09) and an IFC–IDA Partial Risk Guarantee for public-private partnership investments in hydropower (FY08). IDA will continue to assist the government in improving its business climate and bring in more foreign direct investment. This will include (i) continued assistance to the Economic Development Board through the Growth Poles project and other agencies to improve regulation; (ii) increase transparency in issuing licenses and concessions (especially in mining, fishing, tourism, and forestry); and (iii) improve the quality of governance in extractive industries; Madagascar's membership in the Extractive Industries Transparency Initiative (EITI) will be supported through the current Mining Project and through additional financing for this project that was approved on May 22, 2007. A follow-on IDA project (FY10) in the environment sector is also planned.

10. The World Bank Group will complement growth-generating activities under the first CAS pillar with activities aimed at facilitating access to services. Helping to improve all aspects of public finances is a high priority for the CAS. Working jointly with other partners, such as the IMF and France, IDA will continue to help the authorities work to mobilize increased internal resources. Work on taxation and customs will seek to streamline the rules, create a level playing field for all taxpayers by reducing tax exemptions, and facilitate compliance with tax laws. IDA, working jointly with other donors, will continue to help the government better align allocation of resources with MAP priorities, improve budget execution, implement new procurement legislation, and measure the impact of public resource use. Periodic Public Expenditure and Financial Accountability (PEFA) assessments will monitor progress. IDA instruments will include Poverty Reduction Support Credits, the current and future Governance and Institutional Development Program projects, and

complementary analytical and advisory work, such as the programmatic Public Expenditure Review, the Country Financial Accountability Assessment, a social accountability program, and continued close portfolio management.

11. IDA, jointly with other donors, will continue to assist the government in its efforts to achieve universal enrollment in primary education, increase completion rates, and improve the quality of education at all levels to better prepare the workforce for a more advanced economy. The primary avenue for assistance is the Education for All Fast-Track Initiative with Africa Catalytic Fund resources. IDA assistance will also include a future investment operation in post primary education and review of the labor market. In health, it will help the government make further progress on reducing child and maternal mortality by offering access to reproductive services, reducing child malnutrition, improving the availability of clean water and sanitation services, and keeping HIV/AIDS and sexually transmitted disease rates under control. This will be achieved through current operations in health and HIV/AIDS and the FY07 follow-on health project which is working gradually towards using a sector-wide approach. IDA will continue to work with the government on institutionalizing the nutrition program and extending nutrition support sites nationwide initially through the nutrition project and then through general budget support.

12. IDA will help the authorities decentralize the provision of basic services. The assistance will focus on support to the fine-tuning and implementation of the decentralization strategy, including assigning revenues and expenditure responsibility across different levels of government. IDA, the European Union, and other donors will provide financial support for the Local Development Fund (FY08) which is a new mechanism for financing local infrastructure that builds on the experience of the Community Development Project. Technical assistance will be provided through the Governance and Institutional Development Project, Community Development Project, and sector dialogue. Poverty Reduction Support Credits will provide budget support to key sectors and help identify priorities and monitor the implementation agenda.

13. As of December, 2007 the Bank's portfolio consists of 17 IDA projects, one regional telecommunications project and one GEF project; total commitments are US$1,086 million, including the PRSC IV of $40 million that was disbursed in September 2007. Of the total portfolio amount, US$300 million is not yet disbursed. Projects scheduled for approval in FY08 include the Financial Sector Project ($15 million in grants), the Local Development Fund ($26 million), the second Governance and Institutional Development Project ($20 million), additional financing to the Growth Poles project ($30 million) and the Watershed GEF Project ($6 million).

IMF-World Bank Collaboration in Specific Areas

Areas where the Bank takes the lead

14. The World Bank takes the lead in advising in sectors where the Bank has active lending operations (especially in the social sectors, infrastructure, agriculture, and environment) and through a number of analytical studies. Together with the government and other donors, the Bank supports aid coordination, which includes mobilizing donor support for the MAP and the Education for All initiative.

Areas where the IMF takes the lead

15. The Fund takes the lead in policy advice and reforms related to (i) macroeconomic policies and targets; (ii) tax policy and administration; (iii) budgetary accounting; (iv) treasury procedures; (v) public sector wage policy; and (vi) monetary management and exchange rate policy. The Bank team actively participates in discussions between the Fund and the government in all these areas, especially with respect to tax policy and the setting of macroeconomic targets.

Areas of joint responsibility

16. IMF and World Bank staff work closely together on (i) support to the MAP; (ii) analysis and reforms in public financial management; (iii) other governance reforms, including customs; and (iv) financial sector assessment. Joint policy advice is given on budgetary procedures, including expenditure execution, and the functioning of internal and external budget controls. The Bank and the Fund are working particularly closely on helping the authorities to mobilize more internal resources. Work on taxation and customs will seek to streamline the rules, create a level playing field for all taxpayers by reducing tax exemptions, and facilitate compliance with tax laws. In addition, IDA and the IMF will continue to help the government better align the allocation of resources with MAP priorities, improve budget execution, implement new procurement legislation, and measure the impact of public resource use. Periodic PEFA assessments will monitor progress.

17. The Bank and the Fund are supporting implementation of the recommendations of the 2005 FSAP. The dialogue focuses on supporting the financial sector strategy framework and helping scale up and expand support to the financial sector by preparing a sector-wide approach with other donors.

III. MADAGASCAR: STATISTICAL ISSUES

1. Macroeconomic data are adequate for surveillance purposes, but need to be improved. The database remains weak, particularly in the areas of real sector, government finances, the balance of payments, and social statistics. The authorities are aware of these deficiencies and are working, with technical assistance from the international community, including the Fund, to alleviate them. Since May 2004, the country has participated in the General Data Dissemination System (GDDS). However, the metadata and plans for data improvement that are posted on the Data Dissemination Bulletin Board (DSBB) need to be updated.

Real sector

2. Production of complete national accounts (based on benchmark data) is infrequent and depends on irregularly collected source data. The last complete sets of benchmark data are for 2001. The reliability of national accounts estimates remains weak due to gaps in the source data and methodological shortcomings. In particular, the estimates of agricultural activities are poor because there is no suitable information about the size and the evolution of this sector. Moreover, service activities are not properly covered and little information is available on the magnitude of the informal sector. The recent national accounts missions helped the authorities complete a comprehensive exercise for 2001 GDP following the *1993 SNA*. The National Institute of Statistics (INSTAT) is completing the details of the 2001 national accounts exercise and using it to transit to a new base year, 2005. Preparation of provisional estimates for the period 2002-2005 is underway.

3. INSTAT currently produces two industrial production indices, one for the export processing zone (IPI-ZF) and the other for enterprises outside the export processing zone (IPI-RC). These two indices have different survey frameworks and base years (2000 for the IPI-ZF and 2001 for IPI-RC). Both are quarterly but are released irregularly, sometimes with a lag of up to one year.

4. The current consumer price index (CPI) covers the four principal cities, has a base year of 2000, and expenditure weights based on the 1999 household survey. The CPI is generally reported to Fund staff on a timely basis. INSTAT plans to update the base year to 2005 and to derive new weights from the 2005 household expenditure survey in the near future. Data on producer prices and nationwide employment are not available. Various considerations underlie current work on revising the wholesale price index (WPI). The key issue is the relative importance of commercial activities. However, the usefulness of the WPI is constrained by the limited coverage of manufacturing products and insufficient timeliness.

Government finance

5. The 2004 multisector mission found significant gaps in the coverage of government financial statistics (GFS) and recommended that it be broadened to include public agencies that are part of the central government. Also, the mission made recommendations on the classification and recording of transactions, as well as the calculation of domestic arrears.

6. Data on central government financial operations are disseminated only annually, and data on public debt are not disseminated at all. The mission recommended monthly dissemination of central government data, and quarterly dissemination of the public debt data, but monthly reporting of both types of data to STA for publication in *IFS*. The latest data reported to STA and published in the 2007 *GFS Yearbook* relate to the consolidated central government for 2006. However, on the basis of available institutional information, it appears that they do not cover all extra budgetary units within the central government and classification problems remain, which require extensive use of adjustment entries to current expenditure, grants, and consumption of fixed capital. Detailed breakdowns of data on budgetary and nonbudgetary transactions are unavailable and it is not possible to determine outlays by functions of government. The country does not report sub-annual data for publication in *International Finance Statistics* (*IFS*).

Balance of payments

7. The Central Bank of Madagascar (BCM) implemented in 1997 the fifth edition of the *Balance of Payments Manual (BPM5)*. However, the current compilation system is flawed, external trade data are derived from customs data that suffer from inadequate coverage and deficient recording procedures. Moreover, reported smuggling, particularly in the mining sector, further reduces the reliability of the trade data. Because the customs processing system has experienced numerous technical disruptions since 1998, trade data require many manual corrections. The implementation of the ASYCUDA (Automated System for Customs Data, Version 2.7) was largely completed by mid-2002, with the system installed in most customs offices. The five largest customs offices have been upgraded to the most recent version of ASYCUDA at end-2006.

8. The 2004 multisector technical assistance mission reviewed progress in the transition to *BPM5* and found that the authorities had implemented foreign direct investment enterprise surveys and are using an upgraded international transactions reporting system (ITRS). The mission noted that the compilation system is still hampered by such recurring issues as excessive processing lags due to partial automation of customs reports and inadequate coverage of, for example, transactions for the private sector, NGOs, and foreign embassies. Also, debt relief obtained from multilateral financial institutions is still misclassified as a current transfer rather than as a capital transfer.

9. The EPZs that process goods and reexport them to a third economy are not properly identified within other business services (merchandising and other trade related services).

10. Although ASYCUDA and port authorities can provide separate data for freight, insurance and other categories, the current 12 percent c.i.f./f.o.b. correction for balance of payments statistics is entirely attributed to freight. Data for the services and income accounts rely excessively on the ITRS reports, and their accuracy is not routinely assessed against other readily available data.

11. As noted by previous STA missions, INSTAT and the BCM continue to use different techniques to adjust customs data and publish two distinct series of trade statistics, bringing into question the reliability of the balance of payments statistics.

12. The compilation of external debt statistics is generally satisfactory, and the United Nations Conference on Trade and Development (UNCTAD) is installing the latest version of the Debt Management and Financial Analysis System (DMFAS). This system is not yet fully operational; some data entry is still pending, and certain DMFAS modules have yet to be installed.

Monetary and financial statistics

13. The 2004 multisector mission found that prior TA advice had not been implemented, most notably: (i) improvement of the staff and computer resources in the unit in charge of compiling monetary statistics; (ii) electronic transmission of monthly call report forms by the commercial banks to the BCM; and (iii) expansion of the broad money survey to include the microfinance institutions that issue liabilities that meet the national definition of broad money. The mission recommended further improvements to the source data and the compilation of monetary statistics in closer observance of the Fund's *Monetary and Financial Statistics Manual* methodology. The BCM reports monetary and financial data to STA on a timely basis for publication in *IFS*.

Madagascar: Table of Common Indicators Required for Surveillance

As of December 20, 2007

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Nov. 2007	Dec. 2007	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov. 2007	Dec. 2007	M	M	M
Reserve/Base Money	Nov. 2007	Dec. 2007	M	M	M
Broad Money	Sept. 2007	Nov. 2007	M	M	M
Central Bank Balance Sheet	Nov. 2007	Dec. 2007	M	M	M
Consolidated Balance Sheet of the Banking System	Sept. 2007	Nov. 2007	M	M	M
Interest Rates[2]	Oct. 2007	Nov. 2007	Q and M	Q and M	Q and M
Consumer Price Index	Nov. 2007	Dec. 2007	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Sep. 2007	Nov. 2007	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Sep. 2007	Nov. 2007	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2006	Mar. 2007	A	A	A
External Current Account Balance	Q2 2007	Q3 2007	Q	Q	Q
Exports and Imports of Goods and Services	Aug. 2007	Q4 2006	M	Q	Q
GDP/GNP	2006	Jun. 2007	A	A	A
Gross External Debt	Dec. 2006	Q1 2007	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); and Not Available (NA).

Statement by the IMF Staff Representative for the Republic of Madagascar
January 30, 2008

1 This statement summarizes economic developments since the issuance of the staff report (January 11, 2008). These developments do not alter the thrust of the staff appraisal.

2 Annual inflation at end-December was 8.2 percent, somewhat better than anticipated, owing to lower than expected nonfood prices.

3 Preliminary fiscal data indicate that tax revenue collections were higher than expected through end-December 2007, both in terms of domestic taxes (in particular VAT and property tax) and customs revenue.

4 Revised data through the first three quarters of the year suggest that the external current account position for 2007 would be slightly stronger than previously projected (by about 0.3 percent of GDP). This largely reflects higher than expected transfers, which have also allowed more foreign exchange reserve accumulation than projected previously.

5 Preliminary monetary data indicate that the authorities have comfortably met the end-year indicative targets for net foreign assets and net domestic assets. However, reserve money at end-December was higher than projected owing to less open market sterilization operations than anticipated.

6 The nominal effective exchange rate has been fairly stable through January 2008, and the average yield on treasury bills has remained slightly positive in real terms.

Press Release No. 08/12
FOR IMMEDIATE RELEASE
January 31, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second and Third Reviews Under Madagascar's Three-Year PRGF Arrangement and Approves US$25 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the second and third reviews of Madagascar's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the reviews enables Madagascar to draw an amount equivalent to SDR 15.7 million(about US$25 million), bringing the total disbursements under the PRGF to SDR 31.4 million (about US$ 49.9 million).

In completing the review, the Board also granted waivers for the nonobservance of a quantitative performance criterion pertaining to the ceiling on the net domestic financing requirement of the central government, a quantitative performance criterion on the floor on tax revenue, a structural performance criterion on the implementation of the Central Bank of Madagascar recapitalization plan, and a structural performance criterion on the issuance by the Ministry of Economy, Finance and Budget of quarterly commitment ceilings to all ministries. The Board also modified two performance criteria.

The Executive Board approved the three-year arrangement on July 21, 2006 (see Press Release No. 06/163), for a total amount of SDR 54.49 million (about US$ 87.5 million) to support the government's economic program for 2006-2008.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Following the Executive Board's discussion of Madagascar's IMF-supported economic program on January 30, 2008, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

“The Malagasy authorities are to be commended for the progress achieved in implementing their economic program in 2007. Despite higher world energy prices, real GDP growth grew strongly, inflation declined, and the international reserves position improved.

“The key policy initiatives underpinning the 2008 budget are to mobilize revenue, which remains low by international standards; finance priority spending; and strengthen public financial management. The landmark tax policy reform introduced in the 2008 budget aims at simplifying and increasing the efficiency of the tax code and will contribute to the needed revenue mobilization, as will ongoing tax and customs administration reforms. This will allow for an increased allocation of budgetary resources to priority sectors, which will need to be accompanied by steps to further strengthen public financial management.

“The authorities’ commitment to continue gearing monetary and exchange rate policy towards reducing inflation while preventing an overshooting of the exchange rate is welcome. The central bank should continue to seize the opportunity provided by large mining investment inflows to build up its foreign exchange reserves while mopping up excess liquidity through open market operations.

“The authorities’ intention to finalize and implement their financial sector strategy is welcome. They should persevere in their efforts to improve conditions for private sector-led financial sector development.

“The reform of the national public utility company (JIRAMA) will be important for macroeconomic performance, and an ambitious plan for the electricity sector needs to be designed and implemented.

“Directors noted the Malagasy authorities’ failure to ensure the accuracy of information provided to the Board on the waivers granted by the authorities from the required standard procedures for the import, clearance, and valuation of goods. This resulted in a noncomplying disbursement following the conclusion of the first review under the PRGF arrangement in December 2006. Directors took note of the authorities’ explanation for the provision of inaccurate information, as well as of the independent audit undertaken. In view of the prompt corrective actions taken to improve controls at the customs administration, and the authorities' commitment to the objectives of the program, the Executive Board decided to waive the incident of nonobservance of the continuous performance criterion that gave rise to the noncomplying disbursement,” Mr. Portugal stated.

Statement by Laurean W. Rustayisire, Executive Director for Republic of Madagascar
January 30, 2008

On behalf of my Malagasy authorities, I would like to thank the Executive Board and Management for their continued support to Madagascar's reforms aimed at achieving sustainable growth and poverty reduction. I would also like to thank staff for their constructive dialogue and fruitful exchanges with the authorities during their recent visit in Antananarivo. As has been the case with staff reports on previous reviews, the authorities have expressed their consent to the publication of reports on the second and third reviews.

Madagascar's performance under the PRGF remains positive. Under the impetus of the Madagascar Action Plan (MAP), the PRSP and the reforms scheduled in the PRGF-supported program, the authorities continue to make progress in their efforts to stabilize the economy, reach higher levels of economic growth and reduce poverty. In this context, the economy has continued to perform well, with strong growth, declining inflation and interest rates and limited government recourse to domestic financing. Fiscal and monetary policies remained on track, despite some delays in the implementation of structural reforms, stemming from weak institutional capacity. The authorities have taken strong corrective measures, whenever necessary to comply with the program objectives.

Going forward, economic prospects are encouraging. Economic growth is expected to double compared to the average for the past decade, owing to the construction of mining projects and stronger exports. Inflation will continue to decline and the external situation is expected to improve. However, the country is vulnerable to exogenous shocks, including cyclones and poverty remains pervasive. To accelerate progress toward the MDGs, substantial resources are needed both internally, through increased revenue mobilization and externally, through higher foreign aid. My authorities are determined to intensify their efforts to strengthen fiscal consolidation, maintain macroeconomic stability and accelerate the implementation of structural reforms, notably in the electricity sector to increase economic growth and strengthen competitiveness. They are also grateful to the international community's financial support and for the debt relief initiative that will enable them to allocate important resources to poverty reduction. They are working to finalize bilateral agreements on external debt cancellation and would like to reiterate their commitment to maintaining external debt at a sustainable level to create room for higher economic growth and poverty reduction.

Recent Economic Developments

Recent macroeconomic performance was satisfactory. Real GDP growth picked to 6.3 percent in 2007 from 5 percent in 2006, driven by massive Foreign Direct Investment (FDI) from two major mining projects that more than offset the adverse impact of the cyclones and floods on agriculture (particularly rice and vanilla). Inflation further declined to single digit to 8.2 percent at the end of 2007 from 10.9 percent one year ago, reflecting a tight monetary policy and the appreciation of the domestic currency that more than offset earlier food-related price increase. Indeed, the authorities continued to implement a robust monetary policy to reign in inflation. In this context, the central bank mopped up about eighty percent of the liquidity injected and reduced budgetary financing needs. The central bank also took actions to strengthen its internal auditing system. As regards the exchange rate, central bank interventions in the market and a pick-up of imports have helped stabilize the nominal exchange rate since May 2007.

With regard to fiscal policy, the authorities undertook an adjustment in 2007 to reflect both revenue shortages and expenditure overruns stemming from the recapitalization of the BCM and the underestimation of certain expenditure (reimbursement of VAT credits, civil service pensions, and transfer to JIRAMA). Nonetheless, budget execution remained broadly on track, as lower-than projected tax revenue performance caused by weakening tax administration was offset by slower execution of expenditure and cuts in non-priority outlays to meet the program objectives. As a result, net domestic financing was below the program ceiling. On the external front, despite the widening of the current account deficit stemming from mining projects and Export Processing Zone (EPZ) imports, the overall balance of payments improved, owing to reduced external debt service and FDI inflows. As a result, the central bank has accumulated larger foreign reserves.

Performance under the PRGF remained positive. All the quantitative performance criteria were met, with the exception of the ceiling on domestic financing of the central government (end-December 2006) and the floor on tax revenue (end-June 2007). The authorities have taken corrective measures by revising upward credit for obligatory expenditure and implementing offsetting cuts in nonpriority spending, in order to keep the ceiling on domestic financing within the program objectives. They have also taken corrective steps to strengthen revenue administration, in order to meet end-January 2008 PC for the floor on tax revenue. Albeit with some minor delays, the authorities have also implemented two structural PCs related to the recapitalization of the central bank and the issuance (end-March) and the issuance of quarterly commitment ceilings. As planned, the authorities have raised water and electricity prices by 15 percent in October 2007. But given the time and consensus needed to implement some structural reforms, they have requested postponing four benchmarks on trade policy, public financial management and electricity sector reform from 2007 to 2008. In order to avoid any recurrence of misreporting on the absence of waivers of the established procedures for the import, clearance and valuation of goods, the authorities commissioned an independent audit of import operations by a private international accounting firm and have started to implement seven distinct corrective measures designed in close cooperation with the Fund's staff to strengthen revenue collection by the Customs Administration. In addition, the government is committed to discuss the results of the audit with staff on the occasion of the next program review with a view to agreeing on further priority measures in customs administration.

Economic and financial policies for 2007-2008

The 2008 macroeconomic framework is based on the MAP priorities and aims at consolidating the progress achieved in 2007. Economic growth is projected to be 7.3 percent, owing to the impact of major mining investments on the construction sector and the strong performance of the textile sector and tourism. This will push investment to 34 percent of GDP. Despite rising international fuel prices, inflation will remain at about 8 percent, thanks to prudent monetary and fiscal policies. In this context, the authorities will focus on strengthening tax revenue, improving the quality of public expenditure, further reducing inflation, and implementing key structural reforms to foster growth.

In the fiscal area, the 2008 budget approved by parliament is closely aligned with the MAP and PRSP priorities and involves the regions closely in defining and implementing fiscal policy. The key budget priorities are to further mobilize domestic revenues, finance priority PRSP spending and strengthen Public Finance Management.

On the revenue side, the authorities are determined to pursue their efforts to modernize the tax code, with a view to increasing tax revenue and creating a growth-friendly climate. Building on FAD recommendations, the authorities have taken a number of measures to consolidate the income tax regime into a single flat tax, raise the VAT threshold, increase VAT from 18 to 20 percent and reduce the list of products subject to excise duty. My Malagasy authorities also intend to promote new legislation to eliminate the EPZ regime, while grandfathering existing EPZ firms and review the fiscal regime for mining projects with the assistance of the World Bank. These policy measures will be complemented with the continued implementation of the priority action plans to strengthen tax and customs administration of large and medium sized tax payers. To improve tax and customs administration, the authorities will abolish all “ad hoc” tax or customs duty exemptions, improve transparency and introduce a new electronic platform linking all economic agents involved in external trade.

On the expenditure side, the authorities will use the room created by increased tax revenue and external aid to increase the level of priority outlays, without incurring further domestic indebtedness. In addition to earmarking expenditure for the priority sectors, the 2008 budget also focuses on the rehabilitation of civil service retirement funds and the regularization of arrears outstanding prior to the start of the program in July 2006, as well as the payment of VAT on externally financed capital expenditure. The authorities have also put in place a reserve account to face contingency situations in the second half of the year, depending on revenue and expenditure performance.

The authorities are also determined to advance the Public Finance Management agenda, in order to improve budget execution and strengthen public finances. To this end, they intend to fully exploit the potential of the budget information system to strengthen budget preparation, monitoring and execution and further decentralize the implementation of capital spending to improve its impact on the ground. The authorities will also strengthen public finance by taking measures to eliminate the structural deficit of the pay-as-you-go civil service pension funds and further implement the Extractive Industry Transparency Initiative.

As regards **monetary policy and exchange rate**, my authorities will continue to adhere to a prudent policy aimed at keeping inflation in the single digits and avoiding potential overshooting of the exchange rate. Inflation has been declining and Central Bank intervention in the exchange rate market has served the country well in achieving its external objectives. In response to the surge in the demand for money caused by FDI flows and the deepening of financial intermediation, the central bank has revised upward its growth objective for base money. My authorities have seized this opportunity to build up foreign reserves, while mopping up excess liquidity through open market operations. Should monetary growth deviate from the program path, the monetary authorities are prepared to increase open market operations to maintain single digit inflation. In order to preserve the competitiveness of the Malagasy economy, the authorities have taken measures to ease pressure on the MGA to appreciate, including extending the time limit for repatriating export receipts and raising the ceiling on the foreign exchange position of credit institutions.

In the structural area, my authorities are determined to continue implementing the agenda outlined in the MAP aimed at reducing the cost of doing business and improving financial intermediation. To foster *private sector development,* parliament adopted a new investment law designed to secure and facilitate investment, streamline administrative procedures and improve access to commercial property. *In the electricity sector,* based on the daunting challenges facing the national company JIRAMA, the authorities recognize the need to make further progress. In the near term, in order to ensure a move towards financial balance, they are committed to two more 15 percent electricity price increases during 2008, subsequent implementation of an automatic pricing formula and budget transfers to finance priority rehabilitation investments. These efforts will pave the way for a more fundamental restructuring and development, which require significant financing. To meet these longer-term challenges, the authorities are working on a medium-term strategy for private sector involvement, while extending the current management team, so as to have enough time to launch a new management contract in 2009.

In the financial sector, the key reforms in 2008 consist of strengthening the financial independence of the central bank, through recapitalization, the implementation of new monetary policy instruments and the development of a cost control system. As part of the reform efforts, the authorities will also review the Central Bank's foreign exchange management guidelines and update the central bank act to ensure consistency with requirements of the Southern African Development Community (SADC). To foster financial intermediation and economic growth, the authorities are preparing a financial sector strategy aimed at setting up a credit registry to improve the quality of financial system data, implementing a real-time payments system and stepping up supervision of financial institutions. In close consultation with the World Bank and other donors, the authorities are also contemplating the opportunity to launch new initiatives, including the possibility to establish a development bank, to set up a securities exchange and to transform the public savings institution into a bank. In all these areas, my authorities intend to proceed with caution and seek any assistance available, while respecting transparency, adequate governance mechanisms and limiting fiscal risks.

As regards trade liberalization, my authorities have stepped up efforts to phase out import duties on imports from the SADC with a view of eliminating them by 2012. They have also reached an interim agreement with the European Union (EU) that covers market access, fisheries and development issues of the Economic Partnership Agreement. Under this agreement, Madagascar will phase out 80 percent of its import duties from the EU over 15 years. The near term revenue impact of the EPA and the free trade agreement with SADC will be minimal and more than offset by the increase in VAT.

With regard to *governance*, the authorities are committed to fiscal transparency in managing the country's significant oil and mineral resources. They have already taken a number of positive steps, including adhering to the Extractive Industries Transparency Initiative, and setting up a joint committee with mining companies, government representatives and civil society to prepare an action plan for enhanced transparency in the collection and allocation of revenue from mining and petroleum extraction. They are also working with the Norwegian government and other development partners to devise a scheme to avoid "Dutch disease" and intend to create a fund for future generations, with a mandate to invest a portion of the mineral resources' revenue abroad.

Conclusion

My authorities have achieved significant progress and ownership in the implementation of policies and reforms defined in the PRGF program. Since the HIPC Completion point, they have outlined a clear strategy to align the Madagascar Action Plan (MAP) and PRSP priorities with the allocation of budgetary resources. The authorities have also taken a number of remedial measures to keep the program on track, including implementing a set of corrective measures to further protect customs revenue and launching a comprehensive independent audit by an international accounting firm to strengthen customs administration, while heightening transparency in the management of public finance and extractive industries. In light of the sound macroeconomic policy performance in 2006-07, the ambitious program for 2008, and the effective remedial actions implemented in response to the missed PCs, I would like to request completion of the second and third reviews and the granting of waivers for the nonobservance of two quantitative and three structural PCs, and modification of two continuous PCs.