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July 28, 2020

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

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

Recent Developments and Outlook

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

prospects have deteriorated further, which is the materialization of a downside risk to growth identified in April 2020.

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

Policy Response to the Pandemic

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

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

The authorities are determined to ensure transparency in the use of COVID-19-related resources, including external assistance. They took a decree, prepared with the assistance of the Fund, establishing a COVID-19 Pandemic Response Fund and defining its framework for

operational management, control and accountability. This Fund had an initial public dotation representing 0.5 percent of GDP and will collect all contributions to fight the pandemic. The authorities intend to publish online, among others, all procurement contracts and the list of beneficiaries, the ex-post audits of these contracts to be carried out by an independent third-party auditor, and the report of the emergency fund's inspection by the "*Cour des Comptes*".

Going forward, the authorities will pursue prudent policies to preserve fiscal and debt sustainability over the medium-term in line with the objectives of the *Plan Emergence Madagascar* (PEM). They will shift the fiscal policy stance to consolidation by unwinding temporary measures related to the pandemic once the health crisis abates. Ongoing reforms to improve revenue mobilization, enhance public financial management, and strengthen the financial situation of some public enterprises would be sustained. In particular, the notable progress made over the past months in the energy sector, including the restructuring of JIRAMA with the World Bank's assistance and the diminution of the liabilities towards fuel distributors, will continue. The authorities reiterate their interest in a successor arrangement under the Extended Credit Facility to support their development strategy under the PEM. The central bank is committed to undergo a safeguards assessment before the approval of such arrangement.

Conclusion

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

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