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July 28, 2020

**Statement by Mr. Kaya, Mr. Benk, and Mr. Mehmedi on Republic of Madagascar
(Preliminary)
Executive Board Meeting
July 30, 2020**

We thank staff for the well-written papers, and Mr. Raghani, Mr. Andrianarivelo, and Mr. Nguema-Affane for their insightful Buff statement. The COVID-19 pandemic continues to strain Madagascar's weak public health system and to adversely affect economic activity, further exacerbating external financing needs since the RCF disbursement in early April due to the sharp decline in foreign direct investment inflows, export earnings, and tourism revenues. In addition, the decline in fiscal revenues in the context of the sharp slowdown in domestic activity, and higher COVID-19-related expenditures are weighing on public finances. **Against this backdrop, we support the authorities' request for an additional disbursement under the Rapid Credit Facility in the amount of SDR 122.2 million, or 50 percent of Madagascar's quota.**

We welcome the authorities' measures to contain the spreading of the virus, strengthen the medical response, and limit the pandemic's economic impact. We take note of the authorities' Multisectoral National Response and its targeted measures aimed at strengthening the health system, and supporting the most vulnerable and the private sector, including through tax exemptions, deadline extensions for certain declarations and payments, and a moratorium on bank credits for companies facing temporary difficulties. Going forward, it is essential that these measures remain well-targeted, while the authorities make further strides in enhancing the social assistance programs. We underscore that carefully tracking, recording, and publishing all expenditures related to the emergency response are essential to ensure fiscal oversight. To this end, we support staff's recommendation to channel all emergency financing through the COVID-19 Pandemic Response Fund while promptly implementing its control and accountability framework. We also emphasize the importance of completing an independent audit on the COVID-19 spending once the crisis subsides. The central bank's measures to support liquidity and credit in the economy are broadly appropriate to ease the banking system's liquidity constraints and limit potential disruptions in the financial sector. However, the authorities should maintain prudent supervisory standards in line with best practice and closely monitor liquidity positions, loan-

to-deposit ratios, and asset quality. *Considering that the authorities have expressed an interest in a Fund-supported program aimed at supporting their development strategy, can staff elaborate on the status of the discussions and what the program objectives should be.*

The authorities' implementation of prudent macroeconomic policies remains essential to promote more inclusive and broad-based growth. A temporary relaxation of the fiscal stance is warranted given the scale of the current shocks. Nevertheless, we emphasize the importance of sound fiscal policies and the authorities' continued commitment to fiscal discipline to reduce the moderate risk of debt distress, create space for critical social spending, and catalyze donor assistance. We note that the 2020 revised budget law envisages unrealistic projections on public investment spending. To this end, focus on rationalizing public investment spending to high-growth public investment projects while enhancing public investment management, improving domestic revenue mobilization, and advancing the public finance management reforms will be key. The central bank should also make further progress in gradually transitioning to an interest rate targeting framework. Strengthening governance and transparency, including by enhancing central bank governance and autonomy, improving the business environment, and strengthening SOE oversight, should also remain a top priority going forward. *Staff's comments on the provision of technical assistance in the context of the COVID-19 crisis are welcome.*