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March 25, 2021

Statement by Mr. Trabinski and Mr. Makhammadiev on Republic of Madagascar (Preliminary)
Executive Board Meeting
March 29, 2021

We support the authorities' request for an ECF arrangement. We welcome the timely transition to a UCT-quality program that will support the authorities' reform agenda under the Plan Emergence Madagascar (PEM). We welcome the well-balanced conditionality, as well as the contingency plans embedded in the program given the still uncertain environment. We agree with the proposed access level and phasing, although we note that the exposure to the Fund and the share of Fund financing in external support are substantial. In this regard, we hope that the engagement with the Fund will continue to catalyze support from development partners throughout the program.

We agree with the focus of the program on building fiscal space for social spending and public investment. We encourage the authorities to redouble their efforts to mobilize revenue, rein in non-priority expenditure, increase social spending, and improve spending efficiency. To prevent crowding out of priority spending, we encourage the authorities to contain transfers to SOEs, which could help in putting them on a sound financial footing. We regret that the implementation of a fuel pricing mechanism experienced setbacks and encourage the authorities to take corrective measures in consultation with staff. The progress made in improving transparency of Covid-related spending is encouraging, and we look forward to broader enhancements to budget transparency. We also welcome the authorities' efforts to improve disaster risk management to address Madagascar's high exposure to climate-related shocks.

Reforms to modernize the monetary policy framework should continue. We welcome plans to move to an interest rate targeting framework in 2023, as well as targeted Fund TA in this area. We agree with staff's recommendation to discontinue non-monetary gold purchases by the central bank. We encourage the authorities to work closely with staff in the coming months to reassess the central bank's role in this program. We encourage the authorities to improve financial inclusion, complete the implementation of a risk-based approach to financial sector oversight, and strengthen AML/CFT supervision.

Finally, we encourage the authorities to continue reforms aimed at improving the business climate, addressing governance vulnerabilities, and unlocking the private sector potential. This will require, foremost, sustained efforts to improve the enforcement of the anti-corruption legal framework, and strengthen human capital. We also see merit in the authorities' focus on reforming the education and health care systems, as foreseen in the PEM.