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July 29, 2020

**Statement by Mr. Farber, Ms. Pollard, and Ms. Senich on Republic of Madagascar
(Preliminary)
Executive Board Meeting 20/85
July 30, 2020**

We thank staff for the reports and Messrs. Raghani, Andrianarivelo, and Nguema-Affane for the helpful Buff statement. The economic environment has worsened considerably both in Madagascar and globally since the approval of the first disbursement under the Rapid Credit Facility in April. The crisis will exacerbate the urgent balance of payments need, and we support the request for an additional disbursement under the RCF for \$167 million, 50 percent of quota. As we noted in April, going forward we would urge the authorities to continue discussions with Fund staff on a successor ECF to provide additional financial support and help tackle the underlying structural issues holding the economy back. *Staff comments on prospects for a program are welcome.*

We commend the Malagasy authorities for the measures intended to curtail the spread of the virus, including the economically difficult lockdown, the plans to build new healthcare facilities to meet capacity constraints, and social distancing mandates. We support the authorities' Social Emergency Plan to support affected populations and the fiscal measures aimed at preserving balance sheet stability in businesses affected by the pandemic. We note however, these short-term policies' effects may be temporary, and the authorities should consider longer-term demand-side policies to make the households and businesses resilient in the event of continued lockdown measures. The authorities have stressed that additional provisions for social spending are set in the budget at the level of the Ministry of Finance and will be reallocated to social ministries depending on their needs. *Can staff comment on what mechanism in place for social Ministries to quantify and communicate needs to MOF?*

Given Madagascar's dependence on export revenues from tourism and commodities, we are concerned about the economy's ability to withstand a persistent, exogenous shock from the pandemic. In addition to export revenues, the staff report notes that tax revenues will also be negatively affected by the current crisis, weighing on the authorities' ability to fill financing gaps moving forward. Once the crisis abates, we urge the authorities to continue to focus on reforms to mitigate fiscal risks, particularly those related to public utility JIRAMA and those related to fuel pricing. We would encourage the development of exports higher in the value chain in the medium term. Likewise, efforts to strengthen the business environment would be helpful as Madagascar seeks to attract greater private investment to support its economic recovery.

We echo staff's caution about the authorities' ambitious investment spending plan. While we generally support the intention of increasing investment, we are concerned about creating larger financing gaps and higher debt risks during a time of crisis. We emphasize the need to prioritize investment spending that will respond to the needs created by the crisis. The DSA finds Madagascar's risk of debt distress to have increased from low to moderate, with some space to absorb shocks. We welcome the authorities' request for debt servicing relief under the G20 DSSI.

Finally, we welcome the authorities' commitment to a transparent and traceable use of the disbursed funds and the concrete description of the framework to publish contracts and transactions related to the pandemic response and to conduct audits. We further agree with staff's recommendation to channel all emergency financing through the dedicated COVID-19 Pandemic Response Fund and welcome the authorities' confirmation that this fund will receive the contributions of development partners.