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July 29, 2020

**Statement by Mr. Sigurgeirsson and Mr. Vaikla on Republic of Madagascar
(Preliminary)
Executive Board Meeting 20/85
July 30, 2020**

We thank staff for the well-written report and Mr. Raghani, Mr. Andrianarivelo, and Mr. Nguema-Affane for their informative Buff statement. The COVID-19 pandemic is further affecting Madagascar's health system and economy resulting in considerable external financing needs. **We therefore support the authorities' request for an additional disbursement under the Rapid Credit Facility (RCF) of 50 percent of quota (SDR 122.2 million).** We welcome the authorities' continued engagement with the Fund and interest in a successor UCT-quality arrangement, which is much needed in the context of current structural challenges to support the implementation of the authorities' economic reform strategy and pave the way towards sustainable growth.

We agree that the authorities' decision to further relax the fiscal stance is warranted given the deteriorating economic outlook. We welcome the authorities' fiscal policy response aimed toward strengthening the health system and protecting the most vulnerable, particularly through the implementation of several social safety net measures. In the context of critical social needs, however, we share staff's reservations regarding the feasibility of the projected increase in public investment. Given implementation difficulties and potential additional financing gaps, we encourage the authorities to reprioritize investment spending plans and to postpone non-essential projects until the crisis abates.

We welcome the authorities' commitment to pursue prudent policies to preserve fiscal and debt sustainability over the medium-term. Given the risk of increased external debt distress and fiscal imbalances we encourage the authorities to bring down the fiscal deficit to lower levels once the situation normalizes. We also encourage the authorities to continue with fiscal reforms, with an emphasis on improving custom and tax revenue mobilization, enhancing spending efficiency and strengthening SOE finances.

We emphasize the importance of strengthening coordination and transparency to ensure that the funds received are spent on addressing the crisis. In this regard, we welcome the authorities' strong commitment to an effective and transparent use of public

funds that are spent on addressing the crisis. *Could staff give their preliminary assessment of the authorities' progress in implementing their commitment to transparency on the planning, using, monitoring, and reporting of additional health spending given under the previous RCF commitment in April and the scale of crisis spending captured under this effort?* We take positive note of the planned independent third-party audit on all contracts and financial transfers related to the pandemic response and look forward to a stocktaking by staff on the use of emergency financing.