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March 25, 2021

**Statement by Mr. Bevilaqua, Mr. Saraiva, and Ms. Florestal on Republic of Madagascar  
(Preliminary)  
Executive Board Meeting  
March 29, 2021**

We thank staff for the helpful report and Mr. Andrianarivelo, Mr. Nguema-Affane and Mrs. Raoilisoa Andrianometiana for their informative statement.

**The pandemic affected severely Madagascar’s economy, especially through the collapse of the tourism sector, the fall of the manufacture and textile exports, and the contraction of the informal sector.** Fund’s emergency financing, as well as budget assistance from donors, supported the efforts of the Malagasy authorities to address the socio-economic impact of the pandemic. We take positive note of the country’s determination to implement an ambitious medium-term reform program anchored on the National Development Plan (Madagascar Plan Emergence) to achieve sustainable and inclusive growth and reduce poverty. The new 40-month ECF should help the authorities to continue addressing long-term development challenges that were successfully, but not completely, dealt with under the last ECF (2016-20).

**We agree with the two-step approach prioritizing Covid-19 containment and vaccine rollout in the first stage of the program, before embarking on the core of the structural reform agenda.** The three priority areas are well articulated. That said, the high level of uncertainty requires careful and continuous assessment of the adequacy of policies, and, if warranted, consistent adjustment in the program’s macroeconomic framework and targets. We underscore the emphasis on mitigating main fiscal and climate-related risks, and improving the business environment by strengthening governance, and reinforcing the anti-corruption framework.

**We support the authorities' request for a 40-month ECF with the first two disbursements being redirected to the Treasury for budget support.** We take note of the assertion that the ECF will have a strong signaling effect as the preceding RCFs did and will help address needs arising from current draught and lingering fragility.

**Madagascar remains very vulnerable to shocks from natural disasters, terms of trade and external financing.** Nonetheless, Madagascar is assessed at moderate risk of external and overall debt distress. That said, a judgment call considers prudent to preserve space for the country to absorb shocks, including the materialization of contingent liabilities, and a ceiling on debt contracting has been included. Climate change is indeed macro-critical in the case of Madagascar given the magnitude of the impact of yearly natural disasters. The Fund's involvement in fiscal risks assessment and in designing and financing adaptation plans for greater resilience alongside other international development partners is appropriate and welcome.

**The social impact of the potential negative shocks must be contained by strong implementation of social programs targeting the most vulnerable.** Hence, setting an IT on a floor for domestically financed social spending, excluding salaries, is an insurance for these key expenditures. We take note of the limitations of the current social expenditure classifications and of important levels of spending covered by donors. *However, we wonder if there is any mechanism to coordinate donors' involvement in the sector to avoid duplicating efforts and ensure an efficient strategic allocation of scarce resources?*

**The adoption and implementation of a flexible fuel price mechanism, as well as reining in the fiscal risks of state-owned enterprises, are paramount to ensuring fiscal sustainability.** Considering Madagascar's flexible exchange rate regime and shallow money markets, a combination of active bank liquidity management relying on quantitative instruments and opportunistic FX interventions, which have helped build reserves and smooth excessive volatility, are appropriate. We also note the authorities' intent to continue aiming at 2023 for the migration to an interest rate targeting framework while taking steps towards further liberalizing the capital account and completing the FX market reform. We welcome the steps taken to mitigate risks and contain further fiscal exposure to JIRAMA and Air Madagascar, as described by Mr. Andrianarivelo and colleagues in their statement.

**Containment of financial sector risks is critical.** Microfinance institutions (MFIs) are expected to play an important role in job creation but are currently facing rising NPLs and negative profitability on average. Risk-based supervision as recommended by staff seems to be particularly appropriate for the sector. *Could staff elaborate on the exceptional medium-*

*term refinancing instrument created by the BFM and designed exclusively to support MFIs and MSMEs?*

**We are reassured by the findings of the safeguards assessment of the BFM as well as staff's assessment of capacity to repay the Fund.** We are particularly impressed by the progress in improving governance and the external audit arrangements at the BFM. That said, we encourage the BFM to further strengthen the internal audit function and phase out of non-core activities. We want to underscore and welcome the authorities' strong progress to implement spending transparency commitments. Finally, we welcome the Fund's engagement to support the authorities' reform agenda through capacity building operations.

With these remarks, we wish the authorities well in their endeavors and a successful program implementation.