

SU/22/132

September 12, 2022

**The Acting Chair's Summing Up**  
**Republic of Madagascar—Second Review Under the Extended Credit Facility**  
**Arrangement and Request for Modification of Performance Criteria**  
**Executive Board Meeting 22/77**  
**September 12, 2022**

Executive Directors welcomed Madagascar's broadly satisfactory performance under the Fund-supported program, in a context marked by climate shocks and the adverse impact of Russia's war in Ukraine. They observed that the economy has not yet recovered from the pandemic and the outlook is highly uncertain with risks tilted to the downside. Noting persistent delays, Directors called on the authorities to more ambitiously advance the structural reform agenda in the context of the Plan Emergence Madagascar to help Madagascar achieve stronger, more sustainable, and more inclusive growth. Continued Fund engagement, including in the context of capacity development, would be important to achieve these objectives.

Directors welcomed the authorities' intention to maintain a prudent fiscal policy while creating more space to further increase social spending and public investment. They agreed with the proposed relaxation of the fiscal stance in 2022 to accommodate new spending pressures related to energy sector developments. Directors also encouraged the authorities to increase domestic revenue mobilization and consider new tax policy measures in the 2023 budget. Noting their persistent under-execution, they urged better planning, execution, and monitoring of social spending. Strengthening public financial and investment management remains important.

Directors welcomed the publication of an action plan following on the recommendations of the audit reports by the Cour des Comptes on the response to the COVID-19 pandemic and emphasized the need to ensure accountability for irregularities. They noted the release of an independent third-party report on COVID-19 contracts and the progress towards fulfilling the transparency commitments made in 2020. Directors supported the strengthening of the Cour des Comptes in its mission of control of public finances and called for effective enforcement of the anti-corruption legal framework, including through enhancing the AML/CFT framework.

Directors noted that the increase in fuel prices was an important first step toward the implementation of an automatic fuel pricing mechanism by early 2024 and encouraged the authorities to scale up social safety nets to mitigate the effects of higher fuel price volatility on the most vulnerable. Directors urged the authorities to reform public utility companies to reduce the need for fiscal transfers.

Directors acknowledged the tightening of monetary policy since 2021 and encouraged the central bank to remain vigilant about potential second-round effects of wage increases on

inflation. They supported reforms to gradually implement an interest rate targeting monetary policy framework and improve the functioning of the FX market.

Directors welcomed the recent Climate Macroeconomic Assessment Program for Madagascar and the authorities' commitment to work on strengthening policies to respond to climate change and build resilience.