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EBS/83/55

CONFIDENTIAL

March 8, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Madagascar - Mid-Term Review of the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the mid-term review of the stand-by arrangement for Madagascar. A draft decision appears on pages 29 and 30.

This subject will be brought to the agenda for discussion on a date to be announced.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF MADAGASCAR

# Mid-Term Review of the Stand-By Arrangement

Prepared by the African Department and
the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal, and
Treasurer's Departments)

Approved by J. B. Zulu and S. Kanesa-Thasan

March 7, 1983

## I. Introduction

On July 9, 1982 the Executive Board approved Madagascar's request for a one-year stand-by arrangement for an amount equivalent to SDR 51 million (100 per cent of quota), to be purchased in five equal installments. 1/ So far, Madagascar has made three purchases totaling SDR 30.6 million under the arrangement. As of December 31, 1982, the Fund's holdings of Malagasy francs were equivalent to SDR 176.4 million, or 345.8 per cent of quota, including SDR 51 million, or 100 per cent of quota, under the compensatory financing facility; if the remaining amount available under the stand-by arrangement is purchased, the Fund's holdings of Malagasy francs would rise to SDR 196.8 million, or 385.9 per cent of quota.

The present stand-by arrangement envisages that the mid-term review be completed by the end of January 1983. Accordingly, a mission visited Antananarivo during the period January 9-20, 1983. 2/ The review entails reaching understandings with the Fund on exchange rate and interest rate policies, and on performance criteria for the remaining period of the arrangement in 1983. The attached letter, dated February 1, 1983, from the Malagasy Minister of Finance outlines the Government's policies in regard to these understandings. Madagascar was able to meet all performance criteria for end-1982, except that on the reduction of external payments arrears (other than dividends), for reasons which are described later in the report. In his letter, the Minister of Finance is requesting a waiver of the performance criterion relating to the reduction of external payments arrears for end-December 1982.

1/ EBS/82/103 (6/11/82).
2/ The mission was composed of Messrs. Bhatia, Abu-zobaa, Gilman, Goldsbrough (all AFR), Mrs. Tyler (ETR), and Mrs. Bauer (secretary-AFR).

To date, Madagascar has received 25 IDA credits and 5 IBRD loans, totaling US$348 million, of which US$213 million has been disbursed. The World Bank is organizing a Consultative Group of potential donors to meet in April 1983; earlier, in June 1982, the Bank had sponsored a Donors' Aid Conference for Madagascar. The Malagasy authorities have also initiated discussions with the Bank regarding a Structural Adjustment Loan (SAL).

## II. Background and Performance Under the 1982 Program

The present Fund-supported program aimed at alleviating a persistently critical financial situation resulting, inter alia, from a highly expansionary investment program launched by the Government in 1978-79, and the depressed level of external terms of trade in recent years. The overall government deficit equaled 18.4 per cent of GDP in 1980, and the external current account deficit reached the equivalent of 18.5 per cent of GDP (Table 1). Although these deficits were reduced in 1981 to 14.7 per cent and 13.6 per cent, respectively, as the authorities partially implemented policy measures envisaged under the two previous programs with the Fund, the internal and external financial situation remained critical when the present program was launched in mid-1982.

Most of the initial policies were set only for the period of 1982 covered by the program (July-December). The program's principal objectives were to limit the 1982 external current account deficit to some SDR 389 million 1/ (14.9 per cent of revised GDP 2/) and the overall balance of payments deficit (before additional debt rescheduling and new aid, equivalent to SDR 54 million, which was expected to be pledged at a special aid conference) to SDR 141 million. These targets were based, inter alia, on the assumption of coffee exports of 60,000 tons at an average f.o.b. price of US$1 per pound. This was expected to permit a modest resumption in real economic growth of around 1 per cent, following a decline of over 9 per cent in 1981.

The main policy measures incorporated in the program and the status of their implementation are summarized in Table 2. Madagascar's experience vis-à-vis the performance criteria is summarized in Table 3.

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1/ Revised from the original program target to include rescheduled debt service.

2/ Nominal GDP grew by 28.3 per cent in 1982 rather than by 36.5 per cent projected under the program, because the actual rate of inflation (30.7 per cent), as measured by the GDP deflator, turned out to be lower than that assumed in the program (35.2 per cent), while real economic growth was negative. In relation to the original GDP estimate, the current account deficit/GDP target would have been 13.4 per cent.

Table 1. Madagascar: Selected Economic and Financial Indicators, 1980-83

| | 1980 | 1981 | | 1982 | | 1983 |
|---|---|---|---|---|---|---|
| | Actual | Program | Actual | Program | Preliminary actual | Projection |
| | (Annual per cent changes, unless otherwise specified) | | | | | |
| National income and prices | | | | | | |
| GDP at constant prices | 0.8 | 1.5 | -9.2 | 0.9 | -1.8 | 1.0 |
| GDP deflator | 15.1 | 4.3 | 25.2 | 35.2 | 30.7 | 24.7 |
| Consumer prices 1/ | 18.2 | 15.0 | 30.5 | 51.0 | 32.0 | 25.1 |
| External sector (on the basis of SDRs) | | | | | | |
| Exports, f.o.b. | 4.8 | 14.6 | -14.9 | 10.1 | 3.7 | 6.3 |
| Imports, c.i.f. | 14.8 | -17.4 | -26.0 | 10.9 | -6.4 | -4.6 |
| Non-oil imports, c.i.f. | 8.6 | -24.0 | -29.1 | 11.8 | -15.2 | -9.8 |
| Export volume | -22.2 | 15.0 | 9.9 | 3.0 | -0.3 | 3.9 |
| Import volume | -0.7 | 23.4 | -31.5 | 8.7 | -12.3 | -2.7 |
| Terms of trade (deterioration -) | 14.3 | -10.0 | -21.9 | 6.0 | -2.4 | 2.0 |
| Nominal effective exchange rate (depreciation -) | -5.6 | ... | -8.8 | -15.5 | -18.1 | ... |
| Real effective exchange rate (depreciation -) | 4.1 | ... | 4.7 | ... | -0.8 | ... |
| Government finance | | | | | | |
| Total revenue and grants | 5.5 | 27.4 | 3.0 | 31.8 | 27.1 | 18.6 |
| Total expenditure | 27.9 | -10.0 | -3.3 | 13.4 | 1.8 | 7.2 |
| Money and credit | | | | | | |
| Domestic credit | 48.2 | 13.4 | 22.5 | 20.1 | 16.6 | 16.3 |
| Government | 77.4 | 13.6 | 34.1 | 14.9 | 14.4 | 13.6 |
| Private sector | 25.1 | 13.2 | 9.0 | 27.5 | 19.8 | 20.1 |
| Money and quasi-money ($M_2$) | 19.0 | 12.7 | 21.4 | 26.2 | 10.2 | 23.3 |
| Velocity (GDP relative to $M_2$) | 3.32 | 3.27 | 3.14 | 3.48 | 3.65 | 3.73 |
| Interest rate (annual rate, one-year savings deposit) | 5.65 | 6.75 | 6.75 | 10.50 | 10.50 | 12.50 |
| | (In per cent of GDP) | | | | | |
| Overall government savings | -2.8 | 1.1 | -3.1 | -0.9 | -1.4 | 0.2 |
| Overall government financial deficit | -18.4 | -9.2 | -14.7 | -10.8 | -8.7 | -6.0 |
| Domestic bank financing | 11.4 | 3.3 | 7.4 | 3.5 | 3.4 | 2.9 |
| Foreign financing (net) | 6.9 | 5.0 | 7.1 | 6.8 | 5.0 | 3.2 |
| Gross domestic investment 2/ | 23.5 | 17.7 | 18.9 | 18.3 | 13.5 | 12.9 |
| Gross domestic savings 2/ | 6.7 | ... | 7.0 | 7.2 | 4.1 | 6.0 |
| Current account deficit 3/ | -18.5 | -11.7* | -14.4* | -14.9* | -12.2* | -9.0 *4/ |
| External debt | | | | | | |
| Inclusive of use of Fund credit | 35.6 | 34.5 | 53.3 5/ | 50.1 6/ | 58.5 6/ | ... |
| Debt service ratio (in per cent of exports of goods and services) | 14.5 | 30.0 | 32.4 5/ | 54.3 6/ | 33.6 5/ | 76.9 7/ |
| Interest payments (in per cent of exports of goods and services) | 7.9 | 14.7 | 15.7 5/ | 18.4 6/ | 17.2 5/ | 19.4 8/ |

1/ CPI index for Antananarivo, based on officially controlled prices.
2/ Based on revised GDP series.
3/ * indicates severe constraint on foreign exchange availability.
4/ After debt rescheduling already obtained from the Paris Club through June 1983 and excluding penalty interest on arrears outstanding to banks, which are expected to reschedule these arrears in early 1983.
5/ After debt rescheduling, but excluding arrears.
6/ After debt rescheduling already obtained from the Paris Club, through June 1982, but excluding arrears.
7/ After debt rescheduling already obtained from the Paris Club through June 1983 and inclusive of arrears outstanding to banks.
8/ After debt rescheduling already obtained from the Paris Club through June 1983.

Table 2. Madagascar: Principal Policy Measures Contained in the 1982 Financial Program and Their Implementation

| | |
|---|---|
| 1. Production and prices | |
| a. Increase in the producer (28 per cent) and consumer (87 per cent) prices of rice, so as to eliminate all subsidies on both domestic and imported rice. | Implemented prior to Executive Board discussion. |
| b. Reorientation of 1983-85 investment program with emphasis on quick-yielding projects in agriculture sector and rehabilitation of existing infrastructure. | A draft investment program along these lines has now been prepared, with World Bank technical assistance, and will serve as a basis for a request for a Structural Adjustment Loan. |
| c. Relaxation of price controls with enterprises allowed to adjust prices by up to a certain percentage without prior government approval. | A significant number of prices charged by state enterprises, particularly for transport and utilities, have been substantially increased. Nevertheless, so far enterprises are allowed to adjust their prices upward only after obtaining prior approval of the Government on a case-by-case basis. |
| 2. Fiscal measures | |
| a. Cost-of-living increases for public sector employees to be limited to 4.5 per cent in 1982; | Implemented. |
| b. Growth of central government labor force to be limited to 4 per cent in 1982. | Implemented. |
| c. Limit of FMG 47.4 billion for nonpersonnel expenditure other than external interest payments. | Actual expenditure estimated to be well within the limit. |

Table 2. Madagascar: Principal Policy Measures Contained in the 1982 Financial Program and Their Implementation (concluded)

| | |
|---|---|
| d. An inventory of all internal arrears to be complied and FMG 8 billion of such arrears to be paid in 1982. | Although inventory of outstanding arrears not yet completed, identified internal arrears were reduced as scheduled. |
| e. Value-added tax raised from 10 per cent to 15 per cent. | Implemented prior to Executive Board discussion. |
| f. Petroleum prices to be raised by 18 per cent. | Implemented. |
| 3. <u>Money and credit policies</u> | |
| a. Reintroduction of quantitative credit controls with quarterly global ceilings. | Implemented. |
| b. Increase in central bank base rate from 8 to 12.5 per cent, with corresponding increases for lending and deposit rates. | Implemented prior to Executive Board discussion. |
| 4. <u>External sector policies</u> | |
| Devaluation of 15 per cent (in local currency terms) and move to a trade-weighted basket for exchange rate peg. | Implemented prior to Executive Board discussion. |

Table 3. Madagascar: Performance Under the Program, 1982

| | 1981 | 1982 | | | | | |
|---|---|---|---|---|---|---|---|
| | | June | | September | | December | |
| | Dec. 1/ | Program | Actual | Program | Actual | Program | Estimated actual |
| Total domestic credit of banking system (FMG billion) 2/ | 391.8 | 429.0 | 415.3 | 453.0 | 431.9 | 471.0 | 457.4 |
| Net credit to Government by banking system (FMG billion) | 215.0 | 235.2 | 234.8 | 242.2 | 239.0 | 249.2 | 248.8 |
| Cumulative reduction by net cash payments of external arrears other than dividends (SDR million) 3/ (reduction -) | | -- | -6.1 4/ | -19.1 | -24.7 4/ | -49.1 | -4.8 4/ |
| Cumulative reduction in external arrears with respect to dividends (FMG billion) (reduction -) | | -0.1 | -0.1 | -0.5 | -0.5 | -1.0 | -1.0 |
| New external borrowing of 1-10 years' maturity (French franc million) 5/ | | 167.6 | -- | 167.6 | 33.2 | 167.6 | 97.9 |
| Of which: 1-5 years' maturity | (--) | (167.6) | (--) | (167.6) | (33.2) | (167.6) | (97.9) |

1/ Revised.
2/ Differs from data in monetary survey (Table 5) because ceilings are defined to include on-lending of foreign loans by the Central Bank but exclude deposits at the Treasury by the National Savings Bank and the Postal Checking System; furthermore, advances to contractors in connection with government projects, which are classified as claims on Government in the monetary statistics, are classified as claims on the private sector for the purpose of these ceilings.
3/ From the level of end-March 1982; stock at that date estimated at SDR 144.8 million under program; revised estimate of stock outstanding at that date is SDR 116 million.
4/ As previously reported to the Fund against an original stock figure of SDR 144.8 million at end-March 1982.
5/ Represents an overall loan agreement denominated in French francs signed in 1981; individual contracts for utilization for the loan were signed in 1982.

## 1. Production and demand

In contrast to the modest growth projected in the program, real GDP continued to decline in 1982 by an estimated 1.8 per cent, notwithstanding a better-than-anticipated growth of 2.5 per cent in the agricultural sector. The decline in output was concentrated in the import-dependent secondary and tertiary sectors. This decline, which is estimated at around 5 per cent from an already depressed level, was largely attributable to the severe import shortages of raw materials and energy imports, which continued to fall by some 11 per cent in real terms.

The decline in real GDP had its largest impact on gross domestic savings, which fell from around 7 to some 4 per cent of GDP, compared with a modest increase in the savings rate projected in the program. Total real consumption increased by 1 per cent, implying a reduction in per capita real consumption. Despite the increased tax effort, continued wage restraint, and increases in the administered prices of the main consumption goods, the increase in the share of private consumption in GDP was still about 2 percentage points, to around 80 per cent; the consumption of the private sector, as a ratio of disposable income, increased from some 90 per cent in 1981 to 95 per cent in 1982. Factors accounting for this increase include the priority given to consumption goods, particularly rice, in the import program; a sharp decline in the financial savings rate of the enterprise sector, reflecting reduced cash flow because of the low level of capacity utilization and delays in the implementation of the liberalization of price controls; and the continuation of negative real rates of interest on savings. The increase in public consumption was limited, in line with the program estimates, to about 3.3 per cent in real terms. Even this small increase was more than offset by the increased tax effort, so that overall government dissavings fell from around 3 per cent of GDP to less than half that ratio; the gain was still somewhat short of elimination of government dissavings foreseen in the program.

Real investment fell by some 30 per cent during 1982, even more sharply than projected in the program, reflecting a sharp cutback in government capital expenditures and constraints caused by import shortages. There was, however, a significant increase in the stock of imported rice during the year, by some 60,000 tons, as the level of rice imports, determined according to initial estimates of cyclone damage to the domestic crop, proved to be unduly high. The combination of moderate increases in real public and private consumption and a sharp reduction in investment led to a decline in real aggregate demand of around 4 per cent. Accordingly, the resource gap declined to around 9 per cent of GDP compared with a program target of 10.5 per cent and about 12 per cent in 1981.

## 2. Price developments

The rate of inflation of around 32 per cent in 1982 (as measured by the low-income consumer price index for Antananarivo) was well below the 51 per cent increase foreseen in the program. The 87 per cent increase in the official consumer price of rice, which has a weight of 15 per cent in the index, accounted for over one third of the estimated inflation rate. A large number of industrial and public utility prices were also raised during the program period, including an increase of some 25 per cent in average rates for water and electricity, substantial increases in public transport tariffs, and an increase in cement prices of some 60 per cent. The prices of imported goods were allowed to increase to reflect the cost impact of the exchange rate depreciation. The lower-than-expected inflation rate was largely due to a smaller-than-programmed increase (10 per cent against 26 per cent) in domestic liquidity, and to smaller increases in other food prices because the impact of the cyclones on agricultural production had been less than expected.

Progress in liberalizing the price control system as a whole was slower than anticipated. The system whereby enterprises are allowed to adjust prices by up to a certain percentage without prior government approval, based on identified cost increases, is gradually being implemented, but, at present, formal government approval is still required for increases in most exfactory prices. Agricultural producer prices were increased in accordance with the intentions under the financial program.

3. Government finance

Fiscal developments in 1982 resulted in a significant reduction in the overall budget deficit, and there was an apparent improvement on the program target (Table 4). From the equivalent of 14.7 per cent of GDP (FMG 115.3 billion) in 1981, the overall government deficit was reduced by six percentage points to 8.7 per cent of GDP in 1982 (FMG 87.1 billion), as against a program target of 10.8 per cent of GDP (FMG 108.7 billion). 1/ With a total revenue shortfall of 3.6 per cent against the program target, the larger-than-projected improvement in the overall deficit was primarily due to an even sharper drop (27 per cent) in capital spending as compared to the program target. The current budget deficit was almost one third higher than assumed under the program, notwithstanding a slight reduction in current expenditure.

The shortfall of FMG 5.7 billion in budgetary revenue was attributable in about equal proportions to lower customs duties, in line with lower imports, and to difficulties in the recovery of the targeted amount of overdue direct tax receipts. Nonbudgetary revenue, consisting of external grants and the receipts of the FNUP, the government fund which receives the surpluses from the traditional export crops, was as projected in the program.

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1/ Inclusive of central bank expenditure on imported rice financed by concessionary loans (FMG 8.4 billion), which was originally treated as grants.

Table 4. Madagascar: Overall Government Operations, 1981-83

| | 1981 | 1982 | | 1983 |
|---|---|---|---|---|
| | Actual | Program | Prelim. actual | Target |
| | | (In billions of FMG) | | |
| Budgetary receipts | 104.3 | 127.6 | 121.9 | 139.5 |
| Direct taxes | 23.5 | 24.0 | 21.6 | 25.2 |
| Indirect taxes | 76.8 | 100.3 | 97.3 | 110.8 |
| Other | 4.0 | 3.1 | 3.0 | 3.5 |
| Current budgetary expenditure | -112.2 | -134.1 | -130.3 | -144.5 |
| Wages and salaries | -68.6 | -77.4 | -81.0 | -84.0 |
| Interest on external debt | -4.5 | -9.3 | -9.1 | -9.6 |
| Interest on domestic debt | -2.2 | -0.4 | -1.8 | -2.1 |
| Other expenditure | -36.9 | -47.0 | -38.4 | -48.8 |
| Current budget balance | -7.9 | -6.5 | -8.4 | -5.0 |
| Grants (net) | -0.3 | 3.3 | 4.1 | -3.0 |
| Budgetary capital expenditure | -62.1 | -70.8 | -39.4 | -51.3 |
| Of which: Reserve Fund | (-15.7) | (-15.0) | (-8.2) | (-2.7) |
| Deferred payments 1/ | -14.6 | -16.8 | -14.5 | -16.0 |
| FNUP receipts | 15.2 | 26.6 | 25.9 | 34.7 |
| FNUP expenditure | -18.0 | -6.9 | -6.1 | -8.9 |
| Central bank expenditure for rice imports (net) | -5.0 | -7.6 2/ | -11.9 2/ | 5.9 |
| Receipts | 11.6 | 30.3 | 25.4 | 31.9 |
| Expenditure | -16.6 | -37.9 | -37.3 | -26.0 |
| Other Treasury operations (net) | -22.6 | -30.0 | -36.8 | -32.5 |
| Of which: on-lending | (-22.0) | (-29.0) | (-33.3) | (-27.0) |
| Total revenue | 119.5 | 157.5 | 151.9 | 180.1 |
| Total expenditure | -234.8 | -266.2 | -239.0 | -256.2 |
| Capital | -91.1 | -99.8 | -72.7 | -78.3 |
| Current | -143.7 | -166.4 | -166.3 | -177.9 |
| Current balance | -24.2 | -8.9 | -14.4 | 2.2 |
| Overall deficit | -115.3 | -108.7 | -87.1 | -76.1 |
| Foreign (net) | 55.6 | 68.8 | 50.6 | 40.6 |
| Drawings | 64.3 | 83.5 2/ | 67.2 2/ | 63.4 |
| Amortization | -8.7 | -14.7 | -16.6 | -22.8 |
| Domestic (net) | 59.7 | 39.9 | 36.5 | 35.5 |
| Banking system | 57.8 | 35.0 | 34.0 | 36.6 |
| Nonbank | 1.9 | 4.9 | 2.5 | -1.1 |
| Memorandum items: | | (In per cent) | | |
| Overall deficit to GDP | 14.7 | 10.8 | 8.7 | 6.0 |
| Total expenditure to GDP | 29.9 | 26.5 | 23.2 | 20.2 |
| Capital expenditure to GDP | 11.6 | 9.9 | 7.1 | 6.2 |
| Total receipts to GDP | 15.2 | 15.7 | 14.8 | 14.2 |
| Wages and salaries to current budgetary expenditure | 61.1 | 57.7 | 62.2 | 58.3 |
| Banking system financing to overall deficit | 50.1 | 32.2 | 39.0 | 48.1 |

Source: Ministry of Finance.

1/ Includes arrears payments.
2/ Includes a reclassification of FMG 8.4 billion expenditures on rice imports financed by concessionary loans, which were originally treated as grants.

The success of the authorities in keeping current budgetary expenditures below the program limits reflects the rigorous monitoring and control of nonpersonnel expenditures instituted since the beginning of the program. As intended under the program, cost-of-living increases in the government sector were limited to 4.5 per cent and the expansion in personnel recruitment kept within 4.0 per cent, but there were some additional unforeseen expenditures related to the maintenance of law and order. As a result, expenditure on wages and salaries exceeded the level foreseen in the program by about 5 per cent and accounted for 62.2 per cent of current budgetary expenditure in 1982 as against 57.7 per cent foreseen in the program. However, this excess was more than offset by savings on other current expenditure.

As noted above, capital expenditure was sharply reduced from the original estimates. The shortfall resulted from delays in project implementation associated with transportation and absorption difficulties, linked to the shortage of imports. The optional tranche of capital expenditure of FMG 11.3 billion, linked to additional concessionary external assistance, was not activated. Among the other major expenditure items, the financial balance on the Central Bank's rice import operations was adversely affected by a large accumulation of stocks. 1/ However, as a result of the 87 per cent increase in the retail price of ordinary rice, there is now a small positive margin on the marketing of rice, both domestic and imported.

In the financing of the overall deficit, net credit to the Government from the banking system rose by FMG 34.0 billion, which was within the limit allowed for under the program (Table 3). Nonbank financing was FMG 2.4 billion less than program estimates due to smaller issues and higher redemptions of Treasury bonds. The new National Bonds, launched in June 1982, were successful in raising FMG 3.6 billion. Net external financing, including the counterpart of concessionary loans received at the special aid donors' conference, amounted to FMG 50.6 billion, well below the amount assumed in the program.

### 4. Monetary and credit policies

Monetary developments in 1982 resulted in a much smaller increase in liquidity than foreseen in the program, reflecting greater restraint on domestic credit expansion and a slightly larger-than-expected increase in the net foreign liabilities of the banking system (excluding valuation adjustments). Total domestic credit grew by under 17 per cent, com-

1/ In the accounting for the rice operations, the program assumes as expenditure the cost of all purchases and as receipts all the sales proceeds, irrespective of changes in stocks. Thus, in 1982 the cost of the buildup of the rice stock is shown as expenditure, leading to a net deficit on this account.

pared with a program target of 20 per cent (Table 5). Net credit to the Government increased by some 14 per cent, in line with the program target, while credit to the private sector (including state enterprises) grew by around 20 per cent, more slowly than projected in the program, partly because of lower credit demand resulting from the reduced level of economic activity and imports. On the basis of end-September data, credit to the state enterprises grew at an estimated annual rate of some 28 per cent. A significant proportion of this credit went to the major regional rural development agencies (Sociétés d'Aménagement), partly reflecting the Government's action to reduce delays in payments of export taxes and for imported rice by these enterprises. The larger balance of payments deficit (see below) and the fact that the expansionary impact of external debt relief was automatically sterilized in the Central Bank (the Treasury continues to be debited according to the original maturity schedules) also accounted for the lower rate of monetary growth. In all, broad money supply grew by some 10 per cent, compared with a program target of 26 per cent and an estimated increase in nominal GDP of 28 per cent. Reflecting higher interest rates, the share of quasi-money in the total stock of broad money increased significantly.

The structure of interest rates was increased in June 1982, with the basic discount rate of the Central Bank raised from 8 per cent to 12.5 per cent and borrowing and lending rates raised correspondingly. The minimum lending rates which could be charged by the national banks were raised to between 12.5 per cent, for crop financing, and 17 per cent, for overdrafts. Maximum interest rates payable on time deposits with the national banks ranged between 8.5 and 13 per cent, according to length of maturity, during the program period reviewed here, as against a range of 5.5 to 8.0 per cent before June 1982. However, actual rates paid by the national banks have tended to be below these maximum rates.

## 5. External policies

### a. Balance of payments

Developments in the balance of payments in 1982 were significantly more adverse than those envisaged under the program; the volume of exports declined, the terms of trade deteriorated, and there was a shortfall in the expected capital inflow. As a result, the overall balance of payments recorded a deficit of SDR 47 million, compared with the target of a small surplus of SDR 7 million under the program (Table 6).

Export volume declined slightly, compared with a 3 per cent increase projected under the program, and export receipts were 6 per cent below the program target in SDR terms. The decline was due almost entirely to a shortfall in the volume and unit price of coffee exports; volume fell to a record low level of 46,400 tons, compared with the program target of 60,000 tons and 1981 exports of 56,300 tons. A substantial part of this shortfall was due to lower-than-anticipated exports of coffee to countries outside the International Coffee Organization.

Table 5. Madagascar: Monetary Survey, 1981-83

(In billions of Malagasy francs; end of period)

| | 1981 1/ | 1982 | | | | 1983 |
|---|---|---|---|---|---|---|
| | | June | Sept. | December | | December |
| | | Actual | Actual | Program | Actual | Target |
| Foreign assets (net) | -133.3 | -134.5 | -155.0 | -133.2 2/ | -162.2 | -162.3 |
| Central Bank (net) | -131.4 | -143.8 | -161.8 | -131.3 | -166.4 | -166.8 |
| Assets | 9.2 | 17.9 | 11.1 | ... | 8.9 | 9.4 |
| Liabilities | -140.6 | -161.7 | -172.9 | ... | -175.3 | -176.2 |
| Exceptional BOP financing | (-46.5) | (-56.3) | (-59.7) | (-59.0) | (-56.1) | (-59.5) |
| Payments arrears | (-34.0) | (-49.7) | (-42.2) | (-29.3) | (-49.4) | (-27.2) |
| Consolidation of arrears | (-35.8) | (-26.6) | (-23.6) | (-11.6) | (-19.3) | (-17.9) |
| Other liabilities | (-24.3) | (-29.1) | (-47.4) | (...) | (-50.5) | (-71.6) |
| State banks | -1.9 | 9.3 | 6.8 | -1.9 | 4.2 | 4.5 |
| Domestic credit (net) | 399.6 | 423.4 | 439.6 | 478.8 | 465.9 | 542.0 |
| Claims on Government (net) | 235.8 | 257.0 | 260.2 | 270.0 | 269.7 | 306.3 |
| Central Bank (net) | 221.3 | 240.9 | 245.7 | 255.5 | 253.7 | 290.3 |
| State banks (net) | -0.5 | 0.2 | -0.7 | -0.5 | 0.9 | 0.9 |
| Other (net) | 15.0 | 15.9 | 15.2 | 15.0 | 15.1 | 15.1 |
| Credit to private sector and state enterprises | 163.8 | 166.4 | 179.4 | 208.8 | 196.2 | 235.7 |
| On-lending | 11.1 | 11.3 | 11.3 | 11.1 | 11.0 | 11.0 |
| To Government | 2.5 | 2.7 | 2.7 | 2.5 | 2.7 | 2.7 |
| To state enterprises | 8.6 | 8.6 | 8.6 | 8.6 | 8.3 | 8.3 |
| Broad money | 249.8 | 268.7 | 266.3 | 307.4 | 275.2 | 339.4 |
| Money | 207.1 | 220.6 | 214.7 | 253.4 | 223.3 | ... |
| Quasi-money | 42.7 | 48.1 | 51.6 | 54.0 | 51.9 | ... |
| Long-term foreign borrowing | 42.4 | 52.5 | 62.4 | 68.4 | 75.1 | 94.5 |
| Central Bank | 13.6 | 15.1 | 16.3 | 19.7 | 16.7 | 17.7 |
| State banks | 14.7 | 15.8 | 15.7 | 14.6 | 16.2 | 17.2 |
| Rescheduling agreements | 14.1 | 21.6 | 30.4 | 34.1 | 42.2 | 59.6 |
| Other items (net) | -14.8 | -21.0 | -32.8 | -19.1 | -35.6 | -43.2 |
| Of which: | | | | | | |
| valuation adjustments | (-22.7) | (-33.7) | (-40.2) | (...) | (-39.0) | (-46.6) |

Source: Central Bank of Madagascar.

1/ Revised.
2/ Program projections for movements in net foreign assets do not take account of revaluation of end-1981 data to current exchange rates.

Table 6. Madagascar: Balance of Payments, 1981-82

(In millions of SDRs) 1/

| | 1981 | | 1982 | |
|---|---|---|---|---|
| | Program | Actual | Program | Estimate |
| Exports, f.o.b. | 373.2 | 285.5 | 314.3 | 296.0 |
| Imports, f.o.b. | -474.9 | -455.7 | -519.3 | -442.9 |
| Trade balance | -101.7 | -171.2 | -205.0 | -146.9 |
| Service receipts | 39.0 | 40.0 | 40.5 | 31.2 |
| Service payments | -254.3 | -228.9 | -234.1 | -212.9 |
| Freight on merchandise | (-82.2) | (-78.7) | (-73.2) | (-57.9) |
| Other transport and travel | (-50.5) | (-41.2) | (-43.6) | (-45.4) |
| Investment income | (-60.6) | (-68.7) 2/ | (-76.8) 2/ | (-84.9) 2/ |
| Other services | (-61.0) | (-40.3) | (-40.5) | (-24.7) |
| Services (net) | -215.3 | -188.9 | -193.6 | -181.7 |
| Private unrequited transfers (net) | 5.2 | 7.2 | 9.4 | 9.3 |
| Current account | -311.8 | -352.9 | -389.2 | -319.3 |
| Public unrequited transfers (net) | 45.6 | 50.0 | 56.1 | 57.1 |
| Nonmonetary capital (net) | 226.8 | 265.0 | 340.4 | 207.8 |
| Direct investment (net) | -4.9 | -0.6 | -0.6 | -0.3 |
| Drawings 3/ | 238.3 | 249.5 | 291.9 | 175.1 |
| Amortization 2/ | -60.2 | -57.5 2/ | -101.9 2/ | -104.6 2/ |
| Debt relief obtained | 5.2 | 5.2 | 35.2 | 35.2 |
| Additional assistance (programmed/actual) | 44.6 | 56.9 | 115.8 | 103.4 |
| Rescheduling | (44.6) | (56.9) | (61.6) | (68.8) |
| Donors Club | (--) | (--) | (54.2) | (34.6) |
| Other 4/ | 3.8 | 11.5 | -- | -1.0 |
| Banks (net) | 17.4 | -18.1 | -- | 7.4 |
| Allocation of SDRs | 3.5 | 3.5 | -- | -- |
| Overall balance | -18.5 | -52.5 | 7.3 | -47.0 |
| Financing | 18.5 | 52.5 | -7.3 | 47.0 |
| IMF (net) | 66.3 | 31.9 | 47.0 | 47.0 |
| Changes in arrears (decrease -) | -42.9 | -60.0 | -7.6 | 54.8 |
| Consolidations | (--) | (-132.1) | (--) | (-6.2) |
| Repayments | ) | ) | ) | (-157.2) |
| Accumulations | ) (-42.9) | ) (-72.1) | ) (-7.6) | (218.2) 5/ |
| Consolidated arrears (net) | -- | 95.5 | -46.7 | -61.6 |
| New consolidations | (--) | (132.1) | (--) | (6.2) |
| Repayments (programmed/actual) 6/ | (--) | (-28.7) | (-46.7) | (-23.1) |
| Repayments due but not made 6/ | (--) | (-8.4) | (--) | (-44.7) |
| Other central bank reserves | -4.9 | -14.4 | -- | 6.8 |
| Assets (increase -) | (-4.9) | (-14.4) | (--) | (1.3) |
| Liabilities (decrease -) | (--) | (--) | (--) | (5.5) |

Source: Data provided by the Malagasy authorities.

1/ Converted at the following rates per SDR 1 : FMG 287.0 (1981 program); FMG 320.20 (1981 actual); FMG 380.0 (1982 program); and FMG 385.2 (1982 estimate).
2/ Includes rescheduled debt service.
3/ Includes certain long-term loans previously classified below the line as exceptional balance of payments financing.
4/ Includes short-term capital, valuation adjustment, and errors and omissions.
5/ Includes an estimated SDR 51.3 million of debt service due to commercial banks, with which a restructuring has been agreed in principle.
6/ In respect of arrears consolidated prior to 1982.

Stocks of coffee rose by 35 per cent during the 1981/82 crop year. This adverse outcome was only partially offset by higher-than-expected export receipts from vanilla and shellfish, on account of higher volumes and unit prices. Because of the paucity of foreign exchange, imports were constrained at a level 15 per cent below that envisaged in the program, implying a decline of about 12 per cent in volume, following a decrease of some 30 per cent in 1981. The composition of imports changed in favor of foodstuffs and energy, with rice and petroleum imports reaching record shares of 19 per cent and 23 per cent, respectively, in the total import bill, while that of raw materials, spare parts, and capital goods declined. The stagnation in coffee prices, and the fact that Madagascar continued to pay high unit prices for energy imports as a result of contractual obligations, meant that the terms of trade declined by some 2 per cent, in contrast to the 6 per cent improvement foreseen in the program. As a result of the sharper fall in imports, the current account deficit decreased to SDR 319 million, equivalent to 12.2 per cent of GDP, compared with a program objective of 14.9 per cent and a 1981 outcome of 14.4 per cent.

The balance of payments difficulties in 1982 were compounded by a substantial shortfall of capital inflow both for project financing (SDR 117 million) and for the exceptional balance of payments support mobilized during the Aid Donors' Conference. Disbursements by the donors' group were about SDR 20 million less than projected in the program and SDR 29 million below the level actually pledged. By contrast, Madagascar successfully rescheduled, within the framework of the Paris Club, its debt service obligations falling due during the second half of 1982 and first half of 1983, and with other creditors outside the Paris Club for debt service obligations falling due in 1982. Negotiations regarding a rescheduling of Madagascar's outstanding obligations to commercial banks began in June 1982, and agreement was subsequently reached, in principle, within the framework of the London Club to reschedule the total outstanding debt amounting to US$195 million at the end of 1982, of which US$70 million were arrears on principal. Madagascar has remained current on interest payments. A formal rescheduling was postponed until after the assessment of the medium-term balance of payments prospects in connection with a mid-term review of the stand-by arrangement with the Fund. A meeting was held between Madagascar and commercial banks in Paris in January, where progress was made toward reaching a final agreement.

As noted above, developments resulted in an overall balance of payments deficit of SDR 47 million (with debt relief and all exceptional balance of payments financing included above the line 1/), compared with

1/ In contrast, in setting the program targets for 1982, this type of financing was not included above the line, and the overall balance of payments was targeted to show a deficit of SDR 141 million (see page 2 above).

a small surplus (SDR 7 million) projected under the program. Under the impact of the persistent foreign exchange difficulties, compared to a net reduction of SDR 7 million assumed under the program, external payments arrears increased by SDR 55 million over the year (almost entirely--SDR 51 million--in respect of debt service to commercial banks, with which debt rescheduling is under negotiation); Madagascar consolidated SDR 6 million of arrears into future obligations, repaid SDR 157 million of outstanding arrears, but accumulated new arrears amounting to SDR 218 million.

b. External payments arrears

Under the stand-by arrangement, the Government of Madagascar undertook, as a performance criterion, not to increase arrears on external payments (other than dividends) between end-March and end-June 1982, and to reduce them on a net cash basis by SDR 19.1 million between end-June and end-September and by a further SDR 30 million by end-December 1982. This undertaking was based on the preliminary data, available at the time of the negotiations on the program, on the level of arrears outstanding for March 1982, of SDR 144 million. The implicit objective of the program was to reduce arrears, on a net cash payment basis, by SDR 7.6 million in 1982, implying a reduction of SDR 49 million between end-March (base date) and end-December. In reporting the performance with respect to external payments arrears, Madagascar communicated that the criteria through September were met. However, on the basis of the revised data, 1/ the implicit level of arrears at end-March 1982 (SDR 116 million) was much lower than assumed in the program. Thus, while a reduction in arrears of SDR 25 million had been reported earlier for the period March to September, based on the revised figure for March, arrears in fact rose by SDR 5 million during the period. Nevertheless, the implicit level of arrears at the end of June and September was still lower under the revised accounts than under the old accounts, as shown in Table 7 below:

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1/ The above reporting of data was based mainly on returns from national banks. More recently, the Central Bank undertook an investigation with a view to reconciling the increasingly divergent data reported by national banks and those received from foreign correspondent banks. This investigation found that the discrepancies had arisen as a result of the latter pre-empting part of Madagascar's export proceeds to reduce their overdue overdraft claims on Malagasy banks. The Malagasy banks only became aware of this subsequently, partly due to the complications created by the valuation problems attributable to exchange rate variations. The investigation, which was concluded only after the previous September data were communicated to the Fund, showed that the movement of arrears, on a net cash payment basis, had been different from that reported to the Fund earlier.

Table 7. Madagascar: External Arrears in 1982

(In millions of SDRs)

| | 1982 | | | |
|---|---|---|---|---|
| | March (base date) | June | September | December |
| Implicit program target level | 144 | 144-0=144 | 144-19=125 | 144-49=95 |
| Implicit level as previously reported to Fund | 144 | 138 | 119 | 139 |
| Implicit actual level as revised | 116 | 136 | 121 | 138 |

Sources: Central Bank of Madagascar.

Reporting of data for the period after September 1982 is being made on the basis of the revised data. During the last quarter of 1982, external payments arrears, on a net cash basis, increased further by SDR 17 million, instead of declining by SDR 30 million as stipulated in the program, for reasons discussed in Section IV below.

## III. Proposed Targets and Policies

### 1. Introduction and summary of policies

Discussions on the mid-term review, which entailed establishing performance criteria for the balance of the current stand-by arrangement through June 1983, were held on the basis of tentative global targets for the whole of 1983. These targets have to be provisional in view of the fact that discussions on the rescheduling of debt with commercial banks, as well as on the rescheduling of debt with the Paris Club and on exceptional balance of payments assistance from aid donors for 1983, are yet to be concluded. The outcome of these discussions will have considerable influence not only on the balance of payments but also on the growth rate, which is critically dependent on the foreign exchange available for imports. Nevertheless, the major thrust of domestic economic and financial policies, especially in regard to the budget, has been clearly defined for the entire year and is communicated in the attached letter from the Minister of Finance.

The proposed policies are designed to reverse some of the unanticipated adverse developments that recurred in the domestic economy in 1982, while making further progress toward reducing the domestic and external financial imbalances. In particular, the authorities will endeavor to achieve a small (1 per cent) positive real growth in GDP, increase the domestic rate of savings, and stimulate domestic industrial and agricultural production by providing for a higher level of requisite inputs under a somewhat more liberalized import system. The current account deficit in the balance of payments (including presently scheduled interest payments) is targeted to be reduced to SDR 264 million (9 per cent of projected GDP), from SDR 319 million (12 per cent of estimated GDP) in 1982. To achieve these goals, the principal measures proposed by the authorities are:

i. An increase in the producer price for rice, to be followed by a review, and, if necessary, action on producer prices for other products before the beginning of the 1983/84 crop year.

ii. Further liberalization of administered prices.

iii. A reduction in the ratio of the overall government deficit to GDP from 8.7 per cent in 1982 to 6 per cent in 1983.

iv. An increase in deposit and lending rates, accompanied by continued restraint on credit expansion.

v. A depreciation of 6 per cent in the exchange rate, effective February 1, 1983.

vi. A modest liberalization of the import licensing system in respect of raw materials and essential inputs for the agricultural and industrial sectors.

## 2. Production and pricing policies

A public investment program for the period 1983-85 is in the final stages of preparation and is being discussed with the World Bank, which is considering a request from Madagascar for a Structural Adjustment Loan. The investment program emphasizes the rehabilitation of existing capacity, particularly in agriculture and transportation, with the aim of increasing self-sufficiency in foodstuffs, especially rice. Priority will be given to improving the distribution system in rural areas so as to alleviate bottlenecks in the collection of rice and the principal export crops.

The Government has instituted a system of annual reviews of agricultural producer prices, so as to ensure adequate incentives to production. These annual reviews will be based on data on cost structures for individual crops which are being developed with World Bank technical assistance. On January 27, 1983, an increase in the producer price of paddy by 8.3 per cent was announced; increases for other crops will be announced before the start of the respective 1983/84 crop years.

The Government will continue to follow up on its decision to liberalize domestic price controls. In order to ensure a more rapid implementation of this decision, it is intended to reduce the number of goods and services subject to price controls. In particular, the present practice requiring government decrees for some price adjustments will be abolished.

The program is based on a projection of a modest growth of 1 per cent in real GDP in 1983. Agricultural production is expected to recover from the damage of last year's cyclone. A small recovery in industrial production is also projected, as the authorities intend to provide for a somewhat larger volume of imported raw materials and spare parts, which, however, would continue to remain in short supply. The share of gross capital formation in GDP is expected to decline slightly, as a modest recovery in the volume of fixed investment expenditures from the depressed level of 1982 will be offset by a rundown in rice stocks. The share of consumption should also decline, as the program is aimed at holding total public consumption virtually constant in real terms and providing interest-related incentives for savings. As a result, the ratio of gross domestic savings is expected to increase by 50 per cent to 6 per cent of GDP, and the overall resource gap is projected to decline to less than 7 per cent of GDP, compared with 9.4 per cent in 1982.

3. Fiscal policies

The authorities are aiming at a further improvement in the fiscal situation in 1983, both in terms of the reduction in the current and overall budget deficits and of an increase in investment expenditure. The major objective is to reduce the overall government deficit to around 6 per cent of GDP, from 8.7 per cent in 1982 (Table 4). This aim goes beyond Madagascar's original intentions in the current stand-by arrangement to reduce the deficit to 7.0 per cent of GDP.

Total receipts (including those of the FNUP as well as profits on central bank rice import operations) are projected to rise by 18.6 per cent. New discretionary revenue measures, excluding the impact of the recent 6 per cent depreciation in the exchange rate, are to provide the equivalent of 0.6 per cent of GDP in budgetary receipts. The principal measures include a new unified import duty on petroleum products which replaces the previous specific excise taxes at the wholesale level; a new system of prepayment of company direct taxes every two months starting in February 1983; increases in, and introduction of new, excise taxes, especially on electricity consumption; the extension of the value-added tax to the retail trade and liberal professions; the unification and an increase of the average company tax rate to 45 per cent; the inclusion of all interest and dividend income in taxable income; a withholding tax on dividends has been introduced; the stipulation that depreciation allowances will lapse after three years if not fully utilized for replacement expenditure or new investment; and an upward revision of tax rates on nonsalary incomes, with a 60 per cent maximum marginal level but an increased minimum exclusion of disposable income. Several of these measures incorporate recommendations of a recent Fund fiscal mission. In addition, prices charged by the fiscal monopoly for cigarettes, alcohol, and flour have been raised.

Net central bank expenditure on rice import operations should show a significant surplus in 1983 as a result of large sales from stocks which were paid for (and charged to the expenditure) in the previous year, and of the full year's impact of the higher consumer price for rice announced in mid-1982, which now permits a surplus on current operations.

FNUP receipts are expected to rise by about 30 per cent in 1983. These receipts consist of the surpluses from the export of coffee, cloves, and vanilla, after deduction of payments to producers, processing costs, and normal export taxes. Projections are based on unit export prices f.o.b. of US$0.84 per pound for coffee, US$8.50 per kilo for cloves, and US$56 per kilo for vanilla. Even if producer prices are raised for these products for the crop year 1983/84, they will affect the FNUP receipts only in calendar 1984, when the major share of production from that crop year would be exported.

Receipts related to external grants are expected to decline in 1983, compared to the large cyclone-related assistance in 1982, whereas domestic expenditure related to these earlier grants will be undertaken only in 1983. As a result, grants on a net basis are expected to be negative. The authorities intend to limit expenditures as a function of new grants actually received so as not to incur a net negative account on grants above FMG 3.0 billion.

Total expenditure is projected to increase by 7.2 per cent in 1983; as a percentage of GDP, it should decline from 23 per cent in 1982 to 20 per cent in 1983. The authorities intend to limit the total size of the central government labor force to 127,500 positions, an increase of 1.1 per cent over the number authorized in the revised 1982 budget. Only graduates of the Government's professional schools will be eligible for recruitment. At the same time, expenditure on wages and salaries will be limited to FMG 84.0 billion for the year as a whole, entailing a complete freeze on cost-of-living wage increases in the government sector. Thus, most of the budgeted increase of 11 per cent in current expenditure is accounted for by planned increases in other current expenditure, such as supplies and maintenance, which were severely curtailed in 1982 with a detrimental impact on government operations. A new system of monitoring nonsalary current expenditure through centralized data processing of expenditure commitments and billing was established as of January 3, 1983. Although no domestic arrears were reported at the level of the Treasury at the end of 1982, arrears are reported to exist at the level of various ministries. A committee has been established to assess the findings of surveys of arrears carried out in the various ministries and as reported by suppliers in 1982, so as to proceed with their gradual and orderly elimination.

The overall deficit of FMG 76.1 billion would be financed by the projected net foreign financing of FMG 40.6 billion and net domestic financing of FMG 35.5 billion. Even though a special government loan (emprunt national) is intended to be issued for a second year at a high coupon rate, a conservative projection of negative nonbank financing of FMG 1.1 billion has been adopted, because of a high level of amortization of normal Treasury bonds during the year.

## 4. Monetary and credit policies

The principal monetary policies will consist of continued restraint on domestic credit expansion and a further increase in the level of interest rates. For the year as a whole, the growth in total domestic credit is to be limited to some 16 per cent, with the increase in credit to the private sector, including state enterprises, limited to 20 per cent and that in net credit to the Government to under 14 per cent (Table 5). As in the past, the Central Bank will continue to debit the Treasury and the national banks at the original maturity date of any debts that are rescheduled 1/ and will itself assume the future liability for such debts. In the light of the domestic credit ceilings and the preliminary projections of movements in the banking system's net foreign assets position, broad money supply is to grow by some 23 per cent, compared with a projected 26 per cent increase in nominal GDP, so that there will be a further increase in the income velocity of money following the sharp increase in 1982 (Table 1). Within these annual targets, the current stand-by envisages that the increase in total domestic credit will be limited to FMG 40 billion (8.7 per cent) during the remaining period of the stand-by arrangement through June 1983.

Until recently, maximum interest rates payable on time deposits ranged from 8.5 to 13 per cent according to length of maturity. However, rates actually paid by the national banks were often below the maxima. Effective February 1, the authorities have raised such deposit rates further by up to 2.5 percentage points and made them minimum and obligatory. Lending rates on short-term credit, which had been raised in

1/ Payments on scheduled debt are included as government expenditure in the 1983 budget.

mid-1982 with minimum rates ranging from 12.5 per cent to 17 per cent, were raised further by an average of 1 percentage point. The relatively larger increase in deposit interest rates is intended to provide additional incentive for savings and will reduce the present very large differential between the banks' borrowing and lending rates.

5. External sector

The principal additional measures the authorities have undertaken following the discussions relating to the mid-term review are: a further 6 per cent depreciation of the Malagasy franc effective February 1, 1983, and a step toward liberalizing the restrictive system for imports of raw materials and other essential inputs for the industrial and agricultural sectors. These measures are designed to provide a further stimulus to exports, while preventing severe constraints on production as in 1982.

Apart from the effects of policy measures and exogenous factors, the outcome of the overall balance of payments would be critically dependent on the restructuring of Madagascar's external debt in the context of the forthcoming meeting of the commercial banks (London Club), the anticipated meeting of the Paris Club, and the aid to be accorded by donor countries following the forthcoming meeting of the IBRD Consultative Group and the Aid Donors' Conference. The Malagasy authorities have proposed to review with the Fund the results of the London Club and the donors' club meetings prior to making the purchase linked to the end-March performance criteria. During the course of that review, a better appreciation would be available of the prospects for the balance of payments and any additional measures that may be necessary to fill the remaining financing gap. The objectives established in the context of that review would also set the tone of the program to be agreed with the authorities in the context of a new stand-by arrangement at the expiry of the present one in mid-1983.

The balance of payments estimates for 1983 (Table 8) comprise only those items which can be projected with a reasonable degree of certainty. Interest payments and debt amortization falling due in 1983 (totaling SDR 228 million), which are likely to be subject to renegotiation, are excluded from this presentation, as the terms of rescheduling cannot be assumed ex ante. Excluding such payments, the preliminary balance for 1983, including, inter alia, net purchases under the present stand-by arrangement of SDR 17 million, is projected to be negative at SDR 20 million. This amount includes a provision for an initial small disbursement of an IBRD Structural Adjustment Loan later in the year as well as a reduction of external arrears by SDR 15 million through net cash payments as envisaged during the remainder of the present program. As a result, given this scenario, it will be of paramount importance that the reschedulings of Madagascar's debt obligations be carried out promptly and on generous terms. In this respect, in rescheduling Madagascar's debt, it is imperative that the commercial banks participate fully in these efforts.

Table 8. Madagascar: Balance of Payments Projections, 1982-86

(In millions of SDRs)

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|---|
| Exports, f.o.b. | 296 | 315 | 346 | 380 | 419 |
| Imports, f.o.b. | -443 | -421 | -434 | -447 | -460 |
| Trade balance | -147 | -106 | -88 | -67 | -41 |
| Service receipts | 31 | 33 | 36 | 39 | 43 |
| Freight | -58 | -57 | -58 | -61 | -62 |
| Other service payments excluding investment income | -70 | -69 | -70 | -75 | -82 |
| Services (net) excluding investment income | -97 | -93 | -92 | -97 | -101 |
| Private transfers | 9 | 9 | 11 | 12 | 12 |
| Current account (excluding investment income) | -235 | -190 | -169 | -152 | -130 |
| Payments on nonreschedulable debt 1/ | | | | | |
| Interest (including dividends) 2/ | | -45 | -72 | -78 | -91 |
| Principal | | -28 | -19 | -44 | -57 |
| Subtotal | | -73 | -91 | -122 | -148 |
| Public transfers | | 59 | 73 | 81 | 86 |
| Drawings on loans | | 183 | | | |
| Overall balance | | -21 | | | |
| Plus IMF (net) 3/ | | 17 | | | |
| Plus World Bank SAL | | 2 | | | |
| Less changes in arrears 4/ | | -15 | | | |
| Less consolidated arrears | | -3 | | | |
| Subtotal | | 1 | | | |
| Preliminary balance | | -20 | | | |
| Donors' Club | | ... | | | |
| Memorandum items: | | | | | |
| Payments already rescheduled or subject to rescheduling | | | | | |
| Interest and principal payments already rescheduled | | 28 | -- | -- | -- |
| Estimated interest payments subject to rescheduling | | 25 | 30 5/ | 28 5/ | 24 5/ |
| Estimated principal payments subject to rescheduling | | 175 | 99 5/ | 101 5/ | 88 5/ |

Sources: Central Bank of Madagascar; and staff estimates.

1/ Includes moratorium interest on rescheduling, portions of debt service that are not rescheduled, and service payments on debt to international organizations

2/ Includes estimated interest payments to banks through March 1983 only, with terms beyond that date presently under negotiation.

3/ As under the present stand-by arrangement, and net of repurchases due in 1983.

4/ As under the present stand-by arrangement through June 1983.

5/ No payments are shown to commercial banks, which are expected to reschedule their total debt outstanding in early 1983.

Indications are that, even under the most optimistic assumptions concerning the terms for reschedulings, additional balance of payments support will be necessary so as to permit financing of the already highly constrained import program, the remaining debt service after rescheduling, and a further reduction of external payments arrears. The two net sources of external financing will be additional Fund support under a new stand-by arrangement to succeed the current one and exceptional financing to be provided by donor contries in conjunction with an IBRD-sponsored Consultative Group meeting to be held in Paris at the end of April 1983.

The above balance of payments outcome foresees an improvement in the trade balance, with the deficit projected to be reduced by SDR 41 million, or by 28 per cent, from the 1982 level. Exports are projected to grow by about 6 per cent in SDR terms, partly as a result of a small increase (about 4,000 tons) in the volume of coffee exports to 50,000 tons. Awaiting results of the conferences mentioned above, the authorities have established an import program envisaging a 5 per cent reduction in value in SDR terms. In 1982, however, there were large imports of rice, whereas in 1983 such imports are presently projected to be limited to 220,000 tons. Excluding rice imports, the present import program envisages an increase of 5 per cent in the value of other imports, or roughly a 7 per cent increase in volume.

To ensure that the constrained volume of imports does not unduly undermine the production sector, the Malagasy authorities have agreed that priority within the limited import program should be given to raw materials and spare parts. As an initial step, certain importers of specified imports essential to agricultural and industrial production will automatically receive import licenses within the minimum aggregate quota of FMG 10 billion (SDR 23 million) each quarter. In addition, the authorities are in the process of establishing special accounts in which exporters of manufactured products may retain a specified percentage of export proceeds which may be used by the exporters themselves to pay for essential imports for their own business activities.

The debt service burden has risen rapidly in recent years. Before further rescheduling of debt and payments arrears in 1983 (Paris Club, other creditors, and London Club banks), it would be equivalent to nearly 77 per cent of exports of goods and services, and would remain around 75 per cent for the next few years. Even if fairly generous terms were granted for the restructuring of the debt, the debt service ratio would be about 50 per cent. 1/ Accordingly, apart from a further rescheduling,

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1/ These ratios are higher than those shown in the staff paper, EBS/82/103, on the stand-by arrangement, because they are based on more current and revised data on outstanding debt following upon technical assistance provided by the IBRD and UNCTAD. In addition, receipts from exports of goods and services are now projected to be lower.

an improvement in the debt profile is imperative to obtaining the basic conditions for an economic recovery. As a step toward this goal, the authorities have indicated that, during the remaining period of the stand-by arrangement, neither the Government nor the Central Bank or national banks, will contract or guarantee any new external debt with maturities between one and ten years, except for loans to refinance existing debt or for subsidiary contracts governing utilization of an existing loan contracted in 1981 amounting to French franc 167.6 million.

The staff has updated the medium-term projections of the current account of the balance of payments through 1986 contained in the original request for a standby (EBS/82/103). Using price assumptions from the latest WEO projections, and assuming a moderate recovery in the volume of coffee exports and continued growth in nontraditional exports, the value of exports in SDR terms is projected to increase by around 10 per cent per annum, provided that appropriate adjustment policies continue to be followed. Imports are projected to grow by some 3 per cent annually, but with a major change in composition away from consumption goods and in favor of raw materials and reoriented investment expenditures. Consequently, the current account deficit (including public unrequited transfers) is projected to decline gradually to below 5 per cent of GDP in 1986. Pending the results of negotiations regarding debt rescheduling, it is not possible, at this stage, to project capital movements (Table 8).

## 6. Performance criteria

Within the above-mentioned general policies, the accompanying letter from the Minister of Finance, while reconfirming intentions in other areas of economic policy, proposes the following performance criteria: (a) quarterly ceilings on total domestic credit of the banking system, with a subceiling on net credit to the Government; (b) cumulative reductions through net cash repayment of external arrears other than dividends; (c) cash payments of external arrears with respect to dividend transfers; (d) a limit on the contracting of new foreign debt in the one-to-ten-year maturity range; and (e) to reach understandings with the Fund within the context of the review proposed to take place by the end of April 1983 with respect to the financing of the remaining gap in the projected 1983 balance of payments following discussions between Madagascar and the London Club and the Consultative Group/Aid Donors' Meeting. The purchase associated with the end of March 1983 performance criteria, which would be the last one under the current stand-by arrangement, will be subject to the satisfactory completion of understandings with the Fund on additional adjustment policies considered necessary during the course of the April review to deal with any remaining balance of payments gap. Quantitative ceilings for the remainder of the program period (through June) are shown in Table 9; the June figures represent only indicative targets.

Table 9. Madagascar: Quantitative Performance Criteria for 1983

| | 1982 | 1983 | |
|---|---|---|---|
| | Dec. 31 1/ | March 31 | June 30 |
| Cumulative change in total domestic credit of banking system (FMG billion) 2/ | 457.4 | 20.4 | 40.0 |
| Cumulative change in net credit to Government by banking system (FMG billion) 2/ 3/ | 256.4 | 10.3 | 20.0 |
| Cumulative reduction by net cash payments of external arrears other than dividends (SDR million)(reduction -) 4/ | (138.0) 5/ | -9.0 | -15.0 |
| Cumulative reduction of external arrears with respect to dividends (FMG billion) (reduction -) | (4.1) 6/ | -0.2 | -0.4 |
| New external borrowing of 1-10 7/ years' maturity (French franc million) | 97.9 | 167.6 | 167.6 |
| Of which: 1-5 years' maturity | (97.9) | (167.6) | (167.6) |

Sources: Central Bank of Madagascar; and staff estimates.

1/ Estimated levels.

2/ Differs from data in monetary survey (Table 5) because ceilings are defined to include on-lending of foreign loans by the Central Bank but exclude deposits at the Treasury by the National Savings Bank and the Postal Checking System. Revised data for end-1982 indicate slightly lower outstanding amounts than the estimates in the attached letter of intent.

3/ Differs from definition of net credit to Government in performance criterion in EBS/82/103 by the incorporation of advances to contractors in connection with government projects.

4/ Excluding reductions through consolidations.

5/ Implicit stock of external arrears other than dividends outstanding as of December 31, 1982.

6/ Implicit amount outstanding as of December 31, 1982,

7/ Represents an overall loan agreement denominated in French francs already signed in 1981; individual contracts for utilization of the loan were signed in 1982.

## IV. Request for Waiver

In the attached letter the Minister of Finance has also requested that the Fund grant a waiver for the non-fulfillment of the performance criterion in respect of reduction, on a net cash basis, of external arrears at the end of December 1982. As shown in Table 7 above, instead of declining cumulatively by a total of SDR 49 million between end-March (base date) and end-December 1982, arrears increased by SDR 22 million. The following considerations are relevant to a decision on this request:

(1) A large part of the shortfall in fulfilling the December criterion for arrears was attributable to the shortfall in receipts from exports and aid disbursement and, therefore, could be considered as largely beyond the control of the authorities; imports in 1982 were below the program level.

(2) The authorities have adopted substantial additional adjustment measures as a result of discussions with the staff during the midterm review; such measures would reduce Madagascar's financial budget and external current account deficits in relation to GDP by even more than envisaged in the original program.

(3) Under the program for the remainder of the period of the stand-by arrangement, the authorities are proposing a reduction in arrears through net cash payments (SDR 15 million) which would more than offset the increase in arrears (SDR 2 million) that had occurred in the first half of the program period, so that for the program period as whole (July 1982-June 1983) there will actually be a reduction through net cash payments of SDR 13 million.

(4) Commercial banks have agreed in principle to reschedule their entire outstanding claims, including arrears. Once the process is completed, there would be no outstanding arrears vis-à-vis the banks. Taking this into account as well as the proposed reduction of SDR 15 million through net cash payments during the remainder of the stand-by period, the outstanding level of arrears at the end of the program period will be some SDR 70 million lower than at the beginning of the program.

(5) Finally, the problems which arose because of the accounting difficulties were further complicated by frequent valuation adjustments related to exchange rate variations. The authorities have requested, on an urgent basis, Fund technical assistance for the Central Bank of Madagascar to put the accounting system, as well as the information procedures, on sounder footing.

The staff considers that the above reasons justify the requested waiver of the December performance on arrears.

## V. Staff Appraisal

During the first six months of the current stand-by arrangement, the Malagasy authorities have implemented most of the policies intended under the program. In particular, the Malagasy franc was devalued by 15 per cent, consumer subsidies on rice were abolished, producer prices were raised, a significant fiscal effort, combining both an increase in taxation and reduction in expenditure, was made, and credit restraints were observed, while a substantial rise in the interest rate structure was introduced. As a result, the financial imbalances, as represented by the ratios of the overall government deficit and of the current account deficit to GDP, declined significantly in 1982, to well below the targets in the program. Madagascar also obtained external assistance in the form of exceptional balance of payments assistance and debt rescheduling to ease the extremely serious pressures on the balance of payments.

Notwithstanding these measures and external assistance, the expected improvement in the economy did not materialize. Thus, real GDP in 1982, instead of the projected positive growth, registered a decline, the rate of savings as well as of investment fell, and the authorities were unable to meet the performance criterion in respect of the reduction in external arrears at the end of December 1982. These adverse developments reflected mainly exogenous factors, such as the shortfall in coffee exports and in the disbursement of the promised external aid. In addition, the authorities also tended to put a relatively greater emphasis on the provision of rice and other consumer goods rather than on the needed raw materials and other associated inputs for the productive sectors.

In the light of the adverse developments experienced during 1982, vis-à-vis the current program, the authorities have, in collaboration with the staff, taken several measures to strengthen their adjustment efforts. The authorities have already depreciated the currency by 6 per cent, effective February 1. This measure has been reinforced by the adoption of a budget for 1983 which foresees an overall deficit/GDP ratio of 6 per cent as against the 7 per cent target originally intended, and by a further increase in interest rates and continued restraint on credit expansion. In addition, producer prices are being increased, administered prices are being progressively liberalized, and some automaticity is being introduced to ensure availability of essential imported materials for the productive sectors.

The policies being implemented in the context of the present mid-term review will substantially strengthen Madagascar's adjustment efforts and reduce the budget and external current account deficits even more than envisaged in the original program. At the same time, the authorities are seeking to shift more resources toward investment and the import of inputs which would reactivate production. Even with such reinforced adjustment policies, substantial uncertainties remain regarding the availability of adequate external financing through possible debt relief and new external assistance. These will depend on forthcoming negotiations on debt relief under the auspices of the London and Paris Clubs and on the results of the meeting of the IBRD-sponsored Consultative Group/donors' club. The results of the forthcoming meetings in these areas will be reviewed with the Fund before end-April to determine whether any additional measures would be required in support of the current program. The review would also provide an opportunity to discuss the program which would be supported by the next stand-by arrangement. The purchase from the Fund, linked to performance criteria for end-March 1983, will depend on the satisfactory conclusion of this review.

The Malagasy authorities have requested a waiver for the end-December performance criterion relating to the reduction in arrears. The staff feels that the nonperformance is explained primarily by external events, namely, the shortfall in exports and in disbursed aid. Furthermore, the reduction through net cash payments in external arrears foreseen in the rest of the program period will more than offset the increase that took place in the first six months of the period. Also, with the indicated readiness of commercial banks to reschedule their claims, including arrears, the level of arrears outstanding at the end of the program period would be reduced by some SDR 70 millilon from their level at the beginning of the period. Finally, and most important, are the strong and additional adjustment measures that the authorities have recently put into place. In view of the above, the staff recommends approval of the requested waiver and considers that the measures taken constitute a satisfactory basis for the completion of the mid-term review.

## VI. Proposed Decision

In view of the above, the staff proposes the following draft decision for the consideration of the Executive Board:

1. Madagascar has consulted with the Fund in accordance with paragraph 3(b) of the stand-by arrangement for Madagascar (EBS/82/103, Supplement 3, July 13, 1982) and the letter of the Minister of Finance dated June 8, 1982, attached to the stand-by arrangement, in order to reach understandings subject to which further purchases may be made by Madagascar under the stand-by arrangement.

2. The Fund waives the performance criterion requiring that, by the end of December 1982, the amount of external payments arrears shall be reduced by a further SDR 30 million on a net cash basis from the end of September 1982 level (paragraph VI, C in the Memorandum on the Economic and Financial Recovery Program for 1982 attached to the letter of June 8, 1982).

3. The letter dated February 1, 1983 from the Minister of Finance shall be attached to the stand-by arrangement for Madagascar as representing further understandings reached for the remaining period of the arrangement and the letter dated June 8, 1982, together with the Memorandum annexed thereto, shall be read as modified and supplemented by the letter dated February 1, 1983. Accordingly:

(i) the performance criteria for end-March 1983 relating to credit, reduction of external payments arrears and dividend transfers, and the contracting or guaranteeing of new debt, shall be in accordance with paragraphs 6, 9, and 10 of the letter of February 1, 1983; and

(ii) Madagascar will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Madagascar's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota during any period after April 30, 1983 until understandings have been reached with the Fund on the financing of the balance of payments gap, pursuant to the review mentioned in paragraph 3 of the letter of February 1, 1983, or while such understandings having been reached, are not being observed.

## MADAGASCAR - Relations with the Fund

(As of January 31, 1983)

| | |
|---|---|
| Date of membership: | September 23, 1963 |
| Quota: | SDR 51 million |
| Fund holdings of Malagasy francs: | SDR 176.4 million, or 345.8 per cent of quota, including compensatory financing purchases of SDR 51.0 million (100 per cent of quota) and regular facilities, including supplementary financing under the stand-by arrangements of SDR 22.2 million (43.6 per cent of quota). Excluding holdings under the compensatory financing facility, the Fund's holdings are at 245.8 per cent of quota. |
| SDR position: | Holdings amount to SDR 1,586 (or 0.01 per cent of net cumulative allocation of SDR 19.27 million) |
| Trust Fund loan disbursements: | |
| First period: | SDR 10.78 million |
| Second period: | SDR 14.63 million |
| Direct distribution of profits from gold sales: | |
| First period: | US$1.16 million |
| Second period: | US$2.97 million |
| Gold distribution: | 22,252.0 fine ounces |
| Exchange rate system: | The Malagasy franc is pegged to a basket of currencies with weights based on the pattern of trade. SDR 1 = FMG 405.62 (December 31, 1982). |
| Intervention currency: | There is no single intervention currency. |

MADAGASCAR - Relations with the Fund (concluded)

(As of January 31, 1983)

| | |
|---|---|
| ontacts: | The last Article IV consultation took place in March 1982. Discussions on a one-year stand-by arrangement took place at the same time and were completed when a Malagasy delegation visited Washington in April/May 1982. The staff report and request for a stand-by (EBS/82/103, and Supplements 1-3) and recent economic developments report (SM/82/127) were discussed on July 9, 1982, when the present stand-by arrangement was approved. |

February 1, 1983

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosière:

1. Under the terms of the current stand-by arrangement, approved by the Executive Board on July 9, 1982, the Government is to review, in mid-term, developments in the economy and reach understandings with the Fund on its exchange rate and interest rate policies, ceilings for credit, the reduction of external payments arrears, and transfers of dividends for the remaining period of the arrangement in 1983. The Government has reviewed these developments with the Fund staff and proposes to follow the policies described below:

2. In 1982, the Government has implemented most of the elements of the financial program in support of which the Fund approved the stand-by arrangement. These include an exchange rate adjustment, wage restraint, a reduction in the fiscal deficit, increase in producer prices for rice and other agricultural commodities, elimination of consumer subsidies on rice, flexibility in other administered prices, and an increase in the level of interest rates. In particular, the overall Treasury deficit was brought down from over 14 per cent of GDP in 1981 to less than 9 per cent in 1982. Credit expansion was also kept within the program's limit. As a result, and notwithstanding a further decline in coffee receipts due to poor world market conditions, the external current account deficit for 1982 was lower than that foreseen in the program. However, there was a substantial shortfall in capital inflows which, together with the unanticipated decline in export receipts, forced a reduction in the level of investment in the economy as well as in the total value of imports. Furthermore, the Government was unable to meet the performance criterion relating to the cumulative net cash reduction in external payments arrears for end-December 1982. Taking into account the exogenous causes of the nonfulfillment of this performance criterion and the policies envisaged for 1983, we would like to request that the Fund grant a waiver of this criterion. The other performance criteria, includng that relating to the transfer of dividends, have been met.

3. For 1983, the principal objectives of the program are to reverse the declining trend in the rate of growth in real GDP, and to limit the deficit in the current account of the balance of payments to SDR 264 million (9.0 per cent of GDP) and the overall balance of payments deficit to some SDR 216 million. The Government expects to cover

the programmed deficit from various sources, including the Fund, debt rescheduling, and nonproject-related aid to be mobilized in the course of the forthcoming Consultative Group and aid donors' meeting envisaged for March 1983. Progress made in filling this gap will be reviewed with the Fund before end-April 1983.

4. To achieve the above objectives, the Government will continue to implement the adjustment policies as outlined in the letter of intent and the policy memorandum of last June. An investment program, involving a reorientation of the investment strategy and covering the period 1983-85, is now in the final stages of preparation and is being discussed with the World Bank, in support of the Government's request for a Structural Adjustment Loan. Progress will be made toward liberalizing pricing and in implementing a policy of "vérité des prix." To this end, the number of goods and services subject to price control will be reduced. Moreover concrete steps designed to ensure quick adjustment in prices of goods and services subject to controls will be announced soon. In particular, the present practice requiring government decrees for some price adjustments will be abolished. In line with the increased emphasis on agricultural production, the Government will ensure that further producer price increases are introduced at the beginning of the 1983/84 crop year. It has already decided on an increase in the producer price of paddy; the increase will be announced before end-February. The Government will ensure that there would be no recurrence of consumer subsidies on domestically produced rice.

5. The overall fiscal deficit for 1983 will be reduced further to the equivalent of 6 per cent of estimated GDP, compared with the originally stated program target of 7 per cent for the year and an estimated outturn of 8.7 per cent in 1982. This reduction will be achieved partly through a complete freeze on cost-of-living wage increases in the government sector, with a ceiling of FMG 84 billion on outlays for wages and salaries in parallel with an additional ceiling of 127,500 on the total number of government employees. On the revenue side, new discretionary tax measures, including a widening of the base of the value-added tax and increasing the rates of excise taxes, have been introduced. Furthermore, the specific taxes and existing duties on petroleum products will be replaced by an ad valorem import duty to yield a minimum FMG 9 billion in 1983. This change will ensure prompt payment of the proceeds of the tax and future increases in revenues. A new system of monitoring expenditure commitments became effective on January 1, and an inventory of all domestic arrears will be completed before end-March 1983; a timetable for the liquidation of those arrears will be discussed with the Fund staff mission envisaged to visit Antananarivo in April 1983. In contrast to a decline in realized investment outlays in 1982, a modest increase has been budgeted in total capital expenditure in 1983.

6. The Government will continue to follow a restrictive credit policy, and the total outstanding domestic credit of the banking system, defined as total domestic credit of the Central Bank and national banks,

including on-lending of any foreign loans contracted by the banking system which amounted to FMG 431.9 billion at the end of September 1982, will not increase by more than FMG 20.4 billion at end-March 1983, and by FMG 40.0 billion at end-June 1983 over the end-December 1982 level estimated at FMG 458.0 billion. Of the total, net credit to the Government from the banking system, including on-lending of any foreign loans contracted by the banking system, which stood at FMG 247.7 billion at the end of September 1982, will not increase by more than FMG 10.3 billion at the end of March 1983, and by FMG 20.0 billion at the end of June 1983 over the end-December 1982 level estimated at FMG 257.2 billion. As in the past, the Central Bank will continue to debit the Treasury and the national banks at the original maturity date of any debts that have been rescheduled. The structure of interest rates, which was raised substantially in June 1982, is being further revised, with the average of deposit rates, which will be minimum and obligatory, raised on average by 2.5 percentage points and that of lending rates by 1 percentage point. The mobilization of domestic resources through the special national government loan (Emprunt national) will be continued.

7. The Malagasy franc is currently pegged to a trade-weighted currency basket against which it was devalued by 15 per cent in May 1982. A further devaluation of 6 per cent has been effected on February 1, 1983. The Government intends to keep the exchange rate under constant review.

8. Despite the tight balance of payments situation, the Government has decided to ease the discretionary aspects of the import licensing system. As an initial step in this direction, certain importers of specified parts, raw materials, and other inputs essential for agricultural and industrial production will automatically get import licenses up to a minimum aggregate quota of FMG 10 billion each quarter. The Government will soon communicate to the Fund staff the list of economic activities and imports benefitting from this facility.

9. During the program period, the Government will reduce the external payments arrears through net cash reductions, defined as cash repayment less new accumulation, i.e., the consolidation and rescheduling of arrears are excluded. The amount of the external payments arrears will be reduced through net cash payments by SDR 9 million during the period January-March 1983, and by an additional SDR 6 million during the period March-June 1983. Furthermore, arrears with regard to dividend transfers will be reduced by FMG 200 million before March 31, 1983 and by a further FMG 200 million between April 1 and June 30. All reductions in arrears will be carried out in an orderly and nondiscriminatory manner.

10. No new debt with maturities of between one and ten years will be contracted or guaranteed by the Government, the Central Bank, or the national banks during the program period, except for loans to refinance existing debt or for subsidiary contracts governing utilization of an existing loan of an original amount of FF 167.6 million.

11. The Government reconfirms intentions in other areas of economic policy as described in the June memorandum on the economic and financial recovery program.

Very truly yours,

Pascal Rakotomavo
Minister at the Presidency
in Charge of Finance