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FOR AGENDA

EBS/83/255

CONFIDENTIAL

November 30, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Madagascar - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request from Madagascar for a stand-by arrangement equivalent to SDR 33 million. A draft decision appears on page 20.

This subject, together with the staff report for the 1983 Article IV consultation with Madagascar (EBS/83/235, 11/2/83), will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Stillson, ext. 72917.

Att: (1)

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF MADAGASCAR

Request for Stand-By Arrangement

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

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

Approved by Oumar B. Makalou and S. Kanesa-Thasan

November 29, 1983

I. Introduction

In the attached letter dated November 21, 1983 from the Minister at the Presidency in charge of Finance and Economy to the Managing Director, the Government of Madagascar requests a stand-by arrangement for 15 months in an amount equivalent to SDR 33 million, or 65 percent of Madagascar's present quota (40 percent of Madagascar's proposed quota of SDR 66.4 million). Discussions on the proposed stand-by arrangement began during the 1983 Article IV consultation discussions, July 19/August 4, 1983 (EBS/83/235), continued during a visit to Washington of a delegation from Madagascar, September 8-16, 1983, and concluded during the 1983 Annual Meetings. 1/ As various elements of the program were identified and agreed upon, the authorities began to implement some of them in anticipation of the requested stand-by arrangement.

As of October 31, 1983, the Fund's total holdings of Malagasy francs subject to repurchase were SDR 133.1 million, or 261.0 percent of present quota, of which SDR 85.6 million were from purchases under the credit tranches, including supplementary financing of SDR 22.2 million and enlarged access of SDR 20.5 million, and SDR 47.4 million (93 percent of quota) were from purchases under the compensatory financing facility. The expected purchases and scheduled repurchases during the period of the requested stand-by arrangement are shown in Table 1. Assuming that the full amount of the stand-by arrangement is purchased, the Fund's holdings of Malagasy francs subject to repurchase would increase from 261 percent to 266 percent of Madagascar's present quota and 204 percent of the proposed quota. Madagascar's relations with the Fund are summarized in Appendix III.

1/ The staff team involved in the negotiations was composed of Mr. Bhatia (head-AFR), Mr. Stillson (AFR), Mrs. Tyler (ETR) and Messrs. Schiavo-Campo and Gilman (both AFR).

Table 1. Madagascar: Proposed Purchases and Scheduled Repurchases during the Period January-February 1985

(In millions of SDRs)

	1984				1985
	Jan.-March	April-June	July-Sept.	Sept.-Dec.	Jan.-Feb.
Purchases	9.00 1/	6.00	6.00	6.00	6.00
Ordinary resources	(4.09)	(2.73)	(1.14)	(--)	(--)
Enlarged access resources	(4.91)	(3.27)	(4.86)	(6.00)	(6.00)
Repurchases	4.29	3.65	7.03	8.53	7.03
Credit tranches	(0.64)	(--)	(3.38)	(4.88)	(3.38)
Compensatory financing facility	(3.65)	(3.65)	(3.65)	(3.65)	(3.65)
Net purchases	4.71	2.35	-1.03	-2.53	-1.03
Total Fund holdings (cumulative)	188.81	191.16	190.13	187.60	186.57
As a percent of existing quota					
Total holdings	370.2	374.8	372.8	367.8	365.8
Holdings excluding CFF	277.4	289.1	294.3	296.5	301.6
As a percent of proposed quota					
Total holdings	284.4	287.9	286.3	282.5	281.0
Holdings excluding CFF	213.0	222.1	226.0	227.7	231.7

1/ Of which SDR 3 million would be available when the stand-by arrangement becomes effective and with observance of December 31, 1983 performance criteria.

The staff report for the 1983 Article IV consultation with Madagascar (EBS/83/235, November 2, 1983) reviews the economic background, performance under recent stand-by arrangements, and current policies. Therefore, this report is confined to discussions of the program which the authorities are implementing and is to be supported by the requested stand-by arrangement. The report also discusses the balance of payments prospects of Madagascar in the medium term during which period debt service on existing debt is dominant. Appendix IV contains selected economic indicators for the program period.

II. The 1983/84 Program 1/

Since 1980 Madagascar has implemented adjustment programs supported by three successive stand-by arrangements with the Fund. The first two focused on fiscal adjustment as the primary instrument to bring about an improvement in the balance of payments. Consequently, the overall Government deficit was reduced from 18.4 percent of GDP in 1980 to 8.7 percent of GDP in 1982. Under the last stand-by arrangement, Madagascar continued the fiscal adjustment and began a program of substantial liberalization of the domestic economy beginning with the rice sector. The progress made thus far has resulted in a reduction in the external current account deficit; however the external sector is dominated by a large debt service burden (reaching over 60 percent of exports of of goods and services in 1984), which threatens progress on orderly adjustment and medium term economic development. Given the fiscal adjustment already achieved, further reductions in the overall budget deficits are likely to be slower and their direct impact on the balance of payments smaller than in the immediate past years. Therefore, the thrust of the program in 1983/84 is on extending the liberalization of pricing and marketing arrangements in the domestic economy, which should improve production and export incentives, while building on the gains made on the fiscal side. The attached letter of intent spells out policies and measures relating to pricing and marketing, and the main elements of 1984 fiscal policies. Performance criteria for 1984 will be established during the first review of the program, to be completed before end-March 1984. There will be two other reviews, to be completed with the Fund before end-June and end-October 1984. Table 2 summarizes the measures of the program.

The staff analysis of the balance of payments prospects shows that it would be necessary for Madagascar to request additional debt rescheduling and exceptional balance of payments assistance for both the program period and in the medium term, and that the success of orderly adjustment policies and measures will, in part, depend on obtaining this aid. For that reason, approval of the stand-by arrangement is being proposed in principle only. The stand-by arrangement would become effective only after the Board has reviewed the results of Madagascar's requests for such assistance from sources other than the Fund, and the Fund is assured of the financing of Madagascar's balance of payments deficit in 1984.

1. Pricing policies

In 1983 the Government substantially liberalized consumer prices of rice and producer prices of paddy, allowed free competition in the purchasing, processing and distribution of rice in most of the country, and removed various impediments to its internal transportation, in order to

1/ The program period is from end-September 1983 to end-December 1984.

Table 2. Madagascar: Summary of Policy Measures under the 1983-84 Program

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Production, pricing, marketing

Further steps towards liberalization to be taken during the program period:

a. Rice

1. Minimum producer price of paddy increased to the level received by producers in the free markets adjacent to one of the "reserved areas".

2. Opening to private traders of rice marketing in the two areas still reserved to state marketing monopolies.

3. The price of imported whole grain rice increased from FMG 140 to FMG 200 per kilo, and to be adjusted as needed to maintain parity with the market price of domestic rice; the price of imported broken rice to be adjusted to within 15 percent of the market price of ordinary domestic rice; retail prices to be adjusted, if required, in order to avoid subsidies.

b. Other agricultural products

Producer prices to be raised early in the respective crop seasons. Where appropriate, consumer and ex-factory prices will also be raised.

c. Industrial pricing

Expedited procedures for approving requests for price increases; understandings to be reached, no later than end-1983, between the government and the World Bank, on decontrolling most prices. 1/ For goods remaining under price control, a maximum delay of 30 days will be prescribed for approving requests for price changes.

Public finance

1. Limiting 1983 overall budget deficit to 6.7 percent of GDP, and the 1984 deficit to 5.5 percent of GDP.

2. Net public service recruitment limited in 1984 to a maximum of 1,000, with a limit of FMG 90.2 billion on total central government personnel expenditure.

3. Emphasis on rehabilitation and maintenance of existing capital and no new investment projects.

1/ This action may be delayed because of a delay in the World Bank mission which is scheduled to discuss the modalities of industrial price liberalization with the Malagasy authorities.

Table 2. (concluded) Madagascar: Summary of Policy Measures under the 1983-84 Program

Money and Credit

1. Increase in rediscount facilities during the fourth quarter of 1983 to allow an FMG 55.1 billion expansion of credit to the private sector during the second half of 1983; credit to Government from the domestic banking system not to exceed FMG 291.4 billion on December 31, 1983. Appropriate ceilings for 1984 to be agreed with the Fund prior to end-March 1983.

2. Beginning in the last quarter of 1983, increase in the Central Bank rediscount rates from 12.5 to 13 percent; increase in certain deposit rates by 1-1.5 percentage points; simplification of the structure of controlled interest rates.

External sector policies

1. Limit of total rice imports in 1983 to 183,687 tons and in 1984 to 100,000 tons, subject to a ceiling of SDR 20 million on import of rice from Madagascar's own foreign exchange resources.

2. Continued flexibility in the exchange rate policy, with a 10.5 percent depreciation of the Malagasy franc announced on October 1, 1983.

3. No contracting or guaranteeing of any new foreign borrowing with an original maturity of 1-10 years; new loans of a maturity of 10-15 years limited to specific credits currently being negotiated for export industries and amounting to no more than SDR 22 million; no contracting by the Government of nontrade external borrowing of less than one year maturity.

Reviews with the Fund

First review prior to end-March 1984 to cover the 1984 budget, the import program for 1984, and to set performance criteria for the rest of the program period. Also, the review will assess the results of Madagascar's efforts to cover the estimated balance of payments gap and to determine additional measures, if any, for external adjustments.

Second review prior to end-June 1984, to focus on exchange rate policies, agricultural pricing and marketing policies, and policies concerning possible restructuring of the banking system.

Third review prior to end-October 1984, to focus on the budget and import program for 1985.

allow unimpeded distribution of rice from surplus to deficit regions and substantially increase incentives to producers. However, in two major rice producing areas (called "reserved areas") the state agricultural development agencies have retained their monopoly over the purchase of paddy and the processing and distribution of rice, in large part because of the agreements to consult with foreign creditors concerned with these projects, including the World Bank. The authorities will enter into these consultations with a view to opening these areas to free competition in early 1984, and ensuring that the two state agricultural development agencies, which had made large investments in irrigation in these areas, will be appropriately compensated for the cost and maintenance of these investments.

Rice prices are currently still subject to arrangements which affect differently rice produced in the reserved areas, the rest of the country, and imported rice. Prices paid for paddy throughout the country are subject to a floor, which in the reserved areas becomes the actual price paid to producers, but elsewhere is substantially below actual prices; consumer prices for all rice are subject to a ceiling, which at most times of the year is above actual market prices; and the consumer price of imported rice has been controlled at levels below the market price for domestic rice. Under the program, producer and consumer pricing arrangements are being further revised to achieve the twin objectives of raising domestic production and reducing consumption of imported rice. On the production side, minimum producer prices have been raised to the level of actual prices paid to producers in the just completed season in areas surrounding one of the two reserved areas. This is expected to raise producer prices by about 20 percent. On the consumption side the fixed consumer price of whole grain imported rice has been increased from FMG 140/kg. to FMG 200/kg. and thereafter will be adjusted to correspond to the current market price of ordinary domestic rice in representative urban markets. The price of imported broken rice will be raised from its current level of FMG 140/kg. to within 15 percent of the free market price for ordinary domestic rice. 1/

The above fundamental reorientation of policy is directed towards the achievement of the medium-term objective of self-sufficiency in rice by 1987. Already, for 1983 the authorities have reduced the imports of rice by about half, and have programmed a further reduction of nearly 50 percent for 1984.

In regard to non-traditional agricultural products, the Government will raise real producer prices at the beginning of their respective crop seasons. Overall pricing and marketing strategy will be reviewed with the Fund during the second review of the program, primarily with a view to increasing production of exports and import competing commodities such as meat, cotton, groudnuts, sugar, fish and shellfish.

1/ The major part of imported rice consists of relatively low quality broken rice. This rice normally sells for at least a 20 percent discount with respect to ordinary domestic rice.

Industrial prices, which are totally controlled by the Government, have been raised sufficiently during 1982 and 1983 to eliminate subsidies for the operating budgets of industrial parastatals. The Government intends to extend its program of domestic price liberalization to this sector and will examine with the World Bank the modalities of decontrol of industrial prices. The aim will be to liberalize all industrial prices except for prices of goods on a relatively small negative list. Even for these goods, procedures for approving price changes will be streamlined and the authorization period for such approvals will be shortened to a maximum of 30 days.

2. Import policy

Over the past 3 years, the shortage of foreign exchange has necessitated administrative controls on imports which have resulted in a 37 percent decline in the SDR value of imports. Given the lack of foreign exchange and the prospect of continued balance of payment pressures (see below), it will not be possible for Madagascar to liberalize imports substantially during the program period; in fact, the administrative control of imports will be a major policy instrument to allocate inputs into the industrial and agricultural sectors. Import allocation will be geared toward supplying inputs for agriculture, and maintaining or increasing capacity utilization of the more efficient firms in the industrial sector. An additional policy designed to help ensure an adequate supply of imported inputs for exporters is a facility, introduced towards the end of the last stand-by arrangement period, which enables exporters of manufactured products to retain a specified proportion of export earnings in convertible FMG accounts to be used for purchases of such inputs.

3. Investment

The investment budget is another major component of policies directed to increase production on a sustainable basis. Consistent with the objectives of conserving resources and providing short and medium term relief to the balance of payments, priority will be given to rehabilitation and maintenance of the existing capital stock, particularly in transportation infrastructure, and on rehabilitation of existing enterprises. The 1984 budget will reflect this orientation of investment policy.

4. Fiscal policies

The extent of budgetary adjustment since 1979 is indicated in Table 3 and Chart 1, which shows successive reductions in expenditure, from 36 percent of GDP in 1980 to an estimated 24 percent of GDP in 1982. In particular, investment expenditure was reduced from 36 percent of total outlays in 1980 to an estimated 30 percent in 1982. The program for 1983 in the proposed stand-by arrangement continues the

Table 3. Madagascar: Summary of Overall Government Operations, 1979-83

(In billions of Malagasy francs)

	1979	1980	1981	1982	1983 Prog.
Total revenue	114.4	123.3	119.6	151.9	185.8
Budgetary receipts	90.7	100.4	104.4	121.9	138.4
Other	23.7	22.9	15.2	30.0	47.4
Total expenditure	-194.3	-250.1	-234.8	-238.9	-267.7
Current budgetary expenditure	-97.7	-112.9	-112.2	-127.4	-147.0
Of which: wages and salaries	(-50.8)	(-60.9)	(-68.6)	(-80.7)	(-82.0)
Capital expenditure	-65.7	-89.6	-84.1	-72.1	-70.6
Other 1/	-30.9	-47.6	-38.5	-39.4	-50.1
Overall deficit	-79.9	-126.8	-115.3	-87.2	-81.9
Foreign (net)	35.3	47.9	55.6	50.4	45.0
Domestic (net)	44.6	78.9	59.7	36.8	36.9
Banking system	(41.9)	(78.2)	(57.8)	(33.9)	(37.6)
Non-bank	(2.7)	(0.7)	(1.9)	(2.9)	(-0.7)
Memorandum items:			(In percent of GDP)		
Budgetary receipts	15.2	14.5	13.2	12.2	11.4
Total receipts	19.2	17.8	15.2	15.3	15.3
Current budgetary expenditure	-16.4	-16.3	-14.2	-12.8	-12.1
Capital expenditure	-11.0	-13.0	-10.7	-7.2	-5.8
Total expenditure	-32.7	-36.2	-29.8	-24.0	-22.0
Overall deficit	-13.4	-18.4	-14.6	-8.7	-6.7
Banking system	7.0	11.3	7.3	3.4	3.1

Sources: Ministry of Finance and Economy; Central Bank of Madagascar; and staff estimates.

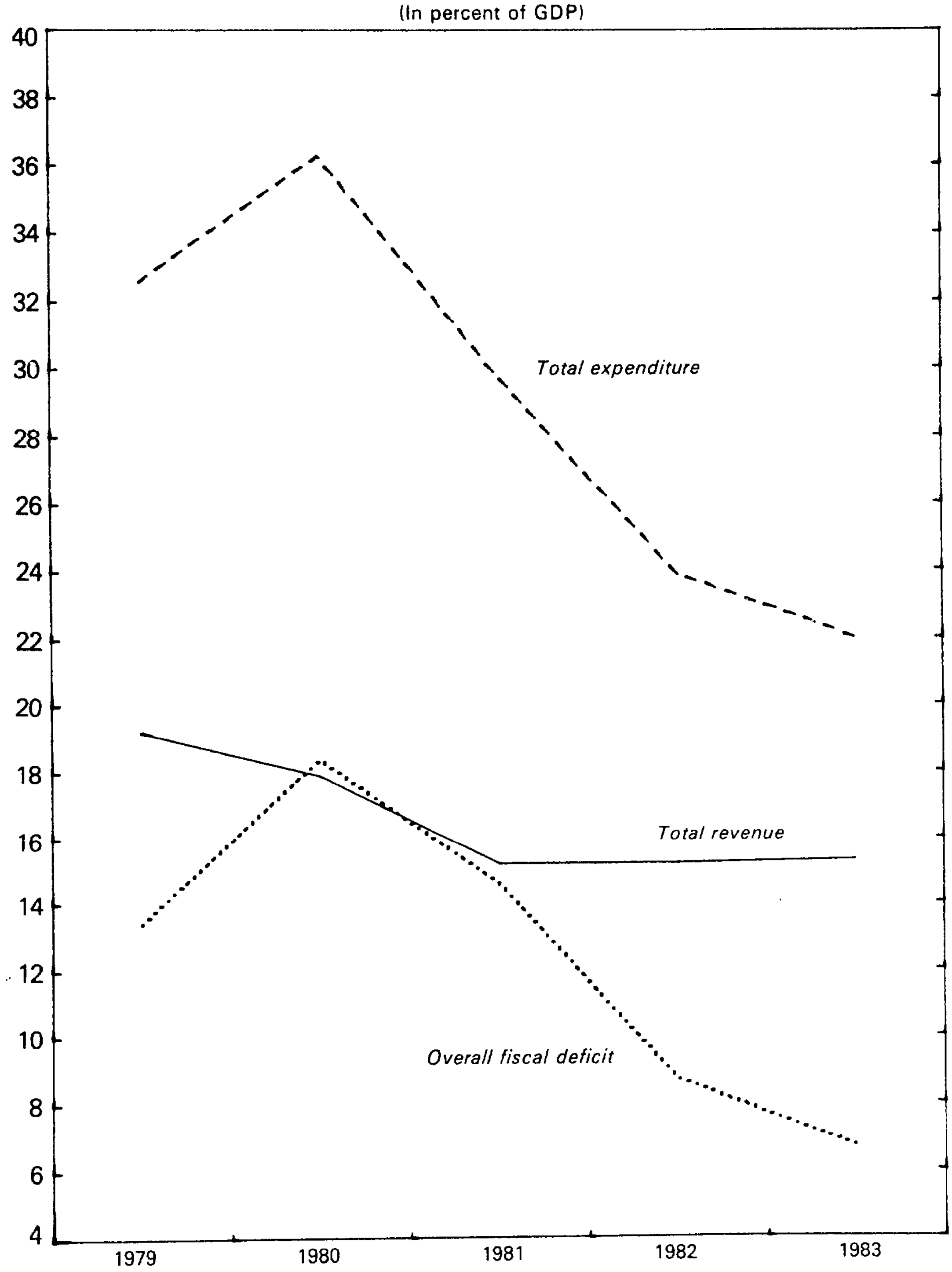
1/ Including payments of domestic arrears.

CHART 1

MADAGASCAR

BUDGETARY TRENDS, 1979-83

(In percent of GDP)



Source: Ministry of Finance and Economy.

fiscal adjustment with a further decline in the overall deficit by FMG 5.3 billion, or 2 percentage points of GDP, to 6.7 percent of GDP, and a further drop in capital expenditure. These budgetary targets have been revised upward slightly on a cash basis from the program for 1983 of the previous stand-by arrangement, which aimed at a deficit equivalent to 6.2 percent of GDP, in large part because of a policy to accelerate the reduction in domestic arrears by an additional FMG 4 billion; by end1983, domestic arrears are programmed to fall to FMG 9 billion. The large reduction in capital expenditure over the past three years is a correction to an overly ambitious investment program during 1979 and 1980, when government capital expenditures increased more than threefold, mostly financed by foreign borrowing.

Several measures implemented during the first half of 1983 are expected to have their full impact during 1984. These include a new unified ad valorem duty on petroleum products, increased excise taxes and the extension of the value added tax to professional activities and the retail trade, increased company taxes, and a new expenditure control system.

Budgetary policy in 1984 will retain a restrictive policy stance with a view to reducing the overall deficit to 5.5 percent of GDP and, in absolute terms, to less than that in 1983. In addition, domestic arrears are to be eliminated by the end of 1984. Total expenditure on personnel will be limited to FMG 90.2 billion and net recruitment in public services will be limited to 1,000 persons. The 1984 budget and additional measures, if any, to achieve the targets for 1984 will be a major focus under the first review of the program.

5. Monetary and credit policy

Monetary and credit policy during the program period will aim at a better allocation of credit to support production-oriented policies; in particular, there will be a higher proportion of credit expansion going to the non-government sectors to provide for the likely increase in credit requirements resulting from the price and marketing liberalization measures. During the second half of 1983, credit to the private sector and state enterprises will be allowed to expand by 25.2 percent 1/ *giving an expansion for the year as a whole to this sector of 27.1* percent (Table 4). The relatively rapid expansion in the second half of 1983 is warranted because of normal seasonality patterns, which are related primarily to the financing of major crops, particularly rice, and by the need to ensure that the effect of the price liberalization

1/ This is on the basis of the monetary survey definition, i.e., this is credit advanced by the domestic banking system. Credit ceilings include the financial operations of the Treasury.

Table 4. Madagascar: Monetary Survey, 1979-83

(In billions of FMG)

	Old series 1979	1980	1981	1982 Prel.	New series 1982 Rev.	1983 June	1983 Dec. Proj.
netary movements (net)	-40.1	-93.4	-49.8	-70.6	-111.5	-111.2	-141.6
Assets	4.6	10.8	19.8	26.0	26.0	22.2	22.3
Liabilities	-44.7	-104.2	-69.2	-96.6	-137.5	-133.4	-163.9
mestic credit (net)	234.8	340.1	413.0	476.6	484.0	494.0	580.0
Claims on Government (net)	104.1	181.1	240.6	271.1	268.5	275.2	306.1
Central Bank (net)	91.0	176.7	223.6	257.0	257.0	262.4	...
State banks (net)	-2.4	-11.5	-0.5	-0.7	-3.3	-4.1	...
Other (net)	15.5	15.9	17.5	14.8	14.8	16.9	...
Credit to private sector and state enterprises	130.7	159.0	172.4	205.5	215.5	218.8	273.9
Of which: claims by Central Bank	9.8	8.6	8.6	8.3	18.3 1/	21.7	...
oad money	173.0	206.0	249.8	278.3	275.6	254.3	293.6
Money	137.8	164.7	207.1	225.4	221.4	195.5	...
Currency	53.6	70.2	83.1	90.4	90.4	81.3	...
Demand deposits	84.2	94.5	124.0	135.0	131.0	114.2	...
Quasi-money	35.2	41.3	42.7	52.9	54.2	58.8	...
ng-term foreign borrowing	14.5	31.8	108.8	120.2	156.8	215.8	...
Of which: rescheduling agreements	--	--	49.9	63.1	87.5	141.5	...
her items (net)	7.2	8.9	4.6	7.5	59.9	-87.3	...
Of which: valuation adjustment	...	...	...	...	-55.1	-68.6	...
morandum item:							
Velocity of broad money	3.7	3.6	3.5	3.8	3.8	...	4.1

Source: Central Bank of Madagascar.

1/ Includes reclassification of FMG 10.0 billion of advances to state enterprises pre-
ously recorded in other assets.

measures is not reduced because of nonavailability of credit. Total credit expansion will be 19.8 percent for 1983 as a whole and, taking account of the projected balance of payment deficit, is consistent with a monetary expansion of only 6.5 percent.

In the twelve months prior to June 1983, there was a decline in deposits which led to illiquid conditions in the commercial banks and threatened to compromise marketing of the 1983 rice harvest due to insufficient credit. The monetary authorities have increased rediscount facilities in the last quarter of 1983 and are encouraging interbank lending, to ensure adequate liquidity to the private sector.

The allocation of loans, and interest rates charged by the three specialized commercial banks are strictly controlled by the Government. Given the significant changes in the demand for banking services associated with the recently introduced, and proposed, measures to liberalize the domestic economy, the program calls for a review of the banking system by end-June 1984 with a view to enabling it to respond appropriately to the demands of the economy. In the meantime, on October 17, 1983, the Central Bank rediscount rate was increased by 0.5 percentage points to 13 percent, the number of controlled interest rates was reduced and the remaining minimum rates were increased by 1 to 1.5 percentage points. It may be noted that the real interest rates still remain negative but the authorities, pointing toward the more recent sharp reduction in inflation, are hopeful that this negative bias in interest rates would be corrected soon.

6. External policies

Improvement in Madagascar's external position hinges to a great extent on the response of production, particularly of import substitutes and exports, to the policies described earlier. However, the extent to which supply will increase in both the short and medium term depends also on the provision of necessary inputs. Import policy will aim at reducing consumer goods imports and increasing imports of productive inputs. Rice imports are being reduced by almost half in 1983, from 356,000 tons in 1982 to 183,687 tons in 1983 (SDR 95.1 million to SDR 51.4 million), and by a substantial amount again in 1984, to 100,000 tons (SDR 28 million). This will free scarce foreign exchange resources for inputs to promote increased domestic production within the overall objective of the authorities to reduce total imports in 1983 by about 9 percent and to maintaining that reduced nominal level in 1984 (Table 5).

An additional measure, designed to improve efficiency in the use of imports, is the provision for automatic allocation of foreign exchange for imports of essential inputs within the 1984 import program; this program and the allocation system will be reviewed with the Fund during the first review.

Table 5. Madagascar: Balance of Payments, 1980-84

(In millions of SDRs)

	1980	1981	1982	Proj. 1983	Proj. 1984
Current account	-460.4	-368.0	-334.5	-333.1	-282.2
Trade balance	-252.0	-158.9	-110.5	-107.4	-24.5
Exports, f.o.b.	(355.3)	(274.3)	(298.1)	(263.7) 1/	(346.5)
Imports, f.o.b.	(-587.3)	(-433.2)	(-409.0)	(-371.1)	(-371.0)
Net services and private transfers	-208.4	-209.1	-221.0	-225.7	-257.7
Of which: Interest payments 2/	(-32.5)	(-75.2)	(-88.1)	(-98.8)	(-131.6)
Public transfers	32.7	53.1	65.5	59.2	62.0
Capital account 3/	293.1	250.7	147.3	175.8	105.4
Of which:					
Overall government (net)	218.8	209.1	143.0	130.0	74.2
Private sector and public enterprises (net) 4/	74.3	27.6	19.7	19.7	19.7
Allocation of SDRs	3.5	3.5	--	--	--
Other 5/	-45.1	9.6	79.9	-12.6 6/	-2.5 6/
Overall balance	-176.2	-45.1	-41.8	-110.7	-117.3
Memorandum items:					
IMF (net)	37.7	31.6	47.0	6.5	3.5
Purchases	(39.2)	(39.0)	(57.7)	(10.2)	(27.0)
Repurchases	(-1.5)	(-7.4)	(-5.4)	(-3.7)	(-23.5)
External payments arrears 7/	...	...	...	128.6	...

Source: Data provided by the Malagasy authorities; and staff estimates.

1/ Excludes SDR 32.0 million in respect of exports of 4,500 tons of cloves to Indonesia expected to be delayed until 1984; clove exports for 1984 are expected to total 8,500 tons.
2/ Before debt rescheduling.
3/ After debt rescheduling thus far obtained for both principal and interest.
4/ Includes Banks.
5/ Includes valuation adjustment, short-term capital, and errors and omissions.
6/ Represents delays in export proceeds assumed at 5 percent of export value except for exports of cloves.
7/ Reliable data are not available before June 1983; the number for 1983 is end-September.

On the export side, the program anticipates that the sale of 4,500 tons of cloves to Indonesia (valued at SDR 32 million) which had been projected for 1983, would be delayed until 1984. Thus, the value of exports, which rose by about 9 percent in 1982, is now expected to decline by about 12 percent during 1983. Traditionally, Indonesia is the most significant importer of cloves, taking about 70 percent of Madagascar's exports of the commodity. Indonesia's own output of cloves has been increasing and there are reports of over stocking in that country. This has led to protracted negotiations regarding the price and volume of Malagasy cloves to be exported to Indonesia. The Malagasy authorities are presently negotiating a bilateral contract with Indonesia, and the program assumes a more normal level of total cloves exports in 1984 of 8,500 tons (valued at SDR 50 million). The results of the negotiations will be taken into account during the first review of the program.

The above export estimates also assume that Madagascar would continue to reinforce its competitive position in the international markets. Since the May 1982 devaluation of 13 percent in foreign currency terms, Madagascar has followed a flexible exchange rate policy with a series of depreciations against a currency basket totalling 27.2 percent in foreign currency terms (see Chart 2). The last exchange rate action occurred on October 1, 1983 when the Malagasy franc was devalued by 9.5 percent in foreign currency terms against the currency basket. These devaluations have roughly maintained the real effective exchange rate of the Malagasy franc with respect to the basket as well as the trade weighted real effective exchange rate since May 1982. The Malagasy authorities intend to continue their flexible approach to exchange rate policy and, as a minimum to maintain the real effective exchange rate at its present level. Exchange rate policy is an important component of overall pricing policy and appropriate understandings on that policy will be a basis for satisfactory completion of the second review.

Madagascar has continued to apply exchange restrictions and to build up arrears on current payments (see EBS/83/235). External payments arrears are estimated to have risen on a net cash basis by about SDR 54 million in the first 9 months of 1983. 1/ In light of the external difficulties facing Madagascar, and the uncertainties regarding the immediate export prospects, as well as the provision of external assistance, the authorities were unable to fix any target which could foresee a reduction in external arrears during the last quarter of 1983. However, appropriate targets, aiming toward reduction in arrears in 1984, will be fixed for 1984 during the course of the first review of the program before end-March 1984, after results of Madagascar's endeavors to obtain debt relief and exceptional balance of payments assistance have been assessed. The stand-by arrangement limits

1/ This estimate is very approximate because of difficulties in interpreting the stock figure at end-December 1982. The data were thoroughly revised as of end-June 1983 (see EBS/83/235).

the contracting or guaranteeing of external debt from one year up to and including 15 years maturity to only SDR 22 million for credits with maturities above 10 years which are currently being negotiated for export industries. Short term debt will be limited to trade related credits.

The balance of payments for the program period will be dominated by the need to service Madagascar's large stock of external debt. Notwithstanding the debt rescheduling obtained for the first half of 1983 from the Paris Club and, for the total debt outstanding at the end of 1982, from other official creditors and from commercial banks with whom an agreement has been reached in principle, debt service in 1983 approximates two-fifths the value of exports of goods and services and, in the absence of further rescheduling, will rise to over 60 percent of the projected export receipts in 1984 (see Section III, below). It is in the light of this very high debt burden during the program period, that the Malagasy authorities are approaching the Paris Club and other creditors for further debt relief. 1/

On the above basis, the overall balance of payments is projected to register a deficit of SDR 110.7 million and SDR 117.3 million in 1983 and 1984, respectively. In addition, in 1983, Madagascar had to repay SDR 20 million in respect of Fund repurchases and consolidated arrears, resulting in an initial financing gap of SDR 131 million; in 1984, these payments will amount to SDR 45.7 million resulting in an initial financing gap of SR 163 million. Gross purchases from the Fund in 1983 were SDR 10.2 million 2/ and, as requested under the proposed stand-by arrangement will amount to SDR 27 million in 1984, leaving a residual gap to be financed of SDR 121 million in 1983 and SDR 136 million in 1984, respectively. It may be noted that while the purchases from the Fund for 1983 have already been effected under the last stand-by arrangement, those envisaged for 1984 are subject to, inter alia, the projected residual gap being filled by external assistance and/or additional adjustment measures.

The residual gap in 1983 could be financed by an increase in central bank foreign liabilities, a further accumulation of external arrears, and by a rescheduling of debt service payments from Paris Club countries falling due in the second half of 1983. Filling the estimated residual gap in 1984, SDR 136 million, is more uncertain, especially as the staff would expect an early resolution of the arrears problems either through net cash payments or rescheduling. Rescheduling of debt service payments due to Paris Club creditors in 1984 (and which have not already been rescheduled) on terms previously obtained could provide a net relief of SDR 70 million and would still leave a gap of SDR 66.7 million to be filled by other balance of payments support. For 1983, the donors' commitments amounted to SDR 50 million, which have been included in the capital account in Table 5.

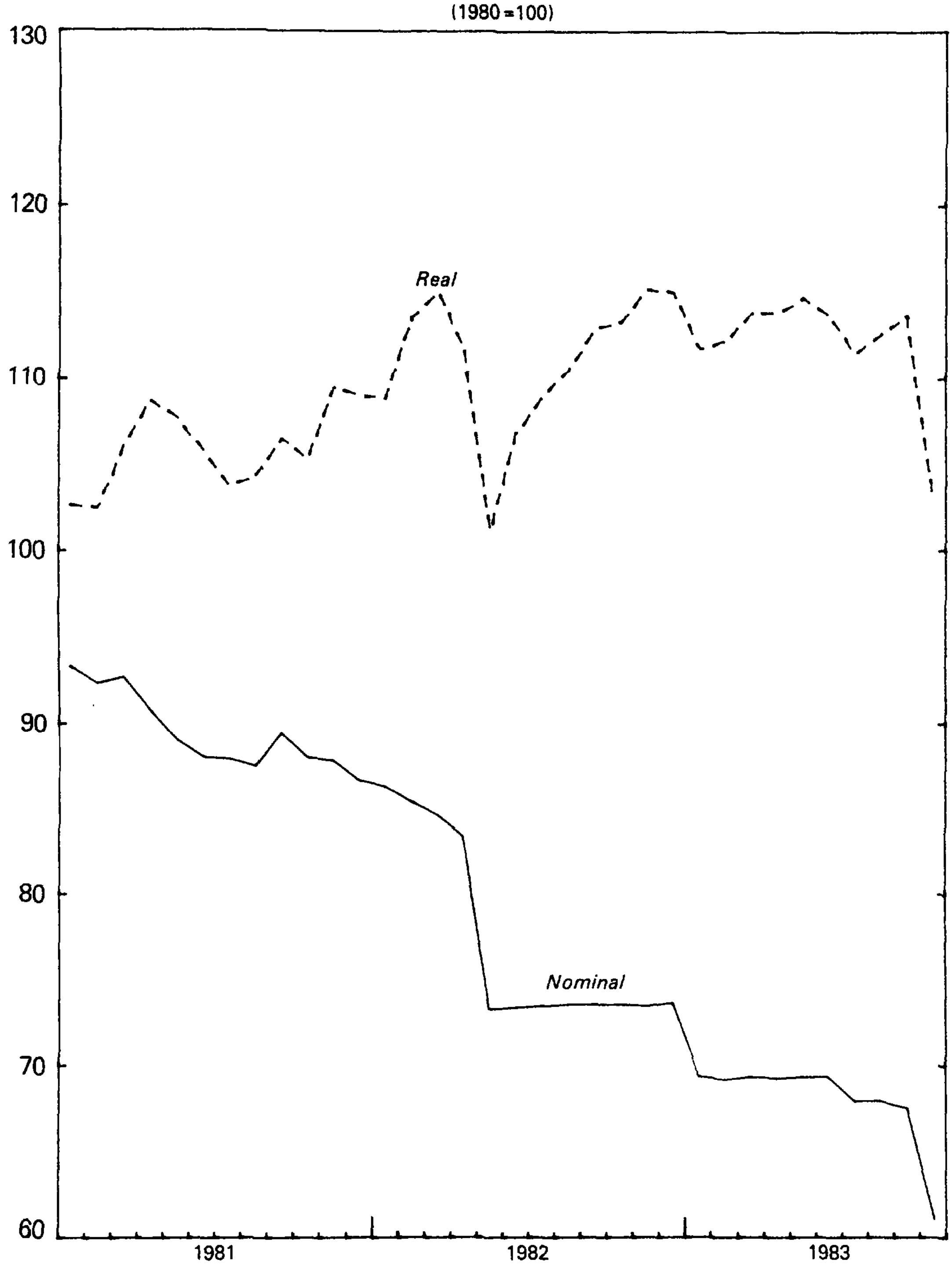
1/ For further discussions of the debt problem, see section III below.
2/ There will be no purchase during 1983 under the proposed stand-by arrangement.

CHART 2

MADAGASCAR

TRADE-WEIGHTED EFFECTIVE EXCHANGE RATES

(1980=100)



Source: Central Bank of Madagascar; and staff estimates.

7. Performance criteria

The program contains the following quantitative performance criteria for end-December 1983. (1) credit ceilings on net domestic credit of the banking system, and net credit to Government for end-December 1983; and (2) a requirement that bona fide requests for dividend transfers will be authorized and effected up to specified limits. In addition, the following performance criteria apply for the entire program period: specified limitations on the contracting of new external debt in maturity ranges of up to and including one year, above 1 year up to and including 10 years, and above 10 years up to and including 15 years. The quantitative performance criteria are shown in Table 6. Moreover, the program provides for three reviews with the Fund, as performance criteria, to take place before end-March 1984, end-June 1984, and end-October 1984. *The first review will focus on the import program for 1984, and the 1984* budget. Credit ceilings and performance criteria concerning internal and external arrears for 1984 will be established during the first review. The second review will focus on exchange rate policy and the results of the projected study on the reorganization of the banking system. The third review will focus on the 1985 budget and the import program for 1985. The program contains the standard clauses with respect to exchange and trade restrictions.

There would be six purchases under the stand-by arrangement: the initial purchase (of SDR 3 million) would take place after the arrangement becomes effective (i.e., after assessing the results of the meetings of the Paris Club and the Donors Club), and observance of end-December 1983 performance criteria; the second drawing (of SDR 6 million) would take place after completion of the first review of the program. There would be four further purchases, of SDR 6 million each, subject to observance of quantitative performance criteria for end-March, end-June, end-September and end-December 1984, and the completion of the above-mentioned reviews of the program.

III. The Medium Term

The staff has attempted a projection of the balance of payments for the period through 1987 on the assumption that the thrust of present policies will be continued and intensified during the period (Table 7). The other primary assumptions in the projections are that there are no significant changes in the terms of trade and that GDP growth in real terms increases gradually to about 5 percent. The main element of improvement is likely to come from a gradual elimination of rice imports as the country succeeds in its goal of self-sufficiency in rice by 1987. The projections of exports assume significant increases in export volume of cotton cloth, meat, and fish and shellfish (the expansion of which is a major objective of the pricing, import and investment policy contained in the program), smaller growth in the volume of

Table 6. Madagascar: Quantitative Performance Criteria for Requested 1983/84 Stand-By Arrangement

	1983 June (Actual)	1983 December
Total domestic credit of banking system (FMG billion) 1/	494.130	580.0
Net credit to Government by banking system (FMG billion)	258.309	291.4
Cumulative reduction in external arrears with respect to dividends (FMG billion)	...	0.25 2/
	Through end-1984	
Increase in commitments or guarantees of external debt (SDR million)		
Up to and including 1 year 3/	...	NIL
Above 1 year and including 10 years	...	NIL
Above 10 years and including 15 years 4/	...	22

1/ 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.

2/ Cumulative reduction in external arrears with respect to bona fida dividends must be at least FMG 1.25 billion during the program period.

3/ Ceiling includes only non trade external borrowing, i.e., it excludes bankers' acceptances, supplies credits and letters of credit.

4/ Increase in commitments or guarantees under the ceiling limited to specific credits currently being negotiated for export industries.

Table 7. Madagascar: External Debt Service Projections, 1983-87

(In millions of SDRs)

	1983	1984	1985	1986	1987
Exports, f.o.b.	264	346	363	396	436
Of which: Coffee	(111)	(123)	(132)	(146)	(153)
Vanilla	(52)	(60)	(73)	(80)	(96)
Cloves	(15)	(57)	(30)	(22)	(12)
Fish and shellfish	(18)	(27)	(35)	(41)	(50)
Cotton cloth	(12)	(16)	(19)	(21)	(24)
Meat	(1)	(2)	(3)	(4)	(6)
Other	(55)	(61)	(71)	(82)	(95)
Imports, f.o.b.	-371	-371	-375	-394	-413
Trade balance	-107	-25	-12	2	23
Services and private transfers, net (excl. interest)	-127	-126	-127	-133	-140
Current account (excl. interest)	-234	-151	-139	-131	-117
Drawings (incl. public transfers)	245	233	242	251	260
Other items	-13	-2	--	--	--
A. Balance available for debt service	-2	80	103	120	143
B. Debt service due before further rescheduling and not including arrears outstanding end-September 1983 1/ 2/	-129	-243	-279	-266	-291
Of which:					
1. International organizations	-23	-47	-59	-64	-54
Principal	(-8)	(-32)	(-45)	(-52)	(-45)
Interest	(-15)	(-15)	(-14)	(-12)	(-9)
2. In respect of amounts rescheduled thus far 3/	-61	-101	-126	-119	-166
(a) Official creditors 4/	-36	-79	-71	-69	-119
Principal	(-23)	(-30)	(-26)	(-26)	(-80)
Interest	(-13)	(-49)	(-45)	(-43)	(-39)
(b) Commercial banks 5/	-25	-22	-55	-50	-47
Principal	(--)	(--)	(-35)	(-35)	(-35)
Interest	(-25)	(-22)	(-20)	(-15)	(-12)
3. Debt service not previously rescheduled	-39	-89	-87	-77	-65
(a) Paris Club	-36	-87	-86	-76	-64
Principal	(-23)	(-60)	(-61)	(-53)	(-45)
Interest	(-13)	(-27)	(-25)	(-23)	(-19)
(b) Private non-guaranteed	-3	-2	-1	-1	-1
4. Interest on overdrafts and short-term debt	-6	-6	-6	-6	-6
C. Initial gap (A-B)	-131	-163	-176	-146	-148
D. Debt service ratio 6/	42	62	68	60	60

Sources: Data provided by the Malagasy authorities; and staff estimates.

1/ Based on loans contracted through April 1983, and on reschedulings thus far obtained.
2/ Estimated at SDR 129 million.
3/ Includes consolidated arrears.
4/ In the case of the Paris Club the rescheduling covers the period through June 30, 1983, while for other offical creditors the rescheduling covers the total debt outstanding at the end of 1982.
5/ On the basis of agreement reached in principle and expected to be signed by end-1983; the agreement covers the total debt outstanding to commercial banks at the end of 1982.
6/ Ratio of line B divided by projected exports of goods and services.

coffee and vanilla exports (which will be constrained by marketing considerations) and a sharp reduction in clove exports (which will be strongly affected by Indonesia's program to increase clove production). Services excluding interest payments were projected on the basis of imports for freight and on the basis of trends for other services. Drawings on loans for 1984 (before exceptional financing from donors) were projected on the basis of expected disbursements from loans already committed by lenders, and for subsequent years, a 5 percent annual increase in SDR terms was assumed.

These projections show that the current account (excluding interest) of the balance of payments improves steadily and the balance available for debt service will increase during the projection period. The resulting debt service capacity is compared, in Table 7, with scheduled debt service before further debt relief. This comparison shows that notwithstanding the increasing amounts becoming available for debt service, the financing gap will remain large, averaging over SDR 155 million a year during the period 1984-87. Table 7 also identifies and separates normally nonreschedulable debt service, such as payments in respect of amounts previously rescheduled and payments to international organizations, from that which could theoretically be rescheduled under the present practices of the Paris Club. It will be noted from Table 7 that debt service in respect of the former alone would exceed the projected surplus available for debt servicing in each year. Thus, rescheduling only the amounts not rescheduled so far will not solve the medium term financing problem, unless, of course, additional direct balance of payments assistance were forthcoming in adequate amounts; or additional adjustment measures could be devised. The debt service ratio before further rescheduling averages 62 percent between 1984 and 1987. While rescheduling of the amounts due in 1983 and 1984 could alleviate the burden in these two years, care must be taken that it does not add to the debt servicing burden during the rest of the medium-term period considered here when, as the projections show, the already existing debt service exceeds the country's capacity.

IV. Staff Appraisal

Since 1980 Madagascar has implemented, with varying degrees of success, an adjustment program focused on fiscal improvement as the primary instrument to redress the balance of payments. At the same time the authorities have had to continue to impose severe administrative restraints on imports resulting in substantial declines in real and nominal levels of imports. While the trade balance has improved, the overall deficit in the balance of payment has still been large, due to the high and growing debt service burden, emanating primarily from a large increase in external debt during 1979 and 1980. This has resulted in a large accumulation of external arrears beginning 1980, the necessity for reschedulings of external debt service beginning 1981, and a significant increase in reserve liabilities, including to the Fund.

Under the proposed program, in support of which a stand-by arrangement with the Fund has been requested, the authorities intend to persevere with the adjustment efforts, including further reduction of the fiscal deficit. However, it is not feasible that the size of fiscal adjustment in the coming year could match that of the previous three years, when the overall deficit was considerably larger and scope for expenditure economies greater. Nor could it be expected that the direct impact on the balance of payments of additional fiscal adjustment would be as significant as in the past when expenditures with high-import content expenditures (especially in the capital budget) bore the main burden of such adjustment. The scope for further cuts in public consumption imports, except for rice, is also limited. Accordingly, while continuing to strengthen demand management, policy emphasis must now be placed increasingly on measures designed to improve production, primarily of nontraditional exports and import substitutes, in a medium term context. The proposed program recognizes this need and includes supply-side measures, particularly in pricing, marketing, import allocation, and investment policies, along with maintenance of fiscal stability and a flexible exchange rate policy. A notable feature of the program is the shift from centralized controls to liberal marketing of rice announced recently and the intention to extend this liberalization to other areas.

The staff projects that, inter alia, as a result of these measures there should be an improvement in the debt service capacity of the balance of payments of about SDR 80 million in 1984 with additional significant improvement occuring in subsequent years, assuming intensified implementation of these policies. However, debt service, as presently scheduled, will exceed debt service capacity by a widening margin. Accordingly, continued exceptional assistance, in the form of both generous debt rescheduling and direct concessional inflows, would be required to underwrite Madagascar's adjustment efforts.

In this situation, the amount of resources the Fund can offer Madagascar could not be expected to be a major component of Madagascar's balance of payments financing, especially as the country has already made significant purchases from the Fund over the past three years. The Fund's role in these circumstances is more properly that of a catalyst, encouraging the country in implementing a strong policy package and in obtaining appropriate and sufficient external financing to support such a package. Thus, for 1984, while the initial financing gap is presently estimated to be SDR 163 million, purchases from the Fund under the proposed stand-by arrangement would amount to only SDR 27 million, or about 17 percent of the gap. The authorities are seeking additional financing in the form of further rescheduling of existing debt service and exceptional balance of payments assistance. The Fund staff would lend its support to these efforts to ensure that adequate resources are available to allow the implementation of the program which could provide a reasonable chance for progress toward a sustainable position. Until adequate external finance to meet the programmed financing gap can be assured, the staff recommends Executive Board approval of the stand-by arrangement in principle only, with purchases delayed until adequate external finance has been assured. The arrangement also provides for two further reviews of the program, one in the middle of 1984 and one towards the end, during which there will be continuous discussions of the adjustment policies of Madagascar in a short and medium term perspective.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Government of the Democratic Republic of Madagascar has requested a stand-by arrangement for a period of 15 months in an amount equivalent to SDR 33 million.

2. The Fund approves the stand-by arrangement attached to EBS/83/255, subject to paragraph 3 below, and waives the limitation in Article V, Section 3 (b)(iii).

3. The stand-by arrangement set forth in EBS/83/255 shall become effective on the date on which the Fund finds satisfactory arrangements have been made with respect to the financing of the estimated balance of payments deficit for 1984.

MADAGASCAR - Stand-By Arrangement

Attached hereto is a letter dated November 21, 1983 from the Minister at the Presidency in charge of Finance and Economy of Madagascar requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the authorities of Madagascar intend to pursue for the period of this stand-by arrangement;

(b) the policies and measures that the authorities of Madagascar intend to pursue for the period through December 31, 1983 of this stand-by arrangement; and

(c) understandings of Madagascar with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Madagascar will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of 15 months from December , 1983, Madagascar will have the right to make purchases from the Fund in an amount equivalent to SDR 33 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. a. Purchases under this stand-by arrangement shall not exceed SDR 3 million until the review referred to under paragraph 4(c)(i) below has been completed, the equivalent of 9 million until March 31, 1984, the equivalent of SDR 15 million until June 30, 1984, the equivalent of SDR 21 million until September 30, 1984 and the equivalent of SDR 27 million until December 31, 1984.

b. None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Madagascar's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1.2 until purchases from ordinary resources reach SDR 7.96 million, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. 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 percent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 percent of quota:

a. during any period of the stand-by arrangement in which the data at the end of the preceding period indicate that:

(i) the limit on total credit to the economy from the domestic banking system described in paragraph 11 of the attached letter, or

(ii) the limit on credit to Government from the domestic banking system described in paragraph 11 of the attached letter, or

(iii) the amount of bona fide requests for dividend transfers described in paragraph 14 of the attached letter,

are not observed; or

b. if Madagascar fails to observe the limits on authorizations of new public and publicly guaranteed foreign indebtedness described in paragraph 14 of the attached letter; or

c. if the reviews with the Fund contemplated in paragraph 17 of the letter dated November 21, 1983 have not been completed in accordance with the following schedule:

(i) The "first" review, including the specification of quantitative performance clauses for the remaining program period, shall be completed before March 31, 1984;

(ii) The "second" review, including the specification of performance clauses pertaining to exchange rate policies and understandings regarding the banking system, shall be completed before June 30, 1984;

(iii) The "third" review, including the specification of performance clauses pertaining to budgetary policy and import program for 1985, shall be completed before October 31, 1984; or

d. during the entire period of this stand-by arrangement, if Madagascar

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Madagascar is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Madagascar and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Madagascar's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Madagascar. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Madagascar and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Madagascar, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Madagascar will consult the Fund on the timing of purchases involving borrowed resources.

8. Madagascar shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. a. Madagascar shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Madagascar's balance of payments and reserve position improves.

b. Any reductions in Madagascar's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

c. The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement Madagascar shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Madagascar or of representatives of Madagascar to the Fund. Madagascar shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Madagascar in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 17 of the attached letter Madagascar will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation because he considers that consultation on the program is desirable.

Antananarivo, Madagascar

November 21, 1983

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

Dear Mr. de Larosière:

1. Since 1980, the Malagasy Government has been implementing an adjustment program which has been supported by three successive stand-by arrangements, the last of which expired on July 8, 1983. The process of adjustment was accelerated in the first half of 1983 when stabilization measures were accompanied by a reorientation of policy toward liberalization of production and marketing activities. As a result, the external current account deficit, excluding interest payments, was reduced from SDR 428 million in 1980 to SDR 246 million in 1982. Due mainly to the debt rescheduling secured through the Paris Club and other official creditors, and to the exceptional balance of payments assistance, the overall balance of payments deficit was also reduced from SDR 176 million in 1980 to SDR 42 million in 1982.

2. The thrust of the past adjustment programs was to improve the budgetary situation, the deterioration in which had been a major cause of the earlier worsening of the balance of payments. Accordingly, substantial budgetary adjustments were achieved in 1982 and 1983, primarily by the implementation of new tax measures, a new expenditure control system, increases in tariffs of public enterprises, and the reduction in consumer subsidies, thus reducing the overall Government deficit from 18.4 percent of GDP in 1980 to 8.7 percent in 1982 and to a projected 6.7 percent in 1983. In addition to the budgetary measures, in May 1983 the Government began a process of liberalization of domestic marketing of rice and of other prices with a view to providing increased incentives to producers and better allocation of resources. The exchange rate policy was made more flexible, and the rate was devalued by 15 percent in May 1982, by 6 percent in February, 2 percent in July, and 10.5 percent in October 1983. Also, interest rates were increased, credit restraint was intensified, and the operating results of state enterprises began to improve.

3. While the budgetary situation has improved, the stagnation in the economy and the pressures on the balance of payments have persisted, as is evidenced by the maintenance of controls on all imports and exchange restrictions, and by the large accumulation of arrears estimated, at end-September 1983, at about SDR 129 million. Also, because of the foreign exchange constraint, the volume of imports, particularly

of inputs for production and of incentive goods for the rural areas, has fallen in each of the last four years, contributing in turn to a decline in real GDP in 1981 and 1982. Despite a projected slight improvement in 1983, real GDP in that year is likely to be below its level in 1979. The twin problems of the stagnant economy and accumulating external arrears are now very directly linked to the large, and still rising, debt service payments. The foreign debt has risen sharply since 1980 and total foreign debt at the end of 1982 amounted to SDR 1.7 billion, or 66 percent of GDP. Despite two reschedulings under the auspices of the Paris Club, reschedulings with other official creditors, and an agreement with banks, the debt service burden in 1983 will amount to 38 percent of exports of goods and services and will rise to 62 percent in 1984. Moreover, preliminary projections indicate that, partly reflecting the additional debt service on the rescheduled debt, foreign exchange receipts would hardly be enough to support the minimum import requirements of the economy and to service the present debt as scheduled. Financing of the balance of payments gap is a key element of any program for the coming years.

4. The Government is convinced that the present difficulties can be surmounted, but over the medium term. In order to maintain the recently improved performance of domestic prices and to support other policies of external adjustment, it will be necessary to consolidate the present restrained posture of the demand management policies, especially with regard to government finance; however, it cannot be assumed that further reductions in the budgetary deficit can be realized to the same extent as in the immediate past or that such reductions can be relied upon as the principal source of an additional amelioration in the balance of payments. The Government intends to implement a more comprehensive policy package, including substantial liberalization of pricing, marketing, and distribution of agricultural and industrial products, the selection of investment projects, exchange rate, and import allocation policy. This policy package should strengthen the measures begun in 1983 with the objective of encouraging the more productive activities in the economy, particularly in the agricultural sector. The program for the year 1984, described below, conforms to this objective with the expectation that it will be pursued over the medium term. However, the program is dependent upon the availability of the necessary minimum imports to activate production, and the Government is persuaded that the implementation of the program would be severely prejudiced unless an extremely generous solution to the debt problem over the medium-term is found.

5. A key element in the program is the recovery of the agricultural sector, where possibilities exist for both efficient import substitution and export promotion. In regard to rice, which is the main staple, and the import of which constitutes a large charge on the balance of payments, steps have been taken to supplement the liberalization measures taken in May 1983: (a) the minimum producer price of paddy has

been raised in October to the level of prices received by producers in the free markets adjacent to Lac Alaotra, one of the two rice producing areas reserved to state marketing enterprises. This is estimated to result in an increase in the minimum price of at least 20 percent to FMG 80 per kilo; (b) the Government will reach agreement with the World Bank and other lenders concerned, to open the marketing of rice to private traders in the Lac Alaotra and Marovoay basins prior to the beginning of the next main planting season in March 1984, thus providing competitive purchasing and distribution of rice throughout the country and (c) with regard to imported rice, the price of whole grain rice has been raised initially from FMG 140 per kilo to FMG 200 per kilo, and subsequently will be adjusted in accordance with trends in the market prices of domestic rice, with a view to maintaining an approximate price parity between the two; the price of broken rice will be adjusted to remain within a margin of 15 percent of the free market price for ordinary domestic rice. The retail price for imported rice will be adjusted, if required, in order to avoid any subsidies. As regards other agricultural products, the Government will raise, early in their respective crop seasons, producer prices as well as, where appropriate, consumer prices and exfactory prices; the price increases will assure a significant increase in real prices to producers over those prevailing in 1983 for nontraditional products such as meat, groundnuts, cotton, etc. and an increase in the prices of traditional export products in tune with the past trends. A more comprehensive decision on the producer pricing policy, including further liberalization of marketing and final prices, will be decided upon after an examination of this issue by the World Bank (which is currently assessing these policies), and will be the subject of a review with the Fund under the proposed stand-by arrangement before June 30, 1984.

6. As regards industrial pricing, the Government has expedited procedures to approve requests from enterprises to adjust prices. Price policy has been formulated with the objective of improving the financial performance, and avoiding the necessity of subsidies to the industrial sector. A mission from the World Bank is scheduled to visit Madagascar to discuss industrial policies in the context of a sector loan. The Government will reach understandings with this mission decontrolling wholesale and retail prices for all commodities, except for a few specific goods which would remain controlled but the authorization period for approving price changes will be shortened to a maximum of 30 days. Significant action in this regard will be initiated following the World Bank mission's recommendations, but in any case no later than end-1983.

7. Pricing policies, as described above, will be complemented by appropriate policies in respect of import and exchange allocations, and of the exchange rate. Given the severity of the foreign exchange constraint, it will be necessary to continue to control imports administratively. The 1984 import program will initially provide for total

imports (f.o.b.) of SDR 371 million, or about the level estimated for 1983. Within this total, the share of consumer goods (including that of rice) will diminish while that of inputs for agriculture, maintenance and rehabilitation of the transport sector, inputs for the export-oriented sub-sectors of industry, and other industrial inputs, will be raised. In particular, total rice imports in 1984 will be limited to 100,000 tons subject to an overall ceiling of SDR 20.0 million from Madagascar's own foreign exchange resources on total imports of rice, compared to 183,000 tons in 1983. An import program based on these considerations, as well as the supporting foreign exchange budget, providing for an automatic allocation of foreign exchange, would be finalized before the end of 1983 and will be reviewed with the Fund in the course of the first review of the program.

8. Since early 1983, the Government has followed a flexible exchange rate policy resulting in an 8 percent depreciation of the Malagasy franc through July 1983. An additional adjustment of 10.5 percent was effected at the beginning of October to take into account the relative inflation differential between Madagascar and its trading partners included in the currency basket to which the Malagasy franc is pegged. The flexible exchange rate policy to maintain the real effective exchange rate will be continued through the end of 1983. Exchange rate policies will be reviewed with the Fund in the course of the second review of the program.

9. As mentioned earlier, one of the most successful aspects of the adjustment policy has been the reduction of the overall government deficit from 18.4 percent of GDP in 1980 to 8.7 percent in 1982, and to an estimated 6.7 percent in 1983, primarily due to reductions in expenditure. Although the overall deficit in 1983 is slightly higher than targeted, due mainly to higher-than-expected interest payments and reduction in domestic arrears, domestic bank finance of this deficit is about as targeted because of larger-than-expected foreign financing. In view of this, no changes in budgetary policy are contemplated through the rest of 1983, but tighter control on capital expenditure and higher revenues from rice import operations should contain the overall deficit to the abovementioned figure and bank financing of the government budget to 37.6 billion, compared to the original target of FMG 36.6 billion.

10. In 1984, budgetary policy will be to restrict further the overall deficit and bank finance to the Government. While the details of next year's budget are still to be worked out, the overall deficit will be limited to no more than 5.5 percent of GDP, subject to the further limitation that, in absolute terms, the overall deficit would be lower than in 1983. For this purpose, net recruitment in the public services will be limited to up to 1,000 persons, and total expenditure on personnel will be limited to FMG 90.2 billion, (i.e., an increase of about 10 percent over the estimated outlay for 1983); those limits

reflect a restrictive employment and wage policy that will allow for only a partial compensation for the past increase in the cost of living. Similarly, allocations for the investment budget will be severely scrutinized, and emphasis will be placed on rehabilitation and maintenance of the existing stock, and on rehabilitation of existing enterprises. The Government will discuss with the World Bank its investment program for 1984, including priority accorded to the projects in the program. In addition, the Government intends to eliminate identified domestic arrears by the end of 1984. The budget for 1984 will form one of the principal subjects for the first review with the Fund.

11. There was a decrease in the money supply over the six-month period ending June 1983, due to the fall in net foreign assets and a lowerthan programmed increase in bank credit. Bank deposits also dropped by FMG 12.5 billion during this period causing a liquidity problem for commercial banks. This problem was exacerbated for the agricultural bank by large sums of money being tied up in an unexpectedly large stock of cloves, which in turn threatened the satisfactory financing of the liberalized rice marketing operations. The monetary authorities have, therefore, increased the rediscount facilities during the fourth quarter of 1983, particularly for the agricultural bank, to allow an expansion of credit to the private sector, including state enterprises, of FMG 58.4 billion (27.1 percent) during the second half of 1983. Total credit to the economy from the domestic banking system, which amounted to FMG 494.1 billion at June 30, 1983, will not exceed FMG 580.0 billion on December 31, 1983. A large part of the credit expansion will be devoted toward underpinning the expected recovery of economic activity following increasing liberalization of the marketing and pricing arrangements. Credit to Government from the domestic banking system, which amounted to FMG 258.3 billion at June 30, 1983, will not exceed FMG 291.4 billion on December 31, 1983. These increases, after taking into account the balance of payments target, should imply an annual 6.5 percent increase in (broad) money supply, compared to a projected 22 percent increase in nominal GDP. This decline in the rate of growth in money supply is already having a favorable impact on domestic price developments; the CPI grew by a 13 percent annual rate in the second quarter of 1983, compared to 33 percent in the corresponding quarter of 1982, and 22 percent in the first quarter of 1983.

12. Real interest rates in Madagascar increased in 1983 because of a rise in nominal rates in February 1983, and a deceleration in the rate of inflation. However, real deposit rates were still negative through end-August 1983. Accordingly, in October 1983, certain deposit rates were increased by a further 1-1.5 percentage points, and the structure of interest rates was simplified by eliminating controls on several specific rates. The rediscount rate of the Central Bank was also increased by 0.5 percentage points to 13 percent.

13. The intention in the monetary and credit policy sector is to make the financial structure more efficient and more in tune with the recent liberalization process. To that effect, the Government intends to review the domestic banking system, which consists of three sectorally specialized banks, and the conduct of credit policy which now relies almost solely on direct credit controls. This review has begun and its conclusion will be discussed with the Fund during the second review of the program in mid-1984. In the meantime, quarterly credit targets and ceilings for 1984 will be established with the Fund as a part of the first review of the program; the intention will be to further the recent deceleration in the pace of inflation, to provide adequate credit to the productive sectors, and underpin the balance of payments target for the year.

14. The balance of payments objective of the program is to limit the current account deficit (excluding interest payments) to 7.4 percent of GDP in 1983 (compared to 9.5 percent in 1982), and to 5 percent in 1984. During the program period, bona fide requests for dividend transfers will be authorized and effected in an amount of FMG 1.25 billion, of which FMG 0.25 billion before end-1983. Furthermore, the Government, the Central Bank or the national banks will not contract nor guarantee any new foreign borrowing with an original maturity from one year up to and including 10 years. The contracting of new loans in the maturity range above 10 years up to and including 15 years will be limited to specific credits currently being negotiated for export industries and amounting to no more than SDR 22 million. During the program period, the Government will not contract nontrade external borrowing of less than one year's maturity.

15. The achievement of the targets with respect to external arrears, external debt, and imports, as well as the anticipated external assistance under loans already contracted, and rescheduling agreements thus far obtainea (including an agreement reached in principal with the banks), would still imply a gap of about SDR 163 million in 1984. Such a gap would make it virtually impossible to meet debt servicing obligations were they to be rescheduled on the past pattern of rescheduling accorded to Madagascar. Furthermore, it would leave the level of arrears alarmingly high, which would make it virtually impossible to manage the balance of payments. Accordingly, as a part of its program, the Government of Madagascar would seek an exceptionally generous rescheduling of its external obligations, including arrears, and exceptional balance of payments assistance, consistent with its other external objectives, described above. Such rescheduling, and exceptional balance of payments assistance, along with purchases under the requested stand-by arrangement, would provide sufficient resources to fill the financing gap in 1984.

16. During the period covered by the stand-by arrangement, the Government does not intend to: (1) introduce multiple currency practices; (2) impose new or intensify existing restrictions on payments and transfers for current international transactions; (3) impose new or intensify existing import restrictions for balance of payments reasons; (4) conclude bilateral payments agreements with member countries of the Fund.

17. The Government of Madagascar believes this program deserves the renewed support of the International Monetary Fund. It consequently requests a stand-by arrangement in an amount of SDR 33 million for a period of 15 months. The Government believes the measures described above are sufficient to achieve the objectives of the program. It will take any additional measures that may become necessary for this purpose. During the period of the requested stand-by arrangement, the Government will periodically consult with the Fund in accordance with the policies of the Fund on such consultations about the progress being made in the implementation of the program described above and any policy adaptations adjudged to be appropriate for the achievement of its objectives. In the first review of the program, before end-March 1984, the Government will reach understandings on performance criteria for 1984 relative to total credit, net credit to Government, domestic arrears of the Central Government, external arrears, and external debt, for the remaining program period. The proposed first review, before end-March 1984, will be followed by other reviews, before June 30, 1984, and October 31, 1984; the June review will concentrate on reaching understandings with the Fund on exchange rate policies and policies concerning the banking system, while the October review will aim at reaching understandings on budgetary policies and the import program for 1985.

Very truly yours,

Pascal Rakotomavo
Minister at the Presidency
in Charge of Finance and
Economy

MADAGASCAR - Relations with the Fund

(As of October 31, 1983)

Date of membership:	September 23, 1963
Quota:	SDR 51 million
Proposed quota 8th review:	SDR 66.4 million. Madagascar has consented to the increase in its quota and made arrangements, for paying the increase at subscription.
Fund holdings of Malagasy francs:	SDR 184.1 million, or 360.9 percent of quota, including compensatory financing purchases of SDR 47.4 million (92.8 percent of quota) and purchases under tranche policies, including supplementary financing of SDR 22.2 million and enlarged access of SDR 20.5 million. Excluding holdings under the CFF, the Fund's holdings are the equivalent of 268.0 percent of quota .
SDR position:	Holdings amount to SDR 0.53 million (or 2.7 percent 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

MADAGASCAR - Relations with the Fund (concluded)

(As of October 31, 1983)

Exchange rate system:	The Malagasy franc is pegged to a basket of currencies with weights based on the pattern of trade. SDR 1 = FMG 507.85 (October 4, 1983).
Intervention currency:	There is no single intervention currency.
Staff contacts:	The mid-term review (EBS/83/55) of the stand-by arrangement that expired on July 8, 1983 was completed on April 8, 1983. Staff visits to Antananarivo took place in mid-May and late-August 1983, and the 1983 Article IV consultation discussions were held from mid-July to early August 1983 (EBS/83/235). A Malagasy delegation visited headquarters in September 1983 to discuss a financial program to be supported by a new stand-by arrangement.

Table I. Madagascar: Selected Economic and Financial Indicators, 1980-84

	1980 Actual	1981 Actual	1982 Actual	1983 Prog.	1983 Est.	1984 Prog.
	(Annual per cent changes, unless otherwise specified)					
National income and prices						
GDP at constant prices	0.8	-9.4	-0.8	1.0	1.6	1.0
GDP deflator	15.1	25.2	28.3	24.7	20.3	15.0
Consumer prices 1/	17.1	29.0	31.2	25.1	23.0	20.0
External sector (on the basis of SDRs)						
Exports, f.o.b.	9.8	-18.2	8.8	6.3	-0.7	31.4
Imports, c.i.f.	14.5	-28.8	-4.4	-4.6	-9.9	--
Non-oil imports, c.i.f.	8.6	-29.1	-16.1	-9.8	-15.0	-1.5
Export volume	-10.2	-5.4	10.4	3.9	-23.6	25.0
Import volume	-1.0	-33.5	-11.8	-2.7	-7.7	-3.9
Terms of trade (deterioration -)	5.9	-19.5	-10.3	2.0	14.3	0.7
Nominal effective exchange rate (depreciation -)	-5.6	-8.8	-18.1	...	...	...
Real effective exchange rate (depreciation -)	4.1	4.7	-0.8	...	...	...
Government finance						
Total revenue and grants	7.8	-3.0	27.0	18.6	22.3	...
Total expenditure	28.7	-6.0	1.7	7.2	12.1	...
Money and credit						
Domestic credit	44.8	21.4	17.2	16.3	17.0	...
Government	77.4	34.1	14.4	13.6	14.0	...
Private sector	21.7	8.4	25.0	20.1	22.0	...
Money and quasi-money (M_2)	19.0	21.4	10.2	23.3	14.0	...
Velocity (GDP relative to M_2)	3.6	3.5	3.8	3.7	4.1	...
Interest rate (annual rate, one-year savings deposit)	5.65	6.75	10.50	12.50	12.50	...
	(In per cent of GDP)					
Overall government savings	-2.8	-3.1	-1.4	0.2	-0.7	...
Overall government financial deficit	-18.4	-14.7	-8.7	-6.2	-6.7	-5.5
Domestic bank financing	11.4	7.4	3.4	2.9	3.1	...
Foreign financing (net)	6.9	7.1	5.1	3.2	3.6	...
Gross domestic investment	23.4	18.1	13.7	12.9	11.8	12.7
Gross domestic savings	6.9	7.0	4.3	6.0	4.5	6.4
Current account deficit	-18.3	-14.9*	-13.0*	-9.0* 3/	-12.2* 3/	9.2 4/
External debt						
Inclusive of use of Fund credit	34.3	50.5 5/	64.4 6/	...	69.9	74.1
Debt service ratio (in per cent of exports of goods and services)	14.5	36.3 5/	36.5 5/	...	38.0 7/	62.3 4/
Interest payments (in per cent of exports of goods and services)	7.9	16.7 4/	18.4 4/	...	21.4 6/	30.8 4/

1/ CPI index for Antananarivo, including officially controlled prices.
2/ * indicates severe constraint on foreign exchange availability.
3/ After debt rescheduling already obtained from the Paris Club through June 1983 and excluding penalty interest on arrears outstanding to banks, which are in the process of being rescheduled.
4/ Before debt rescheduling.
5/ After debt rescheduling, but excluding arrears.
6/ After debt rescheduling already obtained from the Paris Club, through June 1982, and including an estimate for outstanding arrears.
7/ On the basis of debt relief thus far obtained in 1983 from Paris Club I and II, the London Club and other creditors.

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FOR AGENDA

EBS/83/264
Supplement 1

CONFIDENTIAL

December 23, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Zimbabwe - Staff Report for the 1983 Article IV Consultation and Review Under Stand-By Arrangement

The attached supplement to the staff report for the 1983 Article IV consultation with Zimbabwe and review under the stand-by arrangement modifies the performance criteria under the stand-by arrangement for Zimbabwe. Revised draft decisions appear on pages 2 and 3.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Edo, ext. (5)8750 or Mr. Ewart Williams, ext. (5)8751.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

ZIMBABWE

Staff Report for the 1983 Article IV Consultation and Review Under Stand-By Arrangement--Supplementary Information

Prepared by the African Department

(In consultation with the Legal and Exchange and Trade Relations Departments)

Approved by Oumar B. Makalou and S. Kanesa-Thasan

December 22, 1983

The stand-by arrangement with Zimbabwe provided for two general reviews, the first to be completed before June 30, 1983 to establish ceilings for the period July-December 1983 and to reach understandings on certain other matters, and the second to be completed before December 31, 1983 to establish ceilings for the last six months of the arrangement. The review contemplated in EBS/83/264 (12/7/83), is the first of these reviews. It was the intention that this matter would be brought before the Executive Board in December, and EBS/83/264 was prepared on that assumption. Because of unexpected delays, however, the matter is now on the agenda for January 4, 1983.

As a consequence of this delay, purchases proposed to be made on completion of the first review cannot be effected unless there is a waiver of the performance criteria specified in paragraph 4(b) of the stand-by arrangement requiring that the second mid-term review be completed before December 31, 1983 and understandings reached on performance criteria for the remaining period of the arrangement. In these circumstances, the staff suggests that Zimbabwe be permitted, upon completion of the first review by the Executive Board on January 4, 1984, to purchase the amounts originally scheduled for 1983. Further purchases during 1984 will remain subject to the completion of the second review and the observance of relevant performance criteria.

In order to conduct this second review, a mission is scheduled to visit Harare in February 1984. The report of this review is expected to be presented for consideration by the Executive Board in March 1984. In the course of the review, ceilings will be established for end-April and June 1984, rather than March and June 1984 as originally intended, and the phasing of purchases would be adjusted accordingly. A revised Table 1 of EBS/83/264 showing the new phasing of drawings, and the consequent revisions to Tables 6 and 7 (EBS/83/264) are appended herewith.

In order to give effect to the intention that purchases originally scheduled before the end of December can now be made, the following revised draft decisions are proposed for adoption by the Executive Board:

Revised Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board in concluding the 1983 consultation with Zimbabwe:

(i) 1983 Consultation

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Zimbabwe, in the light of the 1983 Article IV consultation with Zimbabwe conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Zimbabwe continues to maintain restrictions on payments and transfers for current international transactions as described in SM/83/247. The Fund encourages the authorities to take measures to reduce these restrictions as soon as possible.

(ii) Review Under Stand-By Arrangement

1. Zimbabwe has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Zimbabwe (EBS/83/44, Sup. 1, March 24, 1983) in order to reach understandings subject to which further purchases may be made by Zimbabwe under the stand-by arrangement.

2. The letter from the Minister of Finance, Economic Planning and Development of September 30, 1983, shall be annexed to the stand-by arrangement for Zimbabwe, and the letter of January 24, 1983, attached to the stand-by arrangement, shall be read as supplemented by the letter of September 30, 1983.

3. The Fund decides, in view of the circumstances described in EBS/83/264 and Supplement 1, that Zimbabwe may proceed to make purchases under the stand-by arrangement, provided that such purchases are made

before January 15, 1984 and that cumulative purchases under the arrangement shall not exceed the equivalent of SDR 175.0 million until further review by the Fund.

4. In accordance with the letter of September 30, 1983, the understandings referred to in paragraph 4(b) of the stand-by arrangement for Zimbabwe relating to the limits on the total domestic credit of the banking system and on net bank credit to the Government for end-December 1983 shall be those specified in paragraph 12 of the memorandum annexed to the letter.

Table 1. Zimbabwe: Schedule of Purchases and Repurchases

(March 1983-July 1984)

	Purchases					Purchases outstanding	
	Stand-by arrangement	CFF	Buffer stock	Repurchases	Total outstanding	Total	Excl. special facilities
	(In millions of SDRs)					(As percent of quota)	
1983							
March	60.0	56.1	--	--	153.6	102.4	65.0
April	37.5	--	--	--	191.1	127.4	90.0
1984							
January 1/	77.5	--	2.1	--	270.7	180.5	141.7
April	40.0	--	--	--	310.7	207.1	168.3
May	40.0	--	--	--	350.7	233.8	195.0
July	45.0	--	--	--	395.7	263.8	225.0

1/ The original schedule had provided for purchases of SDR 40.0 million in July 1983 and SDR 37.5 million in October 1983.

Table 6. Zimbabwe: Balance of Payments, 1982-84

(In millions of SDRs) 1/

	1982	Projections 1983 Program	1983 Revised	1984 Program	1984 Revised
Trade balance	-141	-134	11	-71	12
Exports, f.o.b. 2/	1,195	1,280	1,051	1,456	1,177
Imports, f.o.b.	-1,337	-1,414	-1,040	-1,527	-1,165
Services (net)	-448	-494	-425	-532	-489
Freight and insurance	-137	-158	-141	-180	-157
Travel	-70	-26	-41	-29	-48
Investment income	-189	-184	-176	-192	-205
Others	-52	-126	-67	-131	-79
Private transfers (net)	-114	-115	-87	-110	-87
Current balance	-703	-743	-501	-713	-564
Official transfers (net)	63	60	46	72	61
Capital (net)	482	456	172	441	285
Government	157	132	76	81	190
Public enterprises	242	240	81	264	85
Other	83	84	15	96	10
Errors and omissions	80	--	--	--	--
Monetization of gold	-7	--	--	--	--
Overall balance	-86	-227	-283	-200	-218
Valuation adjustment	-3	--	--	--	--
Financing	89	227	283	200	218
Use of Fund resources 3/	--	231	153	125	205
Other	89	-6	130 4/	75	13 5/
Memorandum item:					
Current account deficit as a percent of GDP	12.2	13.6	9.3	11.1	8.9

Sources: Data provided by the Zimbabwean authorities; and staff projections.

1/ Converted at the following annual average exchange rates: SDR 1.1961 per Zimbabwe dollar for 1982, and SDR 0.95 per Zimbabwe dollar for 1983 and 1984.
2/ Gold exports on a net basis.
3/ Under current stand-by arrangement.
4/ Drawdown of foreign reserves is projected to be SDR 52 million and bridging finance to be SDR 78 million.
5/ See Table 7.

Table 7. Zimbabwe: Medium-Term Balance of Payments Projections, 1983-89 1/

(In millions of SDR's)

	1983	1984	1985	1986	1987	1988	1989
			Projections				
Trade balance	11	12	72	141	220	310	412
Exports, f.o.b.	1,051	1,177	1,295	1,425	1,568	1,725	1,898
Imports, f.o.b.	-1,040	-1,165	-1,223	-1,284	-1,348	-1,415	-1,486
Services (net)	-425	-489	-508	-536	-564	-597	-636
(Interest payments) 2/	(-120)	(-160)	(-195)	(-232)	(-263)	(-287)	(-303)
Private transfers (net)	-87	-87	-75	-75	-70	-70	-65
Current balance	-501	-564	-511	-470	-414	-357	-289
Official transfers (net)	46	61	70	80	90	100	100
Capital (net)	172	285	330	350	350	350	350
Overall balance	-283	-218	-111	-40	+26	+93	+161
Financing							
Use of Fund resources (net) 3/	153	196	-19	-53	-132	-127	-46
(Purchases)	(153)	(205)	(--)	(--)	(--)	(--)	(--)
(Repurchases)	(--)	(-9)	(-19)	(-53)	(-132)	(-127)	(-46)
Addition to gross foreign reserves	-52	--	15	15	15	10	10
Other 4/	78	-78	...	...	...	...	...
Financing requirement	--	100	145	108	121	44	-105
Memorandum item:							
Current account deficit as percent of GDP	9	9	7	6	5	4	3
Gross official reserves (in months of imports)	1.7 5/	1.6	1.6	1.7	1.7	1.7	1.7

Sources: Data provided by the Zimbabwean authorities; and staff estimates.

1/ Assumes annual rate of increase in exports of 10 percent and in imports of 5 percent for the period 1984-89.
2/ Includes estimated interest payments on projected new borrowings.
3/ Assuming full purchase under the current stand-by arrangement.
4/ Estimated use of bridging finance that will need to be repaid in early 1984.
5/ After estimated decline in gross foreign reserves, end-1983 level of gross foreign reserves would be SDR 151 million.