DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

SM/83/245
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

December 19, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Madagascar - Recent Economic Developments

The following corrections have been made in SM/83/245 (12/2/83):

Page 74, add at bottom: "Directory of the Treasury (Exchange Control Service) or to the national banks. Specified limits apply on the sale of foreign exchange for a number"

Page 75, 1st full para., last line: for "FMG 330,000"
read "FMG 300,000"

Corrected pages are attached.

Att: (2)

Other Distribution:
Department Heads

in July and October, this appreciation is likely to have been reversed. The bilateral exchange rates for the French franc, the U.S. dollar, and the SDR for the period 1975-October 4, 1983 are shown in Appendix Table XXIII.

2. External payments arrears

Madagascar has incurred external payments arrears (other than those related to dividend transfers, which are discussed below) since the beginning of 1980. By the end of 1980 external payments arrears are estimated to have amounted to SDR 175 million, equivalent to 44 percent of exports of goods and services in that year. As noted earlier, until 1982 external payments arrears were recorded in local currency only, converted at the exchange rate of the day on which they were incurred. The stock of arrears had not been revalued, and revaluation of flows had begun only in 1982. On the basis of such partial data, the stock of external arrears declined at the end of 1981, but this was more than accounted for by the consolidation of arrears into medium-term obligations. On a net cash basis, i.e., the difference between repayments and new accumulations, arrears continued to increase. A partial revaluation of the stock of arrears for end 1982 indicates that they had increased to about SDR 213 million on that date. Based on a more comprehensive revaluation, the stock of arrears on June 30, 1982 amounted to SDR 107 million; on a net cash basis, however, arrears are estimated to have increased by SDR 30.4 million during January-June 1983. Since then the monitoring of arrears has been improved considerably, and, along with other foreign liabilities of the Central Bank, they are being revalued at the end of each month at the average exchange rate of the preceding month. On September 30, 1983 external payments arrears amounted to SDR 128.6 million. Thus far during 1983 SDR 119 million of arrears were consolidated into medium-term obligations, including SDR 32 million owed to official creditors other than those of the Paris Club and SDR 61 million owed to commercial banks under a tentative agreement that remains to be completed.

In addition, arrears in respect of dividend transfers have existed since about 1973. Since the previous Article IV consultation, considerable progress has been made at the Central Bank to reduce the backlog of applications that had developed beginning in 1981. In both 1982 and 1983 transfers in respect of dividends amounted to FMG 1 billion. On June 30, 1983 arrears on dividend transfers, i.e., applications approved by the Central Bank as representing bona fide dividends less amounts transferred, amounted to FMG 3.35 billion, equivalent to SDR 7.5 million.

3. Imports and import payments

Importers require the approval of the Ministry of Commerce before being permitted to engage in import activities. The following categories of importers may be distinguished: (i) state enterprises and enterprises in which the state holds a majority participation, (ii) enterprises importing raw materials, spare parts, and equipment goods for their own production, (iii) enterprises established under Malagasy law specializing in the distribution of specified products and having a minimum of five branches in at least three provinces, with an annual import volume equivalent to at least FMG 300 million, and (iv) groupings of traders.

All imports are subject to the annual import program, whose overall value is determined among the Ministry of Finance and Economy, the Ministries of Commerce and of Industry, and the Central Bank. The Ministry of Commerce then allocates quotas to importers within the overall limit of the import program, and licenses are issued freely up to the limits of these quotas. Since about mid-1981 a committee (Comité technique des paiements extérieurs), consisting of representatives of the Ministry of Finance and Economy, the Ministries of Commerce and of Industry, the Central Bank, and the commercial banks, has been meeting on a weekly basis to administer the limited foreign exchange and to ensure that the allocated quotas do not exceed foreign exchange availabilities. As a result of these arrangements to control imports, there is no longer a formal list of prohibited imports.

On March 23, 1983 a facility (Compte EPI - Exportations/pièces dêtachées-intrants) was established whereby, subject to prior approval, *exporters retain specified percentages of export proceeds in convertible* accounts denominated in Malagasy francs, which may be used freely by these exporters to import spare parts and other essential inputs for their own production activities. Thus far, the facility has been extended to exporters of cotton cloth, hides, fish and shellfish, graphite, sisal, and processed sisal.

4. Exports

No changes have taken place in the regulations governing exports since the previous Article IV consultation. Enterprises require the prior authorization ("carte d'exportation") by the Ministry of Commerce to engage in export activity. In addition, all exports are subject to an export authorization. The government-owned trading firms (ROSO, COROI, SICE, SOMACODIS, SINPA, SOLIMA, etc.) have a monopoly over most of the important exports (except vanilla), i.e., coffee, cloves, pepper, sugar, butter beans, meat, petroleum products, and chrome. Foreign exchange proceeds from exports must be surrendered not later than one month from the due date specified in the export contract.

5. Invisibles and capital

All payments for invisibles abroad require prior approval of the Minister of Finance, who has delegated approval authority either to the Directory of the Treasury (Exchange Control Service) or to the national banks. Specified limits apply on the sale of foreign exchange for a number

Directory of the Treasury (Exchange Control Service) or to the national banks. Specified limits apply on the sale of foreign exchange for a number of current invisibles. The annual limit on tourist travel by residents is equivalent to FMG 100,000 per traveler (FMG 50,000 for a child under ten years of age). For business travel, foreign exchange may be purchased up to a daily limit of FMG 10,000 per person, subject to a maximum of FMG 300,000 per annum. Authorized banks may not sell foreign banknotes in excess of the equivalent of FMG 20,000 per person per trip for tourist or business travel. There are also basic limits for educational expenses and certain other current invisibles. Applications for the sale of foreign exchange for other categories of invisibles are considered by the Ministry of Finance and Economy at its discretion.

Foreigners working in Madagascar are allowed to transfer the savings from wages and salaries earned upon presentation of the work contract and employment permit, provided the transfer takes place within three months of the pay period. The transferable amounts are limited to up to 25 percent of the net salary for bachelors and persons who have their families with them and up to 45 percent for those whose families live outside Madagascar. The transferable amounts are equivalent to 100 percent of the salaries for both of the above two categories of transferees for vacation periods spent outside of Madagascar, subject, in all cases, to a maximum limit of FMG 300,000 per person per month.

Nonresident foreigners may transfer dividends in full when distributed by industrial enterprises and up to 75 percent when distributed by other firms. Applications for such transfers must be presented through commercial banks to the Central Bank. Applications that have been approved by the Central Bank are forwarded to the Ministry of Finance and Economy for approval of the remittance of the corresponding foreign exchange. The application is then returned to the Central Bank for remittance of foreign exchange. Applications are verified to determine whether the amounts constitute bona fide dividends; this requires the presentation of proof that amounts to be transferred are compatible with the cash flow requirements of the company and that tax obligations have been met. As noted above, there are substantial arrears on transfers of bona fide dividends.

All foreign direct investments in Madagascar and direct investments by Malagasys abroad require the prior approval of the Minister of Finance and Economy. Exempt from this approval requirement are investments in the form of an increase in capital by way of reinvestment of undistributed profits. As noted earlier, all foreign borrowing is subject to the approval of the Minister of Finance and Economy.

Madagascar: Summary of the Tax System, June 1983

Tax	Nature of tax	Exemptions and deductions	Rates
1. Taxes on incomes and profits			
1.1 Taxes on companies			
1.11 Company profits tax (Impôt sur les bénéfices des Sociétés - IBS)	Annual tax on profits from any source earned by an enterprise domiciled in Madagascar as well as revenue produced by assets or a business activity in Madagascar.	- Revenue earned by proprietorships - Interest paid by the Caisse d'Epargne de Madagascar - Interest on Treasury bills and development bonds - Interest paid by the Treasury on the national loan	45 percent
1.12 Financial transaction tax (Impôt sur le revenu des capitaux mobilier - IRCM)	Annual tax on the proceeds of financial participation in the capital of enterprises, applied to distributed profits.		25 percent in general; 45 percent in bearer bonds.
1.13 Incorporation tax (Taxe d'incorporation)	Annual tax on profits or reserves incorporated into the equity capital of enterprises.		8 percent
1.14 Professional tax (Taxe professionelle)	Annual tax on the income generated by any business activity in Madagascar.	Salaries; university restaurants and canteens; farmers (owners); fishing and hunting; agricultural enterprises; artists, directors of technical and general schools; paper salesmen; local authorities wholesale activities; sanitary operations of enterprises; intermediaries in public markets for goods financed by foreign aid; procurement services of enterprises.	Determined by specific list in tax code. For real property, determined by examination of losses, comparison with normal rents, and direct inspection.
1.2 Taxes on individuals			
1.21 Tax on nonwage income (Impôts sur les revenus nonsalariaux - IRNS)	A tax on the nonwage income of persons resident in Madagascar or from a source located in Madagascar.	Net income from real constructed property that serves as a principal residence; interest paid by the Caisse d'Epargne de Madagascar; interest on Treasury bills and development bonds; interest paid by the Treasury on the national loan.	Rate calculated by formula: $\frac{\text{taxable income}}{\text{taxable income + FMG 7 million}}$, up to a maximum rate of 60 percent.
1.22 Tax on wage income (Impôts sur les revenus nonsalariaux et assimilés - IRSA)	Income tax on wages and pensions, collected at source. Imported income is charged for ownership of vehicles and houses, e.g., FMG 20,000 per month per vehicle and 10 percent of gross salary for owner-occupied house.	Permanent or temporary payments for insurance claims; family-related transfers; work-related indemnities for costs; payments related to honorary awards; military wages; remuneration of majority partner-managers of limited liability enterprises; interest paid by the Treasury on the national loan.	Rate calculated by formula: $\frac{\text{taxable income}}{\text{taxable income + FMG 1.1 million}}$, with a maximum marginal rate of 60 percent.
2. Taxes on property			
2.11 Tax on land	Tax on estimated productive value of land, based on type of crop use. Receipts transferred to local governments.	State and local government land; land newly planted within last 5 years (10 years for replanting of coffee trees).	Rate varies according to usage of land. Ranges from FMG 25 per ha. for pasture, FMG 125 per ha. for rice land, FMG 450 for coffee and sugar land, to FMG 1,500 per ha. for nonagricultural use.