FOR AGENDA

EBS/83/235

CONFIDENTIAL

November 2, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Madagascar - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Madagascar. A draft decision appears on page 33.

This subject 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)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

DEMOCRATIC REPUBLIC OF MADAGASCAR

Staff Report for the 1983 Article IV Consultation

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

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

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

November 1, 1983

I. Introduction

The 1983 Article IV consultation discussions with Madagascar were held in Antananarivo during the period of July 19-August 4, 1983. The representatives of Madagascar included Mr. P. Rakotomavo, Minister of Finance; Mr. J. Robiarivony, Director General of the Plan; and Ms. R. Razafintsalama, Director General of the Central Bank. The mission also met with representatives of the Ministries of Agriculture, Industry and Commerce, and the three commercial banks. The staff representatives were Mr. R. Bhatia (head-AFR), Mr. R. Stillson (AFR), Mrs. M. Tyler (ETR), Messrs. S. Schiavo-Campo and M. Gilman (both AFR), Ms. Z. Abdallah (AFR-secretary). Ms. C. Kimes (IBRD) also participated fully in the mission. Mr. B. Tshishimbi, Alternate Executive Director for Madagascar, attended the discussions during the last week of the mission.

Since June 1980 Madagascar has made extensive use of Fund resources under three successive stand-by arrangements, the latest of which was approved by the Executive Board on July 9, 1982 in an amount of SDR 51 million (100 per cent of quota). Although progress was achieved, especially under the last program, none of the three stand-by arrangements remained operative through the expiration date, owing to nonobservance of various performance criteria. As of September 31, 1983 Fund holdings of Malagasy francs were equivalent to 368.1 per cent of quota, including gross purchases under the compensatory finance facility equivalent to 100 per cent of quota; as a ratio of the proposed quota, under the eight general review of quotas, Fund holdings of Malagasy francs were 282.7 per cent, or 205.9 per cent if purchases under the CFF are excluded. Appendix I contains additional information on Fund relations. Appendix II contains selected economic and financial indicators.

As of end-June 1983 Madagascar's total debt outstanding (including undisbursed) under IDA credits and IBRD loans amounted to US$419 million, in addition to IFC investments of US$20 million. Two major IDA credits were approved in 1983, for assistance to rice production and for road rehabilitation, in amounts of US$18 million and US$45 million, respectively. Sector lending for agriculture and for industry is under active consideration. The Bank, in cooperation with the Fund, organized a consultative group meeting in Paris on April 27-29, 1983, to help mobilize the additional financial support for the Malagasy authorities' investment program. Madagascar's relations with the World Bank Group are summarized in Appendix III. Fund and Bank staff have cooperated closely and constructively in major issues of concern to Madagascar's adjustment and development effort.

II. Background and Long-Term Trends in the Economy

Agriculture dominates Madagascar's economy, accounting for 41 percent of GDP at current prices in 1982, employing 85 per cent of the workforce, and providing 90 per cent of exports (including processed agricultural products). The most important agricultural commodity is rice, the basic food staple of the country, which accounted for about one half the total area under cultivation in 1982. Madagascar has one of the highest per capita consumption of rice in the world, and government policy has put a high priority on ensuring ample rice supplies, including importing large quantities of rice (equivalent to 20 per cent of total imports in 1982). 1/ Madagascar's exports are dominated by coffee, cloves, and vanilla, which represented about 69 per cent of total exports in 1982, but Madagascar has the potential to produce substantial amounts of other agriculturally based exports, including cotton cloth, meat, fish and shellfish, pepper, and cocoa.

The services sector is the second largest in the economy (41 percent of GDP), a fourth of which consists of public wages and salaries. The industrial sector accounted for about 15 per cent of GDP in 1982 and is dominated by the food processing and textiles industries. The country is characterized by sharp economic disparities between regions, which are, in part, caused by relatively long distances between agricultural and industrial producing areas and their major markets and shipping points, and insufficient transportation links between those areas. In principle, prices, imports and credit are controlled by the Government, although in 1983 there have been substantial moves to liberalize prices, particularly in the rice sector.

The public enterprise sector grew rapidly in the 1970s, and by the end of the decade comprised the nationalized banks and insurance companies, about 90 parastatal organizations active in agriculture, and

1/ Rice importing policy is based on the provision of about 1 pound of rice per person per day, an amount almost three times the world average.

virtually all large industrial enterprises, in addition to transport and public utilities. There are indications that by 1980 the public enterprise sector was on balance having an adverse effect on the efficiency of allocation of resources, especially in agriculture, as well as being a serious drain on the budget. From 1981, however, an effort was begun by the authorities to supervise more closely the activities of these enterprises (particularly in the area of investment), to allow substantial price increases for their output, and to rationalize the financial and economic structure of the sector.

From 1971 through 1978 Madagascar experienced no real overall growth, although private consumption and gross investment grew by about 5 percent in real terms while public consumption fell. The percentage distribution of consumption and investment in GDP along with the resource gap is shown in Chart 1. Chart 2 shows the percentage distribution of the fiscal and external deficit in GDP, along with an index of GDP. In 1978 Madagascar embarked on a major investment program concentrated on education and transportation equipment 1/, financed primarily by foreign borrowing. Real GDP increased by just over 10 percent in the two-year period 1979-80, pushed up by an unsustainable level of investment and foreign borrowing. In 1979 gross investment more than doubled, and it increased by a further 7 percent in 1980; in SDR terms, imports increased by 76 percent in 1979 and by a further 14 per cent in 1980. The current account deficit of the balance of payments increased four fold in 1979 and increased again by 27 percent in 1980. To finance this large increase in the current account deficit, outstanding and disbursed external debt in SDR terms more than tripled between end-1978 and end-1980, to over one third of GDP, with the largest increases in 1979 coming from suppliers and financial institutions on relatively onerous commercial terms. 2/ This borrowing was still insufficient to finance the current account deficit in 1980, and arrears were incurred, estimated at SDR 174 million, equivalent to 28 per cent of imports in that year.

The large increases in investment and foreign borrowing in 1979 and 1980 were reflected in the fiscal and monetary outturns. Government capital expenditures increased threefold in 1979 and

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1/ Actual investment during this period was more heavily concentrated on education and transportation equipment than was indicated in the 1978-80 plan. An example of the startling increases in education in only two years is the fact that in 1980 the number of university students was around 30,000, compared to 11,000 in 1978. The investment in transportation equipment included purchase of a Boeing 747 aircraft and a number of ships.

2/ In 1979 new foreign loans contracted are estimated at SDR 379.7 million, of which SDR 235.3 million were from suppliers and financial institutions; in 1980 drawings on foreign loans totaled SDR 320.7 million. These magnitudes compare to total exports in 1979 of SDR 304.9 million and in 1980 of SDR 335.3 million.

by another 32 percent in 1980; and the overall central government deficit increased fourfold in 1979, to 13 percent of GDP, and by another 59 percent in 1980, to 18 percent of GDP. Even with the substantial foreign financing, the greater part of these deficits was financed by the domestic banking system, whose outstanding claims on Government increased almost fourfold between end-1978 and end-1980. This increase in bank finance to the Government is likely to have crowded out some nongovernment bank credits, as the proportion of nongovernment credit in total outstanding bank credit fell from 68 percent at end-1978 to 46 percent at end-1980. The money supply, however, increased by only about 20 percent in each of these years, the increase being moderated by the sharp drop in net foreign assets.

In view of the deteriorating external position, Madagascar requested assistance from the Fund, which, in June 1980, approved a two-year stand-by arrangement for an amount equivalent to SDR 64.45 million (EBS/80/136). The core of the financial program supported by the stand-by arrangement was a reversal of the expansionary fiscal policy, control over external borrowing, and elimination of arrears. However, key elements of the program were not observed, and no purchases were made after an initial purchase of SDR 10 million.

In 1981, with debt service payments estimated at SDR 146.2 million, or 43 percent of exports of goods and services, and prospects of a further substantial deficit in the external accounts, Madagascar entered into a new 14-month stand-by arrangement with the Fund in an amount equivalent to SDR 109 million (EBS/81/77). Also, a Paris Club rescheduling was organized, which in 1981 provided SDR 64.3 million in debt service relief, and there was a consolidation of SDR 9.0 million of arrears. The major policy elements of the financial program supported by this stand-by arrangement were, as in the 1980 program, a reduction of the central government deficit, to 9 percent of GDP; a reduction in external arrears through cash repayment of SDR 36.4 million; and a limitation on the contracting of new external debt. Performance criteria and program targets on the budget and arrears were not observed, despite a substantial reduction in public investment, and purchases of only SDR 39 million were made under the arrangement. As a result of the shortage of foreign exchange in 1981, import restrictions were severely tightened, and nominal imports fell by 26 percent, in spite of a 48 percent increase in rice imports, and real GDP declined by over 9 percent.

III. Performance Under the 1982 Program and Developments in 1982 and the First Half of 1983

1. Performance under the 1982 stand-by arrangement

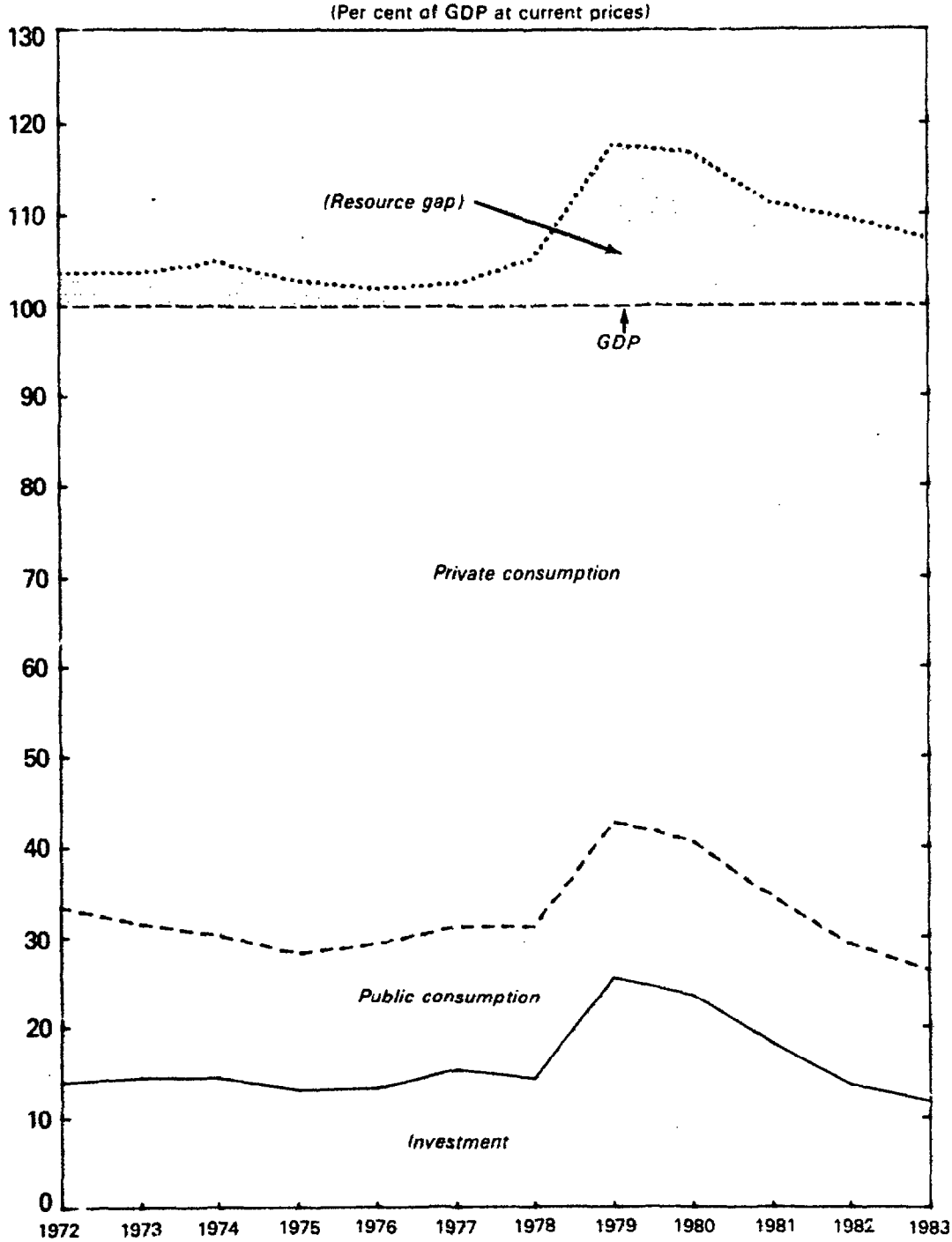
On July 9, 1982 the Fund approved Madagascar's request for another one-year stand-by arrangement (EBS/82/103, June 11, 1982), for an amount equivalent to SDR 51 million. The program's principal objectives

CHART 1

MADAGASCAR

DISTRIBUTION OF USES OF RESOURCES, 1972-83

(Per cent of GDP at current prices)



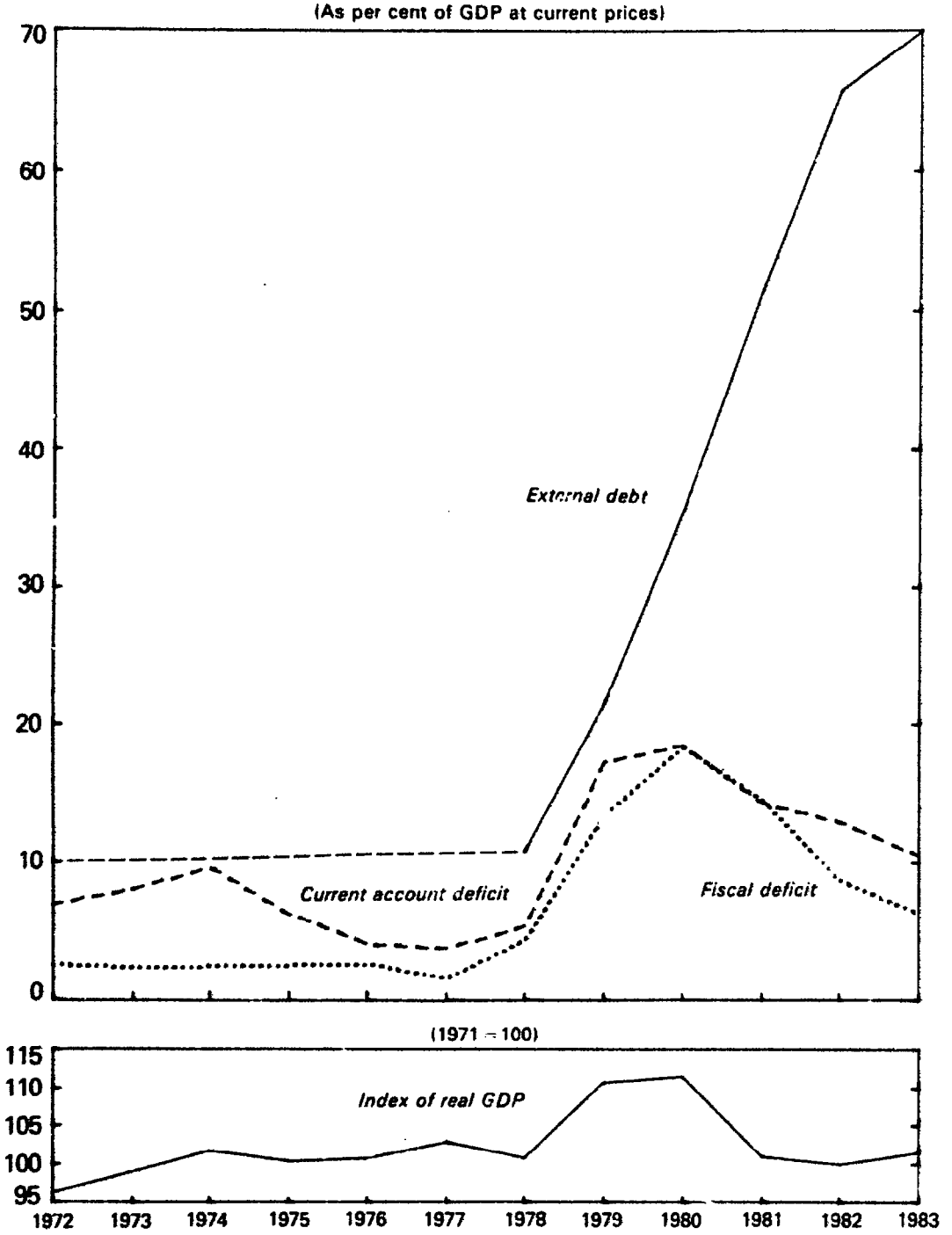
Source: Data supplied by the Malagassy authorities.

CHART 2

MADAGASCAR

MAJOR FINANCIAL INDICATORS, 1972-83

(As per cent of GDP at current prices)



Source: Data supplied by the Malagasy authorities.

were to limit the 1982 current account deficit of the balance of payments to 14.9 percent of GDP, with a reduction in external arrears by cash payments of SDR 30.0 million in that year, and to permit a modest resumption of economic growth, of about 1 percent. The primary policy instruments were substantial changes in pricing policy, particularly for rice, so as to eliminate consumer subsidies on rice, a relaxation of industrial price controls, a devaluation of 15 percent in local currency terms, and a reduction in the overall government deficit to 10.8 percent of GDP.

All performance criteria, except the arrears reduction, and most program targets were observed at end-December 1982. The program was substantially revised, and the Executive Board granted a waiver of the performance criterion on reduction of arrears (EBS/83/55, March 8, 1983) on the basis of new adjustment measures, including a tighter budget policy for 1983 (with the overall deficit to equal no more than 6 percent of GDP), a further depreciation (of 6 percent) of the exchange rate, an increase in deposit rates (by an average of 2.5 percentage points), and further progress on price liberalization. New ceilings were established through June 1983, including that for reduction in arrears on a net cash payment basis, and indicative fiscal targets were agreed for the whole of 1983. Again, while the end-March performance criteria were observed, the end-April performance criterion on the net cash reduction in arrears was not respected and the final purchase under the stand-by arrangement was not made. Tables 1 and 2 give the performance criteria and policy targets, along with actual performance, for both the original and revised program.

2. Principal economic developments and policies during 1982 and the first half of 1983

a. Production and demand

In 1982 real GDP declined by about 1 percent in contrast to the modest growth projected in the program. The national accounts show a 4 percent real growth in the agricultural sector, but this was more than offset by a 12 percent decline in the industrial sector, where a lack of foreign exchange for inputs and raw material caused many companies to curtail or cease operations. 1/ Investment fell by 30 percent in real terms in 1982, with a further notable decrease in

1/ National account estimates for 1982 are provisional and are not completely consistent with the production figures of individual sectors. Data on agricultural production gathered by the Ministry of Agriculture extension staff show declines in 1982 in rice and the major industrial and export crops, and only slight increases in other food crops. However, the general trends shown in the national accounts (an overall fall in output, with industry declining much more than agriculture) should reflect actual trends in 1982.

Table 1. Madagascar: Quantitative Performance Criteria, 1982-83

	1981	1982						1983			
		June		September		December		March/April		June	
	Dec.	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program 1/	Actual
Total domestic credit of banking system (FMG billion)	391.8	429.0	415.3	453.0	431.9	471.0	457.4	477.8	457.2	497.4	477.2
Net credit to Government by banking system (FMG billion)	215.0	235.2	234.8	242.2	239.0	249.2	248.8	266.7	260.7	276.4	258.3
Cumulative reduction by net cash payments of external arrears other than dividends (SDR million) 2/ (reduction -)		--	-6.1	-19.1	-24.7	-49.1	-4.8 3/	-9.0	28.6	-15.0	30.4
Cumulative reduction in external arrears with respect to dividends (FMG billion) (reduction -)		-0.1	-0.1	-0.5	-0.5	-1.0	-1.0	-0.2	-0.2	-0.4	-0.4
New external borrowing of 1-10 years' maturity (French franc million) 4/		167.6	--	167.6	33.2	167.6	97.9	167.6	118.4	167.6	(...)
Of which: 1-5 years' maturity		(167.6)	(--)	(167.6)	(33.2)	(167.6)	(97.9)	(167.6)	(118.4)	(167.6)	(...)

1/ Indicative targets only.
2/ From the level of end-March 1982; stock at that date estimated at SDR 144.8 million under program; revised estimate of stock outstanding at that date is SDR 116 million.
3/ A waiver was granted by the Executive Board, (EBS/83/55, March 8, 1983).
4/ Represents an overall loan agreement denominated in French francs signed in 1981; individual contracts for utilization for the loan were signed were signed in 1982.

Table 2. Madagascar: Principal Policy Measures and Their Implementation, 1982-83

1. Production and prices	
a. Increase in the producer (28 per cent) and consumer (87 per cent) prices of rice, so as to eliminate all subsidies on both domestic and imported rice.	Implemented prior to Executive Board discussion.
b. Increases in producer prices for crops other than rice.	Partial implementation.
c. Reorientation of 1983-85 investment program toward emphasis on quick-yielding projects in agriculture sector and rehabilitation of existing infrastructure.	An investment program along these lines was been prepared, with World Bank technical assistance.
d. Relaxation of price controls, with enterprises allowed to adjust prices by up to a certain percentage without prior government approval.	A significant number of prices charged by state enterprises, particularly for transport and utilities, have been substantially increased. Nevertheless, the government price control was maintained on a case-by-case basis. In 1983 there appeared to be some de facto liberalization but no decree establishing more liberal procedures.
2. Fiscal measures 1/	
a. Cost-of-living increases for public sector employees to be limited to 4.5 per cent in 1982 and eliminated in 1983.	Implemented.
b. Growth of central government labor force to be limited to 4 per cent in 1982 and to 127,500 persons (1.1 percent) in 1983. Limit in 1983 of FMG 84 billion on wages and salaries.	Implemented.
c. Limit of FMG 47.4 billion for nonpersonnel expenditure other than external interest payments in 1982.	Implemented.
d. An inventory of all internal arrears to be compiled and FMG 8 billion of such arrears to be paid in 1982.	Implemented; program established in 1983 to eliminate internal arrears by 1984.
e. Value-added tax to rise from 10 per cent to 15 per cent and scope widened in 1983.	Implemented.
f. Petroleum prices to be raised by 18 per cent in 1982. In 1983 specific taxes and duties replaced by an ad valorem import duty.	Implemented.
3. Money and credit policies	
a. Reintroduction of quantitative credit controls with quarterly global ceilings in 1982.	Implemented.
b. Increase in central bank base rate from 8 to 12.5 per cent, with corresponding increases for lending and deposit rates. Further increase in deposit rates by 2.5 percentage points in 1983.	Implemented.
4. External sector policies	
a. Devaluation of 15 per cent (local currency terms) and move to a trade-weighted basket for exchange rate peg. Further devaluation by 6 percent in local currency terms in 1983.	Implemented.
b. Automatic licensing of priority imports.	Not implemented.

1/ 1983 measures for full fiscal year were indicative targets; these are marked as implemented if current budget projections (September 1983) show that the targets will be attained.

the transport sector, investment in which fell to 7 percent of gross investment from 14 percent in 1980. Private consumption, on the other hand, increased by about 5 percent in real terms, largely insulated from the overall decline by a relative increase in imports of consumer goods, and a large absolute increase in rice imports. Non-government saving fell in 1982 to 4 percent of GDP from 8 percent in 1981.

Consumer price information is gathered for both low-income and high-income market baskets established in 1973 and represents prices in the Antananarivo urban area. During 1982 both price indices increased by about 31 percent, accelerating slightly from a weighted average increase during 1981 of 29 percent. The increases were large in all categories and reflected the combination of the expansionary policies of 1980 and 1981 and increases in administered prices of state enterprises in 1981 and 1982. In the first half of 1983 substantially tightened fiscal and monetary policies began to relieve demand pressures, and, after a 6 percent rise in the first quarter, price increases slowed to only 3 percent in the second quarter.

Production of rice declined in 1982, in part because of a severe cyclone in the early part of the year, which is estimated to have lowered output by about 8 percent. Official marketing of domestically produced rice fell sharply in 1982, to only about 5 percent of the estimated crop. About one half of officially marketed rice is produced in two areas in which large, intensive irrigation investments have been made and in which two agricultural development agencies, SOMALAC and FIFABE, have monopolies on the purchasing, collection, distribution, and processing of rice. These organizations, along with another large publicly owned rice marketing agency (SINPA), experienced serious financial and management problems in 1982, which, along with the controls on the producer price, affected their efficiency and largely account for the continuous drop in officially marketed production in recent years.

In 1982 the Government of Madagascar began a process of liberalization of rice prices and marketing designed to increase production and efficiency. In May 1982 the consumer price of rice, which had been subsidized, was nearly doubled, to FMG 140/kg. for ordinary rice, and the producer price of paddy was raised 28 percent to FMG 60/kg., thus eliminating subsidies on consumption of rice. 1/ In February 1983 the producer price was raised again, to FMG 65/kg. In the spring of 1983 a decree and implementing regulations were promulgated, which allowed for competition in the purchasing, processing, and marketing

1/ In 1980 direct rice subsidies totaled FMG 6.7 billion, 6 percent of current budgetary revenue, and, in addition, parastatal losses on rice marketing are estimated at FMG 4 billion, financed from profits of other activities, notably export activities. Estimates are that subsidies in 1981 were at about the same level.

of domestic rice in most areas of the country and freed from controls the producer price of paddy and the consumer price of domestic rice, subject to a floor producer price for paddy of FMG 65/kg. and a ceiling consumer price for domestic rice of FMG 300/kg. 1/ In the areas served by SOMALAC and FIFABE (called "reserved" areas), their monopoly on the purchase of paddy and the distribution, processing, and marketing of rice has been maintained.

Production of the other main agricultural crops was roughly maintained or increased in 1982, with corfee and cloves increasing from 1981 levels and vanilla slightly down. Trends were also mixed for the most important industrial crops, with sugarcane and groundnuts slightly higher but cotton down. With the exception of vanilla there has been no significant growth in output since 1979. Cotton producer prices were raised substantially in early 1983, and the Government launched a national cotton development program aimed at removing supply constraints. Cotton production in 1983 is expected to show considerable improvement. Sugarcane and groundnuts production have been adversely affected by low producer incentives; ex-factory prices of sugar have not been changed since January 1982, resulting in a decline of about 25 percent in real terms, and nominal producer prices of groundnuts also remained constant during 1982 and the first half of 1983.

b. Government finance

In 1982 there was a substantial reduction in the overall deficit, from 14.6 percent of GDP in 1981 to 8.8 percent, primarily as a result of restraints on expenditure (Table 3). The deficit was FMG 21.5 billion less than programmed in the 1982 stand-by arrangement. Total expenditure declined by 6 percentage points of GDP, with the largest fall in capital expenditure, which declined by FMG 12.0 billion. The proportion of the overall deficit financed by domestic resources fell from 52 percent in 1981 to 42 percent in 1982, and domestic bank finance was well within the program target. This was due in part to the counterpart of concessional loans (FMG 50.6 billion) received from the aid donors' conference in June 1982, part of which was exceptional balance of payments support channeled through the Treasury.

Budgetary revenue increased in 1982 by 17 percent implying an elasticity of 0.65, and was considerably less than the amount envisaged in the program. This was attributable to shortfalls in import taxes, in line with a lower volume of imports, and in indirect taxes, in line with the lower level of economic activity. Nonbudgetary revenue,

1/ Previously state marketing agencies had a monopoly on all official purchasing, processing, distribution, and marketing of rice, and prices for the intermediate steps in production, and the consumer price were fixed by the Government.

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

(In billions of Malagasy francs)

	1979	1980	1981	1982		1983	
				Prog.	Est.	Prog.	Est.
Total revenue	114.4	123.3	119.6	157.8	151.9	189.4	185.8
Budgetary receipts	90.7	100.4	104.4	127.6	121.9	139.5	138.4
Direct taxes	(15.4)	(19.9)	(23.5)	(24.2)	(22.1)	(25.2)	(25.8)
Indirect taxes	(70.6)	(77.3)	(76.9)	(100.3)	(96.7)	(110.8)	(108.1)
Nontax revenue	(4.7)	(3.2)	(4.0)	(3.1)	(3.1)	(3.5)	(3.5)
Other	23.7	22.9	15.2	30.2	30.0	49.9	47.4
Of which:							
FNUP receipts	(19.3)	(15.6)	(15.2)	(26.6)	(26.4)	(34.7)	(36.0)
grants	(...)	(...)	(...)	(3.6)	(3.6)	(9.3)	(11.4)
Total expenditure	-194.3	-250.1	-234.8	-266.5	-238.9	-265.5	-267.7
Current budgetary expenditure	-97.7	-112.9	-112.2	-134.1	-127.4	-144.5	-147.0
Wages and salaries	(-50.8)	(-60.9)	(-68.6)	(-77.4)	(-80.7)	(-84.0)	(-82.0)
Interest on external debt	(-1.5)	(-2.8)	(-4.5)	(-9.3)	(-9.1)	(-9.6)	(-11.9)
Interest on domestic debt	(-0.4)	(-1.2)	(-2.2)	(-0.4)	(-1.8)	(-2.1)	(-3.1)
Other current expenditure	(-45.0)	(-48.0)	(-36.9)	(-47.0)	(-35.8)	(-48.8)	(-50.0)
Capital expenditure	-65.7	-89.6	-84.1	-99.8	-72.1	-78.3	-70.6
Development budget	(-56.4)	(-74.4)	(-62.1)	(-70.8)	(-44.1)	(-51.3)	(-45.8)
On-lending	(-9.3)	(-15.2)	(-22.0)	(-28.0)	(-28.0)	(-27.0)	(-24.8)
Other	-30.9	-47.6	-38.5	-32.6	-39.4	-42.7	-50.1
Of which:							
deferred payments 1/	(-12.7)	(-12.9)	(-14.6)	(-16.8)	(-13.6)	(-16.0)	(-22.1)
Overall deficit	-79.9	-126.8	-115.3	-108.7	-87.2	-76.1	-81.9
Of which: Treasury deficit	(-81.7)	(-108.0)	(-107.5)	(-120.8)	(-95.3)	(-107.8)	(-101.2)
Foreign (net)	35.3	47.9	55.6	68.8	50.4	40.6	45.0
Domestic (net)	44.6	78.9	59.7	39.9	36.8	35.5	36.9
Banking system	(41.9)	(78.2)	(57.8)	(35.0)	(33.9)	(36.6)	(37.6)
Non-bank	(2.7)	(0.7)	(1.9)	(4.9)	(2.9)	(-1.1)	(-0.7)
Memorandum items:			(In percent of GDP)				
Budgetary receipts	15.2	14.5	13.2	12.8	12.2	11.5	11.4
FNUP receipts	3.2	2.3	1.9	2.7	2.7	2.9	3.0
Total receipts	19.2	17.8	15.2	15.8	15.3	15.6	15.3
Current budgetary expenditure	-16.4	-16.3	-14.2	-13.5	-12.8	-11.9	-12.1
Capital expenditure	-11.0	-13.0	-10.7	-10.0	-7.2	-6.4	-5.8
Total expenditure	-32.7	-36.2	-29.8	-26.7	-24.0	-21.8	-22.0
Overall deficit	-13.4	-18.4	-14.6	-10.9	-8.7	-6.2	-6.7
Banking system	7.0	11.3	7.3	3.5	3.4	3.0	3.1

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

1/ Including payments of domestic arrears. It is not possible to separate out net payments of domestic arrears from deferred payments.

consisting primarily of receipts from the Fonds National Unique de Péréquation (FNUP), 1/ increased substantially over 1981, as envisaged in the program, in large part because of the devaluation in May 1982, which increased the local currency counterpart of export receipts.

Current budgetary expenditure was kept below programmed targets, primarily because of restraint on expenditure other than wages or interest payments. The authorities have reinforced the monitoring and control of these expenditures, which succeeded in reducing them from a high of FMG 48 billion in 1980 (43 percent of total current expenditure) to FMG 35.8 billion in 1982 (28 percent of total current expenditure). Wages and salaries increased by 18 percent in 1982 over 1981, a significant decrease in real terms. Capital expenditure was sharply curtailed, continuing its downward trend since the investment boom of 1979-80; in 1982 this category of expenditure was only 80 percent (in nominal terms) of its peak level in 1980. Expenditure financed from FNUP receipts declined substantially in 1982, reflecting a policy agreed in the 1982 program not to undertake investment expenditure from the FNUP account.

The 1983 fiscal program continued the trend toward restraint. Total revenue was projected to increase 25 percent from the 1982 outturn, while expenditures were programmed to increase by 11 percent. The overall deficit was programmed to fall by FMG 11.1 billion to 6.2 percent of revised GDP. Domestic bank finance of the Government was projected to rise slightly from the level in 1982, to FMG 36.6 billion, or 15 percent of the beginning period money supply. Foreign financed capital expenditure was projected to fall in line with reductions in capital expenditure and imports.

In the first half of 1983 the budgetary outturn was even more restrictive than the program envisaged. Total revenue was 32 percent higher than in the first half of 1982, while total expenditure was only 5 percent higher than the similar period in 1982. The overall deficit was much lower than envisaged in the program and outstanding claims on government by the domestic banking system rose by FMG 6.5 billion as against a ceiling of FMG 20 billion. The higher revenue reflected new discretionary measures, including a new unified import duty on petroleum products, increased excise taxes and extension of the value added tax

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1/ This fund receives most of its money from the export commodity stabilization funds which, in turn, receive money from the difference between the fixed price paid to domestic producers, processors and distributors of exports and the actual domestic currency counterpart of export receipts. This price difference represents an implicit export tax, which on some commodities is extremely high (74 percent in the case of vanilla). FNUP expenditures are related to export crop collection, storage, and marketing. In previous years rice subsidies and some capital expenditures were made from this account. Net receipts of the FNUP finance other budgetary expenditure.

to professional activities and the retail trade, 1/ and increased company taxes and a new bi-monthly withholding scheme for company taxes. FNUP receipts increased sharply, reflecting in part, a 6 percent devaluation in February 1983. Expenditures were lower than expected, in part due to a new expenditure control system implemented in January 1983, which is likely to have accentuated the normal seasonality where the majority of expenditures come in the second half of the year. An inventory of domestic arrears was completed for end-1982 showing a level of FMG 19.1 billion (about 8 percent of total expenditure in 1982). Payments on these and other deferred payments are expected to amount to FMG 22.1 billion in 1983.

c. Monetary and credit developments

Monetary statistics over the past three years have been distorted because arrears and other foreign liabilities of the Central Bank were accounted for at their original exchange rates and not adjusted for subsequent exchange rate changes. For most items this led to a considerable undervaluation by the end of 1982. With technical assistance from the Fund, and in accordance with a provision in the 1982/83 stand-by arrangement, the authorities have revalued their foreign liabilities at current exchange rates for end-December 1982 and end-June 1983. In the future these data will be kept current.

Monetary developments in 1982 show a decelerating credit expansion (17 percent) and monetary expansion (10 percent) (Appendix II). Monetary expansion was moderated by the growth in arrears and other foreign liabilities of the central bank. 2/ In the first half of 1983 credit expansion slowed even more and nominal money balances fell. To a certain extent this reflects seasonality in the government accounts, and credit to Government is estimated to expand 14 percent by the end of 1983 and total credit to expand by 17 percent. These projections imply a large increase in velocity of broad money, from 3.8 in 1982 to 4.2 in 1983, after a period of relative stability in velocity, ranging from 3.5 to 3.8, from 1979 to 1982.

Real interest rates turned sharply negative in 1981, as the inflation rate increased (6-12 months real deposit rates were -25 percent). Interest rates were increased in June 1982, by about 4 percentage points, and raised again by up to 2.5 percentage points in February 1983, but the real rates remained sharply negative as the increase in the CPI stayed above 30 percent during 1982. The negative real rates of interest may have been a contributing factor in the rise in velocity in 1983 because of a lagged effect on the demand for money.

1/ The full effect of this measure will be delayed, as the full implementation of this tax requires a census of retail establishments, which will not be completed until the end of 1983.

2/ The domestic counterpart of external arrears are deposited in a blocked account at the Central Bank.

d. The external sector

The balance of payments in 1982 (Table 4) was burdened by the growing debt service, which, prior to the reschedulings obtained from the Paris Club and other official creditors increased 55 percent, after more than doubling in 1981 (Table 5). 1/ Also, drawings on new foreign loans were reduced by SDR 87.1 million to SDR 190.1 million. After the two reschedulings with the Paris Club and with other official creditors, the overall balance remained in deficit by SDR 42 million. Since the Central Bank had virtually run out of foreign exchange (gross foreign assets were only SDR 20.5 million at the end of 1981), the deficit was reflected in a further net accumulation of arrears, and the balance was financed by drawings under the Fund stand-by arrangement and the CFF.

(1) The current account excluding interest payments

In 1982 exports increased by 9 percent in SDR terms to SDR 298 million stimulated particularly by a large price and volume increase in vanilla, the SDR value of which more than doubled. However, export earnings in 1982 were still less than their value in 1979. In 1983 exports are projected to decline slightly to SDR 296 million, reflecting mainly a sharp drop in clove exports.

Exports of the three major crops have been constrained in large part by marketing considerations. Madagascar's coffee quota under the ICO is 45,000 tons/year, whereas marketed production has varied from a high of 65,000 tons in 1980 to a low of 50,000 tons (in 1982) over the past five years. In 1982 8,000 tons were sold to nonquota markets and for 1983 contracts have been signed for about the same volume to nonquota markets. These marketing constraints have been exacerbated in recent year by declines in average quality of exported coffee. In 1983 year, the clove market has been severely constrained because the major part of world demand comes from one country, Indonesia, which is also increasing its own production. As a result, cloves exports are expected to be substantially lower in 1983, following increases in these exports over the past two years. 2/ For vanilla, Madagascar, the Comoros,

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1/ The debt service before rescheduling shown on Table 5, does not exactly match the balance of payments presentation since it includes payments on debt (including arrears) rescheduled in previous years and IMF repurchases.

2/ Export projections for 1983 assumes a sale of 4.5 thousand tons of cloves to Indonesia based on a contract which was expected to be signed in February 1983; however, at the end of August 1983 the contract had not been signed. If these exports are not made in time to receive payment during 1983, exports would be SDR 32 million less than projected, and total exports would be 12 percent less than in 1982.

Table 4. Madagascar: Balance of Payments, 1979-83

(In millions of SDRs) 1/

	1979	1980	1981	1982	1983 Proj.
Exports, f.o.b.	304.9	335.3	274.3	298.1	295.7
Imports, f.o.b.	-512.7	-587.3	-433.2	-409.0	-371.1
Trade balance	-207.8	-252.0	-158.9	-110.9	-75.4
Service receipts	58.9	62.9	55.6	49.7	44.0
Service payments	-219.8	-274.2	-268.1	-272.0	-268.6
Freight	-99.3	-113.5	-66.2	-68.1	-58.8
Transport and travel	-45.1	-58.2	-59.3	-55.7	-54.3
Investment income 2/	-13.5	-35.6	-78.3	-90.7	-101.0
Other services	-61.9	-66.9	-63.7	-57.5	-54.5
Services (net)	-160.9	-211.3	-212.5	-222.3	-224.6
Private unrequited transfers, net	5.5	2.9	3.4	-1.3	-1.1
Current account	-363.2	-460.4	-368.0	-334.5	-301.1
(Excluding interest)	(353.3)	(-428.4)	(-292.8)	(-246.4)	(-202.3)
Public unrequited transfers	27.3	32.7	53.1	65.5	59.2
Nonmonetary capital (net)	234.3	288.0	274.8	171.1	175.8
Drawings	248.9	320.7	277.2	190.1	186.2
Amortization 2/	-14.6	-32.7	-66.8	-100.1	-170.7
Rescheduled debt service 3/	--	--	64.4	81.1	160.3
Principal on regular maturities (net of payments on reschedulings)	(--)	(--)	(44.4)	(57.1)	(134.2)
Interest	(--)	(--)	(20.0)	(24.0)	(26.1)
National banks (net)	4.7	5.1	-18.1	-23.8	--
Allocation of SDRs	3.5	3.5	3.5	--	--
Other 4/	-10.2	-41.6	9.6	79.9	-12.6 5/
Overall balance	-103.6	-176.2	-45.1	-41.8	-78.7
Financing	103.6	176.2	45.1	41.8	78.7
IMF (net)	-3.7	37.7	31.6	47.0	6.5
Changes in arrears (decrease -)	--	174.5	-65.2	55.0	-88.7
due to: Consolidations	(--)	(-44.7)	(-124.2)	(-8.8)	(-119.1)
Accumulations	(--)	)	)	(221.0)	(79.5) 6/
Repayments	(--)	)(219.2)	) (59.0)	(-157.2)	(-49.1) 6/
Arrears consolidated into medium-term liabilities (decrease -)	--	44.7	87.1	-52.4	102.7
New consolidations	(--)	(44.7)	(124.2)	(3.8)	(119.1)
Repayments	(--)	(--)	(-35.0)	(-14.3)	-16.4 7/
Repayments due but not made	(--)	(--)	(-2.1)	(-46.9)	(...)
Other Central Bank reserves, (net) (increase -)	107.3	-80.7	-8.4	-7.8	10.5
Assets (increase -)	(43.3)	(-13.8)	(-7.8)	(-7.3)	(0.2)
Liabilities (decrease -)	(64.0)	(-66.9)	(-0.6)	(-0.5)	(10.3)
Remaining gap	--	--	--	--	47.7

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

1/ Converted at the following rates per SDR 1: FMG 274.83 (1979), FMG 275.01 (1980), FMG 320.41 (1981), FMG 386.08 (1982), and FMG 445.8 (1983).
2/ Before debt rescheduling.
3/ Debt reschedulings obtained thus far under Paris Club I and II through June 1983, from certain other official creditors, and from the London Club group of banks under agreement reached in principle.
4/ Includes valuation adjustment, short-term capital, and errors and omissions.
5/ Represents delays in export proceeds assumed at 5 percent of export value except for exports of cloves.
6/ Estimates for January-June 1983.
7/ Scheduled total repayments in 1983; differs from previous years where actual repayments are shown.

Table 5. Madagascar: Impact of Rescheduling on External Debt Service 1/

(In millions of SDRs) 2/

	1981	1982	1983
A. Debt service before rescheduling	135.6	210.2	280.6
Interest (incl. moratorium interest on debt rescheduled on previous years)	61.4	87.5	96.4
Principal on regular maturities 3/	66.8	100.1	170.7 4/
Payments on previously rescheduled regular maturities	--	2.9	3.9
Payments on arrears consolidated in previous years	--	14.3	6.0
IMF repurchases	7.4	5.4	3.6
B. Amounts rescheduled 5/	-68.3	-84.6	-167.4
Interest	-20.0	-24.0	-26.1
Principal (gross)	48.3	-60.6	-141.3
Paris Club I (1981)	(-31.4)	(--)	(--)
Paris Club I (Jan-June 1982)	(--)	(-19.3)	(--)
Paris Club II (July-Dec. 1982)	(--)	(-24.2)	(--)
Paris Club II (Jan-June 1983)	(--)	(--)	(-25.2)
Other countries 6/	(-13.7)	(-15.2)	(-50.8)
Private	(-3.2)	(-1.9)	(-65.3)
C. Payments on reschedulings during any given year	52.6	1.3	15.9
Moratorium interest	13.7	0.7	2.4
Payments on rescheduled regular maturities	3.9	0.6	3.1
Payments on consolidated arrears	35.0	--	10.4
D. Debt service after rescheduling of any given year (A - B + C)	119.9	126.9	129.1
E. Exports of goods and services	329.9	147.9	339.7
A/E ratio	41.1	60.4	82.6
D/E ratio	36.3	36.5	38.0

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

1/ Includes reschedulings obtained thus far from Paris Club through June 30, 1983, from certain other official creditors through September 1983 and from the London Club group of banks based on an agreement in principl expected to be signed in November 1983.

2/ Converted at the following rates for SDR 1: FMG 320.41 (1981), FMG 386.08 (1982), and FMG 445.8 (1983).

3/ Excluding unconsolidated arrears.

4/ Includes FMG 29.11 billion (SDR 65.3 million) of regular principal due to banks in 1983 on debt not in arrears. The counterpart is added to amounts rescheduled (under category "private") in accordance with the agreement reached in principle and expected to be signed in November 1983.

5/ Excluding arrears.

6/ Certain Arab and COMECON countries.

and La Réunion have almost a world monopoly, and the world market could not absorb substantial increases in supply without greatly affecting the price. Other agriculturally based exports include cotton cloth, meat, fish, pepper and sugar, which have substantial potential for expansion, but which accounted for only about 10 percent of exports in 1982.

Imports in 1982 declined by about 6 percent in SDR terms and are expected to decline again in 1983 by another 7 percent. They have declined in each year beginning 1981 and are expected to be 29 percent less in 1983 than their value in 1979. However, rice imports grew sharply in 1982, to 356 thousand tons (from 192 thousand tons in 1981), 75 percent of which was paid for with Madagascar's own foreign exchange. For 1983, rice imports are expected to be kept to 183 thousand tons, and the volume of nonrice imports is expected to drop to less than the level of 1978.

Given these trends in the trade accounts, and the reduction in the noninterest services account from the high level in 1980, the current account excluding interest payments has shown a steady improvement since 1980, with the deficit being reduced by more than half, from SDR 428.4 million in 1980 to a projected SDR 202.3 million in 1983.

Public transfers and drawings on loans declined sharply in 1982, from SDR 330.3 million in 1981 to SDR 255.6 million in 1982, and are expected to remain at about this level in 1983. The decline was the result of a reduction in 1981 and elimination in 1982 of exceptional balance of payments financing, which in 1980 amounted to SDR 57.2 million, and of the reduction in investment noted above. Amounts drawn from Donors Club commitments (in 1982 and 1983) partially made up for the above loss.

(2) External debt service

Debt service before rescheduling reached SDR 210 million, 60 percent of exports of goods and services in 1982, and is projected at SDR 280 million in 1983, 83 percent of exports of goods and services.

In 1981 a Paris Club rescheduling was arranged, followed by a second rescheduling in 1982. The impact of these reschedulings, along with rescheduling obtained in 1981-83 from other creditors and from the London Club group of banks (under an agreement reached in principle) is shown in Table 5. The amounts rescheduled amounted to SDR 320.3 million during the three years, about 50 percent of the regularly scheduled debt service due in those years. However, net debt relief was slightly less, due to downpayments on the rescheduled amounts and moratorium interest due on these reschedulings and on arrears consoli-

dations (a total of SDR 1.3 million in 1982 and SDR 15.9 million in 1983). Net debt relief in the three years amounted to SDR 240 million, or about 40 percent of the regularly scheduled debt service in those years.

Debt service payments to banks are an important part of scheduled debt service, although not the majority of it. In 1982 and 1983 interest owed to banks, including on short term lines of credit, was 30 percent and 35 percent, respectively, of interest payments, after rescheduling, in spite of the fact that bank debt is only 10 percent of total debt in 1982. Negotiations with the London Club group of banks began in June 1982 to reschedule the whole of outstanding bank debt (US$195 million, out of which US$70 million was arrears on principal payments). An agreement with the group's steering committee was reached in March 1983, with the proposals to be forwarded to individual banks. A further agreement in principal was reached in September 1983 to provide for a grace period for principal payments during 1983 and 1984.

Consolidations of arrears (see below) and reschedulings have given rise to moratorium interest payments on the amounts rescheduled and consolidated, which in 1982 amounted to SDR 19.8 million, or 31 percent of total interest payments after rescheduling. In 1983 moratorium interest payments are expected to be SDR 32.9 million or 45 percent of total interest payments after rescheduling. In 1983 interest payments after rescheduling are estimated to amount to 56 percent of total debt service and 21 percent of exports goods and services. There are substantial arrears on the moratorium interest payments and on payments in respect of rescheduling and consolidations of arrears.

(3) Arrears

Since 1980 the buildup of arrears has represented a major element in the balance of payments. In 1981 new accumulations on a net cash basis are estimated at SDR 59 million (compared to a current account deficit of SDR 368 million) and in 1982 at SDR 63.8 (compared to a current account deficit of SDR 334.5 million). In the first six months of 1983, SDR 30.4 million in new arrears were accumulated on a net cash basis. 1/ Through the first half of 1983, SDR 206 million in

1/ The estimates for stocks of and changes in arrears before June 1983 are mainly based on valuations at original exchange rates, unadjusted for changes in rates after the date the arrears were incurred. Some revaluations of changes in arrears were made during 1982 and the stock of arrears was partially revalued at the end of 1982. The stock was further readjusted at June 1983, at which time it amounted to SDR 107 million, and will be adjusted monthly on the basis of current exchange rates.

arrears have been consolidated into medium-term loans; since then SDR 29 million has been rescheduled with other official creditors and agreement has been reached in principle for the consolidation of arrears outstanding to commercial banks at the end of 1982.

e. Exchange rate

The Malagasy franc continued to be pegged to a basket of several currencies, a system adopted on April 2, 1982. The weight assigned to each currency in the basket is based on the distribution of Madagascar's trade during 1973-80. A devaluation on May 17, 1982, by 15.0 percent (in local currency terms) against the currency basket was followed by further devaluations by 6 percent, 2 percent and 10.5 percent on January 31, July 8, and October 3, 1983, respectively. As a result, the real effective exchange rate has been roughly maintained at the May 1982 level.

IV. Report on the Discussions

The discussions centered on the new policies promulgated in 1983, particularly in rice pricing and marketing, and on prospects for the whole of 1983 and the medium term. The policies governing the allocation of resources (pricing, marketing, import controls, credit controls, and the exchange rate) will be the primary instruments to guide medium term developments. The discussions on medium term prospects focused on the external debt servicing, since it is clear that financing this debt service would cut deeply into foreign exchange earnings and would provide the most important single constraint on economic developments in the coming three to four years. Apart from debt service, the discussions on medium-term prospects focused on the potential of the economy over a three- to four-year horizon to increase production, primarily of agriculturally based exports and import substitutes.

1. Agricultural policies and prospects

a. Rice

The Malagasy authorities explained that rice output in 1983 was expected to be about 9 percent above output in 1982 and that officially marketed production would be well above the amount marketed in 1982, as the weather conditions were favorable and output was recovering from the cyclone-induced low level in 1982 but was still 36 percent less than the amount marketed in 1980. They also felt that part of the explanation of the increase in production and marketing was due to an improvement in the efficiency of SOMALAC and FIFABE, which were expected to show improved financial results in 1983. The authorities felt that, under ideal conditions, large increases in production should be possible (with perhaps up to a 10 percent annual increase in yield and a 10 per-

cent annual increase in area under cultivation), particularly in the three main producing areas (two of which are served by SOMALAC and FIFABE). This would require substantial expansion of extension services including technical advice, inputs, credit, and marketing.

The authorities recognize that pricing and marketing policies are also likely to be crucial in supporting any sustained increase in output, and for this reason promulgated the liberalization reform in May 1983. However, the authorities still wanted to protect producers and consumers from extreme price fluctuations with a minimum producer price and a maximum consumer price. The maximum consumer price has been set substantially above free market prices during most of the year but may still constrain consumer prices in the period of relative scarcity right before the harvest. The staff was concerned that some provisions in the new regulations, such as licensing requirements for rice traders and the exclusion of the areas served by SOMALAC and FIFABE from free competition, would continue to affect adversely the incentives for paddy farmers and distributors to expand. The authorities explained that the licensing provisions were not intended to restrict competition; licensing fees were small, the number of licenses was not restricted, and the issuance of the license was dependent only on the honesty and reliability of the applicant. The reserved areas were necessary to ensure the financial stability of the two agricultural development agencies and to finance their provision of irrigation and extension services to producers in these areas. Quantitative information on the results of the new pricing and marketing measures was not yet available, but the authorities felt that the large price differences between parallel and official markets that existed prior to May 1983 had disappeared.

b. Other agricultural products

The production of coffee has stagnated in recent years, and the quality has deteriorated on average. A program to provide productivity improvements over about 70 percent of the coffee-growing area, primarily through improvements in extension services, called Opération café, has been in operation for several years, but it is unlikely that output will increase, and, in any event, an increase in output would be difficult to market. For cotton, the new cotton development program was likely to achieve short- and medium-term results. For other agricultural products, the emphasis has been on overcoming marketing difficulties and solving industry-specific problems. For example, there is a program to improve the sanitary conditions in the slaughterhouses for export quality meat and a possible joint venture with foreign partners to improve technical and financial performance in fishing.

2. The non-agricultural sectors

The current primary objective of industrial policy is increased utilization of existing capacity and the rehabilitation and maintenance of this capacity. In general the authorities view the primary role of industry as a processor of agricultural products and a provider of inputs and incentive goods for agriculture. Industrial activity is generally directed through import and price controls, with decisions on both being made on a case-by-case basis by an interministerial committee. In 1983 priorities were ordered such as to maintaining capacity utilization in higher-priority enterprises while letting others cut back substantially or close. This policy has resulted in some improvement in foreign exchange allocation and, after a fall of 11 percent in 1982, industrial activity is expected to be maintained or to increase slightly in 1983 in spite of lower foreign exchange availability in the latter year.

The transportation sector has been given priority by the authorities in terms of allocations of investment and imports, with about one fifth of the total public investment program for 1982-85 (about US$950 million) allocated to this sector. Energy consumption has been over 60 percent dependent on wood, and efforts have been made toward diversifying energy resources. Hydroelectric power generation rose by about 50 percent in 1982 with the completion of a power project. Also, oil exploration by several foreign corporations has been proceeding, both in the Mozambique channel and on the land, but, so far, there have been no significant exploitable discoveries.

A significant degree of rationalization, employment reduction, and contraction of the activities of the public enterprise sector took place in 1982 and 1983. In particular, the activities and staffing of the state marketing agencies active in agriculture have been curtailed since the May 1983 decree liberalizing rice marketing. Industrial public enterprises appeared to have improved their financial performance, even in the midst of the economic downturn of 1981 and 1982, and in spite of the relatively restrictive foreign exchange allocation, because the price control administration has allowed substantially greater price increases for state enterprises than in previous years. The only major instruments of state intervention in public enterprise operations are import and price controls, in keeping with the stated rationale of preventing abuses of monopoly power, and government policy in 1982 and 1983 has been for public enterprises to be on the same footing as any private company. In keeping with this orientation, public enterprises are generally subject to the same customs and tax treatment as private companies; subsidies on the current operations of commercial activities were sharply reduced in 1982 in the aggregate and were eliminated in 1983. The Government has also begun a case-by-case evaluation of enterprises' financial, managerial, and economic structure.

3. The budget

Budgetary outlays for the whole of 1983 are expected to be slightly higher than the targets set at the time of the mid-term review of the 1982/83 stand-by arrangement (Table 3). Thus, without further measures, the overall deficit is expected to be about FMG 81.9 billion (6.7 percent of estimated GDP), compared to a program target of FMG 76.1 billion (6.2 percent of GDP), and bank finance to the Government to be FMG 37.6 billion (14 percent of the beginning period money supply), compared to a program target of FMG 36.6 billion (13 percent of the beginning period money supply).

With the introduction in January 1983 of a new, centralized expenditure control system, expenditures in the first half of the year were unduly low but are expected to recover in the second half of the year. Under the new system all nonsalary current expenditure commitments and billing are being monitored at the level of the Treasury, and payments are not allowed by the spending ministry until Treasury approval is obtained. This has slowed some legitimate payments but will result in better expenditure control.

Overall revenue is expected to increase 22 percent for the full year (3 percentage points less than programmed), and tax revenue is currently estimated to increase by only 13 percent, with most of the increase coming from indirect taxes. However, there is some uncertainty with regard to the full-year outcome, due to the uncertain timing of the impact of the new indirect taxes, the delays in extending the new system of withholding of company taxes, and the extension of the domestic sales tax to retail establishments. Thirty-one percent of tax revenue stems from import-related taxes, which are expected to rise 21 percent over 1982 as increased tax rates and expanded coverage should make up for declining import levels. Other indirect taxes are expected to increase 21 percent, with 60 percent of the increase coming from increased profits of the state monopoly on the sale of tobacco and alcohol. FNUP receipts are expected to increase by 36 percent over 1982, reflecting the devaluations of May 1982, and February and July 1983. Another source of net nontax revenue or expenditure stems from the Central Bank's rice import operations, whereby the trading profit or loss on imported rice is surrendered to the Government. This operation is expected to continue its record of losses in 1983, despite the cancellation of some shipments of imported rice and large sales from stocks, due to losses on the sale of luxury rice at the price of ordinary rice.

Current budgetary expenditures for the whole of 1983 are expected to increase by 15 percent, declining to about 12 percent of GDP. Personnel and other current expenditures should be held to about the program target, but interest expense will be higher than forecast due to the greater-than-anticipated level of moratorium interest payments

on the rescheduling of external debt. Capital expenditures will be about 11 percent under the program target and only 2 percent over 1982, as this item has borne the major part of the budgetary adjustment. Capital expenditures are expected to be about 21 percent lower in nominal terms than their peak in 1980.

The inventory of domestic arrears as at end-1982 showed that there were no domestic arrears at the level of the Treasury; the arrears were due to spending ministries not presenting bills for payment. The new expenditure control system, which will match bills sent by suppliers with expenditure commitments by spending ministries, should prevent the reaccumulation of domestic arrears. The authorities stated that they would be able to reduce the level of domestic arrears by FMG 10 billion in 1983 and to eliminate them by the end of 1984.

The staff emphasized the importance of achieving the budget targets for 1983 if the momentum of the stabilization policies is to be maintained. This should not require additional tax or expenditure measures but will require maintaining pricing policies to ensure that subsidies to state enterprises do not arise and that the price of imported rice is raised to approximate domestic market levels. This policy would also be desirable so as not to encourage the consumption of imported rice. The staff also suggested that the FNUP and rice operations be separated from the budget, as they are not strictly fiscal operations. The commodity stabilization funds could then be operated outside of the budget to reduce the variance in producer incomes. The rice-import operations cause fluctuations in government net receipts due to changes in ricestocking policy, which is not based on budgetary considerations. Together, the two types of operations are expected to contribute 10 percent of total revenue in 1983.

4. Monetary and credit policy

Since 1982 monetary policy has become more restrictive, accommodating only small increases in economic activity compared to the previous two years. This more restrictive stance was a reflection of and a response to the deterioration in the balance of payments. Even though real economic activity declined and monetary velocity increased, the financial system became highly constrained and increasingly illiquid by the end of 1982.

In the first half of 1983 the liquidity problems of the banking system increased, as deposits declined by almost 7 percent while credit rose by 2 percent. The decline in the availability of financial resources reflected the unexpected worsening in the external arrears situation (domestic deposits are debited by the Central Bank according to the original maturities of external loans) and the strong improvement in the government finances. The reduction in the deposit base and the lack of access to central bank rediscount facilities for all but one

of the commercial banks, when viewed in combination with the relatively illiquid situation of the banks' balance sheets due to the financing of large stocks of cloves, severely limited the ability of the banks to expand credit to the nongovernment economy. In June 1983 the aggregated bank liquid reserves to deposits ratio had declined to 2.8 percent from 5.9 percent at end-1982 and 14.3 percent at end-1981.

The liquidity problems of the banking system were putting in jeopardy the financing of the major summer rice harvest. In April 1983 the Central Bank allowed the agricultural commercial bank to use its rediscount facilities, given the inability of the other banks to supply excess funds in the interbank market. The authorities stated that further borrowing from the Central Bank would be allowed, as well as the reactivation of the interbank market, to meet the temporary credit needs of individual banks. The monetary authorities are currently reassessing the adequacy of institutional arrangements and policy instruments in allocating credit. They will endeavor to expand credit in the second half of 1983 consistent with the need for greater flexibility and taking into account the external situation.

5. The external sector

Discussions on the external sector centered on the difficulties with regard to external debt service, the continued increase in arrears, the potential for exports, and the import program required to support expansion in exports and other economic development. The conclusion of these discussions, which were held within a medium-term perspective of the economy, was that Madagascar would not be able to pay its debt service over the next four years, and provide support for any economic development, without considerable increases in new foreign resources and further debt rescheduling on terms more favorable than those provided in the past.

a. External debt and debt service

The stock of external debt outstanding at end-1982, including arrears was SDR 1.7 billion, or about 66 percent of 1982 GDP. The principal creditors are OECD countries (34 percent of the total), international institutions including the IMF (25 percent), other countries (19 percent) and banks (14 percent). By the end of 1983 this stock is projected to increase to about SDR 2 billion.

Debt service in 1983-87 is shown in Table 6, based on loans contracted through April 1983, after debt reschedulings from the Paris Club through June 1983 and from other official creditors through September 1983, and on the basis of an agreement reached in principle with the London Club group of banks in September 1983. Total debt service on this basis amounts to SDR 129.1 million in 1983, about 38 percent of projected exports of goods and services, and increases by 88 percent to SDR 243.3 million in 1984, about 62 percent of projected exports of goods and services.

Table 6. Madagascar: Projected External Debt Service Payments, 1983-87 1/

(In millions of SDRs) 2/

	1983		1984		1985		1986		1987	
	Am.	Int.	Am.	Int.	Am.	Int.	Am.	Int.	Am.	Int.
OECD countries	30.2	22.9	67.7	39.3	64.6	35.9	65.9	33.2	80.9	26.8
Other countries (including loans for the exceptional financing of the balance of payments) 3/4/	--	--	--	30.5	--	30.5	--	30.5	41.5	30.5
Banks 4/	--	25.4	--	21.8	34.9	19.8	34.9	15.2	34.9	11.5
International organizations	7.9	14.8	31.5	15.4	44.9	14.4	51.9	12.1	44.8	9.2
Of which: IMF 5/	(3.6)	(9.3)	(23.5)	(10.2)	(32.4)	(8.3)	(35.4)	(5.8)	(27.6)	(3.3)
Private non-guaranteed	2.0	0.7	1.8	0.5	1.0	0.4	0.5	0.3	0.8	--
Consolidated arrears	16.4	2.4	22.2	6.2	22.7	3.6	12.9	1.8	3.5	0.4
Short term	--	6.4	--	6.4	--	6.4	--	6.4	--	6.4
Total	56.5	72.6	123.2	120.1	168.1	111.0	166.1	99.5	206.4	84.8
Total debt service	129.1		243.3		279.1		265.6		291.2	

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

1/ Data cover loans contracted through April 1983, after debt reschedulings from the Paris Club through June 1983, from other official creditors in respect of the total debt outstanding at the end of 1982, and from the London Club group of banks based on an agreement reached in principle and expected to be signed by end-1983.

2/ SDR 1 = FMG 445.8.

3/ Certain Arab and COMECON countries.

4/ Repayments on the basis of rescheduling of total debt (including arrears) outstanding at the end of 1982 referred to in footnote 1.

5/ On the basis of purchases outstanding at present.

b. Other items in the balance of payments

The foreign exchange necessary to pay debt service must be generated from a positive current account balance (excluding interest) and new foreign exchange inflows. In 1983 the projected current account balance, excluding interest, shows a deficit of about SDR 200 million, and new inflows of capital are expected to be SDR 245 million, leaving only about SDR 31 million for debt service. 1/ This compares with scheduled debt service payments in 1983, after rescheduling already obtained, of SDR 129.1 million, of which interest payments are SDR 72.6 million, leaving a gap of SDR 98.6 million.

(1) Exports

In 1983 exports of the three major commodities (coffee, cloves, and vanilla) have been primarily constrained by marketing considerations. The output of those commodities has been maintained over the past three years at levels in excess of exports, and substantial stocks have been accumulated. For coffee, Madagascar is facing the well-known marketing problems of all coffee producers, and substantial growth in exports of coffee is unlikely. Clove production has been maintained, but the authorities indicated that marketing problems in Indonesia, their principal market, will provide the main constraint in the future. In the coming three years the authorities expect that clove sales will decline substantially. Projections of 1983 exports assume 4.5 thousand tons (valued at SDR 32 million) of clove exports to Indonesia, but delays in the agreement may result in these shipments not being completed by the end of the year. Current Indonesian development plans call for virtual self-sufficiency in cloves by 1987. Vanilla, Madagascar's third largest export crop, is also constrained by marketing considerations, and the authorities feel that exports should stabilize around the current level (900-1,000 tons) over the next several years.

Madagascar also produces a variety of other crops with potential for increased exports, among them cotton cloth, meat, and fish. With each of these crops, specific problems have resulted in stagnant or declining exports. In the case of cotton, exports remained about 3,400 tons annually from 1977 through 1982. However, an increase in production, which should lead to a substantial increase in exports, was stimulated in 1983 by an increase in producer prices of over 40 percent over the last two years. The authorities feel that 1984 production could reach 37,000 tons (from 25,000 in 1982), which would save substantially on cotton imports and boost exports of cotton cloth. Another product with great export potential is shrimp, which in 1983 is expected to be the fourth largest agriculturally based export. However, the catch has not increased substantially in the last five

1/ This assumes SDR 12.6 million as negative other items, which are due to delays in surrender of export receipts.

years, in spite of the fact that a larger catch would be within ecological limits, because, at current prices and costs, expansion is not profitable. Meat exports have declined to negligible amounts in 1982 and 1983, from over 5 thousand tons in 1980, as health conditions in the livestock herd and difficulties in the slaughterhouses did not allow production of export standard meat; also, the profitability of exports was not as high as for production for local markets.

The staff felt it was clear that Madagascar had considerable potential for diversified exports, but for this to be achieved more attention should be paid to pricing policies, along with the development policies under way. For meat and fish, inadequate export prices were an impediment to increases in export volume, and in the three traditional export crops, inadequate producer prices were an impediment to improvements in quality. In addition, the timely provision of inputs was crucial and should receive the highest priority in the import program.

(2) Imports

Import policy is aimed primarily at supporting the productive sectors and the consumption of rice. In 1983, in spite of the planned reduction in rice imports, they will amount to about SDR 51.4 million or about 12 percent of total imports. The largest portion of these imports are expected to be on commercial terms. Edible oil is the second largest consumer import in 1983, representing about 5 percent of total imports. The structure of other imports in 1983 is expected to be similar to previous years.

Given the extreme difficulties in the balance of payments over the next two years, imports have had to be cut to the minimum necessary to support production. In this regard, the authorities were commended for the reduction in rice imports in 1983. Given the already high per capita consumption of rice and the likely increase in domestic production due to the liberalization program, further cuts should be possible; the authorities are planning for self-sufficiency in rice within three to four years. Cuts in edible oil and other consumer goods imports should be considered to provide more resources for productive inputs, particularly for the agricultural sector. Also, it would improve the ability of firms and other producers to plan output if import licensing could be done within broad quotas, allowing automatic licensing within the quotas and assuring automatic credit lines for approved imports.

6. The exchange rate

In response to staff suggestions that the exchange rate be used as an active instrument of economic policy, because in certain industries, particularly meat and cotton cloth, there was at present a bias against exports, the Malagasy representatives observed that in the traditional

export industries profitability is adequate in spite of the high implicit rates of taxation of exports. They further felt that improvements in infrastructure, particularly in transportation, along with other investments in export industries and the increased efficiency resulting from the liberalization program, should result in increased profitability of the export sector. Nevertheless the authorities intend to maintain their flexible approach to exchange rate policy as part of their commitment to pricing reform.

V. The Medium Term

The medium term outlook will be dominated by the balance of payments, particularly the likely difficulties of servicing the foreign debt. A projection was made of external debt servicing capacity through 1987 (Table 7). It is clear from the table that there are large balance of payments gaps in each year through 1987. Even in the hypothetical case of rescheduling each year on conventional terms, the debt service ratio increases from 44 percent in 1984 to 57 percent in 1987. The primary reason is that the net impact of rescheduling on conventional terms weakens after consecutive reschedulings as reschedulable amounts decline while moratorium interest payments increase, and repayments of previously rescheduled amounts become due.

VI. Exchange Restrictions

Madagascar avails itself of the transitional arrangements of Article IV, but maintains exchange restrictions under Article VIII, Sections 2 and 3 of the Articles of Agreement. In 1982 and 1983 Madagascar has continued to apply comprehensive exchange restrictions and, as noted above, to build up arrears on current payments. All payments of foreign exchange are controlled through foreign exchange budgets administered by an interministerial committee, the Central Bank and representatives of national banks. Specified limits apply on the sale of foreign exchange for certain invisible payments, such as foreign travel and educational expenses. Foreign workers in Madagascar are allowed to repatriate only fixed percentages of their pay, and there are restrictions on the repatriation of dividends of foreign companies. In addition to the external payment arrears on goods and services and principal on foreign debt, there are arrears on the transfer of dividends abroad and on payments of compensation to foreign firms that have been nationalized.

Regarding the transfer of dividends of foreign companies, the Malagasy representatives said that considerable progress had been made to reduce the backlog of applications which had developed since 1981 and to ensure that future requests will not encounter administrative delays. The transfer of additional amounts of bona fide dividends up to a specified limit will be authorized and effected during the remainder

Table 7. Madagascar: External Debt Servicing Capacity, 1983-87

(In millions of SDRs)

	1983	1984	1985	1986	1987
Exports, f.o.b.	295.7	346.5	363.3	395.9	435.5
Imports, f.o.b.	-371.1	-371.0	-375.2	-393.6	-412.8
A. Trade balance	-75.4	-24.5	-11.9	2.3	22.7
Services and private transfers net (excl. interest)	-126.9	-126.1	-127.1	-133.5	-140.1
B. Current account (excl. interest)	-202.3	-150.6	-139.0	-131.2	-117.4
Public transfers	59.2	62.0	62.0	62.0	62.0
Drawings 1/	186.2	171.4	180.0	189.0	198.4
Other items	-12.6	-2.5	--	--	--
C. Balance available for debt service	30.5	80.3	103.0	119.8	143.0
D. Debt service on basis of current reschedulings thus far obtained	-129.1	-243.3	-279.1	-265.6	-291.2
Amortization	(56.5)	(123.2)	(168.1)	(166.1)	(206.4)
Interest	(72.6)	(120.1)	(111.0)	(99.5)	(84.8)
Remaining gap after D	-98.6	-163.0	-176.1	-145.8	-148.2
E. Debt service if future reschedulings obtained in every year 2/	-94.3	-173.0	-220.3	-232.1	-276.1
Amortization	(33.1)	(70.6)	(95.0)	(105.7)	(152.4)
Interest	(61.2)	(102.4)	(125.3)	(126.4)	(123.7)
Remaining gap after E	-63.8	-92.7	-117.3	-112.3	-133.1
F. Debt service ratio on basis of D	38.0	62.3	68.0	66.0	59.7
G. Debt service ratio on basis of E	27.8	44.3	53.6	52.1	56.6

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

1/ For 1983 after Donors Club; for subsequent years before Donors Club.
2/ On terms obtained thus far from Paris Club.

of 1983 and in 1984. With respect to other external payment arrears, the Malagasy representatives said that no increase on a net cash basis would be permitted during the last quarter of 1983 and during 1984. At the same time, the authorities would attempt to regularize outstanding external arrears through consolidations to the maximum extent possible. Regarding the approval of foreign exchange in payment for specified essential imports, the Malagasy representatives stated that an automatic allocation of foreign exchange would be put in place before the end of 1983. Moreover, the Malagasy representatives stated that the existing restrictions would continue to be kept under close review and further gradual relaxations would be undertaken as soon as feasible.

In light of the difficult external situation of Madagascar the staff does not feel that it will be possible to eliminate these restrictions before the next consultation with Madagascar.

VII. Staff Appraisal

In 1982, for the second year in succession, Madagascar's real GDP declined and consumer price increases continued at a high level, notwithstanding the fact that the budgetary deficit (a major element of excess demand in the earlier years) as a proportion of GDP was reduced by nearly 40 percent, credit expansion decelerated, and monetary expansion was moderated. The decline in domestic product, and the increase in prices, reflected the continuing serious balance of payments situation that forced the authorities into a further substantial increase in external arrears. The overall balance of payments registered a deficit of SDR 42 million in 1982, or about the same as in 1981, despite a 30 percent reduction in the deficit on the trade balance. Debt service continued to dominate the external payments accounts; despite the second debt rescheduling obtained under the Paris Club and from other official creditors, actual debt servicing (principal and interest) amounted to SDR 127 million, or 37 percent of exports of goods and services in 1982. Prospects are that 1983 would show little progress in terms of growth, although there has been a substantial deceleration in inflation and a further reduction in the budgetary deficit.

Viewed in isolation, therefore, the economic and financial situation in 1982 (and so far in 1983) must be regarded as extremely worrisome. However, when compared with the immediate past, the developments could be viewed with some guarded satisfaction. In the first place, although the authorities had embarked upon an adjustment program since 1980, real progress in implementing those policies was made only in 1982, when the exchange rate was adjusted within the framework of a flexible exchange policy, producer and (subsidized) consumer prices were raised, the domestic pricing and marketing system was liberalized to a degree, budgetary deficits were reduced, and credit expansion was restrained. Although real GDP declined in 1982, the rate of decline was considerably lower than in the previous year, and may be reversed in 1983. The rate of inflation for 1982, although still high, also turned out to be lower than anticipated in the program supported by the stand-by arrangement approved in July 1982, and is expected to be nearly halved in 1983. As mentioned earlier, the trade deficit in 1982 was less than half that in 1980, and is projected to be reduced further by one third in 1983; a similar improvement was also registered in the current account deficit other than interest payments, which in 1982 was two fifths lower than its peak in 1980, and is expected to be reduced further, by nearly one fifth in 1983.

This favorable reversal in trend is attributable to the commendable recrientation of policy embarked upon by the authorities in the context of the 1982/83 stand-by arrangement with the Fund, and with the support and encouragement of the World Bank. The fact that the overall balance of payments has not shown a corresponding improvement is due to the fact that, as a result of the rapid increase in indebtedness in 1979-81,

debt service has increased to the point where it preempts an insupportably large share of the country's foreign exchange earnings. The medium-term outlook for the balance of payments is also overwhelmed by debt service. Even under relatively optimistic projections for exports and the assumption of self-sufficiency in rice by 1987, and assuming debt rescheduling in every year on terms similar to those obtained in the past two years, the debt service ratio would rise to above 50 percent of exports of goods and services, and the balance of payments gap would increase to over SDR 133 million in 1987.

In this situation, the options open to the authorities are extremely limited. The staff feels that two complementary approaches must be made: (1) the policy reforms introduced in 1982 and 1983 should be continued and extended to provide for as much expansion of exports and import-substitution as is practicable, and (2) creditors and donors should be approached for extraordinary help and understanding in resolving the debt problem and in supporting the adjustment efforts of the authorities. The two approaches are complementary in that creditors and donors must be assured of the continued and reinforced implementation of the recently reoriented policy, and that the authorities may not be able to continue this policy reorientation over the medium term without a resolution of the debt problem and without continued exceptional balance of payments financing.

The staff welcomes, as an essential part of the stabilization efforts, the recent liberalization of the pricing and marketing system for domestically produced rice. While the staff recognizes the importance of considerations that initially prompted the authorities not to extend this liberalization to two of the main rice producing areas (the "reserved" areas), it feels that maintaining the marketing monopoly of SOMALAC and FIFABE in these areas is injurious to providing adequate incentives to producers in those areas. The authorities should, therefore, consider extending the marketing reform to these areas, while ensuring that the agricultural development agencies are adequately remunerated for the irrigation and extension services provided by them through user fees and budgetary transfers. This policy should aid in raising domestic production and reducing rice imports. Pricing and marketing liberalization should also be extended to other products, particularly groundnuts, cotton, fish, and meat. This could begin by raising the producer returns for those products and allowing competitive purchasing and distribution without ceilings on prices. The pace of decontrol of industrial prices should also be accelerated and formalized, although prices of specific commodities on a relatively small "negative list" would continue to be controlled.

The recent progress in bringing the budgetary deficits under control must also be maintained. In this context, the staff welcomes the recent tightening of expenditure controls, as well as the compiling of an inventory of domestic arrears and the intention to eliminate these arrears by end-1984, as a further step toward budgetary discipline. Were the authorities to continue to exercise the restraint shown in 1982 and 1983, the budgetary deficit, as a proportion of GDP, could well be reduced by a further 25 percent in 1984--a target the staff would recommend for the preparation of the fiscal targets for that year.

The authorities should also review the existing banking system, where banks are specialized to undertake operations primarily in specified sectors, as to its adequacy in the context of more liberal production and marketing systems. In the meantime, the monetary authorities must ensure that the credit needs of the revived private commercial and productive sectors are adequately met; the insufficient liquidity of the agricultural commercial bank at the beginning of the 1983 rice marketing season (the first season under liberalized marketing and no fixed producer and consumer prices) is indicative of the risks that the system could be subjected to if proper vigilance is not exercised. The present shortage of liquidity of the banking system as a whole is largely attributable to the large deficit in the balance of payments, but it could be in part alleviated by a further substantial increase in interest rates, which remain highly negative in real terms. Finally, in the monetary sector, large inaccuracies in the statistical base have recently been identified for the foreign liabilities, including arrears, and a corrected base established for the monetary data. The authorities should endeavor to keep the series accurate and, in that respect, the system of reporting from commercial banks should be improved and better coordinated with the import and foreign payments system.

The recent improvement in the financial situation is at least partially attributable to the pragmatic policy adopted by the authorities in respect of the exchange rate. The staff believes that, given the magnitude of the balance of payments problem, and given that Madagascar has a potential in developing several nontraditional exports, the exchange rate should be used as an active policy to maintain the country's competitiveness in the international markets and to provide adequate incentives for producers to expand in those markets.

The continued maintenance of comprehensive exchange restrictions has been necessitated by the critical balance of payments situation. Nevertheless, a modest liberalization of payments for essential imports is being effected before the end of 1983. Moreover, the authorities have indicated their intention to keep the restrictive system under review and to reduce dependence on these restrictions progressively. In view of the above, the staff recommends approval of the restrictions maintained by Madagascar on payments and transfers for current international transactions.

VIII. Proposed Decision

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

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

2. Madagascar maintains restrictions on payments and transfers for current international transactions as described in EBS/83/235 and in SM/83/ . The Fund notes the intention of the authorities to remove these restrictions as soon as possible. In the meantime, the Fund grants approval for their retention until October 31, 1984 or the completion of the 1984 Article IV consultation with Madagascar, whichever is earlier.

MADAGASCAR - Relations with the Fund

(As of September 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 187.7 million, or 368.1 percent of quota, including compensatory financing purchases of SDR 51.0 million (100 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 268.1 percent of quota .
SDR position:	Holdings amount to SDR 24,622 (or 0.13 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

Exchange rate system:	The Malagasy franc is pegged to a basket of currencies with weights based on the pattern of trade. SDR 1 = FMG 461.8 (August 31, 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. A Malagasy delegation visited headquarters in early September 1983 for a financial program to be supported by a new stand-by arrangement.

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

	1980 Actual	1981 Actual	1982 Prog.	1982 Actual	1983 Prog.	1983 Est.
	(Annual per cent changes, unless otherwise specified)					
National income and prices						
GDP at constant prices	0.8	-9.2	0.9	-1.1	1.0	1.6
GDP deflator	15.1	25.2	35.2	28.3	24.7	20.3
Consumer prices 1/	17.1	29.0	51.0	31.2	25.1	23.0
External sector (on the basis of SDRs)						
Exports, f.o.b.	9.8	-18.2	10.1	8.8	6.3	-0.7
Imports, c.i.f.	14.5	-28.8	10.9	-4.4	-4.6	-9.9
Non-oil imports, c.i.f.	8.6	-29.1	11.8	-16.1	-9.8	-15.0
Export volume	-1.6	-26.6	3.0	2.3	3.9	-0.6
Import volume	-1.0	-39.5	8.7	-6.5	-2.7	-5.3
Terms of trade (deterioration -)	-6.9	-3.7	6.0	3.8	2.0	3.7
Nominal effective exchange rate (depreciation -)	-5.6	-8.8	-15.5	-18.1	...	...
Real effective exchange rate (depreciation -)	4.1	4.7	...	-0.8	...	...
Government finance						
Total revenue and grants	7.8	-3.0	31.8	27.0	18.6	22.3
Total expenditure	28.7	-6.0	13.4	1.7	7.2	12.1
Money and credit						
Domestic credit	48.2	22.5	20.1	16.6	16.3	17.0
Government	77.4	34.1	14.9	14.4	13.6	14.0
Private sector	25.1	9.0	27.5	19.8	20.1	22.0
Money and quasi-money (M_2)	19.0	21.4	26.2	10.2	23.3	14.0
Velocity (GDP relative to M_2)	3.3	3.1	3.5	3.8	3.7	4.1
Interest rate (annual rate, one-year savings deposit)	5.65	6.75	10.50	10.50	12.50	12.50
	(In per cent of GDP)					
Overall government savings	-2.8	-3.1	-0.9	-1.4	0.2	-0.7
Overall government financial deficit	-18.4	-14.7	-10.8	-8.8	-6.0	-6.7
Domestic bank financing	11.4	7.4	3.5	3.4	2.9	3.1
Foreign financing (net)	6.9	7.1	6.8	5.1	3.2	3.6
Gross domestic investment	23.4	18.1	18.3	13.7	12.9	11.8
Gross domestic savings	6.9	7.0	7.2	4.3	6.0	4.5
Current account deficit	-18.5	-14.4*	-14.9*	-12.2*	-9.0* 3/	10.4* 3/
External debt						
Inclusive of use of Fund credit	35.6	53.3 4/	50.1 5/	58.5 5/	...	69.2
Debt service ratio (in per cent of exports of goods and services)	14.5	36.3 4/	54.3 5/	36.5 4/	...	37.9 6/
Interest payments (in per cent of exports of goods and services)	7.9	15.7 4/	18.4 5/	17.2 4/	...	21.3 6/

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/ After debt rescheduling, but excluding arrears.
5/ After debt rescheduling already obtained from the Paris Club, through June 1982, but excluding arrears.
6/ On the basis of debt relief thus far obtained in 1983 from Paris Club I and II, the London Club and other creditors.

MADAGASCAR - Relations with the World Bank Group

(In millions of U.S. dollars)

Amounts outstanding as of June 30, 1983	Disbursed	Undis-bursed	Total commitments
Completed projects	112.1	—	112.1
IBRD	32.6		32.6
IDA	79.5		79.5
Projects in execution (IDA)	122.98	193.28	316.10
Forestry	2.09	17.91	20.00
Agriculture and rural development	19.98	54.12	74.10
Education	14.27	11.23	25.50
Energy, power, and utilities	50.37	37.13	87.50
Transportation	34.15	69.85	104.00
Industry and tourism	1.96	3.04	5.00
Total	234.92	193.28	428.20
IBRD	32.6	--	32.6
IDA	202.32	193.28	395.60
Repayments			10.77
IBRD			2.53
IDA			8.24
Debt outstanding (including undisbursed)			419.25
IBRD			30.04
IDA			389.21
IFC investments			19.98

Source: World Bank.