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The Chairman's Summing Up at the Conclusion of the
1983 Article IV Consultation with Madagascar
Executive Board Meeting 83/179 - December 21, 1983

Directors were in broad agreement with the views expressed in the staff paper for the 1983 Article IV consultation with Madagascar.

In recent years there has been a substantial adjustment in fiscal and monetary policy, but this has not resulted in a corresponding improvement in the overall balance of payments, primarily due to extremely high and growing levels of external debt service payments. Despite several debt reschedulings obtained under the Paris Club and from other official creditors, as well as an agreement in principle from the London Club, debt service payments reached 38 percent of exports of goods and services in 1983 and will rise to over 60 percent on average in 1984 through 1987. This debt service burden was seen as unsustainable and, as long as it remained at those high levels, the attainment of balance of payments viability over the medium term would be unlikely. One Director suggested the appointment of a debt coordinator as a useful procedure.

Directors commended the authorities for the substantial policy actions undertaken since 1982, most notably for their fiscal adjustment. The budget deficit, which in earlier years had been a major element of excess demand, had been reduced as a proportion of GDP by nearly 40 percent. Primarily as a result of the fiscal adjustment, credit and monetary expansion decelerated in 1983.

Directors also commended the authorities for the reorientation of pricing policies. A substantial liberalization of pricing and marketing in the rice sector was implemented in the spring of 1983. Exchange rate policy and interest rate policy have become more flexible, and controlled industrial prices have been raised, thus virtually eliminating operating subsidies to industrial parastatals. However, Directors stressed that these reforms need to be reinforced and extended. In the agricultural sector, the planned extension of the liberalization of pricing and marketing of rice to the two producing areas presently reserved for state marketing agencies was considered crucial. More generally, price and marketing liberalization should be extended to other agricultural commodities and industrial goods. The approach to exchange rate and interest rate policy should not only be more flexible but also more aggressive. The maintenance of an appropriate effective exchange rate and the achievement of positive real interest rates were considered crucial objectives.

Several Directors commented on the seriousness of Madagascar's structural problems and on the inappropriate sectoral allocation of investment hitherto. They emphasized the importance of close collaboration between the Fund and the World Bank to bring about improved structural adjustment policies.

Directors recognized that the balance of payments would remain under severe pressure over a number of years, even if all the suggested policy measures were implemented. Given the prospective growth of debt service payments, it would be difficult for Madagascar to attain sustainable growth with external equilibrium over the medium term. Debt rescheduling alone would not be sufficient to lead to medium-term viability in the balance of payments, especially as there was a need for an increase in imports of nonconsumer goods to support medium-term growth. Hence, it is crucial for Madagascar to keep strictly to its stabilization program, to continue its pricing reforms, particularly with a view to increasing the production of efficient import substitutes and exports, and to seek concessionary financial assistance. Considerable emphasis was placed on the necessity of obtaining large amounts of external financing for many years to come.

It is expected that the next Article IV consultation with Madagascar will take place on a 12-month cycle.