

FOR  
AGENDA

EBS/83/255  
Correction 1

CONFIDENTIAL

December 20, 1983

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: Madagascar - Request for Stand-By Arrangement

The following corrections have been made in EBS/83/255 (11/30/83):

Page 1, para. 1, line 5: for "40 percent" read "50 percent"

Page 21, para. No. 3, lines 2 and 3: for "ratio of 1 to 1.2"  
read "ratio of 1 to 1," and delete  
"until purchases from ordinary  
resources reach SDR 7.96 million,"

Page 34, Table I, line 7, column 5: for "-0.7" read "-11.5"

Corrected pages are attached.

Att: (3)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND  
DEMOCRATIC REPUBLIC OF MADAGASCAR  
Request for Stand-By Arrangement

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

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

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

November 29, 1983

I. Introduction

In the attached letter dated November 21, 1983 from the Minister at the Presidency in charge of Finance and Economy to the Managing Director, the Government of Madagascar requests a stand-by arrangement for 15 months in an amount equivalent to SDR 33 million, or 65 percent of Madagascar's present quota (50 percent of Madagascar's proposed quota of SDR 66.4 million). Discussions on the proposed stand-by arrangement began during the 1983 Article IV consultation discussions, July 19/August 4, 1983 (EBS/83/235), continued during a visit to Washington of a delegation from Madagascar, September 8-16, 1983, and concluded during the 1983 Annual Meetings. 1/ As various elements of the program were identified and agreed upon, the authorities began to implement some of them in anticipation of the requested stand-by arrangement.

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

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

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

(In millions of SDRs)

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

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

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

MADAGASCAR - Stand-By Arrangement

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

- (a) the objectives and policies that the authorities of Madagascar intend to pursue for the period of this stand-by arrangement;
- (b) the policies and measures that the authorities of Madagascar intend to pursue for the period through December 31, 1983 of this stand-by arrangement; and
- (c) understandings of Madagascar with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Madagascar will pursue for the remaining period of this stand-by arrangement.

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

1. For a period of 15 months from December , 1983, Madagascar will have the right to make purchases from the Fund in an amount equivalent to SDR 33 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.
2. a. Purchases under this stand-by arrangement shall not exceed SDR 3 million until the review referred to under paragraph 4(c)(i) below has been completed, the equivalent of 9 million until March 31, 1984, the equivalent of SDR 15 million until June 30, 1984, the equivalent of SDR 21 million until September 30, 1984 and the equivalent of SDR 27 million until December 31, 1984.  
  
b. None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Madagascar's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 percent of quota.
3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Madagascar will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Madagascar's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 percent of quota:

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

- (i) the limit on total credit to the economy from the domestic banking system described in paragraph 11 of the attached letter, or
- (ii) the limit on credit to Government from the domestic banking system described in paragraph 11 of the attached letter, or
- (iii) the amount of bona fide requests for dividend transfers described in paragraph 14 of the attached letter,

are not observed; or

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

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

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

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

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

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

MADAGASCAR - Relations with the Fund (concluded)

(As of October 31, 1983)

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

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

	1980	1981	1982	1983		1984
	Actual	Actual	Actual	Prog.	Est.	Prog.
(Annual per cent changes, unless otherwise specified)						
National income and prices						
GDP at constant prices	0.8	-5.4	-0.8	1.0	1.6	1.0
GDP deflator	15.1	25.2	28.3	24.7	20.3	15.0
Consumer prices <sup>1/</sup>	17.1	29.0	31.2	25.1	23.0	20.0
External sector (on the basis of SDRs)						
Exports, f.o.b.	9.8	-18.2	8.8	6.3	-11.5	31.4
Imports, c.i.f.	14.5	-28.8	-4.4	-4.6	-9.9	-
Non-oil imports, c.i.f.	8.6	-29.1	-16.1	-9.8	-15.1	-1.5
Export volume	-0.2	-5.4	10.4	3.9	-23.6	25.0
Import volume	-1.0	-33.5	-11.8	-2.7	-7.7	-3.9
Terms of trade (deterioration -)	5.9	-19.5	-10.3	2.0	14.3	0.7
Nominal effective exchange rate (depreciation -)	-5.6	-8.8	-18.1	...	...	...
Real effective exchange rate (depreciation -)	4.1	4.7	-0.8	...	...	...
Government finance						
Total revenue and grants	7.8	-3.0	27.0	18.6	22.3	...
Total expenditure	28.7	-6.0	1.7	7.2	12.1	...
Money and credit						
Domestic credit	44.8	21.4	17.2	16.3	17.0	...
Government	77.4	34.1	14.4	13.6	14.0	...
Private sector	21.7	8.4	25.0	20.1	22.0	...
Money and quasi-money (M <sub>2</sub> )	19.0	21.4	10.2	23.3	14.0	...
Velocity (GDP relative to M <sub>2</sub> )	3.6	3.5	3.8	3.7	4.1	...
Interest rate (annual rate, one-year savings deposit)	5.65	6.75	10.50	12.50	12.50	...
(In per cent of GDP)						
Overall government savings	-2.8	-3.1	-1.4	0.2	-0.7	...
Overall government financial deficit	-18.4	-14.7	-8.7	-0.2	-6.7	-5.5
Domestic bank financing	11.4	7.4	3.4	2.9	3.1	...
Foreign financing (net)	6.9	7.1	5.1	3.2	3.6	...
Gross domestic investment	23.4	18.1	13.7	12.9	11.8	12.7
Gross domestic savings	6.9	7.0	4.3	6.0	4.5	6.4
Current account deficit	-18.3	-14.9*	-13.0*	-9.0* <sup>3/</sup>	-12.2* <sup>3/</sup>	9.2 <sup>4/</sup>
External debt						
Inclusive of use of Fund credit	34.3	50.5 <sup>5/</sup>	64.4 <sup>6/</sup>	...	69.9	74.1
Debt service ratio (in per cent of exports of goods and services)	14.5	36.3 <sup>5/</sup>	36.5 <sup>5/</sup>	...	38.0 <sup>7/</sup>	62.3 <sup>4/</sup>
Interest payments (in per cent of exports of goods and services)	7.9	16.7 <sup>4/</sup>	18.4 <sup>4/</sup>	...	21.4 <sup>6/</sup>	30.8 <sup>4/</sup>

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