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To. Members of the Executive Board
From. The Secretary
Subject: Madagascar - Recent Economic Developments

This paper provides background information to the staff report for the 1982 Article IV consultation with Madagascar and its request for a stand-by arrangement (EBS/82/103, 6/11/82, and Correction 1, 7/2/82, and Supplement 1, 7/2/82), which, together with a request expected to be received for a purchase under the compensatory financing facility (EBS/82/109, 6/21/82), has been tentatively scheduled for discussion on Friday, July 9, 1982.

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INTERNATIONAL MONETARY FUND

MADAGASCAR

Recent Economic Developments

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	<u>Contents</u>	<u>Page</u>
Basic Data		IV
I.	Production	1
	1. The structure of the economy and overall trends	1
	2. Agriculture	1
	a. Paddy	3
	b. Other food crops	4
	c. Cash crops	5
	3. Livestock and fishing	6
	4. Mining	7
	5. Energy	8
	6. Manufacturing	8
	7. Transportation	11
II.	Employment, Wages, and Prices	12
	1. Employment	12
	2. Wages	14
	3. Prices	15
III.	Development Planning	18
IV.	Government Finance	22
	1. Overall fiscal developments	22
	2. Developments in 1981	25
	3. The 1982 fiscal year	26
	4. Budgetary revenues	28
	5. Government expenditures	31

	<u>Contents</u>	<u>Page</u>
V.	Money and Banking	35
	1. Structure of the financial system and instruments of credit control	35
	2. Interbank money market	36
	3. Overall monetary and credit developments	37
	4. Operations of the Central Bank	39
	5. Operations of the national banks	40
	6. Interest rate structure	40
VI.	Balance of Payments	41
	1. Overall developments	41
	2. Merchandise trade	43
	a. Exports	43
	b. Imports	47
	c. Direction of trade	49
	3. Services	51
	4. Capital movements	52
	5. External debt	52
VII.	Exchange and Trade System	58
	1. Exchange rate system	58
	2. External payments arrears	59
	3. Imports and import payments	59
	4. Exports	61
	5. Invisibles	61

Text Tables

1.	Gross Domestic Product and Use of Resources, 1978-82	2
2.	Production and Marketing of Paddy, 1977-81	3
3.	Index of Industrial Production, 1977-81	10
4.	Employment Situation in 1979	12
5.	Evolution of Nongovernment Wage Employment, 1979-81	13
6.	Minimum Wage Rates for Agricultural and Nonagricul- tural Workers, 1978-81	15
7.	Consumer Price Index, 1978-81	17
8.	Performance Under 1978-80 Plan	19
9.	Composition of Gross Fixed Capital Formation, 1978-80	20
10.	Overall Government Operations, 1979-82	24
11.	Budgetary Revenues, 1979-82	29
12.	Current Budgetary Expenditure, 1979-82	32
13.	Budgetary Capital Expenditure, 1979-82	34
14.	Monetary Survey, 1977-81	38
15.	Balance of Payments, 1978-82	42

	<u>Contents</u>	<u>Page</u>
16.	Exports, 1978-82	44
17.	Foreign Trade Indices, 1977-82	45
18.	Composition of Imports, c.i.f., 1978-82	48
19.	Direction of Trade, 1977-80	50
20.	External Debt, 1979-81, and Projected Debt Service Payments, 1982-86	54
21.	New Foreign Loans Contracted and Estimates of the Structure and Terms of the Loans, 1977-81	56
22.	Indices of Effective Exchange Rates, 1976-82	60

Appendix Tables

I.	Gross Domestic Product and Use of Resources, 1978-82	63
II.	Production and Area Cultivated of Principal Crops, 1978-81	64
III.	Marketed Production and Producer Prices of Selected Agricultural Products, 1978-82	65
IV.	Livestock Population and Slaughterings, 1977-81	66
V.	Fish Catch Marketed, 1977-81	67
VI.	Production and Export of Minerals, 1977-81	68
VII.	Production and Consumption of Electric Power, 1977-81	69
VIII.	Production of Selected Manufactured Goods, 1978-81	70
X.	Overall Government Operations, 1979-82	71
	Budgetary Capital Expenditures, 1982	73
I.	On-Lending, 1979-82	74
XII.	Outstanding Internal Public Debt, 1978-82	75
XIII.	Summary Accounts of the Central Bank, 1977-82	76
XIX.	Summary Accounts of the National Banks, 1977-82	77
XV.	Interest Rate Structure, 1969-82	78
XVI.	Balance of Payments (in SDRs), 1978-82	79
XVII.	Balance of Payments (in Malagasy Francs), 1978-82	80
XVIII.	Central Bank Foreign Assets and Liabilities, 1978-81	81

Table I. Madagascar: Basic Data, 1978-82

<u>Area, population, and</u>					
<u>GDP per capita</u>					
Area	587,041 sq. km				
Resident population (1981)	9.0 million				
Population growth rate (1981)	2.8 per cent				
GDP per capita (1981)	SDR 274				
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u> Est.	<u>1982</u> Proj.
<u>GDP (in current prices)</u>					
Total (in billions of Malagasy francs)	486.6	595.1	689.8	784.0	1,070.0
	<u>(In per cent of GDP)</u>				
Primary sector	38.6	35.7	36.1	36.3	36.1
Secondary sector	19.2	19.2	18.0	14.9	15.1
Tertiary sector	42.2	45.1	45.9	48.8	48.8
Consumption	92.2	94.7	96.6	96.9	96.0
Investment	14.1	22.1	20.7	14.9	14.5
Resource balance	-6.3	-16.8	-17.3	-11.8	-10.5
Gross domestic savings	7.8	5.3	3.4	3.1	4.0
<u>Change in GDP</u>					
	<u>(Annual change in per cent)</u>				
At current market prices	4.0	22.3	15.9	13.7	36.5
At 1970 prices	-2.6	9.8	0.8	-9.2	0.9
<u>Prices</u>					
Implicit GDP deflator	6.8	11.4	15.1	25.2	35.2
Consumer prices (low-income index for Antananarivo)	6.6	14.0	18.2	30.5	51.0
Export prices	-14.3	8.3	30.8	-16.0	11.0
Import prices	12.1	9.5	14.8	7.5	4.8
Terms of trade	-23.0	-1.8	14.3	-21.9	6.0
<u>Public sector finance</u>					
	<u>(In billions of Malagasy francs)</u>				
Revenue	99.0	110.0	116.0	119.5	157.5
Expenditure and net lending	-126.7	-189.9	-242.8	-234.8	-257.8
Of which: current expenditure	(-106.0)	(-118.5)	(-135.1)	(-143.7)	(-158.0)
Overall surplus/deficit (-)	-27.7	-79.9	-126.8	-115.3	-100.3

Table I. Madagascar: Basic Data, 1978-82 (continued)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u> Est.	<u>1982</u> Proj.
Foreign financing (net)	8.2	35.3	47.9	55.6	60.4
Domestic financing (net)	19.5	44.6	78.9	59.7	39.9
Of which: banking system	(18.2)	(41.9)	(78.2)	(57.8)	(35.0)
<u>(In per cent of GDP)</u>					
Revenue	20.3	18.5	16.8	15.2	14.7
Current expenditure	21.8	19.9	24.8	18.3	14.8
Capital expenditure and net lending	4.3	12.0	10.3	11.6	9.3
Overall surplus/deficit (-)	-5.7	-13.4	-18.4	-14.7	-9.4
<u>Money and credit</u>					
<u>(In billions of Malagasy francs; end of period)</u>					
Net foreign assets	7.8	-40.8	-94.4	-125.8	-133.2
Net domestic credit	149.5	220.0	326.1	398.8	478.8
Government	48.5	99.1	175.8	235.0	270.0
Private sector	101.0	120.9	150.3	163.8	208.8
Broad money	140.8	172.9	205.8	243.6	307.4
Income velocity (GDP/Broad money)	3.46	3.44	3.35	3.22	3.48
<u>(Annual change in per cent)</u>					
Net domestic credit	22.1	46.5	48.2	22.2	20.1
Of which: private sector	5.3	19.5	24.3	9.0	27.5
Broad money	17.9	26.2	19.0	18.4	26.2
<u>Balance of payments</u>					
<u>(In millions of SDRs)</u>					
Exports, f.o.b.	323.5	320.2	335.6	285.5	314.3
Of which: coffee	(129.6)	(138.6)	(164.0)	(99.3)	(112.1)
Imports, f.o.b.	-308.7	-542.5	-620.3	-455.7	-519.3
Trade balance	14.8	-222.3	-284.7	-170.2	-205.0
Services (net)	-112.2	-157.2	-179.6	-171.1	-182.1
Private transfers (net)	6.4	5.5	0.7	7.2	9.4
Current account	-91.0	-374.0	-463.6	-334.1	-377.7
Official transfers	41.8	48.8	48.0	50.0	56.1
Nonmonetary capital (net)	51.9	189.5	224.6	203.5	180.4
Public	28.9	128.4	174.8	190.4	166.4
Private	23.0	61.1	49.8	13.1	14.0
Monetary capital	21.6	20.0	5.1	-18.1	--
Errors and omissions	-24.9	-46.8	-0.8	20.7	--
Allocation of SDRs	--	3.5	3.5	3.5	--
Overall surplus/deficit (-)	<u>-0.6</u>	<u>-159.0</u>	<u>-183.2</u>	<u>-74.5</u>	<u>-141.2</u>

Table I. Madagascar: Basic Data, 1978-82 (concluded)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u> Est.	<u>1982</u> Proj.
	(In per cent of GDP)				
Exports, f.o.b.	18.8	14.8	13.4	11.7	11.2
Imports, f.o.b.	17.9	25.1	24.7	18.6	18.4
Current account balance	-5.3	-17.0	-18.5	-13.6	-13.4
<u>Gross official foreign reserves</u>	(In millions of SDRs; end of period)				
Central Bank	44.5	1.0	15.7	27.5	27.5
<u>Public and publicly guaranteed external debt</u>	(In millions of SDRs)				
Disbursed and outstanding (end of period) <u>1/</u>	315.6	511.4	928.7	1,215.2	1,459.9
In per cent of GDP	17.7	22.6	35.6	53.3	51.8
Repayments of principal <u>2/</u>	10.0	16.5	25.2	55.9	130.0
Interest payments <u>2/</u>	10.6	19.3	29.8	48.4	62.3
Debt service ratio <u>2/</u>	5.8	9.9	14.5	32.8	55.1
<u>Exchange rates</u>	(Malagasy francs per SDR)				
End of period	272.3	264.8	288.0	334.5	...
Period average	282.5	274.8	275.0	320.2	380.0

1/ Including obligations to Fund.

2/ On the basis of existing rescheduling agreements.

I. Production

1. The structure of the economy and overall trends

In normal years agriculture provides some 36 per cent of Madagascar's gross domestic product (GDP), as compared with some 45 per cent for the services sector and 19 per cent for industry (Table 1). The services sector has become more important during the last decade, partly as a result of growth in public sector services. However, agriculture still accounts for over three quarters of all exports and provides employment for around 85 per cent of the economically active population. Through 1978 gross investment generally accounted for around 13 per cent of GDP, but a major expansion of capital expenditures by the Central Government and state enterprises raised its share to over 20 per cent in 1979 and 1980. The share of consumption in GDP also rose, so that the savings rate declined and the resource gap widened to around 17 per cent of GDP in these two years. The share of investment declined sharply in 1981, to around 15 per cent of GDP.

Despite a relatively advantageous, diversified resource endowment, Madagascar's economic growth has been slow and erratic. Real GDP has increased at a slower rate than population growth, which is estimated at 2.8 per cent per annum. By 1980 real per capita GDP was some 15 per cent below that of 1970 and has now declined even further. Real GDP grew by 9.8 per cent in 1979 as a result of expansionary demand management policies and a recovery in agricultural production, due to improved weather conditions (Appendix Table I). However, the more rapid growth was not sustained in 1980. Agricultural production continued to grow modestly but was offset by a decline in industrial production largely due to an emerging shortage of imported inputs, so that total real output virtually stagnated. Real GDP fell dramatically in 1981, by an estimated 9.2 per cent. The sharpest declines in output were experienced in industry (23.6 per cent) and nonpublic services (8.9 per cent), which were most affected by the severe foreign exchange constraint. Agricultural output also declined slightly, primarily as a result of drought conditions in several of the principal rice-producing areas.

2. Agriculture

Madagascar has a wide variety of climatic zones and a diversity of soil types. The central plateau, the most economically advanced region, has a subtropical to temperate climate, the northern and eastern regions have a tropical climate and a rich agriculture, but are frequently devastated by cyclones, while the south is the poorest region, with an arid climate and infertile soils. The country's agricultural production reflects this diversity of climates. Rice and manioc are the staple foods, whose cultivation (together with cattle raising) dominates the country's rural activities. The most important cash crops are coffee, cloves, vanilla, sugarcane, and cotton.

Table 1. Madagascar. Gross Domestic Product
and Use of Resources, 1978-82

(In billions of Malagasy francs at current prices)

	1978	1979	1980	<u>1981</u> Est.	<u>1982</u> Proj.
Agriculture	188	213	249	276	375
Industry	94	115	124	113	158
Services	181	235	282	371	507
Of which: public sector	(60)	(73)	(84)	(90)	(102)
Import taxes	24	32	35	24	30
Gross domestic product	487	595	690	784	1,070
Rate of increase (in per cent)	4.0	22.2	16.0	13.6	36.5
Net imports of goods and nonfactor services <u>1/</u>	23	98	119	91	119
Total resources	510	693	809	875	1,189
Rate of increase (in per cent)	7.1	35.9	16.7	8.2	35.9
Private consumption	360	458	548	637	902
Public consumption	82	103	118	121	133
Gross investment	68	132	143	117	154

Sources Data provided by the Malagasy authorities, and staff estimates.

1/ Adjusted in the light of available data from the balance of payments.

a. Paddy

Paddy is estimated to account for over one quarter of total agricultural production. Total output has virtually stagnated in recent years, while at the same time there has been a steady decline in the share of the crop marketed through official channels (Table 2). The area under cultivation has remained virtually unchanged since 1977. Average yields had fallen in 1978 due to low rainfall and thereafter improved in 1979 and 1980. However, yields fell again in 1981 due to a recurrence of drought conditions, particularly in the major rice surplus regions, so that marketed output fell much more heavily than total production. Heavy rainfall and severe flooding during the first two months of 1982 have seriously damaged the current rice crop.

Table 2. Madagascar: Production and Marketing of Paddy, 1977-81

	1977	1978	1979	1980	1981 <u>1/</u>
Area under cultivation (thousands of hectares)	1,175	1,133	1,163	1,199	1,163
Production <u>2/</u> (thousands of tons)	2,067	1,922	2,139	2,110	1,999
Yield (tons/hectare)	1.76	1.70	1.84	1.81	1.72
Marketing (thousands of tons)	262	218	240	236	131
Percentage of production marketed	12.7	11.3	11.2	11.0	6.6

Source: Data provided by the Malagasy authorities.

1/ Provisional.

2/ 1 ton of paddy is equivalent to approximately 0.67 tons of rice.

Madagascar was a small net exporter of rice up to 1972, but it now imports around 200,000 tons per annum in years of normal crops, equivalent to around 15 per cent of total consumption. A large part of the marketed surplus of locally produced rice comes from two specific areas, serviced by major rural development agencies (sociétés d'aménagement), which normally account for around two thirds of

officially marketed production. These two rural development agencies (SOMALAC and FIFABE), as well as similar, smaller agencies elsewhere, have encountered serious financial and management problems, which have hampered their ability to provide adequate production services (e.g., maintenance of irrigation canals, extension services, and provision of agricultural inputs). The deterioration of irrigation networks has had a major impact on rice production in virtually all regions.

The collection, storage, and marketing of domestic and imported rice is the responsibility of a number of state enterprises, usually with each one active in a specific geographic area. The rural development agencies perform this function in certain areas. The largest marketing authority is still the Société d'Intérêt National des Produits Agricoles (SINPA), which had a monopoly until 1977. The marketing agencies purchase paddy from the local government units, which are the only organizations with the authority to purchase paddy from farmers. Official producer prices are fixed for various grades of paddy, and are uniform throughout the country. The producer price for ordinary-grade paddy was gradually raised from FMG 35 per kilo for the 1978/79 season to FMG 47 per kilo for the 1981/82 season (Appendix Table III). It has now been raised by a further 27.7 per cent, to FMG 60 per kilo, for the 1982/83 season.

The official consumer price of ordinary rice has also been gradually increased, from FMG 55 to FMG 64 per kilo in 1980, and to FMG 75 per kilo in 1981. At these official prices both domestically produced and imported rice required subsidies. Subsidies on domestic rice were paid through the Fonds National Unique de Péréquation (FNUP), which receives the surpluses from the major export commodity stabilization funds. In 1981 the subsidy was of the order of FMG 25 per kilo for domestically produced rice and FMG 21 per kilo for imported rice. In addition, many of the marketing agencies were sustaining losses on their rice operations. This was partly due to the fact that there is one official cost structure on which subsidy payments are based for the whole country, whereas costs, especially transportation costs, vary substantially from region to region. In May 1982 the consumer price for ordinary rice was raised by 86.7 per cent to FMG 140 per kilo, which has eliminated the need for subsidy payments.

b. Other food crops

Production of manioc, the second most important food crop, has grown at an average annual rate of around 3 per cent in recent years, largely as a result of increased acreage (Appendix Table II). The increased production probably reflects some switch from rice consumption. Only around 1 per cent of the manioc crop is marketed. Maize, sweet potatoes, and potatoes are also cultivated, although on a much smaller scale than rice or manioc. The production and acreage of maize has increased moderately in the last two years.

c. Cash crops

The three principal export crops are coffee, cloves, and vanilla. Total production of coffee has declined slightly, from the peak of over 81,000 tons reached in 1979 to 79,300 tons in 1981, as a result of a small decline in yields (Appendix Table II). Most of Madagascar's coffee trees will soon have reached the age when yields begin to decline, but the government-initiated replanting program has fallen behind schedule. Over the last few years only around 5,000 hectares per annum have been replanted (out of a total of some 220,000 hectares). Replanting and other extension services are provided by the Opération Café-Poivre-Cacao-Girofle (OCPCG), which also provides extension services for pepper, cocoa, and cloves producers and is financed by transfers from the export crop stabilization funds. The price paid to coffee producers has been increased by over one third during the last two years, to FMG 250 per kilo for the 1981/82 season (Appendix Table III). A further small increase to FMG 260 per kilo has been introduced for 1982/83. The increase in producer prices and the fall in export prices has caused the producers' share of the final export price to rise sharply in the last two years, from around 31 per cent in 1979 to some 48 per cent in 1981. The surplus of the export price over payments to producers, normal export taxes, and transportation, packaging, and other costs is transferred to the FNUP. The collection of coffee from the smallholder is done by private traders, who are paid a fixed margin. Processing and export is the monopoly of a group of state enterprises. The collection of output from the more remote areas has been hampered by transportation difficulties, which have increased in recent years because of inadequate maintenance of the secondary road network in the coffee-producing areas.

Production of cloves, the second most important export crop, is subject to a three- to four-year cycle. The last low point of the cycle was in 1978, when output fell to 4,200 tons before increasing almost three-fold in 1980 (Appendix Table II). Output then declined slightly in 1981 to 11,100 tons. The next low point is expected in 1983. The area under cultivation has increased steadily in recent years, with an average annual increase of over 2 per cent. Producer prices were raised from FMG 385 to FMG 395 per kilo in 1980/81 and to FMG 430 per kilo in 1981/82, when the producer price was equivalent to 19 per cent of the export price. A price of FMG 435 per kilo has been adopted for the 1982/83 season.

Madagascar is the world's leading producer of natural vanilla. However, the market has been seriously affected by competition from synthetic substitutes. Until 1979 output had declined steadily, largely as a result of prolonged poor maintenance and inadequate price incentives. Producer prices were increased by over 60 per cent to FMG 500 per kilo in 1979/80 and were raised further to FMG 600 per kilo in 1980/81 and FMG 700 in 1981/82. In 1981 the producer price was the equivalent of around 27 per cent of the export price. Output has responded to the improved price incentives, and the trend decline in production has been reversed. By

1981 output of green vanilla, at 3,100 tons, was over one third higher than the depressed level of 1979, but was still only around two fifths of the output levels achieved in the early 1970s.

Sugarcane is grown on four estates, which are controlled by the Government. Construction of a new refinery, and development of the related estates, has now begun. In addition, cane is grown on a large number of smallholdings, largely for processing by traditional methods into rough sugar or alcohol. Yields from the small plots, which account for around half the total acreage, are very low. Total production has stagnated over the last four years, despite an increase in the area under cultivation by almost one quarter (Appendix Table II). Most of the increase in area cultivated has been on smallholder plots. Yields from estate production are generally around 60-80 tons per hectare, but have declined in recent years because of inadequate maintenance of the irrigation network as well as shortages of fertilizer and other inputs. The increase in producer prices from FMG 4,568 per ton in 1978/79 to FMG 6,361 per ton in 1981/82 does not seem to have had any noticeable effect on total output. Production of refined sugar declined steadily from 131,000 tons in 1977 to 107,000 tons in 1981. Exports fell from 26,000 tons to 10,000 tons over the same period.

Cotton is a cash crop sold only to domestic industries for further processing. About two thirds of the crop is produced on estates and one third by smallholders. Total output and the area under cultivation have declined slightly in recent years. Yields fell sharply in 1980 as a result of low rainfall in the southwest, the major producing region, and total output fell to 23,000 tons. Output recovered to 30,000 tons in 1981, but was still below the 35,000 tons obtained during the mid 1970s, despite a gradual increase in producer prices from around FMG 77 per kilo in 1978/79 to FMG 100 per kilo in 1981/82. Prices for the 1982/83 season have been increased by an average of 26 per cent.

3. Livestock and fishing

The livestock sector accounts for around one third of agricultural production and is facilitated by a generally low incidence of animal diseases. Cattle rearing is the principal activity. Estimates of the size of the cattle herd vary considerably, but available information indicates that the decline in the herd which occurred in the mid-1970s has now been reversed. In 1981 the registered cattle herd amounted to 7.3 million (Appendix Table IV). However, registered slaughterings, after increasing temporarily in 1978, resumed their trend of annual declines. They fell particularly sharply in 1981, when the registered offtake rate was only 2.5 per cent. However, there is also considerable unregistered on-farm slaughter for home consumption and sales in local markets. The decline in registered slaughterings was linked to the financial problems of the meat processing companies, caused primarily by domestic pricing policies. There was no controlled producer price, but

consumer prices were regulated, on a regional basis, so that the abattoirs sustained losses on each animal processed and were forced to reduce their level of operations. The controls on consumer prices have now been effectively eliminated. However, the companies continued to sustain losses on export operations, which were eventually covered by the Government. In 1981 FMG 2.8 billion was transferred from the FNUP, to cover losses during 1979 and 1980.

Madagascar's fresh water and sea fishing remain largely unexploited. Traditional fishing is pursued by some 6,000 fishermen, while commercial maritime fishing is carried on by four private companies, which provide most of the supply for export. Despite attractive prices, output has remained virtually stagnant over the last five years (Appendix Table V). Exports of shellfish have declined slightly from some 3,500 tons in 1978 to 3,200 tons in 1981. The Government has now requested technical and financial assistance from Japan, as part of a major rehabilitation program.

4. Mining

The three principal minerals mined are chromite, graphite, and mica. Due to a softening in world demand, chromite production fell to a low of around 120,000 tons in 1978 and 1979 before increasing to over 170,000 tons in 1980, which was still below the levels of around 200,000 tons achieved in the mid-1970s (Appendix Table VI). The unreliability of railway transport between the mine and the port in 1980 and early 1981 meant that a number of contracts could not be fulfilled, and Madagascar temporarily lost some of its export markets. This exacerbated the effects of the sharp downturn in world demand which occurred in 1981, and total output fell by almost one half. Nevertheless, production was still higher than exports, and stocks have continued to accumulate at the mine, thereby increasing the financial problems of the state enterprise (KRAOMA) which operates the mine. In 1981 the Government transferred FMG 0.5 billion to KRAOMA, to help alleviate its financial difficulties. Madagascar currently exports chrome concentrate, used in the manufacture of "high charge ferro-chrome." However, because of technological changes, demand for chrome concentrate is declining, and a switch to the production of chrome pellets is now under way.

Exports of mica have declined in recent years, largely because of increased competition from synthetic substitutes. Production and exports fell particularly sharply in 1981, as a result of weakened world demand, and the output of 610 tons was less than half that of recent years. Madagascar is the leading world producer of high-grade graphite, but there has been a trend decline in production since 1975. After falling to a low of around 12,200 tons in 1979 and 1980, output increased moderately to some 13,300 tons in 1981.

5. Energy

Madagascar has substantial potential energy sources, in the form of coal, lignite, and oil shale, which are generally untapped. In addition, prospecting for oil is now under way and preliminary indications are promising. The country's large hydropower potential is only partially utilized. Total energy consumption in 1980 was estimated to be around 1.1 million tons of oil equivalent. Wood products were the most widely used source, accounting for around 60 per cent of total consumption. Imported petroleum products provided over one third of all energy, while only around 5 per cent was derived from coal or hydropower. Madagascar imported and refined 492,000 tons of crude oil in 1980, but, under the impact of the foreign exchange shortage, crude oil imports fell by over 13 per cent to 427,000 tons in 1981. Part of the crude is re-exported as refined products. The share of re-exports declined up to 1980 as a result of drought-induced shortages of hydroelectricity, which caused a sharp increase in domestic consumption of fuel oil for electricity generation. Re-exports increased by almost one half in 1981, as an improvement in hydroelectric production reduced domestic consumption of fuel oil. An extension to Madagascar's refinery at Tamatave is now nearing completion and will make possible the processing of cheaper, heavier crudes, thereby reducing the costs of petroleum imports.

Power generation by Madagascar's electricity company, JIRAMA, has increased at an average annual rate of 5.6 per cent over the last four years, despite a small decline in real GDP over this period. JIRAMA's installed capacity is around 100 MW. In addition, various industrial enterprises also generate electricity for their own consumption. The share of hydropower declined from 67 per cent of JIRAMA's total production in 1977 to a low of some 38 per cent in 1979, under the impact of several years of low rainfall (Appendix Table VII). Since then, its share has gradually increased to some 46 per cent of total output in 1981. A major new hydroelectric project has now been virtually completed, to add some 56 MW of capacity, and is expected to meet the growth in electricity demand in the Antananarivo region until 1992.

6. Manufacturing

Under the 1978-80 Plan manufacturing was to have been a key growth sector. This objective has not been achieved, and since 1979 industrial output has declined, with its share in total GDP falling from 19.2 per cent to 18 per cent in 1980 before collapsing to only 14.9 in 1981. The index of industrial production fell by 1.5 per cent in 1980 and by 15 per cent

in 1981 (Table 3). ^{1/} Industrial production has been hampered by increasing government controls, particularly over pricing decisions, and by a decline in the output of many domestic agricultural inputs; the erratic supply of these inputs has been exacerbated by the deteriorating transportation network. The sharp fall in manufacturing output in 1981 was largely due to the shortage of imported inputs and spare parts. Stocks of imported industrial inputs at end-1980 represented approximately 2 months of normal usage as against stocks equivalent to 3-5 months usage in previous years. By end-1981 stocks, apart from work-in-progress, had been reduced to virtually zero.

Manufacturing is dominated by the food processing, textile, and clothing industries. The output of the food processing industry, which has the largest weight in the industrial production index, has declined consistently since 1978, largely because of problems with the availability of agricultural inputs. By 1981 output was some 20 per cent below that of 1978. The meat processing industry showed some growth in 1979, with an increase of 13 per cent in the number of cattle slaughtered for processing, but output in 1980 and 1981 was over 25 per cent lower because of the financial problems of the meat processing companies and domestic pricing policies, already discussed in subsection 3 (Appendix Table VIII). Production of sugar has declined at an average annual rate of 2.5 per cent since 1978. Marketed production of sugarcane has remained stagnant over the last four years, but there has been a decline in sucrose content. The sugar factories are old and are operating with plant and equipment in need of major repair or replacement. Output of edible oils has not recovered from the sharp decline which began in 1978 as a result of a continuation of poor groundnut harvests. By 1981 output was some 40 per cent below the already depressed level of 1978. The only major food processing industry to avoid the trend decline in output was beer production, which increased at an average annual rate of over 11 per cent during 1979 and 1980. However, shortages of imported inputs caused output to fall by one third in 1981.

Textile production, which increased by 6 per cent in 1979, declined by 4 per cent in 1980 and by a further 7.5 per cent in 1981. The decline would have been even greater if the textile industry had not been granted priority access to foreign exchange for imported inputs, including cotton. At present domestic cotton production supplies only about one half of the inputs needed by the three textile mills. Output of the clothing industry increased by almost 7 per cent annually during 1979 and 1980, but then declined by around 7 per cent in 1981. Most of the output of the textile and clothing industries is consumed locally, but a small proportion is exported, principally to Mauritius and the European Communities. A small but promising export trade in jeans to the United States has also begun.

^{1/} The national accounts estimates of real output (Appendix Table I) differ substantially from the industrial production index, and show an even larger decline in output during 1981. However, both series show the same trends in output throughout the period.

Table 3. Madagascar: Index of Industrial Production, 1977-81
(1970 = 100)

	Weight	1977	1978	1979	1980	1981	1/
		Annual average					
Food processing	38.0	90	96	94	89	77	
Textiles	19.5	157	156	165	158	146	
Clothing	7.4	114	115	118	131	122	
Construction materials	7.4	42	47	44	42	33	
Petroleum refining	4.8	88	63	59	89	63	
Chemicals	4.6	187	201	213	173	125	
Extractive industries	3.9	152	115	119	137	90	
Tobacco	3.8	146	164	164	161	127	
Printing	3.6	81	79	78	81	87	
Paper	2.3	187	205	212	197	174	
Wood	1.8	77	78	74	68	62	
Transport equipment	1.8	86	83	81	112	36	
Leather	0.7	297	333	379	345	307	
Rubber	0.4	171	175	216	227	140	
Overall	100.0	113.5	115.0	117.0	115.3	98.0	

Source. Data provided by the Malagasy authorities (National Institute of Statistics and Economic Research).

1/ Provisional.

Output of construction materials declined by over 5 per cent in 1979 and 1980 and by over 20 per cent in 1981. Production of cement declined from 66,000 tons in 1978 to 38,500 tons in 1981, little over half the near-capacity level of 70,000 tons achieved in the early 1970s. A second cement factory is now under construction. Production of corrugated iron sheets increased rapidly to 15,400 tons in 1979, at the peak of investment activity, and remained high in 1980 before collapsing to only 1,600 tons in 1981 due to lack of demand and shortages of imported raw materials.

The main product of the chemical industry is soap, output of which increased by over 16 per cent in 1979. However output declined again in 1980 and then dropped sharply, by over 40 per cent, in 1981 as a result of the prevailing shortage of imported inputs. Output of matches has declined continually over the last four years, and by 1981 output was only 29 per cent of its 1978 level.

Output of the tobacco, paper, and leather industries all showed sustained economic growth through 1979, although their share in total manufacturing output was small. However, all three industries declined moderately in 1980 and then followed the general trend and fell by over 10 per cent in 1981. The only industry to show a gain in 1981 was printing, which grew by 7 per cent.

7. Transportation

Madagascar lacks a comprehensive road and rail network, and the inadequacy of the transportation system is a serious obstacle to its economic development. In recent years the Government has concentrated on large new investments in roads, vehicles, ships, and aircraft, at the expense of proper maintenance of the existing capital stock. The road system consists of some 48,000 km of primary and secondary roads, of which around 9,000 km are asphalted. Parts of the secondary road network in rural areas have deteriorated to the point of becoming impassable in the rainy season, and this has severely hampered the collection of rice and the export crops. The Government is now planning a major program for reconstruction of secondary roads, particularly in the coffee-producing areas.

The Government has gradually increased its control over the transport sector. State enterprises operating their own trucking fleets have replaced many private truck operators in the collection of agricultural crops and distribution of basic necessities. Tariffs are controlled by the Government, but in the past have usually been insufficient to cover costs, so that the state enterprises involved in collection and distribution of crops generally sustain losses on their transport operations. The recent foreign exchange crisis has exacerbated the problem, since a large part of the transport fleet is now idle because of a lack of spare parts.

There are 800 km of railway, connecting the central highlands with the principal port of Toamasina on the east coast. This has also deteriorated due to a lack of adequate maintenance, and delays are frequent. In 1980 and 1981 chrome exports were particularly affected by the lack of a reliable rail link, but the situation has now improved, after the adoption of a remedial action plan by the authorities. Both air and intercoastal sea commerce are important, partly because of the inadequacy of the road network. Three national companies provide regular service between Madagascar's ports, and the state enterprise Air Madagascar provides air service throughout the island. Air Madagascar expanded its services considerably in 1978 and 1979, and a number of new aircraft were purchased.

II. Employment, Wages, and Prices

1. Employment

Labor statistics in Madagascar are fragmentary, and the most recent information available on the sectoral distribution of total employment is for 1979. These data indicate that, out of the total estimated labor force of 4.3 million, approximately 3.8 million, or some 88 per cent, were involved in agriculture (Table 4). Central and local government was the next largest employer, with 3 per cent of the labor force. The only statistics available on employment trends are for those in formal wage employment, and are derived from the numbers making contributions to the social security fund, Caisse Nationale de Prévoyance

Table 4. Madagascar. Employment Situation in 1979

(In thousands)

Total employment	4,267
Agriculture	3,792
Industry	60
Construction	31
Handicrafts	24
Commerce, banking, insurance	94
Transport, telecommunications	29
Household servants	36
Government	131
Other	72

Source: World Bank.

Sociale (CNAPS). These statistics show that formal wage employment outside Government grew by 7.4 per cent in 1980 and continued to grow (by 3.7 per cent) in 1981, despite the sharp decline in the level of economic activity (Table 5). Although the coverage of the CNAPS apparently improved during this period, so the data probably overstate the actual employment growth, employment has not declined along with real output, and there has evidently been a substantial decline in productivity per worker. Employment growth was most rapid in the secondary sector, where it increased by 20 per cent between 1979 and 1981. Registered employment in construction grew by almost 30 per cent during the period. However, this may have been partly accounted for by increased registration of employees of small construction enterprises (called tâcherons) which specialize in building traditional houses.

Table 5. Madagascar. Evolution of Non-Government Wage Employment, 1979-81 1/

	1979	1980	1981
<u>Primary sector</u>	<u>61,881</u>	<u>62,806</u>	<u>63,545</u>
Of which agriculture	55,750	56,511	56,737
<u>Secondary sector</u>	<u>68,153</u>	<u>77,369</u>	<u>81,879</u>
Of which:			
mining	3,004	3,184	3,354
food processing	6,432	6,953	7,291
tobacco	1,778	1,880	2,077
textiles and leather	14,380	15,475	16,587
wood	2,712	2,943	2,960
paper and printing	2,715	3,116	3,243
chemicals	3,532	4,218	4,380
non-metallic minerals	1,263	1,282	1,270
metal working	1,259	1,587	1,836
construction	22,966	27,738	29,783
water and electricity	4,429	5,084	5,332
<u>Tertiary sector</u>	<u>87,474</u>	<u>93,345</u>	<u>96,636</u>
commerce, banking, insurance	29,970	31,640	32,472
transport	18,465	20,269	21,476
other services	39,039	41,436	42,688
Total	<u>217,508</u>	<u>233,520</u>	<u>242,060</u>

Source: Data provided by the Malagasy authorities.

1/ Based on the numbers making contributions to the CNAPS.

No statistics are available on overall unemployment in Madagascar. However, unemployment in the urban areas has probably increased in recent years. Employment registration centers exist in urban areas, but the incentive for registration is weak, since only those seeking employment in the government sector are required to go through the registration centers. There is no system of unemployment insurance. Collective firings and layoffs (i.e., all labor force reductions other than for individual disciplinary reasons) are subject to government approval. Requests for such reductions must first be submitted to a technical committee (including representatives of the Ministries of Labor, Finance, and Industry and Commerce) at the "faritany" (province) level. The final decision is taken by the Minister of Labor, with the advice of this committee. Although requests are supposed to be answered within 2-3 months, delays can be much longer in practice. In 1981 many requests for layoffs have been refused and have been converted into a reduction in working hours for the employees involved.

The Government's employment policy has been based on the view that the unemployment problem can only be resolved in the context of the overall development strategy. However, it recognizes that recent investment policies have been too capital-intensive, with emphasis on a rapid transformation of the industrial structure. The new investment program will place greater emphasis on small- and medium-scale enterprises, which tend to be more labor-intensive, and on increased priority for agricultural development, which will discourage the migration of rural population to urban areas.

2. Wages

The Government has followed a policy of wage restraint in recent years, particularly as regards government sector wages. Within the context of this restraint, the emphasis has been on decreasing income differentials between the highest- and lowest-paid employees. Minimum wage rates in the private sector are fixed for a wide variety of skill categories and take the form of an "indice minimum" (minimum reference rate). The minimum index for an unskilled nonagricultural worker is now 230, with each index point the equivalent of FMG 0.34 per hour (i.e. the equivalent of FMG 13,554 per month on the basis of 173.33 working hours per month). In 1978 the zoning system, whereby minimum wage rates were established for different zones, was abolished. In June 1980 the various minimum rates were increased, with the largest increases for the lowest skill categories. The minimum rates for unskilled manual laborers, in both the agricultural and nonagricultural sectors, were increased by 14.7 per cent (Table 6), whereas the minimum rate for the highest category of skilled manual worker was raised by only 3.8 per cent. Similarly tapered increases were introduced in April 1981, when the minimum rate for unskilled laborers was increased

by 14.8 per cent and lesser increases were adopted for higher skill categories; the minimum rate for the highest skill category was raised by only 4.6 per cent.

Table 6. Madagascar: Minimum Wage Rates for Agricultural and Nonagricultural Workers, 1978-81

(In Malagasy francs per month)

	Agricultural <u>1/</u>	Nonagricultural <u>2/</u>
Prior to May 1978 - Zone I	8,600	8,839
- Zone II	7,200	8,059
May 1978 - May 1980	10,200	10,018
June 1980 - March 1981	11,700	11,491
Since April 1981	13,800	13,554

Source: Data supplied by the Malagasy authorities.

1/ On the basis of 200 working hours per month.

2/ On the basis of 173.33 working hours per month.

Increases in public sector wages adopted in August 1979 raised the Government's wage bill by an estimated 8 per cent. 1/ Since then the only cost-of-living increases have been in April 1981, when a uniform increase of 3.4 per cent was introduced (through an increase in the value of each index point on the government scale from FMG 1,040 to FMG 1,075), and in May 1982, when an increase of 3.3 per cent was adopted (i.e., an increase in the value of each index point to FMG 1,110).

3. Prices

The only available price indices for Madagascar are for the capital city, Antananarivo, and do not accurately measure true price developments because they are based partially on controlled prices. For instance, the

1/ The structure of government salary rates and the changes introduced in August 1979 are described in detail in SI/80/152.

price of rice, which has a 15 per cent weight in the index for low income families, is based on the official consumer price of rice, whereas a substantial proportion of rice consumed is purchased on the parallel market, at significantly higher prices. The measured price indices probably understated the underlying rate of inflation during the late 1970s, when the Government pursued a policy of holding down prices for many basic consumption goods, through controls and subsidies. However, since 1981 the price indices have tended to overstate the underlying inflation rate, since there have been major increases in a wide range of officially controlled prices as part of the Government's adjustment efforts.

The price index for low-income families in Antananarivo covers the majority of the population of the city and is based on a basket of 131 commodities, with food items accounting for 60.35 per cent of the basket. Measured by this index, price increases have accelerated from an average of 14.0 per cent in 1979 to 18.2 per cent in 1980 and 30.5 per cent in 1981 (Table 7). Food and fuel prices have increased at a slightly faster rate than the general index in all three years. Fuel prices increased in two bursts: in the second half of 1979 as a result of the pass-through of higher world prices, and in the second quarter of 1981 following the introduction of large new taxes on petroleum products.

The price movements as indicated by the high-income index, which has a larger component of imported goods, have also accelerated during the last three years, although at a slightly slower pace than the low-income index. The average price increases were 10.8 per cent in 1979, 13.5 per cent in 1980, and 24.2 per cent in 1981. Food and fuel prices increased more rapidly than other components of the index.

Madagascar has a comprehensive system of price controls, which covers virtually all consumer goods. Particularly close control is kept over the prices of 13 essential commodities (rice, sugar, salt, soap, candles, matches, batteries, edible oils, meat, bread, concentrated milk, cotton fabrics, and tobacco products). Wholesale trade in these products is controlled by state enterprises, some are sold at a uniform price throughout the country, while the prices of others are allowed to reflect differences in distribution costs. For these 13 and some other essential commodities, prices themselves are fixed, based on production costs. In principle, prices are adjusted when costs change, but in practice there can be long delays when politically sensitive goods are involved. For other (mainly imported) products, profit margins are established at the wholesale and retail levels. Ex-factory prices of locally produced goods are also controlled, and cannot be increased without the approval of the Ministry of Industry and Commerce. The effectiveness of the price controls has declined in recent years because of serious supply shortages, and significant parallel markets exist for virtually all commodities. There is no legally established rationing system, but a de facto system has been established at the local government level for rice, oil, soap, and, occasionally, sugar.

Table 7. Madagascar. Consumer Price Index, 1978-81
(Average August 1971-July 1972 = 100)

	Weight	1978				1979				1980				1981			
		Annual average	I	II	III	IV	Annual average	I	II	III	IV	Annual average	I	II	III	IV	Annual average
<u>(Low-income families)</u>																	
Food	60.35	175.8	201.1	219.0	223.5	243.0	269.8	238.8	291.4	313.6	316.8	339.3	315.3				
Fuel and electricity	9.14	145.2	166.9	203.5	209.4	214.6	224.8	213.1	243.3	295.7	300.0	304.3	285.8				
Domestic services	1.82	133.3	133.3	133.3	133.3	133.3	133.3	133.3	133.3	150.8	159.5	159.5	150.8				
Maintenance, clothing, and medicine	14.85	160.1	170.9	181.5	183.9	185.7	189.3	185.1	198.2	211.0	212.9	236.2	215.1				
Miscellaneous	13.84	133.0	163.1	192.6	193.2	196.2	214.7	199.2	228.6	279.9	287.5	289.2	271.4				
General index	100.0	164.0	187.0	206.9	210.5	223.5	243.6	221.1	261.6	289.1	293.0	310.8	286.6				
<u>(High-income families)</u>																	
Food	45.16	178.9	198.8	217.4	223.6	231.9	243.0	229.0	268.6	287.6	294.6	309.5	290.1				
Fuel and electricity	6.08	125.6	154.2	186.6	185.6	191.4	202.2	191.7	224.7	260.3	261.6	261.6	252.1				
Domestic services	11.26	153.4	169.0	169.0	169.0	188.8	192.2	179.7	192.2	206.6	213.8	213.8	206.6				
Maintenance, clothing, and medicine	17.99	164.9	174.9	180.3	180.9	183.1	188.5	183.2	195.2	202.9	205.7	217.5	205.3				
Miscellaneous	19.51	173.5	191.4	216.7	217.4	226.1	240.0	225.1	250.0	304.3	307.0	308.4	292.4				
General index	100.0	168.7	187.0	203.3	206.3	214.7	224.2	212.2	240.5	264.8	269.9	279.1	263.6				

Source Data provided by the Malagasy authorities (National Institute of Statistics and Economic Research).

The Government is now in the process of introducing greater flexibility into the system of price controls. Official prices for many basic commodities have been increased substantially in 1981 and the first half of 1982, with the greatest increase occurring in the consumer price of rice, raised by 86.7 per cent in May 1982. More generally, most enterprises will be allowed to adjust ex-factory prices by up to a certain percentage, based on identified cost increases, without prior government approval.

III. Development Planning

Madagascar's overall development strategy, as outlined in Les Options Fondamentales pour la Planification Socialiste, adopted in December 1977, called for strengthened national control of the economy and a restructuring of institutions to make them more responsive to national needs. As part of this strategy, the major private trading concerns, which were mostly foreign-owned and managed, and the most important industrial enterprises have been brought under state control. The banks and insurance companies were nationalized, and a system of decentralized local administrative bodies (the "Fokonolona" system) was established to increase popular participation in Government.

The planning process is expected to play a major role in shaping Madagascar's future. The overall long-term planning targets were outlined in La Stratégie Globale du Développement 1978-2000, which proposed the attainment of an annual average GDP growth rate of 6.3 per cent over the period, thereby doubling real per capita incomes by the year 2000. In that year the industrial sector was projected to account for some 30 per cent of GDP, compared with 19 per cent in 1977. The period covered by the long-term plan was viewed as falling into three distinct phases. During the first phase, 1978-84, foundations for future development were to be laid, with emphasis on the development of infrastructure, basic industry, food processing, and textiles. A major expansion in investment was foreseen, with little or no increase in per capita consumption. The second phase, 1985-92, was to be a period of consolidation, during which a capital goods industry would be created, unemployment would decline, and there would be some increase in per capita consumption. During the final phase, 1993-2000, the economy would grow most rapidly, leading to full employment and a general improvement in living standards.

The overall long-term targets are specified in greater detail in medium-term plans, the first of which covered the period 1978 to 1980. However, real growth during the period fell well short of the plan targets in all sectors other than government administration, which proved to be the fastest growing sector rather than the slowest, as envisaged under the Plan (Table 8). The results for agriculture were particularly

disappointing when compared with an estimated population growth rate of 2.8 per cent per annum. None of the targets for growth in output of individual crops was attained, with especially large shortfalls for vanilla, butter beans and groundnuts. In contrast, the objectives of the plan in the field of social services, and particularly education, have been more than attained. By 1980 the number of students at primary, secondary, and university levels had all surpassed plan targets. The number of university-level students was around 30,000 in 1980, compared with some 11,000 in 1978. The rapid expansion of educational facilities and the modest economic growth has begun to create a serious excess supply of new school leavers, which is expected to worsen in the next few years.

Table 8. Madagascar: Performance Under 1978-80 Plan

(Average annual growth rates in per cent; based on 1977 prices)

	Plan target	Actual
Gross domestic product	5.5	3.0
Agricultural sector	4.3	1.5
Industry and mining	9.8	5.4
Services	4.8	2.9
Government administration	3.7	6.0

Source: Data supplied by the Malagasy authorities (Planning Directorate).

Although final data are not yet available on the structure of investment during 1978-80, it is clear that the actual composition of investments has been very different from that proposed in the plan. A much larger share of expenditures was allocated to social investments, including a crash program for the construction of a number of regional university centers, which were not included in the original plan. Investments undertaken in 1979 had a large share devoted to transport and communications, largely due to the purchase of a Boeing 747 aircraft.

and a number of ships, which were also not included in the original plan (Table 9). Available information on 1980 investments indicates that, while the share devoted to transport declined, investments in social and administrative services remained high, and investments in agriculture and industry did not increase significantly.

Table 9. Madagascar: Composition of Gross Fixed Capital Formation, 1978-80

(In Per cent of total)

	1978-80 Plan	1979 Actual
Agriculture	18.6	14.0
Industry	33.0	28.7
Transport and communications	27.6	32.2
Commerce	4.3	1.9
Administrative and social services	13.5	21.8
Other services	<u>3.0</u>	<u>1.4</u>
Total	100.0	100.0

Source Data supplied by the Malagasy authorities (Planning Directorate).

A new Development Plan covering the period 1982-87 was approved in December 1981. Its main objectives are to ensure self-sufficiency in foodstuffs; to increase the integration of the agricultural and industrial sectors, to develop exports, to regularize the supply of food, and to improve the housing and health conditions of the population. The new plan calls for an average annual growth rate of 5.9 per cent, with agriculture expanding by 3.1 per cent a year and the industrial and mining sectors by 7.7 per cent. The rate of investment is to reach 27.4 per cent of GDP by 1987, while the growth in private consumption will be limited to an annual average of 3.6 per cent, only slightly

above the rate of population growth. In agriculture the aim is to expand paddy production by 3.8 per cent a year so as to eliminate rice imports by 1987, and to achieve substantial growth in the output of the export and industrial crops. To meet these targets the plan calls for the setting of producer prices at levels that cover real costs of production and for an improvement in the distribution network as well as the regular supply of basic incentive consumer goods to the rural areas. In the industrial sector the objectives are to establish the foundations of an autonomous and inward-directed industrial structure, with emphasis on energy independence, development of the country's mineral potential, and expansion of those industries concerned with agricultural processing or the provision of inputs to agriculture.

However, in view of the current financial crisis, and without questioning the fundamental objectives of the 1982-87 Plan, the authorities have adopted a public investment program for 1982-84 which is more in line with the prevailing resource constraints. The new investment program is part of a major reorientation of economic and financial policy designed to reduce existing internal and external financial imbalances and lay the foundations for sustained and balanced development. In the choice of investments, priority has been given to the rehabilitation and adequate maintenance of existing capacity, which will have the greatest immediate impact on the balance of payments and the supply of goods. The share of agriculture will almost double to 30 per cent of all investments, while social investments will be sharply reduced. Infrastructure investments will receive 29.2 per cent of public investments during the period, and investments in energy and mining industries will account for 25.5 per cent. To ensure greater control over implementation of the proposed program, the role of the Planning Directorate in the selection and approval of projects has been strengthened, and it will be responsible for evaluating the economic feasibility of all projects. To ensure that external financial constraints are observed, a special committee, including representatives from the Central Bank, the Ministry of Finance, and the Planning Directorate, has been established to approve and monitor all external financial commitments. The committee will be assisted by an automated system of external debt management which is being established in the Central Bank.

IV. Government Finance

For the purposes of this report, the government sector in Madagascar comprises only the Central Government. Following the administrative reform completed in 1977, which aimed at decentralizing the process of decision making, the newly created local governments (collectivités décentralisées) were granted financial responsibilities and a degree of budgetary autonomy. A number of taxes and fees have been earmarked for these local government budgets (professional tax, property taxes, meat tax, and license fees). A proportion of the receipts from other taxes is transferred from the Central Government (tax on motor vehicles and, recently, turnover and value added taxes). The general budget of the Central Government provides for both current and capital expenditures. However, capital expenditure included in the budget represent only investment that is financed from domestic sources and by foreign loans; projects that are financed by external grants and commodity aid are executed outside the budget.

The Treasury centralizes the cash transactions of the Government and other public bodies and performs banking functions for the public sector. In addition to the accounts of the general budget, the Treasury maintains the accounts of the annexed budgets, in which are recorded the financial transactions of the nonautonomous bodies, mainly the Post Office, the National Printing Office, and the Port Authority. Since May 1977 the commodity stabilization funds have been asked to deposit most of their resources in excess of working balances in the Fonds National Unique de Péréquation (FNUP) at the Central Bank. Transactions in this account are not shown in Treasury records. The liquid assets of the Treasury consist of currency holdings and deposits with the Central Bank. Customs duty bills, which are short-term obligations of the private sector on account of delayed payments of customs duties and other indirect taxes were excluded from the Treasury receipts and assets for the purposes of this report. In order to provide a more comprehensive picture of the Government's overall financial operations, the operations of the FNUP have been consolidated with the Treasury's cash transactions. Operations of the FNUP include receipts as well as transactions which represent current and capital expenditure, and outlays related to the marketing of domestically produced rice and other export products. Net expenditure related to the marketing of imported rice, which is financed through direct advances from the Central Bank and which is not shown in Treasury records, is also consolidated with the Treasury accounts.

1. Overall fiscal developments

During the three financial years ended December 1981 the Government's revenues rose at an annual average rate of 6.5 per cent, while the growth of total expenditures averaged 27.7 per cent. As a proportion of GDP,

revenues declined steadily from 18.5 per cent in 1979 to 15.2 per cent in 1981, while expenditures increased from 31.8 per cent of GDP in 1979 to 35.2 per cent in 1980 but declined to 29.9 per cent in 1981. Reflecting these developments, Madagascar's financial situation deteriorated from 1979 to 1980 but showed a relative improvement in 1981. The overall deficit as a percentage of GDP increased from 13.4 per cent in 1979 to a record 18.4 per cent in 1980 and decreased to 14.7 per cent in 1981.

A summary of government operations for the period 1979-82 is presented in Table 10 and Appendix Table IX. The current budgetary operations of the Government were in deficit throughout the period, and the deficit widened in 1980. While budgetary revenue grew by less than 11 per cent in that year, current expenditures rose by almost 16 per cent; budgetary capital expenditures also accelerated by nearly 32 per cent, reflecting the Government's attempts to catch up with the investment targets of the 1978-80 Development Plan. Capital outlays related to on-going projects executed under the reserved funds 1/ also increased sharply.

During 1980 receipts of the FNUP decreased by some 19 per cent as a result of declining export receipts and delays in payments to the FNUP by the enterprises engaged in foreign trade. Expenditures charged against the FNUP, however, more than tripled. Most of the increase was attributable to the growth of capital expenditures made under the FNUP, as a result of outlays related to the construction of the Regional University Centers (CURs). Current expenditures of the FNUP also increased sharply as a result of higher payments of subsidies on locally produced rice and of higher outlays related to the current operations of the commodity stabilization funds. At the same time, central bank expenditures in connection with rice imports were reduced from FMG 7.5 billion in 1979 to FMG 4.1 billion in 1980, following the acceleration in repayments of the proceeds from the sale of rice by state enterprises.

The deficit of the special Treasury accounts increased by some 60 per cent in 1980. Although government lending and capital subscriptions to state enterprises were substantially lowered from FMG 11.9 billion to FMG 4.3 billion, this reduction was more than offset by the expansion of on-lending to state enterprises of foreign loans and by a decline in the net surplus on other Treasury operations. The carry-over of deferred payments remained virtually unchanged.

1/ Budgetary allocations for long-term projects which are not fully utilized by the end of the fiscal year are normally transferred to the reserved funds.

Table 10. Madagascar. Overall Government Operations, 1979-82

(In billions of Malagasy francs)

	Provisional		Revised	Provisional	Estimate
	1979	1980	budget	1981	1982
Current budgetary revenue	90.7	100.4	122.4	104.3	127.6
Current budgetary expenditure	-97.7	-112.9	-114.6	-112.2	-134.1
Of which wages and salaries	(-50.8)	(-60.9)	(-75.4)	(-68.6)	(-77.4)
Current budgetary surplus or deficit(-)	-7.0	-12.5	7.8	-7.9	-6.5
Budgetary capital expenditure	-56.4	-74.4	-40.3	-62.1	-70.8 ^{1/}
Of which reserved funds	(-10.5)	(-17.4)	(-5.0)	(-15.7)	(-15.0)
Deferred payments	-12.7	-12.9	-8.0	-14.6	-16.8 ^{2/}
FNUP receipts	19.3	15.6	25.4	15.2	26.6
FNUP expenditures	-10.0	-30.3	-16.6	-18.0	-6.9
Capital expenditure	-5.7	-18.1	-3.0	-7.0	—
Other	-4.3	-12.2	-13.6	-11.0	-6.9
Of which rice subsidies	(-2.4)	(-5.0)	(-8.0)	(-5.1)	(-1.5)
Central bank expenditure for rice imports (net)	-7.5	-4.1	—	-5.0	0.8
Special Treasury accounts (net)	-4.9	-7.9	-39.1	-22.6	-30.0
Of which on-lending	(-9.3)	(-15.2)	(-35.8)	(-22.0)	(-29.0)
Grants and commodity aid (net) ^{3/}	-0.7	-0.3	—	-0.3	3.3
Total receipts	110.0	116.0	147.8	119.5	157.5
Total expenditure	-189.9	-242.8	-218.6	-234.8	-257.8
Current	-118.5	-135.1	-139.5	-143.7	-158.0
Capital (including on-lending)	-71.4	-107.7	-79.1	-91.1	-99.8
Overall government deficit	-79.9	-126.8	-70.8	-115.3	-100.3
Financing	79.9	126.8	70.8	115.3	100.3
Foreign (net)	35.3	47.9	38.0	55.6	60.4
Drawings	36.8	50.4	47.6	64.3	75.1
Amortization	-1.5	-2.5	-9.6	-8.7	-14.7
Domestic (net)	44.6	78.9	32.8	59.7	39.9
Banking system	41.9	78.2	25.2	57.8	35.0
Central Bank	42.1	85.6	19.8	46.3	—
Advances	51.8	73.7	30.1	58.3	—
Deposits	-9.7	11.9	-10.3	-12.0	—
National banks ^{4/}	-0.2	-7.4	5.4	11.5	—
Nonbank sector	1.9	2.2	7.5	2.7	4.9
Other	0.8	-1.5	0.1	-0.8	—
Addendum					
Overall deficit as per cent of GDP	13.4	18.4	9.2	14.7	9.6
Bank financing as per cent of increase in domestic credit	71.8	72.3	57.9	81.4	43.8

Sources: Data provided by the Malagasy authorities, and staff estimates

^{1/} Includes the optional tranche

^{2/} Includes FMG 8.0 billion of budgetary allocation earmarked to payment of arrears to state enterprises

^{3/} Includes net receipts of grants and commodity aid, excluding rice, and local expenditures financed by this aid

^{4/} Differs from data in Monetary Survey in that advances to contractors in connection with government projects are not included

Therefore, while total revenues rose by only 5.5 per cent in 1980, total expenditures increased by around 28 per cent from FMG 189.9 billion to FMG 242.8 billion. Capital expenditures, including on-lending, rose by some 50 per cent despite attempts by the Treasury to keep down expenditures of certain key spending ministries. Capital expenditures represented 12.0 per cent and 15.6 per cent of GDP in 1979 and 1980, respectively. Total current expenditures grew by 14 per cent, with three fifths of this expansion attributable to increases in the Government's wage bill.

As a result of the continued rapid growth in expenditure, the overall government deficit increased by some 60 per cent to FMG 126.8 billion. Net foreign financing also grew, but the bulk of the deficit was financed by recourse to the banking system. Bank financing of the deficit almost doubled to FMG 78.2 billion in 1980, when it accounted for over 70 per cent of the increase in domestic credit.

2. Developments in 1981

Government finances showed a modest improvement in 1981, although there were substantial shortfalls from the targets of the revised 1981 budget, with regard to both revenues and expenditures. Provisional fiscal data for 1981 show that the growth of current revenue was limited to less than 4 per cent as compared to a projected growth of 22 per cent. The fall in the level of economic activity and the reduction in Madagascar's international trade accounted for most of the revenue shortfall. At the same time, current budgetary expenditures fell to FMG 112.2 billion, slightly below the authorities' revised budgetary projections. As compared to the previous year, expenditures on salaries and wages and on interest on public debt were larger, while other current outlays were substantially reduced. Salary expenditures, however, were still almost 10 per cent lower than anticipated, partly due to the decision to limit recruitment during August-December to students graduating from government professional schools.

Budgetary capital expenditures although declining as compared to 1980, were still some 54 per cent higher than in the authorities' revised budgetary projections. A large proportion of the higher outlays took place in the last quarter of the year, to accommodate higher-than-budgeted commitments of the ministries, in particular those of Rural Development, Public Works, and Defense. In addition, project implementation under the reserved funds was more than three times larger than forecast.

The receipts of the FNUP declined slightly, representing a substantial deviation from the authorities' target. Most of the shortfall was due to the unexpected deterioration in export earnings from coffee. In addition, the new collection system of FNUP receipts, whereby transfers to the FNUP were postponed until the moment when the counterpart of export receipts in national currency was available to exporters--instead of, as previously established, at the moment of the embarkation of the commodities--contributed to the shortfall. On the other hand, FNUP expenditures, although declining substantially to FMG 18.0 billion, still remained above the authorities' forecasts. Rice subsidies were kept well below target, but unanticipated payments of subsidy arrears related to meat and chrome exports amounted to FMG 3.3 billion. Capital expenditures under the FNUP of FMG 7.0 billion were related mostly to the Government's transfers to rural development agencies at the end of the year to redress their financial situation, as required by foreign lenders.

Central bank expenditures in connection with imported rice rose to FMG 5.0 billion, largely due to an increased volume of imports to supplement the unanticipated low domestic production. In addition, repayments by marketing enterprises, related to proceeds from the sale of rice in both 1981 and previous years, remained below projections. The deficit on special Treasury accounts, at FMG 22.6 billion, was much lower than expected, as a result of a slower-than-anticipated rate of implementation of projects financed from abroad, through on-lending to state enterprises. Deferred payments of FMG 14.6 billion were much larger than expected.

The overall deficit of FMG 115.3 billion, while an improvement over 1980, was almost two thirds above the authorities' revised projections. Although foreign financing increased by more than 16 per cent, partly as a result of substantial bilateral assistance received toward the end of the year, more than half of the deficit was financed by recourse to the domestic banking system. Nonbank financing increased only marginally, and credit to the Government represented over 80 per cent of the total increase in domestic credit.

3. The 1982 fiscal year

In 1982 the Malagasy Government intends to undertake a major effort to lessen fiscal imbalances, with the aim of reducing the overall deficit as a percentage of GDP to 9.4 per cent. Consequently, the 1982 budget approved in December 1981 has been revised to incorporate new revenue and expenditure reduction measures. After adjusting the new budgetary estimates to make them comparable with the presentation of overall operations of the Government, total receipts are projected to increase by nearly 32 per cent, while growth of expenditures will be limited to less than 10 per cent. As a proportion of GDP, revenue and expenditure are expected to decline to 14.7 per cent and 24.1 per cent, respectively.

Current budgetary revenue is anticipated to increase by some 22 per cent, largely due to the impact of the recent devaluation and the adoption of new tax measures, including an increase in the rate of the value added tax from 10 to 15 per cent. Current budgetary expenditure will increase by 19.5 per cent. The Government has decided to hold salary outlays to a maximum of FMG 77.4 billion, by limiting new recruitment to 4 per cent of the 1981 personnel. To achieve this, the revised 1982 budget eliminated 6,000 positions as compared to the number opened in the original budget. Salary increases will be limited to 4.5 per cent, although the increase in the official price index is expected to reach some 50 per cent in 1982.

Budgetary capital expenditures are projected to increase by 14 per cent to FMG 70.8 billion. This includes cost increases attributed to the devaluation of the Malagasy franc; expenditures under the reserved funds estimated at FMG 15.0 billion, and an optional tranche of FMG 11.3 billion instituted under the revised budget and consisting of projects to be implemented only if additional foreign financing becomes available. Foreign financing of budgetary capital expenditure will represent over 60 per cent of the total, as compared to some 40 per cent in 1981.

FNUP receipts are projected to grow by 75 per cent. Because exports in the second half of the year will be entirely from stocks or products already at the processing stage, this increase includes the windfall impact of the devaluation on the surplus from exports of coffee, vanilla, and cloves estimated at FMG 4.0 billion. In addition, a new system of automatic withholding of FNUP receipts before the payment of the counterpart of export receipts has been established to speed up transfers from exporters to the Government. FNUP expenditures are expected to drop by more than 60 per cent, with no extra budgetary investment outlays being charged to the account. Subsidies will be reduced to FMG 3.7 billion, of which FMG 1.5 billion represents subsidies to local rice, in respect of past operations only. As a consequence of the new price policy, subsidies on both local and imported rice have been eliminated. In addition, delayed payments of subsidies in connection with 1981 meat exports are expected to amount to FMG 1.8 billion, and payments of FMG 0.4 billion are anticipated because of losses on coffee operations toward the end of 1981.

A small surplus is projected for central bank operations in connection with imported rice in 1982, largely due to proceeds from the sale of luxury rice at a price of FMG 300 per kilo and to an increase in receipts derived from repayments of arrears by marketing firms, which will amount to FMG 11.2 billion. The deficit on the special Treasury

accounts is projected to rise to FMG 30.0 billion, with government lending to and capital participation in public enterprises reaching FMG 9.0 billion (up from FMG 6.1 billion in 1981) due to a high level of capital subscription related to a number of new industrial units. On-lending will amount to FMG 29.0 billion, of which FMG 20.3 billion will be shared equally between agricultural and industrial projects (Appendix Table XI). Deferred payments are estimated at FMG 16.8 billion and include FMG 8.0 billion of internal arrears the authorities have undertaken to pay in 1982 under the revised budget, with priority being given to debts toward public enterprises. Grants and commodity aid, which acquired some importance as compared to previous years following the natural disasters affecting Madagascar in early 1982, are expected to contribute FMG 3.3 billion on a net basis to government receipts.

The overall deficit is projected to decrease by 13 per cent to FMG 100.3 billion, with foreign financing of FMG 60.4 billion. The introduction of a special nation wide government loan with interest rates between 15 per cent and 18 per cent, together with normal Treasury bond issues, is expected to raise FMG 4.9 billion. Bank financing of the deficit will be reduced by almost 40 per cent to FMG 35 billion.

4. Budgetary revenues

The structure of government revenue, as defined in Table 11, is dominated by indirect taxes, particularly taxes on international trade and taxes on goods and services. During the period 1979-81, however, the contribution of direct taxes to total revenue rose steadily from around 16 per cent to 22 per cent, due to a sustained effort to enforce tax laws and to collect direct tax arrears.

The contribution of taxes on goods and services to total revenue fluctuated with the level of economic activity during the period 1979-80. In 1981, however, taxes on goods and services, despite contributing a record 40 per cent of total revenue, showed only a modest rise of 8 per cent as compared to a nominal increase in GDP of 14 per cent. The receipts from the value-added tax fell by over 15 per cent, reflecting an increase in transactions with exempted goods and the official price controls on a wide range of goods. The effects of the decline in economic

Table 11. Madagascar: Budgetary Revenue, 1979-82 ^{1/}
(In billions of Malagasy francs)

	Provisional			Estimate
	1979	1980	1981	1982
Direct taxes	15.4	19.9	23.5	24.2
Income tax on salaries	7.1	8.1	8.4	7.8
Other, including arrears	8.3	11.8	15.1	16.4
Taxes on goods and services	34.2	39.4	42.7	59.5
Value added tax	17.6	20.2	17.1	23.4
Turnover tax	--	--	1.9	2.1
Consumption tax	11.0	12.5	11.8	13.5
Taxes on petroleum products	--	--	1.2	4.7
Profits of fiscal monopolies	5.6	6.7	10.7	15.8
Taxes on international trade	37.8	39.7	32.2	36.7
Import duties and taxes	28.3	30.6	21.5	22.9
Export duties and taxes	8.9	8.4	10.1	13.1
Other	0.6	0.7	0.6	0.7
Other taxes	3.4	3.7	4.3	4.1
Total tax revenue	90.8	102.7	102.7	124.5
Nontax revenue	4.8	3.2	4.1	3.1
Total revenue	95.6	105.9	106.8	127.6
<u>Addendum:</u>				
Total revenue as per cent of GDP	16.1	15.4	13.6	11.9
Total tax revenue as per cent of GDP	15.3	14.9	13.1	11.6
Direct taxes as per cent of GDP	2.6	2.9	3.0	2.3
Taxes on goods and services as per cent of GDP	5.7	5.7	5.4	5.6
Import duties and taxes as per cent of imports, c.i.f.	15.8	14.9	12.1	9.8
Export duties and taxes as per cent of exports f.o.b.	10.1	9.1	11.1	11.0

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

^{1/} Revenues in this table are shown on the basis of assessments and differ from actual cash receipts.

activity during 1981 on taxes on goods and services were only partially attenuated by a 60 per cent increase in the profits of the fiscal monopolies and the additional receipts from newly created taxes. In addition to the increase in the prices charged by the fiscal monopolies for flour (87.5 per cent) and tobacco (16.5 per cent), a turnover tax of 1 per cent and large specific consumption taxes on petroleum products were adopted in 1981.

The relative share of taxes on international trade in total revenue declined throughout the period, from almost 40 per cent in 1979 to 30 per cent in 1981. Import taxes accounted for about 30 per cent of total revenue in 1979 but fell to around 20 per cent of total revenue by 1981, due to the increasing proportion of exempt and lightly taxed goods in total imports and a significant reduction in import volumes in 1981. The ratio of import taxes to total imports fell steadily from 15.8 per cent in 1979 to 12.1 per cent in 1981. This decline occurred despite substantial tariff increases on a broad range of investment and intermediate products during 1981.

The total revenue to GDP ratio has declined steadily from 16.1 to 13.6 per cent during the period under review, despite the strengthening of the tax system. The decline was due entirely to a fall in the share of indirect taxes, since direct taxes as a proportion of GDP have increased steadily, to reach 3 per cent by 1981, as a result of an increase in the tax on profits of commercial enterprises from 36 to 45 per cent and greater efforts to collect tax arrears. Taxes on goods and services as a proportion of GDP declined in 1981, despite the introduction, in May of that year, of the major new specific taxes on petroleum products.

The structure of government revenue in 1982 is expected to reflect the adoption of new tax measures. Indirect taxes are projected to contribute almost 79 per cent of total revenues, as compared to slightly over 74 per cent in 1981. Notwithstanding continued efforts to collect arrears, the contribution of direct taxes to total revenue is expected to fall to 19 per cent, following changes in the income tax on individuals meant to reduce the tax burden and to make the system more equitable. The relative share of taxes on goods and services will rise to almost 47 per cent of total revenue, reflecting the anticipated results of the following new measures: (a) increase in the rate of the value-added tax from 10 to 15 per cent. The additional receipts derived from this adjustment are estimated at FMG 9.4 billion and will be divided equally between the Central and local governments; (b) taxation of a

variety of products previously exempted under the consumption tax, including a new 10 per cent tax on pharmaceutical products, and increases in the rates applicable to selected consumption and intermediate goods; (c) increases in prices charged by the fiscal monopoly for alcohol, tobacco, matches, and flour; the price of the latter has been doubled to FMG 300 per kilo. The additional profits resulting from these price adjustments are estimated at FMG 4.0 billion; and (d) increases in the prices of petroleum products by an average of 18 per cent to maintain the level of taxation introduced in 1981. In addition, arrears of FMG 3.0 billion on petroleum taxes are expected to be collected in 1982. The relative share of taxes on international trade is expected to decrease further by less than 29 per cent, with import taxes representing less than 18 per cent. The contribution of export duties to total revenue, however, will rise to over 10 per cent, reflecting anticipated increases in export earnings from coffee, vanilla, and cloves.

Total revenue and tax revenue to GDP ratios are expected to continue their downward trend, and the ratio of direct taxes to GDP is also expected to decline, reversing the trend shown in previous years. Taxes on goods and services as a per cent of GDP should increase moderately from 1981, as a result of the new discretionary tax measures. The ratio of import taxes to total imports is expected to continue to fall, reflecting a further increase in the proportion of exempt and lightly taxed goods in the 1982 import program.

5. Government budgetary expenditures

During the period 1979-81 current expenditures accounted for an average of 63 per cent of total budgetary outlays. From an economic classification point of view, salaries represented a growing portion of current expenditure, rising from 52 per cent in 1979 to over 61 per cent in 1981 (Appendix Table IX). Salary expenditures rose by nearly 20 per cent in 1980, of which some 8 per cent is estimated to have been due to the public sector wage increases adopted in August 1979 and the remainder due to personnel growth. During 1981 an average 3.4 per cent cost-of-living adjustment, combined with a 10.3 per cent growth in the number of personnel resulted in a 12.6 per cent rise in salary expenditures. The share of interest payments in current budgetary expenditure has increased steadily from less than 2 per cent in 1979 to around 5 per cent in 1981, reflecting the shift in government policy vis-à-vis foreign borrowing, the rise in interest rates abroad, and the recent efforts to mobilize domestic nonbank financing. Outlays on materials and supplies represented an average 15.5 per cent of current expenditures through the period 1979-81, and their share declined moderately in 1981 (Table 12). The share of other types of expenditures has declined steadily from around 34 per cent in 1979 to some 21 per cent in 1981.

Table 12. Madagascar: Current Budgetary Expenditure, 1979-82 1/
(In billions of Malagasy francs)

	Provisional			Budget 2/	Estimate
	1979	1980	1981	1982	
<u>Functional classification</u>					
Public administration	40.6	47.3	46.9	45.1	...
Economic services	15.0	12.4	8.6	10.2	...
Of which: agriculture	(8.4)	(6.0)	(4.4)	(5.1)	(...)
public works	(3.3)	(2.6)	(1.9)	(2.3)	(...)
Social services	34.1	43.3	41.3	46.4	...
Of which: national education	(25.8)	(31.4)	(33.1)	(33.6)	(...)
health services	(7.1)	(10.3)	(6.8)	(10.3)	(...)
Interest payments	2.2	2.1	2.5	6.2	9.7
Other	9.9	6.6	12.1	22.6	...
Total	101.8	111.7	111.4	130.5	134.1
<u>Economic classification</u>					
Salaries and wages	50.4	59.5	68.0	77.2	77.4
Materials and supplies	14.4	18.6	17.4	11.0	...
Interest payments	2.2	2.1	2.5	6.2	9.7
Other	34.8	31.5	23.5	36.1	...
Total	101.8	111.7	111.4	130.5	134.1
<u>Addendum:</u>					
Economic services as per cent of total current expenditures	14.7	11.1	7.7	7.8	...
Social services as per cent of total current expenditures	33.5	38.8	37.1	35.6	...
Administrative services as per cent of total current expendi- tures	39.9	42.3	42.1	34.6	...

Source: Data provided by the Malagasy authorities.

1/ Expenditures are shown on the basis of commitments and differ from payments in the Treasury records.

2/ As originally approved in December 1981.

The functional classification of current expenditures reveals that, while administrative and social services saw their combined share rise from around 73 per cent in 1979 to an average of 80 per cent in 1980-81, the relative share of economic services has shown a sharp downward trend over the period; by 1981 its share was little more than half that of 1979.

A complete functional breakdown of proposed current expenditures under the revised 1982 budget is not yet available. With respect to personnel policy, however, recruitment will be limited to graduates from government professional schools. Salaries and wages are estimated to reach FMG 77.4 billion, equivalent to 57.7 per cent of current budgetary expenditures (Table 13).

Budgetary capital expenditures, including expenditures under the reserved funds, represented 9.5 per cent of GDP in 1979; they rose to 10.8 per cent in 1980 before declining to 7.9 per cent in 1981. The proportion of these expenditures sustained by foreign financing has declined sharply from around 49 per cent in 1979 to an average of some 40 per cent in 1980-81 (Table 13 and Appendix Table IX). The structure of capital expenditures has also changed, with outlays on economic services gradually reduced in favor of increased spending on administrative and social services. The share of economic services decreased from some 63 per cent in 1979 to 50 per cent in 1981, reflecting a parallel trend in current expenditures.

Although the original 1982 budget projected a share of economic services roughly the same as in 1981, the revised budget has altered dramatically the composition of capital expenditures, raising the projected share of economic services to over 90 per cent of the total (excluding outlays from the reserved funds)(Appendix Table X). A significant improvement is also expected regarding the financing of government investment. While according to the original budget foreign loans would finance less than one fourth of capital expenditures, the changes in the structure of the investment program and the institution of an optional tranche to be committed only if additional concessionary external assistance becomes available are expected to enable the authorities to obtain foreign financing equivalent to 73 per cent of total budgetary capital expenditures. When these estimates are adjusted to take into account capital expenditures under the reserved funds, this ratio falls to 61 per cent.

Table 13. Madagascar: Budgetary Capital Expenditure, 1979-82 1/

	Provisional			Budget 2/3/ 1979	Revised	Estimate
	1979	1980	1981		budget 3/4/ 1982	3/4/
<u>(In billions of Malagasy francs)</u>						
Public administration	10.9	13.4	9.2	11.1	2.3	2.5
Economic services	32.0	28.0	11.5	21.3	45.0	(50.5)
Of which: agriculture	(14.0)	(13.2)	(5.6)	(7.3)	(18.1)	(20.3)
public works	(9.7)	(11.6)	(5.7)	(10.5)	(17.5)	(19.6)
Social services	8.3	6.7	2.4	8.6	2.5	2.8
Of which: national						
education	(6.6)	(4.8)	(1.3)	(4.5)	(1.2)	(1.4)
health	(0.3)	(0.4)	(0.3)	(3.2)	(0.6)	(0.6)
Total	51.2	48.1	23.1	41.0	49.8	55.8
<u>(In per cent)</u>						
Public administration	21.3	27.9	39.8	27.1	4.6	4.5
Economic services	62.5	58.2	49.8	51.9	90.4	90.5
Of which: agriculture	(27.3)	(27.4)	(24.2)	(17.8)	(36.4)	(36.4)
public works	(18.9)	(24.1)	(24.6)	(25.6)	(35.1)	(35.1)
Social services	16.2	13.9	10.4	21.0	5.0	5.0
Of which: national						
education	(12.9)	(10.0)	(5.6)	(11.0)	(2.4)	(2.5)
health	(0.6)	(0.8)	(1.3)	(7.8)	(1.2)	(1.1)
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Data provided by the Malagasy authorities; and Appendix Table X.

1/ Expenditures are shown on the basis of commitments and differ from actual payments.

2/ As originally approved in December 1981.

3/ Does not include reserved funds.

4/ Incorporates changes in the 1982 investment program and includes the optional tranche.

V. Money and Banking

1. Structure of the financial system and instruments of credit control

The present structure of Madagascar's banking system was established in 1977, when the existing commercial banks and development banks (all of which had been nationalized in 1975) were reorganized into three new banks, each specializing in a particular type of credit activity. The National Bank for Rural Development (BTM) and the National Bank for Industrial Development (BNI) provide credit for agricultural and industrial purposes, respectively, while credit for internal and external commerce is provided by the National Bank of Commerce (BFV). Apart from these banks and the Central Bank there is also a postal checking system, under the financial control of the Treasury, and the Madagascar Savings Fund (Caisse d'Epargne de Madagascar), which operates under the Ministry of Posts and Telecommunications and is concerned with the promotion of small savings. A National Investment Fund (FNI) ^{1/} was established in October 1979 to mobilize domestic savings for the financing of long-term development projects which were beyond the range of the traditional short- and medium-term financing functions of the commercial banks. One of the purposes of the FNI is to tap domestic savings such as the resources of the Madagascar Savings Fund and the social security system, but the major part of its resources consists of transfers from Government, including the allocation of part of the proceeds of some taxes (including one third of the proceeds of the one per cent turnover tax, TASCAP). However, the FNI has not yet begun active operations and has not provided any credit. There are also two state-owned insurance companies, "NY Havana" and "ARO."

The policy instruments currently available to the Central Bank for the control of credit activities of the commercial banks are: global credit ceilings for each bank; the requirement of prior authorization for credit extended by banks to an enterprise whose total outstanding bank credit exceeds FMG 100 million; and monthly ceilings on individual bank's access to the Central Bank's rediscount window. Until 1981 all short-term credit was divided into two categories for the purpose of establishing the global credit ceilings: overdrafts, import credit, consumer loans, and normal commercial credit ("Masse A"), which were regarded as of lower priority; and crop financing, export credit, and credit to certain enterprises involved in industrial development ("Masse B"), which were granted a higher priority. In order to promote production, certain enterprises engaged in the development of domestic industry were moved from the first category ("Masse A") to the second category ("Masse B"). Initially credit under Masse A was allowed to

^{1/} Fonds National d'Investissement.

increase annually up to 3 per cent compared to 7 per cent for credit classified in "Masse B." However, in 1973 the limit on expansion for "Masse B" was abolished, but "Masse A" continued to be subject to ceilings. In 1981 the Central Bank abandoned the concept of "Masse A" and "Masse B," and the structure of the global credit ceilings was altered. Separate limits were established for three types of credit: import credit and overdrafts; consumer loans and normal commercial credit; and advances to contractors in connection with government projects. Crop financing and export credit remain free from any ceilings. The ceilings are established for each bank on a quarterly, cumulative basis. Penalties for exceeding the ceilings consist of a warning for the first infraction; a reduction in access to the central bank rediscount window or the requirement to make noninterest-bearing special deposits at the Central Bank equivalent to 50 per cent of the excess credit for the second infraction; and for any further breaking of the ceilings the bank concerned is required to make special deposits at the Central Bank, equal to one half of the excess of actual credit over the ceiling, on which a negative interest rate of 3 per cent is charged. The limit on commercial banks' access to the Central Bank's rediscounting facilities has, in practice, only affected the National Bank for Rural Development (BTM), since the other two banks have been fairly liquid. In September 1981 the ceiling on the BTM's access to the rediscount window was reduced from FMG 4.6 billion to FMG 2.1 billion, to accompany a reorganization of the interbank money market.

2. Interbank money market

Since June 1975 an interbank money market has been in operation, whereby the excess resources of some banks (in practice the BNI and the BFV) are channeled through the Central Bank to other national banks (in practice the BTM). The money market offers two-, five-, and ten-day credit, with the two-day type being the most popular. After the general increase in interest rates of February 1981, offer and demand rates for two-day credits were 5.5 per cent and 9.25 per cent, respectively. Since its introduction the money market has been generally in a state of imbalance, with funds supplied exceeding demand. This was partly due to seasonal factors, but also to the fact that the interest rate paid by the BTM for use of funds from the money market was higher than the Central Bank's rediscount rate (8 per cent). Therefore, the BTM preferred to use the Central Bank's rediscount facilities and only went to the money market as a last resort. In September 1981 the money market was replaced by a "face-to-face" market, and the limits on rediscounts of short- and medium-term credits were lowered. The borrowing interest rate was reduced to 6.5 per cent, resulting in an increased use of the money market and a sharp reduction in BTM's recourse to the rediscount facilities of the Central Bank. At the time of the general increase in interest rates on June 1, 1982 the offer- and demand- rates for two-day credits were

raised to 12.5 and 13.5, respectively. Furthermore, the liquidity of the national banks has been reduced since their reserves no longer include the outstanding balances on the "face-to-face" market, as was the case under the former interbank market.

3. Overall monetary and credit developments

Overall monetary and credit developments since December 1977 are summarized in Table 14. During the four years ended December 1981 total domestic credit increased at a very rapid pace, the net external position of Madagascar deteriorated sharply, and money supply rose at a faster pace than nominal GDP. These trends have persisted during the first few months of 1982.

Total domestic credit of the banking system, which rose in 1977 by 11 per cent, increased in the following two years at an average annual rate of some 48 per cent. In 1981 the rate of credit expansion moderated somewhat to about 22 per cent. Overall, during the last four years total domestic credit rose at an average annual rate of 32 per cent. In relation to broad money (M_2) at the beginning of each of the four years, the increase in domestic credit averaged some 41 per cent per annum. More than three fourths of the total expansion in domestic credit was directed to the government sector, reflecting the rapidly widening fiscal deficit, a large part of which was financed by recourse to the banking system. Starting from a low base, net credit to the Government, which represented 23 per cent of total domestic credit at the end of 1977, increased during the four-year period at an average annual rate of 72 per cent, or at much faster pace than the increase in total domestic credit, and at the end of 1981 accounted for about 59 per cent of the total. Nearly 93 per cent of the increase in net credit to the Government was provided by the Central Bank, mainly in the form of increases in ordinary advances, as well as advances related to the marketing of imported rice. Credit to the private sector and state enterprises increased during the last four years at an average annual rate of less than 15 per cent, which is well below the rate of increase in total domestic credit, and in relation to the total fell from 77 per cent in 1977 to 41 per cent in 1981.

Parallel with the rapid expansion in domestic credit, Madagascar's net external position deteriorated sharply. The net foreign assets of the banking system, which amounted to FMG 14.0 billion at the end of December 1977, turned negative in 1979, with net foreign liabilities reaching FMG 94.4 billion at the end of 1980. The net external position of Madagascar continued to deteriorate further in 1981, and the net foreign liabilities of the banking system at the end of this year amounted to FMG 125.8 billion, reflecting, in part, the outstanding

Table 14. Madagascar: Monetary Survey, 1977-82

(In billions of Malagasy francs; end of period)

	1977	1978	1979	1980	1981				1982
					March	June	Sept.	Dec.	March
Foreign assets (net)	13.95	7.82	-40.78	-94.36	-91.54	-104.18	-118.54	-125.80	-131.97
Central Bank	8.59	8.58	-34.50	-86.68	-89.31	-104.25	-112.05	-123.92	-138.12
National banks	5.36	-0.76	-5.28	-7.68	-2.23	0.07	-6.49	-1.88	0.15
Domestic credit	124.32	149.51	219.98	326.08	341.47	346.32	363.35	398.78	412.57
Claims on Government (net)	28.21	48.46	99.07	175.77	186.08	196.90	203.74	234.95	248.98
Central Bank	(27.99)	(45.88)	(88.56)	(174.16)	(177.70)	(184.20)	(189.35)	(220.49)	(233.59)
National banks	(-4.35)	(-4.70)	(-2.47)	(-11.54)	(-5.70)	(-2.09)	(0.17)	(-0.50)	(-0.48)
Other claims	(4.57)	(7.28)	(12.98)	(13.15)	(14.08)	(14.79)	(14.21)	(14.96)	(15.87)
Claims on state enterprises and the private sector	96.12	101.05	120.91	150.31	155.39	149.42	159.61	163.83	163.60
Non-lending	1.00	1.00	12.13	11.21	11.21	11.21	11.21	11.10	11.10
To Government	—	—	2.38	2.62	2.62	2.62	2.62	2.50	2.50
To state enterprises	1.00	1.00	9.75	8.59	8.59	8.59	8.59	8.59	8.59
Broad money	120.28	140.77	172.91	205.81	212.95	211.13	219.10	243.55	246.61
Money	99.62	112.83	137.71	164.74	173.02	168.99	178.27	200.84	201.24
Currency outside banks	(41.64)	(48.18)	(53.55)	(70.23)	(67.1)	(71.47)	(77.63)	(83.10)	(84.45)
Demand deposits	(57.98)	(64.65)	(84.16)	(94.51)	(105.31)	(97.51)	(100.64)	(117.74)	(116.79)
Quasi-money	20.66	27.94	35.20	41.07	39.93	42.14	40.83	42.71	45.37
Long-term foreign liabilities	3.31	2.98	14.55	31.79	42.36	42.83	49.66	51.90	51.54
Central Bank	1.00	1.00	11.61	20.65	30.22	28.36	37.19	19.70	19.70
National banks	2.31	1.98	2.94	11.14	12.14	14.47	12.47	14.70	14.56
Rescheduling arrangements	—	—	—	—	...	...	...	17.50	17.28
Counterpart funds	0.14	0.36	0.02	0.20	0.26	0.34	0.14	0.66	0.05
Other items (net)	15.54	14.22	3.85	5.13	5.57	-0.95	-12.88	-12.04	-6.50

Sources: Data supplied by the Malagasy authorities, foreign assets and liabilities have been revalued by the staff to reflect prevailing exchange rates.

balance of consolidated arrears. In addition, medium- and long-term foreign liabilities of Madagascar continued to increase, and rose in 1981 by more than 60 per cent to FMG 51.9 billion.

Reflecting credit developments as well as the deterioration in the external financial position of the banking system, money supply, broadly defined, rose in the last four years at an average annual rate of 19 per cent, which was above the rate of increase in nominal GDP estimated at about 14 per cent. During this period the currency in circulation represented, on average, about 42 per cent of money supply, narrowly defined (M_1). Meanwhile, quasi-money, after increasing at the same pace as M_1 during the period 1977-80, virtually stagnated in 1981 notwithstanding the increase in interest rates beginning in February of this year.

Monetary and credit developments in the first three months of 1982 indicate a continuation of the trend which characterized the preceding four years. Total domestic credit rose from FMG 398.8 billion at the end of December 1981 to FMG 412.6 billion at the end of March 1982, with the entire increase accounted for by expansion in net credit to the Government. Meanwhile, credit to the private sector and state enterprises stagnated, reflecting the low level of economic activity brought about, in part, by acute shortages of foreign exchange to finance imports of spare parts and raw materials for the manufacturing sector. With the continued weakness in the balance of payments and a depreciation of the Malagasy franc vis-à-vis the U.S. dollar, the net foreign liabilities of the banking system increased by FMG 6.2 billion. During the first quarter of 1982 the net foreign liabilities of the Central Bank rose by FMG 14.2 billion, while the national banks improved their net external position, and their net foreign liabilities of FMG 1.9 billion at the end of December 1981 was reversed to a positive balance of FMG 6.2 billion at the end of March 1982. Broad money rose by FMG 3 billion in the first quarter of 1982 to FMG 246.6 billion with most of the increase in quasi-money.

4. Operations of the Central Bank

Appendix Table XIII summarizes the operations of the Central Bank during the period December 1977-March 1982. During the four-year period ended in December 1981 the Central Bank accounted for about 72 per cent of the increase in total domestic credit provided by the banking system, net of government deposits. Net credit to Government from the Central Bank slightly exceeded the increase in total domestic credit provided by the bank, as credit to national banks declined sharply, reflecting their highly liquid position.

The central bank credit to the national banks, which amounted to FMG 12.4 billion at the end of 1977, declined to FMG 1.5 billion at the end of 1981, and, in relation to total credit provided by these banks,

fell from 14.3 per cent to less than 1 per cent. During the first three months of 1982 net credit from the Central Bank (i.e., net of government deposits) rose by FMG 12 billion to FMG 245 billion as net credit to the Government rose by about FMG 13 billion, while credit to national banks declined by FMG 1 billion. As indicated earlier, the net foreign position of the Central Bank continued to deteriorate in the early months of 1982, and the net foreign liabilities rose by 11.5 per cent to FMG 138 billion. During the four-year period 1977-81 reserve money rose at an average annual rate of 23 per cent, or higher than the average rate of increase in broad money.

5. Operations of the national banks

Appendix Table XIV summarizes the operations of the national banks during the period December 1977-March 1982. During the four years 1977-81 net domestic credit provided by the national banks increased at an average annual rate of 16.7 per cent, which was less than the average rate of increase in credit provided by the whole banking system. While credit to state enterprises and the private sector rose steadily, the Government maintained a net deposit balance with the national banks, but the amount declined from FMG 4.4 billion at the end of 1977 to FMG 0.5 billion at the end of 1981. Also, during this period the banks improved significantly their liquidity position in two ways. First, their cash holdings and deposits with the Central Bank rose from FMG 2.3 billion at the end of 1977 to FMG 7.3 billion at the end of 1980 and to FMG 14.3 billion at the end of 1981. In the first three months of 1982 their reserves continued to increase and reached FMG 18.7 billion, or the equivalent of 14 per cent of their demand and time deposits. Second, their recourse to central bank credit declined from FMG 12.4 billion at the end of 1977 to FMG 1.5 billion at the end of 1981, and declined further to FMG 0.4 billion at the end of March 1982. During the period 1977-81 the national banks had recourse to foreign borrowing. Their net external position deteriorated from a positive balance of FMG 5.4 billion at the end of December 1977 to a negative balance of FMG 1.9 billion at the end of 1981. In the first three months of 1982 the national banks' foreign assets rose and their foreign liabilities fell, resulting in a positive balance of FMG 6.2 billion. In addition, long-term foreign borrowings (which are not netted against the foreign assets) rose from FMG 2.3 billion in 1977 to FMG 14.7 billion in 1981, and stabilized in 1982 at this level.

6. Interest rate structure

Effective February 1, 1981, a new interest rate structure was adopted (Appendix Table XV). Generally speaking, the rates applied by the Central Bank for rediscounts and advances were raised by 2.5-3.25 percentage points. While the basic rediscount rate was fixed at 8 per cent,

other rates charged by the Central Bank ranged between 7 per cent for rediscounts of export bills and 11 per cent for certain types of advances. Rates charged by the national banks were also raised and ranged between 9 per cent for the financing of coffee stocks and 13 per cent for overdrafts. Deposit rates paid by the national banks were also raised; for time deposits of one-to-two years' maturity the rate was 6.75 per cent and went as high as 8.5 per cent for certificates of deposit of five-to-six years' maturity.

A further increase in interest rates was introduced on June 1, 1982. The basic central bank rediscount rate was increased to 12.5 per cent, and borrowing and lending rates were raised correspondingly. The rates charged by the national banks now range between 12.5 per cent for the financing of coffee stocks and 17 per cent for overdrafts. The average lending rate, weighted by the stocks of credit outstanding, is now 15.1 per cent, as compared to 10.6 per cent before the latest increase. Rates paid by the national banks on time deposits now range from 9 to 12.5 per cent, with a rate of 10.5 per cent for deposits of one-to-two years' maturity. On June 1, 1982 the Government also introduced a special national loan, to help finance the Government's investment program, with maturities of five and ten years and interest rates of 15 and 18 per cent, respectively.

VI. Balance of Payments

1. Overall developments

Madagascar's overall balance of payments deteriorated sharply in 1979 and 1980, largely as a result of highly expansionary fiscal policies exacerbated by adverse terms of trade (Table 15 and Appendix Table XVI). A rapid expansion in aggregate domestic demand led to a drastic widening of the external current account deficit, which went from around 5 per cent of GDP in 1978 to over 17 per cent in 1979 and 1980. The deficit was financed by a rundown of foreign reserves, a major increase in foreign borrowing, on increasingly onerous terms, and, since 1980, an accumulation of external arrears.

The deficits on the current account and the overall balance decreased in 1981, as a result of a sharp reduction in the level of imports, which fell by over 30 per cent in volume terms. However, the external imbalance remained large, with a current account deficit of SDR 334 million, equivalent to 13.6 per cent of GDP. This was partly as a result of a sharp fall in export receipts, due mainly to lower earnings from coffee. The terms of trade are estimated to have deteriorated by over 20 per cent.

Table 15. Madagascar: Balance of Payments, 1978-82

(In millions of SDRs)

	1978	1979	1980	<u>1981</u> Est.	<u>1982</u> Proj.
A. Current account	<u>-91.0</u>	<u>-374.0</u>	<u>-463.6</u>	<u>-334.1</u>	<u>-377.7</u>
Trade balance	14.8	-222.3	-284.7	-170.2	-205.0
Exports, f.o.b.	323.5	320.2	335.6	285.5	314.3
Imports, f.o.b.	-308.7	-542.5	-620.3	-455.7	-519.3
Net services and transfers	-105.8	-151.7	-178.9	-163.9	-172.7
B. Capital account	<u>90.4</u>	<u>211.5</u>	<u>276.9</u>	<u>256.1</u>	<u>236.5</u>
Private capital <u>1/</u>	61.5	83.1	102.1	65.7	70.1
Official capital <u>2/</u>	28.9	128.4	174.8	190.4	166.4
C. SDR allocation	<u>--</u>	<u>3.5</u>	<u>3.5</u>	<u>3.5</u>	<u>--</u>
D. Overall balance (A + B + C)	<u>-0.6</u>	<u>-159.0</u>	<u>-183.2</u>	<u>-74.5</u>	<u>-141.2</u>
E. Changes in net official international reserves (increase -)	<u>0.6</u>	<u>159.0</u>	<u>183.2</u>	<u>74.5</u>	<u>141.2</u>
<u>Memorandum item:</u>					
Gross official reserves at end of period					
In millions of SDRs	44.5	1.0	15.7	27.5	27.5
In months of imports	1.7	0.0	0.3	0.7	0.6

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

1/ Including state enterprises, short-term capital, net errors and omissions, and valuation changes.

2/ Including debt rescheduling already obtained.

A large increase in interest payments on the rapidly growing external debt offset most of the reduction in freight and insurance payments on the lower level of imports, so there was little improvement in the services account.

The net inflow of nonmonetary capital was about the same as in 1980, as gross capital inflow remained virtually unchanged and the increase in amortization payments due was attenuated by the reschedulings with public creditors within the framework of the Paris Club, and with a number of private creditors. The overall balance of payments deficit was less than half that of the two preceding years, but remained substantial at SDR 74.5 million. It was financed by purchases from the Fund, exceptional balance of payments support from bilateral sources, and a further accumulation of arrears on a net cash basis, although the actual stock of arrears declined because of success in negotiating consolidation agreements.

In 1982 the authorities aim to limit the overall balance of payments deficit to some SDR 141 million. This will permit the volume of imports to grow by around 9 per cent from the depressed level of 1981. The increase will be more than accounted for by the volume of rice imports, which is expected to grow by over 50 per cent as a result of heavy cyclone damage to the domestic crop. Export receipts are also projected to increase, by around 10 per cent, so that the current account deficit as a proportion of GDP should decline slightly to around 13.4 per cent. Gross capital flows are expected to increase, partly as a result of concessional foreign loans linked to the emergency rice imports, but net capital flows will decline because of heavy repayments of principal before any further debt rescheduling beyond the one already obtained through June 1982 during the 1981 Paris Club renegotiation. In addition to the overall balance of payments deficit, Madagascar also has payments obligations amounting to SDR 46.7 million with respect to previous arrangements for the consolidation of arrears. Together with a net cash repayment of SDR 7.6 million of still outstanding arrears, this implies a total financing need of SDR 195.5 million. Net purchases from the Fund and already identified exceptional balance of payments financing amount to SDR 79.7 million, which leaves a gap of SDR 115.8 million to be filled by debt rescheduling and additional external assistance, of which an estimated SDR 54.2 million would represent new external resources and SDR 61.6 million debt relief.

2. Merchandise trade

a. Exports

The value of total exports in terms of Malagasy francs has been stationary in recent years and in 1981 amounted to FMG 91.4 billion, the same as in 1978 (Table 16). The principal characteristic of export

Table 16. Madagascar: Exports, 1978-82

(Value in billions of FMG; volume in thousands of metric tons; and unit prices in FMG/kilo)

	1978	1979	1980	1981 Prov.	1982 Prov.
Coffee, value	36.6	38.1	45.1	31.8	42.6
Volume	55.2	63.1	69.5	60.5	60.0
Unit price	663	604	649	524	710
Cloves, value	17.2	15.0	6.6	21.1	28.4
Volume	14.8	13.5	4.4	9.3	10.1
Unit price	1,166	1,111	1,510	2,271	2,816
Vanilla, value	8.6	3.1	3.9	8.1	12.7
Volume	1.5	0.4	0.4	0.7	0.8
Unit price	5,925	7,126	9,621	12,162	15,875
Shellfish, value	3.1	3.7	3.9	4.6	5.4
Volume	3.5	3.6	3.4	3.2	3.2
Unit price	893	1,034	1,139	1,418	1,678
Petroleum products, value	1.4	2.2	1.4	3.0	4.7
Volume	73.9	94.9	40.5	59.9	76.5
Unit price	19	24	34	51	61
Sugar, value	1.4	1.4	2.5	2.3	1.4
Volume	23.2	19.6	24.0	15.0	10.1
Unit price	62	70	103	153	138
Meat, value	1.5	2.9	3.8	1.3	1.6
Volume	3.3	5.3	6.5	2.1	2.1
Unit price	464	555	576	640	757
Cotton fabric, value	1.5	1.9	1.8	1.9	3.5
Volume	2.9	3.4	3.4	3.1	...
Unit price	510	542	518	615	...
Sisal, value	1.2	1.8	1.7	1.6	...
Volume	15.2	15.4	13.5	12.6	...
Unit price	79	115	127	129	...
Chrome, value	3.1	1.8	2.0	1.3	1.7
Volume	144.7	109.1	134.5	67.2	70.0
Unit price	22	17	15	19	25
Graphite, value	1.3	1.3	1.4	2.2	2.4
Volume	16.9	14.6	11.5	16.4	15.0
Unit price	76	88	125	135	160
Mica, value	0.2	0.3	0.3	0.2	..
Volume	1.3	1.2	1.1	0.9	...
Unit price	153	213	296	259	...
Other, value	14.3	14.5	17.9	12.0	15.0
Total (f.o.b.)	91.4	88.0	92.3	91.4	119.4

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

performance in recent years has been the stagnation or decline in volume coupled with a lack of export diversification. In 1981 export volume was 24 per cent below the level of 1978 (Table 17). In 1981 volume rose somewhat compared with 1980, but this was due in part to exports of cloves, which had recovered from the 1980 trough to the first peak year of their three-to-four-year cycle. In terms of Malagasy francs, the decline in export volume was balanced by the increase in average unit prices, so that the value was virtually unchanged.

The unsatisfactory export performance reflected in large measure the stagnation or decline of agricultural production in recent years, which was linked to the serious neglect of the agricultural sector. This resulted from the sharp deterioration of the basic infrastructure, such as inadequate transportation facilities, including poor conditions at ports, inadequate extension services and distribution networks, and insufficient replanting of export-crop-bearing trees and plants. Scarcity of agricultural credit contributed in large part to the above problems. Moreover, the shortages of imported spare parts required to renew old equipment, including in the mining and small manufacturing sectors, and the lack of profitability at prevailing prices and exchange rates were hindrances to production and export.

Table 17. Madagascar Foreign Trade Indices, 1977-82
(1981 = 100)

	1977	1978	1979	1980	1981	<u>1982</u> Proj.
Export volume	101	131	117	91	100	103
Export prices <u>1/</u>	98	84	91	119	100	111
Import volume	87	91	147	146	100	109
Import prices <u>1/</u>	66	74	81	93	100	105
Terms of trade	148	114	112	128	100	106

Sources: Data provided by the Malagasy authorities, and staff estimates.
1/ In terms of SDRs.

Examining more closely the developments in 1981, the principal changes, in absolute terms, occurred in the two major export crops, coffee and cloves. Earnings from coffee exports declined by FMG 13.3 billion due to both lower shipments (-13 per cent) and lower average unit prices, which fell by 19 per cent in terms of Malagasy francs. Madagascar exported the full quota of 50,000 tons under the International Coffee Agreement (ICA) and 10,500 tons to non-ICA members. In addition to the weakening of international prices for Robusta, prices for Madagascar's coffee exports to non-ICA member countries were also affected adversely by the country's serious financial constraints, which left the authorities in a poor bargaining position. By contrast, export earnings from cloves increased by FMG 14.5 billion, or more than threefold, in response to higher volume, which more than doubled from the preceding trough year of the clove cycle, and to higher average unit prices, which rose by one half. Unit prices rose for the second consecutive year, but the volume was still significantly below that in the previous peak years of 1978-79. Increases were also recorded in earnings (in terms of Malagasy francs) from vanilla exports and, to a lesser degree, in earnings from petroleum products, graphite, shellfish and cotton fabrics. The growth in vanilla exports followed two years of stagnation in export volume; shipments in 1981 rose by 75 per cent, while average unit prices continued their upward trend of recent years, increasing by 26 per cent. Export volume, however, was still below the levels attained in 1977-78.

Earnings from all other exports declined, notably meat, chrome, sugar, and sisal. The volume of meat exports fell by 68 per cent, due mainly to lack of competitiveness in world markets. Meat exports have been subsidized since 1979 by way of bank credits. In 1981 the Treasury reimbursed these credits in an amount of FMG 2.8 billion relating to exports in 1979 and 1980. In the case of chrome, export volume was adversely affected in part by uncompetitive costs due to outmoded equipment as well as by transportation difficulties and the depressed world demand. Subsidy payments of FMG 0.5 billion were made in 1981, in part to finance stocks which could not be exported. The volume of sugar exports declined by 38 per cent and more than offset an increase in prices. The decline in volume was partly due to smaller output from obsolescent equipment and to poor irrigation facilities. In addition, increasing domestic consumption, despite a sharp increase in the consumer price in 1981, reduced the exportable surplus. In summary, with the notable exceptions of cloves, vanilla, petroleum products, and graphite, the volume of all other exports recorded significant declines in 1981.

In 1982 export earnings are projected to increase by FMG 28 billion (31 per cent) to FMG 119.4 billion, after taking account of the depreciation of the Malagasy franc in May 1981. Overall export volume is expected to increase by about 3 per cent. The most important gains, in

absolute terms, are to come from coffee, cloves, vanilla, and petroleum products. The volume of coffee exports is projected to decline marginally in 1982, but this is expected to be more than offset by a recovery in average unit prices (up 35 per cent), reflecting the stabilization measures under the International Coffee Agreement and a lower Brazilian output following the 1981 frost. The increase by FMG 11 billion (34 per cent) in receipts from coffee exports is to account for two fifths of the total projected gain in 1982. The next most important growth in export receipts is expected to come from cloves, volume is projected to increase by 9 per cent in the second year of the peak cycle, and, coupled with a 24 per cent increase in average unit prices, earnings are to increase by FMG 7.3 billion (35 per cent), representing over one fourth of the total export increase. Exports of vanilla are expected to benefit from a 14 per cent increase in volume and a 31 per cent increase in average unit prices to reach a record gain of FMG 4.6 billion (57 per cent), accounting for 16 per cent of the total growth in exports. Increases are also expected from exports of petroleum products, where the extension and modernization of the refinery is expected to facilitate an increase in export volume (28 per cent) for the second consecutive year; together with a projected rise in unit prices by 20 per cent, total earnings from petroleum products are to go up by FMG 1.7 billion (57 per cent). Less important gains are forecast for exports of shellfish, meat, and graphite, in all cases as a result of more favorable unit prices, while volume is projected to either stabilize or decline.

b. Imports

Following an increase by nearly 70 per cent in terms of Malagasy francs in 1979, the rate of increase decelerated to 15 per cent in 1980, and in 1981 imports declined by 14 per cent to FMG 177.9 billion (Table 18). These developments reflected an increase in volume by over 60 per cent in 1979, an unchanged level in 1980, and a reduction by over 30 per cent in 1981. The latter outcome resulted from the country's severe foreign exchange constraint.

Of the total decline by FMG 28 billion in 1981, about one half was accounted for by the category "other," which comprised temporary imports, mainly heavy equipment goods for the execution of investment projects. The decline reflected the sharp drop in investment activity under the impact of the foreign exchange shortage. The next most important reduction occurred in imports of raw materials and intermediary goods, which made up nearly two fifths of the total decline, followed by consumer goods other than foodstuffs and capital goods, which each represented around 30 per cent of the overall reduction in the import bill. By contrast, imports of foodstuffs rose by FMG 9 billion (48 per cent), almost entirely because of rice. The volume of rice imports rose to 192,000 tons (8 per cent), as domestic production was adversely

Table 18. Madagascar: Composition of Imports, c.i.f., 1976-82

	1978	1979	1980	1981 Est.	1982 Proj.	1978	1979	1980	1981 Est.	1982 Proj.
	(In billions of FMG and in metric tons)					(In per cent)				
Consumer goods other than foodstuffs	17.8	22.9	22.0	16.0	20.2	16.7	12.8	10.7	9.0	8.7
Foodstuffs	17.8	17.7	18.7	27.7	50.4	16.7	9.8	9.1	15.6	21.6
Of which: rice	(11.7)	(8.9)	(11.7)	(18.1)	(38.4)	(11.0)	(5.0)	(5.7)	(10.2)	(16.5)
volume	(167,000)	(156,000)	(177,000)	(192,000)	(300,000)	(...)	(...)	(...)	(...)	(...)
Energy ^{1/}	12.7	20.7	33.6	35.6	43.7	12.0	11.5	16.3	20.0	18.8
Of which: crude oil	(7.8)	(11.9)	(26.1)	(29.3)	(...)	(7.3)	(6.6)	(12.7)	(16.5)	(...)
volume	(330,974)	(375,445)	(492,090)	(427,368)	(...)	(...)	(...)	(...)	(...)	(...)
Raw materials and inter- mediate goods	28.2	36.0	43.6	31.9	49.4	26.5	20.1	21.2	17.9	21.2
Capital goods	25.9	71.5	70.3	62.7	59.5	24.4	39.9	34.1	35.2	25.6
For agriculture	(0.5)	(1.6)	(0.6)	(...)	(...)	(0.5)	(0.9)	(...)	(...)	(...)
For industry	(25.4)	(69.9)	(69.7)	(...)	(...)	(23.9)	(39.0)	(...)	(...)	(...)
Other	3.9	10.5	17.8	4.0	9.5	3.7	5.9	8.6	2.3	4.1
Total	106.3	179.3	206.0	177.9	232.7	100.0	100.0	100.0	100.0	100.0

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

^{1/} Crude oil, gasoline, gas, and coal.

affected by drought; in addition, average unit prices were 46 per cent higher than in 1980. Following a 60 per cent increase in energy imports in 1980, they rose by only 6 per cent in 1981; the volume of crude oil imports declined by 6 per cent.

In 1982 imports are projected to grow by FMG 55 billion (30 per cent, after allowing for the depreciation of the Malagasy franc in May 1982), with the volume of imports forecast to grow by 9 per cent from the depressed level of 1981. However, in real terms this level would still be 20 per cent higher than in 1978, representing an annual average increase of around 5 per cent. Two fifths of the total expansion in 1982 is to be due to foodstuffs, mainly rice, the volume of which is expected to increase by over 50 per cent. Imports of raw materials and intermediate goods are projected to recover from their decline in 1981 and to increase by 50 per cent, accounting for about one third of the import expansion. This reflects the authorities' emphasis in the 1982-84 investment program on the rehabilitation of existing capacity rather than the launching of new investment projects. In line with this policy, imports of capital goods are projected to decline by 5 per cent.

In terms of the composition of imports, capital goods, despite their projected continued decrease in 1982, would still account for the most important share, representing one fourth of total imports. The proportion of food imports in the total has fluctuated, mainly in response to the demand for imported rice. Reflecting the projected sharp increase in rice imports in 1982, food imports, together with imports of raw materials and intermediate goods, are expected to have the second largest share in the import bill, each accounting for just over one fifth of the total. The relative position of consumer goods other than food is projected to continue the declining trend of recent years and to make up less than 9 per cent of the total in 1982.

c. Direction of trade

The relative importance of Madagascar's various export markets has not undergone any significant change in recent years (Table 19). The notable exception is France, whose share as an outlet for Madagascar's exports has declined almost without interruption from 26.5 per cent in 1976 to 19.6 per cent in 1980. In 1978 France was replaced by the United States as the most important market for Madagascar's exports, although in 1980 France and the United States held equal shares. The next most important single market has been the Federal Republic of Germany, whose relative share ranged above 8 per cent during 1977-80. The importance of Indonesia as an export market varies significantly, depending on whether it is a trough or a peak year for the production and export of cloves, which are sold principally to Indonesia. During 1977-80 Indonesia's share in total exports averaged 7.7 per cent, but in 1978 and 1979 it was 13.6 per cent and 12.9 per cent, respectively. The share of Japan fluctuated in recent years from a high of 8.4 per cent in 1977 to a low of 3.7 per cent in 1978. In 1980, however, the relative importance of the Japanese market increased to 10.4 per cent, the second largest share.

Table 19. Madagascar: Direction of Trade, 1977-80 ^{1/}

	1977	1978	1979	1980	1977	1978	1979	1980
	(In billions of FMG)				(In per cent)			
Exports, f.o.b.	<u>82.9</u>	<u>87.2</u>	<u>83.8</u>	<u>84.4</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
France	22.0	20.1	21.7	16.6	26.5	23.0	25.9	19.6
EC (other than France)	14.5	9.8	13.7	17.3	17.5	11.2	16.3	20.4
Germany, Fed. Rep. of	(7.0)	(6.5)	(6.4)	(7.8)	(8.4)	(7.5)	(7.6)	(9.2)
Italy	(1.9)	(1.2)	(2.8)	(2.3)	(2.3)	(1.4)	(3.3)	(2.7)
Netherlands	(2.6)	(1.1)	(2.5)	(3.4)	(3.1)	(1.3)	(3.0)	(4.0)
United Kingdom	(2.1)	(0.2)	(1.2)	(2.9)	(2.6)	(0.3)	(1.4)	(3.4)
Belgium-Luxembourg	(0.7)	(0.7)	(0.7)	(0.6)	(0.8)	(0.8)	(0.8)	(0.7)
Denmark	(0.2)	(0.1)	(0.1)	(0.3)	(0.3)	(0.1)	(0.2)	(0.4)
United States	18.5	21.9	12.3	16.6	22.3	25.1	14.7	19.6
Réunion	2.4	2.4	2.7	2.6	2.9	2.8	3.2	3.1
Japan	7.0	3.2	4.4	8.8	8.4	3.7	5.2	10.4
Malaysia	0.8	—	0.4	0.4	1.0	—	0.5	0.5
Indonesia	1.0	11.9	10.8	2.5	1.2	13.6	12.9	2.9
Algeria	3.7	1.9	4.5	2.9	4.5	2.2	5.4	3.4
Other	13.0	16.0	13.3	17.1	15.7	18.4	15.9	20.1
Imports, c i.f.	<u>85.2</u>	<u>99.6</u>	<u>135.3</u>	<u>126.8</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
France	33.5	34.7	43.6	52.5	39.3	34.8	32.2	41.4
EC (other than France)	16.8	22.2	25.8	28.6	19.7	22.3	19.1	22.6
Germany, Fed. Rep. of	(7.1)	(13.9)	(12.5)	(13.0)	(8.3)	(13.9)	(9.2)	(10.2)
Italy	(4.1)	(3.0)	(5.2)	(4.8)	(4.8)	(3.0)	(3.9)	(3.8)
Netherlands	(2.1)	(2.1)	(2.9)	(2.5)	(2.5)	(2.2)	(2.2)	(2.0)
United Kingdom	(1.9)	(1.4)	(2.7)	(4.0)	(2.2)	(1.4)	(2.0)	(3.2)
Belgium-Luxembourg	(1.5)	(1.7)	(2.2)	(4.0)	(1.8)	(1.7)	(1.6)	(3.2)
Denmark	(0.1)	(0.1)	(0.3)	(0.3)	(0.1)	(0.1)	(0.2)	(0.2)
United States	2.8	3.4	14.5	4.5	3.3	3.4	10.7	3.6
Qatar	2.6	1.1	—	—	3.0	1.1	—	—
Japan	4.4	4.7	7.7	6.9	5.2	4.7	5.7	5.4
Saudi Arabia	—	1.0	—	0.4	—	1.0	—	0.3
China, People's Republic of	3.4	6.2	6.5	1.9	4.0	6.2	4.8	1.5
Other	21.7	26.3	37.2	32.0	25.5	26.5	27.5	25.2

Source Data provided by the Malagasy authorities.

^{1/} Figures do not correspond to those included in the balance of payments or in Tables 16 and 18.

On the import side, France continues to be the largest source of supply for Madagascar. Although its share in Madagascar's imports declined in both 1978 and 1979 to 35 per cent and 32 per cent, respectively, this trend was reversed in 1980, when France's share grew to over two fifths of total imports. Imports from other EC countries have tended to increase, reaching a high of 22.6 per cent of the total in 1980; this reflected mainly the rising relative position of the Federal Republic of Germany, which has remained the second largest supplier. Imports from Japan averaged 5.3 per cent of the total during 1977-80, while those from the United States were around 3.5 per cent, except in 1979, when large imports of equipment goods associated with the expansionary investment program pushed the United States' share to 10.7 per cent of the total. Prior to 1977 Madagascar's main sources of oil imports were Qatar and Saudi Arabia. Since 1977-78, however, Madagascar has shifted its oil purchases toward Libya and Iraq and various spot markets, which are included under the category "other."

3. Services

Madagascar has substantial deficits on the services account. Between 1977 and 1980 the net outflow on services rose by 60 per cent to SDR 179.6 million. The deterioration was due primarily to sharp increases in payments for freight and insurance associated with the steep rise in imports, especially in 1979, and the increase in interest payments because of the rapidly growing external debt and higher interest rates. The deficit on the services account decreased somewhat in 1981, as a result of the reduction in payments for freight and merchandise insurance associated with the decline in the volume of imports. However, payments in respect of investment income continued to rise, recording their sharpest increase (71 per cent) in recent years. During 1981 interest payments amounting to SDR 17.5 million were rescheduled within the framework of the Paris Club renegotiation and under agreements reached with private creditors. However, the moratorium interest charged on the rescheduling of principal and interest as well as on the consolidation of outstanding arrears amounted to SDR 10.6 million, so that the net decrease in interest payments amounted to only SDR 6.9 million. In 1982 the net outflow on services is projected to increase by 6 per cent, associated mainly with a further increase (28 per cent) in interest payments on external debt. The latter take account of the debt rescheduling obtained through June 1982 within the framework of the Paris Club renegotiation. Before any further rescheduling, the moratorium interest to be paid on the rescheduling of principal and interest and on the consolidation of arrears thus far obtained exceeds the interest payments rescheduled during the first half of 1982 by SDR 3.4 million.

4. Capital movements

Following a more than fivefold expansion in the net inflow of non-monetary capital in 1979, the increase decelerated in 1980 to 57 per cent, and in 1981 net capital inflow was virtually unchanged. The 1979-80 increases were associated with the expansionary investment policy and the sharp rise in imports in that period, although the capital inflows, as noted above, were not sufficient to cover the financing needs, and substantial overall deficits were recorded in both years, including the accumulation of arrears beginning in 1980. The 1981 outcome reflected a virtually unchanged level of capital inflows, as the increase to the public sector was offset by a decline in private sector capital inflow. Amortization payments originally due were reduced through the reschedulings obtained in 1981, which are discussed in greater detail in subsection 5 on the external debt. The total amount of principal payments that were rescheduled amounted to SDR 31.5 million in 1981. Other capital flows, comprising short-term capital, errors and omissions, and valuation changes, moved from a net outflow of SDR 0.8 million in 1980 to a net inflow of SDR 20.7 million in 1981 and counterbalanced the remaining small increase in amortization payments after rescheduling and the absence of a Trust Fund loan in 1981.

In 1982 net capital inflows are projected to decline by SDR 44 million. Gross capital inflows are expected to increase, partly as a result of the concessional foreign loans linked to the emergency rice imports, but amortization payments, after taking account of debt rescheduling amounting to SDR 23.7 million obtained from the Paris Club through end-June 1982, are projected to rise more than threefold. Repayments of principal would decline, however, to the extent that Madagascar is successful in negotiating further debt rescheduling for 1982.

5. External debt

The legal provisions for controlling the contracting of foreign debt are stipulated in the Exchange Control Regulations of November 25, 1972 (Decree 72-446), which specify, inter alia, that borrowing abroad required the prior approval of the Minister of Finance. The control mechanism worked smoothly during the period until about mid-1978; foreign borrowing was held to low levels and was confined mainly to project loans on concessionary terms. Thereafter, however, with the major expansion of public sector investment and the associated dramatic increase in external borrowing, the control and monitoring system de facto ceased to function. The problem was compounded by the emergence in 1980 of arrears on external debt service payments. The subsequent attempt by the Government to cope with the serious foreign indebtedness, including the requirement to monitor the limits imposed on new foreign loans under the 1980 and 1981 stand-by arrangements with the Fund, led the authorities gradually to re-establish controls over foreign borrowing.

Moreover, a comprehensive inventory of the existing foreign indebtedness was undertaken, inter alia, to prepare for the renegotiation of Madagascar's foreign obligations to public creditors within the framework of the Paris Club (June 1981) as well as to a number of private creditors, including banks. As a result, considerable progress has since been made in identifying outstanding foreign obligations, with the exception

of arrears and consolidated arrears, where a breakdown by creditors is not yet available. The 1972 Exchange Control Regulations have been de facto reinstated and reinforced. The reorientation of Madagascar's investment policy (see Section III above) led to the strengthening of the powers and responsibilities of the Directorate of Planning to ensure adherence to the 1982-84 investment program. In that context, a special technical committee has been established within the Directorate of Planning, which will be responsible for approving the terms and conditions of all external borrowing.

From relatively low levels in past years, Madagascar's outstanding external debt rose sharply in the period 1979-81 (Table 20). Between end-1979 and end-1981 it increased more than threefold in local currency terms to FMG 417.6 billion (or two and one half times in SDR terms to SDR 1,248.4 million), and on the latter date it was equivalent to 53.3 per cent of GDP. In addition, outstanding payments arrears amounted to FMG 34.6 billion (SDR 103.3 million) at the end of 1981, equivalent to 4.4 per cent of GDP and 33 per cent of exports of goods and services. An unidentified portion of these arrears related to medium- and long-term debt service payments, including about SDR 3 million on previously rescheduled debt.

The steep rise in Madagascar's foreign borrowing was accompanied by a sharp deterioration in the country's external debt profile. The maturity structure and interest rate of new loans contracted worsened significantly between 1977 and 1980 (Table 21). While in 1977 nearly 90 per cent of new borrowing had maturities over 10 years, with no borrowing taking place in the 1-5 year maturity range, by 1979 over 16 per cent of new foreign loans contracted had maturities of 1-5 years or less. The overall maturity structure improved only slightly in 1980 and more significantly in 1981, reflecting the adherence, in the latter year, to the limits established under the stand-by arrangement with the Fund on the contracting of new loans in the 1-10 years maturity range. The average interest rate on new loans increased from 4.6 per cent in 1977 to 7.5 per cent in 1980 but declined to 2.8 per cent in 1981. The average number of years of maturity declined from 23.0 years in 1977 to 15.2 years in 1979 but increased subsequently to 17.1 years and 24.7 years in 1980 and 1981, respectively. Reflecting the above developments, Madagascar's service payments on its external debt rose dramatically. The ratio of such payments to receipts from exports of goods and services increased from about 6 per cent in 1978 to 9.8 per cent in 1979 and to 14.5 per cent and 42 per cent in 1980 and 1981,

Table 20. Madagascar External Debt, 1979-81, and Projected Debt Service Payments, 1982-83 1/

	Outstanding			Service Payments on Outstanding Debt					
	1979	1980	1981	1982			1983		
	End of period			Amort.	Int.	Total	Amort.	Int.	Total
(In billions of Malagasy francs) 2/									
OECD countries	63.6	120.7	164.8	31.5	13.1	46.6	38.5	13.4	51.9
Loans from governments and public agencies	...	37.5	57.3	2.8	2.7	5.5	3.7	3.0	6.7
Loans from financial institutions	...	78.0	99.7	25.4	11.7	37.1	33.5	9.9	43.4
Suppliers' credits	...	5.2	7.8	3.3	0.7	4.0	1.3	0.5	1.8
Other countries 3/ (loans from governments and public agencies)	14.3	30.3	58.1	6.2	1.8	8.0	7.5	2.0	9.5
International organizations	36.3	63.5	105.0	3.1	4.5	7.6	3.4	6.8	10.2
Of which use of IMF resources	(2.6)	(12.4)	(23.0)	(2.1)	(2.6)	(4.7)	(1.5)	(4.9)	(6.4)
Subtotal	114.2	214.5	327.9	40.6	21.4	62.2	59.4	22.2	71.6
Central government exceptional borrowing to finance the balance of payments deficit	14.0	31.4	46.6	—	1.0	1.0	7.6	1.6	9.2
Consolidated arrears	—	—	32.0	17.7	3.2	20.9	9.4	3.4	12.8
Total (before debt relief)	128.2	245.9	406.5	58.5	25.6	84.1	66.4	27.2	93.6
Debt rescheduling (other than arrears)	—	—	11.1	9.0 4/	4.3 4/	13.3 4/	...	...	...
Moratorium interest	—	—	—	—	2.4	2.4	...	2.5	2.5
Total (after debt relief)	128.2	245.9	417.6	49.5	23.7	73.2	66.4	29.7	96.1
<u>Memorandum items</u>									
Interest rescheduled in 1981			5.6						
Moratorium interest in 1981			3.4 5/						
(In millions of SDRs) 2/									
Total (before debt relief)	484.2	853.8	1,215.2	154.0	67.4	221.4	166.2	68.1	234.3
Total (after debt relief)	484.2	853.8	1,248.4	130.2	62.4	192.6	166.2	74.3	240.5

(Continued)

Table 20 Madagascar External Debt, 1979-81, and Projected Debt Service Payments, 1982-86 1/ (concluded)

	Service Payments on Outstanding Debt								
	1984			1985			1986		
	Amort.	Int.	Total	Amort.	Int.	Total	Amort.	Int.	Total
	(In billions of Malagasy francs) 2/								
OECD countries	32.7	10.4	43.1	27.1	7.4	34.5	21.9	5.8	27.7
Loans from governments and public agencies	3.9	3.5	7.4	4.1	2.9	7.0	4.0	3.3	7.3
Loans from financial institutions	27.7	6.5	34.2	22.0	4.2	26.2	17.0	2.3	19.3
Suppliers' credits	1.1	0.4	1.5	1.0	0.3	1.3	0.9	0.2	1.1
Other countries 3/ (loans from governments and public agencies)	7.8	1.6	9.4	7.8	1.0	8.8	6.8	0.9	7.7
International organizations	13.5	7.0	20.5	15.9	5.7	21.6	8.4	4.8	13.2
Of which use of IMF resources	(9.4)	(4.8)	(14.2)	(11.3)	(3.8)	(15.1)	(4.4)	(2.7)	(7.1)
Subtotal	54.0	19.0	73.0	50.8	14.1	64.9	37.1	11.5	48.6
Central government exceptional borrowing to finance the balance of payments deficit	7.2	1.0	8.2	3.6	0.8	4.4	3.6	0.8	4.4
Consolidated arrears	9.4	1.7	11.1	6.4	0.4	6.8	--	--	--
Total (before debt relief)	70.6	21.7	92.3	60.8	15.3	76.1	40.7	12.3	53.0
Debt re-scheduling (other than arrears)	..	..	..	..	..	..	..	..	..
Moratorium interest	..	2.5	2.5	..	2.5	2.5	..	2.5	2.5
Total (after debt relief)	70.6	24.2	94.8	60.8	17.8	78.6	40.7	14.8	55.5
<u>Memorandum items</u>									
Interest rescheduled in 1981									
Moratorium interest in 1981									
	(In millions of SDRs) 2/								
Total (before debt relief)	176.7	54.3	231.0	152.2	38.3	190.5	101.9	30.8	132.7
Total (after debt relief)	176.7	60.6	237.3	152.2	44.6	196.8	101.9	37.0	138.9

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

1/ Data cover loans contracted through end-1981, including consolidated arrears but excluding outstanding payments arrears

2/ Converted at end-of-period exchange rates for 1979-81, i.e., SDR 1 = FMG 264.8 (1979), FMG 288.0 (1980), FMG 334.5 (1981), and at the following assumed rates for subsequent years, i.e., SDR 1 = FMG 380.0 (1982) and FMG 399.5 (1983-86)

3/ Includes Arab and Eastern block countries.

4/ Debt re-scheduling obtained through June 1982 within the framework of the June 1981 Paris Club renegotiation

5/ Includes interest on consolidated arrears

Table 21. Madagascar: New Foreign Loans Contracted and Estimates of the Structure and Terms of the Loans, 1977-81

	1977		1978		1979		1980		1981	
	US\$	SDR	US$	SDR	US$	SDR	US$	SDR	US$	SDR
(In millions of U.S. dollars and SDRs)										
Governments	46.5	39.8	152.9	122.1	77.3	59.8	77.9	59.8	92.5	78.4
International organizations	33.3	28.5	56.5	45.1	78.0	60.4	80.8	62.1	70.9	60.2
Suppliers	16.8	14.4	30.4	24.3	127.2	98.5	6.7	5.2	--	--
Financial institutions	2.2	1.8	84.2	67.2	108.1	83.6	140.0	107.5	18.6	15.8
Exceptional balance of payments financing	3.0	2.6	--	--	100.0	77.4	39.3	30.2	9.4	8.0
Total	101.8	87.2	324.0	258.7	490.6	379.7	344.7	264.8	191.4	162.4
Maturity Structure and Terms of Loans										
(In per cent)										
Over 1 year but not more than 5 years	--	--	1.7	1.7	16.4	16.4	20.1	20.1	0.1	0.1
Over 5 years but not more than 8 years	11.4	11.4	21.6	21.6	25.6	25.6	20.9	20.9	12.6	12.6
Over 8 years but not more than 10 years	--	--	9.1	9.1	22.7	22.7	15.9	15.9	10.1	10.1
Over 10 years but not more than 15 years	32.7	32.7	34.2	34.2	12.6	12.6	10.8	10.8	35.0	35.0
Over 15 years	55.9	55.9	33.4	33.4	22.7	22.7	32.3	32.3	42.2	42.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average interest rate	4.6	4.6	5.7	5.7	5.8	5.8	7.5	7.5	2.8	2.8
Average maturity (number of years)	23.0	23.0	17.0	17.0	15.2	15.2	17.1	17.1	24.7	24.7

Sources. Data provided by the Malagasy authorities; and IBRD.

respectively. The 1981 ratio was before debt reschedulings that Madagascar negotiated in that year. After such reschedulings, the debt service ratio for 1981 was still 30 per cent, or twice as high as in 1980. However, the 1980 and 1981 figures are an underestimation, as they do not include the cost of borrowing which would have been required to avoid the accumulation of external payments arrears. In 1982 the debt service ratio is projected to continue to rise steeply. Before the impact of any debt rescheduling, the ratio would amount to about 63 per cent; if the debt rescheduling already obtained from the Paris Club through June 1982 is taken into account, the debt service ratio would still amount to some 54 per cent. Based on loans contracted as at the end of 1981, and before any further debt rescheduling but inclusive of the moratorium interest to be paid on debt rescheduled thus far, Madagascar's debt service payments are projected to reach a high level of FMG 96 billion (SDR 240.5 million) in 1983, and thereafter decrease only gradually to about FMG 55 billion (SDR 139 million) by 1986.

As noted above, the dramatic deterioration in Madagascar's foreign exchange position necessitated in 1981 the renegotiation of external debt service payments to its public creditors within the framework of the Paris Club, as well as to a number of private creditors, including several banks. The June 1981 Paris Club renegotiation provided for the rescheduling of 95 per cent of principal and interest due between January 1, 1981 and June 30, 1982, for 85 per cent of the obligations, the grace period was 5.3 years and the repayment period 9.8 years. Shorter grace and repayment periods were applied to the remaining 10 per cent of obligations. In addition, arrears, including short-term arrears, outstanding in respect of debt service payments on January 1, 1981 were also rescheduled, with the provision that 25 per cent of such arrears be paid by the end of 1981 and the remainder in 8 equal semiannual instalments beginning March 31, 1982. The total amount of obligations falling due in 1981 which was rescheduled within the framework of the Paris Club is estimated at about FMG 16.7 billion (about SDR 50 million) at the end of 1981. In addition, an estimated FMG 8 billion (about SDR 25 million) of arrears, including short-term arrears, were rescheduled at the Paris Club. The total amount of arrears (including those to private creditors) that was consolidated in 1981--net of repayments on such consolidated arrears--amounted to FMG 32.0 billion at the end of 1981 (SDR 95.5 million). The moratorium interest on the above reschedulings and consolidations amounted to FMG 3.4 billion (SDR 10.6 million). Thus the net debt relief obtained in 1981, consisting of the rescheduling of principal and interest due in 1981 and the consolidation of arrears, but deducting the moratorium interest, amounted to FMG 45.3 billion (about SDR 135 million). During the first half of 1982, the amount of net debt relief obtained thus far from the 1981 Paris Club renegotiation amounted to FMG 10.9 billion (SDR 28.7 million).

VI. Exchange and Trade System ^{1/}

Madagascar has continued to apply comprehensive and restrictive exchange and trade restrictions. Since the previous Article IV consultation and the modifications reported in the "Extension of Approval of Exchange Restrictions" (EBS/81/85, 4/7/81), the principal developments related to the change in the exchange arrangement and the exchange rate, the persistence of external payments arrears, and the intensification of import restrictions.

1. Exchange rate system

Prior to April 2, 1982 the Malagasy franc had been pegged to the French franc at FMG 50 = F 1. The official buying and selling rates for the French franc were FMG 49.75 and FMG 50.25, respectively, per F 1. Effective April 2, 1982 the Malagasy franc has been pegged to a basket of several currencies. The weight assigned to each currency in the basket is based on the distribution of Madagascar's trade during 1973-80. There is no single intervention currency, although the majority of transactions take place in French francs and U.S. dollars. In accordance with the movement in the basket, the Central Bank of Madagascar adjusts the Malagasy franc exchange rates on a daily basis against eight currencies which it quotes, viz., the Belgian franc, the deutsche mark, the French franc, the Italian lira, the Netherlands guilder, the pound sterling, the Swiss franc, and the U.S. dollar. The spread between the official buying and selling rates for the eight currencies quoted by the Central Bank, vis-à-vis the Malagasy franc, is 1.0 per cent.

On May 15, 1982 the Malagasy authorities announced a devaluation of the Malagasy franc, effective May 17, 1982, by 13.0 per cent in terms of the currency composite to which it is pegged; the devaluation amounted to 15 per cent in local currency terms. The middle rate against the U.S. dollar on May 17, 1982 was FMG 350.92 = US\$1.00, as compared with a middle rate of FMG 303.21 = US\$1.00 on May 14, 1982. The rate of May 17, 1982 represented a devaluation of 13.6 per cent in U.S. dollar terms and of 15.7 per cent in terms of local currency.

With the first quarter of 1978 as a base, the nominal trade-weighted effective exchange rate appreciated somewhat through the third quarter of 1980 (Table 22). Thereafter, it depreciated, almost without interruption, reflecting the weakening of the French franc. At the end of 1981 the nominal trade-weighted effective exchange rate was nearly 10 per cent below the 1978 base date level. This trend continued during 1982. By May 18, 1982, following the 13.0 per cent devaluation of the Malagasy franc in terms of the currency composite, the nominal depreciation amounted to 22.7 per cent compared to the base date. Because exports are largely denominated in U.S. dollars, the depreciation in the nominal export rate has been much greater than in the import rate.

^{1/} A description of Madagascar's exchange and trade system as of December 31, 1980 is also included in the Annual Report on Exchange Arrangements and Exchange Restrictions, 1981.

In real terms, however (after adjustment for relative price changes), the index implies an appreciation of the Malagasy franc by the end of 1981 of about 19.0 per cent above the 1978 base level, and of 4.7 per cent during 1981. It must be noted, though, that Madagascar's consumer price index used to calculate the real effective exchange rate is not fully representative of price movements in Madagascar, since it is based mainly on controlled prices and covers only the capital city of Antananarivo.

2. External payments arrears

Madagascar has incurred external payments arrears (other than those related to dividend transfers, which are discussed below) since the beginning of 1980. Such arrears emerged first in respect of payments for imports and miscellaneous services, and subsequently in respect of service payments on Madagascar's external debt. By the end of 1980 external payments arrears amounted to SDR 174.5 million, equivalent to almost one half of exports of goods and services in that year. During 1981 the stock of external arrears was reduced by SDR 71.2 million to SDR 103.3 million at the end of the year. The reduction was more than accounted for by consolidations of arrears into medium-term obligations, at the expense of increasing the future debt service burden. If net cash payments only are considered (i.e., cash payments and new accruals of arrears) and the effects of reschedulings are not, outstanding external payments arrears other than those relating to dividends increased by SDR 38.6 million. Under the impact of the persistent foreign exchange difficulties, the outstanding stock of external payments arrears increased further during the first quarter of 1982 by SDR 41.5 million to SDR 144.8 million, of which SDR 21.0 million represented arrears relating to payments on previously consolidated arrears.

In addition, arrears in respect of dividend transfers have existed since about 1973. As at the end of 1980 arrears relating to dividend transfers amounted to FMG 3.35 billion (SDR 11.6 million). During 1981 transfers of dividends amounted to FMG 0.7 billion. However, since about the beginning of 1981 the Central Bank has discontinued processing applications for the transfer of dividends submitted to it, in the knowledge that the shortage of foreign exchange would, in any event, prevent the remittance of such dividends. As a result, it has not been possible to determine the amount of bona fide dividends outstanding for which the transfer of foreign exchange is in arrears. During 1981 unprocessed applications (not all of which necessarily constitute bona fide dividends eligible for transfer) accumulated in the Central Bank increased by FMG 2.3 billion.

3. Imports and import payments

Importers require the approval of the Ministry of Economy and Commerce ^{1/} before being permitted to engage in import activities. There are three categories of importers: (i) state enterprises and enterprises in which

^{1/} Since January 1982 Ministry of Industry and Commerce.

Table 22. Madagascar: Indices of Effective Exchange Rates, 1976-82
(In foreign currency terms, i.e., units of foreign currency per FMG) ^{1/}

		Nominal			Real ^{2/}		
		Import	Export	Trade	Import	Export	Trade
1976	Q4	101.7	98.7	100.1	106.6	102.3	104.7
1977	Q1	101.4	98.5	100.1	105.6	101.4	103.7
	Q2	101.3	98.6	100.1	100.9	97.6	99.4
	Q3	101.1	98.5	100.0	98.3	95.6	97.1
	Q4	100.2	99.1	99.7	100.2	99.2	99.8
1978	Q1	100.0	100.0	100.0	100.0	100.0	100.0
	Q2	100.3	101.2	100.7	98.5	99.4	98.9
	Q3	99.7	102.3	100.8	96.5	99.1	97.6
	Q4	100.6	104.3	102.2	101.9	105.7	103.6
1979	Q1	100.5	102.9	101.6	102.8	105.3	103.9
	Q2	100.5	103.0	101.6	101.8	104.1	102.8
	Q3	101.5	105.7	103.4	105.9	110.1	107.8
	Q4	102.8	107.7	105.0	107.0	112.1	109.3
1980	Q1	101.1	101.7	101.4	106.6	107.5	107.0
	Q2	101.5	105.9	103.4	105.6	110.1	107.6
	Q3	100.6	104.1	102.1	108.3	112.6	110.2
	Q4	98.6	99.7	99.1	112.9	114.9	113.8
1981	Q1	97.0	94.8	96.0	116.2	114.3	115.4
	Q2	94.9	87.8	91.5	121.8	114.1	118.0
	Q3	96.1	88.8	93.1	121.6	113.9	118.5
	Q4	93.6	86.5	90.4	122.3	115.2	119.1
1982	3/31	93.0	83.1	88.2			
	4/30			87.5			

Source: Calculations made by the staff.

^{1/} Decline indicates depreciation and increase indicates appreciation.

^{2/} Nominal effective exchange rate adjusted by relative CPI, using official CPI index for Antananarivo.

the state holds a majority participation, (ii) industrial, agricultural, and mining enterprises importing spare parts, intermediate goods, and machinery for their own production, and (iii) specialized enterprises (either public or private) which import for resale in the domestic market.

Imports are grouped into those authorized within the framework of the annual import program and those which are prohibited. The latter are listed under some 545 tariff headings or sections thereof; the items consist mainly of foodstuffs, prepared food, and other consumer goods. The overall value of the import program is determined between the Ministry of Economy and Commerce, the Ministry of Finance, and the Central Bank, so as to take into account the domestic needs of the economy and the balance of payments considerations. Quotas are then allocated to importers within the overall limit of the import program.

Due to the severe foreign exchange constraints, it had not been possible in 1981 to adhere to the system of an annual import program. Beginning in August 1981 an ad hoc committee consisting of representatives of the Ministry of Economy and Commerce, the Ministry of Finance, the Central Bank, and the commercial banks has been meeting on a weekly basis, its task is to administer the limited available foreign exchange through monthly foreign exchange "budgets." Essential imports are being authorized within the limits of these budgets. During the first half of 1982 imports continued to be licensed in this manner. For the year as a whole, an import program has been prepared within the overall financial stabilization program to provide for an increase in the volume of around 9 per cent, so as to permit an improvement in the level of economic activity in the second half of the year. As noted above, since 1980 arrears in respect of payments for imports have emerged and have persisted since then.

4. Exports

No changes have taken place in the regulations governing exports since the previous Article IV consultation. All exports require an export permit issued by the Directorate of External Trade. For the main export crops, the export permit is issued by the appropriate commodity stabilization office. Foreign exchange proceeds from exports must be surrendered not later than one month after arrival of the goods at their destination. The government-owned trading firms (ROSO, SICE, SINPA, SONACO, SOMACODIS) have a monopoly over exports of certain important export crops, such as coffee, cloves, pepper, and butter beans.

5. Invisibles

Most payments for invisibles require the prior approval of the Ministry of Finance and Planning. For certain transactions, the approval authority has been delegated to authorized banks. Specified limits apply on the sale of foreign exchange for a number of categories of current invisibles.

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

Foreigners working in Madagascar are allowed to transfer the savings from wages and salaries earned, upon presentation of the work contract and employment permit, provided the transfer takes place within three months of the pay period. The amounts allowed are up to 25 per cent of the net salary for bachelors and persons who have their families with them, and up to 45 per cent for those whose families live outside Madagascar, subject to a maximum of FMG 300,000 per person per month.

Foreigners of a nonresident status are entitled to receive dividends in full when distributed by industrial enterprises and up to 75 per cent when distributed by other firms. Administrative procedures governing the approval and transfer of dividends require that applications for such transfers be presented through commercial banks to the Central Bank. Applications which have been approved by the Central Bank are forwarded to the Ministry of Finance for approval of the remittance of the corresponding foreign exchange. The application is then returned to the Central Bank for remittance of foreign exchange. Applications are verified to determine whether the amounts constitute bona fide dividends; this requires the presentation of proof that amounts to be transferred are compatible with the cash flow requirements of the company and that tax obligations have been met.

As described above, arrears on payments for invisibles other than dividends have emerged since 1980 and have persisted since then, while arrears in respect of dividend transfers have existed for almost a decade. Moreover, while there have been no legal changes in the regulations governing the sale of foreign exchange for payments for invisibles, de facto delays have developed in approving sales for virtually all invisible payments, in particular for tourist travel abroad.

Table I. Madagascar: Gross Domestic Product and
Use of Resources, 1978-82

(In billions of Malagasy francs at 1970 prices)

	1978	1979	1980	1981 Est.	1982 Proj.
Agriculture	71	76	78	77	76
Industry	50	57	55	42	44
Services	119	130	132	124	125
Of which: public sector	(37)	(40)	(42)	(42)	(43)
Import taxes	9	10	10	7	7
Gross domestic product	249	273	275	250	252
Rate of increase (in per cent)	-2.6	9.8	0.8	-9.2	0.9
Net imports of goods and nonfactor services	-10	7	8	-3	-2
Total resources	239	280	283	247	250
Rate of increase (in per cent)	-2.4	17.2	1.1	-12.7	1.2
Private consumption	161	177	179	164	166
Public consumption	50	57	60	51	53
Gross investment	28	46	44	32	31

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

Table II. Madagascar: Production and Area Cultivated
of Principal Crops, 1978-81

(Production in thousands of metric tons;
area in thousands of hectares, yield in tons per hectare)

	1978	1979	1980	1981 ^{1/}
Food crops				
Paddy				
Production	1,922	2,139	2,110	1,999
Area	1,133	1,163	1,199	1,163
Yield	1.70	1.84	1.81	1.72
Manioc				
Production	1,594	1,569	1,692	1,745
Area	273	266	277	297
Yield	5.83	5.89	6.11	5.87
Maize				
Production	115	116	127	126
Area	122	116	128	126
Yield	0.94	1.00	0.99	1.00
Cash crops				
Coffee				
Production (green)	78.2	81.6	79.9	79.3
Area	226	215	217	219
Yield	0.35	0.38	0.37	0.36
Cloves				
Production	12.8	4.2	12.3	11.1
Area	69.0	69.9	72.0	73.9
Yield	0.19	0.06	0.17	0.15
Vanilla				
Production (green)	4.8	2.3	2.6	3.1
Area	22.6	23.1	25.7	28.6
Yield	0.21	0.10	0.10	0.11
Sugarcane				
Production	1,375	1,444	1,441	1,427
Area	33.6	36.4	40.2	41.4
Yield	40.9	39.7	35.9	34.4
Sisal				
Production	15.9	18.0	13.7	13.7
Area	...	...	...	...
Yield	...	...	...	..
Pepper				
Production	2.5	2.5	2.8	2.8
Area	5.3	5.4	5.9	5.9
Yield	0.47	0.46	0.47	0.47
Cotton				
Production	33.1	30.5	23.2	30.1
Area	22.2	17.9	17.0	18.7
Yield	1.49	1.70	1.37	1.61
Groundnuts				
Production	34.0	40.2	38.9	30.5
Area	38.3	40.2	41.9	33.5
Yield	0.89	1.00	0.93	0.91

Source: Data provided by the Malagasy authorities.

^{1/} Provisional

Table III. Madagascar Marketed Production and Producer Prices of Selected Agricultural Products, 1978-82

	Marketed production					Producer prices				
	1978	1979	1980	1981 1/	1982 2/	1978/79	1979/80	1980/81	1981/82	1982/83
	(In thousands of metric tons)					(In Malagasy francs per kilogram)				
Paddy (ordinary)	218	240	236	130	8	35	38	43	47	60
Butter	6	5	1	3	8	45	55	65	75	...
Coffee	59	70	65	65	65	180	185	215	250	260
Cloves	11	4	11	10	10	340	385	395	430	435
Vanilla 3/	0.3	0.5	1.3	0.8	0.6	305	500	600	700	700
Sugarcane	1,074	1,045	1,048	1,056	1,050	4.6	5.3	6.4	6.4	...
Sisal	16	15	16	14	14	74	83.5	85.7	162	...
Pepper	2	2	3	2	2	190	200	225	225	...
Groundnuts	24	27	23	20	23	45	45	55	65	...
Tobacco	4	4	4	5	...	159	174	191	210	...
Cotton	33	30	24	30	33	77	81.8	90	100	126

Source Data provided by the Malagasy authorities (Ministry of Economy and Commerce).

1/ Provisional.

2/ Projections.

3/ Dry vanilla for marketed output, green vanilla for producer prices.

Table IV. Madagascar: Livestock Population and Slaughterings, 1977-81

(In thousands)

	Cattle	Pigs	Sheep	Goats
Livestock population				
1977	6,539	515	512	1,008
1978	6,797	656	488	1,089
1979	6,793	558	530	1,161
1980	7,217	597	598	1,342
1981 estimate	7,300	610	610	1,420
Slaughterings <u>1/</u>				
1977	235	90	7	10
1978	267	83	8	16
1979	260	75	7	18
1980	261	63	...	...
1981 estimate	180	49	...	...

Source Data provided by the Malagasy authorities (Ministry of Rural Development and Agrarian Reform).

1/ Excludes slaughterings not subject to official health controls.

Table V. Madagascar: Fish Catch Marketed, 1977-81

(In tons)

	1977	1978	1979	<u>1980</u> Prov.	<u>1981</u> Est.
Salt water fish	8,460	9,780	10,400	11,000	...
Shrimp	5,860	5,050	4,375	5,365	5,500
Crabs	620	750	330	485	530
Fresh water fish	36,135	33,000	35,000	40,000	41,000

Source: Data provided by the Malagasy authorities (Ministry of Rural Development and Agrarian Reform).

Table VI. Madagascar: Production and Export of Minerals, 1977-81

(In metric tons)

	1977	1978	1979	1980	<u>1981</u> Est.
Production					
Chromite	164,781	119,283	121,594	171,273	91,051
Graphite	15,706	16,036	12,242	12,243	13,335
Mica	1,498	1,566	1,168	1,642	610
Exports					
Chromite	119,069	144,700	109,100	134,500	67,200
Graphite	16,072	16,900	14,600	11,500	16,400
Mica	1,661	1,300	1,205	1,148	909

Source: Data provided by the Malagasy authorities.

Table VII. Madagascar: Production and Consumption of Electric Power, 1/ 1977-81

(In millions of kwh)

	1977	1978	1979	1980	<u>1981</u> Est.
Production	<u>271</u>	<u>283</u>	<u>313</u>	<u>336</u>	<u>337</u>
Hydroelectric	181	116	118	148	154
Thermal	90	167	195	188	183
Consumption	<u>236</u>	<u>245</u>	<u>279</u>	<u>296</u>	<u>307</u>
Public lighting	9	10	10	10	9
Households	58	62	68	74	81
Other	169	173	201	212	217

Source. Data provided by the Malagasy authorities.

1/ Electric power generated by JIRAMA, i.e., excluding electricity generated for self-consumption.

Table VIII. Madagascar: Production of Selected
Manufactured Goods, 1978-81

	Unit	1978	1979	1980	<u>1981</u> Est.
<u>Food processing</u>					
Cattle slaughtered for processing	Thousand head	90.1	101.9	75.3	71.5
Pigs slaughtered for processing	Thousand head	17.0	15.4	11.2	11.5
Sugar	Thousand tons	115.6	109.3	109.0	107.0
Edible oils	Thousand tons	4.4	3.8	4.0	2.7
Beer	Thousand hl.	257.0	283.8	318.2	210.5
<u>Textiles and clothing</u>					
Cotton fabric	Thousand meters	78.2	83.3	79.2	74.0
Sacks	Thousand tons	2.8	3.3	3.4	2.4
Blankets	Thousand tons	1.8	2.0	2.1	1.9
<u>Construction materials</u>					
Cement	Thousand tons	66.0	63.1	60.1	38.5
<u>Chemicals</u>					
Soap	Thousand tons	16.6	19.3	18.0	10.7
Matches	Million boxes	68.9	53.7	46.0	19.7
Candles	Thousand tons	4.3	4.6	4.6	4.9
<u>Metal working</u>					
Corrugated sheet metal	Thousand tons	9.3	15.4	11.5	1.6
Nails	Thousand tons	0.8	0.8	0.9	0.5
<u>Paper</u>					
Paper pulp	Thousand tons	12.7	13.1	12.1	9.3
Paper	Thousand tons	8.9	9.1	8.4	8.4
<u>Leather</u>					
Shoes	Thousand pairs	2.6	3.2	3.0	...

Source: Data provided by the Malagasy authorities (National Institute of Statistics and Economic Research).

Table IX. Madagascar: Overall Government Operations, 1979-82

(In billions of Malagasy francs)

	Provisional			Estimate
	1979	1980	1981	1982
Current budgetary revenue	90.7	100.4	104.3	127.6
Tax revenue	86.0	97.2	100.2	124.5
Nontax revenue	4.7	3.2	4.1	3.1
Current budgetary expenditure	-97.7	-112.9	-112.2	-134.1
Salaries and wages	-50.8	-60.9	-68.6	-77.4
Interest on public debt	-1.9	-4.0	-6.7	-9.7
Of which external debt	(-1.5)	(-2.8)	(-4.5)	(-9.3)
Other	-45.0	-48.0	-36.9	-47.0
Current budgetary deficit	-7.0	-12.5	-7.9	-6.5
Budgetary capital expenditure	-56.4	-74.4	-62.1	70.8 ^{1/}
Of which reserved funds	(-10.5)	(-17.4)	(-15.7)	(-15.0)
Deferred payments	-12.7	-12.9	-14.6	-16.8 ^{2/}
FNUP receipts	19.3	15.6	15.2	26.6
FNUP expenditures	-10.0	-30.3	-18.0	-6.9
Capital expenditure	-5.7	-18.1	-7.0	—
Subsidies	-2.4	-5.0	-8.4	-3.7
Of which rice subsidies	(-2.4)	(-5.0)	(-5.1)	(-1.5)
Other current	-1.9	-7.2	-2.6	-3.2
Central bank expenditure for rice imports (net)	-7.5	-4.1	-5.0	0.8
Receipts	6.5	8.3	11.6	30.3
Expenditures	-14.0	-12.4	-16.6	-29.5
Special Treasury accounts (net)	-4.9	-7.9	-22.6	-30.0
Advances, participations	-11.9	-4.3	-6.1	-9.0
On-lending	-9.3	-15.2	-22.0	-29.0
Other	16.3	11.6	5.5	8.0
Grants and commodity aid (net) ^{3/}	-0.7	-0.3	-0.3	3.3
Total receipts	110.0	116.0	119.5	157.5
Total expenditure	-189.9	-242.8	-234.8	-257.8
Current	-118.5	-135.1	-143.7	-158.0
Of which rice subsidies	(-9.9)	(-9.1)	(-10.1)	(-0.7)
Capital (including on-lending)	-71.4	-107.7	-91.1	-99.8
Overall government deficit	-79.9	-126.8	-115.3	-100.3
Financing	79.9	126.8	115.3	100.3
Foreign (net)	35.3	47.9	55.6	60.4
Drawings	36.8	50.4	64.3	75.1
Of which foreign financing of budgetary capital expenditure	(27.4)	(29.9)	(25.2)	(43.1)
Amortization	-1.5	-2.5	-8.7	-14.7
Domestic (net)	44.6	78.9	59.7	39.9
Banking system	41.9	78.2	57.8	35.0
Central Bank	42.1	85.6	46.3	...
Advances	51.8	73.7	58.3	.
Deposits	-9.7	11.9	-12.0	...
National banks ^{4/}	-0.2	-7.4	11.5	.
Nonbank sector	1.9	2.2	2.7	4.9
Other	0.8	-1.5	-0.8	--

(Continued)

Table IX. Madagascar: Overall Government Operations, 1979-82 (concluded)
(In billions of Malagasy francs)

	Provisional			Estimate
	1979	1980	1981	1982
<u>Addendum:</u>				
Overall deficit as per cent of GDP	13.4	18.4	14.7	9.4
Budgetary capital expenditure as per cent of GDP	9.5	10.8	7.9	6.6
Total capital expenditure as per cent of GDP	12.0	15.6	11.6	9.3
Wages and salaries as per cent of current budgetary expenditure	52.0	53.9	61.1	57.7
Foreign financing as per cent of budgetary capital expenditure	48.6	40.2	40.6	60.9
Total receipts as per cent of GDP	18.5	16.8	15.2	14.7
Total expenditures as per cent of GDP	31.8	35.2	29.9	24.1

Source Data provided by the Malagasy authorities.

1/ Includes the optional tranche.

2/ Includes FMG 8.0 billion of budgetary allocation earmarked to payment of arrears to state enterprises.

3/ Includes net receipts of grants and commodity aid, excluding rice, and local expenditures financed by this aid.

4/ Differs from data in monetary survey in that advances to contractors in connection with government projects are not included.

Table X. Madagascar: Budgetary Capital Expenditure, 1982 1/

	Budget <u>2/</u>	Revised budget <u>3/</u>	Estimate <u>3/</u>
<u>(In billions of Malagasy francs)</u>			
Public administration	11.1	2.3	2.5
Economic services	21.3	45.0	50.5
Of which: agriculture	(7.3)	(18.1)	(20.3)
public construction	(10.5)	(17.5)	(19.6)
Social services	8.6	2.5	2.8
Of which: national education	(4.5)	(1.2)	(1.4)
health services	(3.2)	(0.6)	(0.6)
Total	41.0	49.8	55.8
Financing	41.0	49.8	55.8
Domestic	31.5	14.3	15.0
Foreign	9.5	35.5	40.8
<u>(In per cent)</u>			
Public administration	27.1	4.6	4.5
Economic services	51.9	90.4	90.5
Of which: agriculture	(17.8)	(36.4)	(36.4)
public construction	(25.6)	(35.1)	(35.1)
Social services	21.0	5.0	5.0
Of which: national education	(11.0)	(2.4)	(2.5)
health services	(7.8)	(1.2)	(1.1)
Total	100.0	100.0	100.0
Financing	100.0	100.0	100.0
Domestic	76.8	28.7	26.9
Foreign	23.2	71.3	73.1

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

1/ Does not include reserved funds.

2/ As originally approved in December 1981.

3/ Incorporates changes in the 1982 investment program and includes the optional tranche.

Table XI. Madagascar: On-lending, 1979-82

(In billions of Malagasy francs)

	1979	1980	1981	<u>Estimates</u> 1982
Economic services	8.6	15.2	22.0	29.0
Agriculture	0.7	2.9	3.7	10.1
Electricity and water	6.1	7.4	9.6	7.4
Transport	0.6	2.5	3.3	1.3
Industry	1.2	2.4	5.4	10.2
Other	0.7	--	--	--
Total	9.3	15.2	22.0	29.0

Source: Data provided by the Malagasy authorities.

Table XII. Madagascar: Outstanding Internal Public Debt, 1978-82
(In billions of FMG)

	1978		1979		1980		1981		1982 Estimates	
	Out- standing	Net Drawing								
Short-term Treasury bonds	0.9	--	0.9	-0.1	0.8	-0.5	0.3	--	0.3	--
Medium-term Investment bonds	8.8	1.9	10.7	2.3	13.0	7.7	20.7	--	...	...
National banks	6.0	--	6.0	--	6.0	--	6.0	--	6.0	--
Nonbank sector	3.0	--	3.0	--	3.0	--	3.0	--	3.0	--
Treasury bonds	3.0	--	3.0	--	3.0	--	3.0	--	3.0	--
National banks	2.8	1.9	4.7	2.3	7.0	7.7	14.7	...	...	...
Nonbank sector	0.2	--	0.2	--	0.2	4.5	4.7	...	...	...
Emprunt national	2.6	1.9	4.5	2.3	6.8	3.2	10.0	2.0	12.0	2.9
Total	--	--	--	--	--	--	--	--	2.9	2.9
National banks	9.7	1.9	11.6	2.2	13.8	7.2	21.0	...	...	...
Nonbank sector	3.2	--	3.2	--	3.2	4.5	7.7	...	...	...
	6.5	1.9	8.4	2.2	10.6	2.7	13.3	4.9	18.2	4.9

Source. Data provided by the Malagasy authorities.

Table XIII. Madagascar: Summary Accounts of the Central Bank, 1977-82

(In billions of Malagasy francs; end of period)

	1977	1978	1979	1980	1981				1982
					March	June	Sept.	Dec.	March
Foreign assets	16.33	12.11	0.26	4.53	8.23	8.74	7.64	9.20	12.73
Claims on Government	46.89	79.89	131.68	205.42	212.96	219.24	228.10	263.77	279.93
Of which:									
financing related to									
marketing of rice	(18.57)	(23.38)	(30.89)	(34.93)	(35.91)	(36.59)	(37.26)	(39.95)	(42.20)
ordinary advances	(23.95)	(51.61)	(96.52)	(165.40)	(173.87)	(178.68)	(186.68)	(220.11)	(234.72)
On-lending	1.00	1.00	12.13	11.21	11.21	11.21	11.21	11.10	11.10
To Government	—	—	2.38	2.62	2.62	2.62	2.62	2.50	2.50
To state enterprises	1.00	1.00	9.75	8.59	8.59	8.59	8.59	8.59	8.59
Claims on banks	12.39	8.29	8.96	2.32	0.97	5.48	6.47	1.54	0.42
Of which:									
short-term rediscounts	(8.55)	(4.23)	(3.96)	(0.31)	(0.15)	(4.56)	(2.67)	(1.21)	(0.42)
medium-term rediscounts	(3.13)	(4.06)	(5.00)	(2.01)	(0.82)	(0.92)	(3.80)	(0.33)	(—)
Reserve money	43.91	58.99	57.37	77.50	81.62	73.93	85.62	97.38	103.11
Currency outside banks	41.64	48.18	53.55	70.23	67.71	71.47	77.63	83.10	84.45
Currency in banks	0.66	0.92	1.42	1.53	1.18	1.69	1.22	1.69	1.22
Bankers' deposits	1.60	9.89	2.40	5.74	12.73	0.76	6.77	12.58	17.44
Government deposits	18.90	34.01	43.12	31.26	35.27	35.04	38.74	43.28	46.33
Foreign liabilities	7.73	3.53	34.75	91.21	97.54	112.99	119.69	133.12	150.85
Long-term foreign liabilities	1.00	1.00	11.61	20.65	20.65	30.22	28.36	37.19 ^{1/}	36.98 ^{1/}
Counterpart funds	0.14	0.36	0.02	0.20	0.26	0.34	0.14	0.66	0.05
Other items (net)	4.93	3.40	6.16	2.66	-1.97	-7.85	-19.13	-26.02	-33.14

Sources: Data supplied by the Malagasy authorities; foreign assets and liabilities have been revalued by the staff to reflect prevailing exchange rates.

^{1/} Including the outstanding balance of rescheduled debt.

Table XIV. Madagascar: Summary Accounts of the National Banks, 1977-82

(In billions of Malagasy francs; end of period)

	1977	1978	1979	1980	1981				1982
					March	June	Sept.	Dec.	March
Reserves	7.27	10.81	3.82	7.27	13.91	2.45	7.99	14.27	18.67
Foreign assets	8.73	7.32	4.33	6.34	11.19	14.04	12.13	13.21	17.93
Claims on Government	9.92	9.99	13.15	12.37	15.73	15.96	18.41	17.01	16.82
Claims on state enterprises and the private sector	91.25	95.93	116.19	144.84	150.56	145.24	155.08	159.90	160.32
Short-term	(78.11)	(81.72)	(97.27)	(116.55)	(120.35)	(113.39)	(124.35)	(125.86)	(125.67)
Medium-term	(8.67)	(9.69)	(13.01)	(22.52)	(23.73)	(25.15)	(23.62)	(24.49)	(25.08)
Long-term	(4.46)	(4.32)	(5.91)	(3.77)	(6.48)	(6.70)	(7.11)	(9.55)	(9.37)
Demand deposits	51.82	55.96	70.71	81.07	91.77	83.89	87.15	104.12	103.10
Time deposits	14.72	21.24	28.03	31.47	30.15	31.58	30.53	32.52	35.14
Public sector deposits	14.27	14.69	15.62	23.92	21.43	18.05	18.24	17.52	17.30
Foreign liabilities	3.37	8.09	10.61	14.02	13.42	13.97	18.62	15.09	11.78
Long-term foreign liabilities	2.31	1.98	2.94	11.14	12.14	14.47	12.47	14.70	14.56
Credit from the Central Bank	12.39	8.29	8.96	2.32	1.00	5.48	6.47	1.54	0.42
Long-term domestic borrowing	2.66	2.99	2.93	4.41	4.41	5.21	5.04	4.91	4.78
Other items (net)	15.63	10.81	-2.31	2.47	17.07	5.04	15.09	13.99	26.66
<u>Related data:</u>									
Customs duty bills	4.87	5.12	4.72	5.48	4.83	4.18	4.53	3.93	3.27
Post office checking deposits	2.37	3.04	3.86	3.84	3.94	3.88	3.75	3.88	3.96
Private sector demand deposits with Treasury	3.79	5.65	9.60	9.60	9.60	9.74	9.74	9.74	9.74
Private sector savings deposits with the National Savings Fund	3.28	3.71	4.25	5.18	5.38	5.35	5.26	5.27	5.45

Source: Data provided by the Malagasy authorities.

Table XV. Madagascar: Interest Rate Structure, 1969-82

(In per cent per annum)

	Effective			
	Nov. 17, 1969	Oct. 1, 1974	Feb. 1, 1981	June 1, 1982
Central bank rates				
Rediscount of:				
Short-term paper	5.50		8.00	12.50
Export bills	4.00		7.00	11.00
Bills secured by products under contract with stabilization fund	4.75		8.00	12.50
Medium-term paper	3.75	5.00	8.00	9.50-12.50
Long-term paper ^{1/}	—	6.00	9.00	14.00
Advances	6.50-8.50	6.50-8.00	9.50-11.00	...
National bank rates on credit operations ^{2/}				
Credit secured by				
Commercial paper	6.75-8.00		10.5-11.00	15.00
Government contract	6.75-8.50		10.5-11.00	13.50
Stocks of coffee	6.75-7.25		9.0-10.00	12.50
Stocks of other crops	7.125-9.25))
Stocks of other merchandise	8.00-9.25		) 11.5-13.00	13.50-16.00
Overdrafts	8.00-9.25		)	) 17.00
National bank rates on				
	Minimum deposit (thousands of FMG)			
Sight deposits				
Private sector	—	0.75	1.00	2.00
Public sector	—	3.00	3.50	4.00
Insurance companies	—	3.00	3.50	4.00
Time deposits				
At least 2 months	75,000	4.90	5.75	9.00
At least 3 months	50,000	4.75	5.50	8.50
From 6 to 12 months	500	4.60	4.75	6.00
From 1 to 2 years	300	5.15	5.65	6.75
From 2 to 2-1/2 years	300	6.15	6.80	8.00
Certificates of deposit				
From 6 months to 1 year	500	3.60	3.70	4.75
From 1 to 2 years	50	4.00	4.25	5.25
From 2 to 3 years	50	4.75	5.30	6.25
From 3 to 4 years	50	5.10	5.80	6.75
From 4 to 5 years	50	5.30	6.80	7.75
From 5 to 6 years	50	5.50	7.50	8.50
Rates on Treasury bonds				
Category A ^{3/}				
1-year bond		3.50	5.75	
Category B				
1-year bond		4.00	6.25	
2-year bond		4.75	7.25	
3-year bond		4.75	7.50	
4-year bond		4.75	8.50	
5-year bond		4.75	9.25	

Source: Central Bank of Madagascar.

^{1/} Rediscounting of long-term paper was introduced in August 1974.^{2/} Refers to credit that is rediscountable with the Central Bank, non-rediscountable credit bears, on the average, a rate that is 0.75 to 2.00 percentage points higher.^{3/} Holders are also eligible to participate in a special lottery.

Table XVI Madagascar Balance of Payments 1978-82

(In millions of SDRs) 1/

	1978	1979	1980	1981 Est.	1982 Proj
Exports, f o b	323.5	320.2	335.6	285.5	314.3
Imports, f o. b.	-308.7	-342.5	-620.3	-455.7	-519.3
Trade balance	<u>14.8</u>	<u>-222.3</u>	<u>-284.7</u>	<u>-170.2</u>	<u>-205.0</u>
Service receipts	31.5	42.2	43.6	40.0	40.5
Service payments	-143.7	-199.4	-223.2	-211.1	-222.6
Freight and merchandise insurance	(-63.0)	(-86.6)	(-101.5)	(-78.7)	(-73.2)
Other transportation	(-18.8)	(-24.0)	(-24.7)	(-20.9)	(-21.8)
Travel	(-18.0)	(-22.2)	(-20.4)	(-20.3)	(-21.8)
Investment income	(-10.6)	(-19.3)	(-29.8)	(-50.9)	(-65.3)
Other services	(-33.3)	(-47.3)	(-46.8)	(-40.3)	(-40.5)
Services (net)	<u>-112.2</u>	<u>-157.2</u>	<u>-179.6</u>	<u>-171.1</u>	<u>-182.1</u>
Private unrequited transfers (net)	6.4	5.5	0.7	7.2	9.4
Current balance	<u>-91.0</u>	<u>-374.0</u>	<u>-463.6</u>	<u>-334.1</u>	<u>-377.7</u>
Official unrequited transfers (net)	<u>41.8</u>	<u>48.8</u>	<u>48.0</u>	<u>50.0</u>	<u>56.1</u>
Nonmonetary capital (net)	<u>27.0</u>	<u>142.7</u>	<u>223.8</u>	<u>224.2</u>	<u>180.4</u> 2/
Direct investment (net)	-5.0	-5.1	-0.7	-0.6	-0.6
Public (net)	18.1	128.4	160.3	190.4	166.4
Credit	(22.0)	(133.9)	(159.4)	(204.2)	(211.2)
Debit	(-3.9)	(-5.5)	(-9.1)	(-32.2)	(-59.8)
Debt relief obtained	(--)	(--)	(--)	(18.4)	(15.0)
Private (net)	28.0	66.2	50.5	13.7	14.6
Credit	(31.5)	(73.5)	(64.7)	(25.9)	(48.0)
Debit	(-3.5)	(-7.3)	(-14.2)	(-25.3)	(-42.1)
Debt relief obtained	(--)	(--)	(--)	(13.1)	(8.7)
Trust Fund	10.8	--	14.5	--	--
Other, including errors and omissions and valuation changes	-24.9	-46.8	-0.8	20.7	--
Banks (net)	<u>21.6</u>	<u>20.0</u>	<u>5.1</u>	<u>-18.1</u>	<u>--</u>
Allocation of SDRs	<u>--</u>	<u>3.5</u>	<u>3.5</u>	<u>3.5</u>	<u>--</u>
Overall balance	<u>-0.6</u>	<u>-159.0</u>	<u>-183.2</u>	<u>-74.5</u>	<u>-141.2</u> 2/
Financing 3/	<u>0.6</u>	<u>159.0</u>	<u>183.2</u>	<u>74.5</u>	<u>141.2</u>
Central government exceptional balance of payments financing (net)	--	52.9	56.1	30.3	32.7
Drawings	(--)	(52.9)	(56.1)	(30.3)	(32.7)
Repayments	(--)	(--)	(--)	(--)	(--)
DMP (net)	-2.6	-3.5	33.0	31.9	47.0
Drawings	(--)	(--)	(39.2)	(39.0)	(52.4)
Repurchases	(-2.6)	(-3.5)	(-6.2) 4/	(-7.1)	(-5.4)
Changes in arrears (-decrease)	--	--	174.5	-71.2	-7.6
Of which net cash basis	(--)	(--)	(174.5)	(38.6)	(-7.6)
Other assets of the Central Bank (net)	3.2	109.6	-80.4	83.5	-46.7
Assets (- increase)	(14.9)	(43.5)	(-14.7)	(-11.8)	()
Liabilities related to consolidation of arrears	(--)	(--)	(--)	(95.5)	()
New consolidations	[--]	[--]	[--]	[109.8]	[]
Repayments of consol arrears	[--]	[--]	[--]	[-14.3]	[-46.7]
Other liabilities	(-11.7)	(56.1)	(-65.7)	(-0.2)	()
Expected additional rescheduling of debt service due in 1982					52.6
Expected rescheduling of previously rescheduled debt service and arrears					9.0
Remaining financing gap					54.2

Sources Data provided by the Malagasy authorities, and staff estimates

1/ Transactions converted at the following annual average rates per SDR 1: FMG 282.50 (1978), FMG 274.83 (1979), FMG 275.01 (1980), FMG 320.20 (1981), and FMG 380.0 (1982)

2/ Excluding an estimated amount of SDR 52.6 million of debt relief expected to be obtained in the second half of 1982

3/ Converted at the following end-of-period rates per SDR 1: FMG 272.28 (1978), FMG 264.28 (1979), FMG 287.99 (1980), FMG 334.52 (1981), and FMG 380.0 (1982)

4/ Includes reserves asset subscription

Table XVI. Madagascar: Balance of Payments, 1978-82

(In millions of SDRs) 1/

	1978	1979	1980	1981 Est.	1982 Proj.
Exports, f o b	323.5	320.2	335.6	285.5	314.3
Imports, f o b.	-308.7	-342.5	-620.3	-455.7	-519.3
Trade balance	<u>14.8</u>	<u>-222.3</u>	<u>-284.7</u>	<u>-170.2</u>	<u>-205.0</u>
Service receipts	31.5	42.2	43.6	40.0	40.5
Service payments	-143.7	-199.4	-223.2	-211.1	-222.6
Freight and merchandise insurance	(-63.0)	(-86.6)	(-101.5)	(-78.7)	(-73.2)
Other transportation	(-18.8)	(-24.0)	(-24.7)	(-20.9)	(-21.8)
Travel	(-18.0)	(-22.2)	(-20.4)	(-20.3)	(-21.8)
Investment income	(-10.6)	(-19.3)	(-29.8)	(-50.9)	(-65.3)
Other services	(-33.3)	(-47.3)	(-46.8)	(-40.3)	(-40.5)
Services (net)	<u>-112.2</u>	<u>-157.2</u>	<u>-179.6</u>	<u>-171.1</u>	<u>-182.1</u>
Private unrequited transfers (net)	<u>6.4</u>	<u>5.5</u>	<u>0.7</u>	<u>7.2</u>	<u>9.4</u>
Current balance	<u>-91.0</u>	<u>-374.0</u>	<u>-463.6</u>	<u>-334.1</u>	<u>-377.7</u>
Official unrequited transfers (net)	<u>41.8</u>	<u>48.8</u>	<u>48.0</u>	<u>50.0</u>	<u>56.1</u>
Nonmonetary capital (net)	<u>27.0</u>	<u>142.7</u>	<u>223.8</u>	<u>224.2</u>	<u>180.4</u> 2/
Direct investment (net)	-5.0	-5.1	-0.7	-0.6	-0.6
Public (net)	18.1	128.4	160.3	190.4	166.4
Credit	(22.0)	(133.9)	(169.4)	(204.2)	(211.2)
Debit	(-3.9)	(-5.5)	(-9.1)	(-32.2)	(-59.8)
Debt relief obtained	(--)	(--)	(--)	(13.4)	(15.0)
Private (net)	28.0	66.2	50.5	13.7	14.6
Credit	(31.5)	(73.5)	(64.7)	(25.9)	(48.0)
Debit	(-3.5)	(-7.3)	(-14.2)	(-25.3)	(-42.1)
Debt relief obtained	(--)	(--)	(--)	(13.1)	(8.7)
Trust Fund	10.8	--	14.5	--	--
Other, including errors and omissions and valuation changes	-24.9	-46.8	-0.8	20.7	--
Banks (net)	<u>21.6</u>	<u>20.0</u>	<u>5.1</u>	<u>-18.1</u>	<u>--</u>
Allocation of SDRs	<u>--</u>	<u>3.5</u>	<u>3.5</u>	<u>3.5</u>	<u>--</u>
Overall balance	<u>-0.6</u>	<u>-159.0</u>	<u>-183.2</u>	<u>-74.5</u>	<u>-141.2</u> 2/
Financing 3/	<u>0.6</u>	<u>159.0</u>	<u>183.2</u>	<u>74.5</u>	<u>141.2</u>
Central government exceptional balance of payments financing (net)	--	52.9	56.1	30.3	32.7
Drawings	(--)	(52.9)	(56.1)	(30.3)	(32.7)
Repayments	(--)	(--)	(--)	(--)	()
IMF (net)	-2.6	-3.5	33.0	3.9	47.0
Drawings	(--)	(--)	(39.2)	(39.0)	(52.4)
Repurchases	(-2.6)	(-3.5)	(-6.2) 4/	(-7.1)	(-5.4)
Changes in arrears (-decrease)	--	--	174.5	-71.2	-7.6
Of which net cash basis	(--)	(--)	(174.5)	(38.6)	(-7.6)
Other assets of the Central Bank (net)	3.2	109.6	-80.4	83.5	-46.7
Assets (- increase)	(14.9)	(43.5)	(-14.7)	(-11.8)	()
Liabilities related to consolidation of arrears	(--)	(--)	(--)	(95.5)	()
New consolidations	(--)	(--)	(--)	[109.8]	[]
Repayments of consol. arrears	(--)	(--)	(--)	(-14.3)	(-46.7)
Other liabilities	(-11.7)	(56.1)	(-65.7)	(-0.2)	()
Expected additional rescheduling of debt service due in 1982					52.6
Expected rescheduling of previously rescheduled debt service and arrears					9.0
Remaining financing gap					54.2

Sources: Data provided by the Malagasy authorities, and staff estimates

1/ Transactions converted at the following annual average rates per SDR 1: FMG 282.50 (1978), FMG 274.83 (1979), FMG 275.01 (1980), FMG 320.20 (1981), and FMG 380.0 (1982)

2/ Excluding an estimated amount of SDR 52.6 million of debt relief expected to be obtained in the second half of 1982

3/ Converted at the following end-of-period rates per SDR 1: FMG 272.28 (1978), FMG 264.28 (1979), FMG 287.99 (1980), FMG 334.52 (1981), and FMG 380.0 (1982)

4/ Includes reserves asset subscription

Table XVII Madagascar Balance of Payments 1978-82

(In billions of Malagasy francs)

	1978	1979	1980	1981 Est	1982 Proj
Exports, f.o.b.	91.4	88.0	92.3	91.4	119.4
Imports, f.o.b.	-87.2	-149.1	-170.6	-145.9	197.3
Trade balance	4.2	-61.1	-78.3	-54.5	-77.9
Service receipts	8.9	11.6	12.0	12.8	15.4
Service payments	-40.6	-54.8	-61.4	-67.6	-84.6
Freight and merchandise insurance	(-17.8)	(-23.8)	(-27.9)	(-25.2)	(-27.8)
Other transport	(-5.3)	(-6.6)	(-6.8)	(-6.7)	(-8.3)
Travel	(-5.1)	(-6.1)	(-5.6)	(-6.3)	(-8.3)
Investment income	(-3.0)	(-5.3)	(-8.2)	(-16.3)	(-24.8)
Other services	(-9.4)	(-13.0)	(-12.9)	(-12.9)	(-15.4)
Services (net)	-31.7	-43.2	-49.4	-54.8	-69.2
Private unrequited transfers (net)	1.8	1.5	0.2	2.3	3.6
Current balance	-25.7	-102.8	-127.5	-107.0	-143.5
Official unrequited transfers (net)	11.8	13.4	13.2	16.0	21.3
Nonmonetary capital (net)	7.6	40.5	56.2	56.3	68.6 1/
Direct investment	-1.4	-1.4	-0.2	-0.2	-0.2
Public (net)	5.1	35.3	44.1	61.0	63.3
Drawings	(6.2)	(36.8)	(46.6)	(65.4)	(80.3)
Amortizations	(-1.1)	(-1.5)	(-2.5)	(-10.3)	(-22.7)
Debt relief obtained	(--)	(--)	(--)	(5.9)	(5.7)
Private (net)	7.9	18.2	13.9	4.4	5.5
Drawings	(8.9)	(20.2)	(17.8)	(8.3)	(18.2)
Amortizations	(-1.0)	(-2.0)	(-3.9)	(-8.1)	(-16.0)
Debt relief obtained	(--)	(--)	(--)	(4.2)	(3.3)
Trust Fund	3.0	--	4.0	--	--
Other, including errors and omissions	-7.0	-11.6	-5.6	8.9	--
Banks (net)	6.1	5.5	1.4	-5.8	--
Allocation of SDRs	--	1.0	1.0	1.1	--
Overall balance	-0.2	-42.4	-55.7	-39.4	-53.6 1/
Financing	0.2	42.4	55.7	39.4	53.6
IMF (net)	-0.7	-1.0	9.8	12.6	17.9
Central government exceptional balance of payments financing (net)	--	14.0	17.4	15.2	12.4
Drawings	(--)	(14.0)	(17.4)	(15.2)	(12.4)
Repayments	(--)	(--)	(--)	(--)	(--)
Changes in arrears (- decrease)	--	--	50.3	-15.7	-2.9
Of which Consolidations	(--)	(--)	(--)	(-36.7)	()
Net cash basis	(--)	(--)	(50.3)	(21.0)	(-2.9)
Other assets of the Central Bank (net)	0.9	29.4	-21.8	27.3	-17.7
Assets (- increase)	(4.2)	(11.8)	(-4.3)	(-4.6)	()
Liabilities related to consolidation of arrears	(--)	(--)	(--)	(31.9)	()
New consolidations	(--)	(--)	(--)	(36.7)	()
Repayments of consol arrears	(--)	(--)	(--)	(-4.8)	(-17.7)
Other liabilities	(-3.3)	(17.6)	(-17.5)	(--)	()
Expected additional rescheduling of debt service in 1982					20.0
Expected rescheduling in 1982 of previously rescheduled debt service and arrears					3.4
Remaining financing gap					20.5

Sources Data provided by the Malagasy authorities, and staff estimates

1/ Excluding an estimated amount of FMG 20 billion of debt relief expected to be obtained in the second half of 1982

Table XVIII. Madagascar: Central Bank Foreign Assets
and Liabilities, 1978-81

(In millions of SDRs; end of period) 1/

	1978	1979	1980	1981
Assets	44.5	1.0	15.7	27.5
Reserve position in the Fund	(--)	(--)	(--)	(0.3)
SDR holdings	(8.7)	(--)	(--)	(0.3)
Foreign exchange	(35.8)	(1.0)	(15.7)	(26.9)
Liabilities	13.4	128.9	326.8	413.1
Use of Fund credit	(13.4)	(9.9)	(42.9)	(74.8)
Exceptional balance of payments financing	(--)	(52.9)	(109.0)	(139.3)
Arrears	(--)	(--)	(174.5)	(103.3)
Consolidation of arrears	(--)	(--)	(--)	(95.5)
Other	(--)	(66.1)	(0.4)	(0.2)
Total	31.1	-127.9	-311.1	-385.6
Change in period		-159.0	-183.2	-74.5

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

1/ Converted at end-of-period exchange rates.

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