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AGENDA**

EBS/82/109

CONFIDENTIAL

June 21, 1982

To: Members of the Executive Board

From: The Acting Secretary

Subject: Madagascar - Use of Fund Resources - Compensatory Financing
Facility

Attached for consideration by the Executive Directors is a paper on a request expected to be received from Madagascar for a purchase equivalent to SDR 21.8 million under the compensatory financing facility. A draft decision appears on page 11.

This subject, together with the staff report for the 1982 Article IV consultation and request for stand-by arrangement (EBS/82/103, 6/11/82), will be brought to the agenda for discussion on a date to be announced.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

MADAGASCAR

Use of Fund Resources--Compensatory Financing Facility

Prepared by the Research and African Departments

(In consultation with the Exchange and Trade Relations,
Legal, and Treasurer's Departments)

Approved by Wm. C. Hood and J. B. Zulu

June 18, 1982

The Managing Director has been informed that the Malagasy authorities will shortly request a purchase of SDR 21.8 million (42.75 per cent of quota) under the compensatory financing decision, which would raise the member's outstanding CFF purchases from 57.25 per cent to 100 per cent of quota. The request is being made with respect to a shortfall in earnings from merchandise exports for the calendar year 1981, and is expected to be considered by the Executive Directors together with a request for a one-year stand-by arrangement in an amount equivalent to SDR 51 million (100 per cent of quota). If approved, the proposed purchase would raise the Fund's holdings of the member's currency from 245.4 per cent to 288.1 per cent of quota. A waiver of the limitation in Article V, Section 3(b)(iii) of the Fund's Articles of Agreement is required and is being proposed.

This paper, which is being circulated in advance of the formal request from Madagascar, is presented in four sections and an annex. The sections deal with: (1) the balance of payments position and cooperation with the Fund; (2) estimation of the export shortfall; (3) causes of the shortfall and earnings prospects; and (4) staff appraisal and proposed decision. The relations of Madagascar with the Fund are summarized in the annex.

1. Balance of payments position and cooperation with the Fund

a. Balance of payments position

Madagascar's overall balance of payments deteriorated sharply in 1979 and 1980, largely as a result of highly expansionary fiscal policies. A rapid expansion in aggregate domestic demand led to a drastic widening of the external current account deficit, which rose 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, an increase in foreign borrowing at higher rates of interest, and, since 1980, by an accumulation of external arrears.

Table 1. Madagascar: Balance of Payments, 1978-1982

(In millions of SDRs)

	1978	1979	1980	1981 Est.	1982 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 inter- national 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	27.4
In months of imports	1.7	0.0	0.3	0.7	0.6

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

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

2/ Including debt rescheduling already obtained.

The deficits on the current account and the overall balance decreased somewhat in 1981, as the result of a substantial reduction in the level of imports, which fell by over 30 per cent in volume terms. However, the external imbalances remained large, with a current account deficit of SDR 334 million, equivalent to 13.6 per cent of GDP. This was partly a result of a 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. A substantial 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 remained unchanged, partly as a result of rescheduling of debt obligations to the Paris Club group of countries and to a number of private creditors. The overall balance of payments deficit was less than half that of the two preceding years, but, at SDR 74.5 million, remained substantial. The deficit was financed by purchases from the Fund, exceptional balance of payments support from bilateral sources, and by 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 (Table 1). This will permit the volume of imports to grow by around 9 per cent from the depressed level of 1981; part of the volume increase relates to a 50 per cent surge in rice imports necessitated by heavy cyclone damage to the domestic crop. Despite the increase in imports, a projected increase in exports (by around 10 per cent) is expected to cause a slight reduction (to 13.4 per cent) in the current account deficit as a proportion of GDP. Gross capital inflows 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. In addition to the overall balance of payments deficit, Madagascar 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 estimated financing need of SDR 195 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 in debt relief. At the request of the Malagasy authorities, the World Bank has organized an aid coordination conference in Paris on June 17-18, 1982 to help mobilize the required additional assistance.

b. Cooperation with the Fund

Since the outstanding CF purchases are already above 50 per cent of Madagascar's quota, the request may be approved only if the Fund is satisfied that Madagascar has been cooperating with the Fund in an effort to

find, where required, appropriate solutions for its balance of payments difficulties. The staff considers that this requirement is met by the adoption by Madagascar of a financial and economic program for the one-year period from July 1982, in support of which the authorities are requesting use of Fund resources under a stand-by arrangement. The request for the stand-by arrangement is expected to be considered by the Board concurrently with the compensatory financing request.

2. Estimation of the export shortfall

After expanding by 5 per cent in 1980, Madagascar's exports declined by nearly 15 per cent in 1981 to SDR 286 million. The decline is considered to be temporary, and annual earnings in the two post-shortfall years are projected to recover to an average of SDR 322 million, 13 per cent above the shortfall year level. On the basis of these export movements, the shortfall in merchandise exports for calendar year 1981 is estimated at SDR 30.9 million, which is more than 40 per cent higher than the amount of the proposed purchase of SDR 21.8 million (Table 2).

Table 2. Madagascar: Estimation of the Export Shortfall 1/

(In millions of SDRs)

	Calendar Years				
	1979	1980	1981	Projected Exports	
				1982	1983
Exports	320	336	286	316	328
Shortfall			30.9		
Proposed purchase			21.8		

1/ Based on judgmental forecast of earnings from main commodity exports as given in Table 3.

The last compensatory financing purchase made by Madagascar--SDR 29.2 million in June 1980--is presently outstanding. That purchase was in relation to a shortfall of SDR 29.2 million estimated for calendar year 1979. On the basis of actual data for the two post-shortfall years (1980 and 1981), an excess of SDR 7.7 million is now calculated. The level of exports in 1979, which was reported as actual, turned out to be SDR 16.1 million (5 per cent) larger than the figure used, while exports in the post-shortfall years were lower by 12 per cent for 1980 and by

28 per cent for 1981. In 1980, the recovery of earnings from coffee and vanilla was substantially less than expected at the time of request, while the actual decline in earnings from cloves exceeded the projected decline by 50 per cent; in 1981, the increase in earnings from cloves significantly exceeded the projected increase, but this increase was more than offset by the lower than expected outturns for the other products.

3. Causes of the shortfall and earnings prospects

About 90 per cent of the net shortfall in total merchandise exports (SDR 30.9 million) is accounted for by the shortfall in coffee earnings (SDR 27.7 million); smaller shortfalls are estimated for meat (SDR 2 million) and "other exports" (SDR 11 million). Earnings from coffee dropped by 39 per cent in the shortfall year because of a steep fall in world market prices, combined with a decline in export volume caused mainly by transportation difficulties. The declines in earnings from meat, cotton fabric, and chromite were largely due to smaller export volumes in the shortfall year.

a. Coffee

The fall in earnings from coffee, Madagascar's leading export, reduced the share of the commodity in total exports from 49 per cent in 1980 to only about 35 per cent in 1981. The shortfall of SDR 27.7 million was predominantly related to lower prices. Export unit values in 1981 were 28 per cent lower than in 1979-80 and 23 per cent below the average for 1979-83 (i.e., the trend level); the decline in export unit values reflected the fall in international prices. The volume of coffee exports was 19 per cent lower than average exports in 1979-80, largely a result of the deterioration of transport facilities in some of the coffee-producing areas, but also because of quota limitations imposed under the International Coffee Agreement (ICA). After falling by 2 per cent in 1980, reported output of coffee in 1981 was unchanged, and stocks have apparently been accumulated. Madagascar's quota under the International Coffee Agreement (ICA) was set at 50,000 tons in 1980/81 (October/September), and in addition to quota exports, Madagascar was able to ship some 10,500 tons to non-ICA markets.

In the post-shortfall period, the volume of exports is projected to decline marginally in 1982, and then to recover by 3 per cent in 1983. Madagascar's quota for 1981/82 has been set at 48,000 tons, and exports to nonquota markets are expected to continue at 10,000 to 12,000 tons annually. A recovery in market prices stemming mainly from stabilization measures under the ICA has already occurred--prices in January-May 1982 averaged 13 per cent above the corresponding period of 1981--and further increases are projected for the remainder of 1982 and beyond. Export prices are projected to recover by 15 per cent in 1982 and by a further 12 per cent in 1983; projected earnings for the two post-shortfall years, at an average of SDR 121.5 million, would still be nearly 20 per cent below the average of SDR 151.4 million realized in the two pre-shortfall years.

Table 3. Madagascar: Export Earnings and Shortfalls by Major Commodities

	Calendar Years							Shortfall		
	1976	1977	1978	1979	1980	1981	1982	1983	Geometric	Arithmetic
----- (In millions of SDRs) -----										
Total exports	239.2	300.4	323.9	320.4	335.8	285.8	316	328	30.9	31.4
Coffee	102.6	141.2	129.6	138.6	164.1	99.4	113	130	27.7	29.6
Cloves	15.6	17.1	60.9	54.6	24.0	66.0	75	49	-15.8	-12.3(excess)
Vanilla	17.0	30.7	30.5	11.3	14.2	25.3	34	39	-3.1	-0.5(excess)
Shellfish	11.2	16.0	11.0	13.5	14.2	14.4	14	15	-0.2	-0.2(excess)
Petroleum products	15.6	8.0	5.0	8.0	5.1	9.4	12	13	-0.4	0.1
Sugar	8.0	5.9	5.0	5.1	9.1	7.2	4	8	-0.8	-0.5(excess)
Meat	6.5	4.2	5.3	10.6	13.8	4.1	4	5	2.4	3.4
Other exports	62.7	77.3	76.6	78.7	91.3	60.0	60	69	10.8	11.8
----- (Annual percentage changes) -----										
Total exports	26	8	-1	5	-15	11	4	15		
Coffee	38	-8	7	18	-39	14	14	-35		
Cloves	10	256	-10	-56	175	34	15	15		
Vanilla	81	-1	-63	26	78	-3	7	8		
Shellfish	43	-31	23	5	1	84	28	100		
Petroleum products	-49	-38	60	-36	-21	-70	-44	25		
Sugar	-26	-15	2	78	-70	-34	-2	15		
Meat	-35	26	100	30	-70	-34	-2	15		
Other exports	23	-1	3	16			-			

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

Table 4. Madagascar: Value, Volume and Unit Value by Major Commodities

(1981=100)

	Value Share in Total Exports in 1981 (In per cent)	Calendar Years							Shortfall in Per Cent of Level in Shortfall Year
		1976	1977	1978	1979	1980	1981	1982	
<u>Value</u>	<u>79.0</u>	<u>78</u>	<u>99</u>	<u>110</u>	<u>107</u>	<u>108</u>	<u>100</u>	<u>114</u>	<u>115</u>
Coffee	34.8	103	142	130	139	165	100	113	131
Cloves	23.1	24	26	92	83	36	100	114	74
Vanilla	8.9	67	121	121	45	56	100	133	153
Shellfish	5.0	78	111	76	94	99	100	99	107
Petroleum products	3.3	166	85	53	85	54	100	132	143
Sugar	2.5	111	82	69	71	126	100	51	113
Meat	1.4	159	102	129	259	337	100	102	112
<u>Volume</u>		<u>115</u>	<u>101</u>	<u>131</u>	<u>117</u>	<u>91</u>	<u>100</u>	<u>103</u>	<u>97</u>
Coffee		121	83	91	104	115	100	99	102
Cloves		47	39	159	145	47	100	109	70
Vanilla		157	243	214	57	57	100	114	121
Shellfish		103	134	109	113	106	100	100	106
Petroleum products		349	212	123	158	68	100	128	135
Sugar		200	176	155	131	160	100	67	133
Meat		186	133	157	252	310	100	100	100
<u>Unit value</u>		<u>68</u>	<u>98</u>	<u>84</u>	<u>91</u>	<u>119</u>	<u>100</u>	<u>111</u>	<u>118</u>
Coffee		86	171	143	134	144	100	114	128
Cloves		50	67	58	57	77	100	105	106
Vanilla		43	50	56	78	98	100	116	126
Shellfish		75	83	70	83	93	100	99	101
Petroleum products		48	40	43	54	80	100	103	105
Sugar		56	47	45	54	79	100	76	84
Meat		85	77	82	102	109	100	102	112

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

b. Cloves

The estimated excess of SDR 15.8 million for cloves in 1981 is attributable chiefly to volume factors. Madagascar is a leading producer and exporter of this spice, and exports in the shortfall year accounted for over 23 per cent of total export earnings (compared to an average of 12 per cent over the previous four years). Production follows a 2-3 year cycle; the low point of the cycle was reached in 1979, and in the two subsequent years, output was nearly three times as large. Because exports lag output by up to six months, however, the volume exported fell by over 67 per cent in 1980, and rose by over 100 per cent in 1981. The volume of exports in the 1981-82 peak years of the cycle is substantially lower than levels in the previous peak years (1978-79), probably because of the existence of clandestine exports. Export prices have recovered from their depressed 1979 levels--when export volume was high--and increased by 35 per cent in 1980, and by over 30 per cent in 1981. Given an expected 9 per cent rise in export volume and a 5 per cent rise in export price, earnings are estimated to reach SDR 75 million in 1982. The price outlook for 1983 remains favorable and export unit values are projected to increase marginally, but the volume of exports is projected to fall by 36 per cent, causing a 35 per cent decline in earnings.

c. Vanilla

A significant rise in the volume exported led to an estimated excess of SDR 3.1 million in earnings from vanilla. Madagascar is the world's leading producer and exporter of natural vanilla; exports of the flavoring extract accounted for nearly 9 per cent of total exports in the shortfall year, a significant improvement on the average of 4 per cent registered in 1979 and 1980. The increase in earnings was 78 per cent in 1981, compared with an increase of 26 per cent in 1980. Following two years of low levels, export volume increased by 75 per cent in 1981, while average export prices continued their upward trend of recent years, increasing a modest 2 per cent in 1981. A resurgence is expected in world demand for natural vanilla at the expense of artificial substitutes, but the future trend of world prices will depend on the extent of the substitution. The volume of exports is projected to rise by 14 per cent in 1982, and allied with an expected 16 per cent rise in export price (on the basis of contracts already negotiated), earnings are projected to rise by 33 per cent. Earnings of SDR 39 million are projected for 1983, reflecting projected increases of 6 per cent in volume and 9 per cent in export prices.

d. Shellfish

The share of shellfish exports in total exports increased to 5 per cent in 1981, and an excess of SDR 0.2 million is estimated. Earnings increased by only 1 per cent, an 8 per cent rise in export prices being largely offset by the 6 per cent fall in volume. The declining trend in the volume of shellfish exports from the high 1977 level of 4,300 tons was due to the problems encountered by one of the four companies engaged in

the fishing trade, which rendered a number of vessels inoperative. No increase in volume is projected for 1982, and one of only 6 per cent for 1983; export prices are not expected to change substantially.

e. Petroleum products

The share of petroleum products, mainly fuel oil derived from imported crude, in total exports is expected to reach its highest level (3.8 per cent) in 1982 since its previous peak level of 6.5 per cent in 1976. An estimated excess of SDR 0.4 million was recorded. Earnings in the shortfall year increased by 84 per cent, owing to increases of 47 per cent in export volume and 25 per cent in export price. Imports of crude petroleum in 1980 and 1981 were limited, however, by foreign exchange constraints. This is not expected to occur to the same extent in future, and the extension and modernization of the refinery is expected to increase output, thereby generating increases in export volume of 28 per cent in 1982 and 5 per cent in 1983. Export prices are projected to increase marginally during the post-shortfall period.

f. Sugar

An estimated excess of SDR 0.8 million is calculated for sugar exports. Earnings in the shortfall year fell by 21 per cent owing largely to a 38 per cent decline in export volume; export prices increased by 26 per cent, as the result of forward sales made in 1980 when world prices reached their highest level for six years. The decline in the volume of sugar exports was partly due to smaller output from the obsolescent equipment and irrigation facilities. A shortage of fertilizers also adversely affected yields. In addition, increasing domestic consumption, despite a sharp rise in the consumer price of sugar in 1981, reduced the exportable surplus. The two sugar companies in Madagascar have now virtually completed negotiations for foreign financing for the renewal of plant equipment. Earnings from sugar are estimated to decline in 1982 by 44 per cent, and are then projected to double in 1983, largely because of volume fluctuations.

g. Meat

The share of meat in total exports fell from over 4 per cent in 1980 to about one per cent in the shortfall year. An estimated shortfall of SDR 2.4 million is calculated, equivalent to nearly 8 per cent of the overall net shortfall. Earnings in 1981 fell by 70 per cent, owing almost entirely to a drop in volume (of 68 per cent); this was partly due to increased domestic consumption and partly to loss of market competitiveness. Export volume is projected to remain unchanged in both post-shortfall years, while export prices are projected to increase by 2 per cent in 1982 and by 10 per cent in 1983.

h. Other exports

This group, which covers the remaining 21 per cent of Madagascar's total exports, includes a wide variety of animal, mineral, agricultural,

and manufactured exports. Together, they recorded a shortfall estimated at SDR 10.8 million, or 35 per cent of the net shortfall in total exports. Combined earnings from the group declined by 34 per cent in 1981, the lowest level recorded since 1976, and the outlook indicates no recovery in 1982, but one of 15 per cent in 1982.

The main products included in this group are chromite, sisal, mica, cotton fabrics, and graphite. Export volumes of chromite, which is used primarily as an input in the production of stainless steel, were adversely affected by high production costs due to outmoded equipment, as well as the depressed state of world demand. These factors, compounded by transportation difficulties, resulted in the volume of chromite exported falling by 50 per cent, and earnings by 44 per cent. A project for the renewal of equipment is under consideration by the European Investment Bank, and in anticipation of its approval, output is projected to recover to pre-1980 levels by 1983. The declining trend in the volume of exports of sisal--which fell by 7 per cent in 1981--also reflected the need to replace defective equipment. Shipments of cotton fabrics (principally jeans) are expected to increase as a result of a more vigorous marketing policy, and earnings are expected to reach a record level in 1982. An emergency investment program with the help of external financing is envisaged for domestic production of cotton in order to reduce the dependence on imported fiber.

4. Staff appraisal and proposed decision

The Malagasy authorities are expected to request a purchase equivalent to SDR 21.8 million, or 42.75 per cent of quota, under the compensatory financing facility in respect of an estimated shortfall of SDR 30.9 million for the calendar year 1981. The proposed purchase would raise Madagascar's outstanding purchases under the facility from 57.25 per cent to 100 per cent of quota.

Madagascar's overall balance of payments deficit decreased considerably in 1981, largely because of a decline in imports. Although the current account deficit fell from SDR 464 million in 1980 to SDR 334 million in 1981, the overall balance of payments deficit of SDR 75 million remains large. Gross international reserves rose from the equivalent of 0.4 months of imports at the end of 1980 to the equivalent of 0.8 months of imports at the end of 1981, but remain at a critically low level. In 1982, the trade deficit is projected to widen again, leading to correspondingly larger increases in the current account and overall balance of payments deficits (of SDR 77 million, and SDR 141 million, respectively). The staff is of the opinion that Madagascar's balance of payments need justifies the proposed purchase under the CFF. The staff also believes that the adoption by Madagascar of a financial program in support of which the member is requesting a one-year stand-by arrangement from July 1982 evidences a level of cooperation that meets the requirements of the CF decision. The request for a compensatory financing purchase is expected to include a statement that Madagascar will cooperate with the Fund in efforts to find, where required, appropriate solutions for its balance of payments difficulties.

After increasing by 5 per cent in 1980, the value of exports in 1981 declined by 15 per cent, the lowest level since 1976. The largest shortfall is estimated for coffee (SDR 27.7 million); smaller shortfalls are estimated for meat (SDR 2.4 million), and for miscellaneous items included in "other exports" (SDR 10.8 million). Excesses are estimated for cloves (SDR 15.8 million) and vanilla (SDR 3.1 million). A 39 per cent drop in earnings from coffee, the leading export, is largely due to a 30 per cent fall in export unit values, reflecting lower world market prices; export volume also was 13 per cent lower, mainly because of transportation difficulties, but also because of quota limitations imposed under the International Coffee Agreement. Noncoffee exports, which accounted for over 65 per cent of earnings in the shortfall year, increased by nearly 9 per cent, chiefly because of favorable developments in the clove cycle and in the vanilla crop. The small shortfall in meat earnings was due to a severe cutback in export volume partly on account of rising domestic consumption and partly because of loss of competitiveness in foreign markets. Total export earnings are projected to increase by 11 per cent in the first post-shortfall year, and by 4 per cent in the second. The recovery is based on projected increases in coffee prices and in vanilla volume and prices. In view of the role of low international prices in explaining the shortfall in aggregate earnings from major commodities, especially the coffee shortfall, which accounted for 90 per cent of the estimated shortfall, the staff considers that the overall shortfall of SDR 30.9 million is largely attributable to circumstances beyond the control of the member. In light of the projected recovery, the staff also considers that the shortfall is temporary in character.

The staff considers that the member's request will meet all the requirements set forth in the compensatory financing decision. Accordingly, the following draft decision is proposed for adoption by the Executive Board after a duly authenticated request has been received:

1. The Fund has received a request from the Government of Madagascar for a purchase of the equivalent of SDR 21.8 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).
2. The Fund approves the purchase in accordance with the request.
3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Madagascar: Relations with the Fund

(As of May 31, 1982)

Date of membership:	September 23, 1963
Quota:	SDR 51 million
Fund holdings of Malagasy francs:	SDR 125.15 million, or 245.39 per cent of quota, including compensatory financing purchases of SDR 29.20 million (57.25 per cent of quota) and regular facilities, including supplementary financing under the stand-by arrangements of SDR 22.23 million (43.59 per cent of quota). Excluding holdings under the compensatory financing facility, the Fund's holdings are at 188.1 per cent of quota.
SDR position:	Holdings amount to SDR 0.06 million (or 0.3 per cent of net cumulative allocation of SDR 19.27 million).
Trust Fund loan disbursements:	
First period:	SDR 10.78 million
Second period:	SDR 14.63 million
Direct distribution of profits from gold sales:	
First period:	US\$1.16 million
Second period:	US\$2.97 million
Gold distribution:	22,252.0 fine ounces
Exchange rate system:	The Malagasy franc is pegged to a basket of currencies with weights based on the pattern of trade. SDR 1 = FMG 397.28 (May 18, 1982).
Intervention currency:	There is no single intervention currency.

Staff contacts:

The last Article IV consultation took place in November 1979. The staff report (SM/80/149) and recent economic developments (SM/80/152) were discussed at EBM/80/99 on June 27, 1980. Staff missions visited Antananarivo in November 1980 and January 1981 to negotiate a stand-by arrangement, which was approved by the Board on April 13, 1981 (EBS/81/77 and Supps. 1 and 2). A review mission visited Madagascar in July 1981 and a Malagasy delegation visited Washington in August and November 1981. A Fund mission visited Madagascar in October/November 1981 to provide technical assistance on a reform of the tax system.