

July 14, 1982 - 82/118

The Chairman's Summing Up at the Conclusion of the  
1982 Article IV Consultation with Madagascar  
Executive Board Meeting 82/95 - July 9, 1982

Executive Directors were in broad agreement with the views expressed in the staff paper for the 1982 Article IV consultation with Madagascar. In recent years supply conditions in the economy had been weakened by a lack of real price incentives for producers, inadequate maintenance of existing infrastructure, particularly in agriculture and transportation, and poor management of state enterprises.

Concurrently, however, expansionary investment policies, a too rapid growth in government personnel, and the growing burden of rice subsidies had contributed to a drastic widening of internal and external financial imbalances. Although a number of commendable policy measures were adopted in 1981, the authorities were not successful in containing government expenditures, while the acute foreign exchange shortage led to a further sharp decline in economic activity and an increase in inflationary pressures.

The external debt accumulated by Madagascar and the debt service ratio that will absorb some 50 per cent of projected exports gave an idea of the unsustainability of the imbalances and of the course of policies that led to such results.

Directors commended the authorities for the courageous policy measures that they had recently implemented, notably the exchange rate action, the elimination of rice subsidies, and the increase in prices for petroleum products.

Noting the exceptionally large external imbalance of the country, however, Directors stressed the importance of continuing rigorous sustained implementation of all elements of the new financial program, and in particular the reduction in the fiscal deficit and the most rapid possible nondiscriminatory elimination of internal and external payments arrears.

Directors considered as a manifestation of the authorities' commitment to further fiscal measures, the 7 per cent target in terms of GDP for the 1982 budget deficit.

Directors also recognized that imbalances in Madagascar's economy were so wide, and projected debt service so large, as to require an intensified adjustment effort over several years, with close attention to fiscal, exchange rate and domestic pricing policies, and a continued careful choice of investment projects.

In addition, strict monetary policy, along with an adequate level of interest rates and exchange rates is required. It was suggested that further adjustment of interest rates and, perhaps, of exchange rates might be indicated. In this context, Directors expressed the view that the mid-term review planned for late 1982 must play a crucial role in insuring the continued application of viable adjustment policies.

This review should be set in the context of a medium-term viable balance of payments adjustments strategy. In particular, Directors agreed with the staff view that the authorities might need to consider a more rapid reduction in the proposed rate of growth of government personnel to bring about the required fiscal adjustment.

During the review a close look would have to be given at the interest rate, the exchange rate, the budget, and the elimination in an orderly and nondiscriminatory fashion of external arrears.