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June 12, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Madagascar—Staff Report for the 2000 Article IV Consultation, First Review Under the Second Annual Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Augmentation, Extension of Commitment Period, and Waiver of Performance Criteria**

Attached for consideration by the Executive Directors is the staff report for the 2000 Article IV consultation with Madagascar, the first review under the second annual arrangement under the Poverty Reduction and Growth Facility, and requests for augmentation, extension of commitment period, and waiver of performance criteria, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 23.

Mr. Sacerdoti (ext. 38514), Mr. Bessaha (ext. 38763), and Ms. Zephirin (ext. 38680) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, June 20, 2000; and to the African Development Bank and the European Commission, following its consideration by the Executive Board.

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MADAGASCAR

**Staff Report for the 2000 Article IV Consultation,
First Review Under the Second Annual Arrangement
Under the Poverty Reduction and Growth Facility, and
Requests for Augmentation, for Extension of Commitment Period,
and for Waiver of Performance Criteria**

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs,
Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by A. Basu and Jesús Seade

June 9, 2000

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EXECUTIVE SUMMARY

Performance under the 1999-2000 program

- Performance under the program in 1999 was satisfactory in the areas of economic growth, exports, and the narrowing of the external current account deficit. GDP growth reached 4.7 percent, driven by higher exports and investment, and the external current account deficit narrowed by 1.4 percentage points of GDP. The rate of inflation, however, at 14.4 percent on a year-end basis, was higher than programmed, reflecting higher money growth and losses of livestock due to an epidemic.
- In early 2000 three cyclones hit the country causing loss of human life, severe damage to housing and civilian infrastructures, the flooding of rice fields, and damage to the vanilla, clove, and coffee plantations. As a result, the GDP growth projections for 2000 have been scaled down to 4.8 percent, and the external current account deficit is expected to widen by 1.7 percent of GDP over the initial projections, reflecting lower exports and higher imports of rice and construction material.
- The fiscal performance was on track in 1999, with the overall deficit, on a cash basis, remaining below the program target by 2.4 percentage points of GDP. Government revenue rose, as programmed, to 11.4 percent of GDP, up from 10.6 percent in 1998, because of the expansion of the VAT, higher excise taxes, and strengthening of tax administration. However, because of delays in completing the programmed privatization operations of the state-owned petroleum and airline companies, and the related shortfall in disbursements of external assistance, the government made significant recourse to bank credit, as against a programmed reduction of bank credit.
- In 1999 money growth was 19.5 percent, versus a program target of 8.8 percent, reflecting higher-than-programmed credit to government. Despite the delays in securing the privatization revenues, and the related aid shortfall, the increase in net foreign assets was substantial, reflecting larger-than-expected private capital inflow for direct investment.
- Despite the delays in completing the privatization of the petroleum sector and the airline, there was significant progress in the structural reform area, including the privatization of a second commercial bank, the liberalization of the fishing and telecommunications sectors, and the adoption of reform measures in the civil service.

Program for 2000

- Real GDP growth is now expected to remain at 4.8 percent, with an export growth of only 5 percent in volume terms, versus 10 percent projected before the cyclone destruction. Inflation is targeted to decline to 8.5 percent on an end-of- year basis. Reconstruction costs in 2000 are estimated at 0.8 percent of GDP, and will be mostly foreign financed.

- The revenue-GDP ratio is targeted to increase further to 12.7 percent of GDP, reflecting the full-year impact of measures taken in 1999, additional curtailment of concessions under the investment code, collection of tax arrears, and improved taxation of the small business sector. The wage bill is to be contained through the elimination from the roster of "ghost" workers, and a prudent recruiting policy. Public investment will rise from 6.9 percent of GDP to 8.9 percent, including reconstruction outlays, and the overall fiscal deficit including grants, but, excluding the net cost of structural reforms, would rise slightly to 1.4 percent of GDP. The privatization revenue, together with the higher disbursement of external assistance, will enable the government to repay bank credit by an amount of 1.4 percent of GDP.
- The monetary program targets money growth of 10 percent; the gross international reserves of the central bank will be built up, and the repayment of government credit will leave adequate room for growth of credit to the nongovernment sector.
- The additional financing gap resulting from the natural disasters, equal to 1.7 percent of GDP, could be covered by the requested augmentation of access under the PRGF, additional debt relief requested from bilateral creditors, and additional assistance from multilateral organizations, including the World Bank.
- The privatization of the state petroleum company was finalized in May 2000, and that of the airline company is expected to be completed by the last quarter of the year. It will be followed by the privatization of the state telecommunications company.

Staff appraisal

- The staff is encouraged by the progress made in implementing the 1999-2000 program, in particular in the achievement of the key fiscal targets, although the delays in completing the complex privatization of the petroleum company has led to a shortfall in privatization receipts and delays in external aid disbursements.
- Following the higher-than-programmed inflation in 1999, the staff welcomes the measures taken to mop up liquidity in early 2000. Still, the authorities will need to monitor closely inflation and take immediate actions if there are signs that excess demand pressures build up again. A cornerstone of the program is the significant reduction in government indebtedness to the banking system, associated with the expected substantial privatization revenues.
- On the fiscal side, the financing of exceptional expenditure made necessary by the natural disasters, while making adequate provisions for social services, constitutes a major challenge for 2000. A critical element of the program is the further increase in the revenue-GDP ratio, and wage restraint, associated with the introduction of performance-based bonus payments, to be followed by the implementation in 2001 of a merit-based remuneration and promotion system. The staff welcomes the streamlining of the external

tariff, and encourages the authorities, in coordination with regional partners, to move to a three-rate structure, with a top rate of 25 percent.

- As the incidence of poverty remains high and social services remain weak, the poverty reduction strategy under preparation will provide the opportunity to strengthen the focus of government activities, in a coherent fashion and in a medium-term framework, in close coordination with civil society and the donor community.

I. INTRODUCTION

1. The three-year Poverty Reduction and Growth Facility (PRGF) arrangement for Madagascar, in an amount of SDR 81.36 million (90 percent of the old quota and 66.58 percent of present quota), was approved on November 27, 1996, and the second annual arrangement of SDR 27.12 million (22.2 percent of quota) was approved on July 23, 1999. The discussions on the 2000 Article IV consultation and the midterm review under the second annual arrangement under the PRGF for Madagascar were initiated in Antananarivo between October 28 and November 17, 1999, and completed during the period February 21- March 8, 2000.¹ In the attached letter to the Managing Director dated May 24, 2000 (Appendix I), and the annexed memorandum of economic and financial policies for 2000 (MEFP), the Prime Minister—and Minister of Finance and Economy—reviews progress made under the 1999-2000 program, presents the policies to be implemented during the remainder of 2000, and requests an extension of the three-year arrangement period to end-November 2000, together with an augmentation of access by 20 percent of quota, in an amount equivalent to SDR 24.4 million, because of the destruction caused by three cyclones. He also requests a waiver for the nonobservance of four performance criteria (Appendix I, Table 1).

2. At end-March 2000, Madagascar's outstanding use of Fund resources amounted to the equivalent of SDR 44.52 million (36.4 percent of quota). Following the second disbursement under the second annual PRGF arrangement and assuming repayments are made as scheduled, Madagascar's use of Fund resources at end-June 2000 would reach SDR 50.0 million (40.9 percent of quota), excluding the requested augmentation of access. Madagascar accepted the obligations of Article VIII, Sections 2(a), 3, and 4, effective September 18, 1996, and maintains no restrictions on the making of payments and transfers for current international transactions subject to approval under Article VIII.

3. Madagascar is on the standard 12-month consultation cycle. In concluding the 1998 Article IV consultation on February 8, 1999, the Executive Directors recognized that the pursuit of economic policy reforms since 1994 had led initially to economic expansion, a decline in inflation, and a marked improvement in Madagascar's external position. At the same time, they noted that since 1997, the pace of structural reforms had slowed during the

¹ The Malagasy representatives in these discussions included Mr. Tantely Andrianarivo, the Prime Minister and Minister of Finance and Economy, Mr. Pierrot Rajaoranelo, the Vice Prime Minister in charge of Budget and Development of the Autonomous Provinces, and Mr. Gaston Ravelojaona, Governor of the Central Bank of Madagascar. The staff representatives were Mrs. Schmitz (head during the November mission), Mr. Sacerdoti (head during the March mission), Messrs. Franks, Bessaha, and Akitoby, and Ms. Zephirin and McCaul (research assistant) (all AFR), and Mrs. Ng Choy Hing and Ms. Linares (AFR-assistants). Mr. Maret, the Fund Resident Representative, participated actively in the work of the mission. The mission worked closely with a World Bank mission. Mr. Ismael, Advisor to the Executive Director for Madagascar, participated in the policy discussions.

process of political transition, and macroeconomic management had weakened significantly; they stressed the importance of resuming the path of fiscal consolidation and pressing ahead with structural reforms that would open up the economy and provide a transparent and predictable regulatory framework for private sector activity.

4. Madagascar's program of structural reforms is being supported by various donors. In 1999, the World Bank approved the second structural adjustment credit (SAC II) in an amount of US\$100 million. The European Union also supports Madagascar's adjustment efforts through its own structural adjustment grant. Relations with the Fund and the World Bank Group are summarized in Appendices II and III, respectively.

5. Despite recent progress, Madagascar's statistical base remains weak in terms of quality, coverage, and timeliness (Appendix IV). This, however, does not hamper the effective conduct of surveillance and the monitoring of the performance under the PRGF. In 1999, the authorities introduced a new consumer price index (CPI, 1998 = 100) covering the entire country. The authorities have expressed interest in using the General Data Dissemination System (GDDS) as a framework for statistical development, and a technical assistance mission from the Statistics Department is scheduled for early 2001.

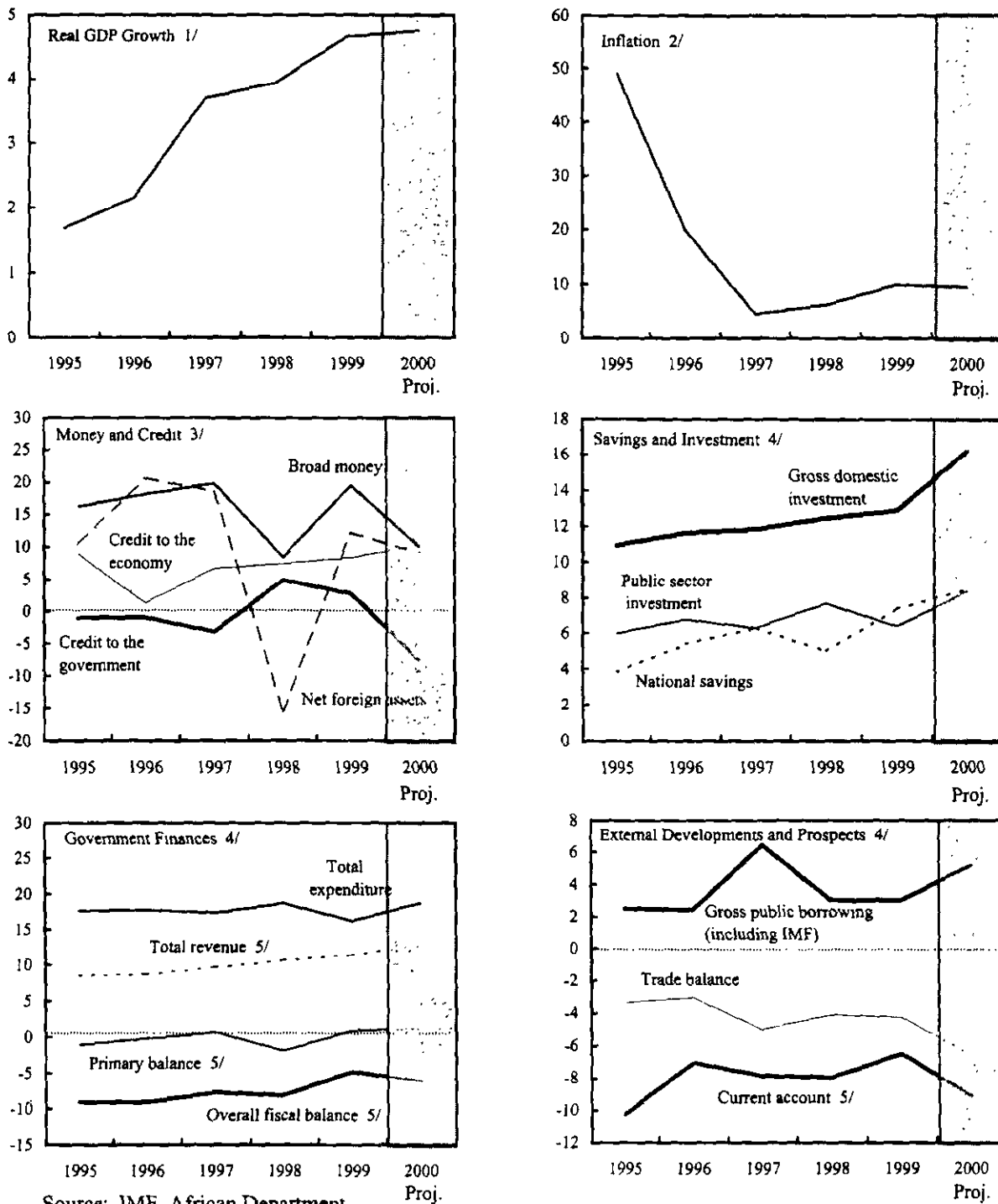
II. BACKGROUND AND ECONOMIC PERFORMANCE IN 1999

6. **Performance under the program in 1999 was satisfactory in the areas of economic growth, exports, and the narrowing of the external current account deficit. In contrast, inflation was higher than projected.**

7. **Real GDP growth is estimated at 4.7 percent in 1999, exceeding the program target of 4.5 percent. It was generated mainly in the fishing, tourism, and manufacturing sectors (Figure 1 and Table 1).**

8. **The external current account improved by more than envisaged under the program; the deficit (excluding official grants) is estimated at 6.5 percent of GDP in 1999, compared with 7.9 percent in 1998 and 7.3 percent programmed. Including current grants, the deficit fell by 2 percentage points to 5.5 percent in 1999. This performance reflects essentially a 13.6 percent expansion in exports, owing to a sharp rise in free trade zone exports and precious stones, as well as in traditional exports, such as sugar, cloves, and vanilla. Net service receipts also improved, owing to increased contributions to the costs of local subsidiaries by foreign-owned firms and savings in moratorium interest payments resulting from delays in concluding some rescheduling agreements. In addition, despite a shortfall of SDR 65 million (2 percent of GDP) in expected privatization receipts (because of the delays in finalizing the privatization of the state petroleum and airline companies), the**

Figure 1: Madagascar: Selected Economic and Financial Indicators, 1995-2000



Source: IMF, African Department.

1/ In percent.

2/ Percentage change in consumer prices based on traditional price index (yearly average).

3/ In percent of beginning-of-period stock of broad money.

4/ In percentage of GDP.

5/ Excluding grants.

capital account surplus reached 2.5 percent of GDP, only 1 percentage point below the program target, owing to strong private investment flows.²

9. While the nominal effective exchange rate depreciated by 4.5 percent in 1999, the real effective rate of exchange appreciated by 5.9 percent, because Madagascar's rate of inflation was higher than its trading partners; the real effective rate is now at a level comparable to that in 1996 (Figure 2). The strong performance of exports and the sustained inflow of direct investment in recent years suggest that Madagascar's economy remains competitive.

10. **Inflation picked up in 1999.** End-of-period inflation in 1999 was 14.4 percent on a 12-month basis, as against a program target of 6.4 percent. The rise in consumer price inflation stems in part from a more-than-twofold increase in the rate of monetary expansion. The price of food products, more particularly meat, rose sharply because of an epidemic that decimated the pig herd.

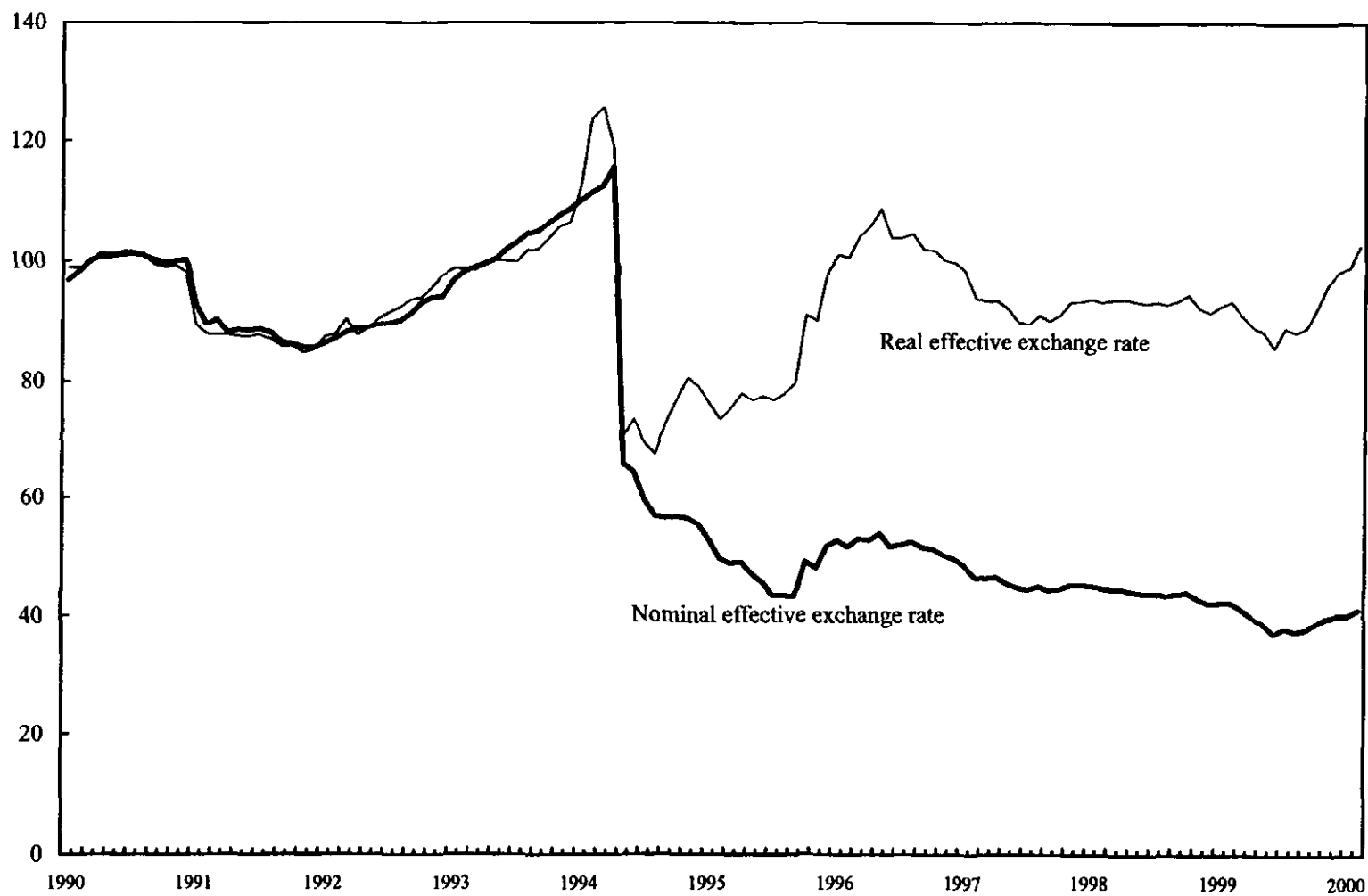
11. **Madagascar's fiscal performance was broadly on track in 1999. The overall deficit (cash basis), including a small net accumulation of domestic arrears³ and the cost of structural reforms, reached 2.5 percent of GDP, compared with 4.9 percent targeted.** However, as a result of shortfalls in privatization revenue (0.2 percent of GDP, compared with a target of 3.4 percent of GDP), and the related delays in the disbursements of two tranches from the World Bank's SAC II and associated external support (for an amount equivalent to about SDR 36 million), the financing of the deficit required recourse to domestic bank and nonbank financing of FMG 246.4 billion (1.1 percent of GDP), compared with a programmed reduction of domestic indebtedness of the government of FMG 541 billion (2.4 percent of GDP). As a result, the end-December 1999 performance criteria on net domestic assets and net foreign assets of the central bank were not met; the end-December 1999 performance criterion on domestic financing of the government was also not met. Waivers for the nonobservance of these quantitative performance criteria, as well as for a structural performance criterion related to the clearing of the civil service roster by end-August 1999, which was implemented by March 2000, have been requested.

12. **Government revenue reached FMG 2,667.4 billion (11.4 percent of GDP), which was slightly above the program target of FMG 2,646 billion (Tables 2, 3, and 4) and represented an increase of 0.8 percentage points of GDP from 1998. This increase was the**

² Direct investment, excluding privatization receipts, almost tripled in 1999, and was concentrated in the manufacturing, fishery, and tourism sectors.

³ This accumulation mainly reflects the float between expenditure committed and actually paid in 1999.

Figure 2: Madagascar: Exchange Rate Developments, January 1990 - February 2000 1/
(Average 1990=100)



Source: IMF, Information Notice System.

result of a set of measures, mostly adopted at end-1998, that aimed at strengthening tax and customs administration, eliminating a large number of exemptions under the value-added tax (VAT) and other levies, and increasing excise taxes and levies on petroleum products. In addition, the customs tariff code was streamlined from six rates to four rates, with a maximum rate of 30 percent; this resulted in a reduction of 2 percentage points in the average tariff rate, to 13.1 percent in 1999. Current expenditure was below the program target, although there was a wage bill overrun, estimated at FMG 80 billion (0.3 percent of GDP), resulting from delays in the repatriation of diplomatic staff, the hiring of new gendarmes, and excess payments of bonuses. Capital expenditure was below program projections by 1.2 percent of GDP. Reflecting these developments, the overall deficit, including grants but excluding the cost of structural reforms, amounted to 1.2 percent of GDP, compared with a program target of 2.5 percent of GDP.

13. The fiscal program for 1999 included funding of FMG 570 billion (2.5 percent of GDP) for a wide range of structural reforms, including privatization and related severance payments, wage decompression, civil service and justice reforms, and indemnization for past expropriations.⁴ Taking into account exceptional revenue arising from recovery of nonperforming loans of the privatized banks, the net cost of structural reforms amounted to FMG 370 billion, or 1.6 percent of GDP.

14. In 1999, the money supply is estimated to have risen by 19.3 percent, compared with a program target of 8.8 percent, mainly because credit to the government grew at a faster pace than programmed (2.8 percent of beginning-of-period money stock before bank restructuring, instead of a programmed decline of 19.5 percent). At the same time, credit to the private sector, excluding bank restructuring operations,⁵ rose by 19.1 percent, compared with a program objective of 25.8 percent (Tables 5 and 6). Despite delays in securing privatization receipts, and shortfalls in related disbursements of foreign assistance (for a total of SDR 168 million), the increase in net foreign assets was only SDR 60 million less than the program target (SDR 99.5 million), reflecting positive capital inflows and lower-than-projected service payments, including interest charges.

⁴ These outlays reached an estimated FMG 415 billion, including the cost for the wage decompression (FMG 48 billion), the cost of civil service and justice reforms (FMG 24 billion), privatization and severance costs (FMG 62 billion), the outlays for restructuring two public commercial banks (FMG 196 billion), and indemnization costs (FMG 85 billion).

⁵ The restructuring of the agricultural bank (BTM) involved the replacement of nonperforming loans (amounting to FMG 222 billion, or 1 percent of GDP) with government securities (in an amount of FMG 148 billion, net of the capitalized cost of a long-term real estate leasehold contract with the government) and a capital inflow from European investors of FMG 18 billion. In addition, the Société Générale paid the second installment of the purchase price of the privatized bank, BFV-SG, for an amount of FMG 12 billion, which was used by the government to reduce its indebtedness to the bank.

15. In the face of a high demand for credit, which the banks met by operating at low reserve levels, and in order to contain inflationary and balance of payments pressures, the central bank raised the discount rate by 2 percentage points in April, and 3 percentage points in August (see paragraph 8 of the MEFP). The latter measure was combined with a rise in the reserve requirement ratio.

16. **Madagascar made significant progress in the structural reform area.** Together with the privatization of the second commercial bank, the agricultural bank (BTM), the authorities adopted a number of other measures to liberalize the fishing and telecommunications sectors (see paragraphs 11 and 12 of the MEFP). As indicated above, there were delays in privatizing the national petroleum company, SOLIMA, and the national airline, Air Madagascar, two key actions required by the World Bank to release the first two tranches of the SAC II. In the case of SOLIMA, the delays are attributable to environmental and legal issues, as well as the time needed to agree on a new price formula; the privatization was finalized in May 2000. Regarding the national airline, the delay was partly due to the time needed to reach an agreement with a creditor, consistent with the Paris Club agreed minute of 1997, on the release of the lien on one of the company's aircraft.

III. REPORT ON DISCUSSIONS

17. **The policy discussions with the authorities took place against the background of rising oil prices on the international market and natural disasters that severely damaged the country, including a parasite attack on the crops, a drought in the fourth quarter of 1999, a cholera epidemic, and three cyclones that hit the country in the first quarter of 2000.** The discussions focused on (i) the macroeconomic policies for 2000; (ii) the key structural reforms, including the trade liberalization under way in the context of the regional integration initiatives within the Indian Ocean Commission (IOC) and the Common Market for Eastern and Southern Africa (COMESA); (iii) the decentralization process; and (iv) the launching of a participatory process leading to the preparation of an interim poverty reduction strategy (PRSP) by year's end and a full one before June 2001. Following a preliminary evaluation of the effects of the three cyclones on exports and imports, growth prospects, and reconstruction requirements, the main macroeconomic objectives for the year were revised.

A. Program Objectives for 2000

18. **The program for 2000 is based on a projected GDP growth rate of about 4.8 percent, taking into account the impact of the natural disasters.**⁶ Inflation is targeted to decline to 8.5 percent by end-2000. The current account deficit (excluding official transfers) is expected to widen by 2.6 percent of GDP to 9.1 percent of GDP in 2000 (7.7 percent, including current grants), owing to higher petroleum import prices, higher rice imports, and a

⁶ The main sources of growth are expected to be textiles, manufacturing, construction, fishing, and tourism.

smaller than originally projected increase in exports (5 percent in value terms, instead of the originally projected 10 percent), because of the destruction of export crops by the cyclones. The impact of the natural disasters on the external current account deficit (excluding grants) is estimated at SDR 51 million, or 1.7 percent of GDP. Net official international reserves are programmed to increase by SDR 46.5 million, mainly reflecting the proceeds from privatization, with gross official reserves rising to about 12.6 weeks of imports of goods and non-factor services by the end of 2000.

19. Taking into account reconstruction activity, domestic investment is expected to rise from 13 percent of GDP in 1999 to 16 percent in 2000, while national savings are assumed to increase moderately.

20. **An immediate objective of the authorities is to ensure that the country recovers from the effects of the three increasingly destructive cyclones, which occurred between February and early April 2000.** The expected impact of the first two cyclones was an increase in rice imports of about 0.1 percent of GDP. The third cyclone, in addition to causing extensive damage to housing and civilian infrastructure, devastated the main vanilla- and clove-producing and exporting area of the country, the northeast. Because of damage to the plantations, it is expected that vanilla, clove, and coffee exports will fall by at least one third in 2000; moreover, the repercussions will be felt over the medium term because of the long gestation period of these crops. The export shortfall in 2000 is estimated at SDR 22 million, or 0.7 percent of GDP. On the import side, the destruction will require higher imports of rice (because of extensive flooding of rice fields), as well as of material needed for the reconstruction (see the MEFP, paragraph 12). The overall additional balance of payments financing requirement in 2000 is estimated at SDR 51 million (1.7 percent of GDP). While an assessment of overall reconstruction costs is being undertaken by the World Bank, damages are provisionally estimated to be in the range of US\$80–100 million, with corresponding reconstruction expenditure to be spread over the period 2000–2002. According to initial estimates, the reconstruction needs in 2000 could amount to about US\$30 million (0.8 percent of GDP), of which 80 percent could be covered by assistance from multilateral institutions.

B. Fiscal Policy

21. **Fiscal policy in 2000 is designed to consolidate the gains made so far, while allocating necessary resources to infrastructure repair and the social sectors.** The overall deficit, including grants and excluding the net cost of structural reforms, will rise from 1.2 percent of GDP in 1999 to 1.4 percent in 2000, as higher capital expenditure will offset the rise of revenue and grants. The net cost of the structural reform program (privatizations, civil service and judicial system reforms, and indemnification of foreign owners) is projected to amount to FMG 721 billion, or 2.7 percent of GDP (see the MEFP, paragraph 17). This includes also the costs implied by the gradual phasing in during 2000 of the retail petroleum

price adjustment (0.8 percent of GDP).⁷ Taking these costs into account, the total overall deficit (excluding grants) is projected to rise from 2.5 percent in 1999 to 4.5 percent of GDP in 2000. This deficit, the planned reduction of domestic arrears (0.4 percent of GDP), and the net repayment of bank credit by the government (1.5 percent of GDP) are expected to be financed by higher net external financing (3.2 percent of GDP, including debt relief) and divestment revenue (2.3 percent of GDP).

22. **A key objective of the government is to strengthen further revenue mobilization from 11.4 percent of GDP in 1999 to 12.7 percent of GDP in 2000 while maintaining broadly the stability of current expenditure as a share of GDP.** The revenue effort reflects (i) the full-year effect of measures taken in 1999, and (ii) the new measures introduced in the 2000 budget.⁸ These comprise (i) the introduction of a simplified unified tax, applicable to small businesses,⁹ and the levy of a statistical tax on imports, with expected receipts of 0.4 percent of GDP; (ii) the streamlining of import duties; (iii) the application of the normal tax regime to taxpayers previously benefiting from tax advantages under the investment code; (iv) the accelerated collection of tax arrears; and (v) intensified efforts to eliminate transactions without invoices.

23. Under the 2000 budget, and in line with the objectives of the Cross-Border Initiative (CBI), the authorities reduced the tariff structure from six rates (5, 10, 15, 20, 25, and 30 percent) to four rates (5, 15, 25, and 30 percent), while redistributing goods among these latter rates. Moreover, the government intends to reduce gradually the number of goods subject to the current rate of 30 percent, with a view to eliminating it in concert with other regional trade partners (see the MEFP, paragraph 19). The implementation of preferential taxation in the context of the IOC regional arrangement will lead to a revenue loss of 0.2 percent of GDP because imports from Mauritius and the Comoros will benefit from a 100 percent tariff reduction, compared with 80 percent in 1999.

⁷ An amount of FMG 207 billion (recorded in the government statistics table as a component of structural reform cost) is earmarked in 2000 to compensate the petroleum sector operators, because retail petroleum prices are to be adjusted during the year by less than required to secure the new wider commercial margins agreed in the context of the privatization (see the MEFP, paragraph 16). The government envisages completing the full upward retail price adjustment of about 50 percent in prices by the end of the year. At end-March 2000, retail prices were increased by 15-30 percent for various products.

⁸ See Box 3 of EBS/99/116, (7/8/99) and the MEFP, paragraph 19.

⁹ This tax, which is levied on turnover, replaces the professional tax, the income tax on nonsalary earnings, and the turnover tax, and is applied to businesses with turnover smaller than FMG 12 million.

24. **Expenditure policy in 2000 reflects the government's key priorities in the social sectors, infrastructure, and civil service reform, in addition to the reconstruction needs, which will be mainly externally financed.** Within the overall constraint of stabilizing the current expenditure-to-GDP ratio, the budget includes higher nonwage current spending and support to local government expenditure on basic education and health (see the MEFP, paragraph 20). At the same time, exceptional provisions for current expenditure amounting to FMG 69 billion (0.3 percent of GDP) were made to address the outbreak of cholera and the initially estimated cost of the destruction from the first cyclone.

25. **To contain the wage bill while providing room for needed recruitment in the social sector, a series of measures have been taken that are an integral part of a medium-term civil service reform.** These include the payment of bonuses solely on the basis of a performance-related system, which will be put in place during the second half of the year, and the savings from the elimination from the personnel roster of the 1,447 "ghost" workers identified during the 1999 census.¹⁰ The latter action is expected to offset the cost of hiring 1,500 additional staff in the education and tax and customs administrations. In all, the level of the wage bill is projected to remain constant as a share of GDP (4 percent). The reform of the civil service, including the adoption of new statutes and the introduction of a new merit-based remuneration system, is now expected to be considered by the National Assembly during the second half of 2000 (see the MEFP, paragraph 22).

26. **Public investment is projected to rise from 6.9 percent of GDP in 1999 to 8.9 percent of GDP in 2000, 0.8 percentage point of which is for reconstruction costs.** Foreign-financed investment is projected to reach 6.3 percent of GDP, up from 5.1 percent of GDP in 1999, while the domestic budgetary contribution to the investment budget is expected to increase by 1 percentage point of GDP to 2.6 percent in 2000. The reconstruction costs for 2001-2002, assessed by the World Bank to be US\$70 million (1.9 percent of 2000 GDP), will be reviewed by the staff at the time of the second review of the program in September 2000.

27. **The monitoring of budget execution is being strengthened,** in particular in the area of foreign-financed investment and in the social sectors. In collaboration with the World Bank and the European Union, a mechanism was put in place to ensure that priority expenditure is committed on a quarterly basis, subject to rigorous cost control, and that the targeted populations are the effective beneficiaries. The composition of the investment program will be further improved to reflect the emphasis on poverty reduction. In 2000, the authorities intend to submit to the National Assembly the first statutes regarding the legal framework for decentralization, including the transfer of responsibilities and financial resources; these transfers will have to be implemented in a gradual fashion. The authorities have already received some

¹⁰ The elimination from the personnel roster of these workers took place only in March 2000, while the program envisaged that this measure would be implemented by end-August 1999 as a performance criterion. Accordingly, the authorities are requesting a waiver for the nonobservance of this criterion.

technical assistance from FAD during their preparatory work, and the staff intends to remain in close contact with them to discuss the legal and technical framework as it developed and to ensure that the devolution of budgetary resources and expenditure is carried out in an orderly manner with due regard to budgetary constraints.

28. In the first quarter of 2000, government revenue and expenditure performance was in line with the revised program objectives, with outlays for structural reforms markedly below the projected levels; expenditure, however, exceeded the level projected under the original program adopted in mid-1999, because of the new emergency outlays related to the natural disasters. External budgetary support, net of cash outlays on external debt, was somewhat higher than expected. The original program net domestic financing benchmark for end-March 2000 was exceeded by a small margin, equivalent to 0.5 percent of GDP; the extra financing was provided by the commercial banks.

C. Money and Credit and Financial Sector Reforms

29. **The main objectives of monetary policy in 2000 will be to reduce inflation and further strengthen the central bank's net foreign assets.** With the expected deceleration of inflation, the authorities hope to be in a position to ease cautiously interest rates and reduce the reserve ratio during the course of the year. The monetary program for 2000 targets money supply growth of 10 percent, as against a 19.3 percent growth in 1999; this implies a stable velocity of circulation over the two-year period 1999-2000. Continued fiscal consolidation, together with the resumption of foreign aid disbursements and the inflow of substantial privatization receipts from abroad, will permit a rebuilding of the central bank's net international reserves and the reduction of the banking system's net credit to government, while leaving adequate scope for private sector credit expansion. Thus, in 2000, the government is expected to reduce its net bank credit by 7.7 percent of initial money stock,¹¹ which would provide room for increasing credit to the private sector by 10.3 percent of the initial money stock (a growth rate of 26 percent). With the restrained stance of credit policy, net foreign assets of the banking system (including medium- and long-term liabilities) are projected to increase by 9 percent of the initial money stock.

30. **The authorities will continue to pursue a flexible interest rate policy, with the aim of containing inflationary pressures.** The central bank will stand ready, if needed, to mop up excess liquidity, while coordinating closely with the treasury concerning the quantity and the terms of treasury bills to be issued (see the MEFP, paragraph 27). In the first quarter of 2000 central bank net foreign assets rose by SDR 14.6 million, only slightly less than envisaged under the original program, but more than expected under the revised targets; the net domestic assets of the central bank declined by 4.2 percent of money stock, or by 10 percent more than originally programmed, reflecting reimbursement of credit to the government.

¹¹ The government's repayment of central bank credit is targeted to amount to 10 percent of initial money stock.

31. Following the privatization of the BTM during the fourth quarter of 1999, the authorities have been vigorously pursuing their efforts to collect the nonperforming loans of that bank and of the other recently privatized bank (BFV-SG) (see the MEFP, paragraph 28). The aim is to recover a substantial share of the costs of the financial restructuring of the two banks¹² and to send a clear signal to current and future users of bank credit on the enforcement of contractual rights. Following up on notification letters sent to the delinquent debtors of the old BFV and BTM in mid-1998, the names of delinquent debtors of the BFV were published in June 1999, in a list that is regularly updated. The same procedures are being followed for delinquent debtors of the BTM, for which a list is being prepared for publication during the course of 2000. The government has also taken important steps to strengthen the jurisdiction of the special administrative courts for loan recovery.

32. Measures will be adopted during 2000 to enhance the soundness of the banking and financial system, reflecting the recommendations of the November 1999 MAE technical assistance mission that examined the conformity of Madagascar's banking regulations with the Basel Core Principles (see Box 1).

Box 1. Madagascar: Toward a Strengthening of the Banking and Financial Sector

To improve the soundness of the banking and financial system, the MAE technical assistance mission of November 1999 recommended, inter alia, the following: (i) the limit on the amount of loans extended to a single borrower should be reduced gradually from 40 percent to 30 percent of a bank's own capital and reserves; (ii) solvency ratios should be kept in line with international standards; (iii) the central bank should issue new instructions in 2001 on the requirement for all banks to implement a permanent internal audit system, which will be subject to systematic review by the Banking and Financial Supervision Commission (CSBF); and (iv) a mechanism should be studied to execute more efficiently bank guarantees and collateral. Financial institutions—in particular, credit unions and institutions in the emerging microfinance sector—will be governed by prudential regulations and effective supervision similar to those applicable to banks.

Furthermore, in 2000 the government intends to pursue its program to modernize the insurance sector. A revised Insurance Code was adopted in September 1999 establishing a competitive and market-oriented framework. On the basis of a financial and technical audit of the insurance sector expected to be completed in 2000, the process of privatizing one of the two state-owned insurance companies will be launched during 2000, while the other privatization is scheduled for 2001.

Furthermore, an organizational, financial, and actuarial audit of the social security system (CNAPS) and the civil service pension scheme (Caisse de Retraites Civiles et Militaires—CRCM and Caisse de Prévoyance et de Retraite—CPR) was initiated and will be completed as scheduled in the second half of 2000, to pave the way for subsequent reforms.

¹² The treasury had to issue in 1998-99 a total of over FMG 240 billion in special treasury bills to restore the solvency of the two banks.

D. External Sector Issues

33. **The medium-term balance of payments projections presented in SM/99/13, (1/20/99) and EBS/99/116 (7/8/99) have been updated to reflect the revised prospects for the terms of trade, the medium-term effects of the destruction caused by the cyclones, and the outlook for external assistance and direct investment, including that derived from privatization. Debt service projections have been updated to take into account progress in the finalization of agreements with bilateral creditors.**

34. The financing gap for 2000, after the requested augmentation of the Fund's PRGF arrangement, is estimated at SDR 43.5 million. To cover this gap, the authorities have requested: (i) the extension to end-November 2000 of the consolidation period under the 1997 Paris Club agreed minutes, currently covering the period up to end-July 2000; (ii) deferment of all debt-service obligations to the Paris Club in the period June-November 2000, including on post-cutoff-date debts; and (iii) supplementary balance of payments financing from the World Bank. It is expected that the Paris Club will treat these requests favorably.

35. **Over the medium term, the external current account deficit, excluding official transfers, is likely to be higher than previous projections: after rising to 9.1 percent of GDP in 2000, the deficit is projected to decline to 8.4 percent in 2001, and 8.1 percent in 2003. The impact in 2001 of the cyclones on the current account is estimated at 1.4 percent of GDP (Table 7).**

36. During 2001-03, current official transfers are expected to be higher than initially projected by about 1 percent of GDP; these disbursements are expected to be provided in support of the implementation of the adjustment program. It is envisaged that the buildup in net international reserves over the three-year period 1999-2001 will fall slightly short of the levels originally programmed, assuming that the larger-than-originally projected financing gaps in both 2000 and 2001 will be largely covered by external assistance, including debt relief. On this basis, at the end of 2001, gross reserves would represent about 12½ weeks of imports of goods and services, as against the 13.4 weeks originally projected.

37. During 2000, the exchange rate will continue to be market determined, and interventions in the exchange market will be aimed at achieving the program's foreign reserve targets and minimizing short-term volatility in the exchange rate. The authorities will also be relying on tight fiscal and monetary policies to contain underlying exchange rate and price pressures.

38. Madagascar has made some progress in reconciling debt records with more Paris Club creditors, and negotiations with other creditors for debt rescheduling on terms comparable with those of the Paris Club are under way.¹³

¹³ The authorities have already reached an agreement with the Kuwaiti Fund for Arab Economic Development.

39. **Madagascar's most recent debt sustainability analysis (DSA)**, based on a preliminary loan-by-loan analysis of 1998 data (see EBS/99/116), estimated a net present value (NPV) of debt-to-exports ratio of 304 percent in 1999, declining to 255 percent at end-2001. These results will be reviewed in the next DSA, which is planned for presentation to the Board at the end of the year. Scheduled external debt service remains burdensome in 2000, reaching 18.2 percent of exports of goods and services before debt relief. Provided the present PRGF program remains on track in the remainder of 2000, and a successor three-year arrangement under the PRGF is approved in early-2001, the decision point under the HIPC Initiative could be reached in the second half of 2001, following a first review under the successor arrangement.

E. Other Structural Reforms

40. In discussing structural reforms, the authorities indicated that they were determined to complete the privatization of SOLIMA and Air Madagascar during the second and third quarters, respectively, so as to allow the World Bank to release the first and second tranches of SAC II. At the same time, they will finalize the sale of other enterprises included in the original list of 46 enterprises slated for privatization, in particular the shipyard SECREN.

41. **In the telecommunications sector**, the authorities plan to complete work for the privatization of the state telephone company, TELMA, by end-2000, with the related receipts accruing in 2001. Subsequently, the authorities intend to launch a call for bids for a second national telecommunications network operator.

42. In the context of their strategy to promote private sector development, the authorities have reiterated their commitment to accelerate during 2000 reforms aimed at improving the legal system, simplifying the procedures governing company registration, and overhauling the business law.

F. Social Sector Policies and Other Issues

43. **The discussions on poverty alleviation, which has been a key government objective since the early 1990s,¹⁴ focused on strengthening social sector policies in the context of the Initiative for Heavily Indebted Poor Countries (HIPC Initiative).** In recent years the government focused on strengthening the basic education and health services, by expanding the network of primary schools and rehabilitating and widening that of basic health centers. As a result, the primary school enrollment rate has been raised from 61 percent in 1993 to 76 percent in 1999, and the network of basic health centers has been brought from

¹⁴ In recent years, the implementation of the strategy of poverty alleviation in the context of macroeconomic stability has translated into only modest gains, because of inadequate resource allocation and the lack of a mechanism to ensure that the targeted populations benefited from even the low resources earmarked for that purpose.

1,800 to 2,100, or one for every 7,500 inhabitants (Table 9). In comparison to similar countries, Madagascar has developed a diversified social database and conducted, in collaboration with some foreign partners, a number of surveys on health, nutrition, and education. Also, a set of social indicators is already in place to monitor spending in the education and health sectors. The availability of these social statistics and information has helped the authorities in drafting, in early 2000, a national poverty reduction strategy. Building on this strategy, an interim PRSP will be finalized by the end of the year, with the view to completing a full-fledged PRSP by mid-2001, on the basis of a wide participatory process, involving civil society, local governments, and the donor community.

44. **The authorities are committed to improving governance and the transparency of government budgetary operations.** Key measures to this end are the recent completion of the audits of the budgetary laws for 1993-96, the allocation of resources to improve the judicial system, the decompression of the pay scale, and the introduction before the start of the 2000 season of a bidding system for fishing licenses.

IV. STAFF APPRAISAL

45. In 1999, despite several natural disasters, Madagascar maintained positive per capita real GDP growth, improved its export performance, reduced its external sector deficit, and raised its international reserves. Most fiscal targets were achieved, including a significantly positive level of government savings. The government revenue-GDP ratio increased markedly to 11.4 percent because the tax base was widened, notably through the elimination of exemptions on the VAT and improvements in tax administration. Public expenditure policy was prudent. In the structural reform area, the privatization of the banking sector was completed, and significant progress was made on the reforms of the regulatory framework.

46. The main macroeconomic problems have been the overshooting of monetary targets and the pickup in inflation. Prices rose in excess of projected levels, with pressures on food prices following an epidemic that decimated a part of the livestock herd. The monetary growth targets were exceeded, owing to higher credit expansion to the private sector and also to the government in the face of shortfalls in privatization receipts and delayed external aid disbursements.

47. The most serious delays in public enterprise reform have been in the privatization of the petroleum company, SOLIMA, and the national airline, Air Madagascar. The privatization of such large entities has proven more complex than envisaged, with the emergence of initially unforeseen issues. For SOLIMA, a significant problem was the need for much larger intermediation margins for the private buyers, which required sharp domestic price adjustments that could have social repercussions. Since an appropriate solution to this problem has now been found, the privatization of SOLIMA was completed in early May 2000. For Air Madagascar, the privatization is expected to be concluded in the second half of 2000.

48. The staff welcomes the additional measures taken in the first quarter of 2000, to mop up liquidity and the prudent monetary targets for 2000, which should permit a correction of

the overshooting in 1999. Still, the authorities will need to monitor closely inflation and balance of payments developments and take immediate action if there are signs that excess demand pressures are building up again. In particular, it will be important to continue to pursue a flexible interest rate policy, geared at maintaining real interest rates at positive levels and at stemming underlying pressures in the exchange rate market. The program for 2000 aims at holding inflation to single digits and raising international reserves to the level of about 13 weeks of imports of goods and nonfactor services. The cornerstone of the stabilization effort will be a substantial net reduction of the government's indebtedness to the banking system; the expected large privatization receipts should be used to achieve such a net repayment by the government, which would also allow for the provision of sufficient resources to the private sector within a prudent monetary program.

49. On the fiscal side, financing the exceptional expenditure made necessary by the natural disasters—and, in particular, by destruction from the recent cyclones—while making adequate provisions for priority spending in the social sectors constitutes a major challenge for 2000. Hence, a critical element of the fiscal program is the achievement of a further increase in the revenue-GDP ratio and sustainment of that effort in the period ahead. Within the overall budgetary program for 2000, wage restraint is also a critical requirement. In this connection, the staff welcomes the introduction of a new performance-based system of bonus payments, which should stimulate efficiency and motivation. The staff also urges the authorities to accelerate work on the adoption of a merit-based remuneration and promotion system, now scheduled for 2001. In view of the fiscal measures being implemented, it is hoped that a concerted international effort will make it possible to fund Madagascar's reconstruction needs and to cover fully the balance of payments gap for 2000, thus ensuring the needed strengthening of international reserves.

50. Consistent with the CBI effort, Madagascar has streamlined its external tariff structure but maintains a top rate of 30 percent. The staff welcomes the leading role played by Madagascar in reducing its tariffs vis-à-vis neighboring countries and encourages the authorities to move promptly, in coordination with its regional partners, to a three-rate structure with a top rate of 25 percent.

51. Despite recent economic progress, Madagascar still faces daunting long-term challenges, including the reduction of poverty, the rehabilitation and extension of infrastructure, and the improvement of the quality and quantity of social services. The country's capacity to address these pressing issues is constrained by low domestic savings, the heavy external debt burden, limited availability of skilled workers, and a weak public administration network. While in recent years a major effort has been made on rehabilitating and expanding the network of health centers and increasing the primary school enrollment rate, severe weaknesses still remain in the quality and availability of key basic services. Against this background, the poverty strategy under preparation will provide the opportunity to strengthen the focus of government activities, in a coherent fashion and in a medium-term framework, in close coordination with civil society and the donor community. It is essential that this strategy be prepared with utmost rigor, and on the basis of a wide consensus. The envisaged alleviation of

the external debt burden in the context of the HIPC Initiative will provide important resources to support this strategy.

52. In view of the significant overall progress achieved in 1999 and early 2000, and the remedial measures adopted to correct for slippages at end-1999, the staff recommends that waivers be granted for the nonobservance of the end-December 1999 performance criteria involving the net domestic assets, domestic government financing, and the net foreign assets of the central bank, as well as of the end-August 1999 structural performance criterion related to the correction of the budgeted wage bill for ghost workers; it recommends that the first review under the PRGF arrangement be concluded. In view of the steps taken to press ahead with the structural adjustment effort and the significant adverse impact of the recent cyclones on the balance of payments, the staff also supports the authorities' request for an augmentation of access (of 20 percent of quota) in an amount equivalent to SDR 24.4 million for the second loan under the second annual arrangement under the PRGF for Madagascar.

53. The staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

V. PROPOSED DECISION

The following draft decision is proposed for adoption by the Executive Board:

1. The government of Madagascar has consulted with the Fund in accordance with paragraph 2(d) of the second annual arrangement under the Poverty Reduction and Growth Facility (EBS/99/116, Sup. 1) and paragraph 7 of the letter of the Prime Minister and Minister of Finance and Economy dated June 28, 1999.
2. The letter from the Prime Minister and Minister of Finance and Economy, dated May 24, 2000, shall be attached to the second annual PRGF arrangement for Madagascar, and the letter from the Prime Minister and Minister of Finance and Economy dated June 28, 1999, together with its attached memorandum and tables, shall be read as supplemented and modified by the letter of May 24, 2000.
3. Accordingly,
 - (a) paragraph 1(ii) of the arrangement shall be amended by replacing “SDR 6.8 million” with “SDR 31.2 million.”,
 - (b) the commitment period of the three-year arrangement for Madagascar under the PRGF (EBS/96/167, Sup. 2) is extended to November 30, 2000.
4. The Fund determines that the first review specified in paragraph 2(d) of the second annual arrangement under the PRGF for Madagascar has been completed, and that no further understandings are needed for Madagascar to request the disbursement of the second loan specified in paragraph 1(ii) of the second annual arrangement under the PRGF for Madagascar, as amended.

Antananarivo, May 24, 2000

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. On July 23, 1999, the Executive Board of the International Monetary Fund approved a second annual arrangement under the Enhanced Structural Adjustment Facility (now replaced by the Poverty Reduction and Growth Facility, or PRGF) for Madagascar. In the context of the first midterm review of the program supported under that arrangement, I have the honor, on behalf of the government of Madagascar, to forward you the memorandum on economic and financial policies for 2000. The memorandum describes the progress achieved in the implementation of the program for 1999-2000, the updated objectives for 2000, particularly those for June 2000, and the policies that will be followed in order to achieve them. The memorandum also describes the devastation produced by the recent cyclones, its impact on the balance of payments, and the reconstruction and external assistance needs. As indicated in the memorandum, the performance criteria on the central bank's net foreign assets and net domestic assets at end-December 1999 have not been observed because of delays in completing the complex process of privatizing the petroleum sector. This delay, in turn, led to postponement of the disbursement of the financial support expected from the World Bank. The shortfall in external assistance has also resulted in the breach of the end-1999 performance criterion on domestic government financing. In the first months of 2000, the government has been able to complete the privatization of the petroleum sector, and the overall financial framework has thus been restored to that originally envisaged under the program. The government is therefore requesting a waiver for nonobservance of these three end-1999 quantitative performance criteria. It is also requesting a waiver for nonobservance of the structural performance criterion requiring correction of the budgetary wage bill for "ghost" workers. This process, which should have been completed by the end of August 1999, required additional analysis of the identified posts and was finalized only during March 2000.
2. The Malagasy government believes that the policies and measures described in the memorandum are adequate to achieve the objectives of its program, but it will take all other measures that may prove necessary for this purpose.
3. In order to allow for the completion of the second midterm review of the program, which will cover, as planned, the implementation of the program in the first half of 2000, the government requests the extension of the three-year PRGF arrangement commitment period until November 30, 2000. It also requests an augmentation of access under the current PRGF

arrangement equivalent to 20 percent of quota, in order to contribute to cover the additional financing gap caused by the cyclone destruction.

4. As the memorandum indicates, the government has begun to develop a poverty reduction strategy paper (PRSP) in a participatory context that includes the administration, the private sector, civil society, and development partners. The paper will describe existing poverty, as well as the strategies and the programs planned to reduce it. The government will emphasize the participatory approach of this process and envisages defining the main lines of its strategy in a document that will be prepared by the end of this year.

Sincerely yours,

/s/

Tantely Andrianarivo
Prime Minister
Minister of Economy and Finance

Attachment: Memorandum on Economic and Financial Policies for 2000

MADAGASCAR

Memorandum of Economic and Financial Policies for 2000

May 24, 2000

I. INTRODUCTION

1. In the context of its adjustment efforts to promote sustainable economic growth and reduce poverty, the government of Madagascar adopted a medium-term economic and financial program (1996-99), supported by a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The three-year arrangement and the first annual arrangement thereunder were approved in November 1996. In the aftermath of elections and a political transition process in 1998, there was a delay in reaching understandings on a program to be supported by a second annual arrangement; the latter was approved by the Executive Board in July 1999 in support of a program covering 1999/2000 (July/June). This memorandum reviews Madagascar's performance through March 2000 under the 1999/2000 program, and outlines the government's objectives and policies for the remainder of 2000.
2. Mainly because of delays in external budgetary assistance and the shortfall in privatization receipts, the performance criteria on the central bank's net foreign assets and net domestic assets at end-December 1999 and on domestic financing of the government at the same date were not observed. On the structural side, the performance criterion at end-August 1999 to reduce the civil service wage bill by eliminating "ghost" workers identified by the April 1999 civil service census was also not observed. This latter exercise, which was to have been completed by August 1999 and was extended to February 1, 2000, was completed in March 2000. During the first quarter of 2000, the authorities took steps to ensure that financial performance is brought back in line with program objectives; accordingly, they are requesting a waiver for not observing these performance criteria.

II. PERFORMANCE UNDER THE ADJUSTMENT PROGRAM IN 1999

3. Program implementation for 1999 was satisfactory in terms of economic growth, export performance, and the reduction of the external current account deficit. In contrast, inflation was higher than projected. Based on the most recent estimates, GDP growth reached 4.7 percent, exceeding the 4.5 percent program objective. Growth was generated mainly from the secondary and tertiary sectors, where growth rates of 4.3 percent and 5.5 percent were registered, respectively. Export receipts in SDR terms grew by 13.6 percent, compared with an increase of 4.3 percent in 1998 and a program target of 9 percent. This performance can be attributed to sharp growth in free trade zone exports, and in certain traditional products, such as cloves (which tripled in value) and vanilla (which registered an increase of more than 65 percent). As a result, the external current account deficit, excluding grants, narrowed from 7.9 percent of GDP in 1998 to 6.5 percent in 1999, against a programmed target of 7.3 percent. Including current grants, the deficit declined from 4.8 percent of GDP in 1998 to 2.7 percent in 1999. The performance of the capital account was favorable in 1999 as the

result of significant inflows of private capital. A substantial supplier's credit was also obtained by the state petroleum company, SOLIMA. However, nonproject external aid fell short of program projections (SDR 32.9 million, as against SDR 108 million), because of delays in the finalization of structural reforms (including privatization), which were the conditions for disbursements of program loans and grants. Reflecting these developments, net foreign assets of the central bank increased by SDR 39.1 million, against a program target of SDR 99.5 million.

4. On a year-to-year basis, inflation reached 14.4 percent at end-December 1999, compared with a revised target of 11.0 percent. Within the consumer price index, the highest increase was registered by food products and, more particularly meat, as the supply was reduced owing to an epidemic that cut the pig herd by more than half.

5. In the fiscal area, the 1999 program objectives for revenue were ambitious, which was projected to reach 11.9 percent of GDP, equivalent to an increase of 1.3 percentage points from 1998. This increase was to result from a set of measures, most of which were adopted at end-1998, and aimed at strengthening tax and customs administration, eliminating a large number of exemptions from the value-added tax (VAT) and other levies, and increasing excise taxes and levies on petroleum products. The authorities have pursued a determined effort to reach these objectives. End-of-fiscal-year results were largely on target, as shortfalls on profit taxes were offset by higher customs revenue collection. Efforts to strengthen tax and customs administration were carried out as envisaged, including, inter alia, enhanced monitoring of taxpayers and collection of back taxes.

6. In all, current expenditure and the budget contribution to capital expenditure were in line with program projections, although there was a wage bill overrun, amounting to FMG 84 billion (0.4 percent of revised GDP). This is attributable to delays in the repatriation of diplomatic staff, the hiring of new gendarmes, and excess payment of bonuses. Reflecting these developments, overall primary expenditure, excluding externally financed capital expenditure, remained below the overall objective as treasury operations recorded a small surplus, while the program envisaged a small deficit (FMG 29.3 billion). Externally financed capital expenditure was below the program by 1 percent of GDP; interest payments were also lower than projected. As the result of these latter two factors, the overall deficit, excluding grants and restructuring expenditure, was lower than programmed by the equivalent of 1 percent of GDP.

7. The program envisaged expenditure on structural reforms—including privatizations—equivalent to 2.5 percent of GDP in 1999. In the event, these outlays amounted to 1.8 percent of GDP, as substantial privatization operations could not be completed in 1999 as projected. They include the cost to the government of restructuring two banks privatized at end-1998 and end-1999, respectively (approximately FMG 150 billion), indemnification payments to companies (FMG 85 billion), costs sustained in connection with the civil service reform (wage decompression), judicial system reform, and severance payments in connection with the privatization of public enterprises and banks. Privatization revenue, initially projected to reach FMG 758 billion, or 3.4 percent of GDP, amounted to only FMG 52 billion,

mainly from the sale of some assets of SOLIMA. In contrast, the sale of the principal assets of SOLIMA (logistics, distribution, and refinery), of the national airline Air Madagascar, and of the telecommunications company, TELMA, could not be finalized in 1999. This, together with the related delay in the disbursement of two tranches under the structural adjustment credit from the World Bank, as well as of other external support, necessitated a recourse to domestic bank and nonbank financing in 1999 of FMG 246 billion, equivalent to 1.1 percent of GDP; the program instead had envisaged a reduction in the government's recourse to net bank credit and, in particular, to net central bank credit. The shortfall in external aid (including debt relief) of SDR 36 million in relation to program projections has resulted in the non-observance of the end-December 1999 performance criterion on domestic financing of the government, as the adjustment factor for a shortfall in external aid was capped at SDR 7.5 million. Commercial banks, which as a result of the August increase in the reserve ratio had little excess liquidity during the latter part of the year, reduced their treasury bill holdings by FMG 94 billion in 1999, despite the increase in the treasury bill rates during the first nine months. However, nonbank subscribers were net purchasers of this paper.

8. Monetary developments in 1999 were characterized by a rapid growth of net domestic assets of the banking system (an increase of 11.1 percent in the 12 months through end-December, equivalent to 8.5 percent of the money supply at the beginning of the period before bank restructuring). The growth is the result of a higher-than-programmed increase in net credit to government (2.8 percent of beginning-of-period money stock, compared with a programmed decline of 19.5 percent, before bank restructuring) and a strong demand for credit from the private sector; the latter grew by 19.1 percent during the same period, excluding bank restructuring operations. To accommodate this demand, commercial banks operated with very low liquidity reserves until November. To curtail the increase in credit to the economy, contain inflationary pressure, protect the balance of payments, and encourage purchases of government paper, the central bank raised its key interest rate twice—from 10 percent to 12 percent in April, and to 15 percent in August. These increases led to a parallel adjustment in treasury bill and bank lending rates. Liquidity increased only in December, as the result of seasonal repayment of crop credit. A slight reduction in treasury bill rates was registered during the fourth quarter of the year.

9. During the first quarter of 2000, the central bank and treasury agreed to absorb excess liquidity from commercial banks and reduce net central bank credit to government. Accordingly, during that period, the volume of treasury bills issued exceeded the treasury's own financing needs and interest rates remained broadly stable. The proceeds from these issues enabled the treasury to repay fully, at end-February, the statutory advances from the central bank, which amounted to FMG 197 billion at end-1999.

10. The increase in the central bank's net foreign assets in 1999 (SDR 39.1 billion, or 11 percent of beginning-of-period money stock) fell short of the program target (SDR 99.5 million) as a result of delays in privatization operations and related external aid disbursements. At the same time, the increase in net domestic assets of the banking system exceeded the programmed amount. Reflecting these developments, the money supply grew by 19.5 percent, against a programmed target of 8.8 percent.

11. In 1999, the authorities made significant strides in carrying out the envisaged structural reforms. Thus, they completed the privatization of the commercial bank BTM, adopted a law on arbitration procedures, published a decree regarding telecommunications interconnections between fixed and cellular operators, approved a new Mining Code, increased fishing license fees by 100 percent on average from 1998, and introduced a new budget nomenclature to harmonize budget accounts and treasury cash management. However, there were delays in privatizing SOLIMA and Air Madagascar—two key actions needed to release the first and second tranches of the second structural adjustment credit (SAC II) from the World Bank. Preliminary agreements for the sale of the main components of SOLIMA¹ were signed in 1999; however, the asset transfers were not finalized, and the new companies did not effectively begin operation as planned because understandings could not be reached with the investors on some environmental and legal issues, and on the effective date for the new price formula adopted in December 1999.² All of these issues were resolved in May 2000, allowing the transfer of ownership to be finalized. The delay regarding Air Madagascar was caused mainly by the need to reach an agreement with a creditor on the release of a lien on one of the company's aircrafts at reasonable terms and in line with Paris Club guidelines. This agreement is expected to be reached during 2000.

12. Significant reform was introduced in the shrimp sector prior to the start of the 2000 season. In particular, a new transparent, nondiscretionary, and competitive system for managing fishing licenses and assessing the relevant fees was implemented. This auction-based system, which will be published in the *Official Gazette* in 2000, enabled (i) a significant increase in fees collected from the sector; (ii) a redistribution of the allowable catch among the four newly created areas; and (iii) the elimination of exclusive areas. With regard to the overall fishing exploitation, a freeze at 69 licenses for the west coast was agreed, pending completion of a scientific study on the sustainable potential for fishing. Under the freeze, two new licenses may be issued for the development of autonomous provinces based on a transparent, nondiscretionary, and competitive procedure. The authorities expect the introduction of this new management system to substantially enhance good governance practices.

III. ECONOMIC AND FINANCIAL POLICIES FOR 2000

13. For 2000, the main macroeconomic objectives were revised to take into account the destruction caused by the three cyclones that hit the country during February-April. Accord-

¹ In the context of its privatization, SOLIMA has been subdivided into several components, including refinery, distribution, aviation, logistics, and motels.

² To align domestic prices for petroleum products with those on the international market, the authorities increased prices initially in March 2000, to be followed by a second increase during the course of the year.

ingly, the GDP growth rate, originally projected to reach 5.3 percent, is now expected to rise by 4.8 percent, as a result of the destruction of export crops and rice production. According to provisional estimates, gross fixed capital formation could increase from 13 percent of GDP in 1999 to 16 percent in 2000 because of a steady improvement in the industrial and commercial environment and the reconstruction effort. Through prudent monetary and fiscal policies, the government plans to limit inflation, which increased sharply in 1999, to less than 10 percent on an annual basis at end-2000. The attainment of this objective may be facilitated by favorable developments in the supply of key products, such as foodstuff and petroleum.

14. The cyclones, particularly the third one that hit the northeastern part of Madagascar in early April, has caused the loss of many lives, the destruction of tens of thousands of houses and extensive damage to schools, health centers, and the communication network, including ports and railways. In addition, the export crops of coffee, vanilla, and cloves are expected to be affected following the heavy damage inflicted on the plantations as well as on the irrigation networks and the rural roads. To address the pressing needs arising from this destruction, Madagascar needs emergency aid, construction materials and financial support to contain the deterioration of the balance of payments. The humanitarian emergency needs are estimated at US\$16 million for the third cyclone. The reconstruction costs, including the social infrastructure but excluding the administrative buildings, are estimated on a preliminary basis at about US\$120 million. This amount reflects the need to rebuild the damaged infrastructure according to anticyclonic norms. World Bank and AfDB missions are currently assessing the costs of reconstruction to provide an estimate of the medium-term investment need, and the related annual tranches. The investment effort will need to be financed mainly by external resources on a provisional basis. The reconstruction needs for 2000 are estimated at FMG 200 billion, of which FMG 160 billion is expected to be covered by external assistance, and FMG 40 billion by additional domestic financing.

15. With regard to the current account of the balance of payments, the first estimate of the cumulative damage from the cyclones indicate that in 2000 exports may fall short by about SDR 22 million from the original estimates of SDR 478 million. Accordingly, export growth in value terms in 2000, originally estimated at 10 percent, may be limited to 5 percent. As for imports, in 2000 the cyclone-related damage to local production of rice (which is now estimated to be 6.4 percent lower than the original estimate of 2,700,000 tons) will require higher imports of rice by about 120,000 tons, with an additional cost of SDR 20 million. The additional need in imports of equipment goods is estimated at SDR 10 million. In all, the additional financing gap in the balance of payments is estimated at SDR 51 million; the original estimate of the gap was SDR 17 million, and was expected to be covered by additional debt relief. The external current account deficit, excluding grants, which amounted to 6.5 percent of GDP in 1999 (5.5 percent including current grants) is expected to rise to 9.1 percent of GDP in 2000 (7.7 percent including current grants). The authorities wish to cover this additional financing gap of SDR 51 million by requesting (i) an upfront augmentation of access to the Fund under the existing PRGF arrangement for an estimated amount of SDR 24.4 million (equivalent to 20 percent of quota); (ii) supplementary assistance from the World Bank; and (iii) additional debt service relief from Paris Club creditors and other bilateral creditors. Provided this additional financing and the emergency

disbursements requested by the authorities from multilateral creditors to fund the reconstruction efforts (SDR 18 million in 2000) become available, the net foreign assets of the Central Bank could increase during the year by SDR 46.5 million, compared with the initially projected increase of SDR 71 million (which reflected substantial privatization receipts).

A. Public Finance

16. The budget law for 2000, approved by the National Assembly at end-1999, is based on budgetary targets in line with the program and includes a set of measures adequate to achieve them. However, the authorities had to take supplementary measures to address exceptional developments related to the resurgence of a cholera epidemic and the devastating effects of recent cyclones. The budgetary cost of these emergency measures is estimated at 0.3 percent of GDP. Similarly, the increase in international petroleum prices and the upward revision of profit margins in connection with the privatization of the petroleum sector require substantial consumer price increases. The authorities adjusted in 1999 domestic prices upward by an average of 30 percent, and intend to continue to pursue a policy of adjusting prices gradually during the course of 2000, to ensure that the price increases are socially acceptable. Accordingly, a first price increase took effect on March 18, 2000. The gradual price adjustment policy implies in 2000 one-off budgetary charges (at an estimated cost of 0.5 percent of GDP) to compensate petroleum sector operators. All budgetary revisions will be incorporated into a supplementary budget to be submitted to the National Assembly during the first session of 2000.

17. The revised fiscal program for 2000 aims at a fiscal deficit (on a commitment basis, and excluding grants, the costs of structural reforms, exceptional expenditure, and the reconstruction costs) of 5.5 percent of GDP, compared with an original targeted deficit of 4.9 percent. This revised deficit target reflects the implementation of the structural reforms and the revised timetable of aid disbursements by the main donors and lenders. Attainment of the revised deficit target is based on a budgetary revenue target of 12.7 percent of GDP, as against 11.4 percent in 1999. At the same time, noninterest current expenditure, which includes a larger allocation for social sectors, is to decline slightly from 7.2 percent of GDP in 1999 to 7.0 percent in 2000, owing to a slight reduction in the wage bill as a share of GDP. Including the emergency expenditure and the treasury operations outlined above, total current expenditure is expected to amount to 9.9 percent of GDP. The public investment program, excluding the reconstruction expenditure, provides for a substantial increase in capital expenditure as a share of GDP, from 6.9 percent in 1999 to 8.2 percent in 2000. Of this total, externally financed projects account for 5.6 percent of GDP (4.9 percent in 1999). In 2000, reconstruction expenditures are projected to reach FMG 200 billion, or 0.8 percent of GDP. The reconstruction program will cover a three-year period, and will be finalized in close coordination with foreign donors. With total expenditure expected to reach 18.8 percent of GDP, the overall deficit, on a commitment basis including grants (excluding restructuring operations) is projected at 1.4 percent of GDP including grants. The cost of other structural reform expenditures, in addition to the above-mentioned compensation for petroleum sector operations (i.e., privatizations, civil service, including decompression and justice system

reforms, and indemnification of foreign owners), is equivalent to 2.2 percent of GDP; this has been taken into account in the program and the budget law.

18. As a result, the total overall fiscal deficit on a cash basis, and including the net cost of structural reform is projected at 4.5 percent of GDP. Taking into account revenue from privatization (2.3 percent of GDP) and projected external budgetary assistance (3.0 percent of GDP), the program will enable the government to reduce significantly its debt to the banking system.

19. Tax revenue is projected to reach 12.2 percent of GDP in 2000. This objective reflects not only the full-year impact of some measures taken in the course of 1999 (equivalent to 0.4 percent of GDP) but also a set of measures comprising (i) the introduction of a synthetic tax applicable to small taxpayers and the informal sector and the levy of a statistical tax on imports (0.4 percent of GDP); (ii) the streamlining of import duties; (iii) the application of the normal tax regime to taxpayers whose exemption arrangements under the Investment Code are expiring; (iv) the accelerated collection of arrears; and (v) intensified efforts to eliminate sales and purchases without invoices. The tariff structure under the 2000 budget law was simplified with the elimination of two rates. The structure now includes only four nonzero rates (5, 15, 25, and 30 percent); the number of products subject to the 30 percent rate will be gradually reduced. Furthermore, a reallocation of products among the four rates was introduced with the aim of ensuring a more coherent tariff structure. These measures are consistent with the objectives of the Cross-Border Initiative (CBI). In this connection, the 80 percent tariff reduction that has been in effect since September 6, 1999 for Mauritius and the Comoros was brought to 100 percent on January 1, 2000. For other member countries of the Common Market for Eastern and Southern Africa (COMESA), the necessary steps were taken to implement the preferential trade arrangements, involving a 90 percent tariff reduction.

20. The tax and customs administrations will continue to be strengthened so as to permit the attainment of the revenue targets. On the customs side, the strengthening of the computerized customs system, SYDONIA, should be completed during the year, and the interface with the preshipment inspection company (to reconcile revenue with the company's estimates) will be improved. The control of special customs regimes will be tightened. Concerning domestic tax administration, the authorities are strengthening the large enterprises unit and the regional administrations following the favorable experience in tax assessment and recovery in the two existing regional centers. The staff of the customs tax administration and the treasury will be increased to improve their operational capacity.

21. The expenditure policy for 2000, excluding reconstruction outlays, reflects the government's key priorities (social sectors, infrastructure, and civil service reform). Budget appropriations for nonwage current expenditure for the social ministries are expected to reach 0.7 percent of GDP in 2000, up from 0.6 percent in 1999. The budget of the Ministry of Budget and Development of Autonomous Provinces includes an allocation of FMG 21 billion (0.1 percent of GDP) to support local government expenditure on basic education and health. Appropriations for the Ministries of Health and Education, including those that are

earmarked for the municipalities, will be released on a quarterly basis. Mechanisms to monitor such expenditures have also been introduced in cooperation with the World Bank and the European Union at the municipality level.

22. Regarding the civil service reform, there were delays in eliminating from the civil service roster the 'ghost' workers identified during the physical civil service census completed in April 1999. These delays were attributable to the complex verification procedures that were required. This review of the payroll was finalized in March 2000. As part of the overall civil service reform, the authorities are working on a system of performance-related bonuses, to be implemented from the second half of the year, and budgeted in the amount of FMG 32 billion. During the third quarter of 2000, the government will adopt the new civil service staff statutes, to be submitted to the National Assembly during its second session in 2000. The new statutes will include, inter alia (i) a reduction in the number of special civil service regimes; (ii) a new merit-based remuneration system; and (iii) a code of ethics and discipline. Concerning the reorganization of six pilot ministries, the government has identified the key positions for which specific tasks will be defined, with a view to introducing a merit-based career management and performance-based remuneration. The redefinition of the organizational structures for these ministries, which began in 1998, is still in progress; it will be completed when the legal framework for decentralization, presently in preparation, has been finalized.

23. In 2000, the authorities intend to submit to the National Assembly the first statutes defining the legal framework for decentralization (autonomous provinces, regions, and municipalities) and the relations among the various levels of government, in accordance with the constitution. The authorities intend to pursue a policy of gradualism in putting these provisions into effect and will carry out the transfer of authority and financial resources gradually, so as to avoid disruptions in the management of public resources.

24. In 2000, external budgetary support, excluding the support for reconstruction, is projected at SDR 88 million (3.0 percent of GDP), including two disbursements under the SAC II of the World Bank (SDR 40 million), disbursements from the African Development Bank (SDR 11.4 million), budgetary assistance from the European Union (expected to amount to SDR 32 million), and funding from bilateral donors and lenders. External debt-service relief from bilateral creditors is projected at SDR 37 million (1.3 percent of GDP). Concerning the financing of reconstruction expenditure, the main external sources have already been identified. They include mainly international organizations such as the World Bank, the African Development Bank, and the European Union, and some bilateral donors. The expected quarterly flow of external budgetary support and debt relief are presented in Table 1. On the basis of prudent estimates, privatization revenue is projected at FMG 595 billion (2.3 percent of GDP). These projections reflect the expected finalization of the sale of SOLIMA during the second quarter of 2000 and of Air Madagascar during the third quarter of the year. These privatizations should enable the government to reduce in 2000 its debt toward the banking system by close to FMG 382 billion. The repayment of central bank credit may exceed this level as the result of the net subscription of treasury paper by commercial banks.

B. Monetary and Credit Policy

25. Monetary policy will continue to be directed primarily at containing inflation and strengthening the central bank's net foreign assets. The monetary program for 2000 is based on money supply growth of 10 percent, as against 19.3 percent in 1999, under the assumption of a stable velocity of circulation over the two-year period 1999-2000. The central bank will continue to closely monitor base money and the money supply, and its net domestic assets and operations in the treasury bill market will remain the key instruments for conducting monetary policy. Continued fiscal consolidation, together with the resumption of foreign aid disbursements and substantial privatization receipts from abroad, is expected to facilitate a rebuilding of the central bank's net international reserves and a reduction of the banking system's net credit to government, while leaving adequate scope for private sector credit expansion. In 2000, net foreign assets are projected to increase by 9 percent of the initial money stock, net bank credit to government is expected to decline by 7.7 percent of the initial money stock, and credit to the private sector is projected to increase by 26 percent.

26. Net bank credit to the government by the central bank and the whole banking system will decline sharply in 2000; according to initial forecasts, this decline was projected to reach FMG 422 billion (8.5 percent of the initial money stock) for the banking system as a whole. Since in addition to the support of multilateral institutions, the government's budget will have to contribute to the reconstruction effort, there is a need for an additional FMG 40 billion in domestic bank financing to the government. This financing will originate mainly from the central bank, as the commercial banks will need to provide some additional credit to the private sector operators have been adversely affected by the cyclones. On the basis of these revised projections, the government's repayment of net bank credit will amount to FMG 382 billion (7.7 percent of initial money stock); its repayments to the central bank will amount to FMG 497 billion. The central bank's intervention in the foreign exchange market will continue to be limited to achieving its net foreign asset targets and to smoothing fluctuations, with the possibility of additional purchases of foreign exchange in case of upward pressures on the Malagasy franc, as indicated in the June 28, 1999 memorandum on economic and financial policies for 1999-2000. The central bank will gradually lower the reserve requirement, taking into account the liquidity situation and credit demand.

27. The policy governing the issuance of treasury bills will reflect monetary policy objectives. This will require close consultation between the central bank and the treasury, which will regulate the issuance of treasury bills to accord with the programmed financing requirements and the need for managing the banking system's liquidity situation. The treasury's priority during the year will be to repay the central bank's advance in foreign exchange (equivalent to FMG 545 billion at end-1999)—of which two thirds would be reimbursed by the end of the year.

28. The restructuring and privatization of the second public bank, the agricultural bank of Madagascar (BTM), were finalized during the fourth quarter of 1999. The government continues its vigorous efforts to collect the nonperforming loans of this bank and of the first privatized bank (BFV), which have been transferred to debt-workout units (Société Générale

de Recouvrement, or SGR, and Société Financière de Réalisation or SOFIRE, respectively). The aim is to recover a substantial share of the restructuring costs of the two banks and to send a clear signal on the enforcement of contractual rights. Following up on notification letters sent to the delinquent debtors of the BFV and BTM in mid-1998, the names of delinquent debtors with SOFIRE were published in June 1999; this list is regularly updated. The same procedures are being followed for delinquent debtors of the BTM, for which a list is being prepared for publication during 2000. The government has also taken important steps to strengthen the jurisdiction of the special administrative courts for loan recovery. In this connection, (i) Law 99-024 on provisional judiciary liens (*hypothèque judiciaire provisoire*) was adopted on August 19, 1999 to protect the interests of creditors; (ii) the Ministry of Justice is monitoring, on a monthly basis, legal developments in cases submitted to the special courts; and (iii) it is continuing to emphasize to judges that court decisions should be swiftly enforced.

29. Measures will be adopted in the course of 2000 to reinforce the soundness of the banking and financial system, reflecting the recommendations of the November 1999 IMF technical assistance mission that examined the conformity of Madagascar's banking regulations with the Basel Core Principles. In particular, (i) the amount of loans extended to a single borrower will be reduced gradually from 40 percent to 30 percent of a bank's own capital and reserves; (ii) solvency ratios will be kept in line with international standards; (iii) the central bank will issue new instructions in 2001 on the requirement for all banks to implement a permanent internal audit system, subject to systematic review by the Banking and Financial Supervision Commission (CSBF); and (iv) a mechanism will be studied to achieve a more efficient execution of bank guarantees and collateral. Financial institutions—in particular, credit unions and institutions in the emerging microfinance sector—will be governed by prudential regulations and effective supervision similar to those applicable to banks. Furthermore, the government launched a program in 1999 to modernize the insurance sector. Accordingly, a revised Insurance Code was adopted in September 1999 establishing a competitive and market-oriented framework. On the basis of a financial and technical audit of the insurance sector, to be completed in 2000, the process of privatizing one of the two state-owned insurance companies will be launched during 2000, while the other privatization is scheduled for 2001. Furthermore, an organizational, financial, and actuarial audit of the social security system (CNAPS) and the civil service pension scheme (Caisse de Retraites Civiles et Militaires, or CRCM, and Caisse de Prévoyance et de Retraite or CPR) was initiated and will be completed as scheduled in the second half of 2000, thereby paving the way for subsequent reforms.

C. External Sector and Debt-Management Policies

30. The balance of payments projections indicate that, even though the terms of trade worsened as the result of the increase in petroleum prices and its negative impact on the trade balance, the overall balance is expected to strengthen because of foreign direct investment flows and the continuation of significant private transfers. Nevertheless, the external financing gap remains substantial; it is expected to be filled, as indicated above, by project financing, budgetary assistance from multilateral institutions, bilateral donors and creditors, and

debt relief. The Paris Club has extended Madagascar's rescheduling agreement (signed in March 1997) from December 1, 1999 to July 31, 2000. The government will request an extension of this agreement to cover all of 2000, concurrently with an extension of the PRGF arrangement with the Fund.

31. Given the country's heavy debt burden, the government will not contract or guarantee any new nonconcessional loans except for short-term import credits. It will remain current on its external debt obligations and will not incur any new arrears on external payments. It will also normalize its relations with creditors by concluding the agreement with Russia within the Paris Club framework, and seeking comparable agreements with other bilateral creditors. In this connection, a rescheduling agreement was concluded in September 1999 with the Kuwaiti Fund for Arab Economic Development, and negotiations are in progress with the Saudi Fund for Development and Abu Dhabi Fund for Arab Economic Development. Madagascar expects to reach the decision point under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) in 2001, which will enable it to benefit from substantial debt-service relief and thereby strengthen its poverty reduction action plan.

32. The authorities are strengthening the debt-management system and plan to introduce the SYGADE system in the near future, with assistance from the UN Conference on Trade and Development (UNCTAD). They are in the process of reconciling debt data with all creditors.

33. The government is steadily pursuing trade liberalization under the CBI, as discussed above. With regard to the customs tariff, the maximum rate of 30 percent is the only difference between Madagascar's system and the three-rate system (5, 15, and 25 percent) that the authorities undertook to implement in accordance with CBI objectives. The authorities are determined to reclassify goods subject to the 30 percent rate gradually, taking into account budgetary objectives. The reciprocal preferential tariff system under the CBI, which is now in force for Mauritius and the Comoros (100 percent duty reduction) will be expanded in the coming months to cover a number of other countries that have decided to apply the principle of reciprocity.

D. Structural Policies

34. The structural reform program adopted by the government focuses on providing a favorable environment and regulatory framework for the development of the private sector, including foreign direct investment. During 2000, the program will continue to center on (i) privatization of key public enterprises; (ii) modernization of the legal framework and strengthening of the judicial system; and (iii) development of certain potential high-growth sectors, such as mining, fishing, and tourism.

35. In the area of privatization, the government intends to complete in coordination with the World Bank, the privatization of Air Madagascar and several major enterprises, such as the shipyard (SECREN) while moving forward with the privatization of more of the 46 originally listed enterprises. In the telecommunications sector, the program aims to complete

the preliminary work for the privatization of TELMA at the beginning of 2001 and, following this privatization, to launch calls for a second fixed telecommunications network operator.

36. The reforms under way to promote private sector development—in particular, the improvement of the legal system, simplification of company registration procedures, and the overhaul of the business law—will be accelerated in 2000.

IV. POVERTY REDUCTION STRATEGY

37. The policies undertaken by the government during recent years and supported by Madagascar's development partners have aimed at reducing poverty while maintaining a stable macroeconomic environment and securing conditions for sustainable development. The government intends to strengthen this approach with the support of the Bretton Woods institutions and the Heavily Indebted Poor Country (HIPC) Initiative.

38. In this connection, in cooperation with donors and lenders, the government has initiated the work required to develop a national poverty reduction strategy. An update of studies on poverty in Madagascar has been undertaken to define specific objectives and to prepare a draft strategy for poverty reduction by the end of the year. The latter will be done through a participating process, with the involvement of local governments, civil society and social partners, donors and lenders, thus ensuring that the final strategy will be fully internalized and owned. The government has undertaken to define social sector indicators in order to monitor the results of implementing this strategy. Debt-service relief resulting from the HIPC Initiative, from which Madagascar wishes to benefit as soon as possible, will support action plans in priority sectors. These action plans will be costed and quantified, and their implications incorporated into the government budget.

V. PROGRAM MONITORING

39. To monitor the implementation of the 1999-2000 annual program, the quantitative benchmarks and performance criteria at end-June 2000 were updated, as indicated in the attached table. The authorities will conduct the second program review with the IMF by end-September 2000. This review will cover economic and financial developments during the first half of 2000 and the outlook for the rest of the year. The review will establish the basis for further IMF support to the government's medium-term program, which could be in the form of a new arrangement under the PRGF.

Table 1. Madagascar: Quantitative Performance Criteria and Benchmarks Under the Second Annual PRGF Arrangement
(In billions of Malagasy francs; unless otherwise indicated)

	1999			1999	2000 1/ 2/				
	Dec			Stock	March			June	Sept.
	Perf.	Perf.	Est.	Dec.	Bench-	Bench-	Act.	Perf.	Bench-
	Crit	Crit			mark	mark		Crit	mark
		Adj.				Adj.			
I. Quantitative benchmarks and performance criteria 2/									
Ceiling on external arrears (in millions of SDRs) 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on net foreign assets (NFA) of the central bank 4/ 5/ 6/ 7/	837.4	522.0	362.4	864.4	134.5	323.6	117.3	-120.6	-80.3
Ceiling on domestic financing of the government 6/ 8/	216.7	276.9	298.1	99.3	0.4	-182.9	-70.3	168.6	374.1
Ceiling on net domestic assets (NDA) of the central bank 6/ 7/ 9/	-699.4	-384.0	115.3	1,404.0	-189.6	-378.7	-211.2	-88.2	-56.6
Ceiling on nonconcessional external public borrowing 10/ 11/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on tax revenue	2,566.8	2,566.8	2,580.1	2,580.1	605.9	605.9	658.9	1,450.2	2,299.2
II. Indicative limits									
Minimum petroleum tax payments to the treasury	309.9	...	340.0	340.0	49.0	49.0	50.8	173.0	298.0
Ceiling on reserve money	105.8	.	475.0	2,322.0	-54.0	-54.0	-175.3	-238.4	-180.9
Ceiling on broad money (including foreign currency deposits) (M3) 5/	362.9	..	738.1	4,972.5	-19.6	-19.6	-136.5	-169.2	187.2
III. Memorandum items. 1/									
Disbursement of balance of payments support (in millions of SDRs) 12/	-0.6		-35.7		-32.1	-32.1	-9.4	7.2	9.7
Balance of payments grants and loans (in millions of SDRs)							0.0	37.1	55.3
Cash debt service (in millions of SDRs)							-9.4	29.9	45.6
Privatization proceeds	757.9		51.8	105.6	12.2	12.2	9.2	366.5	366.5

1/ Cumulative change since the beginning of each year

2/ The benchmarks and criteria for September 2000 are indicative.

3/ Excludes all debt service outstanding that is subject to rescheduling. During the program period, the government will not accumulate any new arrears.

4/ Net foreign assets of the Central Bank of Madagascar (BCM) are defined as gross reserves minus all foreign liabilities of the BCM, both long and short term, including use of Fund credit.

5/ This amount should be valued at the exchange rates that were set for the purposes of this program.

6/ The floor on NFA of the central bank will be adjusted upward, and the ceilings on NDA of the central bank and on domestic financing of the government will be reduced, by the amount of any excess disbursements of balance of payments assistance relative to the cumulative timetable indicated in III. In case of a shortfall in balance of payments assistance at end June and end September 2000, the floor on NFA of the central bank will be reduced by a maximum amount of SDR 20 million, and the ceiling on NDA of the central bank and on net domestic financing of the government will be raised on a cumulative basis by the same maximum amount.

7/ NFA and NDA of the central bank will be adjusted for any deviation from programmed amounts of privatization receipts from abroad, net of privatization-related outlays.

In case of a shortfall in net privatization receipts, the downward adjustment of the NFA (and the upward adjustment of the NDA) at end June and end September 2000 will be capped at the equivalent of SDR 40 million.

8/ The ceiling on domestic financing of the government will be adjusted for deviations from programmed privatization-related outlays; it is defined to exclude the impact of foreign currency adjustments on bank financing of government.

9/ NDA of the central bank are defined to exclude the foreign currency adjustment.

10/ Excluding normal import-related credits.

11/ Defined as debt with concessionality level of less than 35 percent, calculated using the 10-year average of the OECD's commercial interest reference rate (CIRR)-based discount rate for loans of a maturity greater than 15 years, and the six-month average CIRR-based discount rates for maturities below 15 years.

12/ Defined as nonproject funding in the form of loans and grants minus external debt service on a cash basis.

Table 1. Madagascar: Selected Economic and Financial Indicators, 1996-2000

	1996		1997		1998		1999		2000	
	Prog.	Act.	Rev. Prog.1/	Act.	Target Scenario 1/	Act. 1/	Prog. 1/ Est.	Prog. 1/	Rev. Prog.	
(Annual percentage change, unless otherwise indicated)										
National accounts and prices										
Real GDP at market prices	2.0	2.1	3.5	3.7	3.6	3.9	4.5	4.7	5.3	4.8
GDP deflator	21.1	17.8	9.6	7.3	6.9	8.4	5.5	9.8	3.9	7.3
Traditional consumer price index										
Average 2/	19.7	19.8	6.7	4.5	6.3	6.2	6.6	9.9	4.8	9.5
End of period 2/	10.0	8.3	7.0	4.8	5.6	6.4	6.4	14.4	3.0	8.5
Overall consumer price index (average) 3/	...	20.0	...	5.4	...	7.8	7.1	9.7	5.1	9.9
Money and credit 4/ 5/										
Net foreign assets, excl. long-term external liabilities	11.6	20.6	11.9	18.6	2.0	-15.6	20.1	12.2	3.0	9.0
Net domestic assets	-0.7	-1.6	3.9	1.9	8.3	24.1	-11.0	8.5	7.0	1.1
Of which: net domestic credit	3.4	0.3	4.9	3.4	14.2	12.3	-8.1	11.2	8.5	2.6
government	0.0	-1.0	-2.9	-3.3	6.1	4.9	-19.5	2.8	-1.3	-7.7
economy	3.4	1.3	7.8	6.7	8.1	7.4	11.3	8.4	9.7	10.3
Broad money (M3)	7.9	18.1	12.0	19.8	11.4	8.4	8.8	19.5	10.0	10.0
Velocity of money (GDP/end-of-period M3)	5.7	5.1	5.5	4.7	4.7	4.9	5.0	4.7	4.9	4.8
External sector (in terms of SDRs)										
Exports, f.o.b.	2.8	4.6	4.7	1.7	6.5	4.3	9.0	13.6	8.5	5.0
Imports, c.i.f.	2.1	7.2	6.5	11.6	-2.0	0.0	8.0	11.0	5.9	18.0
Terms of trade (deterioration -) 6/	-13.7	-17.3	0.7	-2.7	8.2	5.9	-2.9	-2.4	0.4	-10.3
Nominal effective exchange rate 7/	...	-4.2	...	-8.8	...	-6.9	...	-4.5	...	...
Real effective exchange rate 7/	...	1.2	...	-6.0	...	-1.9	...	5.9	...	...
(In percent of GDP)										
National accounts										
Gross domestic investment	10.0	11.6	12.3	11.9	13.3	12.5	14.3	12.9	16.0	16.2
Private sector (including public enterprises)	4.0	4.9	5.4	5.6	6.1	4.8	6.7	6.5	8.2	7.8
Public sector	6.0	6.8	6.9	6.3	7.2	7.7	7.6	6.4	7.8	8.4
Gross national savings	6.0	5.4	10.6	6.3	9.6	5.0	10.7	7.4	12.5	8.5
Private sector	5.2	6.5	4.4	5.3	5.9	4.6	6.4	5.0	6.5	4.5
Public sector	0.8	-1.1	6.3	1.0	3.7	0.4	4.3	2.4	6.0	4.0
Central government financial operations										
Total revenue	8.1	8.7	9.8	9.7	11.2	10.6	11.9	11.4	13.2	12.7
Of which: tax revenue	7.8	8.5	9.3	9.4	10.8	9.8	11.4	11.0	12.7	12.2
Total expenditure	16.6	17.8	16.9	17.4	18.1	18.8	17.9	16.2	18.1	18.8
Interest obligations	4.3	4.7	2.6	3.0	3.0	2.7	2.6	2.1	2.6	2.5
Noninterest current expenditures	5.9	5.7	6.7	6.9	7.4	7.4	7.3	7.2	7.2	7.0
Capital expenditure 8/	6.2	7.3	7.5	6.5	7.6	8.2	8.1	6.9	8.2	8.9
Primary balance 9/	-1.1	-0.2	0.9	0.6	-0.7	-1.9	0.1	0.9	1.0	1.1
Overall balance (commitment basis; excl. restructuring operations)										
Excluding grants	-8.5	-9.1	-7.1	-7.7	-6.9	-8.1	-6.0	-4.8	-4.9	-6.1
Including grants	-5.4	-4.9	-1.7	-2.4	-3.7	-4.7	-2.5	-1.2	-1.7	-1.4
Overall balance (cash basis)	-5.4	-4.9	-2.3	-3.2	-4.2	-5.2	-2.7	-0.9	-2.2	-1.8
Net balance of structural reforms	0.0	0.0	0.0	0.0	-2.0	-1.2	-2.2	-1.6	-1.0	-2.7
Total balance (cash basis; incl. restructuring operations)	-5.4	-4.9	-2.3	-3.2	-6.2	-6.3	-4.9	-2.5	-3.2	-4.5

Table 1. Madagascar: Selected Economic and Financial Indicators, 1996-2000 (concluded)

	1996		1997		1998		1999		2000	
	Prog	Act.	Rev. Prog. 1/	Act.	Target Scenario 1/	Act	Prog. 1/ Est.	Prog. 1/ Est.	Prog. 1/ Rev. Prog.	Rev. Prog.
(In percent of GDP)										
External current account										
Excluding official transfers	-7.7	-7.1	-7.2	-7.8	-7.2	-7.9	-7.3	-6.5	-7.0	-9.1
Including current official transfers	-6.5	-6.2	-5.2	-5.6	-6.5	-7.5	-6.8	-5.5	-6.5	-7.7
Including current and capital transfers	-4.0	-3.7	-1.6	-2.4	-3.7	-4.8	-3.6	-2.7	-3.5	-4.2
External capital account	-0.8	1.0	3.5	3.2	0.0	0.2	3.6	2.5	1.7	4.2
Public domestic debt 10/	...	9.7	9.1	9.6	9.6	12.0	9.2	11.7	8.7	10.3
Net present value of external debt 11/ 12/	...	...	...	...	...	73.1	64.8	66.8	58.1	62.6
External debt (after debt relief) 11/ 13/	110.3	...	99.2	...	107.2	88.5	75.3	91.1	73.2	77.8
(In percent of exports of goods and services)										
Scheduled external debt service 11/										
Before debt relief	45.2	41.3	28.7	29.7	30.4	29.2	22.7	17.8	24.1	18.2
After debt relief 11/ 14/	45.2	11.3	18.0	21.8	23.4	22.8	16.5	11.8	24.1	15.4
NPV of external debt 11/ 12/	...	...	...	...	...	343.6	303.6	269.8	273.0	244.9
(In millions of SDRs, unless otherwise indicated)										
Trade balance, f.o.b.	-82.1	-83.4	-94.4	-128.8	-95.3	-112.9	-118.2	-115.4	-114.3	-192.7
Overall balance of payments	-136.8	-76.8	52.1	19.7	-98.8	-126.6	0.4	-4.8	-57.5	-0.2
Net official reserves	...	88.7	118.8	128.2	121.9	51.6	151.1	90.7	168.0	137.2
Gross official reserves	121.7	167.6	211.9	207.8	204.8	120.9	225.0	164.8	251.6	245.5
In weeks of imports of goods and nonfactor services	9.3	12.3	14.9	14.0	13.6	7.8	13.6	9.6	14.5	12.6
External debt (after debt relief) 12/ 13/	3,109.2	...	2,726.9	...	2,825.1	2,446.4	2,136.3	2,481.4	2,245.9	2,278.4
Exchange rates (period average)										
Malagasy francs per SDR	...	5,882.4	...	7,016.1	7,442.5	7,381.7	...	8,585.8	...	...
Malagasy francs per French franc	...	792.5	...	874.3	915.5	922.9	...	1,020.4	...	...
Nominal GDP at market prices (in billions of Malagasy francs)	16,852	16,224	18,435	18,051	20,008	20,343	22,501	23,379	24,624	26,274
GDP per capita (U.S. dollars)	308	291	262	251	260	258	264	255	278	263

Sources: Malagasy authorities; and Fund staff estimates and projections.

1/ EBS/97/159 (8/21/97) for 1997; EBS/99/116 (7/8/99) for 1998-2000.

2/ Based on the traditional household consumption basket.

3/ Based on the overall consumption pattern, 75 percent of which is represented by the traditional basket and 25 percent by the modern consumption basket.

4/ In percent of beginning-of-period stock of broad money.

5/ The scenarios and estimates for 1998 and 1999 exclude the effect of asset restructuring at two state-owned banks. In 1999, the high rate of growth of credit to the economy in the program reflects the financing of the purchase of shares in public enterprises by resident investors. In the event, the amount of local share purchases estimated for 1999 is now very small because of delays and light participation of resident investors.

6/ Based on 1993 trade weights.

7/ Depreciation (-). Effective exchange rates have been revised to reflect base 1990=100.

8/ Including foreign loans on-lent to public enterprises.

9/ Overall balance, excluding interest obligations.

10/ Excluding domestic arrears.

11/ Reflects Paris Club flow rescheduling on Naples terms obtained for the period January 1997 - July 2000 and assumes similar terms for non-Paris Club creditors.

12/ Provisional. NPVs of debt from Debt Sustainability Analysis (DSA) in EBS/99/116 (7/8/99) with ratio denominators using most recent data at end-1999 exchange rates. DSA's NPV also assumed stock of debt operation in July 2000.

13/ Provisional. Estimates revised to reflect assumption that a bilateral agreement with a Paris Club creditor will be finalized in 2000.

14/ Actual cash debt-service payments in 1996; Madagascar had no rescheduling agreements in place in 1996. Actual debt service in 1999 was less than programmed because of a) savings on interest payments as a result of delays in concluding rescheduling agreements and b) overestimated interest on new loans.

Table 2. Madagascar: Central Government Accounts, 1995-2000

(In billions of Malagasy francs)

	1995	1996		1997		1998		1999		2000	
		Prog.	Act.	Rev. Prog.1/	Act.	Target Scenario 1/	Act.	Prog. 1/	Est.	Prog. 1/	Rev Prog.
Total revenue and grants	1,542	1,886	2,091	2,797	2,703	2,885	2,873	3,455	3,510	4,036	4,577
Total revenue	1,150	1,357	1,407	1,803	1,747	2,233	2,165	2,670	2,667	3,238	3,325
Budgetary revenue	1,149	1,348	1,405	1,758	1,747	2,230	2,077	2,646	2,667	3,210	3,311
Of which: tax revenue	1,121	1,316	1,374	1,715	1,688	2,159	1,984	2,567	2,580	3,127	3,214
Extrabudgetary and capital revenue 2/	1	10	3	45	0	4	0	24	0	28	14
Grants	392	528	683	994	956	652	708	786	843	798	1,253
Current grants	31	111	116	401	378	93	60	64	172	65	326
Project grants	362	418	567	594	579	559	648	722	671	733	927
Total expenditure	2,374	2,790	2,883	3,104	3,137	3,619	3,819	4,026	3,791	4,450	4,939
Current expenditure	1,523	1,748	1,704	1,726	1,960	2,090	2,146	2,203	2,175	2,421	2,590
Budgetary expenditure	1,498	1,728	1,679	1,644	1,802	2,032	2,052	2,232	2,172	2,421	2,476
Personnel	444	551	523	628	670	803	826	917	1,001	1,010	1,058
Other noninterest expenditure	366	450	397	534	583	628	672	722	679	763	770
Foreign interest obligations	624	638	629	418	504	517	467	461	325	546	467
Domestic interest obligations	64	88	131	64	45	84	87	133	168	102	181
Treasury operations 2/	25	20	25	19	120	58	94	-29	3	0	45
Emergency expenditure 3/ 4/	0	0	0	64	39	0	0	0	0	0	69
Capital expenditure	850	1,042	1,180	1,378	1,177	1,529	1,673	1,823	1,616	2,029	2,348
Of which: reconstruction 4/	...	...	...	...	...	...	...	...	...	...	200
Domestic financing	197	333	284	380	275	505	466	492	430	629	696
Foreign financing	654	709	895	998	902	1,024	1,208	1,332	1,186	1,400	1,653
Overall balance (commitment basis)											
Including grants	-832	-904	-793	-307	-434	-733	-947	-571	-281	-413	-361
Excluding grants	-1,224	-1,433	-1,476	-1,301	-1,390	-1,386	-1,654	-1,357	-1,123	-1,211	-1,614
Changes in domestic arrears 3/	45	-11	3	-109	-139	-100	-102	-28	68	-135	-99
Overall balance (cash basis)	-787	-915	-790	-416	-573	-833	-1,048	-599	-213	-548	-461
Net cost of structural reforms 5/	0	0	0	0	0	-409	-237	-495	-370	-250	-721
Exceptional revenue	0	0	0	0	0	47	0	76	46	37	39
Cost of structural reforms	0	0	0	0	0	455	237	570	415	287	760
Total overall balance (cash basis)	-787	-915	-790	-416	-573	-1,242	-1,285	-1,094	-583	-798	-1,182
Financing	787	915	790	416	573	1,242	1,285	1,094	583	798	1,182
Foreign (net)	825	909	805	430	692	510	379	878	285	576	847
Drawings	299	428	329	1,119	1,029	515	672	641	516	667	1,081
Amortization due	-795	-613	-604	-542	-509	-696	-662	-555	-608	-689	-653
Change in external arrears	1,320	1,094	1,080	-10,024	-5,460	-5,343	89	-5,708	28	0	-6,886
External debt relief	0	0	0	9,877	5,632	5,589	281	5,721	349	0	6,915
Financing gap	0	0	0	0	0	443	0	780	0	597	391
Domestic (net)	-38	6	-15	-14	-119	672	902	-541	246	71	-260
Banking system	-43	0	-45	-76	-146	513	741	-673	167	-57	-382
Nonbanking system	5	6	30	62	27	159	160	132	79	128	121
Diversment revenue	0	0	0	0	0	60	4	758	52	151	595

Sources: Ministry of Finance and Economy; Ministry of Budget and Development of Autonomous Provinces; Fund staff estimates and projections; and World Bank estimates.

1/ EBS/97/159 (8/21/97) for 1997; EBS/99/116 (7/8/99) for 1998-2000.

2/ Beginning in 1999, treasury revenue is classified as a negative outlay in treasury expenditures, which from then on are reported on a net basis.

3/ Expenditures projected under the revised program for 1997 include contingent once-and-for-all outlays of FMG 9 billion and an additional FMG 13 billion of repayment of arrears, as specified in page 12, paragraph 24, footnote 11 of EBS/97/159.

4/ For 2000 the government budgeted FMG 69 billion to address exceptional developments related to the resurgence of a cholera epidemic and the devastating effects of recent cyclones, and an additional FMG 200 billion for post cyclone reconstruction.

5/ The net cost of structural reforms comprise (i) as receipts, loan recovery by the debt-recovery unit that holds the nonperforming loans of the two (former) public banks (BFV and BTM) after their assets have been financially restructured; and (ii) as expenditures, those related to civil service reform (i.e. training, bonuses, and wage decompression), to the upgrading of pay and equipment in the justice services; to privatization (severance pay, administrative costs, transfers to the regional development fund that provides grants and concessional loans for basic social infrastructure purposes or to employees affected by privatization, and indemnization payments to formerly expropriated owners); and to the capital transfers for the asset restructuring at the two insolvent banks (BFV and BTM).

Table 3. Madagascar: Quarterly Financial Operations of the Central Government, 1999-2000

(In billions of Malagasy francs; cumulated)

	1999		2000							
	Q4		Q1		Q2		Q3		Q4	
	Prog	Est.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.
Total revenue and grants	3,455.4	3,509.9	783.7	912.5	1,749.5	2,091.8	2,810.8	3,372.5	4,036.4	4,577.1
Total revenue	2,669.5	2,667.4	610.6	608.3	1,392.3	1,502.7	2,258.5	2,380.6	3,238.5	3,324.5
Budgetary revenue	2,646.0	2,667.4	605.9	606.0	1,383.0	1,498.7	2,241.0	2,371.9	3,210.5	3,310.5
Of which: tax revenue	2,566.8	2,580.1	605.9	606.0	1,383.0	1,450.2	2,241.0	2,299.2	3,127.5	3,213.6
Capital revenue	23.5	0.0	4.7	2.3	9.3	4.0	17.5	8.8	28.0	14.0
Grants	785.9	842.5	173.1	304.2	357.2	589.2	552.3	991.9	797.9	1,252.6
Current grants	63.9	171.9	11.8	32.3	42.8	156.7	60.2	156.7	65.0	326.1
Project grants	722.0	670.6	161.3	271.9	314.4	432.5	492.1	835.1	732.9	926.5
Total expenditure	4,026.9	3,790.9	729.2	839.5	1,831.9	2,188.1	2,870.2	3,834.4	4,449.6	4,938.6
Current expenditure	2,203.7	2,175.0	407.2	468.3	1,047.0	1,285.8	1,557.1	1,897.5	2,421.0	2,590.2
Budgetary expenditure	2,232.4	2,172.4	407.2	433.6	1,047.0	1,150.3	1,557.1	1,748.2	2,421.0	2,475.8
Of which: personnel	917.1	1,000.6	244.0	254.2	504.5	509.7	757.1	767.2	1,010.1	1,057.5
other noninterest expenditure	722.0	679.0	65.2	65.2	256.2	337.6	428.5	577.2	763.0	769.7
foreign interest obligations	460.8	325.0	80.5	83.1	245.8	221.5	315.2	303.8	545.9	467.3
domestic interest obligations	132.5	167.8	17.6	31.2	40.5	81.5	56.3	100.0	102.0	181.2
Treasury operations	-29.3	2.6	0.0	18.7	0.0	75.5	0.0	84.3	0.0	45.0
Emergency expenditure	0.0	0.0	0.0	16.0	0.0	60.0	0.0	65.0	0.0	69.4
Capital expenditure	1,823.2	1,615.9	322.0	371.1	784.9	902.3	1,313.1	1,936.9	2,028.6	2,348.4
Of which: reconstruction						66.0		121.0		200.0
Domestic financing	491.5	429.6	31.4	32.8	185.5	278.3	374.7	549.7	628.7	695.8
Foreign financing	1,331.7	1,186.3	290.6	338.3	599.4	624.0	938.4	1,387.2	1,399.9	1,652.6
Overall balance (commitment basis)										
Including grants	-571.4	-281.0	34.4	73.1	-82.3	-96.3	-59.4	-461.9	-413.2	-361.5
Excluding grants	-1,357.4	-1,123.5	-118.7	-231.2	-439.5	-685.5	-611.7	-1,453.8	-1,211.1	-1,614.1
Changes in domestic arrears	-28.5	67.6	-33.8	-24.9	-67.6	-40.0	-101.4	-62.0	-135.0	-99.4
Overall balance (cash basis)	-599.9	-213.4	20.6	48.2	-149.9	-136.3	-160.8	-523.9	-548.2	-460.9
Net balance of structural reforms	-494.9	-369.7	-34.6	-94.1	-67.2	-294.5	-76.8	-500.1	-249.5	-720.6
Exceptional revenue	75.6	45.6	7.0	7.0	17.0	19.4	27.0	29.4	37.0	39.4
Cost of structural reforms	570.5	415.3	41.6	101.1	84.2	313.9	103.8	529.5	286.5	760.0
Total overall balance (cash basis)	-1,094.8	-583.1	-14.0	-45.9	-217.1	-430.8	-237.6	-1,024.0	-797.7	-1,181.5
Financing	1,094.8	583.1	14.0	45.9	217.1	430.8	237.6	1,024.0	797.7	1,181.5
Foreign (net)	878.1	284.9	-34.6	40.4	-50.5	273.8	-55.0	672.8	-21.7	847.3
Drawings	641.4	515.7	125.5	66.4	269.7	319.7	425.3	699.1	667.0	1,081.4
Of which: projects				66.4		141.5		442.0		566.1
Amortization due	-555.3	-607.5	-160.1	-170.7	-320.2	-334.1	-480.3	-512.9	-688.8	-653.5
Change in external arrears	-5,708.2	27.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-6,886.0
Debt relief	5,720.6	349.1	0.0	144.7	0.0	185.9	0.0	184.6	0.0	6,914.7
Of which: on arrears										6,726.6
Financing gap	779.6	0.0		0.0		102.3		302.0		390.7
Domestic (net)	-541.0	246.4	-11.9	6.6	-62.6	-209.5	-187.3	-15.3	71.0	-260.5
Banking system, excluding reevaluation	-673.0	167.1								
Banking system, including reevaluation		235.2	-43.9	-78.4	-126.6	-160.9	-283.3	55.1	-57.0	-381.7
Reevaluation effect (net)		-68.1								
Deposits		-15.4								
Credits/losses		83.5								
Nonbanking system	132.0	79.3	32.0	85.0	64.0	-48.6	96.0	-70.4	128.0	121.2
Divestment revenue	757.9	51.8	12.3	0.4	126.4	366.5	138.6	366.5	151.2	594.7
Foreign	573.1		3.7	0.0	109.4	349.2	113.0	349.2	117.2	543.1
Local	184.8		8.6	0.4	17.0	17.3	25.6	17.3	34.0	51.6
Memorandum items:										
Financing gap	779.6	0.0	48.1	0.0	203.9	102.3	341.3	302.0	597.2	390.7
Financing gap (in millions of SDRs)	97.6	0.0		0.0		11.4		33.7		43.5

Sources: Ministry of Finance and Economy; and Fund staff estimates and projections.

Table 4. Madagascar: Central Government Ratios, 1995-2000

(In percent of GDP, unless otherwise indicated)

	1995	1996		1997		1998		1999		2000	
		Prog	Act	Rev Prog 1/	Act	Target Scenario 1/	Act	Prog 1/ Est	Est	Prog Prog 1/	Rev
Total revenue and grants	11.4	11.2	12.9	15.2	15.0	14.4	14.1	15.4	15.0	16.4	17.4
Total revenue	8.5	8.1	8.7	9.8	9.7	11.2	10.6	11.9	11.4	13.2	12.7
Of which: tax revenue	8.3	7.8	8.5	9.3	9.4	10.8	9.8	11.4	11.0	12.7	12.2
Grants	2.9	3.1	4.2	5.4	5.3	3.3	3.5	3.5	3.6	3.2	4.8
Current grants	0.2	0.7	0.7	2.2	2.1	0.5	0.3	0.3	0.7	0.3	1.2
Project grants	2.7	2.5	3.5	3.2	3.2	2.8	3.2	3.2	2.9	3.0	3.5
Total expenditures	17.6	16.6	17.8	16.8	17.4	18.1	18.8	17.9	16.2	18.0	18.8
Current expenditure	11.3	10.4	10.5	9.4	10.9	10.4	10.5	9.8	9.3	9.8	9.9
Noninterest expenditure	6.0	5.9	5.7	6.3	6.9	7.1	7.4	7.3	7.2	7.2	7.0
Personnel	3.3	3.3	3.2	3.4	3.7	4.0	4.1	4.1	4.3	4.1	4.0
Other noninterest expenditure	2.7	2.7	2.4	2.9	3.2	3.1	3.3	3.2	2.9	3.1	2.9
Interest obligations	5.1	4.3	4.7	2.6	3.0	3.0	2.7	2.6	2.1	2.6	2.5
Treasury operations	0.2	0.1	0.2	0.1	0.7	0.3	0.5	-0.1	0.2	0.0	0.2
Emergency expenditures 3/ 4/	0.0	0.0	0.0	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.3
Capital expenditure	6.3	6.2	7.3	7.5	6.5	7.6	8.2	8.1	6.9	8.2	8.9
Of which: domestically financed expenditure	1.5	2.0	1.8	2.1	1.5	2.5	2.3	2.2	1.8	2.6	2.6
Of which: reconstruction expenditure											0.8
Primary balance	-1.1	-1.1	-0.2	0.9	0.6	-0.7	-1.9	0.1	0.9	1.0	1.1
Overall balance (commitment basis)											
Including grants	-6.2	-5.4	-4.9	-1.7	-2.4	-3.7	-4.7	-2.5	-1.2	-1.7	-1.4
Excluding grants	-9.1	-8.5	-9.1	-7.1	-7.7	-6.9	-8.1	-6.0	-4.8	-4.9	-6.1
Excluding grants and externally financed capital exp	-13.9	-12.7	-14.6	-12.5	-12.7	-12.0	-14.1	-11.9	-9.9	-10.6	-12.4
Changes in domestic arrears 3/	0.3	-0.1	0.0	-0.6	-0.8	-0.5	-0.5	-0.1	0.3	-0.5	-0.4
Overall balance (cash basis)	-5.8	-5.4	-4.9	-2.3	-3.2	-4.2	-5.2	-2.7	-0.9	-2.2	-1.8
Net cost of structural reforms 4/	0.0	0.0	0.0	0.0	0.0	-2.0	-1.2	-2.2	-1.6	-1.0	-2.7
Exceptional revenue	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.3	0.2	0.2	0.1
Cost of structural reforms	0.0	0.0	0.0	0.0	0.0	2.3	1.2	2.5	1.8	1.2	2.9
Total overall balance (cash basis)	-5.8	-5.4	-4.9	-2.3	-3.2	-6.2	-6.3	-4.9	-2.5	-3.2	-4.5
Financing	5.8	5.4	4.9	2.3	3.2	6.2	6.3	4.9	2.5	3.2	4.5
Foreign (net)	6.1	5.4	5.0	2.3	3.8	2.5	1.9	3.9	1.2	2.3	3.2
Drawings minus amortization	-3.7	-1.1	-1.7	3.1	2.9	-0.9	0.1	0.4	-0.4	-0.1	1.6
Change in external arrears	9.8	6.5	6.7	-34.4	-30.2	-26.7	0.4	-23.4	0.1	0.0	-26.2
External debt relief	0.0	0.0	0.0	53.6	31.2	27.9	1.4	25.4	1.5	0.0	26.3
Financing gap	0.0	0.0	0.0	0.0	0.0	2.2	0.0	3.5	0.0	2.4	1.5
Domestic (net)	-0.3	0.0	-0.1	-0.1	-0.7	3.4	4.4	-2.4	1.1	0.3	-1.0
Divestment revenue	0.0	0.0	0.0	0.0	0.0	0.3	0.0	3.4	0.2	0.6	2.3
Memorandum items											
Education expenditure	1.9	1.9	1.6	2.2	1.6	2.3	2.0	2.0	2.0	2.2	2.2
Health expenditure	1.0	1.3	0.8	1.3	1.0	1.4	1.4	1.4	1.4	1.6	1.6
Nominal GDP (in billions of Malagasy francs)	13,479	16,852	16,224	18,435	18,051	20,008	20,343	22,501	23,379	24,624	26,274

Sources: Ministry of Finance and Economy, Ministry of Budget and Development of Autonomous Provinces, Fund staff estimates and projections, and World Bank estimates

1/ EBS/97/159 (8/21/97) for 1997, EBS/99/116 (7/8/99) for 1998-2000

2/ Beginning in 1999, treasury revenue is classified as a negative outlay in treasury expenditures, which from then on are reported on a net basis.

3/ Expenditures projected under the revised program for 1997 include contingent once-and-for-all outlays of FMG 9 billion and an additional FMG 13 billion of repayment of arrears, as specified in page 12, paragraph 24, footnote 11 of EBS/97/159

4/ For 2000 the government budgetized FMG 69 billion to address exceptional developments related to the resurgence of a cholera epidemic and the devastating effects of recent cyclones

5/ The net cost of structural reforms comprise (i) as receipts, loan recovery by the debt-recovery unit that holds the nonperforming loans of the two (former) public banks (BFV and BTM) after their assets have been financially restructured, and (ii) as expenditures, those related to civil service reform (i.e. training, bonuses, and wage decompression), to the upgrading of pay and equipment in the justice services, to privatization (severance pay, administrative costs, transfers to the regional development fund that provides grants and concessional loans for basic social infrastructure purposes or to employees affected by privatization, and indemnization payments to formerly expropriated owners); and to the capital transfers for the asset restructuring at the two insolvent banks (BFV and BTM)

Table 5. Madagascar: Summary Accounts of the Banking System, 1998-2000

	1998		1999						2000			
	December		September		December		March		June		Sep.	
	Act.	Act.	Prog.	Act.	Act.	Prog.	Prog.	Prov.	Rev.	Rev.	Rev.	Rev.
	Before BFV Restructuring	After	Before	BTM Restructuring 1/	After	After BTM Restructuring 1/			Prog.	Proj.	Proj.	Proj.
(In billions of Malagasy francs; end of period)												
Net foreign assets	1,172.0	1,172.0	1,712.5	1,390.5	1,681.3	2,029.8	1,711.5	2,159.7	1,893.1	1,551.9	1,603.9	2,159.7
Central bank	596.1	596.1	1,226.2	784.6	1,055.3	1,427.7	1,055.3	1,558.0	1,219.6	924.8	967.7	1,494.0
Commercial banks	576.0	576.0	486.2	605.9	626.0	602.1	656.2	601.6	673.5	627.1	636.2	665.6
Long-term foreign liabilities	-211.2	-211.2	-211.1	-239.7	-261.0	-222.8	-261.0	-222.7	-260.9	-242.9	-246.5	-264.7
Central bank	-186.1	-186.1	-177.3	-199.2	-190.8	-180.3	-190.8	-176.1	-194.3	-180.9	-183.5	-193.5
Commercial banks	-25.1	-25.1	-33.7	-40.5	-70.2	-42.6	-70.2	-46.5	-66.6	-62.0	-62.9	-71.2
Net domestic assets	3,208.2	3,208.2	2,801.5	3,328.2	3,563.2	2,726.6	3,522.0	2,577.0	3,232.5	3,494.4	3,802.3	3,574.9
Net credit to government	868.8	1,453.3	759.4	1,545.6	1,570.6	780.0	1,706.5	736.2	1,623.0	1,540.5	1,756.5	1,324.8
Net claims on government	741.1	1,325.5	638.2	1,415.0	1,424.8	652.3	1,560.7	608.5	1,482.3	1,399.8	1,615.8	1,179.0
Central bank	590.2	1,031.1	451.9	1,097.3	1,220.6	334.8	1,220.6	136.2	994.9	1,112.3	1,142.4	723.3
Commercial banks	150.9	294.4	186.3	317.7	204.1	317.4	340.0	472.2	487.3	287.5	473.3	455.7
Other claims	127.8	127.8	121.2	130.6	145.8	127.8	145.8	127.8	140.8	140.8	140.8	145.8
Credit to the economy	2,100.3	1,828.2	2,212.6	2,038.0	2,177.5	2,071.7	1,955.4	1,971.4	1,887.8	2,160.8	2,294.6	2,466.9
Central bank	15.9	15.9	15.4	15.8	15.8	17.5	15.8	17.5	15.8	15.8	15.8	15.8
Commercial banks	2,083.9	1,811.8	2,189.5	2,022.1	2,159.6	2,053.7	1,937.5	1,953.4	1,864.8	2,137.9	2,271.7	2,448.9
Other claims	0.5	0.5	7.7	0.1	2.1	0.5	2.1	0.5	7.2	7.2	7.2	2.1
Other items (net)	239.1	-73.2	-170.5	-255.4	-184.9	-125.1	-139.9	-130.6	-278.3	-206.9	-248.8	-216.8
Foreign currency adjustment	225.7	225.7	157.4	92.4	65.9	173.9	65.9	191.2	8.5	99.3	85.8	47.4
Central bank	511.9	70.9	105.6	103.3	92.4	105.1	92.4	117.3	108.4	114.1	115.6	124.1
Commercial banks	-498.5	-369.9	-433.5	-451.1	-343.2	-404.1	-298.2	-439.1	-395.3	-420.3	-450.3	-388.2
Broad money (M3)	4,169.1	4,169.1	4,302.9	4,479.0	4,983.5	4,533.6	4,972.5	4,514.0	4,864.7	4,803.4	5,159.7	5,469.8
Currency in circulation	1,168.2	1,168.2	1,196.5	1,292.8	1,434.9	1,262.4	1,434.9	1,192.5	1,386.7	1,353.3	1,471.9	1,594.9
Total deposits	3,000.8	3,000.8	3,106.4	3,186.3	3,548.7	3,271.1	3,537.7	3,321.5	3,477.9	3,450.1	3,687.9	3,874.9
Demand deposits	1,801.2	1,801.2	1,871.5	1,929.9	2,156.0	1,974.5	2,145.0	2,030.5	2,039.7	2,029.9	2,162.4	2,343.1
Quasi money	1,199.7	1,199.7	1,234.9	1,256.4	1,392.6	1,296.6	1,392.6	1,291.0	1,438.3	1,420.1	1,525.5	1,531.9
Of which												
Resident deposits in foreign currencies	474.7	474.7	455.2	538.3	614.5	500.9	614.5	500.9	672.4	634.1	651.4	656.3
Short-term obligations	129.8	129.8	145.4	158.7	151.8	129.8	151.8	129.8	159.6	159.6	159.6	151.8
Memorandum items:	(12-month change in percent of beginning-of-period broad money, unless otherwise indicated)											
Net foreign assets	-15.6	-15.6	7.1	-1.0	12.2	20.6	12.9	20.9	14.3	5.4	4.8	9.0
Net domestic assets	24.1	24.1	1.5	14.7	8.5	-11.6	7.5	-11.8	4.9	7.9	10.6	1.1
Net credit to government	4.9	20.1	-4.1	15.7	2.8	-16.1	6.1	-18.1	3.7	-0.2	4.7	-7.7
Credit to the economy	7.4	0.4	3.6	-0.8	8.4	5.8	3.1	5.0	2.3	6.0	5.7	10.3
12-month change (in percent)	15.8	0.8	6.9	-1.5	19.1	13.3	7.0	11.7	5.3	13.5	12.6	26.2
Excluding bank restructuring	15.8	18.6	19.5	13.4	19.1	29.5	21.8	16.1	20.2	28.5	26.4	26.2
Broad money (M3)	8.4	8.4	8.4	12.8	19.5	8.7	19.3	8.9	18.2	13.2	15.2	10.0

Sources: Central Bank of Madagascar; and Fund staff estimates and projections.

1/ The restructuring and privatization of the second publicly owned bank, the BTM, was completed in the fourth quarter of 1999. It involved the replacement of nonperforming credit in an amount of FMG 222 billion with government securities in an amount of FMG 148 billion (net of the cost of a real estate lease contract with the government) and an inflow of capital from abroad of FMG 18 billion.

Table 6. Madagascar: Summary Accounts of the Central Bank, 1998-2000

	1998	1999				2000				
	Dec.	September		December		March		June	Sept.	Dec.
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Prov.	Rev.	Rev.	Rev.
								Prog.	Proj.	Proj.
(In billions of Malagasy francs; end of period)										
Net foreign assets	596.1	1,226.2	784.6	1,427.7	1,055.3	1,558.0	1,219.6	924.8	967.7	1,494.0
Foreign assets	926.6	1,621.9	1,232.5	1,813.3	1,486.9	1,933.4	1,656.2	1,594.0	1,635.1	2,243.5
Foreign liabilities (short-term)	-16.9	-11.0	-18.6	-17.9	-20.1	-17.8	-16.4	-15.2	-15.5	-20.4
Poverty Reduction and Growth Facility	-313.6	-384.7	-429.3	-367.7	-411.5	-357.6	-420.2	-654.0	-652.0	-729.1
Long-term foreign liabilities	-186.1	-177.3	-199.2	-180.3	-190.8	-176.1	-194.3	-180.9	-183.5	-193.5
Net domestic assets	1,446.6	811.9	1,395.3	716.5	1,479.7	528.0	1,201.3	1,414.6	1,432.9	994.5
Claims on government (net)	1,031.1	451.9	1,097.3	334.8	1,220.6	136.2	994.9	1,112.3	1,142.4	723.3
Credit to government	1,689.3	1,226.9	1,746.3	1,159.8	1,857.4	1,186.2	1,790.4	1,797.1	1,784.7	1,421.9
Statutory advances	107.9	0.0	113.2	0.0	197.3	0.0	0.0	230.0	300.0	140.0
Consolidated loans	1,099.6	1,099.6	1,099.6	1,099.6	1,099.6	1,099.6	1,099.6	999.6	999.6	999.6
Foreign currency loan	441.0	...	520.6	...	544.9	...	690.7	467.4	385.1	182.3
Other	40.9	127.3	12.9	60.2	15.5	86.6	0.0	100.0	100.0	100.0
Government deposits	-658.2	-775.0	-649.0	-825.0	-636.7	-1,050.0	-795.4	-684.8	-642.3	-698.6
Claims on public companies and customers	15.9	15.4	15.8	17.5	15.8	17.5	15.8	15.8	15.8	15.8
Net claims on banks	102.7	77.0	82.6	62.3	75.1	62.3	73.7	73.7	73.7	75.1
Claims on banks	102.7	77.0	82.6	62.3	75.1	62.3	73.7	73.7	73.7	75.1
Negative auctions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	296.9	267.5	199.6	302.0	168.1	312.0	116.9	213.0	201.0	180.3
Currency valuation adjustment	226.0	161.9	96.4	196.9	75.7	194.7	8.5	98.9	85.4	56.3
Net capital	-90.5	-70.5	-102.1	-72.9	-102.1	-68.9	-108.0	-107.5	-110.9	-107.4
Others	161.4	176.1	205.3	177.9	194.5	186.2	216.4	221.5	226.5	231.5
Reserve money	1,847.0	1,844.9	1,946.3	1,954.4	2,322.0	1,900.3	2,146.7	2,083.6	2,141.1	2,272.9
Currency outside banks	1,168.2	1,196.5	1,292.8	1,262.4	1,434.9	1,192.5	1,386.7	1,353.3	1,471.9	1,594.9
Currency in banks	36.8	38.4	48.9	42.0	77.4	47.8	59.1	60.3	61.5	62.7
Bank deposits	642.0	610.0	604.7	650.0	809.7	660.0	700.9	670.0	607.7	615.3
Deposits of other banking institutions	6.2	15.7	34.3	6.2	16.9	6.2	7.2	7.2	7.2	16.9
Resident deposits in foreign currency	3.5	0.3	0.1	3.4	5.2	3.4	72.8	67.8	68.7	5.2
Memorandum items:	(In percent)									
Broad money/reserve money (ratio)	2.3	2.3	2.3	2.3	2.1	2.4	2.3	2.3	2.4	2.4
Central bank base rate (end of period)	10.0	...	15.0	...	15.0	...	15.0	...	...	...
Treasury bill rate (monthly average, all maturities)	15.4	...	16.4	...	15.9	...	14.4	...	...	...
Commercial banks' prime rate (end of period, midpoint)	13.5	...	16.0	...	16.5	...	15.1	...	...	...

Sources: Central Bank of Madagascar; and Fund staff estimates and projections.

Table 7. Madagascar: Balance of Payments, 1997-2003

(In millions of SDRs, unless otherwise indicated)

	1997	1998	1999		2000			2001	2002	2003
	Act.	Est.	Prog.	Est.	Prog.	Rev.	Rev.	Projections		
						Prog.	Prog.			
Trade balance	-128.8	-112.9	-118.2	-115.4	-114.3	-192.7	-134.0	-178.2	-172.4	-170.5
Exports, f.o.b	366.7	382.6	417.1	434.8	452.6	456.5	521.6	492.0	543.8	605.6
Imports, f.o.b	-495.6	-495.5	-535.3	-550.2	-566.8	-649.2	-655.6	-670.2	-716.2	-776.1
Services (net)	-157.3	-168.0	-153.4	-139.4	-165.4	-150.0	-164.6	-173.1	-177.8	-181.3
Service receipts	200.3	217.2	235.7	245.8	251.0	275.3	291.5	290.6	315.1	337.2
Service payments	-357.6	-385.2	-389.1	-385.2	-416.3	-425.3	-456.0	-463.7	-492.9	-518.5
Of which: investment income	-80.8	-72.2	-67.2	-46.2	-78.5	-60.6	-67.1	-67.1	-77.9	-80.8
scheduled public interest	-71.7	-63.2	-57.7	-38.0	-68.0	-51.6	-54.3	-54.3	-54.4	-54.2
Private unrequited transfers (net)	84.2	61.3	64.0	78.1	64.6	76.0	77.5	77.5	79.1	81.3
Current account balance, excluding net official transfers	-201.9	-219.6	-207.6	-176.7	-215.1	-266.6	-221.0	-273.8	-271.2	-270.6
Public unrequited transfers (net)	140.2	86.1	105.4	103.1	106.3	144.5	150.0	149.5	158.7	171.7
Current grants	57.8	12.6	15.0	25.8	15.0	42.2	43.8	43.8	44.3	47.0
Balance of payments grants	45.7	8.1	7.0	21.3	7.0	35.8	37.2	37.2	37.5	40.0
Other current grants (net) 1/	12.1	4.5	8.0	4.6	8.0	6.4	6.6	6.6	6.8	7.0
Project grants	82.4	73.5	90.4	77.3	91.3	102.3	106.2	105.8	114.3	124.7
Current account balance, including net official transfers	-61.7	-133.5	-102.2	-73.6	-108.7	-122.2	-71.0	-124.3	-112.5	-98.9
Capital account	81.4	6.8	102.5	68.8	51.2	122.0	47.7	61.5	13.9	25.4
Public sector (net)	74.9	-6.4	8.7	-2.9	0.3	41.8	15.4	22.7	-16.0	-3.0
Drawings	152.3	83.3	80.2	68.1	88.1	113.9	107.0	114.2	74.4	62.8
Amortization	-72.6	-89.7	-69.5	-71.0	-85.8	-72.2	-91.5	-91.5	-90.4	-65.8
Long-term liabilities (net) 2/	-4.8	0.0	-2.0	0.0	-2.0	0.0	0.0	0.0	0.0	0.0
Private sector (net)	6.5	13.2	93.9	71.7	50.9	80.2	32.3	38.8	29.9	28.4
Commercial banks (net)	-18.6	17.3	0.7	2.9	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment	10.0	11.9	108.0	42.7	65.5	81.7	45.6	52.1	26.4	27.8
Of which: privatization proceeds	0.0	0.7	80.7	15.4	14.8	60.8	21.6	28.1	0.0	0.0
Other (including errors and omissions) 3/	15.1	-16.0	-14.8	26.1	-14.7	-1.5	-13.3	-13.3	3.5	0.7
Overall balance	19.7	-126.6	0.4	-4.8	-57.5	-0.2	-23.3	-62.7	-98.6	-73.4
Financing	-19.7	126.6	-0.4	4.8	57.5	0.2	23.3	62.7	98.6	73.4
Net foreign assets (increase -)	-39.5	76.6	-99.5	-39.1	-16.9	-46.5	-8.0	-8.0	-8.5	-23.8
Use of Fund credit (net)	0.7	-10.3	4.6	4.8	9.7	34.2	-1.3	-1.3	-2.7	-5.4
Net repurchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF/ESAF/PRGF disbursements	13.6	0.0	13.6	13.8	13.6	38.0	0.0	0.0	0.0	0.0
SAF/ESAF/PRGF repayments	-12.9	-10.3	-9.0	-9.0	-3.8	-3.8	-1.3	-1.3	-2.7	-5.4
Change in other liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in gross assets (increase -)	-40.2	86.9	-104.1	-43.9	-26.6	-80.7	-6.7	-6.7	-5.8	-18.4
Net change in arrears 4/ 5/	-783.2	12.0	-714.7	3.1	0.0	-760.3	0.0	0.0	0.0	0.0
Cash payments and arrears accumulation	-24.7	12.0	-38.5	0.0	0.0	-17.6	0.0	0.0	0.0	0.0
Debt rescheduling	-758.5	0.0	-676.2	0.0	0.0	-742.8	0.0	0.0	0.0	0.0
Debt relief and cancellation 4/ 5/	803.0	38.0	716.2	40.8	0.0	763.5	0.0			
Residual financing gap	0.0	0.0	97.6	0.0	74.4	43.5	31.3	70.7	107.1	97.2
Of which: possible debt relief			...	...	..	30.3		..		..

Table 7. Madagascar: Balance of Payments, 1997-2003 (concluded)

(In millions of SDRs, unless otherwise indicated)

	1997	1998	1999		2000			2001	2002	2003
	Act	Est.	Prog	Est	Prog	Rev. Prog.	Rev. Prog.	Projections		
Memorandum items.										
External current account / GDP (in percent)										
Excluding net official transfers	-7.8	-7.9	-7.3	-6.5	-7.0	-9.1	-7.0	-8.4	-8.1	-8.1
Including net official transfers	-2.4	-4.8	-3.6	-2.7	-3.5	-4.2	-2.3	-3.8	-3.4	-3.0
Scheduled external debt service 5/										
Before debt relief	29.7	29.2	22.7	17.8	24.1	18.2	19.5	20.3	18.4	14.2
After debt relief 6/	21.8	22.8	16.5	11.8	24.1	15.4	19.5	20.3	18.4	14.2
Public sector scheduled debt service 7/										
Before debt relief	57.9	54.6	38.1	35.1	35.7	33.5	34.6	34.6	31.9	24.1
After debt relief 6/	40.1	39.3	26.1	22.1	35.7	27.9	34.6	34.6	31.9	24.1
Annual percentage changes										
Export volume	3.3	5.9	10.2	13.0	7.2	8.1	7.2	6.0	7.9	8.0
Import volume	14.7	12.1	6.0	7.7	5.0	8.9	8.6	6.7	6.2	5.6
Real GDP	3.7	3.9	4.5	4.5	5.3	4.8	5.7	5.7	5.3	6.5
Gross official reserves	207.8	120.9	225.0	164.8	251.6	245.5	252.2	252.2	258.0	276.3
(in weeks of imports)	14.0	7.8	13.6	9.6	14.5	12.6	12.6	12.3	11.9	11.8
(excluding privatization receipts)	14.0	7.7	8.7	8.7	8.9	8.6	7.7	7.2	6.9	7.2
(in weeks of prospective imports)	13.4	7.3	12.9	8.5	13.5	12.0	11.7	11.6	11.1	11.0
(as percentage of short-term debt) 8/	177.6	124.3	206.6	183.9	273.1	212.2	267.1	267.0	..	..
(as percentage of M3) 9/	38.5	22.0	39.8	29.3	40.5	40.9	41.3	41.3	.	..

Sources: Central Bank of Madagascar; and Fund staff estimates and projections.

1/ Other official grants less payments due to scholarships and contributions to international organizations.

2/ Involves liabilities arising from Madagascar debts bought by certain organizations.

3/ Includes indemnification payments made to companies and individuals in compensation for nationalized property.

4/ Bilateral agreements with Russia and non-Paris Club creditors are assumed to be finalized in 2000, most of such debt is in arrears.

5/ In percent of exports of goods and nonfactor services. Actual debt service in 1999 was less than programmed because of savings on interest payments as a result of delays in concluding rescheduling agreements, and overestimated interest on new loans.

6/ Reflects Paris Club flow rescheduling on Naples terms from January 1997- July 2000 and rescheduling on similar terms for non-Paris Club creditors in 2000.

7/ In percent of government revenue.

8/ Short-term debt is defined to include amortization on medium- to long-term debt due within the next year and deposits held by nonresidents. Coverage of the private sector is only partial. The data do not take account of any debt acquired domestically by nonresidents or of offshore debt to, or guaranteed by, nonresidents.

9/ M3 is defined to include currency in circulation and all bank deposits.

Table 8. Madagascar: Indicators of Financial Obligations to the Fund, 1998-2010

(In millions of SDRs, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Outstanding Fund credit (end of period)	41.2	45.8	79.9	78.6	75.9	70.5	65.1	53.8	38.1	25.1	14.8	4.5	0.0
Poverty Reduction and Growth Facility (PRGF) disbursements 1/	0.0	13.6	38.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service to the Fund	11.3	9.9	4.7	2.5	3.9	6.6	6.5	12.4	16.7	14.0	11.2	11.2	5.3
Principal	10.3	9.0	3.9	1.3	2.7	5.4	5.4	11.3	15.7	13.0	10.3	10.3	4.5
Charges and interest	1.1	0.9	0.9	1.2	1.2	1.2	1.1	1.1	1.0	1.0	0.9	0.9	0.8
Outstanding Fund credit (end of period)													
In percent of total debt stock	1.7	1.8	3.5	3.1	2.9	2.6	2.4	1.9	1.3	0.8	0.5	0.1	0.0
In percent of quota	33.7	37.5	65.4	64.3	62.1	57.7	53.3	44.0	31.2	20.5	12.1	3.7	0.0
Debt service to the Fund (in percent of total debt service due after rescheduling)	8.4	12.4	4.3	1.6	2.5	5.0	5.4	9.9	12.8	9.8	8.2	7.6	3.4
Total debt-service ratio (after rescheduling)	22.8	11.8	15.4	20.3	18.4	14.2	12.1	11.5	11.4	11.4	10.1	10.1	9.9
Of which: IMF	1.9	1.5	0.7	0.3	0.5	0.7	0.7	1.1	1.5	1.1	0.8	0.8	0.3
Repayment to IMF/reserves (in percent)	8.5	5.4	1.6	0.5	1.0	2.0	1.7	3.2	4.2	3.1	2.3	2.1	0.8

Sources: IMF, Treasurer's Department; and Fund staff estimates and projections

1/ Based on PRGF loan in the amount of SDR 51.52 during 1999-2000, disbursed in three installments.

Table 9. Madagascar: Social and Demographic Indicators, 1998-99 1/

Land area (square kilometers)	581,540.0
Population	
Total (in millions) (1998)	14.6
Urban population (percent of total)	27.0
Population density (people per sq. km.)	25.1
Population density, rural (people per sq. km.) (1997) 2/	398.6
Population growth (annual percentage)	3.1
Life expectancy at birth (years)	
Overall	57.8
Women	59.3
Men	56.3
Crude birth rate (per 1,000)	40.9
Crude death rate (per 1,000)	11.1
Infant mortality rate (per 1,000)	93.0
Education	
Illiteracy rate, adult total (percentage of people over 15) (1998)	35.1
Primary education, pupils (in thousands) (1997)	1,781.6
Secondary education, general pupils (in thousands) (1997)	252.6
Secondary education, vocational pupils (in thousands) (1992)	8.1
Primary school enrollment (percentage of relevant age group) (1999)	76.0
Secondary school enrollment (percentage of relevant age group) (1997)	18.3
Tertiary school enrollment (percentage of relevant age group) (1996)	1.9
Health	
Hospital beds (per 1,000) (1999)	0.5
Physicians (per 1,000) (1999)	0.1
Safe water (percentage of population with access) (1999)	26.0
Rural	12.0
Urban	83.0
Sanitation (percentage of population with access) (1999)	
Rural	25.0
Urban	56.0
Child immunization (under 12 months, percent)	
DPT	67.0
Measles	59.0

Sources: Malagasy authorities; and World Bank, *World Development Indicators*.

1/ Most recent estimates available.

2/ Rural population density is the rural population divided by the arable land area.

Madagascar: Relations with the Fund
(As of March 31, 2000)

Membership Status: Joined 9/25/63; Article VIII

General Resources Account:	SDR Millions	% Quota
Quota	122.20	100.0
Fund holdings of currency	122.17	100.0
Reserve position in Fund	0.03	0.0
SDR Department:	SDR Millions	% Allocation
Net cumulative allocation	19.27	100.0
Holdings	0.08	0.4
Outstanding Purchases and Loans:	SDR Millions	% Quota
PRGF arrangements	44.52	36.4

Financial Arrangements:

Type	Approval Date	Expira- tion Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
Poverty Reduction and Growth Facility (PRGF)	11/27/96	07/27/00	81.36	40.68
PRGF	05/15/89	05/14/92	76.90	51.27
Stand-By Arrangement	09/02/88	05/15/89	13.30	2.80

Projected Obligations to Fund¹ (SDR millions; based on existing use of resources and present holdings of SDRs):

	Overdue 03/31/00	Forthcoming				
		2000	2001	2002	2003	2004
Principal	0.0	2.6	1.3	2.7	5.4	5.4
Charges/interest	0.0	0.8	1.0	1.0	1.0	1.0
Total	0.0	3.4	2.3	3.7	6.4	6.4

¹The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

Exchange System and Exchange Rate Arrangements

Since 1982, when the peg to the French franc was abandoned, the exchange rate has been generally managed flexibly with reference to a basket of several currencies. However, by end-1991, the authorities had discontinued the practice of adjusting the exchange rate to offset inflation differentials. Since May 9, 1994, the Malagasy franc has been allowed to float freely. The midpoint exchange rate in terms of the SDR at end-April 2000 was FMG 9,544.6 = SDR 1.

Madagascar accepted the obligations under Article VIII on September 18, 1996, and maintains no restrictions on the making of payments and transfers for current international transactions.

Last Article IV Consultation

Madagascar is on the standard 12-month Article IV consultation cycle. The 1998 Article IV consultation discussions with Madagascar were conducted in Antananarivo during the period September 3-15 and November 10-17, 1998. The staff report (SM/99/13, 1/20/99) was discussed by the Executive Board on February 8, 1999.

Recent Technical Assistance

Department	Dates	Purposes	Results of Missions
FAD	July-August 1994	Assess the decline in the country's tax effort and recommend measures to mobilize additional revenue.	Elimination of all ad hoc tax exemptions, beginning with the 1995 budget, recommended.
FAD	September 1995	Assess the need for reforming the value-added tax (VAT) and develop a strategy to improve tax and customs administration.	Broadening of the VAT base and the creation of a special office for the monitoring of transactions in the free export zone recommended.
FAD	September 1996	FAD advisor to assist the authorities in implementing the recommendations of FAD September 1995 mission. Assignment extended to March 1998.	The large-taxpayer unit established. Implementation of VAT reform continued.
FAD	December 1997	Review existing tax incentives and prepare action plan to improve the performance of the tax and	Program proposed to curtail exemptions and implement an exemption-monitoring scheme.

customs departments.

Department	Dates	Purposes	Results of Missions
FAD	February 1998	Hold follow-up discussion on tax and tax administration reform program.	Schedule for the preparation and implementation of key measures established.
FAD	March 1998	Examine and assess budgetary expenditures, control, and management.	Comprehensive request prepared for the reform of budget planning, execution procedures, and control systems.
FAD	April 1998	Review important issues to be addressed in the area of customs administration.	Agenda for follow-up mission identified (July 1998).
FAD	June 1998	Conduct follow-up visit on expenditure control.	Action plan, based on the report of the FAD mission of March 1998, established.
FAD	May, September, and December 1998 and April, May, and June 1999	Hold follow-up discussions on tax and tax administration reform.	Assistance for the revision of the VAT law provided, and a VAT reimbursement system introduced for free export zone producers.
FAD	July 1998	Identify measures to strengthen customs administration.	Report prepared on duty assessment and collection procedures, the coordination between the preshipment inspection company and the customs department, the computerization strategy, and organizational issues.
FAD	January 1999	Help implement earlier FAD recommendations on improving public expenditure management.	Report prepared on progress in harmonization of budget and treasury classifications, computerization of treasury offices, implementation of a cash management and financial plan, and implementation of a budget and accounting classification for the decentralized budget.

Department	Dates	Purposes	Results of Missions
FAD	June 1999	Strengthen tax audit system of large-taxpayer unit.	Action program developed and agreed with the authorities.
MAE	August 1993-99	Assign a bank supervision advisor and assist in the adoption of an interbank foreign exchange market.	Supervisory agency strengthened.
MAE	April-May 1994	Review the modalities for liberalizing the exchange regime and accompanying monetary and credit measures.	Interbank exchange market adopted in May 1994. Central bank base rate and reserve requirements increased.
MAE	May 1995	Review interbank foreign exchange market, develop indirect instruments of monetary management, and reduce banks' excess reserves.	Recommendations adopted during the second half of 1995.
MAE	October-November 1998	Assess the operation of the foreign exchange and treasury bill markets; introduce the euro quotation currency.	Recommendations for treasury bill market adopted in November 1998.
MAE	December 1998	Prepare the change to the euro as pivot currency.	Euro introduced as scheduled.
MAE	May-June 1999	Prepare for introduction of continuous quotation foreign exchange market, including procedures manual and market rules.	Recommendations made, but not implemented.
STA	October 1995	Review money and banking statistics.	Recommendations for data improvements adopted.

Resident Representative

Madagascar has had a Fund Resident Representative since September 1989. Mr. Maret, the current Resident Representative, has been stationed in Antananarivo since mid-August 1997.

Madagascar: Relations with the World Bank Group

(As of April 30, 2000)

The World Bank's primary objective in Madagascar is to help the government substantially reduce poverty. Three-fourths of all Malagasies are poor. Broad-based growth, led by foreign direct investment, is key to poverty reduction, the central theme of the Bank's February 1997 Country Assistance Strategy and the 1999 Country Economic Memorandum. The strategy—to be updated late in the year 2000—targets human capital development, focusing on basic education and health of the mostly rural population; improved public services delivery and a better-defined role of the state, to encourage private sector development; and improved management of natural resources in key sectors. The Bank provides assistance both through lending and an ongoing dialogue and analytical work to support macroeconomic and sectoral policies. The challenge is to assist Madagascar in putting in place and sustaining those policies needed to gain investor confidence and alleviate poverty.

The current portfolio of 19 projects amounts to about \$376 million (undisbursed balance) and supports social development (5 projects in education/nutrition/health/Social Fund), agriculture and environment (3), urban infrastructure and rural water supply (3), public and private sector capacity building and mining (3), financial sector development (3), petroleum and energy (1), and a recently approved second structural adjustment credit. Lending picked up in the mid-1990s with the government's improved commitment to reform. New investment lending in fiscal year (FY) 1999 focused on a microfinance credit operation and a social fund project, the latter emphasizing community involvement within a decentralized approach. Support for the transport and health sectors is being considered for FY 2000.

The Bank has supported the government's adjustment program through a long-standing reform dialogue, as well as two structural adjustment credits (the first amounting to US\$70 million in early 1997 and a new US\$100 million operation in May 1999). The reform agenda, after some delays between these two operations, is moving forward. The new operation supports the following key reform areas. First, the disengagement of the state from the banking sector has been a precondition of a new operation. Accordingly, the BFV, the commercial bank, was sold in late 1998; a "sales protocol" was signed for the BTM, the agricultural bank, in early April 1999, with the transfer of property fully completed by end-1999. Second, the privatization of the petroleum state company is well advanced, with each of the ten petroleum lots scheduled to be sold by end-May, resulting in the creation of ten different companies with state participation of less than 30 percent in all cases. This privatization has attracted many bidders, signaling renewed interest by foreign investors in entering the Malagasy market. Finally, there are also significant advances in the preparatory work for privatization/liberalization in air transport and telecommunications. The air transport market has been liberalized fully in its charter segment, and bids for Air Madagascar are likely to be received before end-July 2000. In addition to the sale of a controlling interest to a strategic investor consortium of the country's sole telecommunications operator, a bid for a second national telecommunications operator will be launched during the lifetime of the new adjustment operation, and an interconnection decree assures equal treatment of cellular

operators in their connection to the fixed network. Moreover, the authorities adopted and implemented in February 2000 a transparent, nondiscretionary, and competitive system for allocating fishing licenses.

Other areas of reform include (i) establishment of predefined and nondiscretionary criteria for issuing mining authorizations; (ii) implementation of a strategy to support private sector development, including reforms in the rules for firm registration; and (iii) a particular emphasis in monitoring social sector indicators.

Madagascar: Status of World Bank Group
Operations Portfolio, 1990-2000

(As of end-May 2000; in millions of U.S. dollars)

Board Date Fiscal Year	Active Projects	Original Amount			Differences Between Expected and Actual Disbursements 1/	
		IDA	Canceled	Undisbursed	During original	During formal revision of project
1990	Financial Sector/Apex	48.00	2.68	2.10	1.27	-1.58
1990	Tana Plain Development	0.00	0.00	0.00	0.00	0.00
1992	Vocational education	0.00	0.00	0.00	0.00	0.00
1995	Agricultural extension project	25.20	0.00	1.43	3.67	0.00
1995	Irrigation II	21.20	0.00	3.29	3.01	0.00
1996	Energy sector development	46.00	0.00	22.63	17.63	0.00
1996	Social fund 2	40.00	0.00	0.00	0.87	0.00
1997	Capacity building	13.83	0.00	2.92	2.00	0.00
1997	Environment II	30.00	0.00	10.49	-2.47	0.00
1997	Private sector development and capacity building	23.80	0.00	9.88	10.76	-2.28
1997	Urban infrastructure	35.00	0.00	24.55	13.16	0.00
1998	Education sector development	65.00	0.00	59.13	21.48	0.00
1998	Mining project	5.00	0.00	3.87	2.35	-0.13
1998	Nutrition II	27.60	0.00	23.41	4.59	0.00
1998	Rural water sector pilot	17.30	0.00	14.66	11.29	0.00
1999	Micro finance	16.40	0.00	13.99	1.39	0.00
1999	SAC II	100.00	0.00	98.87	55.80	0.00
1999	Social fund 3	15.00	0.00	6.21	-5.57	0.00
2000	Regional development	4.60	0.00	4.57	0.00	0.00
2000	Second health sector support	40.00	0.00	39.00	0.00	0.00
Total		573.93	2.68	341.00	141.23	-3.99

1/ Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Madagascar: Statement of IFC's Committed and Disbursed Portfolio

(As of April 30, 2000; in millions of U.S. dollars)

FY Approval	Company	Held		Disbursed	
		Loan	Equity	Loan	Equity
1983-89	Nossi-Be	0.41	0.14	0.41	0.14
1990-91	AEF FIARO	0.00	0.19	0.00	0.19
1991	BNI	0.00	2.61	0.00	2.61
1992-93/95	AQUALMA	1.29	0.00	1.29	0.00
1995	AEF Karibotel	0.26	0.00	0.26	0.00
1997	AEF GHM	0.82	0.00	0.82	0.00
Total portfolio		2.78	2.94	2.78	2.94
Approvals Pending Commitment					
		Loan	Equity	Quasi-equity	
1998	AEF TAMI	0.98	0.00	0.00	
1999	AEF Bora Hotel	0.35	0.00	0.00	
1999	AEF Manerinerina	0.15	0.00	0.00	
2000	AEF Somaqua	0.70	0.00	0.00	
2000	BOA Madagascar	0.00	1.60	0.58	
Total pending commitment		2.17	1.60	0.58	

Source: World Bank, Operations Information System (OIS).

Madagascar: Statistical Issues

Madagascar's database remains weak, particularly as concerns the real sector, government finances, the balance of payments, and social indicators. The authorities are aware of these deficiencies and are working, with technical assistance from the international community, including the Fund, toward strengthening their statistical system. They have expressed interest in using the General Data Dissemination System (GDDS) as a framework for statistical development. A GDDS technical assistance mission from STA is scheduled for FY2001.

Real sector

The introduction in 1996 of a system of regular business surveys has contributed somewhat to an improvement in the compilation of national accounts data. However, data remain weak and incomplete, particularly for the agricultural sector. Data on the use of resources are also inadequate, and data for changes in inventories are not reported. Short-term indicators of economic activity, such as monthly or quarterly production indices, are not available. Work is under way to revise the national accounts methodology and produce final national accounts data for 1993-95.

The consumer price index is reported on a timely basis; nevertheless, its current limited coverage casts doubt on the accuracy of the results. Moreover, the weights of this index remain based on a survey that dates back to 1968-69. A broader consumer price index combining the traditional and the modern household consumption patterns was introduced in 1999. It covers several cities rather than only the capital, and with updated weights using the results of recent household budget surveys sponsored by the World Bank and other donors. Data on producer prices and nationwide employment have not been reported.

External sector

Data on exports and imports are not reported on a timely basis. This could be improved if data generation was viewed as core task by the customs department. Moreover, compilation remains focused on traditional exports, which are reported in detail, while only aggregate estimates on nontraditional exports are available. Given the rapid expansion of the latter, including exports from the export processing zones, regular and frequent collection of more detailed data on nontraditional trade is needed. Data on exports and imports are reported for publication in *International Financial Statistics* with some delay. Data on the balance of services could be more reliable, especially tourism earnings, whose estimates vary among sources. The central bank is currently adapting the balance of payments presentation to the fifth edition of the Fund's *Balance of Payments Manual*.

Regarding external debt statistics, there are shortcomings with respect to classification of foreign debt components. With World Bank assistance, the authorities are working toward improving the entire database, including its computerization.

Government finance

The treasury reports monthly data on a commitment and on a cash basis. The reporting is expected to improve as a result of the introduction by end-1999, with FAD assistance, of a new nomenclature for treasury and budgetary operations.

The latest government finance statistics (GFS) data reported to STA for publication in the *GFS Yearbook* are for 1996 and cover the budgetary and extrabudgetary operations of the general budget units. However, these reported data still include capital expenditure of nonfinancial public enterprises financed by government lending, and data coverage excludes extrabudgetary units and the National Social Security Fund.

Monetary statistics

Recommendations by the money and banking statistics mission of October 1995 were for the most part implemented, including the reclassification of some accounts of the monetary authorities and commercial banks and the revision of valuation procedures for foreign-currency-denominated accounts.

Table 1. Madagascar: Core Statistical Indicators

(As of end-April 2000)

	Exch. External Rates	Intrn'l. Reserves	Cen. Bank Bal. Sheet	Reserve/ Base Money	Broad Money	Int. Rates	Consum. Price Index	Exports/ Imports	Cur. Acct. Bal.	Ovr'l Govt. Bal.	GDP/GNP	
Debt												
Date of latest observation	03/31/00	03/31/00	03/31/00	03/31/00	03/31/00	03/31/00	03/31/00	1999 (Prel.)	1999 (Prel.)	03/31/00 (Prel.)	1999 (Prel.)	03/31/00
Date received	04/00	04/00	04/00	04/00	04/00	04/00	04/00	03/00	03/00	04/00	03/00	03/00
Frequency of data	D	M	M	M	M	M	M	Q	A	M	A	Q
Frequency of reporting	M	M	M	M	M	M	M	V	V	M	V	V
Source of update	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting	M	M	M	M	M	M	M	V	V	M	V	V
Confidentiality	C	C	C	C	C	C	C	C	C	C	C	C

Notes: Frequency of data: D-daily; M-monthly; Q-quarterly; A-annual.

Frequency of reporting: M-monthly; Q-quarterly; A-annually; V-irregularly in conjunction with staff visits.

Source of update: A-direct reporting by Central Bank of Madagascar, Ministry of Finance, or other official agency.

Mode of reporting: M-mail; V-staff visits.

Confidentiality: C-unrestricted use.

