



REPUBLIC OF MADAGASCAR

April 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF MADAGASCAR

In the context of the request for disbursement under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 3, 2020, following discussions that ended on March 26, 2020, with the officials of Madagascar on economic developments and policies underpinning the IMF disbursement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on March 30, 2020.
- A **Statement by the Executive Director** for Madagascar.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Madagascar*

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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**International Monetary Fund
Washington, D.C.**



IMF Executive Board Approves a US\$ 165.99 Million Disbursement to the Republic of Madagascar to Address the Covid-19 Pandemic

FOR IMMEDIATE RELEASE

Washington, DC – April 3, 2020 - The Executive Board of the International Monetary Fund (IMF) today approved a disbursement under the Rapid Credit Facility (RCF) equivalent to SDR 122.2 million (about US\$ 165.99million at today's US\$/SDR exchange rate, or 50 percent of the quota) to help the country meet the urgent balance of payment needs stemming from the outbreak of the COVID-19 pandemic.

The Covid-19 pandemic is having a severe impact on Madagascar's economy. Tourism is facing a dramatic decline, and disruptions are occurring to mining and manufacturing exports, as well as in trade and investment.

To mitigate the shock of the pandemic, the government is taking appropriate immediate actions including immediate fiscal measures to strengthen social protection and support the most vulnerable such as through government donations of staple foods; suspending fees and social contributions to support the private sector; and providing liquidity to preserve the stability of the financial sector. However, the weakened macroeconomic outlook and deteriorating fiscal situation have created urgent external and fiscal financing needs. The IMF support will make a substantial contribution to filling immediate external needs and preserving fiscal space for essential COVID-19-related health expenditure. It is also expected to help catalyze additional donor support.

Following the Executive Board discussion. Mr. Mitsuhiro Furusawa, Deputy Managing Director and Chair, made the following statement:

"The Covid-19 pandemic is having a severe impact on Madagascar's economy. Due to dramatic declines in tourism and disruptions to manufacturing and extractive industry exports, as well as transport, communications, and services, real GDP growth is likely to decline sharply. The fiscal situation is also deteriorating rapidly with additional health and social spending outlays and a significant shortfall in tax revenue. Fund support under the Rapid Credit Facility will help the authorities meet the urgent fiscal and external financing needs to mitigate the impact of the pandemic.

"The authorities are taking immediate measures to address the human and economic impact of the pandemic, while preserving macroeconomic stability. These include increases in health spending, help to the most vulnerable, support to the private sector, and actions to preserve the stability of the financial sector and maintain the flexible exchange rate regime.

While the risks to the outlook are substantial, given the high degree of uncertainty, Madagascar continues to be assessed at low risk of external debt distress. Beyond the immediate response, the authorities remain committed to economic policies that will ensure sustained and inclusive growth over the medium-term.

"Additional donor support, beyond that which was already committed before the outbreak of the pandemic, is needed to close the remaining balance of payments gap and ease the fiscal situation."



REPUBLIC OF MADAGASCAR

March 30, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The Covid-19 pandemic is having a severe impact on Madagascar's economy. During the last two months, tourist arrivals have declined dramatically, and disruptions are beginning to materialize in mining and manufacturing exports, as well as international supply chains which are impacting trade and investment. The first Covid-19 cases were recently confirmed in the country. Even before this, the public health system faced many challenges, including coping with yearly outbreaks of the plague.

Request for Fund support. Considering the large immediate external financing gaps arising from the Covid-19 pandemic and the infeasibility of quickly putting in place a UCT-quality program, the authorities are seeking financial assistance under the "exogenous shocks" window of the Rapid Credit Facility (RCF). In the attached letter of intent (LOI), the authorities request a disbursement of SDR 122.2 million, equivalent to 50 percent of quota, and they envisage a central bank on-lend of this disbursement to the Treasury. Staff assesses that Madagascar meets the qualification criteria and other applicable requirements and supports the request. Public debt is sustainable and the capacity to repay the Fund remains strong. The IMF disbursement is expected to play a catalytic role in securing additional financing from Madagascar's development partners, which authorities are actively seeking.

Macroeconomic policies and IMF engagement. The authorities' immediate priority is to cope with the impact of the Covid-19 pandemic. They intend to increase health spending, strengthen social protection to support the most vulnerable, support the private sector to maintain business viability, and ensure adequate liquidity for the banking system. Their response will be aided by Madagascar's strong performance under the recently completed ECF arrangement, and by continued commitment to a flexible exchange rate as a buffer against external shocks. They remain committed to promote stronger, more inclusive, and sustained growth, and reiterated their interest in beginning discussions on a successor ECF as soon as the current crisis has stabilized.

Approved By
David Owen (AFR)
and Zuzana
Murgasova (SPR)

An IMF team consisting of Mr. Tsangarides (Head), Mr. Léost, and Ms. Cheptea (all AFR), Ms. Hlatshwayo (SPR), Mr. Gerard (Resident Representative) and Ms. Rasoamanana (local economist) exchanged information and held discussions with Malagasy authorities (Minister of Economy and Finance Mr. Randriamandrato, Central Bank Governor Mr. Rabarijohn, and other senior government officials) by video conference on March 26, 2020.

CONTENTS

BACKGROUND	3
IMPACT OF THE COVID-19 PANDEMIC	3
POLICY ISSUES	7
FUND SUPPORT UNDER THE RAPID CREDIT FACILITY	8
STAFF APPRAISAL	10
TABLES	
1. Selected Economic Indicators, 2017–25	11
2. National Accounts, 2017–25	12
3. Fiscal Operations of the Central Government, 2017–25 (Billions of Ariary)	13
4. Fiscal Operations of the Central Government, 2017–25 (Percent of GDP)	14
5. Balance of Payments, 2017–25	15
6. Monetary Accounts, 2017–25	16
7. Indicators of Capacity to Repay the Fund, 2030–32	17
ANNEXES	
I. Debt Sustainability Analysis	18
II. Selected Economic Indicators	25
APPENDIX	
I. Letter of Intent	26

BACKGROUND

- 1. The sixth review under the ECF arrangement and the 2019 Article IV consultation were recently completed, and a successor arrangement has been requested.** On January 29, 2020, the Executive Board completed the last review under the ECF-arrangement and the 2019 Article IV consultation for Madagascar. Performance under the economic program supported by the ECF arrangement was assessed as broadly satisfactory with solid growth, moderate single-digit inflation, and a robust external position. Strong policies and an ambitious reform agenda remain crucial to mitigate internal and external risks, strengthen macroeconomic stability, and achieve higher, sustainable, and inclusive growth. The authorities requested to begin discussions on a successor arrangement to support their ambitious development agenda summarized in the Plan Emergence Madagascar (PEM).
- 2. The Covid-19 pandemic has hit Madagascar hard, and the authorities have requested emergency Fund financial assistance through an RCF.** Facing a severe impact from the global pandemic, the authorities' immediate priority is to ensure the health of the population and limit economic and financial disruptions so as to preserve macroeconomic stability. The authorities are seeking financial assistance under the Rapid Credit Facility (RCF) to help address these immediate needs. Discussions for a successor arrangement are expected to continue at a later stage.

IMPACT OF THE COVID-19 PANDEMIC

- 3. The Covid-19 pandemic is projected to have a substantial economic and humanitarian impact in the short term.** Measures to fight the pandemic are intensifying, with the Malagasy government announcing tougher control measures, including bans on public gatherings, halting flights and closing schools and universities. The first confirmed cases of Covid-19 were announced on March 19, raising concerns about whether the country's public health system—which already faces many challenges from coping with yearly outbreaks and epidemics, including cases of the plague—can handle a potential country-wide spread of the disease.

- 4. The economy is expected to be severely affected through the following channels:**

- With a ten-year peak of more than 380,000 visitors in 2019 (an increase of 32 percent compared to 2018), tourism revenue reached SDR 512 million, equivalent to 5 percent of GDP. While an increase of more than 15 percent was initially expected in 2020, the sharp slowdown in visitor arrivals since the end-February now suggests a large contraction.
- Manufacturing exports (mainly textiles) from the free zones accounted for about 5 percent of GDP in 2019 (SDR 527 million). The decline in global demand and supply chain disruptions have already started to impact production in Madagascar. As the export free zones are the main source of formal employment in the country (more than 200,000 employees), there will likely be a significant effect on incomes and domestic demand.
- Disruptions in global supply chains are also affecting the implementation of investment projects, with significant impact in construction and public works, and transport.

- On the fiscal side, both domestic and customs tax revenue are impacted. In addition to the marked slowdown of imports, customs revenue is reduced due to the dramatic fall in oil prices (in 2019, duties and VAT on oil product imports accounted for 29 percent of total customs revenue, equivalent to 1.6 percent of GDP).

5. Growth is expected to fall sharply in 2020, with a deterioration in the external fiscal and accounts (Annex 2). Incorporating recent global assumptions and updated information:

- Growth in 2020 is expected to fall to 1.6 percent (3.6 percentage points below the pre-pandemic baseline estimate). Assuming a pick-up to the pre-pandemic level in 2021, growth averages 5.3 percent over 2022–25.
- Inflation is expected to increase from 4 percent (y-o-y) in December 2019 to 6 percent (y-o-y) in December 2020, but stable on average at about 5.5 percent, balancing the effect of lower growth and falling oil prices and limited potential inflationary pressures with supply disruptions of food products.
- Extra health spending in addition to a reorientation of existing credit lines, and a tax revenue shortfall of 1 percent of GDP (or more) will likely widen the domestic primary balance to an expected deficit of 1.4 percent of GDP in 2020 (instead of being at equilibrium).
- Exports of goods are expected to fall sharply from 18.5 percent of GDP in 2019 to 15 percent in 2020, while tourism revenue is expected to decline by 1.7 percentage point of GDP.
- The widening of the current account deficit is expected to be relatively limited (about 1 percentage point, reaching 2.5 percent of GDP), as a result of the mitigating effect of the expected reduction in imports, including a reduction of the oil import bill by the equivalent of 1.6 percent of GDP.

6. Based on the above, the external financing need is projected at 1.8 percent of GDP in 2020 (Text Table 1). At the time of the Article IV consultation, a substantial overall balance of payments surplus was envisaged, allowing a further projected accumulation of international reserves. Now, with a projected current account deficit of 2.5 percent of GDP (1 percentage point higher than in the Article IV) and a projected capital and financial account surplus of only 0.5 percent of GDP (versus 2.6 percent in the Article IV, due to a 20 percent reduction in FDI and significantly lower external project financing), the shock to the balance of payments is estimated at 3.2 percent of GDP: the global balance is expected to show a deficit of 2 percent of GDP (from an expected surplus of about 1.1 percent before the shock). This results in a financing gap of 1.8 percent of GDP after taking into account the recent IMF disbursement of 0.2 percent of GDP under the ECF. The associated fiscal financing need is estimated at 1.1 percent of GDP, reflecting the projected higher health spending and a shortfall in tax revenue by about 15 percent in nominal terms.

7. Financial assistance under the RCF will make a substantial contribution to filling immediate external needs (Text table 1). The disbursement to the central bank of SDR 122.2 million (1.1 percent of GDP) will close about 60 percent of the external financing gap in 2020. The

authorities are actively seeking additional budget support from development partners, beyond what was already disbursed or committed (equivalent to 1.1 percent of GDP in 2020); the RCF disbursement is expected to play a catalytic role in this effort. In the absence of additional budget support in 2020, the rest of the external financing gap will be closed with a drawdown of international official reserves, equivalent to 0.7 percent of GDP. This would leave reserve cover at 4.1 months of imports, broadly in line with the level staff assessed as adequate in the recent Article IV.

8. The RCF disbursement will be made available to the budget to close the fiscal financing need (Text table 2). The authorities intend to direct the disbursement under the RCF to the budget through on-lending by the central bank to the Treasury. This amount, equivalent to 1.1 percent of GDP, will close the projected budget financing gap in 2020. The upcoming World Bank budget financing (US\$100 million under the Human Capital Development Policy Operation) which was already planned in the budget-will also help to ease the Treasury cash flow situation in coming weeks.

Text Table 1. Madagascar: Projected External Needs 2020

	Art IV		Proj. (after shock)	
	SDR million	Percent of GDP	SDR million	Percent of GDP
Current account	-164	-1.5	-269	-2.5
<i>of which:</i>				
<i>Vanilla exports</i>	481	4.3	406	3.8
<i>Nickel and cobalt exports</i>	568	5.1	373	3.5
<i>Free trade zones exports</i>	483	4.3	327	3.0
<i>Travels receipts</i>	597	5.4	418	3.9
<i>Oil imports</i>	-432	-3.9	-261	-2.4
<i>Equipment and raw materials imports</i>	-1183	-10.6	-986	-9.1
<i>Free trade zones imports</i>	-434	-3.9	-282	-2.6
<i>Travels payments</i>	-147	-1.3	-118	-1.1
Capital and financial account	291	2.6	50	0.5
<i>of which:</i>				
<i>Net foreign direct investments</i>	299	2.7	252	2.3
<i>Government net loans</i>	233	2.1	174	1.6
Global Balance	127	1.1	-219	-2.0
<i>of which budget support already committed</i>	83	0.7	114	1.1
IMF net Financing	25	0.2	25	0.2
Financing gap (excess of financing -)	-152	-1.4	194	1.8
Exceptional IMF financing-RCF			122	1.1
Reserve accumulation (increase -)	-152	-1.4	72	0.7
Remaining financing gap	0		0	

Sources: Malagasy authorities, and IMF staff.

9. Downside risks to the outlook have grown substantially. In addition to the pre-Covid-19 pandemic risks discussed in the AIV/6th Review Staff Reports, the extent of the current external shock is of course highly uncertain. Current projections are based on a global scenario anticipating a gradual economic normalization starting in the second half of 2020. Delays in such a normalization would lead to longer disruptions to tourist flows and international trade. The projected fiscal situation is based on a significant shortfall in tax revenue and additional spending equivalent to about 0.6 percent of GDP. Clearly, current estimates and projections are subject to a (high) degree of uncertainty given the rapidly evolving macro picture and global developments. If the pandemic spreads widely to Madagascar, economic growth could turn to negative territory, the impact on tax revenue (which could also be impacted by measures described in paragraph 10) could be much larger and together with significant additional health spending will further worsen the budgetary situation, and the current account deficit could be higher, creating significantly larger financing needs. If such an adverse scenario materializes, decisive domestic policy actions and greater donor support would be needed.

Text Table 2. Madagascar: Fiscal Accounts in 2020 Before and After the Shock

	Art IV		Proj. (after shock)	
	MGA billion	Percent of GDP	MGA billion	Percent of GDP
Tax revenue	6292	10.9	5425	9.9
<i>Domestic taxes</i>	3319	5.7	2706	4.9
<i>Customs revenue excl. oil products</i>	2200	3.8	2107	3.8
<i>Customs revenue on oil products</i>	773	1.3	612	1.1
Budget grants	430	0.7	529	1.0
Current expenditure	5132	8.9	5866	10.7
<i>Of which:</i>				
<i>Wages and salaries</i>	2700	4.7	2700	4.9
<i>Goods and services</i>	428	0.7	628	1.1
<i>Transfers and subsidies</i>	1174	2.0	1711	3.1
Capital expenditure	4372	7.6	3013	5.5
<i>Dominately financed</i>	1810	3.1	960	1.8
<i>Externally financed</i>	2562	4.4	2054	3.8
Overall balance (including grants)	-1559	-2.7	-1862	-3.4
Domestic primary balance	3	0.0	-751	-1.4
Total financing	1559	2.7	1243	2.3
<i>Foreign borrowing</i>	1259	2.2	936	1.7
<i>of which budget loans</i>	21	0.0	48	0.1
<i>Domestic borrowing</i>	300	0.5	308	0.6
Fiscal financing gap	0		619	1.1
Exceptional financing-RCF			619	1.1
Remaining financing gap			0	

POLICY ISSUES

The authorities' immediate priority is to limit the impact of the pandemic and preserve macroeconomic stability. Beyond this short-term objective, the government remains committed to its medium-term strategy towards more sustained and inclusive growth to improve development outcomes, guided by its ambitious economic reform plan formalized in the PEM.

10. In an effort to mitigate the impact of the pandemic on Madagascar, the President of the Republic of Madagascar declared on March 21 a state of health emergency¹ and the government has started to implement the following measures:

- Increasing health spending, with the prioritization and reorientation of spending, and through targeted investments to strengthen the health system, following the activation of the national contingency plan to fight the pandemic and with the support of development partners. For example, on March 12, 2020 the World Bank, provided a grant of \$3.7 million to strengthen prevention against the Covid-19 pandemic, purchase materials and equipment, and train health workers. This grant is expected to be increased up to \$13.9 million in coming days. The Government also announced that it will cover individual health expenses related to the pandemic.
- Strengthening social protection by supporting the most vulnerable, to contain the epidemic while mitigating its negative financial consequences. First measures include government donations (notably rice, sugar, dry peas, soap, and oil) to the most vulnerable, notably the homeless and the elderly, as well as some workers in the informal sector particularly affected (such as taxi and other public transport drivers and street vendors). In addition, workers temporarily out of work can postpone repayment of their mortgage or consumer credit for the next three months.
- Supporting the private sector to safeguard the financial viability of companies and limit the impact of the crisis caused by this external shock, especially on employment. After meetings with the private sector (including the banking sector), the government announced a number of tax measures, including some deadline extensions for certain declarations and payments, and some tax exemptions on social and health spending related to the Covid-19 pandemic. In addition, in case of temporary impediments to work ("chomage technique"), employees can benefit from a government allowance while the employer social contributions are suspended. Companies facing difficulties will be able to benefit from a moratorium on their bank credits.
- Preserving the stability of the financial sector and dealing with potential disruptions in the financial sector. The central bank has started to provide liquidity to the banking sector (planning up to MGA620 billion, about 1.2 percent of GDP). Staff recommends ensuring that regulatory reporting is not compromised, while using existing capital and liquidity buffers.

¹ <https://www.presidence.gov.mg/actualites/decret/756-decret-n-2020-359-du-21-mars-2020-proclamant-l-etat-d-urgence-sanitaire-sur-tout-le-territoire-de-la-republique.html>.

Capital buffers should be used first and liquidity buffers also used if needed. It may also be necessary to introduce enhanced supervisory reporting. Potential measures to restore liquidity levels should be discussed and should be executed over a period considered appropriate to prevent additional stress on the banks and on the financial system as a whole.

- Maintaining a flexible exchange rate to act as a shock absorber and use reserves only to finance any unfilled financing gap while maintaining an adequate level. Since the beginning of the year, the ariary depreciated by about 3 percent against the US dollar, with limited central bank interventions that remain guided by the algorithm defined with IMF technical assistance.

11. A revised budget law will consider new priorities to address the Covid-19 pandemic.

The revised budget law under preparation (and tentatively planned for end-April early May) will consider immediate priorities to address pressing needs, and redirect resources as needed. It will also review projections for tax revenue and assess sources of financing.

12. Beyond the immediate response to the current shock, the authorities are committed to continue reforms, as outlined in the recent Article IV/6th ECF Review Staff Report, including:

- On fiscal policy, the main objective remains creating fiscal space to finance investment and raise social spending based on a sustained and well-sequenced strategy covering both revenue administration and tax policies; and containing non-priority spending including transfers to the public utility JIRAMA and avoiding a budgetary impact from fuel pricing.
- On the monetary policy side, the central bank will continue to actively manage bank liquidity and implement its reform agenda to transition to an interest rate targeting framework.
- The government remains committed to promoting better governance and improving the business climate, through an effective enforcement of the new anti-corruption legal framework, strengthened Public Financial Management to improve the governance of public resources, and progress in the regulatory framework and rule of law.

FUND SUPPORT UNDER THE RAPID CREDIT FACILITY

13. Financial support under the RCF reflects Madagascar's urgent balance of payments need following the external shock of the Covid-19 pandemic. Based on urgent balance of payments needs caused by a sudden exogenous shock, Madagascar qualifies for a disbursement under the "exogenous shocks" window. The severe impact of the Covid-19 pandemic requires immediate financial support. The authorities must focus on immediate measures to mitigate short-term economic and financial impacts and to preserve macroeconomic stability. While discussions on a new multi-year successor arrangement are planned, they cannot be concluded immediately. Rapid IMF involvement is also expected to play a catalytic role in securing additional budget support.

14. Staff considers access of 50 percent of quota under the RCF to be appropriate:

- The pandemic has created a large balance of payments need of about 1.8 percent of GDP, and Fund financial assistance is critical to cover a significant share of it. The Fund disbursement, which should be made available to the budget, will also help close immediate fiscal financing needs.
- Outstanding PRGT credit would reach 176.3 percent of quota, of which 73.75 percent for outstanding credit under the RCF,² and total PRGT disbursements over a twelve month-period would reach 75.72 percent of quota, all below allowable limits.
- The authorities remain committed to economic policies to ensure more sustained and inclusive growth to improve development outcomes. In the current volatile and uncertain environment, the government will focus on immediate measures and prioritize social spending, including in the health sector.
- Madagascar's capacity to repay the Fund remains strong. A disbursement of 50 percent of quota would result in Fund exposure to Madagascar of 3.9 percent of GDP. Annual repayments should peak at 0.4 percent of GDP and 3.3 percent of government revenue in 2026.

15. Madagascar continues to be assessed at low risk of external debt distress and at moderate risk of overall (public external plus domestic) debt distress based on an update to the March 2020 DSA (Country Report No. 20/61) that includes a scenario to approximate the impact of Covid-19 on Madagascar's economy (Annex I). Under a Covid-19 baseline scenario and other stress tests for external debt, no thresholds are breached. Total public debt is below the benchmark under the Covid-19 scenario, but a growth shock continues to drive the present value of debt to GDP above the benchmark at the end of the projection period and it is on a persistent upward trajectory, yielding a moderate classification. Moreover, shocks could introduce liquidity problems, as the debt service to revenue ratio could exceed 75 percent over the long term under the growth shock. Several factors could lead to a faster than expected deterioration in external and public debt indicators, including a slower than anticipated recovery from the Covid-19 shock.

16. In line with IMF safeguards policy, the authorities have committed to undergoing a new safeguards assessment, to be completed before Board approval of any subsequent arrangement to which the safeguards policy applies. A previous safeguards assessment was conducted in March 2017 in the context of the ECF arrangement, supplemented by safeguards monitoring report in July 2018. In addition, the authorities have already authorized IMF staff to hold discussions with external auditors, including access to the external audit reports. They have also committed to transparency on the planning, using, monitoring and reporting of additional health

² In addition to the proposed disbursement of 50 percent of quota, there is an outstanding credit under the RCF equivalent to 23.75 percent of quota, corresponding to the remainder of two previous RCF disbursements in June 2014 and November 2015.

spending, whose modalities will be discussed with the World Bank and other donors.

17. As resources will be redirected by the central bank to the Treasury, a Memorandum of Understanding (MoU) between the central bank and the government will be signed. The MoU signed by the central bank and the ministry of economy and finance in the context of the ECF (part of the disbursement with the first review was used for budget support) will be updated and signed. It will specify (i) the maintenance of a specific government account at the central bank to receive IMF resources; (ii) the requirement that the government should hold foreign exchange balances only with the central bank; and (iii) the establishment of a clear framework agreement between the central bank and the ministry on responsibilities for servicing financial obligations to the IMF.

STAFF APPRAISAL

18. The impact of the Covid-19 pandemic is having a severe impact on Madagascar's economy. Due to dramatic declines in tourism and disruptions to manufacturing and extractive industry exports, as well as transport, communications, and services, real GDP growth for 2020 could decline to 1.6 percent, significantly below the pre-Covid-19 estimate of more than 5 percent, and less than population growth. The fiscal situation is also deteriorating with projected additional spending of about 0.6 percent of GDP and a shortfall in tax revenue of 1 percent of GDP.

19. Based on these developments, the country is facing urgent external and fiscal financing needs. Financing needs for 2020 arising from addressing the impact of the pandemic, determined relative to the recent Article IV baseline projections, show an external financing need of 1.8 percent of GDP and a fiscal financing need of 1.1 percent of GDP.

20. Staff supports the authorities' immediate priorities to mitigate the impact of the pandemic and preserving macroeconomic stability. Appropriate measures are being taken to increase health spending, help the most vulnerable, support the private sector, preserve the stability of the financial sector, and maintain the flexible exchange rate regime. Beyond this immediate response, the authorities remain committed to economic policies that will ensure sustained and inclusive growth.

21. Against this background, staff supports the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR 122.2 million (50 percent of quota). Staff's support is based on the urgent balance of payments needs arising from a sudden exogenous shock, and the authorities' existing and prospective policies to address this external shock, including their commitment to seek additional external budget financing from other development partners. While the risks to the outlook are substantial, Madagascar continues to be assessed at low risk of external debt distress and its capacity to repay the Fund remains strong.

22. Discussions for a successor arrangement are expected to continue at a later stage. Beyond this much needed immediate financial assistance, the authorities have reaffirmed their willingness to remain engaged with the IMF, to benefit from its policy advice and its technical assistance. They have also reiterated their interest in initiating discussions for a successor arrangement that would support their economic reform strategy.

Table 1. Madagascar: Selected Economic Indicators, 2017–25

	2017	2018	2019	2020		2021	2022	2023	2024	2025
	Actuals	Est.	Prel. Est	Art IV	Proj.	Projections				
(Percent change; unless otherwise indicated)										
National account and prices										
GDP at constant prices	3.9	4.6	4.8	5.2	1.6	4.8	5.2	5.4	5.4	5.3
GDP deflator	8.6	8.6	5.6	7.2	5.5	6.5	5.6	5.5	5.4	5.4
Consumer prices (end of period)	10.6	6.9	4.0	6.2	6.0	5.9	5.4	5.6	5.6	5.5
Money and credit										
Reserve money	18.6	13.0	-4.4	12.2	19.8	17.5	10.5	10.6	10.6	8.5
Broad money (M3)	17.8	11.2	7.3	16.2	16.9	12.6	10.4	14.8	13.9	10.1
	(Growth in percent of beginning of period money stock (M3))									
Net foreign assets	9.2	4.8	-2.6	6.9	-8.6	6.6	8.2	7.5	8.1	7.9
Net domestic assets	8.6	6.4	9.9	9.3	25.5	6.0	2.2	7.3	5.8	2.2
of which: Credit to the private sector	8.4	8.7	10.3	7.3	5.5	8.0	7.7	6.8	5.1	5.7
	(Percent of GDP)									
Public finance										
Total revenue (excluding grants)	10.3	10.5	10.8	11.2	10.3	11.2	11.9	12.2	12.5	12.6
of which: Tax revenue	10.0	10.2	10.5	10.9	9.9	10.8	11.6	11.8	12.2	12.3
Grants	2.5	2.5	3.1	2.5	2.6	1.2	1.0	0.5	0.3	0.3
of which: budget grants	0.7	0.9	0.7	0.7	1.0	0.0	0.0	0.0	0.0	0.0
Total expenditures	14.9	14.3	15.3	16.4	16.2	17.1	17.9	18.1	17.6	17.4
Current expenditure	10.2	9.3	9.5	8.9	10.7	9.7	9.7	10.0	9.8	9.9
Capital expenditure	4.7	5.0	5.8	7.6	5.5	7.4	8.3	8.1	7.8	7.5
Domestic financed	1.7	1.8	1.7	3.1	1.8	2.6	3.3	3.5	3.6	3.7
Foreign financed	3.0	3.2	4.1	4.4	3.7	4.7	5.0	4.7	4.2	3.8
Overall balance (commitment basis)	-2.1	-1.3	-1.4	-2.7	-3.4	-4.7	-5.0	-5.4	-4.7	-4.4
Float (variation of accounts payable, + = increase)	0.6	-0.2	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Variation of domestic arrears (+ = increase)	-0.6	-0.5	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-2.0	-2.0	-1.3	-2.7	-3.4	-4.8	-5.1	-5.4	-4.7	-4.4
Domestic primary balance ¹	-0.9	0.1	0.3	0.0	-1.4	-0.5	-0.3	-0.5	-0.5	-0.1
Total financing	2.0	2.0	1.3	2.7	3.4	4.0	4.2	3.9	3.5	3.1
Foreign borrowing (net)	1.2	1.5	1.3	2.2	1.7	3.6	3.8	3.6	3.2	2.8
Domestic financing	0.8	0.5	0.0	0.5	1.7	0.4	0.4	0.4	0.3	0.3
of which: exceptional financing -RCF ²					1.1					
Fiscal financing need ³	0.0	0.0	0.0	0.0	0.0	-0.8	-0.9	-1.4	-1.2	-1.3
Savings and investment										
Investment	18.1	18.8	19.8	22.0	19.1	21.5	23.1	23.2	23.2	23.1
Government	4.7	5.0	5.8	7.6	5.5	7.4	8.3	8.1	7.8	7.5
Nongovernment	13.4	13.9	14.0	14.4	13.6	14.1	14.8	15.1	15.4	15.6
Gross national savings	15.4	20.3	17.3	20.5	16.6	18.8	20.0	20.2	19.8	19.1
External sector										
Exports of goods, f.o.b.	21.3	21.9	18.5	19.0	15.0	15.9	16.2	16.7	17.3	17.7
Imports of goods, c.i.f.	27.4	27.6	26.8	27.0	22.6	23.5	24.5	25.2	26.2	27.4
Current account balance (exc. grants)	-2.9	-1.9	-5.5	-4.0	-5.0	-3.9	-4.0	-3.6	-3.7	-4.3
Current account balance (inc. grants)	-0.4	0.7	-2.5	-1.5	-2.5	-2.7	-3.0	-3.1	-3.4	-4.0
Public debt	40.0	39.9	38.4	39.8	40.6	40.7	42.8	45.1	47.0	48.4
External Public Debt	25.7	26.7	27.1	27.6	28.9	29.6	32.0	34.6	36.7	38.2
Domestic Public Debt	14.4	13.2	11.4	12.2	11.7	11.2	10.8	10.5	10.3	10.1
	(Units as indicated)									
Gross official reserves (millions of SDRs)	1086	1221	1169	1390	1103	1297	1512	1692	1908	2134
Months of imports of goods and services	4.0	4.3	4.1	4.4	4.1	4.2	4.3	4.4	4.5	4.6
Real effective exchange rate (pa, percent change)	7.8	-2.4
Terms of trade (percent change, deterioration -)	14.2	5.6	-15.0	-3.5	-0.2	6.0	-1.4	-1.9	-1.3	-2.5
Memorandum items										
GDP per capita (U.S. dollars)	516	528	525	557	541	589	636	670	705	742
Nominal GDP at market prices (billions of ariary)	41,059	46,189	51,107	57,786	54,770	61,113	67,894	75,470	83,849	93,066

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

¹ Primary balance excl. foreign-financed investment and grants. Commitment basis.² RCF disbursement onlent by the central bank to the Treasury.³ A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.

Table 2. Madagascar: National Accounts, 2017–25

	2017	2018	2019	2020		2021	2022	2023	2024	2025
	Est.	Est.	Prel. Est.	Art. IV	Proj.	Projections				
(Percent change)										
Real supply side growth										
Primary sector	1.3	3.7	2.8	3.5	2.3	3.0	2.8	2.8	2.8	2.8
of which: Agriculture	0.7	7.4	3.2	4.0	2.6	3.2	3.0	3.0	3.0	3.0
Secondary sector	5.8	8.1	7.3	7.4	3.6	6.8	7.4	7.7	7.7	7.5
of which:										
Manufacturing	9.5	3.4	7.6	10.5	-5.2	5.0	9.0	11.7	11.7	11.3
Energy	-7.2	20.0	9.6	9.7	7.2	9.0	10.4	12.8	12.8	12.5
Extractive industry	10.0	9.8	10.2	9.4	4.1	6.9	8.8	8.8	8.8	8.8
Tertiary sector	5.1	2.1	4.7	5.1	0.2	4.7	5.5	5.7	5.7	5.7
of which:										
Trade	-0.6	2.9	2.7	2.0	1.0	2.6	2.2	2.2	2.2	2.2
Services	2.8	-0.4	2.8	3.0	2.2	3.0	3.9	3.9	3.9	3.9
Transportation	21.5	-1.7	4.8	4.9	-2.4	6.0	7.7	7.7	7.7	7.7
Indirect taxes	4.1	13.5	5.7	7.2	5.5	6.5	5.6	5.5	5.5	5.4
Real GDP at market prices	3.9	4.6	4.8	5.2	1.6	4.8	5.2	5.4	5.4	5.3
(Percent of GDP)										
Nominal demand side composition										
Resource balance	-3.3	-3.4	-5.0	-4.7	-6.0	-5.4	-5.7	-5.8	-6.1	-6.6
Imports of goods and nonfactor services	34.2	34.9	33.3	33.9	29.6	30.6	31.6	32.1	32.9	33.9
Exports of goods and nonfactor services	30.9	31.5	28.4	29.2	23.6	25.2	25.9	26.3	26.8	27.3
Current account balance (including grants) = (S-I)	-0.4	0.7	-2.5	-1.5	-2.5	-2.7	-3.0	-3.1	-3.4	-4.0
Consumption	87.7	85.5	86.6	84.3	87.8	85.2	83.9	83.9	84.3	84.9
Government	16.1	14.3	14.7	13.7	16.9	14.8	14.9	15.3	15.1	15.2
Private	71.6	71.2	72.0	70.6	70.9	70.4	69.0	68.6	69.2	69.7
Investment (I)	18.1	18.8	19.8	22.0	19.4	21.5	23.1	23.2	23.2	23.1
Government	4.7	5.0	5.8	7.6	5.8	7.4	8.3	8.1	7.8	7.5
Private	13.4	13.9	14.0	14.4	13.6	14.1	14.8	15.1	15.4	15.6
of which: foreign direct investment	2.7	2.6	2.6	2.7	2.3	2.6	2.7	2.8	2.8	2.8
National savings (S)	15.4	20.3	17.3	20.5	16.9	18.8	20.0	20.2	19.8	19.1
Government	1.9	2.9	3.7	4.1	1.6	2.0	2.4	2.0	2.2	2.3
Private	13.4	17.5	13.6	16.4	15.3	16.7	17.6	18.2	17.6	16.8
Memoranda items:										
(Billions of Ariary)										
Nominal GDP (at market prices)	41,059	46,189	51,107	57,786	54,770	61,113	67,894	75,470	83,849	93,066

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

Table 3. Madagascar: Fiscal Operations of the Central Government, 2017–25
(Billions of Ariary)

	2017	2018	2019	2020		2021	2022	2023	2024	2025
	Actuals	Actuals	Prel. Est.	Art. IV	Proj.	Projections				
Total revenue and grants	5,272	5,971	7,115	7,952	7,025	7,552	8,746	9,579	10,735	12,061
Total revenue	4,240	4,837	5,528	6,493	5,626	6,817	8,069	9,174	10,457	11,759
Tax revenue	4,118	4,706	5,387	6,292	5,425	6,611	7,847	8,933	10,188	11,461
Domestic taxes	2,094	2,315	2,666	3,319	2,706	3,508	4,309	5,101	6,035	6,966
Taxes on international trade and transactions	2,024	2,391	2,721	2,973	2,719	3,103	3,538	3,831	4,153	4,495
Non-tax revenue	122	131	140	200	200	206	222	241	268	298
Grants	1,032	1,134	1,587	1,460	1,399	735	676	405	278	302
Current grants	298	414	365	430	529	0	0	0	0	0
Capital grants	733	720	1,222	1,030	871	735	676	405	278	302
Total expenditure and lending minus repayments	6,135	6,585	7,840	9,504	8,879	10,446	12,172	13,635	14,715	16,147
of which: Social priority spending	355	365	299	555	855	765	855	960	1,075	1,740
Current expenditure	4,187	4,298	4,874	5,132	5,866	5,940	6,565	7,514	8,205	9,188
Wages and salaries	2,076	2,330	2,497	2,903	2,903	3,230	3,505	3,890	4,025	4,467
Interest payments	285	353	356	452	449	428	519	577	665	759
Foreign	70	105	107	133	130	126	164	217	285	358
Domestic	215	248	249	319	319	302	355	360	380	401
Other	1,749	1,404	1,911	1,602	2,339	2,182	2,459	2,957	3,415	3,851
Goods and services	282	349	323	428	628	741	866	1,248	1,475	1,704
Transfers and subsidies	1,467	1,055	1,587	1,174	1,711	1,441	1,593	1,709	1,939	2,147
of which: Air Madagascar	303	0	0	0	0	0	0	0	0	0
of which: JIRAMA (operating subsidies)	447	309	219	150	150	150	50	0	0	0
of which: JIRAMA (arrears repayment)	501							
Treasury operations (net)	77	211	110	175	175	100	81	90	100	111
Capital expenditure	1,948	2,287	2,966	4,372	3,013	4,506	5,608	6,121	6,510	6,958
Domestic financed	700	831	866	1,810	960	1,614	2,215	2,604	2,977	3,397
Foreign financed	1,248	1,456	2,100	2,562	2,054	2,892	3,392	3,518	3,534	3,561
Overall balance (commitment basis)	-863	-614	-725	-1,552	-1,854	-2,894	-3,427	-4,056	-3,980	-4,086
Float (variation of accounts payable, + = increase)	259	-80	176	40	40	-30	-10	0	0	0
Variation of domestic arrears (+ = increase)	-231	-225	-116	-48	-48	0	0	0	0	0
Overall balance (including grants, cash basis)	-835	-918	-665	-1,559	-1,862	-2,924	-3,437	-4,056	-3,980	-4,086
Domestic primary balance ¹	-362	60	144	3	-751	-310	-192	-366	-60	-68
Total financing	835	918	665	1,559	1,862	2,447	2,857	2,975	2,949	2,865
Foreign borrowing (residency principle)	502	675	649	1,259	936	2,179	2,558	2,703	2,694	2,619
External borrowing, Gross	751	911	883	1,554	1,231	2,523	3,010	3,302	3,450	3,460
Budget support loans	236	176	5	21	48	367	294	189	195	201
of which: Air Madagascar	0	133	0	0	0	0	0	0	0	0
Project loans	515	735	878	1,533	1,183	2,157	2,716	3,113	3,255	3,259
Amortization on a due basis (-)	-248	-236	-234	-295	-295	-344	-452	-599	-756	-841
Domestic borrowing (residency principle)	332	243	16	300	926	268	299	272	255	246
Monetary sector	151	220	-31	300	926	194	204	196	172	199
of which: exceptional financing-RCF ²						619				
Non-monetary sector	273	-67	-13	0	0	73	95	75	84	47
Treasury correspondent accounts (net)	-97	77	59	0	0	0	0	0	0	0
Fiscal financing need ³	0	0	0	0	0	-477	-580	-1,081	-1,031	-1,221

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

¹ Primary balance excl. foreign-financed investment and grants. Commitment basis.

² RCF disbursement onlent by the central bank to the Treasury.

³ A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.

Table 4. Madagascar: Fiscal Operations of the Central Government, 2017–25
(Percent of GDP)

	2017	2018	2019	2020		2021	2022	2023	2024	2025
	Dec	Dec	Dec	Dec		Dec	Dec	Dec	Dec	Dec
	Actuals	Actuals	Prel. Est.	Art IV	Proj.	Projections				
Total revenue and grants	12.8	12.9	13.9	13.8	12.8	12.4	12.9	12.7	12.8	13.0
Total revenue	10.3	10.5	10.8	11.2	10.3	11.2	11.9	12.2	12.5	12.6
Tax revenue	10.0	10.2	10.5	10.9	9.9	10.8	11.6	11.8	12.2	12.3
Domestic taxes	5.1	5.0	5.2	5.7	4.9	5.7	6.3	6.8	7.2	7.5
Taxes on international trade and transactions	4.9	5.2	5.3	5.1	5.0	5.1	5.2	5.1	5.0	4.8
Non-tax revenue	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Grants	2.5	2.5	3.1	2.5	2.6	1.2	1.0	0.5	0.3	0.3
Current grants	0.7	0.9	0.7	0.7	1.0	0.0	0.0	0.0	0.0	0.0
Capital grants	1.8	1.6	2.4	1.8	1.6	1.2	1.0	0.5	0.3	0.3
Total expenditure and lending minus repayments	14.9	14.3	15.3	16.4	16.2	17.1	17.9	18.1	17.5	17.3
of which: Social priority spending	0.9	0.8	0.6	1.0	1.6	1.3	1.3	1.3	1.3	1.9
Current expenditure	10.2	9.3	9.5	8.9	10.7	9.7	9.7	10.0	9.8	9.9
Wages and salaries	5.1	5.0	4.9	5.0	5.3	5.3	5.2	5.2	4.8	4.8
Interest payments	0.7	0.8	0.7	0.8	0.8	0.7	0.8	0.8	0.8	0.8
Foreign	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Domestic	0.5	0.5	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.4
Other	4.3	3.0	3.7	2.8	4.3	3.6	3.6	3.9	4.1	4.1
Goods and services	0.7	0.8	0.6	0.7	1.1	1.2	1.3	1.7	1.8	1.8
Transfers and subsidies	3.6	2.3	3.1	2.0	3.1	2.4	2.3	2.3	2.3	2.3
of which: Air Madagascar	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: JIRAMA (operating subsidies)	1.1	0.7	0.4	0.3	0.3	0.2	0.1	0.0	0.0	0.0
of which: JIRAMA (arrears repayment)					1.0					
Treasury operations (net)	0.2	0.5	0.2	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Capital expenditure	4.7	5.0	5.8	7.6	5.5	7.4	8.3	8.1	7.8	7.5
Domestic financed	1.7	1.8	1.7	3.1	1.8	2.6	3.3	3.5	3.6	3.7
Foreign financed	3.0	3.2	4.1	4.4	3.7	4.7	5.0	4.7	4.2	3.8
Overall balance (commitment basis)	-2.1	-1.3	-1.4	-2.7	-3.4	-4.7	-5.0	-5.4	-4.7	-4.4
Float (variation of accounts payable, + = increase)	0.6	-0.2	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Variation of domestic arrears (+ = increase)	-0.6	-0.5	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance (including grants, cash basis)	-2.0	-2.0	-1.3	-2.7	-3.4	-4.8	-5.1	-5.4	-4.7	-4.4
Domestic primary balance ¹	-0.9	0.1	0.3	0.0	-1.4	-0.5	-0.3	-0.5	-0.1	-0.1
Total financing	2.0	2.0	1.3	2.7	3.4	4.0	4.2	3.9	3.5	3.1
Foreign borrowing (residency principle)	1.2	1.5	1.3	2.2	1.7	3.6	3.8	3.6	3.2	2.8
External borrowing, Gross	1.8	2.0	1.7	2.7	2.2	4.1	4.4	4.4	4.1	3.7
Budget support loans	0.6	0.4	0.0	0.0	0.1	0.6	0.4	0.3	0.2	0.2
of which: Air Madagascar	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	1.3	1.6	1.7	2.7	2.2	3.5	4.0	4.1	3.9	3.5
Amortization on a due basis (-)	-0.6	-0.5	-0.5	-0.5	-0.5	-0.6	-0.7	-0.8	-0.9	-0.9
Domestic borrowing (residency principle)	0.8	0.5	0.0	0.5	1.7	0.4	0.4	0.4	0.3	0.3
Monetary sector	0.4	0.5	-0.1	0.5	1.7	0.3	0.3	0.3	0.2	0.2
of which: exceptional financing-RCF ²						1.1				
Non-monetary sector	0.7	-0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Treasury correspondent accounts (net)	-0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal financing need ³	0.0	0.0	0.0	0.0	0.0	-0.8	-0.9	-1.4	-1.2	-1.3

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

¹ Primary balance excl. foreign-financed investment and grants. Commitment basis.

² RCF disbursement onlent by the central bank to the Treasury.

³ A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified.

Table 5. Madagascar: Balance of Payments, 2017–25

	2017	2018	2019	2020		2021	2022	2023	2024	2025
	Prel. Est.	Prel. Est.	Proj.	Art. IV	Proj.	Projection				
(Millions of SDRs)										
Current account	-40	70	-259	-164	-269	-327	-399	-435	-516	-654
Goods and services	-316	-335	-508	-522	-648	-643	-753	-828	-930	-1,090
Trade balance of goods	-322	-324	-610	-606	-592	-654	-789	-875	-996	-1,176
Exports, f.o.b.	2,021	2,143	1,891	2,118	1,626	1,902	2,147	2,379	2,645	2,915
of which: Mining	510	594	551	696	516	573	669	751	836	875
of which: Vanilla	489	605	423	481	406	405	446	438	414	360
Imports, f.o.b.	-2,343	-2,467	-2,501	-2,724	-2,218	-2,556	-2,937	-3,255	-3,641	-4,091
of which: Petroleum products	-344	-387	-403	-432	-261	-282	-325	-363	-399	-431
of which: Food	-399	-373	-342	-363	-363	-376	-387	-398	-368	-384
of which: Intermediate goods and capital	-924	-997	-985	-1,183	-986	-1,160	-1,410	-1,576	-1,792	-1,962
Services (net)	6	-11	102	84	-56	10	37	47	66	86
Receipts	917	935	1,009	1,134	922	1,124	1,281	1,364	1,467	1,574
Payments	-911	-946	-907	-1,050	-978	-1,114	-1,244	-1,317	-1,401	-1,488
Income (net)	-255	-281	-329	-301	-301	-300	-307	-315	-336	-365
Receipts	27	40	44	48	48	55	63	73	82	84
Payments	-283	-321	-373	-349	-349	-356	-371	-388	-418	-449
of which: interest on public debt	-16	-22	-29	-26	-26	-25	-32	-41	-52	-63
Current transfers (net)	532	686	578	659	680	617	661	708	754	802
Official transfers	106	126	86	123	145	43	46	49	53	57
of which: Budget aid ¹	65	85	73	83	104	0	0	0	0	0
of which: Other (net)	40	40	14	40	40	43	46	49	53	57
Private transfers	426	560	491	536	536	574	615	659	701	745
Capital and financial account	209	41	148	291	50	460	518	446	583	713
Capital account ¹	168	171	231	198	172	144	132	76	51	53
of which: Project grant ¹	168	171	231	198	172	144	132	76	51	53
Financial account	43	-111	-51	93	-122	316	386	370	532	660
Foreign direct and portfolio investment	258	253	270	298	252	307	357	394	423	454
Other investment	-215	-364	-321	-206	-374	8	29	-24	109	205
Government	117	154	132	232	174	421	495	498	492	463
Drawing	174	204	182	295	243	495	587	624	630	611
Project drawings ¹	119	167	178	295	233	423	530	588	595	576
Budgetary support ¹	55	37	5	0	9	72	57	36	36	36
Amortization	-57	-50	-50	-63	-69	-74	-92	-126	-138	-149
Private sector	-98	-156	-244	-239	-239	-243	-248	-252	-255	-257
Banks	2	38	-12	0	0	0	0	0	0	0
Other (inc. unrepatriated export revenues)	-236	-407	-221	-200	-309	-170	-218	-269	-129	0
Errors and omissions	-2	-18	-33	0	0	0	0	0	0	0
Overall balance	169	110	-112	127	-220	133	120	12	67	60
Financing	-169	-110	112	-127	220	-205	-233	-216	-260	-275
Central bank (net; increase = -)	-169	-110	112	-127	220	-205	-233	-216	-260	-275
Use of IMF credit (net)	84	24	60	25	25	-12	-19	-37	-45	-50
Other assets, net (increase = -) ²	-252	-135	52	-152	72	-193	-214	-179	-215	-225
Debt relief and cancellation	0	0	0	0	0	0	0	0	0	0
Residual financing gap	0	0	0	0	122	72	113	204	192	216
Exceptional financing-RCF disbursement					122					
Financing gap	0	0	0	0	0	72	113	204	192	216
(Percent of GDP; unless otherwise indicated)										
<i>Memorandum items:</i>										
Grants	2.5	2.6	3.0	2.5	2.6	1.2	1.0	0.5	0.3	0.3
Loans	1.8	2.1	1.8	2.7	2.2	4.1	4.4	4.4	4.1	3.7
Direct investment	2.7	2.6	2.6	2.7	2.3	2.6	2.7	2.8	2.8	2.8
Current account										
Excluding net official transfers	-2.9	-1.9	-5.5	-4.0	-5.0	-3.9	-4.0	-3.6	-3.7	-4.3
Including net official transfers	-0.4	0.7	-2.5	-1.5	-2.5	-2.7	-3.0	-3.0	-3.4	-4.0
Debt service (percent of exports of goods)	2.7	1.7	4.1	3.7	3.6	3.2	3.2	3.0	2.8	
Export of goods volume (percent change)	-3.8	-4.8	6.5	8.6	-6.8	10.6	13.1	11.7	12.0	12.1
Import of goods volume (percent change)	13.6	-0.2	4.0	9.3	-4.0	15.5	13.5	9.6	11.2	11.5
Gross official reserves (millions of SDR)	1,086	1,221	1,169	1,390	1,097	1,290	1,504	1,683	1,898	2,123
Months of imports of goods and nonfactor services	4.0	4.3	4.1	4.4	4.1	4.2	4.3	4.4	4.5	4.6
Terms of trade (percent change, deterioration -)	14.2	5.6	-15.0	-3	-0.2	6.0	-1.4	-1.9	-1.3	-2.5
Exchange rate (ariary/US\$, period average)	3,116	3,335	3,618
Nominal GDP	13,176	13,851	14,124	15,365	14,924	16,647	18,439	19,898	21,445	23,101

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

¹ Includes official external financial support only with a disbursement schedule.² Includes reserve accumulation.

Table 6. Madagascar: Monetary Accounts, 2017–25¹
(Billions of Ariary, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec
	Actuals	Actuals	Prel. Estim.	Projections					
Net foreign assets	4,417	4,927	4,614	3,499	4,467	5,824	7,192	8,893	10,788
Net foreign assets (BCM)	3,527	4,207	3,925	2,791	3,773	5,107	6,451	8,127	9,996
Net foreign assets (deposit money banks)	890	720	689	708	694	717	741	766	792
Net domestic assets	6,191	6,871	8,045	11,301	12,199	12,573	13,930	15,163	15,691
Domestic credit	7,001	7,935	9,125	10,905	12,186	13,496	14,655	15,860	17,717
Net credit to government	2,093	2,099	2,074	3,153	3,259	3,254	3,171	3,266	3,738
BCM ²	886	947	757	1,447	1,426	1,433	1,413	1,394	1,376
DMBs	938	1,096	1,256	1,292	1,407	1,384	1,309	1,408	1,885
Gross credits (mainly BTAs)	1,327	1,617	1,835	1,892	2,042	2,054	2,016	2,155	2,673
Deposits	-389	-521	-579	-600	-635	-670	-707	-746	-787
Other credits	269	55	62	414	426	437	450	463	476
Credit to the economy	4,907	5,836	7,051	7,753	8,927	10,242	11,484	12,594	13,979
Credit to public enterprises	42	40	43	43	43	43	43	44	46
Credit to private sector	4,846	5,765	6,980	7,682	8,864	10,189	11,441	12,524	13,906
Other credits	19	31	28	28	20	10	0	26	27
Other items (net)	-810	-1,064	-1,080	-1,202	-1,128	-923	-725	-697	-2,026
BCM	406	269	281	245	270	270	270	270	-746
Other	-1,216	-1,332	-1,361	-1,447	-1,398	-1,193	-995	-967	-1,280
Money and quasi-money (M3)	10,608	11,798	12,659	14,800	16,667	18,397	21,122	24,056	26,478
Foreign currency deposits	1,006	1,202	1,111	1,131	1,118	1,088	1,112	1,266	1,394
Short term obligations of commercial banks	51	60	73	51	51	51	51	51	51
Broad money (M2)	9,551	10,536	11,476	13,618	15,498	17,259	19,960	22,739	25,034
Currency in circulation	3,101	3,391	3,315	3,640	4,475	5,065	5,669	6,336	6,842
Demand deposits in local currency	3,506	3,687	4,426	5,263	5,831	6,469	7,615	8,771	9,748
Quasi-money including time deposits	2,943	3,458	3,735	4,715	5,192	5,726	6,676	7,632	8,444
Reserve money	4,559	5,153	4,927	5,904	6,934	7,660	8,475	9,373	10,171
(Percentage change relative to broad money at beginning of the year)									
Net foreign assets	10.4	5.3	-3.0	-9.7	7.1	8.8	7.9	8.5	8.3
Net foreign assets (BCM)	10.2	7.1	-2.7	-9.9	7.2	8.6	7.8	8.4	8.2
Net foreign assets (deposit money banks)	0.1	-1.8	-0.3	0.2	-0.1	0.1	0.1	0.1	0.1
Net domestic assets	9.6	7.1	11.1	28.4	6.6	2.4	7.9	6.2	2.3
Domestic credit	10.3	9.8	11.3	15.5	9.4	8.5	6.7	6.0	8.2
Net credit to government	1.3	0.1	-0.2	9.4	0.8	0.0	-0.5	0.5	2.1
BCM	-1.8	0.6	-1.8	6.0	-0.2	0.0	-0.1	-0.1	-0.1
DMBs	3.7	1.7	1.5	0.3	0.8	-0.1	-0.4	0.5	2.1
Other credits	-0.6	-2.2	0.1	3.1	0.1	0.1	0.1	0.1	0.1
Credit to the economy	9.1	9.7	11.5	6.1	8.6	8.5	7.2	5.6	6.1
Credit to public enterprises	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	9.4	9.6	11.5	6.1	8.7	8.5	7.3	5.4	6.1
Other credits	0.0	0.1	0.0	0.0	-0.1	-0.1	-0.1	0.1	0.0
Other items (net; asset = +)	-0.7	-2.7	-0.2	-1.1	0.5	1.3	1.1	0.1	-5.8
(Percentage change year-on-year)									
Broad money (M2)	19.3	10.3	8.9	18.7	13.8	11.4	15.6	13.9	10.1
Currency in circulation	17.8	9.4	-2.2	9.8	22.9	13.2	11.9	11.8	8.0
Demand deposits in local currency	23.2	5.2	20.0	18.9	10.8	10.9	17.7	15.2	11.1
Quasi-money in local currency	16.4	17.5	8.0	26.2	10.1	10.3	16.6	14.3	10.6
Credit to the private sector (in nominal terms)	18.4	19.0	21.1	10.1	15.4	14.9	12.3	9.5	11.0
Credit to the private sector (in real terms)	7.8	12.0	17.1	4.1	9.5	9.5	6.7	3.9	5.5
<i>Memorandum items:</i>									
Credit to private sector (percent of GDP)	11.8	12.5	13.7	14.0	14.5	15.0	15.2	14.9	14.9
Money multiplier (M3/reserve money)	2.3	2.3	2.6	2.5	2.4	2.4	2.5	2.6	2.6
Velocity of money (GDP/end-of-period M3)	3.9	3.9	4.0	3.7	3.7	3.7	3.6	3.5	3.5

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

¹ End of period.

² The large increase in 2020 reflects the RCF disbursement onlent by the central bank to the Treasury.

Table 7. Madagascar: Indicators of Capacity to Repay the Fund, 2020–32

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
(Millions of SDRs)													
Fund obligations based on existing credit													
Principal	6.1	12.2	18.5	37.2	43.6	49.9	43.8	37.5	18.9	9.4	0.0	0.0	0.0
Charges and interest	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Fund obligations based on existing and prospective credit													
Principal	6.1	12.2	18.5	37.2	43.6	53.1	50.1	43.8	25.1	15.7	3.1	0.0	0.0
Charges and interest	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Total obligations based on existing and prospective credit													
Millions of SDRs	7.1	13.2	19.5	38.1	44.5	54.0	51.1	44.8	26.1	16.6	4.1	0.9	0.9
Billions of Ariary	35.7	67.0	99.7	201.9	243.5	305.7	297.6	268.6	161.0	105.7	26.6	6.3	6.5
Percent of exports of goods and services	0.3	0.4	0.6	1.0	1.1	1.2	1.1	0.9	0.5	0.3	0.1	0.0	0.0
Percent of debt service	4.8	8.7	10.3	17.2	17.1	19.1	16.6	13.0	6.9	3.9	0.8	0.2	0.2
Percent of GDP	0.1	0.1	0.1	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.0	0.0	0.0
Percent of government revenue	0.6	1.0	1.2	2.2	2.3	2.6	2.2	1.8	1.0	0.6	0.1	0.0	0.0
Percent of quota	2.9	5.4	8.0	15.6	18.2	22.1	20.9	18.3	10.7	6.8	1.7	0.4	0.4
Outstanding IMF credit based on existing and prospective drawings													
Millions of SDRs	424.7	412.5	393.9	356.8	313.2	260.1	210.0	166.2	141.0	125.3	122.2	122.2	122.2
Billions of Ariary	2,152.6	2,100.9	2,019.6	1,889.1	1,714.1	1,472.3	1,224.2	997.2	870.8	795.8	797.6	819.4	841.5
Percent of exports of goods and services	16.7	13.6	11.5	9.5	7.6	5.8	4.4	3.2	2.5	2.1	1.9	1.8	1.7
Percent of debt service	289.3	272.2	207.9	160.6	120.6	92.0	68.4	48.2	37.5	29.4	24.0	22.5	20.0
Percent of GDP	3.9	3.4	3.0	2.5	2.0	1.6	1.2	0.9	0.7	0.6	0.5	0.5	0.4
Percent of government revenue	38.3	30.8	25.0	20.6	16.4	12.5	9.2	6.7	5.2	4.3	3.8	3.5	3.3
Percent of quota	173.8	168.8	161.2	146.0	128.1	106.4	85.9	68.0	57.7	51.3	50.0	50.0	50.0
Net use of IMF credit (millions of SDRs)	147.5	-12.2	-18.5	-37.2	-43.6	-53.1	-50.1	-43.8	-25.1	-15.7	-3.1	0.0	0.0
Disbursements	153.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	6.1	12.2	18.5	37.2	43.6	53.1	50.1	43.8	25.1	15.7	3.1	0.0	0.0
(Billions of Ariary, unless otherwise indicated)													
Exports of goods and services (millions of SDRs)	2,548	3,026	3,428	3,744	4,112	4,488	4,820	5,177	5,560	5,972	6,415	6,891	7,403
Debt service	744.2	771.9	971.4	1,176.3	1,421.7	1,600.1	1,789.4	2,068.2	2,321.1	2,711.4	3,324.8	3,637.6	4,214.1
Nominal GDP (at market prices)	54,770	61,113	67,894	75,470	83,849	93,066	103,195	114,317	126,513	139,875	154,498	170,484	187,941
Government revenue	5,626	6,817	8,069	9,174	10,457	11,759	13,235	14,857	16,647	18,633	20,787	23,167	25,792
Quota (millions of SDRs)	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4

Source: IMF

Annex I. Debt Sustainability Analysis¹

Madagascar: Risk Rating Summary	
Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Low
Overall risk of debt distress	Moderate
Granularity in the risk rating	n/a
Application of judgment	No

Madagascar, classified as having a medium level of debt carrying capacity, is assessed at low risk of external debt distress, in line with the most recent DSA that was published in March 2020.² A customized stress test to the most recent DSA is introduced to approximate the impact of the COVID-19 pandemic on Madagascar's economy.³ In this scenario, main macro variables such as real GDP growth and the domestic primary balance in percent of GDP are shocked by -3.6 and -1.4 percentage points in 2020, respectively, compared to the baseline in the previous DSA. Exports are shocked by -4.0 percentage points, to reflect lower receipts from tourism and goods exports due to weakening global demand, resulting in an increase in the current account deficit by 1 percentage point for 2020 relative to the prior DSA. Under the COVID-19 scenario, external public and publicly guaranteed (PPG) debt is well below applicable thresholds and other stress tests do not breach the thresholds. Overall (external plus domestic) risk of debt distress remains moderate. Total public debt is below the benchmark under the COVID-19 scenario, but a growth shock continues to drive the present value of debt to GDP above the benchmark at the end of the projection period and it is on a persistent upward trajectory. Moreover, shocks could introduce liquidity problems, as the debt-service to revenue ratio could exceed 75 percent over the long term under the growth shock. These assessments continue to be supportive of Madagascar's plans to scale up its borrowing to meet its investment needs; however, updates with respect to economic impact and policy response to the COVID-19 crisis are rapidly evolving and risks are heavily tilted to the downside, which could lead to a faster than expected deterioration in external and public debt indicators

¹ Country Report No. 20/61 (March 2020) contains the latest DSA conducted jointly with the World Bank.

² Madagascar has a Composite Indicator score of 2.82 and is classed as having medium debt-carrying capacity. The DSA covers public and publicly guaranteed external and domestic debt, including State-owned Enterprises' domestic debt and central bank external liabilities.

³ The COVID-19 pandemic scenario is based on the revised baseline projections outlined in the Staff Report, while other scenarios, including the baseline in this Annex, are based on the previous DSA.

Table 1. Madagascar: External Debt Sustainability Framework, Baseline Scenario, 2016–2039
 (In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/		Definition of external/domestic debt	Currency-based
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections		
	51.0	50.2	50.6	49.1	46.7	46.0	45.8	46.2	46.4	45.7	47.4	39.3	46.3		
External debt (nominal) 1/ of which: public and publicly guaranteed (PPG)	25.3	25.7	26.7	27.2	27.6	29.1	30.8	32.7	34.1	37.0	40.3	24.8	32.8		
Change in external debt	-1.9	-0.8	0.5	-1.6	-2.4	-0.7	-0.2	0.4	0.2	0.0	-0.3				
Identified net debt-creating flows	-6.6	-7.4	-5.7	-4.9	-3.6	-3.5	-3.4	-3.1	-2.8	-2.4	-3.6	-0.4	-3.1		
Non-interest current account deficit	-0.8	0.0	-1.2	-0.5	0.9	1.0	1.2	1.5	1.7	1.7	0.2	4.6	1.3		
Deficit in balance of goods and services	1.9	3.3	3.4	3.6	4.7	4.2	4.5	4.9	5.1	5.4	4.0	7.7	4.8		
Exports	28.3	30.9	31.5	29.9	29.2	30.2	29.9	29.1	28.8	28.1	27.7				
Imports	30.2	34.2	34.9	33.5	33.9	34.4	34.4	34.1	33.9	33.4	31.7				
Net current transfers (negative = inflow) of which: official	-5.8	-5.6	-7.0	-6.1	-5.9	-5.1	-5.1	-5.1	-5.0	-4.8	-4.4	-5.3	-5.2		
Other current account flows (negative = net inflow)	-2.9	-2.5	-2.5	-2.5	-1.4	-1.2	-0.6	-0.4	-0.1	0.0					
Net FDI (negative = inflow)	-3.8	-2.7	-2.6	-2.6	-2.7	-2.7	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-4.4	-2.8	
Endogenous debt dynamics 2/	-2.0	-4.8	-1.9	-1.8	-1.7	-1.8	-1.8	-1.7	-1.6	-1.3	-0.9				
Contribution from nominal interest rate	0.4	0.4	0.5	0.6	0.6	0.5	0.6	0.6	0.7	0.9	1.2				
Contribution from real GDP growth	-2.0	-1.8	-2.2	-2.4	-2.3	-2.4	-2.3	-2.4	-2.4	-2.2	-2.1				
Contribution from price and exchange rate changes	-0.3	-3.3	-0.3	—	—	—	—	—	—	—	—				
Residual 3/	4.7	6.6	6.2	3.3	1.2	2.8	3.2	3.4	3.0	2.4	3.2	3.0	2.6		
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Sustainability indicators															
PV of PPG external debt-to-GDP ratio	—	—	15.3	16.4	16.6	17.8	19.1	20.4	21.6	25.0	28.9				
PV of PPG external debt-to-exports ratio	—	—	48.7	54.7	56.8	59.1	63.8	70.2	75.0	88.9	104.4				
PPG debt service-to-exports ratio	3.1	5.6	2.6	2.7	3.2	3.1	3.5	4.3	4.6	5.0	7.1				
PPG debt service-to-revenue ratio	9.3	16.7	7.9	7.6	8.2	8.1	8.8	10.1	10.1	10.1	12.8				
Gross external financing need (Million of U.S. dollars)	-425.0	12.5	-349.7	104.0	294.6	302.5	352.8	409.8	435.2	511.8	221.3				
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.0	3.9	4.6	4.8	5.2	5.4	5.6	5.6	5.6	5.2	4.7	2.2	5.4		
GDP deflator in US dollar terms (change in percent)	0.6	7.0	0.5	-2.8	3.5	2.7	2.7	2.8	2.7	2.7	2.8	0.6	2.3		
Effective interest rate (percent) 4/	0.7	0.8	1.1	1.1	1.4	1.2	1.4	1.5	1.7	2.2	2.6	0.7	1.7		
Growth of exports of G&S (US dollar terms, in percent)	7.2	21.6	7.0	-3.1	6.3	12.0	7.3	5.8	7.1	7.7	6.5	6.3	6.7		
Growth of imports of G&S (US dollar terms, in percent)	3.3	26.2	7.1	-2.1	10.1	9.8	8.5	7.5	7.9	7.9	4.2	0.9	7.4		
Grant element of new public sector borrowing (in percent)	—	—	—	38.3	40.5	38.6	38.6	36.9	36.0	34.6	33.9	—	36.7		
Government revenues (excluding grants, in percent of GDP)	—	9.5	10.3	10.5	10.6	11.2	11.7	12.0	12.5	13.0	14.0	15.3	9.1	12.6	
Aid flow (in Millions of US dollars) 5/	506.2	606.6	634.9	511.6	715.1	843.6	948.6	1032.9	1030.8	1114.2	1912.0				
Grant-equivalent financing (in percent of GDP) 6/	—	—	—	3.3	3.7	3.0	2.9	2.5	2.1	1.6	1.3	—	2.4		
Grant-equivalent financing (in percent of external financing) 6/	—	—	—	70.4	68.0	53.2	50.8	43.5	40.5	36.8	33.9	—	47.1		
Nominal GDP (in Millions of US dollars)	11,849	13,176	13,851	14,106	15,365	16,639	18,045	19,575	21,221	31,487	66,958				
Nominal dollar GDP growth	4.6	11.2	5.1	1.8	8.9	8.3	8.5	8.5	8.4	8.1	7.6	2.9	7.8		
17%	15%	15%	12%	12%	13%	13%	14%	15%	15%	18%	23%				
Memorandum items:															
PV of external debt 7/	—	—	39.3	38.2	35.7	34.7	34.1	34.0	33.9	33.6	36.0				
In percent of exports	—	—	124.9	127.6	122.2	114.8	116.7	117.9	119.7	130.0					
Total external debt service-to-exports ratio	3.8	9.0	4.1	12.8	12.8	11.7	11.8	11.8	11.2	9.6	10.8				
PV of PPG external debt (in Million of US dollars)		2122.0	2308.0	2549.5	2967.0	3438.7	3999.9	4580.1	7859.2	19335.8					
(Pvt/Pvt-1/GDP-1) (in percent)		—	—	1.3	1.7	2.7	2.8	3.1	3.0	2.7	2.1				
Non-interest current account deficit that stabilizes debt ratio	1.1	0.9	-1.7	1.1	3.3	1.7	1.3	1.1	1.4	1.8	0.5				

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g)]/(1+g+p+go)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and p = growth rate of GDP deflator in US dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

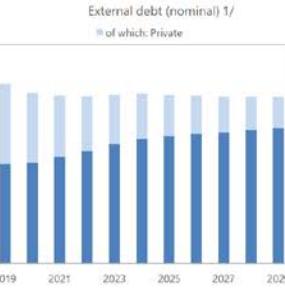
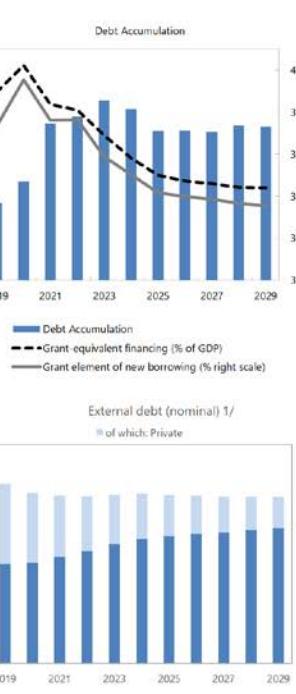


Table 2. Madagascar: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–2039
 (In percent of GDP, unless otherwise indicated)

Sources: Country authorities; and staff estimates and projections

1/Coverage of debt: The central, state, and local governments' central bank, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based

¹⁷ Coverage of debt: The central, state, and local governments, central bank, government guaranteed debt, non-guaranteed SOI debt. Definition of external debt is currency 2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections

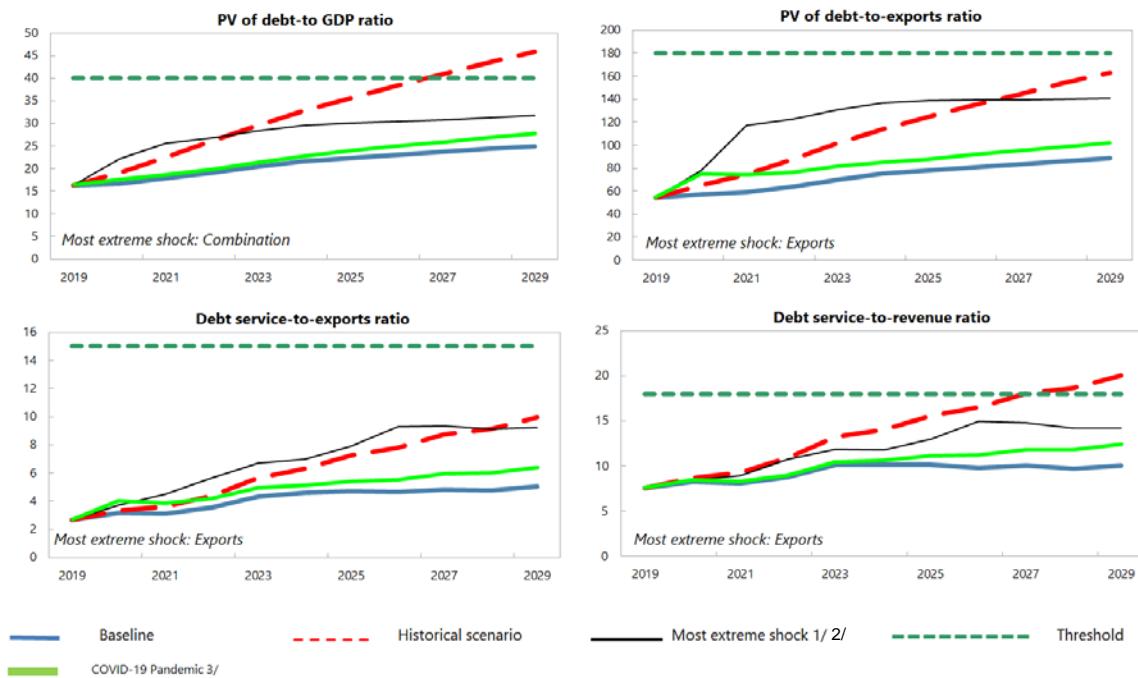
^{2/} The underlying FV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of

4/Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-); a primary surplus, which would stabilize the debt ratio only in the year in question.

⁵ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((Δ), a primary surplus), which would stabilize the debt ratio only in the year in question.

Figure 1. Madagascar: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2019–029



Customization of Default Settings		Borrowing assumptions on additional financing needs resulting from the stress tests*	
		Default	User defined
	Size	Interactions	
Tailored Stress			
Combined CL	No		
Natural disaster	No	No	
Commodity price	n.a.	n.a.	
Market financing	n.a.	n.a.	

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

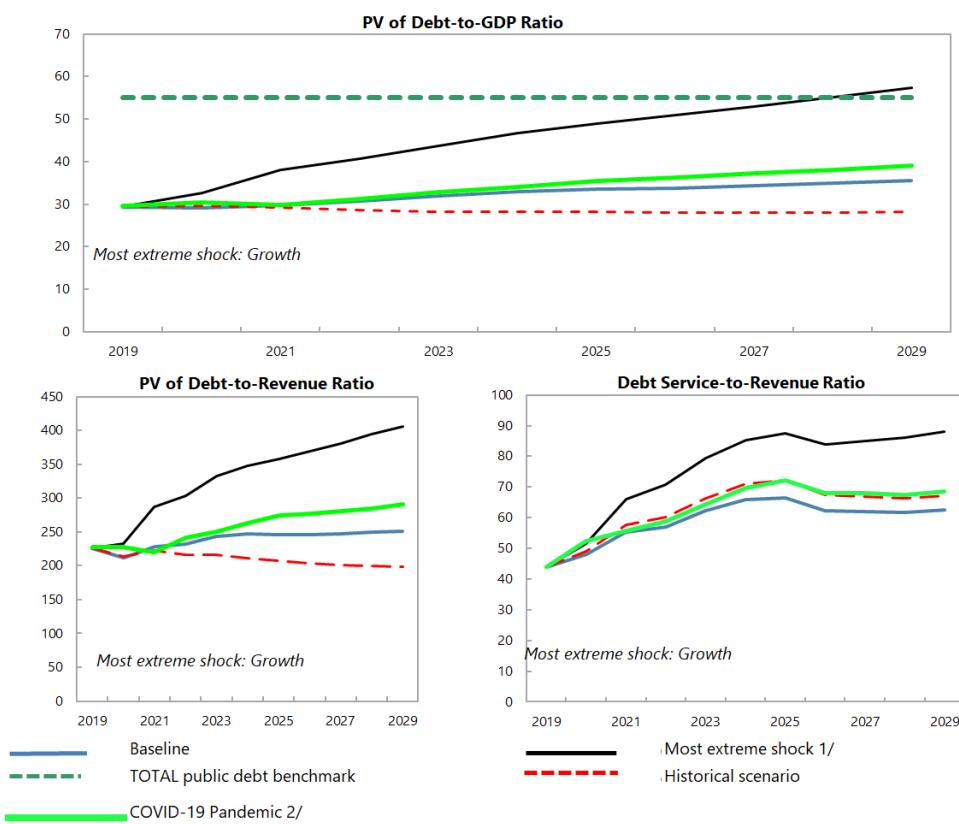
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

3/ The COVID-19 scenario is a customized shock approximating the stress event and the impact as captured by the Staff Report, while other scenarios are based on the baseline in the previous DSA (Country Report No. 20/61).

Figure 2. Madagascar: Indicators of Public Debt Under Alternative Scenarios, 2019–2029



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	36%	65%
Domestic medium and long-term	5%	15%
Domestic short-term	59%	20%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.5%	1.8%
Avg. maturity (incl. grace period)	26	20
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.0%	4.0%
Avg. maturity (incl. grace period)	2	4
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	2.7%	3.5%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The COVID-19 scenario is a customized shock approximating the stress event and the impact as captured by the Staff Report, while other scenarios are based on the baseline in the previous DSA (Country Report No. 20/61).

Table 3. Madagascar: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–2029
 (In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to-GDP ratio											
Baseline	16	17	18	19	20	22	22	23	24	24	25
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019–2029 2/	16	19	23	26	30	33	36	38	41	43	46
A2. COVID-19 Pandemic 4/	16	18	19	20	21	23	24	25	26	27	28
B. Bound Tests											
B1. Real GDP growth	16	18	21	23	24	26	27	27	28	29	30
B2. Primary balance	16	17	19	20	21	22	23	24	24	25	26
B3. Exports	16	20	27	28	29	30	30	30	30	30	30
B4. Other flows 3/	16	19	22	23	24	25	26	26	27	27	27
B5. Depreciation	16	21	20	22	23	25	26	27	28	29	30
B6. Combination of B1–B5	16	22	26	27	28	30	30	30	31	31	32
C. Tailored Tests											
C1. Combined contingent liabilities	16	20	22	23	24	26	26	27	27	28	28
C2. Natural disaster	16	16	18	19	20	21	22	23	23	24	25
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	55	57	59	64	70	75	78	81	84	86	89
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019–2029 2/	55	65	75	87	102	114	125	135	144	154	163
A2. COVID-19 Pandemic 4/	55	75	74	76	82	85	88	92	95	99	102
B. Bound Tests											
B1. Real GDP growth	55	57	59	64	70	75	78	81	84	86	89
B2. Primary balance	55	58	61	66	73	78	81	84	86	89	91
B3. Exports	55	78	117	123	131	136	139	139	140	140	141
B4. Other flows 3/	55	65	73	77	84	88	90	92	93	95	97
B5. Depreciation	55	57	53	58	64	69	73	76	79	82	85
B6. Combination of B1–B5	55	74	71	88	95	100	102	104	106	108	110
C. Tailored Tests											
C1. Combined contingent liabilities	55	68	71	77	84	89	92	95	97	99	101
C2. Natural disaster	55	56	58	63	70	74	78	80	83	86	88
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	3	3	3	4	4	5	5	5	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019–2029 2/	3	3	4	4	6	6	7	8	9	9	10
A2. COVID-19 Pandemic 4/	3	4	4	4	5	5	5	6	6	6	6
B. Bound Tests											
B1. Real GDP growth	3	3	3	4	4	5	5	5	5	5	5
B2. Primary balance	3	3	3	4	4	5	5	5	5	5	5
B3. Exports	3	4	5	6	7	7	8	9	9	9	9
B4. Other flows 3/	3	3	3	4	5	5	5	6	6	6	6
B5. Depreciation	3	3	3	3	4	4	5	4	4	4	5
B6. Combination of B1–B5	3	3	4	4	5	6	7	6	7	6	7
C. Tailored Tests											
C1. Combined contingent liabilities	3	3	3	4	5	5	5	5	5	5	5
C2. Natural disaster	3	3	3	4	4	5	5	5	5	5	5
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	8	8	8	9	10	10	10	10	10	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019–2029 2/	8	9	9	11	13	14	16	16	18	19	20
A2. COVID-19 Pandemic 4/	8	8	8	9	10	11	11	11	12	12	12
B. Bound Tests											
B1. Real GDP growth	8	8	8	9	10	11	11	11	12	12	12
B2. Primary balance	8	9	10	10	12	12	12	12	12	12	12
B3. Exports	8	8	8	9	10	10	10	10	10	10	11
B4. Other flows 3/	8	8	9	11	12	12	13	15	15	14	14
B5. Depreciation	8	10	10	11	12	12	12	11	11	11	12
B6. Combination of B1–B5	8	9	10	11	13	13	14	14	14	14	14
C. Tailored Tests											
C1. Combined contingent liabilities	8	8	9	9	11	11	11	10	11	10	11
C2. Natural disaster	8	8	8	9	10	10	10	10	10	10	10
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

4/ The COVID-19 scenario is a customized shock approximating the stress event and the impact as captured by the Staff Report, while other scenarios are based on the baseline in the previous DSA (Country Report No. 20/61).

**Table 4. Madagascar: Sensitivity Analysis for Key Indicators of Public Debt,
2019–2029**
(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	29	29	30	31	32	33	33	34	34	35	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019–2029 2/	29	30	29	29	28	28	28	28	28	28	28
A2. COVID-19 Pandemic 4/	30	31	30	31	33	34	35	36	37	38	39
B. Bound Tests											
B1. Real GDP growth	29	33	38	41	44	47	49	51	53	55	57
B2. Primary balance	29	30	31	32	33	34	35	35	35	36	36
B3. Exports	29	32	38	39	40	41	41	40	40	40	40
B4. Other flows 3/	29	32	34	35	36	37	37	37	37	37	38
B5. Depreciation	29	32	31	30	30	30	29	29	29	28	28
B6. Combination of B1–B5	29	30	32	33	34	35	36	36	37	38	38
C. Tailored Tests											
C1. Combined contingent liabilities	29	35	35	36	37	37	38	38	38	39	39
C2. Natural disaster	29	29	30	31	32	33	33	34	34	35	35
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	226	212	229	232	244	247	246	246	247	249	251
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019–2029 2/	226	214	223	216	216	211	207	204	201	200	199
A2. COVID-19 Pandemic 4/	227	228	220	242	250	263	274	277	281	285	290
B. Bound Tests											
B1. Real GDP growth	226	233	286	303	332	348	358	369	380	394	405
B2. Primary balance	226	217	239	242	253	255	254	253	253	256	257
B3. Exports	226	234	296	295	305	305	299	293	288	286	283
B4. Other flows 3/	226	230	262	263	274	275	272	269	267	267	267
B5. Depreciation	226	232	237	230	230	224	217	211	206	203	201
B6. Combination of B1–B5	226	216	241	247	261	265	264	265	266	269	270
C. Tailored Tests											
C1. Combined contingent liabilities	226	254	270	270	280	281	278	276	276	277	278
C2. Natural disaster	226	212	229	232	244	247	246	246	246	249	251
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	44	48	55	57	62	66	66	62	62	62	62
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019–2029 2/	44	49	58	60	66	71	72	67	67	66	67
A2. COVID-19 Pandemic 4/	44	52	56	59	64	70	72	68	68	67	69
B. Bound Tests											
B1. Real GDP growth	44	51	66	71	79	85	87	84	85	86	88
B2. Primary balance	44	48	56	59	63	67	67	63	63	62	63
B3. Exports	44	48	56	59	64	67	69	67	66	66	66
B4. Other flows 3/	44	48	56	58	63	66	68	65	64	64	64
B5. Depreciation	44	46	54	54	60	63	64	60	59	59	59
B6. Combination of B1–B5	44	48	57	59	65	70	71	67	67	66	67
C. Tailored Tests											
C1. Combined contingent liabilities	44	48	67	63	67	70	69	64	63	63	63
C2. Natural disaster	44	48	55	57	62	66	66	62	62	62	62
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

4/ The COVID-19 scenario is a customized shock approximating the stress event and the impact as captured by the Staff Report, while other scenarios are based on the baseline in the previous DSA (Country Report No. 20/61).

Annex II. Selected Economic Indicators

(Percent of GDP, otherwise indicated)	2019	2020	2021	2022
Real GDP growth (Percent change)				
Before shock	4.8	5.2	5.4	5.6
After shock	4.8	1.6	4.8	5.2
Tax revenue				
Before shock	10.5	10.9	11.3	11.7
After shock	10.5	9.9	10.8	11.6
Current spending				
Before shock	9.5	8.9	8.9	9.2
After shock	9.5	10.7	9.4	9.7
Capital spending				
Before shock	5.8	7.6	8.3	8.5
After shock	5.8	5.5	7.4	8.3
Domestic primary balance				
Before shock	0.3	0.0	0.3	0.2
After shock	0.3	-1.4	-0.4	-0.3
Public debt				
Before shock	38.4	39.8	40.8	42.1
After shock	38.4	40.6	40.6	42.7
Exports of goods				
Before shock	18.5	19.0	20.1	20.0
After shock	18.5	15.0	15.9	16.2
Imports of goods				
Before shock	26.8	27.0	27.3	27.3
After shock	26.8	22.6	23.5	24.5
Current account balance				
Before shock	-2.5	-1.5	-1.5	-1.8
After shock	-2.5	-2.5	-2.7	-3.0
Gross official reserves (SDR million)				
Before shock	1169	1390	1552	1712
After shock	1169	1097	1290	1504
Gross official reserves (months of imports)				
Before shock	4.1	4.4	4.5	4.6
After shock	4.1	4.1	4.2	4.3

Sources: Malagasy authorities and IMF staff

Appendix I. Letter of Intent

Antananarivo, Madagascar

March 27, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva,

1. The economic and financial impact of the Coronavirus pandemic has been felt globally, creating uncertainty and damaging near-term economic prospects. Also, the human costs of the coronavirus are rising at an alarming rate and the disease is spreading across many countries. While, to this date, the number of coronavirus cases in Madagascar is relatively small, the impact on our economy is already severe. The consequences are worrying with the tightening of credit conditions, slower growth, and the need to mobilize additional public resources for health spending if the epidemic spreads across Madagascar. The cost of coping with this pandemic will be very high.

2. The short-term economic impact is expected to be large. Our preliminary estimates project that real GDP growth in 2020 could decline to 1.6 percent—down from a pre-pandemic projection of more than 5 percent—due to a dramatic decline in tourism, and disruptions to manufacturing and extractive industry exports, as well as to transport, communications, and services. In particular, the tourism sector, whose revenues accounted for 5 percent of GDP in 2019, has almost stopped with the halting of all international flights serving Madagascar. Based on these developments, we have urgent external financing needs estimated at 1.8 percent of GDP in 2020.

3. Our fiscal situation will be affected by a shortfall in tax revenue due to the decline in projected growth and the dramatic fall in oil prices (tax on oil imports accounted for close to 30 percent of total customs revenue in 2019). We will need significant budget resources to address critical spending, including health spending and increased social assistance to the most vulnerable, to help contain, manage, and handle the pandemic while mitigating its negative financial consequences. Due to planned additional health and social spending and

the shortfall in revenue, we have immediate fiscal needs for 2020 estimated at 1.1 percent of GDP (about US\$170 million).

4. To face the immediate external financing needs, the Government of the Republic of Madagascar requests emergency financing from the IMF under the Rapid Credit Facility (RCF) in the amount of SDR 122.2 million, equivalent to 50 percent of quota. We are confident that IMF involvement in the international effort to assist Madagascar in dealing with the global pandemic will play a catalytic role in securing additional budget support from our development partners. We are actively seeking this additional support, beyond the US\$160 million already committed. The RCF disbursement will be instrumental to fill the projected balance of payments gap in 2020. Additional budget support would avoid relying excessively on a drawdown of official reserves.

5. We intend to use the RCF disbursement to help fill the projected fiscal financing gap. This amount will be on-lent by the central bank to the Treasury. We are aware that a Memorandum of Understanding (MoU) between the central bank and the government is needed, to specify the conditions of this operation. To this end, we will update the MoU used for a similar operation with the first review of the 2016-2020 Extended Credit Facility (ECF) arrangement.

6. Madagascar has been able to strengthen macroeconomic stability, promote inclusive growth and make progress in structural reforms helped by the 2016-2020 Fund-supported ECF program. We are going to run a deficit of the domestic primary public balance in 2020, but we are mindful of the need to avoid fiscal imbalances that could jeopardize hard-earned gains in macroeconomic stability. Our policy intentions for the medium-term remains guided by our ambitious reform plan formalized in the Plan Emergence Madagascar (PEM) and recently discussed with the IMF during the 2019 Article IV consultation.

7. In line with PRGT instrument IMF safeguards policy, we commit to undergoing a new safeguards assessment conducted by the Fund. We have already authorized IMF staff to hold discussions with external auditors, including access to the external audit reports.

8. We do not intend to introduce measures or policies that would exacerbate the current balance-of-payments difficulties. We do not intend to impose new or intensify

existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance-of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles of Agreement.

9. We are determined to meet the immense challenge we are facing due to the Covid-19 pandemic. Support from the international community will be critical, and we look forward to an early approval of financial assistance by the IMF. Beyond this much needed immediate financial assistance, we reaffirm our willingness to remain engaged with the IMF, to benefit from its policy advices and its technical assistance, and we reiterated our interest on discussing the conditions for a successor arrangement aimed at supporting our development strategy.

10. We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RCF.

Sincerely yours,

/s/

Mr. Richard Randriamandrato
Minister of Economy and Finance

/s/

Mr. Henri Rabarijohn
Bank of Madagascar Governor

**Statement by Mr. Mohamed-Lemine Raghani, Mr. Aivo Andrianarivelo,
and Mr. Thierry Nguema-Affane on Republic of Madagascar**
April 3, 2020

On behalf of our Malagasy authorities, we would like to thank Management and Staff for the continued financial and technical support to Madagascar, particularly in the face of the global health crisis triggered by the propagation of the COVID-19 pandemic. The economic, financial and human toll of the pandemic is expected to be significant in Madagascar. The authorities are therefore requesting financial assistance under the “exogeneous shocks” window of the Rapid Credit Facility (RCF) to help face the urgent needs arising from the pandemic. They are grateful to the Fund for the rapid consideration of their request, which they believe will help catalyze additional external financing.

Economic developments and prospects before the COVID-19 outbreak

Madagascar has successfully completed the implementation of a three-year economic program under the Extended Credit Arrangement (ECF). Macroeconomic stability strengthened, with notably robust growth, lower inflation, higher reserves and low risk of debt distress. In addition, progress has been made in increasing revenue collection, reducing poverty, strengthening public financial management and enhancing the governance and anti-corruption framework. At the time of the Article IV consultations in January 2020, economic prospects before the pandemic became global were positive, supported by the scaling up of public investment envisaged in the authorities’ Plan Emergence Madagascar (PEM). In addition, a 15-percent increase in tourist arrivals was projected following the establishment of new air routes to the island by the national air carrier. Growth in 2020 was expected to remain robust at more than 5 percent of GDP, the fiscal balance was projected to be equilibrium, while inflation was likely to further decline, and the external position was set to improve with an increase in international reserves. The downside risks to this outlook were associated to the country’s vulnerability to exogeneous shocks including terms of trade and natural disasters. The Malagasy authorities have been contemplating a new ECF arrangement to support the implementation of the PEM over the medium-term.

Impact of the pandemic

The COVID-19 outbreak is a substantial external shock to Madagascar. There are 50 coronavirus cases with no related deaths in Madagascar as of March 31, 2020 and this number is expected to increase significantly in the near term. The fight against the pandemic is putting significant pressure on the country’s weak health system which is regularly dealing with outbreaks and epidemics including plague. On March 12, 2020, the World Bank provided a grant of \$3.7 million to strengthen prevention against the COVID-19 pandemic, purchase materials and equipment, and train health workers.

The impact on the Malagasy economy is already severe and the economic outlook has worsened. Assuming a gradual economic normalization in the second half of 2020 and the policy measures being taken, real GDP growth in 2020 is projected to decline to 1.6 percent due to the already notable sharp decline in tourism and disruptions to manufacturing, global supply chains and extractive industry exports, as well as to transport, communications, and services. Fiscal deficit is expected to widen in 2020 as result of lower revenues from tourism and petroleum products and higher COVID-19-related spending. In particular, the tourism-related revenues which accounted for 5 percent of GDP in 2019 will decline significantly, with the halting of all international flights serving Madagascar. Fiscal needs are estimated at 1.1 percent of GDP. External balances are projected to worsen with lower exports of goods and services including mining and tourism services. Based on these developments, urgent external financing needs are estimated at 1.8 percent of GDP in 2020. Downside risks to the outlook have significantly increased and include larger spreading of the pandemic in the country and delays in economic normalization. The authorities recognize that there is high uncertainty around the duration of the pandemic and stand ready to take additional measures and seek more external support should the downside risks materialize.

Responses to the pandemic

While committed to the development objectives of the PEM and the implementation of structural reforms initiated in the previous ECF arrangement, the authorities are shifting their near-term policies towards preserving the health of the population and mitigating the impact of the pandemic. As indicated in the IMF policy tracker related to COVID-19, they have declared a national state of emergency and adopted a range of measures to limit the spread of the virus including travel restrictions (on international flights and internal public transportation), a confinement of the population of Antananarivo, the capital city, and Tamatave, the main port city. In addition, the authorities ordered a nighttime curfew in the capital, closure of schools and public offices (except for critical public services), and increased testing. A large communication campaign has been launched to increase population's awareness of the pandemic and related measures and recommendations to contain its propagation.

On the fiscal front, measures are being taken to increase health spending, help the most vulnerable, support the private sector and preserve the stability of the financial sector. Key measures include: (i) increased spending on epidemic prevention and control; (ii) cash-transfers and in-kind necessities to the poorest and those unemployed; and (iii) tax relief, suspension of government fees and waived social contributions. The authorities are actively seeking additional budget support from development partners, beyond what was already disbursed or committed, to support their efforts. They intend to revise the 2020 budget law that to consider additional fiscal and support measures to combat the COVID-19 pandemic and mitigate its impact. It is worth noting that confinement had a catastrophic effect on vulnerable households and immediately led to the closure of many small businesses and the stop of small income-generating activities. The authorities are therefore looking at ways of accompanying structures close to the poor (80% of the

population), in particular micro-finance and small savings institutions, to support the resumption of business activity by vulnerable populations when the health crisis passes.

As regard the monetary, exchange rate and macro-financial policies, the central bank provided monetary policy support and acted to safeguard financial stability, by providing additional liquidity to the banking system to allow banks to defer delayed payments on existing loans and increase lending to businesses. The central bank made some limited interventions in the foreign exchange market, and the exchange rate depreciated by less than 1 percent in March 2020 compared to February 2020.

Financing request under the RCF

The authorities are requesting emergency financing from the Fund in the amount of SDR 122.2 million, equivalent to 50 percent of the quota, to fill the projected balance of payments gap in 2020 created by the coronavirus pandemic. The level of international reserves is projected to decline but will remain adequate at above 4 months of imports. The RCF disbursement which will be deposited at the central bank will be lent to the government to close the fiscal deficit under the terms of a Memorandum of understanding already signed between the two parties. With the RCF disbursement, the risk of external debt distress is expected to remain low and the country's capacity to repay to stay strong. The additional budget support from other donors beyond what is already committed will help avoid drawing reserves at the central bank.

Consistent with IMF safeguard policy, the authorities are committed to undergo a new IMF safeguards assessment. In the meantime, the authorities have authorized IMF staff to hold discussions with external auditors. More importantly, the authorities will refrain from exacerbating balance-of-payments difficulties from any kind of restrictions related to current international transactions or trade, multiple currency practice, or bilateral payments agreements, inconsistent with Article VIII of the IMF's Articles of Agreement.

Conclusion

The global COVID-19 pandemic is severely affecting Madagascar. The authorities have swiftly taken measures to limit the pandemic contagion within the country and contain its economic impact. Going forward, they are committed to preserve the health of the population and maintain macroeconomic stability in their fight against the pandemic. In light of the substantial and urgent needs in this endeavor, the authorities are requesting financing assistance under the RCF. Given their strong commitment to pursue prudent policies, we would appreciate Directors' favorable consideration of the request.