International Monetary Fund

Republic of Madagascar and the IMF

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November 18, 2015

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Republic of Madagascar: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

November 4, 2015

The following item is a Letter of Intent of the government of Republic of Madagascar, which describes the policies that Republic of Madagascar intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Republic of Madagascar, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

Antananarivo, Madagascar
November 4, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431 USA

Dear Madam Managing Director:

1. We have continued our program of recovery from the transition period. Our policy measures in 2015 have aimed to strengthen our macroeconomic stability and sustainability in support of durable poverty reduction and growth. Despite a difficult external environment and deep-rooted structural weaknesses, we have made progress this year.

2. These policies mark the launch of a medium-term economic reform program. Durable poverty reduction and growth will call for significantly increased investment, which in turn will require improved mobilization of domestic revenue and will lead to a protracted balance of payments need. To assist us in this effort, we are counting on the financial support of the international community, which is needed if our efforts are to succeed in materially improving living standards in the next few years. We are asking the International Monetary Fund to provide immediate support in the form of a disbursement under the Rapid Credit Facility (RCF) in an amount equivalent to 25 percent of quota, or SDR 30.55 million that would be disbursed to the Central Bank of Madagascar.

3. The attached Memorandum of Economic and Financial Policies (MEFP) describes the policies that we have implemented this year, as well as those we plan to implement both over the next six months and all next year. The policy plans for the next six months will also form the basis of a staff-monitored program, which is intended to help lay the groundwork for a multi-year program supported by the Extended Credit Facility (ECF). The government is convinced that the policies and measures included in this memorandum will help to address our balance of payment difficulties and advance our poverty reduction and growth objectives. We stand ready to take any further measures that may prove necessary to meet our objectives and will consult with IMF staff prior to the adoption of any changes to the policies set forth in this Memorandum. The government also undertakes to cooperate fully with the IMF to achieve its policy objectives and not to introduce measures or policies that would compound Madagascar's balance of payment difficulties. The Central Bank of Madagascar is committed to provide timely monitoring information and undergo a safeguards assessment update, if required.

4. The Malagasy authorities agree to the publication of this Letter of Intent (LOI) and the attached MEFP and Technical Memorandum of Understanding (TMU), as well as the IMF staff report related to the request for a disbursement under the Rapid Credit Facility (RCF) and the Debt Sustainability Analysis, after approval by the Executive Board of the IMF.

Sincerely yours,

/s/	/s/
Mr. François Marie Maurice Gervais Rakotoarimanana	Mr. Alain Hervé Rasolofondraibe
Minister of Finance and Budget	Governor
Madagascar	Central Bank of Madagascar

Attachments: - Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

I. Overview

1. **This memorandum of economic and financial policies lays out the reform program of the Government of the Republic of Madagascar for the remainder of 2015 and 2016 in connection with a request for a disbursement under the Rapid Credit Facility (RCF), as well as a staff-monitored program (SMP).** Recurring cycles of political instability have hindered economic and social development in Madagascar over the last fifty years. As a result, real per capita GDP has been declining with widespread and growing poverty. During the latest 2009-13 crisis, average real GDP growth was reduced to ½ percent a year, significantly below population growth of 2.8 percent a year. This crisis period resulted in the stalling of efforts to improve the rule of law and public sector efficiency and governance deteriorated.

2. **The government is now promoting an agenda of consensus, reconciliation, and the restoration of governance.** The emphasis is on improving physical and human capital, strengthening governance and the rule of law, and thereby creating the foundation for inclusive growth benefiting all income levels and regions. The government's strategic direction is stated in the National Development Plan (NDP), covering 2015-19, and the Presidential Plan of Urgent Action (PPUA), covering 2015-16. The NDP and the PPUA together identify five unifying and complementary strategic priorities: (i) governance, rule of law, security, decentralization, democracy, and national solidarity; (ii) preservation of macroeconomic stability and support for development; (iii) inclusive growth and territorial anchoring of development; (iv) adequate human capital for the development process; and (v) development of natural capital and strengthening resilience to disaster risk.

3. **Our policy measures in 2015 have aimed to strengthen our macroeconomic stability and sustainability in support of durable poverty reduction and growth**. Despite the constraints of political developments and external shocks, we have made some progress this year. But meaningful improvement in physical and human capital will call for significantly increased investment, which will require improved mobilization of domestic revenue and lead to a protracted balance of payments need.

4. **These policies mark the launch of a medium-term economic reform program**. We would like this program to be supported by a scaling up of external assistance and, eventually in the future by a three-year Extended Credit Facility (ECF) arrangement. With these objectives in view, we will continue to build our policy implementation capacity and address institutional weaknesses. In particular, we are prioritizing measures to improve revenue performance and control financial losses in state-owned enterprises and related arrears. Accordingly on the basis of the policies undertaken so far and the policy objectives laid out below, we are now requesting a disbursement under the RCF of SDR 30.55 million, combined with a staff-monitored program for the period end-September 2015 to end-March 2016. We also met with development partners in October to discuss financing

needs and intend to convene a conference next year to request medium-term financing for implementing the NDP.

A. Economic Developments in 2014 and 2015

5. **Notwithstanding exogenous shocks, the policies undertaken in 2014 and 2015 have supported macroeconomic stability, while laying the groundwork for future progress.** Fiscal and current account deficits have remained compatible with medium-term sustainability, and inflation remains in single digits. However, the nascent economic recovery that started in 2014 has so far failed to gain momentum. Mining production is held back by low commodity prices. Agriculture was negatively affected by cyclones with heavy rains in the central highlands in early 2015, which displaced 39,000 people, and prolonged drought in the south, with food assistance given to 200,000 people. Damage from the cyclones and other weather-related events is estimated at 1 percent of GDP with reconstruction costs projected at close to 3 percent of GDP or US$270 million. Tourism has been hampered by difficulties at Air Madagascar, especially a crippling month-long strike in July that grounded nearly all domestic flights. In addition, weaknesses in the business climate continue to inhibit private investment. On the positive side, the decline in fuel prices is reducing the cost of petrol imports. Against this background, the projected economic growth has been revised downward to 3.2 percent in 2015.

6. **The government has taken measures to improve revenue mobilization and strengthen expenditure management, although results have so far yielded less than expected.** Institutional capacity constraints, including, in some cases, difficulties in ensuring compliance, are holding back the results of public sector reforms. The government has engaged in wide-ranging reform measures to improve tax and customs administration, however revenue collections remain weak with adverse fiscal implications. While we have been able to keep priority social spending in line with plans through reprioritization, larger-than-expected transfers to loss-making public enterprises (in particular the public utility company JIRAMA and Air Madagascar) and the underfunded pension funds continue to crowd out domestic capital spending. We identified and reached agreement on a repayment schedule for previously accumulated domestic budgetary arrears in 2014, but new arrears have accumulated on VAT refunds and payments to JIRAMA's suppliers. We remain determined to resolve these institutional weaknesses in order to create a solid foundation for strong inclusive growth and durable poverty reduction.

7. **We are moving forward with macroeconomic and structural reforms notwithstanding capacity constraints:**

- *Policy strategy*. The NDP and the PPUA, which provide the framework for policy formulation going forward, were approved by the Cabinet in late 2014. The implementation plan (*Plan de mise en œuvre*, PMO), which implements the NDP and the PPUA, was approved in June.
- *Revenue mobilization*. The customs administration has drawn up a list of emergency measures to deter fraud, including a significant tightening of controls at the main port of Toamasina and an increase in the number of ex post verifications. The tax administration is focused on enhancing compliance through improved controls and verifications, the recovery of tax arrears, and

increased information sharing and collaboration with customs services. Cooperation between the customs and tax administrations has improved, though it is taking some time to translate into stronger revenue numbers. The suspension of duties and taxes for petroleum imports for non-JIRAMA related oil imports was removed in March 2015.

- *Public expenditure management*. Steps are underway to generate cost savings and improve expenditure management: specifically the public payroll is being cleaned from ghost workers and JIRAMA has taken steps to minimize its operational losses and the subsequent need for large budgetary transfers. Transfers to JIRAMA have fallen from 1.7 percent of GDP in 2014 to a projected 0.6 percent this year, aided by the fall in international fuel prices. The issuance of the implementation decree of law 2014-14 on public enterprises with commercial character has clarified the role of the state in the management of public enterprises.
- *Fuel subsidies*. Fuel prices have been increased three times between July 2014 and July 2015. These adjustments and the fall in world fuel prices have cut the cost of fuel subsidies from 0.4 percent of GDP in January-July 2014 to 0.1 percent for the same period this year.
- *Debt management and project appraisal capacity*. A steering committee on investment priorities, under the leadership of the Prime Minister, was established in March 2015. The committee will develop a priority investment plan with projects that are needed to attain the NDP objectives.
- *Central bank operations*. As part of the process to improve governance and management at the central bank, overdue interest payments owed to the central bank of about 0.4 per-cent of GDP were settled by the government in June, the central bank's audited financial statements for 2010-13 have been published, new investment guidelines were approved in December 2014, and a new directive on reserve management was approved in February 2015.
- *Foreign exchange operations*. Since September the central bank has discontinued buyback operations at non-market rates in the interbank foreign exchange market, which had influenced the official published rate based on the weighted average of transactions. It has also started publishing daily minimum and maximum exchange rates, in addition to the reference rate.
- *Monetary policy*. The central bank reintroduced weekly deposit auctions in April to improve bank liquidity management.
- *Business-climate*. We have initiated measures to strengthen the foundation for sustained private sector development. In this regard, Madagascar has regained eligibility to preferential access to US markets through AGOA; established a formal platform for public-private dialogue with the private sector; and restructured and rejuvenated the Economic Development Board of Madagascar (EDBM). We have adopted the implementation decree for the *Zone Franche*.

II. Fiscal Policy and Debt Management

8. **Fiscal policy will be geared towards supporting the implementation of the PPUA and the NDP.** We will increase spending on critical infrastructure, education, and health care to rebuild Madagascar's physical and human capital. We will also invest in rural development. Fiscal space for these priorities will be created through adjustments to tax policy, further efforts in tax and customs administration, and expenditure reprioritization. Starting in 2015 with the expansion of the Ivato airport and the transfer of a power plant to a private operator, we are exploring public-private partnerships (PPPs) as a means to finance large infrastructure projects. In addition, to make better

use of scarce budgetary resources, we will focus more on prioritization and public financial management reforms.

9. **We estimate that the tax ratio (on a gross/net basis) will increase from 10.1/9.9 percent of GDP in 2014 to around 11.0/10.4 percent of GDP in 2016.** In 2015, revenue gains from the tax policy and revenue administration measures are expected to be partly offset by the more subdued pace of economic activity and imports, resulting in a net tax ratio that is broadly unchanged from 2014.The overall deficit on a cash basis is projected at 5.3 percent of GDP in 2015. However, the fiscal deficit for 2015 includes the recapitalization of the central bank and rescheduling of interest arrears for an amount equivalent of 1.2 percent of GDP. To assist in the implementation of our reform plans in the staff monitored program, we will set targets on net claims on government by the banking system (ceiling), gross tax revenue (floor), and priority social spending (floor).

10. **Improving revenue mobilization remains a key objective.** Our overall revenue mobilization strategy seeks to break out of this revenue underperformance with a focus on strengthening revenue administration to boost taxpayer compliance in line with the findings of recent technical assistance (TA) and the Tax Administration Diagnostics Assessment Tool (TADAT). We also plan to restructure the tax administration and develop communication strategies to improve the quality of services to tax payers.

11. **To enhance revenue collections, we launched several specific tax and customs administration measures in September and October**. Among other measures, these include:

- Stricter monitoring and auditing of the declared value and nature of imports, especially for consolidated load cargo;
- Improved customs control measures to limit the abuse of exemption rules, including those on imported rice, and special regimes such as those relating to Export Processing Zones (EPZs) and temporary imports;
- Set up remote audit teams with the mission to undertake ex-post verifications focused on highly suspected fraud operations (benchmark, Table 2);
- Efforts for the recovery of arrears on domestic taxes and customs duties and taxes;
- Generation of a consistent and comprehensive list of all beneficiaries of tax exemptions to cross-check it against our taxpayer database to identify firms that claim benefits fraudulently;
- Strengthening the efforts of the joint committee to coordinate customs and tax collection efforts, including the organization of joint working groups to identify targets for control. (The creation of a tax policy coordination unit in 2016 is also being studied.)

12. **Bringing informal activity into the formal sector is essential.** Since 2014 we have initiated the following measures: repression of sales without invoices; increased controls on the ground; improved taxation of forestry, mining and fisheries sectors; harmonization of administrative values for transactions on property and second-hand vehicles; stricter controls on VAT refund credits; recovery of tax arrears; and transfer pricing adjustments. We have abolished, effective end-December 2015, all duty-free shops, except those located in our international airport departure

terminals. Enhancing the efficiency of tax audits, including through greater risk-based management, is also a priority.

13. **Customs administration reforms will continue and aim to balance revenue mobilization and trade facilitation.** In the near term, we will step up efforts to increase the effectiveness of verifications and reduce fraud. Starting in March 2015, we have increased scanning of imported containers at the port of Toamasina and set up an ancillary team in Antananarivo for secondary follow-up verifications. Other measures in 2015 include mandatory packing lists for all containers, increased use of tablets during physical inspections to optimize use of our databases, further securitization of the port perimeters through greater electronic monitoring and use of surveillance cameras, and acceleration of procedures for auction of containers which remain unclaimed. In addition, we plan to double the amount of audits on the declared value of imports from 6 to 12 percent and continue to improve our in-house database on reference import values and risk-management analysis starting with the port of Toamasina.

14. **Information sharing and collaboration between the customs and tax directorates will be further strengthened.** The customs directorate has developed an information sharing platform to enable automatic sharing of data in ASYCUDA with the tax administration twice daily. We have started joint training sessions for the staff of both directorates and identified 20 large enterprises on which verifications will be conducted jointly in 2015, and continuing annually. The customs directorate will also act as the collection agent for the intermittent income tax to enable more expedient processing. In addition, an update of estimated tax exemptions and expenditures, with the intention of later extending it from domestic taxes to customs, is planned.

15. **Ensuring an appropriate contribution from the natural resource sector to fiscal revenue is a priority.** We are working to modernize the mining and petroleum codes to bring them in line with best practice, while ensuring their consistency with the statutes of the existing law on large mining investments (LGIM). The principal envisaged measures of the codes and their associated *Décret d'Application* include: an increase in royalty rates and more differentiation by type of mineral; a review of the royalty revenue-sharing formula; simplification of the corporate income tax regimes; a tightening of thin capitalization rules; and a reduction in the length of fiscal stability clauses.[1] In order to accomplish this, we have set up a joint committee comprising officials from the Ministry for Strategic Resources, the chamber of mines, the association of mining operators, and the Ministry of Finance and Budget. We plan to finalize the draft laws, with input from the World Bank, and ensure that their provisions comply with international best practice before submitting them to the National Assembly. We plan to incorporate all the fiscal provisions of the mining and petroleum codes with the General Tax Code through amendments to be undertaken by the end of December 2015.

16. **Moreover, the institutional framework for mining activities will be revamped.** In this regard, we seek to update the status of 3,600 mining permits to redress irregularities that arose

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[1] For large mining projects, the length of the fiscal stability remains as specified under the LGIM.

following the 2009 moratorium on the award and conversion of permits. We have processed 1,800 permits to date and anticipate that the update will be completed by the end of-March 2016. We adopted a decree setting up a national gold agency (ANOR) in April 2015 which will be responsible for collecting gold mining royalties and administering permits for gold mining activities. In parallel with the preparation of a decree lifting the ban on gold exports, we have set up gold counters to purchase existing stocks of mined gold from individuals. To further formalize and expand gold mining activities, the central bank and Ministry for Strategic Resources will jointly complete a feasibility study by the end of December-2015 for the setting up of a public-private refining company which will be tasked with certifying the gold exported from Madagascar.

17. **We are committed to addressing the causes of spending inefficiencies and budgetary pressures.** Fuel subsidies, transfers to state-owned enterprises including JIRAMA, and the underfunded civil service pension funds are weighing heavily on budget execution. We intend to use the additional fiscal space created to reorient current spending to priority social sectors. We foresee the following measures and savings in 2015 and 2016:

- Cost savings from deferred recruitment because of insufficient absorptive capacity; prioritization of spending, including domestically-financed investment; and a reduction in the amount of fuel coupons (‘*chèques carburants*’), with a view to their elimination.
- Elimination of the fuel price subsidy, which is falling with world market prices, by the end of-December 2015. An automatic pricing formula for maintaining full cost-recovery fuel prices (for diesel, gasoline, and kerosene) will be introduced on January 1, 2016 (continuous benchmark, starting at the end of-December 2015, Table 2). The temporary bus subsidy, introduced to mitigate the price impact from higher fuel prices, will cease at end-December 2016.
- Oversight of state-owned enterprises will be strengthened, starting with financially challenged public enterprises, through ensuring compliance with the implementation decree of law 2014-14 on public enterprises with commercial character, for example by requiring the regular communication of financial results, independent control functions, and fully accountable Boards. Reform strategies have been developed for two of the larger and most strategically important public enterprises—Air Madagascar and JIRAMA—which are described below.
- Underfunding of pension funds will be addressed through a two-pronged approach, focusing first on a clean-up of the pension rolls and second on parametric pension reforms, the latter supported by World Bank technical assistance in 2015 and 2016. We plan to put in place such parametric reforms by the end of 2016.
- Extension of the audit of civil service personnel and pay data housed at the Ministry of Finance and Budget to sectoral ministries. The first audit, started in 2015, identified 2,256 irregular workers (e.g., so-called ghost workers and double-dippers) dispersed across various ministries, providing wage bill savings of MGA1.3 billion per month. We expect further cost-savings from this exercise. Installation of an electronic platform for workforce planning (“*Gestion Prévisionnelle des Effectifs, des Emplois et Compétences*”) is expected to be completed by December 2016, with support from the European Union. This, in turn, is envisaged to pave the way for a more comprehensive civil service census. We will also initiate an evaluation of the effectiveness of the current sanctions system, including the *Conseil de Discipline de la Fonction Publique* by the end

of March 2016. These measures will enhance the productivity of the civil service while reducing the public sector wage bill as a proportion of GDP.

18. **The 2016 budget will seek to consolidate policy efforts underway in 2015 and introduce measures in line with the priorities identified in the NDP**. Beyond the objective to increase revenues, fiscal policy measures will aim to tackle income tax evasion and protect local rice production. Thus, we will introduce the following revenue measures in the draft revisions to the 2015 budget and the draft 2016 budget: elimination of the tax holiday on new companies; introduction of a uniform ten percent excise duty on all imported new vehicles; an increase in excise duties on alcoholic beverages and soft drinks; and ensure that local sales of EPZ companies are restricted to 5 percent of total sales and that they are subject to customs declaration and duties and taxes (benchmark, Table 2); the introduction of a tourist arrival fee of US$25 per visitor; and the elimination of the exemption from import duties and taxes for imported cooking oil. We also intend to reinforce the filing of income tax declarations, including for incomes below MGA250,000, and to consider the possible elimination of tax exemptions on imported rice. Consideration of the possible elimination of the rice tax exemption will be informed by a study on the damage caused by the recent climatic shocks on local rice production which will be completed by end-November 2015. On the spending side, our objective is to scale up expenditure in priority areas (agriculture, education, health and infrastructure) by at least 0.5 percent of GDP while preserving sustainability. To this end, we will continue to improve the efficiency of spending, introduce parametric pension reforms and improve the allocation of resources through the use of a medium-term expenditure framework. Our fiscal plans will yield an overall fiscal deficit (commitment basis) of around 3 percent of GDP. The draft revisions to the 2015 budget and the draft 2016 budget law incorporating these revenue measures will be submitted to the National Assembly by the end of October (prior action, Table 2).

19. **A comprehensive public financial management reform strategy will be essential to improving the efficiency of public spending.** The 2013 PEFA self-assessment highlighted the need to strengthen public expenditure management. A Priority Action Plan in public financial management for 2014-15 was developed accordingly, with TA from the IMF. We have made substantial progress on the implementation of the plan and are committed to completing the remaining actions. In particular, for 2015 the priorities are to improve expenditure prioritization, including through greater transparency and phasing-in multi-year budgeting; enhancing public procurement; and more effective payroll controls. We have requested additional TA to advance work in these areas. We are also developing a PFM reform strategy for 2016-20 with support from the African Development Bank, which will be approved by Cabinet.

20. **The occurrence of arrears is holding back the economic recovery and requires action**. Since 2009, both the central government and state-owned enterprises have accumulated a significant stock of payment arrears, including in VAT refunds, subsidies to petroleum distributors and direct payments by the Government to JIRAMA's suppliers. In accordance with the Priority Action Plan for strengthening PFM and building on recent TA from the IMF, we will develop a strategy to stop, from January 2016, the emergence of arrears on new spending commitments by the central government for fiscal year 2016. As first steps, by December 31, 2015, we will (i) finalize the evaluation of the stock of arrears, based on a clear definition of the maximum delays of payment

for the main categories of expenditures and (ii) implement the reporting procedures and the organization required to manage arrears. In addition, we will create an escrow account at the Central Bank to ring fence the resources required by VAT reimbursements starting January 1, 2016 (benchmark, Table 2). Given the high risk that arrears accumulated by the state-owned enterprises have to be paid by the central government, the Treasury will be instructing SOEs to report their arrears to suppliers and the tax administration, starting by end-December 2015 with JIRAMA, Air Madagascar, and Madarail. This exercise will be extended to all SOEs by the end of March 2016 and JIRAMA, Air Madagascar and Madarail will also be required to have a plan by this date for clearing their arrears.

21. **The government is committed to the financial turnaround and rehabilitation of JIRAMA.** A *Comité Stratégique* chaired by the Minister of Energy and Hydrocarbons, established in March 2015, will guide JIRAMA's restructuring. We have hired a consultant to develop a management improvement plan, which includes the organizational restructuring of JIRAMA, to be presented to the *Comité* by November 2015. Existing legislation will be reviewed with the intention of including JIRAMA under the provisions of commercial law and increasing penalties for electricity theft. Our strategy to improve the company's financial position is centered on reducing losses and identifying theft and fraud. A program of on-site audits of the 1,000 largest users to ensure permanent elimination of unmetered consumption (commercial losses) is expected to be completed by the end of December 2015. We are investigating the use of advanced metering for new customers to secure future revenues. JIRAMA is also undertaking measures to reduce costs, such as rehabilitating the heavy fuel oil generating units and auditing its supplier contracts.

22. **There is also an urgent need to address Air Madagascar's dire operational and financial situation, in the context of the government's new "open sky" policy.** We are committed to rebuilding our national flagship carrier to successfully compete in this new framework and to minimize the fiscal risks posed to the government. We will implement an "air access strategy" to help spur domestic and international competition by mid-2016, in support of our economic development. The company is actively seeking strategic alliances to support it going forward, and has already taken the first steps toward becoming an attractive investment partner. Management and the Board were replaced following a month-long strike over governance issues. The new team is working with the World Bank to contract external expertise to develop a new business plan for the company, including a review of the tariff structure, fleet composition, staffing level, and structure of the company. Management has also taken steps to address the company's precarious financial situation by looking for additional revenue sources and investigating the reason for the company's high operational expenses, such as by carrying out an audit of existing contracts. These measures aim to restore Air Madagascar's operational profitability by end-2016.

23. **Infrastructure investment needs in Madagascar are significant, and with limited resources, public investment projects need to be well prioritized**. The World Bank Doing Business report flags poor energy infrastructure as a particular impediment to growth. Investment in roads, railways, seaports, and airports is also critically needed. Given the limited domestic and international resources available for such investment, careful prioritization of the most important projects is required. The steering committee on investment priorities, under the leadership of the

Prime Minister and with the support of the Ministry of Economic Planning and Development and other line ministries, will develop a priority investment plan. This plan will specify a list of key projects that are needed in order to attain the objectives set out in the NDP and will include preliminary cost estimates for each project. The plan will be completed by the end of-October 2015.

24. **The scale of the infrastructure challenges makes it critical to explore all options, including Public-Private Partnerships (PPPs).** Aligned with the NDP, a list of potential PPPs has been identified. The government is committed to taking all necessary measures to minimize the budgetary risks of such arrangements. To this end, a policy and legal framework for PPPs is under preparation and planned to be enacted by the end of December 2015. We also plan to create a dedicated unit to control and manage our PPPs at the Presidency by end-2015.

25. **Borrowing and guarantees to fund Madagascar's investment needs will require careful management to ensure debt remains on a sustainable trajectory.** To ensure debt sustainability, the cost and risks associated with new loans and state-guarantees needs to be minimized. In August 2014, the National Assembly ratified the *Loi Régissant la Dette Publique et la Dette Garantie par le Governement Central (2014/12)* which clearly states the roles and objectives of the government with respect to new borrowing. A debt management strategy will be ready by no later than the end of March 2016 following the development of the list of priority investment projects and the adoption of the medium-term budgetary framework. Furthermore, starting with the 2016 budget, we will publish details on the anticipated stock and flows of the central government's public and publicly-guaranteed debt; and with the support of UNCTAD, our external debt database will be fully operational by the end of March 2016 (benchmark, Table 2).

26. **Every effort will be made to meet our considerable external financing needs on concessional terms**. Madagascar is assessed to have a moderate risk of external debt distress, and is particularly vulnerable because of the low revenue generation. Ensuring that debt is contracted on concessional terms will help to ensure debt sustainability. That said, if all possibilities for concessional external financing are exhausted, some limited medium-term and long-term non-concessional borrowing could be considered to support critical expenditure needs; in that event, we will consult in advance with IMF and World Bank staff. We will also avoid short-term external borrowing. To assist in the policy implementation in the staff monitored program, we have set on explicit indicative targets on non-concessional borrowing and short-term external borrowing.

III. Monetary and Exchange Rate Policy

27. **Monetary and exchange rate policy will aim to contain demand pressures, keep inflation in single digits, and help build an adequate reserve buffer.** In doing so, the CBM aims to give more significance to the reference interest rate and monetary policy operations going forward. To assist in the policy implementation in the staff monitored program, we have set explicit indicative targets for net foreign assets and net domestic assets as defined in the technical memorandum of understanding. Despite balance of payments pressures, we are also aiming for a buildup in gross foreign assets to reach SDR 597 million by end-2015.

28. **The CBM will pursue a restrained monetary policy and take further steps to strengthen liquidity management.** Monetary policy has been somewhat passive in recent years, allowing for large excess bank reserves with the government increasingly resorting to statutory advances from the central bank to finance the fiscal deficit. Going forward, we will engage in further TA with the aim of setting explicit liquidity targets and using Treasury bill sales and weekly deposit auctions to achieve these targets. The reference interest rate will be allowed to fluctuate more and reflect movements in the money market.

29. **We will maintain a flexible exchange rate to ensure orderly conditions in the foreign exchange market and facilitate external adjustment over the medium term.** Going forward, CBM will focus its interventions on achieving a gradual accumulation of gross foreign assets. We will refrain from reintroducing buyback operations at non-market rates in the interbank foreign exchange market (continuous benchmark, Table 2). With the aim of improving the functioning of the foreign exchange interbank market, we will reinforce the protocols of trading in the interbank market. We are also committed to minimize any resort to administrative measures to restrict foreign exchange outflows and to ensure conformity with Article VIII obligations.

30. **Strengthening the independence of the CBM and improving its governance and controls is crucial.** The financial autonomy of the central bank has been challenged in recent years. While within legal limits, CBM extended significant credit to the government through statutory advances in 2014. In addition, petroleum subsidies in 2012-13 and uncollected accrued interest on government bonds put further pressure on financial autonomy. Independent control and audit oversight can be strengthened and the quality of external auditors needs to be enhanced. We will take several measures to deal with these issues. To further establish the independence of the central bank, we will submit a revised Central Bank Act to the Cabinet for approval by the end of December 2015 (benchmark, Table 2). The revised law will: (i) include a phased elimination of statutory advances from the central bank as a source of domestic financing down to 5 percent of ordinary revenues starting in 2018, as well as a discontinuation of securitization of statutory advances, with the objective of eliminating statutory advances by 2024 (consistent with guidance from SADC); (ii) provide an effective mechanism for the automatic transfer of central bank losses and profits to the government; (iii) establish an Audit Committee of the Board of Directors (and adopt a charter that specifies its roles and responsibilities for the oversight of internal and external audit, financial reporting, and the system of internal controls); and (iv) establish an Executive Committee (composed of the Governor and two Deputy Governors) that will propose policies to the Board of Directors and will be in charge of the day-to-day operations of the central bank. We will settle outstanding central government obligations owed to the central bank through issuance of interest-bearing instruments of a total amount of MGA 214 billion with a 20 year maturity and a 2.25 percent interest rate by the end of December 2015. As a result of this transaction and previously settled debt obligations, the financial position of the central bank will improve. To improve reporting transparency, the CBM is in the process of migrating towards International Financial Reporting Standards (IFRS) starting with 2016 accounts, supported by TA.

IV. Financial Sector Reforms

31. **We are committed to developing our financial sector.** Our aim is to create the foundation for a strong and independent financial system that can sustain the strong inclusive growth we are aiming for. An action plan will be finalized following the completion of the Financial Sector Assessment Program (FSAP) of the IMF and the World Bank that Madagascar is currently undergoing. Pending the FSAP, we are currently focusing on: (i) improving the supervision of our foreign-owned banks through agreed memoranda of understandings with banking supervisors in countries where the headquarters of our foreign-owned banks are located (primarily France, Mauritius, and Morocco); (ii) studying the prerequisites for a possible deposit insurance scheme; (iii) finalizing a law regulating mobile banking in 2015; and (iv) completing the ongoing revision of the Financial Sector Law, including the establishment of the stock exchange, in 2016. We are also conducting a study to improve the legal/regulatory and institutional capacity needed for adequate supervision of the microfinance sector in cooperation with the World Bank.

V. Inclusive Growth

32. **National reconciliation calls for inclusive growth benefitting all citizens and all regions of Madagascar.** This objective underlies our National Development Plan and Presidential Plan of Urgent Action (PPUA). We aspire to mobilize the full potential of Madagascar's young and vibrant population and various sectors of the economy. This will require reforms that (i) improve governance; (ii) improve the quality of education and health services to strengthen the human capital base; (iii) open up for a more decentralized administration; and (iv) create the framework for a sustainable exploitation of Madagascar's abundant natural capital, while preserving our unique ecosystem for future generations.

33. **We are committed to strengthen our institutions to improve governance and create a solid foundation for private sector growth.** Corruption and weaknesses in the civil service, judiciary and security systems have resulted in inferior public service delivery and revenue collections well below expectations. Systemic reforms of government institutions are complex and take time. Key elements in controlling corruption are better regulatory system and enforcement, well-defined boundaries on government power, and effective sanctions to reprimand corrupt behavior. To send a strong signal about our commitment to combat corruption, we will look to amend the civil service law. An essential element at the heart of the fight against corruption is a strong independent and impartial judiciary and we are initiating a number of reforms to ensure that our judiciary performs this role, including regular meetings of the *Conseil Superieur de la Magistrature* that oversees performance of individual magistrates. Our efforts to improve governance will be guided by the national strategy against corruption that was launched in 2014. In recognition of the importance of improving governance, we have increased the budget allocation for the agencies dedicated to the fight against corruption by nearly 50 percent in 2016 with the objective of reaching 0.3 percent of the budget over time.

34. **Broadening access to health care and education is a key policy objective.** To improve quality and access to schooling, we aim to expand programs for households with children and

emphasize minimum job standards and training of teachers. Recruitment of so-called community teachers (“Maitres FRAM”) will be based on qualifications and performance evaluation. In an effort to seek new solutions to make health services more accessible, we plan to introduce mutual insurance on a pilot basis. Developing social protection programs for the most vulnerable is also a priority. The national social protection policy under preparation will guide the design and implementation of social protection programs, including social safety nets for the poorest and most vulnerable households, and will be approved by the Cabinet by the end of December 2015 (benchmark, Table 2).

35. **Agriculture is of great importance for growth and poverty reduction.** It generates about 26 percent of GDP and the main income for about 63 percent of households. The overall challenge is to move from subsistence farming to production for domestic, regional, and international markets and reduce risks for the most vulnerable households. To support this transformation, we aim to: (i) increase investment in roads and irrigation infrastructure; (ii) increase investment in schools and training focused on agriculture; (iii) increase funding of research to develop seeds and agricultural techniques that are well adapted to Madagascar; and (iv) expand social protection programs targeting the most vulnerable subsistence farmers. To protect farmers’ rights to the land they own, local land offices with the right to issue land certificates will be established in all districts of the country by end-2018.

36. **Decentralization reforms are important.** Such reforms are essential to improve the quality and access to public services and to foster local development policies through more immediate responses to the needs of citizens. We are starting reforms in 2015 by identifying and defining appropriate local government structures; implementing measures to strengthen local governance; preparing the legal framework for the local civil service; and ensuring full coherence between the existing legal and institutional frameworks for decentralization with local development plans and the NDP objectives.

VI. Statistical Policy

37. **We are committed to the production of more timely and accurate statistics to allow better assessment of developments in the country.** With support from the IMF and other development partners, the National Statistics Institute (INSTAT) is preparing a provisional and revised series of national accounts based on the 1993 *SNA* for the period of 2007-14. We want to develop satellite national accounts on mines, forests, tourism and water, to be integrated in the national accounts in 2016. As an update to the 1993 population census, we intend to undertake a new census in coming years, subject to the availability of additional financing. The CBM will continue to improve the compilation of balance of payments and monetary statistics.

Table 1. Madagascar: Indicative Targets 2015-16

	End-Dec. 2015	End-March 2016
	Proj.	Proj.
	(Billions of Ariary; unless otherwise indicated)	
External		
Ceiling on accumulation of new external payment arrears (US$ millions) [1]	0	0
Ceiling on new nonconcessional external debt with original maturity of more than one year, contracted or guaranteed by the central government or BCM (US$ millions) [1]	200	200
Ceiling on new nonconcessional external debt with original maturity of up to and including one year, contracted or guaranteed by the central government or BCM (US$ millions) [1]	0	0
Central bank		
Floor on net foreign assets (NFA) of BCM (millions of SDRs) [2]	416	407
Ceiling on net domestic assets (NDA) of BCM [2]	1,558	1,485
Fiscal		
Ceiling on net bank credit to the government [3]	340	90
Floor on social priority spending [3]	204	33
Floor on gross tax revenue [3]	2,994	746
Memorandum items		
Budget support grants and loans (millions of SDRs) [4]	119	119
New concessional loans, contracted or guaranteed by the central government or BCM (US$ millions) [5]	167	327
Program exchange rate (MGA/SDR)	3,761.88	3,761.88
Recapitalization of the central bank for losses made during 2011-13 [4]	214	214

Sources: Malagasy authorities; and IMF staff projections.

[1] Cumulative ceilings that will be monitored on a continuous basis starting from end-August, 2015.

[2] Stock of NFA and NDA respectively measured at the program exchange rate.

[3] Cumulative figures from the beginning of each calendar year.

[4] Cumulative figures starting from the beginning of 2015.

[5] Cumulative figures starting from end-September, 2015.

Table 2. Madagascar: Prior Actions and Structural Benchmarks for RCF and SMP

Action	Test Date
RCF	
Strengthen fiscal policy implementation	
Submission of draft revisions to the 2015 budget and draft 2016 budget to parliament with the revenue measures outlined in the MEFP (paragraph 18).	Prior Action
SMP	
Improve exchange rate policies	
Refrain from reintroduction of buyback operations at non-market rates.	Continuous benchmark
Mobilizing fiscal revenue	
Set up remote audit teams with the mission to undertake ex-post verifications focused on highly suspected fraud operations.	End-December 2015
Ensure that local sales of EPZ companies are restricted to 5 percent of total sales and that they are subject to customs declaration and duties and taxes.	End-March 2016
Improving the composition and quality of fiscal spending	
Implement an automatic pricing formula for maintaining full cost-recovery fuel prices (for diesel, gasoline, and kerosene).	Continuous benchmark from end-Dec. 2015
Create an escrow account at the Central Bank to ring fence the resources required by VAT reimbursements.	January 1, 2016
Improving fiscal transparency	
Bring the DMFAS database into full operation and publish details on the stock and flows of public and publically-guaranteed debt starting with the 2016 budget law.	End-March 2016
Strengthening the independence of the central bank	
Submit Central Bank Act revised to incorporate the elements outlined in the MEFP (paragraph 30) to the Cabinet for approval.	End-December 2015
Promoting inclusive growth	
Cabinet approval of the National Social Protection Policy to guide the design and implementation of social protection programs, including social safety nets for the poorest and most vulnerable households.	End-December 2015

Attachment II. Madagascar: Technical Memorandum of Understanding on Monitoring Indicative Targets for the Staff Monitored Program in 2015 and 2016

This technical memorandum of understanding (TMU) defines the indicative targets and adjustments that have been established to monitor the staff monitored program. It also describes the methods to be used to assess performance.

I. Indicative Targets

1. Targets will be set for end-December 2015 and end-March 2016 for the following variables:

- **Floor on net foreign assets (NFA)** of the Central Bank of Madagascar (CBM), calculated as the stock at program exchange rates; and
- **Ceiling on net domestic assets (NDA)** of CBM, calculated as the stock at program exchange rates; and
- **Ceiling on net bank credit (NBC)** to the Government, calculated as the cumulative flow from the beginning of the calendar year; and
- **Floor on gross tax revenue** of the central government, calculated cumulatively from the beginning of the calendar year; and
- **Floor on priority social spending** by the central government, calculated cumulatively from the beginning of the calendar year.

2. A target applicable on a continuous basis has been established with respect to a:

- **Ceiling on the accumulation of new external payment arrears** by the government or CBM calculated in cumulative terms from end-August 2015;
- **Ceiling on medium- and long-term non-concessional external debt** contracted or guaranteed by the government or CBM, calculated in cumulative terms from end-August 2015;
- **Ceiling on short-term non-concessional external debt** contracted or guaranteed by the government or CBM, calculated in cumulative terms from end-August 2015; and
- **Zero-Ceiling on CBM buyback operations at non-market rates in the interbank foreign exchange market.**

3. The adjustor to the measurement of indicative targets is budget support (external grants and loans) to the government from bilateral and multilateral agencies, calculated as the cumulative flow from the beginning of the calendar year.

4. For accounting purposes, the following program exchange rates apply:

Program Exchange Rates	
Malagasy Ariary (MGA)/SDR	3,761.88
U.S. Dollar/SDR	1.448699
Euro/SDR	1.187713
Australian dollar/SDR	1.774606
Canadian dollar/SDR	1.666667
Japanese Yen/SDR	173.119204
Swiss Franc	1.433198
U.K. Pound Sterling/SDR	0.932216

Foreign currency accounts denominated in currencies other than the SDR will first be valued in SDRs and then be converted to MGA. Amounts in other currencies than those reported in the table above and monetary gold will first be valued in SDRs at the exchange rates and gold prices that prevailed on December 31, 2014, and then be converted to MGA.

5. **Government** is defined for the purposes of this TMU to comprise the scope of operations of the treasury shown in the *opérations globales du Trésor* (or OGT). The government does not include the operations of state-owned enterprises and sub-national authorities.

II. Monetary Aggregates

A. Floor on Net Foreign Assets of the Central Bank of Madagascar

6. The NFA of CBM is defined as the difference between CBM's gross foreign assets and total foreign liabilities, including debt owed to the IMF. All foreign assets and foreign liabilities are converted to SDRs at the program exchange rates, as described in paragraph 4. For reference, at end-December 2014, NFA was MGA 1,389 billion, calculated as follows:

Foreign Assets	2,013.221
Of which:	
Cash	0.048
Demand deposits	233.536
Term deposits and securities	1,489.464
Other foreign assets	290.173
Foreign Liabilities	624.150
Of which:	
Non-residents deposits	2.439
Deposits of international organizations	0.505
Use of Fund credit and loans	252.190
Medium-and long-term foreign liabilities (including SDR allocation)	369.016
Net Foreign Assets	1,389.071

Adjustment

7. The floor on NFA will be adjusted *downward (upward)* by the cumulative deviation downward (upward) of actual from projected budget support (external grants and loans). This adjustment will be capped at the equivalent of SDR75 million, evaluated at program exchange rates as described in paragraph 4.

B. Ceiling on Net Domestic Assets of the Central Bank of Madagascar

8. The NDA of CBM are defined as the difference between reserve money and the NFA of the CBM valued in MGA using the program exchange rates as described in paragraph 4. It includes net credit to the government, credit to enterprises and individuals, claims on banks, liabilities to banks (including the proceeds of CBM deposit auctions—*appels d'offres négatifs,* and open market operations), and other items (net). For reference, at end-December 2014, NDA was MGA 1,410 billion, calculated as follows:

Net Foreign Assets	1,389.071
Base Money	2,798.794
Of which:	
Currency in circulation	1,825.522
Currency in banks	169.994
Bankers' reserves	801.531
Other deposits included in monetary base	1.747
Net Domestic Assets	1,409.723
Of which:	
Net credit to the central government	651.844
Credit to the economy	8.280
Net credit to depository corporations	-24.000
Other items (net)	773.599

Adjustment

9. The ceiling on NDA will be adjusted *upward (downward)* by the cumulative deviation downward (upward) of actual from projected budget support (external grants and loans). This adjustment will be capped at the equivalent of SDR75 million, evaluated at program exchange rates as described in paragraph 4.

III. Fiscal Aggregates

A. Ceiling on the Net Bank Credit to the Government

10. The NBC to the government is measured by the change in net credit to government in the monetary survey; and consists of CBM and commercial bank claims on the central government, including auctioned treasury bills (BTAs) and other securities and liabilities, net of central

government deposits with the CBM and commercial banks, including foreign currency deposits. For reference, at end-December 2014, NBC to the Government was MGA 977.7 billion, of which MGA 651.8 billion from the central bank and MGA 325.9 billion from commercial banks.

Adjustment

11. The ceiling on the NBC to the government will be adjusted *upward (downward)* by the cumulative deviation downward (upward) of actual from projected budget support external grants and loans). This adjustment will be capped at the equivalent of SDR75 million, evaluated at program exchange rates as described in paragraph 4.

12. The ceiling on the NBC to the government will be adjusted *downward* by any shortfall in financial compensation paid to the CBM for losses made during 2011-13 (see Table I.1).

B. Floor on Tax Revenue

13. **Government tax revenue** is measured on a gross basis that is, before the refund of VAT credits. It comprises all domestic taxes and taxes on foreign trade received by the central government treasury. Tax revenue excludes: (1) the receipts from the local sale of in-kind grants, (2) any gross inflows to the government on account of signature bonus receipts from the auction of hydrocarbon and mining exploration rights, and (3) tax arrears recorded in the context of regularization operations, such as those related to the recapitalization of Air Madagascar in 2016. Revenue will be measured on a cash basis as reported in the table of government financial operations prepared by the Directorate of Budget and the Directorate of Treasury in the Ministry of Finance and Budget. For reference, for the year ending December 2014, government tax revenue was MGA 2,582.8 billion.

C. Floor on Priority Social Spending

14. **Priority social spending** includes spending primarily related to interventions in nutrition, education, health, and the provision of social safety nets

15. Priority social spending is calculated as the sum of spending defined above related to (i) the Presidency; (ii) the Prime Minister's Office; (iii) the Ministry of Finance and Budget; (iv) the Ministry of Health; (v) the Ministry of Population and Social Affairs; and (vi) the Ministry of National Education. (See table 2).

D. Domestic Expenditure Arrears

16. **Expenditure arrears** consist of payment obligations related to acquisition of goods and services by the central government liquidated and not paid after 90 days. Arrears on VAT refund consists of eligible claims not paid after 60 days of presentation by the taxpayer.

IV. External Debt

A. Ceiling on External Payment Arrears

17. These arrears consist of overdue debt-service obligations (i.e., payments of principal and interest) related to loans contracted or guaranteed by the government or CBM. Debt service obligations (including unpaid penalties and interest charges) are overdue if they have not been paid by the due date or within a grace period agreed with, or unilaterally granted by, each creditor before the due date. They exclude arrears resulting from nonpayment of debt service for which rescheduling negotiations are under way or that are in dispute. This monitoring target should be observed on a continuous basis.

B. Ceilings on Non-Concessional External Debt

18. For program monitoring purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows; the grant element of a debt is the difference between the nominal value of debt and its net present value (NPV), expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

19. For program monitoring purposes, the definition of debt is set out in point 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014 (see Annex I). External debt is defined by the residency of the creditor.

20. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD LIBOR is 3.85 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -296 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -336 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -145 basis points. For interest rates on currencies other than Euro, JPY, and GDP, the spread over six-month USD LIBOR is 0 basis points.[2] Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

[2] The program reference rate and spreads are based on the "average projected rate" for the six-month USD LIBOR over the following 10 years from the Fall 2015 World Economic Outlook (WEO).

Medium- and Long-Term External Debt

21. A continuous ceiling applies to new nonconcessional external debt with nonresidents with original maturities of more than one year contracted or guaranteed by the government or CBM. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. It applies to private debt for which official guarantees have been extended and which, therefore, constitutes a contingent liability of the government or CBM.

22. Excluded from the ceiling are (i) the use of IMF resources; (ii) concessional debts; (iii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt; and (iv) debts classified as international reserve liabilities of CBM. If the government has a special need for external nonconcessional financing, discussions with IMF staff should take place in advance to consider including the request in the program.

Short-Term External Debt

23. A continuous ceiling applies to new nonconcessional external debt with nonresidents with original maturities of up to and including one year contracted or guaranteed by the government or CBM. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. It applies to private debt for which official guarantees have been extended and which, therefore, constitutes a contingent liability of the government or CBM.

24. Excluded from the ceiling are (i) concessional debts; (ii) debts incurred to restructure, refinance, or prepay existing debts, to the extent that such debt is incurred on more favorable terms than the existing debt and up to the amount of the actually restructured/refinanced/prepaid debt; (iii) debts classified as international reserve liabilities of CBM; and (iv) normal import financing. A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

V. Zero-Ceiling on CBM Buyback Operations at Non-Market Rates in the Interbank foreign Exchange Market

25. With the aim of maintaining a flexible exchange rate and improving the functioning of the interbank foreign exchange market, the CBM ceased buyback operations at non-market rates in the interbank foreign exchange market on September 4, 2015. The zero-ceiling on CBM buyback operations at non-market rates is applicable since the point in time when the CBM declared that it had ceased to engage in such operations in the foreign exchange market (September 4, 2015). For transparency and monitoring reasons, CBM will increase the reporting of exchange rate data as described in Table 1.

VI. Data Reporting

26. The data listed in Table 1 will be provided for monitoring performance under the program based on data templates agreed with IMF staff. The best available data will be submitted, so that any subsequent data revisions will not lead to a breach of indicative targets. All revisions to data will be promptly reported to IMF staff. For variables that are relevant for assessing performance against program objectives, but not specifically defined in this memorandum, the authorities will consult with IMF staff as needed on the appropriate way of measuring and reporting.

Table 1. Madagascar: Data Reporting Requirements	
Item	**Periodicity**
Exchange rate data	
Central Bank of Madagascar (CBM)	
Total daily CBM gross purchases of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of CBM gross purchases, the highest traded exchange rate, and the lowest traded exchange rate –break down by currency purchased	Daily, next working day
Total daily CBM gross sales of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of CBM gross sales, the highest traded exchange rate, and the lowest traded exchange rate – break down by currency purchased	Daily, next working day
Total CBM net purchases/sales of foreign exchange - break down by currency purchased	Daily, next working day
Total interbank foreign exchange transactions (net of CBM transactions) - break down by currency purchased	Daily, next working day
Total interbank and retail foreign exchange transactions (net of CBM transactions) - break down by currency purchased	Daily, next working day
Monetary, interest rate, and financial data	
Central Bank of Madagascar (CBM)	
Foreign exchange cash flow, including foreign debt operations	Monthly
Stock of gross international reserves (GIR) and net foreign assets (NFA), both at program and market exchange rates	Monthly
Detailed data on the composition of gross international reserves (GIR), including currency composition	Monthly
Market results of Treasury bill auctions, including the bid level, bids accepted or rejected, and interest rates	Monthly
Stock of outstanding Treasury bills	Monthly
Data on the secondary market for Treasury bills and other government securities	Monthly
Bank-by-bank data on excess/shortfall of required reserves	Monthly
Money market operations and rates	Monthly
Bank lending by economic sector and term	Monthly
Balance sheet of BCM	Monthly, within two weeks of the end of each month
Balance sheet (aggregate) of deposit money banks	Monthly, within six weeks of the end of each month
Monetary survey	Monthly, within six weeks of the end of each month
Financial soundness indicators of deposit money banks	Quarterly, within eight weeks of the end of the quarter
Fiscal data	
Ministry of Finance and Budget (MFB)	
Preliminary revenue collections (customs and internal revenue)	Monthly, within three weeks of the end of each month

Table 1. Madagascar: Data Reporting Requirements (concluded)	
Item	**Periodicity**
Treasury operations (OGT)	Monthly, within eight weeks of the end of each month
Stock of domestic arrears, including arrears on expenditure and VAT refunds	Monthly, within eight weeks of the end of each month
Priority social spending as defined by the indicative target	Monthly, within eight weeks of the end of each month
Subsidies to JIRAMA's suppliers	Monthly, within eight weeks of the end of each month
State-owned enterprise data	
Data summarizing the financial position of JIRAMA and Air Madagascar	Quarterly, by the end of the subsequent quarter
Debt data	
Ministry of Finance and Budget (MFB)	
Public and publically-guaranteed debt stock at end of month, including: (i) by creditor (official, commercial domestic, commercial external); (ii) by instrument (Treasury bills, other domestic loans, external official loans, external commercial loans, guarantees); and (iii) in case of new guarantees, the name of the guaranteed individual/institution.	Monthly, within four weeks of the end of each month
External data	
Central Bank of Madagascar (CBM)	
Balance of payments	Quarterly, by the end of the subsequent quarter
Real sector and price data	
INSTAT	
Consumer price index data (provided by INSTAT)	Monthly, within four weeks of the end of each month
Details on tourism	Monthly, within twelve weeks of the end of each month
Electricity and water production and consumption	Monthly, within twelve weeks of the end of each month
Other data	
OCH	
Petroleum shipments and consumption	Monthly, within four weeks of the end of each month

Table 2. Social Spending in 2015 and First Quarter of 2016 by Ministry
(Billions of Ariary)

	End- Dec 2015	End-March 2016
01 Présidence (Presidency)	**4**	**1**
031 Coordination de la lutte contre le SIDA		
05 Primature (Prime Minister's Office)	**36**	**3**
095 Projet d'urgence de securité alimentaire et de reconstruction		
104 Projet d'urgence pour la sécurité alimentaire et protection sociale (PURSAPS)		
105 Filets sociaux de securité		
21 Ministère des Finances et du Budget (Ministry of Finance and Budget)	**43**	**4**
189 Appui d'urgence aux services essentiels d'éducation, de santé et de nutrition		
193 Appui aux couches défavorisées		
194 HIMO - développement		
52 Ministère de l'Eau, de l'Assainissement et de l'Hygiène (Ministry of Water, Sanitation and Hygiene)	**16**	**2**
056 Approvisionnement en eau potable et assainissement		
065 Programme d'approvisionnement en eau potable et assainissement en milieu rural (PAEAR)		
082 Alimentation en eau dans le sud		
084 Evacuation des eaux usées et des ordures ville Antananarivo (SAMYA)		
71 Ministère de la Santé (Ministry of Health)	**43**	**9**
026 Appui aux districts sanitaires		
030 Réhabilitation, construction, équipement des infrastructures		
024 Appui au système hospitalier de référence		
025 Appui aux programmes de lutte contre les maladies transmissibles		
028 Equipes sanitaires mobiles		
045 Appui aux programmes de lutte contre les maladies non transmissibles		
046 Appui aux programmes de lutte contre les maladies epidémo-endémiques		
022 Appui à la politique de survie de la mère et de l'enfant (ex-bien être de la famille)		
Aide d'urgence pour la lutte contre la peste		
76 Ministère de la Population, de la Protection Sociale et de la Promotion de la Femme (Ministry of Population, Social Protection and Promotion of Women)	**1**	**0**
056 Appui aux services sociaux de base		
050 Promotion de développement socio-économique des femmes		
035 Promotion de l'intégration socio-économique des personnes handicapées		
040 Appui aux ménages en difficulté		
046 Amélioration de la condition de vie des personnes âgées		
031 Droits et protection des enfants (ex-services urbains de base)		
81 Ministère de l'Education Nationale (Ministry of National Education)	**62**	**14**
104 Appui à l'enseignement primaire en matière de nutrition		
105 Redynamisation de l'enseignement primaire		
107 Education pour tous (volet MINESEB)		
112 Travaux et équipement pour les écoles primaires		
136 Projet d'appui d'urgence a l'éducation pour tous (PAUEPT)		
138 Programme d'appui aux services sociaux de base-éducation (PASSOBA)		
113 Travaux et équipement des collèges		
102 Appui à l'enseignement general		
132 Travaux et équipement des lycées		
TOTAL	**204**	**33**

Source: Malagasy authorities.

Annex I. Guidelines on Performance Criteria With Respect to External Debt

Excerpt from paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

8. (a) For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary one being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in point 8(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.