INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/221

REPUBLIC OF MADAGASCAR

July 2025

SECOND REVIEW UNDER THE EXTEND CREDIT FACILITY ARRANGEMENT, REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, FINANCING ASSURANCES REVIEW, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT, AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF MADAGASCAR

In the context of the Second Review Under the Extend Credit Facility Arrangement, Request for Modification of Performance Criteria, Financing Assurances Review, and Second Review Under the Resilience and Sustainability Facility Arrangement, 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 July 3, 2025, following discussions that ended on April 14, 2025, with the officials of the Republic of Madagascar on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility and the Resilience and Sustainability Facility. Based on information available at the time of these discussions, the staff report was completed on June 11, 2025.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for the Republic of Madagascar.

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.

PR 25/239

IMF Executive Board Completes the Second Reviews Under the Extended Credit Facility and the Resilience and Sustainability Facility Arrangements with the Republic of Madagascar

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the Second Reviews under the Extended Credit Facility (ECF) arrangement and the Resilience and Sustainability Facility (RSF) arrangement for the Republic of Madagascar, allowing for an immediate disbursement of SDR 77.392 million (about US$107 million).
- Madagascar's performance under the ECF and RSF has been satisfactory. The recent adoption of a recovery plan for the public utilities company (JIRAMA) and the continued implementation of the automatic fuel price adjustment mechanism will release space for critical development needs while helping improve energy supply.
- Recent weather-related events, reduction in official development assistance (ODA) and the U.S tariff hike risk setting Madagascar back; they constitute a wakeup call.

Washington, DC – **July 3, 2025:** The Executive Board of the International Monetary Fund (IMF) completed today the Second Reviews under the 36-month Extended Credit Facility (ECF) arrangement and under the 36-month Resilience and Sustainability Facility (RSF) arrangement. The ECF and RSF arrangements were approved by the IMF Executive Board in June 2024 (see PR24/232). The authorities have consented to the publication of the Staff Report prepared for this review.[1]

The completion of the reviews allows for the immediate disbursement of SDR 36.66 million (about US$50 million) under the ECF arrangement and of SDR 40.732 million (about US$56 million) under the RSF arrangement.

Madagascar has been hit by a myriad of shocks this year, including weather-related events and the dual external shock of ODA reduction (by about 1 percent of GDP) and U.S. tariff hike (47 percent initially). These developments would take a toll on growth, considering the country's high dependence on external financial support and the exposure of its vanilla sector and textile industry to the U.S. market. Growth in 2025 would be lower-than-previously expected at 4 percent.

The current account deficit widened to 5.4 percent of GDP in 2024, due to continued weak performance in some mining subsectors; it is expected to widen further (to 6.1 percent of GDP) this year, amidst challenging prospects in the textile industry and the vanilla sector.

[1] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/MDG page.

Program performance has been satisfactory, with all end-December 2024 quantitative performance criteria and three out of four indicative targets having been met. M3 growth was within the bands of the Monetary Policy Consultation Clause. All but one structural benchmark for the review period were also met. On the RSF front, a new forest carbon framework that promotes private sector participation in the reforestation was adopted and the National Contingency Fund for disaster risk management was operationalized.

At the conclusion of the Executive Board discussion, Mr. Nigel Clarke, Deputy Managing Director, and Acting Chair, made the following statement:

“Performance improved gradually over the first half year of the program, following delays related to mayoral elections; all but one of the end-December 2024 quantitative targets were met, and notable progress was achieved in the structural reform agenda. Recent weather-related and external shocks call for spending reprioritization, deliberate contingency planning in budget execution, and letting the exchange rate act as a shock absorber.

“The recent adoption of a recovery plan for the public utilities company (JIRAMA) is a step in the right direction. Its swift implementation will help address pervasive disruptions in the provision of electricity to households and businesses, while limiting calls on the State budget. The continued implementation of the automatic fuel pricing mechanism will also help contain fiscal risks with targeted measures to support the most vulnerable.

“Pressing ahead with domestic revenue mobilization efforts and enhancing public financial management and the public investment process remain key to fiscal sustainability. Early preparations for the 2026 budget will allow for stronger buy-in from domestic stakeholders; the budget should be anchored in a well-articulated medium-term fiscal strategy that accounts for the implementation of JIRAMA’s recovery plan and creates space for critical development spending.

“While inflation has receded slightly from its January peak, the central bank (BFM) should not loosen monetary policy until inflation is on a firm downward path. Further improvements in liquidity management, forecasting and communication will strengthen the implementation of the BFM’s interest-based monetary policy framework. Maintaining a flexible exchange rate will help absorb external shocks.

“A swift implementation of the authorities’ anti-corruption strategy (2025-2030), together with a homegrown action plan for implementing key recommendations from the IMF Governance Diagnostic Assessment (GDA), will improve transparency and the rule of law, support the authorities fight against corruption and protect the public purse.

“The authorities’ continued commitment to their reform agenda under the Resilience and Sustainability Facility (RSF) will support climate adaptation in Madagascar and complement the Extended Credit Facility (ECF) in fostering overall socio-economic resilience.”

Table. Madagascar: Selected Economic Indicators

	2022	2023	2024	2025	2026
		Est.		Proj.	
	(Percent change; unless otherwise indicated)				
National Account and Prices					
GDP at constant prices	4.2	4.2	4.2	4.0	4.0
GDP deflator	9.6	7.5	7.6	8.3	7.0
Consumer prices (end of period)	10.8	7.5	8.6	8.3	7.3
Money and Credit					
Broad money (M3)	13.8	8.6	14.6	13.7	8.7
	(Growth in percent of beginning-of-period money stock (M3))				
Net foreign assets	0.8	18.2	9.8	1.5	1.4
Net domestic assets	13.0	-9.7	4.8	12.2	7.4
of which: Credit to the private sector	9.8	0.7	5.6	6.0	6.2
	(Percent of GDP)				
Public Finance					
Total revenue (excluding grants)	9.5	11.5	11.4	11.2	12.0
of which: Tax revenue	9.2	11.2	10.9	10.7	11.7
Grants	1.3	2.3	2.3	0.7	0.4
Total expenditures	16.2	17.9	16.2	15.7	16.5
Current expenditure	10.8	10.9	9.6	9.7	9.5
Capital expenditure	5.4	7.0	6.6	6.0	7.0
Overall balance (commitment basis)	-5.5	-4.2	-2.6	-3.9	-4.1
Domestic primary balance[1]	-1.8	-0.3	1.3	0.3	1.4
Primary balance	-4.9	-3.5	-1.9	-2.9	-3.0
Total financing	4.7	4.2	2.7	4.3	4.3
Foreign borrowing (net)	2.4	3.0	2.6	3.5	3.7
Domestic financing	2.2	1.2	0.1	0.8	0.5
Fiscal financing need[2]	0.0	0.0	0.0	0.0	0.0
Savings and Investment					
Investment	21.8	19.9	22.2	23.1	24.2
Gross national savings	16.8	15.9	16.9	17.0	18.2
External Sector					
Exports of goods, f.o.b.	23.0	19.5	14.8	13.5	13.2
Imports of goods, c.i.f.	33.8	28.0	26.4	25.7	25.5
Current account balance (exc. grants)	-6.6	-6.3	-8.1	-6.8	-6.4
Current account balance (inc. grants)	-5.4	-4.1	-5.4	-6.1	-6.0
Public Debt	50.0	52.7	50.3	50.9	52.2
External Public Debt (inc. BFM liabilities)	36.1	37.8	36.7	38.5	40.4
Domestic Public Debt	13.9	14.8	13.6	12.4	11.7
	(Units as indicated)				
Gross official reserves (millions of SDRs)	1,601	1,972	2,189	2,297	2,337
Months of imports of goods and services	4.2	5.7	6.2	6.2	6.0
GDP per capita (U.S. dollars)	529	533	569	596	621

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

[1] Primary balance excl. foreign-financed investment and grants.

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

REPUBLIC OF MADAGASCAR

June 11, 2025

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA, FINANCING ASSURANCES REVIEW, AND SECOND REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

EXECUTIVE SUMMARY

Context. Following uncertainty prior to the mayoral elections, Madagascar was hit hard by weather-related events in early 2025 and, most notably external shocks: some discontinuation in official development assistance (ODA) (about 1 percent of GDP) and the U.S. tariff hike (47 percent initially). These developments risk setting Madagascar back, considering the country's reliance on external financing (USAID support was omnipresent) and exposure of its labor-intensive textile industry and vanilla sector to the U.S. market. The Extended Credit Facility (ECF)and Resilience and Sustainability Facility (RSF) remain focused on helping enhance overall socio-economic resilience (in a fragile political context), in line with the General State Policy (PGE).

Outlook and Risks. The outlook is subject to heightened uncertainty, with risks tilted to the downside. Rising global trade barriers and further cuts in ODA could strain financing of critical needs. At home, deep-seated issues in the utilities sector and governance-related challenges could weaken confidence and undermine private investment. Moreover, weather-related shocks could exacerbate food insecurity. On the bright side, a more ambitious implementation of the government's reform agenda and dissipation of external shocks could spur economic activity.

Program Performance. Program performance is satisfactory. All Quantitative Performance Criteria (QPCs) and three out of four Indicative Targets (ITs) were met at end-December 2024. M3 growth was within the bands of the Monetary Policy Consultation Clause (MPCC). All four continuous structural benchmarks (SBs) were met and one out of two non-continuous SBs was met. There are two prior actions to review completion—related to the JIRAMA recovery plan and the automatic fuel pricing mechanism. One RSF reform measure (RM6 on disaster risk management) was completed on time; RM10 (on forest carbon mechanisms) was completed in early June

(as opposed to April 2025). The authorities are making progress towards RMs due in subsequent reviews.

Policy Discussions. There was overall agreement on policies to promote macroeconomic stability and resilience. These policies entail (i) boosting revenue mobilization and improving budget execution; (ii) fending off fiscal risks; (iii) strengthening inclusive policies; (iv) modernizing monetary policy and safeguarding financial stability; (v) strengthening governance and the fight against corruption; and (vi) bolstering resilience to climate change.

Approved By
Costas Christou (AFR) and Geremia Palomba (SPR)

Discussions were held in Antananarivo during April 2–14, 2025. The IMF team comprised Constant Lonkeng (head), Constance de Soyres, Thibault Lemaire, Joanne Tan (all AFR), Claude Wendling (FAD), Wenjie Li (SPR), Kodjovi Eklou (Resident Representative) and Ialy Rasoamanana (local economist). Laurence Coste (LEG) participated in some meetings virtually. Cheik Mohamed (Advisor to the Executive Director) joined the mission. The team met with President Rajoelina, Prime Minister Ntsay, Minister of Economy and Finance Rabarinirinarison, Minister of Environment and Sustainable Development Fontaine, Minister of Energy and Hydrocarbons Jean-Baptiste, Central Bank Governor Andrianarivelo, other senior officials, development partners, as well as representatives of the private sector, and non-governmental organizations. The mission was supported in the field by Muriel Bemanana and Faliarisonina Razafindralambo (both IMF local office). Danielle Bieleu and Henry Quach (AFR) contributed to the preparation of this report.

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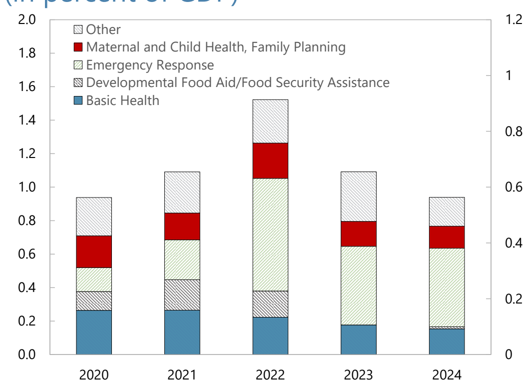
CONTEXT

1. Madagascar's performance under the Extended Credit Facility (ECF) has improved gradually in the first half-year of the program. At the completion of the First Review at end-February, program performance—constrained then by pre-electoral uncertainty—was deemed "mixed". However, the authorities met most program quantitative targets at end-December 2024 (Text Table 2). They have also continued applying the (monthly) automatic fuel pricing mechanism, with significant increases in pump prices in May (¶27). In addition, significant progress has been made on the reform measures (RMs) supported by the RSF.

2. However, adverse shocks since the beginning of 2025 risk setting Madagascar back. Weather-related events, including cyclones and extreme precipitation episodes earlier this year, have displaced populations and damaged infrastructure, lengthening transport times and raising food prices. The trend decline in official development assistance (ODA) and recent discontinuation of USAID support could interrupt critical projects (Text Figure 1), with potential longer term scarring effects, even if the direct near-term growth impact is expected to be modest. The U.S. tariff hike in April is likely to disrupt the labor-intensive textile and vanilla sectors, given the high exposure to the U.S. market.[1]

Text Figure 1. USAID Disbursements

(in percent of GDP)



Source: ForeignAssistance.gov, and IMF staff calculations

*Note: Affected flows include those in which USAID is either the Managing Agency or the Funding Agency.

3. These headwinds are compounding deep-seated structural issues in the utilities sector and governance-related challenges. Longstanding deficiencies in the utilities supply by the state-owned company (JIRAMA) have led to pervasive electricity outages and water shortages, notwithstanding significant calls on the State budget and accumulation of arrears, affecting the population's well-being and economic activity. An International Monetary Fund (IMF) governance diagnostic—conducted at the authorities' request—is being finalized to inform Madagascar's efforts in the area.

4. The ECF and RSF support policies to strengthen macro-economic stability, enhance economic resilience and foster sustained inclusive growth, while helping address climate vulnerabilities. The arrangements are in line with Madagascar's General State Policy (PGE).

[1] The U.S. Fair and Reciprocal Plan was introduced on April 2, imposing a 47 percent tariff on Madagascar exports to the US, subsequently paused through July 2025 on April 5, with a universal 10 percent tariff in the interim.

RECENT ECONOMIC DEVELOPMENTS

5. Growth was stable at 4.2 percent in 2024; positive developments in key sectors in 2025:Q1 were set to spur economic activity. The authorities invested heavily in high-yield hybrid rice seeds. A new codeshare was launched between Air France and Madagascar Airlines in February. Emirates and Ethiopian Airlines have also expanded their flights into the country. Large-scale ilmenite mining exploration activities were launched in January. Recent survey indicators point to a revival of the service sector but still lackluster growth in the primary and secondary sectors in 2025:Q1.

6. Inflation accelerated going into 2025, but has since been receding (although this may be transitory). Headline and core inflation (excluding rice and energy) stood at 8.4 percent and 7.6 percent y/y, respectively, in March 2025 (down from 9.5 and 9.3 percent y/y respectively in January). Headline inflation remains mostly driven by local food price inflation.

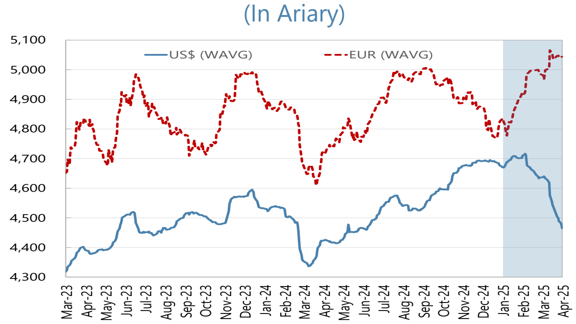
7. Reserves were propelled to 6.2 months of imports in 2024 despite a worsening current account. The current account deficit is estimated to have widened to 5.4 percent of GDP in 2024 (from 4.1 percent of GDP in 2023), driven mainly by a continued weak performance in some mining subsectors (nickel and cobalt) and a drop in the international price of selected commodities (vanilla, cobalt, and nickel). Gross international reserves stood at 6.2 months of imports (from 5.7 months in 2023), mostly driven by FDI and project funding. They remained stable in the first quarter of 2025.

8. A stark decoupling of MGA/USD and MGA/EUR exchange rates is being observed. While the ariary has traditional moved in the same direction vis-à-vis the U.S. dollar and the euro, it has appreciated by 4.9 percent against the U.S. dollar as of end-April while depreciating by 4 percent against the euro (Text Figure 2). Since January 1, 2025, the ariary has recorded one of the largest levels of appreciation against the U.S. dollar among SSA peers.

Text Figure 2. Exchange Rate Developments

Madagascar: Exchange Rate vs. USD and EUR

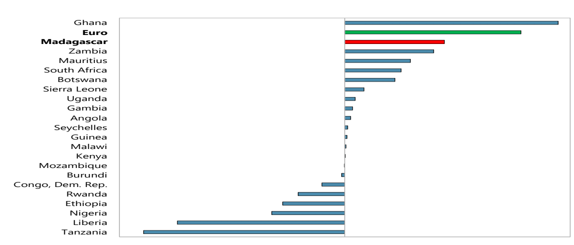
(In Ariary)



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

Sub-Saharan Africa: Exchange Rates vs. USD

(In percent change since Jan. 1, 2025)



Sources: Bloomberg, L.P.; and IMF staff calculations.

Note: Data as of May 8, 2025. Positive change = appreciation.

9. The 2024 primary fiscal deficit was lower than expected at the time of the First Review, mostly due to spending restraint. It stood at 1.9 percent of GDP (compared to the forecasted 2.6 percent of GDP), resulting in a fiscal consolidation of 1.6 percent of GDP, 0.7 ppt of GDP higher than programmed. This was mainly due to a larger-than-expected under-execution of domestically-financed public investment reflecting some expenditures freeze during the preparation of the 2024 revised budget law in 2024:Q2 and under-execution of some expenses in a context of limited availability of financing (Text Table 1). In particular, budget support from the World Bank and the African Development Bank (totaling US$166.5 million) was delayed to 2025. Transfers to JIRAMA were also below projections, with the gap met through continued accumulation of tax arrears to the State and JIRAMA's internal control of expenditures. There was a positive surprise in net tax revenues due to lower VAT refunds than anticipated, resulting from processing delays.

10. Preliminary data for 2025:Q1 suggest under-performance in gross tax revenues and slow execution of domestic capital expenditures.

- While gross revenue collection was in line with projections on an accrual basis, preliminary data suggest that the end-March 2025 IT on gross tax revenues was missed by a narrow margin, due to an accumulation of oil tax arrears by fuel distributors. Some of the new tax policy measures under the 2025 budget (e.g., those related to the reduction of tax expenditures and excise duties) have started yielding additional revenue while others (e.g., the elimination of VAT tax expenditure on interest) are expected to bear fruit with a lag, as economic agents adjust to the new legislation (¶20). The authorities have also partly caught up with late 2024 VAT refunds.
- On the expenditures side, only 16 percent of the total transfer envelope of around 1.7 percent of GDP in the 2025 budget law was disbursed, with the envelope to JIRAMA and fuel distributors disbursed at 27 percent. Execution of domestic capital expenditures remains slow.

Text Table 1. Fiscal Outturns – 2024

	2024 projection first ECF/RSF review		2024 data		Difference data and projection	
	in billions of Ariary	in percent of GDP	in billions of ariary	in percent of GDP	in billions of Ariary	in percent of GDP
Total revenue and grants	10,699	13.6	10,760	13.6	61.3	0.1
Total revenue	8,808	11.2	8,973	11.4	164.2	0.2
Net tax revenue (cash basis)	8,500	10.8	8,618	10.9	118.1	0.1
Net tax revenue (accrual basis)	8,103	10.3	8,221	10.4	118.1	0.1
Domestic taxes	4,370	5.5	4,468	5.7	98.4	0.1
Taxes on international trade and transactions	4,131	5.2	4,150	5.3	19.7	0.0
o/w exceptional revenue (net payment of oil customs tax arrears)	*398*	*0.5*	*398*	*0.5*	0.0	0.0
Non-tax revenue	308	0.4	354	0.4	46.2	0.1
Grants	1,890	2.4	1,788	2.3	-102.9	-0.1
Total expenditure	13,300	16.9	12,781	16.2	-518.9	-0.7
Current expenditure	7,940	10.1	7,605	9.6	-334.7	-0.4
Wages and salaries	4,059	5.1	3,897	4.9	-162.3	-0.2
Interest payments	534	0.7	493	0.6	-40.9	-0.1
Goods and services	573	0.7	512	0.6	-61.3	-0.1
Transfers and subsidies	2,251	2.9	2,014	2.6	-236.9	-0.3
o/w JIRAMA and its suppliers	*932*	*1.2*	*729*	0.9	-202.7	-0.3
o/w fuel price subsidy	*100*	*0.1*	*198*	0.3	97.8	0.1
Treasury operations (net)	523	0.7	689	0.9	166.7	0.2
Capital expenditure	5,359	6.8	5,175	6.6	-184.2	-0.2
Domestic financed	1,263	1.6	827	1.0	-435.8	-0.6
Foreign financed	4,097	5.2	4,348	5.5	251.6	0.3
Overall balance (commitment basis)	-2,601	-3.3	-2,020	-2.6	580.2	0.7
Variation of domestic arrears (+ = increase)	-50	-0.1	-118	-0.2	-68.3	-0.1
Overall balance (cash basis)	-2,651	-3.4	-2,139	-2.7	511.9	0.6
Domestic primary balance[1]	140	0.2	1,034	1.3	893.9	1.1
excluding exceptional revenue	*-258*	*-0.3*	*636*	*0.8*	893.9	1.1
Primary balance	-2,067	-2.6	-1,527	-1.9	539.3	0.7
excluding exceptional revenue	*-2,464*	*-3.1*	*-1,925*	*-2.4*	539.3	0.7

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

[1] Primary balance excl. foreign-financed investment and grants.

11. The banking sector remains resilient. Capital buffers are adequate (12.5 percent at end-December 2024, following a decline to 11 percent at end-June 2024 due to the implementation of Basel III requirement). Credit to the private sector grew by 12.1 percent y/y at end-March 2025. The non-performing loans ratio declined to 7.6 percent at end-December 2024, after peaking at 7.9 percent at end-March 2024.

OUTLOOK AND RISKS

12. External shocks would take a toll on economic activity in 2025 and beyond. Madagascar is one of the most affected countries by the discontinuation of USAID—in the context of a broader trend decline in ODA—and the recent U.S tariff hike in SSA. These shocks combined are expected to lower growth by 0.5 and 0.6 ppt in 2025 and 2026 respectively. Growth is forecasted at 4 percent in 2025 and 2026 (down from 4.6 and 4.7 percent respectively at the First Review). These shocks would also widen the current account deficit in the near-term and lower reserve coverage (see Annex III for a detailed assessment of shocks impact).

13. Growth is expected to converge gradually to its estimated potential of 5 percent over the medium term (albeit with a two-year delay), driven by agriculture, mining expansion, and strong growth in key services sectors, with the entry of new players. Notwithstanding an upward revision in the inflation forecast for 2025 (to 8.4 from 7.2 percent at the First Review), due to a spike in local food prices at the start of the year, inflation is still projected to gradually converge to 6 percent, driven in part by the reduction in food price inflation as agriculture (including rice production) expands. The current account deficit would hover around 5 percent of GDP over the medium-term.

14. Risks to the outlook are tilted to the downside (Annex I).

- **Downside risks** stem from global and domestic factors. Trade policy and investment shocks are a major source of uncertainty. A decline in international aid could leave critical development needs unmet. Other global risks include the intensification of regional conflicts. Domestically, protracted disputes between JIRAMA and fuel distributors could strain public finances. Power outages and water shortages could fuel social discontent, while stalled progress on the fight against corruption could weigh on business confidence and deter investment. Moreover, Madagascar remains highly vulnerable to climate shocks such as drought and extreme precipitation, which could aggravate food insecurity and disproportionally impact the vulnerable.
- **Upside risks** stem from stronger progress in the implementation of reforms under the PGE boosting confidence and catalyzing private investment for higher productivity. In addition, should external shocks and conflicts ease, Madagascar could face positive spillovers from increased tourism, trade and lower commodity prices.

15. The external and overall risk of debt distress continues to be assessed as "moderate" with some space to absorb shocks. However, as highlighted in the latest Debt Sustainability Analysis (DSA), debt sustainability may be at risk in the long term in a pessimistic climate scenario without climate adaptation.

PROGRAM IMPLEMENTATION

16. The two end-December 2024 quantitative performance criteria (QPCs), the two continuous PCs, and three out of four indicative targets (ITs) were met (Text Table 2). The two continuous PCs on external payment arrears and new external debt were met. The floors on BFM's net foreign assets and the primary balance, adjusted upwards to account for delayed World Bank and AfDB budget support were met. While on an upward trend, M3 growth has remained within the bands of the Monetary Policy Consultation Clause (MPCC). The ITs on gross tax revenue, the domestic primary balance and social spending were met. The IT on domestic arrears was not met as the reduction in the stock of domestic arrears was lower than expected, due in part to financing constraints resulting from delays in IMF, World Bank and AfDB budget support.

17. The authorities made progress along ECF program conditionality (MEFP, Table 2) and reform measures (RMs) under the RSF. The law on cash management was adopted by the Council of Government and submitted to Parliament (end-May SB). The authorities have consistently provided revenue administration and JIRAMA-related information, meeting the continuous structural benchmarks (SBs). Fuel prices have been adjusted monthly, in line with the automatic fuel price mechanism. The adoption of JIRAMA's recovery plan was set as prior action for review completion, given delay in meeting the related end-May SB, in addition to the prior action on the legislation for implementing the automatic fuel pricing mechanism over the second half of 2025. On RSF, RM6 (disaster risk management) for end-April 2025 was met. RM10 (forest carbon mechanisms), also for end-April 2025, was completed in early June.

POLICY DISCUSSIONS

18. Policy discussions focused on: (i) boosting revenue mobilization and enhancing PFM, including spending execution; (ii) fending-off fiscal risks; (iii) strengthening inclusive policies; (iv) modernizing monetary policy and safeguarding financial stability; (v) strengthening governance and the fight against corruption; and (vi) bolstering resilience to climate change.

A. Anchoring Fiscal Sustainability

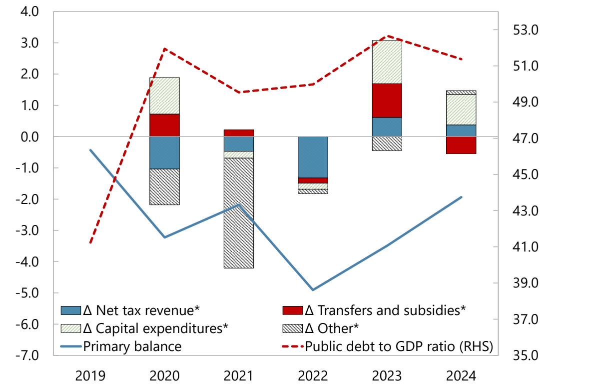
19. The program's overall fiscal strategy remains focused on boosting domestic revenue mobilization (DRM) to enable investment in infrastructure and critical social sectors.

- Stabilizing debt below 60 percent of GDP over the medium-term while investing in infrastructure and human capital development requires continued resolve in DRM, together with a gradual reduction in transfers to JIRAMA as the company's recovery plan is implemented (¶26; Box 1).

- **After increasing by 11 ppts of GDP during COVID-19, public debt has declined to 50–53 percent of GDP range over the past five years, with a reduction of the primary deficit to 1.9 percent of GDP in 2024 (from 5 percent of GDP in 2022).** Meanwhile, there have been shifts in budget composition, with increases in net tax revenues and reduction in transfers and subsidies creating room for higher public investment (Text Figure 3).

Text Figure 3. Fiscal Developments, 2019–24

(In percent of GDP)



*Note: Delta (Δ) values are of labeled year minus 2019 values. The primary balance and public debt to GDP ratio are shown as levels in percent of GDP (hence, subcomponents expressed in changes compared to 2019 do not sum to the primary balance).
Sources: Malagasy authorities; and IMF staff estimates and projections.

Text Table 2. Program Implementation

(Billions of Ariary; unless otherwise indicated)

	Jun-24			Sep-24			Dec-24		
	Program	Data	Status	Program	Data	Status	Program	Data	Status
Continuous Performance Criteria									
Ceiling on accumulation of new external payment arrears	0	0	**Met**	0	0	**Met**	0	0	**Met**
Ceiling on new external debt contracted or guaranteed by the central government or BFM, in present value terms (US$ millions)[1]	800	55	**Met**	800	125	**Met**	800	155	**Met**
Performance Criterion	**PC**			**IT**			**PC**		
Floor on primary balance	-500 Adjusted: -848	-929	**Not met**	-1,100 Adjusted: -706	-677	**Met with adjustor**	-2,300 Adjusted: -1,906	-1,527	**Met**
Floor on net foreign assets (NFA) of BFM (millions of SDRs)	1,084	1,159	**Met**	1,076 Adjusted: 952	1,218	**Met**	1,071 Adjusted: 947	1,347	**Met**
Monetary Policy Consultation Clause[2]									
M3 growth (upper band, percent)	16			16			16		
M3 growth (mid-point, percent)	12	10.5	**Met**	12	11.0	**Met**	12	14.6	**Met**
M3 growth (lower-band, percent)	8			8			8		
Indicative Targets									
Floor on domestic primary balance[3]	700	597	**Not met**	720	1,027	**Met**	120	1,034	**Met**
Floor on total gross tax revenue	4,300	4,290	**Not met**	6,500	6,514	**Met**	8,800	8,945	**Met**
Ceiling on outstanding domestic arrears	730	813	**Not met**	640	571	**Met**	496	644	**Not met**
Floor on social spending[4]	739	1,477	**Met**	1,739	2,293	**Met**	2,900	3,222	**Met**
Memorandum Items									
Official external budget support (grants, millions of SDRs)[5]	0	0		0	0		0	1	
Official external budget support (loans, millions of SDRs)[5]	0	0		124	0		124	0	
External project loans (millions of SDR)[5]	199	259		298	289		398	429	
Program exchange rate (MGA/SDR)	5,768			5,768			5,768		

Sources: Malagasy authorities; and IMF staff estimates and projections.
[1] Cumulative annual ceiling monitored on a continuous basis from the start of each calendar year
[2] If the end of period year-on-year M3 growth is outside the upper/lower bound, a formal consultation with the Executive Board as part of program reviews would be triggered.
[3] Primary balance excluding foreign-financed investment and grants.
[4] Spending on social protection, based on the budget functional classification.
[5] Cumulative amount from the beginning of each calendar year.

The 2025 Budget

20. The authorities are committed to pressing ahead with revenue collection to achieve their 2025 tax targets. Revenue measures identified under the 2025 budget are now expected to amount to 0.4 percent of GDP, down from 0.5 percent of DGP, due to an upward revision to nominal GDP (Text Table 3). While estimated yields from the package of fiscal measures were expected to reach the target set under the program, measures related to the taxation of financial services could have a negative effect on financial inclusion. Net tax revenues are forecasted to decrease by 0.1 ppt of GDP to allow for payment of 2024 VAT refunds that were not executed in 2024. The withholding of oil taxes constitutes a risk for fiscal targets, highlighting the importance to resolve the dispute with fuel distributors (¶28).

21. The authorities are assessing spending reallocation in 2025 in line with program projections. Program projections provide for a higher spending allocation to JIRAMA than the authorities' budget, compensated by smaller domestic capital expenditures than budgeted. Moreover, the authorities are currently assessing the impact of the discontinuation of USAID in detail and exploring what can be accommodated under the budget absent substitute financing from external sources. Execution of domestic capital expenditures remains slow so far, providing, in staff view, sufficient room to address some unavoidable spending reallocation. The authorities noted that credit reallocations for limited changes to spending within expenditures' envelopes could be approved by the Council of Ministers—without recourse to a supplementary budget. Should larger reallocation or an adjustment to the total spending envelope be needed (an assessment typically done in the second half of the year), a supplementary budget would be required and advised by staff. The authorities are committed to keeping spending reallocation within the program parameters and protecting priority social spending.

Text Table 3. Revenue Measures in the 2025 Budget

(In percent of GDP)

	in percent of GDP
Tax policy measures	**0.3**
Elimination of tax expenditures	**0.3**
Elimination of VAT tax expenditure on interest charged by credit institutions on overdraft facilities and financing	0.1
Reduction or elimination of other VAT tax expenditures	0.0
Reduction or elimination of customs tax expenditures	0.1
Reduction or elimination of excise-related tax	0.1
Excise tax - new or increased duties	**0.0**
Revenue administration measures	**0.1**
Total of tax policy and revenue administration measures	**0.4**

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

22. Budget financing continues to rely on external sources, emphasizing the need for contingency measures in case financing falls short of expectations. Already, grants are projected to fall to 0.7 percent of GDP this year (from 2.3 percent in 2024). In line with historical patterns, financing is expected to come mostly from external sources in 2025, with a still shallow domestic government bond market (Text Table 4). There is a strong need for contingency planning in case expected financing does not materialize, including to avoid reliance on arrears accumulation, considering their multi-faceted impact on the economy. Staff estimates indeed suggest that lowering payment delays to the regional average could raise real GDP growth in Madagascar by 0.8 percentage points (Annex IV). In this context, the program accommodates using part of the 2024 fiscal savings to accelerate the reduction of arrears in 2025 (by 0.1 ppt of GDP). In case of revenue shortfalls in 2025, the authorities committed to re-allocate spending within the primary deficit target, through prioritization efforts, including re-prioritizing domestic capital spending, that would aim at protecting social spending and priority investment projects.

Text Table 4. Financing 2024-27

(In percent of GDP)

	2024	2025	2026	2027
Primary balance	**-1.9**	**-2.9**	**-3.0**	**-2.9**
Interest payments	-0.6	-1.0	-1.0	-0.8
Overall fiscal balance (commitment basis)	**-2.6**	**-3.9**	**-4.1**	**-3.8**
Change in accounts payable/arrears	-0.2	-0.5	-0.2	-0.1
Overall fiscal balance (cash basis)	**-2.7**	**-4.3**	**-4.3**	**-3.8**
Total financing, excluding RSF	**2.7**	**4.3**	**4.3**	**3.8**
Net foreign financing	**2.6**	**3.5**	**3.7**	**3.7**
of which: Budget support loans	0.0	1.2	0.5	0.3
of which: Project loans	3.3	3.3	4.4	4.7
Net domestic financing, excluding RSF	**0.1**	**0.8**	**0.5**	**0.1**
ECF disbursements	0.3	0.8	0.0	0.0
ECF repayments	-0.1	-0.1	-0.1	-0.6
Deposit withdrawal, excluding RSF	1.5	-0.5	0.0	0.2
Net T-bill issuances	-0.1	0.0	0.0	0.1
Other net domestic financing	-1.5	0.6	0.5	-0.2
RSF	**0.0**	**1.0**	**0.5**	**0.1**
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**

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

The 2026 Budget: A Primer

23. The authorities intend to start preparing the 2026 budget early. This will not only allow for in depth consideration of policy measures but would also leave more time for consultations, including with the civil society, to foster buy in. The budget should be anchored in a medium-term fiscal strategy that, among other considerations, accounts for availability of financing and execution capacity (Text Table 5).

- On the revenue side, gross tax revenues are expected to increase by 1 ppt of GDP on an accrual basis, in line with the ECF commitment to increase revenue mobilization by 2.4 ppts of GDP over the program (2024–27). This should be supported by a credible package of tax policy and revenue administration measures. Such a package would include the reduction of tax expenditures by at least MGA 280 billion as envisaged under the program.
- On the spending side, the envelope for transfers, especially to JIRAMA, should be consistent with the company's recovery plan. The selection of capital projects should be based on prioritization criteria adopted in January 2025. Social spending (health, education and social protection) is expected to increase gradually overtime, supported by revenue mobilization efforts.
- Financing is expected to come mostly from foreign sources, through budget support and project loans, considering the still shallow domestic debt market.

Text Table 5. Projected Fiscal Consolidation Effort (2022–27)
(In percent of GDP)

	2022	2023	2024	2025	2026	2027
	Data	Data	Est.	Proj.	Proj.	Proj.
Net tax revenue (cash basis)	9.2	11.2	10.9	10.7	11.7	12.6
Net tax revenue (accrual basis)	10.9	10.2	10.4	10.6	11.7	12.6
Net domestic tax revenue (accrual=cash basis)	5.4	5.5	5.7	5.8	6.3	6.9
Net customs revenue (accrual basis)	5.5	4.7	4.8	4.8	5.3	5.7
Net customs revenue (accrual basis), in percent of imports	*18.7*	*18.5*	*19.9*	*20.7*	*23.2*	*24.9*
Net customs revenue (cash basis)	3.9	5.7	5.3	5.0	5.3	5.7
Gross tax revenue (accrual basis)	11.3	10.9	10.8	11.2	12.2	13.2
Gross domestic tax revenue (accrual=cash basis)	5.8	6.0	6.0	6.3	6.8	7.4
Gross customs revenue (accrual basis)	5.5	4.8	4.8	4.9	5.4	5.8
Gross customs revenue (cash basis)	3.9	5.8	5.3	5.1	5.4	5.8
Non-tax revenue	0.3	0.3	0.4	0.5	0.4	0.4
Grants	1.3	2.3	2.3	0.7	0.4	0.3
Total current expenditure, excl. interest payments	10.3	10.2	9.0	8.7	8.5	8.8
Transfers and subsidies	2.9	4.2	2.6	3.0	2.7	2.7
of which: transfers to JIRAMA and its suppliers	*1.4*	*1.3*	*0.9*	...	...	...
of which: transfers to oil distributors	*0.2*	*1.5*	*0.3*	...	...	...
Domestically financed capital expenditure	1.0	1.6	1.0	2.1	2.2	2.4
Foreign financed capital expenditure	4.4	5.4	5.5	3.9	4.8	5.1
Project grants	1.3	2.3	2.3	0.6	0.4	0.3
Project loans	3.1	3.2	3.3	3.3	4.4	4.7
Primary balance	-4.9	-3.5	-1.9	-2.9	-3.0	-2.9
Primary balance with revenue on an accrual basis	**-3.3**	**-4.5**	**-2.4**	**-3.1**	**-3.0**	**-2.9**

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

Revenue administration and PFM

24. The authorities intend to pursue revenue administration reforms. Timely payments of VAT refunds are expected to resume thanks to ongoing digitalization efforts, which should progressively reduce delays. The installation of new SAFI modules is expected by end-2025 (accounting, tax audit, and tax dispute modules). The authorities are committed to implementing an internal control plan to ensure their proper usage by functional departments of the tax administration (MEFP Table 2; **newly proposed SB#3**) and to carry out three systematic internal audits of execution procedures or offices within customs administration (MEFP Table 2; **newly proposed SB#4**). The objectives and resources contracts are being prepared to support adaptation to SAFI and effective usage, for adoption by end-2025 by the Ministry of Finance and the Directorate General of Tax Administration (MEFP Table 2; **SB#2**). Revenues from upcoming mining projects should be recorded as government revenues in the budget and tax provisions related to the extractive sector be consolidated within the General Tax Code (CGI) to improve transparency and predictability for potential investors.

25. Reinforcing fiscal institutions and Public Financial Management (PFM) processes is critical to improve budget execution and traceability. A draft of the new cash management legislation (MEFP Table 2; **SB#13**) has been prepared with AFS CD support and was approved by the Council of Government. Efforts to streamline control mechanisms and accelerate budget execution are still underway, building on the successful rollout of commitment plans to all ministries in fiscal year 2025 and on efforts to reinforce multiannual budgeting for investment projects. The authorities should remain vigilant that discussion of projects in Council of Government does not turn into a bottleneck for budget execution

B. Fending-off Fiscal Risks

26. JIRAMA's operational and financial viability remains a top priority. The company's recovery plan, prepared with World Bank technical support, should help strengthen its operational and financial viability, allowing for a gradual reduction in government transfers and more efficient supply of electricity and water to consumers and businesses (Box 1). The authorities set up a national recovery committee to serve as liaison between JIRAMA and the government and ultimately accelerate work on the plan (MEFP Table 2, **Prior Action**). While work on reducing technical and non-technical losses has started, large investments in the transmission and distribution network are needed. The objective of the plan is to reduce production costs by improving the energy mix, including through increased private sector participation into the sector.

- While the goal is to achieve JIRAMA's financial sustainability, government support is required in the near-term to finance part of the company's operational deficit and a share of renewable energy projects. Other renewable energy projects are expected to be financed by the private sector, with carefully designed guarantee schemes to catalyze private investments. Further discussions will be needed to fully incorporate the impact of JIRAMA's recovery plan into the medium-term fiscal framework (MTFF) and program projections in the context of the 2026 budget discussions and upcoming reviews.
- To support the implementation of the recovery plan, a new SB is proposed to reduce JIRAMA losses from 28 percent in 2024 to at most 24 percent in 2026 and reduce the average electricity operational costs by at least 8 percent from 2024 to 2026 (MEFP Table 2; newly proposed **SB#8, see TMU ¶27-30**). While the reduction in losses is expected to lower

JIRAMA's deficit by around 0.05 ppt of GDP by 2026, reducing production costs is a broad measure that encompasses investment in renewable energy and reduced reliance on costly thermal energy, which could reduce the deficit by around 0.25 ppt of GDP.

Box 1. Madagascar: Recovery Plan for the Public Utilities Company (JIRAMA)1/

Transforming JIRAMA (the public utilities company) into an operationally and financially viable entity has been a perennial issue in Madagascar. Despite substantial government's transfers over the years (averaging 1.2 percent of GDP between 2019 and 2024), electricity outages and water shortages have been pervasive, reflecting both governance issues, obsolete equipment—leading to "technical losses"—and low utilities tariffs. A decisive reform of JIRAMA will help enhance the supply of electricity to households and firms while also limiting calls on the state budget and fiscal risks. This box presents the main building blocks of a JIRAMA recovery plan.

The recovery plan for JIRAMA (the public water and electricity company, with a monopoly on transmission and distribution of power in urban areas while production can be entrusted to private actors) benefited from World Bank technical support. It takes place against the backdrop of other reforms in the electricity market, notably to strengthen the regulator, introduce a robust tariff-setting methodology and open new opportunities for private sector actors, especially in isolated centers through off-grid or mini-grid operations. It was the result of extensive discussions between the authorities and JIRAMA's top management to converge to a consensus on "burden sharing". The focus of the plan is primarily on aspects related to electricity, which currently represents more than 90 percent of the SOE's total sales as of end-2024.

The recovery plan is underpinned by a modification of the statutes of JIRAMA (adopted as part of the WB DPO operation), which will help address JIRAMA's governance issues by clarifying the responsibilities of the State as shareholder and the management of the company. The recovery plan is articulated around five main building blocks:

Medium-term financial path: The medium-term financial path for JIRAMA under the recovery plan is outlined in the table below (for the electricity sector only). While the recovery plan does not enable a return to financial equilibrium over a four-year period, it leads to a reduction by more than 60 percent of the overall operating deficit. Government support is needed to finance the gap between revenues and costs and potentially resolve JIRAMA's arrears to the private sector, which is key to enabling private sector investment in production of renewable energy.

Indicators	**2024**	**2025**	**2026**	**2027**	**2028**
Overall losses (technical and commercial) (%)	28%	26%	23%	20%	18%
Gap (billion Ar)	-1,070	-988	-675	-164	40
New additional connections	33,143	80,000	100,000	100,000	120,000
Renewable energy generated by the private sector (MW)	122	176	369	519	519
Share of renewables in the production mix (%)	54%	55%	56%	64%	80%
Average operational cost (Ar/kWh)	1,072	1,159	990	949	760
Average sales price (Ar/kWh)	631	795	855	925	955

Source: JIRAMA recovery plan, as of May 30, 2025.

Box 1. Madagascar: Recovery Plan for the Public Utilities Company (JIRAMA)(concluded)

Improvement in the energy production mix: With renewable energy representing only 54 percent of the production mix in 2024, the energy mix is a key factor in the recovery to allow reduced reliance on costly thermal energy. Considering the obsolescence of traditional equipment (leading to inefficient use of costly fossil fuels), it is expected that reduced reliance on fossil fuel (via initial investment in renewable) will significantly reduce production costs. The share of renewables in electricity production is expected to increase from 54% to 81% over the period 2024-2028. This increase requires (i) optimization of capacity at existing hydropower plants, (ii) construction of a new solar power plant for the Antananarivo region (100 MW)—factored into the 2025 public investment program—as well as (iii) extension of renewable capacity through renegotiation of existing contracts with independent power producers (IPPs) and a new call for tender for an additional 350 MW. Taken together these operations would enable a significant reduction in the average operational cost, which would decrease from 1,072 Ar/kWh in 2024 to 760 Ar/kWh in 2028 (-29%).

Efficiency gains: A large share of the production is lost before it reaches consumers, contributing to the gap. Efficiency gains are expected to be achieved through improved maintenance of the electricity network (more than a century old in some cases) and a more active fight against commercial losses (illegal connections to the grid). JIRAMA expects a reduction in technical and commercial losses by around 2 percentage points every year over 2025-28.

Revenue gains and tariff policy: Tariffs per kWh are almost half the total cost per kWh. An increase of electricity tariffs was approved by the Council of Ministers in October 2024 for large consumers, with a 3-stage increase of 50 percent over three years (+ 188 billion Ar in additional revenue per year at the end of the process). Tariff increases for households and small businesses are also under discussion, while protecting the most vulnerable.

Resolution of the longstanding arrears issue: JIRAMA's debt totals MGA 4,087 billion at end-2023 (about 5.8 percent of GDP) or MGA 1,439 billion (about 2 percent of GDP) when debt to the government is excluded. The success of the recovery plan largely depends on increasing JIRAMA's credibility as an economic operator and reliable partner. For this reason, the recovery plan also envisages the treatment of payment arrears. As of January 2025, JIRAMA's arrears vis-à-vis the private sector amounted to 1,543 billion Ar (or 1.7 percent of GDP) (arrears vis-a-vis the State and other public entities are estimated to about 3.9 percent of GDP). Considering the large burden of JIRAMA's liabilities, the recovery plan envisages asset sales and restructuring of arrears to allow for gradual repayment while JIRAMA recovers.

While these near-term efforts are warranted and necessary conditions, ensuring JIRAMA long-term financial sustainability will ultimately require the completion of two large hydropower projects (Sahofika for 192 MW, Volobé 2 for 120 MW). These IPPs projects—in the works for some time and subject to extensive delays—are expected to increase production capacity at lower cost, allowing to expand electricity access in the Antananarivo region. Their construction has yet to start and will likely take 4-5 years, leading to their commissioning only after 2030.

1/ Prepared by Claude Wendling (FAD), with inputs from Constance de Soyres (AFR).

27. The continued application of the automatic fuel price adjustment mechanism will help reduce fiscal risks (Text Figure 4).

- The application of the mechanism (since January) has resulted in a cumulative increase in diesel and kerosene prices by 6 and 33 percent, respectively, and a reduction in gasoline prices by 7 percent. As of May, only kerosene remains subsidized by the government, with the pump price currently 20 percent below the reference price (gasoline and diesel pump prices are now both slightly above their respective reference prices).
- The decree underpinning fuel pricing, valid for the first half of 2025, went beyond staff advice, incorporating adjustments to reflect both the changes in reference prices and a

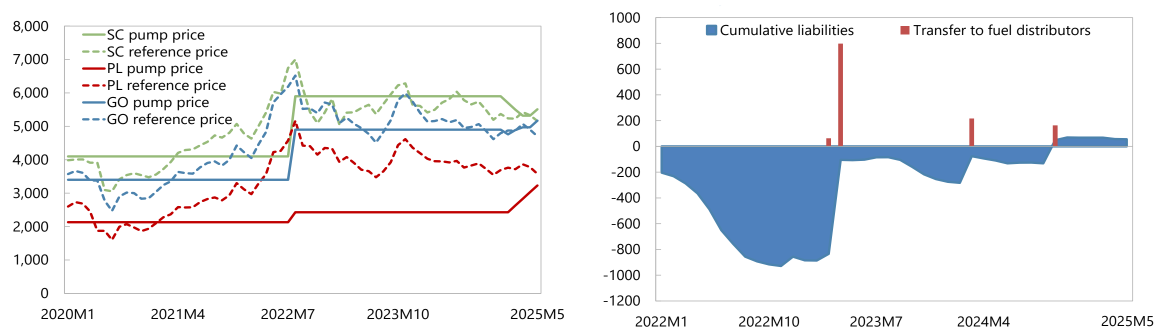
sharp proactive reduction of existing fuel subsidies. The continued rollout of solar kits in rural areas, together with other well-targeted compensatory measures, should help cushion the impact of kerosene price hikes on the vulnerable as the fuel pricing mechanism continues to be implemented (¶41).

- The *arrêtés* setting the reference price structure on a semi-annual basis have kept the structure of reference prices unchanged since 2022 when the 43 percent average increase in fuel prices allowed to increase the margins of oil distributors and oil station managers. In particular, fuel transportation costs have been kept unchanged in the fuel price structure, including through the fuel price increases in 2022.
- The authorities are working on the decree operationalizing the automatic fuel price adjustment for the second half of 2025 and on the *arrêté* setting the reference price structure of fuel products for the same period (MEFP Table 2, **Prior Action**). The decree should include an adjustment of the mechanism to limit over-shooting of the pump price beyond the reference price. Transportation costs are expected to be reflected appropriately across all fuel types in the *arrêté*.

Text Figure 4. Pump and Reference Fuel Prices and Subsidies

Fuel Prices
(In ariary per liter, as of May 5, 2025)

Fuel Price Subsidy—Cumulative Liabilities to Fuel Distributors
(In billions of Ariary)



Sources: Office Malagasy des Hydrocarbures; and IMF staff calculations.

28. The protracted dispute with fuel distributors continues to pose a risk to the program. While they have been enforced, the agreements reached in December 2024 only partly settled liabilities from the past. Therefore, there are still cross-liabilities to settle causing withholding of oil customs taxes by fuel distributors, leading to a vicious circle: there are government liabilities vis-à-vis fuel distributors (e.g., JIRAMA requisitions) while fuel distributors continue to owe the government oil taxes from 2022-25. The implementation of the fuel price adjustment mechanism will help contain the build-up of cross-liabilities. The restructuring of JIRAMA's past liabilities is part of the recovery plan. These two undertakings should also support regular payments of oil taxes.

C. Modernizing Monetary Policy and Safeguarding Financial Stability

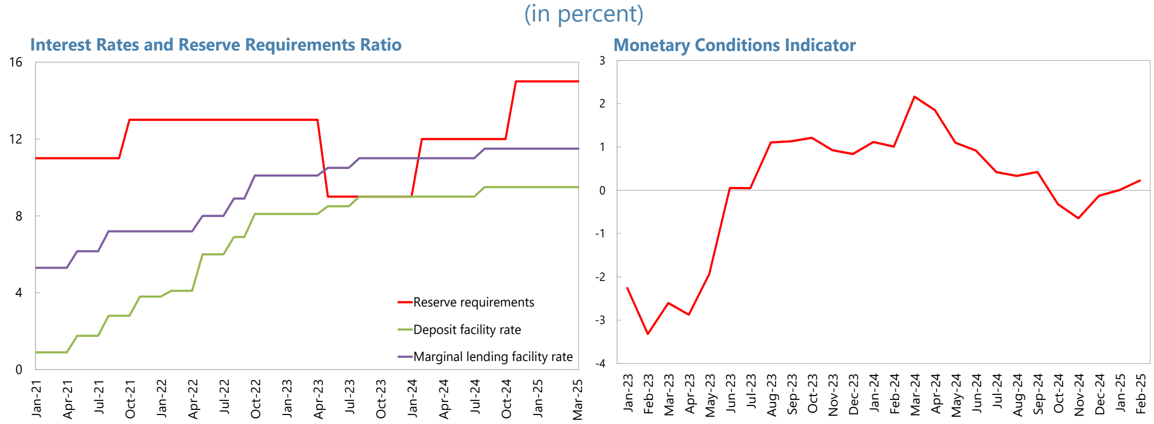
29. The recent sharp tightening by the Central Bank (BFM) should help anchor inflation expectations (Text Figure 5).

- While inflation eased in February and March (see ¶6), a significant share of companies and banks expected it to accelerate (amid strong credit growth recovery) in a recent BFM survey. Broad money growth (M3) reached 15.5 percent y/y at end-January 2025, close to the upper bound (16 percent) of the MPCC, likely driven by FDI and donor project financing. The situation of excess liquidity has persisted.

- BFM increased the policy rate by 150 basis points to 12.0 percent on May 7, following a 300-basis-point increase in the reserve requirements ratio in November 2024. While M3 growth eased to 13.8 percent y/y at end-March, BFM had projected an increase above the MPCC band under unchanged policy. The Central Bank believes that the monetary policy tightening, notwithstanding shocks to the economy, could help anchor inflation expectations and limit the risk of MPCC breach.

Text Figure 5. Monetary Policy Indicators

(in percent)



Note: The Monetary Conditions Indicator captures the combined effect of real interest rate and real effective exchange rate deviations from their equilibrium (a positive value denotes a tightening monetary policy stance).
Source: BFM.

30. BFM should not loosen monetary policy until inflation is on a firm downward path. While the recent drop in international oil prices should partly offset second-round effects from ongoing adjustment of electricity tariffs for businesses, a continued depreciation of the ariary vis-à-vis the euro would feed into inflation (most imported goods are from the Euro Area and some domestic prices are anchored in euros).

31. Maintaining a flexible exchange rate is key to absorb external shocks. The current BFM intervention framework has enabled the ariary to continue to experience two-way movements in early 2025, vis-a-vis the U.S. dollar and the euro, consistent with Madagascar's *de jure* and *de facto* floating exchange rate. Although the real effective exchange rate declined by only 1.1 percent during the first three months of 2025, the exchange rate decoupling could drive Madagascar's trade competitiveness to evolve in opposite directions vis-à-vis the European and U.S. market. Additionally, considering Madagascar's shallow FX market, seasonal and volatile FX flows can trigger episodes of excess supply or currency shortages, especially when heightened global policy uncertainty amplifies domestic pressures. FX interventions could be warranted to preserve macroeconomic and financial stability risks as suggested by the Integrated Policy Framework. However, FXI should not be used to lean against exchange rate pressures that are driven by fundamentals.

32. A properly timed and gradual removal of the surrender requirements would enhance the functioning of the FX market and support the flexible exchange rate regime. No new capital flow management measures (CFMs) have been introduced, but the existing CFMs (a requirement to surrender 70 percent of foreign currency through the interbank FX market) are still in effect. The authorities remain committed to gradually phase out the surrender requirement over the medium term, when market conditions are sufficiently favorable so as not to endanger financial stability. In line with the IMF's Institutional View on Liberalization and Management of Capital Flows, the use of the surrender requirement can be considered justified given the shallow FX market and the unfavorable external environment. The removal of CFMs should consider external vulnerability and progress in reforms to foster institutional and financial development, including macroprudential reforms. Developing an FX forwards market would also support the flexible exchange rate regime.

33. BFM continues to strengthen the implementation of its new monetary policy framework. BFM transitioned to an interest rate targeting operational framework in February 2024, supported by IMF technical assistance. The Central Bank should continue improving liquidity management and the functioning of the interbank market to steer the interbank rate towards the middle of the interest rate corridor. Efforts to improve the Forecasting and Policy Analysis System and communication are under way. The effective implementation of a single Central Securities Depository (now expected by end-2025, previous end-December 2024 SB) will be key to improve the effectiveness of BFM's monetary policy operations.

34. Safeguarding financial stability is crucial for the development of credit markets. Continued monitoring of NPL trends, strengthening early intervention frameworks for distressed banks, enhancing credit risk management, and improving loan classification and provisioning standards will help safeguard financial stability. Work is ongoing to implement Basel II/III standards and improve the regulatory framework for banking supervision. The adoption (by end-June 2025) and implementation of the long-awaited financial stability law (MEFP Table 2; **SB#15**) will be crucial to build capacity to address systemic risks by implementing macroprudential policies, complementing the existing supervision at the microeconomic level by the Banking and Financial Supervision Commission (CSBF). A Financial Sector Stability Review took place in November 2024; the report, once finalized, will provide a roadmap for technical assistance over the next three years, ensuring coordination and appropriate sequencing of capacity building efforts across development partners.

D. Strengthening Transparency, Governance and the Fight Against Corruption

35. The implementation of the new anticorruption strategy SNLCC 2025-2030 is yet to start. Effective implementation requires, starting with the 2026 budget, upgrading the human and financial resources of the institutions in charge of fighting corruption regrouped under the aegis of the CSI (*Comite pour la Sauvegarde de l'Integrite*) within SAC (*Systeme Anti-corruption*). The new SNLCC also provides for regular monitoring and evaluation of progress made, entrusted to a steering committee that is yet to be established.

36. An IMF Governance Diagnostic Assessment (GDA) is being finalized. The report is expected to inform a homegrown time-bound action plan for implementing its recommendations (MEFP Table 2; **SB#14** for end-September 2025). The authorities will likely need technical support for implementing key governance-related reforms.

37. Strengthening transparency would improve accountability, prevent state capture and protect the public purse. The authorities finalized an assessment of their procurement practices according to the Methodology for Assessing Procurement Systems (MAPS) in May 2025. On transparency, work on the new law for large mining investment projects is also underway, with a view to adopting the law and its implementation decree by September 2025 and kicking off an important rare earths project (Base Toliara) under its purview.

38. The channeling of national resources to the Malagasy sovereign wealth Fund (FSM) and their use should be transparent and based on the "value-for-money" principle. This is even more relevant considering the secular decline in official development assistance to which Madagascar is highly dependent. While FSM is committed under its 2021 founding legislation to the Santiago principles for the governance of sovereign wealth funds, it has yet to adopt an investment strategy that would guide its operations, and there is no clarity on its resources either. Staff underscored the need to avoid diverting resources from existing SOEs towards operations that would not pass the traditional budget filter. For instance, the FSM already acquired a 49 percent stake in the special purpose vehicle that will implement the Sahofika hydropower project. The transfer of EUR 50 million from the Toamasina Port to FSM in March could have alternatively gone to the budget (as special dividend) and the decision on their most efficient use considered holistically in the traditional budget process.

39. BFM continues to implement the recommendations of the 2024 safeguards assessment. Priority recommendations aim at improving the internal control environment of the Central Bank, enhancing risk management functions, and mitigating the risks associated with purchases of artisanal gold. BFM has started work on implementing these recommendations, including through formal commitments under the ECF/RSF arrangements.

40. Further progress on Madagascar's anti-money laundering and combating the financing of terrorism (AML/CFT) framework is required in the run-up to the 2026 mutual evaluation. While the decree on targeted financial sanctions has been adopted in February 2025, the new AML/CFT strategy updating the 2022-2026 strategy to cover 2025-2029 is yet to be approved by the government. The Financial Intelligence Unit SAMIFIN is currently seeking technical assistance support with AML/CFT technical assistance providers for preparing Madagascar for the 2026 mutual evaluation.

E. Fostering Inclusive Policies

41. Robust social safety nets are of paramount importance for resilience. To this end, the 2025 budget includes increased allocations to social sectors. The authorities plan to expand the social registry to 2 million households by end-2025 (MEFP Table 2; **SB#16**). Maintaining its accuracy over time should also be a priority as the authorities continue to expand it. The distribution of solar kits to mitigate the impact of kerosene price hikes on vulnerable households is progressing. Cash transfers have been rolled out to around 900,000 households with World Bank support (Tsimbina project). 9 food banks were able to operate in the south of the country during the lean season and will be re-provisioned by the World Food Programme (WFP). The operationalization and provision of the tenth food bank has been delayed to end-June 2025 (originally due by end-October 2024).

42. The authorities are tackling two longstanding challenges in the education sector—teacher quality and governance. With World Bank support, the authorities plan to expand recruitment and training, and to establish a digital system for monitoring teacher presence and an official registry of schools. The project should improve teacher quality, raise learning outcomes and hence human capital development in Madagascar.[2]

43. Digitalization can help accelerate financial inclusion and facilitate business creation. There are ongoing efforts to deploy digital platforms for business creation. BFM is advancing the eAriary project, a retail Central Bank Digital Currency (CBDC), to promote financial inclusion. Work to operationalize a national switch by 2025Q2, which would ensure the interoperability between digital payment systems, is ongoing.

F. Bolstering Resilience to Climate Shocks

44. Enhancing climate adaptation and mitigation remains a key priority of the government, supported by the RSF arrangement.[3] Cognizant of this challenge Madagascar is a pilot country for the *IMF-World Bank Enhanced Framework for Climate Action*. Proposed reform

[2] Kodjovi M. Eklou, Ialy Rasoamanana, Joanne Tan, Mamy Andrianarilala, Rolland Andrianjaka, Chrystelle Tsafack, and Almedina Music. "Improving Education Quality: The Returns to Teacher Training In Madagascar, Republic of Madagascar", Selected Issues Papers 2025, 027 (2025).

[3] See Annex V in IMF Country Report No. 24/205.

measures can mitigate BOP risks by improving fiscal and external sustainability, enhancing BOP and fiscal resilience to shocks, and promote external aid and investment (MEFP Table 3).

45. The instruments for the governance and general framework of climate policies (completed RM 1 and 2 under the RSF) are operational. The interministerial committee for the environment (CIME), renovated as per RM1, chaired by the Prime Minister is now expected to play a key role in the governance of climate-related public policies and will convene twice a year at the minimum, starting in June 2025. The new decree on environmental impact assessments (RM2) has been presented to stakeholders and work is ongoing with donor support to reinforce the National Board for Environment (*Office National de l'Environnement*) that will oversee the implementation of this new framework.[4]

46. Work is advancing on mainstreaming climate considerations in public investment management (PIM) and PFM. A methodology to be used for the climate document in the 2026 budget (RM4, due October 2025) has been finalized. Public entities in charge of PIM (Presidency, MoF, line ministries) will be preparing the 2026 public investment program based on the project selection criteria adopted in February 2025, paving the way for the detailed public investment document expected as part of the 2027 budget (RM3, due October 2026).

47. The disaster risk response mechanisms are being strengthened. The National Contingency Fund (*Fonds National de Contingence* – FNC) created in 2022 has been operationalized (RM6, met end-April 2025), with first disbursements taking place following requests made during the 2024/2025 cyclonic season (January-March 2025); PFM regulations applicable to FNC have been clarified through a ministerial circular adopted in April 2025, including rules for monitoring and evaluation of emergency spending in accordance with the FNC Procedure Manual. A draft of the new Water Code is being discussed with EU support. The authorities will adopt a new Code and two key implementation decrees—on the National Authority for Water and Sanitation (ANDEA – *Autorite Nationale de l'Eau et de l'Assainissement*) and on financing mechanisms—to strengthen the applicable institutional framework for integrated water resource management (RM5, due October 2025).

48. Policies for mitigation of climate change are also progressing. The continued implementation of the automatic fuel pricing mechanism has allowed for a gradual reduction of subsidies, as a first step towards their full elimination (RM7, due May 2026). The JIRAMA recovery plan (Box 1) provides for an improved energy mix—towards renewable energies (solar and hydro). With respect to rural electrification, work on operationalization of the National Fund for Sustainable Energy (*Fonds National de l'Energie Durable* - FNED) has started with the preparation of the FNED decree. However, a call for applications will be needed to enlist the support of a financial institution for the management of FNED, which may delay the realization of the 11.5 MW of new off-grid or mini-grid operations expected by April 2026 (RM9).

[4] Decree MECIE *(Mise en compatibilité des investissements avec l'environnement*) n 2025-080, adopted in January 2025.

49. A new forest carbon framework that encourages private sector participation will support reforestation. The decree that expands the REDD+ mechanism to reforestation projects led by private sector operators was adopted in early June (RM10, due April 2025). Consultations to prepare this decree pointed to significant private sector interest in this new opportunity. The new decree will be fully articulated with voluntary carbon markets and the mechanism under Article 6 of the Paris Agreement, which are being reformed through a separate legal text still under discussion.

50. The climate finance agenda is advancing in the aftermath of the October 2024 climate finance roundtable Antananarivo. The authorities are working on their national climate finance mobilization strategy with support from UNICEF, World Bank and GCA (RM11, due October 2025). They also have initiated work on the green finance taxonomy (RM12, due April 2027), with IFC supporting the central bank in preparatory steps. In addition, under the Country Platform for Climate Finance launched at COP29 Baku, authorities are making progress on additional workstreams identified during the roundtable with development partners. The World Bank and the Global Environment Facility (GEF) are laying the groundwork for a potential issuance for a Lemur Bond to raise funds for conservation and climate resilience with spillovers to the ecotourism sector. Similarly, the World Bank and the African Development Bank are working with the authorities under the Mission300 Energy Compact which aims to connect 2.2 million people annually, including 1.8 million through private-sector mini-grids and solar home systems which includes options for scaling up a results-based grant financing facility.

OTHER PROGRAM ISSUES

51. The authorities request modification of the end-December 2025 program's primary balance QPC and the NFA QPC targets, with new targets set until end-June 2026 (MEFP Table 1). The authorities request a slight modification of the end-December 2025 primary balance QPC to allow for the payment in 2025 of some of the VAT refunds that were not paid in 2024 (the 2025 primary balance target remains at 2.9 percent of GDP). They also request a reduction of end-December 2025 NFA target by SDR 78 million to accommodate the near-term impact of external shocks. Other targets remain unchanged through end-2025. New targets for end-March and end-June 2026 have been set in line with the updated macroeconomic framework.

52. Structural conditionality was augmented. Two SBs were added to support domestic revenue mobilization (end-May 2026 due dates). A new end-2026 SB was added to support the implementation of JIRAMA's recovery plan and another one to support the adoption of the required regulations to implement the automatic fuel price adjustment mechanism in the first half of 2026.

53. The authorities are pursuing appropriate policies and making good faith efforts to clear their external arrears. Due to missing evidence and absent any communication from external private creditors, the authorities are in the process of erasing their log of external arrears to private sector creditors (valued at US$18 million at end-2024), in accordance with the statute of limitations stipulated in their domestic legal framework on government arrears.[5] As for the clearance of external arrears to public creditors, the authorities are still awaiting for and have recently reached out again for official responses from Algeria and Angola and stand ready to follow-up as needed.[6]

54. Capacity development (CD) will continue to support reform implementation. Proposed priorities are fully aligned and integrated with program objectives (Annex II), with CD spending on fiscal policy and management, as well as the financial and monetary sectors increasing substantially since program approval. In addition, CD covers core priority areas relevant to the program, with CD in recent years on climate and debt and with upcoming CD focused on governance and corruption, to support the implementation of the homegrown GDA-based action plan (MEFP Table 2; **SB #14**).

55. The program remains fully financed with firm commitments for the next 12 months and with good prospects for adequate financing for the remaining program period. Projected external financing sources are sufficient to satisfy external financing requirements until 2027.[7] The program still envisages that the Second and Third Reviews' disbursements would be directed to the budget.

56. RSF disbursements will increase fiscal space, strengthen the country's ability to face future climate-related shocks and reduce prospective balance of payments risks. Public investment priorities include expanding Madagascar's renewable electricity production capacity and building resilient infrastructure. The RSF disbursements will also contribute to gross official reserves and strengthen long-term BoP sustainability.

57. Capacity to repay (CtR) the Fund remains adequate but is subject to significant risks. Annual repayments are expected to peak in 2027 and reach 0.8 percent of GDP, 5.8 percent of government revenue and 3.5 percent of exports. Outstanding credit is expected to peak in 2026 at 360.6 percent of quota, 5.9 percent of GDP or half of government revenue, and expected to decline thereafter. Adherence to program targets and the programs' ability to catalyze donor support (notably World Bank and AfDB) would help alleviate risks during peak years. In addition, CtR risks are mitigated by the authorities' commitment to reforms, track record of paying the Fund, and contingency planning in case catalytic financing falls short of projections.

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[5] According to government circular no. 12784-FIN/DB/BC1/1, an external creditor of the government has five years from the payment due date to come forward for payment, failing which, the arrear to the concerned external creditor can be erased from the public record. As the Malagasy government's external arrears to the private sector are over five years old and attempts to contact these creditors have been unsuccessful, the authorities have decided to erase these arrears from their records. These arrears will be officially erased upon the issue of an order from the Minister of Economy and Finance.

[6] Madagascar has long-standing arrears to Algeria and Angola (for a total of US$188 million) which continue to be deemed away under the policy on arrears to official bilateral creditors, as the underlying Paris Club agreement is adequately representative, and the authorities are making best efforts to resolve the arrears and have recently met with both the Algerian and Angolan authorities to follow up on their arrears clearance request The authorities note that neither official creditor has expressed objection to their arrears clearance request.

[7] Other financing in 2025 includes budget support from other development partners, including the AfDB. The World Bank approved in 2023 the first of a series of three Development Policy Operations, which resulted in the disbursement of USD 100 million in July 2023. The second tranche is expected to be disbursed in 2025:Q2.

58. The authorities request an extension to the deadline for issuance of the Poverty Reduction and Growth Strategy (PRGS) to the Third ECF Review. While the PGE (published in January 2024) outlined the overall strategy for the new presidential term, the authorities require more time to elaborate on the details of their medium-term strategy (MEFP ¶73).

STAFF APPRAISAL

59. The ongoing myriad of shocks is a wake-up call. Following uncertainty pre-election, Madagascar was hit by weather-related events earlier this year, and large external shocks, notably some discontinuation in ODA support and the U.S. tariff hike. These developments would take a toll on economic activity, with potential scarring effects. At the same time heightened global uncertainty put a premium on strengthening domestic institutions and fundamentals. The ECF and RSF remain focused on promoting policies that help foster overall socio-economic resilience, in line with the General State Policy.

60. Performance gradually improved over the first half-year of the ECF and RSF; but continued resolve is needed. The four QPCs were met at end-December 2024. The authorities made progress in the implementation of structural reforms and have continued applying the automatic fuel pricing mechanism. RSF-supported reform measures are being implemented broadly according to schedule. Pressing ahead with reforms will help improve Madagascar's overall socio-economic resilience in a world increasingly prone to shocks.

61. Contingency planning is critical to preserve budget credibility, especially in uncertain times. The authorities are considering spending reallocations within the overall budget envelope to mitigate the impact of some discontinuation in ODA absent alternative source of external financing. A supplementary budget could be considered in the second half of the year if needed reallocations are significant, while remaining within the program's parameters and protecting priority social spending. Delayed payments in oil taxes since the beginning of the year are a risk to program targets. The authorities intend to implement contingency measures as needed to remain in line with the 2025 fiscal targets.

62. Creating fiscal space for investment and social spending requires continued efforts in domestic revenue mobilization (DRM). DRM should be supported by the effective implementation of a comprehensive tax policy and revenue administration strategy, including the ongoing elimination of costly tax exemptions. The fiscal space generated will help scale up spending in education, health, and social protection.

63. A swift implementation of JIRAMA's recovery plan is a top priority. This will help enhance the efficiency of electricity and water supply to households and businesses, thereby improving people's well-being and economic activity. Reducing JIRAMA's production costs and losses will support the financial viability of the company, limiting calls on the State budget and leaving room for critical spending.

64. It is crucial to contain fiscal risks from administered fuel prices and disputes with fuel distributors. The continued implementation of the automatic fuel price adjustment mechanism, by containing fuel subsidies, will release space to meet Madagascar's large development needs. Resolving the dispute with fuel distributors and settling cross-liabilities should facilitate timely payment of oil customs taxes in a virtuous cycle.

65. Reinforcing fiscal institutions and PFM processes is critical to improve budget execution and traceability. The authorities should consider formally developing a medium-term fiscal strategy anchored on a debt target consistent with Madagascar's debt-servicing capacity to strengthen fiscal sustainability.

66. Enhancing transparency would help preserve the public purse. Transparency in public finances, including the process for channeling national resources to the Malagasy Sovereign Wealth Fund (FSM) and their use, will help gauge "value-for-money"—which is even more relevant considering the secular decline in ODA on which Madagascar is highly dependent.

67. The IMF Governance Diagnostic Assessment (GDA) should support the authorities' homegrown action plan for fighting corruption and improving governance and the rule of law. They are encouraged to leverage the synergies between the GDA recommendations and their recently adopted anti-corruption strategy for 2025–2030 and ensure regular monitoring and evaluation of progress made.

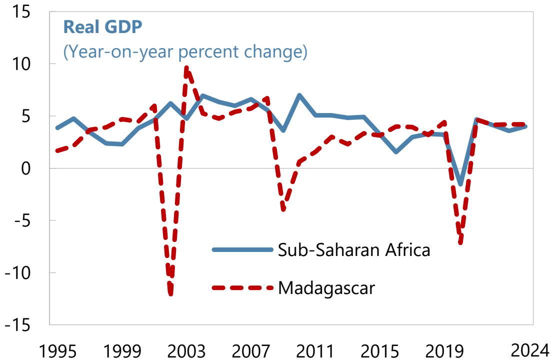
68. BFM should not loosen monetary policy until inflation is on a firm downward path. BFM should continue to manage liquidity through open market operations and communicate more predictably and transparently about monetary policy and liquidity management to enhance credibility and accountability. Maintaining a flexible exchange rate regime remains the most effective way to absorb external shocks, especially in a context of heightened global uncertainty. Further development of the interbank market and strengthening of the interest rate channel of monetary policy will enhance the functioning of the new monetary policy operational framework. Safeguarding financial stability is key for the development of private credit markets.

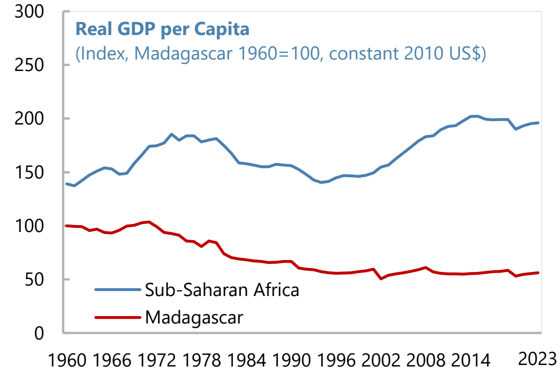
69. Developing climate change sensitive policies would help to build resilience to climate shocks. Madagascar should leverage the IMF-World Bank Enhanced Cooperation Framework for Climate Action to reinforce its emergency response capacity, increase agricultural productivity, improve infrastructure, and strengthen social safety nets. Ensuring consistency of new investment projects with the authorities' goals to protect biodiversity and limit deforestation require resolve. Madagascar should design a national climate finance mobilization strategy to strengthen its position as an attractive destination for climate-related investments.

70. Based on Madagascar's performance and commitments under the program, staff support the completion of the Second Review under the ECF arrangement, the modification of performance criteria, the completion of the financing assurances review and the completion of the Second Review under the RSF. The attached Letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to support the program objectives. The capacity to repay the Fund is adequate and risks to program implementation are manageable.

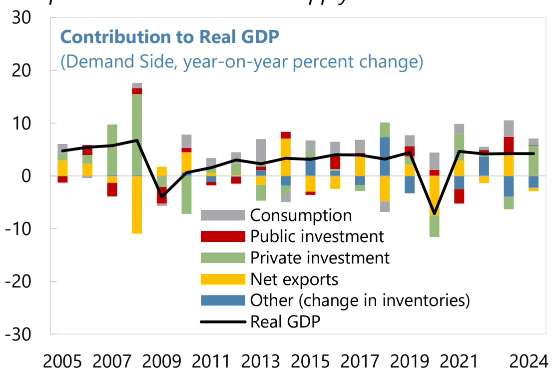
Figure 1. Madagascar: Real Sector Developments

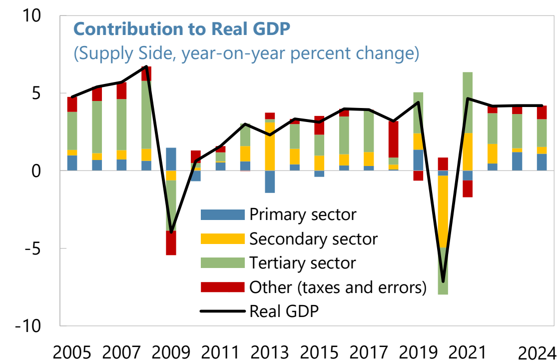
Growth has stabilized at 4.2 percent in 2024, slightly above SSA average while real GDP per capita remains well below SSA average.



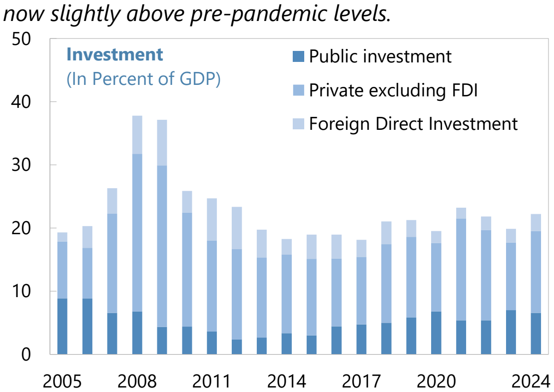


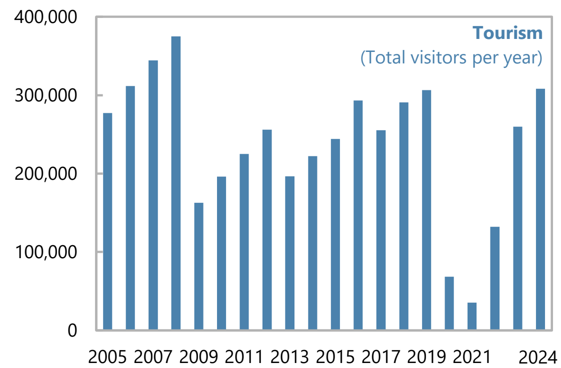
Economic activity in 2024 was driven by private consumption and investment on the demand side and agriculture, transport and tourism on the supply side.





Despite elections-related uncertainty, FDI inflows have continued, and tourist arrivals have rebounded strongly and are now slightly above pre-pandemic levels.

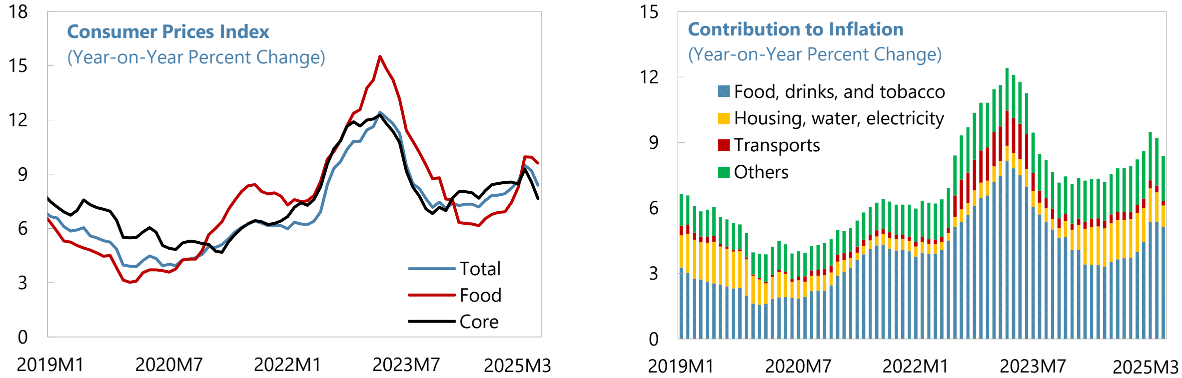




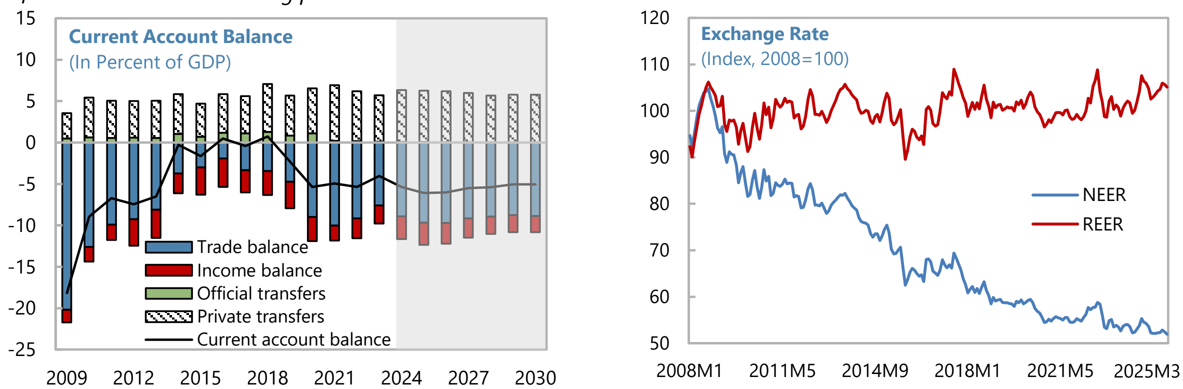
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 2. Madagascar: Inflation and External Developments

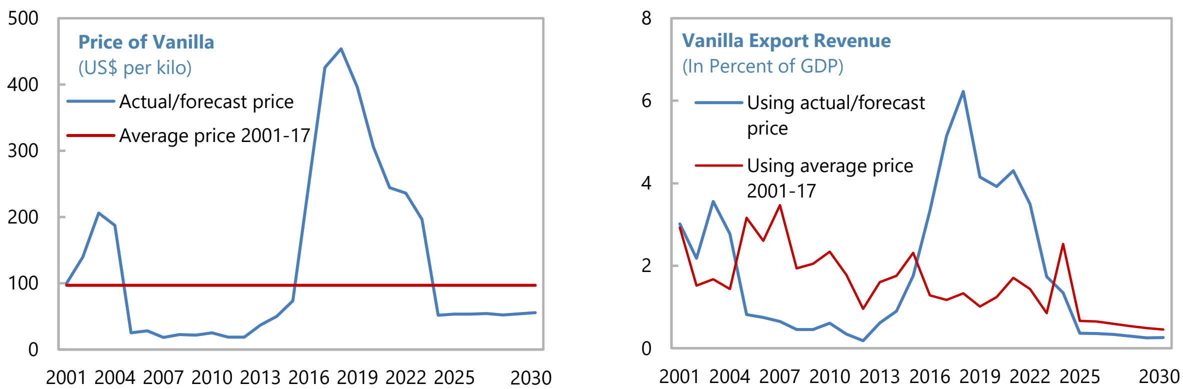
After peaking in January 2025, inflation receded slightly, as food price inflation tapered., mainly driven by stubbornly high food price inflation



The current account deficit is projected to stabilize around 5 percent of GDP over the medium-term. While the nominal exchange rate has continued to depreciate in 2024, the real exchange rate remains stable, reflecting Madagascar's higher inflation relative to its trading partners.



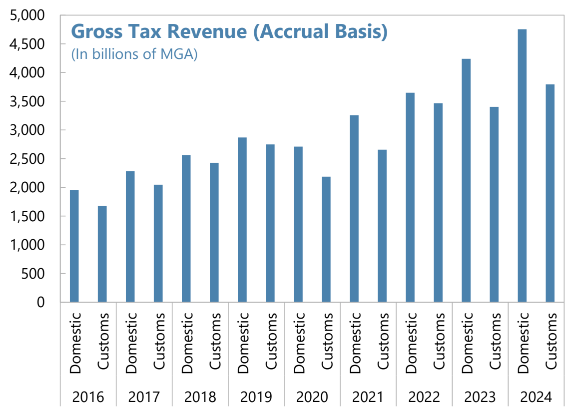
Vanilla exports are projected to be subdued in the medium-term as worldwide demand and prices remain low.

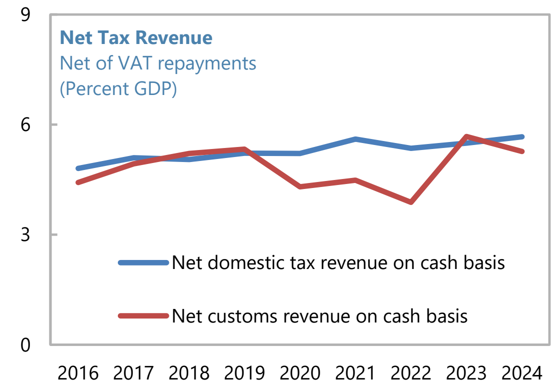


Sources: Malagasy Authorities; and IMF staff estimates.

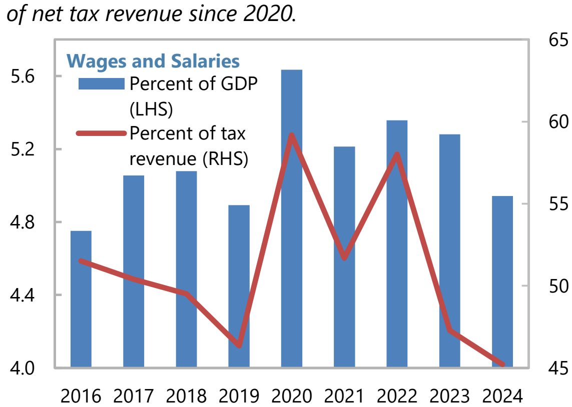
Figure 3. Madagascar: Government Revenue and Spending

Gross tax revenue increased slightly in 2024, while net tax revenue as a share of GDP remained stable.

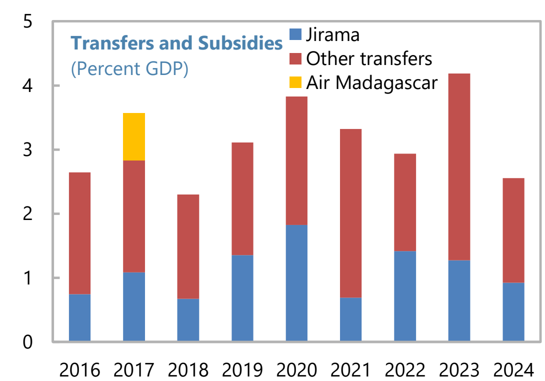




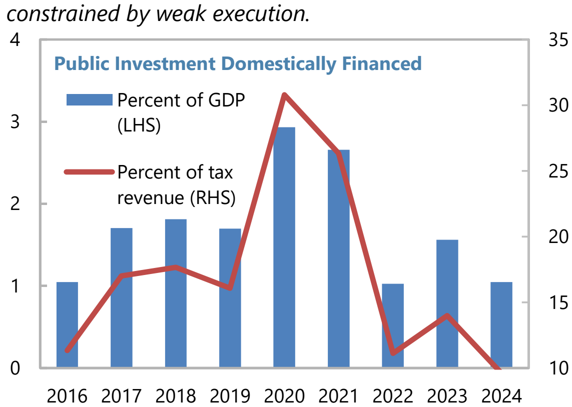
The wage bill has consumed between 45 and 60 percent of net tax revenue since 2020.



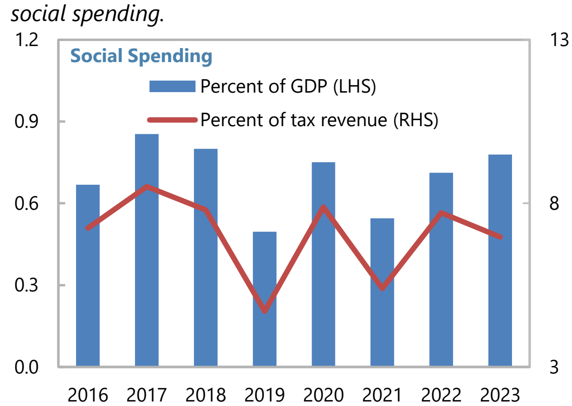
Transfers to fuel distributors (included in other transfers) drove the decline in transfers in 2024.



Domestically financed public investment continues to be constrained by weak execution.



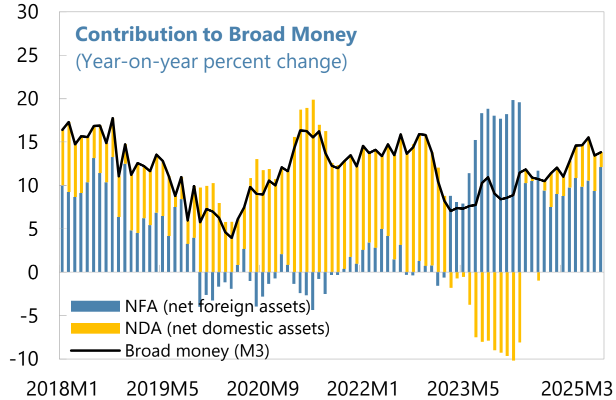
A growing share of tax revenue is being allocated to social spending.

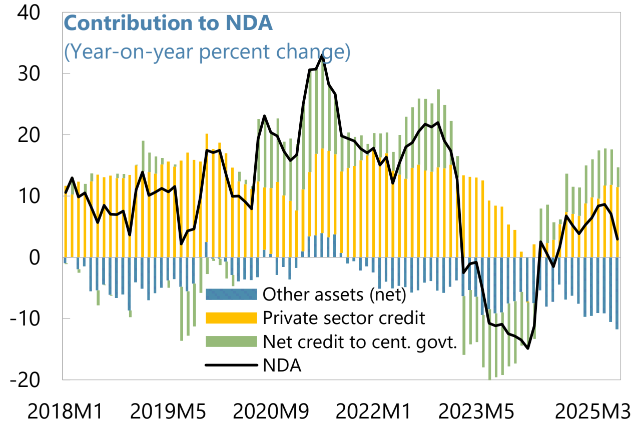


Sources: Malagasy Authorities; and IMF staff estimates.

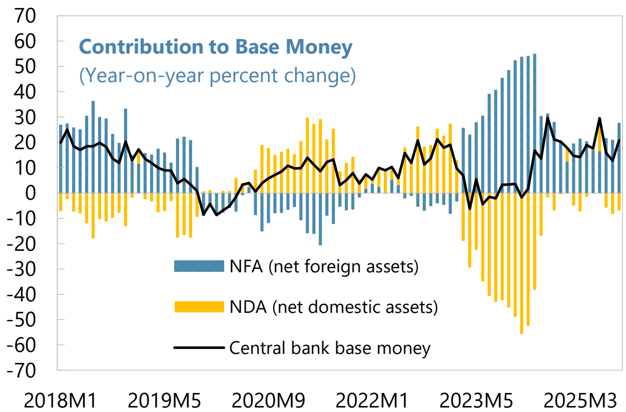
Figure 4. Madagascar: Monetary Developments

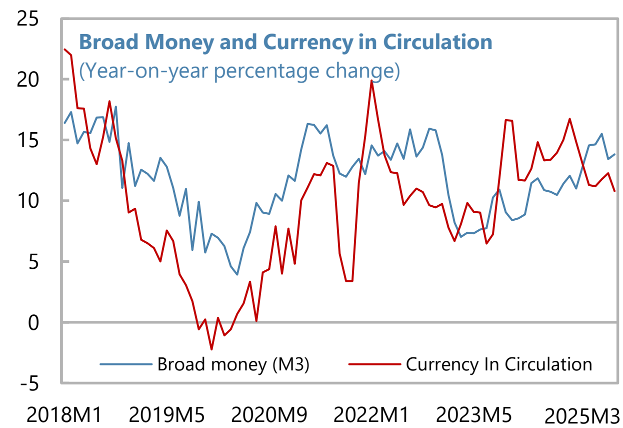
Since 2023, broad money growth has been driven by the increase in NFA, while net credit to the government has declined following the cession of the 2021 SDR allocation to the Treasury (leading to an increase in government's deposits).



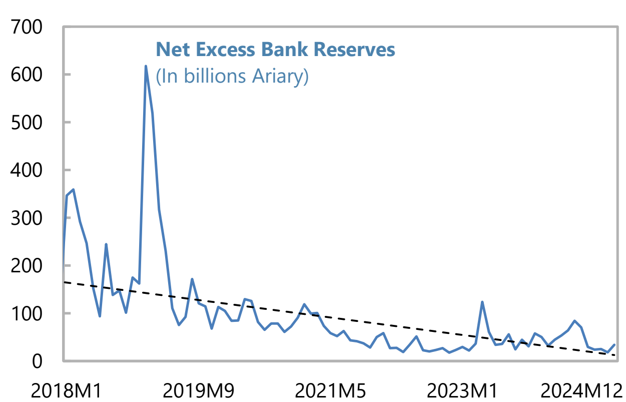


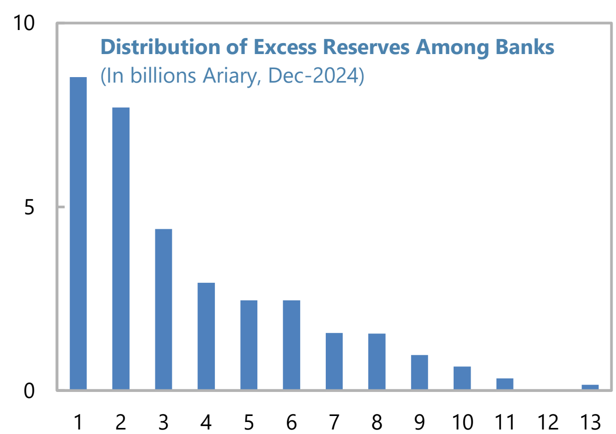
Base money has risen in recent months after the slowdown that followed monetary policy tightening, owing to large FX inflows at the end of 2024.





Bank excess reserves have been on a downward trend and remain unevenly distributed across banks.

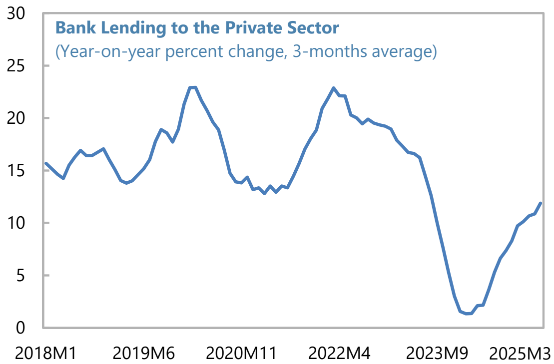




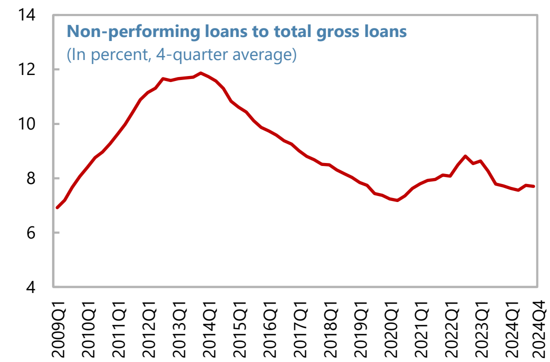
Sources: Malagasy Authorities; and IMF staff estimates.

Figure 5. Madagascar: Financial Sector Developments

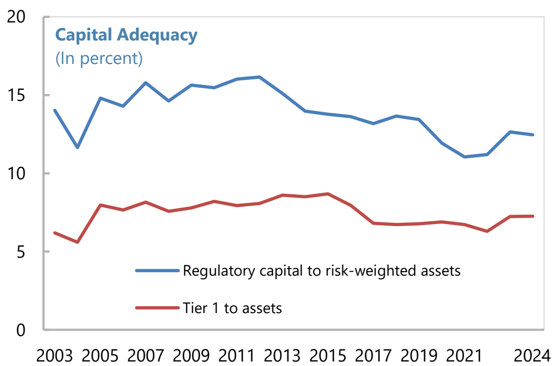
Credit growth has resumed after the sharp drop in 2023....



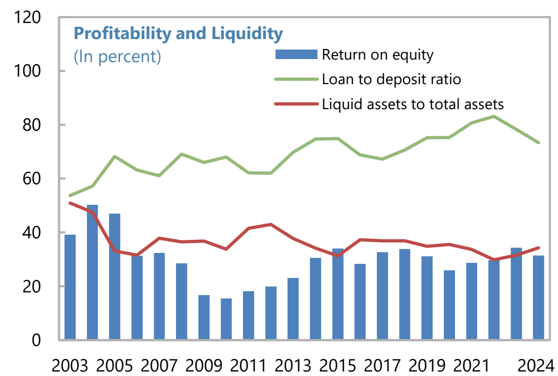
...with the quality of assets further improving as NPLs continue to decline.



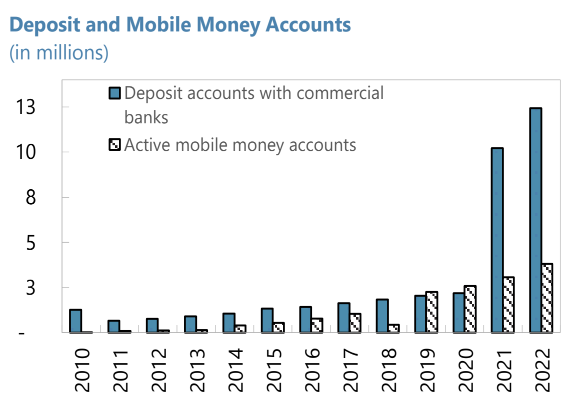
Overall, the banking system remains adequately capitalized...



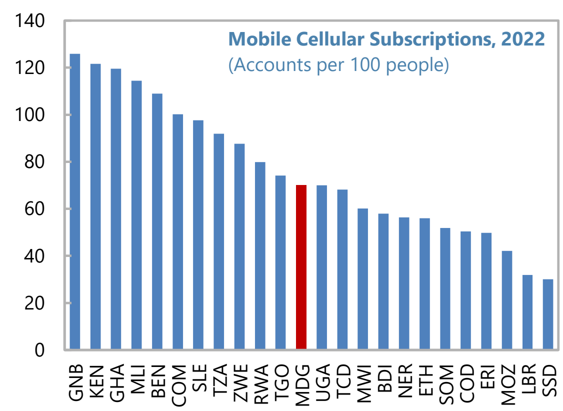
...and continues to remain profitable and liquid.



Mobile banking activities continue to grow steadily....

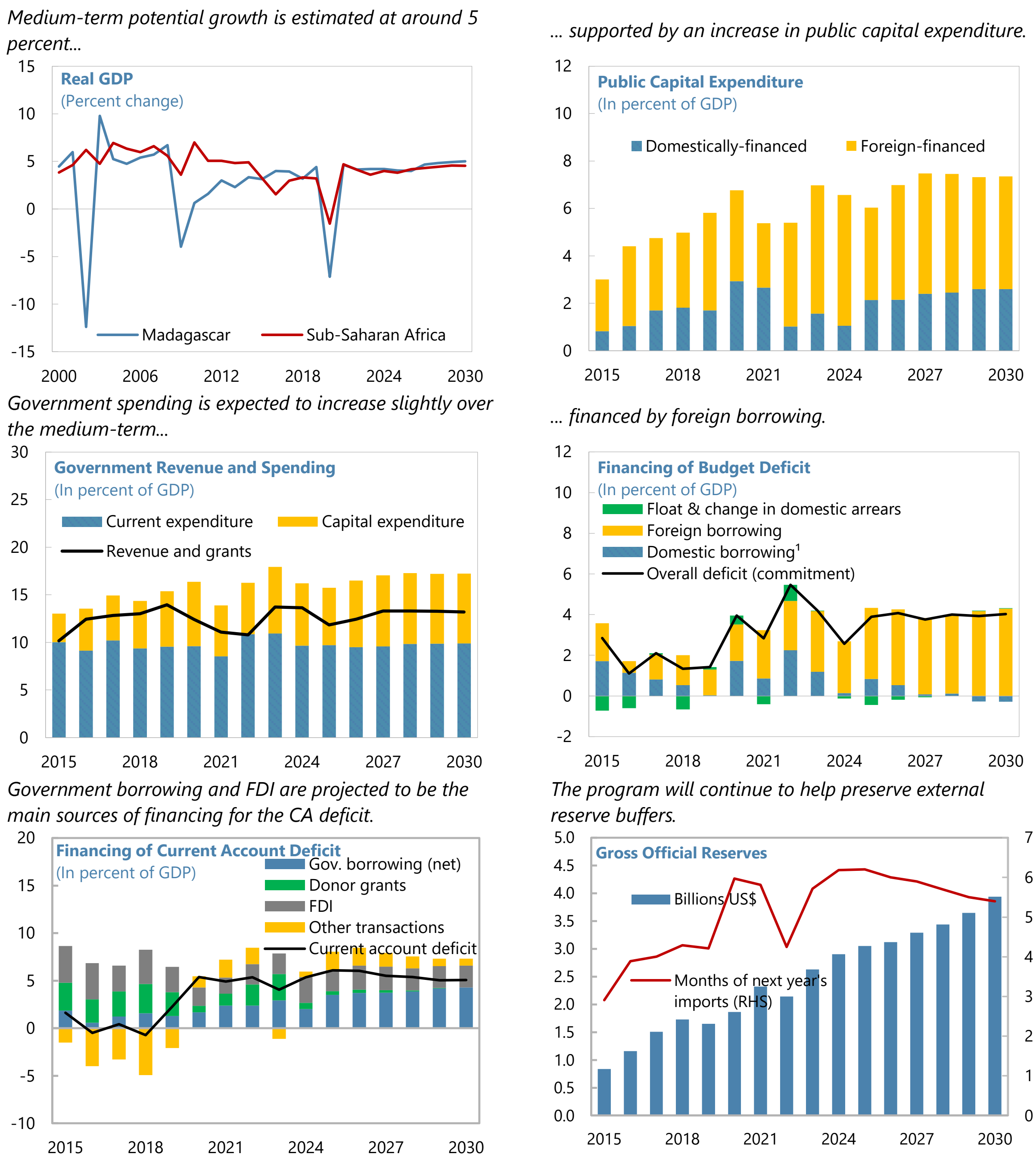


...although the country continues to lag behind its peers.



Sources: Malagasy Authorities; IMF Financial Access Survey; World Bank; and IMF staff estimates.

Figure 6. Madagascar: Medium-Term Macroeconomic Prospects



Sources: Malagasy Authorities; and IMF staff estimates.

[1] Domestic borrowing is net, not showing short-term T-bills rollover, and including net on-lending of IMF financing by the central bank.

Table 1. Madagascar: Selected Economic Indicators

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
	Act.	Act.	Act.	Act.	First Review	Est.	First Review	Proj.	Projections				
					(Percent change; unless otherwise indicated)								
National account and prices													
GDP at constant prices	-7.1	4.7	4.2	4.2	4.2	4.2	4.6	4.0	4.0	4.7	4.8	4.9	5.0
GDP deflator	4.3	6.3	9.6	7.5	7.6	7.6	7.2	8.3	7.0	6.1	5.7	5.6	5.7
Consumer prices (period average)	4.2	5.8	8.2	9.9	7.6	7.6	7.2	8.4	7.2	6.4	6.0	6.0	6.0
Consumer prices (end of period)	4.6	6.2	10.8	7.5	8.6	8.6	7.6	8.3	7.3	6.5	6.2	6.0	6.0
Money and credit													
Reserve money	10.8	7.4	17.9	-1.8	29.7	29.6	6.7	12.5	2.6	10.9	12.1	12.7	13.0
Broad money (M3)	12.1	12.2	13.8	8.6	15.5	14.6	13.6	13.7	8.7	10.3	11.5	12.1	11.9
					(Growth in percent of beginning of period money stock (M3))								
Net foreign assets	2.1	1.0	0.8	18.2	11.5	9.8	2.7	1.5	1.4	5.3	5.6	6.6	4.5
Net domestic assets	10.0	11.2	13.0	-9.7	4.0	4.8	10.9	12.2	7.4	5.0	5.9	5.5	7.4
of which: Credit to the private sector	5.6	11.1	9.8	0.7	5.7	5.6	6.6	6.0	6.2	6.7	7.3	7.9	8.8
					(Percent of GDP)								
Public finance													
Total revenue (excluding grants)	9.9	10.4	9.5	11.5	11.2	11.4	11.3	11.2	12.0	13.0	13.0	13.2	13.2
of which: Tax revenue	9.5	10.1	9.2	11.2	10.8	10.9	10.8	10.7	11.7	12.6	12.6	12.8	12.8
Grants	2.5	0.7	1.3	2.3	2.4	2.3	0.7	0.7	0.4	0.3	0.3	0.1	0.1
of which: budget grants	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditures	16.4	13.9	16.2	17.9	16.9	16.2	15.8	15.7	16.5	17.0	17.3	17.2	17.2
Capital expenditure	6.8	5.4	5.4	7.0	6.8	6.6	6.3	6.0	7.0	7.5	7.4	7.3	7.4
Overall balance (commitment basis)	-4.0	-2.8	-5.5	-4.2	-3.3	-2.6	-3.8	-3.9	-4.1	-3.8	-4.0	-3.9	-4.0
Variation of domestic arrears (+ = increase)	0.4	-0.4	0.8	0.0	-0.1	-0.2	-0.3	-0.5	-0.2	-0.1	0.0	0.0	0.0
Overall balance (cash basis)	-3.5	-3.2	-4.7	-4.2	-3.4	-2.7	-4.1	-4.3	-4.3	-3.8	-4.0	-3.9	-4.0
Domestic primary balance[1]	-1.9	-0.1	-1.8	-0.3	0.2	1.3	0.5	0.3	1.4	1.8	1.6	1.5	1.4
Primary balance	-3.2	-2.2	-4.9	-3.5	-2.6	-1.9	-2.9	-2.9	-3.0	-2.9	-3.2	-3.1	-3.3
Total financing	3.5	3.2	4.7	4.2	3.4	2.7	4.1	4.3	4.3	3.8	4.0	3.9	4.0
Foreign borrowing (net)	1.8	2.4	2.4	3.0	2.3	2.6	3.3	3.5	3.7	3.7	3.9	4.2	4.3
Domestic financing	1.7	0.9	2.2	1.2	1.0	0.1	0.8	0.8	0.5	0.1	0.1	-0.3	-0.3
of which: onlending of IMF financing[2]	2.9	0.5	0.6	0.4	0.3	0.3	1.8	1.8	0.5	0.1	0.0	0.0	0.0
of which: cession of August 2021 SDR allocation				2.0									
Fiscal financing need[3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings and investment													
Investment	19.5	23.2	21.8	19.9	22.5	22.2	20.5	23.1	24.2	24.7	24.7	24.8	24.9
Gross national savings	12.3	11.5	16.8	15.9	17.5	16.9	15.1	17.0	18.2	19.2	19.3	19.8	19.8
External sector													
Exports of goods, f.o.b.	15.0	18.9	23.0	19.5	14.7	14.8	14.0	13.5	13.2	13.4	13.1	13.2	12.9
Imports of goods, c.i.f.	24.3	29.1	33.8	28.0	26.3	26.4	24.3	25.7	25.5	25.4	25.3	25.2	24.8
Current account balance (exc. grants)	-7.9	-5.6	-6.6	-6.3	-7.4	-8.1	-6.2	-6.8	-6.4	-5.8	-5.7	-5.2	-5.1
Current account balance (inc. grants)	-5.4	-4.9	-5.4	-4.1	-5.0	-5.4	-5.5	-6.1	-6.0	-5.5	-5.4	-5.1	-5.1
Public debt	52.1	49.5	50.0	52.7	51.4	50.3	52.9	50.9	52.2	52.8	52.2	53.2	51.6
External Public Debt (inc. BFM liabilities)	36.4	34.8	36.1	37.8	37.4	36.7	40.2	38.5	40.4	41.7	41.7	43.2	42.0
Domestic Public Debt	15.7	14.8	13.9	14.8	13.9	13.6	12.7	12.4	11.7	11.1	10.5	10.0	9.6
					(Units as indicated)								
Gross official reserves (millions of SDRs)	1,338	1,630	1,601	1,972	2,189	2,189	2,380	2,297	2,337	2,457	2,561	2,715	2,922
Months of imports of goods and services	6.0	5.8	4.2	5.7	6.3	6.2	6.6	6.2	6.0	5.9	5.7	5.5	5.4
Real effective exchange rate (pa, percent change)	-0.8	-1.1	3.1	-1.2	3.3	3.2	...	...	...	...	...	...	...
Terms of trade (percent change, deterioration -)	-8.6	-13.8	-4.1	-13.5	-4.7	-6.7	3.3	6.8	2.6	-0.2	-0.3	-1.8	-0.2
Memorandum items													
GDP per capita (U.S. dollars)	477	509	529	533	569	569	584	596	621	657	705	757	814
Nominal GDP at market prices (billions of ariary)	49,436	54,978	62,775	70,297	78,837	78,835	88,422	88,873	98,889	109,804	121,635	134,811	149,632

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

[1] Primary balance excl. foreign-financed investment and grants.

[2] RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF and RSF disbursements in 2024-2027 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

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
	Act.	Act.	Act.	Act.	First Review	Est.	First Review	Proj.	Projections				
						(Percent change)							
Real supply side growth													
Primary sector	-1.4	-2.5	2.0	5.3	4.8	4.8	4.8	2.1	2.4	3.2	3.2	3.5	3.6
of which: Agriculture	-2.3	-1.7	3.7	3.2	7.2	7.2	7.1	3.3	3.3	4.3	4.3	4.4	4.4
Secondary sector	-29.5	20.3	9.3	1.8	3.2	3.2	4.2	2.2	0.4	1.9	2.5	2.8	3.4
of which:													
Manufacturing	-15.7	30.2	11.9	-8.7	2.3	2.3	4.3	-7.2	-11.2	-5.2	-0.2	0.5	1.2
Energy	-0.1	2.9	-1.5	1.1	1.6	1.6	1.6	1.6	1.8	1.8	1.9	2.1	2.1
Extractive industry	-49.3	33.6	11.4	5.9	4.2	4.2	6.6	5.1	5.5	5.8	6.0	6.2	6.8
Tertiary sector	-5.7	7.2	3.6	4.0	3.2	3.2	3.7	3.9	4.4	5.0	5.1	5.0	5.1
of which:													
Trade	-2.7	1.0	1.0	2.1	2.1	2.1	2.1	1.6	2.1	2.2	2.2	2.3	2.3
Business services	-8.1	2.6	1.9	-5.4	-3.4	-3.4	-3.4	1.6	2.6	3.3	4.8	5.1	5.1
Transportation	-6.4	5.1	2.4	21.9	9.9	9.9	9.9	9.9	7.9	7.9	7.9	7.2	7.2
Indirect taxes	13.3	-6.5	6.1	3.4	6.5	6.5	6.8	7.9	7.4	7.2	7.4	7.4	7.4
Real GDP at market prices	-7.1	4.7	4.2	4.2	4.2	4.2	4.6	4.0	4.0	4.7	4.8	4.9	5.0
						(Percent of GDP)							
Nominal demand side composition													
Resource balance	-9.0	-10.0	-9.2	-7.6	-8.7	-8.9	-8.9	-9.7	-9.7	-9.2	-8.9	-8.8	-8.9
Exports of goods and nonfactor services	19.7	23.4	30.3	27.2	23.3	23.4	21.8	21.8	21.4	21.5	21.1	21.2	20.9
Current account balance (including grants) = (S-I)	-5.4	-4.9	-5.4	-4.1	-5.0	-5.4	-5.5	-6.1	-6.0	-5.5	-5.4	-5.1	-5.1
Consumption	95.7	92.6	87.3	87.2	85.3	86.2	87.5	86.1	85.0	84.0	83.8	83.5	83.6
Government	18.7	17.5	16.5	16.6	15.3	14.7	14.5	14.7	14.4	14.5	14.9	15.0	15.0
Private	77.0	75.2	70.8	71.6	70.0	71.6	72.9	71.4	70.6	69.5	68.9	68.5	68.6
Investment (I)	19.5	23.2	21.8	19.9	22.5	22.2	20.5	23.1	24.2	24.7	24.7	24.8	24.9
Government	6.8	5.4	5.4	7.0	6.8	6.6	6.3	6.0	7.0	7.5	7.4	7.3	7.4
Private	12.8	17.9	16.4	12.9	15.7	15.7	14.3	17.1	17.3	17.3	17.3	17.5	17.5
of which: foreign direct investment	1.9	1.7	2.1	2.2	2.8	2.7	1.9	2.2	2.5	2.5	2.3	2.3	2.3
National savings (S)	12.3	11.5	16.8	15.9	17.5	16.9	15.1	17.0	18.2	19.2	19.3	19.8	19.8
Government	2.1	1.9	-0.6	2.1	2.8	3.4	1.6	1.2	1.9	2.9	2.6	2.6	2.6
Private	10.3	9.6	17.4	13.8	14.7	13.5	13.5	15.8	16.3	16.3	16.7	17.2	17.2
Memoranda items:						(Billions of Ariary)							
Nominal GDP (at market prices)	49,436	54,978	62,775	70,297	78,837	78,835	88,422	88,873	98,889	109,804	121,635	134,811	149,632

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

Table 3a. Madagascar: Fiscal Operations of the Central Government
(Billions of Ariary)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
	Act.	Act.	Act.	Act.	First Review	Est.	First Review	Proj.	Projections				
Total revenue and grants	6,129	6,086	6,772	9,648	10,699	10,760	10,667	10,522	12,292	14,594	16,161	17,881	19,757
Total revenue	4,886	5,715	5,979	8,062	8,808	8,973	10,011	9,931	11,890	14,232	15,840	17,744	19,680
Tax revenue	4,707	5,545	5,797	7,851	8,500	8,618	9,519	9,517	11,543	13,812	15,371	17,219	19,098
Domestic taxes	2,579	3,081	3,360	3,862	4,370	4,468	5,224	5,117	6,275	7,538	8,376	9,300	10,328
Taxes on international trade and transactions[1]	2,128	2,464	2,436	3,990	4,131	4,150	4,295	4,400	5,268	6,274	6,995	7,919	8,769
Non-tax revenue	180	170	182	210	308	354	492	413	347	419	469	525	583
Grants	1,243	371	793	1,586	1,890	1,788	656	592	401	363	321	137	77
Current grants	435	1	3	0	0	3	0	23	0	0	0	0	0
Capital grants	808	370	791	1,586	1,890	1,784	656	568	401	363	321	137	77
Total expenditure and lending minus repayments	8,085	7,641	10,200	12,597	13,300	12,781	13,995	13,982	16,317	18,717	21,024	23,172	25,789
Current expenditure	4,743	4,686	6,811	7,694	7,940	7,605	8,458	8,618	9,406	10,513	11,962	13,303	14,791
Wages and salaries	2,786	2,866	3,364	3,713	4,059	3,897	4,091	4,154	4,846	5,600	6,264	7,010	7,930
Interest payments	362	354	346	496	534	493	803	853	1,032	904	1,022	1,111	1,109
Foreign	115	123	142	187	185	191	274	316	332	321	323	425	491
Domestic	246	231	204	309	349	302	529	537	700	583	699	685	618
Other	2,230	2,164	2,272	3,427	2,824	2,526	3,178	3,198	3,324	3,714	4,348	4,820	5,349
Goods and services	338	338	428	485	573	512	505	505	653	725	900	998	1,107
Transfers and subsidies	1,892	1,827	1,844	2,942	2,251	2,014	2,673	2,693	2,671	2,989	3,448	3,822	4,242
of which: JIRAMA and its suppliers[2]	*845*	*380*	889	895	*932*	729	...	...	...	...	...	...	...
Treasury operations (net)[3]	-635	-698	829	59	523	689	386	413	205	296	327	363	402
Capital expenditure	3,343	2,955	3,389	4,903	5,359	5,175	5,536	5,364	6,911	8,204	9,061	9,869	10,998
Domestic financed	1,450	1,461	644	1,099	1,263	827	1,900	1,901	2,126	2,635	2,980	3,505	3,890
Foreign financed	1,893	1,494	2,745	3,804	4,097	4,348	3,636	3,463	4,785	5,569	6,081	6,364	7,108
Overall balance (commitment basis)	-1,956	-1,554	-3,428	-2,949	-2,601	-2,020	-3,327	-3,460	-4,026	-4,123	-4,862	-5,291	-6,031
Variation of domestic arrears (+ = increase)	219	-222	493	17	-50	-118	-300	-400	-200	-97	0	0	0
Overall balance (including grants, cash basis)	-1,737	-1,776	-2,935	-2,931	-2,651	-2,139	-3,627	-3,860	-4,226	-4,220	-4,862	-5,291	-6,031
Domestic primary balance[4]	-944	-78	-1,130	-236	140	1,034	456	265	1,390	1,987	1,920	2,046	2,108
Primary balance	-1,595	-1,201	-3,081	-2,453	-2,067	-1,527	-2,524	-2,607	-2,994	-3,220	-3,840	-4,180	-4,923
Total financing	1,737	1,776	2,936	2,931	2,651	2,120	3,627	3,851	4,212	4,201	4,846	5,265	6,001
Foreign borrowing (residency principle)	885	1,304	1,525	2,092	1,851	2,011	2,877	3,108	3,682	4,107	4,707	5,629	6,425
External borrowing, Gross	1,161	1,671	1,954	2,665	2,507	2,564	3,761	3,993	4,873	5,585	6,142	6,610	7,416
Budget support loans	77	547	0	447	300	0	780	1,098	489	379	381	383	386
Project loans	1,085	1,124	1,954	2,218	2,206	2,564	2,980	2,895	4,384	5,207	5,760	6,227	7,031
Amortization on a due basis (-)	-276	-367	-430	-572	-655	-553	-884	-886	-1,191	-1,478	-1,434	-981	-992
Domestic borrowing (residency principle)	851	473	1,412	839	799	108	750	743	530	94	138	-364	-423
Monetary sector	597	230	950	167	602	955	549	364	146	-296	-257	-766	-833
of which: onlending of IMF PRGT financing[5]	*1,452*	*267*	*402*	*289*	*220*	*220*	*690*	*693*	*0*	*0*	*0*	*0*	*1*
of which: onlending of IMF RST financing					*0*	*0*	*895*	*898*	*536*	*137*	*0*	*0*	*0*
of which: cession of 2021 SDR allocation				*1,384*									
Non-monetary sector	-72	-87	-16	364	39	41	44	44	49	55	61	67	75
Other incl. Treasury correspondent accounts (net)	327	330	478	308	158	-889	158	335	335	335	335	335	335
Fiscal financing balance[6]	0	0	2	0	0	-19	0	-9	-13	-20	-17	-26	-30

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

[1] Cash basis.

[2] Operating subsidies and arrears repayment.

[3] Includes third party accounts, trade accounts, and other operations to be regularized.

[4] Primary balance excl. foreign-financed investment and grants.

[5] RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF disbursements in 2024-2025 onlent by the central bank to the Treasury.

[6] A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified. The small fiscal financing gaps (equivalent to 0.0 percent of GDP) reflect residuals and will be closed in the upcoming version of Treasury operations.

Table 3b. Madagascar: Fiscal Operations of the Central Government
(Percent of GDP)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
	Act.	Act.	Act.	Act.	First Review	Est.	First Review	Proj.	Projections				
Total revenue and grants	12.4	11.1	10.8	13.7	13.6	13.6	12.1	11.8	12.4	13.3	13.3	13.3	13.2
Total revenue	9.9	10.4	9.5	11.5	11.2	11.4	11.3	11.2	12.0	13.0	13.0	13.2	13.2
Tax revenue	9.5	10.1	9.2	11.2	10.8	10.9	10.8	10.7	11.7	12.6	12.6	12.8	12.8
Domestic taxes	5.2	5.6	5.4	5.5	5.5	5.7	5.9	5.8	6.3	6.9	6.9	6.9	6.9
Taxes on international trade and transactions[1]	4.3	4.5	3.9	5.7	5.2	5.3	4.9	5.0	5.3	5.7	5.8	5.9	5.9
Non-tax revenue	0.4	0.3	0.3	0.3	0.4	0.4	0.6	0.5	0.4	0.4	0.4	0.4	0.4
Grants	2.5	0.7	1.3	2.3	2.4	2.3	0.7	0.7	0.4	0.3	0.3	0.1	0.1
Current grants	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital grants	1.6	0.7	1.3	2.3	2.4	2.3	0.7	0.6	0.4	0.3	0.3	0.1	0.1
Total expenditure and lending minus repayments	16.4	13.9	16.2	17.9	16.9	16.2	15.8	15.7	16.5	17.0	17.3	17.2	17.2
Current expenditure	9.6	8.5	10.8	10.9	10.1	9.6	9.6	9.7	9.5	9.6	9.8	9.9	9.9
Wages and salaries	5.6	5.2	5.4	5.3	5.1	4.9	4.6	4.7	4.9	5.1	5.2	5.2	5.3
Interest payments	0.7	0.6	0.6	0.7	0.7	0.6	0.9	1.0	1.0	0.8	0.8	0.8	0.7
Foreign	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Domestic	0.5	0.4	0.3	0.4	0.4	0.4	0.6	0.6	0.7	0.5	0.6	0.5	0.4
Other	4.5	3.9	3.6	4.9	3.6	3.2	3.6	3.6	3.4	3.4	3.6	3.6	3.6
Goods and services	0.7	0.6	0.7	0.7	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
Transfers and subsidies	3.8	3.3	2.9	4.2	2.9	2.6	3.0	3.0	2.7	2.7	2.8	2.8	2.8
of which: JIRAMA and its suppliers[2]	1.7	0.7	1.4	1.3	1.2	0.9	…	…	…	…	…	…	…
Treasury operations (net)[3]	-1.3	-1.3	1.3	0.1	0.7	0.9	0.4	0.5	0.2	0.3	0.3	0.3	0.3
Capital expenditure	6.8	5.4	5.4	7.0	6.8	6.6	6.3	6.0	7.0	7.5	7.4	7.3	7.4
Domestic financed	2.9	2.7	1.0	1.6	1.6	1.0	2.1	2.1	2.2	2.4	2.5	2.6	2.6
Foreign financed	3.8	2.7	4.4	5.4	5.2	5.5	4.1	3.9	4.8	5.1	5.0	4.7	4.8
Overall balance (commitment basis)	-4.0	-2.8	-5.5	-4.2	-3.3	-2.6	-3.8	-3.9	-4.1	-3.8	-4.0	-3.9	-4.0
Variation of domestic arrears (+ = increase)	0.4	-0.4	0.8	0.0	-0.1	-0.2	-0.3	-0.5	-0.2	-0.1	0.0	0.0	0.0
Overall balance (including grants, cash basis)	-3.5	-3.2	-4.7	-4.2	-3.4	-2.7	-4.1	-4.3	-4.3	-3.8	-4.0	-3.9	-4.0
Domestic primary balance[4]	-1.9	-0.1	-1.8	-0.3	0.2	1.3	0.5	0.3	1.4	1.8	1.6	1.5	1.4
Primary balance	-3.2	-2.2	-4.9	-3.5	-2.6	-1.9	-2.9	-2.9	-3.0	-2.9	-3.2	-3.1	-3.3
Total financing	3.5	3.2	4.7	4.2	3.4	2.7	4.1	4.3	4.3	3.8	4.0	3.9	4.0
Foreign borrowing (residency principle)	1.8	2.4	2.4	3.0	2.3	2.6	3.3	3.5	3.7	3.7	3.9	4.2	4.3
External borrowing, Gross	2.3	3.0	3.1	3.8	3.2	3.3	4.3	4.5	4.9	5.1	5.0	4.9	5.0
Budget support loans	0.2	1.0	0.0	0.6	0.4	0.0	0.9	1.2	0.5	0.3	0.3	0.3	0.3
of which: Air Madagascar	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	2.2	2.0	3.1	3.2	2.8	3.3	3.4	3.3	4.4	4.7	4.7	4.6	4.7
Amortization on a due basis (-)	-0.6	-0.7	-0.7	-0.8	-0.8	-0.7	-1.0	-1.0	-1.2	-1.3	-1.2	-0.7	-0.7
Domestic borrowing (residency principle)	1.7	0.9	2.2	1.2	1.0	0.1	0.8	0.8	0.5	0.1	0.1	-0.3	-0.3
Monetary sector	1.2	0.4	1.5	0.2	0.8	1.2	0.6	0.4	0.1	-0.3	-0.2	-0.6	-0.6
of which: onlending of IMF PRGT financing[5]	2.9	0.5	0.6	0.4	0.3	0.3	0.8	0.8	0.0	0.0	0.0	0.0	0.0
of which: onlending of IMF RST financing	…	…	…	0.0	0.0	0.0	1.0	1.0	0.5	0.1	0.0	0.0	0.0
of which: cession of 2021 SDR allocation	…	…	…	2.0	…	…	…	…	…	…	…	…	…
Non-monetary sector	-0.1	-0.2	0.0	0.5	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Loans minus repayments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other incl. Treasury correspondent accounts (net)	0.7	0.6	0.8	0.4	0.2	-1.1	0.2	0.4	0.3	0.3	0.3	0.2	0.2
Fiscal financing balance[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	0.0

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

[1] Cash basis.

[2] Operating subsidies and arrears repayment.

[3] Includes third party accounts, trade accounts, and other operations to be regularized.

[4] Primary balance excl. foreign-financed investment and grants.

[5] RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF disbursements in 2024-2025 onlent by the central bank to the Treasury.

[6] 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

Quarterly Projections (Billions of Ariary)

	2021	2022	2023	2024				2025			
	Dec	Dec	Dec	Mar	Jun	Sept	Dec	Mar	Jun	Sept	Dec
	Act.	Act.	Act.	Est.				Projections			
Total revenue and grants	6,086	6,772	9,648	2,911	5,627	8,010	10,760	1,884	4,994	7,581	10,522
Total revenue	5,715	5,979	8,062	2,073	4,300	6,525	8,973	1,745	4,690	7,134	9,931
Tax revenue	5,545	5,797	7,851	2,052	4,120	6,277	8,618	1,715	4,550	6,912	9,517
Domestic taxes	3,081	3,360	3,862	903	2,066	3,251	4,468	892	2,380	3,636	5,117
Taxes on international trade and transactions[1]	2,464	2,436	3,990	1,149	2,054	3,026	4,150	823	2,170	3,276	4,400
Non-tax revenue	170	182	210	21	180	248	354	31	141	222	413
Grants	371	793	1,586	838	1,326	1,485	1,788	139	304	447	592
Current grants	1	3	0	0	0	0	3	0	23	23	23
Capital grants	370	791	1,586	838	1,326	1,485	1,784	139	280	424	568
Total expenditure and lending minus repayments	7,641	10,200	12,597	3,269	6,831	9,079	12,781	2,765	6,183	9,566	13,982
Current expenditure	4,686	6,811	7,694	1,923	3,874	5,602	7,605	1,797	3,812	5,788	8,618
Wages and salaries	2,866	3,364	3,713	916	1,896	2,823	3,897	1,010	2,046	3,068	4,154
Interest payments	354	346	496	135	276	392	493	218	445	618	853
Foreign	123	142	187	47	91	140	191	65	151	214	316
Domestic	231	204	309	88	185	252	302	152	295	404	537
Other	2,164	2,272	3,427	173	735	1,353	2,526	464	1,097	1,799	3,198
Goods and services	338	428	485	50	164	299	512	108	173	307	505
Transfers and subsidies	1,827	1,844	2,942	123	571	1,054	2,014	356	924	1,492	2,693
Treasury operations (net)	-698	829	59	698	967	1,034	689	105	224	303	413
Capital expenditure	2,955	3,389	4,903	1,346	2,957	3,478	5,175	968	2,371	3,778	5,364
Domestic financed	1,461	644	1,099	42	105	288	827	124	665	1,198	1,901
Foreign financed	1,494	2,745	3,804	1,305	2,853	3,189	4,348	844	1,706	2,580	3,463
Overall balance (commitment basis)	-1,554	-3,428	-2,949	-358	-1,205	-1,070	-2,020	-881	-1,189	-1,985	-3,460
Variation of domestic arrears (+ = increase)	-222	493	17	129	50	-191	-118	-75	-150	-225	-400
Overall balance (including grants, cash basis)	-1,776	-2,935	-2,931	-230	-1,155	-1,261	-2,139	-956	-1,339	-2,210	-3,860
Domestic primary balance[2]	-78	-1,130	-236	243	598	1,027	1,034	42	659	766	265
Primary balance	-1,201	-3,081	-2,453	-224	-929	-677	-1,527	-663	-743	-1,367	-2,607
Total financing	1,776	2,936	2,931	190	996	1,126	2,120	956	1,339	2,210	3,851
Foreign borrowing (residency principle)	1,304	1,525	2,092	379	1,248	1,317	2,011	829	1,775	2,306	3,108
External borrowing, Gross	1,671	1,954	2,665	467	1,527	1,704	2,564	1,013	2,200	2,931	3,993
Budget support loans	547	0	447	0	0	0	0	307	775	775	1,098
Project loans	1,124	1,954	2,218	467	1,527	1,704	2,564	705	1,425	2,157	2,895
Amortization on a due basis (-)	-367	-430	-572	-89	-279	-387	-553	-184	-425	-625	-886
Domestic borrowing (residency principle)	473	1,412	839	-189	-252	-191	108	127	-436	-96	743
Monetary sector	230	950	167	352	67	376	955	-20	-614	-388	364
of which: onlending of IMF PRGT financing[3]	*264*	*400*	*286*	*0*	*0*	*222*	*220*	*225*	*456*	*456*	*693*
of which: onlending of IMF RST financing								*250*	*507*	*507*	*898*
of which: cession of 2021 SDR allocation	*0*	*0*	*1,384*								
Non-monetary sector	-87	-16	364	11	41	30	41	64	10	41	44
Other incl. Treasury correspondent accounts (net)	330	478	308	-552	-360	-597	-889	84	167	251	335
Fiscal financing balance[4]	0	2	0	-40	-159	-134	-19	0	0	0	-9

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

[1] Cash basis.

[2] Primary balance excl. foreign-financed investment and grants.

[3] RCF disbursements in 2020, ECF disbursements in 2021-2023, and planned ECF disbursements in 2024-2025 onlent by the central bank to the Treasury.

[4] A negative value indicates a financing gap to be filled by budget support or other financing still to be committed or identified. The small fiscal financing gaps (equivalent to 0.0 percent of GDP) reflects residual and will be closed in the upcoming version of Treasury operations.

Table 5a. Madagascar: Balance of Payments
(Millions of SDRs)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
	Act.	Act.	Act.	Act.	First Review	Est.	First Review	Proj.	Projections				
					(Millions of SDRs)								
Current account	-504	-497	-614	-482	-653	-702	-772	-859	-906	-898	-967	-999	-1,104
Goods and services	-841	-1,012	-1,049	-903	-1,139	-1,168	-1,255	-1,365	-1,457	-1,492	-1,604	-1,736	-1,936
Trade balance of goods	-645	-679	-735	-713	-1,190	-1,198	-1,165	-1,373	-1,465	-1,555	-1,735	-1,880	-2,095
Exports, f.o.b.	1,402	1,904	2,641	2,318	1,929	1,939	1,978	1,904	1,985	2,180	2,352	2,606	2,814
of which: Mining	262	542.5	941	856	535	535	633	634	696	753	800	859	918
of which: Vanilla	367	434	400	206	176	177	88	51	54	55	52	49	57
Imports, f.o.b.	-2,046	-2,583	-3,376	-3,031	-3,120	-3,137	-3,143	-3,278	-3,451	-3,735	-4,087	-4,485	-4,909
of which: Petroleum products	*-256*	*-339*	*-599*	*-479*	*-498*	*-498*	*-513*	*-496*	*-505*	*-539*	*-611*	*-696*	*-745*
of which: Food	*-324*	*-464*	*-525*	*-432*	*-429*	*-436*	*-381*	*-498*	*-519*	*-537*	*-556*	*-601*	*-630*
of which: Intermediate goods and capital	*-810*	*-1,063*	*-1,487*	*-1,336*	*-1,326*	*-1,332*	*-1,374*	*-1,397*	*-1,523*	*-1,659*	*-1,817*	*-1,975*	*-2,137*
Services (net)	-197	-333	-315	-190	51	29	-89	8	8	64	131	144	159
Receipts	444	449	836	920	1,127	1,138	1,094	1,176	1,232	1,327	1,435	1,582	1,744
of which: Travels	*103*	*69*	*274*	*454*	*573*	*588*	*585*	*596*	*609*	*643*	*686*	*756*	*833*
Payments	-641	-782	-1,151	-1,110	-1,076	-1,108	-1,183	-1,169	-1,224	-1,263	-1,304	-1,438	-1,585
Income (net)	-276	-182	-276	-259	-341	-364	-329	-377	-380	-382	-377	-403	-425
Receipts	32	30	37	64	96	87	83	104	113	123	135	148	164
Payments	-308	-213	-313	-323	-437	-451	-412	-481	-493	-505	-511	-552	-588
of which: interest on public debt	*-22*	*-22*	*-26*	*-31*	*-31*	*-31*	*-44*	*-50*	*-50*	*-48*	*-48*	*-62*	*-71*
Current transfers (net)	613	697	711	680	827	830	813	883	931	976	1,014	1,140	1,256
Official transfers	105	22	19	11	35	9	49	10	7	7	8	9	10
Capital and financial account	370	676	524	787	839	895	775	779	893	1,065	1,171	1,252	1,396
Capital account[1]	153	68	145	264	315	362	104	90	61	54	47	20	11
of which: Project grants [1]	*153*	*68*	*145*	*264*	*315*	*362*	*104*	*90*	*61*	*54*	*47*	*20*	*11*
Financial account	172	635	395	525	540	502	671	689	832	1,012	1,124	1,232	1,384
Foreign direct and portfolio investment	180	171	245	256	372	356	267	312	379	403	416	459	499
Other investment	-9	464	150	269	168	146	404	377	453	609	708	773	885
Government	158	240	273	350	308	264	458	493	560	609	694	826	936
Drawing	216	307	351	448	417	367	599	634	741	829	905	969	1,080
Project drawings [1]	201	206	351	374	367	367	475	459	666	773	849	913	1,024
Budgetary support [1]	15	101	0	74	50	0	124	174	74	56	56	56	56
Amortization	-58	-67	-79	-98	-109	-103	-141	-141	-181	-219	-211	-144	-144
Monetary authority and private sector	-122	247	-93	-149	-8.9	-24	-96	-77	-73	-64	-61	-67	-74
Banks	95	-8	-50	78	-165	-134	0	0	0	0	0	0	0
Other (inc. unrepatriated export revenues)	50	-16	21	-10	34	40	42	-39	-34	63	75	15	24
Errors and omissions	45	-27	-16	-2	-15	32	0	0	0	0	0	0	0
Overall balance	-134	180	-90	305	186	193	4	-80	-13	168	204	253	292
Financing	134	-180	90	-305	-224	-193	-4	79	11	-170	-207	-257	-296
Use of IMF credit (net)	25	34	58	12	-7	-7	45	45	-31	-71	-103	-102	-89
Other assets, net (increase = –)[2]	-141	-228	29	-317	-217	-186	-191	-108	-40	-120	-103	-154	-207
Other assets, net (increase = –)[2] without RSF			29	-317	-217	-186	-48	34	41	-100	-103	-154	-207
Exceptional financing-Grant for debt relief[3]	6	15	3	0	0	0	0	0	0	0	0	0	0
Exceptional financing-RCF disbursement	244												
Residual financing gap (unidentified financing)[4]	0	0	0	0	37	0	0	1	2	3	2	4	4
RSF (net)					0	0	143	143	81	20	0	0	0
					(Percent of GDP; unless otherwise indicated)								
Memorandum items:													
Grants	2.5	0.7	1.3	2.2	2.4	2.8	0.7	0.7	0.4	0.3	0.3	0.1	0.1
Loans	2.3	3.0	3.1	3.8	3.2	2.8	4.3	4.5	4.9	5.1	5.0	4.9	5.0
Direct investment	1.9	1.7	2.1	2.2	2.8	2.7	1.9	2.2	2.5	2.5	2.3	2.3	2.3
Current account													
Excluding net official transfers	-7.9	-5.6	-6.6	-6.3	-7.4	-8.1	-6.2	-6.8	-6.4	-5.8	-5.7	-5.2	-5.1
Including net official transfers	-5.4	-4.9	-5.4	-4.1	-5.0	-5.4	-5.5	-6.1	-6.0	-5.5	-5.4	-5.1	-5.1
Debt service (percent of exports of goods)	2.7	9.3	3.7	2.9	2.6	2.6	3.4	3.4	2.9	2.4	2.3	2.1	2.0
Export of goods volume (percent change)	-18.5	38.7	14.2	6.6	-13.4	-10.8	0.6	-3.2	2.7	8.0	6.7	9.0	6.2
Import of goods volume (percent change)	-17.8	11.1	3.2	-5.6	2.0	2.9	2.1	9.9	6.5	6.3	7.4	6.5	7.4
Gross official reserves (millions of SDR)[5]	1,338	1,630	1,601	1,972	2,189	2,189	2,380	2,297	2,337	2,457	2,561	2,715	2,922
Months of imports of goods and nonfactor services	6.0	5.8	4.2	5.7	6.3	6.2	6.6	6.2	6.0	5.9	5.7	5.5	5.4
Gross official reserves (millions of SDR)[5] (without RSF)	…	…	…	…	2,188.8	2,189	2,237	2,155	2,113	2,213	2,316	2,471	2,678
Months of imports of goods and nonfactor services (without RSF)	…	…	…	…	6.3	6.2	6.2	5.8	5.4	5.3	5.2	5.0	4.9
Terms of trade (percent change, deterioration -)	-8.6	-13.8	-4.1	-13.5	-4.7	-6.7	3.3	6.8	2.6	-0.2	-0.3	-1.8	-0.2
Exchange rate (ariary/US$, period average)	3,788	3,830	4,096	4,430	4,525	4,525	…	…	…	…	…	…	…

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

[1] Includes official external financial support only with a disbursement schedule.

[2] Includes reserve accumulation.

[3] Debt relief assumed through April 2022.

[4] 2021 gross official reserves include the IMF SDR allocation

[5] A positive value indicates a residual financing gap to be filled by government loans still to be committed or identified.

Table 5b. Madagascar: Balance of Payments

(Percent of GDP)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
	Act.	Act.	Act.	Act.	First Review	Est.	First Review	Proj.	Projections				
Current account	-5.4	-4.9	-5.4	-4.1	-5.0	-5.4	-5.5	-6.1	-6.0	-5.5	-5.4	-5.1	-5.1
Goods and services	-9.0	-10.0	-9.2	-7.6	-8.7	-8.9	-8.9	-9.7	-9.7	-9.2	-8.9	-8.8	-8.9
Trade balance of goods	-6.9	-6.7	-6.4	-6.0	-9.1	-9.1	-8.3	-9.7	-9.8	-9.5	-9.7	-9.5	-9.6
Exports, f.o.b.	15.0	18.9	23.0	19.5	14.7	14.8	14.0	13.5	13.2	13.4	13.1	13.2	12.9
of which: Mining	2.8	5.4	8.2	7.2	4.1	4.1	4.5	4.5	4.6	4.6	4.5	4.3	4.2
of which: Vanilla	3.9	4.3	3.5	1.7	1.3	1.3	0.6	0.4	0.4	0.3	0.3	0.2	0.3
Imports, f.o.b.	-21.8	-25.6	-29.5	-25.5	-23.8	-23.9	-22.3	-23.2	-23.0	-22.9	-22.8	-22.7	-22.5
of which: Petroleum products	-2.7	-3.4	-5.2	-4.0	-3.8	-3.8	-3.6	-3.5	-3.4	-3.3	-3.4	-3.5	-3.4
of which: Food	-3.5	-4.6	-4.6	-3.6	-3.3	-3.3	-2.7	-3.5	-3.5	-3.3	-3.1	-3.0	-2.9
of which: Intermediate goods and capital	-8.6	-10.5	-13.0	-11.2	-10.1	-10.2	-9.8	-9.9	-10.1	-10.2	-10.1	-10.0	-9.8
Services (net)	-2.1	-3.3	-2.7	-1.6	0.4	0.2	-0.6	0.1	0.1	0.4	0.7	0.7	0.7
Receipts	4.7	4.5	7.3	7.7	8.6	8.7	7.8	8.3	8.2	8.1	8.0	8.0	8.0
of which: Travels	1.1	0.7	2.4	3.8	4.4	4.5	4.2	4.2	4.1	3.9	3.8	3.8	3.8
Payments	-6.8	-7.8	-10.0	-9.3	-8.2	-8.4	-8.4	-8.3	-8.1	-7.8	-7.3	-7.3	-7.3
Income (net)	-2.9	-1.8	-2.4	-2.2	-2.6	-2.8	-2.3	-2.7	-2.5	-2.3	-2.1	-2.0	-1.9
Receipts	0.3	0.3	0.3	0.5	0.7	0.7	0.6	0.7	0.8	0.8	0.8	0.8	0.8
Payments	-3.3	-2.1	-2.7	-2.7	-3.3	-3.4	-2.9	-3.4	-3.3	-3.1	-2.9	-2.8	-2.7
of which: interest on public debt	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.3	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3
Current transfers (net)	6.5	6.9	6.2	5.7	6.3	6.3	5.8	6.3	6.2	6.0	5.7	5.8	5.8
Official transfers	1.1	0.2	0.2	0.1	0.3	0.1	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Capital and financial account	3.9	6.7	4.6	6.6	6.4	6.8	5.5	5.5	5.9	6.5	6.5	6.3	6.4
Capital account[1]	1.6	0.7	1.3	2.2	2.4	2.8	0.7	0.6	0.4	0.3	0.3	0.1	0.1
of which: Project grants [1]	1.6	0.7	1.3	2.2	2.4	2.8	0.7	0.6	0.4	0.3	0.3	0.1	0.1
Financial account	1.8	6.3	3.4	4.4	4.1	3.8	4.8	4.9	5.5	6.2	6.3	6.2	6.4
Foreign direct and portfolio investment	1.9	1.7	2.1	2.2	2.8	2.7	1.9	2.2	2.5	2.5	2.3	2.3	2.3
Other investment	-0.1	4.6	1.3	2.3	1.3	1.1	2.9	2.7	3.0	3.7	3.9	3.9	4.1
Government	1.7	2.4	2.4	2.9	2.3	2.0	3.3	3.5	3.7	3.7	3.9	4.2	4.3
Drawing	2.3	3.0	3.1	3.8	3.2	2.8	4.3	4.5	4.9	5.1	5.0	4.9	5.0
Project drawings [1]	2.1	2.0	3.1	3.1	2.8	2.8	3.4	3.3	4.4	4.7	4.7	4.6	4.7
Budgetary support [1]	0.2	1.0	0.0	0.6	0.4	0.0	0.9	1.2	0.5	0.3	0.3	0.3	0.3
Amortization	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	-1.0	-1.0	-1.2	-1.3	-1.2	-0.7	-0.7
Monetary authority and private sector	-1.3	2.5	-0.8	-1.3	-0.1	-0.2	-0.7	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3
Banks	1.0	-0.1	-0.4	0.7	-1.3	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (inc. unrepatriated export revenues)	0.5	-0.2	0.2	-0.1	0.3	0.3	0.3	-0.3	-0.2	0.4	0.4	0.1	0.1
Errors and omissions	0.5	-0.3	-0.1	0.0	-0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.4	1.8	-0.8	2.6	1.4	1.5	0.0	-0.6	-0.1	1.0	1.1	1.3	1.3
Financing	1.4	-1.8	0.8	-2.6	-1.7	-1.5	0.0	0.6	0.1	-1.0	-1.2	-1.3	-1.4
Use of IMF credit (net)	0.3	0.3	0.5	0.1	-0.1	-0.1	0.3	0.3	-0.2	-0.4	-0.6	-0.5	-0.4
RSF (net)					0.0	0.0	1.0	1.0	0.5	0.1	0.0	0.0	0.0
Other assets, net (increase = –)[2]	-1.5	-2.3	0.3	-2.7	-1.7	-1.4	-1.4	-0.8	-0.3	-0.7	-0.6	-0.8	-1.0
Other assets, net (increase = –)[2] without RSF					-1.7	-1.4	-0.3	0.2	0.3	-0.6	-0.6	-0.8	-1.0
Exceptional financing-Grant for debt relief[3]	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing-RCF disbursement	2.6												
Residual financing gap (unidentified financing)	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

[1] Includes official external financial support only with a disbursement schedule.

[2] Includes reserve accumulation.

[3] Debt relief assumed through April 2022.

Table 5c. Madagascar: Balance of Payments
(Millions of U.S. Dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Act.	Act.	Act.	Act.	Est.			Projections			
					(Millions of USD)						
Current account	-701	-707	-822	-644	-932	-1,141	-1,210	-1,202	-1,298	-1,343	-1,487
Goods and services	-1,172	-1,441	-1,403	-1,205	-1,551	-1,813	-1,947	-1,997	-2,153	-2,333	-2,608
Trade balance of goods											
Exports, f.o.b.	1,952	2,712	3,532	3,092	2,574	2,529	2,653	2,918	3,156	3,502	3,791
Imports, f.o.b.	-2,850	-3,679	-4,514	-4,043	-4,164	-4,352	-4,611	-5,000	-5,485	-6,029	-6,613
Services (net)	-274	-474	-421	-254	39	11	11	85	176	194	214
Receipts	618	640	1,118	1,227	1,510	1,562	1,647	1,776	1,926	2,127	2,350
Payments	-892	-1,113	-1,539	-1,481	-1,471	-1,552	-1,635	-1,691	-1,751	-1,933	-2,136
Income (net)	-384	-260	-369	-345	-483	-501	-508	-512	-505	-542	-572
Receipts	45	43	49	86	115	138	151	165	181	200	221
Payments	-429	-303	-419	-431	-599	-639	-659	-676	-686	-742	-793
Current transfers (net)	854	993	951	907	1,102	1,173	1,244	1,307	1,361	1,532	1,693
Official transfers	146	32	26	15	12	13	9	10	11	12	13
Private transfers	709	962	925	892	1,089	1,160	1,235	1,297	1,350	1,520	1,680
Capital and financial account	515	963	701	1,050	1,189	1,034	1,193	1,426	1,572	1,683	1,880
Capital account[1]	214	97	193	352	480	120	81	72	64	27	15
of which: Project grant [1]	214	97	193	352	480	120	81	72	64	27	15
Financial account	239	905	528	701	666	914	1,112	1,354	1,509	1,656	1,865
Foreign direct and portfolio investment	251	244	327	342	472	414	506	539	558	616	673
Other investment	-12	661	201	359	194	501	605	815	951	1,039	1,193
Government	220	341	364	467	350	655	748	816	931	1,110	1,261
Drawing	301	437	470	598	488	841	989	1,109	1,215	1,303	1,455
Project drawings [1]	280	294	470	499	488	610	890	1,034	1,140	1,227	1,380
Budgetary support [1]	20	144	0	99	0	231	99	75	75	76	76
Amortization	-81	-96	-106	-131	-137	-187	-242	-294	-284	-193	-195
Monetary authority and private sector	-170	353	-125	-199	-31	-103	-97	-86	-81	-90	-100
Banks	132	-11	-67	104	-178	0	0	0	0	0	0
Other (inc. unrepatriated export revenues)	70	-23	28	-14	53	-51	-45	85	100	20	32
Errors and omissions	62	-38	-21	-3	43	0	0	0	0	0	0
Overall balance	-186	256	-121	407	256	-107	-17	224	274	340	393
Financing	186	-256	121	-407	-256	105	14	-228	-277	-345	-399
Use of IMF credit (net)	375	48	77	16	-9	59	-41	-95	-139	-138	-119
Other assets, net (increase = –)[2]	-197	-325	39	-422	-247	-144	-54	-161	-139	-207	-279
Other assets, net (increase = –)[2] without RSF				-422	-247	45	55	-133	-139	-207	-279
Exceptional financing-Grant for debt relief[3]	8.5	21.9	4.0	0	0	0	0	0	0	0	0
Exceptional financing-RCF disbursement	340.4										
Residual financing gap (unidentified financing)[4]	0	0	0	0	0	2	3	4	3	5	6
RSF (net)					0	189	109	27	0	0	0
Memorandum items:											
Gross official reserves (millions of USD)[5]	1,923	2,278	2,128	2,631	2,872	3,065	3,126	3,294	3,439	3,653	3,941
Gross official reserves (millions of USD)[5] without RSF					2,872	2,875	2,826	2,967	3,111	3,324	3,611
Exchange rate (ariary/US$, period average)	3,788	3,830	4,096	4,430	4,525	…	…	…	…	…	…
Nominal GDP (US$ million)	13,051	14,355	15,326	15,870	17,420	18,727	20,080	21,811	24,065	26,574	29,360

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

[1] Includes official external financial support only with a disbursement schedule.

[2] Includes reserve accumulation.

[3] Debt relief assumed through April 2022.

[4] 2021 gross official reserves include the IMF SDR allocation

[5] A positive value indicates a residual financing gap to be filled by government loans still to be committed or identified.

Table 6. Madagascar: Monetary Accounts[1]

(Billions of Ariary, unless otherwise indicated)

	2020	2021	2022	2023	2024		2025		2026	2027	2028	2029	2030
	Act.	Act.	Act.	Act.	First Review	Est.	First Review	Proj.	Projections				
Net foreign assets	4,876	5,018	5,139	8,437	9,550	10,374	11,309	10,712	11,062	12,546	14,280	16,542	18,269
Net foreign assets (BCM)	3,597	3,691	3,417	7,134	7,809	8,255	8,907	8,441	8,683	10,101	11,782	13,975	15,760
Net foreign assets (deposit money banks)	1,279	1,327	1,722	1,303	1,741	2,119	2,403	2,271	2,379	2,445	2,498	2,567	2,509
Net domestic assets	9,314	10,901	12,976	11,227	12,542	12,168	14,495	14,925	16,811	18,210	20,012	21,890	24,740
Domestic credit	10,685	12,411	15,122	14,106	15,921	16,069	17,846	17,996	19,611	21,290	23,338	25,567	28,025
Net credit to government	2,893	3,072	4,195	3,058	3,663	3,945	4,210	4,509	4,536	4,338	4,130	3,648	2,722
BCM[2]	1,044	1,271	2,407	784	1,374	1,832	1,861	2,285	2,298	1,986	1,663	1,166	224
DMBs	1,565	1,567	1,380	1,816	1,821	1,714	1,866	1,714	1,714	1,814	1,914	1,914	1,914
Other credits	285	234	407	459	468	398	483	510	524	538	553	568	583
Credit to the economy	7,792	9,339	10,927	11,048	12,257	12,124	13,636	13,488	15,074	16,952	19,208	21,919	25,303
Credit to public enterprises	59	54	37	37	32	34	35	34	34	34	34	34	34
Credit to private sector	7,687	9,263	10,816	10,943	12,182	12,052	13,568	13,415	15,002	16,879	19,135	21,846	25,230
Other credits	46	22	73	68	43	39	34	39	39	39	39	39	39
Other items (net)	-1,371	-1,510	-2,146	-2,879	-3,374	-3,901	-3,352	-3,071	-2,800	-3,080	-3,325	-3,678	-3,284
BCM	183	161	-130	-801	-1,002	-1,271	-1,212	-1,071	-871	-871	-871	-871	-871
Other	-1,554	-1,672	-2,016	-2,078	-2,372	-2,630	-2,139	-2,000	-1,929	-2,209	-2,455	-2,807	-2,413
Money and quasi-money (M3)	14,190	15,919	18,115	19,664	22,092	22,542	25,804	25,637	27,873	30,756	34,292	38,432	43,009
Foreign currency deposits	1,472	1,519	1,959	1,854	2,288	2,457	2,954	2,609	2,717	2,783	2,836	2,905	2,847
Broad money (M2)	12,632	14,318	16,043	17,678	19,678	19,946	22,705	22,889	25,017	27,835	31,318	35,388	40,023
Demand deposits in local currency	4,866	5,509	6,539	7,140	7,460	8,295	8,775	8,668	9,494	10,603	11,980	13,343	15,130
Quasi-money including time deposits	4,196	4,691	4,986	5,490	6,325	6,039	7,373	7,315	7,979	8,864	9,961	11,480	12,958
Reserve money	5,459	5,863	6,912	6,788	7,923	8,794	9,391	9,889	10,145	11,251	12,610	14,205	16,048
	(Percentage change relative to M2 at beginning of the year)												
Net domestic assets	11.1	12.6	14.5	-10.9	7.4	5.3	12.5	13.8	8.2	5.6	6.5	6.0	8.1
Domestic credit	13.6	13.7	18.9	-6.3	10.3	11.1	10.7	9.7	7.1	6.7	7.4	7.1	6.9
Net credit to government	7.1	1.4	7.8	-7.1	3.4	5.0	3.1	2.8	0.1	-0.8	-0.7	-1.5	-2.6
BCM	2.5	1.8	7.9	-10.1	3.3	5.9	3.1	2.3	0.1	-1.2	-1.2	-1.6	-2.7
DMBs	2.7	0.0	-1.3	2.7	0.0	-0.6	0.0	0.0	0.0	0.4	0.4	0.0	0.0
Other credits	1.9	-0.4	1.2	0.3	0.1	-0.3	0.1	0.6	0.1	0.1	0.1	0.0	0.0
Credit to the economy	6.5	12.2	11.1	0.8	6.8	6.1	7.6	6.8	6.9	7.5	8.1	8.7	9.6
Credit to public enterprises	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	6.2	12.5	10.8	0.8	7.0	6.3	7.6	6.8	6.9	7.5	8.1	8.7	9.6
Other credits	0.2	-0.2	0.4	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net; asset = +)	-2.5	-1.1	-4.4	-4.6	-2.8	-5.8	1.8	4.2	1.2	-1.1	-0.9	-1.1	1.1
Broad money (M2)	10.1	13.3	12.0	10.2	11.3	12.8	14.9	14.8	9.3	11.3	12.5	13.0	13.1
Currency in circulation	7.7	15.3	9.7	11.7	16.7	11.2	5.1	23.0	9.3	10.9	12.1	12.7	13.0
Demand deposits in local currency	9.9	13.2	18.7	9.2	4.5	16.2	20.0	4.5	9.5	11.7	13.0	11.4	13.4
Quasi-money in local currency	12.3	11.8	6.3	10.1	15.2	10.0	18.7	21.1	9.1	11.1	12.4	15.3	12.9
Credit to the private sector (in nominal terms)	10.1	20.5	16.8	1.2	11.3	10.1	12.5	11.3	11.8	12.5	13.4	14.2	15.5
Credit to the private sector (in real terms)	5.6	14.3	5.9	-6.3	3.5	1.5	4.9	3.0	4.5	6.0	7.1	8.2	9.5
Memorandum items:													
Credit to private sector (percent of GDP)	15.6	16.8	17.2	15.6	15.6	15.3	15.3	15.1	15.2	15.4	15.7	16.2	16.9
Money multiplier (M3/reserve money)	2.6	2.7	2.6	2.9	2.8	2.6	2.7	2.6	2.7	2.7	2.7	2.7	2.7
Velocity of money (GDP/end-of-period M3)	3.5	3.5	3.5	3.6	3.5	3.5	3.4	3.5	3.5	3.6	3.5	3.5	3.5

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

[1] End of period.

[2] Large increases in 2020 and 2021 reflect RCF disbursements and ECF disbursements on lent by the central bank to the Treasury.

Table 7. Madagascar: Balance Sheet of the Central Bank[1]

(Billions of Ariary, unless otherwise indicated)

	2020	2021	2022	2023	2024				2025			
	Dec	Dec	Dec	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
	Act.	Act.	Act.	Act.	Est.				Projections			
Net foreign assets	3,597	3,691	3,417	7,134	6,597	6,878	7,324	8,255	8,574	9,342	8,779	8,441
Gross foreign assets	7,370	9,024	9,508	12,099	11,216	11,741	12,352	13,217	13,948	15,378	14,766	14,917
Gross foreign liabilities	-3,772	-5,333	-6,091	-4,965	-4,619	-4,864	-5,028	-4,962	-5,374	-6,036	-5,987	-6,477
Net domestic assets	1,862	2,172	3,495	-347	533	510	-240	539	558	821	890	1,449
Credit to government (net)	1,044	1,271	2,407	784	1,251	1,058	1,427	1,832	1,994	2,257	2,226	2,285
Claims on central government	2,331	2,576	3,379	3,693	3,183	3,280	3,602	3,578	4,104	4,736	4,819	5,384
Statutory advances	0	0	287	344	49	110	130	130	200	200	310	330
Securitized debt (T-bonds and bills)	658	615	572	529	518	508	497	486	476	466	456	446
Discounted bills of exchange	0	0	0	0	0	0	0	0	0	0	0	0
On-lending of funds	1,671	1,960	2,519	2,818	2,614	2,661	2,974	2,961	3,426	4,069	4,052	4,606
Other credits	1	1	1	1	1	1	1	1	1	1	1	1
Government deposits	-1,287	-1,305	-972	-2,909	-1,932	-2,221	-2,175	-1,745	-2,109	-2,479	-2,593	-3,099
Claims on other sectors	26	28	34	35	35	35	36	37	35	35	35	35
Claims on banks: Liquidity operations (+ = injection)	609	711	1,185	-365	-293	127	-642	-59	-400	-400	-300	200
Other items (net; asset +)	183	161	-130	-801	-460	-710	-1,061	-1,271	-1,071	-1,071	-1,071	-1,071
Reserve money	5,459	5,863	6,912	6,788	7,130	7,388	7,084	8,794	9,133	10,163	9,669	9,889
Currency in circulation	3,570	4,117	4,518	5,048	4,912	5,167	5,243	5,613	6,792	7,558	7,191	6,905
Currency in banks	354	366	419	474	445	481	460	670	645	721	685	830
Resident deposits	66	76	87	90	91	89	92	95	95	95	95	95
					(Cumulative annual flows, unless otherwise stated)							
Memorandum items:												
Net foreign assets	-328	94	-274	3,717	-537	-257	189	1,121	319	1,087	524	186
Reserve money	532	403	1,050	-124	343	600	296	2,006	339	1,370	875	1,096
Exchange Rate (MDG/SDR, end of period)	5,509	5,538	5,938	6,135	5,764	5,873	...	...	...	...	...	...
Net foreign assets (Millions of SDRs, stock)	653	666	575	1,163	1,144	1,171	1,191	1,349	1,395	1,454	1,362	1,300

[1] End of period.

Table 8. Madagascar: Selected Financial Soundness Indicators[1]

(Ratios, percent, unless otherwise indicated)

	2019 Dec	2020 Dec	2021 Dec	2022 Dec	2023 Mar	2023 Jun	2023 Sep	2023 Dec	2024 Mar	2024 June	2024 Sep	2024 Dec
Capital Adequacy												
Regulatory capital to risk-weighted assets	13.4	11.9	11.0	11.2	11.2	11.9	12.6	12.6	12.8	11.0	12.3	12.5
Regulatory Tier 1 capital to risk-weighted assets	11.6	11.9	11.0	10.4	10.4	11.1	11.6	11.7	11.8	10.4	11.1	11.2
Tier 1 to assets	6.8	6.9	6.7	6.3	6.4	6.8	7.1	7.2	7.1	7.1	7.8	7.3
Non-performing loans net of provisions to capital	22.0	32.6	42.0	36.4	36.7	33.4	24.0	23.9	26.7	25.0	20.8	21.8
Asset Quality												
Non-performing loans to total gross loans	7.3	8.5	9.1	8.0	8.2	7.9	7.0	7.7	7.9	7.7	7.7	7.6
Earnings and Profitability												
Return on assets	4.0	3.2	3.5	3.6	3.9	4.2	4.4	4.4	4.7	4.5	4.5	4.6
Return on equity	31.1	25.9	28.7	29.7	30.9	33.2	34.8	34.4	31.3	29.7	30.1	31.4
Interest margin to gross income	60.6	60.2	51.3	50.8	51.2	51.3	55.0	54.3	56.8	56.4	56.2	48.7
Non-interest expenses to gross income	54.2	56.0	58.4	57.4	54.8	54.1	52.3	53.0	55.5	54.9	55.0	59.1
Trading income to total income	5.7	6.5	8.3	8.7	7.8	7.7	7.4	7.6	7.7	7.3	7.3	17.8
Personnel expenses to non-interest expenses	32.9	31.9	26.1	25.6	26.2	26.5	26.4	25.3	25.0	25.0	24.8	20.0
Liquidity												
Liquid assets to total assets (liquid asset ratio)	34.9	35.5	33.7	29.8	29.2	29.6	29.6	31.6	32.3	32.9	33.4	34.3
Liquid assets to short-term liabilities	49.8	49.7	48.9	43.4	43.6	44.5	44.7	47.7	49.5	48.8	50.7	52.9
Customer deposits to total (non-interbank) loans	131.1	131.9	121.8	116.8	116.8	121.9	123.8	122.6	126.9	125.9	129.0	133.4
Sensitivity to Market Risk												
Net open position in foreign exchange to capital	53.8	7.5	7.8	7.9	10.2	10.7	14.0	9.5	11.1	13.7	7.7	10.5
Spread between reference lending and deposit rates (basis point)	1,065	10	9	10	9	9	10	10	11	11	11	11
Foreign currency-denominated loans to total loans	11.7	11.8	11.6	18.3	14.9	16.5	17.2	15.5	16.1	16.7	16.8	16.9
Foreign currency-denominated liabilities to total liabilities	14.9	15.9	14.9	17.6	16.6	16.6	16.7	15.5	16.2	17.8	17.6	15.9

Source: Malagasy authorities.

[1] Ratios only concern banking sector.

Table 9. Madagascar: External Financing Requirements and Sources, 2022–28
(Millions of U.S. Dollars)

	2022	2023	2024	2025	2026	2027	2028
External financing needs	**1,132**	**935**	**1,265**	**1,573**	**1,733**	**1,640**	**1,702**
Current account deficit (excl. budget grants)	822	644	932	1146	1210	1202	1298
Net repayment of private sector and monetary authority debt	192	95	209	103	97	86	81
Repayment of government debt (excl. IMF)	106	131	137	187	242	294	284
Repayments to the IMF	21	50	0	87	139	144	139
Other (incl. unrepatriated export revenues) and errors/omissions	-7	16	-14	51	45	-85	-100
External financing sources	**995**	**1,193**	**1,440**	**1,144**	**1,478**	**1,646**	**1,761**
Foreign direct and portfolio investment	327	342	472	414	506	539	558
Project support	663	851	968	730	972	1,106	1,203
Grants	*193*	*352*	*480*	*120*	*81*	*72*	*64*
Loans	*470*	*499*	*488*	*610*	*890*	*1034*	*1140*
Debt forgiveness	**4**	**0**	**0**	**0**	**0**	**0**	**0**
Financing gap before reserves accumulation	137	-258	-175	430	255	-5	-60
Net change in foreign assets (without RSF)	-39	422	247	-45	-55	133	139
External financing gap after reserve accumulation	**98**	**164**	**72**	**384**	**200**	**128**	**79**
Use of IMF credit - PRGT	**98**	**65**	**49**	**146**	**98**	**49**	**0**
Other exceptional financing	**0**	**99**	**0**	**236**	**99**	**75**	**75**
Budget support loans	0	99	0	231	99	75	75
World bank	0	99	0	99	99	45	45
AfDB	0	0	0	133	0	30	30
Budget support grants	0	0	0	5	0	0	0
Memorandum items:							
Burden sharing - Share of IMF	100%	40%	68%	38%	49%	38%	0%
RSF			0	189	109	27	0
Gross official reserves	2141	2631	2906	3050	3123	3290	3437
Gross official reserves (without RSF)	2141	2631	2906	2861	2824	2963	3109

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

Table 10. Madagascar: Decomposition of Public Debt and Debt Service by Creditor[1]

	Debt Stock (end of period) 2024			Debt Service					
				2024	2025	2026	2024	2025	2026
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	**8,451,417,004**	**100.00**	**50.30**	**911,440,162**	**880,152,443**	**608,003,879**	**5.43**	**5.18**	**3.57**
External	**6,167,314,478**	**72.97**	**36.71**	**212,720,420**	**230,415,664**	**263,484,157**	**1.27**	**1.36**	**1.55**
Multilateral creditors[2]	4,859,155,654	57.50	28.92	155,926,062	173,656,940	175,412,126	0.93	1.02	1.03
IMF	1,063,814,342	12.59	6.33						
World Bank	2,665,949,486	31.54	15.87						
ADB/AfDB/IADB	644,828,202	7.63	3.84						
Other Multilaterals	484,563,624	5.73	2.88						
o/w: Intern'l Fund for Agricultural Dev.	159,939,470	1.89	0.95						
European Investment Bank	125,167,458	1.48	0.75						
Bilateral Creditors	1,006,238,755	11.91	5.99	28,098,673	37,419,276	32,274,426	0.17	0.22	0.19
Paris Club	417,337,608	4.94	2.48	-	-	-	0.00	0.00	0.00
o/w: Agence Française de Développement	176,846,211	2.09	1.05						
Japan International Cooperation Agency	188,448,417	2.23	1.12						
Non-Paris Club	588,901,146	6.97	3.51	-	-	-	0.00	0.00	0.00
o/w: Export-Import Bank of China	327,071,562	3.87	1.95						
Kuwait Fund	19,731,288	0.23	0.12						
Bonds	0	0	-						
Commercial creditors	123,483,089	1.46	0.73	28,695,685	19,339,448	55,797,606	0.17	0.11	0.33
o/w: Deutsche Bank	67,193,514	0.80	0.40						
Consorz GIFIEX	18,980,390	0.22	0.11						
Other international creditors (SOE debt)	178,436,980	2	1.06						
Domestic	**2,284,102,526**	**27.03**	**13.60**	**698,719,742**	**649,736,778**	**344,519,722**	**4.16**	**3.83**	**2.02**
Held by residents, total	2,284,102,526	27.03	13.60	698,719,742	649,736,778	344,519,722	4.16	3.83	2.02
Held by non-residents, total	0	0	-						
T-Bills	126,578,333	1.50	0.75	140,058,500	115,930,171	-	0.83	0.68	0.00
Bonds	862,725,278	10.21	5.14	296,570,195	491,259,868	333,812,309	1.77	2.89	1.96
Loans	212,777,397	2.52	1.27	99,593,077	42,546,740	10,707,413	0.59	0.25	0.06
Arrears	162,497,971	1.92	0.97	162,497,971	-	-	0.97	0.00	0.00
SOE	919,523,548.27	10.88	5.47						
Memo items:									
Collateralized debt[3]	0								
o/w: Related	0								
o/w: Unrelated	0								
Contingent liabilities	3,209,193.02								
o/w: Public guarantees	3,209,193.02								
o/w: Other explicit contingent liabilities[4]	0								
Nominal GDP	17,420,498,362			17,420,498,362	18,726,691,157	20,079,590,378			

Sources: Country authorities; and IMF staff estimates.

1 As reported by Country authorities according to their classification of creditors, including by official and commercial.

2 Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3 Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4 Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Table 11. Madagascar: Projected External Borrowing Program, on a Contractual Basis
(Millions of U.S. Dollars)

Public and publicly-guaranteed external debt contracted	Volume of new debt in 2025		PV of new debt in 2025 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**1386**	**100**	**600**	**100**
Concessional debt, of which	**1128**	**81**	**379**	**63**
Multilateral debt	1009	73	308	51
Bilateral debt	119	9	71	12
Other	0	0	0	0
Non-concessional debt, of which	**258**	**19**	**221**	**37**
Grant element between 0 and 35 percent	158	11	121	20
Commercial terms	100	7	100	17
By Creditor Type	**1386**	**100**	**600**	**100**
Multilateral	1129	81	422	70
Bilateral - Paris Club	43	3	30	5
Bilateral - Non-Paris Club	214	15	147	25
Other	0	0	0	0
Uses of debt financing	**1386**	**100**	**600**	**100**
Infrastructure	139	10	125	21
Social Spending	0	0	0	0
Budget Financing	167	12	55	9
Other	1080	78	420	70

Sources: Malagasy authorities; and IMF staff projections.

Table 12. Madagascar: Schedule of Disbursements and Timing of Reviews Under the ECF and RSF Arrangements

Available on or after	ECF Disbursement (In percent of quota)	ECF Disbursement (In SDR millions)	Conditions for Disbursement
June 21, 2024	15.0	36.66	Board approval of the arrangement
November 30, 2024	15.0	36.66	Board completion of first review based on observance of performance criteria for end-June 2024
May 30, 2025	15.0	36.66	Board completion of second review based on observance of performance criteria for end-December 2024
November 30, 2025	15.0	36.66	Board completion of third review based on observance of performance criteria for end-June 2025
May 30, 2026	15.0	36.66	Board completion of fourth review based on observance of performance criteria for end-December 2025
November 30, 2026	15.0	36.66	Board completion of fifth review based on observance of performance criteria for end-June 2026
May 30, 2027	15.0	36.66	Board completion of sixth review based on observance of performance criteria for end-December 2026
Total	105.0	256.62	

Available on or after	RSF Disbursement (In percent of quota)	RSF Disbursement (In SDR millions)	Conditions for Disbursement
November 30, 2024	8.333	20.366	Implementation of reform measure 1
	8.333	20.366	Implementation of reform measure 2
May 30, 2025	8.333	20.366	Implementation of reform measure 6
	8.333	20.366	Implementation of reform measure 10
November 30, 2025	8.333	20.366	Implementation of reform measure 4
	8.333	20.366	Implementation of reform measure 5
	8.333	20.366	Implementation of reform measure 11
May 30, 2026	8.333	20.366	Implementation of reform measure 7
	8.333	20.366	Implementation of reform measure 9
November 30, 2026	8.333	20.366	Implementation of reform measure 3
	8.333	20.366	Implementation of reform measure 8
May 30, 2027	8.333	20.374	Implementation of reform measure 12
Total	100.0	244.40	
Memo item:			
Quota		244.40	

Source: IMF staff.

Table 13. Madagascar: Indicators of Capacity to Repay the Fund

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
										(Millions of SDRs)										
Fund obligations based on existing credit																				
Principal	65.3	103.9	107.4	103.4	102.5	85.0	44.0	34.2	19.6	11.0	5.7	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
Charges and interest	11.1	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.1	11.0	10.9	10.8	10.7	10.6	10.5	10.4	10.4
Fund obligations based on existing and prospective credit																				
Principal	65.3	103.9	107.4	103.4	102.5	88.7	62.3	67.2	56.2	47.7	40.7	34.6	27.1	24.4	24.4	24.4	24.4	24.4	24.4	24.4
PRGT	65.3	103.9	107.4	103.4	102.5	88.7	62.3	67.2	56.2	47.7	36.7	18.3	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.1	16.3	23.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
Charges and interest	11.4	13.7	15.4	15.8	15.7	15.8	15.8	15.8	15.7	15.8	15.7	15.6	15.2	14.7	14.1	13.6	13.0	12.5	11.9	11.4
Total obligations based on existing and prospective credit																				
Millions of SDRs	76.7	117.6	122.8	119.1	118.2	104.4	78.1	83.0	72.0	63.4	56.5	50.2	42.3	39.1	38.5	38.0	37.4	36.9	36.3	35.8
Billions of Ariary	483	774	827	808	806	717	539	575	501	444	397	354	300	279	276	273	270	268	265	262
Percent of exports of goods and services	2.5	3.7	3.5	3.1	2.8	2.3	1.6	1.5	1.2	1.0	0.8	0.7	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.2
Percent of debt service	10.3	15.7	20.5	20.2	21.1	16.2	13.3	10.9	8.4	6.6	4.8	4.4	3.4	2.9	2.6	2.2	2.1	1.9	1.7	1.5
Percent of GDP	0.5	0.8	0.8	0.7	0.6	0.5	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Percent of government revenue	4.9	6.5	5.8	5.1	4.5	3.6	2.5	2.4	1.9	1.5	1.3	1.0	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.4
Percent of quota	31.4	48.1	50.2	48.7	48.4	42.7	31.9	33.9	29.4	25.9	23.1	20.5	17.3	16.0	15.8	15.5	15.3	15.1	14.9	14.6
Outstanding IMF credit based on existing and prospective drawings																				
Millions of SDRs	830.4	881.3	831.0	727.6	625.1	536.5	474.1	406.9	350.7	303.1	262.3	227.7	200.6	176.2	151.7	127.3	102.9	78.4	54.0	29.5
PRGT	687.8	657.3	586.6	483.2	380.7	292.1	229.7	162.5	106.3	58.7	22.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	142.6	224.0	244.4	244.4	244.4	244.4	244.4	244.4	244.4	244.4	240.3	224.0	200.6	176.2	151.7	127.3	102.9	78.4	54.0	29.5
Billions of Ariary	5,233	5,799	5,600	4,936	4,263	3,683	3,271	2,820	2,442	2,120	1,843	1,607	1,423	1,255	1,086	915	743	569	393	216
Percent of exports of goods and services	27.0	27.4	23.7	19.2	14.9	11.8	9.6	7.6	6.0	4.8	3.8	3.0	2.5	2.0	1.6	1.2	0.9	0.6	0.4	0.2
Percent of debt service	111.5	117.8	138.6	123.4	111.3	83.0	80.7	53.3	40.8	31.5	22.3	20.1	16.1	12.9	10.1	7.2	5.7	4.1	2.5	1.2
Percent of GDP	5.9	5.9	5.1	4.1	3.2	2.5	2.0	1.6	1.2	1.0	0.8	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.0
Percent of government revenue	52.7	48.8	39.3	31.2	24.0	18.7	15.1	11.9	9.3	7.4	5.8	4.6	3.7	3.0	2.4	1.8	1.3	0.9	0.6	0.3
Percent of quota	339.8	360.6	340.0	297.7	255.8	219.5	194.0	166.5	143.5	124.0	107.3	93.2	82.1	72.1	62.1	52.1	42.1	32.1	22.1	12.1
PRGT	281.4	268.9	240.0	197.7	155.8	119.5	94.0	66.5	43.5	24.0	9.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	58.3	91.7	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	98.3	91.7	82.1	72.1	62.1	52.1	42.1	32.1	22.1	12.1
Net use of IMF credit (millions of SDRs)	187.2	50.9	-50.3	-103.4	-102.5	-88.7	-62.3	-67.2	-56.2	-47.7	-40.7	-34.6	-27.1	-24.4	-24.4	-24.4	-24.4	-24.4	-24.4	-24.4
Disbursements	252.5	154.8	57.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PRGT	110.0	73.3	36.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	142.6	81.5	20.4	0.0	0.0	0.0	0.0	0.0	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	65.3	103.9	107.4	103.4	102.5	88.7	62.3	67.2	56.2	47.7	40.7	34.6	27.1	24.4	24.4	24.4	24.4	24.4	24.4	24.4
PRGT	65.3	103.9	107.4	103.4	102.5	88.7	62.3	67.2	56.2	47.7	36.7	18.3	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RST	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.1	16.3	23.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
Memorandum items:						(Billions of Ariary, unless otherwise indicated)														
Exports of goods and services (millions of SDRs)	3,081	3,218	3,506	3,787	4,188	4,558	4,949	5,373	5,835	6,335	6,880	7,471	8,114	8,812	9,571	10,396	11,292	12,266	13,324	14,486
Debt service	4,695.3	4,923.6	4,041.9	4,000.8	3,828.6	4,440.3	4,054.1	5,286.8	5,988.4	6,732.3	8,280.9	8,006.7	8,839.3	9,704.3	10,720.5	12,700.0	13,128.5	13,812.8	15,780.1	17,446.7
Nominal GDP (at market prices)	88,795	98,744	109,610	121,420	134,573	149,367	164,322	180,752	198,826	218,708	240,577	264,634	291,097	320,207	352,228	387,451	426,196	468,816	515,697	568,298
Government revenue	9,931	11,890	14,232	15,840	17,744	19,680	21,647	23,780	26,127	28,701	31,533	34,643	38,062	41,813	45,931	50,452	55,408	60,864	66,850	73,512
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	244.4	244.4	244.4	244.4	244.4	244.4	244.4

Source: IMF staff projections

Table 14. Madagascar: Timeline of the Proposed Reform Measures Under the RSF

	1st ECF/RSF Review (November 2024)	2nd ECF/RSF Review (May 2025)	3rd ECF/RSF Review (November 2025)	4th ECF/RSF Review (May 2026)	5th ECF/RSF Review (November 2026)	6th ECF/RSF Review (May 2027)	World Bank Synergic Operations: Development Policy Operation	World Bank Synergic Operations: Investment Project Financing
Reform Area 1: Reinforce governance and mainstream the climate agenda into PFM/PIM processes.	**RM1 (Climate governance).** Adopt a decree clarifying the mandate of the Interministerial Committee for Environment (CIME) to cover all climate policies. This decree would provide notably for (i) chairmanship at the level of the Prime Minister (ii) meetings twice a year with publicly disclosed reports to monitor implementation (iii) a technical secretariat shared between MEDD and MEF. **RM2 (PIM Framework).** Adopt a new decree on environmental impact assessments (EIA) to replace the 2004 MECIE decree [Mise en compatibilité des investissements avec l'environnement] and adopt and publish criteria for prioritization and selection of investment projects, including climate change (adaptation, mitigation and resilience) related elements.		**RM4 (Climate Budget Tagging)** Adapt the budget classification to enable the tagging of climate-related adaptation and mitigation expenditures and append a first Climate Budget Statement (CBS) to the 2026 Executive Budget Proposal.		**RM3 (PIM Implementation).** Adopt a [decree] making it compulsory to produce every year a budget document listing the investment projects selected for the public investment program and explaining how the selection criteria have been applied, notably with respect to effective application of criteria related to climate adaptation and mitigation, and produce a first report in accordance with this obligation.		**Madagascar Equitable and Resilient Growth Programmatic DPO** (2023-2025): aims to mitigate Madagascar's climate risks through climate-smart and decentralized fiscal management. The DPO supports reforms to strengthen macro-resilience, including the adoption and enhancement of a decree to establish selection criteria - including climate change - for the prioritization of public investment projects.	
Reform Area 2: Enhance adaptation to climate change and strengthen resilience against natural disasters.		**RM6 (Disaster Risk Management).** Approve the necessary implementation regulations to simplify PFM processes for disaster-related expenditures and operationalize the National Contingency Fund (FNC) while ensuring adequate transparency and reporting of expenditures for each selected type of hazard.	**RM5 (Water Governance).** Approve in Cabinet a bill to update the 1998 Water Code, with a view to integrating climate change in the overall water policy and reinforcing the overall policy framework for Integrated Water Resource Management (IWRM), including by strengthening the National Authority for Water and Sanitation's (ANDEA) institutional framework.					The **Safety Nets and Resilience Project** (P179466) supports climate change adaptation including agroforestry, landscape management, irrigation, and reforestation, as well as rapid safety net response to climate shocks. The Support to Resilient Livelihoods in Southern Madagascar Project (P171056) covers a range of resilience measures including resource and landscape management. The **Madagascar National Water Project** (P174477) is financing investments in water supply in major cities across the country and several cyclone-affected areas. The **Regional Climate Resilience Project** (P180171) will fund the remaining stages of the preliminary drafts study of the Mandrare Multipurpose Transformative Project.
Reform Area 3: Support efforts to curb the growth of GHG emissions.				**RM7 (Energy prices and subsidies).** Fully eliminate all fuel price subsidies. **RM9 (Renewable energy production).** Adopt the FNED [Fonds National de l'Énergie Durable] decree and operationalize the FNED financing mechanism to support off-grid and mini-grid electrification with at least a total of 11.5 MW in newly installed renewable energy production capacity arising from operations supported by FNED.	**RM8 (Fuel taxation).** Gradually raise excise taxes and other levies on diesel fuel to align them to the level applicable to gasoline.			The **Madagascar Ethanol Clean Cooking Climate Finance Program** (P154440) aims to increase household use of ethanol cooking stoves for reduced GHG emissions in Madagascar. The **Atiala-Atsinanana Emission Reductions Program Project** (P167725) aims to make payments to the program entity for measured, reported and verified Emission Reductions (ER payments) related to reduced deforestation, forest degradation and the enhancement of forest carbon stocks (REDD+) at the national level in Madagascar, and distribution of ER payments in accordance with agreed Benefit Sharing Plan. The **Madagascar - Least-Cost Electricity Access Development Project – LEAD** (P163870) and the Digital and Energy Connectivity for Inclusion in Madagascar Project (P178701) are implementing grid-based renewable energy solutions.
Reform Area 4: Reinforce the protection of forests and biodiversity		**RM10 (Carbon storage in forests).** Adopt a new decree to improve the participation of the private sector and extend the scope of the REDD+ mechanism to reforestation schemes.						The **Atiala-Atsinanana Emission Reductions Program Project** (P167725) aims to make payments to the program entity for measured, reported and verified Emission Reductions (ER payments) related to reduced deforestation, forest degradation and the enhancement of forest carbon stocks (REDD+) at the national level in Madagascar, and distribution of ER payments in accordance with agreed Benefit Sharing Plan.
Reform Area 5: Mobilize climate finance			**RM11 (National Climate Finance Strategy).** Adopt an inter-ministerial decree on a climate finance mobilization strategy that prioritizes key investment areas as stipulated in national framework documents, with a tentative budget, options for innovative blended financing mechanisms and a timeline.			**RM12 (National Green Taxonomy).** Adopt a decree on implementing a national green taxonomy to inform all green/climate investments.		**Madagascar Ethanol Clean Cooking Climate Finance Program** (2016-2025) provides technical assistance to establish the institutional and regulatory framework to enable Madagascar's readiness to implement Art. 6 of Paris Agreement The **Atiala-Atsinanana Emission Reduction Program** (AA-ERP, 2022-2025), aims to reduce deforestation and forest degradation in its area of intervention through carbon market mechanism. The AA-ERP supported the elaboration and adoption of the decree on forest carbon market regulation in Madagascar.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
External Risks			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High**	**Medium.** The impact on Madagascar would depend on the incidence of these trade and investment barriers. Trade barriers imposed on key exports of Madagascar to the US or other partner countries could lead to a deterioration of the trade deficit and dampen growth. However, trade barriers on third country exports may have positive spillovers by raising the demand of such exports from Madagascar.	Maintain exchange rate flexibility for trade competitiveness. Continue to diversify export production. Improve the business environment to boost the country's attractiveness to investors.
Sovereign debt distress. Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	**High**	**Medium.** A stronger US dollar could raise the debt burden of Madagascar's debt denominated in US dollars. Shrinking development aid could raise the government's spending needs and increase fiscal risk.	Maintain a sustainable level of debt in line with the debt anchor. Increase revenue mobilization to meet development spending needs.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**Medium**	**Medium**. Madagascar could be affected through commodity price volatility leading to spending pressures, supply chain disruptions, higher inflation, and lower growth in trading partners limiting tourism flows and remittances.	Maintain exchange rate flexibility to cushion balance of payment stress while focusing monetary policy on containing inflation. Reduce non-priority spending and continue targeting a medium-term fiscal consolidation path. Tighten monetary policy to contain inflation. Implement policies to cope with commodity price shocks as described below.
Global growth acceleration. Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	**Low**	**Medium**. Positive supply-side shocks, the easing of conflict and a rise in global demand and trade could boost Madagascar's exports and growth.	Maintain exchange rate flexibility for trade competitiveness. Accelerate broad-based reforms to boost competitiveness and diversify the economy to benefit from global growth acceleration.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**Medium**	**Medium**. Lower external demand and commodity prices for metal and vanilla could reduce export revenues and mining production. Rising food and energy prices could lead to greater food insecurity and fuel inflation. Higher energy prices would also raise fuel and electricity costs and complicate the implementation of planned energy reforms.	Allow greater exchange rate flexibility to buffer external price shocks. Accelerate structural reforms to improve economic efficiency and enhance diversification. Support vulnerable households with additional targeted measures within the existing budget. Speed up the switch to alternative, cleaner forms of energy.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High**	**Medium.** Trade disruptions could raise food and energy prices, leading to greater food insecurity and inflation. Inward-oriented policies may lower foreign investment, potentially dampening economic growth.	Maintain exchange rate flexibility to buffer external price shocks. Accelerate broad-based reforms to boost competitiveness and diversify the economy to build resilience against external shocks. Target social spending to support vulnerable households.
Domestic Risks			
Social discontent. Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.	**Medium**	**High.** Persistent governance issues, food insecurity, and the lack of progress on structural reforms could fuel popular discontent and trigger social unrest.	Maintain appropriate macroeconomic policies to safeguard stability. Improve inclusiveness of government policies by freeing fiscal space to strengthen social safety nets. Improve transparency and accountability in public spending and step-up anti-corruption and AML/CFT efforts.
Lack of progress on structural reforms, especially for SOEs.	**High**	**High.** Lack of progress on structural reforms (notably for JIRAMA) would continue putting pressure on public finances, compromise additional concessional support, and harm negotiations with fuel suppliers leading to continued accumulation of cross-arrears.	Undertake promised reforms and renew commitment to ensuring efficiency, sustainability, and good management of SOEs (e.g., JIRAMA) in a transparent and equitable manner.
Monetary policy miscalibration.	**Low**	**Medium**. A lack of clear nominal anchor and loosening of the policy stance prematurely could hinder disinflation and cause a rapid de-anchoring of inflation expectations.	The central bank should remain vigilant and tighten monetary policy as needed. Maintain exchange rate adjustment and strengthen independence of the central bank.
Slower pace of governance reforms.	**Medium**	**Medium.** Poor governance, increased corruption, state capture in key sectors, and lack of transparency and evenhandedness lower confidence, private investment (incl. PPPs) and growth, and reduce external financing.	Build consensus on reforms. Improve communication. Adhere to governance reforms. Invest in human capital and institutions. Step-up anti-corruption and AML/CFT efforts.

Annex II. Capacity Development

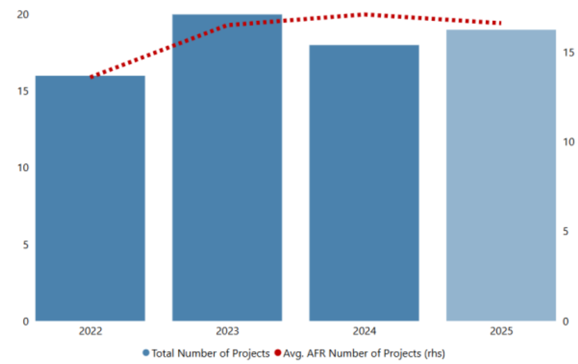
Annex II. Figure 1. Madagascar: Overview of Capacity Development, FY22-25[1,2]

CD spending has risen in line with the SSA Countries.

Madagascar CD Single Country Spending and SSA Region Overall Average, FY22–25
(Millions of USD)

While the number of CD projects remained broadly stable.

Madagascar Number of CD Projects and SSA Region Overall Average, FY22–25[2]

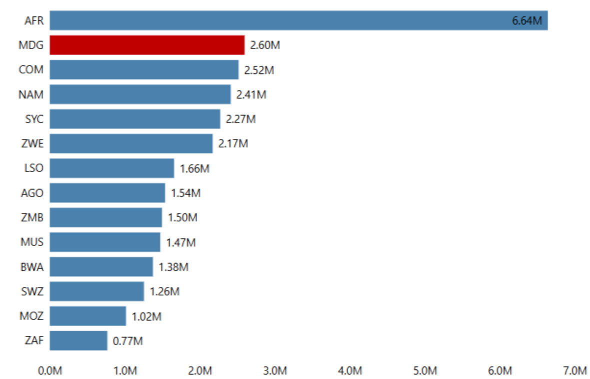


Over a third of Madagascar's CD is funded by AFS,

CD Spending by Regional Funding, FY22–25
(Millions of USD)

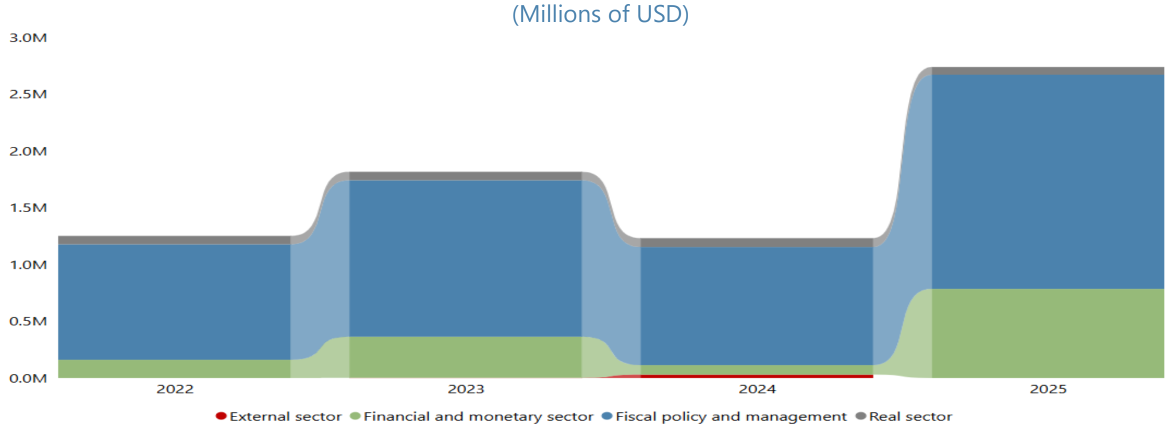
And Madagascar is the largest country recipient of regional CD support

AFS Total CD Spending by Country, FY22–25
(Millions of USD)



CD spending on fiscal policy and management, as well as the financial and monetary sector is increasing.

Total CD Spending by Sector in Madagascar, FY22–25[3]
(Millions of USD)

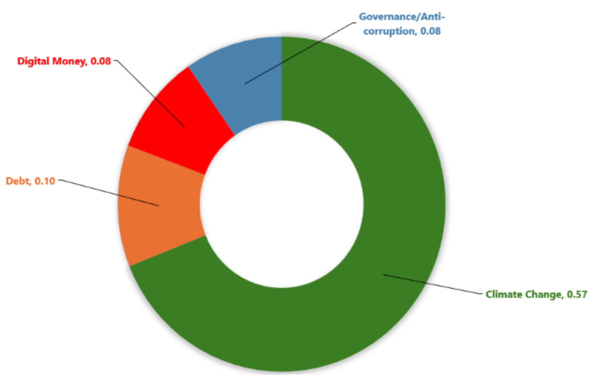


Annex II. Figure 1. Madagascar: Overview of Capacity Development, FY22-25 (Concluded)

Past CD has covered core priority areas like climate and debt,

CD Spending in Core Priority Areas in Madagascar, FY22–24[4]

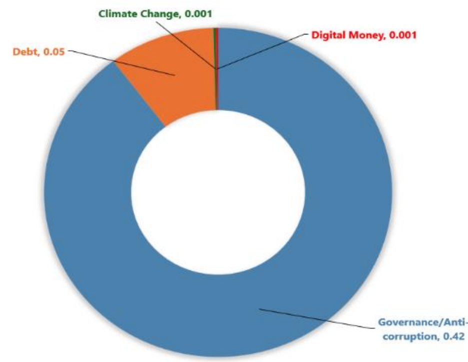
(Millions of USD)



While current CD focuses on governance and corruption.

CD Spending in Core Priority Areas in Madagascar, FY25[5]

(Millions of USD)



Source: IMF Staff Calculations.

Notes:

1/ FY22-24: actual data; FY25: planned activities and subject to change.

2/ Data captures projects in "Approval", "Execution", and "Complete" stages. And Single country spending, while SSA Region Average, include Single and Multi-Country Projects.

3/ Sectors were defined by CD departments, each CD workstream was categorized into Economic and Financial Topic (Sector).

4/ Priority Area weighted spending is calculated by multiplying activity costs with Priority Area weights. These are not mutually exclusive for Actuals (i.e. weights do not necessarily add up to 100), so individual priority area spending figures are not additive for FY22-24.

5/ Priority Area weighted spending is calculated by multiplying activity costs with the Priority Area weights. Because Priority Area weights might not yet add up to 100 for every project in the CDMAP system, the numbers on this page do not necessarily reflect total actual/planned spending from FY25 onward.

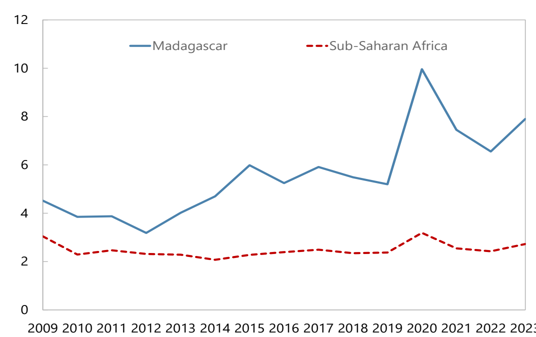
Annex III. Estimated Impact of U.S. Tariff Hike and Reduction in ODA[1]

Madagascar is one of the hardest hit countries by the dual shock of U.S. tariff hike and discontinuation of ODA, including from USAID. The two shocks combined are expected to reduce real GDP growth by 0.6 and 0.7 ppt in 2025 and 2026 respectively. However, this forecast is subject to high global uncertainty, and uncertainty on the domestic policy response as the authorities are contemplating possible substitute financing and spending reallocation.

A. ODA Reductions

1. **Madagascar and SSA have been experiencing a trend decline in ODA since COVID-19 period peak that could fall further as U.S. aid to Madagascar is being discontined (text Figure).** USAID support accounted for around 14 percent of total ODA to Madagascar. According to information obtained from USAID, the agency's spending on Madagascar averages about US$200 million a year (just over 1 percent of GDP) and the authorities report that in 2025, US$94.4 million worth of planned USAID projects have been terminated (about 0.5 percent of GDP).

Official Development Assistance in Madagascar and Sub-Saharan Africa
(in percent of GDP)



Sources: OECD; and IMF, World Economic Outlook database.

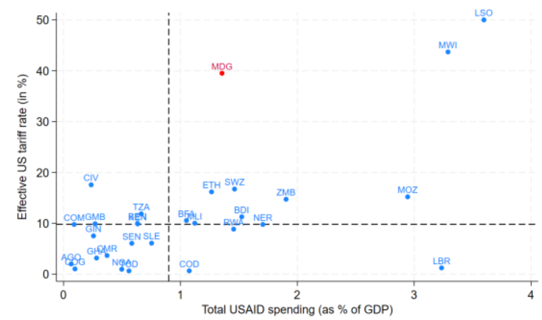
2. **The trend decline in ODA, including the recent discontinuation of USAID, would have a humanitarian and economic impact on Madagascar.** A decline in ODA directly impacts the economy via lower spending, with a disproportionate impact on key beneficiary sectors such as health. Staff estimates the suspension of USAID support in 2025 would lower real GDP growth by around 0.3 and 0.1 ppt in 2025 and 2026 respectively.[2] This estimate may be a lower bound of the impact of the USAID suspension on growth, if large funding gaps in critical sectors are left unmet.

[1] Joanne Tan (AFR) and Wenjie Li (SPR).

[2] Using the average ratio of imports to consumption, investment and government spending for 2023 and 2024, the import share of absorption is estimated at 30 percent. Staff assume that the only half of critical USAID spending on health, education and humanitarian needs are compensated. Estimates rely on data on the import share of absorption in Madagascar and assume that only a share of suspended USAID spending is compensated through other sources of funding.

3. The authorities are exploring both possible alternatives source to finance services affected by the recent reduction in ODA and budgetary reallocations. According to the Ministry of Public Health, alternatives to finance activities affected by the recent reduction in USAID are limited. However, spending cuts if affecting critical sectors could have long-term scarring effects. Addressing the broad trend decline in ODA calls for renewed focus on domestic revenue sources and spending reallocation and efficiency to keep critical services afloat.

USAID Spending vs. U.S. Tariff Hike in SSA (April 2nd)



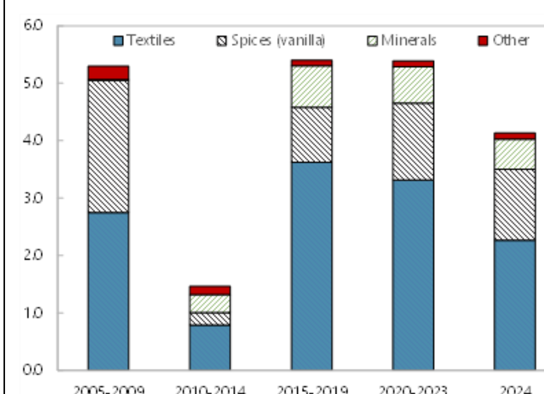
Source: ForeignAssistance.gov and staff calculations. U.S. tariff data is weighted-average tariff over all imports to the U.S. Total USAID spending is calculated as a share of 2024 GDP. Dotted lines indicate the SSA regional median

B. U.S. Tariff Hike

4. Madagascar export into the U.S. have been charged with one of the highest 2025 U.S. tariff hikes. The *U.S. Fair and Reciprocal Plan* was introduced on April 2, imposing a tariff of 47 percent on Madagascar's exports to the US. The subsequent temporary suspension and a universal transitory 10 percent minimum tariff took effect on April 5.

5. The U.S. is an important trading partner for Madagascar. Exports to the U.S. averaged about 17 percent of Madagascar's total exports over the past decade and stood at 15.4 percent at end-2024, according to data from the ITC Trade Map. Textiles, minerals, and vanilla are the top three exports to the U.S. Before the implementation of the new U.S. tariff measures, nearly all Madagascar's exports enter the U.S. duty-free under either the African Growth and Opportunity Act (AGOA) or the Generalized System of Preferences (GSP).[3] The new tariff applies to those products eligible under AGOA, except mining exports (mainly nickel and titanium ores).

Madagascar's Exports to the U.S.
(in percent of GDP)



Sources: ITC tradem ap and IMF staff calculations

6. Staff baseline scenario incorporates the most recently announced tariff policy, i.e., a 10 percent tariff on Madagascar's exports to the U.S. in place until July 2025, followed by a 47 percent tariff thereafter.[8] The tariff hike would have a significant impact on Madagascar, given the high

[3] The Malagasy authorities are in negotiations with the US administration.

exposure of the textile industry and vanilla sector to the US market (55 percent and 23 percent respectively) and competition from other regional exporters, notably for textiles.

7. The US tariff hike is expected to have a wide-ranging impact on the country.

- **Impact on exports.** Using dynamic demand elasticities for vanilla and textile from Boehm et al. (AER; 2023), we estimate a cumulative drop in exports of 1.5 percent of GDP by 2030.[4] The textile industry is severely impacted, even as the 90-day suspension of the tariff provides temporary relief, and existing textile export contracts largely remain in force.
- **Impact on growth.** Applying the estimated elasticity of real GDP growth to real export growth, together with the projected fall in real exports growth (obtained by deflating the estimated shock impact on nominal exports above using the projected export deflator), we estimate that real GDP growth would fall by 0.3 percentage points in 2025 and 0.6 percentage points in 2026, relative to the pre-tariff baseline.[5] The growth impact is larger in 2026 due to the fact that the tariff impact occurs from 2025:Q2, coupled with temporary stickiness of export supplier contracts. Growth is then projected to rebound and converge to its potential of 5 percent, albeit with a 2-year delay.
- **Other negative spillovers.** Considering the labor-intensive nature of the textile industry and vanilla sector (estimated 60,000 and 120,000 direct jobs respectively in the textile and vanilla sectors), employment is likely to be adversely affected by the US tariff hike.

8. Upside and downside risks around the baseline scenario would impact staff estimates.

- **In an upside scenario**, it is assumed that the 47 percent tariff imposed on Madagascar is permanently suspended, while the universal 10 percent tariff remains in place. It is also assumed that trade diversion from major U.S. trade partners (e.g., China) benefits Madagascar and that the global context is more favorable. In this scenario, growth could be stronger than projected in the baseline, supported by greater export demand, investment and tourism. The impact of the 10 percent universal tariff could be roughly compensated by trade diversion and stronger global demand.
- **In a downside scenario**, U.S. tariffs on Madagascar's exports revert to 47 percent in July. Global demand falls as the global trade war intensifies and the economic outlook darkens, while global uncertainty continues to increase and weigh on economic activity.[6] In this scenario, exports, investment and tourism would likely fall further compared to the baseline. The expiration of AGOA in September 2025, combined with a 47 percent tariff, would effectively cripple textile exports to the U.S. market.

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[4] Boehm et. al. (2023). The Long and Short (Run) of Trade Elasticities. American Economic Review, American Economic association, vol. 113(4), pages 861-905, April.
[5] The elasticity of real GDP growth to real export growth is estimated at just under 11 percent, meaning that a one percent fall in real export growth is associated a 0.11 percent fall in real GDP growth.
[6] The scenarios build on the scenarios presented in Box 1.1 of the April 2025 World Economic Outlook.

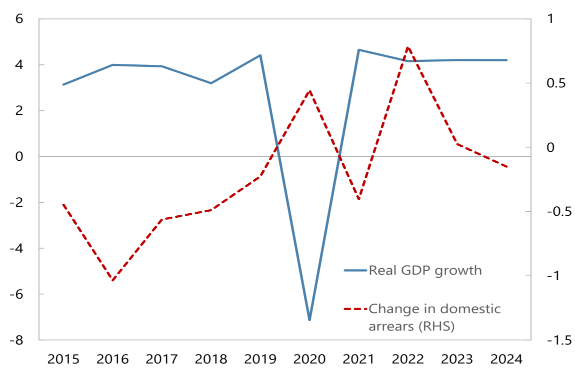
Annex IV. Domestic Arrears: Magnitude, Drivers and Impact[1]

Domestic arrears are substantial, with central government arrears estimated at 0.8 percent of GDP at end 2024 and arrears of JIRAMA to its suppliers at 2.3 percent of GDP in 2023. Lengthy delays in payments to an already financially constrained private sector could hinder investment and firm growth. They also undermine the credibility of the budget, which in turn constrains government borrowing. This annex finds that lowering payment delays to the regional average could raise Madagascar's real GDP growth by about 0.8 percentage point.

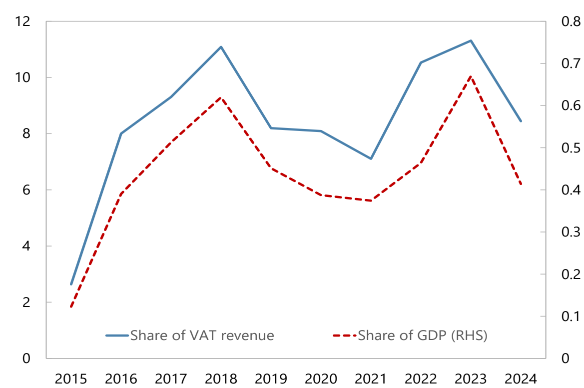
1. Arrears have been pervasive in Madagascar.

- Arrears are defined as amounts, related to any expense, asset acquisition and any liability, that are both unpaid and past the due date for payment. In cases where there is no indicated payment due date, it is generally assumed in the literature that a payment that fails to occur within a month of its expected date would be considered an arrear. In the case of Madagascar, the threshold is fixed at 90 days.
- Available data suggest that government arrears to the private sector are significant. Arrears tend to be procyclical, rising in periods of low growth, social and political instability and unfavorable terms of trade, thereby amplifying negative economic shocks.[2]

Domestic Arrears
(Annual change, in percent of GDP)



Indicators of VAT Refunds
(In percent)



Sources: Malagasy authorities and IMF staff estimates.

2. Following a dip in 2015, domestic government arrears rose sharply, reaching about 0.5 percent of GDP in 2020 (start of the pandemic) and peaking at 0.7 percent of GDP in 2022.

[1] Joanne Tan (AFR).

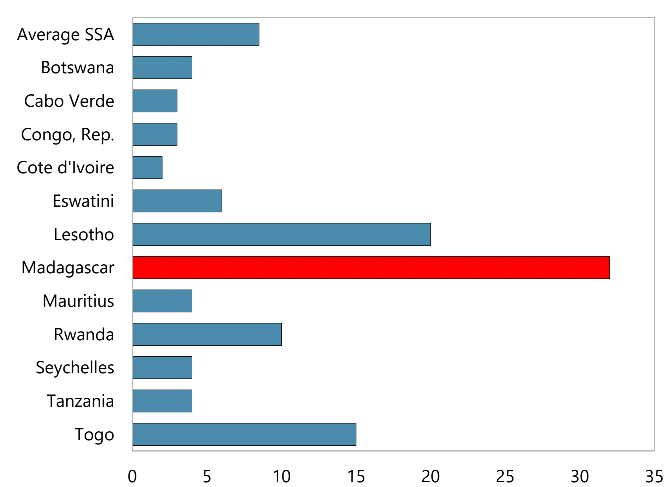
[2] Checherita-Westphal, C., Klemm, A., & Viefers, P. (2016). Governments' payment discipline: The macroeconomic impact of public payment delays and arrears. Journal of Macroeconomics, 47, 147-165. IMF African Department Regional Economic Outlook (2019). Chapter 3.

They subsequently declined, with repayment (negative arrears) in 2024, consistent with ECF targets (even if falling short). In parallel, available data point to a lack of improvement in VAT refunds since 2018, with the ratio of VAT refunds to VAT revenue and GDP broadly declining from 2018.[3] Furthermore, a cross-country comparison using data from the World Bank Enterprise Survey suggests that median delays in VAT refunds in Madagascar far exceed SSA peers' (32 weeks against 8.5).

3. The drivers of arrears accumulation are multifaceted, including both conjunctural and structural factors.

- For SSA, drivers of arrears accumulation have been found to include conjunctural factors such as cyclical downturns, commodity price declines, political instability and natural disasters. These conjunctural factors are often compounded by structural factors, notably weak Public Financial Management (PFM), poor budgeting and cash management, as well as elevated levels of public debt.
- In the case of Madagascar, a 2015 FAD TA report noted that the main factors leading to chronic arrears accumulation included conjunctural liquidity shortages, weak PFM practices, including deficiencies in budgetary and accounting information systems, inadequate monitoring and tracking of payment arrears, low budget execution capacity, as well as a lack of transparency and coordination between government agencies.

Median Number of Weeks for VAT Refund



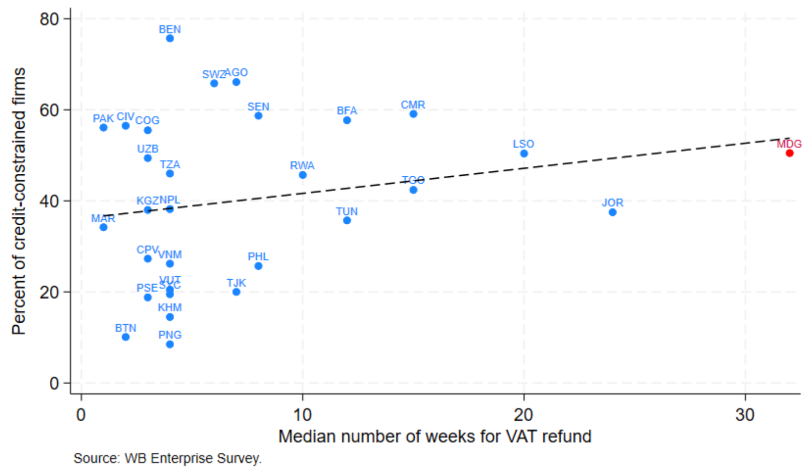
Source: World Bank Enterprise Surveys.

4. Outstanding delays in paying government due to the private sector could hinder economic growth by lowering firm profits and tightening firm liquidity constraints, thereby stifling firm growth and investment.

- Descriptive evidence from the WB Enterprise Survey suggests a positive correlation between the share of credit-constrained firms and VAT refund delays among low and lower-middle income countries, as shown in the Figure below.

[3] Data on the stock of domestic arrears and the stock of VAT arrears are not directly available for Madagascar and staff estimated it at 0.8 percent of GDP at end-2024 using a compilation method of the flows. For this analysis, staff used data on the change in the stock of domestic arrears and on VAT refunds instead.

Share of Credit Constrained Firms and VAT Refund Delays



Source: World Bank Enterprise Surveys.

- Given data limitations, we exploit the evidence on the causal impact of domestic arrears on economic growth presented in Checherita-Westphal et al. (2019), using administrative data and extensive firm survey-level data from the EU. Using system GMM, the authors find that a 100-day average delay in government payments lowers real GDP per capita by between 0.5 and 0.9 percentage points in the same year, with sustained negative impacts on growth only dissipating after 2 years.[4]
- These results suggest that should VAT delays in Madagascar fall from 32 weeks to the SSA average of 8.5 weeks, real GDP per capital growth could rise by 0.8 ppts (obtained as $(32 - 8.5) \times 7 \times 0.5/100)$). This estimate likely represents a lower bound, considering that firms in SSA (including Madagascar) typically face tighter financing constraints and are therefore more dependent on government payments. Furthermore, while the literature on SSA is scant, a 2019 chapter from IMF African Department Regional Economic Outlook finds, using synthetic control methods, that a 1 ppt increase in government arrears accumulation would lower real GDP per capita growth by 0.3 ppt.[5]Together, these regional findings suggest that, should Madagascar make progress on tackling their domestic arrears, it could reap significant economic gains.

5. The accumulation of arrears may lead to a vicious cycle: by stifling economic activity, arrears negatively impact tax revenues which in turn constrains the government ability to spend (all else equal) with a multiplier effect on growth. Furthermore, chronic arrears accumulation may deter private companies from submitting public procurement bids, thereby limiting competition and

[4] Similarly, the authors also estimate that a 1 percent increase in domestic arrears as a share of GDP would lower real GDP growth by 0.6 to 0.9 percentage points in the same year, with the impact dissipating after 2 years.

[5] International Monetary Fund. African Dept. (2019). "3. Domestic Arrears in Sub-Saharan Africa: Causes, Symptoms, and Cures". In Regional Economic Outlook, October 2019, Sub-Saharan Africa. USA: International Monetary Fund (link here).

raising the cost of government procurement. These added pressures on the budget could in turn further exacerbate the problem of arrears accumulation.

6. Tackling the arrears problem would require strengthening fiscal institutions. This includes reinforcing PFM systems, building buffers to enable the government to respond to unforeseen spending needs without falling into arrears, improved cash management practices, a more systematic monitoring and reporting of domestic arrears, as well as improved coordination across government departments for effective management of payment commitments. Ultimately, enhanced domestic revenue mobilization and spending prioritization would help align Madagascar's resources to its large development needs without accumulating arrears. The ECF is supporting the government's efforts in this regard through an IT on a ceiling for outstanding domestic arrears and structural conditionality, including on cash management (see ¶30).

7. The benefits from addressing the arrears issue are far-reaching. A reduction in arrears accumulation would not only boost economic growth, but also create a positive feedback loop; improved government credibility, lower public procurement costs and thereby alleviation of financing constraints for both the government and its suppliers

Appendix I. Letter of Intent

Antananarivo, Madagascar
June 05, 2025

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

Madam Managing Director:

The Republic of Madagascar is more determined than ever to implement the reform program supported by the Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF) since June 2024. The attached Memorandum of Economic and Financial Policies (MEFP) details the measures and structural reforms envisaged to accelerate growth and fight poverty and corruption while strengthening our fiscal and external sustainability. These objectives are consistent with the General State Policy (PGE) priorities, which include enhancing: (i) human capital; (ii) economic transformation; and (iii) governance and the rule of law.

We met all performance criteria and all but one indicative targets at end-December 2024. Indeed, the reduction of domestic arrears was below expectations due to delays in the disbursements of budget support planned by the IMF, the World Bank, and the AfDB. As far as structural reforms are concerned, we have generalized annual commitment plans to all ministries to improve budget execution and adopted a new cash management law to facilitate payments to suppliers and reduce government arrears, including those related to VAT refunds. We have also made progress in implementing RSF-supported reforms with the operationalization of the National Contingency Fund and in simplifying and accelerating the financial circuits for disaster risk management and the revision of Decree 2021-1113 to expand the scope of the mechanism for carbon storage in forests and encourage private sector participation.

The 2025 budget law includes several tax measures aimed at further mobilizing domestic and customs revenues. In accordance with our commitments, we have adopted measures reducing tax expenditures by more than MGA 280 billion and we are targeting an increase in the revenue-to-GDP ratio of around 0.4 percentage points. This increase in revenues should enable us to finance more investment and social spending, while limiting our debt. We will pursue prudent management of our public finances, including through a contingency plan to deal with shocks. Maintaining a prudent and data-dependent monetary policy will ensure price stability along with a comfortable level of foreign exchange reserves as a prerequisite for external stability.

The implementation of the recovery plan for JIRAMA that we expect to approve in June 2025 will improve the supply of electricity while reducing production costs, which will allow for a gradual decline in transfers to the company and contribute to better control of budget risks.

We will continue the implementation of our automatic fuel price adjustment mechanism to reduce fuel subsidies and improve spending efficiency We will make sure to put in place mechanisms to compensate vulnerable groups in order to mitigate the effects of the increase in pump prices, in particular through solar kits and social transfers program based on our social registry.

Furthermore, and in line with the general government policy, through a national consultative process, we will draw up an action plan to implement the main recommendations of the IMF governance diagnostic report, in conjunction with our recently adopted anti-corruption strategy. We will also ensure transparent management of public finances, including mineral resources, the Malagasy Sovereign Fund and state-owned enterprises.

We remain ready to take any further measures that may prove necessary to achieve the objectives of the ECF and RSF-supported programs and will consult with IMF staff prior to the adoption of any changes to the policies set out in the MEFP. We commit not to introduce measures or policies that would exacerbate Madagascar's balance of payments difficulties and to provide timely program monitoring information to Fund staff.

We continue to make best efforts to resolve existing external arrears and request the completion of the financing assurances review. Given the performance in relation to the targets set for end-December 2024 and the progress in program implementation, both on ECF program conditionality and on implementation of reform measures (RMs) under the RSF (RMs #6 and #10), we are requesting that the IMF Executive Board approve the completion of the second review. We also request modification of the end-December 2025 performance criteria on the primary balance to allow the payment of delayed VAT refunds and of the end-December 2025 performance criterion on BFM’s net foreign assets to reflect the impact of external shocks on the balance of payment, as presented in Table 1. We also request an extension of the deadline to prepare our Poverty Reduction and Growth Strategy. In this context, the total financial support requested from the IMF under the second review is equivalent to SDR 36.66 million, or 15.0 percent of quota, under the ECF, and SDR 40.732 million, or 16.666 percent of quota, under the RSF. In accordance with the announcements made at the time of the program approval, we intend to use the third disbursement requested under the ECF arrangement for budget support purposes, through on-lending by the central bank to the Treasury. Accordingly, we will update the existing Memorandum of Understanding (MoU) between the central bank and the government that has been used for similar operations.

We agree that this Letter of Intent (LOI) and the attached MEFP and Technical Memorandum of Understanding, as well as the IMF staff report related to the second review under the ECF/RSF arrangement, and the debt sustainability analysis, may be published after approval by the IMF Executive Board.

Please accept, Madam Managing Director, the assurances of our highest consideration.

Ms. Rindra Hasimbelo Rabarinirinarison	His Excellency Aivo Andrianarivelo
Minister of Economy and Finance	Governor of the Central Bank of Madagascar
/s/	/s/

Attachments:

I. Memorandum of Economic and Financial Policies

II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies 2024–2027

This Memorandum of Economic and Financial Policies (MEFP) updates the version prepared in the context of the first review under the arrangement supported by the Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF) approved by the Executive Board of the International Monetary Fund (IMF) in June 2024. It reviews recent economic developments, the economic outlook and risks, and the macroeconomic and structural policies pursued by the Government of Madagascar.

Context

1. **Madagascar continues to demonstrate resilience despite significant development challenges in a context of heightened vulnerability to climate-related disasters.** The Malagasy economy has proven resilient with average growth of 4.3 percent during 2021-2024, following the COVID-related recession (-7.1 percent in 2020). However, frequent climatic shocks, such as cyclones and droughts, contribute to keeping a large part of the population in a precarious situation. Since the beginning of this year, for example, the country has been successively hit by three successive cyclones (Dikeledi, Honde and Jude), with significant impacts on the population and infrastructure. The government's reform program, supported by the IMF through the ECF and RSF and other development partners, aims to further strengthen the Malagasy economy's resilience. This will raise the standard of living of Malagasy households (the poverty rate is estimated at 70 percent of the population in 2022).

2. **We have implemented several reforms as part of our economic and financial program (2024-2027), supported by the ECF and RSF.** In order to increase fiscal space for financing the development of our country, we have begun to expand the tax base and to prioritize public expenditure. In terms of monetary policy, the central bank transitioned to a new interest rate targeting operational framework (in February 2024) and has made progress towards compliance with the requirements of prudential standards.

3. **We reaffirm our commitment to maintain this reform momentum.** The two arrangements supported by the ECF and the RSF should make it possible to accelerate our efforts and affirm macroeconomic stability, contributing simultaneously to the financing of the budget and to strengthening foreign exchange reserves. We will also continue our fight against climate change.

Recent Developments and Outlook

4. **Despite the projected good performance of some sectors, economic growth would be affected by external shocks in 2025.** The growth rate is expected to increase slightly from 4.4 percent in 2024 to 4.5 percent in 2025. Growth will be driven by sectors such as agriculture, mining, transport, telecommunication and tourism. The agricultural sector is expected to benefit from investments in hybrid rice seeds, while mining activities, especially graphite and rare earths, are expected to pick up. The recent agreement between Madagascar Airlines and Air France, and the

announced increase in the number of flights by some airlines to the country, should also contribute to an expansion of tourism activities. However, cuts to ODA , as well as the increase in tariffs on Madagascar's exports to the United States, could lead to a reduction in economic growth in 2025 and 2026, as well as a deterioration in the current account.

5. The persistence of inflation continues to reflect supply constraints. Headline and core inflation stood at 8.4 percent and 7.6 percent year-on-year respectively in March 2025. Energy supply constraints and deteriorating road infrastructure continue to weigh on production and transportation costs, driving up food prices.

6. Growth is expected to converge gradually to its potential of 5 percent over the medium term on the back of projected increases in agricultural production, gains in the mining sector, as well as strong growth in key tertiary sectors such as transportation, construction, tourism, and telecommunications. Inflation would gradually converge to 6 percent over the medium term, while the current account deficit would stabilize at around 5 percent of GDP. The risks surrounding this medium-term outlook are however tilted to the downside, for example in relation to AGOA, which represents about 7% of Madagascar's exports, and the uncertainty that hangs over international trade.

Performance Under the Program

7. We have met all the quantitative and indicative targets at end-December 2024 with the exception of the indicative target on reducing the stock of domestic arrears. The two continuous performance criteria concerning the payment of external arrears, and the contracting of new external debt were met. The floor on net foreign assets (NFA) and the floor on the primary deficit adjusted for delayed disbursements by the World Bank and the African Development Bank (AfDB) are similar. The indicative targets for the domestic primary deficit and tax revenues were also met. However, delays in disbursements of budget support provided by the IMF, the World Bank, and the African Development Bank led to a lower-than-expected reduction in arrears.

8. We are making progress on the implementation of structural benchmarks. Every month we provide IMF staff with dashboards on the performance of the tax and customs administrations, as well as on JIRAMA's financial situation. We have adopted the new law on cash management on May 15 and expect to adopt JIRAMA’s recovery plan in early June. Despite the delay in meeting the structural benchmark for end-December 2024, we approved the implementing decree for the Single Central Depository for Government Securities in January 2025. We continue to adjust fuel pump prices consistent with the automatic fuel pricing mechanism.

Program Objectives and Policies Under the Extended Credit Facility (ECF) Arrangement

9. The ECF program aims to consolidate past achievements and further accelerate the momentum of the reforms envisaged in the General State Policy (PGE). The ECF is also playing a catalytic role to ensure better mobilization of support from Madagascar's other technical and financial partners. To this end, it is built around four main pillars, namely: (i) anchoring fiscal sustainability; (ii) strengthening governance and the fight against corruption; (iii) consolidating monetary and financial stability; and (iv) promoting inclusive and sustainable growth.

Pillar 1: Anchor Fiscal Sustainability

10. Our objective is to keep the medium-term debt level below 60 percent of GDP. Our debt sustainability analysis indicates that the country's debt level remains sustainable with a moderate risk of debt distress. Our debt strategy will be consistent with this objective of stabilizing debt and will include measures necessary to further improve debt management. In particular, we will continue to prioritize recourse to concessional external loans, while at the same time developing the local currency bond market to diversify sources of financing and reduce exchange rate risks. We are also working to reduce risks related to the materialization of contingent liabilities, particularly those related to state-owned enterprises (see below), which could lead to a faster than expected deterioration in our debt indicators. We attach particular importance to:

- Accelerating domestic resource mobilization for investment in human capital and infrastructure for higher, sustainable, and inclusive growth.
- Prioritizing public spending and improving its quality to ensure a more rational and efficient use of the resources mobilized and to promote higher growth.
- Strengthening the institutions and the public financial management process, prioritizing the development of a medium-term fiscal strategy.

Raising Tax Revenue

The mobilization of domestic revenues remains a priority for achieving the objectives set out in our PGE. The availability of domestic resources will also make it possible to guarantee sustainable and viable financing for our development projects.

11. We have devoted particular attention to the issue of tax expenditures in the 2025 budget law and will continue to do so in subsequent budget laws to mobilize more resources. We recognize that the existence of tax exemptions, estimated at 4.2 percent of GDP in 2023 (estimate by the Tax Policy Unit – UPF), generates distortions and may give rise to fraud. We have thus relied on the work of the UPF and the report prepared by the African Development Bank at the end of 2023 to rationalize tax expenditures, while ensuring respect for legal stability and non-retroactivity of tax laws. We will ensure the effective application of Decree 2023-328 of March 30, 2023, setting out the conditions for the adoption, evaluation, and monitoring of tax and customs incentive measures. To facilitate progress monitoring, we commit to continue to provide IMF staff with the monthly dashboard of performance indicators for the tax and customs administrations (continuous structural benchmark 1), taking into account relevant suggestions from the technical assistance provided by the IMF Fiscal Affairs Department to make it more reliable. We will also, with the technical support of our partners, update the study on tax expenditures to include distributional aspects.

12. The Directorate General of Tax Administration (*Direction Générale des Impôts*, DGI) and the Directorate General of Customs Administration (*Direction Générale des Douanes,* DGD) will work on the implementation of a strategy to increase tax revenues. The DGI will rely on the results of the TADAT assessment (Tax Administration Diagnostic Assessment Tool), as well as on the recommendations from the various technical assistance missions, and on the modernization of its management with the introduction of objectives and resources contracts between the Ministry of the Economy and Finance and the DGI ***(structural benchmark 2).*** Following the deployment of the accounting, tax audit, and litigation modules of SAFI, the DGI plans to implement an internal control to ensure that they are used properly by the operational departments and to document this in a report ***(new structural benchmark 3).*** The DGD is currently working on a new 2025-2029 strategic plan, considering lessons learned from the previous plan, in order to extend the reforms initiated between 2020 and 2023. It is committed to conducting three systematic internal audits of execution procedures or offices ***(new structural benchmark 4).***

13. To achieve our key objective of increasing net domestic tax revenues by 2.4 percentage points of GDP between 2023 and 2027, we have identified the following measures that are being implemented in 2025 and will increase tax revenues by 0.4 percentage points of GDP on an accrual basis this year compared to 2024.

- The reduction of tax expenditures, in line with the commitment made in the context of the ECF, in the amount of MGA 326 billion (exceeding the planned MGA 280 billion), as a result of, among other things, the elimination of the VAT exemption on insurance contracts and on interest charged by credit institutions on financing by cash and by signatures, and exemptions in excise duties on products such as sugar factories and mineral waters.
- The revision of some excise taxes, including on alcohol and tobacco-related products and plastics.
- The introduction of a 5 percent turnover tax for electronic money operators.
- Finally, the improvement of VAT processing, control and collection through the implementation of the online invoicing system, enhanced customs inspections, and the operationalization of the new digitized system of the Integrated Tax Administration (SAFI), as well as the broadening of the tax base, which should bear fruit as soon as 2025.

14. We are committed to implementing contingency measures if projected revenues above do not materialize. In the event that revenues are lower than forecasted, we are committed to identifying new compensatory measures, in particular through budgetary reallocations, while ensuring that priority social and capital expenditures are protected.

15. We remain determined to implement the provisions of the 2023 mining code for all mining projects to maximize future government revenues. The draft Law on Major Mining Projects (LGPEM) replacing the old Law on Large Mining Investments (LGIM) is being finalized and aims to enhance consistency with the Mining Code, update stability regimes, and maximize the impact on the economy. Adoption by Parliament is scheduled for May 2025.

Improve the Quality of Public Spending

Large transfers to JIRAMA and fuel subsidies are crowding out public investment and social spending needed for development. We will seek to redirect government spending to foster economic growth and strengthen budget predictability.

16. We are committed to optimizing non-pension transfer spending and maintaining it at the amounts allocated in the initial budgets. Transfers (excluding pensions) constitute a predominant and volatile part of the government budget (3.8 percent of GDP in 2023 and 2.2 percent of GDP in 2024). The emergence of additional non-budgeted needs will be met through expenditure reallocations or an increase in expenditure within the limits permitted by the legislation and conditioned on better performance of government revenue compared to the initial budgets, to avoid increasing the deficit. If necessary, recourse to a supplementary budget law will be considered and discussed with IMF staff.

17. JIRAMA's financial situation is a major fiscal risk. Budget transfers corresponding to the assumption of payments to the company's suppliers, requisition expenses for fuel and heavy fuel oil and other loans granted amounted to nearly 9 percent of expenditures excluding interest and externally financed investments, or 0.9 percent of GDP in 2024. Added to this direct cost is the non-payment by JIRAMA of its taxes, including those collected from third parties such as the VAT and the tax on salaried and similar income (IRSA) of its employees.

18. We will undertake reforms to change JIRAMA's governance, improve its revenues, reduce its costs, and subsequently reduce its weight on the state budget:

- We have finalized the recruitment process for the company's new executives in collaboration with the World Bank. The new Chief Executive Officer took office on May 1, 2024, and the Chief Financial Officer took office on October 25, 2024.
- The new management team has developed a "recovery plan" that outlines the strategy to be followed to turn around the company's financial situation and the time horizon to achieve it. This plan will be adopted by the Council of Ministers by May 2025 ***(structural benchmark 7).*** It provides for a set of measures allowing the company to return to operational equilibrium in the medium term. The resulting business plan will present an action plan to be implemented, including the restructuring of JIRAMA’s debt (scheduled for 2025). To support its implementation, we are committed to reducing JIRAMA's average electricity operational cost by 8 percent from 2024 to 2026 and reducing losses (technical and non-technical) to below 24 percent in 2026 (new ***structural benchmark 8).***
- We will implement a gradual increase in electricity prices to bring them closer to total cost. After an initial 20 percent rate increase in October 2024, and consistent with the outcome of negotiations conducted between JIRAMA and private sector representatives, by September 2025 ***(structural benchmark 12),*** we will raise electricity prices (Optima Business tariff) by 16.5 percent, with a view to a total increase of 50 percent over three years. In the long term, we plan to index electricity prices to inflation.

19. We are also committed to enhancing JIRAMA's transparency. We will continue to transmit, monthly, a dashboard of the company's income and expenses, as well as details of all budget transfers to the company and all payments made to the company's suppliers. We also undertake to inform IMF and World Bank staff of any actions that could affect the implementation of the company's recovery plan and to publish calls for tenders, the results of those calls for tenders, and contracts or amendments to existing fuel purchase contracts ***(structural benchmarks 5 and 6)***. We are also committed to conducting new calls for tenders every year for fuel purchases in order to enable competitive bidding among distributors and obtain the most favorable terms possible for JIRAMA. We will reallocate spending in the context of the 2025 budget should JIRAMA's financing needs exceed the budgeted envelope to avoid fuel requisitions and accumulation of new arrears to suppliers.

20. We will remain attentive to the fiscal risk that the restructuring of Air Madagascar's debt could eventually pose. The latest estimates point to a debt of around US$100 million, 60 percent of which is owed to the government. A restructuring plan is still being approved by creditors. Given the potential budgetary implications of this operation, we are committed to consulting with the IMF and the World Bank on technical issues prior to any financial participation by the government in this restructuring. We are committed to making the required payments following the activation of the government guarantee on certain contracts following authorization by the insolvency judge.;

21. In accordance with our commitments, we have implemented an automatic fuel price adjustment mechanism. An initial revision of pump prices was carried out on January 18, 2025, to reflect the amount provided for by Decree No. 2024-1205, published on June 7, 2024, with the exception of kerosene, which is mainly used by the poorest households. Monthly adjustments were then applied on February 5, March 5, April 5, and May 5, 2025, pursuant to the new Decree 2024-2085 of December 17, 2024, governing the automatic adjustment of maximum pump prices for the first half of 2025. We reaffirm our commitment to continue to strictly implement the new decree in effect monthly ***(continuous structural benchmark 9).*** This measure aims to prevent any new accumulation of arrears, as has been the case since 2022, when litigation with distributors significantly disrupted budget execution by delaying the collection of expected revenues. All necessary measures will be taken to avoid the recurrence of such situations.

- In addition, in line with the law on competition, we commit to publishing the regulatory texts governing the automatic price adjustment mechanism, and defining the basic structure of reference prices calculated for the second half of 2025 ***(prior action),*** in consultation with national stakeholders. We undertake to update the reference price structure in these regulatory texts so that it reflects the increase of 22 ariary/L in the National Average Logistics Rate (TLMN) for each of the three products.
- The regular application of the mechanism aims to bring maximum pump prices closer to reference prices, thus ensuring a relatively neutral overall balance at the end of the year – whether in favor of the government or distributors – and compatible with the forecasts that

is included in transfers to the energy sector in the 2025 budget law. This mechanism renders the interim balance recorded during the year secondary.

- In addition, additional reforms will be implemented with the support of the RSF program, notably to bring the maximum pump price (PMAP) progressively in line with the calculated reference price (PRC) and to harmonize taxes on diesel with those of gasoline (see ¶59 and 60).
- At the institutional level and given the central role of the regulator in securing public revenues – in particular through systematic audits and verification of tax and parafiscal tax bases related to petroleum products – as well as in the design and implementation of the automatic adjustment mechanism, we are committed to ensuring that this body has the legal means. financial, logistical and institutional financial requirements necessary to perform its missions.
- Finally, to mitigate the potential effects of rising fuel prices on vulnerable households, we are receiving technical and financial support from the World Bank. This involves the distribution of solar kits to households that use kerosene for lighting purposes and the implementation of a targeted cash transfer program.

22. We have concluded agreements with fuel distributors in order to clear a significant portion of cross-liabilities with the government during 2024. At the same time, we will ensure full compliance by these operators with their remaining tax and parafiscal obligations, particularly regarding the payment of duties and taxes on petroleum products, fees owed to the Ministry of the Environment, the sector development fee (redevance pour le développement du secteur – RDS), the contribution to the road fund (RER), and the contribution to OMH functioning. The delays accumulated thus far are mainly due to the willingness of distributors to make a comprehensive and simultaneous settlement of arrears and cross-liabilities with the State. In order to remove this obstacle, we will take all necessary measures to accelerate the payment by fuel distributors not only of arrears, but also of current taxes, monthly contributions, and, where applicable, the smoothing balance *(solde de lissage)* when it is favorable to the government.

23. We are continuing our efforts to increase social spending and consolidate the achievements from the previous program. In accordance with the new general State Policy (PGE), we aim to increase the budgetary allocations for "social expenditure (education, health, social protection)" while being constrained by the strong budgetary need for the energy and agricultural sectors as well as the need to mobilize external financing. Thus, a 0.8 percent increase is proposed in the corresponding internal financing budget appropriations for 2025. We will now use the functional budget classification developed with the assistance of a long-term expert from the IMF's Fiscal Affairs Department to monitor social spending in the program ***(indicative target).***

24. Reorienting spending toward better managed and more resilient public investment is also a priority. With technical assistance support from the IMF and World Bank, we intend to fully implement the mechanism provided for in the Decree on Public Investment Management 2023-255 (March 2023) and the associated manual (April 2023) for selecting, planning, and executing investment expenditures. Through the September 20, 2024, *arrêté*, we created the entity for the selection of projects provided for in Article 21 of the aforementioned decree, and, in January 2025, we published the criteria for selecting and prioritizing these projects, taking into account both their contribution and their resilience to climate change ***(RM1 supported by the RSF, met)*.**

Strengthening our Public Financial Management Institutions and Processes

The implementation of a new fiscal rule (debt anchor) requires significant progress in terms of the credibility of the multiyear framework and the annual budget, in order to ensure that the rule is efficient, and that the public debt trajectory is respected.

25. We are aware that the revitalization of our medium-term fiscal framework (MTFF) is a major prerequisite for the success of our new fiscal rule. We will improve our revenue and expenditure forecasts, making them more realistic and put an emphasis on the preparatory work on MTFF (or "medium-term framework" presented in Volume 3 of each initial budget law) in the budget preparation, avoiding excessive focus on the coming year. We will focus on drawing up a 2026-2028 MTFF in the 2026 budget law (PLF) that is compatible with our development objectives and the thrusts of the ECF-supported program. We intend to improve the analysis and the regular publication of fiscal risks, particularly those related to state-owned enterprises, that can affect the fiscal path envisaged in our MTFF and our annual budget.

26. We are determined to continue our efforts to streamline the public expenditure chain and consequently improve execution of the budget in general and in social and capital expenditures in particular. To this end, we have generalized the use of annual expenditure commitment plans (PAEM) to all ministries starting in 2025. We are also implementing the recommendations from the 2023 audit of the public expenditure chain, particularly the professionalization of actors and better anticipation of the implementation of management.

27. Finally, we remain committed to improving our cash management with the aim to get our arrears situation under control. To this end, with the support of AFRITAC South technical assistance, we have prepared a draft for a new law on cash management and it was adopted by the Council of Government by **end-May 2025 *(structural benchmark 13)*.** This law will, in particular, strengthen the Single Treasury Account while guaranteeing the permanent availability of funds for depositors, provide the tools for a more realistic cash flow plan in conjunction with the new PAEMs, and facilitate, in conjunction with the Central Bank, recourse to borrowing on the money market to finance occasional cash flow gaps. This improvement in cash management and the operationalization in the coming months of electronic processing and systematic VAT refunds through the escrow account should make it possible to reduce VAT credit arrears.

Pillar 2: Strengthen Good Governance and the Fight Against Corruption.

28. Improving governance is a pillar of our PGE, and we have asked the IMF to provide a governance diagnostic assessment in our country to support our reform efforts in this area. This assessment, conducted between October 2024 and February 2025, analyzes weaknesses in governance and vulnerabilities with regard to corruption in all key government functions covered by the governance framework adopted by the IMF Executive Board in April 2018 (particularly fiscal governance, financial sector oversight, central bank governance and operations, rule of law, and anti-money laundering and combating the financing of terrorism (AML/CFT). The report, which is currently being finalized, will analyze the severity and impact of corruption and assess the effectiveness of the legal and institutional framework for combating corruption. The government will publish the final report of the diagnostic and adopt a plan to implement its main recommendations with a defined time horizon by end-September 2025 *(**structural benchmark 14**)*.

29. The recommendations of the governance diagnostic will complement the new and recently adopted 2025-2030 National Anti-Corruption Strategy (SNLCC). Presented and validated by the Council of Ministers on January 15, 2025, the new SNLCC has been available online, along with its strategic plan, since January 31, 2025. We will ensure that anti-corruption entities have the necessary human and financial resources to carry out their respective missions, particularly in light of the requirements of the new SNLCC. Given the interruption of the INTOSAI Development Initiative/USAID technical assistance program, we will also pay particular attention to the budget of the Court of Audit so as not to penalize its mission.

30. We will strengthen the enforcement of existing anti-corruption provisions. The *Independent Anti-Corruption Office (BIANCO)* will work to ensure compliance with the asset declaration requirement for senior officials, politically exposed persons, and other reporting entities, by referring non-compliant officials to the competent Courts. As stated in our commitments under the previous ECF program, BIANCO, in collaboration with the Ministry of Justice and the Commission for the Reform of the Penal System, has prepared a draft decree on the modalities of the declaration of assets and economic interests. The decree will implement a dynamic asset declaration management system, as provided for in Article 3 of Law No. 2016-020 of August 22, 2016, through an automated data exploitation system developed within the framework of the Project to Strengthen Governance through Digitalization (PREGODI) funded by the African Development Bank (AfDB). This system will not only facilitate the collection and regular updating of declarations but will also ensure better traceability and verification of the evolution of the assets of public officials.

31. We will expand the territorial coverage of the Anti-Corruption Bureaus (PACs). Since 2023, the PACs of Antananarivo and Mahajanga have already started holding hearings and investigations in the most remote places under their jurisdiction (Antalaha, Sambava, Ambilobe, Diego Suarez, Toamasina, Ambatondrazaka). We will continue to multiply these hearings and investigations to ensure good local justice. The establishment of a third PAC in Fianarantsoa, effective since December 2024, also contributes to the proper administration of justice.

32. We are continuing to strengthen the Agency for the Recovery of Illicit Assets (Agence pour le Recouvrement des Avoirs Illicites – ARAI), which was created in 2022. ARAI held its third public auction on April 5, 2024, and continues to expand its activities and territorial network. To expedite the legislative process and improve the system for the recovery of illicit assets, the ARAI opted to prepare a draft law that clarifies and supplements certain provisions of Ordinance No. 2019-015 on illicit asset recovery instead of the implementation decree as initially planned. In particular, this draft law broadens the scope of offenses related to illicit assets, clarifies and extends the missions of the ARAI, expands access to the Chamber for the seizure and confiscation of assets to jurisdictions beyond the PAC, provides for systematic seizure and freezing, develops recovery procedures, defines an evaluation policy for the management and preservation of recovered assets, limits the mechanism for voluntary return of misappropriated assets and enables international cooperation in the recovery of illicit assets.

33. We recognize that strengthening the rule of law is key to improving Madagascar's business climate and supporting economic growth. To this end, we will prioritize contract implementation, property rights, and judicial independence, based on the recommendations of the GDA. These reforms will aim to support more predictable and efficient contract enforcement and more secure and reliable land governance. Strengthening judicial independence will also be crucial to ensure an enabling business environment and reduce vulnerabilities to corruption. Informed by the findings of the GDA, these reforms will be tailored to the specific challenges facing the country while drawing on international best practices.

34. We will continue to strengthen our AML/CFT system in line with the Financial Action Task Force (FATF) recommendations, particularly to prepare for the mutual evaluation that will begin in 2026. We have adopted Decree No. 2024-1352 of July 3, 2024, implementing Law No. 2018-043 of February 13, 2019, amended and supplemented by Law No. 2023-026 of February 1, 2024, on combating money laundering and the financing of terrorism. In the Council of Ministers on February 19, 2025, we adopted the decree establishing the mechanism for the implementation of targeted financial sanctions related to terrorism, the financing of terrorism, and the financing of the proliferation of weapons of mass destruction. We will proceed immediately with the implementation of the reported sanctions. We will adopt the report of the second national risk assessment (NRA) of money laundering and terrorist financing, as well as the new 2025-2029 national AML/CFT strategy, to replace the 2022-2026 national AML/CFT strategy, taking into account the results of the second NRA. In the Council of Ministers, we will approve the plan for preparing the mutual evaluation of Madagascar by ESAAMLG, which will begin in 2026. We have adopted the regulations necessary to establish the national registry of beneficial owners, which will facilitate the prevention and detection of AML/CFT offenses and contribute to improved asset recovery. All of these measures will enable us to remain compliant with the requirements of international standards and thus avoid inclusion on the FATF's "grey list" as well as improve the business climate and attractiveness to investment

35. In the area of fiscal transparency, we are continuing our efforts, particularly with regard to public procurement. We strengthened the legal framework for public procurement through the adoption of a new Code of Ethics that defines the sanctions applicable in the event of violation of public procurement rules, as well as two decrees strengthening the professionalization and appointment procedures for the personnel responsible for public procurement and bringing the Tender Committee into compliance with the Public Procurement Code. We are also committed to:

- Continue to publish quarterly budget execution reports and improve their content as the new nomenclatures become available;
- Publish annually audited financial accounts of all SOEs;

- Preserve and strengthen the gains made in terms of access to information by the Court of Auditors, particularly regarding access to government financial information systems, with the establishment of a technical group between the Court of Auditors and the IT units of the Ministry of Economy and Finance and the granting of full consultation access to the Integrated Public Financial Management Information System (SIIGFP) Budget and SIIGFP-Treasury by July 2025;
- Regularly publish on the website of the Public Procurement Regulatory Authority (ARMP) the public procurement contracts awarded and the beneficial owners of these contracts. We are committed to better identifying and publishing these beneficial owners in accordance with current international standards.
- Strengthen consultation and exchanges with civil society organizations during the drafting of budget laws and prior to the adoption of new public policies. In this regard, we have initiated consultations for the establishment of the Economic, Social, and Cultural Council provided for in the 2010 Constitution, in order to facilitate the participation of civil society in the debate on the country's policies.

36. In the tax and customs administrations, we will also strengthen the internal control systems. In addition to the enhanced visibility that the aforementioned dashboard will provide for tax and customs administrations, we are counting on the support of the Fund through the GDA mission to help us identify measures to improve internal control mechanisms and reduce vulnerabilities to corruption.

37. We reiterate the commitments we made under the previous program supported by the ECF to strengthen transparency and limit the fiscal risks associated with the operationalization of the Malagasy Sovereign Fund (FSM). In this regard, we adopted a first decree in early May 2024 on the reserve rate to be established by the FSM. The General Manager of the FSM was appointed in March 2025 and its operationalization is continuing, with the upcoming adoption of its operating budget for 2025. We will make sure to: (i) further clarify the priorities of the FSM in order to avoid conflicting objectives and maximize the fund's effectiveness; (ii) specify the modalities of financing the fund so as not to create the risk of contingent debt or contravene the principle of budget unity, in particular by avoiding any allocation of budget revenues; (iii) limit the potential ability of the FSM to commit the government's signature on investment projects or PPPs involving government payments given the associated contingent liabilities; and (iv) ensure transparency and good governance of the fund through the submission to Parliament and regular publication of annual reports and financial statements.

38. In accordance with the principles of good governance, we will take the necessary measures to ensure free and equitable competition in the productive sectors. We will ensure greater transparency regarding the activities, projects, and finances of the National Vanilla Council, which receives a contribution of US$4 per kilo of dried vanilla exported for its activities. We will avoid any restrictions on exports of the agricultural sector, which plays a key role in Madagascar's economy and employs a considerable number of people.

Pillar 3: Strengthen Monetary and Financial Stability

39. We will continue the reforms already initiated by BFM to strengthen the operational framework of monetary policy. The new interest rate targeting operational framework was adopted in February 2024 with the validation and publication of an overall implementation strategy, a guide for money market intervention, a methodology for the calculation and publication of the reference rate, as well as a schedule of the quarterly meetings of the monetary policy committee. The indicative schedule of BFM interventions on the money market, starting in 2024, was also published. We will conduct daily liquidity management operations to keep the interest rate on unsecured interbank loans at one day maturities close to the policy rate. Furthermore, we are working to improve our medium- and long-term liquidity forecasting and to develop our monetary analysis to gain a better understanding of the monetary policy transmission mechanisms under the new operational framework.

40. We will undertake the reforms necessary for the development of the secondary market for government securities. Based on recommendations from the IMF and the International Finance Corporation, we will review the operation of the primary dealer system. We adopted a decree establishing a single Central Securities Depository (CSD) for all government securities in January 2025, to be operational in 2026 ***(previous end-December 2024 structural benchmark, not met).*** BFM will develop a platform to manage government securities, which will be transferred from the Treasury to BFM. We will encourage banks to conduct repo operations among themselves to ensure the development of this market.

41. We are also enhancing our communication of monetary policy decisions. The improvement of BFM's communication policy is aimed at better anchoring expectations and improving the effectiveness of monetary policy. The good practices already adopted will be maintained and strengthened to enhance transparency, accountability, and the credibility of our institution. We are considering preparing a quarterly report presenting the analyses underlying monetary policy decision-making, which will strengthen our communication framework to better anchor expectations and facilitate a better understanding of our actions. We received an IMF technical assistance mission in January 2025 to support these efforts.

42. We will ensure that BFM's independence is preserved and strengthened. Independence in decision-making will forge our credibility as well as our effectiveness in achieving our inflation objective and our mission success. Therefore, we will always stand ready to make the necessary adjustments in the interest rate in order to maintain inflation at a level that will not penalize the economy. This independence will be accompanied by accountability mechanisms.

43. Given the persistence of inflation above 8%, we have tightened our policy rate by 150 basis points on May 6. We stand ready to maintain a restrictive monetary policy stance in the short term, if necessary, also in line with developments in economic activity and credit to the private sector.

44. We are committed to revising the strategy for managing BFM foreign exchange policy while continuing to improve the functioning of the interbank foreign exchange market. We recognize the benefits of a floating exchange rate regime to absorb external shocks and preserve monetary policy autonomy. We recognize that while FX interventions may be warranted to preserve macroeconomic and financial stability risks, it should not be used to lean against exchange rate pressures that are driven by fundamentals. We also commit to gradually phasing out FX surrender requirements over the medium term, in a way that preserves financial stability. On the regulatory front, BFM will continue its collaboration with the Ministry of Economy and Finance to finalize the draft law on foreign exchange. In terms of market improvement, two projects are under way: (i) modernization of infrastructure by looking for a new platform that integrates negotiations, market information, auctions, and other data processing systems; and (ii) adherence to the FX Global Code as part of the association of forex traders in order to align with international standards and good practices and to enhance confidence and credibility. In September-October 2024, we received technical assistance from the IMF on foreign exchange intervention policy and the conditions for implementing foreign exchange hedging operations, followed by a visit to the central banks of Romania and Albania from March 24 to 28, to see the implementation of the interventions of these central banks, the market maker mechanism and forward foreign exchange transactions.

45. BFM remains committed to pursuing the diversification of its gold reserves within the scope and limits of the revised operational strategy for the inclusion of gold acquired from local operators, approved on August 13, 2024. As part of the diversification of our foreign exchange reserves, we have added monetary gold to our assets. This led us to update our foreign exchange reserves management strategy, develop an operational strategy for gold purchases before resuming *doré* purchases (the Call for Expression of Interest for these purchases was launched on September 7, 2024), and revise the memorandum of understanding with the Ministry of Mines (MIM). We are committed to limiting the share of monetary gold in our total reserves to the optimal level of 8 percent (+/- 2 percent), with an investment horizon set at 10 years.

46. Strengthening financial stability remains at the core of our agenda. Our financial system, made up of some 40 institutions, is largely dominated by banks, which hold more than 80 percent of the system's total assets. At end-December 2024, the banking sector continued to enjoy relative robustness, with an adequate level of capital (12.3 percent), albeit down from its levels in December 2023 (12.6 percent) and March 2024 (12.8 percent) due to the application of new capital requirements. During the same period, two banks were in violation, one of which was in breach of the risk-sharing ratio standard, a situation that was promptly corrected in early January 2025. The other non-systemic bank was in breach of the capital adequacy rules. Corrective decisions were taken at the CSBF meeting in early April 2025. Despite the slowdown in credit activities observed in the first half of 2024, the sector remains profitable, liquid, and relatively insensitive to market risks. Moreover, the sector continues to demonstrate resilience to various stress test scenarios it is regularly subjected to.

- On the regulatory front, we are pursuing the reforms already undertaken to align with the Basel II and III directives with the recent adoption of the circular setting out the procedures for implementing the instructions on regulatory capital and capital adequacy. In the second quarter of this year, we expect to adopt the circular establishing the procedures for implementing the instruction on liquidity ratios.

- For the implementation of the new banking law, and in particular the establishment of a new resolution framework, we made progress by preparing a draft reference document on the resolution of a credit institution. This document describes the resolution mechanisms and broad strokes for orderly intervention and effective management of resolution actions. This draft will be subject to a validation process, including the support of a technical assistance mission, with the aim of having it validated during the 4th quarter of this year.
- We have (i) initiated the process of adopting the decree on the creation and operation of the Deposit Guarantee Fund (FGD) aimed at strengthening consumer protection, and (ii) finalized the instruction on the contributions of credit institutions to the FGD, with the aim of making the FGD operational by 2026.
- Following the adoption of Insurance Law 2020-005 on September 1, 2020, and the transfer of supervision of the insurance sector to the Banking and Financial Supervision Commission (CSBF), as well as the adoption of Instruction No. 004/2023-CSBF of October 27, 2023, on the reporting obligations of insurance companies, we started requiring insurance companies to submit quarterly financial reports. We will continue our efforts to ensure that all insurance companies can gradually achieve this new standard in preparation for the phased implementation of the risk-based supervision approach. In addition, with the technical support of the US Department of the Treasury's Office of Technical Assistance, we are making progress in our project to integrate the sector's activities into monetary and financial statistics by establishing and launching remote reporting for insurance companies using the BSA software, ensuring compliance of the insurance accounting regulations with IFRS standards, and updating the insurance chart of accounts (API).
- As part of our strategy to combat climate change, and in application of the new insurance law, we have launched several studies on the establishment of index-based insurance, in partnership with various entities, including international organizations, insurance companies, and outreach companies. Under the auspices of BFM, a new Committee was created in June 2024, including the Insurance Supervision Department within the CSBF, dedicated to the fight against climate change.
- Finally, we will double our efforts to adopt and enact the law on financial stability by June 2025 ***(structural benchmark 15),*** an important step to strengthen our macroprudential supervision of the financial system as a whole.

Pillar 4: Foster Inclusive, Strong, and Sustainable Growth

47. We are committed to further strengthening our social protection system. Over the past three years, we have made significant progress, including updating our social protection strategy as well as a yearbook of interventions to guide our future interventions. To consolidate these gains, we will continue to expand the coverage of the single social registry from 600,000 to 2 million households by end-2025 ***(structural benchmark 16***), and we will adapt the CNAPS legal framework to extend contributory coverage to self-employed workers. In addition, we are preparing a request for additional financing for the extension of the areas of intervention and the increase in the number of households benefiting from the Safety Net and Resilience Program. In keeping with our commitments, we have operationalized nine food banks (built and provisioned) ***(previous end-October 2024 structural benchmark, not met).***

48. We are continuing our efforts to promote financial inclusion. In particular, we are committed to:

- Work on the implementation of Madagascar's new National Financial Inclusion Strategy (Stratégie Nationale d'Inclusion Financière de Madagascar – SNIM) 2024-2028. The new strategy was officially launched on December 20, 2024.
- Continue actions to operationalize the platform developed to host the financial inclusion database. With the database management tool already available, we still need to design the institutional and regulatory framework.
- Prepare and approve two important documents that will serve as a reference for all our financial education actions. In June 2024, the Government Council approved the Financial Education Strategic Framework Document (DCEF) and the National Financial Education Program (PNEF). We have identified two priorities in these documents: (i) train trainers in financial education in all regions of Madagascar; and (ii) establish the various governance structures set out therein (steering committee, working group, program management unit, and pools of trainers).
- Increase access to and use of financial services through: (i) strengthening of the current Partial Portfolio Guarantee (PPG) mechanism; (ii) completion of the study on the implementation of the digital credit window; (iii) continuation of discussions with the BFM on the plan for direct refinancing of microfinance institutions; (iv) the establishment of the necessary regulations to encourage and supervise the development of FinTech as well as liberalization of the use of the USSD code, which will make it possible to have access to financial services without requiring an internet connection; (v) the continuation of the steps taken by the BFM to set up a *Fintech Window* to facilitate collaboration between the two entities; (vi) linking savings groups with formal financial institutions; (vii) harmonization of the classification of small and medium-sized enterprises to facilitate their access to credit; and (viii) the establishment of a coordination mechanism for the promotion of green and blue finance.
- Continue our reflection on the merits of introducing a central bank digital currency through the e-ariary project and intensify exchanges with the stakeholders on this subject. The project was officially launched in March 2021.

49. We are making progress in implementing the National Payment Switch, the purpose of which is to establish the interoperability of existing digital payment systems while promoting financial inclusion by reducing transaction costs. After almost a year of suspension, the project was relaunched again in February 2024 following financing from the World Bank through its Integrated Growth Pole (PIC) project. The system will have two components: (i) an "instant payment" component; and (ii) a "payment card transaction routing" component. We are on track to operationalize the first component, which is scheduled for the second quarter of 2025. To this end, we have finalized the update of our regulatory framework, through the publication by the BFM of a new instruction requiring the main banking service providers (PSBs), including banks, electronic money institutions, and main microfinance institutions, to adhere to the instant payment system. The system, which aims to facilitate and secure electronic transactions, will initially be used for simple transfer operations, and will later be able to process market payments, bill payments, tax payments, and social benefits payments. At this time, it is planned to process only transactions at the local level.

Tackling Climate Change with Support from the Resilience and Sustainability Facility

50. Strengthening the country's adaptation and resilience to climate change remains a top priority. Our country remains highly vulnerable to climate change, the effects of which we are already experiencing. Madagascar is facing increasingly severe weather conditions, ranging from devastating cyclones to longer and more intense droughts as well as destructive floods. These conditions drastically affect the resources available to the population and threaten their livelihoods and survival, while generating enormous human, economic and financial costs for the country. Since the beginning of 2025, three major cyclones have hit several regions of the country causing significant damage to infrastructure and a significant displacement of the population. In addition, there were several episodes of heavy rains that resulted in major river flooding, causing numerous material damages, including the breach of several dikes and the collapse of many houses.

51. In this respect, we are already committed to implementing the reform agenda provided within the framework of the RSF. As planned, we have begun to take the necessary steps to strengthen the country's overall climate governance framework. We have therefore reformed the *Interministerial Committee on the Environment (CIME)* by adopting Decree No. 2024-1808, which clarifies its mandate to cover all climate policies, more specifically their implementation and the definition of priorities for future reforms ***(RM1, end-October 2024, met).*** The first CIME meeting is expected to take place by end-June. We have also worked to ensure that our *public investment management (PIM)* framework is climate-sensitive, building on the reforms already begun to improve PIM. Accordingly, with technical support from partners, we have adopted a new decree on environmental impact assessments (EIAs), which better reflect climate concerns, and have made publicly available criteria for the prioritization and selection of investment projects that include elements related to climate change (adaptation, mitigation, and resilience) ***(RM2, end-October 2024, met)***. With the support of our partners, we are committed to continuing efforts for the full implementation of the new decree on EIAs, in particular by strengthening the National Office for the Environment.

52. We intend to continue the remaining reforms aimed at addressing the long-term challenges posed by climate change. The latter will continue to revolve around the following five pillars, namely: (i) strengthening climate governance and integrating the climate issue into the public financial management (PFM)/public investment management (PIM) processes; (ii) strengthening resilience to climate change; (iii) limiting the growth of greenhouse gas (GHG) emissions; (iv) strengthening the protection of forests and biodiversity; (v) mobilizing climate financing.

Pillar 1: Strengthen Climate Governance and Integrate Climate into our PFM and PIM Processes.

53. We will leverage the new climate-sensitive PIM framework to maximize the impact and resilience of our public investment effort. To this end, with the support of IMF/AFS technical assistance and the World Bank, we will adopt a decree to mandate the production every year of a budget document listing the selected investment projects in the public investment program and explaining the selection criteria that were applied, including the effective application of the criteria related to climate adaptation and mitigation. As part of the 2027 budget, we will produce an initial report in accordance with this obligation ***(RM3, end-October 2026).***

54. We have made progress in implementing the reform measure on climate budget tagging in preparation for the submission of a green budget in 2026. Building on the work on PFM reforms, particularly the reform of budget classification, supported by the IMF through a resident advisor, and in collaboration with experts from the United Nations Office for Risk and Disaster Reduction (UNDRR), we organized a workshop in April 2025 to validate the classification of climate-related expenditures, the methodology for classifying these expenditures and the structure of the "green budget" document that will be attached to the 2026 budget bill ***(RM4, end-October 2025).*** We also took advantage of the workshop to discuss additional actions to be taken to deepen and sustain work in this area. Disaster Risk Reduction (DRR), as a cross-cutting pillar of adaptation, will be integrated into the climate budget classification. To this end, projects related to disaster prevention, early warning, and community preparedness will be identified and monitored in the context of the green budget, in line with the BNGRC's recommendations.

Pillar 2: Strengthen Adaptation to Climate Change and Resilience to Disasters Caused by Natural Hazards

55. We remain firm in our commitment to adopt a new Water Code to better address the challenges posed by climate change. Madagascar is increasingly affected by climate change on water resources. Frequent droughts and floods require finding long-term solutions to limit the adverse effects on production activities and food security. This calls for better governance in the sector to ensure better control over this resource, which is becoming scarce. With the help of our technical and financial partners, in particular the European Union, the International Monetary Fund, and the Global Center for Adaptation (GCA), we worked on an update of the Water Code dating back to 1998, with a view to integrating climate change into the overall water policy and strengthening the general policy framework for integrated water resources management (IWRM), by strengthening the institutional framework of the National Water and Sanitation Authority (ANDEA).

We plan to adopt this new Water Code in the Council of Ministers as well as the implementing decrees necessary to ensure this institutional strengthening (decree on ANDEA and decree on financing) by next October ***(RM5, end-October 2025).*** As part of this exercise, we will ensure that the reform is well articulated with the World Bank's ongoing projects in the water sector in order to maximize their impact.

56. Resilience to disasters caused by natural hazards is of paramount importance for Madagascar and the country has already made significant efforts. Given the high exposure to climate events, we have developed a National Disaster Risk Management Strategy (SNGRC), recently supplemented by a Disaster Risk Management Financing Strategy (2023) with the support of the African Development Bank (AfDB). Together with our donor partners in the *Cash Working Group*, notably the World Bank and UNICEF, we have also made efforts to develop climate-smart social protection, with the adoption in 2023 of manuals covering social protection adapted to disasters (cyclones and droughts). In collaboration with the African Risk Capacity (ARC) and the AfDB, through the Africa Disaster Risk Financing (ADRiFi) program, we have also been working on the construction of Multi-Use Community Shelters (ACUMs). These are infrastructures designed to serve as an accommodation site for victims during the summer, in the event of a cyclone or flood, and to be used for multiple purposes in normal times (storage facility, community granary, training rooms). The construction of ACUM provides a sustainable solution to the problems of lack of permanent accommodation sites in the event of a climate shock and preserves the education system by avoiding the mobilization of school buildings as shelters for disaster victims. The ACUMs financed by the insurance funds obtained from the ARC are currently under construction while we are in the finalization phase of the feasibility studies for those financed by the ADRiFi program. In terms of housing, we will also continue our efforts to promote the construction of traditional residential huts that are more resistant to climatic hazards.

57. We will continue to strengthen our Early Warning System (EWS) for better preparedness and lower disaster loss and damage. With technical and financial support from the United Nations through the "EWS for All" Initiative, we have begun to address the shortcomings in our current EWS. By November 2025, we plan to adopt a decree clarifying the roles and responsibilities of all entities involved in EWS, including the private sector. This is to enable the exchange of real-time data for the communication and dissemination of alerts between the relevant government agencies, with the aim of ensuring the dissemination of alerts, triggering anticipatory actions for the target communities or sectors, and enabling the rapid dispatch of an emergency response by the concerned authorities. To this end, we intend to put in place a more structured governance of EWS. This involves, among other things, the continuation of the decentralization process of the National Bureau for Disaster Risk Management (BNGRC), not only with the operationalization of existing territorial offices, but also with the construction of new offices in regions at risk as well as the allocation of the necessary financial resources. The use of new information and communication technologies (ICTs) is also an integral part of the improvement strategy for timely and effective dissemination of data. By strengthening these aspects, we will not only be able to improve the resilience of communities to disasters but also optimize the resources and efforts of all stakeholders involved in disaster risk management. The forthcoming adoption of the EWS decree will include the formalization of an early triggering mechanism for public funding, in particular via the FNC, in connection with the alerts issued. The BNGRC will coordinate this action, in close collaboration with technical services and humanitarian partners.

58. We will continue to make the necessary efforts to ensure that the funds related to emergency spending are quickly available. To do this, we will build on the existence of our *Disaster Risk Management Financing Strategy (SFGRC),* which calls for streamlining emergency payment systems to enable rapid disbursements in the event of risks and disasters. This will be achieved by capitalizing on what has been achieved and by ensuring the sustainability of existing mechanisms. To date, we rely on three mechanisms: the insurance mechanism provided by the *African Risk Capacity (ARC),* the one provided by the World Bank through its REPAIR program, and the *National Contingency Fund (FNC),* which we recently put in place. We have operationalized the FNC by appointing its budget actors and it started disbursements in January 2025 during the 2024/2025 cyclonic season. Emergency spending procedures have been streamlined through the adoption of circular 269-2025 which clarified the reporting and accountability framework for FNC ***(RM6, end-April 2025, met).*** We will ensure that the FNC is always adequately budgeted each year and to scale up its contribution to shock responsiveness, while ensuring regular reporting of expenditures. This progress will strengthen the FNC's position as one of the distribution channels of the REPAIR program. To this end, it will receive funds from the program and will work with its beneficiaries to implement shock response activities. We also established a new collaboration with the Global Shield initiative to further promote the country's financial resilience against disaster risks. In this sense, having completed an inventory of existing mechanisms and analyzing the gaps, we are about to prepare the request for support in terms of financial protection mechanisms to be submitted to Global Shield.

Pillar 3: Support Efforts to Curb the Growth of Greenhouse Gas (GHG) Emissions.

59. Although our emissions are still at a very low level, we are keen to adopt the tools for low-carbon development, in line with our commitments under the NDC2. Per capita carbon emissions in Madagascar remain low compared to other countries around the world and even in continental sub-Saharan Africa. Land use, land-use change and forestry (LULUCF) and agriculture (80 percent of total) are the main components of per capita carbon emissions in Madagascar. Nonetheless, we are committed to significantly reduce our GHG emissions, including through increasing the use of hydropower and renewable energy sources (from 40 percent currently to around 85 percent by 2030) as part of efforts to increase our electricity access rate (from 33 percent of households currently to 70 percent by 2030) in line with the Sustainable Development Goal 7 implementation plan, adopted in 2022. Our objective of eliminating completely fuel price subsidies ***(RM7, end-April 2026)*** will also contribute to our efforts to reduce GHGs**.** Energy sector reforms undertaken with World Bank support focus on energy efficiency standards and a stronger regulatory framework that can facilitate private participation in renewable energy projects.

60. Cognizant of the significant impact of urbanization on GHG emissions, we are committed to promoting sustainable urban and territorial planning. We aim for a significant increase in urban green spaces by developing public parks and gardens that will serve as carbon sinks and improve citizens' quality of life. We will launch a national urban reforestation program, in partnership with municipalities, schools, and civil society organizations, to plant native trees and promote biodiversity while absorbing atmospheric CO_2. Through the implementation of development policies that promote public transport and reduce dependence on private vehicles, we will contribute to the reduction of CO_2 emissions. Finally, our spatial planning policy will seek, in collaboration with local authorities, to optimize land use and prevent urban sprawl, to create compact and efficient cities, thus reducing emissions related to heating, cooling and transport.

61. We will consolidate the gains made and continue efforts to fully restore price signals for different types of fuels. Since the beginning of the year, we have made significant progress in implementing the automatic fuel price pricing mechanism. Indeed, since January 2025, after having made the necessary adjustments that should have been applied during the last half of last year, we have allowed the fuel pump prices to fluctuate in line with international prices. This has since led to a cumulative decrease of around MGA 390/liter for gasoline since end-December 2024, and a cumulative increase of MGA 270/liter and MGA 800/liter for diesel and kerosene respectively, putting us on track to achieve the objective of fully eliminating fuel price subsidies ***(RM7, end-April 2026).*** This measure will not only increase the fiscal space for more productive spending but also reduce the fiscal risks to which the State is exposed through the subsidies of prices at the pump.

62. In the Council of Ministers, we will approve the gradual alignment of taxes on diesel with the rates applicable to gasoline. The excise taxes and road maintenance levies are currently lower for diesel than for gasoline - a difference that does not correspond to the environmental externalities and the respective impact on road infrastructure of diesel-powered vehicles versus gasoline-powered cars, and which has favored a vehicle fleet structure heavily skewed towards diesel (60 percent of total consumption of petroleum products). We are committed to gradually raising the tax and other levies on diesel fuel to bring them into line with the level applicable to gasoline ***(RM8, end-October 2026).*** We will also have the support of the World Bank to prepare and implement mitigation measures for the most vulnerable groups, including for public transport vehicles and their users.

63. We will continue our efforts to facilitate the production of renewable energy and promote access to electricity at an affordable price for all in rural areas. As the CCDR points out, the country is already one of the most active markets in sub-Saharan Africa for mini-grids and off-grid installations for solar energy or small hydroelectricity, thanks to a favorable fiscal framework, donor initiatives (World Bank's Off-Grid Market Development Fund, AFD's SUNREF) and the support of the Agency for the Development of Rural Electrification (ADER). We will aim to capitalize on this advantage by operationalizing a dedicated financing mechanism created by Law 2017-021 on the National Sustainable Energy Fund (FNED). This mechanism is designed to benefit from State contributions and fees paid by JIRAMA, as incumbent operator, and could also benefit from the support of partners interested in rural electrification, such as the GIZ and, possibly, the World Bank. For the review of projects, it could rely on ADER's technical expertise, which should be strengthened in terms of resources and staff. It may also conclude one or more agreements with banks or credit institutions to distribute support in the form of guarantees or loans, in addition to subsidies that it may pay directly. To this end, we will adopt the decree on the FNED and operationalize its financing mechanism to support off-grid and mini-grid electrification and proactively incentivize private sector financing, with a planned increase in total renewable energy generation capacity of at least 11.5 MW ***(RM9, end-April 2026).*** In addition to GIZ, this measure will be eligible for technical assistance from the World Bank.

64. We will also look at ways to shift the composition of our motor vehicle fleet towards more energy-efficient vehicles and electric vehicles. We are working on an e-mobility program and planning the development of the necessary charging infrastructure. We are also working on a motor vehicle registration tax (sticker) that could be linked to the level of GHG emissions and energy efficiency standards, while exploring options to avoid a negative impact on the most vulnerable households.

65. We will also work to develop clean cooking, to address a major source of GHG emissions and air pollution, generating significant health benefits. With the support of the *United Nations Development Programme (UNDP),* we officially launched work on the development of the policy letter on the development of clean cooking in October 2024. This letter will help strengthen the legal and regulatory framework for the use of clean cooking methods. It will also identify the incentives needed to support the spread of clean and energy-efficient cookstoves, in a context where 95% of Malagasy households do not have access to clean cooking energy and technologies (2022).

Pillar 4: Strengthen the Protection of Forests and Biodiversity

66. We will step up our efforts to combat deforestation and encourage reforestation under the REDD+ mechanism. With Madagascar's forest coverage having decreased from 29% to 21% between 2000 and 2020 (CCDR), it is vital that we undertake actions to protect forest ecosystems, given that deforestation reduces resilience to natural disasters and negatively affects the link between water, energy and food. To this end, we will draw on the experience gained during the implementation of the 2018 national REDD+ strategy and on the existence of an effective measurement, reporting, and verification (MRV) mechanism implemented under the World Bank's Forest Carbon Partnership Facility (FCPF). We plan to broaden the scope of this mechanism in order to stimulate private sector participation in the effort and to also cover reforestation projects, beyond just avoided deforestation projects. To this end, with the support of the World Bank and the Embassy of the United Kingdom, we have revised Decree 2021-1113 to improve private sector participation and extend the scope of application of the REDD+ mechanism to reforestation projects and expect to adopt in early June ***(RM10, end-April 2025, met with delay in early June 2025).***

67. We will take advantage of all actions that can contribute to the protection of forests and ecosystems. To this end, we plan to draft, with the support of FAO, a new forestry code that will provide a better framework for regulating commercial logging activities, monitoring forestry activities and establishing a sustainable financing mechanism. We will also build on ongoing efforts to improve the implementation of the land legislation at the communal level to incorporate protected zone concerns.

Pillar 5: Unlocking Climate Finance

68. We commit to presenting a bold vision for mobilizing climate finance from different sources to implement our agenda to combat climate change. Madagascar has the potential to be an attractive destination for climate investments with multiple adaptation and mitigation co-benefits. Currently, the private sector accounts for only 5 percent of climate finance flows in the country, of which 70 percent is directed to the energy sector (source: African Development Bank report). The World Bank's CCDR identifies several opportunities for private sector investment. To take full advantage of these opportunities, the fundamental regulatory and institutional mechanisms must be in place, first and foremost, a strategy to mobilize climate finance, a national green taxonomy, and a commitment to update the regulatory framework so that Madagascar is ready to fully benefit from Article 6 of the Paris Agreement. With support from the IMF and the World Bank, we organized a roundtable on climate finance in October 2024. This conference was attended by representatives of development partners and the private sector and provided an opportunity to agree on the identification of several priority areas of work, such as the creation of a green investment project preparation facility, the identification of financing methods for renewable energy production, and improved access to electricity as well as the development of innovative financing instruments with positive spin-offs for the environment, such as "lemur bonds". In this regard, we are counting on the enhanced cooperation framework between the World Bank and the IMF on climate action to mobilize the necessary public and private financing and additional technical support.

69. We reiterate our commitment to mobilizing more climate finance supported by a climate finance strategy for adaptation, mitigation, and resilience. With the support of our technical partners (World Bank, UNICEF, GCA, IMF), we have launched the preparatory work for the development of the strategy that we hope will be as inclusive as possible by involving all stakeholders, including the private sector and civil society. To this end, we have set up a committee responsible for preparing the strategy and steering the process under the joint leadership of the *Ministry of Environment and Sustainable Development (MEDD),* the *MEF*, and the development partners mentioned earlier. This committee will also oversee the work of the nine sub-working groups, with the support of the consulting firm in charge of preparing the strategy document. A consultation process at the national level is planned, with the organization of a planned round table to address the issue of resource mobilization. The various drafts of the strategy will go through validation processes. Throughout the whole exercise, we plan to make full use of the reforms already initiated to strengthen climate governance, including the establishment of the CIME to strengthen inter-ministerial coordination on this issue. The process has been somewhat delayed, but we intend to maintain our commitment to adopt an interministerial decree on the strategy for mobilizing climate finance that prioritizes the key areas of investment stipulated in the national framework documents, with a provisional budget, and options for innovative financing mechanisms and an implementation timetable ***(RM11, end-October 2025).*** The BNGRC will be involved in the development of the strategy, particularly on the financing mechanisms related to anticipatory action, rapid response, and territorial resilience. Accounting for avoided costs through prevention will help strengthen the case for the allocation of specific resources.

70. We remain committed to creating an incentive environment for both the financial sector to develop green financial products and for the private sector to invest more in projects with proven benefits in terms of climate change adaptation and mitigation. In line with this commitment, we are determined to adopt a national green taxonomy ***(RM12, end of April 2027)*** designed to bring clarity and transparency to financial market participants willing to invest in green projects or projects with well-defined climate objectives. To achieve this objective, we will set up a steering committee, composed of representatives from MEF, MEDD, BFM as well as other stakeholders, including private sector representatives, to inform the drafting process. In preparing the taxonomy, we plan to adopt best practices from international networks such as the *Network for Greening the Financial System (NGFS*) and the *Sustainable Banking and Finance Network (SBFN*)). Moreover, in order to take into account the risks related to climate change and their potential impact on financial stability, *Banky Foiben'i Madagasikara (BFM)* is preparing for the integration of this dimension into its policy considerations, particularly following the statement it made in September 2023 through the "*Antananarivo Declaration on Climate Change and Financial Innovation: Challenges and Opportunities for Central Banks.*" For this purpose, a working group has been set up within the Bank to work on the implications of climate change for financial stability. Building structural resilience will also require strengthening local risk management capacities. The territorialization of the BNGRC and the integration of risk prevention into local investment plans will provide a sustainable basis for the efforts undertaken under the RSF.

Data Quality

71. We are committed to producing and disseminating quality statistical information in a timely manner to ensure rigorous program monitoring. To this end, we will provide our National Institute of Statistics (INSTAT), as well as our other statistics departments, with the financial, human, and material resources necessary to effectively carry out their respective missions. As in the past, we are counting on the support of our partners to support us financially and technically. In addition to improving the quality and frequency with which existing statistics are produced, we also plan to produce new statistics in order to further improve the availability of economic information over the long term. Some of the areas under consideration include: (i) the launch of a survey for the production of the producer price index (PPI); (ii) improving the calculation and publication of national accounts statistics through more disaggregated data; and (iii) the publication of new foreign trade (ICE) and industrial production (IPI) indices.

72. We will work to finalize the following activities:

<u>In the short term</u>

- Finalize and publish GDP data for 2022–24, according to the publication schedule, to allow better monitoring of the country's economic situation.

- Update the information on the National Summary Data Page (NSDP) to enhance data transparency.
- Migrate to Balance of Payments Manual 7 with technical assistance support from the IMF Statistics Department.
- Regularly and reliably collect and publish data on capital grants and project loans
- Expand debt data coverage to SOEs.
- Begin regular publication of quarterly GDP data.

In the medium term

- Update household reference basket information for the calculation of the consumer price index (CPI) using the results of the 2021 Periodic Household Survey (PHS).
- Move forward with the rebasing project for the national accounts.
- Continue the process of including statistics on the activities of the insurance sector in the monetary statistics in accordance with the guidelines of the 2016 Monetary and Financial Statistics Manual and the compilation guide.
- Continue developing and publishing the producer price index (PPI).
- Continue to move forward with the Ministry of Agriculture and Livestock in conducting and publishing the long-delayed agricultural census, launched in March 2025.

Program Monitoring Modalities

73. Under the ECF arrangement, the program will be subject to a semi-annual review and will be assessed on the basis of periodic and continuous performance criteria, indicative targets, and a monetary policy consultation clause (Table 1). Progress on structural reforms will be assessed based on structural benchmarks (Table 2). Detailed definitions, calculation modalities, and reporting requirements for all performance criteria will be specified in the *Technical Memorandum of Understanding (TMU)* attached to this Memorandum. The latter will also define the scope and frequency of the data to be reported to IMF staff for program monitoring. Throughout the duration of the program, Madagascar will not introduce restrictions on current transactions, nor will it practice multiple exchange rate practice without prior approval by the Fund in accordance with Article VIII of the Fund's Articles of Agreement. The third and fourth program reviews will be held on or after November 30, 2025 and May 30, 2026, respectively, based on the performance criteria established for the test dates of end-June 2025 and end-December 2026.

74. Under the RSF arrangement, progress will be measured through the achievement of the various reform measures as detailed in Table 3.

75. We request an extension of the deadline for the issuance of the Poverty Reduction and Growth Strategy (PRGS) to the Third Review. While our PGE, published at the start of the new presidential term in January 2024, outlines the overarching strategies for the country's development, we need more time to elaborate the details of a medium-term strategy, given constrained capacity.

Table 1. Madagascar: Quantitative Performance Criteria and Indicative Targets

(Billions of Ariary; unless otherwise indicated)

	Jun-24			Sep-24			Dec-24			Mar-25			Jun-25	Sep-25		Dec-25		Mar-26	Jun-26
	Program	Data	Status	Program	Data	Status	Program	Data	Status	Program	Prel.	Status	Program	Program	Proposed	Program	Proposed	Proposed	Proposed
Continuous Performance Criteria																			
Ceiling on accumulation of new external payment arrears	0	0	**Met**	0	0	**Met**	0	0	**Met**	0	0	**Met**	0	0		0		0	0
Ceiling on new external debt contracted or guaranteed by the central government or BFM, in present value terms (US$ millions)[1]	800	55	**Met**	800	125	**Met**	800	155	**Met**	800	0	**Met**	800	800		800		800	800
Performance Criterion	PC			IT			PC			IT			PC	IT		PC		IT	PC
Floor on primary balance	-500 Adjusted: -848	-929	**Not met**	-1,100 Adjusted: -706	-677	**Met with adjustor**	-2,300 Adjusted: -1,906	-1,527	**Met**	-253			-702	-1,443	-1,640	-2,777	-2,873	-437	-865
Floor on net foreign assets (NFA) of BFM (millions of SDRs)	1,084	1,159	**Met**	1,076 Adjusted: 952	1,218	**Met**	1,071 Adjusted: 947	1,347	**Met**	1,209			1,261	1,174		1,313	1,235	1,190	1,243
Monetary Policy Consultation Clause[2]																			
M3 growth (upper band, percent)	16			16			16			16			16	16		16		16	16
M3 growth (mid-point, percent)	12	10.5	**Met**	12	11.0	**Met**	12	14.6	**Met**	12	13.8	**Met**	12	12		12		12	12
M3 growth (lower-band, percent)	8			8			8			8			8	8		8		8	8
Indicative Targets																			
Floor on domestic primary balance[3]	700	597	**Not met**	720	1,027	**Met**	120	1,034	**Met**	438			737	818	613	365	207	606	1195
Floor on total gross tax revenue	4,300	4,290	**Not met**	6,500	6,514	**Met**	8,800	8,945	**Met**	2,110	2,022	**Not met**	4,645	6,950		9,495		2,573	5,614
Ceiling on outstanding domestic arrears	730	813	**Not met**	640	571	**Met**	496	644	**Not met**	701			619	536		454		244	162
Floor on social spending[4]	739	1,477	**Met**	1,739	2,293	**Met**	2,900	3,222	**Met**	405	634	**Met**	1,100	2,000		3,125		450	1,192
Memorandum Items																			
Official external budget support (grants, millions of SDRs)[5]	0	0		0	0		0	1		0			0	0	4	0	4	0	0
Official external budget support (loans, millions of SDRs)[5]	0	0		124	0		124	0		0			74	74	124	124	175	50	124
External project loans (millions of SDR)[5]	199	259		298	289		398	429		120			238	356	353	475	459	167	333
Program exchange rate (MGA/SDR)	5,768			5,768			5,768			5,768			5,768	5,768		5,768		5,768	5,768

Sources: Madagascar authorities; and IMF staff projections.

[1] Cumulative annual ceiling monitored on a continuous basis starting from the beginning of each calendar year.
[2] If the end of period year-on-year M3 growth is outside the upper/lower bound, a formal consultation with the Executive Board as part of program reviews would be triggered.
[3] Primary balance excluding foreign-financed investment and grants.
[4] Spending on social protection, based on the budget functional classification.
[5] Cumulative amount from the beginning of each calendar year.

Table 2. Madagascar: Prior Actions and Structural Benchmarks, February 2025–February 2027

Measure	Due date(s)	Implementation status	Rationale
Prior action			
1. Adopt in the Council of Ministers (i) a decree implementing the automatic fuel price adjustment mechanism for the second half of 2025, prepared in consultation with staff, and (ii) the arrêté setting the reference price structure of fuel products			Contain fiscal risks
2. Adopt in the Council of Ministers JIRAMA's recovery plan			Contain fiscal risks
Structural benchmarks			
Increase domestic revenue mobilization			
1. Provide IMF staff with a monthly dashboard on selected key performance indicators of the tax and customs administrations within 30 days after the end of each month	Continuous	**Met**. A dashboard was shared with staff by the due dates.	Increase domestic revenue.
2. Adopt objectives and resources contracts between the Ministry of Finance and the Directorate General of Tax Administration (DGI)	December 2025		Strengthen domestic tax collection by modernizing HR management and encouraging adherence to change
3. Produce a report on the implementation of an internal control plan guaranteeing the compliant use of the accounting, tax audit, and disputes modules of SAFI by the operational units	May 2026		Increase domestic revenue.
4. Carry out 3 systematic internal audits of execution procedures or offices	May 2026		Increase domestic revenue.
Contain short and medium term fiscal risks			
5. Provide IMF staff with a monthly dashboard on JIRAMA's revenue and costs and with the details of any budget transfers to Jirama suppliers within 45 days after the end of each month	Continuous	**Met**. A dashboard was shared with staff by the due dates.	Improve economic governance and improve the composition and quality of budget expenditures.
6. Publish calls for tenders, the results of these calls for tenders, and any contract or amendment to an existing contract for JIRAMA fuel purchases on the JIRAMA website within a maximum period of 45 days after the end of the month of acceptance of an offer or signature of the contract/amendment to an existing contract.	Continuous	**Met.**	Improve economic governance and improve the composition and quality of budget expenditures.
7. Finalize and have the Council of Ministers approve JIRAMA's recovery plan prepared by the new management team	May 2025 reset as prior action	**Not met.** The plan is expected to be adopted by early June.	Preserve and strengthen fiscal space.
8. Reduce JIRAMA's average electricity operational costs by at least 8 percent from 2024 to 2026 and reduce JIRAMA's technical and non-technical losses to less than 24 percent in 2026	February 2027		Improve economic governance and improve the composition and quality of budget expenditures.
9. Adjust pump prices monthly based on the automatic fuel pricing mechanism, defined by Decree 2024-2085 for 2025H1 and the relevant decree for 2025H2, within 5 business days after the end of each month	Continuous	**Met.**	Contain fiscal risks.
10. Publish regulations regarding the computation of fuel reference prices (*arrêté*) and the fuel price adjustment mechanism (*décret*) before the beginning of the semester for which they apply (second semester of 2025)	June 2025	**In progress.** The regulations are expected to be adopted in early June.	Improve economic governance and contain fiscal risks
11. Publish regulations regarding the computation of fuel reference prices (*arrêté*) and the fuel price adjustment mechanism (*décret*) before the beginning of the semester for which they apply (first semester of 2026)	December 2025		Improve economic governance and contain fiscal risks
12. Increase electricity tariffs for businesses by 16 percent (OPTIMA BUSINESS high and medium tension)	September 2025		Contain fiscal risks.
Strenghten governance and fiscal institutions			
13. Approve a new law on cash management	May 2025	**Met.** The law was adopted by the Council of Government on May 15.	Improve fiscal governance and budget execution.
14. Prepare, with IMF staff's support, and publish a comprehensive governance diagnostic, including specific recommendations and a time-bound action plan for implementing reform measures	September 2025		Improve governance.
Consolidate financial and monetary stability			
15. Adopt a financial stability law	June 2025		Consolidate financial stability.
Foster more inclusive growth			
16. Expand the coverage of the social registry to 2 million households	December 2025		Strengthen social safety nets.

Note: New prior actions and structural benchmarks are indicated in blue.

Table 3. Madagascar: Proposed RSF Matrix of Reform Measures

Main Pillars	RM No.	Reform	Diagnostic	Expected Outcomes	Implementing Entities	Technical Assistance	Target Date	Prospective BOP Risk Mitigation
Reinforcing governance and mainstreaming the climate agenda into PFM/PIM processes.	1	**Climate governance.** Adopt a decree clarifying the mandate of the Interministerial Committee for Environment (CIME) to cover all climate policies. This decree would provide notably for (i) chairmanship at the level of the Prime Minister (ii) meetings twice a year with publicly disclosed reports to monitor implementation (iii) a technical secretariat shared between MEDD and MEF.	CCDR	Reinforce the mechanism for intergovernmental coordination on climate change issues, currently with very weak decision-making and enforcement mechanisms	Prime Minister's Office Ministry of Environment and Sustainable Development (MEDD) Ministry of Economy and Finance (MEF)	World Bank	Met (1st ECF review)	*Improved fiscal and external sustainability.* Better informed and coordinated policy decisions improve budget execution and project implementation and reduce multiple channels of BOP risks including by improving the implementation of other RMs. Aligning resources with resilience priorities supports macro-fiscal stability, enhances public spending efficiency, and reduces fiscal vulnerabilities to climate shocks. Ensuring resources are directed to resilient and sustainable infrastructure reduces reconstruction needs and alleviates external financing pressures. This also reduces disruption to domestic economic activity and export performance. Over time, improved resilience to shocks, reduces post-disaster financing needs, and supports donor confidence and coordination, lowering external financing pressures. *External aid and investment promotion* Regular public reporting strengthens accountability, improves project quality, and builds investor and donor confidence.
	2	**Public investment management (PIM) Framework.** Adopt a new decree on environmental impact assessments (EIA) to replace the 2004 MECIE decree (*Mise en compatibilité des investissements avec l'environnement)* and adopt and publish criteria for prioritization and selection of investment projects, including integration of climate change (adaptation, mitigation, and resilience) related elements.	CMAP CCDR	Integrate climate change considerations into the legal framework for evaluation and selection of PIM projects	MEDD, MEF Entities in charge of PIM at the Presidency	IMF FAD / AFS UNDRR	Met (1st ECF review)	
	3	**Public investment management (PIM) Implementation.** Adopt a decree making it compulsory to produce every year a budget document listing the investment projects selected for the public investment program and explaining how the selection criteria have been applied, notably with respect to effective application of criteria related to climate adaptation and mitigation and produce a first report in accordance with this obligation.	CMAP CCDR	Ensure consistency of public investment projects actually selected and budgeted with the climate objectives set in the NDC.	MEF MEDD Entities in charge of PIM at the Presidency	IMF FAD / AFS World Bank	End October 2026 (5th ECF review)	

Main Pillars	RM No.	Reform	Diagnostic	Expected Outcomes	Implementing Entities	Technical Assistance	Target Date	Prospective BOP Risk Mitigation
	4	**Climate budget tagging (CBT)**. Adapt the budget classification to enable the tagging of climate-related adaptation and mitigation expenditures and append a first Climate Budget Statement (CBS) to the 2026 Executive Budget Proposal.	CMAP	Better account for climate change issues in the budget preparation process and reinforce transparency on the integration of climate change concerns in budget choices.	MEF with technical support from MEDD	IMF FAD (resident advisor support until October 2024) UNDRR	End October 2025 (3rd ECF review))	
Enhancing adaptation to climate change and resilience against natural disasters	5	**Water governance.** Approve in the Council of Ministers a bill to update the 1998 Water Code, with a view to integrating climate change in the overall water policy and reinforcing the overall policy framework for Integrated Water Resource Management (IWRM), including by strengthening the National Authority for Water and Sanitation's (ANDEA) institutional framework	WaterAid – 2019 Review of Implementation of the Water Code USAID – 2020 Madagascar Water Resources Profile.	Strengthen the governance of water resources and improve the allocation of water resources to key water users notably water utilities, farmers, and industries.	Ministry of Water, Sanitation and Hygiene (MEAH)	European Union World Bank GCA	End October 2025 (3rd ECF review)	*Improved BOP and fiscal resilience to shocks and support for economic growth by:* - Enhancing the sustainability and resilience of water resources, which are critical for agriculture and hydroelectricity. In turn, this improves food security, reducing the need to import food when extreme weather events materialize. Similarly, reliable hydroelectricity reduces the need to import fuel for electricity production. - Lowering exposure to disaster risks and improved access to water resources reduces reconstruction-related import needs, protects productive capacity, and can ensure sustainable tourism exports. *External aid and investment promotion* Strengthening institutions like ANDEA can help attract donor funding and manage infrastructure investments, easing fiscal and external pressures during natural disasters. Enhancing the government's ability to respond quickly and effectively to disasters, reducing economic disruption and emergency import needs. *Catalyzing additional external finance* Transparent and hazard-specific reporting increases accountability and donor trust, potentially attracting contingency financing or encouraging insurance mechanisms.
	6	**Disaster risk management.** Approve the necessary implementation regulations to simplify PFM processes for disaster-related expenditures and operationalize the National Contingency Fund (FNC), while ensuring adequate transparency and reporting of expenditures for each selected type of hazard.	CMAP CCDR	Support the implementation of the recently finalized (April 2023) Disaster Risk Financing and Insurance (DRFI) Strategy and reinforce capabilities to respond quickly to climate disasters – a major issue in Madagascar due to the increased frequency and intensity of cyclones.	Prime Minister's Office – Unit for the Prevention and Management of Emergencies (CPGU) National Bureau for Disaster Risk Management (BNGRC) MEF	World Bank AfDB	Met (2nd ECF review)	

Main Pillars	RM No.	Reform	Diagnostic	Expected Outcomes	Implementing Entities	Technical Assistance	Target Date	Prospective BOP Risk Mitigation
Reducing dependence on fossil fuel imports.[1]	7	**Energy prices and subsidies.** Fully eliminate all fuel price subsidies resulting from an administered retail price (PMAP) that has durably been below the calculated reference price (PRC).	CMAP	Send economic signals favorable to energy savings and increase fiscal space for resilient investment.	Ministry of Energy and Hydrocarbons (MEH) MEF	Possible IMF FAD support	End April 2026 (4th ECF review)	*Improved fiscal and external sustainability.* Reduces spending and mobilizes revenue, reducing fiscal deficits and external financing needs. Reduces BOP stability risks through: - Reduced fuel imports (volume effect); and - Reduced exposure to volatile global oil prices (price effect) - Reduced long-term dependency on imported fossil fuels, improving the trade balance and energy security. *Promoting investment and growth* Incentivizes private investment (including through correction of pricing distortions), limiting the fiscal burden while accelerating the energy transition. Reliable energy access, especially in underserved rural areas, supports small businesses and improves export capacity over time.
	8	**Fuel Taxation.** Gradually raise excise taxes and other levies on diesel fuel to align them to the level applicable to gasoline.	CMAP FAD 2021 Tax Policy report on reform of excise duties	Send economic signals favorable to energy savings and increase fiscal space for resilient investment.	MEH MEF	Possible IMF FAD support World Bank (social measures to mitigate impact)	End October 2026 (5th ECF review)	
	9	**Renewable energy production.** Adopt the FNED (*Fonds National de l'Énergie Durable)* decree and operationalize the FNED financing mechanism to support off-grid and mini-grid electrification and pro-actively incentivize private sector funding, with at least a total of 11.5 MW in newly installed renewable energy production capacity arising from operations supported by FNED.	CCDR	Encourage the development of mini-grid or off-grid renewable electricity production (both solar and small-scale hydropower) and support electricity access in rural areas. Small-scale hydropower could also support water resource management.	MEH ADER (Agency for the Development of Electrification in Rural Areas) ARELEC (Electricity regulator)	World Bank GIZ	End April 2026 (4th ECF review)	

[1] The title of this pillar has been revised to better reflect the link the BoP vulnerability addressed by RMs in this reform area.

Main Pillars	RM No.	Reform	Diagnostic	Expected Outcomes	Implementing Entities	Technical Assistance	Target Date	Prospective BOP Risk Mitigation
Reinforcing the protection of forests and biodiversity	10	**Carbon storage in forests. Revise decree 2021-1113 to improve the participation of the private sector and extend the scope of the REDD+ mechanism to reforestation schemes.**	CCDR	Promote carbon sequestration and strengthen climate adaptation and resilience through reforestation schemes with private sector participation incentivized by access to carbon markets.	MEDD, MEF	World Bank	End April 2025 (2nd ECF review): Met in June	*Improved fiscal and external sustainability* Reduces the impact of damages and losses following deforestation-related shocks (e.g., flooding or loss of ecosystem services), which affects agriculture and the need for food imports. It also helps contain the impact of natural disasters on local communities, reducing the need for reconstruction-related imports. *Investment promotion* Positive spillovers into eco-tourism can supports exports and FDI.
Mobilizing Climate finance	11	**National Climate Finance Strategy.** Adopt an inter-ministerial decree on a climate finance mobilization strategy that prioritizes key investment areas as stipulated in national framework documents, with a tentative budget, options for innovative blended financing mechanisms and a timeline for implementation.	CCDR CMAP	A consolidated climate agenda that provides a framework to support access to climate finance for MDG's updated NDC implementation.	MEF, MEDD, BFM	World Bank Africa Adaptation Acceleration Program (AfDB and GCA) UNDRR	End October 2025 (3rd ECF review)	*Improved fiscal and external sustainability* Supports increased climate-resilient investments, including FDI. The reduced vulnerability to climate-related shocks reduces import needs. Stepped up investment combined with reduced greenwashing can also make exports more competitive. *External aid and investment promotion* Reduces uncertainty and enhances transparency, facilitating aid and investment.
	12	**National Green Taxonomy.** Adopt a decree on implementing a national green taxonomy to inform all green/climate investments.	CCDR	Clarity and transparency to financial market participants keen on investing in green projects and/or projects with clearly defined climate outcomes.	MEF, MEDD, BFM	IMF MCM	End April 2027 (6th ECF review)	

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) contains definitions and adjuster mechanisms that explain the calculation of the quantitative performance criteria and indicative targets set out in Tables 1 and 2 attached to the Memorandum of Economic and Financial Policies for 2024–2027. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

Definitions

2. For the purposes of this TMU, the terms "external" and "domestic" are defined in terms of residence.

3. For the purposes of this TMU, "government" is defined to comprise the scope of government financial operations reported in the *operations globales du Trésor* (OGT). The government does not cover the activities of state-owned enterprises and sub-national authorities.

4. For the purposes of this TMU, the program exchange rates[1] are as follows:

Program Exchange Rates	
Malagasy Ariary (MGA)/SDR	5 768.35
U.S. Dollar/SDR	1.323430
Euro/SDR	1.224150
Australian Dollar/SDR	2.026070
Canadian Dollar/SDR	1.793250
Yuan/SDR	9.563610
Japanese Yen/SDR	200.3670
Swiss Franc/SDR	1.198560
U.K. Pound Sterling/SDR	1.049300

5. Accounts denominated in currencies other than SDRs will first be valued in SDRs and then converted to MGAs. Amounts in currencies other than those shown in the table above, as well as monetary gold, will first be valued in SDRs at the exchange rate or gold price in effect on March 28, 2024 (SDR 1667.4 per ounce of gold) and then converted into MGA.

6. The performance criteria used in the program, as defined below, refer to the net foreign assets of the central bank, external payment arrears, new external debt owed or guaranteed by the government and/or the central bank, and the primary balance.

[1] Data refers to reference exchange rates published on the IMF or the central bank of Madagascar's website for March 28, 2024.

7. In addition to the specific performance criteria listed in paragraph 6, as for any Fund arrangement, continuous performance criteria also include the non-introduction of exchange restrictions and multiple currency practices. Specifically, these criteria cover: (i) the imposition or intensification of restrictions on payments and transfers made in the context of current international transactions; (ii) the introduction or modification of multiple currency practices; (iii) the conclusion of bilateral payment agreements that do not comply with Article VIII; and (iv) the imposition or intensification of import restrictions for balance of payments reasons. These continuous performance criteria, given their non-quantitative nature, are not included in the table of performance criteria annexed to the MEFP.

8. Total government revenue consists of tax and non-tax budget revenue (as defined in Chapter 5 of the Government Finance Statistics Manual (2001 edition) but excluding revenue from Treasury Operations) and grants. Revenues are accounted for on a cash basis. Taxes on imports of petroleum products, paid through the issuance of promissory notes, are recorded as revenue at the time of the issuance of the promissory notes: to reconcile the difference in timing between the issuance of the promissory notes and the actual payment to the Treasury, an equivalent amount is recorded (negatively) under the item "other net transactions of the Treasury" until the actual payment.

Provision of Data to the Fund

9. The following information will be provided to IMF staff for program monitoring purposes (see Table 1 for details):

- Data on all variables subject to quantitative performance criteria and indicative targets will be provided to IMF staff on a monthly basis, with a lag of no more than four weeks for central bank net foreign assets (NFA) and eight weeks for other data. The authorities will promptly communicate any data revisions to IMF staff.

- The Financial Intelligence Unit (SAMIFIN) will continue to publish, on a publicly accessible website, quarterly data (no later than the end of the month following the quarter) on reports of suspicious transactions related to money laundering of the proceeds of corruption, tax evasion, customs fraud, terrorist financing, and other crimes, addressed to the authorities in charge of law enforcement (Independent Anti-Corruption Bureau, National Gendarmerie, National Police, Ministry of Environment and Sustainable Development, Ministry of Mines, Ministry of Fisheries and Blue Economy, Anti-corruption Courts, etc.) and to other competent authorities (Directorate General of Taxation, Directorate General of Customs, Directorate General of the Treasury,...). SAMIFIN will also similarly publish data on the implementation of UN Security Council resolutions on terrorism, terrorism financing, and the financing of the proliferation of weapons of mass destruction.

- The Independent Anti-Corruption Bureau (BIANCO) will publish on a publicly accessible website quarterly data (no later than the end of the month following the quarter) on the number of persons indicted, the number of persons convicted by decision of a court of first instance, the number of persons convicted by a court of last resort and the number of verifications of asset declarations of public officials.

- For variables that are relevant for assessing performance against program objectives but are not explicitly defined in this TMU, the authorities will consult with IMF staff, as needed, on how best to measure them and report them.

Quantitative Performance Criteria

C. Floor on the primary balance

10. The primary balance is calculated as follows:

- It corresponds to the difference between the sum of tax and non-tax revenues and grants and the sum of capital expenditures and current spending excluding interest payments (as reported in the authorities' table of government financial operations or OGT).
- For the purpose of calculating the primary balance, tax revenues are recorded on a cash basis (see ¶8) and measured on a net basis, i.e., net of VAT credit refunds. Grants include both current and capital grants. Spending is recorded on a commitment basis. Current spending excluding interest payments is the sum of expenditures on wages and salaries, goods and services, transfers and subsidies and Treasury operations (net) excluding VAT credit refunds. Capital expenditures include expenditures financed from domestic and external resources. The primary balance is calculated cumulatively from the beginning of the calendar year. For reference, using data at end of December 2023, the value of the primary balance would be as follows:

Primary Balance	**-2 453**
Gross tax revenue	8 322
of which gross domestic revenue	*4 238*
of which gross customs revenue	*4 084*
VAT refunds	471
Tax revenue (net of VAT refunds)	7 851
Non-tax revenue	210
Grants	1 586
Less :	
Capital expenditures	4 903
Current spending	7 199
Wages and salaries	3 713
Goods and services	485
Transfers and subsidies	2 942
Treasury operations (net of VAT refunds)	59

B. External Debt

Ceiling on the Accumulation of New External Payment Arrears

11. These arrears consist of overdue debt service obligations (principal repayments and interest) related to loans contracted or guaranteed by the government or the central bank of Madagascar (BFM). Debt service obligations (including unpaid penalties and interest charges) are considered overdue when they have not been paid within 30 days of the due date or after the end of a grace period agreed with each creditor, or unilaterally granted by each creditor before the due date. They exclude arrears resulting from the non-payment of debt service for which the creditor has agreed in writing to negotiate a different payment schedule, as well as debt service payments under contractual obligations that are not made on time for reasons beyond the control of the Malagasy authorities. This monitoring target should be observed on a continuous basis from the approval by the IMF Executive Board of the request for the ECF arrangement.

Ceiling on New External Debt

12. For program monitoring purposes, the present value of debt at the time of its contracting is calculated by discounting future debt service payments. The discount rate used for this purpose is 5 percent.

13. Where an external loan agreement provides for multiple disbursements and where the interest rate applicable to each disbursement is linked to the evolution of a reference rate from the date of signature, the interest rate in effect at the time of signature shall be used for the calculation of the present value and grant element applicable to all disbursements provided for under that agreement.

14. For program monitoring purposes, the definition of debt is provided in paragraph 8 of the Guidelines on Public Debt Conditionality in IMF-Supported Programs attached to Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014 (see Annex). External debt is defined according to the creditor's residence.

15. In the case of loans with a variable interest rate in the form of a benchmark rate plus a fixed spread, the present value of the debt will be calculated using a program reference rate plus the fixed spread (in basis points) indicated in the loan agreement. The program's reference rate for the six-month USD SOFR is 3.21 percent and will remain fixed for the duration of the program. The spread between the six-month EURIBOR and the six-month USD SOFR is -50 basis points. Where the variable rate is linked to a different benchmark interest rate, a spread reflecting the difference between the benchmark rate and the six-month USD SOFR (rounded to the nearest 50 basis points) is added.

16. The performance criterion (ceiling) applies to the present value of the new external debt contracted or guaranteed by the government or BFM. The cumulative ceiling applies to debt contracted or guaranteed whose value has not yet been received, including private debt

for which public guarantees have been extended. The present value is determined using the IMF's concessionality calculator or the Excel template available online. This monitoring target is to be calculated for each calendar year cumulatively from the beginning of the year, , and observed on a continuous basis from the IMF Executive Board's approval of the request for the ECF arrangement until the conclusion of the next program review , at which time it will be renewed and possibly adjusted. The ceiling is subject to an adjustment factor defined below.

17. The ceiling set out in paragraph 16 does not apply to: (i) the use of IMF resources; (ii) debts contracted to restructure, refinance or prepay existing debts, to the extent that their terms are more favorable than the existing debts, and up to the amount of the debt restructured, refinanced or repaid early; and (iii) debts classified as international reserve liabilities of BFM.

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

18. The target floor for NFA of BFM is evaluated using the end-period stock, calculated using program exchange rates. The NFA of BFM is defined as the difference between BFM's gross foreign assets and total foreign liabilities, including debt owed to the IMF. All foreign assets and foreign liabilities are converted into SDR at the program exchange rates reported in paragraph 4. For reference, at end-December 2023, NFA were SDR 1236.7 million, calculated as follows:

Foreign Assets	
MGA billions, end-2023 exchange rates (A)	12 098.4
SDR millions, end-2023 exchange rates (B)	1 972.0
SDR millions, program exchange rates (C)	2 097.4
Foreign Liabilities	
MGA billions, end-2023 exchange rates (D)	4 964.6
SDR millions, end-2023 exchange rates (E)	809.2
SDR millions, program exchange rates (F)	860.7
Net Foreign Assets	
SDR millions, program exchange rates (G) = (C) – (F)	1 236.7

Indicative Objectives

D. Floor on Domestic Primary Balance

19. The domestic primary balance corresponds to the difference between the sum of domestic tax and non-tax revenue and domestically financed capital expenditures and current spending excluding interest payments. Tax revenues are measured on a cash basis and on a net basis, i.e., net of VAT credit refunds. Spending is recorded on a commitment basis. Current spending excluding interest payments is the sum of expenditures on wages and salaries, goods and services, transfers and subsidies, and treasury operations (net) excluding VAT credit refunds. The primary balance is calculated cumulatively from the beginning of the calendar year. For reference, using data at end-December 2023, the value of the domestic primary balance would be as follows:

Primary Balance Excluding Foreign Financed Investment and Grants	**-236**
Gross tax revenue	8 322
of which gross domestic tax revenue	*4 238*
of which gross custom tax revenue	*4 084*
VAT refunds	471
Tax revenue (net of VAT refunds)	7 851
Domestic non-tax revenue	210
Less:	
Domestically financed capital expenditures	1 099
Current spending	7 199
Wages and salaries	3 713
Goods and services	485
Transfers and subsidies	2 942
Treasury operations (net of VAT refunds)	59

E. Floor on Priority Social Spending

20. The scope of social expenditure monitored under the program includes domestic expenditures linked to education, health, social protection, and water and sanitation. The floor on social spending is calculated cumulatively from the start of each calendar year on the basis of the budgetary appropriations allocated to these sectors by the budget law, on the basis of the functional classification of public administrations (CFAP 2014). This floor is defined as the sum of budgetary appropriations for divisions 07 (health) including nutrition, 09 (education) and 10 (social protection) as well as for groups 052 (wastewater management) and 063 (water supply), excluding externally financed investments.

F. Floor on Gross Domestic Tax Revenue and Gross Customs Revenue

21. To monitor this target, government tax revenues are recorded on a cash basis and calculated on a gross basis, i.e., before VAT credit refunds. They include all domestic taxes and taxes on foreign trade received by the treasury of the central government. Tax revenue excludes: (1) proceeds from the local sale of in-kind donations; and (2) gross receipts to the government from signing bonuses paid in connection with the awarding of mining or oil exploration rights. Revenues are measured on a cash basis as indicated in the table of government financial operations (OGT). The gross tax revenue floor is calculated cumulatively from the beginning of the calendar year. For reference, for the year ending in December 2023, gross domestic tax revenue was MGA 4,238 billion, with MGA 3,862 billion net domestic tax revenue and MGA 376 billion in VAT refunds, and gross customs revenue was MGA 4,084 billion, with MGA 3,990 billion net customs revenue (including MGA 1,092 billion in oil tax arrears (*droits et taxes à l'importation de produits pétroliers*) due for 2021 and 2022 by oil companies) and MGA 94 billion in VAT refunds.

G. Ceiling on Domestic Arrears

22. Domestic arrears are amounts owed by the government to resident creditors, but not paid. They include (1) remaining payments "in the accounting phase" or expenses committed and validated, but not yet processed by the General Directorate of the Treasury (DGT), and (2) remaining payments "in the financial phase", i.e., expenses committed, validated and processed by the DGT but not paid within 90 days. The ceiling is calculated cumulatively from the beginning of the calendar year.

Monetary Policy Consultation Clause

23. The authorities will complete a consultation with the IMF's Executive Board on: (i) the monetary policy stance and measures taken to achieve the program's objectives; (ii) the reasons for a possible deviation, taking into account mitigating factors; and (iii) proposed measures if necessary, if the year-on-year M3 money supply growth at the end of the period is outside a band of ± 4 percentage points around the 12 percent midpoint of the target band for end-June, end-September, and end-December 2025, as well as end-March and end-June 2026.

24. The target band midpoint will be reassessed at each review.

Structural Benchmarks

25. Regarding the structural benchmark for the provision of detailed data on any budget transfers to JIRAMA suppliers to the staff of the IMF and the World Bank and the provision of related documents within a maximum of 45 days after the end of the month, the information to be provided is as follows: (1) the details of each transfer, including the commitment reference, the beneficiary, the purpose of the transfer (*objet*), the commitment date (*date d'engagement*) and the amount of the transfer; 2) the agreement or *convention* signed with the supplier in relation with the transfer.

26. Calls for tenders, the results of these tenders, and contracts and amendments to existing contracts for JIRAMA fuel purchases will be published on the JIRAMA's website within a maximum of 45 days after the end of the month of acceptance of an offer.

27. Regarding the structural benchmark following JIRAMA's performance, the two following indicators will be calculated:

28. Technical and non-technical losses are defined as gross electricity production in MWh minus total electricity sales in MWh, divided by gross production in MWh. The methodology is detailed in the table below.

		2022	2023	2024
a	Gross Electricity Production (MWh)	1,933,772	1,953,352	1,984,011
b	Net Electricity Production (MWh)	1,916,676	1,933,130	1,963,987
c	Total Electricity Sales (MWh)	1,411,516	1,377,714	1,429,149
	Total Electricity Losses (1-c/a)	27.01%	29.47%	27.97%
	Rounded percentage	27	29	28

29. **The average electricity operational cost** in ariary per kWh is defined as total electricity operational expenditures in ariary divided by total electricity sales in MWh /1000. The methodology is detailed in the table below.

		2022	2023	2024
a	Gross Electricity production (MWh)	1,933,772	1,953,352	1,984,011
b	Total Electricity Sales (MWh)	1,411,516	1,377,714	1,429,149
c	Electricity production expenditures: hydro (ariary): personnel expenditures, energy purchases, other expenditures	76,259,201,956	112,170,547,459	117,042,567,169
d	Electricity production expenditures: thermal (ariary): personnel expenditures, energy purchases, rental costs, HFO and LFO expenditures, other expenditures	1,615,324,292,538	1,325,831,060,546	1,259,697,458,978
e	Electricity production expenditures: solar (ariary): personnel expenditures, energy purchases, other expenditures	36,472,366,927	49,651,053,420	69,548,664,679
f	ELECTRICITY PRODUCTION EXPENDITURE (ariary) f=c+d+e	1,728,055,861,420	1,487,652,661,425	1,446,288,690,826
g	Electricity operational expenditures: other than production expenditures (ariary)	109,875,371,903	107,570,915,144	86,347,774,445
h	ELECTRICITY OPERATIONAL EXPENDITURE (ariary) h=f+g	1,837,931,233,323	1,595,223,576,569	1,532,636,465,271
i	Average electricity operational cost (ariary per kWh) i=h/b/1000	1,302	1,158	1,072

30. To enable the evaluation of JIRAMA's performance indicators, the authorities will share a monthly dashboard with IMF staff, containing information on JIRAMA's production quantities, cash flows, products and expenditures within 45 days after the end of each month.

31. Regarding the structural benchmark on the provision of a dashboard presenting key performance indicators for the tax and customs administrations, the dashboard to be communicated monthly will include the indicators from the template provided by the IMF staff and built on the basis of the authorities' proposals.

32. In connection with the implementation of an automatic fuel price adjustment mechanism, and until the elimination of subsidies, the authorities will provide IMF staff with the calculations necessary to estimate the monthly flows and outstanding stocks of government's gross liabilities vis-à-vis fuel distributors (*solde de lissage*) within four weeks of the end of each month.

Memorandum Items

33. Official external budget support refers to grants and loans, including in-kind assistance when the products are sold by the government and the receipts are earmarked for a budgeted spending item. It also includes any other exceptional financing provided by foreign public entities or the private sector that is included in the budget. Grants and loans specifically earmarked for investment projects are excluded. Official external budget support is calculated as a cumulative flow from January 1st of each year.

34. Disbursements of international loans earmarked for investment projects are calculated as a cumulative flow from January 1st of each year.

Use of Adjusters

35. The performance criterion for BFM NFA will be adjusted according to deviations from the amounts of official external budget support projected in the program. This difference will be calculated cumulatively from January 1st of each year. The NFA floor will be adjusted *downwards (upwards)* by the cumulative downward (upward) deviation of actual budget support from projected budget support (official external budget support).

36. The performance criteria for the primary balance will be adjusted according to deviations from amounts projected in the program of official external budget support in the form of loans and disbursements of international loans earmarked for investment projects. These deviations will be calculated cumulatively from the beginning of each calendar year. The following is an explanation of these adjustments:

- If the actual official external budget support in the form of loans and the disbursements on international loans earmarked for investment projects are lower than projected on a test date, the floor on the primary balance for that test date will be increased by the cumulative deviation of the actual value of official external budget support in the form of loans and disbursements on international loans earmarked for investment projects from projected amounts, subject to a maximum of 0.5 percent of GDP, calculated at the actual quarterly average exchange rates.

- Conversely, if the actual official external budget support in the form of loans and disbursements on international loans earmarked for investment projects are higher than projected on a test date, the floor on the primary balance for that test date will be reduced by the cumulative deviation of the actual value of official external budget support in the form of loans and disbursements on international loans earmarked for investment projects, subject to a maximum of 0.5 percent of GDP, calculated at the actual quarterly average exchange rates.

37. Two adjustment factors can be applied to the external debt ceiling set in present value:

- An adjustor of up to 5 percent of the external debt ceiling set in present value terms applies in case of deviations resulting from a change in financing terms. The application of the adjustor may be triggered by changes in interest rates, maturity, grace period, payment schedule, commissions, fees related to a debt or receivables. The adjustment factor cannot be applied when deviations are due to an increase in the nominal amount of the total debt contracted or guaranteed and are related to debt sustainability.

- The external debt ceiling at present value will be adjusted *downwards* by a maximum of US$65 million if loans linked to projects financed by the World Bank in 2025 do not materialize.

Table 1. Madagascar: Data Reporting Requirements	
Item	**Periodicity**
Exchange Rate Data	
Central Bank of Madagascar (BFM)	
Total daily BFM gross purchases of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of BFM gross purchases, the highest traded exchange rate, and the lowest traded exchange rate –break down by currency purchased	Daily, next working day
Total daily BFM gross sales of foreign exchange – break down by currency purchased	Daily, next working day
The weighted average exchange rate of BFM gross sales, the highest traded exchange rate, and the lowest traded exchange rate – break down by currency purchased	Daily, next working day
Total BFM net purchases/sales of foreign exchange - break down by currency purchased	Daily, next working day
Total interbank foreign exchange transactions (net of BFM transactions) - break down by currency purchased	Daily, next working day
Total interbank and retail foreign exchange transactions (net of BFM transactions) - break down by currency purchased	Daily, next working day
Monetary, Interest Rate, and Financial Data	
Central Bank of Madagascar (BFM)	
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 BFM	Every ten days, within one week after the end of each ten-day period.
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

Table 1. Madagascar: Data Reporting Requirements (continued)

Item	Periodicity
Autonomous drivers of liquidity	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 Economy and Finance	
Preliminary revenue collections (customs and internal revenue)	Monthly, within three weeks of the end of each month
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
Results of customs value controls and amounts collected following those controls	Quarterly, by the end of the subsequent quarter.
Priority social spending as defined by the indicative target	Monthly, within eight weeks of the end of each month
Subsidies to JIRAMA's suppliers	Within 45 days after the month of each transfer payment, as specified in continuous SB.
Capital grants	Quarterly, within eight weeks of the end of each quarter
State-Owned Enterprise Data	
Data summarizing the operational and financial position of JIRAMA	Monthly, within 45 days of the end of each month, for operational and financial data. Quarterly, by the end of the following month, for the Table on "Total impayés fournisseurs"
JIRAMA's fuel purchase contracts	Within 45 days of acceptance of an offer
Data summarizing the financial position of Air Madagascar and Madagascar Airlines	Quarterly, by the end of the subsequent quarter.
Debt Data	
Ministry of Economy and Finance	
Public and publicly 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. External public or publicly guaranteed loans signed since January 1, 2024, specifying the nominal value; calculated grant element and PV; and terms, including the interest rate (using the program reference rate for variable rate loans), maturity, commissions/fees, grace period, repayment profile, and grant component.	Monthly, within four weeks of the end of each month Quarterly

Table 1. Madagascar: Data Reporting Requirements (concluded)

Item	Periodicity
External Data	
Central Bank of Madagascar (BFM)	
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
Tourism data	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	
OMH	
Petroleum shipments and consumption	Monthly, within four weeks of the end of each month
Cumulative gross liability to fuel distributors, with information on fuel distributors contributions and fees due to the government and other public bodies (e.g., FER, RDS)	Monthly, within four weeks of the end of each month
Decree or *Arrêté* relating to the fuel reference prices formula and fixing the pump prices	Variable, within one week of publication

Annex. 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.

(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 ones 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 lessor retains the title to the property. For the purpose of these guidelines, 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 this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are 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.

Statement by the IMF Staff Representative on the Republic of Madagascar

July 3, 2025

This statement provides updates on the implementation of the prior actions and on recent developments since the staff report was issued to the Executive Board and on end-March indicative targets (ITs). This statement does not alter the thrust of the report and staff appraisal.

Prior Actions

1. The prior actions set for Board consideration have been met.

- **The decree operationalizing the automatic fuel price adjustment mechanism for the second half of 2025** and the arrêté setting the reference price structure of fuel products for the same period were both adopted by the Council of Ministers, meeting the first Prior Action for the review and a Structural benchmark (SB) for end-June 2025.
- **The recovery plan for the public utilities company (JIRAMA) was adopted by the Council of Ministers and published on June 21, meeting the second Prior Action for the review**. The plan seeks to strengthen JIRAMA's operational and financial viability, allowing for a gradual reduction in government transfers and more efficient supply of electricity to consumers and businesses.

Recent Developments and End-March ITs

2. Broad money (M3) growth has remained within the MPCC band, despite increasing moderately to 14.2 percent y/y in April (+0.4 percentage points from March).

3. Preliminary data suggest some deterioration in program performance at end-March 2025; the authorities are slowing down spending execution to remain in line with program targets.

- **Both the end-March primary balance IT and the domestic primary balance IT were missed.** The primary balance reached -MGA 345 billion, below the floor of -MGA 317 billion (adjusted for actual official external project loans), as the shortfall in revenues amidst payment of delayed 2024 VAT refunds and unpaid oil custom taxes (¶10 of the Staff Report), was only partly offset by lower-than-expected execution of externally financed projects. The domestic primary balance IT at end-March was also missed. While preliminary end-April 2025 information suggests that tax revenues are in line with forecasts, tax revenues on a cash basis have continued to underperform, partly due to the accumulation of unpaid oil taxes.

- **The net foreign assets of the end-March BFM IT was met.** Net foreign assets reached SDR 1,386 million, above the floor of SDR 1,260 million, adjusted for official external budget support.
- **The domestic arrears IT was also met**. The stock of domestic arrears was reduced by MGA 94 billion in 2025:Q1, compared to a targeted reduction of MGA 75 billion at the time of the First Review, and this despite the payment of delayed 2024 VAT refunds.

Statement by Adriano Isaias Ubisse, Executive Director for the Republic of Madagascar, VuyelwaVumendlini, Alternate Executive Director, and Mr. Hamidou Mohamed Cheik, Advisor to the Executive Director
July 3, 2025

Madagascar continues to demonstrate resilience in the face of significant development challenges and heightened vulnerability to climate-related disasters. Frequent shocks - such as cyclones (Dikeledi, Honde, and Jude in 2025) and droughts - have hindered infrastructure and agriculture, leaving much of the population in precarious conditions. Furthermore, reduced official development assistance (ODA) and the recent U.S. tariff hike are expected to dampen growth momentum. Nevertheless, our Malagasy authorities' unwavering commitment to economic reforms, alongside strategic partnerships with development partners and the IMF under the Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF)-supported programs, reinforces their determination to strengthen economic stability and improve the well-being of the Malagasy people.

Introduction

1. We thank Mr. Lonkeng and his team for their frank and constructive engagement with our authorities and greatly appreciate the valuable policy discussions. Our authorities welcome the staff's acknowledgement of the progress achieved under the ECF and RSF and reaffirm their strong commitment to sustained reforms and long-term macroeconomic stability, despite social and climate-related challenges. They remain firmly committed to implementing IMF-supported programs, which they view as critical instruments for strengthening investor confidence, securing international support, and fostering inclusive growth.

2. Our authorities adopted a comprehensive recovery plan for JIRAMA, developed in consultation with the World Bank and IMF, to improve electricity and water services, reduce operational costs, and mitigate fiscal risks. The authorities appreciate the ongoing technical assistance and institutional support, particularly under the ECF, where JIRAMA's plan is closely aligned with program objectives. Structural reforms remain a priority, with continued efforts to strengthen governance, improve public financial management and foster private sector development, all of which are key to mitigating risks and promoting inclusive and sustainable growth.

Program Performance

3. The program performance has been broadly satisfactory, with all end-December 2024 quantitative performance criteria (QPCs), including continuous QPCs met, along with three of the four indicative targets (ITs). Although the IT on domestic arrears was missed due to financing constraints, the authorities demonstrated strong program ownership by safeguarding social spending and maintaining tax revenue targets. The M3 growth remained within the Monetary Policy Consultation Clause (MPCC) bands and key fiscal and external targets, including the primary balance and BFM's net foreign assets, were achieved. Additionally, all but one of the structural benchmarks were met.

4. The authorities have made notable progress under the Resilience and Sustainability Facility (RSF). A new forest carbon framework was adopted in June 2025 to promote private sector participation in reforestation, and the National Contingency Fund for disaster risk management was operationalized in April 2025. In addition, structural reforms advanced steadily, with the law on cash management submitted to Parliament, monthly fuel price adjustments implemented in line with the automatic mechanism, and continuous benchmarks on revenue and utility sector oversight upheld. The adoption of JIRAMA's recovery plan and the legislation supporting automatic fuel pricing in the second half of 2025 were fulfilled as prior actions, ensuring continuity in the reform momentum.

5. The authorities are intensifying the anti-corruption measures and enhancing transparency in public financial management to strengthen accountability. They have also made significant progress in disaster risk mitigation and carbon storage mechanisms. These strategic efforts, alongside the completion of prior actions, reflect the authorities' continued commitment to progressive reforms and economic stability. **Considering the progress achieved, the authorities request Executives Directors' support in the completion of the Second Review Under the Extended Credit Facility Arrangement, Request for Modification of Performance Criteria, Financing Assurances Review, and Second Review Under the Resilience and Sustainability Facility Arrangement.**

Recent Economic Developments and Outlook

6. Economic activity has demonstrated resilience, with growth remaining stable at 4.2 percent in 2024. However, due to the impact of external shocks such as reduced official development assistance (ODA) and newly imposed U.S. trade tariffs, real GDP growth is projected to ease slightly to 4 percent in both 2025 and 2026. Over the medium term, growth is projected to gradually recover to its estimated potential of 5 percent, supported by gains in agriculture, further mining development, and the expansion of key service sectors with the arrival of new market participants.

7. The upside risks to the outlook include growth prospects that are supported by recovery in mining (graphite, rare earths), improved agricultural productivity (e.g., hybrid rice), expanding tourism (driven by increased international flights and airline partnerships), and growth in the transport and telecommunications sectors. Downside risks include frequent climate shocks and significant external risks such as the suspension of USAID support

and the uncertainty surrounding US trade policies, which could undermine growth and worsen the current account balance in 2025–26. These developments have already diminished the benefits of the African Growth and Opportunities Act (AGOA), a key export channel accounting for nearly 7 percent of Malagasy exports. The economy remains highly vulnerable due to its narrow export base, and exposure to climate-related shocks, despite the country's mineral wealth. Finalized data confirms a sizeable current account deficit driven by challenges in the textile and vanilla sectors amid uncertainty with regards to the AGOA renewal and global trade conditions. The deficit is expected to stabilize around 5 percent of GDP in the short term, underscoring the importance of sustained external financing and preserving trade access.

8. Inflation spiked in early 2025, primarily due to rising local food prices driven by energy supply disruptions and deteriorating transport infrastructure, which raised production and distribution costs. By March 2025, headline inflation had eased to 8.4 percent y/y, while core inflation (excluding rice and energy) declined to 7.6 percent—both down from their January levels of 9.5 percent and 9.3 percent, respectively. While inflation has begun to ease, it remains relatively elevated, with the annual forecast revised upward to 8.4 percent. A gradual decline to around 6 percent is expected as agricultural supply conditions improve. To curb inflation and manage excess liquidity, the Central Bank (BFM) responded with sharp monetary tightening, including a policy rate hike and increased reserve requirements. Despite recent easing in price pressures, BFM intends to maintain a firm stance until inflation is clearly on a downward trend.

Fiscal Policy and Debt Management

9. The primary fiscal deficit in 2024 was significantly lower than anticipated, reaching 1.9 percent of GDP compared to the programmed 2.6 percent, reflecting stronger-than-expected fiscal consolidation, mainly driven by under-execution of domestically financed capital spending amid expenditure freezes and delays in external budget support. Net tax revenue outperformed slightly due to delayed VAT refunds, while transfers to JIRAMA were below target, partially offset by tax arrears and internal spending controls. However, preliminary data for 2025: Q1 indicates emerging pressures, which include marginal underperformance of gross tax revenue, mainly due to oil tax arrears, execution of domestic capital expenditures and sluggish transfers. While some new tax measures are beginning to yield returns, others will take time to materialize, and expenditure execution constraints continue to weigh on fiscal performance.

10. The authorities remain firmly committed to fiscal discipline and transparency, while addressing financial challenges through targeted reforms. Efforts to mobilize domestic resources include rationalizing tax expenditures, strengthening VAT collection and introducing new levies. Mining sector reforms are also underway to enhance future revenue generation. JIRAMA's financial situation remains a challenge, requiring adjustments to transfers and subsidies. The automatic fuel price adjustment mechanism, mindful of vulnerable households, is strictly enforced to prevent arrears accumulation and ensure price transparency. Contingency measures are in place to safeguard social and priority investment spending in the event of revenue shortfalls, ensuring fiscal

sustainability and predictability. Transparency is reinforced through the regular publication of financial data and tender announcements. Regarding Air Madagascar, debt restructuring remains a budgetary challenge, requiring coordination with the IMF and the World Bank. Additionally, redirecting public spending toward social and energy sectors is a priority, with budget increases and rigorous oversight of public investments.

11. Madagascar's external and overall risk of debt distress remains moderate, with some scope to absorb shocks. The authorities remain committed to maintaining public debt below 60 percent of GDP and are prioritizing concessional external financing, while developing the local currency bond market to diversify funding sources. They have avoided high-cost statutory advances (approximately 11 percent interest rate), opting instead for more efficient expenditure mechanisms. Although the 2024 target for domestic arrears was missed, the authorities are committed to reducing arrears in 2025. To better control arrears, a treasury management reform, supported by AFRITAC South, includes the introduction of a new law, strengthening the Treasury Single Account, and facilitating access to monetary market borrowing, while ensuring a more efficient VAT refund system.

12. Our authorities are committed to revitalizing the Medium-Term Fiscal Framework (MTFF) to ensure more effective budget planning and realistic revenue and expenditure forecasting. The development of an MTFF 2026-2028, aligned with development goals and ECF-supported program objectives, will optimize the management of fiscal risks, particularly those related to public enterprises. Simultaneously, they continue to streamline public expenditure processes through the generalization of Annual Ministerial Commitment Plans (PAEM) and implementation of recommendations from the 2023 audit, aimed at improving budget execution and social and investment expenditures.

Monetary and Financial Sector Policies and Reforms

13. The Central Bank (BFM) continues to strengthen its monetary policy framework. In February 2024, it introduced a new operational framework for interest rate targeting and is modernizing liquidity management to enhance policy transmission. To address excess liquidity and inform decision-making, the BFM is conducting quarterly inflation surveys and maintaining a restrictive monetary stance, with scope for further rate adjustments as needed. Reforms in the foreign exchange market continue, including infrastructure upgrades, alignment with international standards, and finalization of a new foreign exchange law in collaboration with the Ministry of Economy. The Central Bank is also diversifying its gold reserves and revising its reserve management strategy.

14. The banking sector remains resilient, with adequate capital buffers, robust private sector credit growth, and a declining ratio of non-performing loans. The authorities reported progress in advancing financial inclusion and financial sector resilience. Key measures include partnerships with mobile money operators for nano-loans, financial literacy campaigns, and integrating financial education into schools. The 2024–2028 National Financial Inclusion Strategy promotes FinTech, green and blue finance, and explores a central bank digital currency (e-ariary). Banking reforms are underway, including the

alignment of Basel II/III, plans for a Deposit Guarantee Fund by 2026, and a new resolution framework. Insurance supervision is improving, with quarterly reporting, IFRS alignment, and studies on index-based insurance to support climate resilience. The financial stability law in progress aims to enhance macroprudential supervision across the financial system, reinforcing the regulatory framework and supporting systemic resilience.

Structural and Governance Reforms

15. The authorities are strengthening the governance and anti-corruption efforts, guided by the IMF governance diagnostic and the National Anti-Corruption Strategy (SNLCC) 2025–2030. Key initiatives include the rollout of an automated asset declaration system and the expansion of Anti-Corruption Poles (PAC) to improve access to justice. The Agency for the Recovery of Illicit Assets (ARAI) is also expanding its operations and preparing a strengthened legal framework to facilitate asset seizure and recovery.

16. Efforts to improve the business climate include reinforcing the rule of law and enhancing AML/CFT supervision in line with FATF standards. Public finance transparency remains a priority, with regular publication of budget reports, audited financial statements, and public contracts. Internal controls in tax and customs administration are being enhanced with IMF support, and reforms are underway to improve the management of the Sovereign Wealth Fund (FSM) and mitigate fiscal risks. The authorities remain committed to fostering fair competition across productive sectors, including enhancing transparency in the operations of the National Vanilla Council. They are also working to preserve the liberalization of agricultural exports, which are critical to Madagascar's economy. Social protection programs are expanding, with the social registry expected to cover 2 million households by 2025. Food banks are being operationalized to support vulnerable populations.

Climate Resilience Reforms with the RST

17. The authorities have made strong progress under the RSF, including operationalizing the National Contingency Fund and revising Decree No. 2021-1113 to expand forest carbon storage and promote private sector engagement. In response to Madagascar's climate vulnerability, reforms have been implemented to strengthen adaptation and resilience, such as restructuring the Interministerial Environmental Committee, adopting a new environmental impact assessment decree, and reinforcing the National Environment Office. These efforts are anchored on five pillars: climate governance, resilience, emissions reduction, forest protection, and climate finance mobilization. Further measures include a climate-sensitive public investment framework, green budgeting, disaster risk integration, and reforms in water governance and early warning systems. The authorities are also advancing renewable energy, phasing out fuel subsidies, promoting urban sustainability and electric mobility, and scaling up REDD+ and green investment strategies.

Conclusion

18. The Malagasy authorities reaffirm their strong commitment to sustainable development, underpinned by fiscal stability, sound governance, financial resilience, and climate adaptation. Through the implementation of reforms supported by the ECF and RSF arrangements, they are enhancing transparency, strengthening institutions, and promoting inclusive growth. Social protection programs are being expanded, and climate resilience is being prioritized through green budgeting, disaster preparedness, and climate finance mobilization.

19. The authorities express their deep appreciation for the technical assistance and financial support provided by the IMF, which has been instrumental in advancing their reform agenda. They recognize the Fund's critical role—alongside other development partners—in supporting Madagascar's transition from fragility toward sustainable and inclusive development.