

MADAGASCAR

Key conditions and challenges

Table 1 2020

Population, million	27.1
GDP, current US\$ billion	13.7
GDP per capita, current US\$	505.4
International poverty rate (\$ 19) ^a	78.8
Lower middle-income poverty rate (\$3.2) ^a	91.5
Upper middle-income poverty rate (\$5.5) ^a	97.5
Gini index ^a	42.6
School enrollment, primary (% gross) ^b	134.1
Life expectancy at birth, years ^b	66.7

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2012), 2011 PPPs.

(b) WDI for school enrollment (2019); life expectancy (2018).

The Covid-19 crisis has plunged the Malagasy economy into its deepest recession in over a decade. A rebound in external demand and the resumption of domestic investments are expected to support a gradual recovery starting in the second half of 2021. The evolution of the pandemic and how the government responds to it will define the pace of this recovery. A return onto its pre-crisis poverty reduction trend is conditional on the country staging a growth spurt from 2022 onward.

Broad-based development in Madagascar remains hindered by a combination of inadequate infrastructure, weak human capital, poor governance, and a high degree of exposure to political unrests and weather-related shocks. However, when political stability prevails, a segment of the private sector has been able to prosper and support growth.

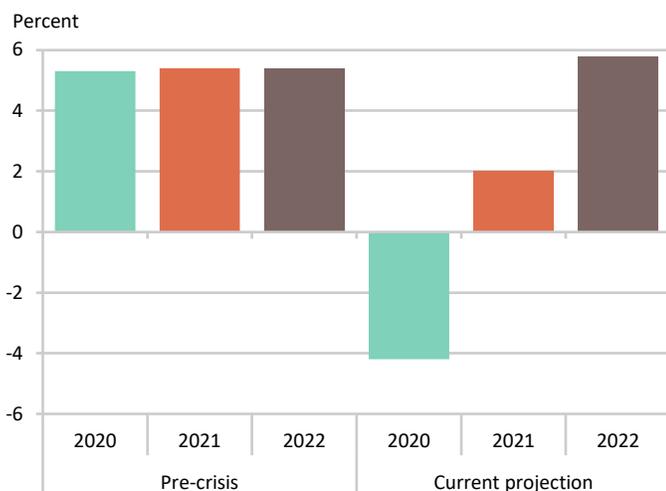
Following the 2009-13 political crisis, the economy has been recovering with GDP growth reaching a decade-high of 4.4 percent in 2019. The resumption of external aid, reopening of access to international preferential market, and incremental reforms in public financial management and business environment have supported the recovery. The competitiveness of labor cost and availability of vast arable land are among factors that attracted private investment in export-oriented activities such as agribusinesses, IT outsourcing, and apparel. Investments have been accompanied by formal job creation in industry and services but at a pace insufficient to absorb much of the 75 percent of total workforce that are employed in agriculture and mostly located in rural areas. The Covid-19 crisis has halted the recovery momentum, plunging the country into its deepest recession since 2009. As a result, the recent trend of poverty reduction was halted, and the prevalence of poverty rose by 3.5 percentage points to 80

percent from 2019 to 2021. The evolution of the pandemic and the response of the government as well as the trend of recovery among main export destinations will shape the near-term outlook and create an unusually high degree of uncertainty around projections. In the short term, the key challenges lie in the preservation of lives and livelihoods by reinforcing the health sector response and expanding social protection and private sector support programs. Alongside, more transparent management of public resources and continued reliance on concessional financing for public debt are needed to preserve fiscal sustainability. Over the medium-term, sustained growth will require the mobilization of domestic resources, reforms to stimulate private investment and job creation, leapfrog the digitalization of the economy, and boost agricultural productivity

Recent developments

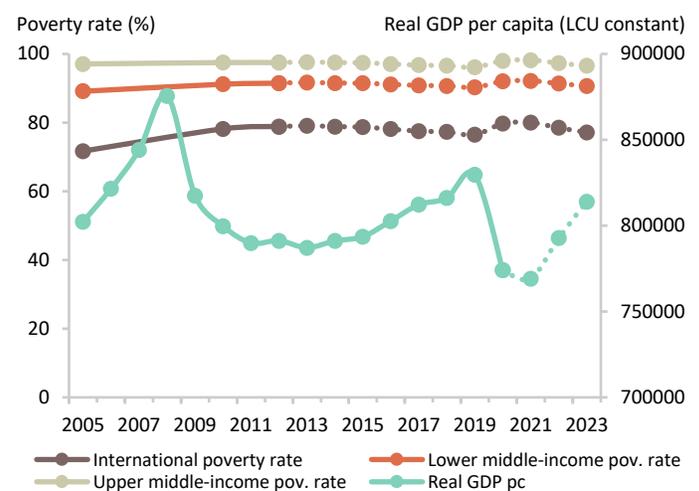
The impact of the Covid-19 crisis on the Malagasy economy is more severe than previously projected. The continued closure of international borders, the recession in main export markets, and a collapse in private investment have resulted in a recession estimated at -4.2 percent in 2020, which is 3 percentage points lower than the October 2020 projection. The Covid-19 outbreak has primarily affected export-oriented activities. Revenues from export of goods contracted by 20 percent in 2020 compared to 2019 and tourist arrivals

FIGURE 1 Madagascar / Real GDP growth scenarios



Source: World Bank.

FIGURE 2 Madagascar / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

declined by more than 80 percent, resulting in a widening of the current account deficit to 4 percent of GDP. In addition, domestic demand has been dampened by income losses caused by lockdown and a sharp drop in private investment. In June 2020, an estimated 64.4 percent of household surveyed reported a decline in their income due to social distancing measures and 7.7 percent contraction in employment has been recorded. A small recovery in employment has been observed towards the end of the year. Against this background, the poverty rate is estimated to have risen to 79.7 percent in 2020, up from 76.5 percent in 2019, sending approximately another 1.4 million people under the international poverty line of \$1.90/capita/day (in 2011 PPP). Urban populations were more immediately affected by the COVID shock, but rural households were impacted as well by contracting demand, particularly for off-farm activities. In November 2020, decreasing food consumption has remained among the top coping strategies when dealing with income-reducing shocks, further risking long-term health implications for household members.

Lower economic activity and temporary tax relief measures have reduced fiscal revenues to 9 percent of GDP and widened the overall fiscal deficit from 1.3 percent of

GDP in 2019 to 5.2 percent of GDP in 2020. As a result, public debt surged from 37 percent in 2019 to 45 percent in 2020. However, the risk of debt distress remains moderate as external financing has been mostly on concessional terms, with emergency support from donors mostly covering the unexpected increase in external and fiscal financing needs. Supported by the inflow of external financing, the year-on-year depreciation of the local currency against the US\$ has been moderate at 5 percent, contributing to contain inflation at 4.5 percent in 2020. The financial sector has been overall resilient, supported by a banking sector that remained sufficiently capitalized. In contrast, the microfinance sector has been fragilized by temporary cash flow difficulties due to delays in loan repayment and deposit withdrawals at the beginning of the containment period.

Outlook

Growth is projected to progressively pick up, but Covid-19 will have protracted effects on the economy and poverty. GDP growth is expected to reach 2 percent supported by a recovery in global demand, the resumption of nickel exports, and public investments and accelerate further in

the medium term by a return of private investors. As a result, poverty is projected to decline to 77.2 percent by 2023 (based on an international poverty line of \$1.90/capita/day, in 2011 PPP). However, the impact of the pandemic is expected to cast a long shadow on economic and social prospects and could be compounded by other shocks, including droughts and other climatic events affecting already vulnerable populations. Under baseline conditions, GDP per capita would only reach its pre-crisis level by 2024, with risks being mostly tilted to the downside.

A modest economic recovery should lower the budget deficits, reaching 3.8 percent in 2023. The main driver of this decline will be a gradual pickup in government revenues, offsetting accelerating public investments. In this context, public debt is projected to stabilize around 52 percent of GDP in 2023. The current debt risk profile for Madagascar still makes plans to scale up priority investments appropriate but calls for prudent borrowing policies and fast-track reforms to boost revenue mobilization and public spending efficiency.

TABLE 2 Madagascar / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.2	4.4	-4.2	2.0	5.8	5.4
Private Consumption	1.6	1.2	-1.0	1.7	3.4	4.0
Government Consumption	-7.9	1.9	2.1	2.1	4.3	4.0
Gross Fixed Capital Investment	11.0	12.9	-2.9	5.6	12.7	9.4
Exports, Goods and Services	2.4	10.9	-15.3	3.8	7.1	7.0
Imports, Goods and Services	11.1	4.6	-7.3	4.8	6.9	6.6
Real GDP growth, at constant factor prices	2.3	4.3	-4.2	2.0	5.8	5.4
Agriculture	0.4	5.5	2.3	2.4	3.0	3.2
Industry	2.0	6.6	-14.3	2.7	6.9	6.3
Services	3.3	3.1	-4.1	1.6	6.9	6.2
Inflation (Consumer Price Index)	7.3	5.6	4.3	5.9	6.1	6.1
Current Account Balance (% of GDP)	0.7	-2.3	-4.0	-4.4	-4.3	-4.3
Net Foreign Direct Investment (% of GDP)	2.6	2.5	2.7	2.6	2.4	
Fiscal Balance (% of GDP)	-1.3	-1.4	-5.2	-5.4	-4.6	-3.8
Debt (% of GDP)	39.5	37.4	45.1	49.7	51.2	51.9
Primary Balance (% of GDP)	-0.5	-0.7	-4.4	-4.5	-3.6	-2.7
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	77.3	76.5	79.7	80.0	78.5	77.2
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	90.7	90.3	92.0	92.2	91.4	90.7
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	96.6	96.1	98.0	98.2	97.3	96.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2005-EPM and 2012-ENSOM D. Actual data: 2012. Nowcast: 2013-2020. Forecast are from 2021 to 2023.

(b) Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU.