

MADAGASCAR

Key conditions and challenges

Table 1 2023

Population, million	30.3
GDP, current US\$ billion	16.5
GDP per capita, current US\$	545.5
International poverty rate (\$2.15) ^a	80.7
Lower middle-income poverty rate (\$3.65) ^a	92.4
Upper middle-income poverty rate (\$6.85) ^a	98.2
Gini index ^a	42.6
School enrollment, primary (% gross) ^b	138.2
Life expectancy at birth, years ^b	64.5
Total GHG emissions (mtCO2e)	41.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2012), 2017 PPPs.
b/ Most recent WDI value (2021).

Economic growth is estimated to have remained unchanged at 3.8 percent in 2023 due to sluggish export performance linked to the global economic slowdown and unfavorable export price management. It is projected to pick up to 4.6 percent over 2024-26, driven by the recovery of international trade and tourism and increased investments in the telecommunications and mining sectors. The elevated poverty rate is projected to abate slightly. Risks remain substantial, including fiscal pressures stemming from state-owned enterprises.

Persistently low economic growth and rapid population growth have resulted in declining income per capita and a high poverty rate. Madagascar's 2023 real GDP per capita represents only about 56 percent of its level in 1960. The international poverty rate (US\$2.15 per person per day at 2017 PPP) has stagnated at around 80 percent over the past decade, positioning the country among the most impoverished globally. Weak governance, distortionary policies, and low investment in physical and human capital have led to low productivity growth and slow structural transformation. Most of the workforce remains engaged in low-productivity activities, and 80 percent of the population still relies on agriculture as their primary source of income.

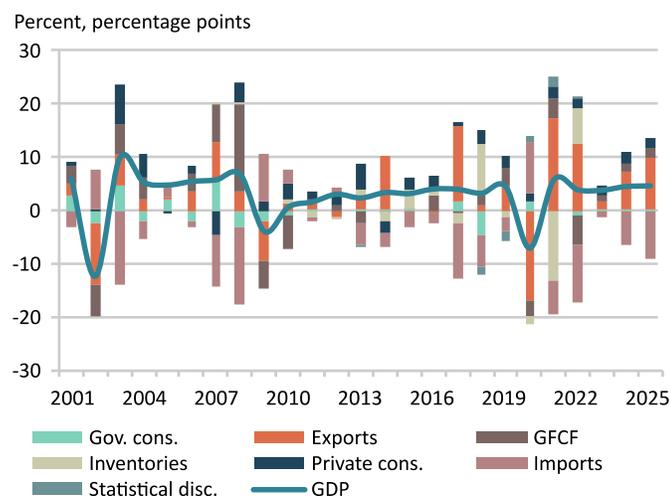
Furthermore, Madagascar's vulnerability to climate and natural shocks, including cyclones and droughts, contributes to higher growth volatility and weighs on potential growth. On average, four cyclones hit Madagascar each year, damaging infrastructure and agricultural fields, while the south is increasingly exposed to drought. To reduce poverty, Madagascar needs robust and sustained growth, along with improved resilience to shocks. Sustained reforms are vital to ensure dependable and affordable access to infrastructure, develop human capital, and enhance governance. Recent reforms introduced in the mining code, telecommunications sector

licensing, and the investment law could improve investors' confidence, paving the way for higher investment and productivity gains. Deepening these reforms and ensuring adequate governance and financial sustainability of state-owned enterprises should be prioritized.

Recent developments

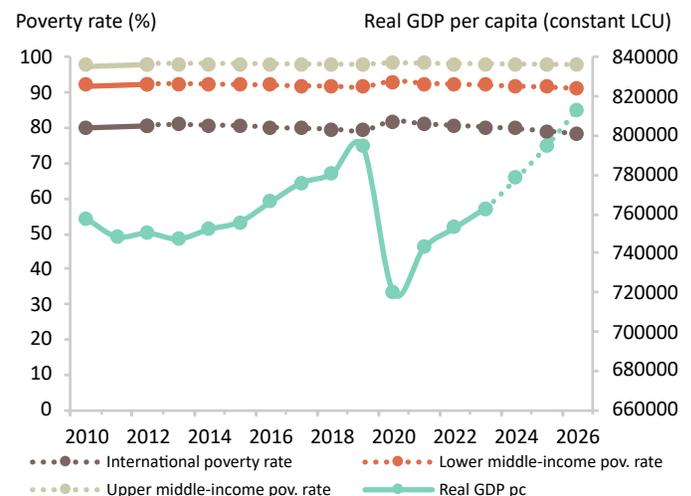
Economic growth remained unchanged at 3.8 percent in 2023, driven by tourism, with arrivals nearly doubling from 2022 and high demand for telecommunications and the food industry. Hence, domestic expenditure has driven growth, while the contribution to growth from net exports has been marginal. Although mineral export volumes (nickel, cobalt) have been moderately strong and gold export has resumed after suspension in 2020, lower demand and prices for key Malagasy exports such as textiles, vanilla, and spices have dampened overall export performance. Inflation has been declining since Q2 2023 due to high base effects related to the fuel price hike in July 2022 and a tighter monetary policy stance. The central bank increased its deposit and marginal lending facility rates twice since early 2023 for a cumulative increase of 90 basis points. Concurrently, headline inflation decreased from a peak of 12.4 percent (yoy) in March 2023 to 7.5 percent in December 2023. Core inflation, which excludes food and energy price hikes, declined from 7.9 percent in December 2022 to 6.3 percent in December 2023. Despite an estimated rise of 8 percent

FIGURE 1 Madagascar / Real GDP growth and contributions to real GDP growth



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

in domestic rice production in 2023, rice prices remained high due to market distortions. Lower international energy prices have not impacted local prices owing to the government's price controls.

The fiscal deficit is estimated to have declined from 6.4 percent of GDP in 2022 to 4.9 percent in 2023. The tax-to-GDP ratio is estimated to have increased from 9.5 percent in 2022 to 12.6 percent in 2023, mainly due to the one-off impact related to the recovery of petroleum tax arrears accumulated in 2022 (equivalent to 1.8 percent of GDP). Nonetheless, the tax-to-GDP ratio remains below the 12.9 percent budget target. Government expenditure increased from 17.2 percent of GDP in 2022 to 19.6 percent in 2023 and included a large transfer to the public water and electricity utility, JIRAMA. The budget deficit was mainly financed by concessional external financing. External and overall public debt distress risks remain moderate.

The current account deficit narrowed from 5.4 percent of GDP in 2022 to an estimated 4.5 percent in 2023, with goods imports declining faster than exports. Despite this improvement, the ariary depreciated by 8.2 percent on average against the US dollar and 11 percent against the euro in 2023.

This depreciation was influenced by high inflation and heightened investor risk aversion, partly due to uncertainties related to the presidential elections.

Outlook

Growth is expected to accelerate to an average of 4.6 percent over 2024-26, driven by favorable base effects, enhanced trade and tourism opportunities, and a new impetus for private investment following impactful structural reforms in pivotal sectors such as mining, digital technology, and the investment climate. The potential extension of the United States' African Growth and Opportunity Act could positively impact economic activities, particularly investment in the textile industry. Nevertheless, the poverty rate is projected to stay at about 79.7 percent in 2024, as job creation is expected to remain limited compared to population growth. Hence, about 24.8 million people are projected to remain poor, a number larger than the total population of Burundi and South Sudan altogether, where the poverty rates also are very high.

The current account deficit is projected to remain stable at around 4.7 percent of GDP over 2024-26, mainly reflecting a narrowing goods and services trade deficit, in line with rising exports from mining and tourism and decreasing crude oil prices. The current account deficit is expected to be financed mainly by foreign direct investments and external financing for the public sector.

The fiscal deficit is projected to narrow to an average of 3.1 percent of GDP over 2024-26, driven by increased revenue collection, notably from the mineral sector, as mining projects ramp up production after the enactment of the new mining code. The public debt-to-GDP ratio is expected to remain high but sustainable, averaging 57 percent of GDP over 2024-26.

Risks to the outlook include recurring natural hazards, ongoing international conflicts, and a global economic slowdown. Domestic downside risks include the financial stress of state-owned enterprises, particularly JIRAMA and Madagascar Airlines, and delay in implementing key structural reforms. The enactment of a new mining code and the resumption of major investment projects represent upside risks that could significantly boost economic growth.

TABLE 2 Madagascar / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	5.7	3.8	3.8	4.5	4.6	4.7
Private consumption	3.0	2.5	2.6	2.9	3.0	3.1
Government consumption	0.2	-8.0	2.3	3.0	3.6	4.0
Gross fixed capital investment	12.7	-19.1	6.2	7.1	7.5	8.0
Exports, goods and services	55.0	27.5	2.4	12.6	15.8	16.3
Imports, goods and services	12.7	19.8	1.7	10.7	14.1	15.1
Real GDP growth, at constant factor prices	6.5	3.7	3.8	4.5	4.6	4.7
Agriculture	-1.6	0.9	2.2	2.3	2.3	2.3
Industry	19.7	10.9	7.6	10.2	10.3	10.4
Services	7.3	3.1	3.4	3.7	3.8	3.9
Inflation (consumer price index)	5.8	8.2	9.9	7.8	7.3	6.9
Current account balance (% of GDP)	-5.0	-5.4	-4.5	-4.8	-4.7	-4.7
Net foreign direct investment inflow (% of GDP)	1.7	2.1	1.6	2.3	2.4	2.5
Fiscal balance (% of GDP)	-2.8	-6.4	-4.9	-3.8	-3.2	-2.4
Revenues (% of GDP)	11.1	10.8	14.7	13.3	13.5	14.1
Debt (% of GDP)	52.3	56.9	57.6	57.1	56.4	57.4
Primary balance (% of GDP)	-2.2	-5.8	-4.0	-2.9	-2.2	-1.6
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	81.0	80.6	80.2	79.7	79.1	78.4
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	92.6	92.4	92.2	91.9	91.7	91.4
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	98.2	98.1	98.1	98.0	97.9	97.8
GHG emissions growth (mtCO₂e)	1.2	1.3	1.3	2.4	2.8	2.9
Energy related GHG emissions (% of total)	11.9	12.3	12.1	12.3	12.5	12.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on 2012-ENSOMD. Actual data: 2012. Nowcast: 2013-2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2012) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.