

# MADAGASCAR

## Key conditions and challenges

Table 1	2021
Population, million	28.4
GDP, current US\$ billion	14.5
GDP per capita, current US\$	509.1
International poverty rate (\$2.15) <sup>a</sup>	80.7
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	92.4
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	98.2
Gini index <sup>a</sup>	42.6
School enrollment, primary (% gross) <sup>b</sup>	134.1
Life expectancy at birth, years <sup>b</sup>	67.4
Total GHG emissions (mtCO2e)	39.2

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2012), 2017 PPPs.  
 b/ WDI for School enrollment (2019); Life expectancy (2020).

After rebounding by 4.4 percent in 2021, real GDP growth is projected to slow to 2.6 percent this year, dragged by natural hazards and the effects of the Ukraine war. Growth would average 4.4 percent in 2023-24, boosted by a mining sector recovery. Significant risks include dwindling fiscal space amid policy support to contain inflation, new waves of COVID-19, and implementation delays of critical reforms to restore macroeconomic stability and promote inclusive growth. Poverty is projected to exceed 80 percent.

Development prospects in Madagascar continue to be hampered by the country's low growth potential and exposure to frequent, deep, and persistent shocks. Policy uncertainty and low levels of investment in physical and human capital have led to low productivity growth and slow economic transformation and job creation. Furthermore, social and economic outcomes have been affected by multiple climate shocks including locusts, cyclones, and droughts.

The COVID-19 shock reversed more than a decade of modest gains in poverty reduction. The pandemic hit Madagascar when the economy had not yet sufficiently recovered from prolonged political unrest during 2009-12, triggering one of the deepest recessions in Madagascar's history, with GDP contracting by 7.1 percent in 2020. Economic activity had started to recover in 2021 but was interrupted in 2022 by new waves of COVID-19, a series of climate shocks, and higher inflation of food and fuel stemming from the Ukraine war. As a result, the poverty rate is now projected to remain slightly above 80 percent over the next couple of years, compared with an average of 42 percent for the rest of Sub-Saharan Africa.

Beyond the need to scale up the response to recent shocks including through improving budget execution of social spending, accelerating growth and reducing

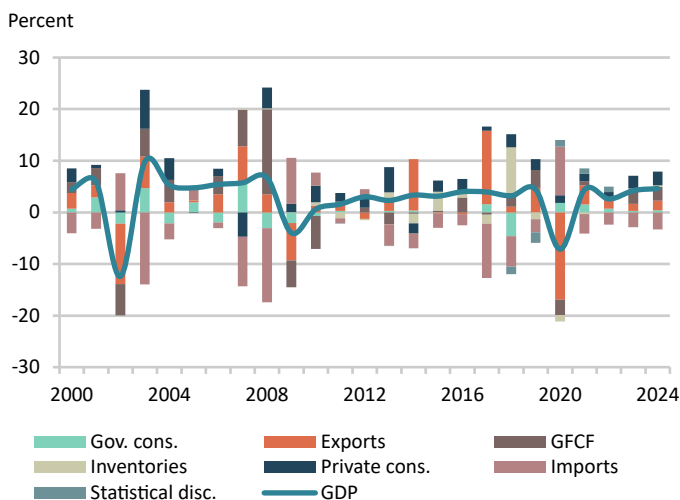
poverty will require urgent reforms supporting private investment, connectivity infrastructures and access to basic services, all of which require deep governance and institutional reforms.

## Recent developments

GDP growth rebounded by 4.4 percent in 2021, equaling its pre-pandemic rate in 2019 and higher than the 3.5 percent growth achieved in 2013-19 after the return to constitutional order. Growth was driven by a recovery in the industrial and services sectors, namely mining (taking advantage of high nickel prices), construction and public works, and telecommunication, banking, and business services. Sluggish growth in the agriculture sector, which employs two-thirds of the labor force, reflected several years of weak crop production due to the impact of natural disasters (locusts, cyclones, and droughts), exacerbated by deteriorating infrastructure. Preliminary estimated damages in agriculture during Q1 2022 amount to US\$660 million (4.8 percent of GDP), with nearly half of it attributable to the loss of crops and agricultural assets. Net exports and private consumption dominated growth on the demand side.

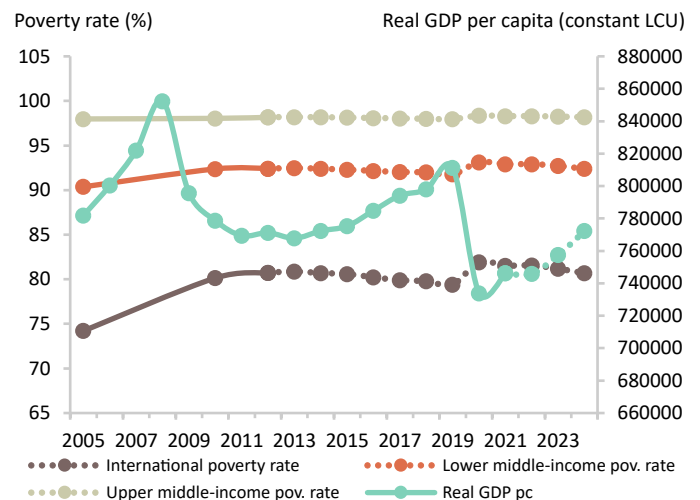
Inflation reached 6.9 percent (headline) in June 2022, up from 5.9 percent during the same period last year, partly fueled by the effects of the war in Ukraine on domestic prices and compounded by cyclones and drought.

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



Sources: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment.

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



Sources: World Bank. Notes: see Table 2.

The budget deficit narrowed to 2.8 percent of GDP in 2021 from 6.1 percent in 2020, mainly supported by low budget execution rates. Foreign-financed investment was far lower than expected (under 50 percent), and the government substantially underperformed relative to overly optimistic tax revenue provisions amid delayed disbursement of current grants in 2021 and some base effects from 2020. In 2020 and 2021, access to emergency lending allowed the government to increase public spending. However, in 2022 fiscal performance is likely to be challenged by the recent government policies to offset the impact of higher inflation. For example, public sector wages and the minimum private sector wage were recently raised. Other fiscal measures to mitigate the impact of inflation include the temporary capping of the domestic price of selected first necessity products (e.g., rice, edible oil, sugar, flour, gas), and subsidies on rice and cement imports. The central bank of Madagascar (BFM) raised borrowing costs for the second consecutive quarter following the August hike of its benchmark interest rate by 90 basis points to 8.9 percent. The poverty rate is projected to remain high at 81.6 percent in 2022. About 37 percent of households in the south, a region heavily affected by droughts, are facing acute food insecurity, with many

households being forced to sell assets and accumulate debt to feed themselves, or migrate in search for food.

## Outlook

Growth is projected to decelerate to 2.6 percent in 2022, before accelerating to around 4.4 percent in 2023-24 boosted by a mining sector recovery buoyed by higher commodity prices (mainly nickel). The deceleration in 2022 mainly reflects the adverse impact of the war in Ukraine on the economic prospects of Madagascar's main trading partners, resulting in weaker export demand, deteriorating terms of trade, and slower recovery of tourist arrivals despite the government's easing of entry procedures and requirements. In addition, lower public investment is expected to drag growth in 2022 as about 230 construction companies have been facing significant payment arrears from the Road Fund, which disincentivizes further participation in public contracts. The ensuing degrading quality of roads will adversely impact the transport and tourism industries. Moreover, frequent power outages have resulted in a rise in insecurity, affecting households and small and medium firms. Moreover, the 2022 agricultural sector output

will suffer as four major tropical storms hit Madagascar during Q1.

Considering the slow economic recovery projected in 2023-24, poverty measured at the international poverty line (\$2.15 PPP) is expected to remain above 80 percent as rising food and fuel prices erode household purchasing power.

Risks are significant. Growth could further decelerate if the war in Ukraine leads to persistently higher energy prices, a weaker economy in Madagascar's main trade partners, and tighter global liquidity. Structural reforms to reduce trade and transport costs and facilitate foreign investment and domestic entrepreneurship would help lay the foundation for more competitive and resilient growth in the medium term. However, the window of opportunity for their materialization may be narrowing considering the forthcoming elections scheduled for next year. Moreover, with a COVID-19 vaccination rate among the lowest in the world (4.5 percent of the targeted population), Madagascar's growth prospect may not materialize if another wave of the pandemic hits. Finally, once the recovery is more entrenched, Madagascar should shift towards fiscal consolidation to secure external and public debt sustainability, including unwinding recent fiscal measures to mitigate the impact of elevated prices on firms and households.

**TABLE 2 Madagascar / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
<b>Real GDP growth, at constant market prices</b>	4.4	-7.1	4.4	2.6	4.2	4.6
Private Consumption	3.0	2.2	1.9	1.9	3.4	3.6
Government Consumption	0.0	24.3	15.5	6.3	2.5	3.7
Gross Fixed Capital Investment	12.8	-10.3	3.0	0.6	9.8	9.2
Exports, Goods and Services	10.9	-36.6	11.6	4.5	4.0	5.4
Imports, Goods and Services	4.6	-16.6	7.4	4.5	5.4	6.1
<b>Real GDP growth, at constant factor prices</b>	5.1	-9.4	4.7	2.6	4.2	4.6
Agriculture	5.9	-1.4	1.5	1.8	2.8	2.8
Industry	6.8	-29.5	13.2	5.0	5.6	5.9
Services	4.2	-6.9	4.3	2.4	4.5	5.1
<b>Inflation (Consumer Price Index)</b>	5.6	4.2	6.2	8.0	8.1	6.4
<b>Current Account Balance (% of GDP)</b>	-2.3	-5.5	-4.9	-5.3	-5.3	-5.2
<b>Fiscal Balance (% of GDP)</b>	-1.6	-6.1	-2.8	-3.5	-4.5	-5.1
<b>Debt (% of GDP)</b>	38.7	49.6	53.8	55.2	62.2	69.4
<b>Primary Balance (% of GDP)</b>	-1.0	-5.4	-2.2	-2.8	-3.6	-4.4
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	79.4	81.9	81.5	81.6	81.2	80.7
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	91.8	93.1	92.9	92.9	92.7	92.4
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	98.0	98.4	98.3	98.3	98.2	98.2
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	0.3	-1.8	0.4	0.3	1.4	1.7
<b>Energy related GHG emissions (% of total)</b>	13.4	13.4	13.5	13.4	13.9	14.6

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

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See [pip.worldbank.org](http://pip.worldbank.org).

a/ Calculations based on 2012-ENSOMD. Actual data: 2012. Nowcast: 2013-2021. Forecasts are from 2022 to 2024.

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