

MADAGASCAR

Key conditions and challenges

Table 1 2019

Population, million	26.4
GDP, current US\$ billion	14.5
GDP per capita, current US\$	550.7
International poverty rate (\$ 19) ^a	77.4
Lower middle-income poverty rate (\$3.2) ^a	90.9
Upper middle-income poverty rate (\$5.5) ^a	97.3
Gini index ^a	42.6
School enrollment, primary (% gross) ^b	142.5
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) Most recent WDI value (2018).

Economic activity in Madagascar has been severely impacted by the COVID-19 pandemic in 2020, resulting in the first recession since 2009. A rebound in global demand and the lifting of some travel restrictions are expected to lead to a modest recovery in 2021, which would help reverse a poverty rate uptick in 2020. However, the impact of the crisis on activity, employment and public finances will be long-lasting and is exacerbating prior challenges. Downside risks continue to dominate, with the effects of the pandemic potentially compounded by natural disasters, especially during the cyclonic season.

The COVID-19 crisis has stopped an ongoing growth spurt in Madagascar. Following a period of political instability and economic stagnation from 2009 to 2013, growth accelerated to an estimated 4.8 percent in 2019, its fastest pace in over a decade (Figure 1). The return to constitutional order in 2013 was instrumental to this revival, as it contributed to restore investor confidence, access to key export markets, flows of concessional financing, and reform momentum. Positive trends in income per capita and poverty reduction halted at the start of 2020, as the pandemic spread across the globe, triggering a sharp synchronized slowdown. Structural challenges have been exacerbated by the pandemic. The recession hitting Madagascar in 2020 will lead to rising poverty and increased fragility for vulnerable populations, while reducing available fiscal space to address long-standing development challenges associated with low levels of human capital, poor infrastructure and exposure to natural disasters. Growth also remains constrained by a lack of competition, poor public sector governance and the prevalence of high informality and self-subsistence agriculture. The difficulty in creating formal employment and business opportunities will be exacerbated in the post-crisis period,

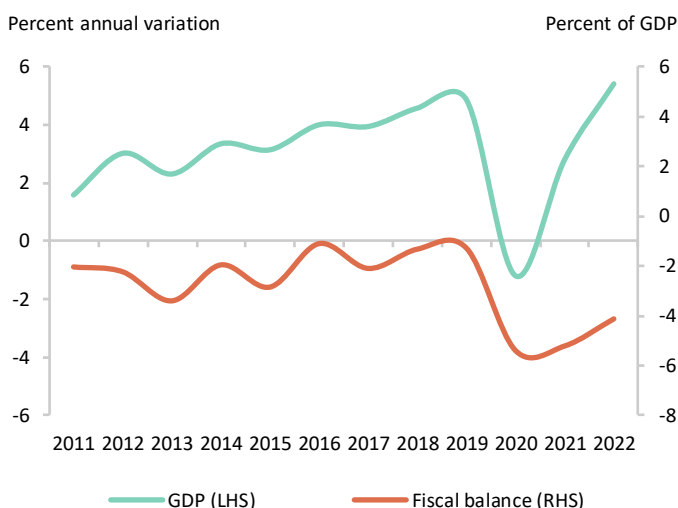
and could be compounded if other risks materialize, including severe cyclones, floods, droughts, and episodes of social unrest amid persistent economic hardship.

Reforms will need to accelerate to rebuild better. Ensuring a sustained economic revival and alleviating extreme poverty in the years ahead will require a mobilization of domestic resources to support priority investments in human capital and infrastructure, while accelerating key reforms to boost productivity in agriculture and enable a more competitive business environment for the private sector. Helping to reinforce bank solvency and address growing non-performing loans after the crisis will also contribute to improve access to finance and the mobilization of private capital for the recovery.

Recent developments

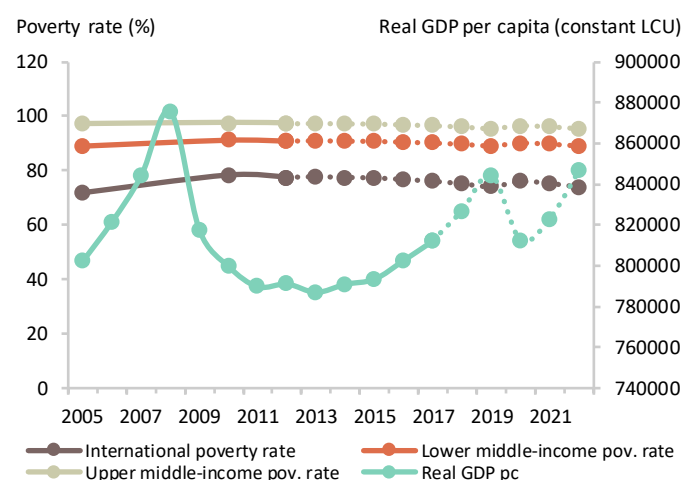
The impact of the COVID-19 crisis on activity and household welfare has been severe. Export-led industries, which anchored the economic recovery during 2013–19, suffered an outsized impact of the crisis, with export revenues dropping 15 percent in the first half of the year. Tourism, apparel, and mining, which are key sources of growth and formal job creation, were particularly affected. Income from informal employment in large urban areas were also severely impacted by lockdowns. A household survey conducted in June 2020 indicates that 10.1

FIGURE 1 Madagascar / GDP growth and fiscal balance



Source: World Bank staff calculations

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



Source: World Bank. Notes: see Table 2.

percent of households have been affected by job losses since start of the year, corresponding to an estimated 7.7 percent contraction in total employment. 64.4 percent of households reported that overall revenue had decreased. Reducing food consumption was cited among the top three response to lower revenues, threatening long-term health of household members.

Inflow of external concessional financing has contributed in preserving macroeconomic stability. A 16 percent drop in tax revenues up to May 2020 has contributed to rising budget deficits and unexpected fiscal financing needs, which have been filled by emergency budget support operations by donors totaling 3.1 percent of GDP in 2020. The trade balance deteriorated amid weakening export revenues, but currency pressures have remained modest amid significant inflows of concessional financing, causing only limited pressure on foreign exchange reserves and domestic prices. Despite some depreciation of the Ariary and supply chain disruptions due to the impact of lockdowns in some large cities, consumer price inflation remained stable, hovering around 4 percent up to June 2020. This allowed the Central Bank to maintain an accommodative monetary policy stance throughout the crisis.

Outlook

The adverse economic impact of the COVID-19 crisis will persist in 2021. Global trade and travel disruptions as well as domestic containment measures are expected to result in the first recession in Madagascar since the 2009 crisis, with gross domestic product (GDP) predicted to contract by 1.2 percent in 2020, compared to an estimate of 5.2 percent just prior to the outbreak. Economic conditions are expected to stabilize in the second half of the year against the backdrop of an ongoing rebound in global manufacturing activity and the end of strict travel restrictions and confinement measures. In this context, growth is predicted to strengthen in 2021 but only to a modest 2.8 percent (Table 2). This remains about twice lower than pre-crisis expectations, bringing the estimated cost of the crisis at about 9 percentage points of GDP over a two-year period.

Public debt remains on a sustainable course despite widening fiscal deficits. Lower tax revenues collection is expected to widen the fiscal deficit to more than 5 percent of GDP in 2020-21, bringing public debt to a projected 46.9 percent of GDP in 2021, from 38.4 percent 2019. However,

public debt remains well below the risk threshold for a medium debt-carrying-capacity country and fiscal deficits continue to be financed predominantly by concessional financing.

The impacts of the crisis will push more households below the poverty line in 2020. In the wake of sustained job and revenue losses across both formal and informal sectors, the poverty rate is expected to increase in 2020 to 76 percent (based on an international poverty line of \$1.90/capita/day, in 2011 PPP). Moving forward and assuming a gradual economic recovery from 2021 onwards, poverty is projected to return to a declining trend, reaching 74 percent by 2022 (Figure 2). This scenario heavily depends on the country's ability to stage a sustained growth spurt in coming months. Structural transformation into off-farm employment, improved productivity in agriculture, as well as resilience to climatic and further economic shocks are also key elements to facilitate rapid poverty reduction, particularly in more vulnerable rural areas.

TABLE 2 Madagascar / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.9	4.6	4.9	-1.2	2.8	5.4
Private Consumption	1.2	3.0	3.6	1.8	2.2	3.0
Government Consumption	13.9	-6.2	4.1	6.2	2.7	5.2
Gross Fixed Capital Investment	-1.8	-2.3	11.0	-4.6	6.3	12.8
Exports, Goods and Services	45.4	4.6	4.2	-9.6	2.8	6.4
Imports, Goods and Services	23.7	-4.1	5.3	-4.3	3.8	6.6
Real GDP growth, at constant factor prices	3.9	3.7	4.8	-1.2	2.8	5.4
Agriculture	1.3	3.7	3.8	2.2	3.0	3.4
Industry	5.8	8.1	8.6	-1.8	3.1	6.5
Services	4.6	2.4	4.0	-2.6	2.6	6.0
Inflation (Consumer Price Index)	8.3	7.3	5.6	4.8	6.1	6.3
Current Account Balance (% of GDP)	-0.4	0.7	-2.1	-2.8	-3.1	-3.3
Net Foreign Direct Investment (% of GDP)	2.7	2.6	2.6	2.5	2.4	2.3
Fiscal Balance (% of GDP)	-2.1	-1.3	-1.3	-5.4	-5.2	-4.1
Debt (% of GDP)	40.0	39.9	38.4	43.9	46.6	46.9
Primary Balance (% of GDP)	-1.4	-0.6	-0.6	-4.6	-4.3	-3.2
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	76.1	75.3	74.3	76.0	75.4	74.0
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	90.2	89.7	89.2	90.2	89.8	89.1
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	96.6	96.0	95.5	96.5	96.1	95.3

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: 2013-2019. Forecast are from 2020 to 2022.

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