

Madagascar

Recent macroeconomic and financial developments

The pandemic plunged Madagascar into a deep recession in 2020: contracting by 7.1% in aggregate, economic output was particularly hard hit in mining (down 56.8%), the hotel industry (down 55.8%), and textiles and clothing (down 15.7%), which are the primary engines of growth. After health crisis management efforts and economic stimulus measures, growth rebounded to 3.3% in 2021, sustained by public and private investment that reached 19.9% of GDP in 2021, up from 13.8% in 2020. Foreign trade also bolstered the recovery, notably in mining. However, the pandemic weighed on the budget deficit, which continued to widen to 5.4% from 4.0% in 2020. The current account deficit also increased slightly, to 5.5% of GDP from 5.1% in 2020, partly reflecting rising prices of petroleum products. Inflation, which had fallen by half since 2018, climbed to 5.9% in 2021. Business closures and job losses caused young people and women especially to lose their livelihoods. The real increase in per capita GDP of almost 10 percentage points in 2020–21 will likely have had a limited effect on poverty, estimated at nearly 77.4% of the population in 2020. Madagascar received \$332 million SDR allocation in September 2021, with which it will target infrastructure in transport, energy, and water.

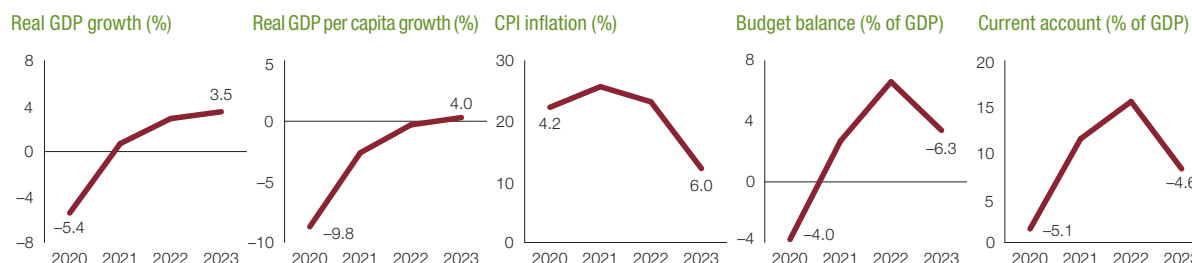
Outlook and risks

Forecasts project continued GDP growth of 5.0% in 2022 and 5.4% in 2023. On the demand side, it will be sustained by public and private infrastructure investment in transport and energy, as well as the resumption of mineral ore and vanilla exports. The extractive and manufacturing industries, as well as public buildings and public works, will remain the primary engines of growth. Major threats to the economy include new waves of COVID-19, climate shocks (particularly drought

and cyclones), and the high cost of primary materials linked to the pressure exerted on prices by the Russia–Ukraine conflict. The impact of COVID-19 is expected to continue burdening public finances: the budget deficit is forecast to remain high at 5.1% of GDP in 2022 and 4.9% in 2023. With the high price of essential products in the international market, the current account deficit is also expected to remain high at 5.9% of GDP in 2022, before falling to 4.9% in 2023. Using a policy of inflation targeting, the central bank began increasing some official bank rates from August 2021, but inflationary pressures are expected to continue, with inflation of 8.7% in 2022 and 6.1% in 2023.

Climate change issues and policy options

Madagascar is very vulnerable to climate change—especially drought, flooding, and cyclones. It is 29 on the 2021 GCRI. During the first quarter of 2022, it recorded storms and cyclones that caused nearly 200 deaths and affected 960,000 people. These extreme events have a major impact on infrastructure: losses and damages are estimated at 20% of GDP on average a year—a heavy drain on the economy, particularly in agriculture, which accounted for 24% of GDP and employed 64% of the active population in 2020. The country is also very dependent on fossil fuels yet has large hydropower potential that remains largely underutilized—884 GWh exploited out of a potential 180,000 GWh. Above all, the country lacks sustainable infrastructure to manage and adapt to climate risks, which would require estimated funding of \$42 billion over 2017–30. To accelerate the energy transition, public officials should focus on developing low-carbon energy projects and on mobilizing climate funding. They should also fast-track policies addressing water management, the circular economy in agricultural value chains, and green industry technologies, notably industrial waste reclamation.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.