

Madagascar

Madagascar still suffers from the political crisis sparked by the coup of 2009 and the economy grew by only 0.3% in 2010. The international community's refusal to recognise the current government has led to the suspension of most donor aid, hitting growth prospects.

The political and economic uncertainty weighing on Madagascar has produced a 'wait-and-see' attitude among most private investors.

China has become Madagascar's most important emerging country partner. Others such as India, Kuwait, United Arab Emirates, South Korea and Turkey are all significantly less important than China in terms of aid, trade and foreign direct investment (FDI).

Madagascar inched back to growth in 2010, with the country still suffering in the political fallout from the 2009 *coup* that ousted president Marc Ravalomanana and compounded the impact of the 2008-09 global slump. The economy expanded 0.3% last year after shrinking 3.7% in 2009. This was achieved despite donor countries cutting the development aid that has traditionally funded public investment in infrastructure. The international community does not recognise the political normalisation programme of the current government and so development aid is not expected to return to pre-crisis levels in the short term, with growth expected to be slower as a result.

Growth in 2010 was driven by the extractive industries, with production scaling up at large foreign-owned mines, and by a recovery in tourism. Agricultural output expanded slowly despite good weather while construction and the textile industry continued to contract.

The government has adopted a tight fiscal policy. As revenues fell due to the slowdown in economic activity and aid flows, most ministries suffered cuts that helped contain the budget deficit at a remarkably low 1.6% of gross domestic product (GDP). However, this was achieved at the expense of infrastructure development and maintenance, and threatens to compromise growth prospects in the medium term. At the same time, the Central Bank of Madagascar adopted a prudent monetary policy stance, holding inflation at 9.6% despite a 14% rise in food prices and keeping its key interest rate unchanged in spite of the sluggish economy. In coming years, the main challenge will be to ease constraints on economic growth without generating unsustainable fiscal deficits and excessive inflation.

Economic activity in the private sector remains constrained by the lack of clarity on future political developments. Foreign investment suffers from concerns over the ultimate legal standing of contracts and concessions signed by the current government and from the revision of contracts signed by the previous government. In addition, with political efforts concentrated on establishing the Fourth Republic, very little is being done to reform the business environment.

The informal sector of the economy has grown as the government cut public spending, private investment remained low and companies in export processing zones closed. Although updated estimates on progress towards the Millennium Development Goals (MDGs) are not available, it is most likely that the incidence of poverty has increased since the *coup* of 2009.

The November 2010 referendum amending the constitution makes it possible that Andry Rajoelina, who seized power in 2009, will be elected president in 2011, although his candidacy is yet to be confirmed. The political environment remains uncertain as both the opposition and most of the international community have not recognised the validity of the referendum while efforts to broker a settlement appear to be making no progress.

In this context, emerging economy partners represent an opportunity for Madagascar. Although China has not recognised the current government, some Chinese companies have continued to sign contracts with it. In 2010, the Chinese group Wuhan Iron and Steel Co (WISCO) made an advance payment of 100 million US dollars (USD) for an iron ore concession. If the iron ore reserves prove to be as large as hoped, the resulting investment may amount to USD 8 billion, by far the largest single foreign direct investment ever made in the country. Given widespread corruption, the challenge is to transform this investment opportunity into development, ensuring the payment of fair royalties and the creation of linkages with the local economy.

Table 1: Macroeconomic indicators

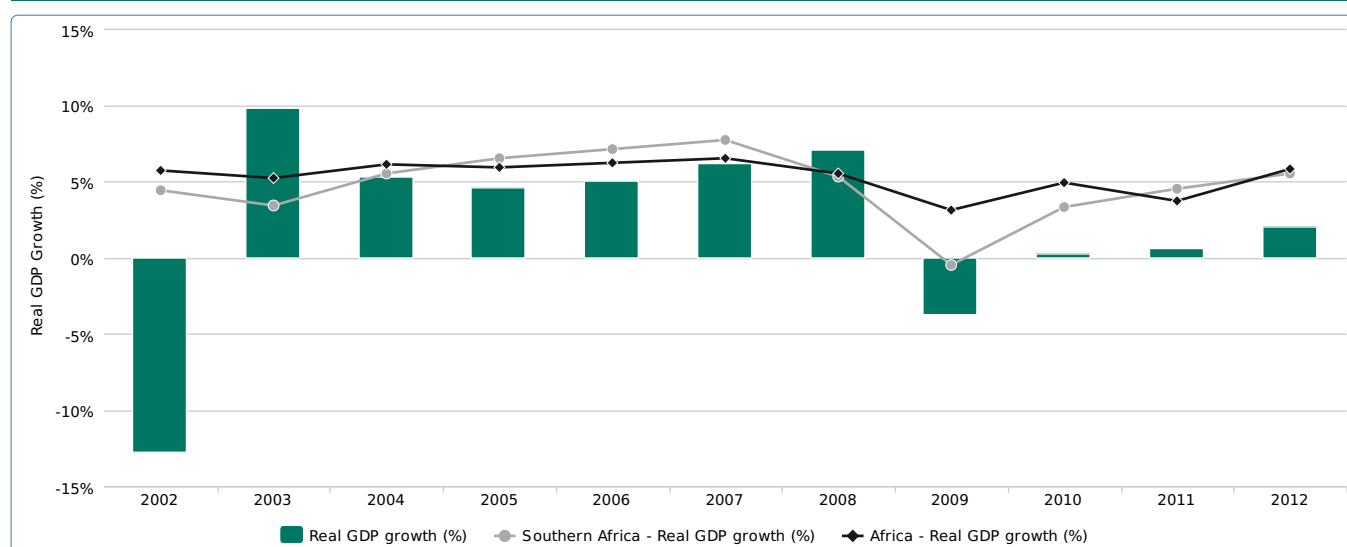
	2009	2010	2011	2012
Real GDP growth	-3.7	0.3	0.6	2
CPI inflation	8.5	9.6	10.1	9.8
Budget balance % GDP	-2.5	-1.6	-1.3	-1.2
Current account % GDP	-20.9	-17	-15.9	-15.3

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Figure 1: Real GDP growth (S)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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