WORLD BANK GROUP

MADAGASCAR ECONOMIC UPDATE

BRIDGING THE PRODUCTIVITY DIVIDE

February
2025

Document of the World Bank

1818 H Street NW, Washington DC 20433
Telephone: 202-473-1000; Internet: www.worldbank.org

MADAGASCAR
ECONOMIC UPDATE

BRIDGING THE PRODUCTIVITY DIVIDE

February
2025

Document of the World Bank

Table of content

Abbreviations and Acronyms

BFM	Central Bank of Madagascar (Banky Foiben'i Madagasikara)
CAD	Current account deficit
IMF	International Monetary Fund
Kt	Thousand metric tons
Ppt	Percentage point
R&D	Research and development
SEZ	Special economic zone
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
SSA	Sub-Saharan Africa
WBES	World Bank Enterprise Survey
Y/y	Year-on-year

Acknowledgments

This edition of the Madagascar Economic Update (MEU) was prepared by Xun Yan (Senior Economist), Faniry Razafimanantsoa (Economist), Antsa Raoelijaona (Economist), Sagita Muco (Senior Private Sector Specialist), Prisca Mamitiana Fanjaniaina (Private Sector Specialist), Cristian Quijada Torres (Senior Private Sector Specialist), Francis Muamba Mulangu (Senior Economist), Pedro Martins (Program Leader) and Cristina Savescu (Lead Economist). Mande Isaora Zefania Romalahy (Consultant), Alexis Rivera Ballesteros (Consultant), Felipe Yudi Yamashita Roviello (Consultant), and Nithya Srinivasan (Consultant) provided initial analysis and useful inputs. The team appreciates valuable comments from Jean-Pascal Nguessa Nganou (Program Leader), Besart Avdiu (Senior Economist), Elwyn Davis (Senior Economist) and Smita Kuriakose (Lead Economist).

The MEU was prepared under the direction of Hassan Zaman (Regional Director), Idah Z. Pswarayi-Riddihough (Country Director), Atou Seck (Country Manager), Marco Hernandez (Practice Manager), and Consolate Rusagara (Practice Manager).

Sean Lothrop (Consultant) and Oscar Parlback (Consultant) edited the report. The team is grateful to Eva Lovaniaina Ramino (Team Assistant), Nani Makonnen (Senior Program Assistant) and Diana Styvanley (External Affairs Officer) for their administrative and communication-related support.

Executive Summary

Executive Summary

Recent Economic Developments and Outlook

Madagascar's economy is recovering but remains uneven. Growth is estimated at 4.2 percent in 2024. Several sectors in the economy have yet to return to their pre-2020 output levels. The services sector has driven growth on the supply side, especially tourism-related sectors and telecommunications. Following reforms to improve the business climate, private investment has become the key engine of growth on the demand side. Stubbornly high core inflation diminished private consumption's contribution to growth in 2024, and the contribution of net exports to growth turned negative. Meanwhile, employment-intensive sectors such as agriculture, agrobusiness, and textiles have struggled to recover, especially in terms of value addition per capita.

In addition, growth is insufficient to significantly improve living standards, and the poverty rate far exceeds the levels of neighboring countries and international comparators. As of 2022, almost 70 percent of the population lives below the international poverty line of US$2.15 per capita per day. The number of people living in poverty rose from 15.4 million in 2012 to 21.1 million in 2022, an increase of 50 percent. Average real income has declined over the years, with per capita GDP (in constant 2015 US dollars) falling from US$812 in 1960 to US$456 in 2024 The economy's vulnerability to climate shocks further deepens household poverty.

The external position remained resilient despite mounting pressure on the current account. The current account deficit (CAD) widened in 2024, due primarily to declining exports of key commodities. The deterioration of the trade balance was driven by softening global demand and falling prices for major exports, including vanilla, cloves, cobalt, and nickel. The import bill also declined, though to a lesser extent. The CAD was mainly financed by foreign direct investment and other forms of investment, which helped bolster international reserves.

Low revenue collection constrains the government's capacity for public investment and service delivery. Total revenue and grants are estimated at 13.6 percent of GDP in 2024, lower than the Sub-Saharan Africa (SSA) average of 18.9 percent. Despite efforts to boost tax revenue, the tax-to-GDP ratio remained low at 10.8 percent. Weak international trade flows weighed on revenue collection, while generous tax exemptions continued to undermine tax revenue. Significant spending on transfers and subsidies has crowded out capital investment in a context where infrastructure gaps substantially constrain firm-level productivity.

Growth is projected to pick up and average 4.7 percent over 2025-27, and the outlook hinges on the implementation of critical structural reforms and is subject to downside risks. Growth is expected to gradually pick up and should converge with the potential growth rate starting in 2025. The fiscal deficit is projected to narrow to around 3.8 percent of GDP over 2025–27, driven by improvements in spending efficiency and increased revenue collection. Key risks to the outlook include frequent power outages and climate change, threats to which manufacturing and agriculture are particularly exposed. To boost growth and improve livelihoods, the authorities may consider accelerating macro-fiscal and structural reforms. Priority measures include improving JIRAMA's financial performance, increasing competition and inclusion in the digital sector, updating the Mining Code, improving domestic revenue mobilization (to finance investment), and strengthening fiscal risk management.

Special Topic: Productivity Constraints at the Firm Level

In Madagascar, the most productive 25 percent of firms often pay wages up to seven times higher than those offered by firms in the bottom 25 percent. Higher productivity not only yields better-paying jobs but also plays a critical role in economic growth. However, firm-level productivity in Madagascar has been declining over the past two decades and is now among the lowest in the world. The average Malagasy worker is now three times less productive than the average worker in Sub-Saharan Africa (SSA), with output per unit of labor declining at an average rate of 0.2 percent per year. Younger firms and exporting firms, especially those that invest in research and development (R&D), tend to be more productive. Male-managed and foreign firms often achieve higher productivity levels, as female-owned and local firms face various challenges—such as limited access to finance, quality certifications, and a skilled workforce—that hinder their productivity potential.

Creating the conditions for more productive firms to enter the market and grow is critical to generate more and better jobs. Upgrading management practices can boost within-firm productivity growth (productivity gains within existing firms, reflecting the capacity for innovation, technology sophistication, and managerial and worker skills), while creating an enabling business environment that foster competition can enhance between-firm productivity growth (the reallocation of labor and capital from less to more productive firms), and bolstering the capabilities of new entrants can promote selection-based productivity growth (the exit of less productive firms from the market and the entry of more productive firms to replace them, also known as "firm dynamism"). One-third of the firms cite a lack of skilled workers as a key constraint, yet only large export-oriented firms are likely to offer training to their employees. While firms are attempting to adopt new technologies to boost productivity, the share of firms investing in R&D or introducing innovative processes remains below the regional average.

Between-firm productivity growth is hampered by limited access to finance and infrastructure challenges. Only 8 percent of Malagasy firms have access to bank loans, far below the SSA average of 19.5 and the global average of 32 percent. Electricity and transport infrastructure also pose significant constraints, with frequent power outages leading to substantial financial losses. Female-led businesses face greater constraints than their male-led counterparts, particularly in accessing finance and skilled labor. Despite an increase in female ownership and management, female-led firms remain less productive on average. Addressing their specific constraints is essential to promote inclusive growth.

Improving productivity will require well-designed reforms to strengthen the business environment coupled with measures to enhance the capabilities of firms and promote entrepreneurship. Adopting reforms to facilitate the entry and operation of startups and promoting entrepreneurship training and incubation programs would facilitate the entry of new firms. Designing an acceleration program for small and medium-sized enterprises and supporting worker training and technological uptake could improve the capabilities of existing firms. Developing leasing instruments and digital financial services could expand access to finance. Finally, reforming the business environment, including reviewing, simplifying as well as digitizing government services, could create the conditions for greater competition and innovation and improve access to international markets. Addressing specific constraints faced by women-led firms is essential to promote inclusive growth.


ZOITSA SIGALA

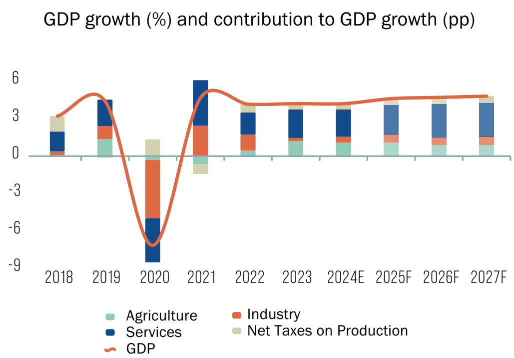
Part 1: Recent Economic Developments and Outlook

1.1 ECONOMIC GROWTH AND INFLATION

Economic prospects have improved, but growth remains insufficient and uneven to significantly improve living standards.

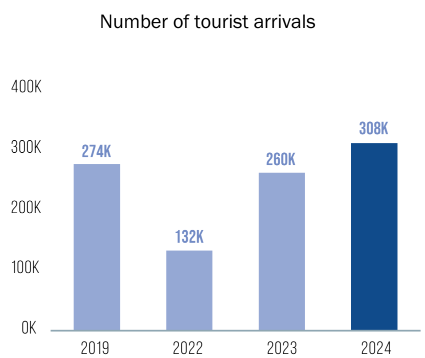
Despite a steady economic recovery, many sectors have yet to reach pre-2020 levels of output, due in part to the compounding effects of external shocks. After plunging to -7.1 percent in 2020—the most severe contraction since the 2002 political crisis—growth remained broadly stable at an estimated 4.2 percent in 2024, or 1.7 percent in per capita terms (Figure 1.1). Despite an increase since the 2010s, when annual growth averaged 3 percent (lower than the SSA average of 4 percent), current growth remains insufficient to support sustained poverty reduction or significant job creation, especially given the high population growth rate of about 2.4 percent per year. Commodity price volatility, escalating climate shocks[1], and the prevalence of elite capture[2] have all hindered a faster recovery and undermined inclusive growth.

Figure 1.1. **Since the recovery in 2021, services have driven steady growth on the supply side.**



SOURCE: MEF AND WORLD BANK ESTIMATES.

Figure 1.2. **Tourist arrivals have rebounded from the shock of the COVID-19 pandemic.**



SOURCE: MINISTRY OF TOURISM.

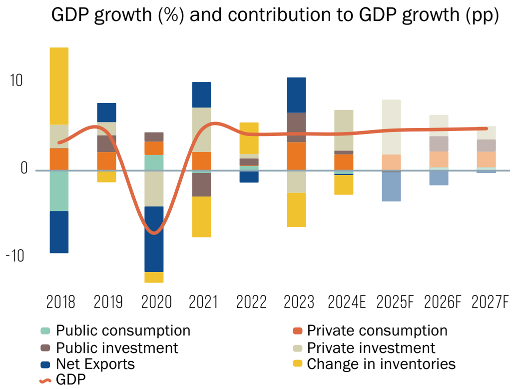
On the supply side, the services sector has been the major driver of growth, especially tourism-related services and telecommunications. The services sector contributed 1.9 percentage points (ppts) to total growth in 2024, followed by the agricultural sector at 1.1 ppts. Tourism-related sectors (hotels, restaurants, and transport) contributed around 1 ppt to the 2024 growth. The increased frequency of international air traffic and the entry of new

1 Cyclones, droughts, water stress, and rising temperatures exert heavy tolls on the economy and its population. Madagascar has the highest risk of cyclones in Africa, experiencing on average three cyclones per year and severe droughts stress an already inadequate food and energy supply. For instance, Cyclone Gamane, which struck Madagascar in March 2024, caused extensive damage in infrastructure and affected approximately 212,000 people, particularly in the Sava region which is the heart of Madagascar's vanilla production.

2 In general, elite capture occurs when powerful individuals or groups manipulate political institutions and economic systems to divert resources and opportunities toward themselves. This concentrated control undermines democratic processes and fair resource distribution, allowing elites to extract wealth while limiting broader societal development (Acemoglu and Robinson 2012; World Bank 2017; World Bank 2022; Dugas et al. 2024).

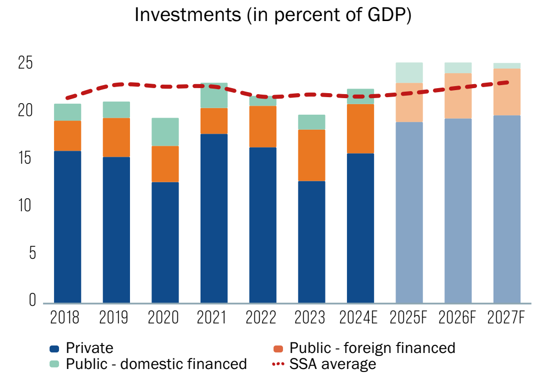
airlines[3] boosted tourism, with the number of tourist arrivals surpassing pre-pandemic levels for the first time in 2024 (Figure 1 .2).[4] Poor transport infrastructure and unreliable domestic flights, however, could constrain sectoral growth. The introduction of a new telecom licensing regime enabled to level the playing field, fostering competition and stimulating growth.[5] Meanwhile, employment-intensive sectors such as agriculture, agrobusiness, and textiles have struggled, and value-added per capita of these sectors has declined.

Figure 1.3. **On demand side, growth is mainly driven by investment and private consumption.**



SOURCE: MEF AND WORLD BANK ESTIMATES.

Figure 1.4. **Investment ratio compares favorably with those of other SSA countries but remains inadequate.**



SOURCE: MEF AND WORLD BANK ESTIMATES.

On the demand side, growth has been driven by private investment, followed by private consumption, while net exports have not contributed (Figure 1.3). Private investment increased in 2024 after the abovementioned liberalization of the telecommunications sector and the passage of other reforms to improve the business climate (for instance, the adoption of the new Investment Code in 2023 and related implementation decrees in 2024). Meanwhile, public investment declined as the revised budget approved in July reallocated resources to transfers and subsidies, notably for the energy sector. Despite the investment ratio being on par with the regional average (Figure 1.4),[6] an infrastructure gap persists, with poor-quality roads and ongoing deficiencies in the water and energy supply. Due to persistently high core inflation, private consumption contributed just 1.9 ppts to growth, significantly less than in 2023. After contributing 4 ppts to growth in 2023, contribution of net exports to growth turned slightly negative, reducing growth by -0.1 ppt. Overall export performance was diminished by lower demand for major exports such as nickel, vanilla, and textiles. Reduced export receipts were partly offset by lower imports due to a decline in public investment and rising freight costs.

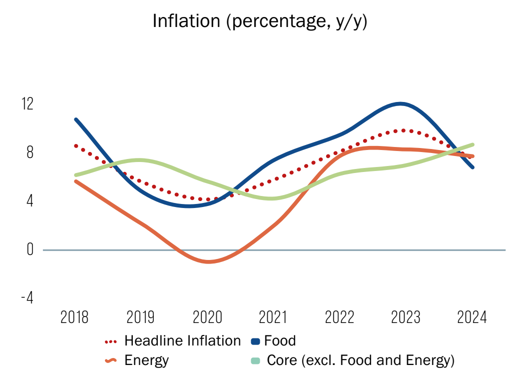
3 The international air traffic resumed gradually since 2022. In 2023, the country hosted the 2023 Indian Ocean Islands Games which was a significant boost. Since September 2024, Emirates started to operate in Madagascar.

4 The latest statistics published by the Ministry of Tourism (Jan 30, 2025) revised the annual total tourist arrivals in 2019 (274 thousand), 2023 (260 thousand) and 2024 (308 thousand), which were 384, 220 and 268 thousands respectively in the previous publication (Jan 8, 2025).

5 Among other things, Orange will now be able to deploy and commercialize its own fiber. Previously, this segment of the market was under de facto monopoly. The new satellite license has the potential to significantly improve rural connectivity and to increase service offerings and competition.

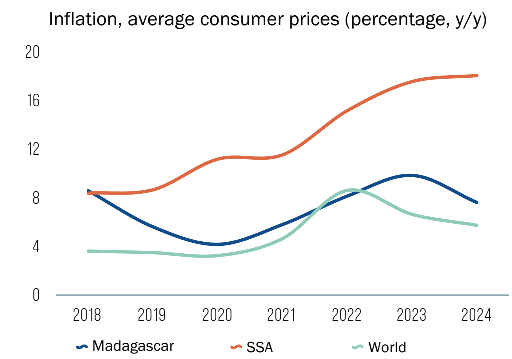
6 The investment-to-GDP ratio is estimated at 22 percent of GDP in 2024, slightly above the SSA average of 21.8 percent (IMF 2024).

Figure 1.5. Headline inflation has decreased but remains elevated



SOURCE: SOURCE: MEF AND WORLD BANK ESTIMATES.

Figure 1.6. Inflation is below SSA average but above world average



SOURCE: MEF, WORLD ECONOMIC OUTLOOK 2024 AND WORLD BANK ESTIMATES..

Headline inflation remained high, , but lower than SSA average due to persistently elevated core inflation, despite a gradual decline in food-price inflation. Inflationary pressures increased in 2022, partly due to the Russian invasion of Ukraine which led to higher food and fuel prices. Headline inflation peaked at 12.4 percent year-on-year (y/y) in March 2023 and had begun to decline by the end of the year. In 2024, food inflation (mainly rice) eased as domestic rice production increased. Energy inflation was driven by rising wood, coal, and butane prices, while subsidies have kept fuel and electricity prices unchanged since 2022, albeit at a high fiscal cost.[7] This policy tradeoff merits careful examination, as falling oil prices during the second half of 2024 could create an opportunity to reduce or eliminate subsidies. Core inflation, which excludes food and energy, has been increasing since 2022 and reached 9.1 percent in December 2024, driven by rising housing and apparels costs. As a result, average annual inflation remained high at 7.6 percent in 2024, above the 2013–23 average of 6.9 percent. (Figure 1.5).

1.2 POVERTY, EMPLOYMENT, AND THE LABOR MARKET

External shocks compound the structural causes of high poverty rates, with limited employment opportunities further entrenching poverty at the household's level.

Poverty rates, measured at the national poverty line, have fluctuated significantly, and urban poverty is on the rise. Average real income has declined over the years, with per capita GDP (in constant 2015 US dollars) falling from US$812 in 1960 to US$456 in 2024.[8] The national poverty headcount ratio increased from 72.9 percent in 2012 to 75.2 percent in 2022. The rural poverty rate remained alarmingly high, despite a marginal decline from 80.6 percent in 2012 to 79.9 percent in 2022. However, urban poverty increased significantly, rising from 42.2 percent in 2012 to 55.5 percent in 2022. Urban poverty is concentrated outside the capital city. While rural poverty remains a serious challenge, urban areas have experienced a significant deterioration in living standards over the past decade.

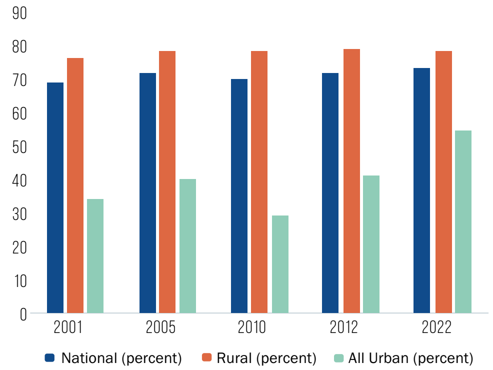
In addition, non-monetary poverty, which considers multiple deprivations beyond income, remains exceedingly high across the

7 On January 18, 2025, fuel prices started to change (adjusted downward) as the government implemented the automatic fuel pricing mechanism as one of the prior actions of the IMF ECF/RSF program approved in June 2024.

8 GDP per capita (in constant 2015 US dollars) data is from World Development Indicators (WDI) for 1960, and by staff estimate for 2024.

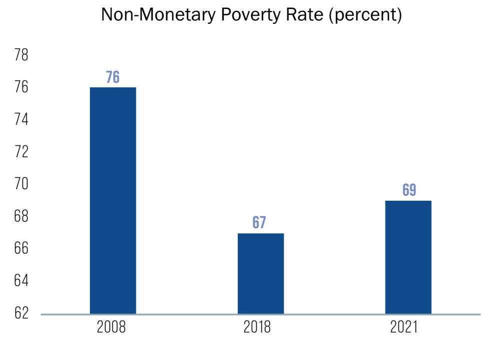
country. As of 2018, over 70 percent of the population was considered multidimensionally poor, experiencing deprivations in more than three dimensions (education, health and living conditions). This translates to approximately 19.04 million people living in multidimensional poverty. The indicators of non-monetary poverty include education, health, and living conditions, with significant portions of the population lacking these necessities. The prevalence of non-monetary poverty is particularly high among households with younger heads, larger family sizes, and those living in rural areas.

Figure 1.7. **Poverty rates remained high and uneven**



SOURCE: MEF AND WORLD BANK ESTIMATES.

Figure 1.8. **Non-monetary poverty remains above pre-pandemic level**



SOURCE: WORLD BANK ESTIMATES BASED ON DHS FOR 2008 AND 2021, AND RGPH-3 FOR 2018.

The causes of poverty are multifaceted and deeply rooted both in structural and external factors. Key causes include the predominance of low-productivity subsistence agriculture, which suffers from a lack of inputs, infrastructure, and supportive institutions. The agricultural sector employs a large share of the population, and 90 percent of households engaged in agriculture are poor. Moreover, the slow accumulation of human capital, high child malnutrition rates, widespread child labor, early marriages, and teenage pregnancies all contribute to intergenerational cycles of poverty. Finally, vulnerability to extreme weather events and elite capture limit private investment, which is vital for capital accumulation.

Significant disparities and challenges that contribute to the high incidence of poverty. An analysis of employment and labor force participation rates[9] reals that at the national level, the labor force participation rate stands at 58.8 percent with a wide gender gap: the rate is 66.9 percent for men and just 51.2 percent for women. Although a larger share of the working-age population lives in rural areas, the urban labor-force participation rate is slightly higher at 59.8 percent versus 58.5 percent. Employment rates are also low, with only 54.9 percent of the working-age population being employed. Most employed individuals work in agriculture, which accounts for 60.7 percent of all jobs. The secondary and tertiary sectors, including commerce, manufacturing, construction, and services, represent only 14.7 percent and 24.6 percent of employment, respectively. Households rely heavily on low-productivity agriculture, and opportunities in higher-paying sectors are very limited. Most employment is informal and characterized by low wages and poor job quality, leaving households trapped in a cycle of poverty.

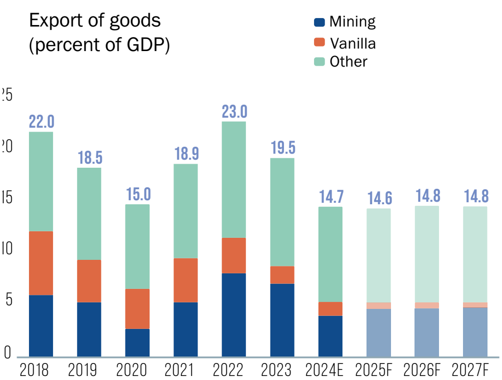
9 The labor force participation discussion reflects mainly an analysis of employment and labor force participation rates (INSTAT, 2024).

1.3 EXTERNAL SECTOR

The current-account deficit widened as weaker global demand and falling commodity prices undermined export performance.

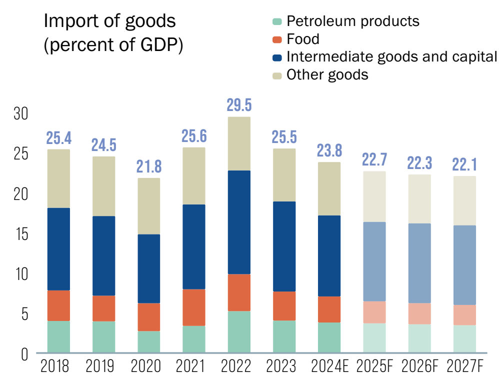
The current-account balance deteriorated in 2024, as exports fell more sharply than imports and income flows failed to offset a widening trade deficit. Goods export dropped by 4.8 ppts of GDP in 2024, while the import bill dropped by 1.7 ppts, primarily due to reduced exports of vanilla, cloves, cobalt, and nickel as a result of a global supply glut (Figure 1.9). Vanilla exports have been further impacted by domestic policy uncertainty around pricing (Box 1.1). The import bill declined across nearly all categories of goods, although energy imports increased by 3.4 percent (Figure 1.10). The merchandise trade volumes also declined, reflected in a 9.1 percent drop in port calls in 2024 compared with 2023 (Figure 1.11).[10] Trade in services fared better, mainly owing to higher tourism receipts, while transport services declined due to lower goods exports and reduced freight costs. Dividend payments increased, contributing to higher investment income. Finally, current transfers increased due to rising remittances and contributions from externally funded programs.

Figure 1.9. **The decline in merchandise exports...**



SOURCE: MEF AND WORLD BANK ESTIMATES.

Figure 1.10. **...was partly offset by falling imports.**

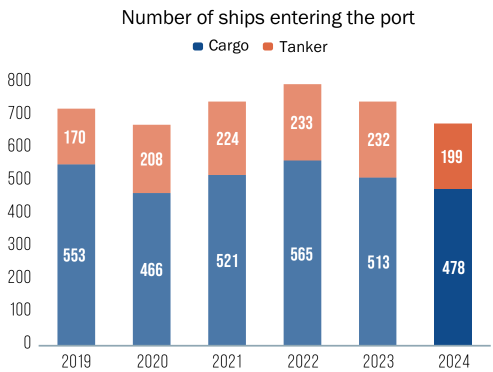


SOURCE: MEF AND WORLD BANK ESTIMATES

The strong performance of the capital and financial accounts strengthened the external position. The CAD (estimated at 5 percent of GDP in 2024) was mainly financed by a combination of foreign direct investment and other investments (Figure 1.12). Strong capital inflows boosted international reserves (equivalent of around 6.3 months of imports). However, vulnerabilities remain. In the long run, a stronger external position will require an improved current-account balance, which will in turn hinge on structural reforms to enhance competitiveness.

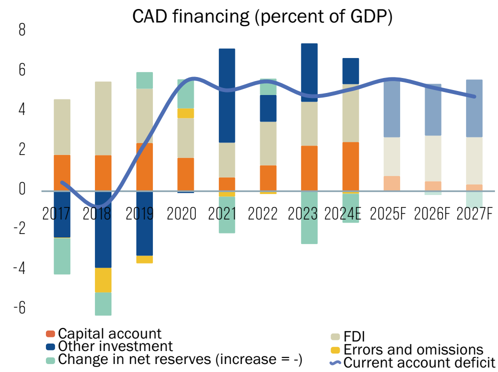
10 The port-call metrics capture the number of vessels that are engaged in the shipment of international trade and make a stop at a port to load or unload vessels. Port calls exclude vessels that stop for bunkering purposes without loading or unloading goods.

Figure 1.11. The number of port calls has fallen.



SOURCE: UN GLOBAL PLATFORM; IMF PORTWATCH.

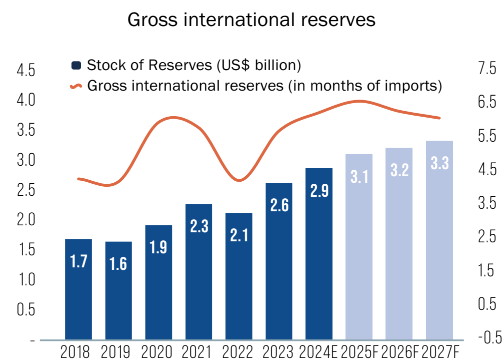
Figure 1.12. FDI and other investments have financed the CAD.



SOURCE: BFM AND WORLD BANK.

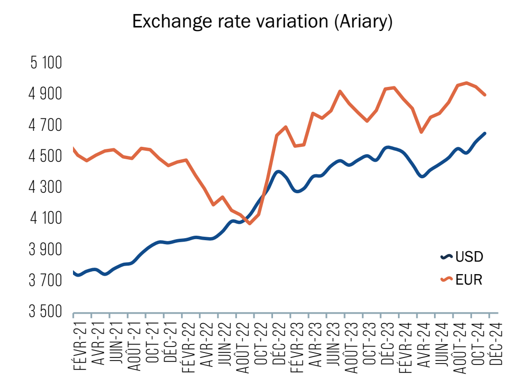
Adequate international reserves have mitigated the depreciation of the currency. At end-2024, gross international reserves equaled an estimated 6.3 months of imports (Figure 1.13). Following a slight appreciation during the first months of 2024 due to the inflow of external financing, the ariary depreciated against major currencies for the remainder of the year. After a sharp depreciation in 2023, when it fell by 8.2 percent against the US dollar and 11 percent against the euro,[11] the ariary recorded a softer year-on-year depreciation in 2024 against the US dollar, declining by just 2.7 percent. It appreciated by around 0.9 percent against the euro. The exchange rate remained stable in real effective terms (Figure 1.14).

Figure 1.13. International reserves increased.



SOURCE: BFM AND WORLD BANK

Figure 1.14. After a period of fluctuation, currency depreciation resumed in Q2 2024.



SOURCE: BFM AND WORLD BANK.

11 The 2023 depreciation against the US dollar, the sharpest since 2020, partly reflected a strong dollar (following the Federal Reserve's monetary tightening) and heightened investor risk aversion (uncertainties around the presidential elections that concluded in December 2023).

BOX 1.1. VANILLA MARKET

In 2019, the global vanilla market reached unprecedented heights, with prices soaring above US$600 per kilogram. Madagascar, the world's largest vanilla producer, held a dominant 80 percent share of the market. This demand surge was driven by a strong preference for natural vanilla, pushing prices to record levels. Agro-industrial companies found themselves facing exorbitant costs, which began to strain the market and consumer affordability. Before the pandemic, the vanilla market was thriving but was also highly volatile.

To prevent a sudden price collapse, the government introduced stabilizing measures in 2020, though these did not achieve the expected results. The measures included setting a minimum price of US$250 per kilogram to protect vanilla farmers' incomes and stabilize the market. The government also required exporters to repatriate all foreign currency earnings as a condition for obtaining export licenses, to ensure transparency and prevent capital flight. However, compliance proved challenging. Many exporters circumvented the rules: some exported illegally without licenses, while others with licenses used retro-commissions or foreign reserves to reduce the sale price below the mandated US$250 per kilogram. Meanwhile, importers that held large stocks of vanilla chose to wait and purchase only in small quantities, which further weakened demand and increased price pressures. These complications undermined the effectiveness of the government's policies while complicating enforcement and intensifying market distortions. In May 2023, the government suspended its price controls on vanilla exports.

Vanilla exports also faced external trade-policy changes. In early 2023, the EU introduced new standards for nicotine content in vanilla, planning to lower the permissible levels from 0.3 percent to 0.02 percent per kilogram by September 2023. However, due to the complexity of aligning international standards with market realities, the EU postponed the implementation of stricter nicotine limits until 2030 for certain products on February 5, 2024.

In 2024, market prices plummeted following the lift of price control and the delay of the EU import ban. The proposed implantation on stricter nicotine limits in vanilla by the EU has been postponed, importer appetite recovered, and exporters began clearing stocks accumulated over the past 3-4 years. In July 2024 alone, for instance, exports reached 1,200 tons, almost matching the entire export volume of 2023, which stood at 1,398 tons. This sudden influx of supply dampened the market prices to a mere US$50 per kilogram.

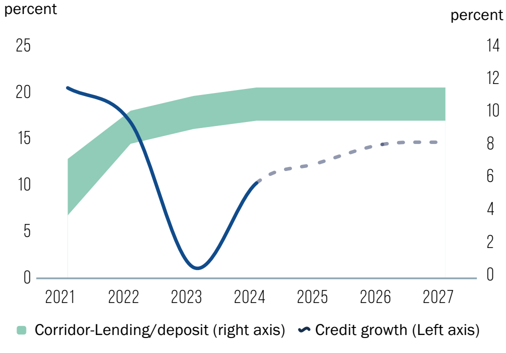
1.4 MONETARY POLICY

The central bank has tightened monetary policy in response to high inflation. The banking sector remained profitable and resilient despite economic challenges, but lack of access to finance is a key constraint for businesses.

The central bank has tightened its monetary policy stance since 2022 to help curtail inflation. The Central Bank of Madagascar (Banky Foiben'i Madagasikara, BFM) has increased the policy rate by 140 basis points (bps) since October 2022 (Figure 1.15). By August 2024, to the deposit facility rate and the marginal lending rate reached 9.5 percent and 11.5 percent, respectively. The growth in credit to the private sector is estimated to be 9.8 percent in 2024 (compared with 1.2 percent in 2023) but remained low in real terms (1.2 percent). By end-2024, the ratio of credit to GDP stood at 15.2 percent, lower than the average over 2020-2023 (16.3 percent), and far lower than the SSA average of 26.7 percent in 2023. Respondents to the 2022 World Bank Enterprise Survey identified access to credit as a major constraint to doing business.

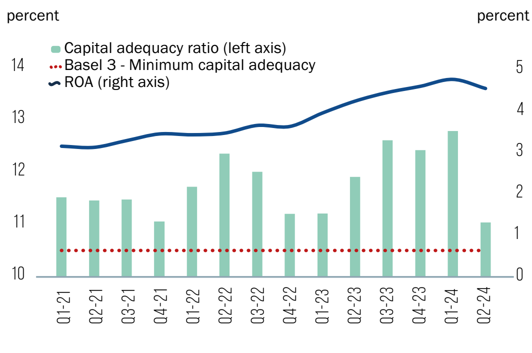
Despite subdued economic activity, the banking sector remains profitable, liquid, and resilient (Figure 1.16). Although the ratio of regulatory capital to risk-weighted assets fell from 12.8 percent in March 2024 to 11 percent in June 2024, it remains above the regulatory capital adequacy ratio of 10.5 percent under Basel III.[12] The banking system remains liquid despite the increase in the reserve requirement ratio from 9 to 12 percent in February 2024, as indicated by the increase in the liquidity asset-to-total asset ratio to 32.9 percent in June 2024. Returns on assets improved marginally to 4.5 percent by June 2024, exceeding pre-pandemic levels. Meanwhile, the quality of assets remained stable, with the non-performing loans ratio decreasing slightly from 7.9 percent in June 2023 to 7.7 percent by June 2024. However, the transition to the new interest rate targeting framework contributed to increased volatility in the overnight bank interest rate.

Figure 1.15 . **Credit growth has accelerated.**



SOURCE: BFM AND WORLD BANK.

Figure 1.16. **The banking sector is profitable.**



SOURCE: IMF AND WORLD BANK.

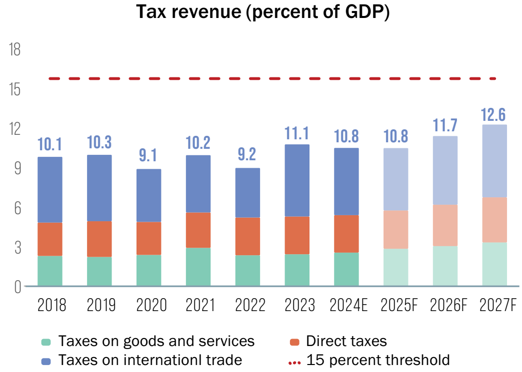
12 The regulatory capital adequacy ratio consists of a minimum 8 percent and a 2.5 percent reserve/buffer.

1.5 FISCAL POLICY

Revenue performance remained weak in 2024, undermining the government's capacity to meet essential investment needs.

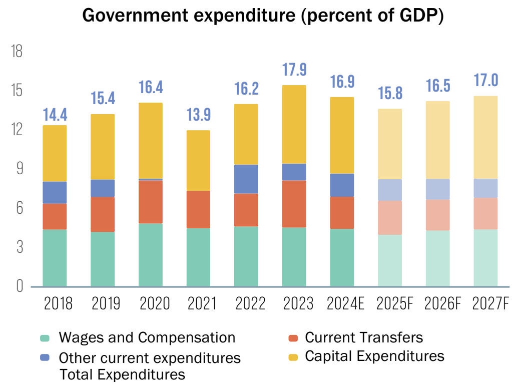
Total revenue and grants are estimated at 13.6 percent of GDP in 2024, reflecting low domestic resource mobilization (Figure 1.17). It is lower than the SSA average of 18.9 percent.[13] Government revenue relies primarily on tax collection. The tax-to-GDP ratio fell from 11.2 percent in 2023 to 10.8 percent in 2024, far below the threshold of 15 percent considered critical for financing basic public services in support of economic growth. [14]The higher revenue level in 2023 reflected the one-off recovery of tax arrears on petroleum products accumulated in 2022, equivalent of 1.8 percent of GDP. Administrative measures to boost tax revenues focused on tax audits and the expansion of the electronic tax payment system to all taxpayers, including mobile money platforms and online payments. [15] However, weak international trade weighed on revenue collection, while generous tax exemptions continued to undermine tax revenue. Other revenue sources include non-tax revenues and grants, both of which are low by historical standards..

Figure 1.17. **The tax-to-GDP ratio remains low.**



SOURCE: MEF AND WORLD BANK ESTIMATES

Figure 1.18. **In the medium term, transfers are expected to gradually decline from the 2024 peak.**



SOURCE: MEF AND WORLD BANK ESTIMATES.

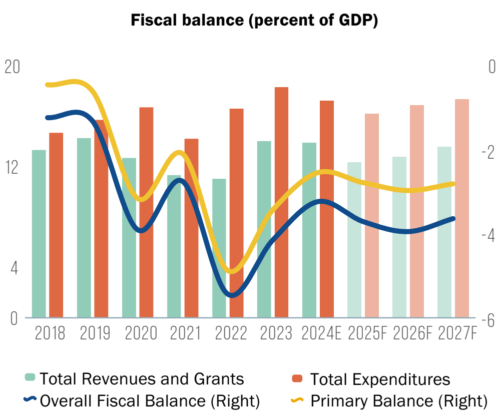
Total expenditure declined and the spending composition shifted towards transfers and subsidies. Total expenditure and net lending dropped to 16.9 percent of GDP in 2024, compared with 17.9 percent in 2023 (Figure 1.18). Overall expenditure was cut in the revised 2024 budget law, while transfers to the energy sector were increased (including to JIRAMA and fuel price subsidies),[16] thus crowding out other necessary spending. Notwithstanding the infrastructure gap, the country spent more on transfer and subsidies (2.9 percent of GDP) than on domestically financed investments (1.6 percent of GDP).[17] [18] Capital investment fell to 6.3 percent of GDP, down from 6.9 percent in 2023. Transfers to JIRAMA amounted to 1.1 percent of GDP, lower than in 2022 (1.4 percent of GDP) and 2023 (1.3 percent of GDP), but remained high as a share of total government spending. Delays in implementing JIRAMA's recovery plan and renewable energy projects will continue to weigh on the budget and crowd out necessary capital spending.

13 IMF 2024.
14 Research underscores the importance of a 15 percent tax-to-GDP threshold for economic growth. Studies show that real GDP per capita increases sharply and sustainably once this level is reached. It is also noted that tax revenues below 15 percent limit funding for essential services like health, education, and infrastructure (Gaspar, Jaramillo and Wingender 2016; Gaspar, Amaglobeli, Garcia-Escribano, Prady and Soto 2019).
15 The electronic payment option was extended from covering only large taxpayers to also 'small' taxpayers.
16 Transfers to the energy sector amount to 1.3 percent of GDP (MGA 1,032 billion) in the revised budget.
17 Madagascar ranks 133 out of 133 countries on Infrastructure in the 2024 Global Innovation Index (https://www.wipo.int/gii-ranking/en/madagascar/section/economy-profile) and the Human Capital Index is at 0.39.
18 The local governments face more limited fiscal space and therefore more constraints for decentralized infrastructure and service provision.

While the overall fiscal balance improved in 2024, further improvements in budget allocation and execution are needed (Figure 1.19). The overall fiscal deficit narrowed from 5.5 percent of GDP in 2022 to 4.2 percent in 2023 and reached 3.3 percent in 2024. The improvement in the fiscal position was achieved mainly by cutting public investment, rather than through increased revenue mobilization or spending efficiency. This approach is likely to undermine future growth, and further efforts are needed to ensure a steadier, higher-quality fiscal consolidation.

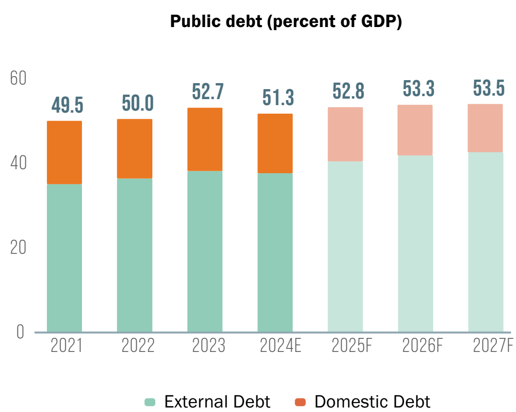
The risk of debt distress remains moderate. The latest joint World Bank-IMF Debt Sustainability Analysis (July 2024), classified Madagascar as having medium debt-carrying capacity and assessed the country to be at moderate risk of external debt distress and moderate risk of overall debt distress. The debt-to-GDP ratio is estimated to slightly decline from 52.7 percent at end-2023 to 51.3 in 2024. Around two-thirds of Madagascar's debt is external, with nearly 60 percent of external debt owed to multilateral creditors on a concessional basis (Figure 1.20).

Figure 1.19. Over 2024–26, the fiscal deficit is projected to stabilize ...



SOURCE: MEF AND WORLD BANK ESTIMATES.

Figure 1.20. ... and the public debt stock is expected to remain stable.



SOURCE: MEF AND WORLD BANK ESTIMATES.

1.6 OUTLOOK, RISKS, AND POLICY RECOMMENDATIONS

Growth is expected to recover, but multiple downside risks cloud the outlook.

Growth is expected to gradually pick up, and output should reach its potential level starting in 2025. Growth is projected to average 4.7 percent over 2025–27, driven by industry (textiles, mining) and services. This projection assumes a continuation of recent structural reforms, including those aimed at strengthening market contestability in key sectors (such as mining and digital) and improving the investment climate. The tourism sector is projected to continue its growth momentum, fueled by rising international travel and efforts to position Madagascar as a key tourism destination (WTTC 2024).[19] Inflation is expected to ease gradually, from 7.2 percent in 2025 to around 6.6 percent over 2026-27.

Over the medium term, a sound external position is expected to support a stable exchange rate. The CAD is projected narrow gradually to around 4.6 percent of GDP by 2027, largely reflecting a narrower trade deficit thanks of improved terms of trade (lower crude oil prices and rising mining exports) and

19 Including by major international travel guides such as Brandt Travel, National Geographic, and Condé Nast Traveler.

rising tourism exports, which should be further strengthened by favorable trade agreements.[20] Gross reserves are expected to remain at adequate levels (around US$3.2 billion, equivalent to roughly 6.3 months of imports) during 2025–27, bolstered by foreign direct investment, grants, and concessional financing. These levels are assessed as adequate to support a stable exchange rate.

The central bank's monetary policy stance is expected to remain restrictive in the short term amid persistent inflation. The new monetary policy framework targeting overnight interest rates is not yet a fully developed inflation-targeting framework.[21] Instead, it adopts a more forward-looking approach, which is expected to improve the effectiveness of monetary policy. The monetary authority continues to monitor the economic environment and has signaled its willingness to increase reference interest rates further should inflationary pressures persist.

The fiscal deficit is projected to reduce to around 3.8 percent of GDP over 2025–27, driven by greater spending efficiency and increased revenue collection. The primary deficit is forecasted to narrow to below 3 percent of GDP over the same period (Figure 1.17). Revenue collection is anticipated to benefit from the rationalization of tax expenditures, renewed momentum in private sector activities, and increased revenues from the mineral sector – as mining projects ramp up investments and production following the enactment of the new mining code. Spending is projected to be contained, notably through a gradual decline in transfers and subsidies over the medium term, reflecting the government's commitment to implement sustained reforms for the operational and financial recovery of JIRAMA. Public debt stock is expected to be maintained at below 55 percent of GDP over the medium term (Figure 1.18).

Recent structural reforms in key sectors are expected to boost private investment. Telecom reforms initiated in 2023 are expected to attract investment along the digital value chain.[22] This, in turn, is anticipated to drive the expansion of mobile and internet coverage and increase access to several digital services, including mobile banking and business processing outsourcing services, and boost employment in the digital sector. Investment in the mining sector is also expected to recover with the revamping of the mining code in 2023.

Key risks to the economic outlook include frequent power outages and challenges posed by climate change, both of which impact manufacturing costs and agriculture sector growth. The power generation partly depends on precipitation and river basin flows, and results in frequent power outages. The insufficient and unstable power supply weighs on output, especially in the manufacturing sector, and pushes up production costs as firms rely on more expensive generator-powered electricity. While agricultural output growth is expected to average 2.3 percent per year during 2024–26, higher than the average of 0.9 percent over the past decade, this growth is vulnerable to climate change.[23] In a context of scarce water resources, the government plans to invest in improved water management and irrigation, alongside measures to support agriculture and rice production.

---

20 Favorable trade agreements include the ratification of the African Continental Free Trade Area, and a potential renewal of the African Growth and Opportunity Act.

21 The mechanism consists in guiding overnight interest rates on the interbank market towards the middle of the corridor.

22 After the reforms, there are five types of telecommunications licenses: fixed (wireline), mobile (mobile radiotelephony), radio data transfer (radio local loop), satellite (satellite telecommunication), and unified (all telecommunication services). The 2023 telecom reforms introduced a "unified licensing approach". Under the new framework, operators could obtain a single comprehensive license that allows them to provide multiple telecommunications service. This approach simplified regulatory compliance and enabled operators to quickly adapt their service offerings based on market demands.

23 The increase in temperature and changes in rain patterns are expected to negatively affect yields.

BOX 1.2. MADAGASCAR'S ECONOMIC CHALLENGES

The economy has been growing at a modest pace, held back by deteriorating infrastructure and declining productivity. A return to political stability helped spur a modest economic revival during 2013–19, as was the case following previous crises. Growth peaked at 4.4 percent in 2019, supported by the reopening of key export markets, resumption of concessional financing flows, and meaningful fiscal and monetary policy reforms. However, growth remained subdued—averaging only 3.5 percent (0.5 percent in per capita terms) over 2013–19—and insufficient to turn the tide of high poverty.

Governance and institutional challenges hindered socioeconomic development. State capture in key sectors reduced market contestability and vested interests impeded reforms, including for the state-owned utility company JIRAMA. Low levels of human capital, slow economic transformation, and high vulnerability to climate and external shocks undermine growth. Labor market participation remains low and uneven between male and female, and between rural and urban areas.

The economy consists primarily of low-productivity agriculture and services, with growth largely concentrated in a few sectors such as mining and construction. The industrial sector is fast-growing but small, while the agriculture sector is large but stagnant. Between 2013 and 2019, the services sector contributed 55 percent to GDP growth, consistent with its dominant share in the economy. Industry, including manufacturing and mining, grew by 8.6 percent and accounted for about half of GDP growth during the same period, mainly driven by two major mining projects launched in 2009 and 2012. By contrast, subsistence agriculture has stagnated due to recurrent natural disasters and deteriorating infrastructure, severely limiting economic opportunities for the rural population.

The country has yet to fully leverage its comparative advantage in commodity exports to accelerate structural transformation. The economic recovery following the political crisis (2009–13) was supported by a resumption of exports, the most dynamic component of aggregate demand over that period. From 2013 to 2019, the sectors with the highest revealed comparative advantage included mining, apparel and textiles, agribusiness, and fisheries, collectively accounting for about three-quarters of the country's total merchandise exports. Information technology-related services, including call centers, business processing operations, and software development, also grew quickly in the years leading up to the pandemic, supported by strong demand and a relatively robust stream of information technology students.

The development prospects are continually hindered by frequent shocks and limited resilience. These shocks, ranging from challenging political environment to climate and health crises, disproportionately affect the poor, with few mechanisms in place to mitigate their impact. Political crises, such as the 2009–12 conflict, have disrupted the benefits of modest growth, while extreme weather events, including cyclones, floods, and droughts, threaten vulnerable rural populations reliant on agriculture. The pandemic, prolonged droughts in the South, and recent cyclones have further exposed systemic weaknesses such as poor infrastructure, limited public services, and insecurity, all of which compound the long-term damage to the economy.

Pathways to rapid, inclusive, and sustainable growth. Reducing extreme poverty requires higher, inclusive growth through broad economic and sector-specific reforms. Key policy measures include improving the business climate; enhancing access to land, finance, and digital services; and scaling up infrastructure, education, health, and nutrition efforts. Strengthening public investment management and making agriculture more resilient are also essential for the recovery. Moreover, addressing governance challenges is critical to ensuring the success of reforms and sustainable development.

The outlook faces significant downside risks, including natural disasters, weak global growth, commodity price fluctuations, and financial instability of state-owned enterprises (SOEs). World Bank climate models predict continued warming, variable rainfall, and less frequent but more intense cyclones in Madagascar, impacting all sectors. Increased climatic events could disrupt agriculture and infrastructure, hindering economic growth and macroeconomic stability. Conflicts in the Middle East and Ukraine, combined with a global economic slowdown, could disrupt import channels, contribute to inflationary pressures, and negatively affect key drivers of growth such as exports and tourism. Domestically, SOEs' financial losses could strain public finances. A major shift toward less concessional debt and limited progress in domestic revenue mobilization pose significant risks to debt sustainability. Poorly selected public investments and delays in implementing reforms add further risks.

To fuel economic growth and improve livelihoods, the authorities need to adopt structural reforms and secure sufficient financing to promote inclusive and resilient growth. Over the past decade, recurrent shocks—including volatile commodity prices, the COVID-19 pandemic, and extreme weather events—have constrained growth and productivity. To achieve high and sustained growth, the authorities need to accelerate critical structural reforms in the energy, digital, and mining sectors while strengthening governance and macro-fiscal resilience. Key measures include:

- **Energy:** Implement reforms to enhance JIRAMA's financial performance, with the aim to provide more reliable and affordable electricity access to the broader population, including women. Digital: Adopt digital reforms to enhance competition and inclusion, with the aim to expand economic opportunities and mobile money access for vulnerable groups, including women in remote rural areas.
- **Mining:** Implement the updated Mining Code and resume the issuance of mining cadaster permits and gold exports to rehabilitate the mining sector and support local community development.
- **Domestic resource mobilization:** Enhance fiscal space through greater domestic revenue mobilization to finance investments and crowd-in the private sector, including improving the tax administration and rationalizing costly tax exemptions in the short term. Efforts for domestic revenue mobilization are needed at both the central and local levels.[24]
- **Fiscal risk management:** Strengthen fiscal risk management through effective monitoring and contingent liabilities managing and ensuring transparency in potential financial exposures. These measures can reduce unexpected budgetary pressure, improve fiscal sustainability and improve long-term planning for fiscal health.

In the long run, reforms should focus further on boosting the productivity that has long stagnated. Productivity matters especially for developing countries because of a more efficient growth and faster catch up. Over the past few decades, declining productivity has counteracted Madagascar's GDP growth. Despite a modest economic growth averaging 2.9 percent annually (2010-2019), GDP per worker actually decreased. The country's workforce is only about one-third as productive as the SSA average, ranking among the lowest in the region. This productivity crisis reflects not just insufficient labor and capital inputs, but declining efficiency in how these resources generate output - creating a fundamental barrier to the country's development. Chapter 2 discusses the challenge in more details with proposed policy recommendations.

24 The Madagascar Urbanization Report (World Bank 2024a) provides detailed actions for resource mobilization at the local level.

Table 1.1. Selected Policy Options for Faster and More Inclusive Growth

OBJECTIVE	POLICY OPTION	TIME FRAME ST/MT[1]	POTENTIAL CHAMPION
Supporting structural reforms in key sectors	Improve the reliability of electricity supply by: ▪ Restoring the operational and financial viability of JIRAMA through the elimination of technical and financial losses, investments in renewable power generation and transmission lines, tariff reforms, reinforcing management, and the restructuring of the company's debts. ▪ Supporting private initiatives for renewable energy generation.	ST	Ministry in charge of energy/ JIRAMA
	Promote competition, market predictability, and transparency in the telecom sector by: ▪ Enforcing obligations to combat abuses in cases of anti-competitive practices through the effective and independent regulation of the sector by the Communication Technologies Regulatory Authority (ARTEC). ▪ Assuring fair allocation and valuation of rare resources such as the telecom spectrum (4G, 5G). ▪ Ensuring universal internet access through the ICT Fund (FDTIC). ▪ Updating the telecommunications legal framework to comply with best practices.	ST/MT	Ministry in charge of digital/ telecom regulator
	Promote responsible and transparent investment, and improved social contributions in the mining sector by : ▪ Promoting formalization of activities through the elimination of all barriers on mining exports. ▪ Aligning the Law on Large Mining Projects (LGIM) with the mining code and the General Tax Code.	ST/MT	Ministry in charge of mining
Strengthening governance and macro-fiscal resilience	Broaden the tax base by: ▪ Improving the effectiveness, efficiency, and equity of existing tax policies. ▪ Rationalizing tax expenditures through the elimination of inefficient tax incentives. ▪ Strengthening the institutional capacity of the tax and customs administration.	ST/MT	Ministry in charge of finance
	Enhance fiscal risk management by: ▪ Improving fiscal risk transparency through improved reporting and disclosure of fiscal risks, including contingent liabilities and exposures from SOEs and local governments. ▪ Effectively managing SOE credit risks through regular assessments of SOEs' financial stability, including debt obligations, liquidity, and operational performance, to identify and mitigate risks that could impact the government's fiscal position and creditworthiness.	ST	Ministry in charge of finance

NOTE: 1) ST = SHORT-TERM MEASURES TO BE COMPLETED WITHIN 1-2 YEARS; MT = MEDIUM-TERM MEASURES THAT REQUIRE 3-5 YEARS TO COMPLETE.


N. 350 KVA

Part 2: Productivity Constraints at the Firm Level

Declining productivity has undermined per capita GDP growth in Madagascar. An average worker in Madagascar is only one-third as productive as the average worker in SSA. Boosting growth will require: (i) improving the productive capabilities of firms; (ii) facilitating the reallocation of resources to more productive firms; and (iii) supporting the entry of new firms and the exit of less productive firms. External factors—such as limited access to finance, inadequate workforce skills, deep infrastructure gaps and unreliable public services—have the greatest negative impact on firm productivity. Alleviating these constraints could unlock rapid productivity growth, with positive implications for employment, poverty, and household welfare.

2.1 PRODUCTIVITY MATTERS

Productivity growth is a key driver of economic growth and enables the creation of more and better-paying jobs. Increasing firm and labor productivity[25] has been a driving force for the development of many countries around the world (Cusolito and Maloney 2018). More productive firms add greater value to the economy through their products and services and are better able to increase their revenue—and thereby wages—than their less productive counterparts. In Madagascar, a manufacturing firm in the top quartile of the labor productivity distribution (i.e., a more productive firm) pays about seven times as much as a firm in the bottom quartile. A service-sector firm in the top quartile pays about five times as much as a firm in the bottom quartile (Figure 2.1) and six times above the minimum wage for a semi-skilled non-agricultural worker.[26] The relationship between productivity and wages in Madagascar shows that increasing productivity is not only needed to boost growth but also to offer better job prospects to Malagasy workers.

This section of the Madagascar Economic Update examines firm-level productivity challenges based on insights from recent surveys and proposes options to boost the productivity of Malagasy firms. Increasing firm productivity is critical to economic development, and the private sector is often the main driver of both productivity growth and job creation. The productivity-related challenges facing the authorities in Madagascar include making the average firm more productive. This chapter uses data from the 2022 World Bank Enterprise Survey (WBES)[27] to analyze recent firm productivity performance, the main drivers of productivity growth, and implications for policymaking.

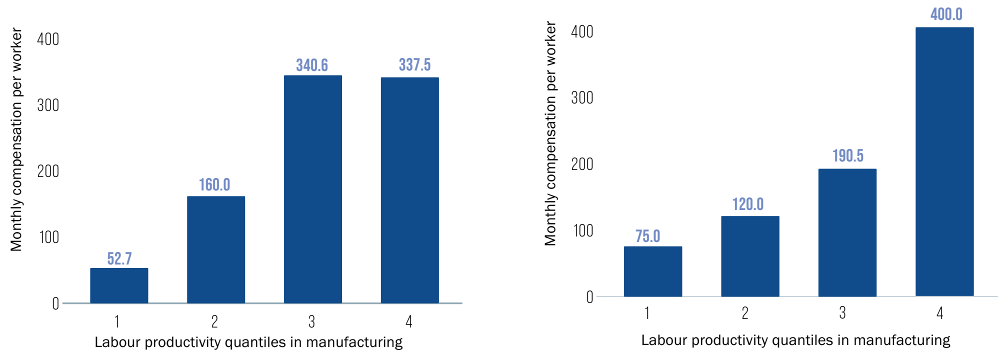
25 Firm productivity refers to how efficient firms are in turning inputs into outputs (i.e., how much production of goods or delivery of services a firm can do with a given amount of labor and capital), which is also referred to as total factor productivity. Labor productivity only refers to labor inputs (i.e., how many employees contributed to the production of a given amount of goods or services). Labor productivity is also calculated as output per worker, and this note uses both measures of productivity based on the available data.

26 Labor productivity is calculated as log of sales per worker. Compensation is measured by total labor costs and includes wages, benefits, and social security payments, and it is reported on a monthly basis. This note divides sales by the number of full-time employees adjusted for temporary workers. In Madagascar, more productive firms offer better jobs in terms of labor compensation (wages and other benefits) (Figure 2.1). According to the International Labour Organization, the gross monthly minimum wage in Madagascar was US$45 in 2022 (ILO 2024); however, the minimum wage varies depending on sector and seniority of the worker (Wage Indicator 2024).

27 The WBES is a nationally representative firm-level survey that includes interviews with top managers and owners of businesses using a globally comparable questionnaire that covers a broad range of business environment topics as well as firms' characteristics and performance measures. In Madagascar, the latest survey was conducted in 2022-23, and it covered 402 formal firms with more than 5 employees in the food, garments, other manufacturing, wholesale, retail, or other services sectors located in the Analamanga, Anosy, Atsimo Andrefana, Atsinanana, Boeni, Diana, Sava, or Vakinakaratra regions. All data reported in this section of the Madagascar Economic Update correspond to WBES 2022 data unless otherwise stated.

Figure 2.1. Monthly Compensation per Worker Measured by Total Labor Costs (ariary thousands), 2022

A—Manufacturing B—Services



SOURCE: STAFF CALCULATIONS BASED ON WBES 2022.

2.2 PRODUCTIVITY IN MADAGASCAR: TRENDS AND FEATURES

Madagascar has long suffered from low and declining productivity, which has weighed on its socioeconomic development. Low productivity is one of the key development challenges facing the country. Over the past three decades, negative total factor productivity has undermined GDP growth. Between 2010 and 2019, Madagascar's economy grew at an annual average rate of 2.9 percent, but GDP per worker declined by 0.2 percent per year.[28]

Demographic change and employment have been the main drivers of per capita value-added growth, but negative labor productivity has undermined growth (Figure 2.2). The economy has not only absorbed fewer workers and capital, but the efficiency by which they have contributed to output has also declined. [29] As a result, the average Malagasy worker is only one-third as productive as the average worker in SSA.

Figure 2.2. Shapley Decomposition of per Capita Value-Added Growth

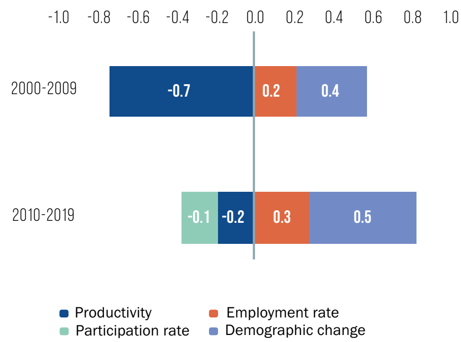
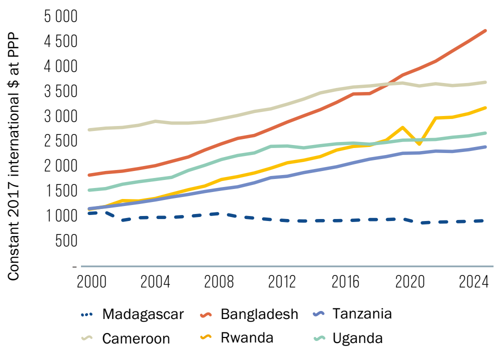


Figure 2.3. Labor Productivity: Madagascar and Comparators [30]



28 The stated numbers are annual averages. The country's cumulative annual growth rate fell from 3.5 percent in 2010 to 1.1 percent in 2019. GDP per worker is computed as total real GDP divided by the total employed population aged 15 and older.

29 For instance, in 2022, there was no employment growth, while real annual sales plummeted by 9 percent

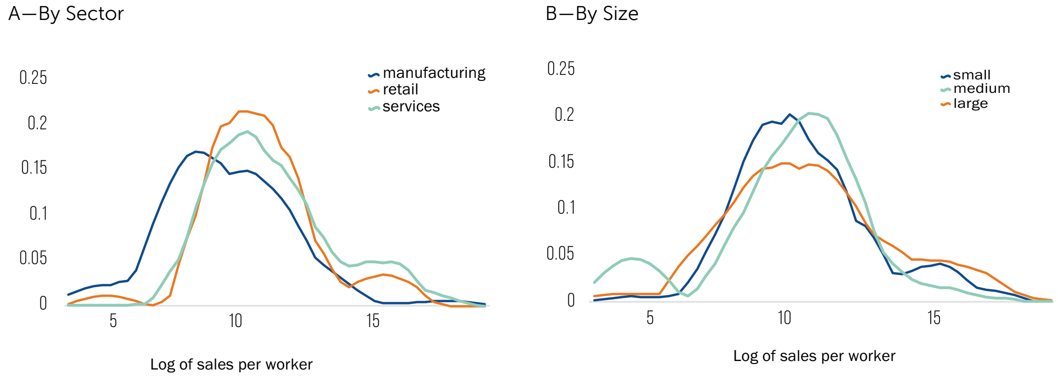
30 Throughout this analysis, Bangladesh, Cameroon, Rwanda, Tanzania, and Uganda are used as comparators to benchmark Madagascar's performance.

SOURCES: STAFF CALCULATIONS BASED ON DATA FROM ILO AND WDI (2024); IFPRI 2013.

Low productivity, especially in the private sector, remains a key development challenge. Compared to Uganda, Cameroon, Tanzania, and Rwanda, Madagascar has the lowest labor productivity (Figure 2.3). Labor productivity in Madagascar has declined over the past two decades and is now the second lowest in SSA, just above Burundi and half the SSA average. Low labor productivity coincides with the negative contribution of total factor productivity to growth, indicating that as the economy expands with more labor and capital, the efficiency by which these inputs contribute to output has been declining.

Firms' size, age, and level of foreign ownership, the gender of the manager, and export activity are correlated with differences in productivity performance. Although the level of sales per worker is similar in all firms, regardless of their type of products and size, medium-sized firms achieve higher levels of labor productivity than their small and large counterparts (Figure 2.4, Panel b). Meanwhile, services firms have higher labor productivity levels than manufacturing firms (Figure 2.4, Panel a). Foreign companies also tend to be more productive than locally owned firms, while female-managed firms tend to be less productive than male-managed firms, likely due to greater challenges faced by female managers, such as limited access to credit.

Figure 2.4. Labor Productivity by Sector and Firm Size



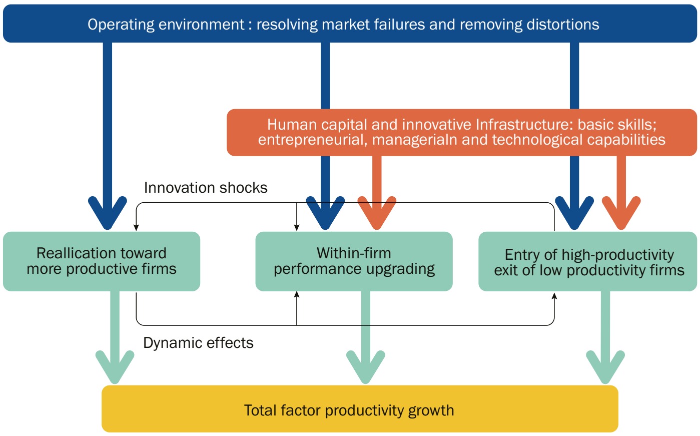
SOURCE: STAFF CALCULATIONS BASED ON WBES (2022).

NOTE: LABOR PRODUCTIVITY IS CALCULATED AS LOG OF SALES PER WORKER. RESULTS ARE BASED ON ORDINARY LEAST SQUARES REGRESSIONS, WITH HETEROSKEDASTIC STANDARD ERRORS.

2.3 DRIVERS OF PRODUCTIVITY GROWTH

There are three main sources of productivity growth: within-firm, between-firm, and selection productivity growth (Cusolito and Maloney 2018). Within-firm productivity growth involves increasing a firm's capabilities (e.g., through technological advancements, organizational practices, and innovation) and can be controlled by its management (Figure 2.5). Between-firm growth comes from factors outside of the firm's control, such as equal access to productivity inputs that promote better competition, and that affect the reallocation of resources from less to more productive firms. Finally, selection growth relies on both the extent of the entry and exit of firms (enabling 'creative destruction') and the capabilities of new entrants. This source of productivity emphasizes the impact of market forces on productivity, as less efficient firms exit the market while more productive firms enter, increasing aggregate productivity.

Figure 2.5. **Drivers of Productivity Growth**



SOURCE: CUSOLITO AND MALONEY 2018.

2.3.1 Within-Firm Growth

Although skills are a major constraint, firms are not filling the gap through training. Only 10 percent of the country's firms offer formal training to their employees, much lower than the SSA average of 27 percent (Figure 2.7). Large and export-oriented firms are more likely to offer training than their smaller and non-exporting counterparts. High employee turnover disincentivizes firms to provide formal training (WBG 2021b). While Malagasy firms have increased the share of skilled workers over the past 15 years, skilled labor remains scarce, and the lack of inputs needed to boost productivity persists (Figure 2.6).

In 2022, roughly one-third of firms (30 percent) identified an inadequately educated workforce as a major constraint to their operations and growth—almost double the SSA average of 17 percent (Figure 2.7). The lack of a skilled workforce is linked to deficiencies in the education system, as reflected in its low Human Capital Index of 0.39 (UNDP 2024). According to UNESCO Institute for Statistics (2024), in 2021, only 18.4 percent of the Malagasy population aged 25 and older have completed lower secondary education. Furthermore, existing training programs often fail to align with employee needs, and 23 percent of the country's firms identify labor regulations—such as rules governing contracts or working conditions—are a major barrier to growth.

Innovation encompasses the introduction of new or significantly improved processes. These processes include methods related to manufacturing products, offering services, or improving logistics, delivery, or distribution for inputs, products, or services. Among Malagasy firms, the most common form of innovation is the introduction of new products or services that are also new to their primary market.

Figure 2.6. Share of Skilled Workers and Labor Productivity in the Manufacturing Sector

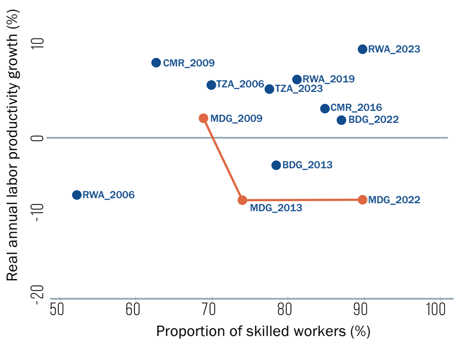
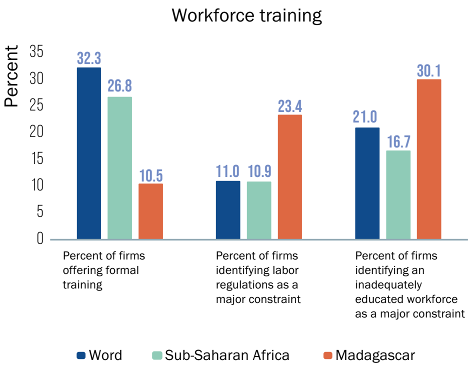


Figure 2.7. Workforce Training: Madagascar, SSA, and World



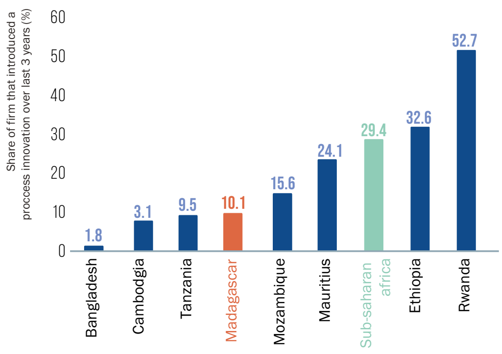
SOURCE: STAFF CALCULATIONS BASED ON WBES 2022.

Despite efforts to expand technology adoption, the current expenditure in drivers of innovation is insufficient. In 2022, only 10 percent of firms introduced a process innovation, far below the SSA average of 29.4 percent. Malagasy firms also lag behind their counterparts in comparator countries in terms of introducing new products or services, with only 26 percent of them doing so in 2022, lower than an average of 39 percent in SSA (Figure 2.8, Panel a). Although a larger share of Malagasy firms reported R&D expenditures than some comparator countries, R&D spending remains below the regional average and far behind that of other faster-growing economies (Figure 2.8, Panel b).

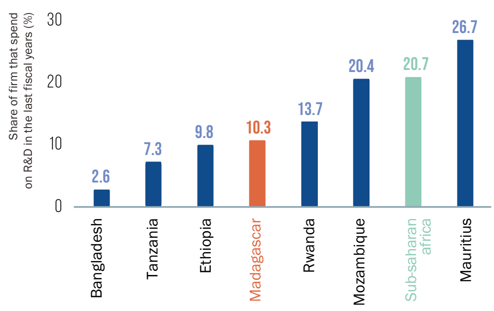
The slow pace of investment in inputs to boost innovation has negatively impacted technology adoption in Madagascar. For example, since 2013, there are fewer Malagasy firms that have their own website, license foreign technology to produce goods or deliver services, and have an internationally recognized quality certification (Figure 2.9). Innovation is correlated with firm size, with larger firms more likely to have the resources and economies of scale to spend on R&D. Wadho and Chaudhry (2022) argue that smaller firm size is also associated with financing constraints, lack of competition and/or exposure to international markets, and the low level of education of managers and workers.

Figure 2.8. Firms in Madagascar need to innovate more.

A—Process Innovation

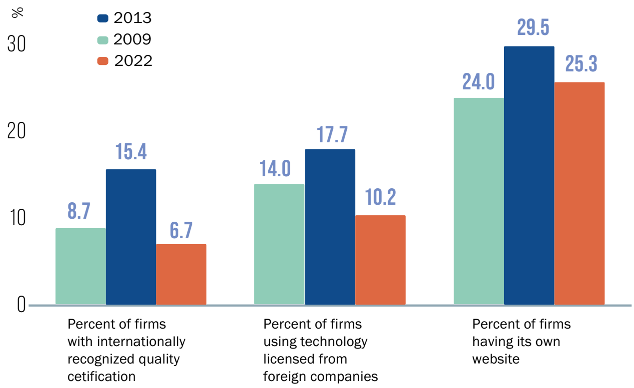


B—R&D Spending



SOURCE: STAFF CALCULATIONS BASED ON WBES 2022.

Figure 2.9. Technology Adoption



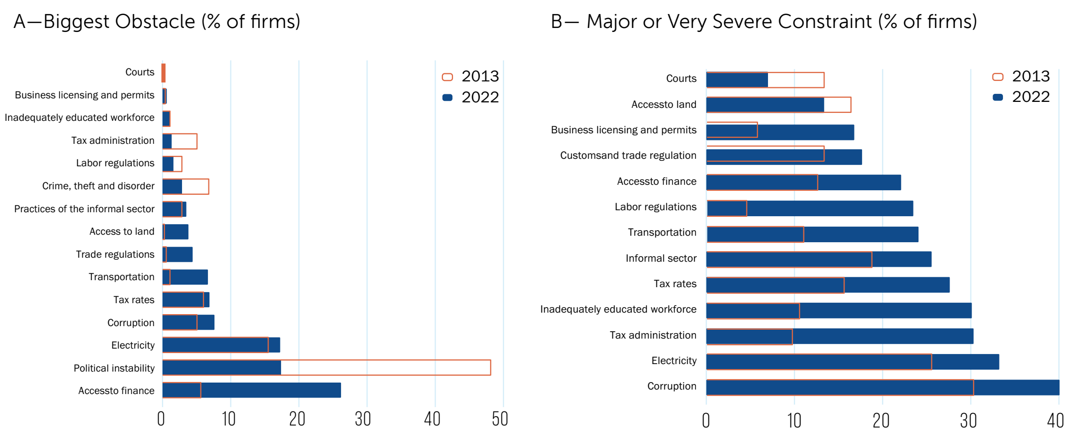
SOURCE: STAFF CALCULATIONS BASED ON WBES 2022.

2.3.2 Between-Firm Growth

Surveyed firms perceived that limited access to finance, prolonged periods of political uncertainty, and lack of access to public services (e.g., electricity) are the long-standing bottlenecks to doing business in Madagascar. In 2022, 26 percent of surveyed firms indicated that access to finance was a major or very severe constraint, compared to only 5 percent in the 2013 survey. This constraint, along with unreliable electricity supply, represents one of the biggest concerns for nearly half of the firms in the country. Fewer firms cite political instability as a biggest obstacle to doing business, with the share of firms citing it as a major business barrier falling from 48 percent in 2013 to 17.3 percent in 2022.[31]

Meanwhile, corruption remains as a top obstacle, with 7 percent of firms identifying this factor as their biggest impediments, and nearly 40 percent of firms identifying it as one of the major constraints. In addition, 7 percent of firms cited tax rates as the biggest obstacle, while another 6 percent pointed to poor infrastructure (Figure 2.10, Panel a). Around one-fourth of all firms have expressed that both tax rates and poor infrastructure are severe constraint to their growth—a negative perception that has increased since 2013, when only 15 percent of firms considered them severe constraints (Figure 2.10, Panel b).

Figure 2.10. Biggest Obstacles and Major Constraints to Doing Business, 2013 and 2022



SOURCE: STAFF CALCULATIONS BASED ON WBES 2022.

31 This trend is closely linked to the evolution of the political environment in Madagascar, as the 2013 survey was conducted during the political transition period that started in 2010.

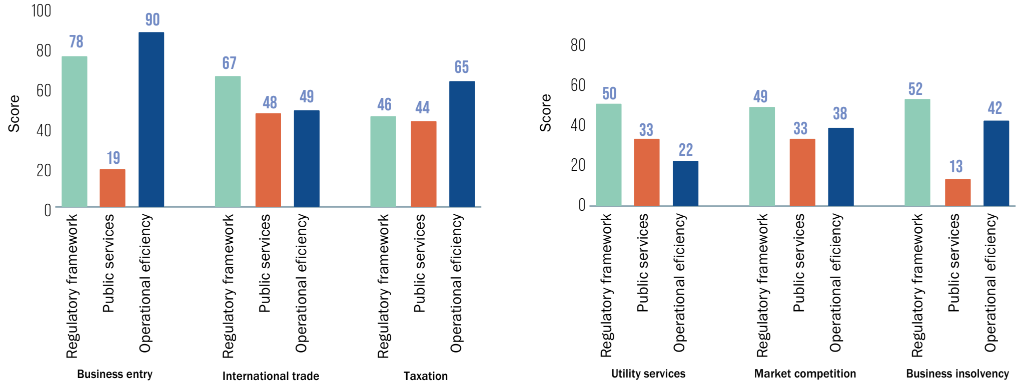
Insufficient access to finance limits investment opportunities, constraining firm growth and productivity. Only 8 percent of Malagasy firms report having access to a bank loan/line of credit, much lower than the SSA and worldwide averages of 19.5 and 32 percent, respectively. Access to bank financing is concentrated in large firms (37 percent have bank loans) and is critically low for small firms (5 percent). While 61.8 percent of firms report having checking/savings accounts, only 12.5 percent of firms use banks to finance working capital, with 14.2 percent of them relying on supplier/customer credit to finance working capital. Furthermore, only 1.1 percent of firms' investments and 5.1 percent of their working capital are financed by banks in Madagascar, lower than the SSA average of 8.9 and 8.0 percent, respectively. The country's performance on various access to finance indicators points to serious constraints for firms to access the capital needed to grow their business and increase productivity Moreover, the top reasons for people in Madagascar not having an account at a financial institution are the remoteness of financial institutions, cost of financial services, and lack of funds (Global Findex Database 2021).

Limited access to electricity and transport infrastructure remains a constraint for firms in Madagascar. More than half (52 percent) of firms experience electrical outages, with 6.3 outages in a typical month lasting an average of 3.9 hours each. Firms' losses due to electrical outages average 24 percent of annual sales, which is much higher than the SSA and worldwide average of 8.3 percent and 4.0 percent, respectively. Firms report that it takes 73 days, on average, to install an electrical connection, higher than the SSA average of 40 days. About 20.5 percent of the country's firms report experiencing an average of two water insufficiencies in a typical month. Madagascar has one of the lowest road densities in the world, with 70 percent of existing roads being in poor condition and only 11 percent of the rural population having access to an all-season road. As a result of the poor quality of transport-related infrastructure, the country ranked 136th out of 138 countries in the Infrastructure Score of the 2023 World Bank's Logistics Performance Index. Madagascar's infrastructure shortcomings have an impact on both the productivity and competitiveness of its firms.

The business climate has benefited from simplified business and tax registration processes but remains hampered by poor utility services, low-quality public services related to business insolvency proceedings and business entry, and unclear market competition. A sound regulatory framework and improved operational efficiency for easy business registration have fostered an environment conducive to starting a business. However, subpar public services—such as limited digital services and low transparency of online information —hinder the start-up ecosystem. Additionally, deficiencies in transport infrastructure, unreliable electricity access, and inefficient public utility services (e.g., water or internet) place Madagascar among the lowest- scoring countries for utility services in the region (World Bank 2024b). Weak institutional and operational frameworks for judicial insolvency proceedings further undermine confidence in debt resolution processes and creditor-debtor relations. Moreover, limited public services that promote fair market competition reflect an underdeveloped innovation-oriented ecosystem that facilitates incubators and accelerators, as well as insufficient digitalization of e-procurement procedures that could streamline key procurement processes (Figure 2.11).[32]

32 A detailed description and methodology of the pillar and category scores can be found in the World Bank Business Ready Report (World Bank Group, 2024b).

Figure 2.11. Top and Bottom Scores of the Business-Ready Environment Pillars



SOURCE: STAFF CALCULATIONS BASED ON B-READY REPORT 2024.

NOTE: A SCORE OF 100 INDICATES A HIGH SCORE. ONLY 14 SUB-SAHARAN COUNTRIES ARE COVERED IN THIS REPORT. MADAGASCAR'S CLOSEST NEIGHBORS, MAURITIUS AND SEYCHELLES, EXCEEDED MADAGASCAR'S SCORES, ESPECIALLY THOSE IN THE PUBLIC SERVICES PILLAR.

2.3.3 Selection Growth

Cumbersome government regulations and procedures exacerbate the difficulties faced by new firms in Madagascar. Firms in the country report that it takes an average of 12 days to obtain an operating license, 36 days to obtain a construction-related permit, and 17 days to obtain an import license. Many firms see the business environment as a deterrent to growth: 30.3 percent of firms identified tax administration as a major constraint; 27.6 percent identified tax rates as a severe constraint; and 16.8 percent considered business licensing and permits an important constraint (Figure 2.10, Panel b). These challenges have contributed to the country's low business density rate. Between 2006 and 2022, Madagascar registered an average of 0.1 newly registered firms with limited liability per 1,000 working-age people per year—one of the lowest new business density rates in SSA and globally—compared to 2.1 and 0.9 per 1,000 working-age people in Rwanda and Uganda, respectively (Entrepreneurship Database 2024).

Figure 2.12. Firm Productivity: Exporters v. Non-Exporters

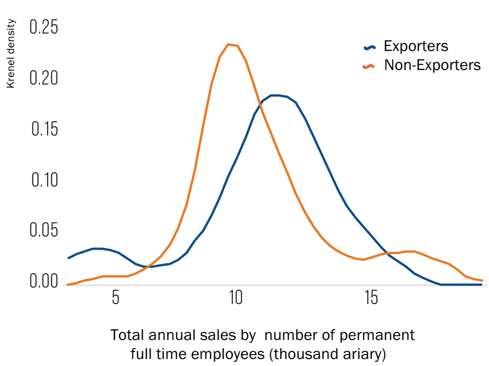
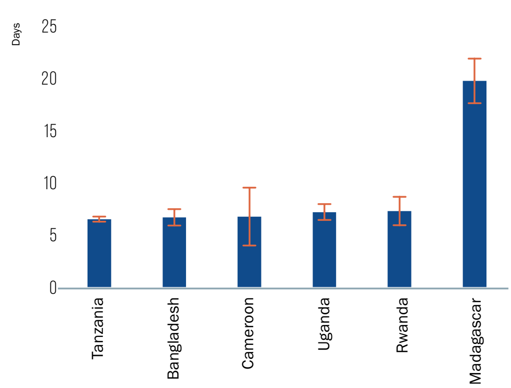


Figure 2.13. Days to Clear Direct Exports through Customs



SOURCE: STAFF CALCULATIONS BASED ON WBES 2022.

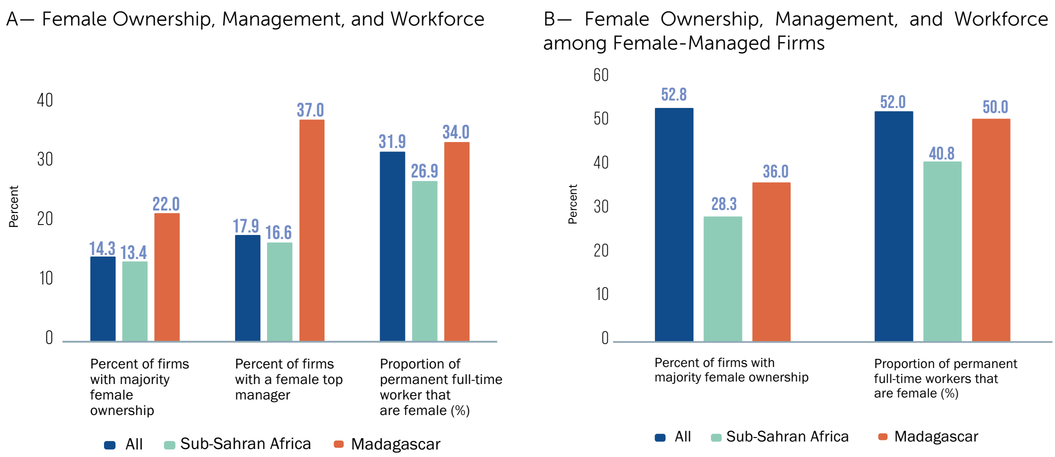
Firms that export are, on average, more productive than their non-exporting counterparts (Figure 2.12). This highlights the importance of access to international markets in driving productivity dynamics. However, only a small number of Malagasy firms are exporters, partly due to constraints faced by exporting firms. For example, it takes an average of 19 days to clear direct exports through customs, compared to an average of less than 8 days in comparator countries and 11.3 days in SSA (Figure 2.13). To improve the productivity of Malagasy firms, the authorities need to support an increased access to international markets.[33]

2.3.4 Women-Led Businesses in Madagascar

Constraints are often more severe for women-led firms. Women-owned and managed firms are more likely to face barriers to doing business and accessing support than their male-owned and managed counterparts. Research shows that the performance of women-led businesses is often constrained by the size or sector they operate in and hampered by differential use and access to support and innovation.[34] Addressing these specific constraints is essential for fostering the growth of women-led businesses and promoting inclusive growth.

Madagascar performs well in terms of female management and ownership in the private sector. The share of small and medium-sized enterprises (SMEs) and large firms with female top managers and owners is higher in Madagascar than the average in SSA and the rest of the world (Figure 2.14, Panel a). According to the 2022 WBES, A total of 21.6 percent of firms in the country recorded female majority ownership in 2022, an increase from 10.5 percent in 2009. More than one-third (37.3 percent) of firms reported having a female top manager in the same year, up from 28.2 percent in 2013. Female business owners tend to hire more women as managers than their male counterparts, and female management seems to correlate with higher participation of women in a company's workforce: 50 percent when the company is managed by a woman (Figure 2.14, Panel b) compared to 33 percent in an overall sample of companies.[35]

Figure 2.14. Women-Led Businesses



SOURCE: STAFF CALCULATIONS BASED ON WBES 2022.

33 Access to markets is also a challenge in Madagascar. Many regions, such as Taolagnaro (Fort Dauphin) in the southern region of Anosy, are effectively economic 'enclaves,' with very poor connectivity to other regions, especially those producing or commercializing inputs. Poor connectivity includes inadequate road, air, and port infrastructure, which is likely to negatively impact the ability of firms in the regions outside the capital of Antananarivo to operate and be competitive.

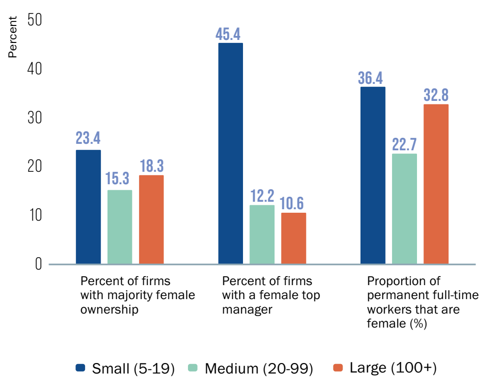
34 Several studies have also found that female-owned or run firms struggle more than their male-owned or run counterparts in terms of performance. For instance, in a comprehensive study of 126 countries, Islam et al. (2020) find that the labor productivity of women-owned firms is 11 percent lower than that of men-owned firms. Other studies include World Bank (2019), Allison et al. (2023), Fang et al. (2022), and Atiyas and Dutz (2023).

35 This could indicate that women employ more women when they are managers, or that women tend to manage firms in sectors where more women participate in the workforce.

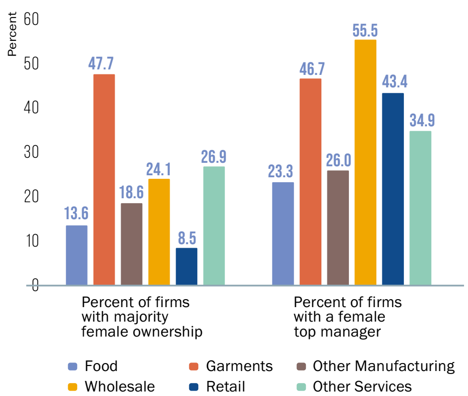
The share of female ownership and management is higher among small firms and in the garments and wholesale sector.[36] In 2022, 45.4 percent of small firms had a female top manager, much higher than 12.2 percent of medium-sized firms and 10.6 percent of large firms. Small firms also have a higher share of female-majority ownership and a greater proportion of female workers than medium-sized and large firms. Female management was highest among firms in the garments, retail, and wholesale sector, while female ownership was the highest among firms in the garments sector, followed by services and the wholesale sector. However, female majority ownership was low among firms in the retail sector despite a high share of female management—only 8.5 percent of retail firms were female-owned, while 43.4 percent of them were managed by women.

Figure 2.15. Features of Firms Owned or Managed by Women

A— By Size



B—By Sector



SOURCE: STAFF CALCULATIONS BASED ON WBES 2022.

Women-led firms face more constraints in access to finance, quality certification, and qualified workforce than their men-led counterparts, which hampers their productivity. The share of female-managed firms reporting access to finance as a major or severe constraint to doing business is almost double that of male-managed firms (30.3 percent compared to 16.6 percent, respectively). A total of 15.7 percent of firms managed by women reported having a recent loan application rejected, higher than 1.5 percent of firms managed by men. Fewer female-managed firms have checking or saving accounts than their male counterparts, and more male-led firms have internationally recognized quality certifications (8.8 percent) than female-led firms (2.9 percent). Given that international quality certification frequently is a precondition to export in many sectors, male-led firms are more likely to be engaged in exports. Only 76.9 percent of workers in these firms were skilled, lower than 99.2 percent in male-managed firms.

Improving the performance of women-owned and managed firms could significantly increase productivity growth. While the share of women-owned and managed firms has increased, they continue to face a myriad of challenges that would need to be addressed to improve the overall productivity of Malagasy firms. Women-led firms face constraints that keep them from achieving similar levels of performance of men-led firms. Specific areas where the implementation of both public and private initiatives could promote the growth of women-owned firms include improving access to finance, increasing childhood care needs, and facilitating training programs for them.

36 The WBES 2022 only covers firms in the food, garments, other manufacturing, wholesale, retail, and other services sectors, excluding firms in the agricultural sector.

2.4 POLICY RECOMMENDATIONS

Firms' capabilities to innovate, train their employees, and adopt new technologies are limited and lower in Madagascar than in comparator countries in the region. Firms face challenges in accessing finance to expand their businesses or invest in productivity-enhancing equipment, limiting their ability to increase production and productivity and develop new products. Barriers to accessing markets within the country include infrastructure and connectivity constraints that make operating in one of the regions outside the capital of Antananarivo costly and complex. Accessing foreign markets is also difficult, as local companies are isolated from global markets and have little knowledge about international technology trends. Furthermore, the conditions under which Malagasy companies operate make them less competitive internationally. For example, the country's cumbersome regulatory framework and poor intra-city and national road make them spend more time and resources on regulatory procedures and transportation than their counterparts in the region.

Implementing a comprehensive reform program that addresses the main constraints faced by businesses is critical to improve productivity and economic growth. Reforms include adopting legislation (such as a start-up act) and procedures to facilitate the entry and operation of start-ups, and promoting entrepreneurship training to encourage the creation of new businesses; establishing an SME acceleration program, coupled with worker training and technology adoption initiatives to strengthen existing firms; developing leasing options and digital financial services to expand access to finance; and advancing business environment reforms, such as digitizing government services. The design of these reforms should consider international best practices to ensure efficient use of limited resources. The sustainability of reforms across political cycles is critical, since these initiatives often require sustained efforts over several years to produce the productive and competitive transformation needed in the country.

Specific interventions should target women-led small firms to improve the training of employees, facilitate adoption of and access to technologies, and improve financing options. The entrepreneurship support system needs to be strengthened so that more and better start-ups transform their ideas into commercially viable businesses. More SMEs need to be supported to export products (e.g., agrobusiness) and services (e.g., tourism and business outsourcing services). This will likely need to include both financial and technical support to increase their productivity and the quality of products and services to levels that meet international buyers' demands, as well as support to enhance market access.

In addition to energy and transport infrastructure reforms, the adoption of legislative reforms could help spur investments. The recent passing of the 2023 Investment Law shows that the country can modernize and update its laws and regulations to create a more conducive business environment. The authorities need to enhance the 2023 law and implement reforms to facilitate business operations, make it easier to start a new business, and attract investments to make the country more competitive and productive.

There are ten potential policy reforms targeting five goals that address the constraints faced by businesses in Madagascar:

- Promoting the entry of new firms: adopt reforms to facilitate the entry and operation of start-ups and promote basic entrepreneurship training.
- Improving the productivity of existing firms: introduce acceleration programs for SMEs, expand access to market information, increase training programs, and support technology adoption.
- Expand access to finance: Implement the new National Strategy for Financial Inclusion, promote digital financial services, scale up schemes to benefit women-led firms, and develop leasing instruments to facilitate access to finance.
- Improving infrastructure: improve critical infrastructure especially in transport. .
- Improving business environment: simplify existing export procedures and streamline government-to-business services, including customs clearance.

Table 2.1. Policy Options for Boosting Firm Productivity

OBJECTIVE	POLICY OPTION	TIME FRAME ST/MT1	POTENTIAL CHAMPION
Promoting the entry of new firms	Adopt reforms to facilitate the entry and operation of start-ups during their first years of growth (though a start-up act or similar legislation for example).	ST/MT	Ministry in charge of industry
	Promote basic entrepreneurship training and the incubation of start-ups, including separate and focused programs targeting female entrepreneurs.	ST/MT	Ministry in charge of industry
Improving the capabilities of existing firms	Implement acceleration programs and improve access to market information for SMEs, including by leveraging the adoption of digital tools and technologies.	ST/MT	Ministry in charge of industry
	Expand and support training programs for workers, leveraging the participation of the private sector in the design and implementation of programs and their content.	ST/MT	Ministries in charge of industry, agriculture, and tourism
Increasing access to finance	Implement the new National Strategy for Financial Inclusion (NSFI) 2024–2028.	ST	Ministry in charge of finances
	Implement the decree on liberalization of USSD to promote digital financial services.	ST	Telecommunication regulator
	Scale up the Partial Portfolio Credit Guarantee (PPCG) scheme to benefit more micro, small, and medium-sized enterprises led by women and operating in strategic sectors such as agribusiness, tourism, information and communication technologies, and energy.	ST/MT	Ministry in charge of finances
	Develop leasing instruments to help SMEs increase their access to finance.	ST/MT	Ministry in charge of finances
Improving infrastructure	Restore transport infrastructure by: ▪ Accelerating the rehabilitation of national roads in the pipeline. ▪ Reforming the governance of the Road Fund to enable regular road maintenance. ▪ Adopting and implementing the decree on load axle control to preserve roads.	ST/MT	Ministry in charge of public works
Improving business environment	Review, simplify, and digitize government-to-business services, including customs clearances.	MT	EDBM, municipalities, and ministries in charge of industry and other relevant ministries

NOTE: 1) ST = SHORT-TERM MEASURES TO BE COMPLETED WITHIN 1-2 YEARS; MT = MEDIUM-TERM MEASURES THAT REQUIRE 3–5 YEARS TO COMPLETE.

Part 3 : Bibliography

Acemoglu, D. and Robinson, J.A. 2012. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty.* Crown Publishers, New York.

Allison, L., Liu, Y., Murtinu, S. and Wei, Z., 2023. Gender and firm performance around the world: The roles of finance, technology and labor. *Journal of Business Research,* 154, p.113322.

Atiyas, I. and Dutz, M.A. 2023. "Digital Technology Uses among Microenterprises",Policy Research Working Paper, *10280, pp. 1-43.*

Cusolito, Ana Paula, and William F. Maloney. 2018. *Productivity Revisited: Shifting Paradigms in Analysis and Policy. Washington, DC: World Bank.*

Dugas, M., Lim, J. R., Mulangu, F., Oviedo, A. M., and Pinzon, D. 2024. *Reducing elite capture through prosocial behaviors: Evidence from a large-scale field experiment among elites in Madagascar*. Mimeo.

Fang, S., Goh, C., Roberts, M., Xu, L.C. and Zeufack, A., 2022. Female entrepreneurs and productivity around the world: Rule of law, network, culture, and gender equality. *World Development, 154, p.105846.International Food Policy Research Institute (IFPRI). 2013. "Total and Partial Factor Productivity in Developing Countries."* https://doi.org/10.7910/DVN/2S8BZ6.

Gaspar, V., Jaramillo, L. and Wingender, P. 2016. "Tax Capacity and Growth: Is There a Tipping Point?", *IMF Working Paper WP/16/234,* Washington, DC: International Monetary Fund.

Gaspar, V., Amaglobeli, D., Garcia-Escribano, M., Prady, D. and Soto, M. 2019. "Fiscal Policy and Development: Human, Social, and Physical Investments for the SDGs", *IMF Staff Discussion Note SDN/19/03,* Washington, DC: International Monetary Fund.

Institut National de la Statistique (INSTAT). 2018. *Troisième Recensement Général de la Population et de l'Habitation (RGPH-3): Résultats Provisoires.* Antananarivo, Madagascar: INSTAT.

Institut National de la Statistique. 2024. *Enquête permanente auprès des ménages 2021-2022.* Antananarivo, Madagascar: INSTAT.

Institut National de la Statistique & ICF Macro. 2010. *Enquête Démographique et de Santé de Madagascar 2008-2009.* Antananarivo, Madagascar & Calverton, Maryland, USA: INSTAT & ICF Macro.

Institut National de la Statistique & ICF. 2022. *Enquête Démographique et de Santé à Madagascar 2021.* Antananarivo, Madagascar & Rockville, Maryland, USA: INSTAT & ICF Macro.

International Monetary Fund (IMF). 2023. *World Economic Outlook: Navigating Global Divergences.* Washington, DC: International Monetary Fund.

International Monetary Fund. 2024. *World Economic Outlook: Policy Pivot, Rising Threats.* Washington, DC: International Monetary Fund.

Islam, A.M., Gaddis, I., Palacios López, A. and Amin, M., 2020. The labor productivity gap between formal businesses run by women and men. *Feminist Economics,* 26(4), pp.228-258.

Wadho and Chaudhry. 2022. "Innovation strategies and productivity growth in developing countries: Firm-level evidence from Pakistani manufacturers." Journal of Asian Economics Volume 81, August 2022, 101484.

Wage Indicator. 2024. "Minimum Wage – Madagascar." https://wageindicator.org/salary/minimum-wage/madagascar.

World Bank Enterprise Survey (WBES). 2022.

World Bank. 2017. World Development Report 2017: *Governance and the Law.* World Bank, Washington, DC.

World Bank. 2019. Profiting from Parity: Unlocking the Potential of Women's Business in Africa. World Bank, Washington, DC. http://hdl.handle.net/10986/31421

World Bank. 2021a. The Global Findex Database 2021. Washington, DC: World Bank.

World Bank. 2022. *Madagascar - Systematic Country Diagnostic: The Urgency of Reforms - Structural Transformation and Better Governance at the Heart of the Strategy to Reduce Poverty.* Washington, D.C.: World Bank Group.

World Bank. 2023a. *Commodity Markets Outlook: Under the Shadow of Geopolitical Risks*. October 2023. Washington, DC: World Bank.

World Bank. 2023b. *Public Expenditure and Institutional Review.*

World Bank. 2024a. *Madagascar Urbanization Review: Leveraging Cities as Drivers of Growth and Structural Transformation*. Washington, DC: World Bank.

World Bank Group (WBG). 2021b. "Country Private Sector Diagnostic: Creating markets in Madagascar for Inclusive Growth."

World Bank Group. 2024. "Business Ready Report 2024". https://www.worldbank.org/en/businessready.

World Development Indicators (WDI). 2024.

World Travel & Tourism Council (WTTC). 2024. "Travel & Tourism set to Break All Records in 2024, reveals WTTC." April 4, 2024. https://wttc.org/news-article/travel-and-tourism-set-to-break-all-records-in-2024-reveals-wttc.

Part 4: Annexes

Annex 1. Madagascar: Selected Economic Indicators, 2021-2027

	2021	2022	2023	2024	2025	2026	2027
				Est.	Projections		
NATIONAL INCOME AND PRICES	*annual percent change, unless indicated otherwise*						
Real GDP	4.7	4.2	4.2	4.2	4.6	4.7	4.8
GDP Deflator	6.3	9.6	7.5	7.6	7.2	6.8	6.4
Agriculture	-2.5	2.0	5.3	4.8	4.8	3.9	3.9
Industry	20.3	9.3	1.8	3.2	4.2	4.6	4.8
Services	7.1	3.4	4.4	4.2	4.6	5.1	5.2
Private Consumption	2.9	0.1	4.5	2.6	2.6	2.6	2.6
Government Consumption	-2.6	5.7	-1.1	-4.1	-0.7	5.0	5.0
Gross Fixed Investment	8.3	4.4	3.3	17.5	18.9	11.3	7.4
Gross Fixed Investment - Private	27.3	2.2	-11.0	24.7	27.9	8.8	5.3
Gross Fixed Investment - Public	-27.7	11.5	46.8	4.2	-1.0	18.2	12.9
Net export	-15.0	8.6	-24.4	1.0	28.9	11.7	1.8
CPI (year-average)	5.8	8.2	9.9	7.6	7.2	6.8	6.4
MONEY AND CREDIT	*annual percent change unless otherwise indicated*						
Exchange Rate (to US$, average)	3830.0	4096.1	4429.6	4525.4	...	...	...
REER	-1.1	3.1	-1.2	3.3	...	...	...
Broad money	13.3	12.0	10.2	11.8	14.9	13.1	13.2
Credit to economy	19.9	17.0	1.1	9.8	12.4	14.3	14.6
PUBLIC FINANCE AND DEBT	*percent of GDP unless otherwise indicated*						
Total expenditure	13.9	16.2	17.9	16.9	15.8	16.5	17.0
Total revenue and grants	11.1	10.8	13.7	13.6	12.1	12.5	13.3
Overall balance (incl. grants)	-2.8	-5.5	-4.2	-3.3	-3.8	-4.0	-3.7
Primary Fiscal Balance	-2.2	-4.9	-3.5	-2.6	-2.9	-3.0	-2.9
Total public debt	49.5	50.0	52.7	51.3	52.8	53.3	53.5
External public debt	34.8	36.1	37.8	37.3	40.1	41.5	42.2
Domestic public debt	14.8	13.9	14.9	13.9	12.7	11.9	11.3
EXTERNAL ACCOUNTS	*percent of GDP unless otherwise indicated*						
Exports, Goods and Services	23.4	30.3	26.6	23.3	21.8	22.2	22.1
Imports, Goods and Services	33.4	39.5	34.8	32.0	30.7	30.7	30.1
CAD (incl. current transfer)	-4.9	-5.4	-4.7	-5.0	-5.5	-5.1	-4.6
Foreign Direct Investment	1.7	2.1	2.2	2.8	1.9	2.2	2.3
Terms of Trade (% change)	-13.8	-4.1	-13.4	-4.7	3.3	2.6	0.2
OTHER MEMO ITEMS							
GDP nominal (MGA billions)	54,978	62,775	70,297	78,837	88,422	98,887	110,270
GDP nominal (US$ billions)	14,355	15,326	15,870	17,421	...	...	...

SOURCES: MALAGASY AUTHORITIES, IMF AND WORLD BANK STAFF ESTIMATES AND PROJECTIONS.

WORLD BANK GROUP