

Executive Briefing

- Political climate is clearer following elections in 2019 with incumbent President Rajoelina's party gaining a majority in the legislature
- Economic growth will benefit significantly from the government's ambitious National Development Plan (NDP), which will drive investment towards infrastructure
- Madagascar's economy centres on agriculture and mining; vanilla and nickel are the country's largest export commodities
- Hydrocarbons sector is undeveloped but there is some potential with international oil and gas companies undergoing onshore and offshore exploration

Macroeconomic Outlook

The Malagasy economy will grow at a robust pace posting annual average real GDP growth of 5% per annum between 2019 and 2023. This will be underpinned by rising nickel and vanilla prices which in turn will support nickel production and vanilla exports, and increased investment into the country's infrastructure. Furthermore, an improving business environment and growing political stability will also bolster investment levels and lead to job creation that will drive private consumption.

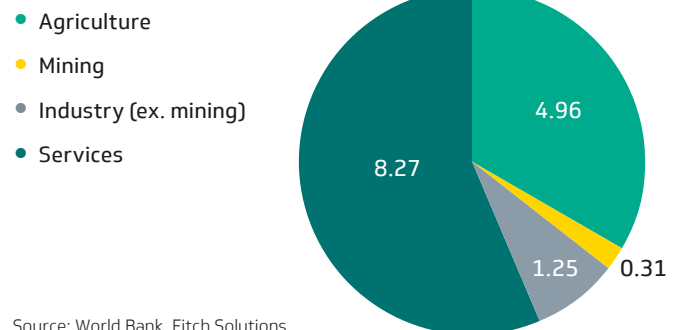
Madagascar's economy centres on agriculture and mining. Agriculture contributes more than a quarter of total GDP and employs around 80% of the population. Madagascar is the world's largest producer of vanilla. However, with around half of the country's export proceeds stemming from nickel, vanilla and cloves, commodity price swings and unpredictable climate conditions do have the potential to substantially weigh on production in the mining and agriculture sectors.

Economic growth will benefit significantly from the government's ambitious National Development Plan (NDP), which will drive investment into infrastructure. The NDP aims to close the country's huge infrastructure gap, which is a major impediment to the country's regional competitiveness profile. Funding for the NDP has been secured as international donors (including the World Bank, the European Union and African Development Bank) pledged to

Political Climate

Political risks in Madagascar have cooled following the legislative elections in April 2019 that returned a majority for the party of incumbent president Andry Rajoelina, who had previously won the 2018 presidential elections in a second-round run-off but the defeated former president Marc Ravalomanana challenged the results. Ravalomanana has now accepted the upholding of the result by the Constitutional Court, and a peaceful transfer of power has taken place. These election results should bring more rapid progress on the government's reform programme and improved cooperation with bilateral and multilateral international lenders.

Madagascar – GDP by Output, USD billion (2020)



Source: World Bank, Fitch Solutions

support the programme in 2016 with grants and loans worth USD6.4 billion. With most of these funds being disbursed over 2017-2022, infrastructure investment will remain a key driver of headline growth.

Public investment will benefit from continued support from bilateral and multilateral partners and a range of sectors will likely benefit, including tourism, infrastructure, telecoms and textiles.

Key Macroeconomic Indicators	2017	2018	2019	2019-23 ave	2019-28 ave
Population, million	25.57	26.26	26.97	28.44	30.38
Real GDP Growth, % y-o-y	4.16	5.22	4.95	4.98	4.51
Real GDP per capita, USD	415.04	425.20	434.53	455.76	476.15
Inflation (%)	6.50	6.90	6.25	5.78	5.40
Fiscal balance, % of GDP	-2.91	-3.29	-3.98	-4.98	-5.07
Public debt, % of GDP	-	-	-	-	-
Current account balance, % of GDP	-0.32	-1.35	-2.06	-2.25	-1.94
Exchange rate, MGA/USD, ave	3230.19	3470.24	3603.22	3825.99	4130.68

Source: National Sources, Fitch Solutions

Business & Trade Climate

Madagascar has made significant efforts to establish a more attractive investment climate following a return to constitutional government in 2014 and has introduced new laws to boost FDI into the economy. Draft laws that have been enacted over recent years include laws on free zone export companies; large mining investment (LGIM); a petroleum code; public-private partnership (PPPs); industrial development and special economic zones (ZES). This aligns with President Rajoelina's ambitious development plan, the Malagasy Emergence Initiative (IEM).

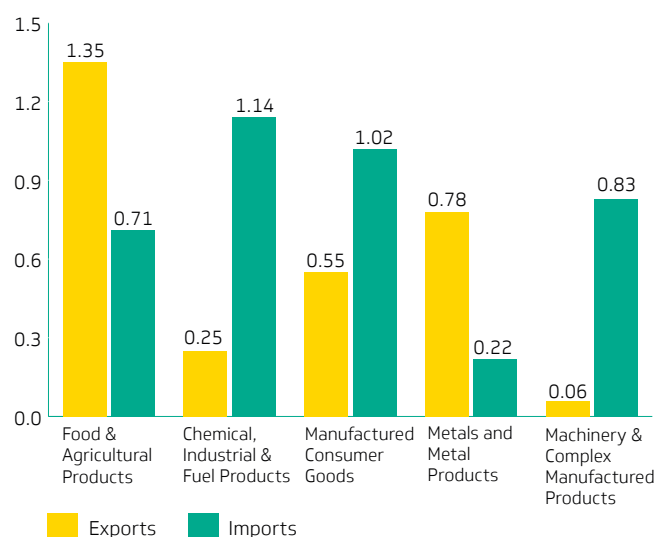
Madagascar's reform programme must continue and the government has pledged to address structural problems within the business environment such as the weak enforcement of contracts and a high perception of corruption. Madagascar ranks 161st (out of 190 countries) in the World Bank Ease of Doing Business Index 2020.

Madagascar's exports of nickel, vanilla, spices and articles of apparel accounted for nearly 60% of total exports in 2018. Madagascar's top export destinations include France, USA, Netherlands, Japan and Germany.

Fuel imports are the major import items for Madagascar; imports of chemical, industrial and fuel products totalled USD1.14 billion in 2018. Furthermore, import demand for capital goods associated with investment projects will increase as the country's NDP

continues to progress. Goods are imported primarily from China, UAE, India and France.

Madagascar Exports & Imports (US billion), 2018



Source: ITC

Market Risk

Risk Factor

One of the poorest countries in the world with an estimated 70% of the population living below the poverty line.

Extreme weather events such as cyclones, flooding and droughts means country is exposed to significant climate-related risks.

Around 70% of electricity in the country is generated by hydroelectric facilities.

Impact on Business

These factors give rise to risks of a popular backlash against poor living standards and social unrest.

Given Madagascar's relatively limited fiscal resources and poor state infrastructure, extreme weather events can have devastating humanitarian consequences, significantly hinder business activities and curb mining and agricultural production.

Electricity shortages in times of drought can leave industries such as manufacturing and telecoms susceptible to operational disruptions.

Investment Opportunities



Mining

There is significant potential for mining to grow strongly in the country over the next 5-10 years. Madagascar has the world's largest reserves of sapphires and is the 10th largest producer of chromite. Furthermore, Madagascar could benefit from rising demand for cobalt, graphite and nickel, in line with the increased global deployment of lithium-ion batteries, electric vehicles and tech products such as mobile phones and computers.



Hydrocarbons

Madagascar's hydrocarbons sector is underdeveloped at present, but there is some potential over the longer-term. International oil and gas companies are undergoing onshore and offshore exploration in Madagascar, as they try and replicate the success of the recent natural gas discovery in Mozambique. Four discoveries have been made to date, the most notable being the heavy oil and oil sands at Tsimiroro and Bemolanga. Small volumes of gas and light oil discoveries were also made onshore.



Tourism

Madagascar's extensive biodiversity, long coastline and diverse wildlife presents significant opportunities for tourism, notably eco-tourism, and paves the way for investment into tourism-related infrastructure and services. The government has also identified tourism as a growth industry for the country and is actively promoting it as part of its development agenda. Upgrades to domestic infrastructure, relative political stability and the growth in air and sea carriers/routes (combined with their falling costs) will drive tourism growth in Madagascar.



Textiles Manufacturing

Madagascar has a sizeable domestic textiles industry (mainly textile ready-made exports), which has been an important driver of economic growth. To promote investment into the sector, the government has implemented a legislative framework that states 95% of production must be exported in order to benefit from tax incentives and has also set up a special economic zone for textile manufacturing. The African Growth and Opportunity Act trade agreement with the US will ensure that textile exports remain robust and investment continues to be channelled into manufacturing facilities.

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