

**REPUBLIC OF MADAGASCAR**  
**AUGUST 2010**

**CREDIT GUARANTEE COUNTRY PROFILE:**

IES/02: ATTACHMENT

Country rating	S/T business cycle indicator	S/T political indicator
ZZ	→	→

**Credit Guarantee experience**

Our underwriting experience has been fair, depending on the buyer (case-by-case basis). We are however currently off cover in this market.

**Recent Political Highlights**

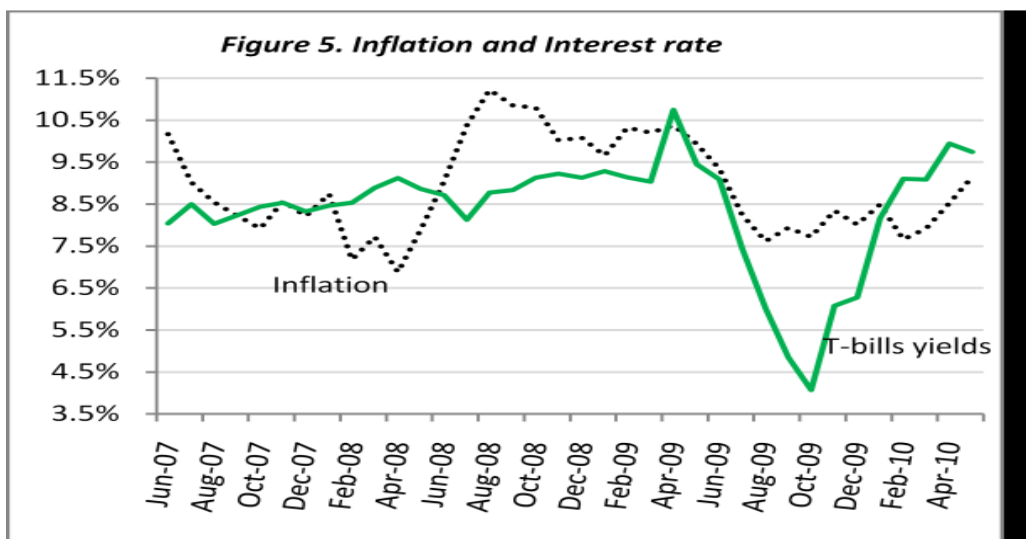
- ❑ President Ravalomanana was forcefully removed from office in 2009 and on March 17, 2009 President Ravalomanana officially handed over power to the military.
- ❑ The military transferred authority to Andry Rajoelina who has declared it a transitional government.
- ❑ Following coups in Mauritius and Guinea in 2008, the AU, EU and the USA have threatened sanctions and a suspension of foreign aid. The AU and SADC have suspended Madagascar until constitutional order is restored.
- ❑ A Joint Mediation Team between the AU and SADC, led by former Mozambican president Joaquim Chissano, has promoted dialogue between the four past and present leaders to create a power sharing unity government.
- ❑ President Rajoelina announced that he will not run in elections due to be held later this year, at the same time he announced the planned dates for both the parliamentary and presidential elections. The parliamentary elections will take place in September with the presidential election following in November.
- ❑ Rajoelina has come under pressure with aid cut off by donors and former military allies, who backed him during his coup, now turning on him.

**Recent Economic Highlights**

- ❑ Madagascar has a population of 21 million with an estimated population growth rate of 3% in 2009. It is one of the poorest countries in the world, being ranked 143 out of 179 on the UN's human development Index in 2009.
- ❑ Madagascar's sources of growth are mainly tourism, textile manufacturing exports, agricultural products and mining. Madagascar is the world's leading producer of vanilla and accounts for about half the world's export market. Tourism targets the niche eco-tourism market, capitalizing on Madagascar's unique biodiversity, unspoiled natural habitats, national parks and lemur species.
- ❑ Madagascar is rich in mineral resources with sapphires, emeralds and ilmenite. Agriculture is the dominant contributor to the economy, making up a third of its GDP, with manufacturing following in importance.
- ❑ The political crisis that began in 2009 crippled the tourism industry and the economy. Inflation averaged 9.6% between 2006 and 2008 but the rate declined to 8.9% in 2009 with an estimated 9.1% for 2010.
- ❑ GDP contracted by 4.5% in 2009 because of the decline in public and private investment. The partial freeze on external aid, due to the political situation, reduced public investment since three-quarters of public investment spending is financed by external resources.
- ❑ The textiles industry used to account for 60% of Madagascar's exports and was worth \$600m but has suffered due to the political crisis. The African Growth and Opportunity Act enables African governments to access the US market without paying duty if they show a commitment to democracy. The Obama government suspended the agreement with Madagascar because President Rajoelina failed to reach an agreement with the opposition and hold elections last year as promised. This has meant factories that made clothes for the US have stopped operating and approximately 50,000 jobs have been lost.
- ❑ The World Bank has estimated job losses at over 220,000 as tourism declined and export markets suffered due to the suspension of preferential trade agreements with the US.
- ❑ In the first half of 2010 Madagascar suffered the effects of multiple crises including lack of rainfall in the southern regions of Madagascar, a tropical storm and a continued period of political instability without an internationally recognised government. The political crisis has exacerbated the vulnerability of the 68% of the population living under \$1.25 per day. According to UNICEF the situation is closely monitored, especially in regards to the slow erosion of basic social services.
- ❑ After the coup last year Madagascar's leaders legalised exports of the nearly extinct rosewood tree (used in furniture and musical instruments) but reversed the law earlier this year; however illegal cutting continues. Since

last year an estimated \$3.5 billion worth of illegal wood has been shipped to the U.S. through China (much originating from Madagascar).

- ❑ The Foreign Affairs Minister has confirmed that investments initially worth \$2 billion will be aimed at energy, communication, telecommunications and the hotel sectors.
- ❑ Canada's Sherritt International will develop the world's largest nickel mine in Madagascar and hopes to have it complete this year. Other stakeholders of the mine are Japan's Sumitomo Corp, South Korea's Korea Resources and Canada's SNC Lavalin Group.
- ❑ Feasibility studies done in SA confirm large reserves of Ilmenite in south Madagascar and Exxaro hopes to start mining in 2014 with a projected output of 560 000 tonnes per annum.
- ❑ Petroleum products company Engen confirmed in July that it had appointed independent oil operator Galana as its lubricants distributor in Madagascar. The move extends Engen's presence in the Indian Ocean. Galana operates Madagascar's largest industrial facility - which includes a modern petroleum jetty - the country's largest oil terminal and more than 60 retail stations.
- ❑ Madagascar's underdeveloped financial sector has well-capitalized banks. The government has been pursuing banking reform and all of the major commercial banks are now partially privatized. The relatively high costs of financing and scarce access to credit are barriers to entrepreneurial activity. Less than 5% of the population have bank accounts or access to comprehensive financial services. An extensive network of savings and loan associations extends deposit functions more broadly.
- ❑ Madagascar has implemented some notable reforms to enhance its entrepreneurial environment. Tax rates on individual and corporate income have been lowered and the overall tax system has been simplified. Requirements for starting a business have been streamlined and minimum capital requirements have been abolished.
- ❑ The political situation is the main issue limiting growth in tourism, foreign direct investment and development aid.



Source: INSTAT; Central Bank; Ministry of Finance; and Bank's staff calculations

#### Latest Trade Developments

- ❑ Major exports: coffee, vanilla, shellfish, sugar, cotton cloth, chromite, petroleum products.
- ❑ Major imports: capital goods, petroleum, consumer goods and food
- ❑ Main trading partners: China, France, Iran, SA Mauritius.
- ❑ SA exports to Madagascar totaled R1.87bn in 2008, R1bn in 2009 and year to May 2010 totaled R425m.
- ❑ SA imports from Madagascar totaled R124.7m in 2008, R158m in 2009 and currently year to May 2010 totaled R63m.