

**COUNTRY PROFILE:****REPUBLIC OF MADAGASCAR****DATED:****JULY 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	ILC

*Recent Political Highlights*

- ❑ Chief of state since May 2002 has been President Marc Ravalomanana with head of Government Prime Minister Charles Rabemananjara since January 2007.
- ❑ The president is elected by popular vote for a five-year term and is eligible for a second term. The next election is due in December 2011.
- ❑ Official results from September 2007 parliamentary elections gave the governing party of President Ravalomanana an overwhelming victory. The election was called early as the president said that the National Assembly did not reflect the results of April 2007 constitutional referendum. In the April referendum, voters supported moves to give the president additional powers, allowing him to legislate by decree in emergencies. He has been widely praised for his energy and commitment to economic reform, but questions about his authoritarian rule have emerged.

*Recent Economic Highlights*

- ❑ Madagascar is the world's fourth largest island and has a population of 20m that is expected to grow at a rate of 3% in 2008. The island has strong ties with France as well as economic and cultural links with French-speaking West Africa. It is also the world's largest producer of vanilla.
- ❑ Cyclone Ivan, which hit Madagascar in February this year, devastated the island. It left more than 100 people dead and over 187,000 homeless and Government in need of \$30m in international aid. Government also asked donors for an additional \$5bn to tackle poverty. In 2007, the island was struck by six cyclones. Scientists say that warming seas linked to climate change are likely to increase the frequency and intensity of tropical cyclones in the coming decades.
- ❑ On the back of a mining boom and reforms that will open the \$8bn economy, the country expects economic growth of 7.3% in 2008 from 6.3% in 2007. The IMF forecast GDP growth of 6.7% in 2008 and 7.2% in 2009 with inflation at 8.9% in 2008 before declining to 6.6% in 2009. The Executive Board of the IMF has completed the fourth review of Madagascar's economic performance under a three-year Poverty Reduction Growth Facility (PRGF) arrangement and augmented access under the arrangement. To help the country cope with rising food and oil prices, as well as the impact of severe cyclones earlier this year, the Board agreed to increase the \$89.8m arrangement by \$29.9m. The completion of the fourth review enables Madagascar to draw an amount equivalent to \$35.3m, bringing total disbursements under the PRGF arrangement to \$86.6m, including part of the augmentation. The World Bank also approved Madagascar's Fifth Poverty Reduction Support Credit of \$50m.
- ❑ Government banned the export of rice in May to cushion the island against spiraling global food prices, but observes feel that Madagascar's goal of food self-sufficiency will remain a pipedream unless underlying problems are dealt with. The World Bank estimated that global rice prices have risen by 75% over the past few months. Madagascar, which has been affected by food riots in the past, is one of the biggest per capita consumers of rice in the world. Rice accounts for 70% of total farm output, but there is an annual shortfall of 200,000mt. The Madagascar Action Plan, Government's anti-poverty plan, aims to double rice production by 2009 and triple it before 2012.
- ❑ Despite a demand for more agricultural land, poverty-stricken Madagascar has managed to reduce deforestation by almost half after the Government announced a national effort in 2003 to protect the island's remaining biodiversity while simultaneously reducing poverty. The plan was to increase the country's protected habitats from 1.7m to 6m hectares. The largest debt-for-nature swap agreement in Madagascar's history was signed between the Governments of Madagascar and France, allocating about \$20m to preserve the island's rich biodiversity. Madagascar will also sell 9m tonnes of carbon offsets to fund rainforest conservation in a newly established protected area. About 98% of Madagascar's land mammals, 92% of its reptiles and 80% of its plants are found nowhere else in the world.
- ❑ A private company in Madagascar said that it had produced oil at an onshore pilot project in the north-west of the Indian Ocean island. It was the island's first production in 60 years and came at a time when record high oil prices and an easing of restrictions make the island attractive for foreign companies. With an estimated 0.6m barrels of recovered reserves, the Tsimiroro oil field is one of two heavy oil projects that Madagascar Oil is developing. The other heavy oil project at Bemolanga is one of the largest undeveloped bitumen reserves in the world with an estimated 9.8bn barrels of recoverable oil reserves. With Tsimiroro's recent first output of 45 b/d, Madagascar is closer to becoming an oil producing country. Large companies like ExxonMobil are also searching for oil and gas offshore.

*Latest Trade Developments*

- ❑ Major exports: coffee, vanilla, shellfish, sugar, cotton, cloth, chromite and petroleum products.
- ❑ Major imports: capital goods, petroleum, consumer goods and food.
- ❑ Main trading partners: France, US, Germany, Italy, UK, Iran, Mauritius and Hong Kong.
- ❑ South African exports to Madagascar totaled R1.6bn in 2007 from R515m in 2006 and amounted to R97m in January 2008. SA imports from Madagascar totaled R42m in 2007 and R13m in 2006 and amounted to R12m in January 2008.

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