



Madagascar

Highlights on the preliminary impact and perspective on the financial crisis

AFR- Economist Seminar
Noro A. Adriamihaja, Economist
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Outline

1. Current economic situation
2. Characteristics of the financial sector
3. Impact on the financial system
4. Impact of the economic slowdown
5. Country Perspective
6. The challenge ahead

Current economic situation

Strong growth performance (7.0% in 2008) driven by construction of two big mining projects, transport, and trade (despite recent food and oil shocks)

- **Important FDI flows from the two mining project (\$ 4 billion for three years)**
 - **Export of mining expect to begin in 2009**

Recent figures for 2008 :

- **Export increase (+6%), import increase (+22%)**
- **Widen current account balance deficit (-23% excl grants)**
- **TOT deterioration from oil shock (-6)**
- **Sustainable fiscal situation : overall fiscal deficit (-4.5%GDP)**

Characteristics of the financial sector

- Relative isolation of the financial sector
 - No stock market
 - Small (limited to 6 commercial banks with foreign parent) with low level of intermediation (offer basic savings and credit to a selected clientele)
 - Credit to private sector = 10% GDP
 - Sound and profitable = net benefit 60 b AR (end-2007)

Impact on the financial system

- Short term impact will be limited
 - Current data: credit to economy unchanged (trade credit -5%, offset crop credit +80%)
- Long term impact? : YES
 - Banking sector remain vulnerable to shocks to delinquent loans from export firms
 - To what extent? (information on the scope still limited)

Impact of the economic slowdown

- (1) Lowering of international demand will lower growth and affect current account balance:
- **Decline mining export , decline of FDI in mining sector**
 - **Tourism**
 - **Fishing (shrimp)**
 - **Textile**
- ⇒ widen the BoP deficit
- ⇒ impact on international reserves
- ⇒ exchange rate
- Impact may be offset if oil price remains low

Impact on the economic slowdown

(2) Fiscal impact: lowering of domestic and customs revenue (lowering of economic activities)

⇒ impact on government expenditure and financing

(3) More need in external financing

- Main donors (multilateral and bilateral) declared their financial commitment unchanged

BUT SCOPE CURRENTLY DIFFICULT TO ASSESS

Country Perspective :

- **If high decline in mining** ⇒ serious impact on growth

(mining accounts for more than half of growth in 2009–2010)

If not

- **Negative impact on growth likely to be limited**
 - But labor intensive sectors vulnerable (textile 150,000 jobs, tourism, agriculture export oriented)

The challenge ahead

Take lesson from the negative impact to address some structural issues:

- Accelerate competitiveness agenda:
 - Reduce the logistic costs on export (customs, transport, forwarding agent,
 - Increasing labor productivity
 - Redefine export strategy



The challenge ahead

Assure macroeconomic stability

- **Prudent monetary policy**
- Secure the fiscal position of the government
 - Increase tax revenue
 - More effective government spending



Thank you