

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Madagascar

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Key messages

- There are 88 confirmed cases of COVID-19 in Madagascar and no reported deaths as of 8 April. The government has declared a state of emergency and implemented a curfew between 8pm and 5am.
- Key industries, including agriculture, tourism, textiles and mining, are at risk, with expected revenue losses for Madagascar's exports responsible for 29% of GDP.
- The Central Bank is allowing for increased liquidity to the banking system up to a total of MGA620 billion (about 1.2% of GDP). The government is issuing food aid to a value of \$2.6 million to those forced into unemployment.
- The IMF has approved a \$166 million disbursement to Madagascar to address its balance of payments gap owing to COVID-19. The World Bank has issued a grant of \$3.7 million to purchase materials and equipment and train health workers.

Introduction

There are [88 confirmed COVID-19 cases and no reported deaths](#) in Madagascar as of 8 April 2020.

Prior to the COVID-19 pandemic, an uncharacteristic [smooth transition of power in May 2019 to President Andry Rajoelina](#) following the 2019 election, hailed as a triumph for democracy, combined with [annual growth in Madagascar projected at 5.3%](#), heralded an upcoming period of stable growth for the usually politically unstable island nation.

While there is yet to be a formal revision of Madagascar's projected growth rate (5.3% for 2020), the IMF has forecast a global recession, which will undoubtedly affect global supply chains and have devastating impacts for an already vulnerable low-income country.

On 21 March, [the government of Madagascar declared a health state of emergency](#); a curfew is in place from 8pm to 5am. All schools, universities, administrative offices, churches, event spaces, bars and restaurants have been closed. Public transport has been halted. Medical checkpoints have been established at exit points from Antananarivo and other major cities. All international flights have been suspended until at least 20 April and cruise ships are not permitted to berth in ports.

Madagascar's health system is ill-equipped, especially to face a crisis of this scale. Government health spending per capita in Madagascar is [\\$43, which is lower than the sub-Saharan Africa average of \\$70](#)

[\(2016\)](#). External health spending per capita in Madagascar is [\\$23, which is on a par with average external health spending in sub-Saharan Africa of \\$24](#).

Economic and social impacts

Trade and production impacts to far

Madagascar's economy is based primarily on agriculture, tourism, textiles and mining industries. [The total value of Madagascar's exports and imports make up 75% of GDP](#).

[29% of Madagascar's GDP comes from exports](#); the top exports and [their respective share of total exports](#) are vanilla (26%), textiles and garments (21%), nickel (12%), cloves (8%), cobalt (4%) and gold (2.5%). The price of Madagascar's key export commodities has changed as follows since the beginning of Jan 2020;

[Nickel](#): -19.64%

[Cobalt](#): - 8.4%

[Gold](#): +2.8% (+10% since December 19)

Many of Madagascar's key industries and export goods are likely to suffer from a global decline in demand owing to the fall in activity and consumption related to COVID-19, as well as interruptions to supply chains because of unprecedented travel restrictions.

While the surge in gold price as a result of investors buying more traditionally secure assets at a time of instability may help Madagascar partially stem losses

of revenues on its exports, this will not protect the country from significant overall losses on its most traded exports, including vanilla, textiles and nickel. These are likely to trade at significantly lower quantities and prices as a result of the mass interruption of global supply chains.

Madagascar usually welcomes 300,000 tourists per year. As tourism globally comes to a stop as a result of worldwide restrictions on international flights, Madagascar's tourism industry, [which usually contributes 16% of GDP](#), has ground to a halt.

Finance

[The authorities are maintaining the flexible exchange rate regime](#). Based on the latest available data, [the exchange rate has depreciated by about 3%](#) since last month.

FDI in Madagascar accounted for 2.5% of GDP in 2018. It is expected that [FDI will be negatively affected globally by around -5% to -15%](#). Given the ill-preparedness of a country like Madagascar to the scale of the crisis, we can expect FDI to be more negatively affected than in other countries.

Social impact

[News outlets are beginning to reference job losses in tourism](#), as international flights are cancelled, as well as inflation of prices for essential goods. Tourism is [directly responsible for the employment of 238,000 people](#) and [in total nearly 800,000 people](#) as of 2018 (around 3% of the population).

Fiscal impacts

[The IMF Article IV Consultation](#), which was finalised in January of this year, noted satisfactory performance with solid growth, moderate single-digit inflation and a robust external position. However, it notes Madagascar is vulnerable to exogenous shocks in terms of trade.

[The COVID-19 pandemic has resulted in an urgent balance of payments gap in Madagascar as a result of the impacts on its key industries](#). The IMF has approved a support package but urged further support from donors to close the BOP gap.

Monetary and financial policy

In response to the pandemic, [the central bank has already provided monetary policy support through increased liquidity up to a total of MGA620 billion \(about 1.2% of GDP\)](#) to the banking system to allow banks to defer delayed payments on existing loans and increase lending to businesses.

Fiscal policy

[Measures are being taken to increase health spending, help the most vulnerable, support the private sector and preserve the stability of the financial sector](#), including:

- Increased spending on epidemic prevention and control;
- Cash transfers and in-kind necessities to the poorest and those unemployed;
- Tax relief, suspension of government fees and waived social contributions.

The government is actively seeking additional budget support from development partners, beyond what was already disbursed or committed. The government is also working on a revised budget law that will consider additional fiscal and support measures to be presented to parliament.

Other policy

The government has started distributing food packages to those forced into unemployment (taxi drivers, bus drivers, etc.) and has announced [food aid of MGA10 billion \(\\$2.6 million or 0.02% of GDP\) targeted at 240,000 households](#).

Donor support

[The IMF has approved a \\$166 million disbursement to Madagascar in response to the COVID-19 pandemic in order to meet the urgent BOP needs](#). Additional donor support is needed to close the remaining BOP gap.

The World Bank has provided a grant of \$3.7 million to strengthen prevention in the COVID-19 pandemic, purchase materials and equipment and train health workers.

A total of [100,000 masks and 20,000 rapid testing kits have been distributed to Madagascar](#) from the package of support donated by the Jack Ma Foundation to African countries.

The Institut Pasteur de Madagascar, a private medical institution, has [agreed to train Madagascan biologists in order to increase national capacity to carry out tests for COVID-19](#).

Information in this note is correct as of 8 April 2020.

With thanks to Jodie Keane for her useful comments. The author is an ODI Fellow with the Ministry of Economy & Finance in Djibouti; this note is written in a personal capacity. Comments welcome to d.standish.fs@odi.org.uk.