Madagascar’s economic freedom score is 62.0, making its economy the 73rd freest in the 2013 Index. Its score has decreased by 0.4 point from last year, reflecting declines in business freedom and labor freedom that outweigh gains in freedom from corruption and fiscal freedom. Madagascar is ranked 5th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world and regional averages.

Institutional development and economic liberalization have been the centerpiece of a series of reforms in recent years that have sought to improve the entrepreneurial environment by lowering taxes, reducing the number of procedures to launch a business, and lowering minimum capital requirements for business start-ups. The country has done well in limiting its trade barriers, spurring an agriculture industry that accounts for 80 percent of the economy.

However, poverty remains a huge challenge, and efforts to promote private-sector job growth and business development are undermined by a weak judicial system and corruption. Political instability continues to affect investor confidence in the long-term health of Madagascar’s economy.

**BACKGROUND:** Both former President Didier Ratsiraka and opposition candidate Marc Ravalomanana claimed victory in the 2001 elections, and the resulting violence and economic disruption ended only when Ratsiraka fled in 2002. Ravalomanana won a second term in 2006 but stepped down in March 2009 after a power struggle with the opposition. Opposition leader Andry Rajoelina seized power with military backing and declared himself president of the High Transitional Authority. An election road map brokered by the Southern African Development Community called for a presidential election in 2012, but the date was subsequently moved back to May 2013. Some donors have suspended aid, and the African Union and SADC have suspended Madagascar’s membership.

**Quick Facts**

- **Population:** 21.9 million
- **GDP (PPP):** $20.4 billion
- 0.5% growth in 2011
- 5-year compound annual growth 2.0%
- $934 per capita
- **Unemployment:** n/a
- **Inflation (CPI):** 10.6%
- **FDI Inflow:** $907.4 million
- **Public Debt:** 5.7% of GDP

2011 data unless otherwise noted.

Data compiled as of September 2012.
THE TEN ECONOMIC FREEDOMS

The weak judiciary is influenced by the executive and subject to corruption, and investors face a legal and judicial environment in which the enforcement of contracts cannot be guaranteed. Non-transparent decision-making and complicated administrative procedures introduce delays and uncertainties and multiply the opportunities for corruption, which is pervasive.

The top income and corporate tax rates are 21 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. The overall tax burden amounts to 10.8 percent of GDP. Government spending is equivalent to 13.5 percent of total domestic output. The budget balance has been in deficit, and public debt is low at 5.7 percent of GDP. Despite the political crisis, the government has adopted very prudent fiscal policies.

Procedures for starting a business have been simplified, and no minimum capital is required. However, the cost of completing licensing requirements remains 10 times the level of average annual income. Outmoded labor laws undermine the development of a dynamic labor market. Inflation has averaged 10 percent over the most recent three years. The government influences prices through state-owned enterprises.

The trade-weighted average tariff rate is 7.7 percent, and non-tariff barriers further restrict trade freedom. The investment regime’s inefficiency and lack of transparency deter dynamic growth in new investment. Despite some progress, the relatively high cost of financing hinders entrepreneurial growth, particularly for small and medium-size firms. Capital markets remain underdeveloped.

Score Changes

<table>
<thead>
<tr>
<th>Rule of Law</th>
<th>Limited Government</th>
<th>Regulatory Efficiency</th>
<th>Open Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Rights</td>
<td>0</td>
<td>Business Freedom -7.6</td>
<td>Trade Freedom +1.1</td>
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<tr>
<td>Freedom from Corruption</td>
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<td>Labor Freedom -3.4</td>
<td>Investment Freedom 0</td>
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<tr>
<td></td>
<td></td>
<td>Monetary Freedom -1.1</td>
<td>Financial Freedom 0</td>
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MADAGASCAR (continued)