



Munich Personal RePEc Archive

**How Inflation is Threatening
Madagascar's Economic Stability in 2022:
An Analysis of Causes and Implications**

Andrianady, Josué R.

2023

Online at <https://mpra.ub.uni-muenchen.de/117031/>
MPRA Paper No. 117031, posted 12 Apr 2023 07:57 UTC

How Inflation is Threatening Madagascar's Economic Stability in 2022: An Analysis of Causes and Implications

ANDRIANADY R. Josué
Ministère de l'Economie et des Finances
Jravahiny@gmail.com

April 11, 2023

Abstract

This article examines the characteristics of inflation in Madagascar in 2022 and the measures taken to mitigate its impact. The causes of inflation, such as the global geopolitical situation's impact on energy prices, and the consequences, including the rise in living costs for households, are explored. The government's efforts to protect consumers from inflation, such as price controls and financial aid for vulnerable households, are also discussed. Additionally, the article analyzes the measures taken by the Banky Foiben'i Madagasikara (BFM) to control inflation, including monetary policy and managing the money supply. The effectiveness of these measures is evaluated. Finally, the article provides a summary of the characteristics of inflation in Madagascar in 2022 and the measures taken to address it, as well as future prospects and potential measures to limit its impact.

Keywords: Madagascar, inflation, causes, consequences, government measures, Banky Foiben'i Madagasikara (BFM), monetary policy, living costs, price controls, financial aid, 2022.

1 Introduction

For several months now, Madagascar has been grappling with double-digit inflation, with prices rising by around 10.8% on an annual basis as of November 2022 compared to the same period the previous year. This situation has significant implications for the cost of living for Malagasy households, who are facing higher prices for basic necessities and services.

The root cause of this situation lies in the international context marked by soaring prices of agricultural and energy products, partly due to the tension between Russia and Ukraine

since February 2022. Madagascar, a country heavily dependent on oil, was forced to adjust its pump prices upward, which had an impact on the entire economy.

In response to this situation, the Malagasy government has taken measures to protect consumers and limit the impact of inflation on purchasing power. The Central Bank of Madagascar (Banky Foiben'i Madagasikara - BFM) has also implemented monetary policies to control inflation.

In this context, this analysis aims to identify the characteristics of inflation in Madagascar in 2022, by assessing the causes and consequences of this situation, as well as the measures taken by the authorities to address it. We will also examine the measures implemented by the BFM to control inflation, by evaluating their effectiveness in light of the current situation.

2 Characteristics of inflation in Madagascar in 2022

2.1 Causes of inflation in Madagascar in 2022

Inflation in Madagascar in 2022 is largely due to external factors such as the impact of the global geopolitical situation on energy prices. Indeed, Madagascar is an extremely oil-dependent country, and increases in prices on global markets have directly affected the cost of living for Malagasy households. The tension between Russia and Ukraine that began in February 2022 led to a surge in oil prices on global markets, which had a direct impact on the prices of petroleum products in Madagascar.

In addition to external factors, there are also internal factors that have contributed to inflation in Madagascar. Among these, the devaluation of the Malagasy currency, the ariary, against the US dollar and the euro, had a direct impact on the prices of imported products, leading to an increase in prices on the domestic market.

Furthermore, the COVID-19 pandemic also had an impact on the Malagasy economy, causing a decrease in production and an increase in production costs for many businesses. This situation also contributed to the rise in prices of products on the domestic market.

Finally, the lack of investment in agriculture and manufacturing industries in Madagascar also had an impact on inflation. The national production of goods and services is insufficient to meet demand, which forces the country to rely on imports to meet the population's needs. This increased dependence on imports also contributes to the rise in prices of products on the domestic market.

2.2 Consequences of inflation in Madagascar in 2022

Inflation in Madagascar in 2022 had several negative consequences on the population, especially on the cost of living for households.

Firstly, inflation led to a significant increase in prices of basic food products, such as rice, vegetables, fruits, and meat. Households had to face higher expenses to feed themselves, which reduced their purchasing power and their ability to save.

It also increased the costs of imported goods, such as fuels, medicines, and electronic products. Consumers had to pay more for these products, which had an impact on their monthly budget.

Moreover, it also led to an increase in production costs for businesses, notably due to the increase in prices of raw materials and energy. This had an impact on the prices of local products, which became more expensive for consumers.

Finally, it had an impact on the interest rate, which increased to curb its progression. This had a negative impact on borrowers, who had to pay more for their loans, including mortgages and student loans.

Overall, inflation in Madagascar in 2022 had a significant impact on the cost of living for households, reducing their purchasing power and their ability to save. Consumers had to face higher expenses to feed themselves and buy imported products, while businesses had to increase their prices to compensate for higher production costs.

3 Efforts by the State to protect consumers from inflation

Faced with persistent inflation, the Malagasy government has implemented several measures to limit the impact of rising prices on consumers, including:

- Price controls: The Malagasy government has set price ceilings for certain essential products such as rice, sugar, cooking oil, gas, and electricity. This measure aims to limit the rise in prices of these products and protect the most vulnerable consumers.
- Subsidies for essential products: The government has implemented subsidies to help the poorest households cope with the rising prices of essential products. These subsidies are intended to cover part of the costs related to the purchase of rice, sugar, gas, and electricity.
- Promotion of local production: The government encourages local food production to reduce dependence on imports and limit price increases. Measures have been taken to support local farmers and improve agricultural productivity.
- Market regulation: The government has implemented regulatory measures to prevent speculative practices and the formation of monopolies. Regular inspections are carried out in markets to ensure that prices comply with established standards.

- Monetary policy: The Banky Foiben'i Madagasikara (BFM) has implemented a restrictive monetary policy to combat inflation. This policy aims to limit the circulation of money and control inflation by increasing interest rates.

These measures have helped to limit the impact of inflation on Malagasy consumers, especially the most vulnerable. However, they do not fully solve the problem of inflation in Madagascar, which is linked to structural factors such as low productivity and dependence on imports. A longer-term approach is needed to strengthen the national economy and reduce vulnerability to external shocks.

4 The central bank intervention

La Banky Foiben'i Madagasikara (BFM), as the institution responsible for monetary policy in Madagascar, has implemented several measures to control inflation in the country. Here are some examples of these measures:

- Increasing the benchmark interest rate: BFM has raised its benchmark interest rate, which is the interest rate it charges commercial banks for loans it provides to them. This measure aims to reduce the amount of money in circulation in the economy, which can help limit inflation.
- Regulating interest rates: BFM has also implemented measures to regulate the interest rates charged by commercial banks. This measure aims to limit excessive interest rates, which can increase the cost of living for households.
- Regulating foreign exchange transactions: BFM regulates foreign exchange transactions by setting exchange rates and controlling capital movements. This helps to limit the effects of volatility in international markets on the Malagasy economy.
- Controlling the money supply: BFM monitors the amount of money in circulation in the economy and can adjust commercial banks' reserve requirements to control the money supply. This can help limit inflation by limiting the amount of money available for spending.

In summary, BFM has implemented a set of measures to limit inflation in Madagascar. These measures aim to control the amount of money in circulation in the economy, regulate interest rates, regulate foreign exchange transactions, and monitor the money supply.

5 The efficiency of these measures to fight against inflation in Madagascar in 2022

It is still too early to fully evaluate the effectiveness of the measures taken by the Banky Foiben'i Madagasikara to combat inflation in 2022. However, it is possible to note that some

of these measures may have a positive effect on long-term inflation control.

For example, the BFM's increase in the direct interest rate can help limit inflation by making credit more expensive and reducing credit demand. This can help slow down economic growth in the short term, but can also contribute to stabilizing inflation in the long term.

Similarly, the BFM can influence fiscal policy by cooperating with the government to reduce public spending or increase tax revenues. This can help reduce pressure on prices and limit the spread of inflation.

However, it must be acknowledged that these measures can also have negative effects on the economy, such as reduced investments or decreased consumer confidence. Therefore, it is important to carefully monitor the impact of these measures in the short and long term to ensure that they are effective and do not negatively affect the economy as a whole.

Ultimately, the control of inflation will depend on the successful implementation of effective monetary and fiscal measures, as well as external economic factors such as the global geopolitical situation and commodity prices.

6 Conclusion

In conclusion, inflation in Madagascar in 2022 is mainly caused by external factors such as the global geopolitical situation and the rise in energy prices, particularly oil, which is an essential resource for the Malagasy economy. This has led to an increase in production costs, which has been passed on to consumers in the form of price increases.

Despite this, the Malagasy government has put measures in place to protect consumers, including price controls and financial assistance for the most vulnerable households. The Central Bank of Madagascar (BFM) has also taken measures to control inflation, such as increasing interest rates and regulating bank liquidity. These measures have helped limit the impact of inflation on Malagasy consumers, although the rising cost of living remains a challenge for many families. Ultimately, the effectiveness of these measures will depend on the Malagasy government's ability to maintain a balance between controlling inflation and protecting consumers, while ensuring the country's economic stability in an uncertain global context.

The outlook for inflation in Madagascar in 2022 is uncertain due to several economic, political, and social factors. On the one hand, the global geopolitical situation, including tensions between Russia and Ukraine, continues to impact energy prices such as oil, which directly affects the Malagasy economy. On the other hand, the COVID-19 pandemic continues to weigh on the global economy and the economic and social situation in Madagascar.

In this context, it is essential for the Malagasy government to continue implementing effective measures to limit the impact of inflation on consumers, especially the most vulnerable households. This could include measures such as price controls on essential goods, direct financial support to the most vulnerable households, and promoting local production of goods and services to reduce dependence on imports. Additionally, the Banky Foiben'i Madagasikara (BFM) must continue to play an active role in controlling inflation, including monitoring price developments and adjusting monetary policies accordingly. Efforts must also be made to strengthen the country's economic and political stability, including improving the business environment, encouraging investment, and promoting transparency and good governance.

In summary, inflation in Madagascar in 2022 is a significant economic and social challenge for the country. Immediate and long-term measures must be taken to limit its impact on consumers and stabilize the Malagasy economy in a context of global economic turbulence and a pandemic.

References

- [1] Africanews. (2022, December 16). Inflation surges to 10.8% in Madagascar in November. Retrieved from <https://www.africanews.com/2022/12/16/inflation-surges-to-10-8-in-madagascar-in-november/>
- [2] African Business Magazine. (2022, January 26). Madagascar economy hit by rising fuel prices and political uncertainty. Retrieved from <https://africanbusinessmagazine.com/region/east-africa/madagascar-economy-hit-by-rising-fuel-prices-and-political-uncertainty/>
- [3] African Development Bank Group. (n.d.). Madagascar: Measures taken to mitigate inflation. Retrieved from <https://www.afdb.org/en/news-and-events/madagascar-measures-taken-mitigate-inflation>
- [4] CNBC Africa. (2022, March 2). Impact of global inflation on African economies. Retrieved from <https://www.cnbc africa.com/2022/03/02/impact-of-global-inflation-on-african-economies/>
- [5] RFI. (2021, November 28). La lutte contre l'inflation, priorité de la Banque centrale de Madagascar. Retrieved from <https://www.rfi.fr/fr/economie/20211128-la-lutte-contre-l-inflation-priorite%C3%A9-de-la-banque-centrale-de-madagascar>
- [6] Trading Economics. (n.d.). Madagascar Inflation Rate. Retrieved from <https://tradingeconomics.com/madagascar/inflation-cpi>

- [7] UNDP Madagascar. (2022, January 27). Rising food and fuel prices fuel inflation in Madagascar. Retrieved from <https://www.mg.undp.org/content/madagascar/fr/home/presscenter/pressreleases/2022/01/27/la-hausse-des-prix-alimentaires-et-petroliers-attise-linflation-a.html>