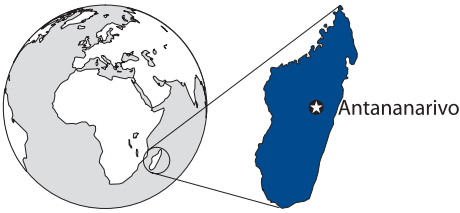


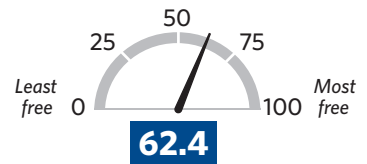
MADAGASCAR



World Rank: **75**

Regional Rank: **6**

Economic Freedom Score



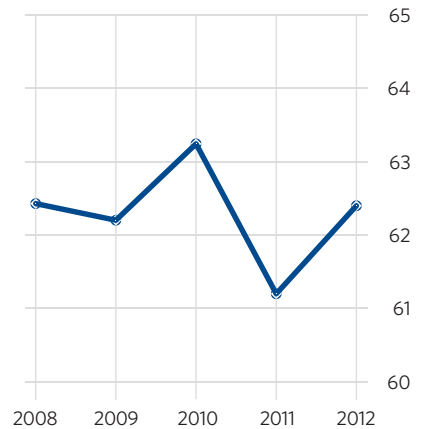
Madagascar's economic freedom score is 62.4, making its economy the 75th freest in the 2012 *Index*. Its score has increased by 1.2 points from last year, reflecting improvements in business freedom and the management of government spending. Madagascar is ranked 6th out of 46 countries in the Sub-Saharan Africa region, and its overall score is above the world average.

Madagascar has implemented some notable reforms to enhance its entrepreneurial environment. Procedures for launching a business have been streamlined, and minimum capital requirements have been abolished. Tax rates on individual and corporate income have been lowered, and the overall tax system has been simplified.

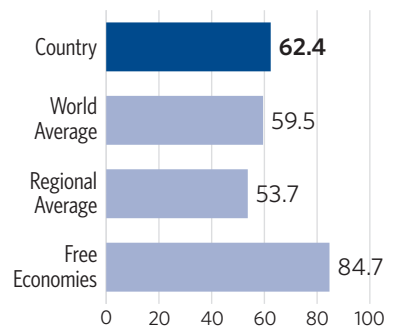
Despite such progress in much-needed economic reform, the combined impact of a still-deficient institutional framework and the ongoing risk of political instability continue to undermine much of the progress made in reducing poverty. The judicial system is underdeveloped, and convoluted administrative procedures facilitate corruption, weakening the foundations of free economic activity. Policies needed to sustain open markets are not firmly institutionalized.

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 into exile in 2002. Ravalomanana won a second term in 2006 but stepped down in March 2009 following a power struggle with the opposition. Opposition leader Andry Rajoelina seized power with military backing and declared himself president of the High Transitional Authority. Some donors have suspended aid, and both the African Union and the Southern African Development Community have suspended Madagascar's membership. Years of socialism and state planning have impeded economic growth. The economy depends heavily on agriculture and produces two-thirds of the world's vanilla exports. Infrastructure is poor, and bureaucracy is onerous.

Freedom Trend



Country Comparisons



Quick Facts

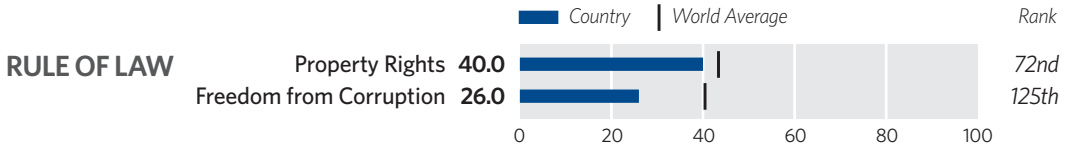
Population: 21.3 million
GDP (PPP): \$19.4 billion
 -2.0% growth in 2010
 5-year compound annual growth 2.5%
 \$911 per capita
Unemployment: n/a
Inflation (CPI): 9.0%
FDI Inflow: \$860.4 million
Public Debt: 34.0% of GDP

How Do We Measure Economic Freedom?

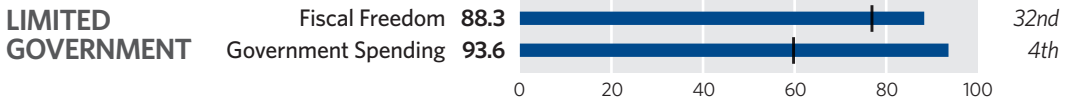
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

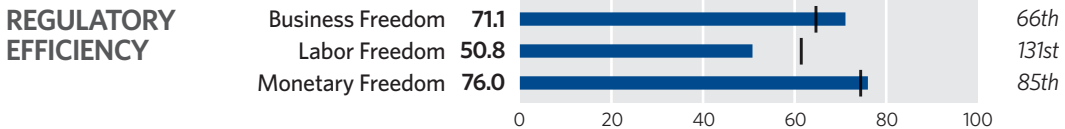
THE TEN ECONOMIC FREEDOMS



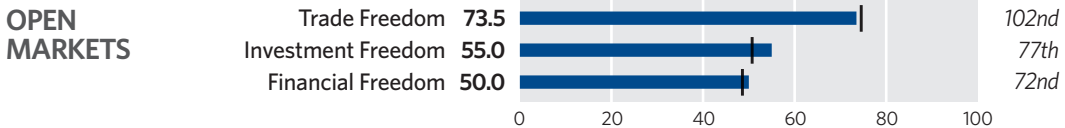
The judiciary is influenced by the executive and subject to corruption, and investors face a legal and judicial environment in which the enforcement of contracts cannot be guaranteed. Complicated administrative procedures introduce delays and uncertainties and multiply the opportunities for corruption. Enforcement of anti-corruption measures is weak, and corruption remains systemic.



The top income and corporate tax rates are 23 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 10.5 percent of total domestic income. Government spending is equivalent to 14.6 percent of total domestic output. The budget balance has been in deficit, and public debt is at a level equivalent to 34 percent of GDP.



Procedures for setting up a business have been simplified, and no minimum capital requirement is now imposed. Licensing requirements are now less burdensome. The outmoded labor laws are restrictive and not conducive to the development of a dynamic labor market. Inflation has declined somewhat but still averaged a high 9 percent over the most recent three years. The government influences prices through state-owned enterprises.



The trade weighted average tariff rate is 8.3 percent, and complex non-tariff barriers further restrict the freedom to trade. The investment regime's inefficiency and lack of transparency curtail prospects for dynamic growth in new investment. Despite some progress, the relatively high cost of financing is a barrier to entrepreneurial growth in the private sector, particularly for small and medium-size firms. Capital markets remain weak.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.5	Business Freedom	+11.1	Trade Freedom	+0.3
Freedom from Corruption	-4.0	Government Spending	+3.9	Labor Freedom	+0.1	Investment Freedom	0
				Monetary Freedom	+0.1	Financial Freedom	0