



UNDP Maldives - Economic Bulletin

Issue 1, November 2020 - The Economist Team



Partnership for Progress

Macroeconomic	Latest	Change	Value	Growth
CPI	Sep-20	Mo	98.9	-0.9%
GDP (millions of MVR)	Q2:2020	Qtr	8,869	-47%
Reserves (millions of \$)	Sep-20	Mo	696	31%
Current a/c Bal (millions of \$)	2020	An	-1,099	-27%
Primary Bal (millions of MVR)	2020	An	-14,227	237%
Fiscal	Till Sep-2020	Change	Growth	Forecast 2020
Revenue & Grants (millions of MVR)	10,716	Mo	-40%	14,693
Expenditure (millions of MVR)	19,285	Mo	-2%	30,628
Budget Deficit (millions of MVR)	-8,568	Mo	346%	-15,935
Imports (millions of \$)	1,406	Mo	-32%	1,677
Exports (millions of \$)	107	Mo	-14%	256
Bal. on Goods (millions of \$)	-1,299	Mo	-34%	-1,420
Debt	2019Q3	2019Q4	2020Q1	2020Q2
Domestic (millions of \$)	2,016	2,152	2,269	2,346
Foreign (millions of \$)	2,186	2,258	2,234	2,450
PPG (millions of \$)	4,202	4,410	4,503	4,796
Debt-to-GDP (%)	73%	77%	102%	108%
Rates	Sep-20	Change	Growth (%)	
Domestic				
T-Bill (%)	3.5%	Mo	No change	
T-Bond (%)		Mo	No change	
LT Bank Deposits (%)	2.0%	Mo	-4%	
Lending - Private	8.5%	Mo	-3%	
Lending - Public	8.0%	Mo	-9%	
International				
BBB rated 5YR sovereign		Mo	No change	
Capital & Financial Market	Value	Change	Growth (%)	
Banking Sector (September 2020)				
Assets (billions of MVR)	63	Mo	18.2%	
Deposits (billions of MVR)	34	Mo	9.3%	
Net Claims on CG (billions of MVR)	22	Mo	54.8%	
Net Claims on Pvt. (billions of MVR)	27	Mo	7.9%	
NPL to Gross Loans (Q2-2020)	9.3%	Qtr	-2.2%	
Other Entities (September 2020)				
OFC - Assets (billions of MVR)	20	Mo	14.0%	
Insurance - Assets (billions of MVR)	2	Mo	10.7%	
Capital Market (November 2020)				
Market Cap (millions)	18,073	Mo	0.3%	
MASIX Index	212	Mo	0.3%	
Economic activities	2019Q4	2020Q1	2020Q2	2020Q3
Tourist arrivals (thousands)	451	383	0	172
Tourist bednights (thousands)	2,854	2,725	16	153
Fish Exports (mt)	13,319	16,773	13,630	10,075
International Arrival Flights	3,625	3,295	356	595
Global Indicators - Maldives				
Doing Business Ranking			147 / 190	
Gender Development Index			0.939	
Human Development Index			0.719	
Human Development Index Ranking			104 / 189	
Clean Energy Capacity	2016	2017	2018	2019
Total capacity (MW)	8.2	10.9	10.9	15
Total Capacity (KW/capita)	17.2	22	21.1	28.3
Solar Capacity (MW)	6.8	9.5	9.5	13.6
Wind capacity (MW)	1.4	1.4	1.4	1.4
Covid-19 Dashboard	as at 24th November 2020			
Confirmed Cases	12,758			
Avg Monthly New Cases	1,109			
Deaths	46			
Mortality Rate	0.36%			
Recoveries	11,615			
Active Cases	1,090			
Covid-19 and Economy	as at 12th November 2020			
Total Health Spending (in millions of MVR)				
National Disaster Management Authority			787	
Ministry of Health			208	
Total			1,317	
Income Support Allowance				
Disbursed (in millions of MVR)			126	
No of Individuals			10,994	
COVID-19 Recovery Loan Scheme				
Disbursed - SDFC (in millions of MVR)			322	
Disbursed - BML (in millions of MVR)			554	
Disbursed - BML (in millions of \$)			8	
Total (in millions of MVR)			1,342	
Financing Received From Donors (millions of \$)			520	

The Ministry of Finance has submitted a budget of MVR 34.7 billion for the year 2021 to be approved by the Parliament of Maldives. The proposed budget is estimated to be approximately 3 billion dollars more than the revised budget for 2020, and with government revenues expected to be low for 2021, the fiscal deficit is projected to be at 23% of Gross Domestic Product (GDP) by the end of 2021. An overview of the Budget 2021 has been published in this Economic Bulletin.

Fitch Ratings has downgraded the Maldives' Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'CCC' from 'B'. The reasons for the ratings downgrade are the expectation that that external liquidity pressures within the economy will persist into the near-term future and the sharp increase in the country's debt burden due to the pandemic costs and fiscal deficits incurred by the government. However, the government of Maldives disagreed with this downgrade projecting a more promising recovery and outlook of the economy for the short-term.

The Government of Maldives has called on G20 member countries to extend the Debt Service Suspension Initiative offered to COVID-19 vulnerable countries until the end of 2021. During the Annual Meeting of the Ministers of Foreign Affairs of the Group of 77 and China, Foreign Minister Abdulla Shahid reiterated that Small Island Developing States (SIDS) such as the Maldives will require alternative financing options to address the fiscal liquidity and debt crisis. Highlighting the magnitude of the COVID-19's shock on the economy, minister stated that COVID-19 is expected to intensify poverty and inequality while derailing the progress towards the attainment of the Sustainable Development Goals, and hence urged the international community to explore ways to assist vulnerable countries via innovative financial solutions.

United Arab Emirates (UAE) based Gulf Craft estimates to invest over USD 300 million for their "Gulf Lagoon" project in the Maldives. As part of this project, Gulf Craft expects to conduct reclamation work on eight islands which will constitute four resorts. Additionally, the project will also consist of the construction of a new boat factory, a harbour for yachts and safaris as well as a youth training centre.

Government of Maldives has initiated the Water and Sewage National Action Plan (2020-2025). As part of the newly ratified Water and Sewerage Act, the Ministry of Environment initiated the plan which focuses on six major policies including ensuring access for all, development of sustainable and low-cost systems, training and raising awareness in regards to the sector, protecting water and sewerage systems as well as creating a resilient society to safeguard against natural disasters such as floods.

The Government of Maldives signed four MoUs with the Government of India during the Indian Foreign Secretary's visit to the Maldives. The four MoUs include an MoU on the free aid of USD 100 million extended by the Indian government for the Greater Male' Connectivity Bridge, an MoU on establishing an agricultural research centre in HDh.Hanimaadhoo, an MoU on developing a drug detoxification centre in S.Hulhuthoo and an MoU on cooperation in sports and youth affairs aimed to facilitate training and experience opportunities for athletes and coaches. For the agricultural centre project and detox centre project, the MoUs grant a total of MVR 9.6 million. Additionally, during the signing ceremony, the Foreign Secretary also highlighted that Maldives will be given special priority for the COVID-19 vaccine developed by the India.

Government of Maldives plans to develop airports in B.Thulhaadhoo, Sh. Bilehfaahi and M. Muli. The current administration plans to follow through on the pledge of former President Abdulla Yameen Abdul Gayoom to ensure that an airport is reachable within 20 minutes or less from any island in the Maldives, and hopes to achieve this by the development of the aforementioned regional airports.

Housing Development Corporation (HDC) has signed a joint Memorandum of Understanding (MoU) between the Ministry of Economic Development and Business Centre Corporation (BCC) to collaborate on Small and Medium Enterprise (SME) specific projects in Hulhumale'. According to HDC, the agreement facilitates the provision of concessional lease rates and prioritizes the allocations of units and land for SME specific projects on the island.

The Parliament of Maldives approved the amendment to the Maldives Immigration Act which grants residency visa to foreigners with investments over USD 250,000. While the parliament's committee in charge of reviewing the amendment initially proposed the investment limit to be at USD 500,000, given the current foreign exchange shortage in the local market, the investment limit was lowered to boost inward foreign exchange investments. An additional amendment was also approved with regards to foreigners who marry locals; they can be granted residency after five years of marriage.

Maldivian government has announced its decision to put up more islands for tourism development. While Minister of Economic Development Fayyaz Ismail disclosed the government's intention to lease more islands for tourism development as part of the government's plan to secure more revenue in 2021, Minister of Tourism Dr.Abdulla Mausoom mentioned that the response received from investors have been positive with large investments expected for these islands.

Separate Discussions held on promoting seafood exports from Maldives to India and on eliminating the tariff on Maldivian fisheries exports to the United Kingdom and the European Union (EU). A consultative meeting was held between the Indian Government and the Maldivian Government to explore the synergies between the seafood industries within the two countries while Foreign Minister Abdulla Shahid had a virtual call with Minister of State (Minister for South Asia and Commonwealth) at the Foreign, Commonwealth and Development Office of the United Kingdom, Lord Tariq Ahmad to discuss the possible elimination of tariff on Maldivian fish exports to the United Kingdom. Additionally, during the fifth annual Policy Dialogue between Maldives and the EU held virtually, the government of Maldives reiterated the request to consider granting duty free access to the EU for the Maldivian fisheries products.

Bank of Maldives Plc (BML) has reduced the borrowing rates for personal and housing loans while also introducing unsecured Green Loans. According to BML the interest rate for the 'Lui Express' loan has been reduced to 15 percent, while the interest rate charged for "Lui Micro" loans have been reduced to 12%. Furthermore, BML has introduced Green Loans which allow eligible customers to borrow between MVR 50,000 and MVR 500,000 at 12% interest rate with the aim of enabling individuals and businesses to affordably create a more sustainable community.

The Government of Maldives hopes to reopen guesthouses in the capital region in December 2020. Tourism Minister Dr.Abdulla Mausoom stated that the authorities are working with guesthouses as per the counsel of Health Protection Agency (HPA) and the COVID-19 Technical Advisory Group, in order to restart the guesthouse operations in the Greater Male' region.

President Ibrahim Mohamed Solih inaugurated the first airport developed by the current administration which is located in the Haa Alif Atoll. The Hoarafushi airport inaugurated by the President was completed the Maldives Transport and Contracting Company (MTCC) within a short period of time despite the ongoing pandemic and the President expressed gratitude for the company for its commendable work. Moreover, the President stated that this new airport will be the beginning of the development of the Haa Alif Atoll, which would be an important step towards fulfilling the administrations' pledge to decentralise the country. With the airport easing the transportation for residents of the region, the National Airline Maldivian had to increase the number of scheduled flights to Hoarafushi Airport due to the high public demand.

Canadian Space Agency's Junior Astronaut Program has been launched in the Maldives. The one-month program to be held in the capital city Male' was launched by the Institute of Global Success (IGS) who earlier this month launched Maldives' first space program in partnership with KSF Space Foundation in the United Kingdom. The aim of IGS is "to develop a new breed of leaders who are committed to reach their full potential and achieve world class success".

Visit Maldives has commenced its month-long global media campaign to attract more tourist arrivals to the Maldives. Held under the slogan, "Rediscover Maldives, the sunny side of life", Maldives Marketing and Public Relations Corporation (MMPRC) aims to promote Maldives in 10 key markets simultaneously. Accordingly, by emphasizing Maldives as a safe haven for travellers due to its geographical formation, the promotion will try to strengthen its destination presence in India, the United Kingdom, Russia, the Middle East, France, Germany, Turkey, Singapore, South Africa, Italy, Hong Kong and the Asia-Pacific markets.

The government of Maldives has announced that the government is seeking contractors to finance the Gaafu Alif Atoll Koodoo-Villingili bridge that was pledged by the current administration prior to the COVID-19 pandemic. With severe economic constraints present in the Maldivian economy, the government is working to carry out the project under contractor financing arrangements. According to the proposed budget for 2021, the government has allocated MVR 1 million to survey the planned bridge.

In-Focus: Maldives Budget Overview 2021

Budget priorities for the year

1. Strengthening the health and social sectors post COVID-19
2. Restoring the economy by boosting various economic activities and diversifying the economy
3. To establish a conducive business environment
4. To elevate the standard of living of Maldivian citizens
5. To build a resilient economy capable of withstanding economic shocks
6. Implement the government's Development Agenda
7. Achieve fiscal sustainability in the medium-term horizon

Key budget statistics

Revenue and Grants: MVR 17.8 billion – 21% increase compared to 2020

- o Revenue: MVR 15.6 billion – 23% increase compared to 2020
- o Grants: MVR 2.2 billion – 4% increase compared to 2020

Expenditure: MVR 34.8 billion – 9% increase compared to 2020

- o Recurrent Expenditure: MVR 21.6 billion – 2% increase compared to 2020
- o Capital Expenditure: MVR 13.1 billion – 7% increase compared to 2020

Fiscal Deficit: MVR 15.5 billion - 23.4 per cent of GDP, (compared to 27.5% of GDP in 2020)

Public and Publicly Guaranteed Debt (PPG): 142.8% of GDP (compared to 147.6% estimated for 2020)

New borrowing (External and Domestic): MVR 15.2 billion – 12% decrease compared to 2020

New revenue generating measures: MVR 1.2 billion

Public Sector Investment Programs (PSIP): MVR 8.3 billion – 49% increase compared to 2020

government's revenue hinges on the expectation for the growth in tourism and tourism-related services. Evidently, the estimated total tax revenue for 2021 is 41% lower compared to 2019, illustrating that the government does not anticipate the economy to revive back to 2019 levels in 2021.

While marginal increases in revenue are expected from Goods and Sales Tax (GST) – MVR 246.0 million, the Business Profit Tax (BPT) is expected to decline by 62% in 2021 compared to 2020, as businesses have been severely affected due to the COVID-19 pandemic in 2020. Approximately 50 per cent of the increase in the revenue compared to 2020 is accounted for by the increase in rental income received from resorts, i.e. government forecasts to receive an additional MVR 1.5 billion as rental income in 2021 compared to 2020. The huge increase in this component is due to the expectation that the rental income deferred for the third and fourth quarter of 2020 will be paid in 2021.

Given the anticipated fall or marginal increase in tax revenues from major tax codes such as GST and BPT, the government expects to implement several new revenue measures. The measures include implementing the increase in the rates in Airport Development Fee (ADF) and Airport Service Charge (ASC), which was initially scheduled to be enforced in 2020 and introducing a frequency spectrum charge. The projected revenue from these additional measures is stated in the table below (Table 1).

Table 1: Projected Revenue to be received from the New Revenue Measures

New Revenue Measures	Expected Income (in millions of MVR)
Raising the ADF and ASC rates	272.6
Leasing land for tourism	154.2
Leasing land for real estate tourism	154.2
Telecom licenses /Frequency Spectrum Charge	300.0
Sale of Land	300.0
Congestion Charge and Parking Fee	36.6
Total	1,217.6

The government of Maldives estimates to receive total grants of MVR 2.2 billion by the end of 2021, of which 78% of the financial assistance is to be received from the Indian government. Additionally, the government also expects to receive multilateral assistance totalling at MVR 404.9 million of which the Asian Development Bank (ADB) will provide MVR 153.3 million in accordance to the commitments ADB has made to provide financial assistance to the Maldives for the next five years.

Revenue

Chart 1: Composition of Revenue, 2021 (in millions of MVR, percent composition)

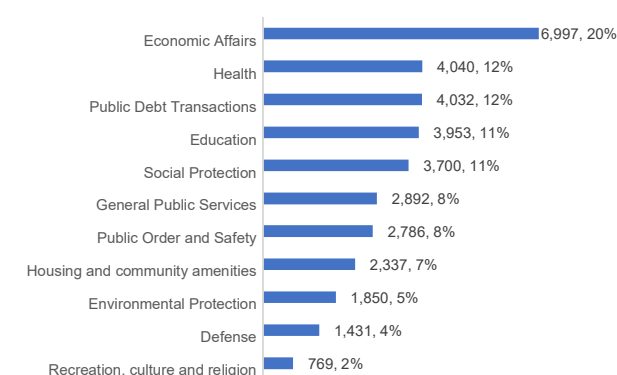


In the 2021 Budget, the government of Maldives has announced that it expects to generate a total of MVR 17.8 billion as revenue and grants, which is a 21% increase compared to 2020. However, this amount is considerably below the level revenue and grants registered before COVID-19 (in 2019, total revenue and grants were at MVR 23.3 billion).

The total revenue to be realised by the end of 2021 is estimated to be at MVR 15.6 billion, which is a 23% increase compared to 2020. Since a majority of the revenue received by the government stems from the tourism industry's performance, the outlook for

Expenditure

Chart 2: Functional Classification of the Government's Expenditure (in millions of MVR, percent allocated)



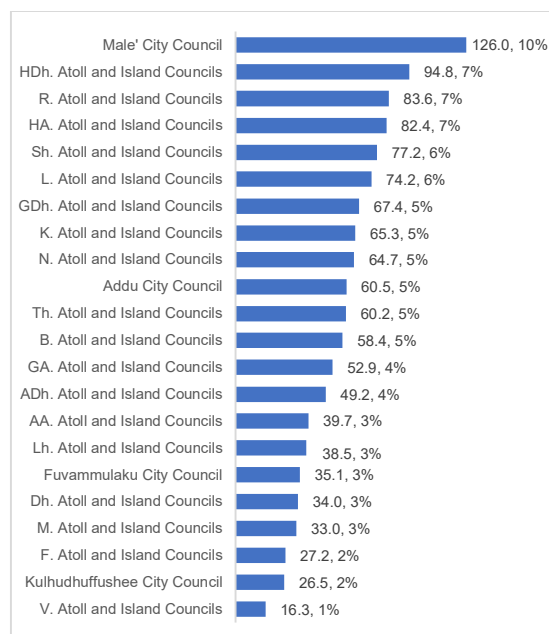
The total government expenditure for 2021 and medium-term is based on the "National Resilience and Recovery Plan" that the government has compiled to address the shortcoming of the economy exposed by the COVID-19 pandemic. Maintaining the countercyclical nature of fiscal spending, the government has announced its intention to boost economic activities by increasing the total government expenditure by 9% in 2021 compared to 2020

– total expenditure of MVR 34.8 billion. Approximately seven percentage points of this growth is contributed by capital expenditure (MVR 13.1 billion estimated for 2021), where the government aims to increase spending on infrastructure assets, lands and buildings. A 49% increase is expected for the aggregate expenditure in the aforementioned categories, and this increase is primarily driven by the expenditure on developmental projects that were disrupted due to the COVID-19 pandemic in 2020.

Additionally, the government also expects the recurrent expenditure (MVR 21.7 billion estimated for 2021), which accounts for 62% of the total expenditure to increase by 2%. While the government projects the expenditure on salaries and wages to increase by 3%, the spending on subsidies and transfers is expected to decline by 11% compared to 2020. This reduction is a result of the decrease in subsidies provided for fuel, and due to the plans to increase the efficiency of the existing social security and welfare systems such as implementing a maximum retail price on medicines which will cut the expenditure on governments health insurance scheme, Aasandha.

As part of the decentralisation act ratified by the government, block grants were assigned to different atoll and island councils in 2020. While MVR 942.8 million is estimated to be disbursed as part of the block grant in 2020, this amount is projected to increase by 32% in 2021 (MVR 1.2 billion). Approximately 20% of the block grant is to be disbursed to the different city councils (Male', Addu, Fuvammulaku and Kulhudhuffushee). The following chart (Chart 3) summarises the estimated budget to be provided to the different regions of the Maldives.

Chart 3: Budget allocated for different city, atoll and island councils (in millions of MVR, percent allocated compared to total council budget)

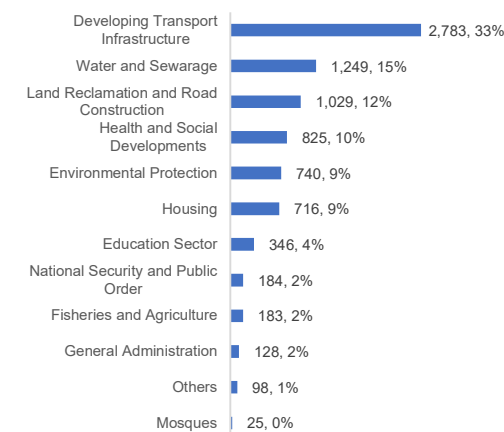


Analysing the composition of the national budget indicates that the government has allocated 20% of the budget on Economic Affairs such as expenditure on developing the Velana International Airport, developing other regional airports, building the Greater Male' Connectivity Bridge, and diversifying and enhancing the economic sectors such as fisheries and agriculture. The government has also prioritised expenditure on Environmental Protection, and Housing as expenditure on these categories is expected to increase by 113% and 64% compared to the revised 2020 budget respectively. Furthermore, the government also expects to repay the overdraw from the public bank account held at the MMA in 2021¹ and accordingly, the expenditure on public debt transactions is projected

to grow by 42% by the end of 2021. Chart 2 summarises the functional classification of the government's budget for 2021.

PSIP activities

Chart 4: Expenditure allocated for PSIP categories (in millions of MVR, percent allocated)



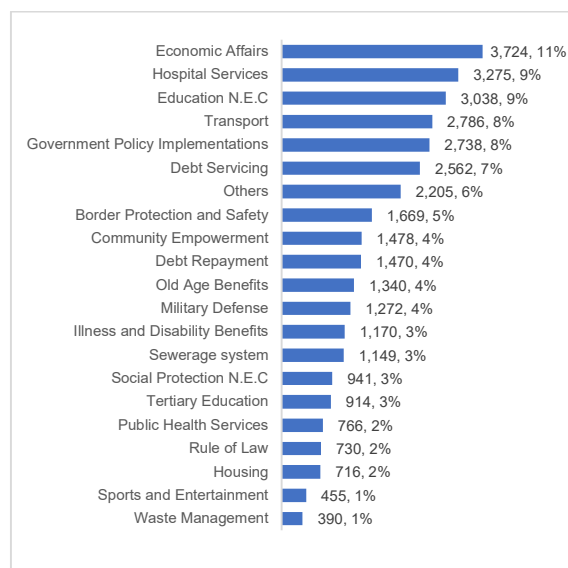
While the government suspended expenditure on new public sector investment projects (PSIP) following the COVID-19 pandemic in 2020, these projects are expected to commence in 2021. As such, the government has allocated a 49% increased budget for PSIP for the year 2021. Among the PSIP the largest allocated budget is assigned for transportation (MVR 2.9 billion) of which almost half of the expenditure is allocated on developing the international and regional airports of the Maldives. Additionally, the government has also allocated. Compared to the revised budget for 2020, sectors such as Housing, Environmental Protection and Education are expected to have significant PSIP expenditure growths (247%, 161% and 103% respectively). The chart (Chart 4) above summarises the PSIP expenditure on the major categories.

¹ In light of the Covid-19 crisis, parliament has authorized exemptions for the laws exercising limits on overdraw from the public bank account, Article 32a, 32d, 32e of Fiscal Responsibility Act, for a one-

year period. It is estimated that this will enable the Government to overdraw MVR 3.8 billion for the year 2020 (Medium-Term Fiscal Strategy 2020, Ministry of Finance).

Strategic Action Plan (SAP) classification of the Government Budget 2021

Chart 5: Expenditure allocated for Major categories in SAP (in millions of MVR, percent allocated)



In the proposed budget for 2021, the government has illustrated how the expenditure on different activities aligns with the implementation of the Strategic Action Plan (SAP) of the current administration. Examining the SAP classification of the expenditure indicate that the spending on economic diversification is the largest with MVR 3.7 billion followed by Hospital services (MVR3.3 billion) and Pre-School, Primary and Secondary Education Services (MVR 3.1 billion). The chart (Chart 5) above summarises the key categories of the SAP and the allocated budget for those categories.

New Expenditure measures

Table 2: Projected Expenditure on Major New Policy Initiatives

New Policy Initiatives	Expected Expenditure (in millions of MVR)
Covid-19 Health Budget	200.0
Strengthening the Education System in the five regions of Maldives	50.0
Establishing the National One-Stop-Shop service	42.0
Expanding Regional Seaport and Airport Services	61.8
Promotional Activities conducted by Invest Maldives	47.2
Assistance to citizens forced to migrate to regional islands	25.0
Capital Required for the operations of Agro-National Corporation	84.0
Home Solar PV Program	20.8
Total	1,716.7

As part of the “National Resilience and Recovery Plan” the government has also introduced New Policy Initiatives (NPI) for which a total budget of MVR 1.7 billion has been allocated. Given the key objective of the plan is to build a diversified, decentralised and resilient economy, the NPIs are aimed to assist in the achievement of this objective. The following table summarises the major NPIs planned by the government and the projected expenditure on these initiatives.

Financing plan for the budget

- Domestic Financing: MVR 3.4 billion
- Foreign Financing: MVR 12.1 billion
- Privatisation: MVR 462.6 million

Given the high fiscal spending budgeted for 2021, the government’s fiscal deficit is projected to be at MVR 15.5 billion (23.4% of the GDP) by the end of 2021. While this is 2.7 per cent improvement in

the fiscal deficit from 2020 (overall balance in 2020 was at MVR 15.9 billion), the immense deficit implies that the government expects to bridge the financing gap via several sources. Accordingly, the government projects to raise total financing of MVR 12.1 billion from external sources while a further MVR 3.4 billion is expected to be generated from the domestic market.

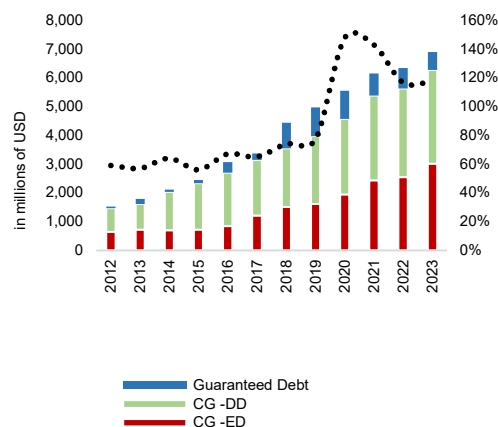
The majority of foreign financing is composed of loan disbursements, and in particular, the line-of-credit (LOC) established between the government of the Maldives and the Export-Import Bank of India (EXIM) which will allow the government to increase expenditure on large infrastructure projects such as the development of the International Port, and the development of the Greater Male’ Connectivity Bridge. Additionally, the government also projects to receive proceeds from the issuance of sovereign bond/Sukuk to the international market. As such, the proposed budget for 2021 includes a USD 300 million bond to be issued to the international market with the assistance of Islamic Corporation for Development of the Private Sector (ICD) and an additional USD 100 million bond to be raised via innovative financing instruments such as green/blue/social impact bond.

Although the amount of financing raised from the domestic market in 2021 is 64% lower compared to 2020, a large portion of the domestic financing is projected to be received by issuing treasury bills and bonds to financial institutions in the Maldives. Approximately, MVR 3.7 billion is expected to be raised from domestic T-bill market through domestic banks and pension funds which may contribute to crowding out private sector investments.

Furthermore, the government also expects to raise domestic financing by privatising State-Owned Enterprises (SOEs), i.e. a total of MVR 462.6 million is projected to be received from the various forms of privatisation. These options include issuing IPOs, establishing strategic partnerships, and establishing public-private partnerships with the main objectives of boosting the efficiency of SOEs and generating more income streams from these SOEs.

Public Debt – 2021 and Medium-Term

Chart 6: Projected trajectory for PPG, 2012-2023



With large fiscal deficits expected to be realised in 2020 and 2021, the public and publicly guaranteed (PPG) debt as a percentage of GDP is projected to exponentially increase from 77% in 2019 to 143% by the end of 2021.

While the Central Government’s External Debt stood at USD 4,972 million at the end of 2019, it is expected that this amount will increase up to USD 5,547 million in 2020 and USD 6,145 million in 2021. The large increases in the external debt in 2020 and 2021 is due to the expenditure on infrastructure projects the government has planned via foreign financing and because of the foreign assistance required to bridge the large fiscal deficits incurred due to the COVID-19 pandemic. Since foreign financing is insufficient to address the total financing requirement of the government for 2020 and 2021, the government projects a similar increase in domestic debt to finance its overall balance in these two years.

Although the government expects an increasing trend in the total outstanding central government debt (external and debt) for the medium-term, due to the high projected GDP growths for the Maldivian economy for 2022 and 2023, the PPG as a percentage of GDP is projected to fall from 2022 onwards and register at 117.4% by the end of 2023. Given that the Fiscal Responsibility Act of the Maldives states that the total debt (including guaranteed debt) must not exceed 60 per cent of the GDP, the fiscal authorities will need to implement major structural changes if the government of Maldives seek to reduce the debt to GDP ratio to the levels stated in FRA. The high external debt to GDP ratios will also exacerbate the government's debt service costs in the future as credit agencies will take into consideration the high external debt distress levels in their ratings assigned to the country. Lower ratings may limit the availability of concessional foreign financing available for the government of Maldives to bridge the high fiscal deficit expected for 2021.

Opinion on the Budget 2021

During the parliament budgetary discussions, the following authorities highlighted these issues/concerns/recommendations

The Maldives Monetary Authority (MMA)

- A proposed Frequency Spectrum Charge on the Telecomm sector might be passed onto consumers becoming a potential source for inflation.
- The proposed new revenue measures are contingent on the timely creation and implementation of new laws/regulations, and any disruption on the legislative agenda can disrupt the proposed revenue collection, further exacerbating fiscal balance.
- Recommended the government of Maldives to fully secure external foreign exchange funding required for big-ticket infrastructure projects budgeted for 2021. The failure to secure the funding could put pressure on the limited foreign currency available locally, and such outflows could put tremendous pressure on the Maldives fixed exchange rate regime. The government as a last resort may require overdrawn its public bank account at the MMA which is not advised by the authority.
- The large amount of deficit-financing (MVR 3.4 billion) expected from domestic sources may give rise to crowding out if banks resort to the behaviour of systemic investment in government treasuries rather than lending in the face of economic uncertainty. Hence the issuance of treasury securities should be limited.
- The authority believes the budget in its current form may be challenging to achieve.

Auditor General's Office (AGO)

- Nearly 3/4th of the total grant is expected to come from a single country (India). This lack of a diversified base for grant receipts could pose a tremendous challenge if the country is unable to disseminate the proposed funds under global economic uncertainty precipitated by the Covid-19.
- The requirement to restructure debt is high, and the government should seek appropriate avenues to carry out this process.