Maldives Fiscal and Economic Outlook
2009 – 2011

A background paper prepared by the

Ministry of Finance and Treasury

for the

Maldives Partnership Forum (MPF)

to be held in Maldives, 23-24 March 2009

This paper seeks to outline the current macroeconomic situation of the country, and the Government's outlook for the medium term. The Maldives is going through a transformation not just politically, but economically and socially. The current global economic and financial crisis will make it difficult and challenging to implement change at a time when change is required in all aspects of Maldivian life. The country faces serious fiscal challenges, as well as social challenges, such as provision of housing, establishing a modern transportation system, and dealing effectively with social ills such as substance abuse, poverty and child abuse. The following sets out the overall macroeconomic environment within with these challenges will need to be addressed.

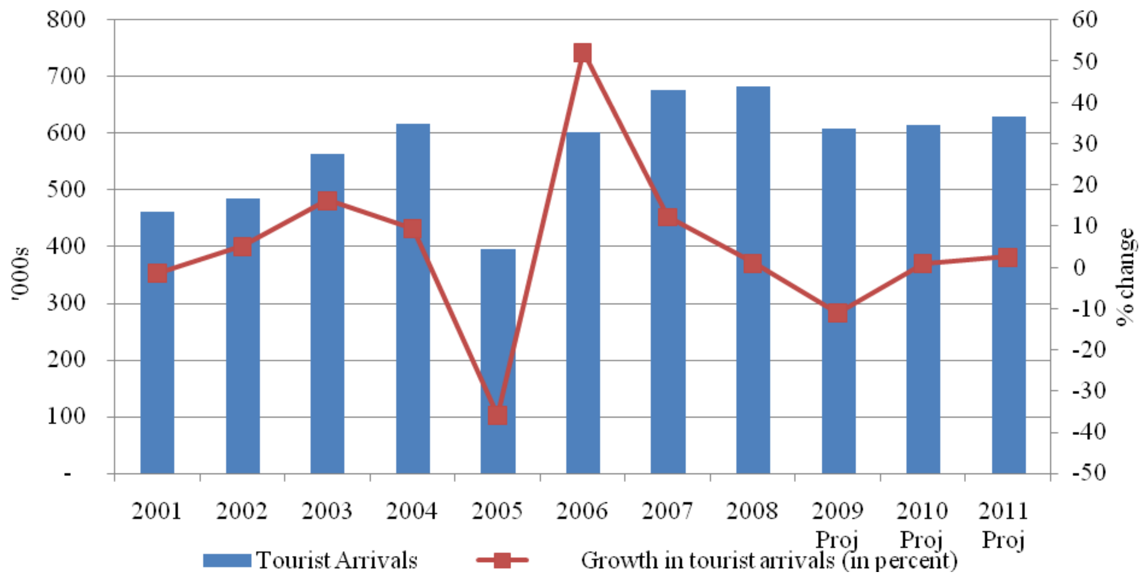
Outlook for the Major Economic Sectors

TOURISM SECTOR

The tourism sector is the largest contributor to the country's GDP, accounting for an average of 30 percent over the past decade or so. However, the sector is very vulnerable to external and internal events and shocks, as seen by the drop in arrivals following the September 11th terrorist attacks on the United States, and following the tsunami disaster that struck the Maldives at the end of 2004. Although recovery from these events was swift and the industry has always been very resilient, the current global financial and economic crisis is expected to have far reaching implications for the tourism industry in the Maldives, and as such for the whole economy.

Tourist arrivals for 2008 were initially estimated to show a growth of 9 percent. However, due to the current global economic and financial crisis and the resulting recessions in our main tourism markets in Europe, actual arrivals growth was at 1.1 percent for the year. For 2009, tourist arrivals, initially estimated at 691,000, at a growth of 0.9 percent, has now been revised down to a negative 11 percent, based on actual tourist arrivals for the first two months of the year, and feedback from the tourism industry. However, it is expected that the recession will somewhat abate in the last quarter of 2009, and we may see arrivals growth of 1 percent and 2.5 percent for 2010 and 2011 respectively.

Figure 1: Tourist Arrivals and Arrivals Growth , 2001 - 2011



As the current troubled economic scenario is expected to continue well into 2009 and probably beyond, the growth in the number of international tourist arrivals for 2009 is expected to be in the range between 0% and -2%. According to the January 2009 edition of UNWTO World Tourism Barometer, along with the Americas, Europe will be the most affected region in terms of overall tourism results. While Europe is expected to have a growth between -3% and 0%, Americas is forecasted to grow between -1% and +2%. Results are expected to be positive in Asia and the Pacific, between 0% and +3%. For Africa international tourist arrivals are expected to grow between +1% and +4% and for the Middle East between +2% and +6%

Over 60 new islands were leased for development as tourist resorts and hotels between 2004 and 2008. Of these, however, only 7 resorts were operational at the end of 2008. For the year 2009, 2 additional new resorts as well as 6 resorts that had been closed for renovation are expected to open, increasing bed night capacity by 10 percent for 2009. Given the expected decline in tourist arrivals for 2009, capacity utilization is expected to be at 63.4 percent for 2009, down from 78 percent for 2008. For 2010 and 2011, 4 -5 new resorts are expected to be operational each year, further reducing capacity utilization, as tourist arrivals growth is less than the increase in bed nights.

Although no statistical data are available, anecdotal evidence suggests that tourist spending while in the Maldives has also declined considerably. This has implications for foreign currency receipts for the country, and multiplier effects for the economy as a whole.

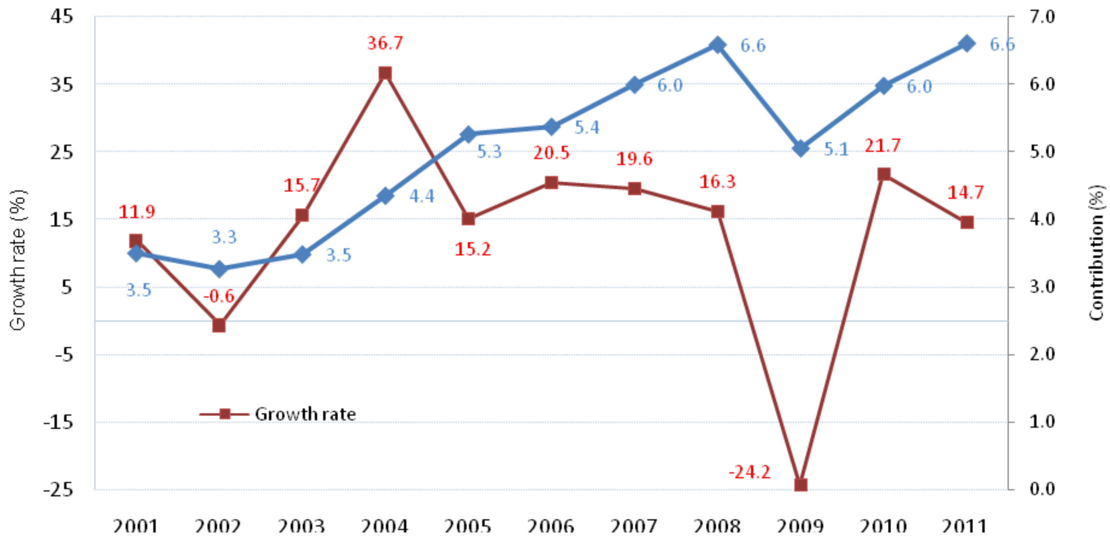
The main constraint to developing the new islands leased for development as resorts and hotels has been the lack of available finance domestically and the difficulties of accessing finance overseas. This situation has been exacerbated by the current global economic and financial crisis, further curtailing financing options and availability. Delays in operationalizing these new developments will delay the economic benefits of such developments, such as generation of employment, and incomes, and as such the government has initiated discussions with development partners to source financing for these ventures.

Investment in the tourism sector has also been deterred by the high lease rents for the new resorts, which make the investments unattractive. Further deterrents are the dispersed location of the new islands, and the lack of the necessary support infrastructure such as domestic airports. The government is committed to take the policy actions necessary to make investments in the tourism sector more attractive to investors, and is seeking to enter public-private partnerships to establish the required infrastructure.

CONSTRUCTION SECTOR

The construction sector's contribution to GDP growth has been increasing (Figure 2), especially since 2004, fuelled by the recovery and reconstruction efforts following the tsunami disaster, and the construction of new tourist resorts leased out from 2004 onwards.

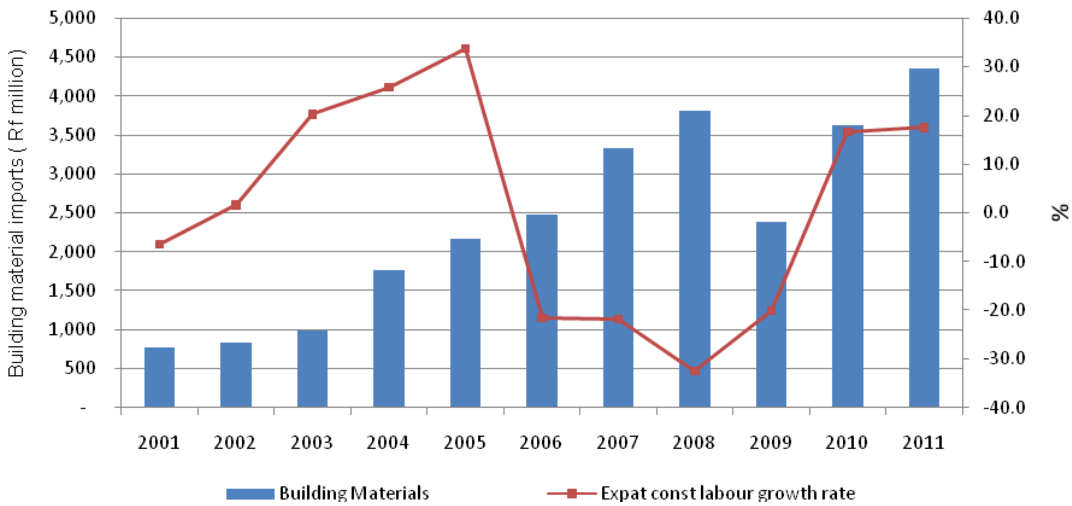
Figure 2: Construction Sector Growth Rate and Contribution, 2001 – 2011



Sector growth has also been exceptional during the period 2004 - 2008, with an average growth rate of 22 percent per annum (Figure 2). However, the sector is also expected to be hit hardest by the current economic crisis, at an estimated decline of 24 percent for 2009. Lack of or delays in sourcing financing for construction of the new resorts has led to delays in the contractors receiving payments, which in turn have led to cash flow issues for the construction sector. Further, the low availability of foreign currency in the economy has also made it difficult for the sector to take advantage of declining prices of raw materials on the international market. Expatriate employment in the industry is expected to decline by 20 percent for 2009, while imports of building materials are estimated to drop by 38 percent. However, although no new investment projects are planned through the domestic budget, the government's public-private partnerships initiative, through which expenditures will be transferred from the budget to the private sector, or jointly incurred with the private sector, is expected to provide a much needed boost for the sector. New opportunities for public-private partnerships or foreign direct investments include development of an inter island transportation network, and real estate developments which would focus on mixed residential projects, with the plan to create 10,000 housing units and 1,000 luxury villas across the country.

For the medium term, with expectations that the crisis will slow down by the end of the year 2009, and combined with the opportunities for public-private partnerships (PPP) and foreign direct investment[1], as well as expected recovery in the tourism sector, the construction sector is expected to rebound, with growth rates of 22 percent and 15 percent for 2010 and 2011. The government is also committed to increasing management capacity within the sector, through provision of the necessary training and restructuring support.

Figure 3: Building material imports and expatriate construction workers growth rate 2001 -2011



FISHERIES SECTOR

Fishing has always been an important activity in the Maldives and has been providing employment and export earnings for thousands of years. The importance of the fisheries sector in the livelihoods of the communities throughout the country has remained vital in terms of trade, employment and self-sustenance.

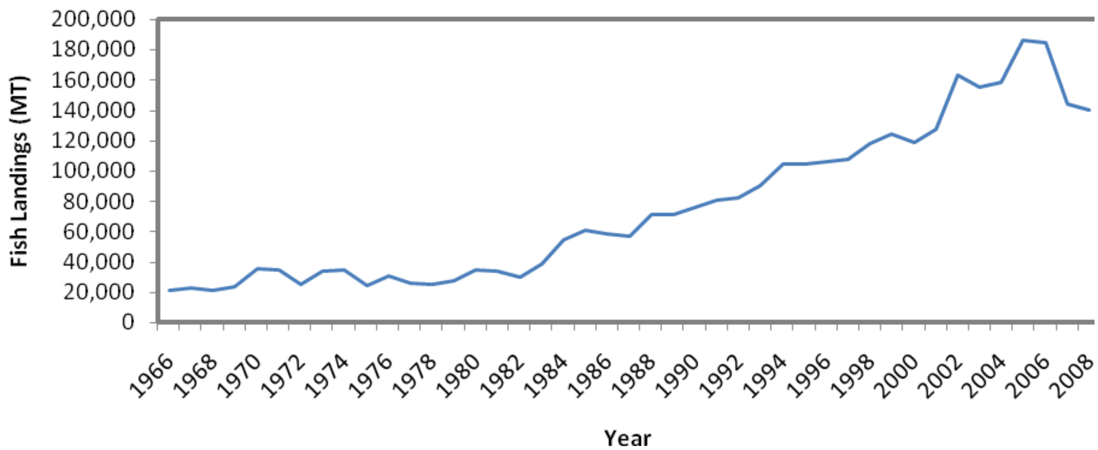
The fishing industry accounted for between 6.6% and 8.9% of the GDP during the past ten years. The fish landings have increased from 21,542MT in 1966 to 180,981MT in 2006. However, the total landings has declined approximately 20% between 2006 and 2007, landings dropping from 180,981MT in 2006 to 141,074MT in 2007. The total landings has remained at the same level in 2008 compared to 2007.

There are several hypotheses for the current low tuna catch. One of them is due to the increase in sea surface temperature, which affects the aggregation process resulting in a

[1] More details on these initiatives are outlined in the 'privatization' background paper prepared for the MPF III.

poor catchability (Hilmy, 2008). Secondly, it could be deduced based on the past trends from 1966 to 2007, there has been a cyclical decline in every 3-4 years as shown in figure 4 and the current low catch could be accredited to it. This could be also correlated to the changing oceanographic conditions in the Indian Ocean.

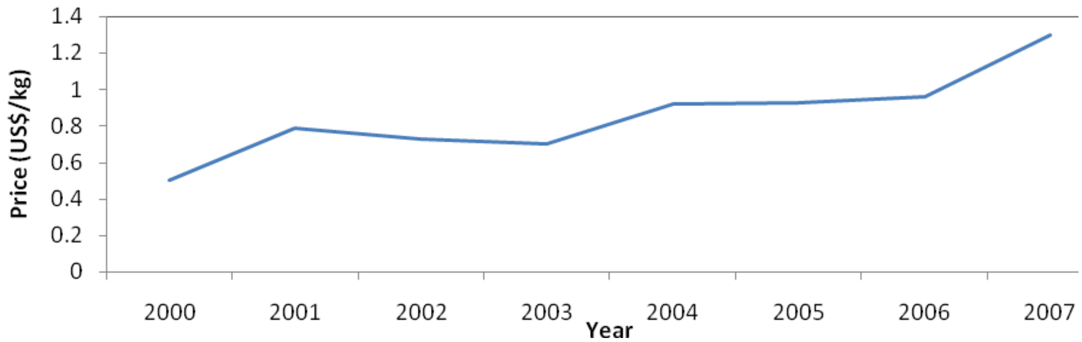
Figure 4: Fish Landing, 1966 – 2008



Another reason that is accredited for the low catch is the increase in fuel prices and other commodities in the world market during 2007 till late 2008. The larger vessels tend not to engage in fishing, if there is a speculation about lower fish catch. With the increase in fishing cost, the vessel owners were reluctant to take the risk if there was relatively less chance to catch fish and to recover their operational costs. The purse seine fleets in the Indian Ocean suffered heavily during 2006 to late 2008 period, since it was not feasible for them to be engaged in fishing considering their operational costs with the high fuel cost.

However, the oil prices in the world market declined from $134 in July 2008 to $31 in December 2008 (EIA, 2008). This huge drop in the oil prices made the 'out of work' purse seine fleets more operationally feasible. This also had a huge impact on the prices of skipjack tuna in Thailand Market (49% of the marine exports from Maldives is exported to Thailand in 2008). The price of skipjack tuna reduced from an average of US$2,000/MT in October, 2008 to US$700 – US$800/MT in December of 2008. It should be noted that the current price is the same as the prices of skipjack tuna in the Thailand market for the last 7 years except the hike in 2008 (Figure 5 , Infofish, 2008).

Figure 5: Prices of Skipjack Tuna (US$/kg) in Thailand Market, 2000 – 2007



Source: Infofish, 2008

The Scientific Committee of the Indian Ocean Tuna Commission concluded that "the high productivity life history characteristics of skipjack tuna suggest this species is resilient and not prone to overfishing, and the stock status indicators indicate that there is no need for immediate concern about the status of skipjack tuna."

However, considering all the stock indicators and assessments, as well as the recent trends in effort and total catches of yellowfin, there are concerns over the stock and fishing pressure on juvenile yellowfin by artisanal and purse seiners (IOTC, 2006).

Considering that the demand for fish and fishery products remained the same and environmental conditions in the fishing grounds remained the same and with relatively affordable fuel prices (Fuel constitutes around 70% of the costs of a vessel operated in the Maldives), the fishing effort is not expected to decline despite the current financial crisis. However, there are concerns, about the fishermen and boat owners who are unable to repay the loans for the construction of new vessels. Some of the current boat building works have also been put in to a halt due to the unavailability of funds and difficulties in obtaining loans.

Hence, based on these assumptions and recent methodologies used to calculate the potential of fisheries resources it is expected that the fishery would recover from the low catch levels in 2007 and 2008 with an increase of approximately 15% in landings in 2009. It is expected that the export revenue would increase by around 15% in 2009 based on the past trends.

However, the growth in 2010 and 2011 is expected to slowdown based on the current market conditions and catch trends. It is expected that total landings would be approximately around 162,363 MT in 2010 and 162,244 MT in 2011.

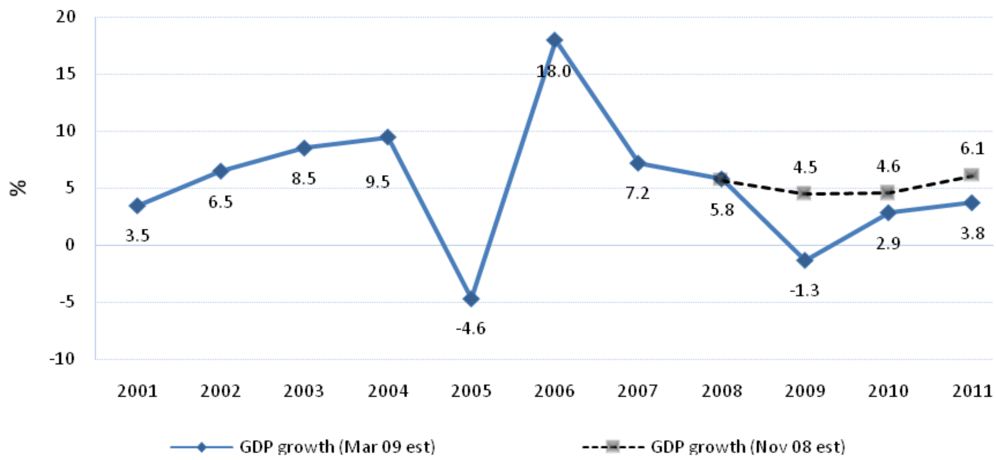
The Maldives Industrial Fisheries Company (MIFCO), a state owned enterprise is the dominant player in the fisheries sector at the current juncture, although there are three to four other major players from the private sector. MIFCO has expressed interest in divesting its facilities related to tuna processing, while moving towards product diversification through focusing on aquaculture and mariculture. The government is committed to supporting MIFCO in this initiative.

Gross Domestic Product

In the decade prior to the tsunami disaster of December 2004, Maldives witnessed an annual economic growth of 7 percent on average. Due to the devastation caused by the tsunami, with 62 percent of GDP estimated to have been affected, the economy contracted by 4.6 percent in 2005, with tourism contracting by 33 percent. However, recovery was swift, and with the tourism sector showing 42 percent growth for 2006, GDP growth was at an all-time high of 18 percent for 2006. The following year, growth was at 7.2%, indicating a return to normal growth levels registered prior to the tsunami.

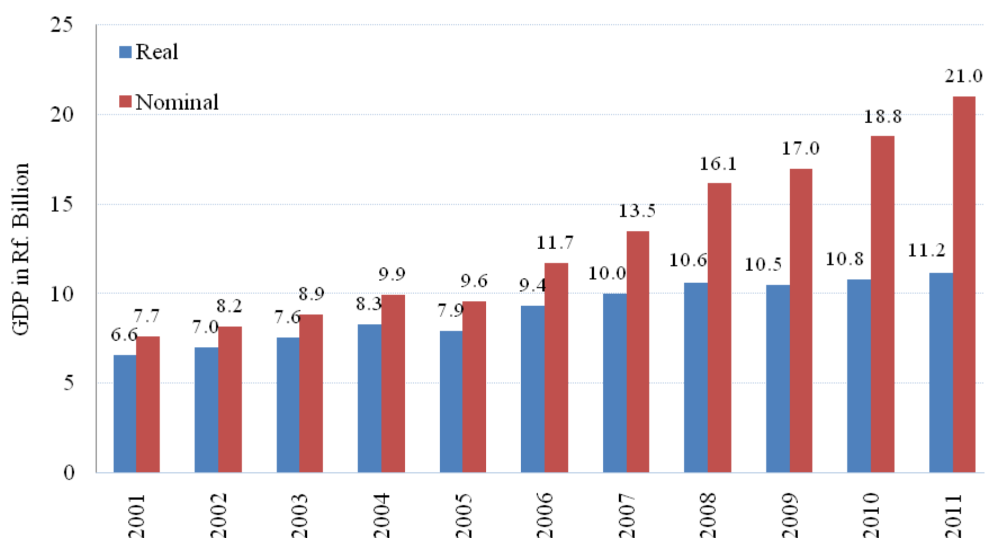
However in 2008, with the onset of the global downturn in mid-September 2008, the Maldives economic growth started decelerating. Tourism sector grew only by 3% against the projected 12.4%. The fisheries sector also declined by 2.6%, as a result of increasing fuel prices and low catch levels. Growth was at 5.8% while inflation reached double digits.

Figure 6: GDP Growth Rate, 2001 – 2011



Even though the initial anticipation was that the current global financial crisis will have a limited impact on the Maldivian economy, recent statistics show that it will cause a significant impact and could be more severe than anticipated. Consequently, the economic forecasts for 2009 to 2011 have been revised downwards. The most recent growth forecasts for 2009 are -1.3 with the contraction of the tourism, construction and trade sectors by 10.5, 24.2 and 3.2 respectively. It is estimated that the global recession may abate somewhat in late 2009, and hence with the associated improvements in the tourism and construction sector, growth for 2010 and 2011 are estimated at 2.9 percent and 3.8 percent respectively.

Figure 7: Real and Nominal GDP, 2001 - 2011



INFLATION[2]

Inflation in the country rose sharply by 12.4% in 2008 compared to the 5.4% experienced in 2007. This was the outcome of the price hikes experienced in the international oil market combined with the weakening of the dollar experienced in the foreign currency market. It was further aggravated by the cost push factors in the domestic economy namely higher rent prices leading to increase in costs of providing goods and services.

Weakening of the US$ in the first half of 2008 resulted in the appreciation of currencies of many of our trading partners, making imports more expensive as Maldivian Rufiyaa is pegged to the US at a fixed rate of 12.8, which resulted in the increase in price of imported goods. However, by the end of the year, around October 2008, the US dollar appreciated against major currencies which would have slowed down the negative impact of the early half.

Inflation rate for the nation was driven mainly by food and beverage price, including fish, which accounted for about 70%, while the other major categories of housing, water, electricity, gas and other fuels, and health pushed up inflation by about 10% each.

Due to the current economic crisis, the goal of maintaining price stability has become more challenging. Medium-term forecasts indicate that the inflation rate will be around 5.5%.

LABOUR MARKET

Maldives faces a major challenge in creating employment opportunities for the increasing number of new labour market entrants and more specifically in creating jobs in the outer islands of the country.

Census 2006 showed, unemployment rates for women remain higher in all age-groups, in both 2000 and 2006 with unemployment being highest among new labour market entrants at 15 to 19 years of age.

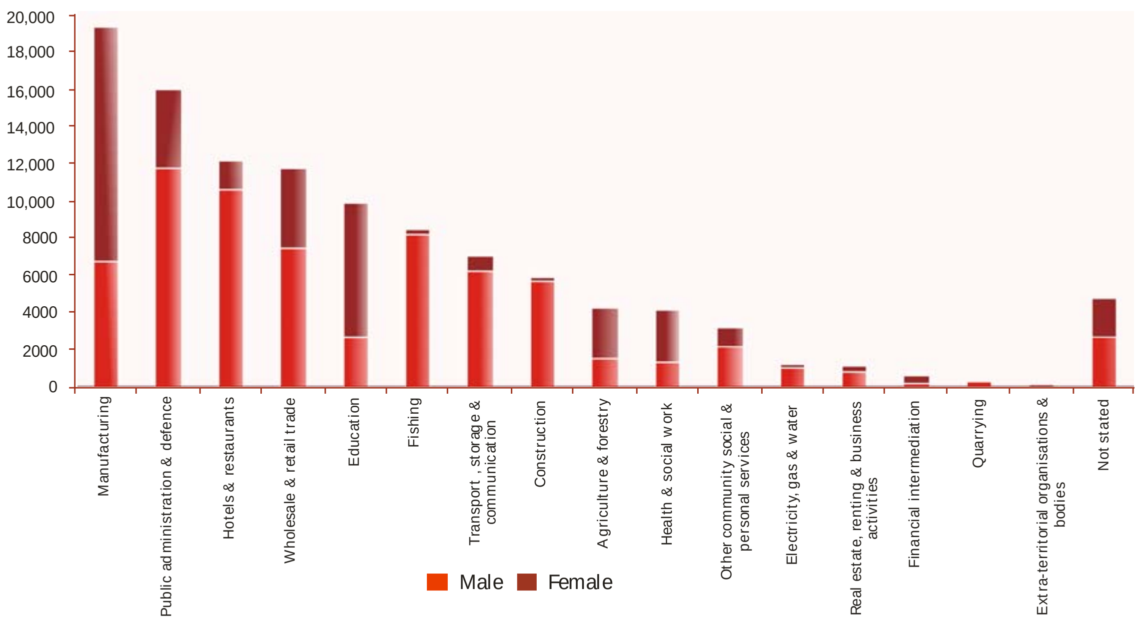
Youth unemployment was on the increase during 2000 to 2006 period. In case of Male', the unemployment rate among youths in the 20 to 24 year age-group, increased from 6 to 10 percent for males while for females it increased from 10 to 18 percent. Similarly, in the case of the atolls, the unemployment rates among youth in the 20 to 24 year age-group increased

[2] Base 1995

from 7% to 10% for males and from 30 to 34% for females. Unemployment is substantially higher for females in the atolls.

Employed population by major status in employment categories reveals that the labour market in Male' is more organized with 75% of the employed persons working as employees vis a vis 44% in case of the atolls. A higher proportion of self employed persons are found in the atolls, indicating the more informal nature of employment prevalent in the atolls. Looking at the employment status by sex shows, higher proportions of women being self employed, more so in case of females in the atolls.

Figure 8: Employed Population by Industry, Census 2006



When the expatriate employees were added to the local labour force, they accounted for one third (30%) of the total employed population in the country. Such high levels and fast rates of growth in the expatriate labour force in the country, reflects mismatches and rigidities in the country's labour market, social perceptions and cultural factors. Expatriate labour is mainly concentrated in the construction industry. Expatriate population has increased from 23% as a percent of total population in the first quarter of 2008 to 25% for quarter 4 of 2008. Projections of the working age population (locals) of the country shows a steady increase from 198,000 in 2007 to 274,000 by the year 2025. Projections of the country's labour force (locals) show a steady increase in from 131,000 in 2007 to 191,000 by the year 2025.

Labour market in the country has not progressed in line with the economic growth rates in the country. Despite the high rates of economic growth rates of 7% recorded in the country during the past 10 to 11 years, employment among local population grew at 5%. Fast rates of increase in the expatriates labour, in spite of high unemployment among the locals, especially among the youth population is a huge concern faced by the country. Expatriate employment grew at an average annual rate of 10% during this period 1995 to 2006. Reducing the high level of unemployment is currently one of the major challenges faced by the country, especially increasing unemployment among youth and women.

One initiative that the government will pursue is to implement a youth employment program in 2009, providing skills training to enable youth to enter into semi-skilled employment. The target for 2009 is to provide training for 5,000 youth before the end of the year, aiming to increase youth employment, while reducing dependence on expatriates.

Fiscal Policy and the Medium Term Fiscal Framework

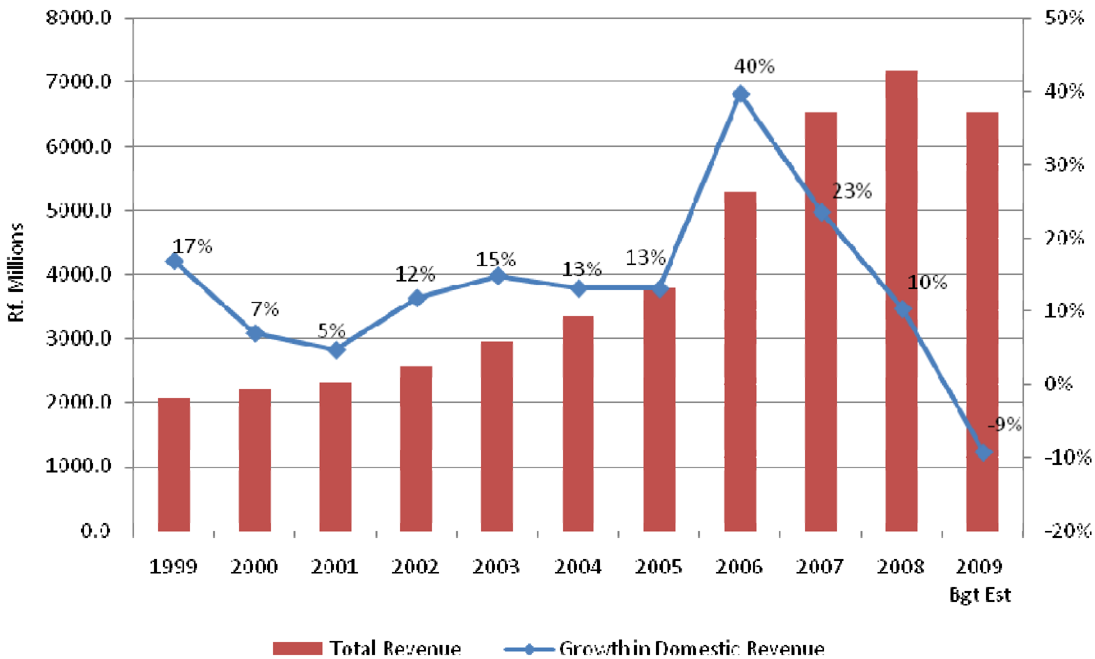
The budget for the year 2009 had to be presented to the Parliament by the end of November 2008, leaving the new government, which came into office in mid-November 2008, without enough time to reevaluate the budget in terms of new priorities. As such, the budget was presented to Parliament as it was with minor changes, with the request that a new revised budget, based on a medium term fiscal framework (MTFF), be allowed to be presented to Parliament within three months, that is, by the end of March 2009. Currently work is ongoing to finalize the medium term framework. The first section of the following analysis uses budget numbers from the one that was passed by the parliament, while in the second section, the MTEF is presented.

DOMESTIC REVENUE

Domestic revenue growth for the period 1999 – 2005 was on average 12 percent. However, revenues increased by 40 percent in 2006, mainly due to one-off, ad-hoc measures, such as the advance lease rent payments on the islands leased for development of new resorts in 2006. Growth in 2007 was again fuelled by such advance payments, as well as increased receipts on import duties. Import duties increased due to the boom in the construction and tourism industry in this year.

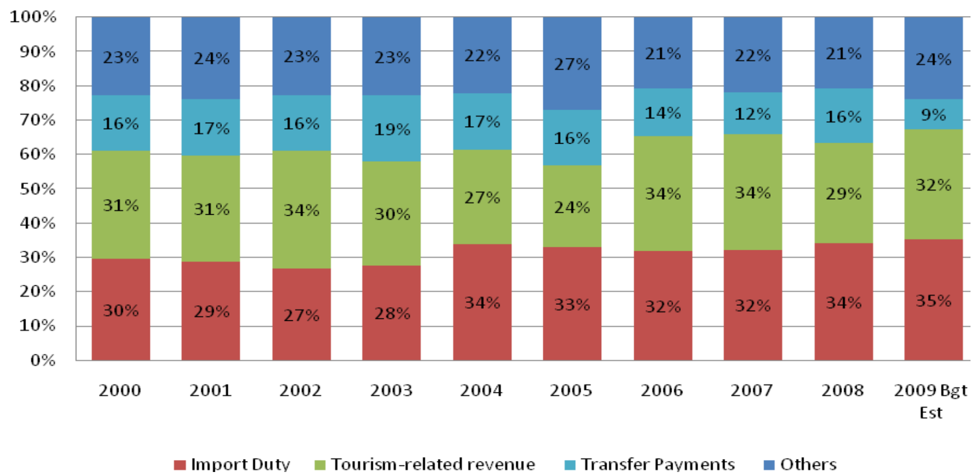
Growth in domestic revenues declined in 2008, as the advance lease rent payments leveled off. For 2009, as per the budget that was passed by the Majlis, revenues are estimated to decline by 9 percent for the year, as the effects of the current global recession start affecting the Maldivian economy.

Figure 9: Domestic Revenue, and Growth in Domestic Revenue



The main sources of government revenue include import duties, tourism taxes and resort lease rents, and dividend payments from state owned enterprises. Tourism related sources and import duties account for about 30 percent of domestic revenue each, while dividend payments account for 15 percent. As such, 75 percent of total domestic revenue is generated from three main sources only, increasing the vulnerability of the government revenue and the economy, especially since tourism-related revenues are very vulnerable to external shocks.

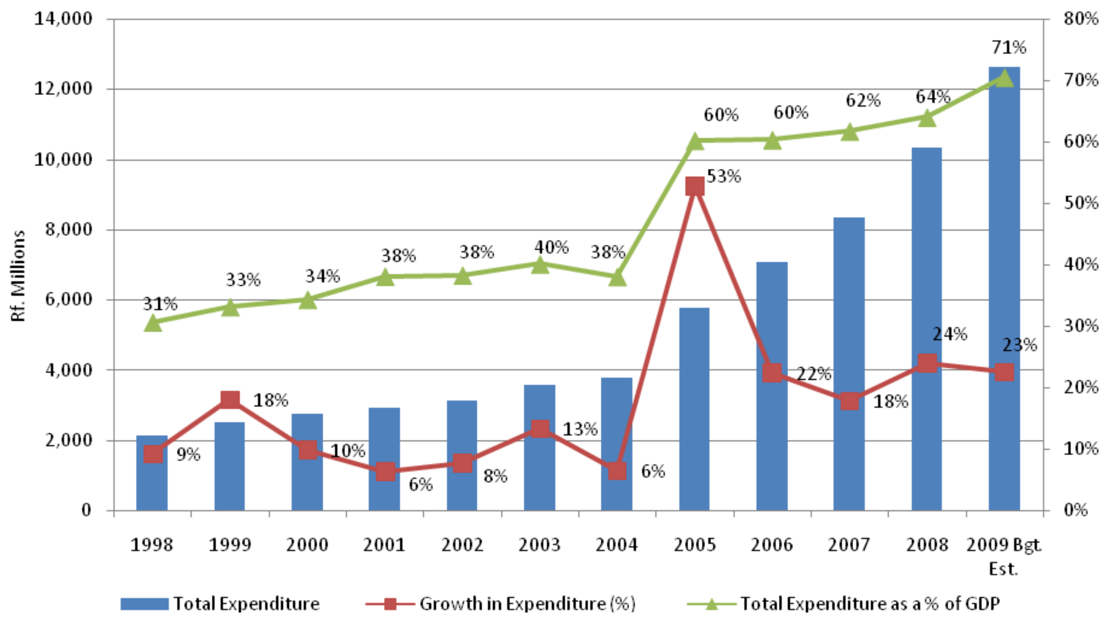
Figure 10: Composition of Domestic Revenue



GOVERNMENT EXPENDITURE

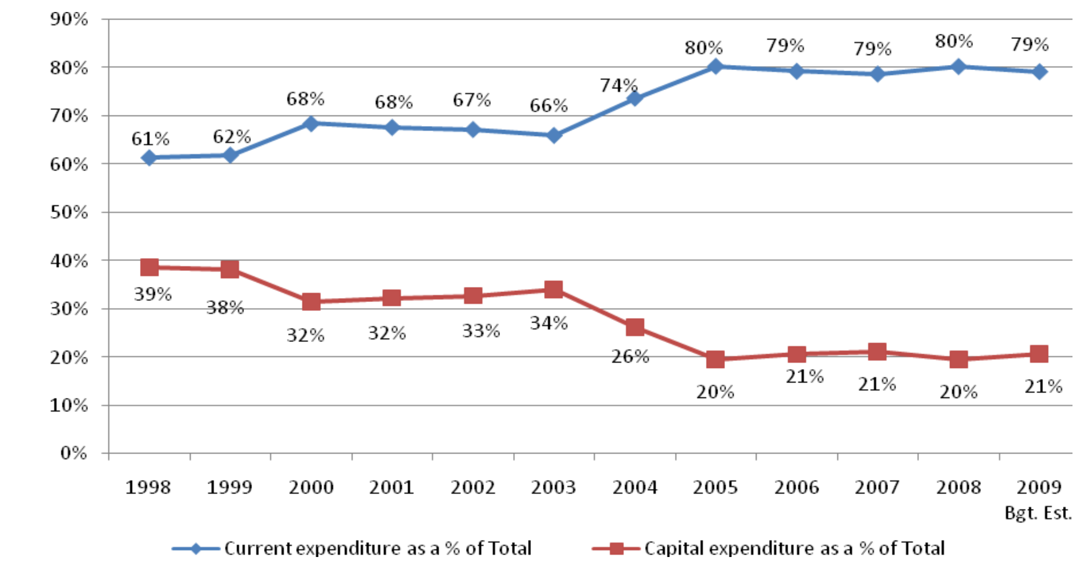
Government expenditure growth in the period 1996 - 2003 averaged 10 percent per annum, while revenue growth was on average 12 percent per annum for the same period. In 2005, however, total expenditures increased by 53 percent compared to 2004, as the country struggled to recover from the effects of the devastating tsunami disaster. However, the years 2006 – 2008 saw expenditures again increase by 21 percent per annum on average, much of it not directly related to the tsunami disaster. To reverse this upward trend, the new government is already working on supplementary measures aimed at boosting revenues while cutting back on expenditures to the extent possible.

Figure 11: Expenditure, Expenditure Growth and Expenditures as a Percentage of GDP 1998 – 2009



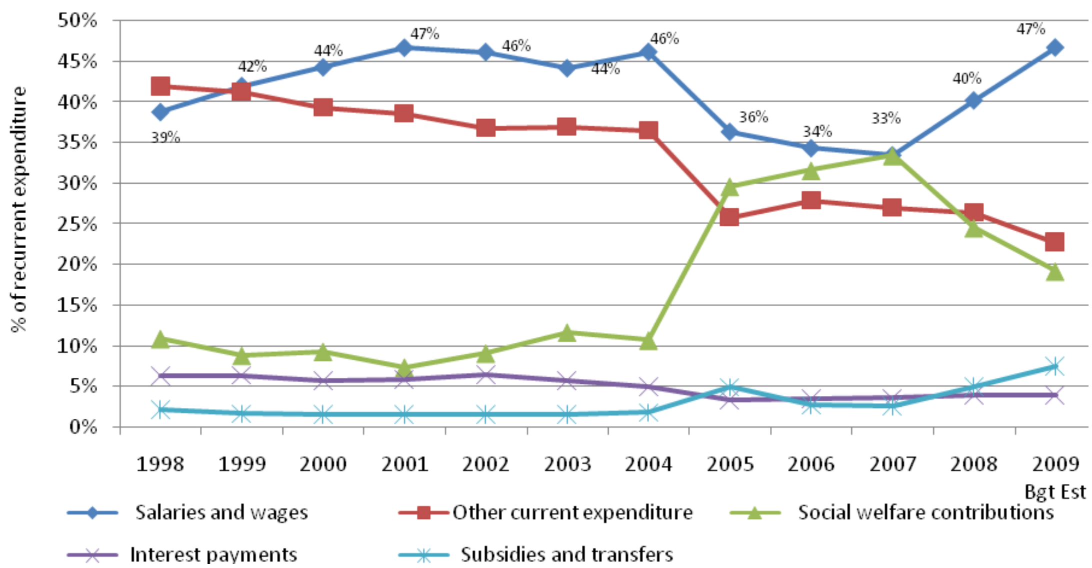
In 1998, recurrent expenditures accounted for 61 percent of total expenditure, while capital expenditures amounted to 39 percent. However, as can be seen from Figure 12, the gap between recurrent and capital expenditures have been increasing since 2003, at the expense of capital investment. This trend is alarming in that less and less investment is being undertaken in productive assets, and thus adversely affecting the economy's growth potential.

Figure 12: Recurrent and Capital Expenditure as a Percentage of Total Expenditure



Within recurrent expenditures, wages and other allowances account for the largest percentage, at 39 percent in 1998, and increasing to 46 percent in 2004. Wages and other allowances as a percentage of recurrent expenditures declined to 36 percent of recurrent expenditures in 2005 because of increasing social welfare contributions due to the tsunami disaster. However, from 2007 onwards, there has been a steady increase in expenditures on this category from 33 percent in 2007 to 47 percent in 2009, as per the budget passed by the Parliament for the year.

Figure 13: Breakdown of Recurrent Expenditure



SECTORAL ALLOCATIONS OF EXPENDITURE

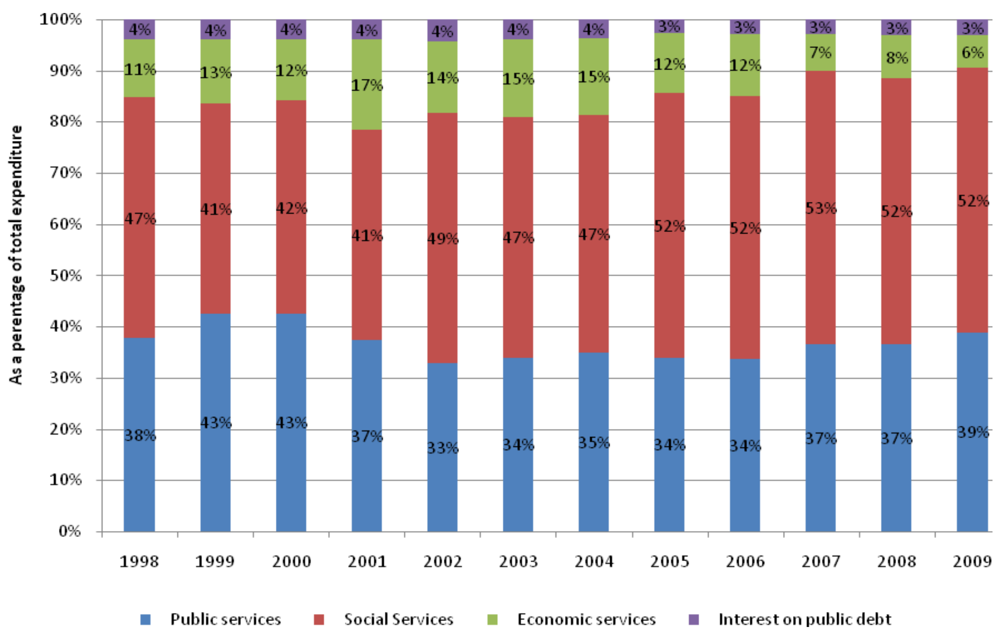
Expenditures on public services and social services together accounted for approximately 85 percent per annum of total expenditures on average over the period 1998 to 2009. Economic services accounted for an average of 12 per annum percent over the same period, while interest on public debt, accounted for 4 percent per annum.

Public services include general administration, defense, public order and internal security and environmental protection. Within public services, general administration and public order account for 40 percent of total expenditure on public services in 2008. In 2005, the Maldives National Defence Force and the Maldives Police Services were formed as separate entities, thereby increasing expenditures on each entity.

Expenditures on social services include health, education, welfare, and community programs. The latter includes all expenditures related to the tsunami disaster, and hence this category increased by 178 percent in 2005.

The government focus on the economic services area has been on the regulatory and administrative aspects, and as a result, the sector receives a smaller portion of the total expenditure package.

Figure 14: Functional Classification of Government Expenditure, 1998 - 2009



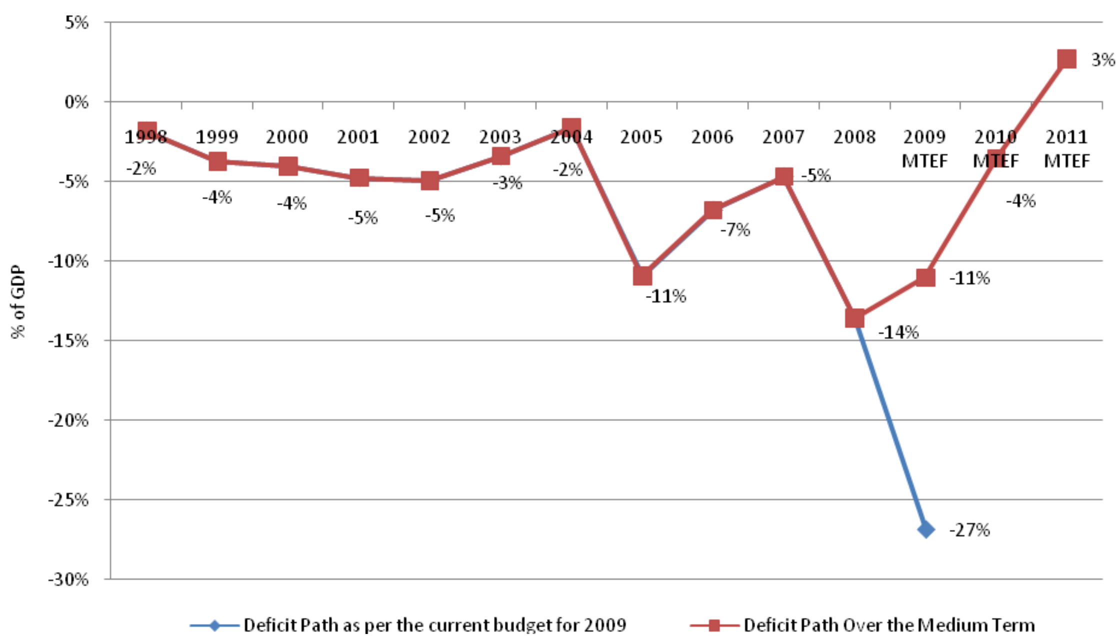
FISCAL DEFICIT

The declining and highly vulnerable domestic revenue sources, combined with sharp increases in expenditures over the past two to three years, have led to unsustainable deficits, which have been largely financed through domestic sources, mainly through borrowing from the central bank. The option of borrowing from the public has not been possible, due to the absence of a well-developed financial market, and government debt instruments. The new government is seeking to develop the financial market in the short-to-medium term, and introduce debt instruments which could be purchased by the public.

MEDIUM TERM FISCAL FRAMEWORK

The medium term fiscal framework (MTFF), is based on reducing the fiscal deficit over the medium term, while ensuring that basic levels of service are not affected.

Figure 15: Fiscal Path Over the Medium Term



Under the medium term fiscal framework, expenditure for 2009 is estimated at around Rf. 12,000 million, and regular domestic revenue is estimated at around Rf. 5,700 million. This domestic revenue envelope will be augmented by additional revenue from the proceeds of privatization of state owned enterprises, and proceeds from the extension of resort lease periods, increasing total revenue to Rf. 9,600 million. The resulting deficit is now estimated to be 11 percent of GDP, of which 80 percent is to be financed through external resources and 20 percent domestically. However, these figures are predicated on public sector employment reform, and proceeds from privatization of state owned enterprises, and extension of resort lease periods[3] being realized in 2009. If these reforms and initiatives are not realized, deficit as a percentage of GDP will increase to 14 percent, and there will be larger recourse to domestic financing.

The fiscal deficit for 2010 is estimated to be around 4 percent of GDP. This is mainly to be financed through external resources. This reduced deficit compared to 2009 is based on new revenue to be realised from the privatization initiative, as well as structural tax measures such as an environmental tax from visitors to the Maldives, changing the current US$ 8 bed tax to an ad valorem tax, and implementation of a business profits tax in 2010. With the addition of a goods and services tax in 2011, it is estimated that the fiscal position will in surplus for 2011.

Table 1: PROPOSED MEDIUM TERM FISCAL FRAMEWORK, 2009 – 2011[4]

Particulars	2005	2006	2007	2008 Bgt Est.	2008 Prv. Est.	2009 Bgt Est.	2009 MTB Est.	2010 MTB Est.	2011 MTB Est.
Total Revenue & Grants	**4,612.9**	**6,154.1**	**7,571.2**	**9,757.1**	**7,953.3**	**7,238.5**	**10,300.8**	**10,484.0**	**10,952.8**
Total Revenue	3,788.3	5,286.7	6,527.2	8,944.6	7,199.5	6,533.7	9,615.8	9,871.5	10,406.5
Grants	824.6	867.4	1,044.0	812.5	753.8	704.8	685.0	612.5	546.3
Expenditure and net lending	**5,657.6**	**6,948.1**	**8,200.9**	**11,321.6**	**10,142.2**	**12,051.4**	**12,154.4**	**11,143.3**	**10,381.9**
Total Expenditure	5,775.4	7,066.2	8,325.4	11,516.4	10,317.2	12,641.5	12,337.7	11,323.5	10,585.6
Net lending	(117.8)	(118.1)	(124.5)	(194.8)	(175.0)	(590.1)	(183.3)	(180.2)	(203.7)
Overall Balance	**(1,044.7)**	**(794.0)**	**(629.7)**	**(1,564.5)**	**(2,188.9)**	**(4,812.9)**	**(1,853.6)**	**(659.3)**	**570.9**
Financing	**1,044.7**	**794.0**	**629.7**	**1,564.6**	**2,188.9**	**4,812.9**	**1,853.6**	**659.3**	**(570.8)**
Foreign financing	235.0	529.2	615.1	1,449.6	774.2	3,355.5	1,528.0	702.6	(123.0)
Domestic financing	809.7	264.8	14.6	115.0	1,414.7	1,457.4	325.6	(43.3)	(447.8)
Nominal GDP	9,596.1	11,717.4	13,491.8	15,395.3	16,111.2	17,929.9	16,968.0	18,768.0	20,974.0
Deficit as a % of GDP	**-11%**	**-7%**	**-5%**	**-10%**	**-14%**	**-27%**	**-11%**	**-4%**	**3%**

[3] An amendment to the Tourism Bill, allowing for this extension, is currently being debated in the Parliament.

[4] Note: these are working numbers, and there may be changes when the new budget for 2009 is presented to the Parliament at the end of March. However, the Ministry of Finance and Treasury does not expect any major deviations from the scenario presented in Table 1.

The budgets being prepared on the basis of the above medium term fiscal framework requires sectors to clearly identify specific policies and strategies for the sectors in line with the government's national development priorities. While an attempt has been made to include measurable targets in respective sectors for the new budget to be submitted to the Parliament at the end of March, this effort will be further strengthened for the 2010 budget process. Further, specified budget packages will be identified for the economic, social and governance sectors, and a comprehensive public expenditure review of all the sectors will be carried out during 2009 in preparation for the 2010 budget process.

In carrying out this public expenditure review, specific focus will be made on identifying those activities on-budget that are better suited to be carried out by the private sector. These activities will be taken off-budget, and the private sector invited to provide these services. This initiative will form a part of the overall privatization programme of the government.

The Maldives has always been very vocal in the area of climate change and adaptation to climate change, being one of the most vulnerable countries in the world. There is an urgent need to take drastic action on this issue. The government, in this respect, has announced that the Maldives will be carbon neutral within the next ten years, through a mix of measures such as using renewable energy and using carbon offsetting for the aviation industry. However, the cost of this initiative will be substantial, and the government will be seeking assistance from our development partners and the private sector to make this initiative work.

EXTERNAL DEBT

External debt stock comprising of public and publicly guaranteed debt increased by 52.2 percent between 2005 (USD 309.9 million) and 2008 (USD 471.69 million). The medium term forecasts show a further increase of 25.5 percent in debt stock in 2009 reaching USD 591.8 million by end of the year, followed by a further increase to USD 649.3 in 2010 million before starting to decline in 2011.

The debt to GDP ratio is forecast to increase to around 45 percent in 2009, from 37 percent in 2008, and then falling to 39 percent in year 2011 as amortization on existing commercial borrowings falls due.

The ratio of commercial debt has increased at a higher rate during the last few years and is expected to reach around 39 percent of the total external debt in 2009. Percentage of commercial borrowings is expected to fall gradually, as the government intends to reduce dependence on high cost commercial borrowings, and instead avail borrowings on more concessional terms.

BALANCE OF PAYMENTS AND RESERVES

In terms of GDP, the current account deficit is expected to decline to 36 percent in 2009 from 47 percent in 2008. The improvement in the current account position reflects the decline in the merchandise trade deficit (as a result of the sharp fall in imports bill). The projected decline in the import bill is related to the expected decline in tourism and construction related imports coupled with the falling international commodity prices (food and fuel).

The services trade recorded a growth of 10 percent in 2008 but it is projected to decline by 36 percent in 2009. This decline is mainly due to the global economic downturn, which is expected to cause adverse effects on tourist flow as well as revenue from them.

Gross international reserves decreased by 22 percent to US$241.3 million at the end of 2008. This is equivalent to 2.1 months of imports. Gross reserves for 2009 is expected to increase tor US$386.1 million, due to expected proceeds from privatization of government assets, such as state owned enterprises. The gross reserve level for 2009 is expected to be equivalent to 4.3 months of imports.

Table 1a: Real Gross Domestic Product (production approach, at 1995 Prices)

	2001	2002	2003	2004	2005	2006	2007	2008 *Est.**	2009 *Proj.**	2010 *Proj.**	2011 *Proj.**
						(in millions of rufiyaa)					
Primary sector	**625.5**	**724.8**	**738.0**	**759.1**	**848.9**	**846.5**	**720.2**	**710.6**	**780.5**	**786.1**	**790.0**
Agriculture	181.4	188.6	196.3	204.6	203.6	204.3	205.1	206.6	208.9	211.6	214.9
Fisheries	402.4	494.7	498.0	506.8	595.8	590.1	461.7	449.6	518.9	520.3	519.9
Coral and sand mining	41.7	41.5	43.7	47.7	49.5	52.1	53.4	54.4	52.8	54.2	55.2
Secondary sector	**989.0**	**1,091.7**	**1,182.6**	**1,335.1**	**1,374.2**	**1,592.0**	**1,750.9**	**1,900.3**	**1,747.4**	**1,914.0**	**2,080.8**
Manufacturing	532.4	615.1	642.6	660.1	593.6	680.2	703.0	735.2	732.5	756.3	793.9
Electricity and water supply	226.3	247.6	275.0	312.8	363.4	409.0	446.5	465.8	485.0	512.8	547.4
Construction	230.3	229.0	264.9	362.2	417.3	502.8	601.4	699.3	529.9	645.0	739.5
Tertiary sector	**5,205.4**	**5,448.8**	**5,969.2**	**6,549.3**	**6,010.9**	**7,288.7**	**7,954.5**	**8,417.6**	**8,345.4**	**8,489.3**	**8,740.0**
Wholesale and retail trade	288.9	295.6	308.3	326.2	336.0	357.1	387.3	403.5	390.8	409.5	424.5
Tourism (Resorts, etc)	2,093.5	2,162.6	2,482.5	2,689.1	1,798.5	2,559.7	2,800.0	2,883.2	2,580.3	2,592.2	2,657.6
Transport and communications	934.2	998.0	1,078.8	1,262.5	1,456.5	1,725.4	1,868.8	1,987.0	2,009.1	2,097.3	2,237.9
Financial services	220.4	235.1	251.1	269.4	261.9	286.5	298.7	306.0	300.8	306.2	312.7
Real Estate	507.4	530.7	550.0	571.3	574.5	594.8	609.9	623.0	622.9	636.4	652.6
Business services	188.4	201.0	211.1	222.5	222.4	233.3	238.9	243.0	240.1	243.2	246.8
Government Administration	833.0	883.9	943.3	1,061.8	1,212.7	1,380.3	1,596.3	1,814.5	2,041.1	2,041.0	2,040.9
Education, health and social services	139.6	141.9	144.2	146.4	148.5	151.7	154.5	157.4	160.3	163.5	166.9
Fisim	**-255.5**	**-272.5**	**-299.9**	**-332.3**	**-308.0**	**-376.2**	**-399.2**	**-417.0**	**-396.6**	**-409.6**	**-425.3**
Real GDP	**6,564.4**	**6,992.8**	**7,589.9**	**8,311.2**	**7,926.2**	**9,351.1**	**10,026.3**	**10,611.4**	**10,476.7**	**10,779.8**	**11,185.5**

Table 1b: Real Gross Domestic Product (production approach, at 1995 Prices)

	2001	2002	2003	2004	2005	2006	2007 *	2008 *Est.**	2009 *Proj.**	2010 *Proj.**	2011 *Proj.**
						(percent change)					
Primary sector	**5.1**	**15.9**	**1.8**	**2.9**	**11.8**	**-0.3**	**-14.9**	**-1.3**	**9.8**	**0.7**	**0.5**
Agriculture	3.8	4.0	4.1	4.3	-0.5	0.3	0.4	0.7	1.1	1.3	1.6
Fisheries	5.6	22.9	0.7	1.8	17.6	-0.9	-21.8	-2.6	15.4	0.3	-0.1
Coral and sand mining	6.0	-0.3	5.2	9.2	3.8	5.1	2.5	2.0	-3.0	2.7	1.8
Secondary sector	**8.1**	**10.4**	**8.3**	**12.9**	**2.9**	**15.8**	**10.0**	**8.5**	**-8.0**	**9.5**	**8.7**
Manufacturing	5.4	15.5	4.5	2.7	-10.1	14.6	3.3	4.6	-0.4	3.2	5.0
Electricity and water supply	11.0	9.4	11.1	13.7	16.2	12.5	9.2	4.3	4.1	5.7	6.8
Construction	11.9	-0.6	15.7	36.7	15.2	20.5	19.6	16.3	-24.2	21.7	14.7
Tertiary sector	**2.4**	**4.7**	**9.6**	**9.7**	**-8.2**	**21.3**	**9.1**	**5.8**	**-0.9**	**1.7**	**3.0**
Wholesale and retail trade	0.4	2.3	4.3	5.8	3.0	6.3	8.5	4.2	-3.2	4.8	3.7
Tourism (Resorts, etc)	0.0	3.3	14.8	8.3	-33.1	42.3	9.4	3.0	-10.5	0.5	2.5
Transport and communications	1.6	6.8	8.1	17.0	15.4	18.5	8.3	6.3	1.1	4.4	6.7
Financial services	2.5	6.7	6.8	7.3	-2.8	9.4	4.3	2.4	-1.7	1.8	2.1
Real Estate	2.1	4.6	3.6	3.9	0.6	3.5	2.5	2.1	0.0	2.2	2.5
Business services	2.5	6.7	5.0	5.4	-0.1	4.9	2.4	1.7	-1.2	1.3	1.5
Government Administration	11.0	6.1	6.7	12.6	14.2	13.8	15.7	13.7	12.5	0.0	0.0
Education, health and social services	1.7	1.7	1.6	1.5	1.5	2.1	1.9	1.8	1.9	2.0	2.1
Fisim	2.5	6.7	10.1	10.8	-7.3	22.1	6.1	4.4	-4.9	3.3	3.8
Real GDP	**3.5**	**6.5**	**8.5**	**9.5**	**-4.6**	**18.0**	**7.2**	**5.8**	**-1.3**	**2.9**	**3.8**

Table 1c: Real Gross Domestic Product (production approach, at 1995 Prices)

	2001	2002	2003	2004	2005	2006	2007 *	2008 *Est.**	2009 *Proj.**	2010 *Proj.**	2011 *Proj.**
					(percentage of GDP)						
Primary sector	**9.5**	**10.4**	**9.7**	**9.1**	**10.7**	**9.1**	**7.2**	**6.7**	**7.4**	**7.3**	**7.1**
Agriculture	2.8	2.7	2.6	2.5	2.6	2.2	2.0	1.9	2.0	2.0	1.9
Fisheries	6.1	7.1	6.6	6.1	7.5	6.3	4.6	4.2	5.0	4.8	4.6
Coral and sand mining	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Secondary sector	**15.1**	**15.6**	**15.6**	**16.1**	**17.3**	**17.0**	**17.5**	**17.9**	**16.7**	**17.8**	**18.6**
Manufacturing	8.1	8.8	8.5	7.9	7.5	7.3	7.0	6.9	7.0	7.0	7.1
Electricity and water supply	3.4	3.5	3.6	3.8	4.6	4.4	4.5	4.4	4.6	4.8	4.9
Construction	3.5	3.3	3.5	4.4	5.3	5.4	6.0	6.6	5.1	6.0	6.6
Tertiary sector	**79.3**	**77.9**	**78.6**	**78.8**	**75.8**	**77.9**	**79.3**	**79.3**	**79.7**	**78.8**	**78.1**
Wholesale and retail trade	4.4	4.2	4.1	3.9	4.2	3.8	3.9	3.8	3.7	3.8	3.8
Tourism (Resorts, etc)	31.9	30.9	32.7	32.4	22.7	27.4	27.9	27.2	24.6	24.0	23.8
Transport and communications	14.2	14.3	14.2	15.2	18.4	18.5	18.6	18.7	19.2	19.5	20.0
Financial services	3.4	3.4	3.3	3.2	3.3	3.1	3.0	2.9	2.9	2.8	2.8
Real Estate	7.7	7.6	7.2	6.9	7.2	6.4	6.1	5.9	5.9	5.9	5.8
Business services	2.9	2.9	2.8	2.7	2.8	2.5	2.4	2.3	2.3	2.3	2.2
Government Administration	12.7	12.6	12.4	12.8	15.3	14.8	15.9	17.1	19.5	18.9	18.2
Education, health and social services	2.1	2.0	1.9	1.8	1.9	1.6	1.5	1.5	1.5	1.5	1.5
Fisim	**-3.9**	**-3.9**	**-4.0**	**-4.0**	**-3.9**	**-4.0**	**-4.0**	**-3.9**	**-3.8**	**-3.8**	**-3.8**
Real GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Table 1d: Memorandum Items

	2001	2002	2003	2004	2005	2006	2007 *	2008 *Est.**	2009 *Proj.**	2010 *Proj.**	2011 *Proj.**
Nominal GDP (millions of rufiyaa)	7,651	8,201	8,863	9,939	9,596	11,717	13,493	16,137	16,968	18,768	20,974
(percent change)	4.1	7.2	8.1	12.1	-3.4	22.1	15.2	19.6	5.1	10.6	11.8
(per capita, rufiyaa)	27,723	29,232	31,092	34,333	32,668	39,058	44,259	52,127	53,945	58,699	64,509
Nominal GDP (millions of US$)	625	641	691	776	750	915	1,054	1,261	1,326	1,466	1,639
(per capita, US$)	2,265	2,284	2,423	2,682	2,552	3,051	3,458	4,072	4,214	4,586	5,040
Population	275,975	280,549	285,066	289,480	293,746	300,000	304,869	309,575	314,542	319,738	325,135
(percent change)	1.7	1.7	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.6
CPI (percent change)	0.7	1.5	-2.5	3.9	2.7	4.7	5.4	12.4	5.5	5.5	5.5
Implicit GDP deflator (index 1995=100)	117	117	117	120	121	125	135	152	162	174	188
(percent change)	0.6	0.6	-0.4	2.4	1.2	3.5	7.4	13.0	6.5	7.5	7.7

Source: Department of National Planning (*Revised on 11th March 2009)

Table 2a: Tourism

	2001	2002	2003	2004	2005	2006	2007	2008	2009 *Proj.*	2010 *Proj.*	2011 *Proj.*
Tourist Arrivals	461	485	564	617	395	602	676	683	608	614	630
Growth in tourist arrivals (in percent)	(1.3)	5.1	16.3	9.4	(35.9)	52.3	12.3	1.1	(11.0)	1.0	2.5
Total tourist bed nights (000's)	3,933	4,066	4,705	5,111	3,300	4,829	5,346	5,992	4,878	4,852	4,973
(% change)	(0.0)	3.4	15.7	8.6	(35.4)	46.1	9.8	3.0	(11.2)	0.2	2.5
Average stay (days)	8.5	8.4	8.4	8.3	8.3	8.0	7.9	8.8	8.0	7.9	7.9
Total tourism receipts (US$ millions)	327.1	337.1	401.6	470.9	284.2	512.4	602.4	635.9	494.2	519.0	585.4
Gov. revenue from tourism (US$ millions)	-	23.9	28.2	32.1	27.0	38.6	42.4	43.6	38.7	38.8	39.8
Bed-night capacty ('000)	6,015	5,887	6,092	6,066	5,093	5,897	6,392	6,983	7,710	8,096	8,388
Capacity utlization (in percent)	65.6	69.0	77.2	83.9	64.5	81.8	82.9	78.0	63.4	60.0	59.4
Number of Resorts (end of period)	87	87	87	87	87	87	89	94	102	106	111
Tourism Contribution to GDP (in percent)	31.9	30.9	32.7	32.4	22.7	27.4	27.9	27.2	24.8	24.2	23.8

Source: Ministry of Tourism and Civil Aviation, Maldives Monetary Authority, Ministry of Finance and Treasury, Ministry of Planning and National Development .

3 a: Maldives: Summary of Balance of Payments (Analytical Table) 1/

	(in millions of US dollars)					Percentage change			
	2005	2006	2007	2008	2009	05 / 06	06 / 07	07 / 08	08 / 09
	Est	Est	Est	Proj					
A. Current Account	-273.0	-302.0	-437.8	-590.8	-475.4	10.6	45.0	34.9	-19.5
Balance on goods	-493.8	-590.1	-736.8	-890.8	-679.2	19.5	24.9	20.9	-23.8
Goods: credit (merchandise exports)	161.6	225.2	228.0	330.5	264.2	39.4	1.2	45.0	-20.1
Domestic exports f.o.b.	103.5	135.1	107.8	125.9	145.5	30.5	-20.2	16.8	15.6
Other	58.1	90.2	120.2	204.6	118.7	55.1	33.3	70.2	-42.0
Goods: debit	-655.5	-815.3	-964.7	-1221.2	-943.4	24.4	18.3	26.6	-22.8
Imports f.o.b.	-655.5	-815.3	-964.7	-1221.2	-943.4	24.4	18.3	26.6	-22.8
Other	0.0	0.0	0.0	0.0	0.0				
Balance on services	109.8	320.7	379.8	416.3	266.6	192.1	18.4	9.6	-36.0
Services: credit	322.9	551.9	649.1	764.5	557.7	70.9	17.6	17.8	-27.0
Transportation	22.0	26.0	28.6	40.1	37.3	18.0	10.0	40.4	-7.0
Travel	286.6	512.4	602.4	696.3	494.2	78.8	17.5	15.6	-29.0
Other	14.2	13.4	18.1	28.0	26.2	-5.5	35.1	54.4	-6.7
Services: debit	-213.1	-231.2	-269.3	-348.2	-291.1	8.5	16.5	29.3	-16.4
Transportation	-94.5	-115.5	-137.0	-191.4	-149.0	22.1	18.6	39.8	-22.2
Travel	-69.9	-78.3	-93.2	-109.1	-87.2	12.0	19.0	17.0	-20.0
Other	-48.6	-37.4	-39.1	-47.7	-54.9	-23.1	4.6	22.1	15.0
Balance on income	-31.0	-40.8	-67.2	-64.1	-40.9	31.7	64.9	-4.7	-36.1
Income: credit	10.9	15.6	21.7	17.7	5.2	43.3	39.6	-18.8	-70.3
Income: debit	-41.8	-56.3	-88.9	-81.7	-46.2	34.7	57.9	-8.1	-43.5
Balance on current transfers	142.0	8.2	-13.7	-52.2	-21.9	-94.2	-267.7	281.1	-58.1
Current transfers: credit	211.5	91.3	91.5	76.2	68.1	-56.8	0.2	-16.7	-10.7
Current transfers: debit	-69.5	-83.2	-105.2	-128.4	-89.9	19.6	26.5	22.1	-30.0
B. Capital Account	0.0	0.0	0.0	0.0	0.0				
Capital account: credit	0.0	0.0	0.0	0.0	0.0				
Capital account: debit	0.0	0.0	0.0	0.0	0.0				
C. Financial Account	263.3	290.6	442.0	468.9	620.1	10.4	52.1	6.1	32.3
Direct Investment (net)	9.5	13.9	15.0	15.4	13.0	46.1	8.0	3.0	-15.5
Direct investment abroad	0.0	0.0	0.0	0.0	0.0				
Direct investment in Maldives	9.5	13.9	15.0	15.4	13.0	46.1	8.0	3.0	-15.5
o/w Reinvested earnings	9.5	13.9	15.0	15.4	13.0	46.1	8.0	3.0	-15.5
Portfolio Investment (net)	0.0	0.0	0.0	0.0	0.0				
Portfolio investment assets	0.0	0.0	0.0	0.0	0.0				
Portfolio investment liabilities	0.0	0.0	0.0	0.0	0.0				
Other Investment (net)	253.8	276.7	427.0	453.5	607.1	9.0	54.3	6.2	33.9
Other investment assets	162.2	113.0	183.4	312.4	402.5	-30.4	62.3	70.3	28.9
Monetary authorities	0.0	0.0	0.0	0.0	0.0				
General government	0.0	0.0	0.0	0.0	0.0				
Banks 2/	32.2	-20.9	-14.3	22.4	-3.0	-165.0	-31.7	-256.3	-113.4
Other sectors	130.0	133.9	197.7	290.0	405.5	3.0	47.7	46.7	39.8
Other investment liabilities	91.6	163.8	243.6	141.1	204.6	78.9	48.8	-42.1	45.0
Monetary authorities	6.3	0.0	0.0	-2.4	0.0				
General government	18.0	38.6	36.0	66.2	129.9	114.0	-6.7	83.8	96.2
o/w Loans	18.0	38.6	36.0	66.2	129.9	114.0	-6.7	83.8	96.2
Disbursements	42.0	62.7	65.0	100.8	196.9	49.3	3.7	55.1	95.3
Amortizations	-23.9	-24.1	-29.0	-34.6	-66.9	0.5	20.3	19.3	93.5
Banks	67.2	125.2	207.6	77.3	74.6	86.2	65.9	-62.8	-3.5
Other sectors	0.0	0.0	0.0	0.0	0.0				
D. Net Errors and Omissions (sum of A, B, C & E)	-7.5	56.5	72.7	54.1	0.0	-849.3	28.8	-25.7	-100.0
Total Groups A through D (Overall balance)	-17.3	45.1	76.9	-67.8	144.8	-361.1	70.4	-188.2	-313.5
E. Reserves and Related Items	17.3	-45.1	-76.9	67.8	-144.8	-361.1	70.4	-188.2	-313.5
Reserve assets	17.3	-45.1	-76.9	67.8	-144.8	-361.1	70.4	-188.2	-313.5
Borrowing from IMF	6.2	0.0	0.0	0.0	0.0				
Exceptional financing	0.0	0.0	0.0	0.0	0.0				
Memorandum Items									
Goods and Services	-384.0	-269.4	-356.9	-474.5	-412.6	-29.9	32.5	32.9	-13.0
Exports of Goods & Services (XGS)	484.5	777.1	877.1	1095.0	821.9	60.4	12.9	24.8	-24.9
Goods, Services & Income	-415.0	-310.1	-424.1	-538.5	-453.5	-25.3	36.8	27.0	-15.8
Capital plus Current Account	-273.0	-302.0	-437.8	-590.8	-475.4	10.6	45.0	34.9	-19.5
Sum of Current, Capital & Financial Accounts	-9.7	-11.4	4.2	-121.9	144.8				
Nominal GDP (millions of US dollars)	749.7	915.4	1054.0	1259.7	1313.9	22.1	15.1	19.5	4.3
Current Account as a percentage of GDP	36.4	33.0	41.5	46.9	36.2	-9.4	25.9	12.9	-22.9
Gross Reserves (millions of US dollars)	187.1	232.2	309.1	241.3	386.1	24.1	33.1	-21.9	60.0
(in months of goods imports, cif)	3.0	3.0	3.4	2.1	4.3	-0.2	12.5	-38.3	107.1
Imports, cif	744.9	926.5	1096.3	1387.8	1072.0	24.4	18.3	26.6	-22.8

1/ This BOP format conforms to the 5th edition (1993) of Balance of Payment Manual (BPM5) and will not be comparable to previous presentation (BPM4).

2/ Series have been revised on 20th May 2007 to include deposits of nonresidents with commercial banks.

4. SUMMARY DEBT DATA
for the calendar year(s) 2005 - 2011 in millions of US Dollar

Table 4a: Summary Debt Data in millions of US Dollar

	2005	2006	2007	2008	2009	2010	2011
Disbursed Outstanding Debt	309.9	362.2	419.90	471.69	591.83	649.29	638.23
Disbursements	42.5	62.8	65.40	100.35	196.87	141.71	80.32
Principal Repayments	23.9	24.1	29.00	34.07	66.93	84.26	91.38
Interest Payments	7.6	7.9	10.40	14.87	15.77	17.24	17.58
Total Debt Service	31.5	32.00	39.40	48.95	82.69	101.50	108.96
Period end exchange rate	12.80	12.80	12.80	12.80	12.80	12.80	12.80

Table 4b: Exogenous Economic Data in millions of US Dollars

Gross Domestic Products	749.69	915.43	1054.16	1260.72	1325.63	1466.27	1638.60
Export of Goods & Non-factor Services	484.5	777.1	877.10	1095.00	821.90	830.12	838.42

Table 4c: Key Ratios (in percentage)

	2005	2006	2007	2008	2009	2010	2011
Debt to GDP	41	40	40	37	45	44	39
Debt to Exports	63.96	46.61	47.87	43.08	72.01	78.22	76.12
Debt Services to Exports	6.50	4.12	4.49	4.47	10.06	12.23	13.00
Interest to Exports	1.57	1.02	1.19	1.36	1.92	2.08	2.10

Exports and GDP figures as of 17 March 2009