

**COUNTRY PROFILE: REPUBLIC OF MALDIVES****DATED: APRIL 2008****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	ILC

*Recent Political Highlights*

- President Maumoon Abdul Gayoom is Asia's longest-serving leader. He was re-elected for a record sixth five-year term in 2003, having first taken office in 1978. The country aims to hold its first multiparty elections by the end of 2008. The European Commission for External Relations has accepted an invitation from the minister of foreign affairs, to provide electoral support for the planned elections later this year.
- The ruling DRP said it will not take part in a session of the Constitutional Assembly unless the speaker confirmed that the assembly will hold a vote on proposed clauses confirming that President Gayoom can stand for a seventh term in office. The standoff brings to a head the key issue of whether Gayoom is eligible to stand under a constitution which imposes a two-term limit on the presidency, long the subject of fierce contention between the DRP and opposition.
- Opposition parliamentarians are currently favouring the draft that allows Gayoom to complete his current term, ending on 11 November, but then puts a committee selected by parliament at the head of state for a period of up to six months. They argue that if President Gayoom retains his full powers during the election period, there is no possibility of a credible election process. But DRP members say they want President Gayoom to be re-elected before his term runs out in November, as he does not want to continue in power after this date without a mandate.

*Recent Economic Highlights*

- The population of Maldives is estimated at 370,000. In the last 10 years Maldives had doubled per capita income and now has the highest per capita income in South Asia. Despite the country having reached a middle-income status, people living in remote islands have been left behind in the distribution gains. Of particular concern are high unemployment rates among young people. Vocational skills are underdeveloped and there is heavy reliance on expatriate workers.
- The 2008 state budget projects government spending of Rf12.1bn, only slightly under the record-breaking planned figure for 2007. The IMF and World Bank both warned during 2007 that government's fiscal policies were unsustainable; a large fiscal deficit and rising external debt. The Maldives contracted in 2004 but the budget deficit was just 1.9% of GDP in that year. The deficit expanded to 7.3% in 2006 and is estimated at 23.9% of GDP in 2007. The IMF warned the island nation to stop printing money to finance the deficit and welcomed a law that gave the Monetary Authority of Maldives more independence.
- The Maldives attracted a record number of 675,889 visitors during 2007. The UK ranked top in 2007 among the source markets with 125,158 visitors. Tourism, Maldives' largest industry, accounts for about 30% of GDP and more than 60% of Maldives' foreign exchange receipts. Over 90% of government tax revenue comes from import duties and tourism-related taxes. The traditional fishing industry now only accounts for 6%, although it remains an important part of the economy through its employment and exports (mainly tuna). Diversifying beyond tourism and fishing is the major challenge facing the government. Over the long term Maldivian authorities worry about the impact of erosion and possible global warming on their low-lying country; 80% of the area is one metre or less above sea level.
- The ADB predicts an 8% growth rate for 2008 and 7% in 2009, assuming that additional resorts becoming operational and a rebound in the fish catch to normal levels. The government expects GDP growth to reach 9.5% this year based on estimated growth for the tourism, fisheries, construction, transport and communications and other sectors related to tourism. Growth for 2009 and 2010 is estimated at 8% and 10% respectively. As an import-dependent country, Maldives brings in everything from staple food to resort supplies, construction materials and petroleum products. This also drove up consumer prices with inflation surging to 9.5% in November 2007, from 3.7% at the end of 2006.
- The government has decided to build 10 new fisheries harbours in the Maldives with expertise from Sri Lanka. The move is sequel to the Maldives and Sri Lanka signing a bilateral agreement on infrastructure facilities and construction last week. Parliament is holding discussions on banning foreign vessels from engaging in fishing inside Maldives economic zone. Members were concerned that the government continues to issue licences for operation of foreign fishing vessels in Maldives economic fisheries zone despite many complaints that the activities of foreign vessels are affecting the fish catch and despite the relatively low royalty of Rf. 1 million received by the government.
- The Maldives continues to maintain a pegged exchange rate, with the rufiyaa pegged to the US dollar at a rate of Rf12.80 per US dollar. The IMF said the peg to the US dollar could be kept on as long as budget deficits were low. They were concerned however, that unchanged fiscal policies, and the resulting sharp fall in reserves would undermine the dollar peg.

*Recent Trade Developments*

- Main exports: fish and clothing.
- Major trade partners: US, UAE, Thailand, EU, Sri Lanka, Japan, Singapore, India and Malaysia.
- SA exports to Maldives were R21m in 2006 and R22m in 2007.

*Sindiso Valerie Mpoju-Economic Researcher*