

COUNTRY PROFILE:
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REPUBLIC OF MALDIVES
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IES/02: ATTACHMENT A

Recent Political Highlights

- ❑ Chief of state since November 2008 has been President Mohamed Anni Nasheed. Under the new constitution, the president is elected by direct vote for a five year term and is eligible for a second term. The next election is due in October 2013.

Recent Economic Highlights

- ❑ Maldives has a population of 396k with an expected population growth rate of -0.2% in 2009.
- ❑ The president has warned that the country has plunged into a grave economic situation due to various projects started by the previous Government and its widespread corruption and wasteful practices in addition to the large loans given to few customers by the Bank of Maldives. He said that deficit spending by the state was necessary to repay \$117m worth of contracts for development projects entered into by the former Government since they had only paid \$10m of the total contract value. As of June 2009, Government owes \$280m in overdrafts and short-term loans. A prominent economist in Maldives Nafaa Naseem warned that Government is slowly going bankrupt due to the mismanagement of the economy by the previous Government. He said that if Government goes bankrupt, private and public companies would follow suit.
- ❑ A mission from the IMF visited the Maldives in June 2009 and has subsequently reported that 2009 would not be a good year for the economy with an estimation of GDP growth contracting 4.5%. The reason for the negative outlook was owing to the decreases in the country's three main industries, tourism, construction and fishing. The global recession has impacted on tourism, which is expected to result in larger declines in the construction industry that is highly dependent on resort development.
- ❑ Government has urgently requested cabinet ministers slash expenditure on wages by 20% to stave off an impending economic crisis. He noted that wages is more than \$78,000 over budget and warned that continuing in this direction for the next six months could lead to unpredictable losses. The current Government inherited a massive budget deficit of \$444m when it came to power in November 2008. Government's budget, which was approved by parliament earlier this year, aimed to achieve a budget surplus by 2011.
- ❑ The main opposition strongly criticized Government's economic policy and the decision to reduce salaries of civil servants, saying it was concerned about the impact of the wage cut on the families of Government employees. On the advice of the IMF, political staff above deputy ministers will see their pay reduced by 20%, while those below will have it reduced by 10%. Civil servants will see their pay cut by between 5% and 10%. The president announced that he will secure \$1bn in foreign aid before the end of the year and straighten out the country's ailing economy. He anticipates that foreign donor agencies would open up to Maldives due to its refocusing and redirecting of Government's fiscal and economic policy.
- ❑ Locals and tourists would be willing to pay a combined total of \$18m a year to conserve ecological biodiversity in the Maldives. Tourists were in favour of paying a conservation fee of \$30 to \$40 or a user fee of up to \$20 for dive spots. If implemented the conservation would rake in \$1.57m a year from 45,000 tourists. The tourism and fishing sectors provide 75% of the country's jobs, 90% of the GDP and 66% of foreign exchange.
- ❑ The IFC, a member of the World Bank group will work with the Government of Maldives to modernise the Malé airport to improve efficiencies, service to passengers and help sustain the country's tourism-based economy amid the global slowdown. Government will sell off a significant stake in the airport to private parties so as to free up some of its scarce resources to pursue poverty-alleviation policies and measures.
- ❑ Part of Government's policy includes producing 20% of imported food items within five years to reduce the amount of food being imported. He said that Maldives has to learn from countries that overcame their lack of land and water to successfully produce food. He noted that transport and markets are also important and said that Government's decentralisation programme and transport network connecting the islands would be remedying these problems.
- ❑ The boating industry has recorded steady growth over the past three years and has a promising future. It is a multi-billion dollar industry, but local builders need to build boats of quality and standards to capture the international market. The industry netted Rs2.2bn (\$172m) in foreign exchange in 2007 and 2008 and the first half year earnings in 2009 was Rs4.2bn. The industry is vibrant and a major contributor to the economy. The tsunami destroyed a large number of boats and with the high demand for boats thereafter, it gave rise to inferior quality production. Countries such as Pakistan, India and Bangladesh have a huge demand for boats and are potential big markets.

Latest Trade Developments

- ❑ Main export commodities: fish.
- ❑ Main import commodities: petroleum products, ships, food items, clothing, intermediate and capital goods.
- ❑ Major trading partners: Thailand, UK, France, Sri Lanka, Algeria, Japan, Italy, Canada, Singapore, UAE, India and Malaysia.
- ❑ SA's exports to the Maldives totaled R21.6m in 2007, R24m in 2008 and R9.8m in the year to May 2009.
- ❑ SA's imports from Maldives totaled R1.1m in 2008.