



## Summary

The political situation in the Maldives escalated in February 2012, when President Nasheed resigned, after the arrest of a senior judge had led to widespread protests. There is speculation that the resignation was in fact a coup d'état. With the presidential and general elections planned for 2013 and 2014, respectively, more political turmoil is expected as well as ongoing street protests. The Maldives also struggles with deficits on the fiscal and current account balances. Both have improved in the past years, but still remain in the double digits. Concessional loans and donor support keep the country afloat. Also inflation is problematic, as a decline in fish catch has pushed prices of the staple food up.

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Maldives			
<b>National facts</b>		<b>Social and governance indicators</b>	
Type of government	Republic	Human Development Index (rank)	rank / total 109 / 187
Capital	Male	Ease of doing business (rank)	95 / 185
Surface area (thousand sq km)	0.3	Economic freedom index (rank)	151 / 179
Population (millions)	0.4	Corruption perceptions index (rank)	134 / 183
Main languages	Dhivehi	Press freedom index (rank)	73 / 178
	English	Gini index (income distribution)	37
Main religions	Sunni Muslim (official)	Population below \$1.25 per day (PPP)	n.a.
		<b>Foreign trade</b>	
Head of State (president)	Mohamed Waheed	2011	
Head of Government (president)	Mohamed Waheed	<i>Main export partners (%)</i>	<i>Main import partners (%)</i>
Monetary unit	Rufiyaa (MVR)	Thailand 26	U.A.E. 22
		France 17	Singapore 22
		Sri Lanka 11	India 10
		Italy 10	Sri Lanka 6
<b>Economy</b>		<b>2011</b>	
<i>Economic size</i>		<i>Main export products (%)</i>	
	<i>bn USD</i>	<i>% world total</i>	<i>2010</i>
Nominal GDP	2	0.00	Re-exports 63
Nominal GDP at PPP	n.a.	n.a.	Fish and fish products 35
Export value of goods and services	2	0.01	
IMF quatum (in mln SDR)	n.a.	n.a.	
<i>Economic structure</i>		<i>Main import products (%)</i>	
	<i>2011</i>	<i>5-year av.</i>	<i>2010</i>
Real GDP growth	7.5	6.2	Petroleum products 23
Primary sector (% of GDP)	3	4	Food Items 22
Secondary sector (% of GDP)	15	17	Other consumer goods (non-food) 17
Tertiary sector (% of GDP)	83	81	Construction 10
<i>Standards of living</i>		<i>Openness of the economy</i>	
	<i>USD</i>	<i>% world av.</i>	<i>2011</i>
Nominal GDP per head	4995	46	Export value of G&S (% of GDP) 115
Nominal GDP per head at PPP	n.a.	n.a.	Import value of G&S (% of GDP) 112
Real GDP per head	3855	n.a.	Inward FDI (% of GDP) 9

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

### Economic structure and growth

Close to 1200 coral islands to the south-west of India form the Maldives. About 200 of those islands are inhabited and the total population is only about 400,000. Most islands are just above sea level, which makes them sensitive to rising water levels that are expected due to climate change. Its main natural resources are the tropical beaches and coral reefs, next to some small coconut cultivation operations. Hence, the Maldives is very dependent on tourism and fishing. Directly, these sectors account for about 40% of GDP, but indirectly they are even more important. The public sector is another major employer and state-owned enterprises are important players in the local economy. The Maldives is vulnerable to events outside its reach, as shown by the impact of the tsunami in 2004 and the declining tourism arrivals after 9/11 and in the wake of the global financial crisis.

Economic growth in 2011 was 7.5%, according to the Maldives Monetary Authority, on the back of growth in the tourism sector and several sectors related to tourism (construction, transportation and communication). For this year, growth is expected to be around 5%, although the latest tourism figures suggest that it could be lower. Especially, the average duration of stay has decreased compared to last year. Moreover, the political situation adds to the uncertainty (see section political and social situation) and fiscal austerity measures are depressing consumption.

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The financial sector in the Maldives is small. There is one local commercial bank and four branches of foreign banks. Non-performing loans were high at 21% of total loans at the end of 1Q12 and have been increasing since 3Q08.

### **Political and social situation**

The political situation in the Maldives has been precarious in the past years, with deep seated tensions between the Maldivian Democratic Party (MDP) and Divehi Rayyithunge Party (DRP), as well as between the government, judiciary and security forces. In 2008, Nasheed of MDP was the first democratically elected president, after 30 years of autocratic rule by Maumoon Abdul Gayoom. However, the deeply rooted constitutional issues escalated in early 2012. On 7 February, President Nasheed resigned after several weeks of protests and a clash between army and police over a mutiny by a small group of police officers. Some sources claim that it was a coup d'état rather than a voluntary resignation by the president. The protests, which started in January, were triggered by the arrest of a senior judge by the army, on request of President Nasheed. He claimed that the criminal court chief justice was protecting allies of Gayoom (the Maldives' previous autocratic ruler) by blocking multi-million dollar corruption and human rights cases against them. After his resignation, vice-president Waheed, a member of the DRP, was sworn in as president. Whether he will be able to restore stability is unclear. In the past months, street protests continued, especially in the run-up to Nasheed's trial, which he boycotted. In October 2012, the former president was arrested so he would appear in court to explain the arrest of the senior judge in January. The MDP claims that the charges are politically motivated and the ongoing street protests by supporters of Nasheed indicate that the polarization in society has deepened. Moreover, presidential elections and general elections are scheduled for October 2013 and May 2014, respectively. As most of the protests are concentrated in the capital of Male and tourists hardly visit this island, the effects of the political chaos on tourism seem limited.

Looking at the social situation of the Maldives, the country struggles with growing drug addictions and spread of HIV/AIDS. These problems are concentrated in the capital of Male and are said to increase the security problems.

### **Economic policy**

The provision of services to remote islands is relatively expensive and the number of public sector workers is rather large. Hence, the fiscal balance tends to show a huge gap. In 2011, the fiscal deficit was 10.2% of GDP and the budget target for this year is -9.7% of GDP, although this might be too optimistic. While even this would be a major improvement from the more than 20% of GDP shortage in 2009, it is still worryingly high. Close to the entire shortfall is financed with foreign borrowings, of which a substantial part is in the form of concessional loans. Public debt to GDP was 36% in 2008 and may have increased further since, but this data is not available unfortunately.

Inflation rose from about 10% in the second half of 2011 to well into the double digits in the first months of 2012, but has decreased in the past months. The increase was largely due a decline in fish caught, which drove up the price of this staple food, and a 2.5% VAT increase in January 2012. Moreover, as the Maldives imports most food and all fuel, the country is very sensitive to price fluctuations on the global market.

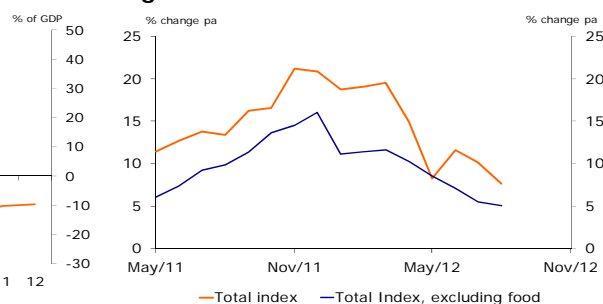
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**Figure 1: Fiscal situation**



Source: Maldives Monetary Authority

**Figure 2: Inflation**



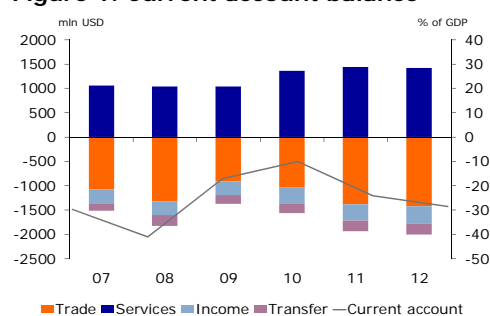
Source: Maldives Monetary Authority

In April 2011, the exchange rate of the Maldivian rufiyaa was allowed to float within a 20% band against the US dollar.

### Balance of Payments

The Maldives has a large deficit on the trade balance, as the island state has to import nearly all products, including food items, petroleum products and construction materials. Exports consist out of re-exports (mostly of fuel) and fish. However, fish catch is declining – in 2010 volumes were half that in 2005/06. Moreover, the transfers balance shows a large shortage, as a large number of expatriates work in the tourism sector, both in high- and low-skilled jobs. The services balance is in surplus, thanks to the tourism sector. But, this surplus is insufficient to prevent the Maldives from having a huge current account deficit. For 2012, the current account deficit is expected to be close to 30% of GDP, which is a sharp deterioration from the 10% of GDP in 2010. Concessional loans and foreign direct investment into the tourism sector have been able to cover the deficit in the past, but at the current level the current account deficit is unsustainable.

**Figure 1: Current account balance**



Source: Maldives Monetary Authority

### External position

The Maldives has accumulated international reserves of USD 310m, end of August 2012. This is only 2.4 months of imports, which is below the 3-months benchmark and indicates that the external liquidity position of the Maldives is very vulnerable. External debt almost doubled between 2006 and 2011, from USD 557m to USD 908m. In 2011, the total foreign debt was 45% of GDP.

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Maldives							
Selection of economic indicators	2007	2008	2009	2010	2011e	2012e	2013f
<i>Key country risk indicators</i>							
GDP (% real change pa)	10.6	12.2	-4.7	5.7	7.5	5.5	n.a.
Consumer prices (average % change pa)	10.3	9.1	4.0	6.9	20.9	11.4	n.a.
Current account balance (% of GDP)	-29.9	-41.1	-17.2	-10.0	-24.1	-28.6	n.a.
Total foreign exchange reserves (m USD)	308	241	261	350	335	305	n.a.
<i>Economic growth</i>							
GDP (% real change pa)	10.6	12.2	-4.7	5.7	7.5	5.5	n.a.
Primary sector	-11.9	-3.4	-7.4	-6.9	-1.1	3.2	n.a.
Secondary sector	22.5	9.5	-26.2	5.2	5.9	6.1	n.a.
Tertiary sector	9.2	13.5	0.5	6.3	8.0	5.4	n.a.
<i>Economic policy</i>							
Budget balance (% of GDP)	-3.6	-11.2	-21.0	-16.1	-10.2	-9.7	n.a.
Public debt (% of GDP)	36	36	n.a.	n.a.	n.a.	n.a.	n.a.
Consumer prices (average % change pa)	10.3	9.1	4.0	6.9	20.9	11.4	n.a.
Exchange rate LCU to USD (average)*	12.8	12.8	12.8	12.8	15.2	15.2	n.a.
<i>Balance of payments (m USD)</i>							
Current account balance	-460	-777	-334	-207	-490	-588	n.a.
Trade balance	-1078	-1318	-913	-1044	-1379	-1424	n.a.
Export value of goods	227	331	169	198	346	374	n.a.
Import value of goods	-1305	-1649	-1082	-1242	-1725	-1798	n.a.
Services balance	1057	1044	1036	1359	1441	1420	n.a.
Income balance	-285	-290	-278	-323	-333	-359	n.a.
Transfer balance	-155	-213	-180	-199	-219	-225	n.a.
Net direct investment flows	126	175	154	216	282	320	n.a.
Net portfolio investment flows	3	11	-12	-12	0	0	n.a.
Net debt flows	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other capital flows (negative is flight)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Change in international reserves	-77	68	-20	-89	15	29	n.a.
<i>External position (m USD)</i>							
Total foreign debt	828	879	934	962	909	n.a.	n.a.
Total foreign exchange reserves	308	241	261	350	335	305	n.a.
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Current account balance (% of GDP)	-29.9	-41.1	-17.2	-10.0	-24.1	-28.6	n.a.
Inward FDI (% of GDP)	8.1	9.3	7.9	10.4	13.9	15.6	n.a.
Foreign debt (% of GDP)	54	46	48	46	45	n.a.	n.a.
Foreign debt (% of XGSIT)	51	49	58	48	39	n.a.	n.a.
FX-reserves import cover (months)	2.8	1.8	2.9	3.4	2.3	2.0	n.a.

Source: Maldives Monetary Authority

\* Data from September 2012.

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