



Due to limited data availability, figures presented in this report should be regarded as indicative.

Summary

The economy of small island archipelago Maldives is forecast to grow around 5-6% this year, on the back of recovering tourism arrivals. Economic growth in 2012 is expected to be around 5%, but will strongly depend on global economic developments, as these influence the number of tourist arrivals. The Maldives struggles with very high deficits on the fiscal and current account balance. The former is expected to be significant at around 12% of GDP this year, while the latter is 'improving' towards a massive 23% of GDP. An IMF program aims to reduce the twin deficits, but progress is hindered by the non-cooperative attitude in the political scene of the Maldives. A change in the exchange rate mechanism away from the peg to the USD was advised by the IMF. However the introduction of the managed floating regime was a surprise to the population and led to a strong increase in food prices that triggered protests in May 2011.

Things to watch:

- Huge twin deficits on fiscal and current account balance
- Political troubles hindering reform progress
- Rising food prices that could trigger popular protests
- Development of global economy as this influences tourism arrivals

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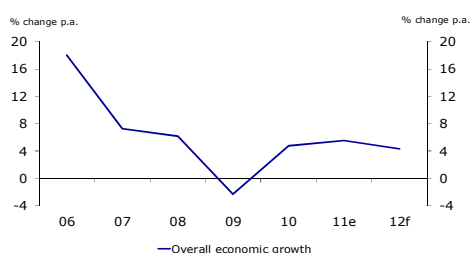
Maldives			
National facts		Social and governance indicators	
Type of government	Republic	Human Development Index (rank)	107 / 169
Capital	Male	Ease of doing business (rank)	79 / 183
Surface area (thousand sq km)	0.3	Economic freedom index (rank)	154 / 179
Population (millions)	0.4	Corruption perceptions index (rank)	143 / 178
Main languages	Dhivehi	Press freedom index (rank)	52 / 178
	English	Gini index (income distribution)	37.41
Main religions	Sunni Muslim (official)	Population below \$1.25 per day (PPP)	n.a.
		Foreign trade	
		2010	
		<i>Main export partners (%)</i>	<i>Main import partners (%)</i>
Head of State (president)	Mohamed Nasheed	Thailand	30
Head of Government (president)	Mohamed Nasheed	Sri Lanka	20
Monetary unit	Rufiyaa (MVR)	France	11
		UK	10
		U.A.E.	19
		Singapore	18
		India	12
		Malaysia	7
Economy		2010	
<i>Economic size</i>		<i>Main export products (%)</i>	
Nominal GDP	bn USD	Re-exports	63
Nominal GDP at PPP	% world total	Fish and fish products	35
Export value of goods and services			
IMF quatum (in mln SDR)			
<i>Economic structure</i>		<i>Main import products (%)</i>	
Real GDP growth	2010	Petroleum products	23
Primary sector (% of GDP)	5-year av.	Food Items	22
Secondary sector (% of GDP)		Other consumer goods (non-food)	17
Tertiary sector (% of GDP)		Construction	10
<i>Standards of living</i>		<i>Openness of the economy</i>	
Nominal GDP per head	USD	Export value of G&S (% of GDP)	50
Nominal GDP per head at PPP	% world av.	Import value of G&S (% of GDP)	n.a.
Real GDP per head		Inward FDI (% of GDP)	8.7

Source: IHS Global Insight, Maldives Monetary Authority, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Introduction and update

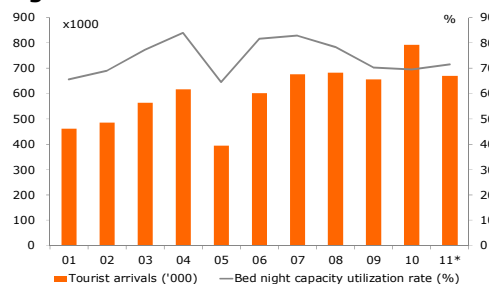
The key risk characteristics of the island state Maldives remains its sensitivity to global climate change (the islands are just above sea level), the small and highly undiversified economy (tourism and fishing), the difficult political situation and the very high twin deficits (see next sections). Economic growth in 2010 was close to 5%, which was better than expected in our Country Risk Report of November 2010. This year's growth is forecast at 5-6%, on the back of recovering tourism arrivals, and for next year an economic growth around 5% is expected. Tourism arrivals declined in 2008/09, but recovered in 2010. Data up to September 2011 indicate this year is a better year than last year, but the sector is sensitive to economic swings in Europe and Asia. If the external environment deteriorates again in 2012, this could seriously affect Maldives' economy.

Figure 1: Growth performance



Source: IHS Global Insight

Figure 2: Tourism



Source: Maldives Monetary Authority

* Data January-September.

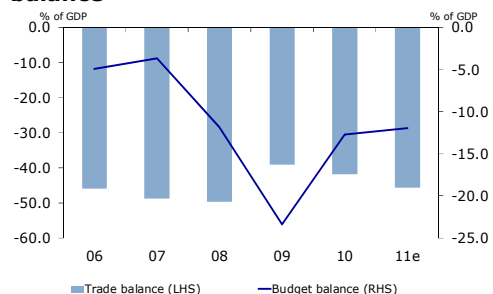
Unsustainable fiscal and current account deficits

The Maldives struggles with huge fiscal and current account deficits. In the wake of the tsunami in 2004, government spending increased rapidly. This was aggravated by the global financial crisis, but also has structural components. Restructuring efforts, high cost of providing basic services to remote islands, fuel subsidies, and a large civil service wage bill all contribute to enormous fiscal deficits. The fiscal deficit was more than 20% of GDP in 2009. With the recovery of the economy, the government deficit is expected to shrink to a still very substantial 12% of GDP by the end of this year.

Next to some limited coconut cultivation, the main natural resources of the Maldives are its tropical beaches and coral reefs. Tourism is therefore the major foreign currency earning. The import bill is substantial as the country has to import most of its needs and the remittances outflow is significant given the many foreign workers in the tourism and construction industry. The current account balance shows a large deficit as a result. The current account deficit is expected to 'improve' from about 50% of GDP in 2008 to a little over 20% of GDP in 2011. Next year, the current account deficit is expected to be around the same level as this year. A global downturn or increase in commodity prices could hit the country's economy and current account deficit hard.

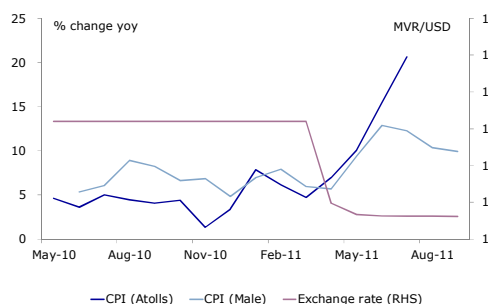
As the country has good relations with several donor countries, e.g. India, and multilateral institutions, the country is able to cover its huge external financing needs. Moreover, foreign direct investment, largely in the tourism sector, is an important source of funding. Still, the liquidity position is vulnerable. External debt is around 50% of GDP and towers above foreign exchange (FX) reserves. Foreign debt is expected to be around USD 1.6bn in 2011 and USD 2bn in 2012, while FX reserves are estimated at USD 0.3bn in 2011 and 2012. Import cover of FX reserves is a meagre 3 months.

Figure 3: Trade balance and fiscal balance



Source: Maldives Monetary Authority

Figure 4: Inflation



Source: Maldives Monetary Authority
[Male is the capital, Atolls are the other island groups that make up the Maldives]

Troublesome political situation

End-2009, the government agreed to a three-year, USD 93m financing program with the IMF in response to the rapid deterioration of the fiscal deficit. As part of the package, the IMF pushes for wide-ranging economic reforms, which include tax reforms, reducing the number of civil servants and increasing flexibility of the economy. However, progress has been limited and the IMF delayed payment in late-2010 for this reason. The main opposition party, Dhivehi Rayyithunge Party (DRP), is able to block proposals, as the DRP has more parliamentary members than the ruling Maldivian Democratic Party (MDP). A recently established new political party, Progressive Party of Maldives (PPM) could change the political setting in the medium-term. The PPM is a break-away fraction of DRP, established by former president Gayoom, and could stir up vote distribution in future elections. The next presidential elections are scheduled in 2013.

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Although the new party is a positive sign for the development of the political system in the Maldives, the recent trend of political parties taking to the street is worrying. For example, in October the ruling MDP organised a nationwide protest in response to doubts about the independence of the judicial system. In April and May 2011, the country also witnessed protests, but this time in response to rising food prices. In the massive and occasionally violent demonstrations, supported by the DRP, the devaluation of the currency was seen as the reason for the rapid food price increases. The government decided to remove the peg to the USD in April, allowing the rufiyaa to float within a 20% band against the USD (possibly a wider band is needed in the future). This move was advised by the IMF, although the timing was a surprise. As a result, more volatility in the exchange rate is expected but it should help to reduce the major external imbalances.

Maldives								
Selection of economic indicators	Source	2006	2007	2008	2009	2010	2011e	2012f
<i>Key country risk indicators</i>								
GDP (% real change pa)	IHS	18.0	7.2	6.2	-2.3	4.8	5.5	4.3
Consumer prices (average % change pa)	IHS	3.5	7.4	12.3	4.0	4.7	8.5	4.4
Total foreign exchange reserves (mln USD)	IHS	234	311	244	276	364	310	250
<i>Economic policy</i>								
Budget balance (% of GDP)	MMA	-4.9	-3.7	-11.9	-23.4	-12.7	-11.9	n.a.
Public debt (% of GDP)	IMF	n.a.	66	69	85	88	92	n.a.
Exchange rate LCU to USD (average)	MMA	13	13	13	13	13	15	n.a.
<i>Balance of payments (mln USD)</i>								
Current account balance	WB	n.a.	-438	-651	-395	-320	n.a.	n.a.
Trade balance	MMA	-590	-737	-890	-682	-798	-976	n.a.
Export value of goods	MMA	225	228	331	169	180	172	n.a.
Import value of goods	MMA	815	965	1221	851	978	1148	n.a.
Net direct investment flows	IHS	64	91	135	112	164	170	120
Net portfolio investment flows	IHS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>External position (mln USD)</i>								
Total foreign debt	IHS	488	630	716	780	912	1054	1208
Short-term debt	IHS	98	179	215	202	248	301	362
Total debt service due, incl. short-term debt	IHS	98	154	245	285	293	359	414
Total foreign exchange reserves	IHS	234	311	244	276	364	310	250
<i>Key ratios for balance of payments, external solvency and external liquidity</i>								
Trade balance (% of GDP)	MMA	-46	-49	-50	-39	-42	-46	n.a.
Current account balance (% of GDP)	WB	n.a.	-42	-52	-30	-22	n.a.	n.a.
Foreign debt (% of GDP)	IHS	42	47	45	47	48	50	54
Foreign debt (% of XGST)	IHS	63	72	68	94	96	96	103
Debt service ratio (% of XGSIT)	IHS	13	17	23	34	31	33	35
FX-reserves import cover (months)	IHS	2.7	3.0	1.9	2.9	3.4	2.7	2.1
FX-reserves debt service cover (%)	IHS	239	202	100	97	124	86	60

Source: IHS Global Insight (IHS), Maldives Monetary Authority (MMA), World Bank (WB), International Monetary Fund (IMF).

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