MALDIVES BUDGET REVIEW 2024

INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF THE MALDIVES

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

MALDIVES BUDGET REVIEW 2024

INSTITUTE OF CHARTERED ACCOUNTANTS OF THE MALDIVES

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FOREWORD

As we embark on the pivotal review of the Budget for the fiscal year 2024, it is my pleasure to present the comprehensive report reflecting the financial landscape of our esteemed nation, the Maldives.

As custodians of financial prudence and accountability, CA Maldives has continuously strived to shape policies that not only safeguard public funds but also pave the way for inclusive growth and societal betterment. The conclusion of this comprehensive review reaffirms our commitment to being a driving force in steering our nation towards a future marked by transparency, equity, and sustained progress for all its citizens.

I extend my deepest appreciation to every member of the working group formed to conduct a comprehensive, independent, and insightful review of the Budget 2024 under the guidance of the Tax & Public Policy Committee of CA Maldives, whose diligence, expertise, and unwavering dedication have brought this report to accomplishment. Your commitment to excellence and tireless efforts have been instrumental in presenting a report that not only addresses the demands of today but also lays the groundwork for a more robust and promising tomorrow.

In these challenging times, marked by global flux and local dynamism, our unwavering dedication to prudent fiscal management and innovative policy design has been pivotal. The recommendations and insights captured within this report are a testament to our collective pursuit of excellence and our steadfast resolve to enhance the economic backbone of the Maldives.

As we navigate the complexities of economic governance, I urge us all to embrace this report as a blueprint for constructive dialogue and informed decision-making. Let us harness its recommendations to propel our nation toward a future defined by resilience, progress, and collective prosperity.

President of CA Maldives

H. Niyazy

Mr. Hussain Niyazy

EXECUTIVE SUMMARY

The Institute of Chartered Accountants of the Maldives (CA Maldives) has conducted a comprehensive and objective analysis of the Maldives Budget for Fiscal Year (FY) 2024, providing an in-depth assessment of the country's fiscal strategy. CA Maldives, created under an Act of the People's Majlis, on September 8, 2020, is a significant advancement in the of accountancy profession in the Maldives.

The purpose of this research, led by CA Maldives' Tax and Public Policy Committee (T&PPC), is to present an objective analysis of the budget. The paper primarily intends to provide informed opinions, proposals, and recommendations.
The T&PPC, consisting of a quintet, is responsible for reviewing and advising the Council on subjects pertaining to public policy, including legislations and policies concerning taxation, public finances, business, and environmental, social, and governance (ESG) facets. The committee's evaluation of the FY 2024 Budget relies on thorough analysis conducted using pertinent secondary sources, with a focus on trends seen during the previous five years, encompassing both pre- and post-pandemic situations. This approach enhances the study by providing a comprehensive knowledge of the budget's impact, incorporating both depth and context.

The budget for FY 2024 in the Maldives is formulated in light of the country's efforts to recover from the pandemic and the persistent economic difficulties it faces. The nation has exhibited resilience, notably in the tourist industry, which continues to be a significant driver of economic growth. Notwithstanding the advancements made, the Maldivian economy encounters obstacles such as geographical dispersion, a restricted domestic revenue foundation, and an urgent requirement for economic diversification. The budget seeks to tackle these difficulties by promoting sustainable economic expansion and broadening the range of income streams.

The budget relies heavily on maintaining fiscal discipline and implementing efficient revenue mobilization strategies. The government focuses on improving the tax revenue and efficiently controlling public spending. Primary endeavors encompass the reformation of the Goods and Services Tax (GST) and the guarantee of appropriate management of public debt. The purpose of this fiscal policy is to provide economic stability and lay the groundwork for sustained long-term growth.

The budget implements substantial changes in subsidy administration and the

Aasandha health insurance scheme. The goal is to shift from general, blanket subsidies to a more focused and targeted basic income approach, guaranteeing the efficient distribution of resources. The Aasandha reform aims to optimize operations and enhance service delivery, with the goal of achieving a harmonious balance between accessibility and financial sustainability.

The budget prioritizes strategic investments in infrastructure, healthcare, and education. These areas are considered vital for the advancement and well-being of the nation. The administration intends to achieve a balance between these essential investments and careful expenditure control in order to sustain fiscal well-being.

Efficient execution of the budgetary recommendations is crucial. The government highlights the necessity of implementing strong monitoring and evaluation procedures, particularly for subsidy and Aasandha reforms. This strategy guarantees that the reforms provide the desired advantages and that public monies are utilized effectively.

The FY 2024 budget of the Maldives, reviewed by CA Maldives, demonstrates a well-balanced and strategic approach to economic governance. This highlights the government's dedication to promoting sustainable economic expansion, enhancing public well-being, and tackling significant socioeconomic issues. The efficacy of this budget will rely significantly on the prompt and efficient execution of its activities. Through careful implementation and continuous assessment, the budget has the capacity to greatly improve the quality of life for the people of Maldives and secure the country's future development. The report conducted by CA Maldives plays a pivotal role in enhancing public and stakeholder understanding of the economic condition, potential for growth, and the difficulties arising from escalating government indebtedness and fiscal deficits.

CHAPTER

01

AN OVERVIEW OF THE MALDIVIAN ECONOMY

OVERVIEW OF MALDIVIAN ECONOMY

The Maldivian economy, in its uniqueness, faces the challenges of geographical dispersion, a limited domestic revenue base, and the need for sustainable economic growth. The country has shown remarkable resilience and growth, particularly in the tourism sector, which is a significant contributor to the country's GDP. This section gives an overview on the Maldivian economy.

POPULATION DYNAMICS AND POVERTY IN THE MALDIVES

The Maldives has experienced significant changes in its population and poverty levels in recent years. As of 2023, the poverty rate in the Maldives is projected to decrease to 1.5%, down from 3.9% in 2019.[1] This decline is attributed to the strong economic recovery post-COVID-19, primarily driven by the high-end tourism sector. The country's redistributive welfare model, which includes universal access to health and education services, public sector employment and pensions, health insurance, price controls and subsidies, and income support programs, has played a crucial role in improving living standards in Malé and the atolls.[2]

Despite this economic growth, inequality remains a significant concern, particularly in the outer atolls where 92% of the poor reside. The Gini index,[3] which measures income inequality, stood at 29.3 in 2019,[4] indicating relatively low inequality compared to other countries in the region.[5] However, this does not fully capture the spatial disparities between Malé and the atolls.

REAL GROSS DOMESTIC PRODUCT (GDP)

The Maldives' economic landscape in 2023 has been characterized by robust growth, primarily driven by the tourism sector, which constitutes a significant portion of the national economy. The Real Gross Domestic Product (GDP) of the Maldives grew by 13.9% year-on-year in 2022,[6] followed by a growth of 5.5% in the first quarter of 2023.[7] The growth of real GDP of the Maldives is projected to be 6.5% in 2023, with an average growth

1 According to the US$6.85 poverty line for upper middle-income countries.

2 World Bank's Maldives Development Update – October 2023.

3 The Gini index is a measure of the distribution of income across a population on a scale between 0-100. A higher Gini index indicates greater inequality, with high-income individuals receiving much larger percentages of the population's total income.

4 2019 Household Income and Expenditure Survey, Maldives Bureau of Statistics.

5 World Bank's Maldives Development Update – October 2023.

6 Estimates of real GDP released by the Maldives Bureau of Statistics in June 2023.

7 Quarterly National Accounts (QNA) for Q1-2023. Maldives Bureau of Statistics.

of 5.4% from 2024 to 2025.[8] This growth trajectory is largely attributed to the strong performance of the tourism sector, which expanded by 14% in the first three quarters of 2023 compared to the same period in 2022.[9] The sector's expansion has positively impacted related industries such as transportation, communication, and domestic trade.

TOURISM SECTOR

The Maldives economy is heavily dependent on tourism, which significantly influences its economic landscape. Tourism and associated services contribute to nearly 30% of the country's GDP, over 60% of its foreign exchange receipts, and almost half of its public revenues. This sector also provides the bulk of private-sector jobs.[10] However, the COVID-19 pandemic has accelerated the need for economic diversification, although opportunities outside tourism remain limited in the near term due to the country's small size, remote location, and dispersed population. These factors contribute to high business costs and limited economies of scale.

Despite global challenges, including the Russian invasion of Ukraine and the ongoing effects of the COVID-19 pandemic, the Maldives has maintained a strong influx of tourists. By early September 2023, tourist arrivals reached 1.25 million, marking a 14% increase compared to the same period in 2022.[11] This surge in tourism was bolstered by the reopening of the Chinese market in January 2023, which compensated for lower arrivals from India and Gulf countries. European tourist arrivals also showed a significant increase.[12] Despite a slight decline in the average stay duration, hotel and resort occupancy rates improved.[13]

CURRENT ACCOUNT AND TRADE DEFICIT

In 2022, the country experienced a notable widening of its current account deficit (CAD). The CAD, which stood at 8.7% of GDP (US$455 million) in 2021, expanded to 16.8% of GDP (just over US$1 billion) in 2022.[14] This increase was primarily driven by a 48.4% year-on-year growth in capital goods imports and higher import costs, largely due to global commodity price increases.[15]

The merchandise trade deficit also saw a considerable expansion, growing by 38.4% year-on-year to US$2.9 billion in 2022.[16] This was largely attributed to the significant rise in the petroleum import bill, which accounted for over 13.5% of GDP, as well as

8 World Bank estimates and forecasts as of September 2023.
9 Ministry of Tourism.
10 World Bank's Maldives Development Update – October 2023.
11 Ministry of Tourism.
12 Ibid.
13 Ibid.
14 Ministry of Finance.
15 Ministry of Finance, and World Bank's Maldives Development Update – October 2023.
16 Ibid.

increased imports of construction and capital goods driven by accelerated Public Sector Investment Program (PSIP) projects.[17]

The Maldives' reliance on external borrowing and the high import bill have contributed to a decline in official reserves, which fell by 28.6% since the end of 2022 to US$594.1 million in July 2023.[18] This level of reserves is only sufficient to cover 2 months of imports, a significant drop from 3 months at the end of 2022.[19]

Foreign Direct Investment (FDI) played a crucial role in financing the CAD in 2022. Net FDI grew by 12.3% year-on-year to US$721.9 million, although it remained below the pre-pandemic level of US$961 million in 2019.[20]

PUBLIC EXPENDITURE AND PUBLIC FINANCES

The Maldives' public expenditure and public finances have been characterized by high levels of spending, primarily driven by substantial increases in the PSIP, subsidies, and the wage bill. This trend of public expenditure growth has consistently outpaced the country's real GDP growth.[21]

There has been a slight increase in total revenue and grants over the years, with tax revenue forming a significant portion of this. For instance, in 2022, total revenue and grants accounted for 27.8% of GDP, with tax revenue alone contributing 20%.[22]

Total expenditure rose to 41.8% of GDP in 2022, with recurrent expenditure and capital expenditure accounting for 29.4% and 12.7% of GDP, respectively.[23] The PSIP spending, a major component of capital expenditure, was 9.4% of GDP in the same year.[24] In 2022, the overall fiscal balance was -14.4% of GDP.[25]

17 Ibid.
18 Maldives Monetary Authority.
19 World Bank's Maldives Development Update – October 2023.
20 World Bank's Maldives Development Update – October 2023.
21 Ministry of Finance, and World Bank's Maldives Development Update – October 2023.
22 Ibid.
23 Ibid.
24 Ibid.
25 Ministry of Finance.

INFLATION TRENDS IN MALDIVES

High global commodity prices have continued to exert pressure on inflation and fiscal balances. The average annual inflation rate stood at 3.3% in the first seven months of 2023, compared to 2.3% in 2022.[26] The government's decision to maintain a blanket subsidy policy for major consumption items, including fuel, electricity, and food, has led to significant spending pressures. Additionally, the growth in capital and construction material imports to support the completion of mega PSIP projects has further strained the fiscal balance.[27]

Despite recent tax increases, inflation is expected to remain modest, largely due to the government's subsidy program. Inflation is projected to rise to 3.2% in 2023, which is lower than the April 2023 forecast of 5.7%. This adjustment is attributed to additional subsidies provided by the government to help contain price pressures.[28]

In 2023, overall inflation peaked at 4% year-on-year in March, with significant impacts in the food and non-alcoholic beverages and transport sectors. Inflation in these sectors reached 8% but subsided to 4.5 and 3.4%, respectively, in July,[29] as the government increased subsidy support.

FISCAL DEFICIT AND PUBLIC DEBT IN MALDIVES

The fiscal landscape of the Maldives, particularly concerning its fiscal deficit and public debt, is marked by significant challenges. The country has faced considerable fiscal pressures, largely due to increased public expenditures aimed at mitigating the impacts of the COVID-19 pandemic. This situation has led to a substantial rise in public and publicly guaranteed (PPG) debt.

In 2020, the total PPG debt of the Maldives escalated to around 150% of GDP, a stark increase from the pre-pandemic level of 77% of GDP.[30] By the end of the second quarter of 2023, this figure had decreased to 109% of GDP.[31] However, it remained significantly higher than the levels seen before the pandemic.

26 Maldives Bureau of Statistics.
27 World Bank's Maldives Development Update – October 2023.
28 Ibid.
29 Maldives Bureau of Statistics.
30 Ministry of Finance.
31 Ibid.

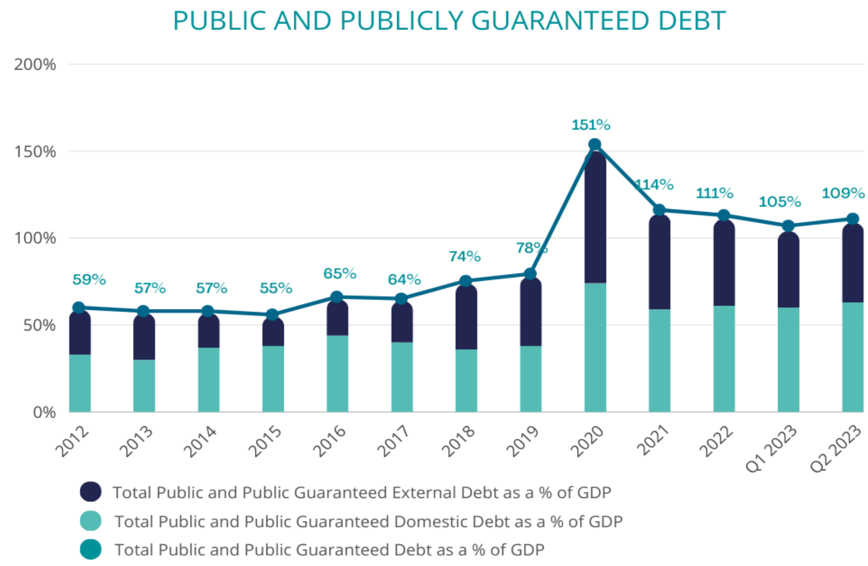

Figure 1: Public and Publicly Guaranteed Debt

Source: Data obtained from Ministry of Finance: Disbursed outstanding debt as of Q3, 2022

The total debt of the Maldives is set to remain high at over 115% of GDP.[32] The country is projected to pay an average of about US$570 million annually in external debt servicing over the 2024–25 period.[33] Public and publicly guaranteed external debt servicing is expected to reach US$1.1 billion in 2026,[34] including bullet payments for significant debts. These high levels of public debt and associated refinancing risks make the Maldivian economy extremely vulnerable to domestic and external shocks.

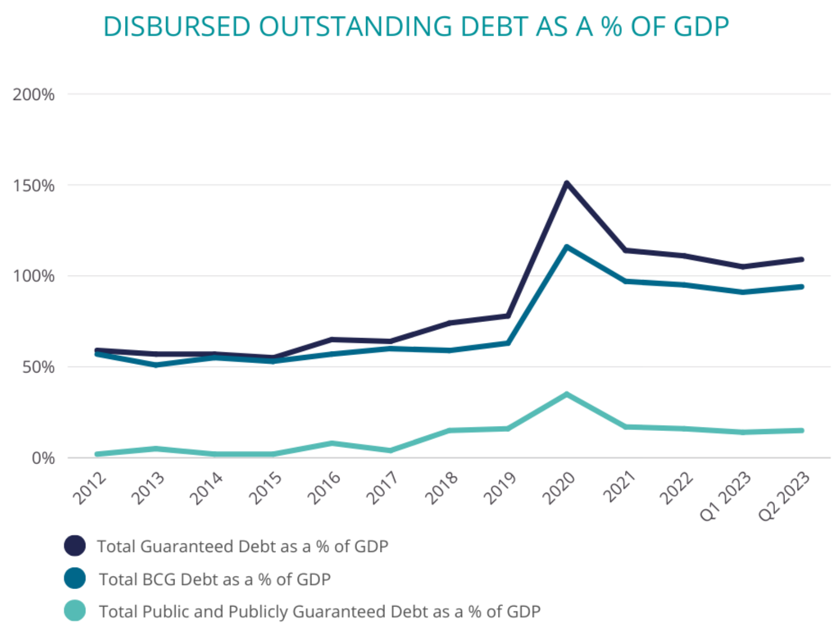

Figure 2: Disbursed Outstanding Debt as a % of GDP

Source: Data obtained from Ministry of Finance: Disbursed outstanding debt as of Q3, 2022.

32 Ibid.

33 Ministry of Finance and World Bank staff calculations.

34 Ibid.

ECONOMIC OUTLOOK

The Maldivian economy has shown resilience and adaptability in recent years, particularly in response to global challenges. The medium-term growth outlook for the Maldives remains positive, albeit with significant external and fiscal risks. This positive outlook is primarily driven by the tourism sector, which has historically been the backbone of the Maldivian economy. The country has experienced a robust recovery post-COVID-19, supported by a rapid vaccination rollout and the unique “one island, one resort” model that has appealed to international tourists.[35]

Real GDP growth is projected to be 6.5% in 2023, and an average of 5.4% in the 2024–25 period. These projections, however, are subject to various external and fiscal vulnerabilities. The global economic outlook, marked by uncertainty due to factors like the pandemic and geopolitical tensions, poses significant risks to the Maldives' economic prospects. A slowdown in key source countries for tourists could impact the growth trajectory.[36]

The Maldives faces challenges in terms of fiscal and external debt vulnerabilities. The country is projected to pay an average of about US$570 million annually in external debt servicing over the 2024–25 period. High levels of public debt and associated refinancing risks make the economy vulnerable to domestic and external shocks. The completion of major infrastructure projects like the Velana International Airport is expected to contribute to economic growth, although delays in these projects could impact the growth projections.[37]

KEY CHALLENGES

The Maldivian economy, while showing signs of resilience and growth, faces several key challenges that could impact its future development and stability. These challenges are multifaceted, encompassing fiscal, external, and structural aspects.

The Maldives' public debt significantly exceeds the size of its entire economy, making it extremely vulnerable to domestic and external shocks. The country is projected to face substantial external debt servicing in the coming years, which includes significant bullet payments, testing its ability to repay or roll over this debt.[38]

The fiscal space in the Maldives is constrained, limiting its ability to absorb future shocks to public finances. This situation is exacerbated by the obligations towards state-owned enterprises (SOEs), which require substantial government support in the form of loans,

35 World Bank's Maldives Development Update – October 2023.
36 Ibid.
37 Ibid.
38 Ministry of Finance, and World Bank's Maldives Development Update – October 2023.

guarantees, subsidies, and cash injections.[39] Additionally, the significant role of SOEs in the economy, particularly in providing infrastructure services, is leading to inefficiencies, and crowding out the private sector.

The Maldives faces a persistently large current account deficit, which, along with significant external debt servicing, continues to exert pressure on the balance of payments and external buffers.[40]

The economy remains heavily dependent on tourism, which accounts for a significant portion of GDP, foreign exchange receipts, public revenues, and private sector jobs. While efforts are being made to diversify the economy, opportunities outside the tourism sector are limited in the near term due to the scarcity of land and other natural resources.[41]

As a small island nation, the Maldives is particularly vulnerable to environmental challenges, including the impacts of climate change and rising sea levels. Furthermore, there are notable disparities in welfare and living standards between Malé and the outer atolls, with limited access to essential services and economic opportunities in more remote areas.[42]

39 World Bank's Maldives Development Update – October 2023.
40 Ibid.
41 Ibid.
42 Ibid.

CHAPTER

02

REVENUE

OVERVIEW

The budget for 2024 has proposed an estimated revenue target of MVR 33.5 billion. This is an increase of 3.4% when compared with the revised budget for the fiscal year 2023, which was MVR 32.46 billion. According to Budget 2024, this increase is due to the expected improvements in the economic growth rate by 5.5% in the year 2024.[43]

BREAKDOWN OF THE BUDGETED REVENUE FOR THE YEAR 2024

Category	Actual 2022	Revised 2023	Budgeted 2024
Tax Revenue	19.53	24.00	25.62
Non-Tax Revenue	8.46	7.95	6.66
Grants	1.04	0.51	1.27
Total Revenue	**29.03**	**32.46**	**33.55**

Table 1: Budgeted revenue for the year 2024
Source: Budget Book 2024, Ministry of Finance

All amounts in MVR and in billions

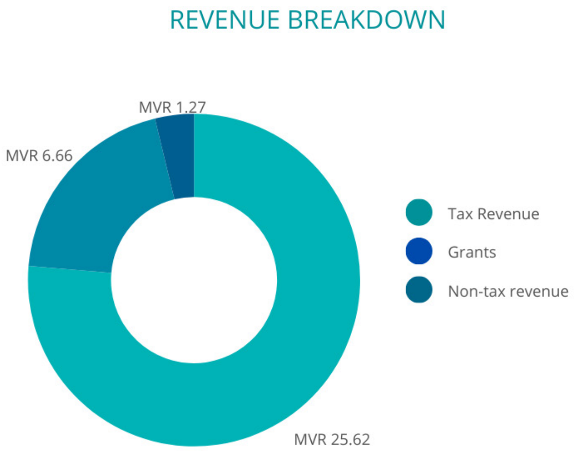

Figure 3: Revenue Breakdown
Source: Budget Book 2024, Ministry of Finance

Note: Above stated non-tax revenue is the net of non-tax revenue, proceeds from sale of fixed assets and rebates from subsidiary loans of the Budget 2024.

The tourism sector represents one-third of our Gross Domestic Product (GDP).[44] According to the Budget 2024 the main contributor to the aforesaid growth is the expected increase in the performance of the tourism industry. With the increased performance in the tourism sector, it is estimated that during the year 2024, our nominal GDP will grow by 7.8%, resulting in an increase in the tax revenue by 6.7%.[45] According to the budget 2024, the said variance between nominal GDP growth and the estimated tax revenue is due to the

43 Ministry of Finance, Republic of Maldives. Budget Book 2024. Malé: Ministry of Finance, 2023. https://budget.gov.mv/en (accessed December 11, 2023).
44 The World Bank. Maldives Development Update. Washington, D.C.: The World Bank, 2023. https://www.worldbank.org/en/country/maldives (accessed December 11, 2023).
45 Ministry of Finance, Republic of Maldives. Budget Book 2024. Malé: Ministry of Finance, 2023. https://budget.gov.mv/en (accessed December 11, 2023).

fact that a significant portion of tax revenue mainly attributing to income tax is collected by the government and payable by businesses and individuals on the successive year.[46]

The budget for 2024 estimates that tourist arrivals will exceed 2 million for the first time in the year 2024 which represents a year-on-year growth in tourist arrivals by 7.9% and a growth in bed-nights by 7%.[47] This notion has been further supported by the IMF Country Report released in November 2023, which has highlighted that the strong performance of Tourism Sector and the sectors related to Tourism such as trade and transportation along with expansions to Velana International Airport are expected to contribute to the growth by 10.5% and 6.6% in the year 2022 and 2023, respectively.[48]

SOURCES OF REVENUE & REVENUE MEASURES

The budget estimates that tax revenue for the year 2024 will represent 76% of the total revenue, which is MVR 25.62 billion. The remaining 24% includes non-tax revenue and cash grants, estimated at MVR 6.66 billion and MVR 1.27 billion, respectively[49]. Non-tax revenue mainly includes rental income from tourist resorts, airport development fees, interest & profits mainly in the form of dividends from State Owned Entities (SOE's), and cash grants pertaining to disbursements from bilateral & multilateral organizations and banks mainly towards donor funded PSIP projects.

Similar to budget 2023, budget 2024 has no new revenue sources. The tax rates are consistent with the year 2023, where increases in General Goods and Services Tax (GST) and Tourism Goods and Services Tax (TGST) rates from 6% to 8% and 12% to 16%, were implemented as of January 2023 onwards. The budget has briefly mentioned that efforts will be made to enhance the tax base during the year 2024. However, it has not addressed the measures that will be taken to enhance the tax base. The IMF country report released in November 2023 provided recommendations for revenue mobilization, emphasizing the expansion of the tax base and suggestions of new taxes as viable measures. These include:[50]

- Reducing tariff exemptions and levying tariffs on the cost, insurance, and freight (c.i.f.)
- Lowering the Personal Income Tax (PIT) thresholds and personal allowance
- Raising the top marginal PIT rate to align it with the Corporate Income Tax (CIT) rate.
- Lowering the CIT tax-free threshold and introducing a presumptive regime for businesses that are not registered for GST.
- Implementing other measures such as excises on tobacco, alcoholic products, fuels, and motor vehicles and imposing a carbon levy.

46 Ministry of Finance, Republic of Maldives. Budget Book 2024. Malé: Ministry of Finance, 2023. https://budget.gov.mv/en (accessed December 11, 2023).

47 Ministry of Finance, Republic of Maldives. Budget Book 2024. Malé: Ministry of Finance, 2023. https://budget.gov.mv/en (accessed December 11, 2023).

48 International Monetary Fund. Maldives: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director. Washington, D.C.: International Monetary Fund, 2023. Report No. 2023/366. https://www.imf.org/external/error.htm?URL=https://www.imf.org/en/Publications

49 Ibid

50 Ibid

- Introducing a recurrent property tax.
- Narrowing the gap between the domestic and tourist GST rates and broadening the GST base to imports, inbound tourism, and digital services; and
- Implementing customs and tax administration reforms

BREAKDOWN AND ANALYSIS OF TAX REVENUE

The most significant contributor to revenue is TGST. It is estimated that TGST will account for 27% of the total revenue. GST, income tax and capital gain tax is estimated to account for 14% and 13% of the total revenue, respectively. Import duty is estimated to account for 12% of the total revenue for the year 2024. Other taxes include non-resident withholding tax, green tax, departure tax, royalties, export duty and miscellaneous taxes that account for a total of 10% of the total budget[51].

BREAKDOWN OF THE TAX REVENUE FOR THE YEAR 2024

Category	Actual 2022	Revised 2023	Budgeted 2024
Tourism goods and services tax	6.60	8.69	9.07
General goods and services tax	3.18	4.45	4.73
Income tax & capital gain tax	3.37	4.14	4.42
Import duty	3.50	3.51	4.02
Non-resident withholding tax	0.94	1.08	1.09
Green tax	0.97	1.00	1.08
Departure tax	0.83	0.97	1.03
Export duty, royalties & other taxes	0.14	0.17	0.17
Total	**19.53**	**24.00**	**25.62**

Table 2: Tax revenue for the year 2024

Source: Budget Book 2024, Ministry of Finance

All amounts in MVR and in billions

The tax revenue estimated for the year 2023 was MVR 23.5 billion, of which 56% was targeted to be collected from TGST & GST, and 19% from business and property tax. Additionally, 16% of revenue was estimated to be collected from import duty[52].

51 Ministry of Finance, Republic of Maldives. Budget Book 2024. Malé: Ministry of Finance, 2023. https://budget.gov.mv/en (accessed December 11, 2023).

52 Ibid

IMPACT ON TAX REVENUE DUE TO INCREASED TGST & GST RATES

Total TGST collected by MIRA as of October 2023 amounted to MVR 7.18 billion, and GST collected amounted to MVR 3.70 billion. In comparison to the corresponding period of 2022, there is a clear indication of a 31% increase in TGST and a 40% increase in GST.[53]

Had the Government not ratified the amendment to TGST and GST rates, the total TGST and GST received for the corresponding period, once prorated to the previous rates, would be MVR 5.48 billion and MVR 2.78 billion, respectively. This reflects a decrease in TGST by 2% and an increase in GST revenue collected by 5%. The computations of these changes are provided in the below schedule.

Tax	As of Oct 2023	As of Oct 2022	As of Oct 2023, prorated to the rates of GST 6% & TGST 12%	% change (effect of tax rate changes incl.)	% change (effect of tax rate changes incl.)
TGST	7.18	5.48	5.39	31	2
GST	3.70	2.65	2.78	40	-5
	10.88	**8.12**	**8.16**		

Table 3: Comparison of TGST and GST collections. For the period 1st January 2023 to 31st October 2023 vs 1st January 2022 to 31st October 2022

All amounts in MVR and in billions

To understand the decrease in TGST collected, it shall be noted that according to the Tourism Statistics for the month ended November 2023, published by the Ministry of Tourism, total bed nights has increased by 6.9% and the occupancy rate has decreased by 1.1% for the period of January 2023 to November 2023, when compared against the corresponding period of 2022.[54]

Further, it is important that the price elasticity of the demand for tourism goods and services shall be assessed to evaluate the impact on tax revenue collected due to changes in price of tourism goods and services. However, there is no sufficient and appropriate research done around this phenomenon in the Maldives.[55]

53 Maldives Inland Revenue Authority (MIRA). Monthly Revenue Series 2010 - 2023 as of October 2023. Malé: Maldives Inland Revenue Authority, 2023. https://www.mira.gov.mv/Publications/Categories/310 (accessed December 11, 2023).

54 Ministry of Tourism, Republic of Maldives. Tourism Statistics November 2023. Malé: Ministry of Tourism, 2023. https://tourism.gov.mv/en/statistics/publications (accessed December 11, 2023).

55 Ministry of Finance, Republic of Maldives. Fiscal Risk Statement. Malé: Ministry of Finance, 2023. https://www.finance.gov.mv/publications/reports-and-analyses (accessed December 11, 2023).

THE RELATIONSHIP BETWEEN TGST & TOURISM SECTOR PERFORMANCE

The achievement of the TGST targets is highly dependent on the performance of the tourism sector, which is highly vulnerable to external shocks.[56] According to the Budget of 2024, the fall in the economic growth rate of European countries due to the Ukraine-Russia conflict, import/export constraints, and increasing interest rates by central banks will have an adverse impact on the tourism sector, which could subsequently impact the amount of TGST collected.

The budget states that the Asian market, including China, will pick up the potentially lost demand from the European Market. However, there is no sufficient data or information on the magnitude of the demand that will be lost from the European Market and the level at which the Asian Market will be able to cover those losses.

IMPACT ON TAX COLLECTIONS DUE TO NON-COMPLIERS

Ensuring comprehensive handling of taxpayer non-compliance with tax laws and regulations is imperative due to its status as a fiscal risk. The easements imposed due to Covid-19 are one of the main reasons for the recent surge in non-compliance by taxpayers.[57] According to MIRA, total tax arrears as of September 2023 amounted to MVR 5.55 billion.[58]

TAX ARREARS AS OF SEPTEMBER 2023

Category	Principal Amount
Income Tax	0.83
TGST	0.88
GGST	1.86
Other Taxes	0.79
Tax Dues - Taxpayers other than SOE's	4.37
Tax Dues - SOE's	1.18
Total arrears as of September 2023	5.55

All amounts in MVR and in billions

Table 4: Breakdown of tax areas as of September 2023

Source: Data obtained from 3rd Quarterly Report 2023 of MIRA (all amounts in MVR and billions):

56 World Bank. "Country Context, Maldives." World Bank. https://www.worldbank.org/en/country/maldives/overview#1 (accessed December 11, 2023).

57 Ibid

58 Maldives Inland Revenue Authority. Quarterly Report, Q3. Malé: Maldives Inland Revenue Authority, 2023. https://www.mira.gov.mv/Publications/Categories/1573 (accessed December 11, 2023).

MIRA has duly formed a strategic action plan to curb the negative impact of non-compliance during the year 2023. This strategic action plan includes compliance activities encompassing audits, investigations, and enforced collections. MIRA has carried out a total of 5,713 compliance visits by the end of the 3rd Quarter of 2023.[59] In the year 2022, for the corresponding period MIRA had carried out a total of 3,390 compliance visits. [60]

NON-TAX REVENUE

Non-tax revenue amounts to MVR 6.66 billion of the total budget for the year 2024. The main source of non-tax revenue includes rental income from resort lease payments, interest, and profits where the majority of the income accounts to dividend from SOE's and airport development fees. Other main categories include registration and licensing fees, revenue fees, expatriate quota fees and other miscellaneous revenue that is not classified as tax revenue.

BREAKDOWN OF THE NON-TAX REVENUE FOR THE YEAR 2024

Non-tax revenues	Actual 2022	Revised 2023	Budgeted 2024
Rental income from resorts	1.89	1.84	2.02
Interest and profits	1.34	1.24	1.30
Airport development fees	0.85	0.99	1.03
Registration and licensing fees	0.79	0.82	0.85
Revenue fees	0.51	0.51	0.58
Expatriate quota fees	0	0.18	0.21
Others	3.22	2.39	0.67
	8.61	**7.98**	**6.86**

Table 5: Non-tax revenue for the year 2024

All amounts in MVR and in billions

Note: Above stated non-tax revenue excludes proceeds from sales of fixed assets and rebates from subsidiary loans of the Budget 2024.

59 Ibid

60 Maldives Inland Revenue Authority. Quarterly Report, Q1, Q2 & Q3. Malé: Maldives Inland Revenue Authority, 2022. https://www.mira.gov.mv/Publications/Categories/1573 (accessed December 11, 2023).

RENTAL INCOME FROM RESORTS

It is estimated that a total of MVR 2.2 billion will be collected as resort lease payments during the year 2024. This amount is 6.3% higher than the previous year and is approximately 6% of the total revenue budgeted for the year 2024.

However, it is estimated that every year the Government loses a significant amount of collectible revenue as resort lease payments due to the implicit subsidies allowed through several laws and regulations and the price ceiling imposed on lease payments. If there were no price ceiling, additional income from resort lease payments amounting to MVR 597 million is expected to be received.[61]

During the year 2023, the Government has waived off fines and penalties incurred by lessees due to non-payment of tourism land rent through a revision to the regulation on Construction Period Extension, and Deferment of Rental Payment and Fines brought in the year 2020, which decreased per day non-payment fine from 0.5% to 0.0493%.[62] According to MIRA's 3rd Quarterly report of 2023, the total outstanding tourism land rent, exclusive of non-payment fines and penalties amounted to MVR 2.96 billion as of September 2023.

DIVIDEND FROM SOE'S

A total of MVR 1.29 billion is targeted to be collected as interest and profit during the year 2024 of which MVR 774.78 million pertains to dividends from SOE's. This accounts to 12% of the total non-tax revenue target for the year 2024, and an increase of 25% from the budget of 2023. However, the dividend receivables, which are shown as outstandings, from the SOE's has significantly increased over the past 5 years. According to the Consolidated Financial Statements of the Government for the year 2022 (Unaudited), the total dividend receivable amounted to MVR 2.86 billion.[63]

DIVIDEND RECEIVABLE FY 2018 TO 2022

Fiscal Year	Outstanding
2022	2.86
2021	2.44
2020	1.45
2019	1.18
2018	0.93

All amounts in MVR and in billions

Table 6: Dividend Receivable FY 2018 to 2022

Source: Extracted from the Consolidated Financial Statements of Government of Maldives (all amounts in MVR & and billions)

61 Ministry of Finance, Republic of Maldives. Fiscal Risk Statement. Malé: Ministry of Finance, 2023. https://www.finance.gov.mv/publications/reports-and-analyses (accessed December 11, 2023).

62 Ministry of Tourism, Republic of Maldives. Regulation R-127/2020. Malé: Ministry of Tourism, 2020. https://www.finance.gov.mv/publications/reports-and-analyses (accessed December 11, 2023).

63 Ministry of Finance, Republic of Maldives. Consolidated Financial Statement of the Government of the Maldives Financial Year 2022 (Unaudited) Malé: Ministry of Finance, 2022. https://www.finance.gov.mv/consolidated-financial-statements (accessed December 11, 2023).

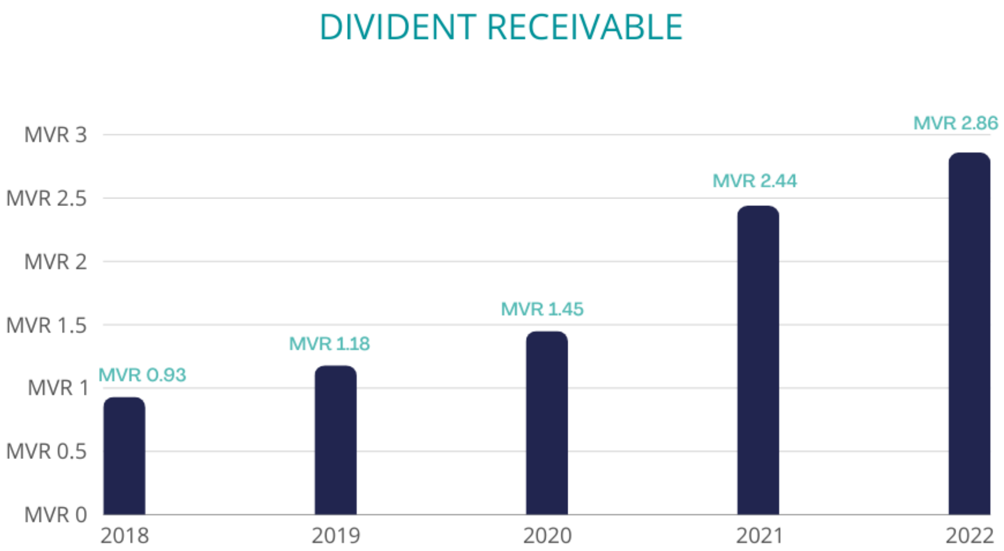

Figure 4: Dividend Receivable FY 2018 to 2022
Source: Based on data from the Consolidated Financial Statements of Government of Maldives (all amounts in MVR & and billions)

Further, it has been reported by the Auditor General in the Audit Report of the Consolidated Financial Statements of the Government for the year ended 2021, that discrepancies relating to these receivables from SOE's were observed when compared to the independent third-party confirmations from the SOE's.[64] According to the audit report the discrepancies were mainly due to setoffs made by the SOE's towards government payables. It was recommended by Auditor General that MOF shall carry out proper reconciliation of relevant records to ensure dividends receivable and received from SOEs are accounted for properly, and that Ministry approves the set-off requests after confirming the payables to the respective SOEs and budget availability.

CASH GRANTS

The projected total cash grants for the year 2024 are estimated to be MVR 1.3 billion. This amount is 151.4% higher than the expected cash grant for the year 2023. It is crucial to emphasize that overestimation of cash grants has been evident across the past few years.

64 Auditor General's Office, Republic of Maldives. Consolidated Financial Statement of the Government of the Maldives Financial Year 2021 Malé: Auditor General's Office, 2022. https://audit.gov.mv/webpage.aspx?pageID=49 (accessed December 11, 2023).

COMPARISON OF BUDGET VS ACTUAL CASH GRANTS FROM FY 2018 TO 2022

Year	Actual	Revised	Budgeted
2022	2.91	0.49	(2.42)
2021	2.23	0.96	(1.27)
2020	5.23	0.97	(4.26)
2019	2.08	1.22	(0.86)
2018	0.73	0.83	0.10

Table 7: Comparison of budget vs actual cash grants from FY 2018 to 2022 *All amounts in MVR and in billions*

Source: Extracted from the Consolidated Financial Statements of Government of Maldives (all amounts in MVR & and billions).

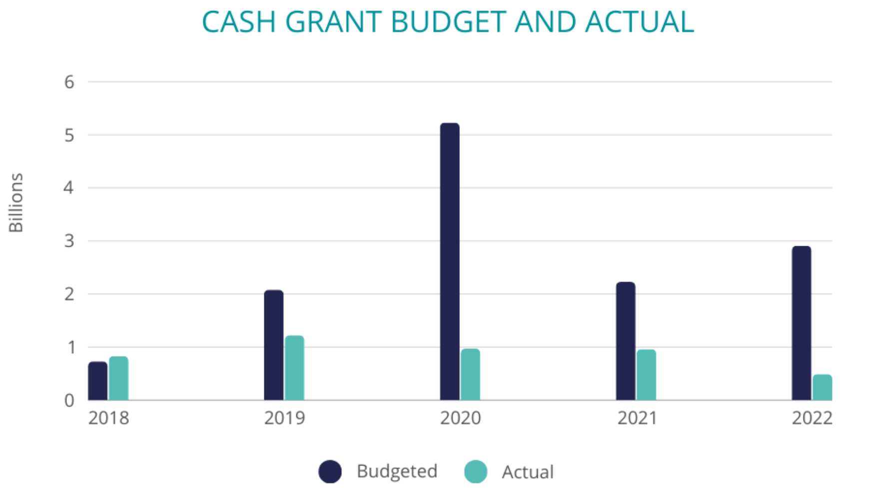

Figure 5: Comparison of budget vs actual cash grants from FY 2018 to 2022

Source: Based on data from the Consolidated Financial Statements of Government of Maldives (all amounts in MVR & and billions)

According to the records of Public Accounting System outlined by the Auditor General's Office in the budget recommendations report, the total revenue recorded for the year 2023 as of September 2023 is MVR 25.5 billion, of which Grant Income is MVR 473.1 million. Grant income recorded in the Public Accounting System is significantly low compared to the budgeted Grant Income for the year 2023, which is MVR 2.5 billion. The Auditor General has concluded that the achievement of the said target is implausible.[65]

According to the Fiscal Risk Statement published by MOF during the year 2023, the rising challenges in the geopolitics arena along with administrative challenges faced by the Donors has adversely affected the cash grants estimate for the recent years leading to over-estimations in the cash grants reported in the budgets.[66]

65 Auditor General's Office, Republic of Maldives. Auditor General's Recommendations Proposed to State Budget 2024. Malé: Auditor General's Office, 2023. https://www.audit.gov.mv/webpage.aspx?pageID=97 (accessed December 11, 2023).

66 Ministry of Finance, Republic of Maldives. Fiscal Risk Statement. Malé: Ministry of Finance, 2023. https://www.finance.gov.mv/publications/reports-and-analyses (accessed December 11, 2023).

CONCLUSION

In conclusion, the budget for the year 2024 has proposed a revenue target of MVR 33.55 billion, of which MVR 25.62 billion is tax revenue and the balance MVR 6.6 billion and MVR 1.27 billion is non-tax revenue and cash grants, respectively.[67] The aforesaid budgeted revenue for the year 2024 is 3.4% higher than the budgeted revenue for 2023, which is MVR 32.46 billion.

Tax revenue accounts to 76% of the revenue, making it the largest overall contributor to total revenue. Among the categories of tax revenue, TGST target for the year 2024 is at MVR 9.07 billion, which represents 27% of total revenue (MVR 33.55 billion) target for the year 2024.[68] Hence, the performance and growth of the tourism industry as outlined in the budget, where a target of 2 million tourist arrivals has been stated, is crucial to achieving the overall revenue target for the year.

Non-tax revenue accounts to 20% of the revenue budget. Approximately, 30% of the non-tax revenue pertains to rental income from resort leases, 20% (approx.) represents interests and profits, which mainly consist of dividend income from SOE's and another 20% represents airport development fees. The balance 30% is made up of several miscellaneous categories of revenue such as registration fees, revenue fees, & quota fees.[69]

Cash grants account to a total of 4% of the revenue budget. It is evident from the Consolidated Financial Statements of GOM that the actual cash grants received over the past five years (2018 to 2022) are substantially low when compared to the budgeted cash grants of those respective years.[70&71] However, Budget 2024 has set a cash grant target which is 151.4% higher than the target for the year 2023.[72]

67 Ministry of Finance, Republic of Maldives. Budget Book 2024. Malé: Ministry of Finance, 2023. https://budget.gov.mv/en (accessed December 11, 2023).

68 Ibid

69 Ibid

70 Auditor General's Office, Republic of Maldives. Consolidated Financial Statement of the Government of the Maldives Financial Year 2021 to 2018. Malé: Auditor General's Office, 2022. https://audit.gov.mv/webpage.aspx?pageID=49 (accessed December 11, 2023).

71 Ministry of Finance, Republic of Maldives. Consolidated Financial Statement of the Government of the Maldives Financial Year 2022 (Unaudited) Malé: Ministry of Finance, 2022. https://www.finance.gov.mv/consolidated-financial-statements (accessed December 11, 2023).

72 Ibid

CHAPTER

03

DEBT AND DEBT FINANCING

OVERVIEW

The Maldives, an upper-middle income country maintained a strong growth momentum in the year 2023, mostly contributed by the growth in the tourist arrival and this growth is expected to trend upward in the year 2024 with the expected growth in Chinese market. While the country is heavily reliant on the tourism industry for its economic growth, this dependency makes the country more vulnerable to macro-economic and external shocks. The government has estimated that the economic growth is expected to raise by 5.5% in the year 2024 and the tax revenue and grant is expected to grow by 3.4% in their budget proposals for the year 2024.[73]

While these are all positive aspects and expectations, one growing concerns of the public and international organization is the growing public debt which is set to remain high at over 112% of GDP as per the statistics issued by the Ministry of Finance. Significant amount of these external funds maturing in 2026, the government is in need of an urgent and robust fiscal adjustment and a more sustainable and responsible debt management policy.[74]

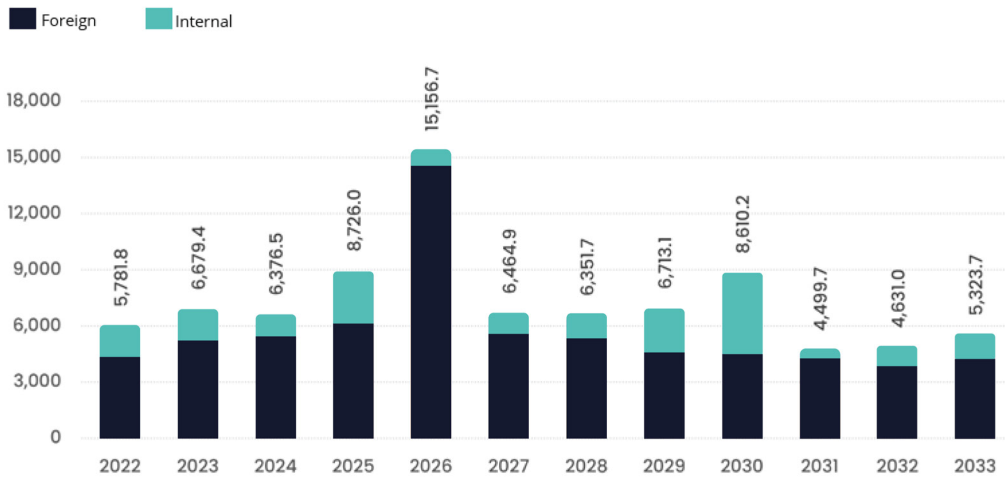

Figure 6: Maturity profile of State debts and debts guaranteed by the State
Source: Ministry of Finance

DEBT MANAGEMENT

The Government proposed a budget of MVR 49 billion for the year 2024, inclusive of The Government proposed a budget of MVR 49 billion for the year 2024, inclusive of expected budget spending for repayment of capital and interest on external borrowings. It is expected that 15% of the total budget will be spent on debt repayments (principal and interest). While MVR 33 billion is expected to be raised through tax revenue and grants, the balance is proposed to be funded through external borrowings.

73 Ministry of Finance, Budget 2024
74 ibid

The Minister of Finance in their budget plans, proposed to raise 40% of the budget deficit through budget support loan, 28% through internal borrowings, 27% though project finance and the balance 4% is to be raised through green/blue bonds.[75]

The budget spending is allocated at 70.2% for recurrent expenditure which is an increase of 7.5% compared to last year and MVR 7 billion is allocated to repayment of debt capital and interest. While several measures have been proposed for debt management, the expected Government debt at the end of 2024 is expected to rise to 114.3% of GDP. The Government further estimates that in the medium term the debt to GDP would reduce to 107% by the end of 2026.

AID

The Government expects to raise over MVR 1 billion through grants to service the 2024 government budget. This is a raise of over 151% compared to last year and over MVR 700 million is expected to be received as cash grants while the balance is expected to be raised through capital project grants.[76]

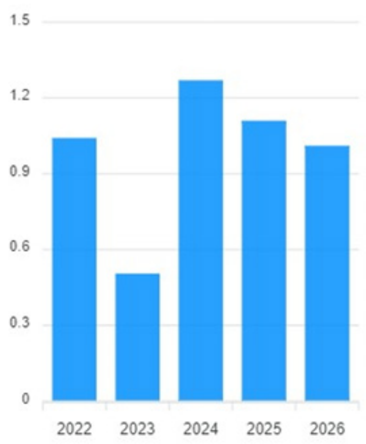

Figure 7: Capital Project grant

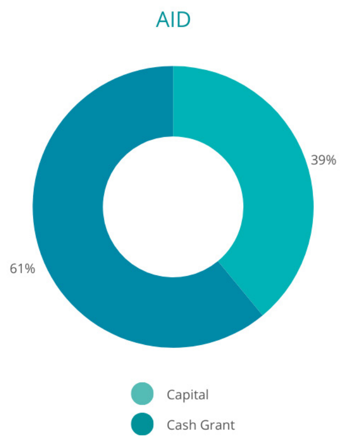

Figure 8: Cash grant

75 ibid
76 ibid

INFLATION

With the raise in the prices of energy and oil, the inflation rate in 2022 elevated to 8.7%, however with the precautionary measures taken by the Maldives Monetary Authority the inflation rate of the Maldives in 2023 is expected to decline to 6.9%. Further, the Government expects that the inflation rate will further decline to 5.8% in the year 2024 which is majorly contributed by the reduction in prices of energy and oil.

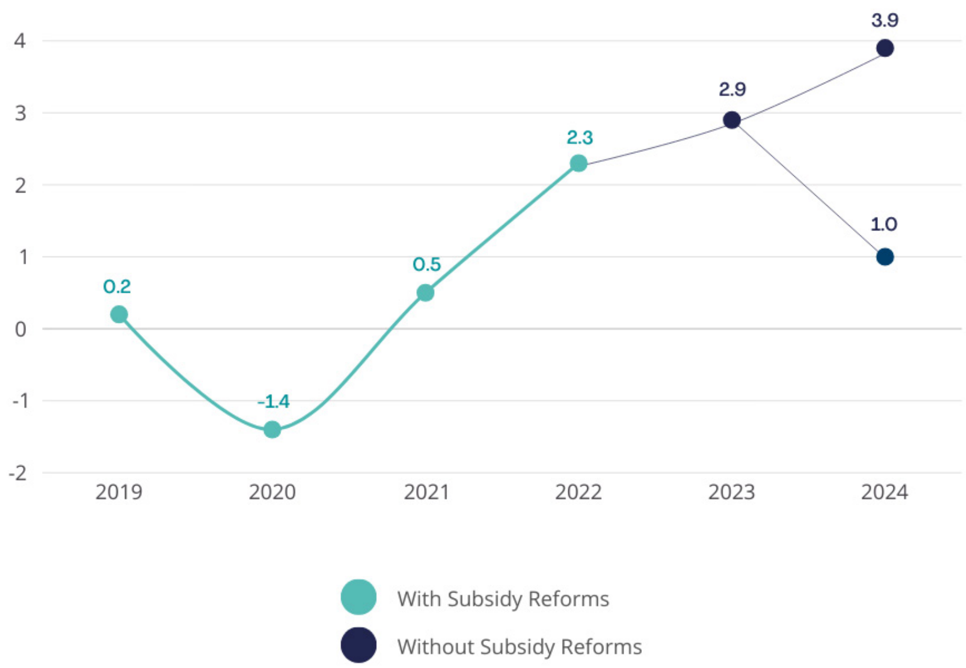

Figure 9: Inflation Rate
Source: Ministry of Finance

LOAN SERVICING

A total of MVR 7 billion is allocated for loan servicing resulting in a total of 15% of the entire budget being allocated for debt capital and interest repayments in the year 2024. Based on the current debt portfolio, a bulk of foreign currency bullet bonds are expected to mature in the year 2026, which is expected to increase the budget expenditure of loan servicing to USD 600 million alone on these bullet bonds due on Sukuk issuance and bonds issued to Abu Dhabi Fund for Development (ADFD).

While the Government plans on increasing the portfolio of SDFC to cater for these repayments, it will be a challenging task to increase the SDFC's portfolio to the required funding needs.

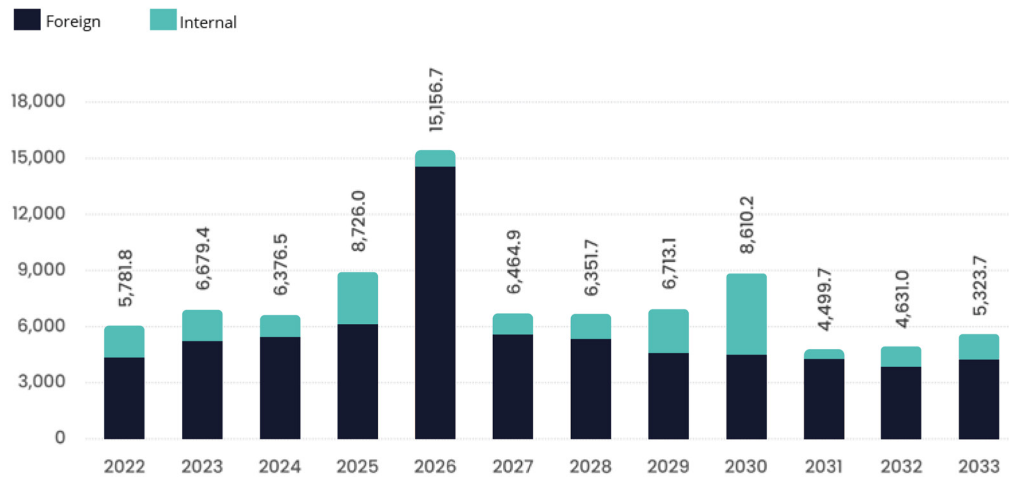

Figure 10: Maturity profile of State debts and debts guaranteed by the State
Source: Ministry of Finance

CONCLUSION

While the total Government debt remained at MVR 105 million at the end of 2022, it is expected that the total Government debt would increase to MVR 119 million at the end of 2023. The Government has proposed to raise the budgetary deficit of MVR 19 million for the fiscal year 2024 through more debt financing resulting in a further increase of debt.

Hence, despite the increase in organic budget revenue through taxation and other government fees, the increase in public debt remains a high concern for the long-term budget sustainability. The Government is in extreme need of a larger fiscal adjustment to reduce the fiscal vulnerabilities, including reducing untargeted government subsidies, a better management of the government health scheme, Aasandha and effective management and investment of public sector investment projects among other changes.

While some of these budget management proposals were included in the year 2023, the ineffective implementation of these in the last year yielded no benefit to the overall budget position, hence ensuring effective implementation of these expenditure reduction proposals is at its crucial importance.

CHAPTER

04

SUBSIDIES

OVERVIEW

As the Republic of Maldives strides into fiscal year 2024, a critical aspect of its budgetary focus lies in the evaluation and management of subsidies. In the Maldives, subsidies are not only crucial for stabilizing the economy but also play a vital role in promoting social welfare. These subsidies span essential sectors such as energy and healthcare, particularly important in a nation grappling with the challenges of geographical dispersion across its islands. This dispersion often necessitates increased subsidy support to ensure equitable access to these crucial services.

While these subsidies achieve significant socio-economic objectives, they also introduce fiscal challenges. High subsidy spending can lead to budget deficits and external vulnerabilities, such as increased reliance on international financial markets and susceptibility to global economic fluctuations. Additionally, the current system may not efficiently reach the intended beneficiaries, possibly due to administrative complexities or inadequate targeting mechanisms, leading to inefficiencies.

This chapter aims to dissect the subsidy allocations within the Maldives' FY24 budget, examining their distribution, effectiveness, and impact on the national economy and social welfare. Drawing from global insights, such as the IMF's analysis of energy subsidies and their broader economic implications, the chapter delves into potential reforms tailored to the unique needs and challenges of the Maldives. The focus will be on developing a multifaceted reform strategy that encompasses sector-specific analysis, phased implementation, efficiency enhancement, and measures to protect vulnerable groups.

Through this in-depth review and analysis, the chapter will provide valuable insights and recommendations for optimizing subsidy allocations in the FY24 budget. The objective is to ensure that these subsidies not only serve their immediate fiscal and social purposes but also contribute to the long-term economic stability and sustainable development of the Maldives.

THE ROLE AND IMPACT OF SUBSIDIES

In the Maldives, subsidies are integral to both the economic and social fabric of the nation. They extend across various sectors, playing a vital role in stabilizing the economy and promoting social welfare. This is especially significant given the Maldives' geographic dispersion and its sensitivity to global economic trends. Subsidies in areas such as fuel, food, and public services are essential for managing the cost of living and supporting the broader population.However, the management of these subsidies presents a complex challenge. While they have beneficial aspects, subsidies can also lead to fiscal imbalances. These imbalances can manifest as budget deficits and increased external vulnerabilities, particularly in a nation with limited economic diversification and heavy reliance on tourism.[77]

An increasing sense of apprehension surrounds the efficiency and precision of these subsidies. This leads to inquiries regarding their ability to reach their designated recipients and whether their allocation maximizes impact.[78] This situation underscores the importance of adopting a more strategic approach to subsidy allocation and management, with the aim of ensuring their constructive contribution to the economy while avoiding excessive fiscal burdens.

The World Bank has highlighted the need for more robust fiscal reforms in the Maldives, including better management of subsidies. They emphasize that while subsidies are necessary, especially for vulnerable populations, there needs to be a balance to ensure fiscal sustainability. This includes targeted austerity measures and reforms to contain the growth of public spending and debt, as well as efforts to rebuild fiscal buffers and improve the efficiency of government spending.[79]

Through this in-depth review and analysis, the chapter will provide valuable insights and recommendations for optimizing subsidy allocations in the FY24 budget. The objective is to ensure that these subsidies not only serve their immediate fiscal and social purposes but also contribute to the long-term economic stability and sustainable development of the Maldives.

77 Maldives Development Update, The World Bank https://www.worldbank.org/en/news/press-release/2023/04/04/maldives-needs-more-robust-fiscal-reforms-to-sustain-strong-recovery

78 Maldives Development Update, The World Bank, https://www.worldbank.org/en/news/press-release/2023/04/04/maldives-needs-more-robust-fiscal-reforms-to-sustain-strong-recovery

79 Maldives Needs More Robust Fiscal Reforms to Sustain Strong Recovery, The World Bank https://www.worldbank.org/en/news/press-release/2023/04/04/maldives-needs-more-robust-fiscal-reforms-to-sustain-strong-recovery

ANALYSIS OF SUBSIDY ALLOCATIONS IN PROPOSED 2024 BUDGET

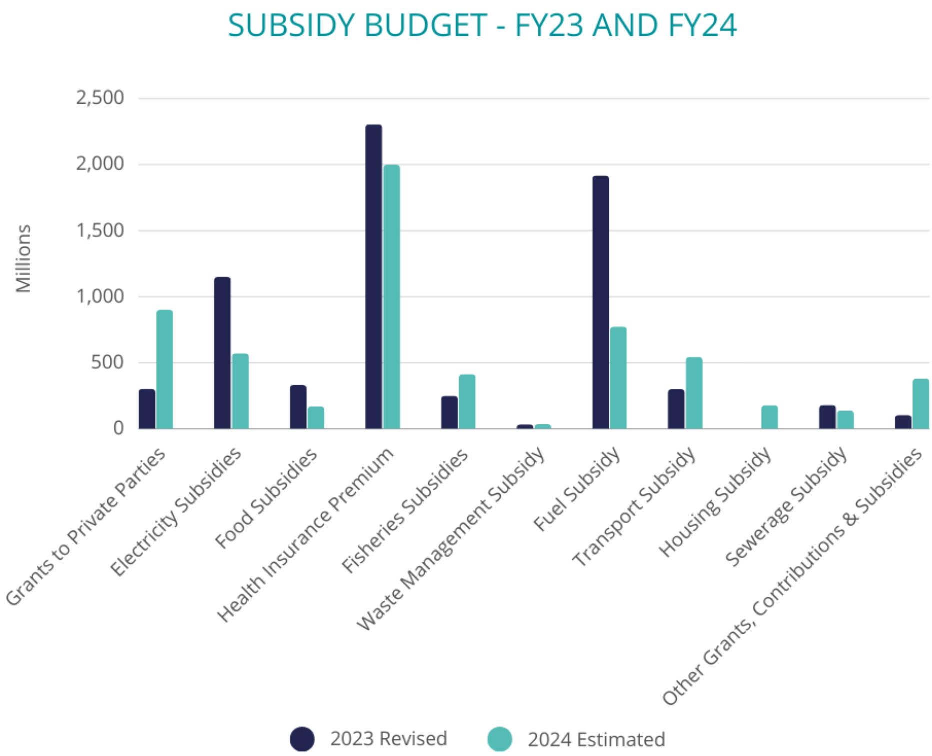

Figure 11: Subsidiy Budget Comparison
Source: 2024 Budget Book, Ministry of Finance

AASANDHA (HEALTHCARE SUBSIDY)

Aasandha, representing the Maldives' health insurance program, constitutes the single largest expenditure in the state budget, accounting for 4% of the FY24 budget.[80] In a move towards fiscal prudence and efficiency, there is a planned 13.3% decrease[81] in Aasandha's expenditure for 2024, with a budget allocation of MVR 1,998.5 million. This reduction is part of a broader effort to strengthen the healthcare system through policies like bulk procurement of medicines, which has already commenced in partnership with the United Nations Development Programme (UNDP).[82] The expected outcome of these policies is a more streamlined healthcare system that maintains access to services while curtailing unnecessary spending, potentially leading to a medium-term reduction in Aasandha's expenditures.

80 2024 Budget Book, Ministry of Finance https://budget.gov.mv/en
81 2024 Budget Book, Ministry of Finance https://budget.gov.mv/en
82 2024 Budget Book, Ministry of Finance and United The United Nations Development Programme (UNDP) https://www.undp.org/maldives/news/undp-maldives-signs-agreement-government-maldives-bulk-procurement-medicine-maldives & https://budget.gov.mv/en

However, Aasandha needs major reform to reduce the fiscal burden on the government.[83] The National Social Protection Agency (NSPA) also provides medical assistance, with MVR 172 million included in the budget for Medical Treatment Support abroad, locally, and for Therapeutic Services.[84] It is crucial that these services are incorporated into the health insurance scheme to reduce the fiscal burden and avoid duplication.

Furthermore, an area suitable for reform involves the utilization of Aasandha's services by individuals. The current policy permits unrestricted access, allowing individuals to consult multiple doctors for the same health issue within a short timeframe. This practice may lead to inefficiencies and increased costs. It would be advantageous to explore measures that encourage more judicious use of healthcare services without compromising patient care. Implementing guidelines or limits on service use, while ensuring that patients receive necessary and quality care, could be a key step towards enhancing the efficiency and sustainability of Aasandha's program.

INDIRECT SUBSIDIES

The indirect subsidies, which encompass electricity, fuel, food and water subsidies, are poised for a significant transformation. The 2024 proposed budget anticipates these subsidies shifting to a direct transfer system, marking a move towards a targeted, direct cash transfers mechanism. This shift is visualized in the Medium-Term Fiscal Strategy 2024-2026 planned for 2024, which will result in a substantial decrease in expenditures.[85] By 2025, the budget for indirect subsidies is expected to be significantly lower, with only the fuel subsidy for fishermen remaining constant. The government's strategy reflects an adjustment to the subsidy architecture, aimed at enhancing fiscal sustainability and reducing the burden on the state budget.

Compared to FY22, the expenditure for FY23 has increased in electric subsidies, fuel subsidies, and subsidies to fishermen among the indirect subsidies. The cost of the electricity subsidy has risen due to the fact that it is provided in advance to manage Fenaka's cash flow. While specific figures for the Fenaka advance subsidy have not been detailed in either the budget book or the Medium-Term Fiscal Strategy 2024-2026, it is concerning and alarming that the expenditure on electricity subsidies has increased compared to the actual expenditure of FY22, which was MVR 856 million. The revised budget for FY23 estimates that the electricity subsidy will be around MVR 1,150 million. The high expenditure on indirect subsidies reflects the broader effort to reform State-Owned Enterprises (SOEs), as these subsidies are provided to SOEs. The increase in fuel subsidy costs arises from the non-implementation of the proposed fuel subsidy reform. Additionally, it is crucial for the government to reform SOEs to avoid spending on advance

83 Maldives Public Expenditure Review: Charting a More Resilient and Prosperous Future, The World Bank https://www.worldbank.org/en/news/feature/2022/08/03/charting-a-more-resilient-and-prosperous-future-for-maldives and Budget Recommendations 2024, Auditor General Office https://audit.gov.mv/Uploads/DownloadsAndMedia/2023/11November/BudgetRecommendations2024.pdf

84 2024 Budget Book, Ministry of Finance https://budget.gov.mv/en

85 Medium-Term Fiscal Strategy 2024-2026, Ministry of Finance https://www.finance.gov.mv/public/attachments/GZ3L1qfGFdSWBNkTrcLY5xfXZFB3LLCXHri4Obml.pdf

subsidies and injecting capital solely to manage their cash flow. The World Bank has highlighted the importance of SOE reform to improve the governance of these enterprises, as well as to reform their public service obligations and subsidies.[86]

TARGETED BASIC INCOME, OTHER WELFARE, AND AID

In the proposed FY24 budget, a notable initiative is the allocation of MVR 600 million for a Targeted Basic Income program. This represents a strategic shift from a blanket subsidy approach to a more nuanced, direct transfer system, aiming to benefit a broad section of the population while excluding the wealthiest. Scheduled for implementation by mid-2024, the program's expenditure is anticipated to double in 2025, indicating a significant investment in social welfare. The stability of the program in subsequent years signifies a long-term commitment to this approach. Additionally, the 73.1% increase in disability assistance for FY24 aligns with the government's focus on social sector reform, ensuring that these funds are directed to those most in need.[87] The remaining MVR 300 million in the budget line item is not explicitly defined in the budget book.

HOUSING SUBSIDY

The proposed 2024 budget includes the introduction of a housing subsidy, allocating MVR 177.4 million, reflecting a proactive approach to addressing the need for affordable housing solutions. This subsidy aims to manage Urbanco's cash flow by subsidizing the rent of Hiya flats over a five-year period. It is slated as a one-time subsidy in 2024 and anticipates the company's revenue growth, along with an easing of cash flow management challenges in the medium term. This suggests an initiative that offers immediate relief and is strategically impactful in terms of fiscal planning.[88]

FISHERIES SUBSIDY

The fisheries sector, a cornerstone of the Maldivian economy, receives a significant boost in the FY24 budget with increased subsidies. This move underlines the sector's importance to the national economy and the livelihood of the local communities. The subsidy to fishermen is expected to increase by the end of the current financial year. This increase is a result of the government's decision in September to hike the purchase price of fish from fishermen. Additionally, starting in 2025, the government's budget plans will continue to

86 The World Bank https://www.worldbank.org/en/news/press-release/2023/05/08/world-bank-supports-maldives-to-reform-state-owned-enterprises-and-strengthen-private-sector

87 2024 Budget Book, Ministry of Finance https://budget.gov.mv/en

88 2024 Budget Book, Ministry of Finance https://budget.gov.mv/en

include subsidies to fishermen. The increase in the purchase price of fish is expected to raise the subsidy to fishermen in the next year. However, by improving the efficiency of fish processing and increasing the value addition of fish, the cost of this subsidy could potentially be reduced in the medium term.[89]

CONCLUSION AND RECOMMENDATION

The proposed subsidy reforms in the FY24 budget of the Maldives present a significant strategic shift towards fiscal responsibility and targeted subsidy allocation. The focus on direct subsidies, indicated by the decrease in electricity, fuel, and food subsidies, and the implementation of a targeted subsidy mechanism, aligns with the government's reform plans. This shift is further supported by the decrease in health insurance allocation and the increase in fisheries subsidies, highlighting a strategic prioritization of sectors.

However, there are several aspects of this reform that warrant a critical perspective:

• Assessing the feasibility of these reforms in light of global trends is essential. Subsidy changes, particularly those transitioning from indirect to direct subsidies, have frequently encountered global obstacles. The efficacy of targeted subsidies is contingent upon the precision of targeting techniques, which, if inadequately devised, might result in the exclusion of deserving recipients and the inclusion of ineligible ones.

• The substantial decrease in subsidies, such as those for electricity and fuel, could have a negative impact on low-income households. Although the goal is to provide more focused assistance, the transition period might be crucial. The short-term impacts of decreased subsidies on these households should be thoroughly assessed and alleviated.

• The efficiency of targeted subsidies depends on the presence of strong administrative mechanisms that can accurately identify eligible recipients, efficiently disburse subsidies, and effectively monitor the program's impact. Prior to the execution of these reforms, it is imperative for the Maldivian government to guarantee the establishment and efficient operation of these systems.

• Reducing subsidies, particularly in sectors such as fuel and electricity, can result in higher costs, hence exacerbating inflationary pressures and impacting economic stability. This has the potential to have a more extensive economic influence, particularly in the event of a volatile global economic scenario.

• The effectiveness of subsidy reforms is partly contingent upon the transparency and public confidence. Ensuring public support requires clear and open communication regarding the reasons, anticipated results, and possible obstacles of these reforms.

89 2024 Budget Book, Ministry of Finance https://budget.gov.mv/en

• Ongoing monitoring and assessment are necessary to gauge the effects of these improvements. This should involve evaluating the repercussions on various societal sectors, particularly those who are most susceptible, and implementing requisite modifications.

In conclusion, while the FY24 budget reflects a commitment to fiscal consolidation and targeted subsidies, it is crucial to address these challenges to ensure the reforms are effective, equitable, and sustainable. The government needs to consider the lessons learned from other countries, carefully design, and implement targeting mechanisms, mitigate adverse impacts on vulnerable populations, and maintain transparency throughout the process.

CHAPTER

05

BUDGET DEFICIT FINANCING

OVERVIEW

Budget deficit refers to the situation when a government's total expenditures exceed its total revenues during a specific period, typically a fiscal year. It indicates that the government is spending more money than it is earning through various sources, such as taxes, fees, and other revenue streams.

Ministry of Finance (MoF) has proposed a budget of MVR 49 billion for 2024. According to MoF, budget book 2023, the projected overall budget deficit for 2024 is MVR 13.77 billion which is 12.0% GDP. The primary deficits are projected to be MVR 8.54 billion which is 7.4% of GDP. This is a 5.8% saving compared to the budget deficit expected compared to the end of 2023 which is MVR 14.63 billion. In 2024, it is expected to have a primary budget deficit of MVR 8.25 billion, which is 4.8% of GDP. This is a 16% decrease compared to the 2023 primary deficit of 9.83 billion. The government has planned to reduce the primary deficit by 5% by including strategic fiscal measures in the fiscal strategies for 2024. The government estimates that the deficit for fiscal year 2025 will be less than that of fiscal years 2023 and 2024 due to an increase in government revenue and the completion of several ongoing infrastructure development projects.[90]

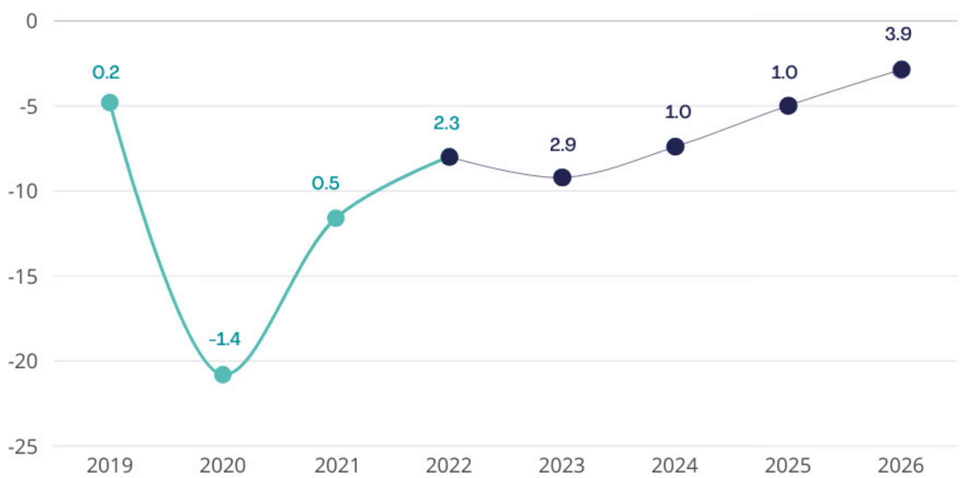

Figure 12: The primary budget deficits compare to nominal GDP from 2029-2026, in percentage.
Source: Data obtained from MoF Budget Booklet 2023

90 MoF, Budget Book 2023

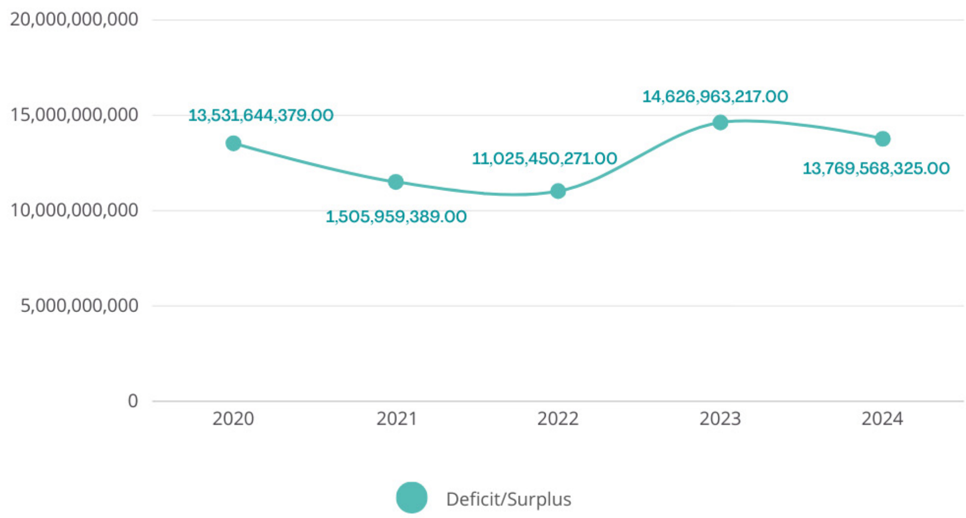

Figure 13: The overall budget deficits from 2020 (Actuals) - 2024(Proposed)
Source: Data obtained from MoF Budget Booklet 2023

METHODS OF DEFICIT FINANCING

The financing requirement for the year 2024 is estimated at MVR 17.23 billion, followed by 22.01 billion in 2025 and MVR 14.21 billion in 2026. Despite a decline from 2024, the financing requirement is expected to remain high in 2025 due to the scheduled repayment of the USD 100 million foreign loan borrowed in 2022, as well as the commencement of debt repayment.

According to the Ministry of Finance Budget Booklet 2024, it is planned to raise MVR 4.85 billion in 2024, MVR 6.26billion in 2025 and MVR 5.36billion in 2026 through the issuance of T-bonds and T-bills in the domestic market. However, depending on market liquidity the domestic financing strategy may need to be revised with domestic financing possibly substituted with foreign loans.[91]

91 Ibid

		Estimates		
	2022	2023	2024	2024
Financing Gap	**(19,274.30)**	**(17,231.30)**	**(22,012.70)**	**(21,962.70)**
Budget Deficit	(14,627.00)	(13,769.60)	(12,371.60)	(10,647.80)
Loan Repayment	(2,159.20)	(2,202.40)	(8,230.10)	(9,812.20)
Transfers to Sovereign Development Fund	(2,380.40)	(1,228.60)	(1,385.60)	(1,480.50)
Others	(107.70)	(30.70)	(25.40)	(22.20)
Financing Gap	**19,274.30**	**17,231.30**	**22,012.70**	**21,962.80**
Foreign Loans	5,530.80	4,662.70	4,903.00	4,988.20
Bonds/Sukuk Insurance	-	-	3,084.00	6,168.00
Green/Blue Bond	-	771.00	771.00	-
Multilateral / Bilateral Budget Support	4,626.00	6,939.00	3,084.00	1,542.00
Domestic Securities and Loan	9,083.10	4,848.30	6,260.60	5,364.20
Sovereign Development Fund	-	-	3,855.00	3,855.00
Subsidiary Loan Repayment	34.40	10.30	55.10	45.40

Table 08: Budget Financing

All amounts in MVR Millions

Source: Data obtained from MoF Budget Booklet 2023

If the planned expenditure reforms and revenue measures are implemented in the medium term, and the primary budget deficit remains within the projected limits, nominal GDP growth is expected to outpace the growth rate of total public debt. As a result, the debt-to-GDP ratio is projected to decline from 111.2 percent at the end of 2022 to 92.9 percent at the end of 2026.[92]

MEDIUM TERM DEBT ESTIMATES

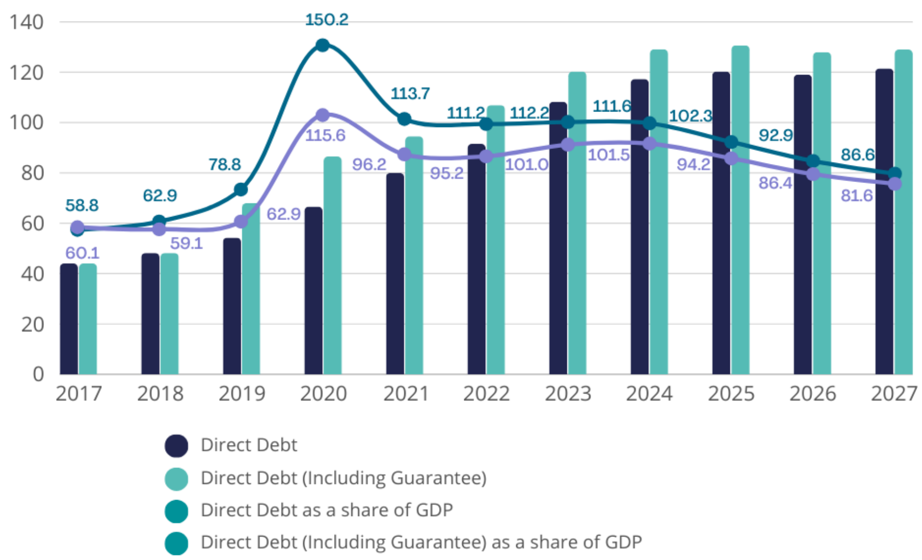

Figure 14: Medium term debt estimates

Source: Data obtained from MoF Budget Booklet 2023

92 MoF, Fiscal and debt strategy report

CONCLUSION

Even though the budget deficit is expected to be narrowed slightly in 2024, since the economy is heavily dependent on tourism which has been the main driver of economic growth and the dependence on tourism makes the economy highly vulnerable to macroeconomic and external shocks. The revenue from tourism coupled with increased taxes on tourist goods and services has been effective since the beginning of 2023. However, the PSIP projects will continue to spend substantial public spending combined with a growing interest burden from the debts borrowed will continue to large the budget deficit.[93]

The latest South Asia Development Update, the Maldives Development Update titled Batten Down the Hatches presents a positive outlook for the country's medium-term growth, primarily driven by a thriving tourism sector. But as per the ADB's report the country is grappling with pressing fiscal challenges due to inflationary pressures linked to rising global commodity prices, increased capital spending and subsidies, and ongoing central bank financing of the budget deficit. These challenges require an urgent and robust fiscal adjustment and responsible debt management to ensure fiscal sustainability.[94]

Additionally, Commodity price volatility is exerting pressure on external and fiscal balances, through costlier imports and higher subsidies. In addition, existing high debt stock of the public sector, elevated levels of spending the government's aim to undertake sizeable infrastructure investments through external non-concessional borrowing, and the presence of blanket subsidies for major consumption items have led the economy to be exposed to elevated fiscal vulnerabilities. Public debt is expected to remain high, warranting continued efforts to reduce fiscal deficits, including comprehensive subsidy and public investment management reforms while mitigating impacts on the vulnerable.[95]

As an urgent and robust fiscal adjustment and responsible debt management to ensure fiscal sustainability, the government of Maldives has announced the moratorium on overdrawing public bank accounts (PBA) and printing notes will conclude by the end of December 2023. Initially granted on April 26, 2020, the permission allowed the government to print up to MVR 4.4 billion annually, with successive extensions approved by the Parliament.[96]

As per the letter submitted to the parliament regarding the matter states that the Economic downfall brought on by the COVID-19 pandemic prompted the suspension of Article 32 (a), (d), and (e) of the Fiscal Responsibility Act, empowering the government to augment the overdraft limit of the PBA at the central bank due to a notable decline in revenue. The termination of the suspension related to state expenditure responsibility

93 Maldives Economy to Grow by 6.5% in 2023 but Fiscal Buffers Urgently Needed (worldbank.org)
94 Maldives Development Update, October 2023: Batten Down the Hatches (worldbank.org)
95 Coface for trade; Economic-Studies; Maldives: Country File, Economic Risk Analysis | Coface
96 Corporate Maldives, Finance Minister Announces End to Overdraft Moratorium and Money Printing | Corporate Maldives

and permission for PBA overdrawing. The letter explicitly stated that no decision had been made to extend the permit beyond its expiration on the 31st of December 2023.

Furthermore, in the letter, Minister requested the restoration of Article 32 (a), (d), and (e) of the Fiscal Responsibility Act, effective from January 1, 2024, as the exceptional circumstances necessitating the measures outlined in Article 36 no longer exist.

According to the Fiscal Responsibility Act, the Maldives Monetary Authority (MMA) borrowing limit is 1% of the average revenue, approximately MVR 220 million. The government must settle such debts to the MMA within 91 days or three months, as stipulated by the Act.[97]

97 Fiscal Responsibility Act

CHAPTER 06

NEW TAX REVENUE MEASURES

OVERVIEW

One of the key objectives outlined in the budget is to increase government revenue through an increased tax base on domestic consumption.[98] The expected revenue from tax for fiscal year 2024 is projected to be at MVR 25.62 billion, which is 76.4% of the total expected government revenue.[99]

Although no specific measures have been outlined in the budget to achieve this objective, efforts to reform the Goods and Services Tax (GST) Act (Law No. 10/2011) are already in progress. It was also further highlighted in the budget that a decrease in the compliance level, together with increased leniency in subsequent enforcement actions, will undoubtedly have an adverse impact on government revenue projections being realized.[100]

Additionally, on June 19, 2023, a bill was introduced to the Maldives Parliament, proposing amendments to the Maldives Tourism Act (Law Number 2/99). Among its provisions is the introduction of a real estate tax on strata leases for villas or rooms within tourist resorts, replacing the current practice of applying GST to these transactions.[101] The bill is yet to be debated on the Parliament floor.

GOODS AND SERVICES TAX ACT (LAW NUMBER 10/2011) REFORM

The following subsection will provide a brief overview of some of the recommendations made by the International Monetary Fund (IMF) in June 2022 following their completion of a remote technical assistance mission that involved working with officials from the MoF and the Maldives Inland Revenue Authority (MIRA) to comprehensively review the existing GST legislation of the Maldives.[102]

It is to be noted that the following suggestions were highlighted in the 2023 budget review as well.[103] However, it was not implemented in fiscal year 2023.

98 Ministry of Finance. 2023. "2024 Budget Book." Ministry of Finance. 11 30. https://www.finance.gov.mv/public/attachments/BK9z9fKKe6BsNIxYwylERDzr7ZDRbkDanJC8oTEi.pdf

99 Ibid.

100 Ibid.

101 Eesa, Hon. Ahmed. 2023. "Bill on Amendment to the Tourism Act (No. 2/99)." People's Majlis of Maldives. 06 20. https://majlis.gov.mv/storage/action_files/1294/m4DAl7dA4cnV8QAABDnAK0lb2emgDE9bOFCukN7k.pdf.

102 Maria Coelho, Lee Burns, and Peter Mullins. 2023. "Modernizing the Goods and Services Tax." International Monetary Fund. 03. https://www.elibrary.imf.org/view/journals/002/2022/187/articleA001en.xml?rskey=kvA7ru&result=43

103 Muneer, Mohamed Siraj. 2023. "Maldives Budget Review 2023." The Institute of Chartered Accountants of the Maldives. 01 30. https://camaldives.org/wp-content/uploads/2023/02/Maldives-Budget-Review-2023.pdf.

ADOPT THE DESTINATION PRINCIPLE BY IMPOSING GST ON IMPORTED GOODS AND SERVICES

Most modern GST systems adopt the destination principle which levies taxes on imports at the point of entry while zero-rating the exports, effectively levying GST only on final domestic consumption.[104]

Although exports are zero-rated[105], Maldives currently follows a place of supply rule for imported goods and services.[106] Meaning GST is levied based on the place of supply rather than the place of consumption. A foreign supplier who has no physical presence in the Maldives would not be subject to GST regulations[107], whereas a local supplier providing the same in the Maldives will fall within the scope of the regulation and will be required to impose GST on the consumer, ultimately giving the foreign supplier a competitive edge in terms of pricing and profit margins.[108]

The IMF has advised imposing GST through customs as the goods cross the border to reduce any potential avoidance.[109]

REVIEW AND RATIONALIZE GST EXEMPT AND ZERO-RATED GOODS AND SERVICES

The current GST Act classifies twenty-two essential goods, the sale of a going concern, and goods and services exported from the Maldives as zero-rated goods and services and classifies sixteen other goods and services, including public and financial services, as exempt goods and services.[110]

As GST is a regressive tax, although the effectiveness of GST exemptions and zero-rating of goods and services reduces the burden of tax on poor households, the rich benefit more from these concessions, leading to a revenue leakage.[111]

The IMF advised reviewing the current concessions given to nine goods and services, including financial services, domestic transport, and real estate/immovable property, to improve the efficiency of GST and raise revenue. It was also recommended to utilize the

104 Tibor Hanappi, Adam Jakubik, and Michele Ruta. 2023. "Fiscal Revenue Mobilization and Digitally Traded Products: Taxing at the Border or Behind It? IMF Note 2023/005." IMF eLibrary. 09. https://doi.org/10.5089/9798400253614.068

105 Maldives Inland Revenue Authority. 2011. "Goods and Services Tax Act (Law No. 10/2011), S.22." Maldives Inland Revenue Authority. 9 2. https://www.mira.gov.mv/Files/GetFile/86da9095-984d-45f0-89cb-e32a23aba141

106 Maria Coelho, Lee Burns, and Peter Mullins. 2023. "Modernizing the Goods and Services Tax." International Monetary Fund. 03. https://www.elibrary.imf.org/view/journals/002/2022/187/articleA001en.xml?rskey=kvA7ru&result=43

107 Maldives Inland Revenue Authority 2011. "Goods and Services Tax Regulation (2011/R-43), S.104." Maldives Inland Revenue Authority. 10 01. https://www.mira.gov.mv/Files/GetFile/ea406a33-6318-429a-898c-bea8c4019bb3

108 Maria Coelho, Lee Burns, and Peter Mullins. 2023. "Modernizing the Goods and Services Tax." International Monetary Fund. 03. https://www.elibrary.imf.org/view/journals/002/2022/187/articleA001en.xml?rskey=kvA7ru&result=43.

109 Ibid.

110 Maldives Inland Revenue Authority. 2011. "Goods and Services Tax Act (Law No. 10/2011), S.22." Maldives Inland Revenue Authority. 9 2. https://www.mira.gov.mv/Files/GetFile/86da9095-984d-45f0-89cb-e32a23aba141

111 Maria Coelho, Lee Burns, and Peter Mullins. 2023. "Modernizing the Goods and Services Tax." International Monetary Fund. 03. https://www.elibrary.imf.org/view/journals/002/2022/187/articleA001en.xml?rskey=kvA7ru&result=43.

increased revenue and expected savings from the reduced administrative burden on the tax authority to provide social welfare through targeted subsidies to the poorer households to relieve the tax burden created following the revocation of the concessions.[112]

GST AND THE DIGITAL ECONOMY

The absence of the "destination principle" in the ever-growing digital economy leads to a substantial leakage of revenue as the goods and services supplied over the online platforms and other digital means by foreign suppliers falls outside the scope of GST as goods and the services are not provided in the Maldives.[113]

In addition to the revenue loss, the digital economy amplifies the unfair competitive pressure on domestic businesses against the continuously rising volumes of GST free online sales of goods by foreign suppliers and the ensuing negative impacts on domestic employment and direct tax revenue.[114]

To counter these practical difficulties, Organization for Economic Co-operation & Development (OECD) suggests implementing the models, reverse charging mechanisms for Business to Business (B2B) supplies of imported services, registering electronic marketplaces or online distribution platforms for Business to Customer (B2C) supplies, and registering digital products and services.[115]

LIMITATION IN RELATION TO CAPITAL EXPENDITURE

Under the present GST regime, input tax in relation to capital expenditure incurred by a registered person can only be claimed over a duration of thirty-six months counted starting from the last month of the taxable period during which an output tax is generated for the first time from that taxable activity.[116]

Instead of ensuring that GST is only imposed on private consumption, the current approach may have the impact of imposing GST on both investment and production.[117] Additionally, this raises compliance and administrative costs as all businesses, no matter their size, must keep an eye on their input tax credits for a full thirty-six months.[118]

The GST Act already permits businesses to claim a credit for the full amount of input tax if it satisfies the applicable conditions, thus the IMF recommended abolishing the limitations placed on claiming input tax credits for capital expenditure.[119]

112 Ibid.

113 Ibid.

114 OECD. 2019. "The Role of Digital Platforms in the Collection of VAT/GST on Online Sales." OECD, Paris. 03. www.oecd.org/tax/consumption/the-role-of-digital-platforms-in-the-collection-of-vat-gst-on-online-sales.pdf

115 OECD. 2015. "Addressing the Tax Challenge of the Digital Economy, Action 1 - 2015 Final Report, OECD/ G20 Base Erosion and Profit Shifting Project." OECD Publishing, Paris. https://doi.org/10.1787/9789264241046-en

116 Maldives Inland Revenue Authority. 2011. "Goods and Services Tax Regulation (2011/R-43), S.46(a)(4)." Maldives Inland Revenue Authority. 10 01. https://www.mira.gov.mv/Files/GetFile/ea406a33-6318-429a-898c-bea8c4019bb3.

117 Maria Coelho, Lee Burns, and Peter Mullins. 2023. "Modernizing the Goods and Services Tax." International Monetary Fund. 03. https://www.elibrary.imf.org/view/journals/002/2022/187/articleA001en.xml?rskey=kvA7ru&result=43.

118 Ibid.

119 Ibid.

REFUND OF EXCESS INPUT TAX

Under the current practice, there is no refund mechanism for input tax credits. It can only be claimed by carrying it forward indefinitely and offsetting it against future output tax.[120]

This is counterproductive to the goal of the GST, which is to be a broad-based tax on consumption and not rest on businesses.[121]

The IMF, in their report, advised to providing an immediate refund for those engaged in zero-rated supplies and to adopt a short carry-forward period of three to six months for all other cases.[122]

BILL ON REAL ESTATE TAX ON LONG TERM LEASE OF ROOMS AND VILLA IN A TOURIST RESORT ON STRATA BASIS

Transactions relating to the lease of rooms and villas in a tourist resort on a strata basis are subject to the Tourism Goods and Services Tax (TGST).[123]

The bill presented to the parliament proposes to revoke the 16% TGST currently charged[124] on the transaction and instead introduce a 4% (four percent) Tourism Real Estate Tax on the transaction.[125]

Generally, a real estate tax can be a recurrent or a non-recurrent tax.[126] The bill proposes a non-recurrent 4% real estate tax to be levied on the total value of the rights transferred relating to the respective villa or room in the tourist resort.

For fifty such transactions in a year, the proposed change is expected to bring in MVR 149.08 million as government revenue at the cost of MVR 596.32 million.[127] No clear indication has been identified whether the proposed budget has taken into consideration the possible effect the passing of the bill will have on the revenue projection for the year 2024.[128]

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120 Maldives Inland Revenue Authority 2011. "Goods and Services Tax Regulation (2011/R-43), S.110." Maldives Inland Revenue Authority. 10 01. https://www.mira.gov.mv/Files/GetFile/ea406a33-6318-429a-898c-bea8c4019bb3

121 OECD. 2017. "International VAT/GST Guidelines." OECD Publishing, Paris. 04 12. https://doi.org/10.1787/9789264271401-en.

122 Maria Coelho, Lee Burns, and Peter Mullins. 2023. "Modernizing the Goods and Services Tax." International Monetary Fund. 03. https://www.elibrary.imf.org/view/journals/002/2022/187/articleA001en.xml?rskey=kvA7ru&result=43.

123 Ministry of Tourism. 2023. "Regulation on long term lease of villa and rooms on strata basis." Ministry of Tourism. 09 05.

124 Maldives Inland Revenue Authority 2011. "Goods and Services Tax Act (Law No. 10/2011), S.15." Maldives Inland Revenue Authority. 09 02. https://www.mira.gov.mv/Files/GetFile/86da9095-984d-45f0-89cb-e32a23aba141

125 Eesa, Hon. Ahmed. 2023. "Bill on Amendment to the Tourism Act (No. 2/99)." People's Majlis of Maldives. 06 20. https://majlis.gov.mv/storage/action_files/1294/m4DAl7dA4cnV8QAABDnAK0lb2emgDE9bOFCukN7k.pdf

126 OECD (2023), Tax on property (indicator). doi: 10.1787/213673fa-en

127 Adam, Ahmed Saruvash. 2023. "Bill on Amendment to the Tourism Act (No. 2/99)." People's Majlis of the Maldives. 06 19. https://majlis.gov.mv/storage/action_files/1294/m4DAl7dA4cnV8QAABDnAK0lb2emgDE9bOFCukN7k.pdf

128 Ministry of Finance. 2023. "2024 Budget Book." Ministry of Finance. 11 30. https://www.finance.gov.mv/public/attachments/BK9z9fKKe6BsNIxYwylERDzr7ZDRbkDanJC8oTEi.pdf

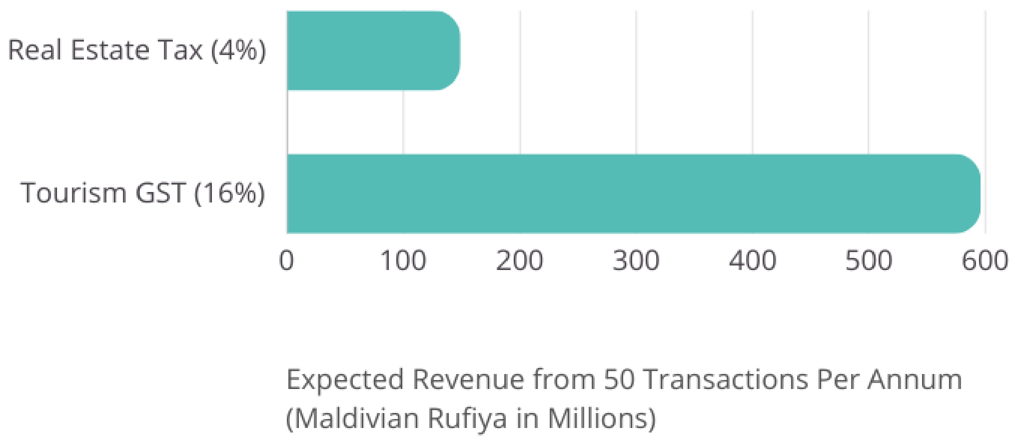

Figure 15: Cost Estimate by MoF for the proposed Amendment to the Maldives Tourist Act (No. 2/99)
Source: Bill on Amendment to the Tourism Act (No. 2/99) sponsored by Honorable Ahmed Eesa, MP for Kendhikulhudhoo Constituency

CONCLUSION

To increase government revenue by broadening the tax base on domestic consumption has been identified as a key objective in the budget. As outlined in the overview, although no specific measures were highlighted in the budget, the proposed and anticipated regulatory changes discussed above will contribute towards the said objective.

CHAPTER

07

PUBLIC EXPENDITURE REVIEW

OVERVIEW

The Government of the Maldives proposed a budget of MVR 49.5 billion for the year 2023 to the Parliament on October 30, 2023.[129] The total expenditure budget proposed for the year 2023 is MVR 47.3 billion, excluding the budget spending on loan and other finance repayments of MVR 2,2 billion.

There is no significant change in 2024 expenditure budget compared to the revised 2023 budget (MVR 47 billion). However, the proposed budget for 2024 has increased by 16% (MVR 6.5 billion) compared to the approved budget for 2023. Consequently, the government has proposed a supplementary budget of MVR 6.5 billion to Parliament.[130] As a result, the budget deficit for 2023 has increased to 14.6 billion, marking a 33% increase.

As highlighted in the World Bank's (WB) report on "Maldives Development Update" (2023), the significant growth in public expenditure has consistently outpaced the Maldives' real GDP growth.[131] The expenditure growth is primarily driven by substantial increases in spending on PSIP, subsidies and fund transfers to SOEs, and wage bills.[132]

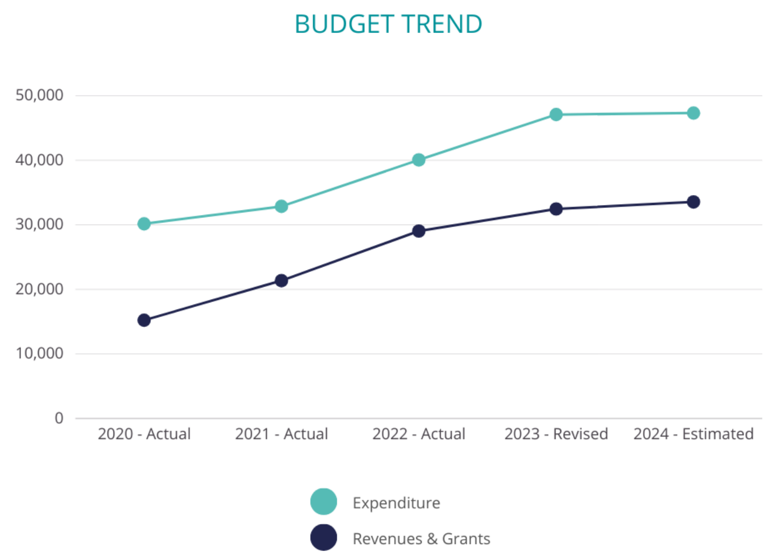

Figure 16: Budget Trend – 2020 to 2024

Source: Ministry of Finance

The proposed budget for 2024 allocates 30% of its spending on capital expenditures and 70% on recurrent expenditures. However, the proposed budget for capital expenditures is 13% less compared to the revised budget of 2023, whereas the recurrent expenditure budget has increased by 7% in 2024 compared to 2023's revised budget.

129 Ministry of Finance, (2023). Budget 2024. https://majlis.gov.mv/en/19-parliament/parliament-work/1310

130 Ministry of Finance, (2023). Supplementary Budget 2023. https://www.finance.gov.mv/public-finance/national-budget

131 The World Bank, (2023). Maldives Development Update, Batten Down the Hatches. https://openknowledge.worldbank.org/server/api/core/bitstreams/4fdca0d7-c521-4bf0-900b-88fad30ad00e/content

132 The World Bank, (2023). Maldives Development Update, Batten Down the Hatches. https://openknowledge.worldbank.org/server/api/core/bitstreams/4fdca0d7-c521-4bf0-900b-88fad30ad00e/content

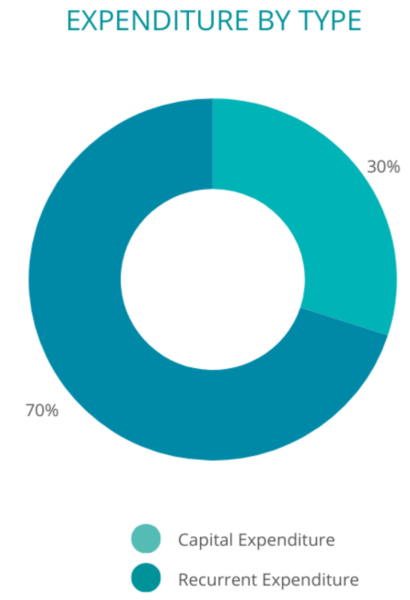

Figure 17: Budget Trend – 2020 to 2024
Source: Ministry of Finance

ALLOCATION OF PUBLIC SPENDING BY ECONOMIC CLASSIFICATIONS

CAPITAL EXPENDITURE

More than 50% of the capital expenditure budget is allocated to Land & Buildings (17%) and Infrastructure Assets (42%). The increase in estimated budget of Land & Buildings is mainly driven by the reclamation of Fushidhiggaru Faru with an allocated budget of MVR 400 million.

WB has highlighted in their report on "Maldives Development Update" (2023) that Maldives has outperformed most of its peers in terms of infrastructure access.[133] They have also further highlighted that these high levels of infrastructure access have been funded mainly through a substantial growth in public expenditure.

133 The World Bank, (2023). Maldives Development Update

CAPITAL EXPENDITURE BY CATEGORIES

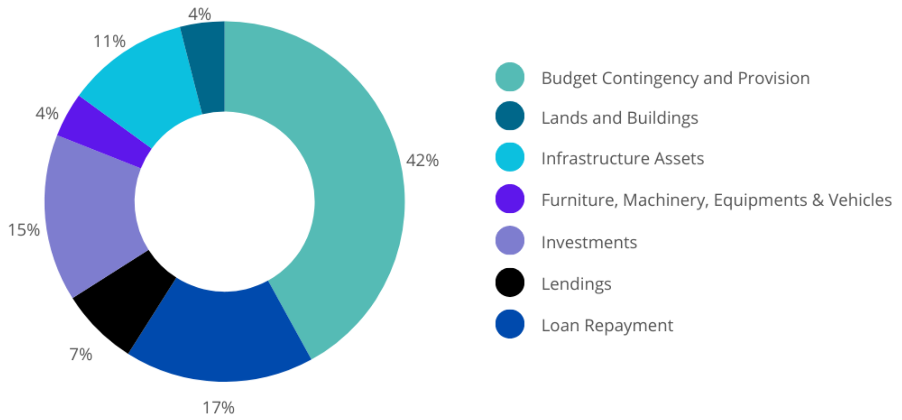

Figure 18: Capital Expenditure by Categories
Source: Ministry of Finance

Overall, the capital expenditure budget proposed is less than the revised budget of 2023. Budgeted Lending shows a significant plunge compared to 2023, due to the lending/ fundings to the SOEs being budged under Investments for 2024. As a result, the capital contributions for the government companies have increased significantly.

CAPITAL EXPENDITURE TREND ANALYSIS

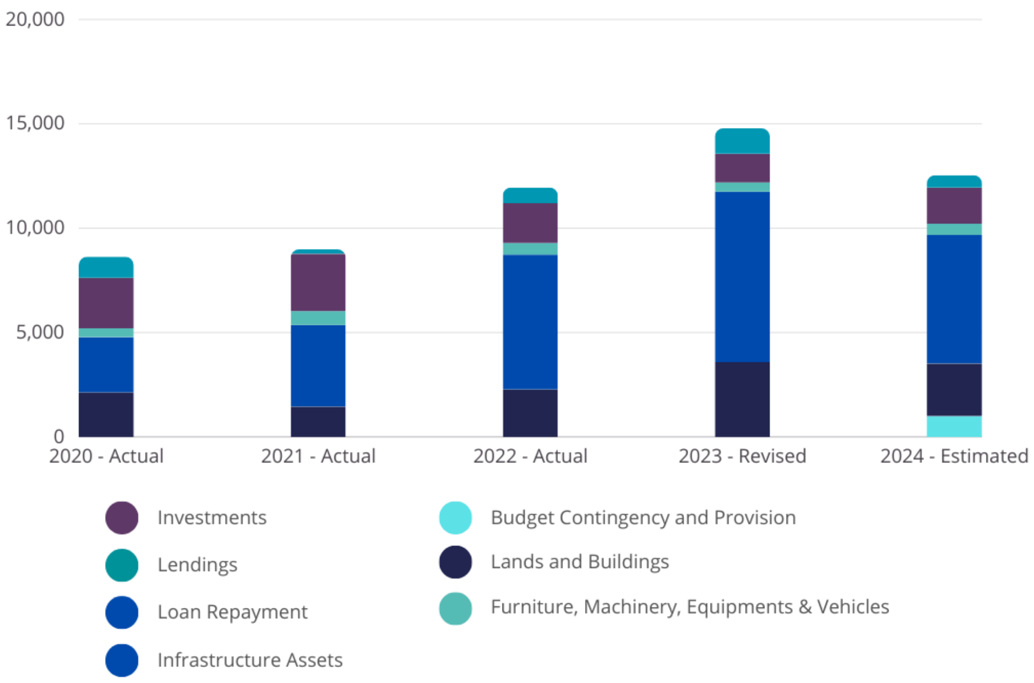

Figure 19: Capital Expenditure by Categories
Source: Ministry of Finance

PSIP'S CONTRIBUTION ON CAPITAL EXPENDITURE BUDGET

As indicated in figure 5, a significant percentage (38%) of the infrastructure budget is invested in the transportation sector. Furthermore, 2024's budget has allocated 19% of the PSIP budget to land reclamation and 13% to environment protection.

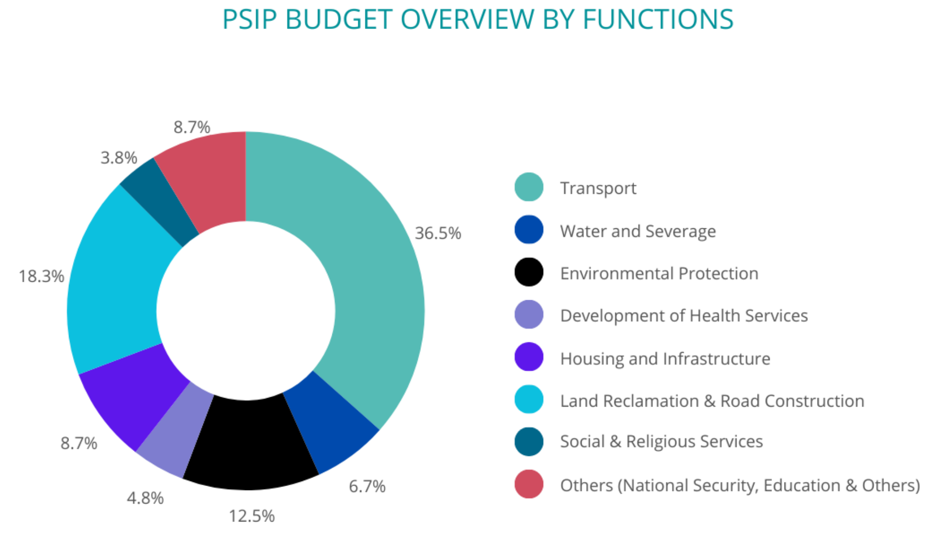

Figure 20: PSIP Overview
Source: Ministry of Finance

The significant budget allocated to transportation sector infrastructure is mainly driven by the development of airports and bridges. The budget for 2024 allocates MVR 1.05 billion for the development of Velana International Airport, and MVR 827 million was allocated to the development of the Thilamale' bridge. However, the budget allocated for the development of harbors is lower by 57% compared to the previous year. In addition to the abovementioned MVR 400 million on the reclamation of the Fushidiggaru Faru, Government has allocated MVR 565 million for the road developments which is 49% less than the amount allocated in the 2023 revised budget.

Out of the MVR 1.1 billion budget allocated for environmental protection, MVR 563 million is allocated for waste management. In the allocated budget for waste management, the government has budgeted MVR 267 million for the project "Greater Male' Waste to Energy Project" which is financed by the Asian Development Bank (ADB) and other international financial institutions. The project will establish a sustainable regional solid waste management (SWM) system for the Greater Male region and its neighboring outer islands.[134] This project is expected to generate 50,000 megawatt-hours of electricity per year by 2027 and 80% of combustible and commercial waste treated, properly disposed of, or recycled, by 2027.[135]

134 Asian Development Bank. https://www.adb.org/projects/51077-003/main

135 Asian Development Bank. Tackling the Solid Waste Management Challenge in Maldives. https://www.adb.org/multimedia/partnership-report2021/stories/tackling-the-solid-waste-management-challenge-in-maldives/

RECURRENT EXPENDITURE

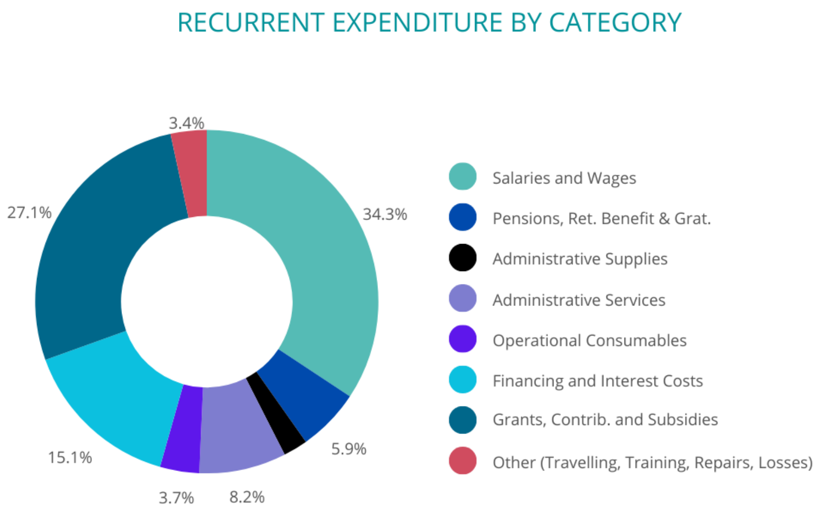

Figure 21: Recurrent expenditure by category
Source: Ministry of Finance

Above figure 6 shows how the recurrent expenditure budget has been classified among the major expense categories.

About one third of the recurrent expenditure is allocated to salaries and allowances for public sector employees (34.3%). Furthermore, as shown in Figure 7, salaries and allowances have increased by almost 20% (MVR 1.9 billion) compared to the revised budget of 2023. This is 37% of the revenue budget, excluding grants.

The government of the Maldives has proposed MVR 500 million to achieve its policy of harmonization of salaries and wages for public sector employees. Furthermore, the increase in expenditure on personnel expenses is driven by the already implemented wage harmonization during the years 2022 and 2023 for teachers and nurses, and the additional public sector workers required for the operation of new/completed PSIPs such as airports.

The WB has stated in their Public Expenditure Review report that between 2012 and 2019, the wage bill grew at a compound average annual growth rate (CAGR) of 7.3% in real terms, and to sustain the fiscal health of the Maldives they have suggested Public Sector Pay Harmonization to be implemented, although it would have a huge impact on the wage bill short to medium term.[136]

As a result of the hefty amount of spending in the PSIPs and wage bills, the government's deficit has increased over the years. The deficit is predominantly financed by loans,

136 The World Bank, (2023). Maldives Public Expenditure Review: Resorting fiscal health https://documents1.worldbank.org/curated/en/099205108062235369/pdf/P174394036aa910c309ecf0fbecff0d7654.pdf

resulting in a significant burden on the recurrent expenditures as a finance cost. The government of the Maldives has allocated 15% of its recurrent expenditure (MVR 5.2 billion) as financing and interest costs in their budget for the year 2024 and is expected to increase in the subsequent years as well.

The increase in debt and finance costs are further discussed under the Debt financing section of this report.

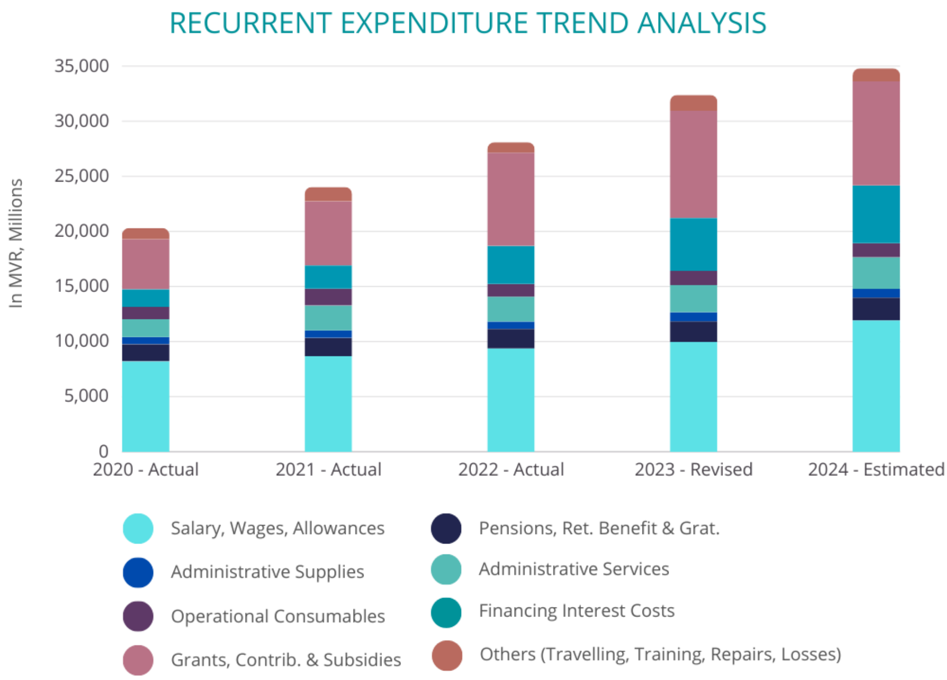

Figure 22: Recurrent expenditure trend analysis
Source: Ministry of Finance

Similar to 2022 and 2023, a significant portion (27.1%) of the recurrent expenses were allocated to Grants & Subsidies, which is slightly (3%) lower than the revised budget for 2023. One of the notable changes in the budgeted Grants & Subsidy compared to previous years is that the subsidy allocated for electricity and fuel is being reduced significantly due to subsidy reforms as government plans to implement a direct transfer system. Subsidy reforms and expenditure of subsidies are further analyzed in the Grants & Subsidy section of this report.

Government of Maldives has proposed a total sum of MVR 2.8 billion as administrative services expenditure. Administrative services have increased significantly in 2024 and 2023 as well. Administrative services mainly consist of utilities for government offices, rent, insurance, staff medical, IT, and other general administrative expenses.

Budget allocated for administrative services has increased by 17% compared to the revised budget for 2023. Although most of the expenses of administrative services are similar to the revised budget for 2023. The significant increase of 17% is primarily driven by an increase in insurance expenses.

Ministry of Finance has stated in their report on "Medium-Term Fiscal Strategy, 2024-2026" that hedging commodity price risks is being considered as a temporary measure until structural changes such as reducing the reliance on fossil fuels can be phased in.[137] As such the government has budgeted an insurance premium of MVR 300 million to support the fuel hedging. The government expects the saving from fuel hedging will be greater than its cost as it is estimated substantial savings on fuel subsidy expense.[138]

CONCLUSION

To meet the Maldivian Government's growing spending requirements in a sustainable manner, it is crucial to implement the steps taken to reduce the public expenditure, especially the hefty subsidies on fuel and electricity, Aasandha, and wage bill.

The WB, in their report on the Maldives public expenditure review report, has suggested multiple Policy recommendations to restore fiscal sustainability in Maldives. As such below recommendations are notable which are directly related to the public spending:

- make spending on the wage bill, health, and pensions less of a fiscal burden and more efficient/equitable.[139]
- better target public housing support to the neediest groups and improve design of the Rent-to-Own program.[140]

Consideration of these policies has affected the proposed budget for the year 2024. As discussed above, the fuel and electricity have reduced significantly compared to 2023's budget. Similarly, the health insurance premium budgeted under subsidies has been reduced by about MVR 300 million.

In the budget book of 2024, Ministry of Finance estimated a 48% (MVR 40 million) saving on a commonly consumed 23 types of medicines if it were to be procured through bulk procurement method.[141]

Furthermore, government of Maldives has allocated MVR 1 billion as a contingency and provisions in budget for 2024.

137 Ministry of Finance, (2023). Medium Term Fiscal Strategy 2024-2026. https://www.finance.gov.mv/public/attachments/GZ3L1qfGFdSWBNkTrcLY5xfXZFB3LLCXHri4Obml.pdf

138 Ministry of Finance, (2023). Budget Book 2024. https://budget.gov.mv/en

139 The World Bank, (2023). Maldives Public Expenditure Review: Resorting fiscal health (Executive Summary) https://documents1.worldbank.org/curated/en/099205008062224673/pdf/P17439403106b70ad08a6c04d5a10d213cb.pdf

140 The World Bank, (2023). Maldives Public Expenditure Review: Resorting fiscal health (Executive Summary) https://documents1.worldbank.org/curated/en/099205008062224673/pdf/P17439403106b70ad08a6c04d5a10d213cb.pdf

141 Ministry of Finance, (2023). Budget Book 2024. https://budget.gov.mv/en

However, the revised budget submitted to Parliament for 2023 indicates a 16% increase (MVR 6.5 billion) compared to the approved budget. The additional costs were driven by expenditure for subsidies, Aasandha, and PSIP. Therefore, the question remains whether the estimated cost cuts are achievable or not. MoF has forecasted in their budget book that if these cost efficiencies were unable to be achieved, the budgeted expenditure is forecast to increase by MVR 1.8 billion.[142]

142 Ministry of Finance, (2023). Budget Book 2024. https://budget.gov.mv/en

• CHAPTER •

08

CONCLUSION

The budget for Fiscal Year 2024 represents a notable advancement in meeting the present and future requirements of the Maldivian population. The primary objective of the government's budget should be to improve the quality of life for all citizens of the Maldives, by successfully addressing their issues and ensuring that budget plans are viable in the long run, beyond the duration of a presidential term. In order to achieve this objective, the budget delineates a sequence of changes, the accomplishment of which is crucially contingent upon their prompt and effective execution.

The budget aims to address the significant increase in public spending by implementing measures to make it more focused and effective. It is necessary to promptly implement these measures and continuously evaluate them to guarantee that expenditure is in line with the most urgent needs and the efficient utilization of resources.

Public debt and guarantees management should be promptly enhanced. This entails implementing and upholding sensible fiscal measures to guarantee that borrowing and the repayment of debt do not jeopardize the financial stability of the country. Additionally, it is crucial to increase the monitoring and evaluation activities inside ministries and agencies in order for the reforms to be successful. Timely implementation of this is necessary to enable well-informed decision-making on projects, especially at the local council levels, to ensure that decentralization effectively contributes to community development.

It is imperative to promptly execute strategic resource allocation by implementing medium-term expenditure guidelines and aligning resources with government priorities. This strategic approach guarantees the efficient allocation of resources to areas of highest priority, in accordance with the country's overarching development objectives.

Enhanced openness is crucial and should be promptly pursued to improve public expenditure accountability. This involves establishing clear, accessible channels of information regarding how public funds are allocated and spent, ensuring accountability to the Maldivian people.

In conclusion, the FY 2024 budget for the Maldives is a visionary proposal that seeks to guarantee sustained and all-encompassing development. Yet, the success of this budget mostly hinges on the prompt execution of its suggested reforms. The government's dedication to these changes, along with effective implementation and consistent oversight, will be crucial in attaining the overriding objective of enhancing the standard of living for all Maldivians and guaranteeing the nation's sustainable progress.

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