

The Maldives Budget 2021



The Maldives 2021 budget is based on National Resilience and Recovery Plan 2020-2022. This plan comprises of the priority areas as per the Strategic Action Plan (SAP), which became operational in Oct 2019, as well as immediate priorities due to the Impact of Covid-19.

The Ministry of Finance (MoFT) proposed a budget of MVR 35B (USD 2.3B) for the year 2021 to the Parliament. The Parliament's Budget Review Committee (BRC) added a further MVR 135.2M to the proposed Public Sector Investment Programs (PSIP)

It should be noted that even though the budget proposed for 2020 was MVR 38B, the MoFT estimates that the budget spending for the year 2020 will be within MVR 32B even with MVR 2.5B relief package and increase in Covid-19 related health costs which was unanticipated at the time of submission of the budget for 2020.

Prioritized Areas

The proposed budget aims to increase:



The priorities of government spending remained largely unchanged according to the proposed budget 2021 compared to previous years. Economic Development, Education, Health, Social Security, Debt Servicing and Public Service Delivery and Housing account for 80% of Government budget.

Economic and Social Infrastructure

MoFT proposed over MVR 8.3B for the development of economic and social infrastructure development which includes reclamation, infrastructure and construction. This is inclusive of carry forward capital expenditure from 2020.

Most of the funding under PSIP is allocated to improving the transport infrastructure, which is in the order of MVR 2.8B. A further allocation of over MVR 1.4B is made towards economic development, covering mainly capital contribution to SOEs

According to the budget medium term fiscal strategy is to reduce budget deficit and borrowing; use the saving to economic diversification and resilience.

**MVR
8.3B**

**Development of
Economic & Social
Infrastructure**

**MVR
2.8B**

**Improving Transport
Infrastructure**

**MVR
1.4B**

**Economic Development
(Mainly Capital
Contribution to SOEs)**

Revenue

For 2021 the expected revenue was MVR18B. The BRC revised the revenue estimates to MVR 21B, with an upward revision to the expected tourist arrivals and additional revenue from land sale, which was proposed among the new revenue measures by the Government.

Deficit & Debt

Taking into consideration the adjustments made by BRC, it is expected that the primary budget will be in the order of MVR 12.9B (19% of GDP), the debt to GDP to improve from 142.8% to 137%.

It is expected that the national debt inclusive of sovereign guarantees (SG) would be in the order of MVR 94.8B by the end of 2021. Foreign Debt is denominated in USD, Riyal, Yen, Dinar, Euro, Chinese Renminbi, UAE Dirham and SDR and the value is subject to exchange rate variations. MVR is pegged to USD. At present, the mid point of exchange rate is MVR 12.85, and the rate is permitted to fluctuate within the $\pm 20\%$ band, i.e., between MVR10.28 and MVR15.42.

MoFT expects to raise MVR 12.1B from overseas and MVR 3.4B locally to finance the budget deficit.

The first of Maldives Government sovereign bond sale took place in 2017 (with the sale of USD 250 million 7% fixed coupon 5-year maturity conventional bond which is listed in the Singapore Stock Exchange). The second bond, issued April 2017 is a USD 100 million 5.5% fixed coupon 5-year maturity conventional bond listed in the Abu Dhabi Stock Exchange, privately placed with the Abu Dhabi Fund for Development.

Notable Programs / Projects / New Initiatives



Agriculture: Contract Farming/ Warehousing and marketing



Value addition and marketing for fisheries sector



Financing for new ventures



Cultural Tourism



Enlisting some historical sites on UNESCO Heritage



High speed transport system- North of Maldives



North / South Port Development



International airport Addu (South Maldives) and Hanimaadhoo (North Maldives)



Male port relocation



Education and Health improvement in islands and distribution of government administration to atolls



Water and Sanitation



Contracting out to local companies and regional businesses



Renewable
energy



Equity for home
purchase/development



Working capital
and new venture
financing



Resettlement
assistance



Reskilling
program



Funding for
SWF



Online service
delivery/National
Single Window



BRC Recommendations

Work with Monetary Authority to control exchange rate and avoid depreciation of MVR

Consolidation of government activities to reduce duplication

Rent control of govern premises

Restricting govt debt

Pay MVR 6B bond due to the Monetary Authority

Initiate the swap arrangement negotiation of USD150M with RBI

Funding and strengthen the management of SWF to increase to debt repayment capacity amidst increase in borrowing and expected repayment of USD 250M coming due in 2022

Cost benefit analysis of additional telecom charge (proposed under new revenue measures)

Conduct proper feasibility of sale of government assets

Implement Aasandha (National Healthy and Social Security) restructure plan

Raise funds at reasonable cost amidst the lowered credit rating for Maldives

To strengthen the SOEs

Legislative Framework for Fiscal Policy in Maldives

The legislations governing the Government's budget are the Public Finance Act 2006 (PFA) and Fiscal Responsibility Act 2013 (FRA). Chapter 4 of the PFA covers the budget submission process while the FRA is intended to ensure responsible and sustainable fiscal policy, transparency and accountability of the Government to the Parliament as well as to the public.

The FRA sets of the framework for the fiscal policy of the Government. The FRA requires the Government to conduct fiscal policy based on the following fundamentals.

Sustainable debt levels based on GDP

Management of fiscal risks based on changing economic circumstances

Maintain the Debt/GDP ratio as specified in the law

Robust mid-term fiscal policy, preparation and implementation of budget within the mid-term fiscal policy framework

Promote accountability in managing public finance

Complete, accurate and inclusive recording of public expenditure

Protecting intergenerational equity.



The legislative framework requires the Government to submit three important statements with regards to fiscal policy to the Parliament's Finance Committee. They are;

The Fiscal Strategy Statement

Debt Strategy Statement

Budget Position Report

The purpose of submitting the Fiscal Strategy Statement, the Debt Strategy Statement and the Budget Position Report to the Parliament is to ensure oversight over Government's responsibilities under the PFA and FRA, which is sustainable fiscal policy, transparency and accountability in managing public finances.

Financing Plan

Sources of Finance

MVR, B

Loans

4.0

Indian Exim Bank, Port relocation, bridge, Addu city development project, cancer hospital, international airport/ Hulhumale island development

Sale of Bond / Sukuku

6.1

Expect to raise USD 400 M

(Including deferred samurai bond of last year)

(Under the arrangement with ICD to invest MVR 1 Bln over three years)

Innovative Financing

1.5

Issue of Green / Blue Bonds

Bilateral / Multilateral Budget Support

2.3

(Secured financing, but deferred because of Covid, commitment from Kuwait fund and OFID)

Domestic securities & loans

3.7

Privatization Receipts

0.5

New Revenue Measures

2021

Item	MVR, (M)
Revised rates for ADC and ASC (effective on 1 June 2021)	272.60
Land for tourism development	154.20
Land for real estate tourism	154.20
Telecom operating license and frequency spectrum charge	300.00
Land sale	300.00
Congestion charge and parking fee	36.60
Total	1217.60

New Revenue Measures

2020

Item	MVR, (M)
Change of ADF	159.60
ASC rate change (revised for departure tax) implementing 1 April	159.60
Income Tax	705.90
Duty / Import Fee Revisions (1 MVR per cigarette)	558.20
Quota Fee (1 Jan 2020)	555.00
Work Permit Fee (1 Jan 2020)	213.60
New Resort Acquisition Costs	290.00
Total	2641.90

Fiscal Indicators

Indicators (MVR,B)	2019	2020	2021	2022	2023
	Actual	Revised	Expected	Expected	Expected
Revenue Tax, Import Duty & Other Charges	21.0	12.2	15.1	19.0	23.4
Income Tax	86.8	57.9	66.4	83.8	90.4
Real GDP	77.2	54.5	61.9	79.6	87.6
Total Debt	68.0	85.5	94.8	97.7	106.2
Overseas	22.0	30.0	37.5	39.3	46.6
Domestic	32.2	40.4	45.3	47.4	50.0
SG	13.7	15.2	11.9	11.0	9.6
Debt Repayment (Domestic)	0.1	0.2	0.5	1.0	1.0
Debt Repayment (Overseas)	1.0	0.9	1.0	5.4	1.6
Debt Service Cost	1.9	0.8	4.0	5.1	7.1

Transfers to Sovereign Wealth Fund

Year	Transfers	Cumulative (MVR, B)	(USD, B)
2017	0.38	0.38	0.02
2018	1.32	1.70	0.11
2019	1.38	3.08	0.20
2020	0.27	3.35	0.22
2021	0.53	3.88	0.25
2022	0.87	4.75	0.31
2023	1.12	5.87	0.38

*Information from budget book and
BRC report*



**For more
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David Mellor, Chief Executive Officer, Crowe Global

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