

CHAPTER 15 MALDIVES

Introduction. The Maldives economy is a mixed bag. Tourism and fishing are sluggish, but government is seeking structural reforms.

Slowdown. The economy is slowing down.

- Back in the 1995-1999 time period, the Maldives enjoyed an annual average growth rate of 8.2%.
- The economy slowed down to 6% in 2000.
- The slowdown in the global economy in 2001 is worsening the overall slowdown in the Maldives' economy.
- High oil prices since early 1999 have also dampened economic growth.

Factors Behind Slowdown. At home, the slowdown is largely due to under-performance in two key sectors: fisheries and tourism.

- The total fish catch has declined by about 17% since last year.
- While tourist arrivals are up 8.7%, this trend is more than offset by a glut of empty rooms after the opening of 13 resorts.
- These economic setbacks make it difficult to accommodate the 5,000 new graduates joining the labor force each year.

Good News.

- Exports increased by 13.2% in 2000, largely due to the high export value of fish products despite a smaller fish catch. Imports decreased by 1.0% because of the economic slowdown. As a result, the trade deficit fell from 67.6% of GDP in 1999 to 53.3% in 2000.
- The current account improved as a result of an increase in foreign grants and loans.
- Fortunately, short-term debt is almost non-existent. A low debt service ratio of 3.9% in 1999 was maintained in 2000.
- Inflation is low, as prices of food and other commodities declined relative to 1999.

More Good News. The government is addressing structural reforms by close work with the Asian Development Bank (ADB).

- Improvements are sought in the post-secondary education system, power supplies, public accounting systems, legal

Figure 15-A. Selected Historical Data

\$ Billions (or %)	'97	'98	'99	'00
Gross National Income		322.3	0.322	0.435
Purchasing Power		500.0	3.545	1.443
Real Growth (%)	11.2	7.9	8.5	5.6
Inflation (%)	7.6	-1.4	3	-1.1
Exports	0.093	0.096	0.092	0.109
To U.S.	0.021	0.037	0.058	0.096
Imports	0.307	0.312	0.354	0.342
From U.S.	0.006	0.005	0.008	0.006
FDI from U.S.
In U.S.
Cur Account /GDP %	-6.8	-4.2	-11.1	-4.6
Fiscal Balance /GDP %	-1.4	-1.9	-6.7	-7.7
External Debt /GDP %	59.7	62.5	67.3	..

Sources: IMF, ADB, World Bank, U.S. Commerce

and judicial training, customs offices, and science and technology applications.

- Unlike many island governments, it is building a national accounting database.

Unfinished Agenda. That said, the unfinished agenda is daunting. On the structural front, the Maldives needs to strengthen its economic foundation in at least five acute areas:

- Regional Development—to build basic social and economic infrastructure for a more equitable and cost-effective distribution of social and economic services.
- Environmental Management—to protect the environment through institutions that monitor and enforce rules and regulations.
- Human Resource Development—to improve the workforce.
- Public Sector Management and Decentralization—to improve efficiency.
- The Private Sector—to enlarge its role and enhance economic efficiency.

Conclusion

Maldives' dependence on oil, fishing, and tourism makes it vulnerable to—and interested in—external markets. The ongoing structural reforms strengthen Maldives' economic security and should be encouraged.