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**Statement by Mr. Ge and Mr. Chen on the Maldives
(Preliminary)
Executive Board Meeting 07/57
July 2, 2007**

We thank the staff for the comprehensive paper and Mr. Shaalan for his informative Buff.

The Maldives' recovery from the tsunami highlighted its competitiveness in the tourism industry with the sector gaining momentum from the rebuilding and construction of new facilities. However, we share staff's concern that excessive spending on overambitious construction plans and expansion of the civil services will undermine the recovery and invite risks. An over 70 percent expenditure-to-GDP ratio has apparently intensified revenue pressures, of which 29 percent are unsustainable grants. With the revenue shortfall projected to rise to over 30 percent of GDP in 2007, the current account will deteriorate and foreign debt surge. Given the direct financing by the central bank, the fiscal deficit will soon weigh on the currency peg and endanger monetary stability. In this context, although we understand the authorities' determination to develop the economy in the shortest time, we concur with staff that a prudent and well-disciplined fiscal framework is required to sustain the recovery and build on the long-term growth, particularly in the Maldives' case where reserves are needed to defend the economy from external shocks.

We welcome the progress made with structural reforms and institutional building, and encourage the Fund to continue its TA involvement. Despite adoption of the sales and ad valorem tourism taxes, tax reforms need greater momentum and we look forward to final approval of the business profit tax. We commend the initial efforts—in the legislative and operational areas—to decouple fiscal deficit financing from the central bank's monetary operations, though as a result of the weak basis, much work remains to be done. The financial market, as the platform for monetary operations and public financing, is paid due attention and we would like to see ongoing policy support in this area given the normally long process in building market infrastructure and regulation frameworks.

With these remarks, we wish the authorities all the best.