BUFF/08/130

September 2, 2008

**Statement by the Staff Representative on Maldives**
**Executive Board Meeting 08/76**
**September 3, 2008**

1. There have been some political changes to the composition of the government following the Article IV consultation mission. The Finance Minister, Mr. Qasim Ibrahim, has resigned and will be a presidential candidate in the forthcoming elections. He has been replaced by the former Governor of the Maldives Monetary Authority (MMA), Mr. Abdulla Jihad. No replacement has yet been named for the Governor.

2. To date budget execution is lagging a little, especially on capital expenditures. Monthly data to end-June indicate that the government has spent 41½ percent of budgeted current expenditures and 14 percent of budgeted capital expenditures.

3. The Ministry of Finance has revised down the budget and remains committed to the goal of zero domestic financing. The government is planning to cut expenditures by 19 percentage points of GDP for the year, the level that could be achieved if it maintains the same spending patterns in 2H as in 1H. In particular, it aims to cut 20 percent of expenditures from August onward. Measures include (i) limiting overtime work; (ii) reducing recurrent expenditures such as official travel and celebrations; (iii) suspending or deferring capital expenditures; and (iv) forfeiting a part of the salaries for cabinet ministers and other senior officials. The ministry expects at least Rf 596 million (3.6 percent of GDP, 5.3 percent of budgeted annual domestic expenditure) cuts from above measures. On the revenue side, the revised budget apparently includes no revenues from the leasing of additional island resorts. Accordingly, the revised budget, as is, leaves a domestic financing gap of 1.9 percent of GDP.

4. While the planned expenditure reductions are commendable, the authorities should aim for deeper and less ad hoc reductions in expenditure, along the lines of the staff report recommendations. Immediate measures should include: (i) an increase in electricity tariffs (which would reduce government subsidies to the state-owned electricity company), and (ii) a nominal wage bill freeze for the civil service. The authorities would also need to raise revenues through additional island leases, while keeping well below the authorities' previous ambitious target of 30 islands discussed during the mission.