



Ministry of Finance



Budget Speech 2021

9th November 2020

Note: This is a summarized translation of the Minister's speech presented to the People's Majlis on 9th November 2020 consisting of the key figures, policies, and strategies of the National Budget for the fiscal year 2021. The full transcript can be downloaded by clicking [here](#).

I am presenting the budget at a time of a global pandemic and economic crisis unlike previous crises of late. The Budget 2021 was formulated to aid swift recovery from the adverse economic and social impact of the Covid-19 pandemic, and to implement the prioritized policies in the *Jazeera Raajje* manifesto.

The Covid-19 pandemic struck at a time of rapid economic expansion and growth in the Maldivian economy. IMF forecasts that the world growth will contract by 4.4 percent due to the pandemic. The contractions are expected to be significantly deeper for emerging markets, tourism dependent economies, and small island states like the Maldives.

Current forecasts estimate that the Maldives GDP will contract by 29.3 percent in 2020 as tourist arrivals are expected to decline by 65 percent and the subsequent contraction of the sector by 68 percent. The construction sector, the next key of growth, is also expected to contract by 11 percent. Against this backdrop of pandemic-led economic slowdown, the unemployment rate in the Maldives have increased during the year. A total of 10,538 individuals have received the income support allowance between the months of April and September.

The main targets for the government during the pandemic were to boost testing capacity and increase the bed capacity of public health facilities. Efforts were placed into acquiring machinery and equipment for treatment and diagnosis, as well as obtaining necessary consumables for service provision. A total of MVR 1.3 billion was spent on this.

We have been able to reopen the international borders and the economy due to these health protection measures. MVR 84 million was spent on replenishing existing stock of staple foods and other necessities. An economic relief package was launched to support the people during the pandemic. This included subsidising water and electricity bills for the months of April and May and disbursing income support allowances to 10,821 individuals. To help businesses stay afloat, the economic relief package included financial relief in the form of debt moratoriums on loans and recovery loans was made available for small, medium and large enterprises through BML and SDFC.

Funds for Covid-19 response was allocated by implementing the following cost-cutting and efficiency measures such as salary deductions of political and other high-earning staff, and halting of all projects , which exhibited insufficient progress. These measures helped reduce the approved MVR 37.9 million budget to MVR 27 million. Additional incurred expenses due to Covid-19 resulted in the revision of the Budget for 2020 to MVR 31.8 billion. The approved revenue and grants for 2020 was MVR 29.9 billion, which was lowered to MVR 14.7 billion in the revised estimates for 2020. The resulting deficit is MVR 15.9 billion. Fiscal policy plays an important role in the recovery of the economy. Therefore, a countercyclical fiscal policy is necessary.

Inflation figures from 2020 indicate that the general price level decreased during the year due to government policies focused on combatting the adverse effects of the pandemic. However, with the base-effect and the assumption that no further policy changes will take place over the next year, overall price level is expected to increase by 3.6 percent in 2021. This is much lower than the world and emerging markets average. The Gross International Reserves at the end of the year is estimated to be USD 799 million, which is higher than the amount at the start of the year. The Gross International Reserves at the end of 2021 is expected to be at USD 696 million.

As our financial situation persists, the time is now to invest in economic stimulus, additional infrastructure projects, diversification and increasing resilience of the economy and regional development.. The projected total budget for 2021 is MVR 34,787,720,151. The total expenditure is estimated to be MVR 33.3 billion, including MVR 1.5 billion for loan repayments. The budget estimates MVR 17.8 billion to be received as total revenue and grants. It is estimated that the budget deficit of the government in 2021 would be MVR 15.5 billion, representing 23 percent of Maldives' GDP.

The 2021 budget was formulated based on the "National Resilience and Recovery Plan" and key policy initiatives on the Strategic Action Plan. A total of MVR 4.0 billion is allocated for the health sector, which comprises improvement on testing capacity, vaccination - once a vaccine is approved - and development of 5 regional tertiary hospitals. The budget allocations of MVR 3.7 billion for the social sector includes MVR 718 million for the national health insurance scheme. Other allocations include pension for the elderly and allowances for people with disabilities.

MVR 4.0 billion is allocated for the education sector. This consists of educational infrastructure development projects in 114 islands, development of quality education facilities in 5 regions, and vocational training for youth, such as establishment state-of-the-art TVET centres in 4 islands and tourism training facility in L. Atoll. The budget also includes re-skilling programs for jobseekers and training programs for locals targeted for management positions in the tourism sector and MVR 551 million for the national student loan scheme and first degree program.

The 2021 budget includes MVR 7.0 billion on economic and infrastructure development. More specifically, this constitutes of the MVR 154 million allocated for tourism promotion, MVR 1.1 billion for Velana International Airport Development project, MVR 476 million for Maldives International Port Project, and MVR 469 million for Male-Villimale-Gulhifalhu-Thilafushi bridge project. It also includes the Agro National Corporation's capital contribution of MVR 84 million to develop the agricultural sector and improve food security and of the substitution of imported produce to local produce. Further expenditures on this function includes several projects to increase the value addition to fish exports and a high-speed ferry network to be established in 2021 in the northern atolls. Our aim is to have clean drinking water and sanitation in all the islands by 2023.

Budget allocation for environmental protection include MVR 148 million, of which MVR 390 million is to be spent on waste management projects. A total of MVR 716 million is allocated for nationwide housing projects in 2021, which consists of MVR 1.2 billion for councils block grant

Total revenue and grants for 2021 is 17.8 billion and this figure is expected to reach pre-Covid-19 levels in 2023. It is estimated that the government would receive MVR 9.8 billion as tax revenue and MVR 5.8 billion as non-tax revenue, while MVR 2.2 billion would be received as grants.

New revenue measures totalling MVR 1.2 billion include restructuring of airport service charge and airport development fee, development of real-estate tourism, development of resorts in the northern and the southern regions, introduction of a frequency spectrum charge and licensing to a new telecom operator. We also plan on allocating a percentage of reclaimed land on different islands to be sold, development of lagoons under set regulations, leasing parking slots and introducing a congestion charge.

The total budget deficit is MVR 15.5 billion, which is 23.4 percent of GDP. It is important to run a large deficit in order for us to get back up from this crisis. Budget financing is mainly planned through external means as it is important to maintain the gross international reserves and maintain the value of the MVR. This includes the USD 300 million *sukuk* to be issued in the international market in association with ICD (Islamic Corporation for the Development of the Private Sector) and the planned issuance of a green or a blue bond valued at about USD 100 million. About USD 150 million is expected to be utilised for financing the 2020

budget through multilateral and bilateral means. In addition to this, strategic privatization of SOEs to increase their efficiency and profitability is also part of the financing plan for the fiscal year 2021.

Fiscal policy plays an important role in the continuity of economic activities and the recovery from this crisis. The side-effect to these measures for the recovery is the increase in public debt. The estimated debt at the end of 2021 is MVR 82.8 billion, representing 124.8 percent of GDP. Despite the sharp increase in debt in the short-run, we can reduce this in the medium term. Our aim is to bring the public debt to sustainable levels. Even though we borrow, we plan to borrow under concessional terms. We have participated in the G-20 debt suspension initiative. The Maldivian Government will pay its debt. The repayment plans have been formulated and we are confident that we will be able to manage the public debt.

Upon recovery from this crisis, we plan to establish a fiscal reserve in order to fully prepare for such crises in the future. We need to act on the resources available to us. We need to make our spending more efficient and reduce wastages. The benefits of every expense should be realized to the people of the country.

Thank you.