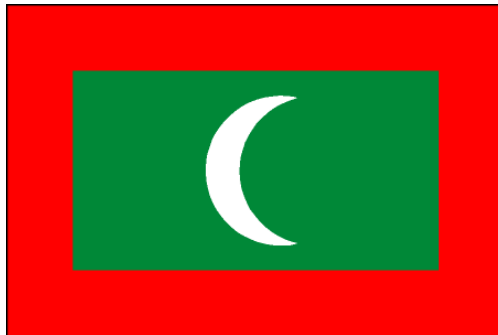


COUNTRY REVIEW

Maldives



28 May 2010

ANALYST: Andrew Atkinson

EULER HERMES COUNTRY RISK GRADE: D

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

Capital city:	Malé
GDP:	USD930mn (2007e)
Population:	370,000 (2007e)
GDP per capita:	USD2,500 (2007e)
Currency:	Rufiyaa (MVR)
Form of state:	Republic
Head of government:	President Mohamed Nasheed
Next elections:	Legislative by May 2014, presidential by October 2013

The Maldives is a grouping of over 1,190 islands (only 200 are inhabited) in the Indian Ocean 675km south-west of Sri Lanka. Following anti-government riots in 2004, a political reform agenda was initiated, with party organisations permitted, term limitations imposed on the presidency and introduction of a system whereby the **head of state is chosen by the electorate for a five-year period**. In the country's first multi-party elections in 2008, Maumoon Abdul Gayoom, who had served as president since 1978, lost a second round run-off to Mohamed Nasheed. Gayoom's governments had been criticised for **perceived failures to uphold human rights** and for inaction in relation to high poverty and unemployment in outlying islands. It remains to be seen whether Nasheed, with a political reform and privatisation agenda, can instil stability into the domestic political arena—Gayoom survived assassination attempts and potential coups, including ones orchestrated by his own government. **Relations with India remain the key focus of foreign policy** and the regional superpower had to provide military support in order to repel a coup attempt involving Sri Lankan mercenaries in 1998.

For almost a decade before the December 2004 tsunami, prudent economic policies had generated robust real GDP growth (annual average 6.5% 1990-2004), per capita incomes increased to over USD2,000 and other social indicators had been positive, largely reflecting earnings from a vibrant tourism sector. As a direct result of **the tsunami, which caused widespread physical damage**, the economy contracted by 4.5% in 2005. Although reconstruction work on infrastructure, inflows of aid and other assistance and some recovery in tourist revenues (tourist arrivals did not exceed pre-tsunami levels until 2007) boosted GDP growth into double figures (18%) in 2006, the tsunami **underlined the fragile nature and vulnerability of the economy, reliant on just two principal economic sectors (tourism and fishing)**. No part of the land area is more than 1.5m above sea level and this feature indicates the country's vulnerability to natural disasters and to man-made problems—**global warming and rising sea levels cause concern for its longer-term existence**.

Lack of potential cultivable land limits agricultural production, with coconut harvesting one of the few significant commercial activities in the agricultural sector. Manufacturing industry is limited to garment production, boat building and handicrafts, particularly for the tourist market. **Tourism** revenues account for two-thirds of employment, **over 60% of GDP and over 90% of FX earnings** and this dependence leaves economic development open to the fluctuations in the global economy and to 'events' such as 9/11 and the 2004 tsunami. After two years of sound growth (5%+) in 2007-08, GDP contracted by around 3% in 2009, reflecting weakened tourism and capital flows as a direct result of recession in key overseas markets. The **rufiyaa is pegged at a fixed rate against the dollar** (MVR12.8:USD1 since 2002) but the exchange rate peg remains vulnerable because of periodic lapses in fiscal discipline and central bank financing of budget deficits. Fiscal and current account deficits (which can record annual shortfalls equivalent to 10% and 45% of GDP, respectively) tend to be wide because of the narrow export base and **need to import almost all commodities, including petroleum and food**. FX reserves were USD183mn at end-2005 but had accumulated to USD324mn by April 2010, although still providing an import cover of only three months. The bulk of external debt stock (equivalent to around 100% of GDP) is concessional, but approximately 49% is ST. In addition, the debt service ratio, although nominally moderate at 5% of export earnings, is significant in terms of the limited revenue generation of the economy. IMF assistance, currently through a Stand-By Arrangement and Exogenous Shock Facility, is critical to support such a small and fragile economy.

Andrew Atkinson

London: +44 (0)20 7860 2577