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**Chairman:**

Very welcome to IMF members to be here with us. Today, we have this fine, today meeting is, in the parliament two committee was involved now in this meeting today. The one is Economy and Finance committee. The other one is the, we call it Iqthisoadhee committee. But it is related to economic, Economic Affairs Committee. This both committee jointly we are meeting with you. And, I would like to say once again congratulations. I know every year you're coming to this about this time to later to Ministry of Finance issues and financials strengthen our difficulties or problems what we have to find out. Normally, that is why you are coming to visit us. And therefore we very much warm welcome you to be here today. And, please let us know what is you want from us. Please go ahead.

**Ms. Piyaporn Nikki Sodsriwiboon, Head of Mission, International Monetary Fund (IMF):**

So, thank you so much for the very warm welcome. Good morning to all of you. So, perhaps let us start by introducing ourselves and what we are doing here. My name is Nikki Sodsriwiboon. I'm the mission chief for the Maldives from the IMF. And I'll ask my team to introduce themselves as well. Xin, would you like to start?

**Mr. Xin Li, Economist, APD:**

Hello, everyone. I'm Xin Li. I'm a technically economist of the IMF Asian Pacific department working on Maldives. My main responsibility is to conduct surveillance work on the monetary or financial sector issues.

**Mr. Hamid Tabarraei, Senior Economist, APD:**

Good morning. I'm Hamid Tabarayi. I'm also part of the Maldives team at the IMF and I'm covering the real sector and fiscal issues.

**Mr. Manabu Nose, Economist, FAD:**

Good morning everyone. My name is Manabu Nose. I'm from the fiscal affairs department as a department in the IMF and working on fiscal reforms for the team.

Very nice to meet you.



MR. Ali Abdul Raheem, Advisor to Executive Director, International Monetary Fund (IMF):

Good morning. As-salamu alaykum. My name is Ali Abdul Raheem. I am from the office of the executive director that represents Maldives in 11 countries of on the IMF board. Thank you.

Ms. Piyaporn Nikki Sodsriwiboon, Head of Mission, International Monetary Fund (IMF):

Yes, and thank you. So, this visit as you rightly mentioned is our sort of annual visit what we call an article formation. Which in a simple word we are doing sort of an annual health checkup of the Maldivian economy, which we have done with all our member countries and basically a normal operation. So, we were here last year and yeah and now it's time to reassess the situation in the Maldives. So, thanks indeed for receiving us as you are, as you are in the driving seat in the policy design and the implementation, especially on the economic and fiscal policy side. It would be good to have a dialogue with you. So, we have been here for about ten days by now. Happy to share some of the observation that we have seen in the Maldives over the past year. And happy to answer any question that you may have as well. Perhaps with your permission I am happy to share some of our observation and then you know if you have any question feel free to ask as well. Let me start by a positive note. First of all, congratulation on a good number, a good performance in the tourism sector. Every year we have see, have come back, you continue to top of the tourist arrival number every time. And thanks to this strong tourism base. This have helped support the economic activity and growth in the Maldives. I have seen growth has held up well, in the past few years. And for this year in 2025 we also project growth of around 5%, which is relatively good, especially compared to other countries. And this was support by the continued strong tourist arrival, that we would also project to rise further from the two million that you have recorded last year. And looking ahead over the medium term we also see that the opening of the Velana Airport Terminal will help support sort of your growth potential going forward. Basically, it will help to ease up some of the supply bottleneck and then you can you know utilize that to receive more tourists going forward. But that said there is a very large uncertainty around this forecast and risk are still tilted to the downside. And as you may be aware you know there's some potential delay on some of the fiscal reform effort that it needed to reduce the economic vulnerabilities in the Maldives. And this, if that happen, this can help to this will



amplify sort of the economic stability risk that could jeopardize the Maldives economy. Over the past year since our last visit, we have seen fiscal and external vulnerabilities have increased quite significantly and this call for urgent policy adjustment. As you are aware, all the past decade, there have been massive infrastructure development and generous social assistance program. These have add onto a very large fiscal deficit and public debt. And the latest number we are looking at the public debt in 2024, and up at more than 120% Of GDP already. And looking ahead with our significant policy adjustment, we will see the overdue deficit and public debt to continue to stay allow it for many years. But there say you may not have enough time. Because external pressures are also growing with a very large current account deficit and a very significant financing pressure that you know that you're facing right now. So, indeed we see that the Maldive is going through a pivotal moment, where you need an urgent action to resolved the sustainability of public finance and debt. We very much welcome that the authorities have assumed some of the ambitious and homegrown fiscal reform agenda. For example, in 2023 with the GST reform and also other revenue mobilization afforded that you have delivered. That is a good thing. Of cause that would help generate instead of like fiscal revenue. That can help to support some of those deficits. And also, there have been afford to discontinue the exceptional use of MMA advanced stop printing money. That is also a very good thing. Last year we have also seen, you have pass a some of the key legislation on the Fiscal Responsibility Act. And also, Public Debt Management act. This also will help to sort of strengthen your fiscal institutional and improve the public investment, public financial management processes going forward. But we do see in the, especially for this year, you have already approved in the budget, the various fiscal reform measures, especially on the expenditure rationalization measure. We will like to see this to be implemented as strictly. And this will be key to help instead of un-wide economic imbalances that process in this economy in an ordering manner. And it will help to restore the sustainability of the Maldive. So, what do I mean by that, we are looking at some of priority measure on the expenditure rationalization. For example, on the subsidy reform, you know, many of this reforms are not target to those who should be receive, right? Is the blanket subsidy, then there is a lot of leakages in the system. It's a good thing that you already you know penciled in this year budget. So, we would like to see this to be implemented to face out those untargeted subsidy and replace it by a well targeted direct subsidy that engineer to what those who are the most needed or the vulnerable group of population. In addition, I'm aware that you are also working on the reform to the SOE or the State-owned



enterprises and also some work has been done related to assigned health care reform. This is a good thing. And there should be continue. But on top of that, we have also seen you know there has been a large infrastructure development push in for many years in the Maldives. But now you also at the same time facing financing pressures. And we do see some scope to reprioritize as the public sector investment program and scale back you know on some of those excessive investments spending. But now looking beyond fiscal policy, we also see the scope for a coordinated policy tightening, but it doesn't mean you know the contribution for monetary policy, macro potential policy and financial sector policy, all these have to work go to in a cohesive manner to really stemmed the imbalances in this economy. We discuss with the Central bank, the MMA's commitment to resume active monetary policy operation is very much a welcome step and which are very much supportive of. On the banking side, precisely because the strong banks sovereign excess that you have a bank you know sometime buy government securities and park on their book. And this have increased sort of the systematic grades in the financial sector in the Maldives. So, we see scope for tighter macro potential policy to address such risks, and also vigilant financial sector oversight on the banking sector. And last but not least, we do also see over the longer term brought a structural reform to improve primary resilience to improve business climate. And also, you know those reforms to develop, skill development for your people. This will also help to support strong sustainable and inclusive growth going forward. Then we stop here, but of course happy to answer any question that you may have.

Chairman:

Thank you very much. And the meantime I would like to say to introduce our people. From my left side, from Mr. Saleem and after that every person can introduce. He is my deputy. And then...

Mr. Mohamed Mamdhoo, MP of Funadhoo Constituency:

My name is Mohamed Mamdhoo. I represent Funadhoo Constituency.

Mr. Ahmed Azaan Marzooq, MP of Central Hithadhoo Constituency:

My name is Ahmed Azan and I'm a member of the public accounts committee.

Mr. Abdul Gafoor Moosa, MP of Hanimaadhoo Constituency:

My name is Gafoor. I'm from North Hanimaadhoo Constituency.



Mr. Ahmed Shamheed, MP of South Hulhumale' Constituency:

Shamheed, represent Hulhumale' South.

Chairman:

My left side, Mr. Saud.

Mr. Saudulla Hilmy, MP of North Thinadhoo Constituency:

My name is Saudulla Hilmy. I'm North of Thinadhoo Constituency.

Mr. Ahmed Xamyr, MP of Central Mahchangolhi Constituency:

My name is Ahmed Xamyr. I'm represent Central Mahchangolhi male' city.

Mr. Ali Moosa, MP of Hoarafushi constituency:

My name is Ali Moosa. I am most north part of the Maldives. I am representing Economic Committee of the Majlis.

Mr. Mauroof Zakir, MP of Kendhoo constituency:

Mauroof Zakir, from Baa Atoll Kendhoo constituency and also a member of the Economic Committee.

Mr. Ameen Faisal, MP of Kanditheemu constituency:

I am Ameen Faisal, representing Kanditheemu Constituency. Member of the Economic Committee.

Mr. Ibrahim Nazil, MP of Hithadhoo South constituency:

Good morning. I am Ibrahim Nazil from Hithadhoo South Constituency. Economic Affairs committee as well.

Mr. Mohamed Abbas, MP of Velidhoo constituency:

Morning. I am Mohamed Abbas. So, I am rerepresenting Velidhoo Eonstituency. In North of Male' Atoll, Noonu Atoll.

Chairman:



Okay, thank you very much all of members and I would say the government is doing necessary, lot of reforming and our stability to continue to less reduction the expenditure and also increasing the revenue part. The government is doing a lot. I believe we are able to meet our, the target, according to our government is taken very strong steps to come to the level of our commitment to fill full. And that is what I would like to say. But let's see what other people, our members, will explain you in any question you may raise. And if you have answer to any other question, you want find out any other members regarding what just now, what we have hear from our, Nikki is what is one mention. And if you have any doubt or any problem, you can ask her and to find out from IMF team. I believe our government has able to settle this problem and what we have. All this is coming not because of this government. It is just only one year. But before what we have expenditure and like what you mentioned is already so many programs, we have like, I would like to say philanthropy, but I do not want to say subsidy. Maybe subsidy, but because of huge subsidy, we have in a way, if you say. That is because our country people is very poor normally than in an average. They don't have ability to sustain. Therefore, government is, every government has forced to do that. That is what it happened. And the democracy, every government try to be always famous than the other government. That is like auction, you know, it is not like any other things. This is in the democracy, the problem is, really. But this is real problem. It is every election is coming to like auction. That is why the government expenditure is increasing like a hell. Every government, it is not here only, everywhere in the world. I have seen this in Sri Lanka and also India. It is our neighboring in two countries, Very close friendship. Those days, about 25 years ago, I go Colombo. It is, our exchange rate is 16 to 17 rufiyaa I get or 20, I get from the Sri Lanka currency \$1. And India also the same almost, the same kind of amount there is money for 1\$. But today, look at it. 380 rufiyaa or 390 rufiyaa for Sri Lanka. In India, 87 rufiyaa. Why is that? Because, what we get, or any country they get, more than that they want, they have to spend. Because of this, and that is a sickness or problem of this democratic values. I mean, this is, I'm sorry, saying this. But of course, there are good things and also bad. But bad things is like this, it is coming. The good things is the fundamental rights and all kind of other things, it is there Of course. Any good thing, you have to change. There are always plus and minus, huh? This is what we understand. That is what is happening. It is not due to any government fault. In our country, I am talking about. I am not talking about any other country. It is like not because of MDP, or because of PPM, or either PNC, now it's PNC government. It is not that. Because of this, the people of the country, they





require so many things. Therefore, the subsidy has to increase. That is what it is happening. I am sorry, but we are able to manage, I believe. And this government is very much careful about that. And it spending, already, we have also a salary cut-down program as the president has requested. Our committee, already we are discussing about that subject. And also, the company's expenditure also some SOE's also, he is trying to decentralize or join together one ministry to the other. This is many angles he has taken, the government has taken to reduce the expenditure. Increasing the revenue, you know, that very difficult time. The government has increased a lot on the tax side. I mean, this is what we can proof. And we need more stable and more professionally to administration, I mean, administration has to be more professional and more better. He has taken all the dimension, the government and president is taken, the cabinet has taken the dimension. This is what I believe. Although we have this year budget, 20 billion rufiyaa deficit, the time has passed. But now, the president, yesterday, on 6th of February, he has given the figures. He will reduce not 20 billion, it will be 9 billion, rufiyaa. He would like to reduce that expenditure. That means some investment he will cut down, or either some other way, he will increase the revenue. What we believe, it can be done. I am sure it is. I have of course, confidence on the government. That is what I want to say. Any other? gentlemen's want to say anything else? Our members? Please open your mouth. Nothing to hide. It is open for everyone. Yes, Mr. Gafoor.

Mr. Abdul Gafoor Moosa, MP of Hanimaadhoo Constituency:

Last year, in our corruption index has gone to 2% down. Can you reason out and give your opinion regarding that? And also, we have been seen last two years, or one and a half years, government payroll has been increased by 400%. And SOE's profit has been decreased by 1 billion. That is a three months term. So, I think these are the areas where the government can get the money. There is excess staff in government and also government companies. So, this has not been mentioned from IMF or any other international organizations. I think even IMF and World Bank, they are making the balance report. You know, whatever the government is there, when previous government also there, you know, they have to be very specific and, you know, their recommendation should be very firm. That is not there. Just to balance and make happy the government. So, you are recommending things. Something like that way is happening. Then the government does not have actual picture to tackle the issues. So, these things we haven't seen in your reports. Can you give some idea and recommendations on this?



Chairman Speaking:

That is MDP, the opposition Party members at the moment. Just I will explain to you who is this party, which party, government party or the Opposition, or other party.

Ms. Piyaporn Nikki Sodsriviboon, Head of Mission, International Monetary Fund (IMF):

Thanks so much for your remark and for your question. I am very much welcome, in which Mr. Ibrahim has said very well. And we welcome your continued commitment on the various fiscal reform that has been approved, and we really look forward for the, the implementation of such, measure going forward. On the governance you mentioned, the downgrade of the corruption index. As I said, I mean, does it need a scope for improvement, especially on the structural reform side, and that also includes the improvement of the governance and transparency. Many of the legislation related to economic and financial, management in The Maldives that you have approved last year, for example, on the fiscal responsibility act, Public Debt Management Act, there's a lot of discussion related to the transparency of fiscal data, how to improve, this the reporting on debt on fiscal statistic. I mean, all of this will help you know, strengthen the governance and in this economy. But also, you know, like, as you're being transparent, as you continue to reform to sort of, like, improve the business operation, processes and things like that, that will also help to contribute to the assessment on the corruption and governance going forward. I see, yes, and there have been as assessment on by some agency, but, that's also, would help it that, that would be that would provide you sort of, like, an input where you can where you still where you have gaps in, you know, where can you, where can you do more worked to improve or to address those concern. Especially when compared to some of the best practice international practice, across different countries.

Chairman:

Yes, I'm sure I can guarantee you this year or this government will reduce the corruption index will go very much reduced compared to before. It is 100%, I can guarantee you, that it is in the government. And also, the government expenditure, there's, there is if it's unnecessary. The president is taken already initiate. Already, I told you now, including the members of the parliament, he is asking to reduce the salary. I have in this committee, in the Public Finance committee we have a matter in this committee. We have to decide what we want. Every top of the I mean, every institution



and including the members of the parliament. But yet, at the moment I didn't decide, we didn't decide it yet what to do. But we are looking on this very strongly. If it's necessary, we will cut down the salary even. That is make surely it is. We will come to the problem is come to overcome. But unfortunately, the problem is coming like I said before, is every government try to be better than the other government and want to, be better than the public. They are spending money for public. You know? Of course, there are always corruption in every country. It's not here only. In US, you can imagine, look at it how many. Now existing also numbers, if you look at it. It is huge amount of the money. And, also, our neighbor countries also the same. It is happening all over the world, but it's, therefore this is also part of the world. It's either small or big work. There are some problem, but government is attending. Every government is, to reduce this problem. No one wants to be corrupt, but it is somehow it is happen. But I believe this, this is it will be reduced in this government, and that part I know. The increasing the, the job and the government expenditure. In the beginning, always, this is the case. Every government, they are trying to do. Because in front of them, always there are another election, the parliament election. Because of that due to that, they increased some of the job. You know? Maybe that is what it is happening. It is necessary. Some people can say it's necessary. Other people will say not necessary to increase this number of job and this one, that one. But in their case, everywhere, the people is doing. This is also every government here in this country also doing the same. But we don't have to blame the other, but we have to try to be correct. We have to correct the things it is what is wrong immediately. And we have a problem, yes, this year and also, 2026. That is these two years, we have a big problem because of previous years we have taken lot of money for, because of the deficit budget. Accumulated deficit budget is it can increase a lot. This is why the problem is. Anyway, still, our government is trying to, put this currency matter also to bring down. And he has been, very strongly the president has been targeted and get it done and exchange that also to control, and that is what he's doing. Every message he's taken, he's, I have seen this. We are looking, we have been experienced on this. Therefore, I assure you, it will be okay with us and, but he needs any help from IMF, the government will know, but, or any other side. But at the moment, we are working hard to, without any help to get, I mean, IMF or World Bank, if you are willing to support us, we will come back to you. And I think this is what we have to do. In this moment, we are trying to manage ourselves. Okay? Thank you. Dr. Shamheed, you're from MDP you know.



Ms. Piyaporn Nikki Sod斯里wiboon, Head of Mission, International Monetary Fund (IMF):

Yes. If I may, thanks so much, Mr. Ibrahim. Indeed, I, we fully acknowledge and, very much aware of, you know, this problem with the fiscal situation and that this has been accumulated for quite some time. It's not, you know, the problem of one or the other. We very much appreciate that you, at least in this government you are recognize the problem. You have a plan to address the issues, and, you know, I really hope that this can be implement, to address some of the problem that you have. I mean, as you know, fiscal resources are limited everywhere. Especially here now in this current circumstance. And for any fiscal spending, it has to spend well. It has to generate maximum benefit for your people. Right? That's where we are coming from. On subsidy, we really hope that, you know, this can be launched, this year. We have seen, as I said, I mean, this blanket subsidy has raised significantly on the budget in the past year, Especially, when there's a situation where such high price in global oil prices. And that also come down to your budget as well. And then it eat up significant resource instead of where you can spend on you know, some of the project that can be beneficial for your population. No. But it has to, I mean have to be used as a part of subsidized for those oil prices increase. That is also unpredictable. Interestingly the World Bank hve also done some study. The main finding of that which I would like to share with you is also you know, like not all of the subsidy benefit your sort of like the poor and the vulnerable group of population in this economy. Precisely in the study in the Maldives where fuel and electricity are subsidized, we find that the majority of about 43% of this subsidy, actually benefit the ratio is 40% of the population rather than the poor. So what we are propose and actually what your Ministry of Finance is currently working on with us, with the world bank is to design a scheme that would be sort of like target to those who are in the most needed. You know, it's not that we would like to scrap everything subsidy, no. But we want to improve the scheme. We want to make it more beneficial to you know, to the vulnerable group of the population. That is the idea.

Chairman speaking:

Before Dr. Shamheed, I will give, I will say, this subsidy matter is actually and also the government is accumulated deficit came that high because of, we know that 19 this covid problem. Last government has been hit by a lot. This country, has because our main income come from tourism sector. And also the Fisheries. All these both has come very strongly hit by the. But the government has to run and also the people, country has to run. Due to that, and also oil price and all these things has come up so much. And



therefore, last government has enforced, they have forced to do this deficit budget. And also, in average they have been done the necessary island communities like electricity, like sewerage system and also sanitary fresh water to supply. Because of that our deficit budget has been increased a lot. That is what it is last government has been facing of course, because of covid. Two, three years we have lost. Still the private companies also have huge damage for us. Because this is what everywhere the people will know most effective damage has come to one of the country is, Maldives I believe. And therefore, our budget deficit is so much increase. I'm sure that we have to, this is without our control. Without, any humans cannot control this. That is what is happen and that is what I'm trying to say before Dr. Shamheed is; But this government is going to overcome this problem. And therefore, we have to tight belt in some of the areas definitely. That is what our government is doing. I believe he will do, the President will do that. Thank you. Dr. Shamheed you can carry on.

Mr. Ahmed Shamheed, MP of South Hulhumale' Constituency:

Thank you. Thank you Nikki and your team. Yeah! We ended last year with highest deficit on record, around fifteen billion. And we have accumulated over a Nineteen billion public debts last year end of quarter four. And our external debt was around fifty million plus. And our public debt is now around 130% of GDP. I'm sure you are aware of all these figures. Yes! As our chairman said, the government started some reform programs and we had some tax hikes last year. But, we had government first month records. So generally, we see a decrease in revenue. Especially custom duties. Custom duty fall around more than Sixty Percent. And yes! budget says quite a lot of reform programs especially subsidy reform, target reform. But, in campaign events and public events our President promised that he will not reform or there won't be any cut to subsidies. That's what President promised. But our budget yeah! There is three billion saving through subsidies. So, and our government is borrowing money at close to 14% interest rate. We have borrowed a loan of 50 million through government SOE, STO. SOE, through STO, which is around 14% interest rate for fifty million repaying in three years time with eighteen million dollars of worth of interest. So, these are the true figures, and I don't know whether you heard our President recently came to the parliament and gave his annual speech. The projects he promised to the public, when I calculated, it is going to costs close to 150 billion to 200 billion rufiyaa. So, these projects, he promised to deliver in within next three, four years. So, these are the reality. So, we are promising every day new thing, new projects. And most of these projects are



contractor finance projects with very high interest rates. Recently we heard rumor that they sign an airport development project, a local airport development project. Usually these projects costs around twenty to twenty five million dollars. But this specific project government signed for around 57 with interest of I think, with interest 88 million dollars. So, my question is, I'm sure you have done your analysis. So, do you trust our so-called homegrown reform program? And the other thing is, what will happen as you are aware that we have 400 million dollars currency swap program with Indian Central Bank. So, I think it's going to end in couple of months. So, we have three months' extension and after that I think it's either we go through, either go through IMF program or repay the money. So, what will happen to the end of this currency swap deal. So, two questions. Whether you have trust in the so-called reform program, government homegrown reform program and what will happen to the end of this 400 million dollars currency swap deal?

Ms. Piyaporn Nikki Sodsriwiboon, Head of Mission, International Monetary Fund (IMF):

Thank you so much Mr. Shamheed. Indeed, so as we discussed so far; Yes!

Chairman Speaking:

400 million or 1 billion rufiyaa exchange program is, it doesn't matter. It don't effect. Because we are not using that. It is the facilities that our friendly countries has been given to us. In case if we need to change to do this, that is what it is. And China, and also India is going to give it very soon. Does not matter it is we are going to use that. If you are not using, we do not have to come to that level. But previous government, yes! They have been used. That's, we have a problem with that. I do not want to say that, but it's really, if MDP is trying to talk that language. And trying to destabilize... No, no, no stop! No, no, no you stop. You...

Mr. Ahmed Shamheed, MP of South Hulhumale' Constituency:

You cannot do this.

Mr. Abdul Gafoor Moosa, MP of Hanimaadhoo Constituency:

Let them answer the question.

Chairperson speaking:

No, no, no you stop.







sustainability of public finance and that in this economy. Coming back to your question Mr. Shamheed, on capital expenditure. Indeed we have seen you know some announcement, but you know as we discuss so far in this meeting as well, fiscal resources are very much limited. And this has to spend well. You know we have provided sort of like technical assistance to your government since 2016 where we provide the public investment management assessment. Where we look at the processes of a public investment in this country. In the budget, in the process, approach at appraisal costing occur thing. So, we do find sort of the weaknesses in the public investment process. For example, on the costing and also on the appraisal that also the lack of the budget control related to capital spending. These are the deep root problem. And this also need to be improved. Right! In addition, as we discuss in the beginning of this meeting as well, that there have been massive infrastructure development over the past decades. And you know we have seen this infrastructure investment push. These have of course, as you have seen, it's add to fiscal deficit. It's add to debt. And we also see that the marginal growth impact of this spending seems to have diminished with a high of course, when you have to borrow at expensive you know, interest rate from, especially from other country to foreign loan and all that. That said, in the current circumstances where there is an urgent need to address the fiscal issues in this economy, we do recommend to really have a careful review of this investment portfolio, really prioritize it. You know just pick and be very selective for one that is most beneficial to the country, to your people. And scale back some of you know like, you know maybe unnecessary or wasteful spending. That's how we would advocate for. Yes! We are aware of there are IBIs as well. But then let me take a step back, you know why do we need this. Right! Over the past year I mean that's of course significant external pressure where we have seen a very large and persistent current account deficit. And that put a pressure of your foreign exchange reserve. It has been running down to a very low level. And importantly, as you know the Maldives has a currency pact. And based on you just sort of play the best practice where for the for any country that has have the pact currency regime. There is an adequacy level should you know be around, should be sufficient to support maybe at least three months of import. You're very far apart from that last year. And therefore, you know that this IBI swap is critical. I understand that the MMA has withdrawal to this swap to use it as part of reserve. And that help to be up your buffer. I mean it is important to maintain the currency pact. It's important to build resilience to prevent any you know shock to especially for import and financial spending need in this economy. So, yes, relatively short term is 6 month. I understand that your government is also working, you have a good dialogue with your neighboring country how to manage this and we are very much hopeful I mean if that can go through.





Chairperson:

Okay, thank you. Mr. Azaan, from ruling party.

Mr. Ahmed Azaan Marzooq, MP of Hithadhoo Central constituency:

Thank you. Yeah, I am from PNC, the ruling party of the Maldives. With regard to the subsidy reform, there have been some setbacks. As you know, reforming the subsidy program is not a politically popular decision. So, it's quite challenging. But It's not the only reason. As you know, we have a blanket subsidies program. And the ideal solution would be to introduce a targeted subsidies program. But the main challenge is that, government does not have accurate data on who are we going to target these subsidies. What we have right now is the salary, information on salary. The pension administration office, they do have that. But it's not entirely reliable to introduce a targeted subsidies program just based on the salary. For example, someone who is living the capital city, whose take home salary is maybe 50,000, can be considered as someone who is in the higher band. But that same person will have to spend more than half of his salary on rent. So, if we consider that, then that person will actually be eligible for subsidies. Because he will not be able to make ends meet even with that salary. And the salary of state minister in the government is less than this. The salary of cabinet minister is, 67,000. So that's the situation. So, it's not only the political pressure, but also, I think, technical difficulties as well. What the IMF can do is, I think, provide technical assistance to develop a comprehensive, targeted subsidies program. And as for Aasandha, government has initiated some reforms on Aasandha. So earlier this year, some of the medicine, it has been, the Aasandha introduced a list where you have a set price on some of these medications. But the challenge is that, the state own, STO, they haven't been able to supply these medicines. So, as a result, the private companies, they are not able to provide these 250 medicine via Aasandha. The government has a set price, and they are not able to sell at it that price. So, they stopped importing lot of essential medicine, and STO is not able to supply. So, I think, IMF can provide assistance in this regard as well. And for SOE reforms, I think we should go back and see how it was done during the MDP administration. Lot of, thousands of projects were conducted at inflated prices. And, in the last few months of President Ibrahim Mohamed Solih's administration, thousands of people were hired for these SOEs. And the Employment Act of the Maldives does not allow the government to dismiss them. So, we have thousands and thousands of people who are not doing anything in these SOEs. So, there isn't much we can do about it as of now. But I think we need to find a legislative solution to that. And government has seized these inflated projects, conducted by these SOEs. At the same time, we have to also recognize some other problems within SOEs. The main issue is the procurement system. Lot of money, millions and millions are bleeding through the procurement system. So, I think IMF can



assist in developing a central procurement system for the government of Maldives. And the government is already working on something like that. But I think that is an area we need assistance from IMF. So that will be my comments. Thank you.

Piyaporn Nikki Sodsriwiboon, Head of Mission, International Monetary Fund (IMF):

Thank you so much for your remark, which indeed very helpful. Yes, we have been providing sort of like technical assistance support to, in the design of the electricity subsidy and among other as well. And we're also working closely with the World Bank where they were focus on the design of the targeted income transfer. Indeed, this subsidy reform is the major step. And it require the effort from all part of this economy, especially from all of you. I think, as we have seen some of the past experience in toward the implementation of such a major reform. It also requires to start from a good communication. How do you get buy in from your public? I mean, I guess you have at least at the beginning you just have to, you know communicate with broader population, what is the subsidy reform is all about, why it's needed, and you know, how you can mitigate some of the impact to the population. Basically, what I have seen some on some preliminary design of this income transfer is very well cover a broader set of population and it will minimize sort of the negative impact on the population. Especially among the poor and the vulnerable, where they would receive additional income to use as a buffer when those subsidy what to be removed, right? That is also very important communication that you really need to start early in the process. Indeed, there's, as we work on the design of this scheme, there's indeed as you rightly point out you know, how do we target the right people. We also look into various statistics. As you mentioned, some of the studies that is very important, especially for those in the formal working sector, right? We also look at in the household survey statistics where we would identify sort of, who are the relatively poorer household that would be, that would need, you know, to be, that would need you know those income transfer to buffer some of the negative impact of that, throughout the transition of this reform scheme. In other country as well at the start, we also would open for registration, you know like toward this income scheme where, you know, the individual can also apply. And then you as part of the government will assess their eligibility criteria matching with some of your data that you have. You know like, we really need to look all, from all aspects to cross validate, and be very targeted to the right people. And so, you can channel the income, those income transfer to them to be the most beneficial. So yes, all this work is in progress. And even the household survey that we have seen, I mean is backdated from like 2019 and that may require some update. But at least I mean from what we have suggested to the government at least to start, you know using some of the available data and then this will never be a set and done scheme. It will continue to be evolved. And then you will continue to reassess as you would have more data coming



and you have better statistics. Maybe you know the NBS can do an updated household survey, and so you have a clearer picture of you know the distribution of the income in this economy. And so, you can improve the scheme going forward. But that said, it helps to start from somewhere. And I would say let's start from at least one communication and be very specific you know, that you was start launching this and why you are doing this. And then ensure to your population that you will try at best to mitigate some of the negative impact that they might experience.

Chairman:

Thank you. Now I will have to give chance to, please carry on. From MDP, the parliamentary group leader.

Mr.Ibrahim Nazil, MP of South Hithadhoo Constituency:

Thank you Chair. Thank you, Nikki and team. I believe that last year, 2024 your visit, your met our central bank, MMA governor Ali Hashim. He has been removed and the finance minister last year has been removed. There's no, the government that has no mission and vision to go through the, especially the economic or the fiscal since the new government starts. There's no target actually. That this everybody aware of this. Especially your team, IMF team is. I want to ask you that the first thing is, are we in, I mean the Maldives is in a high risk of this our economy the new government target is, are we in a high risk or what do you think about that our economy is going under risk or especially the foreign reserve is been reduced a lot as you mentioned just now, also the foreign currency reserve has been risk. And the last year economic growth they have mentioned at 5.2%, and end of the year it has been 3.8 or something. It's reduced to 2%. So, basically your opinion, IMF opinion, are we in a risk or not?

Piyaporn Nikki Sodsriwiboon, Head of Mission, International Monetary Fund (IMF):

Now Thanks for your question, Nazil. Yes, as we discussed in this meeting, I do mention that we have seen heightened risk you know on various aspects on fiscal external. You are all aware of that. But, you know it also depends on policy response, how you deal with it, right? I see, I mean I keep repeating myself that you know there have been a plan, this homegrown fiscal reform. And these are all you know, there have a lot of good element in that. And it's required to be implement. Yes, there's have been an increase in risk. But then if you do some policy action to at least mitigate to reduce some of the risk and the vulnerabilities that you are facing. I mean, it's really a chicken and egg and you know it's deep quiet the action from all of you here.

Mr.Ibrahim Nazil, MP of South Hithadhoo Constituency:



Now it's okay. I am continue. Are you aware of the last year budget, total budget, like more than 40% of the budget they've spent for the recurrent expenses? And then there are no PSIP projects started last year, new projects they haven't started it. So, the economy inside the Maldives being risk or not because of them?

Piyaporn Nikki Sodsriwiboon, Head of Mission, International Monetary Fund (IMF):

There are various part of the economy, right? We discussed in the beginning as well, I mean, you really benefit from your core industry, which is tourism. That's continued to provide you know, a lot of activity that support growth in this economy. Last year I believe we end up at 5.5% growth. And this year this will also set to continue as we mentioned somewhere around 5%. That's, this is quite favorable. And that's you know, is clearly benefit from the activity in the tourism sector. But yes, other part the economy there have been some challenges as you mentioned. You know, especially on some of the capital expenditure projects and all of that. But that said, in our policy recommendation we really recommend to review carefully those PSIP project. And you know like prioritize and selective on the project. I don't know, I'm sure you're aware of this, right? There's some 3,000 project in the PSIP. Do you believe that all of them will get implemented? This also something to think about, right? I mean, what are the capacity in this economy to implement all of this project? Maybe you don't need all of them. But then you need to you know pick and choose one that is most critical and then deliver it.

Chairman:

Mauroof.

Mr. Mauroof Zakir, MP of Kendhoo Constituency:

Thank you. I just would like to understand and clarify that; yeah, I'm going to change to PNC very soon. I think under the article of IMF you have a legal responsibility and obligation to assess the economy and the growth, the economic growth and the fiscal changes of the member states. Under that obligation you have been here and from 3<sup>rd</sup> of February I believe. And you have done, you must have done proper assessments how our economy and the fiscal reform has been changed. And as Dr. Shamheed has mentioned that what we have, what we see in terms of revenue compare to the previous year. It's also decrease when we compare to the first month of previous year. So, do you believe or what you have found from your assessment, is our economy is in a proper shape in order to grow and the fiscal reform what government is changing and bringing are in a right direction according to IMF assessment?

Piyaporn Nikki Sodsriwiboon, Head of Mission, International Monetary Fund (IMF):



So, as we started this meeting with a positive note on growth in tourism sector, yes, I mean in the near term you know this seem to have continue. But then there's a number of vulnerabilities that you need to really work on. So yeah, I guess, I guess I am just keep repeating myself. But it's really depend on the policy action, and that you need to deliver to manage those vulnerabilities.

Chairman:

Before I am giving chance to the administration, I mean the PNC party member, I would like to say the government has been already announced the subsidy, also target subsidies they will provide. This country's subsidy is given by the public and it's a necessary people before also. But now this government is trying to more focus and target subsidy. That means it is already announced. The work is going on. Part of that already done. This is a opposition and also the ruling party. I am neutral party. I am, that is why I think I am here in the Chair. I think you are aware this opposition people will always try to come up the power and the other party will try to show their, the things. I have been before Finance Minister as well as the Central Bank Governor. I know what it is and how it is working on, going on. I have experienced a lot in various sectors in this country. Anyway, I don't want to say anything else. But I would like to say that is what I have confidence, hundred percent confidence this government will survive and it will go smooth-sail. But the previous, up to now from before, now MDP has 2 government. And the last government has been increased the deficit a lot. Because of, I told you before also, because of this Covid is one of the problem. The other thing is they have to provide the water system in all the islands and also the sewerage system and all these things. It's not because of a not necessary. It is necessary. It is in our Constitution, it has been. Every government has, they have to take this responsibility and do this for our people. That is why we are debt, this much debt. The corruption is of course it is everywhere. There are no government is want to be that kind of blame. But it is happening whatever it is, unfortunately. And that one, from that I have to give to the Chair again, once again for you. Please go ahead. A second chance. How much time you have?

Piyaporn Nikki Sodsriwiboon, Head of Mission, International Monetary Fund (IMF):

Unfortunately, we also have another meeting coming up at 11.

Chairman:

Then I have to close down the meeting. And then okay. I will give to Dr. Shamheed. And after that... (Off the record)

Mr. Ahmed Azaan Marzooq, MP of Hithadhoo Central constituency:



Yeah, I just want to set the records straight. Last year, from last year's budget 11.4 billion was spent on PSIP projects and we spent closed to 6 billion on repaying debt. Out of that 3.9 billion was external debt. And the debt was borrowed during the previous administration. During President Solih's administration. Thank you.

Mr. Ahmed Shamheed, MP of South Hulhumale' Constituency:

Yeah, I just, I think I heard you touch on haalathu of our banking sector. So, if you can elaborate on this little bit. And also, I think you said you welcome the exchange reform program, MMA. But my worry is, the effect, the exchange, the USD foreign exchange program or the law will have on the private sector and also the what effect it may, the bill may have on the long-term foreign investment to our country. So those are my worries and those that foreign currency exchange law. And so, if you can, yeah, just give your opinion on these 2 areas.

Piyaporn Nikki Sodsriwiboon, Head of Mission, International Monetary Fund (IMF):

Thank you for your question, Mr. Shamheed. Yes, on the IBI swap we, our view is that, you know, I mean this help to provide some buffer to your country. It gives you sort of some temporary relief, right? But then at the same time we are aware that it is a short-term instrument. But you know, you also need to use this breathing space that you can have from the utilization of this IBI swap. You know to do some of the necessary adjustment in this economy and so you can reduce some of the financing need, especially foreign financing need going forward and restore and rebuild foreign exchange reserve going forward. That is how we see it. Now coming to the new Foreign Exchange Act, I think you have a question on that. In the broader picture, this is how we see it. As we all of us in this room is aware that the Maldives financial position remain very challenging and there have been acute foreign exchange shortages in the past year. This, where we see the policy priority, there is a need for significant macro-economic adjustment. And this has to come from the various policy measure that we discussed in this meeting on fiscal, on monetary, financial sector and all of that. That would be the private severalty, and this will also help to sort of place safeguard the currency pacts that you have, right. Meanwhile of course, we take note of some of the newly announced measures that the MMA has adopted in the past year. For example, in the October we have seen the announcement on to streamline the money changer licensing. This is also in line with our policy recommendation as part of the financial sector assessment program that we provided to the Maldives. And we believe this will help to sort of like, to improve the capacity of MMA, to supervise and monitor the money changing activities in this country. And in a way it is, will also help to, you know, reduce some of the transaction in the informal sector as well. And increase formality in the system. We also take note, I think it is also related to your question that





the MMA introduce the new Foreign Exchange Act. That's right. And that include a surrender requirement to deposit part of the tourism revenue in the domestic banking sector. Here is how we see it. We see such measure while it may sort of help mitigate some of the foreign exchange shortages in the near term. This cannot be substitute for the macro-economic adjustment as part of the policy package that we discussed so far in this meeting on fiscal and other thing importantly. So, we, in our discussion we also understand that the authorities see this surrender measure as a temporary measure. And they will continue to re-evaluate the impact and re-assess, you know like some of it's impacts, especially longer term impact and investor confidence. And they are open to you know, like to phase out. Especially when the balance of payment pressure has eased.

Chairman:

Okay, thank you very much. You have any advice, strong one or two things to give us and our two Committee? It is, one is the Economic Finance Committee and other one is, Economic Committee.

Piyaporn Nikki Sodsriwiboon, Head of Mission, International Monetary Fund (IMF):

No, Thank you so much indeed for taking the time with us. We really appreciate there is you know, cross collaboration and a very frank policy dialogue that we have had with all of you here. Very much appreciated. And I would, I also like to end this with a positive note. I really wish you know, all the success in your endeavor to really overcome this challenges facing the Maldives.

Chairman:

Thank you very much. I adjourn of the meeting.

