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Ministry of Finance and Treasury
Male', Maldives

Translation of the report submitted to People's Majlis

Medium Term Fiscal Strategy 2022-2024

31 July 2021

Report prepared based on information available as of 15th June 2021

Abbreviations and Acronyms

ADF	Airport Development Fee
ASC	Airport Service Charge
CPI	Consumer Price Index
DeMPA	Debt Management Performance Assessment
DSSI	Debt Service Suspension Initiative
FRL	Fiscal Responsibility Law (Act No.7/2013)
FTE	Fiscal Transparency Evaluation
GDP	Gross Domestic Product
GGST	General Goods and Services Tax
HDC	Housing Development Corporation
IFI	International Financial Institutions
IMF	International Monetary Fund
MACL	Maldives Airport Company Limited
MMA	Maldives Monetary Authority
MNDF	Maldives National Defence Force
MPS	Maldives Police Service
MRDC	Maldives Roads Development Corporation
MVR	Maldivian rufiyaa
NRRP	National Resilience and Recovery Plan 2021-2022
NPI	New Policy Initiatives
NRM	New Revenue Measures
PAS	Public Accounting System
PBA	Public Bank Account
PEFA	Public Expenditure and Financial Accountability Assessment
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
PPP	Public Private Partnership
PSIP	Public Sector Investment Program
RACL	Regional Airports Company Limited
SAP	Strategic Action Plan 2019-2023

SDF	Sovereign Development Fund
SDFC	SME Development Finance Corporation
SOE	State Owned Enterprise
T-Bill	Treasury Bill
T-Bond	Treasury Bond
TGST	Tourism Goods and Services Tax
USD	United States dollars

Contents

1. Introduction

This is a statement submitted to the Public Accounts Committee of the People's Majlis, as required by Fiscal Responsibility Law (No. 7/2013), disclosing the Medium-Term Fiscal Strategy of the Government.

The Medium-Term Fiscal Strategy 2022-2024 focuses on recovering from the economic and fiscal impact of the Covid-19 pandemic and establishing a sustainable fiscal policy for the medium-term. The Government Annual Budget for the year 2022 and the medium-term will be formulated based on this Strategy.

This statement includes an analysis on the difference between the previous Fiscal Strategies and the 2021 Approved Budget and revisions for 2021 that reflects the current situation. This is followed by information on the medium-term fiscal policy goals and the strategies for achieving these goals. Based on the medium-term goals for budget balance and debt, the strategy will identify the changes to revenue and expenditure required to meet these goals and fiscal space available for the New Policy Initiatives (NPI) - new programs and projects of the Government. This Strategy is based on "Medium-term Fiscal Framework" and baseline estimates of income and expenditure by the Ministry of Finance.

2. Comparison of Fiscal Strategies proposed in 2019 and 2020, and Approved Budget for 2021

This section discusses the differences in the estimates for 2021-2023 in three documents submitted to the People's Majlis over the last two years: the Fiscal Strategy 2020-2022 submitted in July 2019, Fiscal Strategy 2021-2023 submitted in July 2020 and the Government Budget 2021-2023 submitted in October 2020 and approved in November 2020.

Table 1: Comparison of Fiscal Strategies proposed in 2019 and 2020, and Approved Budget for 2021

	Fiscal Strategy 2020-2022		Fiscal Strategy 2021-2023			Approved Budget 2021-2023		
(millions MVR)	2021	2022	2021	2022	2023	2021	2022	2023
Revenue & Grants	29,788.2	31,881.8	17,523.7	21,076.5	25,314.1	21,128.5	23,076.6	27,650.2
Budget	41,665.0	45,663.6	36,254.0	38,157.8	34,783.2	34,922.7	44,977.9	40,846.1
Expenditure	38,704.9	38,607.7	33,888.4	31,707.3	32,080.8	33,431.5	38,598.4	38,250.3
Overall balance	(8,916.7)	(6,725.9)	(16,364.6)	(10,630.8)	(6,766.7)	(12,303.0)	(15,521.8)	(10,600.1)
Primary balance	(6,196.2)	(3,905.1)	(13,466.9)	(6,896.1)	(2,659.2)	(9,834.6)	(12,806.2)	(8,019.6)

The Fiscal Strategy 2020-2022 formulated in 2019 presents estimates made prior to Covid-19 pandemic. Hence, the revenue estimates in that statement for the years 2021 and 2022 assumes that the tourism industry growth observed in 2019 will continue through to 2020 and beyond.

Additionally, the revenue for that Strategy was estimated with the assumption that the proposed New Revenue Measures (NRM) for the medium-term with be fully implemented within the expected timeframe. Based on the projected growth in revenue and the assessment of a sustainable fiscal path, the expenditure proposed in the Fiscal Strategy included the implementation of several NPIs to implement the new policies of the Government. Hence the total expenditure estimated for the 2020-2022 in that Strategy were greater than the total expenditure proposed for 2019.

The Fiscal Strategy 2021-2023 proposed to the People's Majlis in July 2020 reflects the economic downturn and negative fiscal impact of the Covid-19 pandemic. As the recovery from the impact of the Covid-19 pandemic on the tourism sector and government revenue were expected to be gradual, the total revenue estimates for the years 2021-2023 were substantially reduced from the earlier forecasts in the Fiscal Strategy 2020-2022. Furthermore, on the expenditure side, to create fiscal space for the health, social and economic response of the Covid-19 crisis, other non-essential expenditures were reduced. In consideration of the lower government revenue, implementation of the previously proposed NPIs were also delayed. Hence the total expenditure proposed in Fiscal Strategy 2021-2023 was lower than the total expenditure proposed in the Fiscal Strategy 2020-2022. As revenue fell and the budget deficit grew, deficit financing options were explored, and priority was given to manage expenses within the available financing.

The Government Budget 2021-2023 was formulated to gear the economy towards recovery. The revenue forecasted for the years 2021 and 2022 in the Approved Government Budget 2021-2023, was still lower than the forecasts made for the Fiscal Strategy 2020-2022, but higher than the forecasts made for the Fiscal Strategy 2021-2023. This reflects, the quicker recovery of the tourism industry than what was projected in the Fiscal Strategy 2021-2023, as the restrictive measures taken to curb the spread of the Covid-19 pandemic were eased in mid-2020. Additionally, the NRMs proposed for 2020, but not implemented during the year, were now projected be implemented and realized in 2021. Furthermore, additional revenue of MVR 2.5 billion was estimated to be received from NRMs proposed in 2021.

In 2020 the Government reprioritized the "Strategic Action Plan 2019-2023" (SAP), formulating the "National Resilience and Recovery Plan 2021-2022" (NRRP), identifying the policy priorities of the Government for the coming years in consideration of the impact of the Covid-19 pandemic and the recovery from the crisis. The expenditures in the Government Budget 2021-2023 were formulated and prioritized based on the implementation of the NRRP. Although the expenditure for 2021 in the Government Budget 2021-2023 were maintained at the levels estimated in the Fiscal Strategy 2021-2023, the expenditure for 2022 and 2023 exceeds the projections in the Fiscal Strategy, as the Budget included higher expenditures on several projects (especially large infrastructure projects) which were expected to commence in 2021, with major disbursements expected for 2022 and 2023.

Since the revenue projected for 2021 was higher in the Government Budget 2021-2023 compared to Fiscal Strategy 2021-2023, the fiscal deficit in the Government Budget for the year 2021 was comparatively lower than the Fiscal Strategy. However, since the expenditure on the Public Sector Investment Program (PSIP) for the years 2022 and 2023 were higher in the Government Budget compared to the Fiscal Strategy, the total expenditure and the resulting fiscal deficit was estimated to be higher in the Government Budget compared to the Fiscal Strategy.

3. Revised estimates for 2021

This section covers the economic developments in 2021, government revenue and expenditure up to June 2021 and revised estimates for revenue and expenditure for 2021.

3.1 Economic developments in 2021 and revised forecasts

3.1.1 Tourism sector

In 2020, one of the measures taken by Maldives to contain the Covid-19 pandemic was to close off its borders from 27th March to 15th July. With the re-opening of the borders, tourist arrivals increased gradually, with notable improvements observed at the end of 2020. This pick up in arrivals at the end of 2020 continued into the first three months of 2021. However, in April 2021 arrivals declined, coinciding with the beginning of the traditional off-season for Maldives tourism and the decline in arrivals from India, one of the key source markets, as that country experienced a major wave of Covid-19. In addition to this, the temporary halt in the issuance of on-arrival visa to passengers travelling from South Asia from 13th May 2021 also contributed to the fall in arrivals. The surge in Covid-19 cases in Male' and the atolls in May 2021 further aggravated the decline in arrivals as Maldives was put on travel restricted lists by important tourism source markets such as the United Kingdom.

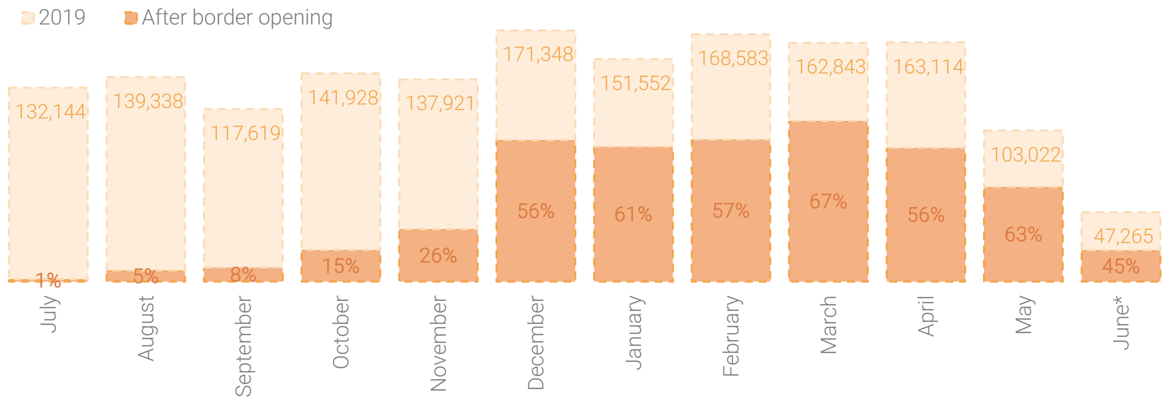
Total tourist arrivals as of the 12th of June 2021 was 476,745. This is a 24.3 percent growth compared to the same period of 2020, but a 44.8 percent decline compared to the same period of 2019. Although the tourist arrivals has recovered strongly from November 2020, arrivals remain substantially below pre-pandemic levels. While on average, 4,665 daily tourist arrivals were recorded in 2019, so far in 2021, average daily tourist arrivals stands at 2,937.

With the disruptions to the global travel and tourism industry due to Covid-19 pandemic, the main source markets for Maldives tourism have also shifted since border reopening in July 2020. Prior to the Covid-19 pandemic, main source markets were China, India and Western-European countries. However, since the emergence of Covid-19, arrivals from China has come to a total halt as the country has not yet reopened their borders for international travel. Furthermore, arrivals from Western Europe has declined sharply as the borders of many Western European countries have also been closed on a number of occasions since the emergence of Covid-19. In addition, Maldives being placed on the list of travel restricted countries for a number of times by Western European countries also contributed to the decline in tourist arrivals from these countries. So far in 2021, the main source markets to Maldives have been India, Russia and other Eastern-European countries.

A positive development in the tourism industry since border reopening has been the improvement in the average duration of stay of tourists. While the average duration of stay was 6.3 days per tourist in 2019, it has increased to 9 days in 2021. The increase in average duration of stay translates to higher tourism bednights, which is a key indicator of the tourism industry performance.

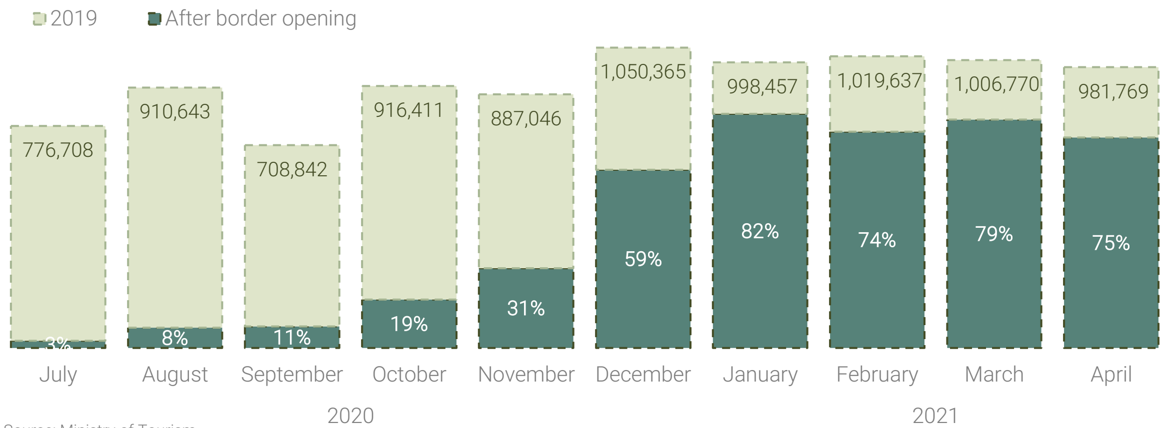
Total bednights recorded till the end of April 2021 was 3.1 million. This is 22.4 percent lower than the bednights recorded in the same period for 2019, but 13.7 percent higher compared to the bednights recorded in the respective period of 2020. As the average duration of stay has increased, the growth in bednights has exceeded the growth in tourist arrivals. As such, while tourist arrivals as of April 2021 is at 60.3 percent of 2019 levels, bednights in 2021 is at 77.6 percent of 2019 levels.

Figure 1: Comparison of tourist arrivals since border reopening with 2019 arrivals



* As of 12 June 2021
Source: Ministry of Tourism

Figure 2: Comparison of tourist bednights since border reopening with 2019 bednights



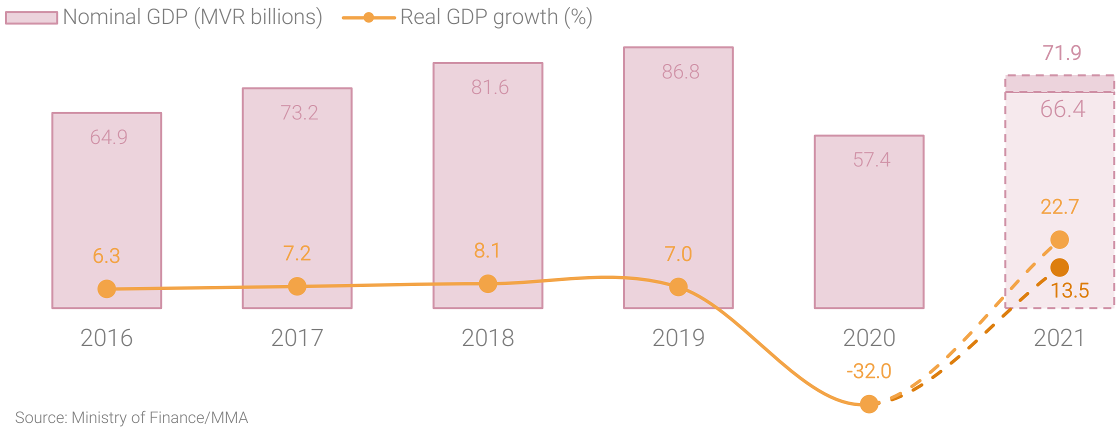
Source: Ministry of Tourism

If the tourist arrivals for the rest of the year follows a similar trend as the first half of 2021, it is estimated that 1.1 million tourists will visit the Maldives by the end of 2021. However, given the high level of uncertainties posed by the Covid-19 pandemic, the forecast for tourist arrivals in 2021 is estimated within a range of 0.97 million to 1.2 million.

3.1.2 GDP

Tourism sector is the main driver of the Maldivian economy. Therefore, the developments in the tourism sector are reflected in the growth of the overall economy. As such, with the closure of borders for three and a half months in 2020 due to Covid-19 pandemic, the decline in tourism sector output had large spill overs on many other related industries. Despite some recovery in the tourism sector with the re-opening of borders in July 2020, total tourist arrivals in 2020 was substantially below the initial forecasts prepared for the 2020 Government Budget. With the impact of Covid-19 on the output of the tourism industry and most other sectors, it is estimated that Gross Domestic Product (GDP) had declined by 32.0 percent in 2020. This is the largest economic contraction experienced by Maldives in recent decades. Maldives is also one of the countries that suffered the sharpest economic declines in 2020 due to the Covid-19 pandemic.

Figure 3: GDP Forecast



Source: Ministry of Finance/MMA

In 2021, the economy is on a sharp recovery path from the downturn experienced due to Covid-19 pandemic. The main difference between the economic forecasts prepared for the 2021 Budget and this Fiscal Strategy is in the faster recovery of tourist arrivals. Due to the unprecedented nature of the Covid-19 pandemic and the large uncertainties it poses, there are challenges in the producing economic forecasts for the medium term. The economic forecasts for the 2021 Government Budget submitted to People's Majlis was prepared in October 2020, based on the tourist arrivals forecasts produced with the information available at that point. Accordingly, it was estimated that the Maldivian economy will grow by 13.5 percent in 2021. However, developments afterwards, especially the announcement in November 2020 of the availability of vaccines for Covid-19 in early 2021, resulted in higher tourist arrivals than were forecasted in the Government Budget. Hence, with the expectation of tourist arrivals exceeding previous estimates, the economy is now estimated to grow by 22.7 percent in 2021. With this, Maldives is expected to be among the countries with the highest economic growth in 2021.

The Nominal GDP forecast for 2021 in the Government Budget 2021 was MVR 66.4 billion. The revised forecast for Nominal GDP for 2021 in this Fiscal Strategy is MVR 71.9 billion. This is equivalent to 82.9 percent of the nominal GDP in 2019.

Table 2 : Comparison of GDP forecast in Government Budget and Fiscal Strategy

	Approved Budget 2021-2023		Fiscal Strategy 2022-2024	
	2020	2021	2020	2021
GDP growth rate	-29.3	13.5	-32.0	22.7
Nominal GDP (MVR billions)	57.9	66.4	57.4	71.9

3.1.3 Labour Market

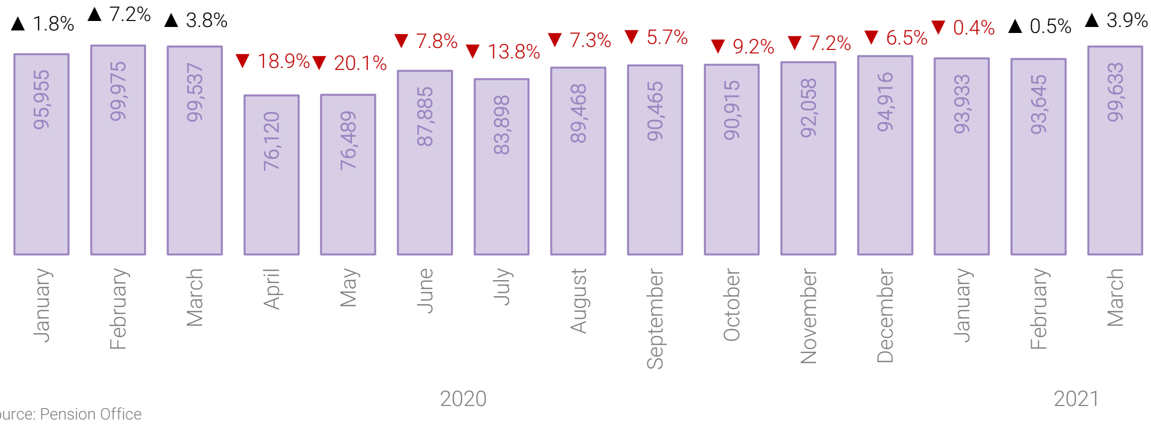
In 2020 the labour market was deeply affected by the Covid-19 pandemic and the restrictive measures that has to be put in place to contain the spread of the pandemic. In particular, employees in the tourism sector as well as other sectors closely linked to tourism such as transport, fisheries and agriculture were affected. In addition, workers in the construction sector, as well as those working in SMEs and freelance workers also faced significant impact on their employment and incomes. In March 2020, the Income Support Allowance scheme was introduced under the Government's Economic Relief Package to support workers and self-employed individuals whose earnings and employments were affected by the Covid-19 pandemic. As of 10th June 2021, 22,945 individuals had benefitted from this program.

Due to the lack of a comprehensive employment statistics in Maldives, it is difficult to estimate the actual impact of Covid-19 on employment. However, it is highly likely that the unemployment rate has increased during this period. According to the National Bureau of Statistics, the unemployment rate of the Maldives in 2019 was 5.3 percent. Based on the number of job losses reported to the Government, along with other data available, it can be fairly certainly ascertained that the unemployment rate of Maldives increased in 2020 compared to 2019.

Despite the disruptions to the labour market in 2020, the labour market has shown signs of improvement in 2021 mirroring the economic recovery. As the Income Support Allowance scheme has been discontinued in 2021, it is difficult to estimate the numbers of workers that has been laid off during the year. However, the number of employees registered at the Pension Office has been increasing in 2021, indicating a recovery in the labour market. According to statistics from the Pension Office, there was an 18.9 percent dip in the number of employees registered at the Pension Office in April 2020, due to the lockdown, when compared to the same month in 2019. This was followed by a further decline of 20.1 percent in May 2020. Despite increases in the number of employees on a monthly basis from August 2020, the number of employees registered remained below pre-Covid-19 levels for the remainder of 2020 and January 2021. However, the number of registered employees at the Pension Office in February and March 2021 was higher than the figures for the same months in 2019. This was due to an increase in the number of workers registered from the tourism sector. The number of employees in the formal sector are likely to increase further in 2021 with the recovery of the tourism sector.

However, the pension statistics does not capture some important segments of the Maldives labour market. For example, expatriate workers, which make a large portion of the labour force, are not included in the Pension Office data. The data also excludes freelance workers as well as those working in the informal sector. These segments of the labour market were also greatly affected by the Covid-19 pandemic. A significant number of expatriate workers were also laid off in 2020 due to the Covid-19 pandemic and had returned home on their own or through the Government's repatriation program. The microdata from the Income Support Allowance program provides evidence of the negative impacts of Covid-19 on freelance workers and self-employed individuals. The expected recovery of the economy in 2021 is likely to have a positive impact on freelancers, self-employed individuals and those working in the informal sector. Furthermore, the number of expatriate labour is also expected to increase in pace with the economic recovery.

Figure 4 : Number of employees registered at Pension Office compared to 2019 levels



Source: Pension Office

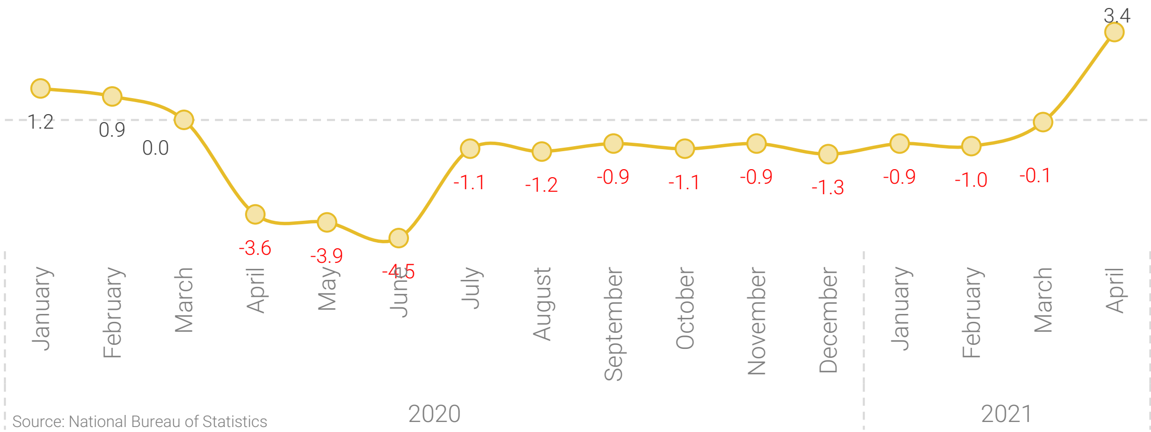
3.1.4 Inflation

The Covid-19 pandemic has impacted Consumer Price Index (CPI) inflation through several channels. In 2020 large reductions in prices were observed for household rentals, telecommunications services and water and electricity services, while price increases were observed mostly for food items. The prices of imported goods also increased due to the increase in the exchange rate in the parallel foreign exchange market as a result of speculation in the wake of the Covid-19 pandemic and the resulting decline in foreign currency income. Overall, the reduction in global energy prices, water and electricity utilities discounts issued to household, the reduction in rents due to the loan moratorium and the price control on some food items contributed to the reduction in prices in 2020. The national CPI inflation rate for 2020 was -1.4 percent.

The first three months of 2021 followed a similar trend as the latter part of 2020 as the general price levels decreased compared to the corresponding period of 2020. The main drivers of this deflation were the reduction in prices of rent, fish, and telecommunication services. However, in April 2021, the general price levels increased for the first time, after 12 months of deflation. This was primarily due to the base effect. Water and electricity discounts were first given to households in April 2020. In addition, rent discounts were given to several tenants in April 2020 due to the lockdown enforced in the Greater Male' Region and loan moratoriums. As a result, prices declined significantly in April 2020. The CPI for April 2021 does not include these one-off price reductions in April 2020, thereby this increases the inflation rate on a year-on-year comparison. It should also be noted that the rental prices still remain below pandemic levels.

It is expected that the prices will generally be on an upward trend for the remainder of 2021 largely due to the base-effect. Furthermore, the increasing trend of global energy prices in 2021 is likely to have an inflationary impact on the general price levels since Maldives is largely dependent on imports for consumer products. Similarly, the availability of foreign exchange for importers can also affect the price levels on imported goods. Despite this, water and electricity discounts issued in the wake of a new wave of Covid-19 this year is expected to exert downward pressure on prices. Additionally, the Government has come to an agreement with internet service providers to reduce the price of internet services this year, which would further exert downward pressures on the telecommunication service prices.

Figure 5: National inflation rate from January 2020 to April 2021



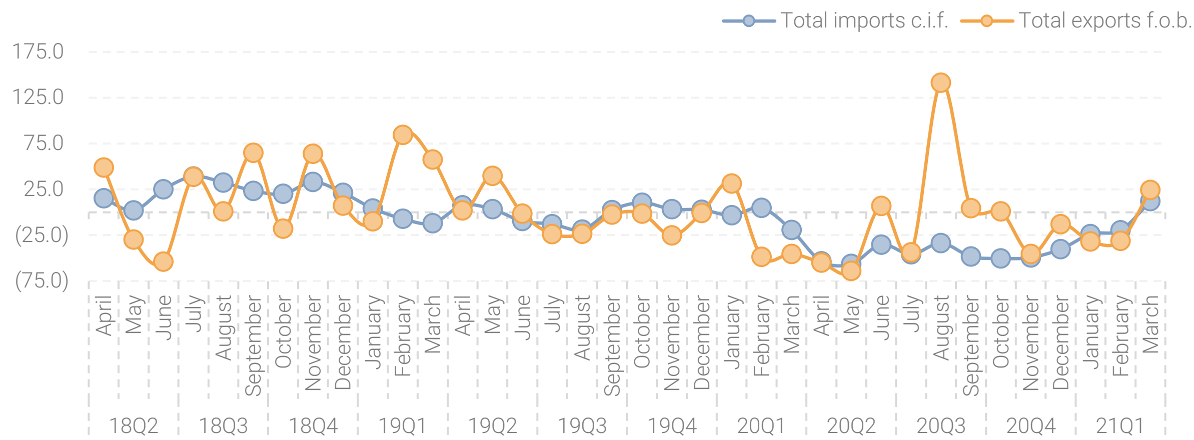
Source: National Bureau of Statistics

3.1.5 External Sector

Tourism sector is the main source of foreign currency earnings for Maldives. Tourism sector receipts declined by 55.7 percent due to the Covid-19 pandemic and the preventive measures taken to contain the spread of the virus.

Since Maldives is heavily dependent on imports, foreign currency required for imports has exceeded the foreign currency receipts through exports, for a prolonged period of time. This gap has widened in recent years due to the increased imports demand linked to the large infrastructure projects carried out by the Government. In 2020 lower demand for inputs due to the shock to the tourism sector from Covid-19, along with disruptions to the global supply chains and the fall in global oil prices, caused spending on imports to decline by 40.6 percent.

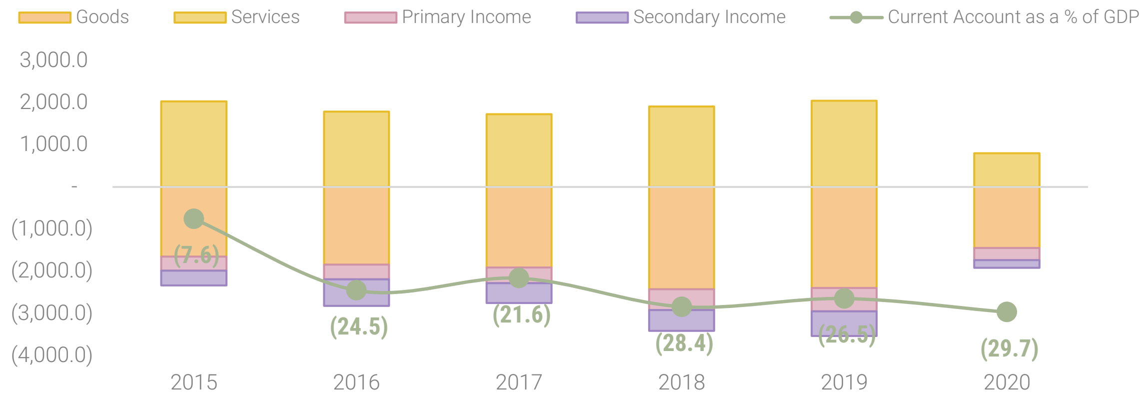
Figure 6 : Imports and Exports (year-on-year (%))



Source: Maldives Customs Service

The other significant source of foreign currency leakage for Maldives is through remittances by the large expatriate work force. However, foreign currency outflows through remittances declined by 62.9 percent in 2020 as the jobs and earnings of expatriate workers were also affected due to Covid-19.

Figure 7 : Current Account Balance (as a percent of GDP (%), USD)

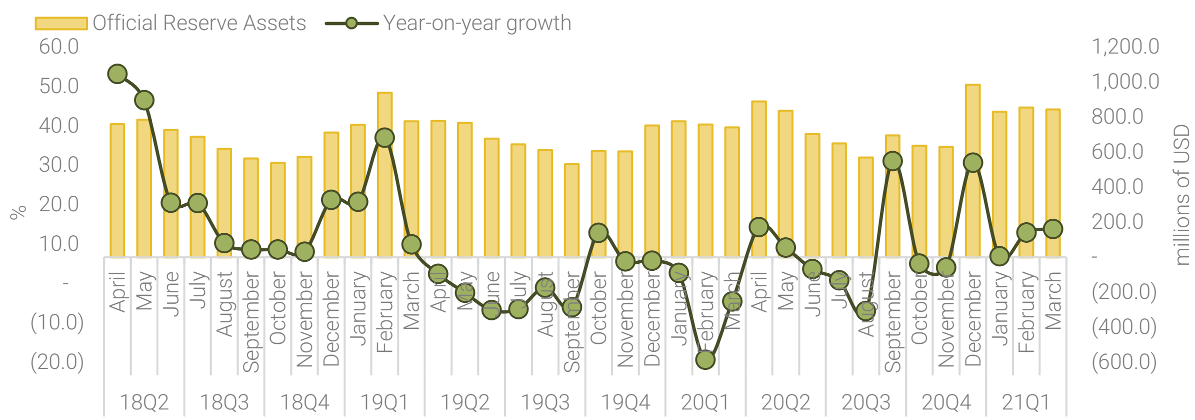


Source: Maldives Monetary Authority

Although both foreign currency receipts and foreign currency demand fell in 2020, the foreign currency outflows through imports, remittances and other sources, remained above foreign currency receipts. As a result, a Current Account deficit was observed in 2020 as well, albeit lower than the deficit recorded in 2019. The Current Account deficit recorded in 2020 was USD 1,118.5 million, which is a 24.9 percent reduction compared to 2019. However the sharp decline in the GDP in 2020 resulted in a 3.2 percentage point increase in Current Account deficit relative to GDP, reaching a Current Account deficit to GDP ratio of 29.8 percent in 2020.

The current account balance is expected to improve in 2021 with the recovery of the tourism sector and the increase in foreign currency inflows from the sector. However, with the recovery in the tourism sector, the import requirement of the sector for inputs are likely to increase as well. Furthermore, as a number of government projects are expected to commence physical work in 2021 the imports of construction material and machinery required for these projects are also expected to grow. In addition, remittances are also expected to increase with the recovery of the labour market. The increase in global fuel prices, is also expected to increase the cost of imports in 2021.

Figure 8: Official Reserves



Source: Maldives Monetary Authority

The Official Reserve Assets were negatively impacted by the decline in foreign currency income from the tourism sector in 2020. However, the reserve position improved to USD 984.9 million at the end of 2020 as a result of the measures implemented to curb the adverse effects on reserves due to Covid-19, additional foreign financing brought to fund the Government budget in 2020, the recovery of the tourism sector towards the end of the year, and the utilization of the foreign currency swap facility with the Reserve Bank of India.

The Official Reserve Assets increased during the first quarter of 2021 when compared to the same period of the previous year and reserves levels were maintained throughout the quarter.

3.1.6 Global Economic Outlook

The International Financial Institutions (IFI) note the high level of uncertainties still present in forecasting the medium-term economic outlook for the world. The core of this uncertainty remains the trajectory of the Covid-10 pandemic, with the emergence of more infective variants and the reinstatement of restrictive measures across the world to combat new waves. The risks to the forecasts will depend largely on the trajectory of the global pandemic in the coming months and years.

In the latest global economic forecast published by the International Monetary Fund (IMF) in their April 2021 World Economic Outlook, they have upgraded the forecasts compared to their October 2020 forecasts. IMF currently projects the global economy to grow by 6 percent in 2021. Developed economies are expected to grow by 5.1 percent while developing and emerging economies are expected to grow by 6.7 percent in 2021. Small Island Developing States (SIDS) are expected to grow on average by 2.2 percent in 2021. The improvement in the overall global economic prospects reflects the massive fiscal support provided especially by developed economies and the speed of vaccination in some developed and emerging economies that has supported a quicker return to normalcy. IMF notes that the world is heading towards an uneven recovery between those that will recover much of the lost economic production due to Covid-19 this year, and other that will face a more prolonged recovery. Many SIDS will fall into the latter, with a slow resumption of global air travel still hampering the growth prospects for especially tourism dependent economies.

In the medium term, the global economic growth is expected to slow down to 4.4 percent in 2022, settling down to an average of 3.4 percent growth. The medium-term global growth will reflect the impact of the Covid-19 crisis on the supply potential (through bankruptcy and lower labour force participation), as well as underlying structural issues that were present before the crisis (ageing population, inequality).

To ensure a more equitable global economic recovery the IMF recommends a fairer distribution of Covid-19 vaccination worldwide, especially to the developing countries with limited access to vaccines. The IMF also notes that the international community needs to work together to ensure that financially constrained economies have adequate access to international liquidity so that they can continue needed health care, other social, and infrastructure spending required for development and convergence to higher levels of income per capita.

3.2 2020 Revenue and Expenditure

3.2.1 Revenue

In 2020 MVR 15,690.2 million was received as revenue and grants. This is 47.6 percent lower than initially projected in the 2020 Approved Budget, but 6.8 percent higher than projected for the 2020 Revised Budget. The initial revenue projection in the 2020 Approved budget was based on an assumption of continued economic growth and the enforcement of a number of New Revenue Measures during the year. Nevertheless, the economic contraction caused by the Covid-19 pandemic impacted government revenue and forced major revisions to the revenue forecasts.

Due to the impact of the Covid-19 pandemic on the tourism sector, the revenue directly linked to the industry, such as TGST, Green Tax, ASC and ADF, was substantially below initial projections. Furthermore, the decision to defer the payment of resort lease rent due for the last two quarter of 2020, to 2021 also cut the revenues from resort lease rents by half. As the tourism sector is the main economic sector, the hit to the sector rippled down to the performance of other related sectors in the economy. Furthermore, measures that had to be taken to control the spread of the pandemic, such as lockdowns and internal travel restrictions further impacted domestic economic activities, which in turn further impacted government revenue. As such revenue from import duties and GGST fell sharply in 2020. Additionally, as the Covid-19 pandemic impacted the profitability of private and public enterprises, the revenue from income taxes and dividends fell during the year.

Although the revenue fell sharply compared to the initial projection in the 2020 Approved Budget, the revenue exceeded the projection in the 2020 Revised Budget. This is attributed to a faster than expected recovery in tourism sector and the economy, particularly during the last few months of the year. Positive improvements in revenue also came from the reopening of the economy and the easing of some of the restrictive measures placed during the initial stages of the pandemic.

In 2020 MVR 1,417.8 million was received as grants. Grant assistance received in 2020 increased due to additional cash and in-kind grants received to combat the Covid-19 pandemic and for the Covid-19 health, social and economic response.

Table 3 : 2020 Revenue and Expenditure breakdown

(MVR millions)	Fiscal Strategy Initial Estimates	Fiscal Strategy Revised	Budget Approved	Budget Revised	Actuals
Total Revenues and Grants	**30,731.5**	**13,734.3**	**29,921.6**	**14,692.8**	**15,690.2**
Tax Revenues	18,161.4	9,812.1	17,852.3	10,138.2	10,957.7
Non-Tax Revenues	6,030.8	2,264.9	6,854.4	2,430.4	3,314.7
Grants	4,015.5	1,657.2	5,214.9	2,124.3	1,417.8
New Revenue Measures	2,523.8	na	na	na	na
Total Budget	**39,552.7**	**31,200.5**	**37,871.3**	**31,787.1**	**29,996.4**
Loan Repayment	2,491.0	1,129.2	1,883.7	1,138.2	1,193.1
Total Expenditure	**37,040.0**	**30,050.1**	**35,966.4**	**30,627.7**	**28,793.4**
Recurrent Expenditure	22,241.7	20,169.1	22,337.9	20,876.9	20,366.7
Capital Expenditure	11,773.7	9,880.9	13,628.5	9,750.7	8,426.7
PSIP	5,690.0	5,491.1	10,454.8	3,614.5	4,901.6
New Policy Initiatives	5,500.0	na	na	na	na
Overall Balance (Deficit)	**(6,308.5)**	**(16,315.8)**	**(6,044.8)**	**(15,934.9)**	**(13,103.2)**
Primary Balance	**(4,018.6)**	**(14,607.8)**	**(4,201.1)**	**(14,226.8)**	**(11,449.4)**
Overall Balance-to-GDP	-6.5	-25.1	-6.2	-27.5	-22.8
GDP	97,010.4	65,091.8	97,534.6	57,941.6	57,391.1

Note: With the exception of initial estimates of the Fiscal Strategy, the numbers for New Revenue Measures and New Policy Initiatives are included in their respective revenue and expenditure figures

3.2.2 Expenditure in 2020

As of the end of 2020, total government budget was MVR 29,996.4 million. This represents a decline of 20.8 percent compared to Approved Budget for 2020 and a decline of 5.6 percent compared to the revised forecast for 2020 in the 2021 Budget. Government's total spending for 2020 was MVR 28,793.4 million, which is a decline of 19.9 percent compared to the 2020 Approved Budget and a decline of 6.0 percent compared to the 2020 Revised Budget.

As the revenue projections for 2020 were downgraded due to the Covid-19 pandemic, the Government was forced to substantially reduce expenditure to create the fiscal space required to fund the additional spending on health, social security and economic relief. As such measures were taken to halt or reduce the expenditure on non-essential activities.

In addition to the expenditure rationalization measures, lockdowns and the enforcement of work from home orders reduced the administrative expenses and travel expenses. New higher education loan and scholarship disbursements for students also declined due to the pandemic. Under the Debt Services Suspension Initiative (DSSI) approved by the G-20 countries, debt repayment on debt incurred from official bilateral creditors were deferred, leading to a fall in expenditure on interest payments. Decline in international commodity prices led to a reduction in expenditure on subsidies, such as food and fuel subsidies. Grants provided to local councils were also reduced since the grants is calculated based on government revenue and since government revenue declined sharply due to Covid-19. Although a number of new projects initiated in 2019 commenced physical wok in 2020, the implementations of PSIP projects were below budget projections, due to the restrictive measure implemented to control Covid-19 and disruptions to the supply chains.

While expenditure on general administration decreased, expenditure increased on areas such as health and social security due to Covid-19. As such, a new "frontline allowance" was established to compensate frontline workers for their contribution to combat the Covid-19 pandemic. In addition to this, expenses were incurred to prepare and equip isolation facilities, intensive care units and quarantine facilities. Acquisition of medical consumable needed for the Covid-19 response, such as PPEs and testing kits also contributed to the health sector expenditure. Spending on medical evacuation and on transporting patients during emergency situations also increased in 2020. Furthermore, as Covid-19 vaccine was rolled out at the end of the year and vaccine manufacturers started taking orders, the initial procurement of vaccines required for the country were made in 2020. As global borders were closed off in early 2020 financial aid was provided to Maldivians stranded abroad and expenditure was incurred to evacuate Maldivians living abroad affected by the pandemic. As Covid-19 spread rapidly among the expatriate labour community living in congested housing in Male' region, expenditure was incurred to build temporary labour quarters to contain the spread of Covid-19.

In 2020 substantial expenditures were also incurred to support the economy during the crisis. Expenditure was allocated from the budget to maintain a steady supply of staple goods despite the disruptions to the global supply chains. To provide relief for households during the lockdowns, discounts were issued on electricity and water bills for a number of months. To support the businesses affected by the crisis, Covid Relief loans were issued though Bank of Maldives and SME Development Finance Corporation (SDFC). Further capital injections were made to SOEs in 2020 to ensure continuity of public services and to alleviate their cash flow difficulties.

As a result of the expenditure controls instituted during the year, actual expenditure in 2020 was less than the revised expenditure estimate.

3.2.3 Budget Balance

Actual budget balance for 2020 was a deficit (overall deficit) of MVR 13,103.2 million. This is 22.8 percent of GDP. Primary budget balance for 2020 was MVR 11,449.4 million.

Since actual revenues generated in 2020 was higher than revised forecasts and actual expenditure was less than the revised expenditure forecast, actual budget deficit was less than the revised forecasts.

3.3 Total Revenue and Grants from 1 January 2021 to 10 June 2021

Table 4 : Total Revenue and Grants from 1 January 2021 to 10 June 2021

(MVR Million)	2020	2021
Total Revenue and Grants	6,891.10	8,041.50
Tax Revenue	5,242.60	6,273.80
Non-Tax Revenue	1,509.40	1,697.00
Grant	139.1	70.7
Total Budget	12,224.50	12,904.10
Debt repayment	593.4	436.2
Total Expenditure	11,652.40	11,680.80
Recurrent Expenditure	8,162.80	8,876.00
Capital Expenditure	3,518.00	2,776.40
PSIP	2,114.50	1,340.60
Overall Balance (Deficit)	(4,789.70)	(3,637.90)
Primary Balance	(4,096.00)	(2,888.40)

3.3.1 Revenue

Total revenue and grants received from 1 January 2021 to 10 June 2021 was MVR 8,041.5 million. This is an increment of 16.7 percent compared to the total revenues and grants received for the same period in 2020.

Despite the major revenue downturn in 2020 due to the Covid-19 pandemic, total revenue and grants has improved in 2021, as the economic situation has improved, and the recovery has strengthened. As the tourism sector reopened and economic activities has improved in the sector, revenue generated directly from the sector (TGST, ASC, ADF and Green Tax) has improved significantly compared to the same period of 2020. Furthermore, with the resumption of resort operations and as the businesses recover from the financial hit of the 2020 crisis, the revenue received as resort rent lease rent has increased compared to the same period of last year.

With some Covid-19 related restrictions being lifted and general economic activities resuming, the revenue generated from GGST has also increased compared to the same period of 2020. In addition to this, an increase in import volume and import prices has led to a higher import duty collection compared to 2020.

This year marks the first year Banks paid their first interim payments according to the Income Tax Act (No. 25/2010). During the first quarter of 2021, businesses also paid their second interim payment for 2020. The interim payments made by the business show the negative impact of Covid-19 on their profits. However, the revenue received in employee withholding tax has increased, compared to the corresponding period of 2020.

Total grants received so far in 2021 is MVR 70.0 million. This a decline compared to the same period of 2020, as in 2020 the Government received substantial grant support for the Covid-19 response.

3.3.2 Expenditure

Total government expenditure from 1st January 2021 to 10th June 2021 is MVR 11,680.8 million. This is an increment of 0.2 percent compared to the same period in 2020. While recurrent expenditures increased, capital expenditure decreased, compared to the same period of 2020.

While the implementation of flexible working hours and reduction in domestic and international travel has helped to maintain these expenditures at below historical levels, expenditure on these items has nevertheless increased compared to 2020. Expenditure on personal emoluments also saw an increase this year, as the previously discontinued frontline allowance for worker engaged in the Covid-19 response was reinstated due to the emergence of new waves of Covid-19, and due to additional staffing for MPS, MNDF and the education sector.

So far in 2021, government has paid MVR 213.0 million as compensation for losses and damages, which exceeds the budget figure. The payment for losses and damages include, MVR 181.0 million paid to World Link Travels to comply with Court rulings and compensations linked to the dissolution of MRDC.

Even though administrative expenditure has been reduced, spending on health sector, economic relief and stimulus has increased in 2021. Furthermore, spending on grants, contributions & subsidies has increased during the year. In this regard, government spend on Aasandha health insurance scheme so far in the year stands at MVR 672.8 million. Furthermore, MVR 200.9 million has been spent on Income Support Allowance this year on claims from 2020 that were disbursed in 2021.

Expenditure on payment of interest payments on sovereign bond coupon payments and debt interest payments has increased compared to the same period of 2020.

Capital expenditure for the period 1st January 2021 to 10th June 2021 includes MVR 1,340.6 million on PSIP projects. Notable PSIP expenditures in 2021 include expenditure on establishing a high-speed ferry system in the Northern atolls of Maldives and construction of an office building for Ministry of National Planning in Hulhumale'. The delays in the execution of projects explains the reduction in expenditure on PSIP, compared to the same period of last year.

SOEs has been provided MVR 906.9 million as capital contribution so far this year. This includes the capital contribution to Regional Airports Company Limited (RACL) after it was established as an SOE and capital contribution to Housing Development Corporation (HDC) and SDFC. Additional expenditure on capital contributions were incurred to fund the services provided to the public through SOEs and the additional expenditures incurred on SOEs due to Covid-19. Furthermore, MVR 150 million in loans were provided to HDC to complete the 7000 housing units under Hiya housing project and MVR 10.0 million in loans were issued for the relocation program implemented through Ministry of Gender for people and families wishing to relocate from Greater Male' Region to other islands due to Covid-19. Financing in form of a loans were also granted to MACL to pay contractors due to extension of time for the airport expansion project.

3.3.3 Budget Balance

As the total revenue and grants received for the period 1st January 2021 to 10th June 2021 increased compared to the same period of 2020, but total expenditure remained at a similar level as 2020, budget deficit (overall deficit) decreased in 2021 compared to 2020. During this period, budget deficit (overall deficit) was recorded at MVR 3,637.9 million and primary budget deficit was recorded at MVR 2,888.4 million.

3.4 Revised revenue and expenditure for 2021

The revised Budget for 2021 was formulated taking into account the impact on Government revenue due the Covid-19 pandemic, while accounting for the potential financing that can be raised to fund the budget. The Revised budget for 2021 was also formulated with a view of creating the fiscal space required to fund the additional expenditures required to combat the Covid-19 pandemic by reducing government expenditures in non-essential areas.

3.4.1 Revenue

Considering the actual revenue and grants received so far this year, the measures being taken to control the spread of Covid-19, and the current macroeconomic forecasts, the current estimate for total revenue and grants for 2021 is MVR 20,743.8 million. This is a decline of 1.8 percent compared to the approved budget for 2021.

Tax revenue for 2021 is now estimated to perform better than forecasted in the Approved Budget given the stronger than expected recovery in the tourism sector and the economy. As tourist arrivals and bed nights are expected to outperform the previous forecasts, revenue from tourism related taxes are expected to increase. As the growth in tourism sector is expected to spill over to other sectors, revenues such as GGST and import duties are also expected to increase in 2021.

Businesses and individuals will pay Income Tax in 2021 based on the revenues and income generated in 2020. As the impact of Covid-19 on the taxpayers were less adverse than previously estimated, the receipts from Income Tax is now expected to increase compared to the Approved Budget estimate.

Following the trend in tourist arrivals, revenue from ADF is expected to increase in 2021. Revenue from resort lease rent will also increase since a majority of the deferred rent in 2020 is expected to be paid during 2021. Dividend paid by SOEs are expected to remain at around the same level as 2020 as SOEs faced lower profits in 2020 and therefore declared less dividends and as some SOEs are facing cash flow difficulties.

Despite the effort that has been put to implement the New Revenue Measures (NRM) proposed for 2021, most of the revenue forecasted to be received through NRMs are no longer expected to be realized during the year. Furthermore, NRMs approved to be implemented in 2020 which was delayed due to the pandemic is expected to be further postponed. Therefore, only MVR 259.2 million out of the MVR 3,236.6 million approved for NRMs is expected to be realized in 2021.

The current estimate for grants for 2021 is MVR 1,512.1 million, which is below the Approved Budget estimates.

Details of revised revenue forecasts for 2021 is available in Appendix table 1.

Table 5 : Comparison of 2021 Approved Budget and Revised Budget

(MVR millions)	Approved 2021	Revised 2021
Total Revenues and Grants	21,128.5	20,743.8
Tax Revenues	10,895.4	13,152.4
Non-Tax Revenues	8,021.6	6,079.3
Grants	2,211.5	1,512.1
Total Budget	34,922.7	36,917.4
Loan Repayment	1,883.7	4,579.2
Total Expenditure	33,431.5	32,328.1
Recurrent Expenditure	21,638.1	20,013.6
Capital Expenditure	11,793.4	11,017.4
PSIP	10,454.8	6,610.0
Overall Balance (Deficit)	(12,303.0)	(11,584.3)
Primary Balance	(9,834.6)	(8,936.3)

3.4.2 Expenditure

The 2021 Budget was formulated with the goals of bringing deficits to sustainable levels and to maintain deficits in the medium term at a level that could be feasibly financed. The medium-term expenditure was set and prioritized as per the National Resilience and Recovery Plan (NRRP), which reprioritizes the activities outlined in the Strategic Action Plan (SAP) of the Government.

Based on the expenditure incurred so far in the year and the projected expenditure on Covid-19 response and recovery, total budget for 2021 is expected to be MVR 36,917.4 million. This includes total expenditure of MVR 32,328.1 million. This is an increase of 3.3% compared to the approved expenditure for the year. The main driver of the higher revised budget for 2021 is the larger than previously projected expenditure on amortization due to the servicing of a large part of the "Sunnyside" sovereign bond which was scheduled to come due in 2022, as part of a liquidity management exercise conducted during the Sukuk issuance carried out this year. Through this exercise the Government has now serviced USD 192 million of the USD 250 million principal due on the bond. With this additional amortization, the budget will exceed the approved amount, hence the Ministry will submit a Budget supplement to the People's Majlis to approve the revised Budget for 2021.

In the 2021 Revised Budget the biggest share of the recurrent budget will continue to be spending on personal emoluments and grants, contributions & subsidies. The revised budget will maintain the expenditure on personal emoluments at a similar level as the Approved Budget. Within the expenditure on grants, contributions & subsidies, the spending on the national health insurance scheme: Aasandha, is the largest component. As the implementation of some of the reforms to Aasandha proposed for 2021, including generic prescribing and setting maximum retail price on pharmaceuticals has now been delayed, the overall expenditure on Aasandha scheme is expected to exceed the Approved Budget. On the other hand, expenditure on fuel subsidies are expected to remain low due to the fall in global fuel prices in 2020, however the risks due to increasing global fuel prices in 2021 has to be acknowledged. As schools were closed for most part of the year for in school teaching, and the school breakfast program will not be recommenced this year, this will also reduce the expenditure on grants, contributions & subsidies. Overall the expenditure on grants, contributions & subsidies have been maintained at the Approved Budget levels.

Looking at other recurrent expenditures some expenditures has been added to the Budget due to changes in laws and policy changes. However, since expenditure controls continue to rationalize expenditure, the expenditure on operational services and on travel is expected to be maintained below the Approved Budget levels.

Expenditure on interest payments is also a major recurrent expenditure item. Although expenditure on foreign debt servicing has reduced due to the G-20 DSSI, an increase in total debt servicing has been observed so far in to the year, due to the front loading of the domestic debt servicing. Overall the expenditure on interest payment maintained at the Approved Budget level.

The expenditure on losses and write offs has already exceeded the budgeted amount as the government has had to pay for compensation for losses, due to a number of legal cases. This includes the payments already made to World Link Travels. Additional budget allocation has been made for further risks of payments on losses for the rest of the year.

Finally, in expenditure on training, the approved expenditure on scholarships and student loan schemes are expected to be realized in 2021.

Although total capital expenditure is expected to be maintained at a similar level to the Approved Budget, the expenditure on PSIP for 2021 is now expected to be below the level in the budget. This is due to the continued slowdown in project implementation due to the disruptions of the Covid-19 pandemic.

The government support for businesses affected by the pandemic has continued in 2021, with a shift in focus to stimulate economic activities and to help businesses to recover. This includes the expenditure on the Economic Stimulus Loans provided to businesses provides this year. With the expenditure on Economic Stimulus Loans and loans to SOEs to manage their cash flows, the expenditure on loan outlays are expected to exceed the level in the Approved Budget. Furthermore, the expenditure on SOEs through capital contributions has increased to maintain the services provided to the public by SOEs and to fund the additional expenses incurred by SOEs due to Covid-19.

As noted above the largest difference in capital expenditure in between the Approved Budget and the Revised Budget will come from higher debt amortization expenditure. This is due to the repayment of a large portion of the principal on the “Sunnyside” sovereign bond in 2021.

Annex 1 of this Strategy will include details of the 2021 Revised Budget.

3.4.3 Budget balance

In 2021 revised budget deficit is expected to be at MVR 11,584.3 million. This is 16.1 percent of GDP. In 2021 the revised primary deficit is expected to be MVR 8,936.3 million, which is 12.4 percent of GDP.

4. Fiscal Policy

4.1 Medium Term Fiscal Policy

The fiscal policy for 2020 was geared towards funding the emergency response to the Covid-19 pandemic and to minimize the impact on citizens and businesses through the budget. The fiscal policy for 2021 prioritized the continuation of the government support to the economy to consolidate the fragile economic recovery. Two years after the onset of the Covid-19 crisis, the fiscal policy for 2022-2024 will focus on improving the fiscal and debt position worsened by the Covid-19 crisis and on improving debt sustainability.

The Covid-19 pandemic disrupted the economy and government revenue in 2020, with only half of the revenue projected for the year being realized. Despite lower revenue, the avenues for reducing expenditures were limited, as strong expenditure consolidation at that point in time would have deepened the economic crisis and affected the welfare of the citizens. Hence the decision was made to adopt expenditure cuts where possible to create fiscal space and to finance the rest of the spending through debt. As a result, in 2020 debt has grown substantially faster than in recent years. It should be acknowledged that the fiscal policies drafted prior to the Covid-19 crisis are now unlikely to be feasible options for the Government. Acknowledging the new fiscal realities, the goal of the medium-term fiscal policy for 2022-2024 would be to shift the trajectory of fiscal policy towards greater fiscal and debt sustainability in the medium term.

To ensure a fiscal trajectory that would achieve the medium-term fiscal policy goals this Fiscal Strategy will set the following “fiscal anchors”:

- To reduce Budgetary Central Government Debt to GDP ratio to 105% by 2023
- To reduce primary budget deficit to GDP ratio to 5% by 2023
- To maintain a reducing path over the medium term for budget deficit and debt

The fiscal anchors were formulated with reference to the medium-term economic forecasts, current fiscal conditions, implementation of debt funded investment projects in the medium term, budget financing needs and access to finance. In the implementation of the medium-term budget, the trade-offs between the implementation of already funded investment projects and the financing of the unfunded domestic budget deficit, need to be acknowledged, and a proper balance need to be found between these two policies.

The medium-term budget deficit consists of two main segments:

- Funded deficit: deficit incurred by the implementation of large loan funded investment projects that have already secured concessional funding

- Unfunded deficit: deficit of recurrent expenditures and domestic project expenditures in excess of government revenue

The main driver of deficit and government debt in the long run is expected to be the disbursement on large investment projects. As the funding for these projects are already secured through concessional loans, financing for these projects will not be an issue. However, a faster than expected implementation of these projects and disbursements on these loans would lead to a sharp increase in deficits and debt in a short duration, that would make it difficult to achieve the medium-term fiscal anchors set in this Strategy. If the fiscal anchors are not maintained and the path changes to an increasing trajectory, this could hamper the financing of the unfunded component of the deficit. Therefore, it is imperative in the medium term to set the budget for large investment projects at reasonable levels that could be implemented, and large projects are also prioritized based on the economic and social benefits of these projects to ensure that medium term fiscal goals are achieved.

The deficit of domestic expenditures that cannot be funded through revenue are financed through borrowings. The sharp impact of Covid-19 on government revenue since 2020 has increased the financing requirement to implement the Budget. To reduce debt over the medium term, recurrent expenditures and domestic capital expenditures need to be managed as much as possible within revenue. There are two reasons for this:

- <u>Preventing crowding out of domestic capital markets:</u> With the profitability of the domestic financial sector affected by the Covid-19 crisis, the lending capacity of the industry has diminished. Given these circumstances if the government is to borrow heavily from the domestic capital markets, this could crowd out funding for the private sector that is seeking to fund the recovery from the Covid-19 crisis.
- <u>Ensuring access to international capital:</u> As public debt has increased due to the Covid-19 pandemic and the Maldives credit rating has been downgraded, there are risks in raising financing from international partners and financial markets, to fund the budget deficit. Furthermore, if investors are not shown a deficit and debt reduction pathway over the medium, it can impede the confidence of the investors, thus affecting the ability to raise additional financing and the cost of financing.

Managing New Policy Initiatives (NPIs) - new projects and programs- within government revenue is also imperative to attain the medium-term fiscal policy goals. NPIs will need to be managed as much as possible within revenue or by creating fiscal space through fiscal consolidation and reprioritization of domestic projects. Furthermore, the government should seek avenues for funding investment projects, through other than debt. As such one model for project financing could be Public Private Partnerships (PPP).

Reducing domestic budget deficit and seeking budget space for NPIs through expenditure consolidation is an important priority of the medium-term fiscal policy. Fiscal consolidation and expenditure rationalization should be carried out in a way that minimizes disruptions to citizens and the economy. As such fiscal consolidation could target the wastages created by the inefficiencies in current expenditure policies. These includes inefficiencies in government subsidy schemes, government expenditure on SOEs and government operational expenditures. Over time the expenditure on the wage bill should also be brought to sustainable levels.

The objectives of the 2022-2024 medium term budget include:

- Addressing the weakened debt situation due to Covid-19 and bringing public debt to more sustainable levels.
- Diversifying the economy and building a resilient economy.
- Creating budget space through expenditure rationalization and improving efficiency of expenditure programs, thereby reducing the financing need.
- Decentralizing government services and facilitating regional development
- Improving the quality of essential and social service provided by the government
- Improving the standard of living of citizens
- Allocating a sufficient budget to implement government policies and maintaining budget credibility
- Enhancing the fiscal preparedness for disasters and reducing fiscal risks.

4.2 Proposed Measures to achieve the Fiscal Policy goals

The measures to be taken to achieve medium-term fiscal policy goals are given below.

- With the outbreak of the Covid-19 pandemic two "Economic Response Packages" has so far been implemented to alleviate the impact on households, workers and businesses. Key components of the package were utility discounts for households and income support allowance for workers whose employment and earnings were affected by Covid-19. Going forward, a more sustainable safety net is required to prevent workers and families from falling into poverty during crises. Currently some of the subsidies given by the government are not administered the most efficiently. Subsidies such as those given for staple food and electricity are given to all consumers, with no targeting. Consequently, the benefits of these subsidies fall to all income groups and even tourists and temporary visitors. To make these subsidies efficient and to ensure that support is given to the most vulnerable and needy in the society, a more targeted approach is needed. Targeting subsidies can create budget savings that could be utilized to expand the social safety net within the budget currently allocated for subsidies and social protection. Better targeting of subsidies, should be considered by policy makers to reach the medium-term fiscal policy goals.
- The financing required in the medium term by the private sector to recover from the impact of Covid-19 and to diversify and develop industries is expected to be substantial. Since 2019 the Government has contributed directly to increase financial resources accessible to the private sector, particularly Small and Medium Enterprise (SMEs), through the SME Development Finance Corporation (SDFC), which was capitalized through the Government Budget. With the capital injections made into SDFC over the past years, the medium-term vision for the Corporation is for it to gain the balance sheet strength to lend to SMEs on their own funds. In the medium term the Government will also seek and facilitate the financial sector in accessing financial resources from international financial institutions, to stimulate the economy. Also critical in ensuring access to finance for the private sector is the Government's role in the domestic capital market. In the medium term the government plans to maintain domestic financing at a level that does not crowd out private sector credit.

- Maldives is currently undertaking major investments in developing economic infrastructure. These projects are funded projects with financing already secured on concessional terms. However, if these projects proceed at a faster pace than currently anticipated, public debt could grow sharply over a short period of time. If debt is disbursed at a fast pace, and the debt trajectory shifts towards an increasing path, this is not likely to be viewed favourably by financial markets and debt investors. The confidence of the debt investors and financial markets would be important in determining the amount of debt that could be raised and the cost of debt. Therefore, it is imperative to prioritise and schedule ongoing and proposed major investment projects in a way that does not lead to a sudden increase in debt. In the medium term the debt disbursements on major investment projects and the debt path would be critical for the Government's ability to fund the domestic budget deficit as well.
- Maldives continues to face substantial investment gaps, required to expand and diversify the economy and to adapt to climate change. In the medium term the Government will seek and open up alternatives to debt in financing infrastructure development, including through PPPs. Strengthening the institutional frameworks for PPPs in Maldives, to open up the opportunities for financing infrastructure development is a key policy of this Fiscal Strategy.
- It is imperative to ensure that government expenditures programs are efficient and sustainable. Addressing inefficiencies and wastages in public expenditure and making public expenditure more efficient can help to create fiscal space for other essential expenditures. Over the past years the Ministry of Finance has produced a number of research papers on areas for improving efficiency and reducing the cost of expenditure programs. These included research on the expenditure on the national health insurance system, government operating expenditures, expenditure on personal emoluments and expenditure on subsidies. Reviewing these studies to formulate a road map, with forward guidance for expenditure consolidation would be welcomed by credit rating agencies and investors.
- Over the medium term to reduce expenditure on capital contributions and cash flow assistance to SOEs and to increase inflows through dividends from these enterprises, the corporate governance and operation of SOEs need to be improved. The Government has announced a medium-term privatization program, which seeks to list some of these SOEs on the stock exchange and to engage with strategic partners. The primary objective of the privatization program is to improve the corporate governance and performance of SOEs through the participation of the public and strategic partners, to improve the profitability of SOEs and to reduce SOEs reliance on the Government Budget. Additionally, the Government will continue to proactively liquidate unprofitable SOEs and to restructure SOEs to improve profitability. Furthermore, the Government will consider de-corporatization of SOEs that rely mostly or entirely on the Government budget to manage operational expenditures and to enforce budget controls applied to state agencies on budget reliant SOEs.
- The largest component of recurrent expenditure is the expenditure on personal emoluments. Currently there are two policy initiatives being shaped that could substantially increase the expenditure on personal emoluments in the medium term: minimum wage and public sector pay harmonization. At a time when Government revenue has been impacted by Covid-19 crisis and debt has increased, such high expenditure policies should be implemented wisely and should be time appropriately. Decisions made on the scale, timing and implementation of these

two policies could have major fiscal implications in the medium term. In addition to this it is imperative to bring expenditure on personal emoluments to a sustainable level in relation to the size of the economy and government revenue. Since bringing these ratios to sustainable levels over the duration of this Fiscal Strategy may prove difficult, the emphasis has been given on establishing a path towards a sustainable expenditure on personal emoluments over the medium term. This will involves tightening administrative controls to contain the growth of expenditure on personal emoluments and slowing down or freezing public sector hiring.

- Decentralizing public services and developing 5 Regional Urban Centres as per the Strategic Action Plan and the Spatial Plan of the Government will be an important goal of this Fiscal Strategy. In the medium term the Government will continue to make the investment required to achieve these goals.
- The Government needs to be proactive in taking the necessary measures to increase foreign currency reserves and to reduce the outflow of foreign currency in the implementation of the Budget. Most crucial would be managing government expenditures within government revenue and reducing expenditure on areas which creates a high demand on foreign exchange. Furthermore, to reduce the fiscal risk arising from foreign debt repayment, the Government will continue to earmark funding to further build the Sovereign Development Fund (SDF) as a fiscal buffer. The Government aims to introduce legislation to further strengthen the institutional make up and governance of the SDF.
- The medium-term budget will prioritize spending on training and development of the growing youth population of the country. As such, expenditure on higher education and technical skill development will be an important component of the medium-term budget. Greater labour force participation by locals and skills development for job opportunities available in the country would also help alleviate the issues stemming from the high reliance on expatriate labour.
- As public debt has increased due to the Covid-19 crisis and the fiscal situation has deteriorated, a significant role in improving fiscal sustainability over the medium term should come from the mobilization of additional domestic revenues. However, given the elevated macroeconomic risks due to Covid-19, new revenue measures should be implemented strategically and should be timed in a manner that does not jeopardize the fragile economic recovery. As currently the economy is expected to return to pre-pandemic levels by 2023, this would be an ideal timing to implement measures to raise additional revenue, to reach the fiscal policy targets set in this Strategy. It is thus imperative on the Government to study, identify and announce the measures to raise new revenues, when the economy fully recovers from the crisis. Announcing New Revenue Measures ahead of time will also give tax payers greater certainly over future tax obligations.
- As Government revenue has been affected by the Covid-19 pandemic, the medium-term expenditures have to be maintained at a level that can be funded through revenue and a feasible financing plan. To ensure a credible funding plan it is important to avoid overestimation of medium-term revenue and grant funding. This is especially important in estimating the revenue that could be raised through New Revenue Measures (NRM). The estimate for additional revenue raised through NRMs should only be included in the Budget if the required legal and administrative changes to enforce the NRMs can be feasibly

implemented within the proposed time frame. Additionally, it is important to formulate a financing plan also that is also feasible and achievable.

5. Medium Term Budget

To achieve the medium-term fiscal policy goals, spending must be made more efficient, while mitigating adverse effects of Covid-19 by increasing health, social and economic expenditure. As the financing gap has widened, expenditures financed through debt must be on productive endeavours and expenditures has to be maintained at sustainable levels. Effort needs to be put to fund additional expenditures by raising revenue, and a realistic financing plan must be formulated.

This section presents the medium-term economic outlook and the medium-term budget estimates.

5.1 Medium term tourism forecasts and GDP forecasts

In 2021 the Maldives economy has started to recover after the economic downturn in 2020. As tourist arrivals has recovered the growth of the tourism sector has had positive spill overs on the growth of other sectors of the economy as well. According to current forecasts, the economy is expected to reach pre-Covid levels in 2023.

Due to the unprecedented nature of the Covid-19 pandemic, there are challenges in forecasting medium term economic indicators. Therefore, three scenarios of GDP are modelled for medium term forecasts. These three scenarios are based on the tourist arrivals and bednights forecasts. The forecasts for tourist arrivals in each scenario is mainly based on forecasts for passenger arrivals provided by the Maldives Airport Company Limited (MACL). The three scenarios are; best case, moderate case and worst case. Tourist arrivals forecasts used to estimate the GDP in each scenario are given in table 6 below. Moderate case scenario provides the baseline estimates used in this Fiscal Strategy.

Table 6: Tourist arrival forecasts for different scenarios

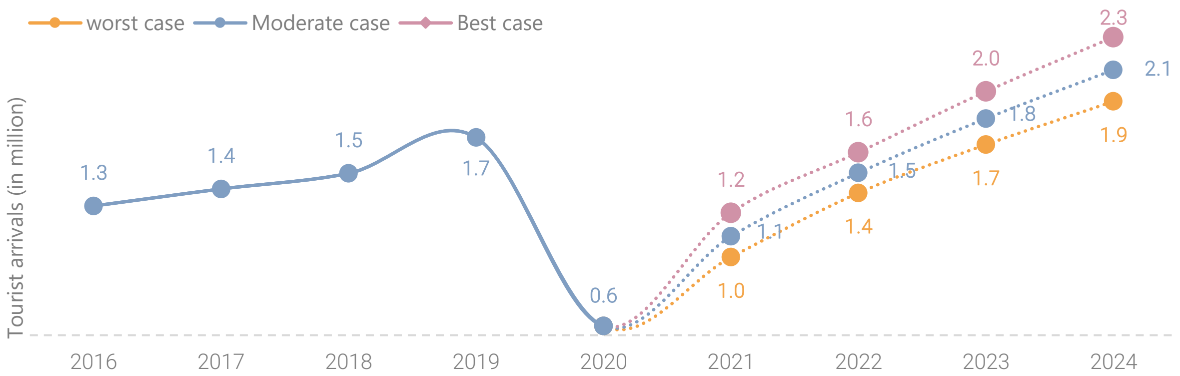
	Best case	Moderate case	Worst case
2021	1,244,539	1,101,357	974,701
2022	1,612,088	1,487,124	1,365,566
2023	1,982,008	1,817,540	1,658,960
2024	2,312,909	2,113,390	1,921,851

Tourist arrivals in 2021 is forecasted to be between 974,701 and 1,244,593. The tourist arrivals in the best-case scenarios is estimated to be 26.9 percent lower than pre-pandemic level. Tourist arrivals are estimated reach pre-pandemic levels in 2023.

Since the tourism sector is the main driver of economic growth and growth of other sectors are highly reliant on the tourism sector, GDP is expected to reach pre-pandemic level by 2023. As Covid-19 remains prevalent across the world in 2021 and pandemic is unlikely to be fully contained in the coming years, Maldives economic recovery faces a number of risks. The risks to the economic recovery include, the speed of the rollout of Covid-19 vaccination in Maldives and abroad, the efficacy of vaccines, the spread of new Covid-19 variants across the world and the extent to which the virus is contained, the restrictive measures taken to contain the virus and the extent to which these measures are eased, the recovery of global travel and air transport industry, as well as the consumer confidence of international travellers.

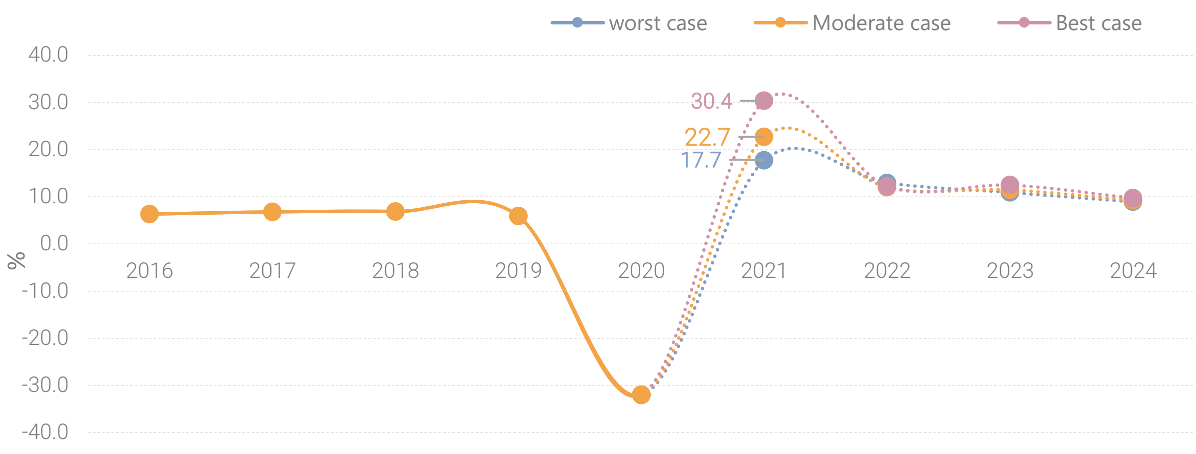
Medium-term economic forecasts used in the budget formulation are given in Appendix 2 of this Statement.

Figure 9: Medium term forecasts for tourist arrivals



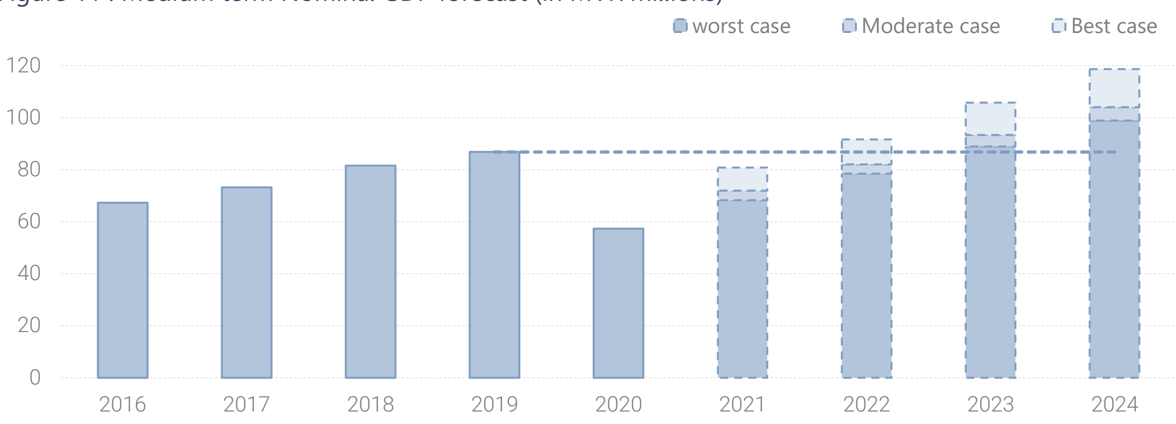
Source: Ministry of Finance, MMA

Figure 10 : Medium term real GDP growth (%)



Source: Ministry of Finance, MMA

Figure 11 : Medium term Nominal GDP forecast (in MVR millions)



Source: Ministry of Finance, MMA

5.1.1 Medium term GDP forecasts for tourism sector and other sectors

Although tourism is the main driver of the Maldivian economy, it is important to analyse the value added by other sectors of the economy as well. Since the growth in other sectors of the economy is highly dependent on tourism sector, the adverse impact on the tourism sector in 2020 was reflected broadly across the other sectors of the economy. However, the decline in value added experienced by other sectors was relatively low compared to the decline in value added experience by the tourism sector. Given the depth of the contraction in the tourism sector value added in 2020, the medium-term recovery of tourism sector is expected to be stronger than other sectors.

Table 7 : Medium term GDP growth

		Tourism sector			Other sectors	
%	Best case	Moderate case	Worst case	Best case	Moderate case	Worst case
2021	108.0	86.2	66.9	17.4	12.2	9.5
2022	23.3	28.4	33.0	9.0	7.5	7.8
2023	19.1	18.3	17.6	10.3	9.2	8.8
2023	13.7	13.3	12.9	8.3	7.8	7.6

Source: Ministry of Finance, MMA

5.1.2 Comparison of medium-term forecasts

The macroeconomic forecasts for the 2021 Budget was produced in October 2020 based on the information available up to that point in time. However, after the Budget was formulated, with the emergence of positive news on the Covid-19 vaccination and a stronger recovery in tourist arrivals especially in the last few months of 2020, has meant that the tourist arrivals have vastly outperformed the Budget forecasts. Based on the information available till June 2021, the macroeconomic forecast for this Fiscal Strategy has been updated, with projections of a faster a recovery in the tourism sector, compared to the 2020 Budget estimates. Furthermore, the GDP projections has also been upgraded for 2021 in this Fiscal Strategy in line with the more positive outlook for the tourism sector recovery. With a faster recovery, the shape of the medium-term recovery has also changed, with higher growth now expected to be realized in 2021, as opposed to 2022 in the Budget forecasts.

Table 8: GDP growth forecasts

%	Budget 2021 estimates	2022-2024 Fiscal Strategy estimates
2021	13.5	22.7
2022	28.6	12.0
2023	10.1	11.5
2024	na	9.2

Source: Ministry of Finance, MMA

The IFIs have also revised their macroeconomic forecasts for the Maldives upwards in 2021. As such IMF and World Bank have brought upward revisions to their forecasts for economic growth of Maldives produced in 2021 compared to their forecasts produced in 2020.

Overall, the medium-term economic trajectory for Maldives is similar in the latest forecasts produced by the IFIs and the forecasts produced by the Government for this Strategy. Nevertheless, the growth forecast for 2021 particularly by the Government is higher than the forecasts by IFIs. This is explained by more optimistic forecasts for tourist arrivals in 2021 by the Government, which is reflected in higher growth of the tourism sector. Furthermore, the Government forecasts also reflects more optimistic recovery for other sectors of the economy as well.

Table 9 : Medium term GDP growth forecast by Maldives and International Organizations

%	Maldives 2022-2024 Fiscal Strategy forecast	IMF Forecast in 2021	 Forecast in 2020	World Bank Forecast in 2021	 Forecast in 2020
2021	22.7	18.9	12.7	17.1	6.3-7.3
2022	12.0	13.4	11.0	11.5	5.0-5.5
2023	11.5	12.6	7.5	8.3	-
2024	9.2	6.3	6.7	-	-

Source: IMF, World Bank

5.2 Revenue Forecasts

5.2.1 Medium-term Baseline Revenue Forecasts

Medium-term baseline revenue forecasts are estimates of total revenue excluding New Revenue Measures (NRM) proposed in 2020 and 2021 that are yet to be implemented and proposed NRMs for the medium-term. Hence the baseline revenue estimates will only include those NRM that were implemented in 2020, which includes the income tax, amendments to import duties and the additional revenue to be received from revenue fees. Baseline revenues also excludes grants.

The improvement in baseline medium-term revenue depends upon the recovery of the Maldivian economy, the recovery of the tourism sector and the recovery of other economic activities from the impact of the Covid-19 crisis. As the pandemic still remains active, economic recovery, and in turn the recovery of revenue also depends very much on how Covid-19 is controlled and the extent to which restrictive measures to control the pandemic are eased over the medium term.

It is estimated that revenue generated directly from the tourism sector will improve in line with the tourism sector recovery. Additionally, the recovery of other economic activities is expected to improve the revenue generated through GGST and Import duties. Moreover, with the economic recovery, profits generated by the SOEs and other business would increase which would improve the yield from dividends and income taxes. It is also estimated that with the opening of new tourism resorts in the medium-term, the revenue received through resort rents would also increase.

It is projected that in 2022 there would be a 5.1% increase in government revenue compared to 2021. A significant increase in government revenue in 2022 is not expected, since the 2021 revenue includes one off increases in revenues from resort lease rents, as a majority of the lease rents postponed by government for 2020 is expected to be realized in 2021. Government revenue is expected to surpass the government revenue for 2019 by 2023.

5.2.2 Grant Forecasts

As proposed in the Fiscal Strategy 2020-2023, the Government will continue to target to raise USD 100 million per year as cash grants until 2023. Moreover, on average MVR 596.2 million per year is forecasted to be received as project and other grants over the medium-term.

5.2.3 Forecasts from New Revenue Measures

With increasing government expenditure, it is important for fiscal sustainability to fund these expenditures by increasing revenue through new and different revenue measures, instead of relying solely on debt. To collect additional revenues, the rates on existing taxes and non-tax revenues can be increased or targeted to a broader base and new taxes or fees can be introduced.

Although a number of New Revenue Measures (NRM) were proposed in the 2020 Budget, implementation of these measures has been delayed due to the negative impact on the economy from Covid-19. Furthermore, the implementation of additional NRMs proposed in the 2021 Budget has also been delayed for various reasons.

The table below shows the status of the NRMs proposed and not yet implemented.

Table 10 : Details of the New Revenue Measures proposed

Revenue Measures	Status
Changing ASC / ADF rate	Bill in the People's Majlis. Estimated that it would be implemented from 1 January 2022.
Real estate tourism / new resort development	Dividends would be received from tourism real estates (hence would not be realized in 2021). MVR 100 million estimated to be received from resort development in 2021, MVR 350 million in 2022 and MVR 550 million in 2023.
Expatriate quota fee	Estimated to receive revenue from 2022 January onwards.
Increasing resident permit fee	Estimated to receive revenue from 2022 January onwards.
Sale of land	At planning stage. Estimated to receive MVR 150 million in 2021, MVR 525 million in 2022 and MVR 825 million in 2023
Spectrum charge	To conduct a study on spectrum auction with the help of USAID. Estimated to receive MVR 60 million in 2022.
Congestion charge / Parking fee	At planning stage and expected to be implemented by this year. Estimated to receive MVR 9 million in 2021 and MVR 73.2 million in 2022.

As the introduction of a new taxes or fees might be burdensome on businesses and individuals under current economic circumstances and considering the work completed so far on the NRMs proposed for 2021, it is advisable to delay the implementation of most of the NRMs to 2022.

Therefore, over the medium term, instead of introducing additional NRMs for 2022, the emphasis will be given on implementing the existing NRMs proposed in 2020 and 2021 that are yet been implemented.

As the deficit and public debt has increased sharply due to the Covid-19 crisis, increasing debt repayment capacity in the medium term should involve raising additional revenues through NRMs. The Government must conduct research and facilitate broad discussions with stakeholders to increase revenue through higher tax rates, broadening tax base and introducing NRMs. A "Medium-term Revenue Strategy" is to be formulated this year identifying the revenue goals of the

Government, the challenges in achieving these goals and a "roadmap" to meet these revenue goals, with the support of implementing agencies.

5.2.4 Total Revenue and Grants

Total revenue, including baseline revenues, grants and NRMs are forecasted to be MVR 23,661.1 million in 2022. The average annual growth rate of revenue and grants over the next 5 years is estimated to be 8.2% per annum and it is expected to reach MVR 30,695.7 million by 2026.

The details of the medium-term revenue forecasts are given in Appendix 3.

Table 11: Medium-term Revenue and Grants

			Forecast
(millions of MVR)	2022	2023	2024
Total Revenue and Grants	23,666.1	26,703.8	27,372.3
Baseline Revenue	19,928.2	22,360.7	25,049.3
Tax Revenue	14,710.2	16,907.1	19,209.6
Import Duty	3,565.7	3,806.3	4,197.7
Business Profit tax and Withholding Tax	1,925.7	2,205.9	2,573.3
Bank Profit tax	595.8	606.4	603.8
Individual Income Tax	135.1	139.6	143.7
GST	2,589.2	2,879.3	3,208.3
TGST	4,486.9	5,558.7	6,504.3
Airport Service Charge	528.2	663.1	776.4
Green Tax	823.3	997.7	1,143.8
Non-Tax Revenue	5,322.5	5,553.6	5,936.8
Airport Development Fee	533.5	669.7	784.2
Property Income	1,635.9	1,543.7	1,657.0
Interest, Profit & Dividend	985.4	1,064.7	1,127.0
Grants	2,238.9	2,150.5	1,437.6
New Revenue Measures	1,394.6	2,092.6	788.3

5.3 Expenditure Forecast

5.3.1 Medium-term baseline budget

In formulating the medium-term fiscal policy for 2022-2024 - two years since the emergence of the Covid-19 pandemic- the fiscal policy target would be to improve the fiscal deficit and debt situation that has deteriorated due to Covid-19, to ensure the debt and fiscal sustainability, to improve the quality of public services, and to support the economic recovery.

The medium-term baseline budget includes the projected expenditure on existing recurrent programs and activities, and the expenditure on ongoing projects.

In the baseline recurrent expenditure, wages and salaries and administrative expenses account for a major share. Baseline expenditures include the expenditures added to the Budget after the approval of the 2021 Budget including, additional expenditure on new posts created under the Amendment to the Police Act as well as new hiring in the health and education sector. The baseline expenditure is set at a level that can ensure continuity of public services and the efficient operation of government agencies. The baseline expenditures for the medium term will also include allocations for interest payments on debt, as well as coupon payments for the sovereign bonds and sukuks. Interest expenditure is expected to increase compared to 2020-2021 as the grace period provided under the G-20 DSSI is expected to expire in the medium term.

As a majority of capital expenditure comes from the PSIP expenditures, it is estimated that capital expenditures will increase over the medium term as the ongoing PSIP projects will proceed at a fast pace. Within PSIP, the expenditure on the ongoing large infrastructure projects are estimated to proceed particularly rapidly with major disbursements expected to be realized over the medium-term. Moreover, with the expiry of the grace period given by the G-20 DSSI, loan repayment expenditures are also estimated to increase over the medium-term. However, when the seed capital to be issued to SDFC is completed and the capital support required for SOEs recedes with the economic recovery, expenditure on capital contributions to SOEs are expected to fall over the medium term. Similarly, with the economic recovery, it is estimated that amount of loan outlays from the Government for economic relief and stimulus would decrease and could be maintained at a sustainable level over the medium-term.

The total baseline budget for 2022 is MVR 36,540.2 million, out of which MVR 33,348.8 million is baseline expenditure. It is forecasted that baseline expenditure would increase by 3.6 percent in 2023 and 1.2 percent in 2024. Government expenditures should be consolidated, and efficiency of expenditures have to be improved to increase capacity to service the additional deficit and debt incurred due to the Covid-19 crisis.

5.3.2 New Policy Initiatives

The National Resilience and Recovery Plan 2021-2022 (NRRP) has been formulated after prioritizing the Government policies to support the recovery from the social and economic impact of Covid-19, to improve the quality of public services and to reorient the economy towards greater resilience. The NRRP will be the basis for prioritizing and allocating the New Policy Initiatives (NPI)-new programs and new projects- in the medium-term Budget. The NPIs included in the 2021 Approved Budget and has commenced, will be included in the baseline budget for 2022.

The expenditure on NPIs proposed for 2022 budget is MVR 500 million. This figure is reached in consideration of the high budget deficit under the baseline expenditures and the feasibility of financing this deficit.

Looking at the announced policy initiatives: the institution of a “minimum wage policy” and the “government employees pay harmonization policy” can incur additional expenditures on personal emoluments over the medium term. In 2022 it is estimated that at a minimum MVR 383.0 million would be needed additionally for personal emoluments of government employees if the minimum wage policy is implemented. Furthermore MVR 1,200.0 million could be required to implement the pay harmonization policy. In addition to these, MVR 1,500.0 million national social housing projects for 2022 has been announced. These policy initiatives are currently not included in the NPI.

After budgeting for the ongoing activities and projects, it is challenging to allocate additional fiscal space for the NPIs in 2022. Therefore, to enact the NPIs to increase economic activities, to support the economic recovery and to implement the Government policies, it is imperative to create fiscal space to fund these NPIs. Therefore, to create this fiscal space it is important to reduce expenditures and to rationalize expenditures by improving the efficiency of ongoing programs and baseline expenditures. The fiscal space to accommodate NPIs will depend on the ability to reduce baseline expenditures.

5.3.3 Council Grant

As per the 8th Amendment to the Decentralization Act (Law Number 07/2010), grants have been disbursed to the local councils in the past two years.

The amount for local council grant is based on the forecasted baseline revenue of the Government. The council grant is equivalent to 5 percent of total baseline revenue earned and 40 percent of land (including shores, reef and lagoon) rents. As Covid-19 has impacted government revenue, the grant allocation to the councils has also reduced in parallel. Based on the fiscal formula and current revenue forecasts it is estimated that MVR 1,343.1 million can be disbursed as council grants in 2022 and is projected to increase by 10 percent on average over the medium-term.

5.3.4 Total Expenditure and Budget

Total government budget for 2022 - including baseline budget, expenditure on New Policy Initiatives and allocation for council grants - is estimated to be MVR 37,040.2 million. This is a 0.3 percent increase from the estimate for 2022 in the 2021 Budget. Total expenditure in 2022 is projected to be MVR 33,848.8 million. The 2022 budget includes the repayment of the remaining principal on the "Sunnyside" sovereign bond issued in 2017. As the expenditure on NPIs are currently kept relatively low compared to recent years, total expenditure growth is expected to be contained at an average growth rate of 3.3 percent over the medium term.

Medium-term budget and expenditure estimates are outline in Appendix 3 of this statement.

5.3.5 Medium-term Fiscal Consolidation

Continuing the expenditure rationalizing measures undertaken by the Government in response to the Covid-19 pandemic, over the medium term could open up budget space for NPIs to support economic recovery and to implement the Government policies. This is one avenue through which budget space can be gained without raising debt.

The forecasts for this Fiscal Strategy have been made assuming that efficiency of expenditure programs can be improved and expenditures can be rationalized over the medium term. In this regard, expenditure rationalization measures have to be undertaken at the different government levels and agencies. Further efficiencies must be gained in sectors that incur substantial expenditure. This would include improving the efficiency and reducing wastage in large expenditure programs such as the Aasandha Health Insurance Scheme, and the different subsidies and social assistance programs. A number of measures to address such inefficiencies are included in the 2021 Approved Budget.

Expenditure consolidation measures were also proposed and discussed in the previous Fiscal Strategy submitted for 2020-2023. In addition to the existing budget controls, effective expenditure reduction can only come from changes to the baseline expenditure policies. However, since it has been advised that the current moment is not the opportune time for implementing expenditure consolidation measures, specific changes to expenditure policies has not been identified in this Strategy. Nevertheless, it has to be acknowledged that reducing expenditure through policy changes is important to fund the current and medium-term budgets.

Ministry of Finance is currently preparing additional analysis on potential expenditure policy measures. Over the medium-term expenditure policy measures will be implemented based on the outcome of the policy research and the direction of policy makers.

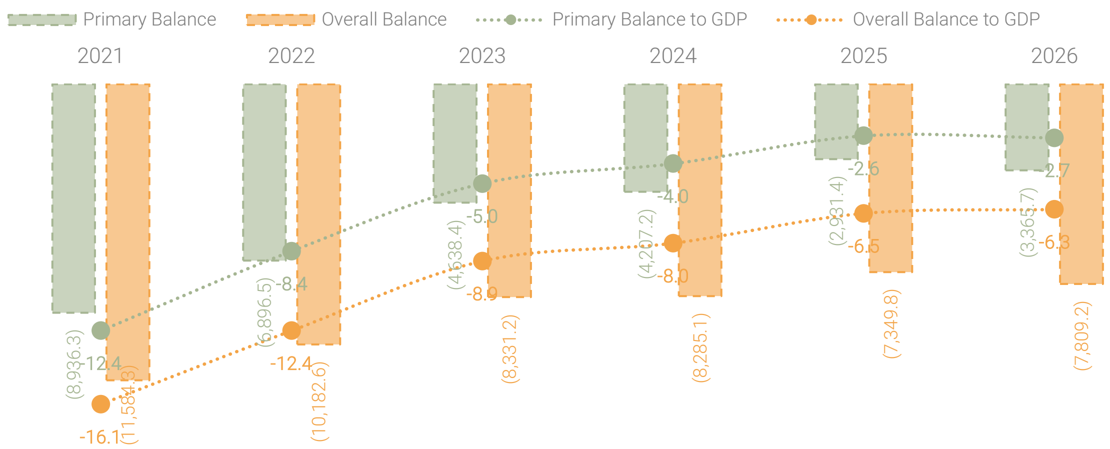
Table 12: Medium-Term Budget Details

			Forecast
(Millions of MVR)	2022	2023	2024
Total Budget	37,040.2	37,454.5	37,916.1
Total Expenditure	33,848.8	35,035.1	35,657.4
Baseline Budget	36,540.2	36,954.5	37,216.1
Recurrent Expenditure	21,121.9	21,914.3	22,584.0
Personal Emoluments (including pension)	10,106.9	10,646.8	10,708.3
Goods & Services	4,516.3	4,667.3	4,850.0
Grants, Contributions & Subsidies	2,715.8	2,745.9	2,778.3
Other recurrent Expenditures	3,812.2	3,883.7	4,277.1
Capital Expenditure	12,579.8	12,036.8	11,433.6
Public Sector Investment Programs	7,152.2	7,335.7	6,787.7
Property, Investment & Lending	2,218.3	2,263.4	2,368.8
Debt Amortization	3,181.2	2,409.1	2,248.2
Other Capital Expenditures	28.2	28.5	28.8
New policy Initiatives	500.0	500.0	700.0
Council Block Grant	1,343.1	1,504.8	1,683.8

5.4 Medium Term Budget Balance

The overall budget balance is calculated as the difference of total revenue and grants (New Revenue Measures and grants added to baseline revenue) from total expenditures (NPIs and council grants added to baseline expenditure). The overall budget balance in 2022 is expected to stand at a deficit of MVR 10,182.6 million, which is 12.4 percent of GDP. The primary budget balance estimated for 2022 is a deficit of MVR 6,896.5 million, which is 8.4 percent of GDP. If expenditure growth is contained over the next two years and New Revenue Measures are implemented as planned, the primary balance is estimated to be reduced to 5.0 percent of GDP by 2023. Moreover, the goal is to maintain a trajectory of reducing primary and overall deficits over the medium term.

Figure 12 : Medium Term Budget Balance



6. Budget Financing and Debt

Although revenue is recovering from the shock of the Covid-19 crisis, revenue is not expected to return to pre-Covid levels until 2023. Hence the financing need has increased to fund the expenditures on implementing government policies and on the Covid-19 recovery. The implementation and financing of major infrastructure projects through debt financing has also increased the deficit financing requirement.

A total of MVR 16,569.0 million is expected to be required as financing for 2021. In this regard the USD 300.0 million debut sovereign Sukuk issued this year, will be used in part for financing expenditure in 2021. As a measure to reduce debt risks, USD 192.0 million of the proceeds from the Sukuk have been used to refinance the "Sunnyside" sovereign bond issued in 2017. Moreover, MVR 4,849.7 million is expected to be raised at concessional terms from foreign donors and multilateral financial institutions for budget support and the implementation of infrastructure projects. A significant share of this is attributed to the financing through loans secured for large scale infrastructure projects.

Additionally, MVR 6,608.4 million would need to be secured by issuing T-Bills and T-Bonds in the domestic market and through other domestic financing. This includes the overdraft facility on the Public Bank Account (PBA). Since the economy has not fully recovered from the Covid-19 pandemic and risks to the economy remains elevated, and since the repayment of the PBA overdraft in a short span of time would have cause major difficulties in managing cash flow and effectively executing the 2021 budget, the People's Majlis has granted a further 1-year extension on the exemptions to section 32 (a), (d) and (e) of the Fiscal Responsibility Law, which allows the overdraw on the PBA of up to MVR 4.4 billion.

The financing plan for 2021 also includes, MVR 462.6 million expected to be raised from the ongoing privatization exercise.

Over the medium term, the financing requirement for 2022 is expected to amount to MVR 15,428.8 million, while the requirement for 2023 and 2024 is expected to stand at MVR 12,337.2 million and MVR 12,268.7 million respectively. The main driver of deficits over the medium term is expected to be the expenditure on the large infrastructure projects financed through secured debt. These projects that were planned and commenced in 2020 and 2021, are expected to start physical work over the medium term which would lead to higher disbursements on this debt.

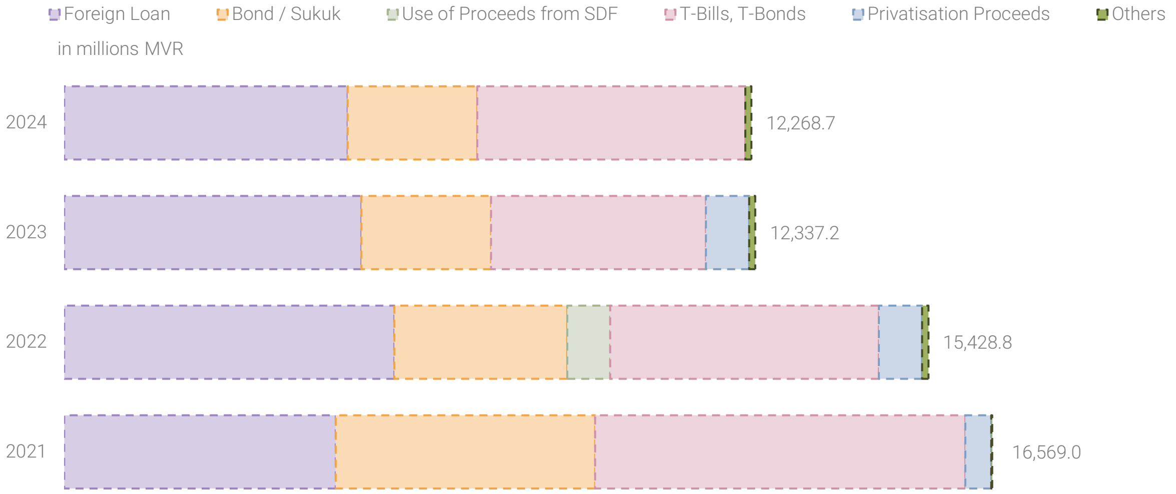
The financing requirement for 2022 includes additional financing needed to repay the PBA overdraft. MVR 1 billion is estimated for the refinancing of the PBA overdraft. The financing requirement also includes the repayment of the remaining principal on the "Sunnyside" sovereign bond, which comes due in 2022. Additionally, the expiration of the grace periods granted under the DSSI from 2022 onwards will raise loan repayments and thereby the refinancing requirement for repaying foreign loans.

The medium-term financing estimates in this Fiscal Strategy includes the issuance of bonds or sukuks of USD 200 million in 2022 and subsequent USD 150 million issuances in 2023 and 2024. Additional financing is expected to be raised from the domestic market, as specified below in Table 13. Furthermore, MVR 771 is expected to be raised through a privatization program in 2022 and 2023.

Table 13 : Medium term financing plan

				Forecast
(millions MVR)	2021	2022	2023	2024
Total Financing Required	16,569.0	15,428.8	12,337.2	12,268.7
Total Borrowings	16,084.0	13,772.2	11,455.9	12,161.1
Foreign Loans	4,849.7	5,894.2	5,306.7	5,058.7
Bond / Sukuk	4,626.0	3,084.0	2,313.0	2,313.0
Use of Proceeds from SDF	-	771.0	-	-
T-Bills, T-Bonds etc. from domestic market	6,608.4	4,794.1	3,836.2	4,789.4
Privatization Proceeds	462.6	771.0	771.0	-
Others	22.4	114.6	110.3	107.6

Figure 13 : Medium Term Financing Plan



Government debt has increased significantly in 2020 due to increased borrowing needs, to finance Government expenditures due to the impact of the Covid-19 pandemic on government revenue. Assuming that the budget deficit is maintained at the level estimated for this Strategy, direct debt in 2021 is expected to stand at 108.5 percent of GDP. Likewise, public and publicly guaranteed debt is expected to amount to 125.2 percent of GDP. Over the medium-term nominal GDP growth is expected to be higher than the growth of direct debt. As such, the direct debt as a share of GDP is expected to decline over the medium term, with direct debt to GDP ratio expected to fall to 104.7% of GDP by 2023.

The Government's debt strategy is detailed in a separate Medium-Term Debt Strategy statement submitted to the People's Majlis.

Figure 14 : Medium Term Debt Forecasts

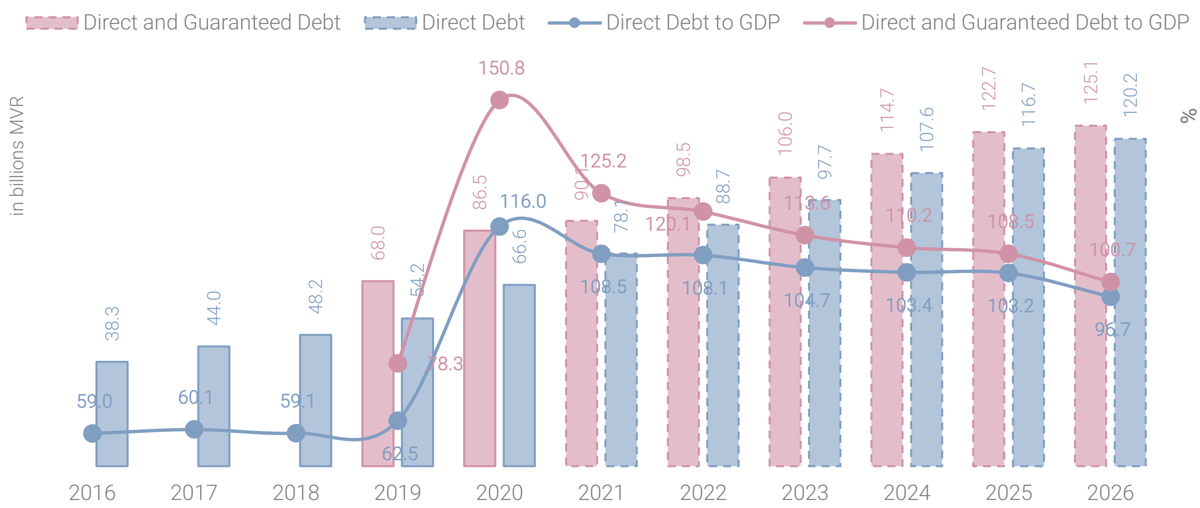
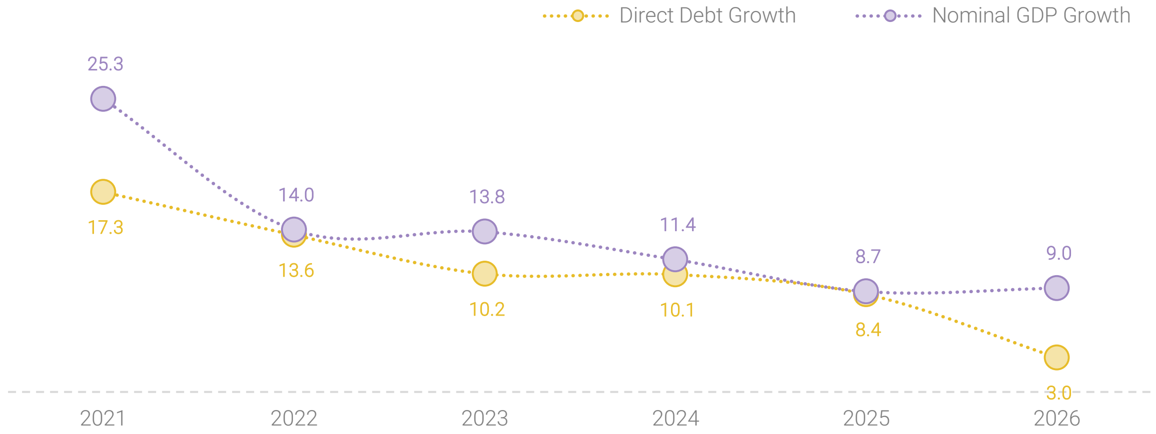


Figure 15 : Debt and Nominal GDP Growth



7. Sensitivity Analysis

This section highlights the impact on budget deficit and public debt based on scenarios where government revenue and expenditure deviates from the baseline projections used in this Strategy. The baseline estimates for this analysis are the estimates of expenditure and revenue projections presented in Section 5 of this Statement.

Sensitivity analysis comprises of three areas; changes to tourism sector, revenue and expenditure. In each scenario, the impact of the given area on budget deficit and debt is estimated.

Table 14 : Assumptions of scenarios for sensitivity analysis

Scenario	Variable
Scenario 1	Tourist arrival and bednights
Scenario 2	Expenditure
Scenario 3	New Revenue Measures

7.1.1 Scenario 1: tourist arrivals and bednights

Tourist arrivals and tourist bednights affect government revenue directly and indirectly. Hence, a deviation in estimates of tourist arrivals and bednights compared to the baseline estimates will impact forecasts for government revenue in the medium term.

The baseline, best-case and worst-case estimates for tourist arrivals and bednights used in this analysis are those that were produced for the medium-term macroeconomic forecasts. TGST, Green Tax, ASC and ADF will be directly impacted by tourist arrivals and bednights. As tourism sector is the main driver of economic growth for the Maldives, revenues that are reliant on economic growth will also be affected indirectly by tourist arrivals and bednights. This includes, GGST and business & property taxes. These revenues account for more than 50 percent of expected government revenue in 2022. Therefore, any changes in tourist arrivals and bednights can significantly impact the government revenue.

In this scenario, the impact on total revenue and budget balance due to tourist arrivals and bednights higher than the baseline estimates (best case) and tourist arrivals and bednights lower that the baseline estimates (worst case) are estimated, holding government expenditure constant. Table 15 shows a detailed analysis of revenue, budget balance and debt in 2022 under the three tourism scenarios. Table 16 shows the estimates of revenue, budget balance and debt under the three tourism scenarios over the medium term.

Table 15 : Impact of changes to tourist arrivals and bednights on revenue, budget balance and debt in 2022

	Baseline	Best case	Worst case
Tourist arrivals	1,487,124	1,612,088	1,365,566
Average duration of stay	6.5	6.5	6.5
Bednights	9,673,759	10,421,490	8,955,261
		In MVR million	
TGST	4,486.9	4,897.4	4,100.1
Green tax	823.3	892.7	757.3
Airport service charge	528.2	578.0	480.6
Airport development fee	533.5	583.8	485.4
GGST	2,589.2	2,747.4	2,499.4
Business profit tax	2,656.7	2,764.7	2,586.9
Total	11,617.8	12,464.0	10,909.8
Revenue and Grants	23,666.1	24,672.1	22,810.8
Expenditure	33,848.8	33,848.8	33,848.8
Budget deficit	-10,182.6	-9,239.7	-11,038.0
Debt (% of GDP)	108.1	96.9	117.0

Table 16 : Impact of changes to tourist arrivals and bednights on medium term budget balance and debt

	Overall Balance (MVR millions)			Debt (% of GDP)		
	Baseline	Best case	Worst case	Baseline	Best case	Worst case
2022	-10,182.6	-9,239.7	-11,038.0	108.1	96.9	117.0
2023	-8,331.2	-7,008.4	-9,487.2	104.7	91.1	116.0
2024	-8,285.1	-,6389.1	-9,733.0	103.4	87.4	117.2

7.1.2 Scenario 2: expenditure

There is a possibility that government expenditure for the year 2022 may exceed the baseline estimate of expenditure. The main source of this increase in expenditure is expected to be from PSIP expenditures. As a result of the disruptions to transport and supply chains due to Covid-19 pandemic, disbursement on PISP projects that were commenced in 2020 and 2021 experienced slowed downs. The disbursements for these projects are expected to increase in 2022 and over the medium term as the economy recovers and supply chains eases. Furthermore, as the preparatory work on the large infrastructure projects are expected to be completed by the end of 2021, as physical work commences a significant proportion of these project expenditures will also be disbursed in 2022 and over the medium term. The disbursements on ongoing PSIP projects, especially the large infrastructure projects have been estimated in the baseline assuming realistic disbursements, taking into account past patterns and capacity limitations. Nevertheless, if the disbursements of these projects are higher than baseline estimates, the total government expenditure will increase resulting in higher deficits and debt. The two tables given below shows the impact on deficit and debt, under two scenarios for PSIP: a 25 percent increase in PSIP expenditure over the base line and a 50 percent increase in PSIP expenditure over the baseline.

Table 17 : Impact of increase in expenditure in 2022

In MVR million	Baseline	25% increase in PSIP expenditure	50% increase in PSIP expenditure
Revenue and grants	23,666.1	23,666.1	23,666.1
Expenditure	33,848.8	35,727.9	37,424.9
PSIP	7,152.2	8,940.3	10,728.3
Overall Balance	-10,182.6	-12,061.8	-13,940.9
Debt (% GDP)	108.1	110.4	112.7

Table 18 : Impact of increase in expenditure in the medium term

	Overall Balance (MVR millions)			Debt (% of GDP)		
	Baseline	25% increase in PSIP expenditure	50% increase in PSIP expenditure	Baseline	25% increase in PSIP expenditure	50% increase in PSIP expenditure
2022	-10,182.6	-12,061.8	-13,940.9	108.1	110.4	112.7
2023	-8,331.2	-10,258.6	-12,186.0	104.7	108.7	112.8
2024	-8,285.1	-10,068.5	-11,851.9	103.4	108.7	114.1

7.1.3 Scenario 3: New Revenue Measures

MVR 1,394.6 million in revenue is estimated to be received from New Revenue Measures (NRM) in 2022. In the past, the realization of NRMs has often been below forecasts due to implementation delays caused by adverse economic conditions, administrative delays and improper planning. The delays in implementation of NRMs affects the realization rate of total revenue estimated for a given year. Hence, in this scenario, the impact of non-realization of 50 percent of proposed NRMs and complete non-realization of NRMs on deficit and debt is estimated, for 2022 and the medium term.

Table 19 : Impact of non-realization of New Revenue Measures on deficit and debt in 2022

In MVR million	Baseline	50% non-realization of NRMs	Complete non-realization of NRMs
New Revenue Measures	1,394.6	697.3	0.0
Total revenue and grants	23,666.1	22,968.9	22,271.6

In MVR million	Baseline	50% non-realization of NRMs	Complete non-realization of NRMs
Expenditure	33,848.8	33,848.8	33,848.8
Overall Balance	-10,182.6	-10,879.9	-11,577.2
Debt (% GDP)	108.1	109.0	109.8

Table 20 : Impact of non-realization of New Revenue Measures on deficit and debt in the medium term

	Overall Balance (MVR millions)			Debt (% of GDP)		
	Baseline	50% non-realization of NRMs	Complete non-realization of NRMs	Baseline	50% non-realization of NRMs	Complete non-realization of NRMs
2022	-10,182.6	-10,879.9	-11,577.2	108.1	109.0	109.8
2023	-8,331.2	-9,377.5	-10,423.8	104.7	2.610	108.4
2024	-8,285.1	-8,679.2	-9,073.4	103.4	103.6	107.5

8. Fiscal Risks

Given below are the major risks to the implementation of the Medium-term Fiscal Strategy and the measures being taken or measures that will be taken in the future to address these risks

Prolonged global economic recovery

- **Risk:** Covid-19 controlled at a slower pace globally, with the emergence of new variants of Covid-19 and slower than expected roll out of the vaccinations program. Therefore, reopening of borders and removal of restrictive measures may be delayed. Even if borders reopen, airlines and travel market recovery may be slower due to the lingering effects of the financial shock suffered by the industry. Will result in slower recovery of the Maldives tourism and the economy.
- **Measures to address risk:** Actively monitor and control the spread of Covid-19 and vaccinating a large share of the population to contain the spread of the virus. Reduce Covid-19 cases and contain the spread to maintain Maldives in the “safe travel” lists issued by countries. Establish further “travel bubble” to facilitate safe and easy travel for the tourists visiting from major tourist markets. Establish direct flight connections with the main tourism source markets for Maldives and increasing the number of flights operating to Maldives. Advertising Maldives as a safe tourism destination highlighting the “one island one resort concept”.

Prolonged recovery for the Maldives economy

- **Risk:** Failure to control Covid-19 in Maldives, leading to further delays in the full reopening of the Maldives economy. Private sector facing challenges in restarting economic activities and expanding their businesses due to the losses incurred due to Covid-19. Businesses facing challenges in raising financing required to reopen activities. Maldives facing another economic shock before a recovery from the Covid-19 crisis is secured.

- **Measures to address risk:** Facilitating loans for businesses to support the economic recovery. State owned financial corporations to prioritize lending programs to support recovery and to stimulate the economy. Seek and facilitate financing required for the business sector, through the budget and through engagement with IFIs. Maintain Government borrowing from the domestic market at a level that does not "crowd out" private sector credit.

Decline in revenue

- **Risk:** Greater global tourism price competition leading to lower prices, due to the reopening of large tourism destinations when borders more fully reopen. As a result, even if tourist arrivals increase, the income generated per tourist may decrease. Lower revenue realization due to deferments on tax and non-tax payments and leniency towards tax payers. Failure to implement the proposed New Revenue Measures in a timely manner. Failure to realize the forecasted grants in a timely manner.
- **Measures to address risk:** Commence and complete investments that supports higher tourism arrivals, such as the ongoing Velana International Airport Upgrading project. Expand tourism promotion and increase the number of flights operating to Maldives to increase tourist arrivals. Diversifying the economy to reduce the dependency on tourism sector, to diversify and expand the sources of Government revenue. Proactively identifying measures that can be implemented to reduce expenditure, when Government experiences a slump in revenue. Including achievable estimates for revenue to be raised through New Revenue Measures. Forecasting grants at achievable levels.

Increase in expenditure

- **Risk:** Expenditure exceeding budget forecasts. Additional expenditures could come from new laws and policy changes that were no incorporated into the Budget estimates, additional spending on response to unforeseen disasters and crises, larger than expected payments for compensation for damages and losses due to court rulings, additional expenditure to support the operation of SOEs or the payment of pending bills of previous years.
- **Measures to address risk:** Budgeting for contingency to pay for unforeseen expenditures. Increasing the Disaster Fund to prepare for potential large expenditures related to disaster response. Managing additional expenditures through additional financing or fiscal spaces created through reprioritization of expenditures. Automating the budget implementation and strengthening controls to reduce pending bills.

Inflation Risk

- **Risk:** Increase in the overall price levels in the market. Increase in the price of goods imported to Maldives, due to increases in global oil and commodity prices. Shortage of foreign exchange leading to higher prices in parallel markets leading to higher spending on imports.
- **Measures to address risk:** Taking measures to maintain the value of the Maldivian rufiyaa in the foreign exchange market. Taking measures to reduce the prices of goods and services included in the consumer basket (e.g. reducing the price of the internet services). Seeking additional sources in the global market for oil and foods imports required for Maldives, to procure at competitive prices. Reducing dependence on oil for energy production in Maldives, through the development of renewable energy sources.

Increase in debt level

- **Risk:** As revenue has declined, government expenditures are being financed increasingly through debt, which has caused a drastic increase in the debt levels in 2020 and 2021. If the ongoing and proposed debt financed projects are implemented at a faster pace than currently expected this could lead to a drastic increase in the debt levels in a short period of time. If debt keeps increasing, debt servicing could take a greater share of budget in the future.
- **Measures to address risk:** Reflecting on the increase in debt due to Covid-19 crisis, to develop a credible fiscal strategy to reduce the debt levels over the medium term. Reducing expenditure and increasing government savings, increasing revenue over the medium term and investing in productive activities to promote economic growth. Diversify the funding options for investments, to explore options, in addition to debt financing.

Underfunding

- **Risk:** Expenditure consolidation leading to underfunding for expenditure on areas required to achieve the government's policy objectives or underfunding on expenditure required for improving the quality of public services. Failure to achieve the social objectives of the Government due to this underfunding. Consolidation of expenditure on repair and maintenance leading to deterioration in the quality of fixed assets leading to higher cost of replacement for the assets.
- **Measures to address risk:** Taking relevant measures to improve the efficiency of the government spending. Analysing expenditure leakages and addressing these leakages. Analysing the allocation of resources to public services and reallocating the resources to the most important and relevant areas. Ensuring that fiscal consolidation is implemented in a way that does not affect funding for activities required to achieve policy objective. Allocate funding for repair and maintenance of fixed assets and public infrastructure as per a schedule.

Debt Overhang

- **Risk:** Higher debt servicing due to high debt, leading to expenditure consolidation and higher taxes, leading to lower consumption and slower economic slowdown. High existing debt levels reducing fiscal space for debt financing of productive investments.
- **Measures to address risk:** Formulating a Fiscal Strategy with a path towards reducing debt, towards a more sustainable level in the medium term. Reducing expenditure and budget deficit. Prioritizing concessional financing. Financing public investments, through means other than debt. Prioritizing and arranging debt financed projects in a way that does not lead to sharp and sudden growth in debt.

Financing Risk

- **Risk:** Increase in financing need due to lower revenue or higher expenditure. Realization of unpaid bills from previous years (arrears) leading to an increase in financing need. Difficulties in raising the financing required to fill the funding gap to fully execute the budget. Higher interest rate and low availability of debt financing in the international financial market, if liquidity tightens due to a shock. Increase in interest rates in developed economies reducing the demand for debt issuances from emerging economies. Failure to improve credit rating or further downgrading in ratings.

- **Measures to address risk:** Improving the credit rating of Maldives, by addressing the issues raised by the credit rating agencies. Providing a forward guidance on a positive direction for public expenditure, deficit and debt, to gain the confidence of investors. Manage debt actively and seek to reduce interest rate on debt. To reduce the debt servicing risks, build the Sovereign Development Fund (SDF) and to bring SDF management under a stronger legal framework and professionalizing SDF management. Maintaining cordial relations with global financial institutions and bilateral development partners. Identifying avenues for reducing expenditure if financing is not realized.

9. Compliance with the FRL targets

Section 32(b) of the Fiscal Responsibility Law (Act No.7/2013) (FRL) states that effort must be made to maintain the total debt including government guarantees at a level that does not exceed 60% of the GDP of the past year, by the end of the 3 years starting from 1st January 2014. Once this level has been achieved, the level at which total debt as a share of GDP is to be maintained for every 5 years, and announced by the Minister of Finance. Furthermore, Section 34(a) of the Law states that the primary balance should be in surplus within 3 years, from 1st January 2014. Subsection (b) goes on to state that the overall balance should be maintained at a level not exceeding 3.5% of the GDP within 3 years starting from 1st January 2014.

However, Public and Publicly Guaranteed Debt at the beginning of 2017 stood at 63.9 percent of GDP and the FRL debt target has not been achieved in subsequent years. Similarly, a primary balance surplus was not attained in 2017 and thereafter. Although the overall balance deficit was brought down to 3.1 percent of GDP in 2017, this target has also not been achieved in the following years.

It has now become more unlikely to reach the fiscal targets stipulated in the FRL, given the failure to reach the targets even before the Covid-19 crisis, and the deterioration in the public finance matrices with the Covid-19 crisis. Under this Strategy are realized total direct debt is expected to stand at 108.5 percent of GDP, and total debt including guarantees debt is expected to stand at 125.2 of GDP by the end of 2021. Furthermore, the debt target specified in the FRL is not expected to be reached over the medium term. Moreover, the estimates for primary deficit and the overall deficit in 2021 is 12.3 and 16.0 percent of GDP respectively. The budget balance targets specified in the FRL are also not currently expected to be realized over the medium term.

It is imperative that the fiscal targets are revised in a manner that would allow fiscal policy to effectively respond to changes in economic conditions. In this regard, “fiscal principles” to follow in formulating fiscal policy can be specified in the Law in place of numerical fiscal targets. The Government can then prepare a Fiscal Charter that specifies key fiscal targets and how the government would seek to achieve those targets in line with the principles set in the Law. This Charter must be presented and endorsed by the Parliament and where the targets are not attained the Government would be answerable to the Parliament.

The Ministry has received technical assistance from IMF for the review and revision of the Fiscal Responsibility Law. The Ministry is currently working on drafting the amendments to the FRL based on the findings of the IMF technical assistance mission.

10. Public Financial Management Reform

Public Financial Management (PFM) system refers to the processes and resources used for planning and executing government finances. The PFM system includes the public finance laws and regulations, the processes and tools for planning government revenue, expenditure and financing policies, the processes and tools for budget execution, as well as the process of disclosing and presenting public finance information. In a modern PFM system, in addition to the government budget, the system encompasses SOEs, government funds and local councils as well .The process of improving the PFM system, addressing inefficiencies and modernizing the system is a continuous process. As such the Ministry of Finance is currently undertaking a number of reforms to improve and enhances various aspects of the PFM system. The Ministry is currently receiving financial and technical assistance from the World Bank and USAID, specifically for PFM reform. Furthermore, technical assistance for various aspects of PFM reform has been received by the IMF and other IFIs.

A number of studies have been conducted on the Public Financial Management System of Maldives in the past few years. This includes:

- Public Investment Management Assessment (PIMA)- which assess public infrastructure governance over the full investment cycle
- Debt Management Performance Assessment (DeMPA)- a diagnostic of government debt management practices and institutions
- Fiscal Transparency Evaluation (FTE)- a diagnostic of fiscal transparency practices against the first three pillars of the IMF’s Fiscal Transparency Code.
- Public Expenditure and Financial Accountability Assessment (PEFA)- a framework for assessing and reporting on the strengths and weaknesses of Public Financial Management using quantitative indicators

Based on the findings of these assessments the Ministry of Finance is currently working on developing a PFM reform strategy.

The following are some of the PFM reform activities currently being undertaken by the Government.

- Introducing Program Based Budgeting and establish systems to measure the achievement of the budget goals.
- Establishing a framework for Public Private Partnership (PPP) in Maldives, including acts and regulations, to open up investment opportunities through PPP
- Compiling a Fiscal Risk Statement to disclose the risks in the implementation the Government Budget.
- Developing the processes and tools used for formulating the medium-term fiscal policies.
- Upgrading the Public Accounting System (PAS) used to record and maintain the public finance accounting information and further automating the budget formulation and execution process.
- Amending and updating the PFM related acts and regulations.
- Disclosing information on Government Budget and PFM system.

11. Conclusion

As required under the Fiscal Responsibility Law, this statement includes the revised estimates for 2021, medium term baseline estimates and medium-term fiscal policy estimates, based on the fiscal policy objectives of the Government.

This statement has been prepared with the goals of supporting the recovery from the socio-economic impact of the Covid-19 crisis, to maintain the quality of public services and to support the reorientation of the economy towards a more resilient economy. The measures outlined in this Strategy aims to reduce expenditure in the medium-term, create fiscal space to increase essential spending, bring economic diversification to enhance resilience, and enhance social wellbeing of the citizens. As Covid-19 crisis has caused the financing gap and public debt to expand in the past two years, this Strategy targets to reduce the budget deficit in the medium-term to bring debt to more sustainable levels.

Budget 2022 will be formulated based on this Medium-Term Fiscal Strategy.

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Appendix 1: Revenue and Expenditure for 2020 and 2021

(in MVR millions)	Approved *2020	Actual *2020	Approved *2021	Actual 2021
Total Revenue and Grants	29,921.6	15,690.2	21,128.5	20,743.8
Total Revenue	24,706.7	14,272.4	18,917.0	19,231.7
Import Duty	3,580.6	2,263.7	2,985.3	2,981.4
Export Duty	39.7	-	-	-
Business and Property Tax	4,027.8	3,654.4	2,001.2	2,591.4
Withholding and Income Tax	3,103.6	2,700.7	1,411.3	1,982.0
Bank Profit Tax	923.7	953.7	598.3	609.3
Goods & Services Tax	7,954.5	4,306.4	4,676.4	6,424.2
Tourism Goods & Services Tax	5,053.5	2,219.8	2,640.2	3,908.9
General Goods & Services Tax	2,901.0	,2086.6	2,036.2	2,515.4
Other Taxes and Duties	2,105.5	707.4	1,151.4	1,091.2
Airport Service Charge	877.1	283.3	531.1	400.1
Green Tax	970.3	351.7	616.6	658.1
Fees & Charges	2,175.9	998.6	1,625.0	1,540.4
Registration & License Fees	441.0	362.6	679.5	429.5
Property Income	2,195.5	809.7	4,722.8	2,471.8
Interest, Profit & Dividends	1,670.9	784.8	799.4	782.9
New Revenue Measures	-	-	-	259.2
Other Revenue	515.4	384.9	194.8	659.8
Grants	5,214.9	1,417.8	2,211.5	1,512.1
Total Budget	37,871.3	29,996.4	34,922.5	36,917.4
Total Expenditure	35,966.4	28,793.4	33,431.5	32,328.1
Recurrent Expenditure	22,337.9	20,366.7	21,638.1	21,310.6
Personal Emoluments	8,716.1	8,275.4	8,416.4	8,363.1
Pensions, Retirement Benefits & Gratuities	1,562.4	1,564.5	1,592.5	1,642.5
Goods & Services	5,476.5	4,113.7	5.156.4	4,300.3
Travel Expenses	237.8	141.0	172.3	144.5
Supplies & Requisites	725.8	643.9	611.8	658.1
Operational Services	2,299.1	1,661.2	2,383.9	1,702.3
Supplies & Requisites for Service Provision	897.9	981.2	1,098.3	1,005.5
Training	905.7	459.1	630.8	557.0
Repairs & Maintenance	410.2	227.2	259.4	232.9
Grants, Contributions & Subsidies	3,021.1	3,677.8	2,622.7	2,687.1

(in MVR millions)	Approved *2020	Actual *2020	Approved *2021	Actual 2021
Other Recurrent Expenditure	1,946.8	1,790.1	2,568.6	3,051.3
Council Block Grant	1,615.0	945.2	1,281.5	1,266.3
Capital Expenditure	15,533.4	8,426.7	13,284.6	15,606.8
Development Projects	51.9	27.2	3.1	27.9
Public Sector Investment Program	10,454.8	4,769.4	8,441.5	6,610.0
Property, Investment & Lending	1,547.5	3,640.0	1,953.6	2,842.3
Budget Contingency	1,574.3	-	1,395.3	1,537.2
Debt Amortization	1,883.7	1,193.1	1,469.9	4,579.2
Capital Contributions to Multilateral Organizations	21.3	9.9	21.3	10.1
Primary Balance	(4,201.1)	(11,449.4)	(9,834.6)	(8,936.3)
Overall Balance	(6,044.8)	(13,103.2)	(12,303.0)	(11,584.3)
% of GDP				
Primary Balance		-20.0		-12.4
Overall Balance		-22.8		-16.1
Direct Debt		116.0		108.5
Direct & Guaranteed Debt		150.8		125.2

*For 2020 Approved, 2020 Actual and 2021 Approved, New Revenue Measures are incorporated into their respective revenue codes

Appendix 2: Medium-term Economic Forecasts

	2019	2020	*2021	*2022	*2023	*2024
Nominal GDP (in millions of MVR)	86,787.9	57,391.1	71,927.4	82,003.9	93,358.6	104,037.9
Nominal GDP Growth	6.4%	-33.9%	25.3%	14.0%	13.8%	11.4%
Real GDP (in millions of MVR, 2014 constant price)	77,161.9	52,484.3	64,407.0	72,119.6	80,402.2	87,818.2
Real GDP Growth	7.0%	-32.0%	22.7%	12.0%	11.5%	9.2%
CPI Inflation	0.2%	-1.4%	2.5%	1.1%	1.1%	1.2%
Tourism Arrivals	1,702,887	565,414	1,101,357	1,487,124	1,817,540	2,113,390
Tourism Arrivals Growth	14.7%	-66.8%	94.8%	35.0%	22.2%	16.3%
Bednights	10,689,248	3,984,712	7,412,272	9,673,759	11,550,621	13,191,630
Bednights Growth	12.9%	-62.7%	86.0%	30.5%	19.4%	14.2%

*Forecasts from 2021 to 2024 are based on the moderate case scenario forecasts

Appendix 3: Revenue and Expenditure Forecasts for 2022 to 2026

					Forecast
(in MVR millions)	2022	2023	2024	2025	2026
Total Revenue and Grants	23,666.1	26,703.8	27,372.3	28,881.3	30,695.7
Total Revenue	21,427.2	24,553.3	25,934.7	27,956.2	29,786.2
Import Duty	3,565.7	3,806.3	4,197.7	4,501.5	4,801.3
Income and Property Tax	2,656.7	2,951.9	3,320.9	3,450.1	3,558.4
Withholding and Business Profit Tax	2,060.9	2,345.5	2,717.0	2,848.0	2,954.4
Bank Profit Tax	595.8	606.4	603.8	602.0	604.1
Individual Income Tax	135.1	139.6	143.7	147.3	151.1
Goods & Services Tax	7,076.2	8,438.0	9,712.6	10,765.0	11,718.5
Tourism Goods & Services Tax	4,486.9	5,558.7	6,504.3	7,281.1	7,921.8
General Goods & Services Tax	2,589.2	2,879.3	3,208.3	3,483.9	3,796.6
Other Taxes and Duties	1,351.5	1,660.8	1,920.2	2,139.2	2,288.0
Airport Service Charge	528.2	663.1	776.4	862.8	927.0
Green Tax	823.3	997.7	1,143.8	1,276.4	1,361.0
Fees & Charges	1,740.7	1,948.3	2,110.9	2,213.0	2,297.3
Registration & License Fees	466.7	504.2	533.7	550.6	570.0
Property Income	1,635.9	1,543.7	1,657.0	1,762.6	1,869.8
Interest, Profit & Dividends	985.4	1,064.7	1,127.0	1,162.6	1,203.6
New Revenue Measures	1,394.6	2,092.6	788.3	850.4	900.9
Other Revenue	553.9	542.8	566.4	561.3	578.3
Grants	2,238.9	2,150.5	1,437.6	925.0	909.5
Total Budget	37,040.2	37,454.5	37,916.1	39,968.7	48,138.5
Total Expenditure	33,848.8	35,035.1	35,657.4	36,231.0	38,504.9
Recurrent Expenditure	21,121.9	21,914.3	22,584.0	23,287.8	23.926.9
Personal Emoluments	8,447.8	8,899.1	8,950.5	9,052.5	9,345.8
Pensions, Retirement Benefits & Gratuities	1,659.1	1,747.8	1,757.8	1,777.8	1,835.4
Goods & Services	4,516.3	4,667.3	4,850.0	5,056.3	5,283.5
Travel Expenses	146.1	147.7	149.4	151.2	153.0
Supplies & Requisites	693.4	701.4	721.6	745.5	767.2
Operational Services	1,720.5	1,739.5	1,760.1	1,781.0	1,802.3
Supplies & Requisites for Service Provision	1,016.2	1,027.5	1,039.6	1,052.0	1,064.6

(in MVR millions)	2022	2023	2024	2025	Forecast 2026
Training	704.7	813.3	938.5	1,083.1	1,249.8
Repairs & Maintenance	235.3	238.0	240.8	243.6	246.5
Grants, Contributions & Subsidies	2,715.8	2,745.9	2,778.3	2,811.3	2,845.0
Other Recurrent Expenditure	3,782.9	3,854.3	4,247.4	4,589.9	4,617.1
Capital Expenditure	14,045.8	13,506.1	12,918.6	14,135.0	21,236.0
Development Projects	28.2	28.5	28.8	29.2	29.5
Public Sector Investment Program (Ongoing)	7,152.2	7,335.7	6,787.7	6,502.9	7,407.1
Property, Investment & Lending	2,208.0	2,253.1	2,358.4	2,304.9	2,300.9
Budget Contingency	1,466.0	1,469.3	1,485.0	1,560.4	1,870.9
Debt Amortization	3,181.2	2,409.1	2,248.2	3,727.1	9,616.9
Capital Contributions to Multilateral Organizations	10.2	10.3	10.5	10.6	10.7
New Policy Initiatives	500.0	500.0	700.0	700.0	1,000.0
Council Block Grant	1,343.1	1,504.8	1,683.8	1,814.6	1,932.2
Primary Balance	(6,896.5)	(4,638.4)	(4,207.2)	(2,931.4)	(3,365.7)
Overall Balance	(10,182.6)	(8,331.2)	(8,285.1)	(7,349.8)	(7,809.2)
% of GDP					
Primary Balance	-8.4	-5.0	-4.0	-2.6	-2.7
Overall Balance	-12.4	-8.9	-8.0	-6.5	-6.3
Direct Debt	108.1	104.7	103.4	103.2	96.7
Direct & Guaranteed Debt	120.1	113.6	110.2	108.5	100.7