MALDIVES ECONOMIC REVIEW

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Sustainable fiscal policy, transparency and accountability in managing public finances:

An analysis of Budget 2020

Abdul Haleem Abdul Latheef

also…

IN THIS ISSUE

EDITORIAL

We are pleased to publish our second issue of the Maldives Economic Review.

In this issue we highlight on the budget and budgetary implications to the economy and society as a whole. We include articles looking at various economic issues surrounding both the fiscal policy laid out on the budget and how this impacts society at large.

The featuring article by Haleem reviews the 2020 budget followed by an article on more equitable distribution of the budget by Muna Mohamed, a new contributor to the journal. Other articles include one perspectives on crowding, by Mohamed Shahudh, another new contributor.

Athif contributes 2 articles, one on progressive Income Tax on wealth distribution and another on the standing of the Maldivian skipjack landing vis a vis the global harvest.

Fazeel's analysis on economic security and globalisation provides thoughts on the appropriateness of globalisation as a strategy for development, at a time when some influential thought leaders have begun to consider globalisation dead.

We thank Haleem, Muna and Shahudh for their contributions.

An important development since our first issue is the passage of the Income Tax Act. On 30th Oct 2029, MER organised an event to discuss and analyse the introduction of income tax in the Maldives and we were pleasantly surprised by the enormity of support it attracted. The event sold out and received good reviews. MER will monitor and publish impact on the economy following the implementation of Income Tax

More important developments in the economic arena are anticipated in the months ahead, one of them being the introduction of Minimum Wage and the other being Unemployment Benefits. The study into the appropriate level at which to start the minimum wage has been completed, discussed at Cabinet and is scheduled to be tabled at the Peoples' Majlis when they reconvene in February.

MER will cover these developments at appropriate times.

Co-editors
Ibrahim Athif Shakoor
Fazeel Najeeb

Sustainable fiscal policy, transparency and accountability in managing public finances: An analysis of Budget 2020

Abdul Haleem Abdul Latheef

The Legislative Framework for Fiscal Policy

The legislations governing the Government's budget are the Public Finance Act 2006 (PFA) and Fiscal Responsibility Act 2013 (FRA). Chapter 4 of the PFA covers the budget submission process while the FRA is intended to ensure responsible and sustainable fiscal policy, transparency and accountability of the Government to the Parliament as well as to the public.

The FRA sets of the framework for the fiscal policy of the Government. The FRA requires the Government to conduct fiscal policy based on the following fundamentals;

- Sustainable debt levels based on GDP
- Management of fiscal risks based on changing economic circumstances
- Maintain the Debt/GDP ratio as specified in the law
- robust mid-term fiscal policy, preparation and implementation of budget within the mid-term fiscal policy framework
- promote accountability in managing public finance
- complete, accurate and inclusive recording of public expenditure
- protecting intergenerational equity.

The legislative framework requires the Government to submit three important statements with regards to fiscal policy to the Parliament's Finance Committee.

They are;

- The Fiscal Strategy Statement,
- Debt Strategy Statement,
- and Budget Position Report.

The Fiscal Strategy Statement and the Debt Strategy Statement is to be submitted before July of each year, which is prior to the submission of the budget for the forthcoming year. This is to ensure that the proposed budget is in compliance with the fundamental principles as stated in the FRA.

The Budget Position Report is to be submitted after the submission of the budget to the Parliament and before the commencement of the deliberations on the proposed budget.

The purpose of submitting the Fiscal Strategy Statement, the Debt Strategy Statement and the Budget Position Report to the Parliament is to ensure oversight over Government's responsibilities under the PFA and FRA, which is sustainable fiscal policy, transparency and accountability in managing public finances.

The budget is to be submitted to the Parliament two months prior to coming fiscal year. For budget purposes, the fiscal year in Maldives is from January to December.

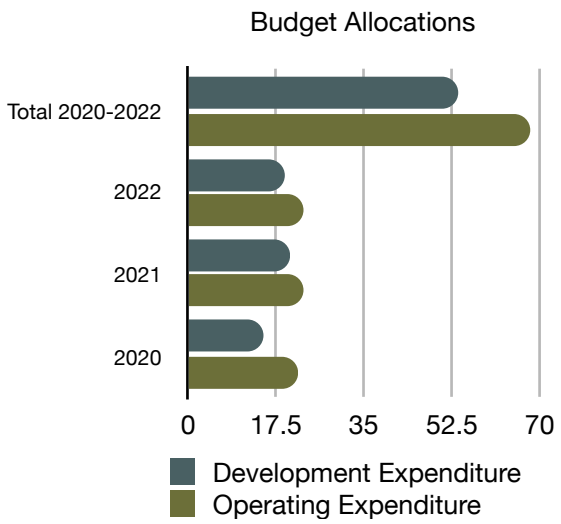
Both the Fiscal Strategy Statement and Budget Position Report should be publicly disclosed. Recent reports are available from the website of the Ministry of Finance and Treasury (MoFT).

Budget 2020

The Government's budget sets out the economic and social objectives of the Government and includes expenditure and revenue estimates for the current financial year, the budget year and three forward financial years.

The proposed budget is based on the Strategic Action Plan (SAP) of the Government, which is the central policy framework and planning document that guides the overall development direction of the Maldives (including the SDG) for the next five years starting from 2019. The SAP consolidates the current Government's manifesto pledges with existing sectoral priorities. SAP become operational from 1 October 2019.

The Budget 2020 is the first full term budget of the current Government. For the next three years, the Government proposed to spend over MVR122 billion, which includes an allocation of MVR 54.2 billion in economic and social infrastructure development.



Medium Term Budget 2020 -2022,
Figures in MVR Billion

The approved budget for the 2020 is MVR 37.8 billion with the inclusion of addition expenditure proposed by the Parliament's Budget Review Committee. While there was an upward revision on the expenditure side of the budget by the Parliament's Budget Review Committee, the proposed revenue remained unchanged.

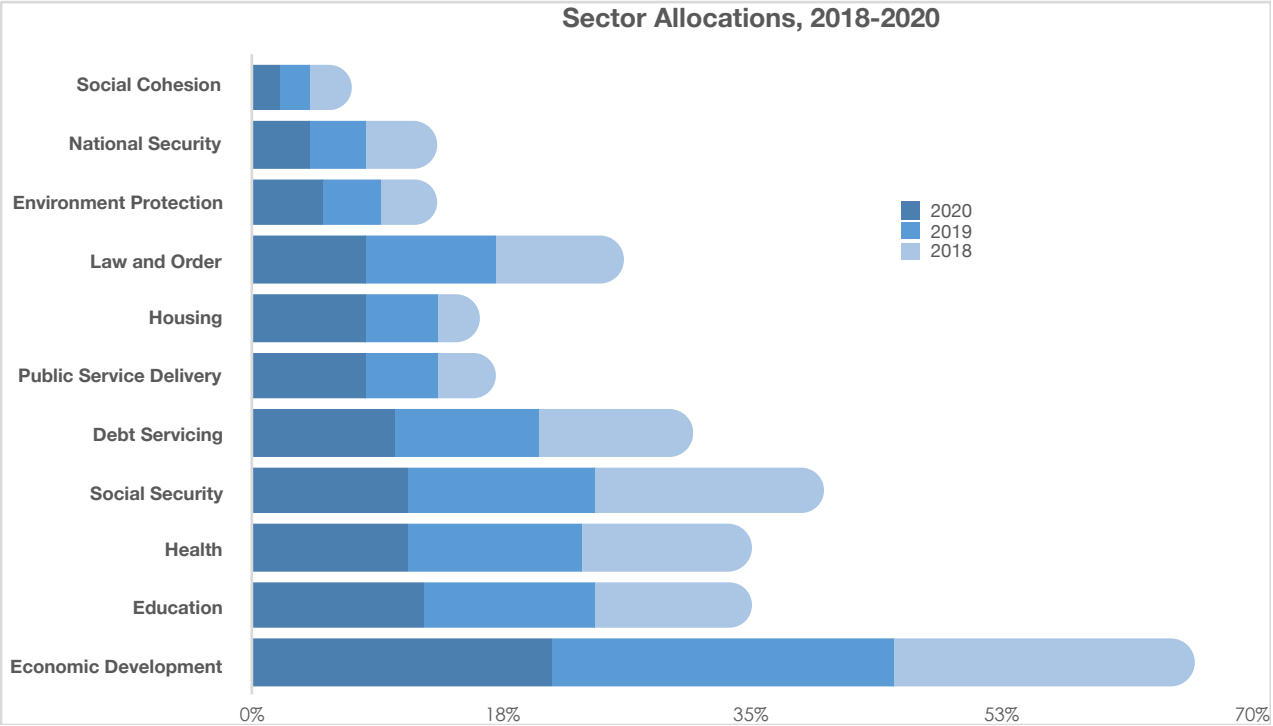
Taking account of the committee's recommendation the current year's fiscal deficit will further widen to MVR 6 billion from MVR 5.6 billion. This would result in slight deterioration of fiscal deficit as well as Debt-to-GDP ratio. The FRA threshold for fiscal deficit is 3.5% and Debt-to-GDP ratio is 60% inclusive of guarantees. For 2020 the fiscal deficit is expected to be 6.2% and Debt-to-GDP is expected to be 58.6%, excluding guarantees.

Priorities

The proposed budget aims to improve the living standards through developing water and sanitation infrastructure in the islands, improving quality of government services in islands, improving excess to health care in the islands, investments in education and training, as well as strengthening social security.

The priorities of government spending remained largely unchanged according to the proposed budget 2020 compared to previous two years. Economic Development, Education, Health, Social Security, Debt Servicing and Public Service Delivery and Housing account for 80% of Government budget.

The Budget 2020 also reflects the Government's policy change in granting more autonomy in budget management to the local authorities following changes to the Decentralisation Bill. It is proposed that over MVR1.6 Billion will be allocated



Proposed Budget 2020, MoFT

to local authorities as block grants with significant discretion on budget management. This would certainly empower local authorities and pay dividends in the long-run. However, decentralizing would pose challenges in terms of budget control and accountability.

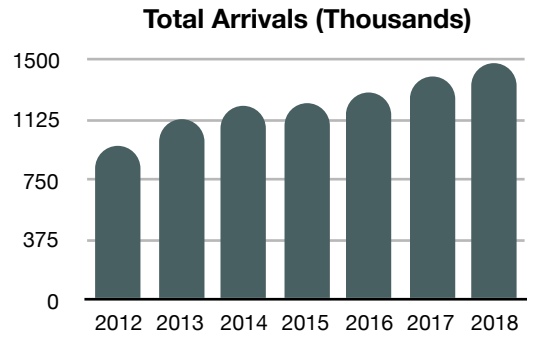
Continuing the trend, the current year's budgets allocates majority of funds for operating expenditure of the Government (58%). The most significant development expenditure in terms contribution to GDP are funding allocated for international airport expansion project as well as sea port relocation project.

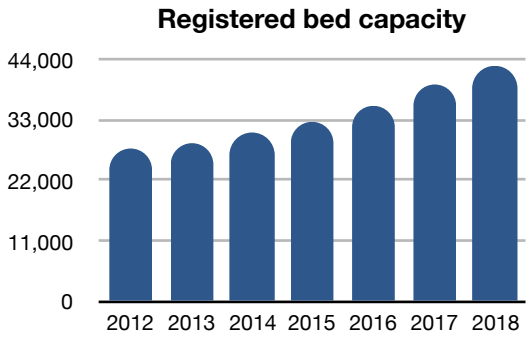
The international airport is the most important infrastructure in the Maldives as it is the gateway to connect the Maldives to the rest of world. The upgrading and capacity improvement in international airport are necessary to cater for the growing tourism industry. The Government proposed to spend MVR 852 Million for this project.

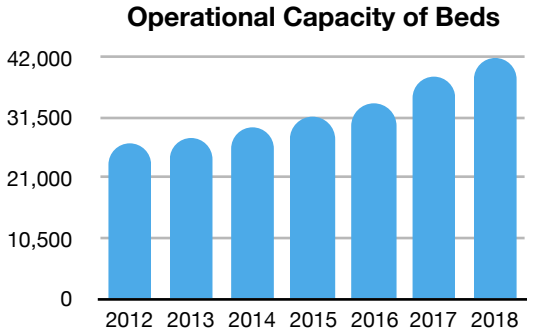
In addition, Government plans to spend MVR 54 Million for new airport in Fares Maathodaa Island of Huvadhu Atoll and over MVR1 Million for consultancy work towards development of another airport at Muli Island of Meemu Atoll.

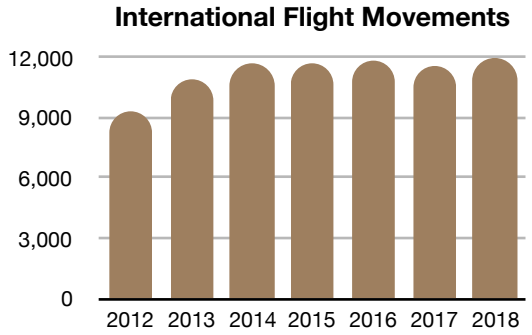
There will be additional financing for the ongoing airport development at Hoarafushi Island of Ha Alif Atoll as well as that of Maavrulu Island of Huvadhu Atoll.

Tourist arrivals grew at the rate of 6% per annum during the period 2013-2018. The bed capacity grew 2% above that of tourist arrivals. The internal flight movement also grew by 2% per annum during the period. Investment in international airport would alleviate the current congestion in airport, increase throughput, enhance visitor experience as well as open doors for more airlines.





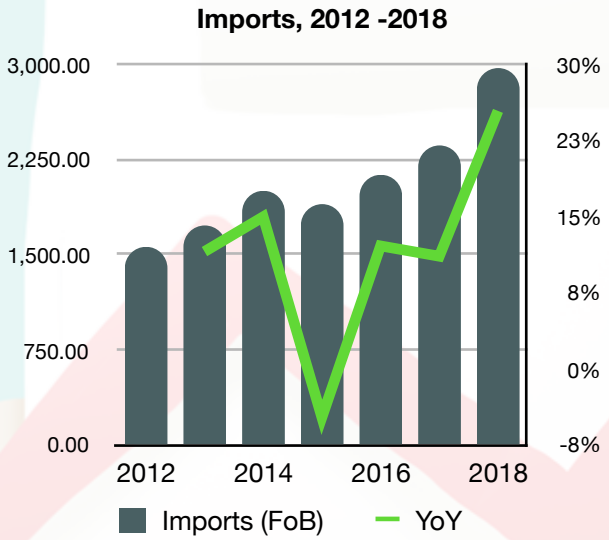




Tourism indicators; arrivals, bed capacity and flight movements, Monthly Statistics MMA

The sea port is the other critical infrastructure in the Maldives. The Government plans to relocate the main sea port in Male Island to Thilafushi and connect Male Island with Thilafushi Island via a bridge. The budget allocates MVR 411 Million for this project. The sea port project would ease the port congestion and improve efficiency.

Import is a significant activity in the Maldivian economy. Maldives relies on imports to provide food security for its people as well as to support the raw materials, materials and equipment needs of the other industries. During the period 2013 to 2018 imports grew at a 11.3% per annum.



Monthly Statistics MMA

The proposed spending on airport and sea port would contribute to job creation as well additional revenues to the Government and possibly lowering of costs through efficiency gains.

The Government plans to start construction of 10,000 housing units during the year and MVR 600 Million is allocated for this project as equity and to make housing more affordable. The total proposed expenditure on housing is over MVR975 Million.

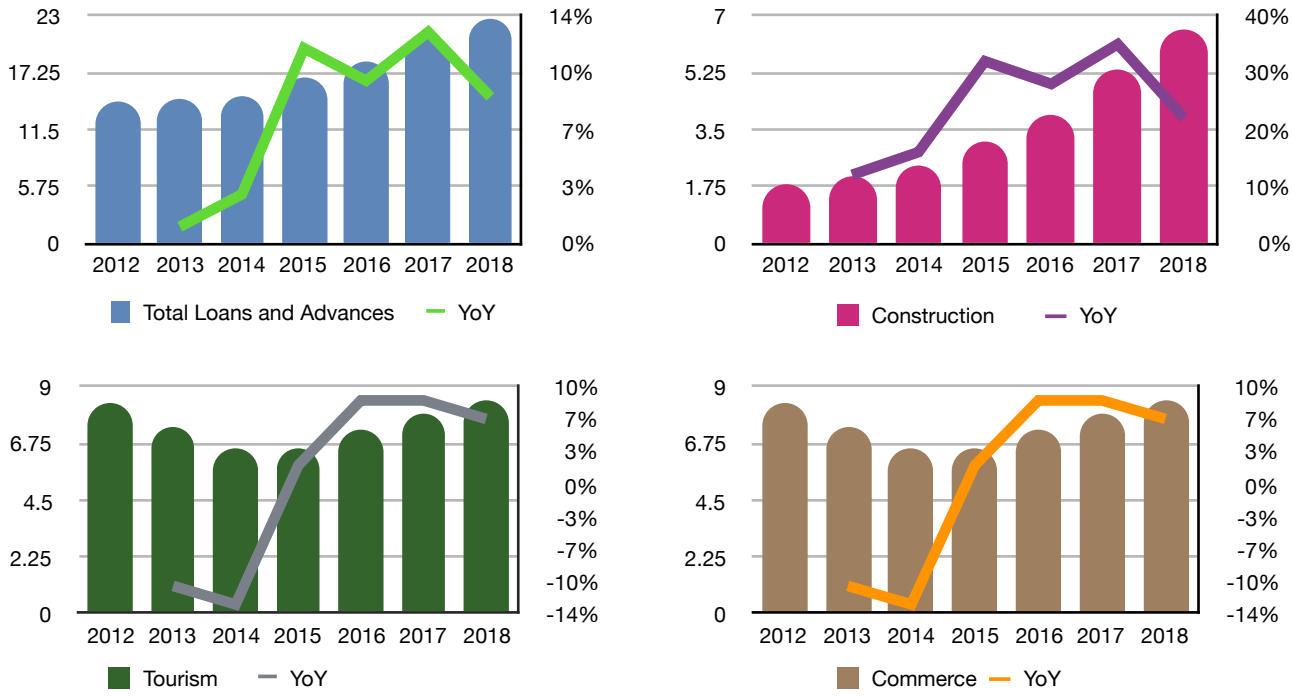
Economic growth

The Government's GDP growth target is 7.5% for the year 2020. The GDP growth target is primarily based on the confidence in the tourism sector as well

as construction sector. The two sectors combined accounts for 38.4% of GDP.

While the growth in tourism sector will remain robust due to expected increase in visitors and airline traffic, it is expected that most of the impetus for growth in construction sector will come as a result of Government's PSIP, which is in the order of MVR 15 billion for 2020.

An important contributor for the GDP growth would be the availability of finance for economic sectors. The loans and advances from the banking sector has somewhat decelerated. There is an overall decline in lending of 1% by October 2019 compared to 2018. The biggest decline is in the Construction Sector Lending, which stood at 8% (October 2019) from 22% in 2018.



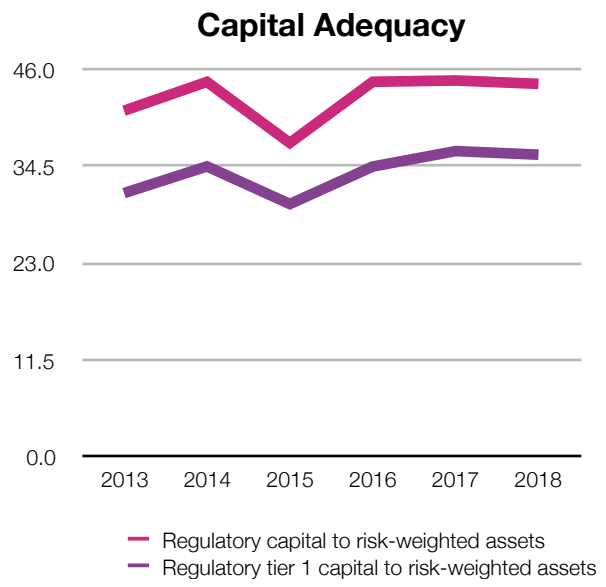
Monthly Statistics MMA, Figures in MVR Billion (unless stated)

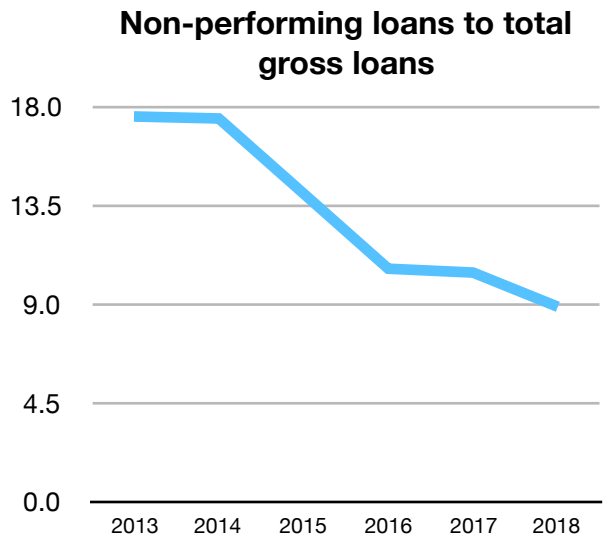
However, the fundamentals in the banking sector are very strong. The capital adequacy is well above the regulatory thresholds, the non-performing loans have declined to 8.9% by the end of 2018 from a staggering 17.5% in 2013. Earning and liquidly is also very healthy and above industry averages.

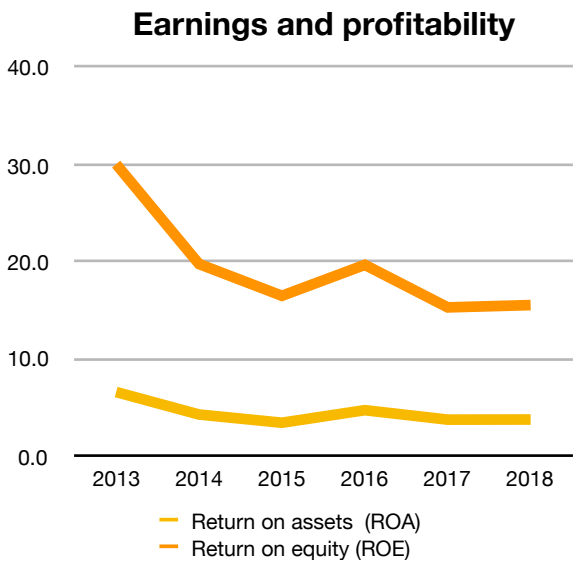
If the banking sector's risk aversion continuous and tightens domestic credit, there will be impediments to the growth of the economy, especially the construction sector.

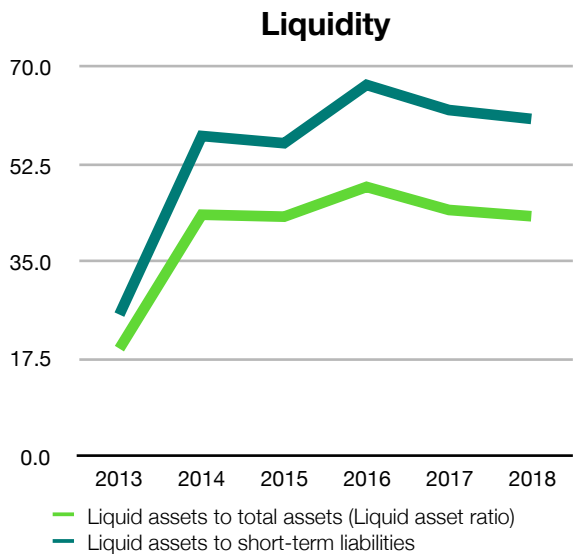
It is also expected that the current low inflation regime will continue and remain at 1% during 2020. The Maldives inflation rate continued to decline since 2012.

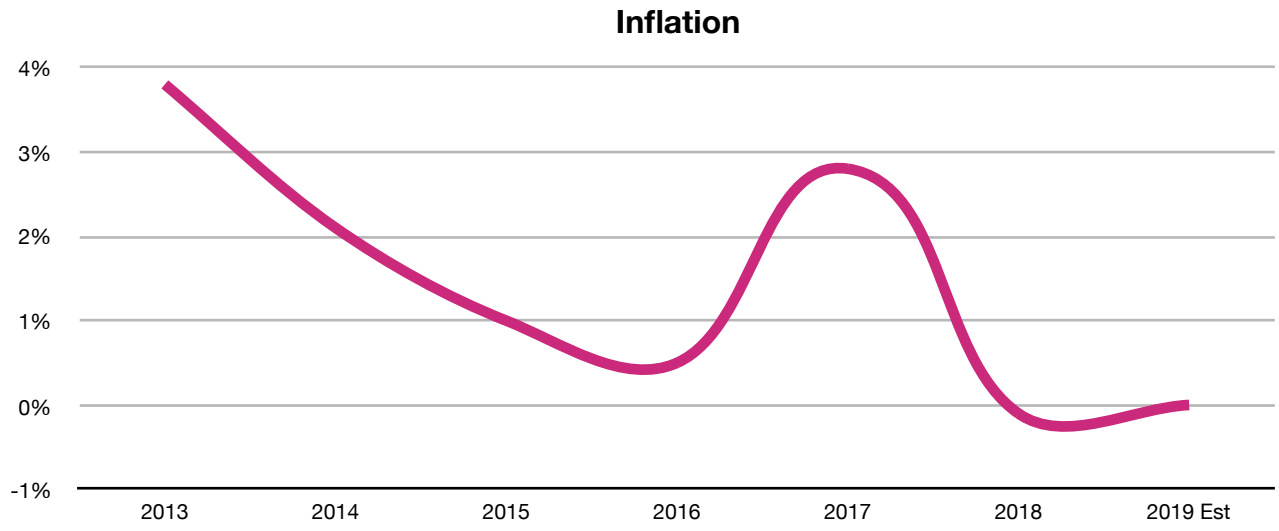
The inflation rate target is achievable based on the overall trend. The expected improvements in both current account deficit as well as national reserve position (USD 818.8 compared to USD635.6 in 2019) will be important counterweights to cushion off exchange rate pressure in the parallel market. On the downside, an upward swing in the inflation is plausible following the implementation of new income tax regime.











Monthly Statistics MMA

Financing

The Government proposed to finance the budget through expected revenue of MVR 30 billion, including MVR 3 billion from new revenue measures.

	MVR, Millions
Change of ADF	160
ASC rate change (revised for departure tax) implementing 1 April	160
Income Tax	706
Duty /import fee Revisions (1 MVR per cigarette)	558
Quota Fee (1 Jan 2020)	555
Work Permit Fee (1 Jan 2020)	214
New Resort Acquisition Costs	290
Total	**2642**

Proposed Budget 2020, MoFT

The tax revenue accounts for almost 60% of total expected revenue. The expected grants include an additional MVR3 billion compared to that of 2019 and that estimated for 2021 and 2022.

	MVR, Billions	%
Tax	18	59%
Non-Tax	7	23%
Capital Receipts	0	0%
Grants	5	17%

Proposed Budget 2020, MoFT

According to MMA's opinion on the budget, the MVR 2.3 billion included under grants is non-cash grant and thus a more realistic revenue figure would be MVR 26.8 billion.

	MVR
Total revenue	30.15
Less: Subsidiary Loans	(0.23)
Net Revenue	29.92
Adj: Grants	(2.30)
Adjusted Total Revenue	26.78

Proposed Budget 2020, MoFT

The Government plans to finance the deficit though issuance of additional bonds in the international market and sale of treasury bills in the domestic market. Raising finance through sale of sovereign bonds started in 2017. There are already two sovereign bond issues outstanding. The Government plans to raise USD 300 million through sale of Samurai Bonds next year.

The first of Maldives Government sovereign bond sale took place in 2017 (with the sale of USD 250 million 7% fixed coupon 5-year maturity conventional bond which is listed in the Singapore Stock Exchange). The second bond, issued April 2017 is a USD 100 million 5.5% fixed coupon 5-year maturity conventional bond listed in the Abu Dhabi Stock Exchange, privately placed with the Abu Dhabi Fund for Development.

For the year 2020, the net foreign borrowings will account for MVR 6.5 billion (MVR 7.6 billion is the new financing). In addition, Government proposed MVR 795 domestic borrowing will increase to MVR 1.2 billion based on approved budget. The adjustment for grants would lead to additional borrowing in the absence of expenditure adjustment.

In terms of debt servicing, MVR 1.1 billion is expected to be used to pay off foreign borrowing while MVR 750 million is expected to be disburse for domestic repayment.

Sovereign Wealth Fund

To strengthen the debt repayment capacity and maintain the credit rating of the sovereign bonds, a sovereign wealth fund (SWF) was established in 2017. The Government has been allocating funds in the form of transfers from the budget since then to the SWF.

	Transfers	Cumulative
2017	0.38	0.38
2018	1.32	1.69
2019	1.45	3.14
2020	0.88	4.02
2021	1.02	5.04
2022	1.10	6.14
Total	5.76	11.89

Figures in MVR, Millions
Proposed Budget 2020, MoFT

It is expected that the debt burden would continue to grow. In addition to the debt serving and repayment risk the Government is subject to foreign currency risk as the currency profile of the overseas debt has also evolved over the years. The Government's target of reaching a fiscal surplus by 2024 can be achieved through stringent cost control, economic growth and tax compliance.

Income Tax

The Government plans to introduce income tax for the first time in the Maldives during 2020. The new income tax bill comes to effect on 1 January 2020. However, incomes on salary will be subject to tax effective from 1 April.

The Parliament made certain adjustments to the income tax thresholds and tax rates to the proposed income tax regime by the Government. The Government proposed income tax as follows;

Proposed	
individuals	
Tax bracket (taxable income per tax year)	**Tax rate**
Not exceeding MVR 480,000	0
More than MVR 480,000 but not exceeding MVR 720,000	8%
More than MVR 720,000 but not exceeding MVR 1,200,000	10%
More than MVR 1,200,000	15%
Approved	
individuals	
Tax bracket (taxable income per tax year)	**Tax rate**
Not exceeding MVR 720,000	0%
More than MVR 720,000 but not exceeding MVR 1,200,000	5.50%
More than MVR 1,200,000 but not exceeding MVR 1,800,000	8%
More than MVR 1,800,000 but not exceeding MVR 2,400,000	12%
More than MVR 2,400,000	15%

There will be new tax regimes for banks as well. Banks will continue to be taxed at 25%. However, the accounting rules for banking sector for tax computation changes as the former regulatory system is abolished following the income tax bill.

The withholding tax is also further expanded into include dividends and re-insurance premiums. The remittance tax levied on foreign workers is abolished.

The effect on Government revenue on the new tax regime is yet to be seen. The amendments that were brought in and the extension of deadline to for income tax may further reduce the proposed tax revenue.

Accountability

Recently, the World Bank has approved further USD 12 million financial package to further strengthen Maldives' public sector financial management systems The

World Bank also note that The Ministry has also brought more transparency to its budget and financial information through an integrated financial management information system. Further to that, the Auditor General has taken steps to disclose audit reports on public debt and guarantees.

According to World Bank, the expected results of the additional financing include; stronger preparation and prioritization of high impact and affordable public investments, optimized cost and risks of public debt, and improved public procurement. The modernization of these core public financial management functions aims to ultimately improve the effectiveness and efficiency of public services.

The IMF TECHNICAL ASSISTANCE REPORT—PUBLIC INVESTMENT MANAGEMENT ASSESSMENT issued on April 2019, based on information available as at March 2017, highlight significant weaknesses in the Public Finance Management especially with regards to development expenditure.

Final Thoughts

The proposed budget for the 2020 represents 22.5% increase from the previous year. There are number of challenges in achieving the budget targets. As noted in the opinions to budget both Governor and the Auditor General noted the importance of proper pubic finance management. Most often than not, the budgeted revenue fails to materialise, and control of expenditure is weak, and reporting is poor.

The deceleration in the banking sector credit would be a major obstacle domestically. The banking sector should play an important role in providing credit to the local economy to maintain momentum and stimulation in the economy so that Governments revenue & economic growth targets can be achieved.

To ensure budget effectives, efficiency and transparency, the disclosure of information under the FRA should be improved further. Additional efforts have to be taken to make public aware of the Government's Fiscal Policy and Strategy, especially in the context of changing tax regime and ever-increasing tax and debt burden. The Government should further impose cost control measures to avoided leakages and misappropriation of public funds especially in the context of expansionary fiscal policy.

About the author

Mr Abdul Haleem Abdul Latheef was the former CFO at the National Pension Office. He joined the office in 2009 as an accountant. He has extensive experience in accounting systems, controls and financial reporting. He led the finance team at the National Pension Office and established its investment management, investment operations and financial management functions. He is a chartered management accountant with membership of CIMA (UK). Earlier he held the position of Head of Department of Accounting and Finance at Faculty of Management and Computing of the Maldives National University. He engages in private consulting and teaching.

Towards a more equitable budget

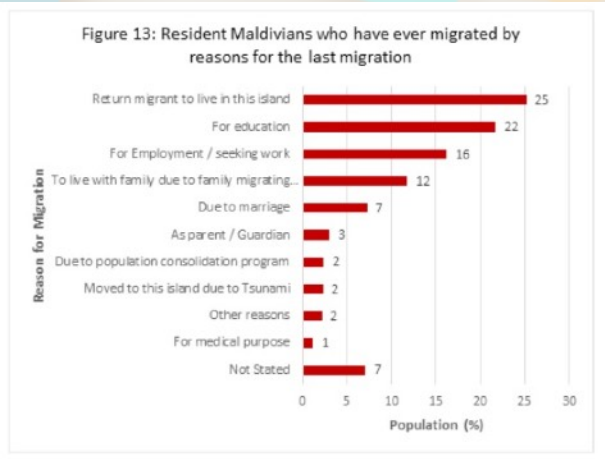
Muna Mohamed

World Bank in an introductory economic report on Maldives in 1979 states that

"Male dominates the political, economic, and social structure of the country. It is here that a small national elite presides over the archipelago's affairs and takes decisions that are crucial to the well-being of the atolls. Not surprisingly, a disproportionate share of government expenditures directly benefits Male and ensures its residents a standard of living that is substantially higher than in the atolls The other islands now rely upon it as their main trading post and contact point with the rest of the world"

Fifty years later Male' has become one of the most congested cities in the world with a population density of 65,201 per km according to National Bureau of Statistics of Maldives.

Top reasons for migration as per census is; as a return migrant, education, employment and to live with family. Thus, key factor that pulls people to congested living is service centralisation to Male'. Building schools or hospitals or creating jobs needed in atolls of north or south of Maldives in the capital Male'; not only adds an additional cost burden, it also helps to discriminate in giving basic services. Thus, human development report of Maldives (UNDP 2014), on inequality, states that



"most influential – driving factor is spatial setting or location. Where one is born within the Maldives determines many of the opportunities and choices available to a person"

This leads to increase in poverty incidence in atolls, affecting their quality of life even if they may get a higher income in Male'.

UNDP also notes that "this inequality, rooted deep in social, economic and political structures, which has accumulated through individual lives and across generations, needs to be addressed".

A major tool that can be used to address those inequalities and provide a more equitable sustainable development path is the National Budget. The Household Income and expenditure survey (2016) points out some of the challenges and sources of grievances with regard to socio economic factors prevalent in Maldives. The question we need to ponder is, does the budget including grants and loans, allocate more funds to address these grievances by prioritising most poverty-stricken atolls or islands in the country, compared to capital Male'?

Let us briefly analyse socio economic picture the Household income and expenditure survey (2016) paints, before discussing to what extent the budget mechanisms are structured to address those grievances

Poverty

According to HIES (2016) on average a Maldivian spends 5634MVR per month.

Median expenditure stands at 4736MVR. For the first time the country set a relative poverty line in 1998. National Bureau of statistics in 2016, set a "high poverty line" to complement the "low poverty line", defined in 1998.

Poverty Line	Poverty Line (Desc)	MVR
National Poverty Line	Half the median of total expenditure	74
High Poverty Line	Median of total expenditure	148
International Poverty Line	Upper middle-income poverty line	70

Source: HIES 2016

Total monthly income to fulfil basic needs under lower poverty line is MVR 2220 and MVR4440 under higher poverty line.

One important objective of budget is to fund activities that will stimulate generating (additional) income needed to climb out of poverty, to most poverty-stricken areas.

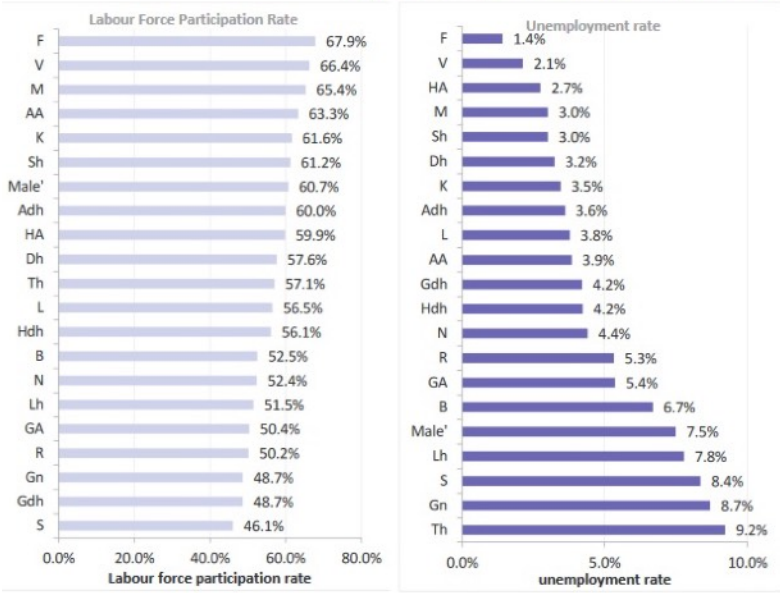
Nelson Mandela correctly stated that poverty is not natural and it is man-made. Household Income and expenditure survey of 2016 gives poverty headcount as shown in the table on poverty rate (HIES 2016).

Maldives is a country with a world class tourism industry and about 72% of resort beds are concentrated in Baa to Vaavu atoll. The atoll with the greatest number of resorts is kaafu with 47 establishments. However, the table on poverty shows some of the atolls in this region have poverty rates in double digits. For instance, for Kaafu atoll poverty rate for lower line is 15.7% while from higher line it is 65%, showing that amount of people does not get even MVR4440 per month in this region.

Indicator	Poverty Rate (Headcount Ratio in %)		
	National Poverty Line (MVR 74)	High Poverty Line (MVR 148)	International Poverty Line (MVR 70)
Republic	8.2%	46.5%	6.6%
Male'	1.7%	21.3%	1.5%
Atolls	12.8%	64.7%	10.4%
H.A	7.7%	57.0%	6.2%
H.Dh	11.2%	68.5%	7.7%
Sh.	8.2%	63.0%	5.3%
N	3.7%	45.4%	3.4%
R	17.6%	69.2%	14.7%
B	13.4%	66.0%	10.1%
Lh.	6.0%	55.7%	1.6%
K	15.7%	65.0%	15.3%
AA	16.5%	74.8%	11.0%
A.Dh.	8.0%	67.1%	5.2%
V	1.7%	56.4%	1.7%
M	7.1%	58.7%	6.2%
F	8.7%	66.8%	6.4%
Dh.	17.2%	75.8%	14.5%
Th.	16.1%	69.1%	13.8%
L.	8.1%	54.3%	6.0%
GA	12.0%	58.2%	8.3%
G. Dh.	23.8%	68.9%	20.5%
Gn.	14.7%	73.4%	13.1%
S	19.1%	71.9%	17.4%

Economically active and employed population

Unemployment rates are quite high in the atolls where most luxury resorts in



Disparities among Atolls. Source: HIES 2016

Maldives are established. Question is how much involvement of local communities are there in economic activities undertaken in these atolls and if laws related to economic activities are targeted for inclusive economic development?

Total Gross domestic product (2018) of Maldives, at market value is MVR71 billion (2018) or 4.6billion USD. Per Capita GDP of the country stands at 9000 USD. GDP estimates for 2018 shows that tourism contributes 24% (MVR 17billion). Since industry statistics show that, 72% of resort beds are situated in Baa, Lhaviyani, Kaafu, Alif, and Vaavu atoll, roughly 12billion (72%) of GDP of tourism could be coming from this region. Total population (registered) of this region (Baa to Vaavu atoll) is just 61550 people!

A world class economic activity can be introduced to an atoll and it could generate enormous wealth in that geographic area, but the charts above (poverty and employment) proves that it may have little effect on poverty if local involvement as employees or shareholders is little. It is a lesson to other more populous and poor atolls on the importance of ensuring share and involvement of locals in economic activities for betterment of those communities.

The industry itself need to strategies with atoll communities to increase involvement of locals at various level in economic activities undertaken in those atolls before such marginalisation leads to other social dangers.

Poverty and employment figures also show the importance of prioritising such communities in distribution of budget. Again, the question is, does the budget prioritises atolls with high unemployment or less economically active population?

Budget 2020

The Ministry of Finance and Treasury proposed a budget of 37billion Maldivian Ruffiya for the year 2020 of which 35billion will be as expenses which is excluding subscriptions to financial institutions and loan repayment. The budget allocation shows 22billion for recurrent expenses and 10billion for Public Sector Investment

Program (PSIP) and 5 billion for other miscellaneous expenses.

Total budget allocation (recurrent and capital) based on atoll is not disclosed in the National Budget. Sectoral budget figures and amounts given to government ministries are stated. This limit comprehensive comparison analysis based on geographic areas stated in the Constitution of the Maldives. In disclosing data Maldives also has a habit of showing every figure about Male; but 20 atolls lumped together as atolls making it two categories instead of 21. That limits getting a correct picture of individual atolls on any indictor, inadvertently aiding in discrimination at policy level since you cannot formulate or pressure for specific policy interventions if you do not know actual figures at least of your atoll. (Intentional?). Open data policy on atoll level budget, resource allocation and socio-economic status is something institutions can focus on strengthening to aid in better, speedier and more accurately targeted policy making and awareness.

Even though published data on atoll and island level is limited, the government does disclose budget for Public Sector Investment Program (PSIP) in recent times based on geographic area helping to gauge budget allocation to some extent.

Public Sector investment program (PSIP)

Below are the proposed PSIP figures for year 2020 by atoll and poverty figures (HIES 2016) for ease of comparison. Starting figure of PSIP is MVR261 million for North Thiladhunmathi atoll, it ends with 3353million (3.3billion) for Male' region. The 2.5billion below (Male') that states, "for various atolls". Hence even this picture gives an estimation of PSIP allocation for atolls since the portions from 2.5 billion "for various atolls" again could end up in Male' (most likely) as well.

PSIP budget allocated to capital Male' is incomparable in amount to regions with similar registered populations like Huvadhoo to Addu atoll and Bodu Thiladhunmathi. Considering the fact that most poverty-stricken atoll in the Maldives based on lower poverty line is South Huvadhoo (Gdh, with 23%), one would expect that region to get more of budget allocation. Why have this not happened?

Council allocation

The most talked about issue in this years' budget debates are government decision to allocate 5% of revenue to councils. However, if the central government expenditure to Male' is way above this allocation, migration to Male' and increasing poverty in atolls which is the biggest obstacle to equitable development in Maldives remains and situation may get even worse.

National poverty rate and budget for public sector investment program- year 2020

Atoll	National poverty line (74Mrf per day) in %	Higher poverty line (148 MVR per day) in %	PSIP (in millions of Maldivian Rufiyaa, 1 dollar is equal to 15.42)
Ha	7.7	57	261
Hdh	11.2	68.5	362
Sh	8.2	63	264
N	3.7	45.4	225
R	17.6	69.2	309
B	13.4	66	285
LH	6	55.7	125
K	15.7	65	143
AA	16.5	74.8	88
ADH	8	67.1	97
V	1.7	56.4	42
M	7.1	58.7	129
F	8.7	66.8	64
DH	17.2	75.8	74
TH	16.1	69.1	332
L	8.1	54.3	165
GA	12	58.2	115
GDH	23.8	68.9	486
GN	14.7	73.4	228
S	19.1	71.9	523
MALE'	1.7	21.3	3,353
For different atolls			2,514
TOTAL			10,184

Data Source:

- MOFT (2019), Budget 2020, Ministry of Finance, MALDIVES
- NBS (2016) House Hold income and Expenditure survey, Statistical bureau of Maldives

Conclusion

Present trends have shown that over 64% of population of Maldives will be forced to live in greater Male' area by 2054! (Maldives Population Projections 2014-2054، 2019). Already the population density of this area is forcing people to live in slum conditions giving up many basic human rights for having to stay away from family and own community. Will the direction of the budget change, to close roads paved by past budgets, too congest Male' through service centralisation? The rate of migration especially to Male', in coming years would give us an answer to this question.

Natives of this country wait for the day, reverse migration away from Male' to atolls with naturally bigger islands would start. Such a trend will give an opportunity to live a life of well-being close to nature and its benefits that people of this beautiful country richly deserve. Current and future National budgets will decide if that would become a reality.

About the author

Muna Mohamed is a Maldivian author and a blogger on forced migration, and management of natural resources for sustainable development to safeguard rights of communities.

Educated in Australia she undertook a Bachelor of Commerce from Murdoch University and an MBA from University of Adelaide. She has over 20 years experience in Public Service.

Perspectives on crowding out: evidence from Maldives and international data

Mohamed Shahudh

Introduction

In economic circles "crowding-out" is often referred to the contraction in economic activity associated with the deficit-financed spending. In theory when governments borrow domestically, they use up the limited supply of domestic loanable funds and push its cost of borrowing that could have been otherwise lent out to private sector for productive endeavours. Using Maldivian and international data I discuss whether such a problem exists in the Maldives and what are the possible remedies to resolve the issues in light of experiences from other jurisdictions.

The banks are traditionally some of the biggest players in the government debt markets globally and their consumption of government debt, and the lending behaviour can have significant consequences for private sector lending, especially in markets where other sources of raising finance such as capital markets are limited.

Figure 1 is constructed using a panel data set used in a recent IMF study by Romain Bouis on the relationship between banking sector holdings of government securities and private sector lending and IMF International Financial Statistics (IFS) covering 80 countries for the period 2001 – 2015. The figure (panel A) shows that participation of banks in government debt markets for different income groups and goes on to show the within-group heterogeneity and group dynamics of banking investments in debt markets globally. In general, the

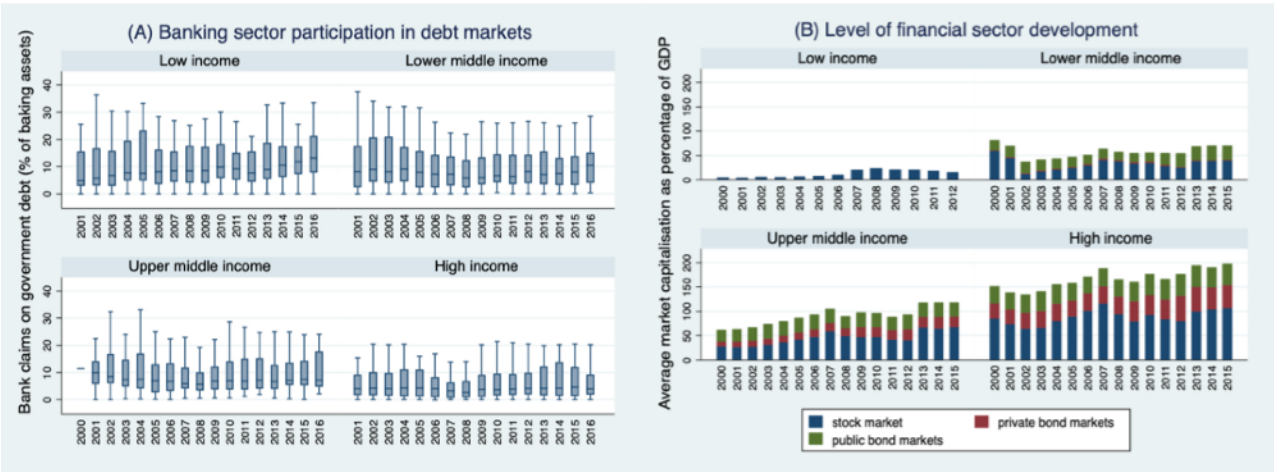


Figure 1
Source: Authors calculations using IMF IFS (2019) and Bouis (2019)

banks have been increasing holdings of government debt after global financial crisis of 2008: the greatest holdings of government debt was experienced by banking sector in low-income countries with mean holdings of government debt exceeding 10 percent of banking assets; for lower and upper-middle income countries bank holdings of government debt have remained mostly below the 10 percent mark; the high-income group had the lowest holding of government debt in banking portfolios with mean holdings at roughly 5 percent. The greatest diversity in the holdings in terms of minimum and maximum exposure were experienced by low-income countries and lowest heterogeneity was experienced by the high-income group.

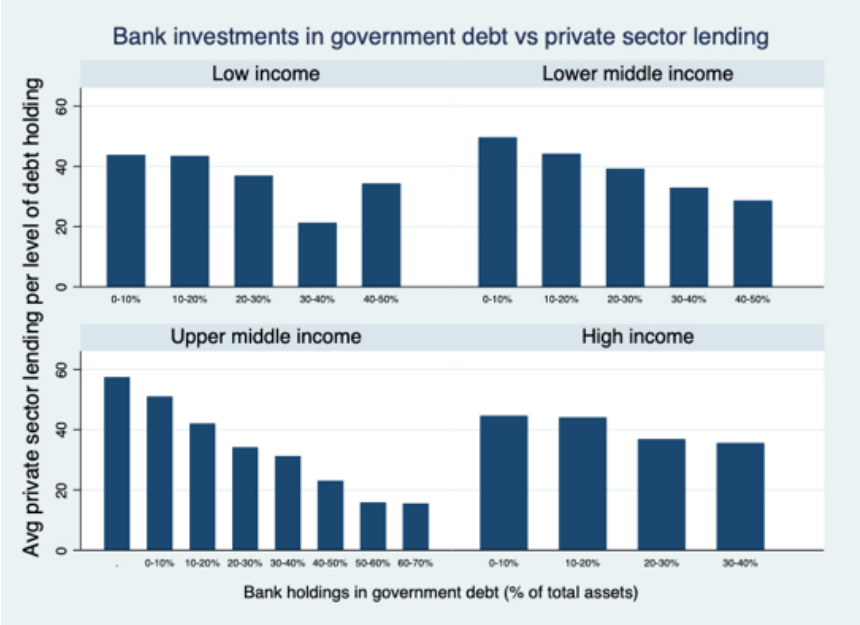


Figure 2
Source: Authors calculations using IMF IFS (2019) and Bouis (2019)

The general increase in bank holdings of government debt is especially consequential for countries with shallow financial and capital markets and where the private sector heavily relies on the banking system as the dominant funding provider. The Figure 1 (panel B) shows the development of capital markets measured using the capitalisation of stock and bond markets relative to GDP across all income groups. The lower income countries have on average a stock market capitalisation of 12 percent of GDP roughly 6 times smaller than their high-income peers and have little to no bond markets being developed. As the chart shows, as countries migrate from low-income to high-income status, the level of financial market development changes with the emergence of public bond markets and ultimately private bond markets. The combined market capitalisation of all three markets exceeds 50 percent for lower-middle income group, 100 percent for the upper middle income and 150 percentage of GDP for high-income countries providing a viable and sustainable alternative to bank financing for all levels of firms.

Taken together, these data appear to broadly support the theory that banks in

less developed markets are able to be more "selective" in their lending practices propelled by the lack of alternative funding sources domestically; while banks located in developed markets face tougher competition for lending opportunities incentivising them to pursue their lending activities more aggressively. This relatively higher market power possessed by banks in low-income countries means private sector entrepreneurs in these jurisdictions would be the hardest hit if banking assets are diverted away to fund government budget-deficits.

In a widely regarded study investigating the relationship between domestic debt and economic growth, covering 93 low-income and emerging markets for 1975-2004, Abbas and Christensen (2010) finds that when domestic debt holdings reach 35 percent of banking assets, there is evidence of the public sector investment programs crowding out private lending and reducing the efficiency of banking system in distributing capital. The Figure 2 above shows the level of bank portfolio holding in government debt and the corresponding average loans disbursed to the private sector for each income group in the sample and appears to support the above hypothesis. Remarkably, as the level of bank investments in government debt increases, the average lending to private sector significantly decrease and this trend appears to be present across all income groups with the exception of high-income cohort. The private sector lending in the high-income countries appears to be more resilient owing to the fact these countries have greater capital market development and highly competitive banking sectors which makes banks effectively compete for lending opportunities in a manner not required in lower-income countries.

It is certainly tempting to interpret this negative relationship between bank investments in government debt and private lending as evidence of a crowding out effect. However, correlation is not always causality. There are multitude of reasons why a bank may want to reduce its lending to private sector such as; rebalancing of banking portfolios towards safer assets in stress times (rise in Non-Performing Loans), effects of changes to regulatory regime such as changes to minimum reserve requirements, the development of capital markets in a country which reduce the reliance on bank loans by entrepreneurs or the combination of any of these factors. These factors need to be adequately controlled in an econometric identification strategy to properly establish causality between domestic debt issuance and private sector lending.

Country-specific studies employing adequate identification strategies could inform policy makers on the most binding constraints affecting the lending to private sector in a local context. The results from the following studies to assess the determinants of private credit growth in a number of countries and are worth noting:

Study and author(s)	Country and coverage	Determinants of credit growth
Bank credit in Argentina in the aftermath of the Mexican crisis: supply or demand constrained? Catao (1997)	Argentina (1991-96)	Changes in interest rate, level of indebtedness in private sector, economic growth, unemployment and adverse selection issues incentivizing banks to mostly lend to public sector entities rather than private sector.
Determinants of bank long-term lending behavior: Evidence from Russia Chernykh and Theodossiou (2011)	Russia (2007)	Bank capitalization, bank size, availability of long-term deposits, banking competitiveness
Determinants of commercial banks' lending behavior in Nigeria Olokoyo (2011)	Nigeria (1980-2005)	Deposit growth, economic growth, inflation and monetary policy
Determinants of credit growth and interest margins in the Philippines and Asia Tan (2012)	Philippines (2002-10)	Level of NPLs, economic growth, and high net interest margins. Higher net interest margins are associated with greater bank size, bank capitalization, foreign ownership and tax rates.
Determinants of bank credit in Pakistan: A supply side approach. Economic Modelling Imran and Nishath (2013)	Pakistan (1971-2010)	Foreign debt, deposit growth, economic growth, exchange rate, and the monetary conditions.
Factors affecting the bank credit: An empirical study on the Jordanian commercial banks Rabab'ah (2015)	Jordan (2005-2013)	Level of NPLs, bank size, bank capitalization, economic growth
Model For Overcoming Decline in Credit Growth (Case Study of Indonesia with Time Series Data 2012M1-2016M12) Kisman (2017)	Indonesia (2012-2016)	Deposit growth, economic growth, level of inflation and central bank policy rate

Source: The respective studies mentioned in the table

The results of these empirical studies indicate that binding factors which limit credit growth to private sector vastly differs from country to country, except for a limited number of common factors such as inflation, economic growth and balance sheet strength (NPL levels); high inflation lowers the purchasing power of credit, weak economic growth produce fewer investment opportunities for private sector, and weaker balance sheets discourage banks from taking on newer lending.

Large and well capitalised banks in the Philippines, Jordan and in Russia are found to benefit from greater public trust of the banks' credibility and stability, and hence are able to source funds from customers at cheaper rates relative to their lending, maintain highly diversified loan portfolios and undertake riskier lending much more efficiently than a smaller bank and engage in a wide-array of income-generating activities apart from loan income which make up for short-falls in loan income. This makes larger and well capitalised banks the most effective agents to churn out fresh deposits into greater lending.

Foreign banks in the Philippines are found to be major agents of technology transfer and are much more efficient and better governed, allowing them to keep the costs low and earn a higher net interest margin. They are also found to be more willing to venture into high-risk/high-return activities, matching to the strength of their parent banks, compared to domestic banks.

In the case of Argentina, the growth of lending to private sector were inhibited by a range of demand and supply side factors. On the demand side Argentine households and firms were found to have greater level of debt (loans, credit card, mortgage etc) and higher level of interest rates in the country were further constraining consumer ability to take on more debt. On the supply side Argentinian banks were found to be suffering from an information asymmetry problem where banks concentrated on lending to public sector clients whose credit information they already knew and were reluctant to lend to private sector and informal sector clients whose credit information was difficult to obtain.

Maldives Banking Sector

A.Key figures 2018	BML	SBI	BOC	HSBC	MIB	MCB	HBL	CBM	Industry Total
Revenue	2,517	593	414	189	207	327	60	41	4,307
Assets	22,973	10,081	4,597	3,599	3,282	1,914	1,377	1,200	49,023
Deposits	15,257	5,969	3,337	2,332	2,882	1,496	872	975	32,145
Loans	12,199	5,245	2,350	781	1,529	689	309	250	23,102
Net Profit	1,099	361	305	109	53	44	32	3	2,003
Market position (by assets)	47%	21%	9%	7%	7%	4%	3%	2%	

B.Sector Performance indicators	2012	2013	2014	2015	2016	2017	2018	Average
ROE	19%	30%	20%	17%	20%	15%	16%	19%
Interest Margin to gross income	58%	56%	66%	61%	65%	64%	63%	62%
Loan growth	-7%	6%	-5%	8%	10%	16%	8%	5%

Source: Author calculations based on published financial statements of Banks, MMA/IMF IFS statistics 2019

There are currently 8 banks operating in Maldives with a combined asset position of roughly MVR 49 billion equivalent to 54 percent of the national GDP. The combined loan portfolio of all banks stands at roughly 23 billion and the deposit base is actually exceeding the loan portfolio by roughly MVR3 billion standing at MVR15.2 billion. The largest bank in terms is the national bank, the BML controlling roughly 47 percent of the market by asset size. In terms of profitability of banking institutions, the interest margin of the and return on equity have largely remained consistent over the 2012-2018 period, while the lending growth has been volatile marked by years of negative growth and sudden increases in lending growth.

Is there evidence of a crowding-out effect in Maldives?

The government of Maldives started issuing treasury bills in 2006, and since then there have been a marked and significant rebalancing of banking investments in favour of government securities from lending to private sector. As shown in figure 3, the year 2009 marked the peak year of bank investments in treasuries with banking

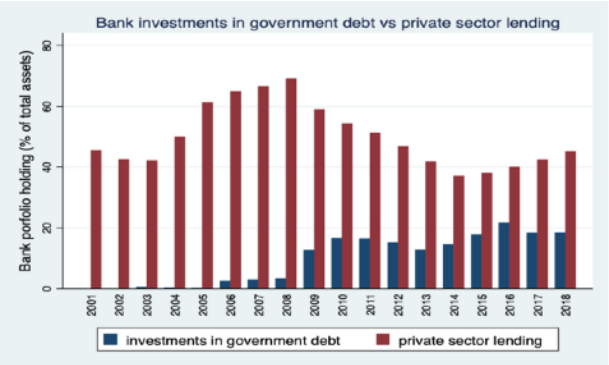


Figure 3
Source: Author calculations based on MMA/IMF IFS statistics 2019

picked up (since 2015), crossing 40 percentage mark in terms of total banking assets in 2018, it might take years for the industry to reach 2007-2008 lending levels.

In a recent study by MMA (2019), investigating the determinants of money supply in the Maldives, the banking

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Treasury bill rates	6.3%	6.3%	6.1%	5.4%	7.0%	7.9%	10.5%	9.0%	4.6%	4.6%	4.6%	4.6%
Growth of bank investments in treasuries	71%	41%	319%	39%	11%	-9%	-5%	32%	33%	29%	-11%	5%
Growth of bank lending to private sector	49%	30%	-4%	-2%	6%	-10%	1%	3%	12%	11%	11%	11%

Table 2
Source: MMA Monthly Statistics

sector increasing its investments in treasuries by threefold compared to 2008, and for the first-time banking loans to private sector began a slow growth or decline period which would last until 2014 with the sole exception of 2011. During this period, the banking sector lending to private sector (measured in terms of total banking assets) fell from its peak 65 percent in 2008 to 38 percent by the end of 2014, while bank holdings of government securities increased from just 3 percent in 2008 to 15 percent by the end of 2014. Such a drastic portfolio rebalancing is highly likely to be one of the factors causing the reduction in private sector lending. Although more recently, the bank lending to private sector has

regulator also points to evidence of crowding out domestically, where the issuance of substitutable investment options to lending such as the treasury bills was found to have a negative impact on the growth of credit to private sector, estimating a 10 percent rise in treasury bill growth is likely to reduce credit growth by 2.7 percent. This evidence is in line with evidence found in other jurisdictions such as Pakistan, Argentina, Indonesia and Nigeria where public sector investment programs push up lending rates domestically and divert banking investments away from private lending. However, in the budget proposed for 2020 the Maldivian government has pledged a plan to source greater external financing and to limit its domestic treasury

issuance for 2020 to 1/5 of its 2019 treasury issues amounting to MVR930 million. To further improve market design of government treasuries, the government could also consider greater participation of contractual savings institutions (pension and insurance companies) and retail investors and studies such as Christensen (2004) and Gulde et al. (2006) who conducted extensive research into domestic debt markets and financial sector challenges in Sub-Saharan Africa finds that non-banking sector holdings of government securities are likely to reduce episodes of crowding out. If implemented, the reduction in the issuance of government securities together with greater participation of non-banking sector is likely to incentivise the banking sector to look for more lending opportunities in the private sector to sustain its profitability.

The Deposit Problem

Deposit trends (2005 - 2018)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Deposit growth	29%	18%	14%	19%	21%	3%	17%	17%	12%	1%	4%	3%
Loan to Deposit Ratio	150%	167%	142%	118%	103%	93%	84%	68%	65%	71%	80%	83%

Deposit figures 2018	BML	SBI	BOC	HSBC	MIB	MCB	HBL	CBM
Loan to deposit ratio	80%	88%	70%	33%	53%	46%	35%	26%
Market position (by assets)	47%	21%	9%	7%	7%	4%	3%	2%

Table 3
Source: Author calculations based on published financial statements of Banks, MMA/IMF IFS statistics 2019

The above figures show deposit growth for Maldivian banks over the last decade. Until recently, Maldivian banks have historically enjoyed remarkable double-digit deposit growth rates. Over the decade, the loan-to-deposit ratios of the banking system has consistently fallen from its peak level in 2007 to its lowest level in 2015. During the period 2007-18 two banks were opened in Maldives

(Maldives Islamic Bank in 2011 and Commercial Bank of Maldives in 2016), ideally both deposits and lending should have drastically and consistently increased following new operations.

Providing the banking system with a predictable and steady source of long-term financing is another means of recapitalising the banks for greater lending. One of the indicators of a bank's ability to lend out, is the loan to deposit ratio and based on figures in Table 3, the largest banks (except HSBC) have already lent out 70-88 percent of their entire deposit base as loans while smaller banks have only lent out 26-46 percent of their deposit base. From a risk-perspective it might be challenging for a smaller bank to expand its lending in a short span of time while maintaining diversity of its portfolios and keeping to internal and external exposure limits and hence the smallest three banks controlling only 9 percent of the market share may not be able to increase its lending in an economically meaningful manner.

Hence, recapitalising all banks with fresh deposits, possibly with longer tenures appear to be good place to start to boost lending and this is in line with evidence found in Russia, Philippines and Jordan discussed earlier. The institutional investor segment in Maldives is emerging and the creation of banking bond markets, can be an effective tool to tap into the institutional capital pool and provide the banks with a steady stream of long-term funding. The banks in Maldives are particularly well-placed to issue banking bonds already having significant public disclosure requirements under the Maldives Banking Act, which places the banks in a relatively easier position to fulfill requirements to issue debt securities to the public. Institutional capital would certainly help the banking sector to quickly accumulate a long-term and steady supply of loanable funds and make liquidity planning significantly easier. This is particularly true for smaller banks who do not have their networks in other parts of the nation and often rely on a small group of high net-worth individuals for deposit funding. Further, the creation of special institutional saving products could also help attract institutional capital.

Economic growth and lending relations

Key Indicators	2012	2013	2014	2015	2016	2017	2018
Economic growth	3.38%	3.24%	7.33%	2.88%	6.34%	6.80%	6.89%
Loan growth	-7%	6%	-5%	8%	10%	16%	8%
Non-Performing Loans (NPL)	21%	18%	18%	14%	11%	11%	9%

Table 4
Source: MMA Monthly Statistics

Economic theory predicts a positive correlation between lending and economic growth where lending increases during periods of economic growth and vice versa. For lending institutions there is a careful balancing act in controlling credit growth; lending too faster would lead to greater NPL, potential overheating of the economy and inflation which typically reduce demand for credit, whereas too slow lending leads to a reduction in growth. In the case of Maldives, as shown in the data in Table 4, there is no apparent connection between GDP growth and measures of lending such as NPL and loan growth; lending was largely disconnected from the business cycle marked by periods of positive lending growth despite periods of slow GDP growth, and vice versa; and the NPL consistently fell despite volatile GDP and lending growth.

Such a disconnect between GDP growth and lending was discussed in Tan (2012) for Philippines where real GDP growth was found to be unrelated to the demand for credit. The authors segregate economic growth into investment-led and consumption-led economic growth and finds that only investment-led economic growth led to increase in demand for credit by private sector, whereas consumption-led economic growth actually reduced the demand for credit in Philippines. This implies economic advancement propelled by robust investment activity is directly reflected private sector's demand for credit. As for the negative relationship between consumption-led growth and demand for credit, the authors question if the level of indebtedness of households was the underlying issue, as was the case for Argentina or whether growth of consumption was not intermediated through the official banking sector and instead was passing through Informal Credit Markets (ICMs) or rural markets where cost of borrowing are recorded to be prohibitively high, as recorded in the works of Bell (1990) who studied the interactions between institutional and informal credit agencies in India.

It would be worthwhile to conduct further inquiry to understand the underlying issues for the disconnect between GDP

growth and private sector lending in Maldives. Such a study could shed light on the level of firm and household indebtedness in the Maldives and if liquidity constrained households and firms are impeding credit growth or whether there are large and systematic ICMs operating in the country which are mainly found in non-industrial sectors (such as fisheries and agriculture) as was the case in other jurisdictions and often specialize in lending to individuals and small enterprises. The insight from such a study would be able to inform the government's policies specifically targeting small-to-medium enterprises to bring them into the foyer of official lending institutions where access to credit would be cheaper than ICMs and markets can be regulated.

Final thoughts

Although the issuance of domestic debt appears to have an impact on commercial bank lending activities in the Maldives, the slow deposit growth and other underlying macroeconomic issues might be contributing to the slow growth of private sector lending. To allow greater growth of banking deposits the most effective and least time-consuming strategy might be to find new avenues to channel funding from the growing institutional investor segment in Maldives. The creation of a vibrant banking bond market can provide the banking sector with a stable and long-term supply of loanable funds which can help increase lending.

What is also puzzling in the case of Maldives is the apparent disconnect between the GDP growth and banking lending activities and evidence from other jurisdictions suggest there might be underlying macroeconomic issues such as households and firms having greater debt levels from their traditional reliance on a range of informal lenders with higher cost of borrowing outside the banking system. This might be impeding their ability to take on formal credit from the banking sector which are generally cheaper and a study on this issue can help the government and regulators to design policy remedies to bring households and small-to-medium entrepreneurs into the foyer of official lending institutions.

About Author

The author holds a Bachelor's Degree in Economics from the University of Western Australia, Australia and MSc in Economic Development and Policy Analysis from the University of Nottingham, UK. He is currently working as Head of Investments and Advisory Services at the National Pension Fund.

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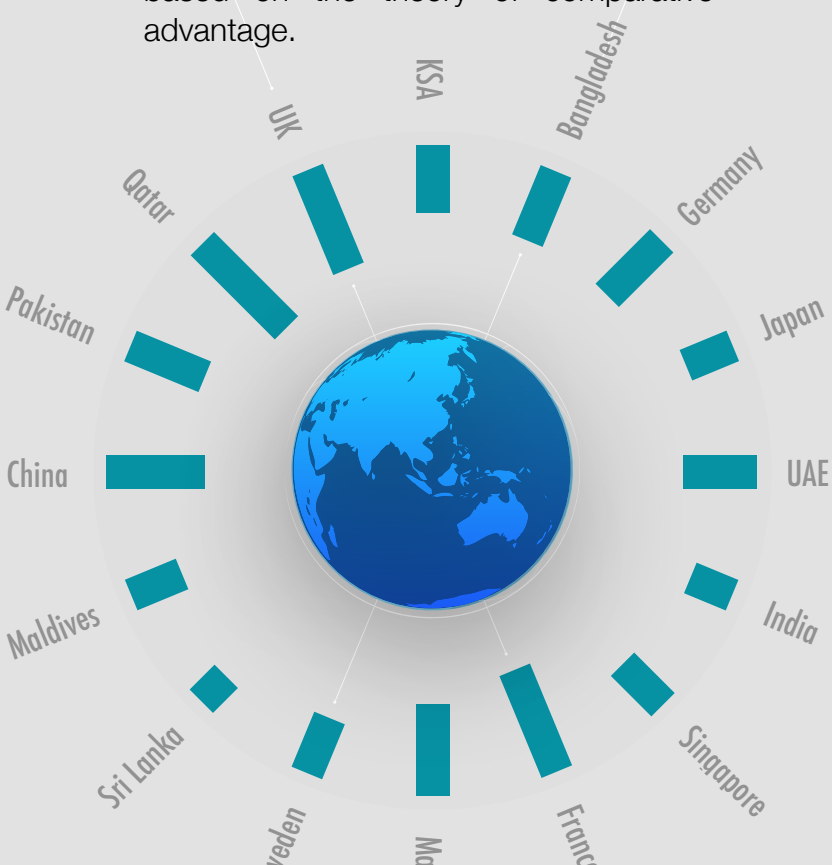
Globalisation and economic security

Fazeel Najeeb

States may have decided from time to time that a particular policy area may be the most important for their development, and this is likely to be different from state to state depending on their priorities at a particular time. For many countries, policies that foster economic development are deemed important as the state desires to acquire greater wealth and economic security, its people to become more empowered economically, and to have higher standards of living, etc.

An important question for many states is what policies to have in order to achieve higher levels of economic development so that greater levels of development ensure greater levels of economic security. In the past several decades, there has been recognition among a number of economists and policy makers that a state's economic openness to the outside world contributes well to its development. This openness enables it to trade with other states and vice versa based on the theory of comparative advantage.



Globalisation and development

Prominent economists as Amartya Senn and Joseph Stiglitz are among those who are somewhat sceptical on the perceived benefits of globalisation. Stiglitz says that [while in the earlier days of globalisation developing country populations were opposed to it] now, tens of millions in the advanced countries have joined its opponents in the emerging markets and developing countries. For Sen, "The central issue of contention is not globalisation itself … but the inequity in the overall balance of institutional arrangements which produces very unequal sharing of the benefits of globalisation. … There is an urgent need for reforming institutional arrangements … Globalisation deserves a reasoned defense, but it also needs reform."

Martin Khor, a Malaysian economist who passionately advocates policies and positions in favour of developing countries, questioned whether developing countries should open themselves up to globalisation, or to take a more cautious approach. Khor advocates that instead of rapid liberalisation, a selective approach to liberalisation is more appropriate, in which the aim would be to strike a balance between opening of domestic market and protecting it.

Globalisation has its pros and cons. On the pros side, the proponents say, inter alia, that it represents free trade thereby promoting global economic growth; creating jobs, making companies more competitive, and lowering prices for consumers. One of the cons often cited is that it has made the rich richer while

making the non-rich poorer. Another of the cons speaks of lopsided benefits to multinational corporations. They are accused of social injustice, unfair working conditions, slave labour wages, lack of concern for environment with mismanagement of natural resources, and ecological damage, etc.

Amid these opposing arguments, or despite them, most countries appear to have opened up for globalisation. One of the leading proponent institutions of the globalisation is the World Trade Organisation which provides a global forum for agreeing on matters of liberalisation of economies. Its membership grew from 132 in 1998 to 164 in 2016, an indication of individual countries' desire to be within the multilateral trading system that drives the international regulatory process towards deeper levels of globalisation.

But is globalisation dead?

Michael O'Sullivan, author of "The Levelling" believes that "Globalisation is already behind us." In an interview to the Economist, O'Sullivan said:

> "We should say goodbye to it [globalisation] and set our minds on the emerging multipolar world. This will be dominated by at least three large regions: America, the European Union and a China-centric Asia. They will increasingly take very different approaches to economic policy, liberty, warfare, technology and society. Mid-sized countries like Russia, Britain, Australia and Japan will struggle to find their place in the world, while new coalitions will emerge, such as a "Hanseatic League 2.0" of small, advanced states like those of Scandinavia and the Baltics. Institutions of the 20th century—the World Bank, the International Monetary Fund and the World Trade Organisation—will appear increasingly defunct."

Recent developments in many countries around the world, particularly those in the western hemisphere appear to lend support to O'Sullivan's conclusions. Current tariff wars between leading world economies and the disregard of principles on which the world's existing economic system has evolved since the Second World War, coupled with the undermining of institutions that have been the champions of globalisation are but examples of such developments.

Development policy and economic security in Maldives

Maldives signed on to the WTO Agreement at the time of its establishment in 1995. But Maldives had earlier been a contracting party to the General Agreement on Tariffs and Trade 1947, the predecessor to WTO. Therefore Maldives has been a believer in globalisation and maintained liberal economic policies for decades. Given this history, has Maldives benefitted from globalisation? From a development perspective, the World Bank answers this question for us and describes Maldives as follows on its website: "For much of the last three decades, Maldives has been a development success story. Marine resources play a vital role, with tourism and fishing the main drivers of growth."

A related question is, has this progress in development enhanced our economic security as well, or has it exposed ourselves to greater risks? To consider this question, we need to ascertain what economic security means, and various definitions are used depending on the context. In the context of International Labour Organisation's socio-economic security programme, economic security is composed of basic social security, defined by access to basic needs infrastructure pertaining to health, education, dwelling, information, and social protection, as well as work-related security. From another context, the International Committee on the Red Cross defines economic security as the ability of individuals, households or communities to cover their essential needs sustainably and with dignity. This can vary according to an individual's physical

needs, the environment and prevailing cultural standards. Food, basic shelter, clothing and hygiene qualify as essential needs, as does the related expenditure; the essential assets needed to earn a living, and the costs associated with health care and education also qualify.

The Financial Times definition of economic security can refer to states as well as to private companies: at first view, the term 'economic security' seems to be a contradiction in itself in liberal economies, since capitalism is based on insecurity. It refers to doctrines and policies, consisting in preventing and avoiding disruptions in the life of firms or, more often, of states. It explains that since "globalisation is firstly an economic process; it is understandable that security has shifted from the military to the economic. Economic security takes particularly into account the new risks occurring from the combination of the globalised competition and the incredible new role of information, for example threats on data, attacks on public research centres, attacks from financial predators against state currencies (like in UK by George Soros in 1992, at a time when capacities of information were even less developed), stock market manipulations, etc..."

What does economic security mean for Maldives as a nation? That our people have the highest GDP per capita in the South Asia region, that we have the highest level of school enrolment, that our infant mortality remains low, etc., are all achievements that is widely recognised. Beyond such considerations, Maldives is a heavily import dependent country, and this pervades from essential items to luxury goods. In this aspect, economic security, in terms of the stability of import supplies depends on how diversified the sources of supplies are.

For Maldives, economic policy appears to have been given varying degrees of priority in the recent decade or more. But, as a matter of importance, how the country's foreign policy can better contribute and lend greater support to the economic policy remains a relevant question. In this context, the necessity for closer and greater cooperation and coordination among the relevant institutions and a common understanding on the imperative need to welcome new ideas and initiatives remains paramount. Among these is the question of economic security in the context of import of staple foods and other essential items. The issue of food security (or lack of it) was amply demonstrated in an article, "Food security: Are we stable in staples?" this author published on the maldiveseconomicreview.com on 7 April 2019.

Can we, as a nation, further enhance economic security and reduce economic risks Despite our limited capability and capacity? If yes, how and who plays what role? These are questions we must consider as we move along the path of a vision that we as a people collectively envisage: sustained political and economic stability, an economically empowered population and a high standard of living. Therefore, we have to go back to the question, what policy is (or policies are) the most important to us for our long term development and economic security? It is imperative that this matter be addressed. The debate continues elsewhere among economists, academics, politicians, and policy-makers.

The author wishes to thank Ahmed Sareer, former Foreign Secretary, Ministry of Foreign Affairs, Maldives, and Zahiya Zareer, former Ambassador of Maldives to Sri Lanka, for their comments.

150 years of Progressive Income Tax and the wealth gap keeps on growing

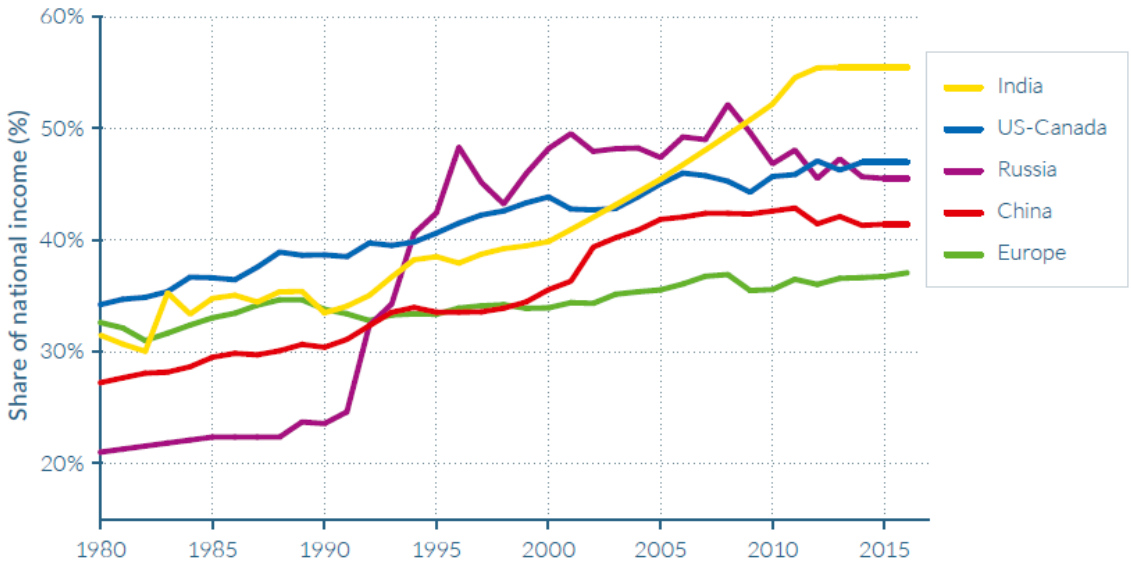
Ibrahim Athif Shakoor

While Capitalism has proven to be the most durable economic model, proven by its tenacity while other options have fallen by the wayside, commentators are also aware of built-in flaws of the Capitalist model urging caution and close scrutiny.

Promoting and maintaining a truly competitive landscape is perhaps the key tenets of the Capitalist model, as in '..it is not from the benevolence of the butcher, the brewer, or the baker, that we can expect our dinner, but from their regard to their own interest'. Yet, one of the most enduring and stubborn features of the Capitalist model has been for successful business to grow bigger increasing the wealth gap. Despite the many versions of the anti-trust laws enacted throughout the world over the past century and more, rich corporations grew to be richer corporations and have morphed into becoming monopolies in various guises.

At the individual level, a progressive Income Tax was believed to be the perhaps the best remedy for the tendency of the Capitalist model to continue to accrue more and more wealth with the few rich and the affluent. And all capitalist countries, be it, at different rates at differing times depending on internal politics of the country, have implemented Progressive Income Tax on their citizens for more than 150 years now.

However, despite the many anti-trust laws and progressive taxation implemented in different guises throughout the world, the wealth gap has continued to creep up throughout the world. In 2018, the richest 10% held 70% of total household wealth, up from 60% in 1989. The share of wealth funneled to the top 1% jumped to 32% last year from 23% in 1989. That's one of the starkest findings of the World Inequality Report 2018 by the World Inequality Lab at the Paris School of Economics - part of an international collaborative effort of over a hundred researchers in five continents.

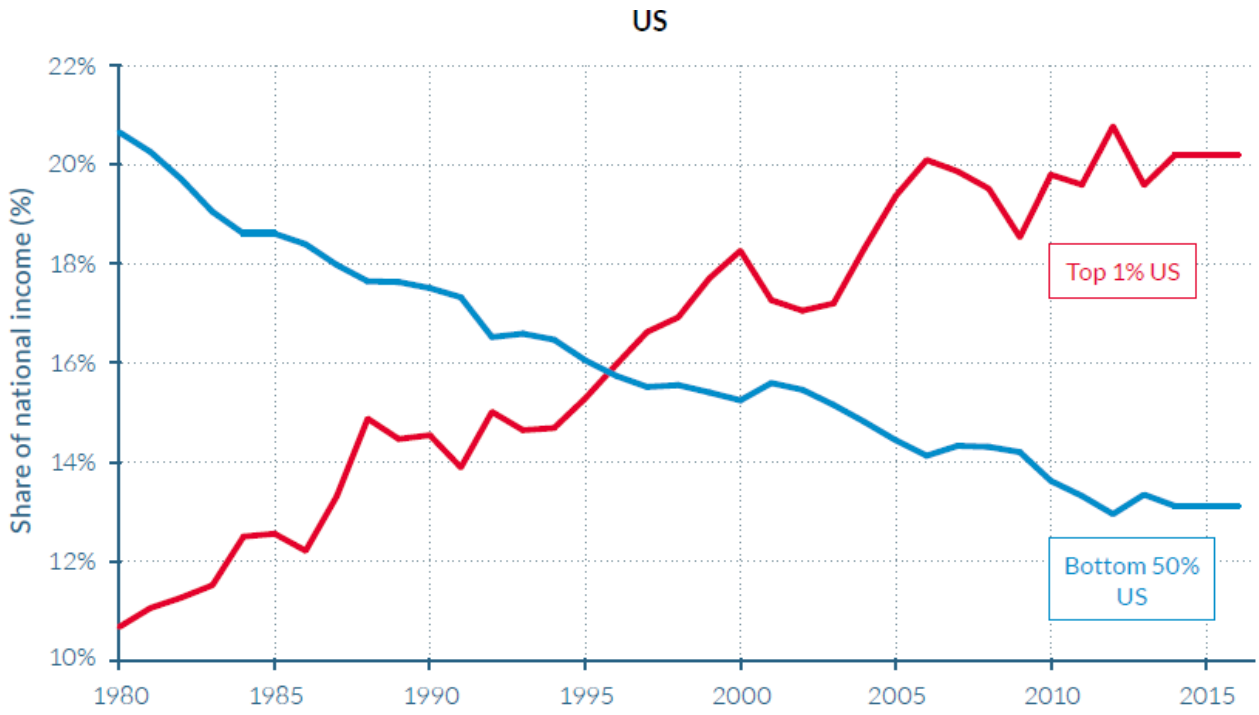


Top 10% income shares across the world, 1980 - 2016: Rising inequality almost everywhere, but at different speeds

Source: World Inequality Report 2018 by the World Inequality Lab at the Paris School of Economics

In the United States, the first progressive income tax was established by the Revenue Act of 1862 signed into law by President Abraham Lincoln, and replaced the Revenue Act of 1861, which had imposed a flat income tax.

However, income inequality has risen in every US state since the 1970s. In 24 states, the top 1 percent captured at least half of all income growth between 2009 and 2013, and in 15 of those states, the top 1 percent captured all income growth. In another 10 states, the top 1 percent incomes grew in the double digits, while bottom 99 percent incomes fell. For the United States overall, the top 1 percent captured 85.1 percent of total income growth between 2009 and 2013. In 2013 the top 1 percent of families nationally made 25.3 times as much as the bottom 99 percent. That's according to the same 2018 report World Inequality Report.



Top 1% vs. Bottom 50% national income shares in the US and Western Europe, 1980 - 2016: Diverging income inequality trajectories
Source: World Inequality Report 2018 by the World Inequality Lab at the Paris School of Economics

Improving the Gini-coefficient and straightening the Lorenz Curve of any country, and thereby reducing the wealth is, today, widely accepted as highly desirable not only because it is socially fairer and is the 'right' thing to do. Instead greater income equality and the opportunity it affords for more people, because of better education, health and social conditions, to participate more productively in the business of growing the economy, as good for the economy even amongst the most hard-nosed economists. So, among many commentators today, policy measures to reduce the Income gap is seen as an economically desirable process. One that will, inter-alia, lead to a more efficient economy.

Here at home, we are finally, after more than a decade of trying to ignore the

inevitable, introducing Income Tax from early 2020 and it's a Progressive Income Tax. Among the many reasons being paraded at different times by different politicians for the introduction of Income Tax, 4 main reasons stand out.

1. To complete the Tax Code
2. To generate additional Tax revenue to fund election mandates
3. To reduce Income disparity
4. To finally get 'more reliable estimates' of Income and Income distribution such that policies and subsidies may be more appropriate designed.

It is widely acknowledged that the estimates of Income and Expenditure collected largely by the HIES surveys does not offer reliable figures that could be used for planning and policy purposes. All indications are that wealth is much more concentrated among a much few numbers of people.

While we are just introducing Income Tax- a Progressive version, analysis of the result of decades of measures to reduce gap, has proven disappointing. In all countries of the world, the rich keeps getting richer and the poorer are taking home a diminishing share of the economic pie. That's the stark lessons evident from the Inequality Report of 2018.

Therefore, if reducing the income Gap is a desirable target, as is widely believed, and one of the objectives of the Progressive Income Tax being introduced, we have to accept that a Progressive Income Tax regime, in and by itself, is not going to suffice. This much evident from the stark findings of the report.

Other measures of reducing the Income Gap, including introduction of a minimum wage, investing to expand the asset base of lower income families- including affordable social housing, greater access to education are among the most popular of measures recommended for reducing Income Inequality.

As an economy, we are set to improve and introduce many such measures in the short term. Yet, without attempting to raise the ire or policy makers who are, in short order, implementing a slew of progressive measures to reduce income inequality, history tells us, that more innovative and more aggressive policy measures may be required to achieve real and sustainable results in reducing income inequality.

Maldivian share of global skipjack landings, influence on market price and prospects

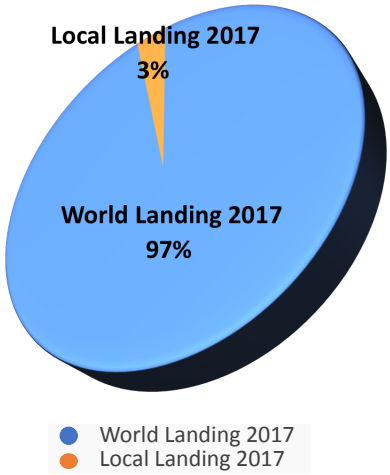
Ibrahim Athif Shakoor

Maldives is Tuna country. So it has been and so it will remain. Our protein is still made up in large part from tuna caught in the country and the total net benefit for the country from our tuna landings are so much bigger than the GDP shares indicate, as has been argued in our previous issue.

However, even while much of our life depends on the bounty from the sea, it is important to a get a feel for the larger global tuna trade in order to get a better bearing, of our position in the global tuna industry.

In 2017, the last year, in-country landing data is available, the country landed 282,221 mt of total marine species out of which 89,683 mt (32%) were skipjack; still the largest share of our harvest from the sea. It is also interesting to note that 62% of the skipjack landings, as normal, have been from the Southern Atolls; from L atoll southwards.

World Skipjack Landing 2017



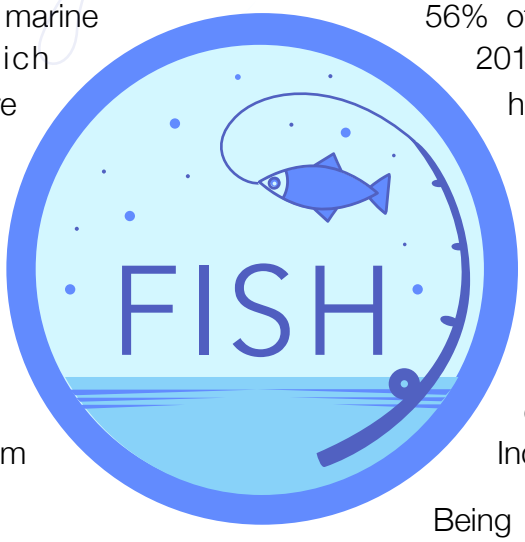
Skipjack is a globally caught and globally traded commodity with a total harvest of 1,462,040.00 mt in 2017. The largest volumes, as normal, were caught in the Western Central Pacific and accounted for 56% of globally caught skipjack in 2017. In this same period the harvest of skipjack in the Indian Ocean is close to 500,000 mt. Therefore, the local harvest of skipjack of 89,683 mt in 2017 account for only 3.38% (fig 2) of the global catch of skipjack and only 18% of the harvest of the Indian Ocean.

Being a globally harvested product,

FISH LANDING BY TYPE AND LOCALITY, 2017 in

	Total	Skipjack tuna	Yellowfin tuna	Big eye tuna	Albacore tuna	Dogtooth tuna	Little tuna	Frigate tuna	Other marine fish
Republic	**282,221**	89,683	49,377	1,074	3	22	161	345	2,494

National Bureau of Statistics Maldives, Statistics Yearbook of Maldives 2019.



skipjack is also a globally consumed product mainly processed in canned form. Therefore, unsurprisingly, skipjack is an internationally traded commodity and its market price is determined purely by supply and demand. As a traded commodity with moderately increasing demand over time, the demand curve does not exhibit any significant troughs and small variations in demand are mostly seen in the event of exceptionally high prices triggered by extraordinarily low landings during a given period.

The pole-and-line premium

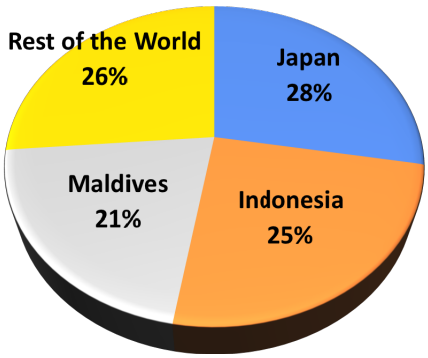
In response to outrageous media footage of dolphins being slaughtered by purse-seine vessels and the ensuing public outcry in 1980's, the Earth Island Institute of US, in 1990, led the move to promote Dolphin Safe tuna products. Many commentators point to this occasion, as the deciding moment when public demand for environment sustainability was finally noticed and was registered as a fact of commercial life for processors and harvesters.

With this movement led by consumers rejecting tuna landings from purse-seine vessels slaughtering dolphins caught in the nets, and the effort by the Earth Island Institute to label safer, more conservatively caught tuna as 'Dolphin Free' the trend towards sustainable tuna harvesting has only grown. Today the WWF and a host of other such eco-conscious NGO's are playing an increasingly important role in holding producers and processors to account and promoting more eco-friendly products in all countries throughout the world.

Maldivian skipjack have been, from the distant past, a pole-and-line affair. As environmental sustainability grew in importance and as the preference of consumers for sustainable products came to measured in sales volume and therefore income of the larger supermarket chains, the demand for Pole-and-line Tuna have grown through the developed world, starting from the EU and spreading to the markets of all developed countries.

Maldivian pole-and-line catch have benefited tremendously from this larger global move towards environmentally sustainability and have commanded a premium over purse seined skipjack since the turn of the century. Therefore, even while total Maldivian landings are less than 4% of Global Catch, because of the ever increasing global demand for environmentally sustainable products, our pole-and-line catch; the most sustainable of skipjack landings, enjoy a market demand greater than the 4% of landings they represent globally.

Share of pole and line catch



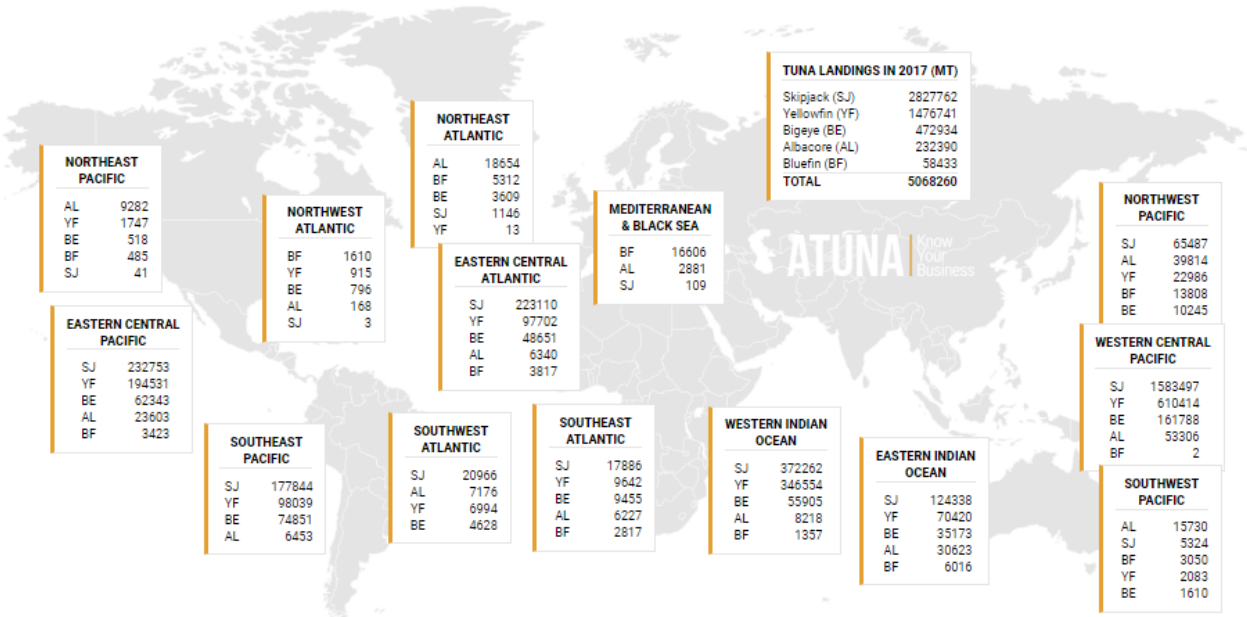
IPNLF data based on 2011/2013 study.

The International Pole-and-line Foundation (IPNLF), registered as a charity in the UK in 2012, have led efforts to promote pole-and-line catch globally and undertaking much needed research in the pole-and-line industry. Data available at the IPNLF website for 2011-2013 estimates indicate that while there are more than 22 countries recognized as countries with recognized Pole-and-line catch, Japan Indonesia and Maldives, are amongst the world biggest Pole-and-line countries, accounting for about 3 quarters of the catch of total global Pole-and-line catch. (The latter update of 2015 indicated modestly less volumes landed on pole-and-line.)

Japan is the biggest harvester of pole-and-line tuna with 28% of the world pole-and-line catch. Indonesia and Maldives, account for 25% and 21% of the Global Pole-and-line catch respectively. The remaining 19 countries of the total 22 countries who regularly catch pole-and-line account for about 26% of the world pole-and-line catch depending on yearly variations.

While Japanese catch account for the largest portion (28%) of pole-and-line catch, Japanese catch is processed and consumed in the local Japanese market and is not available for export. In fact, Japan is a net importer of pole-and-line catch, including 377,000 mt of tuna related products from the Maldives in 2018. In this context it is perhaps important to note that the Japanese have been an integral part of investing in fishery infrastructure and technology transfer and therefore developing the Maldivian skipjack industry of the country from the 1970's. Because Japan consumes it's catch and in fact imports pole-and-line catch, the Maldivian share of the globally traded volume of pole-and-line catch rises close to 33%. Not a measure to be scorned at.

World Tuna Catches by Species 2017 (in MT)



Newly opened Ensis Cannery at Hulhumale' Photo: Ensis Group

Therefore, while we account for less than 4% of global catch for skipjack and while skipjack is a commodity whose prices are determined on demand and supply in the world market, there is a premium that our landings command in the global marketplace, an opportunity for local skipjack industry to compete outside our weight category, as it were

However, presently processors in Thailand purchase a considerable stock of our Pole-and-Line catch, annually and trade it in the highly demand driven International market for pole-and-line catch. Export statistics show that 40,796 mts of frozen skipjack was exported to Thailand in 2017 representing close to 45% of the 89,683 mts of skipjack landings for 2017. Larger in-country processing facilities would have offered us a higher margin for this volume thereby increasing our export earnings for the year.

It is heartening, therefore, to note that private investment is flowing into in-country skipjack processing including a brand-new canning factory opened in December 2019. This 25m $ investment by a private party offer a newly minted 25 mt/day canning factory with 1,200 mt storage facility and represent the biggest such investment- private or public, in a decade in the fishery industry. Similar investments into greater in-country processing of our landed volumes, will allow our processors to command a bigger presence and therefore allow us to punch above our weight category, allowing us a bigger role in determining the prices on offer for Maldivian pole-and-line tuna in the ever-increasing demand for environmentally sustainable skipjack landings.

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