**Keynote address by Governor & Chairman of MMA, Dr Fazeel Najeeb**

**at Maldives Finance Forum, Sunday, 13 May 2012, Bandos Island, Maldives**

بسم الله الرّحمن الرّحيم

الحمد لله، الصّلاة والسّلام على اشرف المرسلين محمّدصلّى الله وسلّم

وعلى آله وصحبه اجمعين

Chairperson of Maldives Pension Administration Office, Ms Athifa Ali,

Chief Executive Officer of Maldives Pension Administration Office, Mr Mohamed Hussain Maniku,

Minister for Economic Development, Mr Ahmed Mohamed,

Minister for Tourism, Mr Ahmed Adeeb,

members of People's Majlis,

former Minister of Finance, Mr Ahmed Inaz,

Chairman of Island Aviation Services Ltd, Mr Bandhu Ibrahim Saleem,

President of the Maldives Association for Construction Industry, Mr Mohamed Ali Janah,

speakers,

fellow colleagues from the financial sector,

representatives of the business community,

ladies and gentlemen,

السّلام عليكم و رحمةالله وبركاته

good morning.

Let me begin by saying I am delighted to have been invited to this forum today.

I thank the CEO, Mr Maniku for this invitation.

And, I congratulate the Maldives Pension Administration Office, for taking the initiative to organize this forum.

I understand that their vision is to create a nationally acclaimed platform for discussion on issues of finance.

I wish them well, and assure them of the central bank's full cooperation and support.

The theme of this forum for this year, "Fostering Long-term economic and social development" is timeless, but is especially topical at a time when so much uncertainty looms not only over our economy, but also over many large economies we trade with.

I am very pleased to see such a distinguished panel of experts as we have today, to speak on the serious issues and daunting challenges we experience today.

Mr Maniku also asked me to be on the discussion panel after lunch – and I accepted, albeit with trepidation, humbled by the expertise of the speakers and panelists.

So I look forward to a stimulating and indeed fruitful day.

Ladies and gentlemen,

Today, Maldives is experiencing the worst economic crisis in our history since independence.

Our macroeconomic fundamentals are seriously misaligned.

State expenditure far exceeds income; budget deficit continues to deteriorate;

inflation has continued to rise since November 2010; and,

rufiyaa has been under relentless pressure for a prolonged period.

Ominous external risks loom in the horizon: adverse economic conditions in Europe, and unexpected weakening in Chinese economy – our two most important markets for tourism.

Yet, our worst enemy lies within – the seemingly intractable problem of fiscal deficit, driven by state expenditure.

In 2011, our state expenditure stood among the worst in the world – fifth from bottom, at 63.1% of GDP.

Only Cuba, Timor L'este, Zimbabwe and Kiribati were worse than Maldives.

This is not a list to be in, to be proud of.

As we have our financial condition today, we are spending our way into an economic crash, by borrowing far too much and at far too high costs.

T-bill interest rates are nudging upward at over 7% - an unsustainable cost of borrowing.

To be able to address these economic woes, we must begin to first deal with our budget deficit.

This can only be done by austerity measures, or revenue measures, or both.

But keeping in mind that people's tolerance for austerity, and taxation, has limits, policy-makers have a tight rope to walk on.

Policy-makers must take risks, but at the same time, public servants – as well as the public and businesses, have to bear some pain.

For policy-makers, the risk to take is to take bold measures to rein in public expenditure, and to raise revenue to begin to reduce the runaway deficit.

For public servants, public and business, the pain is to bear with a reduction in real income, tax increases and a reduction in investment in public service projects.

This brings me to the heart of the theme of this forum – opportunities for investment, and saving.

While our economy expanded in the past several decades, finance continues to remain largely confined to banking.

Key challenges in the diversification of financial sector remain – further strengthening of the legal system, and governance.

Addressing such areas will facilitate the development and diversification of finance beyond the banking sector.

The government's over-reliance on t-bills not only reduces banks' lending to private sector, but also pushes up the cost of borrowing for the government.

Ladies and gentlemen.

But it should not be all doom and gloom – since the establishment, the Pension Fund – led and managed by an able team – is growing very fast, and has been a beacon of hope in the financial sector.

I am informed that the Fund already has MVR 1,000 million in cash and cash equivalents, and the monthly contribution now stands at MVR 50 million.

This growth in just three years well places the Fund to play an important part in the development of finance in the Maldives.

With potential to become the largest financial institution in the country, the Fund has the potential to lower the cost of finance in the economy and to bridge the long-term finance gap.

In addition to being the largest spender, the government is also the major shareholder of the largest corporations in the country.

The government holds majority share of four of five publicly listed companies;

Corporations that have considerable appetite for capital.

The corporates, not only in public sector, but also those in private sector, can now explore the possibilities for finance by the Fund.

In seeing this timely and important forum happen, I wish to express my sincere best wishes and congratulations to the organizers, and offer MMA's firm support to them.

I wish you all a fruitful day.

والسّلام عليكم و رحمةالله وبركاته

Thank you.