

Country Report - Maldives

1. Introduction

The purpose of this report is to provide a detailed description of the procedures used in the “Macro Economic Budget Extrapolation” (MEB) approach to calculating GDP, and the data sources and methods used in the compilation of the annual national accounts estimates of Maldives, which will be used for (a) sharing of experiences and practices; (b) consultation sessions with experts and (c) inputs to the action plan.

This report covers current practices and challenges of the following three major areas of concern in Maldivian national accounts.

1. Financial services
2. Estimation of imputed rent of owner-occupied dwellings
3. Coverage of non-observed economy

2. Financial Services

This industry is categorized under ISIC rev.3, section *J – Financial Intermediation*. In the MEB framework the industry is categorized under three divisions.

- Central Bank
- Deposit and other Banks
- Insurance

“Some financial intermediaries are able to provide service for which they do not charge explicitly, by charging different rates of interest to borrowers and lenders” (SNA 93, 6.124). To capture this, SNA proposes an indirect measure - *financial intermediation services indirectly measure (FISIM)* - of the value of services for which intermediaries do not charge explicitly. FISIM is calculated as “the total property income receivable by financial intermediaries less interest payable, excluding the value of any property income receivable from the investment of its own funds” (SNA 93, 6.125). Other output of financial intermediaries includes revenue from fees and commission charged for ancillary services, such as currency exchange and investment advice.

2.1 Central Bank

Baseline Estimates

The functions and services of the central bank are among the activities covered in this section. For the Maldives this function is carried out by the Maldives Monetary Authority (MMA). The financial

intermediation services of the central bank are measured in the same way as any other financial intermediary. The base year estimates are calculated from the annual financial accounts of MMA for the year.

Extrapolation

- ***Current Price***

Initially estimates are moved forward on the basis of *change in business GDP in current prices*. When the annual financial statement for MMA becomes available, production is moved on the basis of *growth rate of GVA*.

- ***Constant Price***

The constant price output growth is linked to the *change in business GDP at constant prices*

2.2 Deposit and other banks

Baseline Estimates

In the base year this activity was represented by five commercial banks and a financial leasing firm. Gross value added is calculated from the annual financial accounts those banks.

Extrapolation

- ***Current Price***

Initial estimates are extrapolated on the basis of the **half** the *growth rate of GDP for Business Services at current prices*.

When the financial statements for the companies become available, production is moved on the basis of *change in GVA for the Banking and Insurance firms*

3. Estimation of imputed rent of owner-occupied dwellings

The housing services produced are deemed to be equivalent to the value of rent that would have been paid in the market for similar accommodation in terms of size, quality, type, location etc.

Baseline estimate

The imputed rent of owner occupied dwelling is measured from HIES 2003. The rent levels were estimated on the basis of reported rents paid for the different types of housing units. In Male', housing units were grouped separately for houses and apartments, while for the atolls only houses were taken. Housing rents were analysed separately for Villingili, a satellite island of Male'. Estimates for the number

of residential properties, by type of accommodation were obtained from the Population and Housing Census of 2000.

Extrapolation

- ***Current Price***

Moved on the basis of a *fixed negative growth rate of -1.8 percent*, which is the rate of change between imputed rent for 2003, calculated from HIES and the imputed rent for 2004 estimated from VPA II.

- ***Constant Price***

Current Price estimates (refer above) are deflated by **half** the *change in overall CPI (excluding fish) for Male*'.

4. Coverage of non-observed economy

For the coverage of non-observed economy employment totals are used to fine-tune the value added of the sectors. In other words, the level of output in the total economy is dependent on the total number of workers in the economy (and their productivity, measured in value added per worker). Only when we have accounted for all employed persons, can we be sure that we have measured all incomes generated in the economy. While this may not significantly affect the total level of activities, it certainly will have an effect on its distribution.

Issues / Challenges

1. How do I measure the output of financial sector using financial accounts?
2. What data/ housing characteristics are needed to build a model for imputed rent on owner-occupied dwelling?
3. What other ways can be used to estimate the size of the non-observed economy, particularly illegal activities?