# SPECIAL COMMENTARY:

# Export-Import Tariff Bill

*December 22, 2011*

**Overview:**

The Government of Maldives has made amendments to the Export-Import Duty Bill and the same has been ratified by the President. This new tariff structure is set to become effective from January 1, 2012.

Broadly speaking, the import tariff on manufactured goods and metals and minerals has been significantly reduced or entirely scrapped, while those on primary commodities have been hiked as an offsetting force to balance revenue streams.

**Import Duty Revision**

Total imports of Maldives for the year stood at US $ 1,095 mn (Rf 14,061 mn) in 2010. In the first nine months of 2011 (Jan-Sep), imports touched US $ 1,053 mn.

As per the new tariff structure, import duties on primary products, that constitute about 34% of imports of the country have been raised. On the other hand, products such as metals, minerals, chemical products and manufactured goods, on the other hand, which together constitute about 57% of total have by and large been awarded with a reduction in tariffs.

In particular, tariffs on metals and metal products have either been slashed completely or by 5%-25%. This could manifest in terms of an increase in the import of these commodities.

It may be noted that there are some significant hikes in tariffs for certain items. For instance, some tobacco and manufactured tobacco substitutes have now been awarded a tariff of 150% compared with the earlier 50%. Similarly the tariff on non-biodegradable plastic bags, etc imports has been raised from 200% to 400%. The share of these items in total imports however, is small and the effect of such substantial increase is expected to result in undersized gains.

While the number of tariff hikes has been minimal, the most important import commodities would now be subject to lower import tariffs. In the event that import volumes do not pick up, the government exchequer might face some pressure in the form of loss of import duty. ***If import volumes of commodities awarded with tariff reduction increases, there could be some offsetting revenue income streams.***

***Implications:***

**Table 2: Central Government Revenue (mn Rf)**

| | 2008 | 2009 | 2010 | 2011* |
|---|---|---|---|---|
| Tax revenue | 3366.8 | 2732.0 | 2999.3 | 5117.0 |
| Import duty | 2448.8 | 1848.8 | 1991.6 | 2374.7 |
| *Share of import duty (%)* | *72.7* | *67.7* | *66.4* | *46.4* |

*Source: MMA, November 2011*
**2011 data for 10 months (January-October)*

The central government has a tax revenue base of more than Rf 5 mn. While, overall tax collections are improving, it may be noted that the contribution of import duty to the exchequer is declining (from 73% in 2008 to 46% in 2011 so far). This may accentuate further, 2012 onwards, with the implementation of the new tariff structure unless there is significant increase in the physical quantum of imports to offset the same.

***Furthermore, the overall tax base is expected to be supported by the introduction of new taxes such as corporation taxes.***

**IMPACT on FISCAL DEFICIT**

As of 2010, the overall deficit of Maldives stood at 3,102 mn Rf (US $ 218 mn) or 12.7% of GDP.

The new import tariff structure has implications on the fiscal deficit of the Maldivian economy. The fiscal deficit position of the State could be significantly altered depending on the movement of import volumes of each item and consequently their contribution to total imports.

The introduction of new tariffs, such as the corporation tax which are currently under discussion, would thus hold relevance to the financial strength of the country.

**IMPACT ON ECONOMY**

**Table 3: Sectoral contribution to GDP (%)**

| Sector | 2008 | 2009 | 2010 | 2011* |
|---|---|---|---|---|
| Primary | 3.8 | 3.8 | 3.1 | 2.9 |
| **Secondary** | **18.4** | **14.7** | **14.5** | **14.2** |
| *Of which* | | | | |
| *Manufacturing* | *4.8* | *4.3* | *3.8* | *3.5* |
| *Electricity/water supply* | *2.6* | *3.1* | *3.1* | *3.2* |
| *Construction* | *10.9* | *7.3* | *7.7* | *7.4* |
| Tertiary | 79.0 | 82.5 | 83.3 | 83.8 |

*Source: MMA, November 2011*

**2011 data for 10 months (January-October)*

***The secondary sector may be expected to be the largest beneficiary of this new tariff structure.*** Chemicals, metals and minerals are imported primarily as inputs for the manufacturing and construction sectors of the economy. Tariffs on these commodities have been lowered quite significantly (in the range of 10% and 100% reduction), thereby boosting their import demand. Increased demand for inputs at lower costs would manifest in higher production in these sectors. Enhanced forward and backward linkages would naturally augment secondary sector productive activity.

The contribution of manufacturing in GDP stood at 3.5% and of construction at 7.4% in the first 10 months of 2011, supporting a 14.2% share of the secondary sector in the GDP of Maldives. Along with a buoyant tertiary sector, the new import tariff structure could propel the contribution of manufacturing and construction to GDP closer to their pre-recession levels of 5% and 11% respectively.

**Tariff Rationalisation: a positive to the Maldivian Economy**

The new export-import tariff structure may be viewed as a pragmatic policy, designed to diminish structural fragilities of the Maldivian economy.

A pertinent question that remains to be answered is – why is the new tariff structure important?

It is evident that the Maldivian government is expecting meticulous second order benefits for the economy. It is imperative to strengthen domestic productive activity, to lend substantial support to its growth potential. Enhancing prospects for the manufacturing sector would be a necessary condition for the same.

Furthermore, construction unlike goods and services cannot be imported or transferred through geographical spaces. Impetus to local economic activity for construction hence, has to be provided within the geographic boundaries of the state.

**The new tariff structure may be viewed as a tool to achieving these structural alterations to the Maldivian economy, in a bid to reinforce domestic production and condense vulnerability to adverse external shocks.**


Analyzed by:

***Krithika Subramanian,***
***Associate Economist***
*Krithika.subramanian@careratings.com*
*91-022-6754 3521*

Contact:

***Madan Sabnavis,***
***Chief Economist***
*madan.sabnavis@careratings.com*
*91-022-6754 3489*