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MALDIVES

November 2023

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MALDIVES

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Maldives, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 10, 2021 consideration of the staff report that concluded the Article IV consultation with Maldives.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 10, 2021, following discussions that ended on June 17, 2021, with the officials of Maldives on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 29, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA).
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Maldives.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2021 Article IV Consultation with Maldives

FOR IMMEDIATE RELEASE

Washington, DC – **September 10, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Maldives.

The economy is recovering after an unprecedented pandemic-induced fall in tourism. Real GDP contracted by 32 percent in 2020. The authorities deployed a prompt and comprehensive set of policy responses starting early 2020 that have helped to partially mitigate the socio-economic impact of the pandemic and maintain financial stability. These measures were complemented with a rapid rollout of the COVID-19 vaccination program. Low aggregate demand, low oil prices, and price subsidies on utilities put inflation at -1.6 percent in 2020. A moderate economic recovery started with the reopening of the country to tourism since mid-July 2020, while both a longer than initially expected global pandemic and an ambitious infrastructure plan are further contributing to large pre-pandemic fiscal and external vulnerabilities.

The strong but still partial recovery in tourism has improved the growth outlook. Growth is projected at about 19 percent in 2021, and medium-term prospects remain positive. Inflation is projected at 1.4 percent in 2021 and to increase to 2.3 in 2022 on the back of higher commodity and food prices. Nonetheless, fiscal and external positions are projected to remain weak over the medium term, underpinned by capital expenditure plans. The Maldives remains at a high risk of external debt distress and a high overall risk of debt distress. The total public and publicly guaranteed (PPG) debt-to-GDP ratio increased from 78 percent in 2019 to 146 percent in 2020, reflecting mostly the contraction in nominal GDP, but also an expansion in nominal debt. PPG debt is projected at 123 percent of GDP in 2026. External financing needs have been large and dollar shortages have persisted, as reflected in large spreads in the parallel foreign exchange market. The recent USD 200 million Sukuk bond issuance on September 3, 2021 covers unsecured financing needs for 2021. The risks to the outlook are tilted to the downside with COVID-19 variants increasing the possibility of a protracted global pandemic, expenditure and policy pressures related to the 2023 presidential electoral cycle, and the uncertainty of vaccine coverage in many source tourism economies.

Executive Board Assessment[2]

Executive Directors noted that the pandemic has hit the Maldives hard and welcomed the authorities' prompt response to the pandemic as well as the rapid rollout of the COVID-19 vaccination program, which helped save lives and alleviate the impact of the crisis on

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

households and businesses. However, Directors noted that risks to the outlook are substantial. They called for prudent and well-coordinated fiscal and monetary policies to safeguard macroeconomic stability, restore debt sustainability and sustain the current exchange rate peg, while supporting sustainable growth.

Directors stressed the importance of ensuring fiscal and debt sustainability over the medium term. They noted that a combination of revenue and expenditure measures is needed to achieve a growth-friendly fiscal consolidation. In this context, Directors emphasized the need to mobilize revenue and diversify the tax base toward domestic sources once the current crisis abates. They recommended rationalizing capital spending plans, further controlling current spending, and containing external and domestic borrowing. Directors cautioned against central bank financing of the government and encouraged developing a comprehensive debt management strategy, coupled with public financial management reforms, to manage the risks from large infrastructure projects and state-owned enterprises. They also saw the need to develop contingency plans in case downside risks materialize.

Directors agreed that a tighter monetary policy stance may be needed to ensure compatibility with the exchange rate peg, lower external imbalances and build-up reserves. They supported the Maldives Monetary Authority's ongoing efforts to modernize monetary policy and the foreign exchange operations framework, including those aimed at eliminating exchange rate restrictions and multiple currency practices.

Directors welcomed the steps to safeguard financial stability and encouraged further efforts to strengthen bank supervision, governance, transparency, and the AML/CFT framework. They welcomed that the Maldives has undertaken a Fiscal Transparency Evaluation mission and commended the authorities for their continued collaboration during capacity development activities.

Directors underscored the importance of addressing climate change-related vulnerabilities. In this regard, they welcomed the Strategic Action Plan, which sets goals on the blue economy, climate resilience and sustainability, and good governance, and their links to the sustainable development goals. However, Directors agreed with the authorities on the need to secure grants and concessional financing to address climate resilient investment needs in a sustainable manner given limited fiscal resources.

Maldives: Selected Economic Indicators, 2017–2026 1/

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Prel.	Proj.						
Output and prices				(Annual percentage change)						
Real GDP	7.2	8.1	7.0	-32.0	18.9	13.2	12.1	6.1	5.4	5.4
Inflation (end-of-period) 2/	2.2	0.5	1.7	-2.0	2.9	1.1	2.0	2.0	2.0	2.0
Inflation (period average) 2/	2.3	1.4	1.3	-1.6	1.4	2.3	1.9	1.8	2.0	2.0
GDP deflator	1.4	3.1	-0.5	-2.4	2.9	2.3	1.9	1.8	2.0	2.0
Central government finances				(In percent of GDP)						
Revenue and grants	27.7	27.2	26.4	27.2	27.9	28.4	28.0	27.9	27.3	27.2
Expenditure and net lending	30.8	32.5	33.0	50.0	46.0	41.2	37.2	35.1	33.9	34.3
Overall balance	-3.1	-5.3	-6.6	-22.7	-18.1	-12.8	-9.1	-7.3	-6.6	-7.1
Overall balance excl. grants	-3.5	-6.3	-7.9	-25.2	-20.2	-15.5	-11.4	-8.7	-7.5	-7.8
Financing	3.1	5.3	6.6	22.7	18.1	12.8	9.1	7.3	6.6	7.1
Foreign	4.2	7.0	1.1	3.5	7.1	4.8	6.1	3.5	4.1	-3.1
Domestic 3/	-1.1	-1.7	5.5	19.2	7.2	5.2	3.0	3.8	2.6	7.3
Unsecured financing 4/	...	...	...	...	3.7	2.8	...	...	...	2.9
Primary balance	-1.6	-3.5	-4.8	-20.0	-14.2	-9.0	-5.7	-3.9	-3.3	-4.0
Public and publicly guaranteed debt	64.6	72.0	78.3	146.0	137.2	133.3	128.2	128.4	126.8	122.9
Monetary accounts				(Annual percentage change)						
Broad money	5.2	3.4	9.6	14.2	10.7	9.0	9.1	8.0	7.6	7.5
Domestic credit	1.7	5.2	5.6	35.6	11.2	8.5	6.0	6.2	5.9	7.7
Balance of payments				(In percent of GDP, unless otherwise indicated)						
Current account	-21.6	-28.4	-26.5	-29.9	-15.9	-13.9	-8.9	-9.0	-8.6	-8.1
Of which:										
Exports	6.7	6.4	6.4	6.9	6.7	6.4	5.9	5.4	5.3	5.3
Imports	-46.9	-52.2	-48.9	-45.7	-47.2	-43.7	-39.3	-39.5	-39.8	-40.2
Tourism receipts (in nonfactor services, net	57.8	57.2	56.1	37.4	59.4	61.4	63.1	65.5	66.4	67.8
Income (net)	-7.9	-9.3	-9.9	-7.6	-9.7	-8.9	-8.6	-8.7	-8.6	-8.4
Current transfers	-9.9	-9.3	-10.3	-5.0	-3.4	-7.3	-7.7	-7.4	-7.7	-7.6
Capital and financial account (including e&o)	24.2	30.8	27.2	35.3	4.8	14.7	15.9	13.2	12.1	4.5
Of which:										
General government, net	7.0	3.0	1.9	3.9	5.4	5.6	7.0	4.6	3.7	-3.4
Banks and other sectors, net	-7.5	17.0	3.9	15.3	0.7	1.1	0.9	0.6	0.5	0.5
Overall balance	2.5	2.4	0.7	5.4	-11.1	0.9	7.0	4.2	3.5	-3.6
Gross international reserves (in millions of US$; e.o.p.)	587	712	754	985	508	553	976	1,251	1,496	1,220
In months of GNFS imports	1.7	2.1	3.7	3.7	1.7	1.8	2.8	3.3	3.6	2.8
Exchange rate (rufiyaa/US$, e.o.p.)	15.41	15.41	15.41	15.41	...	...	...	...	...	...
Memorandum items:										
GDP (in millions of rufiyaa)	73,155	81,568	86,788	57,603	70,478	81,608	93,219	100,676	108,280	116,392
GDP (in millions of U.S. dollars)	4,747	5,293	5,632	3,738	4,573	5,296	6,049	6,533	7,027	7,553
Tourism bednights (000')	8,596	9,477	10,689	4,500	8,500	10,179	11,957	13,394	14,613	15,872
Tourist arrivals (000')	1,386	1,484	1,703	555	1,000	1,434	1,960	2,196	2,396	2,602
Tourism bednights (% change)	10.6	10.2	12.8	-57.9	88.9	19.8	17.5	12.0	9.1	8.6
Tourist arrivals (% change)	7.8	7.1	14.7	-67.4	80.0	43.4	36.7	12.0	9.1	8.6
Dollarization ratio (FC deposits in percent of broad money)	48.7	48.8	52.9	45.8	...	...	...	...	...	...

Sources: Maldivian authorities and IMF staff projections.

1/ Based on data as of July 30, 2021 and does not include the USD 200 million Sukuk bond issuance on September 3, 2021.

2/ CPI-Male definition.

3/ Domestic financing includes MMA advances, SDF contribution and India's USD 250 million bond from the State Bank of India branch in Male.

4/ Unsecured financing includes planned new issuances of Sukuk, green and blue bonds.

INTERNATIONAL MONETARY FUND

MALDIVES

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

July 29, 2021

KEY ISSUES

Context. The Maldives is recovering after the historical 2020 fall in tourism, aided by a rapid COVID-19 vaccination program rollout. While the prompt and comprehensive policy approach in early 2020 was effective, a more prolonged pandemic and ambitious infrastructure projects are further weakening large pre-pandemic fiscal and external vulnerabilities.

Outlook and risks. The strong (but still partial) recovery in tourism since 2020Q4 has improved the outlook, but fiscal and external positions are projected to remain weak over the medium term, underpinned by current capital expenditure plans. The Maldives has both a high risk of external debt distress and high overall risk of debt distress. Public debt is on an unsustainable path in the baseline scenario. The risks to the outlook are tilted to the downside given the recent COVID-19 outbreak in South Asia, the possibility of a protracted global pandemic, and the uncertainty of vaccine coverage in many source tourism economies.

Policy Recommendations.

- **A comprehensive, coordinated, and well-communicated approach** across all policies is necessary since vulnerabilities are interlinked.
- **Budget realism and fiscal rebalancing is imperative.** A multipronged fiscal adjustment strategy, with measures to strengthen transparency and governance of core fiscal institutions. Urgent rationalization of capital expenditure plans, including cuts and/or delays on some large investment projects. Tax base diversification toward domestic revenue sources, over the medium-term.
- **Inflation stability and the sustainability of the exchange rate peg need to be ensured.** Under the current baseline, Maldives Monetary Authority (MMA) advances should not exceed current limits, and pandemic linked supportive forbearance policy measures should be unwound as planned.
- **Structural changes to the foreign exchange market and amendments to the fiscal legal framework are core to a comprehensive strategy.** Further advances on strengthening governance, implementation of the instant payment system, and on other sustainable development goals, including building resilient climate change infrastructure and investment in renewables, are also needed.

Approved By
Ranil Salgado (APD) and Chad Steinberg (SPR)

An IMF team consisting of E. Cerutti (head), R. Basu, E. Kitsios, and R. Moussa (all APD), M. El Rayess (FAD) and T. Feridhanusetyawan (Res. Rep.) and M. Abeyawickrama (Res. Rep. office) held discussions with the Maldivian authorities by teleconferences led by MoF, MMA, and other senior government officials during May 30 – June 17, 2021. M. Mohieldin and M. Merhi (all OED) participated in the policy discussions. G. Gamwalla-Khadivi and B. Zhu (both APD) collaborated in preparing this report.

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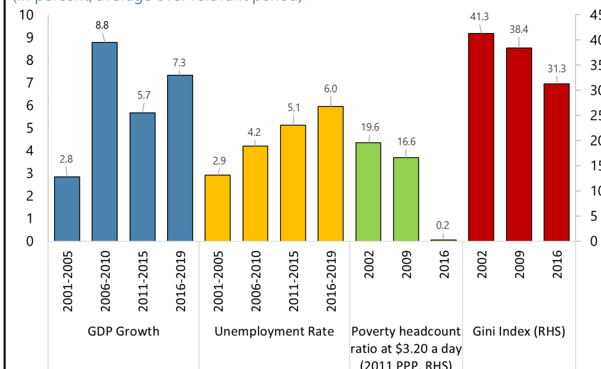
APPENDICES

INTRODUCTION

1. **The Maldives is a fast-developing country that entered the COVID-19 pandemic with large pre-existing vulnerabilities.** Real GDP growth averaged around 7 percent during 2006–19, mostly driven by a buoyant tourism sector. This has improved Maldivian standards of living, and reduced poverty and inequality. Large fiscal and external vulnerabilities are factors that have impeded the Maldives from graduating from the PRGT, despite an income per capita above USD 10,000 since 2014. Addressing the Maldives' exposure to natural disasters and climate change remains a long-term concern that also increases the need for well-planned climate-change adaptation investments.

Maldives: Economic Performance During 2001-2019

(In percent, average over relevant period)

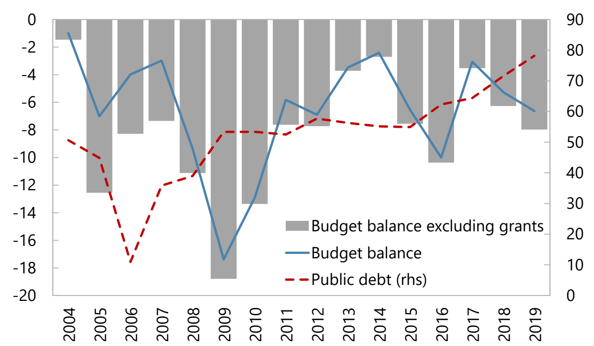


Sources: MMA, Maldives MoF, ILO and IMF Staff Estimates.

2. **Fiscal vulnerabilities increased prior to the pandemic.** The budget deficit was on average 6 percent of GDP during 2015–19, largely due to high capital spending that averaged 10 percent of GDP. Public and publicly guaranteed (PPG) debt increased by 23 percentage points of GDP between 2015 and 2019, reaching 78 percent of GDP in 2019. More than half was due to increases in guaranteed debt, owing mostly to state-owned enterprise (SOE)'s housing projects, borrowing outside the central government budget.

Maldives: Budget Balance and Grants, 2004-19

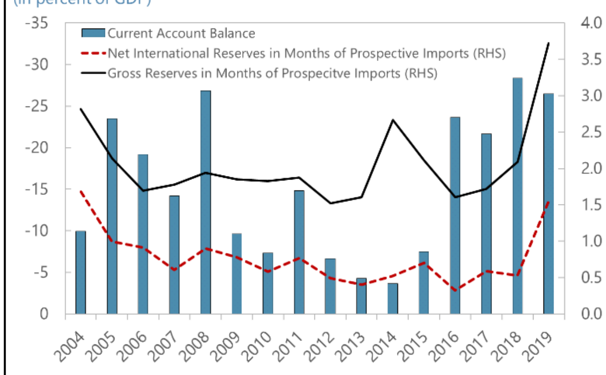
(In percent of GDP)



Source: Ministry of Finance.

Current Account Balance

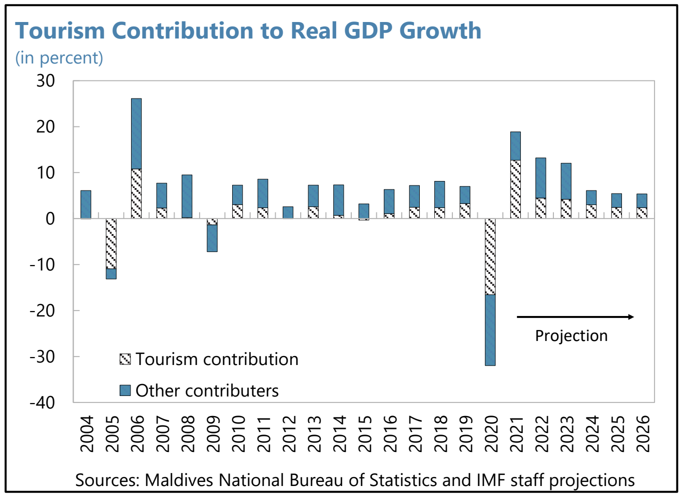
(in percent of GDP)



Source: Maldives Monetary Authorty

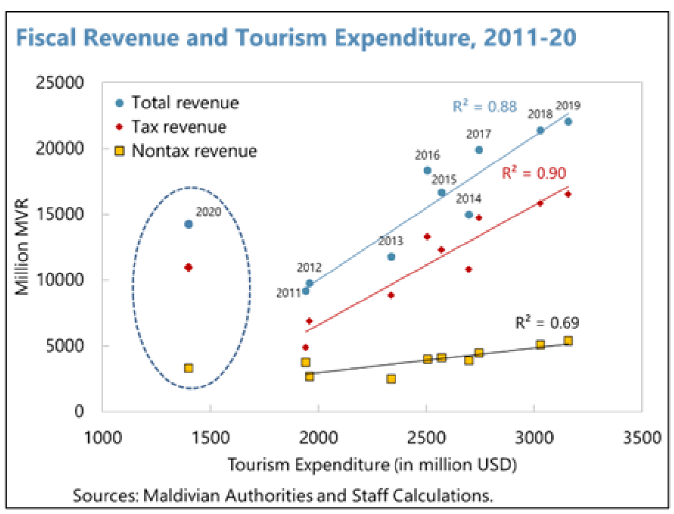
THE MALDIVES AND THE PANDEMIC

3. The COVID-19 shock led to an unprecedented 32 percent contraction in GDP in 2020. The contraction eclipses those experienced in the aftermath of the 2004 tsunami and the 2009 global financial crisis. Tourism is a major contributor to this contraction. Between March 26 and July 15, 2020 tourist arrivals were halted to combat the spread of the virus (Appendix 1). Domestically, various containment measures (Appendix 2) led to a slowdown in domestic activity, especially in construction, manufacturing, and trade. Low aggregate demand, low oil prices, and price subsidies on utilities put inflation at -1.6 percent in 2020, despite food inflation at 3.3 percent.



4. Despite limited policy space, the authorities reacted promptly to the crisis with fiscal and monetary support. To support the healthcare system and the economy, since March 2020, the government allocated budgetary resources for the COVID-19 Health and Social Response of about 3 percent of GDP and an "Economic Relief Package" of about 3.1 percent of GDP to be partly financed by savings on public salaries and other current spending. The actual spending of the two packages amounted to 6.1 percent of GDP as of June 24, 2021. The packages included a combination of fiscal, monetary, and financial measures, targeting those most affected (Text Table). The budgetary allocation was increased for the health sector to account for the higher cost of treatment and medical consumables, and for the higher capital expenses required to establish quarantine facilities, upgrade regional hospitals, and procure diagnostic and treatment machinery.

5. Fiscal revenue was hit hard by the losses in tourism. Government revenue relies heavily, both directly and indirectly, on the performance of the tourism sector. Tax revenue declined sharply due to the collapse in tourism and the disruption of supply chains. Total revenue declined by 32 percent in 2020 relative to 2019, despite the introduction of a Personal Income Tax (PIT).



Maldives. Summary of COVID-19 Stimulus as of June 24, 2021

	Million MVR	Percent of 2020 GDP
Economic Relief Package (ERP)	**1,743**	**3.0**
Covid-19 Recovery Loan Scheme	1,154	2.0
Income Support Allowance	421	0.7
Discount on Electricity Bills	143	0.2
Discount on Water Bills	26	0.0
Health and Social Response (HSR)	**1,790**	**3.1**
Ministry of Health	560	1.0
National Disaster Management Authority	784	1.4
Indira Gandhi Memorial Hospital	146	0.3
Disaster Management Fund	84	0.1
Ministry of National Planning, Housing and Infrastructure	41	0.1
Other	175	0.3
Total	**3,533**	**6.1**

Monetary, Exchange Rate, Financial and Other Central Bank Policies

Minimum required reserves (MRR): reduction up to 5 percent as and when required (MVR MRR was reduced to 7.5 percent on April 23, 2020 and reversed back to 10 percent on June 3, 2021; foreign currency MRR was reduced to 5 percent on July 16, 2020).

Short-term credit facility: made available to financial institutions as and when required.

MMA's FX intervention allocation: increased along with the use of other available facilities to maintain the exchange rate peg. Since April 2020, the MMA has continued to increase the amount of US dollar sales to commercial banks. A total of USD 40 million was placed as fixed deposit investments in one of the commercial banks.

FX swap facility: obtained under the currency swap agreement signed between the MMA and the Reserve Bank of India (RBI) in July 2019. A total of US$400 million swap was contracted on April 28 and December 29, 2020, respectively. US$250 million of the swap support remain outstanding as of May 2021. The maturity could be extended up to December 28, 2021.

Limit volatility in the parallel market: by suspending money changer license issuance on October 22, 2020.

Moratorium of 6 months on loan repayments: enabled in April 2020 by the MMA for those impacted by the pandemic (customers have to submit their requests to the banks in order to avail themselves of this moratorium). The moratorium was extended to end-2020 on Sep 29, 2020.

Flexibility to banks in making loan loss provisions for rescheduled or restructured loans: provision requirement was reduced to 3 percent for loans whose terms were changed due to the impact of COVID-19, and by not requiring adverse grading, which were performing before the rescheduling.This regulatory leeway was extended twice during the year after assessing the economic conditions and was effective until 31st March 2021. After end-March 2021, loans that were rescheduled may continue to carry that lower provision till the borrower has repaid according to the rescheduled terms for 6 payments and including loans that were classified as 'Standard' loans.

1/ Spending data are likely to vary as reconciliation work is ongoing. The ERP spending reflects the actual execution in the Public Bank Account. The HSR spending includes committed spending amounting to 41.1 percent of the total HSR amount.
Sources: Ministry of Finance, Maldives Monetary Authority and IMF staff estimates.

6. Fiscal expenditures, particularly capital spending, remained high during the pandemic, leading to a further weakening of the fiscal position. Capital spending trended upward after the lockdown eased in July, and by end-2020 was higher by 11 percent relative to 2019, but under-executed by 38 percent compared to the 2020 approved budget. The revenue losses combined with higher capital spending increased the deficit to MVR 13.1 billion (22.7 percent of GDP), despite the efforts to contain wages and current spending. The deficit turned out higher than anticipated at the April 2020 RCF-request. The more prolonged than expected pandemic increased current and transitory capital expenditure related to health and social responses, and project grants were lower due to COVID-19 implementation delays.

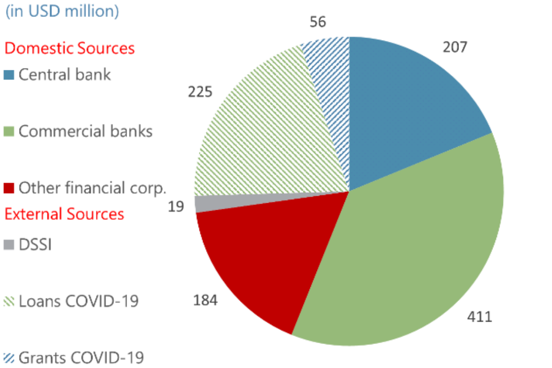
Maldives: Central Government Finances, 2019–20
(In millions of Rufiyaa)

	2019	2020		
	Actual	Budget	RCF	Actual
Total revenue and grants	23232	29921	16176	15690
Revenue	22077	24910	14019	14272
Grants	1155	5219	2157	1418
Expenditure and net lending	28995	35756	25922	28793
Current expenditure	21372	22338	19513	20367
Of which: Salaries and allowances	8294	8699	7388	8275
Capital expenditure	7623	13629	6634	8427
Overall balance	-5763	-5835	-9746	-13103

Sources: Maldivian authorities; and IMF staff projections.

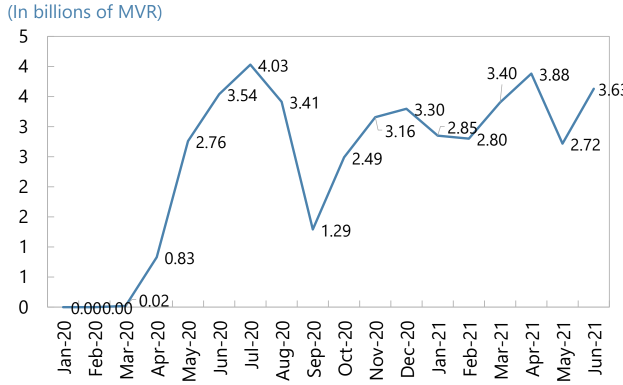
7. Several exceptional measures were taken to raise budget financing and boost gross reserves. Total financing to the central government from domestic sources was USD 803 million in 2020. The largest source of domestic financing was from commercial banks, supported by growing local currency deposits and State Bank of India (SBI) headquarter support (USD 250 million linked to Government of India support to the Maldives). MMA advances have fluctuated since April 2020 and stood at around MVR 3.6 billion at end-June 2021, increasing from 3.3 billion at end-December 2020.[1] External financing sources included COVID-19 related loans and grants from bilateral and multilateral partners (e.g., USD 28.9 million from the IMF April 2020 Rapid Credit Facility (RCF)), the Debt Service Suspension Initiative (DSSI), and more recently in April 2021 the placement a five-year USD Sukuk, with a 10.5 percent yield at issuance, of about USD 300 million (about USD 200 million of the issuance was used to repay 77 percent of the maiden USD 250 million bond due in 2022,

Financing 2020 from Domestic and External Sources
(in USD million)



Sources: Maldives Monetary Authority and Maldives Minstry of Finance

MMA Advances to the Government
(In billions of MVR)



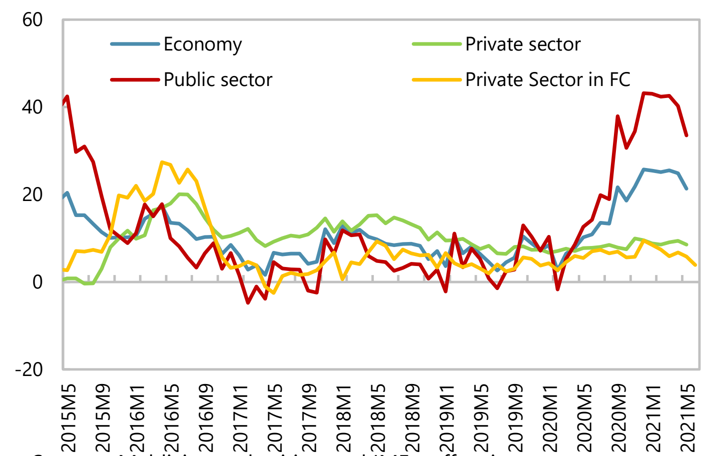
Sources: Maldives Monetary Authorities and IMF staff calculations.

[1] At end-April 2020, the parliament approved an increase on the cap of MMA advances to the central government to MVR 4.4 billion (USD 286 million) for one year, which was extended for another year in April 2021.

easing rollover risks). A USD 400 million swap balance with the Reserve Bank of India (RBI) boosted reserves as of end-2020, of which USD 150 million were repaid in February 2021 and the remaining USD 250 million will expire in December 2021. The SDR allocation will add USD 29 million, boosting gross and net international reserves.

8. **Banks' high capitalization and support from headquarters helped credit expansion.** Banking sector claims on the central government substantially increased over the year to 27.5 percent of total commercial bank assets in 2021Q1 (from 21.5 percent in 2020Q1), with significant funding support from SBI headquarters. While part of the bank credit growth (at 9 percent in 2021Q1) reflects the accruing of interest of loans under moratorium, banks also provided working capital loans, mainly to the tourism sector, using funding from external donors (e.g., EIB), government programs, and deposits—from the recycling of MMA advances and some depositors' precautionary motives during the pandemic. While there was a small increase in non-performing loans (NPLs), banks increased their provisions for loan losses. A significant portion of loans were placed in moratorium during 2020, where loans are not repaid but they accrue interest during a period of six months. As of end-March 2021, 18 percent were in moratorium and another 9 percent of total value of loans was rescheduled.

Credit
(Year-on-year change, in percent)

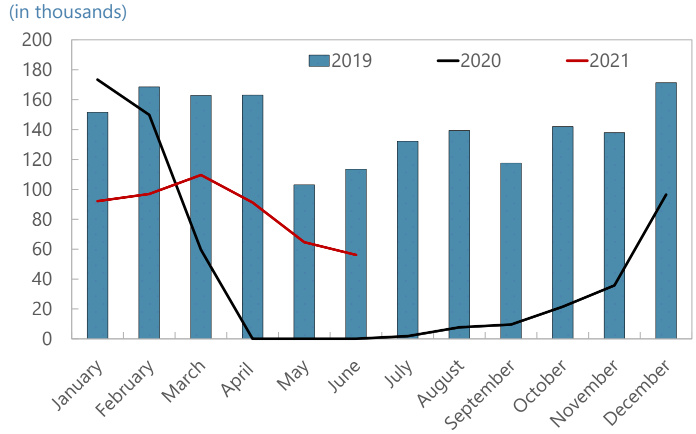


Sources: Maldivian authorities; and IMF staff estimates.

OUTLOOK AND RISKS

9. **Driven by the tourism recovery, growth in 2021 is projected at 18.9 percent.** Arrivals in 2021 up to end-June stood at around 510 thousand, 59 percent of pre-COVID-19 levels. Tourism in the Maldives is unique in offering a high-end, one island, one resort experience and catering to diverse tourists. The successful vaccination program in the Maldives, which also prioritized workers in the tourism sector, helped to provide confidence among tourists, but the COVID-19 surge in South Asia, including in the Maldives, is slowing the recovery. Medium-term tourism

Tourist Arrivals by Year
(in thousands)

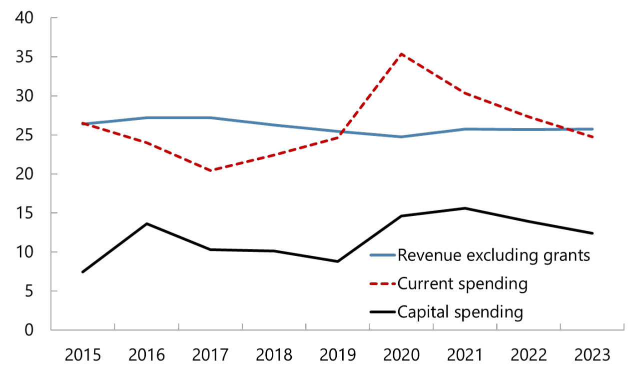


Sources: Maldives Monetary Authority

prospects remain positive, with the airport expansion set to increase airplane arrivals. Arrivals are projected to reach pre-COVID-19 projections for 2020, around 2 million, in 2023. Inflation is projected at 1.4 percent in 2021 accounting for discounts on utilities in May, to increase to 2.3 in 2022 on the back of higher commodity and food prices, and to decline to 2 percent over the medium-term.

10. The fiscal position is projected to remain weak in 2021 and over the medium term in the baseline scenario, reflecting the authorities' plans. Despite the revenue shortfall in 2020 and an uncertain tourism recovery, the authorities envision an ambitious expansion of capital spending over the medium-term in contrast to their 2020 RCF commitment to keep it within historical averages. If executed as planned, capital spending is set to reach 15.6 percent of GDP in 2021 before declining to 13.9 and 12.4 percent of GDP in 2022 and 2023, and it is assumed to return to historical averages starting in 2027. Substantial budget allocations are envisaged for infrastructure mega-projects, which include the Greater-Malé Connectivity project, the Maldives International Port Development, the National Social Housing Project, the Gulhifalhu land reclamation project, and finishing upgrades in the Velana International Airport. Several of these projects are financed by the India Exim Bank.[2] In addition, current spending is projected to exceed revenue by 4.5 and 1.7 percent of GDP in 2021 and 2022, respectively, as revenue are expected to remain below their pre-pandemic level (roughly constant as percent of GDP).

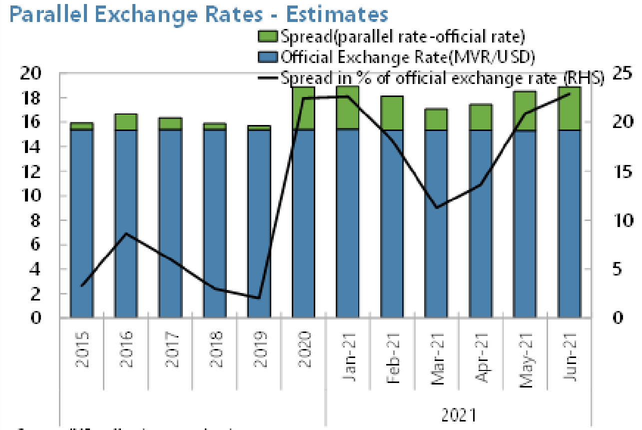
Budgetary Revenue and Expenditure, 2015-23
(percent of GDP)



Sources: Ministry of Finance, staff calculation

11. External financing needs are large and dollar shortages have persisted, as reflected in large spreads in the parallel foreign exchange (FX) market. Tourism is the main source of FX, but until fully recovered, FX shortages should be expected. The COVID-19 shock led to a 25 percent contraction in the 2020 current account deficit (CAD) driven by lower imports, though the CAD as a percent of GDP remained elevated at 30 percent. The CAD has been elevated for

Parallel Exchange Rates - Estimates



Sources: IMF staff estimates and various news sources.
Note: The parallel market rate of June is the monthly average rate as of June 15th 2021.

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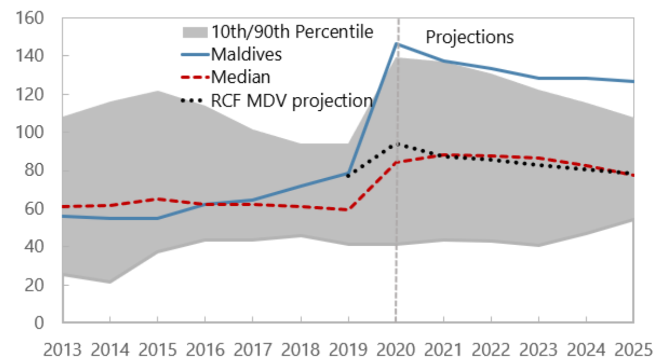
[2] In general, these lines of credit have a 1.75 percent interest rate, five-year grace and 20-year maturity. In addition, a USD 100 million grant is included in the Connectivity project.

several years owing in part to the high import content of major capital expenditure projects. The CAD is mostly financed by FDI and PPG external debt. Gross official reserves covered around 3.7 months of prospective imports, bolstered by USD 400 million RBI swap, and are projected to decline in 2021 and 2022 before increasing as tourist arrivals recover.

12. The Maldives has a high risk of external debt distress and a high overall risk of debt distress (See DSA). The total PPG debt-to-GDP ratio increased from 78 percent in 2019 to 146 percent in 2020, reflecting both the contraction in nominal GDP by about 34 percent and an expansion in PPG nominal debt by 24 percent.[3] This is the largest increase in public debt to GDP across similar island developing states. Under current policies, debt is expected to remain high over the medium-term. Without significant fiscal adjustment, public debt is on an unsustainable path in the baseline scenario. While the recent Sukuk issuance mitigates rollover risks for 2022, securing debt sustainability requires balanced and sustained fiscal consolidation and continued strong growth.

Public Debt
(In percent of fiscal year GDP)

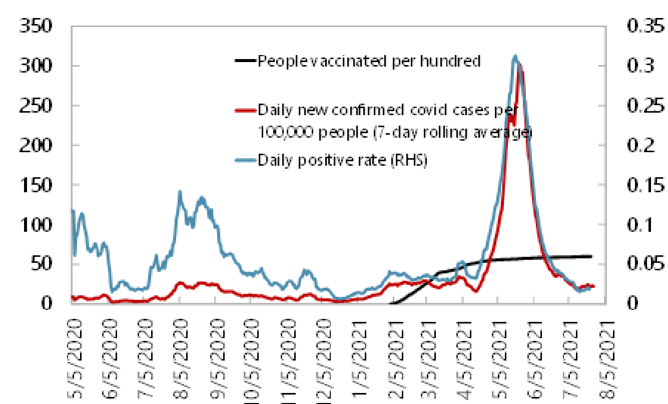


Sources: World Economic Outlook; IMF staff calculation.
Notes: Peer countries include Cabo Verde, Barbados, Antigua and Barbuda, Jamaica, Sri Lanka, Dominica, Seychelles, St. Vincent and the Grenadines, Mauritius, St. Lucia, Fiji, Grenada, St. Kitts and Nevis, Dominican Republic, the Bahamas, Samoa, Haiti, Vanuatu, Tonga, and Timor-Leste.

13. The risks to the outlook are tilted to the downside, and they require prompt action given vulnerabilities.

- On the downside, external risks include a slowdown in the tourism recovery because of additional COVID-19 variants/travel restrictions, and a tightening in international financial conditions that could limit access to low cost external financing. Domestically, risks stem from a protracted high level of COVID-19 cases that could delay the recovery. Several fiscal risks (including SOE liquidity risk, FX risks, and limited coordination across line ministries

Daily New Covid Cases, Vaccination Rate and Positive Rate



Sources: Johns Hopkins University CSSE Covid-19 Data and IMF staff estimates.

[3] While the PPG debt in 2020 was projected to be 94 percent of GDP at the time of the RCF, using the current 2020 GDP level, the PPG debt ratio would have been 136 percent. Hence, most of the additional increase in the PPG ratio is due to the larger-than-projected contraction in GDP in 2020. The larger projected deficits during 2021–2026 are responsible for preventing the PPG decline in those years as was projected in the RCF report.

and SOEs) could materialize at a time when the policy space remains constrained by high deficits and debt, very low FX reserve buffers, and a difficult external financing environment (Appendices 3 and 4). Pressures related to the electoral cycle could trigger the fast implementation of an overcomplicated minimum wage structure and public wage harmonization process in a context of high economic uncertainty and limited fiscal space.[4] Further deterioration of the fiscal or real sector would endanger trust in the financial sector and the sustainability of the current exchange rate peg.

- On the upside, Maldives has a high vaccination rate and the tourism recovery could be larger than anticipated if some important European and Asian markets, such as China, Germany, Italy, Japan, and the UK, allow their nationals to travel more flexibly in the second half of 2021.

Authorities' Views

14. The authorities highlighted that the COVID-19 shock was unprecedented and the first time that the Maldives had to remain closed to tourists. They broadly concur with staff's growth and inflation baseline, and the evolution of the fiscal balances over the medium-term. The impact of the pandemic has been more protracted and severe than initially envisaged, but the recovery is ongoing and with significant upside. The authorities also highlighted that completion of COVID-19 vaccination in the Maldives is another important upside; around 70 percent of the adult population have already received at least one dose of the COVID-19 vaccine. The authorities attribute the ongoing capital spending expansion to a large extent to the infrastructure projects initiated in 2019 and their associated large disbursements materializing over the medium-term. The additional financing to manage the budget and address the revenue losses and spending needs during the pandemic resulted in the accumulation of further debt in 2020. This is despite the authorities' efforts to contain non-priority spending relative to the approved 2020 budget.

15. The authorities emphasized that understanding the context of the COVID-19 shock is important in making an assessment on debt sustainability. Given that the shock to GDP was severe and caused an upward movement of the ratios to GDP across many economies, the authorities suggested that a more nuanced view beyond the Low-Income Country Debt Sustainability Framework is needed. The authorities highlighted that any assessment on debt sustainability should give credit to the highly concessional nature of the existing debt stock and the access that the country has to the international financial market. The authorities emphasized as an upside their role in proactively managing rollover risks from their outstanding Eurobonds, in 2019 by extending the maturity of the privately placed USD 100 million Eurobond by three years, and in 2021 by rolling over 77 percent of the maiden Eurobond. They note that the Sukuk issuance was oversubscribed signaling healthy demand for the sovereign debt of the Maldives in international markets. The authorities also highlighted that Sukuk bonds were currently trading at a premium. Moving forward, the authorities expect to take advantage of the favorable financing terms secured

[4] The next Presidential elections are scheduled in September 2023. Establishing a minimum wage for the public and private sectors along with harmonizing the public sector pay scales could—if not properly managed—significantly increase the public wage bill and affect the availability of foreign reserves due to the outflow of remittances.

for the completion of the infrastructure mega-projects, while they are actively managing debt and liquidity to address potential rollover risks, as evidenced by the issuance of Sukuk bonds in April 2021.

POLICY RECOMMENDATIONS

16. A comprehensive and coordinated approach across all policies is essential given high vulnerabilities. Both urgent and medium-term policies are needed to manage risks, help the recovery, and reduce vulnerabilities. Policy measures taken as part of a well-communicated and comprehensive package would be preferable since vulnerabilities across the public sector are interlinked and a continued coordinated approach by both the government and the central bank, as during the early part of the crisis, would contribute to better controlling expectations. The global uncertainty triggered by the pandemic remains elevated and a more prudent spending policy approach is needed.

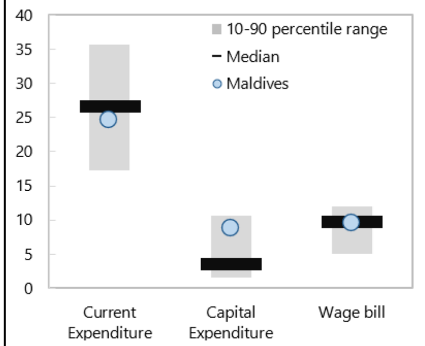
A. Budget Realism and Fiscal Rebalancing is Imperative

17. A multipronged adjustment strategy is needed to restore sustainability to public finances. The high deficits and elevated debt positions over the medium-term call into question fiscal sustainability. Despite the recovery in tourism receipts and the improvement in public revenue, the fiscal deficit is projected to remain in double-digits as a percent of GDP until 2022. Stronger public financial and investment management along with revenue mobilization is required to support a sustainably financed increase in infrastructure spending that can promote inclusive and climate change resilient growth. For the short term, staff recommend rationalizing capital spending plans starting in 2021, including cuts and/or delays on some large investment projects. This includes the capital spending of SOEs, since any weakened financial position will result in extra government support and would further stress the high level of debt and FX shortages.

18. Deficit plans should be securely financed prior to embarking on higher spending. The deficit financing sources for the next two years have not been firmly secured, as the authorities have planned but not secured Sukuk, blue, and green international issuances. Unsecured financing of the deficits for 2021 and 2022 amounts to 3.7 and 2.8 percent of GDP, per staff estimations, while the high amortizations in 2026 could require additional unsecured financing of 2.9 percent of GDP. In addition, current spending is projected to exceed revenue over the next two years, adding to concerns from high capital spending plans over the medium term.

19. Recurrent spending pressures should be contained and capital spending rationalized. Current expenditures are in line with peers, while capital spending is on the upper range of their distribution. The level of current spending before the pandemic was slightly lower than that of the median tourist dependent peer economy, and the wage bill spending was almost at par. However, capital spending was close to the top 10th percentile, so that the envisaged increases in capital spending may render the Maldives among the top 10th percentile capital spenders in its group.[5] In this context, staff advises the authorities to recalibrate their fiscal strategy to ensure sustainable financing of both current and capital spending. Efforts should continue on reducing non-priority current spending as well as containing wage bill pressures, including from the implementation of a complicated minimum wage structure and public wage harmonization process—especially over the next two years, until tourism receipts have fully recovered.

Current, Capital and Wage Bill Spending
(In percent of fiscal year GDP, 2019)



Sources: World Economic Outlook; IMF staff calculation.
Notes: Peer countries include Cabo Verde, Barbados, Antigua and Barbuda, Jamaica, Dominica, Seychelles, St. Vincent and the Grenadines, Mauritius, St. Lucia, Grenada, St. Kitts and Nevis, Dominica Dominican Republic, the Bahamas, Haiti, Vanuatu, Tonga, and Timor-Leste.

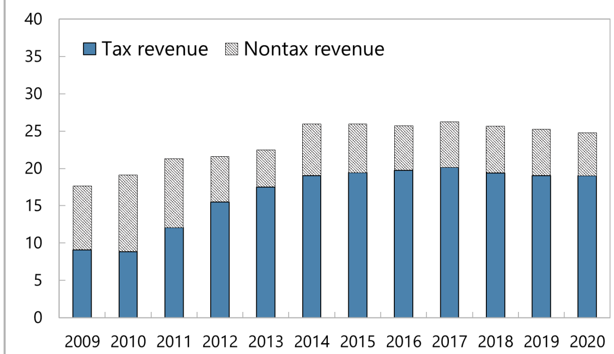
20. Reforms are ongoing to address weaknesses in the public investment management (PIM) system with the aim of enhancing transparency. The 2019 Public Investment Management Assessment (PIMA) report identified several weaknesses in the PIM system, including poor planning, weak project appraisal and selection, and the lack of a project pipeline, which combined, result in unrealistic capital budgets. Weaknesses in the overall strategic framework for public investment, aggravated by a challenging fiscal environment, affect the government's ability to plan sustainable levels of investment across the public sector. Since fiscal space is limited, efficient public investment requires a more strategic and focused Public Sector Investment Program. Preparing a costed medium-term national development strategy that focuses on public investment requirements within a realistic overall resource envelope is key for translating infrastructure spending into growth.[6] Following the 2019 report, reforms are ongoing to address weaknesses and combatting corruption in order to improve the planning and transparency process, such as reforms in the procurement system (harmonizing the procurement guidelines for SOEs) and the reporting (detailed database on awarded projects is published on the Ministry's website). Further open and competitive procurement would help ensure that resources are used effectively, and that waste and inefficiency are avoided.

[5] Capital spending is proxied by the net acquisition of non-financial assets. Current spending is proxied by subtracting capital spending from total expenditure.

[6] The proposed activities to manage the strategic action plan (SAP) could in part help to mitigate these issues (see para. 35).

21. Further revenue mobilization is required to expand capital spending, and to mitigate the risks related to high public debt. High capital spending has deteriorated fiscal balances over recent years, while revenue as a share of GDP has been declining since 2017. Since 2019, the Maldives undertook notable tax policy reforms, such as (i) establishing a Tax Policy Unit (TPU); (ii) introducing a PIT in 2020; (iii) abolishing a preferential tax regime; (iv) abolishing all tax exemptions and incentives under the foreign investment act (FIA); (v) introducing transfer pricing rules and limiting interest deductions; and (vi) introducing a cross-border withholding tax on all sources of capital income and technical and management fees. As the Maldives recovers from the COVID-19 shock, it is imperative that such tax policy reforms continue to bolster dwindling revenues.

Total Tax and Nontax Revenue, 2009-20
(In percent of GDP)



Sources: Ministry of Finance; and IMF staff calculations.

22. Over the medium term, the policy focus could shift to diversifying the tax base toward domestic sources. Staff suggest the following medium-term (starting in 2023) revenue measures: (i) raising the top marginal income tax rate and lowering income thresholds; (ii) rationalizing Business Profit Tax (BPT) related tax expenditures; (iii) moving towards equalizing the domestic and tourist GST rates; and (iv) other measures such as excises on tobacco, alcoholic products, fuels, and motor vehicles. Staff's proposed fiscal package includes rationalizing capital expenditure as of 2021 and would substantially improve projected budget deficits and debt levels during the next few years (Appendix 5).

Maldives: Central Government Finances, 2021–24
(In percent of GDP, with and without measures)

	2021		2022		2023		2024	
	Without measures	With measures	Without measures	With measures	Without measures	With measures	Without measures	With measures
Total revenue and grants	27.9	27.9	28.4	28.4	28.0	29.5	27.9	29.3
Tax revenue	18.9	18.9	18.7	18.7	18.6	20.1	19.0	20.5
Airport service charge	0.5	0.5	0.7	0.7	0.9	0.9	0.9	0.9
Business profit tax (BPT)	2.6	2.6	2.4	2.4	2.4	2.4	2.4	2.5
Personal income tax	0.2	0.2	0.2	0.2	0.3	1.0	0.3	1.0
Goods and services tax (GST)	9.6	9.6	9.8	9.8	10.0	10.6	10.2	10.8
Tourism tax	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2
Other taxes	4.9	4.9	4.5	4.5	4.0	4.0	4.1	4.1
Nontax revenue	6.9	6.9	7.0	7.0	7.1	7.1	7.4	7.4
Grants	2.1	2.1	2.7	2.7	2.3	2.3	1.4	1.4
Total expenditure	46.0	42.3	41.2	35.7	37.2	33.0	35.1	31.5
Current expenditure	30.3	30.3	27.3	27.2	24.7	24.5	23.9	23.5
Capital expenditure	15.6	12.0	13.9	8.5	12.4	8.5	11.3	8.0
Overall balance	-18.1	-14.4	-12.8	-7.3	-9.1	-3.5	-7.3	-2.2
Public and publicly guaranteed debt	137.2	133.6	133.3	124.7	128.2	114.8	128.4	110.7

Sources: Maldivian authorities; and IMF staff projections.

23. Fiscal stability will require other improvements in the public financial framework.

- Various diagnostic missions led by technical partners and the IMF highlighted the efforts of the ongoing reforms and the progress achieved in improving public finance management (PFM), and the areas where further improvements are needed: (i) 2019 PIMA, (ii) the Public Expenditure and Financial Accountability (PEFA, 2021), and (iii) the Fiscal Transparency Evaluation (FTE, 2021), with the Maldives being the first small island state to undertake an FTE. As a result, ongoing work is being undertaken to prepare a PFM roadmap prioritizing these PFM reforms (Appendix 6).

- A holistic approach is needed to strengthen the public financial framework across all the public sector: (i) Many SOEs suffer from weak corporate governance, and rely excessively on government transfers in the form of subsidies and capital contributions of about 2.5 percent of GDP by end of 2020.[7] SOEs also undertake non-commercial activities that involve cross-subsidization, while some remain unfunded or under-funded. Fiscal risks posed by SOEs vary by entity and include government guarantees of external debt (HDC, STO) and the need for capital injections or subsidies to support the provision of goods and utilities at fixed prices (STO, FENAKA, and STELCO). Further strengthening oversight and more comprehensive coordination with SOEs are needed to synchronize expenditure, cash flow, and FX needs (Appendix 4); (ii) The 8th amendment of the Decentralization Act came into effect in 2020 giving local councils more power to conduct their own operations. Although the current level of borrowing of local councils is insignificant, the constitution empowers local councils to own property and to incur liabilities. As such, it is critical that robust systems are put in place to carefully monitor local council finances to ensure their sustainability and limit fiscal risks.

24. The numerical targets for fiscal deficits and public debt set in the current 2013 Fiscal Responsibility Act (FRA) have not been met since its inception. Noncompliance is linked to design weakness including unrealistic and multiple fiscal targets, unclear coverage of fiscal aggregates, and inadequate accountability. As discussed with Fund experts during a recent TA mission, high uncertainty on the economic and macro-fiscal outlook, calls for flexibility in the medium-term trajectory of key fiscal aggregates. However, with the flexibility to respond to adverse macroeconomic developments, it is important to set and publicly disclose appropriate objectives and targets with public sector coverage and require strong accountability in reporting any deviations. We encourage the authorities to finish the reform of the FRA.

Authorities' Views

25. The authorities emphasized that budget deficits are inevitable in the short term as revenue has not recovered to pre-pandemic levels, but considerable progress is being made in various areas. To improve fiscal performance, the authorities have reduced and/or delayed specific capital spending. Moving forward they are working to reduce non-priority spending and rely further on foreign financed projects that are backed by secured financing at favorable rates to improve the financing of the deficit over the medium-term. The authorities noted that rescheduling ongoing capital spending further postpones the associated social and economic benefits and may increase costs due to implementation delays. The authorities expressed concerns over the regressivity aspects of raising the domestic GST rate to equate with tourism GST rates, and intend to mobilize revenue—including the restructuring of the airport service charge and airport development fee which will come into effect on January 1, 2022, developing real-estate tourism and resorts, and

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[7] While the risk analysis in Appendix 4 highlights the increasing trend in risks for some SOEs prior to 2020, the 2020 risk profile has further deteriorated due to the adverse impact of the COVID-19 pandemic.

allocating a percentage of reclaimed land on different islands to be sold. The authorities consider that significant progress has been made on managing public investment execution to achieve greater transparency. Mechanisms and guidelines have been enhanced with the support of technical partners, in particular the World Bank, leading to greater competitiveness and transparency. Some of the recent developments on this front includes standardizing the SOEs' procurement guidelines, publication of information of large procurements on the Ministry of Finance website, publication of information on small procurements by government agencies on the government gazette, changes to the public finance regulation to facilitate a bid protesting mechanism and independent review, and publication of information on ongoing and planned public investment projects on the isles.gov.mv portal. The authorities remain committed to improving the fiscal framework by further enhancing the oversight of SOEs and moving forward with a better designed Fiscal Responsibility Act.

B. Adjusting Monetary Policy and Enhancing Exchange Rate Markets

26. The MMA should stand ready to tighten monetary policy to ensure that inflation remains stable and the parallel market exchange rate premium limited. While inflation is yet to pick up, the parallel FX market spread seems to be persistent. The MMA increased the rufiyaa minimum reserve requirement back to 10 percent from 7.5 percent on June 3, 2021. The MMA could consider using open market operations, in rufiyaa, should inflation pick up and/or the parallel spread widens.

27. MMA advances should be used as a last resort and kept within the current approved ceiling. The macroeconomic conditions during the post-pandemic recovery will be substantially different. The COVID-19 shock triggered a large negative demand shock that depressed prices as well as increased liquidity demand due to agents' precautionary motives. Those aspects will change during the recovery, especially for a country with a de-facto peg and low reserves, putting pressure on prices from both the demand side recovery and higher pressure on the FX parallel rate and passthrough due to larger import demand.

28. Along with reforms to the monetary and fiscal framework to establish credibility in the nominal anchor, the intensification of FX shortages highlights the need for long overdue structural changes in FX markets. To address foreign currency liquidity and due to the shortage of FX, the MMA reduced the USD reserve requirement for banks from 10 to 5 percent and increased the monthly allocation to banks and prioritized the availability of FX to SOEs for the repayment of loans and the import of essentials. The FX rationing to banks, despite recent easing, involves measures inconsistent with Article VIII of the IMF Articles of Agreement. The FX shortage has historically impacted banks' FX intermediation, leading to the emergence of the parallel market, with significant deviations in recent months given the impact of the pandemic on tourism. [8,9]

29. Careful management of FX is necessary to ensure the compatibility of policies with the current exchange rate peg. This would include better coordination within the public sector (e.g., to avoid a SOE going to the parallel FX market, as happened in early 2021) as well as taking into account the potential impact of different measures under consideration (e.g., even the minimum wage proposal could have FX repercussions through increased outward remittances). The increase in the negative net currency exposure of the banking system, especially among large banks, suggests, that the capacity to finance the government and SOEs in foreign currency is limited.

30. Staff assess that the external position in the Maldives is substantially weaker than the level implied by fundamentals and desirable policies (Appendix 7). The EBA-lite current account (CA) methodology suggests that the CA was below the norm in 2020 by around 11 percent of GDP after using the COVID-19 adjustor (implying an exchange rate more appreciated than fundamentals by around 20 percent).[10] Implementing fiscal adjustment and building reserve buffers are essential to improving the external position. The CA is projected to remain below the norm until 2023. Gross reserve coverage in 2020 was bolstered by grants and multilateral/bilateral foreign financing inflows and the temporary measure of a USD 400 million SWAP with the RBI and will decrease at end-2021.

Authorities' Views

31. The authorities are proactively managing the system rufiyaa liquidity and are working towards FX market reforms to address dollar shortages and long-lived structural inefficiencies. MMA could consider open market operations in the future, but the current focus is on using minimum reserve requirements. The MMA is closely coordinating, together with the MoF, the access of SOEs to FX for essential needs. The swap facility of USD 250 million has been rolled over for another 6 months on June 28, before the expiration of the bilateral Swap Agreement with the RBI (on July 21, 2021). The swap will mature at the end of December 2021. The authorities highlighted that the CA gap suggested by the EBA-lite CA methodology seems very large.

C. Safeguarding Financial Stability

32. The MMA should remain vigilant about the underlying build-up of financial vulnerabilities, especially exposures to the government that have increased substantially during the crisis. Although a large part of sovereign domestic financing was supported by a

[8] A steep and abrupt depreciation would raise the dollar-denominated debt of unhedged households and corporates against exchange rate risk. The decline in banks' asset quality as a result may outweigh prospective improvements to the current account imbalances from depreciation.

[9] The tourist industry has been the key supplier of FX and driver of the parallel market. After increasing sharply, the premium seems to have stabilized during March and April 2021 with the better-than-expected pick up in tourism, but it has increased again in recent weeks with the spike in COVID-19 cases in South Asia.

[10] This adjusted CA incorporates a 10 percent of GDP adjustment for the assumed temporary shock to tourism from COVID-19, calculated as the difference in the ratio of tourism receipts to GDP pre- and post- COVID-19.

concessional USD 250 million loan from the SBI headquarters, intermediated through SBI Male, lending capacity in FX is especially limited, and risks of crowding out of private sector lending could appear in the medium term.

33. The authorities have taken welcome steps to safeguard financial stability, but additional efforts to preserve banks' financial health, including foreign currency exposures, are needed. A large part of banks portfolio corresponds to loans that benefitted from moratorium initiatives and working capital loans that helped to protect banks' loan portfolio and borrowers to tide over the income shock linked to the pandemic shock. While the banks on average have strong capital buffers (47 percent capital adequacy in March 2021), the extent of banks' asset quality problems will only be revealed once the full impact of the pandemic is realized and after supportive and forbearance policy measures are fully unwound. In this context, staff support the MMA policy of allowing regulatory moratorium measures to expire as scheduled in March 2021 and recommend that MMA requires banks to keep a forward-looking provisioning approach because NPL ratios might still have optimistic biases due to remaining moratorium windows. The increase in the negative net FX exposure of the banking system, especially among large banks, is something that MMA should carefully monitor. Strengthening the financial sector by addressing supervision data gaps and making progress on introducing a comprehensive crisis management framework by operationalizing a bank resolution framework and aligning the MMA's lender of last resort policy are remaining priorities.

Authorities' Views

34. The authorities reiterated that the MMA is closely monitoring financing stability. They highlighted that current loan classification and provisioning requirements are very prudent. The MMA has also at its disposal macro prudential policies such as reserve requirements in both rufiyaa and foreign currency, foreign currency open position limits, interbank limits, and leverage capital requirements. There are plans to review and introduce other macro prudential requirements and liquidity regulations in the future. The authorities have requested a full FSAP.

D. Structural and Governance Policies

35. There have been actions towards strengthening governance and transparency, including with respect to COVID-19 spending, but further measures could be implemented. The Auditor General Office (AGO), with a mandate from the Parliament, conducted performance audits on all COVID-19 related spending financed by the budget or donors' funded projects, operations executed by SOEs, and welfare and unemployment schemes.[11] Some of these audits are still ongoing, while for the completed ones the AGO noted that there was a high degree of compliance and reports were made public. In a few instances where irregularities were noted, the

[11] Projects that were or are still subject to performance audits are: Relief Package due to COVID-19 (Income Support Allowance, recovery loan schemes), National Social Protection Authority, Ministry of Foreign Affairs, Maldives National Defense Force, Ministry of Tourism, Ministry of Health, National Disaster Management Authority, STO, and HDC.

files were transferred to the Anti-Corruption Commission (ACC)[12] for further investigation. While the website of MoF publishes a detailed database on awarded projects, the data do not include a detailed list of beneficial ownership which is recommended. The authorities are also making progress in procuring a consultant to conduct a national risk assessment (NRA) for AML/CFT expected to be completed by June 2022. The NRA will help with the preparations for the AML/CFT assessment of the Maldives by the Asia/Pacific Group on Money Laundering now postponed to 2024, but in preparation the authorities should also take measures to mitigate the risks identified in the NRA, and take other legislative and implementation (effectiveness) measures. Reform proposals and the authorities' efforts to strengthen governance and transparency in SOEs and PFM institutions are discussed in Appendices 4 and 6.

36. Staff commends the authorities' aspirations to take forward several long-term visions set in the Strategic Action Plan (SAP) on the blue economy, climate resilience and sustainability, and good governance. The proposed activities to manage the SAP aims to lay the foundation for a more institutionalized planning process with standardized methods and tools for the Maldives. The authorities aim to shift towards full-fledged results-based budgeting and embed the SDGs as part of this process, expected to be put in place in 2022 budget. The main purpose of this is to improve effectiveness of budgeting and to better understand the results achieved from the public investments in key sectors. The authorities acknowledge that one of the barriers to implementing program budgeting is the limited results-based planning and targeting that is practiced within implementing agencies. The SAP bridges this gap by introducing a results matrix that implementing agencies can use and provides the framework for alignment of budgets to results. Staff supports the central bank's initiative to further advance the implementation of the

Maldives: SDG Monitoring Table

Goals	Selected Indicator	Latest Observation	
		Year	
End Poverty	Proportion of population living below the International poverty line (%)	2016	7
End Hunger	Prevalence of undernourishment (%)	2009	20/17 1/
Good Health and Well Being	Maternal Mortality Ratio (per 100,000)	2015	72
Inclusive and Equitable Education	Participation rate in organized learning (%)	2015	78
Gender Equality	Proportion of seats held by women in local governments (%)	2014	6
Clean Water and Sanitation	Proportion of population using safely managed drinking water services (%)	2017	7/29 2/
Sustainable Growth and Decent Work	Annual growth rate of real GDP per capita (%)	2019	7
Industry, Innovation, and Infrastructure	Manufacturing employment as a percentage of total employment (%)	2016	11
Cities and Communities	Proportion of urban population living in buildings not intended for habitation (%)	2014	1
Climate Action	Number of deaths attributed to disasters (per 100,000)	2004	82
Peace, Justice, and Strong Institutions	Children under 5, with birth registered	2015	99
Partnerships for the Goals	Fixed internet broadband subscriptions per 100 people	2016	72

Source: Maldives: Data Update for SDGs 2018, National Bureau of Statistics.
1/ Percent of boy/girl under 5 that are stunted.
2/ Atoll/Male access to desalinated water.

[12] The ACC's mission is to (i) investigate and take impartial legal action against all perpetrators of corruption, in accordance with the law, (ii) recover and protect loss of rights suffered by the State and the individuals due to corruption, and (iii) collaborate on efforts of corruption prevention.

instant payment system, which could facilitate access to affordable financial services through innovative mechanisms that allow competition, efficiency, and inclusion in the financial sector.

Authorities' Views

37. The authorities are committed to enhancing governance. A number of measures have been introduced in recent years to enhance governance. In 2019 the State Internal Audit function was established to verify the reliability of public financial records, to establish a system to identify the risks in various operations of public offices and to verify that records are maintained in accordance with the public finance rules and regulation. In 2019 a Corporate Governance Code was introduced for state owned enterprises, to ensure that these enterprises operate efficiently, transparently, and in an accountable manner. Under a Public Finance Circular issued in December 2020, all state agencies are now required to publish information on all procurement contracts on the government gazette on a weekly or monthly basis, depending on the size of the procurement. Many of the budget processes have been automated to improve efficiency of budget implementation, while ruled regulations and guidelines have been strengthened to enhance budget credibility. Furthermore, the Ministry is currently in the process of training and certifying financial executives as government agencies to improve accountability at a decentralized level. To enhance the National Resilience and Recovery Plan 2020-2022 and prepare for results-based budgeting framework, the authorities are reprioritizing the SDG goals and targets, including on climate issues, to reflect urgent pandemic related developmental needs.

E. Climate and Others

38. While the authorities have an ambitious agenda on both mitigation and adaptation, securing climate change financing has been difficult (Appendix 8). The authorities noted the large financing needs for investment in renewables and climate resilient infrastructure, to support the transition to the recently announced net zero emission goal for 2030 and large adaptation needs. Staff commends the adoption of the Climate Emergency Act on April 29, 2021, which sets out ambitious conditional plans to achieve net-zero carbon emissions by 2030. The Act mandates to submit the subsequent year's national carbon budget to the Parliament for approval three months before the end of each year. Lack of capacity to satisfy preconditions for climate finance, including provision of scientific evidence, are some of the main obstacles to timely access to the global climate fund. The authorities also emphasized the need to secure grants and concessional financing to address climate needs in a sustainable manner given limited fiscal resources.

39. Staff looks forward to continued collaboration on capacity development (CD) to implement the ambitious agenda of reforms that the government has set in various sectors. In public finance management this collaboration is focusing on updating the PFM roadmap, managing fiscal risks mainly from SOEs, and updating the legal framework related to debt management. Extensive support is being provided in various aspects on enhancing revenue administration and collection, as well as providing advice on implementing reforms in tax policy. In macroeconomic statistics, ongoing support is being provided to produce supply-use tables and the producer price index, construct a monthly index of economic activity, and government finance statistics following the Government Finance Statistics Manual 2014. Technical assistance is also planned and/or evolving in improving the ITRS system, debt management, domestic debt market development, FX market reforms, and banking supervision and regulation.

Authorities' Views

40. The authorities welcomed the continuous support from the IMF on capacity development and look forward to the proposed agenda of activities. The authorities clarified that so far**,** climate financing is offered at the same market rates as conventional instruments, with additional climate mitigating conditionalities, and it did not make for a meaningful alternative available among the financing choices. The authorities expressed the need for Fund assistance with accessing concessional climate finance and capacity development to facilitate their ease of access to climate change financing in general.

STAFF APPRAISAL

41. The Maldivian economy has been hard hit by the COVID-19 outbreak. As elsewhere, the pandemic has led to socio economic hardship and an economic downturn, but the Maldives was particularly susceptible to the COVID-19 shock given its dependance on tourism. The 2020 policy response was broad and coordinated, involving health, fiscal, monetary, and financial policies, which have helped to save lives and livelihoods, and to preserve macro-financial stability.

42. The 2021 economic recovery is projected to be strong, but still fragile and partial. The Maldives successfully opened to tourism in mid-July 2020 and it implemented a successful vaccination plan that helped keep hospitalization rates low during the recent COVID-19 surge in South Asia. Medium-term tourism prospects remain positive, with the airport expansion set to increase capacity.

43. The economic outlook and vulnerabilities are challenging amid large fiscal and external deficits. Financing the planned fiscal deficit would require external budget support in 2021 and 2022. Under current policies, the external position is expected to remain substantially weaker than the level implied by fundamentals, and debt is on an unsustainable path. Risks are tilted to the downside given the recent COVID-19 outbreak in South Asia, uncertainty about economic recovery and of vaccine coverage in many tourist source countries, and political economy dynamics before the 2023 presidential election. Further deterioration in the fiscal and real sectors could also endanger trust in the financial sector.

44. A comprehensive and coordinated approach across all policies is essential given high vulnerabilities. Both urgent and medium-term policies are needed to manage fiscal, external and FX risks, help the recovery, and reduce vulnerabilities. Even well-intentioned policy measures could trigger vulnerabilities if not comprehensive enough and/or untimely.

45. Budget realism and fiscal rebalancing is imperative. While the fiscal deficit and public debt rose sharply mostly due to the pandemic, ambitious spending plans are further putting fiscal sustainability at high risk. For the short-term, and in line with the April 2020 RCF report, staff recommend the rationalization of capital spending plans, including cuts and/or delays to some large public investment projects, carried by either the central government or SOEs. Financing for any higher current or capital spending should also be secured prior to commitments or contractual agreements. Over the medium term, further revenue mobilization is required to support the expansion in capital spending, and to mitigate the risks related to high public debt. There is room to diversify the tax base toward domestic resources.

46. Tightening monetary policy to ensure both that inflation remains stable, and the parallel market exchange rate premium limited, may be needed if pressures increase. The MMA could consider using open market operations should inflation begin to pick up and/or the parallel spread widens. MMA advances should be used as a last resort and kept within the current approved ceiling, since they would involve more risks during the recovery than in 2020, especially for a country with a de-facto peg and low reserves.

47. The authorities have taken welcome steps to safeguard financial stability, and they should remain vigilant about the underlying build-up of financial vulnerabilities. Prudential regulation and supervision (including addressing data gaps) as well as introducing a comprehensive crisis management framework by operationalizing a bank resolution framework could be further advanced to promote the health of the banking system amid higher asset quality risks.

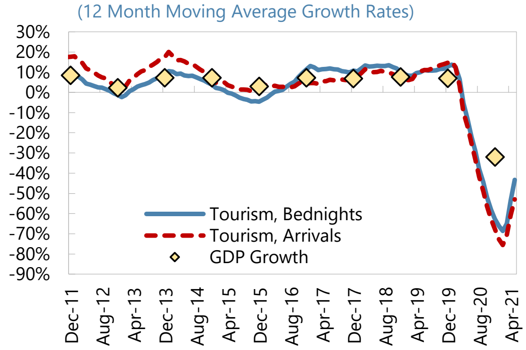
48. Structural changes to the FX market, the amendments to the fiscal legal framework, and efforts to strengthen governance and transparency are core to a comprehensive strategy. As in previous Article IVs, staff does not recommend approval of existing exchange rate restrictions and multiple currency practices (MCPs) and advises the MMA to accept the obligations of Article VIII as a measurable goal of its FX market reforms under study. The intensification of FX shortages during the pandemic highlights the need for fiscal consolidation and long overdue structural changes in FX markets. Finishing the reforms around the FRA are essential for setting and publicly disclosing appropriate fiscal objectives and targets as well as improving accountability. There have been actions towards strengthening governance and transparency, including with respect to COVID-19 spending, but further advances could be implemented. AML/CFT_risk mitigation measures, including to further address corruption risks, and other legislative and implementation measures are also needed. Progress toward completing the authorities' ambitious agenda on both adaptation and mitigation to climate change and budgetary implementation of climate and other SDG targets should continue.

49. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Maldives: Summary of Recent Developments

The tourism industry was hit hard by COVID-19…

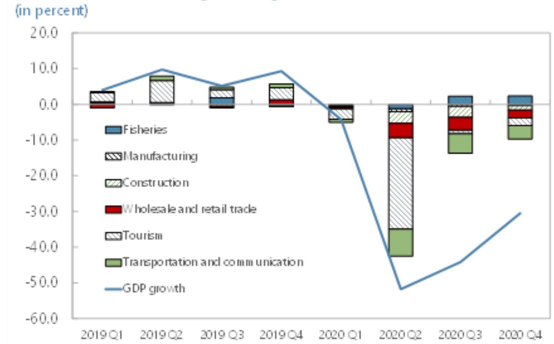
Tourism and Growth
(12 Month Moving Average Growth Rates)



Sources: Maldivian Authorities

…the domestic economy also contracted, particularly in Q2 2020 owing to lockdowns.

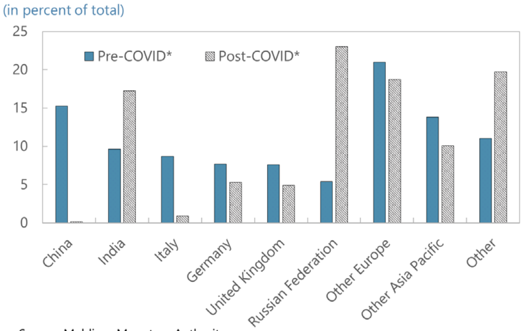
Sectors with the Largest Negative Contribution to Growth
(in percent)



Source: Maldives National Bureau of Statistics

The composition of arrivals in the recovery has changed…

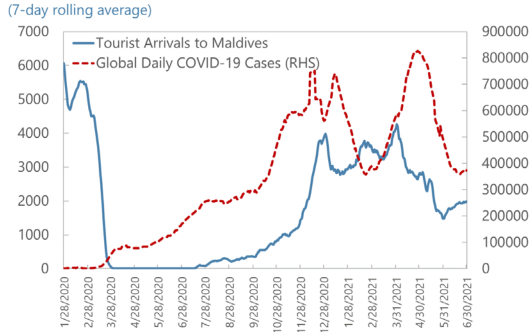
Share of Tourist Arrivals from Region
(in percent of total)



Source: Maldives Monetary Authority
*Pre-COVID : January 1, 2019 to March 26, 2020. Post-COVID: July 15, 2020 to June 30, 2021

….given different restrictions on travel and different trends in the spread of COVID-19.

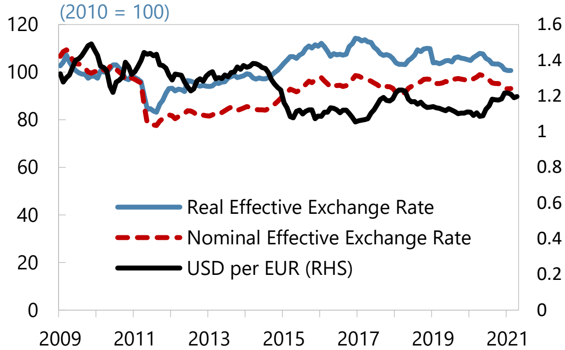
COVID-19 and Maldives Tourist Arrivals
(7-day rolling average)



Sources: Maldives Monetary Authority and Johns Hopkins

The REER started depreciating in the second half of 2020…

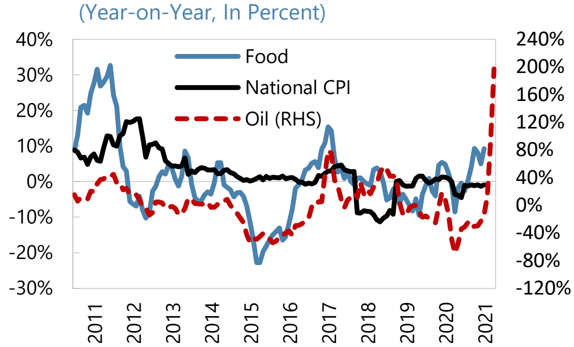
Exchange Rate Movements - REER, NEER & Euro
(2010 = 100)



Sources: Maldivian Authorities and Staff Calculations.

…. due to low aggregate demand, low oil prices, and price subsidies on utilities.

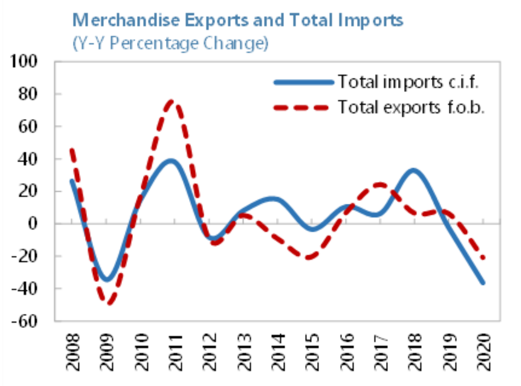
Inflation
(Year-on-Year, In Percent)



Sources: Maldivian Authorities, WEO and Staff Calculations.

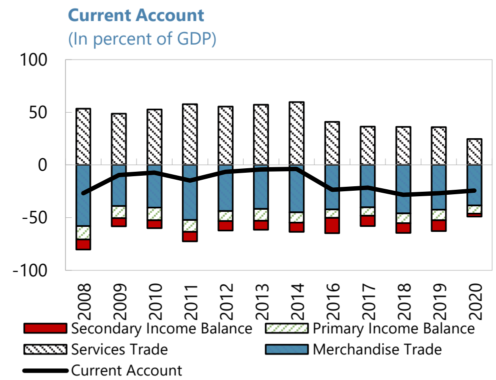
Figure 2. Maldives: External Sector Developments

The current account deficit contracted in nominal terms….



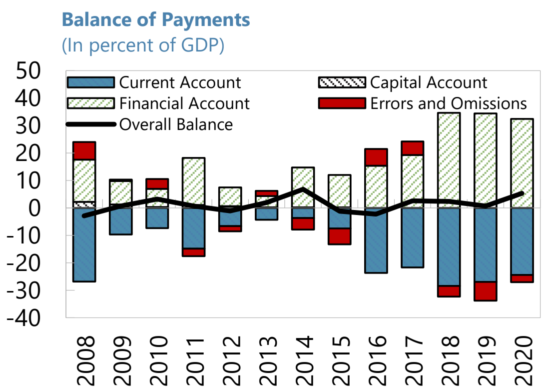
Sources: Maldivian Authorities and Staff Calculations.

….but remained elevated in percent of GDP.



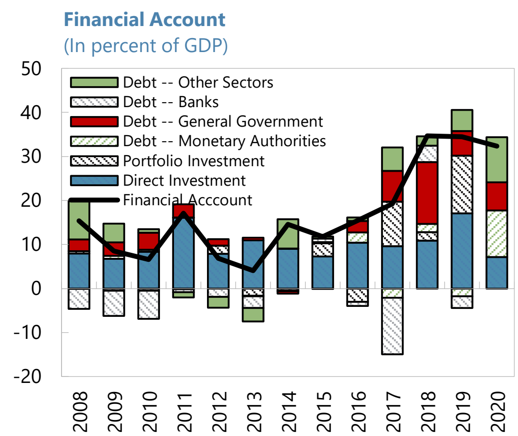
Sources: Maldivian Authorities and Staff Calculations.

Exceptional external financing helped boost reserves….



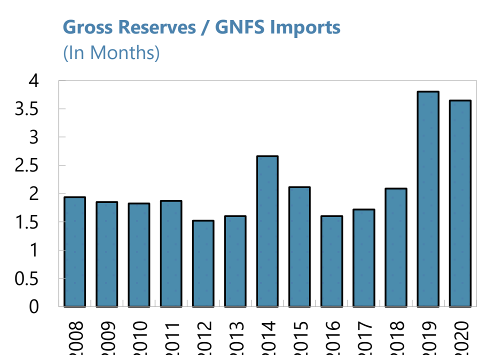
Sources: Maldivian Authorities and Staff Calculations.

… including SWAPs with the RBI and bilateral and multilateral loans.



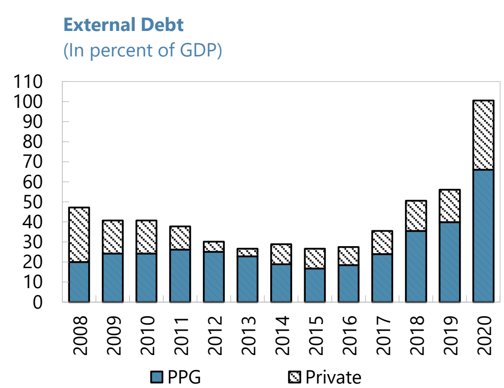
Sources: Maldivian Authorities and Staff Calculations.

GIR were 3.6 months of prospective imports…



Sources: Maldivian Authorities and Staff Calculations.

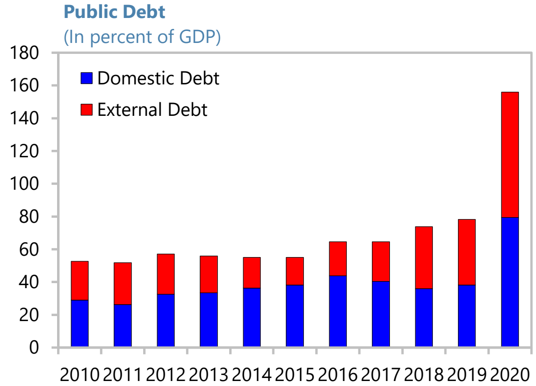
….while external debt increased from higher borrowing and lower GDP.



Sources: Maldivian Authorities and Staff Calculations.

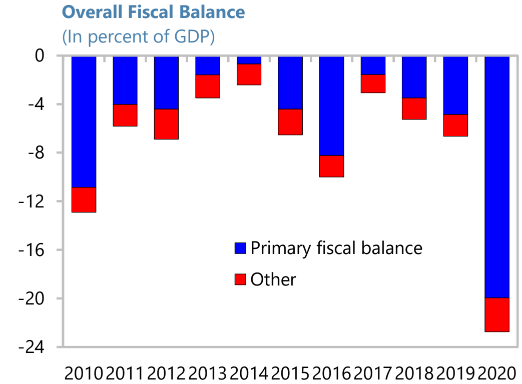
Figure 3. Maldives: Fiscal Developments

Public debt gradually increased prior to spiking in 2020…



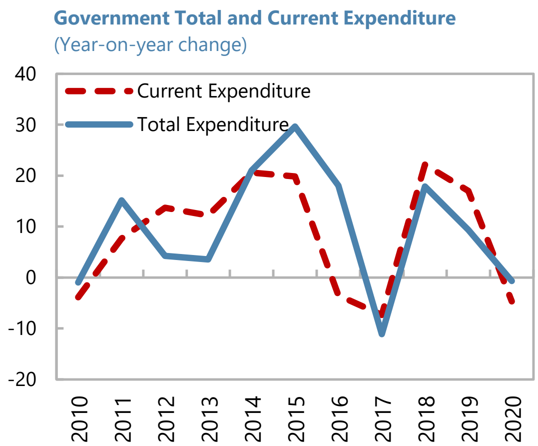
Sources: Maldivian authorities; and IMF staff estimates.

…reflecting high deficits and the COVID-19 fallout.



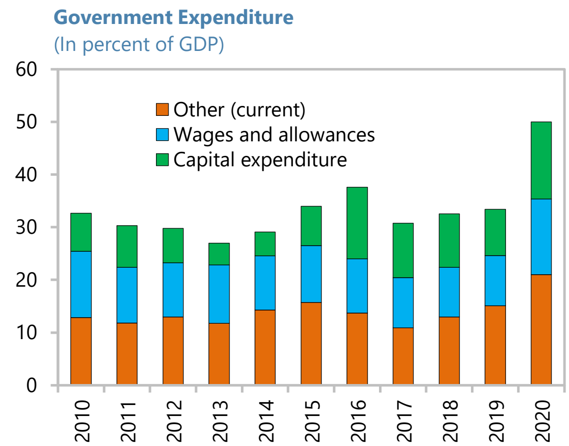
Sources: Maldivian authorities; and IMF staff estimates.

Current and overall spending grew strongly in 2018 and 2019, before their growth turned negative in 2020.



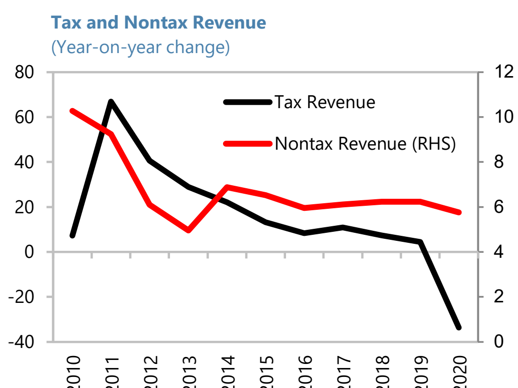
Sources: Maldivian authorities; and IMF staff estimates.

Spending as a share of GDP is trending upward, due to both current and capital expenditure pressures.



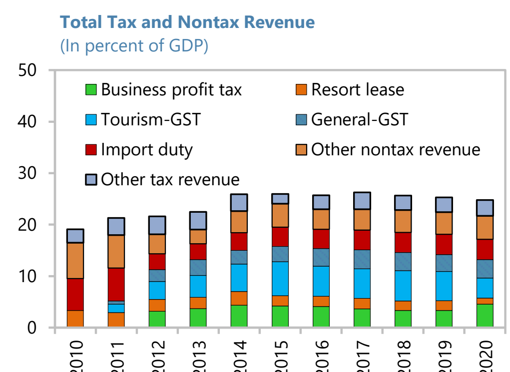
Sources: Maldivian authorities; and IMF staff estimates.

Tax revenue growth has been declining, turning negative in 2020 for the first time in a decade…



Sources: Maldivian authorities; and IMF staff estimates.

….and resulting in steadily falling revenue to GDP over the last four years.

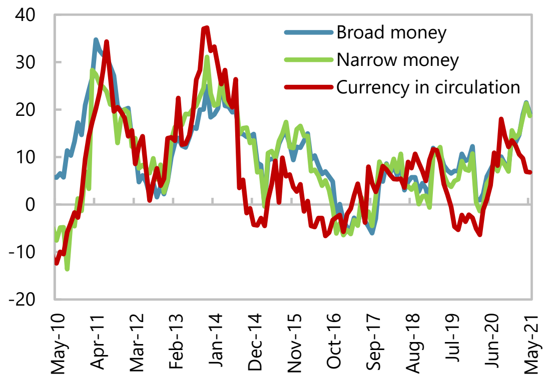


Sources: Maldivian authorities; and IMF staff estimates.

Figure 4. Maldives: Money and Credit Developments

Broad money growth has been supported…

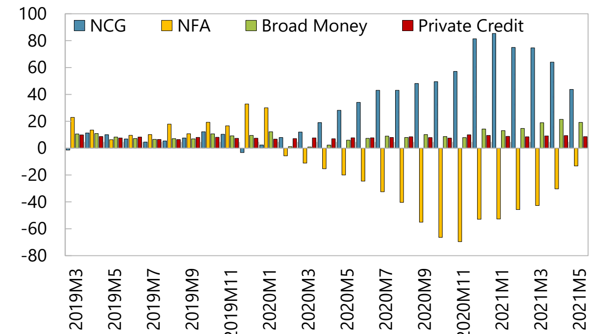
Monetary Aggegates
(Year-on-year change, in percent)



Sources: Maldivian authorities; and IMF staff estimates

…by the strong surge in net credit to government.

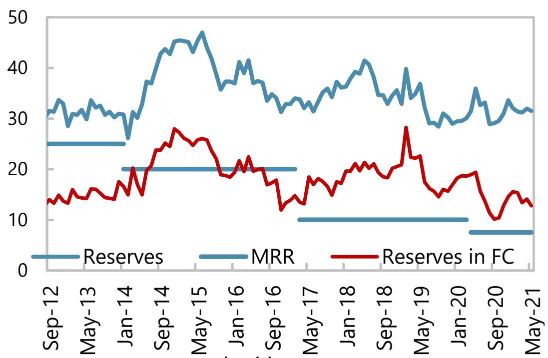
Monetary and Credit Growth
(In percent, Year-on-Year growth)



Sources: Maldives Monetary Authorities and IMF staff calculations.

Accommodative monetary stance fueled rufiyaa liquidity…

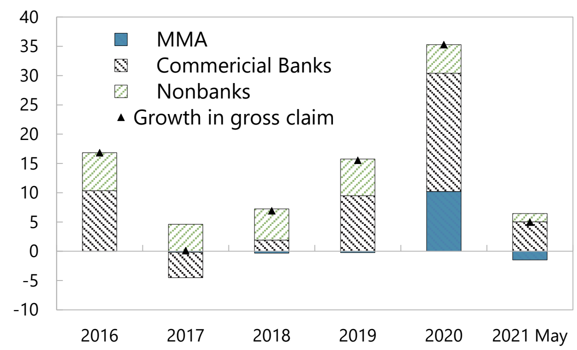
Commercial Banks' Reserves
(In percent of total deposits)



Sources: Maldivian authorities; and IMF staff estimates.

…. MMA and banks increased funding to government.

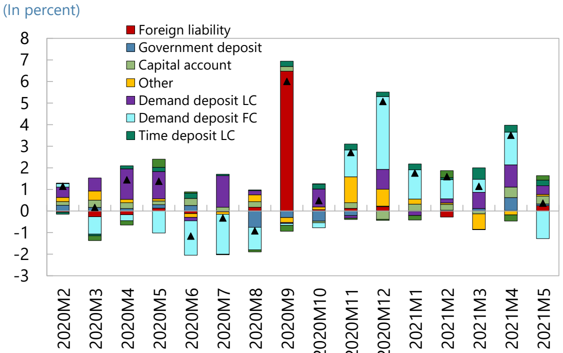
Contributions to Growth in Gross Stock of Domestic Claims
(In percent)



Sources: Maldives Monetary Authorities and IMF staff calculations.

Commercial banks have experienced strain in foreign exchange liquidity and funding…

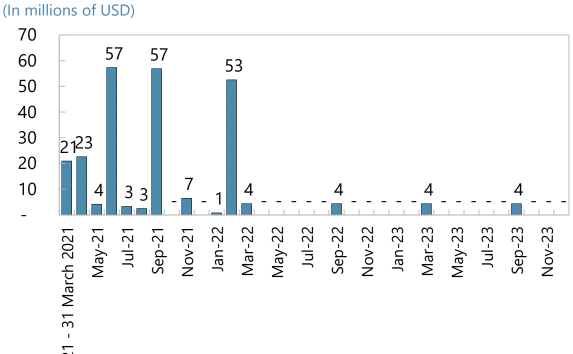
Contribution to Growth in Commercial Bank Liability
(In percent)



Sources: Maldives Monetary Authorities and IMF staff calculations.

Large T-bill FX roll-over risks are mitigated by official holders' rollover/grants intensions.

FX Payment/ Rollover Obligations for Domestic Debt
(In millions of USD)

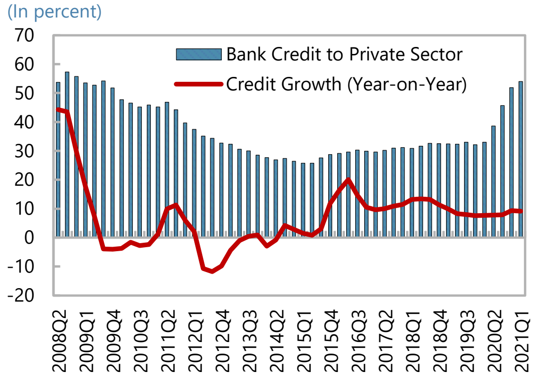


Sources: Maldives Monetary Authority and IMF staff calculation.

Figure 5. Maldives: Financial Developments

Monetization and moratorium on loan repayments helped credit growth…

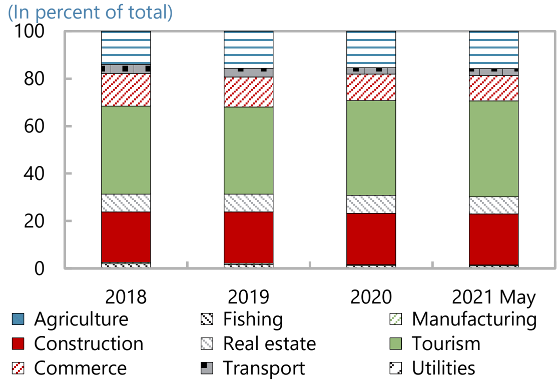
Maldives: Private Credit Developments
(In percent)



Sources: MMA and IMF Staff Calculations.

…tourism and construction had the highest sectoral share of loans.

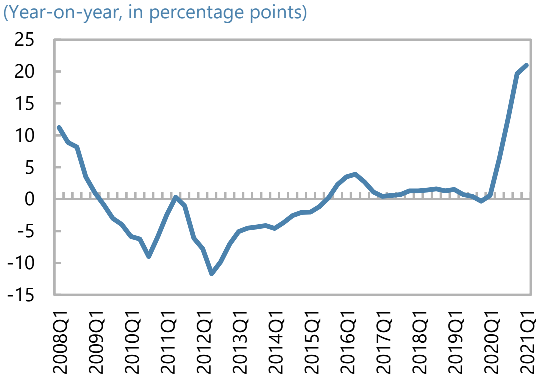
Maldives: Sectoral Distribution of Credit
(In percent of total)



Sources: MMA and IMF Staff Calculations.

The large drop in real GDP drives private credit to GDP.

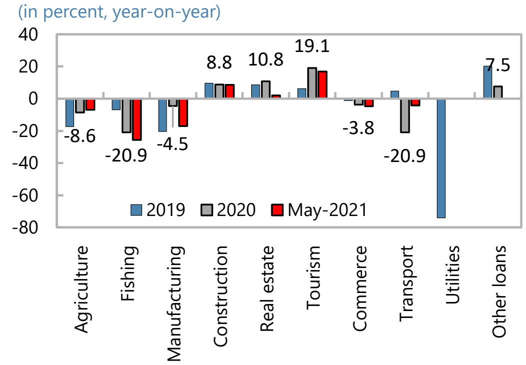
Maldives: Change in Private Credit to GDP Ratio
(Year-on-year, in percentage points)



Sources: MMA and IMF Staff Calculations.

Loans growth in tourism, and construction was high.

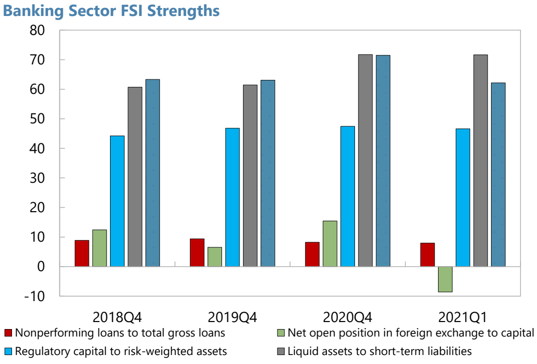
Maldives: Loan Growth by Sector
(in percent, year-on-year)



Sources: MMA and IMF Staff Calculations.

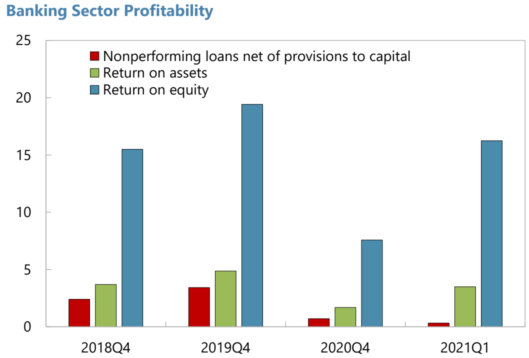
Capital position remains strong supported by income measures.

Banking Sector FSI Strengths



Banks are taking on proactive provisioning.

Banking Sector Profitability



Sources: MMA and IMF Staff Estimates.

Table 1. Maldives: Selected Economic Indicators, 2017–2026

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Prel.	Proj.						
Output and prices	(Annual percentage change)									
Real GDP	7.2	8.1	7.0	-32.0	18.9	13.2	12.1	6.1	5.4	5.4
Inflation (end-of-period) 1/	2.2	0.5	1.7	-2.0	2.9	1.1	2.0	2.0	2.0	2.0
Inflation (period average) 1/	2.3	1.4	1.3	-1.6	1.4	2.3	1.9	1.8	2.0	2.0
GDP deflator	1.4	3.1	-0.5	-2.4	2.9	2.3	1.9	1.8	2.0	2.0
Central government finances	(In percent of GDP)									
Revenue and grants	27.7	27.2	26.4	27.2	27.9	28.4	28.0	27.9	27.3	27.2
Expenditure and net lending	30.8	32.5	33.0	50.0	46.0	41.2	37.2	35.1	33.9	34.3
Overall balance	-3.1	-5.3	-6.6	-22.7	-18.1	-12.8	-9.1	-7.3	-6.6	-7.1
Overall balance excl. grants	-3.5	-6.3	-7.9	-25.2	-20.2	-15.5	-11.4	-8.7	-7.5	-7.8
Financing	3.1	5.3	6.6	22.7	18.1	12.8	9.1	7.3	6.6	7.1
Foreign	4.2	7.0	1.1	3.5	7.1	4.8	6.1	3.5	4.1	-3.1
Domestic 2/	-1.1	-1.7	5.5	19.2	7.2	5.2	3.0	3.8	2.6	7.3
Unsecured financing 3/	...	...	...	...	3.7	2.8	...	...	...	2.9
Primary balance	-1.6	-3.5	-4.8	-20.0	-14.2	-9.0	-5.7	-3.9	-3.3	-4.0
Public and publicly guaranteed debt	64.6	72.0	78.3	146.0	137.2	133.3	128.2	128.4	126.8	122.9
Monetary accounts	(Annual percentage change)									
Broad money	5.2	3.4	9.6	14.2	10.7	9.0	9.1	8.0	7.6	7.5
Domestic credit	1.7	5.2	5.6	35.6	11.2	8.5	6.0	6.2	5.9	7.7
Balance of payments	(In percent of GDP, unless otherwise indicated)									
Current account	-21.6	-28.4	-26.5	-29.9	-15.9	-13.9	-8.9	-9.0	-8.6	-8.1
Of which:										
Exports	6.7	6.4	6.4	6.9	6.7	6.4	5.9	5.4	5.3	5.3
Imports	-46.9	-52.2	-48.9	-45.7	-47.2	-43.7	-39.3	-39.5	-39.8	-40.2
Tourism receipts (in nonfactor services, net)	57.8	57.2	56.1	37.4	59.4	61.4	63.1	65.5	66.4	67.8
Income (net)	-7.9	-9.3	-9.9	-7.6	-9.7	-8.9	-8.6	-8.7	-8.6	-8.4
Current transfers	-9.9	-9.3	-10.3	-5.0	-3.4	-7.3	-7.7	-7.4	-7.7	-7.6
Capital and financial account (including e&o)	24.2	30.8	27.2	35.3	4.8	14.7	15.9	13.2	12.1	4.5
Of which:										
General government, net	7.0	3.0	1.9	3.9	5.4	5.6	7.0	4.6	3.7	-3.4
Banks and other sectors, net	-7.5	17.0	3.9	15.3	0.7	1.1	0.9	0.6	0.5	0.5
Overall balance	2.5	2.4	0.7	5.4	-11.1	0.9	7.0	4.2	3.5	-3.6
Gross international reserves (in millions of US$; e.o.p.)	587	712	754	985	508	553	976	1,251	1,496	1,220
In months of GNFS imports	1.7	2.1	3.7	3.7	1.7	1.8	2.8	3.3	3.6	2.8
Exchange rate (rufyiaa/US$, e.o.p.)	15.41	15.41	15.41	15.41	...	...	...	...	...	...
Memorandum items:										
GDP (in millions of rufiyaa)	73,155	81,568	86,788	57,603	70,478	81,608	93,219	100,676	108,280	116,392
GDP (in millions of U.S. dollars)	4,747	5,293	5,632	3,738	4,573	5,296	6,049	6,533	7,027	7,553
Tourism bednights (000')	8,596	9,477	10,689	4,500	8,500	10,179	11,957	13,394	14,613	15,872
Tourist arrivals (000')	1,386	1,484	1,703	555	1,000	1,434	1,960	2,196	2,396	2,602
Tourism bednights (% change)	10.6	10.2	12.8	-57.9	88.9	19.8	17.5	12.0	9.1	8.6
Tourist arrivals (% change)	7.8	7.1	14.7	-67.4	80.0	43.4	36.7	12.0	9.1	8.6
Dollarization ratio (FC deposits in percent of broad money)	48.7	48.8	52.9	45.8	...	...	...	...	...	...

Sources: Maldivian authorities and IMF staff projections.

1/ CPI-Male definition.

2/ Domestic financing includes MMA advances, SDF contribution and India's USD 250 million bond from the State Bank of India branch in Male.

3/ Unsecured financing includes planned new issuances of Sukuk, green and blue bonds.

Table 2a. Maldives: Central Government Finances, 2017–2026
(In millions of Rufiyaa)

	2017	2018	2019	2020	2020	2021	2022	2023	2024	2025	2026
	Actual	Actual	Actual	Proj. RCF	Prelim.						
Total revenue and grants	20259	22223	23232	16176	15690	19678	23182	26138	28048	29543	31679
Revenue (excluding privatization receipts)	19915	21403	22077	14019	14272	18165	20942	23986	26609	28617	30769
Tax revenue	14742	15834	16531	10432	10958	13320	15224	17385	19150	20725	22473
Import duties	2799	3149	3412	2096	2264	2728	2926	3000	3292	3570	3878
Airport service charge	706	645	731	450	283	375	579	817	916	999	1085
Business profit tax (BPT)	2677	2710	2899	1519	2617	1818	1926	2206	2382	2562	2754
Personal income tax					83	164	163	233	302	325	349
Remittance Tax	114	706	103	154	9	0	0	0	0	0	0
Goods and services tax (GST)	6882	7689	7748	4778	4306	6770	8006	9309	10292	11172	12169
Of which: General GST	2683	2906	2845	1909	2087	2553	2956	3377	3647	3922	4216
Tourism GST	4199	4783	4903	2896	2220	4217	5050	5932	6645	7250	7953
Tourism tax ($6 green tax)	696	811	851	658	352	747	894	1050	1176	1284	1394
Other	868	124	787	776	1043	719	730	769	790	813	843
Nontax revenue	4468	5089	5407	3518	3315	4830	5701	6582	7437	7868	8269
Grants	344	820	1155	2157	1418	1513	2240	2152	1439	926	910
Expenditure and net lending	22498	26522	28995	25922	28793	32401	33630	34640	35377	36724	39889
Current expenditure	14955	18268	21372	19513	20367	21383	22276	23054	24017	25626	27281
Primary current expenditure	13858	16828	19831	18181	18763	18663	19208	19891	20657	22073	23688
Of which: Salaries and allowances	6972	7677	8294	7388	8275	8363	8448	8899	9056	9740	10470
Administrative Services	1597	1793	1931	1701	1661	1702	1720	1740	1879	2021	2172
Social welfare contributions	1726	2417	3937	3069	3678	2687	2716	2746	2778	2988	3212
Repairs and maintenance	212	220	408	261	227	233	235	373	454	488	536
Subsidies and transfers	849	1687	2260	2760	2510	2909	3002	3253	3442	3601	3853
Interest	1097	1440	1541	1332	1604	2720	3068	3163	3360	3554	3592
Other	2503	3034	3001	3002	2411	2768	3087	2881	3048	3234	3446
Capital expenditure	7542	8254	7623	6634	8427	11017	11354	11587	11360	11097	12608
Net lending	-77	-104	-75	-306	0	0	0	0	0	0	0
New Policy Initiatives					0	0	0	0			
Overall balance	-2239	-4299	-5763	-9746	-13103	-12723	-10448	-8503	-7329	-7181	-8210
Overall balance, excluding grants	-2583	-5119	-6918	-11903	-14521	-14236	-12688	-10654	-8768	-8106	-9120
Financing	2239	4300	5763	9746	13103	12723	10448	8503	7329	7181	8210
External	3042	5713	936	2508	2032	4979	3958	5712	3527	4394	-3575
Domestic	-884	-1413	4827	7238	11071	5103	4246	2791	3802	2787	8464
of which: SDF contribution 1/	337	1315	1385	1620	336	0	0	0	0	0	-3374
Unsecured financing	0	0				2641	2245	0	0	0	3320
Memorandum items:											
Current balance	5303	3135	705	-5494	-6094	-3219	-1334	932	2592	2991	3488
Primary balance	-1142	-2859	-4222	-8414	-11499	-10002	-7380	-5340	-3969	-3627	-4618
Current primary balance	6400	4575	2246	-4162	-4490	-498	1734	4095	5952	6545	7081

Sources: Maldivian authorities; and IMF staff projections.
1/ Transfers to the Sovereign Development Fund are recorded as negative domestic financing, and withdrawals as positive financing.

Table 2b. Maldives: Central Government Finances, 2017–2026
(In percent of GDP, unless otherwise specified)

	2017 Actual	2018 Actual	2019 Prel.	2020 Proj. RCF	2020 Proj.	2021	2022	2023	2024	2025	2026
Total revenue and grants	27.7	27.2	26.4	19.4	27.2	27.9	28.4	28.0	27.9	27.3	27.2
Revenue (excluding privatization receipts)	27.2	26.2	25.1	16.9	24.8	25.8	25.7	25.7	26.4	26.4	26.4
Tax revenue	20.2	19.4	18.8	12.5	19.0	18.9	18.7	18.6	19.0	19.1	19.3
Import duties	3.8	3.9	3.9	2.5	3.9	3.9	3.6	3.2	3.3	3.3	3.3
Airport service charge	1.0	0.8	0.8	0.5	0.5	0.5	0.7	0.9	0.9	0.9	0.9
Business profit tax (BPT)	3.7	3.3	3.3	1.8	4.5	2.6	2.4	2.4	2.4	2.4	2.4
Personal income tax					0.1	0.2	0.2	0.3	0.3	0.3	0.3
Remittance Tax	0.2	0.9	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services tax (GST)	9.4	9.4	8.8	5.7	7.5	9.6	9.8	10.0	10.2	10.3	10.5
Of which: General GST	3.7	3.6	3.2	2.3	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Tourism GST	5.7	5.9	5.6	3.5	3.9	6.0	6.2	6.4	6.6	6.7	6.8
Tourism tax ($6 green tax)	1.0	1.0	1.0	0.8	0.6	1.1	1.1	1.1	1.2	1.2	1.2
Other	1.2	0.2	0.9	0.9	1.8	1.0	0.9	0.8	0.8	0.8	0.7
Nontax revenue	6.1	6.2	6.2	4.2	5.8	6.9	7.0	7.1	7.4	7.3	7.1
Grants	0.5	1.0	1.3	2.6	2.5	2.1	2.7	2.3	1.4	0.9	0.8
Expenditure and net lending	30.8	32.5	33.0	31.2	50.0	46.0	41.2	37.2	35.1	33.9	34.3
Current expenditure	20.4	22.4	24.3	23.5	35.4	30.3	27.3	24.7	23.9	23.7	23.4
Of which: Salaries and allowances	9.5	9.4	9.4	8.9	14.4	11.9	10.4	9.5	9.0	9.0	9.0
Administrative Services	2.2	2.2	2.2	2.0	2.9	2.4	2.1	1.9	1.9	1.9	1.9
Social welfare contributions	2.4	3.0	4.5	3.7	6.4	3.8	3.3	2.9	2.8	2.8	2.8
Repairs and maintenance	0.3	0.3	0.5	0.3	0.4	0.3	0.3	0.4	0.5	0.5	0.5
Subsidies and transfers	1.2	2.1	2.6	3.3	4.4	4.1	3.7	3.5	3.4	3.3	3.3
Interest	1.5	1.8	1.8	1.6	2.8	3.9	3.8	3.4	3.3	3.3	3.1
Other	3.4	3.7	3.4	3.6	4.2	3.9	3.8	3.1	3.0	3.0	3.0
Capital expenditure	10.3	10.1	8.7	8.0	14.6	15.6	13.9	12.4	11.3	10.2	10.8
Net lending	-0.1	-0.1	-0.1	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-3.1	-5.3	-6.6	-11.7	-22.7	-18.1	-12.8	-9.1	-7.3	-6.6	-7.1
Overall balance, excluding grants	-3.5	-6.3	-7.9	-14.3	-25.2	-20.2	-15.5	-11.4	-8.7	-7.5	-7.8
Financing	3.1	5.3	6.6	11.7	22.7	18.1	12.8	9.1	7.3	6.6	7.1
External	4.2	7.0	1.1	3.0	3.5	7.1	4.8	6.1	3.5	4.1	-3.1
Domestic	-1.2	-1.7	5.5	8.7	19.2	7.2	5.2	3.0	3.8	2.6	7.3
of which: SDF contribution 1/	0.5	1.6	1.6	1.9	0.6	0.0	0.0	0.0	0.0	0.0	-2.9
Unsecured financing	0.0	0.0	0.0	0.0	0.0	3.7	2.8	0.0	0.0	0.0	2.9
Memorandum items:											
Current balance	6.8	3.8	0.8	-1.6	-10.6	-4.6	-1.6	1.0	2.6	2.8	3.0
Primary balance	-1.6	-3.5	-4.8	-8.9	-20.0	-14.2	-9.0	-5.7	-3.9	-3.3	-4.0
Current primary balance	8.3	5.6	2.6	2.1	-7.8	-0.7	2.1	4.4	5.9	6.0	6.1
Public and publicly guaranteed debt	64.6	72.0	78.3	93.9	146.0	137.2	133.3	128.2	128.4	126.8	122.9
Domestic	40.4	36.0	38.3	44.3	79.5	77.4	76.1	71.1	70.9	69.8	73.4
External (excl. currency swaps by MMA)	24.2	36.0	40.1	49.6	66.5	59.8	57.2	57.1	57.4	57.0	49.5
GDP (in millions of rufiyaa)	73,155	81,568	87,837	83,179	57,603	70,478	81,608	93,219	100,676	108,280	116,392

Sources: Maldivian authorities; and IMF staff projections.

1/ Transfers to the Sovereign Development Fund are recorded as negative domestic financing, and withdrawals as positive financing.

Table 3. Maldives: Monetary Accounts, 2017–2026

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Prel.	Proj.						
				(In millions of rufiyaa, e.o.p.)						
Net foreign assets	10,292	10,511	12,967	6,134	3,952	7,360	15,805	20,508	24,540	20,426
Maldives Monetary Authority, net	8,603	9,780	11,003	8,369	4,051	6,413	13,753	18,415	22,404	18,248
Assets	9,041	11,686	11,590	15,037	7,384	8,080	14,587	18,832	22,613	18,352
Liabilities	-438	-1,906	-587	-6,667	-3,334	-1,667	-833	-417	-208	-104
Commercial banks, net	1,689	731	1,965	-2,235	-99	947	2,052	2,093	2,135	2,178
Net domestic assets	21,715	22,577	23,284	35,260	41,856	42,587	38,707	38,363	38,779	47,636
Domestic credit	36,627	38,520	40,688	55,162	61,363	66,553	70,554	74,923	79,352	85,499
Public sector	14,760	14,880	15,060	27,346	31,009	33,589	34,772	36,509	38,088	41,194
Central government (net)	11,722	12,389	13,369	25,292	28,896	31,453	32,593	34,286	35,819	38,880
Public enterprises	3,037	2,492	1,691	2,054	2,113	2,136	2,179	2,223	2,268	2,314
Private sector	21,295	22,969	24,825	27,141	29,678	32,288	35,106	37,738	40,589	43,630
Other items (net)	-14,911	-15,943	-17,404	-19,902	-19,507	-23,965	-31,847	-36,560	-40,573	-37,863
Broad money	32,007	33,088	36,251	41,395	45,808	49,947	54,512	58,872	63,319	68,062
Narrow money	14,471	14,579	14,558	19,005	21,031	22,931	25,027	27,029	29,070	31,248
Currency	2,914	3,057	2,992	3,395	3,395	3,395	3,395	3,395	3,395	3,395
Demand deposits	11,558	11,522	11,566	15,610	17,636	19,536	21,632	23,634	25,675	27,853
Quasi-money	17,536	18,509	21,693	22,390	24,777	27,016	29,485	31,843	34,249	36,814
				(Annual percentage change, unless otherwise indicated)						
Broad money	5.2	3.4	9.6	14.2	10.7	9.0	9.1	8.0	7.6	7.5
Narrow money	7.5	0.7	-0.1	30.5	10.7	9.0	9.1	8.0	7.6	7.5
Domestic credit, net	1.7	5.2	5.6	35.6	11.2	8.5	6.0	6.2	5.9	7.7
Central government	-12.7	5.7	7.9	89.2	14.2	8.8	12.8	5.2	4.5	8.5
Public enterprises	-14.5	-18.0	-32.1	21.4	2.9	1.1	2.0	2.0	2.0	2.0
Private sector	14.5	7.9	8.1	9.3	9.4	8.8	8.7	7.5	7.6	7.5
				(In percent of GDP)						
Broad money	43.8	40.6	41.8	71.9	65.0	61.2	58.5	58.5	58.5	58.5
Narrow money	19.8	17.9	16.8	33.0	29.8	28.1	26.8	26.8	26.8	26.8
Domestic credit, net	50.1	47.2	46.9	95.8	87.1	81.6	75.7	74.4	73.3	73.5
Central government	16.0	15.2	15.4	43.9	41.0	38.5	35.0	34.1	33.1	33.4
Public enterprises	4.2	3.1	1.9	3.6	3.0	2.6	2.3	2.2	2.1	2.0
Private sector	29.1	28.2	28.6	47.1	42.1	39.6	37.7	37.5	37.5	37.5
				(In millions of U.S. dollars)						
Gross foreign assets of MMA	587	712	754	985	479	524	947	1,222	1,467	1,191
Net international reserves	200	181	315	173	122	127	380	546	693	527
Commercial banks NFA	110	47	127	-145	-6	61	133	136	139	141
Commercial banks forex open position, net	536	575	585	573	590	596	608	621	633	646
Memorandum items:										
Velocity	2.3	2.5	2.4	1.4	1.5	1.6	1.7	1.7	1.7	1.7
Money multiplier	3.0	2.9	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Reserve money (in millions of rufiyaa, e.o.p.)	10,683	11,530	11,106	12,249	13,473	14,690	16,033	17,315	18,623	20,018

Sources: Maldivian authorities; and IMF staff projections.

Table 4. Maldives: Balance of Payments, 2017–2026

(In millions of U.S. dollars, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Prel.	Prel.	Proj.					
Current account	-1,027	-1,503	-1,490	-1,119	-726	-735	-540	-585	-605	-611
Balance of goods and nonfactor services	-182	-518	-348	-649	-130	119	448	463	542	596
Trade balance	-1,908	-2,425	-2,392	-1,451	-1,855	-1,978	-2,024	-2,230	-2,422	-2,637
Exports (f.o.b.)	318	339	361	258	304	337	354	352	375	399
Domestic exports	231	229	217	195	178	203	211	223	238	253
Re-exports	87	110	144	63	126	134	143	129	137	146
Imports (f.o.b.)	-2,227	-2,764	-2,753	-1,708	-2,159	-2,315	-2,379	-2,582	-2,798	-3,036
Tourism-related	-362	-396	-421	-198	-359	-430	-505	-565	-617	-676
Other	-1,864	-2,368	-2,332	-1,510	-1,800	-1,885	-1,874	-2,017	-2,181	-2,360
Of which: Construction	-336	-451	-406	-214	-326	-369	-410	-370	-367	-327
Nonfactor services, net	1,726	1,907	2,044	802	1,724	2,096	2,473	2,694	2,965	3,232
Of which: Travel receipts	2,744	3,028	3,157	1,398	2,715	3,252	3,819	4,278	4,668	5,121
Income, net	-376	-492	-560	-284	-443	-469	-523	-567	-603	-631
Current transfers, net	-469	-493	-582	-186	-153	-384	-465	-482	-544	-575
Receipts	62	72	92	79	98	145	140	93	60	59
Payments	-531	-564	-674	-265	-252	-530	-605	-575	-604	-634
Capital and financial account	913	1,835	1,970	1,613	221	780	962	861	853	341
Financial account	913	1,835	1,970	1,613	221	780	962	861	853	341
Of which: 1/										
Foreign direct investment, net	458	576	956	348	363	424	484	523	562	566
Portfolio investment, net	479	103	772	156	87	-55	0	0	0	-400
Other investment, net	-25	1,156	242	1,109	-124	356	478	338	291	-226
Monetary authorities 2/	-100	100	-100	401	-400	0	0	0	0	0
General government	332	159	106	146	141	352	421	301	257	140
Of which: Disbursements of loans	397	231	167	200	348	542	592	456	412	302
Amortization	-65	-72	-61	-53	-207	-191	-171	-155	-155	-162
Banks	-488	65	-80	301	12	13	13	14	14	14
Other sectors 3/	133	834	298	271	18	47	44	24	20	20
Errors and omissions	235	-207	-438	-291	0	0	0	0	0	0
Overall balance	121	125	42	203	-506	45	422	276	248	-270
Gross international reserves (increase: -)	-120	-125	-41	-231	477	-45	-422	-276	-245	277
SDR allocation	0	0	0	0	29	0	0	0	0	0
Use of Fund credit, net	-1	-1	-1	28.7	0	0	0	0	-3	-6
Purchases	0	0	0	28.9	0	0	0	0	0	0
Repurchases	-1	-1	-1	0	0	0	0	0	-3	-6
Memorandum items:										
Gross international reserves (stock; e.o.p.)	587	712	754	985	508	553	976	1,251	1,496	1,220
In months of GNFS imports	1.7	2.1	3.7	3.7	1.7	1.8	2.8	3.3	3.6	2.8
NIR reserves (stock; e.o.p.)	200	181	315	173	151	156	409	574	721	555
Current account (in percent of GDP)	-21.6	-28.4	-26.5	-29.9	-15.9	-13.9	-8.9	-9.0	-8.6	-8.1
GNFS balance (in percent of GDP)	-3.8	-9.8	-6.2	-17.4	-2.9	2.2	7.4	7.7	7.7	7.9
Exports (volume, percent change)	21.4	4.9	11.0	-22.7	6.8	6.9	13.7	5.1	5.5	6.5
Imports (volume, percent change)	0.7	17.6	0.1	-34.0	7.0	8.3	3.3	7.8	7.4	8.5
Tourism: bednights (percent change)	10.6	10.2	12.8	-57.9	88.9	19.8	17.5	12.0	9.1	8.6
Tourism: travel receipts (percent change)	9.5	10.4	4.3	-55.7	94.2	19.8	17.5	12.0	9.1	9.7
External debt (in percent of GDP) 4/	35.7	62.2	68.9	119.3	103.5	96.1	92.1	90.4	88.2	79.0
of which: External PPG	24.2	36.0	40.1	66.5	59.8	57.2	57.1	57.4	57.0	49.5
Short-term	3.4	1.3	1.2	1.6	1.3	1.2	1.1	1.0	0.9	0.9
Debt service (in percent of domestic GNFS exports)	5.4	7.2	12.4	36.2	21.9	20.0	15.6	13.9	13.0	19.6
Exchange rate (rufiyaa per U.S. dollar; average)	15.41	15.41	15.41	15.41	…	…	…	…	…	…
GDP (in millions of U.S. dollars)	4,747	5,293	5,632	3,738	4,573	5,296	6,049	6,533	7,027	7,553

Sources: Maldivian authorities; and IMF staff projections.

1/ There are no capital transfers.

2/ MMA liabilities include swaps with the RBI.

3/ These flows include external borrowing of the private sector.

4/ Public and private external debt includes IMF, but excludes domestic foreign-currency denominated debt.

Table 5. Maldives: Selected Financial Soundness Indicators, 2013–2021
(In percent, unless otherwise specified)

	2013	2014	2015	2016	2017	2018	2019	2020	2021*
			(In percent)						
Core FSIs									
Regulatory capital to risk weighted assets	41.1	44.5	37.2	44.5	44.6	44.2	46.8	47.9	46.6
Regulatory Tier 1 capital to risk-weighted assets	31.3	34.5	30.0	34.4	36.3	35.9	38.8	44.1	42.9
Non-performing loans net of provisions to capital	8.0	11.1	3.0	2.4	3.3	2.4	3.4	1.7	0.3
Non-performing loans to total gross loans	17.6	17.5	14.1	10.6	10.5	8.9	9.4	9.3	7.9
Return on assets	6.5	4.2	3.4	4.7	3.7	3.7	4.9	2.2	3.5
Return on equity	30.0	19.7	16.5	19.6	15.3	15.5	19.4	8.9	16.2
Interest margin to gross income	55.9	65.5	60.7	64.9	64.3	63.3	63	71.2	62.2
Non-interest expenses to gross income	25.9	26.4	30.1	27.7	30.7	30.7	30.7	29.6	28.7
Liquid assets to total assets	19.3	43.4	43.1	48.4	44.3	43.1	43.9	44.5	49.6
Liquid assets to short-term liabilities	25.4	57.6	56.3	66.8	62.3	60.7	61.4	62.3	71.6
Net open position in FX to capital	34.3	30.9	21.0	13.4	12.0	12.4	6.5	15.4	-8.6
Sectoral distribution of loans									
Domestic residents	100.0	97.7	96.6	97.0	98.6	99.6	99.9	99.9	99.9
Deposit takers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.6	1.7	1.6	2.1	2.3	2.6	2.8	2.1	1.9
General government	3.3	0.8	0.3	0.2	1.8	0.1	0.6	0.1	0.0
Nonfinancial corporations	74.9	70.5	67.7	64.1	59.9	58.7	57.0	58.8	59.2
Households	21.1	24.7	27.0	30.7	34.6	38.2	39.5	38.6	38.4
Nonresidents	0.0	2.3	3.4	3.0	1.4	0.4	0.1	0.1	0.1
Additional FSIs									
Capital to assets (leverage ratio)	16.1	21.3	20.5	23.7	24.1	23.9	25.1	22.2	21.5
Large exposures to capital	133.3	108.3	126.2	134.3	73.6	74.5	50.9	56.1	43.3
Gross assets position in derivatives to capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross liabilities position in derivatives to capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trading income to total income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personnel expenses to total income	0.0	38.3	34.7	36.5	35.7	36.3	35.0	38.5	32.6
Customer deposits to total non-interbank loans	0.0	158.8	157.5	143.9	130.4	129.4	131.1	136.3	144.3
FX loans to total loans	0.0	57.5	61.3	57.8	52.3	50.2	48.1	47.6	47.6
FX liabilities to total liabilities	0.0	58.5	55.7	53.0	53.5	54.2	56.6	54.7	55.1

*data for Q1 2021

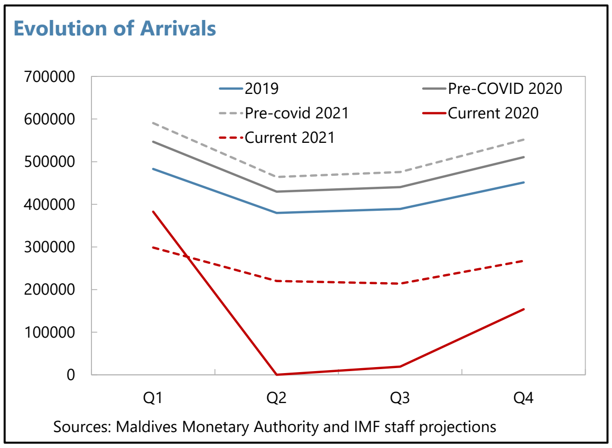
Sources: IMF Financial Soundness Indicators

Table 6. Maldives: 2019 Article IV Recommendations and Related Policy Actions		
Sector	**Staff recommendations**	**Related Policy Action**
Debt and Fiscal Policy	Fiscal consolidation to put public debt on a downward path, developing the domestic debt market to allow longer tenors. Ensuring that the authorities are selective about externally-financed projects. Fiscal adjustment should safeguard fiscal sustainability, create fiscal space to support productive investment and respond to adverse shocks, and support external stability. A balanced fiscal adjustment relying on revenue measures and tighter current spending control.	The total PPG debt-to-GDP ratio increased to 146 percent in 2020, from 78 percent in 2019, reflecting the pandemic effect on the nominal GDP (decline by 34 percent) and the expansion in PPG nominal debt (by 24 percent) to finance the increased deficit. Primary deficit in 2020 increased to 20 percent of GDP on account of lower revenue and higher spending to support the healthcare system and the economy during the COVID-19 shock. Although the authorities have reduced or delayed capital spending on some infrastructure projects and plan to rationalize non-priority spending, medium-term projected capital expenditures are higher than historical averages.
PFM and Fiscal Policy	Fiscal adjustment should be complemented by continued PFM reforms and proper management of contingent liabilities. Limit sovereign guarantees and tackle the budgetary pressures from SOE activities – a priority of the new government.	Ongoing work is being implemented to enhance oversight of SOEs and strengthen the management of fiscal risks. Work is ongoing to reform the current Fiscal Responsibility Act.
Exchange Rate and Monetary Policy	Staff does not recommend approval of existing exchange rate restrictions and multiple currency practices (MCPs) and advises the MMA to accept the obligations of Article VIII as a measurable goal of its Strategic Plan.	The FX rationing to banks, despite recent easing, involves measures inconsistent with Article VIII of the IMF Articles of Agreement. The FX shortage has historically impacted banks' FX intermediation, leading to the emergence of the parallel market, with significant deviations in recent months given the impact of the pandemic on tourism. The authorities are working towards FX market reforms to address dollar shortages and long-lived structural inefficiencies.
Exchange Rate and Monetary Policy	Tighter monetary setting is called for together with fiscal consolidation; it would contribute to narrowing the CAD and preserving foreign reserves.	MMA is proactively managing the system rufiyaa liquidity and tightened the rufiyaa related MRR rates. MMA could consider open market operations in the future, but the current focus is on using minimum reserve requirements, and it recently tightened the rufiyaa rate.

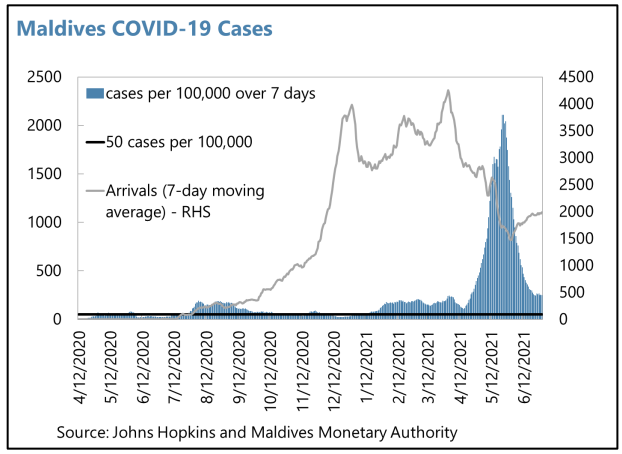
Table 6. Maldives: 2019 Article IV Recommendations and Related Policy Actions (concluded)		
Governance	Fiscal governance should be further strengthened through modernizing revenue administration, and PFM and procurement reforms focused on increasing spending efficiency, improving transparency, and reducing opportunities for corruption. Improving the regulatory environment and strengthening the rule of law and property rights would improve private sector efficiency through higher investment. Renewed momentum on tackling corruption is commendable but further advances are needed to improve the anti-corruption framework and institutions and strengthen AML/CFT compliance.	Fiscal stability will require other improvements in the public financial framework. Authorities are also making progress in procuring a consultant to conduct a national risk assessment for AML/FT expected to be completed by June 2022. This assessment will help with the preparations for the AML/CFT assessment of Maldives by the Asia/Pacific Group on Money Laundering now postponed to 2024. Reforms are ongoing to address weaknesses in managing public investment. Reforms in the procurement system have been ongoing to make the system more transparent; Major infrastructure projects follow the Maldivian procurement rules, and the procurement process of SOEs has been harmonized. As a result, MoF publishes on its website a detailed list of awarded projects including, the awarding project sector, agency and awarded party.
Structural	To enhance productivity growth, the authorities should accelerate implementation of reforms aimed at enhancing the role of private sector, diversifying the economy, and boosting competitiveness while supporting inclusive growth, including by exploring options for small business finance. Priorities should include enhancing transportation links, addressing skills gaps, and better targeting social protection policies. Strengthening the legal and regulatory environment would improve the business climate, encourage investment, and reduce informality.	The government's Strategic Action Plan (2019–23) focuses on decentralization, economic diversification, and integration of tourism with other industries, SMEs, labor, employment and migration, social protection and governance, among others.
Financial Stability and Structural Reform	Financial sector oversight is broadly appropriate. Credit growth remains strong but should not raise concerns about financial sector vulnerability, although staff recommends continued vigilance as the credit gap has closed recently	A large part of banks' portfolios corresponds to loans that benefitted from moratorium initiatives and working capital loans that helped to protect banks' loan portfolios and borrowers' to tide over the income shock linked to the pandemic shock. However, MMA is vigilant about credit risk and the policy of allowing regulatory moratorium measures expired as scheduled in March 2021.

Appendix I. Tourism Recovery Underway[1]

1. COVID-19 derailed what was projected to be a high growth year for tourism in the Maldives. Arrivals were projected to grow by around 10 percent in 2020, from their record high level of 1,702,887 in 2019 (around 15 percent growth from 2018). To contain the spread of the virus the Maldives closed arrivals from China starting February 23, 2020 and eventually closed all tourist arrivals on March 27, effective until July 14, 2020.

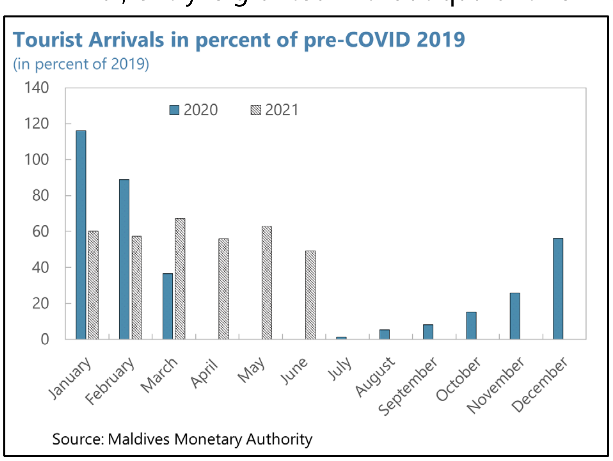


Sources: Maldives Monetary Authority and IMF staff projections

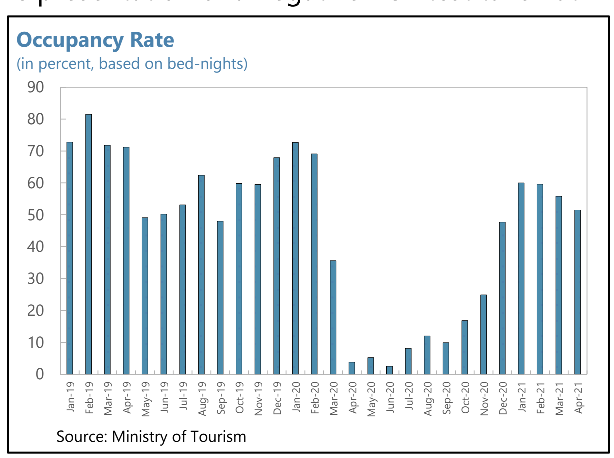


Source: Johns Hopkins and Maldives Monetary Authority

2. Since reopening to tourists on July 15, 2020 tourist arrivals have been steadily increasing, recording 59 percent of their pre-COVID levels in 2021 up to end-June. When the Maldives re-opened for visitors on July 15, 2020, average daily arrivals were below 10 percent of their pre-COVID 2019 levels until September 2020. Eventually, as COVID-19 cases globally moderated and flights became more available, arrivals during the peak season (December 2020 to February 2021) were around 60 percent of arrivals in the peak season pre-COVID 2019, despite the fact that important source countries in Asia, such as China were and are still closed. In the first two weeks of May, arrivals were 70 percent of their pre-COVID 2019 levels. The successful reopening to tourists is due in part to the unique one island, one resort model. Conditions of entry for tourists are minimal; entry is granted without quarantine with the presentation of a negative PCR test taken at



Source: Maldives Monetary Authority



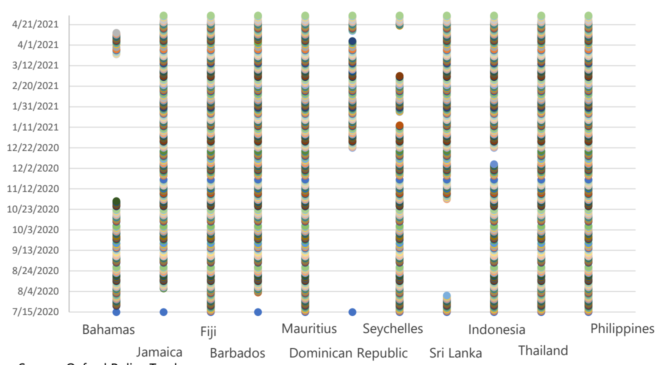
Source: Ministry of Tourism

[1] Prepared by Racha Moussa, APD.

the first port of embarkation to the Maldives and less than 96 hours prior to the scheduled departure time.[2] Staff in resorts have been prioritized for COVID-19 vaccinations, increasing safety in resorts. The recent surge in COVID-19 in South Asia, including the Maldives, caused some countries, particularly in Europe (Germany, UK, Italy), to implement restrictions on travelers to the Maldives.

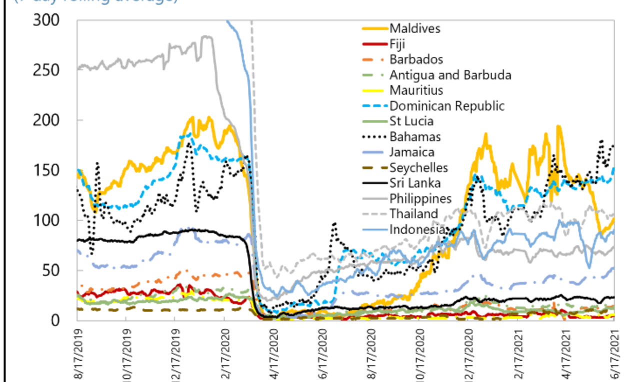
3. **The Maldives outperformed competitors, in part because it was able to lower earlier restrictions on tourists upon arrival.** According to the Oxford Policy Tracker the entry requirements in the Maldives have been lower than most competitors since its reopening to tourists in July 2020. Relatedly, daily flight arrivals to the Maldives have recovered faster than most competitors.

Tighter Restrictions on Arrivals Relative to Maldives*



Source: Oxford Policy Tracker
*dots represent periods where restrictions were tighter than the Maldives

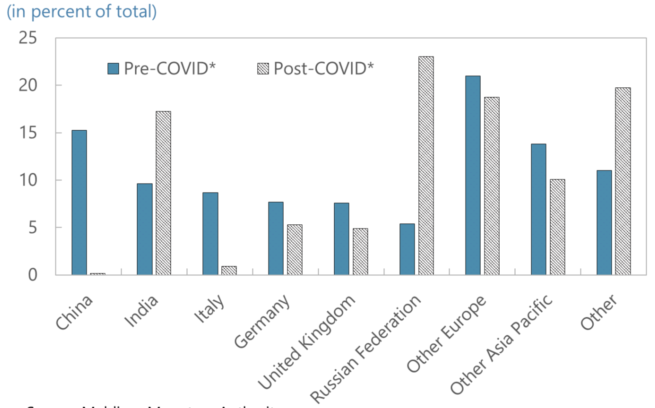
Daily flight arrivals
(7 day rolling average)



Source: FlightRadar24

4. **The composition of tourist arrivals post-COVID has changed with arrivals from India and Russia around 40 percent of all arrivals after reopening on July 15, 2020.** Other European and non-Asian countries make up the bulk of the remaining arrivals. In contrast, before COVID-19, China and other Asia Pacific countries were major sources of tourists. Arrivals from these countries have dwindled given their restrictions on travel since the start of COVID-19. As these restrictions ease there will be an upside for the Maldives. On the other hand, risks have materialized from the recent surge of COVID cases in India, and across South Asia. On April 27th a temporary suspension was placed on visitors from India to hotels and guesthouses in locally populated islands. As of May 13, 2021, all tourist visas for travelers originating from South Asia were temporarily halted, causing arrivals to decline to 52 percent of their pre-COVID

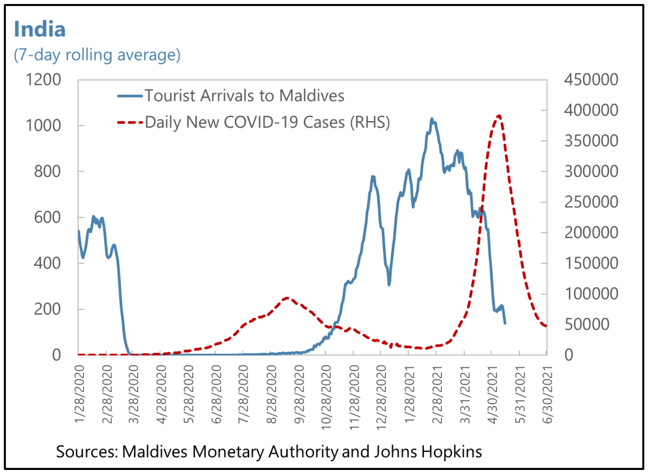
Share of Tourist Arrivals from Region
(in percent of total)

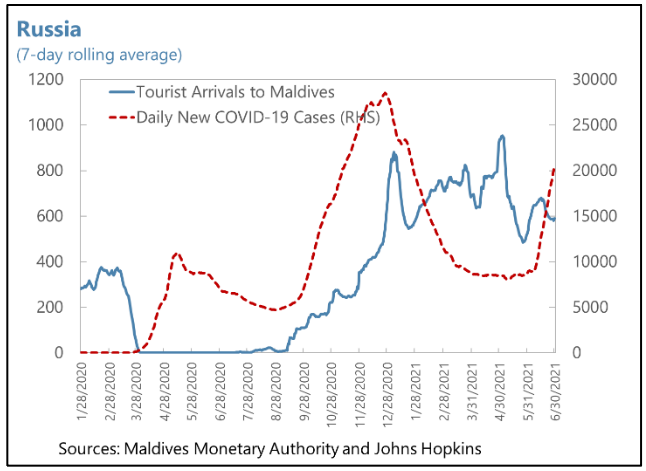


Source: Maldives Monetary Authority
*Pre-COVID : January 1, 2019 to March 26, 2020. Post-COVID: July 15, 2020 to June 30, 2021

[2] Prior to October 15, 2020, the negative PCR test had to be taken less than 72 hours prior to the scheduled departure time. Infants less than one year old are exempt.

levels between May 13 to June 30, 2021. The halt was lifted for resorts on July 15, 2021 and planned for guesthouses and islands on July 31, 2021. Nonetheless, tourists from other regions continue to travel to the Maldives with arrivals from Russia and countries not in Asia or Europe increasing their share in arrivals to the Maldives post-COVID. Arrivals excluding those originating in India were 61.5 percent of pre-COVID levels between May 13 to June 30, 2021.

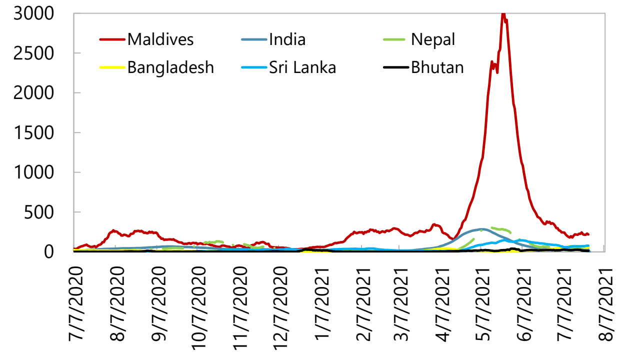




Appendix II. COVID-19 Evolution and Measures[1]

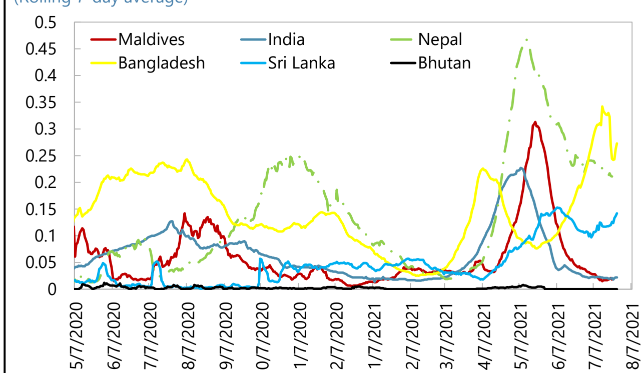
1. Evolution. After experiencing record cases of COVID-19 in mid-May 2021, cases have been declining since. New cases of COVID-19 declined to 105 on July 27, 2021 (the highest single-day spike to a record of 2194 was on May 20). The positivity rates have declined to about 1.8 percent as of July22, 2021 (31 percent on May 20). 16 people are currently hospitalized and220 deaths have been registered since the beginning of the pandemic. Hospital bed capacity for reating patients is 471, and together with the mostly expatriate health professionals capacity (many from India) seems adequate under current circumstances. Recent statistics indicate that COVID-19 incidence is highest among the 21-40 years group followed by children.[2]

Daily New COVID-19 Cases
(Rolling 7-day average, cases per million)



Source: Johns Hopkins University CSSE Covid-19 Data.

The Share of Daily COVID-19 Tests that are Positive
(Rolling 7-day average)



Source: Johns Hopkins University CSSE Covid-19 Data.

2. Containment measures and reopening the economy. Beyond the international travel measures noted in Appendix 1, the Maldives was placed on full lockdown from April 15 through May 28, 2020. The government has extended the nation's ongoing state of public health emergency, originally implemented on March 12, 2020, through at least August 2, 2021. After being lifted on April 1, 2021, the COVID-19-related night curfew that had been in force across the Greater Malé region since Feb 2 was re-instated on May 6, including in several Atolls. Other localized and nationwide restrictions on travel, gatherings, business operations, in-person school and daycare are also in place.[3] On April 16, 2021, the Ministry of Tourism announced that resort workers could travel to residential islands without the requirement to quarantine, if they have completed two weeks after their second COVID-19 vaccination. These and other travel relaxations for fully vaccinated people were suspended on May 3, 2021, and a negative PCR test requirement

[1] Prepared by Ritu Basu, APD.

[2] As per WHO's Health System response to COVID-19, Maldives, "The government has identified 3000 bed capacity for quarantine and 2000 beds for isolation centers, which can be activated across Maldives as per the need."

[3] No gatherings of more than five people are allowed across Greater Malé; police permission is necessary for any events. Entertainment venues, sports facilities, and educational institutions can reopen, and must comply with social distancing directives. Establishments are required to ensure sanitation and social distancing; violations are punishable by fines and closures for at least 24 hours.

has been reinstated, due to the recent daily record high cases of COVID-19. All tourist visas for travelers originating from South Asia were also temporarily halted, but they resumed on July 15. Travel from Europe remains restricted as the number of cases remain above the European cut-off of travel of 50 cases during a week per 100,000 people.

3. Vaccination. The Maldives ranks high in terms of the percentage of population having received at least one dose of COVID-19 vaccine (mostly AstraZeneca, followed by Chinese Sinopharm, and a small proportion of Pfizer). The authorities have also acquired the recently approved Russian Sputnik vaccine. It ranks close to the US and UK in terms of doses administered per 100 people. Currently, about 37 percent of the Maldives' population are fully vaccinated, and 59 percent of the population have received at least the first dose of the vaccine. About 99 percent of tourism workers have been vaccinated.

COVID-19 Vaccinations

	Doses administered		Percentage of population	
	Per 100 people	Total	Vaccinated	Fully vaccinated
World	43	3,321,279,848	25%	12%
Seychelles	142	139,625	73%	69%
Israel	126	10,882,624	66%	60%
U.A.E.	159	15,728,415	75%	65%
San Marino	132	44,659	66%	66%
Chile	123	23,545,029	68%	58%
Bahrain	127	2,166,288	63%	59%
Maldives	96	517,333	59%	37%
U.K.	117	79,541,794	67%	50%
United States	99	331,651,464	55%	47%
Malta	157	692,581	83%	77%
Bhutan	63	486,126	63%	0%
India	26	358,070,763	21%	5%
Nepal	12	3,463,107	9%	3%
Bangladesh	6	10,106,136	4%	3%
Sri Lanka	21	4,528,948	15%	6%

Sources: Our World in Data project, Univ. of Oxford.

Appendix III. Risk Assessment Matrix 1/

	Source of Risks	Likelihood	Expected Impact	Policy Recommendation
Global	**Unexpected shift in the COVID-19 pandemic** • Prolonged pandemic 2/	Medium	**High.** Larger economic scarring effects including from reliance on tourism; a decline in FX inflows, leading to further FX parallel market pressure; deterioration of bank assets; losses to SOEs; and a higher poverty rate.	Fiscal assistance should remain as much as possible to (i) support the health sector, including vaccine procurement and delivery; (ii) provide temporary income support for hard-hit households and sectors; and (iii) increase spending on social protection. While monetary policy should be focused on managing FX and liquidity risks, further fiscal rationalization of capital expenditure as well as further reprioritization of current expenditure will be necessary.
	• Faster containment 3/	Medium	**Medium-High**. Tourism, employment, and government revenue recover; normalization in FX supply and easier domestic credit conditions.	Continue growth-friendly fiscal adjustment to bring the fiscal deficit and public debt to GDP ratio down over the medium term. Increase reserve buffers.
	• Asynchronous progress 4/	Medium	**Medium**. Vaccination problems in some tourist source countries will increase dependence on fewer source markets. Impact will be a function of affected countries. Financing conditions could also tighten further.	Expedite inoculations to reach herd immunity in the Maldives. Diversify source markets as much as possible. Closely monitor banking conditions to ensure financial stability in the context of higher concentration risks. Continue growth-friendly fiscal adjustment to bring the fiscal deficit and public debt to GDP ratio down over the medium term
	Sharp rise in global risk premia exposes financial and fiscal vulnerabilities. 5/	Medium	**High**. Higher cost of financing for the government and the SOEs, weaker balance of payments and possible depreciation pressures, weaker consumption.	Tighten fiscal policy further while protecting pro-growth and pro-poor spending. Tighten monetary policy to support the exchange rate peg and protect the foreign reserves. Provide targeted support to viable firms, while facilitating the exit of unviable ones for efficient reallocation of resources.
	Accelerating de-globalization 6/	Medium	**Medium**. Slower tourism and FDI inflows, resulting in a weaker current account balance and lower growth potential.	Accelerate productivity-enhancing structural reforms and diversification of the economy, reduce barriers to trade and inward FDIs.
Domestic	**Failure to reduce fiscal deficits, continued debt accumulation, and reserve drawdown.** Public investment cost overruns, contingent liabilities from SOEs materializing, and fiscal revenue shortfalls may exacerbate the deficit and debt positions.	Medium to High	**Medium-High**. High deficit and increasing debt from high capital spending or fiscal shocks would call into further question fiscal and current account sustainability.	Moderate growth-friendly fiscal adjustment to bring the fiscal deficit and public debt to GDP ratio down over the medium term. Continue to strengthen tax revenues by eliminating tax exemptions and improve public investment management. Fiscal adjustment should also contribute to faster current account deficit reduction.
	Natural disasters Major natural disasters (e.g., floods or tsunami) disrupt economic activity and affect sentiment, resulting in higher fiscal expenditure.	Low to Medium	**Medium-High**. Disruption in tourism-related and overall economic activity, poor fishing and agriculture production, damage to properties, and higher food inflation, with larger impact on low-income households.	Establish contingent financing plans with development partners. Provide targeted assistance to affected groups and sectors. Prioritize public investment in disaster-resistant infrastructure and sustainable growth.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

[2] The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. For countries with policy space, prolonged support—while needed to cushion the economy—exacerbates stretched asset valuations, fueling financial vulnerabilities. For those with limited space, especially EMs, policy support is insufficient.

[3] Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity.

[4] Limited access to, and longer-than-expected deployment of, vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects (for some Emerging and Frontier Markets triggering capital outflows, depreciation and inflation pressures, and debt defaults).

[5] A reassessment of market fundamentals (e.g., in response to adverse COVID-19 developments) triggers a widespread risk-off event. Risk asset prices fall sharply and volatility spikes, leading to significant losses in major nonbank financial institutions. Higher risk premia generate financing difficulties for leveraged firms (including those operating in unviable activities) and households, and a wave of bankruptcies erode banks' capital buffers. Financing difficulties extend to sovereigns with excessive public debt, leading to cascading debt defaults.

[6] Despite renewed efforts to reach multilateral solutions to existing tensions, geopolitical competition leads to further fragmentation. Reshoring and less trade reduce potential growth.

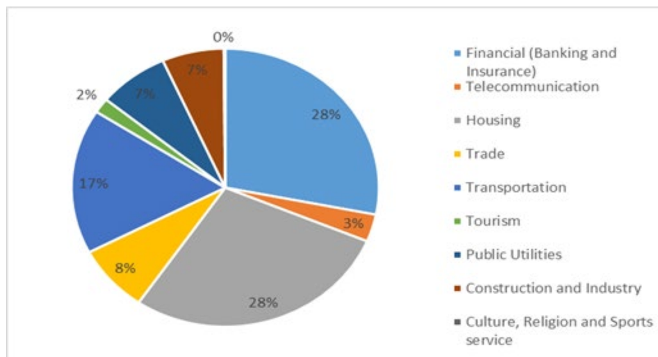
Appendix IV. Fiscal Risks of Non-financial State-Owned Enterprises[1]

A country's vulnerability to fiscal risks depends on the structure of its economy, the organization of the public sector, and the interlinkages between the public and private sectors. This appendix focuses on historical analysis of the fiscal risks of the nine main non-financial state-owned enterprises (SOEs), highlighting their composition, the probability of their being major sources of fiscal risks in the short and long term, and their relationship with the central government. Building on previous capacity development, the note proposes various measures for moving forward to better analyze and mitigate such fiscal risks.

1. **SOEs play an important role in the economy of the Maldives.** Their activities are diverse and cover strategic sectors such as housing, utilities, transportation, construction, trade, and banking. As of December 2020, the public sector of the Maldives comprises 32 SOEs, of which four are financial corporations including the Maldives Pension Administration Office (MPAO) while the others are non-financial corporations. Five are publicly listed. In 2019, the total unconsolidated assets of these SOEs represented 134 percent of GDP.

Maldives: Sectoral Distribution of SOEs

(Percent of Total Assets)



Source: IMF Staff calculation and data from authorities

2. **While the financial SOEs have relatively sound financial positions, the non-financial SOEs are a major source of fiscal risks for the government.** The source of fiscal risks can be summarized by (i) excessive reliance on government support, (ii) soft SOE budget constraints mainly on guarantees, (iii) an increasing number of quasi-fiscal activities, and (iv) weak corporate governance. Ongoing reforms are taking place to address these weaknesses such as strengthening the implementation of the sovereign guarantees' framework and the update for the privatization and corporatization of government businesses and monitoring and evaluation act.

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[1] Prepared by Majdeline El Rayess, FAD.

3. **To assess the magnitude and profile of risks, the analysis in this appendix focused on the nine biggest nonfinancial SOEs in terms of assets and liabilities.** Four SOEs are 100 percent owned by the government, and three are majority owned by the government. For the remaining two SOEs, although the government does not own the majority of shares, it has enough control that they can be considered public corporations. However, the analysis didn't explore the issue of sectorization of government entities which could lead to another 32 SOEs being included in the public corporations' sector, or whether a reclassification is necessary in order to bring these SOEs within the general government boundary. This analysis assumed that the nine biggest SOEs conducted market activities.

List of SOEs Analyzed

Name	Acronym	Ownership of Government
Addu International Airport	AIA	50%
Housing Development Corporation	HDC	100%
Maldives Airport Company	MACL	100%
Maldives Port Limited	MPL	100%
Maldives Transport and Contracting Company	MTCC	64%
Malé Water and Sewerage Company	MWSC	80%
State Electric Company	STELCO	100%
State Trading Organization	STO	82%
Dhivehi Raajjeyge Gulhum	Telecom	42%

4. **This study focused on the likelihood of a risk realization impacting public finances.** As such, the analysis used a template developed by the IMF's Fiscal Affairs Department (FAD) that is built upon the methodology used by credit agencies. The template includes historical data from the financial statement of SOEs entailing calculation of a standardized set of financial ratios focusing on three aspects of financial performance – profitability, liquidity, and solvency. The results were used to determine an overall risk rating (on a scale of five) [2] for each SOE by calculating a simple average and the Z-score methodology.[3]

[2] (i) very low risk, (ii) low risk, (iii) moderate risk, (iv) high risk, and (v) very high risk.

[3] The Z-score is measured in terms of standard deviations from the mean score. It is particularly helpful to calculate the probability of a score occurring within normal distribution.

Overview of Performance Indicators for Nonfinancial SOEs

Profitability					
Rate of Return: operating profits before tax to total assets /equity	Very Low	Low	Moderate	High	Very High
Whether the company is generating profits that cover opportunity cost of capital	>15%	8%-15%	0% to 8%	0% to -10%	<-10%
Cost Recovery: operating revenue top operating expense	Very Low	Low	Moderate	High	Very High
Ability of SOE to generate adequate revenue to cover operating expenses	>2	1.5 to 2	1.25 to 1.5	1 to 1.25	<1
Liquidity					
Current Ratio: current assets to current liabilities	Very Low	Low	Moderate	High	Very High
Ability of SOE to meet short-term liabilities (due within 1 year) from selling short-term assets	>2	1.5 to 2	1.25 to 1.5	1 to 1.25	<1
Creditor Turnover Days: accounts payable times 365 days to cost of sales	Very Low	Low	Moderate	High	Very High
Speed with which a company pays its suppliers	<30	30-60	60-90	90-120	>120
Leverage and Solvency					
Debt Ratio: total debt to total assets	Very Low	Low	Moderate	High	Very High
Ability of SOE to pay off debt in the future	<0.25	0.25 to 0.5	0.5 to 0.75	0.75 to 1	>1
Cash Interest Coverage Ratio: earning before interest, taxes, depreciation and amortization to interest expense	Very Low	Low	Moderate	High	Very High
Ability to service its debts from its current profits	>3	2 to 3	1.5 to 2	1 to 1.5	<1

Source: IMF Staff calculation and data from authorities

5. **The analysis was based on available data prior and during the COVID-19 pandemic.** The analysis was done for the period of 2015-2020 showing indicators of high-risk activity mainly related to liquidity performance where most SOEs have a high risk of fulfilling their short-term obligations. The analysis below presents an overview of the health check of SOEs assessing further the impact of the pandemic on the financial health of these SOEs exploring how a cash-strapped government with a weak balance sheet and little fiscal space would able to provide financial support and at what cost.

Overall Risk

6. **In general, the analysis indicates an increase in the trend of risk over the past six years exacerbated by the impact of the pandemic in 2020.** In 2015, the majority of these SOEs has a low to moderate profile of risk whereas by the end of 2019, this trend was evolving to more moderate to high risk. However, in 2020, the risk profile has deteriorated further due to the adverse impact of the COVID-19 pandemic, and as result most of these SOEs are presenting a high to very high profile of risk. In fact, SOEs such as MACL and MPL have seen their revenue heavily impacted by the pandemic in particular due to the border closures in 2020 (3 months) to contain the spread of the virus. Furthermore, the analysis yields different results once each set of performance indicators is analyzed. The liquidity indicators appear to be the main factor behind deteriorating risk ratings. The worsening liquidity position has resulted in extended budgetary support to assist SOEs pay their debt service obligations (For example AIA, HDC, and STELCO). The following sections will analyze in detail the underlying reasons for the increase in overall risk. It is to be noted that the data of some SOEs like HDC and STELCO are still preliminary and not complete which might lead to a different profile of risk once the final data are analyzed.

Overall Risk Rating for 2015–2020

	2015	2016	2017	2018	2019	2020
AIA	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk
HDC	High Risk	High Risk	Moderate Risk	Moderate Risk	High Risk	Moderate Risk
MACL	Low Risk	High Risk	Moderate Risk	Moderate Risk	Moderate Risk	High Risk
MPL	Low Risk	Low Risk	Low Risk	Low Risk	Moderate Risk	High Risk
MTCC	High Risk	High Risk	High Risk	High Risk	High Risk	High Risk
MWSC	Moderate Risk	Moderate Risk	Moderate Risk	Moderate Risk	Moderate Risk	Moderate Risk
STELCO	Very High Risk	Very High Risk	High Risk	Moderate Risk	Moderate Risk	Moderate Risk
STO	Moderate Risk	High Risk	High Risk	High Risk	Moderate Risk	High Risk
Telecom	Low Risk	Low Risk	Moderate Risk	Moderate Risk	Low Risk	Moderate Risk

Source: IMF Staff calculation and data from authorities

Profitability Performance Indicators

7. Two ratios of the profitability indicators were used to assess risk:

- Cost recovery measures the ability to generate adequate revenue to cover operating expenses. If the ratio is less than 1, the entity is assessed to be unable to maintain its assets and operate sustainably in the absence of supplementary funding.

- Return on equity measures the ability to turn equity investments into profit generation. For loss making SOEs, indicator shows of how quickly the government's equity is being eroded.

8. The sample analyzed showed that most of these SOEs are facing high to very high cost in recovery. The worsening trend over the years was exacerbated during 2020 with the impact of the pandemic. Further analysis of the composition of revenue and prices being charged would provide more clarity on the sources of risks, as well as the composition of the related costs. It is likely that the government would fix the prices of delivering public goods/services irrespective of operating costs. Therefore, SOEs would increase their dependence on government support and funding, thereby raising government's exposure to SOEs. This would lead to the question of how realistically these SOEs are operating on a market basis and the need to review the sectorization and the status of these entities and whether some should be placed within the general government boundaries as opposed to operating as a public corporation.

9. In 2020, the return on equity displayed an increase in risk profile compared to previous years, increasing the risk of erosion of equity. Although for all SOEs except AIA, the risk remains on the moderate side, further analysis would be needed to analyze the composition of the assets and equity and to determine the source of profit generation and whether it is due to government intervention or other operations (capital injections, revaluation, etc.). For AIA, the risk is very high because equity showed a negative stock due to accumulated deficits (therefore retained earnings) over the years necessitating a recapitalization. For HDC, the data for 2020 is not complete (for the profit and loss, preliminary data was reported until November 2020) so the ratios presented for 2020 might change. In addition, the very low risk displayed in 2017 and 2018 on the return on equity is related to a revaluation operation. The gain generated from the revaluation was included in the profit of HDC during 2017–2018, reflecting a high amount of EBITDA.[4] The evolution of the return on equity of STO is marked by the one-time write off of the hotel project in Hulhumale in 2019 which improved the risk profile in 2019.

Overview of Risk Related to Profitability Indicators for 2017–2020

	2017		2018		2019		2020	
	Return on Equity	Cost Recovery	Return on Equity	Cost Recovery	Return on Equity	Cost Recovery	Return on Equity	Cost Recovery
AIA	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk
HDC	Very Low Risk	Very Low Risk	Low Risk	Very Low Risk	Moderate Risk	Moderate Risk	Moderate Risk	Very Low Risk
MACL	Low Risk	Moderate Risk	Very Low Risk	Moderate Risk	Very Low Risk	Moderate Risk	Moderate Risk	High Risk
MPL	Very Low Risk	Moderate Risk	Very Low Risk	Low Risk	Low Risk	Moderate Risk	Moderate Risk	High Risk
MTCC	Low Risk	High Risk	Moderate Risk	High Risk	Moderate Risk	High Risk	Low Risk	High Risk
MWSC	Very Low Risk	Moderate Risk	Very Low Risk	Low Risk	Very Low Risk	Moderate Risk	Very Low Risk	Low Risk
STELCO	Low Risk	High Risk	Very Low Risk	High Risk	Very Low Risk	High Risk	Low Risk	High Risk
STO	Moderate Risk	High Risk	High Risk	High Risk	Very Low Risk	High Risk	Moderate Risk	High Risk
Telecom	Very Low Risk	Low Risk	Very Low Risk	Low Risk	Very Low Risk	Low Risk	Very Low Risk	Low Risk

Source: IMF Staff calculation and data from authorities

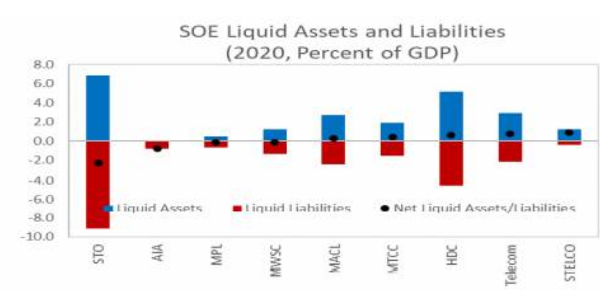
Liquidity Performance Indicators

10. Two ratios of the liquidity indicators were used to assess the short-term risk:

- The quick ratio measures a SOE's ability to meet short-term liabilities by using only the most liquid short-term assets.
- Credit turnover days measures the speed with which an SOE pays its suppliers. An increasing ratio over time indicates that the SOE is paying suppliers more slowly and may indicate a worsening financial position.

11. For most of the sample, analysis highlights the elevated risk in the short-term related to liquidity pressure. The quick ratio illustrated that all the sample faces higher degrees of risk in meeting their short-term obligations with the available liquid short-term assets. The pandemic further added pressure on liquidity. As for creditor turnover days, all the sample with the exception of STELCO and MWSC showcased very high risk for this indicator. To better understand the implication for the financial position, one must also

Net liquid Assets of 9 SOEs (2020)



Source: IMF Staff calculation and data from authorities

[4] EBITDA: Earnings before interest, taxes, depreciation, and amortization.

analyze the debtor turnover days which measures the speed with which a company is paid by its customers. Also, in this case, most of the SOEs face challenges with collecting bills from their customers. This highlights the issue of accumulation of cross arrears in the public sector making it more difficult to manage the liquidity needs.

Overview of Risk Related to Liquidity Indicators for 2017–2020

	2017		2018		2019		2020	
	Quick Ratio	Creditor Turnover Days	Quick Ratio	Creditor Turnover Days	Quick Ratio	Creditor Turnover Days	Quick Ratio	Creditor Turnover Days
AIA	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk
HDC	Very High Risk	Very High Risk	High Risk	Very High Risk	Very High Risk	Very High Risk	High Risk	Very High Risk
MACL	Moderate Risk	Very High Risk	High Risk	Very High Risk	Moderate Risk	Very High Risk	High Risk	Very High Risk
MPL	Very Low Risk	Very High Risk	Moderate Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk
MTCC	High Risk	Very High Risk	Very High Risk	Very High Risk	High Risk	Very High Risk	High Risk	Very High Risk
MWSC	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Low Risk
STELCO	Very High Risk	Very High Risk	High Risk	Low Risk	Very Low Risk	Low Risk	Very Low Risk	Low Risk
STO	Very High Risk	Very High Risk	Very High Risk	High Risk	Very High Risk	Low Risk	Very High Risk	High Risk
Telecom	High Risk	Very High Risk	High Risk	Very High Risk	Moderate Risk	Very High Risk	High Risk	Very High Risk

Source: IMF Staff calculation and data from authorities

Solvency Performance Indicators

12. Solvency performance indicators aim at measuring the health of SOEs in the long-term. This note focused on two indicators:

- The debt-to-assets and debt to EBITDA ratios help to assess the debt burden on the entity as well as its ability to pay off debt in the future. They indicate whether the company is facing solvency issues.

13. Analysis showed that while solvency risk was less elevated for most of the SOEs prior to 2018, risk had since increased. It indicated that SOEs don't face high risk profiles in the short-term but also their risks are elevated for the long-term meaning that their ability to pay off their debt is at risk. While 36 percent of liabilities are already monitored by government through the sovereign guarantees and on-lending operations, around 10 percent of GDP of estimated liabilities remain outside the active monitoring of government. The scope and risk of shock and faltering on the payment of debt would place enormous pressure on an already weakened financial position of the budget.

Overview of Risk Related to Solvency Indicators for 2017–2020

	2017		2018		2019		2020	
	Debt to Assets	Debt to EBITDA	Debt to Assets	Debt to EBITDA	Debt to Assets	Debt to EBITDA	Debt to Assets	Debt to EBITDA
AIA	High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk	Very High Risk
HDC	Low Risk	Very Low Risk	Low Risk	High Risk	Low Risk	Very High Risk	Low Risk	Very High Risk
MACL	Low Risk	High Risk	Moderate Risk	High Risk	Moderate Risk	Very High Risk	Moderate Risk	Very High Risk
MPL	Very Low Risk	Very Low Risk	Very Low Risk	Very Low Risk	Low Risk	Moderate Risk	Low Risk	Very High Risk
MTCC	Moderate Risk	Very High Risk	Moderate Risk	Very High Risk	Moderate Risk	High Risk	Moderate Risk	High Risk
MWSC	Low Risk	Moderate Risk	Low Risk	Very Low Risk	Low Risk	Moderate Risk	Low Risk	Moderate Risk
STELCO	High Risk	Very High Risk	High Risk	Very High Risk	High Risk	Very High Risk	High Risk	Very High Risk
STO	Moderate Risk	Very High Risk	Moderate Risk	Very High Risk	Moderate Risk	Very High Risk	Moderate Risk	Very High Risk
Telecom	Low Risk	Very Low Risk	Low Risk	Very Low Risk	Low Risk	Very Low Risk	Low Risk	Very Low Risk

Source: IMF Staff calculation and data from authorities

Government Exposure to SOEs

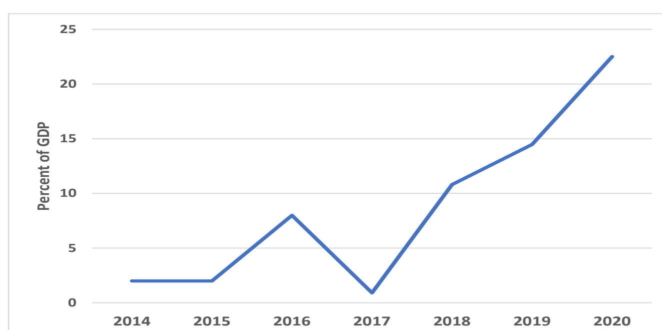
14. The SOEs rely excessively on government support. Many SOEs provide goods and services at controlled prices, suffer from weak corporate governance, and rely excessively on government transfers in the form of subsidies and capital contributions (2 percent and 4 percent of GDP respectively in 2020). They also undertake several non-commercial activities that involve cross-subsidization, some remain unfunded or under-funded.[5]

15. For the nine SOEs analyzed, government support varies from direct transfer to providing sovereign guarantees on their borrowing:

- **Guarantees:** Government guarantees are provided to three SOEs (STO, HDC, and STELCO) amounting to around 21 percent of GDP in 2020. The largest amount of guarantees is provided to HDC (13 percent of GDP) to secure foreign funding of housing projects. This trend is continuing in 2021 with the new housing corporation Fahi Dhiriumlhum Corporation for which the government pledged around USD 300 million in sovereign guarantees subject to implementing the sovereign guarantee guidelines and the proper due diligence process. With a relatively high and rapidly growing stock of guarantees, mainly in foreign currency, exposing the government to the related currency risk, the legal

Evolution of Stock of Guarantees 2014–2020

(Percent of GDP)



Source: IMF Staff calculation and data from authorities

[5] Examples are the national airline, the provision of below cost air travel to citizens, and the purchase of fish by MIFCO (Fishery company) above market prices.

framework would need strengthening to further enhance the management of guarantees. The legal framework includes provisions to limit the issuance and stock of guarantees, as well as to provide guidance on the management process. However, these are not fully implemented. The FRA (article 33) indicates that any guarantee given in the name of the State should not exceed the amount allocated in the national budget. This clause is not currently being implemented, and the budget does not include any ceiling on the total stock of guarantees or the total amount of guarantees that could be issued during the year. The descriptive notes of the budget include only an overview of the outstanding stock of guarantees but not any restrictive ceiling. On the management side, the weaknesses are observed in various areas: (i) the guidance on issuance of sovereign guarantees does not include provisions on carrying out the necessary analysis when a request for guarantee is received and properly assessing the related fiscal risk; (ii) some clauses in the current guidelines are not properly implemented such as the eligibility criteria, the guarantee limit, or the collection of guarantee fees; and (iii) due to lack of expertise, the Ministry of Finance (MOF) does not conduct any assessment of credit risks involved. MOF is currently working toward strengthening the process and developing the necessary expertise with the support from development partners. Although technically no government guarantees have been called, MOF has been supporting the SOEs in repaying the debt service related to these guarantees through capital contributions and direct lending, adding additional pressure on the government's fiscal position.

- **On-lending and direct Treasury lending**: In 2020, the total of on-lending and direct borrowing from the Treasury is estimated at 15 percent of GDP. The increase in this type of borrowing reflected a high risk of non-performing loans. For example, HDC borrowed from the Treasury around MVR 670 million in 2019 to refinance principle and interest payments for contracted foreign loans which already benefited from sovereign guarantees. FAD technical assistance in February 2020 reported that this category of loans (around 1.8 percent of GDP by end-2019) are considered non-performing.

- **Subsidies and capital contributions**: Subsidies are mainly directed toward subsiding food and a fuel subsidy to control the cost of electricity, while capital contributions are mainly to perform capital injections for SOEs that are facing weak financial positions.

- **Cross holding (Payables/Receivables):** Many types of operations can occur between related parties such as sales of goods and services, dividend paid/received, lending/borrowing, and taxes paid. In terms of sales of goods and services, many SOEs indicated an increased amount of unpaid bills by the government. More detailed data are needed to assess whether these receivables fall under normal conditions of payment or whether the government and relevant agencies are accumulating arrears further increasing the government exposure and risk. For example, STO registered by end of 2020 around MVR 790 million of government entities' unpaid bills. The delay in collecting receivables is also affecting the SOEs ability to pay suppliers and not accumulating arrears.

Overview of Selective Figures of Government Support for 2017–2020

	2017	2018	2019	2020 (Preliminary)
Sovereign Guarantee				
STO	1,167.7	1,779.9	2,128.2	1,559.3
HDC	388.5	6,187.7	7,033.5	7,685.0
STELCO	1,426.3	2,725.1	3,002.4	3,002.4
Total	**2,982.4**	**10,692.6**	**12,164.1**	**12,246.7**
In percent of GDP	4%	13%	14%	21%
Direct Borrowing and Onlending				
STO	398.6	425.0	393.9	337.0
HDC	873.1	580.9	1,237.4	1,352.0
MACL	2,370.3	4,609.5	5,959.1	6,912.8
MPL	-	59.9	50.8	53.8
MTCC	238.5	238.5	233.0	226.5
Total	**3,880.5**	**5,913.8**	**7,874.2**	**8,882.1**
In percent of GDP	5%	7%	9%	15%
Government Subsidies				
STO				
Food subsidy	188.7	294.1	352.6	398.3
Fuel subsidy	71.1	548.5	489.0	72.8
MTCC			94.3	101.6
Total	**259.9**	**842.5**	**935.9**	**572.7**
Subsidies as report in the Monthly Fiscal Development	*334.8*	*1,142.6*	*1,281.2*	*1,157.6*
Share (Percentage)	78%	74%	73%	49%

IMF Staff calculation and data from authorities.

Note: Data highlighted in red in 2020 is an estimation because the detailed information as presented in the annual financial statements was not available by the time of drafting this note

Conclusion

16. The analysis supports the need to strengthen the oversight of SOEs and rationalize government support. The high-risk activity mainly related to financial liquidity support can exacerbate the government's fiscal position especially when there is no fiscal space and a weak public balance sheet.

17. To better manage these fiscal risks and reduce the government's exposure and its implications on the budget, various measures are needed to mitigate these risks:

- In the short-term the probability of liquidity risk materializing is increasing. With limited fiscal space, it would be recommended, that the government prioritizes the SOE support in case of competing demands. The government's support to SOEs should target the most critical areas.

For example, if the lack of support could endanger basic services (utilities), then this sector should get priority.

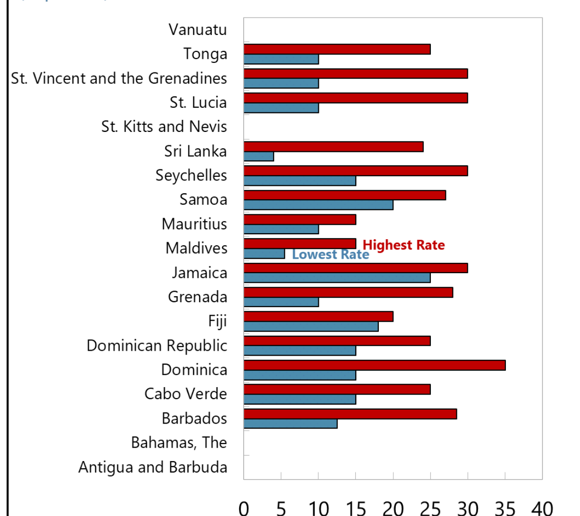
- **Strengthening the institutional framework for SOE fiscal risk oversight**:
  - Establish a new MOF unit for oversight of fiscal risks that focuses first on SOE-related fiscal risks. As such, the unit would work closely with the MOF departments and the Privatization and Corporation Board (PCB), and report to a new Fiscal Risk Committee in MOF.
  - Liquidate highly or fully budget dependent SOEs or restrict their autonomy.
  - Progressively make unlisted commercial SOEs 'listable.'
- **Rationalizing government support to SOEs**:
  - Strengthen scrutiny of SOE capital expenditure proposals and improve SOE budget planning.
  - Strengthen criteria, evaluation, and monitoring of guarantees. This would require practices to enforce compliance with current procedures which would help set mitigation measures such as a ceiling on total outstanding guarantees or ceiling on guarantees issued and allocated during the year, as well as enforcing the criteria of eligibility and the fee collection. Furthermore, strengthening the sovereign guarantee mechanism would require the review of the guarantee issuance policy to include: (i) a credit risk analysis, (ii) regular reviews of risks surrounding the portfolio of guarantees, and (iii) developing suitable risk mitigation measures, including adoption of a more risk-based approach to charging guarantee fees.
  - Include spending and performance data in PCB reports.
- **Promoting transparency in monitoring and reporting on SOEs**:
  - In the current publication of SOEs, include an overview of the financial performance of the overall public corporation's sector and disclose all its transactions with the government.
  - Set-up a central database of core financial information, risk indicators, and state support for public corporations to facilitate assessment of fiscal risks related to the public corporations and require the reporting of the quasi-fiscal activities.
  - Publish an ownership policy to clarify the government's policy and financial objectives as a shareholder.
  - Identify and disclose quasi-fiscal activities, preferably with their respective size undertaken by public corporations.
  - Strengthen the risk analysis of individual SOEs with a systematic analysis of financial performance and position.

Appendix V. Medium-Term Measures to Increase Revenues[1]

1. **Further revenue mobilization would help to improve the fiscal situation.** The high dependence on revenue from the tourism sector makes the broadening of the tax base in the Maldives challenging. The following measures can help diversify the tax base and strengthen tax policy to sustainably finance priority spending, with domestic revenue to be mobilized after tourism has recovered and provided there is adequate social spending targeting the most vulnerable: (i) lowering the thresholds at each level of income and raising the top marginal income tax rate; (ii) rationalizing Business Profit Tax (BPT) related tax expenditures; (iii) moving towards equalizing the GST rates between domestic and tourist sectors; and (iv) implementing other measures such as excises on tobacco, alcoholic products, fuels, and motor vehicles as well as increases in airport service charges.

2. ***Raising the top marginal income tax rate and lowering the thresholds at each level of income***: The PIT implemented in January has four rates, with a top marginal tax rate of 15 percent. Incomes below 720,000 MVR, or three times GDP per capita, are exempt from paying income tax, while the top marginal tax rate applies to incomes above 2.4 million MVR or 11 times GDP per capita. These income brackets are generous by international comparisons. Tourist dependent economies such as Barbados and Mauritius both have top marginal tax rates at around 2 times GDP per capita. The income distribution in the Maldives is concentrated on the exempt threshold according to household survey data. The individual income tax has raised only 71.5 million MVR up to mid-April 2021, a very small fraction of revenues, but is heavily impacted by the pandemic. Lowering the income brackets, including the exemption threshold, is essential to raising the PIT revenue potential and to improving the equity features with respect to the overall income distribution. The comparison to peer countries suggests that there is also scope to raise the top marginal tax rate. The 2019 TA report on "Reform Options To Strengthen Tax Policy" has suggested reforms in these areas could raise 650 million MVR, or around 0.7 percent of 2019 GDP, annually.

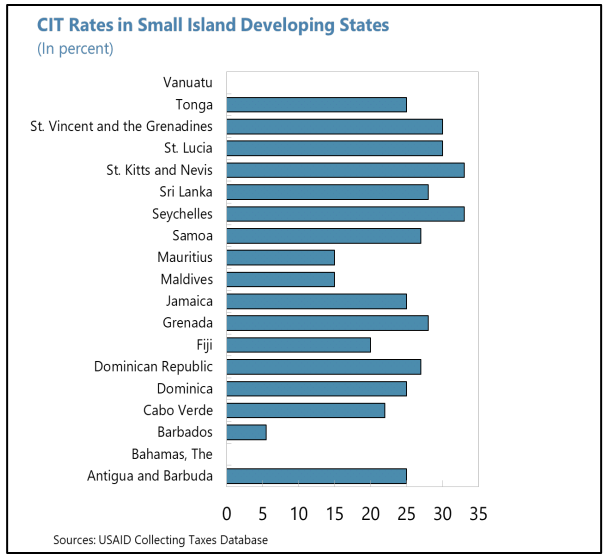
Highest/Lowest PIT Rates in Small Island Developing States
(In percent)



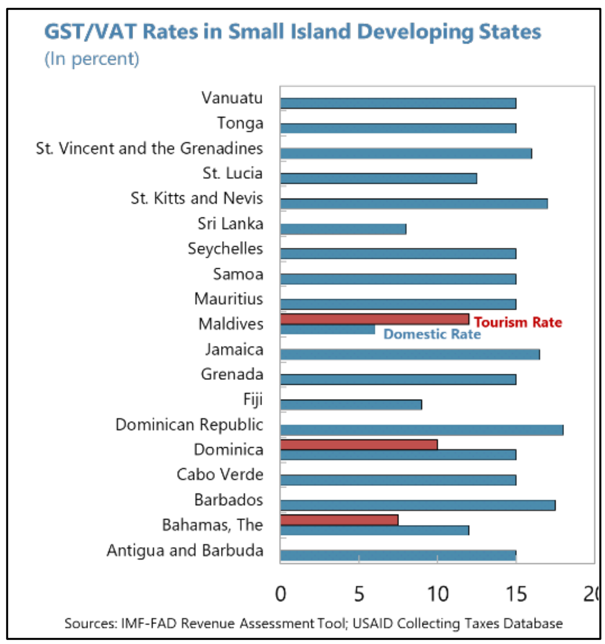
Sources: USAID Collecting Taxes Database

[1] Prepared by Emmanouil Kitsios, APD.

3. ***Rationalizing Business Profit Tax (BPT) related tax expenditures:*** While the existing BPT is well designed, there is room for improvement.[2] Recent FAD technical assistance has recommended that for businesses that fall below the GST registration threshold there should be a uniform turnover tax of around 3 or 4 percent, in line with international best practice. This tax is relatively simple to administer and would significantly reduce compliance costs on small businesses and administration costs on the revenue authority MIRA. Businesses below the GST registration threshold account for 60 percent of businesses, but only 1 percent of revenue. The tax should be expanded so that legal persons and individuals providing professional services (such as accountants, lawyers, and physicians) can be taxed under the reformed BPT. With small businesses moved into the simplified tax regime, it is no longer necessary to include an MVR 500,000 tax-free threshold under the BPT. Moreover, the BPT rate of 15 percent could increase as it is lower than the average rate of 22 percent that includes the zero rates of peer countries.



4. ***Moving towards equalizing the GST rates between its domestic and tourist sectors:*** The Maldives has two GST tax rates at 6 and 12 percent for the domestic and tourist sectors, respectitively. By international standards these rates are at the lower end, but despite this, GST accounts for around 10 percent of GDP. This dual rate system is unusual internationally, although several other tourist dependent island economies have similar practices (see chart). The GST rate for tourism is lower in the other countries that have dual rates. In the short-to medium term, and in view of the relatively low rates of the GST particularly in the non-tourism sector, rates could be gradually harmonized by increasing the 6 percent rate. The introduction of a modern broad-based VAT at a uniform tax rate should remain an overarching policy objective, but mainly for the medium- to long-term. Raising the GST rate by 1 percentage point on domestic revenues would yield 447 MVR, or 0.5 percent of 2019 GDP. A full harmonization of the tax rates would see revenue increase by 3.4 percent of



[2] Business profits are now taxed in the newly adopted 2019 Income Tax Act (ITA).

GDP. While consumption taxes are generally less progressive than taxes on income or wealth, their regressivity effects can be addressed by using part of the generated revenue for pro-poor expenditures.

5. **Other measures:** Excises could supplement the GST in generating potentially important additional revenues from taxes on goods characterized by inelastic demand and often significant negative externalities. This would include excises on tobacco, alcoholic products, fuels, and motor vehicles. One further option to raise revenues in the short-term is to increase airport service charges—this was planned before the pandemic, but it was temporarily postponed due to the fall in tourist arrivals—as well as introducing user-fees such as tolls.[3] The airport service charge (ASC) is currently set at 25 USD per tourist arrival and 12 USD for resident passengers. A doubling of the levy to 50 USD for tourists could raise 650 million MVR, or 0.7 percent of GDP based on 2019 tourist arrivals.

6. **Strengthening revenue administration is key to improving revenue performance.** Changes to the tax legislation may impact voluntary compliance if taxpayers perceive taxes as too high. MIRA's capacity to monitor and address non-compliance is key to realizing the PIT reform gains. Reform priorities for MIRA include: (1) Embedding compliance risk management, both domestic and international, into MIRA's processes, and improving its IT functionality and data collection sources; (2) Strengthening MIRA's capacity to identify and address international tax risks; and (3) Identifying and addressing PIT-specific risks. Estimating tax expenditures and publishing the results would strengthen fiscal reporting and facilitate informed decision making.

[3] On July 5, 2021 the People's Majlis (parliament) passed the amendment to the Airport Taxes and Fees Act to replace the airport service charge with a departure tax as of January 2022. The approved departure tax rates are USD 12 for Maldivians travelling in Economy Class, USD 30 for foreigners travelling in Economy Class, USD 60 for all passengers travelling in Business Class, USD 90 for all passengers travelling in First Class, and USD 120 for all passengers travelling on private jets. The bill also approved similar changes to the Airport Development Fee (ADF).

Appendix VI. Enhancing Transparency and Improving Sustainability of the Public Finances[1]

This appendix summarizes the efforts of the Maldivian authorities to implement public finance management (PFM) reforms to enhance transparency and strengthen decision-making, aiming at long-term sustainability of government finances. It also reflects the high degree of integration between IMF capacity development and surveillance activities towards supporting efforts for tackling key identified fiscal vulnerabilities.

1. The Maldives is committed to enhancing transparency and improving the framework for achieving fiscal sustainability. In the last two years, the PFM system underwent various diagnostic missions by technical partners and the IMF : (i) a Public Investment Management Assessment (PIMA, 2019), (ii) a Public Expenditure and Financial Accountability (PEFA, 2021),[2]and (iii) a Fiscal Transparency Evaluation (FTE, 2021), the first small island state to undertake an FTE. These diagnostic missions highlighted the efforts of the ongoing reforms and the progress achieved in improving public finances (for example, see below the heatmap of the FTE and the comparisons with other regions) but also highlighted areas where further improvements are needed. As a result, ongoing work is being undertaken to prepare a PFM roadmap prioritizing PFM reforms for addressing weaknesses identified in these diagnostic missions. Core basic PFM reforms are being supported by various developments partners (e.g., World Bank, ADB, and UN, among others). The following sections will focus on the support provided by the IMF.

2. The IMF has been involved in providing support on various PFM topics. During the COVID pandemic, the authorities were very active in engaging with the IMF on topics related to enhancing the Fiscal Responsibility Act (FRA) to maintain fiscal sustainability, oversight of SOEs and managing fiscal risks, and debt management. Efforts in these areas should continue.

- (FRA: The current 2013 FRA aimed at reducing public debt and achieving fiscal stability. However, the government has not met the FRA's numerical targets for fiscal deficits and public debt. The design of the framework and insufficient government commitment led to noncompliance with numerical targets. To ensure fiscal sustainability and enhance transparency, the authorities are committed to introducing a new FRA law in 2021. The impact of the COVID-19 pandemic would make it unrealistic to calibrate the fiscal targets reaching more credible numerical rules. As a result, and with the support of technical assistance from the IMF, the authorities plan to introduce a new law with "principles-based approach" accompanied by strong accountability requirements. A new "intermediate" government fiscal document, a charter of fiscal responsibility, could be produced to quantify fiscal targets. This approach would allow for more flexibility during crises periods, while preserving the quantification and monitoring of medium-and long-term fiscal and debt objectives.

[1] Prepared by Majdeline El Rayess, FAD.

[2] PEFA was performed by the World Bank with the IMF as one of the external reviewers.

- Oversight of SOEs and managing fiscal risks: As discussed in Appendix 7, while SOEs are sources of significant fiscal risks, the fiscal oversight of SOE is weak. Technical support aimed at strengthening the institutional framework for SOEs' fiscal risk oversight, rationalizing government support to SOEs, and promoting transparency in monitoring and reporting on SOEs. For the latter, ongoing and planned work plan will focus on providing support to enhance SOEs reporting and over time produce a consolidated SOEs balance sheet, as well as develop the adequate tools to strengthen the analysis of fiscal risks of SOEs.

- Debt Management: To achieve debt sustainability, promote transparency and accountability in the decision-making process, a robust legal framework for public debt management is essential. In this context the authorities are also revising the Public Debt Law (PDL). Technical support by the IMF aims to ensure that the new revised law would set the institutional aspects of the debt management function, require an annual borrowing plan, and list the recording and reporting responsibilities.

- **Further to the ongoing legal framework reforms, the authorities should provide further attention to reforms related to public investment management.** The 2019 PIMA report indicated that most public investment institutions following the PIMA framework (planning, allocation, and implementation) are at basic stages of development and implementation, Since fiscal space is limited, efficient public investment is essential to ensure value for money and returns from investment. In addition to strengthening transparency, focus should be given to (i) enhancing the disclosure in the budget documentation by including total obligations under multiannual investment projects that exceed five years, (ii) making cost benefit analyses routine for all major projects using a consistent and published methodology, and (iii) amending the public finance regulations to require that all major projects are subject to an open and competitive tender process, including SoEs, thereby providing the opportunity to maximize value for money from public processes.

3. The pension system in the Maldives would require reforms to mitigate the relevant fiscal risks once the post-COVID-19 economic conditions are back to normal. The pensions system in the Maldives is intricate, with multiple schemes. There is a basic unfunded scheme, financed by the government and providing a lump-sum benefit of MVR 5,000 to every citizen reaching 65 years. This scheme coexists with the Maldives Retirement Pension Scheme (MRPS), a defined-contribution scheme. In addition, there are other state pension schemes, operated by various government institutions for their employees. Except for MRPS, these schemes are unfunded and represent 21 percent of the total amount (MVR 1.4 Billion, i.e., 2percent of GDP) disbursed for pensions in 2019.

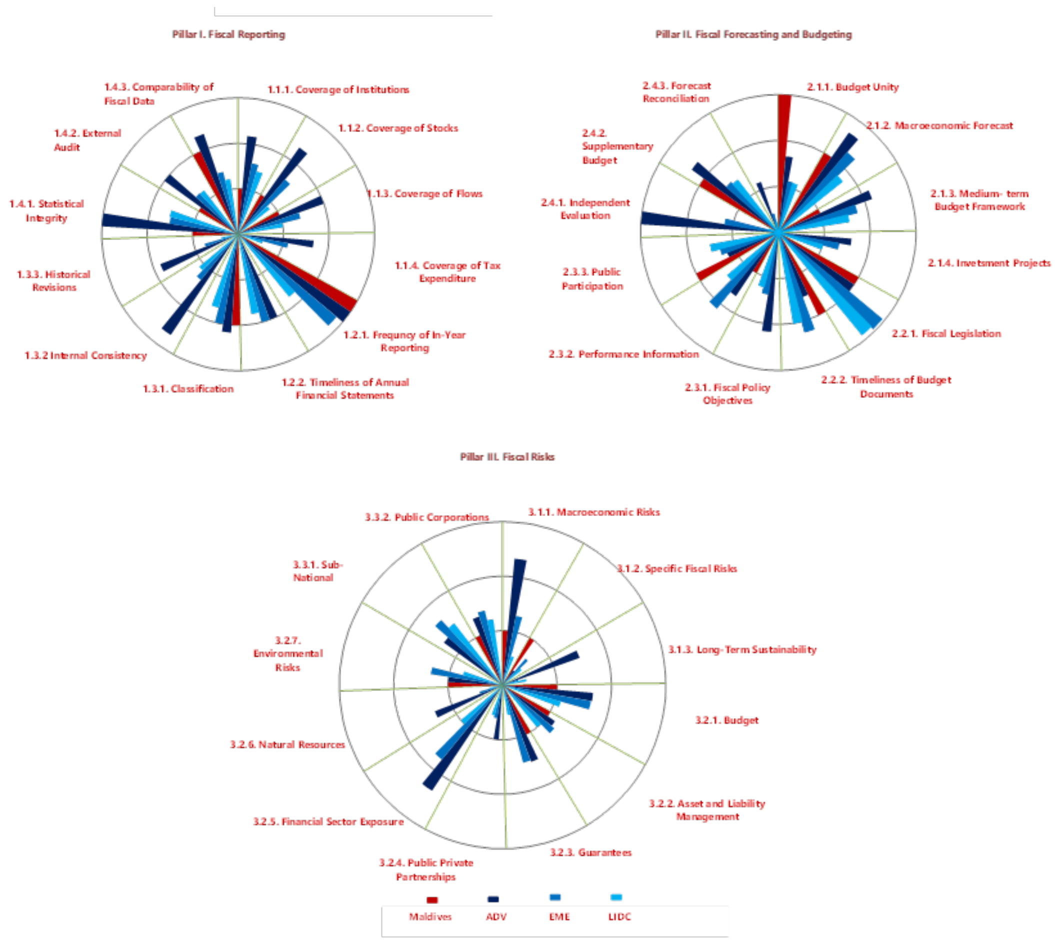
4. Being unfunded, the long-term risks of these pension schemes are high and the mitigation measures would require: (i) conducting a comprehensive review of the different pensions schemes coexisting in the Maldives, (ii) assessing the current funding of these schemes to assess their long-term sustainability and, if needed, developing required forms, (iii) performing an actuarial study of the different schemes to assess current long-term sustainability and develop the required action plan if needed, and (iv) developing a framework to support management of long-term fiscal risks, including: (a) periodic actuarial review of the pensions schemes, (b) periodic review of the funding and sustainability, and (c) regular publications covering the assessment of the sustainability of the different pensions schemes.

Summary Heatmap of the Fiscal Transparency Evaluation

I. Fiscal Reporting	II. Fiscal Forecasting and Budgeting	III. Fiscal Risk Analysis and Management
1.1.1. Coverage of Institutions [Basic]	2.1.1. Budget Unity [Advanced]	3.1.1. Macroeconomic Risks [Basic]
1.1.2. Coverage of Stocks [Basic]	2.1.2. Macroeconomic Forecasts [Good]	3.1.2. Specific Fiscal Risks [Basic]
1.1.3. Coverage of Flows [Basic]	2.1.3. Medium-term Budget Framework [Basic]	3.1.3. Long-Term Fiscal Sustainability Analysis [Not Met]
1.1.4. Coverage of Tax Expenditures [Not Met]	2.1.4. Investment Projects [Not Met]	3.2.1. Budget Contingencies [Basic]
1.2.1. Frequency of In-Year Reporting [Advanced]	2.2.1. Fiscal Legislation [Good]	3.2.2. Asset and Liability Management [Basic]
1.2.2. Timeliness of Annual Financial Statements [Not Met]	2.2.2. Timeliness of budget documents [Good]	3.2.3. Guarantees [Basic]
1.3.1 Classification [Good]	2.3.1. Fiscal Policy Objectives [Not Met]	3.2.4. PPPs [Not Met]
1.3.2. Internal Consistency [Not Met]	2.3.2. Performance Information [Basic]	3.2.5. Financial Sector Exposure [Not Met]
1.3.3. Historical Revisions [Not Met]	2.3.3. Public Participation [Good]	3.2.6. Natural Resources [Not Met]
1.4.1. Statistical Integrity [Basic]	2.4.1. Independent Evaluation [Not Met]	3.2.7. Environmental Risks [Basic]
1.4.2. External Audit [Basic]	2.4.2. Supplementary Budget [Good]	3.3.1. Subnational Governments [Not Met]
1.4.3. Comparability of Fiscal Data [Good]	2.4.3. Forecast Reconciliation [Not Met]	3.3.2. Public Corporations [Basic]

Not Met	Basic	Good	Advanced

Fiscal Transparency Evaluation Scores- International Comparison



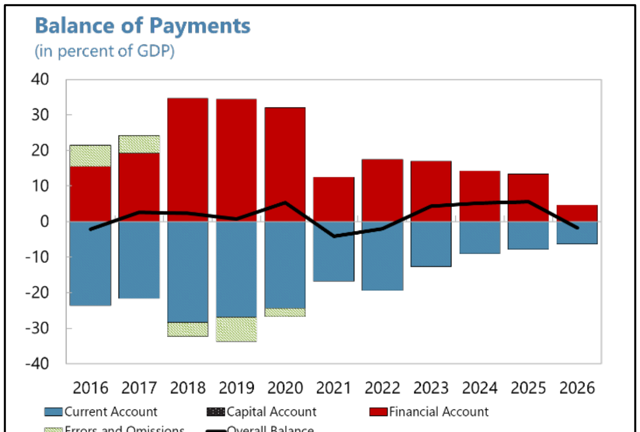
Source: Maldives Fiscal Transparency Evaluation Report.

Note: the spider charts have three levels of ratings: The first circle from the center in the chart illustrates a basic practice, the second circle refers to a good practice and the last circle to advance practice. If no bar is present in the chart, this indicates that the level of practice is not met.

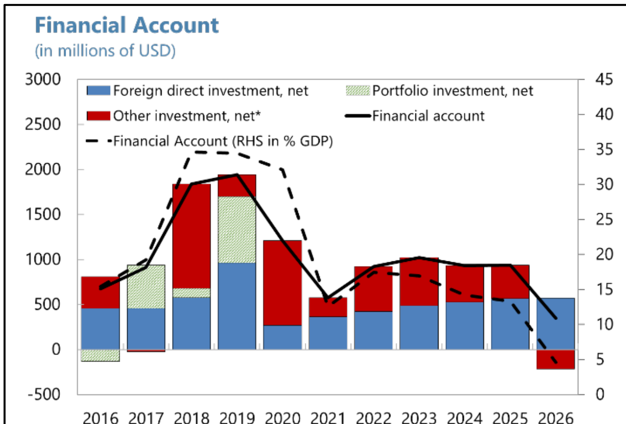
Appendix VII. External Sector Assessment[1]

The external position in the Maldives is substantially weaker than the level implied by fundamentals and desirable policies. The Maldives is vulnerable to external shocks and is heavily reliant on the tourism sector. Pressure on the external sector stems from a large current account deficit (CAD) and low reserve buffers. Staff recommend urgently rationalizing public capital expenditure plans and building foreign exchange reserve buffers to lower vulnerabilities and reduce risks.

1. While the CAD in 2020 contracted by 25 percent in US dollars because of the COVID-19 shock, the CAD in percent of GDP remained elevated at 30 percent of GDP. The COVID-19 shock led to a decline in imports of goods and services along with a decline in tourism receipts in 2020. The CAD had been elevated since 2016 due in part to large infrastructure projects, which have very high import content. Over the next few years, the authorities plan to execute an ambitious capital expenditure agenda and the CAD is expected to remain elevated. The CAD has generally been financed through FDI, mostly channeled to the private sector, and external debt, largely to finance public and publicly guaranteed infrastructure projects.



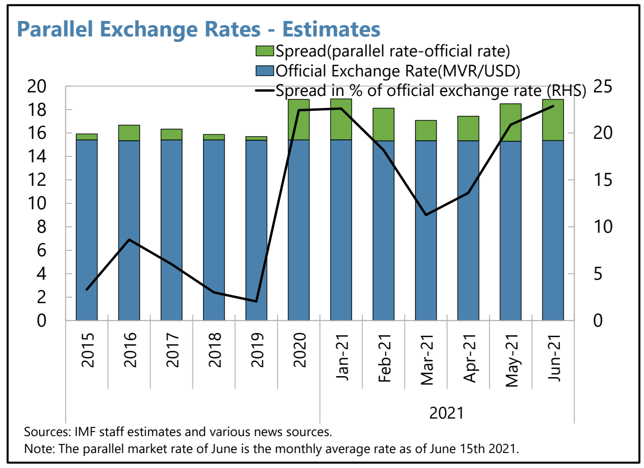
Sources: Data from authorities and IMF staff projections



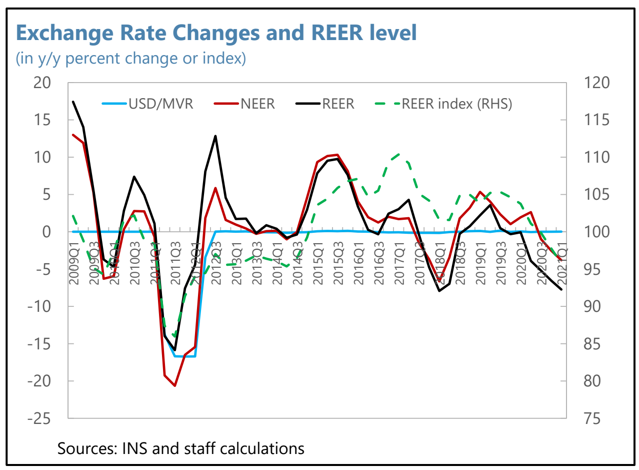
Sources: Data from authorities and IMF staff projections
* Includes net PPG external borrowing

[1] Prepared by Racha Moussa, APD.

2. While pressures on FX markets remain, they had partially diminished with the increase in tourist arrivals. The sharp decrease in tourism arrivals in March 2020—the main source of FX for both the public and private sector—coincided with the increase in the parallel market spread that peaked about 30 percent in September 2020. Improvements in tourist arrivals have been associated with a decrease in the parallel market spread, but its evolution is also a function of other FX needs (e.g., imports and debt service). The stabilized exchange rate arrangement remains a suitable nominal anchor for the Maldives.[2] In line with technical assistance, staff recommend several structural reforms to improve the overall balance of FX. These include updating and enforcing FX regulation to facilitate more effective oversight of the market and promote the channeling of FX supply through the domestic banking system, widely applied regulations that encourage the sole use of MVR, and fiscal adjustment.



3. The REER has been depreciating since 2020, and was less than 5 percent above the pre-2011 devaluation period. In general, the competitiveness of the tourism industry is relatively insulated from REER movements because most resorts price in FX and their employees tend to be foreign workers by a large proportion.



4. The IMF's EBA-lite CA and REER models indicate that the Maldives' external position is substantially weaker than the level implied by fundamentals and desirable policies.

- **CA approach.** The cyclically adjusted CA is estimated at -21.6 percent of GDP in 2020. This adjusted CA incorporates a 9.9 percent of GDP adjustment due to the exceptional COVID-19 shock. The COVID-19 adjustor adjusts for the temporary shock to tourism from COVID-19. In the case of the Maldives, it is calculated using the difference in the ratio of tourism receipts to GDP pre- and post- COVID-19. The multilaterally consistent cyclically adjusted CA-norm is -11 percent of GDP[3] leading to a CA-gap of -10.6 percent of GDP. The elasticity of the trade

[2] The de jure exchange rate arrangement is classified as a pegged exchange rate within horizontal bands (20 percent). The de facto exchange rate arrangement is classified as a stabilized arrangement with the Maldivian rufiyaa close to the ceiling of the band (MVR 15.4 per USD).

[3] The CA-norm derived from a current account panel regression on economic fundamentals, policy variables, and cyclical factors.

balance with respect to changes in the REER is estimated at -0.5 indicating that the REER would need to depreciate by about 21.4 percent to close the CA-gap. This depreciation need is lower than the estimated 30 percent during the 2019 Article IV consultation.

- **Policy gap.** The policy gap is the difference between current and desirable level of policies.[4] The largest negative contributors to the policy gap are the cyclically adjusted fiscal balance and reserves. The desirable fiscal policy stance would bring public debt on a faster downward trajectory and reserves should be accumulated to increase buffers over the medium term. At nearly half of the CA gap, implementing fiscal adjustment and increasing reserve buffers are essential to improve the external position.

- **Index REER approach.** This approach estimates the REER gap at 9.3 percent. Standardized adjustors for COVID-19 are not available for this methodology and none were used. This estimated gap is also below the 22.6 percent highlighted in the 2019 Article IV Staff Report. Optimal policies on factors common with the CA approach are the same.

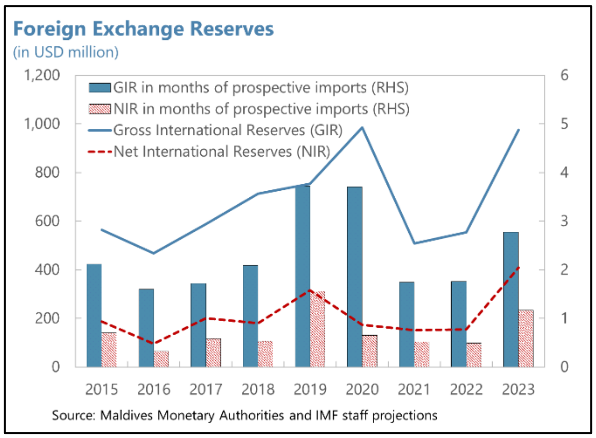
Maldives: Model Estimates for 2020
(In percent of GDP)

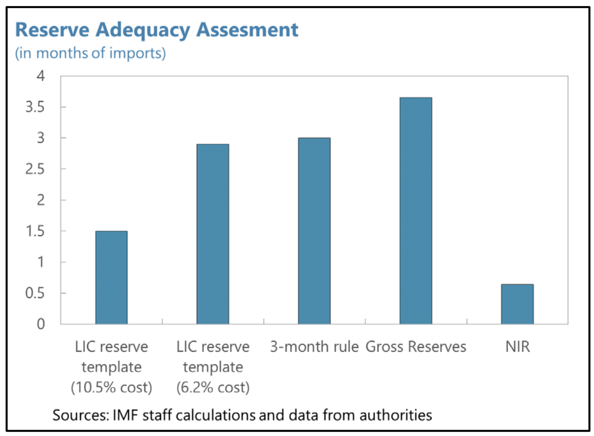
	CA model	REER model	ES model
CA-Actual	**-29.9**		
Cyclical contributions (from model) (-)	1.8		
COVID-19 adjustor (+) 1/	9.9		
Natural disasters and conflicts (-)	-0.1		
Adjusted CA	**-21.6**		
CA Norm (from model) 2/	**-11.0**		
CA Gap	**-10.6**	**-4.6**	**n.a**
o/w Relative policy gap	-2.2		
Elasticity	-0.50		
REER Gap (in percent)	**21.4**	**9.3**	**n.a**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (-0.42 percent of GDP) and on tourism (10.45 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

[4] Exact calculation of policy gap is "{(current policy level of the country) - (desirable policy level of the country)} - {(current policy level of world average) - (desirable policy level of world average)}.

5. Gross international reserves (GIR) at end 2020 stood at USD 985 million, or around 3.7 months of prospective imports. Gross reserve coverage in 2020 is bolstered by the temporary measure of a USD 400 million SWAP with the Reserve Bank of India and will return to below 3 months in 2021. Net international reserves (NIR) by end 2020 stood at USD 173 million, about 0.6 months of prospective imports.[5] The reserve adequacy tool for credit-constrained economies is applied to the Maldives and incorporates the fixed exchange rate regime and the economic shock from COVID-19.[6] Using the marginal cost of capital as the cost of holding reserves, estimated at 6.2 percent, suggests that adequate reserve coverage is around 3 months of prospective imports. Alternatively, to capture the high cost of borrowing from international markets, using the recent yield on the Sukuk issuance by Maldives at 10.5 percent to proxy the cost of holding reserves suggests a reserve coverage of 1.5 months of prospective imports. Given the Maldives' low NIR, reliance on tourism and the likely future volatility due to COVID-19, staff recommend targeting gross reserve coverage around 3 months of prospective imports.





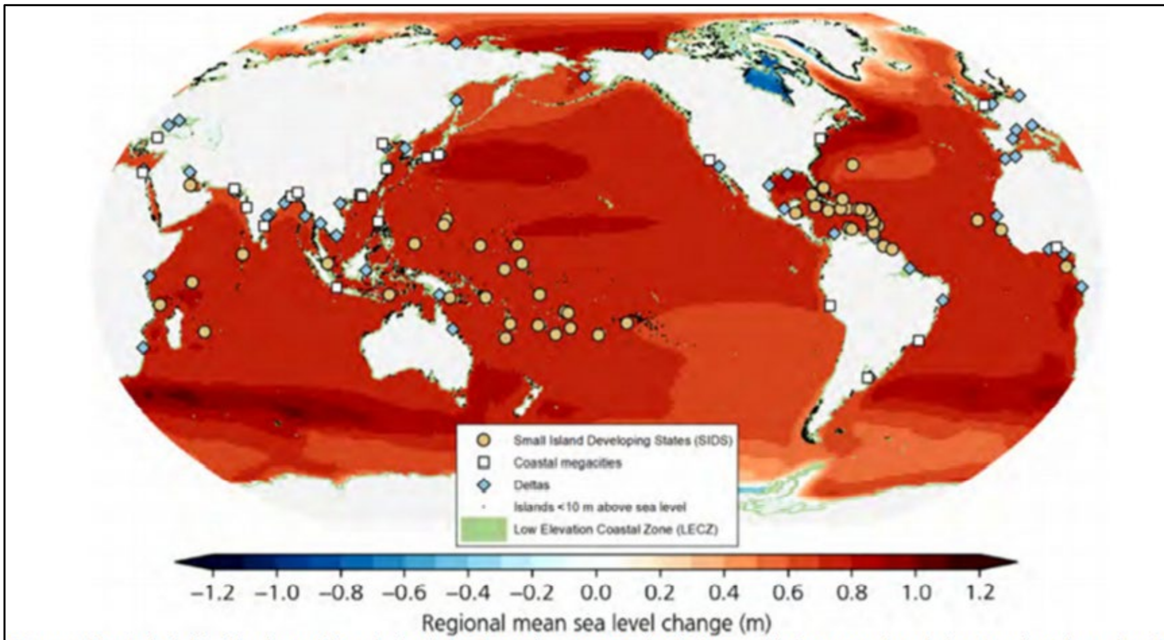
6. The external position in the Maldives is substantially weaker than the level implied by fundamentals and desirable policies. An elevated CAD that is projected to remain elevated for the next two years, low reserve buffers, and output from the EBA-lite CA and REER methodologies support this assessment. Over the medium term, the CAD will come closer to the norm, though this must be complimented by structural reforms that improve FX availability, and building reserve buffers.

[5] NIR is calculated as gross reserves less short term liabilities.

[6] Credit-constrained countries are defined as "countries that do not regularly borrow—defined as countries that have at least one issuance of bonds per year in the last five years —from the markets and/or are on average rated as "less than investment grade" (Annex IV in "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations").

Appendix VIII. A Framework for Sustainable and Climate Resilient Development in the Maldives[1]

1. The Maldives is vulnerable to climate change. The Maldives' territory comprises small low-lying coral islands (with over 80 per cent of the land area less than one meter above mean sea level), so it is particularly at risk from future sea level rise. More immediately, it is also vulnerable to other consequences of climate change. For example, the larger quantum of predicted precipitations will worsen the potential for damages from coastal flooding during storms, in a context of rising sea levels and enhanced salinization (IPCC 2018).[2] The Maldives' overarching dependence on natural ecosystems, particularly for tourism, makes climate non-action not an option for the country.



Note: The global distribution of low-lying islands and coasts particularly at risk from sea level rise. Regional sea level changes refer to projections under RCP8.5 (2081–2100).
Source: IPCC - The Ocean and Cryosphere in a Changing Climate

2. The Maldives has considerable scope to improve adaptive capacity. Scientific and technical assessments undertaken in the country since 1987 have reiterated the need for long-term adaptation to climate change (NAPA 2006).[3] Since the commencement of sea wall construction around the capital Male' in September 1988 the government has implemented several projects aimed at adaptation to environmental threats. More recently, frontier analysis based on the positive relationship between the adaptation index and income levels suggests that distance to the frontier is large for the Maldives, among several countries (Dabla-Norris et al, 2021). The green and adaptive infrastructure gap in the country is threatening both climate mitigation (renewables and nature

[1] Prepared by Ritu Basu, APD.

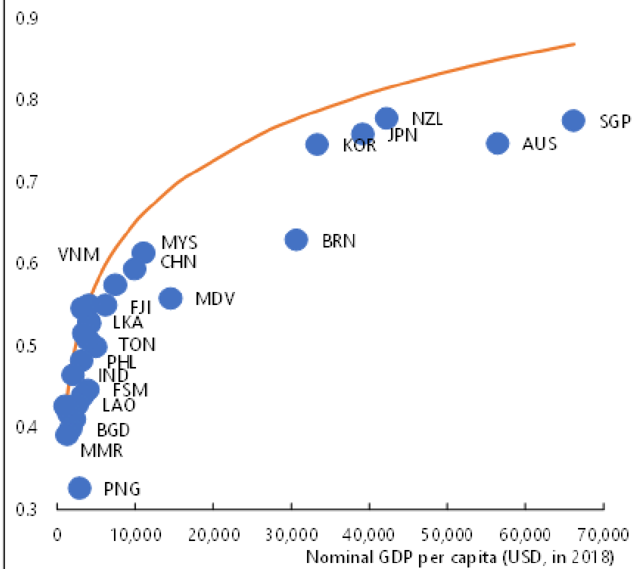
[2] Intergovernmental Panel on Climate Change, 2018, "Global Warming of 1.5°C". IPCC Special Report.

[3] The Government of Maldives. National Adaptation Programme of Action (NAPA).

preservation) and adaptation (coastal protection, water and waste management and resilient infrastructure).

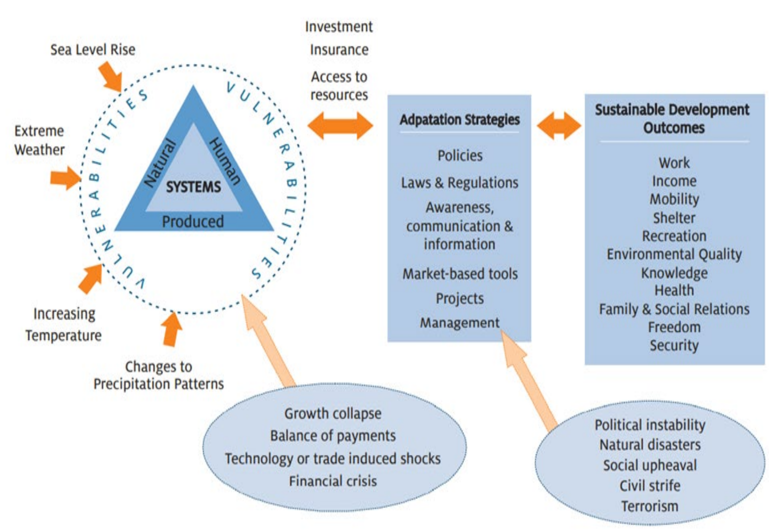
3. The Maldives is active in international climate forums and showed early commitment to adopting adaptation and mitigation plans. It was a prominent player in the negotiations that led to the United Nations Framework Convention on Climate Change (UNFCCC) and was the first to sign the Kyoto Protocol to the UNFCCC. The Maldives submitted the First National Communication (FNC) to the UNFCCC in 2001 following the implementation of the Maldives GHG Inventory and Vulnerability Assessment: A Climate Change Enabling Activity. The FNC contained mitigation and adaptation measures and the project profiles for continuing climate change adaptation and mitigation processes.

Frontier analysis of adaptive capacity



Source: Dabla Norris et al. 2021, Fiscal Policies to Address Climate Change in APD Departmental Paper No 2021/007

4. The Maldives adopted the National Adaptation Programme of Action (NAPA) in 2006 which lays out the framework and the complex relationship between sustainability and adaptation to climate change. The NAPA was developed to communicate the most urgent and immediate adaptation needs of the Maldives as stipulated under UNFCCC Decision 28/CP and to support the sustainable development goals (SDGs). The NAPA was prepared with support from the Global Environment Facility (GEF) and United Nations Development Programme (UNDP).[4]



Source: Government of Maldives. National Adaptation Programme, 2006

[4] On mitigation, the Update of Nationally Determined Contribution (NDC) of Maldives (2020) by the Ministry of Environment lays out plans to reduce 26 percent of emissions by 2030 and to strive to achieve net zero by 2030, if there is adequate international support and assistance. To achieve the emission reduction targets, the NDC sets forth ambitious plans to increase the share of renewable energy in the energy mix through various initiatives.

5. Since the adoption of the NAPA, the Maldives has implemented various non-structural interventions and institutional reforms in support of climate adaptation.[5] The Maldives, like other South Asian countries, have developed a national climate change action plan and disaster management plan. These non- structural interventions involve developing guidelines, operating frameworks, and action plans to help guide current and/or future planning. These plans are quite granular in nature, invariably containing sectoral action plans for each vulnerable sector.

Maldives

		Program Details
Non-Structural Interventions and Institutional Reforms		
National Climate Change Action Plan		Maldives Climate Change Policy Framework released in 2015
National Disaster Management Plan		National Disaster Management Act 2015
Enact laws and regulations to address climate change impacts		No Regulations have been implemented
Adaptation Capital and Climate Resiliant Green Growth Initiatives		E.g. Supporting vulnerable communities in Maldives to manage climate change-induced water shortages and Climate Smart Resilient Islands Initiative
Climate Risk Financing Strategy		
Fiscal Actions		
Setting fiscal policies and targets		Implemented in 2016 the green tax is levied on tourists who stay at resorts, hotels, guesthouses and tourist vessels such as safari yachts.The government charges a Green Tax of six dollars per person per day from resorts, vessels, and hotels and three dollars per person per day from guest houses. Over $40m was collected in first 9 months of 2019 that can be used for resilience building
Climate Change Expenditure Tagging System		
Natural Disaster Related Reserves (Contingency Funds)		
Climate/Green Fund for adaptation		Climate change trust fund administered by the World Bank and funded by the European Commission and AusAID as well as Green Fund to Facilitate, co-finance and enable investments in renewable energy, energy efficiency, waste management, water and sewage, and biodiversity and nature protection.
Fiscal Space	*Limited*	
Financial Actions/Risk Management		
Green Finance		
Catastrophe Bonds		
Contingency Credit Lines (eg. Cat DDO)		Cat DDO with World Bank
Green Bond (Resilience bonds)		
Macro- level National Disaster Risk Insurance		
Micro-level Index Insurance		
Meso-level Index Insurance		
Concessional funding for adaptation (GCF, GEF etc)		US$39 million from 2003 - Feb 2019 from Climate Funds Update

Source: Agarwal, R., V. Balasundharam, P. Blagrave, E. Cerutti, R. Gudmundsson, and R. Mousa. "Climate Change in South Asia: Further Need for Mitigation and Adaptation", forthcoming IMF Working Paper

However, implementation is lacking as the Maldives has not enacted any regulations to directly address climate change or developed concrete financing plans. The NDC (2020) targets to develop the National Adaptation Plan (NAP) with short, medium, and long-term adaptation programs to address adaptation needs nationwide with support from the international community.

6. Building resilient infrastructure will yield dividends and cost-savings under worsened climate conditions. The increased likelihood of adverse climate-change-related shocks calls for building climate-change resilient infrastructure in the Maldives. Fulfilling these infrastructure needs requires a comprehensive analysis of investment plans, including with respect to their degree of climate resilience, their impact on future economic prospects, and their funding costs and sources. Melina and Santoro (2021), calibrating a theoretical model for the Maldives, shows that there is a

[5] On mitigation, the Maldives recently adopted the Climate Emergency Act, adopted (April 29, 2021). It provides an ambitious plan to achieve net-zero carbon emissions by 2030. The Act mandates to submit the subsequent year's national carbon budget to the Parliament for approval three months before the end of each year.

significant dividend associated with building resilient infrastructure.[6] Under worsened climate conditions, the cumulative output gain from investing in more resilient technologies increases by up to a factor of two.

- Impact of a shock on GDP. Building resilient infrastructure in the Maldives can halve the losses in terms of GDP at the trough triggered by a natural disaster. Note that, investing in resilient infrastructure yields a dividend even before a disaster occurs, as its greater gross rate of return and durability imply that its net return is higher (the greater durability is captured by a smaller depreciation rate of resilient infrastructure relative to that of standard infrastructure). The additional tax pressure required for reconstruction in the case of standard infrastructure would be (politically) infeasible. The supplementary increase in tax revenues should be of the tune of 6-7 percentage points of GDP, in the aftermath of a shock.

- Financing. Financing public investment (in standard or adaptation infrastructure) with higher taxation would lead to a sacrifice in terms of GDP and private consumption and investment in the ramp up of the investment effort.[7] Grant-financing can also reduce this cost or eliminate it if it covers the investment plan in full. Melina and Santoro (2021) also highlights that it is financially convenient for donors to help build resilience prior to the occurrence of a natural disasters rather than helping finance the reconstruction ex-post.

	At least some fiscal space or moderate/low risk of debt distress	At-risk fiscal space or high risk of debt distress
Public adaptation costs above 1 percent of GDP	China, Bangladesh, Cambodia, Indonesia, Japan, Korea, Myanmar, PNG, Philippines, Solomon Islands, Timor-Leste, Vanuatu, Vietnam	Fiji, Kiribati, Laos, Malaysia, Maldives, Marshall Islands, Micronesia, Tonga, Tuvalu, Samoa
Public adaptation costs below 1 percent of GDP	Australia, Bhutan, Nepal, New Zealand, Singapore, Thailand	India

Note: Fiscal space assessments are estimated for advanced and emerging economies and are based on the last published AIV debt sustainability assessment; risks of debt distress are estimated for low-income countries and are taken from the last published debt-sustainability assessment. These assessments were done pre-COVID and do not reflect the latest developments since the outset of the pandemic.;

Source: Dabla Norris et al. Fiscal Policies to Address Climate Change in Asia and the Pacific Departmental Paper No 2021/007

[6] Melina and Santoro. (2021). "Enhancing Resilience to Climate Change in the Maldives, IMF Working Paper No. 2021/096

[7] The Maldives Monetary Authority (MMA) has recently joined IFC's Sustainable Banking Network (SBN), in January 2021. The primary objective was to formulate a National Sustainable Financing Framework with a clear roadmap to support broad based adoption of sustainable finance policies, including both improved environment and social risk management by financial institutions.

7. Although investing in adaptation infrastructure can yield high returns, it is fiscally costly. Financing large adaptation investment will challenge fiscal space in many countries, which has deteriorated due to COVID-19. The Maldives featured among countries with high adaptation costs and limited fiscal space even before COVID-19. With such worsening of the growth-debt tradeoff, financing adaptation costs may also require strengthening domestic revenue mobilization, expenditure rationalization, a prioritization of adaptation investment, and/or grant financing.

8. The Maldives' efforts towards integrating climate and sustainable development objectives into a results-based budgetary framework is a welcome step towards prioritization and improving budget execution. Ultimately this could help to create fiscal space and allow effective implementation of the climate adaptation plan by creating a mechanism for a more strategic and focused Public Sector Investment Program. Following the recommendations of the 2019 PIMA TA and a stronger Public Investment Management (PIM) rating could facilitate access to climate finance. The Strategic Action Plan (SAP) adopted for period 2019-2023 introduces a results matrix that implementing agencies can use. It provides the framework for alignment of budgets to results.[8] The SAP helps to co-ordinate the sustainable development action plans, including for climate, at various Ministries. It outlines smart objectives for five priority areas and lays out the aspirations to take forward several long-term visions in areas such as a blue economy, caring state, dignified family, climate resilience and sustainability, and good governance through a long-term plan (see details below). The proposed activities to manage the SAP aim to lay the foundation for a more institutionalized planning process with standardized methods and tools. The authorities aim to shift towards full-fledged results-based budgeting and embed the sustainable development goals (SDGs) as part of this process, expected to be put in place in the 2022 budget.

9. Access to concessional climate finance remains a challenge. The authorities stated during the 2021 Article IV mission that so far, climate financing is offered at the same market rates as conventional instruments, with additional climate mitigating conditionalities and it did not make for a meaningful alternative available among the financing choices. Some of the main obstacles to timely access to global climate funds seem to be the lack of capacity to satisfy preconditions for climate finance, including provision of scientific evidence and involved paperwork. In this context, given that the Maldives has limited fiscal space, particularly post COVID-19, the authorities reiterated their request to the international community to step up cooperation efforts through financial assistance, capacity development, and facilitation of access to global climate finance at concessional rates.

[8] Government of Maldives. Strategic Action Plan 2019 – 2023

Structure of the SAP

Source. Government of Maldives. Strategic Action Plan 2019 – 2023

INTERNATIONAL MONETARY FUND

MALDIVES

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 29, 2021

Prepared By | Asia and Pacific Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of May, 2021)

Membership Status: Joined: January 13, 1978; Article XIV

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	21.20	100.00
Fund holdings of currency (exchange rate)	16.40	77.34
Reserve Tranche Position	4.80	22.66

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	7.69	100.00
Holdings	1.90	24.68

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
RCF Loans	21.2	100

Latest Financial Arrangements:

Type	**Arrangement Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR Million)**
RCF	04/22/2020		21.20	21.20
Stand-By	12/04/2009	12/3/2012	49.20	8.20
ESF	12/04/2009	12/3/2011	8.20	2.05

Projected Payments to Fund[1]

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	**2022**	**2023**	**2024**	**2025**
Principal					2.12
Charges/Interest	0.00	0.00	0.00	0.00	0.00
Total	**0.00**	**0.00**	**0.00**	**0.00**	**2.12**

[1]When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Arrangements

Since April 2011, the rufiyaa has floated in a band of 20 percent on either side of Rf 12.85 per dollar. In practice, however, the rufiyaa has been virtually fixed at the band's weaker end of Rf 15.42 per dollar. The de jure exchange rate arrangement is a pegged exchange rate within horizontal bands and the de facto exchange rate arrangement is classified as a stabilized exchange rate arrangement. Maldives continues to avail itself of the transitional provisions of Article XIV but no longer maintains any measures under this provision, and has not yet accepted the obligations of Article VIII, Sections

2, 3, and 4. It maintains an exchange restriction subject to IMF approval under Article VIII, Section 2(a) of the IMF's Articles of Agreement arising from a shortage of foreign exchange (FX) at the official rate which leads to the Maldives Monetary Authority (MMA) rationing its supply of FX to commercial banks. This results in a channeling of FX transactions for current international transactions to the parallel market where transactions take place at an exchange rate that deviates by more than 2 percent from the prevailing market exchange rate. The greater than 2 percent spread gives rise to multiple currency practice subject to IMF approval under Article VIII, Section 3 and also to an exchange restriction, given the additional cost involved for obtaining foreign exchange. Since April 2020, the MMA has continued to increase the amount of US dollar sales to commercial banks. The official exchange rate used by the MMA for government transactions is calculated based on the mid-point of the weighted average of the buying and selling rates of FX transactions conducted by commercial banks one day earlier. The lack of a mechanism to prevent the spread between this official exchange rate used by the MMA for government transactions and the prevailing market exchange rate from deviating by more than 2 percent gives rise to a multiple currency practice subject to IMF approval under Article VIII, Section 3.

Last Article IV Consultation

The 2019 Article IV consultation was concluded by the Executive Board on May 29, 2019.

Technical Assistance

FAD: FAD's main areas of engagement in recent years have been on public investment, fiscal transparency, SOEs, tax policy and tax administration. Public Investment Management Assessment (PIMA) was conducted by FAD in December 2016, with the purpose to identify, and propose improvements in, PFM practices that are associated with efficient public investment. October 2017 Tax Administration TA mission reviewed progress with the strategic priorities in the Maldives Inland Revenue Authority (MIRA) 2015–19 Strategic Plan. The January 2018 Budget Formulation TA mission focused on budget preparation and public investment management. A follow-up mission on Strengthening Public Investment Management took place in June 2018. In July 2018, a TA mission focused on developing a risk management framework for MIRA. A Tax Policy TA took place in February 2019, to assess the overall design of taxation in the Maldives and identify reform options to support revenue, efficiency, and equity. Also, in February 2019, concurrent tax administration missions took place to advise MIRA on the development of the 2020-24 Strategic Plan and risk framework, as well as improve the skills of staff. In February 2020, a mission took place to strengthen the management of fiscal risks of SOEs and a tax policy reforms assessing the recent progress and proposing further improvements. Also, in November 2020, two missions took place on reviewing the current Fiscal Responsibility Act and a Fiscal Transparency Evaluation following the Fiscal Transparency Code of the IMF. In 2021, FAD with MCM conducted a joint desk review of the debt management law.

LEG: In October 2003 provided TA on the revision of the Maldives Monetary Authority (MMA) Act. A series of missions (March and September 2005, and April 2006) were provided to revamp the banking law. In August 2009, a mission provided assistance on the MMA Act (jointly with MCM). A follow-up mission in February 2011 focused on payments law. LEG conducted an AML/CFT assessment in October 2010 and conducted a desk-based review of the draft AML/CFT law in May 2012. In 2014 and 2015 LEG provided advice on the Special Economic Zones Law, offshore banking legislation and deposit insurance.

MCM: In 2006, two missions provided TA on monetary operations, financial market development, and banking issues. In 2007, TA on debt management, monetary policy and financial supervision was delivered. In 2008, three missions consulted on monetary operations and liquidity management, monetary policy and financial supervision issues. In November 2008 and March/May/August 2009, TA was provided on research capacity building, banking supervision, and monetary policy and reviewing of the MMA Act with recommendations. Furthermore, two missions also provided advice on monetary operations, liquidity management, and the development of a crisis management framework. In December 2010, MCM conducted a TA mission on crisis preparedness and management, bank restructuring, and monetary operations. In May and September 2011, TA on the development of debt markets and on-site banking supervision was provided and in February 2012, on assessing the FX operations framework. In the first half of 2014, MCM continued its TA delivery on banking supervision along with a joint MCM-APD mission on developing FX market. The Department also provided advice on deposit insurance schemes during 2014. Banking supervision (March) and FX reserve management (September) continued to be areas of priority to the authorities in 2015 with MCM TA responding with follow-up missions. In March 2016 further TA on FX and monetary policy operations was also provided. A follow-up mission on banking supervision with a focus on operational risk took place in May 2016. During 2017, two HQ missions covering accounting and auditing framework for MMA, and two SARTTAC missions establishing the work plan for monetary operations and banking supervision took place. Four TA missions took place during 2017-18 as part of the multi-year TA program to enhance the supervisory capacity of the Insurance Division of the MMA. In December 2018, a multitopic TA took place to formulate a TA roadmap to support MMA’s reforms, including central bank governance, monetary and FX operations and financial sector supervision and regulation, with a follow up mission in 2019 and desk-review of various of policy notes in 2021 on Use of MVR in all monetary transactions; Repatriation and surrender of export earnings; Licensing money changers. SARTTAC fielded a mission in 2020 to assist MMA in strengthening its supervisory capacity in financial supervision and regulation of the banking and insurance. In January 2019, TA mission assisted the authorities in the application of International Financial Reporting Standard 9 – Financial Instruments and reviewing progress in the strengthening of their Internal Audit and Enterprise Risk Management practices. In February 2019, an external expert visited Maldives to advise the MMA governor on strengthening the MMA governance and internal organization.

***STA*:** In May 2007, STA conducted a mission on money and banking statistics. In February and April 2011, STA offered TA on multiple topics covering improvements in balance of payments statistics, government financial statistics (GFS), monetary and financial statistics (MFS) and national accounts. In June and September 2011, STA conducted TA missions on improving price statistics and on the General Data Dissemination System (GDDS). In February, May, and October 2012 STA continued providing TA on improving price statistics. Similarly, in April 2012, a TA mission on improving national accounts covered constructing GDP from the expenditure side and compiling quarterly national accounts. Further advice on improving GDP and developing quarterly GDP was provided in November 2012, January and July, 2014, and April 2015, the latter jointly with APD. Subsequently, Maldives attended a workshop for the ICP-SNA project covering both national accounts and price statistics. Between March 2013 and January 2016, STA field eight TA missions on balance of payments statistics and two on government finance statistics, in the context of a project funded by the Government of Japan. A last TA mission was conducted in February 2017. April 2018 external sector statistics SARTTAC mission assessed data reliability and assisted in improving specific BOP components, advised on further developments in source data and statistical techniques to address existing data gaps. August 2018 SARTTAC mission has provided GFS and public sector debt statistics (PSDS) training - the onset of a broader SARTTAC training and technical assistance effort to enable the Maldives to improve and strengthen its fiscal reporting. January 2019 SARTTAC mission on GFS and PSDS focused on strengthening compilation and dissemination of the statistics in line with internationally accepted statistical standards. A subsequent SARTTAC PSDS training mission, held in August 2019, provided training to compilers on the concepts, methods, and practices related to PSDS compilation and dissemination. February 2019 SARTTAC missions assisted with the updating of the consumer price index and developing experimental annual GDP estimates by expenditure at current prices for 2017. In January 2020 and January 2021, SARTTAC GFS and PSDS missions focused on enhancing compilation and dissemination practices, including aligning GFS and PSDS reports to the *GFSM 2014* framework, moving forward to producing quarterly GFS reports, and broadening the institutional coverage of the fiscal statistics. During 2020 and the first half of 2021 several SARTTAC missions focused on national accounts statistics including improving the expenditure approach for annual GDP and quarterly national accounts.

Safeguards Assessment

In line with the Fund's safeguards assessments policy, an assessment of the MMA was concluded in March 2010. In addressing Fund’s recommendations, the MMA appointed an external auditor and strengthened controls over foreign payments through the automation of the authorization process. A Chief Internal Auditor was also appointed, while capacity in the internal audit function has continued to improve. In addition, to strengthen the legal framework, amendments to the MMA Act were drafted in 2011 in consultation with the Fund. While the MMA Act was amended in 2015, some safeguards recommendations on the establishment of an Audit Committee, limits on credit to government, and safeguards for personal autonomy of Board members have not been incorporated.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Information on the activities of other IFIs in Maldives can be found at:

https://www.worldbank.org/en/country/maldives

https://www.adb.org/countries/maldives/main

STATISTICAL ISSUES

(As of June 2021)

I. Assessment of Data Adequacy for Surveillance
General: Macroeconomic statistics have improved in recent years, with technical assistance from STA and the Asian Development Bank (AsDB). While data are broadly adequate for surveillance there are nonetheless data gaps remaining affecting the balance of payments, government finance, and national accounts statistics.
Real sector: The estimates of GDP have been revised using new benchmark data (including supply and use tables) and have been rebased to 2014. The revised annual and quarterly GDP estimates from 2003 to 2016 were released at the end of 2017. Estimates of GDP by expenditure at current prices were prepared as part of the 2014 supply and use tables, which was balanced so that there was no statistical discrepancy. However, the authorities are preparing independent estimates of GDP by expenditure, and comparing them with estimates of GDP by economic activity to assess the statistical discrepancy and the quality of the two measures. Significant discrepancies remain. STA and SARTTAC have provided substantial assistance for improving the annual production and expenditure GDP measures, and for developing and improving quarterly GDP series. An updated Consumer Price Index (CPI) with weights from the 2016 Household Income and Expenditure Survey was introduced in 2019. The updated CPI included new outlets and basket items, and an expanded survey of rental units. The Production Price Index (PPI) had not been produced in 2017-2019, but SARTTAC supported the re-introduction of a quarterly PPI covering the education sector in 2020. Additional PPIs for communications, utilities, and accommodation and food services are planned to be disseminated in 2021.
Fiscal sector: With support from SARTTAC, the authorities are currently disseminating GFS data based on the *Government Finance Statistics Manual 2014* for the budgetary central government. Furthermore, the authorities have ongoing reforms to update the chart of accounts and update the accounting basis to follow international standards allowing for the production of balance sheet data. Data on local government is limited; however, with decentralization being implemented, plans are underway to provide a portal with detailed data on the finances of local government. On SOEs, a quarterly report is produced with data on individual SOEs; however, GFS data for a consolidated public corporations subsector is not currently being produced. Nevertheless, plans are underway with support from SARTTAC to produce such data.
Financial sector: APD receives an electronic report on monetary statistics every two weeks, covering the balance sheets of the MMA and the commercial banks. Current summary data are published in the MMA's *Monthly Statistics* publication as well as in its Quarterly Economic Bulletin and Annual Report. There are inconsistencies between monetary and fiscal data

regarding the financing of the fiscal deficit due to issues of timing and coverage. The MMA uses the standardized report forms (SRFs) to report data for the central bank, other depository corporations and other financial corporations on a regular basis. An integrated monetary database that meets the needs of the MMA, STA, and APD is operational. Maldives also reports data on some key series and indicators of the Financial Access Survey, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the United Nations to monitor Target 8.10 of the Sustainable Development Goals. MMA reports all twelve core Financial Soundness Indicators (FSIs) and six additional FSIs for deposit takers as well as two additional FSIs on real estate markets on quarterly basis for publication on the IMF's FSI website. MMA could improve its coverage of the additional FSIs to include other sectors, notably, other financial corporations, nonfinancial corporations, and households.
External sector: The MMA compiles balance of payments data on an annual basis only. MMA has taken some actions to improve data coverage by preparing a project to enhance the international transaction reporting system (ITRS), better coordination among data producers, and improving data collection processes. Estimation of travel credits should be further improved, and a new survey should be launched to capture the ongoing construction of mega projects. MMA does not compile International Investment Position (IIP), Coordinated Direct Investment Survey (CDIS), Coordinated Portfolio Investment Survey (CPIS) data, and there are difficulties in pulling together all the existing information that would allow for a consistent compilation of the financial transactions for the preparation of these data. Quarterly data on external debt and debt service are available for the government and the MMA, and to some extent for the banking sector and state enterprises, but no data are reported to the World Bank Quarterly External Debt Statistics (QEDS) database. The main source for EDS is the Commonwealth Secretariat Debt Recording Management System (DRMS). This system has inbuilt EDS templates for reporting these data to the World Bank and for assisting the MMA in improving balance of payments data and, in the future, for the preparation of the IIP. Official reserves assets are reported every two weeks with a (variable) one-week lag. Predetermined foreign currency outflows (mainly debt service payments) are known and reported to APD at the time of annual Article IV consultation missions, while other movements of foreign currency assets are not identified.

II. Data Standards and Quality	
Maldives has participated in the General Data Dissemination System (GDDS) since October 14, 2011. An STA e-GDDS mission took place in 2019 assisting the authorities publish essential macroeconomic data through a National Summary Data Page (NSDP).	No data ROSC available.

Maldives: Table of Common Indicators Required for Surveillance (As of June 30, 2021)					
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	May 2021	June 2021	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May 2021	June 2021	M	M	M
Reserve/Base Money	May 2021	June 2021	M	M	M
Broad Money	May 2021	June 2021	M	M	M
Central Bank Balance Sheet	May 2021	June 2021	M	M	M
Consolidated Balance Sheet of the Banking System	May 2021	June 2021	M	M	M
Interest Rates[2]	April 2021	June 2021	M	M	M
Consumer Price Index	May 2021	June 2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N.A.	N.A.	N.A.	N.A.	N.A.
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2020	June 2021	A	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2021 Q1	June 2021	Q	Q	Q
External Current Account Balance	2020	May 2021	A	A	A
Exports and Imports of Goods and Services	2020	May 2021	A	A	A
GDP/GNP	2019A, 2020 Q4	August 2020, April 2021	A, Q	A, Q	A, Q
Gross External Debt	2021 Q1	June 2021	Q	Q	Q

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2]Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds. Interest rates on bank deposits are not provided.
[3]Foreign, domestic bank, and domestic nonbank financing.
[4]The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5]Including currency and maturity composition.
[6]Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND

MALDIVES

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

July 29, 2021

Approved By
Ranil Salgado (IMF), Marcello Estevao and Zoubida Allaoua (IDA)

Prepared by the staffs of the International Monetary Fund and the International Development Association.

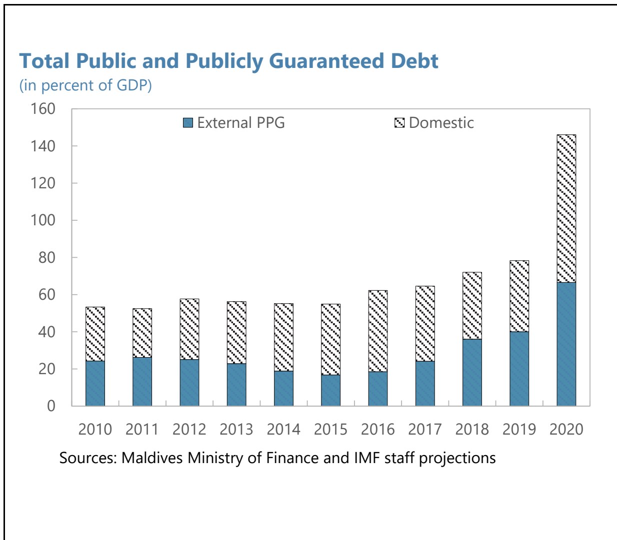
Maldives Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress:	High
Overall risk of debt distress:	High
Granularity in the risk rating:	Not sustainable under baseline
Application of judgement:	No

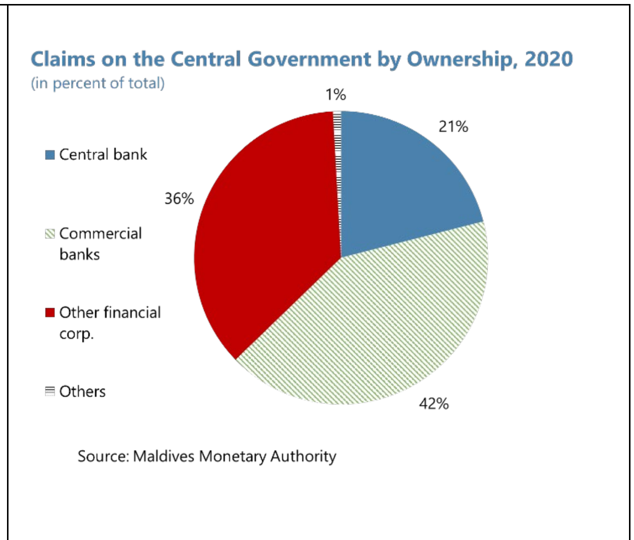
The Maldives continues to be at a high risk of debt distress. Since the April 2020 Debt Sustainability Analysis (DSA), all end-2020 debt indicators have deteriorated, mostly reflecting the larger than expected impact of COVID-19 on the economy, especially tourism related sectors.[1] *Projections for the debt level and fiscal deficit have worsened, driven by both a lower projected GDP path and the authorities' expanded medium-term public investment program. The April 2021 Sukuk issuance rolled over 77 percent of the 2020 Eurobond, decreasing the associated rollover risk. The authorities are, and have been, current on debt service obligations to both domestic and external creditors. Nonetheless, unlike the April 2020 DSA, protracted breaches in several debt indicators over the medium term make the assessment of debt unsustainable under the baseline projections. Securing debt sustainability requires balanced and sustained fiscal consolidation, conservative debt management, and continued strong growth. With prominent downside risks to the outlook, debt dynamics will remain vulnerable to adverse shocks to growth, interest rates, and the fiscal position.*

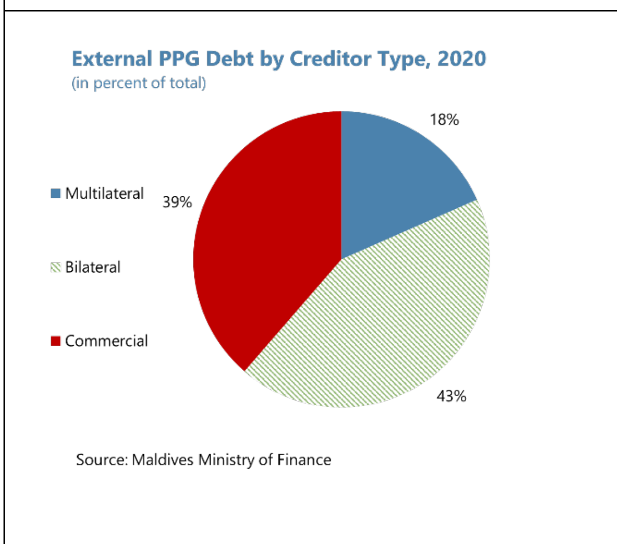
[1] The debt carrying capacity of the Maldives is classified as weak. The composite indicator is estimated at 2.53 and it is based on the April 2021 WEO and 2019 World Bank's Country Policy and Institutional Assessment (CPIA) score.

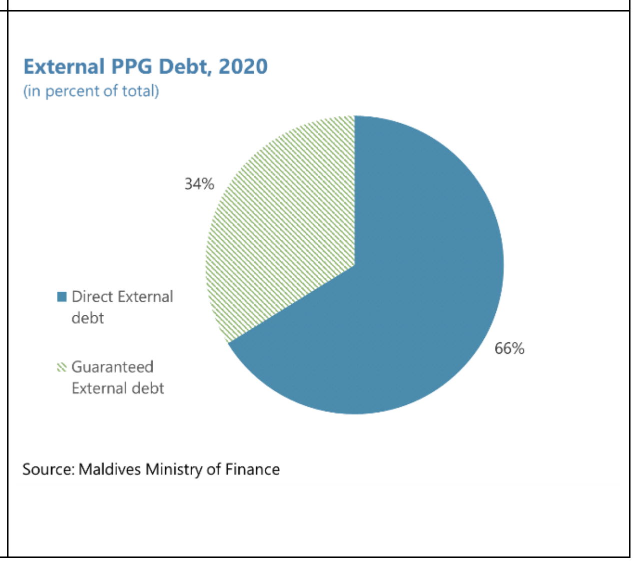
BACKGROUND AND DEVELOPMENTS ON DEBT

1. **The total PPG debt-to-GDP ratio increased from 78 percent in 2019 to 146 percent in 2020, reflecting both the contraction in nominal GDP by about 34 percent and an expansion in PPG nominal debt by 24 percent.** Total Public and Publicly Guaranteed (PPG) debt stood at USD 5,459 million, or 146 percent of GDP at end-2020. This implies a nominal increase of about USD 1048 million (24 percent growth) compared to end-2019 debt levels. Both external and domestic debt increased during 2020.[2]





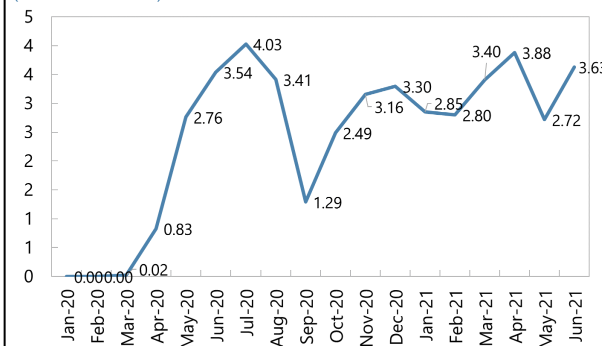




[2] The Maldives availed of swap arrangements with the Reserve Bank of India (RBI) for USD 400 million by the end of 2020. These amounts were availed in two tranches, USD 150 million in April and USD 250 million in December. The USD 150 million was repaid in January 2021. The swap arrangement with the RBI is for the purpose of reserve management and there is no indication it is being used for fiscal purposes. Thus, the swap with RBI is excluded from public debt.

2. **Domestic PPG debt stood at USD 2,972 million or 79.5 percent of GDP by end 2020.** This is an increase of around USD 817 million from 2019 and includes USD 214 million in advances from the Maldives Monetary Authority (MMA) to the central government and a USD 250 million bond purchased by the State Bank of India Malé Branch as budget support to buffer the impact of COVID-19. Outstanding public debt of the central government is owed mostly to commercial banks at 42 percent,[3] followed by other financial corporations, including pension funds at 36 percent, and the central bank at 21 percent. Domestic debt outstanding to the central bank includes around USD 390 million (or 13 percent of domestic PPG debt) from a bond issued in 2014 to convert debt held by the MMA in the ways and means account. To bridge the financing of the government during the COVID-19 crisis, in end-April 2020 the parliament of the Maldives approved the temporary suspension of elements of the Fiscal Responsibility Act (FRA) to allow for a one-year expansion of the cap on government advances with the MMA to MVR 4.4 billion (around USD 286 million). The Ministry of Finance has requested from parliament a one-year extension to the increase in the cap on government advances to help bridge financing needs in 2021. Total government advances with the MMA stood at around USD 214 million by end-2020.

MMA Advances to the Government
(In billions of MVR)



Sources: Maldives Monetary Authorities and IMF staff calculations.

3. **External PPG debt stood at USD 2,488 million, or 66.5 percent of GDP on end-2020.** Around 34 percent of external PPG debt (USD 841 million) is guaranteed by the government and 67 percent of it is associated with the financing of large housing projects by the state-owned enterprise (SOE) the Housing Development Corporation (HDC) . Guaranteed external debt is owed mainly to commercial creditors (around 72 percent) with the rest bilateral (26 percent) and a small amount to a multilateral creditor (2 percent). Direct external debt is largely held by bilateral creditors (52 percent), with multilateral creditors holding 27 percent and commercial creditors holding 21 percent. Chinese creditors hold around 53 percent of External PPG debt. During 2020, the Maldivian government received exceptional external COVID-19 funding amounting to around USD 196 million in loans, USD 28.9 million from the IMF's Rapid Credit Facility (RCF) approved on April 22, 2020, and USD 56 million in grants.[4] The Maldives has issued two sovereign Eurobonds with a total face value of USD 350 million, and in March 2021 issued a Sukuk bond with a face value of USD 200 million that will be used to rollover 77 percent of the USD 250 million maiden Eurobond to April 2026.[5] The Sukuk subscription was reopened on April 27 under the same conditions, and

[3] The SBI loan is included in commercial bank claims on the central government.

[4] Around 90 percent of grants were provided by the Asian Development Bank (USD 27.3 million), World Bank (USD 16.1 million), and Japan (USD 7.5 million).

[5] The Sukuk has a coupon of 9.875 percent, yield of 10.5 percent at issuance, maturity of five years (in 2026), and a bullet repayment. The maiden Eurobond was issued in 2017, has a face value of USD 250 million, coupon of 7 percent, maturity of five years (in 2022), and a bullet repayment. The privately placed Eurobond was issued in 2018, has a face value of USD 100 million, coupon of 5.5 percent, original maturity of five years (in 2023), extended by three years (to 2026), and a bullet repayment.

the government placed an additional USD 100 million.[6] The Maldives applied for the G20 Debt Service Suspension Initiative (DSSI) and received relief from most bilateral official creditors totaling around USD 19 million in 2020. They also applied for both extensions to the DSSI from creditors that provided suspension on the original request. Benefits from the extension are estimated at around USD 69 million in 2021.[7]

4. **This debt sustainability analysis includes PPG external and domestic debt.** Public debt includes the debt of the central government, including guarantees to SOEs. Other components do not apply to the Maldives. External debt is defined by the residency criteria. The government domestically issues some USD denominated debt (outstanding as of December 2020 was USD 205 million) and has recently borrowed USD 250 million from the State Bank of India branch in Malé. These amounts are classified as domestic debt since the holders are residents. In keeping with the government's commitment to transparency in debt data, information about guarantees to SOEs and other details of the public debt are publicly disclosed on the webpage of the Ministry of Finance.

Public Debt Coverage

Subsectors of the public sector	Sub-sectors covered
Central government	X
State and local government	
Other elements in the general government	
o/w: Social security fund	
o/w: Extra budgetary funds (EBFs)	
Guarantees (to other entities in the public and private sector, including to SOEs)	X
Central bank (borrowed on behalf of the government)	
Non-guaranteed SOE debt	

[6] As an IDA-eligible country at high risk of external debt distress, Maldives is subject to a zero ceiling on external non-concessional borrowing under IDA's Sustainable Development Finance Policy (SDFP).

[7] The DSSI is a G20 initiative to help IDA-eligible countries cover the health costs of COVID-19. The original DSSI consisted of a suspension of interest and principal repayments due between May 1 and Dec. 31, 2020 from official bilateral creditors on direct debt. Private creditors were encouraged to participate. Two extensions of the DSSI were applied to suspend interest and principal payments falling in 2021. The payment of suspended amounts will be NPV neutral. The suspended amounts from the original DSSI are to be repaid in three years with one-year grace. The amounts from the extension are to be repaid over 5 years with one-year grace.

BACKGROUND ON MACRO FORECASTS

5. The impact of COVID-19 on the Maldives has been worse than projected at the time of the last DSA which was prepared for the 2020 RCF report.

- **Growth and inflation.** The tourism sector makes up around one quarter of value-added GDP and is a major driver of growth. The baseline of the 2020 RCF report, following global assumptions for the April 2020 WEO, assumed a shorter-lived contraction in economic activity, with the tourism sector recovering to pre-COVID levels in Q4 2020. In contrast, the depth of the recession was much larger with growth contracting by 32 percent in 2020 and with tourism in December 2020 recovering to around 56 percent of pre-COVID levels. The pace of the recovery in tourism since December 2020 in the Maldives is promising and ahead of its competitors. Tourist arrivals in 2021 to date, June 30, continue to be at around 59 percent of their pre-COVID levels despite no arrivals from China, the largest market for tourists in 2019. Most tourist arrivals post-COVID have been from India (17 percent), Russia (23 percent), and other European countries (19 percent). Between the temporary halt in arrivals for tourists originating in South Asia on May 13 and end-June, 2021, tourist arrivals have been around 52 percent of their pre-COVID levels.[8] A partial GDP rebound is projected for 2021 with arrivals projected to be around 60 percent of the 2019 pre-COVID level. Medium-term growth projections are supported by a gradual return to the level of tourist arrivals projected for 2020 pre-COVID-19 by 2023 and the expansion of the airport to meet the pre-COVID-19 higher demand from airlines. Prices contracted in 2020 by about 1.6 percent and the outlook on inflation remains moderate.

- **Primary fiscal deficit.** The approved 2021 budget and 2022-23 medium-term projections envision an expansion of capital spending. The framework incorporates the revised capital expenditure plans of the authorities amounting to 16 percent of GDP in 2021, and 14 and 12 percent of GDP in 2022 and 2023, respectively. This is compared to capital expenditure of 9 percent of GDP in 2019 and an average of 8 percent of GDP during 2010-18. As such, the medium-term capital spending plans of the authorities imply that the primary fiscal deficit will remain elevated at around 14 percent of GDP in 2021 and decline to around 6 percent of GDP in 2023.

- **Domestic financing.** Assumptions on domestic financing are broadly in line with those of the 2020 RCF DSA. As of June 2020, around 62 percent of domestic financing in the Maldives was short term (maturity of less than one year). Interest rates on short-term debt have ranged between 3.7 and 4.5 percent since December 2016. Over the medium term, we assume around 60 percent of domestic financing is short term with an interest rate of 4 percent and that the share of long-term debt gradually increases over time. Unsecured financing is assumed to be met from domestic creditors. Domestic banks and pension funds are projected to remain the main holders of government debt.

[8] The halt was lifted for travelers originating in South Asia on July 15, 2021.

Change in Macro Assumptions

	2020	2021	2022	2023	2024	2025	2026	27-40
Real GDP growth (in percent change)								
Current	-32.0	18.9	13.2	12.1	6.1	5.4	5.4	4.6
Previous	-8.1	13.2	6.4	5.9	5.4	5.4	5.4	4.6
Inflation								
Current	-1.6	1.4	2.3	1.9	1.8	2.0	2.0	2.0
Previous	1.5	1.5	2.0	2.0	2.0	2.0	2.0	2.0
Primary fiscal deficit (in percent of GDP)								
Current	20.0	14.2	9.0	5.7	3.9	3.3	4.0	0.5
Previous	10.1	4.4	3.1	1.9	1.4	1.1	0.9	0.3
Non-interest current account deficit (in percent of GDP)								
Current	27.0	13.7	11.9	7.1	7.2	6.9	6.6	4.6
Previous	22.2	10.5	7.9	7.8	8.0	7.8	6.7	4.7
Grants (in percent of GDP)								
Current	2.5	2.1	2.7	2.3	1.4	0.9	0.8	0.3
Previous	2.6	1.4	1.0	0.7	0.6	0.6	0.5	0.3
Capital Expenditures (in percent of GDP)								
Current	14.6	15.6	13.9	12.4	11.3	10.2	10.8	7.0
Previous	8.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Public Debt (in percent of GDP)								
Current	146.0	137.2	133.3	128.2	128.4	126.8	122.9	100.3
Previous	93.9	87.3	85.4	83.0	80.7	78.1	75.5	61.4

- **Non-interest current account deficit (CAD).** Driven by a decline in imports, the current account deficit contracted by around 25 percent in 2020 (or USD 371 million) though the ratio to GDP remained elevated at 30 percent. Tourism-related receipts contracted by around 56 percent in 2020 but they are projected to increase into the medium-term with the steady increase of tourist arrivals. In 2020 tourist arrivals were around 555 thousand compared to 1.7 million in 2019. Arrivals are projected to be 1 million in 2021 and gradually increase to 1.96 million by 2023, around the level projected for 2020 before the COVID-19 shock. In line with the capital expenditure plans of the authorities, capital imports are projected to be elevated in the next few years. A large part of the current infrastructure investment push by the government is financed through external loans from India Exim Bank.

6. **The realism tool for the baseline projections pick up the substantial size of the authorities' capital investment plans over the next few years (Figure 3).** The improvement in the primary balance-to-GDP ratio between 2020 and 2023 is driven by a return to more moderate levels of capital spending and a recovery in GDP. Given the extraordinary nature behind the swings in growth rates, largely driven by changes in tourism, the multiplier approach is not a suitable way to calculate alternative growth paths. The Government of Maldives signed lines of credit for more than USD 1.2 billion with EXIM Bank India. The largest, for USD 800 million and USD 400 million, were signed in March 2019 and October 2020 respectively to finance several infrastructure projects including the development of the Gulhifalhu Port and relocation of Male Commercial Harbour, the Greater Male' Connectivity Project, construction of social housing units, and water and sanitation projects. The growth impact may be limited due to the high import content of such projects and the primarily social focus of several projects (i.e. housing, water and

sanitation). For this reason, the contribution of government capital expenditure to growth is expected to remain close to those in the previous DSA.

7. **Despite higher fiscal deficits, debt dynamics in the Maldives will be mostly driven by growth in the medium-term (Figure 4).** In the past, the current account deficit and the primary deficit have been the main contributors to the accumulation of external and domestic debt, respectively. Over the next five years, growth will be the dominating driver of both external and domestic debt dynamics countering the expansion of the fiscal deficit and leading to a moderate decline in projected debt-to-GDP ratios. In contrast to the last DSA, gross financing needs now breach their indicative benchmark, reflecting both lower GDP and higher borrowing (Figure 5).

COUNTRY CLASSIFICATION AND STRESS TESTS

8. **The debt carrying capacity of the Maldives remains weak.** The composite indicator (CI) score is calculated at 2.53 using the April 2021 WEO and the 2019 World Bank Country Policy and Institutional Assessment (CPIA). The CI is based on a weighted average of several factors such as the country's real GDP growth, remittances, international reserves, world growth, and the CPIA score. The calculation of the CI is based on 10-year averages of the variables, across five years of historical data and five years of projections, and the corresponding CPIA.

9. **Tailored stress tests for natural disasters, contingent liabilities, and market financing are relevant for the Maldives.** The Maldives is susceptible to rising sea levels and has issued two sovereign Eurobonds (amounting to USD 350 million) and a Sukuk for USD 300 million. Risks from the non-guaranteed SOE debt are covered by the contingent liability shock.[9] According to the 2020 Fiscal Transparency Evaluation (FTE), while there is no central information on the volume of the size of PPPs, it is understood that there are no major PPP projects in operation. The tailored stress tests were kept to their default calibrations as these are appropriate for the Maldives. The tailored stress tests are not the most extreme shocks for any of the debt indicators. The most extreme shocks are the combination shock and the shock to exports for the PPG external debt indicators, and the shock to growth for the public debt indicators.

[9] Most SOE debt is guaranteed, hence the default calibrated shock at 2 percent of GDP is reasonable to cover the risk from non-guaranteed SOE debt.

Capacity Indicator and Applicable Thresholds

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.249	1.25	49%
Real growth rate (in percent)	2.719	7.543	0.21	8%
Import coverage of reserves (in percent)	4.052	20.175	0.82	32%
Import coverage of reserves^2 (in percent)	-3.990	4.070	-0.16	-6%
Remittances (in percent)	2.022	0.000	0.00	0%
World economic growth (in percent)	13.520	3.078	0.42	16%
CI Score			2.53	100%
CI rating			Weak	

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Weak	Weak 2.53	Weak 2.41	Weak 2.47

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Stress Tests

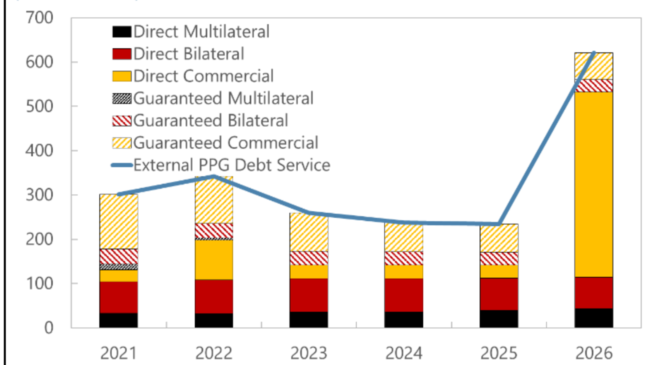
		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government, government-guaranteed debt		
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP	35 percent of PPP stock	0.00	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		7.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

10. External debt sustainability. Maldives remains at a high risk of external debt distress. Since the last DSA, all external debt indicators have deteriorated. This is due both to the stronger contraction in growth than projected for 2020 and the higher debt-financed capital expenditures over the medium-term.[10] The PPG external public debt-to-GDP ratio in the baseline scenario is projected to decrease by around 7 percentage points to 60 percent of GDP in 2021. The PV of the PPG external debt-to-GDP ratio will remain above the threshold of 30 percent until 2031. Meanwhile, the PV of the debt-to-exports ratio is below its threshold in the baseline scenario. Both liquidity indicators, the debt service-to-exports ratio and the debt service-to-revenue ratio, breach their thresholds under the baseline scenario due to elevated debt service obligations on existing external PPG debt.

Debt Service Payments on Outstanding* External PPG Debt
(in USD millions)



Source: Maldives Ministry of Finance
*includes outstanding as of end-2020 and the USD 300 million Sukuk in 2021

11. The authorities have been proactive in managing external rollover risks. In 2021 they issued USD 300 million in a Sukuk with a five-year maturity and a bullet repayment. However, the Sukuk was costly with a coupon of 9.875 percent and a yield of 10.5 percent. USD 200 million of the Sukuk issuance was used to repay 77 percent of the maiden USD 250 million Eurobond due in June 2022, mitigating rollover risks. The maturity of the privately placed USD 100 million bond was renegotiated in 2019 and extended by three years to 2026. Since the privately placed Eurobonds and the Sukuk will be due in 2026, this year exhibits a spike in debt service payments. The reprofiling of the debt under the DSSI has also increased debt repayment in the medium term, though amounts are relatively small.[11] Disbursements from the LOC with Exim India that occur in 2021 will start to amortize in 2026. The authorities created a sovereign development fund (SDF) to mitigate the rollover risk from these Eurobonds. Though the SDF was track path to cover the costs associated with the repayment of the Eurobonds, the COVID-19 crisis necessitated the use of most of the FX accumulated balances for MMA reserves and/or to satisfy FX demand. In the medium-term, rollover risks associated with commercial bonds, higher debt servicing costs, and continued borrowing to finance large fiscal deficits lead to protracted breaches in several external debt indicators, making debt unsustainable.

12. Overall public debt sustainability. The total PPG debt-to-GDP ratio is projected to decline by around 9 percentage points in 2021 to 137 percent on the back of higher GDP, and to gradually decline to 123 percent in 2026. Given the weak debt carrying capacity, the threshold on overall PV of debt-to-GDP is

[10] Annual IDA disbursements from 2022 until the end of the projection period are assumed on 100 percent grant terms.

[11] The authorities applied for the DSSI and both extensions. Relief in 2020 is USD 19 million, and for 2021 estimated at USD 69 million.

35 percent. The Maldives breaches this threshold for the entire projection period and remains at a high risk of overall debt distress. The domestic debt market is an important source of financing for the government with domestic debt making up 59 percent of total PPG debt on average between 2010 and 2019. It is worth noting in this context that although the Maldives qualifies for PRGT resources and thus uses the LIC DSF, the structure of the economy is closer to an EM given the level of the country's development and GDP-per-capita (above USD 10 thousand in 2019). Nonetheless, the debt-to-GDP ratio of the Maldives is above 70 percent, which according to the MAC DSA is the ratio that best predicts the occurrence of a debt distress event in EM countries. The IMF and the WB are both providing debt management technical assistance to the authorities.[12] The development of the domestic debt market to lengthen the maturity of domestic debt, especially in the case of foreign exchange denominated instruments issued in domestic markets, was recommended to the authorities. The Ministry of Finance is committed to transparency and formulates and publishes its medium-term debt strategy on its website annually. In addition, a public debt bulletin is published biannually and figures on debt outstanding are published quarterly.

RISK RATING AND VULNERABILITIES

13. The Maldives has a high risk of external debt distress and a high overall risk of debt distress. The external and fiscal positions have weakened relative to the 2020 RCF DSA due to the deeper and longer than expected COVID-19 shock as well as the authorities' expanded medium-term public investment program. Financing the larger fiscal deficit has turned more difficult and expensive, triggering the need to extend the suspension of elements of the FRA to allow the increased cap on MMA advances for one year beyond what was envisaged in April 2020. The authorities are, and have been, current on debt service obligations to both domestic and external creditors. While the recent Sukuk issuance partially mitigates rollover risks, high debt servicing costs through the medium-term and continued borrowing to finance large fiscal deficits lead to protracted breaches in several debt indicators over the medium term. As such, debt is assessed to be unsustainable under the baseline projections. Securing debt sustainability requires balanced and sustained fiscal consolidation, conservative debt management, and continued strong growth. Fiscal consolidation should include rationalizing capital spending, especially in large public investment projects carried out by the central government or SOEs, and over the medium term, mobilizing further revenues by also diversifying the tax base toward domestic resources. With prominent downside risks to the outlook, debt dynamics will remain vulnerable to adverse shocks to growth, interest rates, and the fiscal position.

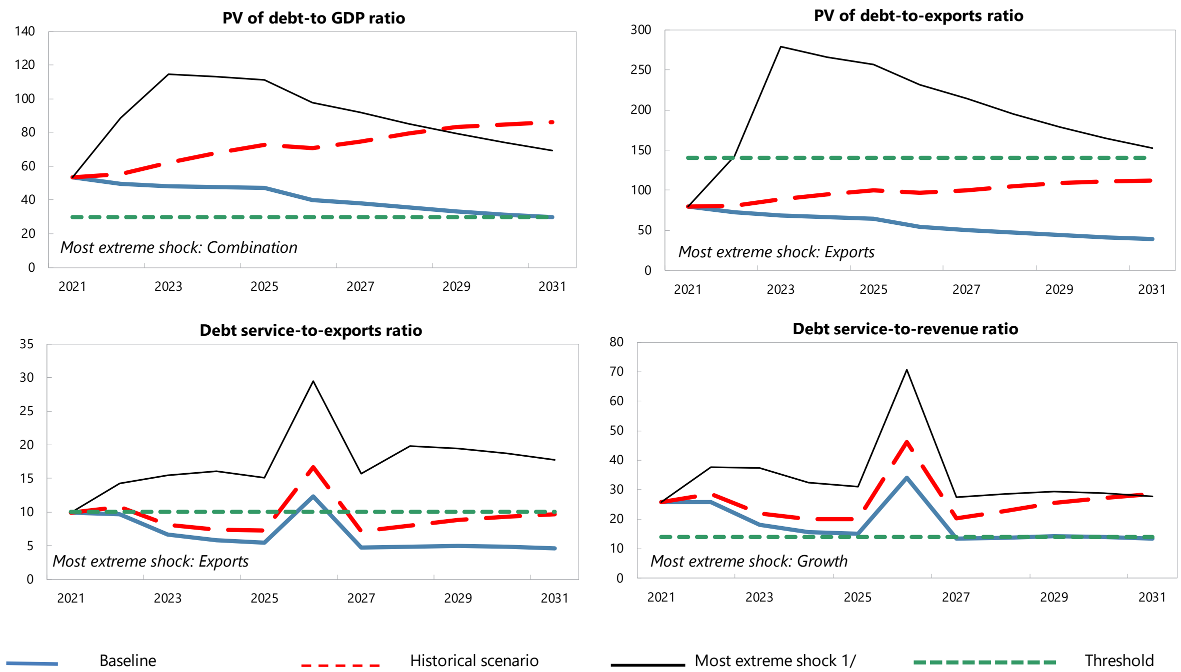
AUTHORITIES VIEWS

14. The authorities emphasized that understanding the context of the COVID-19 shock is important in making an assessment on debt sustainability. The shock to GDP was severe and caused an upward revision to all ratios to GDP. They note that the Sukuk issuance was oversubscribed signaling healthy demand for the sovereign debt of Maldives in international markets. The authorities also pointed

[12] Performance and policy actions under IDA's SDFP are being carried out to strengthen debt transparency and debt management.

out that Sukuk bonds were trading at a premium. The authorities plan to remain active in international markets and plan additional Sukuk issuances for the current year and through 2023. The authorities emphasized as an additional upside their role in proactively managing rollover risks from their outstanding Eurobonds, in 2019 by extending the maturity of the privately placed USD 100 million Eurobond by three years, and in 2021 by rolling over 77 percent of the maiden Eurobond. The authorities also highlighted that the external loans (excluding sovereign bonds) of the central government were highly concessional and have a weighted average interest rate of 2.2 percent. The weighted average interest rate for the stock of public external debt, including sovereign bonds, was around 3.5 percent. The authorities highlighted repayment capacity, as an important dimension of debt sustainability, where the deterioration was less severe and is expected to recover faster than stock ratios of GDP. The authorities attribute the ongoing capital spending expansion to a large extent to the infrastructure projects initiated in 2019 and their associated large disbursements materializing over the medium-term. In 2019 when the government came into power many of the projects undertaken by the former administration had been completed or were on halt, therefore capital spending was relatively low in 2019 compared to recent years. In 2019 the projects initiated by the government were in the planning and preparatory stages, with the major disbursements on these projects happening in 2020. The authorities note that the Sovereign Development Fund (SDF) established in 2017 to set aside funds for future debt repayment obligations of the Maldives, has reached a fund size of USD 223 million as of July 2020. With the recent increase in Airport Development Fee rates and the forecasted recovery in the tourist arrivals, the SDF size will continue to grow in the coming years. Currently the government is working on drafting an act to strengthen the legal status and governance of the SDF.

Figure 1. Maldives: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2021–2031



Customization of Default Settings		
	Size	**Interactions**
Tailored Stress		
Combined CL	No	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	No	No

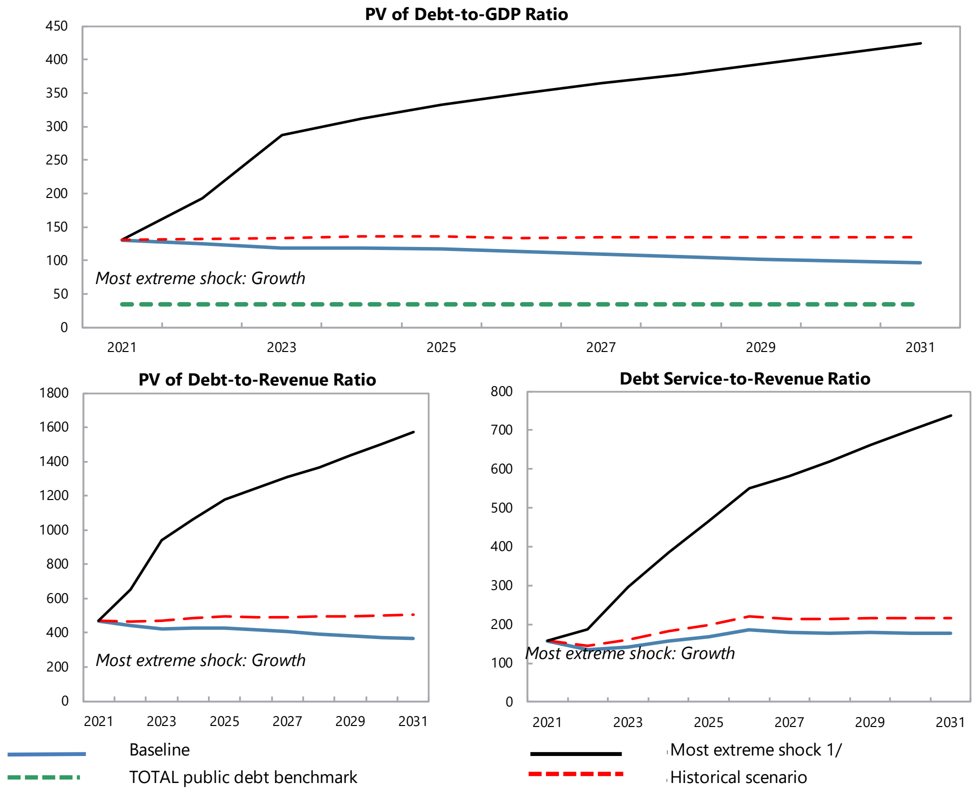
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	**User defined**
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	4	4

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Maldives: Indicators of Public Debt Under Alternatives Scenarios, 2021–2031



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	11%	11%
Domestic medium and long-term	31%	31%
Domestic short-term	58%	58%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.5%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.9%	2.9%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	1.9%	1.9%

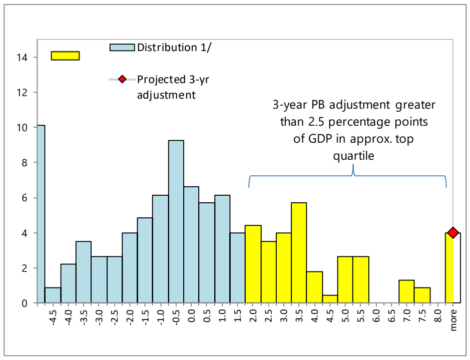
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

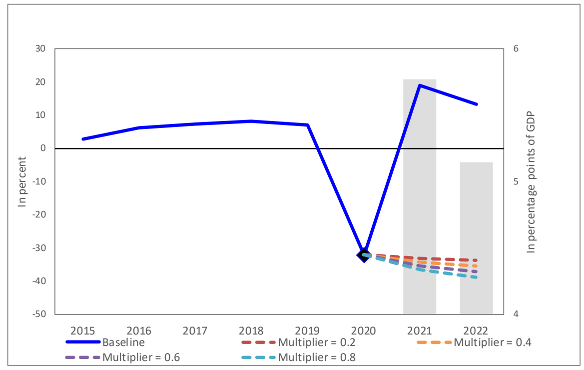
Figure 3. Maldives: Realism Tools

3-Year Adjustment in Primary Balance (Percentage points of GDP)



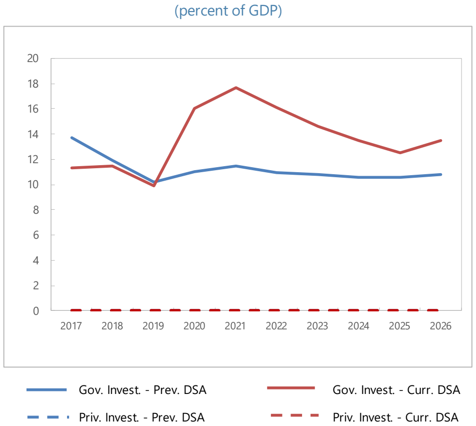
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

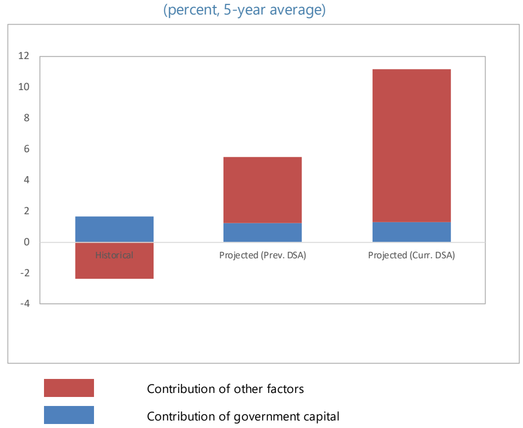
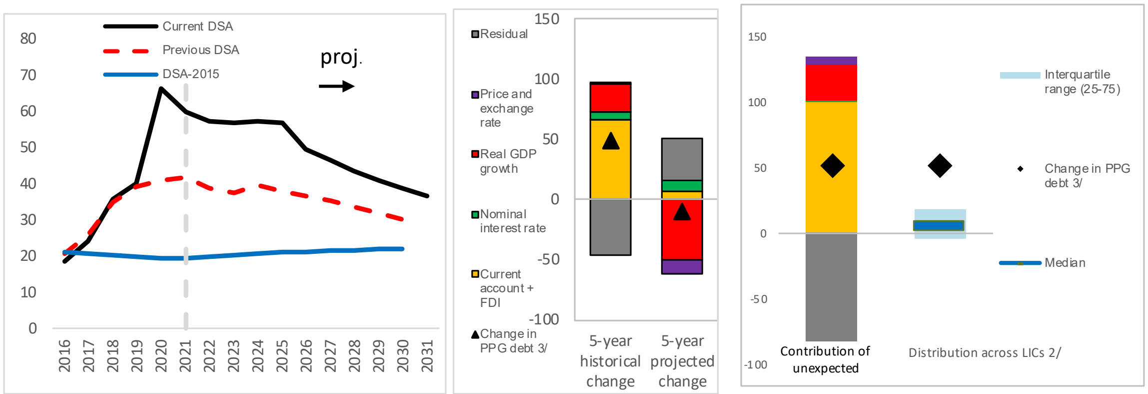


Figure 4. Maldives: Drivers of Debt Dynamics – Baseline Scenario

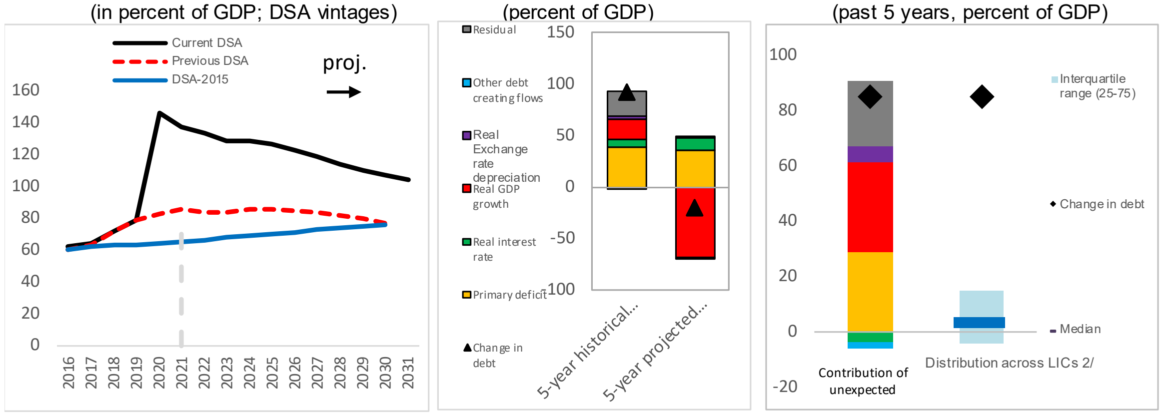
External debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



1/ Difference betw een anticipated and actual contributions on debt ratios.

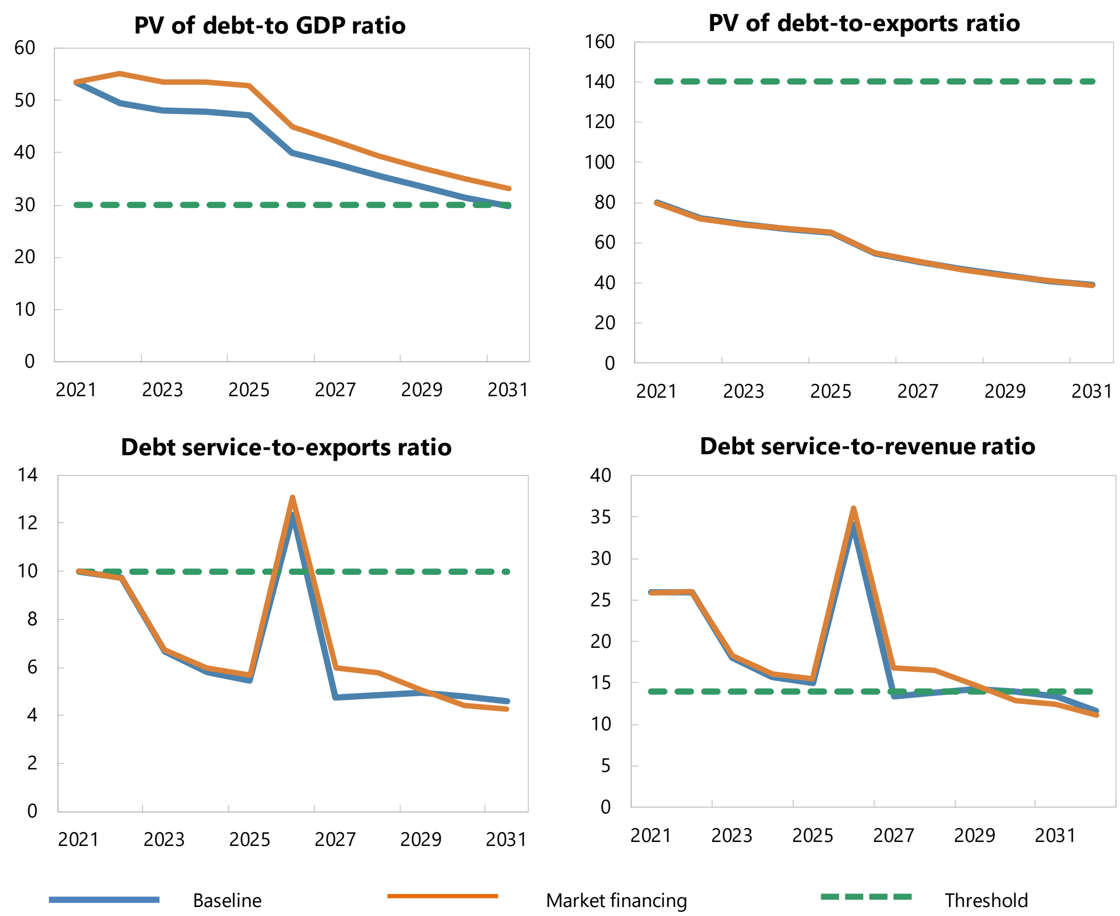
2/ Distribution across LICs for w hich LIC DSAs w ere produced.

3/ Given the relatively low private external debt for average low -income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 5. Maldives: Market Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	58	n.a.
Breach of benchmark	Yes	n.a.
Potential heightened liquidity needs	Moderate	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



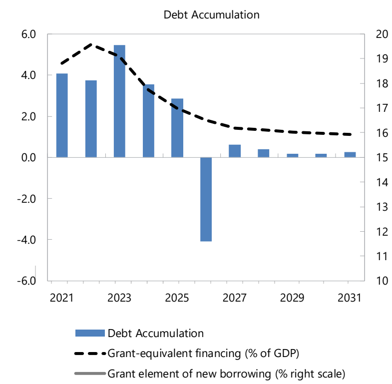
Sources: Country authorities; and staff estimates and projections.

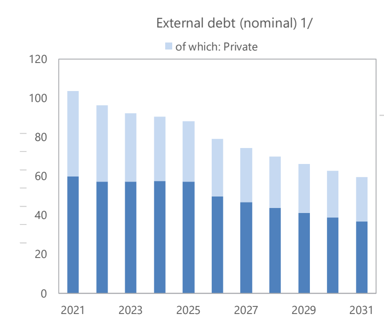
Table 1. Maldives: External Debt Sustainability Framework, Baseline Scenario, 2018–2041

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	62.2	68.9	119.3	103.5	96.1	92.1	90.4	88.2	79.0	59.4	41.5	46.4	80.2
of which: public and publicly guaranteed (PPG)	36.0	40.1	66.5	59.8	57.2	57.1	57.4	57.0	49.5	36.7	27.4	29.5	49.6
Change in external debt	26.6	6.7	50.4	-15.8	-7.4	-4.1	-1.6	-2.3	-9.2	-3.2	-0.9		
Identified net debt-creating flows	13.8	5.6	55.5	-10.4	-5.9	-9.2	-4.2	-4.0	-3.8	-1.8	-0.6	6.8	-5.3
Non-interest current account deficit	27.6	25.5	27.0	13.7	11.9	7.1	7.2	6.9	6.6	5.0	5.7	16.0	6.8
Deficit in balance of goods and services	9.8	6.2	17.4	2.9	-2.2	-7.4	-7.1	-7.7	-7.9	-9.4	-5.5	-1.8	-7.3
Exports	67.7	66.4	47.6	66.9	68.5	69.7	71.6	72.5	73.1	76.5	77.1		
Imports	77.5	72.6	65.0	69.7	66.2	62.3	64.5	64.8	65.2	67.1	71.5		
Net current transfers (negative = inflow)	9.3	10.3	5.0	3.4	7.3	7.7	7.4	7.7	7.6	7.6	4.9	9.3	7.1
of which: official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	8.5	9.0	4.7	7.5	6.8	6.8	6.9	6.9	6.9	6.8	6.3	8.5	6.9
Net FDI (negative = inflow)	-10.9	-17.1	-9.3	-7.9	-8.0	-8.0	-8.0	-8.0	-7.5	-5.0	-5.0	-10.9	-7.0
Endogenous debt dynamics 2/	-2.9	-2.8	37.8	-16.2	-9.8	-8.3	-3.4	-2.9	-2.9	-1.8	-1.3		
Contribution from nominal interest rate	0.8	0.9	2.9	2.2	2.0	1.8	1.8	1.7	1.5	0.8	0.6		
Contribution from real GDP growth	-2.6	-4.1	33.2	-18.4	-11.8	-10.1	-5.2	-4.6	-4.4	-2.6	-1.9		
Contribution from price and exchange rate changes	-1.1	0.3	1.7	...	...	...	...	...	...	...	...		
Residual 3/	12.8	1.0	-5.1	-5.3	-1.5	5.2	2.6	1.7	-5.4	-1.4	-0.3	1.0	-0.2
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	61.4	53.5	49.4	48.0	47.8	47.1	40.0	29.8	22.5		
PV of PPG external debt-to-exports ratio	...	...	128.9	80.0	72.2	68.9	66.7	64.9	54.7	38.9	29.2		
PPG debt service-to-exports ratio	2.4	5.1	17.7	10.0	9.7	6.7	5.8	5.5	12.4	4.6	3.3		
PPG debt service-to-revenue ratio	6.1	13.4	34.1	25.9	26.0	18.1	15.7	15.0	34.1	13.4	9.6		
Gross external financing need (Million of U.S. dollars)	1242.8	904.6	1239.5	848.3	840.2	518.8	516.6	504.3	921.3	701.4	1024.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	8.1	7.0	-32.0	18.9	13.2	12.1	6.1	5.4	5.4	4.4	4.7	2.5	7.8
GDP deflator in US dollar terms (change in percent)	3.1	-0.5	-2.4	2.9	2.3	1.9	1.8	2.0	2.0	2.0	0.7	2.1	2.1
Effective interest rate (percent) 4/	2.4	1.6	2.8	2.2	2.3	2.2	2.1	2.0	1.8	1.4	1.6	1.7	1.8
Growth of exports of G&S (US dollar terms, in percent)	8.0	4.4	-52.4	71.8	18.6	16.4	10.9	8.9	8.3	6.5	6.6	1.4	15.9
Growth of imports of G&S (US dollar terms, in percent)	17.1	-0.3	-40.6	31.3	10.0	7.5	11.8	8.0	8.1	6.2	8.3	5.8	10.5
Grant element of new public sector borrowing (in percent)	...	...	...	24.4	26.8	26.5	26.2	26.0	25.6	23.7	21.5	...	25.3
Government revenues (excluding grants, in percent of GDP)	26.2	25.4	24.8	25.8	25.7	25.7	26.4	26.4	26.4	26.2	26.3	25.2	26.2
Aid flows (in Million of US dollars) 5/	53.2	74.9	92.0	193.0	264.7	270.0	193.6	150.7	124.9	108.6	131.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.6	5.5	4.9	3.3	2.4	1.8	1.1	0.7	...	2.6
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	37.9	42.3	40.6	38.8	35.4	37.8	32.7	24.1	...	37.3
Nominal GDP (Million of US dollars)	5,293	5,632	3,738	4,573	5,296	6,049	6,533	7,027	7,553	10,609	19,865		
Nominal dollar GDP growth	11.5	6.4	-33.6	22.4	15.8	14.2	8.0	7.6	7.5	6.5	5.5	4.8	10.1
Memorandum items:													
PV of external debt 7/	...	...	114.1	97.2	88.3	83.1	80.8	78.2	69.5	52.4	36.5		
In percent of exports	...	...	239.7	145.5	129.1	119.1	112.8	107.9	95.0	68.5	47.4		
Total external debt service-to-exports ratio	9.9	11.4	32.5	19.1	17.5	13.6	12.2	11.4	17.9	8.7	5.8		
PV of PPG external debt (in Million of US dollars)			2294.3	2446.1	2617.4	2906.6	3121.3	3308.9	3022.1	3159.4	4463.3		
(PVt-PVt-1)/GDPt-1 (in percent)				4.1	3.7	5.5	3.5	2.9	-4.1	0.3	1.0		
Non-interest current account deficit that stabilizes debt ratio	1.0	18.9	-23.4	29.5	19.2	11.2	8.8	9.1	15.8	8.1	6.6		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

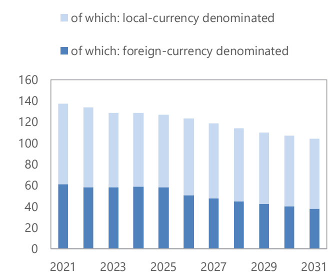
Table 2. Maldives: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018–2041

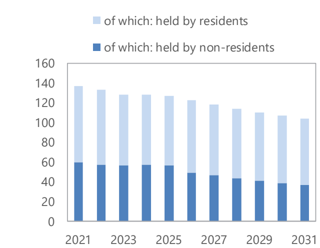
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	**72.0**	**78.3**	**146.0**	**137.2**	**133.3**	**128.2**	**128.4**	**126.8**	**122.9**	**104.0**	**89.8**	**70.0**	**120.9**
of which: external debt	**36.0**	**40.1**	**66.5**	**59.8**	**57.2**	**57.1**	**57.4**	**57.0**	**49.5**	**36.7**	**27.4**	**29.5**	**49.6**
Change in public sector debt	7.5	6.3	67.7	-8.8	-3.9	-5.2	0.2	-1.6	-3.8	-2.9	0.0		
Identified debt-creating flows	**-0.7**	**2.5**	**60.1**	**-6.4**	**-4.3**	**-6.0**	**-1.1**	**-1.1**	**-3.4**	**-2.5**	**-0.3**	**6.1**	**-3.5**
Primary deficit	**3.5**	**4.9**	**20.0**	**14.2**	**9.0**	**5.7**	**3.9**	**3.3**	**4.0**	**0.4**	**0.6**	**5.3**	**3.8**
Revenue and grants	27.2	26.8	27.2	27.9	28.4	28.0	27.9	27.3	27.2	26.6	26.4	**26.1**	**27.4**
of which: grants	1.0	1.3	2.5	2.1	2.7	2.3	1.4	0.9	0.8	0.4	0.1		
Primary (noninterest) expenditure	30.7	31.6	47.2	42.1	37.5	33.8	31.8	30.6	31.2	27.0	27.0	**31.5**	**31.2**
Automatic debt dynamics	**-4.9**	**-2.7**	**43.5**	**-20.6**	**-13.4**	**-11.8**	**-5.0**	**-4.5**	**-4.5**	**-2.9**	**-0.9**		
Contribution from interest rate/growth differential	-4.6	-3.6	40.7	-20.6	-13.4	-11.8	-5.0	-4.5	-4.5	-2.9	-0.9		
of which: contribution from average real interest rate	0.3	1.1	3.9	2.6	2.7	2.6	2.4	2.1	2.0	1.7	3.2		
of which: contribution from real GDP growth	-4.9	-4.7	36.8	-23.2	-16.0	-14.3	-7.4	-6.6	-6.5	-4.5	-4.1		
Contribution from real exchange rate depreciation	-0.4	0.9	2.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.7**	**0.3**	**-3.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-2.9**	**0.0**	**0.0**	**-0.3**	**-0.3**
Privatization receipts (negative)	0.7	0.3	-3.4	0.0	0.0	0.0	0.0	0.0	-2.9	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**8.2**	**3.8**	**7.6**	**-2.4**	**0.4**	**0.9**	**1.2**	**-0.4**	**-0.4**	**-0.4**	**0.4**	**3.2**	**-0.3**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**140.9**	**130.9**	**125.5**	**119.2**	**118.7**	**116.9**	**113.4**	**97.0**	**84.8**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**517.2**	**468.9**	**441.9**	**425.0**	**426.1**	**428.3**	**416.8**	**364.8**	**320.9**		
Debt service-to-revenue and grants ratio 3/	**74.1**	**26.4**	**47.3**	**157.7**	**135.2**	**141.0**	**156.7**	**167.9**	**185.7**	**177.3**	**80.1**		
Gross financing need 4/	24.4	12.3	29.5	58.2	47.5	45.3	47.6	49.2	51.6	47.5	21.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	8.1	7.0	-32.0	18.9	13.2	12.1	6.1	5.4	5.4	4.4	4.7	**2.5**	**7.8**
Average nominal interest rate on external debt (in percent)	3.5	2.7	4.8	4.0	3.9	3.6	3.4	3.2	2.8	2.3	2.5	**2.6**	**3.0**
Average real interest rate on domestic debt (in percent)	-0.4	2.7	4.1	1.9	2.2	2.6	2.5	2.2	2.4	2.4	5.2	**0.0**	**2.4**
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.6	2.7	4.6	...	...	...	...	...	...	...	...	**-0.3**	**...**
Inflation rate (GDP deflator, in percent)	3.1	-0.5	-2.4	2.9	2.3	1.9	1.8	2.0	2.0	2.0	0.7	**4.0**	**2.1**
Growth of real primary spending (deflated by GDP deflator, in percent)	13.7	10.1	1.5	6.1	0.7	1.0	-0.1	1.6	7.3	3.7	5.9	**6.7**	**2.4**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-4.0	-1.4	-47.8	23.0	12.9	10.9	3.8	4.9	7.8	3.3	0.5	**-17.7**	**7.6**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Maldives: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–2031

(In percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	**53**	**49**	**48**	**48**	**47**	**40**	**38**	**36**	**33**	**31**	30
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**53**	**55**	**62**	**68**	**73**	**71**	**75**	**79**	**83**	**85**	**86**
B. Bound Tests											
B1. Real GDP growth	**53**	**72**	**99**	**99**	**97**	**83**	**78**	**73**	**69**	**65**	**62**
B2. Primary balance	**53**	**50**	**50**	**50**	**50**	**43**	**41**	**39**	**37**	**35**	**33**
B3. Exports	**53**	**73**	**109**	**107**	**104**	**95**	**90**	**83**	**76**	**71**	**66**
B4. Other flows 3/	**53**	**55**	**59**	**58**	**57**	**50**	**47**	**44**	**41**	**38**	**36**
B5. Depreciation	**53**	**62**	**60**	**59**	**59**	**50**	**47**	**44**	**41**	**39**	**37**
B6. Combination of B1-B5	**53**	**89**	**114**	**113**	**111**	**98**	**92**	**85**	**80**	**74**	**69**
C. Tailored Tests											
C1. Combined contingent liabilities	**53**	**50**	**49**	**49**	**48**	**42**	**39**	**37**	**35**	**33**	**32**
C2. Natural disaster	**53**	**51**	**50**	**50**	**50**	**43**	**41**	**39**	**37**	**35**	**34**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	**53**	**55**	**54**	**53**	**53**	**45**	**42**	**39**	**37**	**35**	**33**
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	80	72	69	67	65	55	51	47	44	41	39
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	80	81	89	95	100	97	100	105	109	111	112
B. Bound Tests											
B1. Real GDP growth	80	72	69	67	65	55	51	47	44	41	39
B2. Primary balance	80	73	71	70	68	59	55	51	48	45	43
B3. Exports	80	**142**	**279**	**266**	**257**	**231**	**215**	**195**	**179**	**165**	**153**
B4. Other flows 3/	80	81	85	82	79	68	63	58	54	50	47
B5. Depreciation	80	72	68	66	64	54	50	46	43	41	38
B6. Combination of B1-B5	80	123	93	**149**	**145**	127	116	107	99	92	86
C. Tailored Tests											
C1. Combined contingent liabilities	80	73	70	68	67	57	53	49	46	44	42
C2. Natural disaster	80	76	73	71	70	60	56	52	49	47	45
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	80	72	69	67	65	55	51	47	44	41	39
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	10	10	7	6	5	**12**	5	5	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	10	**11**	8	7	7	**17**	7	8	9	9	10
B. Bound Tests											
B1. Real GDP growth	10	10	7	6	5	**12**	5	5	5	5	5
B2. Primary balance	10	10	7	6	6	**13**	5	5	5	5	5
B3. Exports	10	**14**	**16**	**16**	**15**	**29**	**16**	**20**	**19**	**19**	**18**
B4. Other flows 3/	10	10	7	6	6	**13**	6	6	6	6	6
B5. Depreciation	10	10	7	6	5	**12**	5	5	5	5	5
B6. Combination of B1-B5	10	**13**	**12**	**11**	**10**	**22**	**11**	**11**	**11**	**11**	**10**
C. Tailored Tests											
C1. Combined contingent liabilities	10	10	7	6	6	**12**	5	5	5	5	5
C2. Natural disaster	10	**10**	7	6	6	**13**	5	5	5	5	5
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	10	10	7	6	6	**13**	6	6	5	4	4
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**26**	**26**	**18**	**16**	**15**	**34**	13	14	**14**	14	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**26**	**29**	**22**	**20**	**20**	**46**	**20**	**23**	**26**	**27**	**28**
B. Bound Tests											
B1. Real GDP growth	**26**	**38**	**37**	**33**	**31**	**71**	**28**	**29**	**29**	**29**	**28**
B2. Primary balance	**26**	**26**	**18**	**16**	**15**	**35**	14	**15**	**15**	**15**	**14**
B3. Exports	**26**	**29**	**24**	**24**	**23**	**46**	**25**	**32**	**32**	**31**	**29**
B4. Other flows 3/	**26**	**26**	**19**	**17**	**16**	**35**	**16**	**17**	**17**	**17**	**16**
B5. Depreciation	**26**	**33**	**23**	**20**	**19**	**43**	**17**	**17**	**18**	**17**	**17**
B6. Combination of B1-B5	**26**	**36**	**35**	**31**	**30**	**63**	**32**	**33**	**34**	**33**	**31**
C. Tailored Tests											
C1. Combined contingent liabilities	**26**	**26**	**18**	**16**	**15**	**34**	14	**14**	**14**	**14**	14
C2. Natural disaster	**26**	**26**	**18**	**16**	**15**	**34**	14	**14**	**15**	**14**	14
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	**26**	**26**	**18**	**16**	**16**	**36**	**17**	**17**	**15**	13	12
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Maldives: Sensitivity Analysis for Key Indicators of Public Debt, 2021–2031

(In percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	PV of Debt-to-GDP Ratio										
Baseline	**131**	**126**	**119**	**119**	**117**	**113**	**110**	**106**	**102**	**100**	**97**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**131**	**133**	**134**	**136**	**136**	**134**	**134**	**134**	**134**	**135**	**135**
B. Bound Tests											
B1. Real GDP growth	**131**	**193**	**287**	**312**	**333**	**350**	**365**	**378**	**393**	**409**	**425**
B2. Primary balance	**131**	**131**	**130**	**129**	**127**	**123**	**119**	**115**	**111**	**108**	**105**
B3. Exports	**131**	**143**	**163**	**161**	**158**	**154**	**148**	**140**	**134**	**128**	**123**
B4. Other flows 3/	**131**	**131**	**130**	**129**	**127**	**123**	**119**	**114**	**110**	**107**	**103**
B5. Depreciation	**131**	**132**	**122**	**119**	**115**	**109**	**104**	**98**	**94**	**89**	**86**
B6. Combination of B1-B5	**131**	**143**	**159**	**167**	**173**	**177**	**179**	**181**	**184**	**187**	**191**
C. Tailored Tests											
C1. Combined contingent liabilities	**131**	**132**	**125**	**125**	**123**	**119**	**115**	**111**	**107**	**104**	**102**
C2. Natural disaster	**131**	**137**	**130**	**130**	**128**	**124**	**120**	**116**	**113**	**110**	**108**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	**131**	**126**	**119**	**119**	**117**	**114**	**110**	**106**	**102**	**99**	**97**
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
	PV of Debt-to-Revenue Ratio										
Baseline	469	442	425	426	428	417	405	391	381	372	365
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	469	464	472	484	496	488	493	494	498	501	506
B. Bound Tests											
B1. Real GDP growth	469	652	942	1,062	1,180	1,246	1,312	1,367	1,435	1,502	1,572
B2. Primary balance	469	461	464	464	466	453	440	425	414	404	396
B3. Exports	469	502	582	579	580	564	545	518	497	478	461
B4. Other flows 3/	469	463	464	464	466	454	440	422	410	398	389
B5. Depreciation	469	469	438	428	422	403	384	364	349	335	322
B6. Combination of B1-B5	469	496	552	590	628	643	657	667	681	697	714
C. Tailored Tests											
C1. Combined contingent liabilities	469	466	447	447	449	437	424	410	399	390	383
C2. Natural disaster	469	483	464	465	468	456	445	431	421	413	406
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	469	442	425	427	429	418	405	391	380	372	364
	Debt Service-to-Revenue Ratio										
Baseline	158	135	141	157	168	186	179	178	178	178	177
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	158	146	161	182	198	221	214	215	217	217	216
B. Bound Tests											
B1. Real GDP growth	158	188	297	385	466	550	581	620	663	701	738
B2. Primary balance	158	135	152	178	188	205	196	194	194	192	191
B3. Exports	158	135	143	161	173	190	186	191	191	189	188
B4. Other flows 3/	158	135	142	158	169	187	181	181	182	181	180
B5. Depreciation	158	130	137	150	160	184	172	169	170	168	168
B6. Combination of B1-B5	158	150	183	206	241	280	287	301	315	326	338
C. Tailored Tests											
C1. Combined contingent liabilities	158	135	154	168	180	196	188	186	186	185	184
C2. Natural disaster	158	137	163	176	189	205	198	196	196	195	194
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	158	135	141	157	168	188	182	180	179	177	176

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

MALDIVES

September 1, 2021

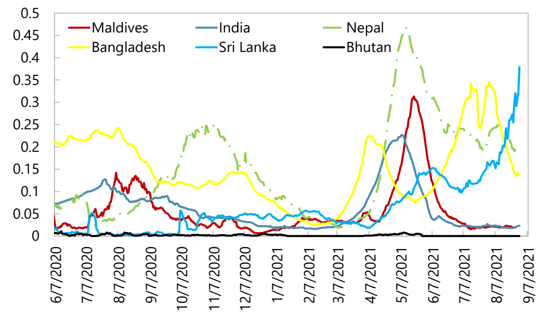
STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By | Asia and Pacific Department

This staff supplement provides the Board with updates on the COVID-19 situation and macroeconomic developments in the Maldives since the staff report was issued on August 6, 2021. This information does not alter the main thrust of the staff appraisal.

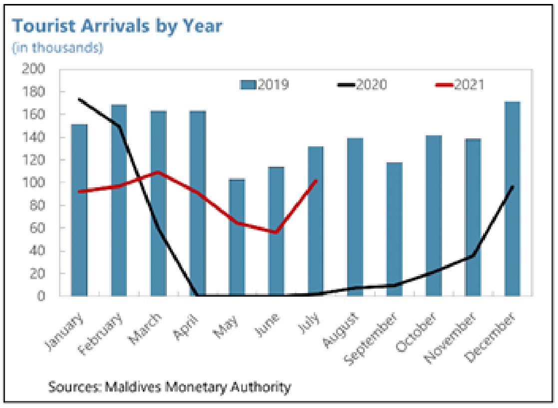
1. New COVID-19 cases as well as the positivity rate have fallen after peaking in May 2021. As of the last week of August 2021, new cases of COVID-19 fell on average to about 128 per day (well below the highest single-day spike of 2,194 on May 20, 2021). The positivity rate has declined to about 2 percent as of August 26, 2021 (31 percent on May 20, 2021). The authorities' rapid vaccination program rollout has reached 56 percent of the population with full vaccination. Since August 15, the Health Protection Agency (HPA) has begun administering the Pfizer vaccine to students aged 12 to 17 and other eligible individuals.

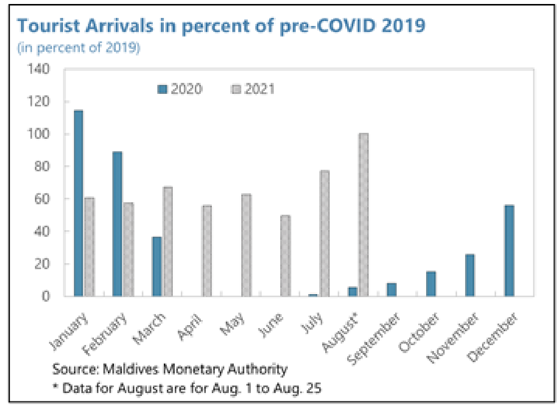
The Share of Daily COVID-19 Tests that are Positive
(Rolling 7-day average)



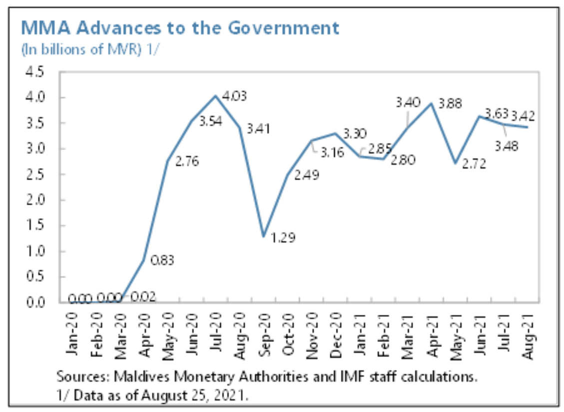
Source: Johns Hopkins University CSSE Covid-19 Data.

2. The recovery in tourism is on track, but uncertainty is still large. Arrivals in July were 77 percent of pre-COVID 2019 levels and arrivals during August 1 to 25 were about 100 percent vis-à-vis the same days in 2019. Total arrivals for 2021 up to August 25 are 66 percent of pre-COVID levels at 733 thousand and remain driven by arrivals from Russia and India. These recent positive developments, if sustained, could improve total 2021 projected arrival figures (to around 1.1 million). However, considerable global and regional uncertainty prevails on the health and economic front, especially due to the dynamics of the COVID-19 Delta variant, and staff view the continuation of this overperformance as an upside risk. Some key tourist-originating jurisdictions continue to impose quarantine requirements upon return from the Maldives (e.g., Germany and UK) or have recently implemented them (e.g., Abu Dhabi during August 18–31).





3. The fiscal and external positions continue to be projected to remain weak over the medium term. The fiscal deficit is still expected to remain in double digits at about 18 percent of GDP in 2021 reflecting the countercyclical fiscal response during the pandemic and the ambitious infrastructure spending plan. The budget execution as of mid-August points to a lower than anticipated deficit on account of slower capital spending, despite revenue being mildly under-performing relative to the staff projections discussed during the mission. Maldives Monetary Authority (MMA) advances to the government fell slightly to about 3.42 MVR billion as of August 25, from a balance of 3.48 MVR billion at the end of July.



4. Market reactions to macroeconomic developments were mixed. The parallel market rates have slightly receded (to 18.1 MVR per US Dollar on average during August 1–25 from an average of 18.8 in July) with the improvement in tourism and the associated dollar inflows. Moody's downgraded the Maldives' sovereign notes to Caa1 from B3 on August 17, while changing the outlook to stable from negative. The yield on the maiden Eurobond jumped by around 160 basis points the day after the downgrade to 9.2 percent and has since been trading around this level. The Sukuk yield jumped by around 130 basis points on the news to 9.8 percent and has since been trading around 10 percent. As incorporated in the Staff Report, the SDR allocation has contributed to an increase in gross reserves, which reached USD 861.2 million as of August 25, 2021.

**Statement by Mahmoud Mohieldin, Executive Director for Maldives,
Ali Alhosani, Alternate Executive Director,
and Mira Merhi, Advisor to Executive Director
September 10, 2021**

On behalf of the Maldivian authorities, we would like to thank Mr. Cerutti and his team for a constructive and effective Article IV mission as well as candid policy discussions. Our Maldivian authorities would like to also extend their gratitude for the emergency financing received under the Rapid Credit Facility last year, which was helpful in meeting liquidity needs and scaling up the health response to the pandemic. The authorities look forward to continuing their close engagement with the Fund, and highly appreciate the IMF's valuable technical assistance.

The COVID-19 pandemic and Recent Economic Developments

The COVID-19 pandemic is the largest shock to ever hit the Maldives' economy. With an estimated GDP contraction of 32% in 2020, Maldives suffered one of the sharpest economic declines in the world, due to its heavy dependence on the tourism sector. To contain the spread of the virus, the country closed its borders for the first time in history, between March 27 and July 15, 2020, leading to a sudden stop in tourism – the main driver of growth, jobs, and revenues. Construction activity also came to a halt, and nearly all major economic sectors, including transport, communication, and trade recorded negative growth in 2020 due to the dampening effects of the lockdown and border closure. The social and economic impact of the crisis were devastating with thousands of livelihoods affected by the shutdown of tourism and construction activities. The pandemic has led to an increase in the estimated poverty rate, by 5.1 percentage points in 2020, after years of steady decline, according to the World Bank. The impact of the pandemic was more protracted and severe than initially envisaged at the time of the RCF request.

Eighteen months into the Covid-19 crisis, the Maldivian economy is in a much better position than in mid-2020 and is also among the quickest countries to rebound from the crisis in 2021. The partial recovery in tourism sector, which accounts for around 26% of real output, has significantly exceeded expectations when compared to initial forecasts for the first half of 2021. By the end of August, the total arrivals to the Maldives exceeded 750,000 with an increase of 87% compared with that of 2020. Another positive indicator has been the improvement in the average duration of stay of tourists, which has increased to 9 days in 2021.

In the medium term, the authorities remain committed to rebuild macroeconomic buffers and safeguard macroeconomic stability, lay the foundations for a robust and sustainable growth, and put the debt on a sustainable path. The authorities broadly agree with staff's medium-term economic outlook and expect that the recovery will gain more momentum in 2022. In the absence of future shocks, the economy is expected to reach pre-Covid levels in 2023. The authorities, however, will remain vigilant amid the uncertainties surrounding the pandemic.

The response to the COVID-19 pandemic

The Maldives has moved swiftly with well-coordinated policy responses to mitigate the health and economic effects on the COVID-19 pandemic. The authorities spent significant fiscal resources to deal with the impact of the COVID-19 pandemic, by adopting a "COVID-19 Health and

Social Response" of about 3.1 percent of GDP and an "Economic Relief Package" of about 3.0 percent of GDP, totaling 6.1 percent of GDP as of June 24, 2021, to alleviate the impact on households, workers, and businesses. As a result, the Government was able to assist around 23 thousand individuals through the income support allowance scheme, and more than 2,100 small and medium-enterprises and 410 large businesses through the recovery loan scheme, which helped prevent widespread layoffs and bankruptcies.

With vaccinations continuing to roll out at a fast pace, the Maldives is well placed to take early advantage of the global economic recovery. As of September 5th, 2021, more than 70% of the population had received the first dose and almost 56% received the second dose. Moreover, the vaccination drive for children aged 12 to 17 is already in progress. With the success of the Covid-19 management strategy, the economy is well-positioned to maintain the growth momentum. Vaccination efforts have been supported through the generosity of the international community.

Fiscal Policy and Reforms

The Ministry of Finance has continued its efficient management of the fiscal policy throughout the crisis. The fiscal response to mitigate the widespread socioeconomic impact of the pandemic was timely and decisive and geared towards alleviating the pandemic's adverse impact through preserving lives and supporting the economy. With the tourism sector effectively on a halt, the Government was the only sector left to support the economy and prevent it from going into an even deeper recession. An increase in the fiscal deficit and public debt was therefore unavoidable. As the revenue projections for 2020 declined by 50% from initial projections, due to the Covid-19 pandemic, the Government was forced to substantially reduce its expenditures on non-essential activities to create the fiscal space required to fund the additional spending on health, social security, and economic relief. The expenditure reductions included salary deductions and reduction in operating expenditures including travel, as well as halting of all projects, that exhibited insufficient progress. To improve fiscal performance, the authorities have also reduced and delayed specific capital spending. As a proactive measure, they also carried a liability management exercise through an any and-all tender offer where 76.76% of the Eurobond maturing in mid-2022 was tendered and settled from a 5- year Sukuk issued under a Sukuk Issuance Program. The Maldives has also participated in the G20 debt suspension under the Debt Service Suspension Initiative, which contributed to reducing foreign debt service, however this relief was not as much as expected.

The fiscal policy for 2021 continues to prioritize the support to the economic recovery. Going forward, the authorities will continue to reduce financing needs and rely further on foreign financed projects with secured financing at favorable rates to improve the financing of the deficit over the medium-term. Progress has been made on managing public investment execution including achieving greater transparency with the support of the World Bank. The authorities remain committed to improving the fiscal framework by further enhancing the oversight of SOEs and moving forward with a better designed Fiscal Responsibility Act. They are also revising the Public Debt Law. The authorities have restricted ongoing capital spending to those infrastructure projects[1]

[1] These projects include the Velana International Airport Development project, the Maldives International Port Project, and the Male-Villimale-Gulhifalhu-Thilafushi bridge project. It also includes projects to develop the agricultural sector,

that were initiated in 2019, and that were backed by secure financing at favorable rates. These projects will play an important role to support growth and recovery from this crisis. They also note that rescheduling these projects would further postpone the associated social and economic benefits and may increase costs due to implementation delays.

The Medium-Term Fiscal Strategy 2022-2024 rightly focuses on recovering from the economic and fiscal impact of the Covid-19 pandemic and establishing a sustainable fiscal policy for the medium-term by reducing the primary budget deficit to GDP ratio to 5% and the Budgetary Central Government Debt to GDP ratio to 105% by 2023. The authorities agree with staff that fiscal consolidation should be resumed in a growth friendly manner once the recovery is firmly established and in a way that minimizes disruptions to the economy. It is important to highlight that workers, families and businesses are themselves recovering from the crisis and therefore fiscal consolidation should be carried out in a way that does not worsen their prospects. Fiscal consolidation will target the wastages created by the inefficiencies in government subsidy schemes, government expenditure on SOEs, and government operational expenditures. On the revenue side, the Government is committed to see through the implementation of the New Revenue Measures proposed in 2019 and 2020. The Government has also announced a medium-term privatization program to improve the corporate governance and performance of SOEs and to reduce their reliance on government support. The authorities will continue focusing on updating the PFM roadmap, managing fiscal risks (mainly from SOEs), and updating the legal framework related to debt management. They are grateful, in this regard, for the extensive IMF support being provided in enhancing revenue administration and collection, as well as providing advice on reforms in tax policy.

Debt Sustainability Assessment

While the debt-to-GDP ratio increased in 2020 due to the widening of the fiscal deficit and the sharp contraction in nominal GDP as a result of the Covid-19 pandemic, the government remains in a position to comfortably honor all debt obligations. The authorities believe that the "Low-Income Country Debt Sustainability Framework (LICDSF)" needs to be adapted for a country with the special circumstances of the Maldives. First, the sharp rise in the debt-to-GDP ratio in 2020 was mostly due to the fall in GDP rather than an increase in public spending. Indeed, overall public spending was lower than projected for the year. Second, most of the Maldives' debt stock is at highly concessional rates. Third, the authorities have been proactively managing rollover risks in their outstanding Eurobonds. Fourth, unlike most of the countries in the LICDSF, the Maldives has access to international financial markets. The recent sukuk issuance, which was oversubscribed threefold, is a signal of the healthy demand for the sovereign debt of the Maldives. Securing concessional financing from bilateral and multilateral partners remains central to the Government's strategy. As the economy recovers, the debt-to-GDP will improve with fiscal consolidation measures in place and strong GDP growth expected in the medium term. The authorities would also like to emphasize the role of the Sovereign Development Fund (SDF) in mitigating financing risks over the medium term and intend to continue building up funds for repaying debt. The recovery in arrivals and the increase in Airport Development Fee rates will result in higher amounts being accrued in SDF in the medium term. The Government also plans to introduce a law which would improve the governance and management of the SDF.

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improve food security, and have clean drinking water and sanitation in all the islands by 2023, as well as a high-speed ferry network to be established across the country by 2023.

Monetary policy and financial stability

The Maldives Monetary Authority (MMA) has continued its strong track record of skillful management of the monetary and financial policy. A number of measures were taken by the MMA to mitigate the effects of the pandemic in addition to protecting the stability of the financial sector. These include: (i) reduction of the minimum required reserves (RR) up to 5 percent as and when required; (ii) making available a short-term credit facility to financial institutions as and when required; (iii) introducing regulatory measures to enable a moratorium on loan repayments. Moreover, the MMA intervened at the beginning of the crisis, actively providing liquidity support to the banking sector to mitigate adverse economic impacts. With the strong tourism sector recovery in recent months, the foreign exchange (FX) liquidity position of the banking sector has since improved. In order to ensure an adequate FX buffer, the MMA continues to maintain bilateral liquidity arrangements with other central banks.

The MMA has a strong and effective prudential and supervisory framework, which has helped to maintain the system's financial soundness and resilience. The MMA has also at its disposal macro prudential policies such as reserve requirements in both rufiyaa and foreign currency, foreign currency open position limits, interbank limits, and leverage capital requirements. There are plans to review and introduce other macro prudential requirements and liquidity regulations in the future. The authorities have requested a full FSAP to be conducted in the second half of 2022. The authorities are also preparing to conduct a national risk assessment for AML/FT expected to be completed by June 2022. This assessment will help with the preparations for the AML/CFT assessment of Maldives by the Asia/Pacific Group which has been postponed to 2024. The MMA authorities will continue to diligently monitor incoming macroeconomic and financial sector data and stand ready to make necessary adjustments to their policy instruments and intervention strategy, should the need arise. The authorities take note of staff assessment of the external sector. They view that the CA gap suggested by the EBA-lite CA methodology seems to be very large.

Other Reforms, SDGs and Building Resilience to Climate Change

The COVID-19 shock has shed renewed light on the importance of strengthening the Maldives' resilience to external shocks and diversifying its economy. The government's Strategic Action Plan (2019–23) outlines economic and social priorities and how they will be delivered in a sustainable manner, in order to address key infrastructure issues and enduring social challenges facing the country. It also focuses on decentralization, economic diversification through expanding the fisheries and agricultural sectors, SMEs, labor, employment and migration, social protection, and governance, among others. Many reforms are aimed at enhancing the role of private sector and boosting competitiveness while supporting inclusive growth.

To enhance the National Resilience and Recovery Plan 2020-2022 and prepare for results-based budgeting framework, the authorities are reprioritizing sustainable development goals and targets, including on climate issues, to reflect urgent pandemic related developmental needs. While the Maldives ranks better than peers in poverty and inequality, the authorities are aware that more efforts are needed to ensure inclusive growth. With most Maldivians dependent on tourism and fisheries for their livelihoods, the World Bank estimates that the poverty rate increased to 7.2 percent in 2020.

Climate change, which is high on the government's agenda, is an existential threat to the Maldives, as over 80 percent of the land is less than one meter above sea level and is therefore under threat from rising sea levels. The additional challenges associated with the country's dispersed geography include difficult service delivery and limited opportunities for job creation and economic diversification. Addressing the Maldives' exposure to natural disasters and climate change remains a long-term concern that also increases the need for well-planned climate-change adaptation investments.

The authorities adopted a Climate Emergency Act on April 29, 2021, which introduces the legal structure and guidelines for addressing issues related to climate change, ensuring the sustainability of natural resources, and sets out plans to achieve net-zero carbon emissions by 2030. As a climate vulnerable nation facing multiple challenges with limited resources and one that is trying to reach net zero emissions by 2030, the authorities have emphasized the need to secure grants and concessional financing to address climate needs in a sustainable manner given limited fiscal resources. So far, climate financing for the Maldives is offered at the same market rates as conventional instruments, with additional climate mitigating conditionalities, which does not make for a meaningful alternative among the financing choices. The authorities expressed the need for Fund assistance with accessing concessional climate finance and capacity development to facilitate their ease of access to climate change financing in general. They have recently completed the centralization of domestic securities issuance to the Debt Department at the Ministry of Finance.

Conclusion

The past eighteen months have presented unprecedented challenges for the Maldives. At this juncture, the health and welfare of Maldivians remain a priority. The authorities are committed to maintaining macroeconomic stability while addressing the additional challenges associated with the pandemic. They remain committed to their fiscal strategy, as well as to economic reforms, and will redouble their efforts when the crisis subsides.