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Maldives: First Review Under the Stand-By Arrangement and the 24-Month Arrangement Under the Exogenous Shocks Facility and Requests for Waivers of Nonobservance of Performance Criteria and Modification of Performance Criterion—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Maldives.

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on February 23, 2010, 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 March 17, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release.

- A statement by the Executive Director for Maldives.

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Maldives*
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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MALDIVES

First Review Under the Stand-By Arrangement and the 24-Month Arrangement Under the Exogenous Shocks Facility and Requests for Waivers of Nonobservance of Performance Criteria and Modification of Performance Criterion

Prepared by the Asia and Pacific Department in Consultation with Other Departments

Approved by Kalpana Kochhar and Aasim Husain

March 17, 2010

Stand-By Arrangement (SBA) and Arrangement Under the Exogenous Shocks Facility (ESF): A 36-month SBA in the amount of SDR 49.2 (600 percent of quota) and a 24-month arrangement under the ESF in the amount of SDR 8.2 (100 percent of quota) were approved by the Executive Board (Country Report No. 10/28) on December 4, 2009, and a combined first purchase and first disbursement under the blended arrangements of an amount equivalent to SDR 5.13 million was made following the Board meeting.

Program status: The authorities are committed to a very significant fiscal and monetary adjustment, and have taken important steps to achieve it. Performance has been broadly in line with program objectives, but two monetary PCs for end-December 2009 were breached by small margins. A sharp increase in bank reserves in the last few days of 2009 pushed reserve money slightly above the program ceiling, while the accrual of interest on government debt to the Maldives Monetary Authority (MMA) led to a slight increase in net MMA credit to the government (but did not lead to higher cash financing to the government). However, the MMA is making remarkable progress in controlling money supply after years of deficit monetization, and remains committed to the program's monetary targets. The authorities are requesting waivers for the minor and temporary non-observance of both PCs, and staff supports their request. To account for the volatility in reserve money, the authorities are requesting to modify the reserve money PC so that going forward it is measured as the average of the last four weeks of the test period.

Discussions: A staff team consisting of Messrs. Cubero (head), Park, and Pitt (all APD), and Ms. Basu (SPR), visited Malé during February 10–23, 2010. Mr. Mathai, Resident Representative for Sri Lanka and Maldives, joined the mission on February 10 and 21–22. Ms. Kochhar (APD) joined the concluding sessions. The team held discussions with the President, the Minister of Finance and Treasury, the Governor of the Maldives Monetary Authority, other senior officials, members of Parliament from the two main parties, and representatives of commercial banks, the private sector, and the donor community.

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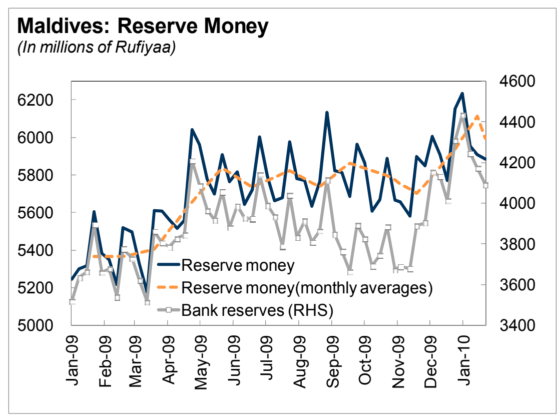
I. RECENT DEVELOPMENTS

1. **Economic developments have been somewhat better than anticipated at program approval.** The recession in 2009 was slightly shallower (a fall in real GDP of 3 percent, compared to 4 percent), with tourist arrivals declining by slightly less than initially projected. Inflation, albeit volatile, was below expectations, at 4 percent year-on-year (y/y) in December. The current account deficit was slightly higher than projected, with stronger tourism receipts and slower remittance outflows more than offset by higher imports, weaker exports, and smaller grants. Gross reserves increased, but by less than projected, due in part to a delay in a programmed disbursement from the ADB.

2. **Performance has been broadly in line with program objectives:**

- All end-December performance criteria (PC) and the indicative target were met, with two exceptions. The reserve money stock was slightly above the program ceiling, as bank reserves increased sharply in the last few days of 2009. Also, net MMA credit to the government was slightly above the program ceiling for end-December, driven up by the accrual of interest on T-bonds held by the MMA.[1] The authorities are requesting a waiver for the non-observance of both PCs, based on the fact that their breach was minor and temporary, and actions are being taken to ensure compliance with the targets in future. Also, given that reserve money is highly volatile, and that the authorities cannot offset sudden changes in bank reserves at the very end of the test period, the authorities are requesting that, going forward, this PC be measured as the average of the last four weeks of the test period.



- T-bill auctions were launched in December, as programmed (a structural benchmark). Discussion of the 2010 Budget in Parliament got protracted and prevented passage of the business profit tax (BPT) in December, also a structural benchmark. After a two-month parliamentary recess, discussions on the BPT bill are now expected to resume in March, with passage likely by June 2010.

[1] Government debt with the MMA was securitized in August and September 2009, as a prior action for the program. Interest on the T-bonds is payable semi-annually, so by end-2009 a substantial amount had accrued. However, this accrual of interest did not lead to an increase in cash financing from the MMA to the government.

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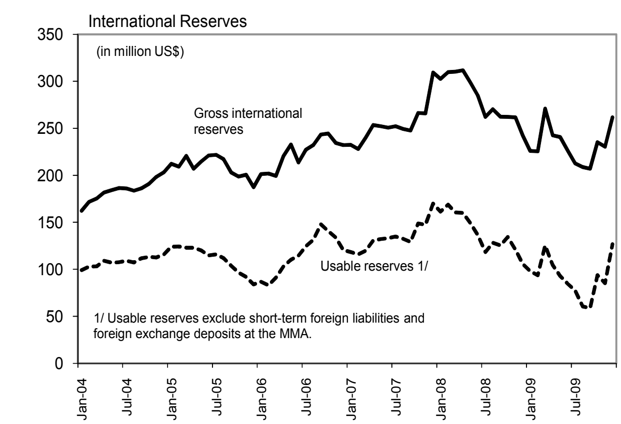
3. **The fiscal deficit in 2009 is estimated at 26¼ percent of GDP, 2½ percentage points lower than previously projected.** This was largely the result of a downward revision by the authorities of expenditure data for the first half of the year. In addition, foreign financing fell short of projections, bringing down the associated expenditures.[2] Revenues were also below projections, on account of a delay in profit transfers from the telecoms company. The transfer is now expected to take place in the first quarter of 2010.

4. **However, the political climate for public expenditure cuts remains difficult.** At end-December 2009, Parliament passed the 2010 budget with amendments totaling a 7 percent (4¼ percent of GDP) increase over the government's proposed budget. Three quarters of that increase fund the reversal of civil service wage cuts implemented in October 2009, with most of the remainder restoring wages in independent commissions. The Civil Service Commission (CSC) mandated the restoration of civil service wages effective January 1, 2010. The government has publicly challenged the CSC decision, questioning its legal and economic grounds, and has so far paid wages at the reduced levels, including for the police and the army, who are not governed by the CSC. However, the authorities are facing intense political pressure, and the CSC has taken the issue to court.

5. **The growth of monetary aggregates has slowed down in line with projections.** The stock of reserve money peaked in mid-2009 and has since fluctuated around a flat trajectory, while broad money growth has continued to trend down, falling to 12½ percent y/y in December, just half of what was observed in 2007–08. This reflects tighter monetary policy, as deficit monetization was halted in September 2009 and open market operations (OMOs) have been conducted regularly since then to absorb excess liquidity. The impact of OMOs and T-bill auctions on borrowing costs has so far been limited, possibly signaling still ample liquidity. International reserves are higher than pre-program levels, while the premium in the parallel foreign exchange market appears to have declined significantly.[3]



6. **Conditions in the banking sector have stabilized, but vulnerabilities remain.** Banks are highly liquid in rufiyaa, and the dollar liquidity shortages experienced last year by a large bank have eased. However, bank asset quality and provisioning (under one-third of

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[2] Similarly, grants and grant-financed expenditure were only two-thirds of the projected amount. However, grants are recorded above the line, and so their shortfall has little (if any) impact on the overall fiscal balance.

[3] Information on the parallel market, however, is scant and based only on anecdotal accounts.

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NPLs as of December) are still low, and hence their capital adequacy overstated. The stock of private sector credit has been shrinking on a y/y basis since August 2009. The challenging global and domestic economic environment reduced investment demand, while the sharp, crisis-driven deterioration in asset quality made banks more risk averse. This has helped the government finance its ballooning deficit, as banks have shifted a large portion of their assets to government securities.

Maldives : Selected Financial Soundness Indicators for the Banking System (2008-09)

(in percent)

	2008	Jun-09	Dec-09
Total capital/Risk-weighted assets	21.0	23.0	24.7
NPL/Total loans	8.9	11.7	12.4
Liquid assets/Total assets	22.6	31.7	34.3
ROE	23.3	9.4	13.7
ROA	3.5	1.4	2.2

Source: Maldives Monetary Authority

7. **Near-term risks.** A key risk concerns the ability of the government to maintain the public sector wage cuts. A negative outcome on this would have a large fiscal impact. Other significant implementation risks include delays in the planned public employment cuts or in the passage of the tax reforms. And, while the tourism industry is bouncing back, the magnitude of the recovery in the domestic economy is highly uncertain.

II. Policy Discussions

A. Fiscal Policy

8. **The authorities have taken remarkable steps to bring about the very large fiscal adjustment envisaged in the program.** These include significant expenditure-reducing measures: cuts in government employees' nominal pay of between ten and twenty percent—something seen in just a handful of countries worldwide—an increase of between 40 and 60 percent in electricity tariffs (with the elimination of the associated universal subsidies and their replacement by a targeted scheme), and the initiation of a program for public employment reform that will ultimately reduce the government's payroll by one-third. The authorities also passed an increase in the airport tax rate, and have already submitted to Parliament the draft bill for the goods and services tax (GST) on tourism. This bill would introduce an ad valorem rate of 4 percent, and coexist with the specific tax of $8 per person per night until end-2010.[4] Starting in January 2011, the specific tax will be eliminated and the rate of the GST on tourism will be raised to 6 percent.

9. **However, the fiscal adjustment is facing considerable challenges. In particular:**

- Based on a Parliamentary recommendation, the government restored the wages of the independent commissions from January 2010.

[4] Staff estimates that the yield from this combined tourism tax would be slightly above that of the programmed single ad valorem tax with a rate of 6 percent. The rationale for temporarily keeping the specific tax is to reduce transitional costs, as the reporting and collection mechanisms for the specific tax are already in place.

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- While the government plans to keep paying the wages and allowances of civil servants, police and the army at their reduced levels until domestic revenue reaches Rf 7 billion, this threshold is likely to be crossed in early 2011, much earlier than anticipated in the program.[5] Staff has therefore projected a reversal of wage cuts starting in January 2011, rather than 2012.

- The authorities have committed to paying civil servants' pension contributions (7 percent of base salaries) from May 2010 and until the wages are restored to the September 2009 levels, in partial compensation for their reduced pay.

- Progress on reducing the government's payroll has been slower than envisaged. While the transfer of employees to the private sector (which accounts for about two-fifths of the planned payroll cuts) has taken place in line with projections, direct redundancies are proving more difficult. Staff estimates that the authorities' proposed target for public employment reduction will take until end-2011 to be completed, compared with end-2010 in the program.

- On the revenue side, the delay in the passage of the BPT, originally expected for December 2009, is compounded by a downward revision of its estimated yield to exclude: a) the impact on profit transfers from state-owned enterprises (SOEs), which will be subject to the tax; and b) the foreign-owned companies, which are subject to a royalty tax and will be exempted from the BPT.

10. **As a result, while the March 2010 fiscal PC will likely be met, the annual deficit targets for 2010 and 2011 would be missed on current policies.** The expenditure slippages mentioned above are partially offset in 2010 by a fall in other expenditures, mainly foreign-financed capital spending (¾ percent of GDP) and a reduction in redundancy payments associated with slower progress on redundancies (½ percent of GDP). On the revenue side, the delayed passage of the BPT would be offset by higher import tax revenue in 2010 and an increase in SOE profit transfers, reflecting delayed payments due in 2009. In all, the fiscal deficit would increase by 1 percent of GDP in 2010 and 4½ percent of GDP in 2011.[6]

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[5] This is the result of two factors: a) an increase in revenue projections, mainly reflecting the compensatory revenue measures that the authorities have committed to taking in 2010; and b) a change in how the revenue threshold is to be measured. The government had initially sought to measure it as the cumulative revenue from the beginning of the fiscal year; however, an agreement with the CSC on this has not been reached. Given the political climate, the threshold might end up being measured on a rolling monthly basis.

[6] The program includes an adjuster whereby the fiscal deficit target is reduced by 80 percent of any positive revenue surprises. The deviations from the fiscal deficit PC are thus larger than suggested by the difference in fiscal deficit projections. This adjuster would apply to improved import tax revenue, but not to SOE profit transfers, which reflect a mere change in timing, or to discretionary revenue measures.

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Maldives: Impact of Fiscal Developments and Compensatory Measures 1/
(deviations from program projections, in percent of GDP)

	2010	2011	2012
Revenue and grants	**0.2**	**-0.1**	**-0.2**
Import taxes	0.6	0.5	0.4
SOE transfers	1.2	-0.5	-0.7
Delay of, and base revisions for BPT	-1.6	-0.3	-0.3
Other (net)	0.0	0.2	0.4
Expenditure	**1.2**	**4.2**	**0.1**
Budget amendments by Majlis (excl. restoration of civil service salaries)	1.1	…	…
Pensions (7% employee contribution taken on by govt)	0.5	…	…
Salaries and wages (excl. Majlis amendments)	0.9	3.7	-0.1
Delayed redundancies	0.9	0.6	…
Restoration of wages in 2011	…	3.1	…
Other (net)	-1.4	0.5	0.2
Total	**-1.0**	**-4.4**	**-0.3**
Compensatory measures	**1.2**	**0.0**	**0.0**
Advancing GST on tourism to August 2010	0.7	…	…
Moving BPT to quarterly collection	0.5	0.0	0.0
Memorandum item:			
Contingent liability from restoration of civil service wages in 2010	3.3	…	…

Source: Fund staff estimates, based on data from the authorities
1/ Deviations from program projections are based on current GDP projections. The program projections in Tables 1 and 2 are based on GDP at the time of program approval.

11. **The authorities remain strongly committed to the program's fiscal targets, and have agreed to take compensatory fiscal measures to bring the 2010 fiscal deficit in line with the program.** They decided to bring forward the entry into effect of the GST on tourism from October to August 2010; and expedite passage of the BPT and modify its payment periods from semiannual to quarterly. Combined, these measures would yield gains of about 1¼ percent of GDP in 2010, helping reduce the 2010 fiscal deficit below the program target.

12. **The authorities have also committed to taking further compensatory measures to bring the fiscal deficit in 2011 in line with program targets**. To meet program targets, additional measures of about 4½ percent of GDP in 2011 will be needed (Tables 1 and 2). Those measures will be identified and agreed upon in the course of the next review, and could include temporary revenue measures (such as rate increases) as well as cuts in non-interest current expenditure for 2011. Passage and entry into effect of the goods and services tax is still expected by January 2011, and will be supported by Fund technical assistance.

13. **The authorities are also taking action to mitigate the risk of an earlier-than-expected reversal in public sector wage cuts.** A final court resolution on the law suit filed by the CSC could take up to one year. The authorities expressed that an out-of-court settlement is highly unlikely, but agreed to approach the CSC and provide it with a report on the nation's continued economic difficulties justifying the wage cuts. They have also issued press statements clarifying their position on this conflict. Should wages be restored from January 2010, the authorities are prepared to introduce further compensatory measures to offset the shock. These could include temporary revenue actions, further expenditure cuts, and financing measures to smooth the fiscal impact (for instance, paying the retroactively restored wages in tranches or through T-bonds).

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14. **The deficit financing mix in 2010 is expected to be different from program projections.** Net external financing is now projected to be higher by 4¾ percent of GDP (paragraph 23). Projected privatization inflows for 2010, on the other hand, have been revised down by a similar amount, mainly on account of a decision to transfer the airport under a concession rather than an outright sale.[7] The resulting domestic borrowing needs would remain elevated at about 10¼ percent of GDP (¾ percent of GDP below program projections). Some of this has already come from the purchase in February 2010 by the State Bank of India's Male branch of $50 million of dollar-denominated T-bonds (an initial $50 million purchase was made in December 2009). The remainder (about 7 percent of GDP) will largely come from t-bill sales to commercial banks and, to a lesser extent, SOEs.

15. **Despite the increase in external financing and the drop in projected privatization flows in 2010, debt vulnerabilities are in line with program projections.** The total projected debt stock for 2010 is about 1 percent of GDP above program projections. This is because the actual stock of external debt in 2009 was below program projections by about 4 percentage points of GDP, reflecting slower disbursements, while the total debt stock in 2009 was about 3 percentage points below projections.

16. **The authorities have taken steps to improve public financial management,** addressing some of the shortcomings identified in the recently completed PEFA report. In particular, monthly revenue reports are already being generated by the newly introduced Treasury Single Account system. The authorities requested Fund assistance on a fiscal responsibility framework, and an FAD mission is planned for April 2010.

B. Monetary and Exchange Rate Policy

17. **Monetary policy has been successful in absorbing excess liquidity, but OMOs may need to be stepped up.** After years of unmitigated fiscal dominance, monetary policy in Maldives has undergone a profound transformation: the cessation of deficit monetization and the start of OMOs from August 2009 have put the MMA in control of money supply and drained much excess rufiyaa liquidity. However, the considerable increase in external financing to the government projected for this year will significantly boost the money supply, given the fixed exchange rate. To keep reserve money on target, the authorities need to increase liquidity absorption, and have agreed to target volumes while letting the interest rate be determined by the market.

18. **The authorities and staff concur that the exchange rate peg remains appropriate, as long as the fiscal and monetary adjustments are implemented in line with the program.** Usable reserves of the MMA are above program projections. The fiscal and

[7] Also, the privatization of a stake in the water company, initially expected for the second half of 2010, took place in January 2010, but yielded $16 million as compared to a projected $30 million.

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external adjustment, significant inflows of foreign exchange, and a strengthened confidence in the economy appear to have contributed to a reduction in exchange rate pressures and the parallel market premium.

C. Financial Sector

19. **The authorities have made some progress in implementing regulatory reforms, and are discussing phasing-in plans with banks.** The MMA introduced a new financial regulation framework in 2009, including guidelines on provisioning, asset classification and single borrower limits, complemented by the new prudential limits on banks' net open positions (NOP), introduced by the MMA on January 15, 2010. Many banks currently fall far from the new guidelines, and some have indicated their inability to comply with the rules in the near term. In response, the MMA is trying to reach agreements with each bank on feasible implementation plans, and to strike a balance between appropriate firmness and necessary flexibility to avoid a further decline in bank credit.

20. **Financial sector structural benchmarks.** The authorities have submitted the Banking Act to Parliament, which will provide a stronger legal framework for the operation, intervention and liquidation of commercial banks. The MMA Act has not yet been submitted. Passage of each of these is a structural benchmark, both expected by end-2010.

D. Other Issues

21. **Safeguards assessment.** A safeguards assessment of the MMA was completed in March 2010. In line with staff recommendations, the MMA has appointed an external auditor, and strengthened controls over foreign payments through the automation of the authorization process. The authorities also indicated that they are planning to appoint an internal auditor shortly. In addition, a new MMA Act is under development with Fund technical assistance to strengthen the MMA's legal framework.

22. **Article VIII issues.** The amount of foreign exchange that the authorities supply weekly to commercial banks is fixed and remains below demand. This rationing of foreign exchange has continued to cause some current international transactions to be conducted in a parallel market at a premium of over 2 percent over the official rate, which gives rise to a multiple currency practice (MCP) as well as to an exchange restriction. The restriction and MCP have not been intensified since program approval.

23. **External financing and financial assurances.** The program remains fully funded for the next twelve months. Projected net external financing to the public sector for 2010 has increased significantly relative to the program. Budget support from the World Bank is now projected at $27.4 million in 2010 (compared with an initially programmed $24 million), with the first disbursement of $13.7 million to take place in March 2010. The first disbursement ($18 million) of the ADB's financial assistance program, initially anticipated for December 2009, is now expected in the second quarter of 2010. Also, a $100 million

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trade credit from India has been rolled over from two to ten years, significantly reducing amortization payments in 2010. The World Bank is organizing a donor conference in late March 2010 to mobilize support beyond programmed levels from bilateral donors. The additional financing would help the economy build up reserves, reduce private sector financial crowding out from the domestic financing of the deficit, and support public spending on capital projects.

III. Staff Appraisal

24. **Overview.** The program has succeeded in stabilizing the economy, particularly in the monetary and exchange rate areas. The authorities are to be commended for meeting most of the performance criteria for end-December 2009, with the ceilings on reserve money and net MMA credit to the government having been breached only slightly. The authorities are determined to maintain the course of monetary adjustment and fiscal consolidation, despite intense resistance in other quarters to some fiscal measures. The coming months will be a crucial test of their ability to prevail.

25. **Fiscal policy.** The authorities have taken significant steps to contain the fiscal deficit, and the magnitude of their planned fiscal adjustment is massive by international standards. However, progress has been slower than anticipated in public employment restructuring, and several spending increases have raised the projected fiscal deficit over the next two years. In addition, the wage cuts for public servants have faced considerable opposition, and could be reversed earlier than expected. Looking ahead, the authorities will need to take significant compensatory measures to ensure that the 2011–12 fiscal deficit targets are met.

26. **Monetary policy.** The turnaround in the monetary policy stance, from years of passive monetization of the fiscal deficit to an active tightening of liquidity, has been remarkable. The introduction of open market operations (OMOs) through reverse repos has been smooth. However, in light of a projected increase in external financing of the government in coming months, the authorities may need to raise their liquidity absorption targets in order to sterilize the resulting rufiyaa injections and keep monetary aggregates in line with program goals.

27. **Exchange rate.** The recent decline in, and stabilization of, the parallel market premium suggest that pressures on the currency are abating. With the projected increase in external financing, and provided that further fiscal consolidation takes place as envisaged, pressures should ease further. The rationing of foreign exchange provided to commercial banks by the MMA remains at present. However, no new restrictions have been introduced and the existing restriction has not been intensified. Similarly, no new MCPs have been introduced and the existing MCP has not been modified.

28. **Financial sector.** Conditions in the banking system seem to have stabilized, and the liquidity and asset quality stresses have eased somewhat. Despite some resistance from

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banks, the MMA should continue to make progress in agreeing reasonable timetables for compliance with the new regulations on provisioning, single borrower limits, and net open positions.

29. **Risks.** Some of the risks identified at program approval have materialized. A key fiscal risk concerns the ability of the government to maintain the public employment wage cuts implemented in October 2009 until the agreed revenue threshold of Rf 7 billion in domestic revenues has been reached. The authorities' determination to maintain the wage adjustments is commendable. Continued progress in public employment restructuring will also require the authorities' resolve. Passage of the BPT is now behind schedule, and the authorities need to act swiftly to minimize the fiscal cost of this delay. Given the high level of public debt, any significant fiscal slippages may compromise debt sustainability and raise concern about the viability of the overall macroeconomic policy strategy. Other risks, however, have diminished, in particular those related to the global recovery.

30. **The Maldivian economy's performance under the program has been good so far.** While the December 2009 targets for two monetary PCs were exceeded, the breaches were minor and temporary. Moreover, the Maldivian economy is on track to reach the program PCs for March 2010, and the authorities remain strongly committed to the key program objectives and numerical targets. Therefore, staff recommends the approval of the First Review and supports the authorities' request for a waiver for the non-observance of the end-December 2009 performance criteria on reserve money and net MMA credit to the government, as well as their request to modify the measurement of the reserve money PC.

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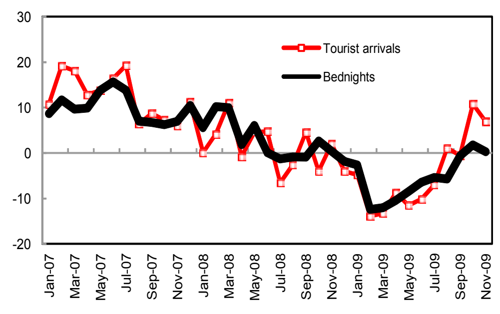
Figure 1. Recent Macroeconomic Developments

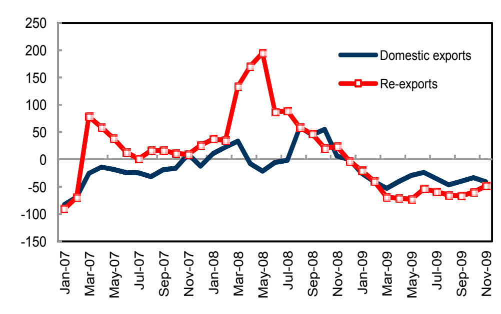
After the large impact of the global financial crisis, tourism has recovered faster than expected.

Tourism
(Year-on-year growth, in percent)



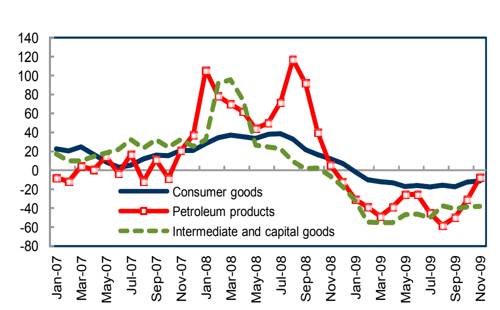
Merchandise exports, however, remain depressed, mainly as a result of a poor fish catch.

Merchandise exports
(Year-on-year growth, 3mma in percent)



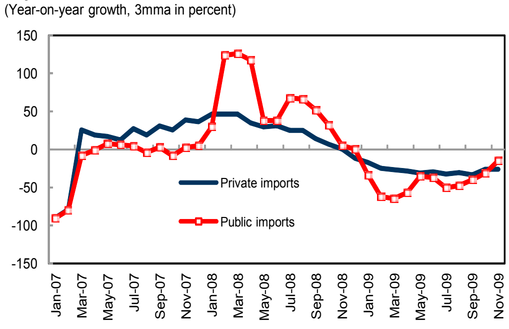
Imports are still falling, although the rebound in fuel prices is complicating the adjustment...

Imports
(Year-on-year growth, 3mma in percent)



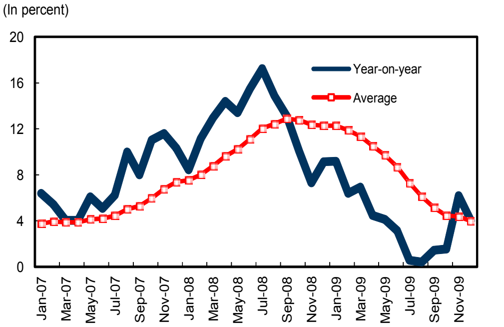
...and fueling public sector imports.

Imports
(Year-on-year growth, 3mma in percent)



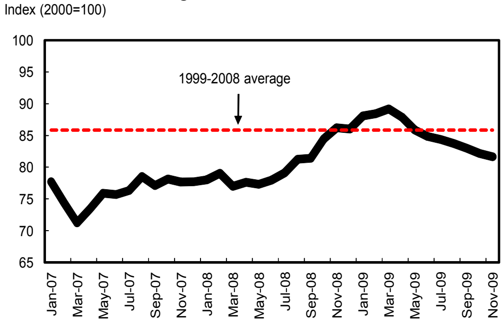
Inflation has continued to fall on the back of lower import prices…

Inflation
(In percent)



… contributing, along with a weaker dollar, to a real effective depreciation in recent months.

Real Effective Exchange Rate
Index (2000=100)



Sources: Maldivian authorities, and Fund staff estimates.

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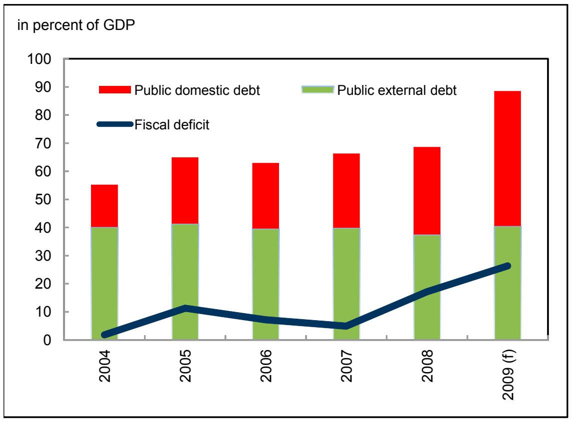
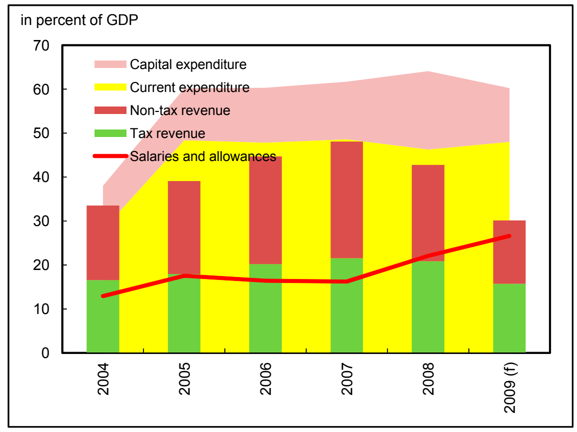
Figure 2. Fiscal Policy

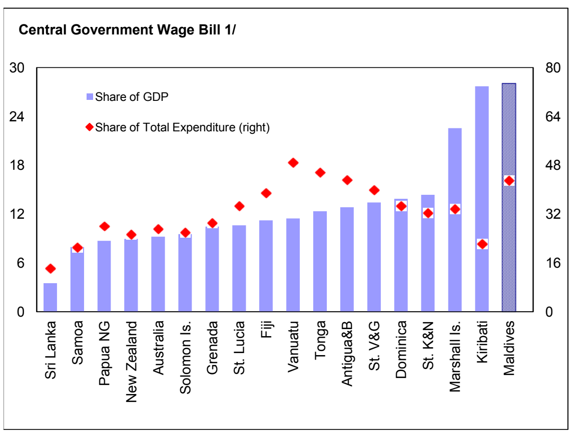
Public debt expanded sharply in 2009 with the widening of the fiscal deficit.



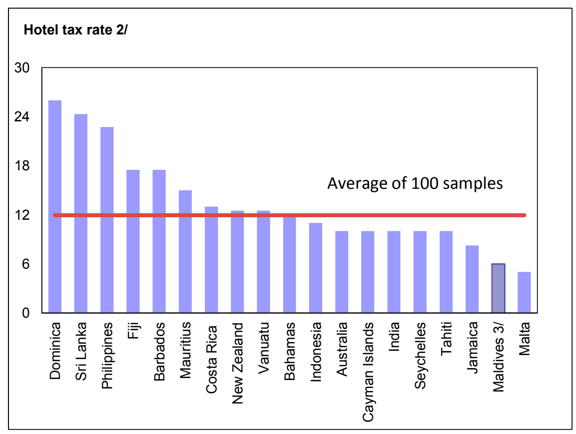
While revenue has fallen, salaries and allowances have continued to increase….



…taking the public wage bill to very high levels by international standards.



By contrast, the proposed tax rate for the tourism sector remains well below international standards.



Sources: Maldivian authorities, and Fund staff estimates. ILO, WEO, IMF staff reports and country desks.
1/ Ratios are based on 2009 projections for Maldives and on averages for 2000-2008 for other countries.
2/ Includes all taxes on accommodation such as VAT, City tax, State tax except service charges.
3/ Estimated yield from combined tourism tax

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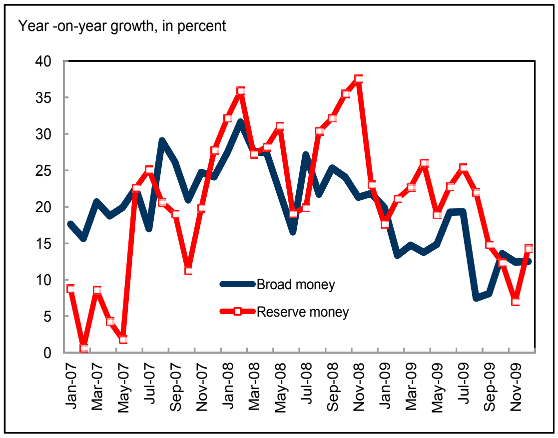
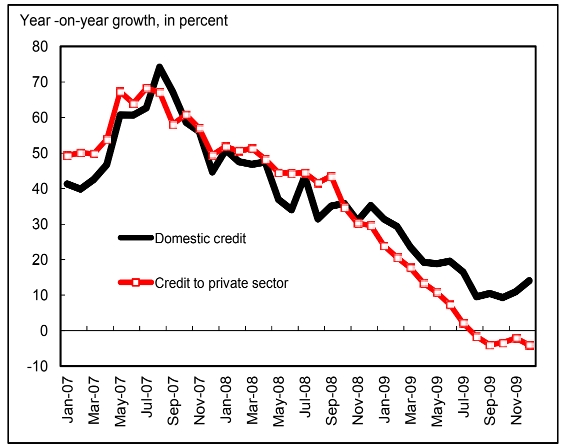
Figure 3. Financial Sector Developments

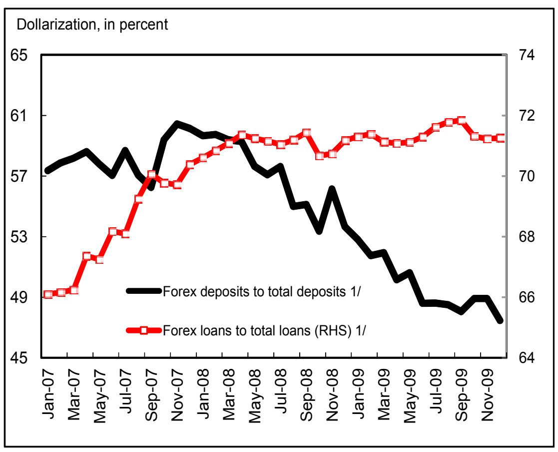
Monetary aggregates continue to expand at lower rates…



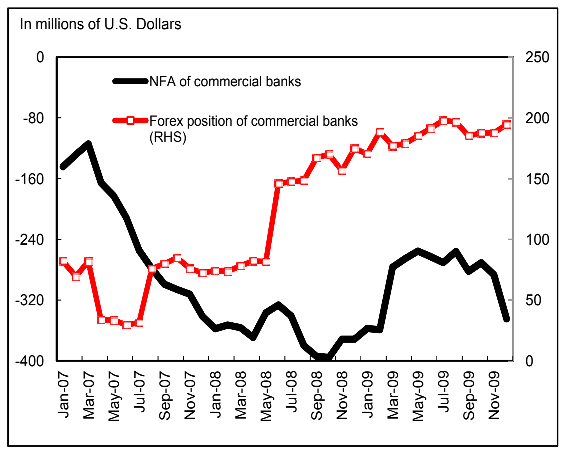
…as has total domestic credit, with credit to the private sector actually shrinking.



While the ratio of forex loans has stabilized, deposit dollarization has continued to fall, so that…



… despite an increase in banks' net foreign liabilities, their net forex position remains high and on an upward slope.



Sources: Maldivian authorities, and Fund staff estimates.
1/ Domestic loans and deposits to/from private sector and SOEs.

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Table 1. Maldives: Selected Economic and Vulnerability Indicators, 2006-12

Population (in 1,000; 2008 est.)	310
GDP per capita (in U.S. dollars; 2008 est.):	4,070
Quota (in million SDRs):	8.2

	2006	2007	2008 Est.	2009 Program	2009 Est.	2010 Program	2010 Proj.	2011 Program	2011 Proj.	2012 Program	2012 Proj.
OUTPUT AND PRICES	(Annual percentage change)										
Real GDP	18.0	7.2	6.3	-4.0	-3.0	3.4	3.4	3.7	3.7	4.1	4.0
Inflation (end-of-period)	3.1	10.3	9.1	6.7	4.0	4.7	4.5	6.3	6.0	3.5	3.5
Inflation (period average)	3.5	7.4	12.3	5.5	4.0	4.5	4.3	6.3	5.3	3.5	4.8
GDP deflator	3.5	7.4	12.5	11.0	11.0	4.0	4.0	6.3	5.3	3.5	4.8
CENTRAL GOVERNMENT FINANCES	(In percent of GDP)										
Revenue and grants	52.1	55.8	46.0	36.3	33.0	37.0	38.0	43.4	43.2	44.2	43.5
Expenditure and net lending	59.3	60.8	63.1	65.0	59.3	54.8	55.4	47.5	51.7	47.9	47.4
UNIDENTIFIED COMPENSATORY MEASURES 1/									4.4		0.3
Overall balance	-7.2	-4.9	-17.1	-28.8	-26.3	-17.8	-17.4	-4.2	-4.2	-3.6	-3.6
Overall balance excl. grants	-14.6	-12.7	-20.3	-33.6	-29.2	-18.9	-18.6	-5.2	-5.2	-4.6	-4.6
Financing	7.2	4.9	17.1	28.8	26.3	17.8	17.4	4.2	4.2	3.6	3.6
Foreign	4.5	4.6	4.6	12.7	8.6	4.2	6.7	2.0	4.3	2.6	1.8
Of which: Privatization receipts	0.0	0.0	0.0	3.0	2.9	4.4	2.2	2.1	2.7	1.9	1.6
Domestic	2.7	0.4	12.5	16.1	17.7	13.6	10.7	2.2	-0.1	1.1	1.8
Of which: Privatization receipts	0.4	0.3	0.3	0.1	0.1	2.6	0.4	1.3	2.1	0.8	2.1
Public and publicly guaranteed debt	62.9	66.3	68.7	91.6	88.5	96.0	97.1	87.9	87.9	82.5	82.5
Domestic	23.4	26.4	31.2	46.8	48.1	54.5	55.0	50.4	47.7	47.0	45.4
External (excl. IMF)	39.6	39.8	37.4	44.8	40.5	41.5	42.1	37.5	40.2	35.5	37.1
MONETARY ACCOUNTS	(Annual percentage change, unless otherwise indicated)										
Broad money	18.9	24.1	21.8	9.4	12.5	6.7	6.8	…	…	…	…
Domestic credit	38.6	44.7	35.2	5.7	14.0	7.5	7.5	…	…	…	…
Of which: To private sector	48.6	49.4	29.7	-4.1	-4.1	-2.1	-1.0	…	…	…	…
NFA of commercial banks (in millions of US$, e.o.p.)	-145	-341	-371	-416	-345	-466	-392	…	…	…	…
Net forex position of commercial banks (in millions of US$, e.o.p.)	88	72	175	…	195	…	…	…	…	…	…
BALANCE OF PAYMENTS	(In percent of GDP, unless otherwise indicated)										
Current account	-33.0	-41.5	-51.4	-29.6	-31.0	-23.4	-24.9	-13.1	-15.8	-11.1	-11.8
Of which:											
Exports	24.6	21.6	26.2	16.1	12.0	17.7	13.8	17.7	15.3	17.8	16.5
Domestic	14.8	10.2	10.0	6.6	5.6	6.9	6.7	6.8	7.5	6.8	7.4
Re-exports	9.9	11.4	16.2	9.5	6.4	10.7	7.1	10.8	7.8	11.0	9.1
Imports	-89.1	-91.5	-96.9	-58.2	-62.7	-58.8	-61.6	-55.9	-59.1	-55.9	-57.8
Nonfactor services, net	35.0	36.0	29.4	22.0	27.3	28.4	31.5	33.0	36.4	36.3	38.9
Capital and financial account (incl. e&o)	37.9	48.8	46.0	30.5	32.1	20.6	22.6	11.1	14.9	12.5	11.9
Of which:											
General government, net	4.2	3.4	5.3	8.4	7.0	-1.9	0.2	-1.2	0.5	0.6	0.2
Banks and other sectors, net	26.0	37.1	33.3	14.6	17.6	20.4	18.2	10.3	10.9	11.1	11.0
Overall balance	4.9	7.3	-5.4	0.9	1.2	-2.8	-2.3	-2.0	-0.9	1.4	0.1
Gross international reserves (in millions of US$; e.o.p.) 2/	232	310	241	277	262	291	305	305	339	347	361
In months of GNFS imports	2.7	3.0	1.8	3.2	2.8	3.1	3.1	3.1	3.3	3.4	3.3
In percent of short-term debt at remaining maturity	168	121	82	81	92	88	101	118	123	143	138
Usable reserves (in millions of US$; e.o.p.) 2/	125	172	106	105	112	130	128	108	148	132	170
In percent of short-term debt at remaining maturity	90	68	37	31	39	39	43	42	53	54	65
External debt 3/	63	80	77	82	78	80	81	71	75	65	68
Medium- and long-term	53	63	60	67	65	68	69	60	65	56	59
Short-term	10	17	17	15	13	13	13	10	11	8	9
In percent of domestic GNFS exports	84	111	114	169	144	147	140	124	121	109	107
External debt service (in percent of domestic GNFS exports)	9	12	12	17	15	24	17	22	17	15	14
Exchange rate (rufyiaa/US$, e.o.p.)	12.8	12.8	12.8	…	12.8	…	…	…	…	…	…
MEMORANDUM ITEMS											
GDP (in millions of rufyiaa)	11,717	13,496	16,131	17,192	17,363	18,480	18,681	20,354	20,385	21,935	22,216
GDP (in millions of US$)	915	1,054	1,260	1,343	1,357	1,444	1,459	1,590	1,593	1,714	1,736

Sources: Maldivian authorities, and Fund staff estimates and projections.
1/ Compensatory fiscal measures to be identified in the second review.
2/ MMA liabilities, include SDR allocation of SDR 7.4 million, equivalent to US$11.7 million, made available in Q3 2009, see http://www.imf.org/external/np/tre/sdr/proposal/2009/0709.htm. These are treated as long term liabilities of the MMA.
3/ Includes IMF but excludes domestic foreign-currency denominated debt.

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Table 2. Maldives: Central Government Finance, 2006-12

	2006	2007	2008	2009	2009	2010	2010	2010	2011	2011	2012	2012
			Act.	Program	Est.	Program	Budget	Proj.	Program	Proj.	Program	Proj.
						(In millions of rufiyaa)						
TOTAL REVENUE AND GRANTS	6,105	7,535	7,414	6,235	5,729	6,829	6,980	7,095	8,824	8,799	9,706	9,656
Revenue (excl. privatization receipts)	5,237	6,491	6,897	5,410	5,233	6,628	6,780	6,877	8,610	8,594	9,489	9,439
Tax revenue	2,370	2,905	3,367	2,674	2,732	3,301	3,483	3,358	5,017	5,154	5,725	5,873
Import duties	1,684	2,087	2,449	1,752	1,849	1,793	1,994	1,897	1,821	1,929	1,963	2,053
Tourism tax 1/	496	547	567	557	531	444	419	570	0	0	0	0
Other	191	271	351	366	352	1,064	1,070	891	3,195	3,225	3,762	3,820
Of which: New measures 1/	0	0	0	26	2	796	802	622	2,834	2,863	3,351	3,405
Nontax revenue	2,867	3,586	3,530	2,735	2,501	3,327	3,297	3,519	3,593	3,441	3,764	3,566
SOE profit transfers	727	789	1,015	913	679	539	540	762	565	456	625	461
Royalties, land & resort rent	1,424	1,854	1,618	1,041	1,041	1,863	1,863	1,863	1,916	1,916	2,003	2,003
Other	716	943	898	782	781	926	894	894	1,113	1,069	1,137	1,103
Grants	867	1,044	517	826	495	201	201	218	213	204	217	217
EXPENDITURE AND NET LENDING	6,948	8,201	10,176	11,179	10,299	10,123	10,310	10,343	9,676	10,539	10,505	10,521
Current expenditure	5,608	6,560	7,463	8,834	8,337	8,356	8,533	8,719	8,355	9,277	9,108	9,123
Of which: Salaries and allowances	1,925	2,196	3,566	4,824	4,618	3,910	4,048	4,232	3,592	4,344	4,227	4,197
Interest	199	234	280	339	358	656	593	700	876	899	854	911
Capital expenditure	1,458	1,765	2,879	2,353	2,126	2,014	2,024	1,871	1,596	1,537	1,644	1,645
Net lending	-118	-125	-166	-8	-163	-248	-248	-248	-275	-275	-247	-246
UNIDENTIFIED COMPENSATORY MEASURES 2/										888		66
OVERALL BALANCE	-844	-666	-2,762	-4,943	-4,570	-3,294	-3,330	-3,248	-852	-852	-799	-799
OVERALL BALANCE, EXCL. GRANTS	-1,711	-1,710	-3,279	-5,769	-5,066	-3,495	-3,530	-3,466	-1,066	-1,066	-1,016	-1,016
FINANCING	844	666	2,762	4,943	4,570	3,294	3,330	3,248	852	852	799	799
Privatization	50	37	42	524	526	1,300	1,329	476	700	985	600	816
External sources	0	0	0	512	512	811	1,300	411	427	550	427	351
Domestic sources	50	37	42	12	14	489	29	65	273	434	173	465
External debt	529	615	748	1,668	989	-39	451	843	-24	319	138	54
Domestic debt	265	15	1,972	2,751	3,055	2,033	1,550	1,928	176	-452	61	-71
						(In percent of GDP)						
TOTAL REVENUE AND GRANTS	52.1	55.8	46.0	36.3	33.0	37.0	37.4	38.0	43.4	43.2	44.2	43.5
Revenue	44.7	48.1	42.8	31.5	30.1	35.9	36.3	36.8	42.3	42.2	43.3	42.5
Tax revenue	20.2	21.5	20.9	15.6	15.7	17.9	18.6	18.0	24.6	25.3	26.1	26.4
Import duties	14.4	15.5	15.2	10.2	10.6	9.7	10.7	10.2	8.9	9.5	8.9	9.2
Tourism tax 1/	4.2	4.1	3.5	3.2	3.1	2.4	2.2	3.1	0.0	0.0	0.0	0.0
Other	1.6	2.0	2.2	2.1	2.0	5.8	5.7	4.8	15.7	15.8	17.2	17.2
Of which: New measures 1/	0.0	0.0	0.0	0.2	0.0	4.3	4.3	3.3	13.9	14.0	15.3	15.3
Nontax revenue	24.5	26.6	21.9	15.9	14.4	18.0	17.6	18.8	17.7	16.9	17.2	16.1
SOE profit transfers	6.2	5.8	6.3	5.3	3.9	2.9	2.9	4.1	2.8	2.2	2.8	2.1
Lease payments	12.2	13.7	10.0	6.1	6.0	10.1	10.0	10.0	9.4	9.4	9.1	9.0
Other	6.1	7.0	5.6	4.5	4.5	5.0	4.8	4.8	5.5	5.2	5.2	5.0
Grants	7.4	7.7	3.2	4.8	2.9	1.1	1.1	1.2	1.0	1.0	1.0	1.0
EXPENDITURE AND NET LENDING	59.3	60.8	63.1	65.0	59.3	54.8	55.2	55.4	47.5	51.7	47.9	47.4
Current expenditure	47.9	48.6	46.3	51.4	48.0	45.2	45.7	46.7	41.0	45.5	41.5	41.1
Of which: Salaries and allowances	16.4	16.3	22.1	28.1	26.6	21.2	21.7	22.7	17.6	21.3	19.3	18.9
Interest	1.7	1.7	1.7	2.0	2.1	3.5	3.2	3.7	4.3	4.4	3.9	4.1
Capital expenditure	12.4	13.1	17.8	13.7	12.2	10.9	10.8	10.0	7.8	7.5	7.5	7.4
Net lending	-1.0	-0.9	-1.0	0.0	-0.9	-1.3	-1.3	-1.3	-1.4	-1.4	-1.1	-1.1
UNIDENTIFIED COMPENSATORY MEASURES 2/										4.4		0.3
OVERALL BALANCE	-7.2	-4.9	-17.1	-28.8	-26.3	-17.8	-17.8	-17.4	-4.2	-4.2	-3.6	-3.6
OVERALL BALANCE, EXCL. GRANTS	-14.6	-12.7	-20.3	-33.6	-29.2	-18.9	-18.9	-18.6	-5.2	-5.2	-4.6	-4.6
FINANCING	7.2	4.9	17.1	28.8	26.3	17.8	17.8	17.4	4.2	4.2	3.6	3.6
Privatization	0.4	0.3	0.3	3.0	3.0	7.0	7.1	2.6	3.4	4.8	2.7	3.7
External sources	0.0	0.0	0.0	3.0	2.9	4.4	7.0	2.2	2.1	2.7	1.9	1.6
Domestic sources	0.4	0.3	0.3	0.1	0.1	2.6	0.2	0.4	1.3	2.1	0.8	2.1
External debt	4.5	4.6	4.6	9.7	5.7	-0.2	2.4	4.5	-0.1	1.6	0.6	0.2
Domestic debt	2.3	0.1	12.2	16.0	17.6	11.0	8.3	10.3	0.9	-2.2	0.3	-0.3
MEMORANDUM ITEMS												
Current balance	-3.2	-0.5	-3.5	-19.9	-17.9	-9.4		-9.9	1.3	1.3	1.7	1.7
Primary balance	-5.5	-3.2	-15.4	-26.8	-24.3	-14.3		-13.6	0.1	0.1	0.3	0.3
Public and publicly guaranteed debt	62.9	66.3	68.7	91.6	88.5	96.0		97.1	87.9	87.9	82.5	82.5
Domestic	23.4	26.4	31.2	46.8	48.1	54.5		55.0	50.4	47.7	47.0	45.4
External (excl. IMF)	39.6	39.8	37.4	44.8	40.5	41.5		42.1	37.5	40.2	35.5	37.1
GDP	11,717	13,496	16,131	17,192	17,363	18,480	18,681	18,681	20,354	20,385	21,935	22,216

Sources: Maldivian authorities, and Fund staff estimates and projections.

1/ The planned full replacement of the tourism tax by an ad valorem tax in mid 2010 has been modified to a combination of both taxes (only the latter is shown under new measures).

2/ Compensatory fiscal measures to be identified in the second review.

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Table 3. Maldives: Monetary Accounts, 2006-10

	2006	2007	2008	2009 Program	2009 Est.	2010 Mar. Proj.	2010 Jun. Proj.	2010 Sep. Proj.	2010 Dec. Proj.	2010 Program	2010 Proj.
					(In millions of rufiyaa, e.o.p.)						
NET FOREIGN ASSETS	952	-511	-1,732	-2,212	-1,339	-1,657	-1,789	-2,111	-1,788	-2,739	-1,788
Maldives Monetary Authority, net	2,814	3,857	3,022	3,109	3,072	3,384	3,243	2,910	3,224	3,221	3,224
Assets	2,975	3,958	3,089	3,552	3,349	3,766	3,729	3,502	3,920	3,732	3,920
Liabilities	-161	-101	-67	-443	-278	-382	-487	-591	-696	-510	-696
Commercial banks, net	-1,862	-4,368	-4,754	-5,321	-4,410	-5,041	-5,031	-5,022	-5,012	-5,961	-5,012
NET DOMESTIC ASSETS	7,057	10,449	13,842	15,696	14,964	15,702	16,158	16,706	16,337	17,132	16,337
Domestic credit	9,504	13,748	18,590	20,941	21,201	22,012	22,541	23,124	22,792	22,520	22,792
Public sector	1,125	1,222	2,274	5,361	5,475	6,502	6,898	7,295	7,392	7,260	7,392
Central govt (net)	553	216	896	4,211	4,076	5,152	5,548	5,945	6,042	6,080	6,042
Public enterprises	573	1,005	1,377	1,150	1,399	1,350	1,350	1,350	1,350	1,180	1,350
Private sector	8,372	12,509	16,219	15,580	15,554	15,510	15,643	15,829	15,401	15,260	15,401
Other items (net)	-2,447	-3,299	-4,748	-5,245	-6,237	-6,310	-6,383	-6,419	-6,455	-5,388	-6,455
BROAD MONEY	8,009	9,939	12,110	13,484	13,625	14,046	14,370	14,594	14,549	14,392	14,549
Narrow money	3,708	4,449	6,098	7,012	7,450	7,304	7,472	7,589	7,565	7,484	7,565
Currency	1,068	1,142	1,510	1,659	1,552	1,437	1,456	1,500	1,518	1,719	1,518
Public enterprise & local gov't deposits	15	42	11	17	35	19	19	19	19	18	19
Demand deposits	2,625	3,265	4,577	5,336	5,863	5,848	5,998	6,071	6,028	5,747	6,028
Quasi-money	4,301	5,490	6,013	6,472	6,175	6,742	6,898	7,005	6,983	6,908	6,983
MEMORANDUM ITEMS											
Velocity	1.46	1.36	1.33	1.28	1.27	1.33	1.30	1.28	1.28	1.28	1.28
Money multiplier	2.34	2.27	2.25	2.24	2.21	2.38	2.44	2.56	2.55	2.53	2.55
Reserve money	3,424	4,374	5,382	6,022	6,154	5,900	5,900	5,700	5,700	5,680	5,700
					(Percent change with respect to end of previous year)						
Broad money	18.9	24.1	21.8	9.4	12.5	3.1	5.5	7.1	6.8	6.7	6.8
Narrow money	22.2	20.0	37.1	15.3	22.2	-2.0	0.3	1.9	1.5	6.7	1.5
Domestic credit, net	38.6	44.7	35.2	5.7	14.0	3.8	6.3	9.1	7.5	7.5	7.5
Central government	-24.2	-60.9	314.3	92.4	354.8	26.4	36.1	45.8	48.2	44.4	48.2
Public enterprises	17.3	75.6	37.0	-16.4	1.6	-3.5	-3.5	-3.5	-3.5	2.6	-3.5
Private sector	48.6	49.4	29.7	-4.1	-4.1	-0.3	0.6	1.8	-1.0	-2.1	-1.0
					(In percent of GDP)						
Broad money	68.3	73.6	75.1	78.4	78.5	75.2	76.9	78.1	77.9	77.9	77.9
Narrow money	31.6	33.0	37.8	40.8	42.9	39.1	40.0	40.6	40.5	40.5	40.5
Domestic credit, net	81.1	101.9	115.2	121.8	122.1	117.8	120.7	123.8	122.0	121.9	122.0
Central government	4.7	1.6	5.6	24.5	23.5	27.6	29.7	31.8	32.3	32.9	32.3
Public enterprises	4.9	7.4	8.5	6.7	8.1	7.2	7.2	7.2	7.2	6.4	7.2
Private sector	71.4	92.7	100.5	90.6	89.6	83.0	83.7	84.7	82.4	82.6	82.4
					(In millions of U.S. dollars)						
Gross foreign assets of MMA	232	310	241	277	262	294	291	273	305	291	305
Usable reserves	125	172	106	105	112	130	121	103	128	130	128
Commercial banks NFA	-145	-341	-371	-416	-345	-394	-393	-392	-392	-466	-392
Commercial banks forex position, net	88	72	175	…	195	…	…	…	…	…	…
Assets	631	958	1,170	…	1,215	…	…	…	…	…	…
Liabilities	544	885	995	…	1,021	…	…	…	…	…	…
Of which: forex deposits	326	452	480	…	507	…	…	…	…	…	…

Sources: Maldivian authorities, and Fund staff estimates and projections.

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Table 4. Maldives: Balance of Payments, 2006-12

	2006	2007	2008 Est.	2009 Program	2009 Est.	2010 Program	2010 Proj.	2011 Program	2011 Proj.	2012 Program	2012 Proj.
	(In millions of U.S. dollars, unless otherwise indicated)										
CURRENT ACCOUNT	-302	-438	-648	-398	-420	-338	-363	-209	-251	-190	-205
Balance of goods and nonfactor services	-269	-357	-520	-271	-317	-183	-237	-84	-119	-32	-42
Trade balance	-590	-737	-891	-566	-687	-593	-697	-609	-699	-653	-716
Exports (fob)	225	228	330	216	163	255	201	281	243	306	286
Domestic exports	135	108	126	88	76	100	98	108	119	116	128
Re-exports	90	120	205	128	87	155	103	173	124	189	158
Imports (fob)	-815	-965	-1,221	-782	-850	-849	-898	-889	-942	-959	-1,002
Tourism-related	-171	-232	-254	-162	-177	-176	-187	-185	-196	-199	-208
Other	-645	-733	-967	-619	-674	-672	-712	-704	-746	-759	-794
Nonfactor services, net	321	380	370	295	370	410	460	525	579	621	675
Of which: Travel receipts	512	602	664	521	608	630	694	701	766	774	839
Income, net	-41	-67	-64	-63	-44	-65	-57	-67	-77	-73	-78
Current transfers, net	8	-14	-63	-64	-59	-90	-70	-58	-56	-85	-85
Receipts	91	91	65	65	56	21	30	17	19	17	17
Payments	-83	-105	-128	-128	-116	-111	-100	-75	-75	-102	-102
CAPITAL AND FINANCIAL ACCOUNT	291	442	496	355	354	252	279	156	192	214	207
Of which: 1/											
Foreign direct investment, net	14	15	12	10	10	10	10	11	11	12	12
Other investment, net	277	427	484	345	345	242	269	145	181	202	195
Monetary authorities 2/	0	0	-2	37	12	-25	0	0	0	0	0
General government	39	36	67	112	94	-27	3	-19	8	11	4
Of which: Disbursements of loans	63	65	101	154	131	72	65	86	79	65	65
Amortization	-24	-29	-35	-42	-37	-99	-61	-105	-71	-54	-61
Banks	104	193	100	-22	-27	50	47	-62	-42	-43	-43
Other sectors 3/	134	198	320	218	265	244	219	226	215	234	233
ERRORS AND OMISSIONS	56	73	84	55	81	45	50	20	45	0	0
OVERALL BALANCE	45	77	-68	13	16	-40	-34	-32	-14	23	2
Gross international reserves (increase: -)	-45	-77	70	-35	-20	-14	-44	-14	-34	-42	-21
Use of Fund credit, net	0	0	-2	-3	5	0	-1	0	0	0	0
FINANCING GAP	0	0	0	26	0	55	78	47	48	19	20
Of which: IMF	0	0	0	8	0	31	33	29	31	19	20
World Bank and ADB	0	0	0	18	0	24	45	17	17	0	0
MEMORANDUM ITEMS											
Gross international reserves (stock; e.o.p.) 2/	232	310	241	277	262	291	305	305	339	347	361
In months of GNFS imports	2.7	3.0	1.8	3.2	2.8	3.1	3.1	3.1	3.3	3.4	3.3
In percent of short-term debt at remaining maturity	168	121	82	81	92	88	101	118	123	143	138
Usable reserves (stock; e.o.p.) 2/	125	172	106	105	112	130	128	108	148	132	170
In percent of short-term debt at remaining maturity	90	68	37	31	39	39	43	42	53	54	65
Current account (in percent of GDP)	-33.0	-41.5	-51.4	-29.6	-31.0	-23.4	-24.9	-13.1	-15.8	-11.1	-11.8
GNFS balance (in percent of GDP)	-29.4	-33.9	-41.3	-20.2	-23.3	-12.7	-16.2	-5.3	-7.5	-1.9	-2.4
Exports (volume, percent change)	28.6	-10.1	24.4	-24.9	-44.2	17.4	19.5	9.3	20.5	7.7	17.0
Imports (volume, percent change)	10.3	6.8	9.7	-21.8	-16.2	3.2	-2.4	2.3	2.0	5.7	5.0
Tourism: bednights (percent change)	46.1	9.8	2.9	-7.0	-4.7	8.0	8.0	6.0	6.0	6.0	6.0
External debt (in percent of GDP) 4/	62.8	79.7	76.9	82.1	77.8	80.1	81.4	70.5	75.4	64.7	68.1
Medium- and long-term	52.8	62.5	59.9	67.4	64.7	67.5	68.6	60.5	64.7	56.2	59.1
Short-term	10.0	17.1	17.0	14.8	13.1	12.6	12.8	10.0	10.8	8.4	9.0
Debt service (in percent of domestic GNFS exports)	8.6	12.1	12.5	17.5	14.9	23.5	17.4	22.2	17.1	14.5	14.3
Exchange rate (rufiyaa per $; average)	12.8	12.8	12.8	12.8	12.8	…	…	…	…	…	…
GDP (in millions of US$)	915	1,054	1,260	1,343	1,357	1,444	1,459	1,590	1,593	1,714	1,736

Sources: Maldivian authorities, and Fund staff estimates and projections.

1/ There are no capital transfers or portfolio investments.
2/ MMA liabilities, include SDR allocation of SDR 7.4 million, equivalent to US$11.7 million, made available in Q3 2009, see http://www.imf.org/external/np/tre/sdr/proposal/2009/0709.htm. These are treated as long term liabilities of the MMA.
3/ These flows are treated as non-debt creating, as they mainly reflect intra-company financing for tourism-related projects.
4/ Includes IMF but excludes domestic foreign-currency denominated debt.

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Table 5: Maldives: Financing Requirements and Sources, 2006-12

	2006	2007	2008	2009	2010	2011	2012
				Est.	Projection		
External			(In millions of U.S. dollars)				
FINANCING REQUIREMENTS	419	653	905	739	692	587	503
Current account deficit	302	438	648	420	363	251	205
Amortization of MLT debt	34	47	74	81	106	115	105
ST debt (stock at end of previous year)	38	91	181	214	178	186	171
Increase in gross international reserves	45	77	0	20	44	34	21
Repurchases from the Fund	0	0	2	3	1	0	0
FINANCING SOURCES	419	653	905	739	614	539	484
FDI (net)	14	15	12	10	10	11	12
Porfolio investment (net)	0	0	0	0	0	0	0
Other assets (net)	113	183	342	254	216	215	233
MLT loans disbursement 1/	63	65	101	131	65	79	65
New ST debt	91	181	214	178	186	171	156
Other net flows 2/	138	209	166	158	137	62	17
Decrease in gross international reserves	0	0	70	0	0	0	0
Purchases from the Fund	0	0	0	8	0	0	0
Exceptional financing	0	0	0	0	0	0	0
FINANCING GAP	0	0	0	0	78	48	20
Of which: IMF	0	0	0	0	32.7	31.0	19.6
World Bank and ADB	0	0	0	0	45	17	0
MEMORANDUM ITEMS							
Rollover rate of ST debt (in percent)	243	198	118	83	104	92	91
GIR (million $, e.o.p.)	232	310	241	262	305	339	361
Usable reserves (million $, e.o.p.)	125	172	106	112	128	148	170
External financing requirement (in percent of GDP)	45.7	62.0	71.9	54.5	47.4	36.8	29.0
Fiscal			(In millions of rufyiaa)				
FINANCING REQUIREMENTS	507	605	670	827	1,486	1,803	1,689
External principal payments	308	371	390	470	786	903	778
Interest payments	199	234	280	358	700	899	911
Domestic	97	102	89	184	497	597	594
External	102	132	191	173	203	302	317
FINANCING SOURCES	507	605	670	827	905	1,585	1,689
Primary balance	-645	-432	-2,482	-4,213	-2,547	-841	45
Privatizations	50	37	42	526	476	985	816
Domestic (net)	265	15	1,972	3,055	1,928	436	-5
External disbursements	837	986	1,138	1,459	1,048	1,005	832
FINANCING GAP 3/	0	0	0	0	581	218	0
MEMORANDUM ITEM							
Fiscal financing requirement (in percent of GDP)	4.3	4.5	4.2	4.8	8.0	8.8	7.6

Sources: Maldivian authorities, and Fund staff estimates and projections.

1/ 2009 includes a US$100 million loan from India.

2/ Includes flows to the nonfinancial public and private sectors.

3/ The fiscal financing gap in 2010-11 is filled by budget support from the World Bank and ADB.

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Table 6. Maldives: Reviews and Disbursements under the Proposed Arrangements

Date	Amount of Purchase				Condition
	In percent of quota		In millions of SDRs		
	SBA	ESF	SBA	ESF	
December 4, 2009	50.0	12.5	4.1	1.025	SBA and ESF arrangements approved
March 25, 2010	50.0	12.5	4.1	1.025	Completion of first review and observance of end-December 2009 performance criteria
June 25, 2010	50.0	12.5	4.1	1.025	Completion of second review and observance of end-March 2010 performance criteria
September 25, 2010	50.0	12.5	4.1	1.025	Completion of third review and observance of end-June 2010 performance criteria
December 25, 2010	50.0	12.5	4.1	1.025	Completion of fourth review and observance of end-September 2010 performance criteria
March 25, 2011	50.0	12.5	4.1	1.025	Completion of fifth review and observance of end-December 2010 performance criteria
June 25, 2011	50.0	12.5	4.1	1.025	Completion of sixth review and observance of end-March 2011 performance criteria
September 25, 2011	50.0	12.5	4.1	1.025	Completion of seventh review and observance of end-June 2011 performance criteria
December 25, 2011	50.0	0	4.1	0	Completion of eighth review and observance of end-September 2011 performance criteria
March 25, 2012	50.0	0	4.1	0	Completion of ninth review and observance of end-December 2011 performance criteria
June 25, 2012	50.0	0	4.1	0	Completion of tenth review and observance of end-March 2012 performance criteria
September 25, 2012	50.0	0	4.1	0	Completion of eleventh review and observance of end-June 2012 performance criteria
Total	600	100	49.20	8.20	

Source: Fund staff projections.

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Table 7. Maldives: Indicators of Capacity to Repay the Fund, 2006-21 1/

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
					Projections											
Fund obligations based on existing credit																
(in millions of SDRs)																
Principal	-	-	1.5	2.1	0.5	-	-	2.1	2.1	0.2	0.2	0.2	0.2	0.2	-	-
Charges and interest 2/	0.2	0.2	0.2	0.0	0.0	0.1	0.1	0.1	0.0	-	-	-	-	-	-	-
Fund obligations based on existing and prospective credit																
(in millions of SDRs)																
Principal	-	-	1.5	2.1	0.5	-	-	5.1	13.3	16.8	12.5	4.7	1.6	1.6	1.2	0.4
Charges and interest 2/	0.2	0.2	0.2	0.0	0.2	0.4	0.9	1.1	0.9	0.5	0.2	0.0	0.0	0.0	-	-
Total obligations based on existing and prospective credit																
In millions of SDRs	0.2	0.2	1.7	2.1	0.7	0.4	0.9	6.2	14.3	17.3	12.7	4.8	1.7	1.7	1.2	0.4
In millions of Rfs	3.8	4.3	34.3	41.2	14.1	8.6	18.4	126.9	290.4	351.9	258.2	97.0	33.6	33.6	25.1	8.4
In percent of government revenue 3/	0.1	0.1	0.5	0.8	0.2	0.1	0.2	1.2	2.6	2.9	2.0	0.7	0.2	0.2	0.1	0.0
In percent of exports of goods and services	0.0	0.0	0.3	0.4	0.1	0.1	0.1	0.7	1.5	1.7	1.1	0.4	0.1	0.1	0.1	0.0
In percent of debt service 4/	0.5	0.4	2.5	2.9	0.7	0.4	0.9	6.3	16.9	21.9	16.5	6.4	2.4	2.9	2.4	0.8
In percent of GDP	0.0	0.0	0.2	0.2	0.1	0.0	0.1	0.5	1.1	1.3	0.9	0.3	0.1	0.1	0.1	0.0
In percent of quota	2.4	2.7	20.7	25.4	8.4	5.1	11.0	75.9	173.8	210.6	154.5	58.0	20.1	20.1	15.0	5.0
In percent of GIR	0.1	0.1	1.1	1.2	0.4	0.2	0.4	2.4	4.9	5.6	3.8	1.3	0.4	0.4	0.3	0.1
Outstanding Fund credit 4/																
In millions of SDRs	4.1	4.1	2.6	5.6	25.6	45.1	57.4	52.3	39.0	22.1	9.6	4.9	3.3	1.6	0.4	-
In millions of Rfs	77.2	80.3	51.9	111.4	522.8	919.2	1,170.5	1,066.3	793.7	451.2	196.4	100.3	66.8	33.4	8.4	-
In percent of government revenue 3/	1.5	1.2	0.8	2.1	7.6	10.7	12.4	10.3	7.2	3.8	1.5	0.7	0.4	0.2	0.0	-
In percent of exports of goods and services	0.8	0.7	0.4	1.1	4.3	6.4	7.2	6.0	4.1	2.2	0.9	0.4	0.3	0.1	0.0	-
In percent of debt service 4/	10.2	6.9	3.8	8.0	27.7	42.4	57.7	52.9	46.2	28.1	12.6	6.6	4.8	2.8	0.8	-
In percent of GDP	0.7	0.6	0.3	0.6	2.8	4.5	5.3	4.4	3.1	1.6	0.7	0.3	0.2	0.1	0.0	-
In percent of quota	50.0	50.0	31.3	68.8	312.6	550.0	700.0	637.6	475.0	270.0	117.6	60.0	40.0	20.0	5.0	-
In percent of GIR	2.6	2.0	1.7	3.3	13.4	21.2	25.4	20.4	13.5	7.2	2.9	1.4	0.8	0.4	0.1	-
Net use of Fund credit (millions of SDRs)	-	-	(1.5)	3.1	20.0	19.5	12.3	(5.1)	(13.3)	(16.8)	(12.5)	(4.7)	(1.6)	(1.6)	(1.2)	(0.4)
Disbursements	-	-	-	5.1	20.5	19.5	12.3	-	-	-	-	-	-	-	-	-
Repayments and Repurchases	-	-	1.5	2.1	0.5	-	-	5.1	13.3	16.8	12.5	4.7	1.6	1.6	1.2	0.4
MEMORANDUM ITEMS																
Nominal GDP (in millions of Rfs)	11,717.4	13,496.1	16,130.9	17,363.4	18,680.7	20,384.6	22,216.2	23,969.7	25,804.6	27,774.8	29,895.4	32,177.9	34,634.6	37,279.0	40,125.3	43,188.8
Exports of goods and services (in millions of Rfs)	9,947.1	11,226.4	13,457.3	10,522.9	12,194.5	14,265.8	16,185.8	17,775.9	19,264.7	20,724.0	22,557.9	24,376.7	26,341.8	28,464.8	30,718.4	33,150.1
Government revenue (in millions of Rfs) 3/	5,237.2	6,490.7	6,897.2	5,233.4	6,876.6	8,594.3	9,439.3	10,343.3	11,100.3	11,975.6	12,949.7	13,970.6	15,071.9	16,259.9	17,501.4	18,837.6
Debt service (in millions of Rfs) 4/	754.0	1,169.7	1,351.7	1,398.4	1,886.2	2,170.2	2,027.2	2,014.6	1,716.8	1,604.9	1,562.8	1,508.1	1,402.2	1,178.0	1,040.7	1,073.9
GIR (in millions of USD)	232.4	309.6	241.5	261.9	305.5	339.4	360.7	408.8	458.3	487.9	528.1	571.9	622.5	676.1	740.0	803.7

Source: Fund staff estimates.

1/ Arising from projected disbursements under the proposed stand-by arrangement and Exogenous Shocks Facility.
2/ No temporary interest relief assumed pending receipt of required consents to the LIC reforms from lenders and contributors to the PRGF-ESF Trust.
3/ Excludes privatization receipts.
4/ Total debt service includes IMF repurchases and repayments.

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ATTACHMENT I
MALDIVES: LETTER OF INTENT

Malé, March 16, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

This Letter of Intent (LOI) and attached Memorandum of Economic and Financial Policies (MEFP) review recent developments and update our policy intentions as enumerated in the LOI and MEFP of November 24, 2009, at the time of approval of the program. Those earlier documents remain in force.

Recent economic developments have been relatively favorable, and program performance has been strong, with all end-December performance criteria met except for small deviations in reserve money and net credit of the Maldives Monetary Authority to the government. We are requesting waivers for the non-observance of both of these performance criteria. Also, we would like to request a modification of the way the performance criterion for reserve money is measured, as reflected in the accompanying Technical Memorandum of Understanding.

While a number of risks to the fiscal adjustment have emerged, we remain committed to a tight stance and to the program targets. Thus, we have decided to adopt a set of measures that would ensure meeting the 2010 fiscal deficit target, and are committed to identifying over the course of the next review measures that would bring the fiscal deficit in 2011 and 2012 down in line with the program targets. With these additional policies, we are confident that we will be able to maintain macroeconomic stability and get back to a path of sustainable and equitable growth. Therefore, we hereby request the completion of the first review under the Stand-by Arrangement and the arrangement under the Exogenous Shocks Facility, as well as disbursement of the associated amounts.

The Government of Maldives will consult with the Fund on the implementation of MEFP policies—and in advance of any revisions to these policies—in accordance with the Fund's policies on such consultation.

The government has authorized the publication of this LOI and the attached MEFP.

Sincerely yours,

/s/	/s/
Ali Hashim Minister of Finance and Treasury	Fazeel Najeeb Governor, Maldives Monetary Authority

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MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. **Economic developments since the approval of the program last November have been better than expected**: the 2009 recession was shallower; inflation was below expectations; and pressures on the foreign exchange peg and on the banking sector seem to be abating. Also, the 2009 fiscal deficit was 26¼ percent of GDP, about 2½ percentage points below program projections. But despite these favorable trends, underlying fiscal and external imbalances remain, and a comprehensive policy response is still required.

2. **We continue to be guided by our Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of November 24, 2009, as amended in the current, supplementary documents.** The difficult and ambitious policy package we adopted then was designed to put the economy on a sound footing, with the support of a blended IMF arrangement, comprising a three-year Stand-By Arrangement (SBA) for SDR 49.2 million and a two-year arrangement under the Exogenous Shock Facility (High Access Component) for SDR 8.2 million. Substantial support is also being delivered by the Asian Development Bank and the World Bank, and a pledging forum on March 28-29 should yield additional financing from bilateral and multilateral donors.

3. **Program performance through end-2009 was strong**. All end-December performance criteria (PC) were met, with the exception of two monetary PCs. The ceiling on the reserve money stock was breached slightly on account of an unexpected increase in bank reserves in the last few days of the year. If measured, however, on a month-average basis, which is more sensible for such a volatile series, the PC would have been met. Also, the ceiling on net Maldives Monetary Authority (MMA) credit to the government was exceeded slightly, driven up by accrued interest on the stock of T-bonds held by the MMA. We hereby request a waiver for the nonobservance of both PCs, as well as a modification of the way this PC is measured going forward, based on monthly averaging (the detail is included in the accompanying Technical Memorandum of Understanding). Separately, Treasury bill auctions were started in December, as programmed, but parliamentary passage of the business profits tax (BPT) has been delayed (both structural benchmarks).

4. **Some recent developments would imply possible fiscal slippages later in 2010**. The delay in the passage of the BPT is likely to reduce its yield this year. Our program of public sector downsizing has proceeded slower than expected and will likely take through the end of 2011 to complete. The government has committed to paying public employees' pension contributions from May 2010 as long as their salaries are cut, as partial compensation for their hardship. Finally, the Majlis recommended the restoration from January 2010 of the salaries of independent commissions to their September 2009 levels, which the government has implemented.

5. **We are taking compensatory actions to offset the fiscal impact of these developments in 2010**. We intend to bring passage of the goods and services tax on tourism forward from September to June, with the tax to take effect by August 1. We also undertake to expedite passage of the BPT and with quarterly, rather than semiannual, payment periods, so as to ensure substantial collections in 2010.

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6. **We are also committed to adopting compensatory fiscal measures to bring the fiscal deficit in 2011 and 2012 in line with program projections**. We undertake to identify those measures in the course of the second review under the program.

7. **The program also faces a risk that public sector wage cuts will be reversed**. The Majlis, in passing the 2010 budget, recommended reversing the civil service wage cuts that were a key component of the fiscal adjustment, and the Civil Service Commission (CSC) mandated such a reversal effective January 1, 2010. However, we intend to continue paying wages for civil servants, the army and the policy at their reduced levels until the agreed domestic revenue threshold of Rf 7 billion is reached. The CSC has taken the issue to the court system. However, we will continue to seek an out-of-court settlement, and will be submitting a written proposal to the CSC, including a full report on the nation's continued economic difficulties, justifying the continuation of the wage cuts. We have furthermore made public statements clarifying the economic justification for the wage cuts.

8. **We will continue to tighten monetary policy in line with the program targets.** The end of deficit monetization in September 2009 and the launching of open market operations (OMOs) have brought rufiyaa liquidity under control. However, with external financing projected to increase sharply in 2010, OMOs may need to be stepped up to absorb yet more liquidity. We therefore plan to align OMOs and the associated interest rates more clearly with our monetary policy objectives. We continue to view the rufiyaa's peg to the dollar as appropriate, and while the situation necessitating the rationing of foreign exchange provided by the MMA to commercial banks exists and a parallel market continues to be present, we take comfort in the low and stable premium in that market. We remain committed to eliminating rationing altogether as conditions improve.

9. **We continue to make steady progress in strengthening the financial sector**. We are pressing ahead with the implementation of the prudential regulations introduced in May 2009 on provisioning and single borrower limits, and in January 2010 on banks' net open positions. We are working out implementation plans with each bank to allow them to adapt their balance sheets to comply with the new requirements. We submitted a new Banking Act to the Majlis and are working on a draft bill to reform the MMA Act; passage of each of these constitutes a structural benchmark for end-2010.

10. **We are following up on the recommendations made by the IMF in its safeguards assessment exercise**. The MMA has appointed an external auditor and will soon appoint an internal one, and the process whereby foreign payments are authorized has been automated.

11. **The program will continue to be monitored on the basis of quarterly reviews**. Completion of the second and third reviews, scheduled for June and September 2010, will require observance of the quantitative performance criteria for end-March 2010 and end-June 2010, respectively. These performance criteria are specified in the updated Table 1. The reviews will also assess progress toward observance of the structural benchmarks listed in Table 2. Program understandings are further specified in the accompanying Technical Memorandum of Understanding.

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Table 1. Maldives: Quantitative Performance Criteria and Indicative Targets

	2009						2010			
	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Est.	Dec. PC	Dec. Adjusted PC	Mar. PC	Jun. PC	Sep. IT	Dec. IT
I. Performance criteria 1/										
Usable reserves of MMA (floor on stock, in million $)	125	87	60	112	100	43	120	150	150	150
Reserve money (ceiling on stock, in million MRF)	5,669	5,974	5,966	6,161	6,050	N/A	5,950	5,950	5,750	5,750
Total financing of the central government's budget deficit (ceiling on cumulative flow from beginning of FY, in million MRF)	1,342	2,271	3,300	4,926	4,970	4,970	1,170	2,200	2,700	3,100
Net credit of MMA to central government (ceiling on cumulative flow from beginning of FY, in million MRF)	416	674	1,075	792	750	N/A	100	100	100	100
Contracting or guaranteeing of new nonconcessional external debt 2/ (ceiling on stock, in million $)	…	…	…	0	70	N/A	120	120	120	120
Accumulation of external payments arrears 3/ (ceiling on stock, in million $)	0	0	0	0	0	N/A	0	0	0	0
II. Indicative target										
Domestically financed expenditure by government (ceiling on cumulative flow from beginning of FY, in million MRF)	1,647	4,284	6,411	8,302	8,800		2,500	5,000	7,500	10,000
III. Adjusters										
External financial support to the government and MMA (grants and loans), excl. IMF 4/ (cumulative flow from beginning of FY, in million $)	119	132	157	230	287		37	112	147	168
Central government revenue (cumulative flow from beginning of FY, in million $)	1,157	2,561	3,886	5,233	5,410		1,374	2,817	4,800	6,784
IV. Memorandum items										
Program exchange rates										
MRF/$	12.80	12.80	12.80	12.80	12.80		12.80	12.80	12.80	12.80
$/SDR	1.50	1.50	1.50	1.50	1.50		1.50	1.50	1.50	1.50
V. Consultation clause										

If the level of usable reserves falls at any time during a given quarter by more than US$25 million below the performance criterion for the previous quarter, the authorities will consult with the IMF staff.

1/ Evaluated at the programmed exchange rate.
2/ The ceiling is set on the stock of new debt contracted or guaranteed at any time after the approval of the program.
3/ This performance criterion is assessed on a continuous basis.
4/ Includes $100 million in dollar-denominated bonds to be purchased by the Male branch of the State Bank of India; excludes swap arrangement with Sri Lanka.

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Table 2. Maldives: Structural Benchmarks

Actions	Test date/Status
Launch of t-bill auctions	December, 2009; implemented
Passage by Parliament and entry into effect of business profit tax	December, 2009; not implemented. Currently expected by July 2010.
Passage by Parliament and entry into effect of goods and services tax on tourism industry	August, 2010
Passage by Parliament of Banking Bill and revised MMA Act	December, 2010
Passage by Parliament and entry into effect of goods and services tax on the rest of the economy	January, 2011

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ATTACHMENT II

MALDIVES—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. **This Technical Memorandum of Understanding sets out a framework for monitoring the performance of Maldives under the program, supported by a Stand-by Arrangement (SBA) and an arrangement under the Exogenous Shock Facility (ESF).** It specifies the definitions for quantitative performance criteria and indicative targets, on the basis of which Maldives's performance under the program will be assessed through quarterly reviews. Monitoring procedures and reporting requirements are also specified. The first review will take place in or after March 2010 and the second review in or after June 2010.

I. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

2. Performance criteria for end-March 2010 and end-June 2010 have been established. The targets in Table 2 for end-September 2010 and end-December 2010 are indicative and will be converted to performance criteria in subsequent reviews. Targets have been set with respect to:

- Floor on the level of usable reserves of the MMA;
- Ceiling on the level of reserve money of the MMA;
- Ceiling on the level of total financing of the central government's deficit;
- Ceiling on the level of net credit of MMA to central government;
- Ceiling on the contracting and guaranteeing by the central government or the MMA of new nonconcessional external debt.
- Ceiling on the accumulation of new external payment arrears of the central government and the MMA. This performance criterion is applicable on a continuous basis.

3. Indicative targets for end-March 2010, end-June 2010, end-September 2010 and end-December 2010 have been established with respect to a ceiling on the overall domestically financed expenditure by the government, excluding debt amortization payments.

II. INSTITUTIONAL DEFINITIONS

4. The central government includes all units of budgetary central government.

5. The domestic banking system is defined as the MMA, the existing and any newly licensed commercial banks incorporated in Maldives, and their branches.

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6. The domestic non-bank sector is defined as comprising private individuals as well as any business or institution, private or public, that is not classified as part of the domestic banking system.

III. Monetary Aggregates

7. **Valuation**. Foreign currency-denominated accounts will be valued in rufiyaa at the program exchange rate between the rufiyaa and the U.S. dollar of Rf 12.80 per U.S. dollar. Foreign currency accounts denominated in currencies other than the U.S. dollar, excluding SDRs, will first be valued in U.S. dollars at actual end-of-period exchange rates used by the MMA to calculate the official exchange rates. SDR-denominated accounts will be valued at the program exchange rate of U.S. dollar 1.50 per SDR. Monetary gold will be valued at US$950 per ounce.

A. Usable Reserves of the MMA

8. A floor applies to the level of usable reserves of the MMA. The floor on usable reserves will be adjusted upward (downward) by the amount of external support (loans and grants) to the government and MMA (excluding from the IMF) in excess (short) of the programmed level.

9. Usable reserves will be calculated as gross international reserves less international reserve liabilities less foreign currency deposits at the MMA. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the MMA shall be valued at program exchange rates and gold price as described in paragraph 7 above.

10. **Gross international reserves** of the MMA are defined as the sum of

- Monetary gold holdings of the MMA;
- Holdings of SDRs;
- Maldives's reserve position in the IMF;
- Cash in foreign currencies
- Foreign currency assets held abroad that are under the direct and effective control of the MMA and readily available for intervention in the foreign exchange market or the direct financing of balance of payments imbalances and are of investment grade or held with an investment-grade institution.

11. **International reserve liabilities** of the MMA are defined as the sum of

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- All outstanding liabilities of Maldives to the IMF[1]; and
- Any foreign convertible currency liabilities of the MMA to nonresidents with an original maturity of up to and including one year.

12. **Foreign currency deposits** at the MMA include foreign currency deposits of commercial banks, state-owned enterprises and the government held with the MMA.

B. Reserve Money of the MMA

13. A ceiling applies to the level of reserve money of the MMA.

14. Reserve money consists of currency issued by the MMA (excluding MMA holdings of currency), commercial banks' deposits held with the MMA and public enterprises' deposits held with the MMA. For the purposes of this performance criterion, reserve money is calculated as an average over the four weeks immediately preceding the test date.

C. Net Credit of the MMA to the Central Government

15. A ceiling applies to the net credit of MMA to the central government measured cumulatively from the beginning of the year.

16. Net credit of the MMA to the central government is defined as the net borrowing of the central government from the MMA (ways and means advances, loans, overdrafts, holdings of restructuring bonds, holdings of treasury bills or other government bonds, and all other accounts on account of the government, minus central government deposits at the MMA).

IV. Fiscal Aggregates

A. Total Financing of the Central Government's Deficit

17. A ceiling applies to the total financing of the deficit of the central government, measured cumulatively from the beginning of the year. The ceiling on the total financing of the central government's deficit will be adjusted downward by eighty percent of the amount of total central government's revenue in excess of the programmed levels.

[1] Allocations of special drawing rights (for a total of 7,691,108 SDRs) are reflected in the capital accounts of the MMA. The asset counterpart of these allocations (holdings of SDRs) is reflected in the gross international reserves of the MMA. Therefore, the recent general and special SDR allocations, for a total of 7,408, 708 SDRs, resulted in an increase in the gross international reserves and the net usable reserves of the MMA.

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18. For the purpose of program monitoring, total financing of the central government's deficit is defined as the sum of (i) net domestic financing; (ii) net external financing and (iii) privatization receipts.

- Net domestic financing is the sum of net domestic bank financing and net nonbank domestic financing.

- Net domestic bank financing is defined as the sum of: (i) net MMA credit to the central government (defined above), and (ii) the change in the commercial banks' claims on the central government in domestic and foreign currency, including the change in the holdings of government securities by the commercial banks; minus the balances of the central government held in the commercial banks.

- Net nonbank domestic financing is defined as the sum of: (i) the change in the holdings of government securities by the domestic non-bank sector, calculated as the difference between the change in the stock or net issuance of government securities and the change in the holdings of government securities by the banking system; and (ii) the net change in the float. The float consists of the value of checks issued and not yet cashed by the beneficiaries.

- Net external financing is the sum, in national currency valued at program exchange rates, of (i) the disbursements of external loans to the central government; (ii) exceptional financing (rescheduled principal plus interest); (iii) proceeds from bonds issued abroad; less (iv) amortization due; (v) net reduction in external arrears; and (vi) changes in cash, deposits, and securities held for liquidity purposes outside the domestic banking system.

- Privatization proceeds are defined as the cash receipts from asset sales by the government from abroad or domestically.

19. For the purposes of program monitoring, total central government revenue is defined as the sum of tax revenue and non-tax revenue, and excludes (i) subsidiary loan repayments; (ii) government loan account repayments; (iii) the MMA revaluation account; and (iv) any receipts from privatization.

B. Domestically Financed Expenditure by Government

20. An indicative ceiling target applies to the central government domestically financed expenditure, measured cumulatively from the beginning of the year.

21. The central government domestically financed expenditure, excluding amortization payments, is defined as actual domestically financed central government expenditure on a cash basis, excluding amortization payments, calculated on the basis of expenditure reports submitted by Accountable Government Agencies.

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V. Public Debt

A. External Debt

22. A ceiling applies to the stock of non-concessional debt of any maturity contracted or guaranteed by the public sector with non-residents at any time after the approval of the program, regardless of when the corresponding disbursements are made. For the purposes of this ceiling, the public sector is defined as the central government, the MMA, or other agencies acting on behalf of the central government.

23. The definition of debt, for the purposes of the program, is set out in Executive Board Decision No. 12274, Point 9, as revised on August 24, 2000 and as amended effective December 1, 2009 (see Annex I).

24. Excluded from the ceiling are (i) the use of Fund resources; (ii) lending from the World Bank, the Asian Development Bank, and the International Fund for Agricultural Development; (iii) debts incurred to restructure, refinance, roll over, or prepay existing debts, to the extent that such debt is incurred on terms at least as favorable as the terms of the existing debt; (iv) concessional debts; (v) any rufiyaa-denominated treasury bills and government bonds, and MMA bills held by nonresidents; (vi) debts classified as international reserve liabilities of the MMA; (vii) the rollover of existing guarantees; and (viii) normal import financing. A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

25. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the central government, the MMA, or other agencies on behalf of the central government to service a loan in the event of nonpayment by the recipient (involving payments in cash or in kind), or indirectly through any other obligation of the central government, the MMA, or other agencies on behalf of the central government to finance a shortfall incurred by the loan recipient.

26. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the NPV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD would continue to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). Loans provided by a

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private entity will not be considered concessional unless accompanied by a grant or grant element provided by a foreign official entity, such as both components constitute an integrated financing package with a combined grant element equal to at least 35 percent.

VI. External Payment Arrears

27. A continuous performance criterion applies to the nonaccumulation of external payments arrears on external debt contracted or guaranteed by the central government or the MMA. External payments arrears consist of external debt-service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements. However, overdue debt and debt service obligations that are in dispute will not be considered as external payments arrears for the purposes of program monitoring.

VII. Data Provision

28. The authorities have committed to using the best available data, so that any subsequent data revisions will not lead to a breach of a performance criterion. All revisions to data will be promptly reported to the Fund's Asia and Pacific Department. The likelihood of significant data changes, including definitional changes, will be communicated to Fund staff as soon as the risk becomes apparent to the authorities.

29. Data required to monitor performance under the program, including those related to performance criteria and indicative targets, will be provided electronically or in hard copy to the Fund. The data to be reported are listed below, and the reporting responsibilities are indicated in parentheses.

A. Monetary Data (MMA)

- The monetary survey, the balance sheet of the MMA, and the consolidated balance sheets of the commercial banks. Data will be provided on a monthly basis, with the exception of the balance sheet of the MMA and the consolidated balance sheets of the commercial banks, which will be provided on a weekly basis within ten working days of the end of the respective week and on a monthly basis within fifteen working days of the end of the respective month.

- Interest rates and volume on standing facilities and market operations, to be provided on a weekly basis within ten working days of the end of the respective week, and on a monthly basis within fifteen working days of the end of the respective month.

- A detailed breakdown of net credit to the central government from the MMA, the commercial banks and the nonbank sector, to be provided on a weekly basis within ten working days of the end of the respective week and on a monthly basis within fifteen working days of the end of the respective month.

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- Results of reverse repurchase operations by the MMA, to be provided within five working days of each operation, including total bids received, accepted amount, and average interest rate.

B. Fiscal Data (Ministry of Finance and Treasury—MOFT)

- Domestically financed central government expenditure on a cash basis, excluding amortization payments, calculated on the basis of expenditure reports submitted by Accountable Government Agencies to be provided on a monthly basis within four weeks of the end of the respective month.

- Net domestic bank financing to the central government (as defined above), to be provided on a monthly basis within four weeks of the end of the respective month.

- Net nonbank domestic financing to the central government (as defined above), to be provided on a monthly basis within four weeks of the end of the respective month.

- Net external financing to the central government (as defined above), to be provided on a monthly basis within four weeks of the end of the respective month.

- Privatization receipts from asset sales by the government on a cash basis, to be provided on a monthly basis within four weeks of the end of the respective month.

- Results of outright sales and auctions of treasury bills, to be provided within five working days of each operation, including total amounts sold to banks and the non-bank sector, and the average yield.

C. External Sector Data (MMA and MOFT)

- Outstanding stock, disbursements, amortization, and interest payments of short-term external debt contracted or guaranteed by the government or the MMA by creditor in original currency and U.S. dollars, to be provided on a quarterly basis within four weeks of the end of the respective quarter.

- Outstanding stock, disbursements, amortization, and interest payments of medium- and long-term external debt contracted or guaranteed by the government or the MMA by creditor in original currency and U.S. dollars, to be provided on a quarterly basis within four weeks of the end of the respective quarter.

- External debt newly contracted or guaranteed by the government or the MMA, including terms (interest rate and grace and repayment periods), to be provided on a quarterly basis within 4 weeks of the end of the respective quarter.

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- Arrears on the external debt contracted or guaranteed by the government or the MMA by creditor in original currency and U.S. dollars, to be provided on a quarterly basis within four weeks of the end of the respective quarter.

- Exports and imports in value terms, to be provided by the MMA on a monthly basis within four weeks of the end of the respective month.

D. Other Data (Department of National Planning)

- Consumer price index data, including a detailed breakdown by major categories of goods and services, to be provided on a monthly basis within four weeks of the end of the respective month.

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ANNEX I. GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO FOREIGN DEBT

Excerpt from Executive Board Decision No. 12274, as revised on August 24, 2000, and as amended effective December 1, 2009.

9. (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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FOR IMMEDIATE RELEASE
March 26, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under Stand-by and ESF Arrangements with Maldives, and Approves US$7.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Maldives' economic performance under the Stand-By Arrangement (SBA) and the Arrangement under the Exogenous Shocks Facility. The completion of the review enables the immediate disbursement of an amount equivalent to SDR 5.125 million (about US$7.76 million), bringing total disbursements under the arrangements to SDR 10.25 million (about US$15.5 million).

The Board also granted a waiver of non-observance of the performance criteria on net Maldives Monetary Authority credit to the central government and on reserve money, and approved the request for the modification of the measurement of the reserve money performance criterion.

The financial arrangements for Maldives were approved on December 4, 2009 (see Press Release No. 09/444), and comprise a 36-month, SDR 49.2 million (about US$74.48 million) SBA and a 24-month, SDR 8.2 million (about US$12.41 million) arrangement under the Exogenous Shocks Facility High Access Component, totaling an amount equivalent to SDR 57.4 million (about US$86.89 million).

The global economic crisis hit Maldives hard and exacerbated the effects of an unsustainable fiscal expansion, leading to very large external and fiscal imbalances. The IMF financial assistance package is designed to help smooth the country's adjustment to these imbalances and support the authorities' strong policy program.

Following the Executive Board discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"The Maldivian authorities' strong policy actions have succeeded in stabilizing the economy. The fiscal deficit has been put on a declining path, international reserves have recovered, and

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pressures on the exchange rate have eased. At the same time, given the still large imbalances and vulnerabilities and the important challenges ahead, a continued implementation of the policies envisaged in the ambitious economic program will be necessary to consolidate macroeconomic stability and create the conditions for sustained growth and poverty reduction.

"The authorities have taken significant steps to reduce the fiscal deficit, including cuts in public sector wages and large increases in electricity tariffs. Several recent developments, however, will undo some of this progress, putting pressure on the fiscal position and leading to unsustainable deficits. Going forward, the authorities are committed to restraining expenditure, continuing the restructuring of public employment, and passing key tax reforms, in particular a business profits tax and a goods and services tax for tourism and other industries. Further fiscal measures will be required to meet the 2011 deficit target, and significant contingency measures will be needed if public sector wages are restored earlier than expected.

"Given Maldives' high public debt levels, the authorities should seek external financing on concessional terms to the extent possible, and carefully consider the debt sustainability implications of any non-concessional external borrowing.

"The recent sharp turnaround in monetary policy, including the active tightening of liquidity, the halting of deficit monetization, and the successful introduction of open market operations, has helped stabilize the economy. Looking ahead, sustained liquidity absorption efforts will be needed to ensure that monetary aggregates are kept under control.

"The stresses on the Maldivian banking system appear to have abated. The authorities intend to accelerate the reforms underway to strengthen the regulatory, prudential, and supervision framework," he said.

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Statement by A. Shakour Shaalan, Executive Director for Maldives
March 26, 2010

1. **Introduction.** The new government has succeeded in stabilizing the economy and is in the process of restoring external balance and fiscal sustainability. In contrast to a few months earlier, pressure on the exchange rate and reserves has receded, and monetary policy has been relieved from the burden of fiscal financing, which had contributed to reserve losses. Government spending has been restrained, in spite of intense resistance in a politically strained environment. These challenging reforms were all the more arduous since the economy faced a sharp contraction—growth dropped from over 6 percent in 2008 to an estimated decline of 3 percent in 2009. Nevertheless, the authorities remain fully committed to their ambitious reform program, which they consider essential to reduce the economy's vulnerability to external shocks and place it on a sound footing for sustained growth. Notwithstanding two performance criteria that were missed by a small margin, performance is broadly consistent with the program's overall objectives.

2. **Fiscal policy**. The government remains committed to the 2010 fiscal target and continues to push forth the wage control and labor retrenchment efforts in the face of strong opposition. To offset the impact of the additional expenditure approved by Parliament for 2010, the authorities will implement revenue measures equivalent to 1.2 percent of GDP. They are also pushing for passage of the Business Profit Tax (a structural benchmark under the program) that Parliament did not approve by December. In case the public wage cuts are prematurely reversed, the authorities stand ready to introduce further compensatory measures.

3. Further efforts will be needed to attain the sizeable fiscal adjustment under the program. Additional measures will be identified, as needed, in the course of the next review to meet the program's fiscal targets for 2011. Technical assistance is essential for timely implementation of reforms. The general goods and services tax (GST) is scheduled to come into effect in January 2011, provided there are no further delays to the April 2009 request for Fund TA. Progress with civil service reforms depends to some extent on the coordination with development banks in formulating and implementing a strategy.

4. **Monetary policy**. There has been a marked turnaround in the operations of the Maldives Monetary Authority (MMA), allowing it to successfully absorb much of the excess liquidity in the system. As planned, monetization of the fiscal deficit has ceased and the government's debt stock with MMA has been converted into tradable securities to reverse the impact of past monetization on liquidity. Open market operations (OMOs) were introduced in August 2009 and T-bill auctions were launched in December. It should be recognized that a few technical and operational difficulties are often encountered at the start of such auctions. As the market gains more experience, they foresee smoother development of the OMOs and T-bill auctions. The small overrun in the ceiling on net credit to the government by the MMA resulted from accrued interest on government debt that was recently converted into tradable

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securities. Similarly, a minor and temporary breach of the reserve money target occurred due to a spike in settlement balances in the last few days of the year.

5. **Exchange rate**. Monetary and fiscal adjustments, together with foreign exchange inflows, have helped to strengthen confidence in the economy and alleviated pressure on the rufiyaa. Accordingly, the exchange rate premium has significantly diminished and the earlier foreign exchange liquidity shortages that led to rationing have eased.

6. **Financial sector**. Because a new regulatory framework was introduced in 2009 when the economy was in the midst of a contraction, several banks are unable to comply immediately with the framework in full. The MMA is attempting to reach agreement with each bank on a feasible compliance schedule. A new Banking Act is currently before Parliament, to strengthen the legal framework for the operation and resolution of commercial banks, and the MMA Act will soon be submitted along the lines of Fund TA advice.

7. **Donor support**. Concessional support would facilitate the economic recovery and reserve buildup, as well as ease the pressure on the private sector of increased domestic financing of the deficit. In addition, it would support public spending on capital projects and facilitate repayment of short-term borrowing.

8. On behalf of the Maldivian authorities, I would like to extend their appreciation to the Executive Board for supporting their efforts. I join the authorities in thanking staff for their dedicated engagement in formulating the reform program and providing valuable advice and technical assistance.

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