INTERNATIONAL MONETARY FUND

# Staff Country Reports

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# Maldives: 2010 Article IV Consultation—Staff Report; Staff Statement and Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Maldives

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation with Maldives, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 8, 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 January 24, 2011. 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 staff statement of February 14, 2011 and staff supplement on the joint IMF/World Bank Debt Sustainability Analysis.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its February 14, 2011 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Maldives.

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

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MALDIVES

# Staff Report for the 2010 Article IV Consultation

Prepared by the Staff Representatives for the 2010 Consultation with Maldives

Approved by Vivek Arora and James Roaf

January 24, 2011

**Summary.** Economic activity is recovering on the back of a strong rebound in tourism arrivals. Tight monetary policy has helped drain excess liquidity, but foreign exchange shortages remain. The fiscal stance is unsustainable, and a difficult political environment is constraining advancement of needed reforms. The medium term outlook is marked by uncertainty over the course of domestic policies. The key policy challenge is to reduce persistent fiscal and external imbalances through a strong fiscal consolidation and an adjustment of the exchange rate.

**Program status:** A blend of a Stand-By Arrangement (SDR 49.2 million) and an arrangement under the Exogenous Shocks Facility (SDR 8.2 million) was approved on December 4, 2009. The first review was concluded in March 2010. The amounts drawn so far are SDR 8.2 million (SBA) and SDR 2.05 million (ESF). Significant fiscal slippages, including delays in the implementation of tax reforms, an earlier-than-envisaged restoration of wages back to their September 2009 levels (after the October 2009 cuts), and lack of progress on public employment restructuring, have prevented the completion of the second review. To complete it, staff proposed adjusting the exchange rate and a revised fiscal adjustment strategy to put debt on a sustained downward path.

**Previous Article IV Consultation:** The Executive Board discussion of the 2009 Article IV Consultation is summarized in the Public Information Notice No. 09/142 at www.imf.org.

**Mission:** A staff team consisting of R. Cubero (head), I. Masha, C. Park (all APD), K. Kashiwase (FAD), and R. Basu (SPR) visited Malé during October 25–November 8, 2010. K. Mathai, Resident Representative in Colombo, participated in the initial and concluding segments of the mission. The staff met with the President, the Minister of Finance and Treasury, the Governor of the Maldives Monetary Authority (MMA), other senior officials, members of the Parliament's Public Finance Committee, commercial banks, donors, and private sector representatives.

**Exchange rate system:** Maldives has a conventional fixed peg against the U.S. dollar. Maldives continues to avail itself of the transitional arrangements of Article XIV, and has not yet accepted the obligations of Article VIII, Sections 2, 3, and 4. It maintains exchange restrictions and a multiple currency practice subject to Fund approval under Article VIII, Sections 2(a) and 3 of the Fund's Articles of Agreement, arising from the MMA's policy of rationing its supply of foreign exchange to commercial banks, and the more than 2 percent exchange rate spread between the official rate and the rate at the parallel market.

**Data provision** is adequate for effective surveillance and program monitoring, but some weaknesses remain.

**Outreach:** The mission met with Parliament, gave a presentation open to the public and the media, issued a press statement and held a press conference, with wide local media coverage.

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## I. Background

1. **To address severe fiscal and external imbalances, in 2009 the Government of Maldives put together a comprehensive adjustment program, supported by the Fund.** The effects of an unsustainable increase in public spending after the 2004 tsunami were exacerbated by the global crisis, which led in 2009 to sharp declines in tourism and related investment, other capital inflows, and exports. These developments pushed the economy into recession and resulted in falling reserves, dollar shortages, and a massive fiscal deficit, a large share of which was monetized. A Fund-supported plan, approved in December 2009, centered on a strong fiscal adjustment to put public finances back on a sustainable medium-term path, complemented by monetary tightening and measures to strengthen the banking sector.

2. **Despite some decisive initial actions, significant fiscal slippages have undermined the restoration of sustainability.** The authorities took significant initial adjustment measures in the second half of 2009, including cuts in central government nominal wages; an increase in electricity tariffs; the replacement of universal electricity subsidies with a targeted scheme; the cessation of deficit monetization; and an active monetary policy tightening. However, slippages have occurred, such as delays in the implementation of key tax reforms, an earlier-than-envisaged restoration of wages, and lack of progress on public employment restructuring. International reserves remain on a downward trend, and dollar shortages persist.

3. **The political environment remains challenging.** Deep political polarization is constraining advancement of the economic reform agenda at all levels. Relations between the executive and the opposition-dominated parliament have become increasingly strained. After a period of political tension in mid-2010, an uneasy calm now prevails. However, the outlook for political relations is still uncertain. With local, island-level elections scheduled for February 2011, passage of essential reforms may be further delayed.

4. **The key policy challenge is to reduce persistent imbalances to prevent a currency or fiscal crisis, achieve macroeconomic sustainability, and stimulate growth.** This requires the implementation of outstanding fiscal adjustment measures under the program, additional fiscal consolidation measures, and adjustment of the exchange rate coupled with wage restraint. Structural reforms are also needed to increase the economy's resilience, especially in public financial management and the financial sector.

## II. Recent Economic Developments

5. **After contracting by 2¼ percent in 2009, the economy rebounded strongly in 2010, driven by tourism (Figure 1).** Like other tourism-dependent economies, Maldives was severely hit by the slump in tourist arrivals that accompanied the global crisis (Box 1). As the global economy recovers, tourism has again picked up. While spending per tourist per day is reported to have fallen, a sharp recovery in tourist arrivals and bednights—up

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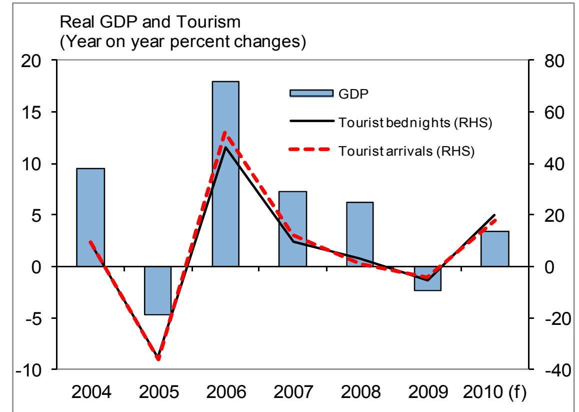
20 percent and 18½ percent on a year-on-year (y/y) basis, respectively, as of November 2010—has fueled a strong recovery in economic activity. Real GDP growth is now projected at 4¾ percent in 2010. Fishing, however, continues its secular decline, due largely to exogenous factors. Inflation remains driven by international commodity as well as local fish prices, increasing since mid-2009 on a y/y basis, and is projected at an average of 5 percent in 2010.




6. **Monetary tightening has helped stabilize the economy** (Figure 2)**.** Active open market operations and the cessation of deficit monetization have effectively reduced excess liquidity. Reserve money fell continuously through September, and remained well below program targets. However, a large increase in foreign currency deposits in the commercial banking system since end-October (mainly associated with parent funding for the newly privatized Male international airport) and a corresponding increase in foreign currency bank deposits at the MMA, led to a sharp increase in reserve money (defined to include bank foreign currency deposits at the MMA), although in y/y terms it still fell by 1½ percent as of end-December. Private sector credit has stalled, but bank investments in T-bills have pushed up overall credit. This has also propelled domestic currency deposits, despite a sharp fall in currency in circulation. Thus, broad money is expected to increase by 16¾ percent in 2010.

7. **External imbalances remain** (Figure 1)**.** The economic recovery and higher commodity prices have pushed up imports, offsetting the tourism rebound. The current account deficit is expected to have increased to about 32¼ percent of GDP in 2010, sustained by slightly higher foreign capital inflows. The MMA continues to ration the supply of foreign exchange to banks, while fully meeting the demand from the central government and some SOEs. Abstracting from occasional foreign financing injections, international reserves continue to decline: usable reserves fell from $150 million in April to $87 million by end-October, but were boosted in November by the airport privatization proceeds ($74 million). On current policies, the underlying downward trend is expected to remain. The parallel market premium has increased to around 10 percent, partly due to seasonal factors, although there are also reports of dollar hoarding. The real effective exchange rate (REER) has continued to move with the U.S. dollar, and has appreciated since mid-2008 (Box 2).

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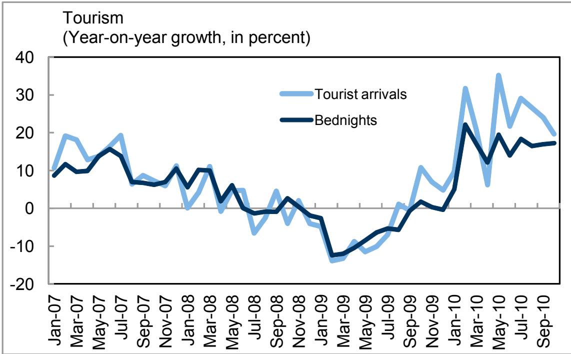
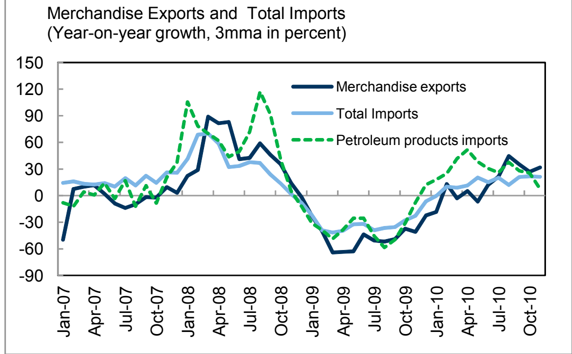
## Figure 1. Real and External Sector Developments

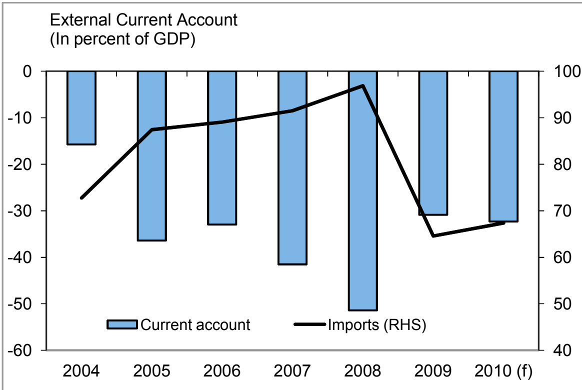
*Tourism, the main driver of the economy, has rebounded strongly since March 2009.*



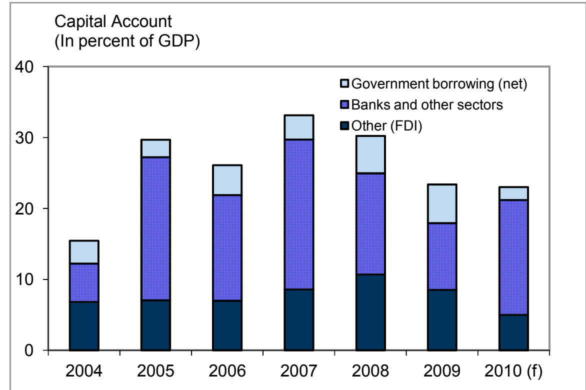

*Goods exports are also recovering, but price increases in fuel and other commodities are pushing up imports…*



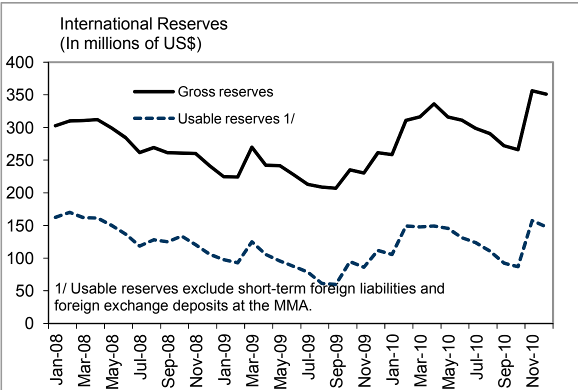

*… and keeping the current account deficit at very high levels.*



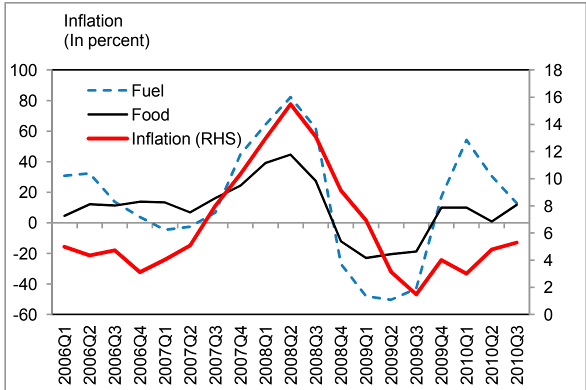

*Private capital inflows have fallen as tourism pojects are being delayed, but external borrowing by banks has recovered.*




*International reserves remain on an underlying downward trend, abstracting from temporary external financing injections.*




*Inflation continues to move in line with international commodity prices.*




Sources: Maldivian authorities; and IMF staff estimates and projections.

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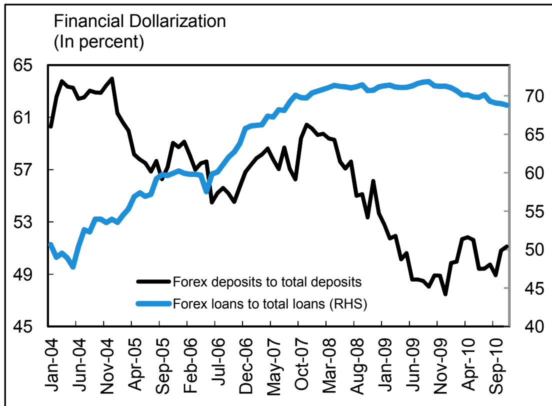
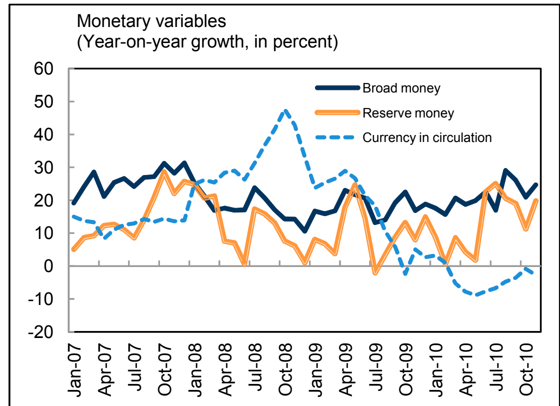
## Figure 2. Monetary and Financial Sector Developments

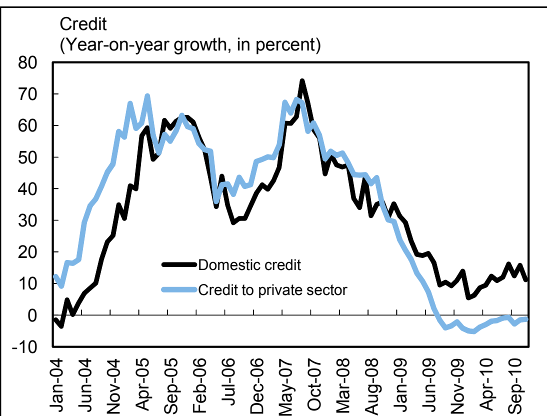
*While loan dollarization has been declining, there has been a large influx of foreign currency deposits recently…*



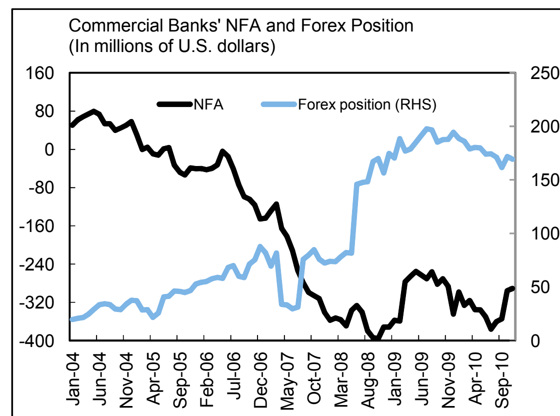

*…pushing up monetary aggregates despite the tightnening of rufiyaa liquidity by the MMA.*



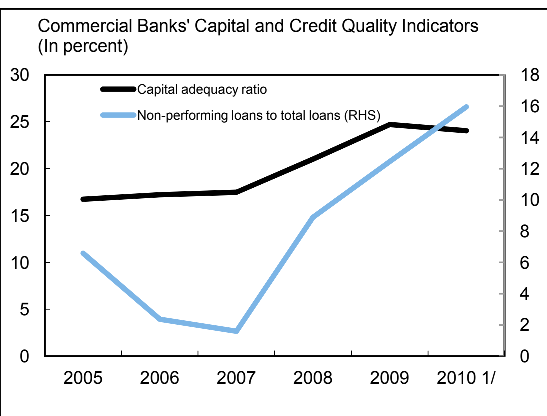

*Credit to the private sector has stalled, but overall credit is being fueled by bank purchases of government securities.*



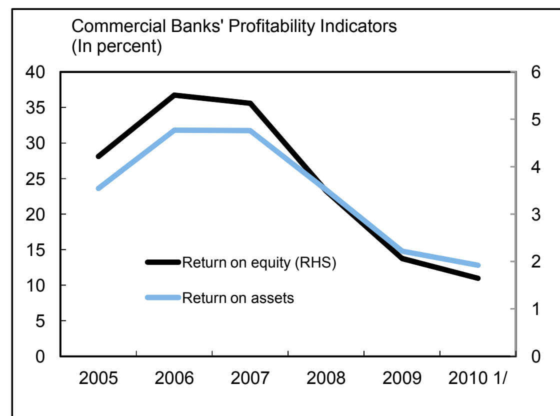

*After a steady decline, banks' NFAs have recently increased, reflecting a fall in borrowing and some increase in assets.*




*The sharp increase in NPLs since 2007 has not been fully provisioned for (implying that capital adequacy is overstated)...*




*… and has led to a systematic decline in profitability.*




Sources: Maldivian authorities; and IMF staff estimates.
1/ As of Q3 2010

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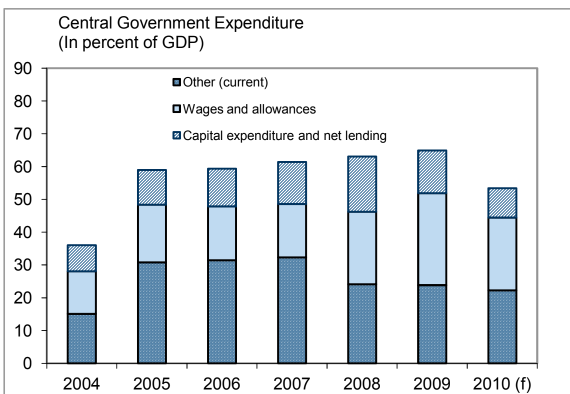
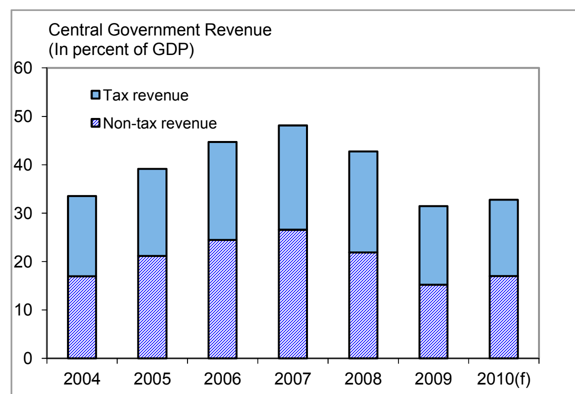
8. **Fiscal outturns in 2010 have been mixed** (Figure 3)**.** Despite significant delays in the implementation of fiscal adjustment measures (paragraph 14), preliminary revenue and expenditure data point to some under-execution of the budget and a 2010 fiscal deficit close to the program target of 17¾ percent of GDP. However, financing data, which are a more reliable predictor of actual fiscal outcomes, indicate a deficit of around 20¼ percent of GDP. Debt has been revised down relative to initial projections, on account of larger-than-expected privatization inflows (estimated at about $97 million in 2010) and better information on the fraction of state-owned enterprise (SOE) debt that is government guaranteed.

Figure 3. Fiscal Developments

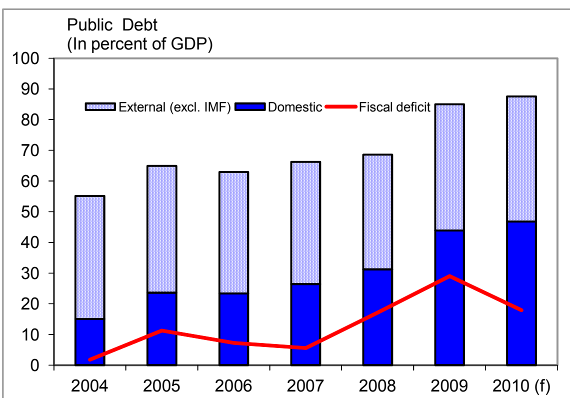
*Temporary wage cuts and restraint on capital expenditure helped moderate spending in 2010…*



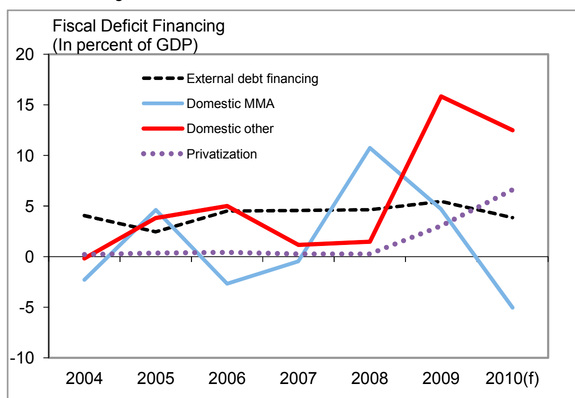

*…but fiscal revenue has still not recovered from its crisis-driven decline in 2008-09.*




*Therefore, the fiscal deficit remains large, and public debt has reached very high levels…*




*…although its growth has been moderated by large privatization inflows. From September 2009, deficit monetization was replaced by commercial bank financing.*




Sources: Maldivian authorities; and IMF staff estimates.

9. **The banking system as a whole remains sound, but vulnerabilities remain** (Figure 2)**.** On an aggregate level, banks are well capitalized and rufiyaa liquidity is high. However, asset quality has continued to decline due to banks' exposure to large tourism-related borrowers affected by the global crisis. This has led to a sharp drop in profitability. Banks have also become heavily exposed to the sovereign, with gross claims on the

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government representing 18 percent of assets and 28 percent of loans.[1] A key systemic vulnerability is the still fragile financial position of the state-owned Bank of Maldives (BML), the country's largest bank. BML has very large non-performing loans and also continues to face dollar liquidity stresses.

## III. Policy Discussions

### A. Growth, Competitiveness, and Medium-term Outlook

10. **Long-run economic growth will need to be underpinned by macroeconomic stability and structural reforms to enhance competitiveness.** The current fiscal and external imbalances undermine growth through several channels, including negative confidence effects and crowding out of private investment. Tourism will remain the engine of growth in the years to come. Maldives has done well to increase bed capacity and diversify markets. Indeed, fast-increasing tourist inflows from Asia helped reduce the impact of the recent crisis (Box 1). To continue to make progress up the development ladder, Maldives will need to diversify into other industries, including services such as outsourcing. The key to diversification will be an improvement in competitiveness, which requires enhancing the coverage and quality of education and infrastructure, and reforms to improve the ease of doing business (Box 2).

11. **On current policies, the real exchange rate is significantly overvalued,** according to a CGER-type analysis. Significant fiscal consolidation, possibly accompanied by a nominal devaluation, will be needed to bring the real effective exchange rate in line with a sustainable path (Box 2). Such policies, along with structural reforms, would also boost competitiveness and growth.

12. **The medium-term economic outlook is beset by uncertainty over the course of domestic policies.** A gradual growth recovery is expected over the medium term, with rates around 4½ percent. Tourism and re-exports of jet fuel are likely to grow in line with the external environment, while the fisheries sector is expected to continue to perform poorly due to exogenous factors affecting the fish population. On current policies, the current account deficit would remain high, potentially leading to reserve depletion and an external financing gap (Table 5). Global risks to the outlook are broadly balanced, but domestic risks are tilted to the downside. In particular, slow fiscal consolidation, persistent external imbalances and dollar shortages, and political tensions could hamper fiscal, financial and external sustainability, and have a negative impact on tourist arrivals and external financing flows.

[1] Exposure to the sovereign is, however, excluded from regulatory single borrower limits.

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13. **Authorities' views and GDP rebasing.** The authorities agreed with the staff's assessment of the outlook and the exchange rate. They noted that a rebasing of national accounts is currently being undertaken and is expected to lead to a significant upward revision of historical GDP. The revised data are expected to be published in January 2011. Staff considers that, while a large increase in GDP would affect the relative magnitude of external and fiscal imbalances, it would not alter the direction of the needed policy changes discussed below.

## B. Fiscal Policy

14. **Several policy developments undermine fiscal adjustment relative to program objectives.** The tourism goods and services tax (T-GST) was passed in August 2010, albeit at a rate of 3½ percent instead of 4 percent as the authorities had initially intended, and a parallel bill provided for the elimination of the $8 bed tax by end-2013 (with no offsetting increase in the T-GST rate). The business profit tax (BPT) was passed in December 2010 and will enter into effect from July 2011, eighteen months later than planned. The implementation of the general goods and services tax (G-GST) will take longer than expected due to administrative capacity constraints. On the expenditure side, there have been no net fiscal savings from public employment restructuring, wages will be restored to their September 2009 levels from January 2011 (one year earlier than programmed), and the new Decentralization and Disability Bills will lead to considerable spending increases. In 2011 and 2012, the deficit is expected to be offset by temporary payments for resort lease extensions under recent reforms to the Tourism Act. The loss of these payments from 2013 and the elimination of the $8 bed tax would generate a sharp increase in the deficit from 2014.

**Maldives: Impact of Fiscal Developments 1/**

(Deviations from program projections, in percent of GDP)

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| **Revenue and grants** | **-0.8** | **-3.3** | **-0.8** |
| SOE transfers | 2.8 | 0.8 | 0.7 |
| Delay of, and base revisions for BPT | -1.6 | -1.6 | -0.3 |
| Changes associated with the implementation of T-GST 2/ | -3.9 | -1.6 | 0.4 |
| *o/w delay in entry into effect* | *-1.1* | *0.0* | *0.0* |
| *o/w change in the rate from 4 percent to 3.5 percent* | *0.0* | *-0.6* | *-0.7* |
| *o/w proposed changes to the resort lease payment regime* | *-2.8* | *-1.7* | *0.4* |
| Revised timetable for implementation of the general GST | 0.0 | -2.2 | -2.9 |
| Other (net) | 0.8 | -1.8 | -1.7 |
| **Expenditure** | **-0.3** | **13.9** | **14.4** |
| Pensions (7% employee contribution taken on by govt) | 0.5 | 0.0 | 0.0 |
| Salaries and wages | 1.4 | 6.2 | 4.1 |
| Limited progress on redundancies | *2.5* | *2.4* | *2.3* |
| Restoration of wages | *-1.1* | *2.8* | *0.7* |
| Employment associated with the Decentralization Bill | *0.0* | *1.0* | *1.1* |
| Social welfare contributions | -0.8 | 2.6 | 3.1 |
| o/w disability benefits (2011q1~) | *0.0* | *1.4* | *1.4* |
| Capital expenditure | -0.4 | 5.1 | 6.8 |
| Other (net) | -1.0 | 0.0 | 0.4 |
| **Total increase in fiscal deficit relative to program targets** | **0.4** | **17.2** | **15.3** |

Source: Fund staff estimates, based on data from the authorities.

1/ Deviations from program projections are based on Staff's current GDP projections. The program projections in Tables 1 and 2 are based on GDP at the time of program approval.

2/ The T-GST will come into effect in January 2011, at a rate of 3.5 percent. The specific tax of US$8 per bednight will be maintained through end-2013.

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15. **The 2011 budget, approved by the Majlis at end-December 2010, entails a loosening of fiscal policy.** First, it provides for a 21 percent increase in government spending relative to preliminary 2010 data. Much of the expansion is accounted for by a 37 percent increase in capital expenditure. Second, the 16 percent of GDP fiscal deficit projected in the budget is, in the staff's view, significantly understated: it is based on optimistic assumptions about the yield from the BPT and interest expenditures, and includes as revenue (instead of financing) the proceeds from land sales. Once these adjustments are made, the deficit goes up to 21¼ percent of GDP, a 3½ percent of GDP expansion compared with 2010.[2]

**Comparison of the 2011 Budget and IMF Baseline Projections 1/**

| | 2011 | | |
|---|---|---|---|
| | Budget | IMF Baseline | Difference |
| | (Millions of rufiyaa) | | % of GDP |
| **Revenue and grants** | 8,874 | 8,136 | -3.6 |
| Business profit tax | 613 | 260 | -1.7 |
| Administrative fees and charges 2/ | 1,184 | 684 | -2.4 |
| Other | 4,703 | 4,723 | 0.1 |
| **Expenditure and net lending** | 12,164 | 12,549 | 1.9 |
| Disability Act cost | 108 | 283 | 0.8 |
| Interest payments | *601* | *768* | *0.8* |
| Other | 3,135 | 3,135 | 0.0 |
| **Overall balance** | -3,290 | -4,413 | -5.4 |
| **Miscellaneous items (percent of GDP):** | | | |
| Nominal GDP 1/ | 20,656 | 20,656 | |

1/ Based on the staff projection of GDP series.
2/ The budget included Rf 500 mn of proceeds from land sales.

16. **On current policies, the fiscal position is unsustainable.** The staff's baseline scenario is built on the policy slippages discussed in paragraph 14, on the adjusted 2011 budget information, and on the assumption that the G-GST comes into effect in January 2013. On this basis, staff projects the fiscal deficit at 19 percent of GDP in 2012. The expiration of lease extension payments from 2013 and the elimination of the $8 bed tax would make the fiscal deficit balloon from 2014, with debt reaching 135 percent of GDP in 2015 and over 300 percent by 2030. The risk of debt distress has therefore increased from moderate to high (see the accompanying DSA).

17. **The magnitude and term-structure of public debt, combined with the large fiscal deficit and recent legislative reforms, pose significant financing risks.** With the outstanding stock of T-bills at over Rf 4 bn (21 percent of GDP) by end-2010, most of which is in maturities of three months or under, the government's gross financing needs in 2011 are estimated at 45½ percent of GDP (Table 6). The roll-over risk is therefore large. Moreover, recently passed amendments to the Public Finance Act, currently challenged by the government in court, would require legislative consent for external borrowing and the lease or sale of state assets. These could limit financing options for the government and jeopardize its privatization plans, which in 2011 include US$154 million (9½ percent of GDP) from land sales and the divestment of the telecoms company.

18. **Strong additional measures are therefore needed to rein in the fiscal deficit.** The program's original fiscal targets, based among others on the authorities' ambitious plans for

[2] In addition, the budget's GDP projection for 2011 (Rf 21.3 bn) is slightly higher than the staff's current estimate (Rf 20.7 bn), on account of a higher implicit GDP deflator.

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public employment restructuring and wage reductions, have now become unattainable. The revised fiscal adjustment strategy will involve different measures and targets. Staff recommended, as a minimum, the following measures:

On the expenditure side:

- A realistic and well-planned program for redundancies across central government employment to fully offset the fiscal effects of the Decentralization Bill (estimated at over 1,000 jobs with average salaries much higher than those of civil servants) and achieve a significant net reduction in central government employment of around 2,000 jobs (about 5 percent) by end-2011 and a further 2,000 by end-2012. This strategy should be accompanied by an attractive but affordable redundancy package (the baseline assumes six months of salary, compared with a legally-mandated three months), and involve a reduction in the number and remuneration of political appointees to 2008 levels.

- A strong focus on preserving welfare expenditure on the poor, by improving the targeting of subsidies and transfers. The revision of electricity subsidies in 2009 was a welcome step, and further efforts are needed to replace those subsidies with targeted transfers.

- Focusing on high-priority capital expenditure projects already in the pipeline. This would entail cutting 2011 capital expenditures by 2½ percent of GDP (relative to the budget) to 10 percent of GDP, and maintaining them at that share of GDP in 2012–13. In addition, the growth in operating expenditures in 2011 over 2010 should be kept in line with CPI inflation, implying savings of 1¼ percent of GDP in 2011 relative to the budget.

On the revenue side, the authorities need to continue preparing the ground for the implementation of the T-GST, the BPT, and the entry into effect of the G-GST at a rate of 6 percent in January 2013, all of which are reflected in the baseline scenario. Additional revenue measures will be required, however, and should ideally be submitted to the Majlis as a package. Staff recommended that these include:

- Introduction of excises on alcohol, tobacco, jet fuel, gasoline, and vehicles, to come into effect in July 2011.

- Passage of a provision in the T-GST Act so that its rate goes up to 6 percent when the bed tax is eliminated at end-2013.

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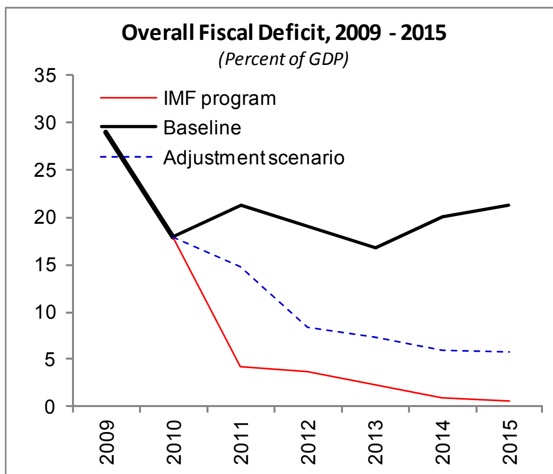
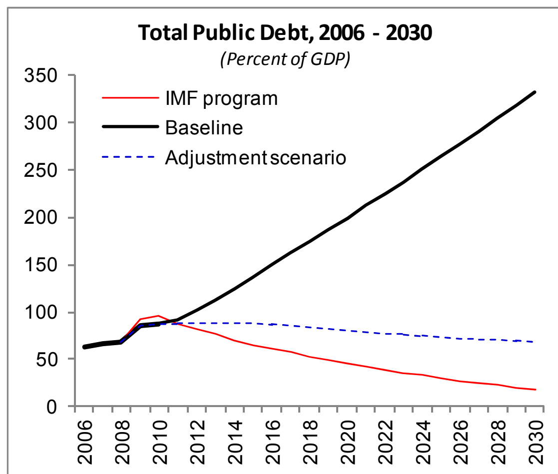
| Maldives: Fiscal Impact of Additional Adjustment Measures (In percent of GDP) | | |
|---|---|---|
| | 2011 | 2012 |
| **Total** | **6.6** | **10.9** |
| Excises on gasoline and jet fuel (2011q3~) | 0.8 | 1.4 |
| Excises on alcohol and tobacco (2011q3~) | 1.1 | 2.0 |
| Excises on vehicles and parts (2011q3~) | 0.6 | 1.1 |
| Redundancy program 1/ | 0.5 | 2.4 |
| Cuts in non-wage, non-interest operating expenditures 1/ | 1.3 | 0.0 |
| Cuts in capital expenditures 1/ | 2.4 | 4.0 |

Source: Fund staff estimates, based on data from the authorities.
1/ Relative to baseline projections.

An adjustment scenario reflecting all of these additional expenditure and revenue measures projects that the fiscal deficit would fall to 8 percent of GDP in 2012 and 5½ percent by 2015. This, however, would not be sufficient to restore sustainability: the debt-to-GDP ratio would remain at about current levels through 2015 and fall very slowly thereafter, leaving it vulnerable to even small shocks (including the risk of a court-mandated restoration of wages from January 2010, at a cost of 3 percent of GDP); international reserve coverage would decline below adequate levels; and the current account deficit would remain elevated. To regain sustainability, the proposed fiscal measures need to be coupled with a significant exchange rate adjustment (paragraph 22).




19. **Fiscal consolidation will need to be supported by stronger public financial management.** Continued policy slippages, including the introduction of spending initiatives without proper costing, and the lack of timely monitoring and reporting of fiscal data undermine fiscal adjustment efforts (Box 3). The mission recommended: expediting completion of the PEFA assessment recommendations, including on budget execution and expenditure control and managing fiscal risks; migrating foreign-financed expenditure data to the public accounts system; improving budget preparation and planning (including cost-benefit analyses for domestically-financed capital expenditures); moving to medium-term budgeting; and adopting a fiscal responsibility framework, in line with the recommendations of recent FAD TA. In addition, staff recommended generating monthly fiscal outturn reports and creating a policy unit at the Ministry of Finance and Treasury charged with monitoring fiscal developments and analyzing the impact of alternative fiscal policies.

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20. **Given the fractious political environment, broad political support may be required for a successful and sustainable fiscal adjustment.** The mission reiterated its recommendation that the government explain to the public the need for fiscal adjustment and seek an agreement with key stakeholders on a fiscal adjustment package.

21. **Authorities' views.** The authorities concurred with staff's assessment of the fiscal situation, but advocated a smoother medium-term adjustment. They indicated that the 2011 budget would provide for a fiscal deficit of no less than 15 percent of GDP, which would entail a moderate fiscal tightening while accommodating capital spending priorities. They also noted that the timing and magnitude of structural fiscal reforms would be affected by political realities, including the local government elections in February 2011 and the government's lack of an outright parliamentary majority. The authorities are confident that the financing needed to accommodate a slow fiscal adjustment will be forthcoming from domestic and external sources, particularly bilateral creditors, as well as privatization. They agreed on the need to seek broad political support for fiscal adjustment.

## C. Monetary and Exchange Rate Policies

22. **To fully restore fiscal and external sustainability, the fiscal adjustment measures proposed above would need to be complemented by a significant exchange rate adjustment**. The real exchange rate is significantly overvalued, even under the staff's illustrative fiscal adjustment scenario (Box 2). Staff and the authorities agreed that, in the absence of strong and swift fiscal consolidation, the current exchange rate is unsustainable and an adjustment is needed. Despite the limited scope for import substitution in Maldives, a discrete devaluation or a depreciation under a float would help reduce external imbalances (if accompanied by monetary and wage restraint) through strong negative income effects, given the high pass through of exchange rate changes to domestic prices (Appendix 1). In addition, a devaluation would yield considerable fiscal gains provided that nominal public wages are frozen (Appendix 2).

23. **Staff discussed the advantages and disadvantages of a step devaluation and a managed float:**

- The fixed peg regime has provided a strong nominal anchor. A step devaluation allows for greater control over the short-run path of the exchange rate and preserves the nominal anchor. On the other hand, if deemed insufficient or unsustainable, it could lead to a speculative run on the currency and possibly on bank deposits. To reduce this risk, the devaluation would have to be large (of the order of 20–30 percent). And, to remain sustainable, it would need to be supported by credible fiscal consolidation measures.

- A float would eliminate the need to use reserves to defend the peg. However, given the shallowness of domestic markets and the country's vulnerability to shocks,

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volatility is likely to be very high. In this regard, a managed float, with interventions aimed at stemming volatility, would seem better than a pure float. At the same time, a float—managed or otherwise—could lead to significant overshooting and the loss of a nominal anchor, would pose a challenge for the conduct of monetary policy, and would reduce but not eliminate the risk of a speculative run.

24. **Authorities' views.** The authorities concurred with the staff assessment. They will review existing foreign exchange regulations and, if the decision is made to transition to a different regime, seek Fund technical assistance on the needed steps and the implications for the conduct of monetary operations.

25. **The authorities and staff agreed that the MMA should continue to tighten its monetary policy stance.** In the face of rapid public sector credit growth, the MMA needs to rein in the corresponding expansion in broad money through continued monetary tightening so as to reduce pressures on the currency, regardless of the choice of exchange rate regime. Continued liquidity tightening would complement a devaluation, and help check any impact on inflation expectations.

## D. Financial Sector

26. **The MMA should continue to push ahead with the enforcement of its prudential regulations**. It has reached agreement with banks that regulations on single borrower limits, asset classification and provisioning, and foreign currency exposure limits be complied with by end-2011. All other prudential regulations are already fully complied with. Staff also recommended that the MMA adopt regular stress testing on banks' ability to withstand shocks (interest rate, exchange rate, NPLs), and prepare an overall crisis preparedness and management strategy. Banks are long in dollars; therefore, a devaluation would directly benefit them, and any negative impact on the quality of dollar loans to non-dollar earners is likely to be small.[3] Staff proposed a list of vulnerability indicators that should be closely monitored.

27. **The authorities should press ahead with the restructuring of BML.** BML should be first recapitalized and subject to a diagnostic evaluation by an independent audit firm, and its management should be strengthened.

28. **There has been progress on structural financial sector reforms.** The recent enactment of the Banking Act is a welcome step. It needs to be followed by prompt passage of the amendments to the MMA Act, currently in the Majlis. The MMA has continued to implement the safeguards assessment recommendations: an international external auditor firm was appointed, the audited statements have been published, and significant steps have

[3] While there are no data on borrowers' exposure to currency risks, loans to non-tradable sectors account for about one-fourth of the total.

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been taken to adopt International Financial Reporting Standards, while the appointment of an internal auditor has been delayed by the lack of suitable applicants.

29. **The Fund is currently assessing Maldives' compliance with the anti-money laundering and combating the financing of terrorism (AML/CFT) framework**. An onsite mission in October 2010 found a number of significant shortcomings, notably in preventive measures for financial institutions and AML/CFT supervision. The mission's draft assessment report will be discussed during the July 2011 plenary meeting of the Asia/Pacific Group on Money Laundering.

## E. Program Issues

30. **Program performance** (Figure 4). All the performance criteria for March and June 2010 were met, as were the indicative targets (IT) for September 2010. The December 2010 IT for reserve money was breached, due to the rapid increase in foreign currency bank reserves at the MMA, and preliminary information suggests that the fiscal deficit financing IT was breached by a very large margin.

31. **Completion of second review under the program.** Staff reiterated that agreement on a strong adjustment strategy, along the lines described above, and with significant and credible prior actions, is needed for the completion of the review. The strategy would likely entail looser short run numerical fiscal targets than the original program, while converging to program targets in the medium term. The authorities were receptive to staff's recommendations. While they are open to moving ahead on the exchange rate front as soon as possible, they indicated that other measures may have to wait until after local government elections in February 2011 are over and the initial impact of the T-GST is reviewed.

32. **External financing.** The increase in the current account deficit in 2010 relative to the program projection has been matched by larger external financing to the government, mainly from the rollover of an Indian loan. For 2011, total external financing requirements are projected to increase to $933 million. Continued delays in the completion of the Fund program review could trigger a suspension of financing from the World Bank and the Asian Development Bank as well, leading to a total fall in multilateral financing of $73 million in 2011.

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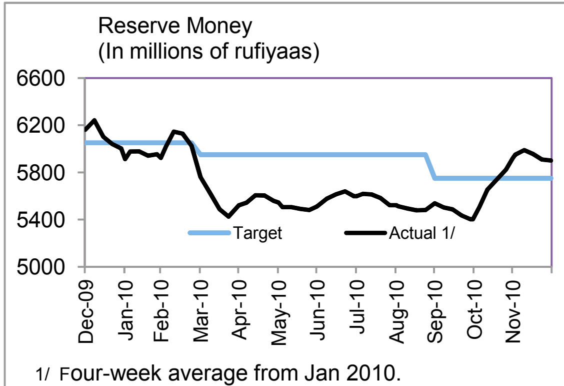
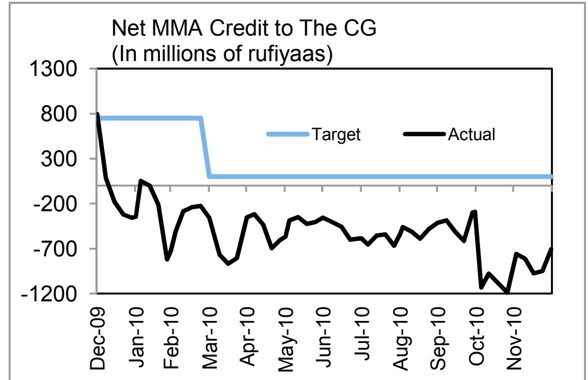
Figure 4. Program Performance

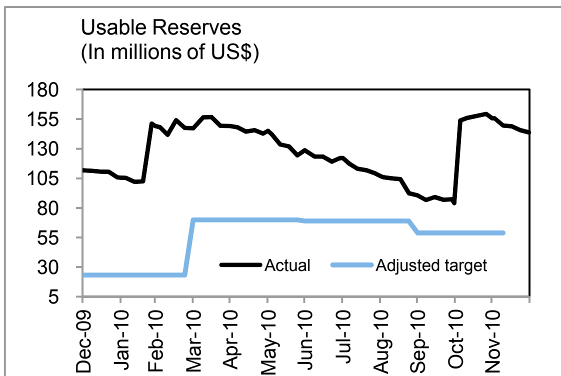
*Reserve money has been subdued through active monetary management, but increased sharply recently due to rising foreign currency deposits.*



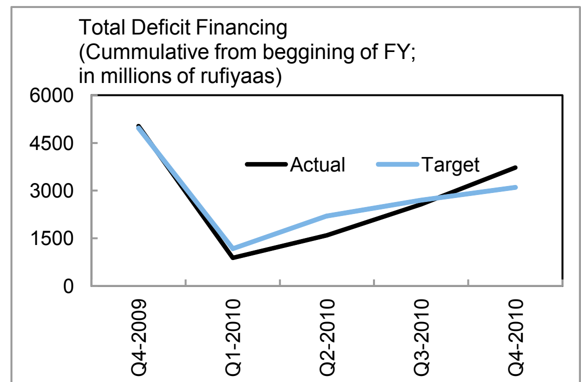

*Deficit monetization has been halted.*




*Usable reserves remain well above the adjusted target, but have been on a slow downward trend except for external financing injections.*




*Fiscal deficit financing has remained below target for most of 2010, but breached the December 2010 target.*




Sources: Maldivian authorities; and IMF staff estimates.

## IV. Staff Appraisal

33. **Overview.** Reflecting recovery from adverse external conditions, the economy turned around in 2010. Inflation has continued to move in line with global price developments and domestic supply shocks, but a tight monetary policy stance has helped contain pressures. Over the medium term, real growth is expected to remain at levels around 4½ percent, consistent with global developments, although domestic political uncertainties could weigh in on growth.

34. **Fiscal policy**. The current stance of fiscal policy is unsustainable, and was worsened by the 2011 budget. Under the baseline, public debt would rise steadily. The risk of debt distress has thus increased from moderate to high. Considerable fiscal adjustment will be

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necessary to maintain debt sustainability. Stronger public financial management will be critical for a successful fiscal consolidation.

35. **Monetary policy.** The stance of monetary policy has been broadly appropriate, and contributed to safeguarding price stability. The MMA should continue to tighten monetary policy to stem pressures on, and strengthen confidence in, the currency. Tighter liquidity would complement a devaluation, and contribute to contain any resulting inflationary impact.

36. **Exchange rate.** Given the insufficient fiscal consolidation, the real exchange rate is significantly overvalued and has become unsustainable, as reflected in steady downward pressure on reserves and persistent dollar shortages. An exchange rate adjustment should therefore be part of a comprehensive strategy to restore sustainability. The MMA continues to ration foreign exchange to commercial banks. However, no new restrictions have been introduced and the existing restrictions have not been intensified. Similarly, no new multiple currency practices (MCPs) have been introduced and the existing MCP has not been modified.

37. **Financial sector.** While the banking system as a whole shows reasonable levels of capitalization, profitability, and liquidity, significant vulnerabilities remain. In particular, credit quality, while somewhat improved, remains poor, and banks are heavily exposed to the sovereign. The MMA should continue to enforce its new prudential regulations, particularly on provisioning, single borrower limits, and foreign currency exposure limits.

38. **Program**. Completion of the second review will be contingent on reaching agreement on a strong fiscal and external adjustment strategy, with credible prior actions. Staff will remain engaged in policy discussions with the authorities.

39. It is expected that the next Article IV consultation be held in accordance with Decision No. 14747-(10/96), as amended.

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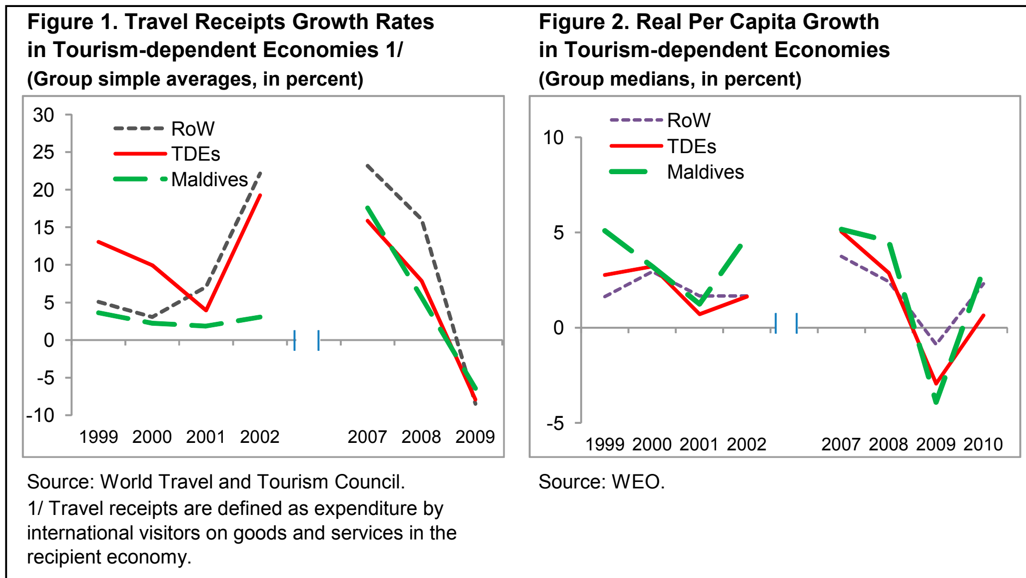
**Box 1. Impact of the Global Crisis on Tourism-dependent Economies and Policy Responses: A Cross-country Perspective**

*The recent global crisis had a severe impact on tourism inflows and real GDP growth in tourism-dependent economies, but more modest effects on inflation, fiscal balances and exchange rates.* [1]

**The 2008–09 global crisis had a severe impact on tourism-dependent economies (TDEs).** As a result of the global recession, tourism receipts fell throughout the world (Figure 1), as did in general the demand for non-essential goods and services. The impact was much stronger than during the milder 2001 global slowdown. And while TDEs experienced a less severe decline in tourism receipts than the median for the rest of the world (RoW), their high exposure to the tourism sector translated into a larger negative impact on real per capita growth (Figure 2).




Source: World Travel and Tourism Council.
1/ Travel receipts are defined as expenditure by international visitors on goods and services in the recipient economy.

Source: WEO.

**Given its much larger tourism dependence (Figure 3), the growth impact on Maldives has been more severe than in other TDEs, even though tourism receipts fell by less.** Real per capita growth in Maldives declined 3.9 percent in 2009 (compared with a median of 3 percent for TDEs and 0.9 for RoW). However, the recovery has been faster, aided in part by arrivals from new and fast-growing markets, particularly China (Table 1).[2]

[1] For the purposes of this box, TDEs are the 28 countries for which the average of the tourism receipts-to-GDP ratio over the last 10 years was greater than 10 percent. The RoW category comprises the remaining 136 countries in the 164-country sample.

[2] A recent study for the Caribbean suggests that countries with more competitive hotel pricing have fared better in terms of tourist arrivals (WHD REO, October 2010).

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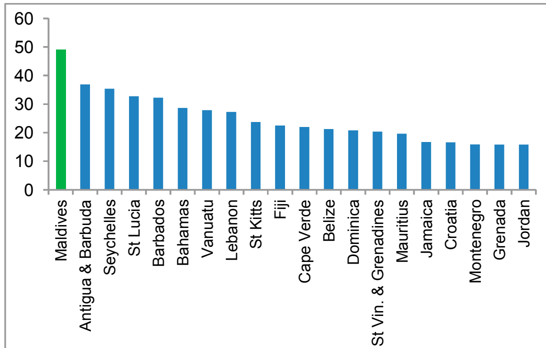
## Box 1. Impact of the Global Crisis on Tourism-dependent Economies and Policy Responses: A Cross-country Perspective (continued)

**Figure 3. Travel Receipts in Tourism-Dependent Economies, 2005-09 averages 1/**
**(In percent of GDP)**




Source: World Travel and Tourism Council, WEO.
1/ Travel receipts are defined as expenditure by international visitors on goods and services in the recipient economy.

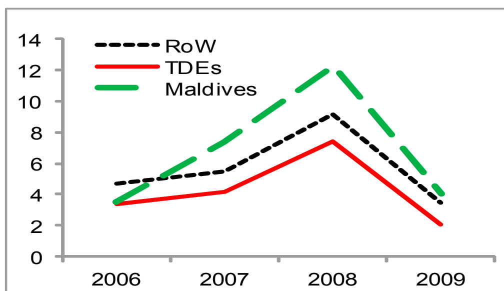
**Table 1. Maldives: Tourist Arrivals by Nationality**

| | Composition of tourist arrivals (percent) | | Growth of tourist arrivals (yoy, percent) | |
|---|---|---|---|---|
| | 2009 | 2010 1/ | 2009 | 2010 1/ |
| Total | 100.0 | 100.0 | -4.0 | 21.6 |
| Europe | 70.5 | 63.5 | -7.1 | 9.7 |
| o/w U.K. | 16.2 | 14.7 | -9.3 | 8.3 |
| o/w Italy | 13.6 | 11.1 | -14.0 | 0.8 |
| o/w Germany | 10.5 | 9.9 | -0.2 | 11.9 |
| o/w France | 7.7 | 6.7 | 4.7 | 9.3 |
| o/w Russia | 6.1 | 6.1 | -18.3 | 24.2 |
| Asia | 23.7 | 30.7 | 6.9 | 56.6 |
| o/w China | 9.2 | 15.7 | 46.1 | 101.0 |
| o/w Japan | 5.6 | 4.9 | -4.1 | 5.5 |
| America | 2.3 | 2.3 | 4.7 | 22.2 |
| o/w U.S.A. | 1.4 | 1.4 | 6.6 | 21.9 |
| Others | 3.5 | 3.6 | -9.9 | 22.5 |

Source: Maldivian Ministry of Tourism, Arts and Culture.
1/ Composition for 2010 is calculated for the period of Jan-Nov 2010, and growth for 2010 is calculated relative to Jan-Nov 2009.

**The impact of the crisis on inflation in TDEs has been moderate (Figure 4)**, with inflation generally following international commodity prices. A notable exception is Seychelles, where a sharp exchange rate depreciation after 2007 led to a significant inflation spike.

**Figure 4. CPI Inflation in Tourism -dependent Economies**
(Group medians, in percent)




Source: WEO.

**Policy Responses**

**The fiscal response of TDEs during the recent crisis** (proxied by the change in the overall fiscal balance) **has been moderate (Figure 5).** The median fiscal deficit of TDEs widened by about 2–3 percentage points of GDP, very similar to the median for the RoW.

**In contrast, the fiscal deficit in Maldives increased by more than 20 percentage points of GDP.** As a result, Maldives' public debt has built up rapidly and reached a much higher level (on average) than those of other TDEs and the RoW (Figure 6).

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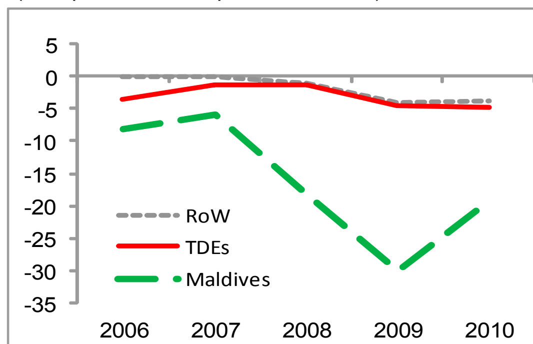
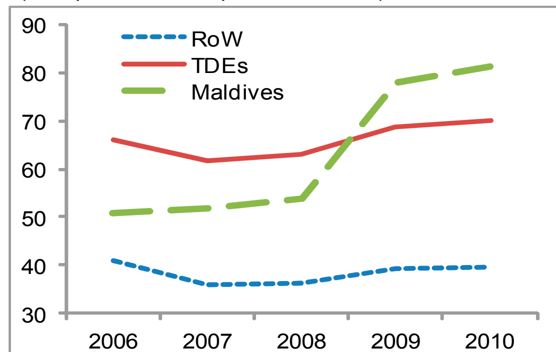
**Box 1. Impact of the Global Crisis on Tourism-dependent Economies and Policy Responses: A Cross-country Perspective (concluded)**

**Figure 5. Fiscal Balances in Tourism -dependent Economies 1/**
(Group medians, in percent of GDP)




Source: WEO.
1/ Fiscal balance is defined as general government revenue minus expenditures.

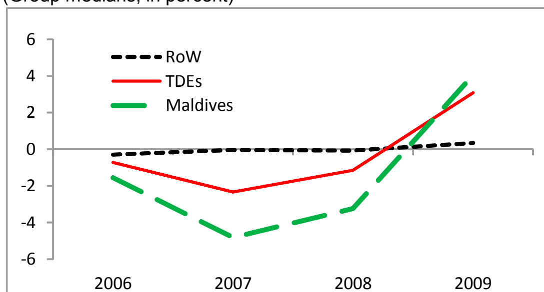
**Figure 6. Government Debt in Tourism-dependent Economies**
(Group medians; in percent of GDP)




Source: WEO.

**Exchange rate outcomes depended on the policy regime, but TDEs experienced, on average, a nominal effective exchange rate (NEER) appreciation (Figure 7 and Table 2).** Of the 28 economies, 15 have fixed exchange rate regimes, and of these only 1 officially devalued in 2009 (Fiji, by 20 percent against the U.S. dollar). As a result, these economies experienced a NEER appreciation on average (Figure 7 and Table 2). In contrast, the 13 TDEs with more flexible exchange rate arrangements had an average NEER depreciation of 4.3 percent, which helped them cushion the negative shock.

**Figure 7. Nominal Effective Exchange Rate Changes in Tourism-dependent Economies 1/**
(Group medians, in percent)




Source: WEO.
1/ Positive (negative) represents an appreciation (depreciation).

**Table 2. Exchange Rate Responses in Tourism-dependent Economies during Recent Crises, 2009**

| | 2009 |
|---|---|
| Number of tourism dependent economies | 28 |
| Countries with fixed pegs 1/ | 15 |
| Average NEER changes (in percent) | 3.6 |
| o/w countries that officially devalued | 1 |
| How much? (Average NEER changes, in percent) | -13.5 |
| Countries with flexible XR regime 2/ | 13 |
| Average NEER changes (in percent) | -4.3 |

Sources: Annual Report on Exchange Arrangements and Exchange Restrictions, country reports, and WEO.
1/ Includes countries with a currency board regime.
2/ Lebanon maintained the exchange rate unchanged during 2009, although its exchange rate regime is considered a stabilized arrangement.

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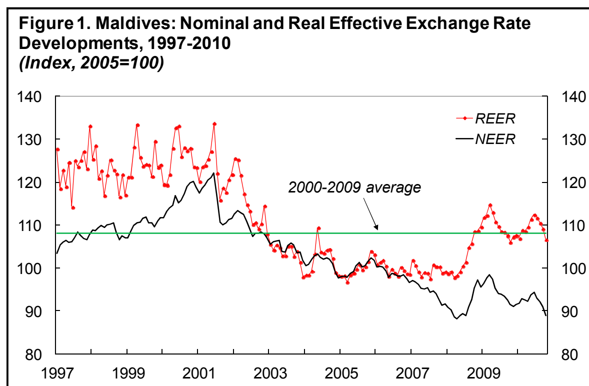
## Box 2. Maldives: Exchange Rate, External Sustainability, and Competitiveness

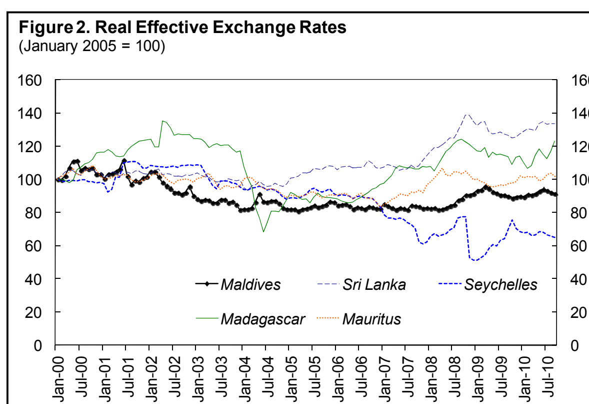
**The Maldivian rufiyaa has appreciated by 5.6 percent in real effective terms since mid-2008,** in the face of relatively high domestic inflation. The real effective exchange rate (REER) is now roughly in line with the average of the past ten years (Figure 1). Unit labor cost data are not available, but would likely show a larger appreciation, as the rapid increase in public sector wages is likely to have had an impact on economy-wide wages.

**Figure 1. Maldives: Nominal and Real Effective Exchange Rate Developments, 1997-2010**
***(Index, 2005=100)***




**Maldives has remained competitive relative to relevant comparators.** For the past decade, the path of the Maldives' REER has remained below those of some relevant competitors for high-end tourism, except Seychelles (Figure 2), and growth in tourism has been healthy (Table 1). However, the recent REER appreciation and a difficult business environment (despite a recent improvement in the Doing Business ranking) pose challenges going forward.

**Figure 2. Real Effective Exchange Rates**
(January 2005 = 100)




**CGER-type methodologies suggest that the REER is inconsistent with medium-term fundamentals under the baseline scenario.** The macroeconomic balance and external sustainability approaches indicate that the current account path is inconsistent with its medium-term norm under baseline policies. For given elasticities, this implies that the REER is significantly overvalued (Table 2). The analysis suggests that even the illustrative fiscal adjustment scenario is insufficient to narrow the underlying imbalances. Stronger measures, including an exchange rate adjustment, are needed.

**Table 1. Maldives: Competitiveness Indicators**

| | Ease of Doing Business Rank [1/] | | Growth in tourist arrivals (in percent) [2/] | |
|---|---|---|---|---|
| | **2009** | **2010** | **2008** | **2009** |
| Bahamas, the | 71 | 77 | 0.7 | 1.5 |
| Dominican Republic | 86 | 91 | 4.4 | 4.7 |
| Madagascar | 138 | 140 | 23.1 | 19.9 |
| **Maldives** | **96** | **85** | **7.2** | **7.0** |
| Mauritius | 20 | 20 | 4.7 | 3.8 |
| Seychelles | 92 | 95 | 2.9 | 2.9 |
| Sri Lanka | 102 | 102 | 3.1 | 4.6 |

Sources: World Bank, Doing Business 2011 report, World travel and Tourism Council.

1/ Ease of Doing Business rank is on a scale of 1 to 183, the lower the better. The 2011 report covers the period June 2009 through May 2010. Rank for 2009 has been changed due to improvements to the methodology and data revisions.
2/ Average growth in arrivals is an average over the last 8 years.

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## Box 2. Maldives: Exchange Rate, External Sustainability, and Competitiveness (concluded)

**Table 2. Maldives: Quantitative Exchange Rate Assessment 1/**

| | 2010 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Current Account Balance | | Real Effective Exchange Rate | Current Account Balance | | Real Effective Exchange Rate |
| | Norm | Underlying | | Norm | Underlying | |
| Baseline Scenario | | | | | | |
| Macroeconomic balance 2/ | -9.5 | -32.2 | 54.2 | -13.9 | -39.2 | 60.4 |
| External sustainability 2/ | -0.4 | -32.2 | 75.8 | -5.7 | -39.2 | 80.3 |
| Adjustment Scenario | | | | | | |
| Macroeconomic balance 2/ | -9.5 | -32.2 | 52.1 | -13.9 | -21.3 | 17.0 |
| External sustainability 2/ | -0.4 | -32.2 | 72.9 | -5.6 | -21.3 | 36.0 |

Source: Fund staff estimates and projections.

1/ All figures are based on five year conditional forecasts, and are expressed in percent. Results reported are based on a GMM estimator applied to 184 countries (Vitek 2010).
2/ Estimates are based on a medium-run elasticity of export volumes with respect to the real effective exchange rate of -0.71, a medium-run elasticity of import volumes with respect to the real effective exchange rate of 0.92, a NFA to GDP norm of -81.9, and a medium-run equilibrium nominal GDP growth rate of 7.4 percent.

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### Box 3. Maldives: Public Financial Management Reforms

**The authorities have taken important steps to implement some of the immediate priorities identified by the 2009 PEFA assessment to improve public financial management (PFM).** Much of the work toward establishing a Treasury Single Account (TSA) has been done. The Public Accounting System (PAS) is functioning as a basic payments processing system, and can generate financial statements. With the basic functionality of the PAS in place, the Financial Controller's Office was able to produce annual financial statements for 2009, as scheduled in the PFM reform action plan, and to submit them, for the first time ever, to the Auditor General.

**Yet, more work is necessary to complete the PFM reforms.** The authorities need to bring into the PAS the 30-plus commercial bank accounts that remain outside the TSA, all associated with project funding from donors. The PAS modules for generating periodic reports on budget execution need to be completed: the authorities' goal is to have them fully operational by mid-2011. In addition, the World Bank has been assisting the authorities in integrating a payroll module to the PAS, to allow for timely and accurate monitoring of the wage bill. All of these additions will enhance cash flow and debt management and improve program budgeting, to which the authorities made a transition in the 2011 budget.

**The establishment of a framework for monitoring and managing fiscal risks is also essential.** This is another high-priority area identified by the PEFA assessment. Key risks include financing shortfalls, cost overruns in government projects, and uncertain costs of political decisions (e.g., the Decentralization Act).

**To increase accountability, mitigate fiscal risks and underpin fiscal consolidation, Maldives would benefit from adopting a fiscal responsibility law (FRL).** Under a FRL, the administration would have to lay out its medium-term strategy, including numerical fiscal targets; improve budget formulation and publish monthly reports on budget execution (including explanations for major deviations). The FRL should also require the Majlis to assess the cost of new spending initiatives. A politically-independent entity could be created to assess the fiscal impact of new revenue and expenditure policies in light of the medium-term budget objectives.

**Capacity constraints in the public finance administration must be addressed immediately as a prerequisite for sustainable PFM reform.** High turnover of trained staff has been a critical problem, leading to inadequate staffing and skills levels.

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

| | |
|---|---|
| Population (in 1,000; 2009 est.) | 315 |
| GDP per capita (in U.S. dollars; 2009 est.): | 4,189 |
| Quota (in million SDRs): | 8.2 |

| | 2006 | 2007 | 2008 | 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 | 6.2 | -4.0 | -2.3 | 3.4 | 4.8 | 3.7 | 4.0 | 4.1 | 4.1 |
| Inflation (end-of-period) | 3.1 | 10.3 | 9.1 | 6.7 | 4.0 | 4.7 | 5.0 | 6.3 | 6.0 | 3.5 | 3.5 |
| Inflation (period average) | 3.5 | 7.4 | 12.3 | 5.5 | 4.0 | 4.5 | 5.0 | 6.3 | 5.5 | 3.5 | 4.8 |
| GDP deflator | 3.5 | 7.4 | 12.6 | 11.0 | 7.1 | 4.0 | 6.5 | 6.3 | 5.5 | 3.5 | 4.8 |
| CENTRAL GOVERNMENT FINANCES | | | | | (In percent of GDP) | | | | | | |
| Revenue and grants | 52.1 | 55.8 | 46.0 | 36.3 | 35.9 | 37.0 | 35.5 | 43.4 | 39.4 | 44.2 | 42.3 |
| Expenditure and net lending | 59.4 | 61.4 | 63.1 | 65.0 | 64.9 | 54.8 | 53.4 | 47.5 | 60.7 | 47.9 | 61.1 |
| Overall balance | -7.3 | -5.5 | -17.1 | -28.8 | -29.0 | -17.8 | -17.9 | -4.2 | -21.3 | -3.6 | -18.8 |
| Overall balance excl. grants | -14.7 | -13.3 | -20.3 | -33.6 | -33.5 | -18.9 | -20.7 | -5.2 | -22.0 | -4.6 | -19.4 |
| Financing | 7.3 | 5.5 | 17.1 | 28.8 | 29.0 | 17.8 | 17.9 | 4.2 | 21.3 | 3.6 | 18.8 |
| Foreign | 4.5 | 4.6 | 4.6 | 12.7 | 8.4 | 4.2 | 10.3 | 2.0 | 9.6 | 2.6 | 4.6 |
| *Of which:* Privatization receipts | 0.0 | 0.0 | 0.0 | 3.0 | 3.0 | 4.4 | 6.4 | 2.1 | 5.7 | 1.9 | 0.9 |
| Domestic | 2.8 | 1.0 | 12.5 | 16.1 | 20.6 | 13.6 | 7.6 | 2.2 | 11.7 | 1.1 | 14.2 |
| *Of which:* Privatization receipts | 0.4 | 0.3 | 0.3 | 0.1 | 0.1 | 2.6 | 0.2 | 1.3 | 3.9 | 0.8 | 0.4 |
| Public and publicly guaranteed debt | 62.9 | 66.3 | 68.6 | 91.6 | 85.0 | 96.0 | 87.6 | 87.9 | 91.7 | 82.5 | 101.8 |
| Domestic | 23.4 | 26.4 | 31.2 | 46.8 | 43.9 | 54.5 | 46.9 | 50.4 | 50.6 | 47.0 | 60.4 |
| External (excl. IMF and currency swaps by MMA) | 39.6 | 39.8 | 37.4 | 44.8 | 41.2 | 41.5 | 40.7 | 37.5 | 41.1 | 35.5 | 41.4 |
| MONETARY ACCOUNTS | | | | | (Annual percentage change, unless otherwise indicated) | | | | | | |
| Broad money | 18.9 | 24.1 | 21.8 | 9.4 | 12.5 | 6.7 | 16.8 | … | -6.0 | … | … |
| Domestic credit | 38.6 | 44.7 | 35.2 | 5.7 | 14.0 | 7.5 | 4.9 | … | -0.9 | … | … |
| *Of which:* To private sector | 48.6 | 49.4 | 29.7 | -4.1 | -4.1 | -2.1 | -2.5 | … | -6.2 | … | … |
| NFA of commercial banks (in millions of US$, e.o.p.) | -145 | -341 | -371 | -416 | -345 | -466 | -264 | … | -248 | … | … |
| Net open forex position of commercial banks (in millions of US$, e.o.p.) | 88 | 72 | 175 | … | 195 | … | 172 | … | … | … | … |
| BALANCE OF PAYMENTS | | | | | (In percent of GDP, unless otherwise indicated) | | | | | | |
| Current account | -33.0 | -41.5 | -51.4 | -29.6 | -30.9 | -23.4 | -32.3 | -13.1 | -37.1 | -11.1 | -35.6 |
| *Of which:* | | | | | | | | | | | |
| Exports | 24.6 | 21.6 | 26.2 | 16.1 | 12.8 | 17.7 | 12.2 | 17.7 | 11.7 | 17.8 | 11.6 |
| Domestic | 14.8 | 10.2 | 10.0 | 6.6 | 5.8 | 6.9 | 4.2 | 6.8 | 3.6 | 6.8 | 3.3 |
| Re-exports | 9.9 | 11.4 | 16.2 | 9.5 | 7.0 | 10.7 | 8.0 | 10.8 | 8.1 | 11.0 | 8.3 |
| Imports | -89.1 | -91.5 | -96.9 | -58.2 | -64.6 | -58.8 | -67.4 | -55.9 | -75.0 | -55.9 | -73.4 |
| Nonfactor services, net | 35.0 | 36.0 | 29.4 | 22.0 | 28.3 | 28.4 | 31.3 | 33.0 | 35.4 | 36.3 | 38.0 |
| Capital and financial account (incl. e&o) | 37.9 | 48.8 | 46.0 | 30.5 | 32.1 | 20.6 | 37.9 | 11.1 | 26.5 | 12.5 | 23.3 |
| *Of which:* | | | | | | | | | | | |
| General government, net | 4.2 | 3.4 | 5.3 | 8.4 | 5.5 | -1.9 | 1.9 | -1.2 | 2.3 | 0.6 | 3.7 |
| Banks and other sectors, net | 14.9 | 21.1 | 14.4 | 14.6 | 8.5 | 20.4 | 16.2 | 10.3 | 13.7 | 11.1 | 7.9 |
| Overall balance | 4.9 | 7.3 | -5.4 | 0.9 | 1.2 | -2.8 | 5.6 | -2.0 | -10.5 | 1.4 | -12.3 |
| Gross international reserves (in millions of US$; e.o.p.) 1/ | 232 | 310 | 241 | 277 | 262 | 291 | 351 | 305 | 254 | 347 | 65 |
| In months of GNFS imports | 2.7 | 3.0 | 1.8 | 3.2 | 2.8 | 3.1 | 3.2 | 3.1 | 2.0 | 3.4 | 0.5 |
| In percent of short-term debt at remaining maturity | 149 | 117 | 80 | 81 | 97 | 88 | 105 | 118 | 67 | 143 | 15 |
| Usable reserves (in millions of US$; e.o.p.) 1/ | 125 | 172 | 106 | 105 | 112 | 130 | 144 | 108 | 70 | 132 | 3 |
| In percent of short-term debt at remaining maturity | 80 | 65 | 36 | 31 | 41 | 39 | 43 | 42 | 18 | 54 | 1 |
| External debt 2/ | 66 | 81 | 77 | 82 | 79 | 80 | 85 | 71 | 92 | 65 | 97 |
| Medium- and long-term | 55 | 63 | 60 | 67 | 65 | 68 | 70 | 60 | 76 | 56 | 79 |
| Short-term | 11 | 18 | 17 | 15 | 14 | 13 | 15 | 10 | 17 | 8 | 18 |
| In percent of domestic GNFS exports | 88 | 113 | 115 | 169 | 141 | 147 | 150 | 124 | 158 | 109 | 162 |
| External debt service (in percent of domestic GNFS exports) | 9 | 13 | 13 | 17 | 15 | 24 | 15 | 22 | 18 | 15 | 17 |
| Exchange rate (rufyiaa/US$, e.o.p.) | 12.8 | 12.8 | 12.8 | … | 12.8 | … | 12.8 | … | … | … | … |
| MEMORANDUM ITEMS | | | | | | | | | | | |
| GDP (in millions of rufyiaa) | 11,717 | 13,496 | 16,131 | 17,192 | 16,879 | 18,480 | 18,835 | 20,354 | 20,656 | 21,935 | 22,518 |
| GDP (in millions of US$) | 915 | 1,054 | 1,260 | 1,343 | 1,319 | 1,444 | 1,471 | 1,590 | 1,614 | 1,714 | 1,759 |

Sources: Maldivian authorities, and Fund staff estimates and projections.
1/ 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.
2/ Includes IMF but excludes domestic foreign-currency denominated debt.

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**Table 2. Maldives: Central Government Finances, 2007-12**

| | 2007 | 2008 | 2009 Est. | 2010 Program | 2010 Budget | 2010 Proj. | 2011 Program | 2011 Budget | 2011 Proj. | 2012 Program | 2012 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (In millions of rufiyaa) | | | | | | |
| TOTAL REVENUE AND GRANTS | 7,535 | 7,414 | 6,053 | 6,829 | 6,980 | 6,684 | 8,824 | 8,874 | 8,136 | 9,706 | 9,516 |
| Revenue (excl. privatization receipts) | 6,491 | 6,897 | 5,299 | 6,628 | 6,780 | 6,169 | 8,610 | 8,731 | 7,993 | 9,489 | 9,373 |
| Tax revenue | 2,905 | 3,367 | 2,738 | 3,301 | 3,483 | 2,972 | 5,017 | 5,151 | 4,879 | 5,725 | 5,632 |
| Import duties | 2,087 | 2,449 | 1,849 | 1,793 | 1,994 | 1,994 | 1,821 | 2,375 | 2,469 | 1,963 | 2,631 |
| Tourism tax 1/ | 547 | 567 | 531 | 444 | 419 | 603 | 0 | 660 | 671 | 0 | 711 |
| Other | 271 | 351 | 358 | 1,064 | 1,070 | 375 | 3,195 | 2,117 | 1,739 | 3,762 | 2,290 |
| *Of which:* New measures 1/ | 0 | 0 | 2 | 796 | 802 | 63 | 2,834 | 1,734 | 1,382 | 3,351 | 1,906 |
| *Tourism goods and services tax* | 0 | 0 | 0 | 358 | 358 | 0 | 1,604 | 928 | 933 | 1,857 | 1,136 |
| *Business profit tax* | 0 | 0 | 0 | 293 | 300 | 0 | 588 | 613 | 260 | 634 | 570 |
| *Other* | 0 | 0 | 0 | 146 | 144 | 63 | 642 | 193 | 189 | 860 | 200 |
| Nontax revenue | 3,586 | 3,530 | 2,562 | 3,327 | 3,297 | 3,198 | 3,593 | 3,580 | 3,114 | 3,764 | 3,741 |
| SOE profit transfers | 789 | 1,015 | 677 | 539 | 540 | 1,072 | 565 | 721 | 721 | 625 | 781 |
| Royalties, land & resort rent | 1,854 | 1,618 | 1,041 | 1,863 | 1,863 | 1,234 | 1,916 | 1,577 | 1,577 | 2,003 | 2,106 |
| Other | 943 | 898 | 844 | 926 | 894 | 892 | 1,113 | 1,281 | 816 | 1,137 | 854 |
| Grants | 1,044 | 517 | 753 | 201 | 201 | 515 | 213 | 143 | 143 | 217 | 143 |
| EXPENDITURE AND NET LENDING | 8,283 | 10,176 | 10,953 | 10,123 | 10,310 | 10,062 | 9,676 | 12,164 | 12,545 | 10,505 | 13,751 |
| Current expenditure | 6,560 | 7,463 | 8,765 | 8,356 | 8,533 | 8,372 | 8,355 | 9,777 | 10,094 | 9,108 | 10,760 |
| *Of which:* Salaries and allowances | 2,196 | 3,566 | 4,743 | 3,910 | 4,048 | 4,172 | 3,592 | 4,836 | 4,879 | 4,227 | 5,142 |
| Transportation, communication and utilities | 1,011 | 1,045 | 884 | 1,001 | 1,041 | 885 | 1,103 | 1,197 | 1,186 | 1,188 | 1,243 |
| Social welfare contributions | 2,193 | 1,097 | 1,179 | 1,492 | 1,366 | 1,343 | 1,314 | 1,727 | 1,841 | 1,251 | 1,941 |
| Repairs and maintenance | 193 | 181 | 138 | 89 | 90 | 94 | 148 | 164 | 172 | 179 | 180 |
| Subsidies and transfers | 168 | 479 | 422 | 376 | 530 | 563 | 451 | 669 | 669 | 482 | 701 |
| Food, medicine and other | 113 | 410 | 327 | 114 | 268 | 301 | 114 | 373 | 373 | 129 | 390 |
| Pensions | 55 | 70 | 95 | 262 | 262 | 262 | 338 | 297 | 297 | 353 | 311 |
| Interest | 234 | 280 | 618 | 656 | 593 | 666 | 876 | 601 | 765 | 854 | 944 |
| Other | 565 | 815 | 782 | 833 | 865 | 649 | 872 | 584 | 581 | 927 | 608 |
| Capital expenditure | 1,765 | 2,879 | 2,339 | 2,014 | 2,024 | 1,937 | 1,596 | 2,593 | 2,658 | 1,644 | 3,184 |
| Net lending | -42 | -166 | -151 | -248 | -248 | -248 | -275 | -206 | -206 | -247 | -192 |
| OVERALL BALANCE | -749 | -2,762 | -4,901 | -3,294 | -3,330 | -3,377 | -852 | -3,290 | -4,409 | -799 | -4,235 |
| OVERALL BALANCE, EXCL. GRANTS | -1,793 | -3,279 | -5,654 | -3,495 | -3,530 | -3,892 | -1,066 | -3,433 | -4,552 | -1,016 | -4,378 |
| FINANCING | 749 | 2,762 | 4,901 | 3,294 | 3,330 | 3,377 | 852 | 3,290 | 4,409 | 799 | 4,235 |
| Privatization | 37 | 42 | 514 | 1,300 | 1,329 | 1,244 | 700 | 1,475 | 1,975 | 600 | 297 |
| External sources | 0 | 0 | 502 | 811 | 1,300 | 1,212 | 427 | 1,176 | 1,176 | 427 | 210 |
| Domestic sources | 37 | 42 | 12 | 489 | 29 | 32 | 273 | 299 | 799 | 173 | 87 |
| External debt | 615 | 748 | 920 | -39 | 451 | 727 | -24 | 815 | 815 | 138 | 836 |
| Domestic debt | 97 | 1,972 | 3,467 | 2,033 | 1,550 | 1,406 | 176 | 1,000 | 1,619 | 61 | 3,102 |
| | | | | | (In percent of GDP) | | | | | | |
| TOTAL REVENUE AND GRANTS | 55.8 | 46.0 | 35.9 | 37.0 | 37.1 | 35.5 | 43.4 | 43.0 | 39.4 | 44.2 | 42.3 |
| Revenue | 48.1 | 42.8 | 31.4 | 35.9 | 36.0 | 32.8 | 42.3 | 42.3 | 38.7 | 43.3 | 41.6 |
| Tax revenue | 21.5 | 20.9 | 16.2 | 17.9 | 18.5 | 15.8 | 24.6 | 24.9 | 23.6 | 26.1 | 25.0 |
| Import duties | 15.5 | 15.2 | 11.0 | 9.7 | 10.6 | 10.6 | 8.9 | 11.5 | 12.0 | 8.9 | 11.7 |
| Tourism tax 1/ | 4.1 | 3.5 | 3.1 | 2.4 | 2.2 | 3.2 | 0.0 | 3.2 | 3.2 | 0.0 | 3.2 |
| Other | 2.0 | 2.2 | 2.1 | 5.8 | 5.7 | 2.0 | 15.7 | 10.2 | 8.4 | 17.2 | 10.2 |
| *Of which:* New measures 1/ | 0.0 | 0.0 | 0.0 | 4.3 | 4.3 | 0.3 | 13.9 | 8.4 | 6.7 | 15.3 | 8.5 |
| *Tourism goods and services tax* | 0.0 | 0.0 | 0.0 | 1.9 | 1.9 | 0.0 | 7.9 | 4.5 | 4.5 | 8.5 | 5.0 |
| *Business profit tax* | 0.0 | 0.0 | 0.0 | 1.6 | 1.6 | 0.0 | 2.9 | 3.0 | 1.3 | 2.9 | 2.5 |
| *Other* | 0.0 | 0.0 | 0.0 | 0.8 | 0.8 | 0.3 | 3.2 | 0.9 | 0.9 | 3.9 | 0.9 |
| Nontax revenue | 26.6 | 21.9 | 15.2 | 18.0 | 17.5 | 17.0 | 17.7 | 17.3 | 15.1 | 17.2 | 16.6 |
| SOE profit transfers | 5.8 | 6.3 | 4.0 | 2.9 | 2.9 | 5.7 | 2.8 | 3.5 | 3.5 | 2.8 | 3.5 |
| Lease payments | 13.7 | 10.0 | 6.2 | 10.1 | 9.9 | 6.6 | 9.4 | 7.6 | 7.6 | 9.1 | 9.4 |
| Other | 7.0 | 5.6 | 5.0 | 5.0 | 4.7 | 4.7 | 5.5 | 6.2 | 3.9 | 5.2 | 3.8 |
| Grants | 7.7 | 3.2 | 4.5 | 1.1 | 1.1 | 2.7 | 1.0 | 0.7 | 0.7 | 1.0 | 0.6 |
| EXPENDITURE AND NET LENDING | 61.4 | 63.1 | 64.9 | 54.8 | 54.7 | 53.4 | 47.5 | 58.9 | 60.7 | 47.9 | 61.1 |
| Current expenditure | 48.6 | 46.3 | 51.9 | 45.2 | 45.3 | 44.4 | 41.0 | 47.3 | 48.9 | 41.5 | 47.8 |
| *Of which:* Salaries and allowances | 16.3 | 22.1 | 28.1 | 21.2 | 21.5 | 22.2 | 17.6 | 23.4 | 23.6 | 19.3 | 22.8 |
| Transportation, communication and utilities | 7.5 | 6.5 | 5.2 | 5.4 | 5.5 | 4.7 | 5.4 | 5.8 | 5.7 | 5.4 | 5.5 |
| Social welfare contributions | 16.2 | 6.8 | 7.0 | 8.1 | 7.3 | 7.1 | 6.5 | 8.4 | 8.9 | 5.7 | 8.6 |
| Repairs and maintenance | 1.4 | 1.1 | 0.8 | 0.5 | 0.5 | 0.5 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 |
| Subsidies and transfers | 1.2 | 3.0 | 2.5 | 2.0 | 2.8 | 3.0 | 2.2 | 3.2 | 3.2 | 2.2 | 3.1 |
| Food, medicine and other | 0.8 | 2.5 | 1.9 | 0.6 | 1.4 | 1.6 | 0.6 | 1.8 | 1.8 | 0.6 | 1.7 |
| Pensions | 0.4 | 0.4 | 0.6 | 1.4 | 1.4 | 1.4 | 1.7 | 1.4 | 1.4 | 1.6 | 1.4 |
| Interest | 1.7 | 1.7 | 3.7 | 3.5 | 3.1 | 3.5 | 4.3 | 2.9 | 3.7 | 3.9 | 4.2 |
| Other | 4.2 | 5.1 | 4.6 | 4.5 | 4.6 | 3.4 | 4.3 | 2.8 | 2.8 | 4.2 | 2.7 |
| Capital expenditure | 13.1 | 17.8 | 13.9 | 10.9 | 10.7 | 10.3 | 7.8 | 12.6 | 12.9 | 7.5 | 14.1 |
| Net lending | -0.3 | -1.0 | -0.9 | -1.3 | -1.3 | -1.3 | -1.4 | -1.0 | -1.0 | -1.1 | -0.9 |
| OVERALL BALANCE | -5.5 | -17.1 | -29.0 | -17.8 | -17.7 | -17.9 | -4.2 | -15.9 | -21.3 | -3.6 | -18.8 |
| OVERALL BALANCE, EXCL. GRANTS | -13.3 | -20.3 | -33.5 | -18.9 | -18.7 | -20.7 | -5.2 | -16.6 | -22.0 | -4.6 | -19.4 |
| FINANCING | 5.5 | 17.1 | 29.0 | 17.8 | 17.7 | 17.9 | 4.2 | 15.9 | 21.3 | 3.6 | 18.8 |
| Privatization | 0.3 | 0.3 | 3.0 | 7.0 | 7.1 | 6.6 | 3.4 | 7.1 | 9.6 | 2.7 | 1.3 |
| External sources | 0.0 | 0.0 | 3.0 | 4.4 | 6.9 | 6.4 | 2.1 | 5.7 | 5.7 | 1.9 | 0.9 |
| Domestic sources | 0.3 | 0.3 | 0.1 | 2.6 | 0.2 | 0.2 | 1.3 | 1.4 | 3.9 | 0.8 | 0.4 |
| External debt | 4.6 | 4.6 | 5.5 | -0.2 | 2.4 | 3.9 | -0.1 | 3.9 | 3.9 | 0.6 | 3.7 |
| Domestic debt | 0.7 | 12.2 | 20.5 | 11.0 | 8.2 | 7.5 | 0.9 | 4.8 | 7.8 | 0.3 | 13.8 |
| MEMORANDUM ITEMS | | | | | | | | | | | |
| Current balance | -0.5 | -3.5 | -20.5 | -9.4 | | -11.7 | 1.3 | | -10.2 | 1.7 | -6.2 |
| Primary balance | -3.8 | -15.4 | -25.4 | -14.3 | | -14.4 | 0.1 | | -17.6 | 0.3 | -14.6 |
| Public and publicly guaranteed debt | 66.3 | 68.6 | 85.0 | 96.0 | | 87.6 | 87.9 | | 91.7 | 82.5 | 101.8 |
| Domestic | 26.4 | 31.2 | 43.9 | 54.5 | | 46.9 | 50.4 | | 50.6 | 47.0 | 60.4 |
| External (excl. IMF and currency swaps by MMA) | 39.8 | 37.4 | 41.2 | 41.5 | | 40.7 | 37.5 | | 41.1 | 35.5 | 41.4 |
| GDP | 13,496 | 16,131 | 16,879 | 18,480 | 18,835 | 18,835 | 20,354 | 20,656 | 20,656 | 21,935 | 22,518 |

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

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

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Table 3. Maldives: Monetary Accounts, 2006-11

| | 2006 | 2007 | 2008 | 2009 Program | 2009 | 2010 Program | 2010 Proj. | 2011 Proj. |
|---|---|---|---|---|---|---|---|---|
| | | | | (In millions of rufiyaa, e.o.p.) | | | | |
| NET FOREIGN ASSETS | 952 | -511 | -1,732 | -2,212 | -1,339 | -2,739 | 692 | -902 |
| Maldives Monetary Authority, net | 2,814 | 3,857 | 3,022 | 3,109 | 3,072 | 3,221 | 4,076 | 2,267 |
| Assets | 2,975 | 3,958 | 3,089 | 3,552 | 3,349 | 3,732 | 4,486 | 3,264 |
| Liabilities | -161 | -101 | -67 | -443 | -278 | -510 | -411 | -998 |
| Commercial banks, net | -1,862 | -4,368 | -4,754 | -5,321 | -4,410 | -5,961 | -3,384 | -3,168 |
| NET DOMESTIC ASSETS | 7,057 | 10,449 | 13,842 | 15,696 | 14,964 | 17,132 | 15,223 | 15,870 |
| Domestic credit | 9,504 | 13,748 | 18,590 | 20,941 | 21,201 | 22,520 | 22,234 | 22,041 |
| Public sector | 1,125 | 1,222 | 2,274 | 5,361 | 5,475 | 7,260 | 6,925 | 7,811 |
| Central govt (net) | 553 | 216 | 896 | 4,211 | 4,076 | 6,080 | 5,460 | 6,263 |
| Public enterprises | 573 | 1,005 | 1,377 | 1,150 | 1,399 | 1,180 | 1,465 | 1,547 |
| Private sector | 8,372 | 12,509 | 16,219 | 15,580 | 15,554 | 15,260 | 15,165 | 14,230 |
| Other items (net) | -2,447 | -3,299 | -4,748 | -5,245 | -6,237 | -5,388 | -7,012 | -6,170 |
| BROAD MONEY | 8,009 | 9,939 | 12,110 | 13,484 | 13,626 | 14,392 | 15,915 | 14,968 |
| Narrow money | 3,708 | 4,449 | 6,098 | 7,012 | 7,450 | 7,484 | 7,588 | 7,035 |
| Currency | 1,068 | 1,142 | 1,510 | 1,659 | 1,552 | 1,719 | 1,571 | 1,584 |
| Public enterprise & local gov't deposits | 15 | 42 | 11 | 17 | 35 | 18 | 10 | 21 |
| Demand deposits | 2,625 | 3,265 | 4,577 | 5,336 | 5,863 | 5,747 | 6,007 | 5,430 |
| Quasi-money | 4,301 | 5,490 | 6,013 | 6,472 | 6,176 | 6,908 | 8,327 | 7,933 |
| MEMORANDUM ITEMS | | | | | | | | |
| Velocity | 1.46 | 1.36 | 1.33 | 1.28 | 1.24 | 1.28 | 1.18 | 1.38 |
| Money multiplier | 2.34 | 2.27 | 2.25 | 2.24 | 2.21 | 2.53 | 2.62 | 2.80 |
| Reserve money | 3,424 | 4,374 | 5,382 | 6,022 | 6,154 | 5,680 | 6,064 | 5,339 |
| | | | | (Percent change with respect to end of previous year) | | | | |
| Broad money | 18.9 | 24.1 | 21.8 | 9.4 | 12.5 | 6.7 | 16.8 | -6.0 |
| Narrow money | 22.2 | 20.0 | 37.1 | 15.3 | 22.2 | 6.7 | 1.8 | -7.3 |
| Domestic credit, net | 38.6 | 44.7 | 35.2 | 5.7 | 14.0 | 7.5 | 4.9 | -0.9 |
| Central government | -24.2 | -60.9 | 314.3 | 92.4 | 354.8 | 44.4 | 33.9 | 14.7 |
| Public enterprises | 17.3 | 75.6 | 37.0 | -16.4 | 1.6 | 2.6 | 4.7 | 5.6 |
| Private sector | 48.6 | 49.4 | 29.7 | -4.1 | -4.1 | -2.1 | -2.5 | -6.2 |
| | | | | (In percent of GDP) | | | | |
| Broad money | 68.3 | 73.6 | 75.1 | 78.4 | 80.7 | 77.9 | 84.5 | 72.5 |
| Narrow money | 31.6 | 33.0 | 37.8 | 40.8 | 44.1 | 40.5 | 40.3 | 34.1 |
| Domestic credit, net | 81.1 | 101.9 | 115.2 | 121.8 | 125.6 | 121.9 | 118.0 | 106.7 |
| Central government | 4.7 | 1.6 | 5.6 | 24.5 | 24.2 | 32.9 | 29.0 | 30.3 |
| Public enterprises | 4.9 | 7.4 | 8.5 | 6.7 | 8.3 | 6.4 | 7.8 | 7.5 |
| Private sector | 71.4 | 92.7 | 100.5 | 90.6 | 92.1 | 82.6 | 80.5 | 68.9 |
| | | | | (In millions of U.S. dollars) | | | | |
| Gross foreign assets of MMA | 232 | 310 | 241 | 277 | 262 | 291 | 351 | 254 |
| Usable reserves | 125 | 172 | 106 | 105 | 112 | 130 | 144 | 70 |
| Commercial banks NFA | -145 | -341 | -371 | -416 | -345 | -466 | -264 | -248 |
| Commercial banks forex open position, net | 88 | 72 | 175 | … | 195 | … | 172 | … |
| Assets | 631 | 958 | 1,170 | … | 1,215 | … | 1,246 | … |
| Liabilities | 544 | 885 | 995 | … | 1,021 | … | 1,074 | … |
| *Of which:* forex deposits | 326 | 452 | 480 | … | 507 | … | 608 | … |

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

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

| | 2006 | 2007 | 2008 | 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 | -407 | -338 | -475 | -209 | -598 | -190 | -626 |
| Balance of goods and nonfactor services | -269 | -357 | -520 | -271 | -309 | -183 | -351 | -84 | -451 | -32 | -418 |
| Trade balance | -590 | -737 | -891 | -566 | -682 | -593 | -812 | -609 | -1,022 | -653 | -1,087 |
| Exports (fob) | 225 | 228 | 330 | 216 | 169 | 255 | 180 | 281 | 189 | 306 | 204 |
| Domestic exports | 135 | 108 | 126 | 88 | 76 | 100 | 61 | 108 | 58 | 116 | 58 |
| Re-exports | 90 | 120 | 205 | 128 | 93 | 155 | 118 | 173 | 131 | 189 | 145 |
| Imports (fob) | -815 | -965 | -1,221 | -782 | -851 | -849 | -992 | -889 | -1,211 | -959 | -1,291 |
| Tourism-related | -171 | -232 | -254 | -162 | -162 | -176 | -189 | -185 | -231 | -199 | -246 |
| Other | -645 | -733 | -967 | -619 | -689 | -672 | -802 | -704 | -980 | -759 | -1,044 |
| Nonfactor services, net | 321 | 380 | 370 | 295 | 373 | 410 | 460 | 525 | 572 | 621 | 669 |
| *Of which:* Travel receipts | 512 | 602 | 664 | 521 | 608 | 630 | 714 | 701 | 778 | 774 | 853 |
| Income, net | -41 | -67 | -64 | -63 | -42 | -65 | -55 | -67 | -100 | -73 | -118 |
| Current transfers, net | 8 | -14 | -63 | -64 | -57 | -90 | -70 | -58 | -48 | -85 | -90 |
| Receipts | 91 | 91 | 65 | 65 | 59 | 21 | 40 | 17 | 27 | 17 | 12 |
| Payments | -83 | -105 | -128 | -128 | -116 | -111 | -110 | -75 | -75 | -102 | -102 |
| CAPITAL AND FINANCIAL ACCOUNT | 239 | 349 | 381 | 355 | 308 | 252 | 339 | 156 | 328 | 214 | 310 |
| *Of which: 1/* | | | | | | | | | | | |
| Foreign direct investment, net | 64 | 91 | 135 | 10 | 112 | 10 | 74 | 11 | 71 | 12 | 106 |
| Other investment, net | 175 | 259 | 246 | 345 | 196 | 242 | 265 | 145 | 258 | 202 | 205 |
| Monetary authorities 2/ | 0 | 0 | -2 | 37 | 12 | -25 | 0 | 0 | 0 | 0 | 0 |
| General government | 39 | 36 | 67 | 112 | 72 | -27 | 27 | -19 | 36 | 11 | 65 |
| *Of which:* Disbursements of loans | 63 | 65 | 101 | 154 | 112 | 72 | 71 | 86 | 104 | 65 | 133 |
| Amortization | -24 | -29 | -35 | -42 | -40 | -99 | -44 | -105 | -67 | -54 | -67 |
| Banks | 104 | 193 | 100 | -22 | -27 | 50 | -9 | -62 | -17 | -43 | -35 |
| Other sectors 3/ | 32 | 29 | 82 | 218 | 139 | 244 | 247 | 226 | 238 | 234 | 174 |
| ERRORS AND OMISSIONS | 108 | 165 | 199 | 55 | 115 | 45 | 219 | 20 | 100 | 0 | 100 |
| OVERALL BALANCE | 45 | 77 | -68 | 13 | 15 | -40 | 82 | -32 | -170 | 23 | -216 |
| Gross international reserves (increase: -) | -45 | -77 | 70 | -35 | -20 | -14 | -89 | -14 | 97 | -42 | 189 |
| Use of Fund credit, net | 0 | 0 | -2 | -3 | 5 | 0 | 7 | 0 | 0 | 0 | 0 |
| FINANCING GAP | 0 | 0 | 0 | 26 | 0 | 55 | 29 | 47 | 73 | 19 | 27 |
| *Of which:* IMF | 0 | 0 | 0 | 8 | 0 | 31 | 0 | 29 | 46 | 19 | 27 |
| World Bank and ADB | 0 | 0 | 0 | 18 | 0 | 24 | 29 | 17 | 27 | 0 | 0 |
| MEMORANDUM ITEMS | | | | | | | | | | | |
| Gross international reserves (stock; e.o.p.) 2/ | 232 | 310 | 241 | 277 | 262 | 291 | 351 | 305 | 254 | 347 | 65 |
| In months of GNFS imports | 2.7 | 3.0 | 1.8 | 3.2 | 2.8 | 3.1 | 3.2 | 3.1 | 2.0 | 3.4 | 0.5 |
| In percent of short-term debt at remaining maturity | 149 | 117 | 80 | 81 | 97 | 88 | 105 | 118 | 67 | 143 | 15 |
| Usable reserves (stock; e.o.p.) 2/ | 125 | 172 | 106 | 105 | 112 | 130 | 144 | 108 | 70 | 132 | 3 |
| In percent of short-term debt at remaining maturity | 80 | 65 | 36 | 31 | 41 | 39 | 43 | 42 | 18 | 54 | 1 |
| Current account (in percent of GDP) | -33.0 | -41.5 | -51.4 | -29.6 | -30.9 | -23.4 | -32.3 | -13.1 | -37.1 | -11.1 | -35.6 |
| GNFS balance (in percent of GDP) | -29.4 | -33.9 | -41.3 | -20.2 | -23.4 | -12.7 | -23.9 | -5.3 | -27.9 | -1.9 | -23.8 |
| Exports (volume, percent change) | 28.6 | -10.1 | 24.4 | -24.9 | -42.3 | 17.4 | 3.1 | 9.3 | 4.8 | 7.7 | 7.4 |
| Imports (volume, percent change) | 10.3 | 6.8 | 9.7 | -21.8 | -16.1 | 3.2 | 7.7 | 2.3 | 18.8 | 5.7 | 5.1 |
| Tourism: bednights (percent change) | 46.1 | 9.8 | 2.9 | -7.0 | -5.4 | 8.0 | 20.0 | 6.0 | 6.0 | 6.0 | 6.0 |
| External debt (in percent of GDP) 4/ | 66.3 | 81.3 | 77.4 | 82.1 | 78.9 | 80.1 | 84.9 | 70.5 | 92.4 | 64.7 | 97.1 |
| Medium- and long-term | 54.8 | 63.5 | 60.2 | 67.4 | 65.1 | 67.5 | 69.8 | 60.5 | 75.8 | 56.2 | 79.4 |
| Short-term | 11.5 | 17.9 | 17.2 | 14.8 | 13.7 | 12.6 | 15.1 | 10.0 | 16.6 | 8.4 | 17.7 |
| Debt service (in percent of domestic GNFS exports) | 9.3 | 12.6 | 12.7 | 17.5 | 15.0 | 23.5 | 15.1 | 22.2 | 17.7 | 14.5 | 16.6 |
| Exchange rate (rufiyaa per $; average) | 12.8 | 12.8 | 12.8 | 12.8 | 12.8 | … | 12.8 | … | … | … | … |
| GDP (in millions of US$) | 915 | 1,054 | 1,260 | 1,343 | 1,319 | 1,444 | 1,471 | 1,590 | 1,614 | 1,714 | 1,759 |

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: Medium-Term Projections, 2006-15**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Est. | | | Projection | | | |
| OUTPUT AND PRICES | | | | (Annual percentage change) | | | | | | |
| Real GDP | 18.0 | 7.2 | 6.2 | -2.3 | 4.8 | 4.0 | 4.1 | 4.5 | 4.6 | 4.5 |
| Inflation (end-of-period) | 3.1 | 10.3 | 9.1 | 4.0 | 5.0 | 6.0 | 3.5 | 3.0 | 3.0 | 3.0 |
| Inflation (period average) | 3.5 | 7.4 | 12.3 | 4.0 | 5.0 | 5.5 | 4.8 | 3.3 | 3.0 | 3.0 |
| GDP deflator | 3.5 | 7.4 | 12.6 | 7.1 | 6.5 | 5.5 | 4.8 | 3.3 | 3.0 | 3.0 |
| CENTRAL GOVERNMENT FINANCES | | | | (In percent of GDP, unless otherwise indicated) | | | | | | |
| Revenue and grants | 52.1 | 55.8 | 46.0 | 35.9 | 35.5 | 39.4 | 42.3 | 41.8 | 38.6 | 38.1 |
| Tax revenue | 20.2 | 21.5 | 20.9 | 16.2 | 15.8 | 23.6 | 25.0 | 28.1 | 25.5 | 25.8 |
| Nontax revenue 1/ | 24.5 | 26.6 | 21.9 | 15.2 | 17.0 | 15.1 | 16.6 | 13.1 | 12.4 | 11.7 |
| Grants | 7.4 | 7.7 | 3.2 | 4.5 | 2.7 | 0.7 | 0.6 | 0.6 | 0.7 | 0.6 |
| Expenditure and net lending | 59.4 | 61.4 | 63.1 | 64.9 | 53.4 | 60.7 | 61.1 | 58.3 | 58.4 | 59.0 |
| Current expenditure | 47.9 | 48.6 | 46.3 | 51.9 | 44.4 | 48.9 | 47.8 | 47.6 | 47.5 | 48.2 |
| Capital expenditure | 12.4 | 13.1 | 17.8 | 13.9 | 10.3 | 12.9 | 14.1 | 11.5 | 11.5 | 11.5 |
| Net lending | -0.9 | -0.3 | -1.0 | -0.9 | -1.3 | -1.0 | -0.9 | -0.8 | -0.7 | -0.7 |
| Overall balance | -7.3 | -5.5 | -17.1 | -29.0 | -17.9 | -21.3 | -18.8 | -16.6 | -19.7 | -20.9 |
| Overall balance excl. grants | -14.7 | -13.3 | -20.3 | -33.5 | -20.7 | -22.0 | -19.4 | -17.2 | -20.4 | -21.5 |
| Primary balance | -5.6 | -3.8 | -15.4 | -25.4 | -14.4 | -17.6 | -14.6 | -10.9 | -12.6 | -11.8 |
| Financing | 7.3 | 5.5 | 17.1 | 29.0 | 17.9 | 21.3 | 18.8 | 16.6 | 19.7 | 20.9 |
| Foreign | 4.5 | 4.6 | 4.6 | 8.4 | 10.3 | 9.6 | 4.6 | 8.7 | 8.2 | 7.3 |
| *Of which:* Privatization receipts | 0.0 | 0.0 | 0.0 | 3.0 | 6.4 | 5.7 | 0.9 | 0.2 | 0.0 | 0.0 |
| Domestic | 2.8 | 1.0 | 12.5 | 20.6 | 7.6 | 11.7 | 14.2 | 7.9 | 11.5 | 13.6 |
| *Of which:* Privatization receipts | 0.4 | 0.3 | 0.3 | 0.1 | 0.2 | 3.9 | 0.4 | 0.0 | 0.0 | 0.0 |
| Public and publicly guaranteed debt | 62.9 | 66.3 | 68.6 | 85.0 | 87.6 | 91.7 | 101.8 | 110.7 | 122.7 | 135.0 |
| Domestic | 23.4 | 26.4 | 31.2 | 43.9 | 46.9 | 50.6 | 60.4 | 63.9 | 71.0 | 79.6 |
| External (excl. IMF and currency swaps by MMA) | 39.6 | 39.8 | 37.4 | 41.2 | 40.7 | 41.1 | 41.4 | 46.8 | 51.7 | 55.3 |
| BALANCE OF PAYMENTS | | | | | | | | | | |
| Current account | -33.0 | -41.5 | -51.4 | -30.9 | -32.3 | -37.1 | -35.6 | -36.0 | -38.2 | -39.4 |
| *Of which:* | | | | | | | | | | |
| Exports | 24.6 | 21.6 | 26.2 | 12.8 | 12.2 | 11.7 | 11.6 | 11.5 | 11.4 | 11.3 |
| Domestic | 14.8 | 10.2 | 10.0 | 5.8 | 4.2 | 3.6 | 3.3 | 3.1 | 3.0 | 2.9 |
| Re-exports | 9.9 | 11.4 | 16.2 | 7.0 | 8.0 | 8.1 | 8.3 | 8.3 | 8.4 | 8.5 |
| Imports | -89.1 | -91.5 | -96.9 | -64.6 | -67.4 | -75.0 | -73.4 | -73.1 | -75.6 | -76.6 |
| Nonfactor services, net | 35.0 | 36.0 | 29.4 | 28.3 | 31.3 | 35.4 | 38.0 | 39.1 | 40.1 | 40.4 |
| *Of which:* Travel receipts | 56.0 | 57.1 | 52.7 | 46.1 | 48.5 | 48.2 | 48.5 | 49.2 | 49.9 | 49.2 |
| Capital and financial account | 37.9 | 48.8 | 46.0 | 32.1 | 37.9 | 26.5 | 23.3 | 29.8 | 27.2 | 25.8 |
| *Of which:* | | | | | | | | | | |
| General government, net | 4.2 | 3.4 | 5.3 | 5.5 | 1.9 | 2.3 | 3.7 | 8.4 | 8.2 | 7.3 |
| Banks and other sectors, net | 14.9 | 21.1 | 14.4 | 8.5 | 16.2 | 13.7 | 7.9 | 10.1 | 10.3 | 10.0 |
| Overall balance | 4.9 | 7.3 | -5.4 | 1.2 | 5.6 | -10.5 | -12.3 | -6.3 | -11.0 | -13.6 |
| MEMORANDUM ITEMS | | | | | | | | | | |
| Gross international reserves (in millions of US$; e.o.p.) 2/ | 232 | 310 | 241 | 262 | 351 | 254 | 65 | 0 | 0 | 0 |
| In months of GNFS imports | 2.7 | 3.0 | 1.8 | 2.8 | 3.2 | 2.0 | 0.5 | 0 | 0 | 0 |
| In percent of short-term debt at remaining maturity | 149 | 117 | 80 | 97 | 105 | 67 | 15 | 0 | 0 | 0 |
| Usable reserves (in millions of US$; e.o.p.) 2/ | 125 | 172 | 106 | 112 | 144 | 70 | 3 | 0 | 0 | 0 |
| In percent of short-term debt at remaining maturity | 80 | 65 | 36 | 41 | 43 | 18 | 1 | 0 | 0 | 0 |
| External financing gap 3/ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 59 | 239 | 325 |
| External debt 4/ | 66.3 | 81.3 | 77.4 | 78.9 | 84.9 | 92.4 | 97.1 | 108.1 | 118.2 | 126 |
| Medium- and long-term | 54.8 | 63.5 | 60.2 | 65.1 | 69.8 | 75.8 | 79.4 | 88.2 | 96.8 | 103 |
| Short-term | 11.5 | 17.9 | 17.2 | 13.7 | 15.1 | 16.6 | 17.7 | 19.9 | 21.5 | 23 |
| External debt service (in percent of domestic GNFS exports) | 9.3 | 12.6 | 12.7 | 15.0 | 15.1 | 17.7 | 16.6 | 17.5 | 15.6 | 19 |
| GDP (in millions of rufyiaa) | 11,717 | 13,496 | 16,131 | 16,879 | 18,835 | 20,656 | 22,518 | 24,303 | 26,173 | 28,171 |
| GDP (in millions of US$) | 915 | 1,054 | 1,260 | 1,319 | 1,471 | 1,614 | 1,759 | 1,899 | 2,045 | 2,201 |

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

1/ Excludes privatization receipts.
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/ Unmet external finacing needs after gross international reserves arre fully depleted.
4/ Includes IMF but excludes domestic foreign-currency denominated debt.

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**Table 6: 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 | 443 | 671 | 845 | 733 | 836 | 933 | 1,007 |
| Current account deficit | 302 | 438 | 648 | 407 | 475 | 598 | 626 |
| Amortization of MLT debt | 39 | 51 | 76 | 85 | 90 | 113 | 113 |
| ST debt (stock at end of previous year) | 57 | 105 | 188 | 217 | 181 | 222 | 268 |
| Increase in gross international reserves | 45 | 77 | -70 | 20 | 89 | -97 | -189 |
| Repurchases from the Fund | 0 | 0 | 2 | 3 | 1 | 0 | 0 |
| FINANCING SOURCES | 443 | 671 | 845 | 733 | 807 | 860 | 980 |
| FDI (net) | 64 | 91 | 135 | 112 | 74 | 71 | 106 |
| Porfolio investment (net) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Government loan disbursements 1/ | 63 | 65 | 101 | 112 | 71 | 104 | 133 |
| New ST debt | 105 | 188 | 217 | 181 | 222 | 268 | 312 |
| Other net flows 2/ | 212 | 327 | 392 | 320 | 432 | 321 | 241 |
| Purchases from the Fund | 0 | 0 | 0 | 8 | 8 | 0 | 0 |
| Exceptional financing | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| FINANCING GAP | 0 | 0 | 0 | 0 | 29 | 73 | 27 |
| *Of which:* IMF | 0 | 0 | 0 | 0 | 0.0 | 45.9 | 27.2 |
| World Bank and ADB | 0 | 0 | 0 | 0 | 29 | 27 | 0 |
| MEMORANDUM ITEMS | | | | | | | |
| Rollover rate of ST debt (in percent) | 184 | 179 | 115 | 83 | 123 | 121 | 116 |
| GIR (million $, e.o.p.) | 232 | 310 | 241 | 262 | 351 | 254 | 65 |
| Usable reserves (million $, e.o.p.) | 125 | 172 | 106 | 112 | 144 | 70 | 3 |
| External financing requirement (in percent of GDP) | 48.4 | 63.6 | 67.0 | 55.6 | 56.8 | 57.8 | 57.3 |
| **Fiscal** | | | (In millions of rufyiaa) | | | | |
| FINANCING REQUIREMENTS | 1,161 | 1,482 | 3,747 | 6,136 | 7,071 | 9,396 | 9,538 |
| Primary deficit | 654 | 514 | 2,482 | 4,283 | 2,711 | 3,644 | 3,291 |
| Principal payments | 308 | 734 | 986 | 1,235 | 3,694 | 4,987 | 5,303 |
| Domestic | 0 | 363 | 543 | 727 | 3,131 | 4,126 | 4,443 |
| External | 308 | 371 | 443 | 508 | 563 | 861 | 861 |
| Interest payments | 199 | 234 | 280 | 618 | 666 | 765 | 944 |
| Domestic | 97 | 102 | 89 | 483 | 554 | 615 | 780 |
| External | 102 | 132 | 191 | 135 | 113 | 150 | 164 |
| FINANCING SOURCES | 1,161 | 1,482 | 3,747 | 6,136 | 6,694 | 9,047 | 9,538 |
| Privatization | 50 | 37 | 42 | 514 | 1,244 | 1,975 | 297 |
| Domestic disbursements | 274 | 460 | 2,515 | 4,194 | 4,537 | 5,745 | 7,544 |
| External disbursements | 837 | 986 | 1,190 | 1,428 | 913 | 1,328 | 1,697 |
| FINANCING GAP 3/ | 0 | 0 | 0 | 0 | 377 | 348 | 0 |
| MEMORANDUM ITEM | | | | | | | |
| Fiscal financing requirement (in percent of GDP) | 9.9 | 11.0 | 23.2 | 36.4 | 37.5 | 45.5 | 42.4 |

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

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

2/ Includes flows to the financial, 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 7. Maldives: Selected Economic and Vulnerability Indicators, 2006-12 (Adjustment Scenario)**

| | |
|---|---|
| Population (in 1,000; 2009 est.) | 315 |
| GDP per capita (in U.S. dollars; 2009 est.): | 4,189 |
| Quota (in million SDRs): | 8.2 |

| | 2006 | 2007 | 2008 | 2009 | 2009 | 2010 | 2010 | 2011 | 2011 | 2012 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Program | Est. | Program | Proj. | Program | Proj. | Program | Proj. |
| OUTPUT AND PRICES | (Annual percentage change) | | | | | | | | | | |
| Real GDP | 18.0 | 7.2 | 6.2 | -4.0 | -2.3 | 3.4 | 4.8 | 3.7 | 4.0 | 4.1 | 4.2 |
| Inflation (end-of-period) | 3.1 | 10.3 | 9.1 | 6.7 | 4.0 | 4.7 | 5.0 | 6.3 | 6.0 | 3.5 | 3.5 |
| Inflation (period average) | 3.5 | 7.4 | 12.3 | 5.5 | 4.0 | 4.5 | 5.0 | 6.3 | 5.5 | 3.5 | 4.8 |
| GDP deflator | 3.5 | 7.4 | 12.6 | 11.0 | 7.1 | 4.0 | 6.5 | 6.3 | 5.5 | 3.5 | 4.8 |
| CENTRAL GOVERNMENT FINANCES | (In percent of GDP) | | | | | | | | | | |
| Revenue and grants | 52.1 | 55.8 | 46.0 | 36.3 | 35.9 | 37.0 | 35.5 | 43.4 | 41.2 | 44.2 | 45.6 |
| Expenditure and net lending | 59.4 | 61.4 | 63.1 | 65.0 | 64.9 | 54.8 | 53.4 | 47.5 | 56.0 | 47.9 | 53.7 |
| Overall balance | -7.3 | -5.5 | -17.1 | -28.8 | -29.0 | -17.8 | -17.9 | -4.2 | -14.8 | -3.6 | -8.1 |
| Overall balance excl. grants | -14.7 | -13.3 | -20.3 | -33.6 | -33.5 | -18.9 | -20.7 | -5.2 | -15.5 | -4.6 | -8.7 |
| Financing | 7.3 | 5.5 | 17.1 | 28.8 | 29.0 | 17.8 | 17.9 | 4.2 | 14.8 | 3.6 | 8.1 |
| Foreign | 4.5 | 4.6 | 4.6 | 12.7 | 8.4 | 4.2 | 10.3 | 2.0 | 9.6 | 2.6 | 4.6 |
| *Of which:* Privatization receipts | 0.0 | 0.0 | 0.0 | 3.0 | 3.0 | 4.4 | 6.4 | 2.1 | 5.7 | 1.9 | 0.9 |
| Domestic | 2.8 | 1.0 | 12.5 | 16.1 | 20.7 | 13.6 | 7.6 | 2.2 | 5.2 | 1.1 | 3.4 |
| *Of which:* Privatization receipts | 0.4 | 0.3 | 0.3 | 0.1 | 0.1 | 2.6 | 0.2 | 1.3 | 1.4 | 0.8 | 0.4 |
| Public and publicly guaranteed debt | 62.9 | 66.3 | 68.6 | 91.6 | 85.0 | 96.0 | 87.6 | 87.9 | 87.6 | 82.5 | 87.2 |
| Domestic | 23.4 | 26.4 | 31.2 | 46.8 | 43.9 | 54.5 | 46.9 | 50.4 | 46.6 | 47.0 | 45.9 |
| External (excl. IMF and currency swaps by MMA) | 39.6 | 39.8 | 37.4 | 44.8 | 41.1 | 41.5 | 40.7 | 37.5 | 41.0 | 35.5 | 41.3 |
| MONETARY ACCOUNTS | (Annual percentage change, unless otherwise indicated) | | | | | | | | | | |
| Broad money | 18.9 | 24.1 | 21.8 | 9.4 | 12.5 | 6.7 | 16.4 | … | -2.4 | … | … |
| Domestic credit | 38.6 | 44.7 | 35.2 | 5.7 | 14.0 | 7.5 | 4.9 | … | 1.1 | … | … |
| *Of which:* To private sector | 48.6 | 49.4 | 29.7 | -4.1 | -4.1 | -2.1 | -2.5 | … | -1.8 | … | … |
| NFA of commercial banks (in millions of US$, e.o.p.) | -145 | -341 | -371 | -416 | -345 | -466 | -264 | … | -248 | … | … |
| Net open forex position of commercial banks (in millions of US$, e.o.p.) | 88 | 72 | 175 | … | 195 | … | 172 | … | … | … | … |
| BALANCE OF PAYMENTS | (In percent of GDP, unless otherwise indicated) | | | | | | | | | | |
| Current account | -33.0 | -41.5 | -51.4 | -29.6 | -30.9 | -23.4 | -32.3 | -13.1 | -33.2 | -11.1 | -26.4 |
| *Of which:* | | | | | | | | | | | |
| Exports | 24.6 | 21.6 | 26.2 | 16.1 | 12.8 | 17.7 | 12.2 | 17.7 | 11.7 | 17.8 | 11.7 |
| Domestic | 14.8 | 10.2 | 10.0 | 6.6 | 5.8 | 6.9 | 4.2 | 6.8 | 3.6 | 6.8 | 3.4 |
| Re-exports | 9.9 | 11.4 | 16.2 | 9.5 | 7.0 | 10.7 | 8.0 | 10.8 | 8.1 | 11.0 | 8.3 |
| Imports | -89.1 | -91.5 | -96.9 | -58.2 | -64.6 | -58.8 | -67.4 | -55.9 | -71.2 | -55.9 | -65.9 |
| Nonfactor services, net | 35.0 | 36.0 | 29.4 | 22.0 | 28.3 | 28.4 | 31.3 | 33.0 | 35.4 | 36.3 | 38.5 |
| Capital and financial account (incl. e&o) | 37.9 | 48.8 | 46.0 | 30.5 | 32.1 | 20.6 | 37.9 | 11.1 | 26.2 | 12.5 | 23.9 |
| *Of which:* | | | | | | | | | | | |
| General government, net | 4.2 | 3.4 | 5.3 | 8.4 | 5.4 | -1.9 | 1.9 | -1.2 | 2.3 | 0.6 | 3.7 |
| Banks and other sectors, net | 14.9 | 21.1 | 14.4 | 14.6 | 8.5 | 20.4 | 16.2 | 10.3 | 13.4 | 11.1 | 8.5 |
| Overall balance | 4.9 | 7.3 | -5.4 | 0.9 | 1.2 | -2.8 | 5.6 | -2.0 | -6.9 | 1.4 | -2.5 |
| Gross international reserves (in millions of US$; e.o.p.) 1/ | 232 | 310 | 241 | 277 | 262 | 291 | 351 | 305 | 312 | 347 | 296 |
| In months of GNFS imports | 2.7 | 3.0 | 1.8 | 3.2 | 2.8 | 3.1 | 3.2 | 3.1 | 2.6 | 3.4 | 2.4 |
| In percent of short-term debt at remaining maturity | 149 | 117 | 80 | 81 | 97 | 88 | 105 | 118 | 82 | 143 | 70 |
| Usable reserves (in millions of US$; e.o.p.) 1/ | 125 | 172 | 106 | 105 | 112 | 130 | 144 | 108 | 134 | 132 | 144 |
| In percent of short-term debt at remaining maturity | 80 | 65 | 36 | 31 | 41 | 39 | 43 | 42 | 35 | 54 | 34 |
| External debt 2/ | 66 | 81 | 77 | 82 | 79 | 80 | 85 | 71 | 92 | 65 | 97 |
| Medium- and long-term | 55 | 63 | 60 | 67 | 65 | 68 | 70 | 60 | 76 | 56 | 80 |
| Short-term | 11 | 18 | 17 | 15 | 14 | 13 | 15 | 10 | 17 | 8 | 18 |
| In percent of domestic GNFS exports | 88 | 113 | 115 | 169 | 141 | 147 | 150 | 124 | 157 | 109 | 161 |
| External debt service (in percent of domestic GNFS exports) | 9 | 13 | 13 | 17 | 15 | 24 | 15 | 22 | 18 | 15 | 16 |
| Exchange rate (rufyiaa/US$, e.o.p.) | 12.8 | 12.8 | 12.8 | … | 12.8 | … | 12.8 | … | … | … | … |
| MEMORANDUM ITEMS | | | | | | | | | | | |
| GDP (in millions of rufyiaa) | 11,717 | 13,496 | 16,131 | 17,192 | 16,879 | 18,480 | 18,835 | 20,354 | 20,656 | 21,935 | 22,536 |
| GDP (in millions of US$) | 915 | 1,054 | 1,260 | 1,343 | 1,319 | 1,444 | 1,471 | 1,590 | 1,614 | 1,714 | 1,761 |

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

1/ 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.

2/ Includes IMF but excludes domestic foreign-currency denominated debt.

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**Table 8. Maldives: Central Government Finances, 2007-12 (Adjustment Scenario)**

| | 2007 | 2008 | 2009 | 2010 | 2010 | 2010 | 2011 | 2011 | 2011 | 2012 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Est. | Program | Budget | Proj. | Program | Budget | Proj. | Program | Proj. |
| | | | | | | (In millions of rufiyaa) | | | | | |
| TOTAL REVENUE AND GRANTS | 7,535 | 7,414 | 6,053 | 6,829 | 6,980 | 6,684 | 8,824 | 8,874 | 8,512 | 9,706 | 10,285 |
| Revenue (excl. privatization receipts) | 6,491 | 6,897 | 5,299 | 6,628 | 6,780 | 6,169 | 8,610 | 8,731 | 8,369 | 9,489 | 10,142 |
| Tax revenue | 2,905 | 3,367 | 2,738 | 3,301 | 3,483 | 2,972 | 5,017 | 5,151 | 5,255 | 5,725 | 6,401 |
| Import duties | 2,087 | 2,449 | 1,849 | 1,793 | 1,994 | 1,994 | 1,821 | 2,375 | 2,342 | 1,963 | 2,364 |
| Tourism tax 1/ | 547 | 567 | 531 | 444 | 419 | 603 | 0 | 660 | 671 | 0 | 718 |
| Other | 271 | 351 | 358 | 1,064 | 1,070 | 375 | 3,195 | 2,117 | 2,242 | 3,762 | 3,319 |
| *Of which:* New measures 1/ | 0 | 0 | 2 | 796 | 802 | 63 | 2,834 | 1,734 | 1,382 | 3,351 | 1,919 |
| *Tourism goods and services tax* | 0 | 0 | 0 | 358 | 358 | 0 | 1,604 | 928 | 933 | 1,857 | 1,147 |
| *Business profit tax* | 0 | 0 | 0 | 293 | 300 | 0 | 588 | 613 | 260 | 634 | 571 |
| *Other* | 0 | 0 | 0 | 146 | 144 | 63 | 642 | 193 | 189 | 860 | 202 |
| Nontax revenue | 3,586 | 3,530 | 2,562 | 3,327 | 3,297 | 3,198 | 3,593 | 3,580 | 3,114 | 3,764 | 3,741 |
| SOE profit transfers | 789 | 1,015 | 677 | 539 | 540 | 1,072 | 565 | 721 | 721 | 625 | 781 |
| Royalties, land & resort rent | 1,854 | 1,618 | 1,041 | 1,863 | 1,863 | 1,234 | 1,916 | 1,577 | 1,577 | 2,003 | 2,106 |
| Other | 943 | 898 | 844 | 926 | 894 | 892 | 1,113 | 1,281 | 816 | 1,137 | 854 |
| Grants | 1,044 | 517 | 753 | 201 | 201 | 515 | 213 | 143 | 143 | 217 | 143 |
| EXPENDITURE AND NET LENDING | 8,283 | 10,176 | 10,953 | 10,123 | 10,310 | 10,062 | 9,676 | 12,164 | 11,578 | 10,505 | 12,108 |
| Current expenditure | 6,560 | 7,463 | 8,765 | 8,356 | 8,533 | 8,372 | 8,355 | 9,777 | 9,627 | 9,108 | 10,016 |
| *Of which:* Salaries and allowances | 2,196 | 3,566 | 4,743 | 3,910 | 4,048 | 4,172 | 3,592 | 4,836 | 4,779 | 4,227 | 4,602 |
| Transportation, communication and utilities | 1,011 | 1,045 | 884 | 1,001 | 1,041 | 885 | 1,103 | 1,197 | 1,186 | 1,188 | 1,243 |
| Social welfare contributions | 2,193 | 1,097 | 1,179 | 1,492 | 1,366 | 1,343 | 1,314 | 1,727 | 1,700 | 1,251 | 1,783 |
| Repairs and maintenance | 193 | 181 | 138 | 89 | 90 | 94 | 148 | 164 | 172 | 179 | 180 |
| Subsidies and transfers | 168 | 479 | 422 | 376 | 530 | 563 | 451 | 669 | 669 | 482 | 701 |
| Food, medicine and other | 113 | 410 | 327 | 114 | 268 | 301 | 114 | 373 | 373 | 129 | 390 |
| Pensions | 55 | 70 | 95 | 262 | 262 | 262 | 338 | 297 | 297 | 353 | 311 |
| Interest | 234 | 280 | 618 | 656 | 593 | 666 | 876 | 601 | 803 | 854 | 899 |
| Other | 565 | 815 | 782 | 833 | 865 | 649 | 872 | 584 | 317 | 927 | 608 |
| Capital expenditure | 1,765 | 2,879 | 2,339 | 2,014 | 2,024 | 1,937 | 1,596 | 2,593 | 2,158 | 1,644 | 2,284 |
| Net lending | -42 | -166 | -151 | -248 | -248 | -248 | -275 | -206 | -206 | -247 | -192 |
| OVERALL BALANCE | -749 | -2,762 | -4,901 | -3,294 | -3,330 | -3,377 | -852 | -3,290 | -3,066 | -799 | -1,823 |
| OVERALL BALANCE, EXCL. GRANTS | -1,793 | -3,279 | -5,654 | -3,495 | -3,530 | -3,892 | -1,066 | -3,433 | -3,209 | -1,016 | -1,966 |
| FINANCING | 749 | 2,762 | 4,901 | 3,294 | 3,330 | 3,377 | 852 | 3,290 | 3,066 | 799 | 1,823 |
| Privatization | 37 | 42 | 514 | 1,300 | 1,329 | 1,244 | 700 | 1,475 | 1,475 | 600 | 297 |
| External sources | 0 | 0 | 502 | 811 | 1,300 | 1,212 | 427 | 1,176 | 1,176 | 427 | 210 |
| Domestic sources | 37 | 42 | 12 | 489 | 29 | 32 | 273 | 299 | 299 | 173 | 87 |
| External debt | 615 | 748 | 910 | -39 | 451 | 727 | -24 | 815 | 815 | 138 | 836 |
| Domestic debt | 97 | 1,972 | 3,477 | 2,033 | 1,550 | 1,406 | 176 | 1,000 | 776 | 61 | 689 |
| | | | | | | (In percent of GDP) | | | | | |
| TOTAL REVENUE AND GRANTS | 55.8 | 46.0 | 35.9 | 37.0 | 37.1 | 35.5 | 43.4 | 43.0 | 41.2 | 44.2 | 45.6 |
| Revenue | 48.1 | 42.8 | 31.4 | 35.9 | 36.0 | 32.8 | 42.3 | 42.3 | 40.5 | 43.3 | 45.0 |
| Tax revenue | 21.5 | 20.9 | 16.2 | 17.9 | 18.5 | 15.8 | 24.6 | 24.9 | 25.4 | 26.1 | 28.4 |
| Import duties | 15.5 | 15.2 | 11.0 | 9.7 | 10.6 | 10.6 | 8.9 | 11.5 | 11.3 | 8.9 | 10.5 |
| Tourism tax 1/ | 4.1 | 3.5 | 3.1 | 2.4 | 2.2 | 3.2 | 0.0 | 3.2 | 3.2 | 0.0 | 3.2 |
| Other | 2.0 | 2.2 | 2.1 | 5.8 | 5.7 | 2.0 | 15.7 | 10.2 | 10.9 | 17.2 | 14.7 |
| *Of which:* New measures 1/ | 0.0 | 0.0 | 0.0 | 4.3 | 4.3 | 0.3 | 13.9 | 8.4 | 6.7 | 15.3 | 8.5 |
| *Tourism goods and services tax* | 0.0 | 0.0 | 0.0 | 1.9 | 1.9 | 0.0 | 7.9 | 4.5 | 4.5 | 8.5 | 5.1 |
| *Business profit tax* | 0.0 | 0.0 | 0.0 | 1.6 | 1.6 | 0.0 | 2.9 | 3.0 | 1.3 | 2.9 | 2.5 |
| *Other* | 0.0 | 0.0 | 0.0 | 0.8 | 0.8 | 0.3 | 3.2 | 0.9 | 0.9 | 3.9 | 0.9 |
| Nontax revenue | 26.6 | 21.9 | 15.2 | 18.0 | 17.5 | 17.0 | 17.7 | 17.3 | 15.1 | 17.2 | 16.6 |
| SOE profit transfers | 5.8 | 6.3 | 4.0 | 2.9 | 2.9 | 5.7 | 2.8 | 3.5 | 3.5 | 2.8 | 3.5 |
| Lease payments | 13.7 | 10.0 | 6.2 | 10.1 | 9.9 | 6.6 | 9.4 | 7.6 | 7.6 | 9.1 | 9.3 |
| Other | 7.0 | 5.6 | 5.0 | 5.0 | 4.7 | 4.7 | 5.5 | 6.2 | 3.9 | 5.2 | 3.8 |
| Grants | 7.7 | 3.2 | 4.5 | 1.1 | 1.1 | 2.7 | 1.0 | 0.7 | 0.7 | 1.0 | 0.6 |
| EXPENDITURE AND NET LENDING | 61.4 | 63.1 | 64.9 | 54.8 | 54.7 | 53.4 | 47.5 | 58.9 | 56.0 | 47.9 | 53.7 |
| Current expenditure | 48.6 | 46.3 | 51.9 | 45.2 | 45.3 | 44.4 | 41.0 | 47.3 | 46.6 | 41.5 | 44.4 |
| *Of which:* Salaries and allowances | 16.3 | 22.1 | 28.1 | 21.2 | 21.5 | 22.2 | 17.6 | 23.4 | 23.1 | 19.3 | 20.4 |
| Transportation, communication and utilities | 7.5 | 6.5 | 5.2 | 5.4 | 5.5 | 4.7 | 5.4 | 5.8 | 5.7 | 5.4 | 5.5 |
| Social welfare contributions | 16.2 | 6.8 | 7.0 | 8.1 | 7.3 | 7.1 | 6.5 | 8.4 | 8.2 | 5.7 | 7.9 |
| Repairs and maintenance | 1.4 | 1.1 | 0.8 | 0.5 | 0.5 | 0.5 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 |
| Subsidies and transfers | 1.2 | 3.0 | 2.5 | 2.0 | 2.8 | 3.0 | 2.2 | 3.2 | 3.2 | 2.2 | 3.1 |
| Food, medicine and other | 0.8 | 2.5 | 1.9 | 0.6 | 1.4 | 1.6 | 0.6 | 1.8 | 1.8 | 0.6 | 1.7 |
| Pensions | 0.4 | 0.4 | 0.6 | 1.4 | 1.4 | 1.4 | 1.7 | 1.4 | 1.4 | 1.6 | 1.4 |
| Interest | 1.7 | 1.7 | 3.7 | 3.5 | 3.1 | 3.5 | 4.3 | 2.9 | 3.9 | 3.9 | 4.0 |
| Other | 4.2 | 5.1 | 4.6 | 4.5 | 4.6 | 3.4 | 4.3 | 2.8 | 1.5 | 4.2 | 2.7 |
| Capital expenditure | 13.1 | 17.8 | 13.9 | 10.9 | 10.7 | 10.3 | 7.8 | 12.6 | 10.4 | 7.5 | 10.1 |
| Net lending | -0.3 | -1.0 | -0.9 | -1.3 | -1.3 | -1.3 | -1.4 | -1.0 | -1.0 | -1.1 | -0.9 |
| OVERALL BALANCE | -5.5 | -17.1 | -29.0 | -17.8 | -17.7 | -17.9 | -4.2 | -15.9 | -14.8 | -3.6 | -8.1 |
| OVERALL BALANCE, EXCL. GRANTS | -13.3 | -20.3 | -33.5 | -18.9 | -18.7 | -20.7 | -5.2 | -16.6 | -15.5 | -4.6 | -8.7 |
| FINANCING | 5.5 | 17.1 | 29.0 | 17.8 | 17.7 | 17.9 | 4.2 | 15.9 | 14.8 | 3.6 | 8.1 |
| Privatization | 0.3 | 0.3 | 3.0 | 7.0 | 7.1 | 6.6 | 3.4 | 7.1 | 7.1 | 2.7 | 1.3 |
| External sources | 0.0 | 0.0 | 3.0 | 4.4 | 6.9 | 6.4 | 2.1 | 5.7 | 5.7 | 1.9 | 0.9 |
| Domestic sources | 0.3 | 0.3 | 0.1 | 2.6 | 0.2 | 0.2 | 1.3 | 1.4 | 1.4 | 0.8 | 0.4 |
| External debt | 4.6 | 4.6 | 5.4 | -0.2 | 2.4 | 3.9 | -0.1 | 3.9 | 3.9 | 0.6 | 3.7 |
| Domestic debt | 0.7 | 12.2 | 20.6 | 11.0 | 8.2 | 7.5 | 0.9 | 4.8 | 3.8 | 0.3 | 3.1 |
| MEMORANDUM ITEMS | | | | | | | | | | | |
| Current balance | -0.5 | -3.5 | -20.5 | -9.4 | | -11.7 | 1.3 | | -6.1 | 1.7 | 0.6 |
| Primary balance | -3.8 | -15.4 | -25.4 | -14.3 | | -14.4 | 0.1 | | -11.0 | 0.3 | -4.1 |
| Public and publicly guaranteed debt | 66.3 | 68.6 | 85.0 | 96.0 | | 87.6 | 87.9 | | 87.6 | 82.5 | 87.2 |
| Domestic | 26.4 | 31.2 | 43.9 | 54.5 | | 46.9 | 50.4 | | 46.6 | 47.0 | 45.9 |
| External (excl. IMF and currency swaps by MMA) | 39.8 | 37.4 | 41.1 | 41.5 | | 40.7 | 37.5 | | 41.0 | 35.5 | 41.3 |
| GDP | 13,496 | 16,131 | 16,879 | 18,480 | 18,835 | 18,835 | 20,354 | 20,656 | 20,656 | 21,935 | 22,536 |

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

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

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**Table 9. Maldives: Medium-Term Projections, 2006-15 (Adjustment Scenario)**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Est. | | | Projection | | | |
| OUTPUT AND PRICES | | | | (Annual percentage change) | | | | | | |
| Real GDP | 18.0 | 7.2 | 6.2 | -2.3 | 4.8 | 4.0 | 4.2 | 4.5 | 4.6 | 4.5 |
| Inflation (end-of-period) | 3.1 | 10.3 | 9.1 | 4.0 | 5.0 | 6.0 | 3.5 | 3.0 | 3.0 | 3.0 |
| Inflation (period average) | 3.5 | 7.4 | 12.3 | 4.0 | 5.0 | 5.5 | 4.8 | 3.3 | 3.0 | 3.0 |
| GDP deflator | 3.5 | 7.4 | 12.6 | 7.1 | 6.5 | 5.5 | 4.8 | 3.3 | 3.0 | 3.0 |
| CENTRAL GOVERNMENT FINANCES | | | | (In percent of GDP, unless otherwise indicated) | | | | | | |
| Revenue and grants | 52.1 | 55.8 | 46.0 | 35.9 | 35.5 | 41.2 | 45.6 | 44.9 | 44.9 | 44.2 |
| Tax revenue | 20.2 | 21.5 | 20.9 | 16.2 | 15.8 | 25.4 | 28.4 | 31.2 | 31.9 | 31.8 |
| Nontax revenue 1/ | 24.5 | 26.6 | 21.9 | 15.2 | 17.0 | 15.1 | 16.6 | 13.1 | 12.4 | 11.7 |
| Grants | 7.4 | 7.7 | 3.2 | 4.5 | 2.7 | 0.7 | 0.6 | 0.6 | 0.7 | 0.6 |
| Expenditure and net lending | 59.4 | 61.4 | 63.1 | 64.9 | 53.4 | 56.0 | 53.7 | 51.9 | 50.7 | 49.6 |
| Current expenditure | 47.9 | 48.6 | 46.3 | 51.9 | 44.4 | 46.6 | 44.4 | 42.6 | 41.2 | 40.1 |
| Capital expenditure | 12.4 | 13.1 | 17.8 | 13.9 | 10.3 | 10.4 | 10.1 | 10.1 | 10.1 | 10.1 |
| Net lending | -0.9 | -0.3 | -1.0 | -0.9 | -1.3 | -1.0 | -0.9 | -0.8 | -0.7 | -0.7 |
| Overall balance | -7.3 | -5.5 | -17.1 | -29.0 | -17.9 | -14.8 | -8.1 | -7.1 | -5.7 | -5.4 |
| Overall balance excl. grants | -14.7 | -13.3 | -20.3 | -33.5 | -20.7 | -15.5 | -8.7 | -7.7 | -6.4 | -6.0 |
| Primary balance | -5.6 | -3.8 | -15.4 | -25.4 | -14.4 | -11.0 | -4.1 | -3.0 | -1.7 | -1.4 |
| Financing | 7.3 | 5.5 | 17.1 | 29.0 | 17.9 | 14.8 | 8.1 | 7.1 | 5.7 | 5.4 |
| Foreign | 4.5 | 4.6 | 4.6 | 8.4 | 10.3 | 9.6 | 4.6 | 4.4 | 4.3 | 3.9 |
| *Of which:* Privatization receipts | 0.0 | 0.0 | 0.0 | 3.0 | 6.4 | 5.7 | 0.9 | 0.2 | 0.0 | 0.0 |
| Domestic | 2.8 | 1.0 | 12.5 | 20.7 | 7.6 | 5.2 | 3.4 | 2.6 | 1.4 | 1.5 |
| *Of which:* Privatization receipts | 0.4 | 0.3 | 0.3 | 0.1 | 0.2 | 1.4 | 0.4 | 0.0 | 0.0 | 0.0 |
| Public and publicly guaranteed debt | 62.9 | 66.3 | 68.6 | 85.0 | 87.6 | 87.6 | 87.2 | 87.8 | 87.3 | 86.6 |
| Domestic | 23.4 | 26.4 | 31.2 | 43.9 | 46.9 | 46.6 | 45.9 | 45.3 | 43.5 | 42.0 |
| External (excl. IMF and currency swaps by MMA) | 39.6 | 39.8 | 37.4 | 41.1 | 40.7 | 41.0 | 41.3 | 42.5 | 43.8 | 44.6 |
| BALANCE OF PAYMENTS | | | | | | | | | | |
| Current account | -33.0 | -41.5 | -51.4 | -30.9 | -32.3 | -33.2 | -26.4 | -24.9 | -22.7 | -21.4 |
| *Of which:* | | | | | | | | | | |
| Exports | 24.6 | 21.6 | 26.2 | 12.8 | 12.2 | 11.7 | 11.7 | 11.6 | 11.6 | 11.6 |
| Domestic | 14.8 | 10.2 | 10.0 | 5.8 | 4.2 | 3.6 | 3.4 | 3.3 | 3.2 | 3.1 |
| Re-exports | 9.9 | 11.4 | 16.2 | 7.0 | 8.0 | 8.1 | 8.3 | 8.3 | 8.4 | 8.5 |
| Imports | -89.1 | -91.5 | -96.9 | -64.6 | -67.4 | -71.2 | -65.9 | -64.3 | -63.0 | -61.7 |
| Nonfactor services, net | 35.0 | 36.0 | 29.4 | 28.3 | 31.3 | 35.4 | 38.5 | 39.7 | 40.6 | 40.9 |
| *Of which:* Travel receipts | 56.0 | 57.1 | 52.7 | 46.1 | 48.5 | 48.2 | 48.9 | 49.6 | 50.3 | 49.6 |
| Capital and financial account | 37.9 | 48.8 | 46.0 | 32.1 | 37.9 | 26.2 | 23.9 | 23.2 | 21.8 | 20.9 |
| *Of which:* | | | | | | | | | | |
| General government, net | 4.2 | 3.4 | 5.3 | 5.4 | 1.9 | 2.3 | 3.7 | 4.2 | 4.3 | 3.9 |
| Banks and other sectors, net | 14.9 | 21.1 | 14.4 | 8.5 | 16.2 | 13.4 | 8.5 | 10.1 | 8.8 | 8.5 |
| Overall balance | 4.9 | 7.3 | -5.4 | 1.2 | 5.6 | -6.9 | -2.5 | -1.7 | -0.9 | -0.5 |
| MEMORANDUM ITEMS | | | | | | | | | | |
| Gross international reserves (in millions of US$; e.o.p.) 2/ | 232 | 310 | 241 | 262 | 351 | 312 | 296 | 258 | 226 | 190 |
| In months of GNFS imports | 2.7 | 3.0 | 1.8 | 2.8 | 3.2 | 2.6 | 2.4 | 2.0 | 1.6 | 1.3 |
| In percent of short-term debt at remaining maturity | 149 | 117 | 80 | 97 | 105 | 82 | 70 | 55 | 41 | 30 |
| Usable reserves (in millions of US$; e.o.p.) 2/ | 125 | 172 | 106 | 112 | 144 | 134 | 144 | 149 | 130 | 109 |
| In percent of short-term debt at remaining maturity | 80 | 65 | 36 | 41 | 43 | 35 | 34 | 32 | 24 | 17 |
| External debt 3/ | 66.3 | 81.3 | 77.4 | 78.9 | 84.9 | 92.1 | 97.4 | 104.1 | 109.1 | 113 |
| Medium- and long-term | 54.8 | 63.5 | 60.2 | 65.1 | 69.8 | 75.6 | 79.6 | 84.1 | 88.1 | 90 |
| Short-term | 11.5 | 17.9 | 17.2 | 13.7 | 15.1 | 16.5 | 17.8 | 20.0 | 21.0 | 22 |
| External debt service (in percent of domestic GNFS exports) | 9.3 | 12.6 | 12.7 | 15.0 | 15.1 | 17.6 | 16.5 | 17.2 | 15.0 | 17 |
| GDP (in millions of rufyiaa) | 11,717 | 13,496 | 16,131 | 16,879 | 18,835 | 20,656 | 22,536 | 24,324 | 26,196 | 28,196 |
| GDP (in millions of US$) | 915 | 1,054 | 1,260 | 1,319 | 1,471 | 1,614 | 1,761 | 1,900 | 2,047 | 2,203 |

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

1/ Excludes privatization receipts.
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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## Appendix 1. Maldives: Estimated Fiscal Impact of a Devaluation

**A nominal depreciation could have a large positive direct fiscal impact if accompanied by public sector wage restraint.** A static, partial equilibrium analysis conducted by staff suggests that, if nominal wages remain constant, a 25 percent nominal depreciation could improve the fiscal balance by about 3½ percent of GDP relative to the baseline, and the impact of a larger depreciation would be stronger still (Table 1). The analysis is based on a classification of the different components of fiscal revenue and expenditure as dollar linked, inflation linked, or constant (Table 2). It assumes that the pass through of a nominal exchange rate change to the CPI is 80 percent (based on the analysis in Appendix 2), and that the pass through to the GDP deflator is somewhat lower on impact (the trade deficit in goods and services dampens the pass through to the deflator). Since net dollar-denominated financing (disbursements minus amortizations) for the government is expected to be positive in 2011, the cash-flow impact of a depreciation would be even larger. And, while the dollar-denominated public debt (external debt plus dollar-denominated local debt) would rise on impact from 48 percent of GDP to 52 percent with a 25 percent depreciation, the improvement in the net fiscal balance would help reduce debt over the medium term.

**Table 1. Maldives: Net Fiscal Impact of Devaluation in 2011 (baseline scenario) 1/**
(In percent of GDP)

| | | Freeze in nominal wage bill | | Wage bill indexed to CPI inflation | |
|---|---|---|---|---|---|
| Percent change in rufiyaa/USD exchange rate: | | 25.0 | 50.0 | 25.0 | 50.0 |
| **Total revenue and grants** | | **2.7** | **4.8** | **2.7** | **4.8** |
| Dollar-linked components | | 2.5 | 4.4 | 2.5 | 4.4 |
| Inflation-linked components | | 0.4 | 0.7 | 0.4 | 0.7 |
| Other 2/ | | -0.2 | -0.3 | -0.2 | -0.3 |
| **Total expenditure and net lending** | | **-0.8** | **-1.4** | **3.3** | **5.8** |
| Dollar-linked components | | 1.3 | 2.4 | 1.3 | 2.4 |
| Inflation-linked components | | 0.9 | 1.7 | 2.0 | 3.5 |
| Other 2/ | | -3.1 | -5.4 | 0.0 | 0.0 |
| **Net impact (relative to baseline)** | | **3.5** | **6.2** | **-0.6** | **-1.0** |
| *Memorandum items: Key parameters* | | | | | |
| Pass through to CPI | 0.8 | | | | |
| Pass through to GDP deflator | 0.6 | | | | |
| Share of imports consumed by governmen | 0.05 | | | | |

Source: Fund staff estimates, based on data from the authorities.
1/ Assumes that the nominal exchange rate change takes place on January 1, 2011. The analysis is passive: output and absorption volumes are assumed to remain constant (elasticity of zero with respect to the exchange rate).
2/ Factors that are neither dollar linked nor inflation linked, so that their nominal value in rufiyaa terms is unaffected.

**The effect on the current account and international reserves would be similarly large,** on account of both the fiscal improvement and the impact of the depreciation on import volumes. Given the high pass through to domestic prices and therefore the limited impact of

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a depreciation on the REER, its positive impact on the external balance would arise mainly through negative income effects.

**If government wages are allowed to move in line with inflation, the net fiscal impact from devaluation would become negative.** If nominal wages are frozen, a devaluation or depreciation would make them fall in real terms and relative to GDP. If, however, government wages were indexed to inflation after the devaluation, the resulting increase in expenditure would more than offset any revenue gains, leading to an increase in the fiscal deficit (Table 1). Also, if nominal wages are kept constant for a period but then allowed to catch up with the inflation during that period, the fiscal impact would be merely temporary. For permanent fiscal gains to result from a total or partial wage freeze, once the freeze period is over wage adjustment should be based on subsequent, and not retroactive, inflation.

**Table 2. Maldives: Classification of Fiscal Components for Analysis of Devaluation Impact**

| | |
|---|---|
| **Total revenue and grants (excl. privatization)** | |
| Dollar-linked components | Import duties; tourism bed-night tax; airport tax; T-GST; royalties; resort and land rent; grants |
| Inflation-linked components | Bank profit tax; business profit tax (1/); SOE profit transfers; administrative fees and charges |
| Other | License fees; interest income |
| **Total expenditure and net lending** | |
| Dollar-linked components | Interest payments (2/); capital expenditures (3/); government consumption of imports |
| Inflation-linked components | All other non-wage, non-interest operating expenditures; net lending |
| Other | Wages and salaries; allowances 4/ |

1/ Business profit tax is a proposed revenue measure, assumed in the baseline to come in effect in 2011.
2/ The dollar-linked component of interest payments is computed based on the share of dollar-denominated debt in total public debt.
3/ Assumes that 80 percent of capital expenditures are dollar linked. The rest is considered as inflation linked.
4/ One simulation assumes a freeze in nominal wages and allowances; the other treats them as inflation linked.

**If the effects of devaluation on import demand and real growth are taken into account, the estimated net fiscal impact would be smaller.** The analysis in Table 1 only considers the direct effects of devaluation on fiscal aggregates. However, devaluation would also affect fiscal outcomes through other (indirect) channels: import demand and growth.

- Price-elasticity of import demand (static) effect. Devaluation reduces import demand on impact through both substitution and income effects. In Maldives, there is little scope for import substitution, but the price-income effect on imports is likely to be very large, as domestic incomes fall in dollar (and real) terms. And, since import tariff revenue is the largest component of tax revenue, the negative fiscal effect through this channel is likely to be considerable.

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- Real GDP growth effect. Staff considers that, given Maldives' high import dependence, the impact is likely to be mildly contractionary in the short run, but expansionary in the medium run once the supply effects (mainly from lower real wages) work their way through the economy. The growth channel would affect fiscal outcomes through import demand (in this case, a dynamic effect) as well as through domestic revenue bases (profits tax, profit transfers), but the overall fiscal impact is likely to be relatively small.

Table 3 below shows a simulation including these additional channels. For given parameters, the total net fiscal impact is shown to be significantly smaller than when only direct effects are considered. And, if nominal wages are not frozen, the devaluation could result in large fiscal losses.

**Table 3. Maldives: Net Fiscal Impact of Devaluation; Direct and Indirect Channels (baseline scenario) 1/**
(In percent of GDP)

| | Freeze in nominal wage bill | | Wage bill indexed to CPI inflation | |
|---|---|---|---|---|
| Percent change in rufiyaa/USD exchange rate: | 25.0 | 50.0 | 25.0 | 50.0 |
| **Direct effect:** | | | | |
| Net impact (relative to baseline) | 3.5 | 6.2 | -0.6 | -1.0 |
| **Indirect effect:** | | | | |
| *Import demand effect* | -1.6 | -3.4 | -1.6 | -3.4 |
| *Real growth effect* | -0.2 | -0.3 | -0.2 | -0.4 |
| Net impact (relative to baseline) | 1.7 | 2.5 | -2.4 | -4.9 |
| *Memorandum items: Key parameters* | | | | |
| Price elasticity of demand | -0.5 | | -0.5 | |
| Contraction in real GDP growth rate (relative to baseline) | 1.0% | 2.0% | 1.0% | 2.0% |

Source: Fund staff estimates, based on data from the authorities.
1/ Assumes that the nominal exchange rate change takes place on January 1, 2011.

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## Appendix 2. Maldives: Sensitivity of the CPI to Exchange Rate Changes

**The Maldivian economy is very import intensive, making the CPI highly sensitive to changes in the exchange rate.** The 2003 Supply and Use Table (SUT) indicates that out of 85 products, about a third (29) are imports, 19 have import contents exceeding 50 percent, and only 23 are fully domestic. If the imported content of domestic inputs is considered (2nd round effects), the number of products for which total imported content is over 50 percent would be 62. Based on the SUT, staff computed the 1st and 2nd round effects on Maldives' CPI of a 1 percent change in the exchange rate. The results indicate that the total exchange rate pass through into the CPI is around 79 percent; that is, a 10 percent increase in the exchange rate would lead to an increase in consumer prices of 7.9 percent (Table 1).

**Table 1. Maldives: Total exchange rate pass through to CPI (1st and 2nd round effects)**

| Product | 1st round effect 1/ (A, %) | 2nd round effect 2/ (B, %) | Total impact 3/ (A+B, %) | CPI Weights ( C ) | Pass-through to CPI ((A+B)*C, %) |
|---|---|---|---|---|---|
| **Total Maldives** | **0.51** | **0.28** | **0.79** | **1.00** | **0.79** |
| Food and non-alcoholic beverages | 0.67 | 0.22 | 0.89 | 0.33 | 0.30 |
| Tobacco and narcotics | 1.00 | 0.00 | 1.00 | 0.03 | 0.03 |
| Clothing and footwear | 0.40 | 0.48 | 0.89 | 0.06 | 0.05 |
| Housing, water, electricity, gas and other fuels | 0.15 | 0.67 | 0.81 | 0.19 | 0.16 |
| Furnishings, household equipment and routine maintenance of | 0.85 | 0.04 | 0.89 | 0.05 | 0.05 |
| Health | 0.41 | 0.05 | 0.46 | 0.05 | 0.02 |
| Transport | 0.24 | 0.36 | 0.61 | 0.05 | 0.03 |
| Communications | 0.16 | 0.23 | 0.39 | 0.06 | 0.02 |
| Education | 0.27 | 0.16 | 0.43 | 0.03 | 0.01 |
| Hotels, cafes and restaurants | 0.01 | 0.32 | 0.33 | 0.01 | 0.00 |
| Miscellaneous goods and services | 0.96 | 0.01 | 0.97 | 0.08 | 0.08 |
| Religion | 0.00 | 0.12 | 0.12 | 0.00 | 0.00 |

Sources: Maldivian authorities, and Fund staff calculations.

1/ First round effect is the direct impact of a 1 percent change in the exchange rate on the cost of an item's imported inputs. This analysis is based on the Supply and Use Table (2003).

2/ Second round effect is the impact of a 1 percent change in the exchange rate change on the price of an item through the change in the imported content cost of domestic inputs used in the production of that item.

3/ Total impact is the sum of the first and second round effects of a 1 percent change in the exchange rate on the price of the corresponding item, expressed in percent.

**The Maldivian pass through coefficient is extremely high compared to other countries.** The analysis above does not consider the possibility of substitution in production and consumption or the possible response of distribution margins to changes in the exchange rate. Following the approach in Campa and Goldberg (2006) and using, for comparability, their calibrated elasticity parameters, staff computed the pass through coefficient allowing for these effects. The coefficient for Maldives was estimated at 77 percent, which is far higher than the 26 percent average pass through that Campa and Goldberg computed for their sample of 21 (mainly OECD) countries (Table 2). This unusually high pass through is explained by the structural features of the Maldivian economy—in particular, the high import content in production and consumption, the lack of domestic substitutes, and relatively small distribution margins.

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**Table 2. Maldives: Exchange rate pass through to CPI accounting for substitution effects and distribution margins**

| | Maldives | Campa & Goldberg (2006) 5/ | | | | |
|---|---|---|---|---|---|---|
| | | Average | Max | | Min | |
| Share of imported inputs (in percent) 1/ | 45.9 | 25.1 | 48.5 | Ireland | 8.20 | United States |
| Average distribution margins (in percent) 2/ | 9.7 | 16.0 | 23.9 | United States | 8.40 | Hungary |
| Imported input share of tradables in consumption | 0.85 | 0.40 | 0.59 | Austria, Denmark | 0.20 | United States |
| Share of tradables in consumption 3/ | 0.65 | 0.36 | 0.59 | Estonia | 0.25 | United States |
| Share of imported input cost in tradable production costs | 0.89 | 0.31 | 0.49 | Ireland | 0.10 | United States |
| Share of imported input cost in nontradable production costs | 0.48 | 0.13 | 0.35 | Ireland | 0.03 | United States |
| **Exchange rate pass through into CPI 4/** | **0.77** | **0.26** | **0.56** | **Ireland** | **0.07** | **United States** |

Sources: Maldivian authorities, Campa & Goldberg (2006), and Fund staff calculations.

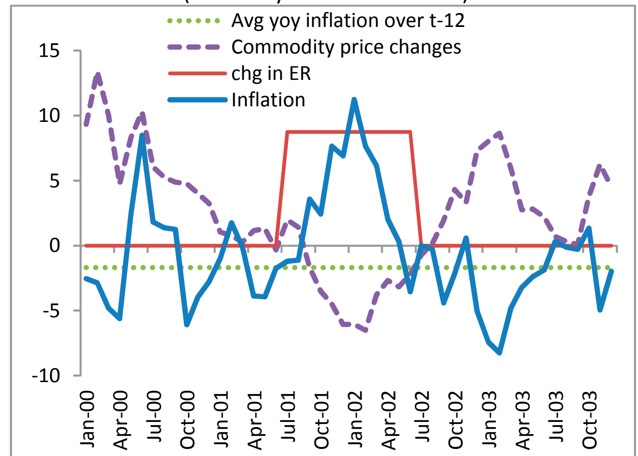
1/ Refers to the ratio of the total value of imported intermediate inputs by an industry to the value of total intermediate inputs.

2/ Calculated as the simple average of all distribution margins relative to the purchasers' prices for 29 industries.

3/ Sum of CPI weights for tradables.

4/ Assumes distribution margin sensitivity to exchange rates is -0.5 (that is, in response to a 1 percent depreciation, distributors would lower margins by 0.5 percent).

5/ "Distribution margins, imported inputs, and the sensitivity of the CPI to exchange rates", *NBER Working Paper*, No. 12121 (March)




**The last devaluation episode (July 2001) led to a pass through of about 90 percent into the CPI.** The exchange rate peg to the U.S. dollar was re-introduced in 1994 after a period of managed floating. Since then, the only change in the nominal exchange rate occurred on July 25, 2001, when the rufiyaa/US$ rate was devalued by 8.8 percent. Despite negative underlying domestic inflation (as measured by the annual average over the preceding 12 months) and a sharp fall in international commodity prices during that time, average inflation rose to 3.7 percent in the year after the devaluation (see figure). A simple analysis estimates the pass through coefficient during that episode at 90.6 percent (Table 3).

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| Table 3. Maldives: Estimated Exchange rate pass-through into CPI from July 2001 Devaluation (In percent) | |
|---|---|
| Devaluation rate [= $(e_t - e_{t-12})/e_{t-12}$*100] 1/ | 8.8 |
| Average yoy change in bilateral exchange rates over t+12 (A) | 8.8 |
| Average yoy inflation over t-12 ( B ) | -1.4 |
| Average yoy change in commodity price over t+12, weighted by CPI weights ( C ) | -2.9 |
| Average yoy inflation over t+12 ( D ) | 3.7 |
| Lag (in months) between t and maximum average yoy inflation over t+12 | 2 |
| Lag (in months) between t and maximum yoy inflation over t+12 | 6 |
| Pass-through into CPI = (D - C - B )/A*100 | 90.6 |

1/ t = July 2001 (month when the rufiyaa/US$ exchange rate was devalued).

**The dynamics of exchange rate pass through, as derived from a separate VAR estimation are consistent with results derived in the nonparametric estimation.** Pass through of exchange rate peaks in the third quarter for both the producer price index and the consumer price index, with stronger initial impact on CPI. The response of the import price, CPI and PPI to shocks to nominal effective exchange rate were consistent with theoretical expectations. Variance decomposition results indicate that the output gap and commodity price shocks are also key factors in explaining variations in PPI and CPI during the period.

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**Appendix 3. Maldives: Implementation of Past Fund Advice**

| Advice from the 2009 Article IV Discussions | Implementation |
| --- | --- |
| Reduce the central government wage bill through a combination of salary adjustment and staff retrenchment. | The Civil Service Commission (CSC) implemented a reduction in civil service wages as recommended, effective October 1, 2009. However, the government has decided to restore wages to their September 2009 levels starting January 2011. There is also a risk that the courts will order a restoration retroactive to January 2010. Little or no progress has been made on staff retrenchment. |
| Reform electricity subsidies to improve targeting. | Electricity tariffs were raised, effective November 1, 2009, and tariff adjustments are now made in line with a cost-based formula linked to fuel prices. The previous universal subisidy was replaced with a more targeted mechanisms, but the authirities are working on improving the targeting. |
| Implement tax revenue measures. | The tourism goods and services tax (T-GST) was passed in August 2010 at a rate of 3½ percent, and came into effect in January 2011. The business profit tax (BPT) was passed in December 2010 and will enter into effect from July 2011. The implementation of the general goods and services tax (G-GST) has been delayed to allow more time to build capacity, in line with Fund technical assistance. |
| Improve public financial management. | Important steps have been taken, such as the establishment of a treasury single account and the implementation of the basic functionalities of the public accounts system. The authorities need to expedite completion of the PEFA assessment recommendations, including on budget execution and expenditure control; migrating foreign-financed expenditure data to the public accounts system; moving to medium-term budgeting; and adopting a fiscal responsibility framework. |
| Pass the Banking Act and reform the MMA Act. | The Banking Act was enacted in November 2010. The proposed reforms to the MMA Act are currently in the Majlis. |
| Strengthen the prudential framework. | The MMA has reached agreement with banks on full compliance by end-2011 with the regulations on single borrower limits, asset classification and provisioning, and foreign currency exposure limits. All other prudential regulations are already fully complied with. |

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INTERNATIONAL MONETARY FUND

MALDIVES

# Staff Report for the 2010 Article IV Consultation

## Informational Annex

Prepared by the Asia and Pacific Department
(in consultation with other departments)

January 24, 2011

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## ANNEX I. MALDIVES: FUND RELATIONS

(As of December 31, 2010)

**I. Membership Status:** Joined January 13, 1978; Article XIV

| **II. General Resources Account:** | **SDR Million** | **%Quota** |
|---|---|---|
| Quota | 8.20 | 100.00 |
| Fund holdings of currency | 14.85 | 181.05 |
| Reserve Tranche Position | 1.55 | 18.95 |

| **III. SDR Department:** | **SDR Million** | **%Allocation** |
|---|---|---|
| Net cumulative allocation | 7.69 | 100.00 |
| Holdings | 7.63 | 99.17 |

| **IV. Outstanding Purchases and Loans:** | **SDR Million** | **%Quota** |
|---|---|---|
| Stand-By Arrangement | 8.20 | 100.00 |
| ESF Arrangements | 2.05 | 2.500 |

**V. Latest Financial Arrangements:**

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| Stand-By | Dec 04, 2009 | Dec 03, 2012 | 49.20 | 8.20 |
| ESF | Dec 04, 2009 | Dec 03, 2011 | 8.20 | 2.05 |

**VI. Projected Payments to Fund**
**(SDR Million; based on existing use of resources and present holdings of SDRs):**

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Principal | | | 3.59 | 4.10 | 0.82 |
| Charges/Interest | 0.11 | 0.11 | 0.10 | 0.05 | 0.01 |
| **Total** | 0.11 | 0.11 | 3.69 | 4.15 | 0.83 |

**VII. Exchange Arrangements**

From March 1, 1982 to June 30, 1985, the Maldivian rufiyaa was pegged to the U.S. dollar. Beginning in July 1985, the exchange rate of the rufiyaa was linked to a trade-weighted basket of currencies, but the exchange rate vis-à-vis the U.S. dollar remained relatively stable until February 1987. On March 1, 1987, the rufiyaa was devalued by 29 percent vis-à-vis the

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U.S. dollar. From 1987 to 1994, the exchange rate of the rufiyaa was adjusted periodically. Since October 1994, the exchange rate of the rufiyaa remained unchanged at Rf 11.77 per U.S. dollar, until July 25, 2001, when the rufiyaa was devalued to Rf 12.80 per U.S. dollar. Maldives continues to avail itself of the transitional provisions of Article XIV, and has not yet accepted the obligations of Article VIII, Sections 2, 3, and 4. It maintains an exchange restriction subject to Fund approval under Article VIII, Sections 2(a) of the Fund's Articles of Agreement, arising from the MMA's policy of rationing its supply of foreign exchange to commercial banks. This rationing by a governmental agency has caused the channeling of foreign exchange transactions for current international transactions to the parallel market where transactions take place at an exchange rate that deviates by more than 2 percent from the official exchange rate. The more than 2 percent exchange rate spread gives rise to a multiple currency practice subject to Fund approval under Article VIII, Section 3 and also to an exchange restriction given the additional cost involved for obtaining foreign exchange.

## VIII. Last Article IV Consultation

The 2009 Article IV consultation was concluded by the Executive Board on December 4, 2009.

## IX. Technical Assistance

**FAD**: In May 2007, a mission conducted a diagnostic review of tax and tariff policy and administration. In October 2008 and April 2009, a series of PFM missions provided peripatetic support for the design and implementation of a new government integrated financial management information system (GIFMIS). A joint mission with the World Bank visited Male in April-May 2009 to complete a PEFA assessment. A TA mission on tax Administration and tax policy took place in September 2010. The mission focused on existing and planned tax administration reforms and the extent of preparedness for new tax regimes. In October, a Cash Management and Fiscal Reporting TA mission overlapped with Article IV mission. The mission focused on budgetary management and fiscal accounting and reporting.

**LEG**: In October 2003, Mr. Head provided assistance on the revision of the Maldives Monetary Authority Act (MMA Act). A series of missions (March and September 2005, and April 2006) were provided to revamp the banking law. In August 2009, a mission provided assistance on the MMA Act (jointly with MCM). An AML/CFT assessment mission took place in October, 2010. A follow up mission planned for February 2011 will focus on Payments Law.

**MCM**: Two missions visited in 2006 on monetary operations, financial market development, and banking issues. In 2007, a series of mission were provided on debt management, monetary policy and financial supervision. In 2008, three missions visited on monetary operations and liquidity management, monetary policy and financial supervision issues. In November 2008 and March/May/August 2009 a series of mission were provided on research

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capacity building, bank supervision, monetary policy and the MMA act. Two missions visited Male to advise on monetary operations and the development of a Crisis Management Framework and Liquidity Management. In December 2010, MCM conducted a TA mission on crisis preparedness and management, bank restructuring, and monetary operations.

**STA**: In November 2005, TA was given on monetary and banking issues. In April 2006, STA provided advice on government finance statistics. In January 2007, STA provided advice on balance of payments statistics. In May 2007, STA conducted a mission on Money and Banking Statistics.

## X. Safeguards Assessment

A safeguards assessment of MMA was concluded 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.

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## ANNEX II. MALDIVES: JOINT MANAGEMENT ACTION PLAN[1]

(As of October 2010)

**World Bank** **International Monetary Fund**

The current framework for the Bank's involvement in Maldives is the Country Assistance Strategy (2008) and confirmed in the CAS progress report (2010). The strategy is built around three pillars of economic governance and investment, human development and social protection, and environmental management. The bank's lending programs, including from IDA and IFC, as well as advisory and analytical services, support the overall thrust of the strategy. The Bank has disbursed the first tranche of a programmatic series of development policy lending operation.

A blended arrangement of SBA and ESF approved by the Executive Board in December 2009 is the framework for Fund's engagement with Maldives. Following shocks from the global crisis, exacerbated by an expansionary fiscal stance, Fund financial assistance enabled Maldives to finance the shocks, while committing to a fiscal consolidation program over the medium term. The core of the policy framework is a strong fiscal adjustment to contain aggregate demand and put public finances back on a sustainable path in the medium-term, complemented by monetary tightening and measures to strengthen the banking sector. Two tranches have been disbursed under the arrangement, but the program is on hold, pending completion of the second review program targets.

The teams have been and will continue to have joint missions and regular briefing meetings on macroeconomic developments to support the release of subsequent tranches of each institution's lending operations. Public financial management is a key area of collaboration for these operations as is utility pricing and social protection, where the Bank is taking the lead on a Poverty and Social Impact Analysis of the electricity tariff increases required under the IMF program. This work is also informing the Bank's ongoing work program supporting the development of a universal cash transfer program in the country.

The teams continue to coordinate their nonprogram work. This year the teams will continue follow-up activities to the joint PEFA exercise undertaken in 2009. The Bank is taking the lead in the area of public debt management, while the IMF team will focus on tax issues (e.g. support for implementation of a Goods and Services Tax). The Fund team will also support the authorities in the drafting of a Fiscal Responsibility Law. The teams are planning a joint mission in the second quarter of FY11 to provide technical assistance in the area of debt and cash management. The Bank will continue to support implementation of a credible medium-term expenditure framework (MTEF). Part of the Bank's work program in this area will include providing technical assistance and undertaking analytic work in the area of public sector reform. The Fund also plans to undertake analytical work on exchange rate and vulnerability issues. The Appendix details the macro-critical activities that the Bank and Fund will work on over the coming year.

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[1] Prepared jointly by Fund and World Bank staff.

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**Appendix. Maldives IMF-World Bank Joint Management Action Plan 2010–2011**

| Title | Products/Activity | Expected Date of Delivery |
|---|---|---|
| | **I. Mutual Information on Relevant Work Program** | |
| Bank Work Program in the next 12 months | **A. Strategy and Analytical Work** | |
| | ROSC (Corporate Governance) | |
| | Support to Donor pledging forum. | (TBD) |
| | Support to Tourism | |
| | Review Costing of HIV/AIDs Strategic Action Plan | |
| | Education and Skills Training Policy Notes | |
| | Tourism industry's efforts to put in clean energy measures | |
| | **B. Lending Program** | |
| | Economic Stabilization & Recovery Credit | FY2010 |
| | (Development Policy Credit). Primary focus on: public financial management, public service reform, and public enterprise reform. | |
| | Economic Stabilization & Recovery Credit | |
| | Focus on social protection | |
| | Climate Change Trust Fund (EU) | |
| | E S W and carbon financing for energy sector initiatives | |
| | **C. Ongoing and New Projects** | FY2010 |
| | Support for MMA on financial sector strategy; laws and regulations relating to financial sector. | |
| | Leasing sector | |
| | Setting up a credit bureau | |
| | Access to finance and SME linkages | |
| | Bar and judiciary. | |
| | Scoping study of local tourism industry linkages with poultry industry | |
| Fund Work Program in the next 12 months | **A. Missions** | |
| | Article IV consultation | Nov-10 |
| | Program review missions | Nov-10, Mar-11, Jun-11, Sep-11 |

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**Appendix. Maldives IMF-World Bank Joint Management Action Plan 2010-2011**

| | | |
|---|---|---|
| | **B. Analytical Work** | |
| | The pass through of exchange rate changes to prices in Maldives | Oct-10 |
| | **C. Technical Assistance** | |
| | **Fiscal issues** | |
| | Cash management TA | Mar-11 |
| | Public finance management | |
| | **Monetary operations** | |
| | Development of secondary market for T-bills | FY2010 |
| | TA on payment system reform | |
| | **II. Request for Work Program Inputs (as needed)** | |
| Fund Request to Bank | Poverty and social impact analysis of the electricity tariff increases | FY2010 |
| | **III. Agreement on Joint Products** | |
| Joint Products | Debt sustainability analysis | Dec-10<br>Pending |

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## ANNEX III. MALDIVES: RELATIONS WITH THE ASIAN DEVELOPMENT BANK[1]

(As of 31 December 2010)

### Asian Development Bank's Strategy

The Maldives Country Partnership Strategy (CPS) 2007–2011 was endorsed by the Board of Directors of the Asian Development Bank (AsDB) in October 2007. The CPS explicitly recognized that capacity gaps (weak institutions and human resource deficiencies) have become binding constraints to realizing national goals and objectives and thus need to be addressed urgently. The CPS therefore defined a sequenced approach to providing AsDB support to the Maldives. In the first phase of the CPS period, AsDB will concentrate on providing much-needed capacity-development assistance with the objective of helping the Government build institutional capacity to efficiently manage public expenditures and improve the enabling environment for private sector development. AsDB will move to its second phase assistance to resume investment lending in the identified CPS priority sectors of Energy, Transport and Small and Medium Enterprises (SME) Development when its readiness criteria are secured.

For this purpose, capacity building support has been provided to strengthen economic and financial management, as well as structuring public-private partnerships, including improving the enabling environment for small and medium-scale private enterprises. Ongoing technical assistance (TA) loan and TA grant are enhancing the Government's capacity to accomplish the policy and institutional reforms supported by the Economic Recovery Program.

### Economic Recovery Program Loan

The AsDB Board of Directors approved the Economic Recovery Program (ERP) in December 2009 to support recovery and sustainable growth of the economy over the medium term. ERP became effective on 8 June 2010. The ERP will support specific reform initiatives, including (i) rationalizing, prioritizing, and aligning public spending with available resources; (ii) broadening the tax base; (iii) reducing economic subsidies; (iv) supporting privatization of state-owned enterprises (SOEs); (v) strengthening internal audit functions; and (vi) changing the role of the Government in the economy from a provider of all services to an enabler of sustainable and equitable growth. The first tranche of $16.6 million was disbursed on 25 June 2010. The second tranche disbursement of approximately $16.2 million is planned by June 2011, subject to full compliance with the second tranche release actions as specified in the ERP policy matrix.

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[1] Prepared by Asian Development Bank staff.

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TA loan ($1.5 million) and TA grant ($3.0 million) attached to the ERP are enhancing the Government's capacity to accomplish the policy and institutional reforms supported by the Program. It includes (i) strengthening administration of new taxes introduced under the Program; (ii) developing capacity of the Government for implementing new revenue measures, debt management, budget formulation, and expenditure rationalization; (iii) strengthening the Ministry of Finance and Treasury's internal audit unit; and (iv) providing support for the apex Project Management Unit and two Thematic Project Management Units, and (iv) capacity development of the Privatization Committee and Invest Maldives to expedite ongoing privatization of SOEs.

**Loans and Grants**

Since 1981, AsDB has provided 20 loan and grant for public sector projects with total approved amount of $160.8 million.

As of 30 November 2010, seven loans were active with a net loan/grant amount of $78.7 million (Table 1) comprising of two projects in public sector management amounting to $34.3 million (43.6 percent), one for multisector for $20.0 million (25.4 percent), one for industry and trade sector for $7.0 million (8.9 percent), one for education sector for $6.0 million (7.6 percent), one for water and other municipal infrastructure and services sector for $6.0 million (7.6 percent) and one for transport and ICT sector for $5.4 million (6.9 percent).

Contract awards in 2010 totalled $20.7 million as of 30 November 2010, bringing the cumulative figure to $53.8 million. Of the 2010 contract awards, $16.6 million (79.9 percent) went for the Economic Recovery Program Loan, followed by $2.1 million (10.1 percent) for the Private Sector Development Project and by $0.7 million for the Employment Skills Training Project. Disbursements in 2010 totalled $25.1 million as of 30 November 2010, bringing cumulative disbursements to $47.0 million. The disbursement ratio was 42.82 percent.

AsDB's Private Sector Operation has approved cumulatively 2 projects amounting to $16.5 million. The amount includes both direct loans and an equity investment.

**Technical Assistance**

As of 31 December 2010, AsDB had approved 58 technical assistance (TA) projects for a total amount of $ 23.12 million of which 17 had been project preparatory and 41 had been advisory TAs addressing institutional strengthening and capacity development.

In terms of TA amount, assistance is largest for public sector management at 52.5 percent for 22 projects, followed by transport and ICT sector at 13.2 percent for 12 projects, industry and trade sector at 8.4 percent for 3 projects, education sector at 8.3 percent for 6 projects, energy sector at 5.9 percent for 6 projects, agriculture and natural resources sector at 4.9 percent for

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3 projects, finance sector at 4.0 percent for 4 projects, water and other municipal infrastructure and services sector and multisector at 2.7 percent for 2 projects.

There are 3 TAs in the active portfolio with a total amount of $ 4.05 million (Table 2). Two of these are advisory technical assistance projects and another one is project preparatory.

**Table 1: Public Sector Loans and Grants Portfolio**

| Loan/ Grant No. | Project Name | Net Amount ($ million) |
|---|---|---|
| 2028 | Employment Skills Training Project | 6.0 |
| 0001 | Tsunami Emergency Assistance Project (Grant) | 20.0 |
| 2170 | Regional Development Project, Phase II | 6.0 |
| 2327 | Domestic Maritime Transport Project | 5.4 |
| 2427 | Private Sector Development Project(TA Loan) | 7.0 |
| 2597 | Economic Recovery Program | 32.9 |
| 2598 | Capacity Development for Economic Recovery Project | 1.4 |

**Table 2: TA Portfolio**

| TA No. | Project Name | Net Amount ($ million) |
|---|---|---|
| 4879 | Restructuring and Privatization | 0.40 |
| 7424 | Institutional Strengthening for Economic Management | 3.00 |
| 7672 | Small & Medium Enterprise Development | 0.65 |

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## ANNEX IV. MALDIVES—STATISTICAL ISSUES
(As of January 7, 2011)

| I. Assessment of Data Adequacy for Surveillance |
| --- |
| **General:** Data provision has some shortcomings, but is broadly adequate for surveillance. Macroeconomic statistics have improved in recent years, with technical assistance from STA and the Asian Development Bank (AsDB). Remaining shortcomings affect the balance of payments, government finance, and national accounts statistics. The main official statistical publication is the *Statistical Yearbook of Maldives*, which contains data series up to 2004. APD receives a monthly electronic statistical report, covering a broad range of economic and financial statistics. It also receives, albeit with a lag, the *Quarterly Economic Bulletin* (*QEB*) and the *Annual Report*(*AR*) of the Maldives Monetary Authority (MMA). |
| **Real sector:** National accounts statistics are available only on an annual basis and with a considerable lag; while GDP estimates are made using both the production and expenditure approaches, these estimates are inconsistent. Furthermore, the base year for constant price estimates is 1995, so that recent changes in the structure of the economy are not reflected by the base period weights. The AsDB is assisting the authorities in setting up a framework for compiling more comprehensive national accounts. Also, the authorities have been working, with the assistance of an external consultant, on rebasing the national accounts. The rebased series are expected to be published in January 2011.<br><br>Recently, the CPI has been rebased to June 2004=100, with assistance from the AsDB. Weights are based on the household income and expenditure survey that was conducted between September 2002 and June 2003 and adjusted for price changes up to June 2004. |
| **Fiscal sector:** General government data are reported for publication in the *GFS Yearbook and the latest published data are for 2009.* Monthly data on revenue and expenditure are available, but the reporting system is new, and its reliability is as yet untested. **In pa**rticular, the consistency of these data with below-the-line financing numbers provided by the monetary authorities is weak. Data on external debt are subject to reconciliation with creditors. Data on the operations of state enterprises are limited. |
| **Monetary sector:** APD receives a weekly electronic report on monetary statistics, covering the balance sheets of the MMA and the commercial banks. Current summary data are published in the MMA's *Monthly Statistics* publication as well as in its *QEB* and *AR,* but with a significant lag. There are inconsistencies between monetary and fiscal data regarding the financing of the fiscal deficit due to issues of timing and coverage. An April 2007 STA monetary and financial statistics mission completed the standardized report forms for the central bank and other depository corporations, and developed an integrated monetary database that meets the needs of the MMA, STA, and APD. It became operational in 2010. It |

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is expected that a new call report form to obtain balance-sheet data for other financial corporations will be introduced with the assistance of a follow-up mission.

**External sector:** The MMA compiles balance of payments data on an annual basis. There are problems of coverage and measurement in a range of areas. Travel credits (receipts) are still estimated on the basis of a small, outdated, survey of resorts/hotels. Coverage of foreign direct investment firms is limited, leading to underreporting. Estimates of distributed and reinvested earnings of direct investment enterprises in the tourism sector remain unsatisfactory, and information on private financial flows is incomplete. Data on the international investment position are incomplete as private sector data are not available. Quarterly data on external debt and debt service are available for the government and the monetary authority, and to some extent for the banking sector and state enterprises at the time of the annual consultation missions, but no data are reported for the nonfinancial private sector. A STA technical assistance mission in January 2007 proposed steps to improve data on direct investment, travel receipts, and a range of other specific items.

Official reserves assets are reported weekly with a (variable) one-week lag. Predetermined foreign currency outflows (mainly debt service payments) are known and reported to APD at the time of annual Article IV consultation missions, while other movements of foreign currency assets are not identified.

**II. Data Standards and Quality**

| Maldives does not participate in the General Data Dissemination System (GDDS). | No data ROSC available. |
|---|---|

**III. Reporting to STA (Optional)**

The authorities report macroeconomic data to the Fund on a regular and generally timely basis for publication in the *IFS*, *BOPSY*, *and GFSY*.

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## Maldives: Table of Common Indicators Required for Surveillance
(As of January 7, 2011)

| | Date of latest observation | Date received | Frequency of Data[7] | Frequency of Reporting[7] | Frequency of publication[7] |
|---|---|---|---|---|---|
| Exchange Rates | 12/30/2010 | 1/06/2011 | W | W | M |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | 12/30/2010 | 1/06/2011 | W | W | M |
| Reserve/Base Money | 12/30/2010 | 1/06/2011 | W | W | M |
| Broad Money | 12/23/2010 | 12/28/2010 | W | W | M |
| Central Bank Balance Sheet | 12/30/2010 | 1/06/2011 | W | W | M |
| Consolidated Balance Sheet of the Banking System | 12/23/2010 | 12/28/2010 | W | W | M |
| Interest Rates[2] | 11/30/2010 | 1/04/2011 | M | M | M |
| Consumer Price Index | 10/31/10 | 1/04/2011 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4] | 2009 | 10/26/2010 | A | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government | 2009 | 10/26/2010 | A | M | M |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 2009 | 10/26/2010 | A | M | M |
| External Current Account Balance | 2009 | 10/26/2010 | A | M | M |
| Exports and Imports of Goods and Services | 11/30/2010 | 1/04/2011 | M | M | M |
| GDP/GNP | 2009 | 12/06/2010 | A | M | M |
| Gross External Debt | 2009 | 1/04/2011 | A | M | M |
| International investment Position[6] | 2009 | 10/26/2010 | A | A | A |

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

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INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

MALDIVES

# Joint IMF/World Bank Debt Sustainability Analysis Under the Debt Sustainability Framework for Low Income Countries[1]

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

Approved by Vivek Arora and James Roaf (IMF)
and Jeffrey D. Lewis and Ernesto May (IDA)

January 24, 2011

*Under the baseline scenario, reflecting current policies, public debt is expected to rise steadily, reaching a present value of 306 percent of GDP by 2030.*[2] *While privatization proceeds have provided some temporary financing relief, the debt path is unsustainable. As a result, Maldives' risk of public external debt distress has increased from moderate to high since the 2009 debt sustainability analysis (DSA).*[3] *Key risks are shocks to exports and additional fiscal policy slippages. The continuing need for financing the large current account deficit will put further pressure on the total debt burden, including private external debt. The DSA illustrates that current policies would lead to extremely large domestic and external financing requirements that cannot realistically be met, and therefore calls for additional fiscal consolidation measures in the near term.*[4]

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[1] This DSA was prepared jointly by the staffs of the IMF and the World Bank. The debt data underlying this exercise were provided by the Maldivian authorities. The fiscal year for Maldives is January–December.

[2] The baseline in this DSA depicts the outcome of the current policy stance on debt sustainability, and clearly illustrates the need for additional fiscal consolidation measures in Maldives. While the standard approach is to reflect such adjustment in the baseline scenario, the timing, nature and scope of the inevitable additional fiscal adjustment is difficult to predict at this stage, and it is therefore shown in an illustrative alternative scenario (which reflects the impact of minimum adjustment policies on the debt trajectory).

[3] 2009 Joint IMF/World Bank Debt Sustainability Analysis under the Debt Sustainability Framework for Low Income Countries (IMF Country Report No. 10/28; IDA/SecM2010-0020).

[4] Maldives is classified a "medium performer" in terms of policies and institutions by the World Bank's Country Policy and Institutional Assessment (CPIA), averaging 3.45 over 2007–2009. The relevant indicative thresholds for medium performers are: 40 percent for the present value (PV) of the debt-to-GDP ratio, 150 percent for the PV of the debt-to-exports ratio, 250 percent for the PV of the debt-to-revenue ratio, 20 percent for the debt service-to-exports ratio, and 30 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed (PPG) external debt only (not to total PPG debt).

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## I. Recent Debt Developments

1. **Total public debt has increased rapidly since the 2004 tsunami, from 55 percent of GDP in 2004 to an estimated 89 percent of GDP in 2010** (Figure 1 and Table 1)**.**[5] The increase has been driven by an expansionary fiscal policy in the aftermath of the tsunami (public expenditure rose from Rf 3.5 billion in 2004 to Rf 10.9 billion in 2009) combined, more recently, with a global crisis-induced shortfall in fiscal revenue (from Rf 7.4 billion in 2008 to Rf 6.1 billion in 2009).

- After the tsunami, public external debt rose in dollar terms (although it has not really increased as a share of GDP) as donor funds flowed into the country for reconstruction needs. As tsunami-related flows waned, and with external financing limited as a result of the global crisis, the build-up in public external debt in 2009–10 was less dramatic. Maldives received financial assistance from India totaling US$200 million over that period. Recently, the government contracted a non-concessional $74 million loan from China, followed by concessional borrowing from the Saudi Fund of $8 million. The authorities expect additional non-concessional external borrowing through end-2013.[6]

- A ballooning fiscal deficit since 2008, coupled with the fall in external financing, led to a rapid accumulation of public domestic debt over the last three years. In 2008 and the first half of 2009, most domestic financing for the deficit came from the Maldives Monetary Authority (MMA). The debt with the MMA came to represent 46 percent of the central government's domestic debt in 2009. However, deficit monetization was halted in September 2009 and has since been replaced by sales of T-bills and bonds, mainly to commercial banks, while the outstanding debt stock with the MMA was converted into negotiable bonds.

[5] Public debt refers here to central government debt and central government guaranteed debt. The government has granted guarantees to state-owned enterprises (SOEs). Non-guaranteed SOE debt is excluded, in line with the program's definition of public debt. There is significant uncertainty surrounding the measurement of the PPG debt stock, and in particular over government-guaranteed debt held by SOEs. A revision of this led to a reduction of the 2009 public debt stock by about 8 percent of GDP. However, a historical series for this component of debt is not available and therefore the data for previous years may be overestimated.

[6] Consideration is being given to a currency swap or trade finance deal of $100 million with Sri Lanka to boost international reserves, as well loans from other sources for infrastructure and development projects.

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**Table 1. Maldives: Total Public and Publicly Guaranteed (PPG) Debt by Creditor**
(In percent of GDP)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| | | | | | | Est. | Proj. |
| Total PPG debt | 55.2 | 64.9 | 62.9 | 66.3 | 68.6 | 85.6 | 88.7 |
| PPG external | 40.1 | 41.3 | 39.6 | 39.8 | 37.4 | 41.8 | 41.8 |
| Multilateral | 23.5 | 24.2 | 24.8 | 25.8 | 22.5 | 23.7 | 23.7 |
| Bilateral | 3.9 | 5.2 | 4.8 | 4.3 | 4.7 | 7.5 | 7.5 |
| Private creditor | 12.8 | 11.9 | 10.0 | 9.7 | 10.2 | 10.6 | 10.7 |
| PPG domestic | 15.1 | 23.6 | 23.4 | 26.4 | 31.2 | 43.9 | 46.9 |
| MMA | 8.4 | 13.3 | 8.3 | 6.7 | 16.4 | 20.3 | 14.5 |
| Commercial banks | 2.6 | 5.1 | 7.7 | 11.6 | 13.5 | 21.5 | 26.4 |
| Others | 4.0 | 5.2 | 7.4 | 8.1 | 1.4 | 2.0 | 5.9 |
| Total PPG debt service | 7.9 | 7.1 | 7.3 | 7.3 | 10.9 | 10.9 | 13.1 |

Source: Maldivian authorities, and staff estimates and projections.

2. **The stock of private external debt has also been increasing rapidly over the last six years** (Figure 1)**.**[7] Private external debt is estimated to be almost 43 percent of GDP in 2010, a small increase over 2008 as financing for resort development dried up in 2009 and did not fully recover in 2010. About a third of the stock is short-term. The magnitude and maturity structure of private external debt raises liquidity concerns. A mitigating factor, however, is that much of this debt is likely owed to resort head offices (although the data on this is not available), which would reduce the risk of sudden stops of external financing.

3. **Taken together, private external debt and total public debt are estimated at about 132 percent of GDP.** Of this, external debt (PPG and private) accounts for 85 percent of GDP, and has risen to represent about 150 percent of goods and services exports in 2010 (Table 2). By end-2010, gross reserves were sufficient to cover short-term debt, but reserves have been on an underlying downward trend, and have been only boosted temporarily by external financing injections, including $74 million in November 2010 from the privatization of the Male airport. Total PPG debt, in turn, has risen to 2.5 times total central government revenue, from under 1.2 times three years ago (Table 2). The DSA below documents in more detail the nature of public and external debt vulnerabilities.

[7] There is, as in the case of the PPG debt stock, considerable uncertainty in the measurement of private external debt. A reclassification of external flows to the private sector yielded larger debt-creating flows for 2009, but the historical stock is yet to be revised and may be underestimated.

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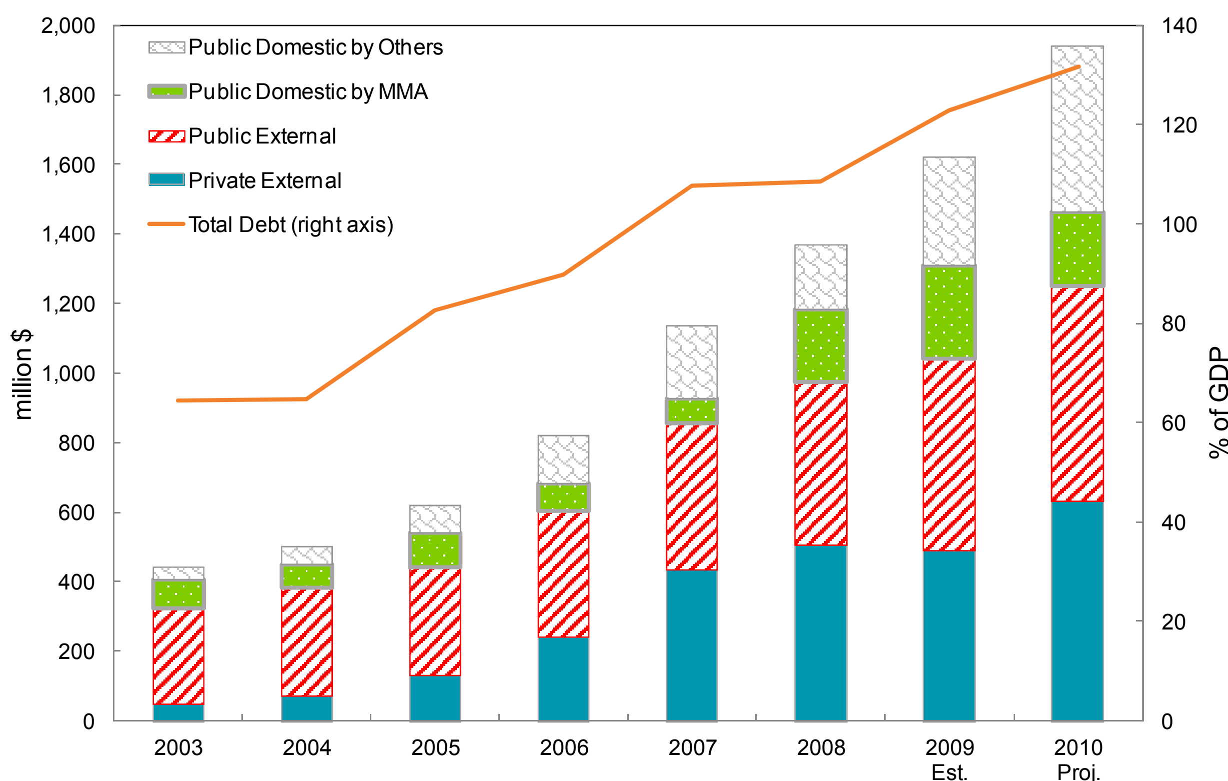
**Table 2. Maldives: Selected Vulnerability Indicators, 2007-10**
**(In millions of US$)**

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Total external debt (PPG + private) in percent of GNFS domestic exports 1/ | 113.3 | 115.2 | 141.3 | 149.6 |
| Total external debt (PPG + private) in percent of Total Revenue 2/ | 145.7 | 168.5 | 219.9 | 239.3 |
| Total short-term external debt (PPG + private) in percent of gross reserves | 60.8 | 89.9 | 69.2 | 63.2 |
| Total PPG debt in percent of GNFS domestic exports | 92.3 | 102.1 | 153.4 | 156.2 |
| Total PPG debt in percent of total revenue | 118.7 | 149.2 | 238.8 | 249.9 |

1/ GNFS = Goods and nonfactor services.
2/ total revenue includes grants.
Source: Maldivian authorities, and staff estimates and projections.

**Figure1. Maldives: Composition of Total Debt**




Source: Maldivian authorities, and staff estimates and projections.

## II. Context and Macroeconomic Assumptions

4. **Maldives continues to face severe fiscal and external imbalances.** The global economic downturn in 2008–09 had a significant negative impact on exports and tourism receipts, external financing, and government revenue. Combined with excessive government spending, this led to an unsustainable fiscal deficit. In the second half of 2009, the authorities put together a comprehensive adjustment program, supported by Fund and Bank resources.

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Despite some decisive initial actions under the program, including cuts in central government nominal wages, cessation of deficit monetization and introduction of active open market operations to tighten liquidity, as well as increases in electricity tariffs, significant policy slippages have undermined the restoration of sustainability (see discussion in the accompanying Article IV staff report). As a result, the fiscal and current account deficits continue to be very large, and dollar shortages remain.

5. **The baseline scenario in this DSA is built on current policies,** including the authorities' current tax reforms plans as well as the slippages observed since the 2009 DSA. These policies imply that the fiscal deficit will stay high in 2011–13 and will rise steadily thereafter (see Box 1 for more details on fiscal and other assumptions).

6. **The baseline scenario clearly illustrates that the current stance of fiscal policies is unsustainable.** These policies would lead to financing needs over the long run that cannot plausibly be met by donors or supported by domestic or international markets, particularly considering the deteriorating debt dynamics, and public debt service would absorb an increasing and unrealistically large share of government revenues (76 percent by 2030). Moreover, in addition to the large external debt, under the baseline scenario gross reserves would be depleted by 2013 and become very large and negative thereafter, implying an external financing gap (which is not reflected in the external debt path) that reaches 131 percent of GDP by 2030 (Box 1). The baseline scenario does not attempt to forecast developments in the future, but to assess whether current policies can be sustained in the long run given reasonable assumptions.

7. **This scenario differs significantly from the baseline scenario in the 2009 DSA**, which was predicated on the strong medium-term fiscal consolidation expected under the program. This led to a moderate rating for the risk of external public debt distress in the 2009 DSA. However, a difficult political environment at all levels has prevented the authorities from carrying out the plans for reducing the wage bill as expected under the program: there has been no progress on public sector employment restructuring, and the wage cuts undertaken in September 2009 will be reversed much earlier than expected. There have also been delays in the entry into effect of key taxes. All of this has left the fiscal deficit on an unsustainable path. Other macroeconomic assumptions for key variables have largely been as expected (in fact, the growth outlook is now somewhat better than at the time of the 2009 DSA), but the much worse medium- and long-term fiscal deficit path is the overarching factor driving the differences between the current and the previous DSA.

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**Box 1: Main Assumptions for the Debt Sustainability Analysis (2010–2030) under the Baseline Scenario**

- **Real GDP growth** in 2010–15 is projected to average around 4.4 percent a year compared with an average of 5.7 percent over the previous six years. After contracting by 2.3 percent in 2009, growth is expected to recover, as global and domestic conditions improve, aided in part by tourism growth from new markets in Asia. Resort development is expected to take place at a slower but more sustainable pace than that observed since the tsunami, and a continued decline in the fish catch is expected to hold back the fisheries sector. Growth is expected to average 4.5 percent from 2016.

- **Inflation** is projected to average around 4 percent a year in 2010–15, compared with an average of about 6 percent over the previous six years, due to a moderation in the growth rate of global commodity prices over the medium term and reflecting a tighter monetary policy. Inflation is expected to stay at 3 percent from 2016, in line with trading partners' rates.

- **Interest rates** on public debt are assumed to increase to 7.3 percent by 2016 (compared with an average of 3.4 percent over the previous six years), reflecting tighter domestic liquidity and an increase in the sovereign risk premium. They are assumed to stay at that level thereafter.

- **The external current account deficit** (including grants) is projected to average about 36.4 percent of GDP per year in 2010–15, and to rise systematically thereafter, reaching about 55 percent of GDP in 2030. The widening external imbalances reflect ballooning fiscal deficits, only partially offset by crowding out of private demand. Gross reserves are assumed to be fully depleted by 2013 under the baseline and become negative and large thereafter, implying an unmet financing gap that would reach 131 percent of GDP (cumulatively) by 2030.

- **The fiscal deficit** (including grants) is projected to decline to 17.9 percent of GDP in 2010 from 29 percent in 2009, reflecting policy adjustments and the cyclical recovery. However, despite the entry into effect of the goods and services tax (GST) on tourism from January 2011 and of the business profit tax from July 2011, and the expected entry into effect of the general GST from January 2013, the deficit would remain elevated through 2013 given high spending on current policies. Moreover, the fiscal deficit would rise slowly thereafter, reaching about 38 percent of GDP in 2030. This reflects the expiration from 2013 of resort lease period extension payments and from 2014 of the $8/bed/night tourism tax, as well as increasing interest payments from the deteriorating debt dynamics.

- As a result of widening fiscal and external imbalances, there would be an implausibly large increase in public **financing needs and debt service**. It is assumed that, through 2016, domestic financing acts as residual; from 2017, domestic borrowing is kept constant at 8 percent of GDP per year, and external financing acts as residual. New annual PPG external borrowing would average over 26 percent of GDP from 2017-2030, despite averaging only 4 percent from 1998-2009. Similarly, the domestic debt stock would double from 2010–2030. The debt service on public sector debt would rise from 18 percent of government revenues (and grants) in 2010 to 76 percent by 2030.

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## III. External Debt Sustainability[8]

**Baseline Scenario**

8. **Under the baseline scenario, the PPG external debt path is projected to worsen systematically through 2030, breaching all external debt stock burden thresholds along the way.** The present value (PV) of external debt to GDP breaches already its threshold in 2010 (Figure 2), while the ratios of debt to exports and debt to revenue would breach their respective thresholds in the future. Although the debt service ratios are rising, they would remain below their thresholds. The absence of liquidity concerns reflects in part the rescheduling of one of the India loans.[9]

**Stress Tests and Alternative Scenarios**

9. **Stress tests indicate extreme vulnerability to a combination of shocks, less favorable external financing terms, and to an export shock.** For the PV of the debt-to-GDP and debt-to-revenue ratios, the combination shock (a one standard deviation shock to growth, exports, the GDP deflator, and non-debt flows) has the largest impact in the short term (the greatest factor being the shock to export receipts), while the interest rate shock—a 2 percentage points increase in the interest rate on new borrowing, relative to the baseline—has the largest impact on long-term debt ratios. For the debt-to-exports and debt service-to-exports ratios, the export shock (export value growth at historical average minus one standard deviation in 2011–2012) yields the most extreme impact. For the debt service-to-revenue ratio, the most extreme stress test is the combination shock. The stress tests highlight the vulnerability of the debt dynamics to shocks to tourism receipts (which account for the bulk of exports) and to external financing costs, which are of course sensitive to expectations about the fiscal path.

10. **Debt dynamics are somewhat more benign under the historical scenario.** When key macroeconomic variables are set to their historical averages, the PV of external PPG debt-to-GDP ratio breaches the threshold only in the long run, while for all other indicators the path is upward-sloping but remains well below the respective thresholds.

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[8] External debt sustainability analysis is focused on PPG external debt, to which thresholds are applicable. Private external debt is not considered for the purpose of IDA grant allocations.

[9] A credit of US$100 million was made available to the government of Maldives by the government of India in early 2009, and repayments of US$50 million in two tranches, initially expected to be made in 2010 and 2011, have been extended to 2019 and 2020. Also, the Male branch of the State Bank of India (SBI) contracted a US$100 million two-year non-concessional loan (subject to fifty percent rollover) from its parent at end 2009 and early 2010, to on-lend it to the government of Maldives in exchange for foreign currency-denominated domestic bonds. This loan is being rolled over by one year.

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11. **Private external debt may increase the risks to debt sustainability.** Private external debt accounts for over one half of the total external debt-to-GDP ratio. Much of this debt is at maturities of less than 10 years, at market interest rates, and denominated in U.S. dollars. To the extent that private external debt may increase liquidity and re-financing risks for the country as a whole, and could thereby put pressure on the exchange rate, the risks to debt sustainability could be higher than an analysis of external PPG data alone may suggest. Moreover, the private external debt stock may be underestimated: non-FDI external inflows to the non-financial private sector—which comprise mainly financing for privatization and tourism projects—were treated as non-debt creating historically. While the flows have been reclassified for 2009 into debt and non-debt creating, the historical stock is yet to be modified.

12. **In the staff's view, the risk of public external debt distress for Maldives is high on current policies (baseline scenario).** Four of the five external debt burden indicators breached the thresholds. Staff judges this to be a function of the severe fiscal and current account imbalances, in part due to exogenous shocks faced over the past years, but more recently exacerbated by the expansionary fiscal stance and insufficient fiscal adjustment measures.

13. **Under an illustrative fiscal adjustment scenario, the risk of debt distress falls significantly.** Staff's adjustment scenario is based on baseline policies, plus the following additional fiscal adjustment measures: significant public sector redundancies; a tightening of capital and operating expenditures over 2011–13; introduction by July 2011 of excises on a number of goods; and a revision to the Tourism Goods and Services Tax so that the tax rate rises to 6 percent when the tourism bed tax expires at end-2013.[10] This scenario is meant to illustrate the magnitude of adjustment that would be required as a minimum to put public debt on a downward path. Under this scenario, external debt burden indicators decline steadily under the adjustment scenario, and would only temporarily breach the PV of debt-to-GDP ratio (Figure 3). However, stress tests illustrate that the debt path would still be vulnerable to a combination shock or a shock to exports.

## IV. Public Debt Sustainability

### Baseline Scenario

14. **Total public debt is unsustainable on current policies (baseline scenario).** The PV of the public debt-to-GDP ratio is projected to increase sharply, from 88 percent in 2010 to 306 percent by 2030, owing to the steadily rising overall fiscal deficit (Table 2a). The PV of the public debt-to-revenue (including grants) ratio would rise from 248 percent in 2010 to

[10] For details, see the IMF's staff report for the 2010 Article IV Consultation with Maldives.

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794 percent by 2030. The public debt service-to-revenue ratio would increase from 19 percent in 2010 to 76 percent by 2030 (Figure 4 and Table 2a).

### Stress Tests and Alternative Scenarios

15. **Maldives' public debt is highly vulnerable to exogenous shocks under the baseline scenario.** The stress tests indicate that the debt path is particularly vulnerable to shocks to long term growth. If real GDP growth drops permanently by a one standard deviation, the debt ratio would reach 501 percent of GDP by 2030. Under the illustrative adjustment scenario (see paragraph 13), public debt would fall steadily at a slow pace. However, it would still remain vulnerable to shocks, particularly to growth shocks (Figure 5).

## V. Conclusion

16. **On current policies, Maldives' public debt would become unsustainable and the country faces a high risk of external public debt distress.** Four of the five external debt burden indicators breached the thresholds in the baseline scenario. The analysis highlights the country's vulnerability to shocks to the tourism sector (which is critical for growth), and to less favorable financing terms. This suggests the need to diversify the structure of the economy to the extent possible within the country's geographical constraints. Private external debt, which is likely to be underestimated, adds to debt vulnerabilities by increasing liquidity and refinancing risks for the country as a whole. In addition, public external debt is highly vulnerable to shocks to the primary balance. This underscores the need for further fiscal adjustment: in the absence of strong fiscal consolidation measures in the near term, both public and external debt will remain on an unsustainable trajectory, leading to financing needs over the long-run that cannot plausibly be met.

17. **Authorities' views.** The authorities are more optimistic than staff about the outlook for fiscal revenue, including the expected yield from the tourism GST and the business profit tax, and are confident that they can keep expenditure subdued. In addition, they have noted that a rebasing of national accounts, which is at a very advanced stage, will likely lead to a significant upward revision in GDP. Nonetheless, the authorities agree with staff that the current fiscal and debt trajectories are unsustainable. They have committed to further discussions with staff aimed at exploring ways to bring the fiscal deficit back to a sustainable path.

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Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Historical Average | Standard Deviation | Projections | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2010-2015 Average | 2020 | 2030 | 2016-2030 Average |
| **External debt (nominal) 1/** | **81.3** | **77.4** | **78.9** | | | **84.9** | **92.3** | **97.1** | **108.1** | **117.6** | **125.8** | | **184.8** | **324.0** | |
| o/w public and publicly guaranteed (PPG) | 39.8 | 37.4 | 41.8 | | | 41.8 | 44.9 | 46.4 | 51.2 | 54.5 | 57.1 | | 111.9 | 259.7 | |
| a. Change in external debt | 15.0 | -3.9 | 1.4 | | | 6.1 | 7.4 | 4.7 | 11.0 | 9.5 | 8.1 | | 12.5 | 16.5 | |
| b. Identified net debt-creating flows | 25.1 | 28.1 | 19.5 | | | 18.1 | 24.5 | 25.7 | 26.3 | 28.3 | 29.2 | | 29.3 | 35.0 | |
| **Non-interest current account deficit** | **37.3** | **48.9** | **29.0** | **21.9** | **16.1** | **29.7** | **33.5** | **31.6** | **31.5** | **33.0** | **33.7** | | **35.7** | **45.6** | 38.6 |
| Deficit in balance of goods and services | 33.9 | 41.3 | 23.4 | | | 23.9 | 27.8 | 23.4 | 22.1 | 23.7 | 24.4 | | 23.5 | 28.3 | |
| Exports | 83.2 | 83.4 | 62.8 | | | 64.8 | 66.6 | 68.2 | 68.9 | 69.6 | 69.9 | | 77.0 | 77.7 | |
| Imports | 117.0 | 124.7 | 86.3 | | | 88.7 | 94.4 | 91.6 | 91.0 | 93.3 | 94.3 | | 100.5 | 105.9 | |
| Net current transfers (negative = inflow) | 1.3 | 5.0 | 4.3 | 1.9 | 7.7 | 4.7 | 3.0 | 5.1 | 5.1 | 5.1 | 5.2 | | 5.5 | 5.5 | 5.5 |
| o/w official | -7.7 | -3.2 | -4.5 | | | -2.7 | -0.7 | -0.6 | -0.6 | -0.7 | -0.6 | | -0.4 | -0.4 | |
| Other current account flows (negative = net inflow) | 2.2 | 2.6 | 1.3 | | | 1.1 | 2.8 | 3.0 | 4.3 | 4.3 | 4.2 | | 6.7 | 11.9 | |
| **Net FDI (negative = inflow) 2/** | **-8.6** | **-10.7** | **-8.5** | **-6.3** | **2.7** | **-11.4** | **-10.1** | **-6.9** | **-6.2** | **-6.0** | **-6.0** | | **-6.0** | **-6.0** | -6.0 |
| **Endogenous debt dynamics 3/** | **-3.7** | **-10.1** | **-1.0** | | | **-0.2** | **1.1** | **1.1** | **1.1** | **1.3** | **1.4** | | **-0.4** | **-4.6** | |
| Contribution from nominal interest rate | 5.1 | 3.2 | 2.4 | | | 3.2 | 4.1 | 4.5 | 5.2 | 5.8 | 6.3 | | 6.8 | 8.3 | |
| Contribution from real GDP growth | -4.2 | -4.2 | 1.7 | | | -3.4 | -3.1 | -3.4 | -4.1 | -4.6 | -4.9 | | -7.2 | -12.9 | |
| Contribution from price and exchange rate changes | -4.6 | -9.1 | -5.1 | | | … | … | … | … | … | … | | … | … | |
| **Residual (a-b) 4/** | **-10.0** | **-32.0** | **-18.1** | | | **-12.0** | **-17.1** | **-21.0** | **-15.3** | **-18.8** | **-21.0** | | **-16.8** | **-18.5** | |
| o/w exceptional financing | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| PV of external debt 5/ | ... | ... | 79.3 | | | 84.1 | 89.6 | 93.1 | 102.0 | 109.6 | 115.9 | | 158.7 | 265.3 | |
| In percent of exports | ... | ... | 126.1 | | | 129.7 | 134.4 | 136.5 | 148.2 | 157.4 | 165.8 | | 206.2 | 341.6 | |
| **PV of PPG external debt** | **...** | **...** | **42.1** | | | **41.0** | **42.1** | **42.4** | **45.1** | **46.5** | **47.3** | | **85.7** | **201.0** | |
| **In percent of exports** | **...** | **...** | **67.1** | | | **63.2** | **63.2** | **62.2** | **65.5** | **66.8** | **67.6** | | **111.4** | **258.8** | |
| **In percent of government revenues** | **...** | **...** | **134.2** | | | **125.1** | **108.9** | **102.1** | **109.7** | **122.9** | **126.2** | | **224.7** | **526.9** | |
| **Debt service-to-exports ratio (in percent)** | **10.8** | **10.2** | **13.3** | | | **13.4** | **15.6** | **14.9** | **14.6** | **13.8** | **15.2** | | **11.8** | **21.3** | |
| **PPG debt service-to-exports ratio (in percent)** | **4.5** | **4.7** | **6.1** | | | **5.7** | **7.5** | **7.0** | **6.6** | **8.0** | **8.9** | | **6.3** | **16.5** | |
| **PPG debt service-to-revenue ratio (in percent)** | **7.8** | **9.2** | **12.1** | | | **11.3** | **12.9** | **11.4** | **11.0** | **14.6** | **16.7** | | **12.8** | **33.6** | |
| Total gross financing need (Millions of U.S. dollars) | 503.4 | 777.8 | 597.6 | | | 577.8 | 768.3 | 880.4 | 981.8 | 1127.3 | 1282.4 | | 1881.3 | 4927.5 | |
| Non-interest current account deficit that stabilizes debt ratio | 22.3 | 52.9 | 27.6 | | | 23.6 | 26.1 | 26.9 | 20.5 | 23.5 | 25.6 | | 23.2 | 29.1 | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 7.2 | 6.2 | -2.3 | 5.7 | 6.3 | 4.8 | 4.0 | 4.1 | 4.5 | 4.6 | 4.5 | 4.4 | 4.5 | 4.5 | 4.5 |
| GDP deflator in US dollar terms (change in percent) | 7.4 | 12.6 | 7.1 | 2.8 | 5.1 | 6.5 | 5.5 | 4.8 | 3.3 | 3.0 | 3.0 | 4.3 | 3.0 | 3.0 | 3.0 |
| Effective interest rate (percent) 6/ | 8.8 | 4.6 | 3.3 | 4.2 | 2.0 | 4.5 | 5.3 | 5.3 | 5.7 | 5.8 | 5.8 | 5.4 | 4.3 | 2.9 | 4.0 |
| Growth of exports of G&S (US dollar terms, in percent) | 12.9 | 19.9 | -21.2 | 9.2 | 24.5 | 15.1 | 12.7 | 11.6 | 9.0 | 8.9 | 8.0 | 10.9 | 7.9 | 7.8 | 8.4 |
| Growth of imports of G&S (US dollar terms, in percent) | 17.9 | 27.4 | -27.6 | 10.9 | 18.3 | 14.7 | 16.7 | 5.9 | 7.1 | 10.5 | 8.7 | 10.6 | 8.1 | 8.2 | 8.5 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | ... | ... | 28.5 | 24.7 | 22.6 | 24.6 | 24.6 | 24.6 | 25.0 | 24.6 | 24.6 | 24.6 |
| Government revenues (excluding grants, in percent of GDP) | 48.1 | 42.8 | 31.4 | | | 32.8 | 38.7 | 41.6 | 41.1 | 37.8 | 37.5 | | 38.1 | 38.1 | 38.1 |
| Aid flows (in Millions of US dollars) 8/ | 128.6 | 64.4 | 58.9 | | | 40.2 | 11.2 | 11.2 | 11.3 | 14.3 | 13.2 | | 12.7 | 26.5 | |
| o/w Grants | 81.6 | 40.4 | 58.9 | | | 40.2 | 11.2 | 11.2 | 11.3 | 14.3 | 13.2 | | 12.7 | 26.5 | |
| o/w Concessional loans | 47.1 | 24.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Grant-equivalent financing (in percent of GDP) 9/ | ... | ... | ... | | | 4.8 | 3.4 | 2.7 | 3.4 | 3.5 | 3.4 | | 6.0 | 11.0 | 7.5 |
| Grant-equivalent financing (in percent of external financing) 9/ | ... | ... | ... | | | 47.9 | 29.2 | 27.6 | 28.3 | 29.0 | 28.4 | | 25.9 | 25.3 | 25.8 |
| *Memorandum items:* | | | | | | | | | | | | | | | |
| Nominal GDP (Millions of US dollars) | 1054.4 | 1260.2 | 1318.7 | | | 1471.5 | 1613.8 | 1759.2 | 1898.7 | 2044.7 | 2200.9 | | 3179.5 | 6635.8 | |
| Nominal dollar GDP growth | 15.2 | 19.5 | 4.6 | | | 11.6 | 9.7 | 9.0 | 7.9 | 7.7 | 7.6 | 8.9 | 7.6 | 7.6 | 7.6 |
| PV of PPG external debt (in Millions of US dollars) | | | 555.8 | | | 602.8 | 679.5 | 746.8 | 856.6 | 950.9 | 1040.0 | | 2725.9 | 13338.4 | |
| (PVt-PVt-1)/GDPt-1 (in percent) | | | | | | 3.6 | **5.2** | 4.2 | **6.2** | 5.0 | 4.4 | 4.8 | **16.3** | **28.7** | **19.4** |
| Gross remittances (Millions of US dollars) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| PV of PPG external debt (in percent of GDP + remittances) | ... | ... | 42.1 | | | 41.0 | 42.1 | 42.4 | 45.1 | 46.5 | 47.3 | | 85.7 | 201.0 | |
| PV of PPG external debt (in percent of exports + remittances) | ... | ... | 67.1 | | | 63.2 | 63.2 | 62.2 | 65.5 | 66.8 | 67.6 | | 111.4 | 258.8 | |
| Debt service of PPG external debt (in percent of exports + remittances) | ... | ... | 6.1 | | | 5.7 | 7.5 | 7.0 | 6.6 | 8.0 | 8.9 | | 6.3 | 16.5 | |

Sources: Maldivian authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Includes other non-debt creating flows.
3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
Large residuals reflect the baseline projection of positive balance of payments' errors and omissions through 2016, in line with historical patterns. In addition, from 2013, gross international reserves are projected to be depleted and become negative, impying an external financing gap.
5/ Assumes that PV of private sector debt is equivalent to its face value.
6/ Current-year interest payments divided by previous period debt stock.
7/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
8/ Defined as grants, concessional loans, and debt relief.
9/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).



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Table 1b.Maldives: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | **2020** | 2030 |
| **PV of debt-to GDP ratio** | | | | | | | | |
| **Baseline** | 41 | 42 | 42 | 45 | 47 | 47 | **86** | 201 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. New public sector loans on less favorable terms in 2010-2030 1/ | 41 | 44 | 46 | 51 | 55 | 59 | **119** | 297 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2011-2012 | 41 | 43 | 45 | 47 | 48 | 48 | **87** | 213 |
| B2. Export value growth at historical average minus one standard deviation in 2011-2012 2/ | 41 | 55 | 77 | 77 | 76 | 75 | **100** | 200 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012 | 41 | 45 | 48 | 50 | 51 | 51 | **92** | 225 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 3/ | 41 | 52 | 57 | 59 | 59 | 58 | **88** | 197 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 41 | 59 | 79 | 80 | 79 | 78 | **108** | 225 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 4/ | 41 | 58 | 58 | 60 | 61 | 61 | **111** | 272 |
| **PV of debt-to-exports ratio** | | | | | | | | |
| **Baseline** | 63 | 63 | 62 | 66 | 67 | 68 | **111** | 259 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. New public sector loans on less favorable terms in 2010-2030 1/ | 63 | 67 | 68 | 75 | 79 | 84 | **154** | 382 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2011-2012 | 63 | 62 | 61 | 63 | 63 | 63 | **103** | 251 |
| B2. Export value growth at historical average minus one standard deviation in 2011-2012 2/ | 63 | 109 | 197 | 197 | 193 | 189 | **228** | 452 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012 | 63 | 62 | 61 | 63 | 63 | 63 | **103** | 251 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 3/ | 63 | 78 | 84 | 85 | 84 | 83 | **115** | 254 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 63 | 96 | 137 | 137 | 135 | 132 | **167** | 343 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 4/ | 63 | 62 | 61 | 63 | 63 | 63 | **103** | 251 |
| **PV of debt-to-revenue ratio** | | | | | | | | |
| **Baseline** | 125 | 109 | 102 | 110 | 123 | 126 | **225** | 527 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. New public sector loans on less favorable terms in 2010-2030 1/ | 125 | 115 | 111 | 125 | 146 | 156 | **311** | 777 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2011-2012 | 125 | 112 | 109 | 115 | 127 | 128 | **227** | 558 |
| B2. Export value growth at historical average minus one standard deviation in 2011-2012 2/ | 125 | 141 | 184 | 188 | 202 | 201 | **262** | 524 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012 | 125 | 116 | 115 | 122 | 134 | 135 | **240** | 590 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 3/ | 125 | 134 | 138 | 142 | 155 | 155 | **232** | 516 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 125 | 152 | 189 | 194 | 209 | 208 | **284** | 589 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 4/ | 125 | 150 | 139 | 147 | 162 | 163 | **290** | 713 |

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Table 1b.Maldives: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030 (continued)
(In percent)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Debt service-to-exports ratio** | | | | | | | |
| **Baseline** | 6 | 7 | 7 | 7 | 8 | 9 | **6** | 17 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. New public sector loans on less favorable terms in 2010-2030 1/ | 6 | 7 | 7 | 6 | 7 | 7 | **7** | 24 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2011-2012 | 6 | 7 | 7 | 7 | 8 | 9 | **6** | 16 |
| B2. Export value growth at historical average minus one standard deviation in 2011-2012 2/ | 6 | 10 | 13 | 14 | 16 | 17 | **15** | 30 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012 | 6 | 7 | 7 | 7 | 8 | 9 | **6** | 16 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 3/ | 6 | 7 | 7 | 7 | 8 | 9 | **7** | 16 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 6 | 9 | 10 | 10 | 12 | 13 | **11** | 23 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 4/ | 6 | 7 | 7 | 7 | 8 | 9 | **6** | 16 |
| | **Debt service-to-revenue ratio** | | | | | | | |
| **Baseline** | 11 | 13 | 11 | 11 | 15 | 17 | **13** | 34 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. New public sector loans on less favorable terms in 2010-2030 1/ | 11 | 13 | 11 | 10 | 12 | 13 | **15** | 49 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2011-2012 | 11 | 13 | 12 | 12 | 16 | 18 | **13** | 35 |
| B2. Export value growth at historical average minus one standard deviation in 2011-2012 2/ | 11 | 13 | 12 | 13 | 17 | 18 | **17** | 35 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012 | 11 | 14 | 13 | 13 | 17 | 19 | **14** | 37 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 3/ | 11 | 13 | 12 | 12 | 15 | 17 | **14** | 34 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 11 | 14 | 14 | 14 | 18 | 20 | **18** | 39 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 4/ | 11 | 18 | 16 | 15 | 20 | 23 | **17** | 45 |
| *Memorandum item:* | | | | | | | | |
| Grant element assumed on residual financing (i.e., financing required above baseline) 5/ | 22 | 22 | 22 | 22 | 22 | 22 | **22** | 22 |

Sources: Maldivian authorities; and staff estimates and projections.

1/ Assumes that the interest rate on new borrowing is 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.
2/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
3/ Includes official and private transfers and FDI.
4/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
5/ Applies to all stress scenarios except for A1 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.



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Table 2a.Maldives: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Average | Standard Deviation | Estimate | Projections | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2010-15 Average | 2020 | 2030 | 2016-30 Average |
| **Public sector debt 1/** | 66.3 | 68.6 | 85.6 | | | 88.7 | 95.6 | 106.8 | 115.2 | 125.7 | 137.0 | | 207.2 | 364.9 | |
| o/w foreign-currency denominated | 39.8 | 37.4 | 45.6 | | | 47.9 | 48.6 | 48.7 | 52.2 | 54.5 | 57.1 | | 111.9 | 259.7 | |
| Change in public sector debt | 3.3 | 2.3 | 17.1 | | | 3.0 | 6.9 | 11.3 | 8.4 | 10.5 | 11.3 | | 14.1 | 17.8 | |
| Identified debt-creating flows | -3.0 | 6.0 | 23.0 | | | 2.4 | 4.0 | 9.6 | 8.6 | 11.6 | 12.1 | | 13.2 | 13.2 | |
| Primary deficit | 3.8 | 15.4 | 25.4 | 7.2 | 7.7 | 14.3 | 17.6 | 14.5 | 11.5 | 13.2 | 12.5 | 13.9 | 14.7 | 17.5 | 15.4 |
| Revenue and grants | 55.8 | 46.0 | 35.9 | | | 35.5 | 39.4 | 42.2 | 41.7 | 38.5 | 38.1 | | 38.5 | 38.5 | |
| *of which: grants* | 7.7 | 3.2 | 4.5 | | | 2.7 | 0.7 | 0.6 | 0.6 | 0.7 | 0.6 | | 0.4 | 0.4 | |
| Primary (noninterest) expenditure | 59.6 | 61.3 | 61.2 | | | 49.8 | 57.0 | 56.7 | 53.2 | 51.8 | 50.6 | | 53.2 | 56.0 | |
| Automatic debt dynamics | -6.6 | -9.1 | 0.6 | | | -5.2 | -4.0 | -3.5 | -2.7 | -1.6 | -0.5 | | -1.5 | -4.3 | |
| Contribution from interest rate/growth differential | -5.1 | -5.7 | 2.6 | | | -3.4 | -2.5 | -2.3 | -2.1 | -1.1 | 0.1 | | -0.5 | -1.8 | |
| *of which: contribution from average real interest rate* | -0.9 | -1.9 | 1.0 | | | 0.5 | 0.9 | 1.5 | 2.5 | 3.9 | 5.5 | | 7.8 | 13.1 | |
| *of which: contribution from real GDP growth* | -4.3 | -3.8 | 1.6 | | | -3.9 | -3.4 | -3.7 | -4.6 | -5.0 | -5.4 | | -8.3 | -14.9 | |
| Contribution from real exchange rate depreciation | -1.5 | -3.4 | -2.0 | | | -1.9 | -1.6 | -1.3 | -0.6 | -0.5 | -0.6 | | ... | ... | |
| Other identified debt-creating flows | -0.3 | -0.3 | -3.0 | | | -6.6 | -9.6 | -1.3 | -0.2 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Privatization receipts (negative) | -0.3 | -0.3 | -3.0 | | | -6.6 | -9.6 | -1.3 | -0.2 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Debt relief (HIPC and other) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Residual, including asset changes | 6.4 | -3.7 | -5.9 | | | 0.6 | 2.9 | 1.6 | -0.2 | -1.1 | -0.7 | | 1.0 | 4.6 | |
| **Other Sustainability Indicators** | | | | | | | | | | | | | | | |
| **PV of public sector debt** | 26.4 | 31.2 | 86.0 | | | 87.8 | 92.8 | 102.9 | 109.2 | 117.7 | 127.2 | | 181.1 | 306.2 | |
| o/w foreign-currency denominated | 0.0 | 0.0 | 45.9 | | | 47.1 | 45.8 | 44.7 | 46.2 | 46.5 | 47.3 | | 85.7 | 201.0 | |
| o/w external | ... | ... | 42.1 | | | 41.0 | 42.1 | 42.4 | 45.1 | 46.5 | 47.3 | | 85.7 | 201.0 | |
| PV of contingent liabilities (not included in public sector debt) | ... | ... | ... | | | ... | ... | ... | ... | ... | ... | | ... | ... | |
| Gross financing need 2/ | 28.6 | 42.0 | 61.9 | | | 60.2 | 68.3 | 69.2 | 76.0 | 83.6 | 92.0 | | 117.2 | 143.7 | |
| PV of public sector debt-to-revenue and grants ratio (in percent) | 47.4 | 67.9 | 239.9 | | | 247.5 | 235.7 | 243.7 | 261.6 | 305.3 | 334.1 | | 469.7 | 794.3 | |
| PV of public sector debt-to-revenue ratio (in percent) | 55.0 | 73.0 | 274.0 | | | 268.1 | 239.9 | 247.5 | 265.4 | 311.0 | 339.5 | | 474.6 | 802.6 | |
| o/w external 3/ | … | … | 134.2 | | | 125.1 | 108.9 | 102.1 | 109.7 | 122.9 | 126.2 | | 224.7 | 526.9 | |
| Debt service-to-revenue and grants ratio (in percent) 4/ | 8.0 | 9.7 | 18.6 | | | 18.7 | 20.2 | 19.5 | 20.5 | 28.1 | 35.0 | | 39.7 | 75.6 | |
| Debt service-to-revenue ratio (in percent) 4/ | 9.3 | 10.5 | 21.2 | | | 20.3 | 20.6 | 19.8 | 20.8 | 28.7 | 35.5 | | 40.1 | 76.4 | |
| Primary deficit that stabilizes the debt-to-GDP ratio | 0.5 | 13.1 | 8.3 | | | 11.2 | 10.7 | 3.2 | 3.1 | 2.8 | 1.2 | | 0.6 | -0.3 | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 7.2 | 6.2 | -2.3 | 5.7 | 6.3 | 4.8 | 4.0 | 4.1 | 4.5 | 4.6 | 4.5 | 4.4 | 4.5 | 4.5 | 4.5 |
| Average nominal interest rate on forex debt (in percent) | 2.9 | 3.6 | 2.2 | 2.6 | 0.4 | 1.7 | 1.8 | 2.0 | 2.4 | 2.6 | 2.7 | 2.2 | 1.9 | 1.8 | 2.0 |
| Average real interest rate on domestic debt (in percent) | -3.4 | -9.0 | 2.3 | 0.9 | 4.1 | 1.6 | 2.4 | 3.1 | 4.1 | 5.9 | 7.5 | 4.1 | 8.7 | 13.4 | 10.1 |
| Real exchange rate depreciation (in percent, + indicates depreciation) | -4.0 | -8.9 | -5.1 | -0.2 | 5.2 | -4.3 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Inflation rate (GDP deflator, in percent) | 7.4 | 12.6 | 7.1 | 3.6 | 4.1 | 6.5 | 5.5 | 4.8 | 3.3 | 3.0 | 3.0 | 4.3 | 3.0 | 3.0 | 3.0 |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 0.1 | 0.1 | 0.0 | 0.1 | 0.2 | -0.1 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Grant element of new external borrowing (in percent) | ... | ... | ... | … | … | 28.5 | 24.7 | 22.6 | 24.6 | 24.6 | 24.6 | 25.0 | 24.6 | 24.6 | ... |

Sources: Maldivian authorities; and staff estimates and projections.

1/ Public debt refers here to the debt of the non-finacial public sector, comprising the central government and state-owned enterprises and public guaranteed debt. Gross debt is used.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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Table 2b.Maldives: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2020 | 2030 |
| **PV of Debt-to-GDP Ratio** | | | | | | | | |
| **Baseline** | 88 | 93 | 103 | 109 | 118 | 127 | 181 | 306 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Primary balance is unchanged from 2010 | 88 | 89 | 99 | 109 | 118 | 129 | 185 | 291 |
| A2. Permanently lower GDP growth 1/ | 88 | 95 | 107 | 117 | 129 | 144 | 234 | 501 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012 | 88 | 99 | 118 | 129 | 141 | 155 | 228 | 387 |
| B2. Primary balance is at historical average minus one standard deviations in 2011-2012 | 88 | 90 | 101 | 107 | 116 | 125 | 179 | 305 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 88 | 87 | 95 | 103 | 113 | 124 | 186 | 324 |
| B4. One-time 30 percent real depreciation in 2011 | 88 | 111 | 119 | 124 | 131 | 140 | 187 | 307 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2011 | 88 | 103 | 112 | 118 | 127 | 136 | 188 | 311 |
| **PV of Debt-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 247 | 236 | 244 | 262 | 305 | 334 | 470 | 794 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Primary balance is unchanged from 2010 | 247 | 227 | 236 | 260 | 307 | 340 | 479 | 756 |
| A2. Permanently lower GDP growth 1/ | 247 | 240 | 254 | 280 | 335 | 377 | 606 | 1295 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012 | 247 | 251 | 280 | 308 | 366 | 406 | 590 | 1002 |
| B2. Primary balance is at historical average minus one standard deviations in 2011-2012 | 247 | 229 | 239 | 257 | 300 | 329 | 465 | 791 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 247 | 222 | 226 | 248 | 294 | 327 | 482 | 839 |
| B4. One-time 30 percent real depreciation in 2011 | 247 | 282 | 283 | 297 | 340 | 367 | 484 | 797 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2011 | 247 | 261 | 266 | 284 | 328 | 357 | 488 | 808 |
| **Debt Service-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 19 | 20 | 19 | 21 | 28 | 35 | 40 | 76 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Primary balance is unchanged from 2010 | 19 | 20 | 19 | 20 | 28 | 35 | 40 | 75 |
| A2. Permanently lower GDP growth 1/ | 19 | 21 | 20 | 21 | 30 | 38 | 48 | 110 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012 | 19 | 21 | 21 | 23 | 32 | 40 | 46 | 91 |
| B2. Primary balance is at historical average minus one standard deviations in 2011-2012 | 19 | 20 | 19 | 20 | 28 | 35 | 40 | 75 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 19 | 21 | 19 | 20 | 28 | 35 | 41 | 78 |
| B4. One-time 30 percent real depreciation in 2011 | 19 | 23 | 24 | 25 | 35 | 43 | 47 | 96 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2011 | 19 | 20 | 20 | 22 | 29 | 36 | 40 | 77 |

Sources: Maldivian authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

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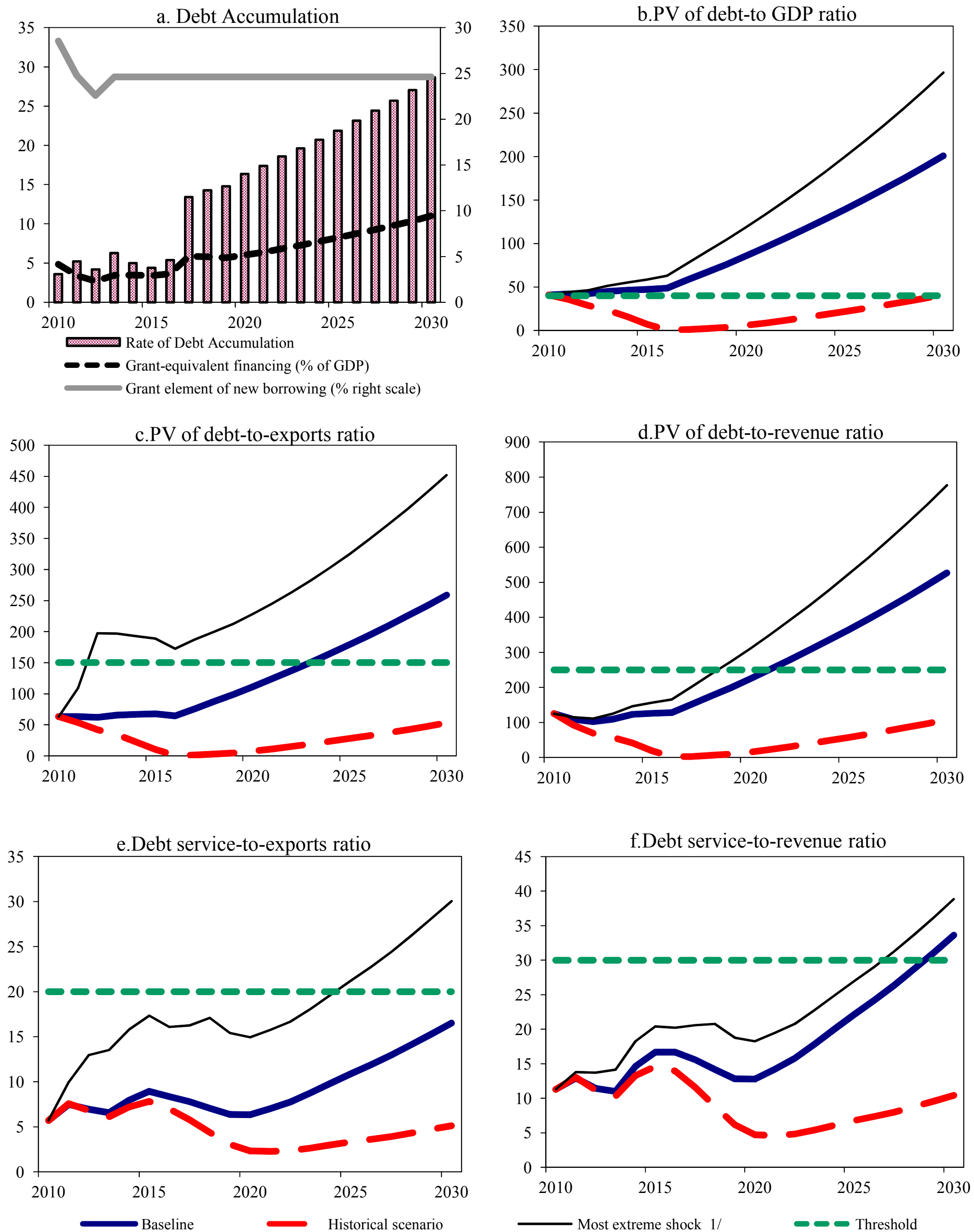
Figure 2. Maldives: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/




Sources: Maldivian authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to an interest rate shock; in c. to an export shock; in d. to an interest rate shock; in e. to an export shock and in figure f. to a combination shock

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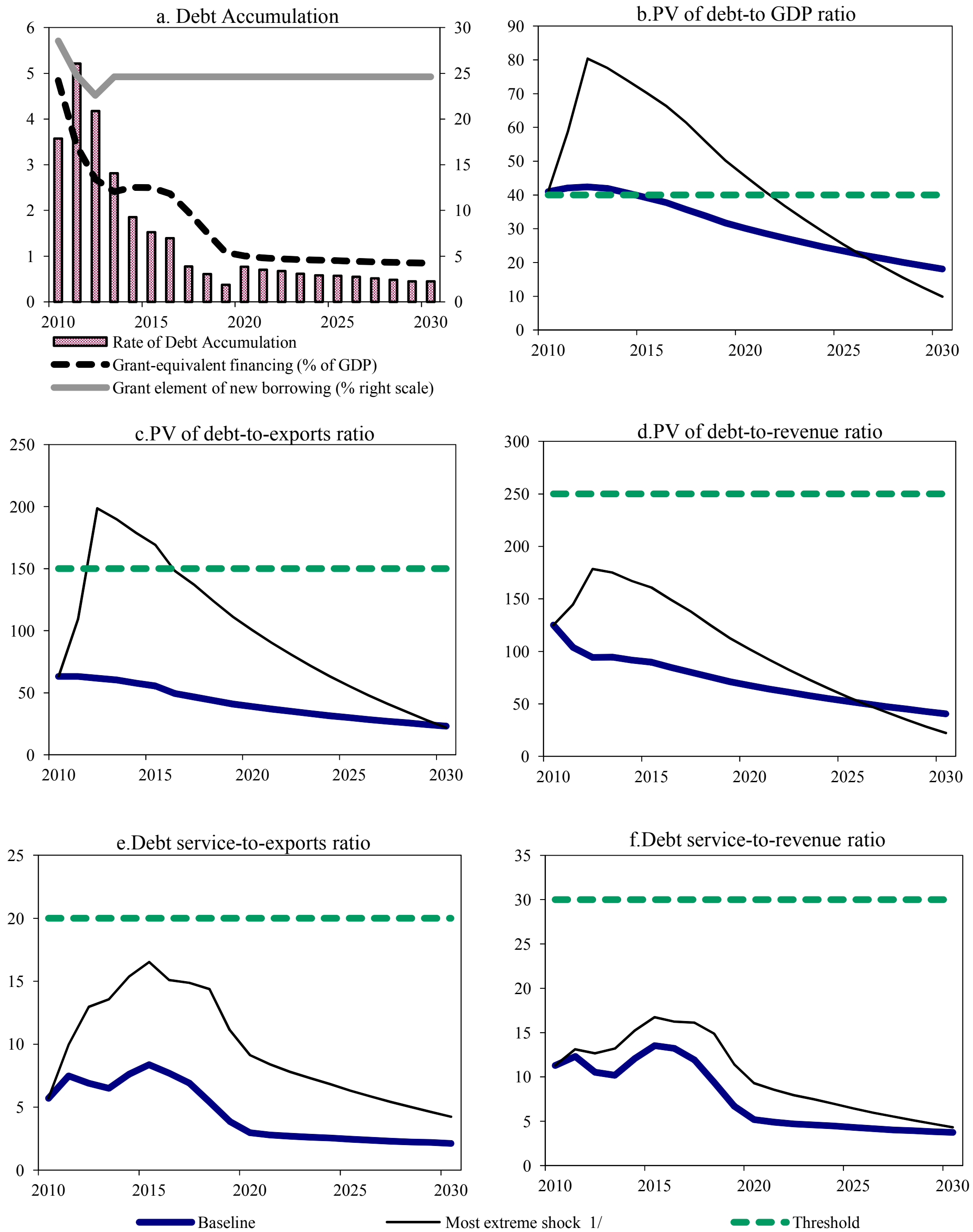
Figure 3. Maldives (Adjustment Scenario): Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/




Sources: Maldivian authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a combination shock; in c. to an exports shock; in d. to a combination shock; in e. to an exports shock and in figure f. to a combination shock

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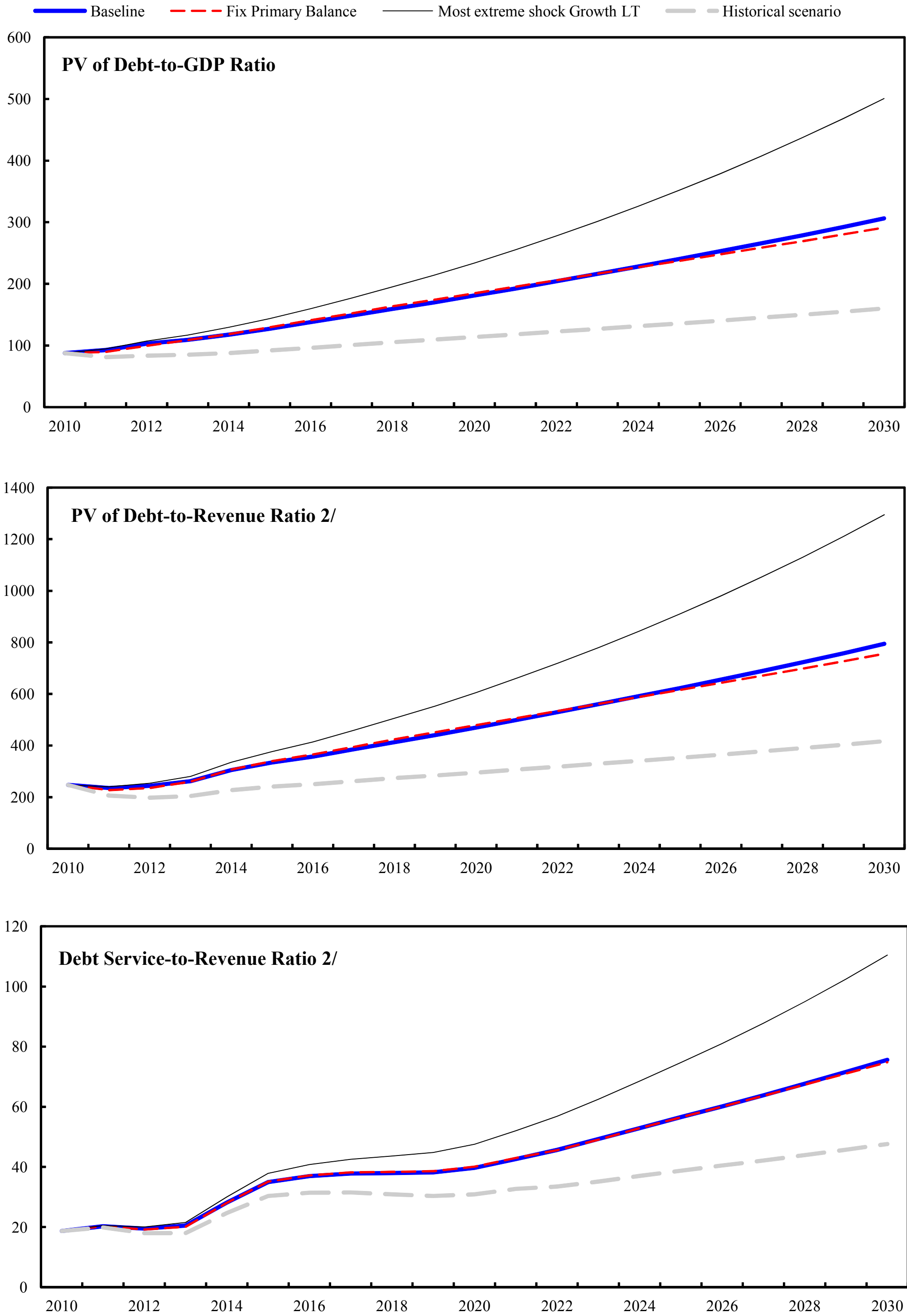
Figure 4.Maldives: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/




Sources: Maldivian authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020.

2/ Revenues are defined inclusive of grants.

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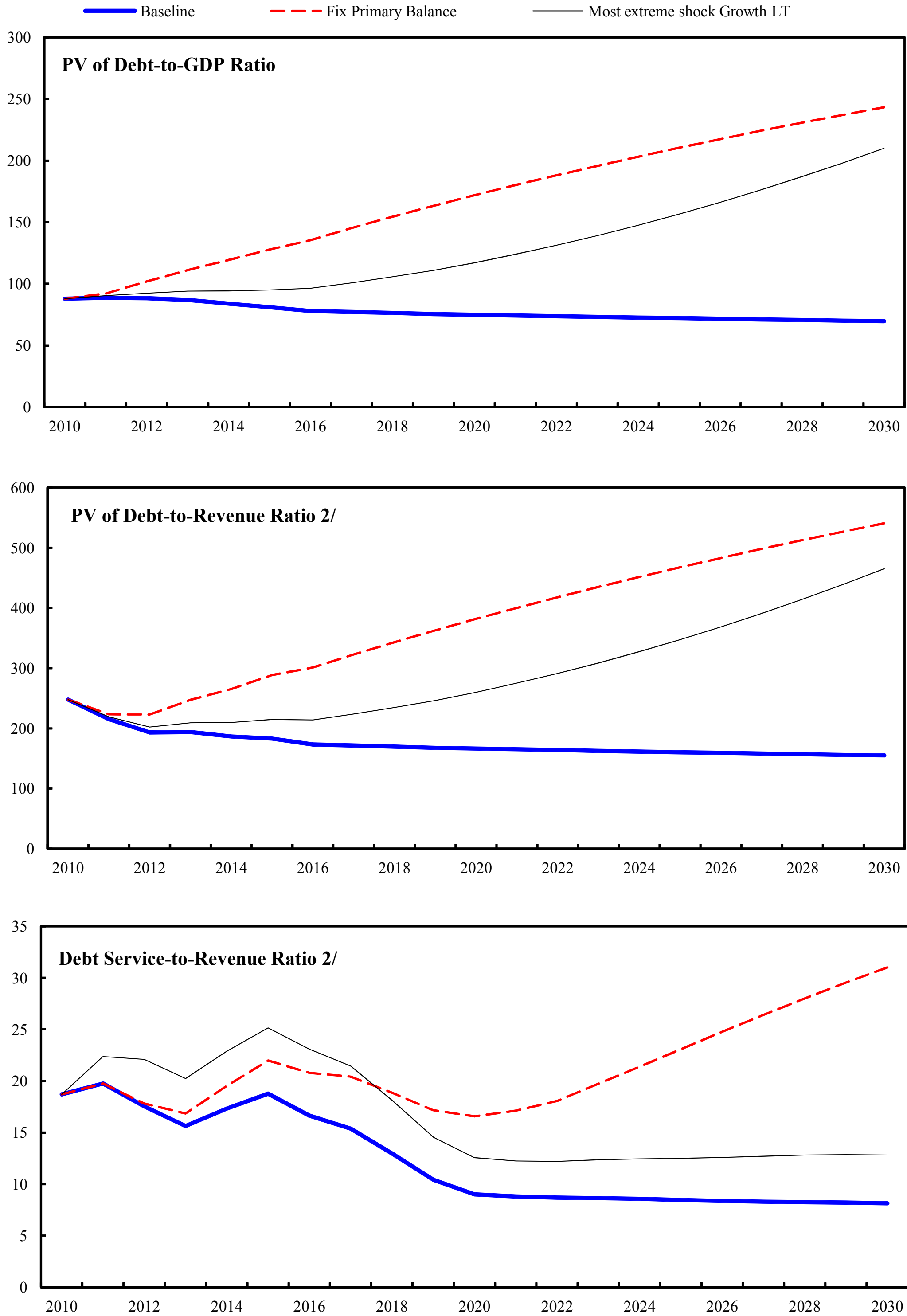
Figure 5.Maldives (Adjustment Scenario): Indicators of Public Debt
Under Alternative Scenarios, 2010-2030 1/




Sources: Maldivian authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020.
2/ Revenues are defined inclusive of grants.

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**Statement by the IMF Staff Representative on the Maldives**
**February 14, 2011**

The information below has become available following the issuance of the staff report. It does not alter the thrust of the staff appraisal.

***Macroeconomic developments and data revisions***

1. In light of recent global developments, the January *World Economic Outlook* update revised up the baseline projections for international commodity prices in 2011 and beyond. In the case of Maldives, this is expected to lead to somewhat higher inflation, a slightly wider current account deficit, a weaker reserve path, and more moderate real GDP growth in 2011 than envisaged in the staff report. The negative shock will also put additional pressures on the exchange rate peg. This heightens the urgency of putting in place the comprehensive adjustment measures recommended in the staff appraisal.

2. The authorities are in the process of revising the 2010 fiscal outturn data. The preliminary revenue and expenditure information points to a 2010 fiscal deficit that is likely to be at least 2 percentage points of GDP larger than envisaged in the staff report, mainly due to lower revenue from resort leases.

3. The rebasing of the national accounts is still ongoing; the revised figures are now expected to be published in March 2011.

***Political developments***

4. Maldives held its first ever local government elections on February 5 to elect a total of 1091 councilors at the city, island, and atoll levels. The elections were orderly and voter turnout was high. Preliminary reports indicate that the main opposition party (DRP) won the most seats overall (502 against 375 for the ruling MDP), taking control of a majority of island and atoll councils. However, the MDP won a significant majority of seats in the major population centers, including the two largest cities (Male and Addu).

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February 28, 2011

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Washington, D. C. 20431 USA

# IMF Executive Board Concludes 2010 Article IV Consultation with Maldives

On February 14, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Maldives.[1]

## Background

Expansionary fiscal policies in Maldives after the 2004 tsunami led to severe fiscal and external imbalances, leaving the economy vulnerable. The situation deteriorated markedly in 2008–09, as the decline in tourism which followed the global economic crisis hit the Maldivian economy hard, aggravated the imbalances, and pushed the country into recession. In response, the authorities adopted an ambitious adjustment program supported by IMF financing. The program focused on a strong fiscal adjustment, monetary tightening and a strengthening of the financial sector.

After contracting by 2¼ percent in 2009, the economy rebounded strongly in 2010, on the back of a sharp recovery in tourism inflows. Real GDP growth is estimated at 4¾ percent in 2010. Inflation continues to reflect mainly international commodity price movements,

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.


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increasing since mid-2009 on a year-on-year basis, and is expected to average 5 percent in 2010. The current account deficit is projected to have widened to about 32¼ percent of GDP in 2010, as the economic recovery and higher commodity prices have pushed up imports, offsetting the tourism rebound.

There has been considerable progress in the implementation of fiscal adjustment measures. In addition to the significant measures taken in 2009, the tourism goods and services tax (T-GST) was passed in August 2010 and came into effect from January 2011. Also, the business profit tax (BPT) was passed in December 2010 and will enter into effect in July 2011. Preliminary data put the 2010 fiscal deficit at around 17¾ percent of GDP, down from 29 percent in 2009, although financing information points to a deficit of around 20-21 percent of GDP. However, there have also been significant policy slippages that rendered the program's ambitious targets unfeasible and undermine fiscal adjustment in 2011 and beyond. On the expenditure side, there have been no net fiscal savings from public employment restructuring, public sector wages will be restored to their September 2009 levels earlier than expected, and the new Decentralization and Disability Bills will lead to considerable spending increases. Also, the BPT will come on stream eighteen months later than planned.

Monetary policy has helped stabilize the economy. Active open market operations and the cessation of deficit monetization have effectively reduced excess rufiyaa liquidity. Private sector credit has stalled, but bank investments in treasury bills have pushed up aggregate credit and fueled broad money growth. International reserves remain on a downward path, only interrupted by temporary external financing injections, and the Maldives Monetary Authority (MMA) continues to ration the supply of foreign exchange to banks, while fully meeting the demand from the central government and some state-owned enterprises. Dollar shortages persist, and the parallel market premium has increased somewhat.

The real effective exchange rate (REER) has appreciated since mid-2008, broadly tracking movements in the US dollar. This, coupled with a difficult business environment and fiscal pressures, poses competitiveness challenges going forward.

The banking system as a whole is well capitalized, but vulnerabilities remain. Non-performing loans have continued to increase, reflecting banks' exposure to large tourism-related borrowers hit by the global crisis, and this has affected bank profitability. Banks have also become significantly exposed to the sovereign. The MMA has reached agreement with banks on compliance with regulations on single borrower limits, asset classification and provisioning, and foreign currency exposure limits by end-2011.

## Executive Board Assessment

Executive Directors noted that the Maldivian economy is recovering well, fueled by a strong rebound in tourism. Inflation has continued to be driven mainly by international commodity prices but a tight monetary policy stance has helped contain pressures. Over the medium term, economic activity is likely to stabilize and grow in line with global developments. Despite these encouraging signs, the economy faces unsustainable fiscal and external

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positions. While recognizing the difficult political situation facing the authorities, Directors stressed the need for decisive and comprehensive adjustment measures to achieve macroeconomic stability, sustainable growth and poverty reduction. Efforts to strengthen the financial sector and improve the business climate will also be critical.

Directors welcomed the progress made in the implementation of fiscal adjustment measures, which had led to a significant reduction in the budget deficit. They also welcomed the passage of the tourism goods and services tax and of the business profit tax, which will come into effect from 2011. However, they expressed concern about slippages, such as the lack of significant progress in public employment restructuring. Directors stressed the urgent need for continued and credible adjustment efforts, including through a combination of additional revenue-enhancing, expenditure-reducing, and expenditure-targeting measures. Strengthening public financial management will also be critical for fiscal consolidation. A number of Directors pointed out that the pace of adjustment should take into account political constraints.

Directors endorsed the tight policy stance of the MMA, and recommended continued monetary tightening to safeguard price stability, stem reserve losses and contain currency pressures. They observed that the fixed exchange rate regime has served as an effective nominal anchor for the Maldivian economy. Nevertheless, the economy continues to experience a steady downward pressure on reserves and persistent dollar shortages. Directors called for continued discussions between the authorities and the staff on this issue while being mindful of the risks involved and the impact on the poor.

Directors noted that the banking system as a whole exhibits reasonable levels of capitalization and domestic currency liquidity. However, credit quality remains poor and banks' exposure to the sovereign has reached high levels. They emphasized that the MMA should continue to enforce prudential regulations, particularly on provisioning, single borrower limits, and foreign currency exposure limits. The Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) framework should also be strengthened. Directors welcomed the progress in advancing structural financial sector reforms.

Directors called for a close policy dialogue between the authorities and the staff with a view to reaching agreement on a strong, medium-term adjustment strategy, including credible and realistic prior actions, as a basis for completing the second review under the program.

***Public Information Notices (PINs)*** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

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**Maldives: Selected Economic and Vulnerability Indicators, 2006–12**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Population (in 1,000; 2009 est.) | | 315 | | | | | |
| GDP per capita (in U.S. dollars; 2009 est.): | | 4,189 | | | | | |
| Quota (in million SDRs): | | 8.2 | | | | | |
| | 2006 | 2007 | 2008 | 2009 | 2010<br>Est. | 2011<br>Proj. | 2012 |
| OUTPUT AND PRICES | | | (Annual percentage change) | | | | |
| Real GDP | 18.0 | 7.2 | 6.2 | -2.3 | 4.8 | 4.0 | 4.1 |
| Inflation (end-of-period) | 3.1 | 10.3 | 9.1 | 4.0 | 5.0 | 6.0 | 3.5 |
| Inflation (period average) | 3.5 | 7.4 | 12.3 | 4.0 | 5.0 | 5.5 | 4.8 |
| GDP deflator | 3.5 | 7.4 | 12.6 | 7.1 | 6.5 | 5.5 | 4.8 |
| CENTRAL GOVERNMENT FINANCES | | | (In percent of GDP) | | | | |
| Revenue and grants | 52.1 | 55.8 | 46.0 | 35.9 | 35.5 | 39.4 | 42.3 |
| Expenditure and net lending | 59.4 | 61.4 | 63.1 | 64.9 | 53.4 | 60.7 | 61.1 |
| Overall balance | -7.3 | -5.5 | -17.1 | -29.0 | -17.9 | -21.3 | -18.8 |
| Overall balance excl. grants | -14.7 | -13.3 | -20.3 | -33.5 | -20.7 | -22.0 | -19.4 |
| Financing | 7.3 | 5.5 | 17.1 | 29.0 | 17.9 | 21.3 | 18.8 |
| Foreign | 4.5 | 4.6 | 4.6 | 8.4 | 10.3 | 9.6 | 4.6 |
| Domestic | 2.8 | 1.0 | 12.5 | 20.6 | 7.6 | 11.7 | 14.2 |
| Public and publicly guaranteed debt | 62.9 | 66.3 | 68.6 | 85.0 | 87.6 | 91.7 | 101.8 |
| Domestic | 23.4 | 26.4 | 31.2 | 43.9 | 46.9 | 50.6 | 60.4 |
| External (excl. IMF and currency swaps by MMA) | 39.6 | 39.8 | 37.4 | 41.2 | 40.7 | 41.1 | 41.4 |
| MONETARY ACCOUNTS | | | (Annual percentage change, unless otherwise indicated) | | | | |
| Broad money | 18.9 | 24.1 | 21.8 | 12.5 | 16.8 | -6.0 | … |
| Domestic credit | 38.6 | 44.7 | 35.2 | 14.0 | 4.9 | -0.9 | … |
| *Of which:* To private sector | 48.6 | 49.4 | 29.7 | -4.1 | -2.5 | -6.2 | … |
| BALANCE OF PAYMENTS | | | (In percent of GDP, unless otherwise indicated) | | | | |
| Current account | -33.0 | -41.5 | -51.4 | -30.9 | -32.3 | -37.1 | -35.6 |
| *Of which:* | | | | | | | |
| Exports | 24.6 | 21.6 | 26.2 | 12.8 | 12.2 | 11.7 | 11.6 |
| Imports | -89.1 | -91.5 | -96.9 | -64.6 | -67.4 | -75.0 | -73.4 |
| Nonfactor services, net | 35.0 | 36.0 | 29.4 | 28.3 | 31.3 | 35.4 | 38.0 |
| Capital and financial account (incl. e&o) | 37.9 | 48.8 | 46.0 | 32.1 | 37.9 | 26.5 | 23.3 |
| *Of which:* | | | | | | | |
| General government, net | 4.2 | 3.4 | 5.3 | 5.5 | 1.9 | 2.3 | 3.7 |
| Banks and other sectors, net | 14.9 | 21.1 | 14.4 | 8.5 | 16.2 | 13.7 | 7.9 |
| Overall balance | 4.9 | 7.3 | -5.4 | 1.2 | 5.6 | -10.5 | -12.3 |
| Gross international reserves (in millions of US$; e.o.p.) 1/ | 232 | 310 | 241 | 262 | 351 | 254 | 65 |
| In months of GNFS imports | 2.7 | 3.0 | 1.8 | 2.8 | 3.2 | 2.0 | 0.5 |
| In percent of short-term debt at remaining maturity | 149 | 117 | 80 | 97 | 105 | 67 | 15 |
| External debt 2/ | 66 | 81 | 77 | 79 | 85 | 92 | 97 |
| Medium- and long-term | 55 | 63 | 60 | 65 | 70 | 76 | 79 |
| Short-term | 11 | 18 | 17 | 14 | 15 | 17 | 18 |
| External debt service (in percent of domestic GNFS exports) | 9 | 13 | 13 | 15 | 15 | 18 | 17 |
| MEMORANDUM ITEMS | | | | | | | |
| GDP (in millions of rufyiaa) | 11,717 | 13,496 | 16,131 | 16,879 | 18,835 | 20,656 | 22,518 |

Sources: Maldivian authorities and Fund staff estimates and projections.
1/ 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.
2/ Includes IMF but excludes domestic foreign-currency denominated debt.

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**Statement by A. Shakour Shaalan, Executive Director for the Maldives**
**February 14, 2011**

The government that took office in late 2008 faced urgent policy challenges and swiftly acted to restore external balance and fiscal sustainability. Within a few months, they adopted a program of fiscal restraint that was based on a substantial cut in the size and wages of the public sector and downsizing. At the same time, monetary policy was relieved from the burden of sizeable fiscal financing. The authorities had requested a smoother path of adjustment and for exceptional access to help finance sizeable redundancy packages of the public sector downsizing. This did not happen, and we expressed the view at the time of the Board approval of the program that it was overambitious requiring a budget cut of 29 percent of GDP over a three-year period. After the adoption of the Fund program in December 2009, there were legal challenges to the wage cut which were symptomatic of the challenging domestic environment.

**Performance Under the Program.** In spite of these challenges, the authorities managed to broadly adhere to the program's quantitative performance criteria. Following the completion of the First Review, all performance criteria for March and June, as well as the indicative targets for September, were met. However, staff doubts about the adequacy of measures to achieve the fiscal targets for 2010 and 2011 prevented completion of these reviews. The staff supplement suggests that the December 2010 fiscal target may have been missed by 2 percent of GDP, although it is also possible that the target may have been met. End-of-year reconciliation of the fiscal accounts has not been finalized, and final outcomes have differed by as much as 2-3 percent of GDP in past years.

**Recent Developments and Outlook**. The Maldives economy saw a healthier than anticipated rebound in growth in 2010 on the back of the recovery in tourism arrivals. Inflation remained subdued and gross international reserves were built up. Tourism will likely remain the main engine of growth in the medium term.

**Fiscal Policy**. In spite of strong commitment by the authorities, both administrative capacity constraints as well as political opposition delayed implementation of fiscal reforms. On the revenue side, Parliament approved the Tourism Sales Tax (T-GST) in August 2010 and the business profits tax in December 2010, eighteen months later than planned. The general sales tax will be submitted to parliament this year but Fund technical assistance suggests it cannot be implemented before January 2013.

Some expenditure measures were implemented as agreed, but others proved difficult to implement. Electricity tariffs were raised in November 2009 to eliminate budgetary subsidies to the electricity company, operational expenditures were reduced, and some domestically-financed non-priority projects were postponed as agreed. However, the initial wage cuts were strongly opposed by the Civil Service Commission and wages had to be reinstated to September 2009 levels. Public employment downsizing was stalled because the expected donor support for redundancy and training packages never materialized. The budget that was agreed under the program had assumed a 6 month severance pay, but the authorities

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found this severance to be too modest for the downsizing, given the political and social constraints, and they were not able to obtain the financing for larger redundancy packages.

The authorities remain fully committed to restoring fiscal sustainability, and reiterate their request for a smoother medium-term adjustment. The fiscal deficit was already reduced from 33 percent of GDP in 2009 (in the absence of measures) to 18-20 percent of GDP in 2010 (yet to be finalized). Additionally, tax measures adopted in 2010 will have a future annual yield of 7½ percent of GDP. A deficit of 15 percent of GDP in 2011 is expected under current policies. While political realities will influence the timing of reforms described on page 11, expenditures—including capital spending—will be adjusted as necessary to achieve this deficit target.

**Monetary and Exchange Rate Policies**. Staff argue that fiscal measures would need to be supplemented by a significant exchange rate adjustment in order to restore fiscal and external sustainability. This scenario precludes a smoother adjustment path that is preferred by the authorities. The strategy is also dependent on wage restraint, which may be difficult given the majority opposition in Parliament. The authorities are open to considering all measures to complete the necessary adjustment. However, as estimated in Appendix 1, the net effect of a 25 percent devaluation on the fiscal position is an improvement of 1.7 percent of GDP assuming a wage freeze, and a deterioration equivalent to 2.4 percent of GDP with constant real wages. These estimates highlight the risk of relying on currency devaluation to strengthen the fiscal position.

The authorities concur with the need to tighten monetary policy. The Monetary Policy Committee of the Maldives Monetary Authority has agreed to increase the frequency of open market operations in addition to the normal weekly schedule, and to introduce two-week reverse repos beginning February 14 to supplement the existing 1 week reverse repos. Further measures may be considered as needed, such as an increase in the minimum reserve requirement, currently at 25 percent.

**Financial Sector**. The authorities continue to strengthen supervision and enforcement of prudential regulations. A new regulatory framework was introduced in 2009, and while banks could not fully comply immediately, agreements were reached for full compliance by end-2011. They intend to privatize the largest public bank by engaging a strategic investor. Banks are well positioned to withstand a possible devaluation since they hold long positions in dollars and only 25 percent of loans are extended to non-tradeable sectors.

**Fund Program**. The authorities view a Fund program as a useful framework to guide and reinforce their efforts to restore external balance and fiscal sustainability. Other development financing may be contingent on the existence of a Fund program. In this regard, they look forward to further constructive discussions with staff.

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