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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 20/48-4

4:15 p.m., April 22, 2020

**4. Maldives—Request for Disbursement Under the Rapid Credit Facility**

Documents: EBS/20/62 and Correction 1; and Correction 2; and Supplement 1; and Supplement 1, Correction 1

Staff: Cerutti, APD; Haksar, SPR

Length: 45 minutes

## Executive Board Attendance

T. Zhang, Acting Chair

### Executive Directors    Alternate Executive Directors

	I. Mannathoko (AE)
	A. Andrianarivelo (AF)
	B. Lischinsky (AG)
N. Ray (AP)	
	P. Fachada (BR)
	Y.Liu (CC), Temporary
	E. Cartagena Guardado (CE), Temporary
L. Levonian (CO)	
	C. Just (EC)
A. Buisse (FF)	
	K. Merk (GR)
S. Bhalla (IN)	
	L. Cerami (IT), Temporary
	K. Chikada (JA)
	M. El Qorchi (MD)
H. Beblawi (MI)	
	Z. Zedginidze (NE), Temporary
	J. Sigurgeirsson (NO)
	L. Palei (RU)
M. Mouminah (SA)	
A. Mahasandana (ST)	
	P. Trabinski (SZ)
S. Riach (UK)	
	N. Shenai (US), Temporary

G. Bauche, Acting Secretary

O. Vongthieres, Summing Up Officer

R. Smith Yee, Board Operations Officer

M. McKenzie, Verbatim Reporting Officer

### Also Present

Asia and Pacific Department: E. Cerutti, A. Gulde, J. Jonas, K. Kashiwase, D. Kihara, R. Moussa, C. Rhee. Communications Department: P. Sherpa. Finance Department: N. Denewet. Legal Department: A. Aly. Monetary and Capital Markets Department: U. Das. Office of the Managing Director: K. Mathai. Strategy, Policy, and Review Department: Y. Carriere-Swallow, V. Haksar. Statistics Department: J. Freeman. World Bank Group: P.

Yoong. Executive Director: R. Kaya (EC), M. Raghani (AF). Alternate Executive Director: R. Alkhareif (SA), S. Geadah (MI), A. McKiernan (CO), P. Rozan (FF), F. Sylla (AF), K.Tan (ST). Senior Advisors to Executive Directors: W. Abdelati (MI), M. Choueiri (MI), J. Damgaard (NO), R. Farber (US), L. Marek (EC), Z.Mohammed (BR), A. Tolstikov (RU). Advisors to Executive Directors: P. Al-Riffai (MI), S. Buetzer (GR), P. Dhillon (IN), T. Iona (AP), K. Kuretani (JA), R. Lopes Varela (AF), C. Moreno (AG), A. Muradov (SZ), T. Nagase (JA), A. Nainda (AE), L. Nankunda (AF), K. Osei-Yeboah (MD), M. Sylvester (CO), S. Yoe (ST), K. Lok (CC), J. Freeman (UK), A. Sode (FF).

#### **4. MALDIVES—REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY**

Mr. Beblawi and Ms. Choueiri submitted the following statement:

On behalf of our Maldivian authorities, we are grateful to staff and management for the expeditious response to the Maldives' request for financial support under the Rapid Credit Facility (RCF). We also thank Executive Directors for their promptness in enhancing Fund support to the membership in these exceptional times.

##### The COVID-19 Pandemic and its Economic Impact

Maldives has been a development success, largely due to the expansion of a dynamic high-end tourism sector. The country enjoyed robust growth, considerable development in infrastructure and connectivity, and provided high quality public services for its people, resulting in impressive health and education indicators. Tourism contributed to two-thirds of GDP, 80 percent of exports and 40 percent of fiscal revenues, which makes the Maldives one of the most exposed countries to the COVID-19 pandemic. The economy is projected to contract by 8.1 percent in 2020, about 15 percentage points below pre-pandemic projections. The COVID-19 pandemic has also led to an urgent balance of payments need and a sizeable fiscal financing gap.

##### Policy Response to the Crisis and Beyond

The Government of the Maldives has been proactive in containing the spread of the virus and in scaling up health care spending. Flights from affected countries were suspended on February 4 and the Government declared its first ever state of public health emergency on March 12. The authorities are working in close consultation with the WHO, including by preparing isolation centers, intensifying screening, conducting contact tracing, testing of suspected cases as well as treating the affected.

To mitigate the impact of the COVID-19 pandemic, the authorities have adopted fiscal, monetary, and financial sector measures, including in the context of the Economic Recovery Plan. They increased funding to the health sector, reduced non-priority expenditures, and provided a three-month allowance to those who lost their jobs due to the pandemic.

The Maldives Monetary Authority (MMA) considers the banking sector to be in good health and able to withstand a temporary shock to tourism and growth. Nevertheless, MMA adopted measures to prevent a tightening of

liquidity conditions and minimize economic disruptions. It introduced a regulation enabling a 6-months moratorium on loan repayments. It also decided to gradually reduce the Minimum Reserve Requirement from 10 to 5 percent, made available a short-term credit facility to financial institutions, and increased its foreign exchange intervention and use of available facilities, as needed, to maintain the exchange rate peg.

The authorities are confident that these policies will help minimize disruptions to economic activity. At this critical juncture, they expect that emergency financial assistance from the Fund and other multilateral and bilateral agencies will help cover the temporary external financing gap. They also expect that the ongoing expansion of tourism capacity (more than 116 islands will be available for development during the next 10 years) and the upgrades in infrastructure (notably a new airport runway and terminal) should lay the groundwork for a quick resumption of tourism activity, as witnessed before the crisis.

The Government remains committed to fiscal consolidation to restore fiscal and debt sustainability. On the revenue side, the authorities will monitor the implementation of the newly introduced personal income tax. Once the crisis is overcome, they will also carry out the planned increases in airport development fees and airport service charges, as well as in other fees (import duty-related fees and foreign workers' registration fees). They will consider additional measures, as needed, to shore up revenues. Following the completion of the ongoing public sector investment projects and the cancellation of new projects costing 3 percent of GDP in 2020-21, the authorities expect public investment to further decline to 7.2 percent of GDP on average over the medium term, contributing to an improvement in the primary fiscal balance that is consistent with public debt sustainability. The Government's debt management strategy has been active, as reflected in the preemptive voluntary extension of the US\$100 million privately placed bond in Abu Dhabi by three years to 2026. The Government also welcomes and hopes to benefit from the coordinated approach agreed upon by the G20 and the Paris Club, supported by the Fund and World Bank, toward a time-bound suspension by bilateral official creditors of debt service payments for the poorest countries who request forbearance, as well as the call on private creditors to participate in the initiative on comparable terms.

With already high public debt and additional short-term fiscal pressures arising from the crisis, the authorities are fully aware of the importance of ensuring a high level of transparency of government accounts, including the size of contingent liabilities linked to government guarantees

and other forms of government support. They appreciate staff's acknowledgement of the positive momentum to strengthen regulations and institutions, fight corruption, and improve fiscal transparency. They will continue to work closely with the Fund to enhance their fiscal responsibility framework and strengthen the operation and risk supervision of state-owned enterprises.

#### Financing Request Under the RCF

Against this background, the Government of the Maldives requests emergency financing from the Fund in the equivalent of SDR 21.2 million, equivalent to 100 percent of quota under the RCF. The Fund's assistance will help meet the urgent balance of payments need stemming from the disruptions to tourism as a result of the COVID-19 pandemic. The authorities are confident that Fund assistance will contribute to attenuating the adverse impact of the ongoing shock on the economy. The Fund's assistance is expected to catalyze additional financial support in the form of grants and concessional loans from the World Bank, the Asian Development Bank, as well as bilateral partners.

Mr. Merk and Mr. Buetzer submitted the following statement:

We thank staff for their work in quickly bringing this request to the Board and Mr. Beblawi and Ms. Choueiri for their helpful buff statement.

We can support the authorities' request for a disbursement under the Rapid Credit Facility given the Maldives' urgent balance of payments need and the fact that concluding discussions on a UCT-quality adjustment program is not feasible in due time. The Maldivian economy is hit heavily by the marked contraction in tourism associated with the COVID-19 pandemic. As underlined by staff, the requested Fund support – backed by concurrent donor support – will help to cope with the immediate impact of the crisis. Broadly concurring with staff's assessment, our additional comments are mainly for emphasis:

While limiting the severe impact of the pandemic surely represents the most immediate concern, preserving macroeconomic stability remains of key importance as well. The Maldives' public debt to GDP ratio was already elevated before and is now projected to rise sharply amidst the impact of the pandemic. We take note that staff still assesses public debt to remain sustainable. However, as staff lays out, this assessment critically hinges on both a quick economic recovery and ambitious economic adjustment. Overall,

risks to debt sustainability appear very high and will require the authorities' careful management as well as strong commitment to stability-oriented policies over the medium term. We note from the market financing risk indicators in the DSA that the EMBI spread seems relatively low given broader developments in frontier markets as of late and high country-specific risks. Could staff provide additional comments on this?

We concur with staff's recommendation to reduce non-priority spending and adjust the composition of the budget, including in particular the recommendation to critically reevaluate flagship infrastructure projects. We further call on the authorities to avoid overly aggressive or permanent fiscal measures and timely engage in fiscal consolidation once the current crisis has abated. We are encouraged by the assurances in this regard as laid out by Mr. Beblawi and Ms. Choueiri in the buff statement. As downside risks appear substantial, we recommend to fully prepare adequate fiscal contingency measures to ensure critical healthcare and other needs can be met without jeopardizing debt sustainability in case of a worsening or prolonged negative influence of the COVID-19 pandemic.

As staff rightly emphasizes, preserving economic capacity is essential. As travel restrictions are lifted, we hope that tourist arrivals will recover quickly. Until then, it will be essential to preserve viable businesses and ensure an adequate level of protection for the most vulnerable parts of the society via well-targeted, temporary measures.

We take positive note of the renewed momentum in the fight against corruption. We concur with staff on the need for further action to improve governance, transparency and accountability, especially given increased spending for crisis mitigation. We would be interested in staff's view on monitoring, through adequate post-disbursements safeguards, the actual use of the financial resources provided in the case of the Maldives.

Lastly, we would appreciate if staff could comment on the perspectives for and the authorities' views on a follow-up program with UCT conditionality, given that in staff's assessment "[t]he Maldives could benefit from an Extended Credit Facility (ECF) arrangement that focuses on fiscal and external sustainability" (para. 23).

Mr. Doornbosch, Mr. Psalidopoulos, Ms. Cerami and Mr. Zedginidze submitted the following joint statement:

We thank staff for the clear report and Mr. Beblawi and Ms. Choueiri for their informative buff statement. With tourism receipts accounting for about two thirds of GDP, the Maldivian economy is being severely hit by the Coronavirus pandemic. Given the immediate large external and fiscal financing needs, we support the authorities' request for disbursement of 100 percent of quota under the Rapid Credit Facility. We offer the following additional comments.

Alleviating the social cost and preserving the economy until the pandemic abates are the key priorities. The authorities have commendably accommodated an increase in health and social spending within the tight fiscal constraints. Furthermore, strengthening the healthcare system and testing capacity could help boost confidence among travelers when travel activity will be allowed to resume.

Mobilizing additional concessional resources is key to close the financing gaps. The emergency funding from the Fund will cover only 14 percent of the external financing needs, but it is expected to catalyze additional financial assistance from the World Bank, the Asian Development Bank, and bilateral partners. How advanced are discussions with these partners and how do authorities intend to fund the unidentified residual amount of \$70 million?

Reducing non-priority recurrent spending and optimizing capital expenditures are key to address debt vulnerabilities. Staff assess the external and overall risk of debt distress as high and the debt carrying capacity as weak. The assessment is subject to high uncertainty in these exceptional circumstances, compounded by the country's vulnerability to high risk of natural disasters and climate change.

Building resilience to natural disasters should remain key priorities in the medium-term. We welcome the authorities' plan to integrate climate change into development policy and further encourage their participation in the Climate Change Policy Assessment as soon as feasible.

Mr. Villar, Mr. Lischinsky, Mr. Cartagena Guardado and Ms. Moreno submitted the following joint statement:

We thank staff for its report and swift consideration of the Maldivian authorities' request, and Mr. Beblawi and Ms. Choueiri for their informative buff statement.

We support Maldives' request for the equivalent of 100 percent of its quota under the Rapid Credit Facility (RCF). We commend the authorities for the timely response to contain the scaling-up of the pandemic and for the public policy measures being taken to minimize its economic impact. We take note that staff assesses the level of access to be manageable, given the amount of reserves, but Maldives still faces high external risks and risk debt distress. We welcome the authority's commitment to improving debt and macroeconomic sustainability as subscribed in the authorities' Letter of Intent.

Maldives' economic prospects are challenging given the COVID-19 shock to tourism. The pandemic has hit hard the tourism sector, which the country is largely dependent on (it accounts for almost two thirds of the economy, according to authorities). The impact is thus high on the country's forecasted GDP growth rate, reflected in a drop of 15 percentage points related to the pre-pandemic growth rate. The already limited fiscal space and the enlarged balance of payments gap triggered by the pandemic make Fund support urgent to help offset the harsh impact on the country's balance of payment and fiscal revenues.

We concur with staff on the importance of committing to a medium-term fiscal consolidation. The country was already facing downside risks when the pandemic hit, with a rapid rise in public debt which adds to its vulnerability to climate change. We welcome the authority's engagement to improve fiscal transparency, including with the regular publication of fiscal data, as well as improving accountability.

We wish the Maldivian authorities and its people well in these challenging circumstances.

Mr. El Qorchi and Mr. Osei Yeboah submitted the following statement:

We thank staff for the Maldives' report and Mr. Beblawi and Ms. Choueiri for the informative buff statement. We broadly agree with staff appraisal and support the Maldives' request under the exogenous shock

window of the Rapid Credit Facility (RCF) to address the urgent balance of payments needs posed by the COVID-19 pandemic.

The authorities' response to the pandemic has been timely, scaling up health care spending and putting in place measures to contain the spread of the outbreak. The government's public health emergency plan is prioritizing social distancing and has imposed international and domestic travel restrictions. The government has also established isolation and testing centers and, in close collaboration with the WHO, is monitoring the situation to make further containment adjustments if needed.

Beside the strain on the health system, the Maldives are hardest hit by the pandemic due to the economy's heavy dependence on tourism. The 2020 budget envisioned significant capital outlays financed with increased public borrowing to expand tourism infrastructure and boost inclusive growth. The post-pandemic policy response has led to sharp decline in revenue from dwindled tourists' arrivals, while health related expenses and targeted transfers are increasing the fiscal financing needs. We note the monetary authorities' readiness to respond appropriately by safeguarding the banking sector liquidity and preserving reserves. While the RCF will cover part of the financing gap, we believe it will catalyze additional financial support in the form of grants and concessional loans from multilateral as well as bilateral partners.

We welcome the authorities' policy prioritization channeling critical assistance to the most vulnerable sectors of society, while making further effort at enhancing fiscal transparency. Once the crisis subsides, the government should return to a strategy that focuses on reducing external vulnerabilities and high debt distress to ensure macroeconomic stability going forward.

Mr. Chikada, Mr. Trabinski, Mr. Muradov and Mr. Nagase submitted the following joint statement:

We thank staff for the concise report and Mr. Beblawi and Ms. Choueiri for their informative buff statement.

We support the authorities' request for a disbursement under the Rapid Credit Facility (RCF) to help address the urgent fiscal and balance of payment (BOP) needs arising from the impact of the pandemic. The Maldives remains at high risk of debt distress and the recovery of its economy will depend on the length of the coronavirus-related disruptions. We recognize that the

authorities' capacity to repay the Fund is adequate under the current scenario, where shock is considered to be temporary, and we offer the following points for emphasis.

COVID-19 will have a huge impact on the Maldives' economy. The rapid decline in tourism receipts and related business will lead a decrease of tax revenues and expansion of the fiscal financing gap. We take note that staff projected a negative 8.1 percent GDP growth in 2020, about 15 percentage points below the pre-pandemic growth rate. With the significant BOP and fiscal financing gaps, Maldives will face significant challenges over the next years.

The authorities' response to contain the spread of the virus and mitigate the economic impact by combining fiscal, monetary, and prudential measures, including the scaling up health care spending, is appropriate. However, given the limited financial space, the fiscal policy response should focus on healthcare spending and other measures that provide temporary support for vulnerable households and businesses most affected by the crisis, and carefully designed spending reductions as staff recommend.

The disbursement under the RCF will help close the fiscal financing gap together with other expected financing. We welcome the authorities' commitment to ensuring maximum effectiveness of the COVID-19 measures by targeted assistance programs and governance and transparency measures contained in the Letter of Intent. In addition, we stress the important catalytic role of the Fund in rallying support from donors and other development partners to support the authorities' efforts. In this regard, could staff elaborate on the existing and expected financing commitments from other IFIs and bilateral partners?

Debt management should be implemented actively, and the close monitoring of debt indicators is warranted. Although the Debt Sustainability Analysis (DSA) shows that Maldives' debt is sustainable, the country continues to be at high risk of debt distress. We encourage the authorities to reprioritize and cut capital expenditures and to conduct active debt management, including the accumulation of liquid assets in the Sovereign Development Fund (SDF), as they have committed. We encourage staff to monitor the progress closely.

Mr. Farber and Mr. Shenai submitted the following statement:

We thank staff for their well-written staff report and Mr. Beblawi and Ms. Choueiri for their detailed and candid buff. Maldives is a small, open, tourism-dependent economy with significant debt sustainability risks. It is thus both highly vulnerable to the COVID-19 pandemic and limited in its policy space to respond to the crisis. We support the authorities' request for an RCF with access at 100 percent of quota and strongly urge the authorities to continue to take steps to reduce economic imbalances and safeguard macroeconomic stability.

Fiscal issues: High pre-crisis debt accumulation has limited the authorities' scope to respond to the current crisis. While the RCF can help the authorities accommodate crisis-related expenditure, we agree with staff that following the crisis a sustained fiscal consolidation—with a strong improvement in public investment management—is imperative. Maldives remains at high risk of debt distress, with large financing needs and a considerable external debt burden to bilateral creditors. Transparency of obligations within a broad debt perimeter will be essential to ensuring a necessary and credible adjustment. We welcome the voluntary extension of the 2023 privately placed bond, which could alleviate near-term liquidity risks, though additional space is needed for priority COVID-19-related spending. In this context, we encourage the authorities to pursue the temporary debt service suspension offered by the G20. Absent broad, multi-sectoral creditor participation in providing urgent liquidity support, Maldives would be faced with a difficult choice of meeting the urgent crisis response or servicing existing debt. Should conditions worsen, the authorities should also pursue additional debt reprofiling and restructuring, including of bilateral external claims, to put debt on a more sustainable path. Can staff provide additional comments on whether Maldives could face significant difficulties in servicing its external debt obligations in the next year and on the need for further international support, including the prospect for further debt relief and restructuring? How would such operations change Maldives' macroeconomic outlook?

Monetary and exchange rate: We welcome the authorities' commitment to safeguard the peg through a combination of internal adjustment and foreign exchange sales while limiting broad money growth and refraining from monetary financing of the deficit. We recognize that heightened uncertainty may increase bank demand for dollars, which could lead to foreign exchange shortages and a growing parallel exchange rate differential. Could staff provide an update on the potential for foreign

exchange shortages and a growing parallel market premium, particularly if tourism does not recover in a “V-shaped” pattern as staff projects in their baseline scenario?

Financial sector: Financial sector policy should be geared toward limiting liquidity risks for ex-ante solvent firms and households. Prudential forbearance should be temporary, targeted, and transparent and not substitute for necessary adjustment, especially for borrowers that were highly unlikely to repay prior to the COVID-19 crisis.

Post-program engagement: We note that staff projects a V-shaped recovery, anchored by a strong rebound in tourism after the crisis passes. Should global growth momentum remain weak, external and fiscal stresses are likely to persist, meriting a more ambitious adjustment path amid high financing needs. In such a context, an upper credit tranche Fund program would be appropriate, rather than follow-on emergency financing.

Ms. Levonian, Ms. Mahasandana, Mr. Ray, Mr. Andrianarivelo, Mr. Fachada, Ms. Mannathoko, Ms. Mohammed, Mr. Iona, Ms. Nainda, Ms. Nankunda, Mr. Sylvester and Ms. Yoe submitted the following joint statement:

We thank staff for their report and Mr. Beblawi and Ms. Choueiri for their insightful statement. Maldives, like most tourism dependent small states, faces a mammoth challenge as the plunge in tourism receipts has weighed on growth and created balance of payments and fiscal needs. The emergency support from the Fund should play a catalytic role in securing the additional external support to help address the financing needs. We recognize that prior to the Covid-19 pandemic, Maldives was on a robust medium-term growth path, with improved tourism infrastructure. We also take note of staff’s assessment that Maldives’ capacity to repay the Fund is adequate and that the RCF access would be manageable given the level of reserves. In this context, we support the country’s request for assistance under the Rapid Credit Facility (RCF) equivalent to 100 percent of quota.

We commend the authorities for their timely response in scaling up healthcare spending and putting in place measures to contain the outbreak. The high public debt and limited fiscal space warrant reprioritization of ambitious public sector capital spending towards healthcare, as well as targeted and temporary support for those most affected by the crisis. Strong public financial management and expenditure controls will be necessary, alongside a well-timed exit plan built into the COVID-19 emergency response strategy. Regarding central bank policies, given that the de facto exchange

rate peg against the US dollar has been effective and is helping to anchor inflation, we welcome steps taken by the Maldives Monetary Authority (MMA) to maintain the exchange rate regime. We also note that MMA is working closely with the banks to ensure that the financial sector remains liquid and stable. It is of paramount importance that the monetary policy response to the crisis supports the currency peg and we urge the authorities to remain firm in their commitment to avoid the monetary financing of government operations.

Monitoring how the external financing gap evolves going forward is important. We note that the RCF would be equivalent to 13.5 percent of the balance of payments needs for 2020, and additional assistance from other partners in the form of concessional loans and grants will be needed to close the gap. In this regard, we expect that access to the RCF would catalyze financial support from multilateral institutions, bilateral partners and donors. In the event that the additional support falls short of the financing gap, can staff elaborate on available options for the authorities?

Maldives is rated at high risk of debt distress, therefore medium-term policies geared towards debt sustainability are necessary once the pandemic abates. In particular, we note that debt is assessed as sustainable only as long as the substantial policy reform agenda is implemented. We also recognize that the medium-term outlook is subject to significant downside risks due to the uncertainty of the recovery. Maldives is also highly vulnerable to climate change and natural disasters. We, therefore, welcome the authorities' commitment to implement policies to ensure debt and macroeconomic sustainability and to actively seek further grant financing to help make up for the expected loss in tourism revenue and avoid a further increase in debt. We also encourage the authorities to formulate a contingency reform and reprioritization plan in case the duration of the crisis is longer than anticipated.

Mr. Sigurgeirsson and Mr. Damgaard submitted the following statement:

We thank staff for the well-written reports and Mr. Beblawi and Ms. Choueiri for their informative buff statement. The Maldivian economy is expected to be severely affected by the COVID-19 pandemic due to its high dependence on tourism. The country was running substantial twin deficits prior to the crisis and is now facing urgent balance of payments and fiscal needs. Based on staff's assessment that the Maldives meets the eligibility criteria, we can go along with the request for disbursement in an amount equivalent to SDR 21.2 million (100 percent of quota) under the RCF.

Nevertheless, we have strong concerns regarding sustainability of public debt. The sustainability hinges on several assumptions, including a V-shaped recovery in tourism in the second half of 2020. We fear that it could take longer to bring the pandemic under control globally and restore confidence that travel is safe. Hence, we urge the authorities to prepare contingency plans and fulfil the commitments to reprioritize and adjust capital spending. In this context, we welcome the measures listed in the Letter of Intent, including reducing non-priority and capital expenditures, while allocating additional funds to provide temporary support to vulnerable households and businesses most affected by the crisis. We note that the authorities plan to work with Fund staff to ensure a high level of transparency of government accounts. Could staff provide information on whether the authorities intend to allow the use of RCF funds to be subject to an ex-post independent third-party audit?

The liquidity measures by the central bank and the 6-month moratorium on banking loan repayments will cushion the economic fallout but should be temporary. We also stress the importance of avoiding central bank monetization of fiscal deficits. Regarding the safeguard assessment, we welcome the broad implementation of the 2010 recommendations and the commitment to undergo a new assessment.

We note that the RCF disbursement, combined with potential funds from the WB and the ADB, is well below the estimated balance of payments financing gap. Staff also notes that the Maldives could benefit from an ECF arrangement that focuses on fiscal and external sustainability, improving structural issues, and building resilience to climate change. Could staff elaborate on the timeline for a potential ECF arrangement? Are the authorities exploring other ways to close the financing gap?

Mr. Kaya, Mr. Just and Mr. Marek submitted the following statement:

We thank staff for the concise set of reports and Mr. Beblawi and Ms. Choueiri for their helpful buff statement. Maldives will be significantly affected by the COVID-19 pandemic, mainly through the decline in the tourism sector, which is a key driver of economic growth. The downward projection of growth in 2020 by 15 percentage points to -8.1 percent and the cut in tax revenues, which are expected to decline by about one third compared to 2019, is alarming. In addition, the decline in tourism receipts will amplify the existing large current account deficit and widen the BoP gap. Against the backdrop of large fiscal and BoP financing needs, we support the

authorities' request for RCF disbursement under the exogenous shock window in the amount of SDR 21.2 million, equivalent to 100 percent of quota.

Sustainability of public debt should be one of the key policy priorities. The DSA indicates that the Maldives continue to be at high risk of debt distress and the overall fiscal deficit will widen to 11.7 percent of GDP. Against the backdrop of significant external uncertainties, including the duration of trade restrictions and the scale of the global recovery, the medium-term fiscal policy should be reprioritized to bring public debt on a downward path. The measures aiming to reduce non-priority recurrent and capital spending are steps in the right direction. We encourage the authorities to find additional savings in the capital expenditures, in particular related to large infrastructure projects, where possible.

Efforts to mobilize additional financial resources and enhance fiscal transparency are pivotal. Considering that the fiscal financing gap is estimated at around 4.2 percent of GDP and the BoP financing gap at 4 percent of GDP, the RCF disbursement plays a critical catalytic role. The authorities will need to seek additional financing in concessional terms, preferably from multilateral creditors. We take positive note of the steps taken to improve fiscal transparency, including the regular publication of fiscal data and improving accountability. We concur with staff, that such measures are important during the current crisis-mitigation spending, also to support external financing.

The Maldives Monetary Authority (MMA) should closely monitor the developments in financial markets. While we note that the financial sector is broadly sound, the MMA should monitor credit conditions and provide targeted financial support to financial institutions. The 6-month moratorium on banking loan repayments for those affected by COVID-19 is warranted at the current juncture. The MMA should provide clear regulatory guidance going forward.

Ms. Liu and Ms. Lok submitted the following statement:

We thank staff for the set of informative reports and Mr. Beblawi and Ms. Choueiri for their helpful buff statement. The severe disruptions to tourist activity as a result of the COVID-19 pandemic have significantly weighed on the Maldivian economy. Growth is projected to decline to around -8.1 percent in 2020, with notable downside risks facing the outlook, and Maldives is facing an urgent balance of payments need and a sizeable fiscal financing gap. We therefore support the request for disbursement under the Rapid Credit

Facility (RCF), and hope that this disbursement can catalyze additional support to meet Maldives' financing needs.

We take positive note of the authorities' active and timely response to contain the outbreak and mitigate the associated adverse economic impact. With limited fiscal space, there is a need to re-prioritize resources to healthcare spending and other expenditures that are well-targeted at combating the COVID-19 and supporting affected households and businesses. Particular attention should be paid to those most vulnerable. On the monetary front, the authorities should closely monitor developments and continue to provide targeted support to financial institutions as appropriate to avoid a freezing up of credit and liquidity. We are comforted by the fact that the banking sector is in relatively good shape and see merit in temporary easing of lending terms, where it is prudent to do so and does not undermine banks' risk management.

In the medium-term, sustained efforts would be needed to preserve debt sustainability and rebuild fiscal buffers. We welcome the authorities' commitment to fiscal consolidation, as well as the positive progress in strengthening governance and fiscal transparency. Continued enhancement of public debt and investment management would be key to ensuring resources can effectively support the country's development goals.

With these remarks, we wish the authorities every success in their policy endeavors during this challenging time.

Ms. Riach and Ms. Freeman submitted the following statement:

We thank staff for the papers, and Mr. Beblawi and Ms. Choueiri for their buff statement. We support the Maldives' request for emergency financing of 100 percent of quota under the Rapid Credit Facility (RCF). This request is appropriate given urgent balance of payments needs and the significant economic challenges facing the Maldives as a result of the COVID-19 pandemic.

The Maldives' reliance on high end tourism means that the immediate economic hit will be severe. However, we note staff's assessment that the recovery could be rapid, assuming a resumption in tourism from June and a 31 percent overall reduction in tourism this year. The provision of urgent financing through the RCF, as well as wider support from the World Bank, Asian Development Banks and bilateral partners, will be key to meeting the immediate balance of payments need. We would appreciate staff's assessment

of the additional financing that may be needed and options for sourcing that finance, if tourism (both consumer confidence and the ability to travel) does not resume as expected and the economy instead follows a ‘U shaped’ recovery.

We support the authorities’ response to the crisis, including healthcare spending and quick closure and containment. We also support the fiscal, monetary and prudential policy measures that have been taken. Given the limited fiscal room for investment to aid recovery, we support staff’s recommendation of a review of the ambitious public investment pipeline for 2020 to allow resources to be allocated to the vulnerable and for the health response. We are concerned about the impact of the crisis on debt in the medium-long term – particularly given pre-existing debt levels – though note staff’s assessment that debt will remain sustainable as the tourism sector rebounds. We also welcome the authorities’ commitment to further strengthen fiscal transparency.

Mr. Rozan and Mr. Sode submitted the following statement:

We thank staff for the quality of the documents and Mr. Beblawi and Ms. Choueiri for an insightful buff statement. While the direct impact of the health crisis remains moderate at this stage, the Maldives will suffer from the induced travel restrictions and the global economic slowdown. Given the size of the shock for the economy, we support the authorities request a disbursement of SDR 21.2 million, equivalent to 100 percent of quota, with the full amount to be used for budget support. While this emergency financing will help to cushion the immediate impact of the shock, we encourage the authorities to design a prudent medium-term adjustment strategy.

While staff forecast a V-shaped recovery with a rapid return of tourist arrivals in the second part of the year, a grimmer scenario with a delayed recovery in tourism activity is probable at the current juncture. Could staff comment on the type of policy recommendations it would make in such a scenario, highlighting the difference with current policy recommendations?

Given very limited fiscal space and the strong negative impact of the crisis on the fiscal balance, we encourage the authorities to reallocate part of planned capital expenditures toward crisis affected sectors. Healthcare spending and temporary support to vulnerable households and businesses affected most by the crisis need to be prioritize. In the medium term, we agree with staff that fiscal adjustment based on expenditure containment – supported notably by more efficient public investment management – and better

domestic revenue mobilization is essential. While we welcome the recent announcement regarding the preemptive voluntary extension of the US\$100 million privately placed bond in Abu Dhabi, we encourage the authorities to further improve public debt management and seek all opportunities to improve the debt profile.

We support staff call to the MMA to provide targeted liquidity support and temporary and targeted financial macroprudential easing. However, could staff comment on the potential cost of these measures in case of a downward scenario where a significant number of firms experience solvency rather than liquidity problems? We also support staff recommendation to maintain the currency peg.

We encourage the authorities to pursue their efforts to improve governance, fiscal transparency and resilience to natural disaster. While the immediate response to the crisis will be prioritize in the coming weeks, the authorities should not backtrack on recent improvements made in these areas. Fiscal transparency through the publication of fiscal data and improved accountability, will be essential to monitor crisis-related spending. The Strategic Action Plan to improve climate change resilience recently launched should guide policy actions for the crisis recovery.

Mr. Mouminah, Mr. Alkhareif and Ms. Alzamel submitted the following statement:

We thank staff for their well-written report and Mr. Beblawi and Ms. Choueiri for their helpful buff statement. Since we are in broad agreement with the staff appraisal, we would like to limit our remarks to the following issues.

We support the authorities' request for a disbursement under the Rapid Credit Facility (RCF) to address the urgent balance of payment needs caused by the COVID-19 crisis. In this context, the authorities should be commended for the swift measures taken aimed at containing the spread of the virus and minimizing its impact on the economy and the population, including by increasing social spending. Also, we hope that the Fund's financial assistance under the RCF would help catalyze additional support to bridge the remaining financing gap. In addition, it is reassuring that the country's capacity to repay the Fund remains adequate. We are encouraged by the Maldives Monetary Authority (MMA)'s commitment to preserve the exchange rate peg, which has been effective in anchoring inflation and promoting financial stability. We encourage the MMA to avoid the monetary financing of government operations.

Once the crisis subsides, the policy priority should focus on ensuring Maldives' macroeconomic stability. Here, we encourage the authorities to pursue continued fiscal consolidation efforts based on reprioritizing and reducing capital spending over the medium term to free resources. Also, we encourage pursuing a prudent debt management strategy given that the country remains at a high risk of debt distress. In this context, we invite staff to comment on the possibility of Maldives to pursue temporary debt service suspension offered by the G20? Moreover, we take comfort in the authorities' commitment to work closely with the Fund to enhance fiscal transparency and improve fiscal responsibility framework, as laid out in their Letter of Intent.

With these remarks, we wish the Maldivian authorities every success in their policy endeavors.

Mr. Bhalla and Ms. Dhillon submitted the following statement:

We thank staff for their well-written staff report and Mr. Beblawi and Ms. Choueiri for their comprehensive buff.

Maldives is a small, tourism-dependent economy and has been hard hit hard by the COVID-19 outbreak, putting pressure on the BOP and the fiscal budget. In the face of declining tourism revenues, the real GDP growth is projected to decline to -8.1 percent in 2020. The outbreak comes as a significant shock to the Maldives and we can go along with the staff supported authorities' request for a RCF disbursement. But we remain concerned on the significant debt sustainability risks and lack of policy space to safeguard macroeconomic stability.

We welcome the response of the authorities to minimize economic disruptions through fiscal, monetary, and prudential measures. These policy responses would need a sustained attention to spending reductions, especially for public investment plans, and a reallocation of resources towards healthcare spending and measures for vulnerable households and businesses most affected by the crisis. Beyond this, the measures for preventing a tightening of liquidity conditions and assisting financial institutions are positively noted, including the temporary, transparent, and well-targeted moratorium on bank loan repayments.

Most critically, the high risk of debt distress and external vulnerabilities necessitate a careful recalibration of and medium-term policies. We recognize that debt sustainability hinges critically on the authorities'

commitment to fiscal consolidation and favorable short and medium-term macro assumptions, including resumption of travel and tourism. Therefore, while the RCF disbursement plays a catalytic role for additional assistance, we would urge the authorities to focus on grant financing to make up for the expected loss in tourism revenue and avoid a further increase in debt. We also note that the authorities hope to benefit from the coordinated approach agreed upon by the G20 and the Paris Club on the time-bound suspension of debt service payments. However, could staff offer an assessment of the extent of debt suspension required for Maldives to service debt in the near term?

We welcome the authorities' commitment to ensuring a high level of transparency of government accounts, including the size of contingent liabilities linked to government guarantees and other forms of government support. In this context, the continued working with the Fund for enhancing the fiscal responsibility framework and strengthen the operation and risk supervision of state-owned enterprises is well noted.

With these comments, we wish the authorities the best in these difficult times.

The Acting Chair (Mr. Zhang) made the following statement:

Good afternoon. This session is on Maldives. World Bank staff is also attending. Twenty-two Directors issued 14 gray statements. I want to recognize and thank you for those.

As you know, the Maldivian tourism sector has been hit very hard by the pandemic, which I am sure is a similar case for other tourism-dependent island economies. This is leading to a sharp contraction in economic growth in Maldives. The authorities have actively taken a series of temporary measures to support vulnerable households and businesses. However, as you acknowledged in your gray statements, Maldives is urgently in need of external financing, given its limited policy space and a marked decline in tourism revenue. You raise a concern that Maldives is at high risk of debt distress. All of you stressed the importance of restoring debt sustainability once the crisis abates. The Fund's financial assistance is expected to help catalyze additional concessional support from other partners.

Before we start, I just want to remind ourselves to try to keep our interventions as brief as possible; normally no more than three minutes.

The staff representative from the Asia and Pacific Department (Mr. Cerutti), in response to questions and comments from Executive Directors, made the following statement:<sup>1</sup>

We thank Executive Directors for their questions. We have issued responses to most of your questions in the gray statements, and I plan to cover a few more during my brief oral statement. Before doing so, please let me also offer my thanks to Mr. Beblawi and Ms. Choueiri, as well as to the authorities and the staff of the Maldives Monetary Authority and the ministry of finance for their collaboration before, during, and after the RCF mission.

These are difficult times for all, but we really appreciate the authorities' predisposition for constructive dialogue and exchange of information, while often having to surmount not only time differences but also the lockdowns and curfews that were in place in Malé, the capital of the Maldives.

As highlighted in the staff report and reflected in Directors' gray statements, the nature of the shock facing the Maldives is very large, in a context of unprecedented uncertainty. The staff's baseline scenario reflects the World Economic Outlook (WEO) baseline of a gradual normalization of economic activity by the second half of 2020. In this context, the short-term policy recommendations aim to preserve the capacity of the economy to receive back tourists and dampen the social costs of the pandemic, while also supporting the continuation of the currency peg and preserving the stability of the banking sector. In the medium term, a sustained fiscal consolidation is more than necessary, something that the authorities also agree with, and has also been reflected in the gray statements.

Nonetheless, there are many unknowns with regard to the pandemic. One of the key unknowns that we face is the duration of the shock; in the case of the Maldives, how quickly the economy, especially tourism, will recover. A sharper or prolonged decline in economic activity could result in larger and multi-year external and fiscal financing gaps in the Maldives. Policy trade-offs will be much more difficult and complicated, as the health of the banking sector could be impaired, the size of the expenditure cuts will be larger, and the cost of preserving the peg would increase.

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<sup>1</sup> Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

In this context, if these types of substantial downside risks materialize, both additional domestic adjustments and more prolonged and higher international support will be needed. A Fund-supported program could provide a useful framework for such adjustment and facilitate catalyzing larger, additional external support that will be needed. Looking further ahead, as we also highlighted in the staff report, the Maldives also needs to focus on medium-term issues, including fiscal and external sustainability, improving structural issues, and building resilience.

We agree with the authorities, that we will continue in close dialogue in terms of policies, capacity development, and technical assistance, as was the case before the authorities' request for the RCF. The authorities will evaluate their different options based on how the situation evolves.

Mr. Zedginidze made the following statement:

I thank staff for the report. I just want to make a few comments.

There is no doubt the Maldives has been hit hard, like many other countries that had been dependent on tourism. Therefore, we support the disbursement. Also, we believe that the IMF's role in catalyzing donor financing should be key in this regard.

I have just two additional comments for emphasis. The IMF's recent efforts to mobilize finances in Africa was very impressive. Also, the donor conference, which is planned in the Middle East and Central Asia region, is very much appreciated. So I was wondering if a similar kind of support could be extended to the Pacific and Asia region.

Second, not related with the Maldives but more generally about the approach to help countries mobilize financing. When a country has a strong medium-term outlook beyond COVID-related crises and this view is broadly shared by staff, I think it is very important to be emphasized in the surveillance as much as possible to inform credit agencies and potential investors. Obviously, this does not mean that we should neglect any risks or structural weaknesses. Of course, we should flag them as well. Again, in the case of Maldives, we see an excellent balance, which is very welcome. My point is just to emphasize the role of analytics generally under this exceptional uncertainty. Also, the trust that the IMF has in the international community should be used as much as possible to facilitate capital flows toward the affected countries.

Mr. Sigurgeirsson made the following statement:

Like some other chairs, we are somewhat concerned about debt sustainability. Given the scale of vulnerabilities, we fear that the baseline may be somewhat optimistic, which could exacerbate the vulnerabilities highlighted in the Debt Sustainability Analysis. We, therefore, encourage the authorities to prepare contingency plans which could include exploring options for grants and concessional financing, as well as considering further adjustments to capital expenditure, where possible. A Fund-supported program, as mentioned by staff earlier, would be very helpful in this regard.

Second, on emergency spending safeguards, we welcome the authorities' commitment to transparency and the staff's response to our technical question on the issue. In the past weeks, we have seen several countries commit to having their use of emergency financing subject to an ex post independent third-party audit. We have been very supportive of such pledges, and I assume that such a route is under consideration in this case.

With these remarks, we wish the authorities the best in these challenging times.

Ms. Mahasandana made the following statement:

We issued a gray statement with five other chairs, supporting the approval of Maldives's request for the RCF disbursement, so I will make only two comments today.

First, I would like to associate myself with Mr. Sigurgeirsson's comment on debt sustainability. We would like to stress the importance for staff to provide more up-to-date assessments on the financing gap and debt sustainability so as to support the authorities in exploring the financing options.

Although the staff assess Maldives' debt to be sustainable in the medium term, we find the underlying assumptions of a rapid recovery in tourism and growth to be somewhat optimistic. Given the high uncertainty about the length and intensity of the COVID-19-related disruptions, we encourage the staff to closely monitor the pandemic situation and economic developments and to update their analysis on a continual basis in order to advise the authorities on the appropriate policy trade-offs proactively.

As Maldives is at risk of high debt distress, it is important that the authorities continue to seek further international support and to start the discussions early for a successor Fund arrangement, if necessary. In this regard, we take positive note that Maldives is able to benefit from the G-20 debt relief initiative. However, we are concerned that the authorities may have to make the difficult choice to cut their expenditures further to support the healthcare and fiscal spending to deal with COVID-19, while keeping debt sustainable.

Second, on the external sector, we take positive note from the staff's response that Maldives is not at an immediate risk of foreign exchange (FX) shortage, even if tourism does not recover, as projected in the second half of 2020. However, as international reserves are projected to decline, could the staff elaborate on what other measures the authorities have to maintain the exchange rate peg to anchor external stability?

Mr. Fachada made the following statement:

I thank Mr. Beblawi and Ms. Choueiri for their helpful buff statement and staff for the report and the initial comments this afternoon.

We issued a joint gray statement with Ms. Mahasandana, who just spoke, and four other chairs representing small developing states. I would like to reiterate that the challenges that Maldives faces highlight the struggles of many other small island states in this crisis, including Cabo Verde in my constituency, which the Board just discussed this afternoon.

Like most small island states, Maldives is heavily dependent on the tourism sector. Prior to the COVID-19 pandemic, the economy was on a robust medium-term growth path. Nevertheless, this pandemic has brought the tourism sector to a complete standstill and, together with the prevention and containment measures, this has forced the economy to stop.

We note that the economic standstill brought significant losses of revenues and large emerging fiscal and external financing gaps amidst the already elevated debt levels. The uncertainty of the recovery is already weighing on the outlook; and, to make matters worse, the threat of natural disasters and climate change further fuel the risks to the downside.

That said, we stress the importance of the Fund in helping to fill the financing gap of small states, as well as the catalytic role that the Fund plays in rallying support from multilateral institutions, bilateral partners, and donors

to assist the authorities in maintaining debt sustainability and macroeconomic stability. In most cases, these are middle-income countries that do not benefit from the same debt relief initiatives and donor support of low-income countries. However, if the international community does not help, these countries risk seeing all the efforts exerted over the past years erased and falling back into the group of low-income countries.

The Acting Chair (Mr. Zhang) made the following statement:

Thank you, Mr. Fachada. I think your concerns on the risks to debt sustainability and the financing gap in small island economies in general are well recognized. I can assure you that the management and staff are actively working on it.

Mr. Merk made the following statement:

We thank the staff for the good work and Mr. Beblawi and Ms. Choueiri for the helpful buff statement.

While limiting the severe impact of the pandemic surely represents the most immediate concern, preserving macroeconomic stability remains of key importance as well. Maldives's public debt-to-GDP ratio was already elevated before and is now projected to rise sharply amidst the impact of the pandemic. Therefore, we concur with staff's recommendation to reduce nonpriority spending and adjust the composition of the budget, including, in particular, the recommendation to critically re-evaluate flagship infrastructure projects.

As the downside risks appear substantial, we recommend to fully prepare adequate fiscal contingency measures to ensure that critical healthcare and other needs can be met without jeopardizing debt sustainability, very much in line with the remarks of the previous speakers this afternoon.

We take positive note of the renewed momentum in the fight against corruption. We concur with staff on the need for further action to improve governance, transparency, and accountability, especially given the increased spending for crisis mitigation going ahead.

Mr. Alkhareif made the following statement:

I join others in thanking staff for the comprehensive work and Mr. Beblawi and Ms. Choueiri for the insightful buff statement. We have issued our gray statement, in which we have supported the authorities' request for the

RCF, given the urgent balance of payments needs. We commend the authorities for their swift measures to contain the spread of the COVID-19 virus.

We are also encouraged by the Maldives Monetary Authority's commitment to preserve the exchange rate peg, which has been effective in anchoring inflation and promoting financial stability. We encourage the central bank to avoid the monetary financing of government operations to ensure financial stability.

Like Mr. Sigurgeirsson and others, we encourage the authorities to promote fiscal sustainability and proceed with the fiscal consolidation over the medium term, given the country remains at a high risk of debt distress. Like Mr. Farber and Mr. Shenai in their gray statements, we encourage the authorities to pursue the temporary debt service suspension offered by the G-20 countries, and we thank staff for their answer to our question on this issue.

We urge staff to work closely with the authorities to ensure debt sustainability, including through capacity development. We think this is a serious issue and the authorities should pay closer attention to maintaining fiscal sustainability.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Chikada made the following statement:

Let me start by thanking staff for the informative papers, as well as the detailed answers to our questions and further elaborations today. We also thank Mr. Beblawi and Ms. Choueiri for the helpful buff statement. We issued a joint gray statement with Mr. Trabinski and Mr. Muradov, and we expressed our support for Maldives's request for a disbursement under the RCF. I would like to make some brief comments.

First, we commend the authorities for their swift measures to contain the pandemic, despite the strong regional and global linkage, particularly through tourism.

Second, as clearly shown in the staff report, Maldives's economy has been hit hard by the sharp contraction in tourism. Actually, Maldives is perhaps one of the hardest-hit countries among our membership in terms of

the extent of the downward revision in the growth projections. However, at this juncture, we are of the view that the stagnation of tourism and the health of the economy is probably likely to be more protracted than assumed in the already dire baseline scenario which, in turn, will further worsen the external and fiscal financing gaps, as explained by the mission chief.

Third, therefore, and coupled with Maldives's high risk of debt distress, we join Mr. Sigurgeirsson and the other Directors in underscoring the importance of contingency plans. We encourage the authorities to exercise careful debt management and to seek grant financing and truly concessional loans to address the financing gaps. Also, it may become necessary for the major bilateral creditors to further consider how best to help the country, given its vulnerabilities. I would like to ask staff to continue close monitoring of the developments and to help the country.

With this, we wish Maldives every success in overcoming this difficulty and truly hope for a safer environment and an early resumption of tourism activities.

Mr. Farber made the following statement:

We thank staff for bringing this program to the Board under these challenging circumstances. We issued a gray statement, supporting the RCF. I would like to focus on one point this afternoon for emphasis.

We have noticed that in several small open tourism-dependent countries, the staff has projected a V-shaped return in tourism demand, which underpins recoveries in external and fiscal balances and economic growth, as in this particular case for Maldives. We appreciate the staff's comments today and also in the staff report. We thought staff was candid in their optimism of their projections and realistic about a potential downside risk-based scenario, as mentioned by other chairs today, including Mr. Sigurgeirsson. The probability of a downside scenario in the tourism recovery seems significant, given the likely lagged effect on tourism demand and potential for secondary outbreaks of COVID-19, which could lengthen social distancing measures and continue the shelter-in-place policies adopted by members during the crisis. We think that if such a downside scenario materializes, then the authorities will have to undertake an even more significant and ambitious adjustment program, which would best be anchored by an upper-credit tranche program.

The point I would really like to make for both thought and discussion is using Maldives as an example, rather than specifics, of the idea of what type

of recovery to model. Given the high degree of certainty, choosing the most optimistic one for a country that is at high risk of debt distress seems somewhat problematic.

My thought is that the idea of a one-size-fits-all for a recovery model, maybe that could end up being a little bit more nuanced going forward. For instance, while you cannot have an individual recovery path for each country that is out there, countries that rely on discretionary drivers to their economy certainly may recover differently than the ones that have nondiscretionary economy recoveries. Given that there is even now a recent discussion of a second wave, which would, obviously, be very disabling to a lot of countries that rely on tourism or discretionary-type drivers to their economies. I just want to note that perhaps other scenarios should be laid out, particularly for countries that have this kind of debt scenario. Should such a scenario go forward, we encourage broad burden sharing among creditors to help put Maldives on a sounder footing, including through a reprofiling and a restructure of bilateral claims.

With that, we wish the authorities the very best.

The Acting Chair (Mr. Zhang) made the following statement:

Thank you, Mr. Farber. Your comments on the growth model certainly are very illustrative, so I am sure the staff will elaborate more on that. I certainly agree with you – there is no one-size-fits-all model.

Mr. Ray made the following statement:

Let me begin by thanking staff for the report and Mr. Beblawi and Ms. Choueiri for the helpful buff statement. I was going to make the same point that Mr. Farber has just made.

As colleagues know, I have been concerned about this issue from the WEO. I know that the V-shaped, somewhat optimistic scenario, as Mr. Sigurgeirsson and Ms. Mahasandana have said, has been imposed on area departments centrally. It just does not seem to me to be that helpful in a case such as Maldives or, indeed, in some of the cases in our own constituency.

In the staff report, the emphasis is on the fact that the shock is temporary and that while it may not be a V, it might be a fat-bottomed U, which is an interesting term to use, but that was the term. Maybe that is the case, and that would be a good outcome, but it is quite possible some

structural changes could occur. There could be a behavioral change on the demand side, for example. There could be price changes which could affect foreign investment decisions. There could well be permanent losses of income for some of these small states, particularly those that are tourism-dependent or commodity-dependent. That is quite a different scenario for policy decision making, even in the short term, given, as many colleagues have pointed out, the debt profile. I do wonder whether the staff is thinking about different scenarios and what the implications might be for the advice they are providing the authorities in these circumstances and the implications for, as Mr. Farber said, possibly debt operations in the context perhaps of the upper-credit tranche program.

In the case of the Maldives, like a lot of these countries, they are also subject to other shocks. Maldives is particularly vulnerable to climate change and also to natural disasters, which are linked to climate change. So they are literally another shock away from a really big problem. This is something that staff across the Fund should be thinking about. I wonder whether the area departments that have these sorts of economies in them are discussing collectively how they might think about framing advice and how they might think about designing upper-credit tranche programs, which we may get to pretty quickly.

The staff representative from the Asia and Pacific Department (Mr. Cerutti), in response to further questions and comments from Executive Directors, made the following additional statement:

I agree with the Directors. Let me give you some further answers.

Even though I am new in the Asia and Pacific Department – I have only been there for less than a year – I have seen an organization that has put together a lot of videoconferences, bringing together South Asian countries, different country groups in Asia, and engaging also with the World Bank and the Asian Development Bank. At the departmental level, there are also a lot of efforts to meet operational demands, and to hear what the authorities need.

In the specific case of the Maldives, we are very aware of the needs of this constituency, and the need for international support. We have been in very close contact with the World Bank, the Inter-American Development Bank, the International Finance Corporation, and other donors. We intend to publish the staff report as soon as possible because it will be used in the board meetings of other international institutions. The IMF's catalytic role is there. I think everybody understands the need not only to offer bridge financial

support, but in the case of Maldives, to foster grants and concessional lending. As you have seen in the international response, that seems to be the case.

We also agree on the need to work closely with the authorities. We were doing that even before we got the RCF request, and we will continue doing that. These are very difficult times. It is difficult times for everybody, in the sense that there is a lot of uncertainty. As Directors have mentioned, there is some asynchronicity in how the pandemic has hit different countries. Tourism could be delayed further than in other countries. We were thinking about that. Based on history, every time these types of shocks have happened, we have seen very steep recoveries in the Maldives. I agree that this is difficult to predict at this time, and we should be cautious. That is why we plan to keep working closely with the authorities.

Independent of the size of the shock, in the case of the Maldives, many of the policies that the authorities need to implement are all going more or less in the same direction. There is a need to reprioritize nonpriority current expenditure, and to re-evaluate capital expenditures. The authorities have introduced, for example, an income tax. That is a measure that once the situation normalizes will help them in the medium term. The size of the policy responses will change with the size of the shock and how long it will continue. But many of the needed policies seem to be going in the same direction. The problem is that it is too early to say if we are facing a permanent loss of income or if tourism will change permanently. I believe it is a bit premature for that. In that sense, I agree that there is a lot of uncertainty. Staff is continuously evaluating the different scenarios. We will keep in close contact with the authorities and the other donors to maintain our coordination.

The staff representative from the Strategy, Policy, and Review Department (Mr. Haksar), in response to questions and comments from Executive Directors, made the following statement:

I will just make one general comment about some of the questions and remarks that Directors have made about the outlook, scenarios, and country-specific risks.

From a broader cross-country perspective and review of the various country papers that have been coming through, we have seen the staff trying very hard to come up with a baseline that is broadly in line with the current WEO baseline but, of course, tailored to individual country circumstances. There is significant variation in the WEO baselines across the membership, depending upon country characteristics. We also hear very loud and clear the

concerns and share the concerns that the Directors have raised about the tremendous uncertainty and the fact that the line between the baseline and adverse is probably getting quite blurry at the current moment.

What we are quite aware of and are acutely conscious of in the discussions that we are having, as programs come through and the country teams continue to do their work, is whether what is being presented as an adverse scenario may, in fact, becoming more the baseline at some point in the not so distant future. That is something which we are all going to be working on and thinking about and taking continued guidance from the Board on as we bring more programs to the Board.

Mr. Beblawi made the following concluding statement:

I would like to thank Directors and staff for their support and understanding of the situation of the Maldives. As a small open economy that is reliant on tourism, the Maldives has been severely affected by the COVID-19 pandemic. It is one of the member countries that has seen the largest downward revision in its growth prospects. An urgent balance of payments need and a sizable fiscal financing gap have also resulted from the pandemic.

Against this background, I want to thank the staff, management, and Directors for their prompt support to the Maldives. The staff team, Mr. Cerutti, Mr. Jonas, and Ms. Moussa, have worked rapidly and diligently with the authorities. Their efforts are much appreciated.

In addition to our buff statement, I would like to elaborate on two points that were raised in several gray statements.

First, on debt sustainability, I want to assure colleagues that the government remains committed to a fiscal consolidation to restore fiscal and debt sustainability. On the revenue side, the authorities will monitor the implementation of a newly introduced personal income tax. Once the crisis is overcome, they will also carry out the planned increase in fees and charges, as detailed in our buff statement. Importantly, they are also continuously evaluating their fiscal priorities across current and capital spending, and they have canceled new investment projects, amounting to 3 percent of GDP in 2020. Following the completion of the ongoing projects, they expect public investment to further decline to levels that would ensure fiscal and debt sustainability.

The government also welcomes and hopes to benefit from the coordinated approach agreed upon by the G-20 and Paris Club, supported by the Fund and World Bank, for the temporary suspension of debt service payments to bilateral official creditors and possibly private creditors. They look forward for the procedure to be articulated and would appreciate the Fund's support in this regard.

Second, on the monetary policy, I appreciate the recognition in the joint gray statement of Ms. Levonian, Ms. Mahasandana, Mr. Ray, Mr. Andrianarivelo, Mr. Fachada, Ms. Mannathoko, as well as others on the Maldives Monetary Authority's efforts to maintain the exchange rate regime. The authorities, indeed, intend to avoid monetary financing of government operations, as indicated in the letter of intent.

To conclude, I would like to thank the staff, management, and Directors again for their rapid support of the Maldives at this difficult juncture.

The following summing up was issued:

Executive Directors noted that global and domestic measures to contain the COVID-19 pandemic are severely affecting the Maldivian economy, especially tourism activities, creating a fiscal gap and an urgent balance of payments need. They considered that emergency financial assistance from the Fund would help address immediate financing needs and catalyze additional concessional support from other development partners. Directors encouraged the authorities to prepare for a more adverse scenario, notably contingency planning and active engagement with creditors to secure grant financing and/or debt relief.

Directors commended the authorities for their proactive and comprehensive measures to contain the pandemic and mitigate its economic fallout. They particularly welcomed efforts to provide immediate relief to the most vulnerable, by increasing public health spending and support to the most affected households and businesses. They also acknowledged the central bank's action to support liquidity and credit conditions, while safeguarding financial stability. Directors stressed the need to ensure that these measures are well-targeted, temporary, and transparent. Given limited fiscal space and high public debt, they also encouraged efforts to reprioritize non-essential current spending and scale back investment projects.

Directors stressed the importance of restoring fiscal and debt sustainability over the medium term through growth-friendly fiscal consolidation. They recommended limiting current spending, reducing capital spending, and further improving public financial management and budget control. Addressing climate-related vulnerabilities and building up policy buffers remain key medium-term objectives. Directors also called for sustained efforts to strengthen governance and transparency.

The Executive Board took the following decision:

**Maldives—Request for Disbursement Under the Rapid Credit Facility**

1. Maldives has requested a loan disbursement in an amount equivalent to SDR 21.2 million (100 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.
2. The Fund notes the intentions of Maldives as set forth in the letter from the Minister of Finance and the Governor of the Maldives Monetary Authority, dated April 16, 2020, and approves the disbursement in accordance with the request. (EBS/20/62, 04/16/20)

Decision No. 16765-(20/48), adopted  
April 22, 2020

APPROVAL: November 24, 2021

CEDA OGADA  
Secretary

## Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

**Financing Gaps**

- 1. The emergency funding from the Fund will cover only 14 percent of the external financing needs, but it is expected to catalyze additional financial assistance from the World Bank, the Asian Development Bank, and bilateral partners. How advanced are discussions with these partners and how do authorities intend to fund the unidentified residual amount of \$70 million?**
- 2. Could staff elaborate on the existing and expected financing commitments from other IFIs and bilateral partners?**
- 3. In this context, we invite staff to comment on the possibility of Maldives to pursue temporary debt service suspension offered by the G20**
  - The support of the World Bank consists of US\$7.3 million under COVID-19 Emergency Response and Health Systems Preparedness Project, and US\$10 million under the Catastrophe Deferred Drawdown Option (Cat DDO). The World Bank is also currently considering increasing the amount of assistance. The terms are currently projected to be one-half as grants and the other half in the form of concessional loans, following IDA concessional terms. Also, as included in the staff report, IFC is also considering a loan of US\$ 50 million to the Bank of Maldives.
  - While the staff report includes financing by the ADB in the amount of about US\$ 27 million in the context of its Countercyclical Support Facility Program, staff were recently informed that ADB support could increase to US\$ 50 million (keeping the same share of 50 percent grant and 50 percent concessional loan breakdown).
  - The Maldives are also negotiating a US\$ 20 million loan from OFID, as well as support from other donors. For example, in the context of COVID-19 help, the European Union recently agreed to provide grants to the Maldives (EUR 1 million to the health sector and EUR 2 million to the tourism industry).
  - More generally, it is also likely that the Maldives could cover part of the unidentified portion through the G20 debt relief initiative.
- 4. Can staff provide additional comments on whether Maldives could face significant difficulties in servicing its external debt obligations in the next year**

**and on the need for further international support, including the prospect for further debt relief and restructuring? How would such operations change Maldives' macroeconomic outlook?**

5. **We would appreciate staff's assessment of the additional financing that may be needed and options for sourcing that finance, if tourism (both consumer confidence and the ability to travel) does not resume as expected and the economy instead follows a 'U shaped' recovery.**
6. **Could staff offer an assessment of the extent of debt suspension required for Maldives to service debt in the near term?**
  - The staff report clearly lays out that risks to debt sustainability could increase if the recovery is more protracted than assumed in the baseline scenario. Even though the current debt service schedule in 2021 is not as elevated as in 2022 (see table below), a sharper and/or prolonged decline in economic activity could trigger larger and multiyear external and fiscal financing gaps. Further international support would be needed in this scenario. The precise amounts are very difficult to estimate at this stage given the high uncertainty about the length of the COVID-19 related disruptions in the Maldives and other countries.

**Maldives: External Debt Service, 2020-22**

(millions of USD)

	<u>2020</u>	<u>2021</u>	<u>2022</u>
<b>Multilateral</b>	12.45	18.75	19.62
<i>of which: IDA</i>	2.81	4.05	4.05
<i>of which: ADB</i>	5.67	6.54	6.47
<i>of which: Other</i>	4.13	8.16	9.11
<b>Bilateral</b>	73.91	118.72	120.99
<i>of which: Paris Club</i>	2.81	3.21	2.00
<i>of which: Non- Paris Club</i>	71.10	115.51	118.99
<b>IMF</b>	0.15	0.00	0.00
<b>Commercial 1/</b>	37.69	40.45	278.36
<b>Total</b>	<u>124.21</u>	<u>177.92</u>	<u>418.97</u>

1/ Commercial debt includes debt service from the outstanding eurobonds.

7. **In the event that the additional support falls short of the financing gap, can staff elaborate on available options for the authorities?**
  - If the international support falls short of the financing gap, the authorities would face a difficult tradeoff between making further cuts to expenditure (current and capital) and being able to spend to address COVID-19, while maintaining external debt servicing and not further increasing the pressure on domestic financing.

## Monetary Policy & External Sector

**8. Could staff provide an update on the potential for foreign exchange shortages and a growing parallel market premium, particularly if tourism does not recover in a “V-shaped” pattern as staff projects in their baseline scenario?**

- If tourism does not recover as projected in the second half of 2020, this would further reduce foreign exchange, but would not necessarily result in immediate risk of foreign exchange shortage as imports and other uses of foreign reserves (travel abroad) would recover more slowly as well. In addition, the possibility of US\$150 million foreign currency swap with the Reserve Bank of India could provide temporary support. As for the impact on parallel market premium, this depends on how the demand and supply will be affected by delayed recovery. The tourist industry is the main source of supply while demand comes mainly from local importers and from the domestic population for their tourism, medical expenses and education abroad. Recovery of these activities will likely be delayed as well in the case of delayed tourism recovery, but the net effect of reduced supply and demand on the parallel market premium is difficult to project, and it will also be a function of the impact on the fiscal accounts. According to anecdotal evidence, the premium has widened from around 2 percent before the outbreak, to around 6-7 percent following the announcement of the Economic Recovery Plan and the MMA measures.

**9. We note from the market financing risk indicators in the DSA that the EMBI spread seems relatively low given broader developments in frontier markets as of late and high country-specific risks. Could staff provide additional comments on this?**

- As in the case of other frontier markets, the yields on bonds traded in the secondary market has increased. The maiden US\$250 million Eurobond is traded on secondary markets, and, as of 4/20, its yield increased to 17.2 percent compared to 8.8 percent in end-January. Please note that a correction was issued on Figure 5 of the DSA as Maldives does not have currently an EMBI spread.

**10. We support staff call to the MMA to provide targeted liquidity support and temporary and targeted financial macroprudential easing. However, could staff comment on the potential cost of these measures in case of a downward scenario where a significant number of firms experience solvency rather than liquidity problems?**

- The main objective of targeted liquidity support and macroprudential easing is to assist firms with addressing liquidity problems, leverage the fiscal measures and

supporting the economy while preserving and banks' soundness and financial stability. Should a downward scenario materialize, the risk that firms become insolvent rather than illiquid would increase and potential costs to banks and also to the budget would correspondingly rise. Banks' capital position is strong, and they have the capacity to absorb some losses, but inevitably, a prolonged shutdown of the economy would impose large costs on all sectors. Estimating such costs at this point is subject to significant uncertainty, but it could be argued that they would grow in non-linear fashion over time.

## **Governance**

- 11. We concur with staff on the need for further action to improve governance, transparency and accountability, especially given increased spending for crisis mitigation. We would be interested in staff's view on monitoring, through adequate post-disbursements safeguards, the actual use of the financial resources provided in the case of the Maldives.**
- 12. Could staff provide information on whether the authorities intend to allow the use of RCF funds to be subject to an ex-post independent third-party audit?**
  - Given the large shock to the economy and to budget revenues, the authorities will be hard-pressed to continue financing critical government functions and the increased spending on healthcare. As highlighted in the LOI, the authorities are committed to ensuring maximum effectiveness of the COVID-19 measures by targeted assistance programs and strong governance and transparency in their implementation. The authorities have recently enhanced financial controls by: (i) establishing commitment controls system; (ii) establishing an internal audit unit at MoF; and (iii) starting to publish results of external audit (although with delay). For example, as part of the plan to address the COVID-19 outbreak, the authorities set out, and published on the Finance Ministry website, new procedures for single-source procurement and office supplies to ensure proper monitoring of spending during the crisis. In addition, public finance and budget transparency is supported through the publication of the annual budget, a citizen budget and quarterly budget reports.

## **Future Fund Engagement and Adverse Scenarios**

- 13. We would appreciate if staff could comment on the perspectives for and the authorities' views on a follow-up program with UCT conditionality, given that in staff's assessment "[t]he Maldives could benefit from an Extended Credit Facility (ECF) arrangement that focuses on fiscal and external sustainability" (para. 23).**

**14. Could staff elaborate on the timeline for a potential ECF arrangement? Are the authorities exploring other ways to close the financing gap?**

- Staff will respond to this question during the Board meeting

**15. While staff forecast a V-shaped recovery with a rapid return of tourist arrivals in the second part of the year, a grimmer scenario with a delayed recovery in tourism activity is probable at the current juncture. Could staff comment on the type of policy recommendations it would make in such a scenario, highlighting the difference with current policy recommendations?**

- Staff will respond to this question during the Board meeting.