FOR AGENDA

SM/08/261

July 31, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Maldives—Staff Report for the 2008 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2008 Article IV consultation with Maldives, which is tentatively scheduled for discussion on **Wednesday, September 10, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Maldives indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Weerasinghe (ext. 38780), Mr. Aiyar (ext. 38638), and Ms. Oura (ext. 38166) in APD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, August 8, 2008; and to the Asian Development Bank, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

MALDIVES

Staff Report for the 2008 Article IV Consultation

Prepared by the Staff Representatives for the 2008 Consultation with Maldives

Approved by Daniel Citrin and Adnan Mazarei

July 30, 2008

- **Consultations:** Held in Male during June 18–30, 2008 with President Gayoom, Finance Minister Ibrahim, Governor Jihad, other economic ministers and senior officials, and market participants.
- **Team:** Messrs. Weerasinghe (Head) and Aiyar, and Ms. Oura (all APD).
- **Previous Article IV consultation:** The 2007 Article IV consultation was concluded by the Executive Board on July 30. Directors agreed that the main challenge for Maldives will be to ensure that broadly favorable growth prospects are supported by a prudent fiscal policy and a viable macroeconomic framework. Many Directors disagreed with the staff assessment that the Maldives' exchange rate was fundamentally misaligned, although they concurred with the view that fiscal slippages in 2007 and beyond could eventually undermine competitiveness and the dollar peg.
- **Exchange rate system:** Maldives' exchange rate regime comprises a conventional fixed peg against the U.S. dollar. Maldives continues to avail itself of the transitional arrangements under Article XIV of the Fund's Articles of Agreement, but no longer maintains Article XIV restrictions. Maldives is yet to accept the obligations of Article VIII, Sections 2, 3, and 4, but maintains no restrictions on the making of payments and transfers for current international transactions.
- **Economic statistics:** Maldives' statistical base is adequate to conduct effective surveillance. Technical assistance is being provided to improve coverage in certain areas.
- **Publication:** No staff report has been published thus far, although PINs have been. The authorities have not yet indicated their consent to the publication of this year's documents.

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EXECUTIVE SUMMARY

The Maldives continues to grow robustly, underpinned by a tourism sector that has rebounded strongly from the Asian tsunami. Rapid bed-night growth, together with construction activity, has kept growth high in the face of a fall in the fish catch. Inflation has picked up markedly due to soaring food and oil prices. The exchange rate peg to the dollar is appropriate and will continue to serve the country well provided it is supported by prudent fiscal policies.

The main challenge for the Maldives is to ensure that favorable growth prospects are not undermined by fiscal excesses and consequent macroeconomic instability. In recent years, government expenditure, especially domestically financed current expenditure, has increased to remarkably high levels. Although some increase in expenditure was fully justified in response to the tsunami, most of the additional spending is unrelated to relief or reconstruction measures. The authorities' laudable commitment to zero domestic financing is therefore premised on a series of ad hoc nontax revenue measures, which carry high implementation risks and would be difficult to sustain over the medium term.

Key issues discussed during the consultation were:

- **The 2008 budget.** A substantial planned increase in domestically financed expenditures was initially to be offset by a large receipt from a transshipment port. However, that receipt has been delayed until 2009, and the authorities intend to fill the shortfall by leasing an additional 30 island resorts. Staff urged the government to identify contingent expenditure cuts in case these ad hoc revenue measures fail to materialize fully. The alternative—monetizing the deficit—would stoke already high imported inflation and increase external vulnerabilities.

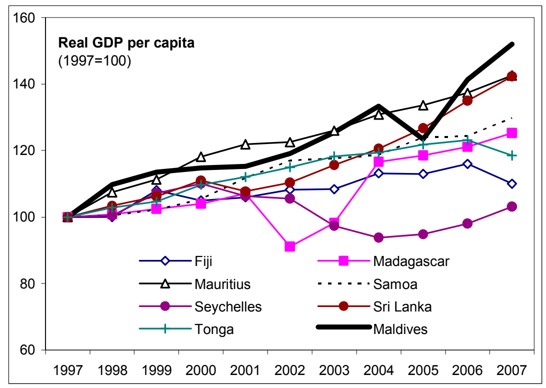
- **Fiscal reforms.** Going forward, a medium-term fiscal framework (MTFF) should be developed to prioritize spending within a realistic resource envelope. Current expenditures will need to be substantially scaled back in order to accommodate necessary infrastructure investments. Revenue reforms are also needed, including the introduction of corporate taxation, a broad-based sales tax, and replacing the current "per head" tourism tax with an ad valorem tax.

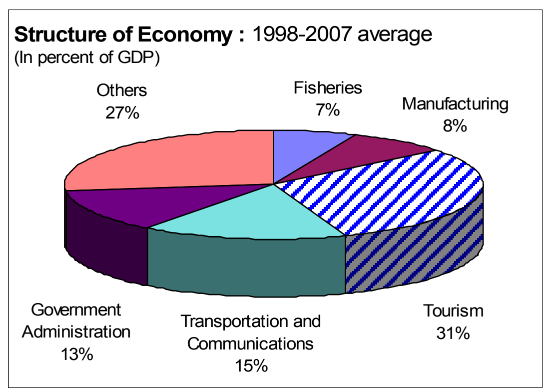
- **Competitiveness and external vulnerabilities**. Notwithstanding the recent increase in inflation, the economy remains competitive, largely due to the depreciation of the dollar against the euro together with the predominance of European tourists to the country. There has been an increase in external debt ratios due to the financing of new resorts, and with planned further expansion, these ratios are expected to climb sharply before peaking in 2010. Most of the rise in debt levels is attributable to private sector borrowing, channeled through the commercial banks. The elevated level of private sector debt should be closely monitored, while bank supervision should remain vigilant.

I. Political and Economic Background

1. **President Gayoom's sixth term in office ends on November 11, 2008, with multi-party elections** expected in October**.** After considerable delays, a special Majlis (parliament) passed a new constitution. Parliamentary elections are scheduled for February 2009. Soon after the Article IV mission, the Finance Minister resigned, and is expected to become a presidential candidate. He has been replaced by the Governor of the central bank.

2. **The Maldives has achieved solid growth over the past decade, but continues to face serious challenges due to its dependence on tourism and fishing, its vulnerability to environmental shocks, and its dispersed population.**





- Per capita income has doubled, and real per capita GDP has risen substantially. This has been accompanied by a marked improvement in social indicators. An exchange rate regime comprising a peg to the dollar has anchored macroeconomic stability.

- Tourism and fishing are the mainstays of the economy. Diversification has proved difficult because of the country's geographic isolation and its small and dispersed population, which also render public services and transport links difficult to provide. In addition, the country faces several environmental challenges, including rising sea levels due to global warming, vulnerability to natural calamities (such as the devastating Asian tsunami at end-2004), limited supplies of fresh water, and scarce arable land.[1]

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[1] The Maldives consists of some 1,200 low-lying coral islands, 200 of which are inhabited, spread over an area of the Indian ocean of 900,000 square kilometers. The average height is 1.5 meters above sea level. Its population is about 300,000.

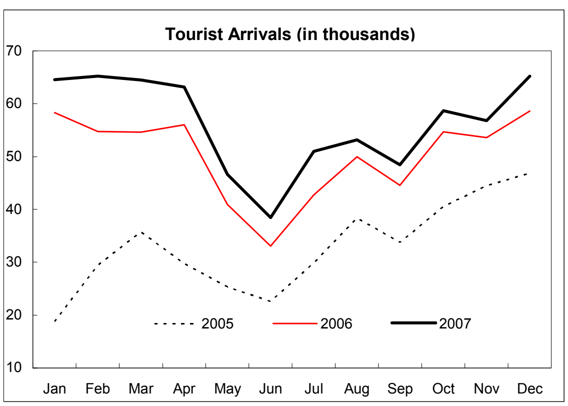
II. RECENT DEVELOPMENTS

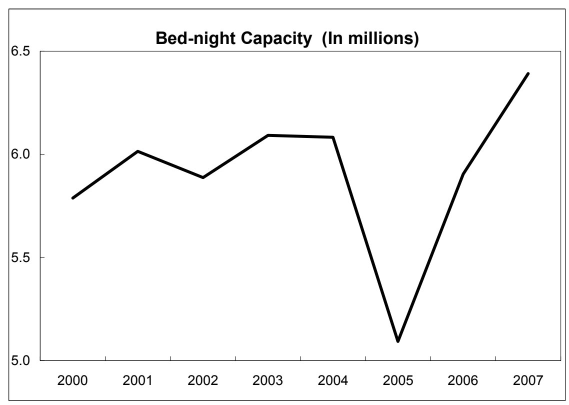
3. **Real GDP growth was a robust 7.6 percent in 2007, down from the 18 percent growth rate of 2006 associated with a rebound from the tsunami.** The tourism and construction sectors continued to lead growth, offsetting an unusually low fish catch.

- **Tourist arrivals increased by 12 percent in 2007, contributing to an increase in tourist revenues of about 14 percent.** Currently there are 91 island resorts in operation, a number that the authorities plan to almost double by 2010. Bed capacity increased by 8.3 percent in 2007, surpassing pre-tsunami levels. Associated infrastructure such as harbors and airports are also being upgraded or constructed, including Gan International Airport which was opened in 2007. These tourism and infrastructure-related activities, in conjunction with tsunami reconstruction work, have led to a boom in construction.

Island Resort Capacity
(Government Plans)

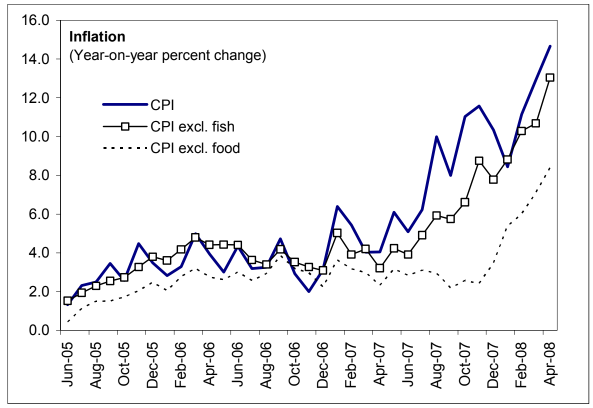
	Number of Island Resorts	Increase in Capacity (In percent)
1995	73	
2007	91	25
2010	175	92





- **The fish catch fell by about 38 percent compared to the previous year.** Fisheries employ about 11 percent of the workforce and account for the bulk of nontourism exports. The causes for the fall in the catch are poorly understood, but could include changing ocean currents and warmer surface temperatures. Net of the fishing sector, GDP grew by 9.6 percent, well above the pre-tsunami average.

4. **Inflation increased markedly to 14.7 percent (year-on-year) in April, driven by rising food prices.** After several years of relatively subdued inflation, the increase in global food prices and the fall in the domestic fish catch contributed to a sharp rise in prices. Fish prices alone surged by 47.5 percent. The rise in international oil prices also played a significant role in this cost-push inflation, although oil comprises a smaller share of the CPI basket than food.



5. **The fiscal balance for 2007 was better than staff projections, but in line with the budget.** The government cut planned expenditures in line with a shortfall in revenues, thus eliminating the need for domestic financing of the budget, in contrast with a staff baseline projection of domestic financing of 9 percent of GDP. In particular, planned domestic capital expenditures were held well under budget, partly due to capacity constraints. As for the overall fiscal deficit (comprising the domestically financed or "regular" budget plus the foreign financed budget, which channels mostly concessional foreign financing into tsunami-related and infrastructure projects), the actual level was about 8 percent of GDP, much lower than the planned deficit of about 28 percent of GDP, due in addition to a shortfall in foreign financing and a corresponding reduction in capital expenditures tied to that financing.

Domestic Budget Outturn Vs. Projections
(In percent of GDP)

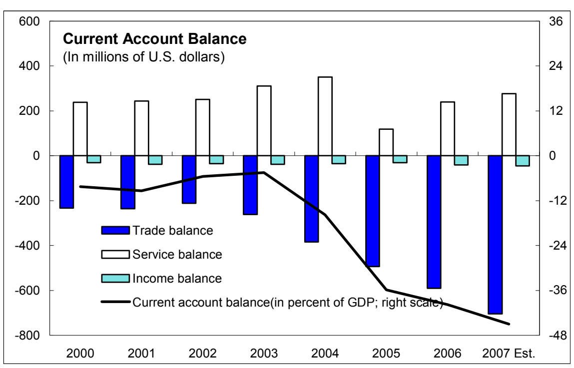
	2006	2007		
		Est.	Budget	Staff Proj. 2007 Art IV
Domestic revenue	45.1	49.2	54.5	45.0
Domestic expenditure	48.4	49.4	54.6	54.6
Domestic financing	2.3	-0.7	0.1	9.0

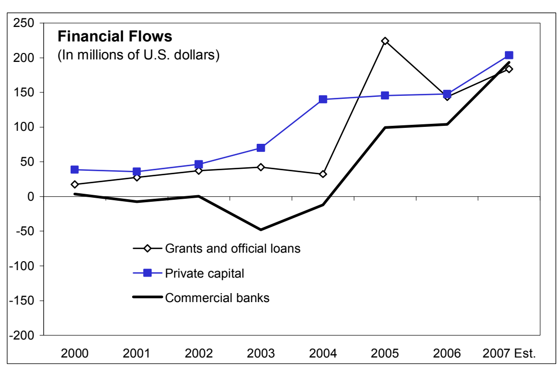
6. **However, government expenditure rose to an extremely high 65.8 percent of GDP.** About three-quarters of this comprised current expenditure, notably payments to the civil service of about 16.5 percent of GDP and social welfare contributions of about 18 percent. Government expenditure in the Maldives was comparable with that of broadly similar island economies before the tsunami in 2004, but has since reached new highs. Moreover, the rise has not been primarily driven by tsunami-related spending (about 95 percent of the increase in domestically financed expenditure since 2004 is unrelated to the tsunami).

Government Expenditure as a Share of GDP					
	Average 2000-03	2004	2005	2006	2007 1/
Barbados	37.3	38.0	41.5	38.9	40.5
Fiji	28.2	28.0	27.8	28.4	24.8
Maldives	**36.9**	**36.0**	**59.0**	**59.3**	**65.8**
Mauritius	23.2	25.6	25.1	25.5	23.6
Samoa	34.1	47.6	47.2	32.8	38.2
Tonga	28.15	26.2	34.9	34.2	32.3
Vanuatu	25.3	20.7	19.7	21.3	23.4

1/ Estimates.

7. **The current account deficit widened to 45 percent of GDP in 2007 from 40 percent the previous year, driven by a surge in construction-related imports and rising commodity prices.** With tourism booming, exports grew by a robust 8 percent in 2007, despite declining fish exports. However, imports rose by 15 percent, primarily owing to demand for construction materials for resorts and infrastructure projects, but also due to high oil and food prices. These developments caused the current account deficit to widen from 40 percent of GDP in 2006 to about 45 percent in 2007. The deficit was financed mainly through a large increase in private capital inflows, including foreign borrowing by commercial banks. In addition, there was an increase in official financing from bilateral and multilateral sources. External debt increased sharply, from 49.1 percent of GDP in 2006 to 69.6 percent of GDP in 2007. Most of this increment was attributable to private sector activity, with public external debt registering a relatively small increase from 40.3 percent of GDP in 2006 to 43 percent in 2007.





8. **Corresponding to the above, the banking sector—comprising one local and four international banks—has presided over a recent boom in private sector credit, with a 40 percent increase in 2007**. The robust trend dates from 2004, when the government commenced an ambitious program for leasing new islands. Much of the expansion has been

financed by foreign-owned banks borrowing from their head office and on-lending locally, with risks contained through the country risk exposure limits of the banks, and through collateralizing the property in the case of loans for resort development. On-site bank examinations are being conducted with MCM technical assistance (TA). NPLs as a share of total loans decreased to 1.7 percent in March 2008 from 6.6 percent in December 2005, mainly due to the recovery of the tourism sector and improved banking supervision.

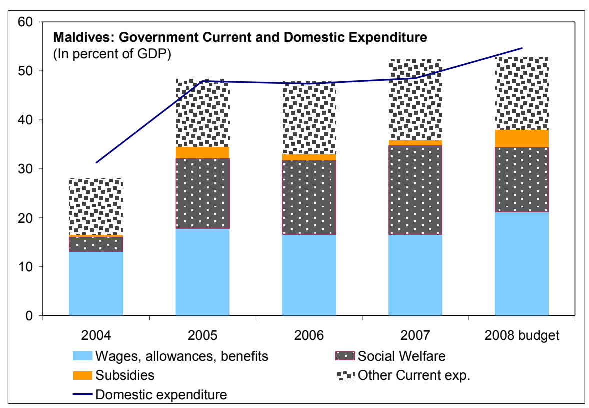
III. Key Policy Discussions

With the real economy booming and an election year in progress, staff's main macro message was the importance of maintaining fiscal responsibility. Discussions focused on the following areas:

- *The 2008 budget.*
- *The medium-term fiscal outlook including revenue and expenditure reforms.*
- *Competitiveness and External Vulnerabilities.*
- *Other Issues.*

A. 2008 Budget

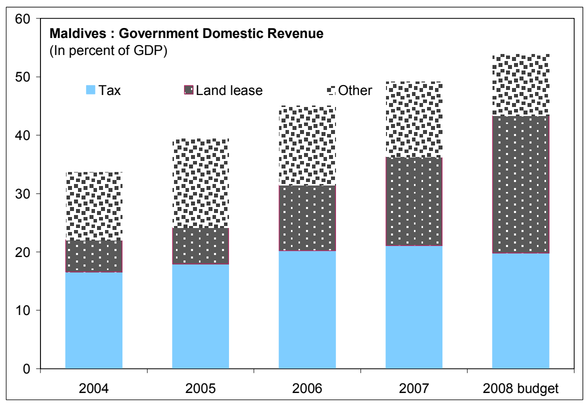
9. **While the 2008 budget calls for zero domestic financing, it entails a large increase in current expenditure in an election year and could have adverse macroeconomic consequences if its ambitious revenue plans—including some ad hoc measures—do not materialize fully**.



- *Domestic expenditure, particularly current expenditure, continues to increase sharply, and spending has risen to an extraordinarily high level by historical and international standards.* Overall, expenditure is set to increase by 27 percent and the domestically financed part of the budget—excluding foreign grants and loans—by over 38 percent compared to the 2007 outturn. About two-thirds of the increase is on current expenditure, including an over 55 percent increase in the civil service wage bill (provided as of January 2008) and quadrupled subsidies, mostly on account of administered electricity prices,[2] which more than offset the first phase down of tsunami-related social welfare expenditures.

- *Staff emphasized the need to resist mid-year pressures to increase expenditure beyond the budgeted amount*. The wage increase in January was implemented in an ad hoc manner, with an uneven distribution among different segments of the civil service, resulting in additional wage demands from some dissatisfied employees. The authorities should contain the wage bill and manage expectations in order to avoid an inflationary wage spiral. Staff also urged an immediate revision of electricity tariffs, in light of the fact that rising oil prices are progressively increasing the subsidy needed to maintain administered electricity prices at their current level.

- *Although the budget is balanced in terms of domestic financing, the mission again stressed the risk of a significant revenue shortfall risk*. The budget initially included a 34 percent increase in domestic revenues, based largely on a lease payment of about 14 percent of GDP (25 percent of domestic revenue) for a new transshipment port project. However, the finalization of the project has recently been delayed by a year. The government intends to fill the shortfall by leasing out 30 additional islands. Staff noted that the substitute measures still contain significant implementation risks.



- *The mission underlined the need for identifying contingency expenditure cuts in the event of a revenue shortfall.* Responding to revenue shortfalls through domestic financing of the deficit would risk exacerbating already high inflation, further expanding the current account deficit, and increasing external vulnerabilities.

10. **The authorities reiterated their commitment to achieving domestic budgetary balance for 2008.** They noted that they were well aware of the dangers that monetizing the deficit would cause in the current environment, and were resolved to avoid such an outcome.

[2] In the Maldives, fuel price increases have been largely passed through. In particular, changes in the price of diesel—which accounts for the bulk of fuel consumption—are in line with international prices. Electricity, however, is produced by a state-owned electricity company, with administered prices unchanged since 2002. The majority of government subsidies go to this company, whose losses have increased in proportion with the cost of diesel. The budget also includes subsidies to maintain administered staple food prices (rice, flour, and sugar) and subsidies to fisheries for higher fuel costs.

At the same time, they pointed to spending pressures arising from the presidential election expected to take place in November, as well as from high international oil and food prices. On the other hand, there is usually some underspending of budgeted amounts—especially on capital projects—due to capacity constraints. While the authorities' primary focus remains on ensuring that the budgeted revenues materialize, they agreed to identify contingency expenditure cuts. In addition, they agreed that the current electricity tariff is not sustainable and requires early adjustment, but could not say when such a step might take place.

B. Medium-Term Fiscal Framework

11. **Staff argued that expenditure reforms are critical for achieving medium-term fiscal stability and creating room for needed capital expenditures.**

- *The medium-term revenue envelope is not expected to be as large as in the 2008 budget, although it will remain above the pre-tsunami level*. Staff's medium-term projections incorporate the successful introduction of a business profit and an ad valorem tourist tax, but domestic revenues are forecast to drop by nearly 9 percentage points of GDP by 2013. This is because the contribution of lease payments falls over time, [3] windfall payments from the transshipment project—if they materialize—fall only in 2009 and 2010, and import duty collection weakens in line with declining import needs for resort and infrastructure construction materials. Leasing out additional islands at a pace far exceeding the ambitious but sustainable pace envisaged in Maldives' tourism development master plan is likely to face heightened implementation risks by overburdening infrastructure and the financial sector.

Maldives: Medium-Term Fiscal Framework
(In percent of GDP)

	Act.	Est.	Budget	Proj.		
	2006	2007	2008	2009	2011	2013
Total revenue	52.5	58.0	58.8	51.8	50.1	46.6
Domestic revenue	45.1	49.2	53.9	48.3	47.7	44.6
Of which:						
Tax revenue	20.2	21.1	19.8	19.5	22.6	21.6
Land lease	11.3	15.2	23.6	18.0	14.4	12.2
Grants	7.4	8.7	4.9	3.5	2.3	2.0
Total expenditure and net lending	59.3	65.8	68.3	55.2	47.1	44.3
Of which: Domestic Expenditure	47.4	48.5	54.6	48.3	46.3	43.5
Current expenditure	47.8	52.3	52.8	44.3	35.0	32.0
Of which:						
Wages, allowances, benefit	16.7	16.6	21.3	19.0	15.8	14.9
Social welfare contributions	15.1	18.2	13.1	8.9	4.5	4.5
Subsidies	1.3	1.1	3.6	2.7	0.9	0.4
Capital expenditure	12.4	14.4	16.6	12.0	13.0	13.0
Overall balance	-6.8	-7.8	-9.4	-3.4	3.0	2.3
Current balance	-3.2	-3.3	0.9	3.8	12.6	12.5
Domestic financing	2.3	-0.7	0.7	0.0	-1.5	-1.1
Foreign financing	4.5	8.6	8.7	3.4	-1.5	-1.3

1/ Including all the tsunami-related expenditures.

- *Consequently, staff recommended that domestic expenditure be curtailed substantially over the medium term.* This is especially relevant because the large projected increase in private investment in new resorts could face capacity constraints

[3] Lease payments for a new island typically have the following schedule. A successful bidder makes an up-front payment of 15 percent of the cumulative lease amount for the first 10 years (equivalent to 18 months of rent). After an 18 month-grace period, annual lease payments as per the predetermined schedule start, providing medium-term revenues to the government.

and be crowded out if government expenditure is not successfully contained. Staff's framework incorporates about a 13 percent of GDP adjustment in current expenditures by 2013, excluding an 8 percent of GDP decline related to the completion of tsunami reconstruction. This could be achieved by (i) civil service reforms, including a nominal wage freeze and moderate downsizing based on natural attrition; (ii) the rationalization of social expenditures through progress on population consolidation in the islands; and (iii) cutting back on subsidies by adjusting domestic administered prices including electricity tariff. These measures will help create space for infrastructure investment to support the expanding tourism sector and enable small domestic surpluses that underpin declining public debt ratios.

12. **The authorities emphasized the need to respond to rising demand for basic social services, but also pointed to recent governance reforms that should help in rationalizing expenditures**. While providing social services is very costly given the Maldives' unique geography, rising income levels have raised peoples' expectations of government services. Moreover, the planned expansion of the tourism sector will require corresponding improvement of infrastructure, particularly transport links. The authorities noted that progress in population consolidation—by reducing the need to service thinly populated remote islands—would improve efficiency in the civil service. Thus, the nearing completion of a major consolidation project would yield considerable benefits and serve as a model for future progress. The government also pointed out that newly established independent agencies would enhance rules-based governance over the medium term, and would thus help contain expenditures. In this context, staff welcomed the recent formation of the civil service commission and its initial efforts at reform, including the downsizing of the civil service by 1,800 staff (about 5½ percent of total civil servants) by implementing mandatory retirement.

13. **Staff also observed that revenue reforms should be expedited**. Previous Article IV consultations have pointed out that the Maldives' tax structure is outdated, making it inflexible at adjusting to exogenous shocks. There is no personal or corporate income tax (except for a profit tax on the banking sector), sales tax, or VAT, and the main sources of revenues are import duties, resort and land lease payments, dividend transfers from state-owned enterprises (SOEs), and a tourist tax. The limited tax base is one reason the government has been recently resorting to lease income to finance rapidly expanding expenditures. The mission reiterated the benefits of the following key reforms, in line with FAD TA recommendations.

- *Business profit tax (BPT)*. The mission urged the authorities to introduce the BPT as soon as possible.[4] Over the medium term, to broaden the tax base and increase the revenue potential and fairness of direct taxation, a separate personal income tax

[4] After a number of years of preparatory work in consultation with FAD experts, a business profit tax was supposed to be introduced in 2008, bringing in revenues of about 2–3 percent of GDP.

should be introduced and the BPT should evolved into a more general corporate income tax.

- *Ad valorem tourism tax*. The specific tourism tax, which is levied on a uniform basis on every tourist, is inefficient and the existing fixed rate of $8 per bed per night is too low, especially for high-end tourists. The mission recommends that the tax should be increased, in particular by replacing the specific tax with an ad valorem tax.

- *VAT*. The mission encouraged the authorities to announce a clear timetable for their plan to substitute a VAT for a large portion of import duties. Introduction of the VAT could quickly follow the successful implementation of the BPT.

14. **The authorities reaffirmed their intention to broaden the tax base, but noted that a careful and equitable approach was needed**. They were optimistic about the prospect of adopting the BPT in 2009, after parliamentarian elections. However, they had some reservations about increasing the tax burden on the tourism sector by adopting an ad valorem tourism tax. Rather, they considered that a broad-based consumption tax, such as a goods and services tax (GST), would be more equitable across sectors. At present, however, there is no timetable for the introduction of a GST.

15. **Staff projects that the public debt ratio will decline substantially over the medium term, in line with the authorities' commitment to maintaining zero domestic financing.** Balanced domestic budgets (or small domestic surpluses), declining official disbursements for tsunami-related projects, and increasing repayment of foreign public debt—as per the existing amortization schedule—underscore a sharp turnaround of the primary balance into positive territory over the medium term. As a result, both domestic and foreign public debt ratios decline appreciably, falling well below the pre-tsunami level by the end of the projection period. The key to reducing public debt is achieving the government's ambitious domestic budget balance target. If the primary balance remains at its 10-year average level,[5] the debt ratio would continue to rise (Appendix I). However, the 10-year average includes a particularly expansionary phase following the tsunami. Based on the pre-tsunami average, the debt ratio remains constant.

16. **More generally, the authorities agreed with staff on the need for realistic budgets grounded in a Medium-Term Fiscal Framework (MTFF) so that they can serve as a useful policy tool.** In recent years it has become customary for the announced budget to incorporate unrealistic projections of domestic revenue, and correspondingly unsustainable expenditure plans. While the authorities have performed well in 2006 and 2007 in keeping

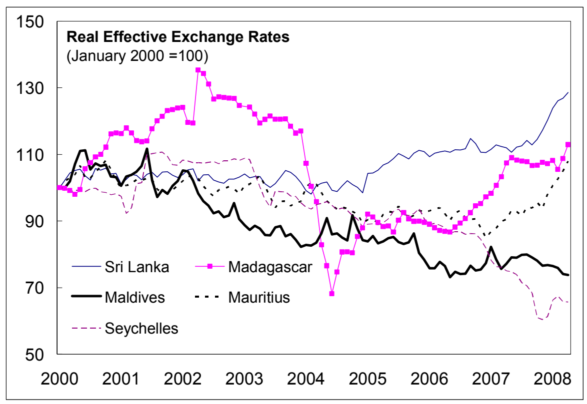
[5] The 10-year average includes a particularly expansionary phase following the tsunami. Based on the pre-tsunami average, the debt ratio remains constant.

expenditures in line with available financing, it would be better to frame a realistic budget to begin with, thereby underpinning the credibility of the macro framework.

C. Competitiveness and External Vulnerabilities

17. **The authorities agreed with staff that high inflation in 2008 was a concern because of its potential impact on competitiveness.** The forecast year-on-year inflation rate of 15 percent is driven mainly by food and oil price increases, and is likely to increase costs in the tourist industry correspondingly**.**

18. **Nonetheless, the Maldives appears to have enough of a cushion to maintain competitiveness, provided that fiscal discipline is maintained.** Most of Maldives' exports are to euro-denominated areas—with 80 percent of tourist arrivals coming from the EU—while the bulk of imports are dollar-denominated. Thus, the depreciation of the dollar against the euro in recent years has helped the country's competitive position. Since the beginning of 2000, the REER has depreciated by 27 percent, including 1.9 percent depreciation since end-2006. The REER has declined more than that of comparator tourism-based small economies. Hence the country is in a good position to weather some appreciation of the real exchange rate, provided that imported inflation is not exacerbated by fiscal slippages requiring domestic financing. Based on these considerations—although data limitations preclude the application of comprehensive CGER methodologies—staff view the exchange rate as broadly in equilibrium.[6]



19. **The authorities agreed that competitiveness was currently adequate.** Small island economies of the type that directly compete with the Maldives for tourism revenues are equally likely to be hit hard by imported inflation, so that in relative terms, Maldives' competitiveness may not erode as much as implied by the calculated REER. In addition, most tourism to the Maldives is at the high end of the market, which may be relatively price inelastic. The Maldives also performs well on survey-based measures of competitiveness. The country was ranked first in the World Bank's "Doing Business in South Asia" (2007) and in the top third of countries globally.

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[6] Rough calculations using the External Sustainability approach indicate that, once temporary factors influencing the current account have been accounted for, the REER is within 5 percentage points of its NFA-stabilizing value, and hence the misalignment should be regarded as about zero.

20. **External debt is projected to rise sharply in the next few years before starting to decline.** The current account should move toward balance in the medium term, with the present extraordinary rate of growth of imports slowing considerably due to (i) the stabilization of commodity prices in 2009; (ii) a cessation of tsunami-related reconstruction from 2010; and (iii) a gradual winding down of resort construction activity from 2011 onwards. Staff projects that the external debt-to-GDP ratio will climb to almost 95 percent in 2010, before declining gradually to about 83 percent by 2013. This debt accumulation does not reflect more government borrowing; public external debt is set to fall considerably in the medium term as tsunami-related disbursements wind down and amortization on concessional loans comes due. Rather, the debt accumulation would be caused by private inflows into resorts and infrastructure projects, which is assumed to be concentrated in the 2008–10 period. As shown in the debt sustainability analysis (Appendix I), the projected debt path is sensitive to current account and/or exchange rate shocks.

21. **The mission urged the authorities to closely monitor the elevated level of external debt.** To some extent, risks are mitigated through the country risk exposure limits of the banks, and through collateralizing the resort properties. Nonetheless, bank inflows could be sensitive to global economic and financial conditions, and hence bank supervision should continue to be vigilant, and the monitoring of private sector debt should be improved. Moreover, in staff's projections, the rise in private external debt is balanced to some extent by a fall in the external public sector debt-to-GDP ratio. These declines are, however, contingent on sustainable fiscal policies that result in small domestic surpluses over the medium term, underpinning the importance of fiscal reforms.

22. **Staff reaffirmed the view that the dollar peg is an appropriate exchange rate regime**. The current arrangement has served Maldives well by reducing transaction costs and foreign exchange risks and providing an effective nominal anchor. The regime is also consistent with the limited institutional capacity to manage a foreign exchange market. The authorities concurred with staff that that it will remain important to support the peg with prudent fiscal polices, especially in view of the vulnerabilities present in the 2008 budget.

D. Other Issues

23. **Staff welcomed the appointment of a new central bank governor, following the passage of amendments to the Maldives Monetary Authority (MMA) Act enshrining the separation of the positions of finance minister and governor.** In another important move, an inter-agency agreement between the Ministry of Finance and the MMA empowered the MMA to set interest rates, and put a ceiling on the amount that the government can borrow through its Ways and Means Account. These developments, together with the introduction of treasury bill sales in 2006, should help move the MMA away from its traditional role of passively financing any outstanding fiscal deficit. The authorities noted, and staff concurred, that going forward it will be important to entrench the MMA's independence, through

upholding the principle of not financing budget deficits, and through moving ahead with the second phase of amendments to the MMA Act.

24. **Staff also welcomed the implementation of some key legal reforms.** Following the passage of the Civil Service Bill and the Audit Act, an independent Civil Service Commission and Auditor General have been appointed and begun work. The Civil Service Commission should play a vital role in rationalizing the structure of the civil service, and eliminating the current ad hoc nature of compensation increases, while the Auditor General will perform an important monitoring role. The authorities noted that other crucial legislative reforms—including the Banking Act and AML/CFT legislation—are being expedited, and are scheduled for passage by the current parliament. Moreover, the Maldives has recently indicated its strong commitment to implement the global AML/CFT standard established by the Financial Action Task Force by joining the Asia/Pacific Group on Money Laundering

25. **Staff urged the authorities to consider accepting the obligations of Article VIII, Sections 2, 3, and 4.** The Maldives does not maintain any restrictions on the making of payments and transfers for current international transactions. The authorities responded that MMA staff has prepared a note on the issue, which will be presented to its board expeditiously.

IV. Staff Appraisal

26. **The economy continues to rebound from the impact of the Asian tsunami, registering strong growth led by tourism.** Bed-night growth continues to be robust, with a corresponding boom in construction. Post-tsunami reconstruction activities continue along with numerous infrastructure and developmental projects. On the other hand, there have been recent sharp declines in the fish catch, which acted as a drag on growth in 2007.

27. **Inflation has risen steeply to 14.7 percent (year-on-year) in April.** The main driver of this acceleration is food prices, which increased by 26 percent over the year to April, with oil prices also playing a significant role. In the face of these exogenous shocks, it is imperative to maintain a prudent macro-economic stance, so as to limit the second-round effects on core inflation.

28. **The fiscal stance continues to pose risks to macroeconomic stability.** The fiscal outturn for 2007 was better than expected, with expenditures being kept in line with a revenue shortfall, thereby avoiding the need for domestic financing. However, expenditure as a share of GDP reached unsustainably high levels. The 2008 budget continues to show excessive expenditures. Of particular concern is the rapid increase in recurrent, domestically financed expenditures, with most of the spending unrelated to the tsunami. Furthermore, it is likely that some ad hoc nontax revenue measures may not materialize, which would endanger the government's commitment to avoid domestic financing. Thus it is important to identify contingent expenditure cuts and make adjustments to the electricity tariff.

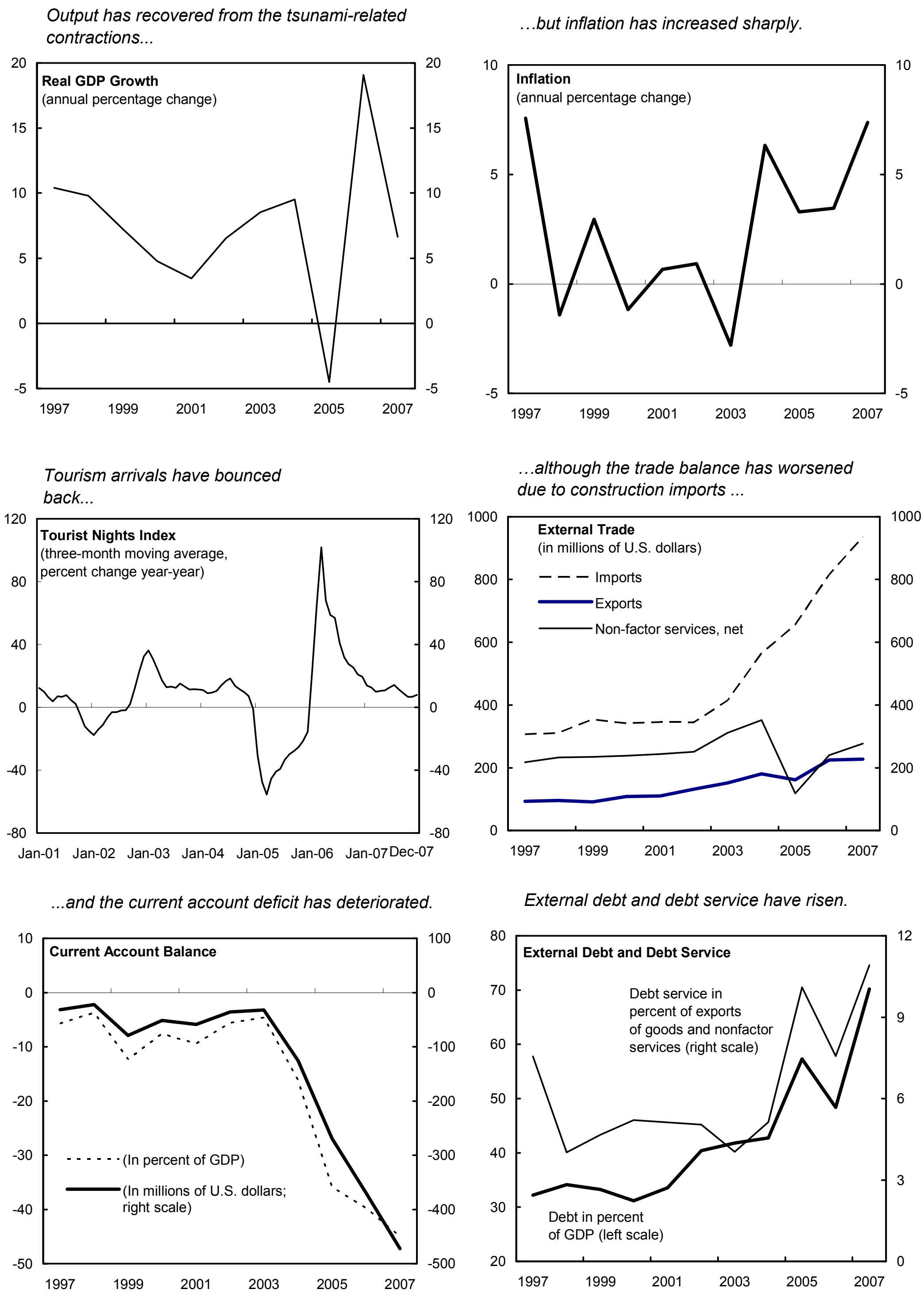
29. **Over the medium term, both revenue and expenditure measures will be needed to maintain fiscal stability, reduce public debt, and create space for necessary infrastructure spending.** On the revenue side, the business profit tax should be expedited, while an ad valorem tourism tax and a broad-based consumption tax (GST) would further help in broadening the tax base and limiting reliance on import duties and resort leases. On the expenditure side, current expenditure should be reduced through a combination of measures including civil service reform, a nominal wage freeze, progress on population consolidation, and cutting back on subsidies. Achieving the government's zero domestic balance target is crucial to reducing debt over the medium term. More generally, greater realism is needed in budgetary formulation, with budgets grounded firmly in the context of a MTFF.

30. **External vulnerabilities have increased, although international reserves have so far been supported by grants and loans from both bilateral and multilateral sources, and by increased borrowing by commercial banks.** Exports in 2007 grew rapidly, supported by robust growth in tourism revenues, but imports grew at an even more rapid pace due to construction activities and rising food and oil prices, leading to a widening of the current account deficit. External debt, particularly private debt, has risen in line with booming private sector activity, particularly construction. The external debt-to-GDP ratio is projected to reach almost 95 percent in 2010 before falling with the completion of several resorts and infrastructure projects. Much of this debt has been and will continue to be channeled through the commercial banks. Thus bank supervision must remain vigilant, while the monitoring of private debt should be improved.

31. **The dollar peg remains an appropriate exchange rate regime, and the Maldives has retained its international competitiveness.** The peg continues to serve the Maldives well by reducing transactions costs and foreign exchange risks and providing an effective nominal anchor. Since the bulk of tourists to the Maldives are from Europe, the depreciation of the dollar against the euro in recent years has provided the economy with a cushion against an erosion in competitiveness due to the rise in inflation.

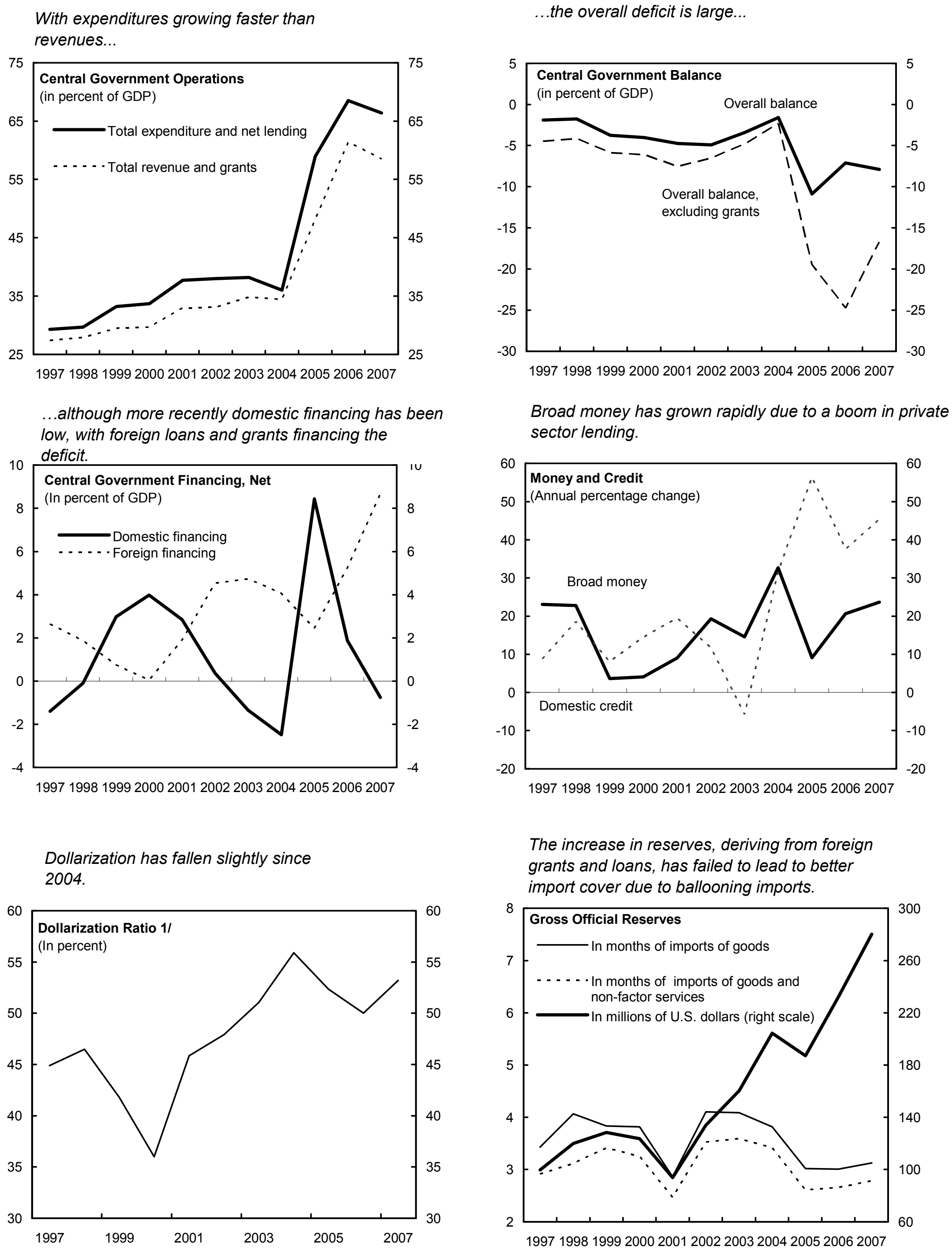
32. **It is recommended that the next consultation with Maldives take place within the standard 12-month cycle.**

Figure 1. Maldives: Real and External Sector Developments, 1997–2007



Sources: Maldivian authorities; and IMF staff estimates.

Figure 2. Maldives: Fiscal and Monetary Sector Developments, 1997–2007



Sources: Maldivian authorities; and IMF staff estimates.

1/ Foreign currency deposits as a percentage of broad money.

Table 1. Maldives: Selected Economic Indicators, 2003–08

	2003	2004	2005	2006	Est 2007	Proj. 2008
			(Annual percentage change)			
Growth and prices						
Real GDP	8.5	9.5	-4.6	18.0	7.6	6.5
Inflation (period average)	-2.8	6.3	3.3	3.5	7.4	15.0
Central government						
Revenue and grants	34.8	34.5	48.1	52.5	58.0	58.8
Of which: Grants	1.4	0.7	8.6	7.4	8.7	4.9
Expenditure and net lending	38.2	36.0	59.0	59.3	65.8	68.3
Of which: Domestic spending	34.0	33.2	49.1	48.4	49.4	55.8
Overall balance	-3.4	-1.6	-10.9	-6.8	-7.8	-9.4
Overall balance, excluding grants	-4.8	-2.3	-19.5	-14.2	-16.6	-14.3
Financing						
Domestic	-1.3	-2.5	8.4	2.3	-0.7	0.7
Foreign	4.7	4.1	2.4	4.5	8.6	8.7
			(In millions of U.S. dollars)			
Balance of payments						
Exports, including re-exports	152.0	181.0	161.6	225.2	228.0	344.2
Imports	-414.3	-564.8	-655.5	-815.3	-935.7	-1,213.5
Nonfactor services (net)	311.1	352.4	118.8	240.0	276.7	311.8
Current account balance	-31.8	-125.8	-268.8	-369.2	-475.7	-625.4
(In percent of GDP)	-4.6	-16.2	-35.9	-40.3	-45.0	-48.3
Official capital (net)	29.9	25.0	18.6	38.4	85.8	128.3
Private capital (net)	70.3	140.1	145.8	147.8	203.8	295.0
Errors and omissions (net)	5.3	13.3	-10.9	123.6	40.9	0.0
Overall balance	26.5	44.2	-17.3	45.1	48.0	3.9
Gross official reserves (year-end)	160.3	204.4	187.1	232.2	280.2	284.2
(In months of following year's imports of GNFS) 1/	2.7	2.9	2.1	2.3	2.2	2.3
External Debt	289.5	331.8	429.5	449.2	736.3	1,070.6
(In percent of GDP)	41.8	42.7	57.3	49.1	69.6	82.6
Public External Debt 2/	272.9	311.6	309.9	361.8	523.7	652.0
(In percent of GDP)	39.4	40.1	44.1	40.3	43.0	45.0
Debt service	22.0	32.3	43.1	46.0	71.7	96.9
(In percent of domestic exports of GNFS) 3/	4.0	5.1	10.1	7.6	10.9	13.1
Exchange rate						
Rufiyaa per U.S. dollar (period average)	12.8	12.8	12.8	12.8	12.8	12.8
Memorandum item:						
Nominal GDP (in millions of rufiyaa)	8,863.2	9,938.7	9,596.6	11,722.0	13,543.0	16,586.8

Sources: Data provided by the Maldivian authorities; and IMF staff estimates and projections.

1/ GNFS = Goods and nonfactor services.
2/ Public sector debt, including government debt and government-guaranteed debt.
3/ Domestic exports are defined as merchandise exports net of re-exports.

Table 2. Maldives: Balance of Payments, 2003–08

	2003	2004	2005	2006	2007	2008
	(In millions of U.S. dollars)					
Current account balance	-31.8	-125.8	-268.8	-369.2	-475.7	-625.4
Trade balance	-262.3	-383.8	-493.8	-590.1	-707.7	-869.3
Exports, f.o.b. (including re-exports)	152.0	181.0	161.6	225.2	228.0	344.2
Imports, f.o.b.	-414.3	-564.8	-655.5	-815.3	-935.7	-1213.5
Services (net)	272.7	311.6	88.8	198.8	230.9	265.3
Balance on nonfactor services	311.1	352.4	118.8	240.0	276.7	311.8
Receipts	432.1	505.2	322.9	473.1	548.2	609.1
Of which: Tourism receipts	401.6	470.9	284.2	433.7	493.6	548.4
Payments	-121.0	-152.9	-204.1	-233.1	-271.5	-297.3
Balance on factor services	-38.4	-40.8	-30.0	-41.2	-45.8	-46.5
Receipts	6.2	10.3	11.8	15.1	17.0	18.2
Payments	-44.6	-51.1	-41.8	-56.3	-62.8	-64.7
Unrequited transfers (net)	-42.3	-53.6	136.2	22.1	1.1	-21.3
Official	12.7	7.6	205.7	105.3	98.0	77.5
Private	-54.9	-61.1	-69.5	-83.2	-96.9	-98.8
Nonmonetary capital (net)	52.4	153.1	263.9	290.4	482.9	629.3
Official medium- and long-term	29.9	25.0	18.6	38.4	85.8	128.3
Disbursements	46.6	46.5	42.5	61.8	114.6	167.7
Amortization	-16.7	-21.6	-23.9	-23.4	-28.8	-39.4
Private capital	70.3	140.1	145.8	147.8	203.8	295.0
Commercial banks	-47.8	-11.9	99.4	104.2	193.3	206.0
Net errors and omissions	5.3	13.3	-10.9	123.6	40.9	0.0
Overall balance	26.5	44.2	-17.3	45.1	48.0	3.9
Monetary movements	-26.5	-44.2	17.3	-45.1	-48.0	-3.9
Memorandum items:						
Domestic export growth (value, in percent) 1/	24.5	8.7	-15.4	30.5	-20.2	20.2
Import growth (value, in percent)	20.2	36.3	16.1	24.4	14.8	29.7
Tourism receipts growth (in percent)	19.1	17.3	-39.6	52.6	13.8	11.1
Current account balance (in percent of GDP)	-4.6	-16.2	-35.9	-40.3	-45.0	-48.3
Gross official reserves (in millions of U.S. dollars)	160.3	204.4	187.1	232.2	280.2	284.2
(In months of following year's imports of GNFS) 2/	2.7	2.9	2.5	2.3	2.2	2.3
External debt (in millions of U.S. dollars)	289.5	331.8	429.5	449.2	736.3	1070.6
External debt (in percent of GDP)	41.8	42.7	57.3	49.1	69.6	82.6
Debt service (in millions of U.S. dollars)	22.0	32.3	43.1	46.0	71.7	96.9
Debt service (in percent of domestic exports of GNFS) 1/	4.0	5.1	10.1	7.6	10.9	13.1
Exchange rate (rufiyaa per U.S. dollar, average)	12.8	12.8	12.8	12.8	12.8	12.8
GDP (in millions of U.S. dollars)	692.4	776.5	749.7	915.8	1058.0	1295.8

Sources: Data provided by the Maldivian authorities; and IMF staff estimates and projections.

1/ Domestic exports are defined as merchandise exports net of re-exports.
2/ GNFS = Goods and nonfactor services.

Table 3. Maldives: Central Government Finance, 2003–08

	2003	2004	2005	2006	Est. 2007	Budget 2008
			(In millions of rufiyaa)			
Total revenue and grants	3,087.9	3,424.7	4,612.8	6,154.1	7,852.6	9,757.0
Total revenue	2,964.3	3,351.8	3,788.3	5,286.7	6,669.4	8,944.5
Current revenue	2,936.8	3,331.1	3,753.3	5,237.2	6,637.1	8,911.5
Tax revenue	1,268.7	1,647.2	1,722.8	2,370.3	2,855.5	3,291.5
Import duties	817.1	1,135.9	1,245.7	1,683.9	2,033.5	2,409.3
Tourism	359.8	409.5	345.0	495.7	547.3	589.7
Other	91.8	101.8	132.1	190.7	274.7	292.5
Nontax revenue	1,668.1	1,683.9	2,030.5	2,866.9	3,781.6	5,620.0
SOE profit transfers	570.6	554.7	608.6	727.4	787.1	786.0
Lease payments	575.7	547.3	599.6	1,324.6	2,057.2	3,906.2
Other	521.8	581.9	822.3	814.9	937.3	927.8
Capital revenue	27.5	20.7	35.0	49.5	32.4	33.0
Grants	123.6	72.9	824.5	867.4	1,183.2	812.5
Expenditure and net lending	3,388.2	3,582.6	5,657.6	6,948.1	8,914.3	11,321.6
Of which: Domestic expenditure	3,009.1	3,302.5	4,715.9	5,669.6	6,690.3	9,254.3
Current expenditure	2,345.7	2,788.1	4,643.3	5,607.8	7,083.7	8,755.7
Of which: Tsunami related 1/	...	...	n.a.	1,257.0	1,842.0	1,331.7
Capital expenditure	1,206.2	991.0	1,132.1	1,458.4	1,952.6	2,760.7
Net lending	-163.7	-196.5	-117.8	-118.1	-122.0	-194.8
Overall balance	-300.3	-157.9	-1,044.8	-794.0	-1,061.7	-1,564.6
Overall balance, excluding grants	-423.9	-230.8	-1,869.3	-1,661.4	-2,244.9	-2,377.1
Current balance	591.1	543.0	-890.0	-370.6	-446.6	155.8
Domestic financing	-118.9	-245.8	809.8	264.8	-101.1	115.0
Foreign financing	419.2	403.7	235.0	529.2	1,162.8	1,449.6
Government debt (end of period)	4,087.6	4,282.8	5,052.1	5,965.5	7,578.6	9,189.8
Of which: Foreign	2,622.9	3,026.6	3,261.6	3,800.1	5,014.3	6,464.2
			(In percent of GDP)			
Total revenue and grants	34.8	34.5	48.1	52.5	58.0	58.8
Current revenue	33.1	33.5	39.1	44.7	49.0	53.7
Tax revenue	14.3	16.6	18.0	20.2	21.1	19.8
Import duties	9.2	11.4	13.0	14.4	15.0	14.5
Tourism	4.1	4.1	3.6	4.2	4.0	3.6
Other	1.0	1.0	1.4	1.6	2.0	1.8
Nontax revenue	18.8	16.9	21.2	24.5	27.9	33.9
SOE profit transfers	6.4	5.6	6.3	6.2	5.8	4.7
Lease payments	6.5	5.5	6.2	11.3	15.2	23.6
Other	5.9	5.9	8.6	7.0	6.9	5.6
Capital revenue	0.3	0.2	0.4	0.4	0.2	0.2
Grants	1.4	0.7	8.6	7.4	8.7	4.9
				45.1	49.2	53.9
Expenditure and net lending	38.2	36.0	59.0	59.3	65.8	68.3
Of which: Domestic expenditure	34.0	33.2	49.1	48.4	49.4	55.8
Current expenditure	26.5	28.1	48.4	47.8	52.3	52.8
Of which: Tsunami related	...	...	...	10.7	13.6	8.0
Capital expenditure	13.6	10.0	11.8	12.4	14.4	16.6
Net lending	-1.8	-2.0	-1.2	-1.0	-0.9	-1.2
Overall balance	-3.4	-1.6	-10.9	-6.8	-7.8	-9.4
Overall balance, excluding grants	-4.8	-2.3	-19.5	-14.2	-16.6	-14.3
Current balance	6.7	5.5	-9.3	-3.2	-3.3	0.9
Domestic financing	-1.3	-2.5	8.4	2.3	-0.7	0.7
Foreign financing	4.7	4.1	2.4	4.5	8.6	8.7
Government debt (end of period)	46.1	43.1	52.6	50.9	56.0	55.4
Of which: Foreign	29.6	30.5	34.0	32.4	37.0	39.0
Of which: Domestic	16.5	12.6	18.7	18.5	18.9	16.4
Memorandum items:						
Exchange rate (rufiyaa per U.S. dollar, average)	12.8	12.8	12.8	12.8	12.8	12.8
Nominal GDP (in millions of rufiyaa)	8,863.2	9,938.7	9,596.6	11,722.0	13,543.0	16,586.8

Sources: Data provided by the Maldivian authorities; and IMF staff estimates and projections.

1/ Including all the reconstruction related spending. Including both domestically and foreign financed expenditures.

Table 4. Maldives: Summary of Monetary Accounts and MMA Balance Sheet, 2003–08

	Dec.					Proj.
	2003	2004	2005	2006	2007	2008
	(In millions of rufiyaa)					
Monetary survey						
Broad money	4,543.7	5,983.7	6,685.0	8,063.3	9,972.0	12,213.3
Net foreign assets	2,613.4	3,357.1	1,787.7	1,031.6	-458.3	-3,414.7
Monetary authorities (net)	2,050.3	2,605.1	2,303.5	2,881.4	3,866.0	3,546.4
Foreign assets	2,060.5	2,616.1	2,394.9	2,972.8	3,956.9	3,637.3
Foreign liabilities	-10.2	-11.0	-91.4	-91.4	-90.9	-90.9
Commercial banks (net)	563.1	752.0	-515.8	-1,849.8	-4,324.3	-6,961.1
Net domestic assets	1,930.4	2,626.6	4,897.2	7,031.7	10,430.4	15,628.0
Domestic credit	3,246.6	4,239.6	6,911.4	9,509.1	13,820.2	19,017.8
Public sector	1,002.2	698.3	1,430.9	1,317.5	1,600.5	1,837.5
Central government (net)	911.8	456.3	953.0	745.0	583.7	698.7
Other	2,334.8	3,783.3	5,958.4	8,764.2	13,236.6	18,319.2
Public enterprises	90.4	242.0	477.9	572.5	1,016.8	1,138.8
Private sector	2,244.4	3,541.3	5,480.5	8,191.7	12,219.8	17,180.4
Other items (net)	-1,316.3	-1,613.0	-2,014.1	-2,477.4	-3,389.9	-3,389.9
	(Annual percentage change)					
Broad money	15.4	31.7	11.7	20.6	23.7	22.5
Net foreign assets	55.9	28.5	-46.7	-42.3	-144.4	645.0
Domestic credit	-5.1	30.6	63.0	37.6	45.3	37.6
Public sector	-23.8	-30.3	104.9	-7.9	21.5	14.8
Central government (net)	-17.4	-50.0	108.9	-21.8	-21.6	19.7
Other	0.7	62.0	57.5	47.1	51.0	38.4
Public enterprises	-57.2	167.8	97.5	19.8	77.6	12.0
Private sector	6.5	57.8	54.8	49.5	49.2	40.6
Memorandum items:						
GDP (in millions of rufiyaa)	8,863.2	9,938.7	9,596.6	11,722.0	13,543.0	16,586.8
Rufiyaa per U.S. dollar	12.8	12.8	12.8	12.8	12.8	12.8
Velocity	2.1	1.9	1.5	1.6	1.5	1.5
Official reserves (US$ million)	160.3	199.6	187.1	232.2	280.2	284.2
Commercial banks' NFA (US$ million)	44.0	58.8	-40.3	-144.5	-337.8	-543.8

Sources: Data provided by the Maldivian authorities; and IMF staff estimates.

Table 5. Maldives: Medium-Term Projection, 2006–13

	2006	2007	Proj. 2008	2009	2010	2011	2012	2013
			(Annual percentage change)					
Output and prices								
Real GDP growth	18.0	7.6	6.5	6.5	6.0	6.0	6.0	6.0
Consumer prices (period average)	3.5	7.4	15.0	4.0	3.0	3.0	3.0	3.0
			(In percent of GDP)					
Central government								
Revenue and grants	52.5	58.0	58.8	51.8	50.0	50.1	47.7	46.6
Tax revenue	20.2	21.1	19.8	19.5	20.3	22.6	21.9	21.6
Nontax revenue	24.5	27.9	33.9	28.6	26.9	25.0	23.5	22.8
Grants	7.4	8.7	4.9	3.5	2.6	2.3	2.1	2.0
Expenditure and net lending	59.3	65.8	68.3	55.2	48.7	47.1	46.2	44.3
Of which : Domestic expenditure	48.4	49.4	55.8	49.4	48.4	47.2	46.2	44.3
Current expenditure	47.8	52.3	52.8	44.3	37.4	35.0	34.0	32.0
Of which : Tsunami related	10.7	13.6	8.0	4.4	1.5	0.0	0.0	0.0
Capital expenditure	12.4	14.4	16.6	12.0	12.3	13.0	13.0	13.0
Overall balance	-6.8	-7.8	-9.4	-3.4	1.2	3.0	1.5	2.3
Overall balance, excluding grants	-14.2	-16.6	-14.3	-6.9	-1.3	0.6	-0.6	0.4
Financing								
Domestic	2.3	-0.7	0.7	0.0	0.0	-1.5	-0.1	-1.1
Foreign	4.5	8.6	8.7	3.4	-1.2	-1.5	-1.4	-1.3
Total government debt	50.9	56.0	55.4	53.5	47.7	40.8	35.8	30.5
Of which: Foreign debt	32.4	37.0	39.0	39.5	35.0	30.5	26.6	23.1
			(In millions of U.S. dollars, unless otherwise indicated)					
Balance of payments								
Domestic exports (in percent change) 1/	30.5	-20.2	20.2	9.0	11.6	8.2	8.5	7.5
Merchandise imports (in percent change)	24.4	14.8	29.7	-1.0	1.6	1.8	3.5	3.0
Tourism receipts (in percent change)	46.5	15.9	11.1	11.4	12.0	13.8	12.8	11.9
Trade balance	-590.1	-707.7	-869.3	-809.4	-790.0	-774.5	-773.2	-761.0
Nonfactor services (net)	240.0	276.7	311.8	371.0	443.3	535.2	632.4	735.0
Current account balance	-369.2	-475.7	-625.4	-531.1	-446.8	-307.0	-200.1	-80.6
(In percent of GDP)	-40.3	-45.0	-48.3	-37.0	-28.5	-17.9	-10.7	-4.0
Overall balance	45.1	48.0	3.9	9.7	14.3	50.8	71.0	90.6
Memorandum items:								
Gross official reserves (year-end)	232.2	280.2	284.2	293.8	308.1	358.9	429.9	520.5
(In months of imports of GNFS) 2/	2.3	2.2	2.3	2.3	2.4	2.6	3.1	3.6
External debt (year-end)	449.2	736.3	1,070.6	1,316.4	1,482.5	1,597.0	1,661.5	1,686.0
(In percent of GDP)	49.1	69.6	82.6	91.7	94.6	93.3	88.9	82.7
Public External debt (year-end) 3/	361.8	523.7	652.0	701.1	682.2	656.7	631.2	605.7
(In percent of GDP)	40.3	43.0	45.0	44.0	39.1	34.3	30.1	26.3
Debt service	46.0	71.7	96.9	115.4	138.1	150.5	155.2	162.8
(In percent of domestic exports of GNFS)	7.6	10.9	13.1	14.1	15.0	14.5	13.4	12.6

Sources: Data provided by the Maldivian authorities; and IMF staff estimates and projections.

1/ Domestic exports are defined as merchandise exports net of re-exports.
2/ GNFS = Goods and nonfactor services.
3/ Public sector debt, including external government debt and government-guaranteed debt.

Table 6. Maldives: Indicators of External Vulnerability, 2003–07

	2003	2004	2005	2006	Est. 2007
	(In percent of GDP, unless otherwise indicated)				
Financial indicators					
Government debt 1/	46.1	43.1	52.6	50.9	56.0
Broad money (annual percent change) 2/	15.4	31.7	11.7	20.6	23.7
Private sector credit (annual percent change) 2/	6.5	57.8	54.8	49.5	49.2
External indicators					
Domestic exports (annual percent change, in U.S. dollars)	24.5	8.7	-15.4	30.5	-20.2
Imports (annual percent change, in U.S. dollars)	20.2	36.3	16.1	24.4	14.8
Current account balance 1/	-4.6	-16.2	-35.9	-40.3	-45.0
Capital and financial account balance	7.6	19.7	35.2	31.7	45.6
Of which: Official medium- and long-term loans (net)	4.3	3.2	2.5	4.2	8.1
Other	3.2	16.5	32.7	27.5	37.5
Gross official reserves (in millions of U.S. dollars)	160.3	204.4	187.1	232.2	280.2
Central bank short-term foreign liabilities (in millions of U.S. dollars)	0.8	0.9	7.1	7.1	7.1
Short-term foreign assets of the banking sector (in millions of U.S. dollars)	60.6	79.0	47.1	68.1	82.4
Short-term foreign liabilities of the banking sector (in millions of U.S. dollars)	16.6	20.2	87.4	212.6	420.2
Official reserves in months of following year's imports GNFS 3/	2.7	2.9	2.1	2.3	2.2
Broad money to reserves	2.2	2.3	2.8	2.7	2.5
Total reserves to short-term external debt (residual maturity)	419.7	463.9	130.8	199.8	111.2
Total external debt	41.8	42.7	57.3	49.1	69.6
Of which: Government debt	29.6	30.5	34.0	32.4	37.0
Total external debt to domestic exports of GNFS 4/	53.2	52.9	100.7	73.9	112.2
Debt service to domestic exports of GNFS	4.0	5.1	10.1	7.6	10.9
Exchange rate (rufiyaa/U.S. dollar, end-period)	12.8	12.8	12.8	12.8	12.8

Sources: Data provided by the Maldivian authorities; and IMF staff estimates and projections.

1/ The first entry is the average for 1995–96.

2/ Adjusted for the exchange rate change in 2001.

3/ GNFS = Goods and nonfactor services.

4/ Domestic exports are defined as merchandise exports net of re-exports.

APPENDIX I. MALDIVES: PUBLIC AND EXTERNAL DEBT SUSTAINABILITY

Debt sustainability analysis (DSA) indicates a considerable rise in the external debt-to-GDP ratio over the next few years—driven primarily by private sector activity—while public sector debt ratios are forecast to decline from next year onwards. The baseline scenario is premised on GDP growth of about 6 percent per annum over the medium term, consistent with a cautiously optimistic forecast for expansion in the tourism and fisheries sectors.[7] The fiscal assumptions incorporate a substantial scaling down of current expenditure over the medium term, in conjunction with revenue reforms described in the main text of the staff report.

A. Public Debt Sustainability

The Maldives' public sector debt has increased rapidly owing to fiscal expansion following the tsunami. The primary deficit has jumped from an average of 2¼ percent of GDP during 2000–04 period to an average of 6⅔ percent of GDP during the 2005–07 period. Both domestic and foreign resources have been mobilized to finance the deficit, pushing up the overall debt ratio by over 13 percentage points of GDP between 2004 and 2007.

In the baseline DSA, the public debt ratio declines steadily over the medium term, reflecting the fiscal prudence embedded in the staff projection. The projection builds on zero or small positive domestic balances, by restraining expenditures within a realistic resource envelope (which builds in various revenue reforms). The zero or negative usage of domestic financing and the start of the net repayment of the government external debt as per the amortization schedule implies a sharp turnaround of the primary balance into positive territory starting in 2010. As a result, both domestic and foreign public debt ratios decline appreciably, achieving a level well below the pre-tsunami average over the medium term.

The major risks to the baseline are on the fiscal stance, indicating the significance of fiscal prudence for achieving macroeconomic stability. The historical scenario would imply an increasing trajectory for public debt, rather than the forecast decline. The major driver of this result is the historically high primary deficits, with a 10-year average of 3.4 percent of GDP. If the primary balance remains fixed at the elevated level of 7.4 percent of GDP (as budgeted in 2008), the debt ratio would continue to expand to and reach 75 percent of GDP by 2013. Sensitivity tests also show that the public debt path is susceptible to shocks to real GDP growth, with a one-fourth standard deviation shock to growth leading to a public debt ratio of 55 percent in 2013 (instead of the baseline forecast of

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[7] The forecast assumes that roughly half of the resorts planned by the authorities will be constructed by 2013, which still comprises an ambitious schedule. In line with government plans, construction activity is expected to be particularly concentrated in the period 2008–10, after which it diminishes as some resorts are completed along with the transshipment port and various infrastructure projects.

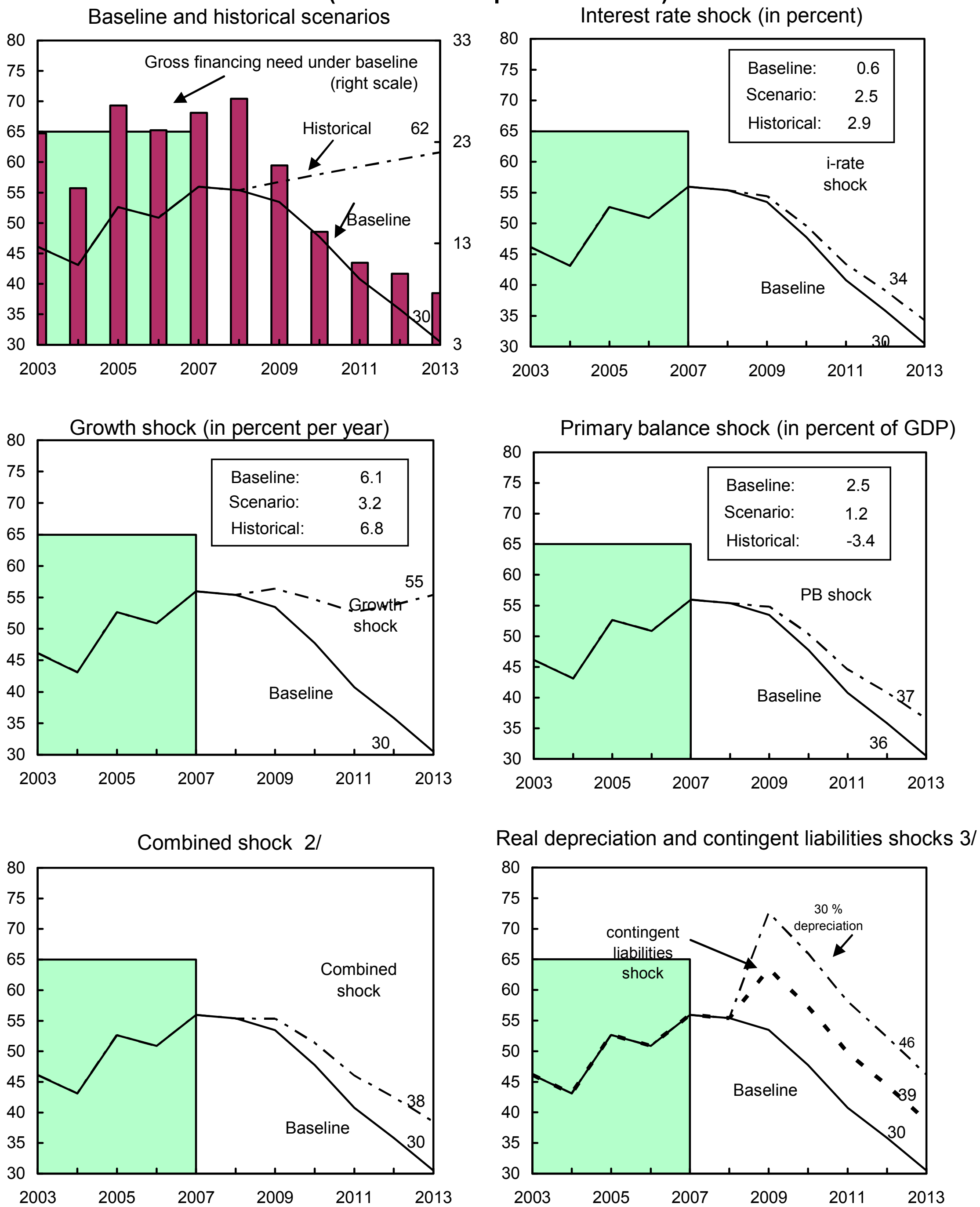
30). However, the impact of a GDP shock may be overstated by the standardized sensitivity test, because in the Maldives' case the tsunami and the sharp recovery thereof accentuate the volatility of GDP growth. Excluding the year of the tsunami and the following year, the growth rate shock scenario generates a falling path for public debt, which reaches about 40 percent of GDP by 2013.

B. External Debt Sustainability

The external debt-to-GDP ratio is forecast to climb sharply until 2010, before attaining a downward trajectory later in the projection period. Over the next three years, several new resorts will begin construction, while work continues on island resorts leased previously. The financing for these resorts is mainly expected to be channeled through commercial banks borrowing from their head offices and on-lending domestically, as in the past. In addition, work will commence on a transshipment port, while various other infrastructure projects continue. The external debt-to-GDP ratio is forecast to climb to about 95 percent in 2010, after which it will diminish as several projects are completed. Notably, this path is driven by private sector activity and borrowing. Public external debt, in contrast is forecast to decline from next year onwards—falling gradually from 45 percent of GDP in 2008 to about 26 percent by 2013—as amortization on existing loans comes due and loans for tsunami reconstruction activities winds down. Debt service follows a similar profile, rising as a percentage of domestic exports from 13 percent in 2008 to 15 percent in 2010, before declining to 12.6 percent by 2013.

The stress tests illustrate that the debt path is particularly vulnerable to shocks to the current account and the exchange rate. A real depreciation of 30 percent would cause the ratio to rise sharply to 121 percent in the year that the depreciation occurred, before falling to about 89 percent in 2013. A large current account shock is potentially more worrying because the trajectory of the external debt ratio does not decline over the projection period, rising steadily to 122 percent by 2013. While both scenarios are unlikely, neither can be ruled out entirely. A current account shock could occur due to Maldives' large exposure to tourism patterns and world commodity prices. A real depreciation could occur if fiscal slippages and attendant deficit monetization led to high inflation or if a surge in import demand—generated by excessive public expenditure—put the peg under pressure.

Figure I-1. Maldives: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table I-1. Maldives: Public Sector Debt Sustainability Framework, 2003-13

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	**Debt-stabilizing primary 9/**
1 **Baseline: Public sector debt 1/**	46.1	43.1	52.6	50.9	56.0	**55.4**	**53.5**	**47.7**	**40.8**	**35.8**	**30.5**	**-1.5**
Of which: foreign-currency denominated	29.6	30.5	34.0	32.4	37.0	39.0	39.5	35.0	30.5	26.6	23.1	
2 Change in public sector debt	-0.9	-3.0	9.6	-1.8	5.1	-0.6	-1.9	-5.7	-7.0	-4.9	-5.3	
3 Identified debt-creating flows (4+7+12)	-0.1	-3.4	12.4	-2.8	1.0	-0.8	-1.9	-5.7	-7.0	-4.9	-5.3	
4 Primary deficit	1.9	0.2	9.3	5.1	5.7	7.4	1.5	-3.1	-4.6	-2.9	-3.6	
5 Revenue and grants	34.8	34.5	48.1	52.5	58.0	58.8	51.8	50.0	50.1	47.7	46.6	
6 Primary (noninterest) expenditure	36.7	34.7	57.3	57.6	63.7	66.2	53.3	46.9	45.4	44.8	43.0	
7 Automatic debt dynamics 2/	-2.0	-3.6	3.2	-7.8	-4.7	-8.2	-3.5	-2.6	-2.4	-2.0	-1.8	
8 Contribution from interest rate/growth differential 3/	-2.0	-3.6	3.2	-7.8	-4.7	-8.2	-3.5	-2.6	-2.4	-2.0	-1.8	
9 *Of which*: contribution from real interest rate	1.7	0.3	1.1	-0.1	-1.3	-5.2	-0.2	0.3	0.3	0.2	0.2	
10 *Of which*: contribution from real GDP growth	-3.7	-3.9	2.1	-7.8	-3.3	-3.0	-3.3	-2.9	-2.6	-2.2	-2.0	
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
12 Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14 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	
15 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	
16 Residual, including asset changes (2-3) 5/	-0.8	0.4	-2.9	1.0	4.1	0.3	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	132.4	125.1	109.5	96.9	96.5	94.2	103.2	95.6	81.4	75.1	65.5	
Gross financing need 6/	23.8	18.4	26.6	24.1	25.9	27.2	20.7	14.1	11.1	10.0	8.1	
in millions of U.S. dollars	165.1	143.1	199.4	221.1	273.7	353.1	296.9	221.7	189.7	187.1	165.3	
Scenario with key variables at their 10-year historical averages 7/						**55.4**	**56.7**	**58.0**	**59.3**	**60.5**	**61.6**	
Scenario with no policy change (constant primary balance) in 2008-13						**55.4**	**59.3**	**63.7**	**68.0**	**72.0**	**75.8**	
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	8.5	9.5	-4.6	18.0	7.6	6.5	6.5	6.0	6.0	6.0	6.0	
Average nominal interest rate on public debt (in percent) 8/	3.5	3.4	3.6	3.9	4.9	4.5	3.8	3.8	3.8	3.8	3.8	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.9	1.0	2.4	0.4	-2.5	-10.5	-0.2	0.8	0.8	0.8	0.8	
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	-0.4	2.4	1.2	3.5	7.4	15.0	4.0	3.0	3.0	3.0	3.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	9.6	3.4	57.8	18.5	18.9	10.8	-14.2	-6.9	2.8	4.4	1.8	
Primary deficit	1.9	0.2	9.3	5.1	5.7	7.4	1.5	-3.1	-4.6	-2.9	-3.6	

1/ Defined as general government gross debt.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g. A large negative contribution from real interest rate reflect a large pickup in (imported) inflation, while domestic and foreign loan interest rates are expected to remain stable reflecting the peg to the U.S. dollar and the consessional nature of foreign loans.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

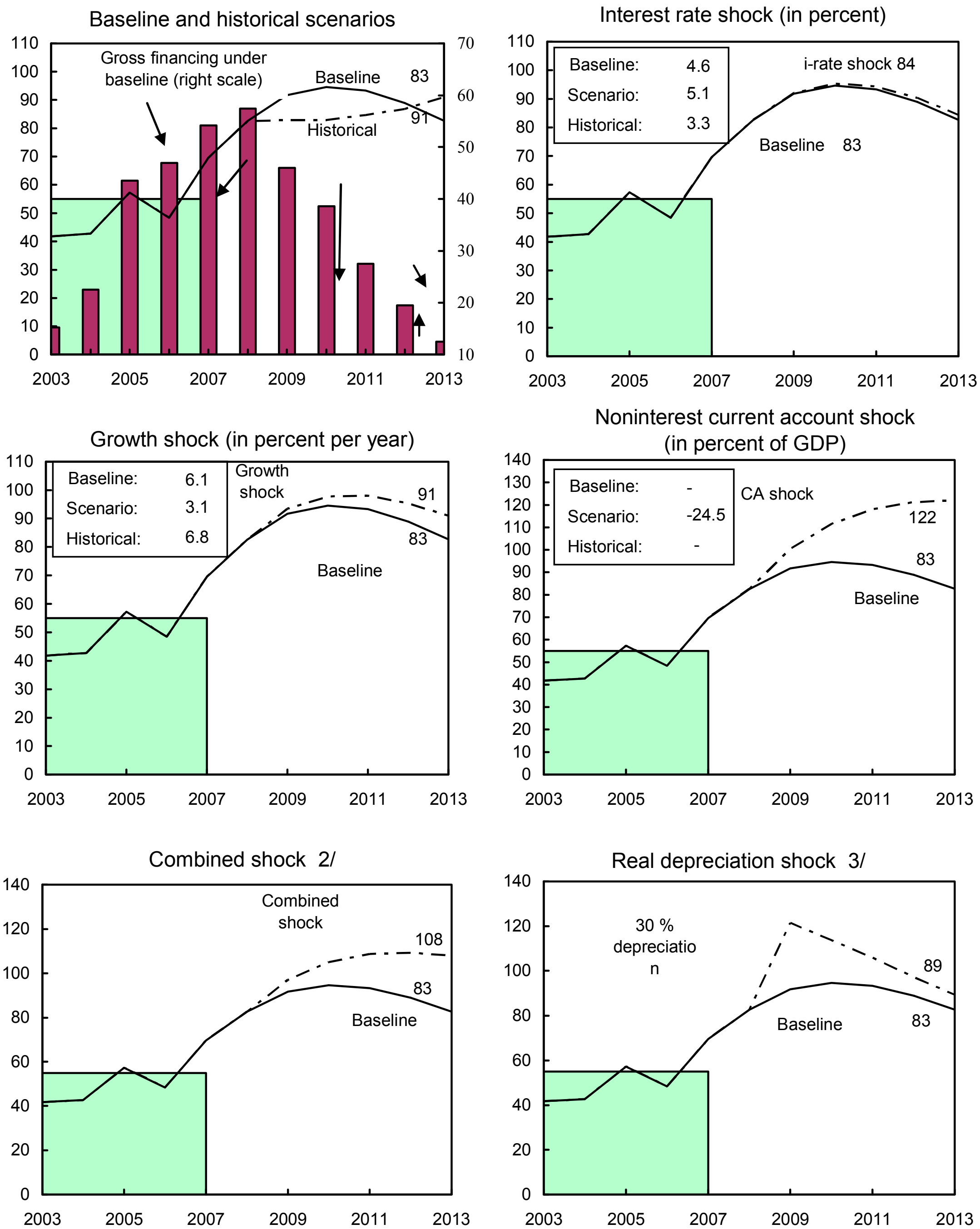
6/ Defined as public sector deficit, plus amortization of medium- and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure I-2. Maldives: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent one-fourth standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2009.

Table I-2. Maldives: External Debt Sustainability Framework, 2003-13

(In percent of GDP, unless otherwise indicated)

		Actual					Projections						
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Debt-stabilizing noninterest current account 6/
1	**Baseline: External debt**	41.8	42.7	57.3	48.4	69.6	**82.6**	**91.7**	**94.6**	**93.3**	**88.9**	**82.7**	**-10.2**
2	Change in external debt	1.4	0.9	14.6	-8.9	21.2	13.0	9.1	2.9	-1.3	-4.4	-6.3	
3	Identified external debt-creating flows (4+8+9)	-8.6	-6.4	17.9	12.8	19.8	22.2	12.0	5.3	-0.3	-3.9	-7.6	
4	Current account deficit, excluding interest payments	3.8	15.2	34.0	38.4	42.8	45.4	33.5	24.9	13.9	6.8	0.2	
5	Deficit in balance of goods and services	-7.0	4.1	50.0	37.7	40.7	43.0	30.5	22.4	14.0	7.5	1.3	
6	Exports	84.3	88.4	64.6	75.2	73.4	73.6	74.6	75.7	77.9	79.7	81.1	
7	Imports	77.3	92.4	114.6	112.9	114.1	116.6	105.1	98.1	91.9	87.2	82.4	
8	Net nondebt creating capital inflows (negative)	-10.2	-18.0	-19.4	-15.9	-19.3	-22.4	-20.2	-18.5	-13.1	-9.5	-6.7	
9	Automatic debt dynamics 1/	-2.3	-3.5	3.4	-9.7	-3.8	-0.8	-1.3	-1.1	-1.2	-1.2	-1.2	
10	Contribution from nominal interest rate	0.8	1.0	1.9	1.4	2.2	2.9	3.5	3.9	4.0	3.9	3.7	
11	Contribution from real GDP growth	-3.2	-3.5	2.1	-8.8	-2.8	-3.7	-4.8	-5.0	-5.2	-5.1	-4.9	
12	Contribution from price and exchange rate changes 2/	0.2	-1.0	-0.5	-2.2	-3.1	...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	10.0	7.3	-3.4	-21.7	1.4	-9.2	-2.9	-2.4	-1.0	-0.5	1.4	
	External debt-to-exports ratio (in percent)	49.6	48.4	88.6	64.3	94.9	112.3	123.0	125.0	119.8	111.7	101.9	
	Gross external financing need (in millions of U.S. dollars) 4/	105.2	175.0	326.5	436.0	573.3	744.2	660.1	605.4	470.6	363.7	254.2	
	in percent of GDP	15.2	22.5	43.6	47.0	54.2	57.4	46.0	38.6	27.5	19.5	12.5	
	Scenario with key variables at their historical averages 5/						**82.6**	**82.8**	**82.9**	**84.7**	**86.9**	**91.0**	
	Key Macroeconomic Assumptions Underlying Baseline												
	Real GDP growth (in percent)	8.5	9.5	-4.6	19.1	6.6	6.5	6.5	6.0	6.0	6.0	6.0	
	GDP deflator in U.S. dollars (change in percent)	-0.4	2.4	1.2	4.0	6.9	15.0	4.0	3.0	3.0	3.0	3.0	
	Nominal external interest rate (in percent)	2.1	2.7	4.3	2.9	5.1	5.1	4.8	4.7	4.6	4.6	4.6	
	Growth of exports (U.S. dollar terms, in percent)	17.9	17.5	-29.4	44.1	11.1	22.8	12.3	10.8	12.4	11.6	11.2	
	Growth of imports (U.S. dollar terms, in percent)	17.4	34.1	19.8	22.0	15.1	25.2	-0.1	1.9	2.2	3.6	3.2	
	Current account balance, excluding interest payments	-3.8	-15.2	-34.0	-38.4	-42.8	-45.4	-33.5	-24.9	-13.9	-6.8	-0.2	
	Net non-debt creating capital inflows	10.2	18.0	19.4	15.9	19.3	22.4	20.2	18.5	13.1	9.5	6.7	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency-denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both noninterest current account and nondebt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and nondebt inflows in percent of GDP) remain at their levels of the last projection year.

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

APPENDIX II

Draft Public Information Notice (PIN) No. 08/xx
FOR IMMEDIATE RELEASE
[Month, dd, yyyy]

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with the Maldives

On September 10, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Maldives.[8]

Background

The Maldives continues to grow robustly, underpinned by a tourism sector that has rebounded strongly from the Asian tsunami. In 2007, rapid tourism growth, together with construction activities, has kept the headline growth rate in line with the pre-tsunami average despite an unusually low fish catch. Inflation has recently picked up sharply to nearly 15 percent year on year due to soaring food and oil prices.

The main challenge for the Maldives is to contain fiscal expenditures that have increased sharply following the tsunami. Expenditure has reached extraordinarily high levels by international and historical standards, with the majority of the increase in domestically financed expenditure unrelated to the tsunami. On the revenue side, there has been little progress with tax reforms. The government has been relying on extraordinary revenue measures, such as leasing out islands, to contain the fiscal deficit, and indeed has achieved its target of zero domestic financing in 2007.

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[8] 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.

The 2008 budget continues to entail a large increase in current expenditures in an election year financed by extraordinary revenue measures with significant implementation risks. An over 50 percent increase in the wage bill and quadrupled subsidies, mainly because of administered electricity prices, pushed up overall expenditure to nearly 70 percent of GDP. While the government initially planned to achieve zero domestic financing with a large receipt (about 15 percent of GDP) from a transshipment port project, the project is now delayed by a year. The authorities intend to fill the shortfall by leasing an additional 30 islands, but fiscal risks remain.

Dynamic private sector activities shaped the external sector. The current account deficit widened to 45 percent of GDP in 2007, driven by a surge in construction-related imports and rising commodity prices, notwithstanding the contribution from strong tourism earnings. The deficit was financed mainly through a large increase in private capital inflows, including foreign borrowing by commercial banks, which was then on-lend to resort developers. As a result, external debt increased sharply to near 70 percent of GDP in 2007.

The U.S. dollar peg has served the Maldives well and continues to be an appropriate exchange rate regime for the country. The Maldives appears to have adequate room to maintain competitiveness under the peg despite the recent rise in inflation, provided imported inflation is not exacerbated by fiscal slippages. Most of Maldives' exports are to euro-denominated areas, while the bulk of imports are dollar denominated. The real effective exchange rate has declined more than that of comparator tourism-based small economies.

There has been some notable progress with key legal reforms. A new central bank governor was appointed following the amendment to the Maldives Monetary Authority (MMA) act enshrining the separation of the positions of finance minister and governor. MMA was also empowered to set interest rates and put a ceiling on the amount the government can borrow through its Ways and Means Account. The Civil Service Bill and the Audit Act were passed and an independent civil service commissioner and an auditor general have been appointed.

Executive Board Assessment

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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.

Maldives: Selected Economic Indicators, 2003–08

	2003	2004	2005	2006	Est 2007	Proj. 2008
			(Annual percentage change)			
Growth and prices						
Real GDP	8.5	9.5	-4.6	18.0	7.6	6.5
Inflation (period average)	-2.8	6.3	3.3	3.5	7.4	15.0
Central government						
Revenue and grants	34.8	34.5	48.1	52.5	58.0	58.8
Of which: Grants	1.4	0.7	8.6	7.4	8.7	4.9
Expenditure and net lending	38.2	36.0	59.0	59.3	65.8	68.3
Of which: Domestic spending	34.0	33.2	49.1	48.4	49.4	55.8
Overall balance	-3.4	-1.6	-10.9	-6.8	-7.8	-9.4
Overall balance, excluding grants	-4.8	-2.3	-19.5	-14.2	-16.6	-14.3
Financing						
Domestic	-1.3	-2.5	8.4	2.3	-0.7	0.7
Foreign	4.7	4.1	2.4	4.5	8.6	8.7
			(In millions of U.S. dollars)			
Balance of payments						
Exports, including re-exports	152.0	181.0	161.6	225.2	228.0	344.2
Imports	-414.3	-564.8	-655.5	-815.3	-935.7	-1,213.5
Nonfactor services (net)	311.1	352.4	118.8	240.0	276.7	311.8
Current account balance	-31.8	-125.8	-268.8	-369.2	-475.7	-625.4
(In percent of GDP)	-4.6	-16.2	-35.9	-40.3	-45.0	-48.3
Official capital (net)	29.9	25.0	18.6	38.4	85.8	128.3
Private capital (net)	70.3	140.1	145.8	147.8	203.8	295.0
Errors and omissions (net)	5.3	13.3	-10.9	123.6	40.9	0.0
Overall balance	26.5	44.2	-17.3	45.1	48.0	3.9
Gross official reserves (year-end)	160.3	204.4	187.1	232.2	280.2	284.2
(In months of following year's imports of GNFS) 1/	2.7	2.9	2.1	2.3	2.2	2.3
External Debt	289.5	331.8	429.5	449.2	736.3	1,070.6
(In percent of GDP)	41.8	42.7	57.3	49.1	69.6	82.6
Public External Debt 2/	272.9	311.6	309.9	361.8	523.7	652.0
(In percent of GDP)	39.4	40.1	44.1	40.3	43.0	45.0
Debt service	22.0	32.3	43.1	46.0	71.7	96.9
(In percent of domestic exports of GNFS) 3/	4.0	5.1	10.1	7.6	10.9	13.1
Exchange rate						
Rufiyaa per U.S. dollar (period average)	12.8	12.8	12.8	12.8	12.8	12.8
Memorandum item:						
Nominal GDP (in millions of rufiyaa)	8,863.2	9,938.7	9,596.6	11,722.0	13,543.0	16,586.8

Sources: Data provided by the Maldivian authorities; and IMF staff estimates and projections.
1/ GNFS = Goods and nonfactor services.
2/ Public sector debt, including government debt and government-guaranteed debt.
3/ Domestic exports are defined as merchandise exports net of re-exports.