

SM/08/261
Correction 1

February 26, 2009

To: Members of the Executive Board

From: The Acting Secretary

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

The attached corrections to SM/08/261 (7/31/08) have been provided by the staff.

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 7, para. 7, row 1: for “to 45 percent” read “to over 40 percent”
row 2: for “40 percent” read “33 percent”
row 3: for “8 percent” read “10 percent”
row 4: for “15 percent” read “18 percent”
row 7: for “40 percent of GDP in 2006 to about 45 percent”
read “33 percent of GDP in 2006 to over 40 percent”
row 12–13: for “public external debt registering a relatively small
increase from 40.3 percent of GDP in 2006 to 43 percent”
read “government external debt registering a relatively
small increase from 32 percent”

Page 17, figure 1: figure replaced

Page 18, figure 2: figure replaced

Page 19, table 1: table replaced

Page 20, table 2: table replaced

Page 22, table 4: table replaced

Page 23, table 5: table replaced

Page 24, table 6: table replaced

Page 29, figure I-2: figure replaced

Page 30, table I-2: table replaced

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

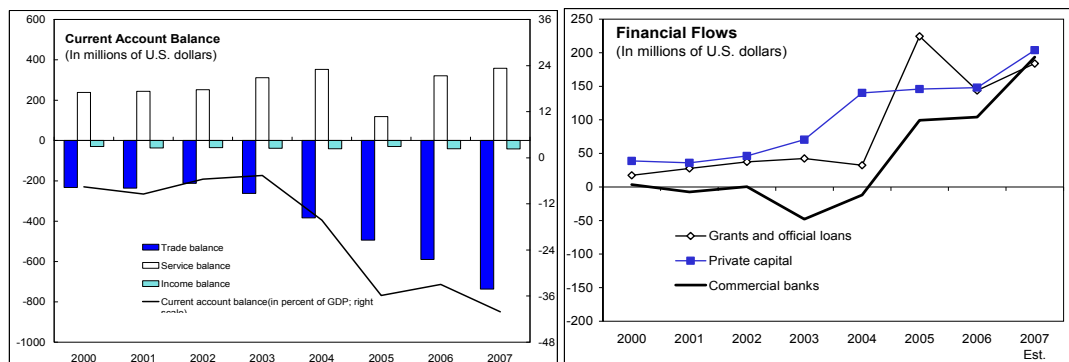
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Att: (10)

Other Distribution:
Department Heads

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 over 40.45 percent of GDP in 2007 from 33.40 percent the previous year, driven by a surge in construction-related imports and rising commodity prices. With tourism booming, exports grew by a robust 108 percent in 2007, despite declining fish exports. However, imports rose by 185 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 33.40 percent of GDP in 2006 to over 40.45 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~~ government external debt registering a relatively small increase from 32.40.3 percent of GDP in 2006 to 43.40.3 percent in 2007.



8. Corresponding to the above, the banking sector—comprising one local and fivefour 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*

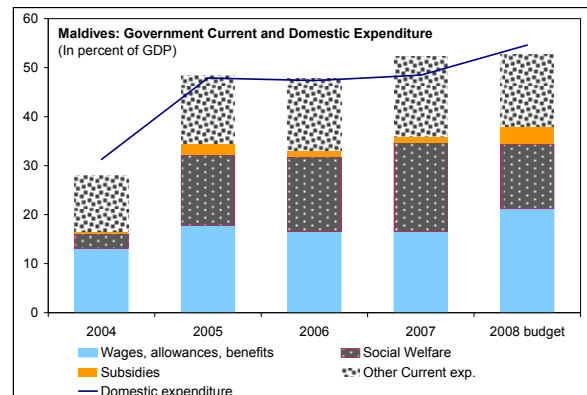
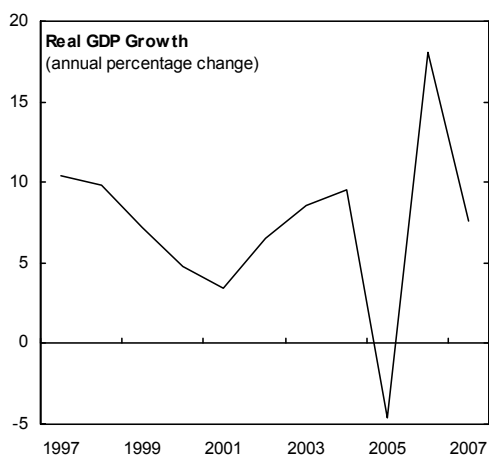
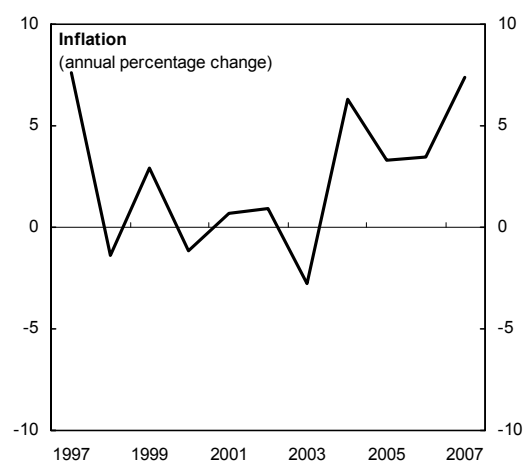


Figure 1. Maldives: Real and External Sector Developments, 1997–2007

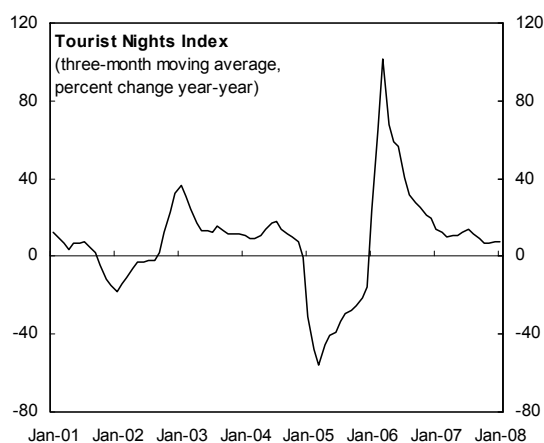
Output recovered from the tsunami-related contractions...



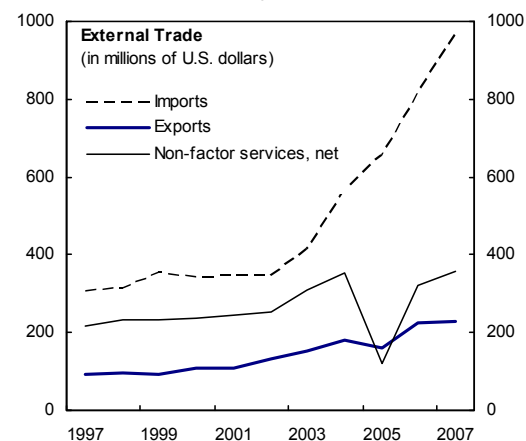
...but inflation has increased sharply...



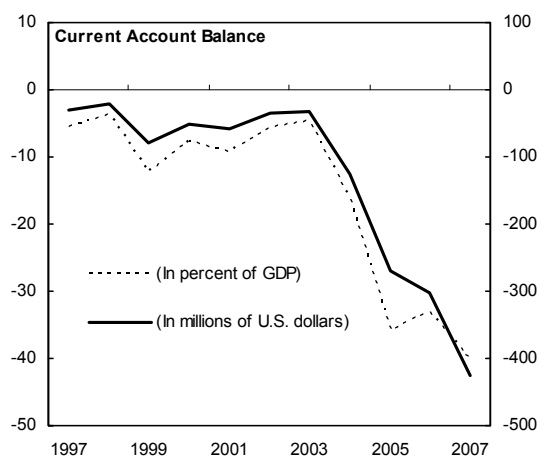
Tourism arrivals have bounced back...



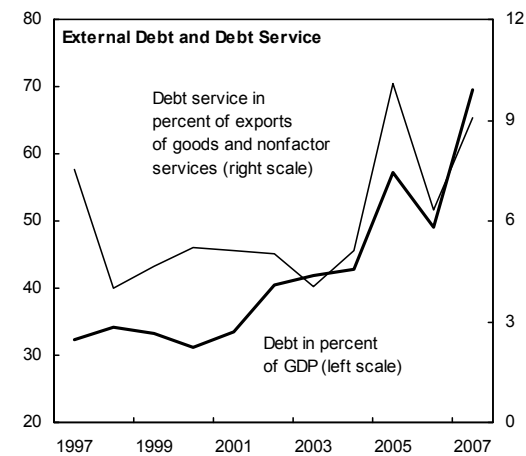
...although the trade balance has worsened due to construction imports...



...and the current account deficit has deteriorated...



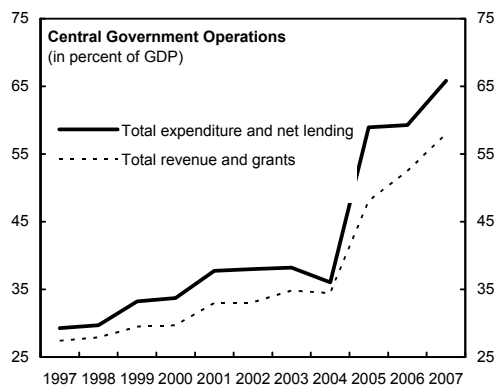
External debt and debt service has risen.



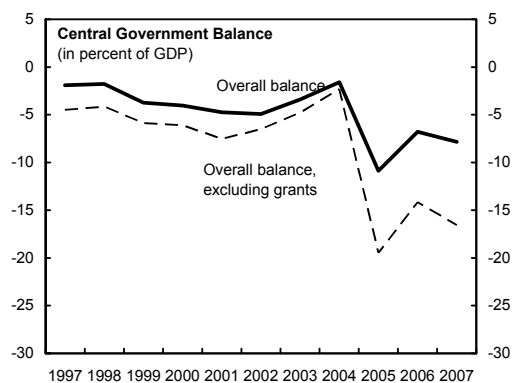
Sources: Maldivian authorities; and IMF staff estimates.

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

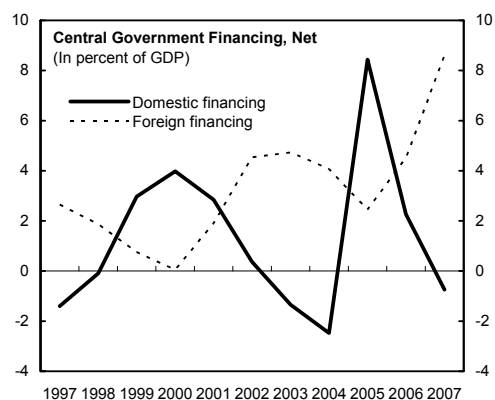
With expenditures growing faster than revenues...



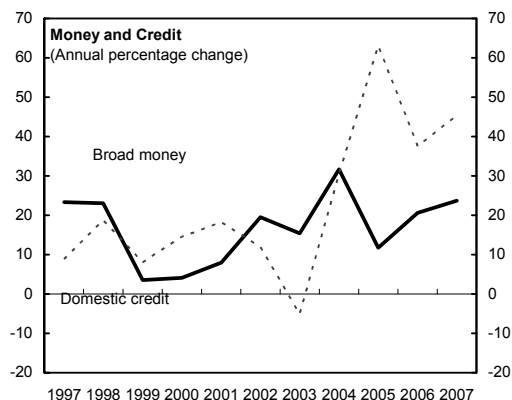
...overall deficit is large..



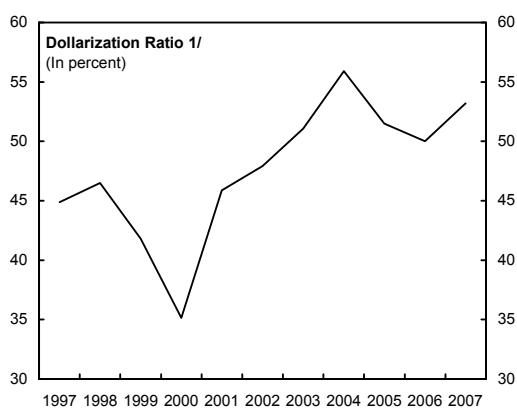
...and financing of the deficit rose.



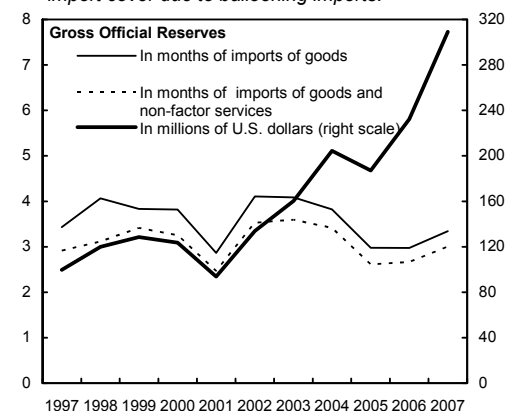
Broad money remained constant as falling net foreign assets offset rising net domestic assets.



Dollarization has fallen slightly since 2004.



The increase in reserves, deriving from foreign grants and loans, has failed to lead to better import cover due to ballooning imports.



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	-964.7	-1,213.5
Nonfactor services (net)	311.1	352.4	118.8	320.7	357.6	385.4
Current account balance	-31.8	-125.8	-268.8	-302.0	-424.5	-613.0
(In percent of GDP)	-4.6	-16.2	-35.9	-33.0	-40.1	-47.3
Official capital (net)	29.9	25.0	18.6	42.1	39.2	128.3
Private capital (net)	70.3	140.1	145.8	147.8	212.7	295.0
Errors and omissions (net)	5.3	13.3	-10.9	52.9	56.2	0.0
Overall balance	26.5	44.2	-17.3	45.1	76.9	16.3
Gross official reserves (year-end)	160.3	204.4	187.1	232.2	309.1	325.5
(In months of following year's imports of GNFS) 1/	2.7	2.9	2.1	2.3	2.5	2.6
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
Debt service	22.0	32.3	43.1	43.3	66.9	96.9
(In percent of domestic exports of GNFS) 2/	4.0	5.1	10.1	6.3	9.1	11.9
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/ 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	-302.0	-424.5	-613.0
Trade balance	-262.3	-383.8	-493.8	-590.1	-736.7	-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	-964.7	-1213.5
Services (net)	272.7	311.6	88.8	280.0	316.2	343.6
Balance on nonfactor services	311.1	352.4	118.8	320.7	357.6	385.4
Receipts	432.1	505.2	322.9	551.9	627.7	681.1
Of which: Tourism receipts	401.6	470.9	284.2	512.4	586.3	636.2
Payments	-121.0	-152.9	-204.1	-231.2	-270.1	-295.8
Balance on factor services	-38.4	-40.8	-30.0	-40.7	-41.4	-41.8
Receipts	6.2	10.3	11.8	15.6	21.7	23.2
Payments	-44.6	-51.1	-41.8	-56.3	-63.1	-65.0
Unrequited transfers (net)	-42.3	-53.6	136.2	8.1	-4.0	-87.3
Official	12.7	7.6	205.7	91.3	98.7	17.5
Private	-54.9	-61.1	-69.5	-83.2	-102.7	-104.8
Nonmonetary capital (net)	52.4	153.1	263.9	294.2	445.2	629.3
Official medium- and long-term	29.9	25.0	18.6	42.1	39.2	128.3
Disbursements	46.6	46.5	42.5	62.8	63.2	167.7
Amortization	-16.7	-21.6	-23.9	-20.7	-24.0	-39.4
Private capital	70.3	140.1	145.8	147.8	212.7	295.0
Commercial banks	-47.8	-11.9	99.4	104.3	193.3	206.0
Net errors and omissions	5.3	13.3	-10.9	52.9	56.2	0.0
Overall balance	26.5	44.2	-17.3	45.1	76.9	16.3
Monetary movements	-26.5	-44.2	17.3	-45.1	-76.9	-16.3
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	18.3	25.8
Tourism receipts growth (in percent)	19.1	17.3	-39.6	80.3	14.4	8.5
Current account balance (in percent of GDP)	-4.6	-16.2	-35.9	-33.0	-40.1	-47.3
Gross official reserves (in millions of U.S. dollars)	160.3	204.4	187.1	232.2	309.1	325.5
(In months of following year's imports of GNFS) 2/	2.7	2.9	2.1	2.3	2.5	2.6
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	43.3	66.9	96.9
Debt service (in percent of domestic exports of GNFS) 1/	4.0	5.1	10.1	6.3	9.1	11.9
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
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	-2,886.1
Monetary authorities (net)	2,050.3	2,605.1	2,303.5	2,881.4	3,866.0	4,075.0
Foreign assets	2,060.5	2,616.1	2,394.9	2,972.8	3,956.9	4,165.9
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	15,099.4
Domestic credit	3,246.6	4,239.6	6,911.4	9,509.1	13,820.2	18,489.3
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	17,790.6
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	16,651.8
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	529.7
Domestic credit	-5.1	30.6	63.0	37.6	45.3	33.8
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	34.4
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	36.3
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	309.1	325.5
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	18.3	25.8	-1.0	1.6	1.8	3.5	3.0
Tourism receipts (in percent change)	70.9	13.7	8.5	8.9	7.6	8.5	9.3	9.4
Trade balance	-590.1	-736.7	-869.3	-809.4	-790.0	-774.5	-773.2	-761.0
Nonfactor services (net)	320.7	357.6	385.4	435.3	482.2	537.6	605.2	680.0
Current account balance	-302.0	-424.5	-613.0	-467.7	-408.4	-302.9	-224.8	-132.3
(In percent of GDP)	-33.0	-40.1	-47.3	-32.6	-26.1	-17.7	-12.0	-6.5
Overall balance	45.1	76.9	16.3	73.1	52.7	55.0	46.3	38.8
Memorandum items:								
Gross official reserves (year-end)	232.2	309.1	325.5	398.6	451.3	506.2	552.6	591.4
(In months of imports of GNFS) 2/	2.3	2.5	2.6	3.1	3.4	3.7	3.9	4.1
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
Debt service	43.3	66.9	96.9	115.4	138.1	150.5	155.2	162.8
(In percent of domestic exports of GNFS)	6.3	9.1	11.9	13.1	14.5	14.5	13.7	13.2

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 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	18.3
Current account balance 1/	-4.6	-16.2	-35.9	-33.0	-40.1
Capital and financial account balance	7.6	19.7	35.2	32.1	42.1
<i>Of which:</i> Official medium- and long-term loans (net)	4.3	3.2	2.5	4.6	3.7
Other	3.2	16.5	32.7	27.5	38.4
Gross official reserves (in millions of U.S. dollars)	160.3	204.4	187.1	232.2	309.1
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	2.5
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	133.3	208.4	122.7
Total external debt	41.8	42.7	57.3	49.1	69.6
<i>Of which:</i> 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	65.4	100.1
Debt service to domestic exports of GNFS	4.0	5.1	10.1	6.3	9.1
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.

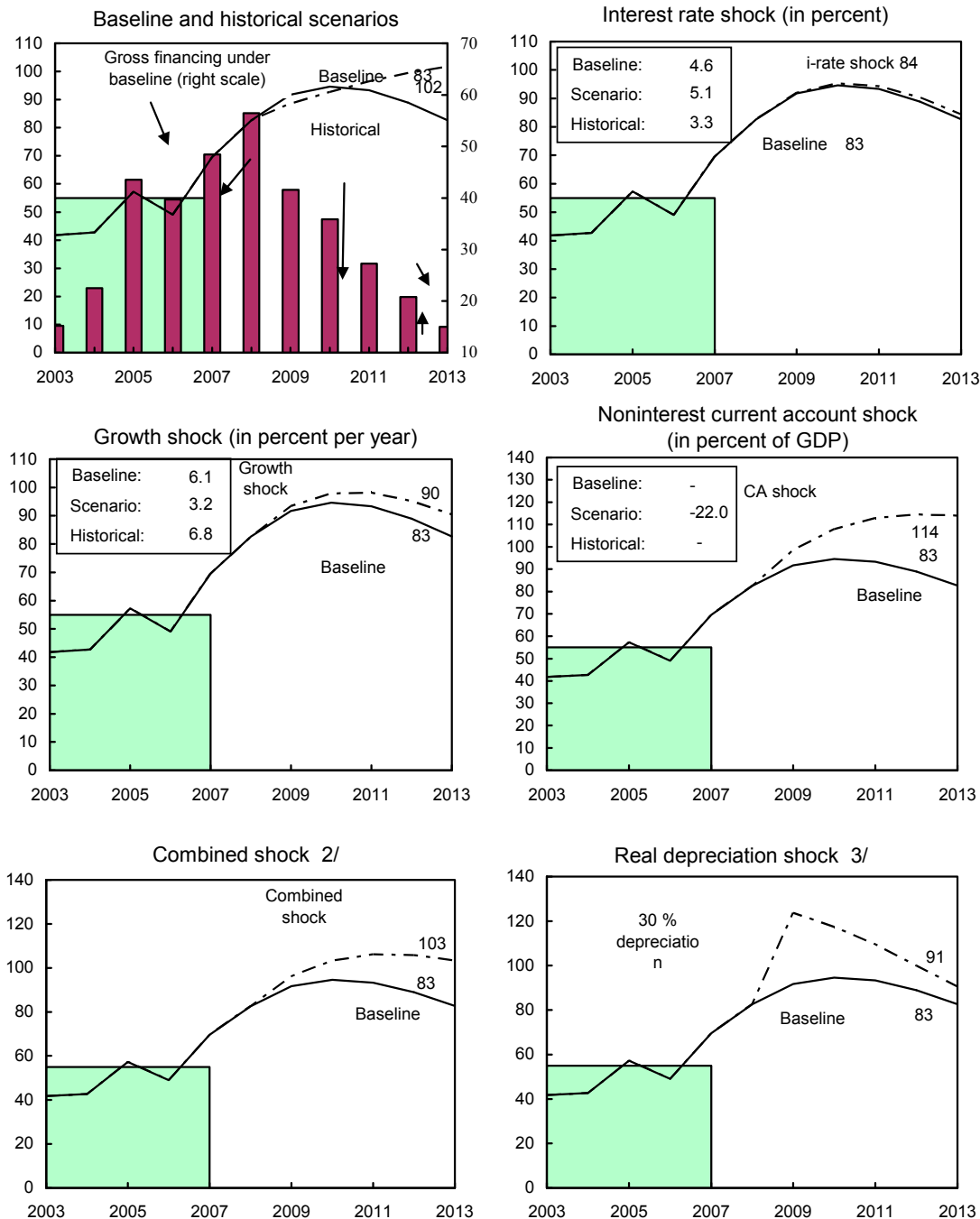
1/ The first entry is the average for 1995–96.

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.

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						Debt-stabilizing noninterest current account 6/ -10.7
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
1 Baseline: External debt	41.8	42.7	57.3	49.1	69.6	82.6	91.7	94.6	93.3	88.9	82.7	
2 Change in external debt	1.4	0.9	14.6	-8.2	20.5	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	6.5	13.4	20.8	7.2	2.2	-1.7	-4.2	-5.6	
4 Current account deficit, excluding interest payments	3.8	15.2	34.0	31.6	38.0	44.4	29.0	22.1	13.7	8.1	2.8	
5 Deficit in balance of goods and services	-7.0	4.1	50.0	29.4	35.8	37.3	26.1	19.6	13.8	9.0	4.0	
6 Exports	84.3	88.4	64.6	84.9	80.9	79.1	79.0	78.4	78.0	78.1	78.4	
7 Imports	77.3	92.4	114.6	114.3	116.7	116.5	105.0	98.0	91.8	87.1	82.3	
8 Net nondebt creating capital inflows (negative)	-10.2	-18.0	-19.4	-16.1	-20.1	-22.8	-20.6	-18.8	-14.2	-11.1	-7.2	
9 Automatic debt dynamics 1/	-2.3	-3.5	3.4	-9.0	-4.4	-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	-8.5	-3.2	-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	-1.9	-3.4	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	10.0	7.3	-3.4	-14.7	7.1	-7.8	1.9	0.7	0.5	-0.2	-0.7	
External debt-to-exports ratio (in percent)	49.6	48.4	88.6	57.8	86.0	104.4	116.2	120.7	119.7	113.9	105.5	
Gross external financing need (in millions of U.S. dollars) 4/	105.2	175.0	326.5	363.4	512.5	731.8	596.7	562.0	466.5	388.4	305.9	
in percent of GDP	15.2	22.5	43.6	39.7	48.4	56.5	41.6	35.9	27.3	20.8	15.0	
Scenario with key variables at their historical averages 5/						82.6	88.6	92.7	96.5	99.5	101.8	
Key Macroeconomic 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	
GDP deflator in U.S. dollars (change in percent)	-0.4	2.4	1.2	3.5	7.4	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	60.4	10.1	19.8	10.5	8.4	8.6	9.4	9.5	
Growth of imports (U.S. dollar terms, in percent)	17.4	34.1	19.8	21.8	18.0	22.2	-0.1	1.9	2.2	3.6	3.2	
Current account balance, excluding interest payments	-3.8	-15.2	-34.0	-31.6	-38.0	-44.4	-29.0	-22.1	-13.7	-8.1	-2.8	
Net non-debt creating capital inflows	10.2	18.0	19.4	16.1	20.1	22.8	20.6	18.8	14.2	11.1	7.2	

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.