

**EXECUTIVE
BOARD
MEETING**

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To: Members of the Executive Board

From: The Secretary

Subject: **Maldives—Staff Report for the 2014 Article IV Consultation—Informational Annex**

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Questions:	Ms. Stuart, APD (ext. 37897) Mr. Ghazanchyan, APD (ext. 37689)
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***The Secretary's Department has been notified by the authorities that their explicit consent is required prior to the publication of Board documents. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities indicating that 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.**



MALDIVES

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 27, 2015

Prepared By

Asia and Pacific Department
(In consultation with other departments)

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FUND RELATIONS

(As of November 30, 2014)

Membership Status: Joined: January 13, 1978; Article XIV

General Resources Account:	SDR Million	Percent Quota
Quota	10.00	100.00
Fund holdings of currency (exchange rate)	9.53	95.34
Reserve Tranche Position	2.00	20.04

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	7.69	100.00
Holdings	6.78	88.12

Outstanding Purchases and Loans:	SDR Million	Percent Quota
Stand-By Arrangements	1.54	15.38
ESF Arrangements	2.05	20.50

Latest Financial Arrangements:				
Type	Arrangement Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR Million)
Stand-By	12/04/2009	12/3/2012	49.20	8.20
ESF	12/04/2009	12/3/2011	8.20	2.05

Projected Payments to Fund¹

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming			
	2014	2015	2016	2017
Principal	1.03	0.82	0.41	0.41
Charges/Interest		0.01	0.00	0.00
Total	1.03	0.83	0.41	0.41

¹When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Arrangements

From March 1, 1982 to June 30, 1985, the Maldivian rufiyaa was pegged to the U.S. dollar. Beginning in July 1985, the exchange rate of the rufiyaa was linked to a trade-weighted basket of currencies, but the exchange rate vis-à-vis the U.S. dollar remained relatively stable until February 1987. On March 1, 1987, the rufiyaa was devalued by 29 percent vis-à-vis the U.S. dollar. From 1987 to 1994, the exchange rate of the rufiyaa was adjusted periodically. Since October 1994, the exchange rate of the rufiyaa remained unchanged at Rf 11.77 per U.S. dollar, until July 25, 2001, when the rufiyaa was

devalued to Rf 12.80 per U.S. dollar. Since April 2011, the rufiyaa has floated in a band of 20 percent on either side of Rf 12.85 per dollar. In practice, however, the rufiyaa has been virtually fixed at the band's weaker end of Rf 15.42 per dollar. The de jure exchange rate arrangement is a pegged exchange rate within horizontal bands and the de facto exchange rate arrangement is classified as a stabilized exchange rate arrangement. Maldives continues to avail itself of the transitional provisions of Article XIV, and has not yet accepted the obligations of Article VIII, Sections 2, 3, and 4. It maintains an exchange restriction subject to IMF approval under Article VIII, Section 2(a) of the IMF's Articles of Agreement arising from a shortage of foreign exchange at the official rate which leads to the MMA rationing its supply of foreign exchange to commercial banks. This results in a channeling of foreign exchange transactions for current international transactions to the parallel market where transactions take place at an exchange rate that deviates by more than 2 percent from the official exchange rate. The greater-than-2-percent exchange-rate spread gives rise to a multiple currency practice subject to IMF approval under Article VIII, Section 3 and also to exchange restrictions, given the additional cost involved for obtaining foreign exchange. The extent of rationing has been eased with an increase in amounts provided to commercial banks.

Last Article IV Consultation

The 2013 Article IV consultation was concluded by the Executive Board on February 4, 2013.

Technical Assistance

FAD: FAD main areas of engagement were in Public Expenditure and Financial Accountability (PEFA) assessment and providing TA for cash management. A joint IMF/WB Public Expenditure and Financial Accountability (PEFA) assessment was carried out in February 2014 to gauge progress made since the last PFM Action Plan for 2009–2011, identify remaining weaknesses and future direction. As a follow-up to the PEFA, the FAD team together with the World Bank also developed a Public Financial Management Reform Plan (PFMRP) for the GoM in June 2014. This was a broad PFM reform and consolidation plan aimed at improving the overall policy-making, coordination, implementation and monitoring framework in PFM. Altogether 3 missions on cash management TA were carried out in FY14. This mainly focused on developing a cash management manual for the GoM and related activities. On request from the authorities, the FAD in September 2014 also carried out a review of Chart of Accounts (CoA) at the ministry of finance and proposed structure for a revised CoA and an action plan to achieve same. In addition, there was a coordinated FAD/STA mission around the same time to review the mapping of the government COA to GFSM 2014.

LEG: In October 2003 provided technical assistance on the revision of the Maldives Monetary Authority Act (MMA Act). A series of missions (March and September 2005, and April 2006) were provided to revamp the banking law. In August 2009, a mission provided assistance on the MMA Act (jointly with MCM). A follow-up mission in February 2011 focused on payments law. LEG conducted an AML/CFT assessment in October 2010 and conducted a desk-based review of the draft AML/CFT law in May 2012. In 2014 LEG provided advice on the Special Economic Zones Law, offshore banking legislation and deposit insurance.

MCM: Two missions visited in 2006 on monetary operations, financial market development, and banking issues. In 2007, a series of mission were provided on debt management, monetary policy and financial supervision. In 2008, three missions visited on monetary operations and liquidity management, monetary policy and financial supervision issues. In November 2008 and March/May/August 2009, a series of mission were provided on research capacity building, bank supervision, monetary policy and the MMA act. Two missions visited Malé to advise on monetary operations, liquidity management, and the development of a crisis management framework. In December 2010, MCM conducted a TA mission on crisis preparedness and management, bank restructuring, and monetary operations. In May and September 2011, MCM consecutively conducted missions on the development of debt markets, and on on-site banking supervision. In February 2012, MCM undertook a TA mission on assessing the foreign exchange operations framework. In 2014, MCM conducted a series of TA missions on banking supervision in early February and late May. Also, together with APD another joint mission on developing foreign exchange market was carried out. MCM also provided advice on deposit insurance schemes.

STA: In May 2007, STA conducted a mission on money and banking statistics. In February and April 2011, STA offered TA on multiple topics covering improvements in balance of payments statistics, government financial statistics (GFS), monetary and financial statistics (MFS) and national accounts. In June and September 2011, STA conducted TA missions on improving price statistics and on the General Data Dissemination System (GDDS). In February, May, and October 2012 STA continued providing TA on improving price statistics. Similarly, in April 2012, a TA mission on improving national accounts covered constructing GDP from the expenditure side and compiling quarterly national accounts. Further advice on improving GDP and developing quarterly GDP was provided in November 2012, January and July, 2014. Between March 2013 and November 2014, STA field five TA missions on balance of payments statistics, in the context of a project funded by the Government of Japan. Another TA mission on balance of payments statistics is scheduled for March 2015.

Safeguards Assessment

In line with the Fund's safeguards assessments policy, an assessment of the Maldives Monetary Authority was concluded in March 2010. In addressing recommendations, the MMA appointed an external auditor and strengthened controls over foreign payments through the automation of the authorization process. A Chief Internal Auditor has also been appointed, while capacity in the internal audit function continues to be improved. In addition, to strengthen the legal framework, amendments to the MMA Act were drafted in 2011 in consultation with the Fund, and have yet to be enacted.

IMF–WORLD BANK JOINT MANAGEMENT ACTION PLAN¹

(As of December 2014)

In view of the macroeconomic challenges facing Maldives and in the wake of a period of political volatility, the World Bank Group Interim Strategy Note (ISN) for FY14-FY16, presented to its Board in June 2014, proposes a selective program of engagement focused on deepening dialogue and support on macro-fiscal issues while strengthening the analytical foundations that would underpin a future program. To this end, a Systematic Country Diagnostic (SCD) is under preparation to shed light on the country's challenges and opportunities for achieving more inclusive growth, reduced poverty and enhanced prosperity of the Maldivian people. The SCD will inform policy dialogue and provide the analytical basis for scoping out the next Country Partnership Framework (CPF). While the ISN is planned to span over a 24-month period, the preparation of the next CPF could be brought forward if opportunities emerge to support a full-fledged medium-term government program for macroeconomic stability and sustainable growth. Under the current ISN, support is being provided in the areas of: fiscal management, public financial management and debt management; sustainable growth; social inclusion and service delivery; and environment and natural resource management.

The teams have been holding, and will continue to hold, joint missions and regular briefing meetings on macroeconomic developments. Public financial management is a key area of collaboration for these operations as is universal subsidies and social protection reform, where the Bank is taking the lead on a number of initiatives aimed at improving targeting. The World Bank has carried out a technical assistance project on fiscal policy in FY 14, and has launched a Public Financial Management Systems strengthening project for FY 15-20, with the objective to enhance budget credibility, transparency, and financial reporting of central government finances. It will focus on strengthening the PFM environment (including enhancing the medium-term fiscal framework and strengthening debt and cash management) and strengthening budget execution. This work is carried out in close collaboration with the IMF providing considerable TA assistance in the areas of PFM and PEFA. The Bank, Fund and Government have jointly undertaken a Public Expenditure and Financial Accountability (PEFA) assessment in mid-2014, followed by a PFM action plan. The Bank is also providing technical assistance to forecasting tourism flows. The Appendix details the macro-critical activities that the Bank and IMF will work on over the coming year.

Appendix I. Maldives IMF-World Bank Joint Management Action Plan		
Title	Products/Activity	Expected Date of Delivery
Bank Work Program in the next 12 months	<p>I. Mutual Information on Relevant Work Program A. Lending (IDA, Trust Fund)</p> <p>A. Strategy and Analytical Work Systematic Country Diagnostic Sustainable Fisheries Support Gender Study Youth Engagement Poverty and Shared Prosperity in Maldives</p> <p>B. Lending Program Environmental Management Project Pension and Social Protection Administration Climate Change Trust Fund I (three projects) Statistical Capacity Building Enhancing Education Development Project Public Financial Management Systems Strengthening Project Accelerating Sustainable Private Investments in Renewable Energy (ASPIRE) Project Climate Change Trust Fund II</p> <p>C. Technical Assistance Forecasting Tourism Flows TA</p>	<p>FY2015 FY2015 FY2015 FY2015 FY2016</p> <p>Approval Date June 2008 May 2009 December 2009 November 2012 April 2013 June 2014 June 2014 FY2015</p> <p>FY2015</p>
IMF Work Program in the next 12 months	<p>A. Missions Staff visit and Article IV consultation</p> <p>B. Analytical Work drivers of inflation, fiscal sustainability and tourism competitiveness.</p> <p>C. Technical Assistance Fiscal issues Public finance management, developing a fiscal Chart of Accounts and support for cash management. Financial sector issues training for supervisors and deposit insurance. Statistics continuing assistance on balance of payments statistics and national accounts.</p>	April 2015, December 2015.
IMF Request to Bank	II. Request for Work Program Inputs (as needed) Poverty and social impact analysis of the electricity tariff increases Request for assistance in targeting subsidies	FY2010 Ongoing
Joint Products	III. Agreement on Joint Products Debt sustainability analysis ¹	Jan. 2015

¹ Prepared jointly by IMF and World Bank staff

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of November 30, 2014)

Asian Development Bank

ADB's interim country partnership strategy (CPS) for 2014–2015 was endorsed by its Board of Directors in October 2014. The interim CPS continues the partnership strategy and focus on ADB's prioritized areas and sectors of operations that were inherent in the interim CPS for 2012–2013; these include: energy, transport, and finance (in particular, micro, small, and medium-sized enterprises). In support of investments in these areas, ADB is providing capacity building support to strengthen institutional capacity in various sectors such as tax administration, operations management, and MSME development; and in agencies such as Maldives Energy Authority and the Ministry of Finance and Treasury.

Work on the full CPS will commence in early 2015.

Loans and Grants

Since ADB started lending to the Maldives in 1981 and up to 2014-end, it has provided 24 loan and grant projects to the country with a total approved amount of \$209.91 million. As of November-end, 2 loans and grants (in the MSME and energy sectors) were active with a net amount of \$45.350 million (Table 1). In October 2014, the ADB Board of Directors approved the Outer Island Sustainable Energy Development Project; of its total cost, \$38.08 million came from Asian Development Fund (ADF).

Table 1. Ongoing Loan and Grant Portfolio
(As of November-end 2014, in \$ million)

Project Name	Amount	Closing Date
Inclusive Micro, Small and Medium-Sized Enterprise Development (Grant)	4.450	31 Dec 2016
Inclusive Micro, Small and Medium-Sized Enterprise Development (Loan)	2.820	31 Dec 2016
Outer Island Sustainable Energy Development	38.080	20 June 2020
TOTAL	45.350	

Technical Assistance

As of November-end 2014, ADB had approved 68 TA projects to the Maldives, with a total amount of \$26.90 million. Of the ongoing 4 TA projects (Table 2), 2 are in the energy sector (\$1.9 million altogether), and 2 in public sector management (\$1.175 million altogether) for a total of \$3.075 million.

Table 2. Ongoing TA Portfolio
(As of November-end 2014, in \$ million)

Capacity Development for the Maldives Energy Authority	Energy	0.800	30 Sept 2017
Outer Islands Sustainable Energy Development	Energy	1.100	31 Dec 2014
Strengthening Capacity for Operations Management	PSM	0.325	31 Dec 2015
Enhancing Tax Administration Capacity	PSM	0.850	31 Dec 2015
TOTAL		3.075	

PSM= public sector management

Contract Awards/Commitments

As a result of the closure of the Economic Recovery Program (ERP) loan as well as two other projects, the level of contract awards for all of 2013 was reduced significantly as compared to 2012 (Table 3).

Table 3. Contract Awards/Commitment Performance
(Without program loans as of September 30, 2014)^a

A	Contract Awards/Commitment			
1	Projected (\$ million) ^b	7.1	6.5	-
2	Achieved (\$ million)	3.8	6.0	0.3
3	Achieved (Percent)	53.5	92.3	-
B	Contract Awards/Commitment Ratio (%)	40.9	26.6	5.9

^a No contract awarded for 2014

^b Refers to full year projection.

Disbursements

Total disbursements in 2012 were high due to the ERP; since its closure, and that of two other projects, the level of disbursements has declined. The disbursement ratio in 2013 was 7.8 percent both with and without program loans (Table 4).

Table 4. Disbursement Performance

(As of September 30, 2014)

A. Disbursements					
1	Projected (\$ million)				
	- With Program Loans	10.1	18.2	0.1	0.8
	- Without Program Loans	10.1	1.8	0.1	0.8
2	Achieved (\$ million)				
	- With Program Loans	7.0	20.0	0.6	0.8
	- Without Program Loans	7.0	3.5	0.6	0.8
3	Achieved (Percent)				
	- With Program Loans	69.3	109.9	600.0	99.1
	- Without Program Loans	69.3	194.4	600.0	99.1
B. Disbursement Ratio (%)					
	- With Program Loans	14.1	3.7	7.8	n/a
	- Without Program Loans	42.5	12.2	7.8	n/a

Partnerships and Cofinancing

In addition to the ADF funds for the Outer Island Sustainable Energy Development Project, approved in October 2014, it had cofinancing resources of \$72 million, comprising \$50 million from the European Investment Bank, \$12 million from the Scaling Up Renewable Energy Program in Low Income Countries (SREP), and \$10 million from the Islamic Development Bank.

By the end of 2013, cumulative direct value-added official cofinancing for Maldives amounted to \$14.2 million for four investment projects and \$2.3 million for four technical assistance projects.

Private Sector Operations

In 2008, ADB approved a direct loan of \$7.5 million and an equity investment of \$4.5 million in the Housing Development Finance Corporation, which provided funding for critically needed housing in the country. As of year-end 2013, cumulative approvals in 2 projects amounted to \$16.5 million (including \$4.5 million equity investment in loan 7274/2418). Total outstanding balances and undisbursed commitments to nonsovereign projects in the Maldives amount to \$5.7 million, representing 0.1% of ADB's total nonsovereign portfolio as of 31 December 2013.

Regional Cooperation

ADB is supporting the Maldives through the study on Regional Economics of Climate Change (RECCSA), which identifies adaptation measures to climate change impact and recommends cleaner technologies and options for the country and for the region. ADB-supported studies also focus on

strengthening and promoting regional cooperation on climate change by analyzing regional climate change risks and addressing the issues associated with climate change at the cross-sectoral and cross-country levels, which are of importance to the Maldives.

ADB also provided assistance in the preparation of the study on Indian Ocean Cargo and Passenger Ferry to analyze the feasibility of launching subregional passenger and cargo services, connecting the Maldives to India (Tuticorin and Cochin) and Sri Lanka (Colombo). This will help the Maldives to increase accessibility and mobility; facilitate trade and regular cargo movement; and improve logistics, which can consequently open new opportunities for tourism development.

The Maldives also receives capacity building support for customs modernization under the South Asia Subregional Economic Cooperation (SASEC) program. In May 2014, the Maldives (together with Sri Lanka), became full members of SASEC (original members were Bangladesh, Bhutan, India, and Nepal). SASEC focuses on planning, preparing, and implementing regional projects in energy, trade facilitation, and transport.

STATISTICAL ISSUES

(As of January 22, 2015)

I. Assessment of Data Adequacy for Surveillance

General: Macroeconomic statistics have improved in recent years, with technical assistance from STA and the Asian Development Bank (AsDB). While data are broadly adequate for surveillance (Category B) there are nonetheless significant data gaps that complicate policy making and aspects of surveillance. Remaining shortcomings affect the balance of payments, government finance, and national accounts statistics. The main official statistical publication is the *Statistical Yearbook of Maldives*. APD receives a monthly electronic statistical report, covering a broad range of economic and financial statistics. It also receives, albeit with a lag, the *Quarterly Economic Bulletin (QEB)* and the *Annual Report (AR)* of the Maldives Monetary Authority (MMA).

Real sector: National accounts statistics are available only on an annual basis and with a considerable lag, though the authorities are working on quarterly GDP. While GDP estimates are made using both the production and expenditure approaches, these estimates are inconsistent. Furthermore, the base year for constant price estimates is 2003, so that recent changes in the structure of the economy are not reflected by the base period weights. The AsDB has assisted the authorities in setting up a framework for compiling more comprehensive national accounts and STA has provided substantial assistance for improving the annual production and expenditure GDP measures, and for developing quarterly GDP series.

The CPI was rebased to June 2012=100, with assistance from STA. Weights are based on the 2012 household income and expenditure survey.

Fiscal sector: General government data are reported for publication in the *GFS Yearbook* and the latest published data are for 2011. Monthly data on revenue and expenditure are available, but the reporting system is new, and its reliability is as yet untested. In particular, the consistency of these data with below-the-line financing numbers provided by the monetary authorities is weak. Data on external debt are subject to reconciliation with creditors. Data on the operations of state enterprises are limited.

Monetary sector: APD receives a weekly electronic report on monetary statistics, covering the balance sheets of the MMA and the commercial banks. Current summary data are published in the MMA's *Monthly Statistics* publication as well as in its *QEB* and *AR*, but with a significant lag. There are inconsistencies between monetary and fiscal data regarding the financing of the fiscal deficit due to issues of timing and coverage. An April 2007 STA monetary and financial statistics mission completed the standardized report forms for the central bank and other depository corporations, and developed an integrated monetary database that meets the needs of the MMA, STA, and APD. It became operational in 2010.

External sector: The MMA compiles balance of payments data on an annual basis. Coverage has improved but is still limited in some areas. Travel credits (receipts) are estimated on the basis of tourism GST receipts and the use of the withholding tax on services provided by nonresidents improved the coverage of other services (debits). Inward foreign direct investment, including distributed and reinvested earnings, is estimated with a survey and administrative data. Other private financial flows are estimated on the basis of the CPIS and BIS data, but coverage needs to improve. Data on the international investment position are still incomplete as private sector data are not available. Quarterly data on external debt and debt service are available for the government and the monetary authority, and to some extent for the banking sector and state enterprises at the time of the annual consultation missions, but no data are reported for the nonfinancial private sector. A STA technical assistance mission is planned in March 2015 to improve data on private financial flows, International Investment Position, and a range of other specific items.

Notwithstanding recent improvements in the balance of payments statistics, the reliability of the data is uncertain—in part as it is inherently difficult to capture full data with many transactions occurring outside the country and no international counterparty data on tourism services to validate revenue estimates.

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

II. Data Standards and Quality

Maldives has participated in the General Data Dissemination System (GDDS) since October 14, 2011.

No data ROSC available.

III. Reporting to STA (Optional)

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

Maldives: Table of Common Indicators Required for Surveillance
(As of January 7, 2015)

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	01/19/2015	01/20/2015	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	01/19/2015	01/20/2015	D	D	D
Reserve/Base Money	01/15/2015	01/20/2015	W	W	M
Broad Money	01/15/2015	01/22/2015	W	W	M
Central Bank Balance Sheet	01/15/2015	01/22/2015	W	W	M
Consolidated Balance Sheet of the Banking System	01/15/2015	01/22/2015	W	W	M
Interest Rates ²	01/19/2015	01/20/2015	W	W	M
Consumer Price Index	11/30/2014	12/31/2014	W	W	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2013	11/30/2014	A	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	2013	11/30/2014	A	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2013	11/30/2014	A	M	M
External Current Account Balance	2013	11/30/2014	A	M	M
Exports and Imports of Goods and Services	11/30/2014	12/31/2014	M	M	M
GDP/GNP	2013	11/30/2014	A	M	M
Gross External Debt	2013	11/30/2014	A	M	M
International investment Position ⁶	2013	12/31/2013	A	A	A

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds. Interest rates on bank deposits are not provided.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).