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MALDIVES

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

October 6, 2017

EXECUTIVE SUMMARY

Context: Maldives' economic growth has been highly volatile, driven primarily by a high-end tourism industry. The economy improved marginally in 2016–17 on a recovery in tourism and construction but continues to face large and growing fiscal and external imbalances. Going forward, Maldives' main challenge is to manage a surge in infrastructure investment which has the potential of transforming the economy but also creating risks from high and rising public debt. The rapid debt buildup, a widening current account deficit, and low international reserves leave the Maldives inherently vulnerable under this constellation of risks and reduced policy space.

Policy advice: To address these vulnerabilities and promote sustained growth, the policy priorities should be to reduce fiscal and external deficits, build adequate FX reserves, develop the financial sector and enhance longer-term growth potential through structural reforms.

- **Fiscal policy.** Policy tightening is urgently needed to restore fiscal sustainability and reduce external imbalances. Fiscal policy should focus on implementing revenue measures, containing current spending, and prioritizing investment projects. To contain fiscal risks, the medium-term fiscal framework should also be strengthened.
- **Monetary, financial and external policies.** The external position is substantially weaker than implied by medium-term fundamentals and desirable policy settings. Higher reserve coverage is needed to guard against risks from slowing tourism receipts and increased non-concessional borrowing. Monetary policy should be tightened to support the buildup of reserves and the stabilized exchange rate arrangement. Over time, a gradual move toward an import-weighted currency composite would also improve external competitiveness. Financial policies should focus on increasing financial access and inclusion for households and SMEs.
- **Sustainable growth and long-run resilience.** Reforms to expand investment in electricity generation, renewable energy, and waste management would support environmental sustainability and energy sufficiency and help address climate change.

Approved By
Kenneth Kang (APD)
and Zuzana
Murgasova (SPR)

Discussions took place in Malé during July 5-18. Staff representatives comprised Mr. Philippe Karam (head), Jayendu De, Kyungsuk Lee (APD), Kirthisri Wijeweera (APD, Resident Representative Office), and Ms. Eteri Kvintradze (Resident Representative, Sri Lanka and Maldives). Ms. Maya Choueiri (OED) joined the discussions.
 Research assistance: Mr. Cormac Sullivan.
 Administrative assistance: Ms. May Inoue and Mr. Sharlin George.

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THE MALDIVES AT A CROSSROADS

A. The Macroeconomic Context

1. **Maldives is undergoing a massive infrastructure expansion which has the potential to transform the economy.** Expansion of the international and regional airports, major regional hub development and land connectivity in the Greater Malé area, and investment in harbors, sewerage systems and desalination plants are set to increase tourism and demand for ancillary services. This will also support population resettlement, reduce government service cost, and ease congestion. However, this investment surge has added considerably to the already elevated public debt and external financing risks. Banks and other financial institutions also have large exposures to the construction and government sectors.
2. **This year's Article IV consultation focused on policies to mitigate risks arising from the infrastructure surge and position the Maldives in the long-term for sustained growth.** Macro and financial policies should be aligned to restore fiscal sustainability and safeguard financial stability. A tighter fiscal-monetary stance is needed to support the peg and rebuild FX reserves. Structural policies should encourage economic diversification ideally within a multi-year National Development Strategy (NDS) Plan.
3. **The authorities face a tense political and external situation which could complicate reforms.** In October 2016, Maldives withdrew from the Commonwealth citing 'unfair and unjust' treatment by the Commonwealth which had expressed concerns over governance and rule of law. More recently, Maldives severed its ties with Qatar following a diplomatic fallout. Both events have had little economic repercussions thus far. The domestic political situation remains tense and unpredictable following the loss of the President's Progressive Party of Maldives in the local elections in May and a loss of majority in the Peoples Majlis in July. Ahead of the 2018 budget in July, the opposition ousted the Speaker and attempted to take control of the legislature, prompting the President to order the military to close the parliament.

B. Recent Economic Developments

4. **Revised historical GDP.** The National Bureau of Statistics (NBS) has revised Maldives' national accounts for the period 2003-2015 based on 2014 benchmarked and rebased GDP estimates, with the assistance of the IMF. The average rebased GDP between 2003 and 2015 is higher by around 11 percent annually, compared to the 2003-based GDP estimates. This has largely impacted the debt stock and fiscal variables as ratios of GDP (Figure 7 and Annex I).
5. **In 2016, growth rose, and inflation remained stable.** Real GDP growth rose to 3.9 percent in 2016 from 3.3 percent in 2015. After a sharp decline, tourist arrivals rebounded since 2014 Q3. Shorter stays and a shift towards lower-income groups however, have lowered tourism receipts. In 2016H1, construction continued to grow strongly at around 15 percent while the primary sector (agriculture and fisheries) contracted by over 7 percent. Average inflation continued to decline in

2016 to 0.8 percent. The temporary lift to inflation from the food and electricity subsidy reforms (October 2016) and the increase in import duties on cigarettes, soft and energy drinks (March 2017) is expected to fade this year and next. More broadly, administered subsidized prices for key staple items, falling international commodities prices and an appreciating U.S. dollar (to which the currency is pegged) have maintained low and stable prices.

6. The fiscal deficit widened in 2016 driven by lower than expected revenue and large arrears clearance despite unchanged current spending. Both staff and the authorities estimate a significantly higher overall fiscal deficit in 2016 (10.3 percent of GDP) compared to the 2016 Budget (5.2 percent of GDP). Lower Tourism-GST (T-GST), non-tax revenues, sales of assets, grants, and large arrear payments largely account for the deviation. Current spending is close to the Budget as a decline in subsidies, transfers and interest payments were offset by higher social welfare contributions. Capital spending is lower than the Budget but remained high. Public debt rose in 2016 up nearly 11.5 percentage points over the past two years. In response, the 2017 Budget aimed to reduce the deficit in line with the Fiscal Responsibility Act (FRA) that came into effect in 2014 and with the fiscal rules of the Fiscal Responsibility Law (FRL) under the Act, in 2017. The Budget includes a continuation of the wage and hiring freeze since 2015, significant cost rationalization following the electricity and food subsidy reforms of 2016, and revenue measures including a new Airport Development Charge (ADC), land sales to the public, and higher import duties on cigarettes and drink items.

7. Monetary policy remains accommodative. The MMA has kept the minimum reserve requirement (MRR) rate at 10 percent and administered yields on Treasury bills and bonds below those of neighboring countries. The parallel market premium increased fourfold during 2015–16, reflecting monetary easing in 2015, moderating tourism receipts and a sharp decline in FX reserves from a large one-off external payment. To restore confidence, the MMA supplied FX directly to the banks and the public in late 2016. This helped bring down and stabilize the premium at around 4 percent above the upper official rate. Starting in 2017, the MMA increased both its allocation to commercial banks and U.S. dollar sales to SOEs (Annex II).

8. The overall external position has worsened and is assessed to be substantially weaker than implied by fundamentals and desirable policy settings. The current account deficit widened sharply from 7.3 to 19.6 percent of GDP between 2015 and 2016, due to increased infrastructure-related imports, moderating tourism receipts, higher remittance outflows, and reclassification of a large one-off court mandated payment made later in the year (Table 4).¹ Fisheries, the largest source for goods export, has fallen in value terms driven by a large decline in global prices. Net FDI inflow, new debt and reserve drawdown have financed the deficit. The real exchange rate (RER) is assessed to be well above the norm at end-2016, while the current account (CA) is assessed to be well below. Reserve coverage declined from 2.4 to 1.8 months of imports between 2015 and 2016 (Annex IV).

¹ The MMA has benefitted from recent TA in external sector statistics. The TA concluded that travel receipts were underestimated because of a problem in the main data source and missing components.

9. To boost reserves, the MMA entered into two swap arrangements totaling US\$200 million.² These swaps with the Reserve Bank of India and the State Bank of India have since been settled. More recently, reserves have also benefitted from the first ever sovereign bond issuance (US\$200 million)³ and timely repayments by MACL, on the bond held by MMA. By end-July 2017, gross reserves stood at US\$571 million (1.9 months of imports) while usable reserves were US\$208 million (0.7 month of imports).

10. Banks' capital position remains strong and asset quality has improved. NPLs in absolute terms have fallen by 36 percent and as a share of total loans have declined, from 21 percent in 2012 to 11 percent in 2016. Profitability remains high with return on equity close to 15 percent. Credit to the tourism industry constitutes the largest share to private sector (40 percent), but has fallen as construction activity has risen sharply in recent years driven by the residential and commercial construction boom. Banks' linkages to public infrastructure projects are limited as the projects are mainly financed externally (Table 5 and Figure 6).

Authorities' Views

11. On inflation, the main drivers are food and oil prices. Food price increases were primarily attributed to the subsidy cut on staples during the latter part of 2016, partly offset by a fall in vegetable prices. Oil price changes on the other hand are not believed to have affected inflation, with less than a clear link between currency movements and inflation.

12. The authorities do not see that the accommodating monetary policy has contributed to BOP pressures. They stressed that the CA deterioration during 2016 is due to the one-off external payment and to the increase in public infrastructure-related imports. Slowdown in tourism receipts and increased infrastructure spending have not added pressure on the availability of U.S. dollars, evident in the gradual decline in the parallel market premium in the first half of 2017. On reserves, they explained that using months of imports may not be an appropriate measure in assessing reserve adequacy. This is considering the significantly large capital imports related to infrastructure and the high structural nature of the import bill reflecting large demands from tourism.

13. Authorities also pointed to lower than expected revenues and high infrastructure spending resulting in the larger than budgeted fiscal deficits in 2016. Based on outturns so far this year, they however remain confident that overall expenditure will be contained at budgeted levels for 2017.

² In late 2016, gross reserves declined significantly to US\$468 million of which US\$200 million are usable reflecting an MMA purchase of a US\$140 million bond from the SOE, the Maldives Airports Company Limited (MACL), as well as FX withdrawals from local banks.

³ The first international sovereign bond (US\$200 million, at 7 percent with a 5-year maturity) was oversubscribed. Investors were from Asia (83 percent) and Europe. As a pre-requisite, two credit ratings were obtained from Moody's (B2 rating, which is speculative and subject to high credit risk) and Fitch (B+ rating which falls between a BB Speculative and a B Highly Speculative rating).

OUTLOOK AND RISKS

A. Outlook

14. The baseline outlook is for a modest recovery in the near term, with low inflation, loose financial conditions, but with significant downside risks from a fragile fiscal and external position.

- GDP growth is projected to recover to 4.6 percent in 2017 and stabilize at close to 5 percent over the medium term.** The Maldives is expected to benefit from stronger economic growth in Russia, India and China and continued recovery in Europe. Further ahead, capacity in the tourism sector is set to expand following the infrastructure scale up, and the baseline assumes favorable long-term tourism forecasts in the South Asia region. Under such forecasts (Annex III), medium-term growth could rise to 5 percent (consistent with MMA projections) but still remain below the annual average of 6 to 7 percent over the last 15 years. Construction is set to continue to grow strongly buoyed by major infrastructure projects. Non-tourism exports are expected to rise gradually as the agriculture and fisheries sectors diversify into new value-added products, and strong growth in Asian markets (Maldives' export market destinations) continues.

International Tourism by Region of Destination (average a year (%))			
	2010-'30	2010-'20	2020-'30
World	3.3	3.8	2.9
Asia and Pacific	4.9	5.7	4.2
South Asia	6.0	6.8	5.3
Source: UNWTO tourism towards 2030			

- Following the infrastructure surge, the fiscal deficit is projected to widen significantly before gradually declining over the medium term (Table A).** After reaching a peak of 10.3 percent of GDP in 2016, the headline fiscal deficit is projected to decline gradually to 6.5 percent in 2019 as infrastructure spending winds down. Staff's deficit projection in 2017 is significantly higher than the authorities' Budget which aims to keep the deficit below 3.5 percent of GDP and a primary surplus. Staff projects lower revenues than the Budget factoring in large uncertainties surrounding non-tax measures and grants and the absence of tax revenue measures to cover the large scale up costs. On spending, staff factors in the effect of subsidy reforms, a slower pace of wage and welfare rationalization, higher current spending in support of the major infrastructure scale-up, and still relatively high but more realistic capital spending with due attention to challenges in implementation capacity.

Fiscal Projections 2016-19: Authorities and Staff (In percent of GDP)								
	2016		2017		2018		2019	
	Auth	Staff	Auth	Staff	Auth	Staff	Auth	Staff
Total Revenue incl grants	28.4	28.4	31.3	28.7	29.7	28.6	29.2	28.3
Tax Revenue	20.2	20.2	20.5	20.9	20.1	20.8	20.0	20.4
Non-tax Revenue	7.9	7.8	9.5	7.4	8.4	7.5	8.0	7.6
Total Expenditure & net lending	38.6	38.7	33.5	36.6	32.3	35.8	28.7	34.7
Current Expenditure	24.9	24.9	19.5	24.3	19.0	25.1	18.1	26.5
Wages Costs	10.6	10.7	9.8	10.3	9.2	10.0	8.6	9.6
Interest Costs	1.8	2.0	2.0	2.2	2.2	2.5	2.1	3.0
Social Welfare Contributions	3.5	3.3	1.5	3.1	1.4	3.2	1.3	3.2
Subsidies & Transfers	2.5	2.5	1.7	2.0	1.9	1.9	1.9	1.8
Capital Expenditure 1/	13.2	13.2	14.1	12.4	13.4	10.7	10.7	8.3
Primary Balance	(8.5)	(8.3)	(0.3)	(5.8)	(0.4)	(4.7)	2.6	(3.5)
Overall Balance	(10.3)	(10.3)	(2.3)	(8.0)	(2.5)	(7.2)	0.5	(6.5)
Public Debt 2/	63.6	65.7	65.5	69.4	63.9	72.2	61.5	74.0

1/ Capital expenditures are inclusive of contributions to the sovereign development fund (SDF)

2/ Based on Authorities' preliminary estimates and own nominal GDP (Macroeconomics Outlook, Spring 2017).

- **These sizeable primary deficits will add significantly to public debt.** The projected primary deficits are above FRL limits which stipulate primary surpluses from 2017 and restricting future borrowing to financing capital spending. Public debt is projected to rise during 2017–2021, coinciding with the end of the mega projects financing, before falling to 72.8 percent of GDP by 2037. Outstanding sovereign guarantees amount to US\$240 million (5.3 percent of GDP) of which the called amount of US\$75 million has been included in the fiscal accounts. The main risks to public debt include further weakening of the fiscal position, drop in tourism receipts, significant depreciation of the currency, and non-concessional debt. External creditors' willingness to refinance loans may also wane given the large CA deficit and high rollover risk as large amortizations including the sovereign bond payment fall due.
- **The updated DSA continues to assess the external risk rating as high along with a heightened overall risk of debt distress.** External debt sustainability concerns continue to be the present value (PV) of external debt-to-GDP ratio and the public and publicly guaranteed (PPG) external debt service-to-revenue ratio. The external debt path has improved compared to the previous DSA due entirely to the rebasing of GDP as opposed to an improvement in economic and policy fundamentals. A widening current account deficit, low international reserves, and rapid debt buildup continue to skew the risks to the downside and leave the country vulnerable to standard DSA shocks. In addition, the public debt path is substantially above the prudential benchmark throughout the projection period.
- **Credit growth to the public sector is expected to slow but remain high for the private sector in support of construction and tourism.** Credit growth to public enterprises is expected to contract in the near term (as MACL repays its bond to MMA) and then stabilize at a lower level. Large-scale government infrastructure projects are expected to be financed externally with some spillovers to domestic activity. Credit growth to the private sector including construction and tourism is projected to remain high supporting the recovery.
- **The CA deficit is expected to widen significantly due to the infrastructure ramp up, and reserve coverage to remain low.** The deficit is projected to average 15 percent of GDP over 2017–22, financed by a modest increase in FDI and large external borrowing. Investment-related capital imports are projected to remain high with a large part of the trade deficit over the medium-term offset by tourism inflows. External debt is projected to reach 51.2 percent in 2021 up from 34.7 percent in 2016, and PPG external debt service payments will average over US\$92 million annually during 2017–21 in addition to the sovereign bond repayment in 2022 (Annex IV).

B. Risks

15. Compared to a year ago, downside risks to the outlook have increased significantly (See Box 1 and Annex V).

- Externally, lower tourism receipts, if persistent, pose a significant risk to the economy. A secular shift to more price-elastic tourists, shorter stays, and the emergence of lower-end hotels and

guest houses could depress prices and force some companies to scale down. Given their large exposure to tourism, banks could face increased bad loans and curtail lending, holding back investment and employment. Lower external demand, a stronger U.S. dollar, and a significant tightening of global financial conditions could impact FX reserves, industry competitiveness, and local funding conditions. An exchange rate depreciation shock with low reserve coverage pose a significant risk for external debt servicing.

- Domestically, continued high fiscal deficits and rising debt, including from government guarantees and arrears⁴ are key risks, threatening fiscal sustainability. Given extensive government-guaranteed investment and lending, the impact of a severe tourism downturn on the fiscal position could be considerable. Other fiscal risks include possibly higher expenditures related to the 2018 Presidential election, as well as those associated with climate change mitigation and an increase in non-concessional financing. A shallow financial system concentrated in tourism and dominated by state-owned banks accentuates the linkages of risks across sectors. Political and domestic security risks remain elevated and are hard to predict with potential adverse economic effects if they escalate.

Box 1. Maldives and Fragility

Maldives is now classified as a fragile state with the IMF based on two successive weak Country Policy and Institutional Assessment (CPIA) ratings that has brought their three-year averages below the 3.20 threshold. The main reasons for the downgrade include a drop in score for business regulatory environment and the quality of budgetary and financial management from 2014 to 2016, amid a tense and unpredictable political situation.

The authorities are investing heavily to close some large infrastructure gaps to boost tourism and domestic demand, adding though to external financing risks and the already elevated public debt. Authorities however believe that the benefits of the investment surge will be seen overtime. Staff have recommended faster progress in adjustment and implementing the medium-term debt framework to manage financing risks when large repayments fall due. To further their efforts on benefitting from climate change-related funding, staff introduced to the authorities the 'Climate Change Policy Assessment' pilot to which they expressed interest. Capacity building in the form of TA from major multilateral institutions continues (see Informational Annex) to strengthen public financial management (PFM), financial market development, and banking supervision, among others.

- On the upside, stronger global growth would boost Maldives' tourism, its BOP and reserves. Domestically, stronger fiscal management with careful appraisal and selection of capital projects

⁴ Total outstanding guarantees is much lower than previously thought as several of these guarantees were cancelled or paid down. New guarantees were being negotiated at the time of discussions but the details were not made available to staff. The stock of arrears were over 5.2 percent of GDP in 2013 and are estimated to have declined to around 2.5 percent of GDP at end-2016, with an unspecified timeline by which arrears should be cleared.

and realistic revenue targets with faster arrear clearance would boost confidence and improve the outlook.

Authorities' Views

16. The authorities expect real GDP growth to be close to 5 percent in the near-term and stronger than projected by staff over the medium-term. The authorities expect large spillovers from public investment to boost growth in the medium-term. On the fiscal side, they see improved external conditions as boosting tourism receipts and steadfast expenditure rationalization to improve the fiscal position. The government downplayed vulnerabilities associated with the sovereign guarantees and stressed the role of the Sovereign Development Fund (SDF) to meet maturing loan obligations and contingencies.

17. They acknowledged risks remain tilted to the downside but also viewed some on the upside. Downside risks are a prolonged decline in Chinese tourism and slowdown in tourist arrivals from the U.K. influenced by the depreciating pound. Upside risks include stronger tourism driven by better-than-expected growth in the Eurozone.

POLICY CHALLENGES AND DISCUSSION

Against this constellation of risks, policy priorities should focus on reducing macro imbalances and improving the policy mix, strengthening financial resilience, and enhancing longer-term growth potential through structural reforms.

A. Reducing Macro Imbalances

Fiscal Consolidation and Debt Sustainability

18. Fiscal consolidation is urgently needed to restore fiscal sustainability. Staff recommends targeting a primary deficit of 4.4 percent of GDP in 2017 which could be achieved under strengthened efforts by the Maldives Inland Revenue Authority (MIRA) implementing procedures to recover outstanding tax arrears and under more realistic execution of prioritized capital spending. Over the medium-term, staff recommends a gradual but steady adjustment to reach a primary surplus in 2020 (Table B). The adjustment would bring the public debt-to-GDP ratio to the 60 percent target by 2022—an appropriate anchor considering Maldives' fiscal and external vulnerabilities. The adjustment is assessed to be consistent with the fiscal structure and capacity constraints while accommodating priority capital spending.

19. To reach this target, staff recommends implementing revenue measures, containing current spending, and cutting non-essential infrastructure spending.

20. Revenue-raising measures and user fees. Durable increases in revenues should rely on strengthening a well-administered tax system and leveraging the small number of broad-based taxes.

Fiscal Adjustments to the Primary Balance 2017–2025 1/

(In percent of GDP relative to the baseline scenario)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue measures	0.3	1.0	1.4	1.7	1.6	1.6	1.5	1.5	1.5
Collection of outstanding tax arrears	0.3	0.3	-	-	-	-	-	-	-
G-GST 2/	0.0	0.5	1.0	1.3	1.3	1.2	1.2	1.2	1.2
Business Profits tax (BPT) 3/	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Introduction of bridge toll 4/	0.0	0.0	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Expenditure measures	1.0	1.6	0.9	2.3	2.3	2.3	2.4	2.3	2.3
Wages and allowances 5/	0.0	0.0	0.0	1.2	1.1	1.1	1.1	1.1	1.1
Subsidy reforms and safety nets 6/	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Curtailement of Aasandha & Social Welfare costs 7/	0.0	0.6	0.6	0.8	0.9	0.9	1.0	0.9	0.9
Curtailement of planned capital expenditure 8/	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Adjustments (Revenue + Expenditure)	1.3	2.7	2.3	4.0	3.9	3.9	3.9	3.8	3.8
Required Adjustment (top--> down)	-0.2	-0.3	1.0	4.7	7.6	8.5	9.5	9.5	9.5
Primary Balance for debt reduction	-6.0	-5.0	-2.5	0.0	2.5	4.0	5.0	5.5	5.5
Contribution for SDF fiscal reserve	0.0	0.0	0.0	2.0	3.0	3.5	3.5	3.0	3.0
Required Primary Balance	-6.0	-5.0	-2.5	2.0	5.5	7.5	8.5	8.5	8.5
Primary Deficit Paths									
Baseline	-5.8	-4.7	-3.5	-2.7	-2.1	-1.0	-1.0	-1.0	-1.0
Alternative Scenario	-4.4	-2.0	-1.2	1.3	1.9	2.9	2.9	2.8	2.7
Public Debt/GDP (baseline) 9/	70.3	73.8	76.0	77.5	78.2	77.9	77.6	77.3	77.0
Public Debt/GDP (alternative) 9/	68.7	69.8	69.8	67.4	64.3	60.3	56.4	52.6	49.0

Source: IMF staff estimates

1/ This table shows the impact of possible adjustment scenario from 2017. Measures are deemed feasible by staff.

2/ G-GST qualifying threshold removed from 2018. And the tax rate increased from 6 to 7% from 2019.

3/ Eliminate BPT qualifying payment threshold from 2018.

4/ A user fee on Male--Hulhule--Hulumale link road effective from 2018.

5/ Public sector reforms will seek to rationalize both pay scales and employment. Target is to reduce expenditure by 10% from 2020, relative to baseline.

6/ Elimination of electricity and food subsidies and replacement with a cash transfer scheme.

7/ Aasandha and social welfare reforms to set in from 2018: 20% cut in baseline expenditures

8/ Cut capital expenditures by 1.0% of GDP in 2017-2018, targetting non-priority and non-essential projects.

9/ Debt path approximate values using simple debt dynamics tool with $D(t) = D(t-1)(1+r)/(1+g) - PB(t)$; r and g values were set to their average long term values in the projection period.

- *Recovery of tax arrears.* Estimate of tax arrears at end-2016 are around 0.6 percent of GDP. The government should take legal and/or administrative action against defaulters (e.g., freezing of bank accounts) to recover them. It should also strengthen tax administration measures against tax avoidance by improving accuracy and completeness of the taxpayer register and reporting and shortening the time filing of tax returns. Effective utilization of the Public Accounting System (PAS) to extract business intelligence would also assist revenue optimization.
- *General Goods and Services Tax (G-GST).* The base could be broadened by eliminating the current qualifying threshold (MVR1 million annually) from 2018 and the rate increased from 6 to 7 percent from 2019. This is estimated to generate additional annual revenues of 1.3 percent of GDP.
- *Business Profits Taxes (BPT).* Further base broadening through an amendment to the BPT law to abolish the qualifying threshold of MVR500,000 is under consideration and if implemented could raise MVR160 million (0.2 percent of GDP) in annual revenues starting 2018.
- *User fees.* The intention to introduce user fees for key infrastructure is welcome, including a bridge toll which could generate 0.1 percent of GDP in fees.

21. Expenditure savings should focus on:

- *Reducing subsidies and other costs.* Reforms undertaken in 2016 have significantly lowered food subsidies and virtually eliminated electricity subsidies. A proxy-means tested targeting scheme has been developed to cover vulnerable households under the social safety scheme before the complete removal of subsidies. Staff assesses that such a scheme could be fully implemented beginning 2019 with an annual cost savings of around 0.3 percent of GDP.
- *Welfare reforms.* To curb rising health care costs, the authorities are cutting back on the universal health care scheme (Aasandha) by localizing service provision at domestic hospitals and introducing generic medicines and co-payment. Rationalization of expenses should be based on a thorough review of costs to accurately identify emerging pressures and find additional savings. Staff recommends that such progressive measures be introduced from 2018 which could save around 0.8 percent of GDP annually.
- *Public sector reforms.* The government has enforced a salary and hiring freeze for two consecutive years (2015-16) in a bid to control wage costs. Nevertheless, further rationalization of the pay structures, staffing and operational efficiency is needed. The Civil Services Commission's ongoing HR audits of line ministries and the National Pay Commission's review of the pay and cadre structure aims to rationalize costs. This could generate savings of around 1.1 percent of GDP annually starting 2020.
- *Sovereign guarantees.* The government initiated a new scheme aimed at the private sector and SOEs beginning in January 2017. This will partly underwrite eligible loans granted by banks to tourism projects, social housing and development projects based on strict criterion with ceilings on the total guaranteed amount. Prior to this scheme, the government had also issued substantial guarantees to various SOEs. Staff recommends including these guarantees as contingent items in the official debt figures and limiting the risk against a call on guarantees through risk sharing with banks and building a fiscal reserve through the SDF. Guarantees should be authorized only after an independent auditing of the project's viability and borrower's ability to repay.
- *Capital spending.* Further project prioritization and phasing would help manage physical bottlenecks and control debt. Staff suggests curtailing planned capital expenditure by around 1 percentage point of GDP over 2017-2018, targeting mainly non-priority and non-essential projects.

22. The proposed mix of fiscal adjustment should help mitigate its negative impact on growth. The recommended adjustment mix is well-balanced in terms of targeting measures with moderate effect on growth. Results based on the Debt Investment Growth (DIG) Model calibrated

for the Maldives show that higher growth effects of capital spending can be obtained by raising the efficiency in investment through enhanced PFM measures.⁵

23. Strengthening PFM is critical in supporting fiscal sustainability. IMF TA on Public Investment Management Assessment (PIMA) and PFM recommended to (i) improve efficiency in public spending by establishing a credible budget process; (ii) strengthen medium-term sustainability anchors in a clear fiscal strategy and realistic budget envelop; (iii) develop an action plan to settle arrears; and (iv) streamline tax incentives (ahead of SEZ licensing) to safeguard a simple and transparent tax system. Staff anticipates sizable savings could be generated on transport, communications and utilities by improving SOE oversight and continuing to promote greater use of renewable energy (Annex VI).

24. To reduce risks to fiscal and external sustainability, the authorities should continue to rely on concessional financing for infrastructure and social projects. The current timing may not be ideally suited for tapping capital markets as it may potentially jeopardize future access to markets (in the event of rising risk premia against fiscal concerns) and to concessional funding. In addition, staff recommended implementing the Medium-Term Debt Strategy framework to better manage risks to the large debt position and avoid borrowing on commercial terms.

Authorities' Views

25. The authorities saw risks from the public debt buildup as moderate and argued that infrastructure investment over time will benefit the economy and help alleviate financing pressures. They stressed that fiscal consolidation is already underway, but acknowledged there is room to do more. They recognized that while the level of debt was high, it was nevertheless necessary to improve and expand the current infrastructure. They urged staff to more fully capture the medium-term growth benefits of expanding the economy's potential. They explained that the SDF, built from contributions from the ADC, green tax, profit transfers (dividends) from SOEs and other non-tax sources, was designed to help pay off maturing debt. These contributions are estimated at 4.4 percent of GDP over 2017-19 and 1 percent of GDP in the long run.

26. The authorities did not favor further revenue measures, advocating that the bulk of adjustment be focused on spending, including better oversight over SOEs and accelerating PFM reforms. They were concerned about the negative implications of raising G-GST on SMEs and the economy more generally and instead stressed arrears collection as a priority.⁶ They sought additional TA on tax-gap analysis in strengthening revenue mobilization.

⁵ See Appendix I, Maldives Article IV Staff Report, 2016.

⁶ The authorities noted large non-tax arrears related to resort lease payments remain (estimated at MVR 3.2 billion) and are being recovered. A new Presidential Commission on state asset recovery in collaboration with the Auditor General's office and the Anti-Corruption Commission of Maldives is being created.

Supportive Exchange Rate, Monetary and Financial Policies

27. Considering Maldives' small scale, high openness, dollarized nature, and volatile export revenue, a stabilized arrangement remains appropriate. The stabilized arrangement has helped anchor inflation and provided a natural hedge for the tourism sector, where income and imports are received and paid in U.S. dollars. The peg so far has been shored up by sustained exchange rate restrictions, but low reserve coverage and rising public debt have undermined its stability and raised the risk of a disorderly exchange rate correction. Strong and durable fiscal adjustment, combined with a tighter monetary stance (see below), can better support the peg going forward and help build foreign reserves. Within the peg arrangement, the authorities could consider a gradual move in the future from the historically-backed link to the U.S. dollar towards an import-weighted currency composite to support the buildup of reserves and price stability.⁷

28. Monetary policy should be tightened to mitigate pressures on the peg from government finances and the infrastructure surge. Moderate FX receipts combined with loose macro policies will continue to push up the CA deficit and external debt, undermining the credibility of the pegged regime. Furthermore, the subsidy phase out could push up inflation through pass-through of higher international prices. To safeguard the peg, the monetary stance should be tightened gradually through an increase in the MRR and in the remuneration rates on rufiyaa-deposits while replenishing FX reserves through sustained net inflows of foreign currency receipts. Reserve coverage should return to three months of imports at a minimum. Tightening should be paced so it does not impede credit in support of economic growth. In the event of building pressures on the peg, a stronger policy mix will be needed including more fiscal and monetary tightening rather than further FX sales or external commercial borrowing.

29. Market-based auctioning of liquidity should be restarted. Renewing open market operations to absorb excess liquidity and gradually expanding the Treasury bond profile into longer maturity to develop a yield curve would enhance financial efficiency. This needs to be well-designed and weighed against a sudden risk of higher debt service under the likelihood of rising external interest rates and fiscal imbalances.

Authorities' Views

30. The MMA did not see the need for monetary policy tightening to support the peg in the absence of inflation and FX market pressures. They noted that the parallel market premium had narrowed considerably following the sovereign bond issuance. Moving to a more market-based auctioning and developing the domestic bond market would be challenging under the current financial infrastructure which needs to be overhauled. In the event of pressure on the peg, the MMA indicated its ability and readiness to activate alternative monetary instruments based on open market operations, if needed. They saw moving from a dollar peg to an import-weighted currency

⁷ Given the high external debt burden, a composite with initially a heavy weight on the U.S. dollar should be introduced gradually to avoid increasing the MVR cost of debt repayment.

composite considering greater tourism and financing from Asia as a possible longer-term policy option. Follow-up TA in this area would be welcome.

B. Strengthening Financial Depth and Resilience

31. **The financial system caters mainly to the needs of the tourism and ancillary sectors.**

Lending is highly concentrated in tourist resorts, and the system is dominated by banks with the state as a large stakeholder in a major bank. Limited competition has led to large net interest margins and interest rate spreads, while limited credit information has kept lending rates high to households and SMEs.

32. Lack of investable opportunities has led to significant investment by financial firms in government Treasury bills and bonds. Difficulty in pricing individual loans tailored to debtor's capacity to repay especially for SMEs, have discouraged financial institutions from diversifying their lending and investment portfolio. Developing a market-based yield curve, encouraging secondary markets, and promoting advanced credit analysis practices would enhance efficiency of resource allocation.

33. Careful monitoring is warranted, supported by prudential measures on housing. Private sector credit has grown rapidly, led by the housing and construction sector. Banks' credit to the private sector has continued to grow, driven by lower NPLs and an accommodative monetary policy stance since 2015. Banks require 150 percent of collateral on loans extended and a 20–25 percent down payment as insurance against default risk, which households can meet by drawing on their pension assets. In the context of a sharp increase in housing-related loans and exposure of the Maldives Pension Administration Office (MPAO), careful monitoring is recommended.

34. The Maldives should continue to focus on fostering financial inclusion. The authorities have undertaken notable initiatives including the launch of a credit guarantee scheme to assist SMEs with limited collateral; issuing mobile banking licenses to two telecommunication service providers; setting up a 'credit information unit' at the MMA; protecting financial consumers; and holding 'financial expos' to enhance financial literacy (Annex VII). To address fiscal risks, they should aim to rationalize SME credit programs and adopt a coherent monitoring and evaluation scheme. Establishing a credit reporting system, a robust insolvency and creditor rights framework backed by adequate legal frameworks will streamline debt recovery and ease business credit standards.

35. MMA has been instrumental in improving the regulatory environment and ensuring system stability. The MMA conducts regular off-site monitoring and on-site examination of banks. The MMA introduced in 2015 prudential regulations which have led to an improvement in banks' overall conditions.⁸ Parliament adopted the AML/CFT bill aimed at preventing laundering of

⁸ Banks' balance sheets improved in terms of capital adequacy, liquidity and asset concentration. Their capacity to absorb expected and unexpected losses strengthened, supported by provisions covering around 90 percent of NPLs.

proceeds of crime and corruption and putting in place new enforcement measures to increase awareness to boarder control entities.

Authorities' Views

36. The authorities highlighted their policies toward improving financial stability and inclusiveness and on combating financial crimes. The MMA introduced new stress testing methods in assessing banks resilience and solicited international auditing companies to evaluate the operational risks of banks. The 2016 'credit guarantee scheme' aims to facilitate SMEs' access to finance and the 'credit information unit' to collect and disseminate credit information. To better combat financial crimes, the MMA strengthened its AML framework by issuing regulation on AML-related customer due diligence measures increasing resources for the independent 'Financial Intelligence Unit'.

C. Addressing Longer-Term Issues and Structural Reforms

37. The NDS can help manage the risks from the infrastructure surge and support project prioritization. In enhancing sustainable growth, staff welcomes ongoing measures in areas of infrastructure and investment as well as labor markets and competition in promoting economic diversification. Furthermore, timely and consistent data in the main indicators should be enhanced in supporting reliable policy advice.

38. Staff supports growth-enhancing and inclusive measures in areas of investment and active labor market (ALM) policies. Staff supports the authorities' efforts in investing in clean and renewable sources to meet rising energy demand expected with the increase in tourism and in developing appropriate sewage treatment systems as part of their adaptation measures to protect the lagoons and coral reefs from ground water pollution, given their impact on fisheries and tourism. ALM policies can aim at promoting investment in job skill training, including better technical and vocational education, training and skill matching targeted at reducing youth unemployment and boosting low female labor participation rate. In addition, the growth of the guest house sector, and plans to diversify into high-value added marine and agriculture products that would also cater to the tourism sector would help achieve diversification objectives and strengthen the economy's resilience to external shocks.

39. Integrating risk-reduction and disaster-response programs into the core budget, public investment planning, and debt management frameworks would help address better climate change. The authorities have signed their Nationally Determined Contribution (NDC) under the Paris Agreement and are currently developing a plan to integrate climate change adaptation and mitigation measures as part of their infrastructure plans. The NDC has highlighted coastal protection, waste management and access to drinking water as key areas needing immediate attention. The Fund's pilot on the 'Climate Change Policy Assessment for Small States' can help integrate climate change impact and policy responses into a holistic macro framework.

40. Data collection needs to be stepped up. Priority should be given to pass the statistics law that provides data collection powers to the MMA, MIRA and NBS. Continued support through TA in the areas of external statistics, national accounts and fiscal areas is a high priority. In this regard, the MMA Board has approved statistical regulations on July 11, 2017 to be sent for publication. The NBS has just completed a revision of MIRA's rebasing of GDP (Annex I).

STAFF APPRAISAL

41. GDP growth is projected to rise gradually in the medium-term and inflation to remain stable. Growth in 2017 is set to recover but is expected to remain below longer-term potential growth. Inflation is projected to remain low with some lift from the subsidy phase out on staple food items and electricity.

42. The large infrastructure scale up has the potential of transforming the economy but also of creating risks from high public debt. Expansion and development of airports, a major regional hub, and land connectivity in the Greater Malé area are set to increase tourism and demand for ancillary services but will add significantly to the already high level of public debt. Prospective large external borrowing continues to indicate a high risk of debt distress.

43. A rapid debt buildup, along with a widening current account deficit, and low international reserves call for urgent corrective policy measures. To address large and rising vulnerabilities under a reduced policy space, priorities should focus on reducing fiscal and external deficits, build adequate FX reserves, develop the financial sector and enhance longer-term growth potential through structural reforms.

44. Fiscal consolidation is urgently needed to restore debt sustainability. Staff recommends targeting a gradual but steady adjustment to reach a primary surplus in 2020 and bring debt-to-GDP to the 60 percent target by 2022. Durable increases in revenues include indirect and corporate tax base broadening and higher rates, user fees for key infrastructure facilities, and collection of outstanding tax arrears. Non-essential infrastructure spending in 2017–18 should be reduced, subsidy reforms completed and welfare and public sector reforms pursued to improve efficiency in healthcare spending and contain the wage bill. Strengthening PFM, including establishing a credible budget process and a clear medium-term fiscal strategy is needed.

45. The external position has worsened and is assessed to be substantially weaker than fundamentals and desirable policy settings. The CA deficit has widened sharply and is projected to remain large financed by a modest increase in FDI and large external borrowing. The real exchange rate continued to appreciate and reserves remained low relative to adequacy metrics. A tighter fiscal policy stance along with more flexibility in the pegged regime would improve the external position.

46. Monetary and fiscal tightening would support the buildup of reserves and the stabilized arrangement. Over time, a gradual move toward an import-weighted currency composite would also improve external competitiveness. Financial policies should focus on

promoting financial inclusion, strengthening the regulatory environment and ensuring financial system stability.

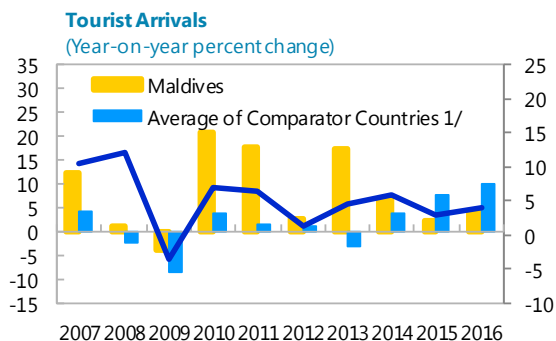
47. Over the medium-term, addressing climate change, enhancing sustainable and more inclusive growth and promoting diversification are key challenges. Integrating risk-reduction and disaster-response programs into the core budget, public investment planning, and debt management frameworks would help address climate change. In enhancing sustainable growth and long-run resilience, staff welcomes ongoing measures in areas of infrastructure and investment as well as labor markets and competition in promoting environmental sustainability and energy sufficiency and economic diversification.

48. Timely and accurate statistics should continue to be strengthened in supporting reliable policy advice. Medium-term plan to improve GDP estimates and external statistics is key with the passage of the statistics law helpful in ensuring a timely release of data.

49. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Maldives: Comparison with Other Tourist Dependent Economies

Tourism sector recovered from its contraction in 2015, but performance remains subpar...

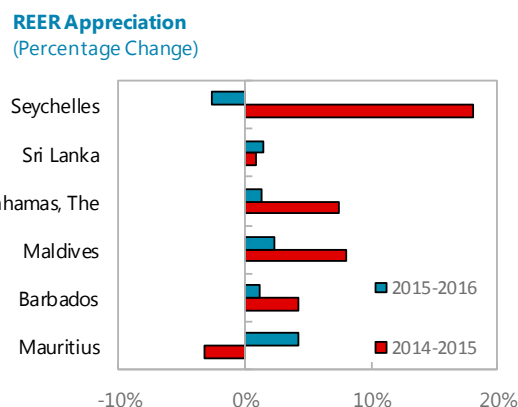


2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

1/ Countries include Mauritius, Seychelles, Bahamas and Barbados.

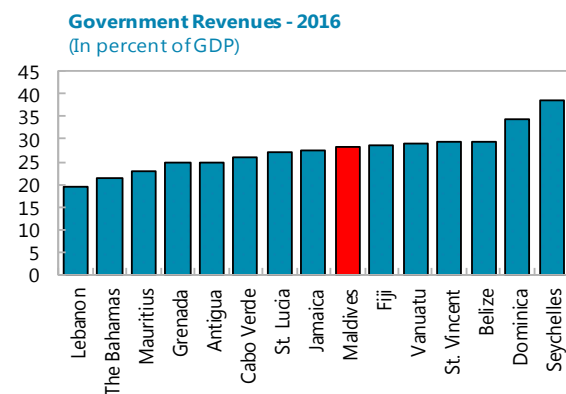
Sources: National Authorities and Staff Calculations

...and the real exchange rate continues to appreciate



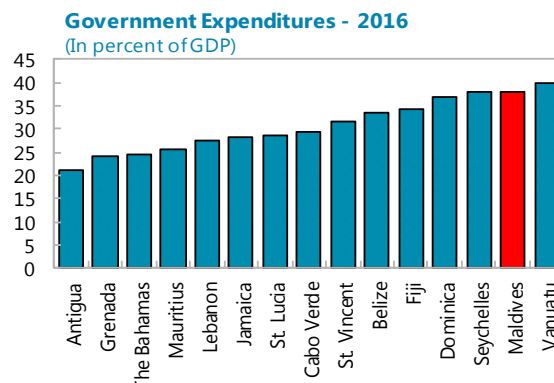
Sources: INS and Staff Calculations

Government revenue remains strong – a relative high performer among peers



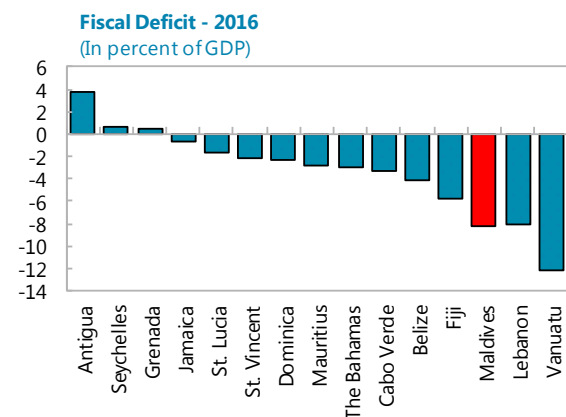
Sources: Maldivian Authorities and World Economic Outlook

...but expenditures are higher – partly because of sizeable non-discretionary component.



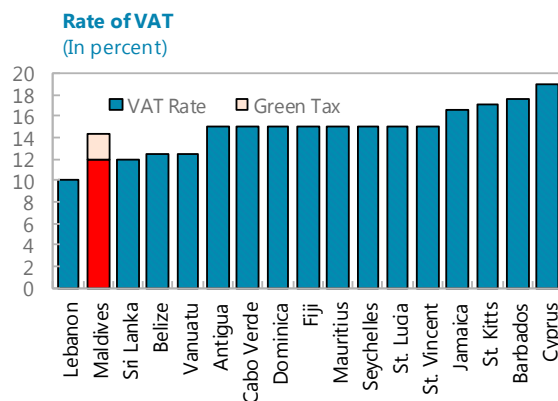
Sources: Maldivian Authorities and World Economic Outlook

Resulting in untenable fiscal deficits



Sources: Maldivian Authorities and World Economic Outlook

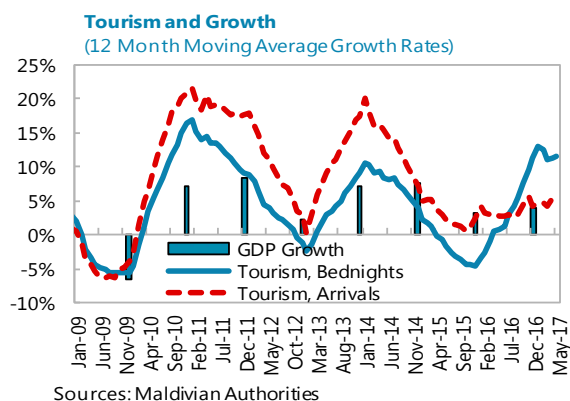
Tourism GST remains a key driver of revenue performance – but at a relatively lower rate compared to peers.



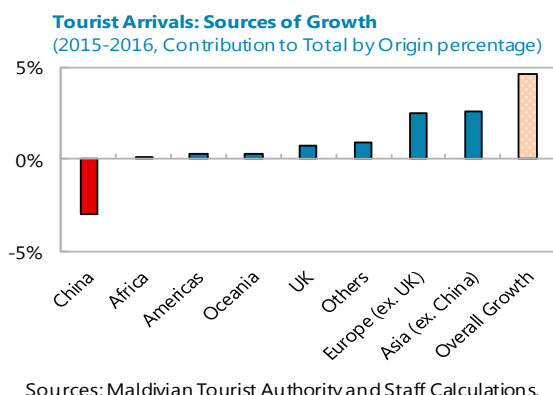
Sources: Maldivian Authorities and World Economic Outlook

Figure 2. Maldives: Summary of Recent Developments

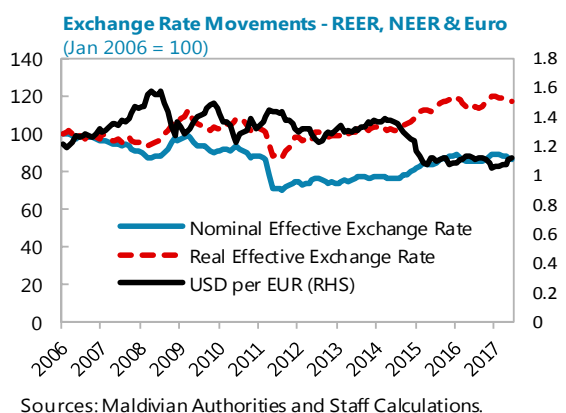
Growth in tourist arrivals picked up...



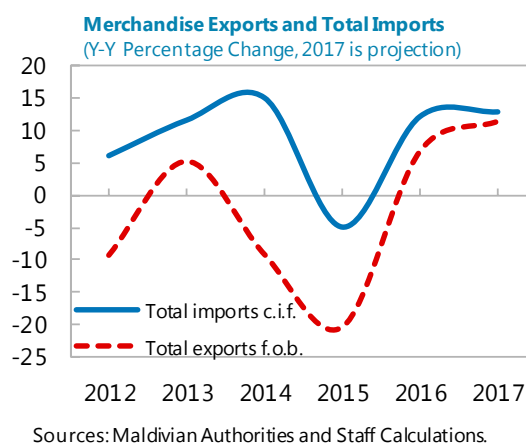
...on the back of strong inbound flow from South Asia and Europe while Chinese tourists decreased



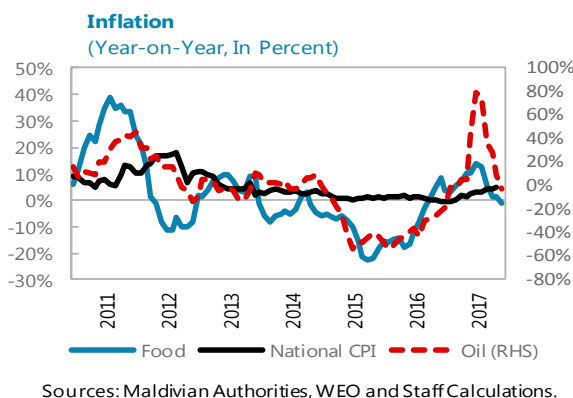
Exchange rate appreciation (given the dollar link) may be affecting competitiveness...



... imports are on the rise due to the ramp up in infrastructure and increase in global oil prices



Inflation remained contained, but subsidy reform combined with rising international commodity prices are likely to introduce new inflationary pressures



Persistent high fiscal deficits are a major cause for concern

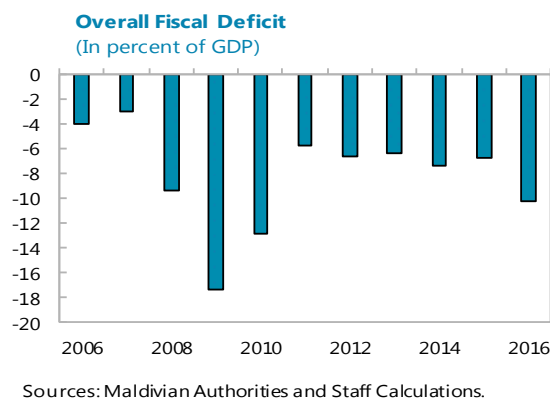
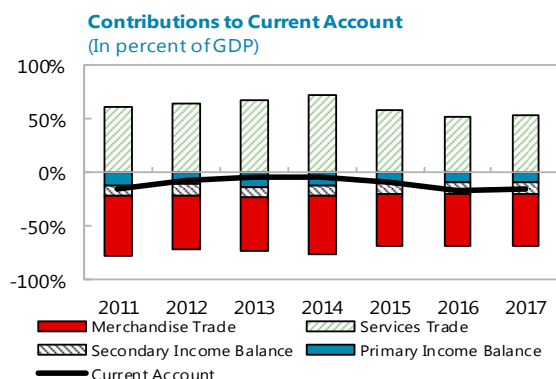
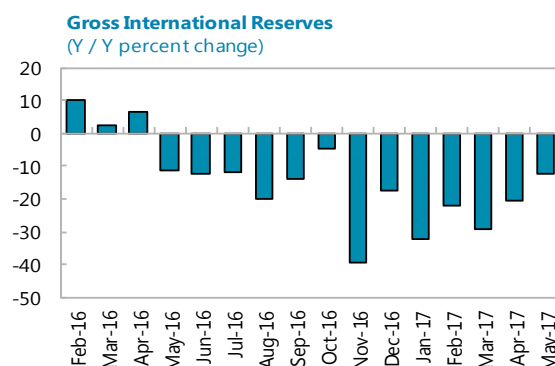


Figure 3. Maldives: External Sector Developments

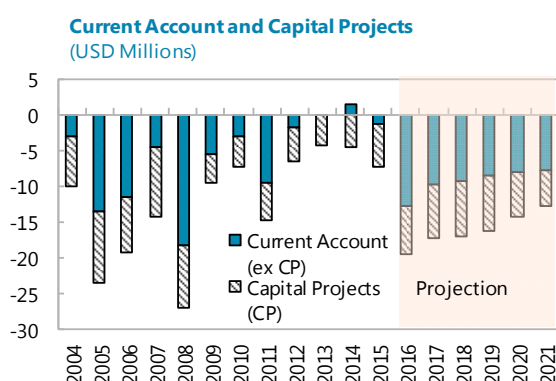
The current account weakened further in 2016, and is projected to continue to remain large in 2017...



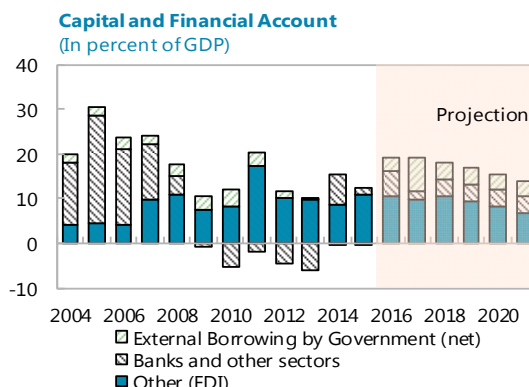
...and reserves dropped sharply compared to the same time period over the past year...



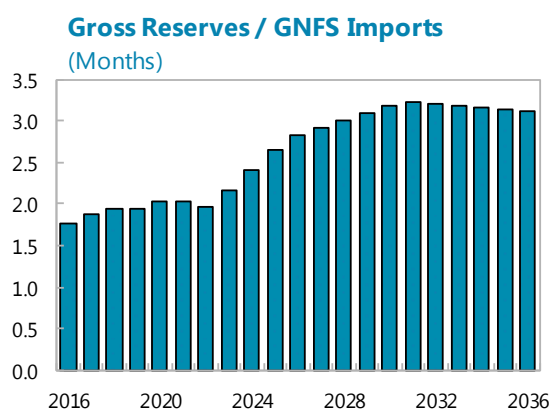
The CA deficit is projected to remain large concomitantly with a large import period in support of capital projects...



...which is set to be financed substantially from external borrowing



.....exerting pressure on reserves in the medium term



... and pushing the debt ratio close to the threshold

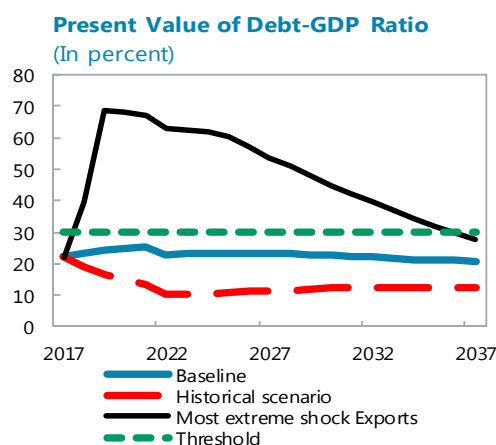
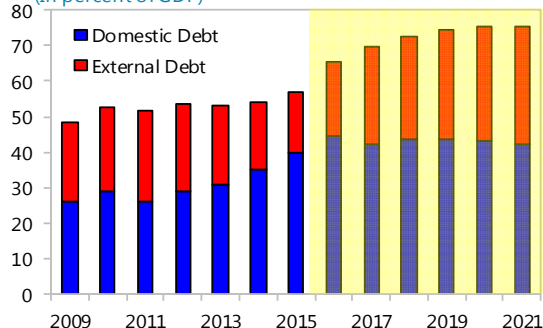


Figure 4. Maldives: Fiscal Developments

Public debt levels remain high –over and above fiscal responsibility law (FRL) limits

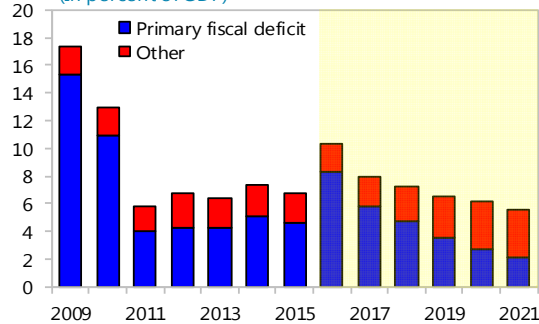
Public Debt
(In percent of GDP)



Sources: Maldivian authorities; and IMF staff estimates.

...which is partly a reflection of high primary deficits. But primary deficits are expected to narrow on the back of official consolidation efforts 2017–19.

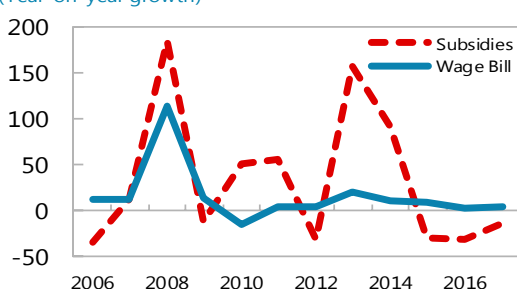
Overall Fiscal Deficit
(In percent of GDP)



Sources: Maldivian authorities; and IMF staff estimates.

Hiring and wages freeze have managed to contain wage growth, but remains high; and subsidy reforms reduced subsidy (mainly on food and electricity) cost substantially.

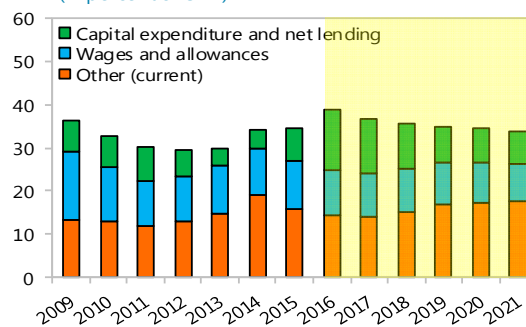
Government Expenditure on Wage & Subsidies
(Year-on-year growth)



Sources: Maldivian authorities; and IMF staff estimates.

Spending structure is underlined by rigid component of expenditure and high capital spending on account of infrastructure scale-up.

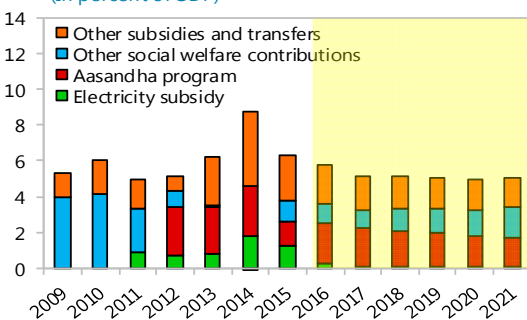
Central Government Expenditure
(In percent of GDP)



Sources: Maldivian authorities; and IMF staff estimates.

Subsidy and social welfare costs are declining to provide much needed fiscal space for growth-enhancing spending...

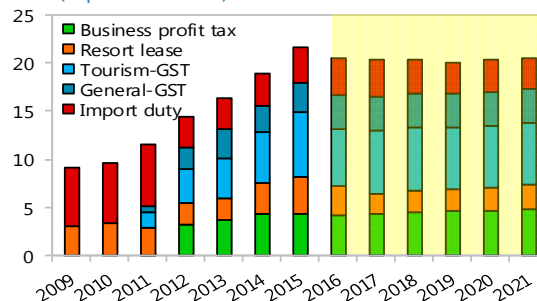
Social Welfare, Subsidies and Transfers
(In percent of GDP)



Sources: Maldivian authorities; and IMF staff estimates.

...and greater fiscal space is further achieved through existing and new revenue sources

Major Tax and Non-tax Receipts
(In percent of GDP)

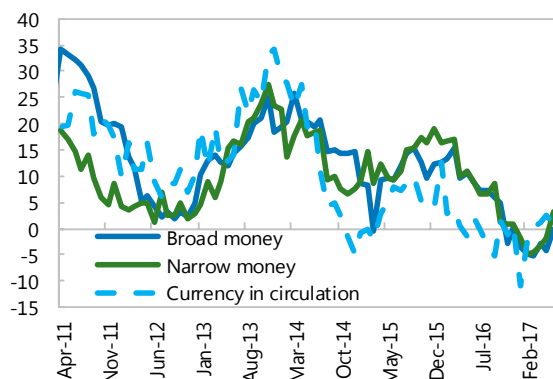


Sources: Maldivian authorities; and IMF staff estimates.

Figure 5. Maldives: Money and Credit Developments

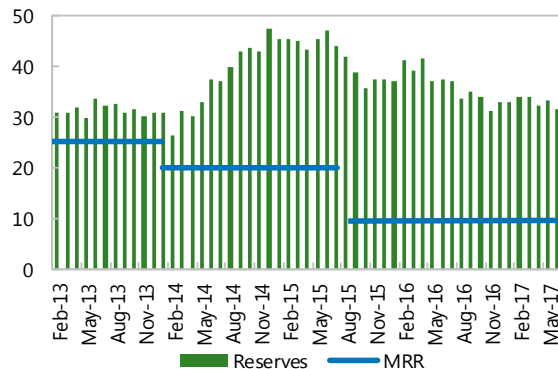
Broad money growth has sharply declined mainly due to decline in non-financial public enterprises' deposits...

Monetary Variables
(Year-on-year growth, In percent)



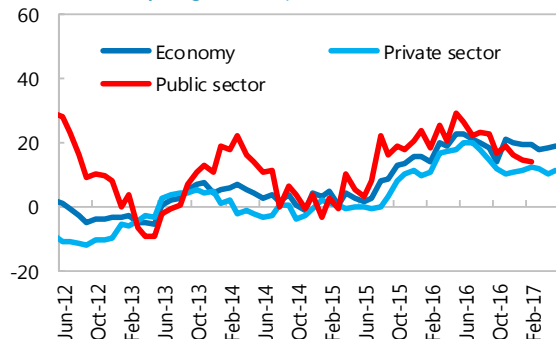
Banks reduced their excess liquidity...

Commercial Banks' Reserves
(In percent of total deposits)



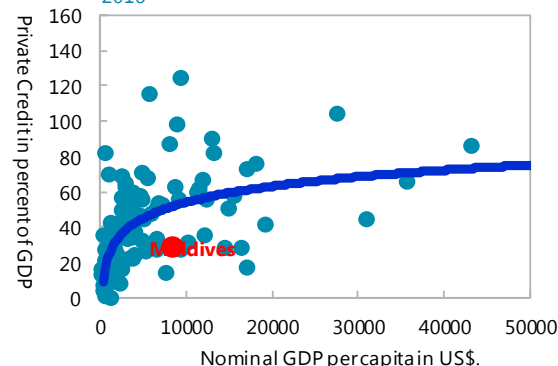
Credit growth remained robust...

Credit
(Year-on-year growth, In percent)



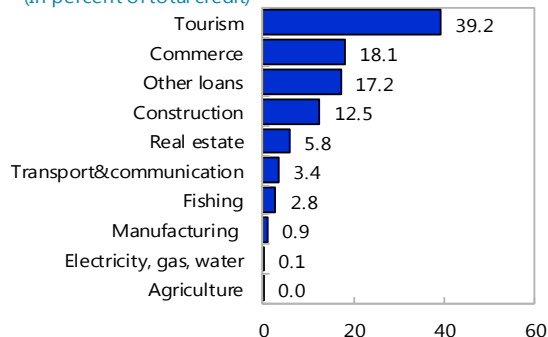
Though private credit remains low compared to economies at similar income level...

Private Credit, Emerging Markets and LICs
2016



Lending is concentrated in tourism, commerce and construction...

Sectoral Composition of Private Credit, 2016
(In percent of total credit)



Lending to construction remains high, lower in commerce, and rebounded in tourism.

Selective Private Sector Credit Growth
(In percent)

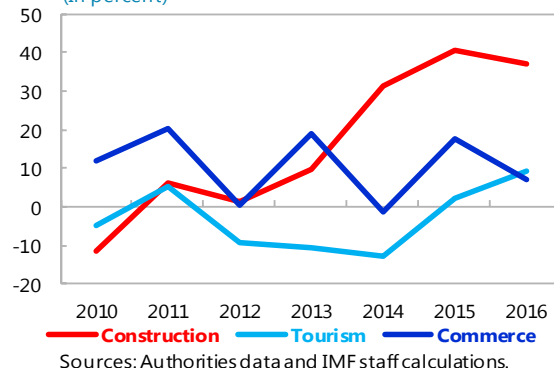
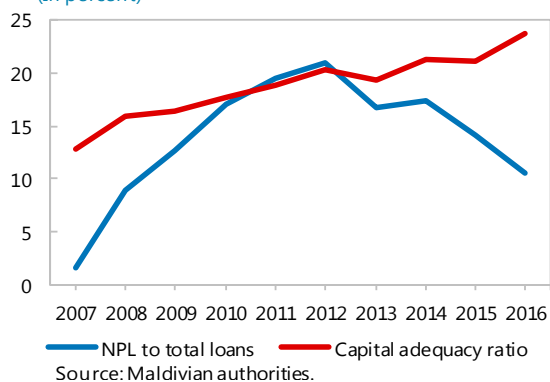


Figure 6. Maldives: Financial System and Business Environment

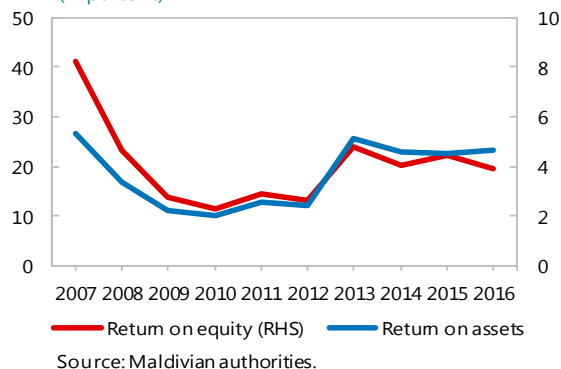
System wide NPLs and capital adequacy have significantly improved....

Commercial Banks' Capital and Credit Quality Indicators
(In percent)



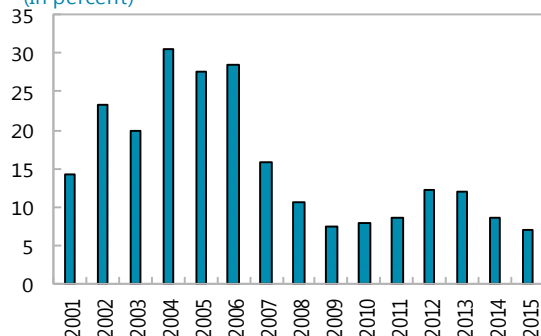
Banks maintain high level of profitability...

Commercial Banks' Profitability Indicators
(In percent)



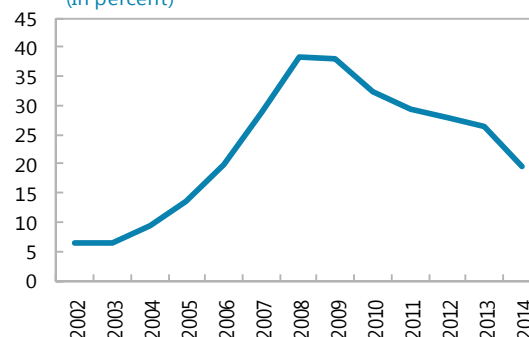
Storyline goes here....

Offshore Bank Deposits to Domestic Bank Deposits
(In percent)



Storyline goes here....

Loans from Non-Resident Banks to GDP*
(In percent)



Doing Business indicators remain weak...

2016 Doing Business Ranking

Maldives and Comparators, Ranking (1st-205th)

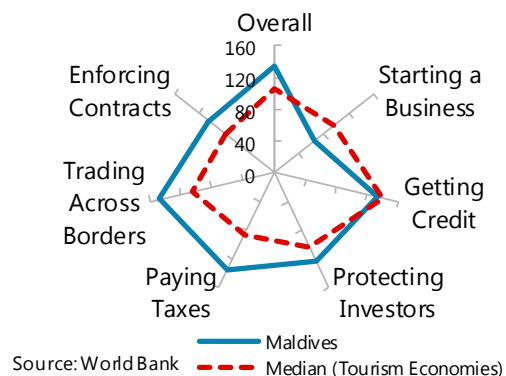
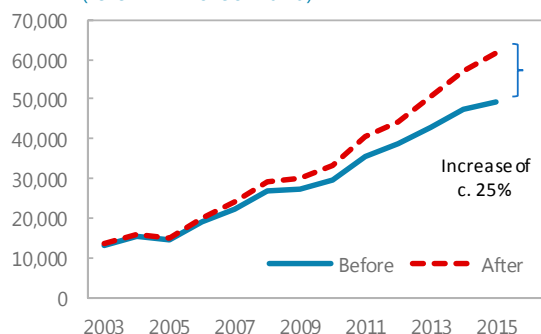
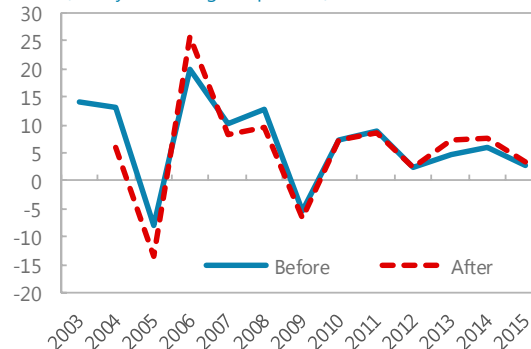
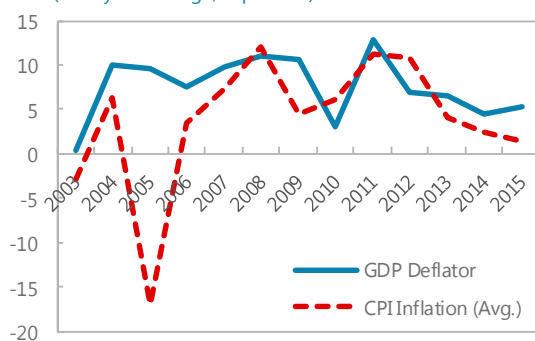


Figure 7. Maldives: Impact of GDP Rebasing on Economic Assessment**Rebasing Nominal GDP**
(Level in Millions of Rufia)

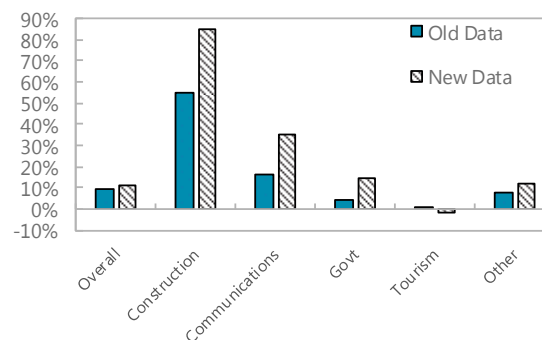
Sources: MMA and Staff Calculation.

Rebasing Real GDP
(Year-year Change, In percent)

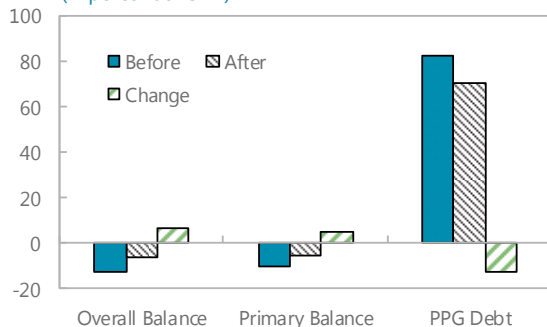
Sources: MMA and Staff Calculation.

Revised GDP Deflator and Comparison with CPI
(Year-year change, In percent)

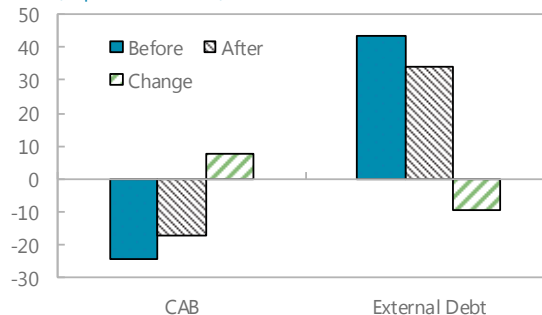
Sources: MMA and Staff Calculation.

Revisions to Sectoral Growth
Cumulative Real Growth (2013-2015, In percent)

Sources: MMA and Staff Calculation.

Revisions to Fiscal Position
(In percent of GDP)

Sources: MMA, MOF and Staff Calculation.

Revisions to External Position
(In percent of GDP)

Sources: MMA, MOF and Staff Calculation.

Table 1. Maldives: Selected Economic Indicators, 2014–22 (Baseline Scenario)

Population (in 1,000; 2015)	348								
GDP per capita (in U.S. dollars; 2015):	11,544								
Quota (in million SDRs, Feb 2016):	21.2								
	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.	Proj.					
Output and prices	(Annual percentage change)								
Real GDP	7.6	3.3	3.9	4.6	4.7	4.8	5.0	5.0	5.0
Inflation (end-of-period) 1/	1.2	1.2	1.8	2.1	2.2	2.2	2.4	2.4	2.6
Inflation (period average) 1/	2.5	1.4	0.8	2.5	2.1	2.2	2.4	2.4	2.5
GDP deflator	4.5	5.3	1.6	2.0	2.0	2.0	2.4	2.5	2.5
Central government finances	(In percent of GDP, unless otherwise indicated)								
Revenue and grants	26.7	27.7	28.4	28.7	28.6	28.3	28.4	28.5	28.6
Expenditure and net lending	34.1	34.5	38.7	36.6	35.7	34.7	34.3	33.9	32.9
Overall balance	-7.4	-6.8	-10.3	-8.0	-7.1	-6.3	-6.0	-5.3	-4.3
Overall balance excl. grants	-7.7	-7.8	-10.6	-8.2	-7.4	-6.5	-6.2	-5.5	-4.4
Primary balance	-5.1	-4.6	-8.2	-5.8	-4.6	-3.3	-2.6	-1.9	-0.9
Current primary balance	-0.1	1.8	5.2	6.3	5.7	4.7	4.9	5.4	5.8
Public and publicly guaranteed debt	54.2	56.9	65.7	69.4	72.0	73.5	74.3	74.3	73.2
Monetary accounts	(Annual percentage change, unless otherwise indicated)								
Broad money	14.7	12.3	-0.2	9.6	9.7	9.9	10.5	10.6	10.6
Domestic credit	4.7	15.7	19.5	7.1	5.2	5.3	7.1	7.8	7.8
Balance of payments	(In percent of GDP, unless otherwise indicated)								
Current account	-3.2	-7.3	-19.6	-17.2	-17.0	-16.4	-14.3	-12.9	-10.3
Of which:									
Exports	8.1	6.0	6.0	6.3	6.6	6.9	7.2	7.5	7.6
Imports	-53.1	-47.2	-49.5	-52.5	-53.8	-52.8	-51.2	-50.4	-47.4
Tourism receipts (in nonfactor services, net)	73.0	63.9	59.3	59.3	59.2	59.1	59.4	59.7	60.0
Income (net)	-9.6	-8.1	-8.6	-8.9	-9.2	-9.3	-9.5	-9.6	-9.7
Current transfers	-8.3	-8.6	-15.0	-8.5	-8.5	-8.5	-8.5	-8.5	-8.6
Capital and financial account (including e&o)	10.1	6.1	17.4	19.4	18.0	17.0	15.3	13.7	9.9
Of which:									
General government, net	-0.5	-0.1	3.1	7.6	3.5	3.7	3.4	3.2	-0.5
Banks and other sectors, net	6.7	1.7	3.3	4.1	4.1	3.9	3.7	3.6	3.4
Overall balance	6.8	-1.2	-2.2	2.1	1.0	0.6	1.0	0.8	-0.4
Gross international reserves (in millions of US\$; e.o.p.) 2/	615	564	468	564	614	645	703	751	724
In months of GNFS imports	2.7	2.4	1.8	1.9	1.9	1.9	2.0	2.0	1.9
Memorandum items:									
GDP (in millions of rufiyaa)	56,867	61,869	65,310	69,648	74,349	79,488	85,446	91,932	98,913
GDP (in millions of U.S. dollars)	3,690	4,015	4,238	4,520	4,825	5,162	5,545	5,966	6,419
Tourism bednights (000')	7,290	6,977	7,138	7,460	7,795	8,154	8,602	9,076	9,575
Tourist arrivals (000')	1,205	1,234	1,286	1,356	1,417	1,483	1,564	1,650	1,741
Tourism bednights (% change)	3.3	-4.3	2.3	4.5	4.5	4.6	5.5	5.5	5.5
Tourist arrivals (% change)	7.1	2.4	4.2	5.5	4.5	4.6	5.5	5.5	5.5
Dollarization ratio (FC deposits in percent of broad money) 3/	53.8	50.6	47.7 ^{3/}						

Sources: Maldivian authorities; and preliminary IMF staff estimates and projections based on the 2017 Staff Visit.

1/ CPI-Male definition.

2/ MMA liabilities, include allocation of SDR 7.4 million, equivalent to US\$11.7 million, made available in Q3 2009, see <http://www.imf.org/external/np/tre/sdr/proposal/2009/0709.htm>. These are treated as long term liabilities of the MMA.

3/ Data for 2016 Jan-Nov.

Table 2a. Maldives: Central Government Finances, 2014–2022 (Baseline Scenario)
(In millions of rufiyaa)

	2014	2015	2015	2016	2016	2016	2017	2017	2018	2019	2020	2021	2022
		Auth. Rev Est.	Staff	Auth. Budg.	Auth Rev Est.	Staff Est.	Auth. Budg.	Staff			Proj.		
Total revenue and grants	15,164	17,134	17,134	22,760	18,537	18,537	21,774	19,972	21,284	22,534	24,249	26,244	28,323
Revenue (excluding privatization receipts)	14,999	16,497	16,497	21,539	18,348	18,348	20,899	19,772	21,105	22,355	24,070	26,065	28,144
Tax revenue	10,749	12,192	12,192	13,776	13,219	13,219	14,254	14,589	15,488	16,327	17,579	18,946	20,255
Import duties	1,975	2,346	2,346	2,377	2,487	2,487	2,692	2,633	2,527	2,563	2,739	2,944	3,004
Airport service charge	432	497	497	583	538	538	590	523	546	571	603	636	671
Business profit tax (BPT)	2,471	2,674	2,674	2,880	2,748	2,748	2,925	3,070	3,405	3,689	4,035	4,411	4,818
Remittance Tax	-	-	-	-	15	15	83	94	100	107	115	123	133
Goods and services tax (GST)	4,515	6,054	6,054	6,623	6,249	6,249	6,706	6,972	7,541	7,950	8,547	9,191	9,880
Of which: General GST	1,513	1,904	1,904	2,112	2,328	2,328	2,411	2,507	2,677	2,862	3,076	3,310	3,561
Tourism GST	3,002	4,150	4,150	4,511	3,921	3,921	4,294	4,465	4,864	5,088	5,471	5,881	6,319
Tourism tax (\$6 green tax) 1/	805	37	37	654	623	623	668	690	721	754	795	839	885
Other	551	584	584	142	68	560	591	608	649	694	746	803	863
Nontax revenue	4,126	4,275	4,275	6,245	5,114	5,114	6,635	4,917	5,499	5,910	6,420	7,097	7,866
SOE profit transfers	782	489	491	596	629	629	1,604	813	871	908	976	1,050	1,130
Royalties, land, and resort rent	1,987	2,514	2,514	3,985	2,113	2,113	2,916	1,638	1,817	2,020	2,259	2,642	3,093
Other	1,357	1,272	1,270	1,664	2,372	2,372	2,115	2,466	2,811	2,981	3,185	3,406	3,643
Capital revenue	124	30	30	1,518	15	15	10	266	117	119	70	22	23
Grants	165	637	637	1,221	188	188	876	200	179	179	179	179	179
Expenditure and net lending	19,366	21,338	21,338	26,132	25,210	25,252	23,364	25,510	26,570	27,547	29,344	31,150	32,543
Current expenditure	16,382	16,735	16,735	16,227	16,232	16,274	13,575	16,922	18,673	21,010	22,767	24,215	25,816
Of which: Salaries and allowances	6,152	6,821	6,821	6,792	6,925	6,962	6,813	7,208	7,415	7,645	7,900	8,168	8,452
Transportation, communication, and utilities	1,377	2,050	2,050	1,681	1,650	1,653	1,287	1,695	2,249	2,988	3,365	3,619	3,895
Social welfare contributions	1,549	1,538	1,538	1,723	2,268	2,160	1,036	2,183	2,373	2,550	2,721	3,084	3,563
Repairs and maintenance	594	386	386	260	316	312	96	319	326	367	413	444	478
Subsidies and transfers	3,383	1,218	2,362	1,884	1,608	1,608	1,219	1,377	1,420	1,466	1,520	1,578	1,641
Interest	1,321	1,348	1,348	1,400	1,182	1,331	1,411	1,531	1,842	2,363	2,900	3,148	3,371
Other	2,005	3,373	2,230	2,487	2,283	2,249	1,713	2,608	3,049	3,631	3,947	4,173	4,417
Capital expenditure	2,585	4,701	4,701	9,889	8,615	8,614	9,841	8,640	7,975	6,617	6,663	7,028	6,825
Of which: Mega projects			210			2,682		4,199	2,668	2,780	1,552	0	0
Of which: SDF							1,128	377	710	843	867	896	924
Net lending	-152	-97	-98	16	364	364	-52	-52	-78	-79	-85	-92	-99
Overall balance	-4,202	-4,204	-4,204	-3,372	-6,673	-6,716	-1,589	-5,538	-5,286	-5,013	-5,095	-4,906	-4,220
Overall balance, excluding grants	-4,367	-4,841	-4,841	-4,593	-6,862	-6,904	-714	-5,738	-5,465	-5,192	-5,274	-5,085	-4,399
Financing 2/	4,202		4,204	3,372		6,716	1,589	5,538	5,286	5,013	5,095	4,906	4,220
External	-311		-297	2,487		2,030	1,360	5,274	2,609	2,948	2,909	2,959	-460
Domestic	4,513		4,502	886		4,686	230	264	2,677	2,065	2,186	1,947	4,681
MMA	226		0	...		0		0	0	0	0	0	0
Commercial banks	1,850		2,071	...		2,155		121	1,231	950	1,006	896	2,153
Other	2,437		2,431	...		2,530		142	1,446	1,115	1,180	1,052	2,527
Memorandum items:													
Current balance	-1,383		-238	...		2,074	7,324	2,850	2,432	1,345	1,303	1,850	2,327
Primary balance	-2,880		-2,857	...		-5,385	-178	-4,007	-3,444	-2,650	-2,195	-1,758	-849
Current primary balance	-62		1,109	...		3,405	8,736	4,381	4,273	3,708	4,203	4,999	5,698

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

1/ The green tax replaced the bednights tax in 2015

2/ Includes unidentified financing.

Table 2b. Maldives: Central Government Finances, 2014–22 (Baseline Scenario)
(In percent of GDP, unless otherwise specified)

	2014	2015	2015	2016	2016	2016	2017	2017	2018	2019	2020	2021	2022
		Auth. Rev Est.	Staff.	Auth. Budg.	Auth Rev Est.	Staff.	Auth. Budg.	Staff			Proj.		
Total revenue and grants	26.7	27.7	27.7	34.8	28.4	28.4	31.3	28.7	28.6	28.3	28.4	28.5	28.6
Revenue (excluding privatization receipts)	26.4	26.7	26.7	33.0	28.1	28.1	30.0	28.4	28.4	28.1	28.2	28.4	28.5
Tax revenue	18.9	19.7	19.7	21.1	20.2	20.2	20.5	20.9	20.8	20.5	20.6	20.6	20.5
Import duties	3.5	3.8	3.8	3.6	3.8	3.8	3.9	3.8	3.4	3.2	3.2	3.2	3.0
Airport service charge	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Business profit tax (BPT)	4.3	4.3	4.3	4.4	4.2	4.2	4.2	4.4	4.6	4.6	4.7	4.8	4.9
Remittance Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Goods and services tax (GST)	7.9	9.8	9.8	10.1	9.6	9.6	9.6	10.0	10.1	10.0	10.0	10.0	10.0
Of which: General GST	2.7	3.1	3.1	3.2	3.6	3.6	3.5	3.6	3.6	3.6	3.6	3.6	3.6
Tourism GST	5.3	6.7	6.7	6.9	6.0	6.0	6.2	6.4	6.5	6.4	6.4	6.4	6.4
Tourism tax (\$6 green tax) 1/	1.4	0.1	0.1	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Other	1.0	0.9	0.9	0.2	0.1	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Nontax revenue	7.3	6.9	6.9	9.6	7.8	7.8	9.5	7.1	7.4	7.4	7.5	7.7	8.0
SOE profit transfers	1.4	0.8	0.8	0.9	1.0	1.0	2.3	1.2	1.2	1.1	1.1	1.1	1.1
Royalties, land, and resort rent	3.5	4.1	4.1	6.1	3.2	3.2	4.2	2.4	2.4	2.5	2.6	2.9	3.1
Other	2.4	2.1	2.1	2.5	3.6	3.6	3.0	3.5	3.8	3.8	3.7	3.7	3.7
Capital revenue	0.2	0.0	0.0	2.3	0.0	0.0	0.0	0.4	0.2	0.1	0.1	0.0	0.0
Grants	0.3	1.0	1.0	1.9	0.3	0.3	1.3	0.3	0.2	0.2	0.2	0.2	0.2
Expenditure and net lending	34.1	34.5	34.5	40.0	38.6	38.7	33.5	36.6	35.7	34.7	34.3	33.9	32.9
Current expenditure	28.8	27.0	27.0	24.8	24.9	24.9	19.5	24.3	25.1	26.4	26.6	26.3	26.1
Of which: Salaries and allowances	10.8	11.0	11.0	10.4	10.6	10.7	9.8	10.3	10.0	9.6	9.2	8.9	8.5
Transportation, communication, and utilities	2.4	3.3	3.3	2.6	2.5	2.5	1.8	2.4	3.0	3.8	3.9	3.9	3.9
Social welfare contributions	2.7	2.5	2.5	2.6	3.5	3.3	1.5	3.1	3.2	3.2	3.2	3.4	3.6
Repairs and maintenance	1.0	0.6	0.6	0.4	0.5	0.5	0.1	0.5	0.4	0.5	0.5	0.5	0.5
Subsidies and transfers	5.9	2.0	3.8	2.9	2.5	2.5	1.7	2.0	1.9	1.8	1.8	1.7	1.7
Interest	2.3	2.2	2.2	2.1	1.8	2.0	2.0	2.2	2.5	3.0	3.4	3.4	3.4
Other	3.5	5.5	3.6	3.8	3.5	3.4	2.5	3.7	4.1	4.6	4.6	4.5	4.5
Capital expenditure	4.5	7.6	7.6	15.1	13.2	13.2	14.1	12.4	10.7	8.3	7.8	7.6	6.9
Of which: Mega projects			0.3			4.1	0.0	6.0	3.6	3.5	1.8	0.0	0.0
Net lending	-0.3	-0.2	-0.2	0.0	0.6	0.6	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Overall balance	-7.4	-6.8	-6.8	-5.2	-10.2	-10.3	-2.3	-8.0	-7.1	-6.3	-6.0	-5.3	-4.3
Overall balance, excluding grants	-7.7	-7.8	-7.8	-7.0	-10.5	-10.6	-1.0	-8.2	-7.4	-6.5	-6.2	-5.5	-4.4
Financing 2/	7.4		6.8	5.2		10.3	2.3	8.0	7.1	6.3	6.0	5.3	4.3
External	-0.5		-0.5	3.8		3.1	2.0	7.6	3.5	3.7	3.4	3.2	-0.5
Domestic	7.9		7.3	1.4		7.2	0.3	0.4	3.6	2.6	2.6	2.1	4.7
MMA	0.4		0.0	...		0.0		0.0	0.0	0.0	0.0	0.0	0.0
Commerical banks	3.3		3.3	...		3.3		0.2	1.7	1.2	1.2	1.0	2.2
Other	4.3		3.9	...		3.9		0.2	1.9	1.4	1.4	1.1	2.6
Memorandum items:													
Current balance	-2.4		-0.4	...		3.2	10.5	4.1	3.3	1.7	1.5	2.0	2.4
Primary balance	-5.1		-4.6	...		-8.2	-0.3	-5.8	-4.6	-3.3	-2.6	-1.9	-0.9
Current primary balance	-0.1		1.8	...		5.2	12.5	6.3	5.7	4.7	4.9	5.4	5.8
Public and publicly guaranteed debt 3/	54.2		56.9	...		65.7		69.4	72.0	73.5	74.3	74.3	73.2
Domestic	35.3		39.8	...		44.8		42.4	43.3	43.1	42.7	41.8	43.6
External (excluding IMF and currency swaps by MMA)	18.9		17.1	...		20.8		27.0	28.7	30.4	31.6	32.5	29.7
GDP (in millions of rufiyaa)	56,867	61,869	61,869	65,310	65,310	65,310	69,648	69,648	74,349	79,488	85,446	91,932	98,913

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

1/ The green tax came into effect in November 2015, it replaced the bednights tax (eliminated November 2014).

2/ Includes unidentified financing.

3/ Arrears are included.

Table 3. Maldives: Monetary Accounts, 2014–22 (Baseline Scenario)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Proj.					
				(In millions of rufiyaa, e.o.p.)					
Net foreign assets	12,552	12,297	7,827	10,895	11,791	12,407	13,421	14,293	14,013
Maldives Monetary Authority, net	9,110	8,227	5,285	8,213	8,969	9,445	10,318	11,049	10,626
Assets	9,476	8,699	7,219	8,694	9,460	9,945	10,828	11,570	11,157
Liabilities	-366	-471	-1,934	-481	-490	-500	-510	-520	-531
Commercial banks, net	3,442	4,070	2,542	2,682	2,821	2,962	3,103	3,244	3,387
Net domestic assets	14,612	18,195	22,609	22,476	24,833	27,847	31,058	34,896	40,388
Domestic credit	26,008	30,084	35,965	38,536	40,558	42,699	45,741	49,304	53,153
Public sector	10,606	12,963	16,981	17,583	17,346	17,099	17,392	17,692	18,028
Central government (net)	9,273	11,470	13,430	14,622	15,063	15,308	15,558	15,813	16,100
Public enterprises	1,333	1,493	3,551	2,961	2,283	1,791	1,834	1,879	1,928
Private sector	15,114	16,817	18,591	20,523	22,783	25,171	27,919	31,183	34,696
Other items (net)	-11,396	-11,890	-13,356	-16,060	-15,725	-14,852	-14,683	-14,408	-12,766
Broad money	27,164	30,492	30,436	33,371	36,624	40,254	44,479	49,190	54,401
Narrow money	11,202	13,338	13,467	14,766	16,205	17,812	19,681	21,766	24,072
Currency	2,683	2,756	2,695	2,695	2,695	2,695	2,695	2,695	2,695
Public enterprise and local government deposits	1	1	0	0	0	0	0	0	0
Demand deposits	8,518	10,581	10,772	12,071	13,510	15,117	16,986	19,071	21,376
Quasi-money	15,963	17,154	16,968	18,605	20,418	22,442	24,798	27,424	30,329
	(Annual percentage change, unless otherwise indicated)								
Broad money	14.7	12.3	-0.2	9.6	9.7	9.9	10.5	10.6	10.6
Narrow money	7.5	19.1	1.0	9.6	9.7	9.9	10.5	10.6	10.6
Domestic credit, net	4.7	15.7	19.5	7.1	5.2	5.3	7.1	7.8	7.8
Central government	7.4	23.7	17.1	8.9	3.0	1.6	1.6	1.6	1.8
Public enterprises	-15.3	12.0	137.8	-16.6	-22.9	-21.6	2.4	2.4	2.6
Private sector	3.3	11.3	10.5	10.4	11.0	10.5	10.9	11.7	11.3
	(In percent of GDP)								
Broad money	47.8	49.3	46.6	47.9	49.3	50.6	52.1	53.5	59.2
Narrow money	19.7	21.6	20.6	21.2	21.8	22.4	23.0	23.7	26.2
Domestic credit, net	45.7	48.6	55.1	55.3	54.6	53.7	53.5	53.6	57.8
Central government	16.3	18.5	20.6	21.0	20.3	19.3	18.2	17.2	17.5
Public enterprises	2.3	2.4	5.4	4.3	3.1	2.3	2.1	2.0	2.1
Private sector	26.6	27.2	28.5	29.5	30.6	31.7	32.7	33.9	37.7
	(In millions of U.S. dollars)								
Gross foreign assets of MMA	615	564	468	564	614	645	703	751	724
Usable reserves	120	200	199	209	234	250	278	302	289
Commercial banks NFA	223	264	165	174	183	192	201	211	220
Commercial banks forex open position, net	160	116	91	118	130	143	157	173	190
Memorandum items:									
Velocity	2.1	2.0	2.1	2.1	2.0	2.0	1.9	1.9	1.4
Money multiplier	2.2	3.0	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Reserve money (in millions of rufiyaa, e.o.p.)	12,502	10,274	8,978	9,843	10,803	11,874	13,120	14,510	16,047

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

Table 4. Maldives: Balance of Payments, 2014–22 (Baseline Scenario)
(In millions of U.S. dollars, unless otherwise specified)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.			Proj.			
Current account	-118	-295	-831	-779	-818	-847	-792	-771	-663
Balance of goods and nonfactor services	545	376	169	7	35	73	207	314	507
Trade balance	-1,660	-1,655	-1,840	-2,088	-2,277	-2,371	-2,440	-2,556	-2,553
Exports (f.o.b.)	301	240	256	285	320	355	401	450	490
Domestic exports	145	144	140	139	160	183	210	242	263
Re-exports	156	96	117	147	160	172	191	208	227
Imports (f.o.b.)	-1,961	-1,894	-2,097	-2,373	-2,597	-2,726	-2,842	-3,006	-3,043
Tourism-related	-372	-359	-347	-372	-396	-423	-457	-494	-534
Other	-1,589	-1,535	-1,749	-2,002	-2,201	-2,303	-2,385	-2,513	-2,509
Of which: Construction	-167	-241	-283	-340	-368	-402	-341	-303	-290
Nonfactor services, net	2,205	2,031	2,009	2,095	2,312	2,444	2,647	2,871	3,061
Of which: Travel receipts	2,696	2,567	2,515	2,681	2,857	3,049	3,293	3,561	3,851
Income, net	-355	-326	-364	-404	-443	-481	-526	-576	-621
Current transfers, net	-308	-345	-635	-382	-410	-439	-473	-510	-549
Receipts	4	24	13	13	12	12	12	12	12
Payments	-312	-369	-648	-395	-422	-451	-485	-521	-561
Capital and financial account	544	501	811	876	868	879	850	819	636
Of which: 1/									
Foreign direct investment, net	333	308	448	452	507	490	457	418	449
Other investment, net	222	60	368	427	365	393	396	406	190
Monetary authorities 2/	-6	-2	96	-100	0	0	0	0	0
General government	-19	-6	132	342	169	191	189	192	-30
Of which: Disbursements of loans	45	44	189	404	226	247	239	251	225
Of which: Mega projects		14	174	273	173	180	101	42	0
Amortization	-66	-63	-58	-62	-57	-56	-51	-59	-255
Banks	20	-23	104	108	113	118	124	130	137
Other sectors 3/	227	91	36	77	83	83	83	83	83
Errors and omissions	-173	-255	-75	0	0	0	0	0	0
Overall balance	253	-50	-95	96	50	32	57	48	-27
Gross international reserves (increase: -)	-246	51	96	-96	-50	-32	-57	-48	27
Use of Fund credit, net	-6	-1	-1	-1	-1	0	0	0	0
Financing gap 4/	0	0	0	0	0	0	0	0	0
Memorandum items:									
Gross international reserves (stock; e.o.p.) 2/	615	564	468	564	614	645	703	751	724
In months of GNFS imports	2.7	2.4	1.8	1.9	1.9	1.9	2.0	2.0	1.9
In percent of short-term debt at remaining maturity	180	154	161	197	186	214	208	192	114
Usable reserves (stock; e.o.p.) 2/	120	200	199	209	234	250	278	302	289
In percent of short-term debt at remaining maturity	42	55	69	73	71	83	82	77	46
Current account (in percent of GDP)	-3.2	-7.3	-19.6	-17.2	-17.0	-16.4	-14.3	-12.9	-10.3
GNFS balance (in percent of GDP)	14.8	9.4	4.0	0.2	0.7	1.4	3.7	5.3	7.9
Exports (volume, percent change)	-7.9	-12.5	9.2	9.9	11.6	10.0	12.4	11.6	8.3
Imports (volume, percent change)	18.3	15.3	19.0	4.5	8.2	4.2	3.5	5.0	0.4
Tourism: bednights (percent change)	3.3	-4.3	2.3	4.5	4.5	4.6	5.5	5.5	5.5
Tourism: travel receipts (percent change)	15.4	-4.8	-2.0	6.6	6.6	6.7	8.0	8.1	8.1
External debt (in percent of GDP) 4/	28.9	27.2	34.7	38.9	42.8	46.4	49.1	51.2	49.3
Medium- and long-term	25.4	23.7	30.5	35.3	38.5	43.2	45.6	47.5	45.4
Short-term	3.5	3.5	4.2	3.6	4.2	3.2	3.5	4.3	4.2
Debt service (in percent of domestic GNFS exports)	6.4	8.0	4.7	5.2	5.3	5.6	5.7	6.0	10.1
Exchange rate (rufiyaa per U.S. dollar; average)	15.4	15.4	15.4	...	...	...	...	...	...
GDP (in millions of U.S. dollars)	3,690	4,015	4,238	4,520	4,825	5,158	5,545	5,966	6,419

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

1/ There are no capital transfers or portfolio investments.

2/ MMA liabilities, include allocation of SDR 7.4 million, equivalent to US\$11.7 million, made available in Q3 2009, see <http://www.imf.org/external/np/tre/sdr/proposal/2009/0709.htm>. These are treated as long term liabilities of the MMA.

3/ These flows are treated as non-debt creating, as they mainly reflect intra-company financing for tourism-related projects.

4/ Public and private external debt includes IMF, but excludes domestic foreign-currency denominated debt.

Table 5. Maldives: Selected Financial Soundness Indicators, 2007–2017

(In percent, unless otherwise specified)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2
Capital															
Regulatory capital to risk-weighted assets	15.4	21.0	24.7	28.9	30.3	35.8	34.0	44.5	37.2	40.1	42.9	42.0	44.5	41.3	41.8
Tier 1 capital to risk-weighted assets	24.8	15.4	20.82	24.8	26.3	30.1	30.0	34.5	30.0	35.8	36.4	34.1	34.4	38.3	37.3
Capital to total assets	12.8	15.9	16.4	17.7	18.8	20.2	19.3	21.3	20.5	19.6	21.0	21.8	23.7	22.6	23.0
Asset quality															
Nonperforming loans (gross) to total loans (gross)	1.7	8.9	12.7	17	19.4	21	16.7	17.4	14.1	12.1	11.1	10.5	10.6	10.7	9.6
Nonperforming loans (net of provisioning) to regulatory capital	-1.7	31.8	33	34.9	35.2	16.5	2.4	11.1	3.0	2.9	2.6	1.1	2.4	2.4	2.6
Earnings and profitability															
Return on assets	5.3	3.4	2.2	2.0	2.6	2.4	5.1	4.6	4.5	1.54	2.6	2.6	3.42	3.64	3.54
Return on equity	41.2	23.4	13.8	11.5	14.4	13.2	23.8	20.3	22.1	7.83	12.43	12.43	15.67	16.11	15.42
Liquidity															
Liquid assets to total assets	11.4	9.6	20.7	25.9	27.9	28.3	34.1	43.4	43.1	51.5	50.6	50.4	48.4	47.8	45.3
Liquid assets to short term liabilities	...	...	...	...	...	20.19	25.4	57.63	56.3	66.9	66.8	68.0	68.3	64.8	62.8
Assets of Banks (rufiyaa billions)	18.3	22.7	25.1	25.9	28.7	27.6	32.7	37.0	44.1	47.2	46.8	47.6	46.4	47.4	47.5
Deposits of banks (rufiyaa billions)	10.2	12.2	14.3	15.5	18.3	19.2	22.6	26.8	30.1	32.4	31.7	31.9	30.1	30.8	30.8

Source: STA and Maldives Monetary Authority.

Annex I. Revised GDP Data

1. The Maldives's National Bureau of Statistics (NBS) has been working to revise the national accounts for the period 2003-2015. South Asia Regional Training and Technical Assistance Center (SARTTAC) conducted a TA mission to the Maldives in March 2017 to assist the NBS finalize the GDP benchmarking and rebasing. The IMF Statistics Department has also provided extensive TA to NBS in support of this effort. Prior to the release of the revised time series, staff has used the 2003-based GDP data and its own estimates. A follow-up SARTTAC TA mission in August has helped NBS finalize the new GDP estimates, approved by the government and reflected in the Staff Report.

2. NBS revision has changed the base year from 2003 to 2014. The revised estimates reflect statistical, conceptual, and methodological revisions. Statistical revisions focused on incorporating new data sources from the financial statements of corporate enterprises from the MOFT and the Ministry of Economic Development (MED); as a result, double deflation methods have been used to estimate five economic activities, lessening the need to rely on extrapolating benchmark values. Table 1 shows selected conceptual and methodological revisions that were incorporated during the benchmark. GDP will be presented at purchasers' prices as data on taxes on products are now available; prior to the benchmark, GDP was presented at basic prices.

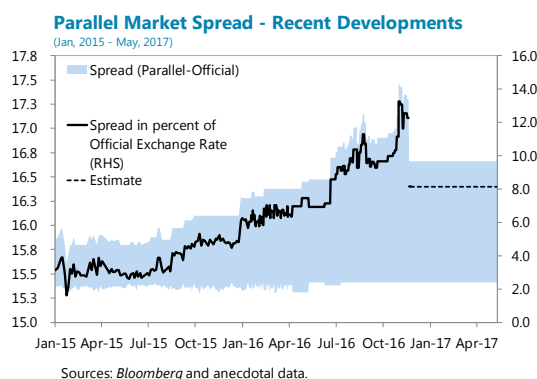
Table 1 – Maldives: Conceptual and Methodological Revisions Incorporated in the 2014 Benchmark			
Category	Pre-benchmark Treatment	Post-benchmark Treatment	Impact
FISIM (Financial Intermediation Services Indirectly Measured)	Estimates based on the 1993 SNA; service not assigned to using industries.	Estimates based on the 2008 SNA; service assigned to using industries.	Upward revisions
Insurance	Estimates based on the 1993 SNA.	Estimates based on the 2008 SNA.	Upward revisions
Fisheries; Electricity; Water; FISIM; insurance and financial auxiliaries.	Gross value added (GVA) for non-benchmark periods based on single-deflation method.	GVA for non-benchmark periods based on double-deflation method.	Upward revisions
Accommodations, food and beverage services.	Estimates derived for: (i) resorts and safari vessels; and (ii) other hotels, restaurants, and guest houses.	Estimates derived for: (i) resorts; (ii) safaris; (iii) hotels; (iv) guest houses; and (v) food and beverage.	Upward revisions
Education services.	Estimates derived for one unified category.	Estimates derived separately for government and private sector.	Upward revisions
Human health and social care services.	Estimates derived for one unified category.	Estimates derived separately for government and private sector.	Upward revisions

Annex II. The Parallel Foreign Exchange Market—Recent Developments

A three-pronged approach that encapsulates reforms in the area of exchange rate arrangement, FX regulation and monetary policy can help eliminate the parallel premium and reduce the extent of dollarization in the Maldives.

1. The active parallel FX market that appeared with the rapid development of tourism continues to flourish in the Maldives. The FX market consists of the MMA, 7 commercial banks, and 429 money changers (MCs) of which 106 are resorts and 323 are private parties.¹ The tourist industry is a key supplier and driver of the parallel market as many resorts have MC licenses to buy and sell foreign currency. In addition, hotels, shops and restaurants in the capital also quote and receive payments in dollars. Regulations governing the operations of MCs are light and hardly enforced. With few transactions recorded or reported, the parallel market rates are based on anecdotal data and unofficial surveys.

2. The parallel market premium increased steadily last year and has now stabilized. The premium, the difference between the official market rate and the parallel market rate, had steadily increased to over 12 percent in 2016. Historically this premium has been in the 5 to 15 percent range.² While seasonality explains some of the periodic spikes, the steady increase in 2016 was linked to the significant deterioration of the CA and the large court ordered payment later in the year.³ The premium gradually declined in the first five months of 2017 following the MMA's increased intervention in the FX market and FX allocation to commercial banks and sales to SOEs.



3. MCM TA has recommended a three-pronged approach to reduce the dollarization and by dependency the parallel market. The high level of dollarization, an active parallel market and fiscal dominance has weakened the monetary transmission channels and limited the MMA's control over the FX market. The low level of reserves has also led to targeted allocation of FX at the official rate, helping to support the parallel market. To strengthen the official market, MCM TA in 2016 recommended a three-pronged reform strategy that includes: (1) introducing more flexibility to the current exchange rate arrangement within the pegged regime; (2) enforcing the foreign currency regulation to ensure a minimum supply of FX in the domestic market; and (3) elimination of remuneration on required reserves on U.S. dollar deposits. In addition to these measures, fiscal discipline should be restored as priority.

¹ Data based on the AREAER 2015 data accessed online.

² Box 5. The Operation of Maldives Parallel FX Market, Maldives: 2014 Article IV—Staff Report, March 11, 2015.

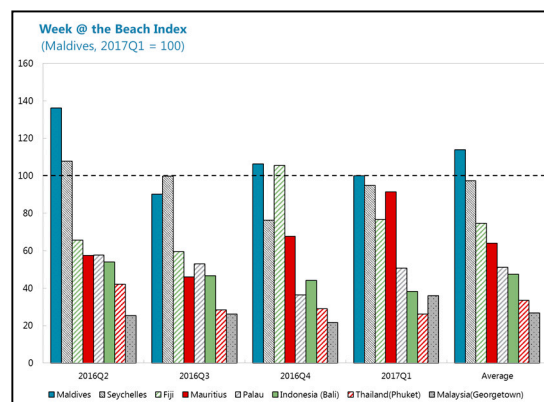
³ Gross reserves fell to US\$467 million in late 2016, of which US\$200 million are usable, mainly attributed to the MMA US\$140 million bond purchase from the MACL in settling its payment to GMR.

Annex III. Maldives in the Global Tourism Market

The Maldives remains one of the world's premier high-end tourist destinations. In the coming years, supported by a significant expansion of the international airport and other tourism-related infrastructure, the number of tourist arrivals is expected to increase significantly. This expansion is likely to force Maldives into more price-sensitive segments of the global market and expose it to further international competition.

1. Against this background the Annex provides an overview of Maldives' position in terms of relative prices with respect to direct international competitors in the tourism market. It also reports recent trends in airline fares from the most important tourism markets to assess the extent to which these trends can further support the expansion of tourism projected in Maldives over the coming years.

2. Competitiveness in the tourism market is the result of many factors. Relative prices are one of those factors. A simple but nonetheless informative way of gauging potential price effects on global tourism demand is by comparing the cost of a similar stay across destinations. The IMF has developed the Week@theBeachindex¹ to assess and monitor trends in this area. The index comprises a large sample of data from online holiday booking sites to establish an average cost for a comparable one-week holiday across destinations.



3. The Week@theBeach index lists Maldives as the highest cost destination among competitors in Asia and the Indian Ocean. Over the 2016Q2-2017Q1 on average, with the exception of Seychelles, the cost of holidays in Fiji (around 75 percent), Mauritius (65 percent) and Palau and Bali (around 50 percent) are well below those in a similar-rating accommodation in Maldives. Moreover, the corresponding index of other very popular beach destinations in Asia like Phuket in Thailand and Georgetown in Malaysia is around 1/3 of Maldives. Results however show considerable seasonality across the different destinations.

4. There are important additional considerations to bear in mind in interpreting findings based on the index. Firstly, competitiveness in the tourism sector reflect other factors beyond what is reflected in available relative prices. Price competitiveness does not reflect differences in quality amongst the underlying products, experiences, and marketing and type of destinations. This is particularly problematic in the case of tourism, where an ostensibly similar product designation, a 5-star hotel, masks tremendous underlying variation in quality and type of experience. In addition, the inclusion or removal of super-luxury hotels can distort the sample.

¹ The index is calculated using over 37,000 hotel prices drawn from TripAdvisor, prices data for individual consumable items drawn from the crowdsourcing resources Numbeo & World Taxi Fares'- for further details on data and methodology, see Laframboise and others, 2014, "Revisiting Tourism Flows to the Caribbean: What is Driving Arrivals?" IMF WP/14/229.

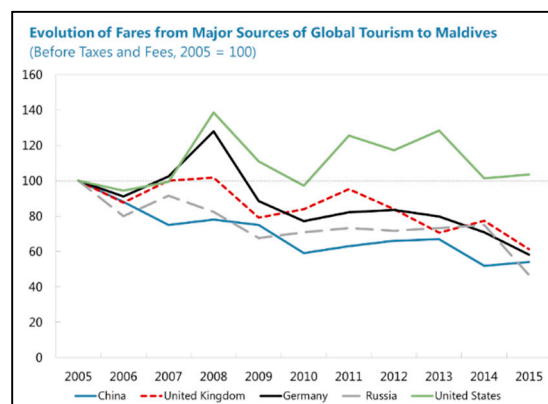
5. Another important factor to assess the outlook for Maldives tourism is airfares. The week@the beach index does not include airfares, and almost all tourist arrivals to Maldives come by air. Based on IATA data, airfares to Maldives from major markets have fallen over the past decade, which partly reflects global trends in airline fares, driven by technological developments, greater fuel efficiency and increased competition in the airline sector.

6. Maldives has benefited from the downward trend in global airfares over the last decade.² Airline

fares to Maldives from the major markets declined between 25-to-50 percent over the last decade.

Importantly this downward trend has been observed both for traditional markets like continental Europe and the U.K. but also for more recent tourism markets like Russia and China. Looking forward, this downward trend in airfares has important implications for the expansion of Maldives tourism. On the one hand, an

important factor behind these lower fares has been the expansion of new airlines covering Maldives routes mainly from Europe through new international hubs, intensifying competition in the airline sector and improving the service to Maldives as important international destination. On the other hand, these developments in the airline sector have likely facilitated greater access for new destinations into the international tourism market, increasing global competition for Maldives. For example, countries like Fiji and other Pacific Islands, where previously airline connectivity was a prohibitive factor for their nascent tourism industry, are likely to become important competitors in the coming years.



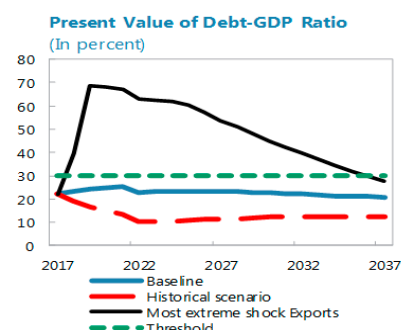
² The only destination from where prices have not fallen, the US, constitutes only 2.5% of arrivals to the Maldives (though a larger proportion by expenditure). The growth of American tourists to the Maldives over the past 10 years demonstrates that price factors are just one factor in determining the level of arrivals, with global income trends, marketing campaigns and changing tastes also playing a large role in determining final tourism outcomes.

Annex IV. External Sector Assessment

Overall, the external position is assessed to be substantially weaker than fundamentals and desirable policy settings: Real Effective Exchange Rate (REER) gap is substantial and the risk of external debt distress remains high. With the infrastructure ramp up, the CA is expected to remain in large deficits and reserves at low levels over the medium term. A tighter fiscal policy stance along with more flexibility in the pegged regime would improve the external position.

1. The debt sustainability analysis (DSA) assesses

Maldives' external risk rating as high. The external debt ratio is on a rising path over the medium term reflecting the large ongoing infrastructure scale up and the recent US\$200 million sovereign bond issuance. The external debt path has improved compared to the previous DSA due entirely to the rebasing of GDP as opposed to an improvement in economic and policy fundamentals. However, a widening CA deficit, low international reserves, and rapid debt buildup leaves the Maldives vulnerable to external shocks.



2. The CA deterioration indicates a weaker external

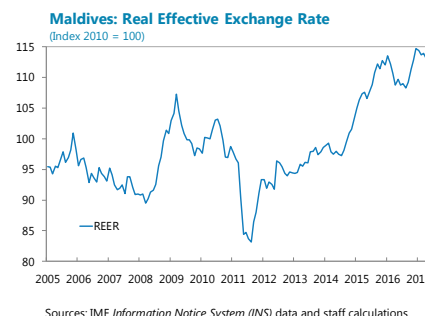
position. The CA deficit deteriorated significantly in 2016 (19.6 percent of GDP) compared to last year's projections due to increased infrastructure-related imports, moderate tourism receipts, higher remittance outflows, and reclassification of a large one-off court mandated payment.¹ This deterioration has resulted in a large CA gap (17.2 percent of GDP) in the CA model of the EBA-lite analysis. Coupled with a real exchange gap of 30.3 percent, the CA model points to a '*substantially weaker*' overall assessment of the external sector. The CA gap continues to reflect a saving-investment imbalance and persistent fiscal deficits. Fiscal policy accounts for 2.5 percentage points of the policy gap. However, the CA gap is reduced to 10.7 percent if adjusted for the large one-off court mandated payment – but doesn't change the final assessment. Over the medium term, the CA deficits remain high reflecting the import-heavy nature of the ongoing large infrastructure investments, averaging close to 10 percent of GDP over the long run (2017–37).

	No ad-hoc adjustment	With ad-hoc adjustment
CA-Actual	-19.6%	-13.2%
CA-Norm	-2.4%	-2.4%
CA-Gap	-17.2%	-10.7%
o/w Policy gap	-2.5%	-2.5%
REER Gap	30.3%	18.9%
CA-Fitted	-4.9%	-4.9%
Residual	-14.7%	-8.3%

¹ MACL (Airport SOE) settled its claims with GMR (Indian infrastructure firm) payment (US\$270 million) late 2016. This was deemed imperative by MMA in avoiding delays of airport expansion plans and averting a sovereign default.

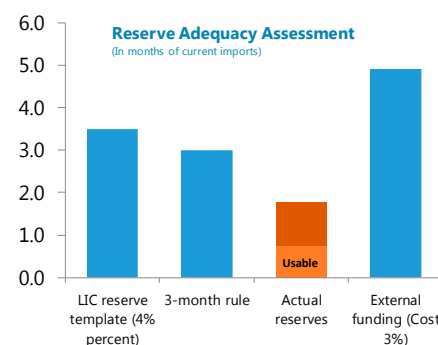
3. Real exchange rate methods point to a substantial exchange rate gap. The EBA-lite CA

model assesses the REER gap to be around 30.3 percent and 18.9 percent if adjusted for the one-off court payment. The EBA-lite Index REER model generates a gap of a similar magnitude (15.8 percent). Risks from appreciating currency, weak growth in key advanced and emerging economies, ramifications from Brexit,² and the current internal political situation could weaken tourism receipts. Introducing greater exchange rate flexibility under a currency basket peg to help absorb external shocks, enforcing changes to the foreign currency regulation to expand supply of FX in the domestic market, and aligning the liquidity management tools of the MMA in support of MVR would help reduce this gap.



4. Reserves remain low relative to adequacy metrics. The

level of reserves has persistently hovered around the minimum requirement as suggested by adequacy metrics reflecting a dollarized economy and a parallel market supplying dollars at a premium. Going forward, reserves are expected to remain low considering large expected CA deficit and external debt obligations that fall due.³ Staff's reserve adequacy framework suggests that the optimum level of reserves for the Maldives is in the range of 3.5–5 months of imports.⁴















² Close to 90 percent of the tourists come from Europe (including the U.K.) and Asia (including China). By country, China (25 percent), Germany (8 percent) and the U.K. (8 percent) represent the three largest destinations for tourist arrivals to the Maldives.

³ The estimated debt service payments for PPG external debt averages US\$92 million until 2021. In addition, the bullet payment on the sovereign bond (US\$200 million) comes due in 2022.

⁴ The estimates depend on the assumptions made about the net cost of holding reserves, external funding costs and economic size.

Annex V. Risk Assessment Matrix (RAM)^{1/}

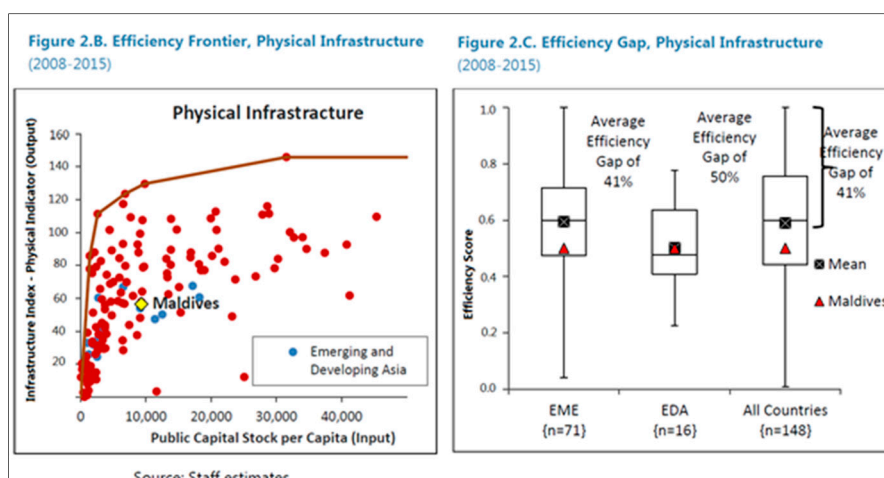
Shocks and Likelihood (Red= high likelihood; green = low likelihood)		Potential Impact (Red= high; green=low)	Policy Response
Domestic			
	Resumption of political turmoil and a deterioration in conditions such as a downgrade in security or health risks.	Resumption in political turmoil or a rise in extremism resulting in the deterioration in security conditions or a potential health risk could undermine confidence and tourism flows; BOP pressures could be exacerbated, fiscal consolidation derailed with a run up in inflation.	Moderate fiscal easing and increasing transfers to the poor as needed. Reserve buffers could be used to cushion the shock and smooth exchange rate volatility. Under strained or lack of fiscal and external space, official assistance could be considered.
			
External	Further reserve drawdown and a weak fiscal position reflected in continued high fiscal deficits and debt accumulation.	Given extensive government-guaranteed investment and lending, the impact of a severe tourism downturn on the fiscal position could be considerable. Risks are further compounded by the non-availability of comprehensive data related to (loan) guarantees issued and lack of assessment of fiscal risks associated with guarantees.	Decisive and durable fiscal measures together with strengthened public financial management would reduce both fiscal and external pressures.
			
	Structurally weak growth in key advanced and emerging economies (EMs).	Tourism sector is expected to benefit from stronger economic recovery in the Eurozone and a smooth economic rebalancing of the Chinese economy (from investment to consumption). Lower tourism receipts, if persistent, would pose an important risk to the economy considering the macro-economic significance of the tourism sector. Therefore a slowdown in these key markets will impact the tourism industry, with a negative impact on BOP and on reserves.	The exchange rate should be allowed to adjust within the band and fiscal policy would also require some adjustment to keep the deficit broadly in line with the fiscal anchor, with social spending on the poor protected via restraint in other current expenditure.
			
External	Intensification of the risks of fragmentation/security dislocation in part of the Middle East, Africa, and Europe.	Given the geographical location of the all the major airline hubs that connect the tourist inflows to the Maldives - any disruption in the security situation in the Middle East or Europe is likely to affect tourism inflows.	While traditional markets (like the European market) are the most sought after market in the Maldives, other alternative marketing strategies should be developed to attract non-traditional markets into the Maldives. Emerging Asian countries are one such example where efforts to market Maldives as a destination could be ramped up.
			
External	Significant further strengthening of the US dollar and/or higher rates.	The REER has risen as the US dollar appreciated and Maldives may be losing some competitiveness compared to other tourist destinations. As a high end destination with around 60 percent of resorts in the 5 star and plus category, Maldives tourist demand is likely to be relatively price and income inelastic—though the new and growing middle-market is likely to be more price sensitive. But over time a further sharp U.S. dollar appreciation against the euro would likely have some dampening effect on demand. If there is a more rapid Fed normalization, then external borrowing is likely to get more expensive affecting debt sustainability.	Further nominal appreciation against the US\$ should be resisted in the near term. If consistent with the inflation outlook, monetary policy should be eased. If appreciation pressures prolong into the medium term, the exchange rate should be allowed to adjust. Fiscal policy should aim at reducing the deficit and financing needs.
			

Source: IMF staff.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex VI. Public Investment Trends and Efficiency in the Maldives: Performance, Challenges, and Strategy Going Forward

- 1. In the Maldives, public investment trends have been influenced by several contextual factors including the economic dependency on tourism, the high exposure to climate change, and the recent democratization.** The economy is heavily dependent on tourism and has over two decades developed a profitable high tourism sector; the 2004 Tsunami highlighted the vulnerability of the country to climate events; and since the new constitution in 2008, the multi-party democracy has experienced some political tensions.
- 2. The economic and social impact of public investment critically depends on its ‘efficiency’.** The economic dividends from closing this efficiency gap are substantial: the most efficient public investors get twice the growth “bang” for their public investment “buck” than the least efficient.
- 3. Maldives has an important investment ‘efficiency gap’, underscoring the need to improve public investment management (PIM).** The indicator for physical access to infrastructure indicates relatively low efficiency in public investment (Figure 2.B—FAD PIMA Report, 2016). The resulting ‘efficiency gap’ between Maldives and the most efficient countries is 50 percent, which suggests that about half of the public capital stock did not achieve its full potential. The gap is wider than the Emerging Market Economies region (EME) average and that of all countries (41 percent), but comparable to the average gap of Emerging and Developing Asia region (EDA) countries (50 percent, Figure 2.C).



- 4. Strengthening PIM institutions will help to close this ‘efficiency gap’.** The PIMA mission assessed the strength and quality of PIM in the Maldives using a new framework, based on the three phases of the PIM cycle: planning, allocation, and implementation and on 15 key institutions involved in the PIM cycle.
- 5. Most public investment institutions are at a basic stage of development and implementation when compared to EME and all countries.** Investing in improving these institutions, based on the PIMA report’s recommendations, will significantly enhance efficiency.

PIMA's recommendations and strategy going forward as presented in the FAD TA Report are to:

- **Strengthen strategic guidance and budget ceilings for public investment.** Revise the budget calendar to prepare and to circulate the *Fiscal Strategy Statement* earlier (e.g. in April) to enable it to drive the budget process, set priorities for the public investment and let these be the basis for approved total ceilings. Approve realistic aggregate expenditure ceilings (for recurrent and public investment) at the start of the budget process. Moreover, establishing a ceiling for the PSIP budget at the start of the budget process based on a binding resource envelope and include PSIP ceilings in the budget circular. Better integration of capital and recurrent budget preparation, including capital project selection.
- **Improve central oversight of SOEs and PPPs.** Enhance the oversight of public investment undertaken by non-budgetary institutions, including SOEs, PPPs, and contractor-based financing. Maintain in a database the number and value of public investments undertaken by SOEs. Publish a list of guarantees and contractor-financed projects in the budget.
- **Improve commitment control and cash management.** Release allocations to enable Ministries, Departments and Agencies' (MDAs) purchasing to take place following authorization by MOFT (for on-going projects and new projects) in the material management (MM-PAS) module.
- **Improve institutions for project appraisal, selection, and management.** Strengthen the project *appraisal* process by developing a standard methodology for project appraisal, publishing this methodology and verifying that it is consistently applied by the line ministries. Improve the project *selection* process for the budget by developing better targeted selection and prioritization criteria and processes. This includes developing a project pipeline to improve the medium-term focus of project identification, appraisal, selection and approval.
- **Improve the competitiveness and transparency of the procurement process.** Prescribe that all SOEs use standard National Tender Board (NTB) guidelines and procedures. Strengthen the project management and monitoring framework and ensure implementation in all MDAs and SOEs.
- **Develop a framework for ex-post evaluations and ensure that lessons learned from past projects are incorporated in revised guidelines and practices.**
- **Strengthen capacities of all actors involved in PIM.** Develop and implement a PIM capacity building plan for project managers, supervising officers, operational officers, and MOFT (see Appendix 2 of the FAD PIMA Report). The implementation of all PIM institutions requires not only institutional and legal change but is heavily dependent on building additional capacity within the public sector which takes time.

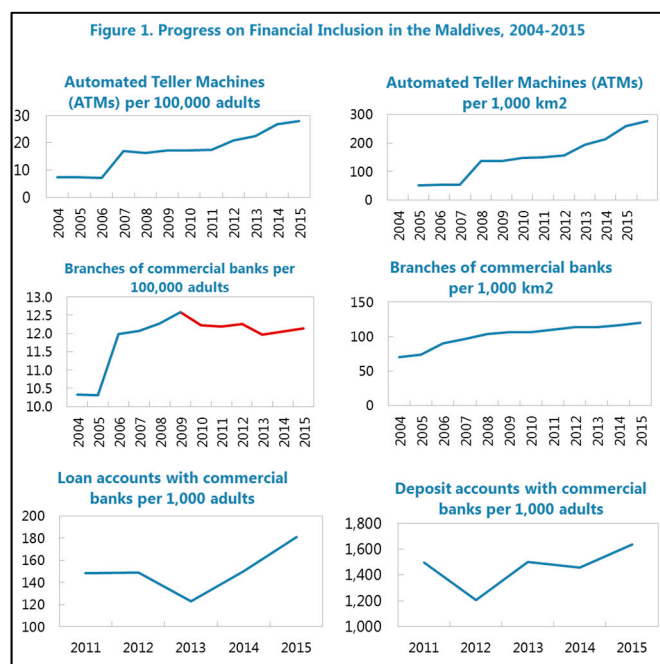
Annex VII. Financial Inclusion

The Maldives has made progress on various indicators of financial inclusion over recent years, and continues to promote a financial inclusion agenda. However, the country remains behind its peers on several major indicators. This is particularly clear when looking at the use of credit by households. Efforts to promote financial literacy, combined with technological solutions such as mobile banking, are needed to continue and consolidate the progress of recent years.

Recent Trends

1. Developing an inclusive financial sector is an important policy goal as it is associated with stronger growth and greater financial stability.¹ Maldives has made progress towards greater levels of financial inclusion, defined as the availability and affordability of financial services (savings, credit, insurance and payments).

2. The progress made is reflected in a variety of commonly used indicators, outlined in Figure 1. Over the past three years, the Maldives has seen a rise in the number of ATMs, per capita access to deposit accounts and access to credit. However, the level of bank branches has remained flat (indicated in red). Expanding physical infrastructure is particularly challenging in the Maldives and other island nations, given the geographically highly-dispersed population. The lack of expansion reflects both a reluctance of financial institutions to expand into more remote areas / islands but may also imply a greater emphasis on investment on technological solutions, such as mobile banking which was introduced to the Maldives for the first time earlier this year, following the authorities' decision to grant mobile banking licenses to two telecommunications providers.



3. The progress made in recent years has been bolstered by the authorities' efforts to ensure adequate consumer protection and to leverage technology. Technological solutions are increasingly being used to facilitate the provision services to remote areas (for example, the adoption of mobile money referenced above). The authorities are also using modern data management systems to promote the collection of credit history, thereby lowering the costs

¹ See IMF, 2017, 'Financial Inclusion: Can it Meet Multiple Economic Goals?' Staff Discussion Note, SDN/15/17

associated with information asymmetry when providing credit (notably through the establishment of a 'credit information unit').

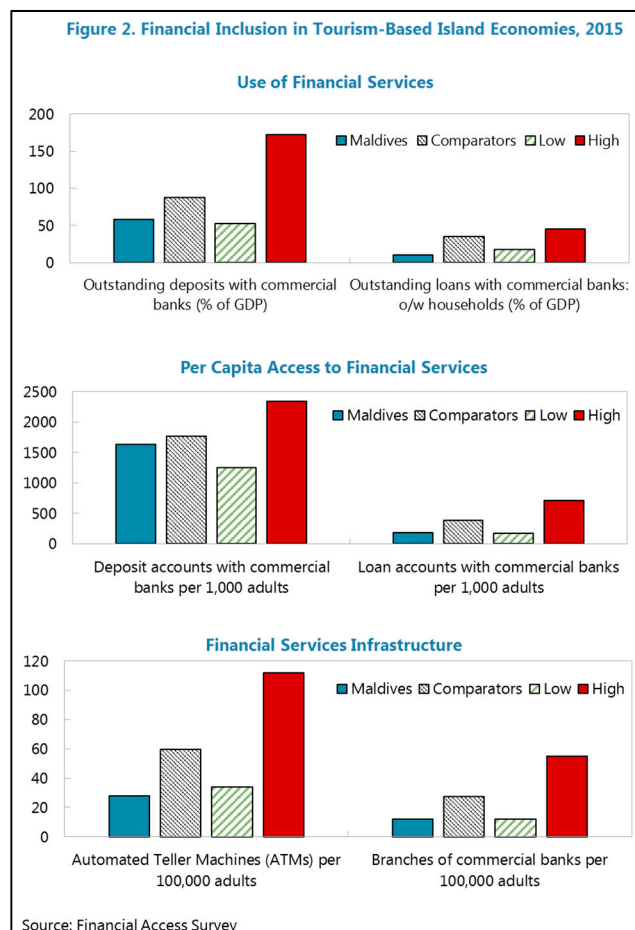
Comparison with other Tourism-Based Island Economies

4. The Maldives shares challenges of financial inclusion with several of its peers.

There are logistical constraints that are inherent in being a tourism-based island economies.² The dispersion of the population over vast areas makes the delivery of financial services challenging.

5. As Figure 2 shows, Maldives lags behind its competitors on a range of indicators. There is a disparity in terms of indicators of physical infrastructure (branches and ATMs) and of credit (number of loans and amounts outstanding). This is particularly clear in the case of the value of outstanding loans to households, which stood at just 11 percent of GDP in 2015. These low levels reflect a perceived lack of investable opportunities outside of favored sectors and may also indicate a lack of opportunities for alternative forms of finance, particularly micro-finance and Islamic finance.

6. Given the cost of physical infrastructure, Maldives and other island economies are particularly suited to employing technological solutions (mobile money, online banking and mobile banking) to facilitate greater access and usage. However, to be effective this should be rolled out as part of a strategy which promotes financial literacy and access to technology. In addition, low-tech solutions such as Maldives' innovative use of boats and agent banking, continue to be a valuable method for promoting inclusion in remote areas. Similarly, the authorities' focus on increasing financial literacy is expected to benefit both access to finance and consumer protection. Finally, authorities should place a renewed emphasis on policies that remove barriers and improve access to credit for households and small businesses. In this context, the focus on better data collection and monitoring is a welcome one.



² The tourism-based island economies contained in the sample are: Bahamas, Barbados, Fiji, Mauritius, Seychelles, St. Kitts & Nevis, St. Lucia, and St. Vincent & the Grenadines.



INTERNATIONAL MONETARY FUND



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

Appendix I. Draft Press Release

IMF Executive Board Concludes 2017 Article IV Consultation with Maldives

On October 20, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Maldives.

Maldives' economic growth has been highly volatile, driven primarily by high-end tourism and construction. The economy grew by 3.9 percent in 2016 and continues to improve marginally in 2017 on a recovery in tourism and construction but faces large and growing imbalances. The fiscal deficit widened in 2016 driven by lower than expected revenue and large arrears clearance despite unchanged current spending. Public debt as a share of GDP rose nearly 11.5 percentage points from 2014-16. Monetary policy remains accommodative and private sector credit has grown rapidly, led by the housing and construction. Headline inflation continued to decline in 2016 (period average) and is projected to remain low with some lift from the subsidy phase out. The current account deficit widened sharply to 19.6 percent of GDP in 2016, due to increased infrastructure-related imports, moderating tourism receipts, higher remittance outflows, and reclassification of a large one-off court mandated payment.

The outlook is for a modest recovery in the near term, with low inflation, loose financial conditions, but with significant downside risks from a fragile fiscal and external position. Growth is projected to recover in 2017 and stabilize at around 5 percent over the medium term, benefitting from the infrastructure scale up, expected stronger economic growth in tourism markets (China, India and Russia), continued recovery in Europe and favorable long-term tourism trends in the South Asia region. Both the fiscal and current account deficit are projected to widen significantly before gradually declining over the medium term as infrastructure spending winds down. The main challenge remains one of balancing a surge in infrastructure investment which has the potential of transforming the economy against the continuing risks stemming from high and rising public debt.

Executive Board Assessment²

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¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Maldives: Selected Economic Indicators, 2014–22 (Baseline Scenario)

Population (in 1,000; 2015)	348								
GDP per capita (in U.S. dollars; 2015):	11,544								
Quota (in million SDRs, Feb 2016):	21.2								
	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Est.			Proj.			
Output and prices	(Annual percentage change)								
Real GDP	7.6	3.3	3.9	4.6	4.7	4.8	5.0	5.0	5.0
Inflation (end-of-period) 1/	1.2	1.2	1.8	2.1	2.2	2.2	2.4	2.4	2.6
Inflation (period average) 1/	2.5	1.4	0.8	2.5	2.1	2.2	2.4	2.4	2.5
GDP deflator	4.5	5.3	1.6	2.0	2.0	2.0	2.4	2.5	2.5
Central government finances	(In percent of GDP, unless otherwise indicated)								
Revenue and grants	26.7	27.7	28.4	28.7	28.6	28.3	28.4	28.5	28.6
Expenditure and net lending	34.1	34.5	38.7	36.6	35.7	34.7	34.3	33.9	32.9
Overall balance	-7.4	-6.8	-10.3	-8.0	-7.1	-6.3	-6.0	-5.3	-4.3
Overall balance excl. grants	-7.7	-7.8	-10.6	-8.2	-7.4	-6.5	-6.2	-5.5	-4.4
Primary balance	-5.1	-4.6	-8.2	-5.8	-4.6	-3.3	-2.6	-1.9	-0.9
Current primary balance	-0.1	1.8	5.2	6.3	5.7	4.7	4.9	5.4	5.8
Public and publicly guaranteed debt	54.2	56.9	65.7	69.4	72.0	73.5	74.3	74.3	73.2
Monetary accounts	(Annual percentage change, unless otherwise indicated)								
Broad money	14.7	12.3	-0.2	9.6	9.7	9.9	10.5	10.6	10.6
Domestic credit	4.7	15.7	19.5	7.1	5.2	5.3	7.1	7.8	7.8
Balance of payments	(In percent of GDP, unless otherwise indicated)								
Current account	-3.2	-7.3	-19.6	-17.2	-17.0	-16.4	-14.3	-12.9	-10.3
Of which:									
Exports	8.1	6.0	6.0	6.3	6.6	6.9	7.2	7.5	7.6
Imports	-53.1	-47.2	-49.5	-52.5	-53.8	-52.8	-51.2	-50.4	-47.4
Tourism receipts (in nonfactor services, net)	73.0	63.9	59.3	59.3	59.2	59.1	59.4	59.7	60.0
Income (net)	-9.6	-8.1	-8.6	-8.9	-9.2	-9.3	-9.5	-9.6	-9.7
Current transfers	-8.3	-8.6	-15.0	-8.5	-8.5	-8.5	-8.5	-8.5	-8.6
Capital and financial account (including e&o)	10.1	6.1	17.4	19.4	18.0	17.0	15.3	13.7	9.9
Of which:									
General government, net	-0.5	-0.1	3.1	7.6	3.5	3.7	3.4	3.2	-0.5
Banks and other sectors, net	6.7	1.7	3.3	4.1	4.1	3.9	3.7	3.6	3.4
Overall balance	6.8	-1.2	-2.2	2.1	1.0	0.6	1.0	0.8	-0.4
Gross international reserves (in millions of US\$; e.o.p.) 2/	615	564	468	564	614	645	703	751	724
In months of GNFS imports	2.7	2.4	1.8	1.9	1.9	1.9	2.0	2.0	1.9
Memorandum items:									
GDP (in millions of rufiyaa)	56,867	61,869	65,310	69,648	74,349	79,488	85,446	91,932	98,913
GDP (in millions of U.S. dollars)	3,690	4,015	4,238	4,520	4,825	5,162	5,545	5,966	6,419
Tourism bednights (000')	7,290	6,977	7,138	7,460	7,795	8,154	8,602	9,076	9,575
Tourist arrivals (000')	1,205	1,234	1,286	1,356	1,417	1,483	1,564	1,650	1,741
Tourism bednights (% change)	3.3	-4.3	2.3	4.5	4.5	4.6	5.5	5.5	5.5
Tourist arrivals (% change)	7.1	2.4	4.2	5.5	4.5	4.6	5.5	5.5	5.5
Dollarization ratio (FC deposits in percent of broad money) 3/	53.8	50.6	47.7 ^{3/}						

Sources: Maldivian authorities; and preliminary IMF staff estimates and projections based on the 2017 Staff Visit.

1/ CPI-Male definition.

2/ MMA liabilities, include allocation of SDR 7.4 million, equivalent to US\$11.7 million, made available in Q3 2009, see <http://www.imf.org/external/np/tre/sdr/proposal/2009/0709.htm>. These are treated as long term liabilities of the MMA.

3/ Data for 2016 Jan-Nov.