EXECUTIVE BOARD MEETING

EBS/20/62

April 16, 2020

To: Members of the Executive Board

From: The Secretary

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

Board Action:	Executive Directors' **consideration** (Formal)
Tentative Board Date:	**Wednesday, April 22, 2020**
Proposed Decision:	Page 13
Publication:	Yes*
Questions:	Mr. Cerutti, APD (ext. 36811) Mr. Jonas, APD (ext. 38674)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Asian Development Bank, Asian Infrastructure Investment Bank, World Trade Organization

***The Secretary's Department has been notified by the authorities that their explicit consent is required prior to the publication of Board documents. At the time of circulation of this paper to the Board, the authorities have indicated that they consent to the Fund's publication of this paper.**

INTERNATIONAL MONETARY FUND

MALDIVES

April 16, 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The Maldives is suffering from the impact of the COVID-19 pandemic. The Maldivian economy is one of the most dependent countries on tourism. GDP growth is projected to be about -8.1 percent in 2020, about 15 percentage points below the pre-pandemic growth rate, and with large downside risks. The baseline impact would open a 2020 external financing gap of about US$214 million and a fiscal financing gap of around US$ 228 million.

Request for Fund support. The authorities are seeking financial assistance under the exogenous shock window of the Rapid Credit Facility (RCF) to address the urgent balance of payments needs posed by the COVID-19 pandemic. In the attached letter, the authorities request a disbursement of SDR 21.2 million, equivalent to 100 percent of quota, with the full amount to be used for budget support. Staff supports the request. The capacity to repay the Fund is adequate. Maldives continues to be at a high risk of debt distress. The RCF disbursement will be magnified by the catalytic role of Fund assistance. It is expected that the Asian Development Bank (ADB) and World Bank (WB) will also provide additional financing in concessional terms.

Policy recommendations. The authorities' responses to the pandemic have been timely, scaling up health care spending and putting in place measures to contain the outbreak. The authorities have also responded with a combination of fiscal, monetary, and prudential measures that seek to minimize its economic impact. These are appropriate, but the fiscal space to respond to the crisis by increasing spending and the deficit is limited due to the high public debt. The fiscal policy response should focus on carefully designed spending reductions, especially in terms of the past ambitious public investment plans, and a reallocation of resources towards healthcare spending and other measures that provide temporary support for vulnerable households and businesses most affected by the crisis. The authorities should focus on crisis management and ensure that the policy response to the crisis is consistent with the current de-facto pegged exchange rate regime (e.g., no central bank monetization of fiscal deficits).

Approved By
Ranil Salgado (APD) and Vikram Haksar (SPR)

An IMF team consisting of E. Cerutti (head), J. Jonas, and R. Moussa (all APD) held discussions with the Maldivian authorities by teleconferences led by Minister of Finance Ibrahim Ameer, Central Bank Governor Ali Hashim, and other senior government officials during April 1–5, 2020. Maya Choueiri (OED) participated in the policy discussions. Tubagus Feridhanusetyawan, Guli Gamwalla-Khadivi and Biying Zhu (all APD) collaborated in preparing this report.

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APPENDIX

INTRODUCTION

1. **The impact of the COVID-19 pandemic outbreak on economic activity has triggered the emergence of an urgent balance of payments (BOP) need in the Maldives.** The global impact of the pandemic is expected to severely cut tourism receipts during 2020 by around 40 percent relative to pre-pandemic projections. The measures to contain the outbreak and its related uncertainty are also affecting economic activity. The impact of the shocks on the economy is very uncertain and subject to large downside risks. The BOP financing gap is estimated to amount to US$214 million for 2020 (4 percent of GDP), and the fiscal financing gap to around US$228 million for 2020 (4.2 percent of GDP).

2. **The authorities have requested Fund assistance under the exogenous shock window of the Rapid Credit Facility (RCF) to address an urgent balance of payments need posed by the COVID-19 pandemic.** The financing provided by the Fund is expected to provide budget support as well as catalyze support from other development partners (details below), through additional grants and concessional loans.

IMPACT OF THE PANDEMIC AND OUTLOOK

A. Pre-Pandemic Conditions

3. **Before the pandemic, GDP growth was projected to accelerate in 2020 and continue on a strong path in the medium term, driven by continued strong tourism growth.** The pre-shock GDP growth projection for 2020 was about 7.0 percent, with tourism benefitting from new infrastructure. Ongoing further improvements in the airport (new runway, terminal, etc.) and plans for new resorts (more than 116 islands would be available for development during the next 10 years) make strong tourism growth feasible in the medium term.

4. **Following electoral promises, record levels of public capital expenditure were included in the 2020 Budget.** The government's 2020 Strategic Action Plan and 2020 budget envisioned more housing units (about 20,000), further decentralization (through 5 urban centers), and two flagship infrastructure projects. These are the relocation of the port to a nearby island outside the capital Malé and a bridge that will link the port with Malé. As a result, the 2020 budget envisaged a jump in capital spending by 75 percent, to a record-high 14 percent of GDP. These large-construction projects financed externally not only rely on imported materials, but also a large share of the labor and professional services is also from abroad.

5. **The 2020 Budget contained a number of revenue measures, but these were expected to finance only a small part of the capital expenditure increase.** To fulfill its electoral promises, the new government introduced a Personal Income Tax (PIT) and planned increases in airport development fees and airport service charges, as well as other fees (import duty-related fees and foreign workers' registration fees). These revenue measures were expected to finance only a small

part of the capital expenditure increase, with the rest expected to be financed mostly by grants and external borrowing.

6. **The Maldives maintains a stabilized exchange rate arrangement vis-à-vis the US dollar.** The Maldives is a small open and partially dollarized economy, and the stabilized arrangement, a de-facto peg, has been serving it well, helping to anchor inflation and providing a hedge to the tourism sector. At the same time, the Maldives Monetary Authority (MMA) has maintained tight controls on the availability and use of foreign exchange. As discussed in the 2019 Article IV Staff Report, the foreign exchange (FX) rationing to banks sometimes triggers FX shortages that have led to the emergence of a parallel market.

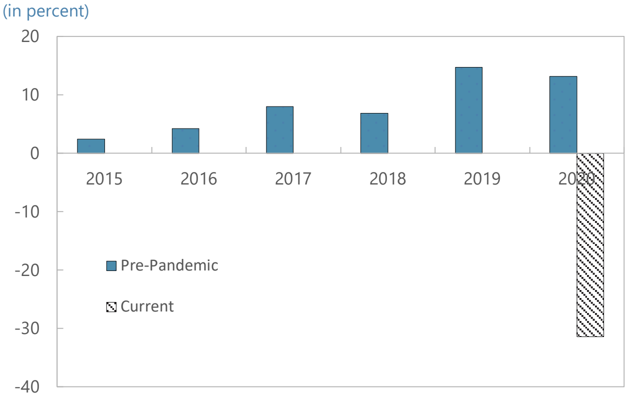
7. **The financial sector remains broadly sound and financial sector oversight is broadly appropriate.** The authorities have been making progress in strengthening financial sector stability and banks remain in good health, with strong capitalization and profitability. Nonperforming loans (NPLs) are relatively low and well-provisioned.

8. **Policy space and buffers were limited before the pandemic, given high public debt levels and the large current account deficit.** Total public debt (including guarantees) stood at an estimated US$4.4 billion in 2019, around 77 percent of GDP. External public and publicly guaranteed debt stood at an estimated US$2.2 billion in 2019, around 38 percent of GDP. The current account deficit was about 26 percent of GDP in 2019.

B. Post-Pandemic Outlook and Authorities Responses

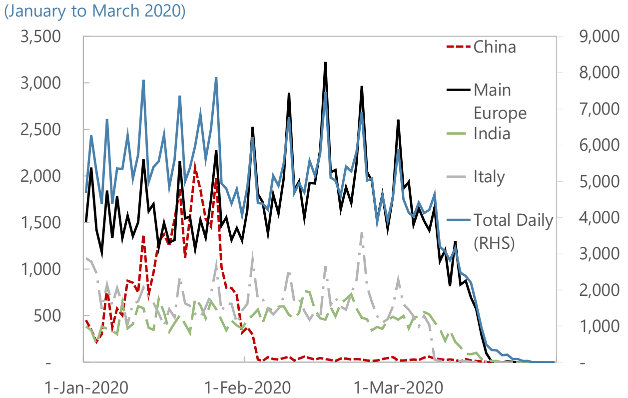
9. **The reversal in tourist arrivals to Maldives due to the COVID-19 shock is significant.** Tourist arrivals were projected to grow by around 13 percent in 2020, and actual arrivals in January 2020 recorded 14 percent growth y/y. By February 4, the first travel ban on flights from China was enforced, and Chinese arrivals fell to zero. Growth in other markets remained healthy in February, but they fell in March, initially due to travel restrictions on several countries, and then further with suspension of on-arrival visas. Growth in arrivals contracted by 20 percent during 2020Q1 with respect to 2019Q1. Assuming that restrictions on travel and on-arrival visas will be lifted in June,

Tourist Arrival Growth
(in percent)



Sources: Maldives Monetary Authority and IMF staff projections

Daily Tourist Arrivals
(January to March 2020)

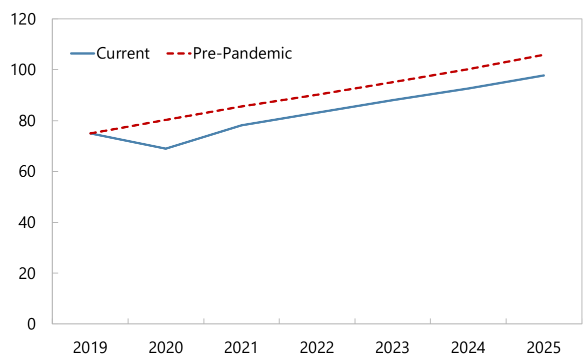


Sources: Maldives Monetary Authority

total tourist arrivals will contract by 31 percent in 2020 with respect to 2019 (39 percent fall with respect to pre-pandemic 2020 projections).

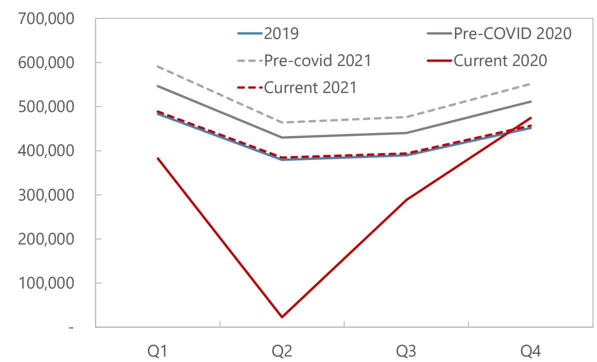
10. **GDP growth is projected to be about -8.1 percent in 2020, about 15 percentage points below the pre-pandemic growth rate, and with large downside risks.** The contraction in tourist arrivals leads to a decline in GDP of around 11.7 percentage points. Disruptions to domestic activity, particularly construction, manufacturing, and wholesale and retail trade, account for around 3.4 percentage points. This contraction in domestic activity is linked to lower tourist arrivals, lower capital flows affecting especially tourism sector-related FDI, as well as domestic disruptions related to government containment measures.[1] The social impact of the shock could be larger in the atolls away from the capital Malé since over 90 percent of poor Maldivians live in atolls.

Real GDP
(in MVR billions)



Sources: Maldives National Bureau of Statistics

Evolution of Arrivals



Sources: Ministry of Tourism and IMF staff projections

11. **The BOP gap will be around US$214 million.** The decline in tourists will lead to a loss of around US$1.46 billion in tourism receipts. Imports of goods and services related to the tourism industry will decline as a result of the shock, along with imports related to construction and manufacturing. The fall in oil and commodity prices will also reduce the import bill. Gross international reserves are projected to decline by US$173 million to US$580 million or 2 months of prospective imports.[2]

12. **The fiscal impact of COVID-19 will also be significant.** The decline in tourism will adversely affect tax revenues, which are projected to decline by about one third compared to 2019. The main source of the decline is lower tourism GST collection. Lower GDP growth and tourism would also adversely affect the business profit tax. There are increases in COVID-19 related

[1] The government declared a Public Health Emergency in March 12, 2020. There are several adopted containment measures, including suspension of on-arrival visas, quarantine for all passengers traveling to the Maldives by air except for tourists checking-in to resorts, all cruise ships are banned from entering and docking, all guest houses and city hotels are required to suspend all tourist check-ins since March 17, and school closures.

[2] At the end of March 2020, gross reserves stood at USD 741 million (about 2.6 months of prospective imports), and usable reserves at USD 369 million (0.9 months of prospective imports). Since assessing the adequacy of reserves in terms of the traditional 3-month import coverage is not very suitable for the Maldives, considering the large capital imports related to infrastructure projects and imports by the tourism sector, we calculate the BOP needs using a 2-month ratio.

expenses, such as in health expenditure (about 0.25 percent of GDP, for the purchase of medical consumables and medical equipment and the management of the quarantine facilities and the Emergency Operations Center) and in financing of subsidies and transfers. The overall fiscal deficit widens significantly from 2019, to 11.7 percent of GDP as a result of lower revenue, and despite reductions in some non-priority current expenditure as well as large cuts in capital expenditure compared with the original budget. The fiscal financing gap is estimated at around US$228 million for 2020 (4.2 percent of GDP).

C. Medium Term Recovery and Risks

13. **The speed of the recovery will depend mainly on the length of the coronavirus-related disruptions and the preservation of economic capacity.** The experience from the Global Financial Crisis (GFC) suggests that tourist arrivals and economic activity can recover very quickly since infrastructure was not damaged unlike the case of the 2004 tsunami (see text box). As the COVID-19 shock spares tourism infrastructure, arrivals can resume more quickly. Although the duration of the shock is uncertain, the nature of the shock is temporary, so preserving the capacity of the economy to receive back tourists as well as dampen the social cost of the economic adjustments are essential.

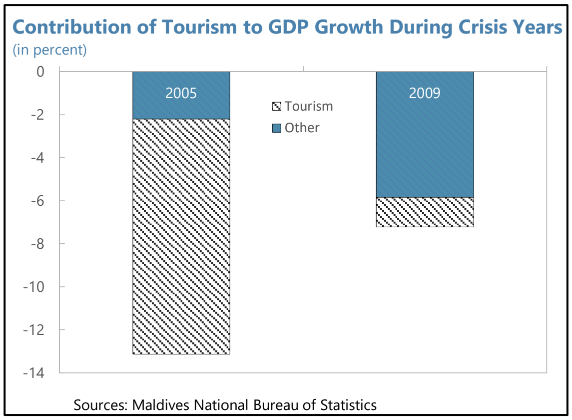
14. **However, the baseline scenario of a V-shaped recovery is subject to significant downside risks.** Key factors determining the resumption of tourist arrivals will be the lifting of travel bans and restrictions as well as the return of confidence that travel is safe in the second half of 2020. If it takes longer to bring the coronavirus spread under control, it may also take longer for travel demand to recover. Serious economic damage in Europe and other countries from which many tourists arrive, including the economic health of airline companies, could slow down the recovery in tourist arrivals. Under such circumstances, the recovery could take the shape of a fat-bottomed U, which could trigger a further decline in economic activity, adversely impacting debt sustainability, as well as potentially larger financing gaps.

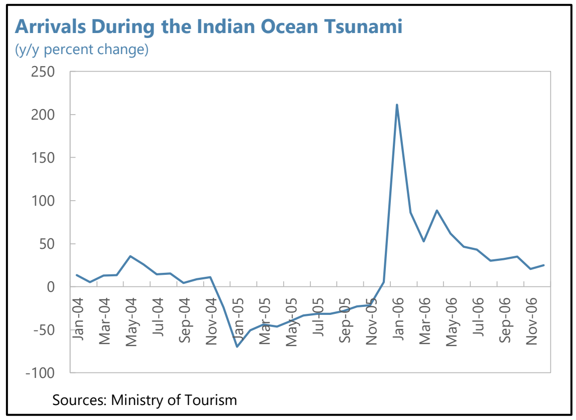
15. **Maldives remains at a high risk of debt distress.** The sustainability of public debt in the Debt Sustainability Analysis (DSA) is predicated on the authorities' commitment to reprioritize and cut capital expenditures, a V-shaped recovery in tourism, and strong medium-term growth prospects, along with the continued accumulation of liquid assets to the Sovereign Development Fund (SDF).[3] Rollover risks from the two outstanding international sovereign bonds are mitigated by two factors. First, the SDF accumulation of revenues from the Airport Development Fees and other services. Second, the preemptive voluntary extension of the US$100 million privately placed bond in Abu Dhabi by three years to 2026. Funds in the SDF are estimated to be enough to cover the US$250 million bond due in 2022, and funds accumulated up to 2026 will come close to the amount due then. Lack of full fiscal commitment would continue to leave the Maldives vulnerable to adverse shocks, as well as affect its ability to increase resilience to longer-term challenges resulting from climate change.

[3] Medium term debt paths are more favorable than in 2019 DSA due to authorities' commitments to reduce capital expenditures and lower assumed nominal interest rates due to their calibration using actual data (see DSA annex).

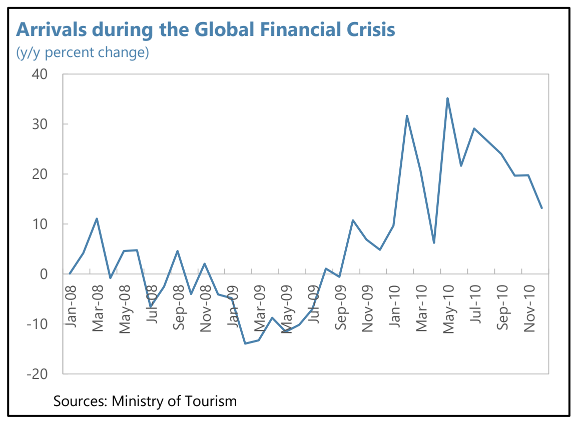
Box 1. Recovering After the Indian Ocean Tsunami and the Global Financial Crisis

The Maldives has been subject to large shocks in the recent past. The Indian Ocean Tsunami hit the Maldives on December 26, 2004. It took the lives of more than 80 people and led to estimated damages of US$470 million or 62 percent of 2004 GDP. GDP growth in 2005 was -13.1 percent with tourism contributing -10.9 percentage points. Tourist arrival growth remained negative for a year after the Tsunami, with a large rebound in January 2006.





The GFC also hit the Maldives in 2009 with GDP contracting by 7.2 percent. The tourism sector contributed less to the downturn (1.4 percentage points) than manufacturing, construction, and wholesale and retail trade (5.8 percentage points). Tourism growth was negative in the first half of 2009 and rebounded strongly after, since, unlike the 2004 tsunami, infrastructure was not affected by the GFC.



POLICY ISSUES AND DISCUSSIONS

A. Fiscal Policy

16. **Because of the high public debt and fiscal deficits, fiscal space to respond to the crisis by increasing spending and the deficit is limited.** The 2020 Budget already targeted a significant increase in capital expenditures and the deficit, accompanied by record-high grants. In the absence of a policy response, reduced tax revenues would push the deficit to an unsustainable level and could lead to pressures on the MMA to provide monetary financing.

17. **The fiscal policy response should focus on carefully designed non-priority spending reductions, and a reallocation of resources towards crisis-affected sectors**. The authorities are scaling down the implementation of the ambitious 2020 budget public investment plans. They are

completing ongoing public sector investment projects but also cancelling several new projects. The announced initial MVR 3.1 billion (3.7 percent of GDP) reduction in capital expenditure as well as non-priority recurrent expenditure by MVR 1 billion (1.2 percent of GDP) are steps in the right direction. Available resources need be directed to healthcare spending and other well-targeted measures needed to combat COVID-19, and provide temporary support to vulnerable households and businesses affected most by the crisis.[4]

18. **In the medium-term, sustained fiscal consolidation is imperative**. A balanced fiscal adjustment based on the reduction of capital spending to historical averages, recurrent expenditure discipline, and measures to boost revenues by tax administration reform and possibly improvements in the recently introduced PIT should be the centerpieces of a medium-term fiscal strategy. The DSA shows that debt is sustainable, but that the Maldives continues to be at high risk of debt distress. The sustainability of debt hinges critically on the authorities' commitment to reprioritize capital expenditure and active debt management, including accumulation of liquid assets in the SDF. Capital spending should be prioritized toward highly efficient projects as recommended by the 2015 PIMA assessment.

B. Monetary, Exchange Rate, and Financial Sector Policy

19. **The authorities should be ready to provide targeted liquidity support and temporary and targeted financial macroprudential easing.** Monetary policy has played a very limited role in the Maldives as a tool of cyclical management, and the policy response thus should focus mainly on regulatory measures and liquidity provision. To ensure continued operation of solvent firms and avoid freezing up of credit and liquidity, the MMA should closely monitor credit conditions and provide targeted liquidity support to financial institutions (fully collateralized, with applicable haircuts on assets for risk mitigation) and consider temporary easing of prudential/regulatory measures. The MMA has announced a gradual lowering, as and when needed, of reserve requirements in order to provide liquidity support to banks. In addition, the MMA has introduced a moratorium of 6 months on banking loan repayments for those affected by COVID-19. The MMA should also monitor closely foreign exchange reserves and maintain close contact with the Reserve Bank of India to activate the bilateral currency swap if needed.

20. **The banking sector is in relatively good financial health and should be able to withstand a temporary and not-protracted shock to tourism and growth.** Given banks' high liquidity and capital cushions, they are in a position to provide temporary easing in lending terms to otherwise creditworthy borrowers under temporary liquidity needs due to the exogenous shock. It is important that any government policy which allocates resources to assist distressed borrowers

[4] Staff will continue to work with the authorities to discuss the size and composition of fiscal adjustment depending on the evolving situation.

and/or banks is transparent, targeted, and clearly temporary, so as not to create moral hazard and foster poor credit risk management practices (e.g., lowering lending and provisioning standards).[5]

21. **These policies should also support the continuation of the currency peg.** In the last Article IV report, staff recommended an eventual medium-term shift from a peg to the US dollar to a currency basket peg to increase resilience to external shocks, and the MMA was undertaking technical medium-term preparations to that effect within the MMA strategy plan. However, under the current emergency circumstances, the authorities should focus on crisis management and ensure that the policy response to the crisis is consistent (e.g., no central bank monetization of fiscal deficits) with the continuation of the current exchange rate arrangement.

C. Strengthening Governance, Fiscal Transparency, and Resilience to Natural Disasters

22. **The authorities have recently been taking welcome steps to improve governance, transparency, and resilience to climate change.** There has been a welcome renewed momentum to strengthen regulations and institutions to fight corruption, but significant work remains on the agenda. The authorities have taken steps to improve fiscal transparency, including regular publication of fiscal data, as well as improving accountability, something very important to place emphasis on during the current crisis-mitigation spending. Addressing climate change-related vulnerabilities and improving buffers and policy space remain key medium-term challenges. In recognition of the importance of increasing resilience to climate change and natural disasters, the government launched in October 2019 a Strategic Action Plan which seeks to integrate climate change as a cross-cutting issue in sectoral development plans.

RATIONALE FOR RAPID CREDIT FACILITY ACCESS, ABILITY TO REPAY THE FUND, AND SAFEGUARDS ASSESSMENT

23. **Given the urgency of the situation, a RCF is the most appropriate instrument for Fund assistance to the Maldives.** The Maldives could benefit from an Extended Credit Facility (ECF) arrangement that focuses on fiscal and external sustainability, improving structural issues, and building resilience to climate change. However, given the current urgency of the need and level of uncertainty, an agreement on the parameters of a long-term Fund arrangement would take time, leaving short-term external financing needs unattended.

[5] In particular, it is key to ensure that: (i) borrowers that were already highly unlikely to repay before the COVID-19 crisis started do not unduly benefit from wide-ranging repayment holidays, and (ii) borrowers facing temporary difficulties are not disincentivized to resume loan repayment at the end of the application of the moratorium.

24. **Staff consider access at the maximum 100 percent of quota under the exogenous shock window of the RCF to be appropriate given the scale of the urgent BOP needs and the size of the economy.** At 21.2 million SDR, around US$ 28.9 million, the amount to be provided under the RCF would be equivalent to 13.5 percent of the balance of payments funding needs brought on by the pandemic**.** Other major donors, such as the WB (US$17.3 million) and the ADB (US$27.6 million), have indicated that they will provide recovery assistance on a similar or greater scale, much of it in the form of grants, so as to avoid increasing the debt burden.

25. **Capacity to repay the Fund under such access would remain adequate.** If the disbursement were to be approved according to the above parameters, the Fund's exposure to the Maldives would amount to about 0.54 percent of GDP or about 5 percent of gross international reserves in 2020. This level of access would be manageable, given the level of reserves. While the Maldives remains at high risk of debt distress, the staff judge debt to be sustainable over the medium term in a baseline that assumes rapid recovery in growth and the authorities' commitment to reprioritize and cut capital expenditures and active debt management including accumulation of liquid assets in the SDF. Significant risks to debt sustainability would arise from deviations from this favorable outlook. Staff consider the Maldives' capacity to repay the Fund adequate but subject to risks, with total Fund obligations based on existing and prospective credit peaking at 1.12 percent of exports and 3.18 percent of government revenue in 2020.

26. **The authorities have requested channeling the expected RCF disbursement to the budget.** Budget support provides the fastest way to both reduce the BOP and fiscal budget financing gaps. Consistent with standard practice and with the central bank law, it is anticipated that the allocation of the RCF would take the form of a credit to the MMA. On receipt the MMA would be expected to provide credit of an equivalent amount to the government of the Maldives.

27. **The letter of intent (LOI) signed by the authorities in conjunction with the RCF disbursement includes commitments to improve debt and macroeconomic sustainability**. This commitment is needed to ensure an orderly adjustment, without pressuring domestic credit conditions and the exchange rate regime. The authorities commit to evaluate fiscal priorities across current and capital spending and redirect the available funds as needed to combat the coronavirus and provide temporary support to the most vulnerable households and businesses. At the same time, they commit to direct monetary and financial policies to support liquidity and economic activity, while maintaining financial stability and avoiding undermining banking system soundness. The authorities will incorporate any budget support from donors through the single Treasury account to fund priority expenses and provide support to vulnerable groups. There are also commitments to avoid monetary financing of government credit operations.

28. **The 2010 safeguards assessment of the MMA will be updated in connection with the RCF disbursement**. All but one safeguards' recommendations have been implemented and the MMA continues to publish its audited financial statements. The authorities committed to undergo a safeguard assessment, including providing authorization for Fund staff to hold discussions with the central bank's external auditors, and to have access to the central bank's most recent external audit reports.

STAFF APPRAISAL

29. **The Maldivian economy is being hard hit hard by the COVID-19 outbreak, putting pressure on the BOP and the fiscal budget.** Even assuming a temporary disruption and resumption of travel in the second half of the year, tourist arrivals are projected to decline by 31 percent in 2020 and tourism receipts by around US$1.46 billion. Following an estimated 5.7 percent growth in 2019, real GDP growth is projected to decline to -8.1 percent in 2020. Gross international reserves are projected to decline to US$580 million or 2 months of imports, with a US$214 million BOP need.

30. **To minimize the economic impact, a combination of fiscal, monetary, and prudential measures has been implemented.** The MMA measures focus on preventing a tightening of liquidity conditions and assisting financial institutions so as to minimize economic disruptions. Minimum required reserves could be gradually cut as necessary, a short-term MMA credit facility made available to banks, and a temporary, transparent, and well-targeted moratorium on bank loan repayments introduced. Recurrent spending cuts and reallocation to health and income support to the vulnerable are also appropriate. However, the authorities should reduce as much as possible the infrastructure projects envisaged in the 2020 Budget in order to free resources.

31. **The Maldives is a country with high external vulnerabilities and high risk of debt distress, and medium-term policies need to be geared towards reducing these vulnerabilities.** To ensure debt sustainability, the fiscal deficit and public debt will need to be brought down significantly over the medium term by a combination of revenue measures and spending restraint, including reassessment of the ambitious pubic infrastructure investment plan. Debt sustainability hinges critically on the authorities' commitment to medium-term fiscal consolidation as well as favorable short and medium-term macro assumptions. Given the high debt distress, the authorities should continue to actively seek grant financing to help make up for the expected loss in tourism revenue and avoid a further increase in debt. Monetary policy needs to be modernized in line with the MMA Strategic Action Plan, to improve its efficiency and capacity as a tool of cyclical management.

32. **The outbreak represents a significant shock to the Maldives and staff supports the authorities' request for a RCF disbursement in the amount of 100 percent of the quota.**

Proposed Decision

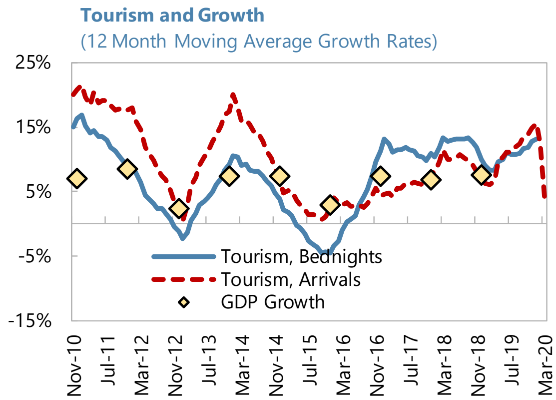
The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board.

1. Maldives has requested a loan disbursement in an amount equivalent to SDR 21.2 million (100 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.

2. The Fund notes the intentions of Maldives as set forth in the letter from the Minister of Finance and the Governor of the Maldives Monetary Authority, dated April 16, 2020, and approves the disbursement in accordance with the request.

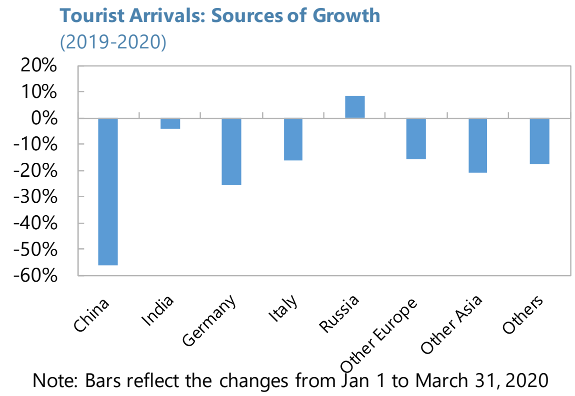
Figure 1. Maldives: Summary of Recent Developments

Until the outbreak, strong tourism supported growth....



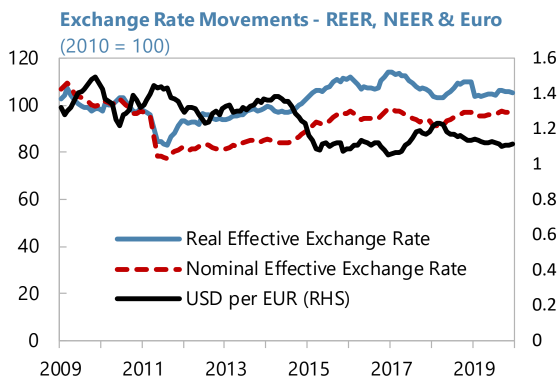
Sources: Maldivian Authorities

... but in March, arrivals stopped growing or fell sharply (China).



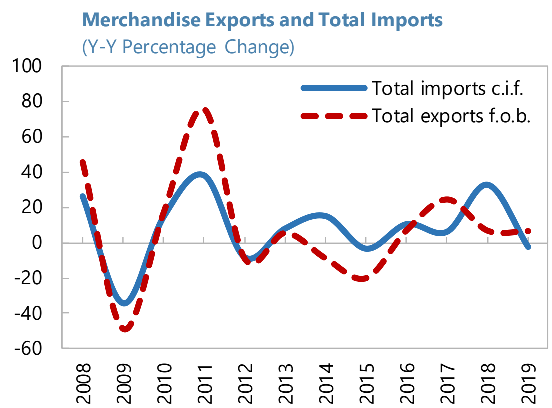
Note: Bars reflect the changes from Jan 1 to March 31, 2020 with respect to Jan 1 to March 31, 2019.
Sources: Maldivian Tourist Authority and Staff Calculations.

The REER appreciated after the devaluation in 2011 but has been depreciating since 2017



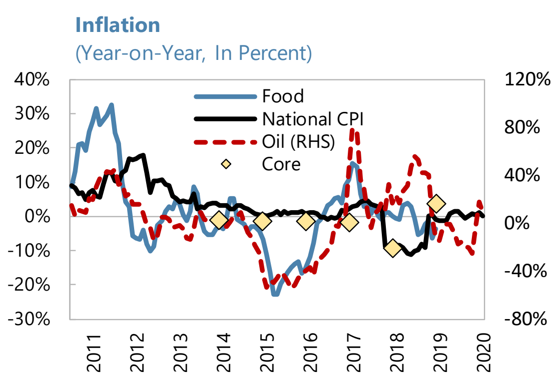
Sources: Maldivian Authorities and Staff Calculations.

Import and export growth have slowed down in 2019.



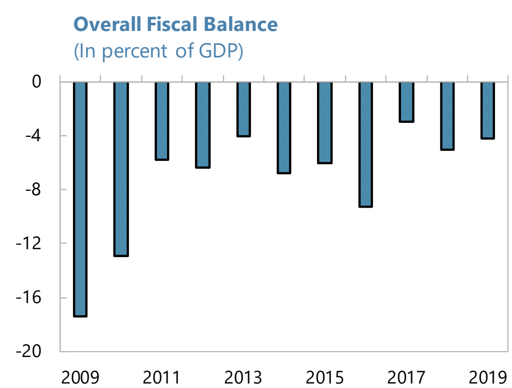
Sources: Maldivian Authorities and Staff Calculations.

CPI inflation has hovered close to zero recently.



Sources: Maldivian Authorities, WEO and Staff Calculations.

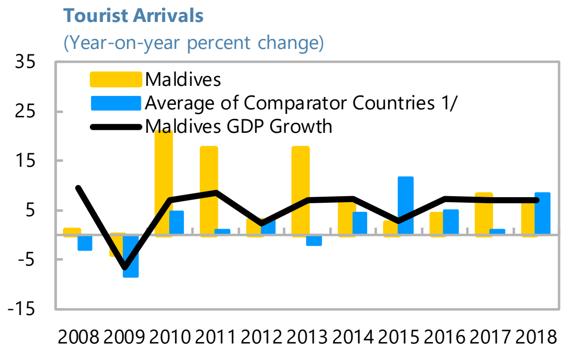
Fiscal deficits have been volatile but generally elevated.



Sources: Maldivian Authorities and Staff Calculations.

Figure 2. Maldives: Comparison with other Tourist Dependent Economies

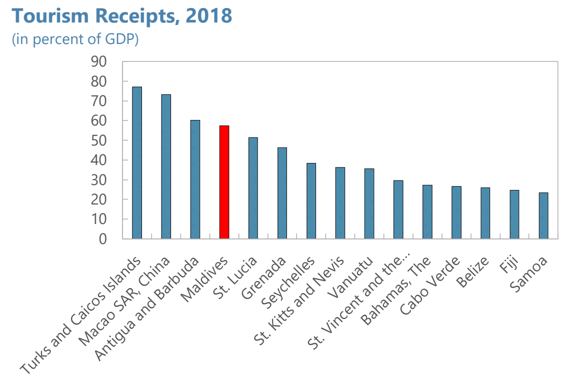
Tourist arrivals have been relatively strong….



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

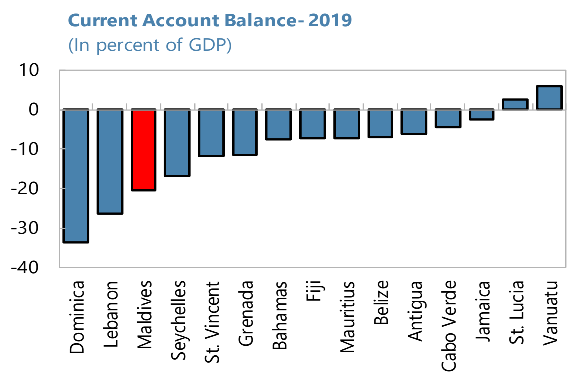
Sources: National Authorities and Staff Calculations

…with tourism receipts a relatively high share of GDP.



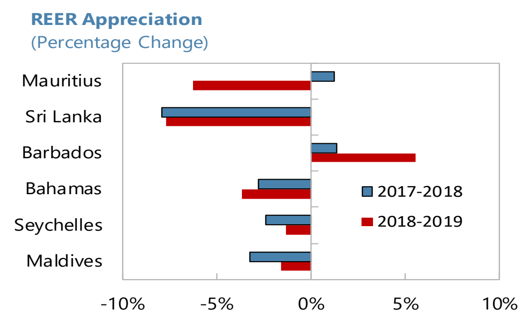
Sources: World Bank

Maldives' current account deficit is among the highest among tourist dependent countries.



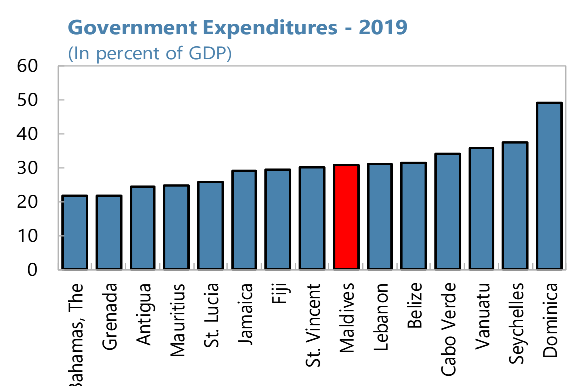
Sources: Maldivian Authorities and World Economic Outlook

Like other tourist dependent countries, REER has depreciated moderately recently.



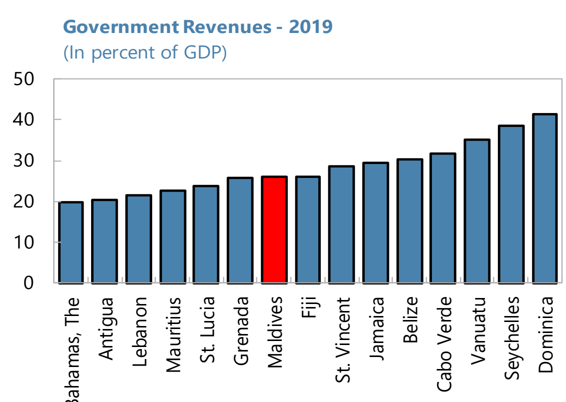
Sources: INS and Staff Calculations

Maldives' government expenditures-to-GDP ratio is broadly in line with other tourist-dependent economies…



Sources: Maldivian Authorities and World Economic Outlook

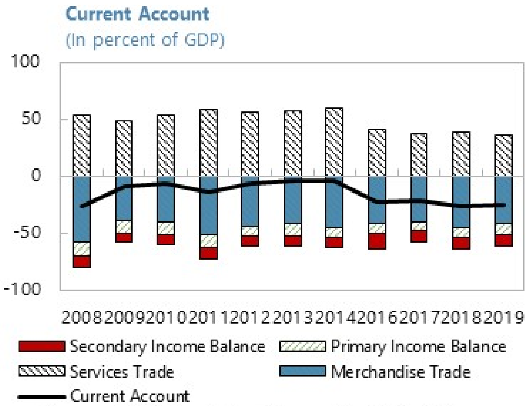
… and so is the government revenue-to-GDP ratio.



Sources: Maldivian Authorities and World Economic Outlook

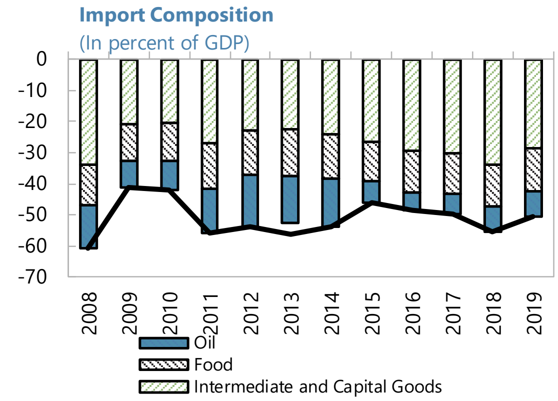
Figure 3. Maldives: External Sector Developments

The current account deficit remained high in 2019….



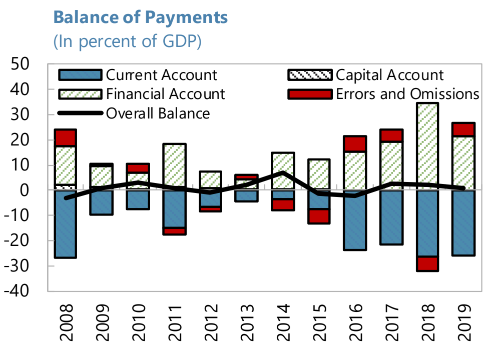
Sources: Maldivian Authorities and Staff Calculations.

… reflecting large imports for investment.



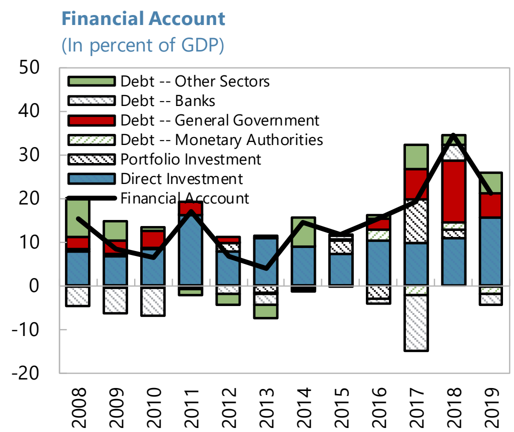
Sources: Maldivian Authorities and Staff Calculations.

The overall balance of payments was close to zero in 2019….



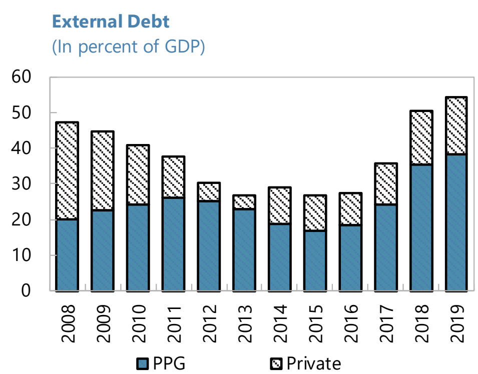
Sources: Maldivian Authorities and Staff Calculations.

…with debt and FDI the main sources of CAD financing.



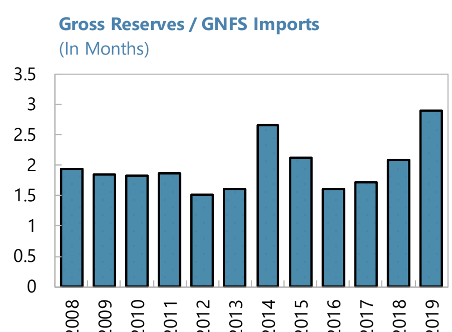
Sources: Maldivian Authorities and Staff Calculations.

External debt has been increasing as infrastructure investment picked up.



Sources: Maldivian Authorities and Staff Calculations.

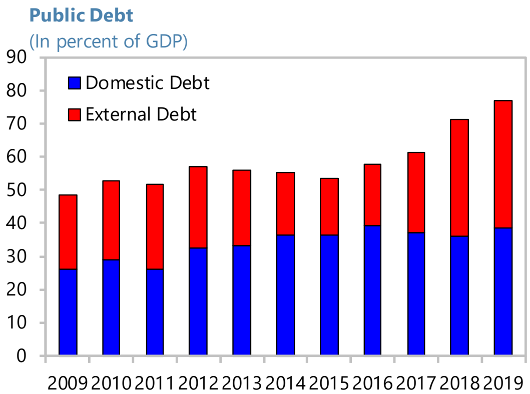
Reserve coverage improvement in 2019 reflects mainly the decline in projected imports in 2020.



Sources: Maldivian Authorities and Staff Calculations.

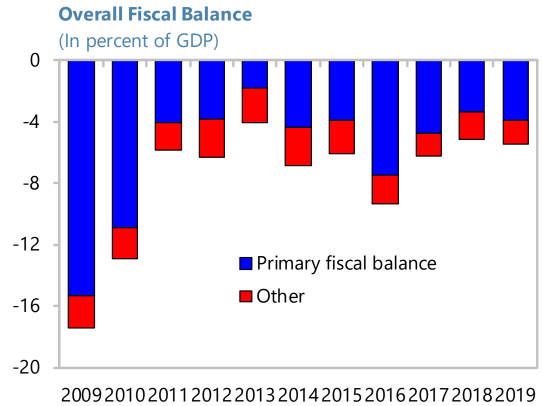
Figure 4. Maldives: Fiscal Developments

Public debt has been gradually increasing….



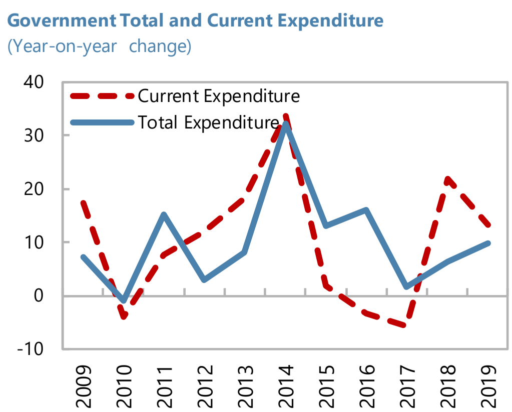
Sources: Maldivian authorities; and IMF staff estimates.

…reflecting high fiscal deficits.



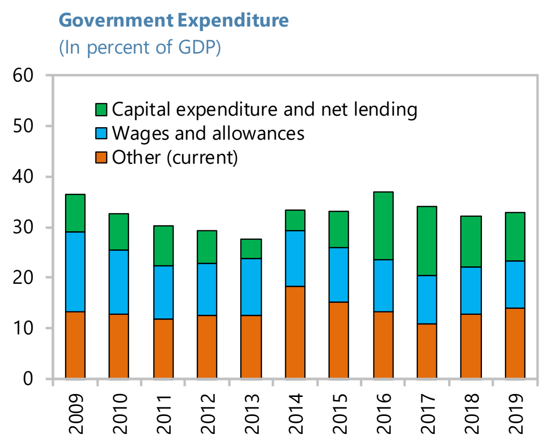
Sources: Maldivian authorities; and IMF staff estimates.

Growth in spending picked up in 2018 and 2019….



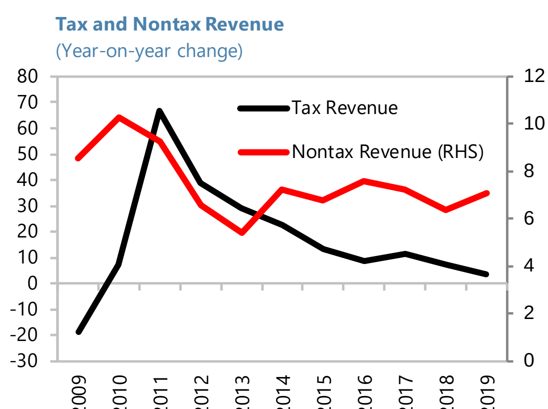
Sources: Maldivian authorities; and IMF staff estimates.

… reflecting mainly stronger growth in current spending.



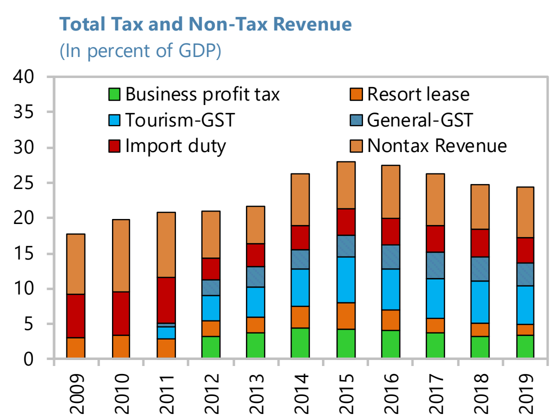
Sources: Maldivian authorities; and IMF staff estimates.

Tax revenue growth has been declining…



Sources: Maldivian authorities; and IMF staff estimates.

…resulting in falling revenue-to-GDP ratio.

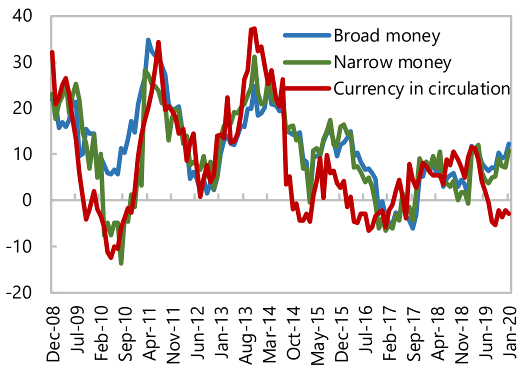


Sources: Maldivian authorities; and IMF staff estimates.

Figure 5. Maldives: Money and Credit Developments

Money growth has picked up somewhat recently.

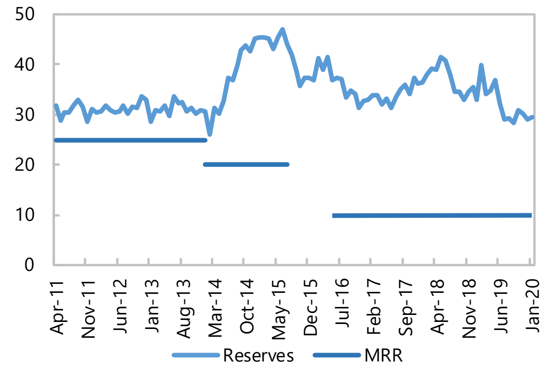
Monetary Aggegates
(Year-on-year change, in percent)



Sources: Maldivian authorities; and IMF staff estimates

Commercial banks' reserves are high.

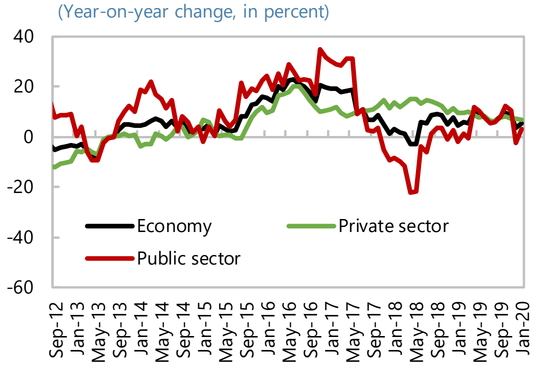
Commercial Banks' Reserves
(In percent of total deposits)



Sources: Maldivian authorities; and IMF staff estimates.

Private credit growth moderated and public sector credit picked up.

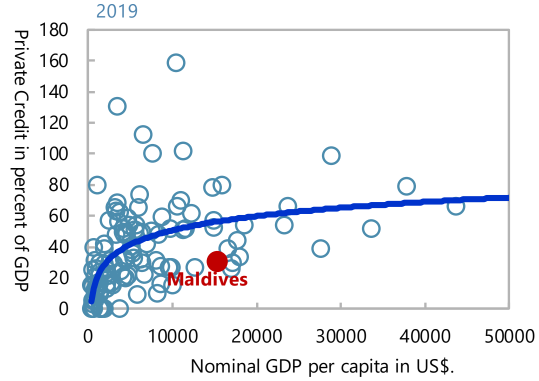
Credit
(Year-on-year change, in percent)



Sources: Maldivian authorities; and IMF staff estimates.

Private credit-to-GDP ratio remains relatively low.

Private Credit, Emerging Markets and LICs
2019

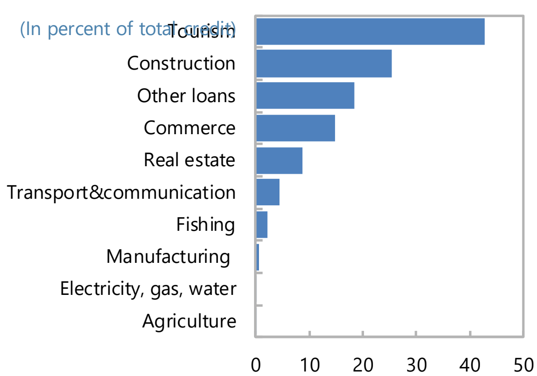


Sources: IMF *World Economic Outlook* and IFS database.

Tourism and construction are the top credit recipients....

Sectoral Composition of Private Credit, 2019

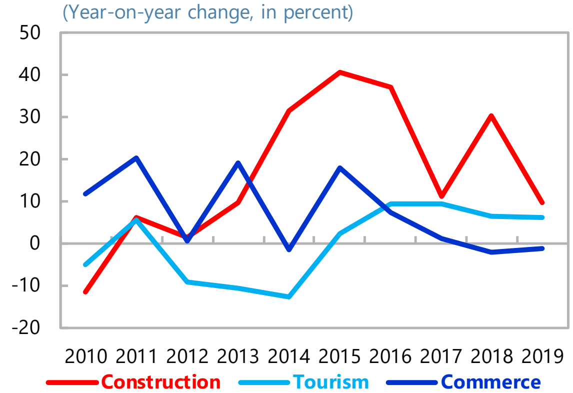
(In percent of total credit)



Sources: Authorities data and IMF staff calculations.

...though credit growth has been slowing down.

Private Sector Credit by Industries
(Year-on-year change, in percent)



Sources: Authorities data and IMF staff calculations.

Table 1. Maldives: Selected Economic Indicators, 2016–25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Prel.	Proj.					
Output and prices	(Annual percentage change)									
Real GDP	6.3	6.8	6.9	5.7	-8.1	13.2	6.4	5.9	5.4	5.4
Inflation (end-of-period) 1/	1.8	2.2	0.5	1.3	1.4	2.1	2.0	2.0	2.0	2.0
Inflation (period average) 1/	0.8	2.3	1.4	1.3	1.5	1.5	2.0	2.0	2.0	2.0
GDP deflator	0.2	1.4	2.0	2.0	2.4	2.5	2.0	2.0	2.0	2.0
Central government finances	(In percent of GDP)									
Revenue and grants	27.5	27.8	27.1	27.3	19.4	23.7	25.1	26.0	26.3	26.4
Expenditure and net lending	36.9	34.1	32.2	32.1	31.2	29.8	30.1	29.8	29.6	29.3
Overall balance	-9.3	-6.3	-5.1	-4.8	-11.7	-6.2	-4.9	-3.8	-3.3	-2.9
Overall balance excl. grants	-9.6	-6.6	-6.1	-6.2	-14.3	-7.6	-5.9	-4.4	-3.9	-3.5
Financing	9.3	6.3	5.1	4.8	11.7	6.2	4.9	3.8	3.3	2.9
Foreign	2.6	4.2	3.9	1.5	3.0	3.0	2.7	2.0	1.5	0.8
Domestic 2/	6.7	2.1	1.2	3.3	8.7	3.1	2.2	1.8	1.8	2.0
Primary balance	-7.4	-4.8	-3.3	-3.1	-10.1	-4.4	-3.1	-1.9	-1.4	-1.1
Public and publicly guaranteed debt	57.7	61.3	71.3	76.9	93.9	87.3	85.4	83.0	80.7	78.1
Monetary accounts	(Annual percentage change)									
Broad money	-0.2	5.2	3.4	7.8	-5.9	16.0	8.5	8.0	7.5	7.5
Domestic credit	19.7	1.7	5.2	3.8	-3.1	10.3	6.0	5.9	5.6	5.8
Balance of payments	(In percent of GDP, unless otherwise indicated)									
Current account	-23.6	-21.7	-26.4	-26.1	-23.1	-11.8	-9.2	-9.1	-9.3	-9.0
Of which:										
Exports	5.9	6.7	6.4	6.3	6.3	6.3	6.5	6.3	6.2	6.1
Imports	-48.0	-47.1	-51.9	-48.0	-32.8	-31.2	-32.3	-33.3	-34.3	-33.5
Tourism receipts (in nonfactor services, net)	57.4	58.0	54.9	58.8	41.7	53.0	54.7	55.7	55.9	56.2
Income (net)	-8.1	-7.9	-9.3	-9.7	-5.0	-6.6	-6.3	-6.4	-6.4	-6.3
Current transfers	-14.4	-9.9	-9.3	-10.1	-8.3	-9.7	-9.9	-10.0	-9.9	-9.7
Capital and financial account (including e&o)	21.4	24.2	28.7	26.8	16.0	14.2	9.7	12.5	10.6	9.9
Of which:										
General government, net	2.6	7.0	13.9	5.5	6.9	3.0	2.7	2.0	1.5	0.9
Banks and other sectors, net	-0.1	-7.5	5.8	2.1	2.1	2.2	1.5	1.2	0.4	0.3
Overall balance	-2.2	2.5	2.4	0.7	-7.2	2.3	0.5	3.4	1.3	0.8
Gross international reserves (in millions of US$; e.o.p.)	468	588	712	753	580	724	758	1,007	1,110	1,178
In months of GNFS imports	1.6	1.7	2.1	2.9	2.0	2.3	2.2	2.7	2.8	2.8
Exchange rate (rufyiaa/US$, e.o.p.)	15.4	15.4	15.4	15.4	…	…	…	…	…	…
Memorandum items:										
GDP (in millions of rufiyaa)	67,300	72,873	81,994	88,365	83,179	96,513	104,753	113,181	121,659	130,787
GDP (in millions of U.S. dollars)	4,367	4,729	5,321	5,738	5,398	6,263	6,798	7,345	7,900	8,493
Tourism bednights (000')	7,771	8,596	9,477	10,689	7,121	10,517	11,779	12,957	13,994	15,113
Tourist arrivals (000')	1,286	1,386	1,484	1,703	1,167	1,724	1,931	2,124	2,294	2,478
Tourism bednights (% change)	6.1	10.6	10.2	12.8	-33.4	47.7	12.0	10.0	8.0	8.0
Tourist arrivals (% change)	4.2	7.8	7.1	14.7	-31.4	47.7	12.0	10.0	8.0	8.0
Dollarization ratio (FC deposits in percent of broad money)	48.5	48.7	48.8	52.9	…	…	…	…	…	…

Sources: Maldivian authorities and IMF staff projections.
1/ CPI-Male definition.
2/ Domestic financing includes SDF contribution and in 2020 financing gap.

Table 2a. Maldives: Central Government Finances, 2016–25

(In millions of Rufiyaa)

	2016 Actual	2017 Actual	2018 Actual	2019 Prel.	2020 Proj.	2021	2022	2023	2024	2025
Total revenue and grants	18537	20259	22192	23980	16176	22861	26313	29458	31965	34525
Revenue (excluding privatization receipts)	18348	20042	21372	22787	14019	21474	25312	28688	31195	33755
Tax revenue	13219	14743	15803	16529	10432	15905	18673	21044	22986	24937
Import duties	2487	2799	3122	3411	2096	2591	3019	3398	3814	4102
Airport service charge	538	696	645	731	450	797	893	982	1061	1145
Business profit tax (BPT)	2748	2677	2711	2899	1519	2610	3153	3598	4022	4496
Remittance Tax	15	114	102	103	154	211	223	235	246	258
Goods and services tax (GST)	6249	6882	7686	7748	4778	7912	9393	10625	11453	12347
Of which: General GST	2328	2683	2903	2845	1909	3016	3723	4223	4539	4879
Tourism GST	3921	4199	4783	4903	2869	4897	5670	6402	6915	7468
Tourism tax ($6 green tax)	623	706	811	851	658	972	1089	1198	1294	1397
Other	560	868	728	786	776	810	903	1008	1096	1191
Nontax revenue	5114	5265	5203	6259	3518	5547	6615	7618	8180	8786
Grants	188	217	820	1138	2157	1387	1002	771	771	771
Expenditure and net lending	24821	24820	26378	28208	25922	28803	31485	33712	35958	38305
Current expenditure	15843	14956	18228	20634	19513	22348	24423	26129	27809	29544
Of which: Salaries and allowances	6962	6972	7677	8293	7388	9072	9847	10532	11208	11929
Administrative Services	1653	1597	1793	1843	1701	2269	2709	3027	3254	3498
Social welfare contributions	2160	1701	2417	3361	3069	2779	2950	3124	3373	3643
Repairs and maintenance	312	212	220	391	261	345	422	473	531	542
Subsidies and transfers	1608	1797	2645	2823	2760	3155	3350	3545	3737	3966
Interest	1271	1097	1440	1535	1332	1723	1960	2134	2268	2375
Other	1878	1580	2036	2389	3002	3006	3186	3292	3438	3591
Capital expenditure	8614	9926	8254	7813	6634	6715	7345	7889	8478	9114
Net lending	364	-62	-104	-75	-306	-329	-353	-380	-408	-438
Overall balance	-6284	-4561	-4186	-4229	-9746	-5942	-5172	-4254	-3993	-3779
Overall balance, excluding grants	-6473	-4778	-5006	-5421	-11903	-7329	-6173	-5025	-4763	-4550
Financing	6284	4561	4186	4229	9746	5942	5172	4254	3993	3779
External	1770	3042	3176	1307	2508	2910	2848	2231	1822	1101
Domestic	4515	1519	1011	2922	7238	3032	2324	2023	2171	2679
of which: SDF contribution 1/	0	-337	-1315	-1315	1620	-700	1232	-400	-400	-300
Financing gap	0	0	0		3518	0	0	0	0	0
Memorandum items:										
Current balance	2505	5366	3144	2153	-5494	-874	888	2559	3386	4211
Primary balance	-5014	-3464	-2746	-2693	-8413	-4219	-3212	-2120	-1725	-1405
Current primary balance	3776	6462	4584	3688	-4162	848	2848	4693	5654	6586

Sources: Maldivian authorities; and IMF staff projections.
1/ Transfers to the Sovereign Development Fund are recorded as negative domestic financing, and withdrawals as positive financing.

Table 2b. Maldives: Central Government Finances, 2016–25
(In percent of GDP, unless otherwise specified)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Actual	Actual	Actual	Prel.			Projection			
Total revenue and grants	27.5	27.8	27.1	27.3	19.4	23.7	25.1	26.0	26.3	26.4
Revenue (excluding privatization receipts)	27.3	27.5	26.1	25.9	16.9	22.2	24.2	25.3	25.6	25.8
Tax revenue	19.6	20.2	19.3	18.8	12.5	16.5	17.8	18.6	18.9	19.1
Import duties	3.7	3.8	3.8	3.9	2.5	2.7	2.9	3.0	3.1	3.1
Airport service charge	0.8	1.0	0.8	0.8	0.5	0.8	0.9	0.9	0.9	0.9
Business profit tax (BPT)	4.1	3.7	3.3	3.3	1.8	2.7	3.0	3.2	3.3	3.4
Remittance Tax	0.0	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Goods and services tax (GST)	9.3	9.4	9.4	8.8	5.7	8.2	9.0	9.4	9.4	9.4
Of which: General GST	3.5	3.7	3.5	3.2	2.3	3.1	3.6	3.7	3.7	3.7
Tourism GST	5.8	5.8	5.8	5.6	3.4	5.1	5.4	5.7	5.7	5.7
Tourism tax ($6 green tax)	0.9	1.0	1.0	1.0	0.8	1.0	1.0	1.1	1.1	1.1
Other	0.8	1.2	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.9
Nontax revenue	7.6	7.2	6.3	7.1	4.2	5.7	6.3	6.7	6.7	6.7
Grants	0.3	0.3	1.0	1.3	2.6	1.4	1.0	0.7	0.6	0.6
Expenditure and net lending	36.9	34.1	32.2	32.1	31.2	29.8	30.1	29.8	29.6	29.3
Current expenditure	23.5	20.5	22.2	23.5	23.5	23.2	23.3	23.1	22.9	22.6
Of which: Salaries and allowances	10.3	9.6	9.4	9.4	8.9	9.4	9.4	9.3	9.2	9.1
Administrative Services	2.5	2.2	2.2	2.1	2.0	2.4	2.6	2.7	2.7	2.7
Social welfare contributions	3.2	2.3	2.9	3.8	3.7	2.9	2.8	2.8	2.8	2.8
Repairs and maintenance	0.5	0.3	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Subsidies and transfers	2.4	2.5	3.2	3.2	3.3	3.3	3.2	3.1	3.1	3.0
Interest	1.9	1.5	1.8	1.7	1.6	1.8	1.9	1.9	1.9	1.8
Other	2.8	2.2	2.5	2.7	3.6	3.1	3.0	2.9	2.8	2.7
Capital expenditure	12.8	13.6	10.1	8.9	8.0	7.0	7.0	7.0	7.0	7.0
Net lending	0.5	-0.1	-0.1	-0.1	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3
Overall balance	-9.3	-6.3	-5.1	-4.8	-11.7	-6.2	-4.9	-3.8	-3.3	-2.9
Overall balance, excluding grants	-9.6	-6.6	-6.1	-6.2	-14.3	-7.6	-5.9	-4.4	-3.9	-3.5
Financing	9.3	6.3	5.1	4.8	11.7	6.2	4.9	3.8	3.3	2.9
External	2.6	4.2	3.9	1.5	3.0	3.0	2.7	2.0	1.5	0.8
Domestic	6.7	2.1	1.2	3.3	8.7	3.1	2.2	1.8	1.8	2.0
of which: SDF contribution 1/	0.0	-0.5	-1.6	-1.5	1.9	-0.7	1.2	-0.4	-0.3	-0.2
Financing gap	0.0	0.0	0.0	0.0	4.2	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current balance	3.7	7.0	3.8	2.5	-6.6	-0.9	0.8	2.3	2.8	3.2
Primary balance	-7.4	-4.8	-3.3	-3.1	-10.1	-4.4	-3.1	-1.9	-1.4	-1.1
Current primary balance	5.6	8.5	5.6	4.2	-5.0	0.9	2.7	4.1	4.6	5.0
Public and publicly guaranteed debt	57.7	61.3	71.3	76.9	93.9	87.3	85.4	83.0	80.7	78.1
Domestic	39.2	37.2	35.9	38.6	44.3	40.9	42.9	41.2	40.2	39.6
External (excl. IMF and currency swaps by MMA)	18.5	24.1	35.3	38.3	49.6	46.4	42.6	41.8	40.5	38.5
GDP (in millions of rufiyaa)	67,300	72,873	81,994	87,837	83,179	96,513	104,753	113,181	121,659	130,787

Sources: Maldivian authorities; and IMF staff projections.

1/ Transfers to the Sovereign Development Fund are recorded as negative domestic financing, and withdrawals as positive financing.

Table 3. Maldives: Monetary Accounts, 2016–25

(In millions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Prel.	Proj.					
	(In millions of rufiyaa, e.o.p.)									
Net foreign assets	7,790	10,292	10,511	16,591	14,034	16,408	17,076	21,048	22,762	23,961
Maldives Monetary Authority, net	5,248	8,603	9,780	11,257	8,624	10,883	11,440	15,299	16,897	17,978
Assets	7,182	9,041	11,686	11,604	8,933	11,158	11,685	15,516	17,091	18,151
Liabilities	-1,934	-438	-1,906	-347	-309	-275	-245	-218	-194	-172
Commercial banks, net	2,542	1,689	731	5,335	5,410	5,524	5,636	5,749	5,865	5,983
Net domestic assets	22,646	21,715	22,577	19,068	19,533	22,540	25,197	24,626	26,332	28,817
Domestic credit	36,002	36,627	38,520	39,991	38,767	42,750	45,329	47,989	50,694	53,613
Public sector	16,981	14,760	14,880	14,567	14,795	15,043	15,314	15,613	15,943	16,305
Central government (net)	13,430	11,722	12,389	12,585	12,786	12,991	13,221	13,456	13,698	13,947
Public enterprises	3,551	3,037	2,492	1,981	2,009	2,052	2,093	2,157	2,244	2,358
Private sector	18,591	21,295	22,969	24,754	23,301	27,037	29,345	31,706	34,080	36,638
Other items (net)	-13,356	-14,911	-15,943	-20,923	-19,235	-20,210	-20,132	-23,364	-24,361	-24,796
Broad money	30,436	32,007	33,088	35,659	33,567	38,948	42,273	45,674	49,095	52,779
Narrow money	13,467	14,471	14,579	15,712	14,790	17,161	18,626	20,125	21,632	23,255
Currency	2,695	2,914	3,057	3,057	3,057	3,057	3,057	3,057	3,057	3,057
Demand deposits	10,772	11,558	11,522	12,655	11,733	14,104	15,569	17,068	18,575	20,198
Quasi-money	16,968	17,536	18,509	19,947	18,777	21,786	23,646	25,549	27,463	29,523
	(Annual percentage change, unless otherwise indicated)									
Broad money	-0.2	5.2	3.4	7.8	-5.9	16.0	8.5	8.0	7.5	7.5
Narrow money	1.0	7.5	0.7	7.8	-5.9	16.0	8.5	8.0	7.5	7.5
Domestic credit, net	19.7	1.7	5.2	3.8	-3.1	10.3	6.0	5.9	5.6	5.8
Central government	17.1	-12.7	5.7	1.6	1.6	1.6	1.8	3.6	1.8	1.8
Public enterprises	137.8	-14.5	-18.0	-20.5	1.4	2.1	2.0	3.0	4.1	5.1
Private sector	10.5	14.5	7.9	7.8	-5.9	16.0	8.5	8.0	7.5	7.5
	(In percent of GDP)									
Broad money	45.2	43.9	40.4	40.4	40.4	40.4	40.4	40.4	40.4	40.4
Narrow money	20.0	19.9	17.8	17.8	17.8	17.8	17.8	17.8	19.1	20.5
Domestic credit, net	53.5	50.3	47.0	45.3	46.6	44.3	43.3	42.4	44.8	47.4
Central government	20.0	16.1	15.1	14.2	15.4	13.5	12.6	11.9	12.1	12.3
Public enterprises	5.3	4.2	3.0	2.2	2.4	2.1	2.0	1.9	2.0	2.1
Private sector	27.6	29.2	28.0	28.0	28.0	28.0	28.0	28.0	30.1	32.4
	(In millions of U.S. dollars)									
Gross foreign assets of MMA	468	588	712	753	580	724	758	1,007	1,110	1,178
Usable reserves	199	207	282	316	151	269	296	499	583	639
Commercial banks NFA	165	110	47	346	351	358	366	373	381	388
Commercial banks forex open position, net	571	536	575	583	591	603	616	628	641	654
Memorandum items:										
Velocity	2.2	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Money multiplier	3.4	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Reserve money (in millions of rufiyaa, e.o.p.)	8,978	10,683	11,530	12,426	11,697	13,572	14,731	15,916	17,108	18,392

Sources: Maldivian authorities; and IMF staff projections.

Table 4. Maldives: Balance of Payments, 2016–25

(In millions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Prel.	Prel.	Proj.					
Current account	-1,032	-1,026	-1,405	-1,498	-1,249	-742	-627	-666	-734	-767
Balance of goods and nonfactor services	-51	-182	-420	-362	-528	278	476	539	549	594
Trade balance	-1,839	-1,908	-2,425	-2,392	-1,429	-1,555	-1,754	-1,980	-2,215	-2,324
Exports (f.o.b.)	256	318	339	361	340	397	440	466	491	518
Domestic exports	140	231	229	217	192	239	272	305	346	396
Re-exports	117	87	110	144	148	158	168	179	191	203
Imports (f.o.b.)	-2,095	-2,227	-2,764	-2,753	-1,768	-1,952	-2,194	-2,447	-2,707	-2,842
Tourism-related	-346	-362	-382	-450	-297	-439	-491	-540	-584	-630
Other	-1,749	-1,864	-2,382	-2,303	-1,471	-1,513	-1,703	-1,906	-2,123	-2,212
Of which: Construction	-282	-336	-451	-406	-231	-232	-266	-299	-337	-366
Nonfactor services, net	1,788	1,726	2,005	2,030	900	1,833	2,230	2,519	2,764	2,918
Of which: Travel receipts	2,506	2,742	2,923	3,375	2,249	3,321	3,720	4,092	4,419	4,772
Income, net	-353	-375	-492	-558	-272	-415	-427	-469	-504	-537
Current transfers, net	-629	-469	-493	-578	-448	-605	-676	-736	-779	-824
Receipts	45	62	72	92	140	90	65	50	50	50
Payments	-674	-531	-564	-671	-588	-695	-741	-786	-829	-874
Capital and financial account	673	913	1,835	1,217	862	886	661	915	837	839
Financial account	673	913	1,835	1,217	862	886	661	915	837	839
Of which: 1/										
Foreign direct investment, net	457	458	576	891	324	532	591	639	687	738
Portfolio investment, net	-132	479	103	-2	50	30	-219	40	0	0
Other investment, net	349	-25	1,156	328	488	324	289	236	150	101
Monetary authorities 2/	99	-100	100	-100	0	0	0	0	0	0
General government	115	332	742	317	372	189	185	145	118	73
Of which: Disbursements of loans	164	397	786	457	446	303	332	304	316	339
Amortization	-49	-65	-44	-140	-73	-114	-148	-159	-198	-267
Banks	105	-488	65	-83	-12	7	7	7	8	8
Other sectors 3/	-110	133	244	205	128	128	97	84	24	20
Errors and omissions	263	234	-305	323	0	0	0	0	0	0
Overall balance	-96	120	125	42	-387	144	34	249	102	72
Gross international reserves (increase: -)	96	-120	-124	-41	173	-144	-34	-249	-102	-69
Use of Fund credit, net	-1	-1	-1	-1	28.7	0	0	0	0	-3
Purchases	0	0	0	0	28.9	0	0	0	0	0
Repurchases	-1	-1	-1	-1	0	0	0	0	0	-3
Exceptional financing	0	0	0	0	0	0	0	0	0	0
Financing gap 4/	0	0	0	0	213.9	0	0	0	0	0
Of which: IMF	0	0	0	0	28.9	0	0	0	0	0
World Bank	0	0	0	0	17.3	0	0	0	0	0
ADB	0	0	0	0	27.6	0	0	0	0	0
OFID	0	0	0	0	20.0	0	0	0	0	0
IFC	0	0	0	0	50.0	0	0	0	0	0
Other (unidentified)	0	0	0	0	70.1	0	0	0	0	0
Memorandum items:										
Gross international reserves (stock; e.o.p.)	468	588	712	753	580	724	758	1,007	1,110	1,178
In months of GNFS imports	1.6	1.7	2.1	2.9	2.0	2.3	2.2	2.7	2.8	2.8
In percent of short-term debt at remaining maturity	221	209	449	278	272	266	133	290	282	251
Usable reserves (stock; e.o.p.)	199	207	282	316	151	269	297	500	583	639
In percent of short-term debt at remaining maturity	94	73	178	117	71	99	52	144	148	136
Current account (in percent of GDP)	-23.6	-21.7	-26.4	-26.1	-23.1	-11.8	-9.2	-9.1	-9.3	-9.0
GNFS balance (in percent of GDP)	-1.2	-3.9	-7.9	-6.3	-9.8	4.4	7.0	7.3	7.0	7.0
Exports (volume, percent change)	-8.3	21.3	5.0	10.8	4.0	17.3	11.6	6.5	4.6	4.7
Imports (volume, percent change)	16.8	1.1	18.2	-0.2	-30.0	10.3	11.1	10.3	8.9	3.6
Tourism: bednights (percent change)	6.1	10.6	10.2	12.8	-33.4	47.7	12.0	10.0	8.0	8.0
Tourism: travel receipts (percent change)	-2.5	9.4	6.6	15.5	-33.4	47.7	12.0	10.0	8.0	8.0
External debt (in percent of GDP) 5/	27.5	35.6	50.4	54.2	69.0	65.3	61.5	60.6	58.3	55.5
of which: External PPG	18.5	24.1	35.3	38.3	49.6	46.4	42.6	41.8	40.5	38.5
Short-term	2.7	3.5	0.8	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Debt service (in percent of domestic GNFS exports)	4.8	5.4	6.7	10.4	11.4	10.4	17.0	10.6	10.9	11.6
Exchange rate (rufiyaa per U.S. dollar; average)	15.4	15.4	15.4	15.4	...	...	...	...	...	...
GDP (in millions of U.S. dollars)	4,367	4,729	5,321	5,734	5,398	6,263	6,798	7,345	7,895	8,487

Sources: Maldivian authorities; and IMF staff projections.

1/ There are no capital transfers.

2/ MMA liabilities include swaps with the RBI.

3/ These flows include external borrowing of the private sector.

4/ Identified amounts are not necessarily fully approved.

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

Table 5. Maldives: Selected Financial Soundness Indicators, 2013–2019
(In percent, unless otherwise specified)

	2013	2014	2015	2016	2017	2018	2019
			(In percent)				
Core FSIs							
Regulatory capital to risk weighted assets	41.1	44.5	37.2	44.5	44.6	44.2	46.8
Regulatory Tier 1 capital to risk-weighted assets	31.3	34.5	30.0	34.4	36.3	35.9	38.8
Non-performing loans net of provisions to capital	8.0	11.1	3.0	2.4	3.3	2.4	3.4
Non-performing loans to total gross loans	17.6	17.5	14.1	10.6	10.5	8.9	9.4
Return on assets	6.5	4.2	3.4	4.7	3.7	3.7	4.9
Return on equity	30.0	19.7	16.5	19.6	15.3	15.5	19.4
Interest margin to gross income	55.9	65.5	60.7	64.9	64.3	63.3	63
Non-interest expenses to gross income	25.9	26.4	30.1	27.7	30.7	30.7	30.7
Liquid assets to total assets	19.3	43.4	43.1	48.4	44.3	43.1	43.9
Liquid assets to short-term liabilities	25.4	57.6	56.3	66.8	62.3	60.7	61.4
Net open position in FX to capital	34.3	30.9	21.0	13.4	12.0	12.4	…
Sectoral distribution of loans							
Domestic residents	100.0	97.7	96.6	97.0	98.6	99.6	…
Deposit takers	0.0	0.0	0.0	0.0	0.0	0.0	…
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	…
Other financial corporations	0.6	1.7	1.6	2.1	2.3	2.6	…
General government	3.3	0.8	0.3	0.2	1.8	0.1	…
Nonfinancial corporations	74.9	70.5	67.7	64.1	59.9	58.7	…
Households	21.1	24.7	27.0	30.7	34.6	38.2	…
Nonresidents	0.0	2.3	3.4	3.0	1.4	0.4	…
Additional FSIs							
Capital to assets (leverage ratio)	16.1	21.3	20.5	23.7	24.1	23.9	…
Large exposures to capital	133.3	108.3	126.2	134.3	73.6	74.5	…
Gross assets position in derivatives to capital	0.0	0.0	0.0	0.0	0.0	0.0	…
Gross liabilities position in derivatives to capital	0.0	0.0	0.0	0.0	0.0	0.0	…
Trading income to total income	0.0	0.0	0.0	0.0	0.0	0.0	…
Personnel expenses to total income	0.0	38.3	34.7	36.5	35.7	36.3	…
Customer deposits to total non-interbank loans	0.0	158.8	157.5	143.9	130.4	129.4	…
FX loans to total loans	0.0	57.5	61.3	57.8	52.3	50.2	…
FX liabilities to total liabilities	0.0	58.5	55.7	53.0	53.5	54.2	…

Sources: IMF Financial Soundness Indicators, MMA Monthly Statistics for 2019.

Table 6. Maldives: External Financing Requirements and Sources, 2020–2025

(In millions of U.S dollars, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025
Financing Requirements	**1462.3**	**945.9**	**1089.0**	**975.3**	**982.0**	**1086.8**
Current account deficit excluding grants	1388.8	831.7	691.9	716.1	784.4	817.2
Public sector loan amortization	73.4	114.1	397.1	259.3	197.6	266.6
of which: Eurobond amortization	0.0	0.0	249.5	99.8	0.0	0.0
Interest and amortization payments on existing Fund loans	0.2	0.0	0.0	0.0	0.0	3.0
Financing Sources	**1248.4**	**945.9**	**1089.0**	**975.3**	**982.0**	**1086.8**
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0
Net foreign direct investment	323.9	532.4	591.4	639.0	686.8	738.4
Porfolio inflows	50.0	30.0	30.5	139.8	0.0	0.0
Public sector grants	140.0	90.0	65.0	50.0	50.0	50.0
Public sector loan disbursements	445.6	303.0	332.5	304.3	315.8	339.5
Other capital flows (net)	115.7	135.0	103.9	91.0	31.6	27.7
Change in reserves (+ decrease)	173.3	-144.5	-34.3	-248.8	-102.3	-68.9
Financing Gap 1/	**213.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financing from IMF (RCF disbursement)	28.9	0.0	0.0	0.0	0.0	0.0
World Bank	17.3	0.0	0.0	0.0	0.0	0.0
ADB	27.6	0.0	0.0	0.0	0.0	0.0
OFID	20.0	0.0	0.0	0.0	0.0	0.0
IFC	50.0	0.0	0.0	0.0	0.0	0.0
Other (unidentified)	70.1	0.0	0.0	0.0	0.0	0.0

1/ Identified amounts are not necessarily fully approved.

Sources: Maldivian authorities; and IMF staff projections.

Table 7. Maldives: Indicators of Capacity to Repay the Fund, 2020–2030

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credit											
(in millions of SDRs)											
Principal	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Charges and interest	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fund obligations based on existing and prospective credit											
(in millions of SDRs)											
Principal	0.10	0.00	0.00	0.00	0.00	2.12	4.24	4.24	4.24	4.24	2.12
Charges and interest	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Fund obligations based on existing credit											
In millions of SDRs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
In percent of IMF Quota	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Fund obligations based on existing and prospective credit											
In millions of SDRs	21.20	21.20	21.20	21.20	21.20	19.08	14.84	10.60	6.36	2.12	0.00
In millions of USD	28.89	29.42	29.52	29.60	29.68	26.81	20.85	14.89	8.94	2.98	0.00
In percent of government revenue	3.18	2.11	1.80	1.59	1.47	1.22	0.89	0.59	0.33	0.10	0.00
In percent of exports of goods and services	1.12	0.78	0.70	0.64	0.60	0.50	0.36	0.24	0.13	0.04	0.00
In percent of GDP	0.54	0.47	0.43	0.40	0.38	0.32	0.23	0.15	0.08	0.03	0.00
In percent of IMF Quota	100.00	100.00	100.00	100.00	100.00	90.00	70.00	50.00	30.00	10.00	0.00
Memorandum items											
Nominal GDP (millions of USD)	5,398	6,263	6,798	7,345	7,895	8,487	9,129	9,806	10,518	11,260	12,036
Exports of goods and services (millions of USD)	2,588	3,756	4,196	4,602	4,959	5,344	5,752	6,227	6,720	7,222	7,728
Government revenue (millions of USD)	910	1,394	1,643	1,862	2,024	2,190	2,356	2,544	2,738	2,942	3,153
Gross international reserves (millions of USD)	580	724	758	1,007	1,109	1,178	1,131	1,239	1,459	1,571	1,646
IMF Quota (millions of SDR)	21.2	21.2	21.2	21.2	21.2	21.2	21.2	21.2	21.2	21.2	21.2

Source: IMF staff estimates and projections.

Appendix I. Letter of Intent

Malé, Maldives
April 16, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva,

The Maldives is one of the most exposed countries to the COVID-19 pandemic due to its very high dependence on tourism, with receipts from tourism at about two thirds of GDP. The COVID-19 pandemic outbreak is having an enormous impact on tourism activity, with tourist arrivals and revenues declining sharply, triggering the emergence of urgent balance of payments needs in the Maldives.

The Maldivian and other governments' travel restrictions to contain the pandemic, its impact on the global economy, as well as the heightened global risk aversion to flying is expected to severely cut tourism receipts for the 2020 season. While the adverse impact of the COVID-19 induced shock on the balance of payments will be partly offset by lower global fuel prices and the decline in some imports resulting from the fall in tourism and construction, it will almost certainly be significant. At this point, the BOP financing gap is estimated to amount to US$214 million for 2020, or about 4 percent of GDP.

In addition to its impact on the balance of payments, the COVID-19 pandemic is expected to have significant adverse impacts on fiscal revenues and economic growth. The decline in tourism is expected to sharply reduce the tourism-related tax revenues and increase the budget deficit. The contraction in tourist arrivals and associated disruptions in domestic activity, as well as disruptions related to government containment measures are projected to result in negative GDP growth of between -7.8 percent to -11.5 percent, compared with 7.5 percent growth before the COVID-19 pandemic. The more protracted the duration of the effects of the global travel restrictions, the more severe will be its impact on the economy.

Against this background, the Government of the Maldives requests emergency financing from the IMF in the equivalent of SDR 21.2 million (about US$28.9 million), equivalent to a disbursement of 100 percent of quota under the Rapid Credit Facility (RCF). The IMF assistance will help meet the urgent foreign exchange needs stemming from the disruptions to tourism as a result of the COVID-19 pandemic, and moderate the immediate pressure on balance of payments. The Fund assistance is also expected to catalyze additional financial assistance in the form of grants and concessional loans from the World Bank, the Asian Development Bank as well as bilateral partners.

We recognize that risks from high public sector debt levels and the large current account deficit, exacerbated by the current shock, require active measures to respond to the outbreak and to achieve debt sustainability. Given the correspondingly limited fiscal space, we will focus our response on providing the necessary funding to contain the spread of the virus and minimize the impact on the economy and the population. We are continuously evaluating our fiscal priorities across current and capital spending, and redirecting the funds as needed to combat the coronavirus and provide temporary support to the most vulnerable households and businesses. At the same time, we will direct our monetary and financial policies to support liquidity and economic activity, while maintaining financial stability and avoiding undermining banking system soundness. These measures will help us advance our poverty reduction and growth objectives.

To contain the spread of the virus, we have recently declared a state of public health emergency. Flights from China were suspended from February 4th, followed by restrictions on travelers who have been in Spain, Italy, South Korea, Iran, Bangladesh, Sri Lanka, and regions in France and Germany. As of March 27, on-arrival visas have been suspended. We are working in close consultation with the WHO to monitor the situation, preparing isolation centers, testing of suspected cases, as well as treating those who are affected.

To minimize the impact on the people of the Maldives due to the COVID–19 virus, we have taken a set of measures on March 20, the Economic Recovery Plan, as well as a more measures in recent days. In this context, the Government of Maldives will:

- Increase the amount of funds allocated to the health sector for the COVID-19 response, by MVR 200 million (0.25 percent of GDP).

- Reduce government non-priority recurrent expenditure by MVR 1 billion (1.2 percent of GDP).

- Reduce capital expenditure initially by MVR 3.1 billion (3.7 percent of GDP), while continuing to rebalance between capital and current expenditure as necessary.

- Ensure, through banks, availability of working capital to businesses.

- Subsidize 40 percent of electricity bills and 30 percent of water bills for the months of April and May, in order to offset the economic shock on the general population, especially the poor.

- Provide special 3-month allowance to those who lose their jobs due to COVID-19.

- Enable that principal and interest amount of loan repayments to the banks will be deferred by 6 months to businesses and persons who have been negatively impacted as a direct result of COVID-19.

For its, part, the Maldives Monetary Authority (MMA) stands ready to implement the various policy instruments and measures at its disposal to mitigate the impact of the COVID-19 virus on the financial system and exchange rate stability. The MMA has been in close contact with the banks to discuss the impact on the domestic financial system and has identified the measures that can be taken to address these in a timely manner. The MMA is also exploring the measures that can be taken through the financial institutions to provide support to those affected by the crisis and to reduce economic disruptions and the loss of jobs and output. The MMA also stands ready to provide liquidity support to banks as needed. Specifically, the MMA has decided to implement the following measures:

- Introduce the necessary regulatory measures to enable a moratorium of 6 months on loan repayments for those impacted by the current situation (customers will need to submit their requests to the banks in order to avail themselves of this moratorium).

- Gradually reduce the Minimum Reserve Requirement (MRR) from 10 percent to up to 5 percent to provide liquidity support to banks, as when needed.

- Make available a short-term credit facility to financial institutions as and when required.

- Increase as needed the MMA's foreign exchange intervention and use other available facilities to maintain the exchange rate peg.

- Seek to obtain a foreign currency swap facility amounting to US$150 million under the currency swap agreement signed between the MMA and the Reserve Bank of India.

We are confident that these policies will help minimize the disruptions to economic activity and incomes and job losses of the population. We expect the temporary external financing gap to be covered by the RCF and the assistance from other international financial institutions and governments. The currently ongoing expansion of tourism capacity and upgrade of the infrastructure should lay the ground for a quick resumption of strong tourism growth as witnessed before the crisis, which should result in a narrowing of external imbalances and ensuring long-term external debt sustainability.

The Government remains committed to fiscal consolidation to restore fiscal and debt sustainability. On the revenue side, we will monitor the implementation of our new income tax, increase as planned, after the crisis, tourism-related fees and service charges, and consider additional revenue measures as needed to support deficit reduction and to ensure fiscal and external sustainability. Following the completion of the ongoing public sector investment projects as well as the cancellation of some new projects costing 3 percent of GDP in 2020–21, given the changes in domestic and global economic conditions, we expect public investment to further decline from 8.9 percent of GDP in 2019 to 7.2 percent of GDP on average in 2020–25, contributing to an improvement in the primary fiscal balance such that fiscal deficits narrow to levels consistent with public debt sustainability. We will continue to seek concessional finance for previously planned and new infrastructure projects to support our development objectives, as well as increase the resource envelop by further cutting inefficient spending and boosting new revenues. We have already implemented revenue measures that should raise 1 percent of GDP for the exchequer in

2021. Overall, we believe this combination of measures will allow a substantial reduction of the primary fiscal deficit after grants, to 1 percent of GDP by 2025.

We also understand that with already high public debt and additional short-term fiscal pressures arising from the crisis, it is important to ensure a high level of transparency of the government accounts, including the size of contingent liabilities linked to government guarantees and other forms of government support. To this end, we remain committed to working closely with the Fund to ensure that fiscal reporting and transparency meet the latest international standards and best practices, improving our fiscal responsibility framework, as well as strengthening the operation and risk supervision of state-owned enterprises.

The Maldives commits to undergo a safeguard assessment, provide Fund staff with access to its central bank's most recently completed external audit reports, and authorize its external auditors to hold discussions with Fund staff. The Ministry of Finance and the MMA are finalizing a Memorandum of Understanding on their respective roles and responsibilities for servicing financial obligations to the Fund. We are committed to ensuring maximum effectiveness of the COVID-19 measures by targeted assistance programs and strong governance and transparency in their implementation.

The MMA affirms that it will support the recovery efforts, in its capacity as the counterparty for Fund lending to the Maldives. The resources provided under the RCF will be lent to the Treasury. The MMA will avoid monetary financing of government credit operations. The Government does not intend to introduce measures or policies that would exacerbate balance of payments difficulties, including not to introduce or intensify exchange and trade restrictions that would compound these difficulties.

We authorize the Fund to publish this Letter of Intent and the staff report for the request for disbursement under the RCF.

Sincerely yours,

/s/	/s/
Mr. Ibrahim Ameer	Mr. Ali Hashim
Minister of Finance of Republic of Maldives	Governor of Maldives Monetary Authority