

**EXECUTIVE
BOARD
MEETING**

EBS/20/62
Correction 2

April 21, 2020

To: Members of the Executive Board

From: The Secretary

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

Board Action: The attached correction to EBS/20/62 (4/16/20) has been provided by the staff.

Typographical Errors **Page 12**

Questions: Mr. Cerutti, APD (ext. 36811)

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 ~~public~~ ~~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.**