



# DEBT BULLETIN

June 2021, Issue 7



Debt Management Department  
Ministry of Finance  
Republic of Maldives



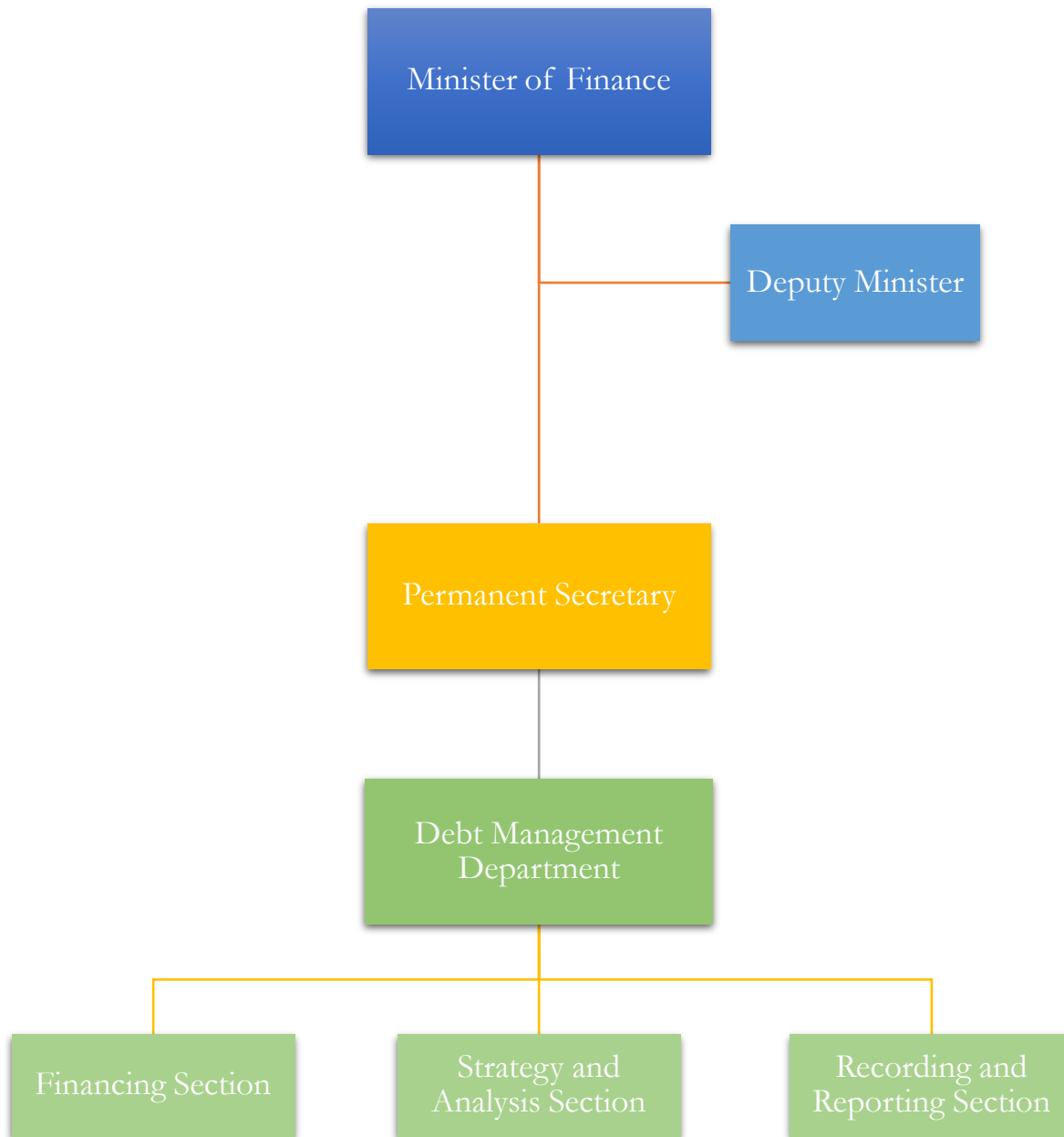
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## 1. Abbreviations

ADB	Asian Development Bank
AED	United Arab Emirates Dirham
AIIB	Asian Infrastructure Investment Bank
ATM	Average Time to Maturity
ATR	Average Time to Refixing
BCG	Budgetary Central Government
CNY	Chinese Renminbi
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DCM	Debt Capital Market
DeMPA	Debt Management Performance Assessment
DOD	Disbursed Outstanding Debt
DMD	Debt Management Department
DSSI	Debt Service Suspension Initiative
EUR	Euro
EXIM China	The Export-Import Bank of China
EXIM India	Export Import Bank of India
FX	Foreign Currency
GBP	Great British Pound
GDP	Gross Domestic Product
GoM	Government of Maldives
ICD	International Corporation for the Development of Private Sector
IDA	International Development Association
IFAD	International Fund for Agricultural Development
ING	International Netherlands Group
IsDB	Islamic Development Bank
IMF	International Monetary Fund
JPY	Japanese Yen
KFAED	Kuwait Fund for Arab Economic Development
KWD	Kuwaiti Dinar
LM	Liability Management
LT	Long Term
MMA	Maldives Monetary Authority
MPAO	Maldives Pension Administration Office
MTDS	Medium Term Debt Management Strategy
MVR	Maldivian Rufiyaa
OFID	OPEC Fund for International Development
PG	Publicly Guaranteed
PPG	Public and Publicly Guaranteed
RDC	Reverse Dual Currency
SAR	Saudi Riyal
SDR	Special Drawing Rights
SFD	Saudi Fund for Development
SLA	Subsidiary Loan Agreement
ST	Short Term
USD	United States Dollar
VIA	Velana International Airport
WAIR	Weighted Average Interest Rate
WB	World Bank

## 2. Organizational Structure



### **3. Introduction**

The debt bulletin is prepared semi-annually by the Debt Management Department of the Ministry. It includes the budgetary central government debt statistics, risks to debt portfolio, recent institutional and legal framework developments and other important information.

This bulletin covers the total debt of the central Government as defined in the Fiscal Responsibility Act (FRA). As per the FRA, total Central Government debt includes all the direct borrowings of the Government, sourced externally and domestically. In this regard, guaranteed debt is shown separately under the risks to debt portfolio section and the guaranteed debt outstanding and its associated risks are outlined in this bulletin.

Wherever debt outstanding is mentioned in this bulletin, it refers to the disbursed outstanding debt of the central Government. When referred to the debt outstanding under contingent liabilities, it will be referred as guaranteed debt. Where ever reference is given to a guaranteed debt, it is referring to the debt where a sovereign guarantee is issued by the Government.

#### 4. Overview of Debt

Overview of debt outstanding as of June 2021 and debt service and disbursements from January to June 2021

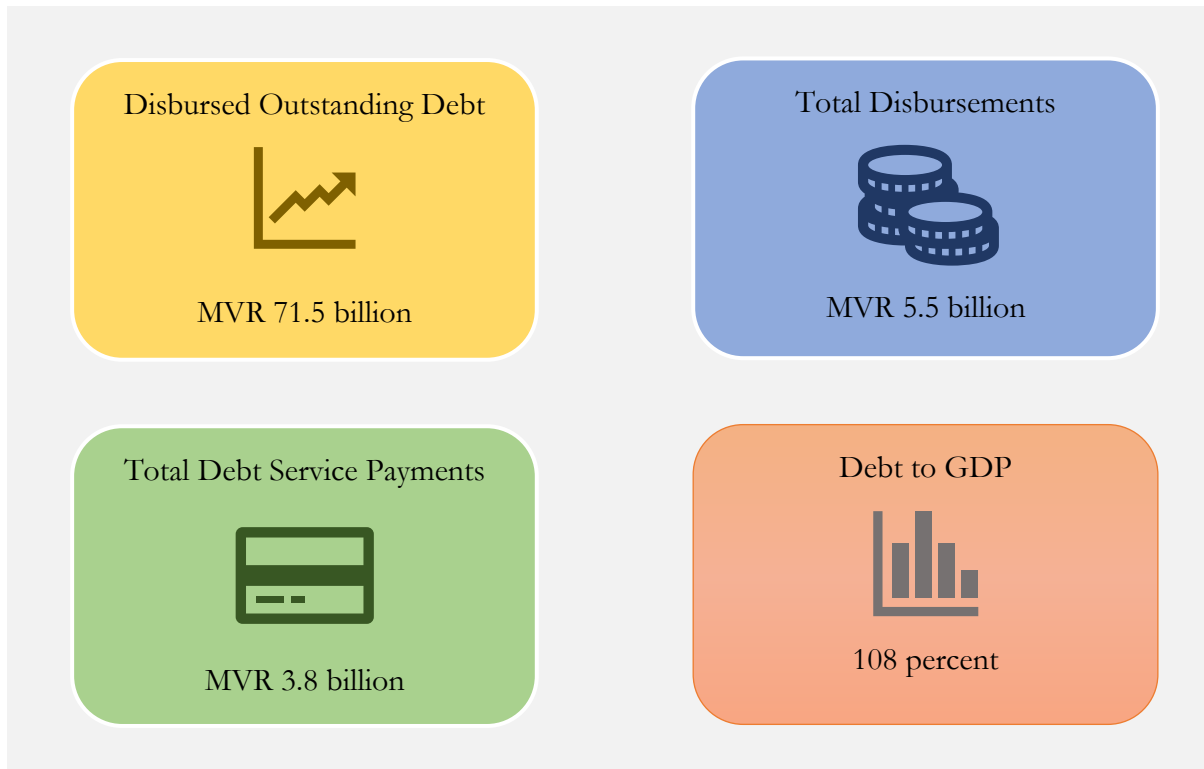
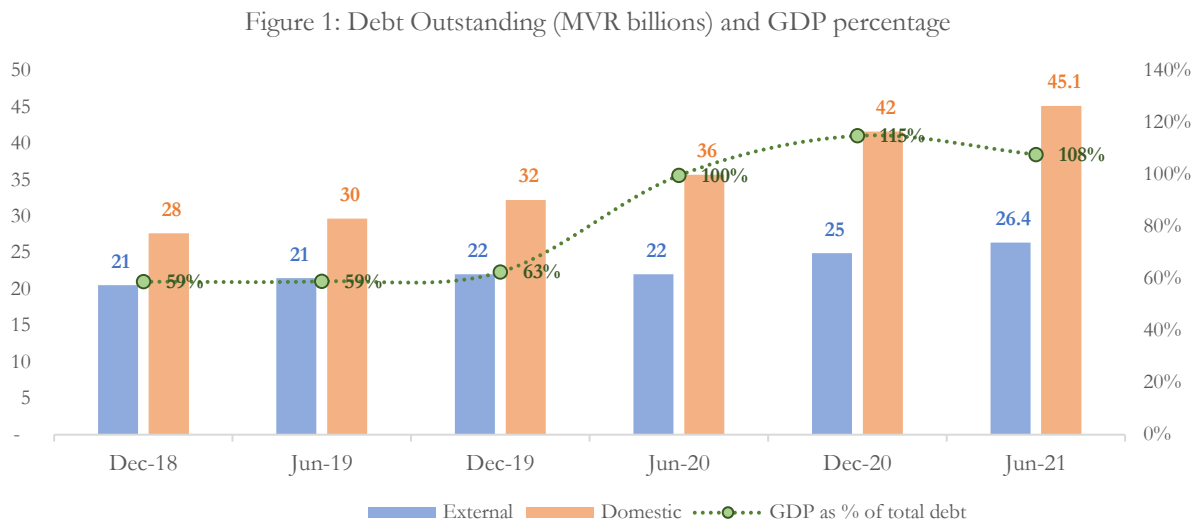


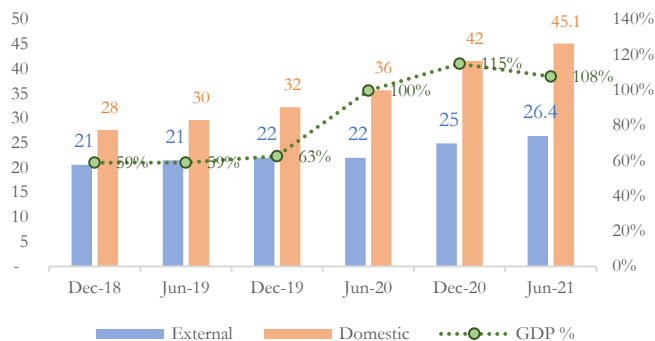
Figure 1 shows the total debt outstanding with debt to GDP percentages as of June 2021



## 5. Budgetary Central Government Debt

The total debt outstanding as of June 2021 was at MVR 71.5 billion. The debt to GDP percentage has improved from 115 percent in December 2020 to 108 percent as of June 2021. This is the direct result of improvements in the economy, which resulted in an improvement of GDP by 15 percent.

Figure 2: BCG Debt Snapshot (MVR billions) and GDP percentage



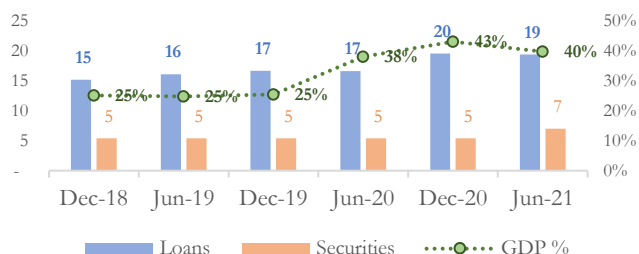
### 5.1. External debt

#### 5.1.1. External debt outstanding

As of June 2021, the external debt of the Government stood at MVR 26.4 billion. This is a 5 percent increase compared to December 2020. The increase in external debt is mainly driven by the issuance of the debut Sukuk in the international debt capital market and also disbursements under previously contracted loans.

Figure 3 shows the change in disbursed outstanding debt of external portfolio from Dec 2018 to June 2021.

Figure 3: BCG External Debt (MVR billions) and GDP percentage

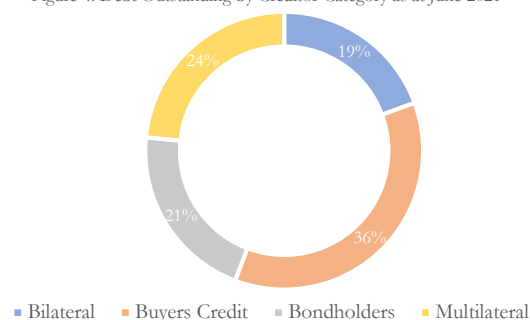


There are mainly two types of debt instruments in the external portfolio; which are loans and securities. As of June 2021, the outstanding external loan portfolio stood at MVR 19.4 billion. Looking at how this is distributed between creditor categories, MVR 9.6 billion was

outstanding to buyer's credit lenders. Debt outstanding to bilateral and multilateral banks were MVR 3.6 billion and 6.2 billion respectively. Debt outstanding under the external securities portfolio as of June 2021 was MVR 7 billion.

Figure 4 shows debt outstanding by creditor categories as of June 2021

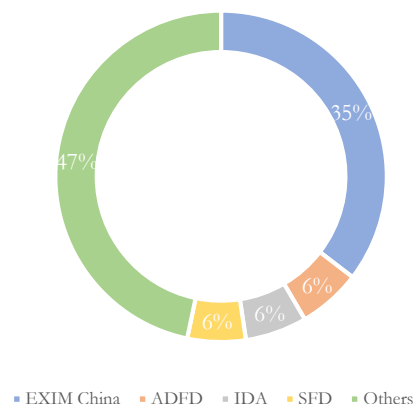
Figure 4: Debt Outstanding by Creditor Category as at June 2021



In terms of debt outstanding by creditor, the Exim China holds the largest share, with 35 percent of total external debt outstanding as of June 2021. Followed by this are ADFD, IDA and SFD, with each creditor holding 6 percent. It is to note that the USD 100 million private placement bond issued in 2018 is included under ADFD, as it was a private placement done with them.

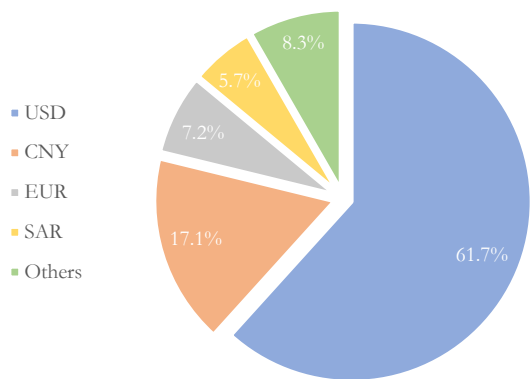
Of the remaining 47 percent classified as Others in the chart below, 45 percent is attributed as securities issued to the international debt capital market and the remaining consists of debt outstanding to the remaining external creditors.

Figure 5: Debt Outstanding By Creditor as of June 2021



As of June 2021, 12 percent of external debt was held in SDR. Figure 6 shows the debt outstanding by currency when SDR is decomposed to its basket currencies.

Figure 6: External Debt Outstanding by Currency as of June 2021



As illustrated in figure 6, as of June 2021 the largest share of external debt is in USD. The CNY held 17.1 percent, and EUR and SAR held 7.2 percent and 5.7 percent respectively. The remaining currencies are shown together as Others, and includes JPY, KWD, AED and GBP.

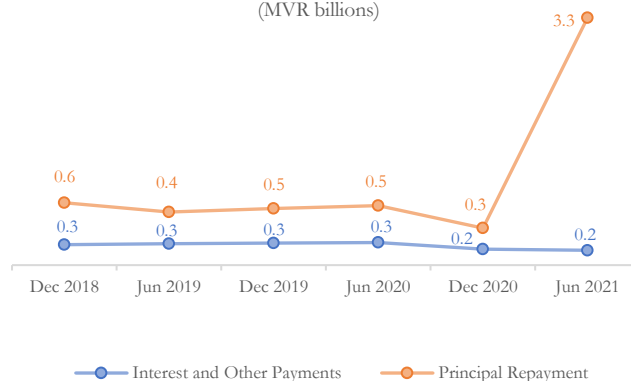
### 5.1.2. External Debt Service

From January to June 2021, MVR 3.5 billion was utilized for the servicing of external debt, representing an increase of 85 percent when compared to the last half of 2020. The increase in debt service cost during the first half of 2021 is because of the part-repayment of the Eurobond maturing in 2022, through an any-and-all tender offer, where 76.8% of the bond was tendered was settled from the proceeds of Sukuk issued in April 2021.

MVR 0.2 billion was utilized on interest and other payments during the first half of 2021, which is a 7.7 percent decrease when compared to the second half of 2020. Out of the MVR 3.3 billion as total cost of principal repayment in the first half of 2021, MVR 2.9 billion was for the repayment of Eurobond maturing in 2022.

Figure 7 shows the total external debt service cost from December 2018 to June 2021.

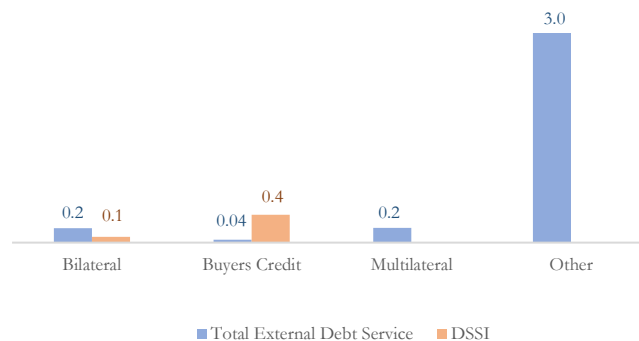
Figure 7: Debt Service Cost of External Debt (MVR billions)



The G20 Debt Service Suspension Initiative (DSSI), which was introduced by the G20 Finance Ministers and Central Bank Governors during 2020, was extended up to December 2021 and Maldives has participated in this extension from its official bilateral creditors. During the first half of the 2021, approximately MVR 0.5 billion was deferred under this initiative. It is estimated that from the beginning of this initiative in May 2020 up to June 2021, MVR 0.9 billion was deferred for debt service payments due to official creditors.

Figure 8 shows the debt service cost of external debt from January to June 2021 by creditor category and the amounts deferred under DSSI under each creditor category.

Figure 8: Debt Service Cost of External Debt with DSSI (Jan - Jun 2021 in MVR billions)



### 5.1.3. External Loan Disbursements

#### Loan disbursements by Creditor:

Total loan disbursements for the first half of 2021 was MVR 0.4 billion. Looking at the creditor composition of disbursements, largest share of external loan disbursement was under the projects carried under the EXIM India, which accounted for 39 percent of total external loan disbursements during the first half of 2021.



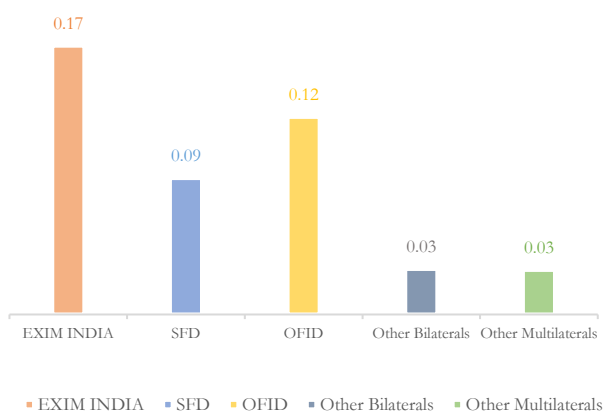
This increase is attributed to disbursements under the USD 800 million Line of Credit Agreement which was signed in 2019.

Disbursements under the loans obtained from OFID contributed to 28 percent of the total external loan disbursements during the first half of 2021, followed by SFD who contributed 20 percent. Major projects carried out under loan assistances from these creditors include Outer Islands Harbors, Water Supply and Sewerage Facilities Project, Passenger Terminal Development of the VIA and Development of Hulhumale' Island Phase 2.

Other bilateral and other multilateral creditors accounted for 7 percent and 6 percent of external loan disbursements respectively. Other Bilateral Creditors consists KFAED (94 percent) and ADFD (6.3 percent). Other Multilateral creditors consisted of IDA (50.9 percent), IsDB (26.5 percent) and AIIB (22.6 percent).

Figure 9 shows the external loan disbursements from January to June 2021 by creditor

Figure 9: External Loan Disbursement by Creditor - Jan June 2021 (MVR billions)

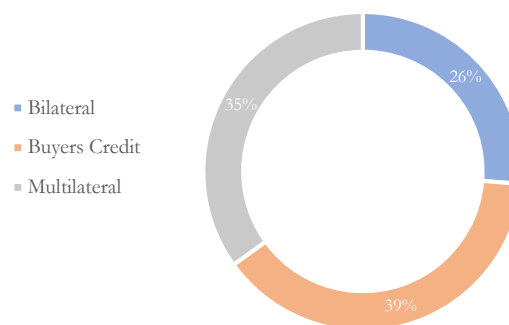


### Disbursements by Creditor Category:

Amongst the creditor categories, disbursements under the loans obtained from buyer's credit lenders was the highest, accounting to 39 percent of total loan disbursements during the first half of 2021. The multilateral creditors are the second largest category comprising 35 percent, followed by bilateral creditors with 26 percent of total loan disbursements during the first half of 2021.

Figure 10 shows the external loan disbursements by creditor category.

Figure 10: External Loan Disbursement by Creditor Category - Jan to June 2021

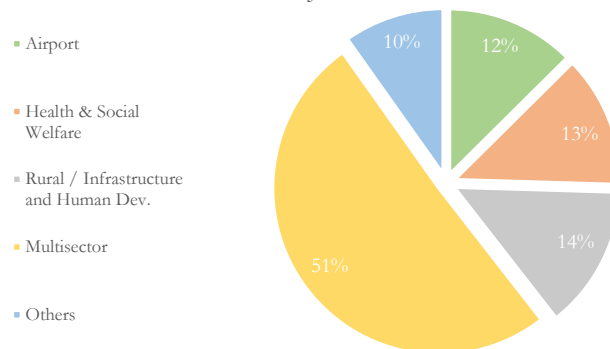


### External Loan Disbursements by Sector:

When external loan disbursements are categorized by their sectorial group for the first half of 2021, Rural/Infrastructure & Human Development sector holds the largest share, with 23 percent. Both Health and Social Welfare sector and Airport Sector accounted for 21 percent of total loan disbursements during the first half of 2021, followed by multisector with 19 percent. Rest of the sectors are combined together and categorized as Others and it covers 16 percent of external loan disbursements. The main sectors included in this category are Ports Development, Budget Support and Water and Sanitation.

Figure 11 shows the external loan disbursements by sector.

Figure 11: External Loan Disbursements by Sector - Jan to June 2021



At the end of first half of 2021, MVR 28.8 billion of external loan commitments remained undisbursed.

## 5.2. Domestic Debt

The domestic debt outstanding was MVR 45.1 billion as of June 2021. This is an 8 percent increase when compared to December 2020.

### 5.2.1. Domestic Debt Outstanding

The domestic debt outstanding comprises mainly of short and long term securities issued to domestic market and loans obtained from commercial banks. Treasury bills account for 51% of the total domestic portfolio as of June 2021. Domestically issued treasury securities make up 98% of the total domestic debt outstanding while the remaining 2% are loans.

Majority of the domestic debt instruments are denominated in MVR, which was 82 percent of the total domestic debt outstanding as of June 2021. 17 percent of domestic debt was denominated in USD and the remaining 1% is attributed to a loan obtained from MMA via IMF, which is denominated in SDR.

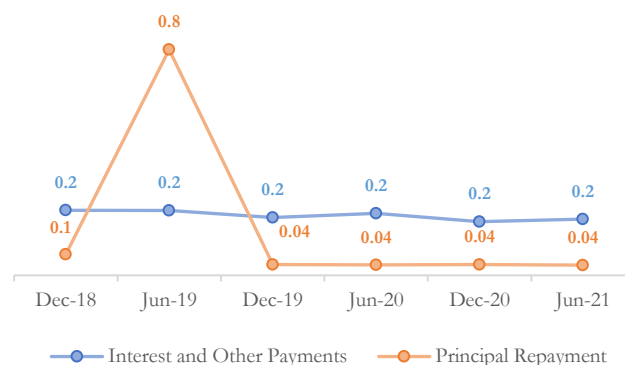
Figure 12: Domestic Debt Outstanding (MVR billions) and GDP %



### 5.2.2. Domestic Debt Service

Total Debt service cost of domestic instruments was MVR 0.2 billion for the first half of 2021. The repayments accounted for 15 percent while the remaining 85 percent represents interest and other payments during the period.

Figure 13: Debt Service Cost of Domestic Debt (MVR Billions)

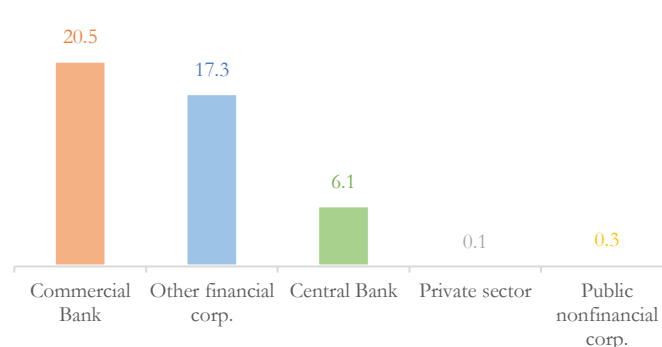


### 5.2.3. Highlight on domestic securities

Out of the MVR 45 billion domestic debt outstanding as of June 2021, MVR 44 billion was domestically issued securities. Treasury bills account for MVR 26 billion and the remaining domestic debt outstanding are spread over treasury bonds.

The major holders of domestic treasury bills are the commercial banks and other financial institutions, holding 98 percent. The majority of the domestic instruments issued are denominated in MVR, with an 84 percent representation and the remaining 16 percent represented USD.

Figure 14: Domestic Securities by Holder Category as of June 2021



## 6. Risks in Debt Portfolio

The debt portfolio of the Government is predominantly exposed to refinancing risk, interest rate risk, exchange rate risk, operational risk and risk arising from contingent liabilities. At present, the prevalent risks in the Government debt portfolio are exchange rate risk, refinancing risk and interest rate risk. However, in addition to above mentioned risks, the Government continues to monitor other portfolio risks such as operational risks and risk arising from contingent liabilities.

### 6.1. Refinancing Risk

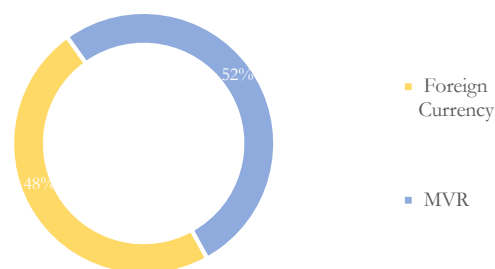
The refinancing risk captures the exposure of the debt portfolio to unusually elevated redemption profile<sup>1</sup> and high interest rates. One of the major refinancing risks in the Government's debt portfolio at the beginning of 2021 was related to the USD 250 million Eurobond maturing in mid-2022. As a proactive measure to address the refinancing risk, the Government conducted a Liability Management (LM) exercise through an any-and-all tender offer where 76.8% of the Eurobond was tendered and settled from a 5-year Sukuk issued under the Government's first Sukuk Issuance Program established in 2021. The LM exercise has smoothed the redemption profile and has created sufficient fiscal space that will allow the Government to repay the outstanding balance of the Eurobond in May 2022 without any difficulties and at the same time mitigated the short-term refinancing risk.

### 6.2. Exchange rate risk

In terms of exposure to foreign exchange risk, at the end of June 2021, approximately 48 percent of the Government's debt portfolio is denominated in foreign currency. Although the foreign currency debt portfolio comprises of several currencies including USD, CNY, SAR, EUR and JPY, the predominant exposure is towards the USD. This is due to the current exchange regime in which USD cross exchange rate is applied for all foreign currency debt service payments of the Government.

<sup>1</sup> Redemption profile as of June 2021 is included in the Annex 8.1

Currency composition of the debt portfolio as of 30 June 2021

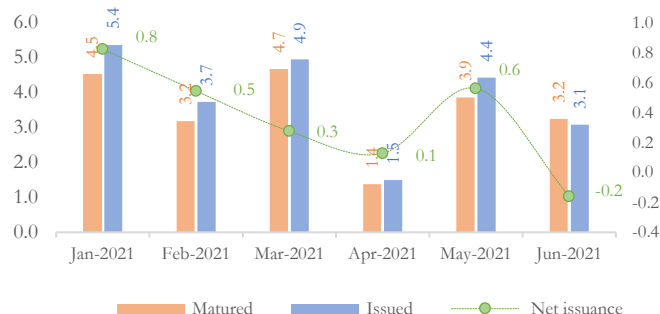


### 6.3. Interest rate risk

The interest rate risk reflects the volatility in various interest rates structures in Government's debt portfolio. The key indicators used by the Government to monitor changes in interest rate risks are Average time to refixing (ATR), debt maturing is less than 12 months, split between fixed and variable rate debt and weighted average interest rate (WAIR). As depicted from the redemption profile above, a large portion of the total debt portfolio (37 percent) consisting short-term treasury bills will mature in the next 12 months. Although, the maturing treasury bills are subject to interest rate refixing, as the Government currently issues treasury bills under fixed interest TAP system<sup>2</sup>, interest rate risk remains minimal.

The chart below illustrates the total treasury bills issued, matured and net issued in the first half of 2021. It is worth noting that despite treasury bills being issued under fixed interest rates, there is steady demand for treasury bills issued in the domestic market (net issuance of MVR 2.1 billion in the last 6 months). Therefore, interest rate refixing of treasury bills remains minimal. Additionally, since nearly 98 percent of the existing debt comprise of fixed interest rate debt, the portfolio is largely insulated from interest rate shocks.

Figure 15: Treasury Bills Issuance (Jan-Jun 2021)



<sup>2</sup> A re-opening of a debt security from a past issuance. The bonds are issued at their original face value, maturity, and coupon rate.

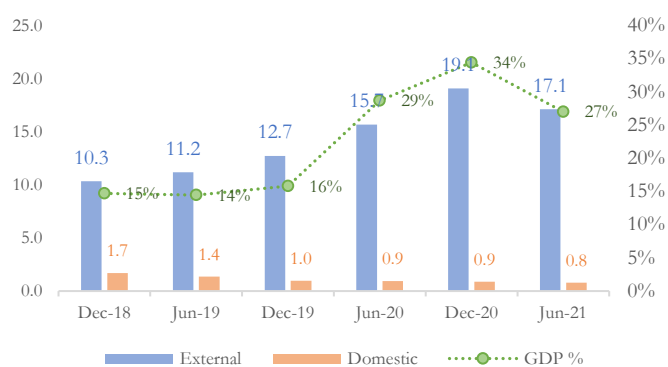
## 6.4. Contingent Liability Risk

Contingent liabilities can be identified as implicit and/or explicit. The Government has issued sovereign guarantees, mainly to State Owned Enterprises (SOEs), which arises an explicit contingent liability risk to the Government.

As of June 2021, total debt guaranteed by the Government stood at MVR 17.9 billion. This accounts for 27 percent of the GDP. A large share of the guaranteed debt outstanding is to external creditors, which is 26 percent of the total guaranteed debt outstanding as of June 2021. The remaining 1 percent is under sovereign guarantees issued to domestic creditors.

Figure 16 shows the guaranteed debt outstanding from December 2018 to June 2021.

Figure 16: Guaranteed Debt Outstanding (MVR billions) and GDP %



The guaranteed debt portrays a significant risk to the Government, in case a beneficiary of the sovereign guarantee is not able to meet their debt obligations. As of now, none of the sovereign guarantees issued by the government were called<sup>3</sup>.

## 7. Recent institutional developments in debt management

### 7.1. Fiscal Risk Statement

In May 2021, the Ministry published country's inaugural Fiscal Risk Statement that covers various macroeconomic risks and specific fiscal risk including public debt and contingent liability risk. In this regard, a comprehensive

<sup>3</sup> A situation where the borrower is unable to honor the debt obligation and the creditor informs the guarantor to pay the debt on-behalf of the borrower.

assessment of the public debt portfolio, identifying the key risks, severity and strategies implemented to mitigate these risks were analyzed by the Debt Management Department.

### 7.2. Medium-Term Debt Management Strategy 2022-2024

The new Medium-term Debt Strategy (2022-2024) has been formulated with significant improvements in the linkages with key macroeconomic assumptions. The coverage of existing portfolio risks has also been expanded to reflect overall risks. The MTDS includes detailed analysis of the proposed strategy including key assumptions, proposed funding sources and guidance on strategy implementation. The overall coverage of the report has been aligned to include all key components as prescribed in the Guidance Note prepared by the WB and the IMF.

### 7.3. Debt Sustainability Analysis

In June 2021, the Ministry conducted an in-house Debt Sustainability Analysis (DSA) for the Maldives. The objective of this assessment is to determine the risk of debt distress, taking account country's capacity to carry debt and its projected debt burden under both baseline projection and shock scenarios. The findings of the DSA revealed information about the vulnerabilities in our debt structure which assisted the Ministry in setting the right fiscal policy that includes both medium term fiscal and debt strategy.

### 7.4. Staff Capacity Building

With the assistance from international partners, DMD is working with international and local consultants to strengthen the functions of the DMD and train staff. The consultants will assist in strengthening the operational risk management policies, sovereign guarantee guidelines and develop a mechanism to assess the fiscal and credit risk from contingent liabilities.

### 7.5. Strengthening the legal framework of debt management

In line with the 2019 DeMPA recommendations, the Ministry is working towards drafting a Debt Law which

will strengthen and improve the current legal framework governing debt management functions. Initial draft submitted by a foreign consultant was reviewed by the Debt Management Department and circulated for further comments to local foreign experts, including a team from IMF. The DMD and local legal consultant is now working on reviewing the additional comments and redrafting the law based on the comments and inputs received from IMF. Significant changes are required to the draft law and the plan is to submit it to the Parliament either by early 2022.

#### **7.6. Issuance of the debut Shariah compliant instrument in the domestic market**

The first Shariah compliant treasury bill was issued on 28 June 2021. This has opened window for the Islamic Finance institutions in the domestic market to invest in treasury instruments. Providing them opportunity to park their access liquidity in risk free debt instruments with reasonable return on their investment.

While reducing the reliance on external financing and establishing a deep and liquid domestic debt capital market are two important targets set out in the MTDS, this issuance is a positive step towards achieving these targets. In addition, with the introduction of this new debt instrument, it has diversified the Government's domestic debt portfolio.

#### **7.7. Issuance of the debut Sukuk in the international DCM**

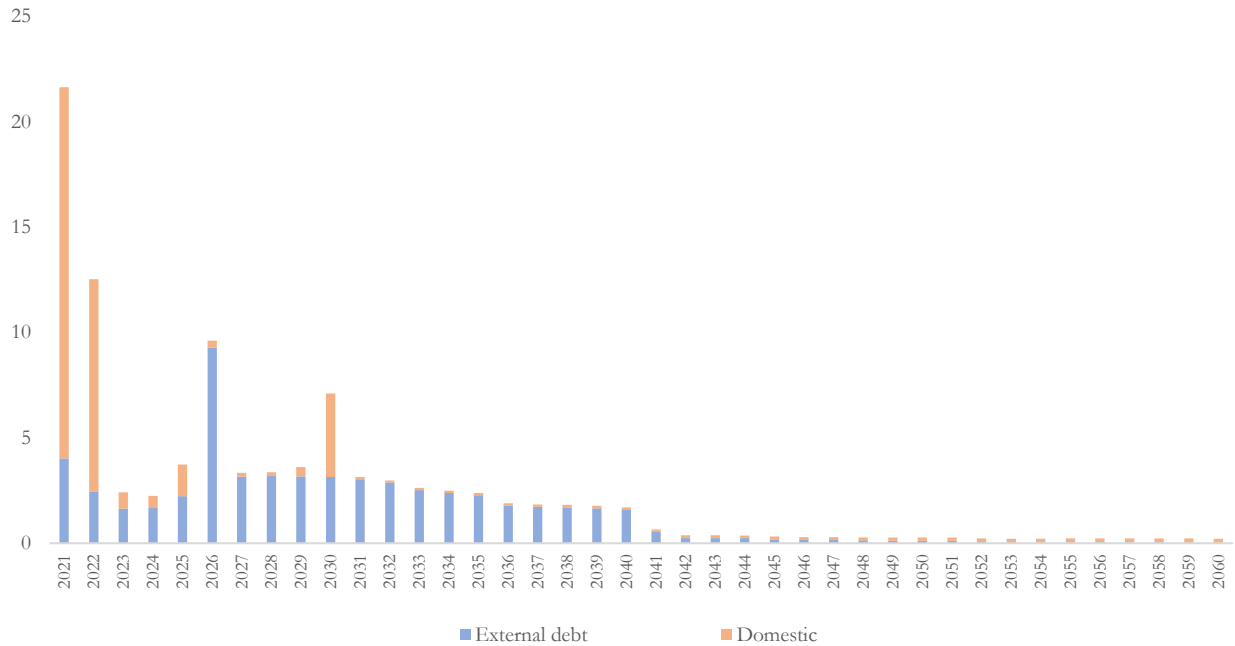
In April 2021, Government issued its debut Sukuk in the international DCM, under a USD 1 billion Sukuk issuance program with International Corporation for the Development of Private Sector (ICD).

Tapping the DCM is part of the strategy to explore both conventional and Islamic financing methods to diversify the investor base and debt portfolio.



## 8. Annexes

### 8.1. Redemption Profile (in MVR billions)



### 8.2. New loans signed from January to June 2021



### 8.3. Summary table

Domestic and External debt outstanding as of June 2021 in MVR billions

	Dec-18	Jun-19	Dec-19	Jun-20	Dec-20	Jun-21
<b>Total Outstanding</b>	<b>48.2</b>	<b>51.2</b>	<b>54.2</b>	<b>57.7</b>	<b>66.6</b>	<b>71.5</b>
Domestic	27.7	29.7	32.2	35.7	41.6	45.1
External	20.5	21.5	22.0	22.0	24.9	26.4
<b>External Debt by Creditor</b>	<b>20.5</b>	<b>21.5</b>	<b>22.0</b>	<b>22.0</b>	<b>24.9</b>	<b>26.4</b>
Abu Dhabi Fund for Development	1.6	1.7	1.7	1.7	1.7	1.6
Asian Development Bank	1.3	1.3	1.2	1.2	1.6	1.5
Bank of Ceylon/Colombo	0.1	0.1	0.0	-	-	-
International Development Association	1.3	1.3	1.4	1.5	1.6	1.6
Saudi Fund for Development	0.9	0.9	1.1	1.3	1.4	1.5
Sovereign Bond Holders	3.9	3.9	3.8	3.9	3.9	5.5
The Export-Import Bank of China	8.1	8.9	8.9	8.8	9.4	9.3
The OPEC Fund for International Develop.	0.7	0.9	1.0	1.0	1.4	1.4
Other Bilateral	1.1	1.1	1.4	1.3	2.2	2.0
Other Buyers Credit	0.4	0.3	0.3	0.2	0.1	0.2
Other Multilateral	1.2	1.1	1.3	1.2	1.8	1.7
<b>External Debt by Loan Currency</b>	<b>20.5</b>	<b>21.5</b>	<b>22.0</b>	<b>22.0</b>	<b>24.9</b>	<b>26.4</b>
AED	0.1	0.1	0.1	0.1	0.1	0.1
CNY	3.9	4.0	3.9	3.8	4.1	4.2
EUR	0.7	0.6	0.7	0.6	0.9	0.9
JPK	0.3	0.3	0.3	0.3	1.1	1.0
KWD	0.3	0.4	0.4	0.4	0.6	0.6
SAR	0.9	0.9	1.1	1.3	1.4	1.5
USD	11.0	11.7	12.1	12.2	13.2	14.9
SDR	3.3	3.3	3.3	3.3	3.5	3.3
<b>Domestic Debt by Instrument Category</b>	<b>27.7</b>	<b>29.7</b>	<b>32.2</b>	<b>35.7</b>	<b>41.6</b>	<b>45.1</b>
Treasury Bills	14.3	16.4	18.6	21.5	23.7	26.4
Islamic Instruments	0.7	0.6	0.4	0.4	0.4	0.7
Loans	0.0	0.0	0.1	0.8	0.5	0.9
Treasury Bonds	12.6	12.6	13.1	13.1	17.0	17.2
<b>Government Guaranteed Debt</b>	<b>12.0</b>	<b>12.5</b>	<b>13.7</b>	<b>16.6</b>	<b>19.9</b>	<b>17.9</b>
<b>Gross Domestic Product</b>	<b>82.0</b>	<b>86.8</b>	<b>86.8</b>	<b>57.9</b>	<b>57.9</b>	<b>66.4</b>
<b>Total Debt to GDP</b>	<b>59%</b>	<b>59%</b>	<b>63%</b>	<b>100%</b>	<b>115%</b>	<b>108%</b>