

MINISTRY OF FINANCE AND TREASURY, MALE', REPUBLIC OF MALDIVES

# PUBLIC DEBT BULLETIN

ISSUE 1, June 2018

This semi-annual bulletin is prepared by the Resource Mobilization and Debt Management Division (RMDMD) of the Ministry of Finance and Treasury, Maldives. RMDMD expects to publish the bulletin within two months from each half of the year ending June and December. For more information and enquiries on the bulletin, please contact [dmd@finance.gov.mv](mailto:dmd@finance.gov.mv).

## Contents

|   |    |
|---|----|
| Abbreviations .....   | 3  |
| 1. Disbursed Outstanding Debt.....                          | 4  |
| 2. External Debt.....                                       | 5  |
| 2.1 Creditor Breakdown of External Debt.....                | 5  |
| 2.2 Currency Composition of External Debt .....             | 6  |
| 2.3 External Debt Disbursements.....                        | 7  |
| 2.4 External Debt Service.....                              | 7  |
| 3. Domestic Debt.....                                       | 8  |
| 3.1 Short-Term Domestic Debt.....                           | 8  |
| 3.2 Long Term Domestic Debt .....                           | 8  |
| 3.3 Domestic Debt Servicing .....                           | 9  |
| 3.4 Domestic Debt by Ownership .....                        | 9  |
| 4. Government Guaranteed and On-Lent Loans Outstanding..... | 10 |
| 5. Summary Debt Statistics .....                            | 11 |

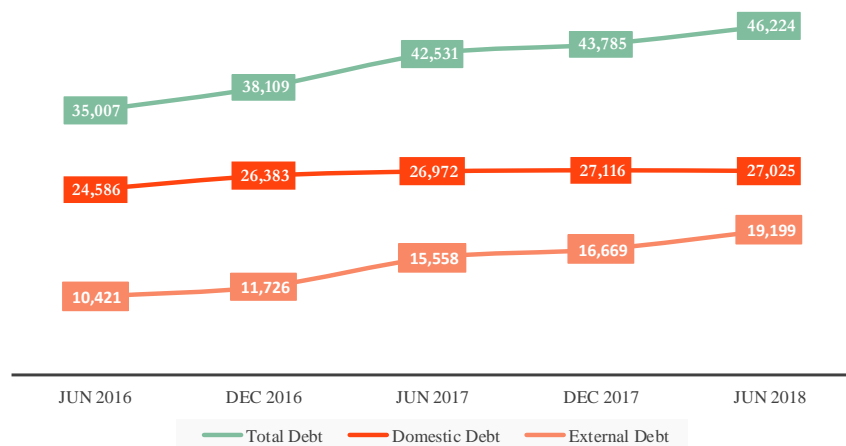
## Abbreviations

|            |  |
|------------|--|
| ADB        | Asian Development Bank                   |
| AED        | United Arab Emirates Dirham              |
| BOC        | Bank of Ceylon                           |
| CNY        | Chinese Yuan                             |
| DOD        | Disbursed Outstanding Debt               |
| EUR        | Euro                                     |
| EXIM China | Export-Import Bank of China              |
| GBP        | Great British Pound                      |
| GDP        | Gross Domestic Product                   |
| HDC        | Housing Development Corporation Limited  |
| IDA        | International Development Association    |
| JBIC       | Japan Bank for International Cooperation |
| JPY        | Japanese Yen                             |
| KWD        | Kuwaiti Dirham                           |
| LT         | Long-Term                                |
| MMA        | Maldives Monetary Authority              |
| MPAO       | Maldives Pension Administration Office   |
| SAR        | Saudi Riyal                              |
| SFD        | Saudi Fund for Development               |
| SDR        | Special Drawing Rights                   |
| ST         | Short-Term                               |
| STO        | State Trading Organization               |
| USD        | United States Dollar                     |
| VIA        | Velana International Airport             |
| WAIR       | Weighted Average Interest Rate           |
| WB         | World Bank                               |

## 1. Disbursed Outstanding Debt<sup>1</sup>

Disbursed Outstanding Debt (DOD) at the end of June 2018 stood at MVR 46,224 million, an increase of MVR 2,439 million compared to December 2017. Figure 1 shows the DOD trend from June 2016 to June 2018.

Figure 1: Disbursed Outstanding Debt (MVR millions) Jun 2016 - Jun 2018

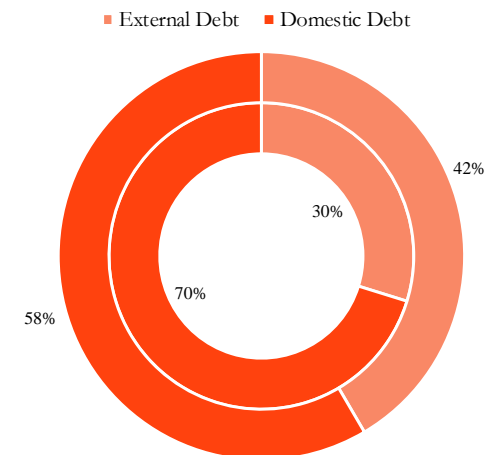


From June 2016 to June 2018, total debt increased by 32%, with the increase largely on the external side. External debt increased by 84% during the period, due to high disbursements made for strategically important infrastructure development projects. During this period, domestic debt increased by 10%. The share of external and domestic debt in total debt has also changed significantly during the period, with

<sup>1</sup> Disbursed outstanding debt refers to the direct debt of the Government that has been disbursed. It does not include the committed undisbursed amounts and the publicly guaranteed debt.

the share of domestic debt reducing from 70% to 58%. Figure 2 compares the share of external and domestic DOD at end of June 2016 and June 2018.

Figure 2: Share of Disbursed Outstanding Debt, Jun 2016 & Jun 2018  
Inner Ring: Jun 2016; Outer Ring: Jun 2018



At the end of June 2018, the total debt to GDP stood at 60%<sup>2</sup>. This is a 6% increase when compared to June 2016, a 1% increase when compared to December 2016, and 1% decrease when compared to December 2017.

<sup>2</sup> Nominal GDP for 2016 stood at MVR 64,919 million, and for 2017 at MVR 71,677 million. The nominal GDP forecast for 2018 is MVR 77,439 million (National Budget 2018).

### Key Activities, Jan – Jun 2018

- ✓ USD 100 million sovereign bond issued to United Arab Emirates
- ✓ Agency Agreement signed with Maldives Ports Limited and Maldives Islamic Bank for a Murabahah Facility
- ✓ Attended World Bank (WB)/International Monetary Fund Spring Meetings in Washington DC, USA
- ✓ Attended Islamic Development Bank Annual Meeting
- ✓ Attended Asian Infrastructure Investment Bank Annual Meeting
- ✓ Attended ADB 51st Annual Meeting, Manila, Philippines
- ✓ High level visit to Saudi Fund for Development (SFD) to discuss Velana International Airport (VIA) Development project
- ✓ Asian Development Bank (ADB) Board Officials Visit to Maldives
- ✓ Donor Meeting for VIA Terminal Project held
- ✓ Shared data with Treasury and Public Account Division for preparation of 2017 Financial Statements
- ✓ Sent data to WB for annual update of 'External Debt Data'
- ✓ Agreed to share debt numbers with Maldives Monetary Authority (MMA) on a quarterly basis

### Key Events Planned, Jul – Dec 2018

- ✓ Submit the Medium Term Debt Management Strategy 2019-2021 to Peoples' Majlis
- ✓ Sign agreement with WB for additional financing for the Public Finance Management Systems Strengthening Project
- ✓ Sign grant agreement with ADB for Phase I of the Greater Male' Environmental Improvement and Waste Management Project
- ✓ Memorandum Of Understanding signed with the SFD for Financing of Affordable Housing Scheme and Fisheries Sector Development Project
- ✓ Preparation of input for the National Budget 2019
- ✓ WB Annual Meeting in Bali, Indonesia
- ✓ WB Vice President's Visit
- ✓ WB Projects Mid-Term Review
- ✓ ADB Tri-Partite Review Meetings
- ✓ Recording Subsidiary Loan Agreements in the Debt Management System
- ✓ Update and validate the Domestic Debt Module in the Debt Management System

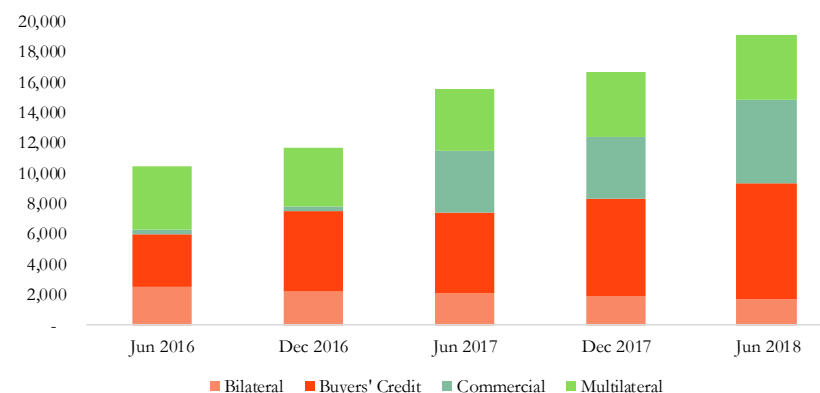
## 2. External Debt

External DOD increased by MVR 8,778 million at the end of June 2018 compared to June 2016, to reach MVR 19,199 million. This represents an increase of 84% during the past 2 years. Issuance of government bonds account for 47% of the total external debt disbursed over the period.

### 2.1 Creditor Breakdown of External Debt

While at the end of June 2016, multilateral creditors held the largest share of outstanding external debt, by the end of the year, buyers' credit lenders had overtaken the share due to the sizeable funds disbursed by the Export-Import Bank of China (EXIM China) for housing and airport development projects. As at the end of June 2018, buyers' credit lenders continue to be the largest holder, although the share of commercial lenders has seen a large increase during the period, from 3% to 29% of external DOD. Figure 3 shows the change in the holdings of external DOD by creditor category during the period.

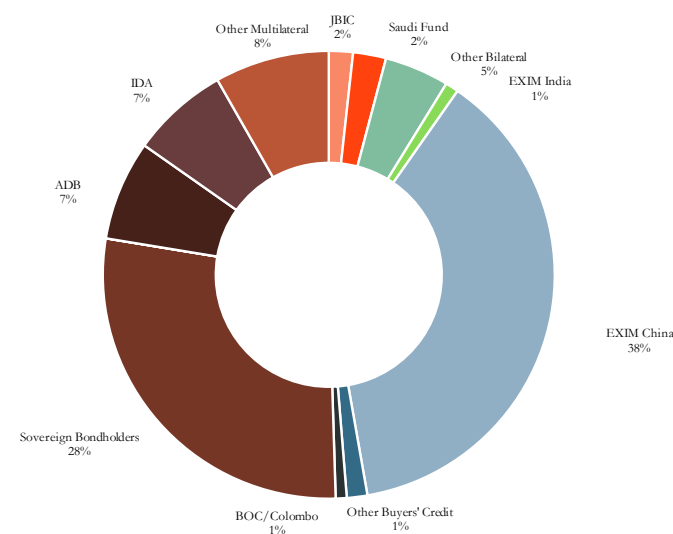
**Figure 3: External DOD by Creditor Category (MVR millions)  
Jun 2016 - Jun 2018**



Except for the 33% decrease in the holdings of bilateral creditors, holdings for all other categories of creditors increased during the period, with the biggest change observed for the share of commercial lenders. While in June 2016 commercial creditors held MVR 332 million, by the end of June 2018, this amount had increased to MVR 5,545 million, due to the issuance of two sovereign bonds amounting to a total of USD 350 million during the period.

Of multilateral lenders, ADB and WB holds the largest share of outstanding external debt, with ADB exceeding WB's share by a narrow margin. By the end of June 2018, the SFD had surpassed the Government of India to become the largest bilateral creditor. EXIM China is the largest buyers' credit lender, and remained the single largest creditor of the Government of Maldives for the past 2 years. Sovereign bondholders make up the largest share of commercial debt. Figure 4 gives a breakdown of external DOD holdings by major creditors at the end of June 2018.

Figure 4: Share of External Disbursed Outstanding Debt by Creditor, Jun 2018

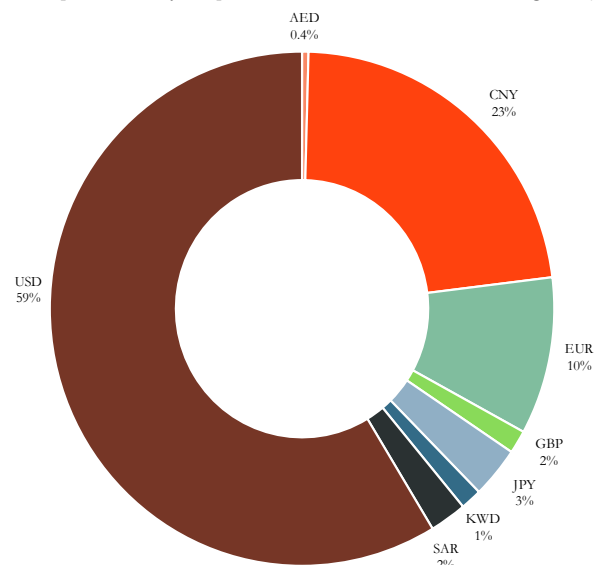


## 2.2 Currency Composition of External Debt

The currency composition of external debt shows that United States Dollar (USD), Special Drawing Rights (SDR)<sup>3</sup>, and Chinese Yuan (CNY) makes up 90% of total external DOD. The rest is denominated in Emirati Dirham (AED), Euro (EUR), Japanese Yen (JPY), Kuwaiti Dinar (KWD) and Saudi Riyal (SAR). Figure 5 gives the currency composition of external DOD as at the end of June 2018, with the SDR portion decomposed to its basket currencies.

<sup>3</sup> SDR is made up of a basket of currencies, namely, the USD, EUR, CNY, GBP, and JPY. The SDR portion shown in Figure 4 also includes loans in Islamic Dinar. Islamic Dinar is a unit of currency that has the same composition and weightage as SDR.

SDR Decomposed Currency Composition of External Disbursed Outstanding Debt, Jun 2018



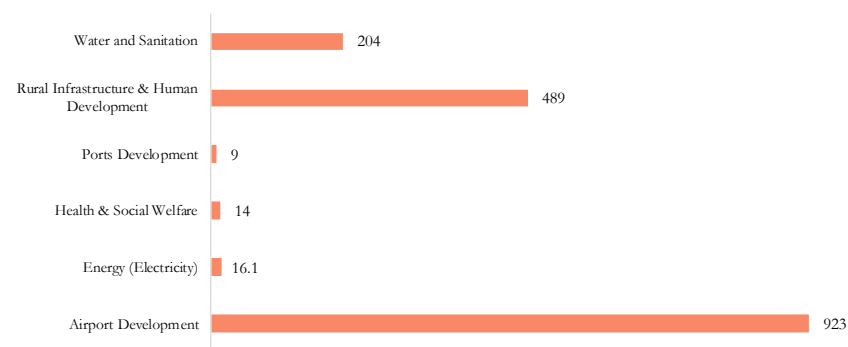
The currency composition changes slightly when SDR is decomposed into the individual currencies that the basket holds. It increases the share of USD from 51% to 59%, CNY from 21% to 23%, EUR from 4% to 10%, and JPY from 2% to 3%, and introduces GBP into the composition, with a share of 2%.

Much of the exchange rate risk inherent in foreign currency denominated debt is mitigated by the fact that over half of the external DOD is held in USD, to which the Maldivian Rufiyaa is pegged. At present, CNY-based debt is the most significant source of foreign exchange risk.

## 2.3 External Debt Disbursements

MVR 3,197 million of committed external debt was disbursed during the first half of 2018. The largest portion of this disbursement came from the issuance of a sovereign bond for financing development projects and budget support, followed by the disbursements made by EXIM China for the VIA development project. Figure 6 shows the disbursements made for the different economic sectors during the first half of 2018. As at the end of June 2018, MVR 11,473.6 million of committed external debt remained undisbursed.

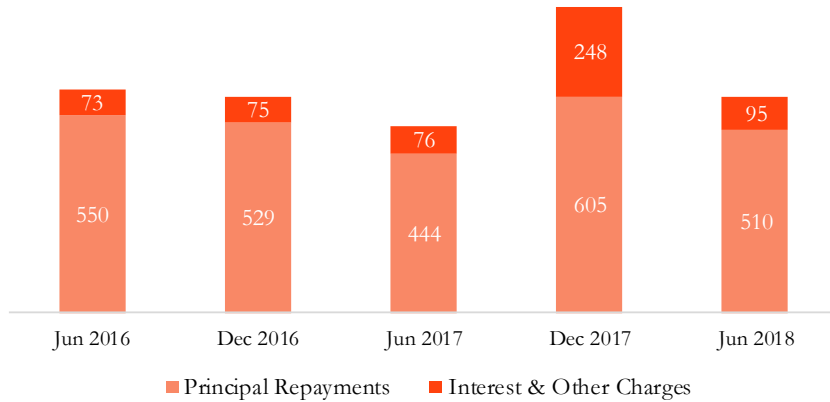
Figure 6: Disbursement by Economic Sector (MVR millions), Jan-Jun 2018



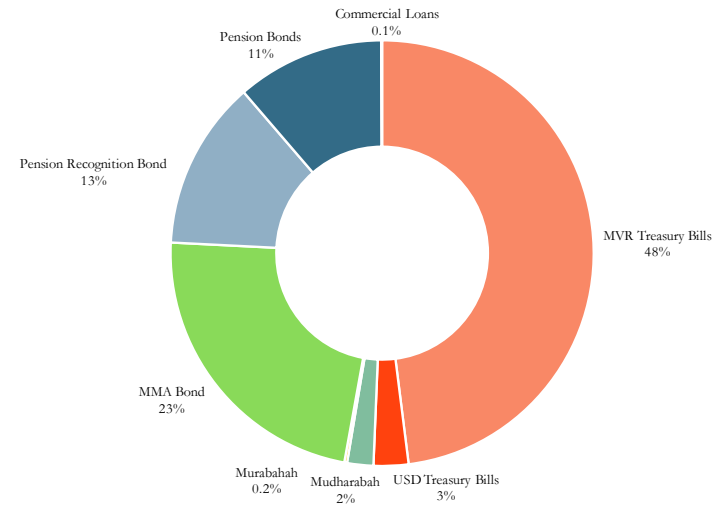
## 2.4 External Debt Service

During the first half of 2018, MVR 604 million was spent for the servicing of external debt, representing a decrease of 3% when compared to the first half of 2016, and an increase of 16% compared to the first half on 2017. Of the total external debt servicing cost for the first half of 2018, 84% went towards loan repayments, while the rest was for interest and other fees. The trend in external debt servicing over the past 2 years is depicted in Figure 7.

**Figure 7: External Debt Servicing Cost (MVR millions)  
Jun 2016 - Jun 2018**



**Figure 8: Domestic Debt by Instrument Category, June 2018**



### 3. Domestic Debt

Domestic DOD increased by MVR 2,439 million in the last 2 years, to reach a total of MVR 27,025 million at the end of June 2018. Figure 8 shows total domestic debt outstanding by instrument category at the end of June 2018.

#### 3.1 Short-Term Domestic Debt

Short-term domestic instruments, comprises MVR and USD Treasury bills, and Mudharabah and Murabahah<sup>4</sup>. Over the last 2 years, short-term domestic debt increased by 6%, to reach MVR 14,287 million at the end of June 2018.

The largest share of domestic debt is held in Treasury bills, which makes up 96% of short term domestic debt, while the rest is held as Mudharabah (4%) and Murabahah (0.4%). The short term to total domestic DOD ratio decreased from 55% to 53% in the last 2 years, suggesting a slight reduction in refinancing risk.

#### 3.2 Long Term Domestic Debt

At the end of June 2018, long term domestic DOD stood at MVR 12,737 million, representing an increase of 15% compared to June 2016. Long term

<sup>4</sup> Mudharabah is a form of partnership where one party provides the funds while the other party provides expertise, while Murabahah is a sale where the seller discloses the cost of the commodity and amount of profit charged.

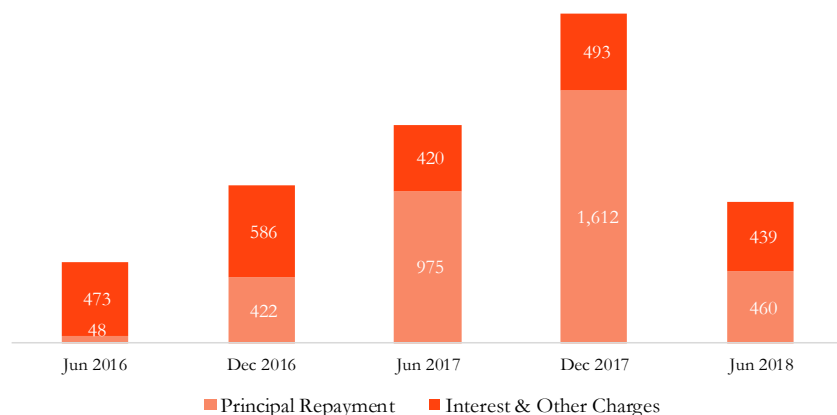


domestic debt instruments include long term treasury bonds issued to the Maldives Monetary Authority (MMA)<sup>5</sup>, the Pension Recognition Bond held by Maldives Pension Administration Office (MPAO)<sup>6</sup>, 5 to 8 year maturity bonds issued to MPAO, and long term commercial loans. Since the outstanding long term commercial loans constitute only 0.2% of the long term domestic DOD, almost all the long term domestic debt is held in treasury bonds.

### 3.3 Domestic Debt Servicing

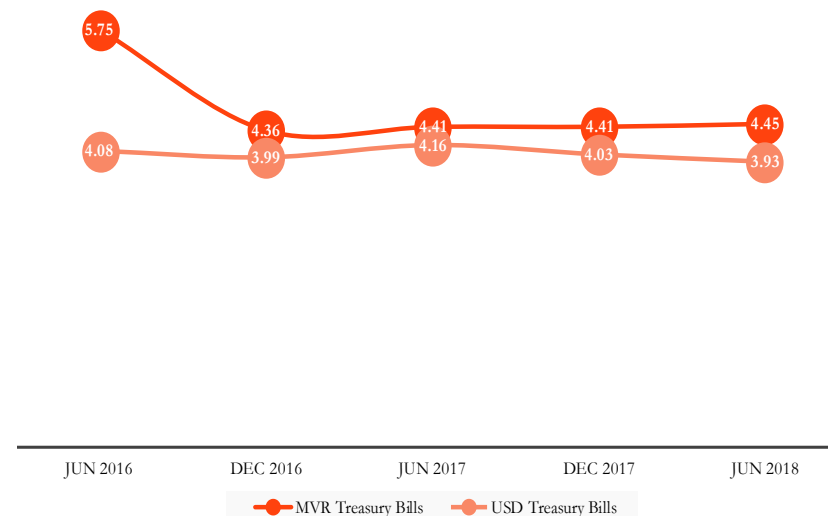
Domestic debt servicing cost during the first half of 2018 increased by 73% when compared to the same half of 2016. Short term domestic debt servicing cost increased by 94% during the period while long term debt servicing cost increased by 22%. Figure 9 shows the domestic debt servicing cost from June 2016 to June 2018.

Figure 9: Domestic Debt Servicing (MVR millions) Jun 2016 - Jun 2018



During the period June 2016 to June 2018, the weighted average interest rate (WAIR) for MVR Treasury bills reduced by 23% while the WAIR for USD Treasury bills reduced by 4%. Figure 10 shows the trend in the WAIR for Treasury bills during the period.

Figure 10: Weighted Average Interest Rate for Treasury Bills (%) Jun 2016 - Jun 2018



### 3.4 Domestic Debt by Ownership

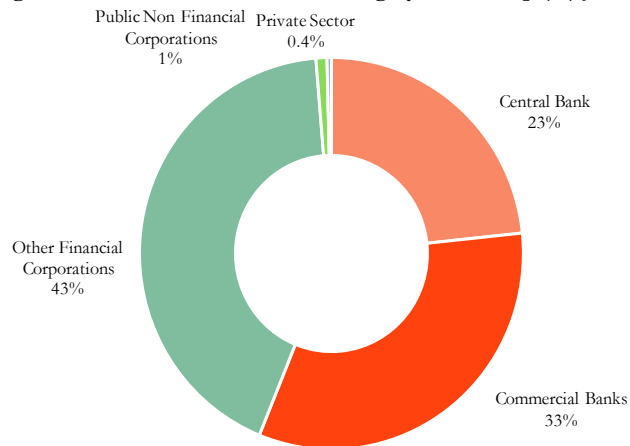
Other Financial Corporations, which includes finance and insurance companies, pension funds and other fund accounts, held the largest share of domestic debt (43%) at the end of June 2018, while commercial banks and MMA also held a significant share (33% and 23% respectively). Public Non-Financial Corporations held 1% and the private sector held 0.4%. Figure 11

<sup>5</sup> This is a conversion of the outstanding debt held by MMA in the Ways and Means account into a long term Treasury bond in December 2014.

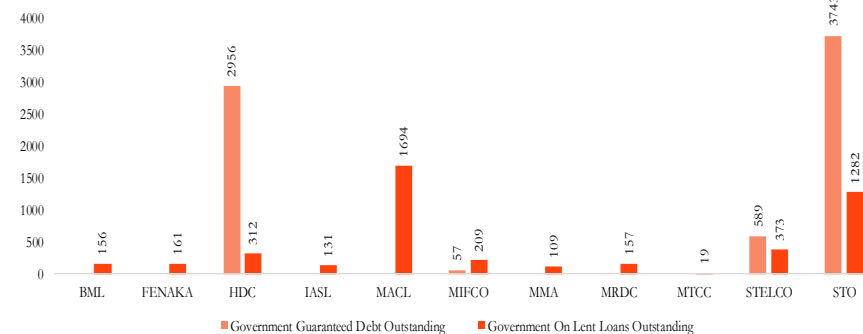
<sup>6</sup> This is a bond issued by the Government to pensioners, administered via the MPAO, which is paid over time, upon their retirement. The interest on the bond is paid into the pensioners' retirement savings account.

shows the share of domestic debt by ownership as at the end of December 2017.

**Figure 11: Domestic Debt Outstanding by Ownership (%) Jun 2018**



**Figure 12: Government Guaranteed and on Lent Debt Outstanding (MVR millions) Jun 2018**



#### 4. Government Guaranteed and On-Lent Loans Outstanding

Government guaranteed debt outstanding saw a large increase in the past 2 years, to stand at MVR 5,410 at the end of June 2018. The Housing Development Corporation (HDC), Maldives Airports Company Limited (MACL) and the State Trading Organization (STO) are the biggest beneficiaries of government guaranteed debt. Total loans on-lent to state owned enterprises outstanding at end of June 2018 amounted to MVR 4,603 million, 43% of which corresponds to non-performing loans. Figure 12 shows the Government guaranteed and on lent loans outstanding by beneficiary as at the end of June 2018.

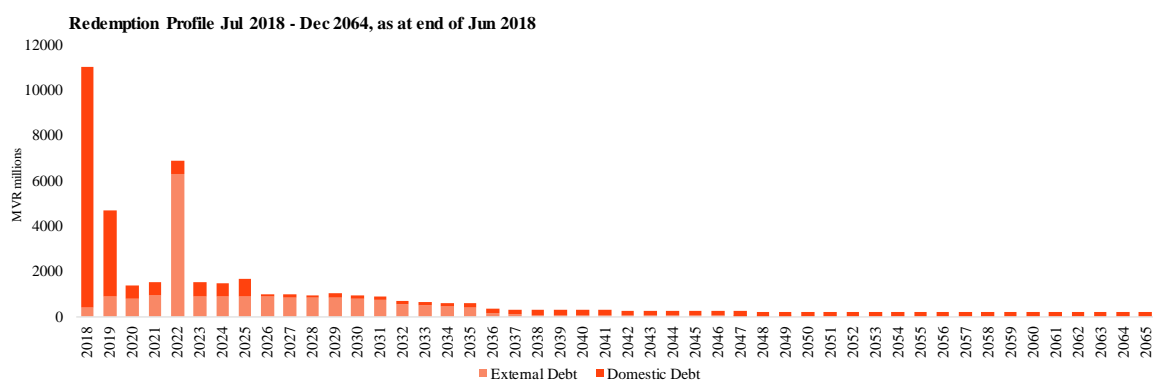
## Debt Burden and Risk Indicators as at end June 2018

*Refinancing risk, interest rate risk and exchange rate risk is high in the Maldives' debt portfolio.*

Refinancing risk is the risk that debt will have to be rolled over at unusually high cost, or, cannot be rolled over at all. This risk is high as 33% of the total debt portfolio (equivalent to 20% of GDP) is set to mature within the next 12 months, and the Government faces the need to seek favorable alternatives to refinance this amount.

Interest rate risk is the risk of increases in the cost of the debt arising from changes in interest rates. Although 99% of the Government's debt is at fixed rates, as 33% of the debt is maturing in the next 12 months, there is a chance that interest costs could increase.

Exchange rate risk is the risk of increased costs due to exchange rate fluctuations. This risk is partly mitigated due to the high level of USD denominated debt in the external portfolio (the Maldivian Rufiyaa being pegged to the dollar). However, due to the high level of external debt, being 43% of the total, of which short term debt is equivalent to 19% of usable reserves, this risk is high.



The redemption profile shows how much Maldives' owes and when. The refinancing risk is evident here, as a large portion of the portfolio as at the end of June 2018 falls due in the remaining half of 2018 and 2019. This is mostly due to the reliance on short term treasury bills. The risk is that the government may not be able to pay back or roll over this amount, and if the government were to roll over, there is a risk that a higher rate might have to be offered, causing the overall debt to further increase. The same risk exists for the sovereign bonds issued in the international capital markets, seen falling due in 2022.

| Indicator                   | End Jun 2018  |     |
|-----------------------------|---|-----|
| Debt to GDP                 | 60%   |     |
| Debt to Exports             | 87%   |     |
| Debt to Revenue             | 208%  |     |
| Refinancing risk            | Debt maturing in 1yr (% of total)                     | 33% |
|                             | Debt maturing in 1yr (% of GDP)                       | 20% |
|                             | ATM External Portfolio (years)                        | 8   |
|                             | ATM Domestic Portfolio (years)                        | 10  |
|                             | ATM Domestic Portfolio (years) without MMA Bond & PRB | 1   |
| ATM Total Portfolio (years) | 9   |     |
| Interest rate risk          | ATR (years)   | 9   |
|                             | Debt refixing in 1yr (% of total)                     | 33% |
|                             | Fixed rate debt (% of total)                          | 99% |
| Exchange Risk               | FX debt as % of total                                 | 43% |
|                             | ST FX debt as % of usable reserves                    | 19% |

## 5. Summary Debt Statistics

|  | Jun 2016      | Dec 2016      | Jun 2017      | Dec 2017       | Jun 2018      |
|--|---------------|---------------|---------------|----------------|---------------|
| <b>Total Outstanding Debt (MVR million)</b>    | <b>35,007</b> | <b>38,109</b> | <b>42,531</b> | <b>43,785</b>  | <b>46,224</b> |
| External Debt                                  | 10,421        | 11,726        | 15,558        | 16,669         | 19,199        |
| Domestic Debt                                  | 24,586        | 26,383        | 26,972        | 27,116         | 27,025        |
| <b>External Debt by Creditor (MVR million)</b> | <b>10,421</b> | <b>11,726</b> | <b>15,558</b> | <b>16,669</b>  | <b>19,199</b> |
| JBIC   | 391           | 336           | 342           | 332            | 331           |
| Saudi Fund                                     | 508           | 473           | 455           | 479            | 453           |
| Other Bilateral                                | 1,597         | 1,381         | 1,258         | 1,055          | 889           |
| EXIM India                                     | 221           | 220           | 221           | 201            | 181           |
| EXIM China                                     | 2,778         | 4,708         | 4,777         | 5,935          | 7,219         |
| Other Buyers' Credit                           | 499           | 415           | 387           | 349            | 282           |
| BOC/Colombo                                    | 332           | 286           | 241           | 196            | 151           |
| Sovereign Bondholders                          | -             | -             | 3,845         | 3,853          | 5,395         |
| Other Commercial                               | -             | -             | -             | -              | -             |
| ADB  | 1,499         | 1,413         | 1,438         | 1,449          | 1,382         |
| IDA  | 1,411         | 1,336         | 1,373         | 1,381          | 1,342         |
| Other Multilateral                             | 1,187         | 1,158         | 1,221         | 1,439          | 1,574         |
| <b>External Debt by Loan Currency</b>          |               |               |               |                |               |
| AED  | 88            | 79            | 69            | 73             | 79            |
| CNY  | 2,778         | 3,020         | 3,086         | 3,605          | 3,968         |
| EUR  | 1,211         | 1,040         | 1,021         | 968            | 833           |
| JPY  | 391           | 336           | 342           | 332            | 331           |
| KWD  | 250           | 253           | 250           | 269            | 260           |
| SAR  | 508           | 473           | 455           | 479            | 453           |
| SDR  | 3,572         | 3,414         | 3,512         | 3,590          | 3,459         |
| USD  | 1,622         | 3,111         | 6,824         | 7,354          | 9,818         |
| <b>Domestic Debt by Maturity (MVR million)</b> | <b>24,586</b> | <b>26,383</b> | <b>26,972</b> | <b>27,116</b>  | <b>27,025</b> |
| <b>Short Term</b>                              | <b>13,495</b> | <b>14,456</b> | <b>14,317</b> | <b>14,493</b>  | <b>14,287</b> |
| MVR Treasury Bills                             | 12,348        | 12,796        | 12,305        | 12,889         | 12,971        |
| USD Treasury Bills                             | 677           | 935           | 691           | 664            | 719           |
| Mudharabah                                     | 320           | 320           | 320           | 540            | 540           |
| Murabahah                                      | 150           | 127           | 63            | -              | 57            |
| Wakalah bi al-Istithmar                        | -             | 278           | 139           | -              | -             |
| ST Commercial Loans                            | -             | -             | 800           | 400            | -             |
| <b>Long Term</b>                               | <b>11,091</b> | <b>11,927</b> | <b>12,655</b> | <b>12,623</b>  | <b>12,737</b> |
| MMA Bond                                       | 6,338         | 6,304         | 6,268         | 6,233          | 6,197         |
| Pension Recognition Bond                       | 3,178         | 3,182         | 3,260         | 3,321          | 3,473         |
| Pension Bonds                                  | 1,434         | 2,383         | 3,048         | 3,048          | 3,048         |
| Sukuk Murabaha                                 | 116           | 58            | 58            | -              | -             |
| LT Commercial Loans                            | 25            | -             | 21            | 20             | 20            |
| <b>Government Guaranteed Debt</b>              | <b>1,314</b>  | <b>5,130</b>  | <b>2,744</b>  | <b>5,890</b>   | <b>5,410</b>  |
| <b>Government On Lent Debt</b>                 |               | <b>4,191</b>  | <b>4,259</b>  | <b>4,275</b>   | <b>4,603</b>  |
| <b>Sovereign Credit Rating</b>                 |               |               | <b>Rating</b> | <b>Outlook</b> | <b>Date</b>   |
| Moody's  |               |               | B2            | Negative       | Jul-18        |
| Fitch  |               |               | B+            | Stable         | May-17        |